ACCA Think Ahead

ima The Association of Accountants and Financial Professionals in Business

GLOBAL ECONOMIC CONDITIONS SURVEY REPORT: **Q1, 2023**

About ACCA

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

We're a thriving global community of 241,000 members and 542,000 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.

For more information about IMA, please visit: www.imanet.org

Introduction

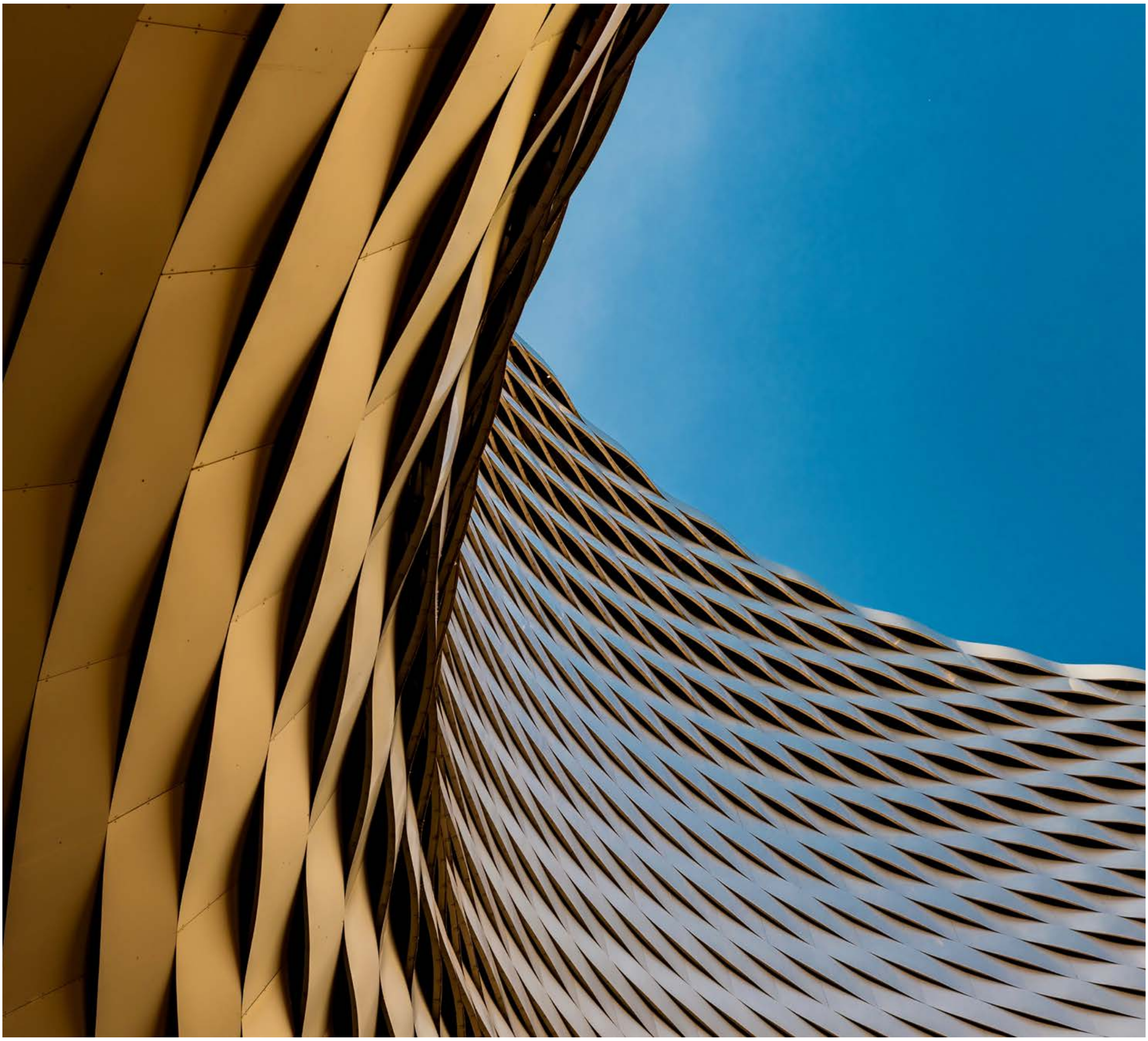
THE GLOBAL ECONOMIC CONDITIONS SURVEY (GECS), IS THE LARGEST REGULAR ECONOMIC SURVEY OF ACCOUNTANTS AROUND THE WORLD.

The Global Economic Conditions Survey (GECS), carried out jointly by ACCA (the Association of Chartered Certified Accountants) and IMA (Institute of Management Accountants), is the largest regular economic survey of accountants around the world, in 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 2023 Q1 survey took place between 21 February and 7 March 2023 and gathered 802 responses: 382 from ACCA members and 420 from IMA members.

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

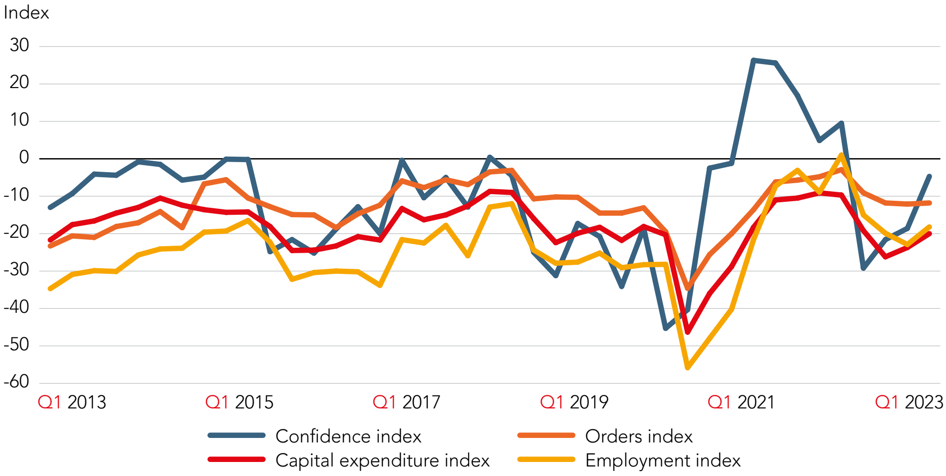
THE LATEST GLOBAL ECONOMIC CONDITIONS SURVEY SHOWS FURTHER SIGNS OF IMPROVEMENT ALTHOUGH CONFIDENCE REMAINS LOWER THAN A YEAR AGO.

The latest ACCA Global Economic Conditions Survey (GECS) shows further signs of improvement, although "Confidence" remains lower than a year ago. This is the third survey in a row that Confidence has risen, as business comes to terms with the fallout from the Russian-Ukraine conflict. The climate has been helped by a faster-than-expected relaxation of China's zero-COVID policies, and normal energy prices in Europe, that should help to reduce headline inflation and maybe bring about a pause in Central Banks' tightening of monetary policy. The prospect of stronger growth (led by China), lower inflation, and an early end to Central Bank tightening has also helped boost some of the other results. Although "New Orders" have flat-lined this quarter, there has nevertheless been an improvement in the Survey's "Capex" and "Employment" components (see Chart 1).

Taking these questions as a whole, the Survey panel is less worried about the prospects for recession in 2023. A good cross-check are the two GECS "fear" indices, which reflect respondents' concerns that customers and/or suppliers may go out of business (see Chart 2). Both these two series showed an improvement on the quarter, with worries about suppliers at the lowest that they have been since 2020. That said, with Central Banks still raising rates, and given the lagged effect of monetary policy tightening on the real economy, it may still be premature to sound the "all clear."

