



# Q3 2015 ICAEW / Grant Thornton Business Confidence Monitor results

July 2015

# Outline

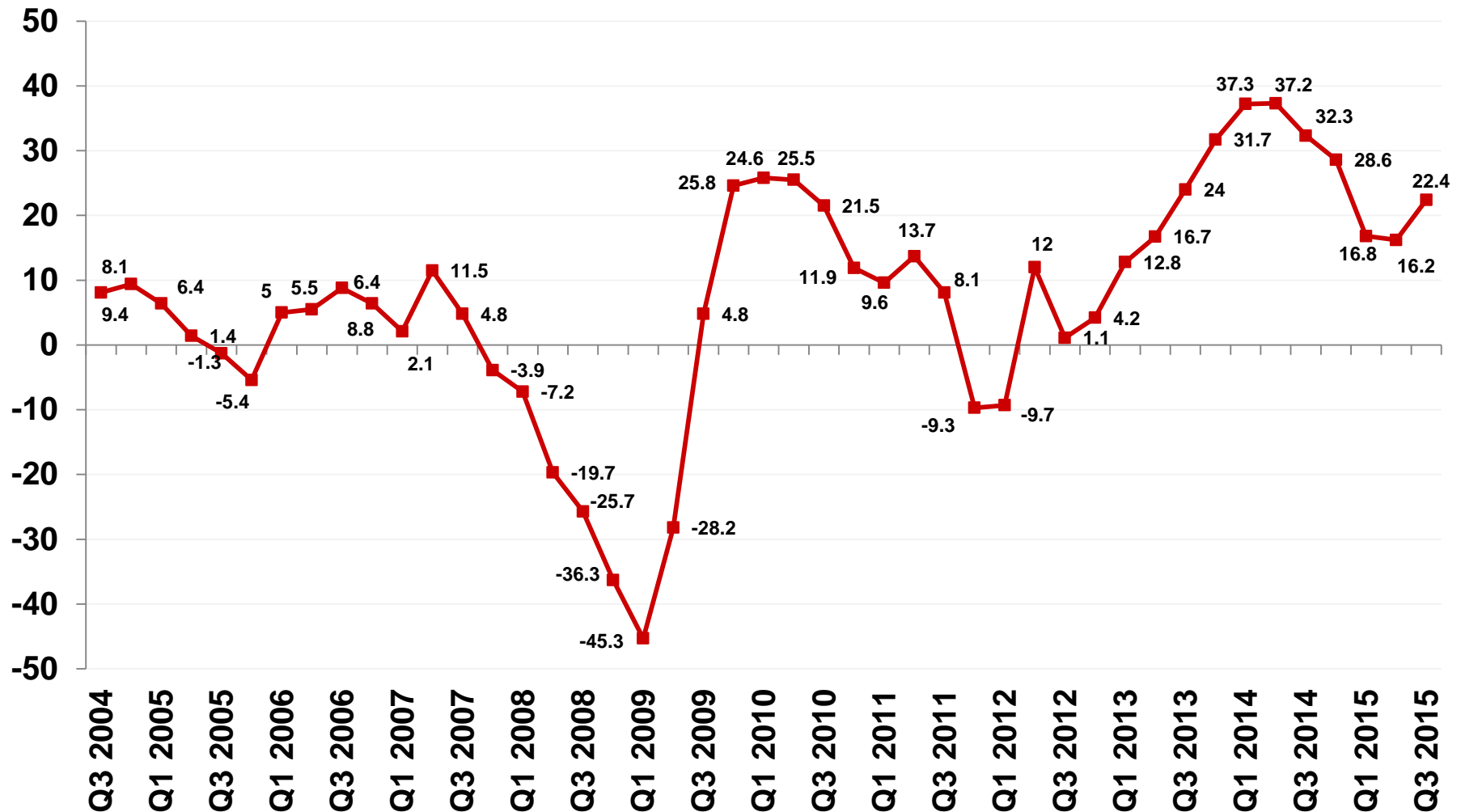
- Confidence Index top lines
  - Financial performance indicators
    - Growth indicators
    - Inflation & labour market indicators
  - Regional & sector stories
-

# Outline

- Confidence Index top lines

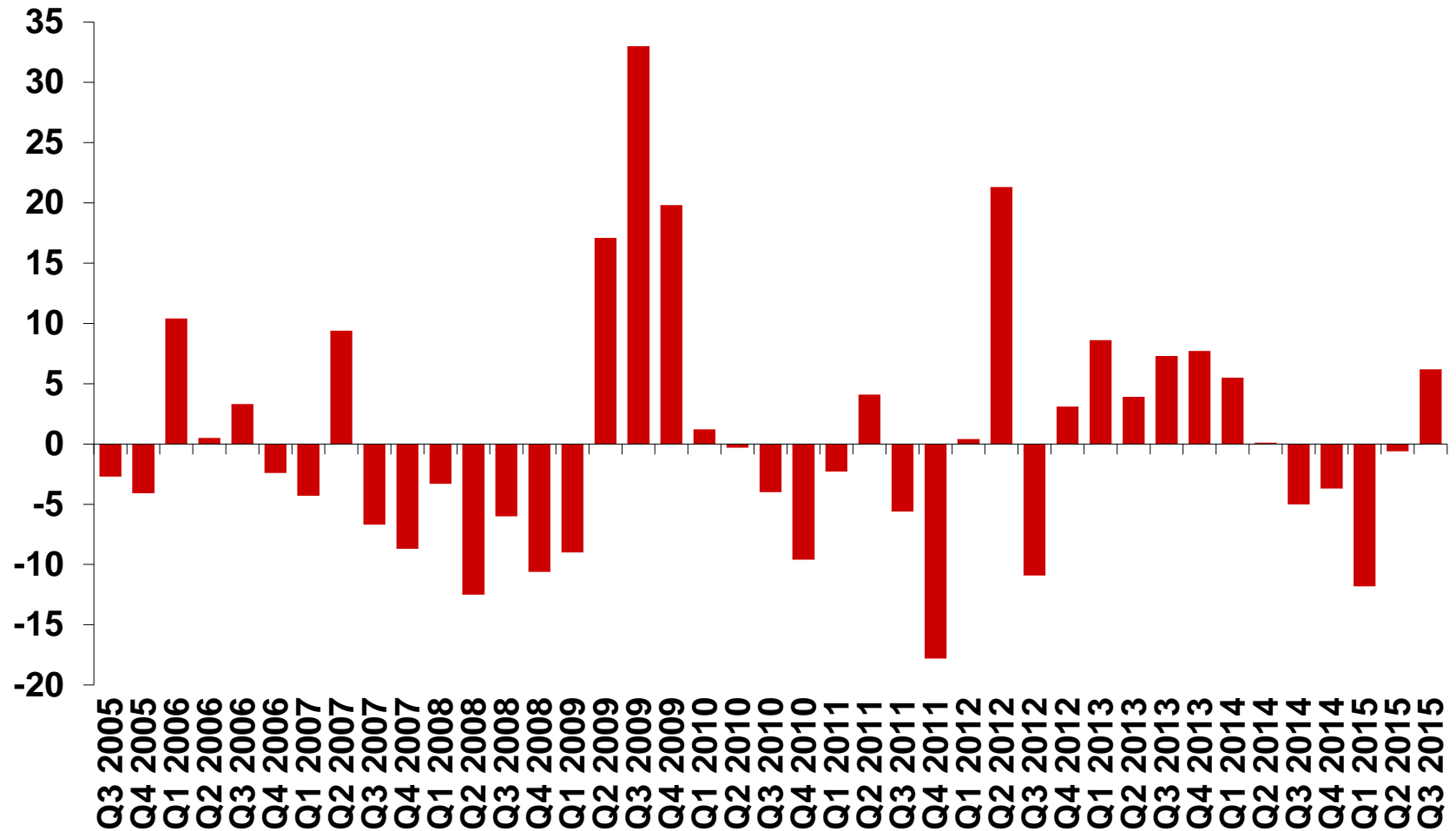
# Confidence creeping up again, although still remains below a year ago

ICAEW / Grant Thornton UK Business Confidence Index



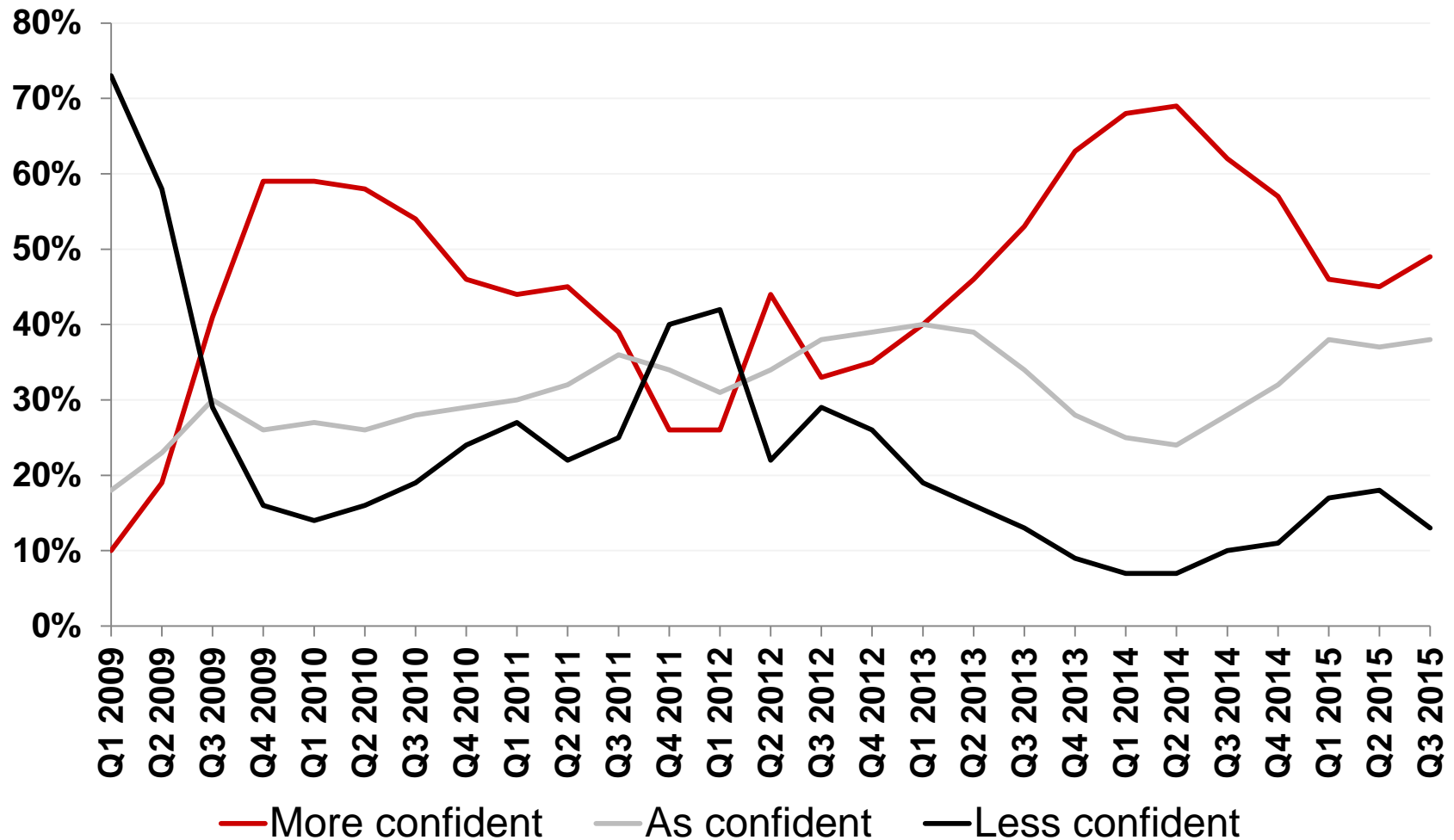
# Confidence grows quarter on quarter for first time since start of 2014

