HIGH COMMISSION OF INDIA
London
(Economic & Commerce Wing)

Economic & Commercial Report on the United Kingdom for July 2013

Economy

GDP

- Users are reminded that figures in this release are estimates and are on a seasonally adjusted basis.

- Gross domestic product (GDP) increased by 0.6% in Q2 2013 compared with Q1 2013.

- All four main industrial groupings within the economy (agriculture, production, construction and services) increased in Q2 2013 compared with Q1 2013.

- The largest contribution to Q2 2013 GDP growth came from services; these industries increased by 0.6% contributing 0.48 percentage points to the 0.6% increase in GDP.

- There was also an upward contribution (0.08 percentage points) from production; these industries rose by 0.6%, with manufacturing increasing by 0.4% following negative growth of 0.2% in Q1 2013.

- In Q2 2013, output in the construction industry was estimated to have increased by 0.9% compared with Q1 2013. In Q1 2013 construction output was at its lowest level since Q1 2001.

- Before the sharp fall in output in 2008 and 2009 the economy peaked in Q1 2008. From peak to trough the economy shrank by 7.2%. In Q2 2013, GDP was estimated to be 3.3% below the peak in Q1 2008.

- GDP was 1.4% higher in Q2 2013 compared with the same quarter a year ago. Q2 2012 contained an extra bank holiday for the Queen's Diamond Jubilee. Users should therefore show caution when interpreting the quarter on same quarter a year ago growth in Q2 2013.

- The preliminary estimate of GDP is produced using the output approach to measuring GDP and is published less than four weeks after the end of the quarter to which it relates. At this stage the data content of this estimate is around 44% of the total required for the final output based estimate. This includes good information for the first two months of the quarter, with an estimate for the third month which takes account of early returns to the monthly business survey of 44,000 businesses (which typically has a response rate of between 30-50% at this point in time). The estimate is therefore subject to revisions as more data become available, but between the preliminary and third estimates of GDP, revisions are typically small (around 0.1 to 0.2 percentage points), with the frequency of upward and downward revisions broadly equal.

(Published by Office for National Statistics (ONS) on 25th July 2013)

Inflation

- The Consumer Prices Index (CPI) grew by 2.9% in the year to June 2013, up from 2.7% in May.

- The largest upward contributions to the change in the rate came from motor fuels and clothing & footwear.

- The largest downward contribution came from air transport.

- The inflation rate is slightly above the figures seen over the previous 12 months but below the levels reached between the start of 2010 and spring 2012.

- CPIH, the new measure of consumer price inflation including owner occupiers' housing costs, grew by 2.7% in the year to June 2013, up from 2.5% in May. ONS currently classifies CPIH as an experimental statistic.

- The slower growth in CPIH than CPI is due principally to owner occupiers' housing costs increasing more slowly than overall inflation for other consumer goods and services in the year to June.

- The format of this bulletin changed with the publication of February data. Please see the 'Guide to Data' section of the bulletin for further information on where to find all ONS consumer price statistics including CPI, CPIH, RPI and RPIJ. If you have any comments on the new format, please email cpi@ons.gsi.gov.uk.

(Published by Office for National Statistics (ONS) on 16th July 2013)

Monthly External Trade Review (in £ million)

Year	**UK Exports to India**	**% change**	**UK Imports from India**	**% change**	**Total**	**% change**	**India's Balance of Trade**
2005	2798	+25.25	2781	+21.60	5579	+23.40	-17
2006	2693	-3.75	3121	+12.23	5814	+4.21	+428
2007	2968	+10.21	3809	+22.04	6777	+16.56	+841
2008	4135	+39.32	4490	+17.88	8625	+27.27	+355
2009	2941	-28.88	4558	+1.51	7499	-13.06	+1617
2010	4071	+38.42	5781	+26.83	9852	+31.38	1710
2011	5677	+40.04	6114	+4.83	11791	+19.33	+397
2012	4665	-17.82	6210	+1.57	10875	-7.76	+1545
2013 Jan - May	2359	+16.14	2657	+12.01	5016	+13.92	+298

(Source: Office for National Statistics and Overseas Trade Statistics, HM Customs & Excise)

Trade/Investment Enquiries

During the month of July 2013 the following enquiries from UK and India were received by the Economic & Commerce Wing of the High Commission apart from some enquiries over phone about procedures and regulations to do business within India:

