



The Association of
Accountants and
Financial Professionals
in Business

The global
body for
professional
accountants

The background of the page is a black and white abstract photograph of a complex, geometric structure. It features numerous sharp, intersecting lines and planes, creating a sense of depth and complexity. The lighting highlights the edges of the structure, giving it a three-dimensional appearance. The overall composition is dynamic and modern.

Global economic conditions survey report: Q3, 2012

ABOUT ACCA

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

We support our 154,000 members and 432,000 students throughout their careers, providing services through a network of 83 offices and centres. Our reputation is grounded in over 100 years of providing world-class accounting and finance qualifications. We champion opportunity, diversity and integrity, and our long traditions are complemented by modern thinking, backed by a diverse, global membership. By promoting our global standards, and supporting our members wherever they work, we aim to meet the current and future needs of international business.

ABOUT IMA

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

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Global economic conditions survey report: Q3, 2012

INTRODUCTON

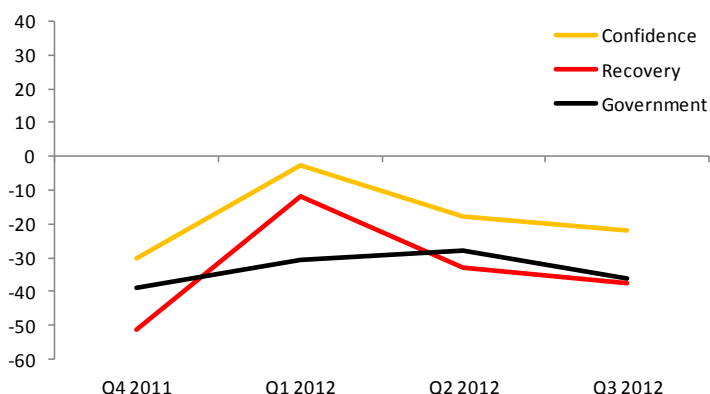
The Q3 2012 edition of the survey, the 15th to date, received responses from 2,550 finance professionals around the world, including 966 senior managers and directors. Fieldwork took place between 13 September and 2 October 2012. As always, we are grateful to all of the professionals who gave up their time to help us piece together an accurate account of the global economy.

BUSINESS CONFIDENCE FALLS AGAIN AS REAL ECONOMY TAKES A HIT

The third quarter of 2012 was not an easy time for the global economy, with all three of this survey's key indices down from the previous quarter (see Figure 1). Only 19% of the global sample reported confidence gains in the third quarter (down from 21%), against 41% (up from 39%) who reported losses of confidence. From a historical perspective (see Annex) these results are consistent with a fall in the output of OECD countries and a slowdown in emerging markets.

Further analysis suggests that this latest fall in confidence is small but genuine, and can't be explained away as a shift in mere sentiment or a flaw of the sample; rather it is due almost entirely to changing fundamentals. More specifically, the quarterly fall in confidence remains significant and robust ($p=0.008$) after the composition of the sample is controlled for, but becomes insignificant after also controlling for business conditions.

Figure 1: Major GECS indices over time (see Annex for historical series)



The downturn is also firmly focused on the real economy. Small and medium-sized enterprises appear to have been the worst hit, followed by the public sector, large corporates, nonprofits and small financials. A comparison with the full historical series suggests that levels of business confidence are up from the lows of late 2011, and roughly similar to those seen just over a year ago.

As a result of deteriorating fundamentals, perceptions of the state of the recovery have also shifted. Over half (67%, up from 64%) of the global sample now believe that the global recovery is stagnating or reversing, against 29% (down from 31%) who believe it's turned a corner. For the first time in about a year, professionals around the world are reporting significantly less faith in governments. Qatar, Turkey, Poland and Bahrain are the only markets that did not follow this trend.

CONTINUED UNCERTAINTY IN ASIA, BUT A GLIMMER OF HOPE IN EUROPE

As Figure 2 demonstrates, most regions saw a fall in business confidence, with the Asia-Pacific region particularly still affected by the slowdown in China. In fact, it appears that the main source of pessimism is not respondents in China themselves – here the pace of the downturn has slowed (See Figure 3). Rather, it is neighbouring countries which are being hit by the Chinese downturn and the persistently sluggish recovery of Western economies with some delay. We note, however, that South Asia has resisted this trend and achieved a rebound – mostly as a result of significant fiscal and monetary intervention.

