

making business sense



Grant Thornton

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Q2 2013 ICAEW / Grant Thornton Business Confidence Monitor results

29 April 2013

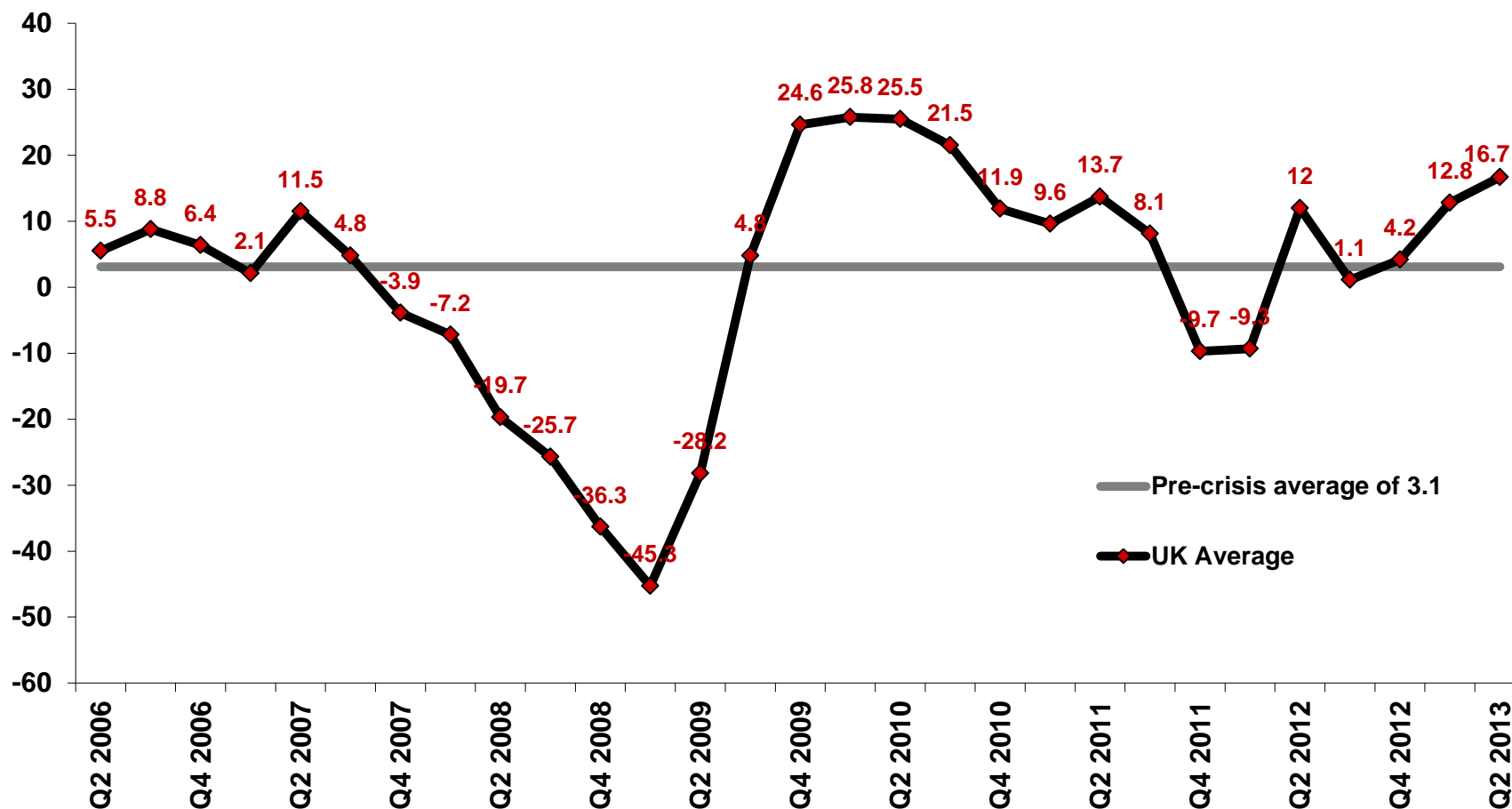
Contact: Caroline Florence

Outline

- Confidence index top lines
- Financial performance indicators
 - Growth indicators
 - Inflation & labour market indicators
- Regional & sector stories

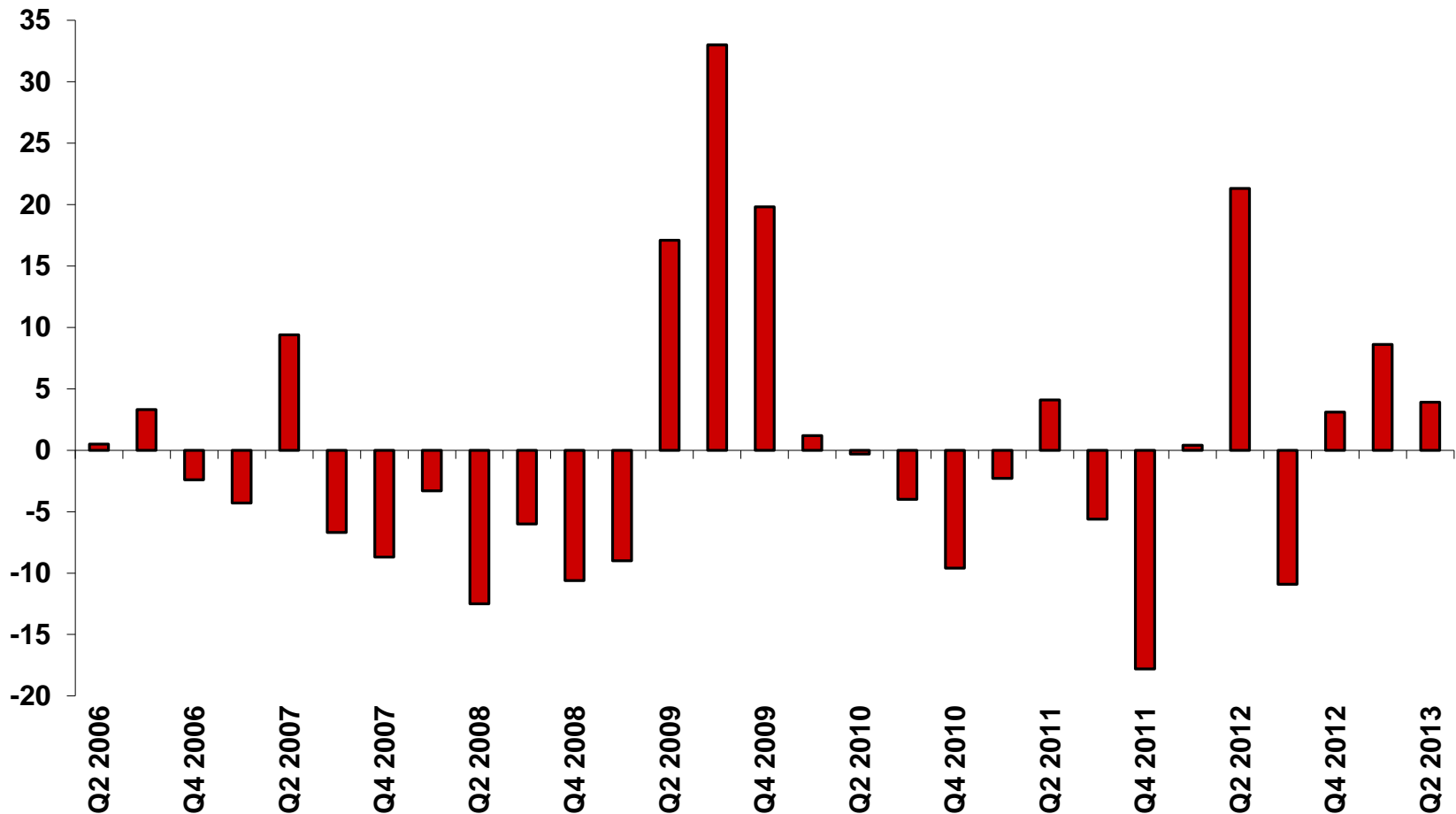
Business confidence reaches its highest level since Q3 2010

