



making business sense



Grant Thornton

An instinct for growth™

Q3 2013 ICAEW / Grant Thornton Business Confidence Monitor results

29 July 2013

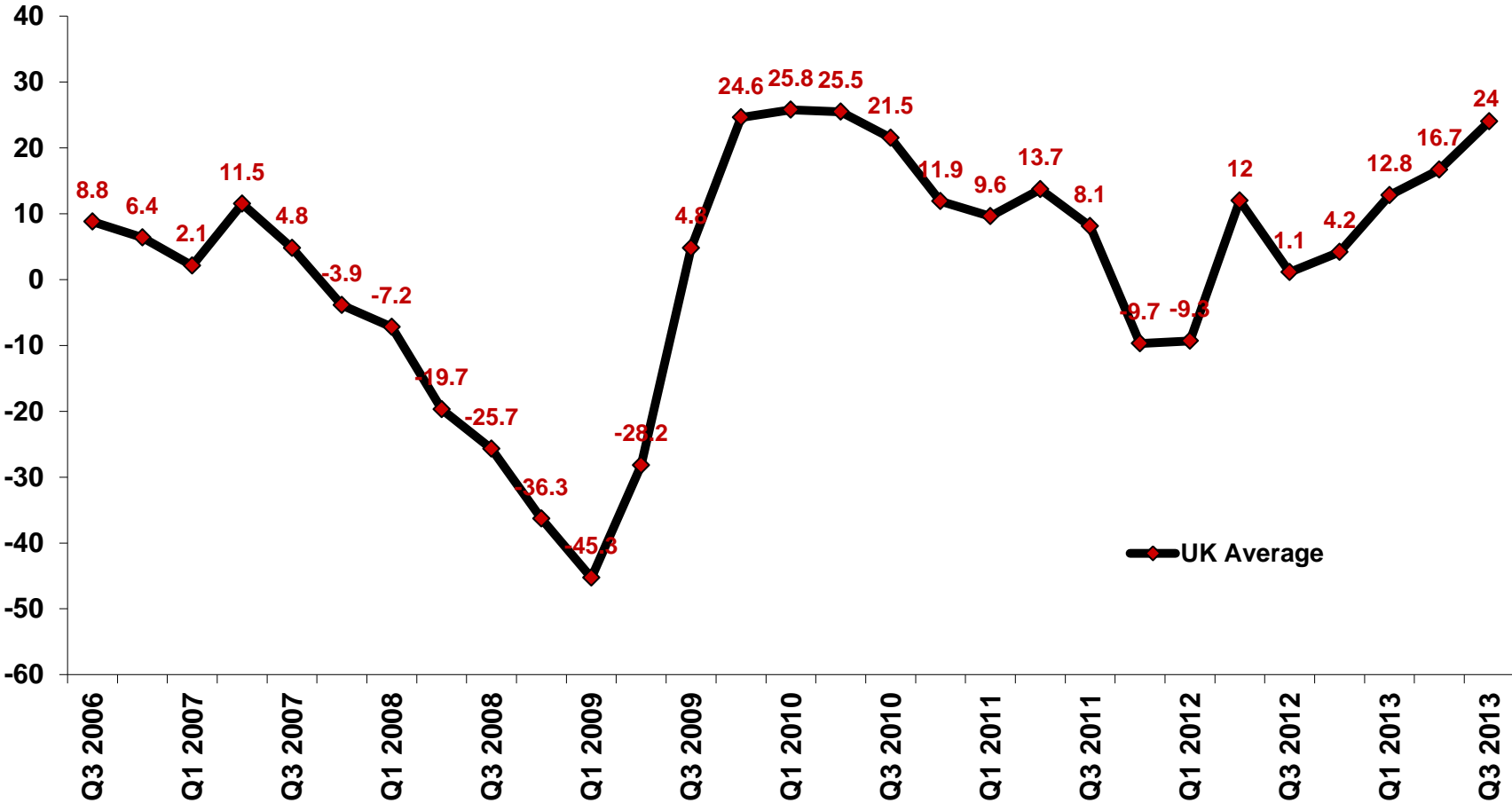
Contact: Caroline Florence

Outline

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

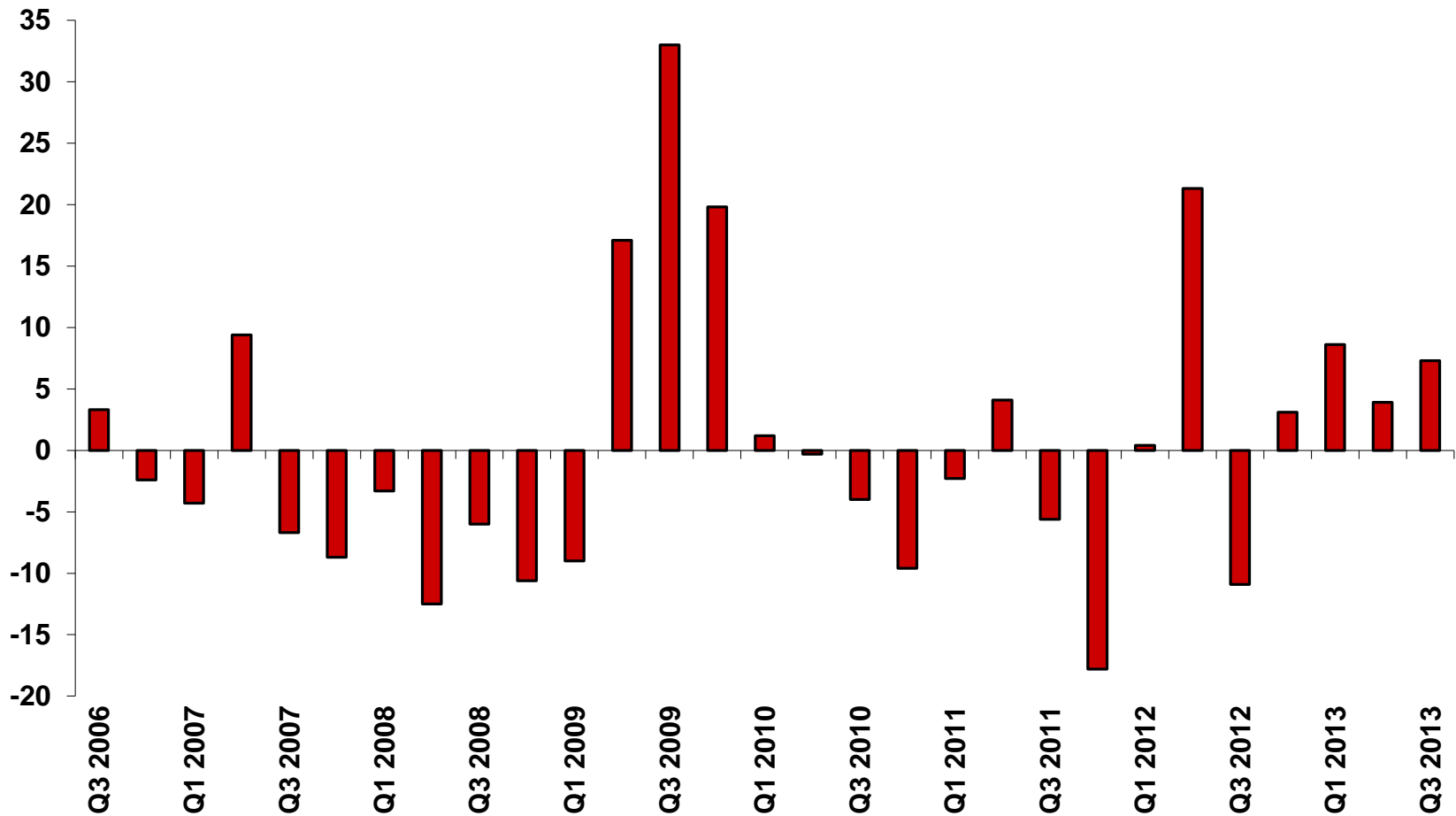
Business confidence reaches its highest level since Q2 2010

ICAEW / Grant Thornton Business Confidence Index



Business confidence has increased now for four consecutive quarters

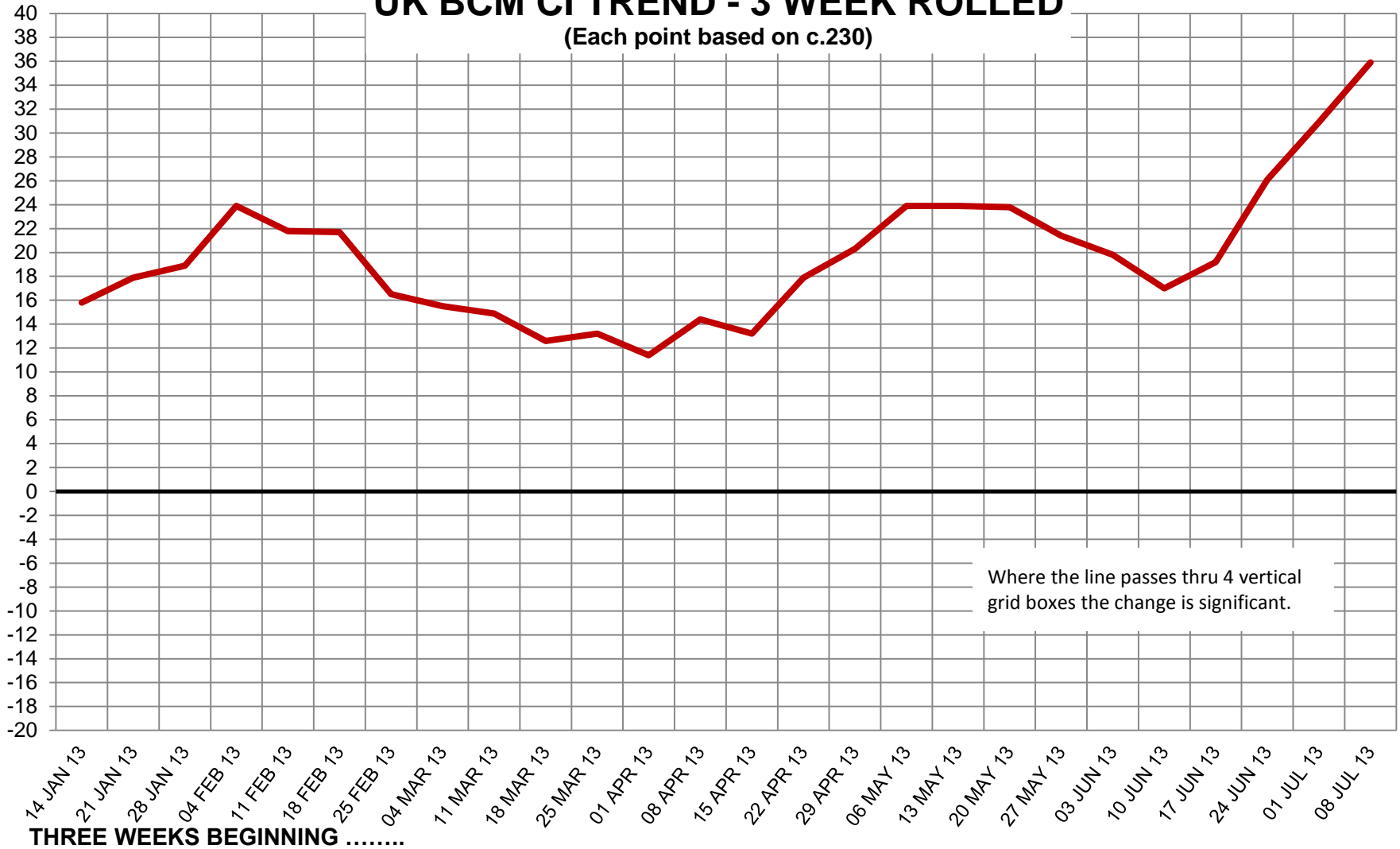
Quarterly change to Confidence Index



Confidence has risen sharply in recent weeks

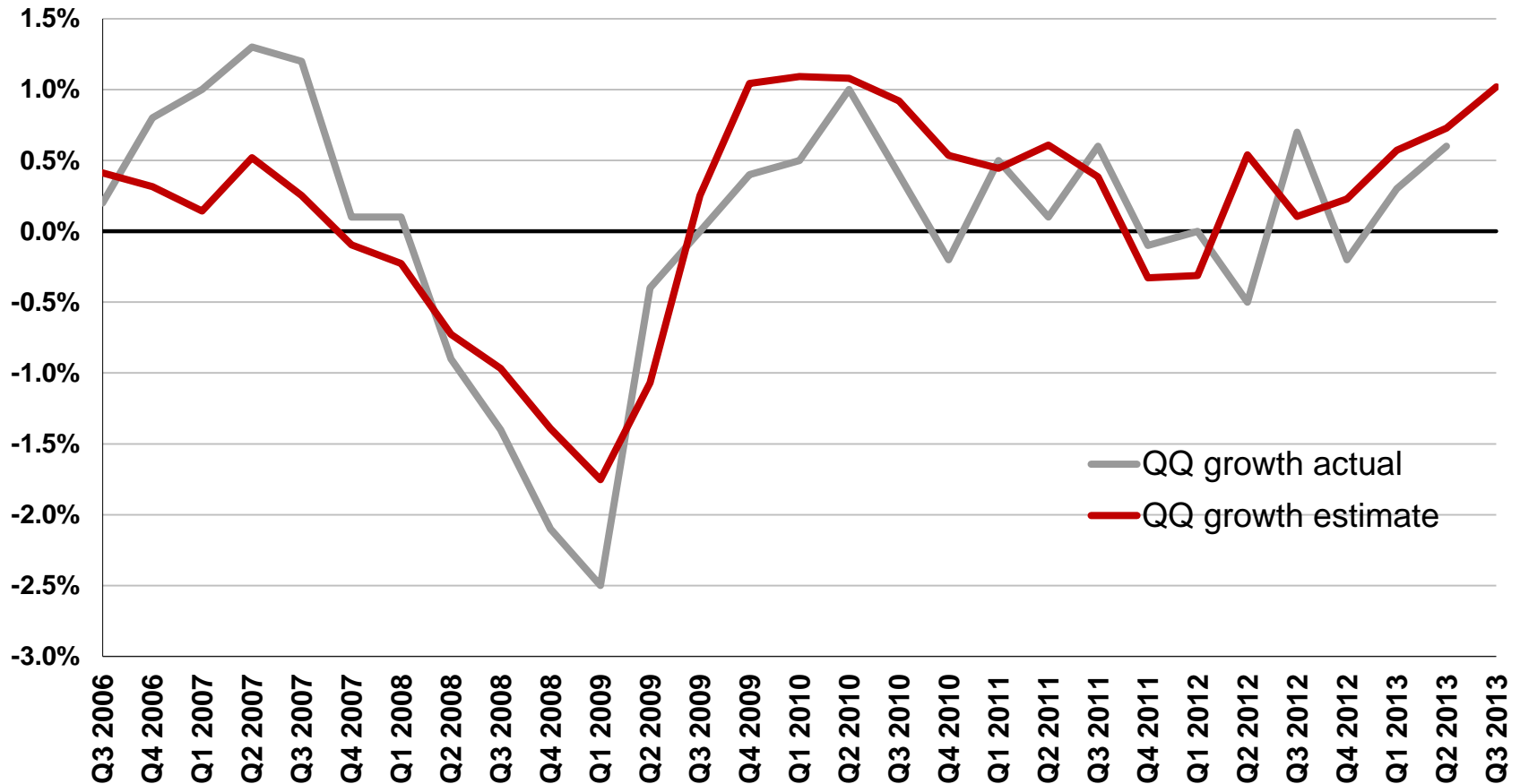
UK BCM CI TREND - 3 WEEK ROLLED

(Each point based on c.230)



Economy expected to grow by 1.0% in Q3 – this would be the fastest growth since Q2 2010