THE GECS CONFIDENCE INDEX ROSE FOR THE THIRD CONSECUTIVE QUARTER, AND IS NOW ABOVE THE MEDIAN OF THE PAST DECADE. CAPITAL EXPENDITURE AND EMPLOYMENT PICKED UP WHILE NEW ORDERS REMAINED FLAT.

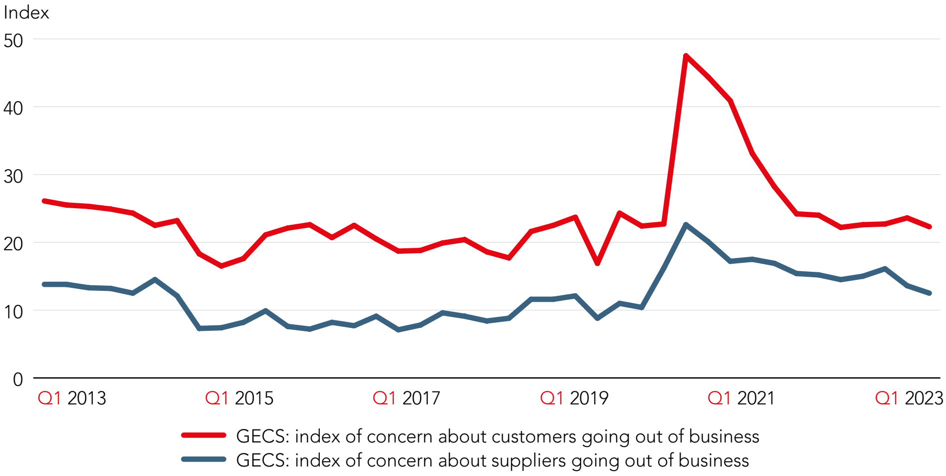
CHART 1: GECS global indicators



Source: ACCA/IMA (2013–23)

THE TWO GECS "FEAR" INDICES, WHICH TRACK FEARS THAT CUSTOMERS AND SUPPLIERS MAY GO OUT OF BUSINESS, DECLINED FROM THE Q4 2022 SURVEY, AS WORRIES ABOUT RECESSION AND HIGHER INTEREST RATES BEGAN TO DISSIPATE.

CHART 2: GECS global 'fear' indices



Source: ACCA/IMA (2013–23)

1. Global and regional analysis

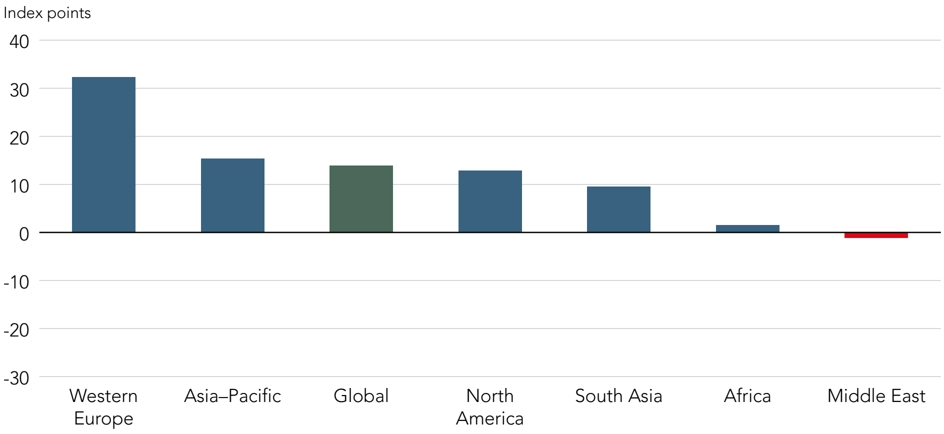
LOOKING AT THE CHANGE IN THE GECS CONFIDENCE INDICES OVER THE QUARTER, WHAT STANDS OUT IS THE 30-POINT IMPROVEMENT IN CONFIDENCE IN WESTERN EUROPE.

Looking at the change in the GECS Confidence Indices over the quarter, what stands out is the 30-point improvement in Confidence in Western Europe (see Chart 3a) as the economy comes to terms with the Russia-Ukraine conflict, helped by a mild winter that allowed European energy prices to return to pre-conflict levels. European consumers have been more resilient than expected (despite the squeeze in real incomes) thanks to a strong job market that allowed savings to take the strain aided by government initiatives. However, this good news was not limited to Europe; Asia-Pacific, North America and South Asia also registered an improvement. This was a broad-based pick-up, with the exception of Africa and the Middle East.

Looking at the 12-month picture, confidence is still down across every single region with the exception of Asia-Pacific (see Chart 3b). This suggests that this may be less about a global rebound, and more about an unwinding of the recession fears that were at their most intense in both North America and Western Europe during H2 2022 and which have turned out to be premature. It is important not to forget that Central Banks are still tightening policy into what has been one of the fastest, biggest and broadest increases in policy rates seen in 40 years. This could turn into a headwind for growth in the second half of 2023.

THE GLOBAL GECS CONFIDENCE INDEX ROSE OVER THE PAST QUARTER THANKS TO ANOTHER STRONG PICK-UP IN WESTERN EUROPE, SUPPORTED TOO BY IMPROVEMENTS IN ASIA-PACIFIC AND NORTH AMERICA.

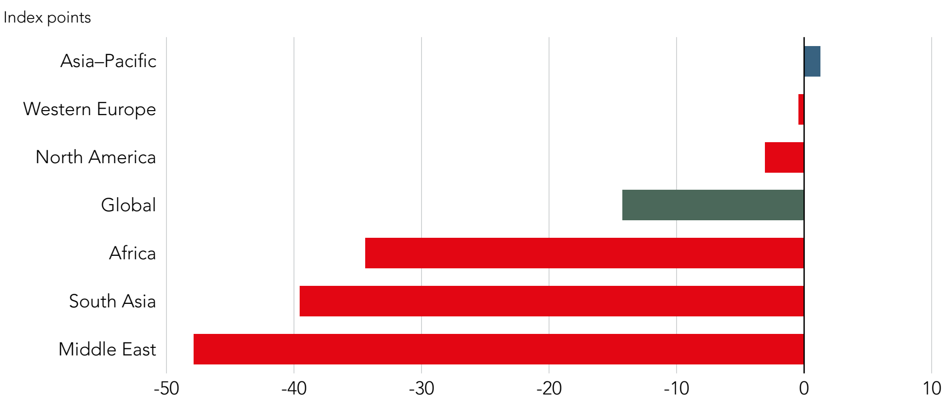
CHART 3a: Changes in GECS confidence indices in the past quarter, by region



Source: ACCA/IMA (2013–23)

DESPITE THE RECENT BETTER DATA, CONFIDENCE WAS STILL LOWER THAN A YEAR AGO ACROSS EVERY REGION APART FROM ASIA PACIFIC. WHILE LAST YEAR'S RECESSION SCARES IN NORTH AMERICA AND EUROPE WERE PREMATURE, THE RISKS HAVE NOT DISAPPEARED.

