

The Global Economy – A Two-Speed Recovery in 2012?

Further analysis of the findings of the inaugural MSI Global Feelgood Index is provided below by Joe Nellis, Professor of International Management Economics at Cranfield School of Management, a leading international business school based in the UK.

London, 9 November 2011 - Prospects for the global economy have weakened in recent months as business and consumer confidence in the major developed markets remains fragile – especially in the United States.

According to the *MSI Feel Good Index*, the balance of confidence worldwide remains finely balanced (**+0.08**) while in North America it remains barely positive (**+0.04**). Perhaps unexpectedly, the balance of business confidence in the Indian Region (excluding Pakistan and Bangladesh) is lower (**-0.28**) than in the USA, suggesting that external factors may be slowing down activity there.

The major Western and Eastern European economies are struggling to deal with unprecedented structural problems as budget deficits and national debts remain stubbornly high in the context of weak and bumpy economic recovery following the longest and deepest recession since the Great Depression. Some economies, especially in the Eurozone, face the growing danger of a *double dip* in the months ahead. Despite the bleak outlook, however, the MSI Survey reports that the overall balance of business confidence globally is more or less neutral (**+0.08**) – but the next few months will be critical for the region as a whole.

While the economic outlook for emerging markets has weakened to some extent as global export markets have been hit, growth is still expected to remain relatively robust as their domestic economies continue to prosper on the back of rising real incomes and appropriate policy responses by governments. Overall, business confidence remains significantly positive in the Middle East (**+0.33**), Latin America (**+0.27**), and Southern Africa (**+0.22**) regions according to the *MSI Global Feelgood Index*. Confidence is also positive (but only marginally so) in Australia and New Zealand (**+0.03**).

Looking ahead, world economic growth is expected to slow down from just over 5% in 2010 to around 4% in 2011 and in 2012. According to the latest forecasts from the IMF, the developed economies as a whole are likely to achieve only modest growth of between 1.5 and 2 per cent at best while the emerging markets and developing economies will still record solid figures of at least 6% over the course of the next year. This optimism is shared by MSI members in this, the first issue of the *MSI Global Feelgood Index*.



But in the current climate all economic forecasts must come with a warning! All eyes will remain on the unfolding financial crisis in the Eurozone as efforts continue in an attempt to sort out the sovereign debt crisis and the threat to the stability and viability of the European banking system. At the same time, the US economy is struggling to pull itself out of trouble – despite record injections of liquidity through *Quantitative Easing* by the Fed. The housing market there is still hanging on the edge of a cliff while households refrain from borrowing and spending – choosing instead to pay back debt and to accumulate savings.

The world is facing a two-speed recovery path in the coming years. In the absence of clear and substantial policy co-ordination by governments, the developed economies are in danger of facing a 'Lost Decade' - as experienced by Japan in the last decade(s). This will be in sharp contrast to the outlook for the emerging and developing countries. The world is on the brink of a major 'paradigm shift' in terms of the balance of economic and political influence.

Note to Editors

Each quarter, the MSI Global Feelgood Index surveys business owners and managers in over 100 countries on their levels of optimism regarding seven key areas of business: sales pipeline, profit margins, cash flow, spending on investment capital, staff numbers, spending on marketing and advertising, and spending on staff training and welfare.

From the period 16-22 October 2011, participants were asked to state their level of optimism or pessimism for each of the seven key areas of business. The responses were then collated and weighted to reflect the size of the different economies in the responding countries, before being analysed by Joe Nellis, Professor of International Management Economics at Cranfield School of Management, a leading international business school based in the UK.

A video showing comments from MSI Global Alliance members in the North American, European and Asia Pacific regions can be viewed at <http://youtu.be/A8ZvGaA5mTU>.

Breakdown of Findings: Global & Regional Averages (November 2011)

Region	Confidence Index	How do you envisage the following key business indicators will perform over the next three months?			In which direction do you anticipate the following key business indicators will go over the next three months?			
		Sales pipeline	Profit margins	Cash flow	Spending on investment capital	Staff numbers	Spending on marketing & advertising	Spending on staff welfare & training
Global	+0.08	+0.16	+0.04	+/-0.00	-0.07	+0.13	+0.18	+0.07
North America	+0.04	-0.04	-0.04	-0.02	-0.06	+0.22	+0.14	+0.06
Western Europe	-0.02	+0.10	-0.08	-0.10	-0.20	+0.02	+0.10	+0.04
Eastern Europe	+0.06	+0.14	+0.05	+0.00	-0.18	+0.09	+0.32	+0.05
ANZ	+0.03	+0.05	+/-0.00	-0.06	-0.16	+0.11	+0.16	+0.11
SE Asia	+0.03	+0.19	+0.04	+/-0.00	+0.04	+/-0.00	+/-0.00	-0.08
Indian Region	-0.28	-0.14	-0.36	-0.29	-0.50	-0.36	-0.07	-0.21
Latin America	+0.27	+0.35	+0.19	-0.06	+0.35	+0.29	+0.12	+0.65
Middle East	+0.33	+0.33	+0.14	+0.29	+0.29	+0.57	+0.43	+/-0.00
Southern Africa	+0.22	+0.48	+0.41	+0.21	-0.21	+0.21	+0.45	+/-0.00

About MSI Global Alliance (MSI)

MSI Global Alliance (MSI) is an international association of independent professional firms, with over 250 member firms in some 105 countries. MSI was established in 1990 in response to the growing need for cross-border co-operation between professional services firms. MSI is different to other international associations and networks due to its multidisciplinary membership of both accounting and law firms and its comprehensive global coverage. MSI was recently shortlisted by The Lawyer magazine in the category Law Firm Network of the Year category at the Lawyer European Awards.

For more information about MSI, the Global Feelgood Index, and MSI's member firms, please go to www.msiglobal.org or follow the association's updates on Twitter @msi_global