



The Association of  
Accountants and  
Financial Professionals  
in Business

Think Ahead



Global economic  
conditions survey report:  
Q2, 2015



## ABOUT ACCA

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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.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our 170,000 members and 436,000 students in 180 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of 92 offices and centres and more than 8,500 Approved Employers worldwide, who provide high standards of employee learning and development.

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## ABOUT IMA®

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IMA® (Institute of Management Accountants), the association of 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 75,000 members in 140 countries and 300 professional and student chapters. Headquartered in Montvale, N.J., USA, IMA provides localized services through its four global regions: The Americas, Asia Pacific, Europe, and Middle East/Africa.

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## Global economic conditions survey report: Q2, 2015

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The Global Economic Conditions Survey (GECS), carried out jointly by ACCA and IMA, is the largest regular economic survey of accountants in the world, in both the number of respondents and the range of economic variables it monitors.

Its main indices are good predictors of GDP growth in the OECD countries and daily trend deviations correlate well with the VIX or 'fear' index, which measures expected stock price volatility.

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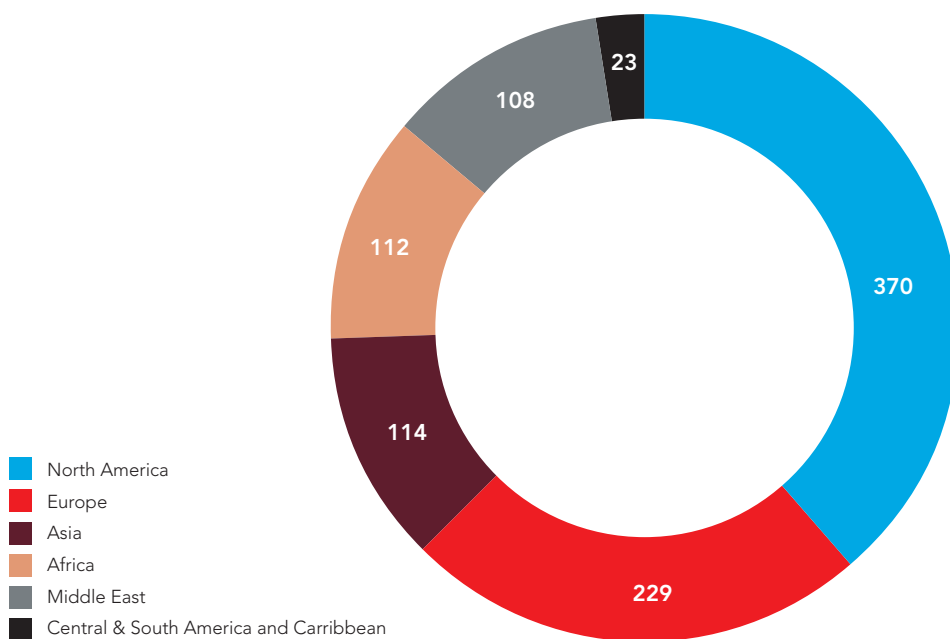
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Fieldwork for the Q2 2015 GECS took place between 29 May and 16 June 2015 and attracted over 950 responses from ACCA and IMA members around the world, including over 100 CFOs. Nearly half the respondents were from small and medium enterprises, with the rest working for large firms of over 250 employees.

ACCA and IMA would like to thank all members who responded to the survey and are grateful to the following for their time and expertise:

- Dr. Howard Archer, Chief European and UK Economist of the Country Analysis and Forecasting Group, IHS Economics
- Andrew Kenningham, Capital Economics
- George Magnus, independent economist
- Dario Perkins, Chief European Economist, Lombard Street Research.

Chart 1: Respondents by region



Source: GECS

The second Global Economic Conditions Survey (GECS) report for 2015 shows business confidence levelling off after six months of improvement.

- The second Global Economic Conditions Survey (GECS) report for 2015 shows business confidence levelling off after six months of improvement. There are various factors explaining this plateau of confidence: many businesses in the US were affected by severe storms, while the slowing economy in China is also having an effect. Over the course of the rest of the year, however, it is likely that we will see confidence rise again, with stronger fundamentals re-emerging in the US and Western Europe.
- Despite the recovery, companies remain cautious when it comes to hiring. Over the course of the second quarter, 41% say that they cut staff or ceased recruiting. Concerns about economic headwinds are one factor, but so too are rising costs, which were cited by nearly half (46%) of businesses surveyed as a negative impact in the global economy.
- The days when Brent crude was trading at more than \$100 a barrel now seem a distant memory. The peak so far this year, achieved in May, was just \$70. Factors contributing to the low oil price include chronic oversupply (and OPEC's decision not to raise output), the slowing Chinese economy and the recent United Nations agreement with Iran, which could see sanctions lifted.
- The fraught negotiations over a bail-out package for Greece in the second quarter have not been enough to shake the recovery in Western Europe, which appears to be hitting its stride in 2015.
- After a period during which Canada was faring better than its southern neighbour, the positions are now reversing. In Canada, low commodity prices have continued to depress business confidence, while there is growing evidence that the US has turned a corner and has rosier prospects. Although economic performance in the US during the first quarter was weak, there are signs that Q2 has been stronger. A series of promising data releases are also raising the potential of a rate hike by the Federal Reserve. Nonetheless, the sharp dip in US business confidence over the past two quarters highlights the wrought nerves of the US business community in the post-crisis climate.
- The slowdown in China is having an impact on its neighbours in the Asia Pacific region. Respondents there saw the sharpest drop in confidence. Slowing demand from China for construction materials has not only hit commodity producers in the region, such as Australia, Indonesia and Malaysia, but also the services-heavy economies of Singapore and some Australian cities.

Globally, business confidence levelled off in the second quarter of 2015 following six months of improvement.

## BUSINESS CONFIDENCE GROWTH PAUSES AFTER WEAK DATA FROM THE US AND CHINA

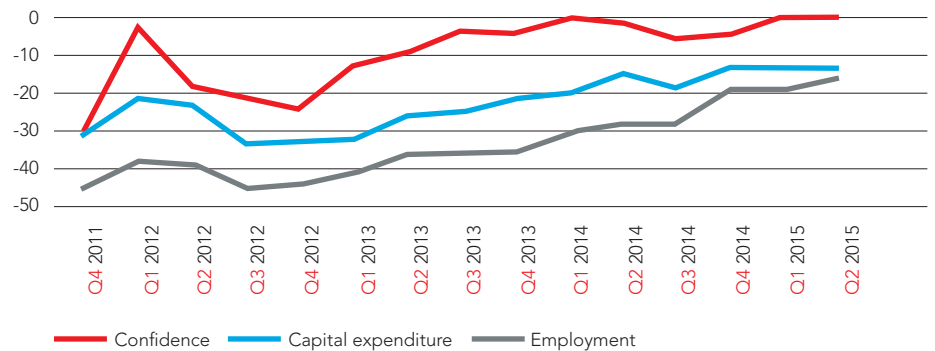
Globally, business confidence levelled off in the second quarter of 2015 following six months of improvement (see Chart 2). The reasons for this can be traced to the world's largest economies: many businesses in the US were affected by severe winter storms, port disruptions and a strong dollar, while those in China faced a cooling economy in the first quarter and over-heating stock markets in the second.

Of these factors, China's economic slowdown and accompanying shift from investment to consumption-driven growth will have the greatest long-term impact on global trade patterns, hitting the world's major commodity exporters particularly hard. Since the global financial crisis of 2008, China has been viewed as the engine of the world's economy. Yet with more sturdy fundamentals re-emerging

in the US and Western Europe, the role of Western consumers in driving demand is coming back to the fore.

