



The Association of
Accountants and
Financial Professionals
in Business

A black and white photograph of a Ferris wheel, showing the intricate metal structure of the spokes and the curved rim of a car. The image is split horizontally, with the top half showing the upper part of the wheel and the bottom half showing the lower part, creating a sense of depth and scale.

Global economic conditions survey report: Q2, 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 154,000 members and 432,000 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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Global economic conditions survey report: Q2, 2012

INTRODUCTION

This report marks the fourteenth edition of the Global Economic Conditions Survey, and the third jointly published by ACCA and IMA. Fieldwork for this edition took place between 11 May and 6 June 2012 and attracted responses from 2,736 ACCA and IMA members around the world. As always, we are grateful to all of the professionals who gave up their time to share their informed views on the state of the global economy.

NEW YEAR'S RESOLUTIONS COLLIDE WITH HARSH REALITY IN Q2

The global surge in business confidence in early 2012 has, as we anticipated at the time, dissipated in the second quarter of the year. To the extent that some of the confidence gains at the time were based on genuine improvements to economic fundamentals, these appear to have been maintained, keeping our confidence index clear of the lows of late 2011. Overall, 21% of respondents felt more confident about the prospects of their organisations than they had three months earlier, down from 29% in early 2012. A larger share of the sample (39%, down from 31%) now felt less confident (Figure 1).

This means that confidence levels are now once again consistent with a slowdown in the OECD economies and the global economy is more fragile than at any time since the 'green shoots' period of mid-2009 (see Annex).

This reversal in business confidence mostly mirrors a reversal in respondents' views on the state of the global economy. Indeed more detailed analysis reveals that more than a third of the total loss of confidence in the last

Figure 1: GECS confidence index

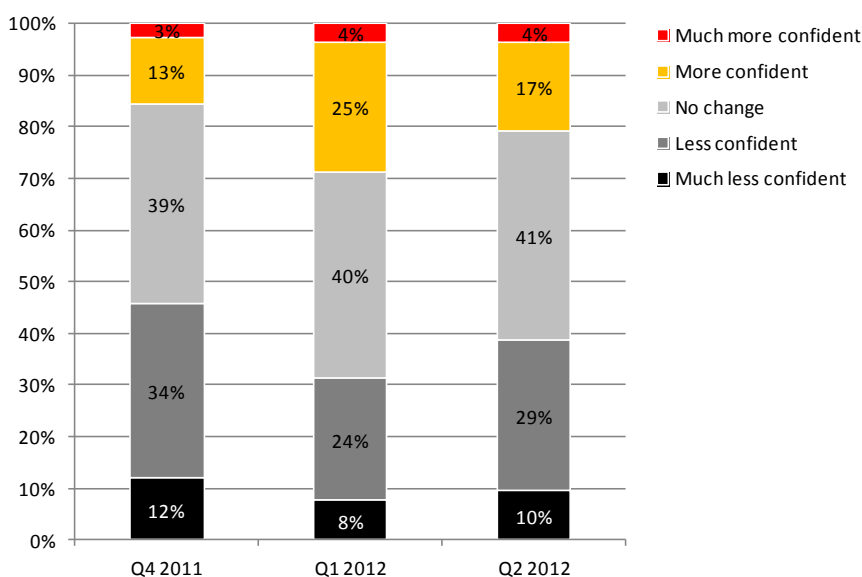
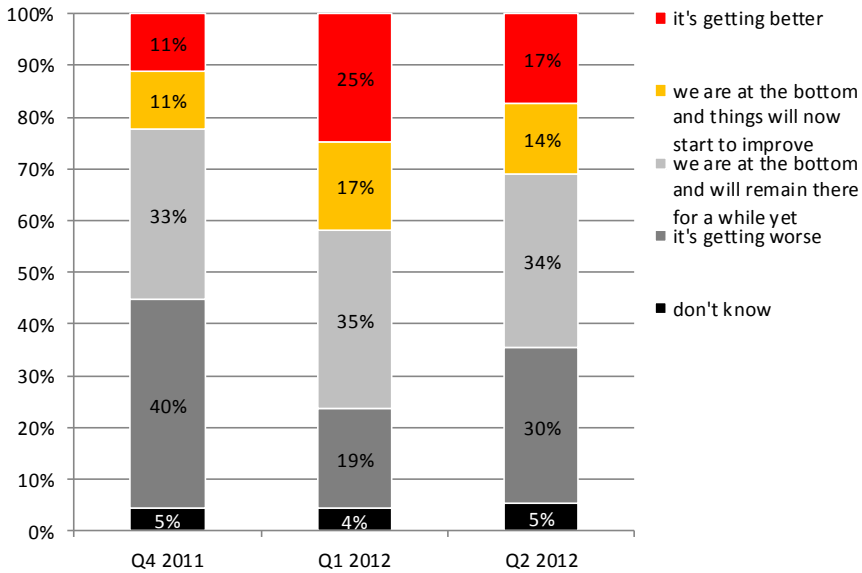


