



The Association of
Accountants and
Financial Professionals
in Business

Think Ahead



Global economic
conditions survey report:
Q1, 2017

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. It offers 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.

ACCA supports its **188,000** members and **480,000** students in **181** countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of **95** offices and centres and more than **7,110** Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. It believes that accountants bring value to economies in all stages of development and seek to develop capacity in the profession and encourage the adoption of global standards. ACCA's core values are aligned to the needs of employers in all sectors and it ensures that, through its range of qualifications, it prepares accountants for business. ACCA seeks to open up the profession to people of all backgrounds and remove artificial barriers, innovating its qualifications and delivery to meet the diverse needs of trainee professionals and their employers.

In June 2016 ACCA formed a strategic alliance with Chartered Accountants Australia and New Zealand (CA ANZ). The alliance represents the voice of 788,000 members and future professional accountants around the world, who share the commitment to uphold the highest ethical, professional and technical standards.

More information is available at: www.accaglobal.com

About IMA®

IMA, 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 85,000 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/India. For more information about IMA, please visit www.imanet.org



Global economic conditions survey report: Q1, 2017

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 themed countries and its daily trend deviations correlate well with the VIX or 'fear' index, which measures expected stock price volatility.

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Fieldwork for the Q1 2017 GECS took place between 24 February and 13 March 2017 and attracted 1,334 responses from ACCA and IMA members around the world, including more than 150 CFOs.

ACCA and IMA would like to thank all members who took the time to respond to the survey. It is their first-hand insights into the fortunes of companies around the world that make GECS a trusted barometer for the global economy.

We would also like to thank the following for their time and expertise:

- Andrew Kenningham, Senior International Economist, Capital Economics
- Dario Perkins, Chief European Economist, Lombard Street Research
- Chris Williamson, Chief Economist, Markit.

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This improvement in the Global Economic Conditions Survey (GECS) results is matched by other surveys, as well as the hard data. These improvements have been driven by the US, where investors are hopeful that a combination of fiscal reform, increased investment in infrastructure and deregulation will provide a boost to economic growth.

The biggest concern for companies over the past three months has been increased costs (a problem for 46% of respondents), which is consistent with rising headline inflation rates in many parts of both the developed and developing worlds. The negative impact of foreign-exchange movements, amid continued swings in the value of the dollar are other big concerns (35%).

Although driven by the US, the improvement in confidence is widespread. Most countries and regions, including Western Europe, Asia Pacific and Central and Eastern Europe, reported improvements in Q1.

Global economic confidence improved in the first quarter of 2017 and is now at its highest level since Q2 2015.

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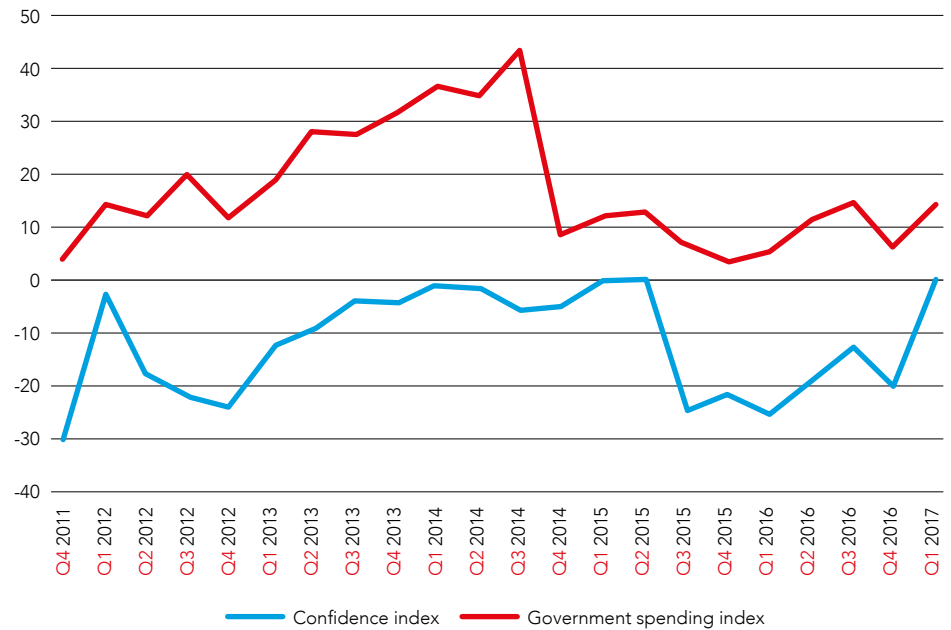
This improvement in GECS's confidence index is consistent with other survey data, such as the manufacturing purchasing manager indexes (PMIs), as well as hard data – notably for exports. All of these suggest that the global economy made a strong start this year.

'The global PMI is at its highest level in four years, and that follows a temporary pick-up from the crash, so something has clearly changed,' says Dario Perkins, Chief European Economist at Lombard Street Research. 'Contrast that with 12 months ago, when everyone was worried about secular stagnation and helicopter money, and it's a pretty good turnaround.'

News from the US has been positive, with investors hopeful that the boost from a US stimulus would offset the damage from any shift towards protectionism. Data from the Eurozone has also been encouraging – despite the uncertain political outlook in France and Germany, which are both due to hold elections later this year.

The picture in the emerging world is also positive. China continues to recover as the impact of a recent government stimulus feeds through into the rest of the economy. And India looks like it is rebounding from last year's short-lived slowdown, linked to the government's demonetisation campaign. Prospects in Russia and Brazil, meanwhile, which were hit especially hard by the collapse in oil prices and sharp fall in the value of their currencies, are also improving.

Chart 1: Global confidence is on the up



Source: GECS

North America's high score reflects rising confidence over the outlook in the US, where the current administration's promises to cut taxes, boost spending and reduce red tape, have propelled share prices to record highs.

This improving outlook is reflected in hiring intentions, with 22% of companies planning to create new jobs (up from 16% in Q4 2016). There was also an increase in the proportion of companies planning to increase investment in capital projects (22%, compared with 14% in Q4 2016).

The biggest concern for companies over the past three months has been increased costs (a problem for 46% of respondents), which is consistent with rising inflationary pressures in many parts of the global economy. The next two biggest concerns were decreased incomes (39%) and the negative impact of foreign-exchange movements (35%).

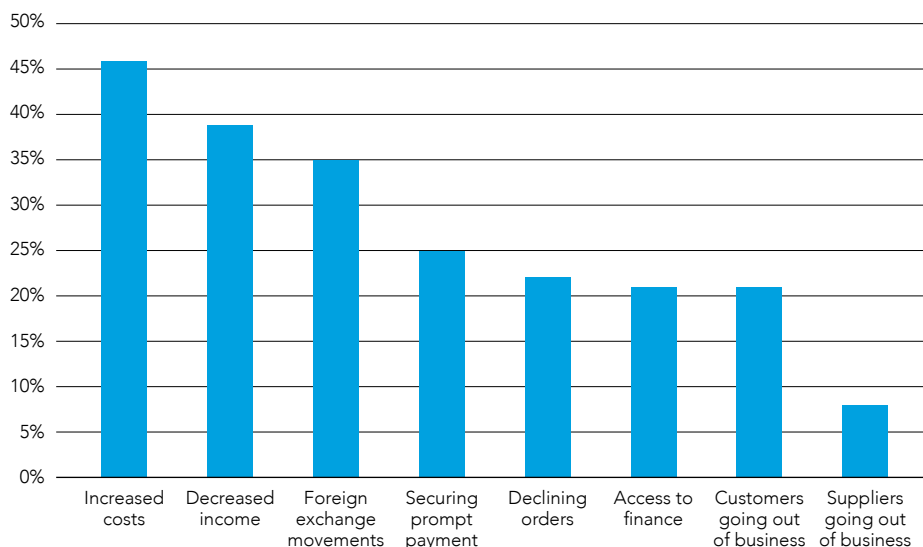
The most optimistic region is North America, where the number of respondents who are buoyant about the future exceeds those who are pessimistic by 13 percentage points. Western Europe (+5 percentage points) is the next most confident, with Asia Pacific (-13 percentage points) and the Middle East (-16 percentage points) bringing up the rear.

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46%

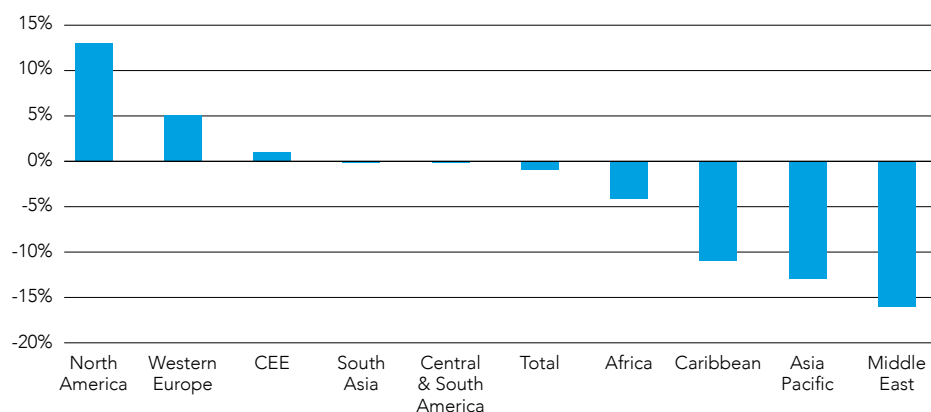
of companies cite increased costs as their biggest concern

Chart 2: Increased costs represent the most significant challenge



Source: GECS

Chart 3: North America and Western Europe are the most optimistic



Source: GECS

For the first time since 2013 there are clear signs of a pick-up in global trade growth.

WILL THE IMPROVEMENT IN GLOBAL TRADE GROWTH SURVIVE?

For the first time since 2013 there are clear signs of a pick-up in global trade growth. Assuming the US does not follow a highly protectionist agenda this positive trend may well be maintained for the rest of this year.