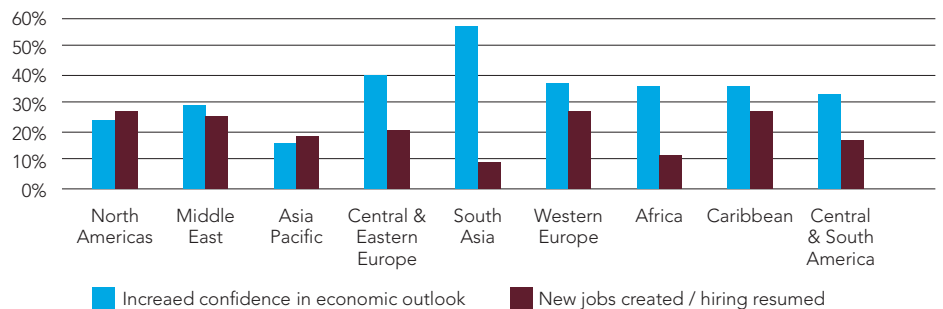
The employment index continued to rise for the sixth straight quarter, while investment in capital projects edged up marginally. These findings indicate an underlying sense of confidence in the global economic recovery. There was, however, significant regional variation in the relationship between confidence in the economic outlook and willingness to take on new staff (see Chart 3). In North America, the number of firms creating new jobs was actually greater than those expressing greater confidence in the economy. In South Asia and Africa, by contrast, relatively high confidence had yet to translate into new investments in people. This may reflect a degree of uncertainty about the sustainability of business growth in regions that still face numerous internal challenges and external vulnerabilities.

Chart 2: Business confidence plateaus



Source: GECS

Chart 3: The impact of improved confidence on hiring



Source: GECS

Despite the growing sense that the global economy is moving into a sustained recovery, lingering doubt can be seen in the readiness of firms to freeze hiring and even cut staff when faced with economic headwinds.

**EXPECTATIONS OF HIGHER GOVERNMENT SPENDING IS ELEVATING CONFIDENCE IN SOME REGIONS**

Nearly half (48%) of firms surveyed expected to see government spending increase over the next five years, while 35% expected a decrease, (see Chart 4). The region most certain of a boost from public investment was South Asia, at 71% of respondents. Continued high spending is to be expected in China, as the government works to restore confidence after weaker-than-expected investment and output data in the first quarter and the stock market dive from June.

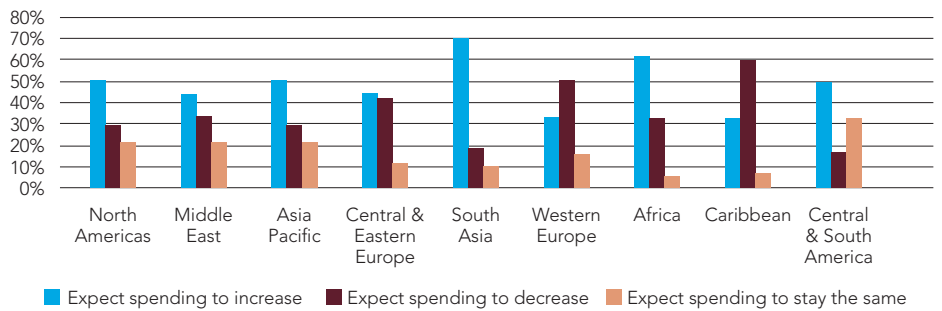
In Western Europe, by contrast, most firms predicted a drop in government spending. This result was heavily influenced by respondents from the UK, and the latest Budget announcement has confirmed that the UK will face renewed austerity for the time being.

**FIRMS REMAIN QUICK TO CUT STAFF WHEN FACED WITH UNCERTAINTY**

Despite the growing sense that the global economy is moving into a sustained recovery, lingering doubt can be seen in the readiness of firms to freeze hiring and even cut staff when faced with economic headwinds. As can be seen from the Chart 5, 41% of firms have cut staff or ceased recruiting over the last quarter – nearly twice the number of firms who increased staff levels in the same period. Interestingly, more of the staff reductions or hiring freezes came from large firms (46%) than SMEs (34%). This indicates that SMEs may be better for maintaining stable employment.

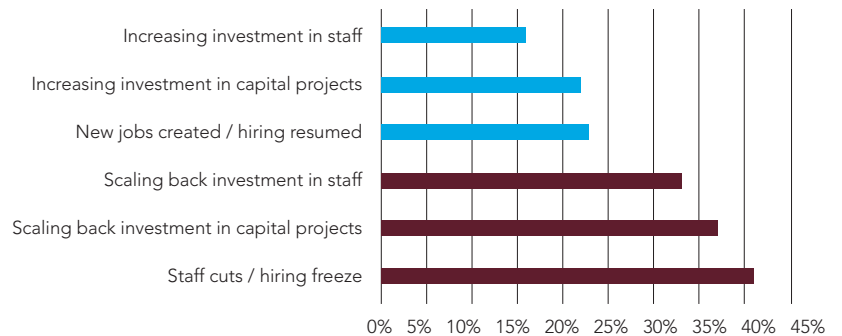
**41%**  
of firms have cut staff or ceased recruiting over the last quarter

**Chart 4:** Expectations of government spending



Source: GECS

**Chart 5:** Firms' responses to the global economy, Q2 2015



Source: GECS

The problem of rising costs was not limited to developing economies, however, it was also noted by around half of respondents from North America and around a third from Western Europe.

**RISING COSTS WAS THE TOP CONCERN FOR FIRMS IN THE SECOND QUARTER**

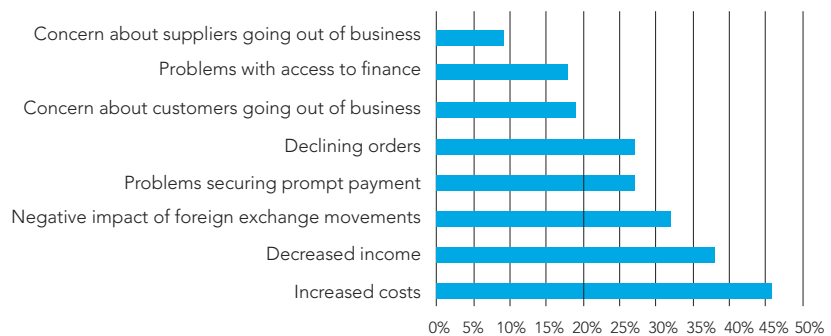
The main negative impact of shifts in the global economy over the past three months was a rise in costs, cited by nearly half (46%) of businesses surveyed (see Chart 6). The region worst affected in this respect was Africa, with 60% of respondents expressing concern, followed by South Asia (51%). While these regions have benefitted from cheaper oil imports, many emerging-market governments and firms face a higher cost of servicing debts, owing to the strong dollar and depreciation of their own currencies. In addition, volatile patterns in foreign exchange rates raise the risks and therefore also the costs of hedging international trade. With

surprise central bank interventions to devalue currencies currently the order of the day, it is likely this is having an impact. Foreign exchange movements were cited as problem in the second quarter of 2015 by around a third of firms (32%). Large businesses, which are more likely to have cross-border supply chains and international financing arrangements, were affected worse than SMEs in this respect, at 35% of respondents.

The problem of rising costs was not limited to developing economies, however, it was also noted by around half of respondents from North America and around a third from Western Europe.