Figure 2: GECS confidence index time series by region (see Annex for historical series)

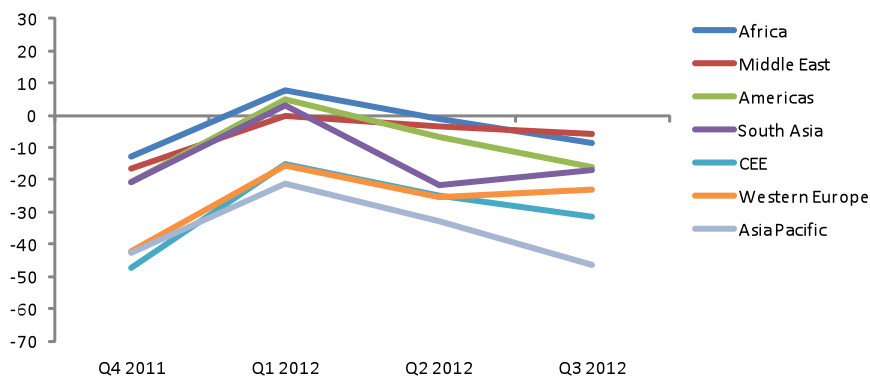


Figure 3: GECS confidence index time series in selected markets

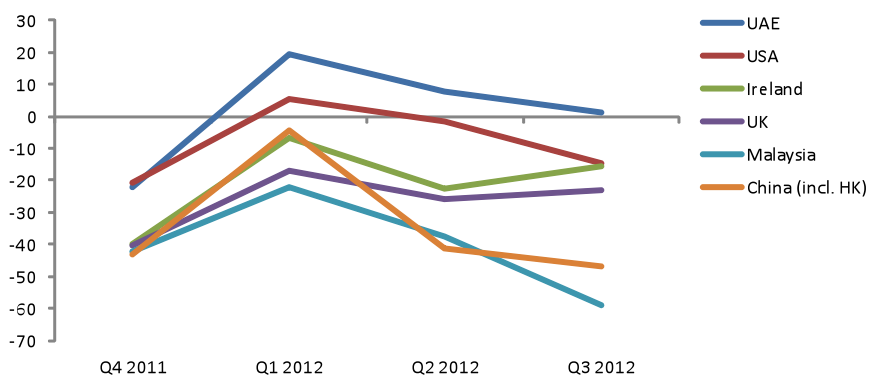
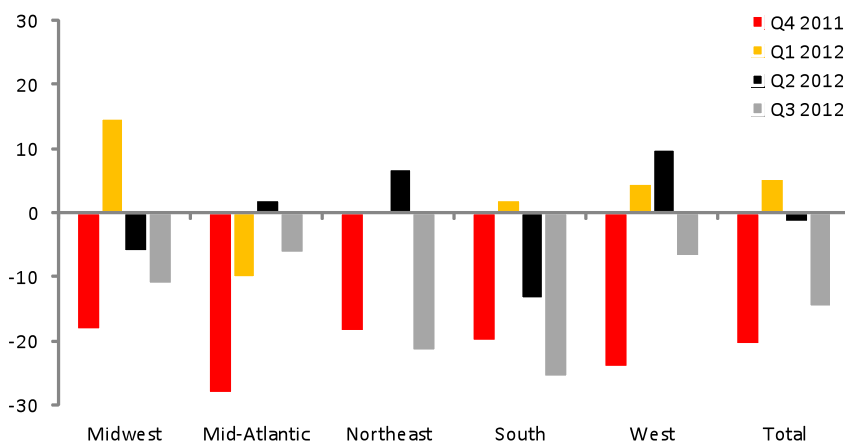


Figure 4: Business confidence index across US regions, Q4 2011 to Q3 2012



There was little optimism in the Americas, where our sample is dominated by the pre-election United States. Confidence fell in the US, and small and medium sized enterprises appear to have been worst hit. The Northeast and South of the US have been the least confident regions for the past two quarters, and after controlling for sample influences it is clear that little has changed in the third quarter of 2012.

In the world's largest economy, uncertainty was fuelled by the upcoming presidential elections, and the growing sense that efforts to address the two major US fiscal challenges, debt sustainability and the Fiscal Cliff, were put on hold.