Quarterly change to Confidence Index



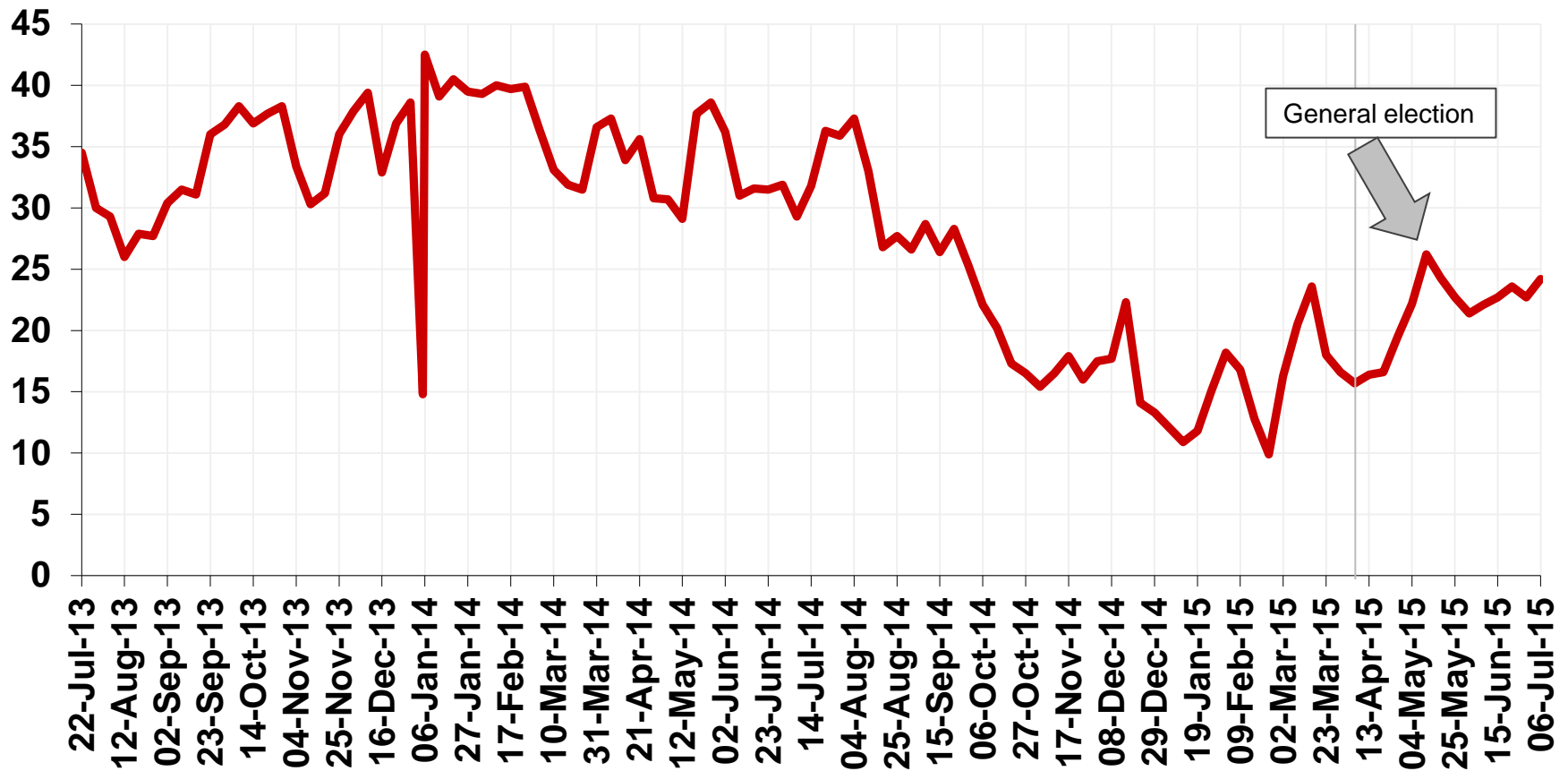
# More firms are optimistic on the next 12 months

Proportion of respondents that are more, less and as confident in economic prospects over the next 12 months as the past 12



# Election period gives a solid boost to confidence

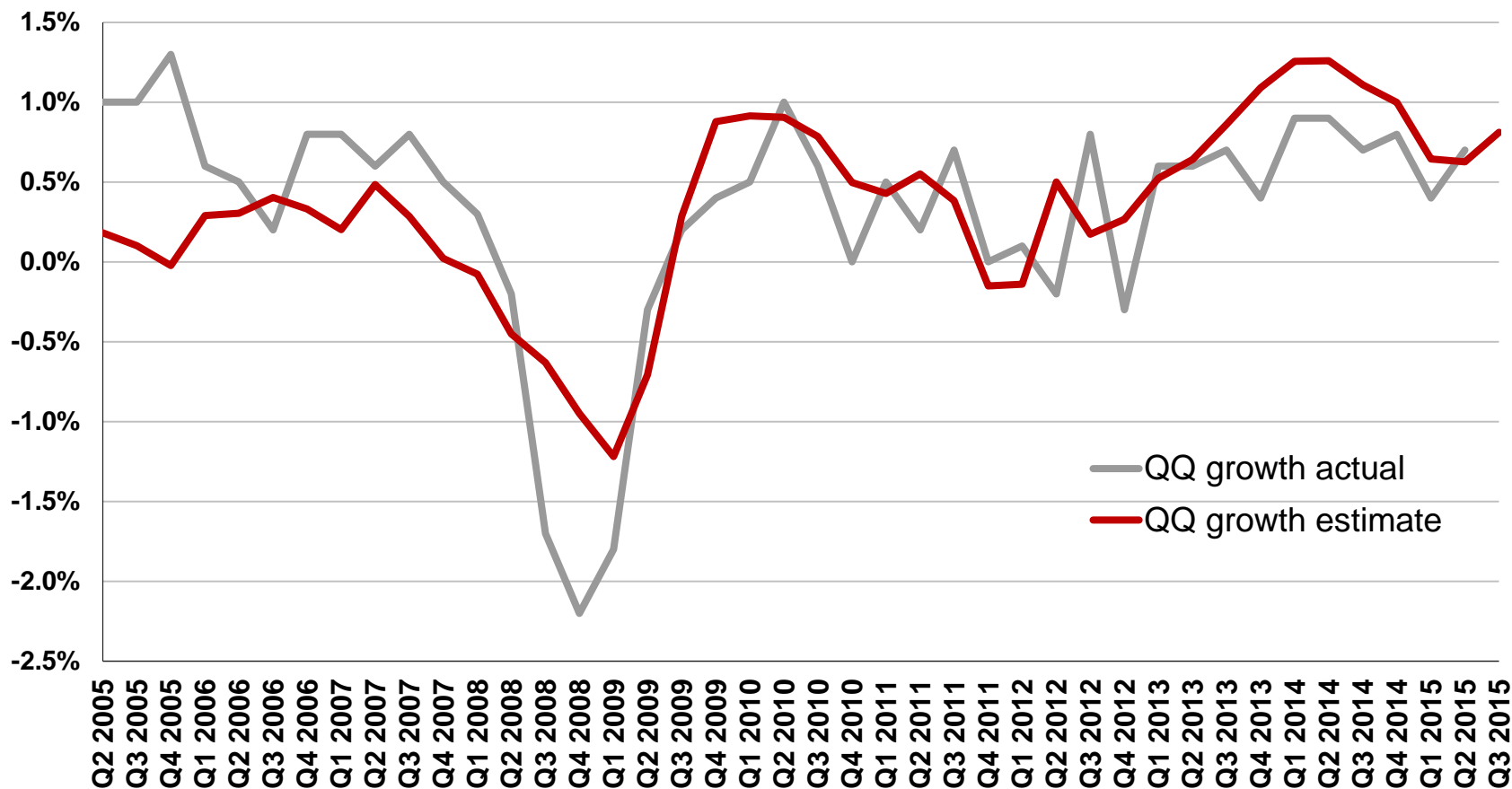
ICAEW / Grant Thornton Business Confidence Index, three week rolling trend



Three weeks beginning...

# Growth projected to pick up in the second half of the year

Quarter on quarter real GDP growth, per cent



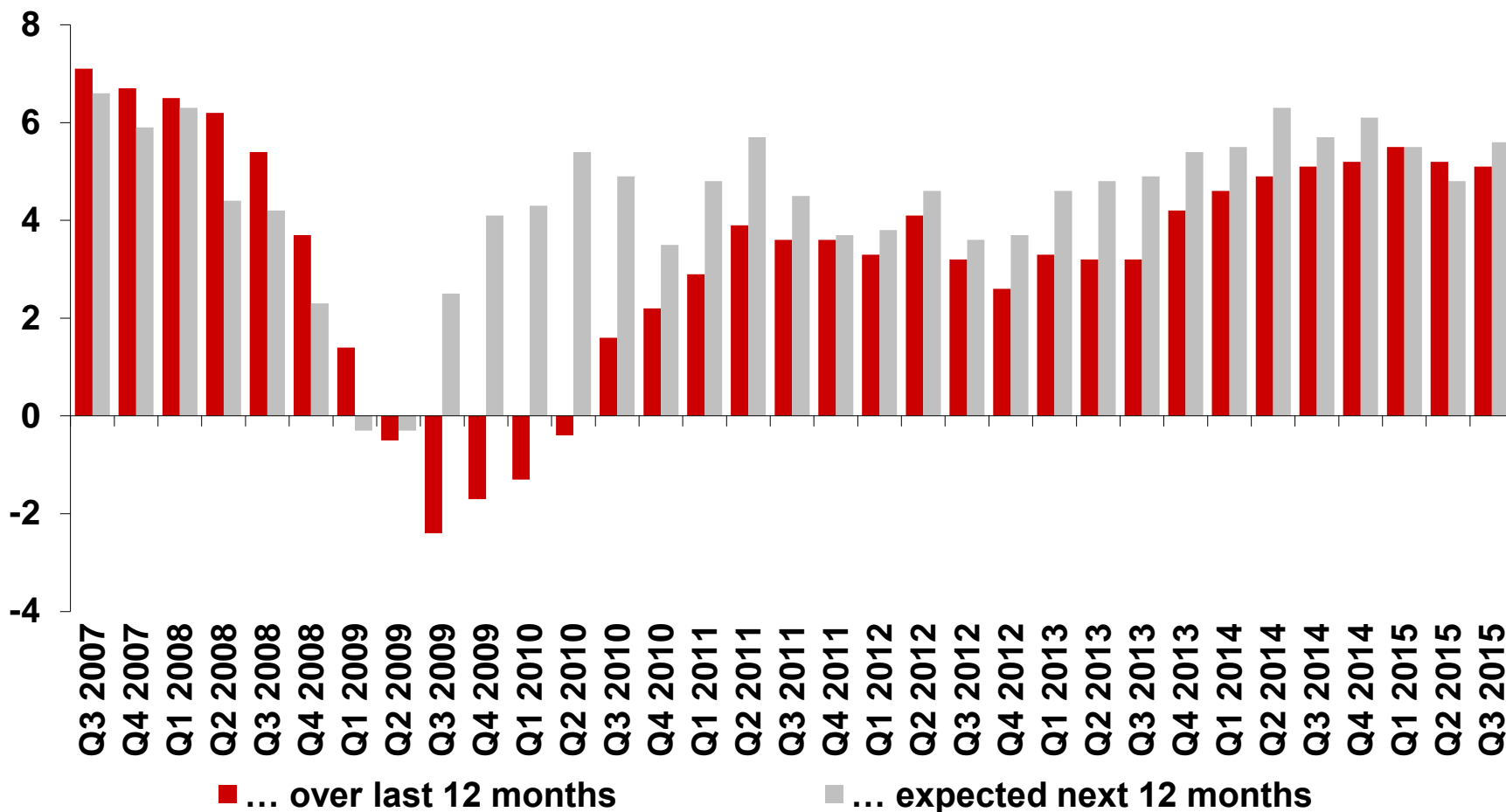


# Outline

- Financial performance indicators
    - Growth indicators
-

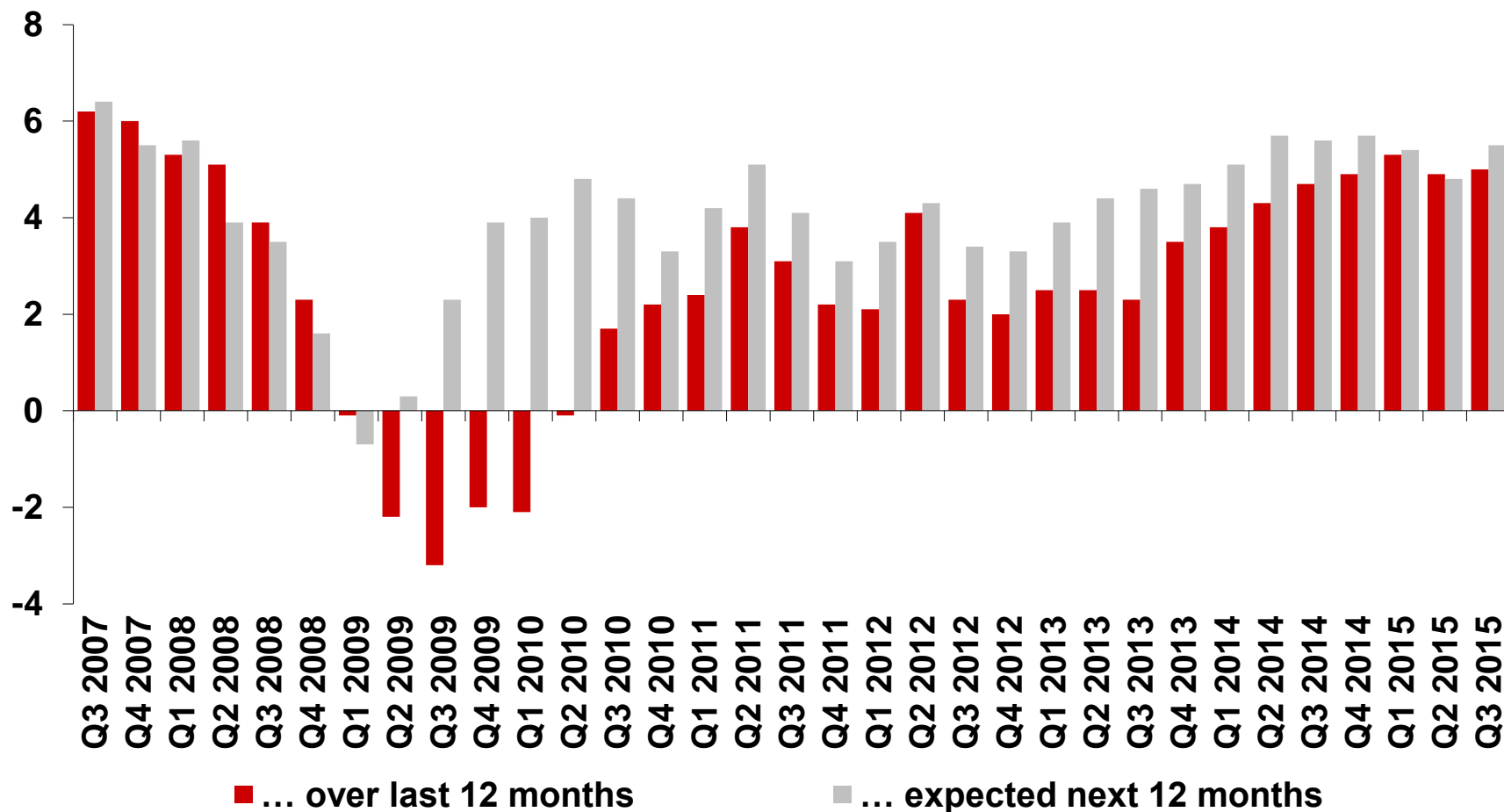
# Turnover growth stands on hold, pointing to stable economic performance