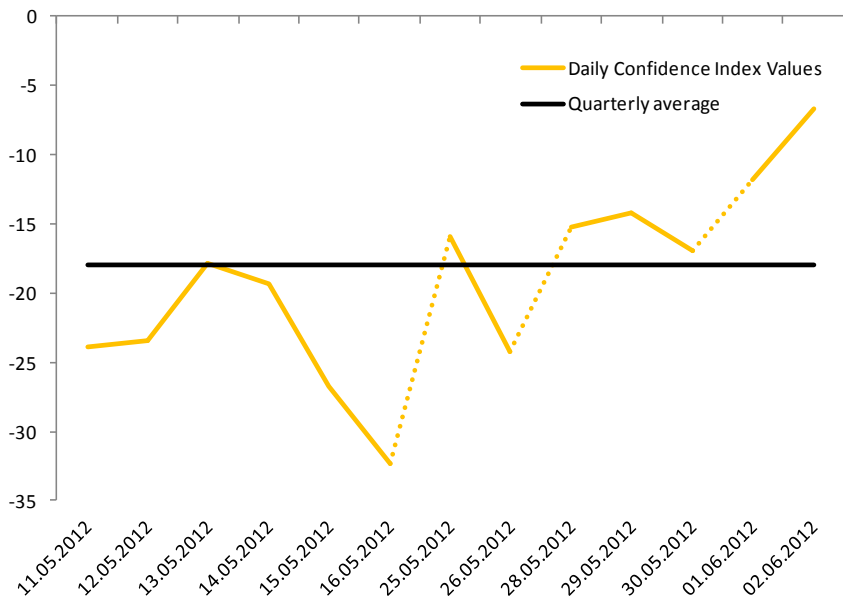
Figure 2: GECS recovery index



quarter was due to changing perceptions of the global economy; the effect of business fundamentals, while also negative, was less than half as large as that of perceptions. In early 2012, 42% of respondents felt that the global economy was recovering or about to do so, while 54% felt it was stagnating or deteriorating. In the second quarter, only 31% are optimistic about the state of the global economy, while nearly two thirds (64%) are pessimistic (Figure 2).

An analysis of responses on a daily basis suggests that the drop in confidence at the global level cannot be attributed solely to the effects of specific events during the fieldwork period, which, in fact, saw a gradual pickup in confidence. That said, negative newsflow did weigh down sentiment around mid-May (see Figure 3), a difficult time for bond and equity markets which saw persistent rumours of an ESM bailout for Spanish banks gradually confirmed and the long-awaited Facebook IPO turn sour.

Figure 3: Daily GECS Confidence index values



CHINA SLOWS DOWN AS CONFIDENCE FALLS ACROSS THE REGIONS

Because perceptions of the global economy are affecting business confidence much more strongly than changes to the business environment are, a broad downward trend in business confidence emerges across regions and sectors (see Figure 4). However, important variations merit particular attention.

Perhaps the most important development is a significant fall in business sentiment across China. In past editions we have spoken of a 'tale of two Chinas' in the GEC data, with persistently lower confidence in Hong Kong than on the mainland. Now it appears that the two sets of views are finally converging as confidence has fallen substantially in the mainland. While this is still far from the hard landing commentators have feared, it is certainly very worrying.

Overall, Africa, the Middle East and the Americas continue to lead the recovery, as indeed they have for the past three quarters. Worst affected was South Asia, the only region where respondents reported lower levels of confidence than in late 2011, while in relative terms the best performer was the Middle East, where confidence losses were negligible, with Africa a distant second. Once again, the impact of Eurozone contagion on business sentiment is obvious: despite significant losses in the second quarter, respondents in Europe, especially Eastern Europe with its substantial exposure to the Eurozone banking system, recorded the most significant confidence gains against late 2011. Worryingly, Asia-Pacific remains a laggard and, upon further analysis, appears to have 're-coupled' with Europe in terms of many indicators.

Figure 4: Business confidence index across major markets and regions, Q4 2011 to Q2 2012

