The end of recession

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This week's article has been contributed by Neil Massey.

As a number of economies around the world announce that they left recession behind in the second quarter, should we believe that Britain is close to doing the same?

France. Germany. Japan. Hong Kong. Singapore. Even Thailand. They all left the spectre of recession behind in the second quarter. That may explain the note of optimism that has been struck in Jackson Hole, Wyoming, as the great and the good of the world's central banking fraternity met for the US Federal Reserve's annual retreat.

Although acknowledging that much work still had to be done to ensure a full and sustainable global recovery, the tone at this gathering was much more upbeat than it was last year. Then, the Lehman Brothers collapse was just around the corner and the global economy was headed one way...and it wasn't up. Nowadays, there is a growing belief that the green shoots of recovery have taken hold and are becoming more than just wishful thinking.

Certainly the Institute of Chartered Accountants would have you believe they are. Earlier this week, it was confident enough to announce that Britain's recession is "at an end," after their index of business confidence posted its biggest rise in two years. The recession may not technically be over yet but there is a growing body of evidence to suggest that the September quarter may see a return to growth. The ICA predict that the UK economy will grow by 0.5% in the third quarter.

Evidence from the manufacturing sector would certainly seem to back up claims that the worst is now behind us. For the first time since the spring of 2008, the July survey of purchasing managers showed that the manufacturing sector is back in expansionary territory. After last autumn's dramatic inventory destocking, where companies cut back production and used up everything they had in stock, they have now begun the process of rebuilding those depleted reserves as demand stabilises. The Purchasing Managers Index may be just a survey and indicative of business confidence rather than actual orders being completed but, if manufacturing is growing again, that bodes well for other sectors and for the wider economy.

And, true enough, it's not just on the factory floor that conditions are improving. Retail sales in July showed their strongest growth in three years. House prices look to have turned a corner too and the sector is being further-supported by banks that are more willing to lend once more. New mortgage approvals are increasing in number with each month that goes by. Mortgage lending reached a 17-month high in July. Evidence of a stronger economic footing can be found right across the economy.

Keeping these improvements on track is the continued accommodative monetary policy of the Bank of England. There is no sign yet that rates will move from their historic low level and it was announced earlier this month that a further £50 billion will be pumped into the quantitative easing programme. The fact that Mervyn King, Governor of the Bank of England voted for an additional £75 billion, rather than the £50 billion agreed, suggests he believes that it isn't yet the time to be less aggressive with monetary policy.

With inflation coming in higher than expected, but still lower than the Bank's target 2%, there is little threat to the recovery there either. Central banks had feared that the recession might bring about a deflationary spiral, where falling prices discouraged spending, in turn forcing companies to lower prices further to compete. This hasn't materialised as yet, so it would seem that the Bank's policy stance is working on that front.

All this is good news for investors. If the improving trends continue and the September GDP data shows that the UK economy has returned to growth, this would confirm an environment that would be very positive for most investors. Low growth, coupled to low inflation and low interest rates is what some would consider the 'Goldilocks' scenario: not too hot, not too cold - just right to allow the economy, companies and, therefore, markets to grow steadily.

Equity and corporate bond markets have already rallied strongly in anticipation of this. Some might argue that now some sectors are beginning to look a bit stretched. Yes, top line growth needs to come through this quarter to justify some ratings but, if the word on the street is correct and those new orders are coming in, that looks like quite a strong possibility.

The summer is always quiet in the City but this year there will be plenty to keep traders, analysts and fund managers occupied. Any economic releases will be pored over in detail as they look to confirm that the economy is headed upwards once again. The balance of probabilities at this time would suggest it is. The bears have left the building, now we just have to wait for Goldilocks to arrive.