**60%**  
of African respondents expressing concern over a rise in costs

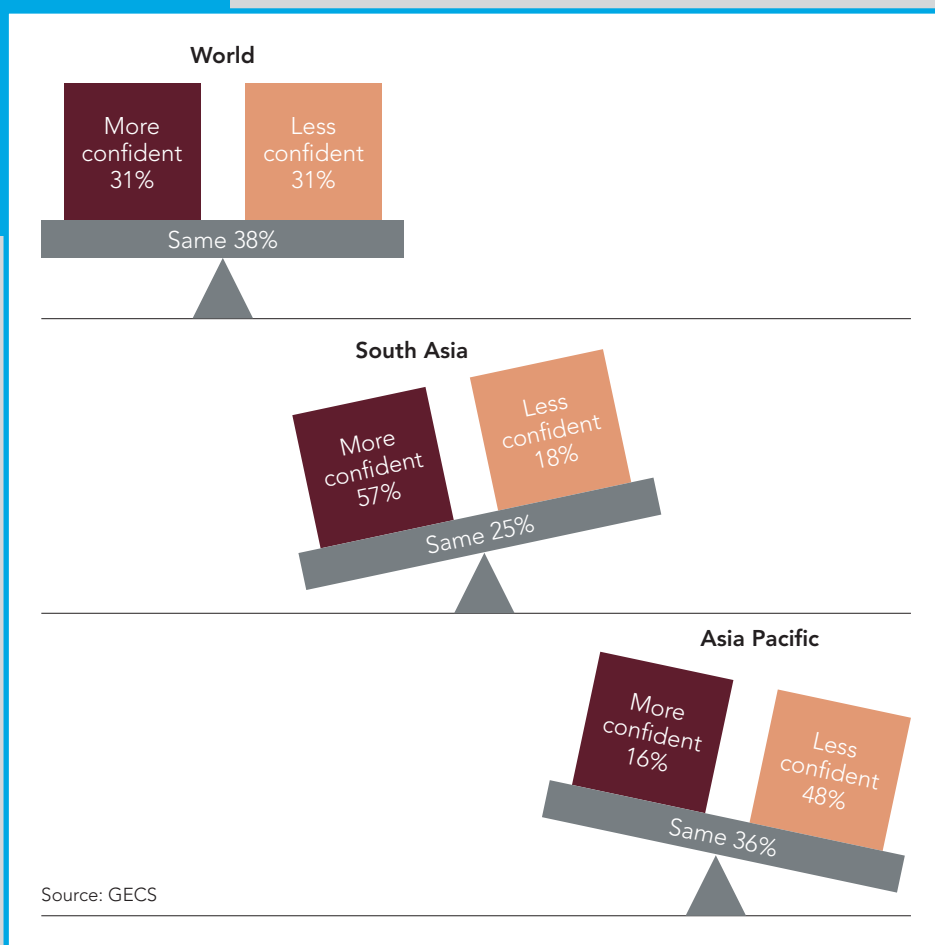
**Chart 6:** Main negative impacts of global macroeconomic changes, last quarter



Source: GECS

## SOUTH ASIA: THE NEXT HIGH-GROWTH REGION?

Though overall business confidence was unchanged in the second quarter, the index fluctuated strongly in certain regions. South Asia experienced the greatest boost, with India and Pakistan benefitting from cheaper oil imports and growing demand from their export partners. The Asia Pacific region felt the worst knock to business confidence, as Chinese demand continued to slow and a stock market bubble became apparent.





China's stock markets peaked on 12 June, after a bull run that added US\$6.5trn to the value of Chinese stocks over the course of a year.

### BULL IN A CHINA SHOP

China's stock markets peaked on 12 June, after a bull run that added US\$6.5trn to the value of Chinese stocks over the course of a year. Over the next three weeks, the bubble burst spectacularly. By the time the government stepped in with extraordinary measures to restore order to the market in the first weekend of July, \$3trn had been wiped from the value of Chinese shares. But as Andrew Kenningham of Capital Economics explains, the drop comes after a much larger rise in equity markets. "There hasn't been an overall massive negative effect on people's wealth from investing in equity markets," he says. "Clearly some have lost money who invested near the top, but overall most people who invested in the market will have still made money rather than lost it over the long term."

These dramatic events undoubtedly shook the business community, but the drop in the GECS Confidence Index over the second quarter (Chart 7) was not primarily in response to the crash. Though evidence of overheating markets was mounting, the main cause of concern was weaker than expected official data on investment and growth in the first quarter, which lowered predictions for China's 2015 GDP growth to below 7%, according to the International Monetary Fund.

"We see Chinese growth slowing to about 6.5% for two or three years, compared to 7.5% in recent times," says Dr. Howard Archer, Chief European and UK Economist of the Country Analysis and Forecasting Group, IHS Economics. "We don't see a hard landing, but we see growth limited by Chinese standards."

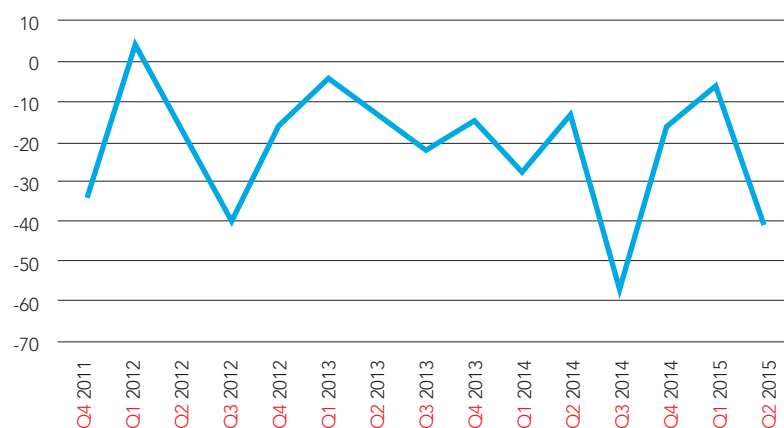
The volatility that can be observed in China's business confidence over the last

few years is related to the stop-start nature of government stimulus, in an ongoing attempt to cushion the secular slowdown that is occurring. The government wants to transition to an economic model based more on consumption, innovation and productivity increases, but cannot risk the economic and social instability that could result from a rapid contraction in traditional industries. Therefore, central and provincial governments remain willing to step on the gas any time the rate of deceleration exceeds their expectations.

This is a tricky game to play. Loose monetary policies and incentives to increase lending have led, over the course of several years, to potentially dangerous levels of local-government debt, an overheated property market, and when the property market cooled, to the latest stock market bonanza. In light of this issue, the government's latest measures have been more targeted – earmarking lending for specific infrastructure projects, for instance, and reducing tax rates for SMEs.

The data emerging on the second quarter indicates that the current stimulus package is working, with fixed asset investment growth settling at 11.4% year-on-year in June after slowing for most of the last year. Concerns about the real economy are, therefore, likely to be less pronounced in the next few months. On the other hand, confidence in the government's commitment to let market forces play a leading role in the economy has been shaken by the drastic intervention aimed at calming the stock markets. "The government does not come off well from this episode," says George Magnus, an independent economist. "I'd expect already stifled reforms to slow down still further."

Chart 7: Chinese confidence plummets



Source: GECS

The effect of China's slowdown can be seen in the performance of the main commodity currencies (the Australian, Canadian and New Zealand dollars).

**WORRYING TIMES FOR COMMODITY EXPORTERS**

The structural shifts occurring in China have ramifications around the world. On the one hand, the growing cohort of Chinese middle-class consumers are already in such great numbers that they have developed their own gravitational field. International retailers and service providers are lining up to gain access to them, while manufacturers are setting up local research and development centres with a view to adapting products to their tastes and needs.

On the other hand, the recent slump in commodity prices—with its knock-on impact on the economic fortunes of so many countries—is widely attributed to the slowdown in the rate of demand growth from Chinese industry. Resource-rich countries, such as Canada and Australia, have increasingly tied their fates to that of China, and in recent months have resorted to loosening their monetary policies in an attempt to bolster flagging growth. "Australia is much more sensitive to China than most advanced economies," says Andrew Kenningham of Capital Economics.

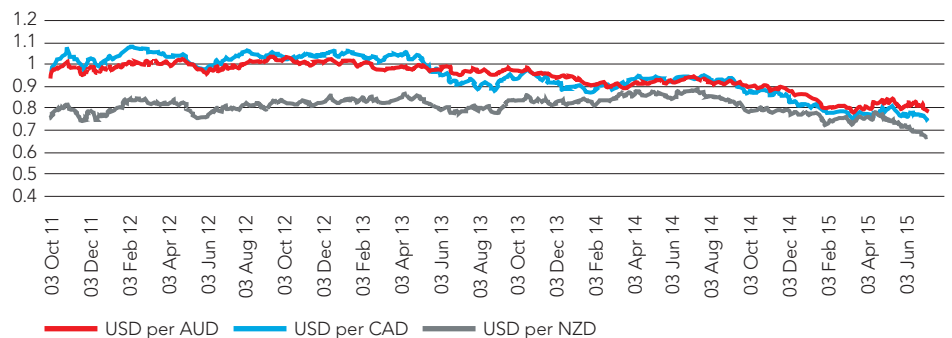
The effect of China's slowdown can be seen in the performance of the main commodity currencies (the Australian, Canadian and New Zealand dollars). After a brief rally in April and May 2015, they resumed their long-term decline against the US dollar from June (Chart 8). This reflected a combination of weak commodity prices, multiple rate cuts by their own central banks and improving economic data coming out of the US – raising the possibility of a rate hike by the US Federal Reserve (the Fed) later in the year.