From India

Food Products & Spices	16
Fruit & Vegetables	10
Handicrafts	03
Hand Tools	02
Coconut Products	01
Handloom & Coir Products	02
Seafood	01
Pharmaceuticals	01
Agricultural Products	03
Leather Products	03
Flowers	02
Herbal Products	05
Automobile Spare Parts	02
Chemicals	02
Jewelry & Perl's	02
Non-Woven Bags	01
Textiles & Garments	05
Cosmetics	01
Home Furnishings	03
Granite & Monumental stones	02
Aqua, Poultry, vet nary & Healthcare Products	01
Dye stuff & Florescent Whitening	01
Building & Construction Materials	01
Hospital & Surgical products	01

From UK

Broad Items	Number of Queries
Garments	01

Tenders from India

Organisation	Numbers of Tenders
India Security Press - Nashik	01
ONGC-Baroda	01
Neyveli Lignite Corporation Ltd	04
Ministry of Railways	03

Mod Ordinance Factory	08
Security Paper Mill - Hoshangabad	03
Mineral exploration Corporation Ltd	01
India Meteorological Dept, New Delhi Tender	01
Hindustan Aeronautics Ltd, Bangalore	01
Naval Science & Technology Lab	01
Govt of India Cabinet Secretariat (Special Protection Group) New Delhi	01
KITCO Ltd	01
CSIR – Institute of Himalayan - Palampur	06

Media Reports

KuwaIt set to spend $5bn on UK projects

Financial Times: 01/07/13

The Kuwait Investment Authority is planning to invest up to $5bn directly over the next three to five years in infrastructure assets mostly in the UK, echoing a similar move by Qatar, as sovereign wealth funds look for ways to boost returns amid low interest rates.

The pledge comes just weeks after a failed £5.3bn takeover offer for British water utility Severn Trent by the KIA and partners Borealis of Canada and Britain's Universities Superannuation Scheme.

The UK utility, whose board rejected three bids from the consortium saying it did not properly value the company, fits the profile of assets the Middle Eastern fund is eyeing.

Bader al-Saad,. KIA's managing director, told the Financial Times in his first interview with a foreign newspaper that the fund was interested in existing, highly regulated, cash-generative infrastructure projects rather than new ones.

"We are looking at brownfield projects because of the cash flow streams and to diversify our portfolio, as we don't think there is any money to make in fixed income, because of the zero interest rates," Mr Saad said.

"Development is a different ball game, we are not developers. We are providers of long term capital."

The KIA, which on Friday celebrated the 60th anniversary of the establishment of its London arm, the Kuwait Investment Office, is one of the world's largest sovereign wealth funds with more than $400bn of assets under management, according to estimates.

After more than doubling its asset base organically and returning 9.5 per cent annually over the past 10 years, the KIA is ready to take on more risk, investing in funds run by other managers.

The fund is building a team of six investment professionals, which it plans to ultimately double, to look at such projects under the guidance of Osama Ayoub, a former Goldman Sachs banker who heads the KIO.

They would look at companies that operated in industries with a strong regulatory environment such as water, power distribution and generation, Mr Ayoub said, praising the UK for offering the best ecosystem for investors.
He added that he was waiting for the outcome of a study by the UK government into ways to reduce development risks in new projects.

Mr Ayoub also said the KIO, which has developed a reputation as a conservative and friendly investor, would always stay clear of hostile bids and look to partner with other investors, citing the Severn Trent attempt.

He declined to comment, however, on whether the KIO might approach the water company again. "It's a chapter and we've closed it," he said.

David Cameron halts UK migrant bond plan for 'high risk' visitors By Helen Warrell and Roger Blitz in London and James Crabtree in Mumbai
Financial Times: 25/6/13

David Cameron has slammed the brakes on government plans to demand a £3,000 migrant bond from "high risk" overseas visitors after news of the policy provoked uproar in Delhi and threatened his attempt to boost trade links with India.

The prime minister's allies said Mr Cameron had "not signed off" details of the policy – trailed in Sunday newspapers – while Lib Dem and Tory business ministers warned that the idea would be damaging to Britain's economic interests.

Mr Cameron has told Theresa May, home secretary, that he will not sanction any policy that undermines his growth agenda or the "open for business" message he delivered on a recent trip to India.