CHART 3b: Changes in GECS confidence indices over the past year, by region



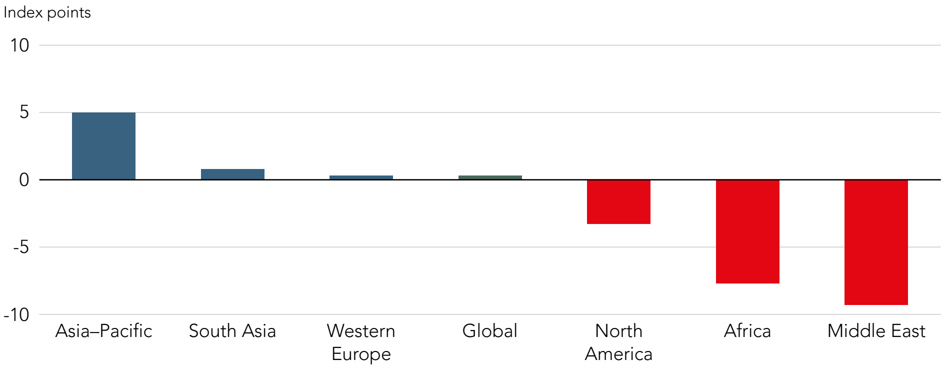
Source: ACCA/IMA (2013–23)

Interestingly, once again, the GECS Global New Orders index failed to echo the rebound in the GECS Confidence series. Instead, it was flat on the quarter, leaving it broadly in line with the median level recorded over the survey's history. There was a modest improvement on the quarter in Asia Pacific (which probably reflects China's reopening) but this was offset by weakness in North America, Africa, and the Middle East (see Chart 4a). Looking back over the past year, every region apart from Asia Pacific reported a decline in New Orders. The region that recorded the biggest decline in New Orders was North America, followed by Western Europe (see Chart 4b).

Although Global New Orders are flat-lining, one factor sustaining the rebound in Confidence may be the decline in the level of concern about "increased costs." As Chart 5 shows, cost pressures look like they may have peaked, although they still remain well above the median recorded over the survey's history. Commodity prices remain subdued, and Europe has benefitted from natural gas prices returning to levels seen before Russia's invasion of Ukraine.

INTERESTINGLY, THE GECS GLOBAL NEW ORDERS INDEX ONCE AGAIN DID NOT REBOUND WITH THE GECS CONFIDENCE SERIES. INSTEAD, IT WAS FLAT ON THE QUARTER, LEAVING IT BROADLY IN LINE WITH THE MEDIAN LEVEL RECORDED OVER THE SURVEY'S HISTORY.

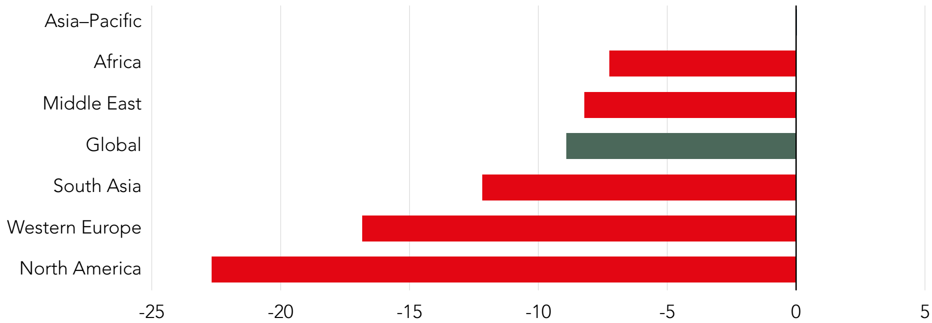
CHART 4a: Change in the GECS new orders index in the past quarter, by region



Source: ACCA/IMA (2013–23)

OVER THE PAST YEAR, NEW ORDERS DECLINED ACROSS EVERY REGION APART FROM ASIA PACIFIC (WHICH WAS PROBABLY SUPPORTED BY CHINA'S REOPENING). THE BIGGEST DECLINE OCCURRED IN NORTH AMERICA.

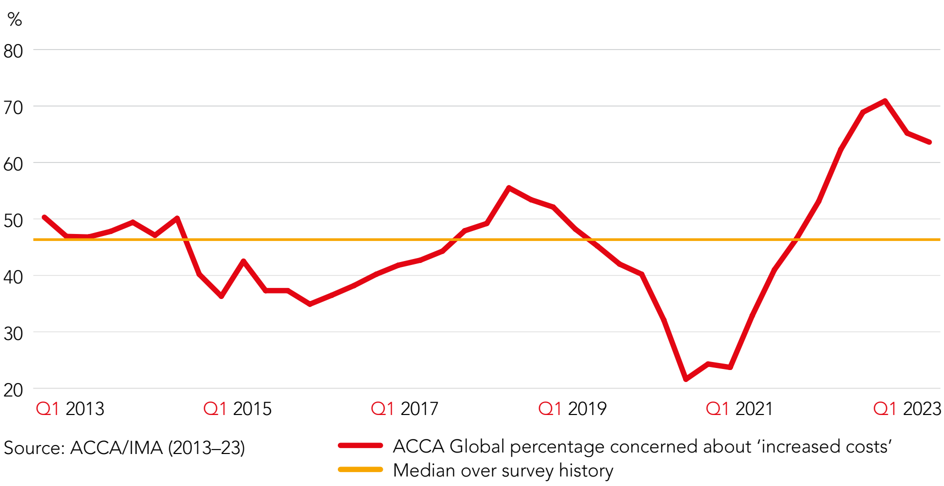
CHART 4b: Change in the GECS new orders index over the past year, by region



Source: ACCA/IMA (2013–23)

ONE OF THE REASONS WHY CONFIDENCE MAY HAVE IMPROVED IS BECAUSE THE LEVEL OF CONCERN ABOUT "INCREASED COSTS" HAS DECLINED – HELPED BY SUBDUED COMMODITY PRICES AND ESPECIALLY LOWER ENERGY PRICES IN EUROPE.

CHART 5: Concerns about increased operating costs



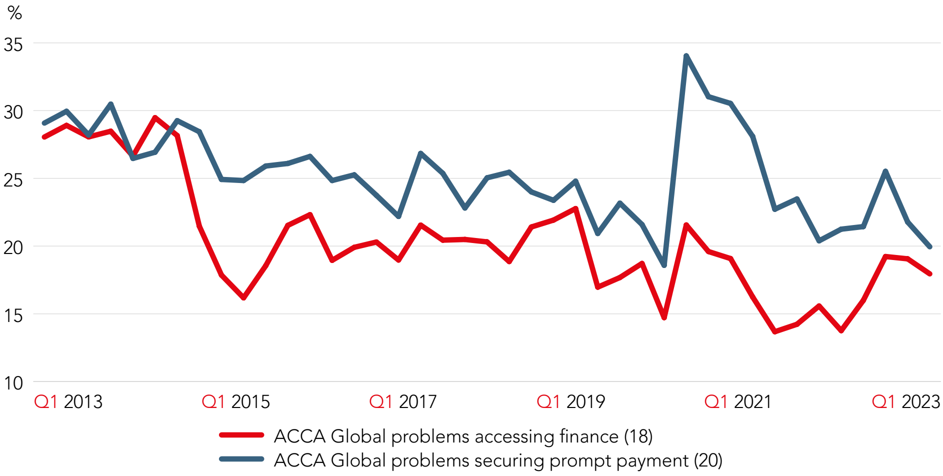
Source: ACCA/IMA (2013–23)

Global Confidence has edged up for the third consecutive quarter not only because cost concerns have eased (see Chart 5), but also because worries about accessing finance and securing prompt payment have declined (see Chart 6). Indeed, reports of problems with prompt payment fell to the second lowest level in the survey's history. The improved macro conditions also appear to have encouraged companies to revisit their capex and hiring plans. When asked how they planned to respond to the changing economic environment, the net balance of companies planning to increase investment in Capital and Staff rose on the quarter as did the net balance of companies planning to increase job creation (see Chart 7).

This is something of a surprise given the rapid tightening of Global Monetary Policy by the world's Central Banks. The past 12 months have seen the most aggressive simultaneous tightening of policy in more than 40 years in terms of pace, scale and breadth. It is curious that this has not yet had a material impact on financing conditions and corporates' capex and hiring intentions. But monetary policy works with long and variable lags, which suggests that this could still become a problem later in the year.