According to data from the CPB Netherlands Bureau for Economic Policy Analysis, global trade in the three months to January 2017 grew by 3.4% year-on-year – the fastest rate in nearly two years. The CPB data is published in volumes terms, so it strips out the distortions caused by volatility in commodity prices.

Other indicators also point a positive picture. Exports from countries such as South Korea and Taiwan, which are heavily

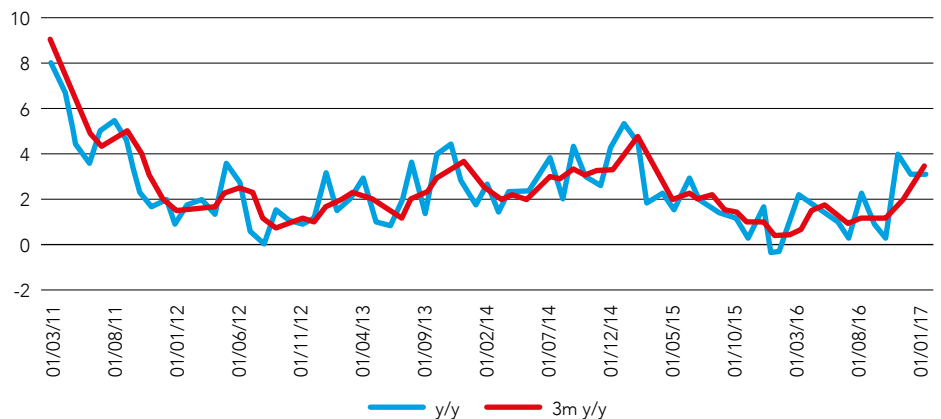
integrated into global supply chains and are seen as bellwethers of the global economy, are growing at their fastest rates since 2012.

Other measures of global trade, such as volumes of air freight, the number of containers passing through the main ports and PMIs, all paint a similarly upbeat picture.

The outlook for global trade growth is relatively positive. With the US, China and the Eurozone all growing at a decent clip, global growth is likely to accelerate this year. Indeed, the IMF is expecting global GDP growth of 3.4% in 2017, which would be the fastest pace of expansion since 2012.

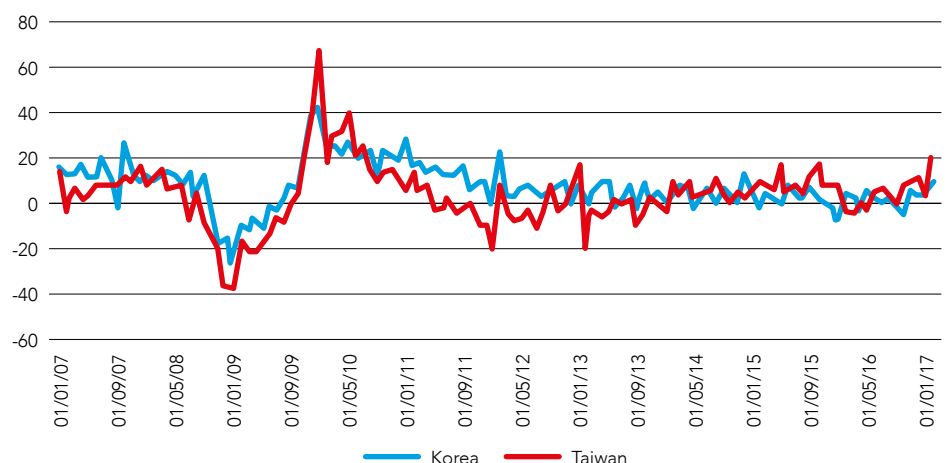
On the other hand, the US' withdrawal from the Trans-Pacific Partnership could reduce growth prospects in Asia, Australasia and

Chart 4: Global trade grows at the fastest rate in nearly two years



Source: The CPB Netherlands Bureau for Economic Policy Analysis

Chart 5: Taiwanese and South Korean exports are growing at their fastest rates since 2012



Sources: Kostat and National Statistics of Taiwan

The outlook for global trade growth is uncertain, but developments since the start of the year have been relatively encouraging, and bode well – at least for the short term.

Latin America. There are, however, more encouraging signs which suggest that the US administration is prepared to take a more pragmatic approach.

Formal talks on the future of North American Free Trade Agreement (NAFTA) are due to begin soon. There are indications that instead of tearing up the agreement, which would be a major blow for Mexico and Canada, the US administration will try to push through modest changes aimed at 'levelling the playing field'. These might include, for example, a requirement that Mexican companies abide by the same tough environmental standards as their US competitors.

The outlook for global trade growth is uncertain, but developments since the start of the year have been relatively encouraging, and bode well – at least for the short term.

OTHER COUNTRIES SEEM UNLIKELY TO FOLLOW THE US

The US Federal Reserve's rate hike in March, which was the second in just four months, has raised speculation that the global economy could be on the cusp of a global tightening cycle. But it is likely to be some time yet before Japan, Europe and the UK increase their interest rates.

The March increase took the US's key interest rate to 0.75-1.0%.

'We are forecasting three more rate hikes this year, and four next year, which puts us at the hawkish end of the spectrum,' says Andrew Kenningham, Senior International Economist at Capital Economics. 'That's a little more than the FOMC (Federal Open Market Committee) is expecting, judging by their 'dot plot' projections, and it's quite a lot more than the markets are currently pricing.'

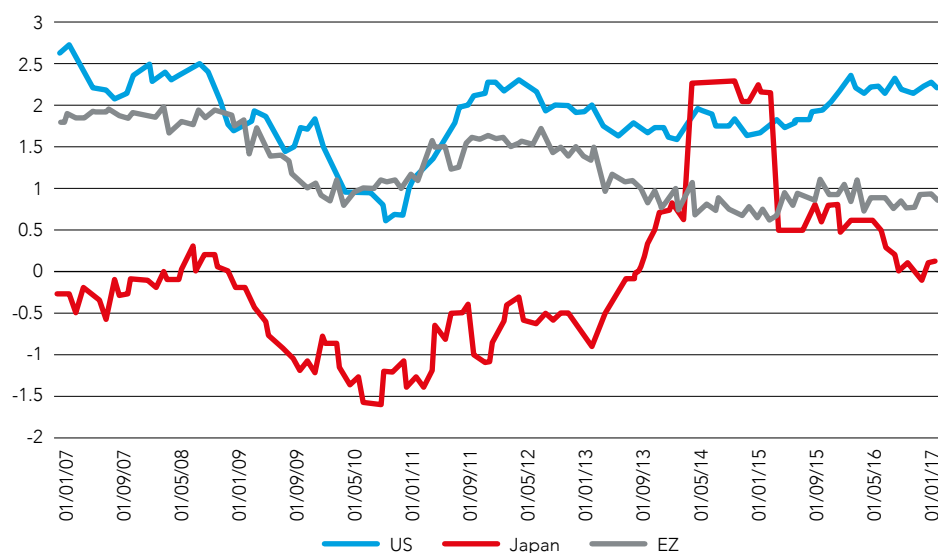
With the global economy showing the clearest signs since at least 2011 of a sustained and synchronised recovery, and headline inflation rising in a number of regions, there has been a marked shift in interest rate expectations across the developed world.

There are, however, key differences between the US and the rest of the developed world which suggest that other central banks will not be in a rush to follow the Fed.

First, although headline inflation has risen across much of the developed world, the increase has for the most part been driven by a surge in oil price inflation, which in turn reflects the sharp fall in oil prices at the start of 2016.

It is likely to drop back in the coming months as the low base drops out of the annual comparison. Core inflation, a better measure of underlying price pressures and spare capacity in the economy, remains low everywhere except the US.

Chart 6: Core inflation remains low in the Eurozone and Japan, but is high in the US



Sources: Eurostat, Statistics Bureau of Japan, US Bureau of Economic Analysis

The recent economic performance of emerging markets has improved markedly over the past year and looks set to continue, at least in the near term.

Second, the growth outlook is much better in the US than elsewhere. Although UK growth has held up surprisingly well following its decision to exit the European Union, growth may slow in the coming quarters once the difficult divorce negotiations begin. Across the English Channel, meanwhile, the Eurozone's outlook is clouded by the uncertain political situation in a number of key countries – most notably in France.

In contrast, the outlook for the US is continuing to improve. The jobs market remains healthy, wage growth is strengthening and the level of optimism is improving. A fiscal stimulus of tax cuts and infrastructure spending is now the US administration's priority following the failure of its healthcare reform bill, and this is likely to boost growth further.

'We've seen with healthcare that Trump doesn't necessarily get what he wants. Markets are still pricing in some pushback on his more protectionist measures,' says Chris Williamson, Chief Economist at Markit.

'We're fairly hopeful that global growth will accelerate this year and protectionist measures will not be a major roadblock,' he adds. 'We have growth accelerating to 2.3% this year, then 2.6% in 2018. Those are still reasonably modest rates of increase. It's not tearaway growth, but fiscal policies will support that expansion.'

But if, as seems likely, the monetary cycles of the US and the rest of the developed world continue to diverge, there is potential for the US dollar to strengthen significantly over the coming year or so. This is unlikely to please the US administration, which made reducing the country's trade deficit one of its key election pledges.

SIGNS OF IMPROVEMENT IN EMERGING MARKETS

The recent economic performance of emerging markets has improved markedly over the past year and looks set to continue, at least in the near term.

The improvement has been led by China, which has enjoyed a strong rebound over the past year on the back of the government's loosening fiscal and monetary policies. Russia and Brazil, the big commodity producers, are slowly coming out of their deep and protracted recessions, and India appears to have weathered the government's demonetisation measures – growth appears to have rebounded since the start of the year.¹

According to data from the Institute of International Finance, GDP growth across the emerging world reached a five-year high in January of 6.4% year-on-year.