ICAEW / Grant Thornton Business Confidence Index

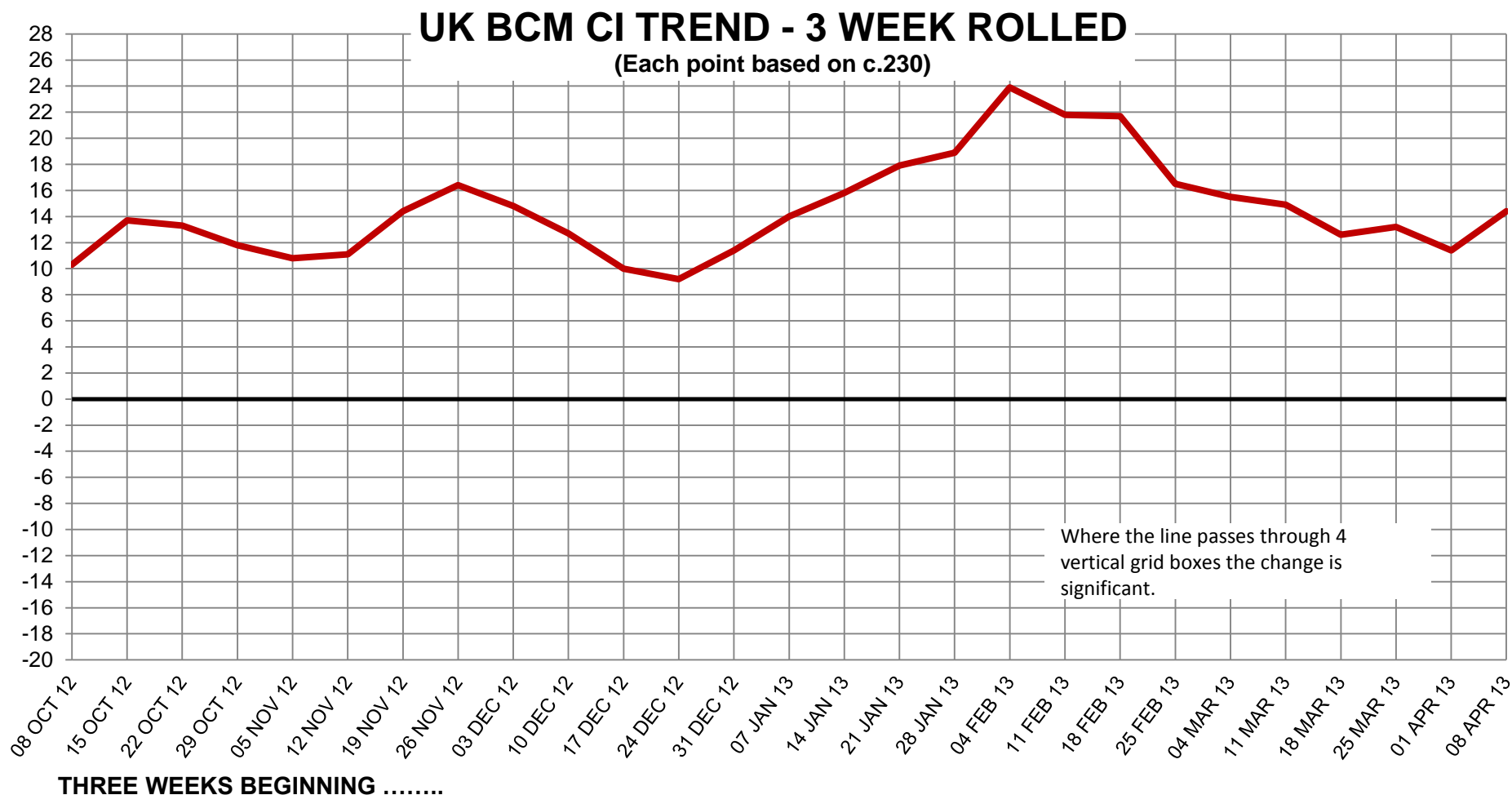


Business confidence has increased now for three consecutive quarters

Quarterly change to Confidence Index

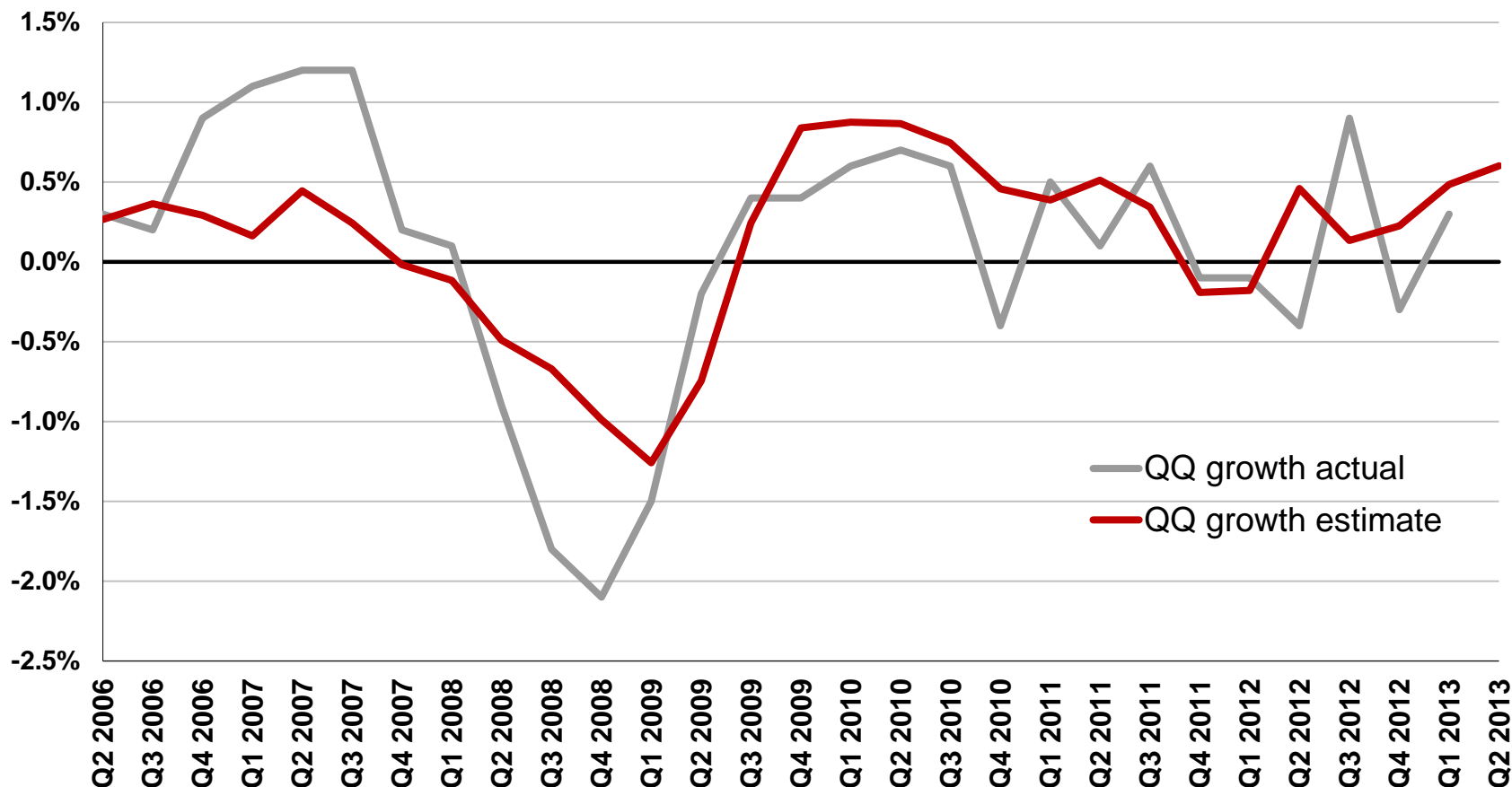


Confidence fairly steady in quarter; peaked in early February and has fallen back slightly since



