

# Q4 2014 ICAEW / Grant Thornton Business Confidence Monitor results

October 2014

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# Outline

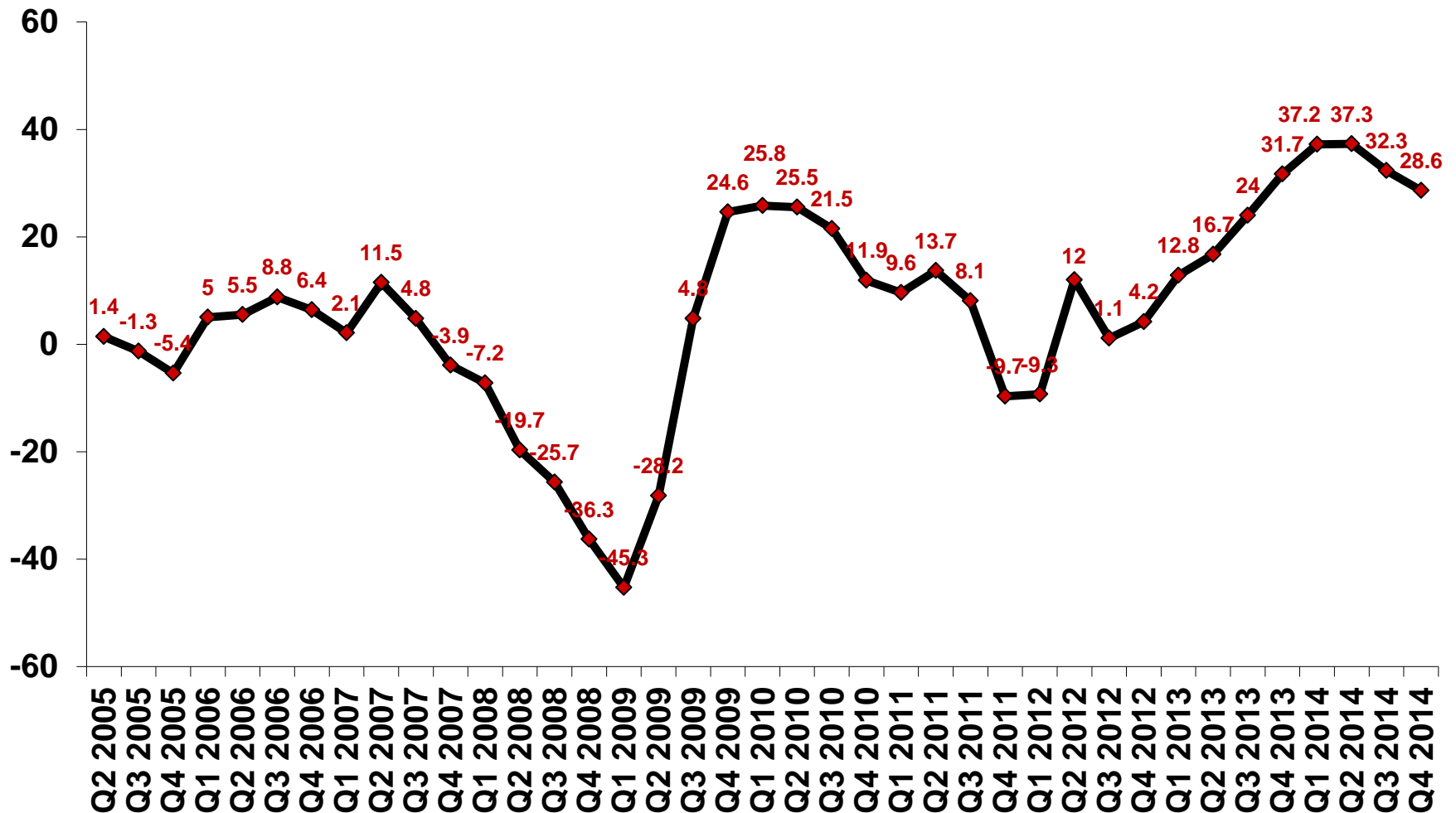
- Confidence Index top lines
  - Financial performance indicators
    - Growth indicators
    - Inflation & labour market indicators
  - Regional & sector stories
-

# Outline

- Confidence Index top lines

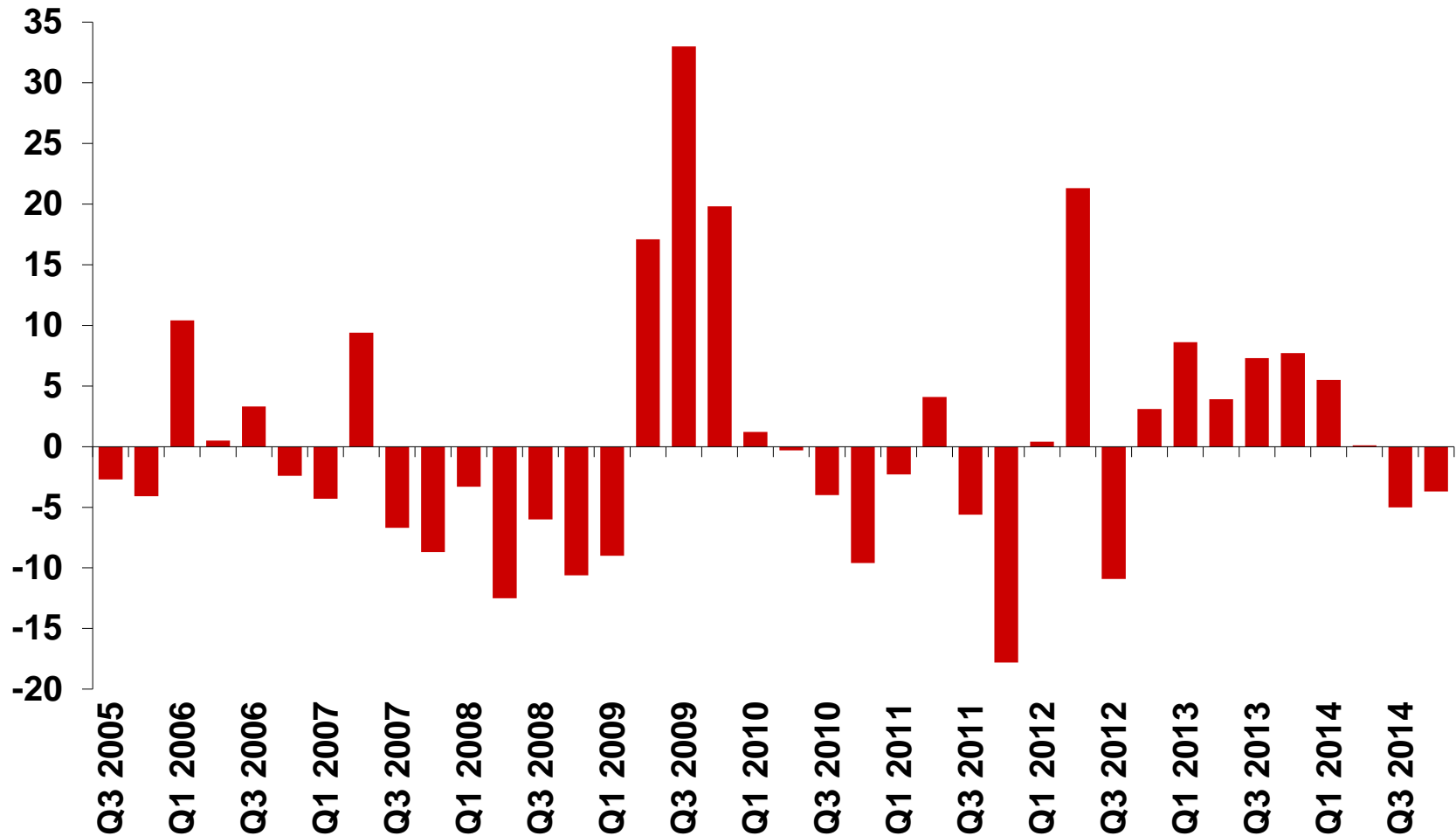
# Confidence suggests cooler, but still buoyant, growth conditions

ICAEW / Grant Thornton UK Business Confidence Index



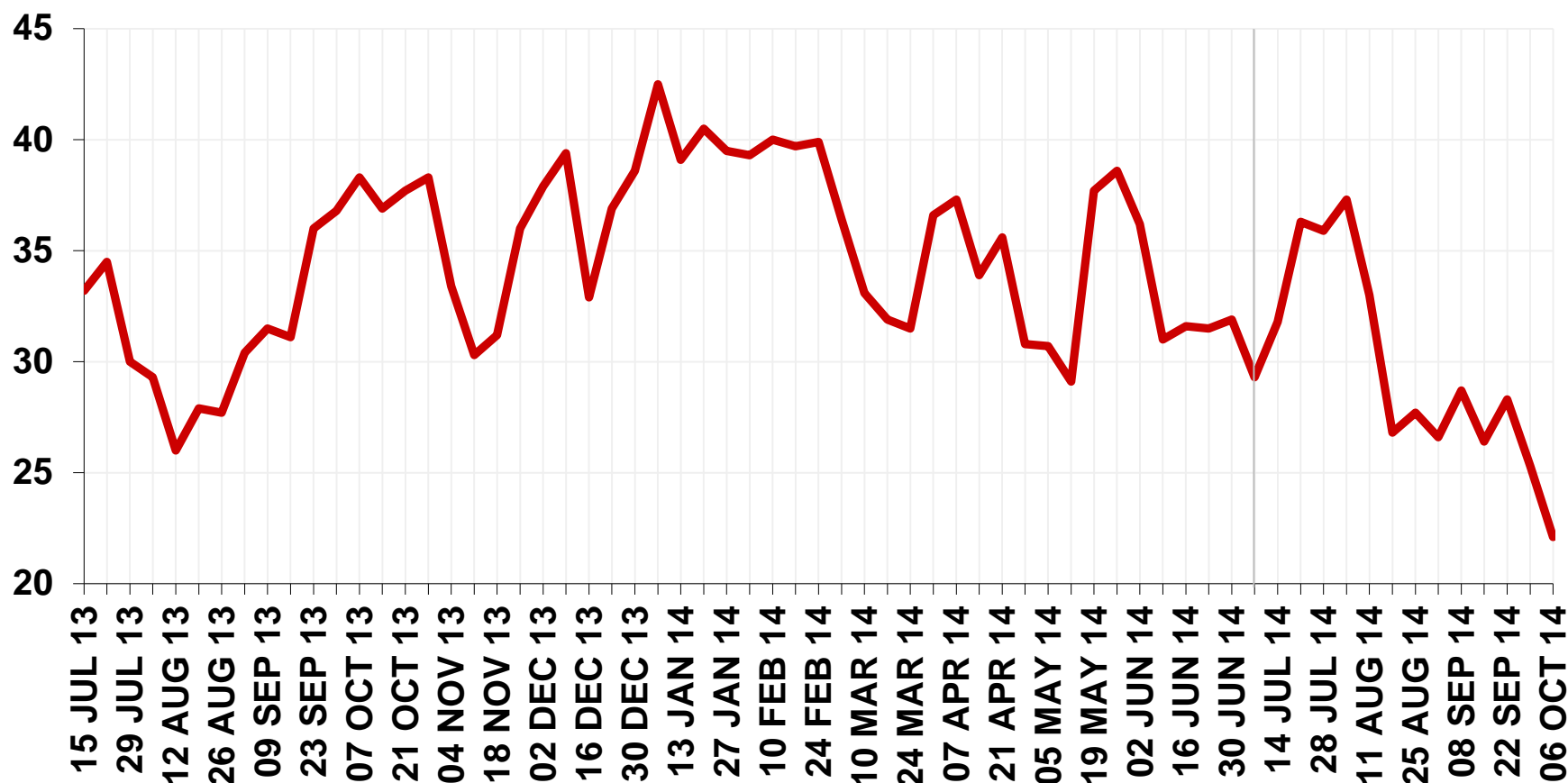
# Confidence has now declined for two consecutive quarters

