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ACCOUNTING & AUDIT

Accountants Have a Dim Outlook on the Economy Because of Inflation, Other Factors

North American confidence recovers slightly in Q3 but is still lower than in past years, say the ACCA and the IMA.

Jason Bramwell • Oct. 25, 2022



Confidence about the economy among accountants remains lower than usual due to fears over inflation and a slump in business, according to the [Q3 Global Economic Conditions Survey](#) (GECS) from the Association of Chartered Certified Accountants (ACCA) and the Institute of Management Accountants (IMA).

Globally, the survey found that nearly three quarters of businesses are wrestling with increased costs, with many respondents reporting increased cost pressures for the last decade, and more than one in three worried about decreased income, with a similar proportion highlighting foreign exchange volatility as uncertainty and glimpses of recession dominate the latest economic outlook.

Two developments have surfaced in this uncertain commercial environment. First, an increase in the number of respondents reporting “problems securing prompt payment,” which has risen to the highest level in four years, according to the ACCA and the IMA. This could be the first sign of an increase in the number of companies that may be experiencing cash-flow difficulties. In addition, the survey found that there has been a noticeable rise in respondents reporting “problems accessing finance,” with the most aggressive tightening of monetary policy in 40 years likely to hit corporate liquidity.

The survey shows confidence in the economic outlook remaining well below the median reading over the past decade, while the other three indicators that are more closely related to economic activity—new orders, capital expenditure, and employment—all deteriorating to some degree, according to the ACCA and the IMA. Taken as a whole, the series are consistent with slower global growth for the remainder of the year, coupled with inflationary pressures rising.

“Although confidence recovered from the very sharp fall in the Q2 survey, the indices for new orders, capital spending and employment all showed further deterioration,” Loreal Jiles, vice president of research and thought leadership at IMA, said in a written statement. “The two ‘fear’ indices—reflecting the level of concern that customers and suppliers may go out of business—were little changed but remain above pre-pandemic levels.”

The survey notes the growing divergence in confidence levels across the regions, with low levels in North America and Western Europe contrasting with the more positive perspective among the survey’s Middle Eastern and South Asian respondents.

The findings in North America illustrate the impact of rising inflation and the global economy. After collapsing to a record low in the second quarter, North American confidence recovered slightly in the third quarter, but it is still the second weakest reading in the survey’s history, the ACCA and the IMA noted. Even more concerning is that new orders, capital spending, and employment all fell in Q3.

“These series are less volatile than the confidence measure and may give a better sense of the slowdown in economic growth that is underway in the region,” said Jamie Lyon, head of skills, sectors and technology at the ACCA. “With the U.S. Federal Reserve engaged in an aggressive monetary tightening to bring inflation back under control, it is inevitable that both confidence and economic activity will be reduced.”

After an inventory-induced contraction in Q2, some underlying measures of U.S. economic activity appeared to slow further in Q3. Housing has played an important part of that slowdown: housing starts have not grown at all since the end of June, while inventories of unsold new homes have sharply increased. The National Association of Home Builders’ Housing Market Index is down to its weakest level (outside the pandemic) since the middle of 2014. Yet, the decline in oil prices through July and August appears to have given the U.S. consumer a bit of support, the ACCA and the IMA said.

Retail sales volumes rose in August, after three months of contraction. Both the Conference Board and University of Michigan confidence measures have bounced in recent months. The Federal Reserve Bank of Atlanta's "GDPNow" model suggests the economy could expand by an annual rate of 2.8% in the third quarter.

Declining oil prices have also pulled inflation lower, from 9% in June to 8.2% in September, but that's still far higher than the Federal Reserve Board would like it to be. Rising rents and house prices partly explain why high inflation has been so problematic.

"Our latest Global Economic Conditions survey points to obvious ongoing challenges in the global economy, a reflection of the continued economic fallout from the Russian invasion in Ukraine, a further tightening of monetary policy in key jurisdictions, and a cost-of-living crisis," Lyon said. "One of the key risks will be how much and how quickly central banks will seek to further tighten monetary policy in the months ahead to tame inflationary pressures, and whether or not the global economy could slow more than business leaders expect in 2023."

Jiles added: "For most regions in the world, the GECS survey points to a decline in business orders both in comparison to the previous quarter and looking across the new orders index over the past year. Coupled with inflationary pressures, it suggests a challenging time for businesses ahead in the next few months."

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