ACCA Think Ahead

The Association of Accountants and Financial Professionals in Business

GLOBAL ECONOMIC CONDITIONS SURVEY REPORT: **Q3, 2021**

About ACCA

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

We're a thriving global community of 233,000 members and 536,000 future members based in 178 countries and regions, who work across a wide range of sectors and industries. We uphold the highest professional and ethical values.

We offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. Our qualifications and learning opportunities develop strategic business leaders, forward-thinking professionals with the financial, business and digital expertise essential for the creation of sustainable organisations and flourishing societies.

Since 1904, being a force for public good has been embedded in our purpose. In December 2020, we made commitments to the UN Sustainable Development Goals which we are measuring and will report on in our annual integrated report.

We believe that accountancy is a cornerstone profession of society and is vital helping economies, organisations and individuals to grow and prosper. It does this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities.

And through our cutting-edge research, we lead the profession by answering today's questions and preparing for the future. We're a not-for-profit organisation.

Find out more at www.accaglobal.com

About IMA® (Institute of Management Accountants)

IMA® 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) and CSCA® (Certified in Strategy and Competitive Analysis) programs, continuing education, networking, and advocacy of the highest ethical business practices. Twice named Professional Body of the Year by *The Accountant/International Accounting Bulletin*, IMA has a global network of about 140,000 members in 150 countries and 350 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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Introduction

THE GLOBAL ECONOMIC CONDITIONS SURVEY (GECS), IS THE LARGEST REGULAR ECONOMIC SURVEY OF ACCOUNTANTS AROUND 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.

The GECS has been conducted for over 10 years. Its main indices are good lead indicators of economic activity and provide a valuable insight into the views of finance professionals on key variables, such as investment, employment and costs.

Fieldwork for the 2021 Q3 survey took place between 31 August and 15 September 2021 and attracted 985 responses from ACCA and IMA members, including over 100 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.

Executive summary

THE Q3 GLOBAL ECONOMIC CONDITIONS SURVEY (GECS) POINTS TO AN EASING IN THE PACE OF GLOBAL ECONOMIC GROWTH TOWARDS THE TURN OF THE YEAR.

The Q3 Global Economic Conditions Survey (GECS) points to an easing in the pace of global economic growth towards the turn of the year. Confidence fell back but remains at a high level. Despite high vaccination rates in many developed countries, the prevalence of the Delta variant of Covid-19 is resulting in a degree of caution that is affecting confidence. The global orders index, which is less volatile than the confidence measure, increased marginally in the Q3 survey after strong gains in the first half. This is consistent with a moderation in the pace of growth, although this was to be expected after the post-lockdown bounce.

The two 'fear' indices – measured by concern that customers and suppliers may go out of business – both declined again in the Q3 survey. Indeed, both indices are now back in line with long-run averages. This confirms that the perceived level of uncertainty about economic prospects has returned to more normal levels, at least at the global level (Chart 2).

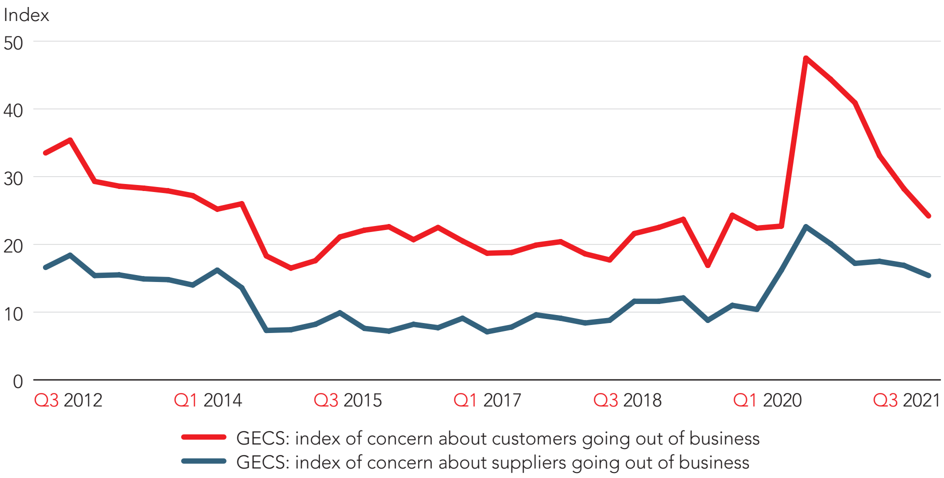
There is a wide regional variation in changes in confidence in the latest survey. The global confidence index was dragged down in particular by falls in confidence in North America and Western Europe. Both regions still have relatively high levels

CHART 1: Pace of global recovery to ease

Source: OECD (2021). ACCA/IMA (2012–21)

BOTH FEAR INDICES ARE NOW BACK IN LINE WITH LONG-RUN AVERAGES. THIS CONFIRMS THAT THE PERCEIVED LEVEL OF UNCERTAINTY ABOUT ECONOMIC PROSPECTS HAS RETURNED TO MORE NORMAL LEVELS, AT LEAST AT THE GLOBAL LEVEL.

CHART 2: The 'fear indices' back at more normal levels



Source: ACCA/IMA (2012–21)

of confidence after big jumps in the first half of the year. By contrast, confidence increased in Asia Pacific and South Asia in the Q3 survey, recovering after falls in the previous survey. The Middle East is the only region to record improved confidence in both the Q2 and Q3 surveys (Chart 3).

For orders – the proxy for real economic activity – there is a split in this survey between modest improvement in emerging markets and falls in advanced regions such as North America and Western Europe. This is a reversal of recent trends and the level of the orders indices in advanced regions remains above that for emerging market (EM) regions. Economic prospects in developed economies remain brighter than in emerging markets, where low vaccination rates continue to prevent a full-scale economic recovery (Chart 4).

Section 2 of this report is a thematic piece entitled 'Paying the carbon price for net zero'. Ahead of the COP 26 meeting in Glasgow later this year, the article discusses two important areas where greater efforts are needed if the 2015 Paris agreement goal of zero net emissions by 2050 is to be reached. The first is increased green infrastructure investment by both the public and private sector, including R&D on new technologies that will help reduce CO2 emissions. But the main thrust of the piece is that there must be more widespread use of carbon pricing at a level that creates incentives for all economic agents to switch from carbon-intensive products and fossil fuel energy and into their low/zero carbon

THERE IS A WIDE REGIONAL VARIATION IN CHANGES IN CONFIDENCE IN THE LATEST SURVEY. THE GLOBAL CONFIDENCE INDEX WAS DRAGGED DOWN IN PARTICULAR BY FALLS IN CONFIDENCE IN NORTH AMERICA AND WESTERN EUROPE.