Quarterly change to Confidence Index



## After a boost in mid-July, confidence has been declining

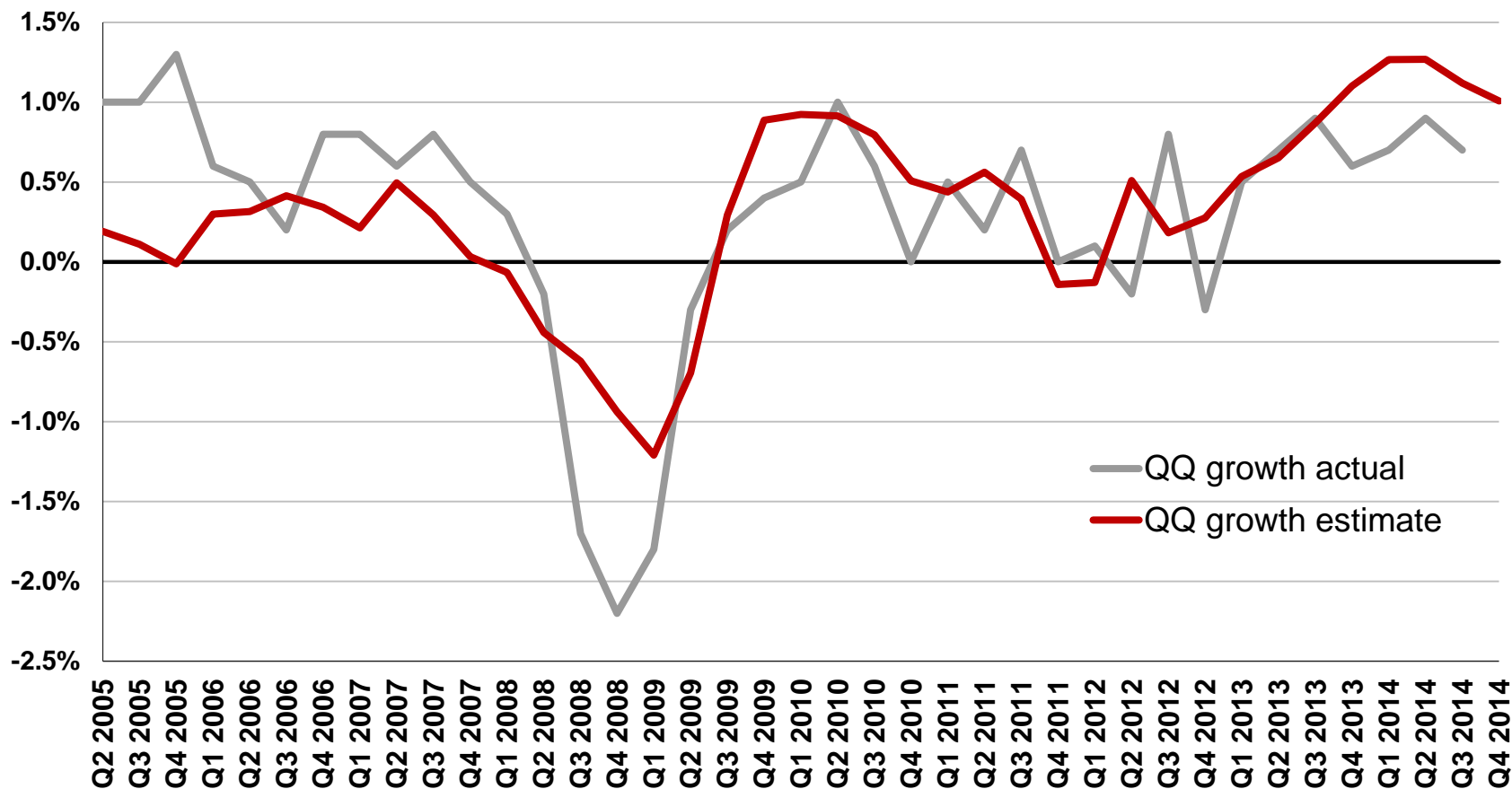
ICAEW / Grant Thornton Business Confidence Index, three week rolling trend



Three weeks beginning...

