



The Association of
Accountants and
Financial Professionals
in Business



Global economic conditions survey report: Q1, 2012

ABOUT ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 147,000 members and 424,000 students throughout their careers, providing services through a network of 83 offices and centres. Our reputation is grounded in over 100 years of providing world-class accounting and finance qualifications. We champion opportunity, diversity and integrity, and our long traditions are complemented by modern thinking, backed by a diverse, global membership. By promoting our global standards, and supporting our members wherever they work, we aim to meet the current and future needs of international business.

ABOUT IMA

IMA® (Institute of Management Accountants), the association for accountants and financial professionals in business, is one of the largest and most respected associations focused exclusively on advancing the management accounting profession. Globally, IMA supports the profession through research, the CMA® (Certified Management Accountant) program, continuing education, networking, and advocacy of the highest ethical business practices. IMA has a global network of more than 60,000 members in 120 countries and 200 local chapter communities. IMA provides localized services through its offices in Montvale, N.J., USA; Zurich, Switzerland; Dubai, UAE; and Beijing, China.

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ABOUT THE GLOBAL ECONOMIC CONDITIONS SURVEY

The Q1 2012 edition of the survey, carried out between 24 February and 15 March 2012, marks three years of Global Economic Conditions Surveys and the second quarter in which the survey has been produced jointly by ACCA and the IMA. This report draws on just under 2,200 responses from professional accountants around the world, including significant samples in nine major markets.

As always, we are deeply grateful to all of the ACCA and IMA members who took the time to respond. Accountants have front row seats to the economic recovery and it is because of the size and reach of our respective global memberships that the survey is as accurate and enlightening as it is.

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BUSINESS CONFIDENCE BOUNCED BACK IN EARLY 2012 AS WORST-CASE-SCENARIOS APPEARED MORE REMOTE

After many quarters of flagging sentiment, the latest edition of the Global Economic Conditions Survey has recorded a sharp reversal in perceptions during the first quarter of 2012. Compared to the last quarter of 2011, the share of respondents reporting confidence gains nearly doubled from 16% to 29%, while that of respondents reporting a loss of confidence fell from 46% to 31% (see Figure 1). These confidence levels are consistent with a return of developed nations to substantial if not robust economic growth.

Similarly, the share of respondents who believed the global economy was recovering or about to do so also nearly doubled, from 22% to 42%. Those who believed the global economy is deteriorating or stagnating were still in the majority (54%) but they were substantially fewer in numbers than in the previous quarter (73%) (See Figure 2).

This is a very significant shift in perceptions and will no doubt be met with some scepticism, especially in light of further turbulence in capital markets. In fact, more detailed analysis confirms that there has been a genuine improvement unrelated to biases introduced, for instance, by changes in the composition of the sample. The same analysis confirms that the rise in business confidence is due more or less equally to improving business conditions, improving expectations of a global recovery and a positive emotional response to the decreasing likelihood of catastrophic events such as a further escalation of the European sovereign debt crisis or a hard landing for the Chinese economy. An analysis of daily business confidence scores also confirms that there were no particular one-off events during the fieldwork period which skewed the confidence index upwards. While the elements of relief and optimism may soon be reversed, the fundamental improvements will persist.