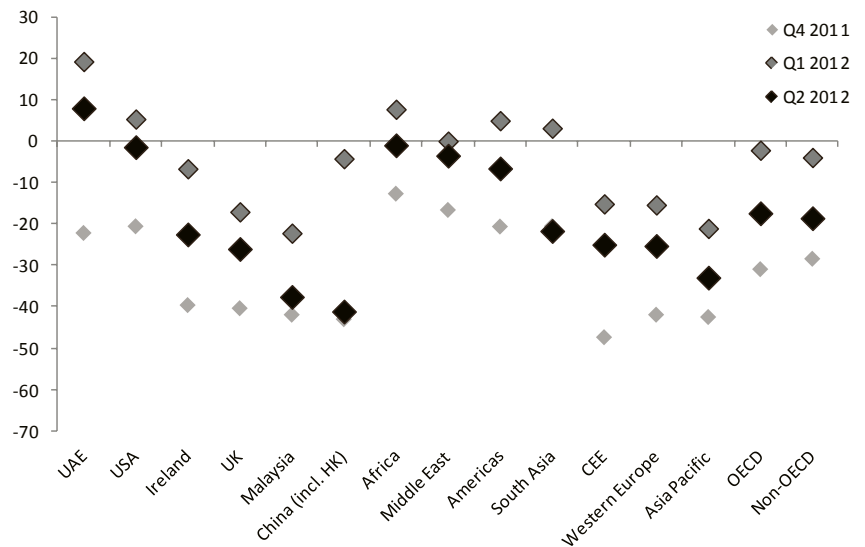
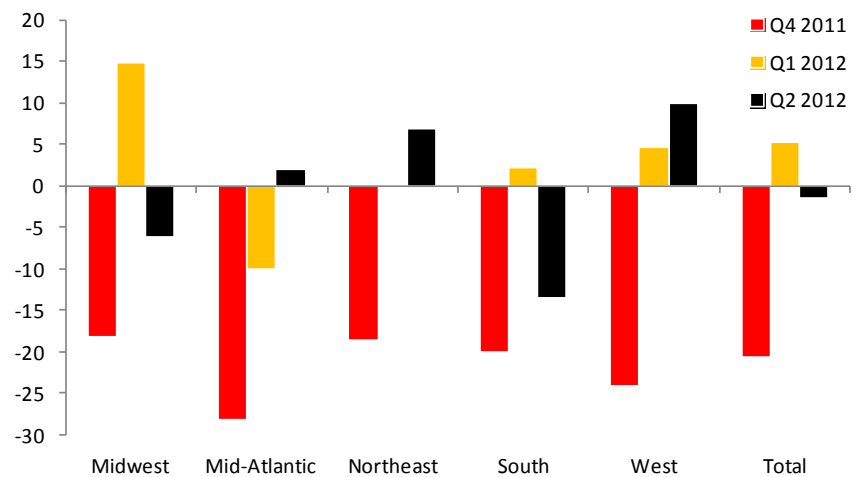


Figure 5: Business confidence index across US regions, Q4 2011 to Q2 2012



Consumer confidence in [the] property market of Dubai is back – it is clearly visible over the recent successful premium and mid-priced property launches in Dubai.

SENIOR FINANCE EXECUTIVE, LARGE CORPORATE (OVER 1,000 EMPLOYEES) UAE

Among the markets best represented in our sample, respondents in Cyprus and Hong Kong SAR remain the least confident, followed by their colleagues in Malaysia. The UAE was the only major market to report net confidence gains for a second consecutive quarter, although the US also followed closely with only a marginal loss.

The banking industry is becoming increasingly problematic.

PARTNER, LAW FIRM, (50–249 EMPLOYEES) CYPRUS

Regional divisions are also becoming evident in the US sample (see Figure 5). In the Mid-Atlantic, Northeast and West, the last three quarters have seen a fairly consistent recovery in business confidence, while the Midwest and the South have seen a pattern similar to that of the broader global trend, with part of the confidence gains of early 2012 reversed in the second quarter. As a result, the West now leads the rest of the US for business confidence. Part of the reversal in the US since early 2012 appears to be due to respondents in the public sector reporting higher levels of confidence than three months ago – when news of mounting job losses in the public sector may have weighed on sentiment.

Table 1: GECS confidence index across regions and in selected markets

	Much more confident	More confident	No change	Less confident	Much less confident	Index
Americas	4.9%	21.3%	41.0%	24.8%	8.0%	-6.6
Middle East	5.8%	22.2%	40.4%	22.8%	8.8%	-3.5
Asia Pacific	1.6%	12.6%	38.8%	36.1%	11.0%	-33.0
CEE	.6%	10.9%	51.9%	28.8%	7.7%	-25.0
South Asia	3.8%	17.0%	36.8%	32.1%	10.4%	-21.7
Western Europe	2.1%	13.8%	42.9%	29.8%	11.4%	-25.3
Africa	9.3%	24.3%	31.7%	27.3%	7.3%	-1.0
Australia	2.4%	14.3%	45.2%	28.6%	9.5%	-21.4
Canada	5.4%	9.5%	48.6%	29.7%	6.8%	-21.6
China ex HK	4.7%	17.4%	37.2%	36.0%	4.7%	-18.6
Cyprus		6.5%	39.1%	32.6%	21.7%	-47.8
Hong Kong	1.1%	1.1%	32.6%	48.3%	16.9%	-62.9
Ireland	1.6%	15.4%	43.4%	29.7%	9.9%	-22.5
Malaysia	.9%	11.0%	38.5%	37.6%	11.9%	-37.6
Mauritius	3.3%	13.1%	36.1%	41.0%	6.6%	-31.1
Pakistan	3.1%	14.1%	35.9%	34.4%	12.5%	-29.7
Russia		10.0%	55.0%	30.0%	5.0%	-25.0
Singapore		12.5%	43.8%	32.5%	11.3%	-31.3
UK	2.4%	13.2%	42.9%	31.1%	10.5%	-26.0
UAE	4.8%	30.2%	38.1%	19.0%	7.9%	7.9
US	5.2%	24.4%	39.3%	23.0%	8.1%	-1.4
Total	3.7%	17.0%	40.6%	29.0%	9.7%	-17.9

