

making business sense



Grant Thornton

An instinct for growth™

Q3 2014 ICAEW / Grant Thornton Business Confidence Monitor results

July 2014

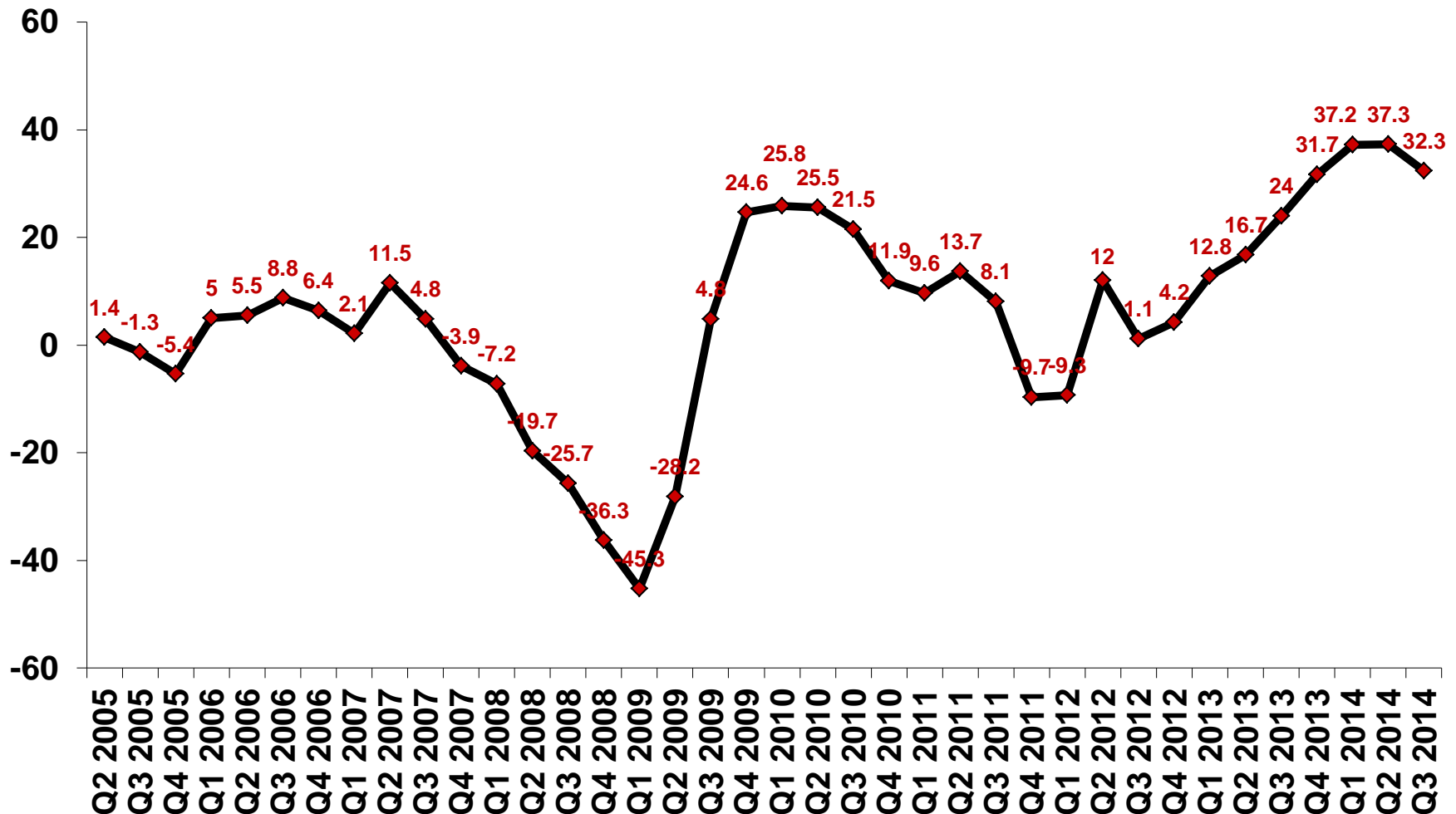
Contact: Caroline Florence

Outline

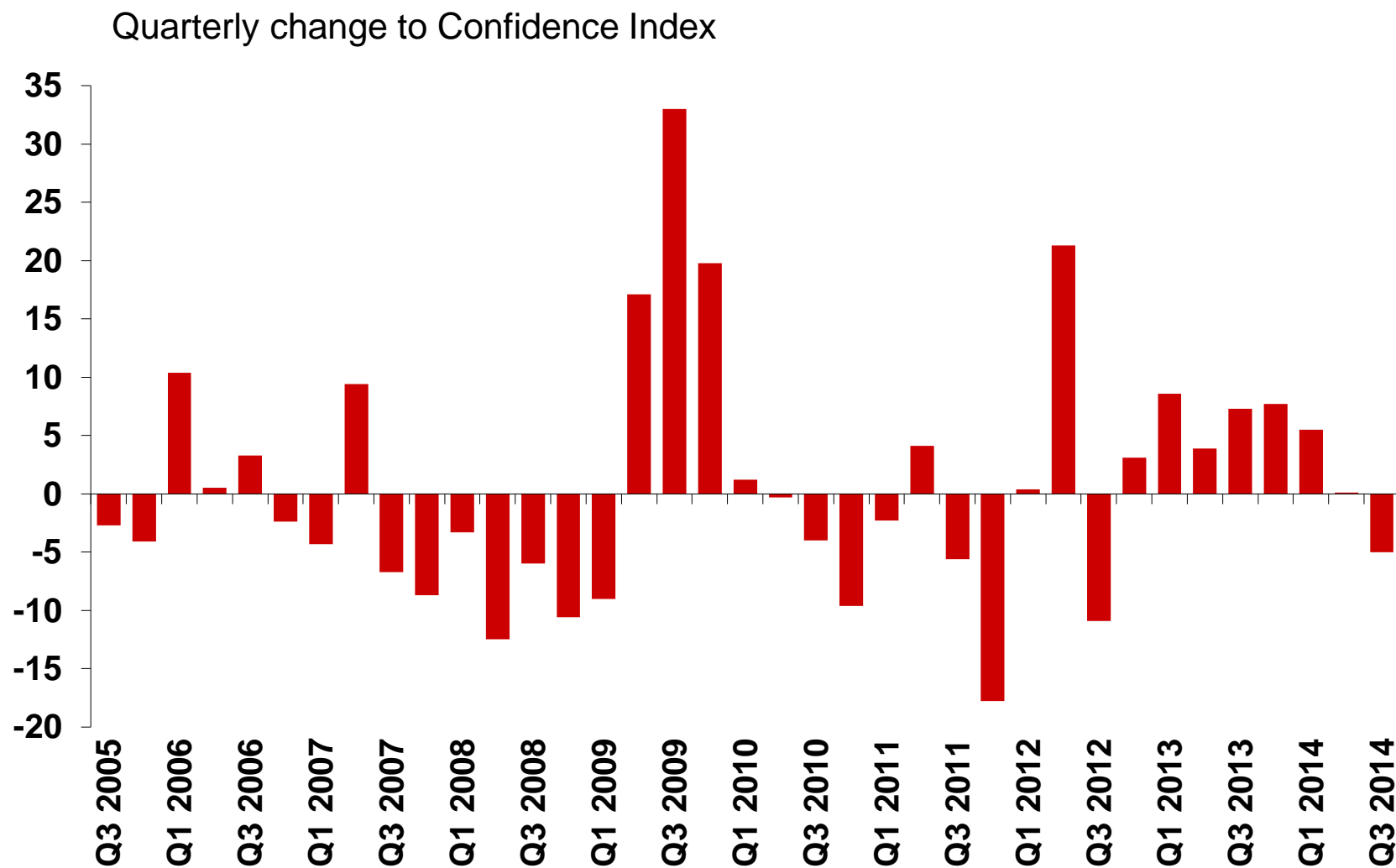
- Confidence Index top lines
- Financial performance indicators
 - Growth indicators
 - Inflation & labour market indicators
- Regional & sector stories

Business confidence edges down – a sign that growth will slow over the coming quarters?

ICAEW / Grant Thornton UK Business Confidence Index

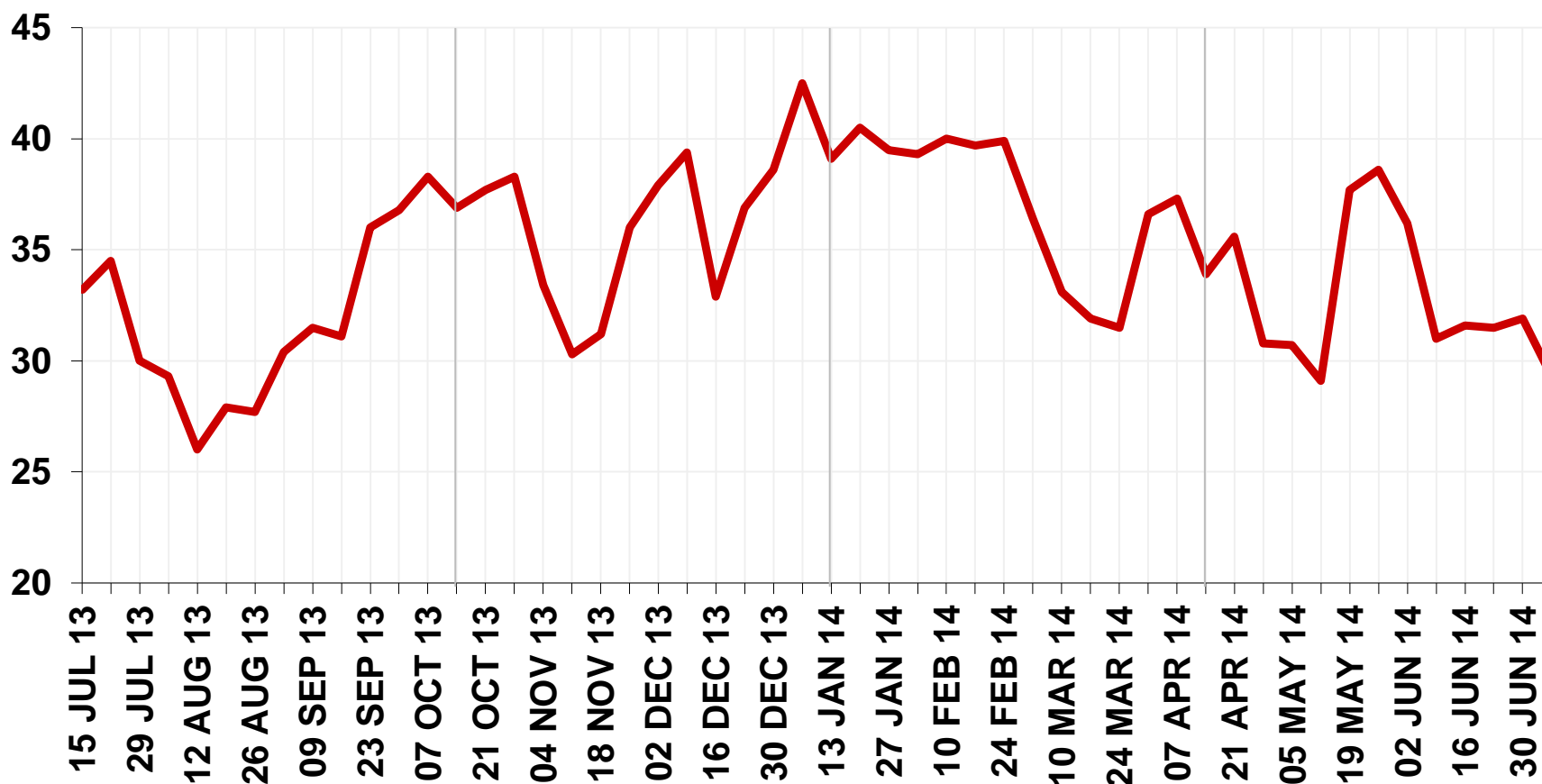


First quarterly decline in two years



Confidence fell back between May and June

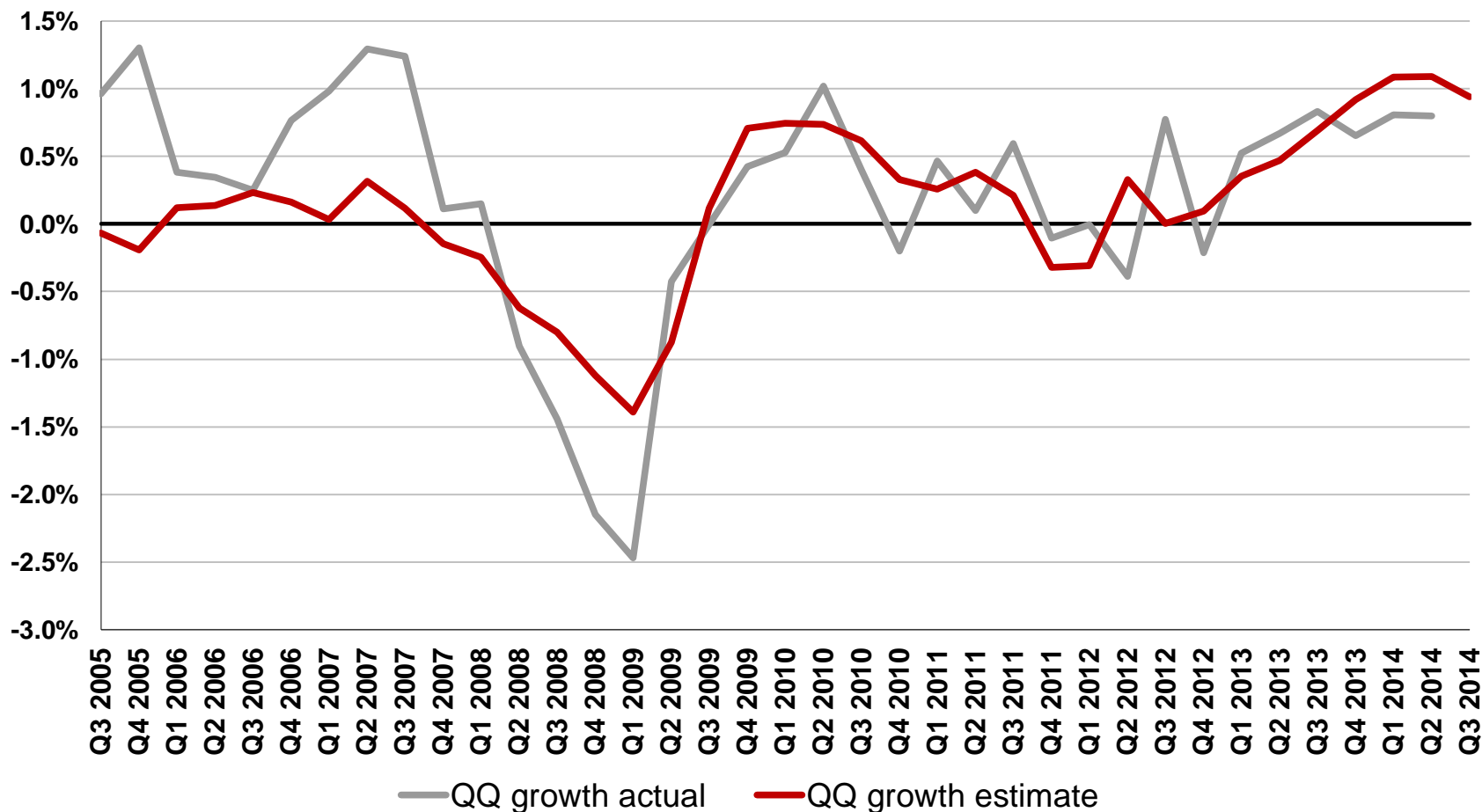
ICAEW / Grant Thornton Business Confidence Index, three week rolling trend



Three weeks beginning...