Figure 1: GECS confidence index – comparisons with the previous quarter

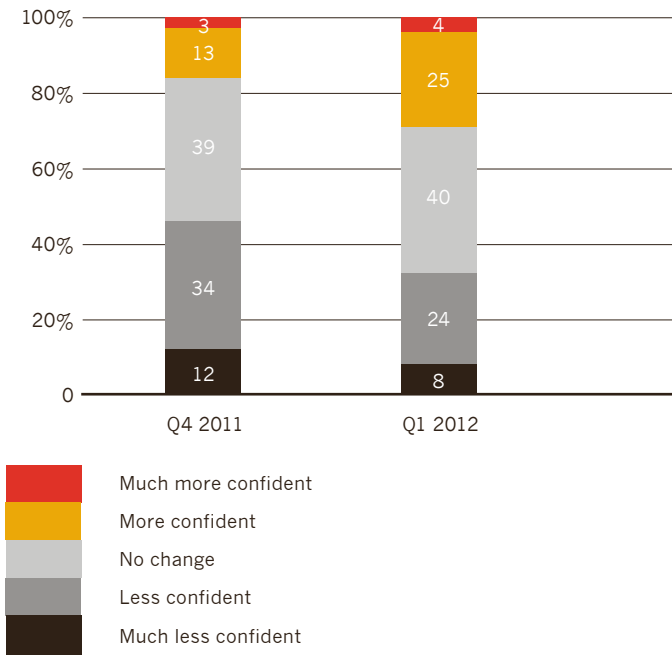
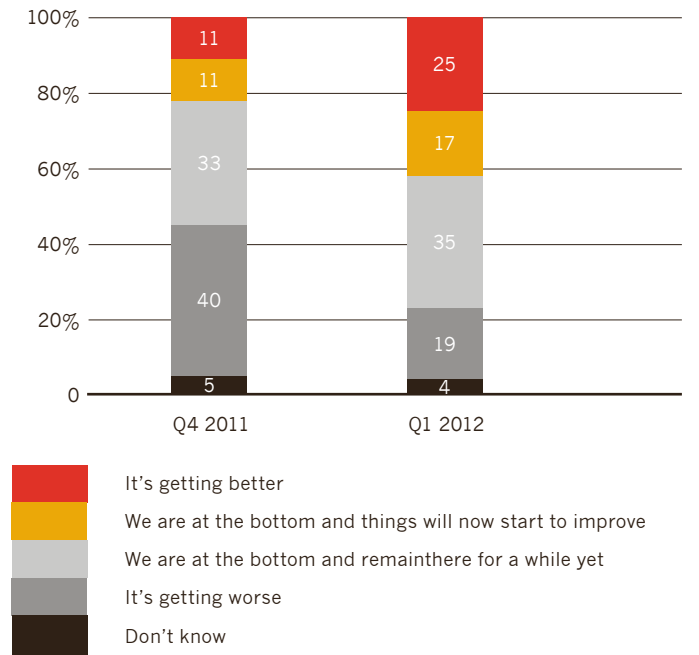


Figure 2: GECS recovery index – comparisons with the previous quarter



RICH COUNTRIES BREATHE A SIGH OF RELIEF, PERHAPS TOO SOON, WHILE FAR EAST LAGS BEHIND

At the regional level, while all areas recorded a nominal rise in business confidence over the last quarter, the big winners were the Americas and Western Europe, while Africa remains the most confident region for yet another quarter. In the Americas, business confidence in fact crossed over into positive territory (see Figure 3). Within the US, all regions reported substantial, and statistically similar, confidence gains from a similarly low starting point: the exception was the Northeast, where confidence grew the least during early 2012.

It should be noted that there were no clear winners among different business sectors at the global level, although among the IMA sample for which a greater level of industry detail was available, confidence appeared to rebound most strongly among large corporates, especially in the manufacturing and high tech industries,

as well as, to some extent, in transport and distribution or wholesale and retail. Otherwise, confidence in the global economy itself appears to have improved across the board, which also suggests that relief might be driving confidence gains.

That said, respondents across all regions (with the exception of South Asia) were more bullish about the global economy than about their individual organisations (see Figure 4). Once again, this is an indication that respondents were (over-)reacting to a positive signal, as the global economy can't be improving faster than the prospects of the sum of global businesses.