Western Europe¹ also saw a significant bounce in sentiment. Verbatim responses in Europe suggest that respondents here are, for the first time, beginning to see a credible plan to resolve the region's sovereign debt crisis – the promise of a more active role for the European Central Bank (ECB) as well as continuing efforts towards fiscal integration are making an impression. In fact, after controlling for the stark fundamentals, Greece was one of the countries with the most notable rise in business confidence in Q3.

Finally, after overtaking Africa in the previous quarter, the Middle East is now the most confident of the GECS regions, with 30% of respondents here reporting confidence gains and 52% believing the state of the global economy is improving. Africa, on the other hand, continues to slow down as it has throughout the last year.

1. For the purposes of the GECS, Western Europe includes all Eurozone countries

INVESTMENT FALLS ACROSS THE REGIONS, BUT PROMISING SIGNS EMERGE

Capital spending fell around the world in the third quarter of 2012, with 29% of respondents reporting that their organisations were scaling back capital spending and only 6% reporting that they were increasing investment.

Respondents in Central and Eastern Europe as well as South Asia reported a substantial fall in capital spending, despite more investment opportunities arising and (at least in South Asia) a substantial increase in the amount of government support. The reason for this appears to have been a much tighter supply of finance for investment. In the Americas and the Middle East, capital spending also fell sharply, but here respondents cited fewer investment opportunities as well.

In the rest of the regions, however, access to finance for capital spending improved in the third quarter of 2012 – this includes Asia-Pacific and Africa, but also Western Europe, suggesting that investment should stabilise in the next quarter. In fact, investment appears to have increased in hard-hit Ireland, and to have at least stabilised in China.

BACKLASH AGAINST AUSTERITY CONTINUES

As growth has continued to disappoint in the third quarter of 2012, attitudes towards public spending have shifted further in favour of increased spending. Respondents in major Western markets such as the US, Canada and the UK and major emerging markets such as China, Malaysia and the UAE have revised their estimates of future government spending upwards.

Figure 5: Capital spending index values in major regions

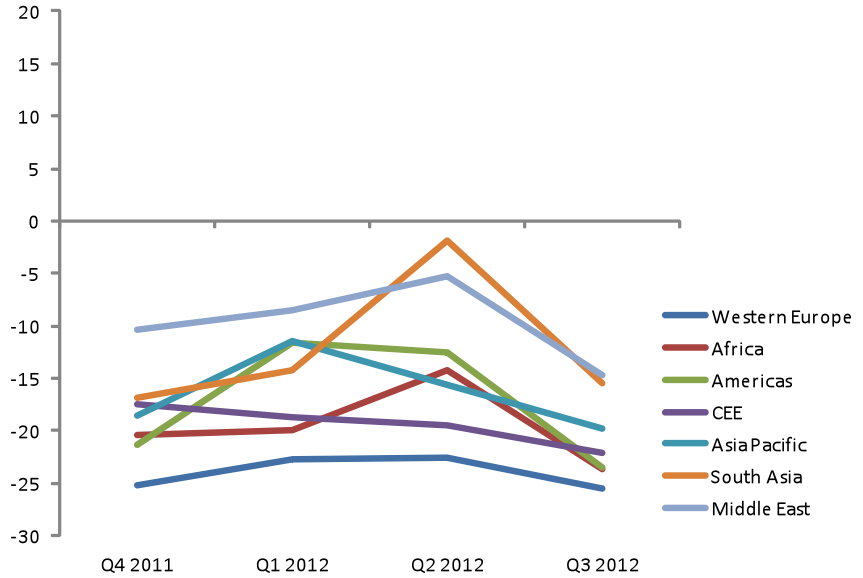


Figure 6: Sustainability of medium-term public spending trends in selected markets:

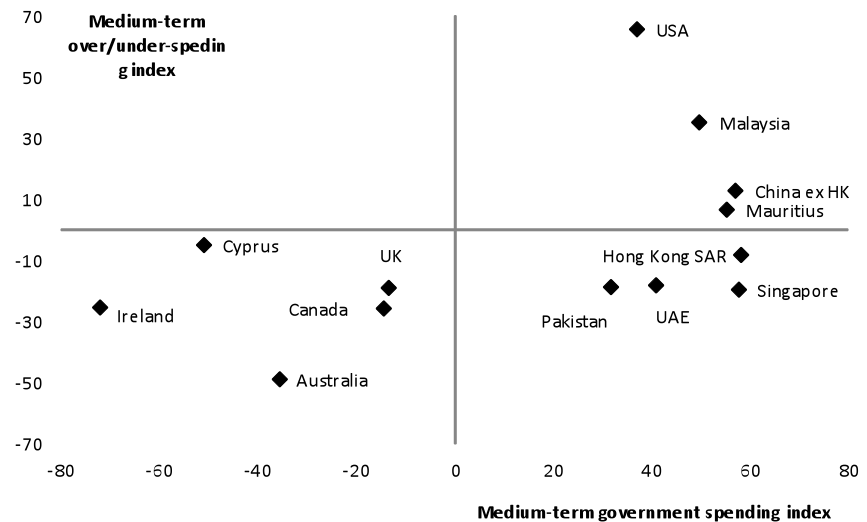
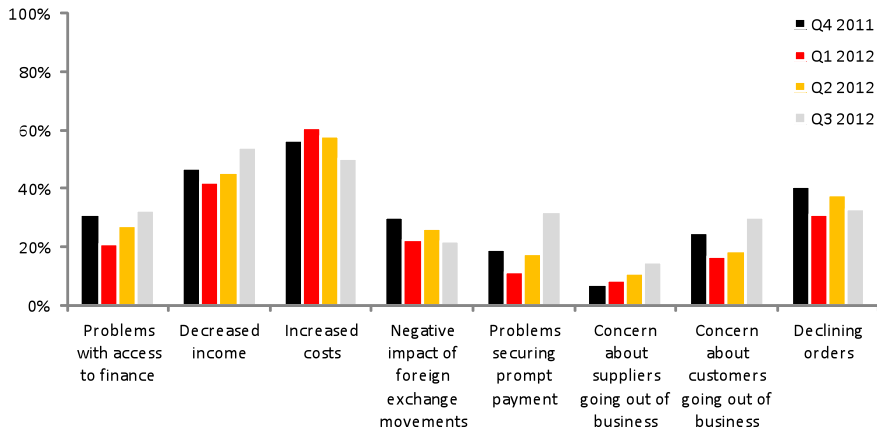


Figure 7: Incidence of business challenges

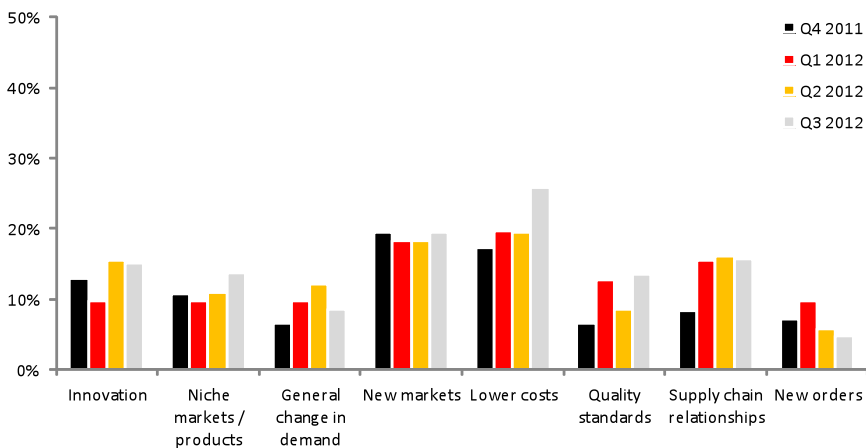


Compared to the previous quarter, respondents in Pakistan now have more faith in the viability of the country's fiscal policy. Finally, respondents in Cyprus, previously the only believers in pro-growth fiscal contraction, have started, on balance, to believe that fiscal policy is likely to damage their country's growth potential. This trend is likely to continue as weak growth makes the returns to public spending more attractive.

BUSINESSES FACE GLOBAL CASHFLOW SQUEEZE

As discussed earlier, the fall in business confidence in the third quarter of 2012 has been mostly due to changes in the fundamentals, as opposed to sentiment. As figure 9 shows, there has been a clear reversal in the business climate, with demand once again overtaking inflation to become the top business challenge facing our global sample and most indicators of business challenges going up.