Quarter on quarter real GDP growth, per cent

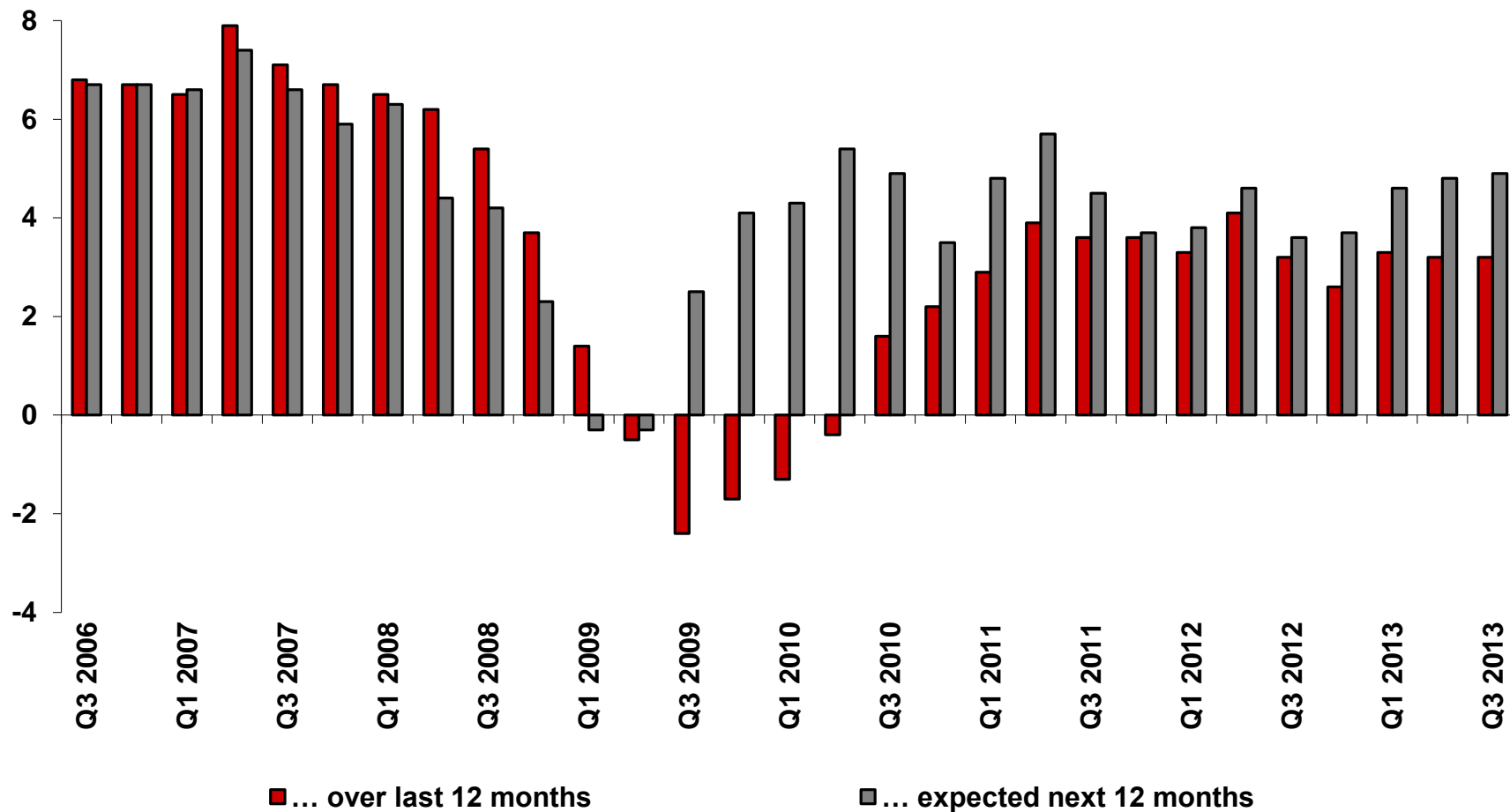


Outline

- Financial performance indicators
 - Growth indicators

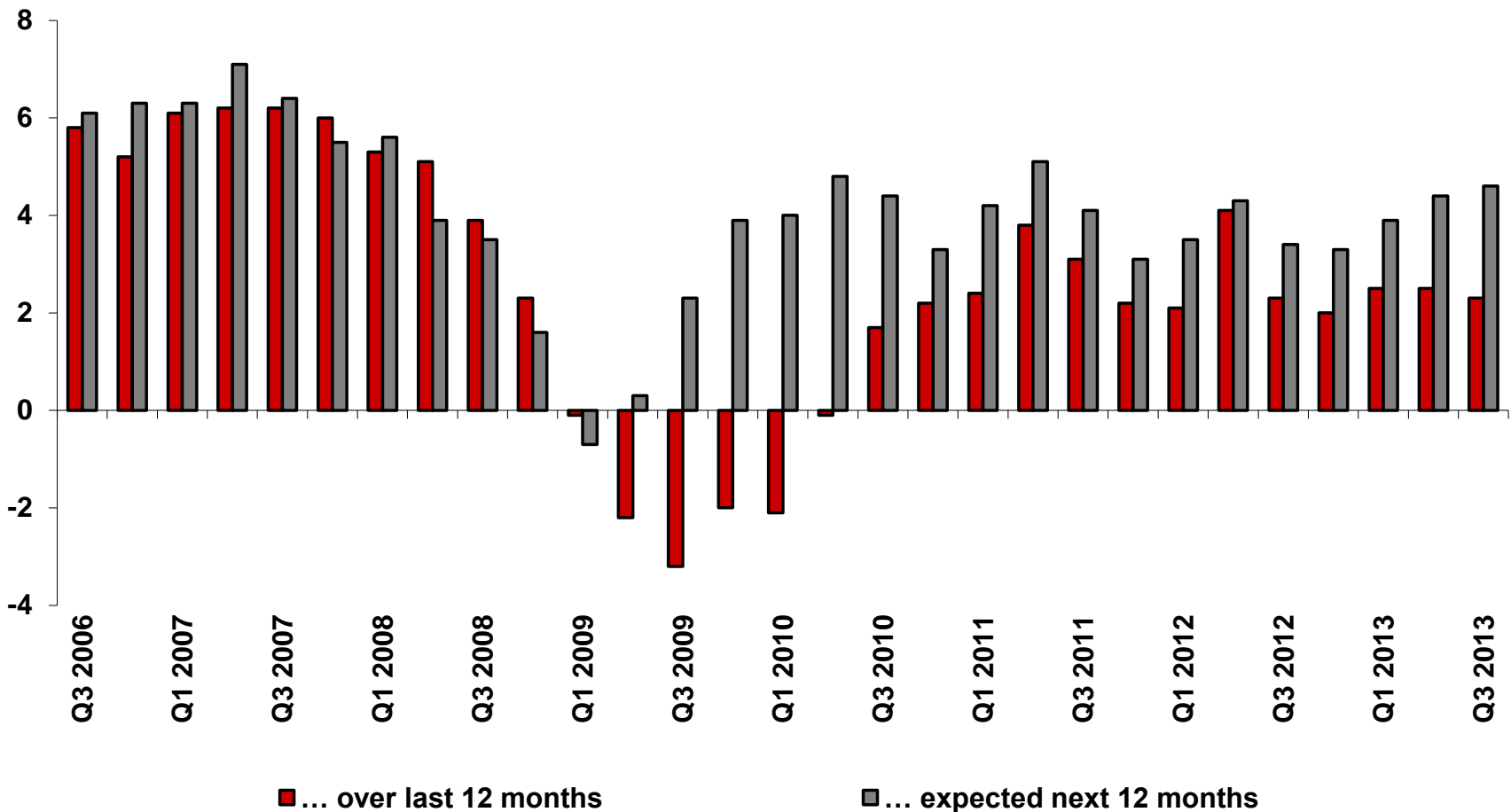
Turnover growth expectations are up on the same quarter a year ago....

Turnover, annual percentage change



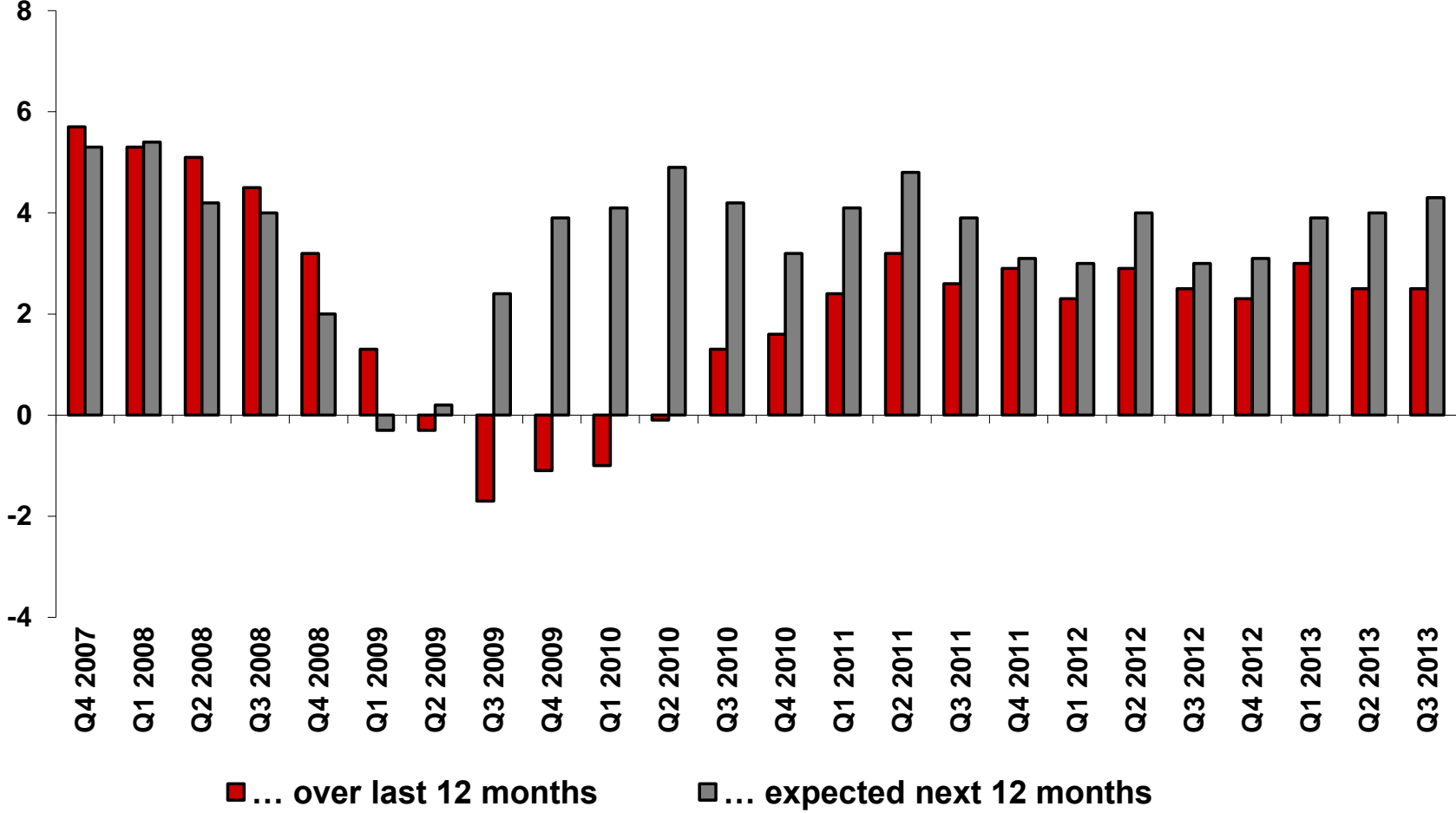
... as are profit growth expectations despite no change in reported annual growth compared with Q3 2012

Gross profits, annual percentage change



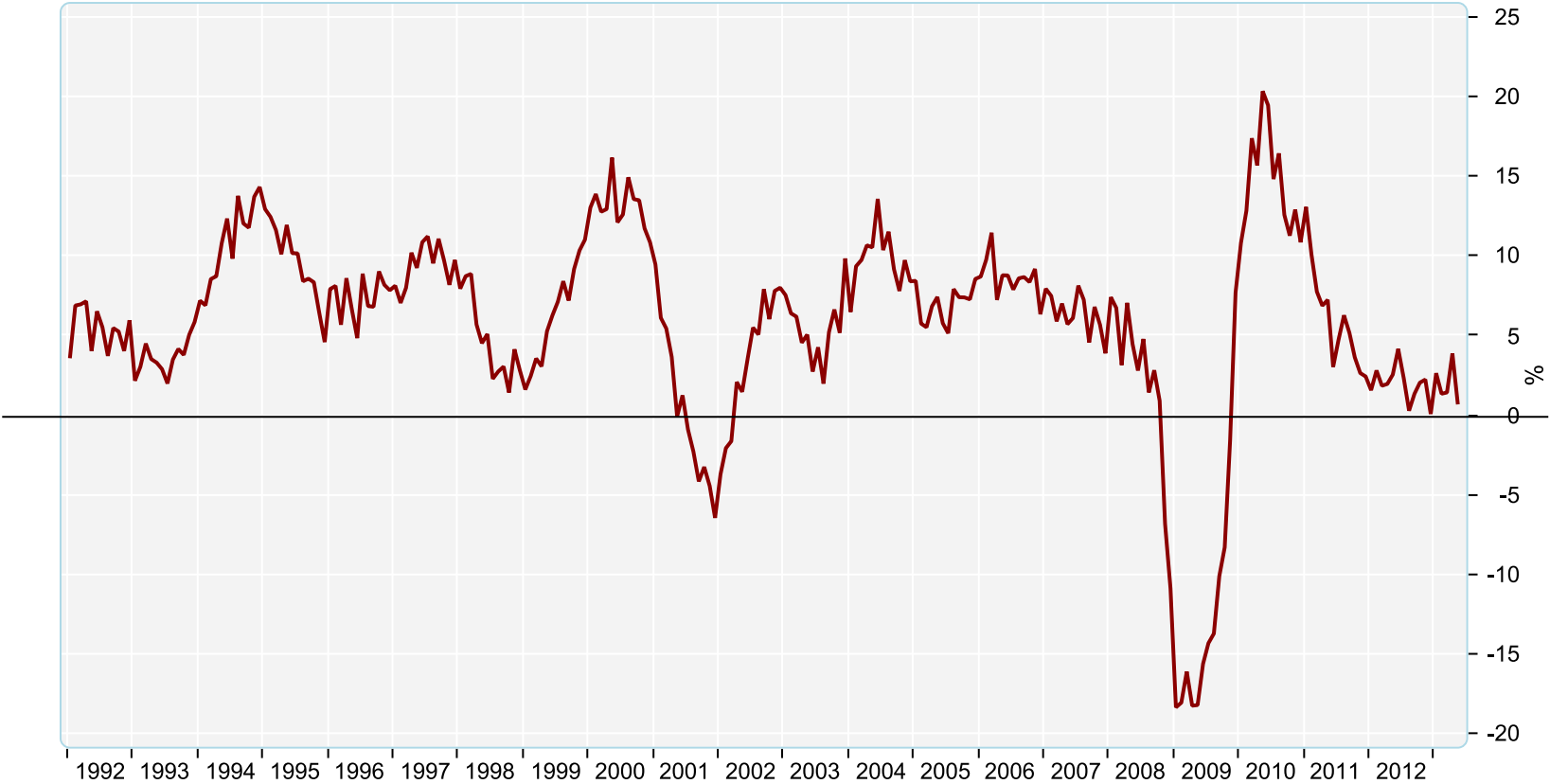
Domestic demand growth expectations pick up despite ongoing squeeze on household finances