Table 2: GECS recovery index across regions and in selected markets

	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	Index
Americas	24.1%	17.6%	33.9%	18.6%	5.8%	-10.7
Middle East	30.2%	16.3%	30.2%	17.4%	5.8%	-1.2
Asia Pacific	15.0%	10.0%	22.8%	42.4%	9.8%	-40.2
CEE	19.9%	6.4%	33.3%	32.7%	7.7%	-39.7
South Asia	24.5%	17.0%	27.4%	27.4%	3.8%	-13.2
Western Europe	6.7%	11.0%	45.0%	34.0%	3.2%	-61.4
Africa	26.2%	19.2%	20.2%	32.1%	2.3%	-7.0
Australia	7.1%	7.1%	45.2%	35.7%	4.8%	-66.7
Canada	28.4%	16.2%	25.7%	27.0%	2.7%	-8.1
China ex HK	24.1%	19.5%	16.1%	34.5%	5.7%	-6.9
Cyprus	2.2%	6.5%	28.3%	63.0%		-82.6
Hong Kong	8.9%	5.6%	21.1%	53.3%	11.1%	-60.0
Ireland	4.4%	15.9%	51.1%	24.2%	4.4%	-54.9
Malaysia	13.8%	4.6%	23.9%	45.0%	12.8%	-50.5
Mauritius	13.1%	13.1%	34.4%	37.7%	1.6%	-45.9
Pakistan	23.4%	15.6%	28.1%	29.7%	3.1%	-18.8
Russia	32.5%	2.5%	25.0%	30.0%	10.0%	-20.0
Singapore	13.8%	11.3%	20.0%	42.5%	12.5%	-37.5
UK	7.4%	9.9%	46.8%	32.5%	3.3%	-62.0
UAE	27.0%	19.0%	30.2%	17.5%	6.3%	-1.6
USA	25.7%	17.0%	36.2%	15.5%	5.6%	-9.1
Total	17.3%	13.6%	33.7%	30.1%	5.3%	-32.9

INVESTMENT FALLS AS FUNDAMENTALS DETERIORATE ONCE AGAIN

In terms of the business environment, the second quarter of 2012 saw a part-reversal of the improvements of the previous quarter. However, while new orders and employment have not fallen below the levels seen in late 2011, investment has taken a blow and our readings for both investment indices (in both tangible and human capital) are now below their late 2011 levels as ease of financing has tightened once again.

Foreign Direct Investment has decreased and [will] continue to decrease in the near future. No big capital projects in our country currently.

SENIOR MANAGER, HOTEL SECTOR (250 – 1,000 EMPLOYEES) MAURITIUS

Despite widening spare capacity, inflationary pressures appear to have increased marginally with half of all respondents reporting rising input costs. This headline figure, however, masks some significant variations as price pressures receded in the US and China but rebounded nearly everywhere else.

Supplier insolvencies appear to be on the rise, a sign of cashflow pressure that may turn out to be more significant than our more positive readings on general access to finance. (Figure 6). Indeed poor cashflow and investment performance are known to be correlated.

As a rule, both liquidity and demand tightened around the world in the second quarter of 2012, reversing almost all of the improvement seen in early 2012. Nearly half (49%) of all respondents reported falling revenues, up from 47% three months ago, 31% reported poor access to finance (up from 24%) and 18% have reported both, up from 14%.