Figure 3: Changes to the GECS confidence index by region

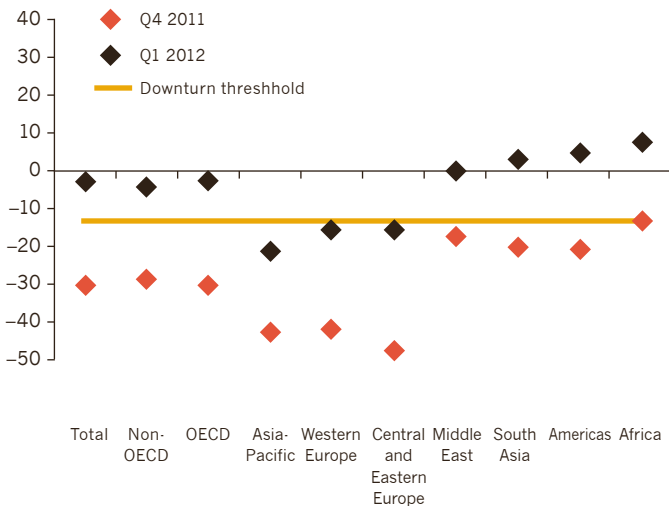


Figure 4: Changes to the GECS recovery index by region

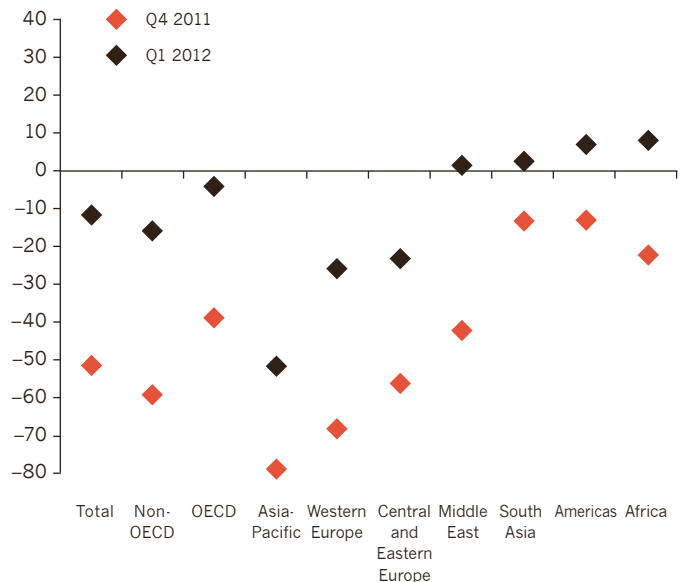


Table 1: GECS confidence index for selected regions

	Q12. Compared with three months ago, what is your level of confidence in the economic prospects facing your organisation now?					Confidence index Q1 2012	Confidence index Q4 2011
	Much less confident	Less confident	No change	More confident	Much more confident		
Total	7.7%	23.7%	40.0%	24.9%	3.7%	-2.8	-30.1
OECD	6.6%	23.8%	41.4%	25.2%	3.0%	-2.2	-31.0
Non OECD	9.9%	23.5%	37.0%	24.3%	5.3%	-3.9	-28.5
Americas	4.7%	22.1%	41.5%	28.3%	3.4%	4.9	-20.7
Middle East	11.1%	19.9%	38.1%	26.5%	4.4%	0.0	-16.7
Asia Pacific	10.3%	34.1%	32.4%	18.4%	4.9%	-21.1	-42.5
CEE	3.0%	30.3%	48.5%	18.2%		-15.2	-47.4
South Asia	12.5%	17.2%	37.5%	23.4%	9.4%	3.1	-20.6
Western Europe	11.1%	25.3%	42.7%	18.9%	2.1%	-15.4	-42.0
Africa	9.2%	22.3%	29.2%	30.8%	8.5%	7.7	-12.7
Saudi Arabia		10.0%	52.5%	27.5%	10.0%	27.5	-4.2
UAE	9.0%	14.1%	34.6%	37.2%	5.1%	19.2	-22.2
US	4.6%	21.9%	41.7%	28.3%	3.5%	5.3	-20.6
China ex HK	7.5%	26.4%	28.3%	30.2%	7.5%	3.8	-34.0
Ireland	10.7%	21.3%	42.7%	22.7%	2.7%	-6.7	-39.6
UK	11.6%	24.1%	45.7%	17.7%	.9%	-17.1	-40.4
Egypt	19.6%	21.7%	34.8%	19.6%	4.3%	-17.4	-9.1
Malaysia	22.2%	20.0%	37.8%	13.3%	6.7%	-22.2	-42.0
Hong Kong SAR		38.9%	50.0%	5.6%	5.6%	-27.8	-58.5

