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The Association of Accountants and Financial Professionals in Business

GLOBAL ECONOMIC CONDITIONS SURVEY REPORT: **Q2, 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

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August 2023

Introduction

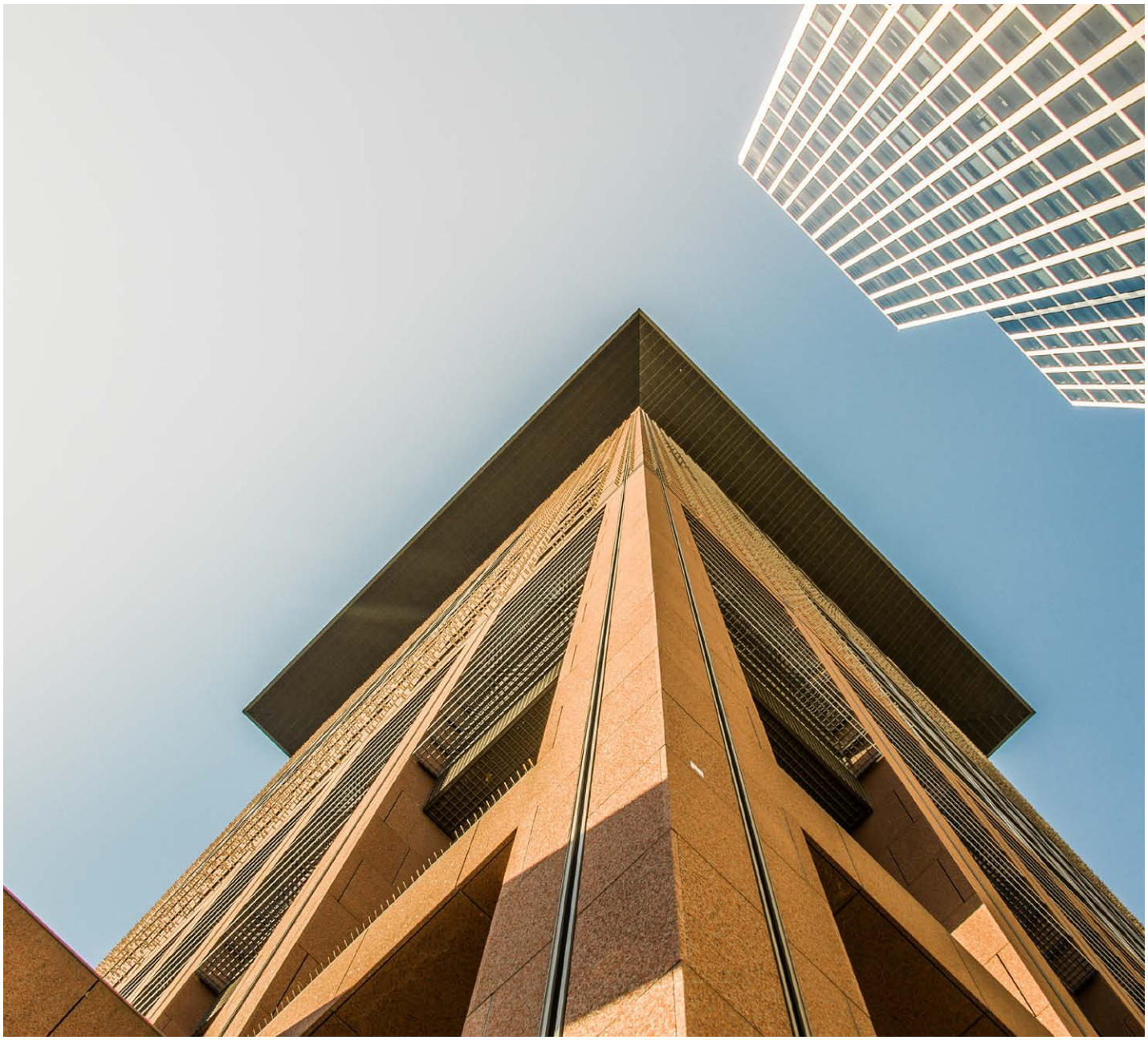
THE GLOBAL ECONOMIC CONDITIONS SURVEY (GECS), IS THE LARGEST REGULAR ECONOMIC SURVEY OF ACCOUNTANTS AROUND THE WORLD.

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 Q2 survey took place between 6 June and 20 June 2023 and gathered 750 responses: 540 from ACCA members and 210 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

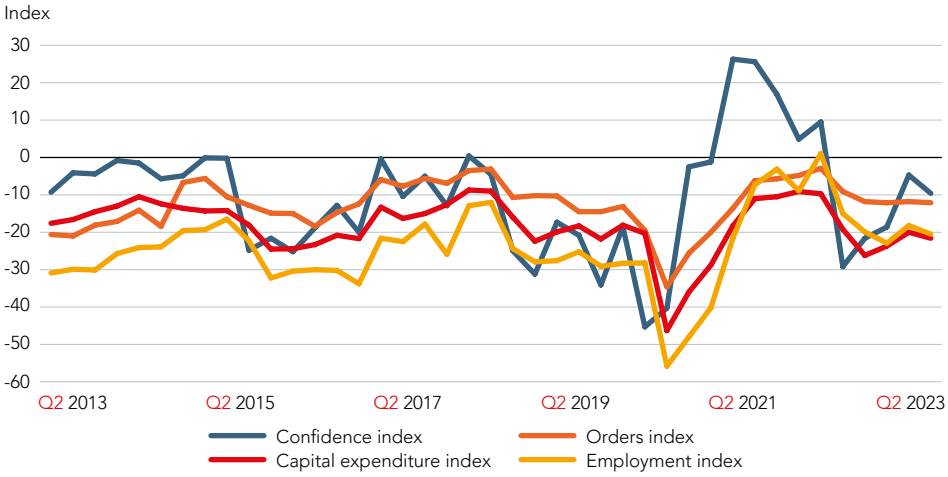
THE LATEST GLOBAL ECONOMIC CONDITIONS SURVEY (GECS) SUGGESTS THAT CONFIDENCE HAS STOPPED RISING AS ORDERS, CAPEX AND EMPLOYMENT HAVE FLATLINED.

The latest ACCA and IMA Global Economic Conditions Survey (GECS) suggests that 'Confidence' stalled in the second quarter, although it remains much higher than a year ago. 'Confidence' had been rising as businesses came to terms with the fallout from the Russia–Ukraine conflict and as hopes rose that a faster-than-expected relaxation of China's zero-COVID policies would kick-start the global economy. But that optimism has not been converted into stronger 'New Orders' – which are now lower than a year ago, indicating a broader loss of momentum. It is also concerning that the 'Employment' and 'Capital Spending' indices also saw a pullback over the past quarter (see Chart 1). To be fair, the declines are modest and cannot be said to constitute a major deterioration in the global economic outlook. Even so, after more than a year of aggressive monetary tightening by many central banks, it wouldn't be a surprise if that policy shift started to have a material dampening effect on economic activity in the second half of 2023.

A good cross-check on the economic outlook are the two GECS 'fear' indices, which reflect respondents' concerns that customers and/or suppliers may go out of business (see Chart 2). Surprisingly, both of these two series showed an improvement on the previous quarter, with worries about suppliers at the lowest that they have been since 2020. That said, with central banks still raising rates, and given that monetary policy tightening has a lagged effect on the real economy, it may still be premature to sound the 'all clear', especially with growing evidence that the bankruptcy cycle has begun to worsen.

THE GECS CONFIDENCE INDEX STALLED IN THE SECOND QUARTER, AFTER RISING IN THE PRECEDING THREE QUARTERS. THE CAPITAL EXPENDITURE AND EMPLOYMENT INDICES ALSO LOST MOMENTUM WHILE THAT FOR NEW ORDERS REMAINED FLAT.

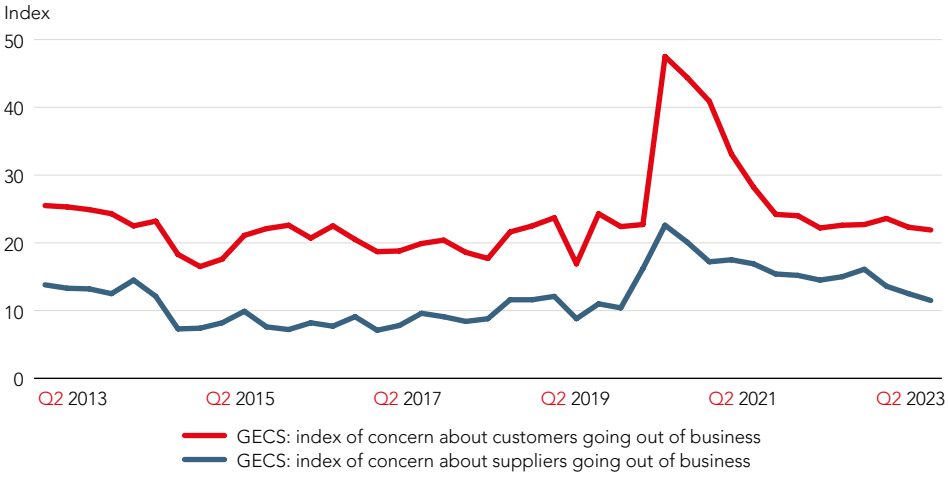
CHART 1: GECS global indicators



Source: ACCA/IMA (2013–23)

THE TWO GECS 'FEAR' INDICES, WHICH TRACK FEARS THAT CUSTOMERS AND/OR SUPPLIERS MAY GO OUT OF BUSINESS, CONTINUE TO DECLINE, WHICH SUGGESTS LITTLE CONCERN ABOUT RECESSION RISKS, THE IMPACT OF HIGHER INTEREST RATES, OR THE GROWING NUMBER OF BANKRUPTCIES.