Economy expected to grow by 0.6% in Q2 – up from 0.3% in Q1

Quarter on quarter real GDP growth, per cent

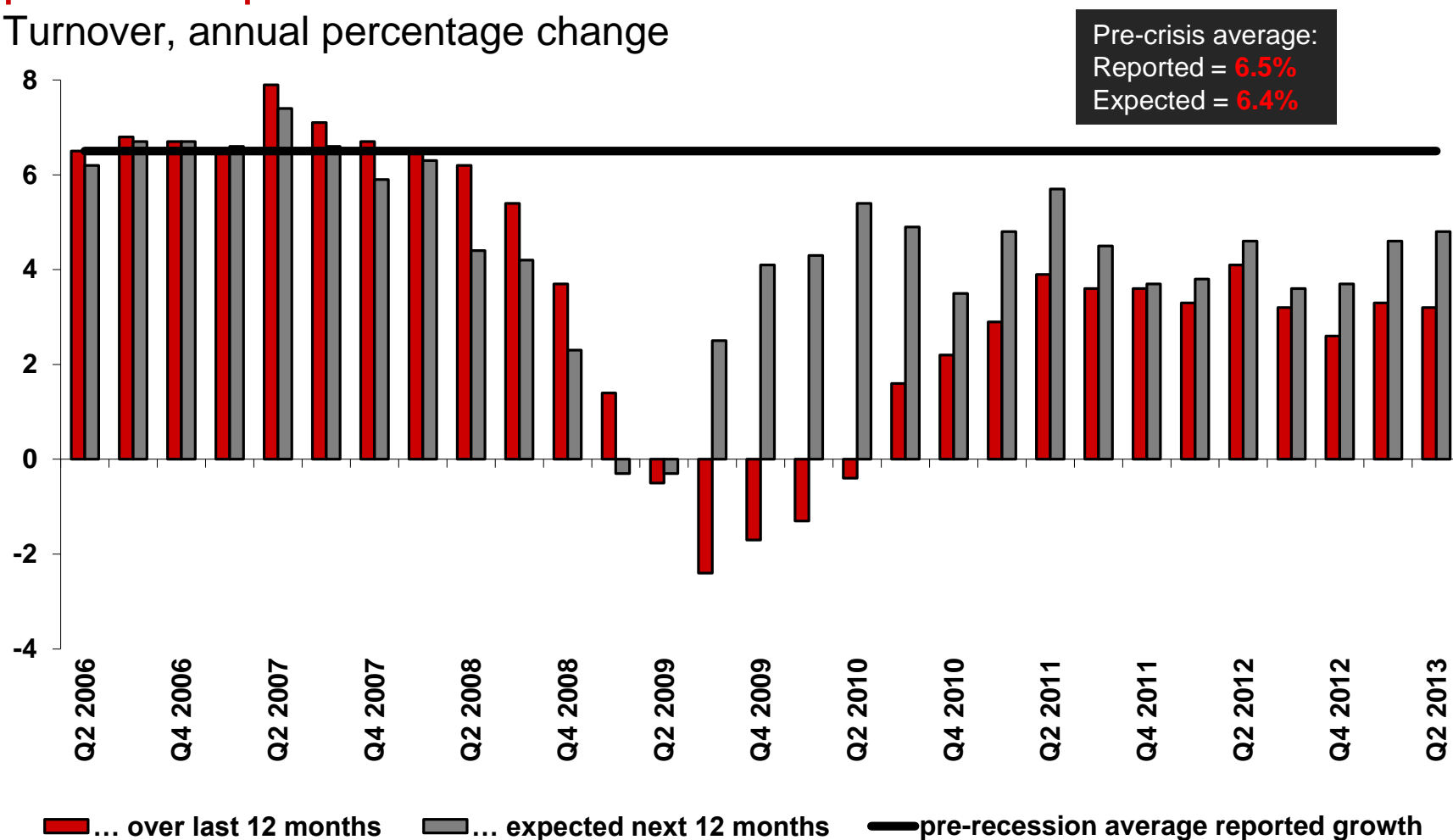


Outline

- Financial performance indicators
 - Growth indicators

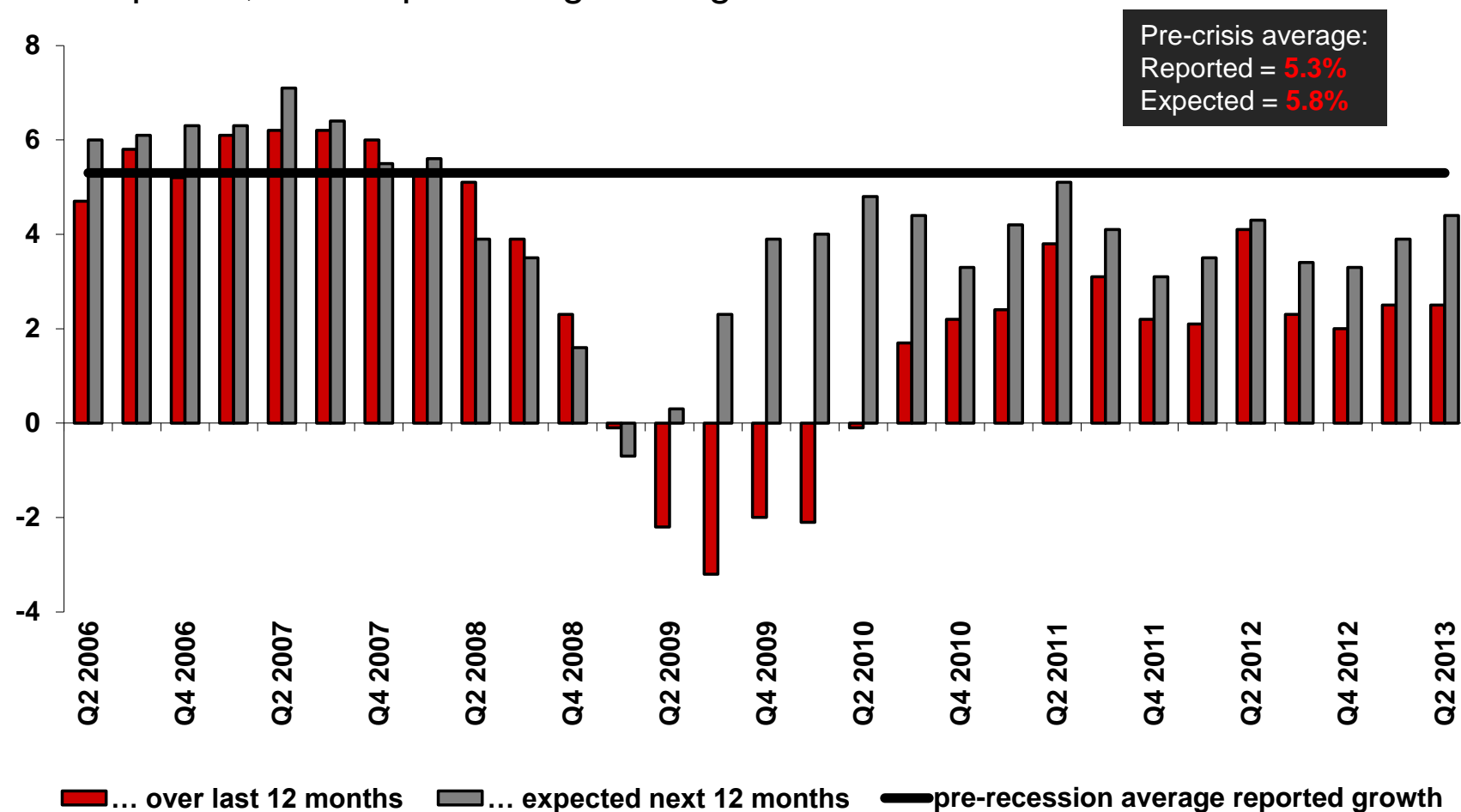
Turnover growth and expectations broadly unchanged on previous quarter

Turnover, annual percentage change



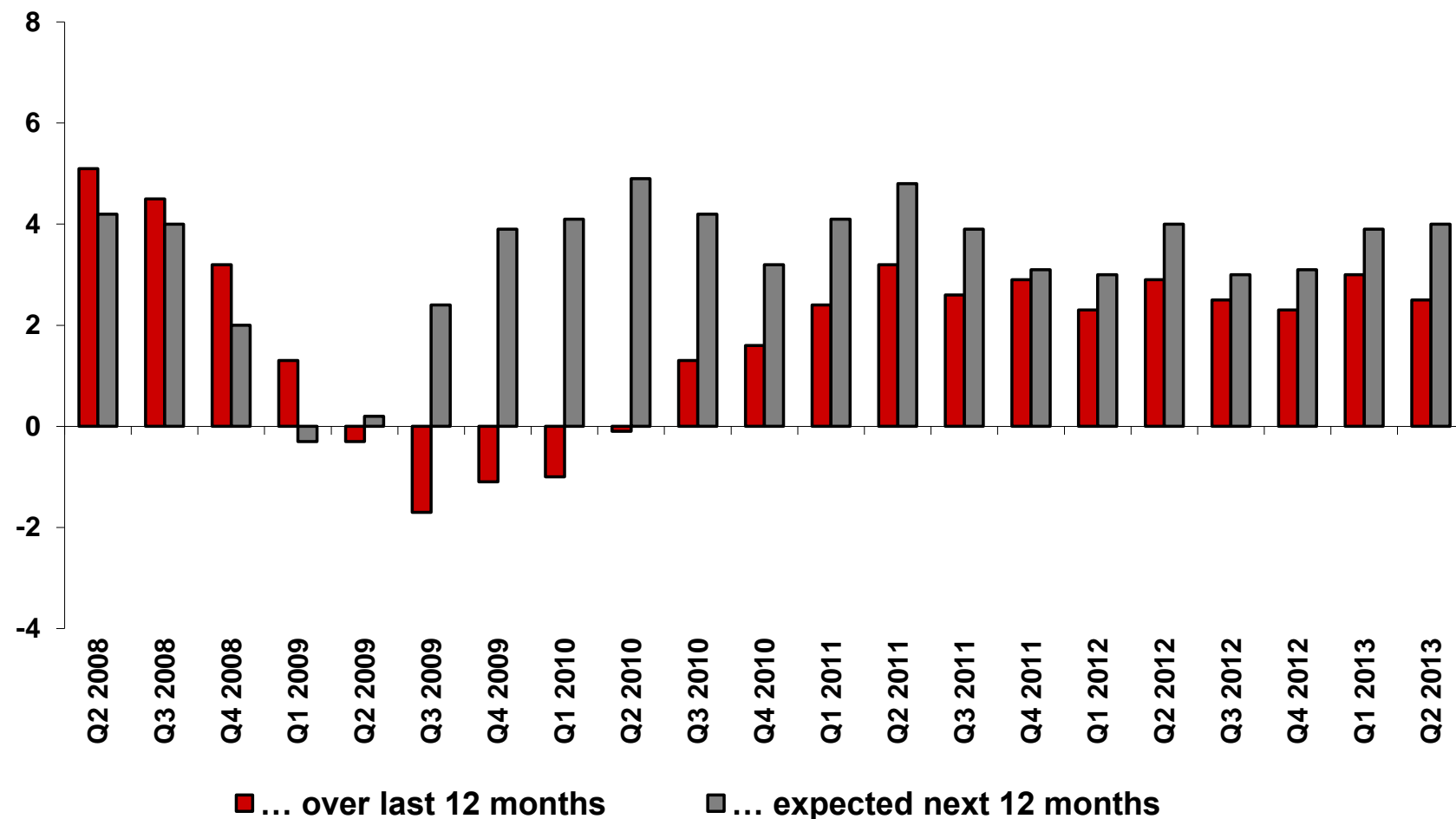
Expected profit growth continues to increase, though remains weaker than pre-crisis levels

Gross profits, annual percentage change



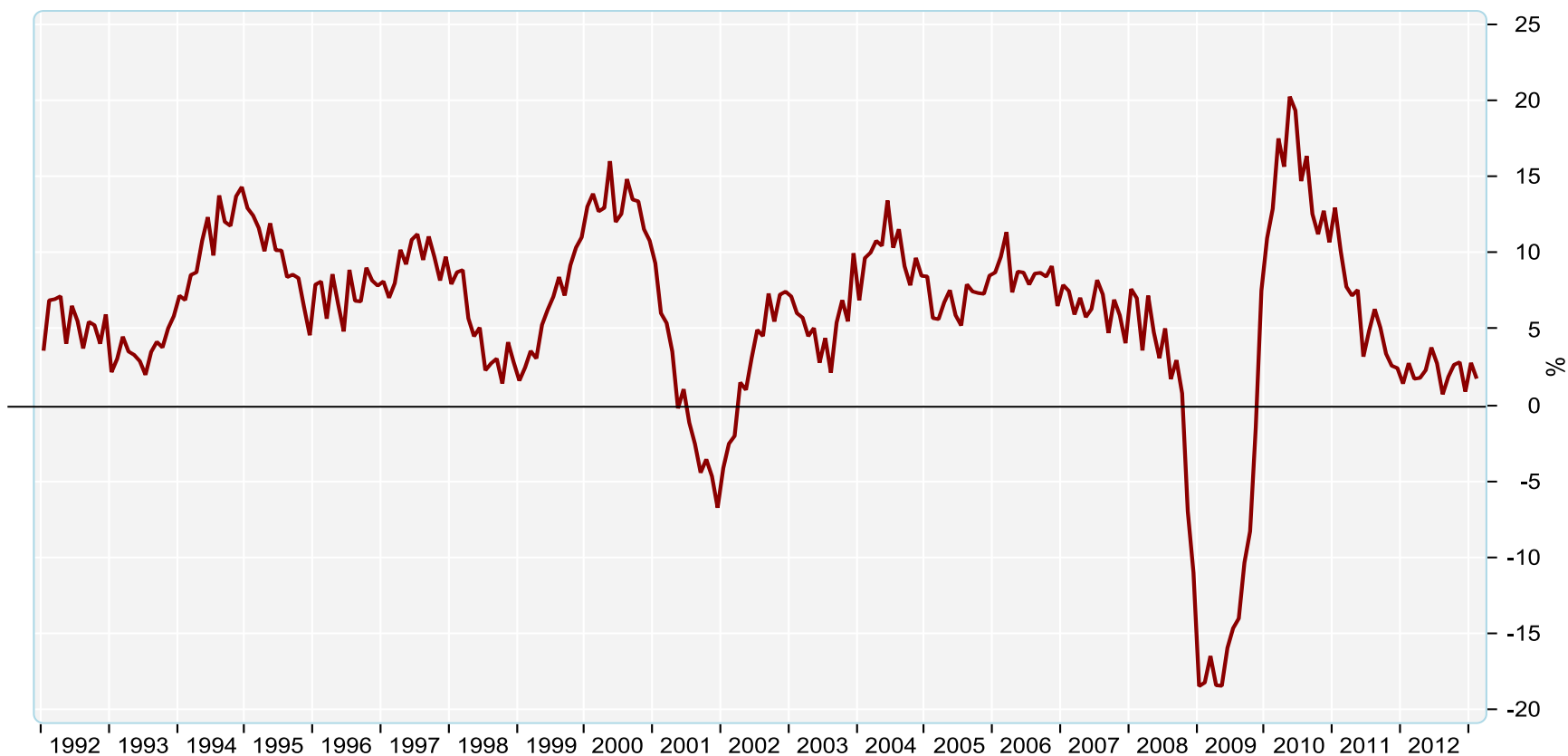
Domestic demand growth holds steady despite recent deterioration in real disposable income growth