Figure 8: Incidence of business opportunities



More worryingly, there appears to be a consistent trend towards greater cashflow stress at the global level, with respondents reporting problems accessing finance, rising incidence of late payments and increasing concerns about suppliers and customers going out of business. Cashflow stress appears to have grown particularly in the last quarter for small businesses (fewer than 50 employees) globally as well as large corporates and public sector entities in the emerging markets, and does not appear to be a result of fiscal policy.

Fiscal policy does, however, make some difference to the opportunities available to private sector enterprises. On the whole, as Figure 10 demonstrates, respondents have reported a steady flow of value-added opportunities and a rise in cost-cutting opportunities.

VIEWS FROM THE COALFACE

Impressions and commentary from selected markets

'The high cost of extracting minerals has had a major impact on key capital investment, to the extent that large projects are postponed on the eleventh hour. Softening of demand for minerals from the growing economies of India and China has [caused] a slowdown in mining and oil and gas.'

Director, large corporate, Australia

'The political instability in Romania has led to many investors putting their investment projects on hold; even worse, numerous investors retired from the Romanian market.'

Senior Manager, mid-tier legal and tax consultancy practice, Romania

'There were adverse exchange rate conditions that increased my company's financial commitments since a higher percentage of my company's debt is denominated in stronger foreign currencies. The good news is that the rising rates have stabilised and there are strong indications that the trend will reverse in favour of the local currency.'

Internal Auditor, mid-cap, Ghana

'The large amount of persons starting new businesses to compete for the same resources is driving down industry profitability as most customers are going for the lowest cost.'

Sole Practitioner, Trinidad and Tobago

'Government has maintained its policy of restricting transactions in real estate and slowing down infrastructure/facilities construction; the local currency has become expensive, resulting in difficulties in export, [while] costs such as labour and petrol have gone up.'

Director, mid-cap, China

'Cypriot banks do not lend money, therefore clients, especially those who are in the building industry, cannot start/continue any projects. All of our clients in this industry have closed down their businesses, and therefore our fee income has decreased.'

Director, small accountancy practice, Cyprus

'The government is supporting the creation of jobs in a low cost centre away from the capital, to which my global organisation is committed to expanding its operations providing financial services to support business in other high cost centres. This may not have happened had the economic downturn not occurred.'

Manager, large financial services firms, Ireland

'Uncertainty regarding the political and economy stability and worries about the problem of the national deficit getting worse have affected foreign direct investment and also the confidence of the people towards the future of the economy. This has impacted the business of my organisation which relies on the FIZ [Free Industrial Zone] business and export.'

Accountant, small business, Malaysia

'Government is promoting the concept of 'Maurice l'île durable', that is, Mauritius as a green island with a view of attracting more foreign investors and foreign direct investment in Mauritius. This concept is helping many organisations [which] are able to seek capital from lenders such as banks etc, as foreigners are injecting more capital into Mauritius.'

Audit supervisor, Big Four firm, Mauritius

'As a commercial bank we had to decrease the interest rate on saving accounts, now we face a fall in deposits, People are now switching to mutual funds to earn a better return from their savings.'

Manager, large bank, Pakistan

'I believe that Singapore's openness to employing skilled foreigners, while unpopular with the electorate, has very much benefitted the local economy and will continue to, so long as that continues. In particular I notice a much higher skill set and better performance from colleagues who have lived and worked in other developed countries.'

Manager, small business, Singapore

'Firstly, being in the Middle East there are always ample government projects in the pipeline. Due to some level of stability in securities markets in the West (except for some one-offs) the Government and private investors are willing to undertake capital projects with both Government and private participation. This has created more demand for materials, labour & other ancillary services, which in turn has benefitted my organisation.'

Controller, large insurance company, UAE

'Most of our revenue comes from the export of capital items (large projects). We have experienced a slowing in demand particularly from China and European countries. Our cash flows have been hit also by HMRC's aggressive drive to receive PAYE payments on time yet only issue VAT refunds right on the 30-day limit after submission of the return.'

Senior manager, medium-sized firm, UK

'Overall economic sluggishness, continued joblessness for our customers, and increased energy and EU sourced product costs have reduced profitability in an already razor thin gross margin business. Our wait for competitors to go out of business is over. We're emptying the fuel tanks and looking for a flat place to ditch!'