Figure 6: Business challenges

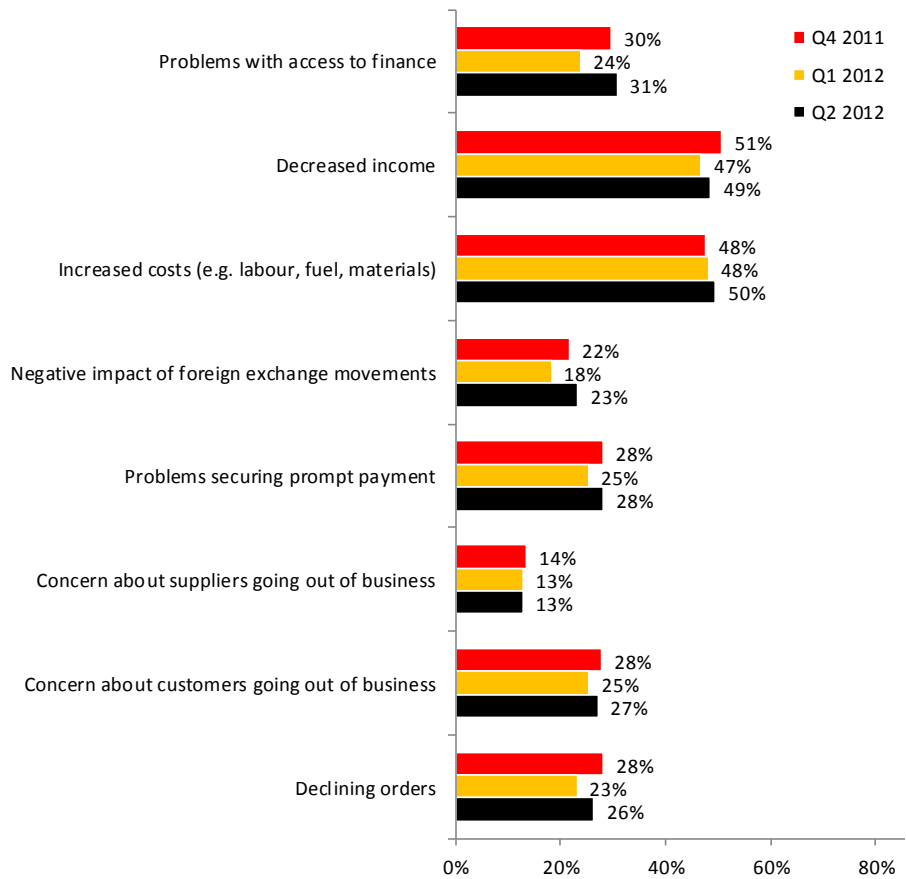
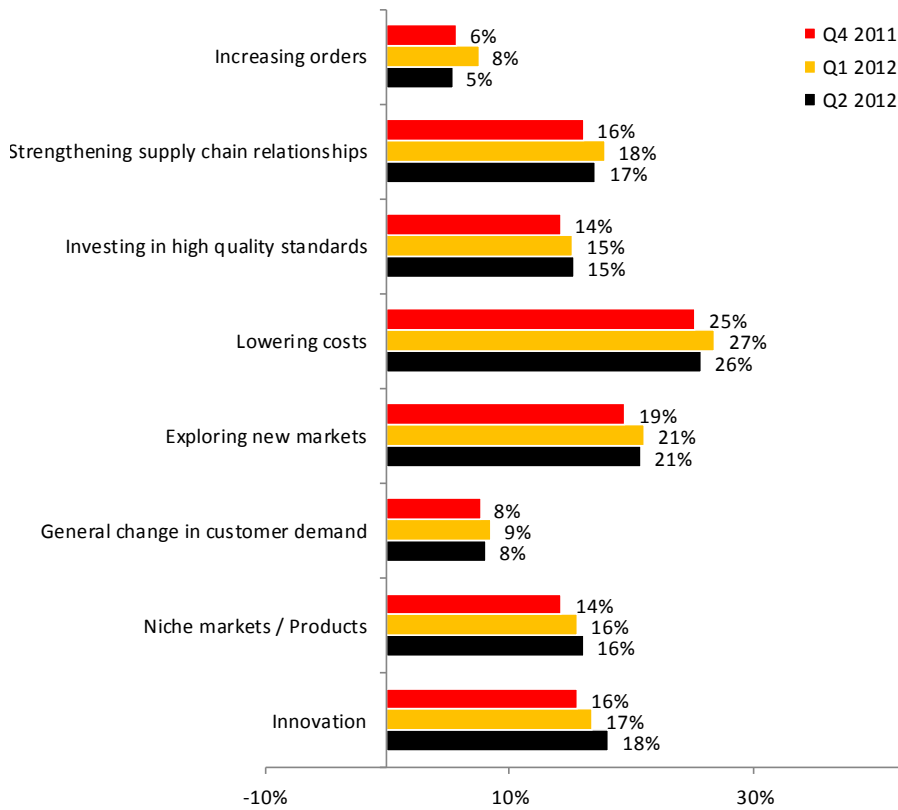


Figure 7: Business opportunities



No change for outsourcing where I work – the business does not seem impacted by the crisis, and if yes, only positively – firms are keen on cost savings by outsourcing their back office activities

SENIOR MANAGER, LARGE CORPORATE (250-1,000 EMPLOYEES), POLAND

The strongest indications of liquidity and demand stress are to be found in Ireland and Malaysia, where 29% and 23% of respondents respectively reported both falling revenues and poor access to finance. Ireland is an exception among the markets best represented in our sample, however, in that pressures appear to be stabilising as the country slowly recovers from the shocks of a financial crisis and sharp fiscal adjustment. In Malaysia, on the other hand, pressure has been mounting on businesses for the last three quarters. Among the major regions, markets in Africa, Western Europe and South Asia are currently the most affected. Among the major ACCA/IMA markets, respondents from the US have been the most positive in this regard.

Encouragingly, 45% of all respondents still saw value-added opportunities for their organisations, down only marginally from 46% three months earlier and up from 42% in the beginning of the year. Respondents in the US (and the Americas in general) as well as China and Ireland are reporting the most consistent upward trends in value-added business opportunities, as have respondents in Central and Eastern Europe whereas opportunities have continued to dwindle in Malaysia and the UAE and have taken a short-term blow in Africa and South Asia. Respondents have increasingly reported new opportunities through exploring niche markets and investment in innovation in Europe in the Americas (Figure 7).