CHART 3: A varied regional picture on confidence

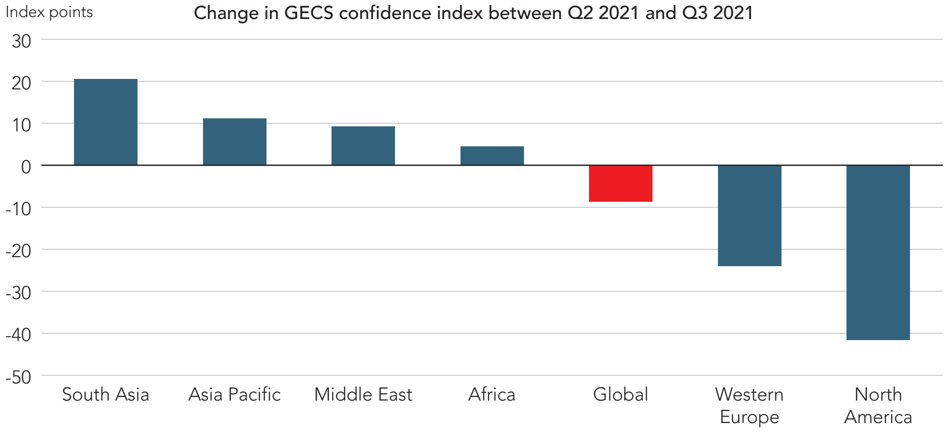


CHART 4: Orders improve in EM regions, falter in developed regions

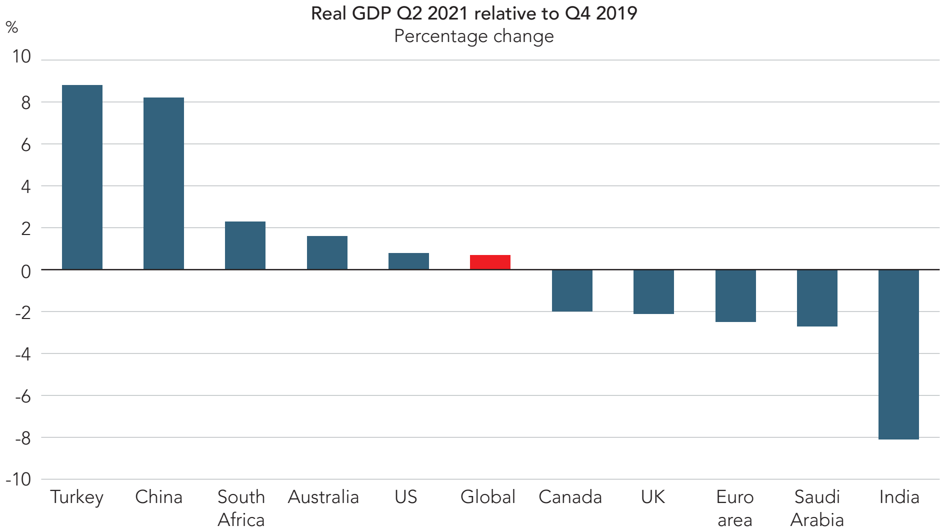
alternatives. To date, the coverage and level of carbon prices will fail to generate anything close to the required reduction in CO_2 emissions. Exploring establishment of an agreed minimum carbon price among other alternatives would be a good first step in helping to accelerate the decline in emissions.

Section 3 gives a detailed view of global economic prospects. After exceptionally strong growth in the first half of the year, there are signs of a moderation in growth as year-end approaches. Continued prevalence of Covid-19 infections, especially of the Delta variant, is in some cases undermining confidence. Moreover, in many EMs, where vaccination rates are low, containment measures are directly affecting output. This is a particular issue in Southeast Asia where GDP forecasts for this year have been downgraded.

But the main headwind for advanced economies is now supply shortages and the knock-on effects on consumer prices. Commodity prices have rebounded strongly this year as global demand has recovered; oil prices were approaching $80 per barrel in early October, compared with a low of around $25 in 2020. In addition, a shortage of semiconductors has resulted in reduced car production in many countries. Shipping costs have jumped by a factor of four compared with the pre-pandemic period, especially on the crucial routes from China to the West. These issues should prove temporary as demand and supply come back into line. But for now, the effect is to moderate global growth from a rapid to a steady pace. Nevertheless, growth should be sufficient for more economies to regain their pre-pandemic level of activity by the end of the year (Chart 5).

GROWTH SHOULD BE SUFFICIENT FOR MORE ECONOMIES TO REGAIN THEIR PRE-PANDEMIC LEVEL OF ACTIVITY BY THE END OF THE YEAR.

CHART 5: An uneven recovery



Source: OECD 2021

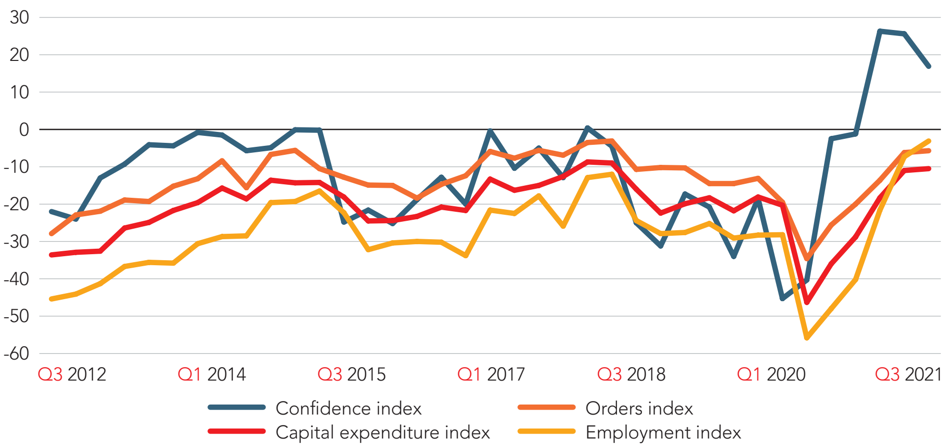
1. Global and regional analysis

SUPPLY SHORTAGES AND HIGHER INFLATION ARE TAKING SOME OF THE STEAM OUT OF GROWTH IN ADVANCED ECONOMIES.

This GECS points to a moderation in the pace of global economic growth through to the turn of the year. The global confidence index fell back in Q3 but remains at a high level. The key activity indicators edged higher, apart from the employment index which recorded a more significant gain. Slower growth is concentrated in advanced economies where supply shortages and higher prices are constraining output: underlying demand remains strong. It remains the case that more advanced economies are likely to join the US and regain the pre-pandemic level of output later this year or early in 2022 (see Section 3).

The regional pattern of orders illustrates the near-term outlook as well as the recent past for advanced and emerging regions. For example, North America showed a significant dip, but orders staged a recovery in South Asia, having being hit earlier in the year by the impact of renewed lockdowns. Indeed, despite the Q3 changes, it remains the case that the orders indices in North America and Western Europe are higher than in EM regions such as South Asia and Africa.

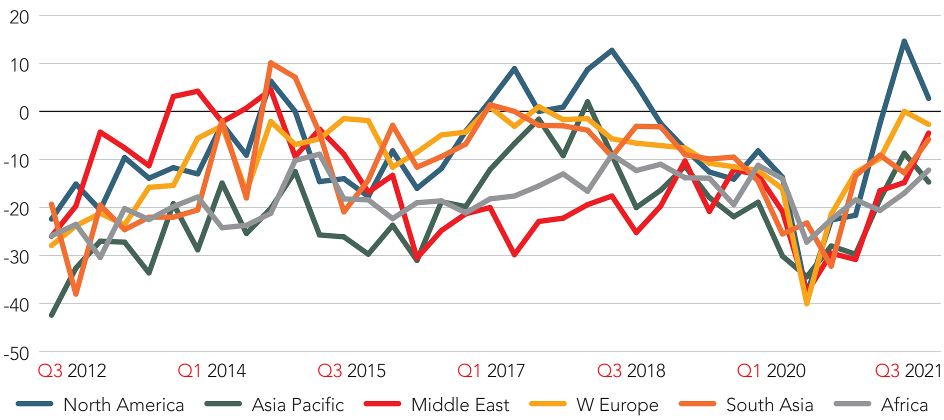
CHART 6: Global indices losing momentum



Source: ACCA/IMA (2012–21)

DESPITE THE Q3 CHANGES, IT REMAINS THE CASE THAT THE ORDERS INDICES IN NORTH AMERICA AND WESTERN EUROPE ARE HIGHER THAN IN EM REGIONS SUCH AS SOUTH ASIA AND AFRICA.