The improved prospects for emerging markets are reflected in the strong performance of their financial markets. Most emerging market currencies have risen strongly against the US dollar since the start of the year, while stock markets are up by about 10% on average.

Looking ahead, growth across the emerging world should remain strong over the next few quarters at least. A key leadership handover in China, due to take place in autumn at the National Congress of the Communist Party of China, means that the economic authorities there will want to keep growth strong. Prospects are also good in the rest of Asia, which is benefiting from the recent recovery in global demand.

While prospects are good in the short term, medium-term prospects are less positive – and risks are starting to build.

Meanwhile, commodity producers led by Russia and Brazil should continue to recover over the coming quarters helped by a recovery in commodity prices, falling inflation and a relaxation in monetary policy.

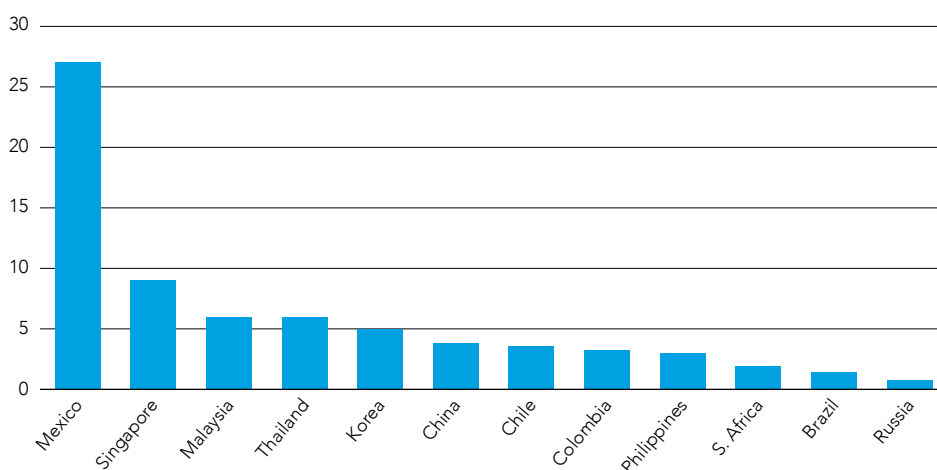
But while prospects are good in the short term, medium-term prospects are less positive – and risks are starting to build.

Brazil's need to rein in the budget deficit and bring government debt to a more sustainable level, meanwhile, means

that the recovery is likely to be relatively gradual. And in Russia, an ageing population and a falling working-age population, continued economic sanctions from the West and a lack of reform mean the rebound is likely to be subdued.

For Mexico and Asia's open economies, which export a lot to the US, the main risk is a rise in protectionism as a result of the policies of the new administration.

Chart 7: Exports to the US as a percentage of GDP



Source: IMF Direction of Trade Statistics

Economic confidence edged up slightly in North America in the first quarter of the year.

NORTH AMERICA

Economic confidence edged up slightly in North America in the first quarter of the year, with 37% of respondents saying they were confident about the future, compared with 24% who were less optimistic. The region was GECS's most confident.

Although in the US, confidence remained relatively high in Q1 2017, it was largely unchanged on the previous quarter.

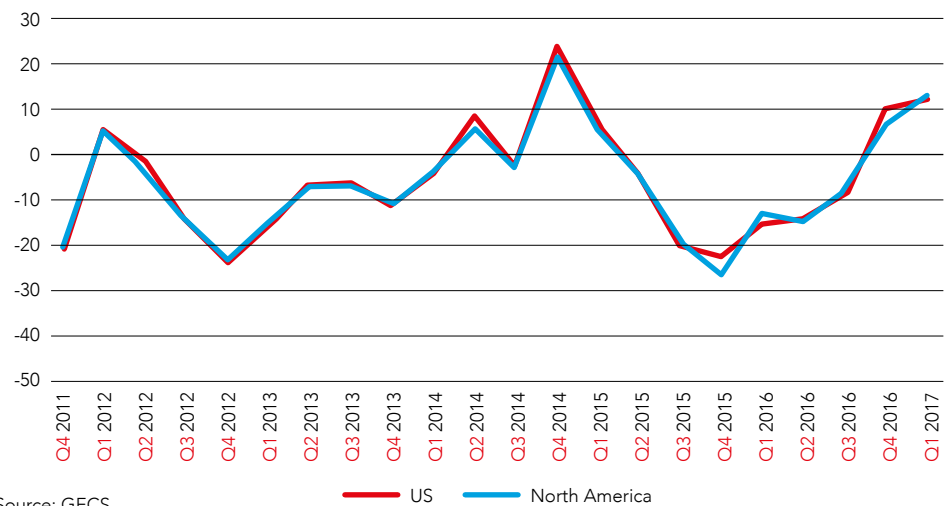
The US in focus

Confidence was broadly flat in the US in the first quarter, but it remained elevated. According to GECS, in Q1 37% of

respondents were more confident about the future, compared with 24% who were less confident.

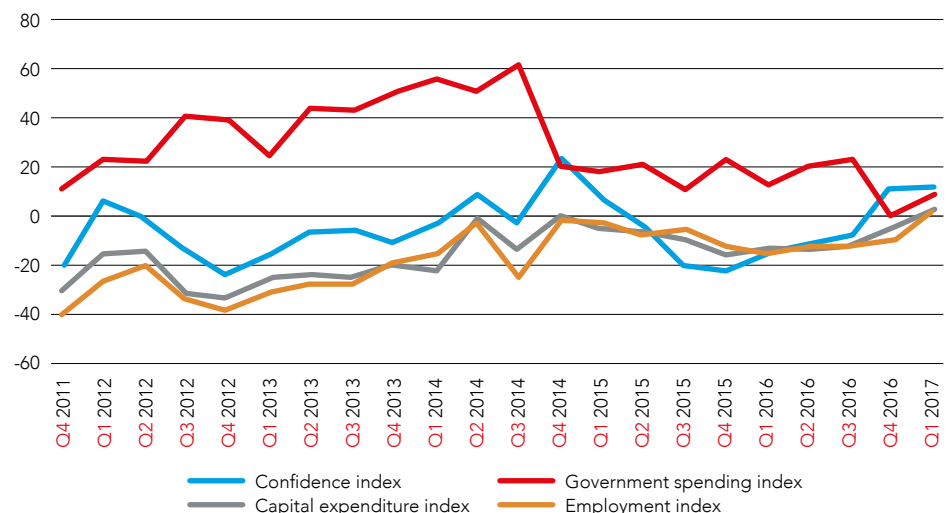
This buoyant overall level of confidence reflects hope that the US administration's plans for fiscal stimulus and deregulation will boost economic growth. The Republican party's failure to pass its healthcare reform could impact the President's hopes of passing a fiscal stimulus package in the near term, although there is still a good chance that some form of tax reform will take place either in late 2017 or early next year. Other components of GECS, including capital spending and employment, also rose in the first quarter.

Chart 8: North America's confidence has increased



Source: GECS

Chart 9: The US sees increases across the board



Source: GECS

US interest rates are set to rise this year but borrowing costs in the rest of the developed world are likely to remain very low, so it is possible that the US dollar will appreciate in the coming months.

‘Investment is picking up,’ says Chris Williamson. ‘It’s notable that the energy sector is less of a drag compared with previous years. Also, this year we’re moving to a more positive inventory cycle, which should be a further boost to growth. In 2016, there was evidence of de-stocking and firms keeping inventory levels down as much as possible, which was a drag on GDP. That should move into reverse as we go through 2017.’

There is hope in some quarters that the US administration’s plans to abolish 2015’s Clean Power Plan will lead to a renaissance for the coal industry, an increase in employment in that sector and a burst of economic growth. This seems unlikely. States are free to set their own environmental rules, and New York and California – two of the most economically important – have set their own tough environmental targets. A number of other states, including Texas, have invested heavily in recent years in wind power and other green technology.

Coal accounted for 30% of all electricity generated in the US last year² – down from 49% a decade before – and with the cost of natural gas now much cheaper than that of coal, the latter’s share of the US energy mix will probably continue to fall.

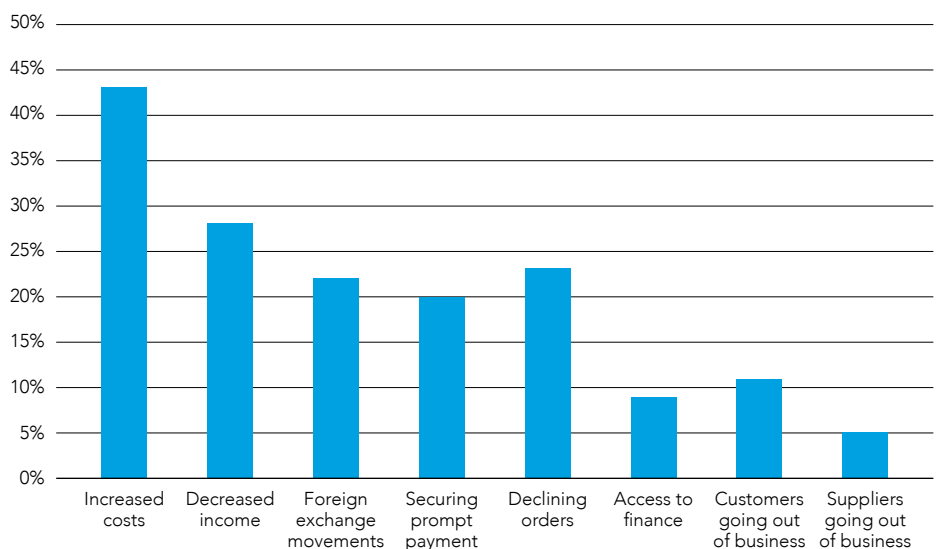
The main concern for US companies is rising costs, which was cited by 43% of respondents. This is consistent with a sharp recent rise in both inflation and wages as the US economy moves closer to full capacity.