Economy expected to expand by 0.9% in Q3 2014

Estimated and actual quarterly UK GDP growth

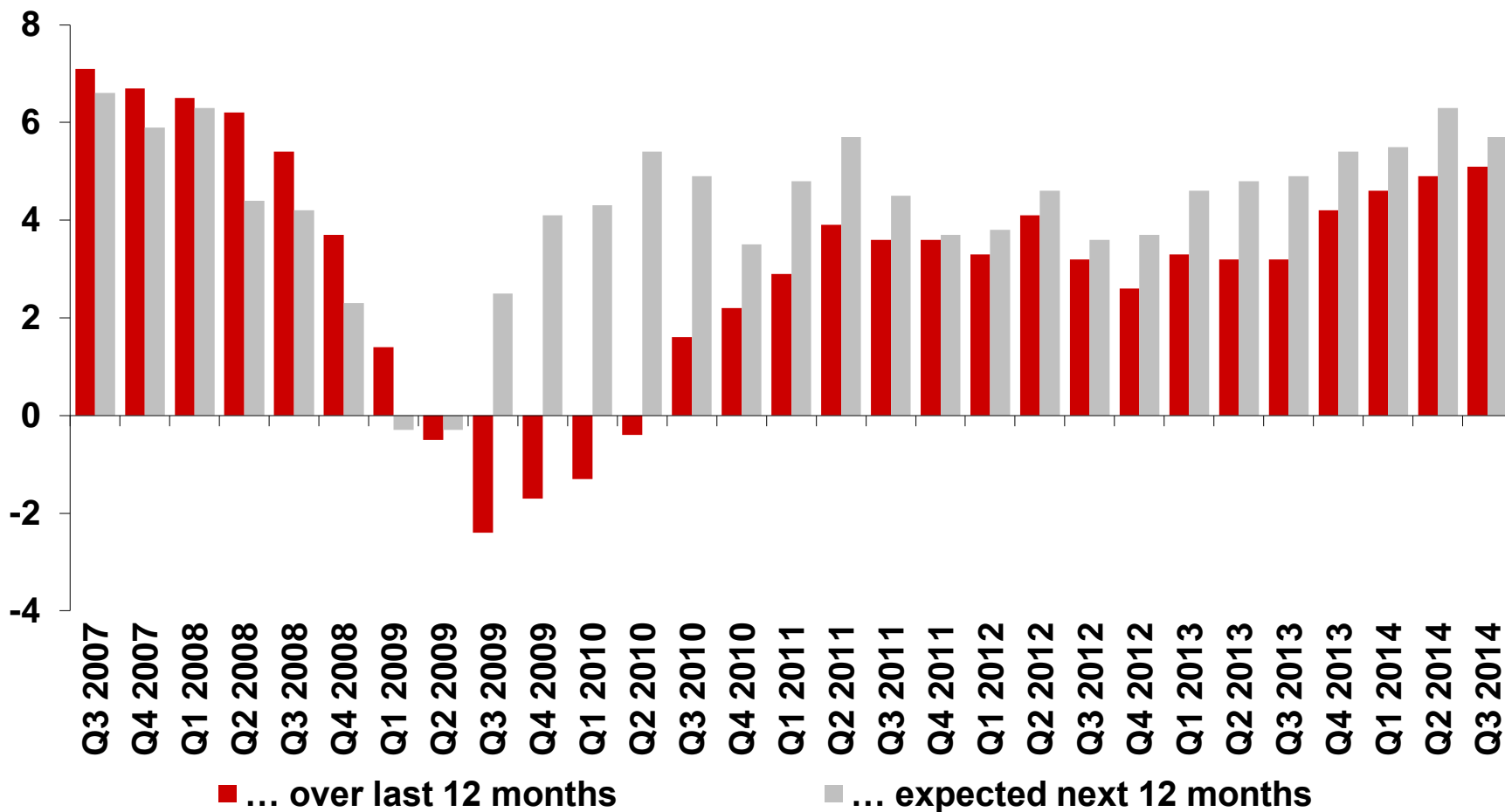


Outline

- Financial performance indicators
 - Growth indicators
-

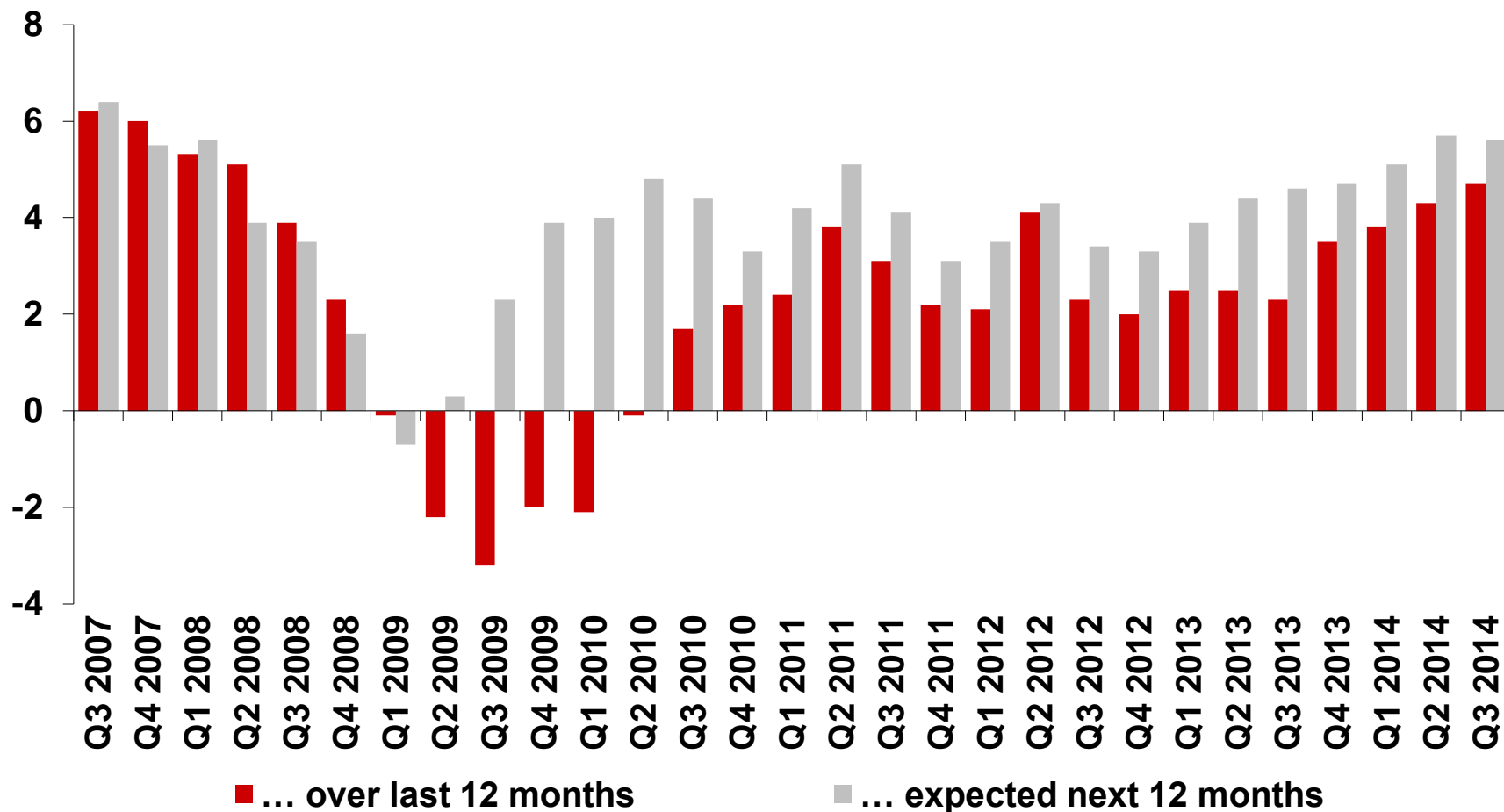
Turnover growth continues to rise but expectations are levelling off

Turnover, annual percentage change



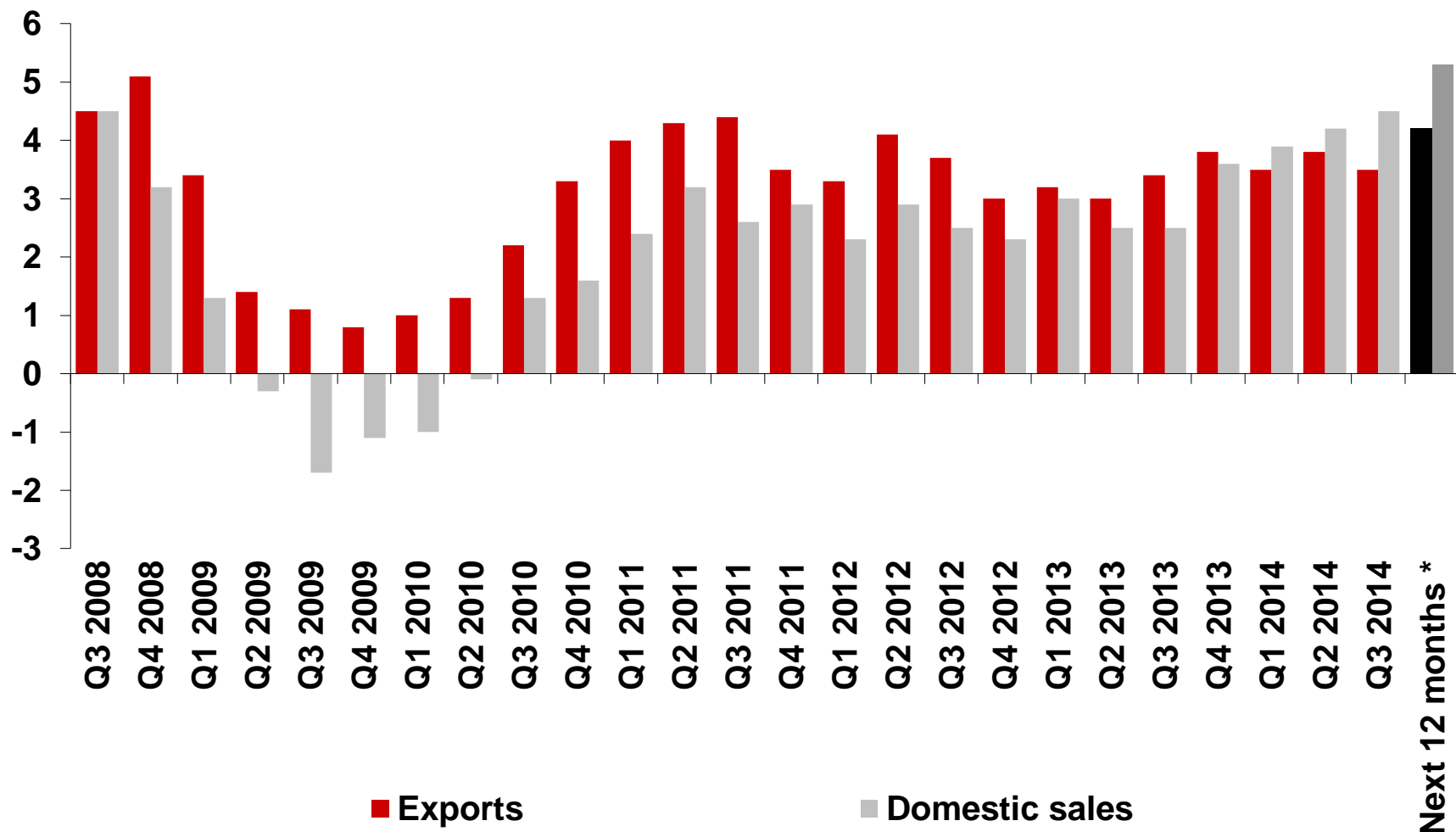
Profitability growth also still rising, but steady expectations for year ahead

