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The Association of
Accountants and
Financial Professionals
in Business

Global economic conditions survey report: Q1, 2019



About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants, offering 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 **208,000** members and **503,000** students in **179** countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of **104** offices and centres and more than **7,300** 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.

ACCA is currently introducing major innovations to its flagship qualification to ensure its members and future members continue to be the most valued, up to date and sought-after accountancy professionals globally.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability.

More information is here: www.accaglobal.com

About IMA®

IMA®, named 2017 and 2018 Professional Body of the Year by *The Accountant/International Accounting Bulletin*, 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 **100,000** 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.

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The Global Economic Conditions Survey (GECS) is the largest regular economic survey of accountants in the world.

The Global Economic Conditions Survey (GECS), carried out jointly by ACCA (the Association of Chartered Certified Accountants) and IMA (the Institute of Management Accountants), is the largest regular economic survey of accountants around the world, in terms of 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.

Fieldwork for the Q1 2019 GECS took place between 1 and 14 March 2019 and attracted 1335 responses from ACCA and IMA members around the world, including 107 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.



There was a bounce in the GECS global confidence index in Q1, after it fell to a record low at the end of last year.

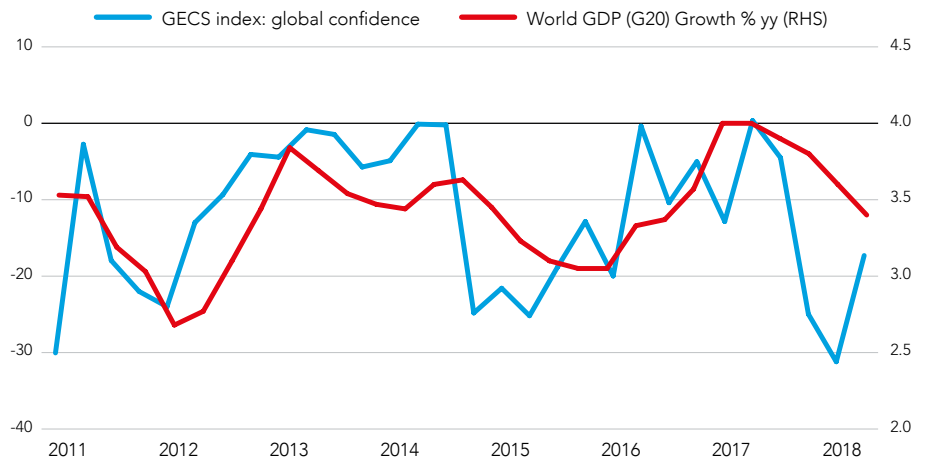
There was a bounce in the GECS global confidence index in Q1, after it fell to a record low at the end of last year. But confidence is below its level in Q2 last year and comfortably below its long run average. Meanwhile, the global orders index was virtually unchanged this quarter. This index is less volatile than confidence and held up better through last year. This underscores the message that the GECS is pointing to slower global growth this year but not a major collapse.

As usual respondents expressed the highest degree of concern about rising operating costs. But for the third quarter in a row this pressure eased, with 48% citing this as an issue, down from 55% in Q2 2018. Softening global economic growth is contributing to an easing of cost pressures. Meanwhile, the possibility that their suppliers would go out of business

was a worry for just 12% of respondents – unchanged from Q4 2018. Both employment and investment intentions remain relatively weak, although in neither case was there a significant change from the previous quarter.

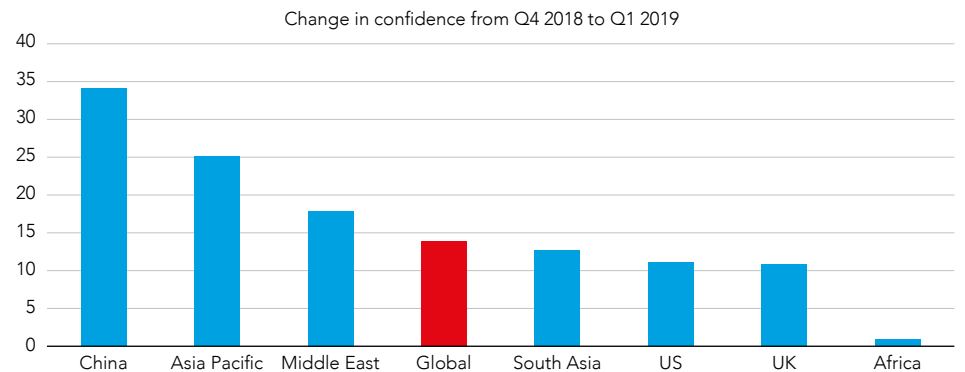
Confidence in the US recovered in the Q1 survey but at the same time the orders balance fell further, to the lowest level since Q3 2016. A divergence between the change in confidence and orders is unusual. A possible explanation is that confidence benefitted from increased optimism about a trade deal with China but orders reflected to a greater extent the real economy. In addition, there may have been some effect from the US government shutdown which extended into January. The message continues to be one of slowing GDP growth this year, but with recession unlikely.

Chart 1: Global confidence bounces, consistent with modest global slowdown



Source: GECS, OECD

Chart 2: Confidence bounces



Source: GECS

Persistent Brexit uncertainty is the biggest negative influence on the UK economy at present. Until there is some clarity on Brexit UK growth is likely to be rather sluggish.

Optimism about US–China trade negotiations probably helped lift confidence in China too. Confidence there is now at its highest level in a year. Growth slowed sharply towards the end of last year, culminating in the slowest pace of expansion for the whole year since 1990. The short term outlook is likely to be relatively weak with data so far this year showing very weak trade and anaemic industrial output. The GECS measures point to modest expansion in the first half of 2019. Stimulus measures – mainly concentrated in tax cuts – are likely to have a positive impact from the middle of the year onwards.

Confidence in the UK bounced in Q1 but only to a modest degree. The picture from the GECS remains the same as in the previous quarter – orders point to moderate growth, hampered especially by weak business investment. Our view is that UK growth this year will be around 1%, i.e. weaker than last year and well below its trend rate. The GECS was conducted before the announcement of the extension of Article 50 beyond the original departure date of 29th March. Persistent Brexit uncertainty is the biggest negative influence on the UK economy at present. Until there is some clarity on Brexit UK growth is likely to be rather sluggish.