Turnover, annual percentage change



# Profit growth holds steady over past year, partly supported by weak input price growth

Gross profits, annual percentage change



# Export growth picking up, and expected to do so further

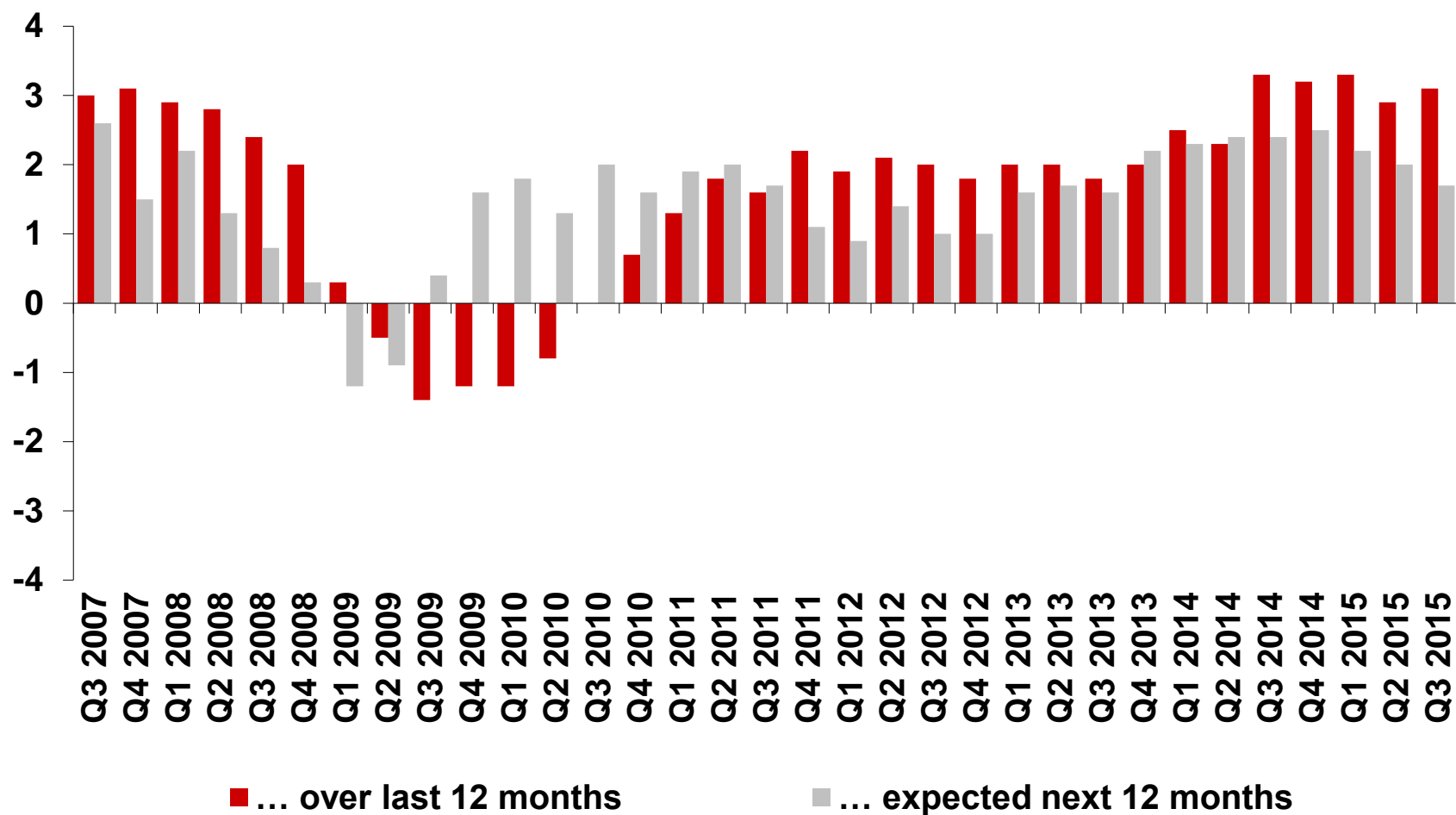
Exports and domestic sales, annual percentage change



\* expectation

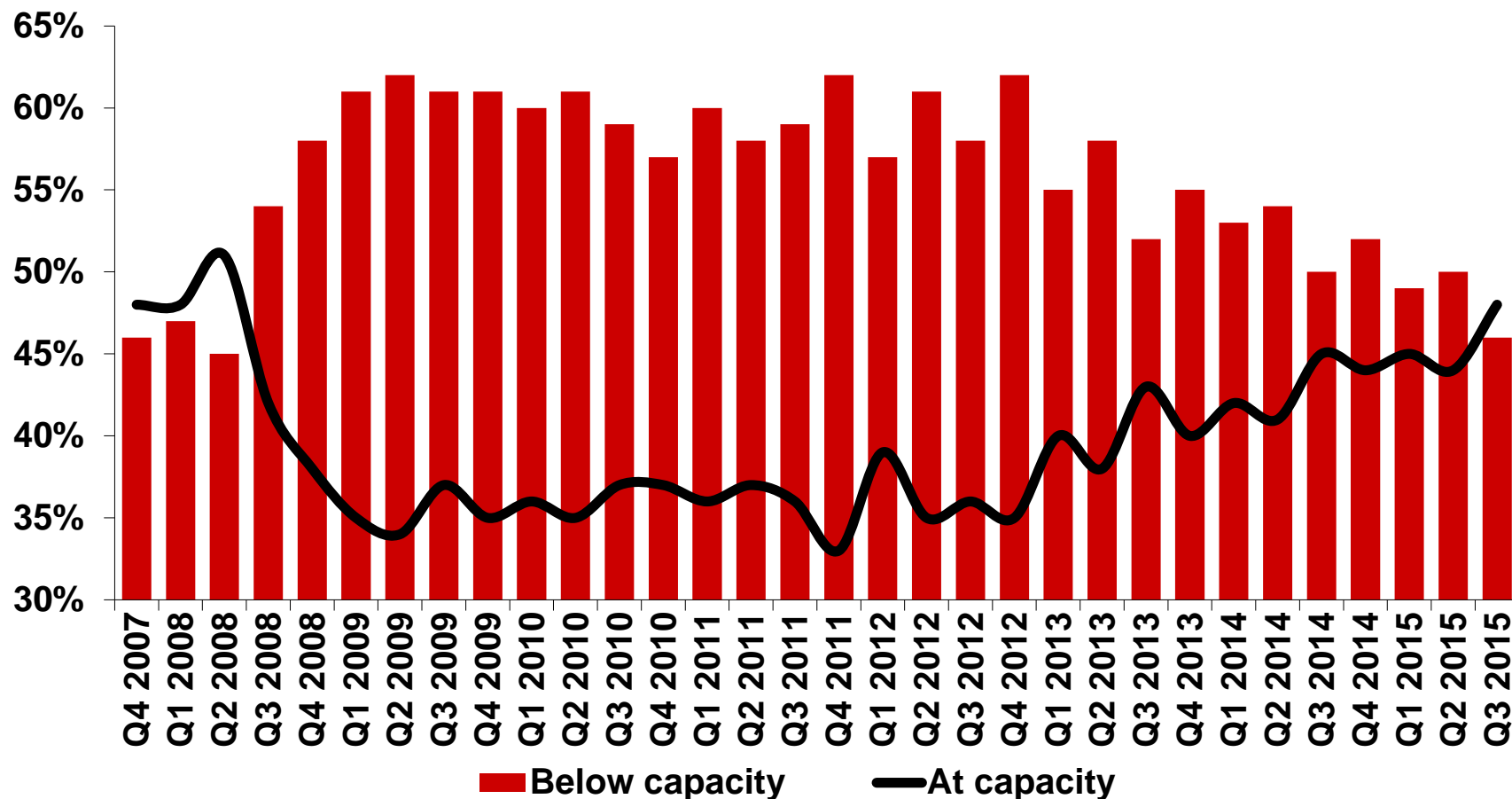
# Capital investment expectations continue to fall back

Capital investment, annual percentage change



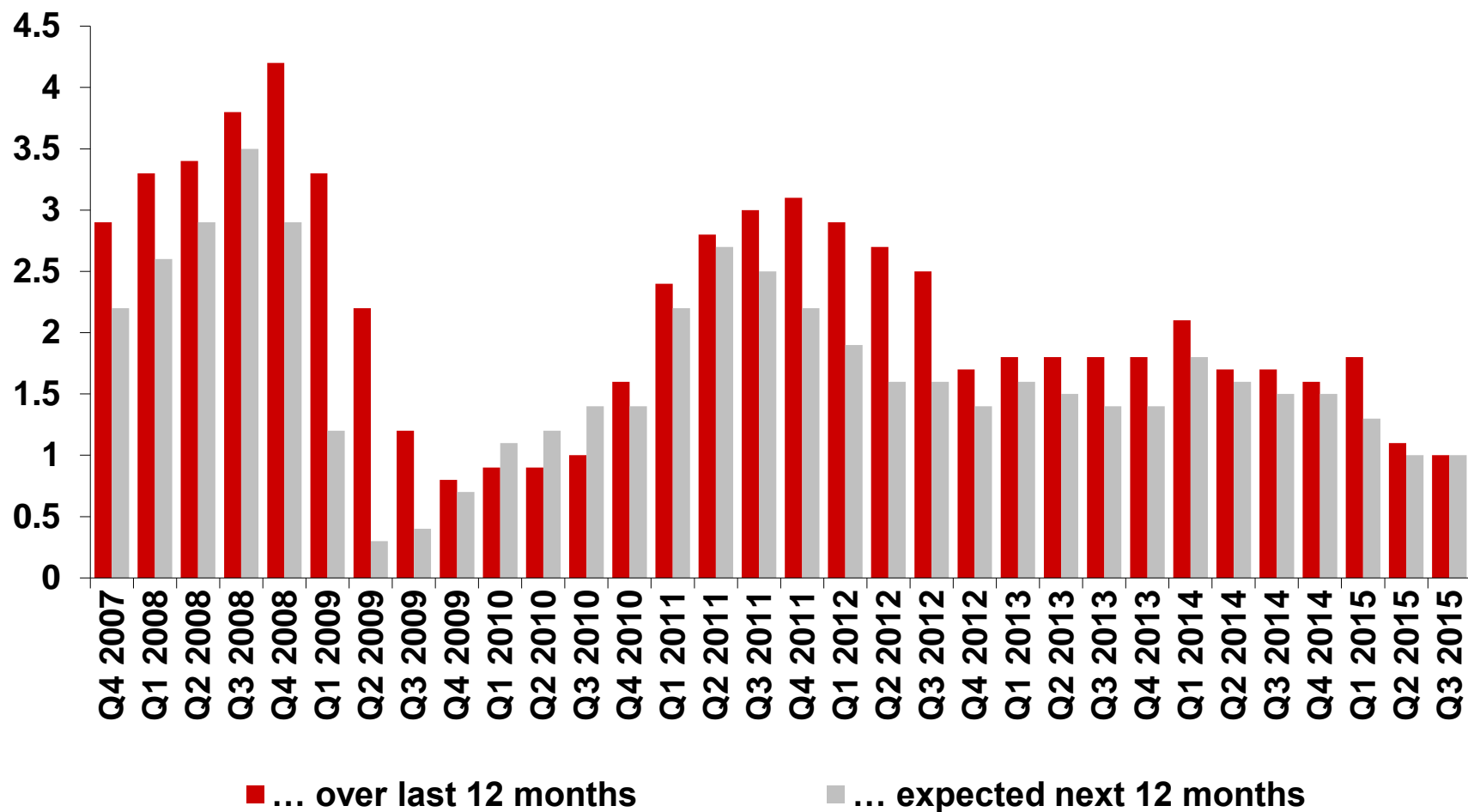
# Space capacity falls back to lowest since early 2008