Table 2: GECS recovery index for selected regions

	It's getting better	We are at the bottom and things will now start to improve	We are at the bottom and will remain there for a while yet	It's getting worse	Don't know	Recovery index Q1 2012	Recovery index Q4 2011
OECD	22.9%	17.4%	39.4%	16.6%	3.6%	-15.6	-58.6
Non OECD	28.7%	16.3%	24.2%	24.7%	6.1%	-3.9	-38.1
Americas	31.0%	17.6%	35.8%	11.2%	4.5%	1.6	-41.6
Middle East	33.2%	16.4%	18.1%	23.9%	8.4%	7.5	-12.7
Asia Pacific	17.0%	17.0%	26.1%	30.9%	9.0%	-22.9	-56.0
CEE	24.2%	12.1%	33.3%	28.8%	1.5%	-25.8	-67.6
South Asia	29.7%	18.8%	26.6%	18.8%	6.3%	3.1	-12.7
Western Europe	6.7%	16.7%	46.9%	27.8%	1.8%	-51.2	-78.4
Africa	36.2%	17.7%	24.6%	20.8%	.8%	8.5	-21.1
Saudi Arabia	47.5%	10.0%	12.5%	12.5%	17.5%	32.5	12.8
Egypt	28.3%	30.4%	10.9%	19.6%	10.9%	28.3	-6.1
UAE	35.9%	16.7%	23.1%	19.2%	5.1%	10.3	-18.8
China ex HK	27.3%	20.0%	14.5%	27.3%	10.9%	5.5	-34.8
US	31.4%	17.4%	36.6%	10.3%	4.4%	1.9	-42.7
Malaysia	20.0%	17.8%	22.2%	35.6%	4.4%	-20.0	-58.0
Hong Kong SAR	16.7%	11.1%	44.4%	16.7%	11.1%	-33.3	-78.3
UK	6.0%	17.2%	48.0%	27.8%	.9%	-52.6	-80.5
Ireland	2.7%	16.0%	53.3%	26.7%	1.3%	-61.3	-74.7

FUNDAMENTALS IMPROVE AS DEMAND RETURNS

Although we've been careful to separate fact from fiction in explaining the rise in business confidence, the reality is that there has been a substantial, objective improvement to fundamental business conditions during the last three months, and this is worth celebrating. Overall, the most significant trends in the development of business conditions were as follows:

New orders rise modestly in developing and transition economies

Only 23% of respondents reported a fall in new orders, against 28% in the previous quarter. Similarly, 8% saw an opportunity for their organisations to attract new orders, again 6% in the last quarter. This trend was led by the economies of Central and Eastern Europe, and to a lesser extent those of the Middle East and South Asia. Only in Western Europe did the trend in new orders continue to deteriorate. Our data, however, also point to a significant loss of dynamism in Africa, as poor demand from the rest of the world in previous quarters continues to filter through to the continent.

Finance flowing again in the Far East, but cashflow is tightening globally

In the Asia-Pacific region, access to finance has improved considerably for businesses, with only 20% of respondents (down from 34%) reporting problems with Access to Finance. Malaysia leads this trend, followed by mainland China (ex-Hong Kong) and, to a lesser extent, Hong Kong SAR. But the biggest change in financing conditions was observed in Egypt, where with the tentative return of stability the percentage of respondents citing problems accessing finance fell nearly by half (from 49% to 26%) between late 2011 and early 2012. Still, the bounce in business activity has clearly strained the finances of businesses in growing regions as they struggle to finance their working capital. This was particularly the case in Hong Kong SAR, Malaysia and the US.

Investment bounces back in Asia-Pacific and the Americas

The GECS investment indices are strongly associated with new orders and thus the renewed dynamism of the global economy has been accompanied by a similarly modest recovery in investment across regions. About 14% of respondents reported an increase in investment in their organisations, against 9% in the previous quarters. Similarly, 34% reported any scaling back of investment, against 38% in late 2011. However, most of the increase in investment is due to a surge in activity in Asia-Pacific and the Americas. Of all the major ACCA/IMA markets, Malaysia recorded the strongest improvement in investment activity, followed by mainland China (ex-Hong-Kong) and the US. However, it is also worth noting that only Saudi Arabia has recorded positive investment index values consistently over the last six months; everywhere else the recovery in investment is still fragile.

The two games in town are supply chain optimisation and customer insights

Opportunities to benefit from strengthening ties along the supply chain and investing in quality standards or assurance proliferated in China, including in Hong Kong SAR, during the previous quarter, while respondents in Malaysia, Hong Kong SAR and the UAE reported increasing opportunities from superior customer insights as the behaviour of corporate buyers and consumers continued to shift. These two types of opportunity accounted for the strongest trends in business opportunity globally in the past three months.

