



The latest ICAEW/Grant Thornton UK Business Confidence Monitor (BCM) shows that business confidence has picked up in Q2 2011, following four consecutive quarters of decline. The monitor also shows that business concerns are starting to ease as firms become more optimistic about their prospects for the future.

The BCM Confidence Index (CI) saw a rise of 4.1 to +13.7 as businesses become more certain about the UK's future economic prospects. This quarter's confidence index shows that growth and certainty are returning to the UK economy.

01 BUSINESS CONFIDENCE IN Q2 2011

Confidence index rises for first time since Q1 2010

This rise in business confidence is the strongest quarterly increase since Q4 2009. Business concerns have eased after a turbulent winter for the economy, with a decline of five percentage points in the share of businesses less confident about the coming 12 months.

Growth is expected to continue

The Office for National Statistics (ONS) has estimated a quarter-on-quarter expansion of 0.5% for Q1 2011, cancelling out the weather-induced decline seen in Q4 2010. This growth still shows that the economy has a long way to go towards recovery. The BCM predicts around 0.8% quarter-on-quarter growth for Q2 2011 – the strongest for a year. However, BCM only reflects confidence in the private sector and so does not take into account the full impact of public sector spending cuts.

Export growth, although at its highest growth rate since Q4 2008, has lost some momentum compared to the increases seen over the last three quarters. Capital investments, seen as crucial to growth as firms prepare to spend, is at its strongest since Q4 2008.

02 BUSINESS FINANCIAL PERFORMANCE

Financial performance strengthens

All fourteen business financial performance indicators which are tracked by BCM saw an improvement this quarter, with many at their highest since the end of 2008. Both turnover and profit growth improved this quarter, with expectations for further growth at their strongest since Q1 2008, the final quarter before the start of the recession.

Private sector employment growth expected

Businesses have reported a 0.9% increase in employment over the last 12 months – the strongest annual rate of employment expansion recorded by BCM since Q3 2008. This is expected to further strengthen in the coming year. However, pay growth has been contained well below pre-recession levels with only modest growth in salaries predicted for the next 12 months. In real terms, as inflation continues to be high, many employees are still facing declines in income.

03 FACTORS AFFECTING BUSINESS FINANCIAL PERFORMANCE

Customer demand is still a dominant concern

The number of businesses reporting customer demand to be greater challenge to business confidence than it was 12 months ago has increased from 39% in Q2 2010 to nearly half (48%) this quarter. This is inversely correlated with GDP growth – implying that over the last year the growth outlook has weakened and the business environment is increasingly demanding.

Late payments still a concern

The share of businesses reporting late payments from customers as a greater challenge than 12 months ago has gone down but is still higher than was typical before the recession. There has been a decrease in those reporting access to capital as a greater challenge. It is still more likely to be an issue for SMEs than larger firms.

04 TRENDS IN BUSINESS CONFIDENCE

Trends by industry

Confidence among Manufacturing & Engineering firms has recovered this quarter and has been the most confident sector in three of the last five quarters. However, confidence is still variable across the Service sectors and the Retail & Wholesale sector has slipped into negative territory, due to the show growth in wages combined with inflation. The Construction sector remains weak and is technically in recession, although its performance and subsequent ONS estimates are likely to have been affected by the weather.

Trends by region

Generally confidence in England has strengthened, however it has weakened in London, with its more international focus reflecting a general concern about the strength of the global economy. Scotland has also seen a decline in confidence, bringing it more in line with the rest of the UK. Wales has shown a growth in confidence, moving it out of negative territory.

Trends by type of business

Confidence among listed companies remains higher than among private companies, but the gap between them has narrowed. Confidence for private firms is at the highest level recorded since Q3 2010, driven by small and medium-sized firms. Confidence among large private companies is now significantly lower than the UK average. Those firms listed outside the UK are the most confident.

05 ABOUT BCM

BCM is one of the largest and most comprehensive quarterly reviews of UK business confidence and provides a regular snapshot of the economy, informed by senior business professionals running all types of businesses across the UK. It is shared with a range of national and regional policy-makers, the business community, academics and researchers. It is a credible predictor of GDP and economic change and supports policy decision-making.

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