



making business sense



Q3 2012 ICAEW / Grant Thornton Business Confidence Monitor results

23 July 2012

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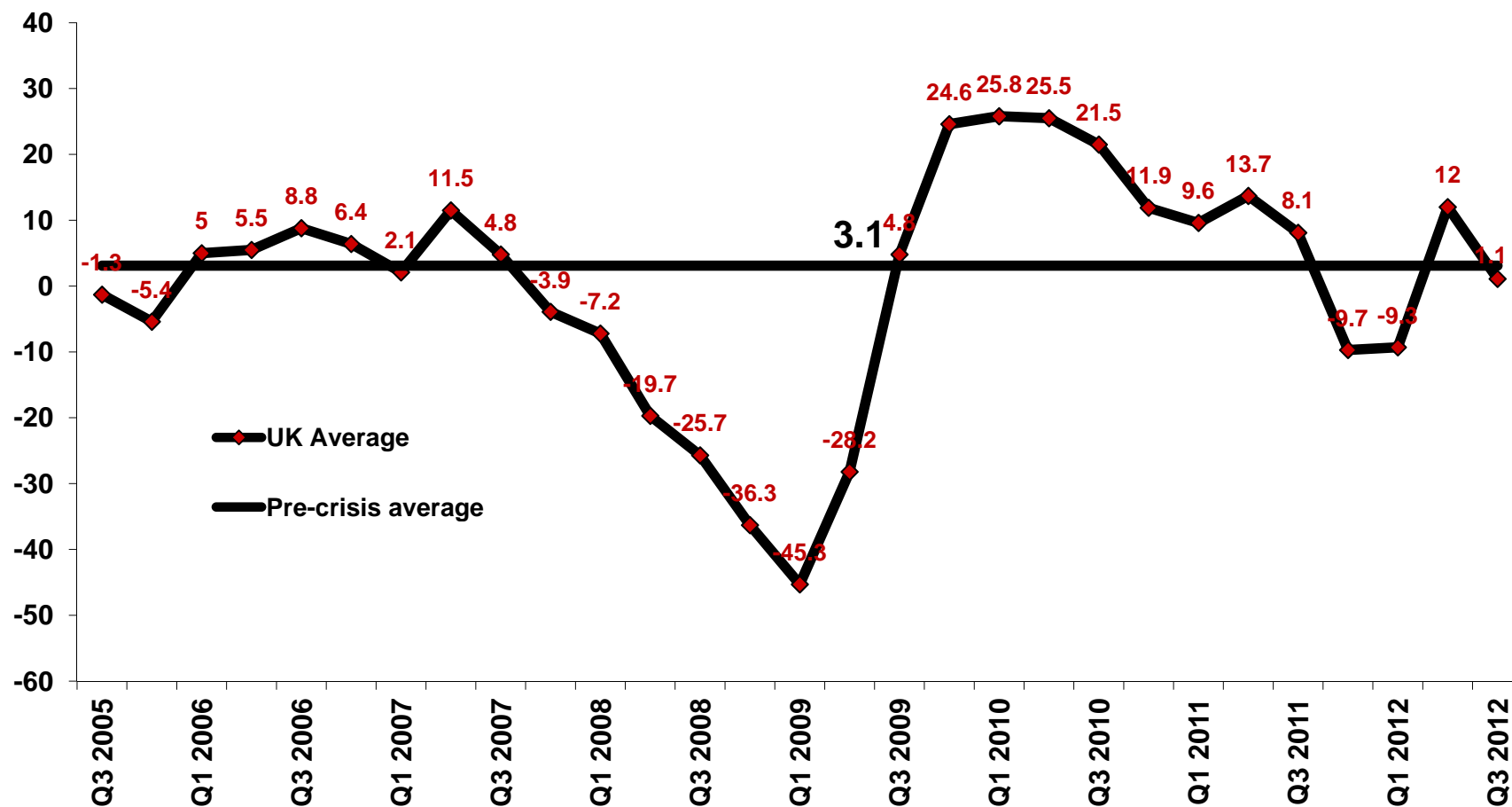
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Outline

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

Confidence Index declines after strong bounce back and is also down on a year earlier

ICAEW / Grant Thornton Business Confidence Index

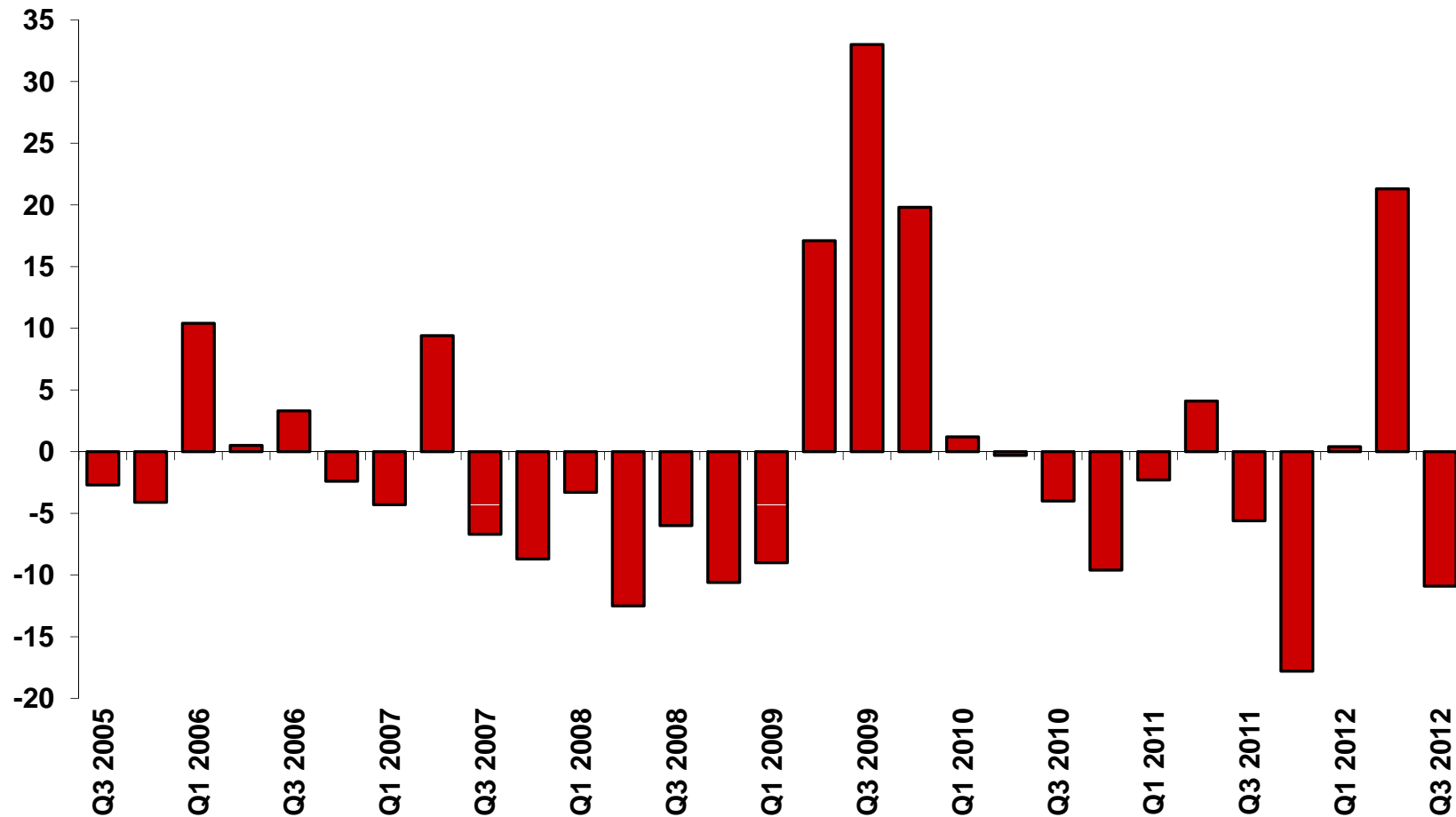


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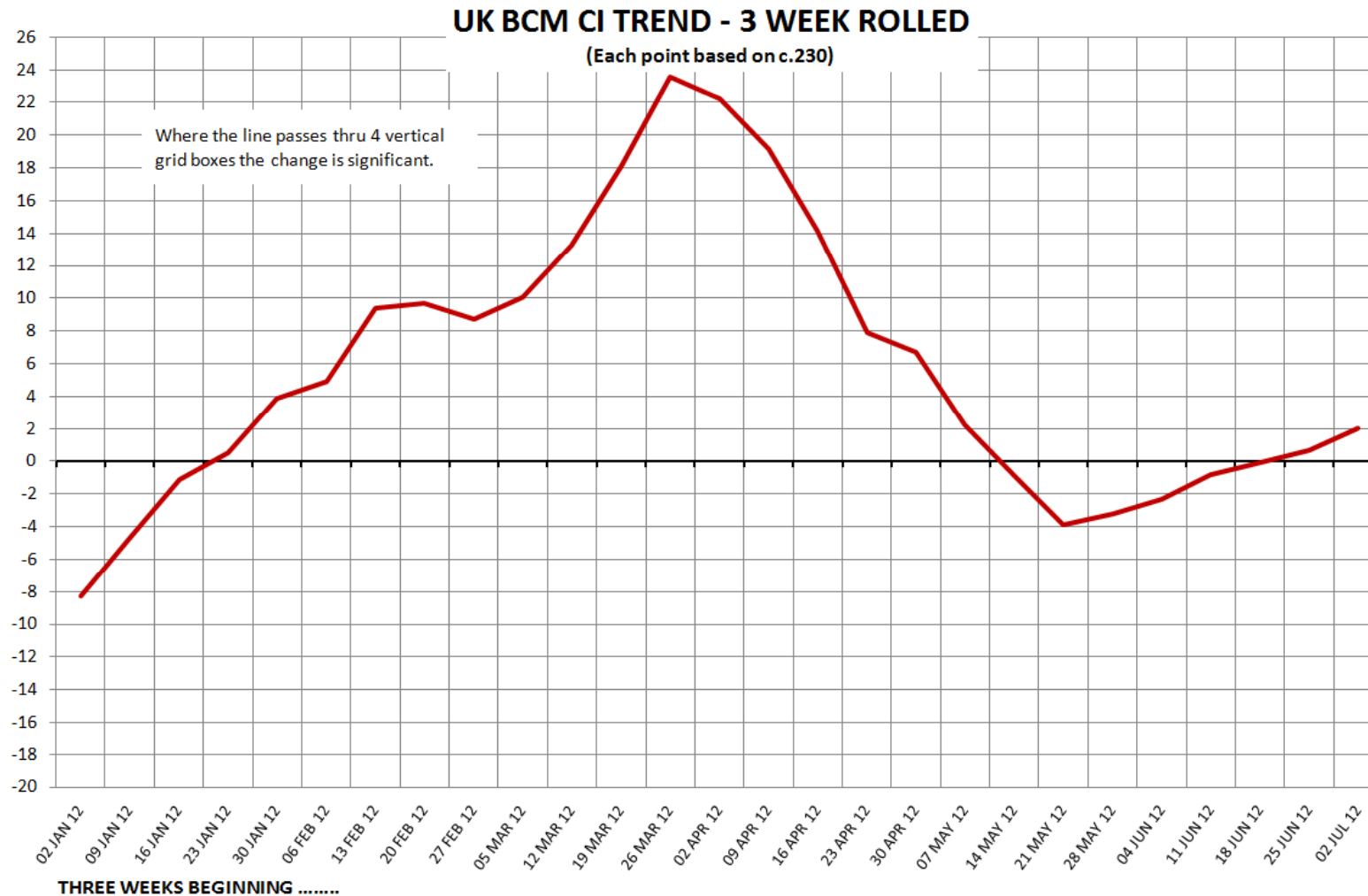
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Decline in confidence fourth largest since BCM began – inconsistent economic recovery continues