Share of businesses operating at and below capacity



# Cost inflation expected to remain at today's low levels

Input prices, annual percentage change



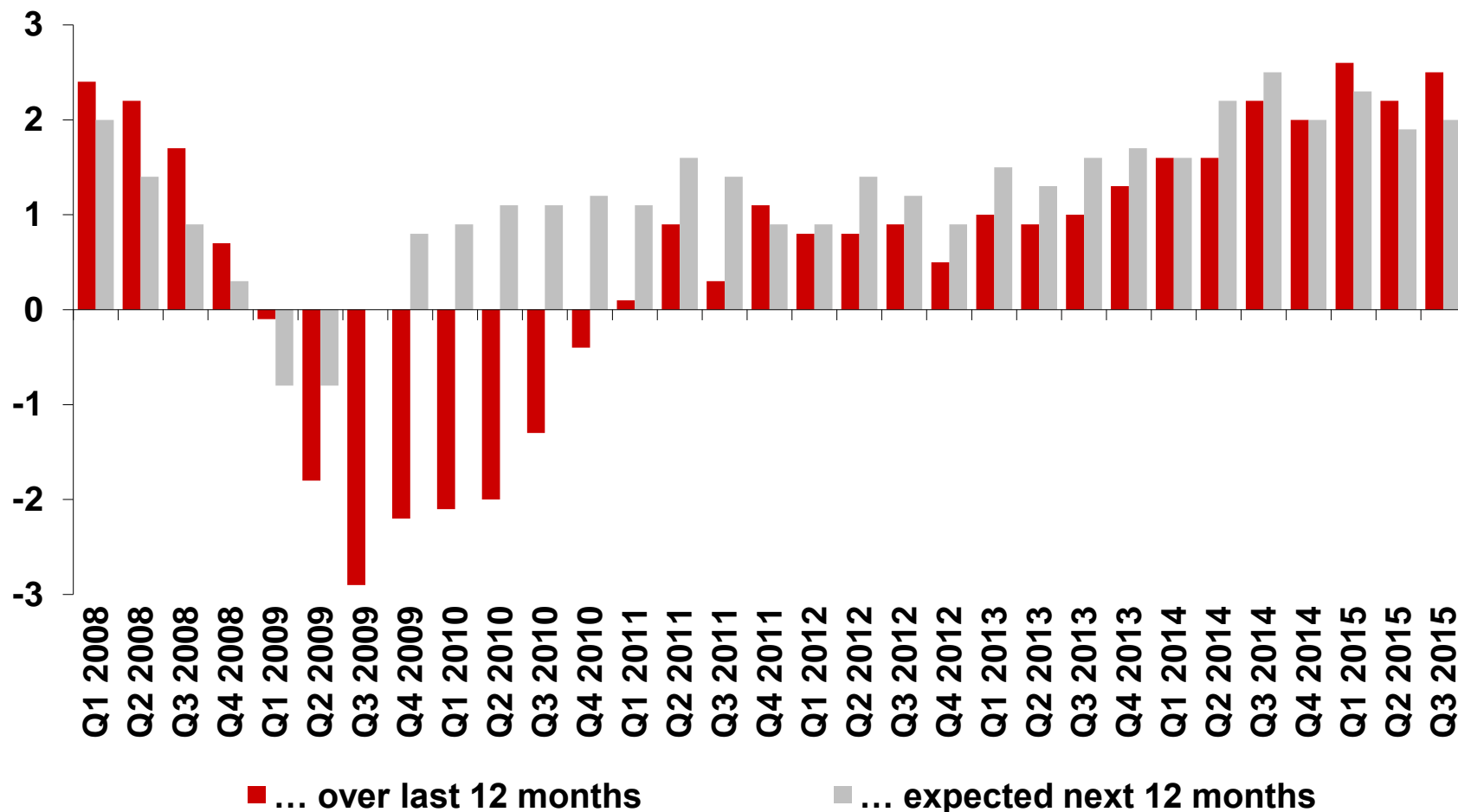
# Outline

- Financial performance indicators
    - Inflation & labour market indicators
-



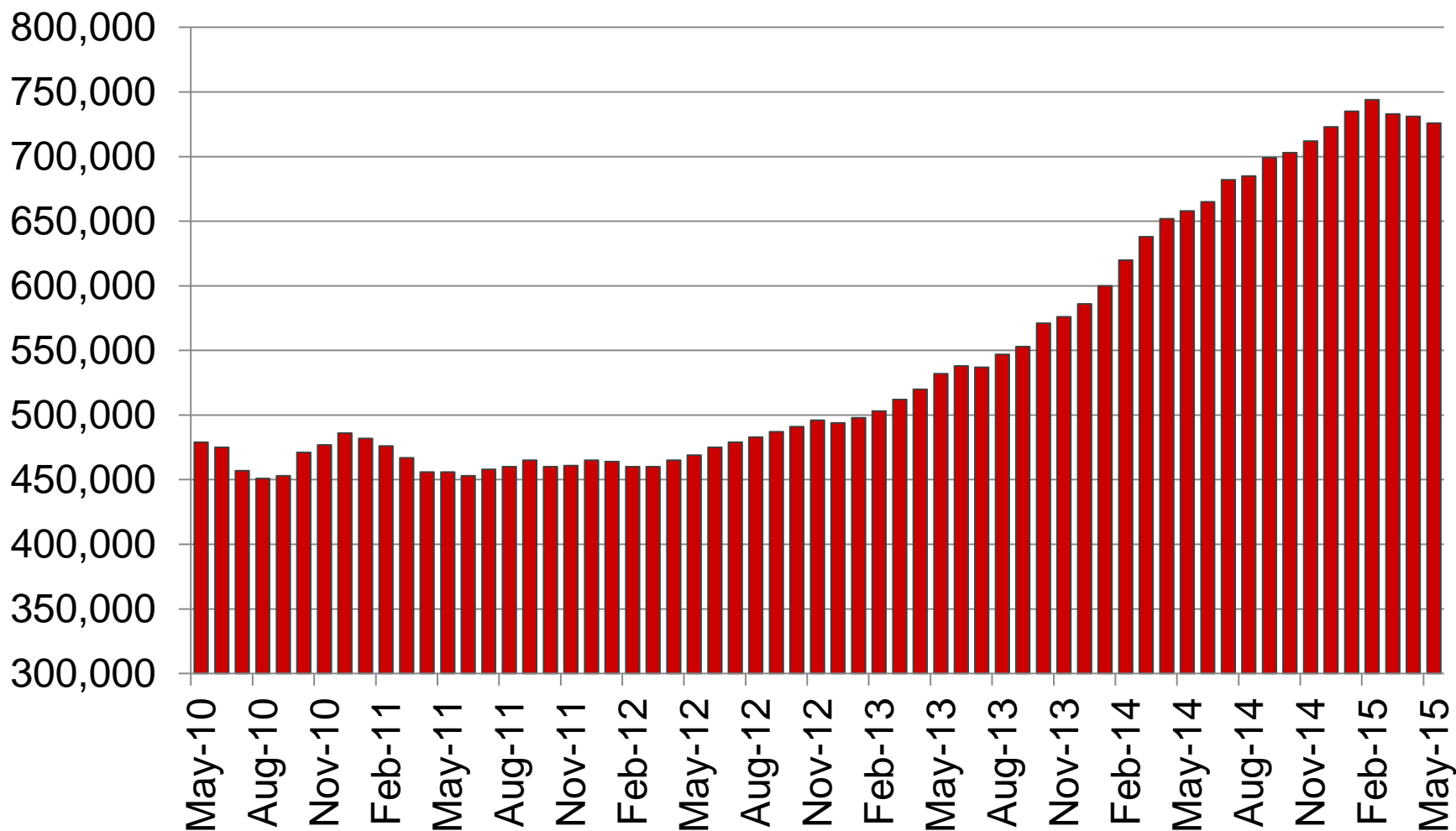
# Employment growth remains strong, but expected to fall back over the year ahead

Employee numbers, annual percentage change



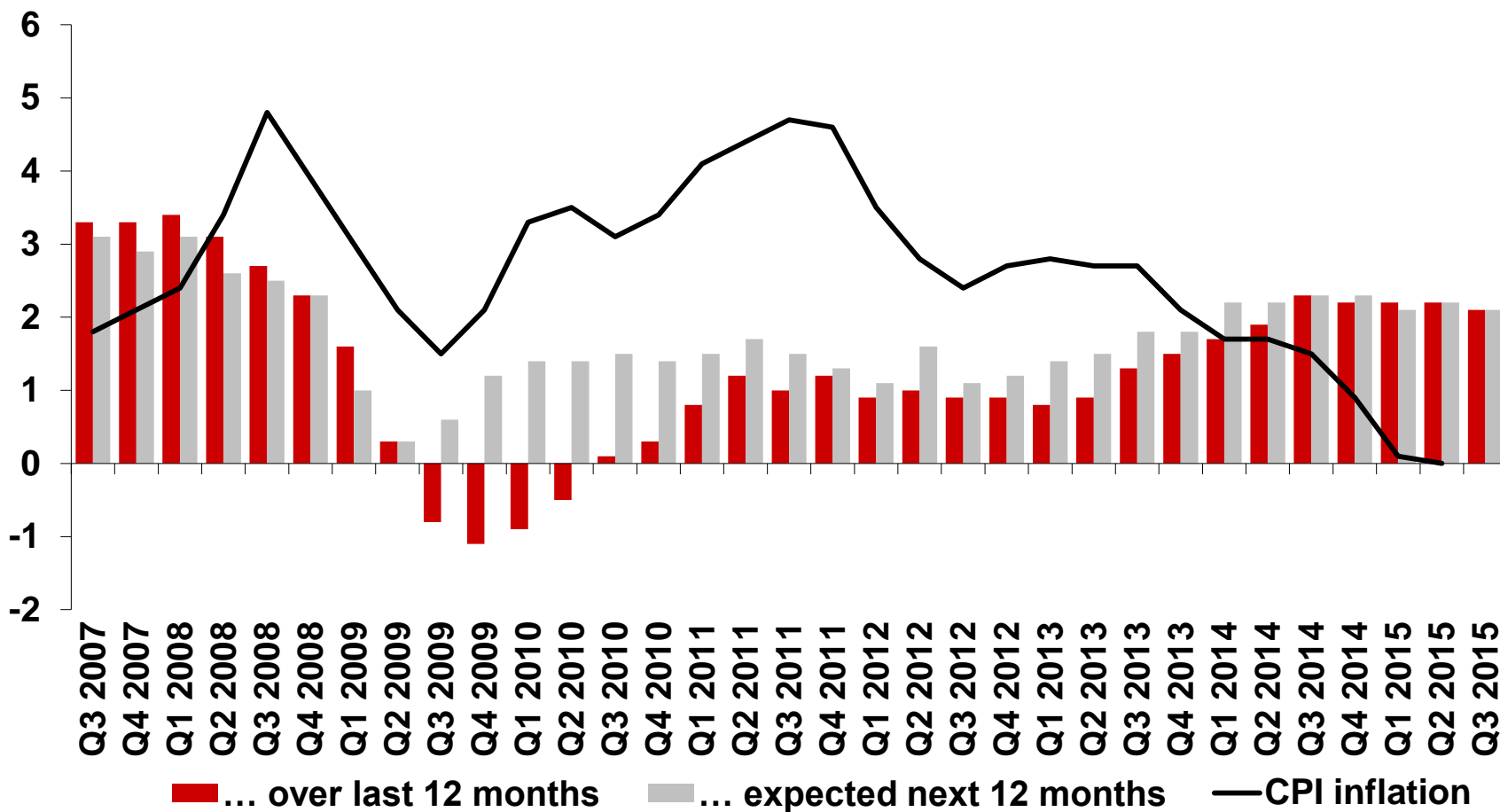
## This ties in with job vacancy data, which is now starting to fall back after four years of rapid rises

Total vacancies, UK, ONS data



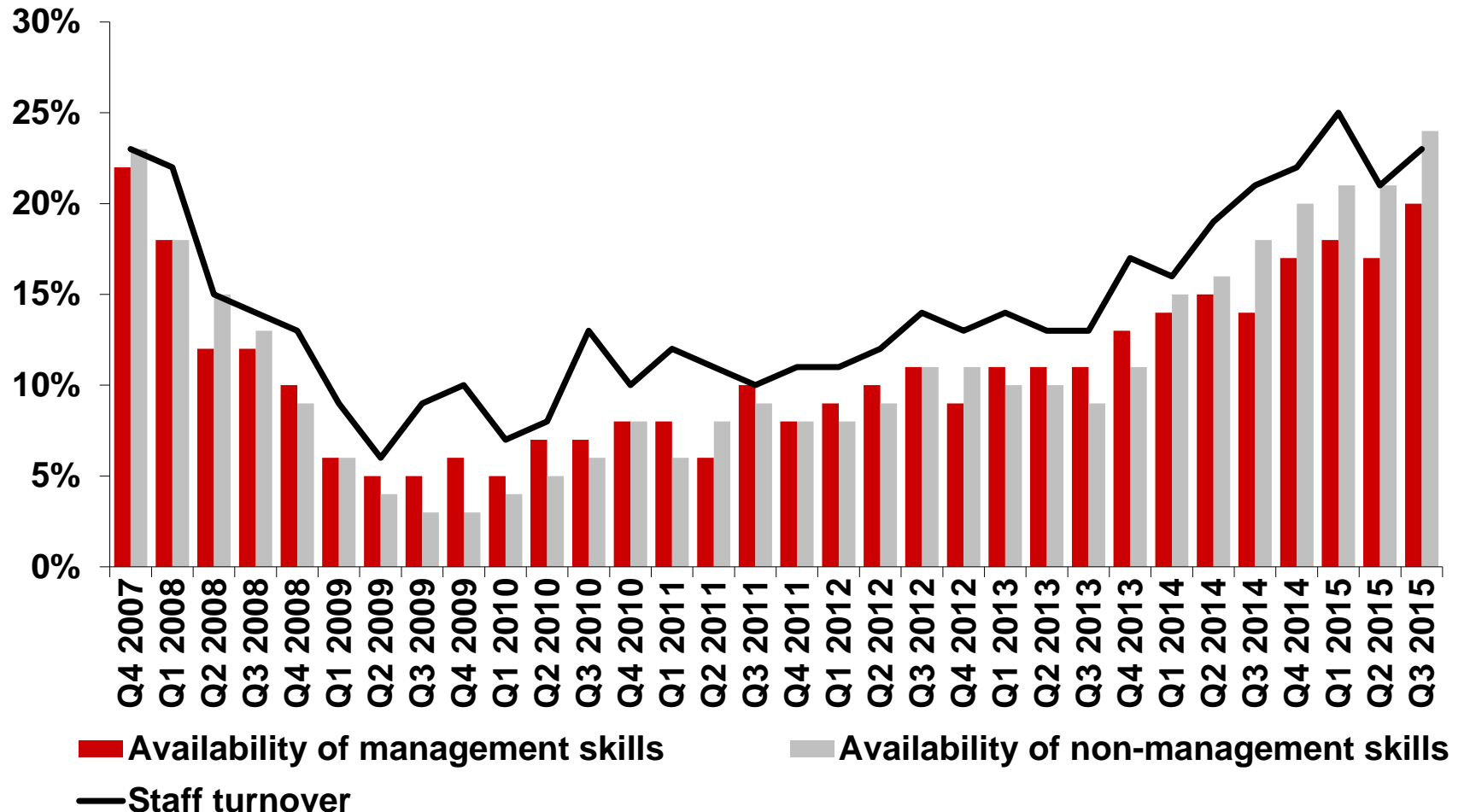
# No sign of plans to raise salary growth yet, but 'lowflationary' environment is boosting spending power