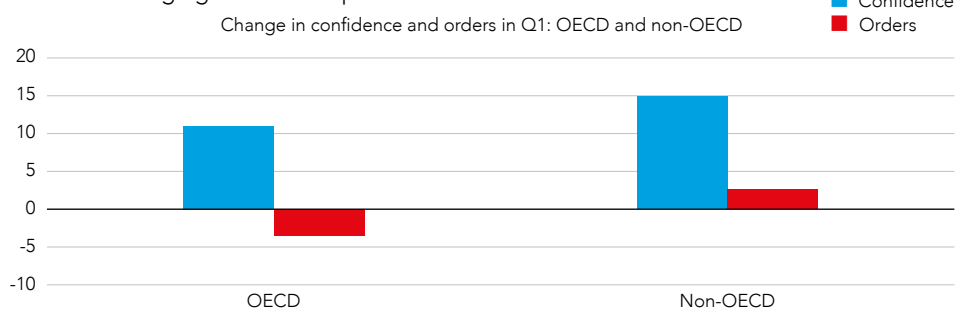
In Western Europe as a whole confidence improved in the quarter but remains well below its long run average. There was a sharp slowdown in the euro area economy in the second half of 2018 with Germany stagnating and Italy in technical recession. Slower export growth has been a major factor in this weakness and the global economic outlook does not

suggest an imminent recovery. For now Brexit is an additional source of downside risk to the region.

In other regions the Middle East enjoyed a significant bounce in both confidence and orders in Q1, helped by the strong recovery in oil prices so far this year. It remains to be seen how sustainable the rise in oil prices is, given the slowing global economy and doubts about compliance with recent output cuts agreed by the Organisation of Petroleum Exporting Countries (OPEC). Meanwhile, confidence in Africa registered a rather modest increase in the quarter and orders declined. Political uncertainty is an issue in many African countries where much-needed domestic reform is being held up. Finally South Asia saw a big jump in confidence, probably helped by signs of progress on Pakistan's International Monetary Fund (IMF) bail-out negotiations.

With economies in the US, euro-zone and the UK all slowing to various degrees, the relative position of emerging markets (EMs) has improved. Of course weaker developed economy growth will reduce demand for EM exports. But there are positives. The end of – or at least a significant pause in – US monetary tightening and the associated upward pressure on the US dollar – eases economic pressure on many EMs by mitigating inflationary pressures and reducing debt-servicing costs. The risk of contagion from countries facing particular difficulties, such as Venezuela and Turkey has also diminished. This relative improvement is reflected in the change in confidence and orders between OECD and non-OECD countries in the latest GECS.

Chart 3: Emerging markets outperform



Source: GECS

Two long-term structural issues are likely to exert a downward influence on the pace of Chinese economic growth in the years ahead – debt and demographics.

CHINA – A DEBT AND DEMOGRAPHICS TIME BOMB?

For almost four decades from 1980 the Chinese economy expanded at an average rate of almost 10% a year on the back of market-oriented reforms and integration into the global economy. The result is that China is now the second largest economy in the world. But recently growth has moderated and last year the economy grew by 6.6%, its weakest rate since 1990. Such a rate would be welcomed in developed economies. But for China, where incomes per head are still at a level that puts it in the middle income bracket, such a rate is cause for concern. That is why the authorities have recently introduced stimulus measures in an attempt to boost growth and hit the official target for GDP growth this year of 6% to 6.5%. In this piece we will look at two long-term structural issues that are likely to exert a downward influence on the pace of Chinese economic growth in the years ahead – debt and demographics.

Debt

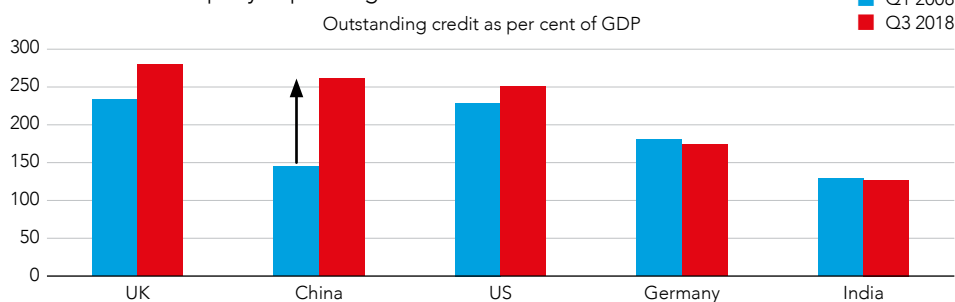
Total debt in China has shot up over the last 10 years, reaching levels comparable to those in the US and UK and well above the levels prevailing in most emerging markets. (See chart below.) The increase in Chinese indebtedness, by 115% of GDP, is all the more remarkable given the pace of GDP growth over the period. But therein lies the issue for China – debt fuelled growth has now run its course and can no longer be relied upon as a permanent driver of rapid economic expansion.

The dramatic rise in Chinese debt began with its response to the global financial crisis of 2008/09 – the massive easing worked very well and the rise in debt helped to boost growth quickly and significantly and the Chinese economy bounced back more quickly from the

financial crisis than Western economies. The bulk of the rise in debt occurred in the corporate sector, which includes State Owned Enterprises (SOEs) as well as purely private companies. High levels of corporate debt are the distinguishing feature of Chinese debt – household and central government debt levels are in line with economies such as the US or euro-zone. True, some debt measured as corporate debt in China is ultimately local government debt funded through opaque vehicles called Local Government Finance Vehicles (LGFVs). But even assuming LGFV debt is not corporate debt still leaves corporate debt at 140% of GDP, higher than, say the US at around 80% and the euro-zone at 100%. Within Chinese corporate debt SOEs account for more than half of the total – 72% of GDP in 2017 according to the IMF. Moreover, SOEs were responsible for most of the increase in corporate debt between 2008 and 2016.