CHART 2: GECS global 'fear' indices



Source: ACCA/IMA (2013–23)

1. Global and regional analysis

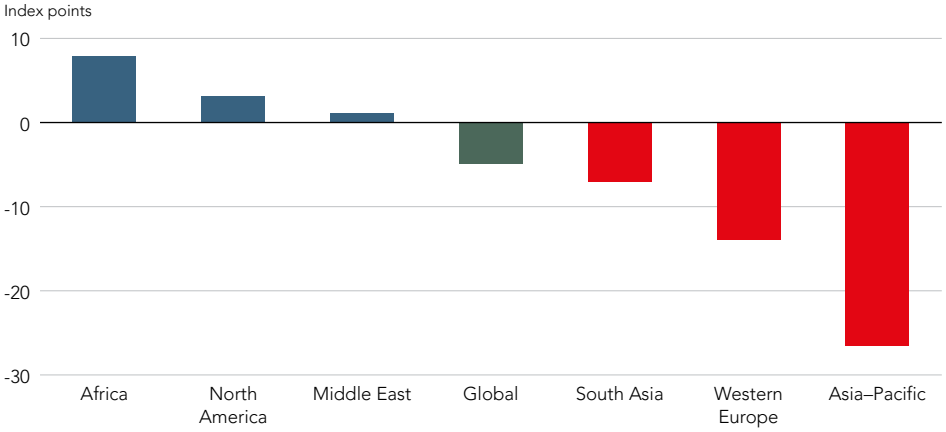
WHAT STANDS OUT IS THE 27-POINT FALL IN THE CONFIDENCE INDEX IN ASIA PACIFIC, ALONGSIDE RENEWED WEAKNESS IN WESTERN EUROPE.

Looking at the change in the GECS Confidence Indices over the past quarter, what stands out is the 27-point fall in the Confidence Index in Asia Pacific, alongside renewed weakness in Western Europe (see Chart 3a). While it is sometimes hard to attribute quarter-on-quarter changes to specific factors, the reduction in confidence in both these regions may reflect some disappointment that the Chinese economy has not rebounded more strongly following the relaxation of COVID restrictions. The weakness in Europe and Asia seems to have been somewhat offset by improvements in confidence in Africa and North America, with improvements in the latter possibly spurred on by the stock market's enthusiasm for the potential benefits of artificial intelligence.

Looking at the 12-month picture, confidence is up across every single region with the exception of South Asia (see Chart 3b). But this optimism is not quite what it seems. The rebound is most pronounced in North America and Western Europe which were most affected by the immediate fallout from the Russia–Ukraine conflict when it began over a year ago. Going forward, these helpful base effects are going to drop out of the year-on-year comparisons. Moreover, the lagged effects of central banks' monetary policy tightening are likely to have a more negative impact over the coming year. It still seems likely that the economic headwinds will get stronger from here.

THE GLOBAL GECS CONFIDENCE INDEX STALLED IN THE MOST RECENT QUARTER, DRIVEN BY A PULLBACK IN ASIA PACIFIC AND IN WESTERN EUROPE, POSSIBLY REFLECTING A MORE CAUTIOUS VIEW OF CHINA'S RECOVERY, AND A MORE MUTED WORLD-TRADE OUTLOOK.

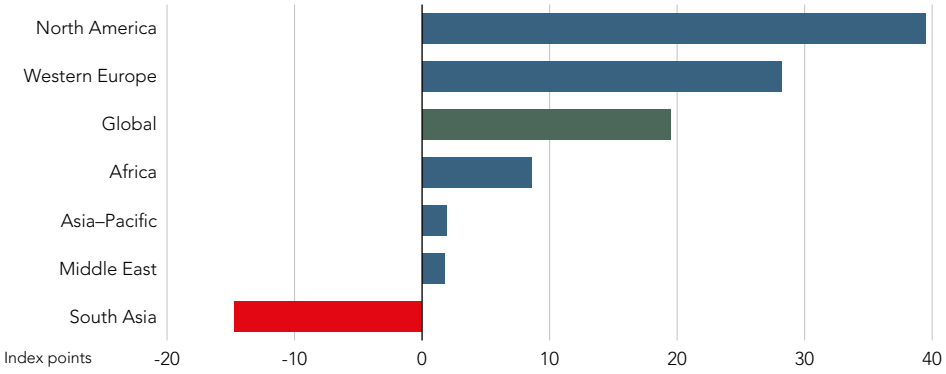
CHART 3a: Changes in GECS confidence indices in the past quarter, by region



Source: ACCA/IMA (2013–23)

OVER THE PAST YEAR, CONFIDENCE HAS IMPROVED ACROSS ALL REGIONS, APART FROM SOUTH ASIA. THE BIGGEST REBOUND OCCURRED IN NORTH AMERICA AND WESTERN EUROPE – TWO OF THE REGIONS HARDEST HIT IN THE IMMEDIATE AFTERMATH OF THE RUSSIA–UKRAINE CONFLICT.

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



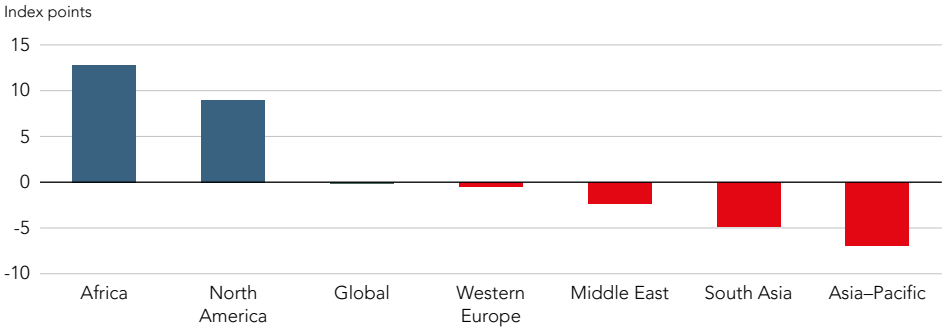
Source: ACCA/IMA (2013–23)

Once again, the GECS Global New Orders Index failed to improve, although it remains in line with the median reading recorded over the survey's history. There was some regional variation, with Africa and North America showing some signs of improvement over the second quarter while Asia Pacific and South Asia lost momentum (see Chart 4a). Looking back over the past year, every region apart from Africa and the Middle East reported a decline in new orders. The regions that recorded the biggest decline in new orders were South Asia and Asia Pacific (see Chart 4b). The Confidence Index appears to have registered outsized gains amid the recovery from the pandemic, and then outsized declines amid the Russia–Ukraine conflict – with much greater swings in confidence than in new orders. It may be that the latter, along with the Capital Expenditure and Employment Indices, are a more reliable guide to economic conditions than the more volatile confidence measure.

Although globally, new orders have largely flatlined over the past year, 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 as if they may have peaked, although they still remain well above the median recorded over the survey's history. There was another decline in costs this quarter, but it was marginal – underpinning the view of many central banks that they need to carry on tightening monetary policy.

ONCE MORE, THE GECS GLOBAL NEW ORDERS INDEX FAILED TO IMPROVE. THE INDEX HAS NOW BEEN MORE OR LESS UNCHANGED FOR FOUR SUCCESSIVE QUARTERS. AFRICA AND NORTH AMERICA IMPROVED OVER THE QUARTER WHILE ASIA PACIFIC AND SOUTH ASIA LOST MOMENTUM.