Domestic sales, annual percentage change



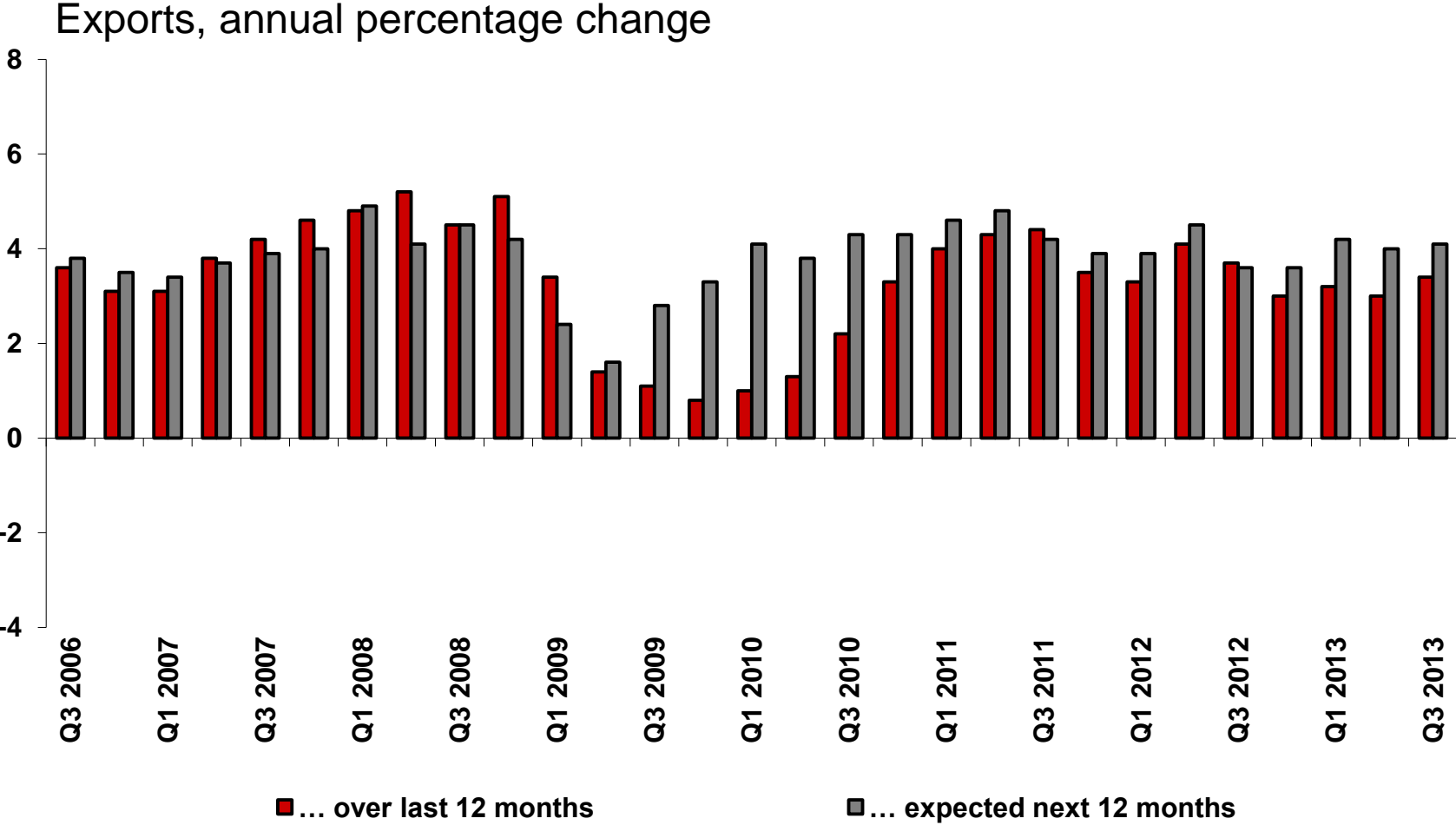
Concerns that China's economic slowdown could hit world growth

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



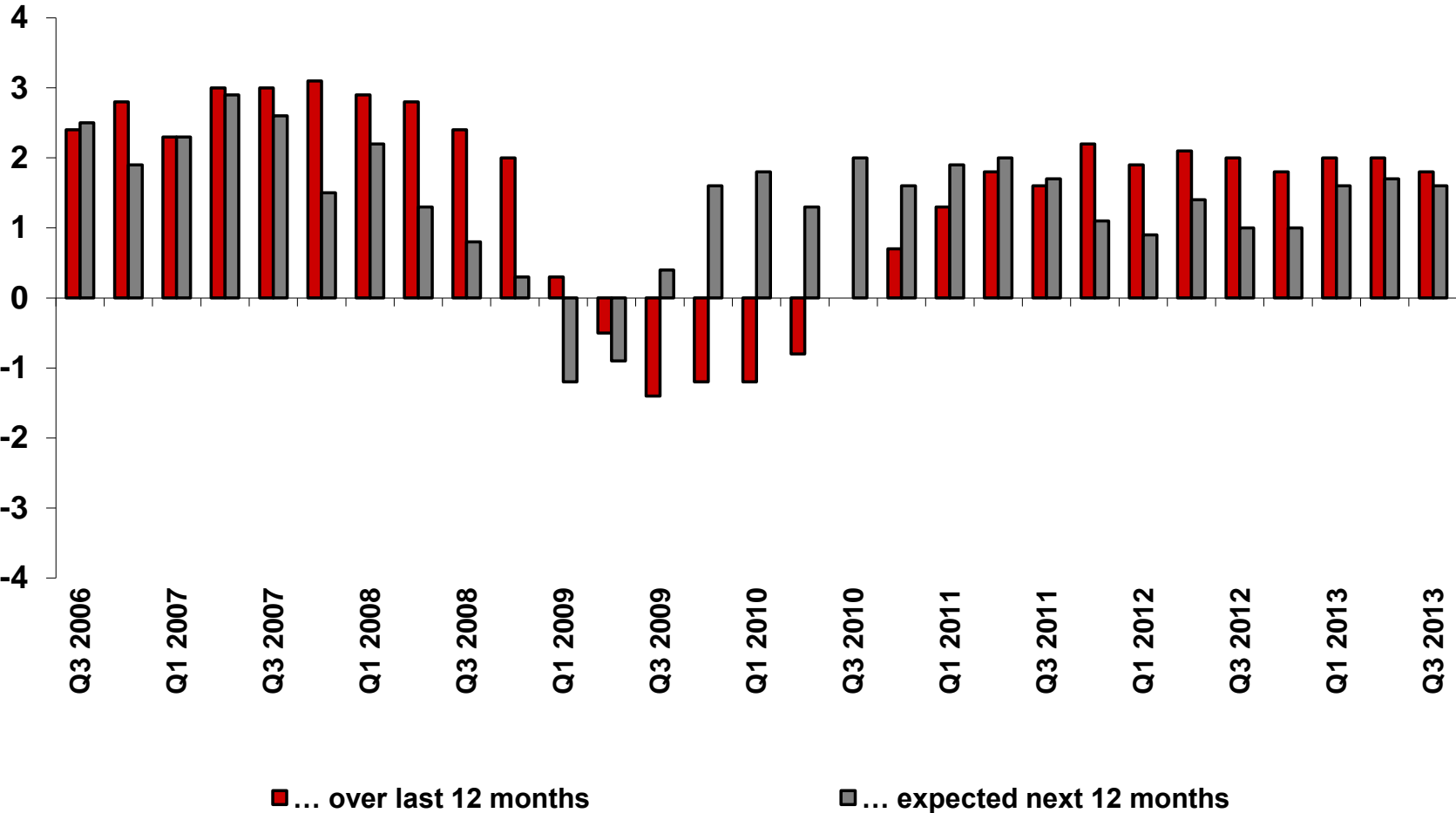
Source: **Macrobond**

Despite challenging global economic backdrop, businesses believe export growth will pick up



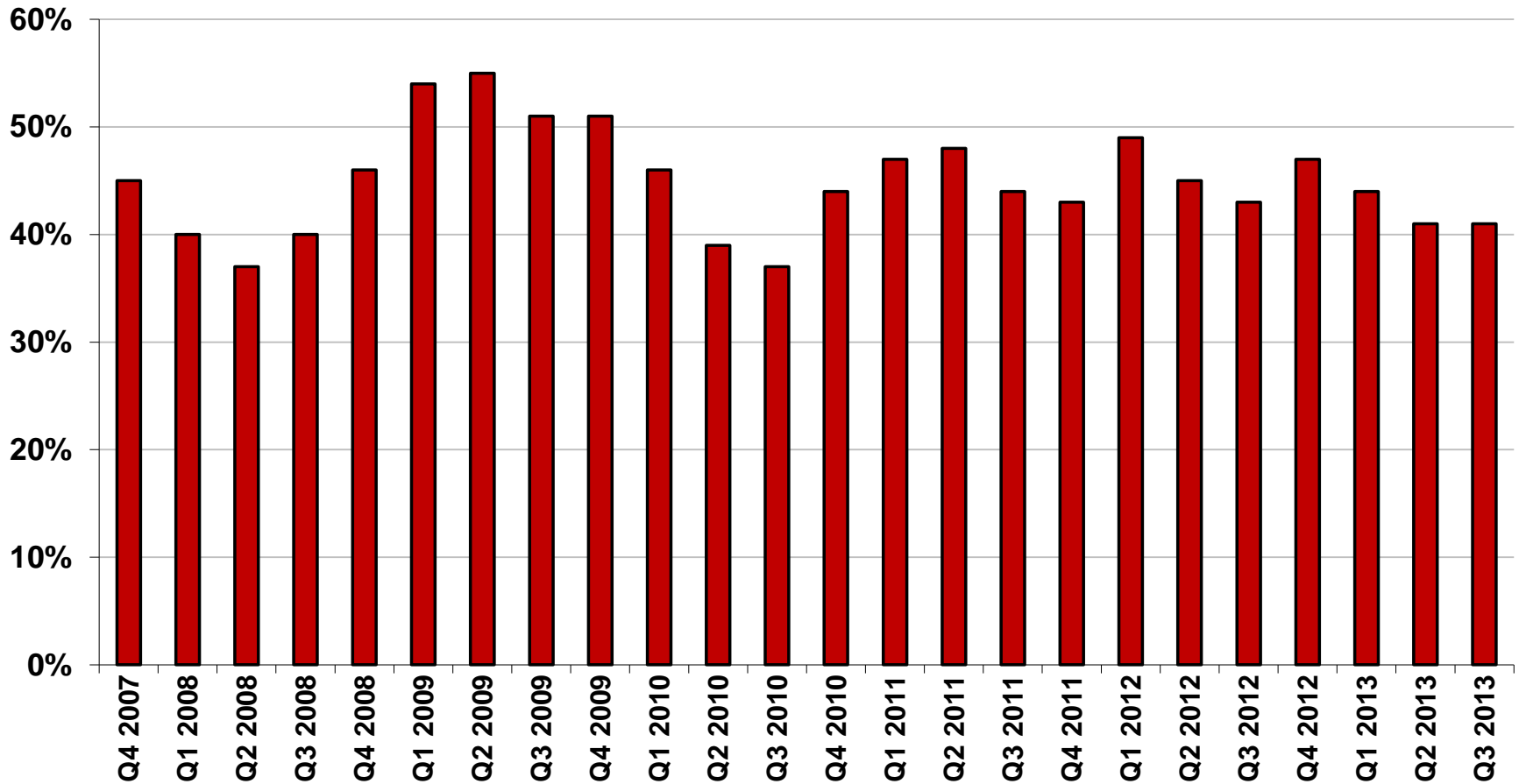
No sign of an investment-led recovery - capital investment growth still expected to cool over the next 12 months

Capital investment, annual percentage change



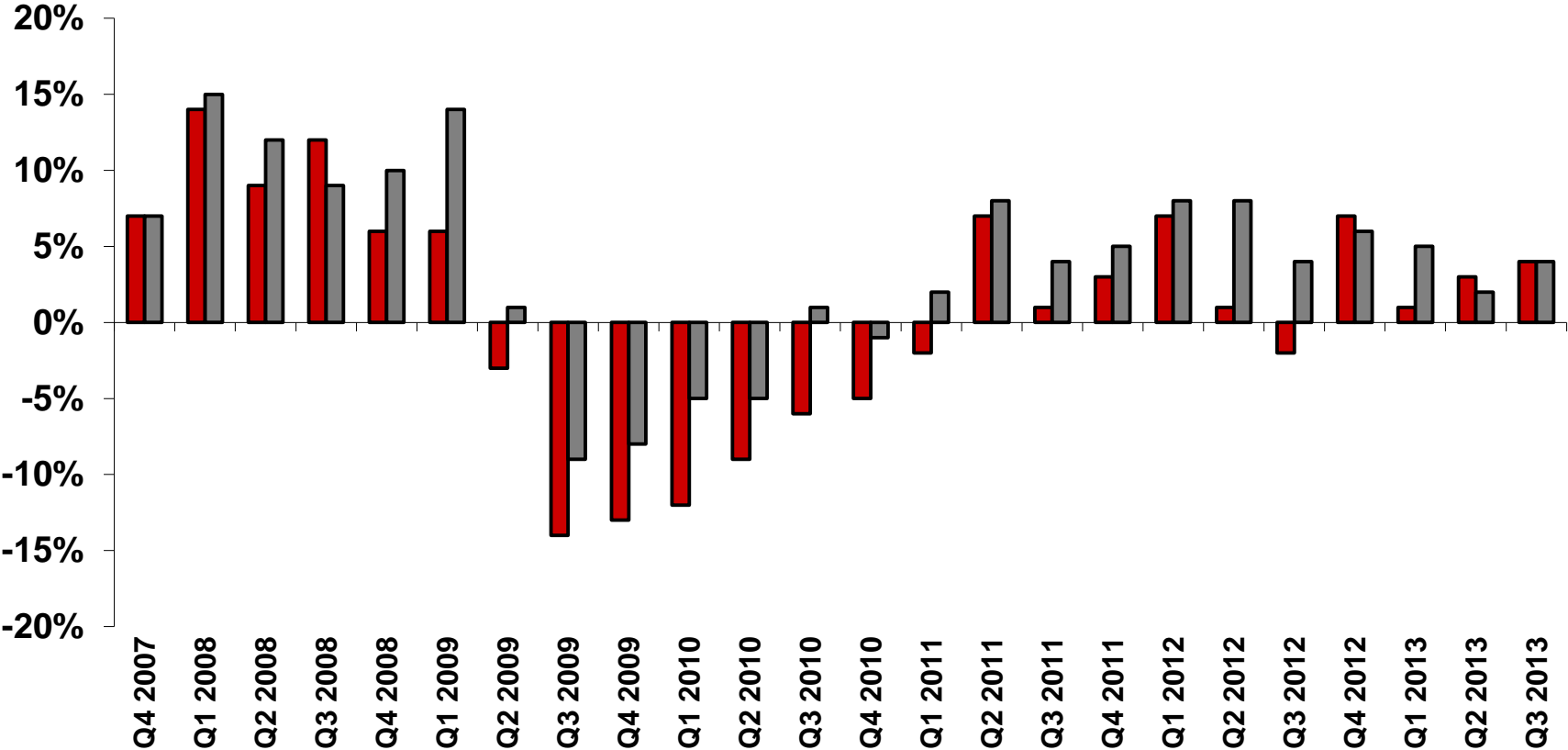
Share of businesses reporting customer demand to be a greater challenge holds steady

Share of businesses reporting customer demand as greater challenge



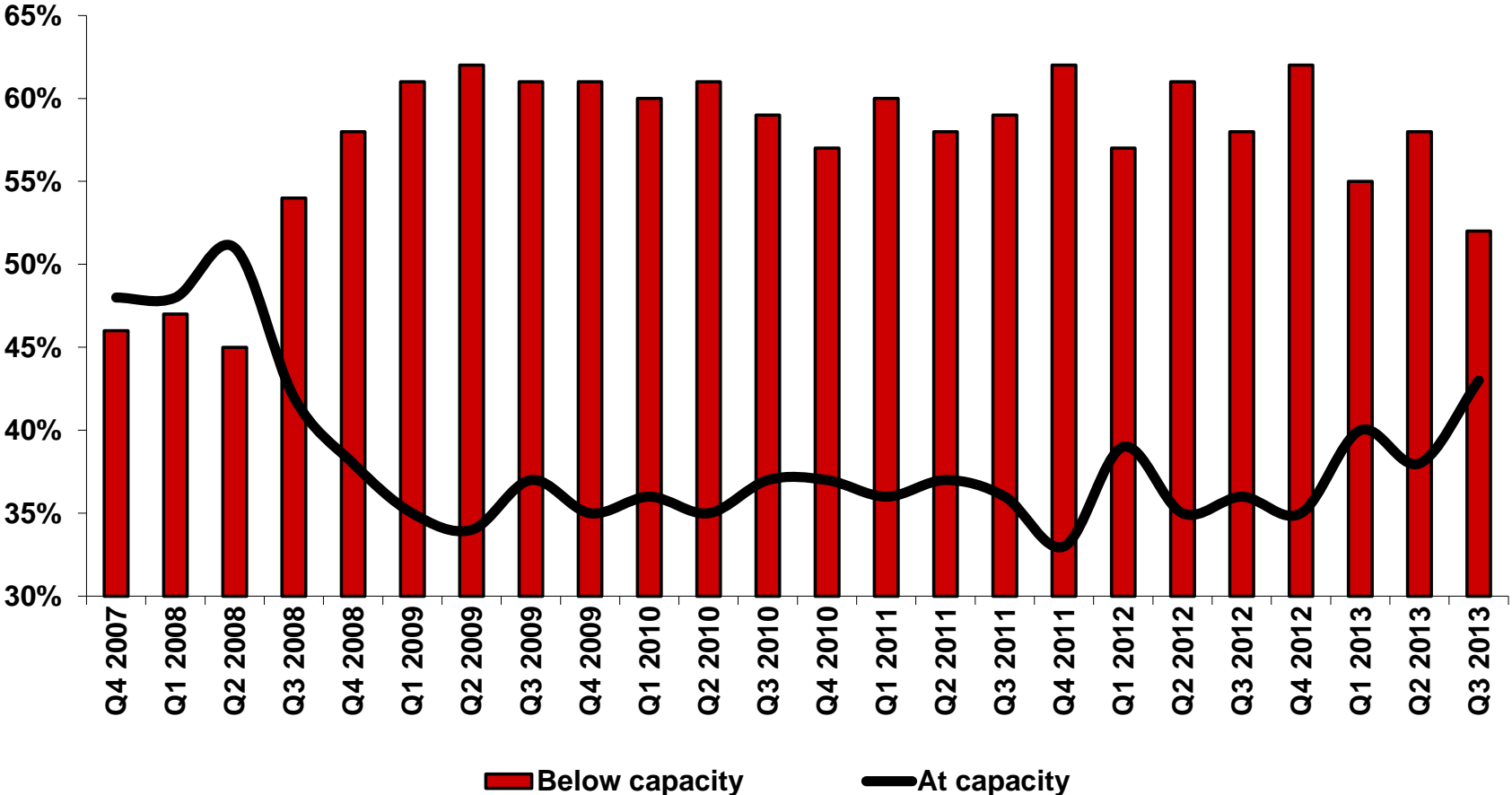
Slight uptick in net share of businesses with raw material stocks above normal