DESPITE THE MOST AGGRESSIVE TIGHTENING OF GLOBAL MONETARY POLICY IN MORE THAN 40 YEARS, THE SURVEY HAS YET TO SHOW ANY IMPACT ON COMPANIES' ABILITY TO ACCESS FINANCE OR SECURE PROMPT PAYMENT.

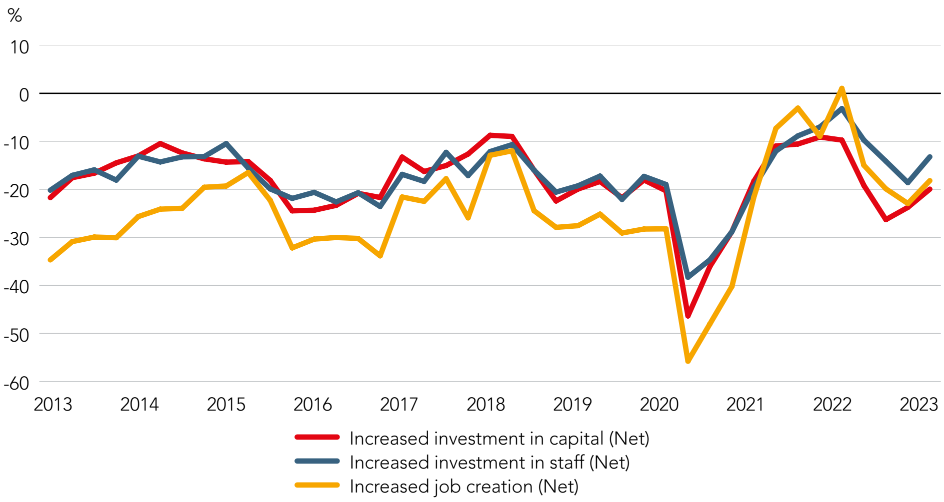
CHART 6: Problems securing prompt payment and accessing finance



Source: ACCA/IMA (2013–23)

THE REBOUND IN CONFIDENCE HAS FED THROUGH TO COMPANIES' CAPEX AND HIRING INTENTIONS. THE LATEST SURVEY SHOWS A PICK UP IN THEIR WILLINGNESS TO HIRE AND TO INVEST IN CAPITAL AND STAFF.

CHART 7: Changes in net investment and job creation shown in GECS since 2013



Source: ACCA/IMA (2013–23)

Regional analysis

The latest GECS Confidence indices continue to show an improvement although the new orders picture is more mixed.

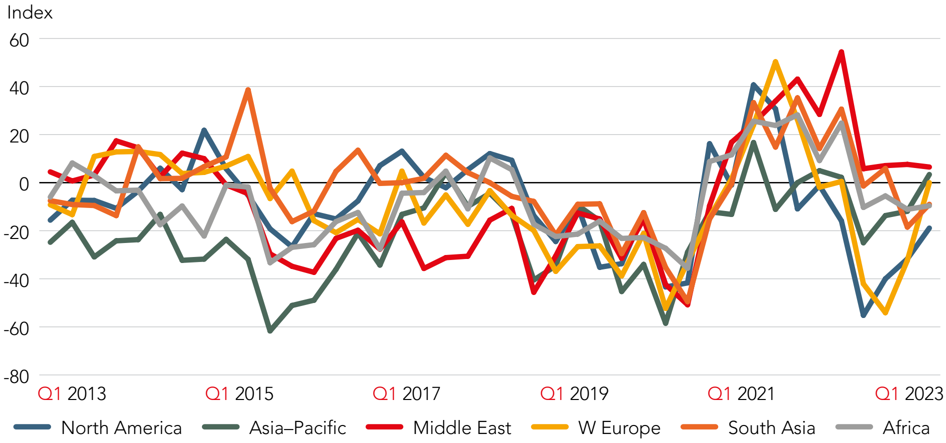
After the shock drop in Confidence experienced in Q2 2022, the latest GECS continues to show a steady improvement in Confidence. With the exception of the Middle East and Africa, the GECS Confidence Index in Q1 2023 rose across all the other regions (see Chart 8).

The rebound in Confidence in Asia Pacific and Western Europe is particularly striking, with the former benefitting from China's rapid relaxation of its zero-COVID policies, and the latter boosted by the fall-back in natural gas prices to levels seen before Russia invaded Ukraine.

However, the latest GECS New Orders Indices show a more mixed picture at the regional level (see Chart 9). The only region to show a material improvement was Asia Pacific on the back of China's reopening. In contrast, North America, Africa, and the Middle East recorded declines on the quarter. The wild card remains the lagged impact on global demand from aggressive tightening of monetary policy over the past 12 months. Central Bankers have made it clear that they intend to keep policy tight until job markets start to ease. It could be that the softness in the New Orders data is indicating that the monetary tightening could be starting to bite.

> THE REBOUND IN CONFIDENCE IN NORTH AMERICA AND WESTERN EUROPE OVER THE PAST THREE SURVEYS IS PARTICULARLY STRIKING AS THESE WERE THE TWO REGIONS WHERE CONFIDENCE LAST YEAR HAD FALLEN BACK TO PANDEMIC LOWS OF 2020.

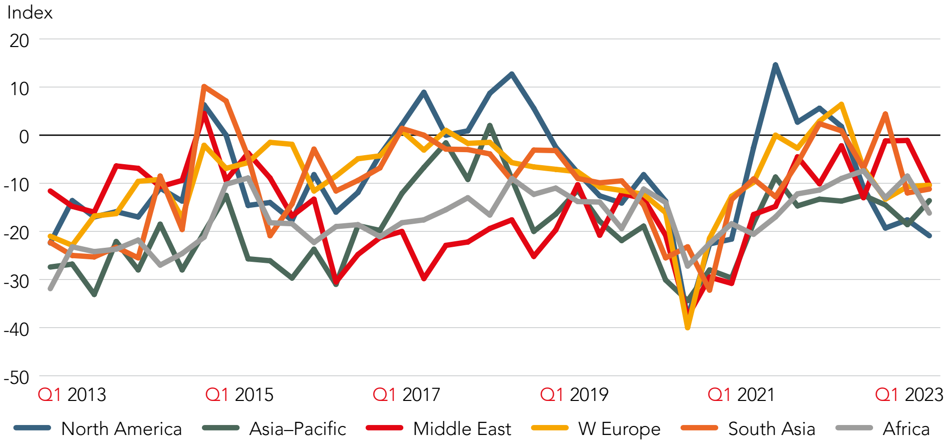
CHART 8: GECS confidence indices in the major global regions



Source: ACCA/IMA (2013–23)

> THE GECS NEW ORDERS SERIES HAD BEEN MORE RESILIENT THAN THE CONFIDENCE INDICES IN THAT THEY DID NOT RETURN TO THEIR PANDEMIC LOWS. HOWEVER, NEW ORDERS LOST MOMENTUM IN THE MOST RECENT QUARTER ACROSS ALL THE REGIONS APART FROM ASIA PACIFIC.