Quarterly change in ICAEW / Grant Thornton Business Confidence Index

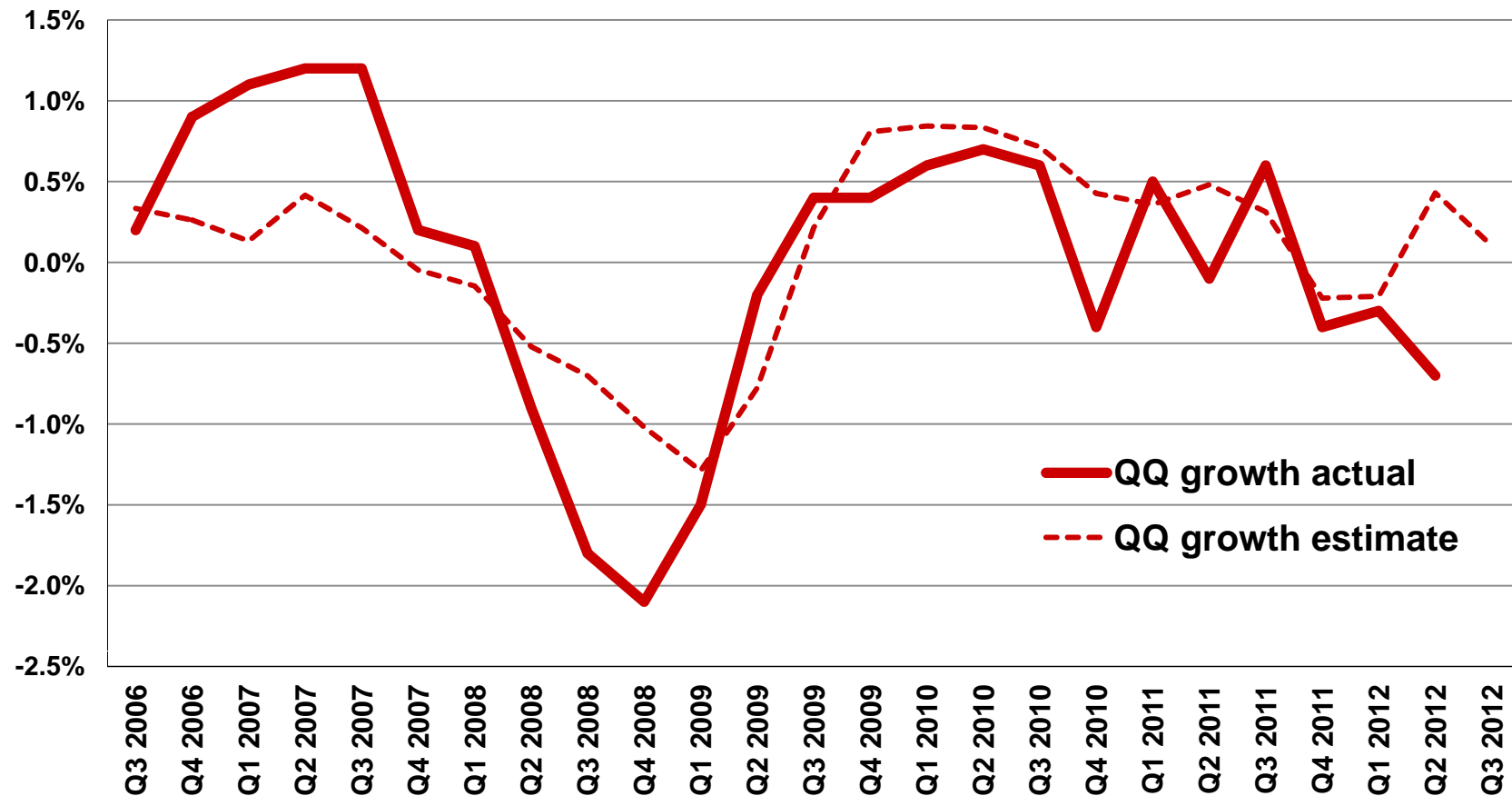


Confidence fell sharply in early May – some stabilisation since



UK economy expected to be broadly flat in the third quarter of the year

Quarter on quarter real GDP growth, per cent

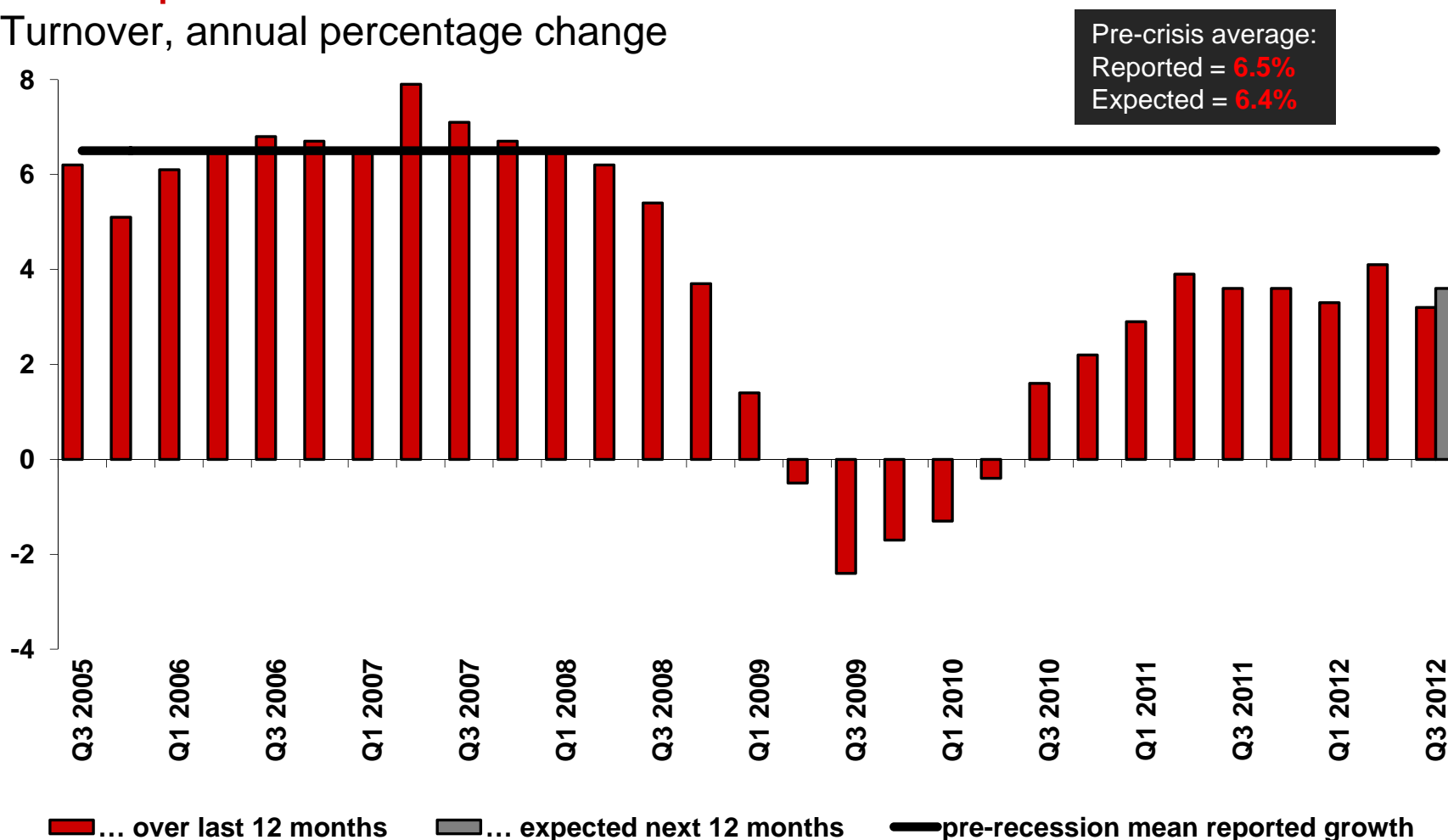


Outline

- Financial performance indicators
 - Growth indicators

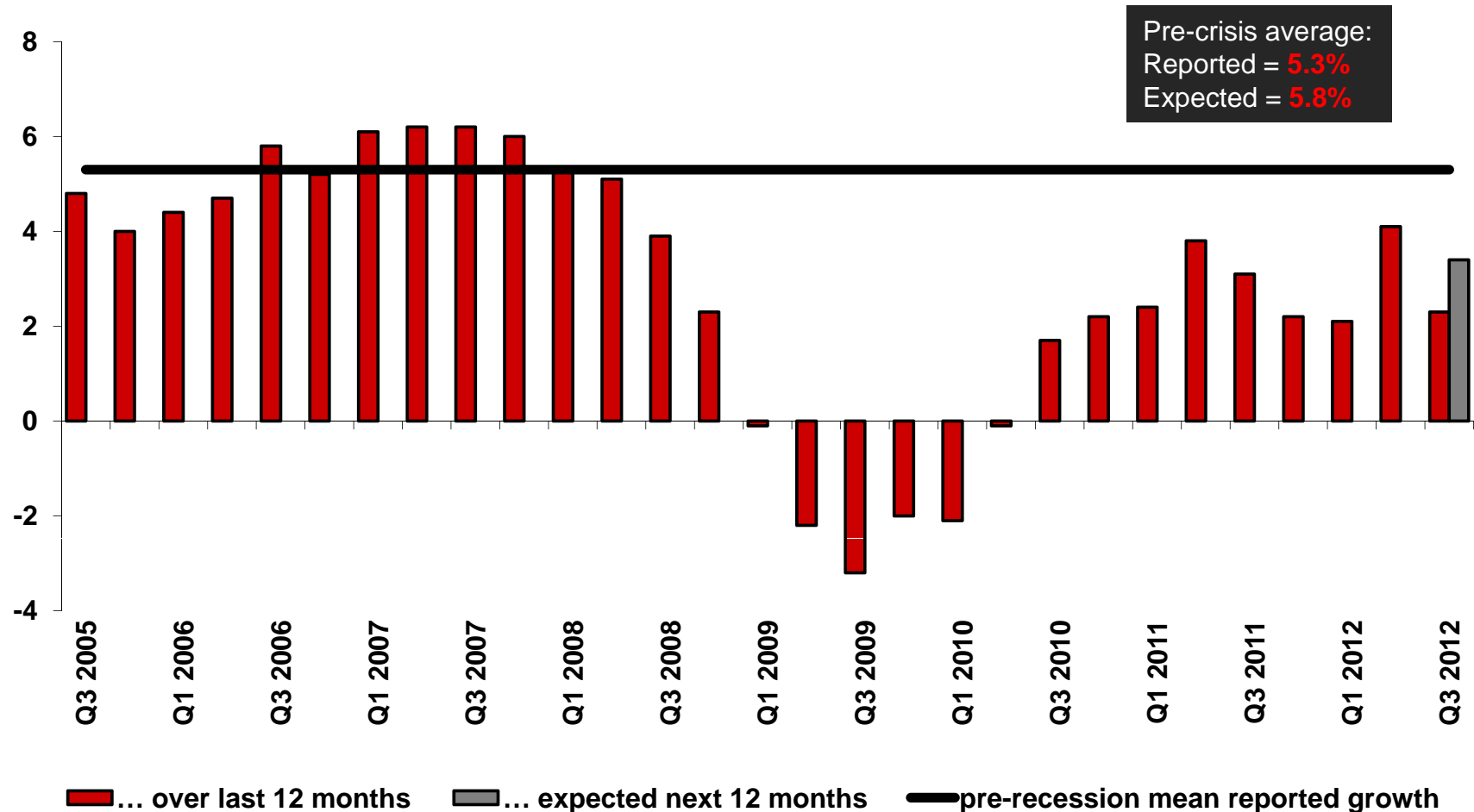