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



■ Raw materials
 ■ Finished goods
 *Share of businesses with stock levels above normal minus share of businesses with stock levels below normal
 ** Manufacturing, Construction, Transport & Storage

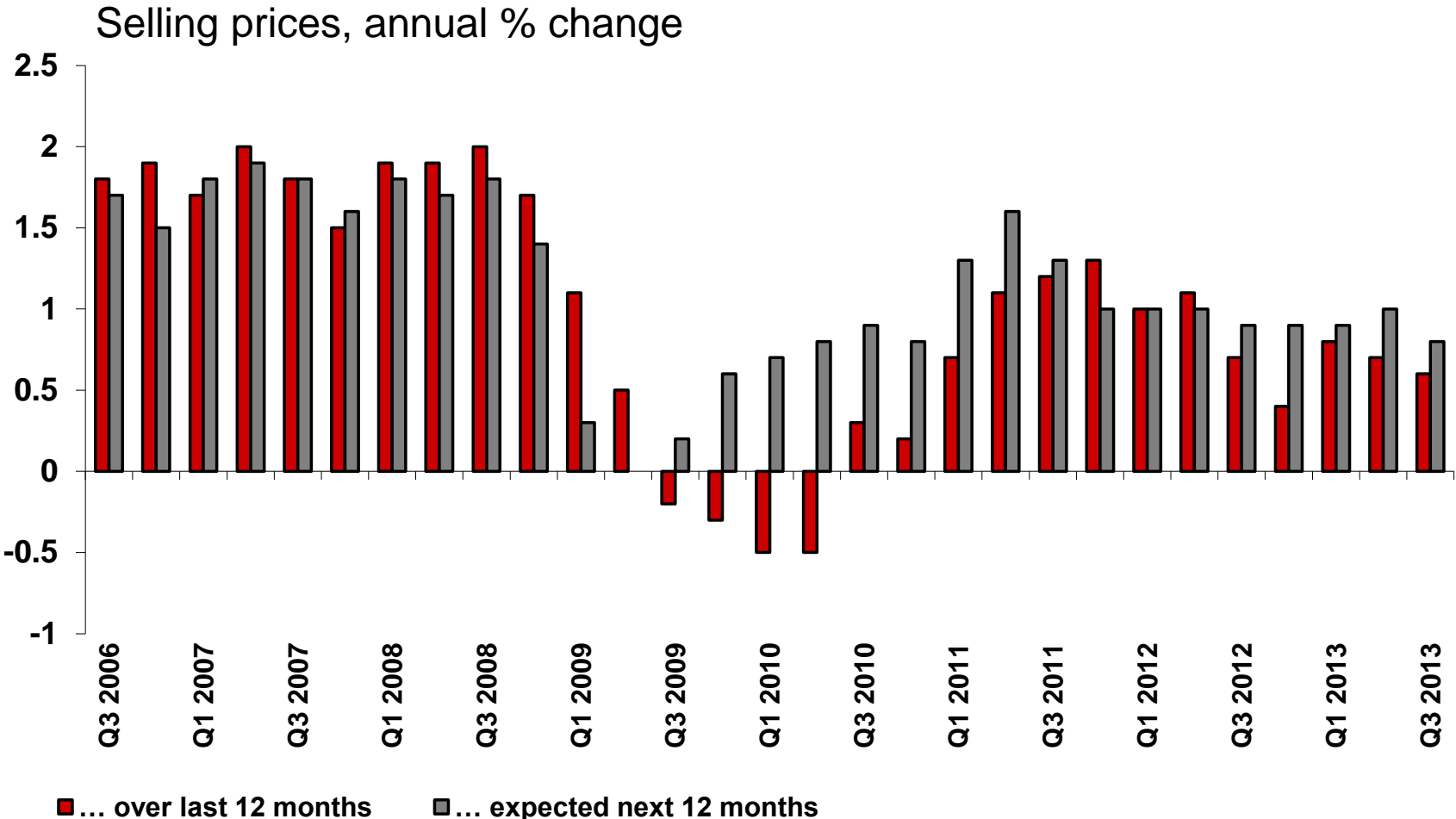
Sharp decline in the share of businesses operating below capacity



Outline

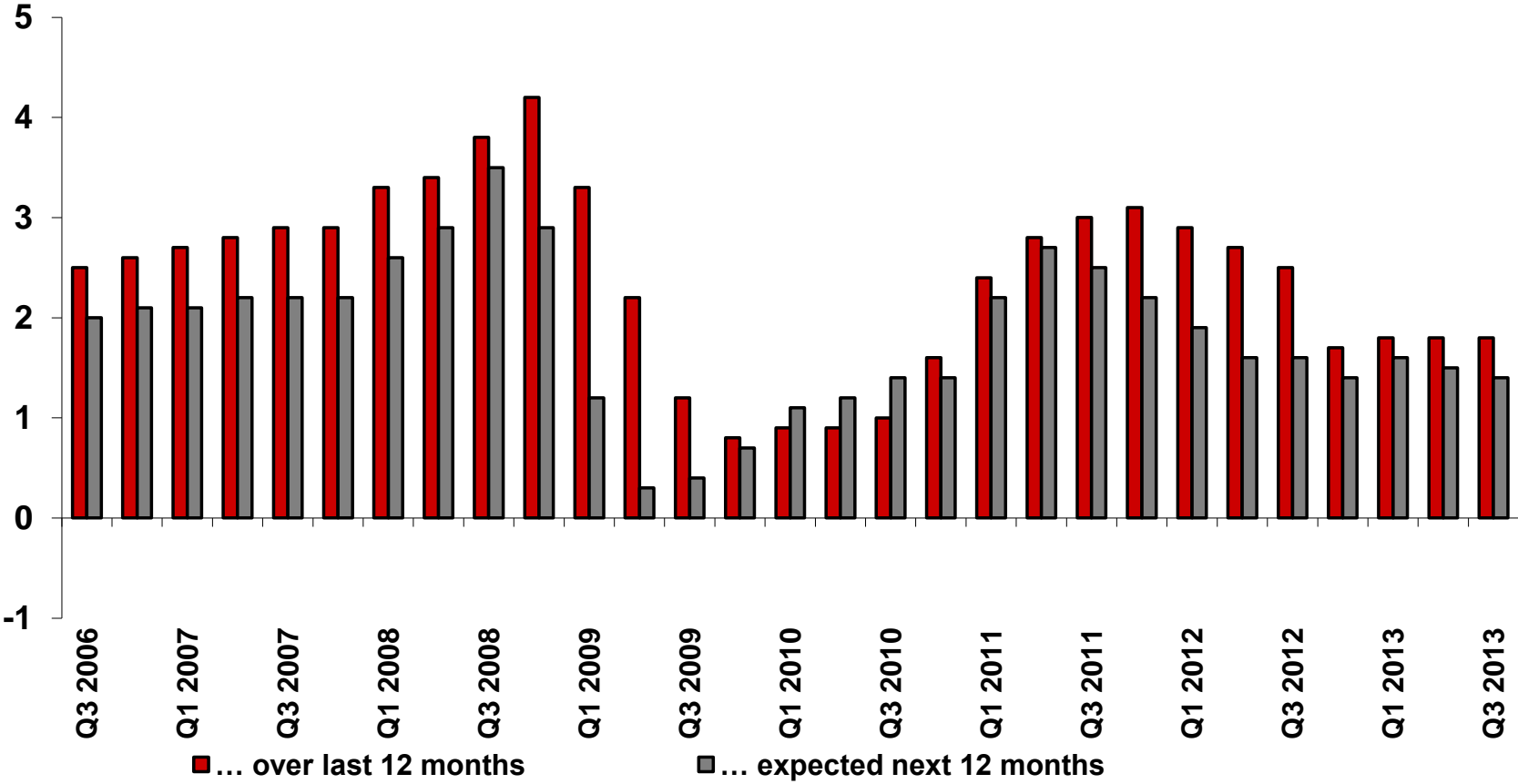
- Financial performance indicators
 - Inflation & labour market indicators

Reported price growth has declined slightly for two consecutive quarters



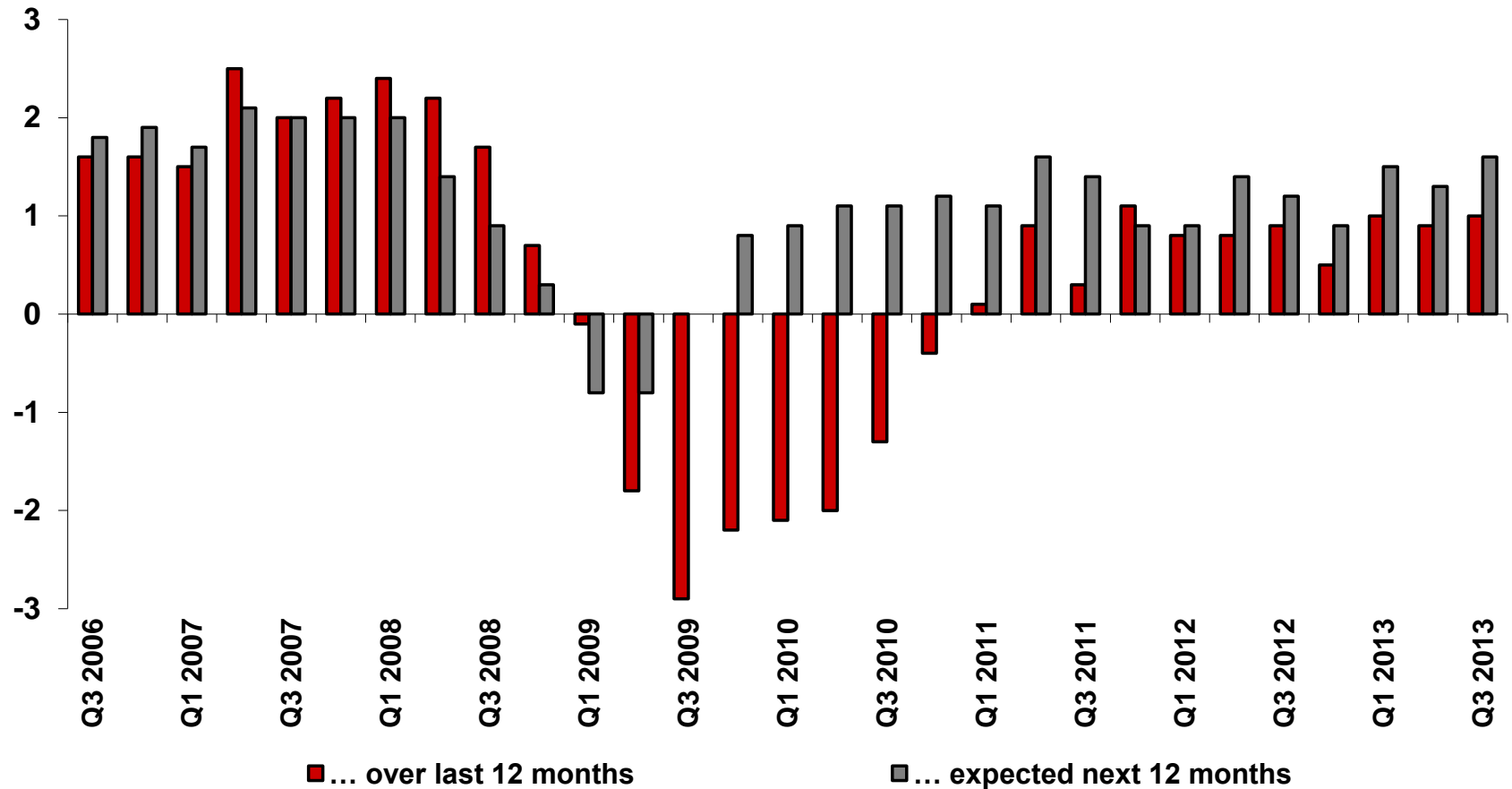
Input price inflation lower than a year ago and expected to cool further

Input prices, annual % change



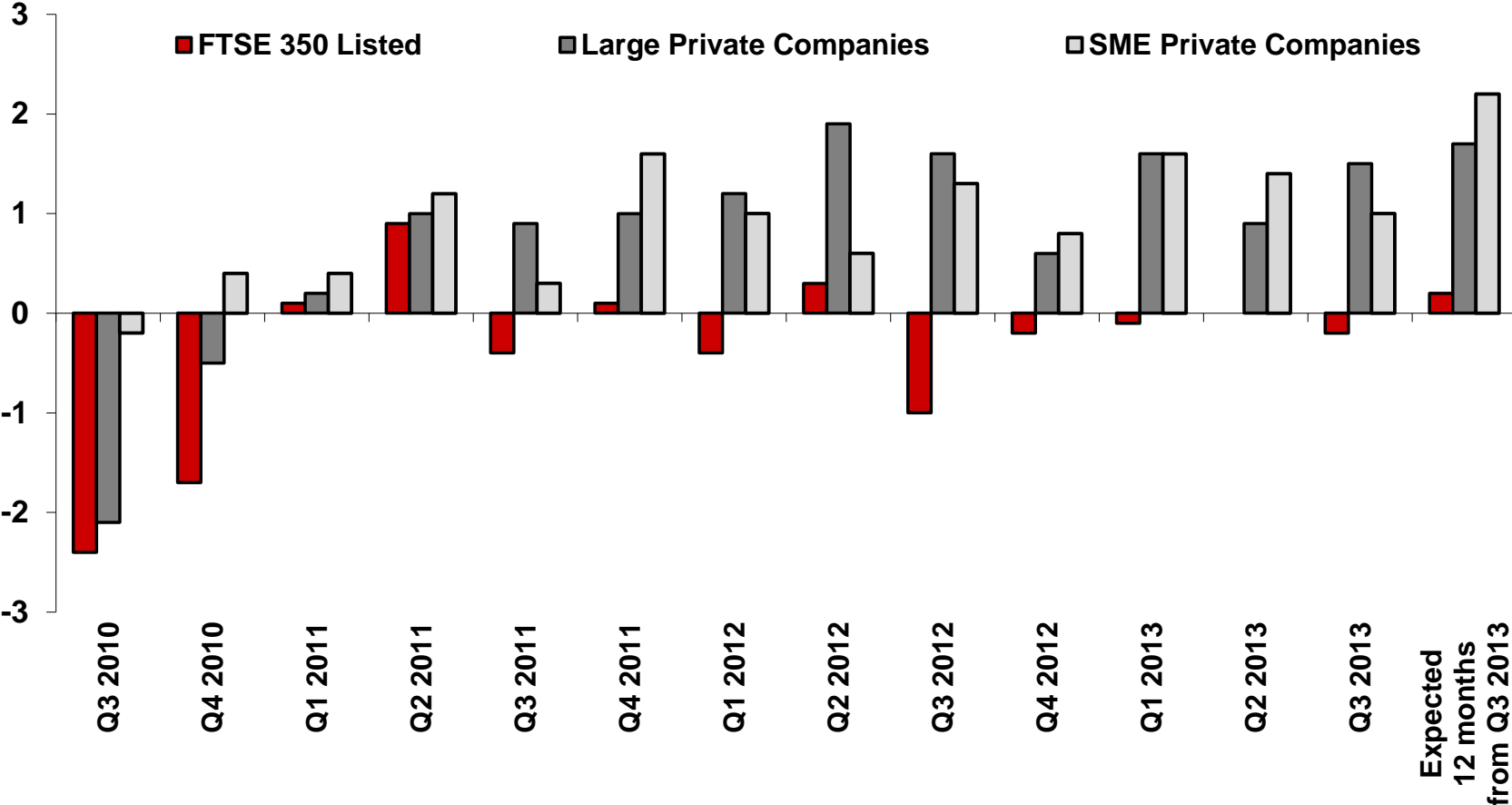
Employment growth expected to pick up from current levels