Domestic sales, annual percentage change



World trade growth remains subdued as Eurozone contracts

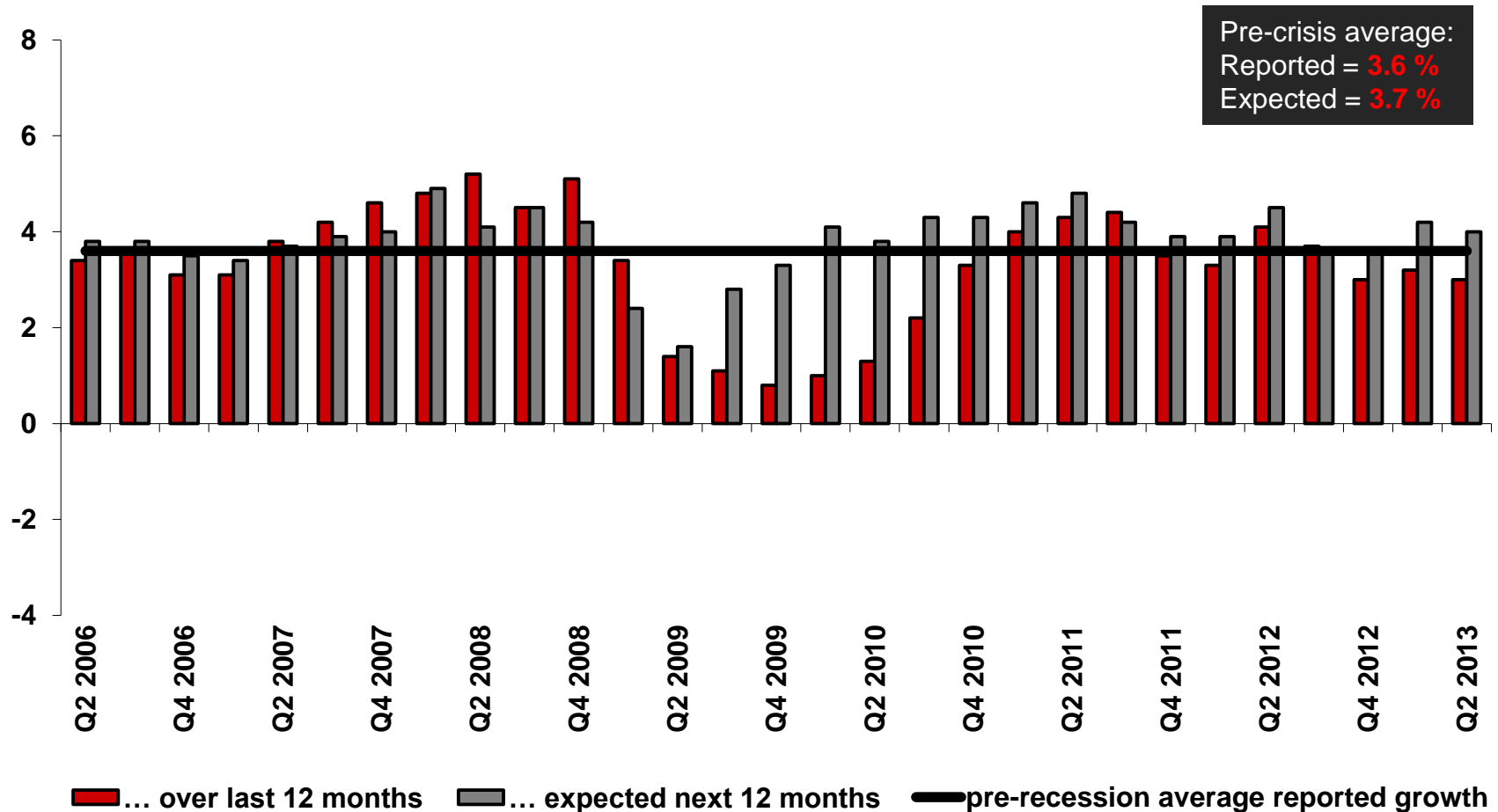
World, CPB World Trade Monitor, Total, Volume, SA, Index [c.o.p. 1 year]



Source: **Macrobond**

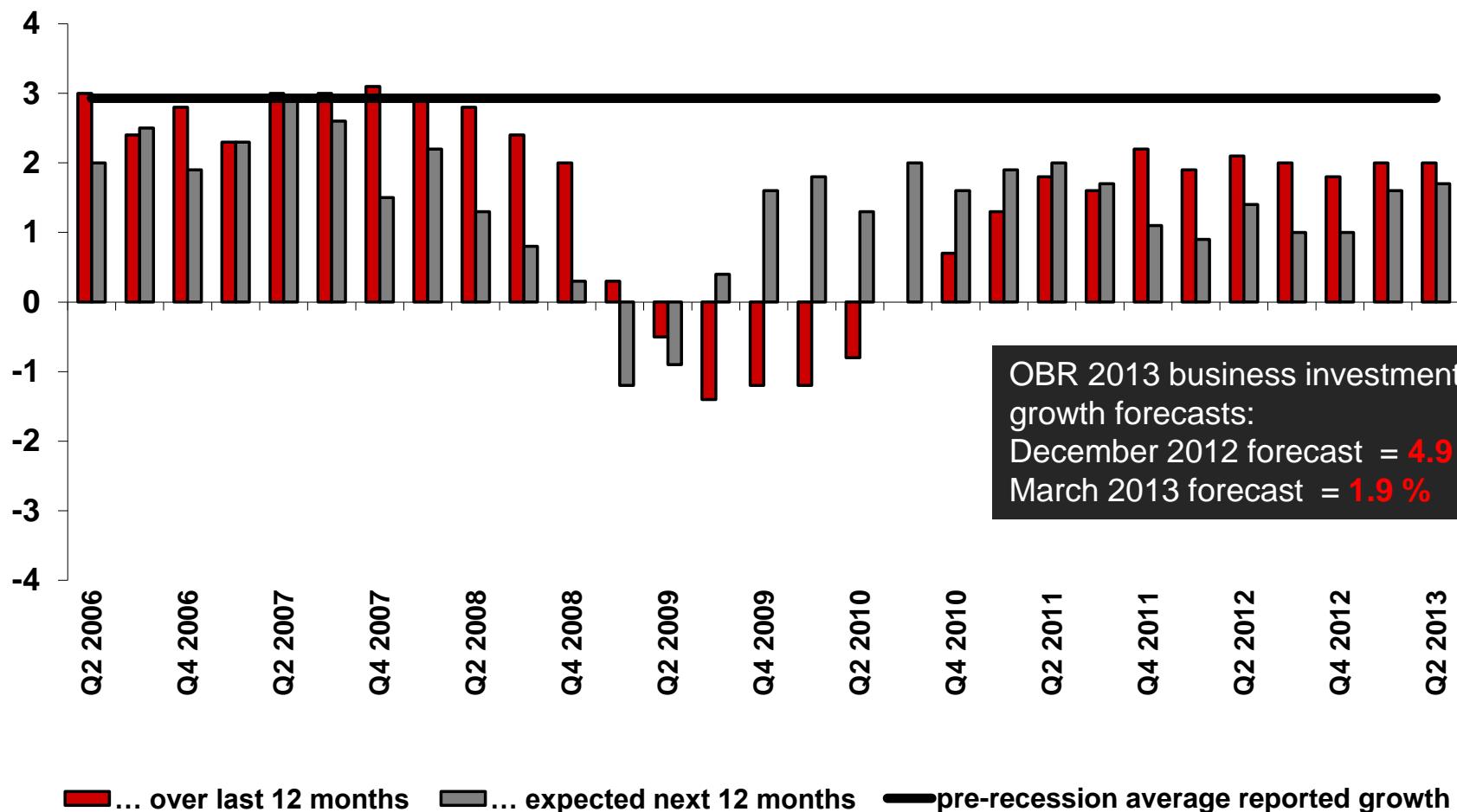
Businesses again expect export growth to pick up over the next year

Exports, annual percentage change



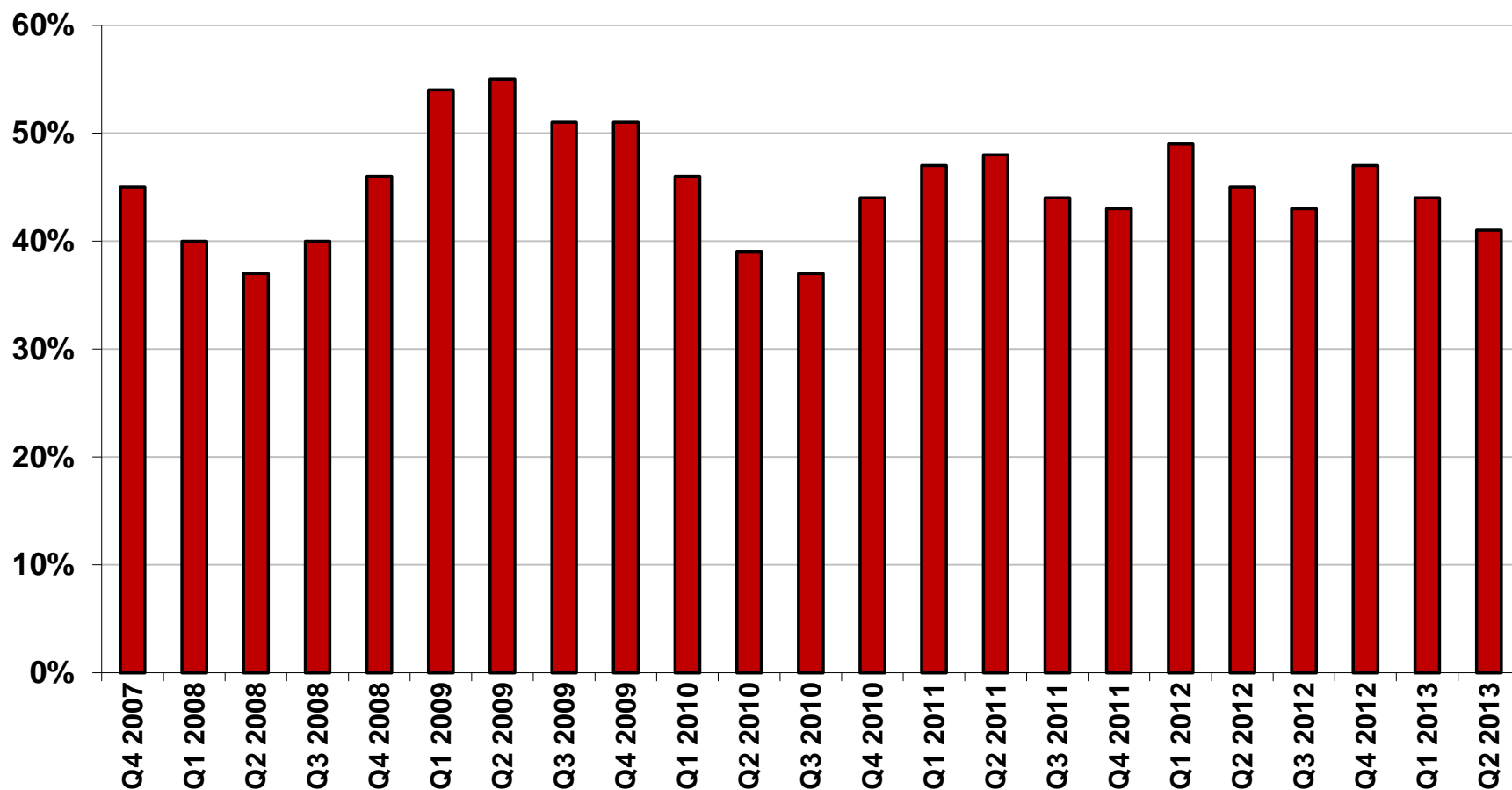
Businesses remain cautious on investment plans; OBR's latest forecast has moved into line with BCM