CHART 7: Orders slip back in most regions in Q3



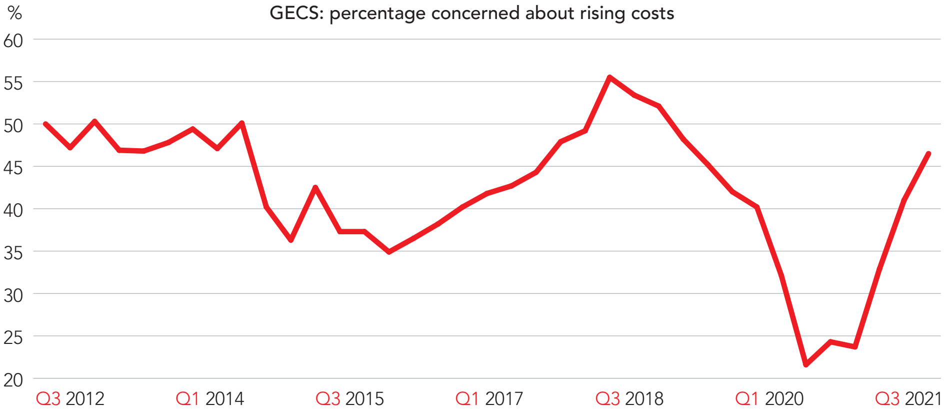
Source: ACCA/IMA (2012-20)

The GECS index of concern about operating costs increased in the latest survey and is now at its highest level since 2019 Q1 (Chart 8). The surge in commodity prices and transport costs is feeding into higher input costs, especially for manufacturers. In addition, some sectors are now experiencing rising wages in an attempt to fill vacancies. A general wage-price spiral resulting in a sustained rise in inflation is unlikely, but remains a risk.

In the latest survey, respondents were again asked about inflation expectations over the next five years (Chart 9). In all regions, at least two-thirds of respondents expect inflation to be slightly or much higher than now, the same situation as in the previous survey. But there was a notable rise in inflation expectations in Western Europe in the Q3 survey, although expectations are firmly for a modest rather than large rise in inflation. Meanwhile, expectations in North America were little changed in Q3, with over 40% of respondents expecting a rise of three percentage points or more in the next five years.

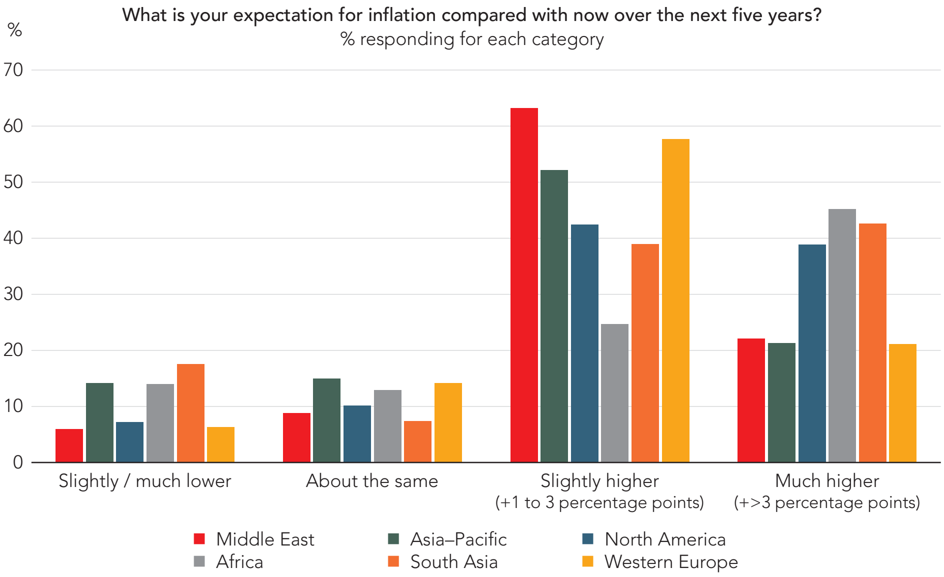
THE GECS INDEX OF CONCERN ABOUT OPERATING COSTS INCREASED IN THE LATEST SURVEY AND IS NOW AT ITS HIGHEST LEVEL SINCE 2019 Q1.

CHART 8: Concern about operating costs continues to increase



Source: ACCA/IMA (2012-21)

CHART 9: Inflation expectations rising

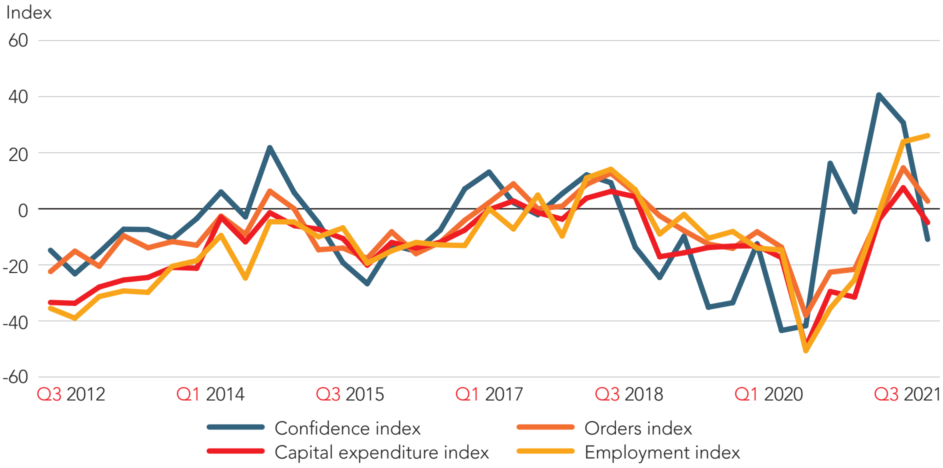


Regional picture

NORTH AMERICA

All the major indices fell back significantly in the latest survey, signalling a moderation in the pace of growth rather than a stalling. The US economy had expanded at an annual rate of around 6.5% through the first half, benefiting the whole region. A softer growth outlook has been caused mainly by supply shortages and higher prices restraining demand, but continued caution about Covid-19 has also been a factor. Despite the Q3 dip the North America GECS indices are consistent with continued steady growth through to the end of 2021.

CHART 10: North America

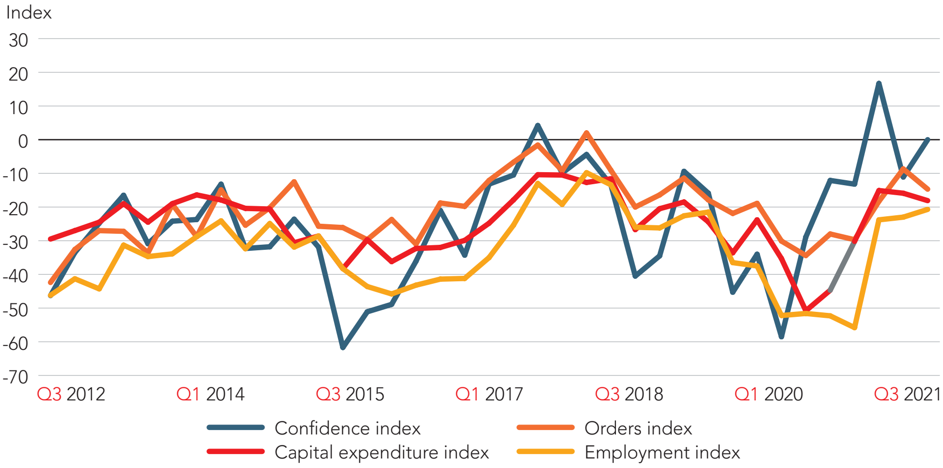


Source: ACCA/IMA (2012-20)

ASIA-PACIFIC

The regional survey in Q3 again presented a mixed picture with confidence improving but orders falling – the reverse of the situation in the previous survey. The overall picture is one of slowing growth, albeit from a healthy pace. Spread of the Delta variant of the Covid-19 virus, along with limited vaccinations in many countries, has resulted in renewed restrictions and factory closures. But demand for the region's exports remains buoyant and this should sustain steady overall growth in the coming months.