Gross profits, annual percentage change



Domestic sales growth continuing to drive increases in turnover – export performance relatively flat

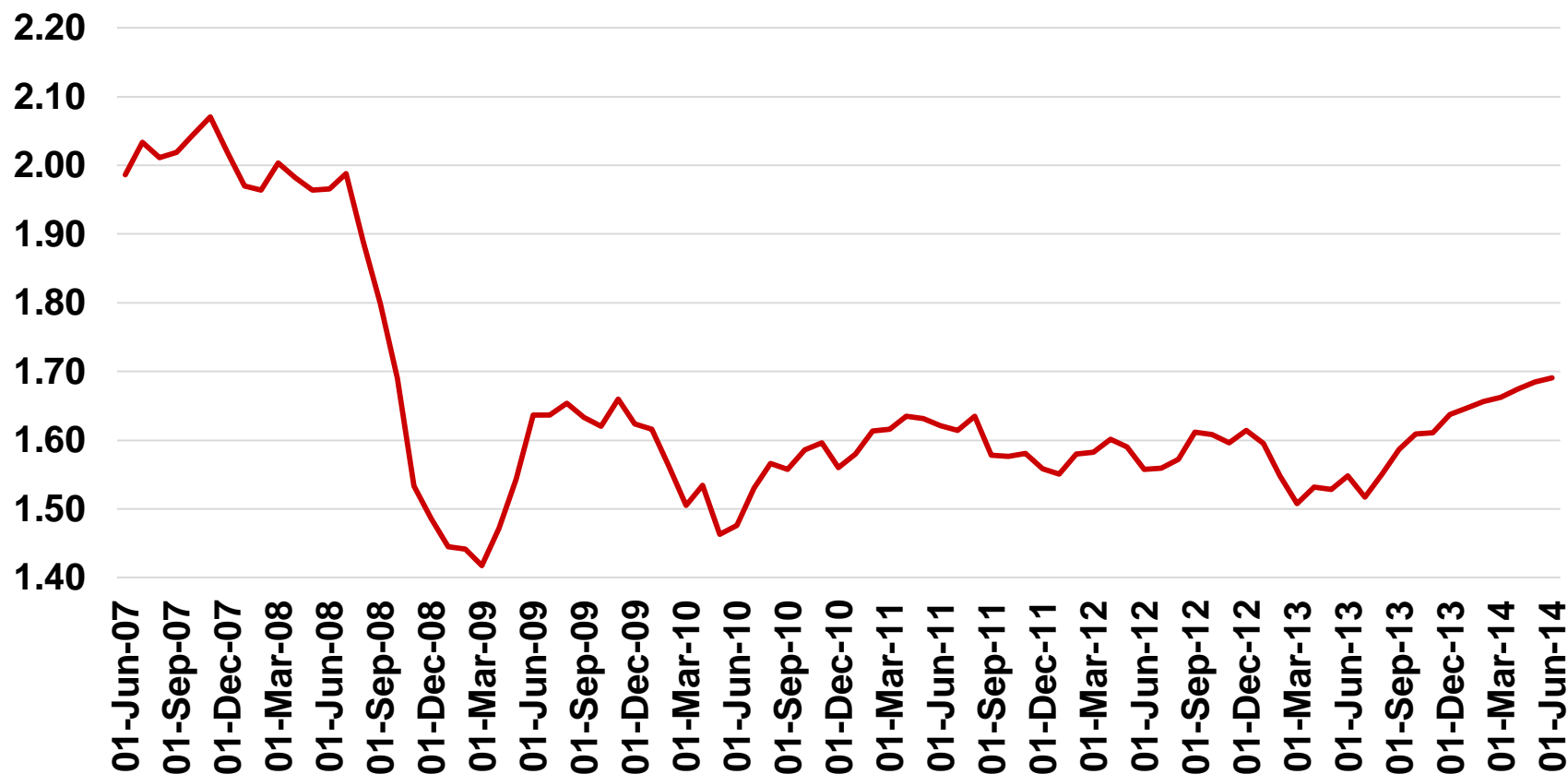
Exports and domestic sales, annual percentage change



* expectation

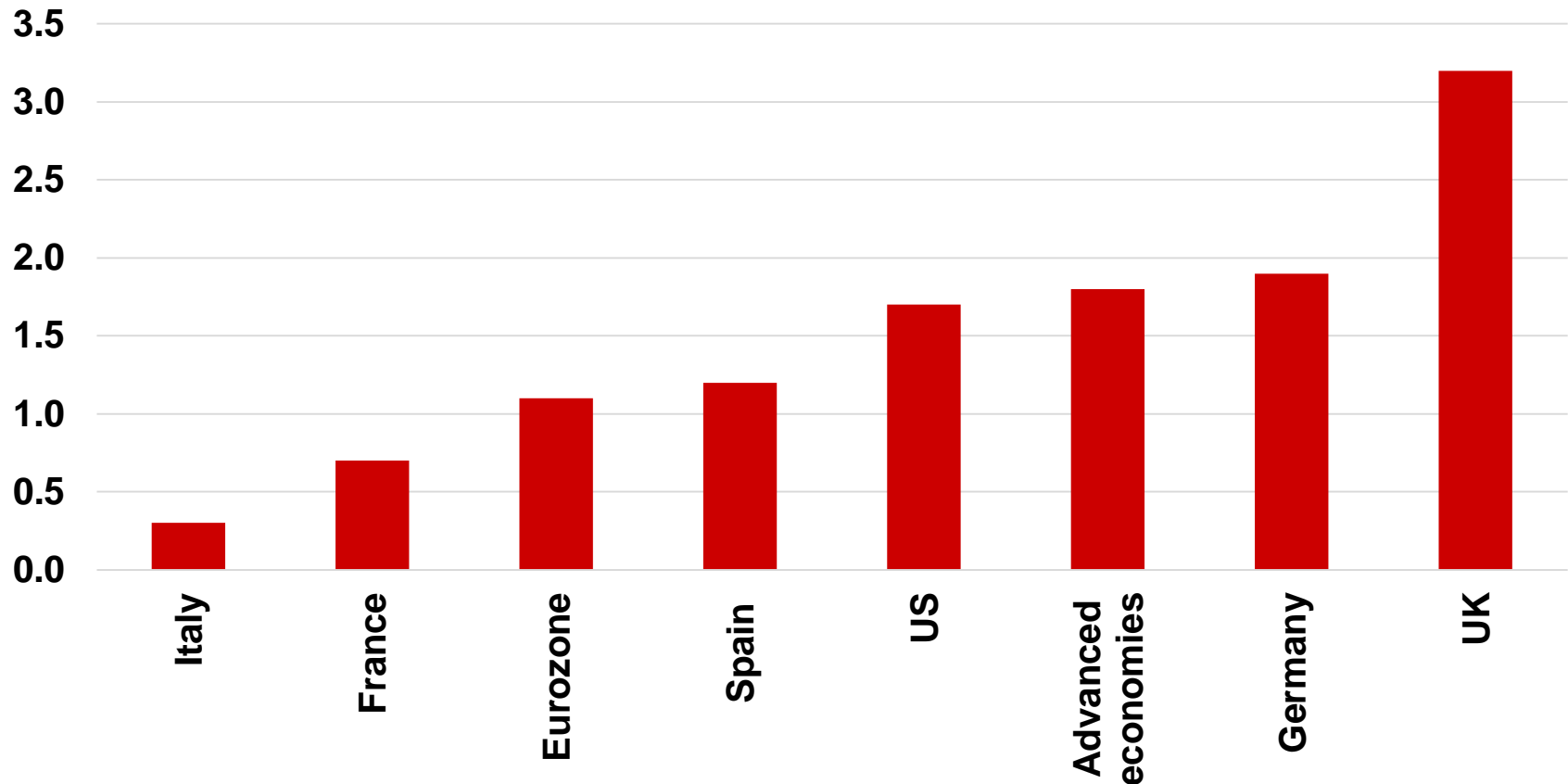
Exporters may have been impacted by the strengthening pound

USD/GBP exchange rate – monthly average



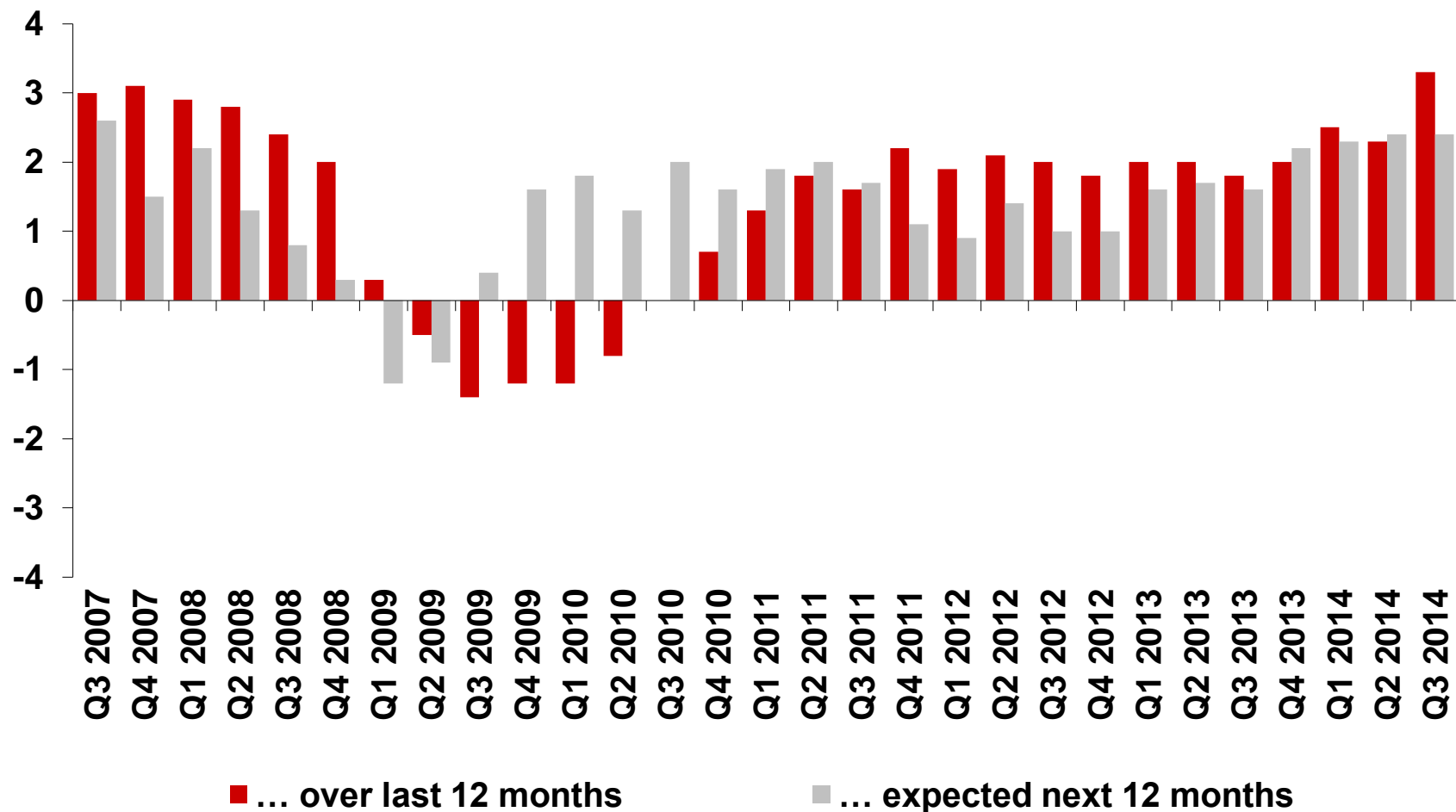
Continued weakness in key export markets has favoured a focus on domestic sales

Real GDP growth in 2014 (IMF forecasts)



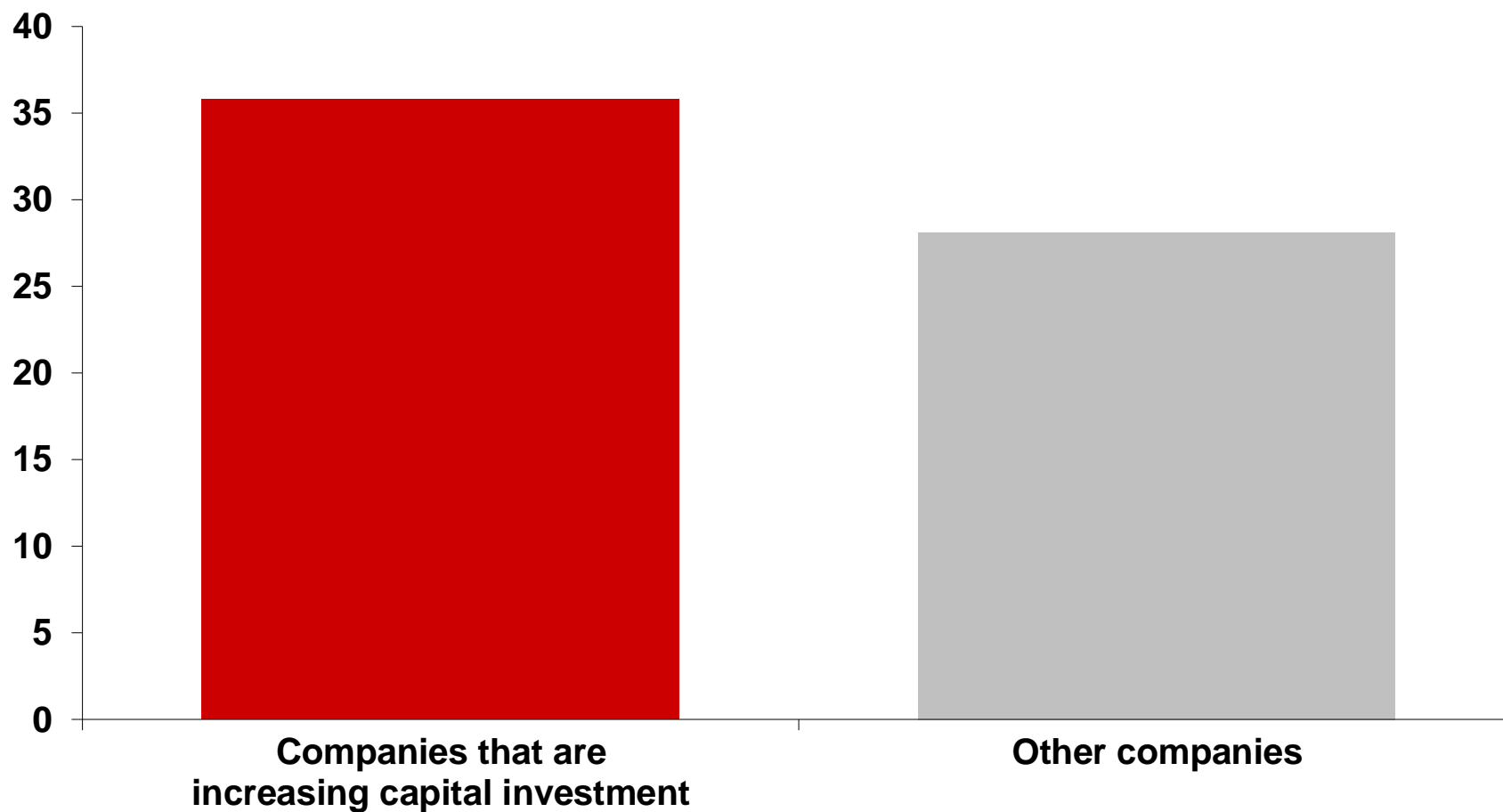
Strong reported investment growth but this is expected to slow over the next 12 months