Average total salary, annual percentage change



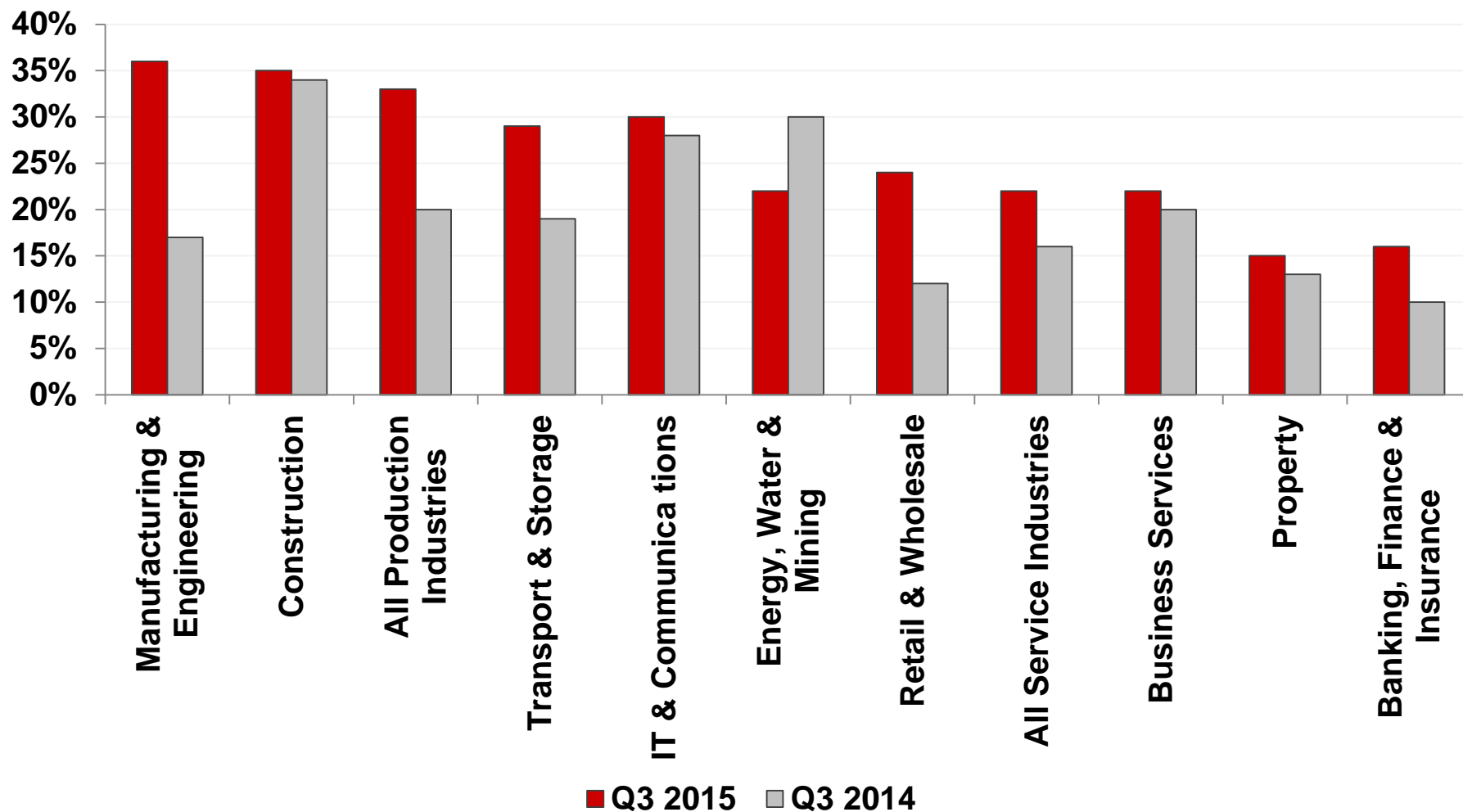
# Availability of non-management skills now more of an issue than pre-crisis

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



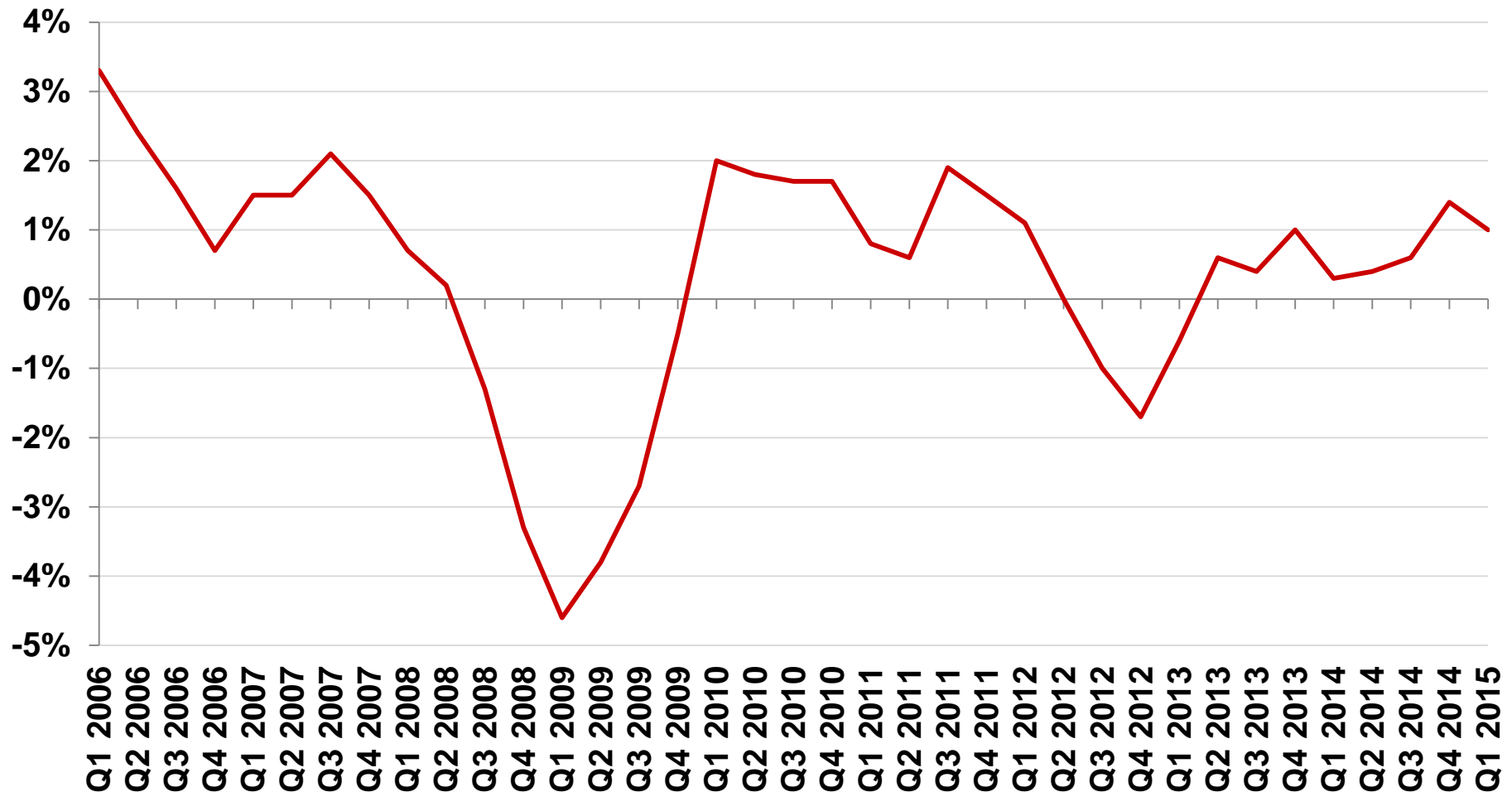
# Manufacturing sector sees sharp worsening of skills shortages

Balance of companies reporting availability of non-management skills to be a greater challenge to business performance now than a year ago



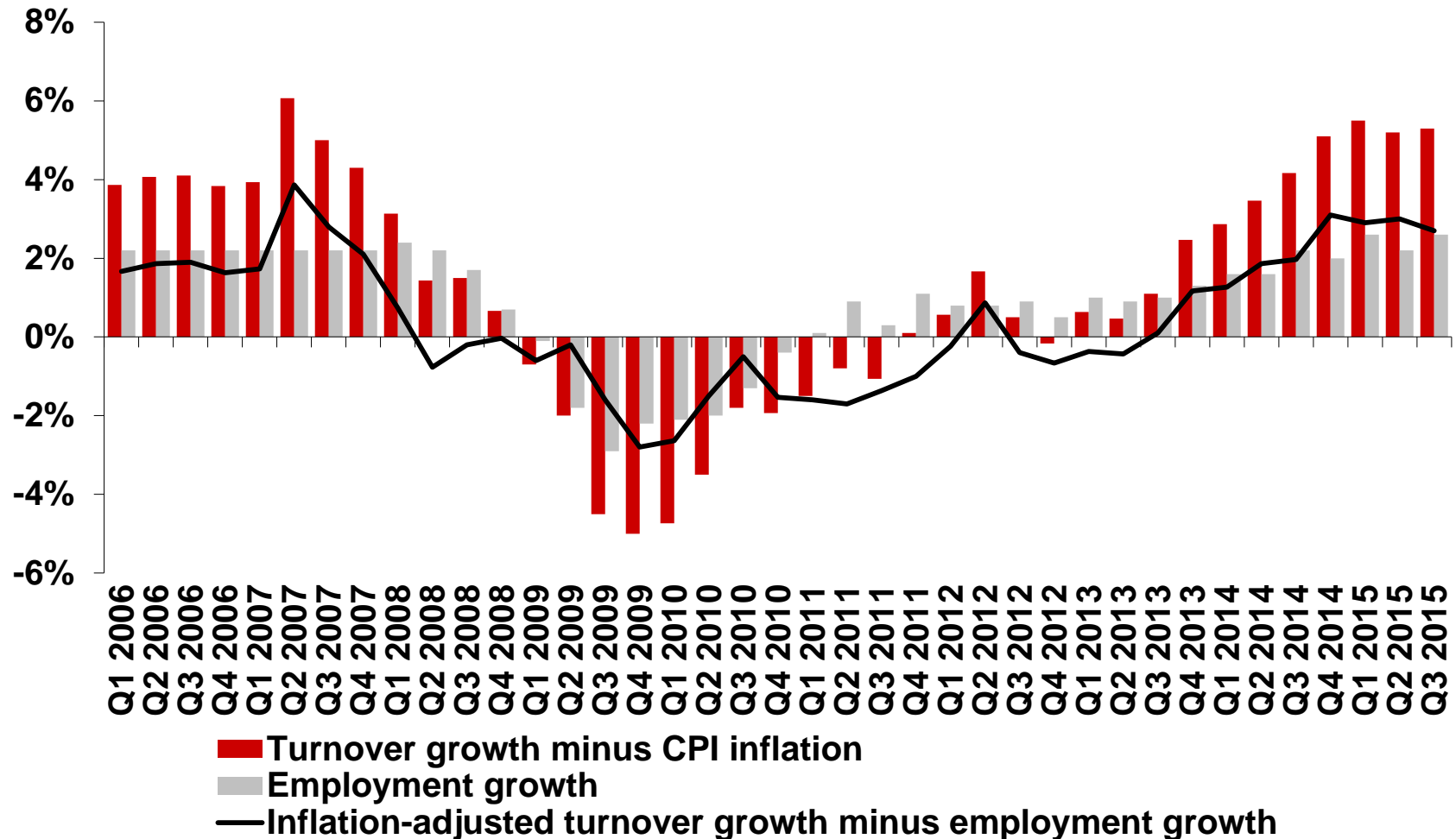
# Overall UK productivity is up year on year, but growing only slowly