CHART 9: GECS orders indices in the major global regions 2013–2023

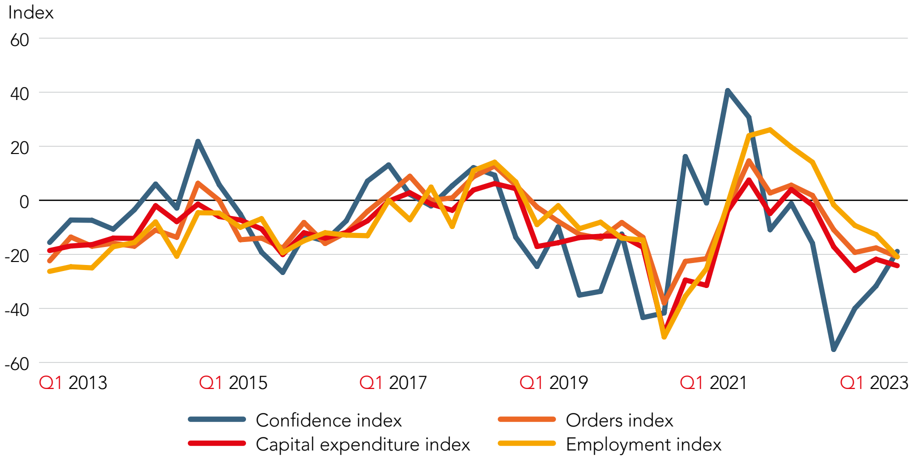


Source: ACCA/IMA (2013–23)

NORTH AMERICA

Looking back at last year, what is striking about the North American results is how severely confidence was impacted by Russia's invasion of Ukraine and by the ensuing spike in commodity prices. As chart 10 shows, the GECS Confidence Index for North America in Q2 2022 actually fell below the 2020 pandemic lows. It has now rebounded in the past three surveys despite the tightening of monetary policy by the U.S. Federal Reserve. However, what now stands out from the latest results is how the improvement in confidence has not been reflected in the survey's other macro indicators – on capital spending, employment and new orders – which remain relatively subdued. This is very different from the 2020/21 period when all four series moved up together. It will be interesting to see how long this divergence can be sustained.

CHART 10: North America

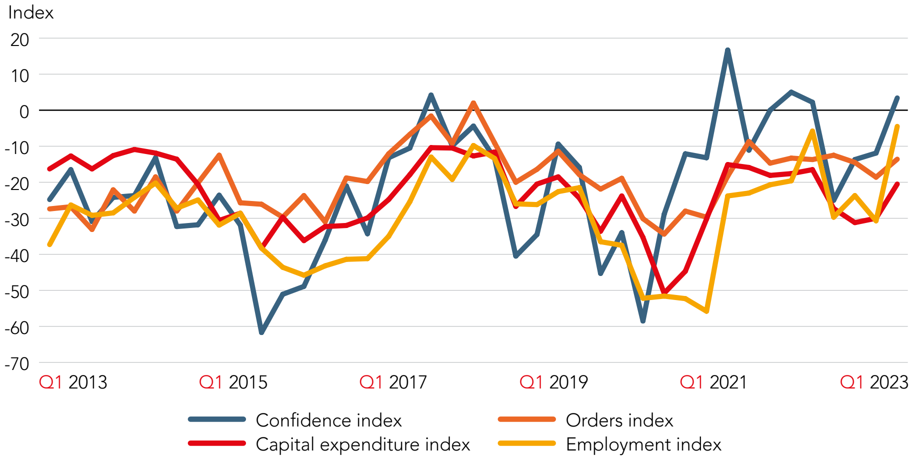


Source: ACCA/IMA (2013–23)

ASIA–PACIFIC

The GECS Asia-Pacific results – which include respondents from both Japan and China - show a sharp improvement over the past quarter. As Chart 11 shows, despite a strong rebound from 2020's pandemic lows, all four macro indicators pulled back in response to China and Japan's extended COVID policies. However, the latest survey results show the positive impact from both countries relaxing their COVID restrictions. Confidence in the region is now close to the survey highs, with the employment component hitting a record high. The Chinese government now expects the economy to grow 5% in 2023 as consumer confidence returns and households spend some of the excess savings that they accumulated during the prolonged lockdown. The reopening of Japan to foreign tourists is another important positive development.

CHART 11: Asia–Pacific

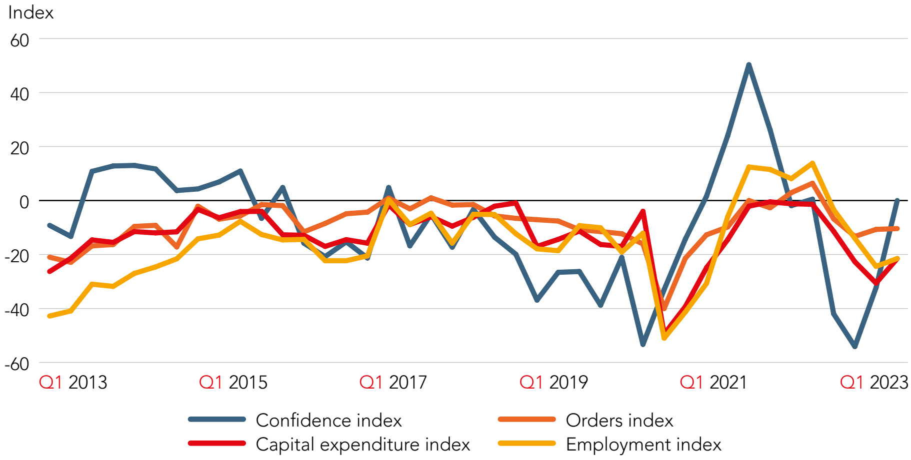


Source: ACCA/IMA (2013–23)

WESTERN EUROPE

The shock of Russia's invasion of Ukraine took Western Europe's Confidence Index down to below 2020's pandemic lows amid concerns over Europe's energy security. However, the last three surveys show a strong rebound in confidence as Europe successfully navigated what turned out to be a mild winter. However, the macro indices tracking new orders, capital expenditure, and employment have been lacking by comparison. It may become harder to sustain further improvements in confidence without seeing a similar improvement in these indicators. Moreover, Europe's Central Banks are continuing to tighten monetary policy in the face of persistently high wage inflation. While the immediate threat from the Russia-Ukraine conflict may have receded, the lagged effects of Europe's monetary tightening may yet impact Europe's economy negatively in 2023.

CHART 12: Western Europe



Source: ACCA/IMA (2013–23)

MIDDLE EAST

The Middle East was unable to escape the initial jolt to confidence triggered by the Russia-Ukraine conflict. The GECS Confidence Index for the region fell back but got above the median level recorded in the survey over the past decade. The initial rise in energy prices played to the region's strengths. However, oil prices have subsequently fallen 40% from their peak in June 2022 to March 2023. This decline may be responsible for the flatlining of confidence and the softening of capex, employment, and new orders in the most recent GECS (see Chart 13). If the tightening of monetary policy in Europe and North America eventually drags global growth below trend, then the downward pressure on energy prices could resume, notwithstanding the recent decision by OPEC+ to cut production by 1.1m barrels per day. However, the secular picture remains more positive as the world continues to underinvest in fossil fuels at the same time as underinvesting in renewables.

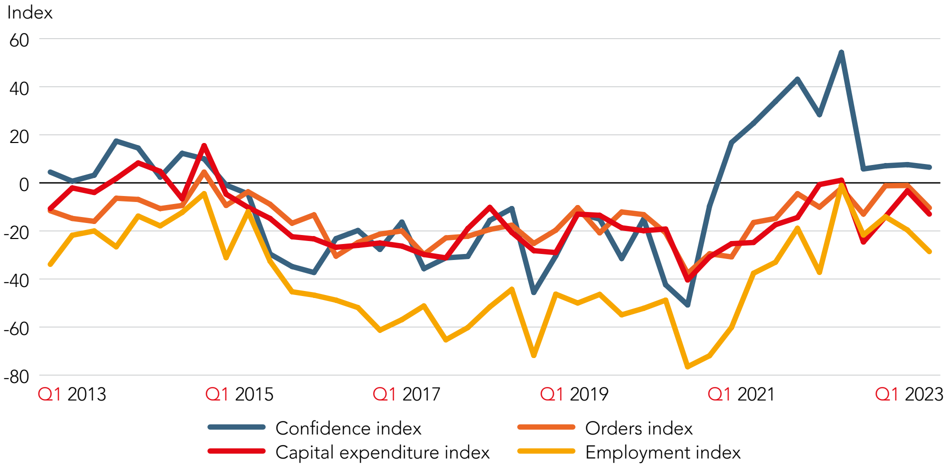
SOUTH ASIA

Although the most recent survey results for South Asia were a bit more positive, it does not look as though the downward trend that we have seen across all four macro indicators has been broken (see Chart 14). In line with other regions, the GECS Confidence Index rose in the most recent quarter alongside the Employment Index. But the capex outlook remains very subdued, close to some of the weakest readings recorded in the history of the survey. One potential positive for the region is that India has been able to increase its trade with Russia (from 1.6% in January 2022 to 6.4% a year later) by importing cheaper Russian oil.