CHART 11: Asia-Pacific

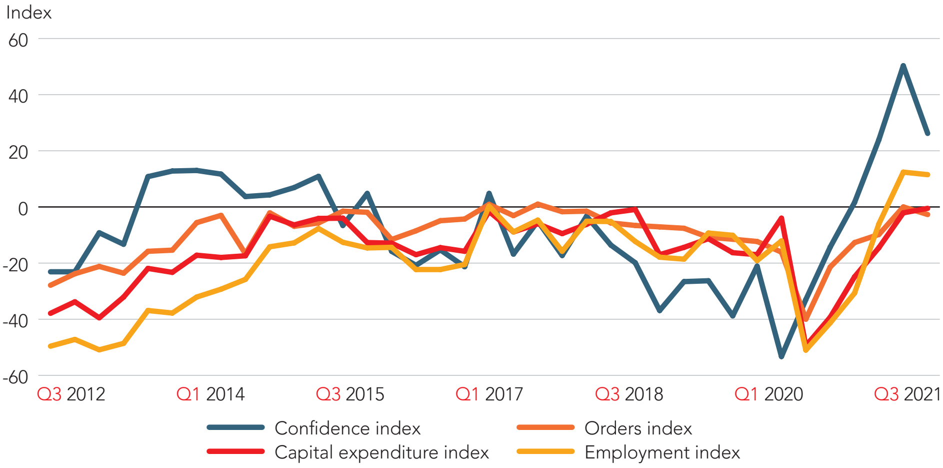


Source: ACCA/IMA (2012-20)

WESTERN EUROPE

Western Europe recorded a dip in confidence in this survey, possibly a reflection of increased Covid infections in some countries. But activity indicators were broadly flat in Q3, having recovered strongly in the previous survey. Economic growth in the EU as a whole is being supported by faster growth in some tourist-dependent countries, but hampered elsewhere by supply shortages, especially in car production. The net effect is that growth should hold up reasonably well for the rest of 2021 and this too is the message from the regional GECS.

CHART 12: Western Europe

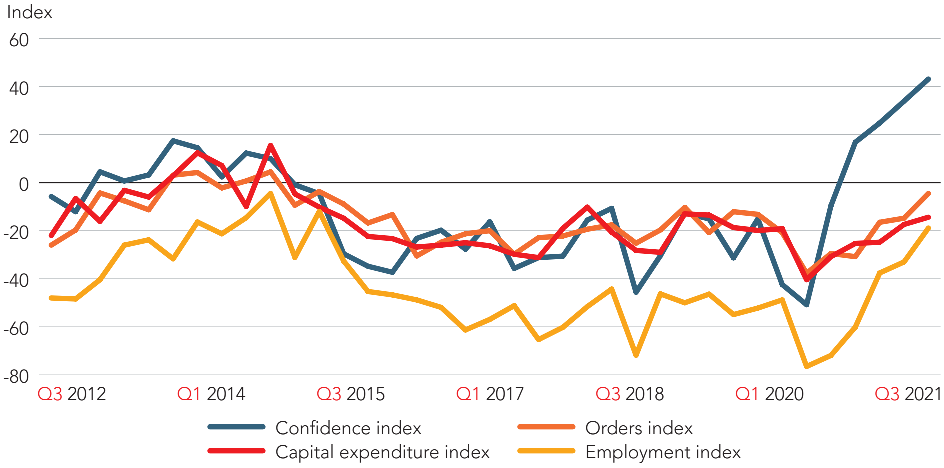


Source: ACCA/IMA (2012-20)

MIDDLE EAST

Confidence in the Middle East region increased further in Q3 as the continued global recovery supported oil prices. The orders index had the greatest increase of all GECS regions in this survey, moving above the pre-pandemic level of Q4 2019. The region includes some countries that have well-advanced vaccination rates, such as Israel and the UAE. This, along with Improved oil revenues, should support continued economic recovery.

CHART 13: Middle East

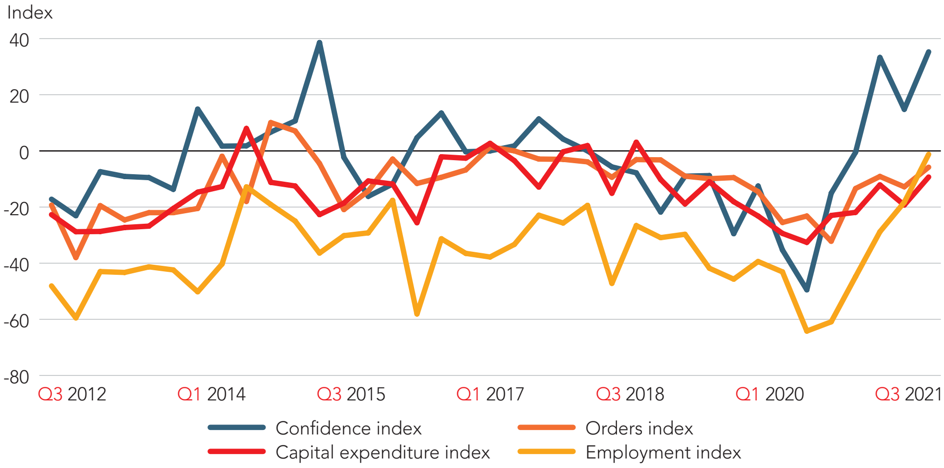


Source: ACCA/IMA (2012-20)

SOUTH ASIA

Confidence recovered in Q3 and is now at its highest level in over six years. Moreover, the region also showed a rise in orders after a fall in the previous survey. An improved outlook is due mainly to better prospects in India, following a surge in Covid-19 infections in April/May. But in South Asia as a whole, the pace of vaccination remains slow, leaving the region vulnerable to further Covid-19 waves. The legacy of the Covid crisis in South Asia will be a significant increase in the numbers living in extreme poverty.

CHART 14: South Asia

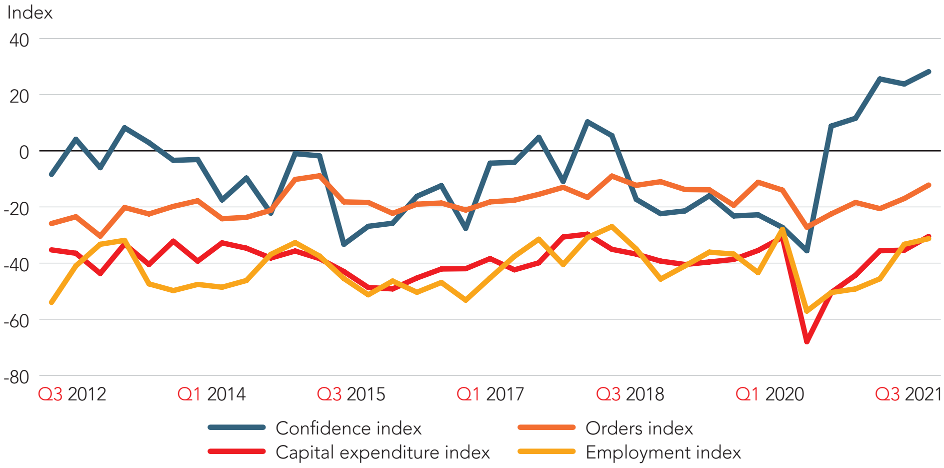


Source: ACCA/IMA (2012-20)

AFRICA

Confidence moved higher in the Q3 survey and is now at its highest level on record. Orders also increased but it is noteworthy that Africa is the only region in GECS where orders are still below the pre-pandemic level of Q4 2019. Covid-19 infections remain at a high level and the vaccination rate is extremely low. Health and fiscal resources remain extremely stretched. There will be no strong recovery in many African countries in coming months, with the possible exception of commodity exporters benefiting from higher prices and demand.