# Economic growth projected to slow in Q4 from previous estimates

Quarter on quarter real GDP growth, per cent



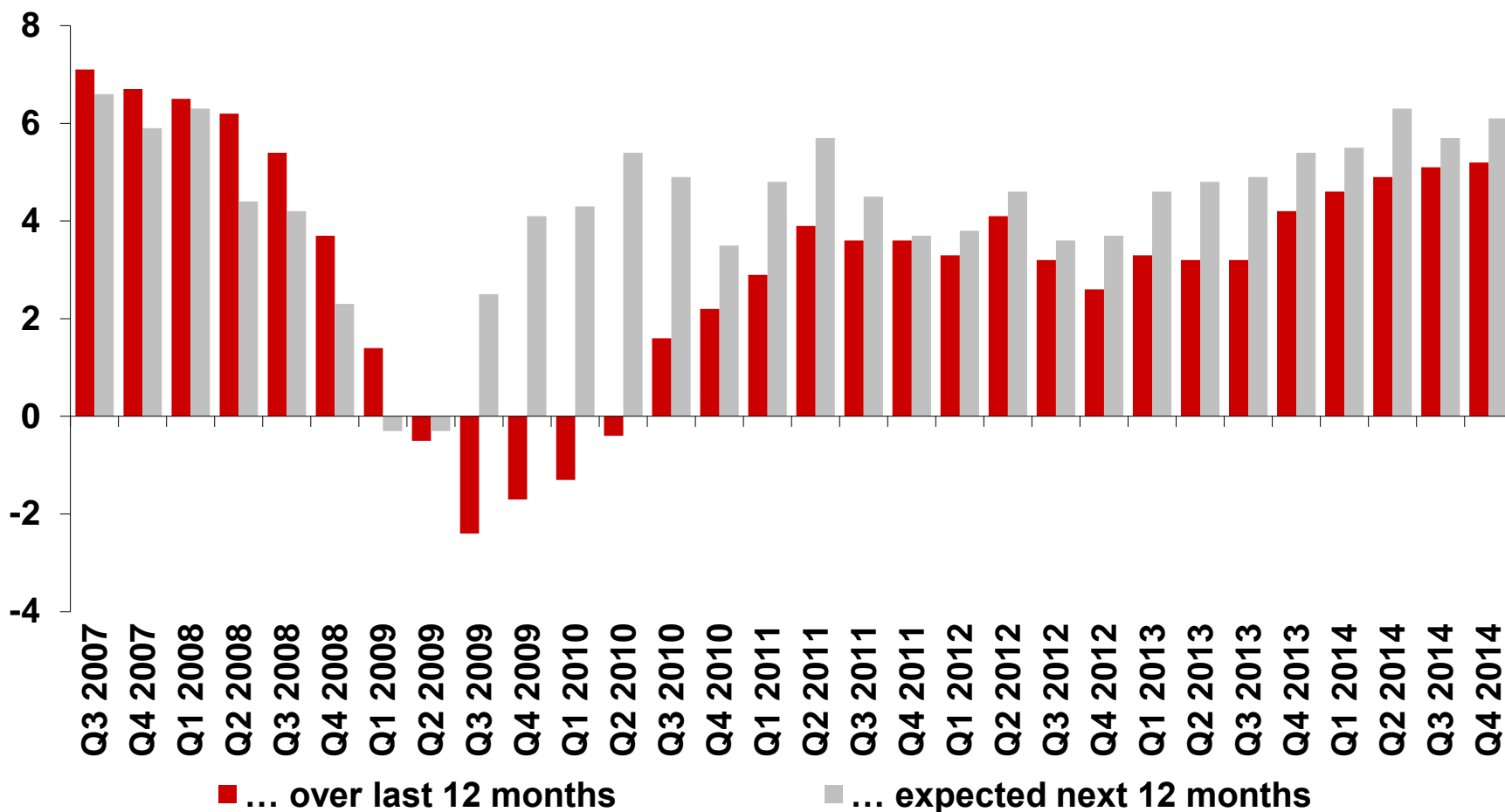
# Outline

- Financial performance indicators
    - Growth indicators
-



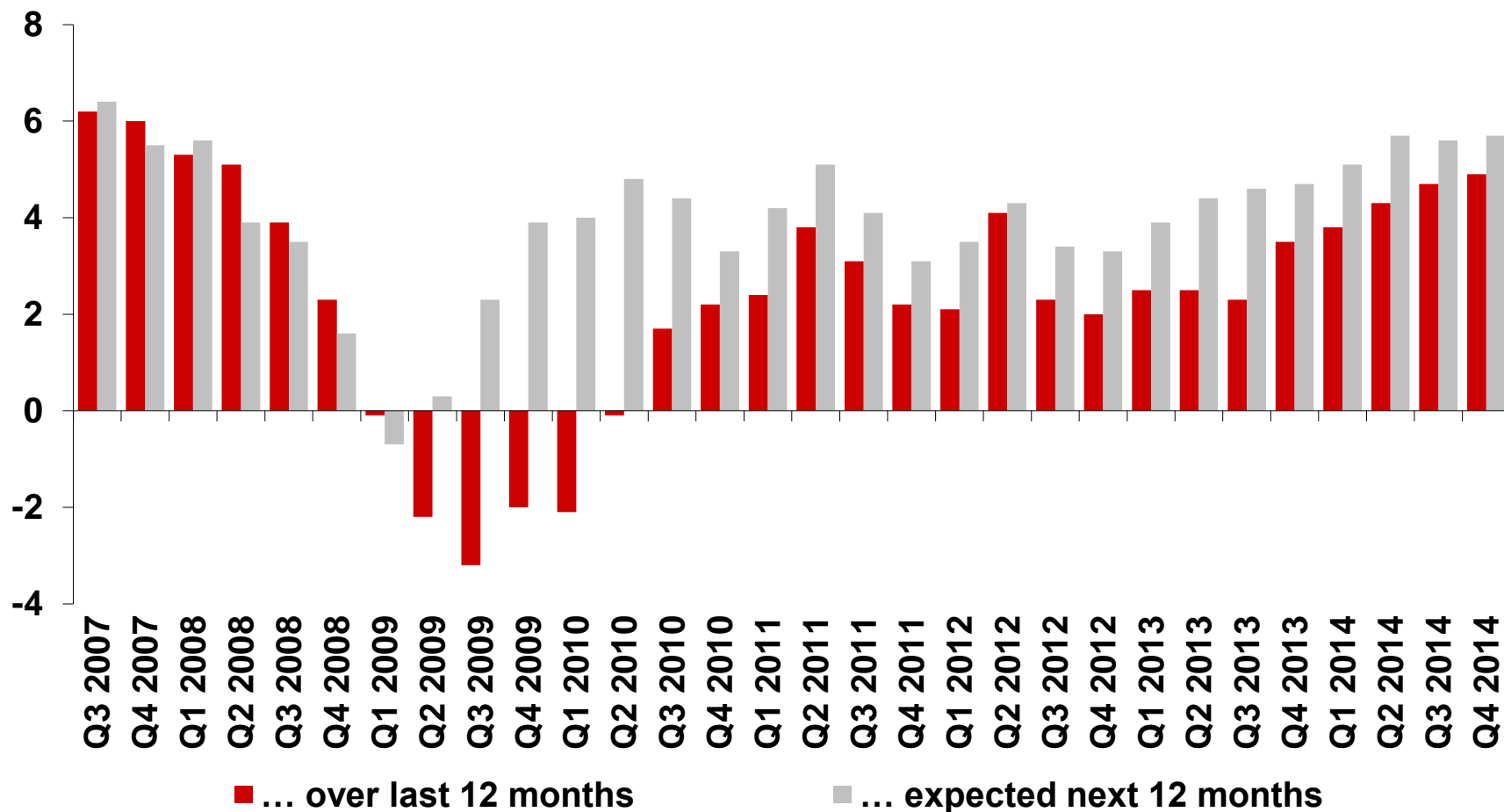
# Turnover performance has broadly flattened off

Turnover, annual percentage change



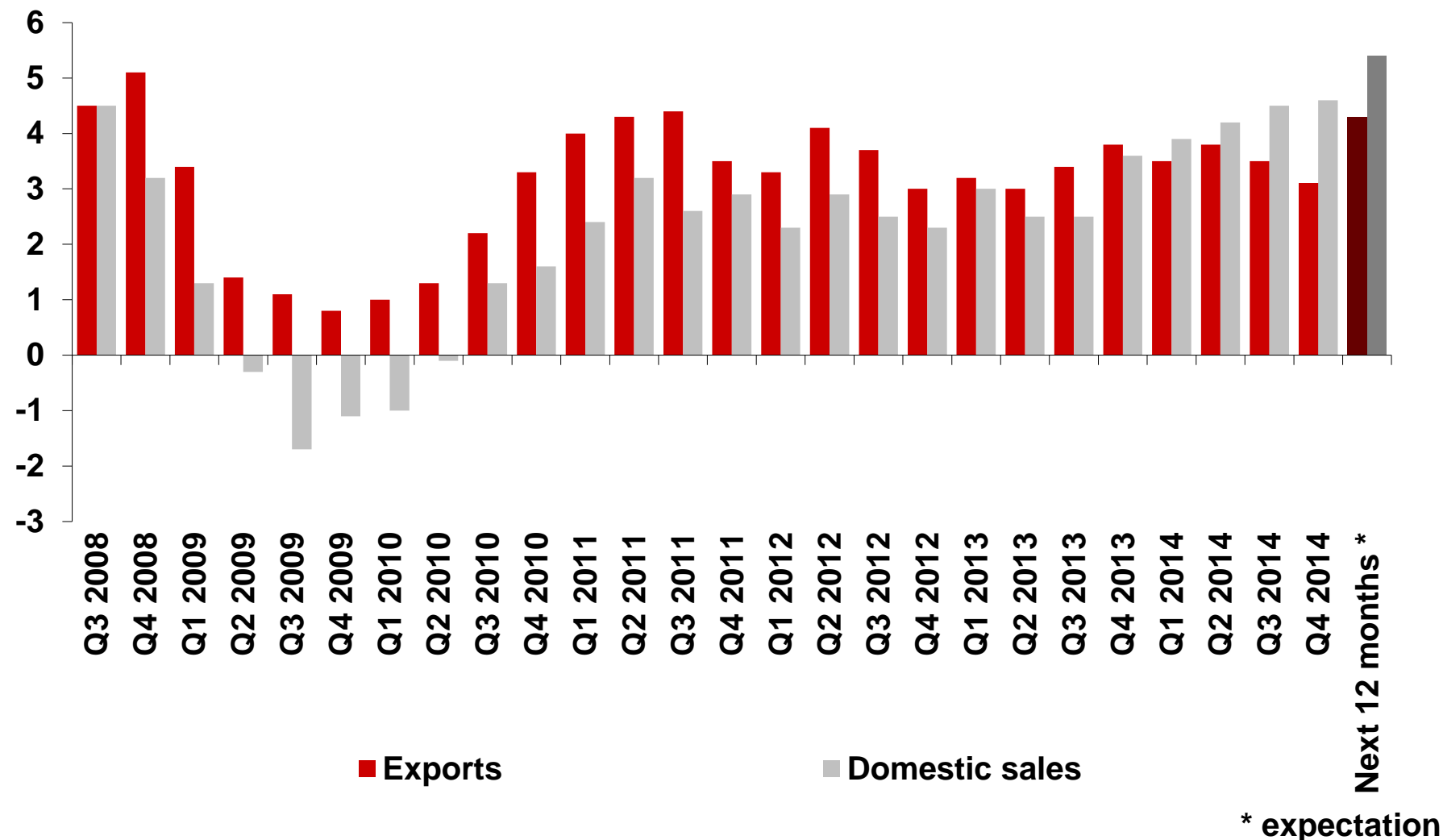
# Profitability growth also appears to be stabilising

Gross profits, annual percentage change



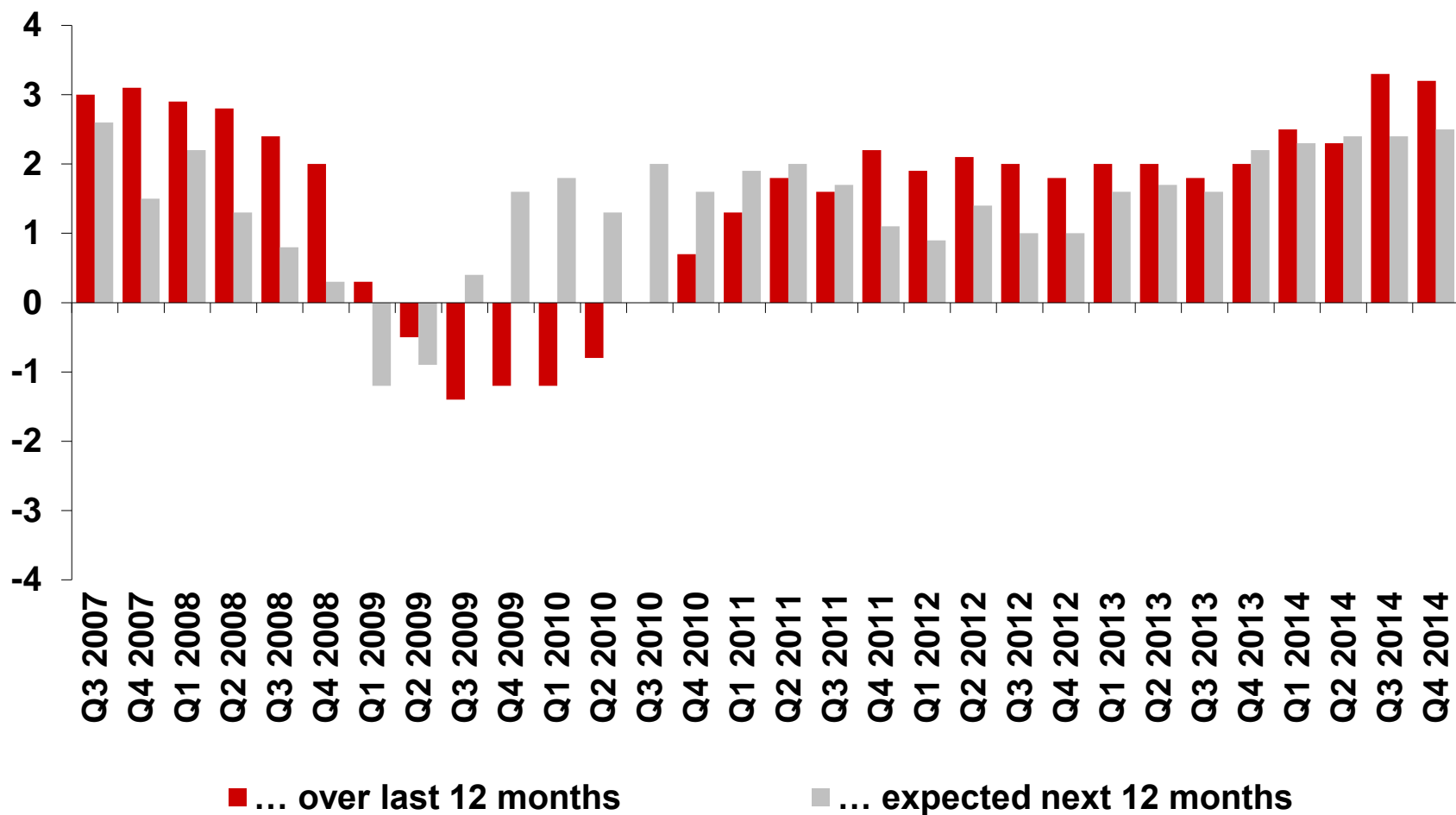
# Export performance has been weakening, while domestic sales much more buoyant