The negative impact of exchange-rate movements (cited by 22% of replies) was another concern. US interest rates are set to rise this year but borrowing costs in the rest of the developed world are likely to remain very low, so it is possible that the US dollar will appreciate in the coming months. This will erode the competitiveness of US-based companies.

43%

of US companies cite increased costs as their biggest concern

Chart 10: Increased costs are the US’ main concern



Source: GECS

This improvement in confidence is consistent with the hard economic data from Western Europe, which shows a marked improvement in economic activity.

WESTERN EUROPE

Western Europe experienced a marked rebound in confidence in Q1 2017, with the number of respondents expecting conditions to improve exceeding those expecting things to worsen for the first time since Q4 2015.

This improvement in confidence is consistent with the hard economic data from Western Europe, which shows a marked improvement in economic activity.

The key factor behind the Eurozone’s improvement in activity is an increase in export demand, but private consumption has also remained robust despite the recent uptick in inflation.

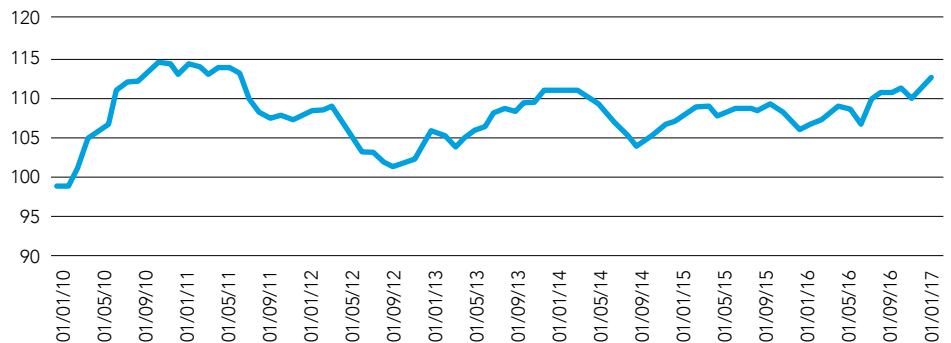
‘Europe is benefiting from stronger global demand, but the big change is that the corporate sector is starting to spend,’ says Lombard Street Research’s Dario Perkins.

‘Investment is picking up, employment is picking up. It’s really the first time since 2011 that we’re seeing decent corporate spending. This gives you a much more sustainable recovery than the one we’ve had over the past couple of years, which was dependent on cheap energy and consumer spending.’

Although the uncertain political outlook is a concern – one potential issue is France’s presidential elections in May – some of the main risks to the continent have been receding in recent months. The UK’s vote to leave the EU has not so far caused the expected shock to economic growth, and austerity has come to an end in most of the larger countries – notably Germany.

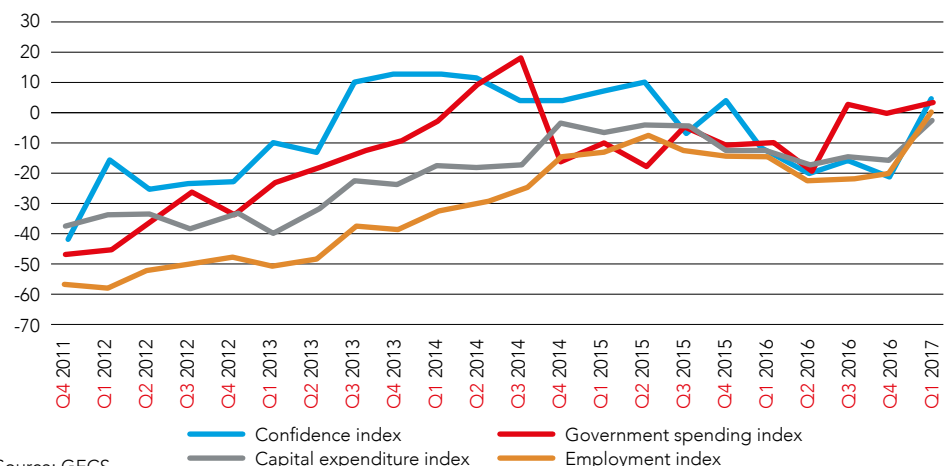
Most of the sub-components of the index rose in Q1, such as capital expenditure, employment and new orders.

Chart 11: The Ifo Business Climate Index is at its highest level since 2011



Source: Ifo Business Climate Index, March 2017 [<https://www.cesifo-group.de/ifoHome/facts/Survey-Results/Business-Climate/Geschaeftsklima-Archiv/2017/Geschaeftsklima-20170327.html>]

Chart 12: In Western Europe, the main components increase



Source: GECS

In the UK, economic confidence rebounded in the first quarter of the year and is now at its highest level since Q2 2015.

Similar to the US, the key concern for companies in the Eurozone was rising costs, which were cited by 50% of respondents. This is consistent with the inflation data, which in February showed that consumer prices had increased by 2% year-on-year, up from 1.8% the previous month and the highest rate since January 2013.

Respondents' other key concern was the volatility of the exchange rate. The euro has appreciated sharply against the pound since the UK's EU referendum in June 2016, and has been volatile against the US dollar amid continued uncertainty over the outlook for US fiscal and monetary policy.

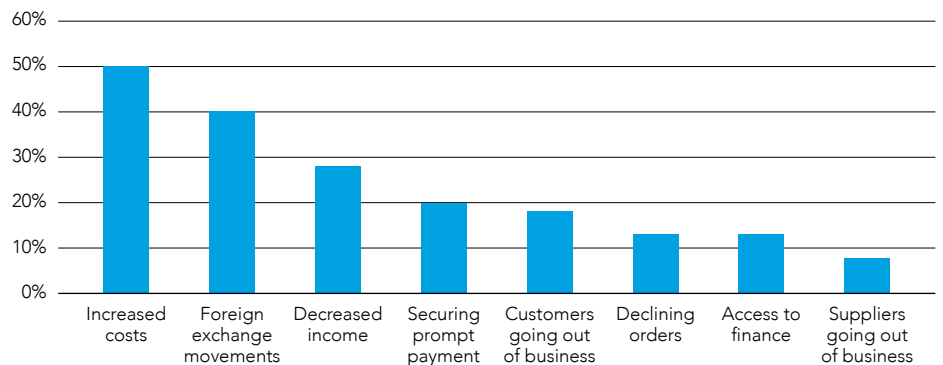
The UK in focus

In the UK, economic confidence rebounded in the first quarter of the year and is now at its highest level since Q2 2015.

This is something of a surprise, given the uncertainty created by June's vote to leave the European Union, yet it is consistent with the hard economic data. GDP growth has accelerated since June, thanks in large part to consumer spending. The sharp fall in the value of the pound, which has boosted the competitiveness of exporters, will also have helped.

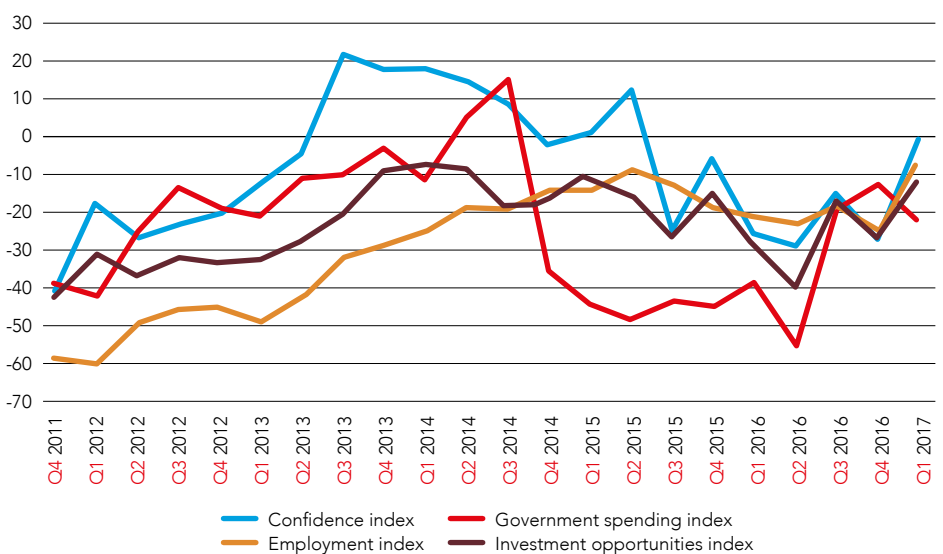
50%
of respondents in the Eurozone cited rising costs as their key concern

Chart 13: Increased costs and exchange-rate volatility are Western Europe's main concerns



Source: GECS

Chart 14: The UK's government spending index heads in the opposite direction



Source: GECS

Economic confidence in Ireland rebounded a little in Q1 of 2017, but confidence remains very weak by historical standards.

‘The main thing that we think will dampen growth a little over the course of this year is a rise in inflation, which we expect will reduce real income growth somewhat,’ says Andrew Kenningham at Capital Economics. ‘But we should still see consumption growing by a reasonable amount – it doesn’t look like consumers are panicking about Brexit.’

Most of the GECS sub-components showed improvement, with the employment and capital spending indexes up on the previous quarter. The exception was the government spending component of the survey, which dropped back sharply. This reflects the fact that although the Chancellor of the Exchequer in the UK has signalled that he will slow the pace of fiscal austerity, the UK economy still has some way to go before it balances its budget.