Year-on-year growth in output per employee, ONS figures



# BCM data suggest this trend is likely to continue

A rough measure of productivity (inflation-adjusted turnover per employee)  
based on BCM figures



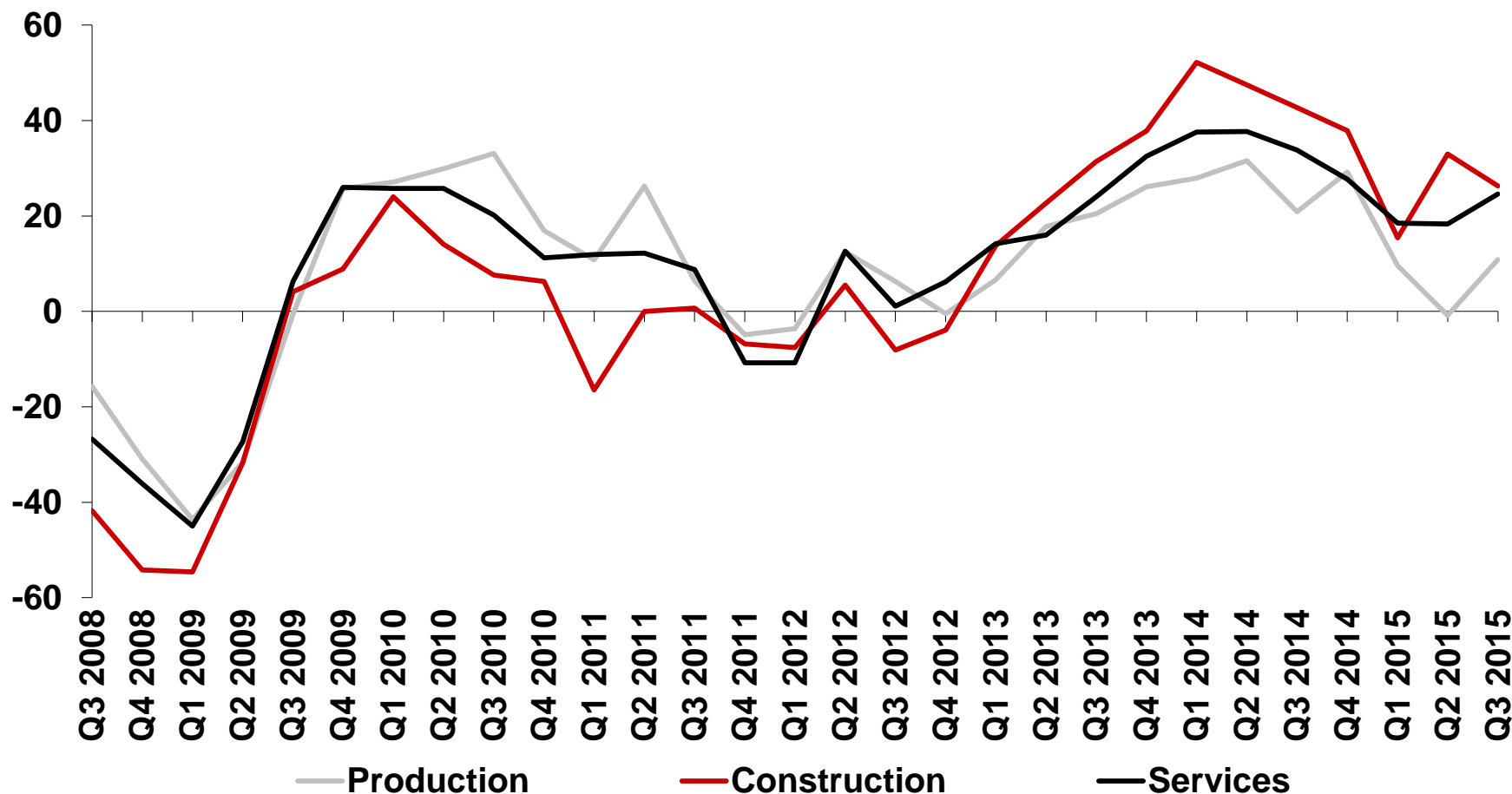
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- Regional & sector stories
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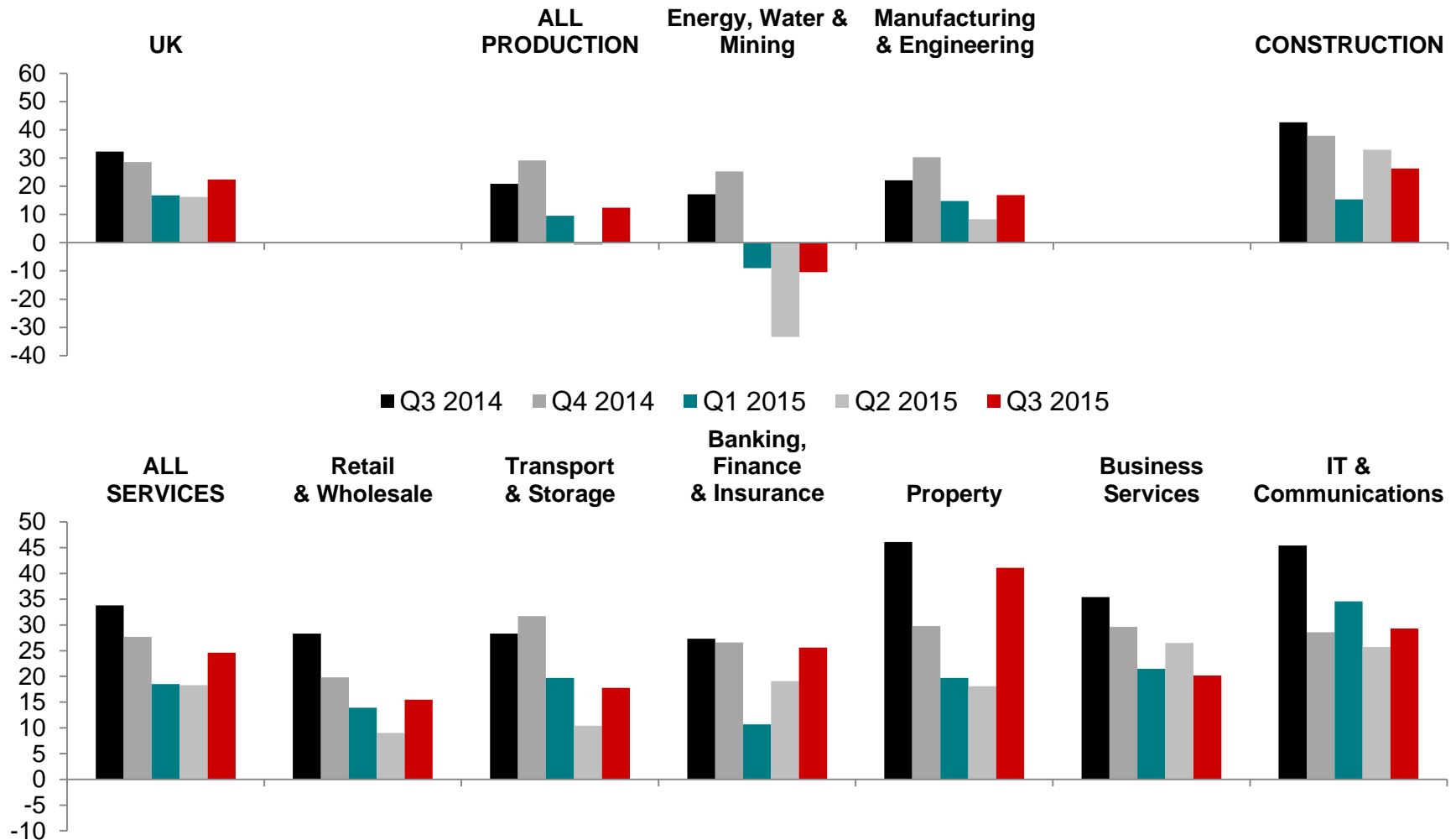