"The prime minister has not cleared this policy," said one ally. "He doesn't want to do anything that cuts across the message he took to India."

Although Downing St said pilot studies involving the use of migrant bonds – or deposits – for some visitors would go ahead, neither Mr Cameron nor Nick Clegg, his Lib Dem deputy, have agreed the scope of the scheme or the size of the bonds.

Mr Cameron is especially keen that the pilot study targets "high risk" individuals and is not seen as being aimed at any particular country.

Ms May wanted the trial of a £3,000 bond to begin in November, levied on short-term visitors from India, Pakistan, Sri Lanka, Bangladesh, Nigeria and Ghana.

Vince Cable, Lib Dem business secretary, has expressed concerns about the proposal and his anxiety is shared by David Willetts, Tory science minister. Mr Cable raised the issue in cabinet on Tuesday, saying he was concerned the home office was misrepresenting the pilots as a way of bringing down net migration.

The Home Office said on Tuesday the November pilot would be “highly selective”, focusing only on those visitors from India and other countries thought to present a “residual risk” of overstaying. “Any pilot will not apply to all visitors from the selected countries and the vast majority of visitors will not need to pay a bond,” a spokeswoman said. It is understood those who have already visited the UK would not be subject to the levy.

It is certainly a stupid move, but it is also extremely bad public diplomacy - Brahma Chellaney, New Delhi-based strategic affairs analyst However, tour operators were dismayed at the introduction of any type of deposit system and complained they had not been consulted.
“This doesn’t exactly garland the welcome message we are extending to India and other countries,” said Tom Jenkins, chief executive of the European Tour Operators Association. “This really seems disproportionate to the threat. It feels the inbound market is being sacrificed to a domestic political agenda.”

Mary Rance, chief executive of trade body UKinbound, said: “It would be a very incongruous step to take at this time, when we are in open dialogue about trying to improve the process [for visitors]. It should be easier rather than [more] difficult for visitors.”

The proposals have been badly received in India’s business community, with executives used to travelling freely to London echoing the vociferous complaints of the nation’s leading trade bodies.

“In simple terms, it’s madness,” said Tarun Kataria, Mumbai-based chief executive of investment bank Religare Capital India. “It would create endless degrees of uncertainty, and such a large sum of money is bound to have an impact on the number of people going to Britain from India.”

The move led to demands on Tuesday for a tit-for-tat response from India’s government, including an article on FirstPost, a widely read news site, headlined “Why India must retaliate against UK £3,000 visa bond” and editorials in leading newspapers calling for a rethink.

Security analysts said the move was likely to undermine Mr Cameron’s attempts to deepen the UK’s bilateral relationship with Asia’s third-largest economy.

“It is certainly a stupid move, but it is also extremely bad public diplomacy. It will raise a hue and cry here,” says Brahma Chellaney, a strategic affairs analyst at New Delhi’s Centre for Policy Research think tank.

“It really just doesn’t make any sense. It will have detrimental effect on the UK-India relationship, and it will create a bad image for the UK in India, and also uproar elsewhere in the world.”

Factory output lightens outlook

Financial Times: 02/07/13

There have been many false dawns in the longed-for revival for British manufacturing, so industry reacted cautiously yesterday to a survey suggesting the sector enjoyed its strongest growth for more than two years in June.

The purchasing managers' index showed activity in manufacturing, which accounts for a tenth of the economy, expanding for the third month in a row and at a faster rate.

Lee Hopley, chief economist at the EEF manufacturers' organisation, said the data "seem to be lining up to show a gradual but broad-based improvement in activity, which is welcome". She added: "The stronger PMIs in the past three months provide some confidence that we'll see a manufacturing contribution to growth in the second quarter with a bit more momentum building into the second half of the year." Since the financial crisis, politicians and commentators have called for a manufacturing revival and a rebalancing of the economy, with a return to making things rather than relying on services and consumption.

Results so far have been sobering. Despite the recent optimistic signs, manufacturing output remains 10.6 per cent below its prerecession peak, compared with 3.9 per cent for the economy as a whole.

Cars and aerospace have been rare bright spots, so it is encouraging that the strongest growth rates in the latest PMI data were in the textiles and clothing, and food and drinks industries.