AFRICA

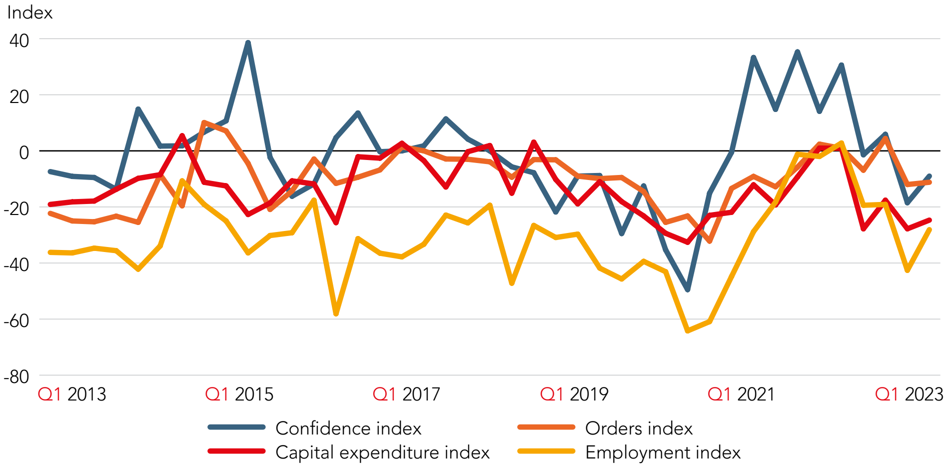
The GECS Confidence Index for Africa fell back sharply after Russia invaded Ukraine, but confidence has evened over the past three quarters in line with the average of the past decade. The GECS macro indicators paint a mixed picture, possibility reflecting the lack of homogeneity in the region, with New Orders close to record highs at the same time as Employment and Capital Expenditure remain subdued. The sharp rise in energy and food prices hurt the region in 2022 but those headwinds may start to ease as we head into 2023. However, many African countries have dollar borrowing that has become a greater burden as U.S. interest rates have risen.

CHART 13: Middle East



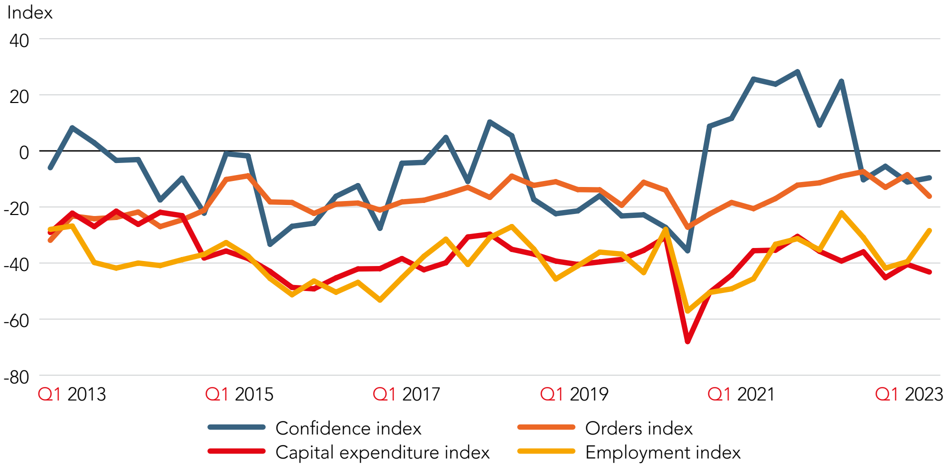
Source: ACCA/IMA (2013–23)

CHART 14: South Asia



Source: ACCA/IMA (2013–23)

CHART 15: Africa



Source: ACCA/IMA (2013–23)

2. The global economic outlook

THE GLOBAL ECONOMY ENTERED 2023 WITH MORE MOMENTUM THAN MANY HAD EXPECTED. AND THAT MOMENTUM SEEMED TO GROW AS THE FIRST QUARTER OF THE YEAR PROGRESSED.

The global economy entered 2023 with more momentum than many had expected. And that momentum seemed to grow as the first quarter of the year progressed. Growth has apparently strengthened within both the manufacturing and services sectors (according to Standard & Poor's (S&P) Global's Purchasing Manager Indices, Chart 16), retail sales volumes have recovered a touch in both the U.S. and China, household confidence appears to have bounced as the bulk of the real working income squeeze now seems to be behind us, and unemployment remains anchored at record low levels across the board. It is little surprise then, that the consensus has shifted away from expecting a global recession in 2023, with more talk of an economic "soft-landing."

Encouragingly, we have also started to see a more noticeable decline in headline rates of inflation over the past few months (Chart 17). In the U.S., the Fed's preferred measure of Personal Consumption Expenditures (PCE) price inflation is now down to 5% (from 7% in June last year); in the eurozone, the annual Harmonized Index of Consumer Prices (HICP) inflation edged down to 6.9% in March, and the equivalent measure in the UK looks to have peaked too. Base effects dropping out of the calculation have clearly helped (and will probably become more apparent in Q2 2023), but, so too has the continued decline in wholesale energy prices and the easing of supply bottlenecks, which have in turn put downward pressure on core goods prices.

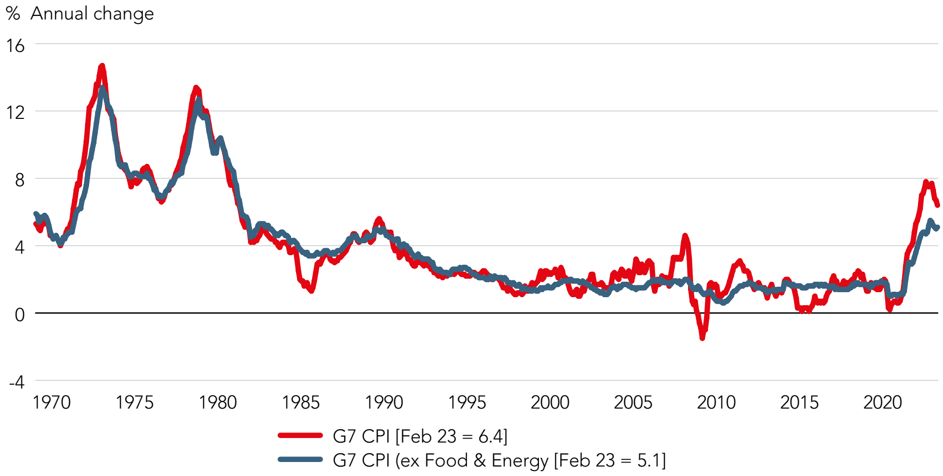
GROWTH HAS APPARENTLY STRENGTHENED WITHIN BOTH THE MANUFACTURING AND SERVICES SECTORS.