Even expectations of greater infrastructure spending in Asia's other behemoth, India, combined with high growth forecasts for the ASEAN region have not been enough to restore confidence in commodities – a reminder of the vast scale and global role of the Chinese economy.

**CHEAP OIL FOR GOOD?**

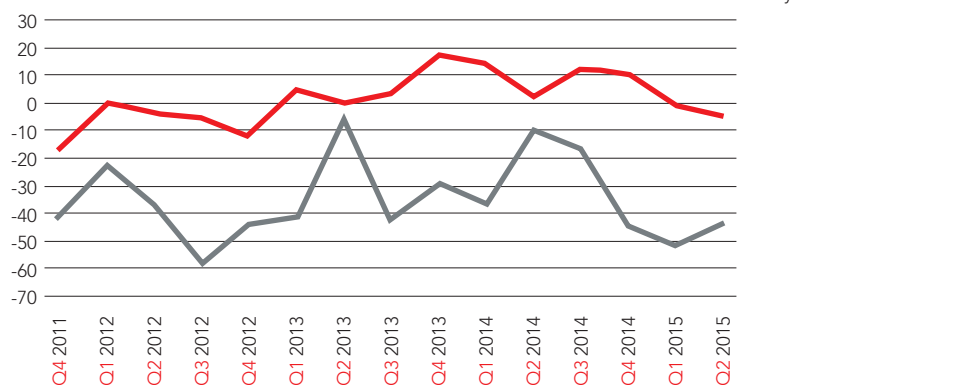
The heady days when black gold (Brent Crude) was trading at over \$100 a barrel seem far off now. This year's high, reached in May after a brief rally, was just \$70. Over-supply has become the new norm since OPEC made the key decision in late 2014 not to reduce output.

**Chart 8:** Commodity currency movements against the US dollar



Source: US Federal Reserve

**Chart 9:** Oil exporters continue to suffer



Source: GECS

In developed and developing countries alike, reduced fuel costs have freed up more disposable income for spending and saving, and this has put wind in the sails of the global recovery.

Chart 9, which shows a more muted drop in confidence in the Middle East and a slight upturn in Malaysia, shows a sense of optimism in the second quarter that the spring rally was a sign of things to come. Any remaining hopes of an upwards turn in oil prices were dashed in July, when six global powers agreed to phase out UN, EU and US economic sanctions on Iran. Markets were quick to price in the anticipated surge in supply, and by late July, Brent Crude had slumped again by around a fifth from May, to \$57 a barrel. Barring a major geopolitical shock, it is hard to see a significant change in the status quo in the coming year.

Bad news for the fracking industry has been good news for consumption and manufacturing-driven economies. In developed and developing countries alike, reduced fuel costs have freed up more disposable income for spending and saving, and this has put wind in the sails of the global recovery.

"It's pretty clear that low oil prices are a net positive for global growth," says Andrew Kenningham. "If the price were to fall again, you'd have this mix of negative headlines and impact on the energy sector itself, but a net positive for the economy through boosting real disposable incomes."

#### THE GREEK CRISIS: EUROPE REMAINS UNRUFFLED

The ongoing negotiations and political machinations over the Greek bail-out, and associated risk of a 'Grexit' from the euro zone, have dominated European headlines in the second quarter. It is therefore somewhat surprising to note that businesses in Western Europe appear entirely unconcerned: confidence has risen without a blip for three consecutive quarters (see Chart 10).

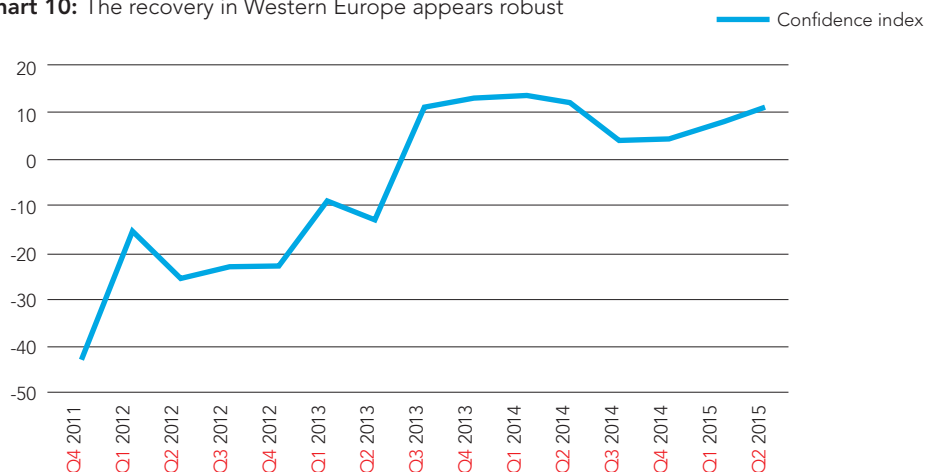
In part, this can be explained by the simple fact that the survey was concluded before the Greek referendum on the latest bail-out, which resulted in a resounding "No" to the eurogroup's proposals, was held. But opinions are also divided on how great an impact a 'Grexit' would have and even on whether the impact on the remaining members would be positive or negative. Some commentators believe the loss of Greece would signal the end of the euro project, while others view it as an opportunity to forge a stronger political and economic union.

According to Andrew Kenningham of Capital Economics, the impact is less than it would have been a few years ago because policy-makers are not much better prepared. "The exposure of other countries in the Eurozone to Greece has been cut back, so effectively a lot of the debt has been transferred to the official sector," he explains. "Trade with Greece has gone down, banks' exposure to Greece is very small now, so in itself the contagion would not be as significant as it could have been."

For George Magnus, an independent economist, the Greece crisis represents a tipping point in European integration. "If, as most expect, Greece eventually leaves the euro, the major focus will then fall on the UK referendum on whether or not to quit the EU. If Greece and the UK were both to leave Europe, the European project might prove difficult to resurrect."

Overall, the short-term impact on business of a 'Grexit' would very likely be negative, but this quarter's survey respondents clearly did not judge this risk as outweighing the positive effects of improving employment and consumer confidence in their markets.

Chart 10: The recovery in Western Europe appears robust



Source: GECS

North America's two economic giants have been moving in different directions in recent quarters.

## NORTH AMERICA: A TALE OF TWO COUNTRIES

North America's two economic giants have been moving in different directions in recent quarters. For Canada, low commodity prices have continued to depress business confidence, whereas it is becoming increasingly evident that the US, being more diversified, has turned a corner. Despite a weak start to the year, the country is gradually reclaiming its status as driver of the global economy. This divergence was intensified in July (after the close of the current survey), when an unexpected additional interest rate cut by the Bank of Canada from 0.75% to 0.5% coincided with strong data releases from the US, raising the likelihood of a rate hike by the Fed. Nonetheless, the sharp dip in US business confidence over the past two quarters highlights the wrought nerves of the US business community in the post-crisis climate.

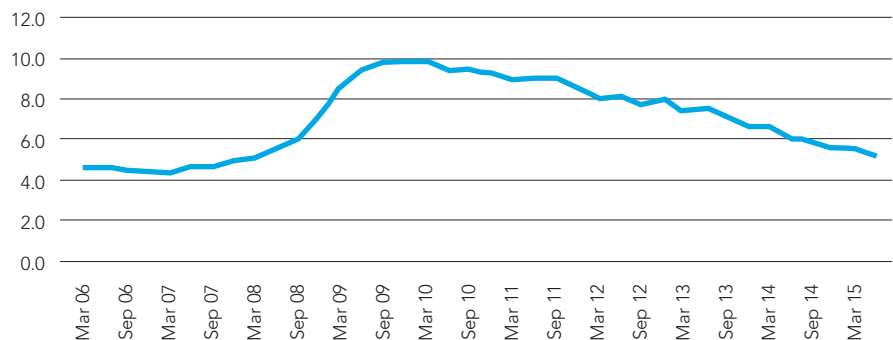
The US economy enjoyed a rebound in the second quarter, following a period when GDP growth stagnated and business confidence plummeted at the start of the year. This stagnation was caused by a number of factors, including winter storms, port disruptions and a drag on exports from a strong dollar. George Magnus, an

independent economist, sees the impact of the strong dollar being most significant for companies that have borrowed primarily in USD. "These companies will face an additional burden as and when US rates start to rise, directly unless they have long term fixed rate debt, and again as higher rates push the USD up again, he says.