# Sharp pick-up in optimism in the production sector driving overall increase in confidence

ICAEW / Grant Thornton Business Confidence Index

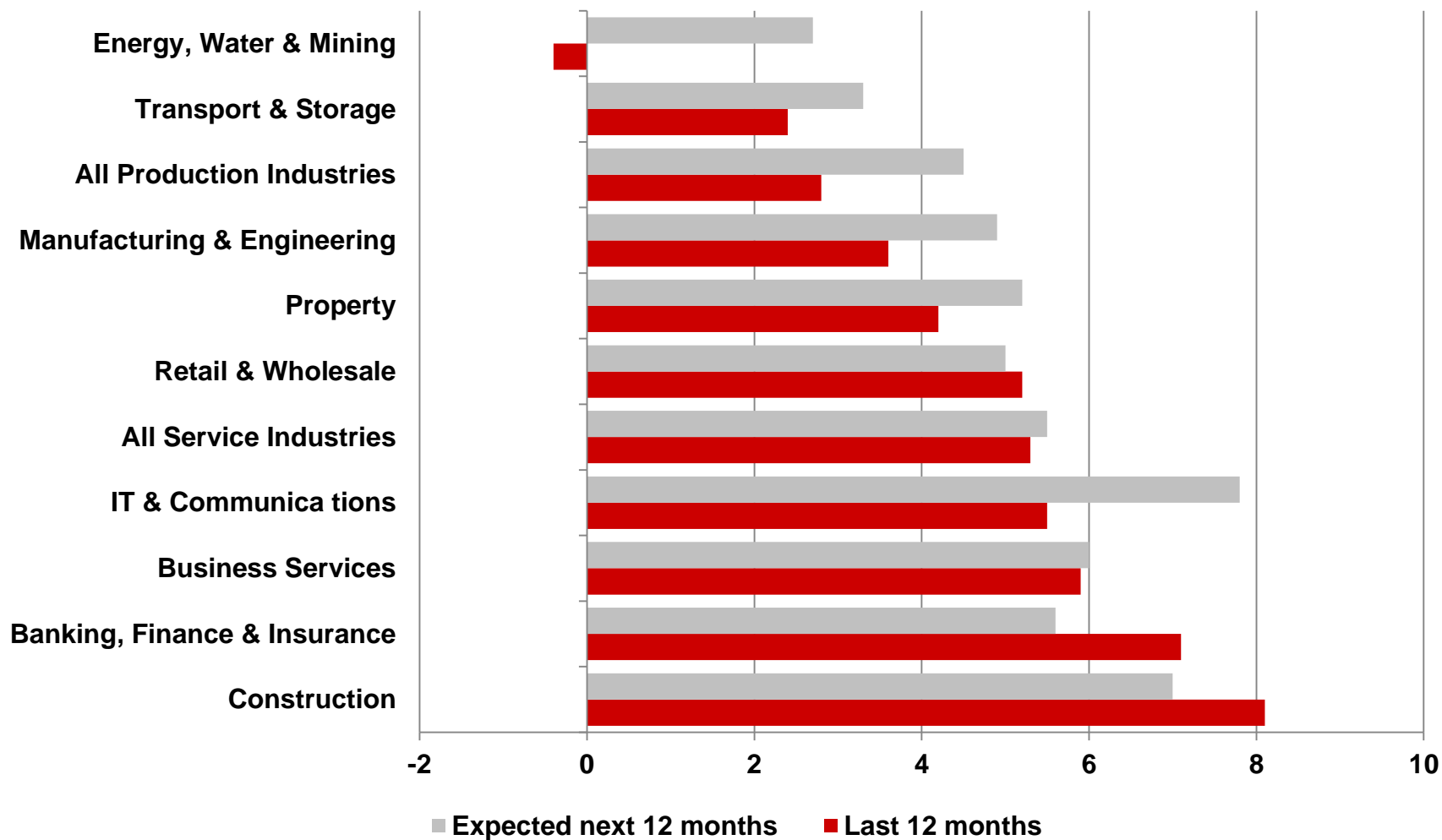


# Increase in service sector confidence supported by upturn in Banking, Finance and Insurance industries



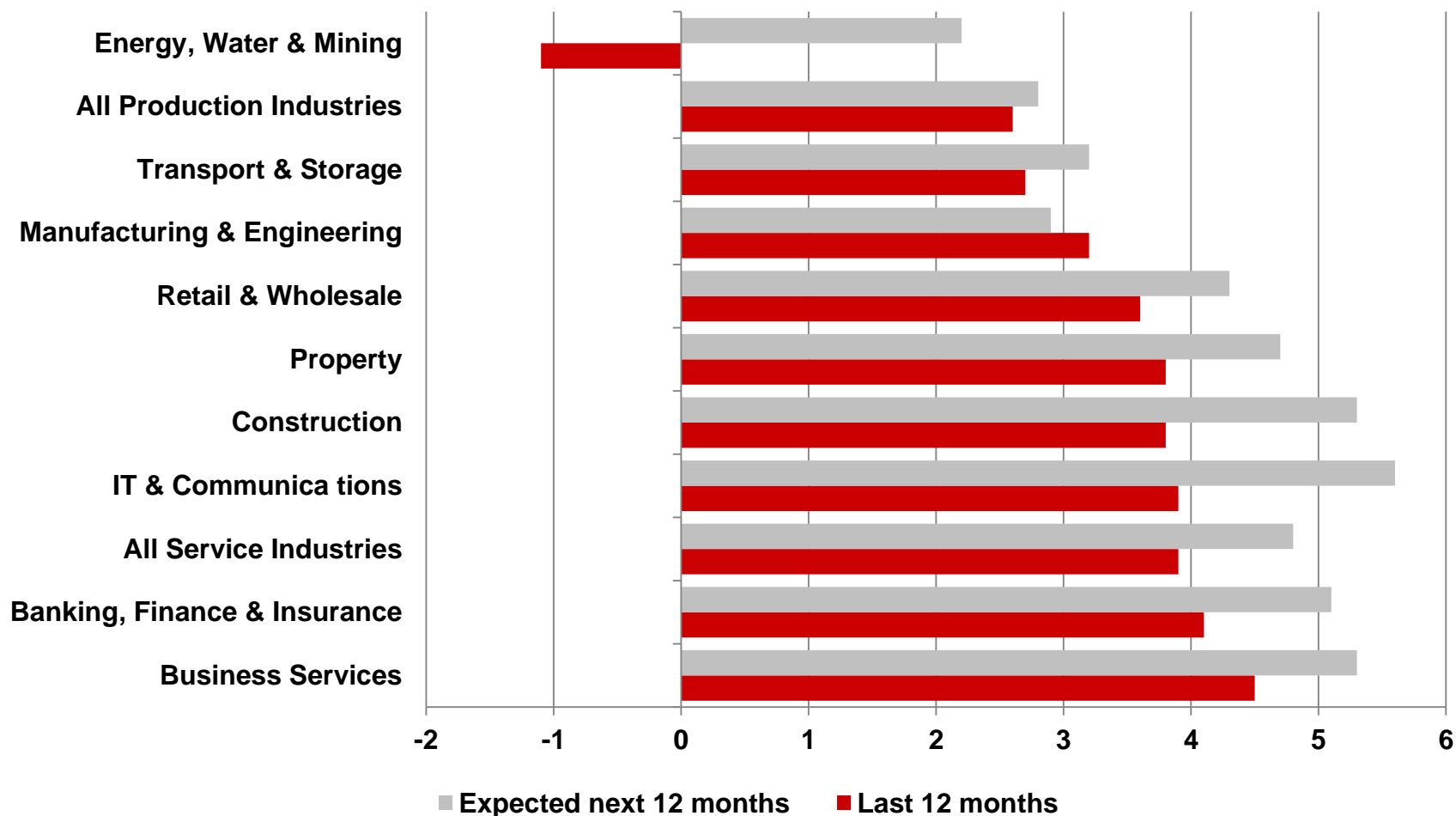
# Sales volume expectations in production industry and IT sector pick up notably

Change in sales volumes over 12 months



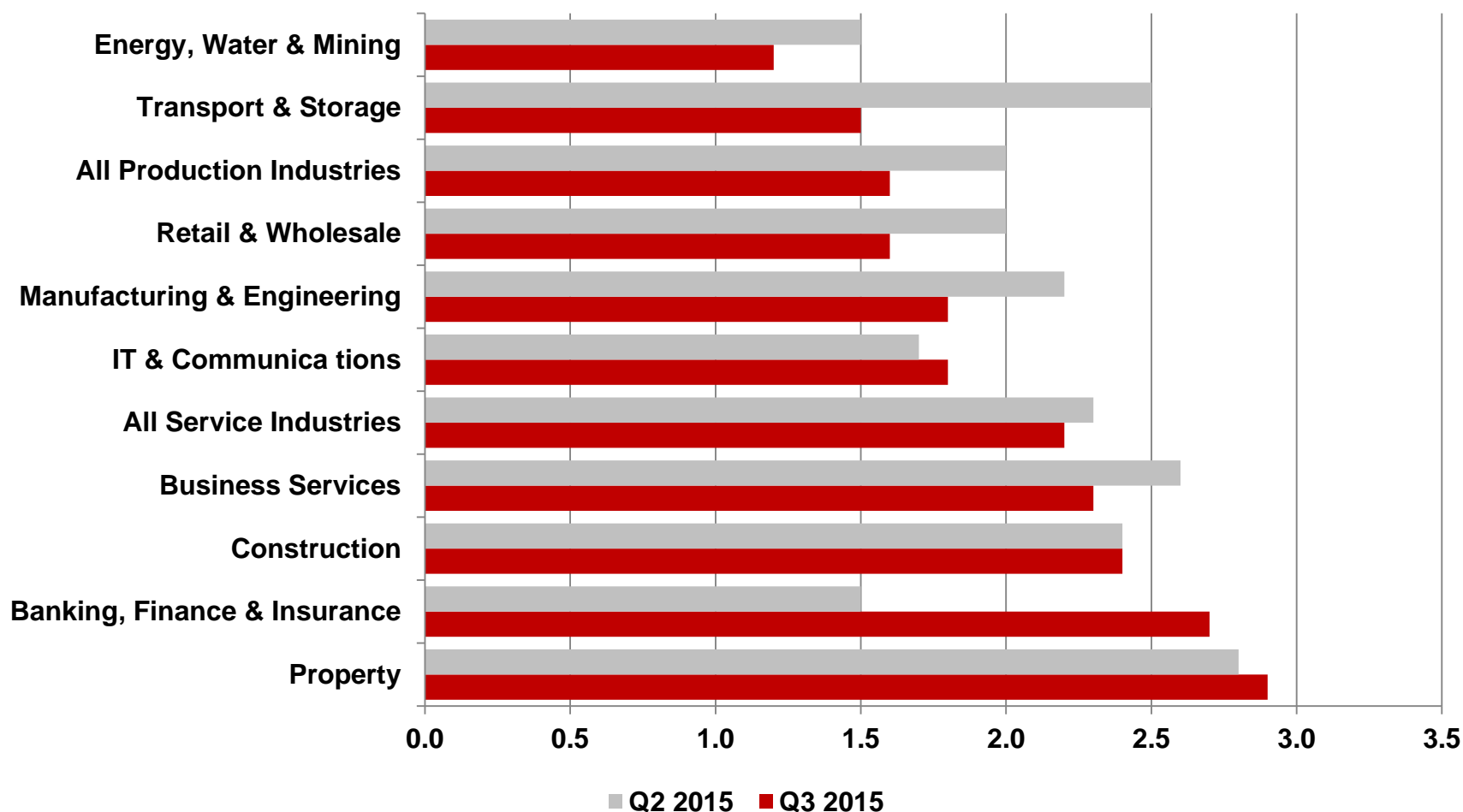
# Export sales strengthen and broadly expected to accelerate over the next 12 months

## Change in exports over 12 months



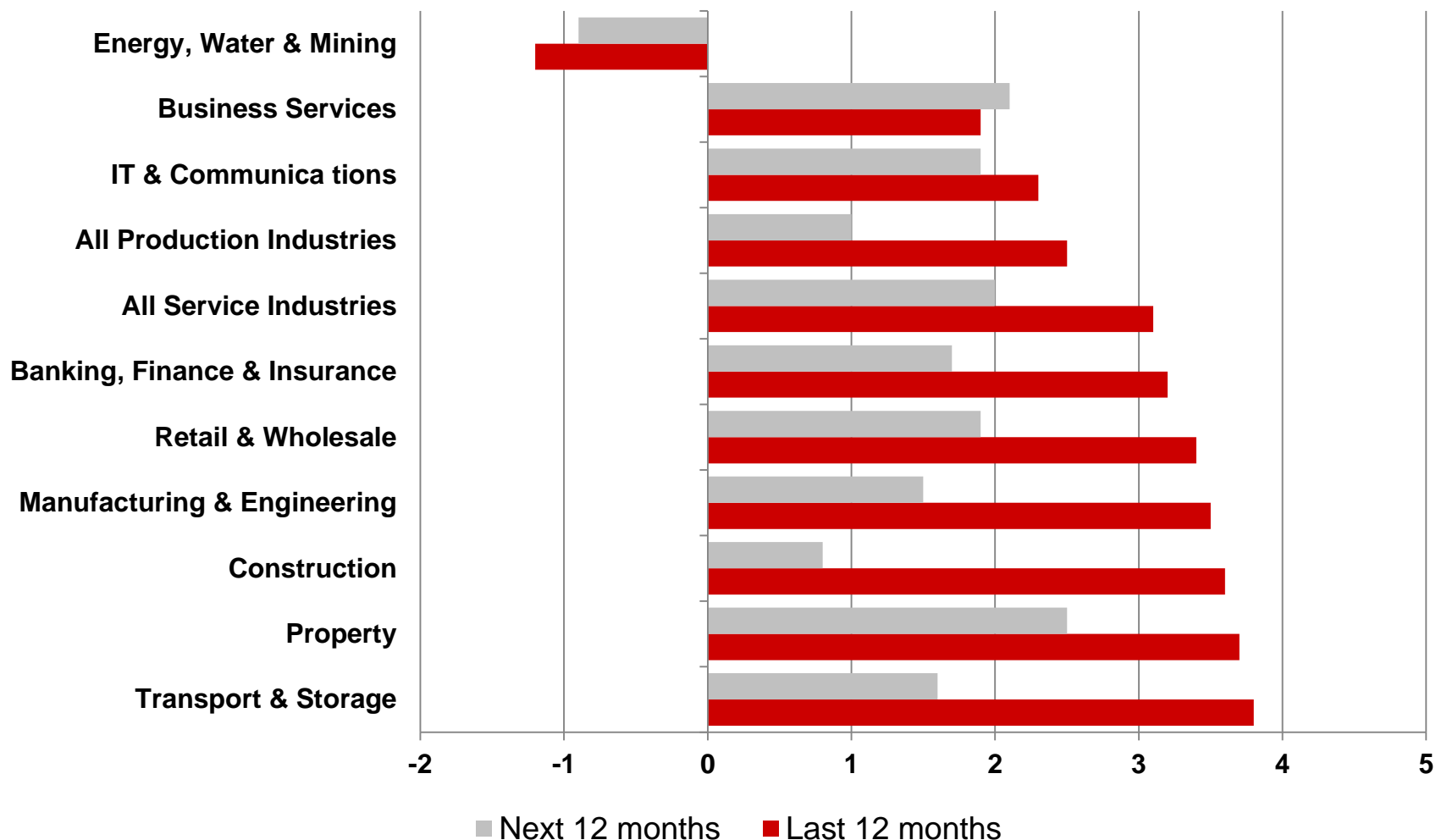
# Average salary growth largely in line with Q2 but accelerates in Banking, Finance & Insurance

Change in average total salary over 12 months



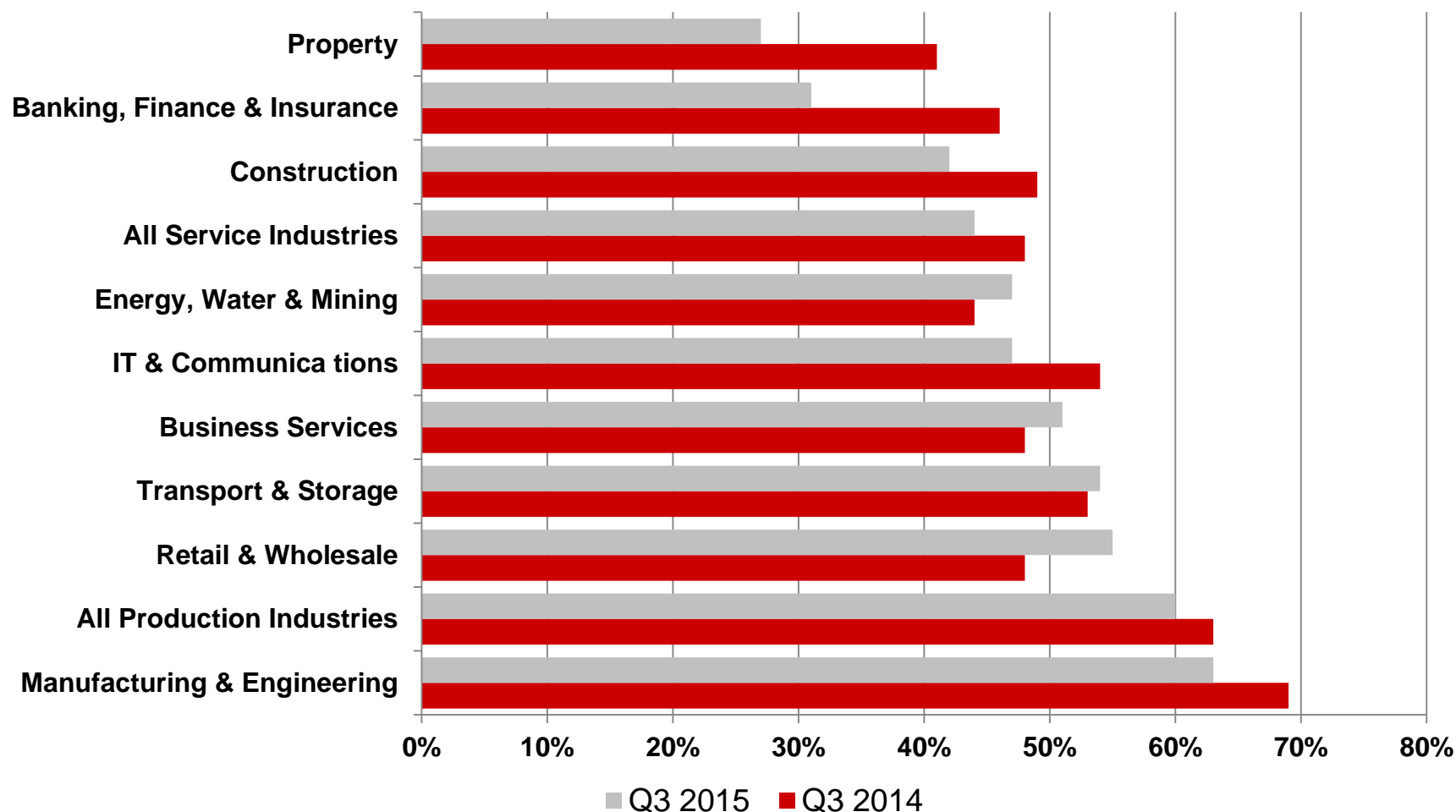
# Investment expected to fall back over next year in all but one sector