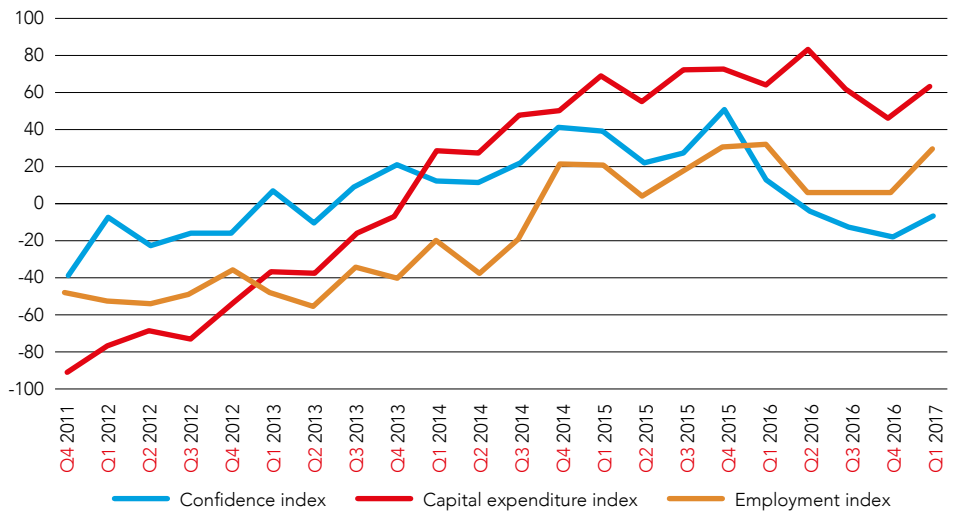
Ireland in focus

Economic confidence in Ireland rebounded a little in Q1 of 2017, but confidence remains very weak by historical standards.

The main reason for this is the uncertainty created by Brexit. The UK is by far Ireland’s biggest trading partner; if the UK leaves the single market, it could create major problems for the Irish economy.

Brexit aside, Ireland has continued to make decent progress since the financial crisis. Its economic output is rebounding, unemployment is falling and the government’s fiscal position is improving.

Chart 15: Ireland’s confidence increases but remains low



Source: GECS

Confidence in CEE's biggest economy, Russia, was broadly flat in Q1, but it remains high by recent standards.

CENTRAL AND EASTERN EUROPE

The economic prospects of Central and Eastern Europe (CEE) are tied closely to those of the Eurozone – Germany in particular. So with the monetary union doing relatively well, it is no surprise that confidence in CEE rebounded strongly in Q1 2017.

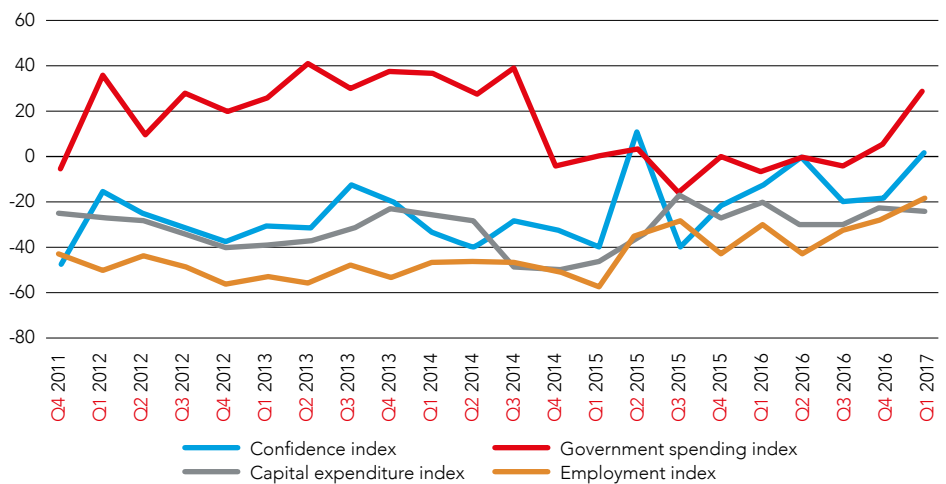
There was also a sharp rise in the government spending and employment sub-components. However, two key sub-components of the index, capital spending and employment, remained firmly in negative territory.

Confidence in CEE's biggest economy, Russia, was broadly flat in Q1, but it remains high compared with the last three quarters.

The country is slowly climbing out of a deep recession that saw GDP contract for seven consecutive quarters. With inflation falling, interest rates decreasing and commodity prices rebounding, growth should return to Russia over the coming quarters.

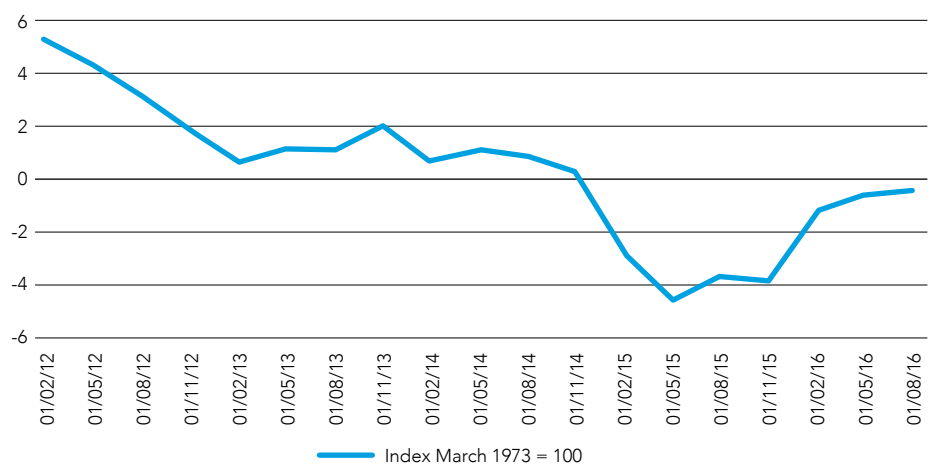
Elsewhere, Turkey's economy is showing signs of recovery after growth dropped sharply following 2016's failed coup attempt. Finally, Poland, the Czech Republic and Hungary are all growing at a decent pace, helped in part by good export prospects.

Chart 16: A mixed picture for CEE



Source: GECS

Chart 17: Russia's GDP growth is steadily increasing, year-on-year



Source: Rosstat

Confidence in India, which is by far the biggest economy in South Asia, picked up slightly in Q1, and there are reasons to be hopeful that it will continue to improve.

48%

of respondents in Pakistan cited increased costs as their main concern

SOUTH ASIA

Roughly the same number of respondents in South Asia reported that in Q1 2017 they were more confident about the future as those who stated that they were less confident.

India in focus

Confidence in India, which is by far the biggest economy in South Asia, picked up slightly in Q1, and there are reasons to be hopeful that it will continue to improve.

The disruption caused by the government's demonetisation campaign, which led to a severe shortage of cash towards the end of 2016, appears to be coming to an end. Economic activity slowed sharply in the final months of 2016, but is now rebounding strongly. The economy should also start to see the benefits of the government's recent reform drive.

India's employment index improved slightly in the first quarter of 2017, but companies are still planning to cut back their capital spending. Their key concern is securing prompt payment – not too surprising, given the problems created by demonetisation.

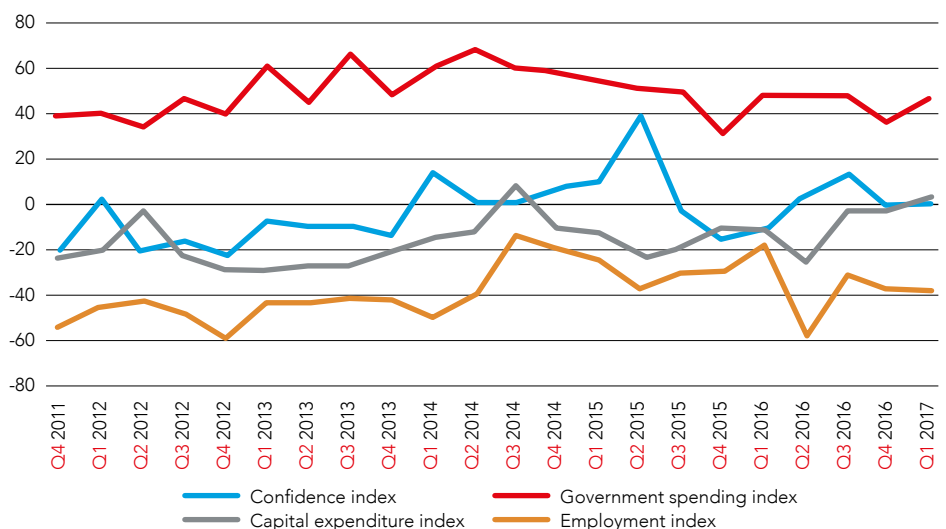
Pakistan in focus

Pakistan's economic confidence also rose in Q1, and remains high by past standards amid improving prospects for the economy.

The fundamentals are slowly getting better. Low inflation has given the central bank scope to cut interest rates, which remain at multi-year lows. The recent IMF deal has allowed Pakistan to rebuild its foreign-exchange reserves, which reduces the risk of a crisis. And the country is starting to see some of the benefits from a series of enormous Chinese-financed infrastructure projects that are part of the Pakistan-China Economic Corridor initiative.

These factors have affected on the capital expenditure component of GECS, which has seen a sharp rise consistent with an increase in investment spending. There is a risk, however, that a surge in construction spending will set off a rise in inflation, and it is notable that 48% of respondents cited increased costs as their main concern.

Chart 18: In South Asia, overall confidence is flat



Source: GECS

Economic confidence in Asia Pacific increased sharply in Q1 2017 and is now at its highest level since Q4 2011.