Employment, annual percentage change



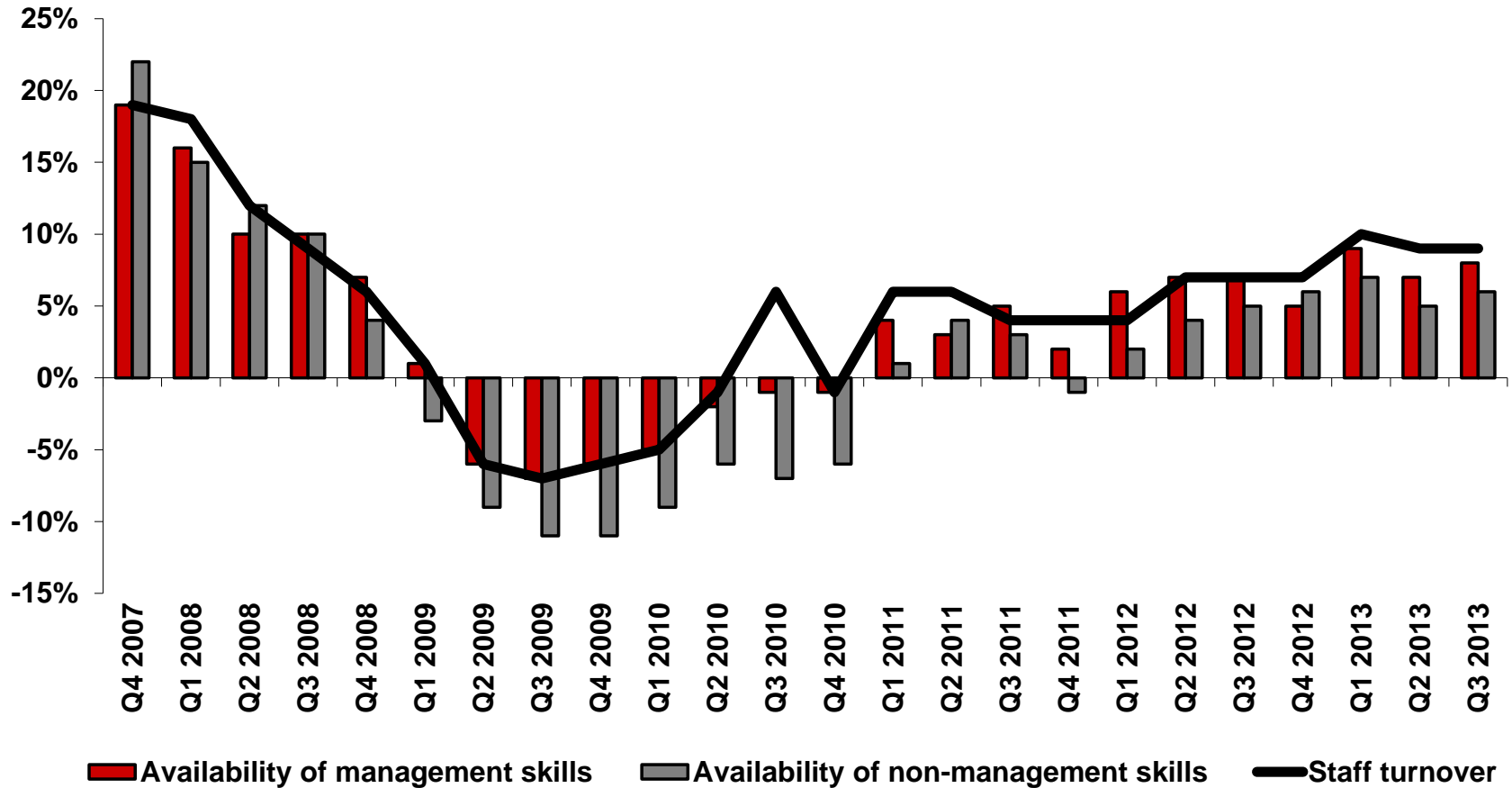
Employment growth picks up among large private companies

Employment, annual percentage change



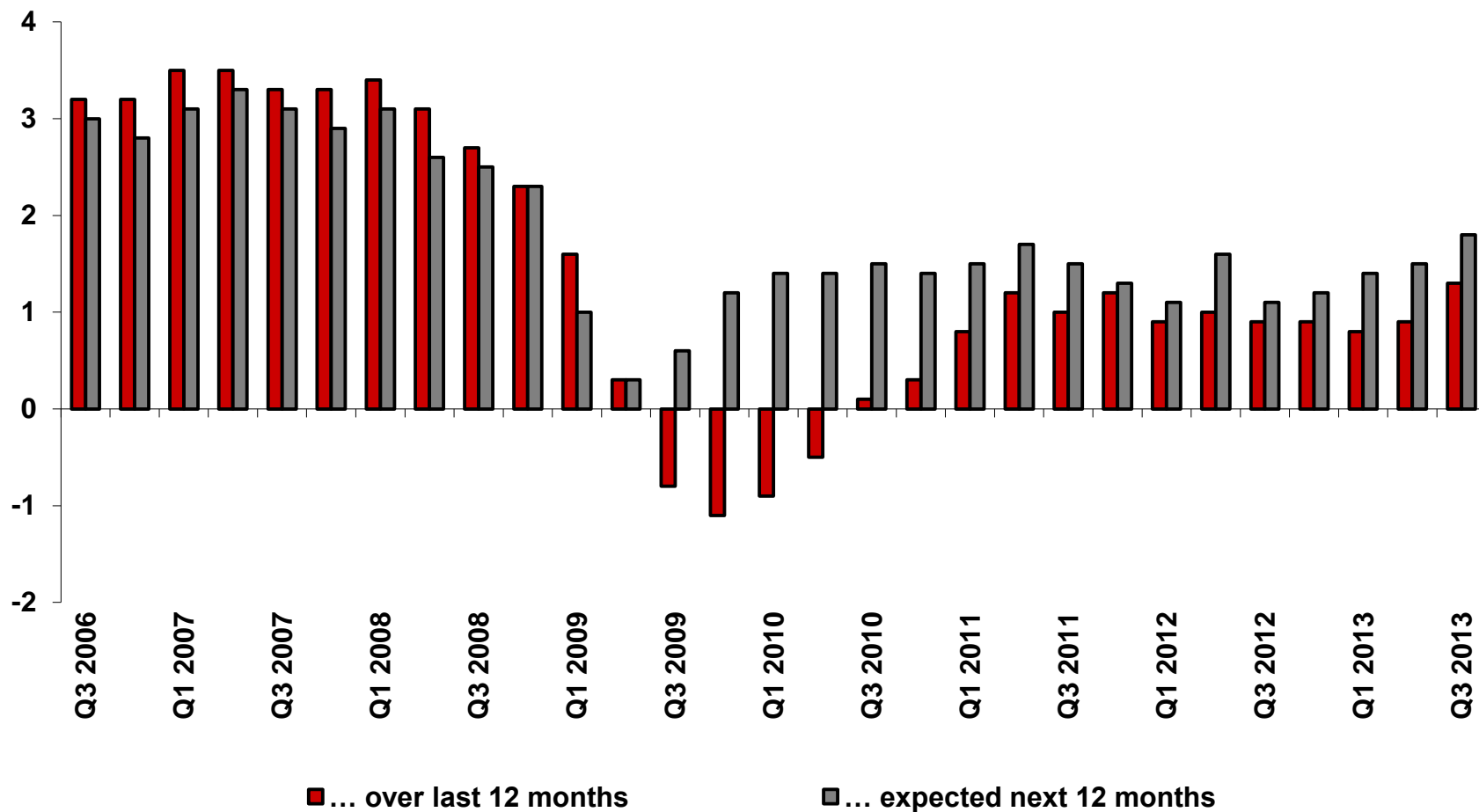
Staff turnover remains more of an issue than in 2012

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



Expected pay growth has been trending up though remains very weak

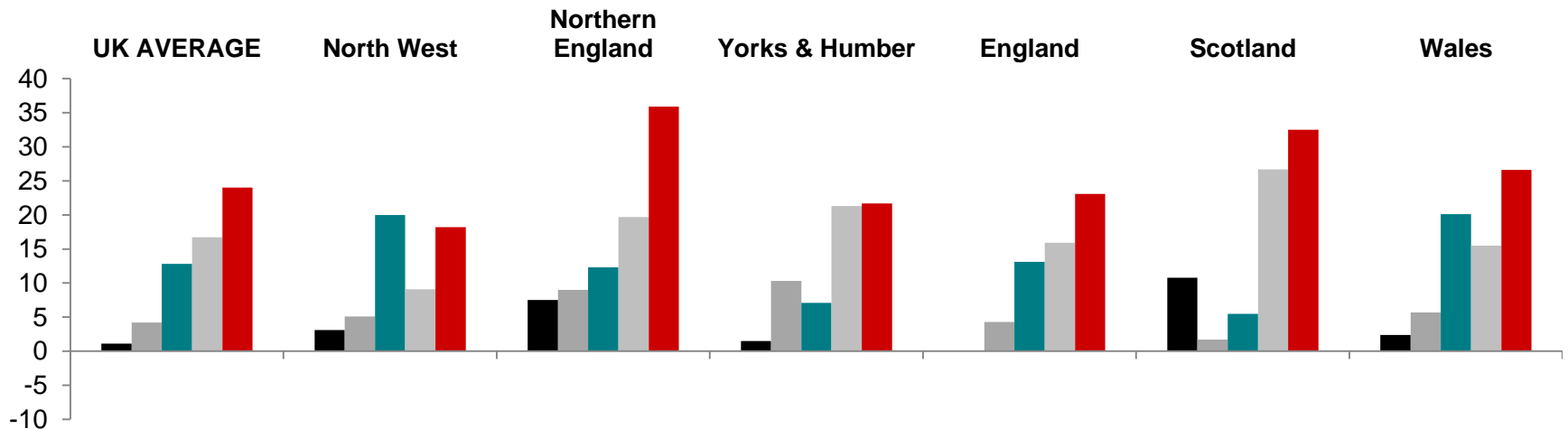
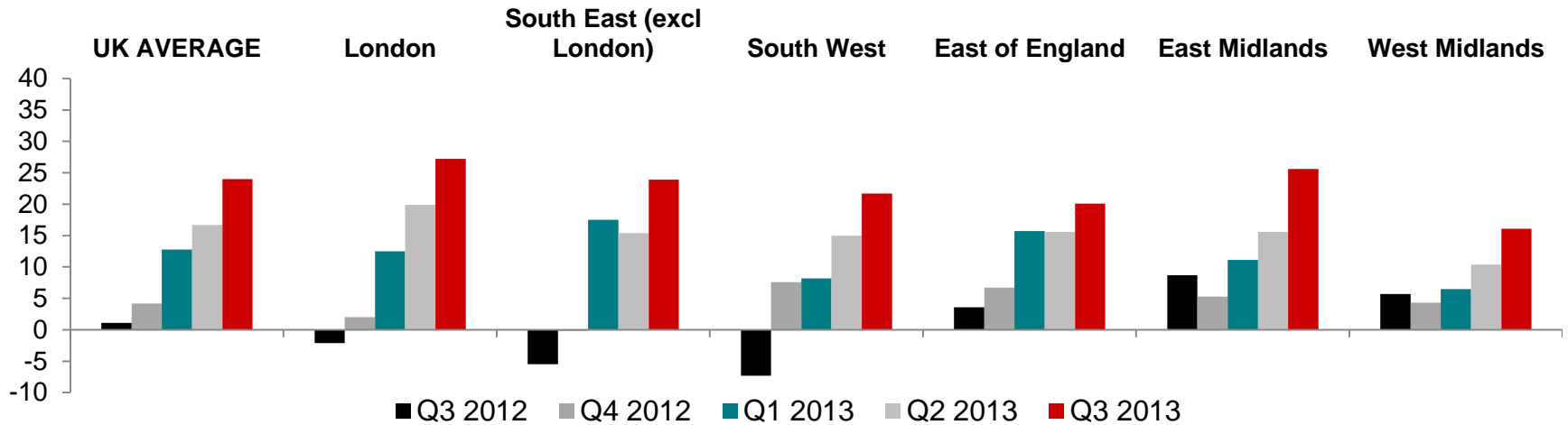
Average total salary, annual percentage change



