

ECONOMIST'S VIEW



The latest *ICAEW/Grant Thornton UK Business Confidence Monitor* (BCM) shows that business confidence remains firmly in negative territory at the start of 2012 but has shown little movement from the previous quarter. The Confidence Index stands at -9.3 in Q1 2012, similar to the -9.7 result in Q4 2011.

The Confidence Index is a leading indicator for growth; it correctly predicted the end of the recession in 2009, provided early warning signs in 2007-08 and pointed towards economic contraction in Q4 2011. This quarter's Confidence Index suggests the UK economy could already be in the middle of recession, defined as two consecutive quarters of declining gross domestic product (GDP).

KEY ISSUES EMERGING THIS QUARTER

- Turnover and profit growth expectations remain well below levels seen before the financial crisis.
- With consumer and public sector spending constrained, business investment is particularly important for economic growth at this time; however, firms are reining in plans for capital investment.
- BCM indicates we could expect to see businesses destocking during 2012, representing a further threat to growth.
- Employment growth expectations remain weak, and it is uncertain whether the private sector will be able to make up for job losses in the public sector. Headcount growth expectations are higher among SMEs than among large firms.

The short-term economic outlook for the UK remains weak. Consumers in 2012 are unlikely to see their living standards improve significantly, as rising unemployment and weak earnings growth impact on household spending power, despite the expected fillip from lower inflation. In addition, business investment is unlikely to be buoyant while confidence in economic prospects remains fragile. Government spending cuts will weigh down on the economy, while the eurozone sovereign debt crisis is likely to dampen exports demand.

Bank of England Governor Sir Mervyn King recently described the path to recovery as 'arduous, long and uneven'. Indeed, it is difficult to see where significant, consistent growth will come from in the near term. Further quantitative easing is expected later this year to boost the floundering economy and the Bank of England is also almost certainly going to keep interest rates on hold throughout 2012 and beyond.



Douglas McWilliams
Chief Executive, Cebr
ICAEW Economic Partner