"Industrial activism" is back in vogue for the first time since the 1970s. Lord Mandelson, Labour's former business secretary, began it in 2008, and Vince Cable, the Liberal Democrat business secretary, has embraced it enthusiastically.

However, the scale of intervention is smaller than in the past, when Labour governments sought to build "national champions" by promoting mergers that were often ill-fated. Even Edward Heath's Conservative government rescued Upper Clyde Shipbuilders.

Mr Cable won £1.6bn from George Osborne, the chancellor, in his March Budget to help the automotive, agti-tech and aerospace sectors. He is publishing 11 sectoral strategies to help business to develop technologies and training.

Strategies have been unveiled for life sciences, aerospace, oil and gas, nuclear and the information economy. A strategy for construction will be launched today, with others to follow for agricultural technology, offshore wind, education, professional business services and the motor industry.

In the automotive strategy, to be launched this month, ministers are expected to put £5OOm into a partnership, matched by a similar sum from the industry.

The investment will go towards creating an advanced propulsion centre, which will lead research and development in engine technology, including electric, hydrogen and other ultra-low emission engines.

Labour largely supports Mr Cable's industrial strategy but complains it is often undermined by other departments such defence and energy.

Manufacturing's share of output shrank from 26 per cent in 1979 to a low of 10.5 per cent in 2009, though it recovered slightly to 10.8 per cent in 2011. It employs 2.6m, up 67,000 from the low point in 2011 but still 285,000 below the level at the stmi of 2008.

Mr Cable hopes to raise its share of output "up to the mid-teens" over the next five to 10 years. But Lord Bhattacharyya, who AI chairs the manufacturing iSI group at the University of 10 Warwick, said getting it ta even two or three points higher would take time.

He said the British business bank Mr Cable was setting up, with £1bn seed capital, was a "good start" but da needed 10 times the investment and should be expanded into a regional

Fi network of banks. Mr Cable it hopes it will attract £10bn of private funding. "It's got to really show to the country and to the world we are there for business and we believe in manufacturing," said Lord Bhattacharyya, who is creating a £loom international automotive research centre at Warwick.

UK manufacturing suffers surprise output fall after string of upbeat surveys
The Guardian: 09/07/13

UK manufacturing suffered an unexpected drop in output in May, dampening hopes the economic recovery has gathered pace.
Interrupting a recent string of upbeat indicators on the UK economy, official figures showed manufacturing output dropped 0.8% in May, rather than rising 0.2% as economists had forecast. On a year ago, output dropped almost twice as fast as forecast, by 2.9%. Those were the biggest monthly and yearly declines since January when companies were contending with an unusually harsh winter.

The wider industrial sector, which also includes energy and mining and makes up some 15% of the economy, was flat in May, the Office for National Statistics said. Again, that undershot forecasts, which had been for modest growth of 0.2% on the month.

The data, published alongside figures showing a deterioration in Britain's trade balance, bucked the trend in recent weeks for surveys and official numbers to beat expectations. A closely watched report on manufacturing for June – one month later than this official data – had suggested the sector was growing at its fastest pace for two years. Combined with other indicators it had prompted many economists to raise their forecasts for overall economic growth in the second quarter, with some now believing the pace doubled to 0.6% from 0.3% in the first three months of the year.

The latest manufacturing data was "surprisingly weak", said David Tinsley, economist at BNP Paribas. "Overall, this is not a strong set of data and is a reminder that the surveys of manufacturing can often signal a different underlying picture to the monthly output data in the official sources.

"The momentum behind manufacturing remains disappointingly weak, which is troubling given the economy needs to do more to rebalance towards sectors where it can hope to find demand for its exports."

The government has been looking to manufacturing to power Britain's recovery as part of a longer-term rebalancing of the economy away from a dependence on domestic demand and the services sector.

EEF, the manufacturers' organisation, said the latest official data "cast a bit of a cloud over the positive run of industry data in recent months" but that rebalancing could still happen. "While the ONS data suggests industry's contribution to growth in the second quarter is likely to be limited, there are signs that confidence is returning and growth should start to resume as we move into the second half of the year. This needs to be quickly followed by a pickup in investment if the UK is to make any progress towards better balanced growth," said EEF chief economist Lee Hopley.