[We're seeing a] polarisation of the market: consumers either up-trade to Super Premium brands or down-trade to Aspirational Premium/ Value-for-Money brands.

SENIOR MANAGER, LARGE CORPORATE (250-1,000 EMPLOYEES), KAZAKHSTAN

The fear factor has increased and organisations will adopt a wait and see approach to investment decisions.

DIRECTOR, LARGE FINANCIAL (OVER 1,000 EMPLOYEES), IRELAND

In terms of capacity building, only 11% of respondents reported increasing investment in either capital or staff, down from 13% three months earlier, while 35% reported falling investment in at least one of the two – up from 34%. Respondents in South Asia and the Middle East are reporting a robust recovery, while their colleagues in Central and Eastern Europe have consistently reported increasing levels of capacity reduction for the last nine months. Among individual markets, the US and the UK are also recovering steadily, although in the latter case investment is recovering from a very low basis (see Figure 8).

Figure 8: Capital spending index values in major regions and selected countries

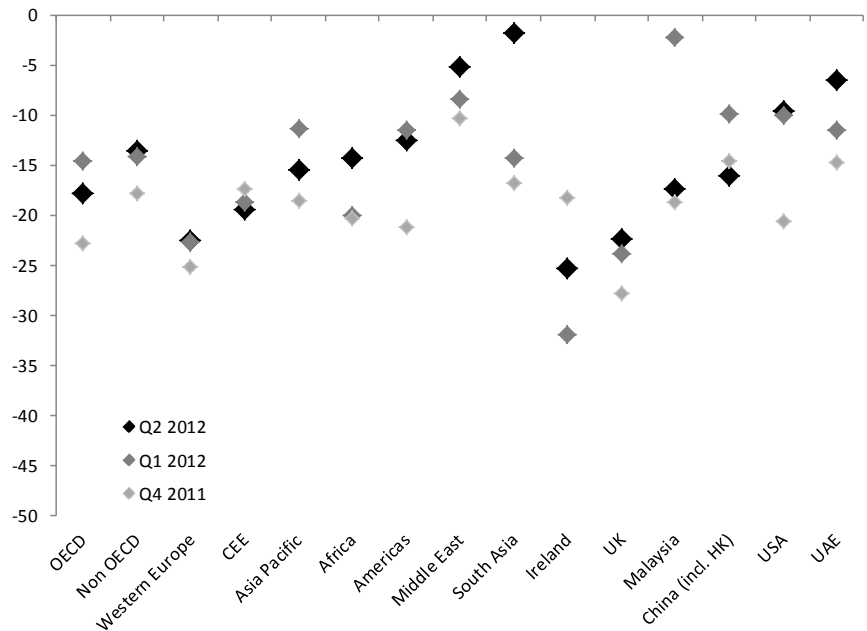
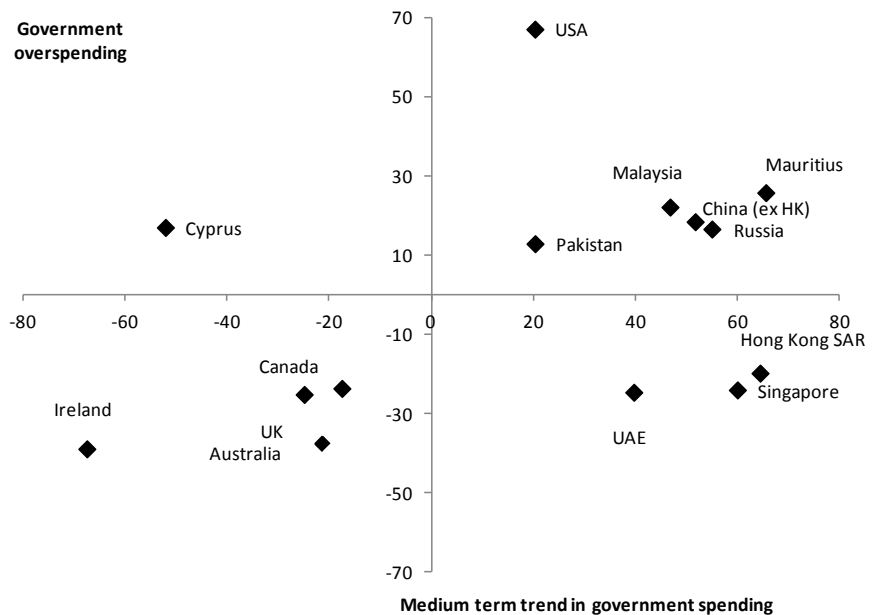


Figure 9: Sustainability of medium-term public spending trends in selected markets



HOPES STILL PINNED ON GOVERNMENT INTERVENTION

Flagging growth has, in the last few quarters, prompted governments around the world to seek ways of supporting the recovery. Accordingly, our surveys have found evidence of a shift in expectations and attitudes towards public spending, and the second quarter of 2012 has reinforced this trend. Nearly half (47%) of all respondents believed that, over the next five years, government spending in their countries was going to rise, while 35% expected spending to fall. While this is only a marginal shift in expectations from the previous quarter, it masks a substantial underlying shift in preferences. About 46% of respondents felt that their government needed to spend more in the medium term, up from 36% in the last quarter – similarly the percentage of respondents who supported austerity fell from 53% to 42%. As a result, despite no real change in the expected levels of spending, 38% of respondents now believe their governments are likely to overspend in the medium term, down from 46% three months earlier.