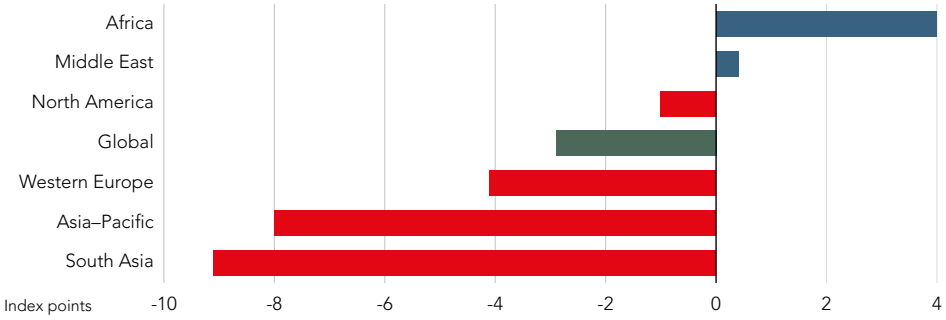
CHART 4a: Change in the GECS new orders index in the past quarter, by region



Source: ACCA/IMA (2013–23)

OVER THE PAST YEAR, NEW ORDERS DECLINED ACROSS EVERY REGION APART FROM AFRICA AND THE MIDDLE EAST.

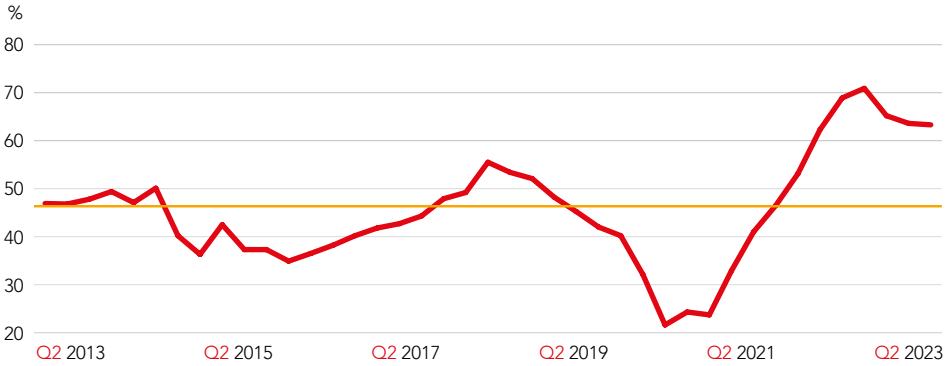
CHART 4b: Change in the GECS new orders index over the past year, by region



Source: ACCA/IMA (2013–23)

THE LEVEL OF CONCERN ABOUT 'INCREASED COSTS' HAS DECLINED AGAIN BUT REMAINS ELEVATED WHEN COMPARED WITH THE HISTORY OF THE SURVEY. AGAINST THIS BACKDROP, IT IS NO WONDER THAT CENTRAL BANKS ARE STILL TIGHTENING MONETARY POLICY.

CHART 5: Concerns about increased operating costs



Source: ACCA/IMA (2013–23)

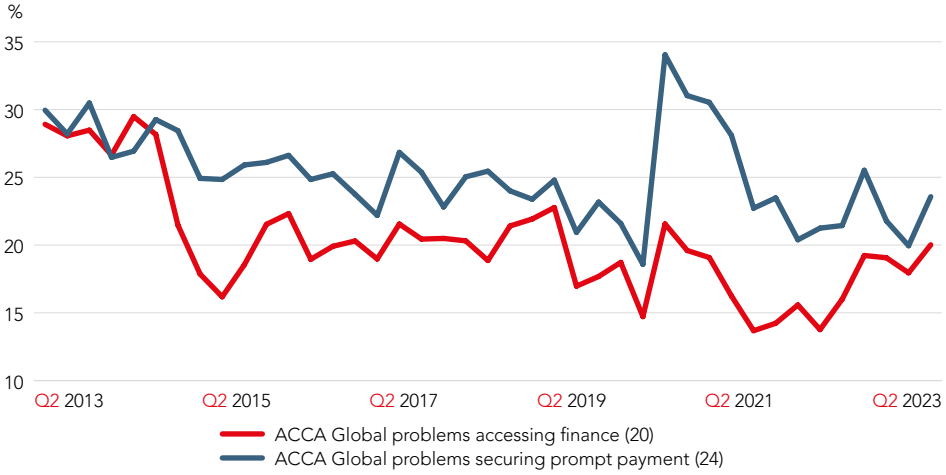
ACCA Global percentage concerned about 'increased costs'
Median over survey history

The past 12 months have seen the most aggressive coincided tightening of monetary policy in more than 40 years in pace, scale and breadth. It is curious that this has not thus far had a material impact on financing conditions or on corporates' capex and hiring intentions, but monetary policy works with long and variable lags. And the latest survey results suggest that some stress may be starting to appear for accessing finance and securing prompt payment. This is evident in Chart 6, which shows a modest rise in the difficulties experienced in accessing finance – now back at levels last seen in the pandemic. There was also a sharper rise in reports of problems with prompt payment, although this remains well below the peak levels seen in 2020.

This modest deterioration in corporate cash flow has coincided with a marginal deterioration in plans to increase investment in capital and workers (see Chart 7). The capex cycle often provides the cleanest "reading" of where we are in the business cycle, and the latest survey suggests that the recovery of the past six to nine months may have stalled. There is nothing to suggest that this is going to lead to a serious downturn, but it should serve as a reminder that the lagged effects of tighter monetary policy may have further to run.

WE MAY JUST BE BEGINNING TO SEE SOME FALLOUT FROM THE MOST AGGRESSIVE TIGHTENING OF GLOBAL MONETARY POLICY IN MORE THAN 40 YEARS, WITH THE SURVEY POINTING TO A RISE IN COMPANIES EXPERIENCING PROBLEMS ACCESSING FINANCE OR SECURING PROMPT PAYMENT.

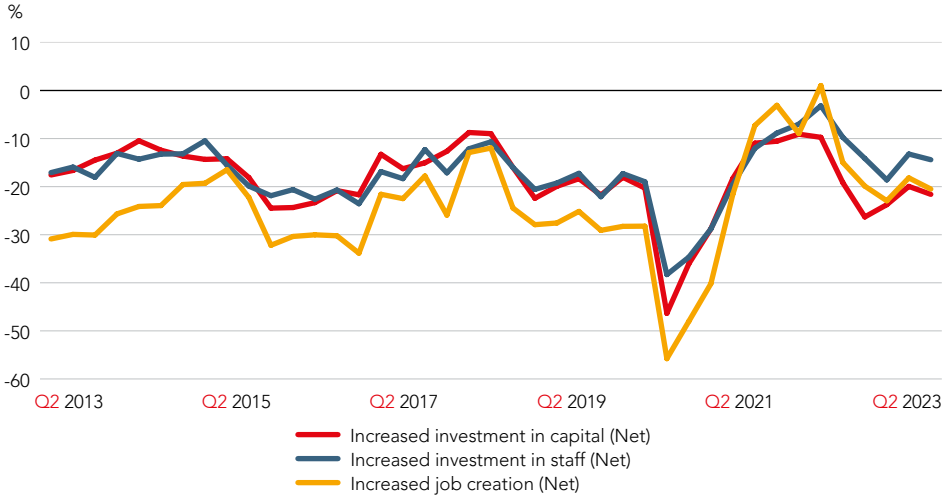
CHART 6: Problems securing prompt payment and accessing finance



Source: ACCA/IMA (2013–23)

THE SECOND QUARTER HAS SEEN A PULLBACK IN COMPANIES' CAPEX AND HIRING INTENTIONS WHICH MAY SIGNAL AN END TO THE RUN-UP IN ACTIVITY THAT HAS BEEN SEEN OVER THE PAST SIX TO NINE MONTHS.

CHART 7: Changes in net investment and job creation



Source: ACCA/IMA (2013–23)

Regional analysis

MANY REGIONS EXPERIENCED A REDUCTION IN CONFIDENCE AND NEW ORDERS IN 2023Q2 – BUT AFRICA AND NORTH AMERICA BUCKED THE DOWN-TREND.

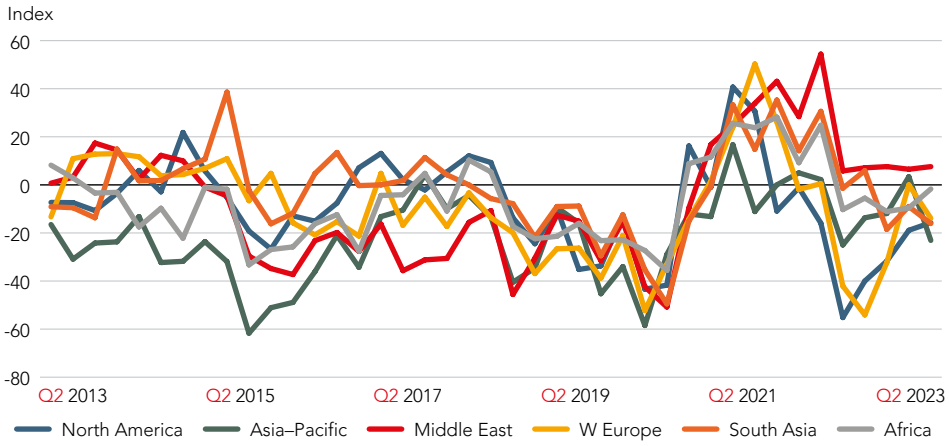
The latest GECS results continue to show a mixed picture at the regional level. The good news is that confidence in America and Europe has recovered strongly from the extremely depressed levels recorded in the immediate aftermath of Russia's invasion of Ukraine. By contrast, confidence in other regions has largely drifted sideways, and overall, confidence remains well below the heady levels seen in 2021 (see Chart 8).