Turnover growth and expectations fall back again - still way below pre-crisis levels

Turnover, annual percentage change



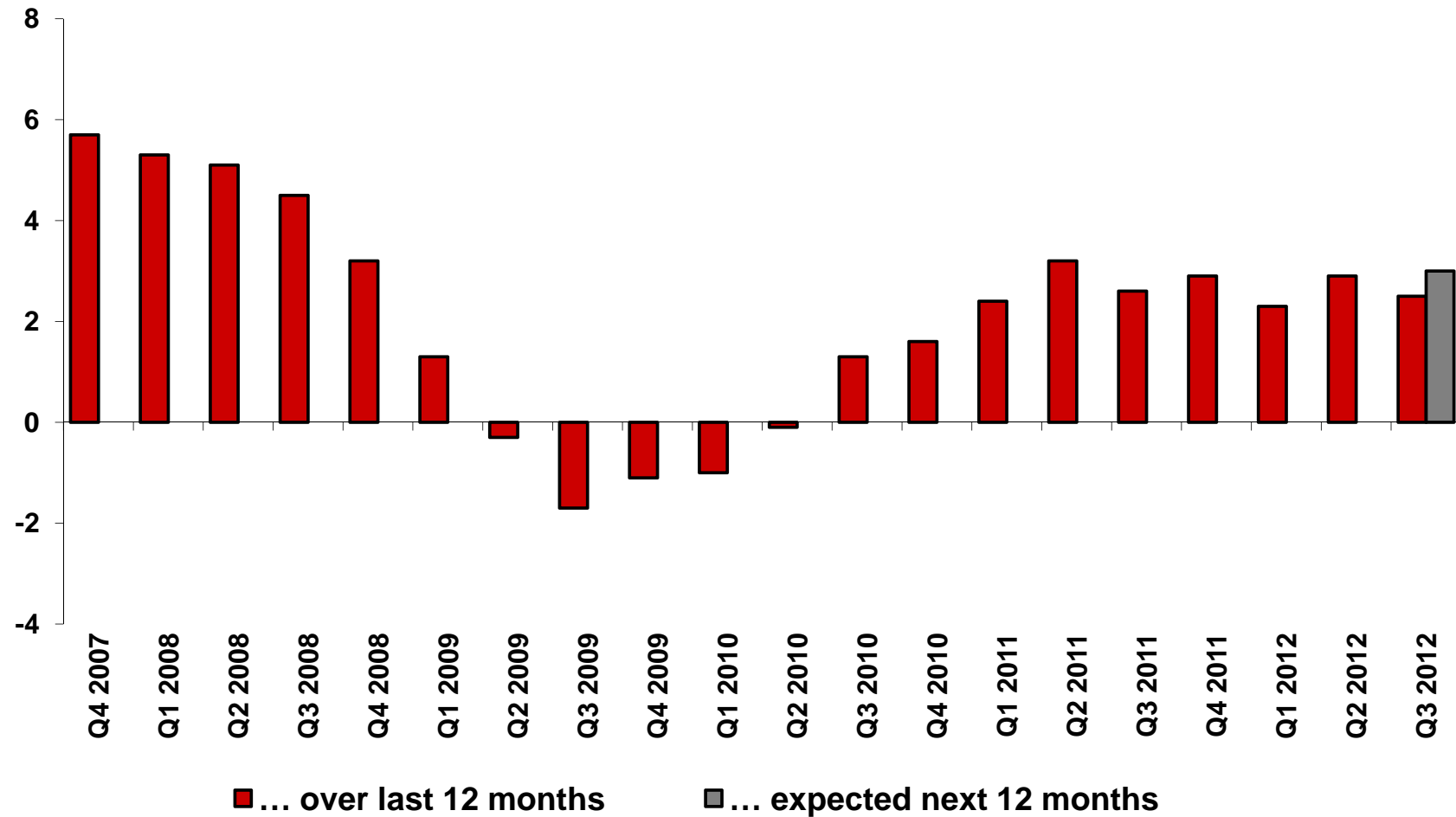
Similarly profit growth and expectations fall back – Q2 boost to reported profit growth proves short lived

Gross profits, annual percentage change



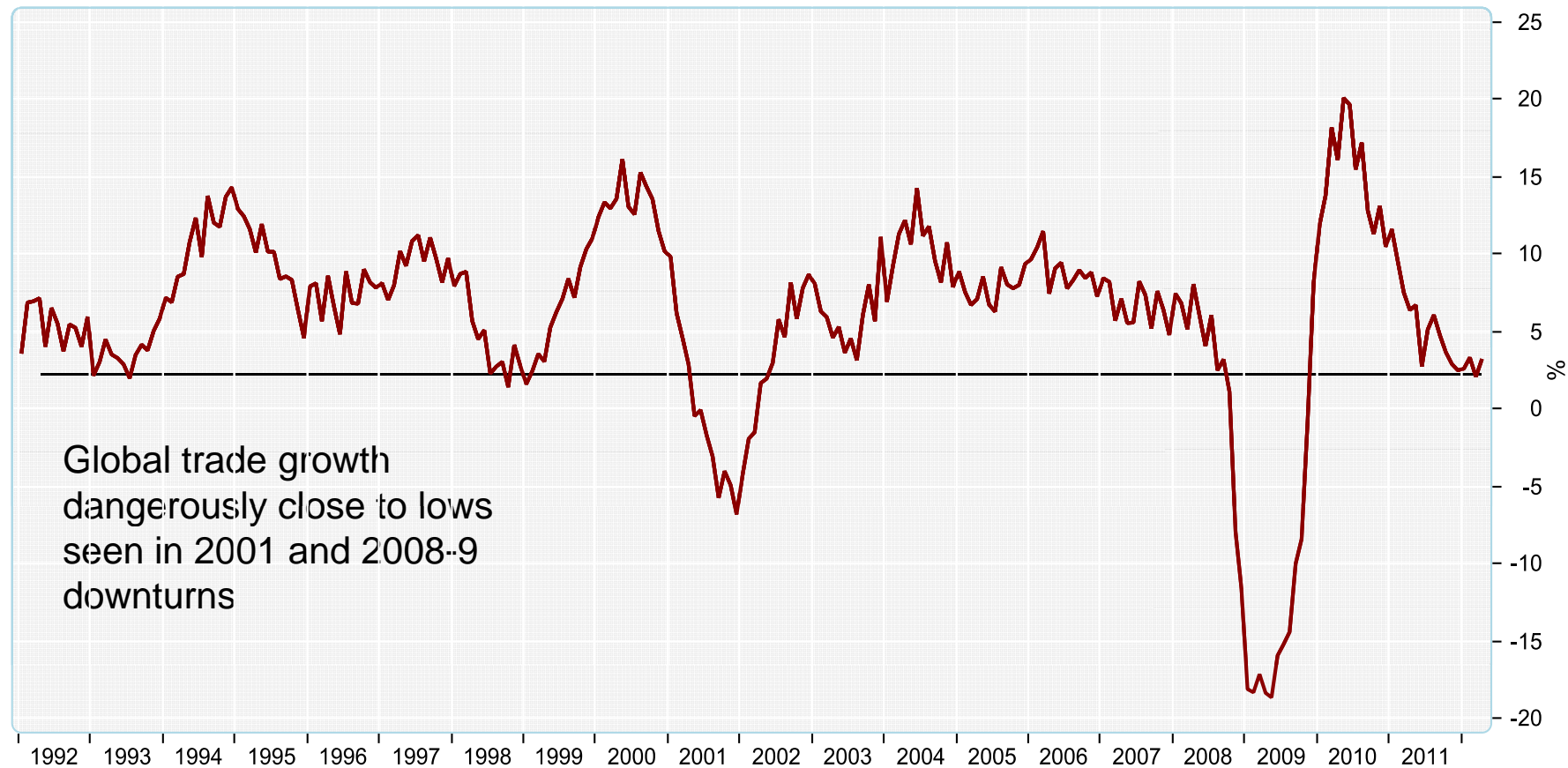
Domestic demand growth flat and expectations soften after first rise in four quarters