Capital investment, annual percentage change



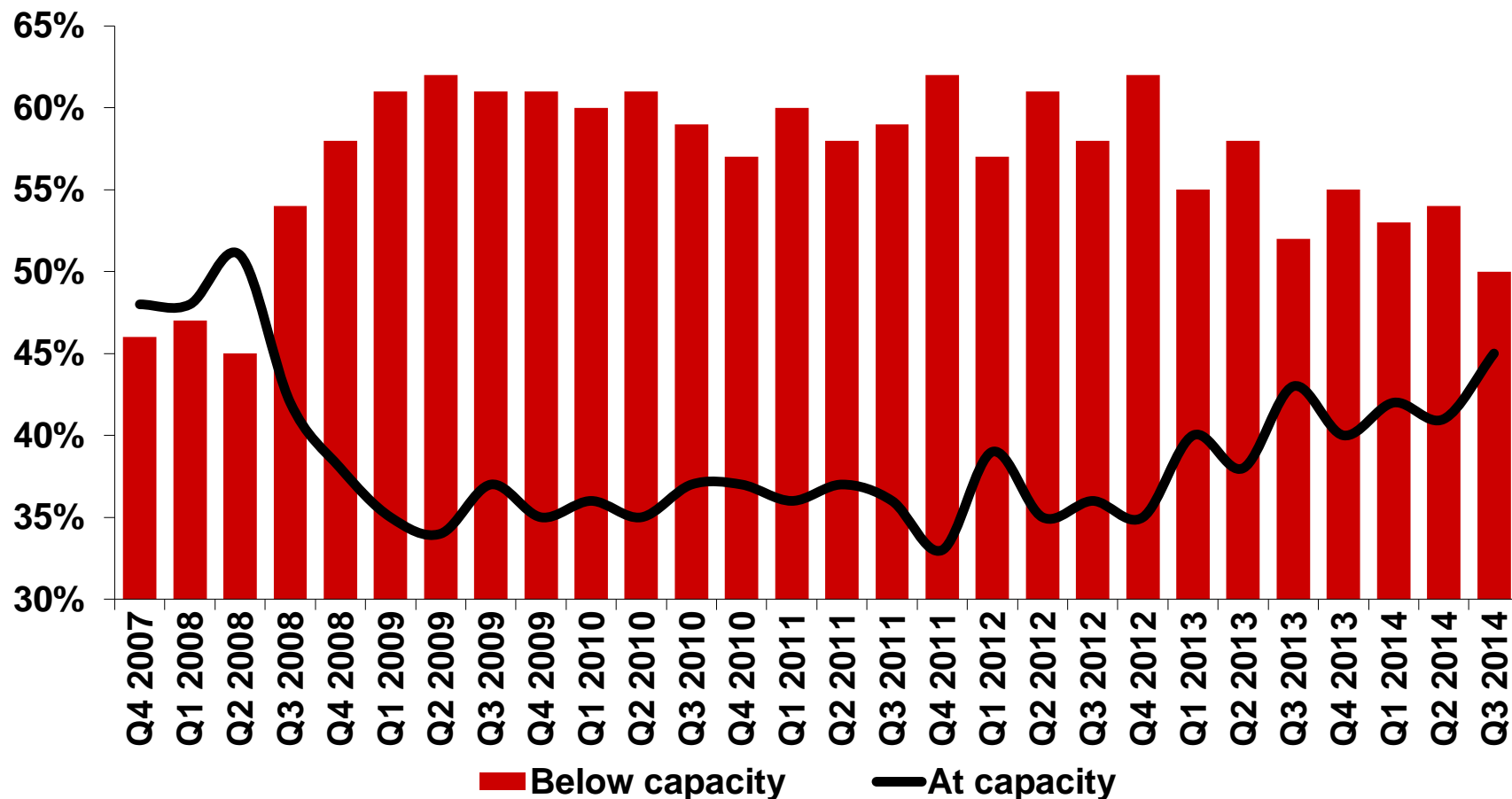
Confident companies are putting money where their mouth is

Business Confidence Index, Q3 2014



Spare capacity levels continue to fall back, paving the way for a future interest rate rise

Share of businesses operating at and below capacity

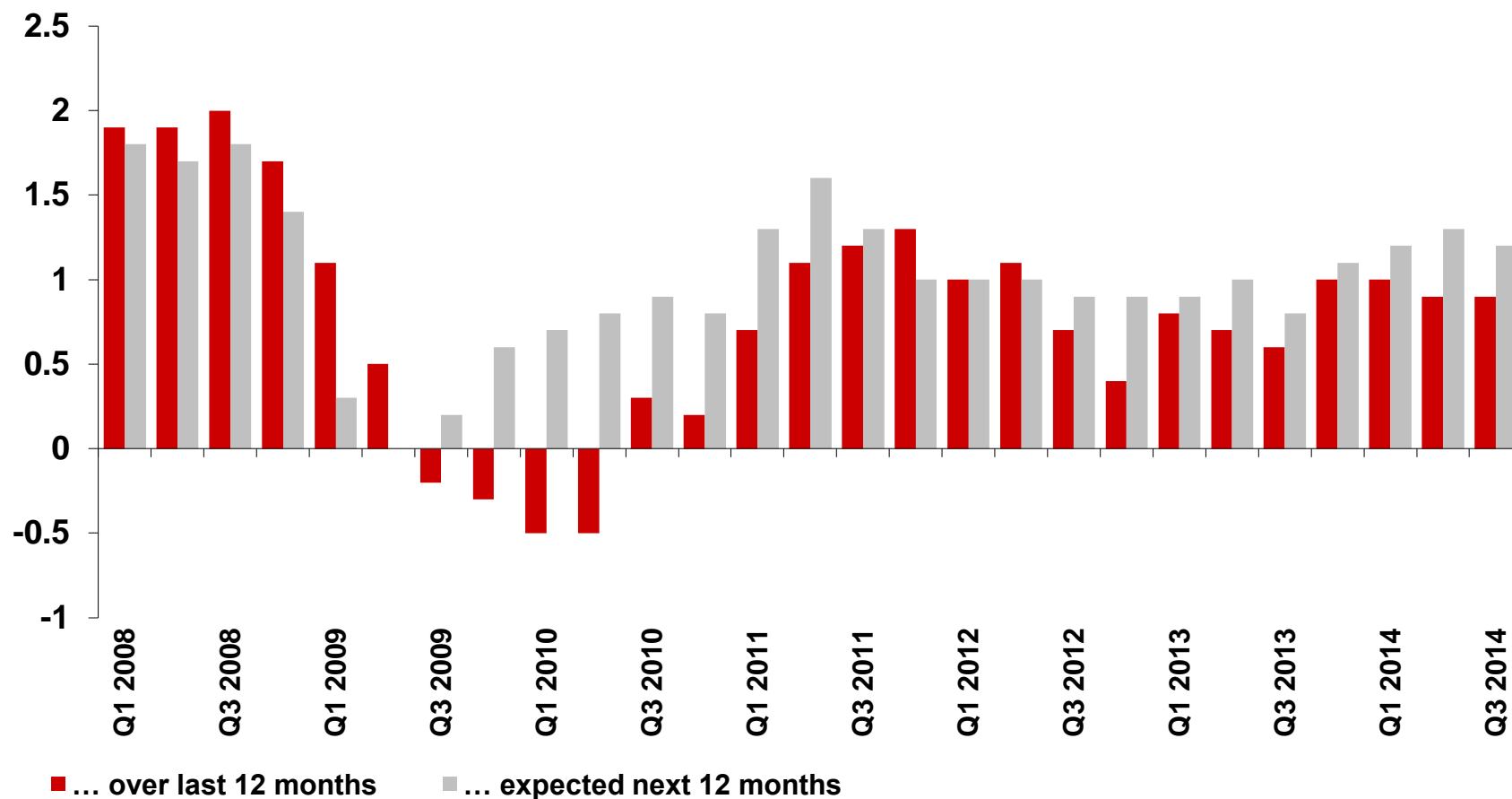


Outline

- Financial performance indicators
 - Inflation & labour market indicators
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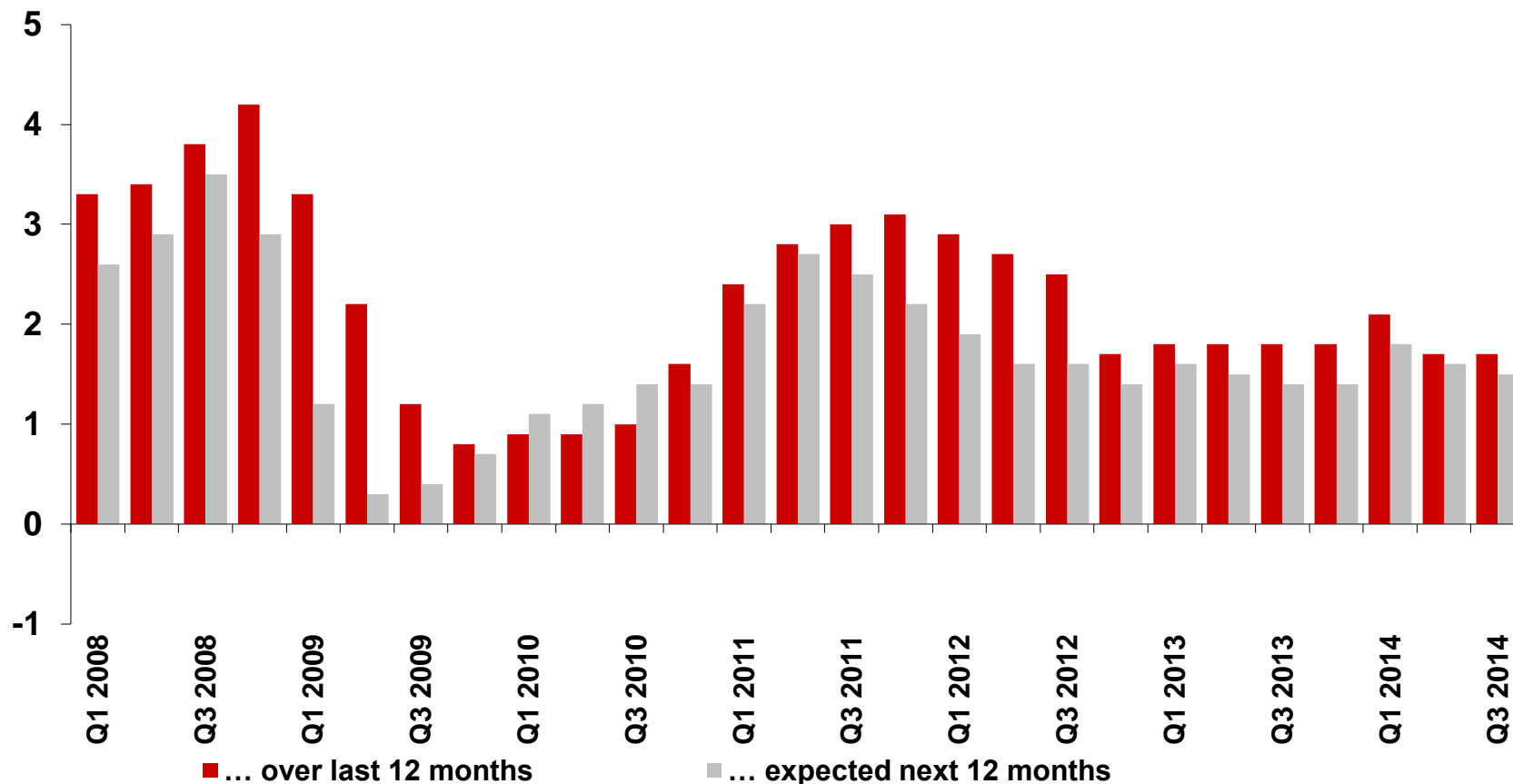
Inflationary pressures remain modest