Inflation, vacancies return to China and the US

At the global level, inflationary pressures did not appear to change much over the last three months. Although rising costs were the most commonly cited business challenge in early 2012, they were mentioned by about as many respondents (48%) as in the previous quarter; it is the recovery in demand that has shifted businesses' priorities. The global picture, however, masks significant regional variations. Inflationary pressures appear to have risen particularly strongly in the US, where 64% of respondents reported rising input prices, up from 57%, while among our major markets, only mainland China (ex-Hong Kong) was worse-hit by inflation, with 76% of respondents reporting increased costs, against 63% in late 2011. On the other hand, input prices appear to have fallen significantly in Ireland. Those countries that saw the strongest cost rises, however, also appear to have benefited from the strongest rebound in employment, suggesting that real wages may be on the rise.

Figure 5: Impacts of the economic environment on business, as cited by respondents

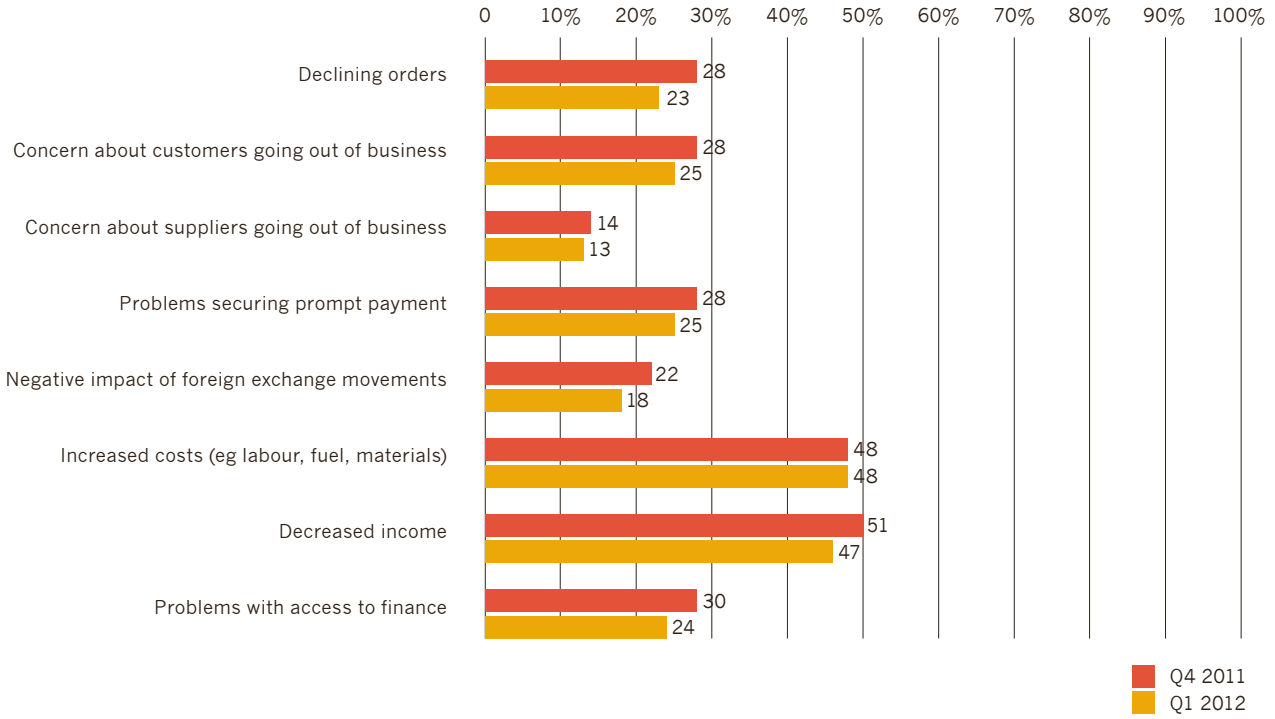
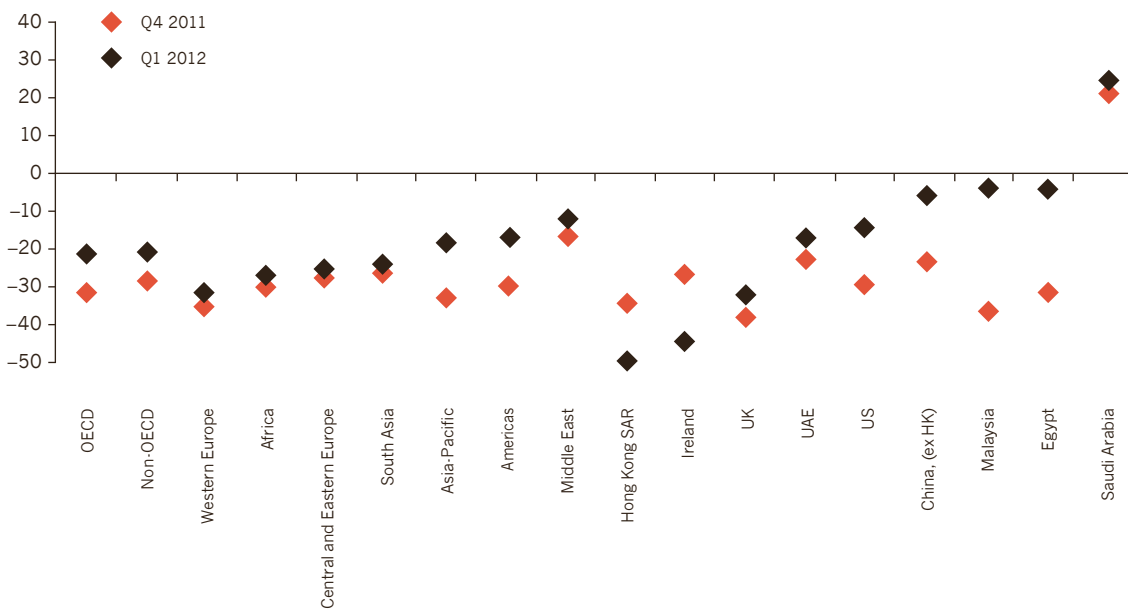