ASIA PACIFIC

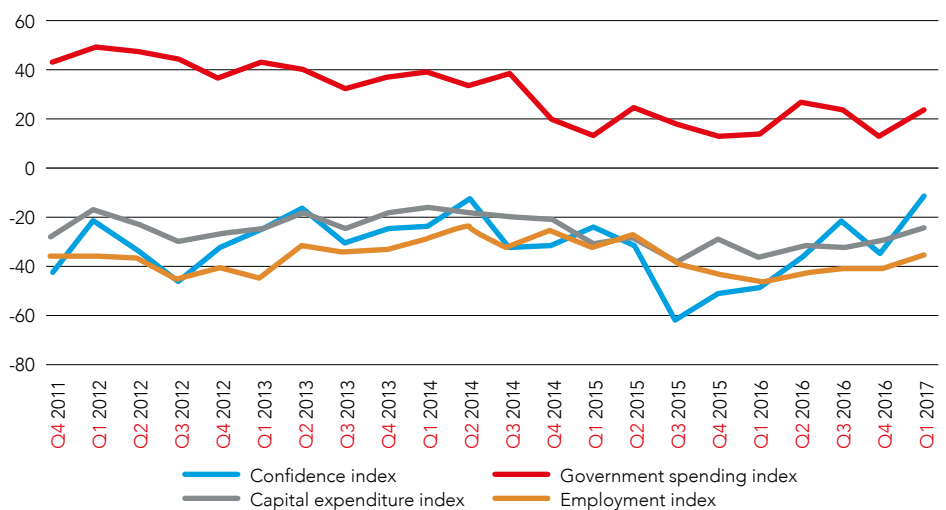
Economic confidence in Asia Pacific increased sharply in Q1 2017 and is now at its highest level since Q4 2011.

This improvement in confidence is largely due to the pick-up in global economic growth: many countries in Asia are heavily trade-dependent and are the first to benefit from a recovery in global growth prospects. Indeed, it is noticeable that three of the region's most open trade-

dependent economies, Hong Kong, Singapore and Taiwan, are now growing at their fastest pace in over two years.

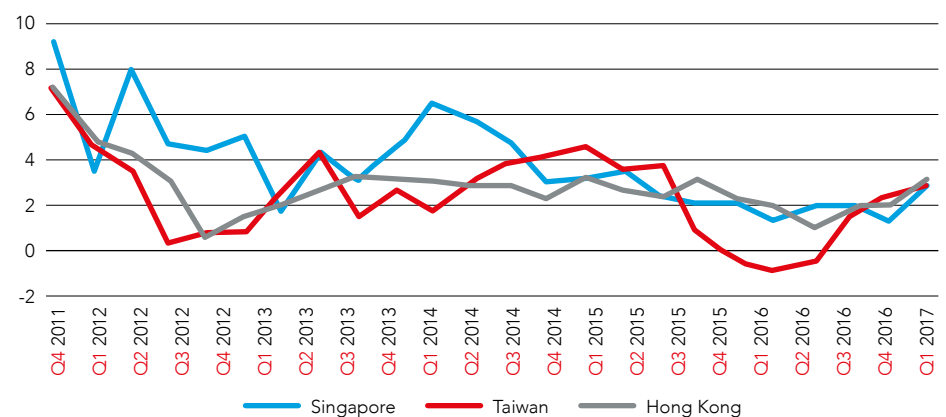
'We've seen improved confidence, which seems to be emanating from China,' says Markit's Chris Williamson. 'But don't forget that the region is also steadily increasing its GDP per capita. It is becoming wealthier and seeing stronger demand from within the region. The prospects are still very good.'

Chart 19: Confidence in Asia Pacific has increased sharply



Source: GECS

Chart 20: Asia Pacific's year-on-year GDP growth continues its journey upwards



Source: National Statistics of Taiwan, Hong Kong Census and Statistics Bureau, Singstat

China reported a slight pick-up in economic confidence in Q1, which takes its confidence measure to its highest rate since Q2 2012.

Increased costs were businesses' main concern (cited by 55% of respondents), which is consistent with reports from many countries in the region of a sharp acceleration in inflation over the past few months.

Decreased incomes (46%) and exchange-rate volatility (41%) were Asia Pacific's other significant concerns.

China in focus

China reported a slight pick-up in economic confidence in Q1, which takes its confidence measure to its highest rate since Q2 2012.

The government has recently started to tighten policy (it has raised interest rates

twice in recent months), but the economy appears to still be feeling the effects of recent stimulus measures. Policy was loosened dramatically in 2015 and 2016, which helped to spur a rebound in credit growth and economic activity.

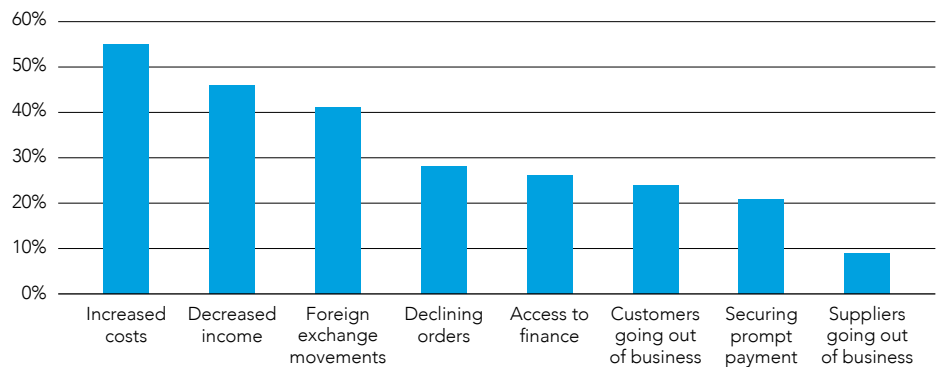
There was also a sharp increase in the capital expenditure sub-component of GECS, and the government spending sub-component remains high.

The outlook is uncertain for the renminbi, which has weakened this year against the US dollar and has been an area of focus for the US administration in its negotiations with China, and it was cited as a worry by 38% of respondents.

55%

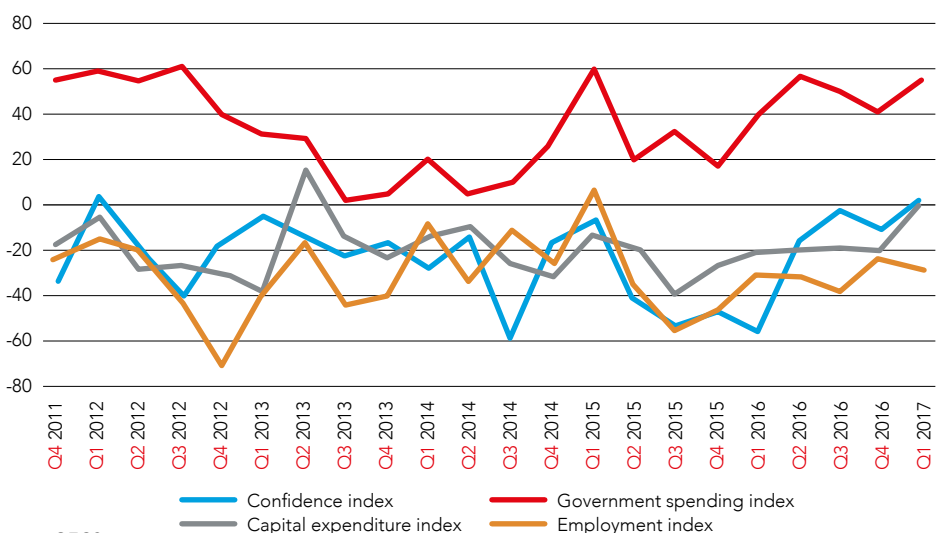
of respondents in Asia Pacific cited increased costs as their main concern

Chart 21: Increased costs and decreased incomes are the main concerns for Asia Pacific



Source: GECS

Chart 22: China's government spending index is much higher than the other sub-components



Source: GECS

Economic confidence in Malaysia strengthened in Q1 and is now at its highest level since the second quarter of 2015.

Higher up the list of concerns, however, was rising price pressures. After a couple of years in the doldrums, producer price inflation has risen sharply in recent months.

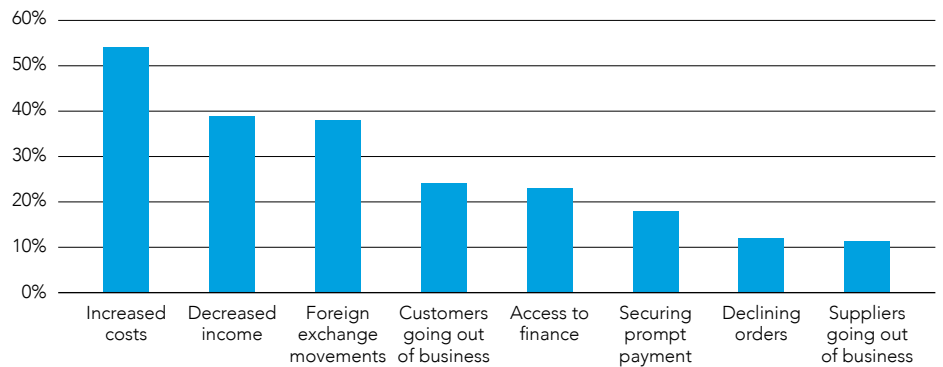
‘We still think that the most likely scenario is that we’re witnessing a commodity price recovery which is already showing signs of paring back for certain goods, metals and oils,’ says Chris Williamson. ‘We’ve seen recently that it takes some of the cost pressure out of the global and Chinese manufacturing economies. We don’t see inflation as a major concern: pressure is very much present, but there’s scope for it to be pulled back as commodity prices come off their highs.’

Malaysia in focus

Economic confidence in Malaysia strengthened in Q1 and is now at its highest level since the second quarter of 2015. This is consistent with the story told by the official GDP figures: although growth is now rebounding, it remains weak by past standards.