Selling prices, annual percentage change



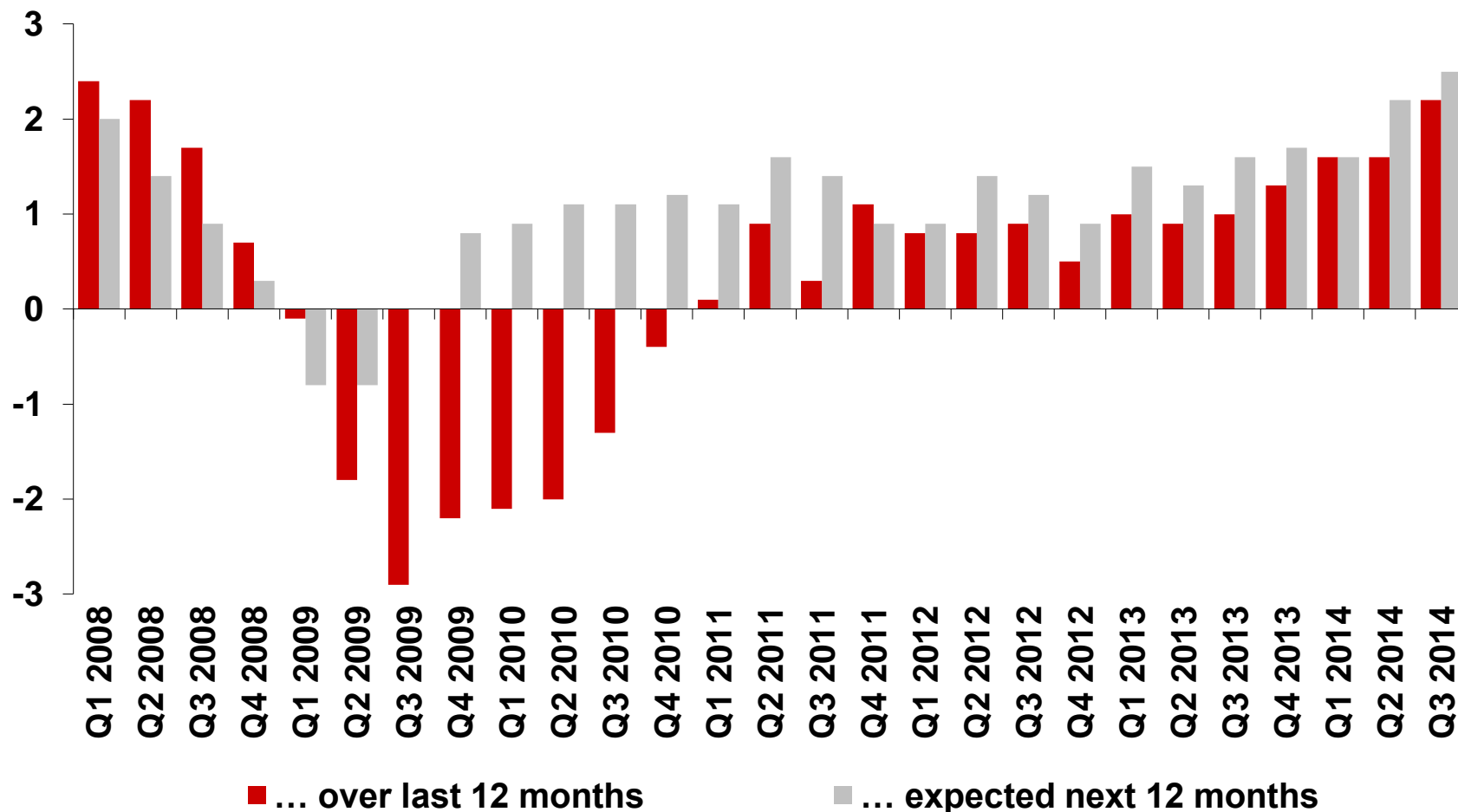
Cost pressures are subdued, supporting low selling price inflation

Input prices, annual percentage change



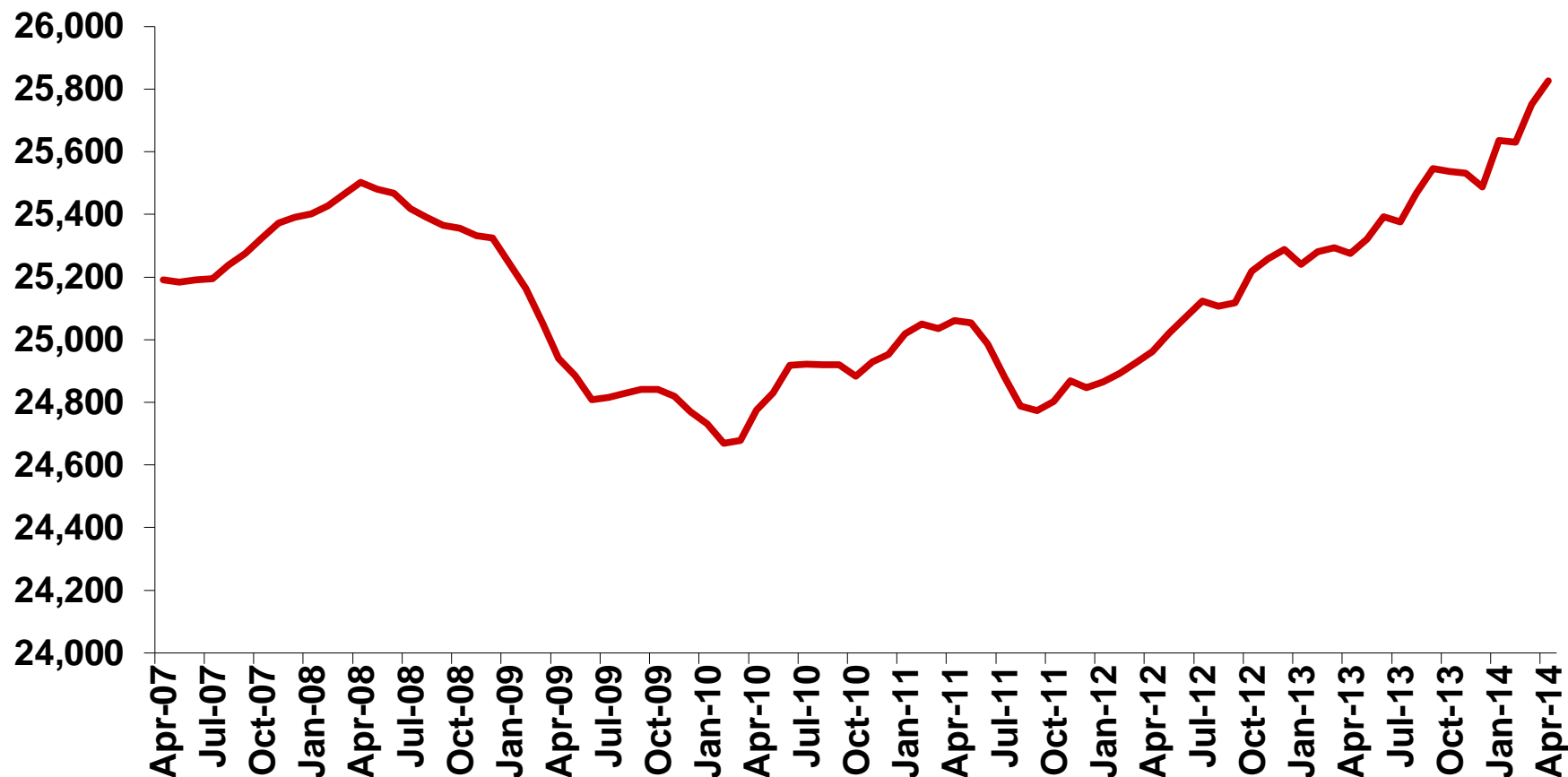
Private sector job creation shows no signs of slowing...

Employee numbers, annual percentage change



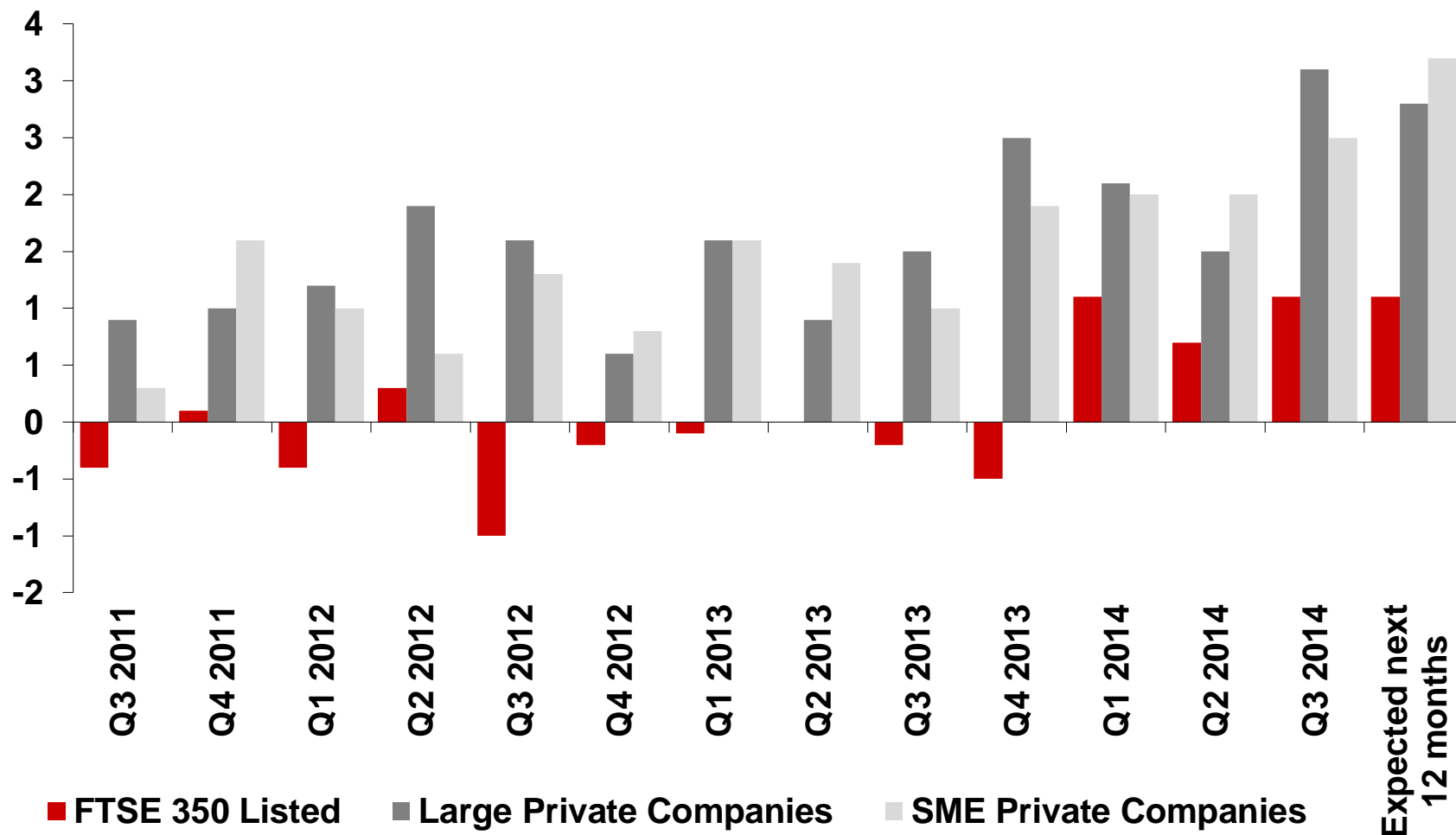
... which could support over half a million more private sector jobs over the next 12 months

Number of employees in the UK, thousands



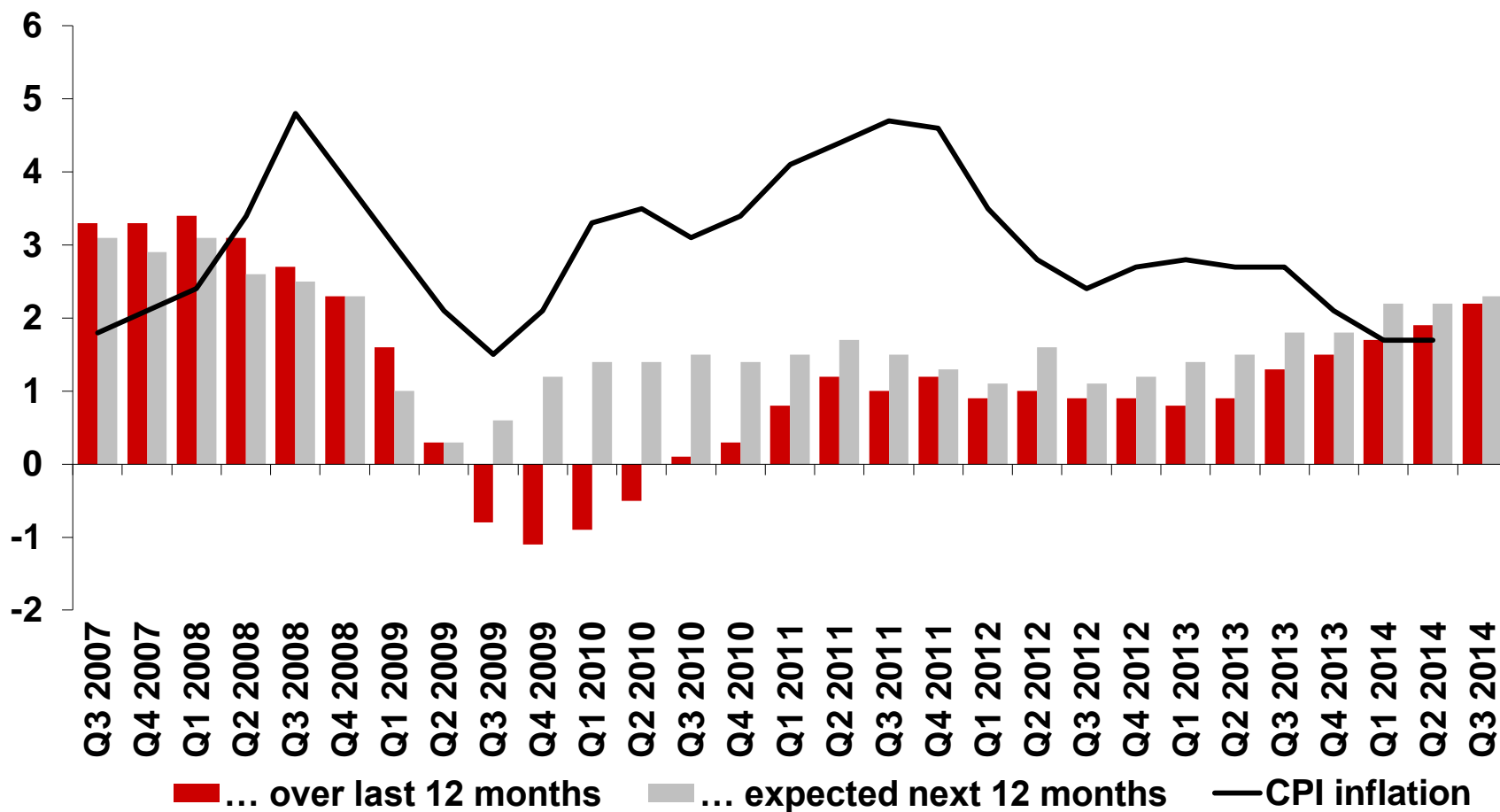
Private companies leading on job creation