Director, micro-enterprise (1-9 employees), US

'Government support for defense contractors has frozen or receded, so many of our clients have reduced their orders and commitment terms. This is forcing us to look at greater diversity of skills and certification in our production staff to appeal to a greater range of customers and ensure steady future income.'

Controller, small business, US

Table 1: GECS confidence index for selected markets

	Much less confident	Less confident	No change	More confident	Much more confident	Index
OECD	10.5%	27.6%	43.6%	16.1%	2.3%	-19.6
Non-OECD	12.3%	33.1%	34.3%	16.7%	3.6%	-25.1
Americas	8.8%	27.6%	43.0%	17.7%	2.9%	-15.9
Middle East	6.3%	29.3%	34.6%	23.0%	6.8%	-5.8
Asia Pacific	16.1%	40.3%	33.7%	9.2%	.8%	-46.3
CEE	7.8%	33.6%	48.4%	8.6%	1.6%	-31.3
South Asia	15.2%	26.3%	34.3%	20.2%	4.0%	-17.2
Western Europe	12.1%	27.9%	43.1%	15.2%	1.7%	-23.1
Africa	12.2%	27.7%	28.6%	24.8%	6.7%	-8.4
Australia	14.3%	40.5%	40.5%	4.8%		-50.0
Canada	6.3%	31.3%	39.6%	20.8%	2.1%	-14.6
China ex HK	15.7%	43.1%	23.5%	17.6%		-41.2
Cyprus	33.3%	35.6%	20.0%	11.1%		-57.8
HK SAR	16.0%	44.4%	29.6%	9.9%		-50.6
Ireland	7.1%	29.9%	41.7%	18.9%	2.4%	-15.7
Malaysia	18.0%	45.0%	33.0%	3.0%	1.0%	-59.0
Mauritius	12.2%	34.7%	42.9%	8.2%	2.0%	-36.7
Pakistan	19.3%	28.1%	29.8%	21.1%	1.8%	-24.6
Singapore	13.6%	39.4%	36.4%	9.1%	1.5%	-42.4
UK	12.0%	27.0%	44.9%	14.2%	1.9%	-22.9
UAE	4.9%	30.9%	27.2%	29.6%	7.4%	1.2
US	10.0%	26.0%	43.0%	17.8%	3.3%	-14.9
Total	11.3%	29.9%	39.6%	16.4%	2.9%	-22.0

Table 2: GECS recovery index for selected markets

	it's getting better	We are at the bottom and things will now start to improve	we are at the bottom and will remain there for a while yet	it's getting worse	don't know	Index
OECD	13.1%	14.0%	43.9%	25.6%	3.4%	-42.4
Non-OECD	16.2%	15.8%	28.3%	34.4%	5.2%	-30.7
Americas	19.3%	14.1%	39.8%	22.4%	4.3%	-28.8
Middle East	28.8%	23.0%	24.6%	20.4%	3.1%	6.8
Asia Pacific	9.7%	11.0%	30.4%	42.3%	6.6%	-52.0
CEE	8.6%	7.8%	35.9%	43.8%	3.9%	-63.3
South Asia	26.8%	16.5%	20.6%	29.9%	6.2%	-7.2
Western Europe	6.5%	13.9%	47.0%	30.2%	2.5%	-56.8
Africa	19.1%	22.5%	25.8%	27.1%	5.5%	-11.4
Australia	23.8%	9.5%	26.2%	35.7%	4.8%	-28.6
Canada	18.8%	14.6%	31.3%	33.3%	2.1%	-31.3
China ex HK	7.8%	7.8%	43.1%	35.3%	5.9%	-62.7
Cyprus	2.2%	4.4%	20.0%	71.1%	2.2%	-84.4
HK SAR	3.7%	13.6%	27.2%	46.9%	8.6%	-56.8
Ireland	7.1%	11.0%	54.3%	25.2%	2.4%	-61.4
Malaysia	5.0%	12.9%	33.7%	43.6%	5.0%	-59.4
Mauritius	4.1%	10.2%	36.7%	46.9%	2.0%	-69.4
Pakistan	26.8%	14.3%	25.0%	26.8%	7.1%	-10.7
Singapore	13.6%	9.1%	22.7%	45.5%	9.1%	-45.5
UK	6.2%	15.6%	49.8%	26.5%	1.9%	-54.5
UAE	24.7%	25.9%	29.6%	18.5%	1.2%	2.5
US	20.1%	13.7%	40.5%	20.9%	4.7%	-27.6
Total	14.4%	14.8%	37.2%	29.4%	4.2%	-37.4

CONCLUSIONS

The third quarter of 2012 has offered little fresh hope for the global economic recovery, with all three of the main GECS indices moving downwards and most major markets reporting a loss of confidence.