There was some positive news on the rebalancing front for Osborne in the trade data, which showed exports continued to grow in May. Goods exports rose by 2.7% in the three months to May from the previous three months – a less erratic measure than monthly trade numbers. Furthermore, the growth was driven by exports to countries beyond the troubled eurozone, no doubt bringing cheer to business secretary Vince Cable and industry groups as they continue their push for sales to new markets.

Exports to the EU increased by 0.8% to £37.4bn and exports to non-EU countries increased by 4.6% to a record £39bn on a three-month basis. UK companies were continuing to grow their exports to the US and even more so to China. The value of exports to China was 17% higher than the average 2012 quarterly level, the ONS said. However, Britain's overall trade deficit rose in May, to £8.49bn for goods as imports also rose. That was slightly wider than the £8.47bn gap forecast by economists. Still, a rise in imports was not necessarily bad news, analysts noted.

"While bad news for the deficit, the increase in imports at least supports the notion that demand is starting to revive again in the UK. It would just clearly be better if money was being spent on UK-produced goods and services rather than imports," said Chris Williamson, chief economist at data specialists Markit.

George Osborne says deficit can be eradicated without further tax rises

The Guardian: 11/07/13

The government can eradicate the deficit without further tax rises after the next general election, the chancellor, George Osborne, said.

Osborne was speaking to MPs on the Treasury select committee after the Institute for Fiscal Studies warned that tax rises were inevitable if spending cuts are not to be increased substantially.

The IFS warned last week that Osborne would have to raise taxes by £6bn after the election if Osborne was to keep to his existing rule of financing 80% of the government's deficit reduction from cuts and 20% from tax rises.

But Osborne told the Treasury select committee that the 80/20 split, announced when the coalition came to power in 2010, was only ever a "guide" rather than a firm commitment, suggesting the tax element could fall lower.

His insistence on no tax rises will pose difficult questions for the Liberal Democrats because, like Labour, they support the introduction of new taxes, primarily a mansion tax. The difference between the two parties currently in coalition is likely to make it more difficult for them to cut a deal if there is a hung parliament after 2015.

Osborne told the committee: "The further consolidation after 2015/16 is built into the tables as a spending reduction. I am clear that tax increases are not required to achieve this. It can be achieved with spending reductions."

The chancellor also announced he was going to ban the briefing of budgets and autumn statements to newspapers and broadcast media before official announcements, and said an announcement on a married couples tax allowance would be included the autumn statement.

He claimed opposition to his deficit reduction plan is collapsing. Seeking to set out one of the main dividing lines for the next election, the chancellor said he suspected Labour was planning big tax increases if it regains power in 2015.

Osborne was notably warm to coalition politics, saying the Conservatives would have been paralysed if they had formed a minority government after the 2010 election. They would not have been able to achieve a tenth of what they had achieved in coalition.

The chancellor came under pressure over whether he understood the pain his welfare reforms might have on ordinary people. In reply to a question, he said: "No, I have not visited a food bank."

He denied their use would increase as a result of his plan to delay unemployment benefit for seven days. He said food banks were increasing because of greater public awareness of their existence.

"I think one of the reasons there has been increased use of food banks is because people have been made aware of the food bank service through local jobcentres. I don't see that's a bad thing. It's a good thing that those services are advertised in jobcentres."

Figures released on Thursday by the Trussell Trust show three times as many people received emergency supplies from its food banks in the three months from April compared with the same period last year.

Delays and changes to benefit payments accounted for more than half of the referrals, it said.

Osborne declined to set a target for public spending as a proportion of GDP, which currently stands at 44.4% and is due to fall to 40.5% by 2017.

But he said that any country that allowed the level to rise "sharply" above 40% had historically got itself into trouble, and described the level of almost 48% which he inherited from Labour as "totally unsustainable".

Osborne defended the ringfence on some departmental spending, saying that it was an expression of the nation's values. It was "a political expression of what the government wishes to achieve and the support it wants to give to society".

He said he was proud of the commitment to keep aid spending at 0.7% of GDP, and did not believe that it had a significant impact on the money available to other departments.

It was "not unreasonable" to increase spending on the NHS in real terms at a time when the population was ageing.

He also announced he was going to ban pre-release briefing of budgets and autumn statements to newspapers and broadcasters.