Figure 6: Capital expenditure indices around the world



GOVERNMENTS TO THE RESCUE AS SUPPORT FOR AUSTERITY FADES

With economic growth slowing and the risk of a renewed downturn on the cards, governments around the world have re-evaluated their spending plans in order to provide support to the flagging recovery. As a result, respondents' expectations have shifted in favour of more spending in every region apart from Africa – incidentally also the region where business confidence is highest.

Additionally, although approval of government policies increased only by a negligible margin (16%, up from 15%) disapproval levels have fallen (54% v. 47%). This renewed faith in governments was most pronounced in the Americas, Central and Eastern Europe and South Asia.

In Central and Eastern Europe, and to a lesser extent in the Americas, the Middle East and the Asia-Pacific region, respondents now expect their governments to spend more than they previously thought they would. Among our major markets, this shift was more pronounced in the UAE and Saudi Arabia as well as, to a lesser extent, the US and Ireland. Only in the UK did respondents expect austerity measures to intensify.

Moreover, precisely because of the perceived need to support growth, respondents expect the impact of this additional spending on their countries' public finances to be modest.

Our findings on the appropriateness of fiscal policy in individual markets remain unchanged since the last quarter. In major markets such as the US, mainland China (ex-Hong Kong) and Malaysia, respondents continued to expect an unsustainable level of fiscal stimulus in coming years, in the sense that they expect government spending to rise in the medium term due partly to overspending. On the other hand, other significant markets such as the UK and Ireland are still seen as pursuing austerity policies at the expense of growth, as government spending is expected to fall significantly in the medium term due partly to underspending. Then there are markets in which stimulus is seen as sustainable, but these are once again mostly clustered in the Middle East, namely Egypt, Saudi Arabia and the UAE. Hong Kong SAR, where the consensus is still in favour of increased spending, is an interesting case, as for both previous quarters perceptions here have diverged significantly from those in mainland China (ex-Hong Kong). This distinction reflects the strongly divergent perceptions of the state of the economy and business confidence on the ground between the mainland and Hong Kong SAR, and is probably not unrelated to the divergence between private and government purchasing manager index (PMI) data – an anomaly that many economic commentators have remarked upon.¹

There are no markets in our latest sample in which austerity policies are seen as consistent with reasonable growth levels, although due to a smaller sample size figures for Cyprus, where such perceptions have been reported in the past, are not reliable. What little data we have suggests that these perceptions are unlikely to have shifted a great deal.

1. S. Jakobsen, 'China PMIs – divergence and manipulation?', (2012) *TradingFloor.com* <<http://www.tradingfloor.com/posts/china-pmis-..divergence-and-manipulation-1418600052>>, accessed 3 April 2012.