This quarter has seen business confidence fall for all the right reasons. Around the world, and with few exceptions, the fundamentals of the business environment are deteriorating, and businesses are once again having the kinds of liquidity problems we thought we had put behind us. Investment is down, often despite substantial opportunities, due to a tightening supply of finance.

Politics have influenced economic conditions very strongly, with elections or political instability putting investment decisions on hold in many countries. The US presidential election

has arguably been the most significant of the political influences on economic conditions in Q3 2012, but its aftermath may be even more significant. Many GECS respondents felt that a lot of crucial issues, such as dealing with the Fiscal Cliff and debt sustainability, were put on hold ahead of the elections, but they will still have to be dealt with in late 2012.

One theme that emerges clearly from respondents' views around the world is the interconnectedness of the global economy. The slowdown in Asia; the Eurozone debt crisis; the sluggish US recovery and pre-election uncertainty; all are feeding into each other and no region is unaffected; in fact, the degree to which movements in the GECS indices are synchronised between regions is uncanny.

In this uncertain environment, governments are coming up against increased criticism, and as the sluggish

recovery continues to lose pace the pressure on them to increase spending is mounting, just as their ability to do so dwindles. The window for fiscal stimulus may prove to be particularly narrow.

There are, however, reasons to be optimistic: Europe's debt crisis showed signs of being contained in the third quarter, at least for the time being, and finance for investment is being unlocked in many parts of the world. Most importantly, accountants are reporting a steady flow of business and investment opportunities.

For professional accountants, a global economic recovery that hinges on the fundamentals, as opposed to sentiment, is a chance to shine as creators and preservers of value. Helping businesses access and manage finance, control costs and prioritise sound investments is the order of the day, and it is what they do best.

Appendix

Figure 9: Full historical series of main GECS indices (ACCA members only)

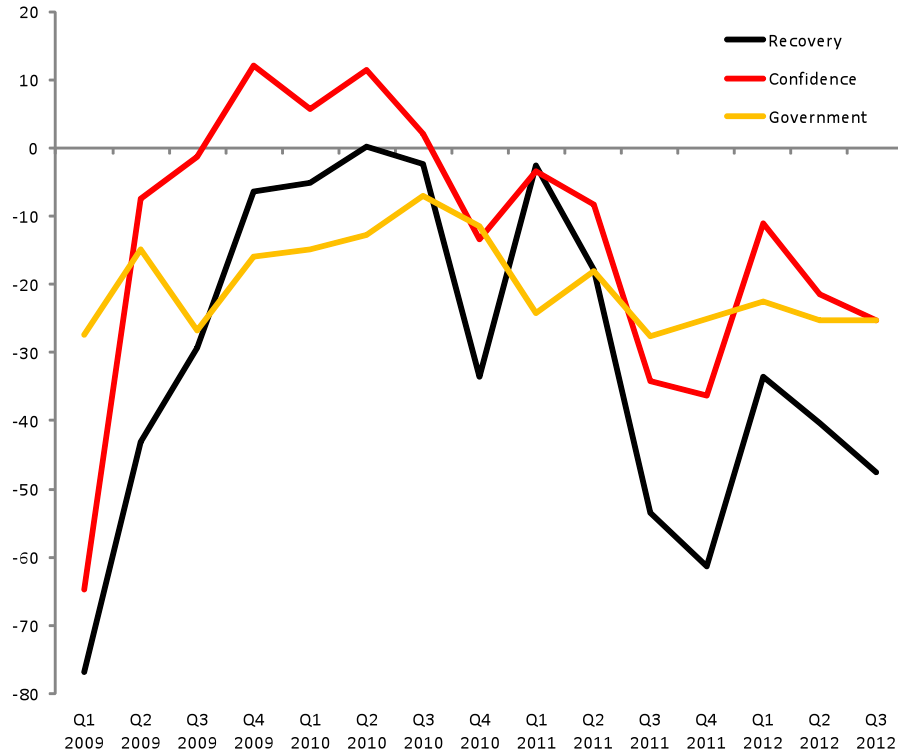


Figure 10: Full historical GECS recovery index series by region (ACCA members only)