CHART 15: Africa



Source: ACCA/IMA (2012-20)

2. Thematic analysis

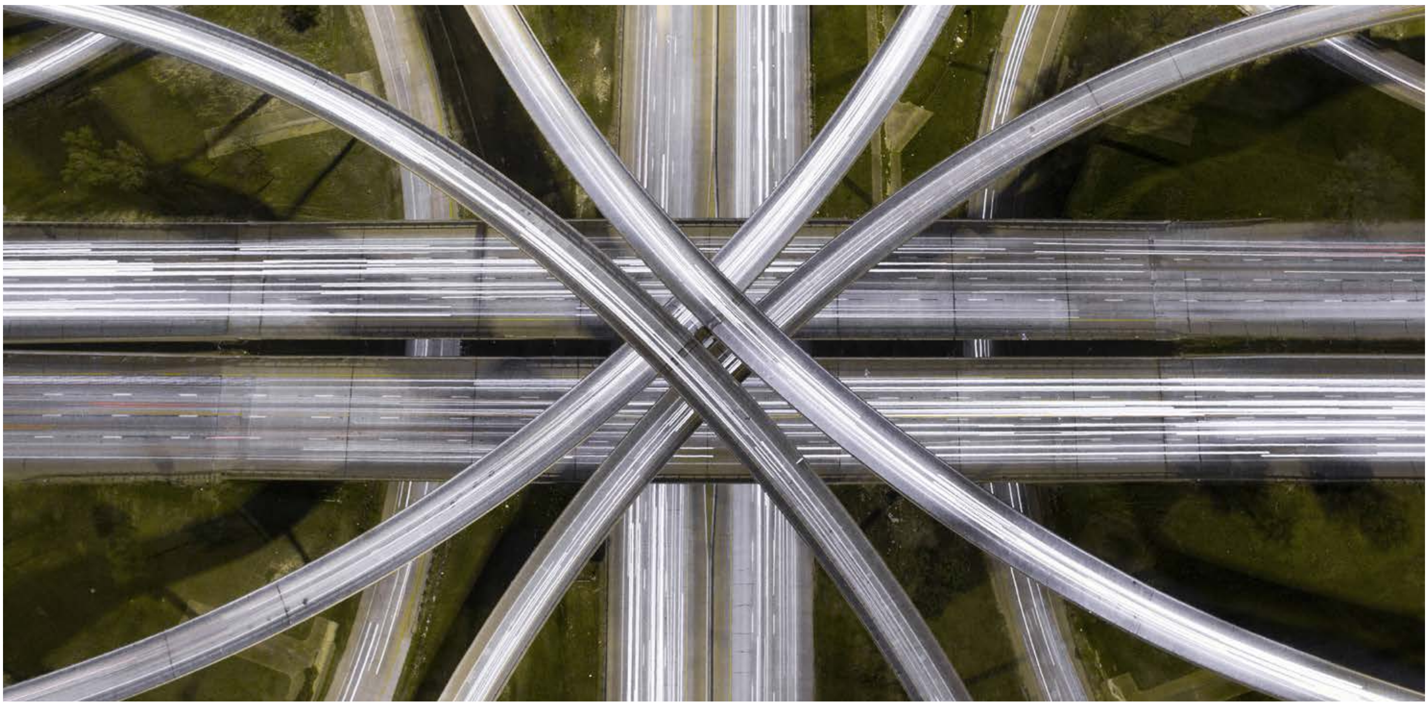
THE IMPORTANCE OF THE DELAYED UN CONFERENCE ON CLIMATE CHANGE COP26 MEETING SCHEDULED TO TAKE PLACE IN GLASGOW LATER THIS YEAR CANNOT BE OVERSTATED.

Paying the (carbon) price for net zero

In the 2015 Paris Agreement, countries agreed to "holding the increase in the global average temperature to well below 2°C above pre-industrial levels" to avert catastrophic outcomes. Keeping temperature increases below 2°C, in turn, will require bringing net greenhouse gas emissions to zero by 2050. Recent events, including devastating floods in China, Europe and the northeast in the US, and forest fires in Greece and California have underscored the need to act on climate change. The importance of the delayed UN Conference on Climate Change COP26 meeting scheduled to take place in Glasgow later this year cannot be overstated.

But what are the policies that will achieve net zero emissions by 2050? It is generally agreed that policy needs to be much more ambitious than it has been so far. The required strategy involves two key elements: green infrastructure investment from the public and private sector and a form of carbon pricing. Such policies need to be pursued at a global level of course, with particular challenges for EMs, which are also striving for faster economic growth and higher living standards. The discussion below draws on a recent IMF Staff Paper '*Reaching Net Zero Emissions*' (IMF 2021a).

A green investment push can help lead the economy out of the Covid-19 crisis and make significant progress on mitigating climate change. The EU's earmarking of 37% of the total disbursement under the 2021/22 Recovery and Resilience Facility for climate-friendly investments is a good example. But over the next decade, a scaling up of investment and a reallocation away from fossil fuels and toward clean energy will be necessary. The public sector will have a crucial role to play through investment in critical public infrastructure and support measures for private investment, including R&D. Estimates of required additional public investment range between 0.5% and 4.5% of GDP cumulatively over the next decade, with a consensus of around 2% of GDP. Public investment is assumed to take place mainly in the renewable and other low-carbon energy sectors, transport infrastructure and the energy efficiency of buildings. Private investment needs are estimated at about twice the level of public investment on average globally. But in EMs, the public investment needs are greater. This is related to the necessity of shifting from fossil fuel-based electricity generation to clean power and an attendant upgrade to electricity networks and storage. In advanced economies, where consumers are expected to shift toward electric vehicles earlier, public investment needs are mostly focused on electricity networks and storage and "other end-use", which mostly consists of electric vehicle infrastructure.



Carbon Pricing

Carbon pricing is considered an essential tool in achieving net zero emissions. Carbon pricing can take the form either of a straightforward tax that raises the price to a certain level or of an emissions trading scheme (ETS) ('cap and trade') where the quantity of CO2 emissions is set and permits are issued for this quantity; these permits are then traded which effectively generates a price for carbon. In either case, raising the price of carbon provides incentives to transition towards low carbon alternatives and away from fossil fuels.

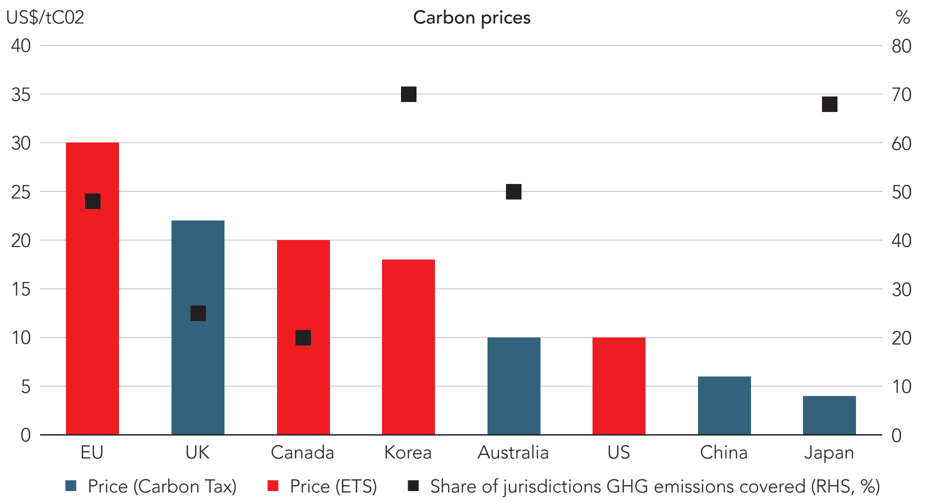
Both carbon taxes and ETSs have existed for many years. Sweden introduced a carbon tax in 1991 and the EU ETS began in 2005. More recently, California's ETS was introduced in 2012 and now covers nearly 90% of its greenhouse gases (at a price of about US$17 per metric ton of CO2). In Q2 2021, the total number of carbon pricing schemes globally has reached 61, with 23% of global emissions being covered by a carbon price (IMF (2021a)). Nonetheless, only three small countries currently have a carbon price per metric ton of CO2 exceeding US$75 – the price identified as compatible with the 2°C target: Liechtenstein, Sweden, and Switzerland. Chart 16 shows the level of government administered carbon prices prevailing in selected large economies in 2020 and the share of CO2 emissions covered by these prices.

A limiting factor in the geographical spread and level of carbon pricing is the risk of 'carbon leakage' – i.e., companies based in a country with a high carbon price could move carbon-intensive production overseas to take advantage of lower emissions standards, or domestically produced products could be replaced by more carbon-intensive imports. Carbon leakage can therefore seriously undermine efforts to address global climate change. One way of correcting for this is through Border Carbon Adjustments, which in effect are import tariffs that raise the import prices of energy intensive goods such that they include the carbon price applied to domestic producers. In July 2021, the EU announced its intention of introducing a Carbon Border Adjustment Mechanism (CBAM) covering sectors such as iron and steel, cement, aluminium, and electricity. The CBAM is intended to become fully operational in 2026.