CHART 16: Manufacturing and services PMIs from the S&P global survey

Source: ASR Ltd. / Refinitiv Datastream / S&P Global (2023)

ENCOURAGINGLY, WE HAVE ALSO STARTED TO SEE A MORE NOTICEABLE DECLINE IN HEADLINE RATES OF INFLATION OVER THE PAST FEW MONTHS.

CHART 17: G7 headline vs core Consumer Prices Index (CPI) (in annual % terms) 1970–2020



Source: ASR Ltd. / Refinitiv Datastream (2023)

The one important exception is services inflation, which shows little signs of slowing down. And since a lot of that is ultimately determined by underlying trends in wage growth, it is understandable why policymakers are concerned. Indeed, in a bid to limit the risk of a wage-price spiral, most central banks tightened monetary policy further in Q1, with policy rates reaching 4.75–5% in the U.S., 3% in the eurozone, and 4.25% in the UK (Chart 18).

It is too early to tell whether that tightening will be sufficient to deliver lower inflation in the medium term. But if it does, then the transmission mechanism will almost certainly be via below-trend economic growth and higher unemployment. In other words, the risk remains that the recent growth spurt could prove short-lived. Importantly, bank credit conditions have already tightened significantly (which occurred before most recessions in recent history), according to the various loan officers' surveys conducted by central banks across the world. The recent banking sector turmoil is likely to have exacerbated that trend – especially if U.S. regional banks are subject to additional regulations and supervision. In addition, a ratcheting up of geopolitical tensions between the U.S. and China threatens to undermine any recovery in global trade on the back of China's reopening.

IN A BID TO LIMIT THE RISK OF A WAGE-PRICE SPIRAL, MOST CENTRAL BANKS TIGHTENED MONETARY POLICY FURTHER IN Q1.

Given the recent turmoil, it is surprising that equity markets have held up so well in the first quarter of 2023. In contrast, government bond markets have rallied strongly, with 10-year yields dropping some 40bps in the U.S., around 25bps across Europe, and nearly 20bps in Japan over the past month. By extension, bonds have begun to outperform equities on a total-return basis. The dollar edged lower through March, with both the yen and euro benefiting as a result. In the face of such volatility, gold bounced by 8.5%.

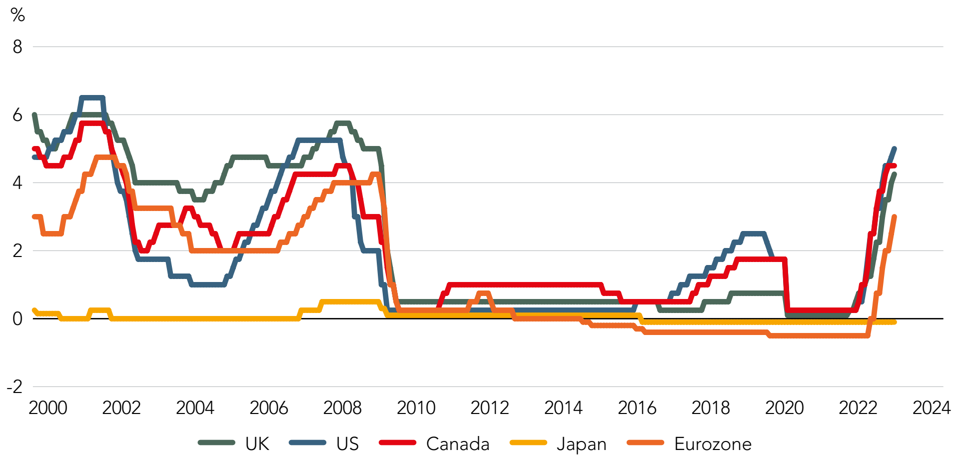
US

Recent data certainly support the idea that the U.S. economy might avoid a recession in 2023. Service sector activity continues to expand at a decent clip, with the latest non-manufacturing Institute for Supply Management (ISM) survey index still above 55. Many of the market indicators remain strong too. The payrolls data has surprised positively for almost a year now, and aggregate worker incomes are still growing at a robust quarterly annual pace of 6.5%. The lack of layoffs in the construction sector, which over the past year has faced one of the sharpest downturns in spending in U.S. post-war history, has been a surprise.

There are reasons to think that some of that strength might be artificial. Weather distortions, seasonal- adjustment issues, and declining survey response rates have all been cited. Even so, after smoothing the data and looking at trends over the last three to six months, it is clear that the economy has not slowed as much as it seemed likely a few months ago. In addition to fuelling the "no-landing" thesis, a lively debate has begun to emerge about whether the monetary transmission mechanism itself might have fundamentally changed.

It's difficult at this stage to answer that with any degree of confidence; after all, monetary policy works with long and variable lags. But some of the traditional transmission channels are starting to kick into gear. Banks have tightened credit standards and also reported a decline in loan demand – well in advance of recent banking sector turmoil. With central banks raising interest rates further in Q1, that process probably has further to run. Just looking at policy rates, the past 12 months have seen one of largest, fastest, and broadest tightenings of monetary policy in more than 40 years. We continue to believe that this presents a major headwind to any incipient recovery.

CHART 18: Policy rates for each of the G7 economies



Source: ASR Ltd. / Refinitiv Datastream (2023)

China

The primary focus in China has naturally been on the re-opening of the economy after the lifting of zero-COVID restrictions. Recent data confirms that, following the constraints of zero-COVID and its sudden end, activity has bounced back in the first few months of the year (consistent with annual growth of more than 4%). But that expansion has been uneven. Services output grew by 5.5% in January and February (thanks to a surge in catering and other retail sales), but industrial production rose only 2.4%, as the global contraction in demand for electronic products continued to weigh heavily on high-tech manufacturing. It is likely that China will meet – and possibly exceed – this year's official 5% GDP growth forecast.

Encouragingly, the headwinds from the property sector are starting to fade. Annual volume of residential property sales was flat in the first two months of the year but rose 3.5% by value. The weekly sales data suggest a further improvement is likely in the coming months, and improving household confidence, record-low mortgage rates and tax incentives should create positive sales growth this year. Longer-term concerns about Chinese real estate may limit the extent of any rebound, but the short-term numbers look promising.

While China's reopening has provided a boost to growth expectations elsewhere in the world, there are reasons to think the spillovers from China might be smaller than expected. The link between the Chinese credit impulse and GDP has weakened, and the rebound in growth is likely to be driven by consumption, not investment. Indeed, instead of stronger demand for construction-linked commodities, the most important way that Chinese demand is likely to spillover to the rest of the world will be through international tourism. A resumption of outbound tourism could add 0.2 percentage points to Global GDP over 18 months or so – noticeable, but not as big an impact as China's previous construction-led and credit-fuelled upswings.

Eurozone

The major development in the eurozone over the past few months has been the continued decline in wholesale energy prices. With natural-gas storage looking a lot healthier (owing partly to lifestyle changes, partly to fuel switching, and partly to mild weather), the reduction in consumption necessary to ensure sufficient supplies next winter now seems far more achievable. So, prices have declined to their pre-Ukrainian war levels.

That, in turn, has provided an uplift to activity in the eurozone. Surveys of business activity have improved – with the eurozone's composite Purchasing Managers' Index (PMI) hitting 54.1 in March and averaging 52.1 for the first quarter as a whole (consistent with GDP growth of 0.3%). And while household confidence measures remain historically weak, they have bounced notably in the past few months. Both these developments are encouraging after a dismal Q4 2022, which saw a 1.1% decline in final domestic demand.