Domestic sales, annual percentage change



Global trade growth has dropped to lowest levels since global economy was emerging from recession

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



Global trade growth dangerously close to lows seen in 2001 and 2008-9 downturns

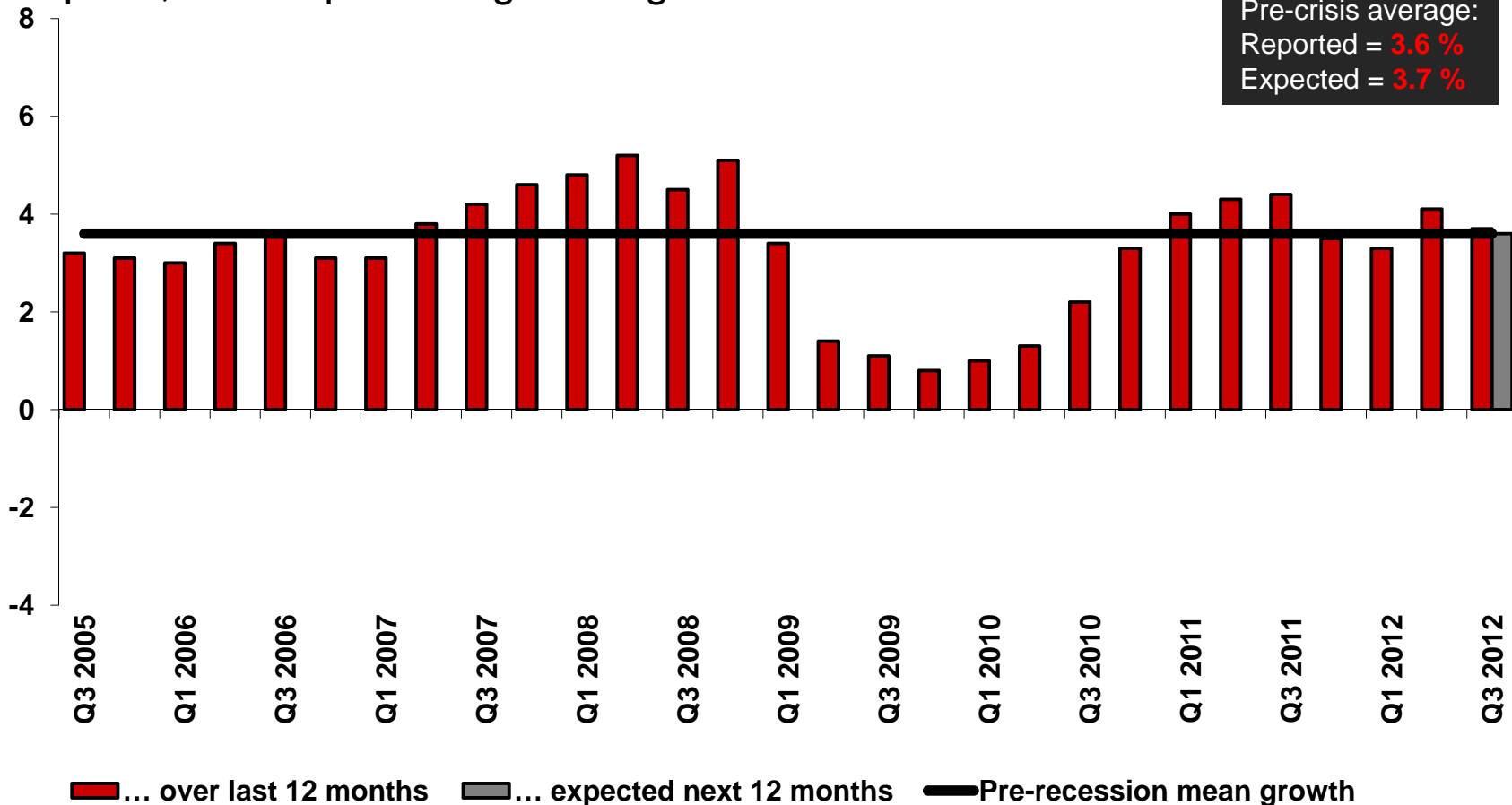
Source: **Macrobond**

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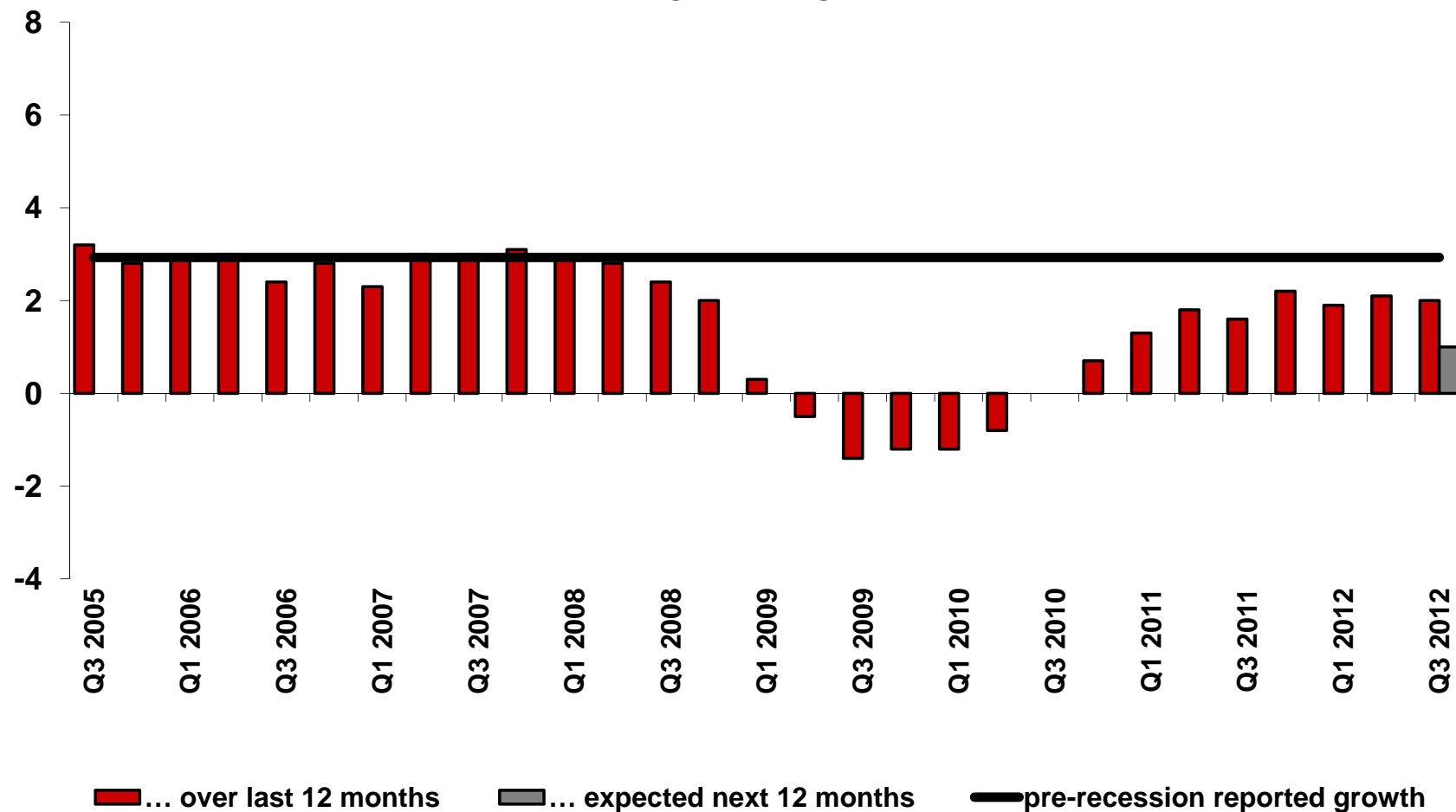
Slowdown in global trade hits exports and expected growth drops to lowest level since Q4 2009 – but growth is still taking place which is not a bad result considering

Exports, annual percentage change



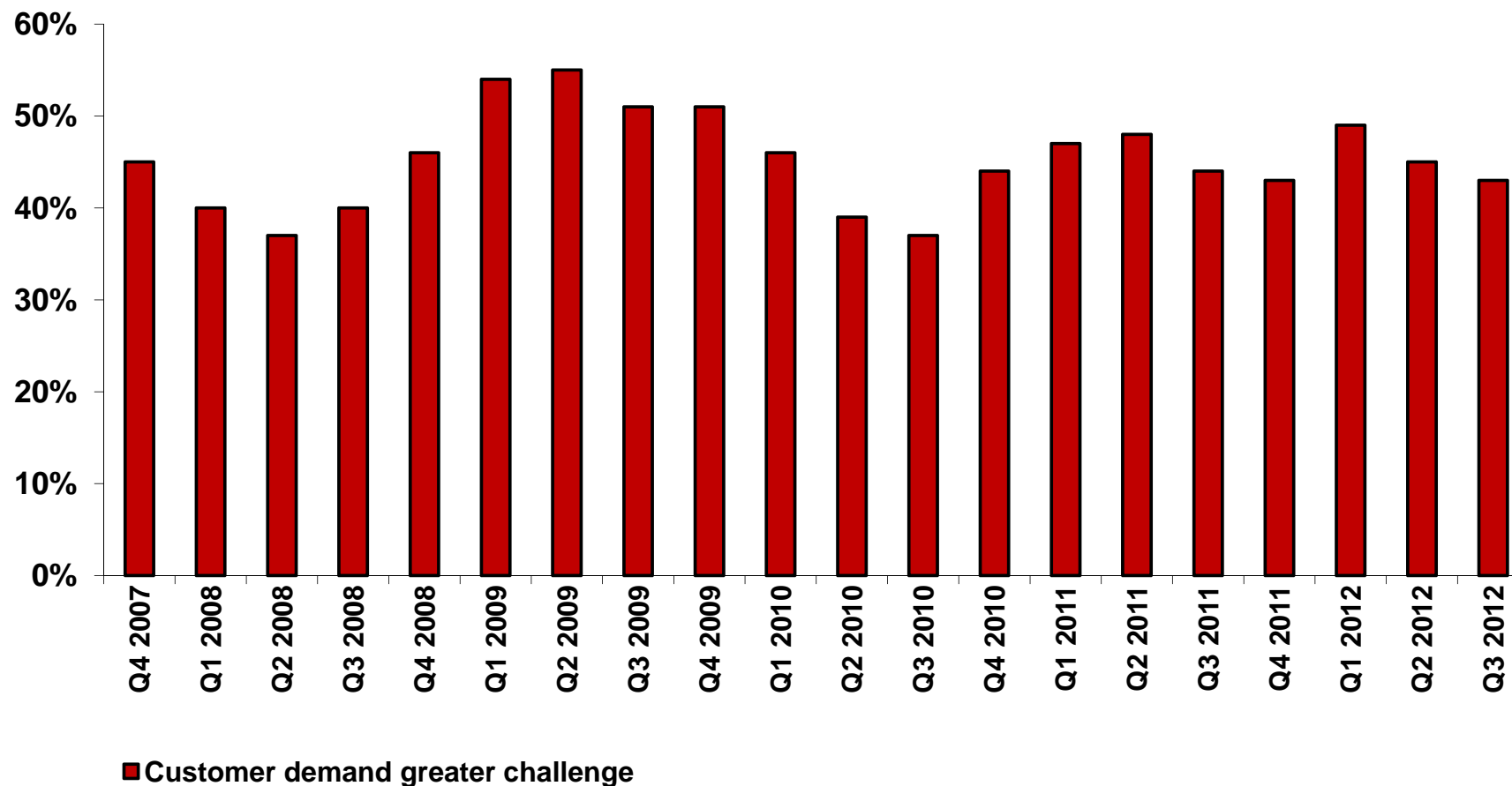
Capital investment growth stable but expected growth has fallen again amid fragile business confidence