Of course high levels of debt are not necessarily a problem – if the assets they support are of high quality, such that the debts can be serviced and ultimately repaid. Two areas of Chinese debt raise concerns in this respect. First, there is the lending to SOEs. This was the main channel through which the easing of policy was conducted in the wake of the financial crisis. A lot of this extra debt was used by SOEs on directly boosting investment spending, thus lifting GDP growth. Unfortunately many SOEs are not viable, profitable businesses so that investment by such companies has been wasteful and uneconomic. The Chinese State Council broadly defines nonviable firms as those that incur three consecutive years of losses, fail to meet environmental or technological standards, and rely heavily on government or bank support to survive. Such companies are nevertheless kept alive because they are major sources

Chart 4: China's rapidly expanding debt levels



Source: Bank for International Settlements (BIS)

A highly predictable trend in China in coming years will be demographics – in particular a declining working age population.

of employment and remain crucial to regional economies. The share of total corporate debt attributable to these so-called “zombie” firms is estimated to have been around 15% in 2016, the highest level since 2009. Such debt is of course unlikely to be repaid and represents a key element of China’s bad debt problem. The resolution of this bad debt problem is likely to be through a gradual slow-burn process as lending to SOEs is curtailed and restructured – after all both the debtor (SOEs) and creditor (state-banks) are ultimately owned or controlled by the state.

More likely to trigger a traditional banking crisis is the debt of the private corporate sector. In particular, construction and real estate firms have taken on large amounts of debt in recent years, fuelling a real estate boom. Falling real estate prices would clearly expose this debt to write-downs and increase banks’ bad debt provisions. In addition, while household debt is not at excessive levels judged by US or UK standards it has also increased rapidly in recent years. Economic slowdown or house price correction could expose households to the need to rebuild their balance sheets, squeezing consumption.

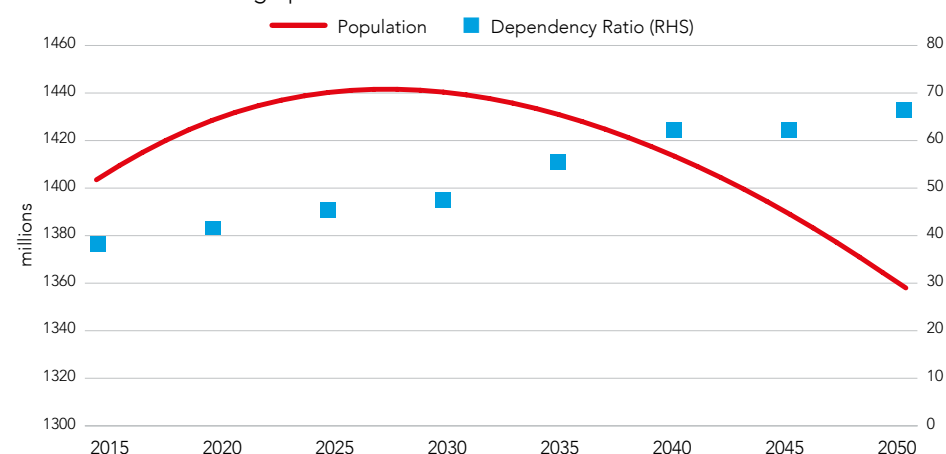
The influence of the Chinese state diminishes but does not eliminate the chances of a financial crisis. But the authorities are now clearly concerned about the level of debt – hence recent attempts to rein in the pace of credit growth. It is noteworthy that recent stimulus efforts have concentrated on fiscal measures, such as tax cuts rather

than through monetary easing and boosting credit growth. If China is moving away from debt-fuelled growth - at the same time as moving towards a more consumption-driven and service sector economy – then a much lower trend rate of GDP growth is almost inevitable.

Demographics

A highly predictable trend in China in coming years will be demographics – in particular a declining working age population. In 1970 the fertility rate in China (the number of children per woman during her child-bearing years) was more than six; now it is 1.6, lower than even the UK or US (both 1.8). The population is 1.4 bn and expected to peak slightly above this level by 2030. The working population is about 990 mn, forecast to fall by around 50 mn before 2030 and by 140 mn by 2050. Meanwhile there are around 130 mn retired people – a figure that is set to rise to about 360 mn in 2030 and 510 mn in 2050 – 35% of the population. A shrinking minority will have to pick up the tab for a growing majority. This is illustrated in the chart below with the dependency ratio – the ratio of those of non-working age (young and old) to the working age population (aged 15 to 64). This ratio – expressed as a percentage – rises from 40% to almost 70% between 2020 and 2050 (see chart below). Put another way, this means the number of workers supporting each non-worker declines from around 2.5 to 1.5 over the period. In China with a relatively less developed welfare and pension system this demographic trend poses major economic and social problems.

Chart 5: China’s demographics



Source: UN Population Division Databank

China has many advantages, including a huge domestic market and modern infrastructure that can help to boost productivity and growth.

An economy's potential growth rate is made up of changes in working population and productivity growth.

The working population is almost certain to shrink – even if a significant number of older people stay in the workforce beyond normal retirement age.

China's rapid economic growth from the late 1980s onwards was fuelled by a rapidly rising working age population and a surge in productivity growth. The latter was driven by a huge shift in labour from countryside to city and in employment from agriculture to manufacturing. That process has now largely run its course and is in any case inhibited by the residential permit scheme – the hukou. Rising wages in recent years are clear evidence of a tightening labour market that no longer has access to a plentiful additional supply of labour moving from the countryside to the city. As is now the case in Japan where the working population is in decline, fairly soon China will have to rely increasingly on boosting productivity to sustain economic growth. Hence this is one of the reasons for the

authorities' policy of "Made in China 2025" an industrial policy intended to transform China from a low-end manufacturer to a high-end, high-tech producer of goods meeting demand from its own very large domestic market. Semiconductors and electric vehicles are a particular focus.

At points in the 20th century the Soviet Union was going to "bury" the West in economic performance terms and then the Japanese economic model was about to dominate the global economy. Neither of course actually occurred. Many analysts have predicted that this century will belong to China. Indeed China has great advantages, including a modern infrastructure, a large domestic market that allows firms to exploit economies of scale and an advanced digital economy. But as this article has illustrated, there are challenges that must be overcome if China is to succeed in propelling itself from a middle income country to a high income one.



2. Global and regional analysis

The GECS global confidence index increased in Q1 2019 compared with Q4 2018, but remains at a fairly low level and consistent with a slowdown in growth.