An alternative approach than CBAMs would be an agreed global minimum price of carbon. This would allow for a lower carbon price floor for countries with lower per capita incomes in recognition of differing responsibilities between countries. But early action on this is necessary. The longer effective carbon pricing is delayed, the harder and more costly it will be in lost economic activity to reach net zero by 2050. As with so much policy designed to change economic activity, the adoption of early and anticipated policy changes is the most effective approach. The IMF modelling suggests that delaying carbon pricing until 2030 would make it almost impossible to reach net zero by 2050 with the most likely outcome being that CO2 emissions would merely be held steady.

BOTH THE LEVEL OF GOVERNMENT ADMINISTERED CARBON PRICES AND THEIR COVERAGE OF CO2 EMISSIONS ARE FAR TOO LOW.

CHART 16: Carbon prices and their coverage



Source: IMF 2021a

Chart 17 gives a snapshot of the regional share of global CO2 emissions in 2019. It is clear that substantial progress to net zero can only be made by the bigger emitters such as China, the US and EU reaching that goal themselves. But unless emerging markets also reduce emissions, then net zero will be missed – emissions will be reduced from current levels but remain uncomfortably above zero. The challenge is much greater for EMs, given that over the period to 2050 they are likely to be relatively fast growing as GDP per head catches up with that of developed economies and therefore their demand for energy and potentially carbon-intensive products will be growing rapidly too.

A shift from fossil fuels to low-carbon energy requires the replacement of existing carbon-intensive capital with low-carbon capital. Government investment and support clearly has a role here, for example in funding R&D into new technologies that are likely to be necessary if the target is to be reached. But by raising the price of carbon to reflect its environmental impact, carbon taxes create the market incentive to switch out of carbon-intensive capital. The incentive for consumers is to switch to low carbon products and reduce emissions whenever doing so costs less than the high-carbon price.

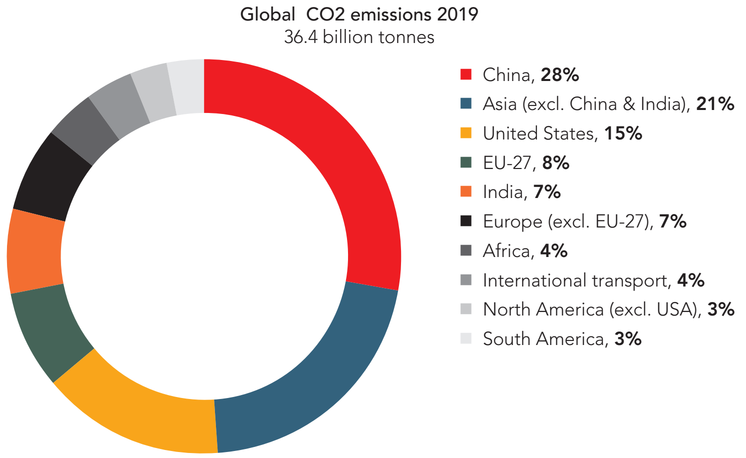
Carbon taxes effectively target the biggest emitters of CO2, which generally are the high-income countries. But within such economies it tends to be those on lower incomes that would pay a higher proportion of their income in carbon taxes: for instance, they spend relatively more of their income on food and energy. To some degree, revenues from carbon taxes are likely to be returned to those on lower incomes, for example in the form of a carbon dividend.

Conclusion

Governments have a crucial role in reducing carbon emissions through regulation, the provision of green infrastructure and appropriately targeted subsidies. But carbon taxes are necessary (if not by themselves sufficient) if we are to reach net zero. By deploying the power of the price mechanism, carbon taxes can ensure that no decision about any carbon intensive activity escapes its influence; consumers producers, investors and innovators all face the same choices. But in an integrated global economy unilateral action by individual countries has limits. A global minimum carbon price would be a major step towards reaching the goal of net zero emissions by 2050. Moreover, it would do so in an equitable and economically efficient way and not at the expense of continued economic growth.

IT IS CLEAR THAT SUBSTANTIAL PROGRESS TO NET ZERO CAN ONLY BE MADE BY THE BIGGER EMITTERS SUCH AS CHINA, THE US AND EU REACHING THAT GOAL THEMSELVES.

CHART 17: Share of global CO2 emissions in 2019



Source: Our World in Data

3. The global economic outlook

AFTER AN EXCEPTIONALLY STRONG REBOUND IN GLOBAL ACTIVITY IN THE FIRST HALF OF THIS YEAR, THERE IS NOW A LOSS OF MOMENTUM.

The global economy – headwinds from supply shortages

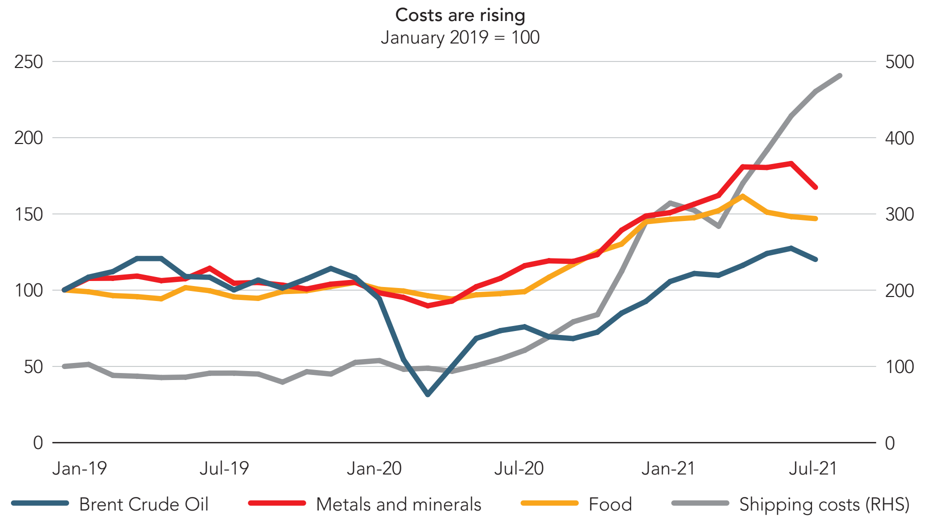
After an exceptionally strong rebound in global activity in the first half of this year, there is now a loss of momentum. A moderation in growth was not unexpected as the pace earlier this year could not be maintained indefinitely, but the early onset of the slowdown has been surprising. One factor is the continued prevalence of the Delta variant of Covid-19 which is requiring restrictions in some countries and generating caution and a loss of confidence in others.

But increasingly, it is supply shortages, higher prices and dysfunctional jobs markets that are responsible for taking the steam out of the global economy. It was perhaps inevitable that supply issues would emerge given the volatility in demand over the last 18 months: an unprecedented collapse in the first half of 2020 followed by a very rapid and strong recovery was always going to put a huge strain on supply chains and push inventory levels out of kilter with demand. But these effects have been greater and more widespread than many analysts expected. A shortage of semiconductors is reducing car production globally. For example, Toyota recently announced a 40% cut in production. Elsewhere, shortages have pushed up prices of items as varied as bicycles, furniture, toys and building materials. Resurgent demand has also lifted most commodity prices back above pre-pandemic levels. Shipping costs have surged too, especially on routes from China to the West (see Chart 18.) These effects should prove temporary as the price mechanism operates to encourage increased supply and reduced demand. But for now, higher inflation and weaker growth are the consequences.

The jobs market issue is more complex. Unemployment continues to fall in most advanced economies, reflecting the recent pace of the economic recovery. But unemployment rates are still above their pre-pandemic levels, indicating an overall slack in the jobs market. In many cases, however, there is now a combination of a very high number of vacancies coinciding with a degree of unemployment. The number of vacancies in the US and UK are at record highs (Chart 19). Many vacancies are in consumer facing industries such as retail and hospitality: caution about the highly transmissible Delta variant may explain a reluctance by the unemployed to take such jobs, which are also generally low paid. Wages are now rising in these sectors as employers compete to attract staff. In addition, government schemes to support household incomes, such as furlough, wage subsidies and enhanced unemployment benefits may have reduced take up of vacancies. In the US and UK, these schemes are now being withdrawn. But jobs markets are likely

SHIPPING COSTS HAVE SURGED TOO, ESPECIALLY ON ROUTES FROM CHINA TO THE WEST.