Capital investment, annual percentage change



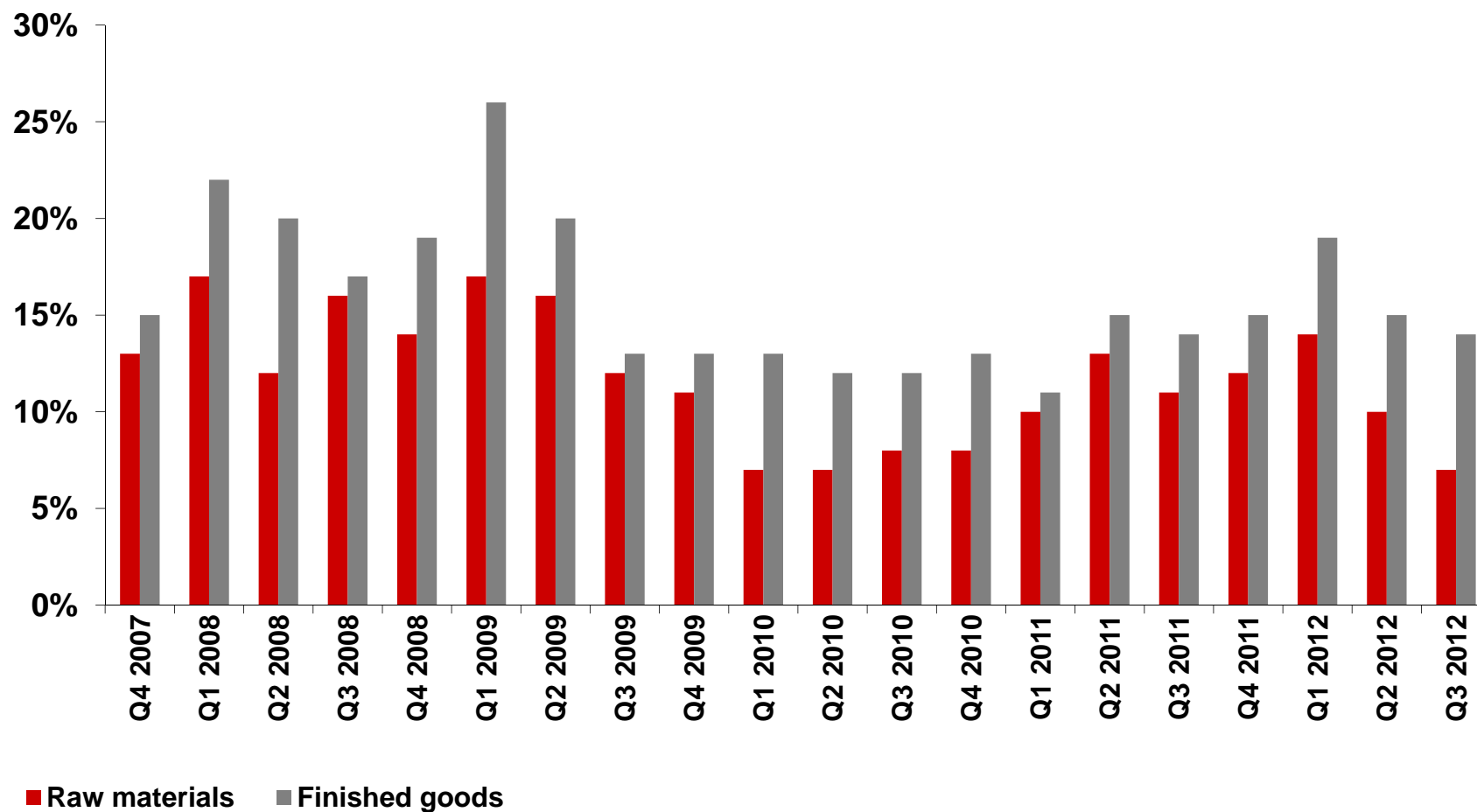
Share of businesses reporting customer demand as greater challenge broadly stable

Share of businesses reporting customer demand as greater challenge



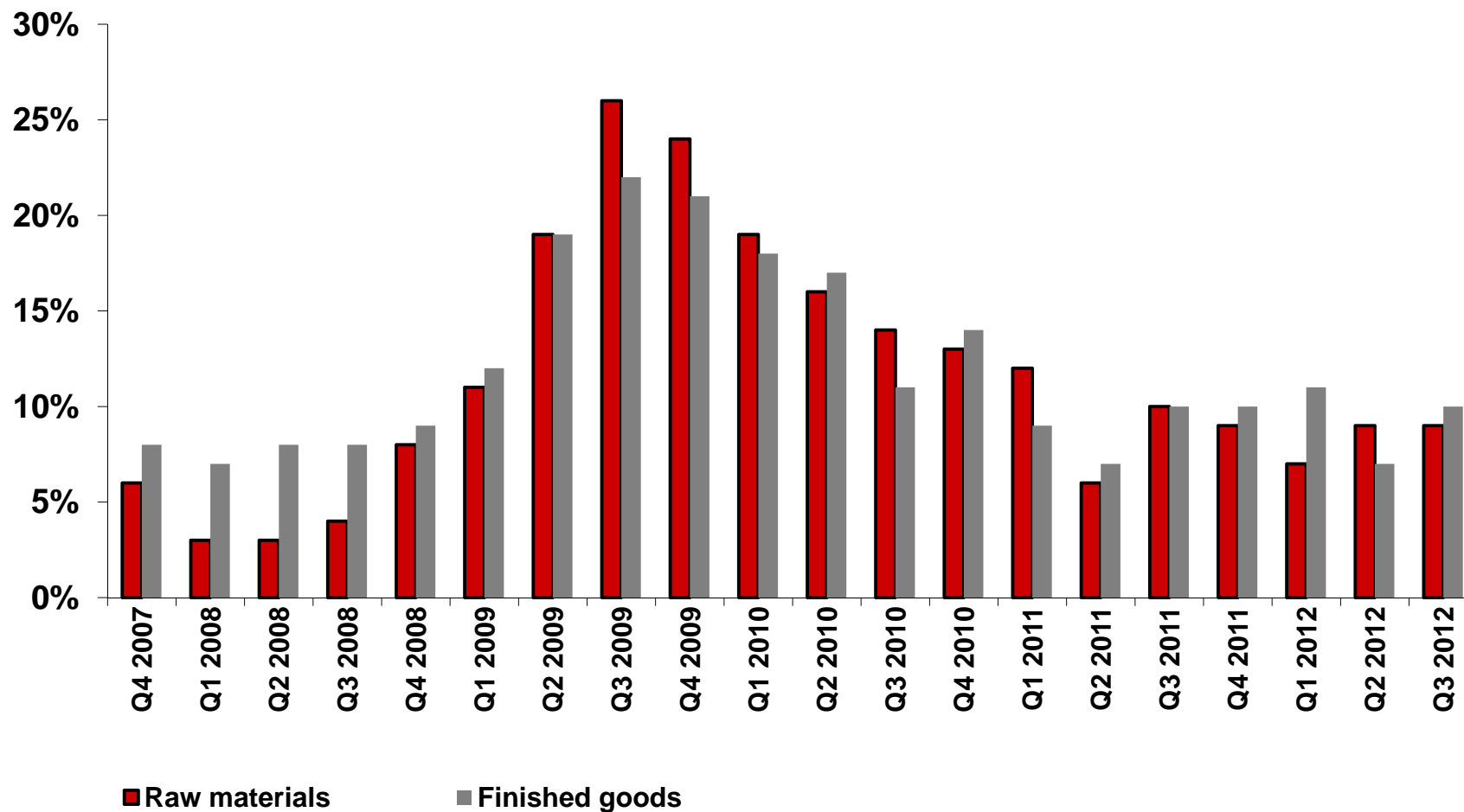
Stock levels appear to have stabilised after rise in late 2011