The GECS global confidence index increased in Q1 2019 compared with Q4 2018, but remains at a fairly low level and consistent with a slowdown in growth. Confidence bounced after falling throughout 2018. The orders balance in Q1 was virtually unchanged from the previous quarter. Indeed many of the other components at the global level were little changed between Q4 and Q1. But it should be recalled that confidence and activity indicators are all significantly lower than a year ago.

pessimistic about the outlook than optimistic), with the lowest score being recorded in the Caribbean and Central and Eastern Europe. The most confident (or rather least pessimistic) part of the global economy was again South Asia, followed closely by North America and Asia Pacific.

Even before the increasing evidence of a growth slowdown emerged the inflation picture was generally benign. It has become even more so recently as demand has slowed. The latest GECS shows a fall in concern about rising operating costs. This is the third quarterly fall in a row and reduces cost concerns to the lowest since 2017 Q4.

Looking at confidence levels, all the key regions recorded a negative confidence score (i.e. there were more people

Chart 6: Global confidence rebounds, orders steady in Q1

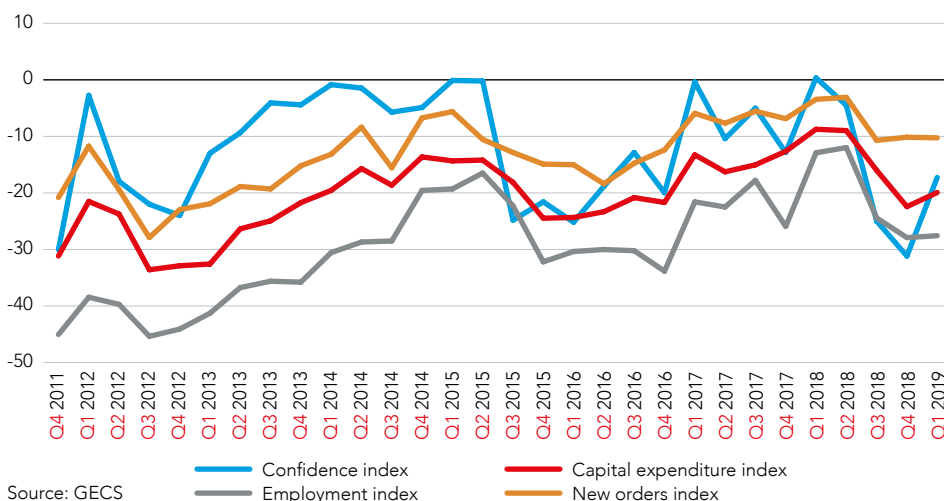
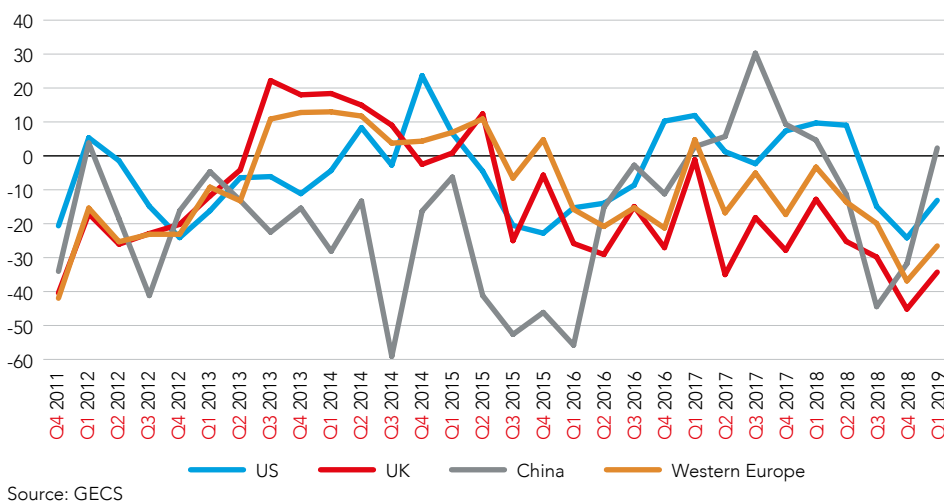


Chart 7: Confidence rebounds but still relatively low

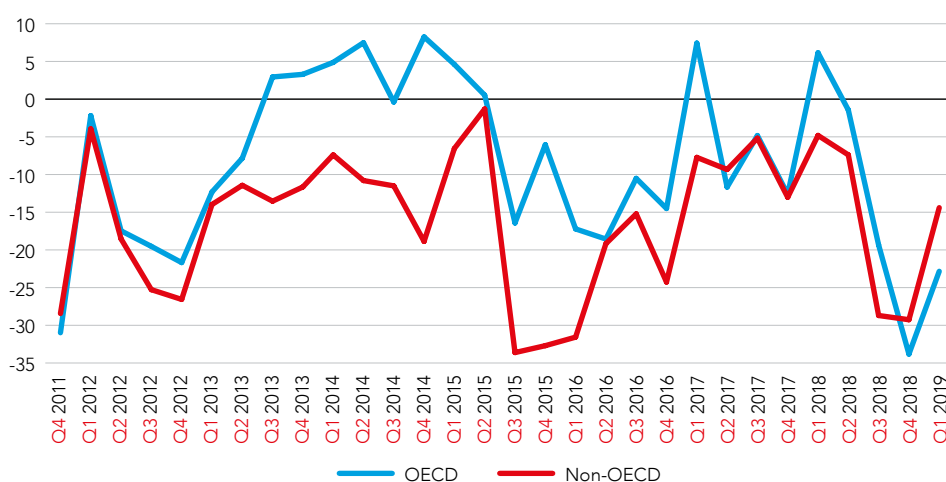


For the second quarter in a row the non-OECD group performed better than the OECD.

The latest survey shows a bounce in confidence in both OECD and non-OECD countries. But for the second quarter in a row the non-OECD group performed better than the OECD. The relative outlook for Emerging Markets (EMs) has improved recently with an end – or at least a prolonged pause – to higher US interest rates and consequently a softer US dollar.

Among non-OECD members in the latest GECS survey there was an easing of concern about the effect of exchange rate volatility on economic prospects. The IMF expects EM growth to hold steady in 2019 at around 4.5%, compared with a slowdown in developed economy growth from 2.3% in 2018 to 2% in 2019. The latest GECS is consistent with this view.

Chart 8: OECD and non-OECD confidence



Source: GECS

In the US, despite a bounce in confidence the new orders balance fell again this quarter, pointing to a particularly soft first half of the year.