Capital investment, annual percentage change



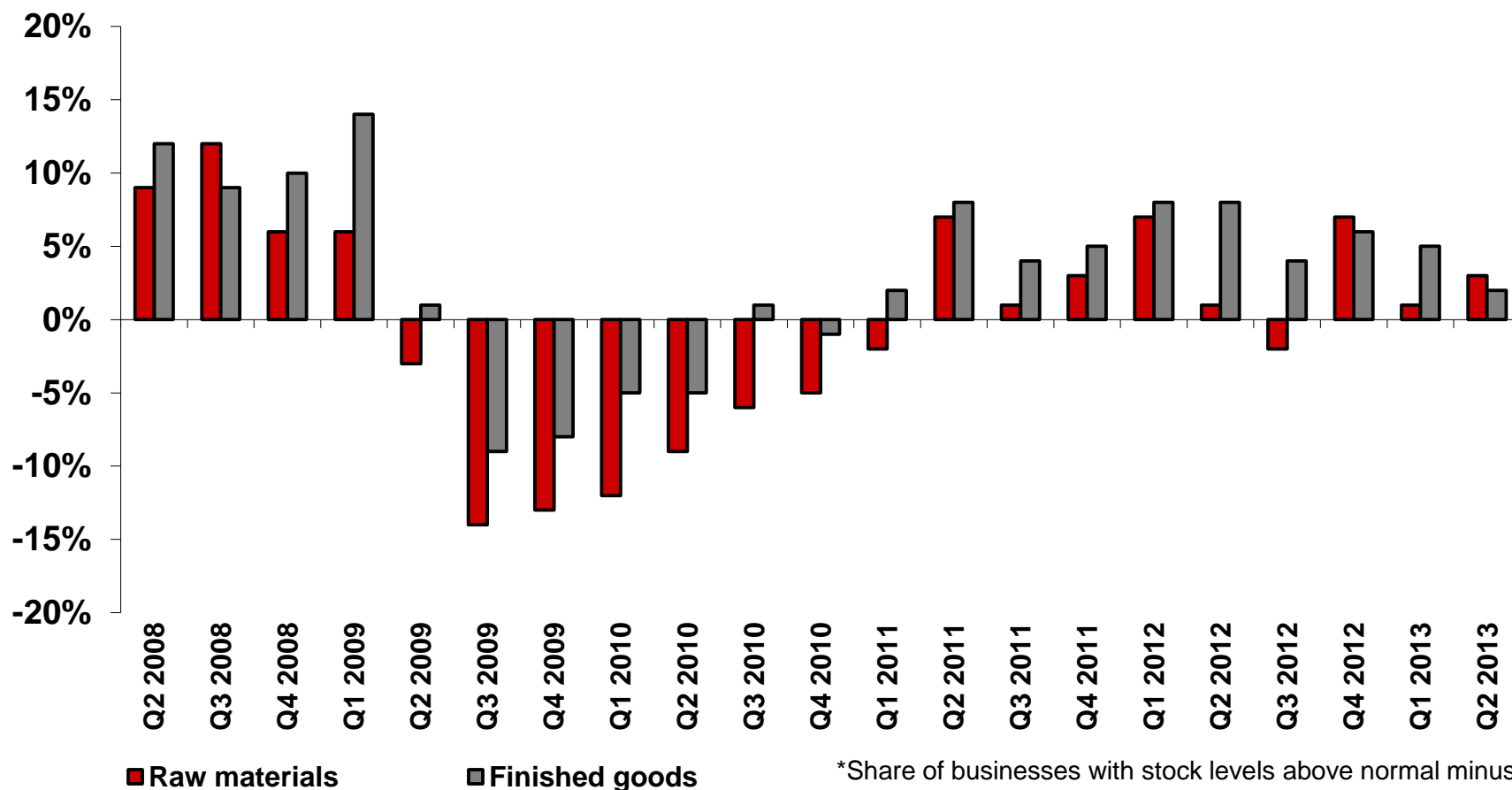
Lowest share of businesses since Q3 2010 report customer demand to be a greater challenge

Share of businesses reporting customer demand as greater challenge



Continued decline in share of businesses reporting higher than normal stocks levels as demand increases

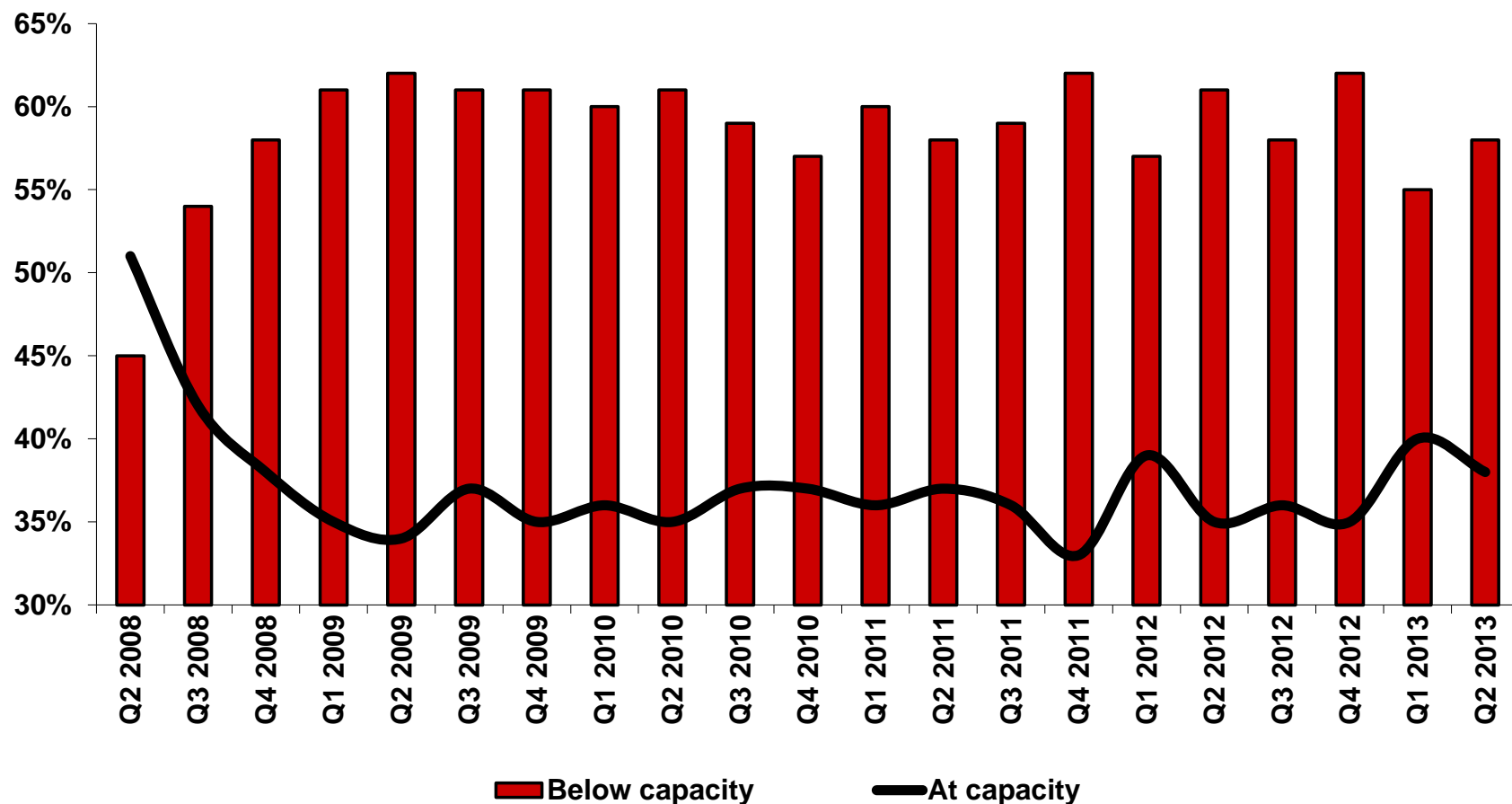
Net share* of businesses with stock levels **above normal**



*Share of businesses with stock levels above normal minus share of businesses with stock levels below normal

However, businesses still consider a notable degree of spare capacity as GDP still stands 2.6% below Q1 2008 peak