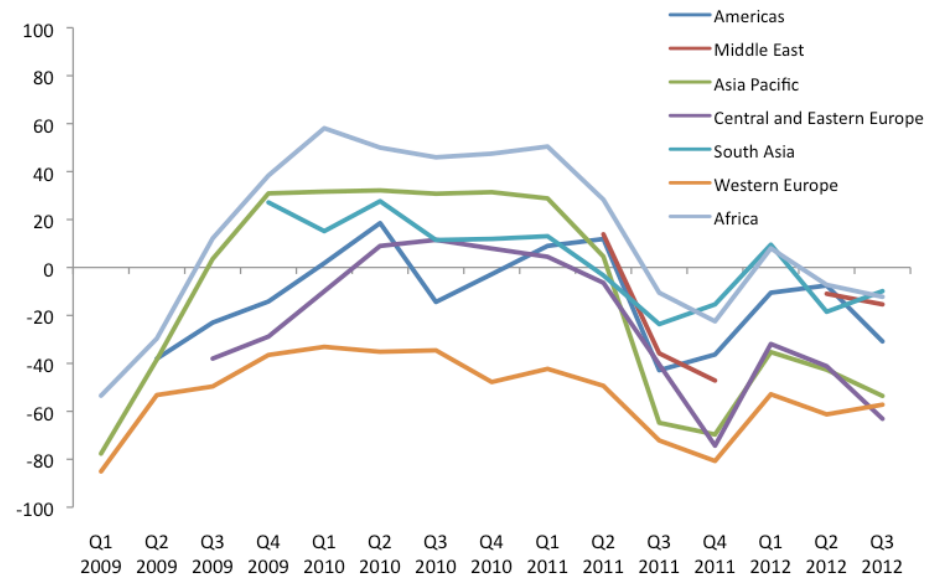
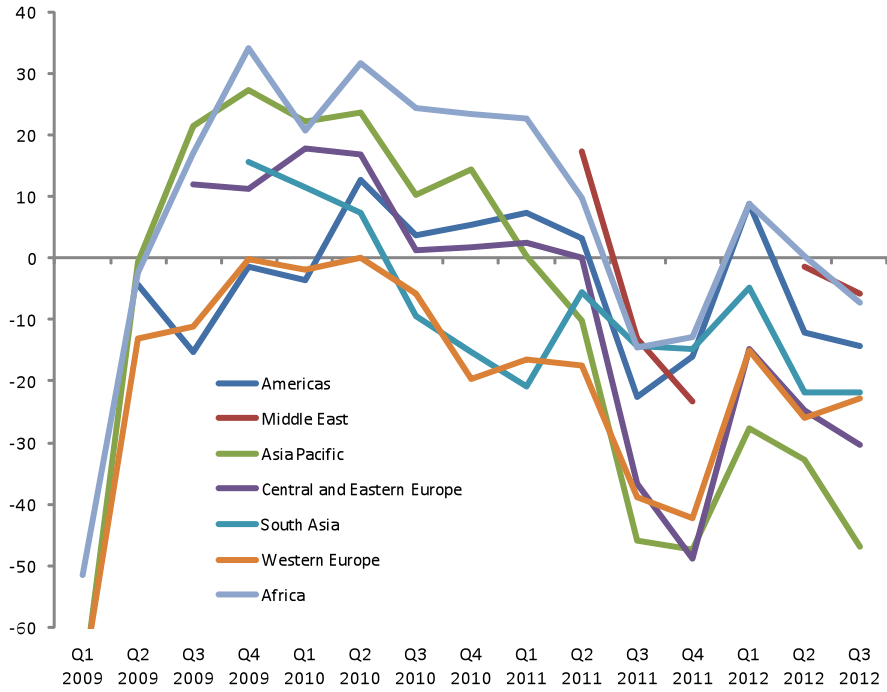


Figure 11: Full historical GECS confidence index series by region (ACCA members only)



ACCA, IMA and the global economy

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

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

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

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

WHERE NEXT?

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

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