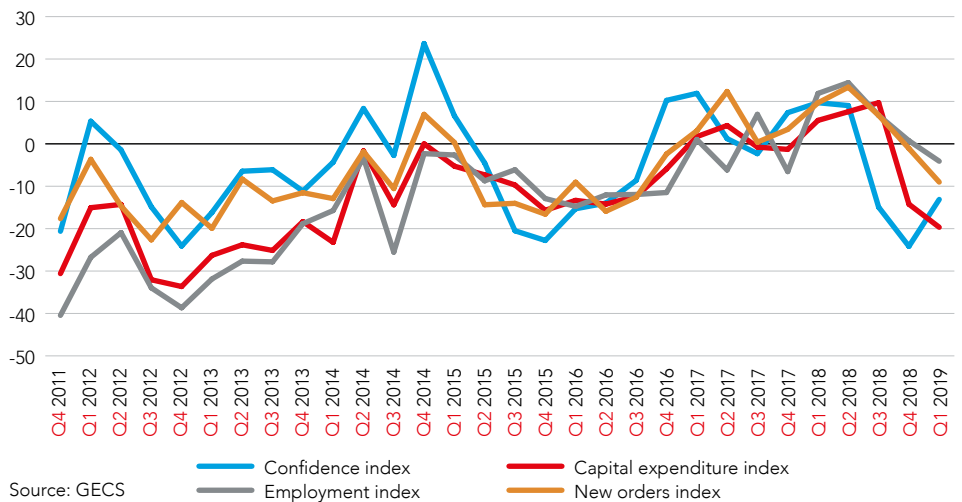
NORTH AMERICA

Interpreting the pace of economic slowdown in the US is tricky at present. Recent economic history has tended to record weak Q1 GDP, followed by a stronger performance for the rest of the year. This pattern is likely to be repeated in 2019. Almost certainly Q1 GDP will have been weak with some extra drag caused by the government shutdown which extended well into January. Consensus forecasts for Q1 GDP are around an annualised rate of 1.5%. (In Q4 2018 growth was 2.2%.)

The US GECS findings are consistent with slower growth this year. Despite a bounce in confidence the new orders balance fell again this quarter, pointing to a particularly soft first half of the year. Orders are now below their long run

average. The fading of the fiscal ease of last year and the lagged effect of last year's increases in the Federal funds interest rate have reduced momentum in the US economy. Expectations of little or no further interest rate increases should be sufficient to produce a "soft landing" for the economy with growth this year of 2% to 2.5%, down from 2.9% in 2018. The jobs market is buoyant with multi decade lows for the unemployment rate. In addition, respondents to the GECS continue to report that access to finance is not a major problem – indeed financial conditions are relatively easy. In the absence of a financial crisis, recessions tend to occur as tighter monetary policy restricts access to credit, slows monetary growth and hurts real economic activity. So, despite the recent yield curve inversion (see chart 15) recession is unlikely.

Chart 9: US confidence recovers, orders slip further



Source: GECS

Confidence in the Asia Pacific region jumped to the highest level since Q1 2018.

ASIA PACIFIC

Confidence in the Asia Pacific region jumped to the highest level since Q1 2018. One cause of this is increased optimism about the US–China trade dispute. At the time of the last survey there was the realistic prospect of an imminent increase in US tariffs on Chinese imports from 10% to 25%. That threat was replaced by a three month moratorium that has since been extended to allow for further negotiations. The risks of an escalation in trade tensions will remain until or unless agreement is reached. But the perceived reduction in risk has boosted confidence. The effects of a US-China trade war would be felt across the region both because of regional supply chains feeding into Chinese exports and because a weaker Chinese economy generally results in reduced demand for imports from other countries within the Asia Pacific region.

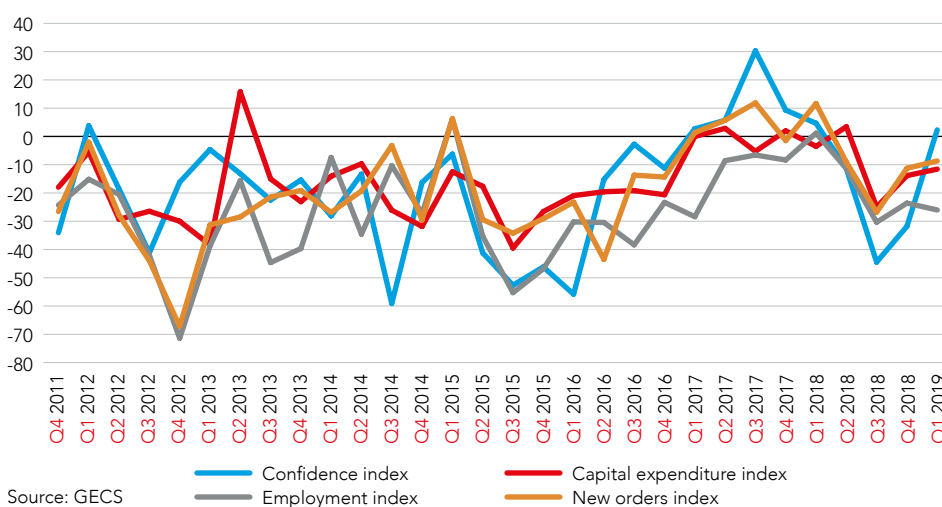
Focus on China

Last year the Chinese economy slowed and expanded at 6.6%, its slowest pace since 1990. As the thematic piece above argues, there are grounds for believing that China’s economic growth in future will be more moderate. For 2019 the official projection is for 6% to 6.5% GDP growth and both the World Bank and IMF are anticipating 6.2%. That growth

looks likely to be driven by household consumption rather than investment or exports. Slowing global growth means that - even if there is lasting peace in the trade dispute with the US Chinese exports are still likely to continue to slow through 2019. Meanwhile investment is not likely to provide an impetus to growth because in the corporate sector the focus remains on deleveraging. The stimulus announced earlier this year worth almost \$300bn concentrated on tax cuts to both personal income tax and Value Added Tax (VAT). Prime Minister Li has emphasised that monetary policy will remain prudent with any adjustment made through banks’ reserve requirements.