The regional results for new orders held up better than one might have expected from the confidence data (see Chart 9). But they too have stayed largely range-bound for much of the past year, and, apart from Africa, have failed to regain the peak levels seen in 2021/22.

Looking at the most recent results, the only two regions to record an improvement in both confidence and new orders were Africa and North America. The bounce in the latter not only reflected a sense of relief that the U.S. regional banking crisis had been contained, but also the excitement about artificial intelligence, which in turn, prompted a major rally in U.S. Tech stocks.

THE REBOUND IN CONFIDENCE IN NORTH AMERICA AND WESTERN EUROPE FROM LAST YEAR'S LOWS IS PARTICULARLY STRIKING. RECENTLY, THE PICTURE HAS TURNED MORE MIXED, WITH CONFIDENCE FAILING TO GET BACK TO THE HEADY LEVELS SEEN IN 2021/22 BEFORE RUSSIA INVADED UKRAINE.

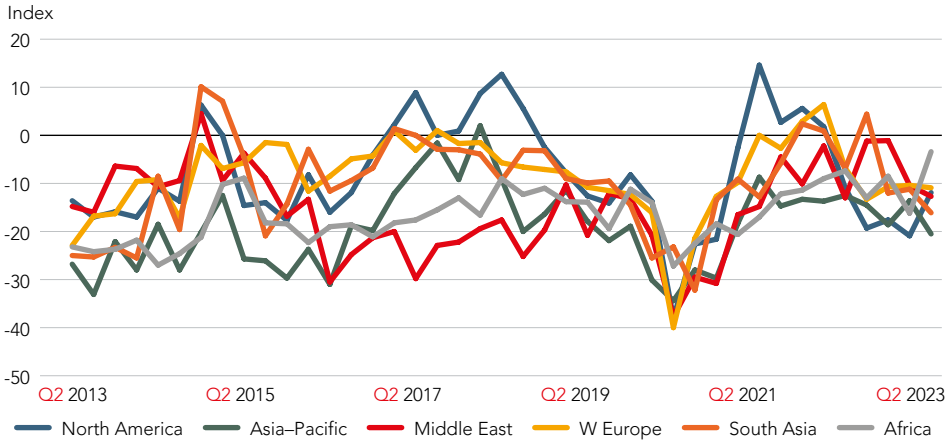
CHART 8: GECS confidence indices in the major global regions



Source: ACCA/IMA (2013–23)

THE GECS NEW ORDERS SERIES HAVE BEEN MORE RESILIENT THAN THE CONFIDENCE INDICES IN THE WAKE OF RUSSIA'S INVASION OF UKRAINE. EVEN SO, THE PICTURE REMAINS MIXED, WITH AN IMPROVEMENT IN AFRICA, BUT FALLS IN MOST OTHER REGIONS.

CHART 9: GECS orders indices in the major global regions



Source: ACCA/IMA (2013–23)

NORTH AMERICA

What stands out from looking at the North American regional data is the volatility of confidence – with the extended optimism coming out of the COVID recession followed by pessimism in the aftermath of Russia's invasion of Ukraine. Confidence has now returned to more normal levels, although it falls well short of the levels seen in 2021. What the survey does suggest is that North America is still managing to avoid a recession. The Capital Spending, New Orders and Employment Indices support that viewpoint, and all three series ticked up slightly in the latest results. The question is: how long can this economic resilience last, given the significant tightening of U.S. monetary policy over the past 15 months? Given the lags involved, we would normally expect the Fed's policy shift to create growing headwinds for economic activity later this year. So far, there is no sign of that in the latest GECS results.

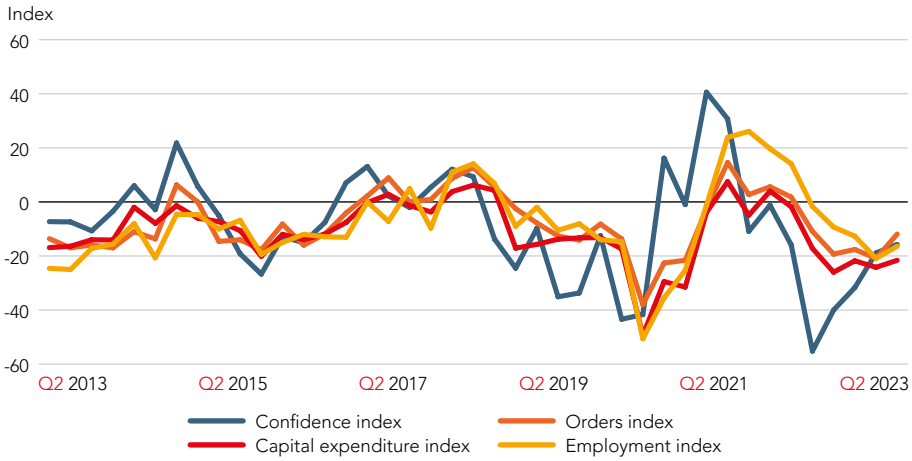
ASIA–PACIFIC

The GECS Asia Pacific Confidence Index – which includes respondents from Japan and China – recorded a sharp decline over the second quarter. Confidence levels in the region have typically been quite volatile, but the reduction in the most recent poll is quite pronounced. This negative shift in sentiment could reflect disappointment over China's recovery. When China relaxed its COVID restrictions faster than many expected, there were high hopes for a strong private sector-led Chinese recovery that would lift the global economy. The reality has so far been different, with weak consumer spending and a decline in private sector investment. The other macro indicators – the New Orders, Capital Spending and Employment Indices – also retreated in the second quarter, confirming the more negative turn in confidence (see Chart 11).

WESTERN EUROPE

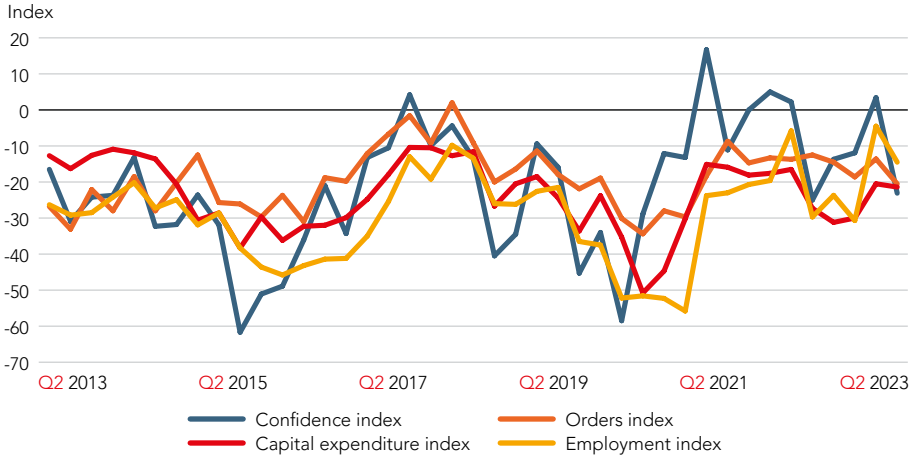
As in North America, European confidence has also been quite volatile, with post-pandemic optimism offset by recession-grade pessimism in the immediate aftermath of Russia's invasion of Ukraine. The rapid rebound seen in 2022Q4 and 2023Q1 now appears to have run its course, with a modest reduction in confidence in the most recent poll. As in America, however, the European results show no signs that a downturn is imminent. New orders and employment are around their long-term averages, while capital spending has improved over the past couple of quarters. The European Central Bank has tightened monetary policy aggressively. But, looking at this survey, it appears that policy tightening has yet to make a significant impact on the real-economy components in Chart 12.