Employment, annual percentage change



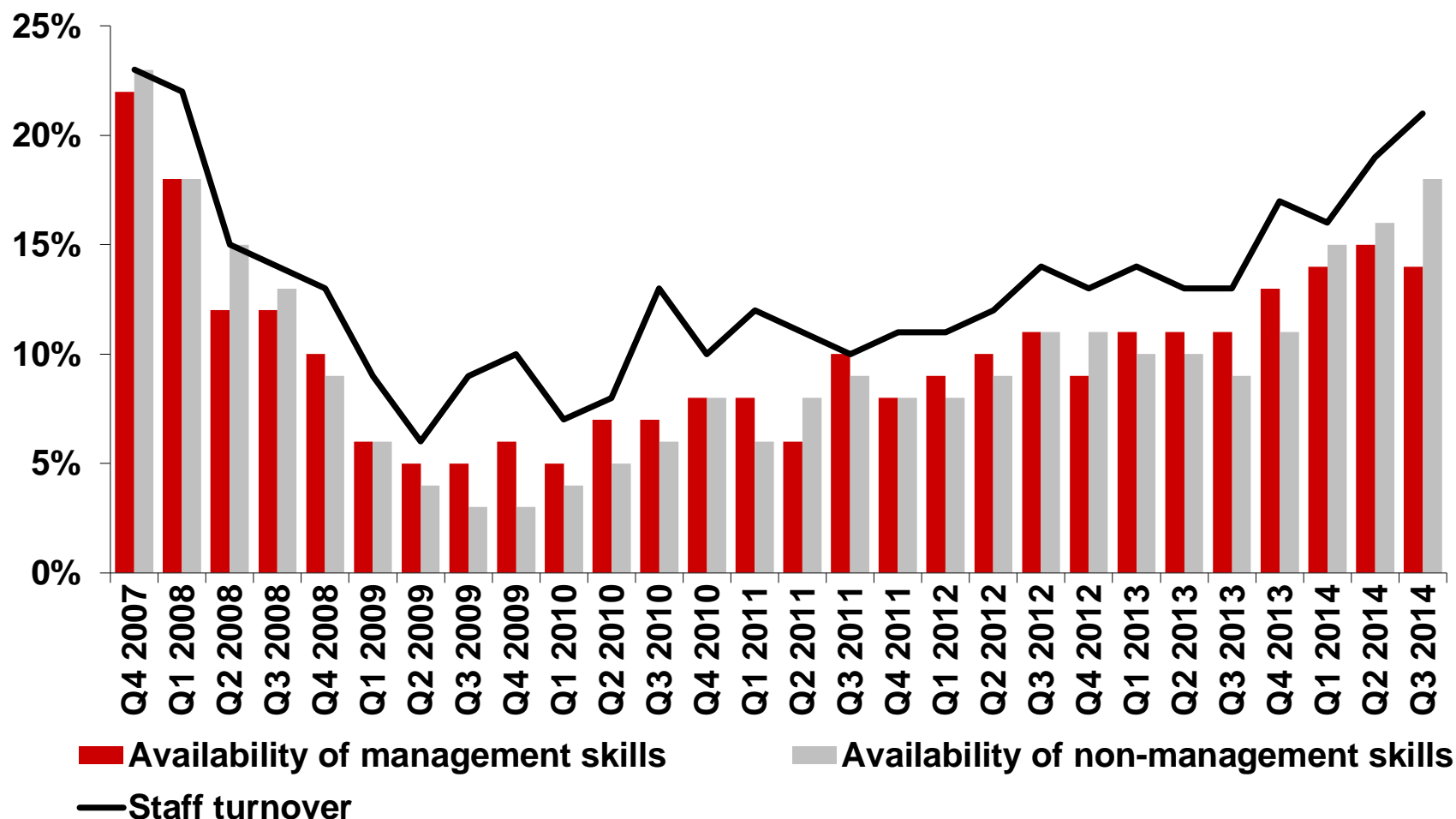
Reported salary growth picks up, standing above inflation

Average total salary, annual percentage change



Labour market tightening becoming more of an issue as unemployment falls back

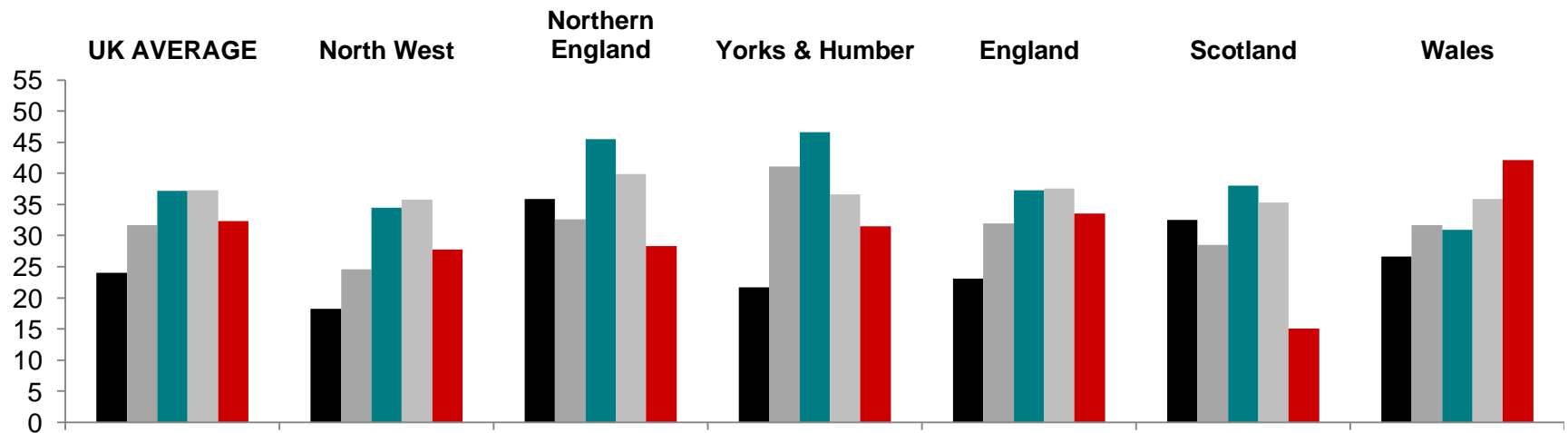
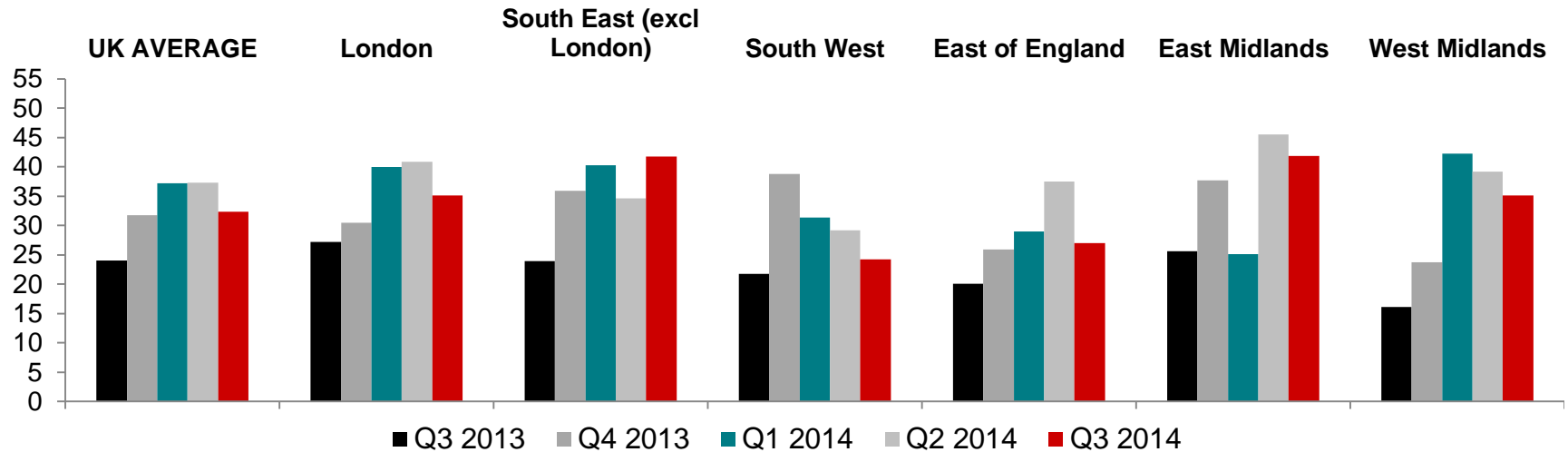
Share of firms reporting factors to be a greater challenge to business performance now than a year ago



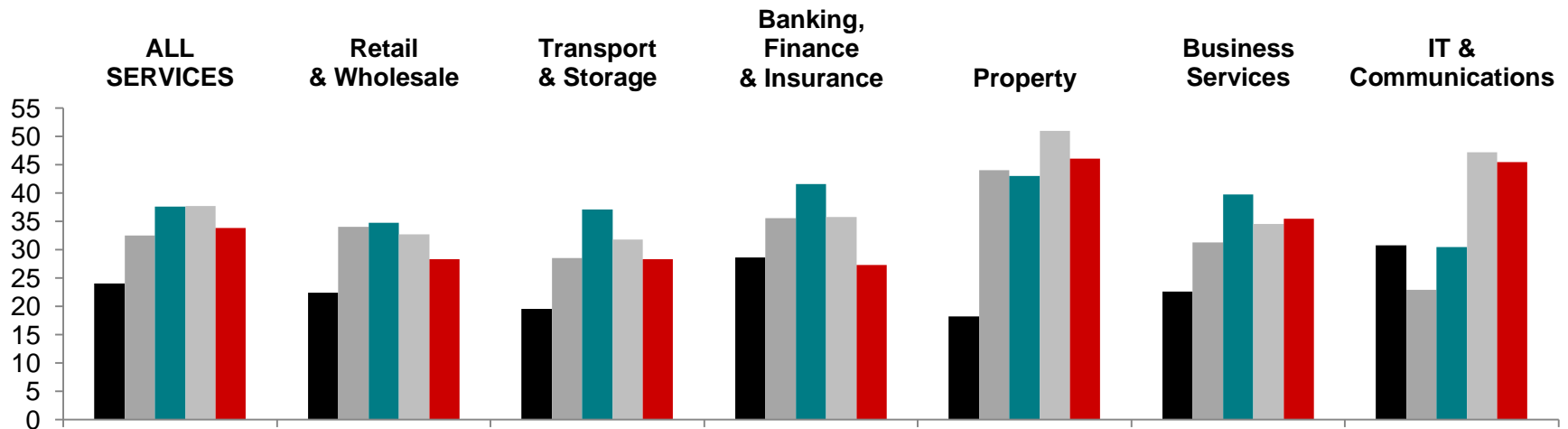
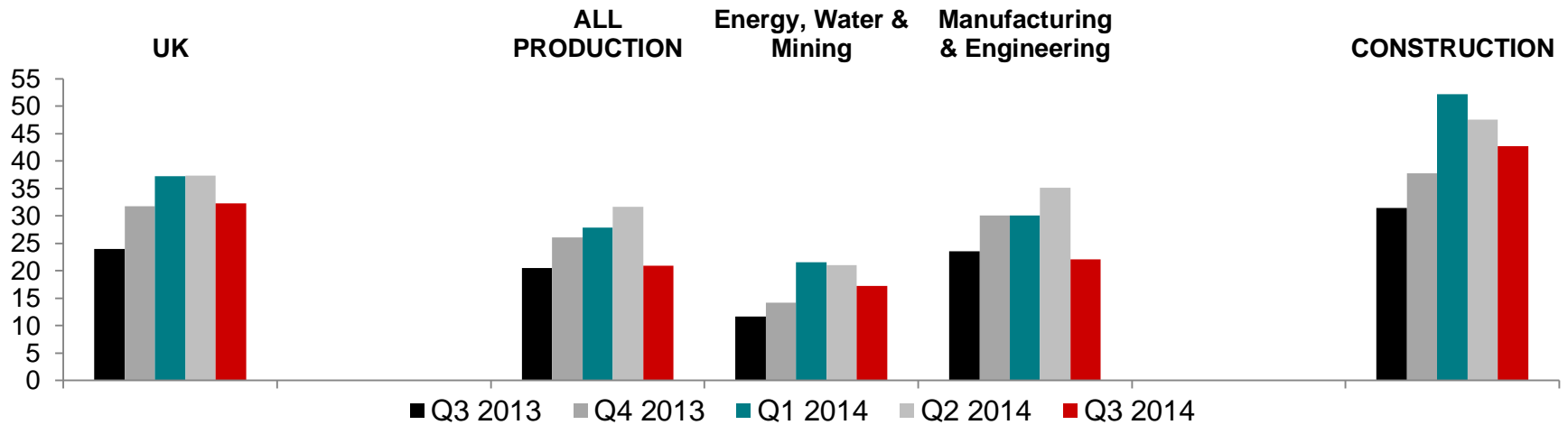
Outline