He confirmed that business secretary Vince Cable and defence secretary Philip Hammond had attempted to ease the burden of cuts on their departments by transferring responsibility for medical research and training and army medicine into the health budget. But he said he rejected this proposal.

The government intends to "live by its commitment" to pensioners to protect the value of their state pension with a "triple lock", said the chancellor.

But he made clear that the state pension age could rise beyond 67 in the future, as a result of a mechanism built into the pensions bill introducing regular reviews of the impact of increasing life expectancy.

Osborne also foreshadowed big changes in the school spending formula. He pointed out that children from deprived backgrounds received £1,700 less funding in Northamptonshire than Derbyshire.

Economic recovery hopes boosted by drop in failing firms

The Guardian: 15/07/13

The number of companies in financial distress dropped sharply in the second quarter, in the latest sign of improvement in the wider economy.

Businesses in a "critical" condition fell 39% to 3,001 between April and June compared with the same period a year earlier, according to a report by restructuring specialist Begbies Traynor.

Julie Palmer, a partner at Begbies, said it was the "first real sign that the UK economy has turned a corner towards a sustained recovery".

She warned however the worst may yet be to come for so-called zombie businesses, which are smaller companies that have survived the recession but are chronically underfunded and do not have sufficient cash to take advantage of a recovery.

"We have real fears that many small and medium-sized enterprises will have serious financial difficulties at the time they least expect - during a recovery.

"Our experience has shown time and time again that many SMEs run out of cash during the recovery phase, as there is a real temptation to overtrade," Palmer said.

The Begbies red flag report, which monitors early signs of financial distress among companies, said that businesses in critical distress also fell 9% in the second quarter compared with the first.

It added that distress levels fell most sharply in the construction, professional services, and financial services sectors, while manufacturing also improved on the back of increased demand both at home at abroad.

Separate data has supported the picture of a strengthening UK services sector, but manufacturing has performed below economists' expectations.

However, official figures to be published on 25 July are still expected to show that economic growth accelerated in the second quarter to about 0.6% from 0.3% in the first quarter.

Begbies Traynor said that businesses depending on discretionary consumer spending were among those to see some of the biggest rises in critical financial distress levels, including hotels, bars and restaurants.

"The consumer-facing industries continue to struggle as shoppers maintain tight control over their purse strings at a time when disposable income has remained under pressure," Palmer said.

George Osborne to hail GDP figures as return to sustained economic growth

The Guardian: 24/07/13

George Osborne is hoping expected second-quarter growth figures published on Thursday of around 0.6% will be seen as a long-awaited economic and political watershed, marking the return of sustained growth and ending three years of an economy bumping along the bottom.

The Treasury will try to maintain a cautious posture but start to put the political squeeze on the shadow Treasury team by claiming its dire predictions of mass unemployment have been proved untrue.
The shadow chancellor, Ed Balls, in the US for talks with the Obama administration, has already prepared the ground for the change of economic gear by highlighting the continued squeeze on living standards.

Balls has privately long acknowledged that growth will pick up well before the 2015 election, but is convinced that the massive wage squeeze, leaving living standards at 2004-5 levels, will make it impossible for Osborne to try to generate a political feel good factor.

The Balls team are also pointing out that the chancellor is still planning massive spending cuts in 2015-16.

Chris Leslie, the shadow financial secretary to the Treasury, said: "City forecasters are expecting growth of up to 0.8% this quarter and, after three years of flat lining, it's about time we had some growth in our economy.

"But with living standards still falling and the IMF warning we are a long way from a strong and sustained recovery the chancellor should be acting to ensure we catch up all the ground we have lost over the last few years."

He added that to lift the economy to where the Treasury had expected it to be by the end of the parliament, growth would need to be 5.3% a year over the next two years.

Experts are forecasting growth figures for the second quarter of around 0.6% to follow an increase of 0.3% in the first three months of 2013.
The quarterly industrial trends survey by the CBI found manufacturers started the summer in buoyant mood following the first rise in new orders for a year.

Firms increased production and employment as the outlook for the sector improved in the three months to the end of July. The quarterly industrial trends survey also found that firms anticipated a further modest rise in orders and output in the coming three months, while expectations for growth in new domestic orders were at their highest since April last year.

However, the improving situation, which is also reflected in other surveys of manufacturers, failed to persuade firms to increase investment in new equipment.