Exports and domestic sales, annual percentage change



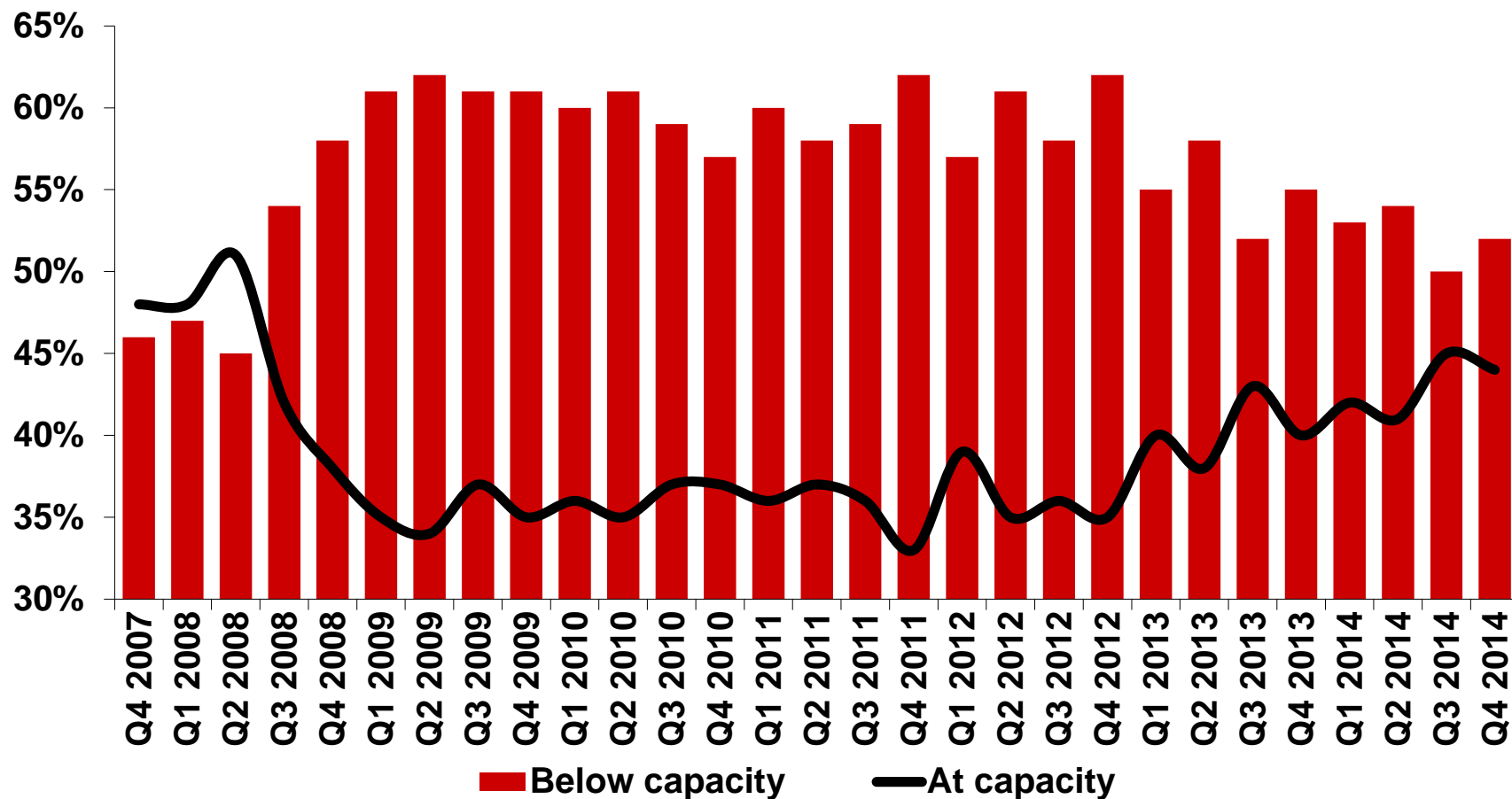
# Capital investment growth has stepped up a notch in last two quarters, but expectations are weaker

Capital investment, annual percentage change



# Spare capacity still falling year on year

Share of businesses operating at and below capacity

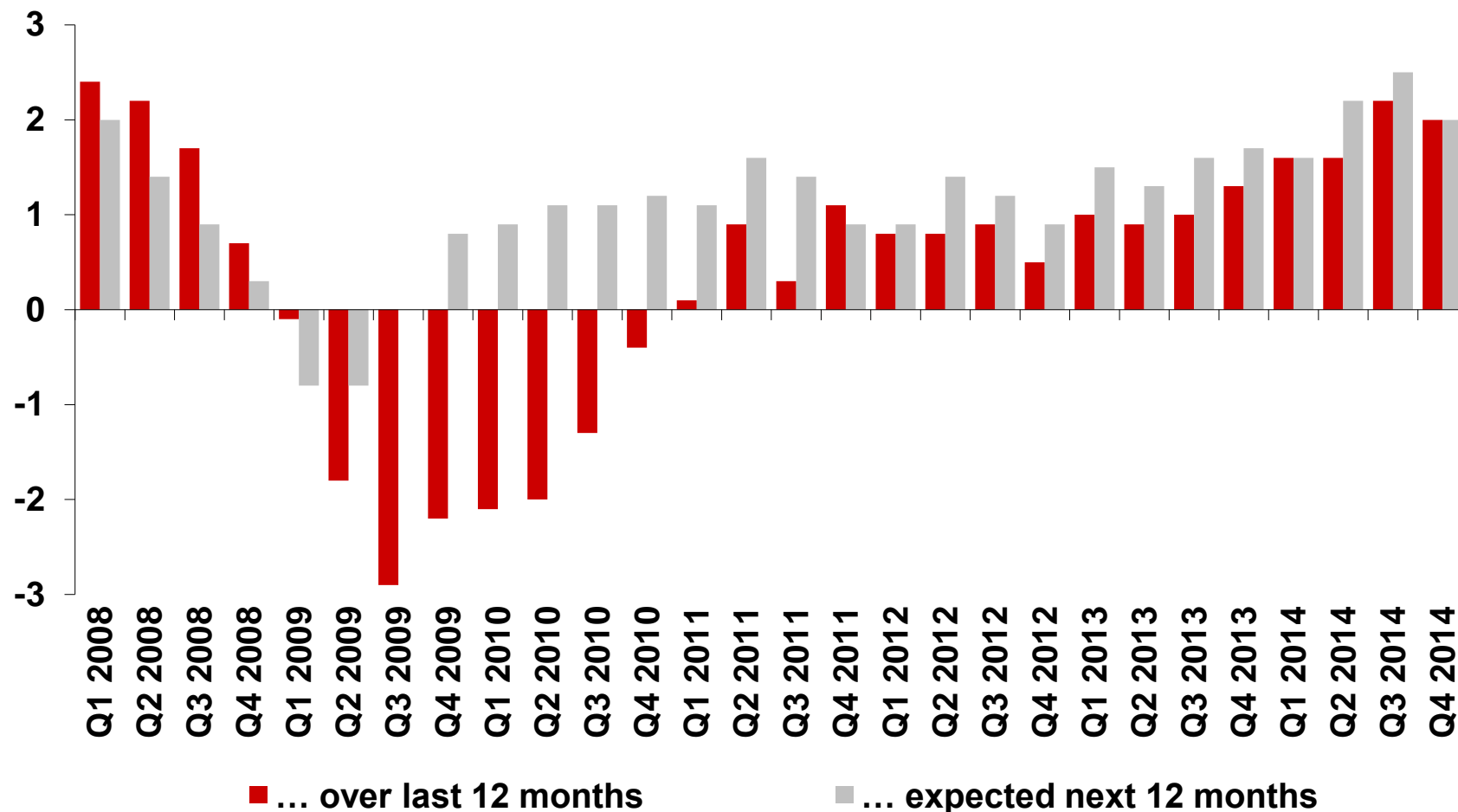


# Outline

- Financial performance indicators
    - Inflation & labour market indicators
-

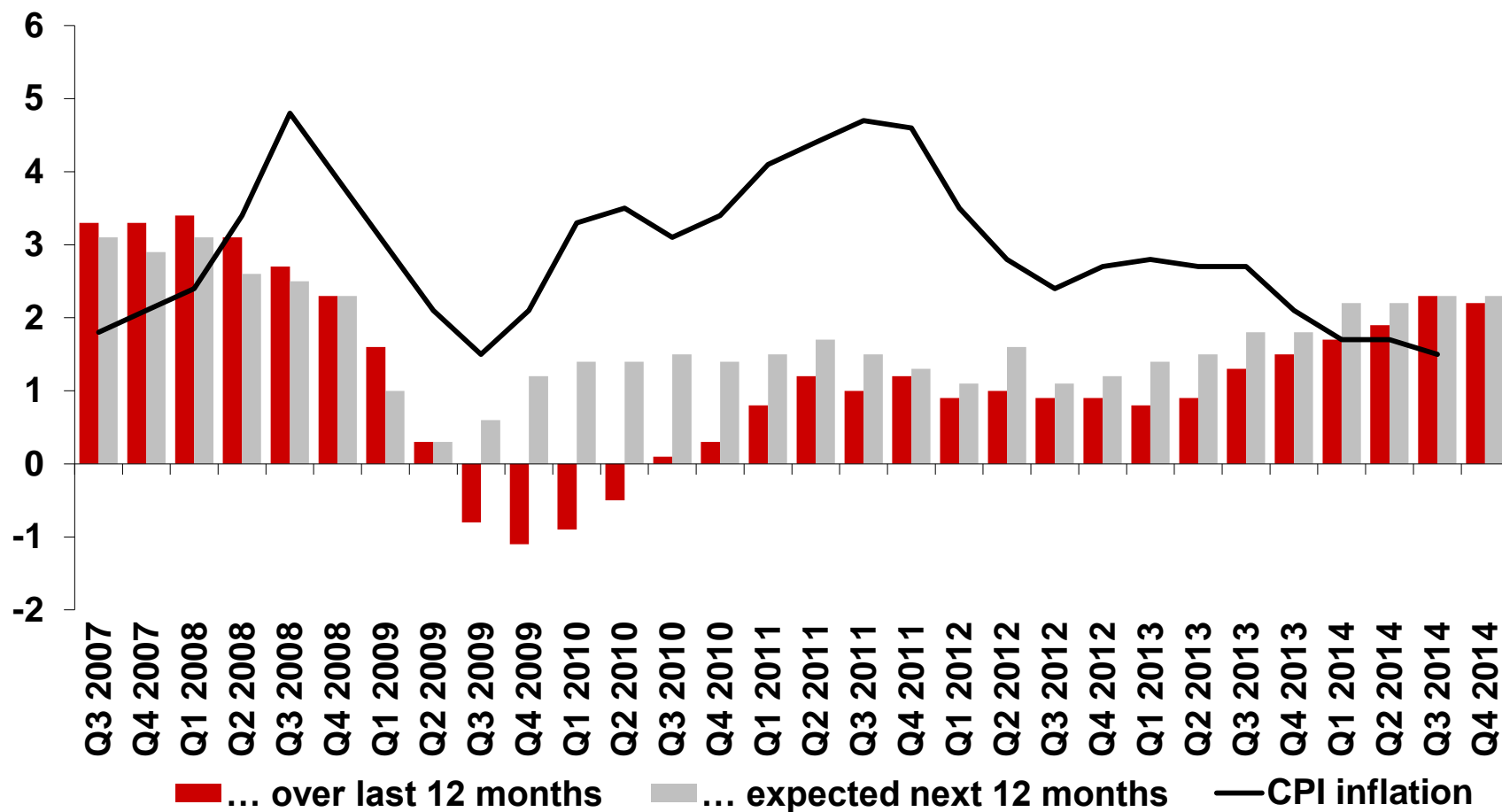
# Job creation expected to remain substantial over next year