CHART 10: North America



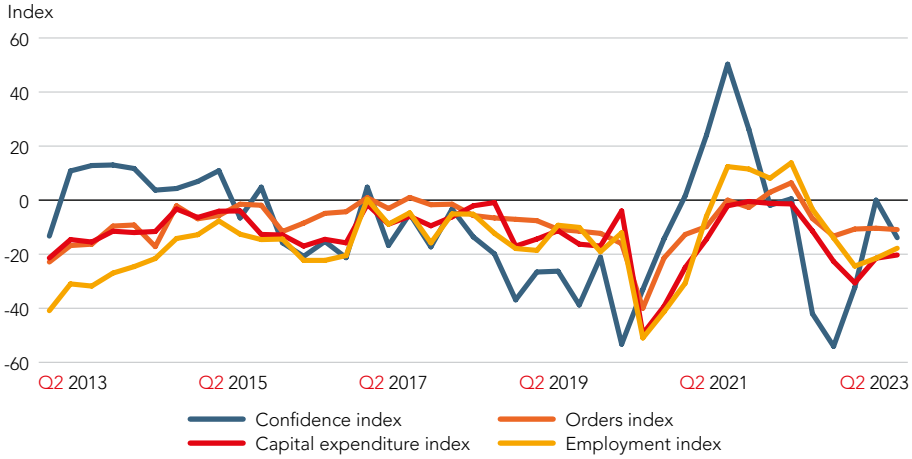
Source: ACCA/IMA (2013–23)

CHART 11: Asia–Pacific



Source: ACCA/IMA (2013–23)

CHART 12: Western Europe

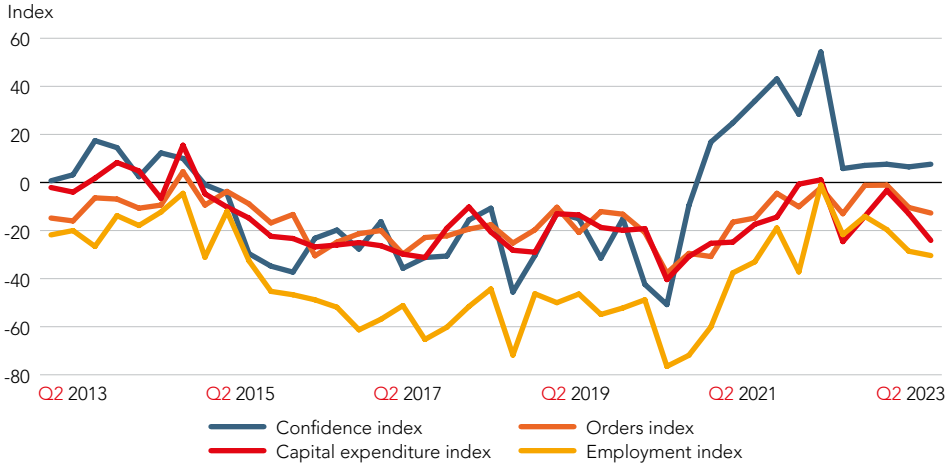


Source: ACCA/IMA (2013–23)

MIDDLE EAST

The GECS results for the Middle East are broadly positive, with all four real-economy indicators well above their recession lows. Confidence remains relatively high, even though it has failed to rebound to the levels seen in 2021/22. Nonetheless, a closer examination of the data suggests that the last two quarters have seen setbacks for the capital spending, employment and new orders components. This weakness may reflect the lagged effect of a lower oil price, which is some 30% below that of a year ago, as global demand for oil has fallen faster than OPEC+ has been able to curtail supply. Even so, given the global underinvestment in both renewables and fossil fuels, the Middle East may be well positioned to take advantage of the next global economic upswing when it comes.

CHART 13: Middle East

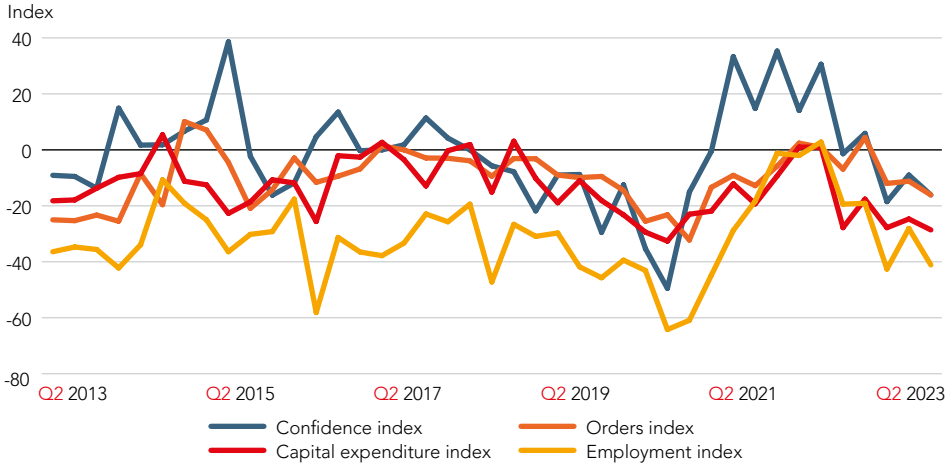


Source: ACCA/IMA (2013–23)

SOUTH ASIA

The most recent survey results for South Asia – which is dominated by India – were disappointing. Confidence dropped again in what is starting to look like an extended downturn. More importantly, all three macro cross-checks for the region – new orders, capital expenditure, and employment – also deteriorated to form a downward trend, with capital spending getting uncomfortably close to its all-time low recorded at the height of the pandemic. The results give a more pessimistic impression than one might have expected, and contrast with strong stock markets, with India's market recently hitting new highs at a time when China remains largely unloved. India is also benefiting from cheap oil imports from Russia, which now makes up 7% of its total trade, compared with 2% a year ago.

CHART 14: South Asia

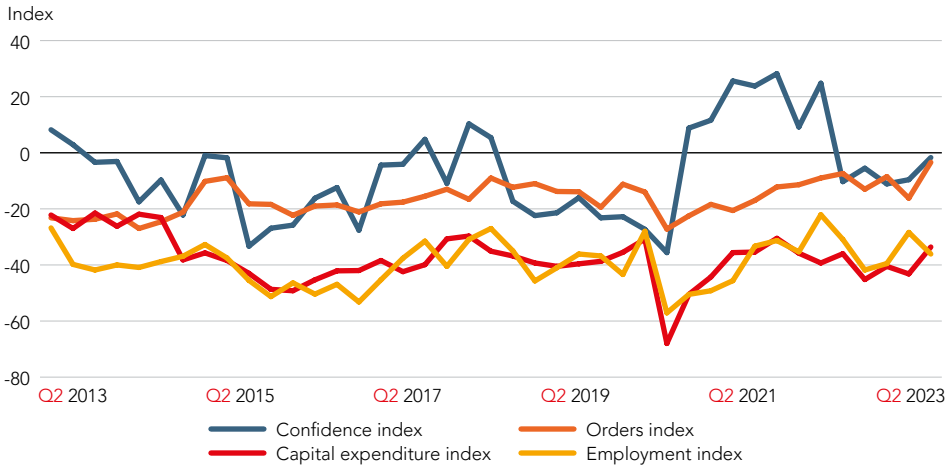


Source: ACCA/IMA (2013–23)

AFRICA

The GECS Confidence Index for Africa saw the strongest improvement of any region in the second quarter, after a year of drifting sideways. The more positive tone was confirmed by the improvement in new orders and in capital expenditure. Indeed, the New Orders Index recorded a survey record high. That said, it is difficult to attribute this to one specific narrative for the region, given its size and lack of homogeneity. With consumer spending dominated by food and energy, the region remains vulnerable to a rebound in oil prices and maybe even an El-Niño-induced food-price shock. An equally important factor is that many African countries have dollar borrowing, which has become a greater burden as U.S. interest rates have risen. If the U.S. Federal Reserve decides to keep interest rates high for longer, that could cause more problems.

CHART 15: Africa



Source: ACCA/IMA (2013–23)

2. ACCA/IMA global risks survey

THE RISK SECTION OF OUR 2023 Q2 GECS PROVIDES GREATER INSIGHTS INTO HOW ACCOUNTANCY PROFESSIONALS PERCEIVE RISK IN THIS FAST-CHANGING WORLD.

Author

Rachael Johnson,
Head of Risk Management
and Corporate Governance, ACCA

From record-breaking heatwaves and rising macro uncertainty to growing concerns about generative artificial intelligence (AI) and its rapid adoptions, the hazards and opportunities facing organisations today require more critical thinking than ever before, and the risk section of our 2023 Q2 GECS provides greater insights into how accountancy professionals perceive risk in this fast-changing world.

Responses to *'what do you believe is the most underestimated risk facing your organisation today?'* not only paints a clearer picture of what may come but also underlines the vital role accountancy plays in informing major decision makers and ensuring positive risk-taking.

These responses build on ACCA's first-of-a-kind risk culture study, *Risk Culture: Building Resilience and Seizing Opportunities*, which started with an online survey conducted during the last two weeks of October 2022. This, together with an active online community platform, one-on-one interviews, and roundtable discussions, allowed us to gather perspectives from over 2,000 ACCA members around the world and across a wide range of industries. Feedback from financial professionals and risk leaders worldwide led us to start including these risk questions in our quarterly GECS reports in 2023, so that organisations can benchmark the data over time and gain a better understanding of how and where risk is evolving, from the accountancy profession's perspective.

When asked *'what do you believe are the top three risk priorities at your organisation today?'* respondents of the Q2 GECS survey showed that 'regulatory, legal, compliance' risks had dropped from first to fourth place since the survey in October 2022, with 'economic inflation, recession, interest rates' moving from third to first place and 'talent scarcity, skills gaps, employee retention' rising from fourth place to second (Chart 16).