CHART 18: Input costs pushing inflation higher



Source: OECD 2021

to take some time to adjust fully and some permanent structural changes may eventually emerge. In the meantime, the effect is to put upward pressure on wages in many advanced economies.

Despite the current slowdown, the global economy remains on course for strong growth this year, probably in excess of 5.5%, after the 3.5% contraction in 2020. Consumer demand in advanced economies remains strong and companies are moving from pandemic-induced cost cutting to increased investment and employment. For now, expectations are around 4.5% GDP growth next year, above the long-run average of around 3.5% a year.

The temporary rise in inflation continues, jumping to 3.2% in the UK in August, the highest in almost 10 years and to 3.4% in the euro-zone (flash estimate for September). In the US, headline inflation remains even higher at 5.3%. Supply shortages, increased commodity prices and high shipping costs have pushed inflation higher and wages in some sectors are rising quite fast. So far financial markets and central banks remain convinced that the rise in inflation is temporary and that inflation will fall back towards target rates of around 2% next year. But a downside risk remains that persistently high inflation will result in early monetary tightening that weakens the outlook and increases volatility in financial markets.

The US

US GDP grew at an annual rate of close to 6.5% through the first half of this year, boosted by very strong private consumption. This was sufficient to lift the level of GDP back above its pre-pandemic level, the first major economy to experience this after China. A major fiscal boost and rapid rate of vaccination underpinned growth in the first half. But the pace of growth has slowed recently as the Delta variant has resulted in increased infections, supply shortages have limited production and demand and the jobs market has both unemployment and vacancies in large numbers. The latest data (August) shows a fall in employment in sectors with a high level of vacancies, such as retailers and restaurants, suggesting the issue is not weak demand but limited supply. The removal of enhanced Federal unemployment benefits in September may boost take up of some vacancies. But caution due to the spread of the Delta variant is likely to hold back employment growth in the coming months. Over the second half of 2021, GDP growth is likely to be around a 4% annual rate (1% quarter-on-quarter). The slowdown is likely to delay the start of the Federal Reserve tapering its asset purchases, currently running at $120 billion a month. A rise in US interest rates is not expected until at least the second half of 2022.

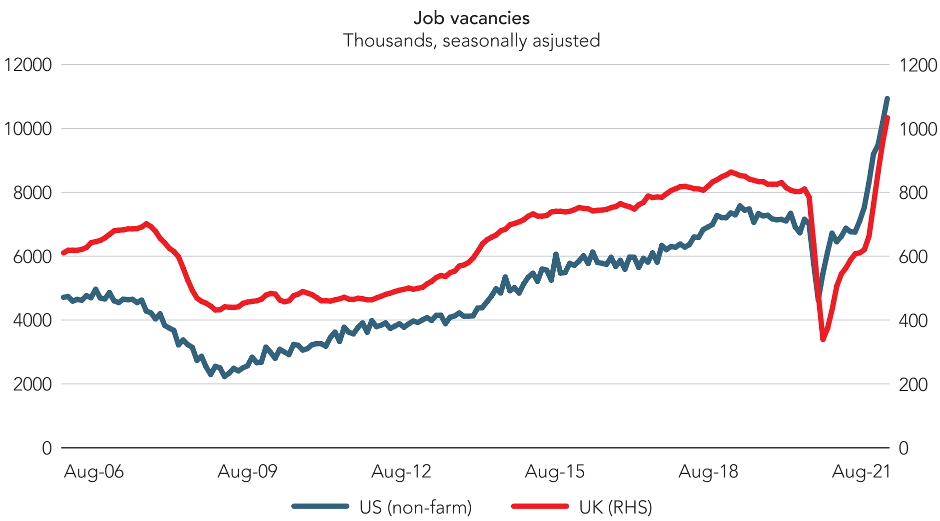
The euro-zone

The economy grew strongly in Q2 by 2.2% compared with the previous quarter. This followed two quarters of falling output as Covid restrictions were maintained in the face of a slow start to vaccinations. Growth in Q2 was driven by consumer spending as restrictions were lifted releasing pent-up demand. High frequency data on activity and mobility point to this continuing through Q3, notwithstanding a rise in Delta-variant Covid infections. Tourist-dependent economies such as Spain and Portugal have benefited from a better summer season than expected earlier in the year, with rising hotel occupancy rates through July and August. Quarterly GDP growth of around 2.5% now looks likely for the euro-zone, which would lift the level of GDP back close to its pre-pandemic level in Q4 2019.

As elsewhere, supply shortages are the biggest downside risk, especially in Germany where car production is significant. More widespread shortages have pushed headline inflation up to 3% in August, the fastest rate since November 2011, which may take the edge of consumer demand by squeezing real incomes. But the rise in inflation is expected to be temporary and the European Central Bank (ECB) is set to maintain a very accommodative policy through most of next year. The OECD forecasts GDP growth this year of 5.3% and 4.6% in 2022 (OECD 2021).

THE NUMBER OF VACANCIES IN THE US AND UK ARE AT RECORD HIGHS.

CHART 19: Job vacancies at record levels in the US and UK



Source: FRED

UK

The lifting of lockdown restrictions helped to boost GDP expansion to a quarterly rate of 5.5% in the April to June period, after a 1.4% contraction in the first quarter. Consumer spending jumped by more than 7% in Q2 as non-essential shops, bars and restaurants re-opened. There has been some loss of momentum during Q3, beginning with the so-called 'pingdemic' in July that resulted in several hundred thousand people having to self-isolate. Moreover, supply shortages also hit output in construction and car production, reducing the monthly GDP growth rate to just 0.1% in July. But the jobs market is buoyant; monthly payrolls data for August suggest that employment has regained its pre-pandemic level and vacancies are at a record level. However, in GDP terms strong growth in Q2 still leaves output 3.3% below its pre-pandemic level in Q4 2019. Even so, there is a good chance that pre-pandemic GDP will be reached by the end of this year.

China

China's economy has lost momentum in recent months, after steady growth earlier in the year. A modest wave of Covid-19 cases in July-August resulted in widespread – albeit temporary – mobility restrictions. Retail sales growth slowed sharply in August, to a 12-monthly rate of 2.5% the weakest since August 2020. Similarly, industrial production recorded the weakest annual growth rate since July 2020 at 5.3% in August. In addition, the property sector, a key growth driver – is slowing partly as a result of policies seeking to limit leverage among developers and contain property price inflation. China's Purchasing Managers Index of service activity turned negative in August for the first time since Covid-19 hit in early 2020. Exports may support growth in the coming months, despite supply chain issues. The slowdown means the authorities are no longer signalling tighter monetary policy in the near term. Indeed, the People's Bank of China has recently been boosting liquidity in the financial sector. In its September update, the Asian Development Bank maintained its forecast of 8.1% GDP growth this year, followed by 5.5% in 2022.