Employee numbers, annual percentage change



# Salary growth holds steady while inflation falls back

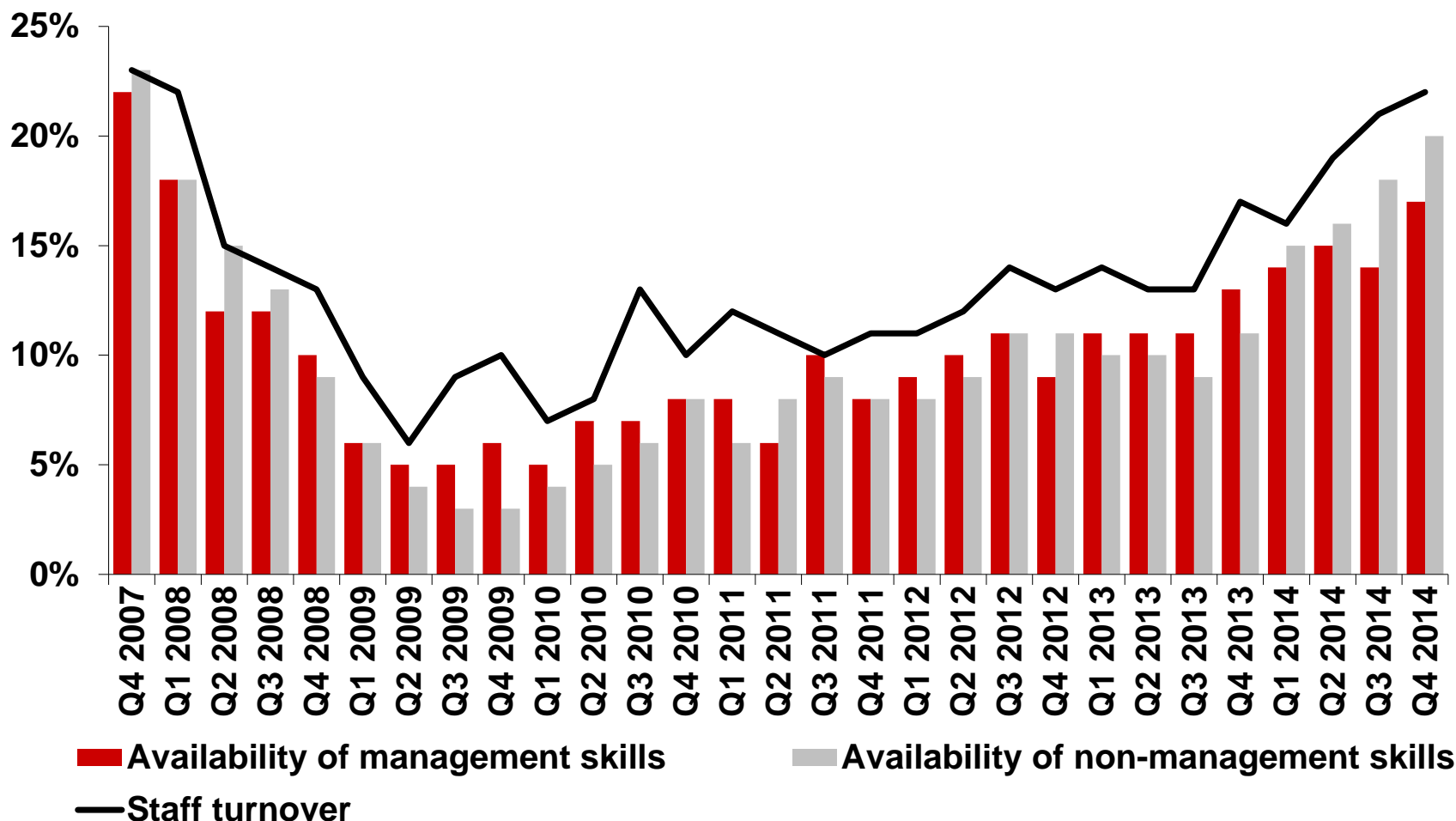
Average total salary, annual percentage change





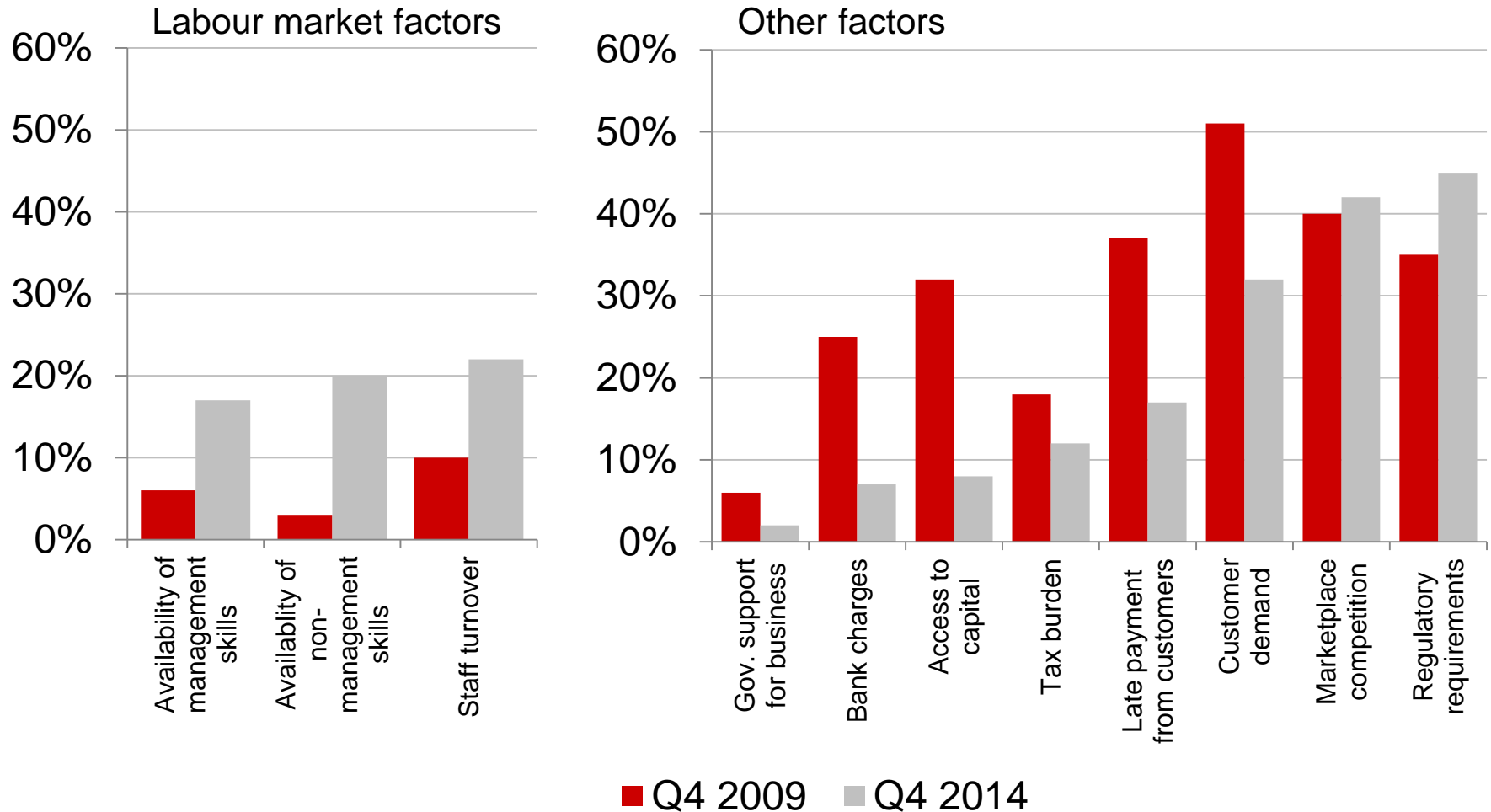
# Skills shortages creating challenges for more firms