Although distorted by the effects of the Chinese New Year holiday the early evidence is that the Chinese economy continued to be weak early in 2019. Exports and manufacturing remain under pressure but there are signs of improvement in retail sales. Some components in the GECS China indicator showed slight improvement in the Q1 survey, including orders and capital expenditure. Greater optimism about the US-China trade negotiations may be a factor here. Nevertheless, it may not be until the middle of the year that the economy responds to stimulus and revives.

Chart 10: A slightly brighter picture in China



Source: GECS

UK GECS confidence bounced in Q1, but it remains at a low level well below its long-run average

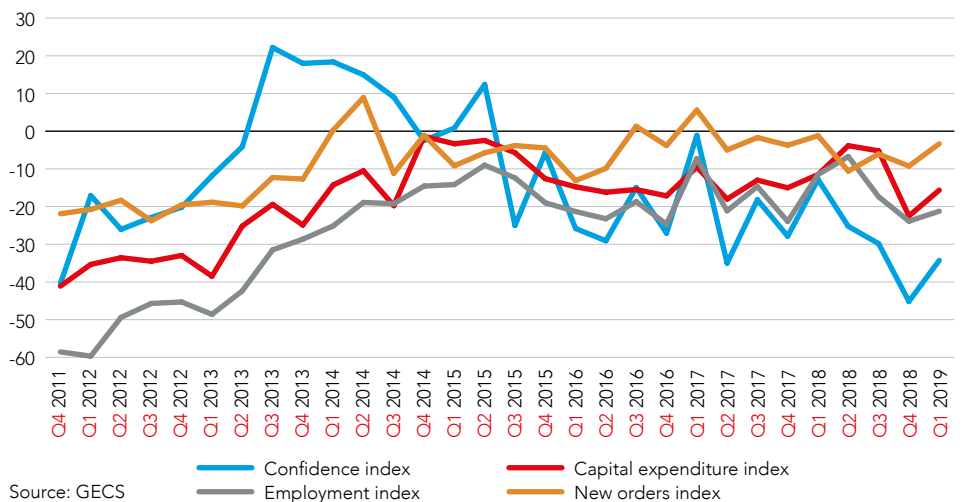
WESTERN EUROPE

The biggest turn round in economic fortunes in recent months is without doubt the euro-zone. Growth slowed with gathering pace towards the end of 2018, by which time Italy was in technical recession and Germany stagnating. The scale of the slowdown triggered easing measures by the European Central Bank (ECB) at its March meeting. Interest rates will now stay at current low levels throughout 2019 rather than at least until the end of the summer. In addition the ECB will from September supply banks with cheap money – so-called TLTROs – in an attempt to get them to increase their lending to the real economy. Downside risks arise from Brexit uncertainty and from the US-China trade dispute. There are particular concerns within the euro zone about the outlook for Germany, where the OECD now expects just 0.7% GDP growth this year. Germany’s export-driven growth model is under pressure as global demand slows especially from China. A possible positive source of growth in Germany and the wider euro area is through lower inflation and rising nominal wages boosting real incomes and consumption.

UK in focus

The UK economy remains mired in Brexit uncertainty because the Article 50 deadline for leaving the EU has been extended beyond 29th March. Indeed the UK may now leave the EU only after an extended delay – or indeed not at all. This uncertainty is having a negative influence on business confidence. Along with other countries UK GECS confidence bounced in Q1, but it remains at a low level well below its long-run average. Similarly, the orders balance improved but remains consistent with moderate, below-trend GDP growth in coming quarters. The GECS investment indicators are weak, reflecting the effect of uncertainty on long-term investment decisions. But recession is unlikely and would only become a significant risk if the UK left the EU without a deal – even then it would in all likelihood be short-lived. On most Brexit scenarios below-trend growth of around 1% is probable this year. Amid the increasing Brexit parliamentary chaos consumers’ real incomes have improved recently as inflation has fallen below 2% and annual wage growth picked up to over 3%. The UK GECS does not point to corporate distress or imminent recession – there has been no surge in fears about customers or suppliers going out of business, for example.

Chart 11: UK hampered by Brexit uncertainty



Source: GECS

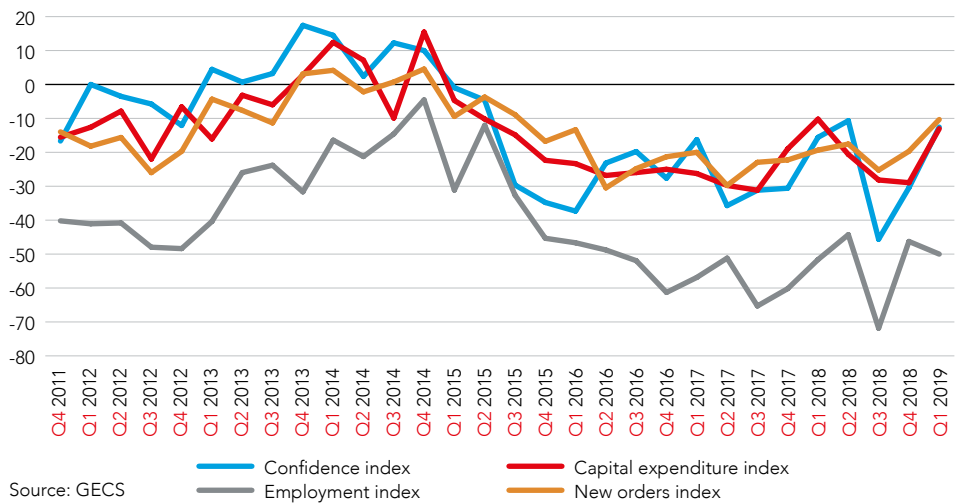
In Q1 2019 confidence in the Middle East rebounded significantly, boosted by the strong recovery in oil prices.

MIDDLE EAST

Confidence in the region was especially weak in the second half of 2018, reflecting lower oil prices and higher US interest rates. But both factors are now more positive and in Q1 2019 confidence rebounded quite sharply. Not surprisingly the dominant influence on confidence in the region is oil prices. Oil prices have rebounded on the back of OPEC quota cuts late last year and Brent crude is now up by almost 30% so far this year to \$66.8 per barrel. Budgets across the

region are set for various break-even oil prices so that the higher the oil price the greater the likelihood of fiscal largesse. The government expenditure component of the indicator surged in Q1. But the outlook for oil prices is uncertain and there are downside risks. First it remains to be seen if the new OPEC quota holds – recent experience has not been encouraging in this respect. Moreover, a slowing global economy will result in weaker demand for oil putting downward pressure on prices.