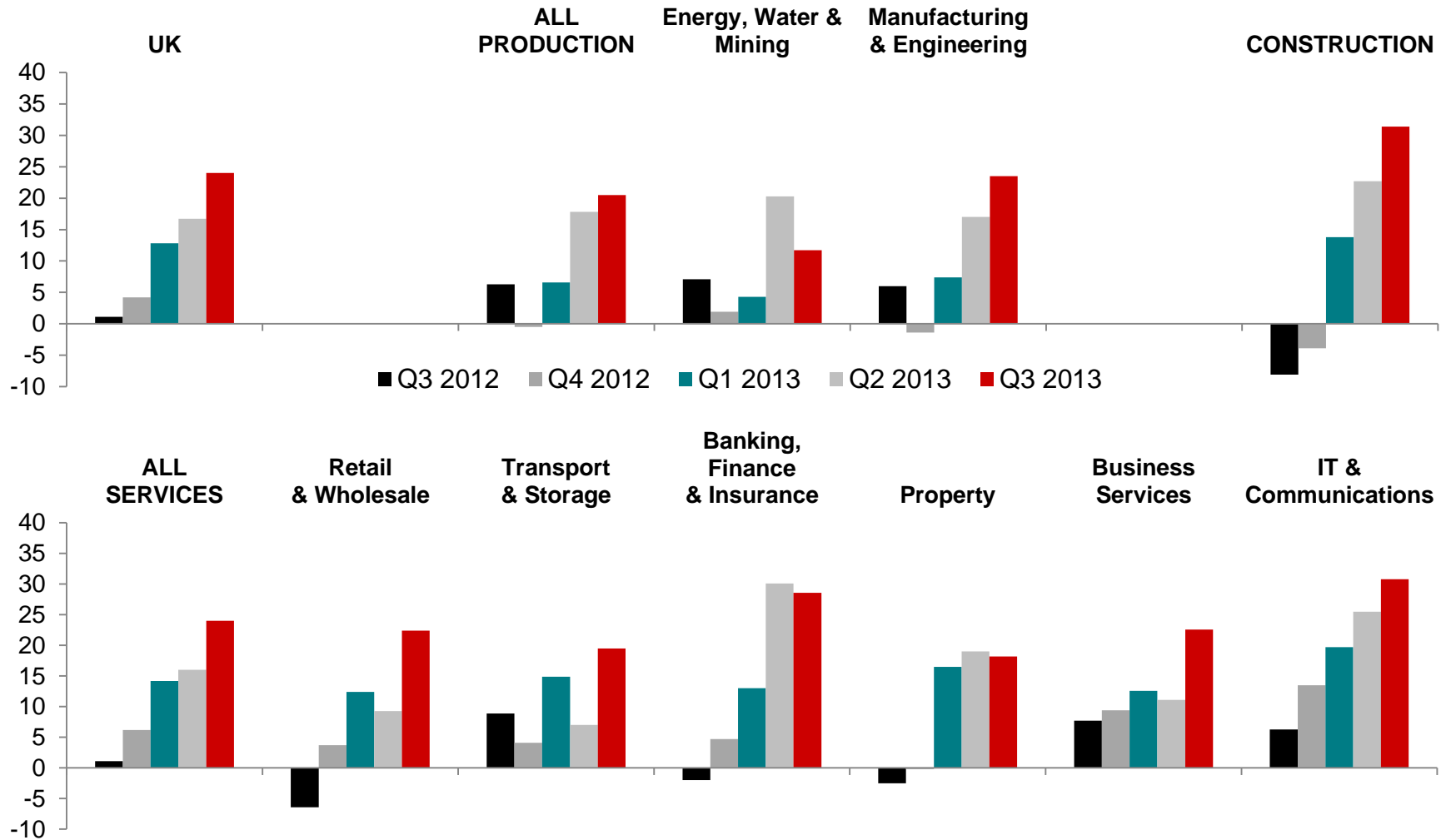
Outline

- Regional & sector stories

Trend of Business Confidence by Region

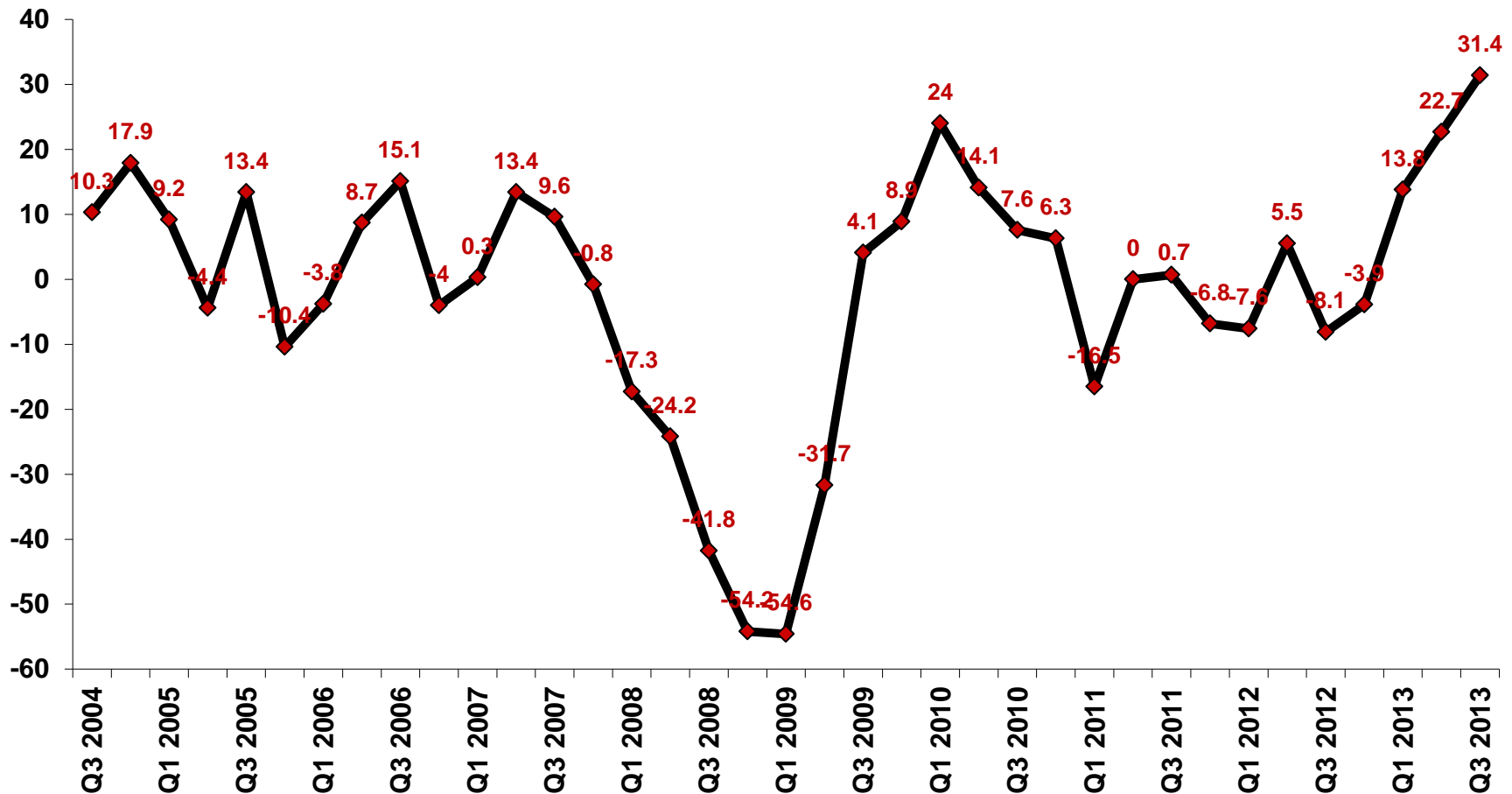


Trend of Business Confidence by Sector



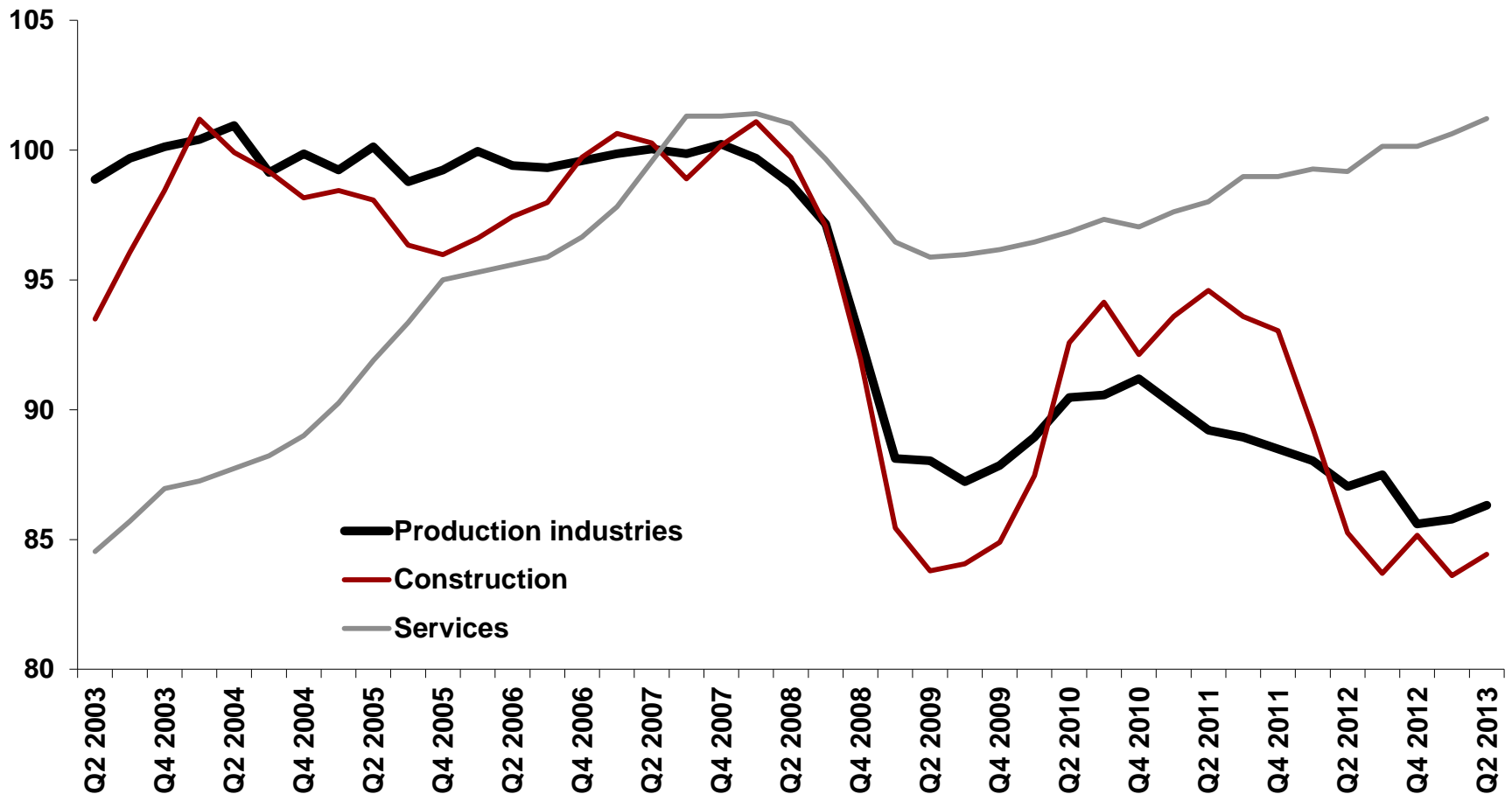
Construction sector confidence reaches a record high

ICAEW / Grant Thornton Business Confidence Index – construction sector



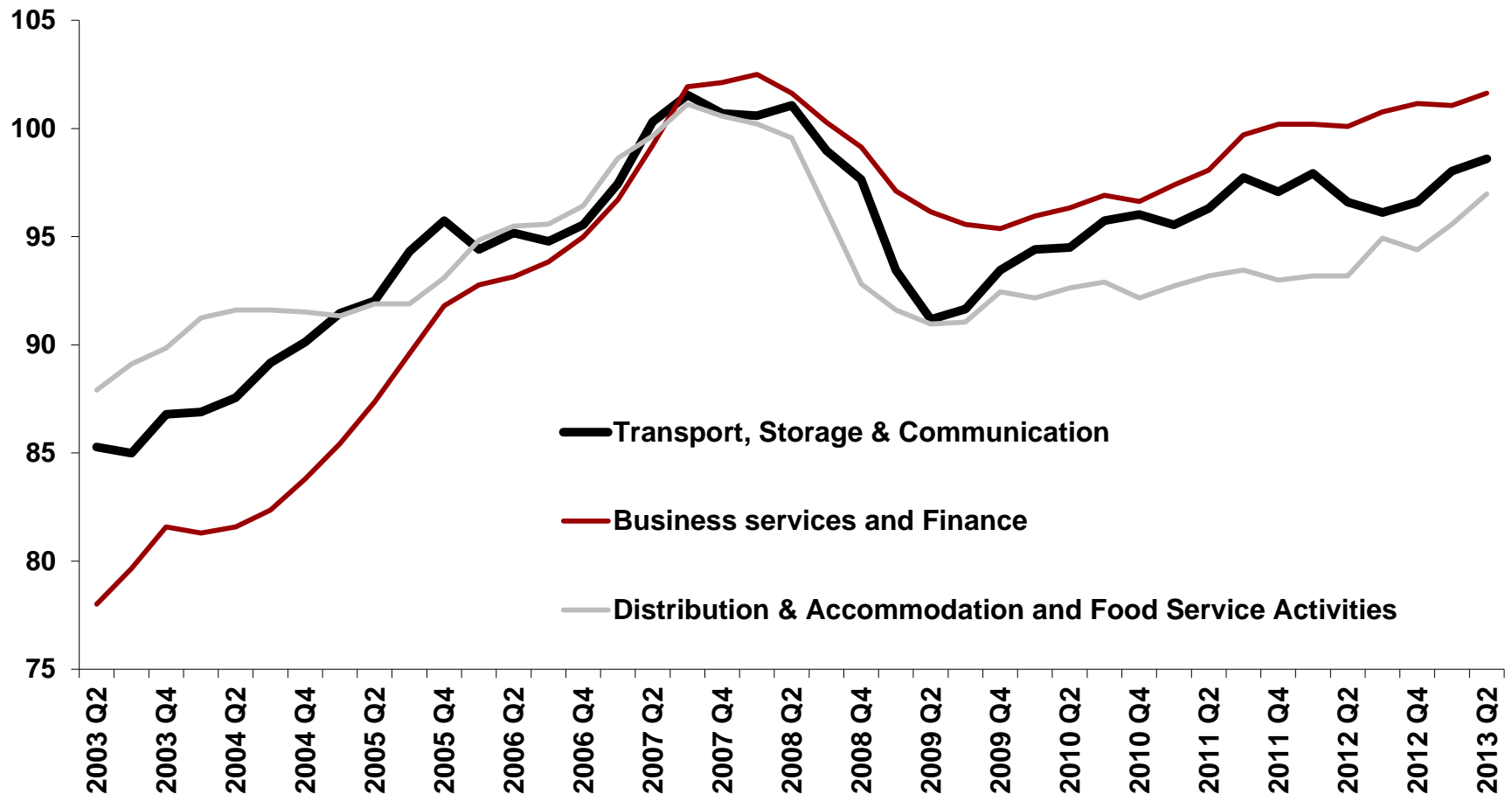
Recovery in construction sector confidence suggests worst could be over for the sector

ONS index of economic output, by sector, 2007 = 100

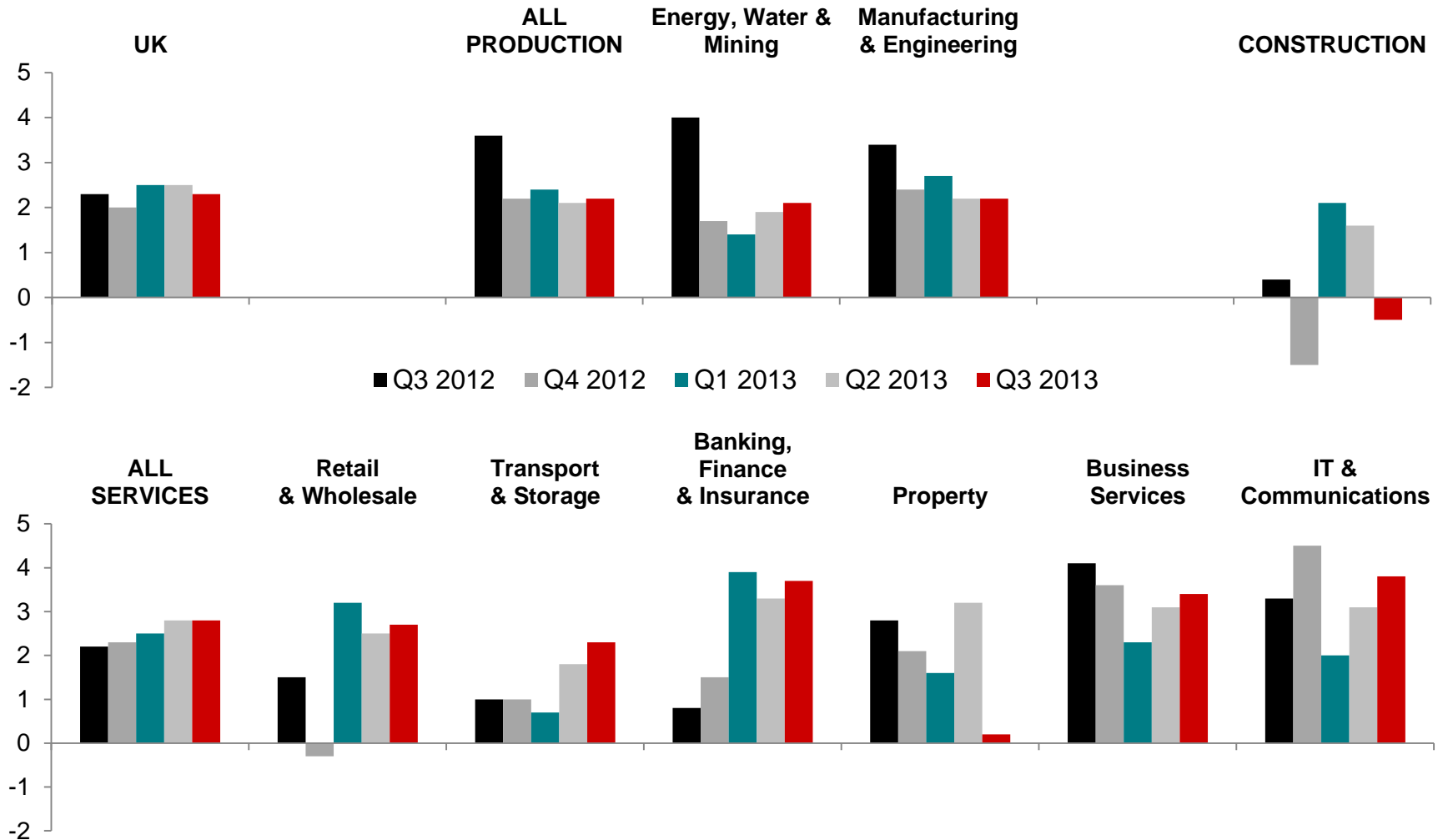


The services sector has seen faster growth than construction and production in recent years