Confidence is likely to show significant improvement by the next quarter. Unemployment has continued its steady slide since mid-2010 (see Chart 11) and, in an encouraging development, over the past year, the number of long-term unemployed (those without a job for at least 27 weeks) has dropped at a much faster rate (31%) than the overall number of jobless people (12%).

Americans are getting back to work and are spending more. Concerns earlier this year that increases in real incomes and decreases in unemployment were not translating into higher consumer spending have proved unfounded, with expenditure on goods bouncing back strongly from March once the snowstorms in the northeast of the country receded (Chart 12). The University of Michigan's Index of Consumer Sentiment slipped slightly from June to July, but was still up 14% on the previous summer. Retailers

**Chart 11:** The US jobs market continues to improve (Unemployment rate, %)



Source: Bureau of Labor Statistics

**Chart 12:** US consumption bounces back in the second quarter



Source: Bureau of Economic Analysis

Importantly, unemployment is finally dropping in some of the worst-hit countries.

have demonstrated their confidence in rising consumer demand by hiring an additional 300,000 employees nationwide over the past year, with 33,000 of these jobs added in June 2015 alone. New homebuilding starts were also up in June by 9.8% on May.

The strong recent data on jobs and spending increases the likelihood of the Federal Reserve going ahead with an interest rate hike later in 2015. Some headwinds remain, however, including stagnating hourly wages, falling productivity and disappointing exports. Dario Perkins, Chief European Economist, Lombard Street Research, argues that the strong dollar has made it less pressing for the Fed to contemplate an interest rate rise. "At the start of the tightening they're going to be very cautious because they won't want to see the dollar surge again," he says. "They're worried about a taper tantrum in bond markets and they're conscious they don't want to repeat the mistakes we've been making in Europe with tightening that then has to get reversed. I think all of that suggests that it's going to be a very modest tightening cycle."

**WESTERN EUROPE: IN SPITE OF GREECE**

The fraught negotiations over a bail-out package for Greece in the second quarter have not been enough to shake the recovery in Western Europe, which appears to be hitting its stride in 2015. The headline confidence index has risen for three

consecutive quarters, continuing a longer-term upwards trend (Chart 13). The euro remained weak as a result of the European Central Bank's (ECB's) quantitative easing (QE) programme, which began in March and is set to last until at least September 2016. This, along with growing US demand, boosted exports in the first two quarters. Consumers and businesses in Europe have drawn confidence from low oil prices and this, along with the rise in lending under QE, has added momentum to the region's long-suffering economies. The euro zone as a whole expanded by 0.4% in the first quarter, and the gains cannot all be attributed to Germany. France posted growth of 0.6% and Spain a healthy 0.9%.

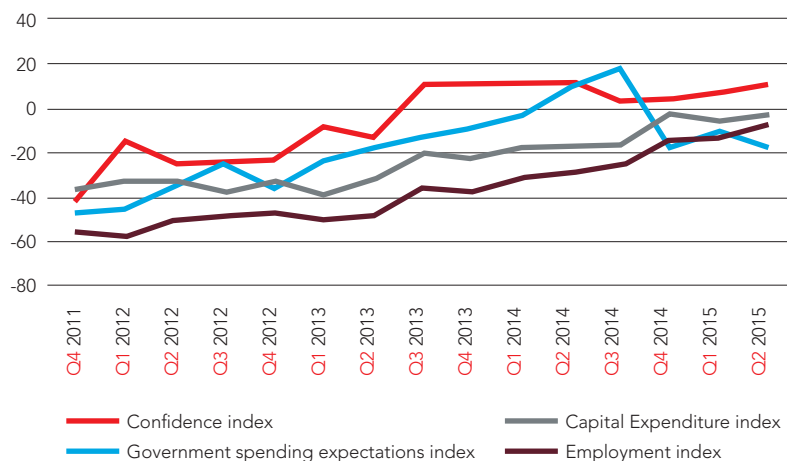
Importantly, unemployment is finally dropping in some of the worst-hit countries. In Spain, where unemployment peaked at over 25% in 2013, employment grew by 2.9% on the previous year in the second quarter.

Chart 13 also shows an encouraging development: business confidence, capital investment and employment are breaking away from expectations of government spending. This may be a sign of reduced reliance on government investment, as the private sector becomes more willing to take risks. "There are a lot of building blocks in place for a cyclical upturn in the Eurozone," says Dr. Archer. "You would hope that would underpin business confidence."

**2.9%**

In Spain, employment grew by 2.9% on the previous year in the second quarter

**Chart 13:** Confidence in Western Europe: growing wings?



Source: GECS

### IN FOCUS: THE UK

The latest UK labour market data from the Office for National Statistics (ONS) revealed that in the March to May 2015 period (Chart 14), there were 67,000 fewer people in work than in the preceding three-month period, marking the end of a two-year positive run in job creation.

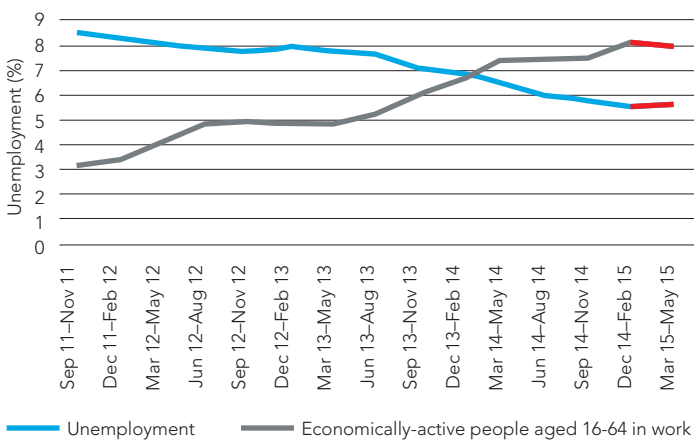
While this sounds dramatic, a large part of the drop owed to a reduction in the overall economically-active population (those working or seeking work), which fell by 51,000. Much of this change was a result of people retiring: the economic inactivity rate of 16-64 year-olds remained unchanged, but rose for over-64s. A more positive picture emerges from the 122 UK-based survey respondents, who reported an increase in hiring in the second quarter (Chart 15).

After nine months of wage growth, the UK saw wages slip back by 0.6% in the first quarter of 2015, despite an increase in

productivity. But considering the longer-term trend (Chart 16), it is encouraging that the link between rising productivity and rising wages, disrupted during the post-crisis years, appears to have re-emerged. With unemployment fairly low and productivity rising, it is likely that wages will continue to rise over the coming year.

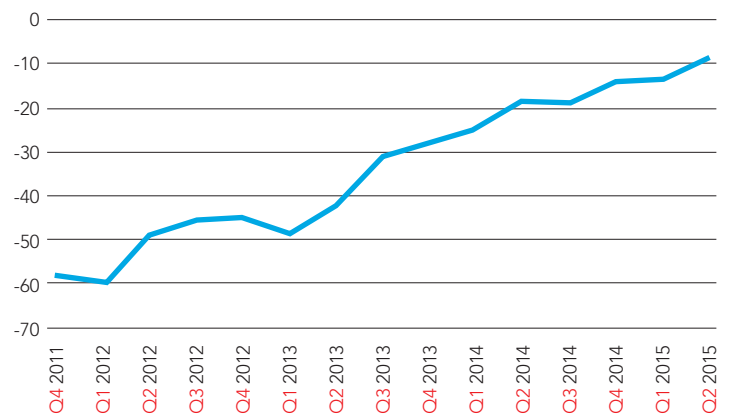
The combination of gradually improving wages, low inflation and low fuel costs has led to a bounce in consumer confidence to levels not seen since the early 2000s, which is good news for retailers and service providers in the UK (Chart 17).