The main exception to all this is housing. Indeed, the conditions for a sharp slowdown in residential real estate activity are increasingly in place. Mortgage lending has already decelerated across a range of different eurozone economies, even when accounting for a drop-off in renegotiations. Building permits have declined noticeably since the European Central Bank (ECB) began its tightening cycle back in June – and in a remarkably broad-based manner. When credit conditions tighten, it is the credit-sensitive parts of the economy, particularly housing, that suffer the most.

For policymakers, the improved near-term outlook (specifically, the much shallower drop in private sector real incomes) has focused on the need for further robust monetary policy action. Interest raises have already risen by 350bps in the past year – far more than during any other tightening cycle over the past 30 years. If the ECB's own models are correct, that could depress annual GDP growth by roughly two percentage points this year. If that is the case, then the risks to eurozone growth for 2023 remain skewed to the downside.

UK

As with the eurozone, the continued decline in energy prices over the past few months has also provided an uplift to activity in the UK. The latest composite PMI is now back above 52, having started the year below the expansion threshold of 50. And as we have seen, there has been a small recovery in retail sales volumes as well, with consumers no longer anticipating such an intense squeeze on their real incomes. The recent spring budget is expected to provide a further uplift in the near-term too, of perhaps 0.3% of GDP.

Given the government's energy price guarantee, that decline in wholesale prices has not yet fed through to household energy bills. But by the end of the year, the decline in energy prices could potentially knock 4 to 4.5 percentage points off the headline rate of inflation. Elsewhere, with supply bottlenecks easing, the prospects for core goods price inflation have improved. And, there are tentative signs that core services prices could follow that trend.

Given that the link between services price inflation and wage growth tends to be strong, that will certainly be welcome news for those at the Bank of England. Indeed, after lifting interest rates to 4.25% in March, the financial markets are increasingly of the view that the Bank may be getting closer to the end of its tightening cycle. Whether the corporate sector or housing market can handle the tightening imposed so far is still yet to be determined.

Emerging markets

As elsewhere, activity across emerging market economies appears to have accelerated in recent months – with S&P Global's Composite PMI jumping to 53.9 in March, a number far closer to the upper end of the historic distribution than the lower end. In addition, the surge in food and energy prices of the past year, which tends to impair emerging market economies disproportionately, given the weight that those items have in their consumption baskets, looks to have eased. China's re-opening process, particularly for those in its immediate vicinity, is likely to provide a bit of a boost too, albeit mainly through tourism. That combination, clearly, is encouraging.

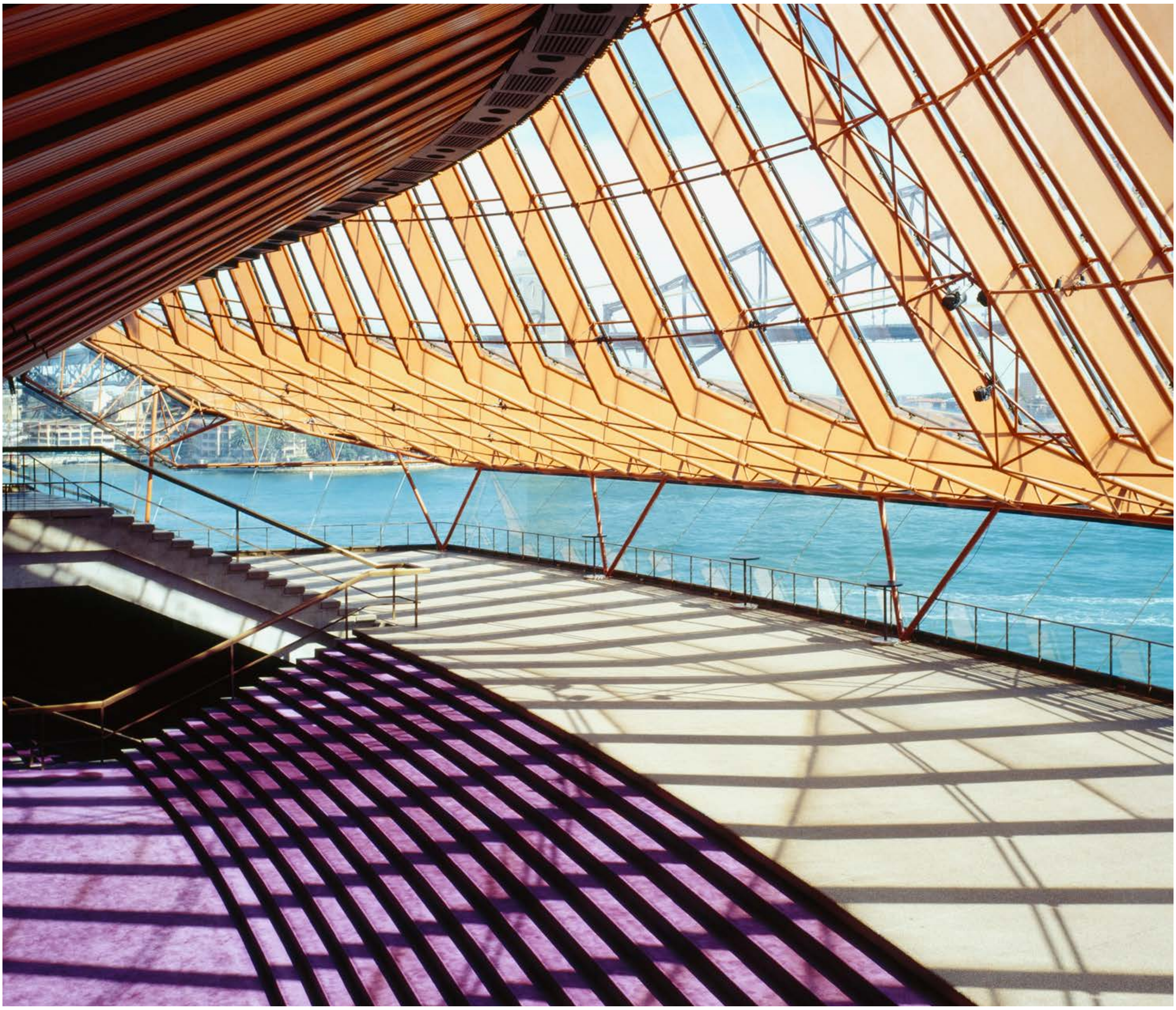
Still, the outlook for the broad group of emerging market economies is, as always, tied into the economic and financial cycles of its three main trading partners – the U.S., the EU, and China. With America and Europe still facing recession risks, and China's recovery likely to be more domestically driven, the outlook for emerging market economies remains challenging. Much depends on whether developed market economies can avoid recession, how strong and persistent the bounce back in China will prove to be, and whether financial-market volatility or geopolitical issues derail what has been a stronger-than-expected start to 2023.

Risks to the global outlook

Some of the risks facing the global economy in the latter stages of last year appear to have dissipated. China's re-opening process has been broadly successful, and Europe has managed to avoid the worst-case energy scenarios that had been feared last summer. Nonetheless, other risks have emerged more recently.

First, credit conditions have already tightened significantly across developed-market economies, and money-supply growth has stalled. Worryingly, these developments are typically what are seen ahead of recessions; it is too soon to sound the "all clear." Moreover, the recent banking sector crises could exacerbate both of those developments, with implications for sectors such as commercial real estate. The risk is that the longer that policy rates remain elevated, the more the financial structures and business models that flourished under more than a decade of ultra-loose monetary policy could come under pressure.

Secondly, tensions between the U.S. and China have ratcheted higher in recent months, with technology in the middle of the clash. Both believe the country that dominates the current tech revolution will be able to write the rules for how those tools are integrated into the global system. The stakes could not be higher. In the short-term, higher geopolitical tension could undermine business investment as companies wait to see how this might affect their supply chains.



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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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