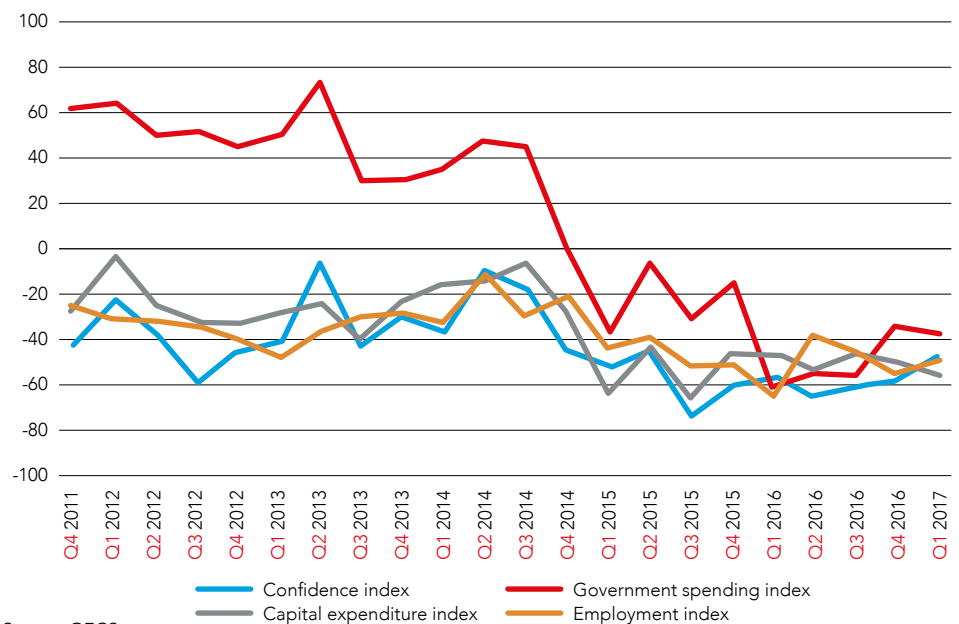
The key reason for the improving outlook is an increase in commodity prices, which has lifted the value of the country’s exports and reduced the need for further government austerity. It is notable that Q1 saw a further rise in the government spending sub-component of the survey.

Chart 23: Respondents in China are most concerned about increased costs



Source: GECS

Chart 24: Economic confidence in Malaysia increases – tentatively



Source: GECS

Confidence in the Middle East rebounded in the first quarter of the year and is now at its highest level since the second quarter of 2015.

Businesses' main concern in Q1 was the uncertain outlook for the exchange rate, which was cited as a worry by 70% of respondents.

The Malaysian ringgit fell sharply last year, and although it has stabilised in recent months, the country's high short-term debt means that the currency remains vulnerable to any sudden shifts in investors' risk appetites.

THE MIDDLE EAST

Confidence in the Middle East rebounded in the first quarter of the year and is now at its highest level since the second quarter of 2015.

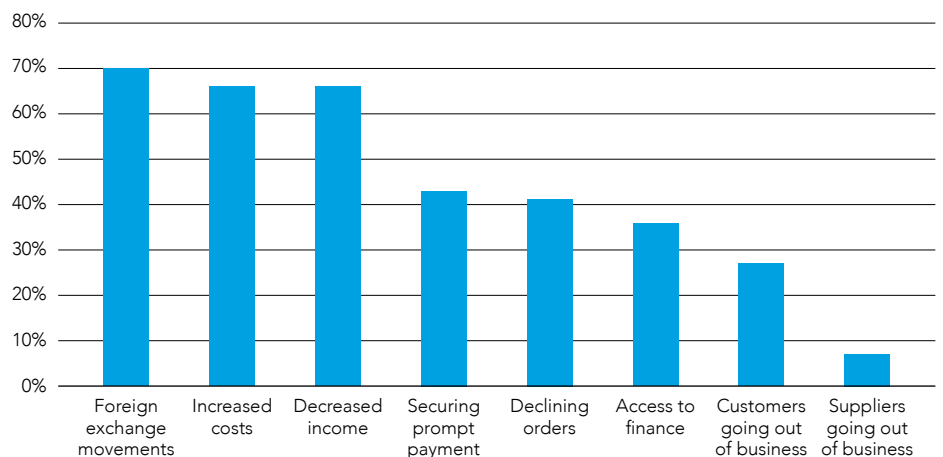
This rebound is due in large part to the recovery in oil prices, which after bottoming out at about US\$30 a barrel in early 2016 have averaged above US\$50 a barrel since the start of this year.

But the region's troubles are far from over. Oil production is likely to fall in 2017 as countries look to comply with the recent OPEC deal that commits them to reducing oil output. A further headwind will come from tighter monetary policy. Most of the region's main economies peg their exchange rates to the US dollar, so as the Fed raises interest rates in the US, borrowing costs across the Middle East are likely to rise.

70%

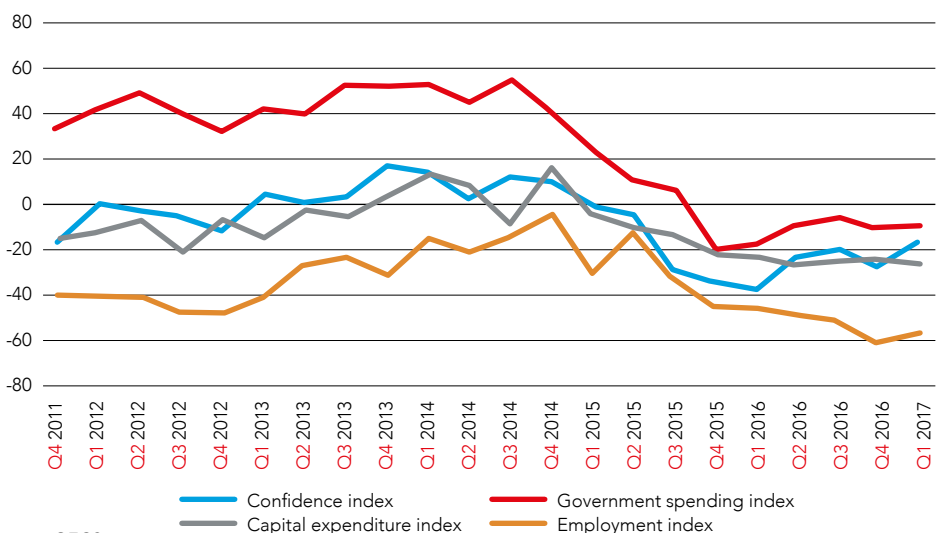
of respondents in Malaysia cited the uncertain outlook for the exchange rate as their main concern

Chart 25: Malaysia's main concern is the exchange rate



Source: GECS

Chart 26: Confidence in the Middle East is in a slump, but has rebounded slightly



Source: GECS

Rallying oil prices were probably the main factor behind the rebound in Saudi Arabia's confidence in Q1 – now at its highest level since the first quarter of 2015.

One positive note is the easing of fiscal austerity. The sharp falls in the oil price in 2015 and 2016 forced many Middle Eastern countries into drastic spending cuts; now, with budget deficits at more sustainable levels, there is no need for spending to be reduced further.

This is captured in GECS: although the government spending sub-component remains weak, it picked up a little in Q1. Otherwise, the capital expenditure sub-component weakened slightly, while the new employment index remained firmly in negative territory.

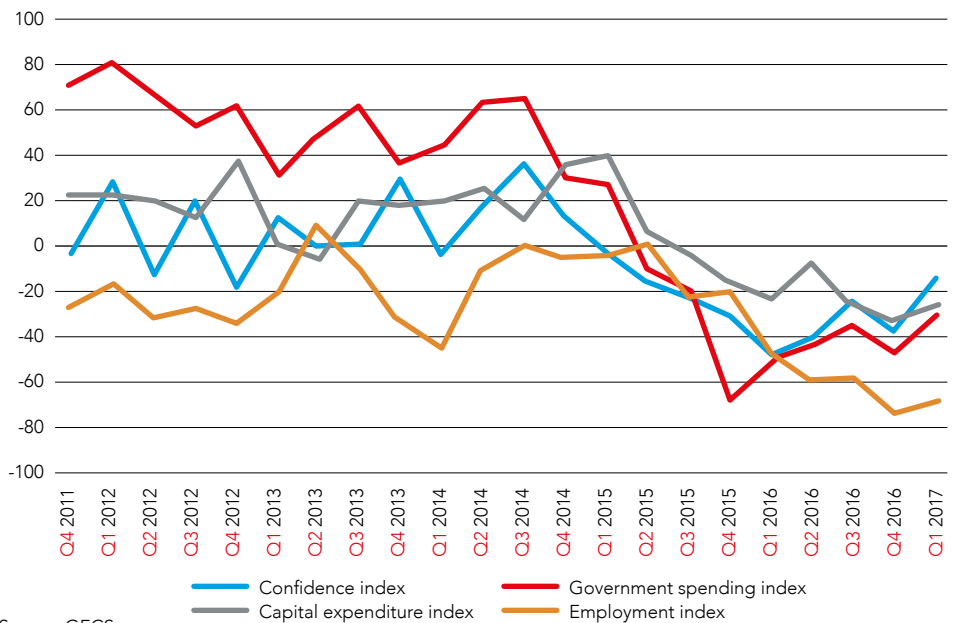
Saudi Arabia in focus

Rallying oil prices were probably the main factor behind the rebound in Saudi Arabia's confidence in Q1 – now at its highest level since the first quarter of 2015.

As with the rest of the Middle East, the Saudi economy has been knocked by the slump in oil prices, which hit export and government revenues hard. Now, however, government spending is likely to act as less of a drag on the economy, and there are signs that the non-oil sector of the economy is showing signs of improvement.

Despite this improving outlook, however, a number of the sub-components – including for government spending and capital expenditure – remain firmly in negative territory.

Chart 27: Despite some improvement, confidence in Saudi Arabia remains largely negative



Source: GECS

The prospects for Africa look positive even though growth is likely to remain relatively weak by the standards of the past decade.

The UAE in focus

Confidence in the UAE rebounded strongly in Q1 2017, with the employment component up on the previous quarter and government spending still at elevated levels.

The UAE has performed markedly better than other countries in the Middle East over the past few years, and this trend looks set to continue. It helps that, unlike Saudi Arabia, it has a sizeable non-oil sector, which means it was never as vulnerable to a sharp fall in oil prices. The government's strong fiscal position also meant that, when oil prices collapsed, it avoided having to cut spending as sharply as its neighbours.