On the whole government spending is becoming more popular, although the policy options of individual countries remain broadly unchanged in the eyes of accountants (Figure 9). As in previous surveys, Cyprus remains the only well-represented market in our sample in which austerity is seen as sustainable by most respondents. Similarly, fiscal stimulus is also seen as unsustainable in a number of markets, including some very significant economies such as the US, China (ex Hong Kong), Russia, Malaysia, Pakistan and Mauritius. Finally, respondents in only a handful of markets expect governments to spend both robustly and sustainably – Singapore and the UAE are the foremost candidates, while Hong Kong SAR is a special case in light of the divergence of opinion between professionals here and in the mainland.

CONCLUSIONS

As we had warned at the time, much of the apparent recovery in early 2012 was down to very transient sentiment which has since dissipated. To be sure, the fundamentals have also deteriorated somewhat, with liquidity and demand tightening around the world, but it is mostly retreating (and probably misplaced) optimism that is responsible for most of the drop in business confidence in the second quarter.

Overall, the global economy is about as fragile as it's ever been since the 'green shoots' period of early 2009 and our business confidence reading is consistent with contraction in the OECD economies. Investment has taken a hit as access to finance is once again becoming constrained and, despite excess capacity, inflation has not fallen. After three years of belt-tightening, the combination of these forces is proving too much for increasing numbers of businesses, although the effect on employment is as yet only modest.

Markets in the Americas, the Middle East and Africa continue to lead the recovery, as they have for the last nine months. There are signs of a robust recovery in the US, driven by the Western and Mid-Atlantic regions, as investment continues to grow and both demand and liquidity remain relatively strong. This is, however, matched by a worrying slowdown in China, where both confidence and investment are falling despite increasing business opportunities. It is tempting to speak of global imbalances unravelling, but that would be premature. For now, what is most likely the case is that both trade and the movement of capital between the China and the West are slowing.

Encouragingly, accountants around the world continue to see opportunities despite a slowing global recovery. In fact, opportunities for creating value have persisted or even proliferated even in regions such as Europe where business confidence is lagging the global recovery.

Fiscal policy remains a conundrum for most governments. Attitudes are rapidly shifting against austerity as global growth continues to disappoint, but it's worth noting that, in the opinion of local accountants, some of the governments the world is counting on for stimulus may already be living beyond their means.

The 14th edition of the Global Economic Conditions Survey has little to offer by way of good news. The global economy is still weak and could still suffer many false starts such as the one in early 2012. China's slowdown in particular, combined with the poor performance of South Asian markets, will no doubt ripple outwards, eventually reaching suppliers – and finance professionals – in Africa. In the second half of 2012, the sovereign debt crisis in Europe will almost certainly have to share media headlines with a variety of other risks to the global economy.

ANNEX: THE LONG VIEW

Although the joint ACCA-IMA sample only contains three quarters' worth of data, the full GECS dataset stretches back to early 2009, providing useful context for this analysis. Using ACCA responses only to ensure comparability, it is possible to trace in broad terms the trajectory of the recovery over the last three years.

As Figure 10 demonstrates, the global economic recovery is currently more fragile than at any point since the 'green shoots' period of mid-2009, although the impact on government approval has so far been limited. Figure 11 also clearly demonstrates the intense impact the triple threat of a Eurozone crisis, a hard landing in China and sluggish demand in the US had on business sentiment in the second half of 2011. Since then the economic fundamentals have reasserted themselves somewhat, but it is clear the trajectory of the global economy is negative and has been so more or less since mid 2010.

Figure 10: Medium term GECS indicators (ACCA members only)