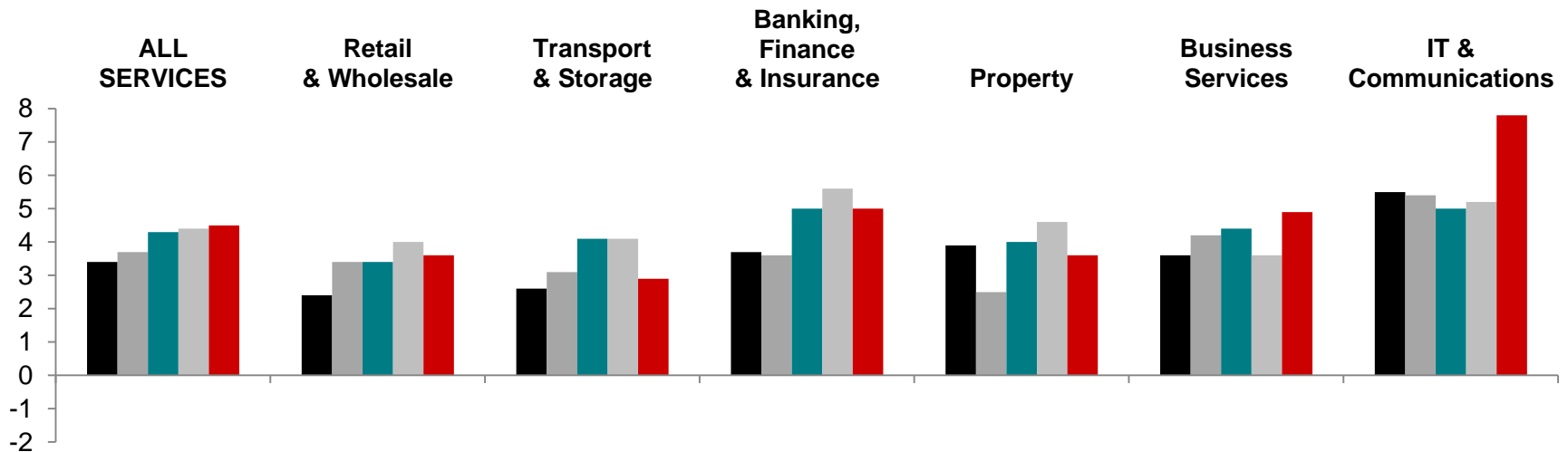
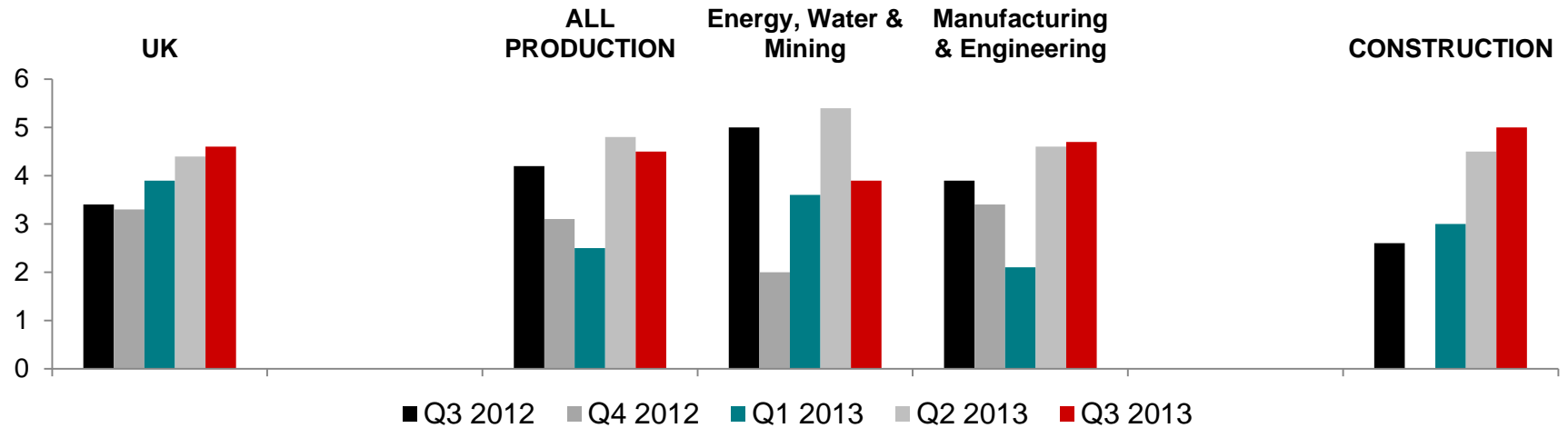
ONS index of economic output, by sector, 2007 = 100



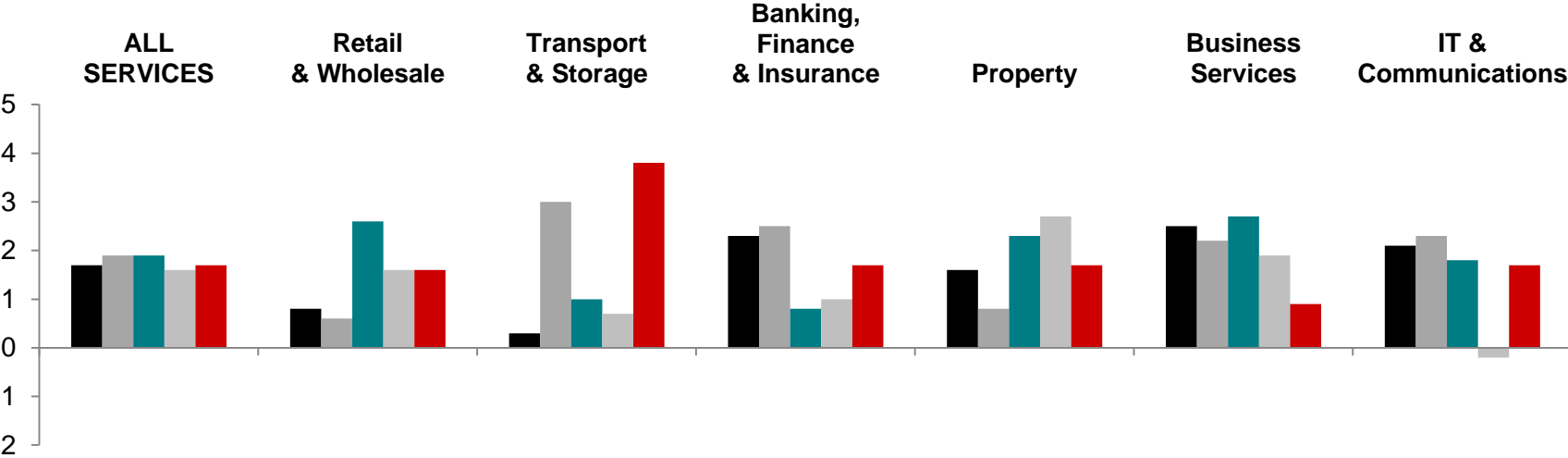
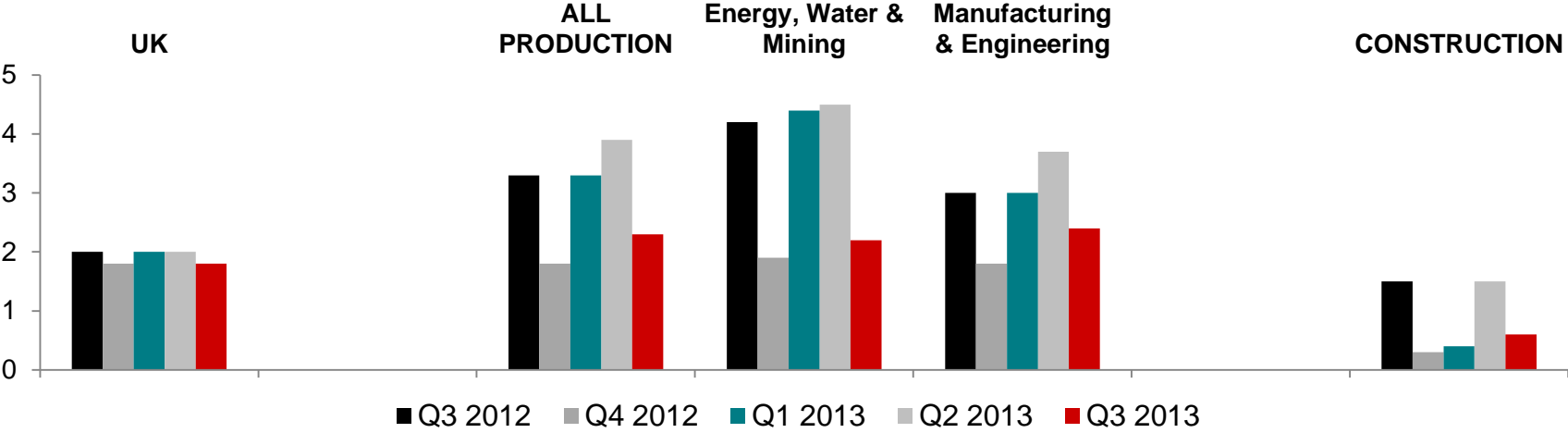
Profit growth – last 12 months



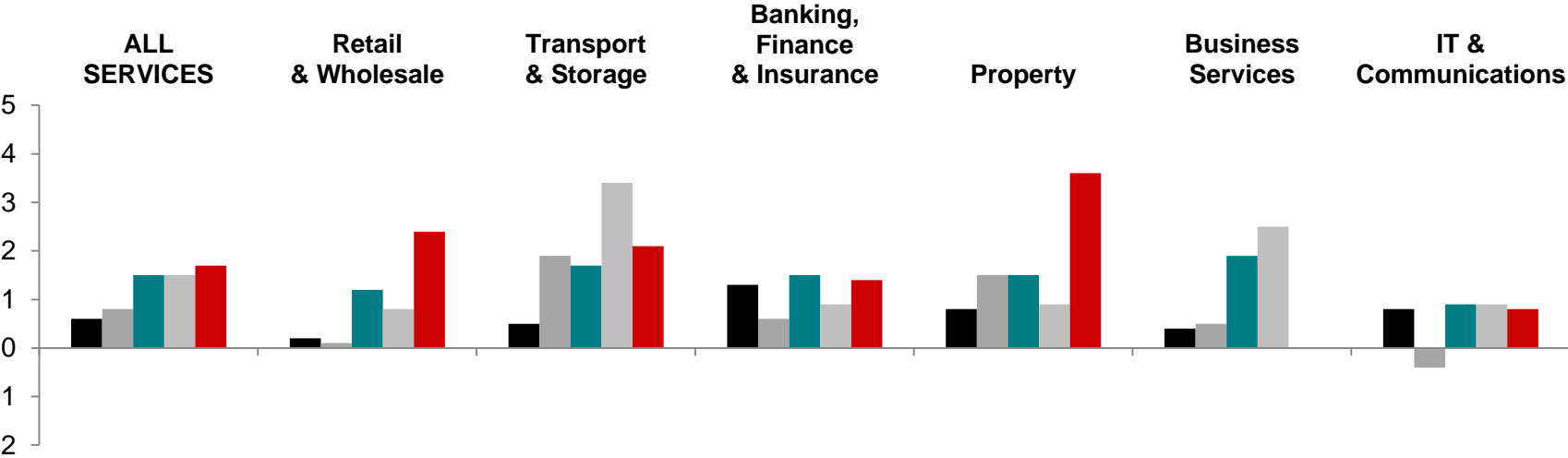
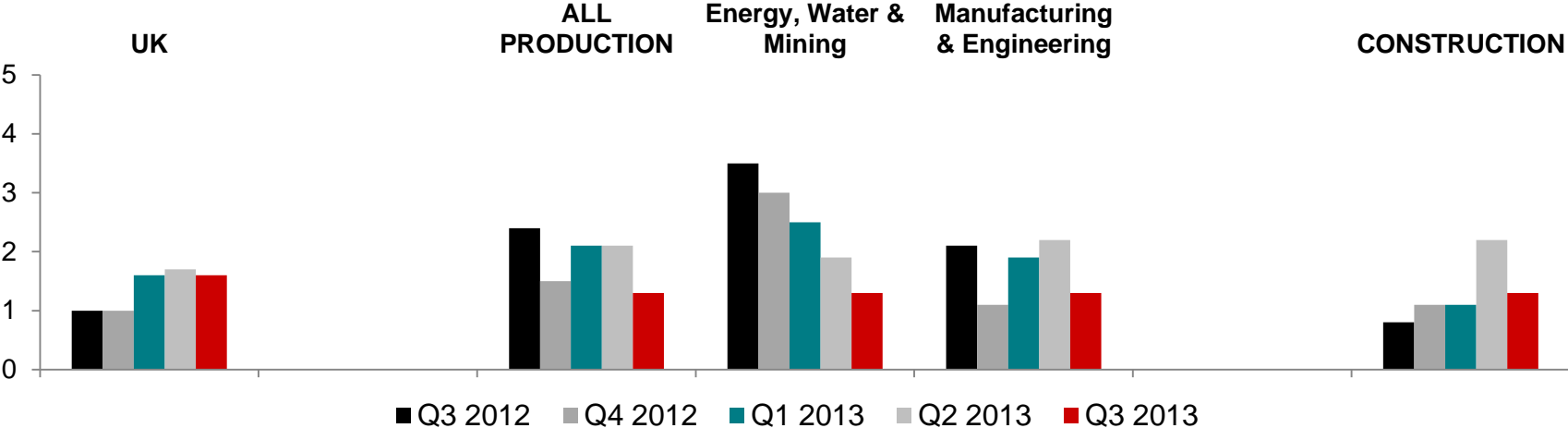
Profit growth – next 12 months



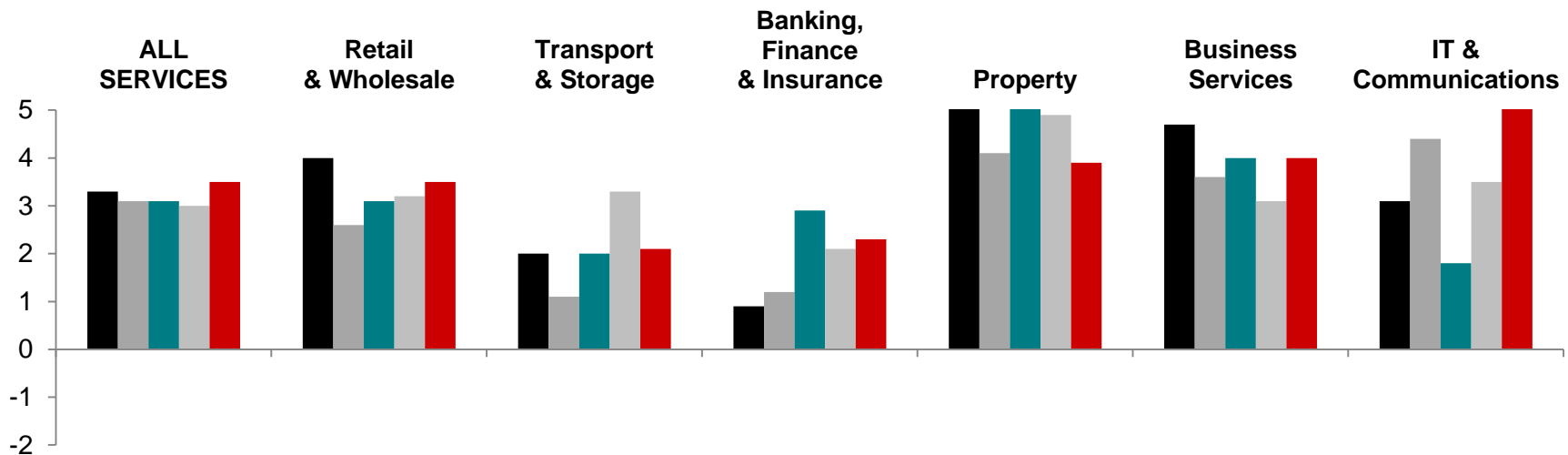
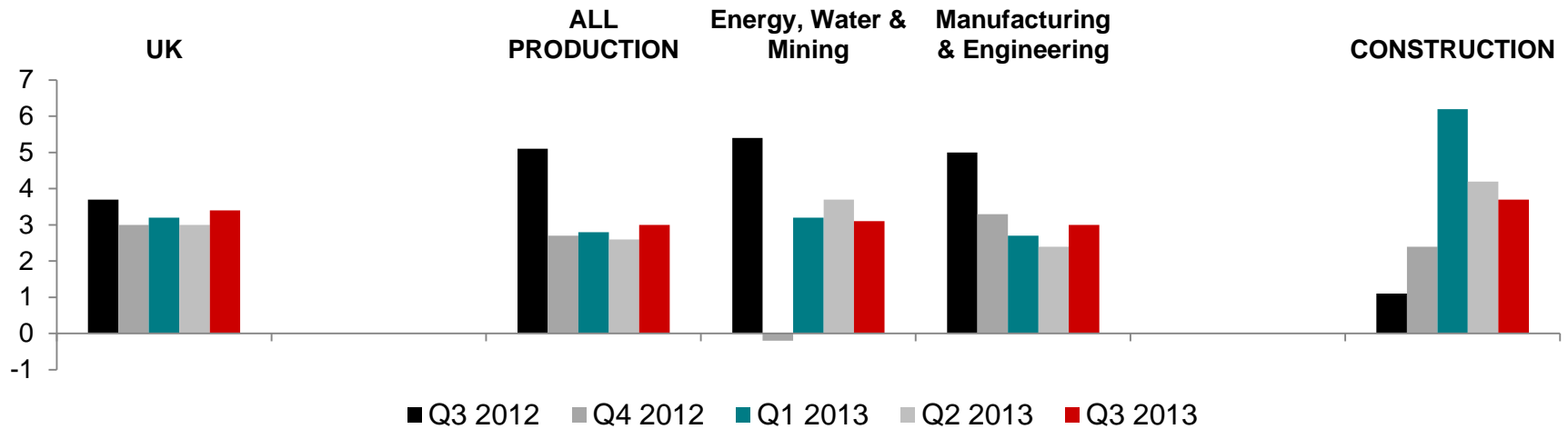
Capital investment growth – *last 12 months*