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



# Labour market presenting more challenges than five years ago, but other factors notably down as a concern

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

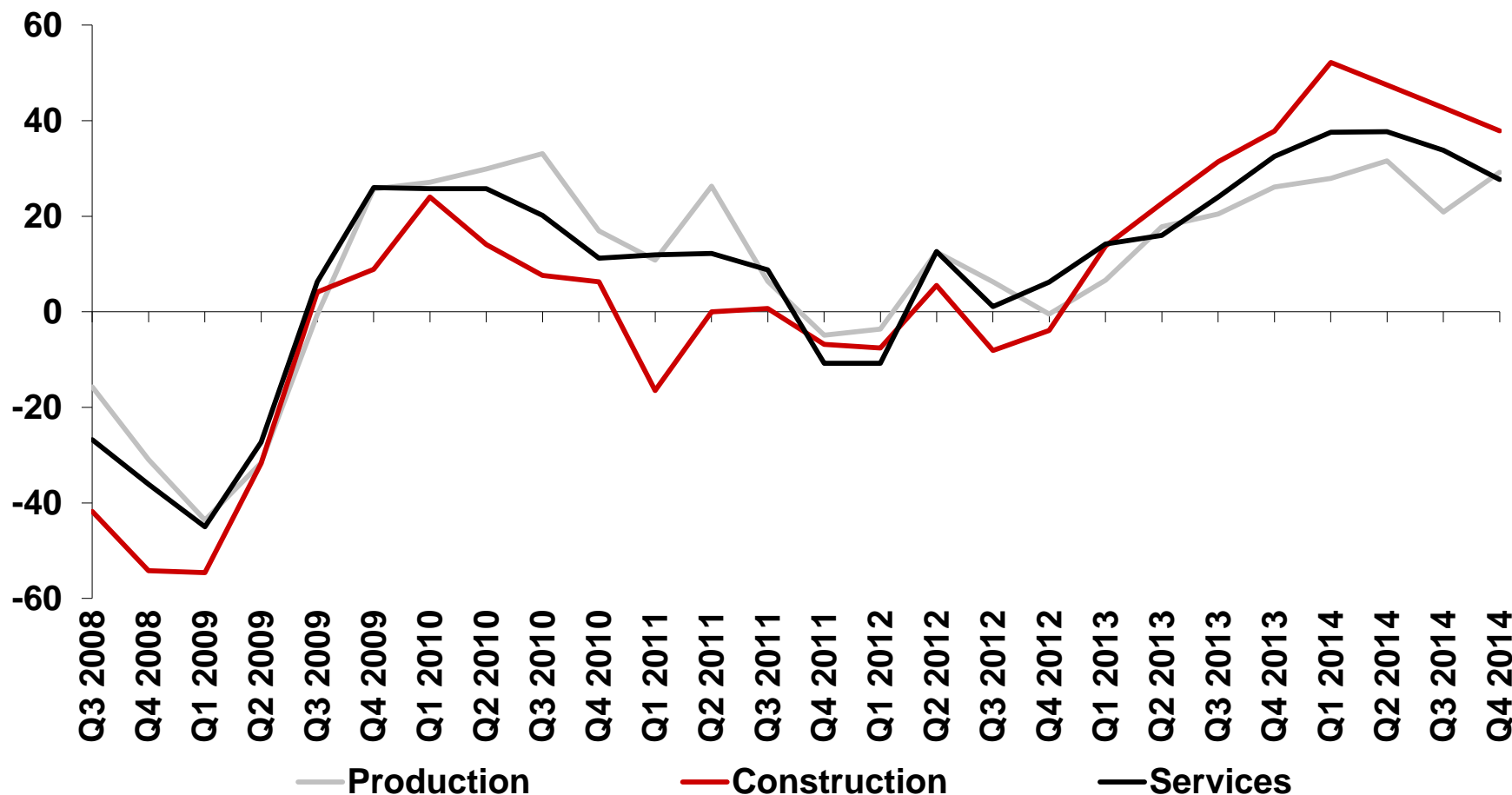


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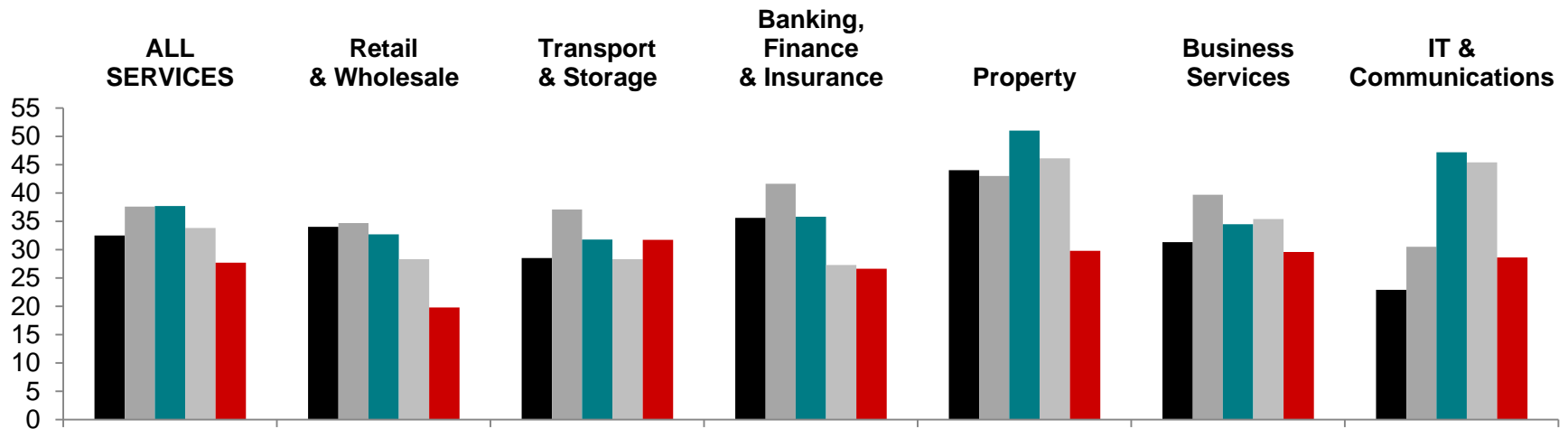
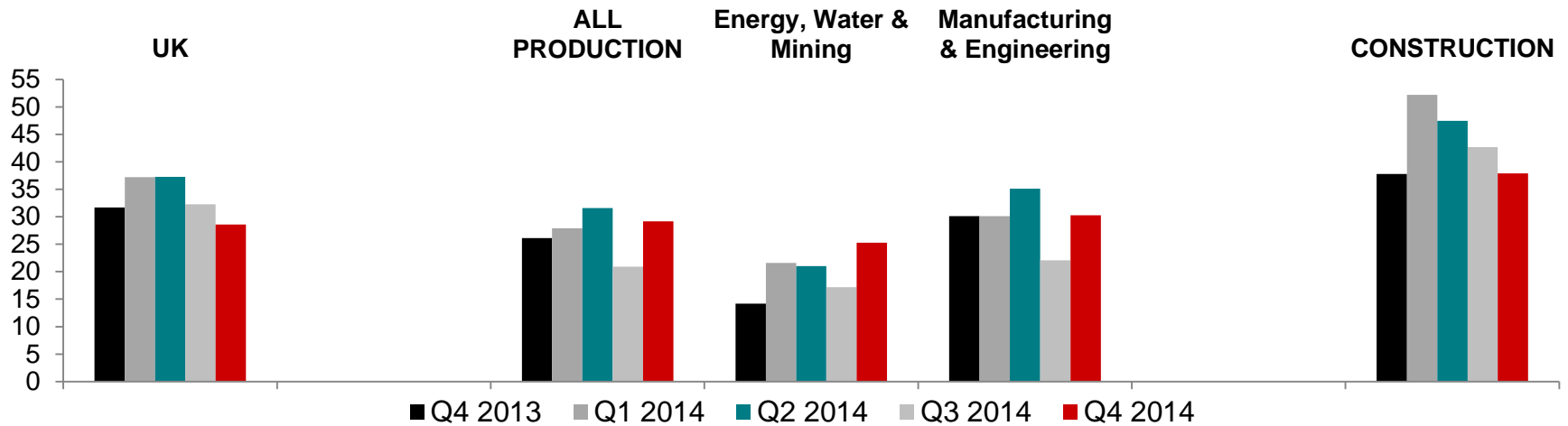
- Regional & sector stories
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# Main decline coming from construction and services – manufacturers halted optimism decline this quarter