The CBI said planned capital expenditure on plant and machinery over the next 12 months had deteriorated slightly. "When asked about factors likely to limit investment, manufacturers most often cited uncertainty about demand, which was of slightly greater concern than usual," the CBI said.

The Office for Budget Responsibility, which monitors the economy for its impact on the government's finances, has pencilled in a recovery in investment over the next two years to underpin a return to average growth levels.

Manufacturers' intentions to invest in plant and machinery dipped -1% compared with -9% in the previous quarter. The survey's main total-orders balance picked up from -18 in June to -12, which is its strongest level since last December.

Samuel Tombs, UK economist at the consultancy Capital Economics, said the sector's recovery was gathering momentum, though at a slower pace than the services sector. "This improvement brings the CBI's survey in line with the relatively upbeat tone of the other surveys.

"But with demand for exports weak in the UK's largest market, the eurozone, and domestic consumers' real pay still being squeezed, it is hard to see how the manufacturing sector's recovery can gather much more pace in the near term," he said.

UK GDP growth of 0.6% shows 'Britain is on the mend,' says George Osborne

The Guardian: 25/07/13

Britain's recovery picked up pace in the second quarter, official figures have confirmed, with GDP expanding by 0.6%.

George Osborne, the chancellor, welcomed the fresh evidence that the economy has moved, as he has put it, "out of intensive care".

"Britain is holding its nerve, we are sticking to our plan, and the British economy is on the mend," he said, "but there is still a long way to go and I know things are still tough for families. Unlike the unbalanced economy before the crisis, we are going to make sure that everyone benefits from this recovery."

Labour's shadow chancellor, Ed Balls, speaking from the US, said the stronger growth was "both welcome and long overdue" – but he stressed that for most families, living standards are still falling. "While millionaires have been given a huge tax cut, for everyone else life is getting harder with prices still rising much faster than wages." Balls added that the US economy has grown almost three times as fast as the UK's since mid-2010.

The 0.6% quarterly rate of growth was twice the pace of the first three months of 2013, and exactly as predicted by economists, after signs of a pickup in retail sales and strong readings in business surveys.

"The economy is coming out of the shadows, with a doubling in its quarterly growth rate from 0.3% in Q1 to 0.6% in Q2. The recovery is not quite on dry land yet, but at least it is a step in the right direction," said David Brown, of consultancy New View Economics.

The Office for National Statistics (ONS) said that all sectors of the economy recorded growth between April and June. Both industrial production, and the key services sector, expanded by 0.6%, the ONS said, with construction – which has been a heavy drag on the economy in recent quarters – picking up by a healthier than expected 0.9%.

Within services, which makes up almost 78% of economic output, the ONS said there was "widespread growth" with retail and hotels, transport and communications, and business and government services ,all showing an improvement.

John Longworth, director-general of the British Chambers of Commerce, said its members had become more optimistic in recent months. "Firms are feeling upbeat and are capable of expanding. More and more are adopting a 'have a go' attitude when it comes to exporting, which is really encouraging as this will go a long way to driving growth further still." Measured at an annual rate, GDP was 1.4% higher than the same quarter a year ago, but the ONS stressed that the extra working day, after 2012 output was trimmed by the jubilee bank holiday, had flattered the calculation.

Despite the modest upturn, the economy still has not recovered the output that was lost during the deep recession of 2008-09: the ONS said GDP remains 3.3% below its pre-crisis peak.

The Treasury hopes that with the eurozone crisis in remission, the economy is now poised for a more solid recovery, after almost three years of flatlining. As recently as April, there were fears that after shrinking in the final quarter of 2012, the UK could have slipped into a renewed recession.

Chris Williamson, chief economist at City data provider Markit, said: "Prospects look good for a continuation of the recovery in the third quarter, with consumers and businesses both helping drive the upturn. There are even signs that exporters will see improved sales, helping drive the long-awaited re-balancing of the economy.

The relatively firm growth figure is also likely to influence the Bank of England's thinking, as it prepares to decide whether to deliver renewed stimulus to the economy in August. The new governor, Mark Carney, favours giving growth an extra fillip through so-called "forward guidance", which reassures financial markets and consumers that interest rates will remain low for a prolonged period; but other members of the Bank's monetary policy committee are known to be more sceptical.