Respondents from the Caribbean and Central and Eastern Europe were the only two regions that didn't have 'economic inflation, recession, interest rates' as their first risk priority in 2023 Q2, with 'regulatory, legal, compliance' and 'talent scarcity, skills gaps, employee retention' taking the top spots this time around. Interestingly, North America was the only region to see 'logistics, supply chain disruption, supply shortages' move into the top three risk priorities since October 2022, while Central and Eastern Europe was the only one with 'misconduct, fraud, reputational damage' in the top three; it tied with 'economic inflation, recession, interest rates' as third (Chart 17).

Responses to *'what do you believe is the most underestimated risk facing your organisation today?'*

'Climate change regulation and its impact on clients'.
ACCA member in Ireland

'The financial market boom is underestimated by organisations, which may lead to inappropriate investment appraisal'.
ACCA member in China

'A mass liquidity event in the market has been a concern. I think many businesses, organisations, and industries have failed to properly evaluate catastrophic low-probability risk events. The ability to continue as a going concern should be paramount. Sometimes a pure EV [enterprise value] look on things opens the door to potentially having to stop playing the game altogether. Staying in the game should be paramount'.
ACCA member in USA

'Potential market disruption caused by AI to part of our customer base and our readiness for the impacts'.
ACCA member in New Zealand

'Greenwashing, cheating risk and potential fraud'.
ACCA member in Vietnam

'Skill and capability shortages across the sector and nation'.
ACCA member in Scotland

'Non-adaptability of technological advancements'.
ACCA member in Pakistan

'Customers' changing demands'.
ACCA member in Saudi Arabia

'Talent shortages due to migration to more stable and advanced economies'.
ACCA member in Nigeria

'Risks in CEE [central and eastern Europe] due to the war in the Ukraine, including potential nuclear leak'.
ACCA member in Poland

'Government and Bank of England having opposing economic approaches will lead to recession or a long period of stagnation'.
ACCA member in the UK

'Succession risk'.
ACCA member in Sri Lanka

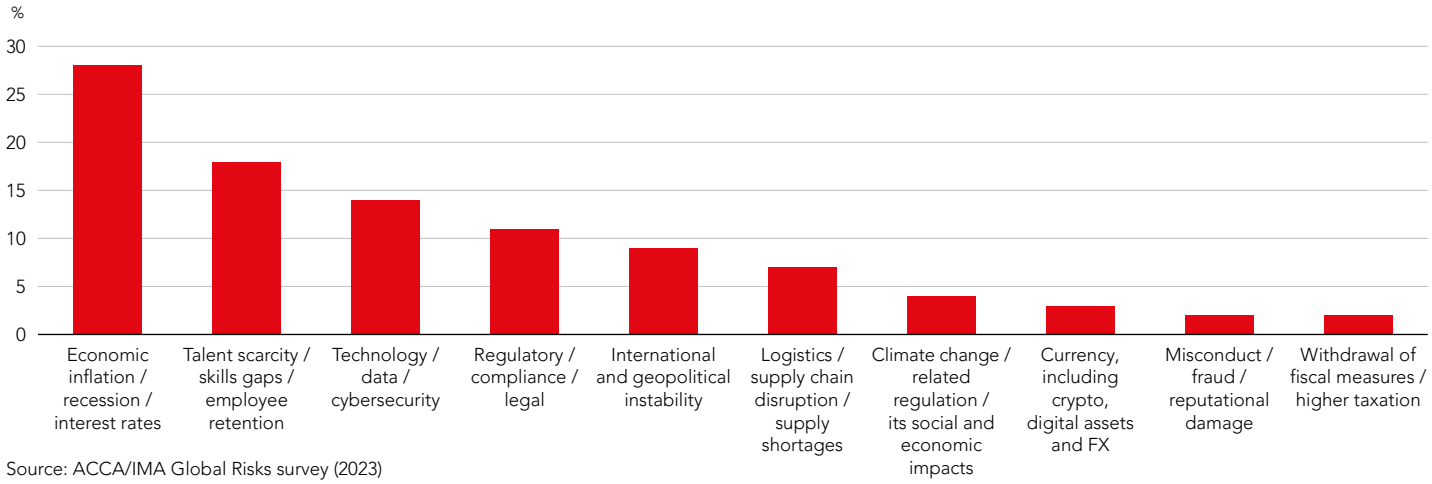
'Fraud'.
ACCA member in Hungary

'A prolonged period of high interest rates shall result in the need to pass this through the deposits, narrowing down the NII [net interest income] margin, and this may coincide [with] an economic cycle of recessionary times, making bank funding even more scarce and difficult to raise'.
ACCA member in Greece

'With economic hardships, staff may make fake deals with suppliers'.
ACCA member in Malawi

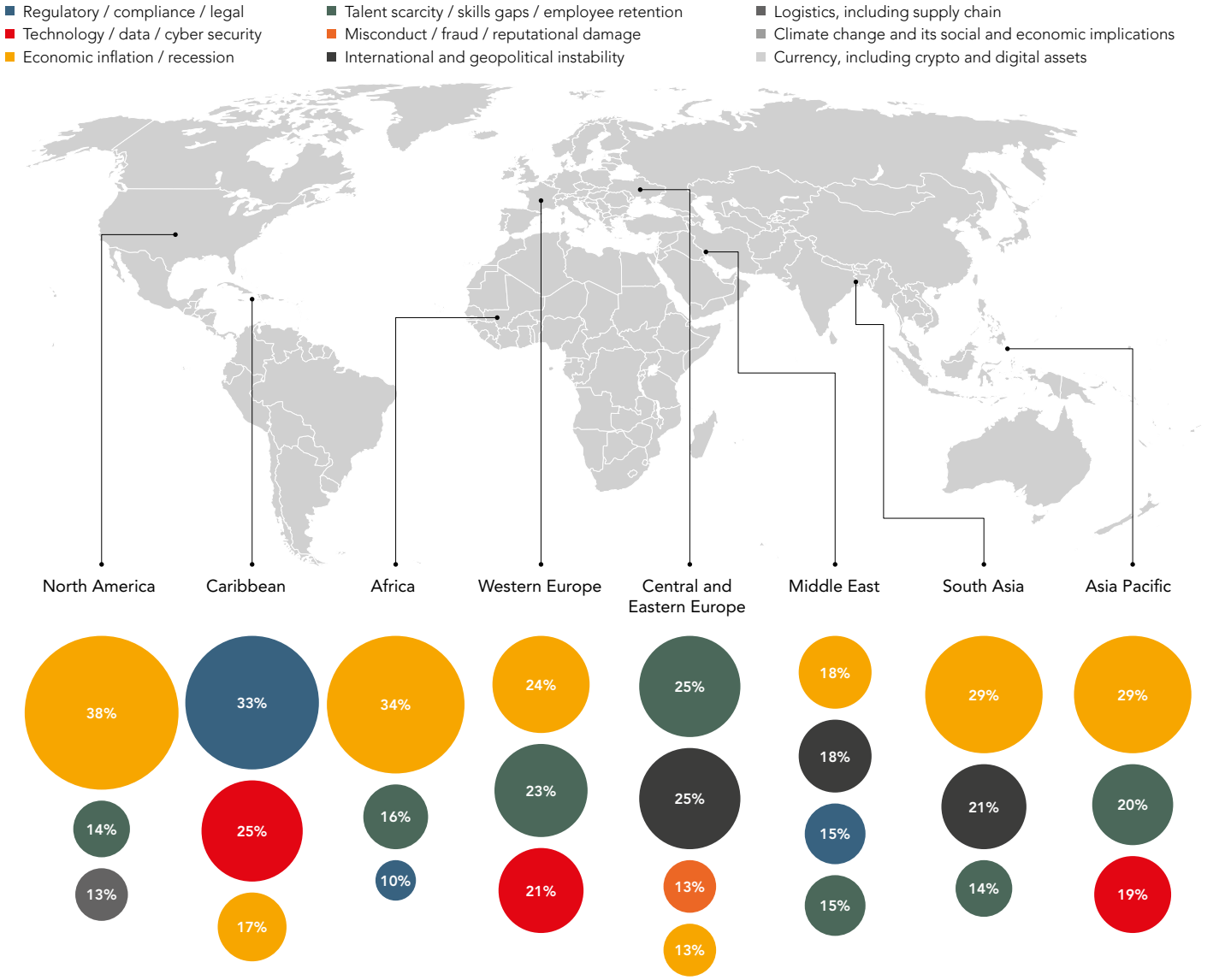
'Employees [not] understanding the strategy and vision of the company'.
ACCA member in England

CHART 16: Top risk priorities of accountancy professionals, Q2 2023



Source: ACCA/IMA Global Risks survey (2023)

CHART 17: The top 3 risk priorities around the world, Q2 2023



Source: ACCA/IMA Global Risks survey (2023)

Compare this chart with the 'Top risk priorities around the world' Figure 2.3 in *Risk Culture: Building Resilience and Seizing Opportunities* (2023).