ICAEW / Grant Thornton Business Confidence Index

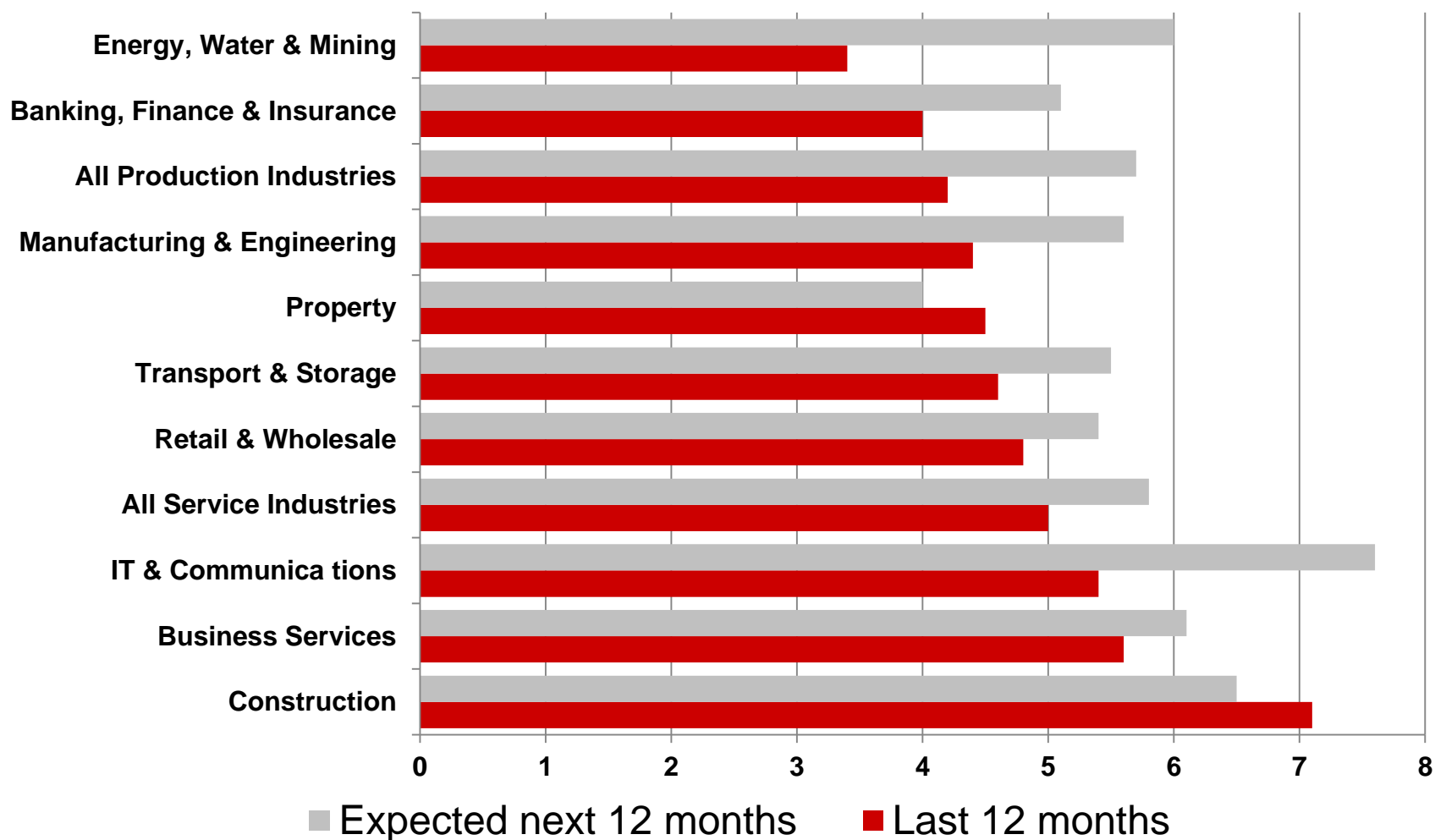


# Trend of business confidence by sector



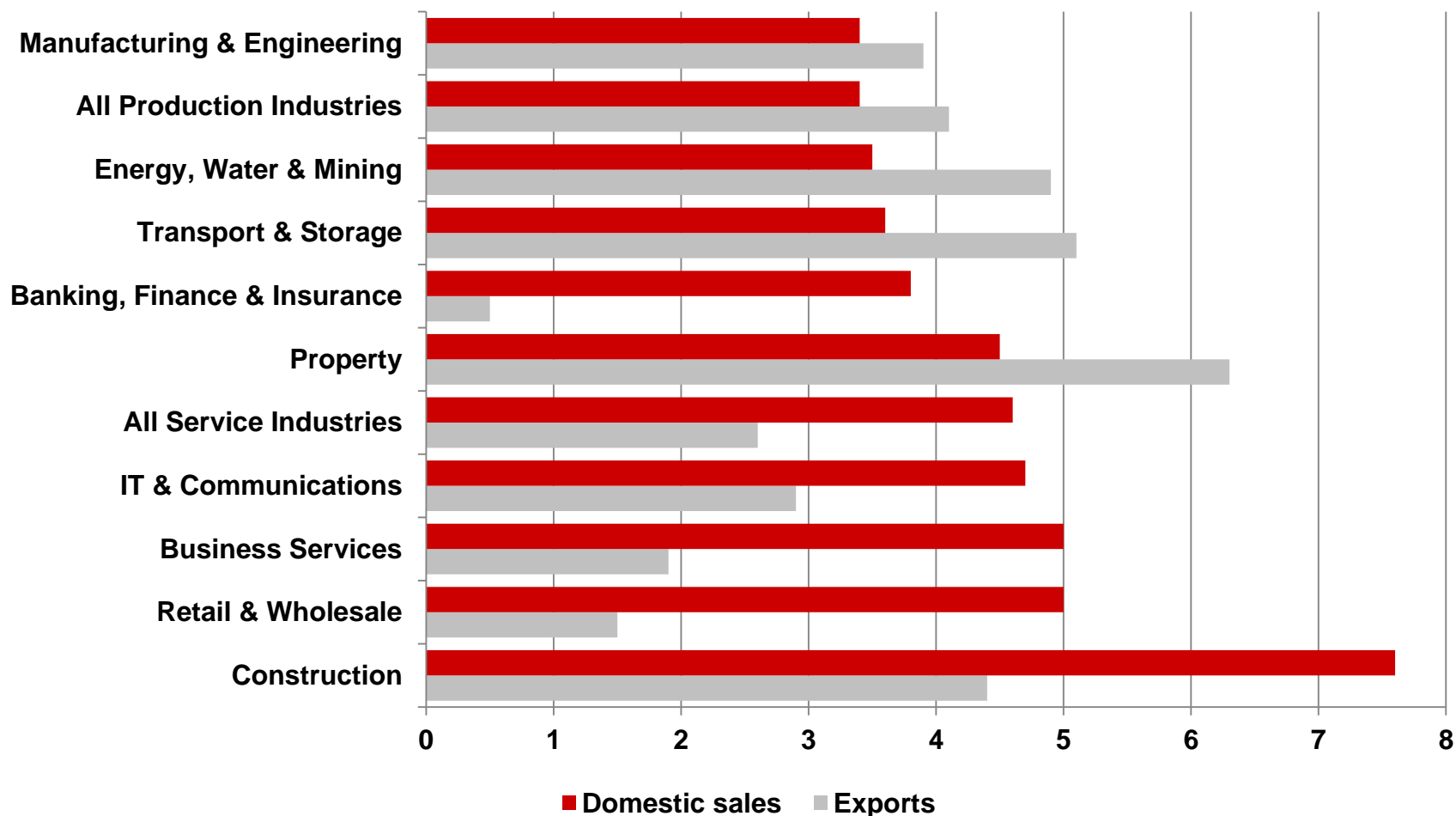
# Construction and business service sectors showing the fastest growth over past year

Change in sales volumes over the last 12 months



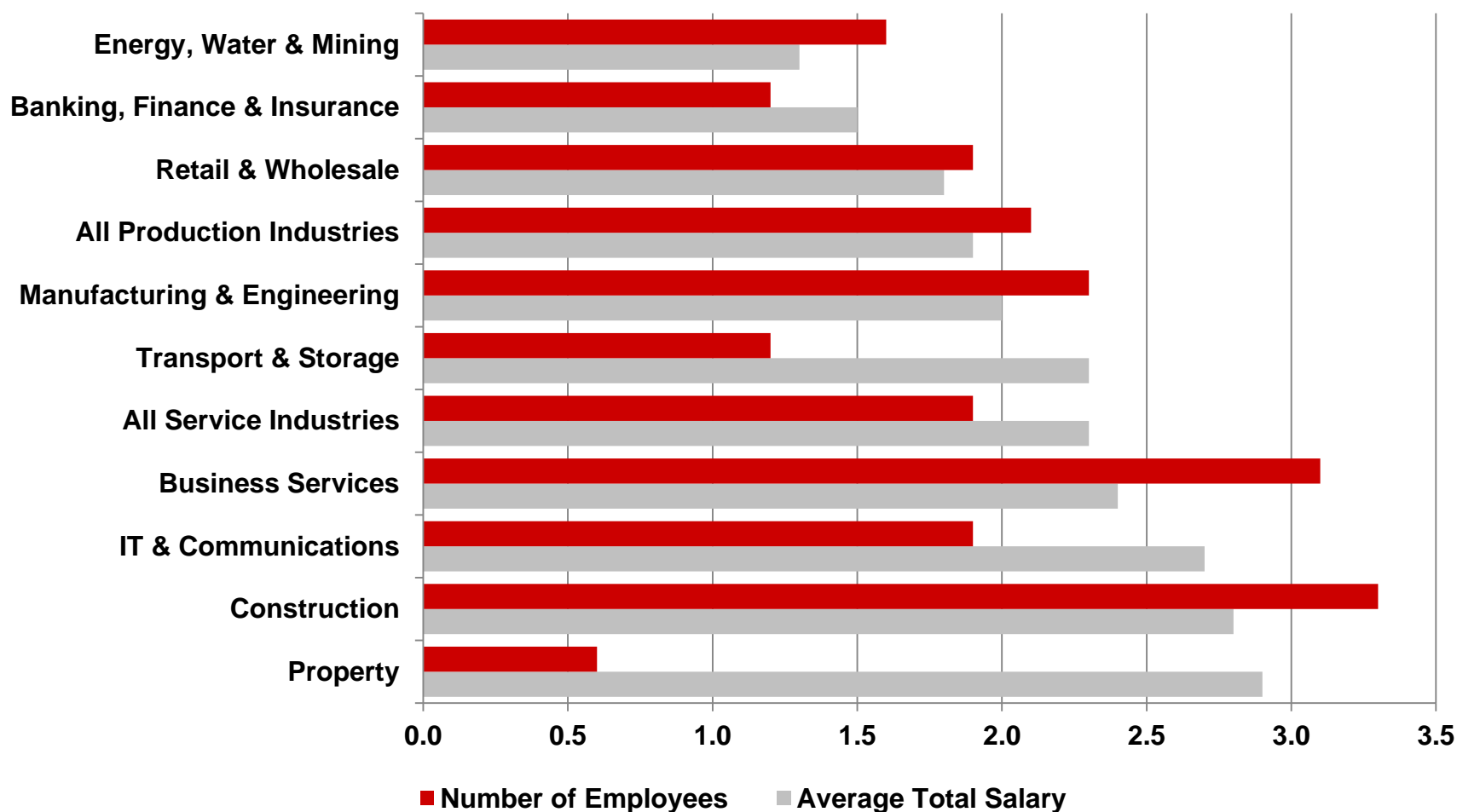
# Services sector experiencing faster growth in domestic sales than in exports, while the opposite is true for production sector

Change in indicator over the last 12 months



# Business services and construction sectors supporting rapid volume growth with significant staffing increases

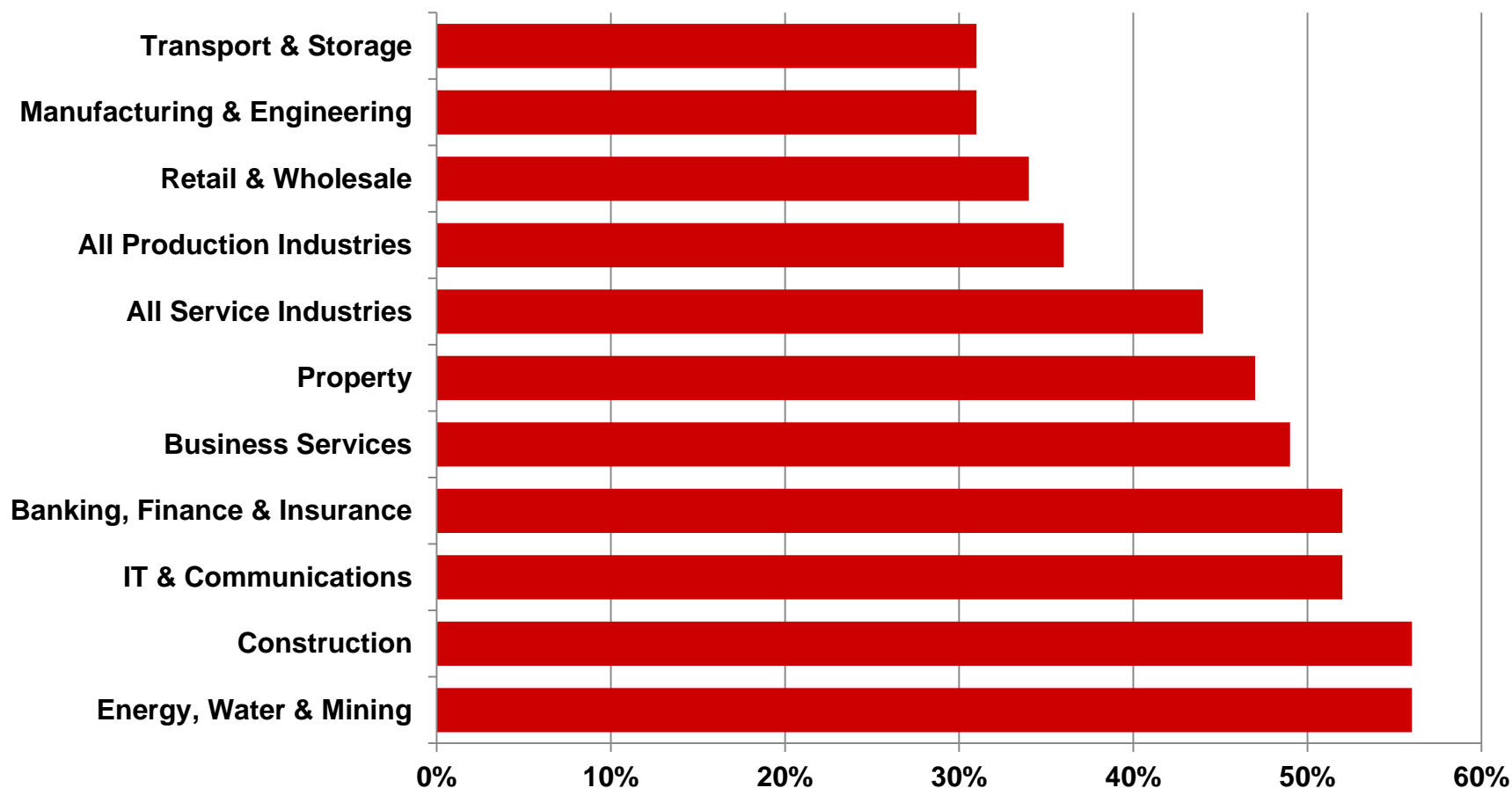
Change in indicator over the last 12 months