**Chart 14: The UK labour market falters**



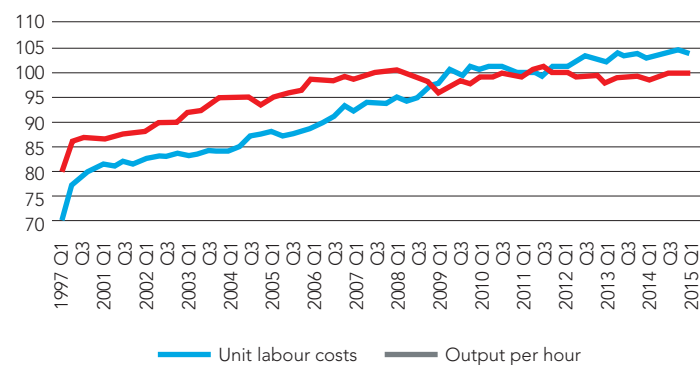
Source: Bureau of Labor Statistics

**Chart 15: UK employment index**



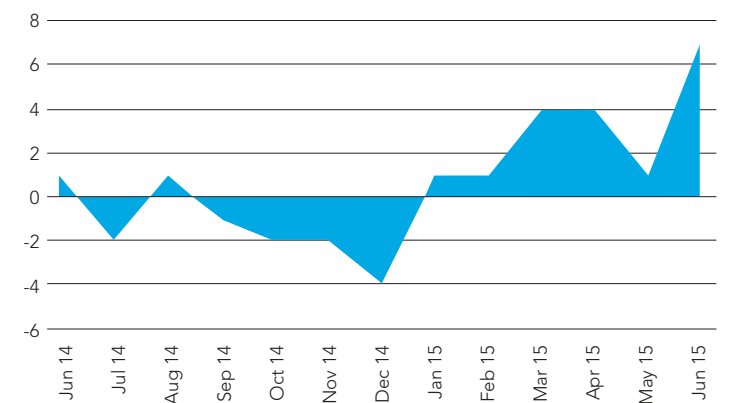
Source: GECS

**Chart 16: The relationship between wages and productivity (UK)**  
(Indices, 2011=100)



Source: Office for National Statistics

**Chart 17: UK consumer confidence (Index)**



Source: GfK

The economies of India and Pakistan are benefiting from low oil prices – being highly reliant on oil imports – and have seen balance of payments improvements in recent months.

**CENTRAL AND EASTERN EUROPE**

After months of being hammered by a combination of EU sanctions, reduced oil revenue and ongoing fighting in eastern Ukraine, there were signs that Russia's economy might be turning a corner in the first half of 2015 (Chart 18). In the second quarter, businesses reported a surge in confidence on the back of a temporary rise in oil prices, which had also helped to drive the Ruble up in value. Surveys agree that consumer confidence had begun to climb out of the trough reached at the start of 2015. However, it is too early to talk of a solid Russian recovery. Shortly after the close of the current survey, EU sanctions were renewed and the UN agreement with Iran sent oil prices spiralling downwards.

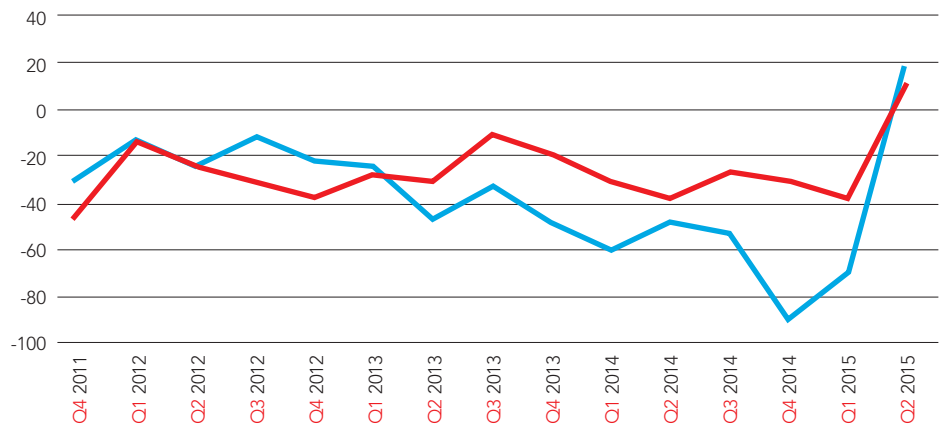
Central and Eastern Europe as a whole faced a more stable situation. The steady improvements in Western Europe bode well for popular near-shoring destinations such as Hungary, with heightened awareness in recent year of the risks posed by lengthy, hard-to-manage supply chains.

**SOUTH ASIA: WELL-FUELLED FOR NOW**

The business community in South Asia is feeling buoyant. The economies of India and Pakistan are benefiting from low oil prices – being highly reliant on fuel imports – and have seen balance of payments improvements in recent months. Greater investment in infrastructure is expected under Prime Minister Modi's reform programme, and India is set to grow at a faster rate than that of China over the coming five years, edging above 7% growth just as China slips below it. However, an unwillingness among South Asian businesses to invest in either capital or human resources belies the headline rise in confidence (see Chart 19).

These downwards trends in investment may reveal a lingering uncertainty about the long-term impact of Modi's reforms. His measures to cut red tape and speed up land appropriation for public works have been implemented only through a temporary order and it remains a moot point whether they will ever be codified in law. Another explanation, implied by the persistent expectation of higher government spending, is that the private sector is waiting for the public sector to invest more boldly before taking on new risks.

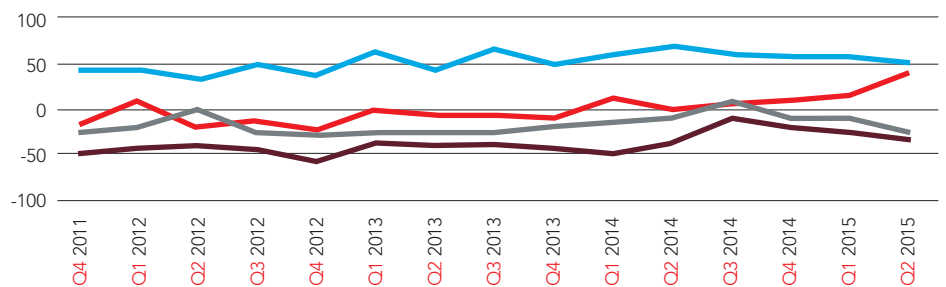
**Chart 18:** Russian business confidence rebounds



Source: GECS

— Confidence index: Russia — Confidence index: All CEE

**Chart 19:** South Asian firms: Talking big, spending small



Source: GECS

— Confidence index — Government spending expectations index — Capital Expenditure index — Employment index

Following weak economic data from China in the first quarter, nearly two thirds of firms in the region reported that there were now fewer profitable opportunities to exploit.

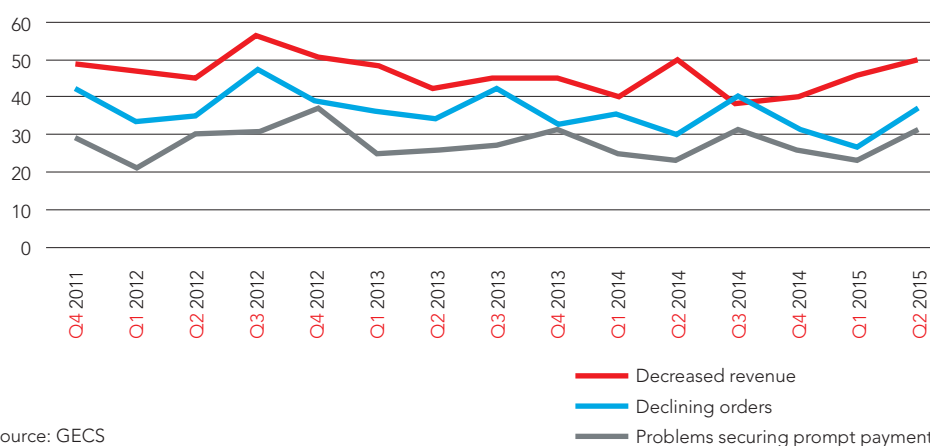
### ASIA PACIFIC: FEELING THE HANGOVER

The Asia Pacific region saw the sharpest drop in confidence (Chart 20), with businesses negatively impacted by a drop in demand as Chinese growth continued to slow. Slowing demand from China for construction materials has not only hit commodity producers in the region, such as Australia, Indonesia and Malaysia, but also the services-heavy economies of Singapore and some Australian cities, which have grown up around the wealth generated by the commodities trade. Following weak economic data from China in the first quarter, nearly two thirds of firms in the region reported that there were now fewer profitable opportunities to exploit.