Share of businesses running at or below capacity

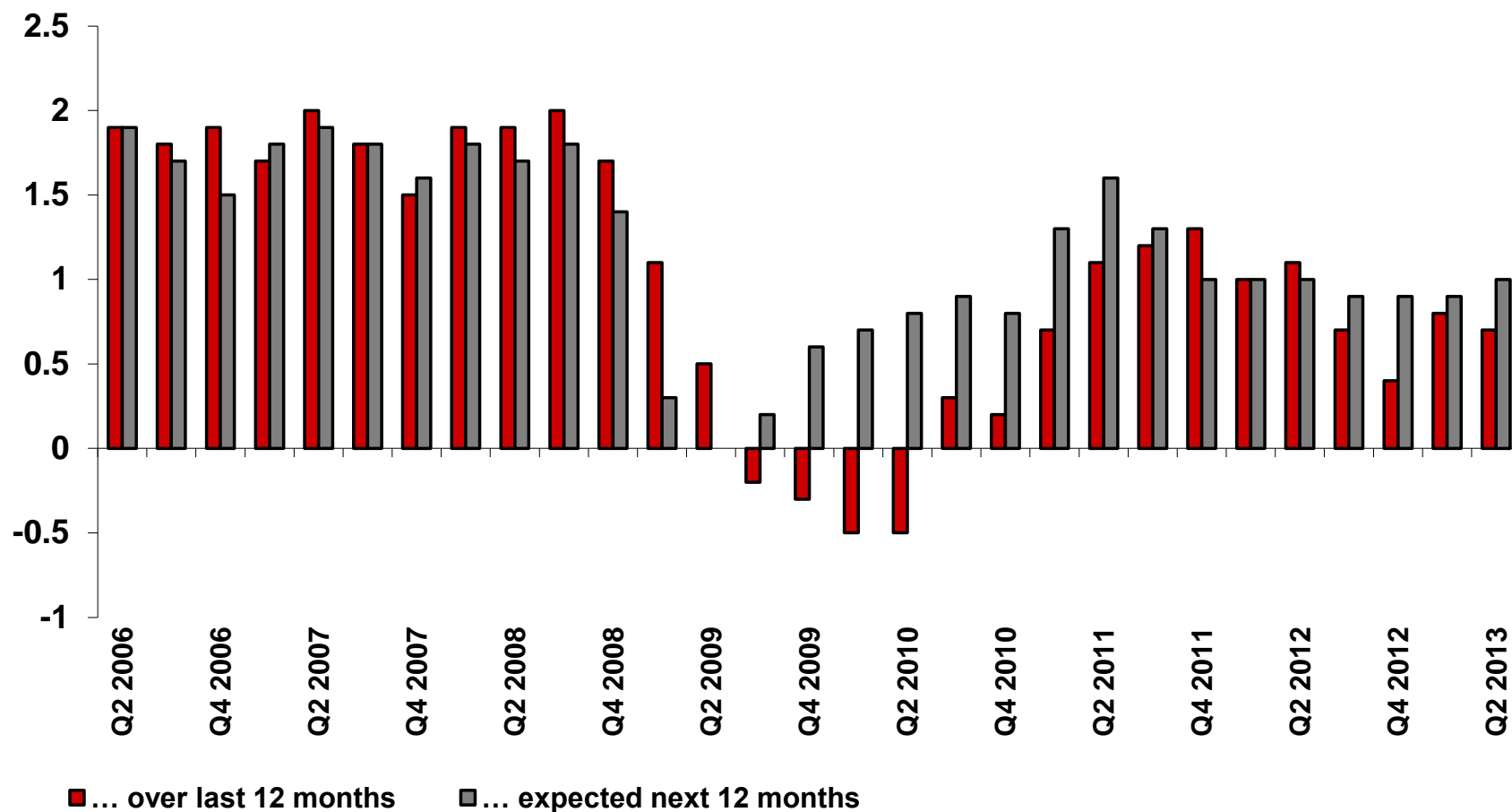


Outline

- Financial performance indicators
 - Inflation & labour market indicators

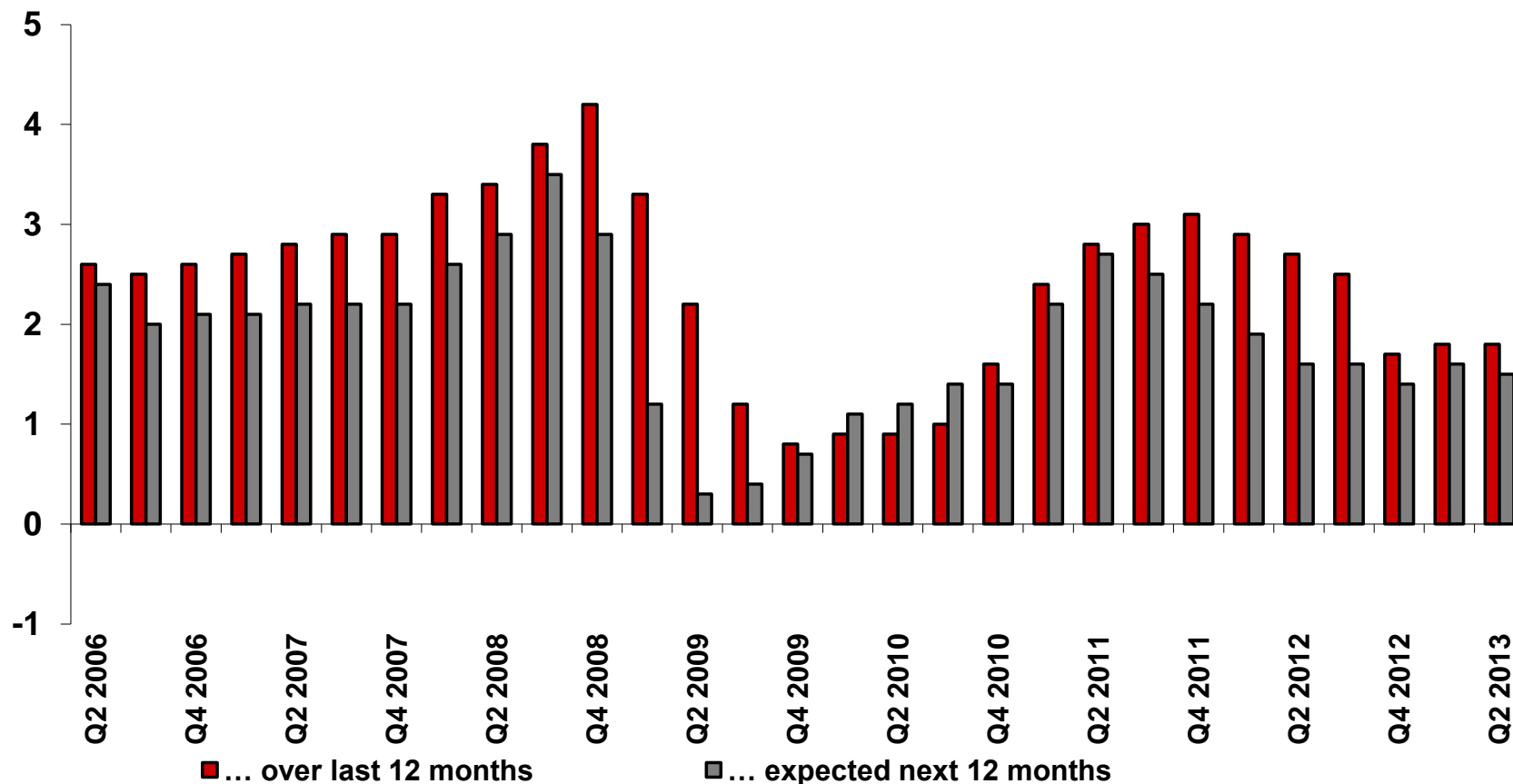
Inflation expectations remain largely stable; BoE expects inflation to remain notably above 2.0% target in 2013

Prices, annual percentage change



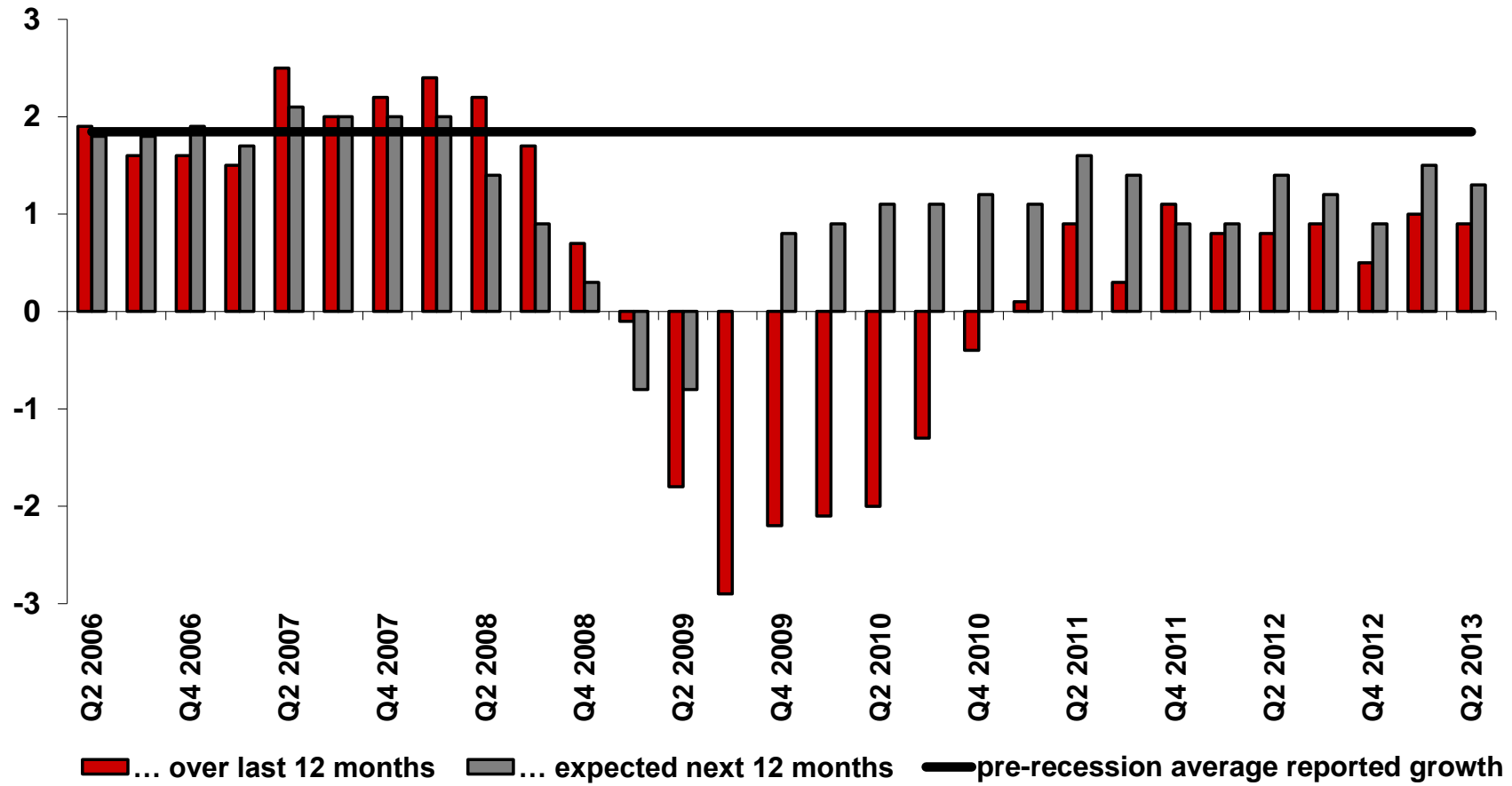
Input price inflation still expected to fall over the coming months; recent commodity price declines should help