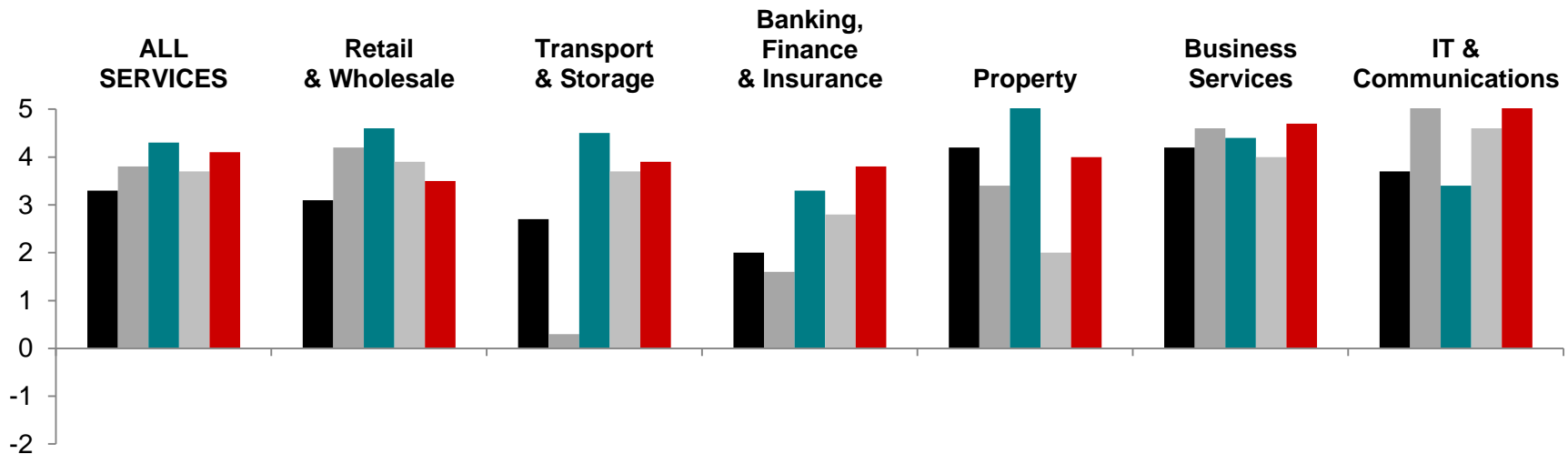
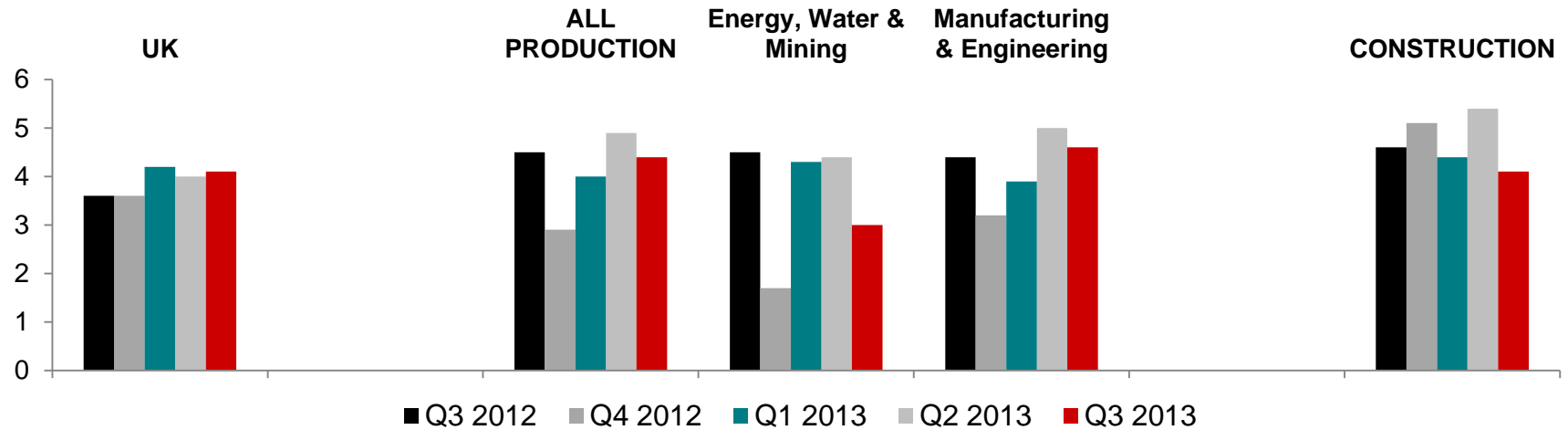
Capital investment growth – *next 12 months*



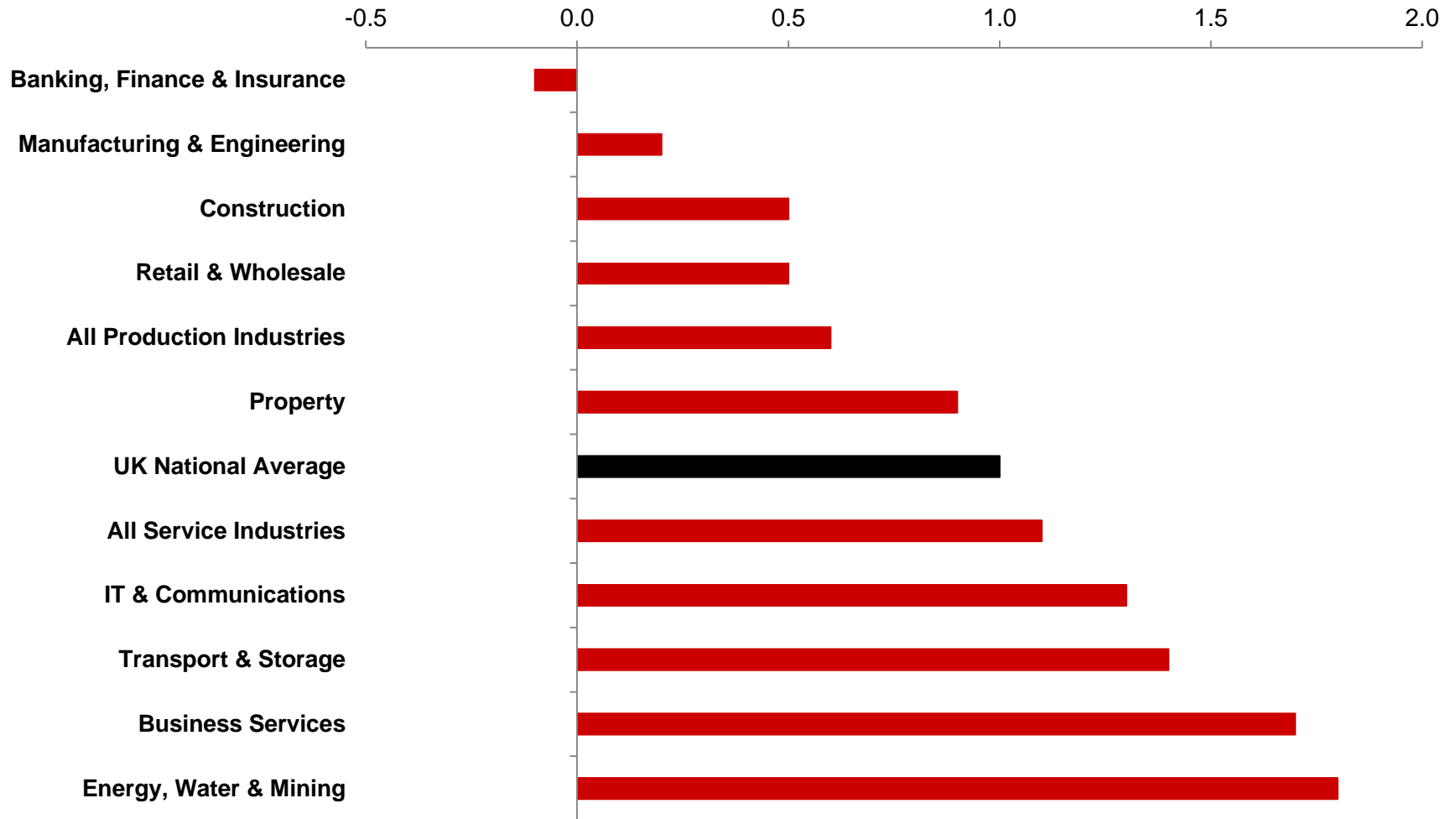
Export growth – *last 12 months*



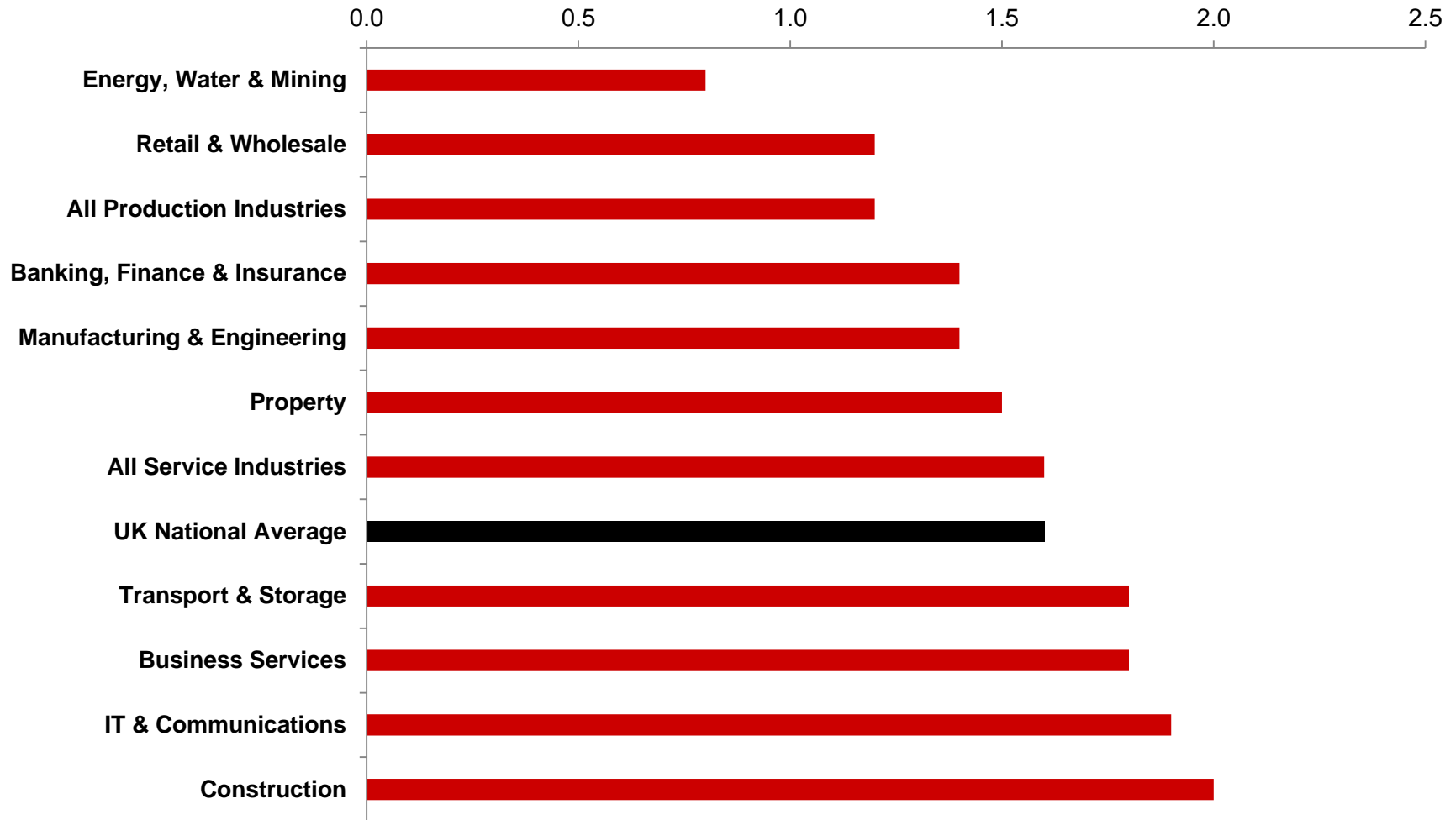
Export growth – *next 12 months*



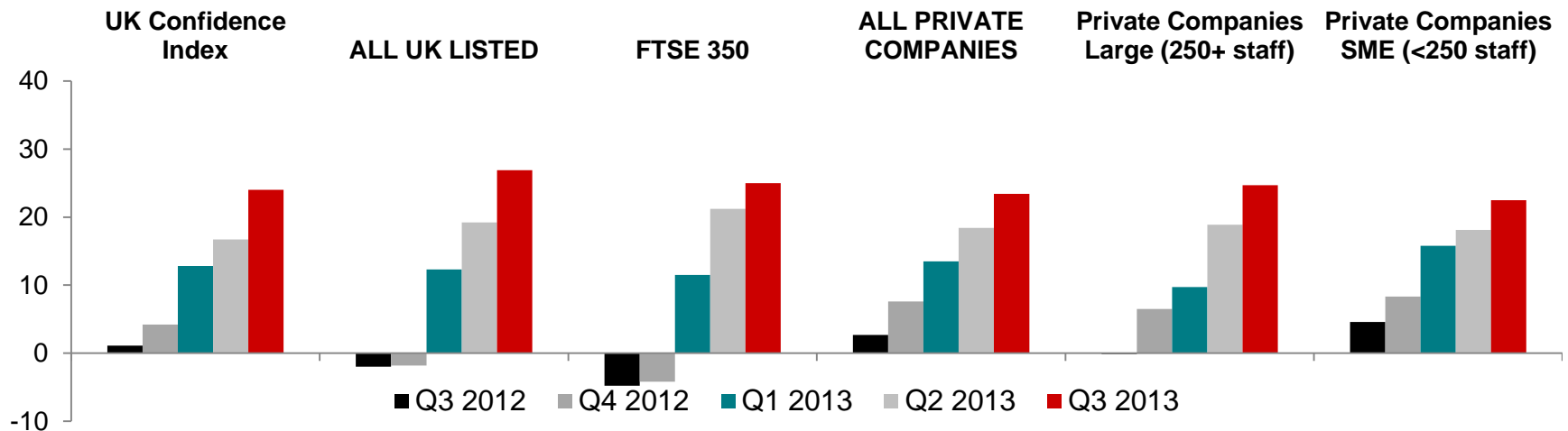
Employee growth – last 12 months



Employee growth – next 12 months



Trend of Business Confidence by Company Type



Conclusions

- Business confidence rose again in Q3 2013, suggesting that the economic recovery is continuing to gain momentum.
- The Confidence Index points to economic growth of 1.0% in Q3 2013, the fastest growth since Q2 2010.
- Provided the economy does not contract in Q4 2013, GDP this year should grow at its fastest rate since 2010.
- Despite pick-up in confidence, businesses are still reluctant to expand capital investment levels – no uptick in capital spending growth expectations.
- There are signs that employee pay growth is picking up, though growth levels remain extremely weak and below consumer price inflation.
- Construction sector confidence has rebounded strongly – an encouraging sign that the worst may be over for a sector hard hit by the recent economic downturn



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