3. The global economic outlook

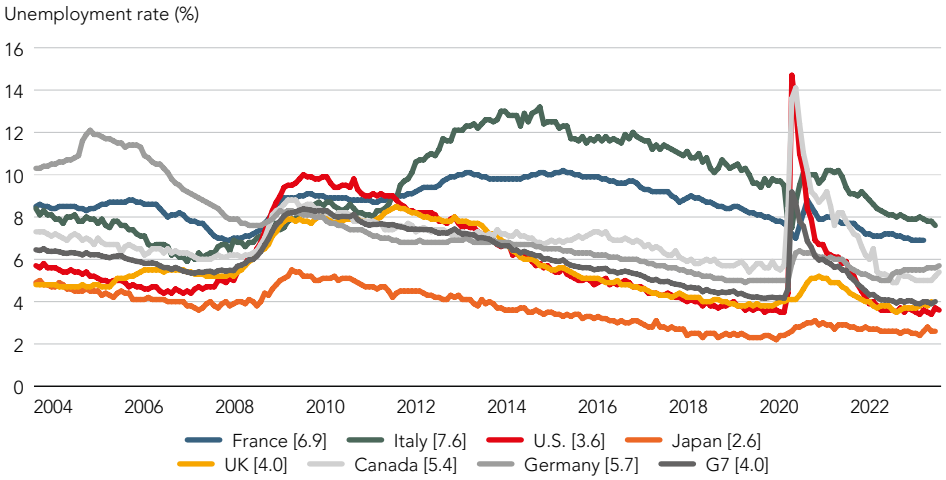
AFTER ENTERING 2023 WITH MORE MOMENTUM THAN MANY HAD ANTICIPATED, THE GLOBAL ECONOMY HAS YIELDED MORE MIXED ACTIVITY DATA IN RECENT MONTHS.

After entering 2023 with more momentum than many had anticipated, the global economy has yielded more mixed activity data in recent months. Strong wage gains and robust job markets (see Chart 18) have supported household consumption across many of the developed market economies. And the decline in European energy prices has provided an additional boost across the continent. Yet the uptick in activity earlier in the second quarter seems to be starting to fade. Many survey-based measures of activity have begun to weaken, including JP Morgan's Global Composite Purchasing Managers' Index (PMI), which dropped by almost two points in June (see Chart 19).

This slowdown has been long in the making. Monetary tightening delivered over the past year is now starting to weigh on activity more noticeably. And the money and credit data suggest that it should continue through the course of this year and next. Broad money growth is at its weakest in almost a decade across developed market economies, and credit flows to the private sector have collapsed in line with the sharp deterioration in the U.S. and eurozone 'senior loan officer' surveys. Model-based estimates of the monetary impulse suggest that the drag on growth isn't likely to peak until the second half of this year in the U.S. and mid-2024 in the eurozone. That monetary drag does not account for what central banks might still do in coming months.

STRONG WAGE GAINS AND ROBUST JOB MARKETS HAVE SUPPORTED HOUSEHOLD CONSUMPTION ACROSS MANY OF THE DEVELOPED MARKET ECONOMIES.

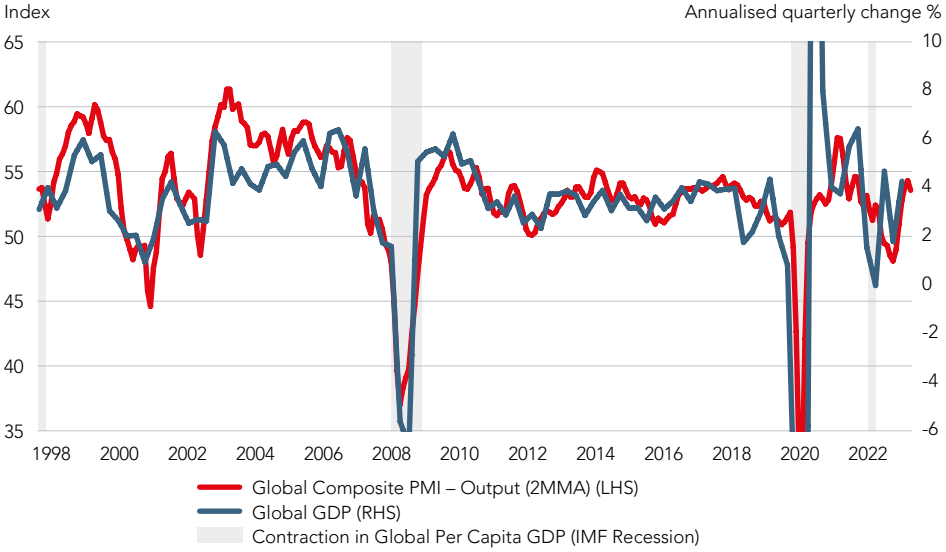
CHART 18: Job markets remain strong in developed economies



Source: ASR Ltd. / Refinitiv Datastream (2023)

MANY SURVEY-BASED MEASURES OF ACTIVITY HAVE BEGUN TO WEAKEN, INCLUDING JP MORGAN'S GLOBAL COMPOSITE PURCHASING MANAGERS' INDEX (PMI), WHICH DROPPED BY ALMOST TWO POINTS IN JUNE.

CHART 19: Business surveys point to slowing global growth



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

A decline in energy prices has helped bring headline inflation down almost everywhere. But this spell of disinflation has been broader than that. Core inflation looks to have peaked in several countries and other gauges of underlying inflation have also started to decline. Core goods inflation has fallen particularly sharply in the U.S., and is beginning to come down elsewhere (see Chart 20). Job markets remain robust, but forward-looking indicators suggest that a peak in wage growth might not be too far away either. That should help to moderate services inflation (see Chart 21). All this should provide comfort for central banks. But credibility concerns and a fear of repeating past mistakes (where policymakers eased too much too soon) mean that central bankers are likely to keep policy at the tighter end of the spectrum for the rest of this year and into 2024.

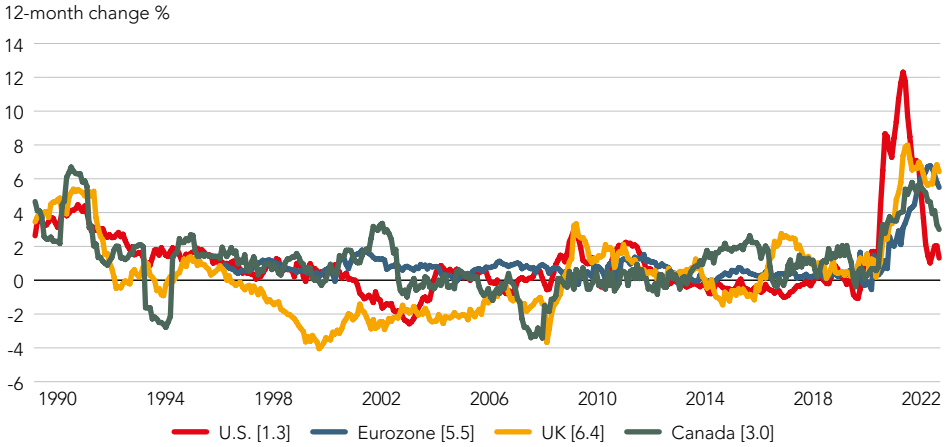
U.S.

The U.S. economy grew by more than expected in 2023 Q2, expanding by 2.4% at an annual rate after a 2% gain in 2023 Q1. The consumer continued to show resilience, with personal consumption expenditures expanding by 1.6%, albeit at a slower pace than the very strong Q1 gain. Fixed investment expanded after four consecutive quarterly declines, aided by a strong rise in non-residential investment. With the job market remaining strong, real incomes improving, and housing data appearing to have become more stable, an imminent recession does not seem likely.

That should provide the Federal Reserve ('the Fed') with a bit of comfort, as should recent inflation trends. Core consumer price inflation (CPI) surprised to the downside for the first time since last November in June, and headline CPI also softened more than expected. Encouragingly, the improvements look remarkably broad based rather than concentrated in one or two items.

CORE GOODS INFLATION HAS FALLEN PARTICULARLY SHARPLY IN THE U.S., AND IS BEGINNING TO COME DOWN ELSEWHERE.