Share of businesses with stock levels **above normal**



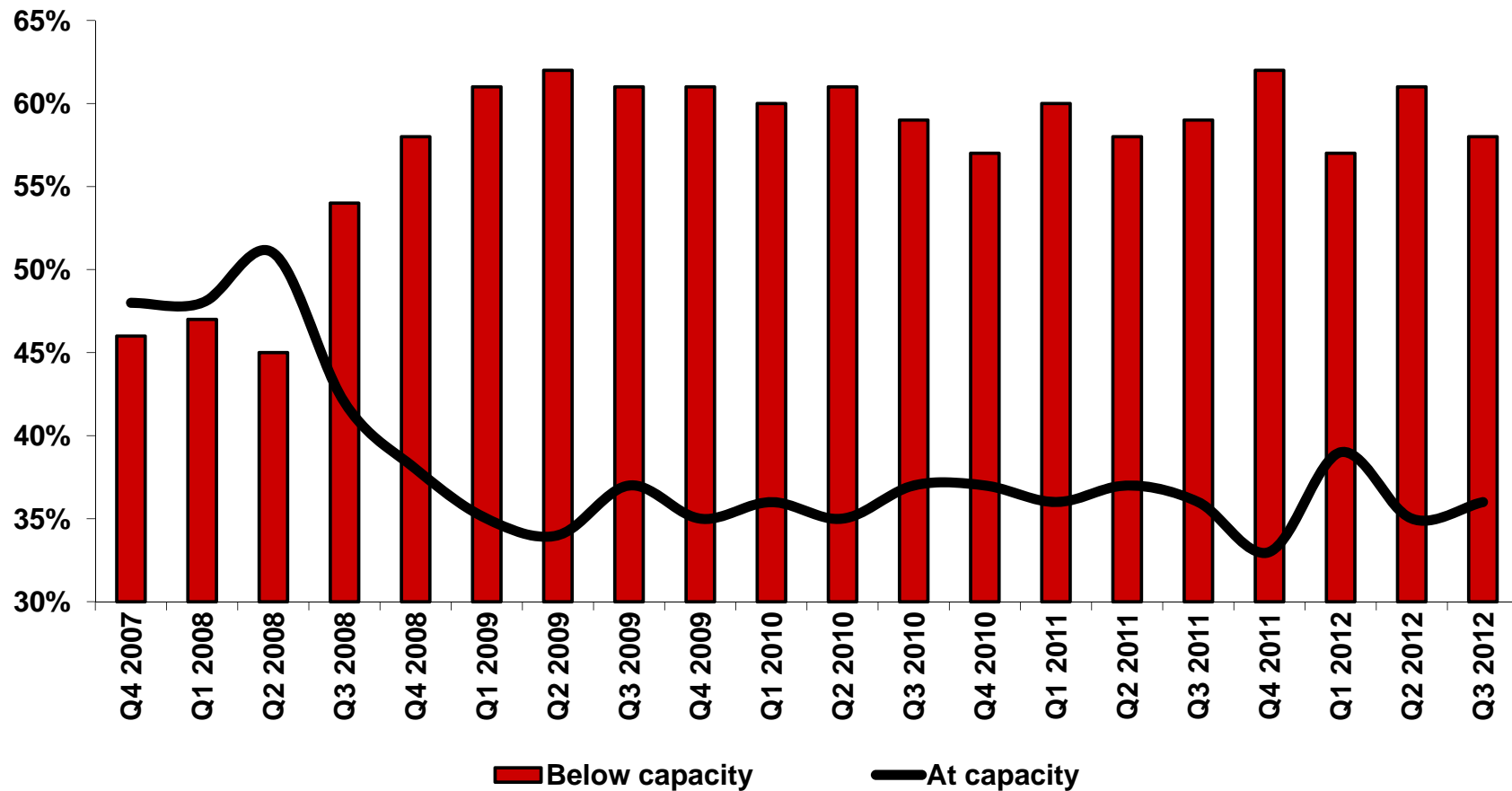
Stock levels still stable

Share of businesses with stock levels **below normal**



Marginal drop in share of businesses operating below capacity but consistent trend of spare capacity remains

Share of businesses running at or below capacity

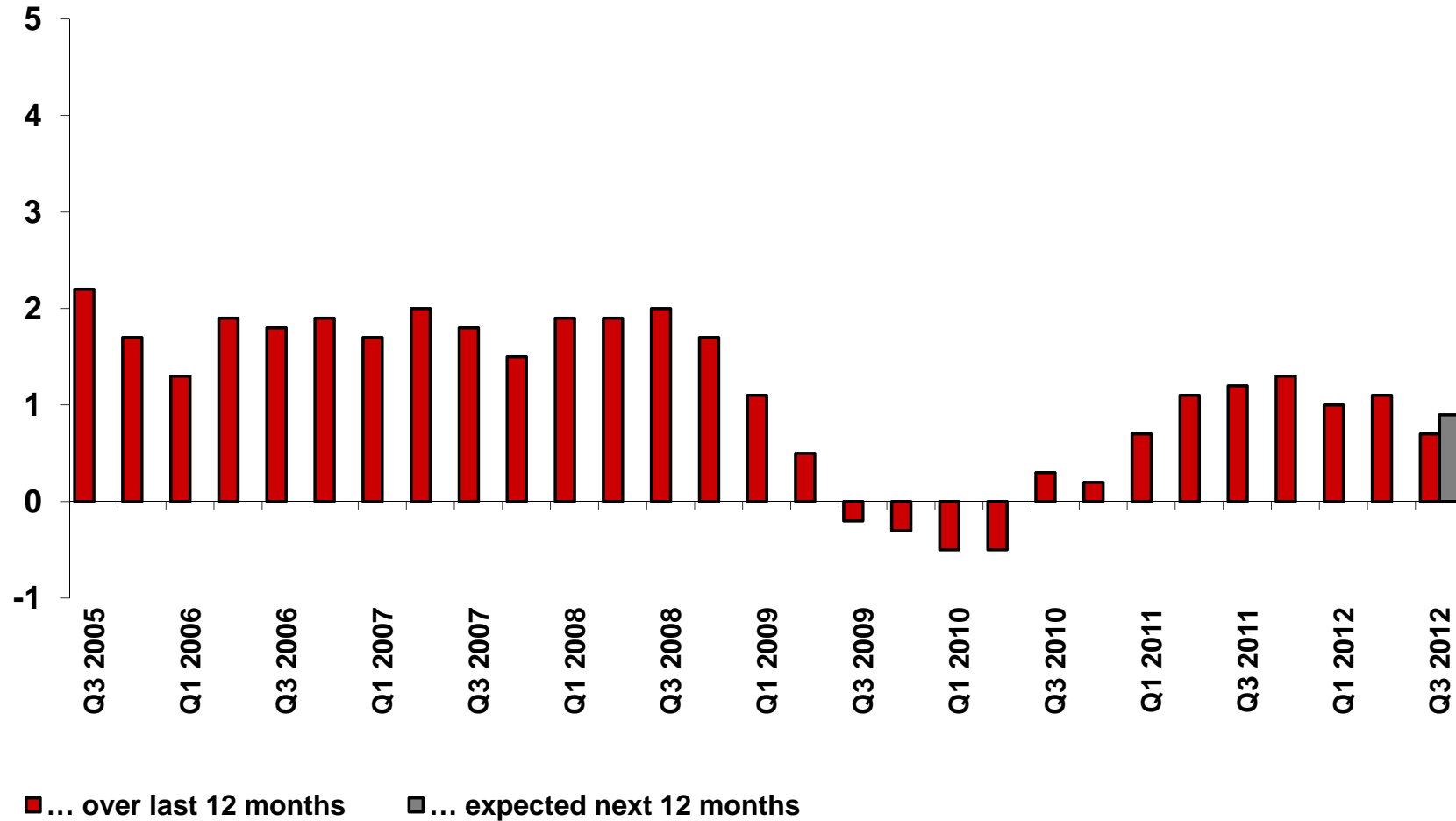


Outline

- Financial performance indicators
 - Inflation & labour market indicators

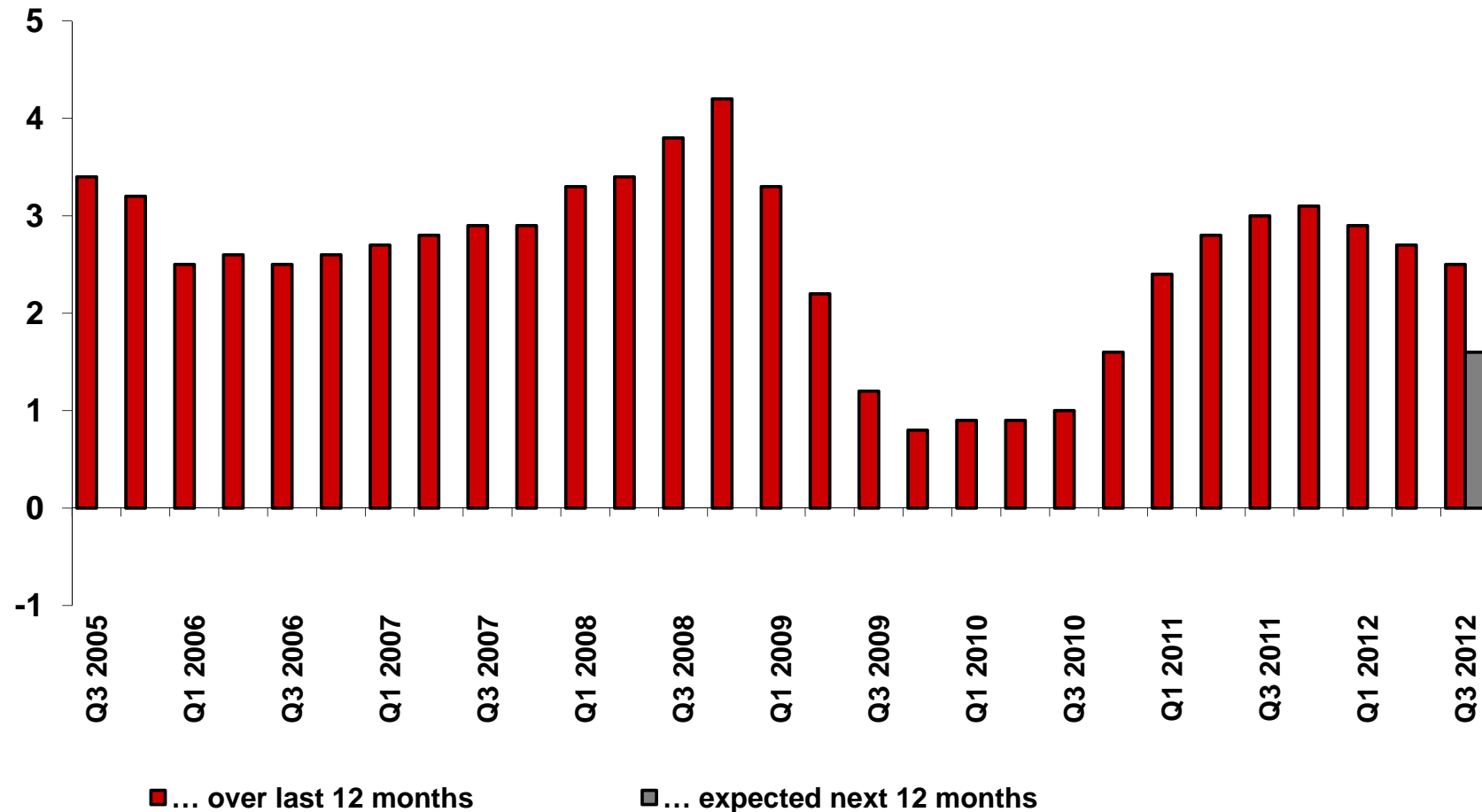
Price growth drops back as inflationary pressures subside – BoE has signalled it is worried about inflation undershoot