The outlook in the medium term is less gloomy than the survey suggests. China's central and provincial governments are willing to take drastic measures to ensure that the economy does not experience a hard landing, and stimulus measures from earlier in

the year have already resulted in strong fixed asset investment growth during the second quarter. China's regional trading partners, for their part, have taken measures to blunt the effect of a Chinese slowdown. Australia's central bank cut rates in February and again in May, sinking the value of the dollar and thereby helping exports of items still in high demand from China, such as meat and wine. ASEAN's emerging economies, such as Malaysia and the Philippines, have become more balanced in recent years with the rise of domestic middle classes helping to drive growth. Although reduced oil revenues will dent Malaysia's prospects, the manufacturing sector – which contributes around a quarter of GDP – will benefit from cheaper oil, while the tourism industry stands to benefit from the recovery in advanced Western economies and ongoing growth in Chinese visitors to South-east Asia. The table below shows IMF projections for GDP growth in selected Asia Pacific economies in 2015.

Chart 20: Reduced demand dampens confidence in the Asia Pacific



Source: GECS

Table 1: IMF projections for GDP growth in selected Asia Pacific economies in 2015

Economy	Expected growth in 2015
Australia	2.8%
China	6.8%
Indonesia	5.2%
Japan	1.0%
Malaysia	4.8%
Philippines	6.7%
Singapore	3.0%

Source: IMF



**MIDDLE EAST: STRUGGLING FOR ALTERNATIVES**

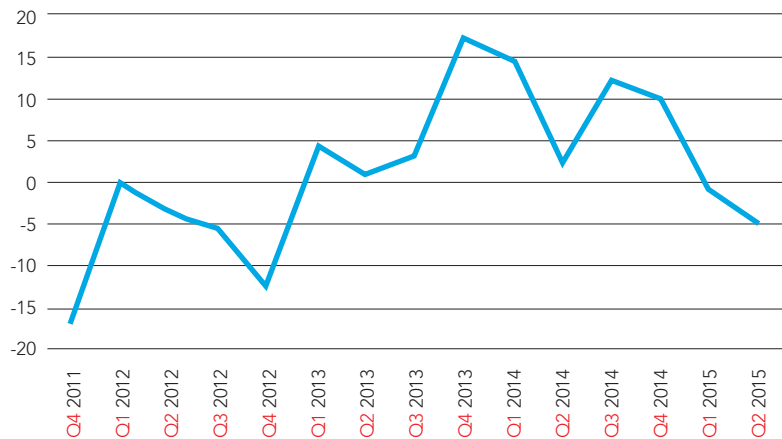
Business confidence in the Middle East did not fall quite as steeply in the second quarter as in the first, owing to a temporary reprieve in oil prices (Chart 21). This was a short-lived flame of hope for OPEC members, quickly extinguished by the prospect of Iran re-entering the market within a year. "I'm pretty certain we'll be trimming the oil prices forecast for next year because of the recent Iranian agreement," says Dr. Archer. "That would have further negative implications for growth in that region."

More than any other region, firms in the Middle East began looking for opportunities in new markets in the last three months. 43% of them took this approach, while over half of firms (53%) sought ways of reducing costs during this difficult period.

Some economies had a more difficult quarter than others. Saudi Arabia, which has yet to achieve significant diversification away from oil, was drawn into Yemen's internal conflict during the second quarter. Qatar, on the other hand, has continued to boom, owing to large reserves of natural gas rather than oil, as well as ongoing investments ahead of the 2022 FIFA World Cup—although the corruption investigations into FIFA have cast some doubt on whether the country will be allowed to host the event. While Qatar is expected to record strong growth of 7.1% this year, the IMF revised its overall forecast for the region down by a percentage point in its April 2015 World Economic Outlook.

**53%**  
of firms sought ways of reducing costs during this difficult period

**Chart 21:** Confidence in the Middle East has dropped with oil prices



Source: GECS

Trade among African economies and demand from the continent's growing urban middle class are coming to play a more important role in sustaining economic activity.

**AFRICA: NOT QUITE AT ESCAPE VELOCITY**

African firms recorded a slight dip in confidence in the second quarter, though positivity remained well above the lows experienced in 2014 (Chart 22). The African Development Bank predicts overall GDP growth for the continent of 4.5% in 2015, a solid improvement from 3.9% last year. East Africa is expected to lead the regional growth chart at 5.6%, owing to a continued shift of manufacturing activity from Asia, as producers chase lower costs. South Africa's commodity-dependent economy is dragging down growth in the Southern African region, where growth of 3.1% is anticipated.

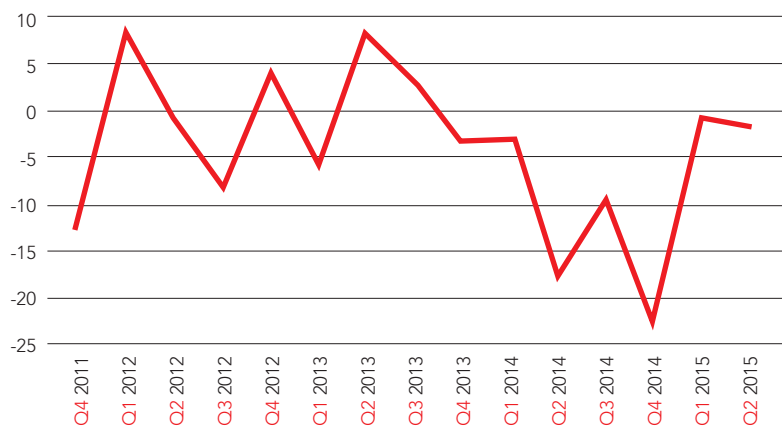
The volatility of business confidence over the past few years reflects the many hurdles on the road to sustainable development in Africa, from Ebola in the West to conflict in the North, along with widespread structural problems such as inadequate social and economic infrastructure. This quarter's survey results highlight the problem of job creation, necessary to provide more evenly-spread growth and stem a long-term "brain-drain". Despite 36% of respondents expressing increased confidence in the economic

outlook, just 11% had resumed hiring or created new jobs over the latest period. In fact, of all the regions covered, African firms recorded the highest net drops in investment in the second quarter: 32% fewer firms had invested in staff, while 39% fewer firms had invested in capital projects. Limited access to finance is a factor here, affecting around four in ten firms—over twice the global norm (Chart 23). This problem worsened in the last quarter as global capital was drawn away from emerging markets and into the strong-performing US.

The impact of low commodity prices on Africa's outlook has not been as pronounced as it would have been even a decade ago. Trade among African economies and demand from the continent's growing urban middle class are coming to play a more important role in sustaining economic activity. Along with a shift in certain types of manufacturing from Asia to Africa and some determined initiatives to develop services outsourcing hubs as broadband access spreads, African countries are diversifying away from the traditional natural resources-based model. This is well illustrated by Nigeria, which should see growth of 5% in 2015 in spite of low oil prices.