Chart 12: Middle East confidence recovers



Overall in South Asia confidence improved, but remains below its level of Q3 2018. In addition, the capital expenditure and new orders indices both fell slightly this quarter.

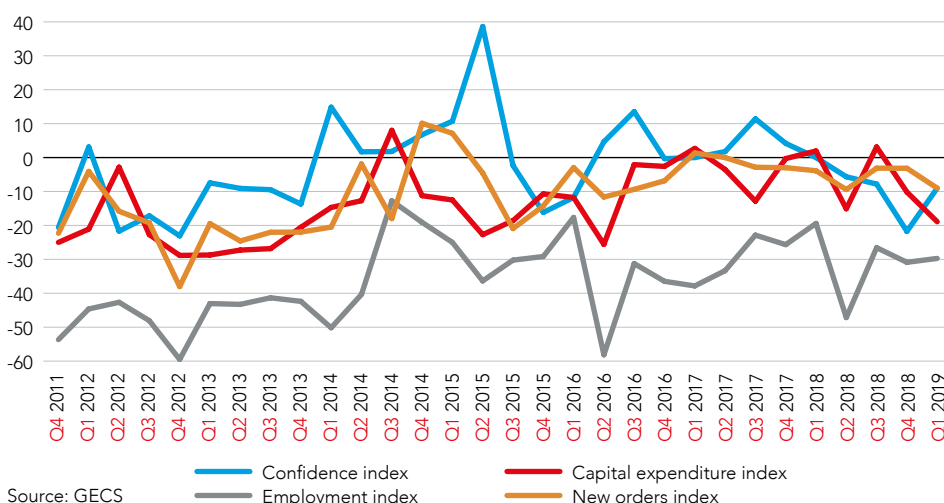
SOUTH ASIA

The South Asia region in the GECS is dominated by India and Pakistan. The Indian economy is expected to grow strongly this year by around 7%. Over the course of Q1 the central bank, the Reserve Bank of India (RBI) cut interest rates by 25bps and a Budget introduced fiscal easing measures, including cash payments to farmers. A significant amount of infrastructure spending is also now coming on stream. But there is a high degree of political uncertainty ahead of May's elections. Meanwhile Pakistan's economy is likely to grow by around 5% this year but faces challenges with a large fiscal and current account deficit both running around 6% of GDP. Pakistan is

currently negotiating an IMF bail-out package worth around \$6bn in order to meet international debt obligations. But any conditions will almost certainly involve tighter fiscal policy and market-friendly reforms. Confidence in the GECS survey improved in Pakistan in Q1, perhaps on expectations of a breakthrough with the IMF where negotiations had appeared deadlocked late last year.

Overall in South Asia confidence improved, but remains below its level of Q3 2018. In addition, the capital expenditure and new orders indices both fell slightly this quarter. Geopolitical risks increased considerably during the quarter which may have influenced the survey responses.

Chart 13: South Asia – a mixed bag



Source: GECS

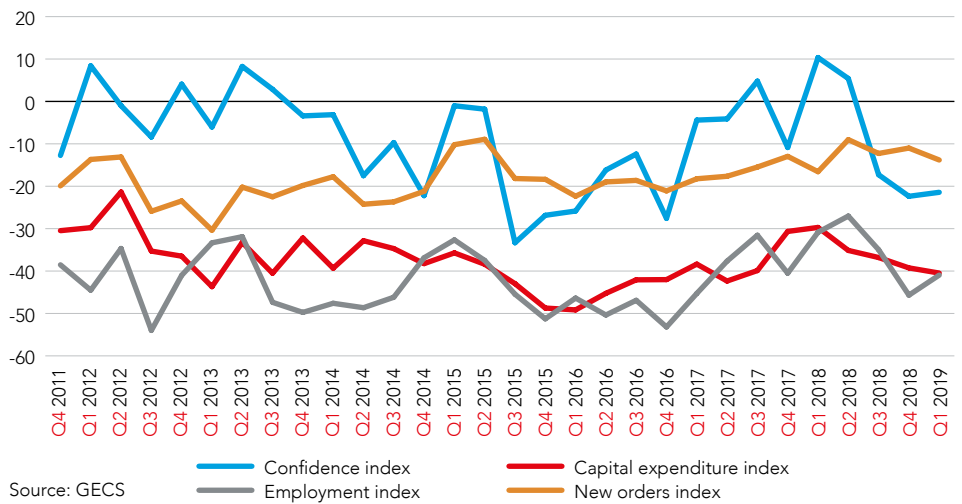
In Q1 2019 the GECS confidence index for Africa was virtually unchanged.

AFRICA

In Q1 2019 the GECS confidence index for Africa was virtually unchanged. There are offsetting influences with a recovery in oil prices is boosting resource exporters and the pause in US monetary tightening has eased pressure on capital outflows and currency depreciation. Investment in some of the large African economies should pick up this year and the GECS

measure of investment opportunities is on a strong upward trend with a big jump in Q1 2019. There are significant downside risks, notably the economic slowdown in China and the euro-zone – the major destinations for African exports. Growth in the region this year is likely to be around 3½%, an improvement on recent years but still below the rate that will significantly lift per capita incomes.

Chart 14: Africa still in the doldrums



“Darkening skies” over the global economy still exist, but there are a few brighter spots emerging. The overall picture remains one of slowing but not collapsing global growth this year.

“Darkening skies” over the global economy still exist, but there are a few brighter spots emerging. The overall picture remains one of slowing but not collapsing global growth this year. This is the message from the global measures in the latest GECS. Risks to the outlook remain skewed to the downside, but have been ameliorated somewhat in recent weeks. The biggest risk reduction factor has been the diminished prospect of higher US interest rates. The US Federal Reserve has stated that it will be “patient” in its conduct of monetary policy in coming months – meaning that interest rates are on hold for now. It is our view that there will be no US interest rate increases this year. This is good news for the US economy which the Federal Reserve is attempting to pilot to a soft landing. But it is also good news for many EMs which last year faced headwinds from rising US interest rates and a stronger US dollar. A more benign US monetary policy underpins a relatively better outlook for many EMs this year.