Prices, annual percentage change



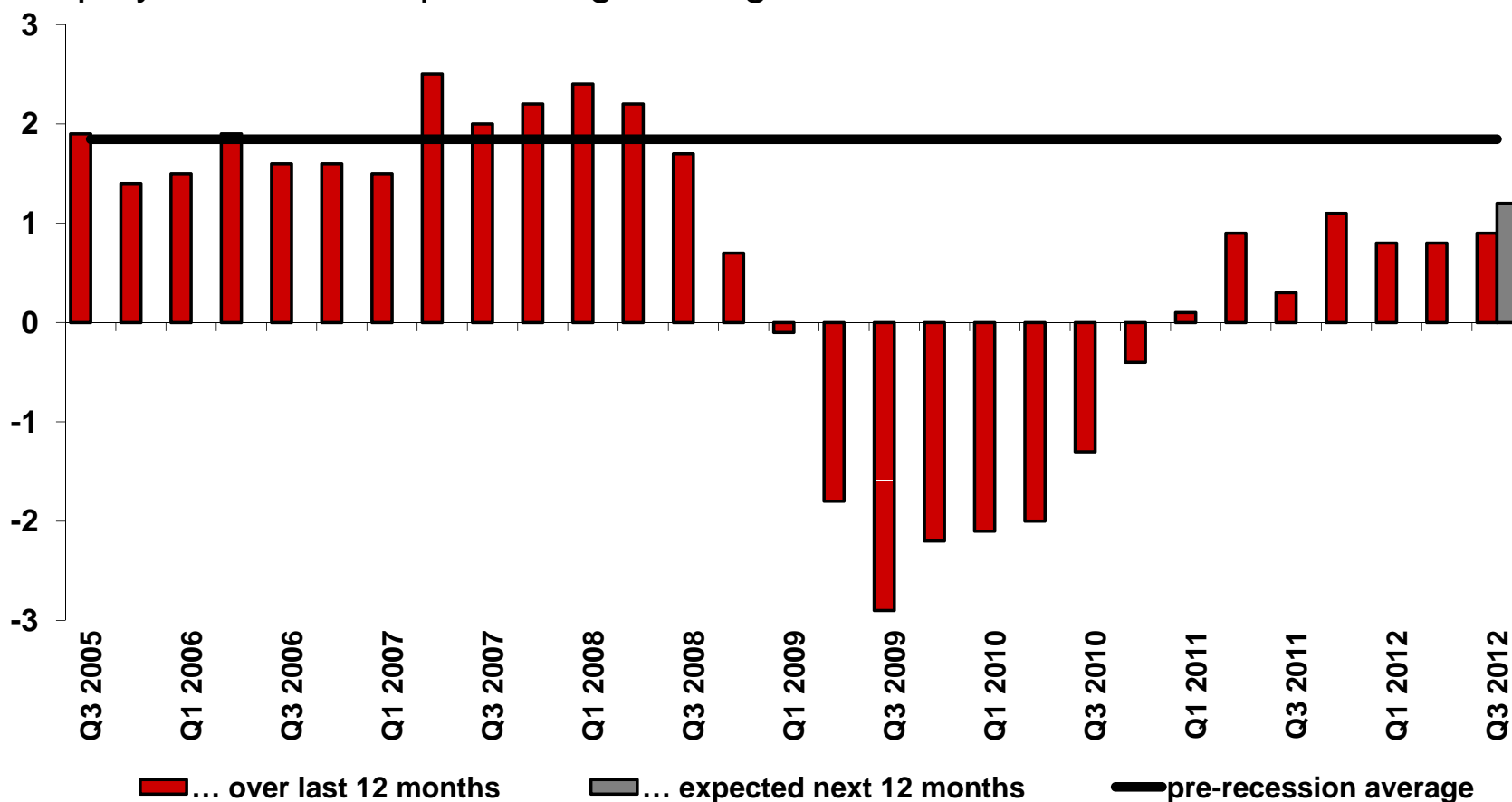
Input price inflation falling gradually while expectations are stable although much lower than last year

Input prices, annual percentage change



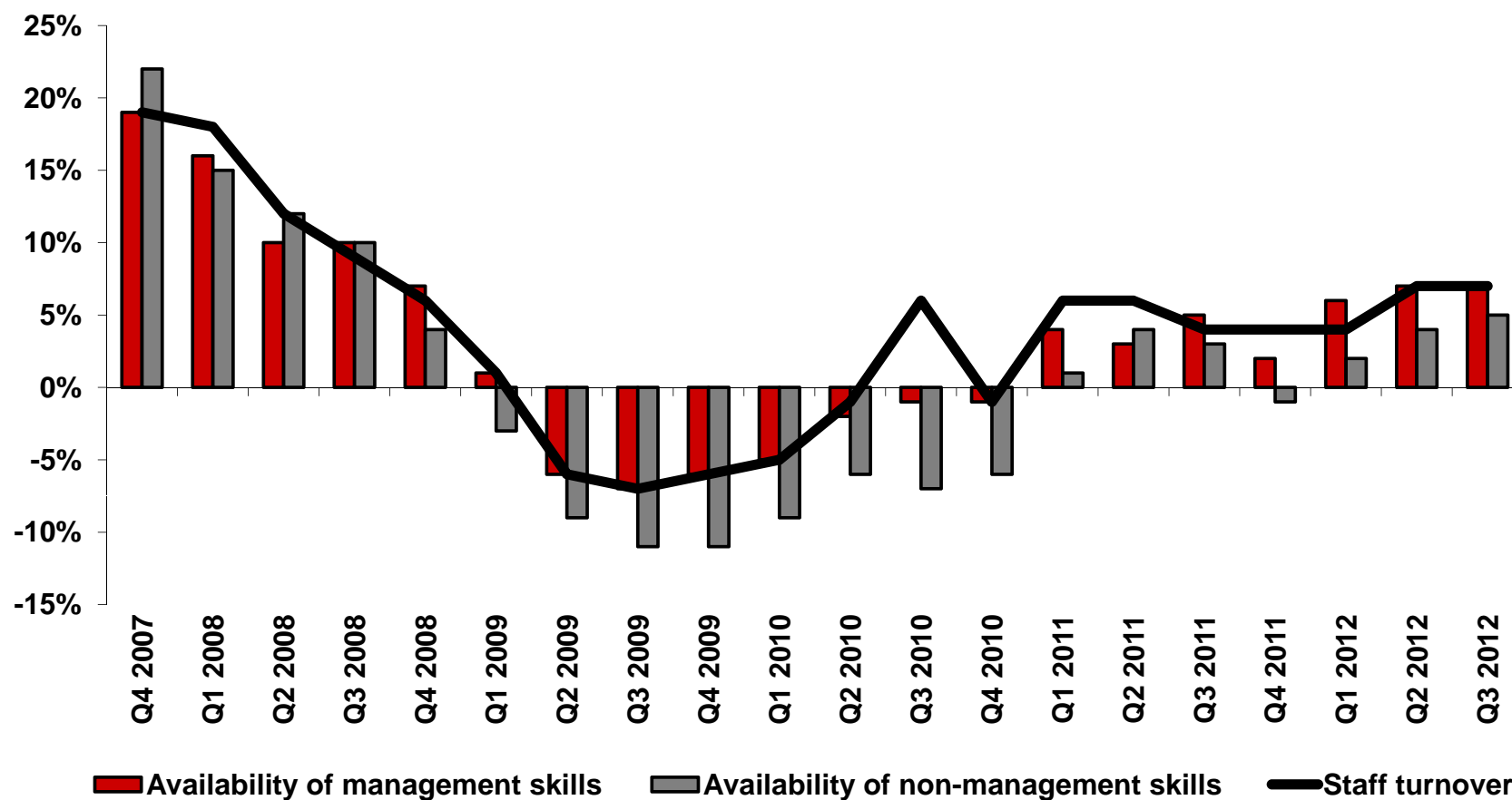
Private sector hiring expectations weaken although positive growth still being achieved – labour market data have belied weak GDP figures in recent months

Employment, annual percentage change



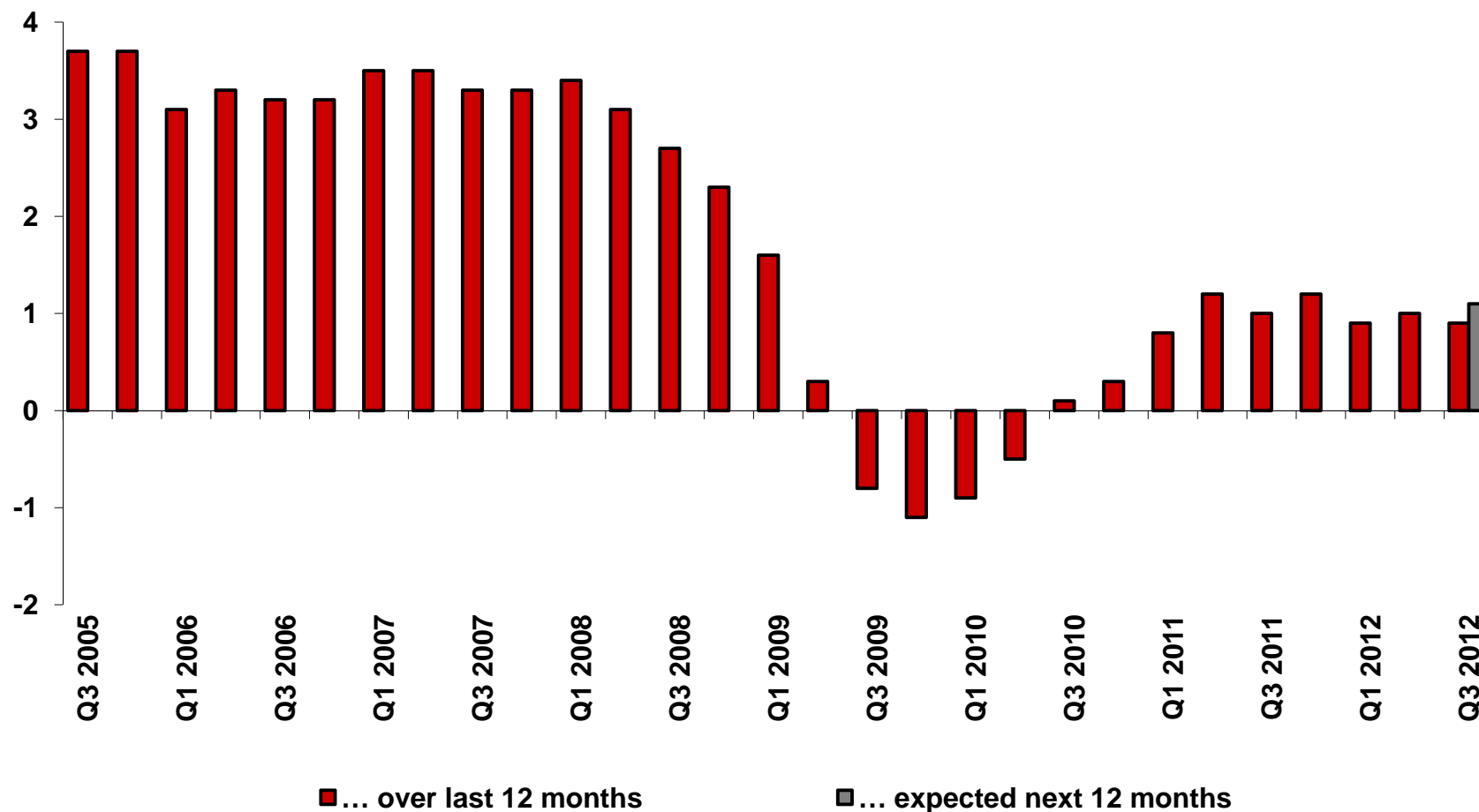
Staff turnover still less of an issue than before the financial crisis, reflecting high unemployment