Input prices, annual percentage change



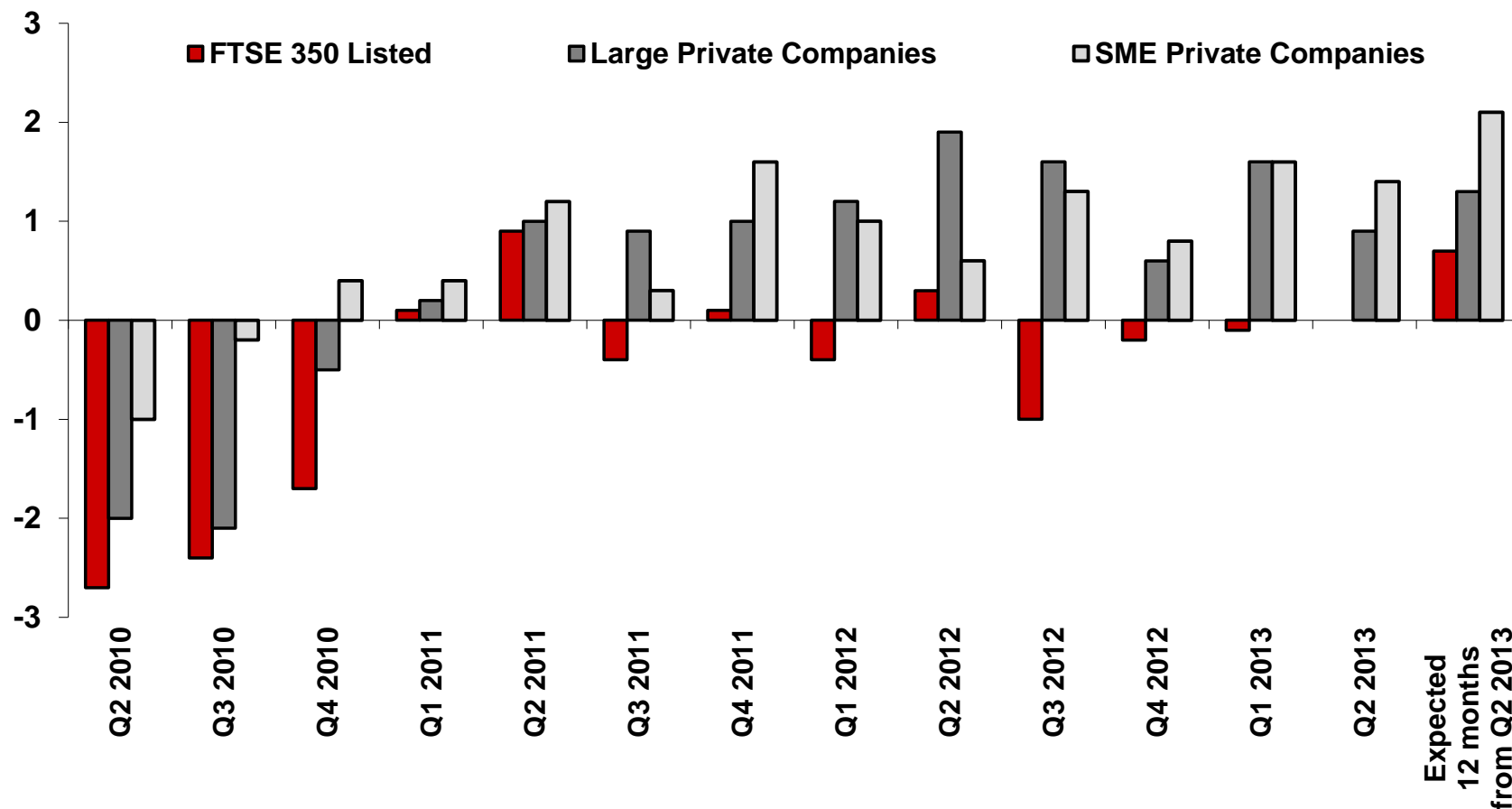
Private sector hiring growth broadly unchanged

Employment, annual percentage change



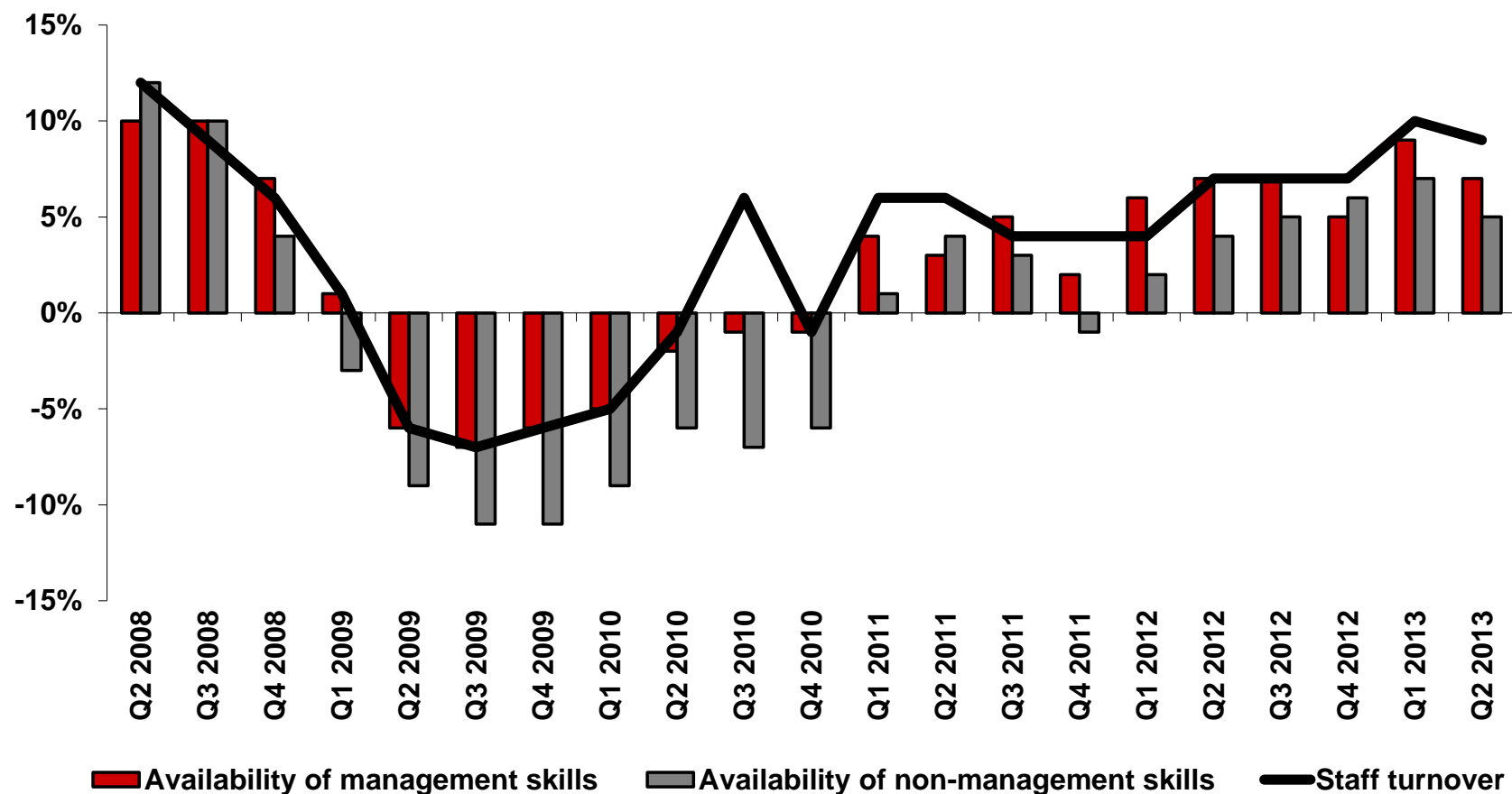
While large company employment growth has slowed, it has held up relatively well for SMEs

Employment, annual percentage change



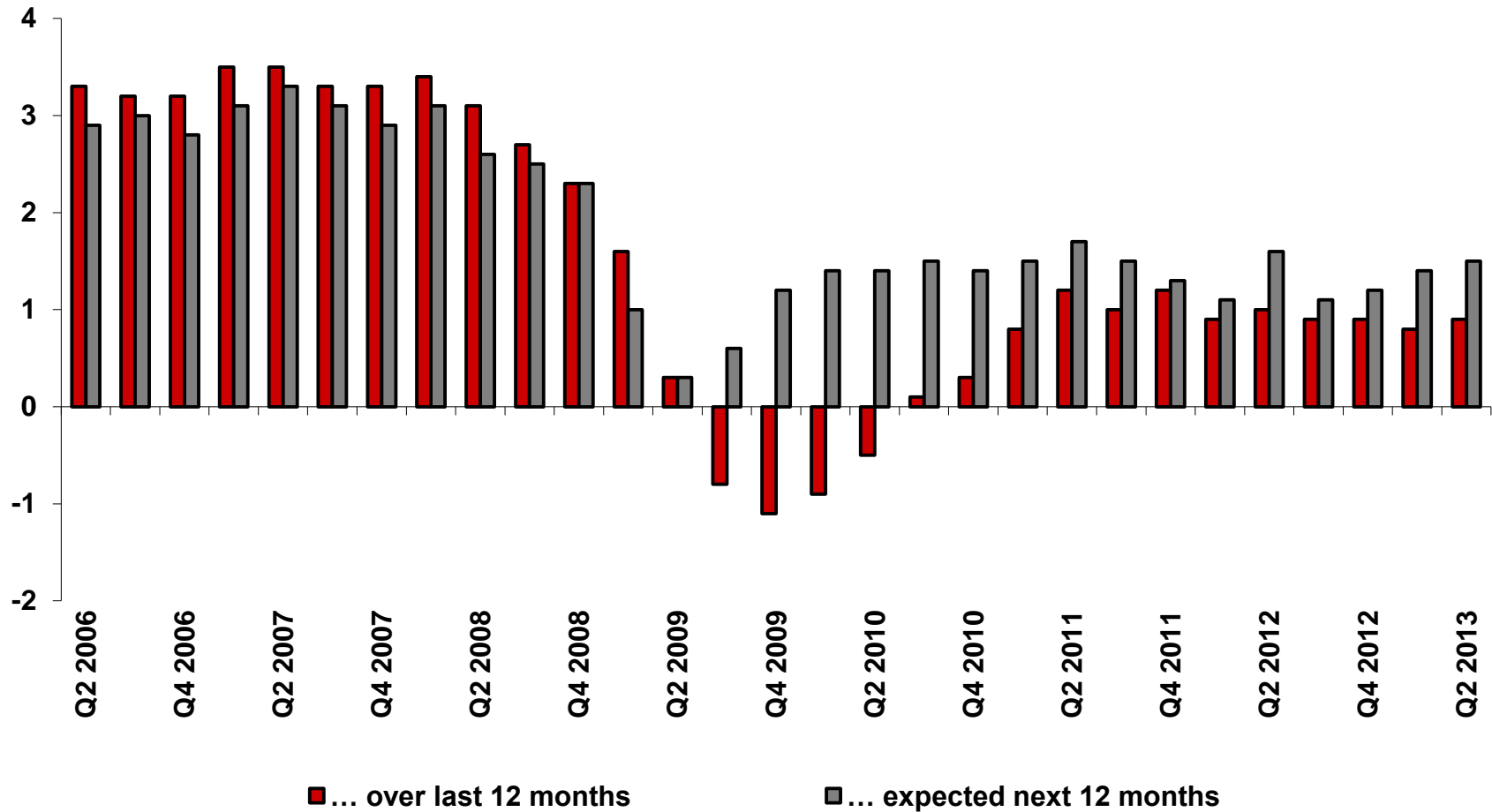
Staff turnover remains more of an issue than in 2012

Net percentage balance of firms reporting factors to be a greater challenge to business performance