- Regional & sector stories
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Trend of business confidence by region

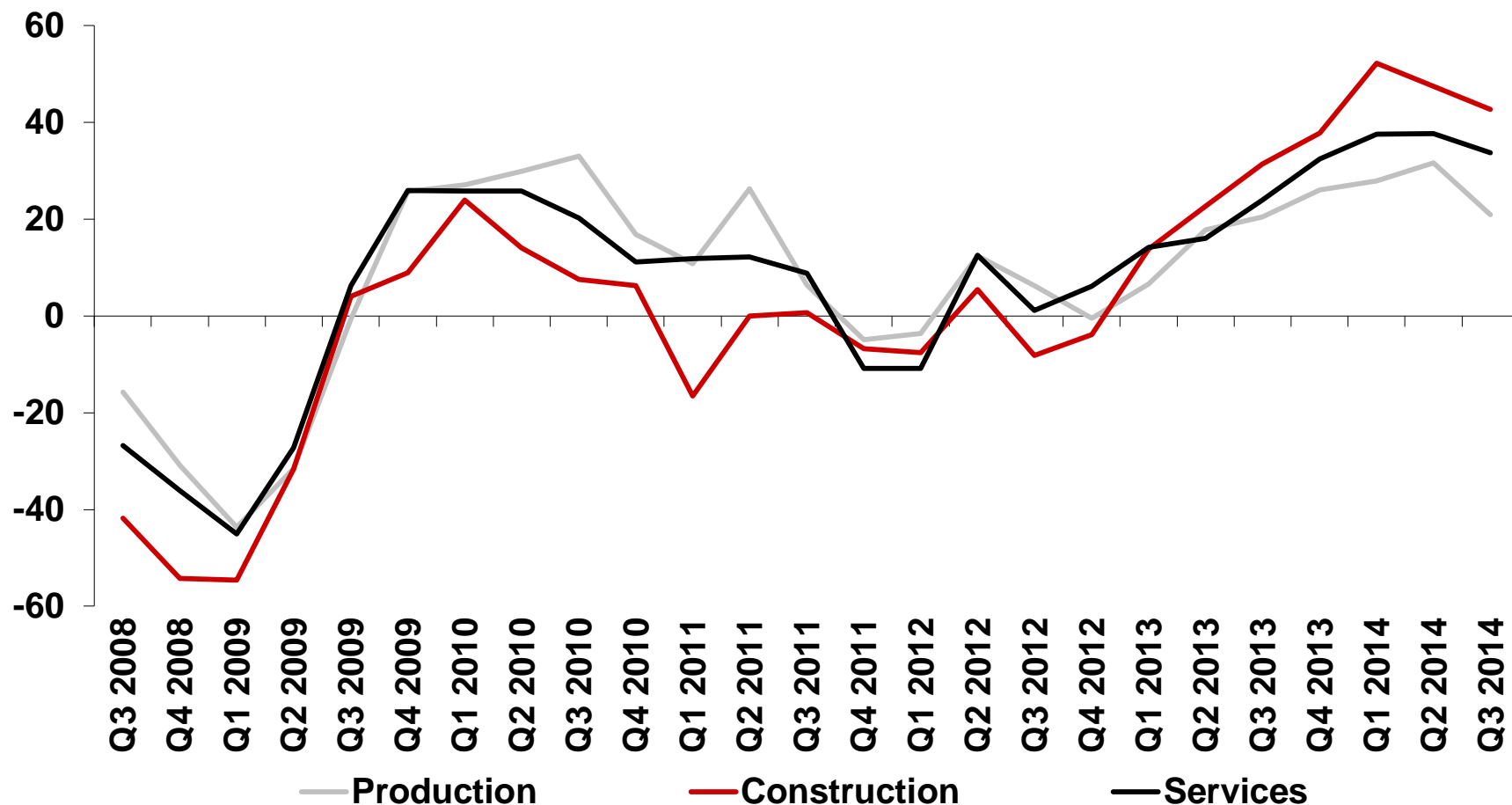


Trend of business confidence by sector



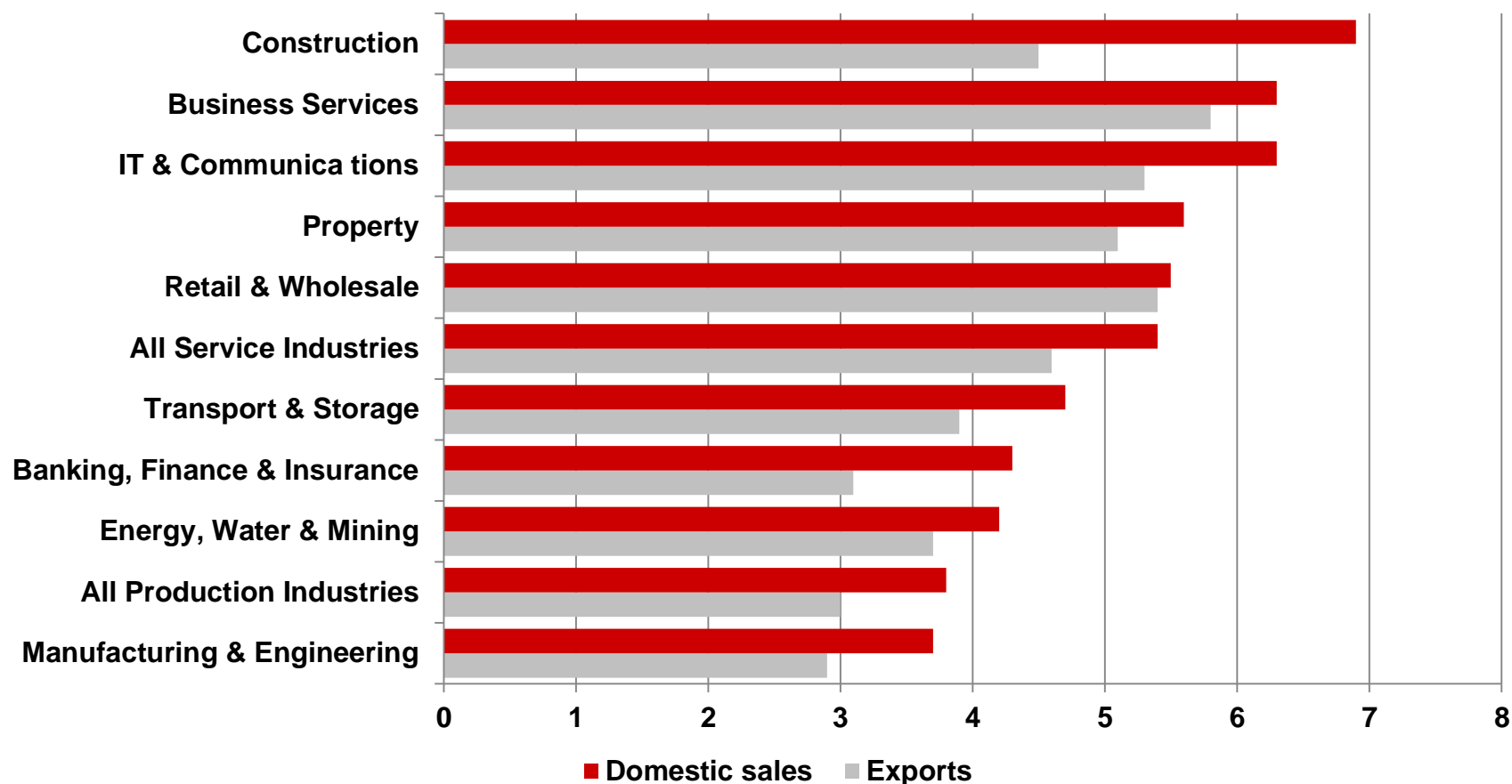
Confidence faltering across all main industries

ICAEW / Grant Thornton Business Confidence Index



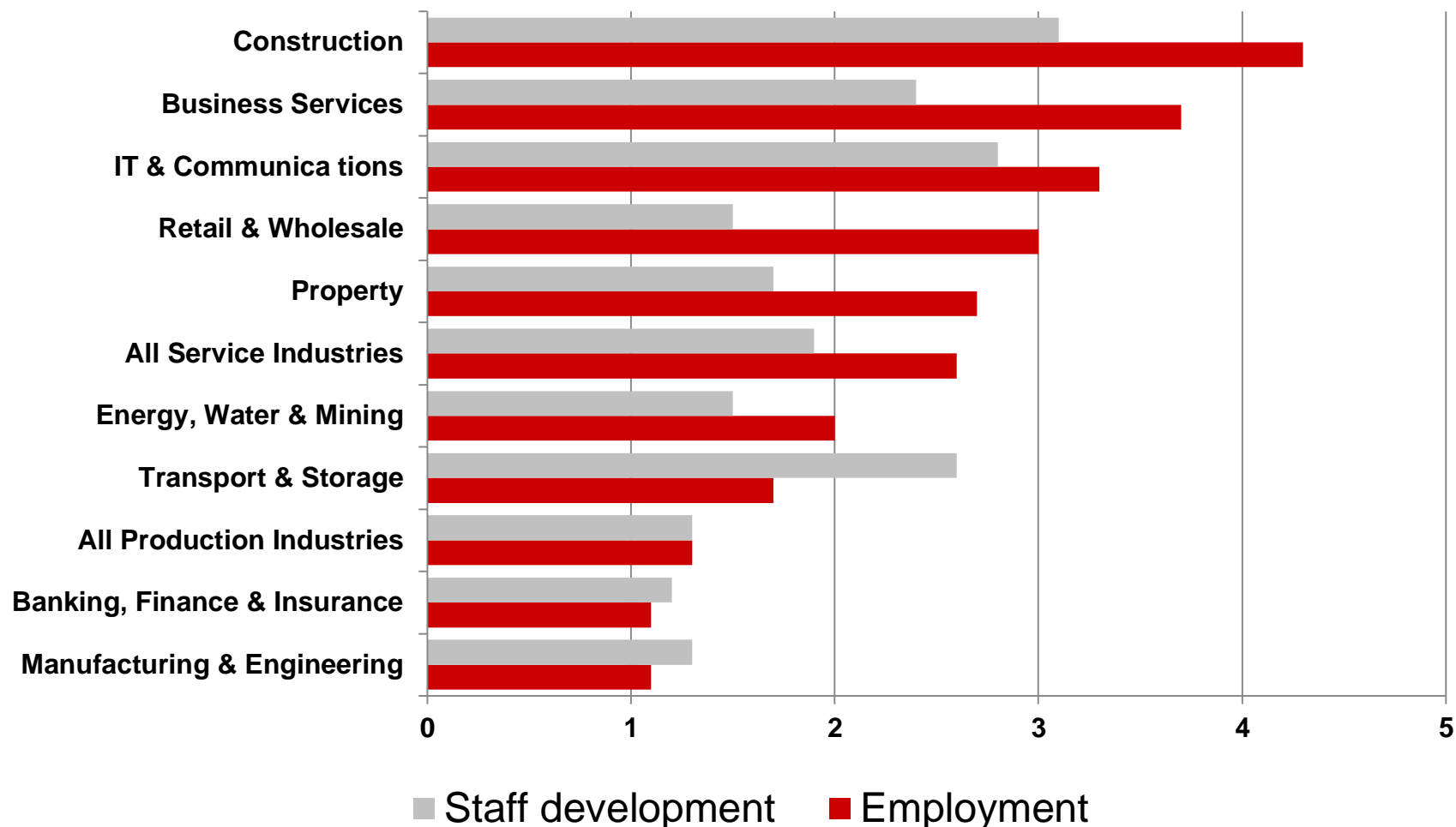
All industries more optimistic on domestic sales than exports