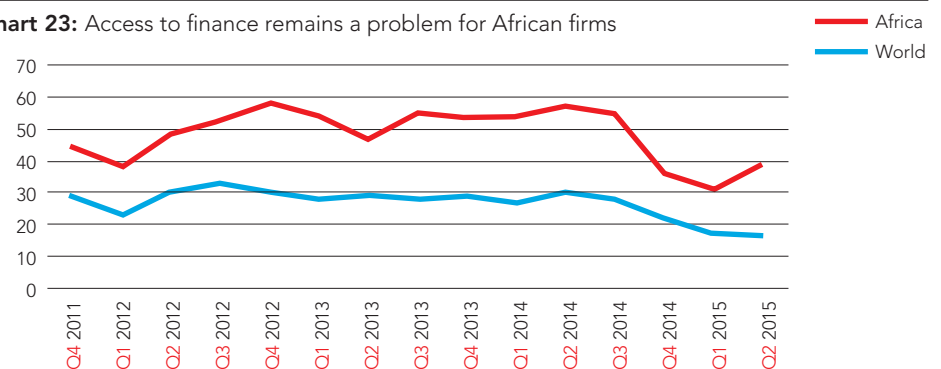
**36%**  
of respondents expressing increased confidence in the economic outlook

Chart 22: Business confidence in Africa falls back slightly



Source: GECS

Chart 23: Access to finance remains a problem for African firms



Source: GECS

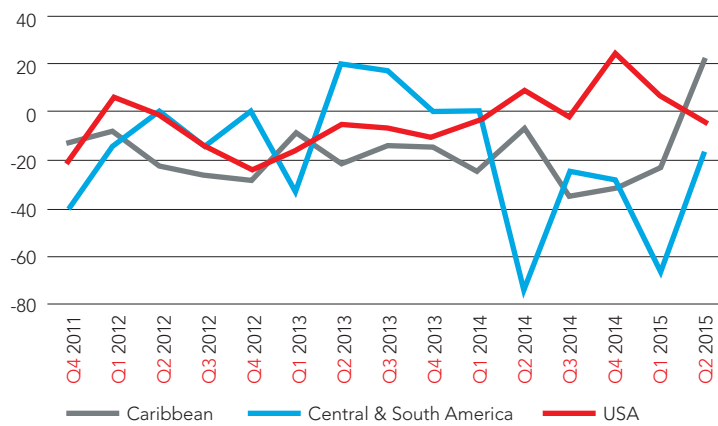
The prospects for individual Central and South American economies are mixed.

**THE CARIBBEAN AND CENTRAL AND SOUTH AMERICA: A MIXED BAG**

The ongoing US recovery boosted the confidence of its trade partners in the Caribbean and Latin America (Chart 24). A cool first quarter in the US notwithstanding, tourist destinations benefitted from a strong US dollar and the increased spending power of Americans. Cuba experienced a dramatic influx of visitors following a breakthrough in talks between the US and Cuban governments: although travel restrictions on US citizens remained in place, people from all over the world rushed to see “unspoiled” Cuba. Rising tourism, along with cheaper oil imports, will lead to most parts of the Caribbean growing faster in 2015. This expectation is reflected in a rise in investments in capital and staff among surveyed businesses (Chart 25).

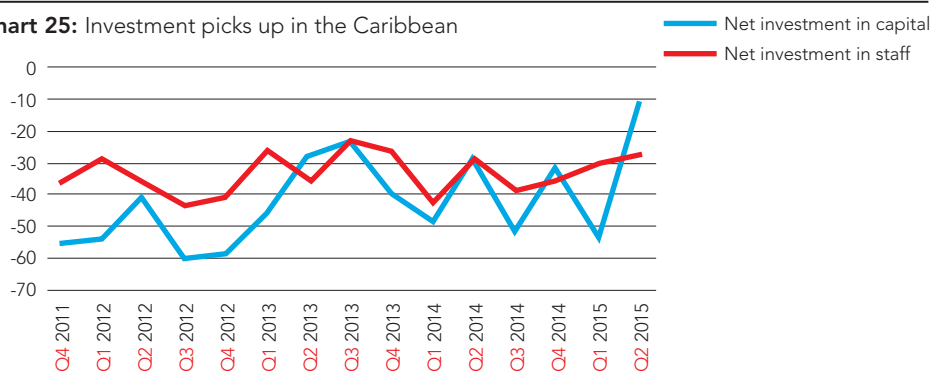
Yet overall, the IMF predicts that Latin America and the Caribbean will see growth slow for the fifth consecutive year in 2015, to 0.9%. The prospects for individual Central and South American economies are mixed. While Mexico stands to profit from increased US demand for its manufactured goods, those economies dependent on commodities, particularly oil-producing Venezuela, face a slowdown or even a contraction. Brazil’s fortunes have gone into reverse as the demand from Chinese industry for its mineral wealth has dampened – though as an important food exporter to Asia, it will also gain from the rise of the Chinese and South-East Asian middle classes.

**Chart 24:** US recovery boosts confidence in the Caribbean and Central and South America



Source: GECS

**Chart 25:** Investment picks up in the Caribbean



Source: GECS

The second quarter of 2015 was a volatile period. Looking ahead to the next quarter, overall confidence is set to rise in the wake of stronger economic reports from US and China.

The second quarter of 2015 was a volatile period, featuring an abortive rise in oil prices, several expected and unexpected rate cuts by central banks, a rebound in Western consumer sentiment and a stock market crash in China. Events moved so quickly that the trends in business confidence recorded in early June for the current GECS had in some cases already been overtaken by events by the end of the month.

Looking ahead to the next quarter, overall confidence is set to rise in the wake of stronger economic reports coming out of the US and China. It is likely that the Federal Reserve will raise US interest rates before the quarter is out, which could intensify current currency trends though much of the impact would already have been priced in. Issues to watch include the outcome of OPEC's next meeting on whether to curb oil supply; the extent to which Prime Minister Modi manages to implement his reform programme for India; and the ongoing negotiations between Greece and the rest of the euro zone.

As China matures and begins the long, somewhat turbulent transition towards a post-industrial society, there is an expectation that ongoing challenges will continue. The impact of the full consequences of the equity market has yet to play out, although the relatively low levels of equity market capitalisation as a proportion of GDP compared with developed

markets suggest that the impact will be reasonably contained.

While many commodity exporters have been hard-hit by depressed demand for raw materials, the relatively muted impact on certain economies, such as Malaysia and Nigeria, has highlighted successes in diversification away from oil. Similarly, growing domestic demand for goods and services in many emerging economies, as the middle class expands, has helped to sustain economic activity during an otherwise difficult time.

Over the next quarter, though, it seems clear that we are unlikely to see a significant rise in price of oil, with oversupply still a key factor in the market and growth slowing in key markets such as China. In addition, many investors are turning away from commodities, particularly in the wake of speculation that interest rates could soon start to rise.

But perhaps most importantly, economists will be looking carefully to see if there is a revival – if not a full return to form – of the Western consumer-driven economies, particularly the US, as drivers of global growth. There have been tentative signs of recovery for some time; the question now is if this can be sustained, and if policy-makers in both developed and emerging markets can navigate the challenges ahead.

# Appendix I:

## Economies covered by Q2 survey responses

North America	Middle East	Asia Pacific	Central & Eastern Europe	South Asia	Western Europe	Africa	Caribbean	Central & South America
Canada	Bahrain	Australia	Bulgaria	Afghanistan	Austria	Botswana	Barbados	Belize
US	Egypt	Cambodia	Croatia	Bangladesh	Cyprus	Cameroon	Guyana	Brazil
	Iraq	China	Czech Republic	Bhutan	Germany	Ethiopia	Jamaica	Honduras
	Israel	Hong Kong SAR	Georgia	India	Greece	Ghana	Trinidad & Tobago	Mexico
	Jordan	Indonesia	Hungary	Kazakhstan	Ireland	Kenya		Venezuela
	Kuwait	Japan	Latvia	Maldives	Italy	Malawi		
	Lebanon	Malaysia	Romania	Nepal	Luxembourg	Mali		
	Palestine	New Zealand	Russia	Pakistan	Malta	Mauritius		
	Qatar	Philippines	Slovakia	Sri Lanka	Netherlands	Namibia		
	Saudi Arabia	Singapore	Ukraine		Spain	Nigeria		
	UAE	Vietnam			Sweden	Rwanda		
					Switzerland	Sierra Leone		
					Turkey	South Africa		
					UK	Sudan		
						Tanzania		
						Uganda		
						Zambia		
						Zimbabwe		

# ACCA, IMA and the global economy

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Global economic conditions continue to dominate business and political life. News 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?

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As countries around the world continue to consider strategies to promote stability and stimulate growth, the interconnectedness of national economies, and how they are managed and regulated, is now under close scrutiny. The development of the global accountancy profession has benefited from, and in turn contributed greatly to, the development of the 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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