Figure 7: Medium-term government spending indices across the major ACCA/IMA markets.

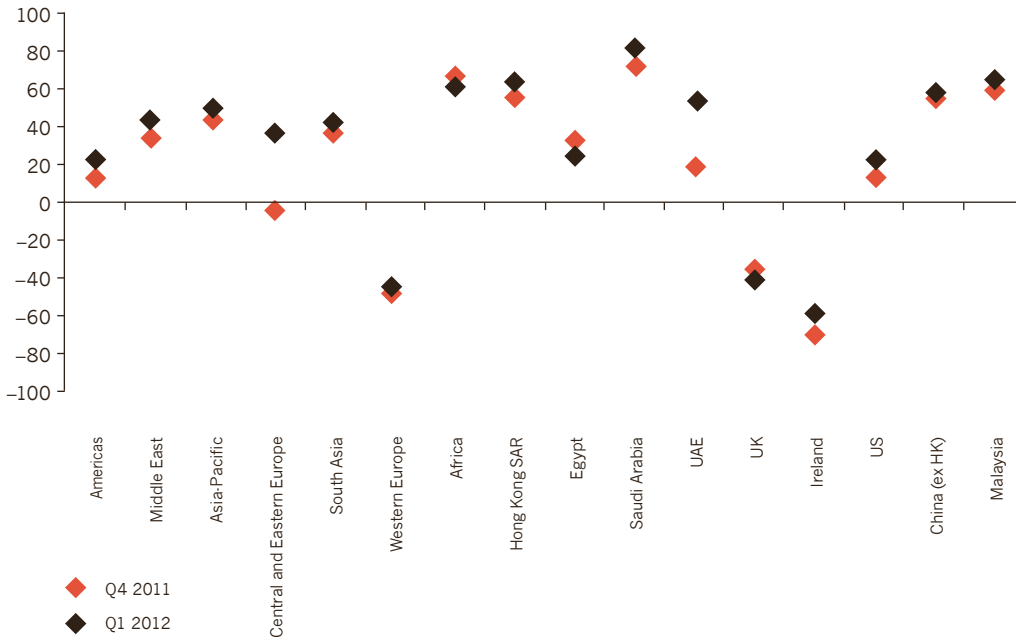
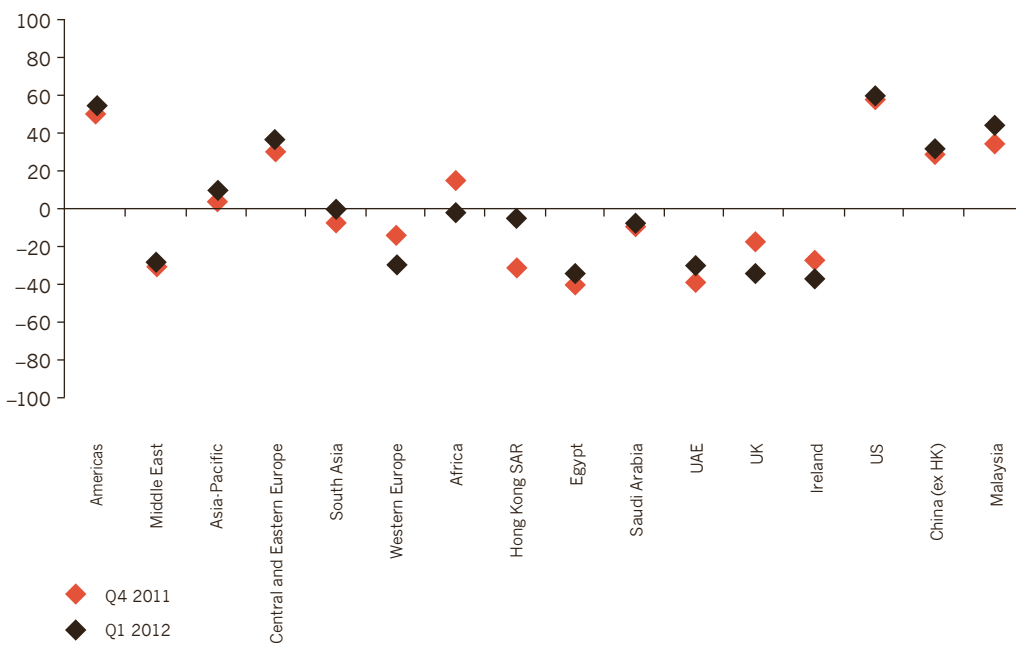


Figure 8: Medium-term government over-spending indices across the major ACCA/IMA markets.