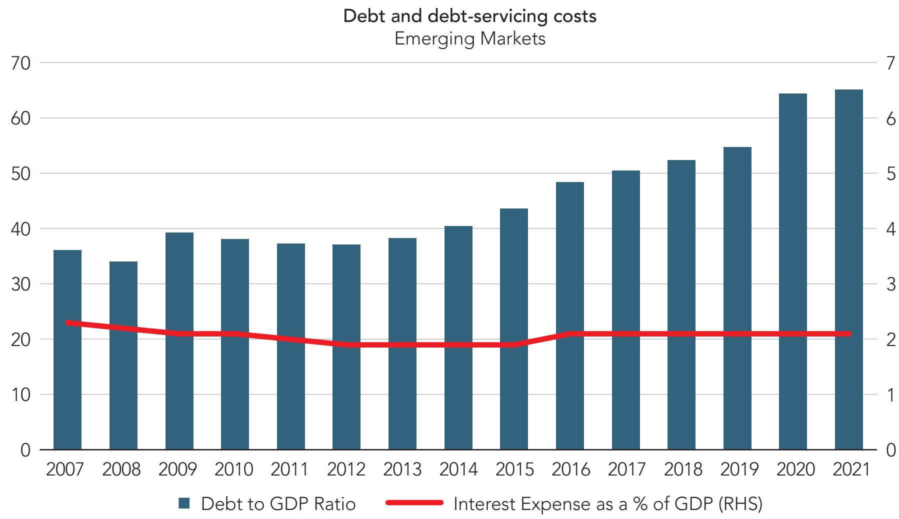
Emerging markets

The outlook for EMs is poor relative to that for advanced economies. Low levels of vaccination remain a major headwind for most EM economies, especially as infections of the highly transmissible Delta variant of the Covid virus are rising. The relative performance of the different EM regions remains broadly the same as it has so far this year. Commodity exporters have benefited from a recovery in global demand and prices, while countries heavily reliant on overseas visitors are significantly hampered by continuing travel restrictions. But in Southeast Asia the short-term economic outlook has deteriorated in recent months as the Delta variant has spread rapidly. Relatively few Covid cases last year meant that there was little natural immunity in the population compounding the effect of a low vaccination rate. In its September update, the Asian Development Bank cut its 2021 GDP forecast for Southeast Asia to 3.1%, down from 4.4% at the time of the last forecast in April (Asian Development Bank 2021). Prospects in Indonesia, Thailand and Vietnam in particular have deteriorated recently as lockdown restrictions have taken their toll.

EMs are also facing debt challenges as deficits persists and external debt increases. Chart 20 illustrates the recent rise in debt among EMs. Debt-servicing costs on average remains manageable but are vulnerable to a rise in US interest rates. More immediately, many EMs lack the fiscal capacity to support business and households during further waves of Covid. The IMF recently announced the creation of US $650 billion worth of Special Drawing Rights (SDRs) that can be converted into US dollars or other currencies and added to a country's reserves. Of this US $275 billion worth of SDRs will go directly to EMs. (Some developed economies are expected to transfer a proportion of their new SDR allocation to EMs.) But debt restructuring and relief will be necessary if many EMs are to both recover from the Covid crisis and re-establish pre-pandemic growth rates.

DEBT RESTRUCTURING AND RELIEF WILL BE NECESSARY IF MANY EMs ARE TO BOTH RECOVER FROM THE COVID CRISIS AND RE-ESTABLISH PRE-PANDEMIC GROWTH RATES.

CHART 20: EMs vulnerable to higher interest rates



Source: IMF 2021b

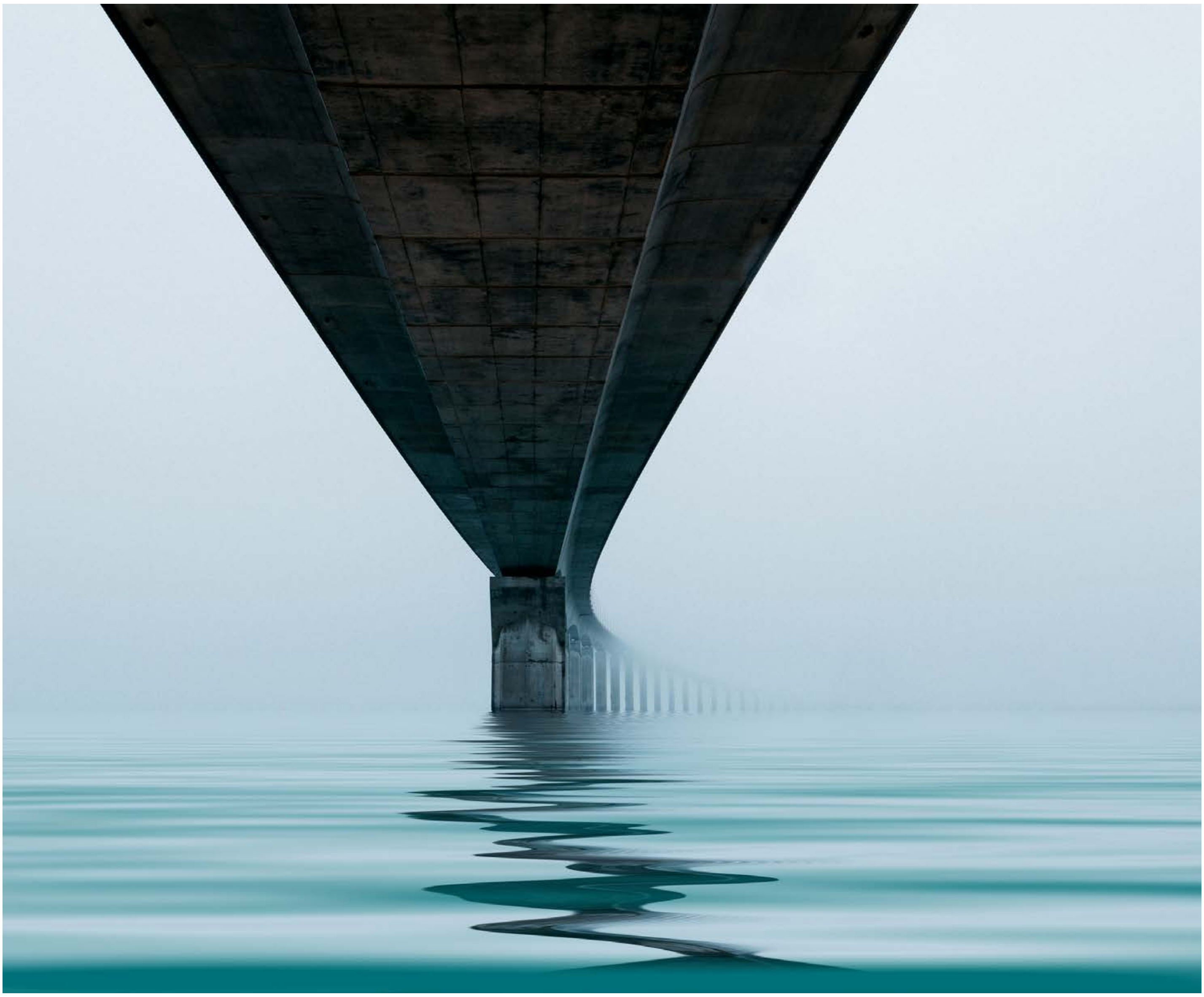
IN ITS SEPTEMBER UPDATE THE OECD UPGRADED ITS 2021 GDP FORECASTS FOR ITALY AND SPAIN AND REDUCED THEM FOR THE US, UK AND GERMANY.

TABLE 1: OECD GDP forecasts September 2021

% CHANGE ON A YEAR EARLIER*	2019a	2020a	2021f	2022f
World	2.7	-3.5	5.7	4.5
United States	2.2	-3.5	6.0	3.9
Euro-zone	1.3	-6.8	5.3	4.6
Germany	0.6	-5.3	2.9	4.6
France	1.5	-8.2	6.3	4.0
Italy	0.3	-8.9	5.9	4.1
Spain	2.0	-10.8	6.8	6.6
United Kingdom	1.3	-9.8	6.7	5.2
Canada	1.7	-5.4	5.4	4.1
Japan	0.7	-4.8	2.5	2.1
China	6.1	2.3	8.5	5.8
India	4.8	-7.4	9.7	8.9

a = actual, f = forecast

Source: OECD 2021



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<https://ourworldindata.org/co2-and-other-greenhouse-gas-emissions>

Appendix I:

Economies covered by Q2 survey responses

NORTH AMERICA	MIDDLE EAST	ASIA PACIFIC	CENTRAL & EASTERN EUROPE	SOUTH ASIA	WESTERN EUROPE	AFRICA	CARIBBEAN	CENTRAL & SOUTH AMERICA
Canada	Bahrain	Australia	Bulgaria	Afghanistan	Cyprus	Cameroon	Barbados	Belize
Mexico	Egypt	Mainland China	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.

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