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



Reported and expected salary growth still low as high unemployment keeps wage pressures muted

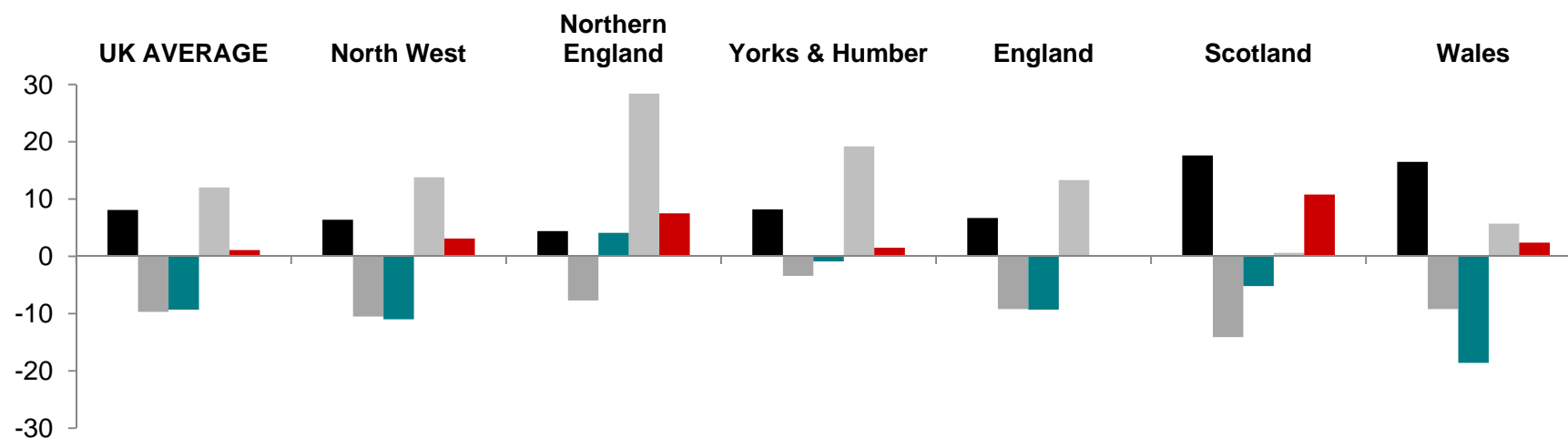
Average total salary, annual percentage change



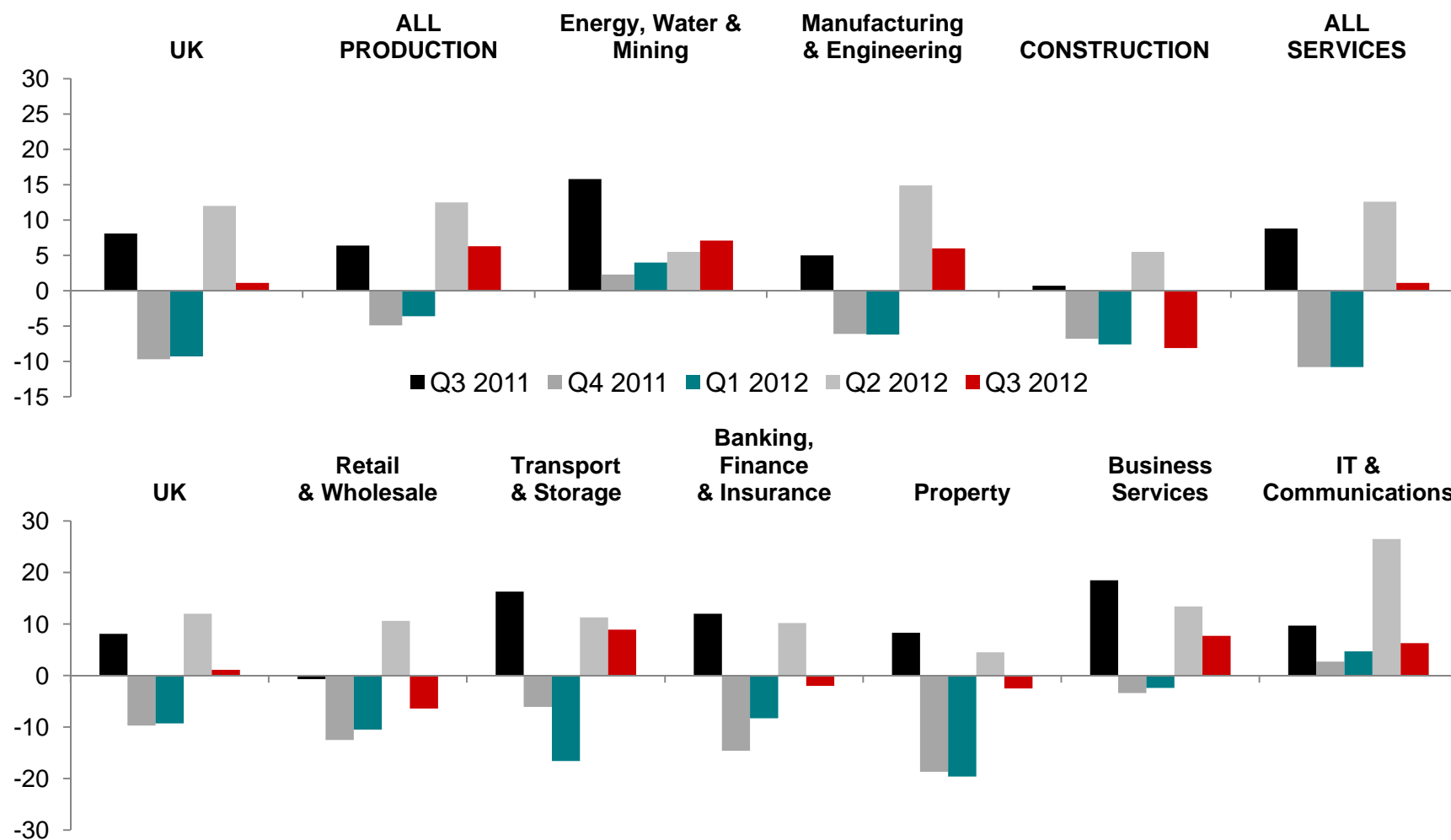
Outline

- Regional & sector stories

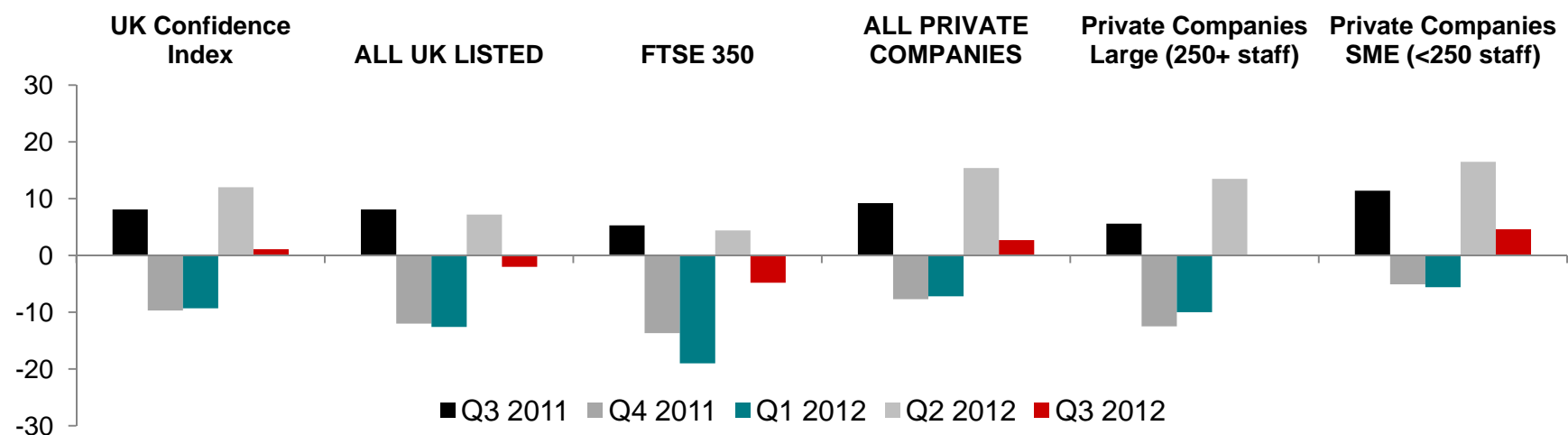
Trend of Business Confidence by Region



Trend of Business Confidence by Sector



Trend of Business Confidence by Company Type



Conclusions

- Business confidence drops again – as fitful economic recovery continues
- Confidence index points to barely any growth in Q3 2012 having implied decent growth in Q2; while exact quarterly profile is uncertain, fitful profile for 2012 looks more certain
- Key revenue and profit growth indicators fall back in Q3
- Exports still growing relatively well but can't escape slowdown in global trade as global economy stutters into the second half of 2012
- Business capital investment plans modest amid uncertainty
- Labour market appears relatively resilient although hiring growth expectations weaker than before crisis
- Inflation pressures are easing – undershoot in 2013 now looks likely



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