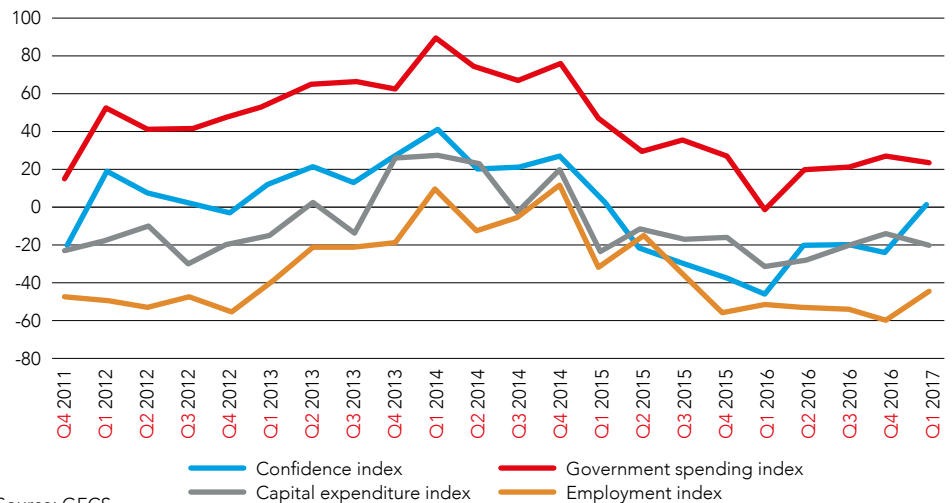
Looking ahead, prospects for the UAE economy are reasonable. Although tighter monetary policy in the US will act as a drag, growth will be driven by an easing of fiscal austerity and increased construction spending ahead of Dubai's 2020 World Expo.

AFRICA

The prospects for Africa look positive even though growth is likely to remain relatively weak by the standards of the past decade.

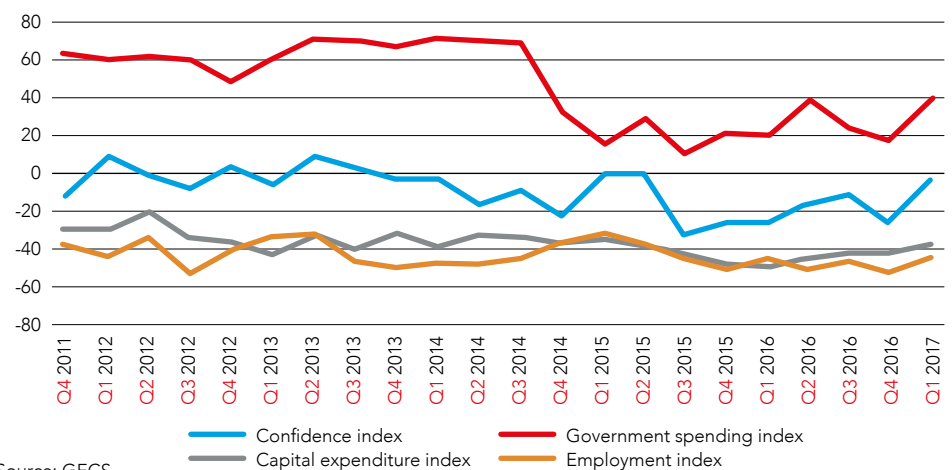
This is reflected in GECS, which shows confidence at its highest rate since the second quarter of 2015. The government spending, employment and capital expenditure indices also rose in Q1.

Chart 28: The UAE sees sharp increases in confidence in some areas



Source: GECS

Chart 29: Confidence in Africa is at its highest since Q2 2015



Source: GECS

Economic confidence dipped slightly in Latin America in Q1, but it remains high by historical standards.

A key reason for this improvement in confidence is the recovery in commodity prices, which in turn has helped to lift export and government revenues. Another influence has been easing inflationary pressures, which has given central banks scope to loosen monetary policy.

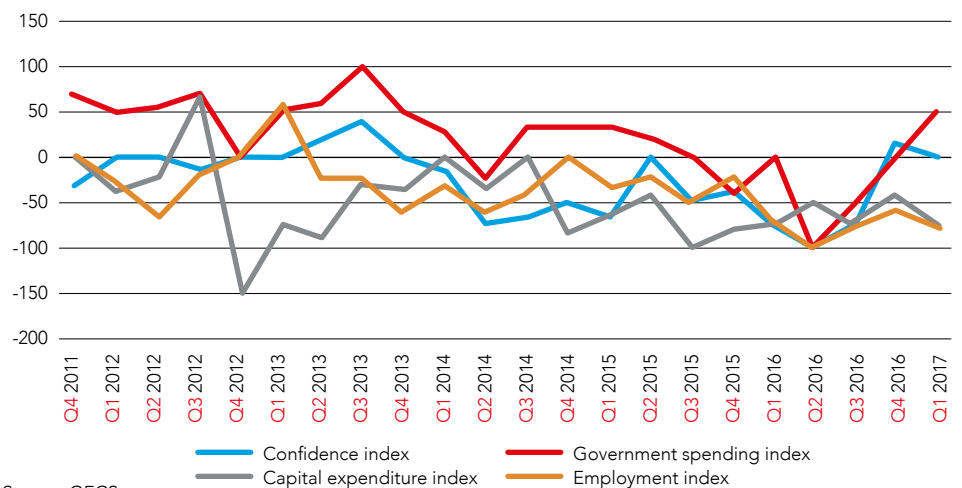
The dismissal in March of South Africa's finance minister caused the rand to fall 8% in just one week. The ratings agency Standard & Poor's downgraded South Africa's bond rating to junk after the finance minister was dismissed, and there is a risk that borrowing costs will rise as a result.

LATIN AMERICA

Economic confidence dipped slightly in Latin America in Q1, but it remains high by historical standards. This generally upbeat picture is backed up by the hard data, which shows Latin American economies slowly emerging from a period of very weak growth.

The region's recovery is driven by better prospects in Brazil, which is showing clear signs of improvement following the sharp recession of 2014-15. A rise in commodity prices, falling inflation and declining interest rates have been the main factors behind the recovery.

Chart 30: Confidence is recovering in Latin America



Source: GECS

After a few years in the doldrums, the outlook for the global economy is increasingly positive.

After a few years in the doldrums, the outlook for the global economy is increasingly positive, with confidence improving in the main economies of China, the US and the Eurozone.

There are good reasons to expect the recovery to continue over the coming quarters.

The authorities in China appear to have engineered a cyclical rebound. In the US, confidence is high amid hopes that fiscal stimulus and deregulation will drive a further recovery in growth. Finally, prospects for the Eurozone are looking up, with the easing of austerity and improved household finances leading to a recovery in consumer spending.

In all three economies, however, there are risks to be considered. In China, there are still concerns over the sustainability of the current rebound, which is largely being driven by a further acceleration in credit.

'We said last year that we didn't think China was nearly as fragile as a lot of commentators were suggesting,' says Capital Economics' Andrew Kenningham. The Chinese economy is now looking more upbeat which should allow the government to focus on stabilising credit growth. This in turn will hope to deter longer-term risks from continuing to build. The Chinese economy is expected grow at a reasonable clip.

In the US, although the fundamentals remain healthy, it is becoming increasingly clear that implementing the US' legislative agenda will not be as straightforward as investors originally expected. If the US administration's fiscal stimulus is delayed (or fails to be approved altogether), it is likely to hit sentiment and growth prospects hard.

In the Eurozone, the key risks are focused on the uncertain political situation amid a rise in economic populism. Although the Dutch election saw the populists lose support, bigger tests are around the corner. A victory for Marine Le Pen in France's presidential elections could put the future of the euro in doubt. Italian elections, which are due in 2018, could trigger more upheaval. The UK's Brexit negotiations also have the potential to damage growth if it becomes clear that the UK is heading for a messy withdrawal from the EU.

So far, at least, the US administration has taken a more conciliatory approach than many originally feared. It is still very early days, however, and given the relatively unpredictable way that policy positions are changing, it is too soon to rule anything out.

Businesses have remained resilient amidst events such as Brexit and the recent US election. This may bode well for the ability of the global economy to weather any future unexpected events.

Appendix I:

Economies covered by Q1 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	Cyprus	Cameroon	Barbados	Belize
Mexico	Egypt	China, People's Rep of	Czech Republic	Bangladesh	Finland	Ethiopia	Bermuda	Brazil
USA	Iraq	Hong Kong SAR	Hungary	India	Germany	Ghana	Grenada	Columbia
	Israel	Indonesia	Moldova	Kazakhstan	Greece	Ivory Coast	Guyana	Costa Rica
	Jordan	Japan	Poland	Maldives	Ireland, Republic of	Kenya	Jamaica	
	Kuwait	Korea, Republic of	Romania	Nepal	Italy	Liberia	Puerto Rico	
	Lebanon	Malaysia	Russia	Pakistan	Luxembourg	Malawi	St Vincent	
	Oman	New Zealand	Slovakia		Malta	Mauritius	Trinidad & Tobago	
	Palestine	Philippines	Ukraine		Netherlands	Namibia		
	Qatar	Singapore			Spain	Nigeria		
	Saudi Arabia	Vietnam			Switzerland	Sierra Leone		
	United Arab Emirates				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?

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.

CONTACTS

For further information about the Global Economic Conditions Survey and the series of quarterly reports, please contact:

Faye Chua
Head of Business Insights, ACCA
+44 (0) 20 7059 5975
faye.chua@accaglobal.com

Dr Raef Lawson
Vice President of Research and Policy
Institute of Management Accountants
+ 1 (0) 201 474 1532
rlawson@imanet.org

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ACCA The Adelphi 1/11 John Adam Street London WC2N 6AU United Kingdom / +44 (0)20 7059 5000 / www.accaglobal.com

IMA 10 Paragon Drive Suite 1 Montvale NJ 07645-1760 USA / +1 (201) 573-9000 / www.imanet.org