Expected pay growth remains far below pre-crisis levels

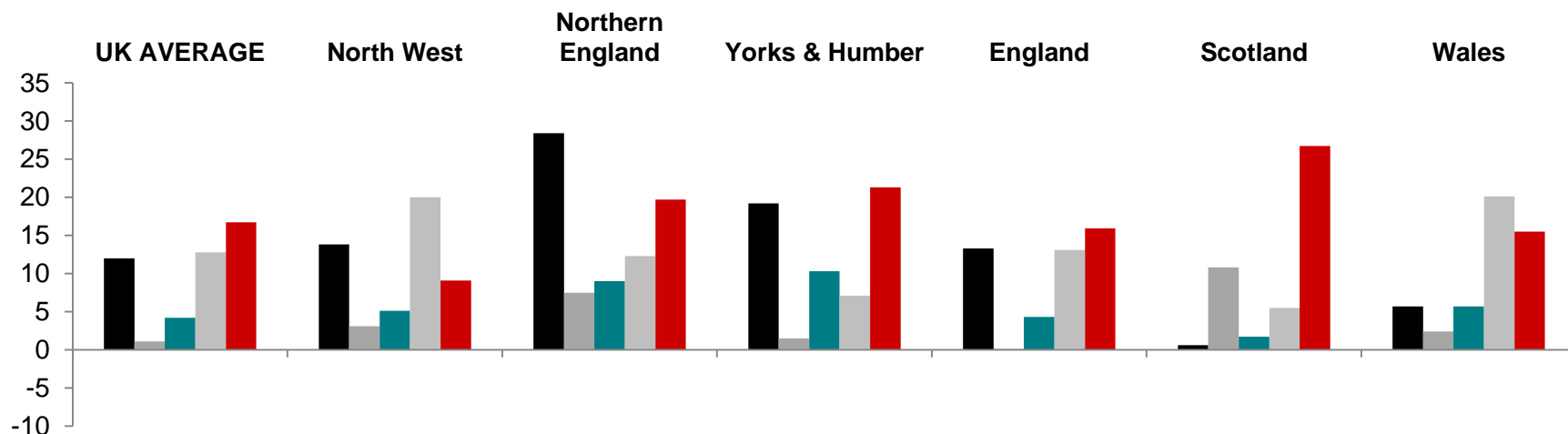
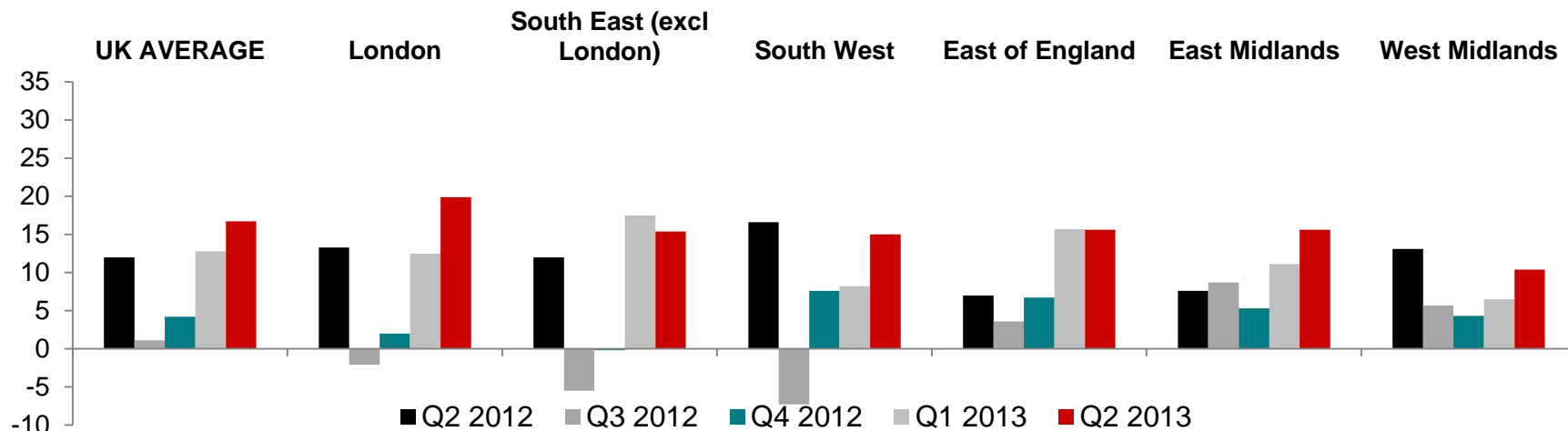
Average total salary, annual percentage change



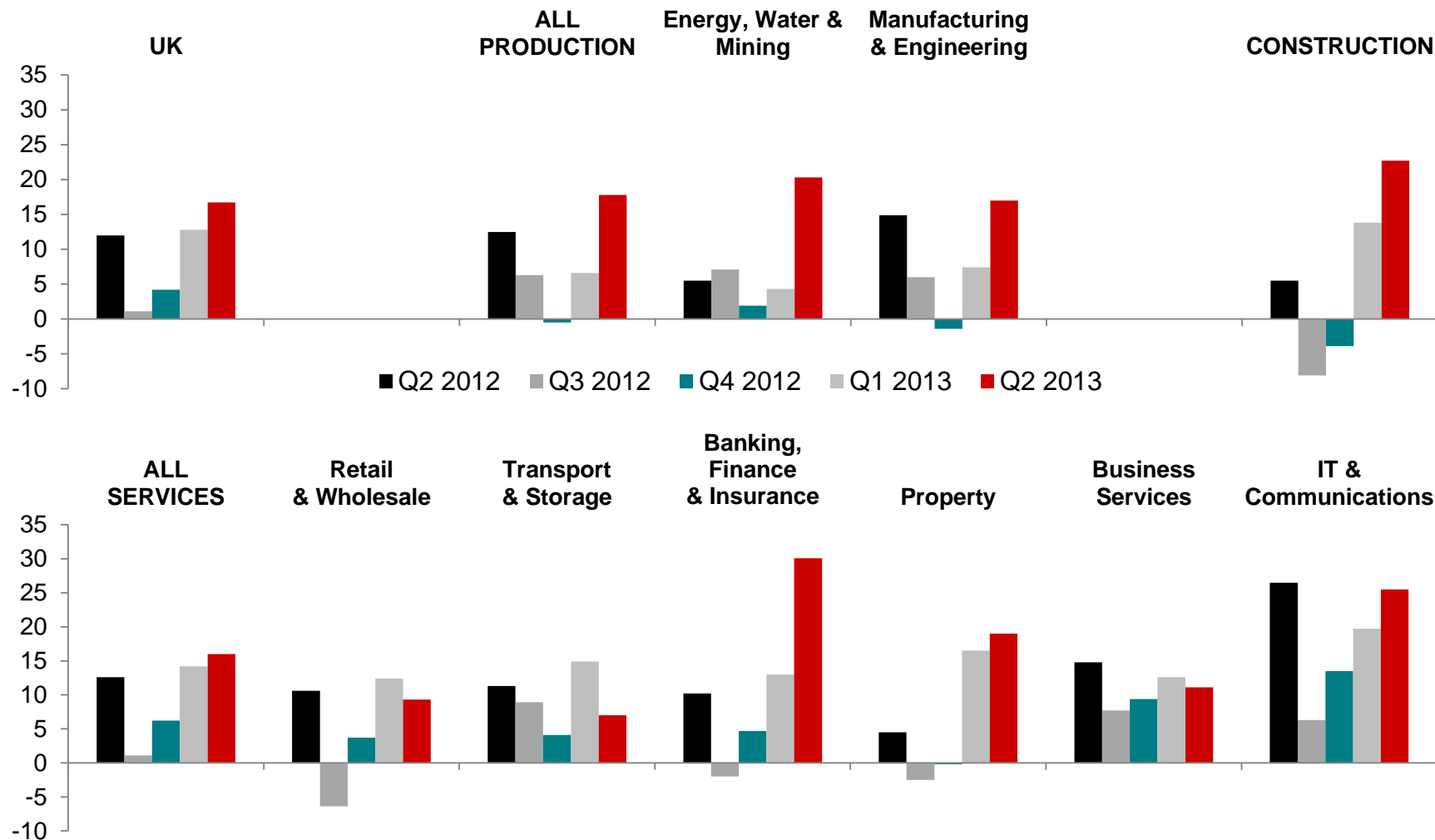
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- Regional & sector stories

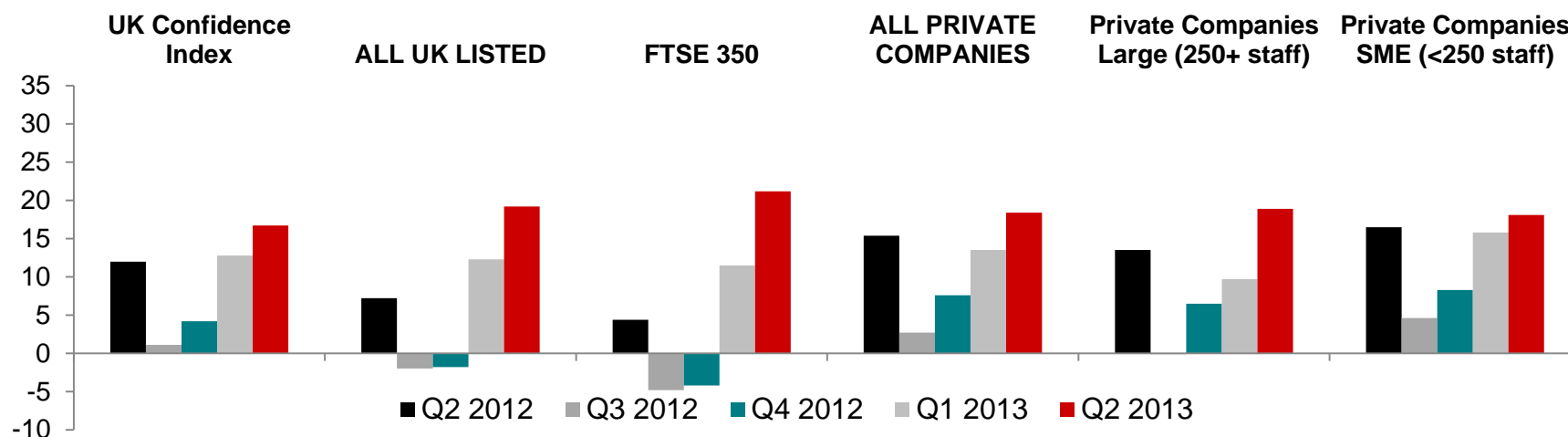
Trend of Business Confidence by Region



Trend of Business Confidence by Sector



Trend of Business Confidence by Company Type



Conclusions

- Business confidence rose again in Q2 2013, providing further evidence that the economy is strengthening.
- The Confidence Index points to economic growth of 0.6% in Q2 2013, allowing the UK economy to build on the 0.3% expansion seen in Q1.
- Higher confidence is backed up by consistent financial performance figures.
- Despite ongoing slow growth in world trade volumes, businesses expect stronger export performance in the year ahead.
- Input price inflation is expected to slow over the next 12 months.
- Employee pay growth remains subdued and far below consumer price inflation.
- Disappointingly, there remains little sign of an investment-led recovery, as businesses still expect no uptick in capital spending growth over the next 12 months.



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