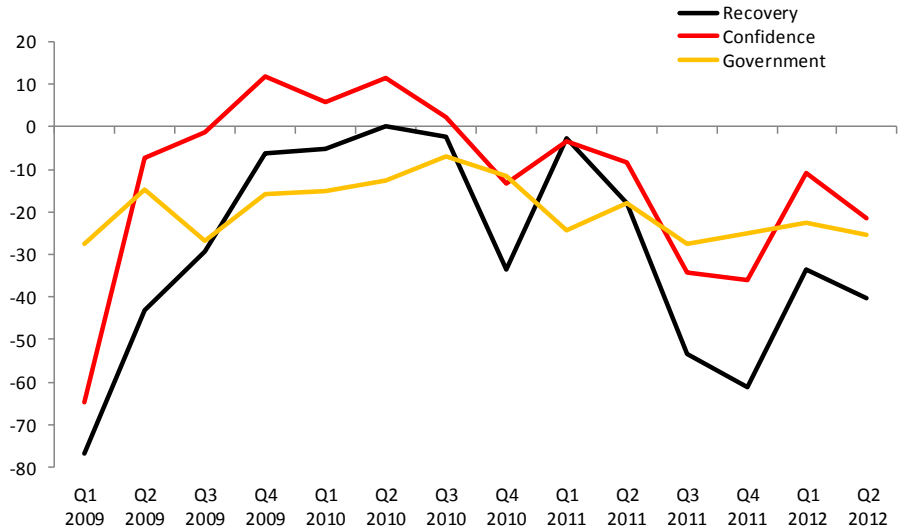


Figure 11: Regional confidence indices (ACCA members only)

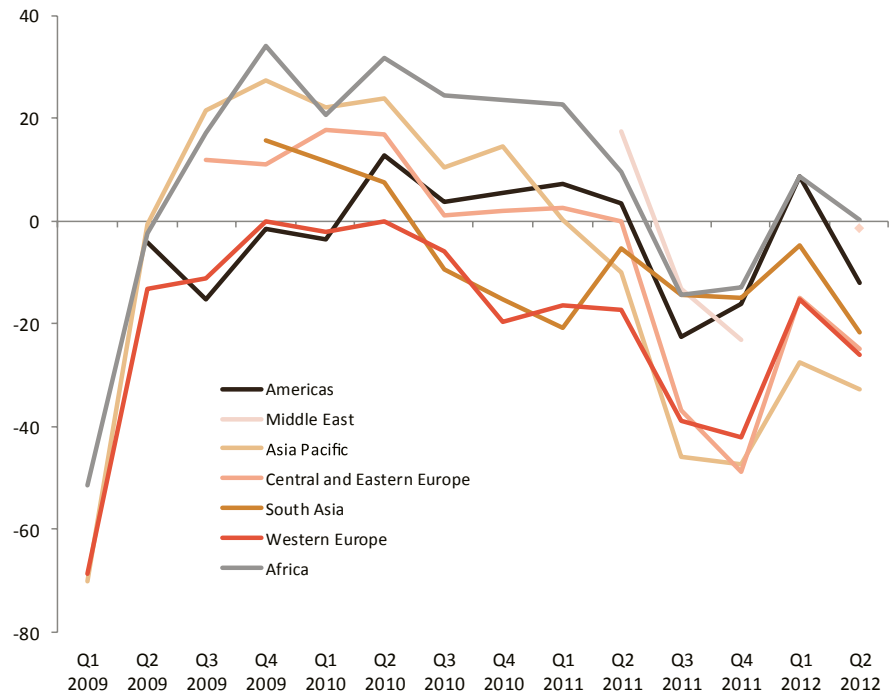
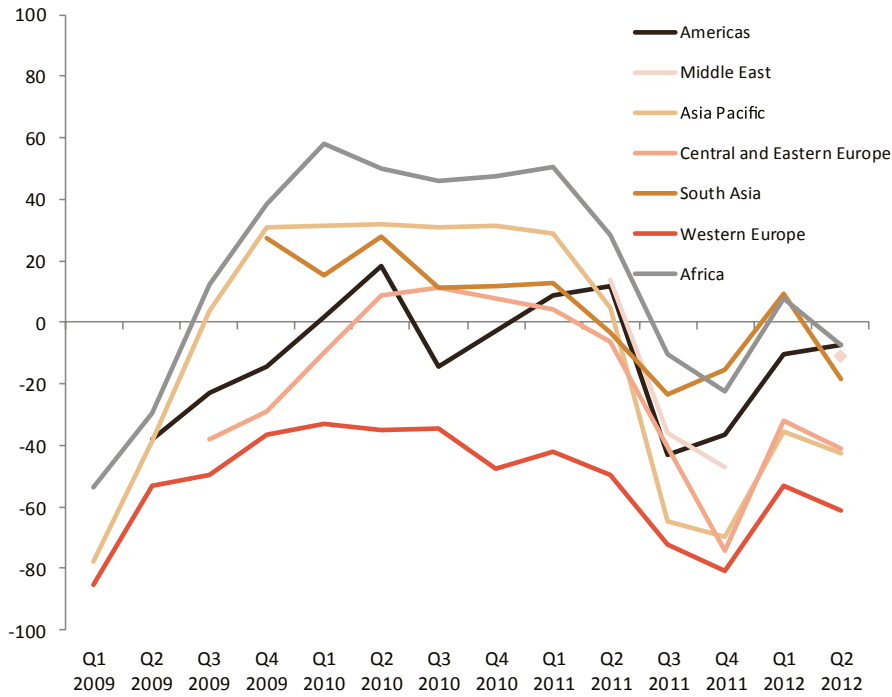


Figure 12: Regional recovery indices (ACCA members only)



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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