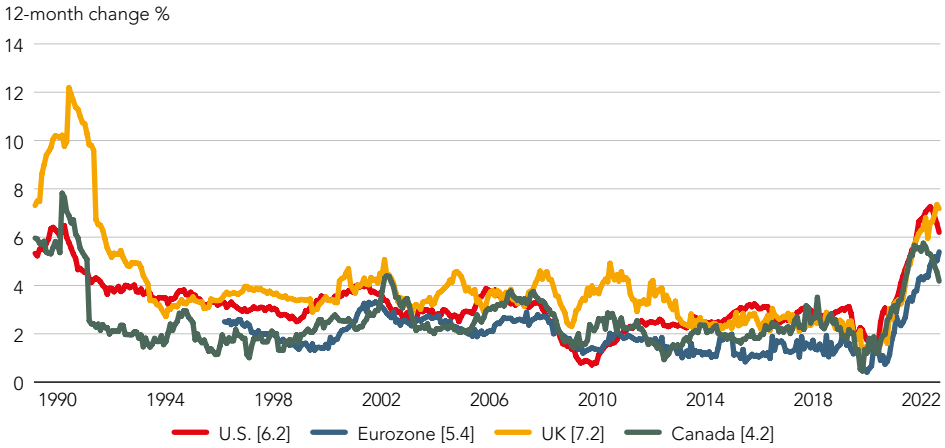
CHART 20: Core goods prices



Source: ASR Ltd. / Refinitiv Datastream (2023)

JOB MARKETS REMAIN ROBUST, BUT FORWARD-LOOKING INDICATORS SUGGEST THAT A PEAK IN WAGE GROWTH MIGHT NOT BE TOO FAR AWAY EITHER. THAT SHOULD HELP TO MODERATE SERVICES INFLATION.

CHART 21: Services prices



Source: ASR Ltd. / Refinitiv Datastream (2023)

Thus, it increasingly seems that the monetary policy transmission mechanism is working. Indeed, the money and credit data suggest that a further slowdown in nominal growth is likely in the coming quarters. Growth in the M1 measure of money supply is running at –10% on an annual basis, and credit flows to the private sector have slowed noticeably. Maybe the Fed will not be satisfied until more slack has been introduced into the job market, but forward-looking indicators suggest that we are getting closer to the end of the Fed's tightening cycle.

China

China's economic recovery appears to have lost some steam. GDP expanded by just 0.8% on a quarterly basis in Q2, after growth of over 2% in Q1. Monthly gains in retail sales have been subdued, survey-based measures of activity have weakened: for example, the services Purchasing Manager's Index (PMI), published by China's National Bureau of Statistics (NBI), has dropped by 4 points over the past three months, private sector confidence is depressed, and the youth unemployment rate is over 20%. The global backdrop is also becoming increasingly challenging, with exports falling at an annual rate of over 12% in June. Yet, despite all of that, the policy response has so far been muted.

This cautious policy response may in part reflect the fact that the major risks that policymakers had worried most about last year appear to be contained. Housing sales have become more stable, and the uptick in pre-sales is now supporting developers' funding. It seems likely that developers now have sufficient financing to complete their existing projects, although it will still be a while before housing starts rebound.

But this caution also probably reflects the constraints policymakers face. A major monetary stimulus now would probably mean that they would miss their intermediate policy target of a stable credit-to-GDP ratio and could significantly exacerbate financial stability risks. Nor does there appear to be much scope for a major fiscal response, given how the drop-off in land sales has squeezed local government finances. Moreover, there is no guarantee that a traditional stimulus will boost private sector confidence, so more creativity may be needed, perhaps starting with the People's Bank of China's structural monetary tools.

Eurozone

In the eurozone, the brighter than anticipated outlook that had emerged in the early stages of the year now appears to be fading. Revisions to the Q1 GDP data now imply that the region did indeed fall into recession over the winter (although only by the narrowest of margins). And survey-based measures of activity have turned down sharply. The eurozone composite PMI published by S&P Global, for example, declined from 54.1 in April to 49.9 in June, and the advanced estimate for July came in at 48.9. It seems clear that monetary policy has now replaced energy prices as the dominant drag on the business cycle.

At the same time, inflation has eased noticeably. At 5.5%, headline inflation for June is still far higher than the European Central Bank (ECB) would like. But it is coming down quickly, having peaked at 10.6% in October last year. A lot of this easing simply reflects the fact that energy prices are substantially lower than they were at this point last year, but we're also starting to get more evidence that core inflation may have peaked. The signal provided by the producer-price data (alongside the PMI surveys highlighted above) suggests that core goods price inflation could fall quite rapidly in the second half of the year (having declined for the fourth successive month in June).

Despite all that, the ECB raised interest rates by a further 25 basis points (bps) at its July meeting. The deposit rate now stands at 3.75%, up from zero at the end of July 2022. The strength of the job market data (with unemployment stuck at a record low of 6.5% and wage growth picking up further in recent months) provides the strongest argument supporting the more hawkish members of the ECB's Governing Council. But with the bulk of the policy tightening still to feed through, and nominal growth now clearly slowing, the decision as to whether to tighten further is becoming a much closer call. Whether the ECB raises rates in September will depend on whether the recent deterioration in nominal growth continues through the summer.

UK

As has been the case elsewhere across developed economies, survey-based measures of activity have weakened in the UK, with the advanced estimate of S&P Global's Composite PMI falling to 50.7 in July (it was at 54.9 in April). GDP growth has flatlined, fears have increased about the prospects for the housing market, and business insolvencies are on the rise. On a more positive note, headline inflation fell by more than expected to 7.9% in June, although core inflation remained stubbornly high at 6.9%, not helped by strong wage growth. Some of the forward-looking data suggest further improvements on the inflation front (vacancies and producer prices, for example), but pressure remains on the Bank of England to do more. The Bank rate was hiked by 50bps in June, and markets expect policymakers to lift it to a peak of around 6% early next year, from its current level of 5.0%.

The recent rise in interest rate expectations kicked off another round of mortgage market mayhem. Two-year and five-year mortgage rates have returned to (and more recently eclipsed) the levels that they had reached last year in the aftermath of Kwasi Kwarteng's mini-Budget. And that will prove painful for the 1.6 million households facing renewal of their mortgage deals over the next year, the overwhelming majority of which were fixed at rates below 2.5%. The only good news is that the feed-through will be gradual (perhaps bad news from the Bank's perspective). But it's perhaps unsurprising that GDP growth expectations for 2023 remain anchored at just 0.1%.

Emerging markets

Growth across emerging-market economies appears to have moderated at the end of 2Q. S&P Global's Composite PMI for the broadest definition of countries dropped by 2 points in June, with Brazil, India, and China the most notable drivers. Nevertheless, at 53.6, the survey remains above its long-term average.

Recent inflation developments have generally been encouraging in the major emerging economies. By June, inflation had fallen to 3.2%, 4.8%, 5.1%, 3.5% and 5.4% in Brazil, India, Mexico, Indonesia and South Africa, within central bank target ranges apart from Mexico.

In terms of the outlook, it is perhaps encouraging that money-supply growth across the emerging economies has not turned negative as it has across developed economies. Moreover, the disinflationary trend should allow some central banks to begin easing monetary policy to support activity. Meanwhile, external developments are likely to prove important, as always. These include the pace of China's recovery, how much further the Fed wishes to raise interest rates, movements in the U.S. dollar and commodity prices, and whether developed market economies fall into recession this year. How emerging economies handle the fallout from the El Niño weather conditions expected later this year also bears watching.

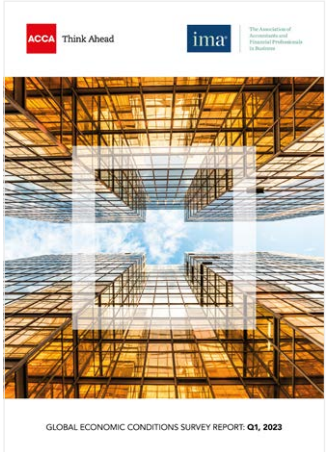
Risks to the global outlook

Geopolitical tension is high up on the list of risks predicted for the next 12 months, not only with the Russia–Ukraine conflict (and its impact on the rest of Europe) but also between the U.S. and China, where a new "Cold War" may be developing (most notably in semiconductor technology). Climate factors could disrupt food and energy supplies yet again – especially if a super-sized El Niño event develops later this year (as some scientists are expecting). And, after the U.S. regional banking crisis of earlier this year, and with the monetary-policy tightening of the past 15 months still working its way through the system, there is still a significant risk of a sharper than expected global slowdown and/or further financial market tension. Regulators are now closely watching non-bank financial institutions (which now have a bigger share of global financial assets than the banks). These institutions have grown rapidly over the past decade, benefiting from prolonged use of quantitative easing (QE), low interest rates, and plentiful liquidity. With that QE-dominated monetary regime probably at an end, there is now a growing concern among regulators that this part of the financial system has not been stress tested for higher interest rates and/or a recession.

As for risks to the upside, it's possible that the resilience of nominal consumer spending in both the U.S. and Europe over the last 12–18 months will continue. Savings rates in many countries remain above pre-pandemic levels, providing something of a buffer for consumption. And, in the U.S., household net worth remains close to record levels.

Links to previous Global Economic Conditions Survey (GECS) reports:

Click on the covers to view previous reports online:



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

To find out more visit:
www.accaglobal.com
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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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GECS-Q2-2023