Expected % change in indicator over the next 12 months



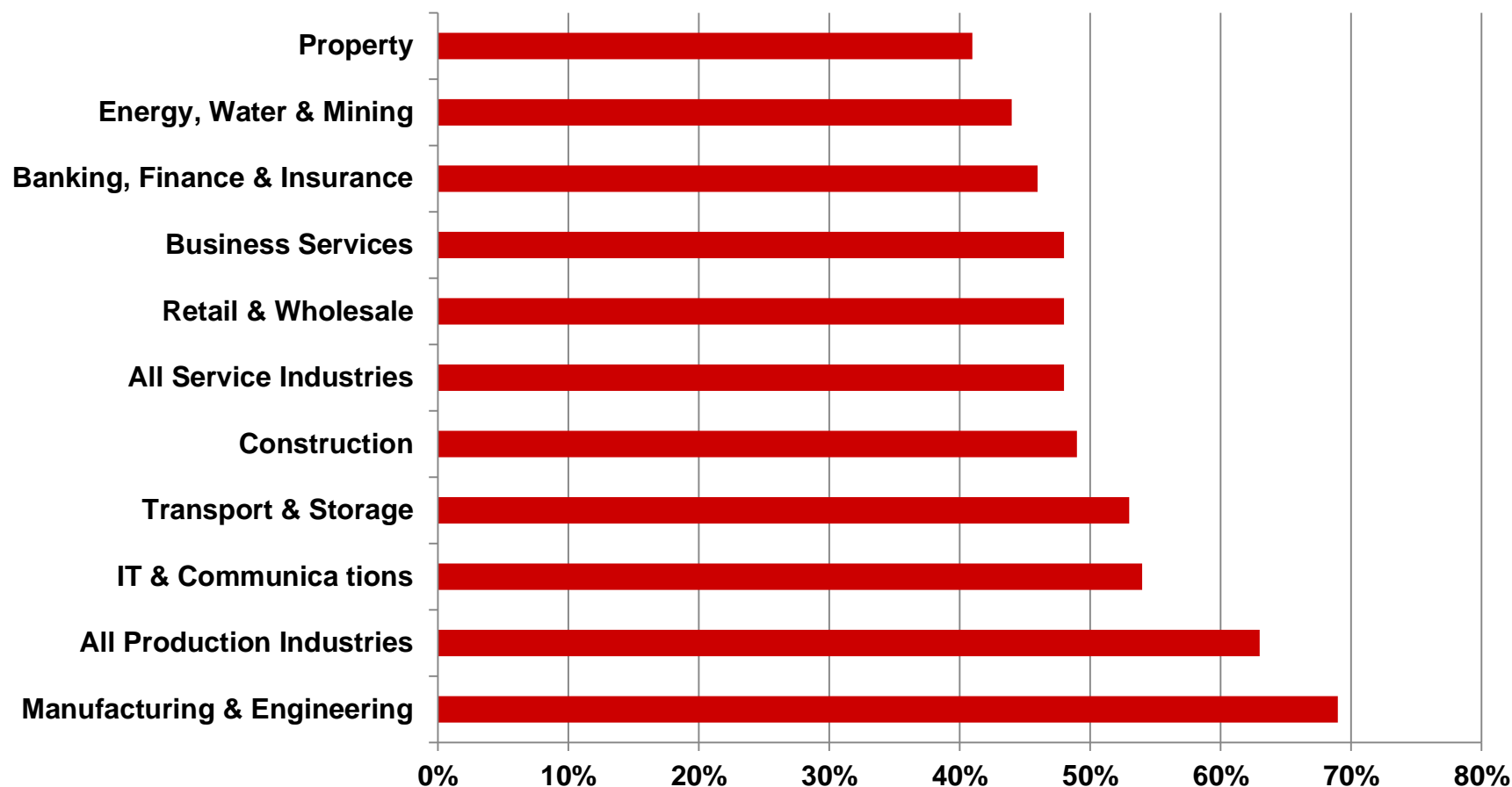
Firms expecting to back up a big increase in domestic demand with additional staff and training

Expected % change in indicator over the next 12 months



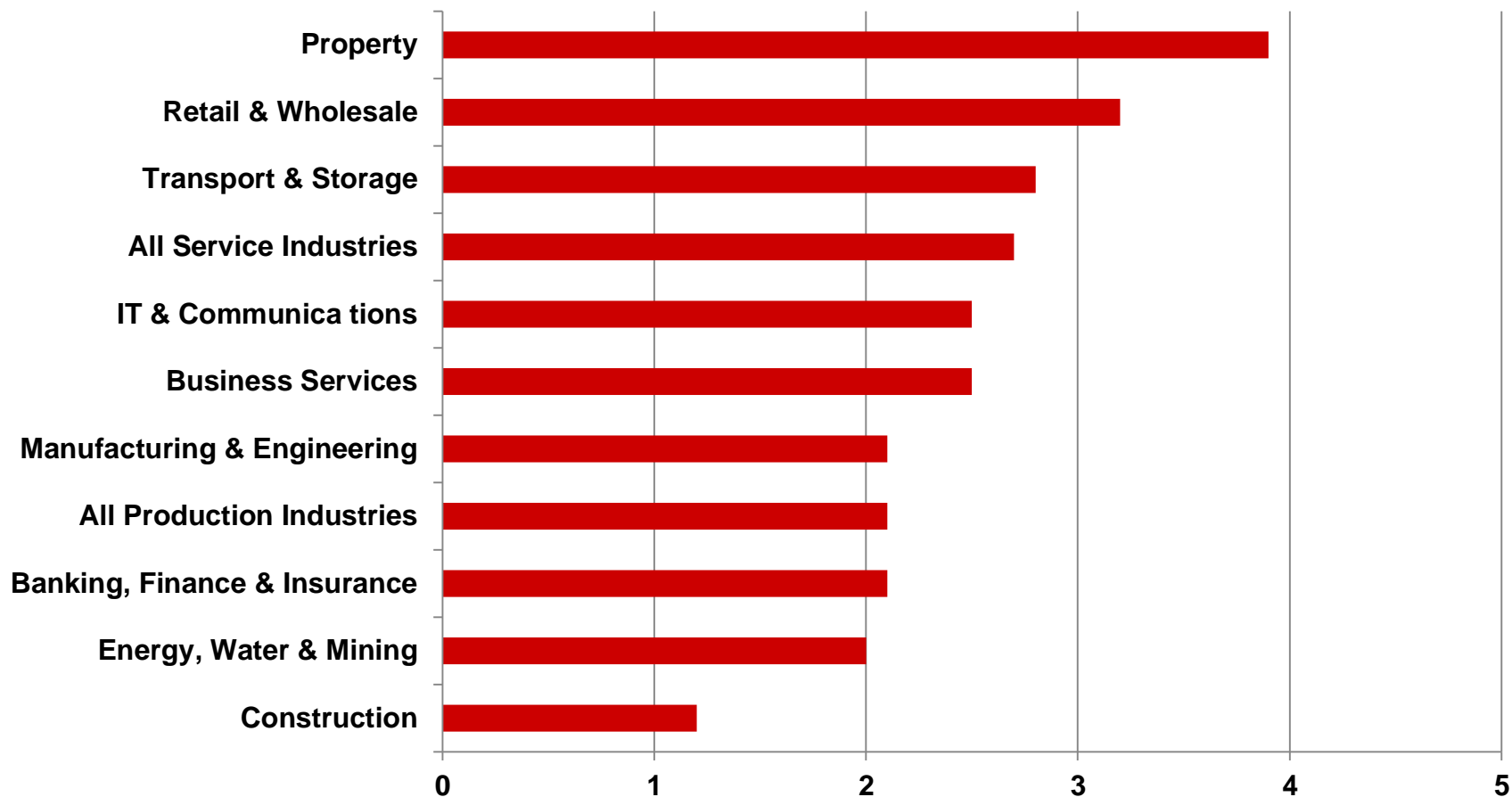
Manufacturers expecting some of the slowest growth ahead and still reporting much spare capacity

Proportion of businesses operating below full capacity



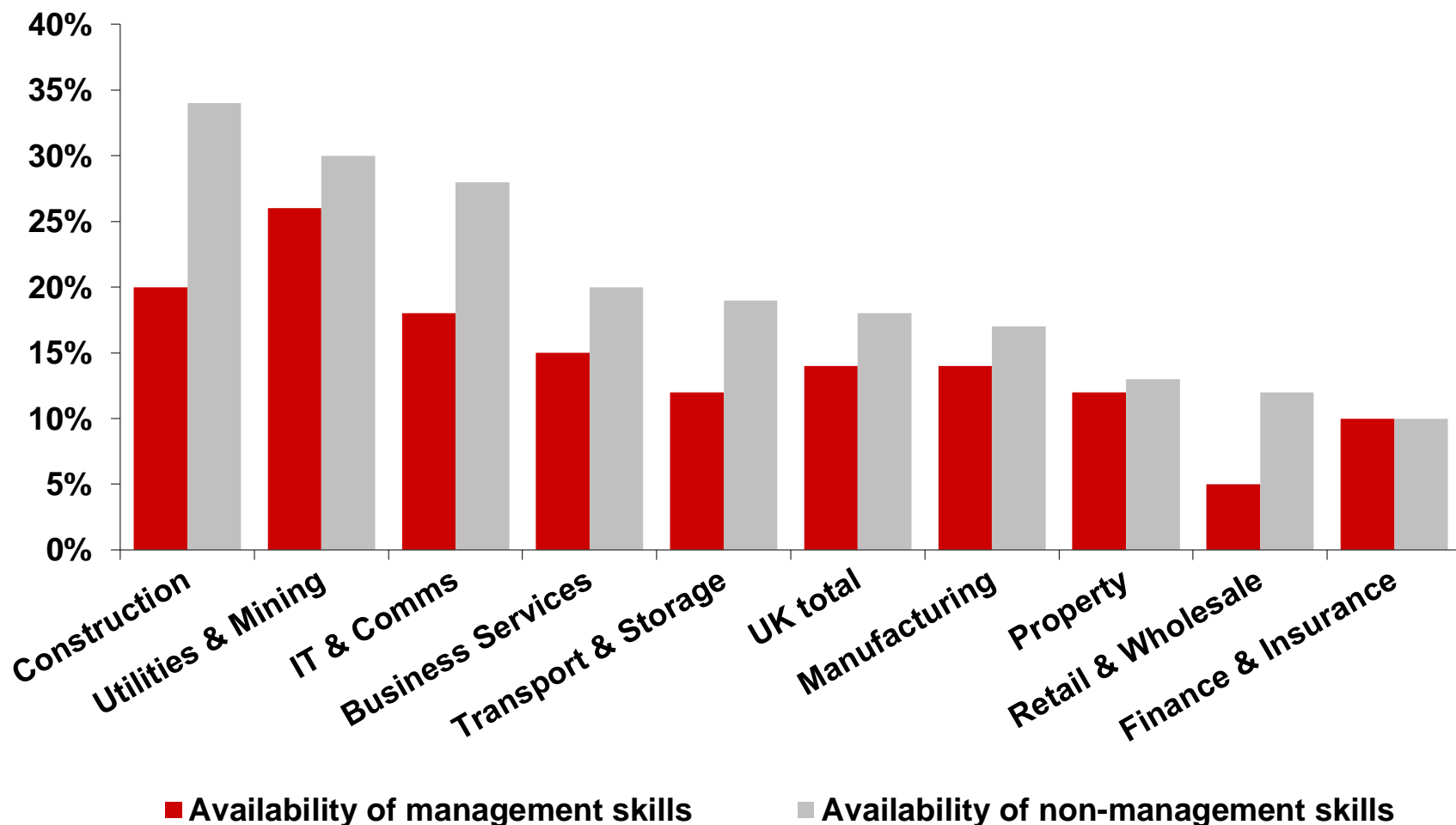
Property firms expecting the biggest increase in capital investment over coming year

Expected % change in capital investment over the next 12 months



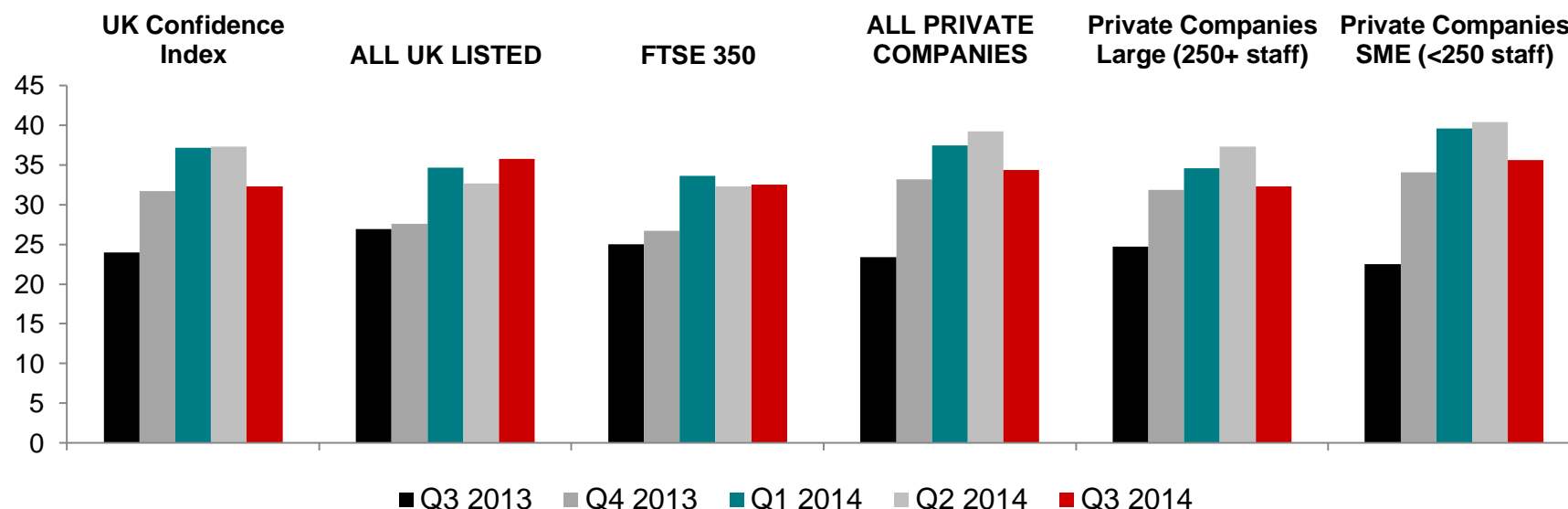
Skills shortages most acute in construction sector

Balance of firms reporting factors to be a greater challenge to business performance now than a year ago



Confidence decline mostly felt among privately-owned companies

ICAEW / Grant Thornton Business Confidence Index by organisation type



Conclusions

- Confidence dipped in Q3 2014 – the first decline in confidence in two years. Confidence remains at a high level by historical standards, though this dip is a sign that economic growth may slow going forward.
 - Financial performance indicators remain solid though turnover and profit growth expectations have levelled off.
 - Businesses report strong investment growth over the past 12 months but this is expected to slow over the next year.
 - Domestic sales rather than exports remain the main driver of growth, likely to reflect the fact that the UK economy is growing much more strongly than its key export markets.
 - Company hiring intentions remain strong, which could support over half a million additional private sector jobs over the next 12 months.
 - Skills shortages remain an issue and this could hold back the ability of businesses to expand in the future.
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