Another major risk to the global economy – a US–China trade war – persists but there are grounds for optimism here too. Further planned tariff increases have been put on hold while negotiations take place to resolve the dispute. In fact US–China trade accounts for only around 2% of total world trade so the direct impact of the dispute is quite limited. Nonetheless, its effect on uncertainty, business confidence and investment is potentially quite significant. An escalation in the trade war could reduce global GDP growth by around 0.3 percentage points a year for three years according to the OECD. Finally, there are the risks associated with Brexit, where any adverse economic effects from the process would be mainly restricted to Europe. The continued uncertainty is hampering growth both in the UK and in certain EU countries with close ties to the UK.

Notwithstanding some shifts in the risks facing the global economy the central view is that global GDP growth this year will slow to around 3% from 3.8% last year. Growth in all the major economies is slowing. The biggest concern is China where fear of a hard landing is now the biggest concern for global investors. We would expect the recent fiscal measures announced by the Chinese authorities to stabilise growth from the middle of the year onwards. The slowdown in China is a large part of the explanation of the renewed weakness in the euro zone, especially Germany which is heavily reliant on exports to China. But (as usual) there are economic problems elsewhere in the euro zone. For example, Italy is in technical recession, caused to some extent by tighter financial conditions because of its government’s disputed budget with the European Commission. There is no sign of material fiscal easing – co-ordinated or otherwise – in the euro zone. Moreover, the limited easing announced in March by the ECB does little to change the outlook: the euro zone may struggle to reach even 1% GDP growth this year, with Germany forecast by the OECD to grow by just 0.7%.

Similarly, the UK is on course for around 1% GDP growth this year. Consensus forecasts have been trimmed so far this year as Brexit uncertainty has continued and intensified. The potential upside from the benefits of reduced uncertainty and a catch up in business investment following a “smooth and orderly” Brexit has diminished.

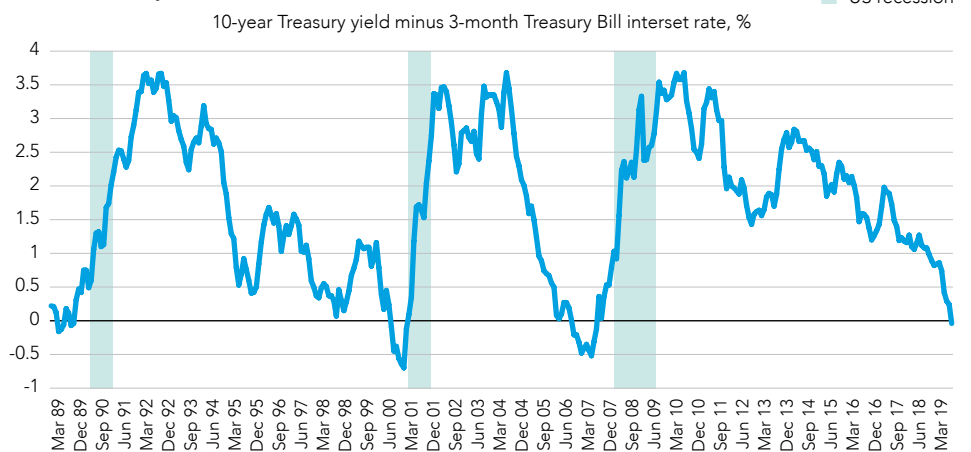
In the US we expect GDP growth to slow to 2% to 2.5% this year from 2.9% in 2018. The latest GECS orders balance points to the possibility of an even weaker outcome. Moreover, the recent inversion of the US yield curve (three-month interest rates above 10-year Treasury yields) is considered to be a lead indicator of recession. (See

The GECS suggests that inflationary pressures will continue to ease in coming quarters giving central banks the flexibility to respond if downside risks to growth materialise.

chart 15.) But such inversions are usually associated with rising short-term interest rates necessary to deal with an overheating economy and incipient inflation. This is not the case now with interest rates on hold at 2.5%. Q1 GDP is very likely to have been weak but this may not clarify the picture as there is a well-established pattern of a soft Q1 followed by stronger growth for the rest of the year. Until here is a material deterioration in the jobs market (a rise of at least one percentage point in the unemployment rate for example) we remain of the soft-landing view.

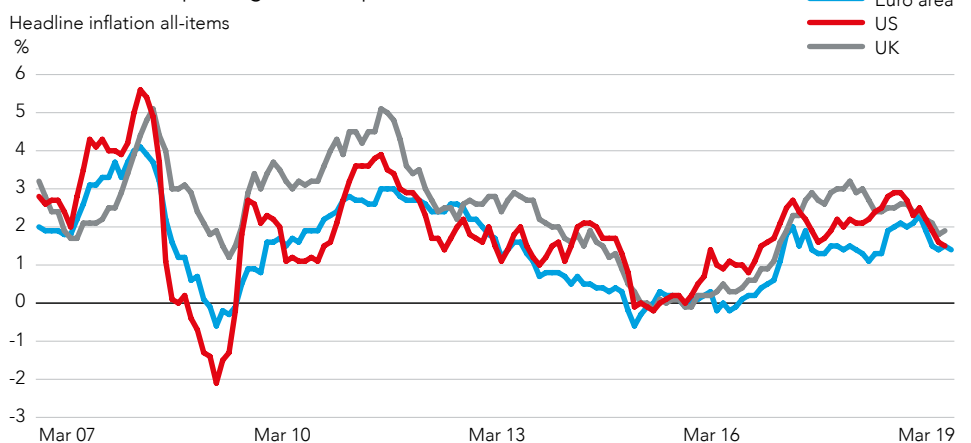
Finally it should be noted that the move towards policy easing – or at the very least no further tightening by central banks – has been enabled by an easing of actual consumer price inflation and global inflation pressures. Headline all-items inflation is now below 2% in the US, the UK and euro zone and core measures (excluding volatile food and energy prices) are clustered around 2%. The GECS suggests that inflationary pressures will continue to ease in coming quarters as cost concerns once again abated in the latest quarter.

Chart 15: US yield curve raises recession fears



Source: Federal Reserve Bank of St Louis

Chart 16: An improving inflation picture



Source: Eurostat, ONS, US Bureau of Labor Statistics

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		

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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.

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