Capital investment growth expected over next 12 months

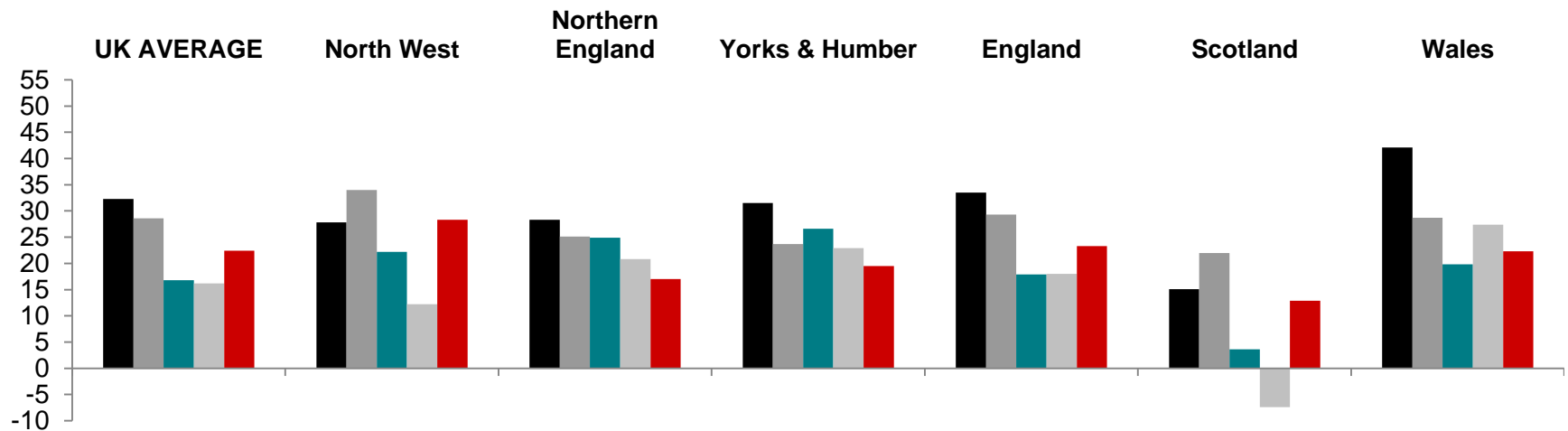
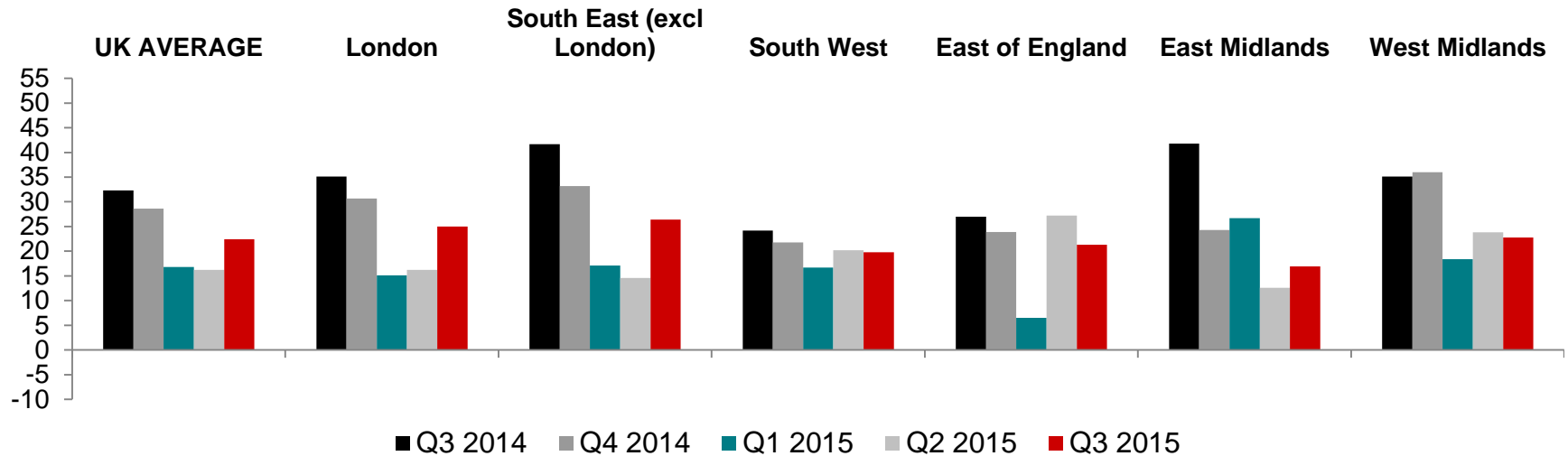


# Spare capacity down on a year ago but remains high in the production industries

Proportion of businesses operating below capacity



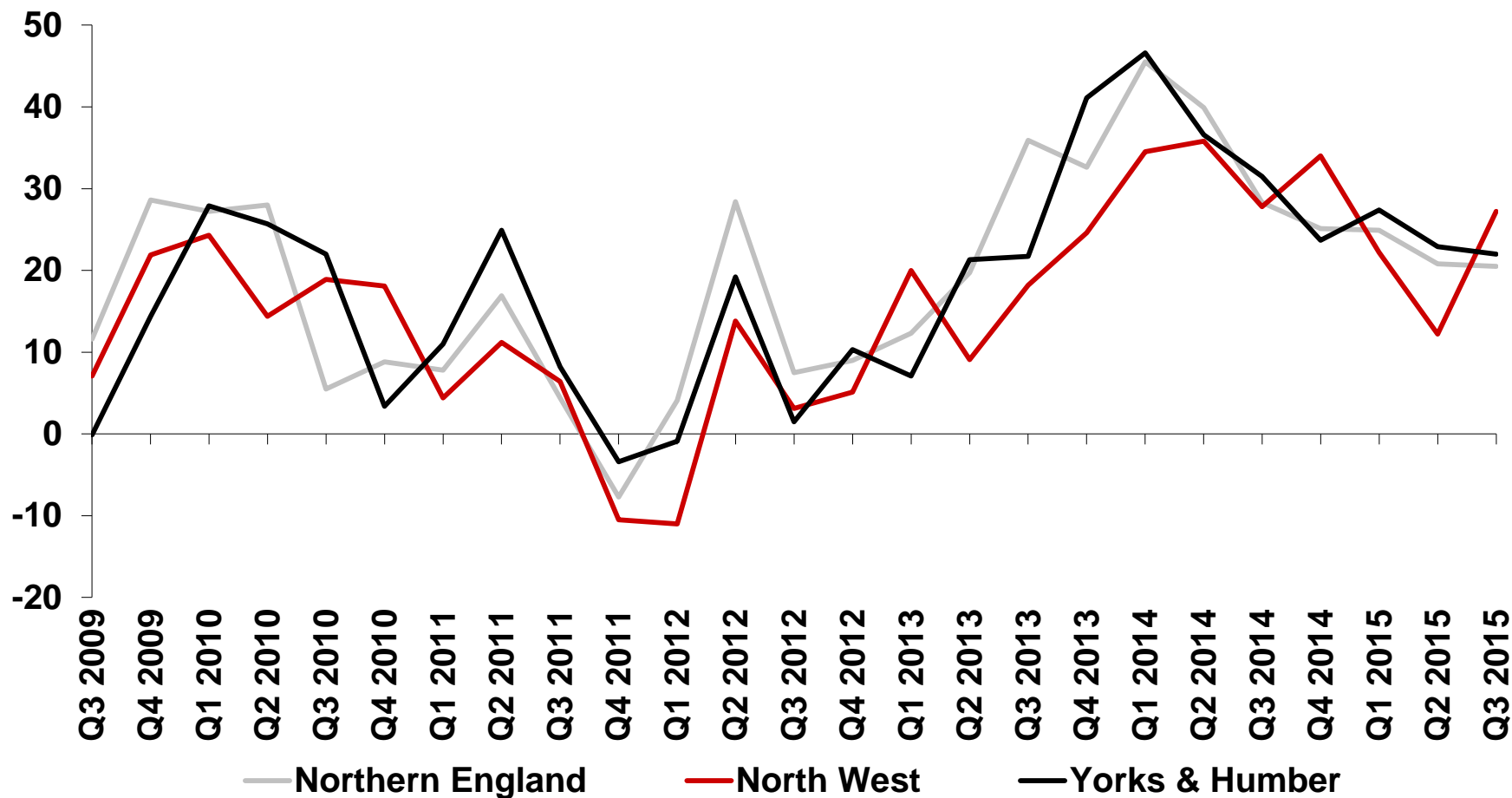
# Increased optimism in London, South East and Scotland supported by pick-up in Finance sector





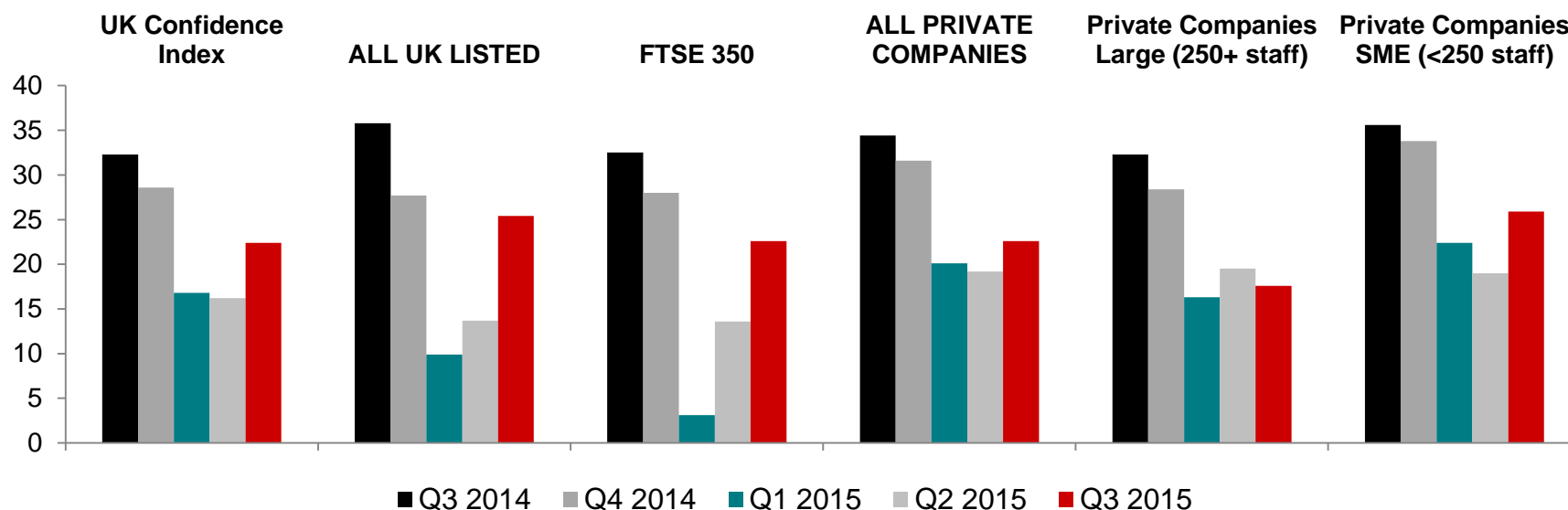
# Signs that Northern Powerhouse may be boosting confidence in the North West

ICAEW / Grant Thornton Business Confidence Index



# Broad pick-up in confidence among UK listed companies

## ICAEW / Grant Thornton Business Confidence Index by organisation type



# Conclusions

- Business confidence crept up again this quarter. It remains lower than a year ago, but continues to point to buoyant economic growth.
  - Growth in key performance metrics looks stable and is expected to remain so, helping to support business confidence.
  - This is supported by domestic sales, but export growth also strengthened and is projected to do so further.
  - However, concern comes from businesses approach pre crisis levels of capacity usage, but investment intentions continue to decline.
  - In addition, economic recovery is bringing out skills shortages, a factor that may limit the pace of recovery further down the line.
  - Wage growth remains on hold for now, but given the current climate of 'noflation', workers are still seeing stronger real gains than any time in the past five years.
  - Confidence in this quarter driven in large part by South of England. The North of England remains more subdued.
-

# Suggestions for the six bullet points / key findings

- Business confidence creeping up again, but down on a year ago.
- Turnover growth stable and expected to remain so.
- Export growth picking up – and firms buoyant on expectations for future.
- Capital investment growth expectations continue to decline.
- Spare capacity falling back to near pre crisis levels.
- Skills shortages becoming worse than pre crisis levels.



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