ECONOMIST'S VIEW

The latest *ICAEW/Grant Thornton UK Business Confidence Monitor* (BCM) shows that business confidence has improved significantly in the first quarter of 2013 and now stands at +12.8, up from +4.2 in Q4 2012.

The Confidence Index is a leading indicator for growth, and this quarter's reading suggests that the economy will expand by 0.4% in Q1 2013, following the 0.3% contraction in output recorded in Q4 2012. This would mean that the UK avoids a triple-dip recession, with growth resuming this quarter.

KEY ISSUES EMERGING THIS QUARTER

- A significant rise in confidence this quarter, pointing towards a return to economic growth in Q1 2013.
- Business expectations of future turnover and profit growth have improved slightly, though remain below levels typically seen before the financial crisis.
- Export growth is expected to pick up over the coming year, offering hope of a trade-led recovery in 2013.
- Business investment intentions remain very modest, and below the Office for Budget Responsibility's (OBR) forecast for 2013.

Preliminary estimates from the Office for National Statistics (ONS) point to a contraction in the UK economy in Q4 2012, highlighting the ongoing fragility of the economy. However, output was depressed by distorting effects from the oil and gas sector, where an extended shutdown for maintenance constrained output by more than usual, suggesting a near negligible contraction in underlying output.

This quarter's BCM provides reason for cautious optimism in 2013 – or at least the expectation that the economy will perform better than 2012 when zero growth was recorded overall. In particular, an export-led recovery could start to emerge, particularly if businesses are successful in rebalancing their export markets to high-growth emerging economies. BCM also suggests that private sector employment should grow further this year, helping to absorb further public sector job cuts.

On the downside, January's snow could bear down on economic output. Looking further ahead, restraint in the up-rating of benefits payments, and further real income erosions due to weak wage settlements, will hold back consumer spending growth in 2013. So the UK is far from out of the woods, and more monetary stimulus – quantitative easing – could be required before the year is out.

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