CONCLUSIONS

The third anniversary edition of the Global Economic Conditions Survey reveals that in early 2012 accountants briefly glimpsed a silver lining after many consecutive quarters of gloom, with hopes of recovery returning in parts of the world, such as Western Europe, that had underperformed for many quarters.

Much of this sharp improvement in business sentiment is genuine and reflects the fundamentals, but it is important to remember that a good deal of it is also the result of psychology and an extraordinary amount of policy intervention: scenarios such as an implosion of the Eurozone, a hard landing in China, or widespread civil unrest, have weighed down sentiment for much of 2011 and now appear, for the moment, to be less likely than they were last year. The majority of respondents still believe the global economy is deteriorating or stagnant, however. Therefore, while signs of recovery are welcome, it will be some time before we know how sustainable this really is.

In fact, it is clear at the time of writing (April 2012) that relief in capital markets has been short-lived. But while the elements of such relief and of renewed optimism may soon be reversed, the modest but real fundamental improvements will persist.

Governments in many parts of the world have stepped up to the mark during the last quarter or are expected to do so, trying within their means to support the fragile recovery. In reality this new round of stimulus can't go on forever, as many major economies, including the US, are expected by our members to over-spend substantially over the next five years. On the other hand, however, policymakers hoping to deliver growth despite austerity in Western Europe and elsewhere have been frustrated in their efforts.

Much more encouraging is the fact that a new-found dynamism can be seen in many developing and transition economies, with businesses securing new orders where previously they would not have. In the Asia-Pacific region and the Americas this has led to a bounce in investment and new hires. This is a very welcome trend; investment has been subdued since the end of the 'green shoots' stage of the global recovery which lasted from mid-2009 to mid-2010. The dark side of this growth, however, are rising input prices. If even this very mild recovery is accompanied by rising inflation, then a full-blown recovery is likely to provide a challenge for central banks and other policymakers.

For now, however, a recovery in business investment can only be a good thing. This investment is focusing on two kinds of opportunities in particular. Customer insights, namely the need to understand and benefit from spending decisions under new constraints, is one; the other is supply chain optimisation through deepening relationships and a stronger focus on quality. While these are encouraging trends, it's important to bear in mind that they are traditionally associated with expectations of a protracted downturn, not a robust recovery.

Overall, this has been a good start to 2012 but no guarantee of a recovery. ACCA and IMA will of course continue to monitor economic conditions closely through these surveys and the direct feedback of our members in order to better understand how finance professionals can help steer the global economy into calmer waters.

ACCA, IMA and the global economy

Global economic conditions continue to dominate business life. They are at the top of the world's political agenda, and updates and debates on economic issues are almost constantly the focus of media attention. While most national economies are now growing once again, it is far from clear how sustainable this growth is or how long it will be before a sense of normalcy returns to the global economy.

ACCA and IMA have been prominent voices on what the accounting profession can do to help turn the global economy around. Both bodies have published extensively on a range of topics from the regulation of financial markets or the prevention of fraud and money laundering, to fair value or the role of international accounting standards, to talent management and the development of an ethical business culture.

ACCA and IMA aim to demonstrate how an effective global accountancy profession contributes to sustainable global economic development; to champion the role of accountants as agents of value in business; and to support their members in challenging times. Both professional bodies believe that accountants add considerable value to business, and never more so than in the current environment.

Accountants are particularly instrumental in supporting the small business sector. Small and medium-sized enterprises (SMEs) account for more than half of the world's private sector output and about two thirds of all employment. Both ACCA and IMA focus much of their research and advocacy efforts on articulating the benefits to SMEs of solid financial management and reliable financial information.

WHERE NEXT?

As countries around the world once again consider strategies to promote stability and stimulate growth, the interconnectedness of our economies, and how they are managed and regulated, is now firmly in the spotlight. The development of the global accountancy profession has benefited from, and in turn contributed greatly to, the development of this interconnected global economy. The fortunes of the two are tied. ACCA and IMA will, therefore, continue to consider the challenges ahead for the global economy, and focus on equipping professional accountants for the uncertain future.

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