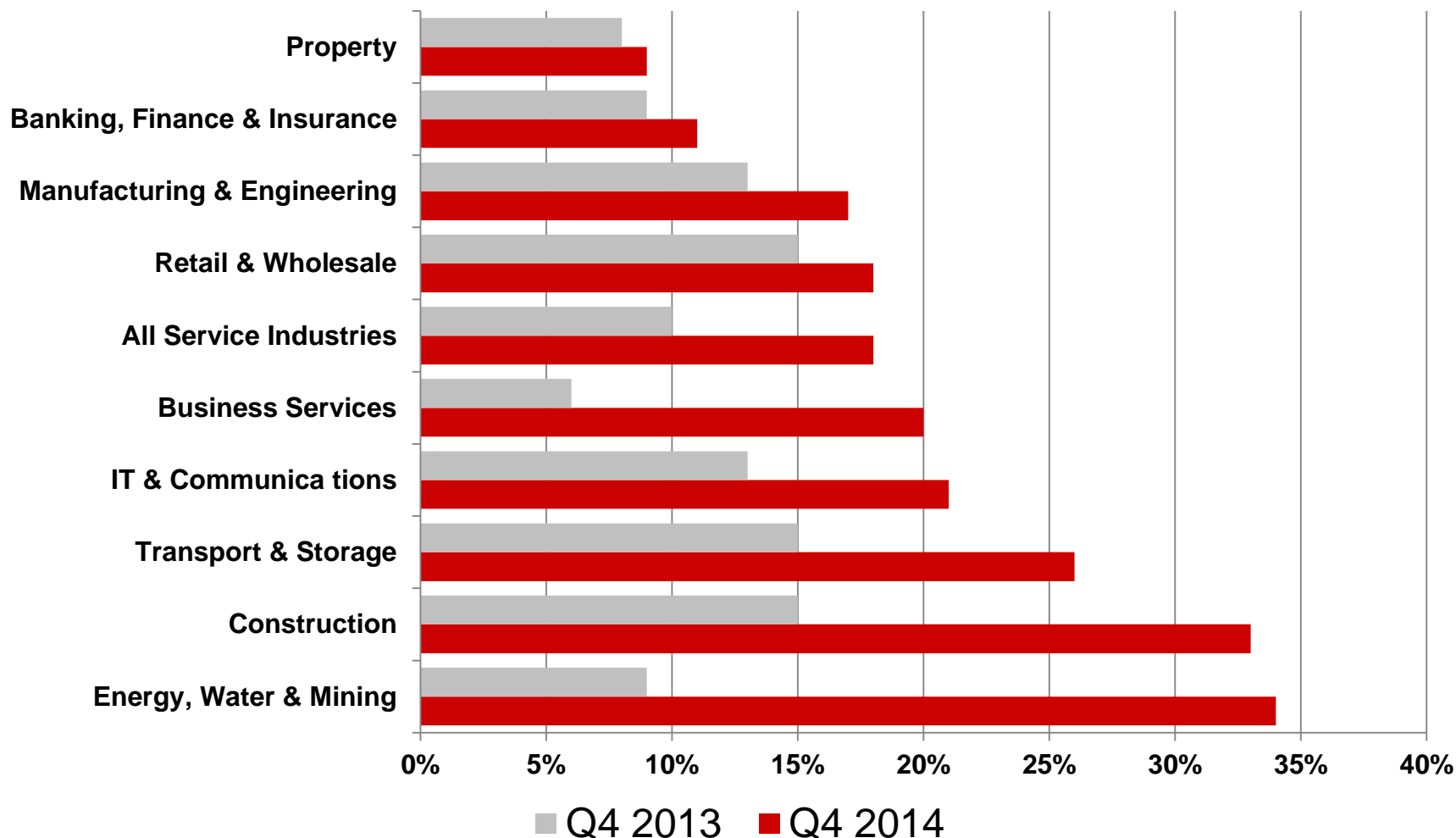
# Still much spare capacity remaining in manufacturing sector, reflecting distance to go to full recovery

Proportion of businesses operating at full capacity

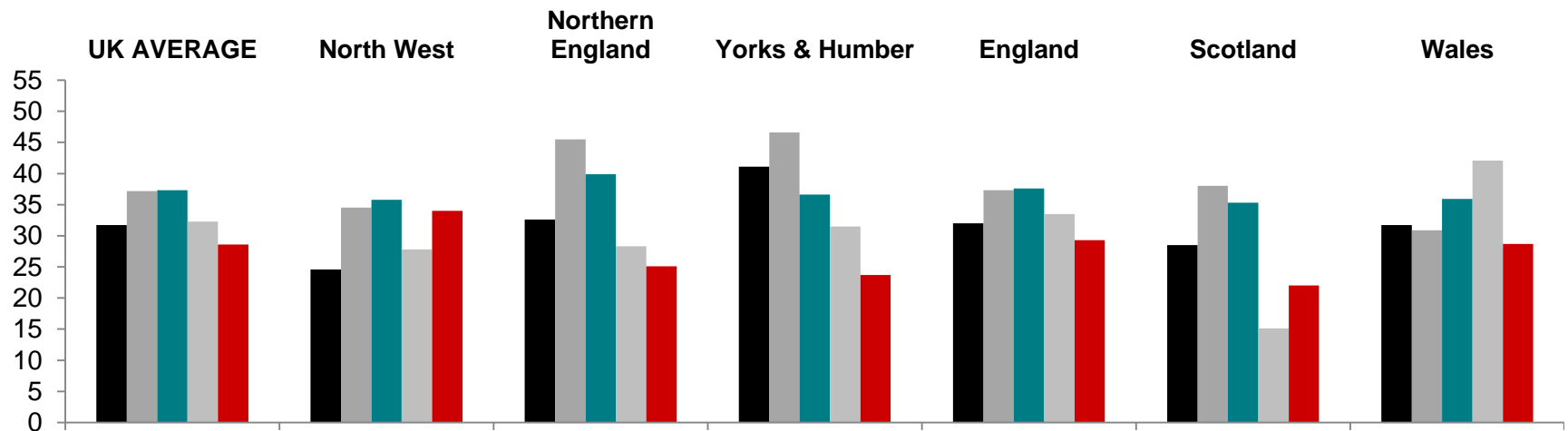
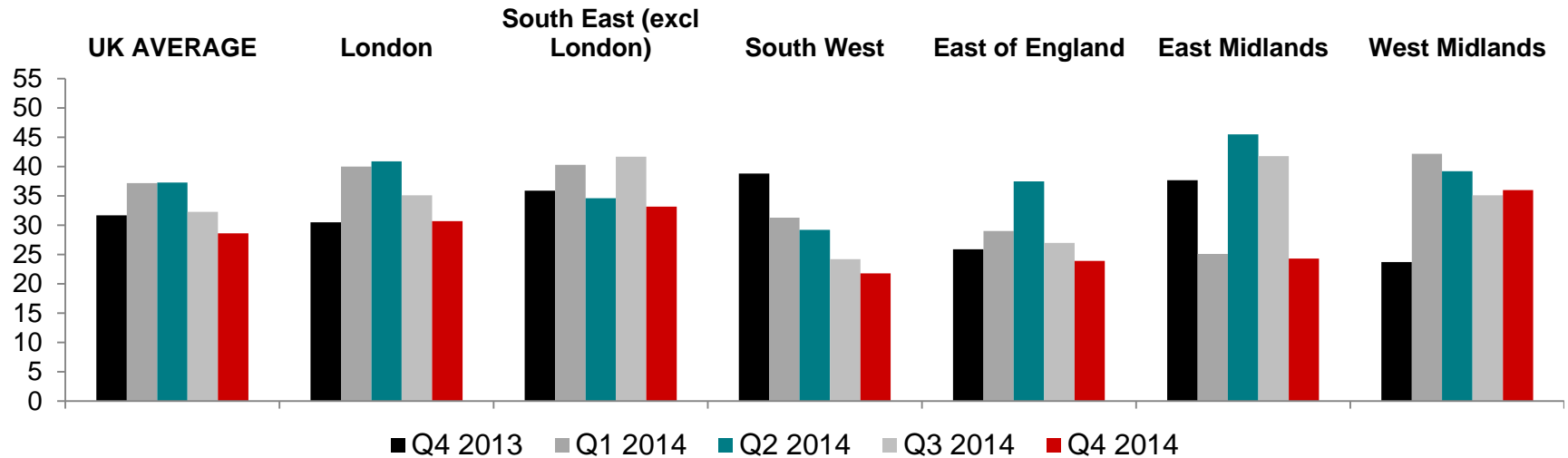


# Skills shortage presenting a growing challenge for a third of construction sector companies

Proportion of businesses reporting that the availability of non-management skills is more of a challenge now than a year before

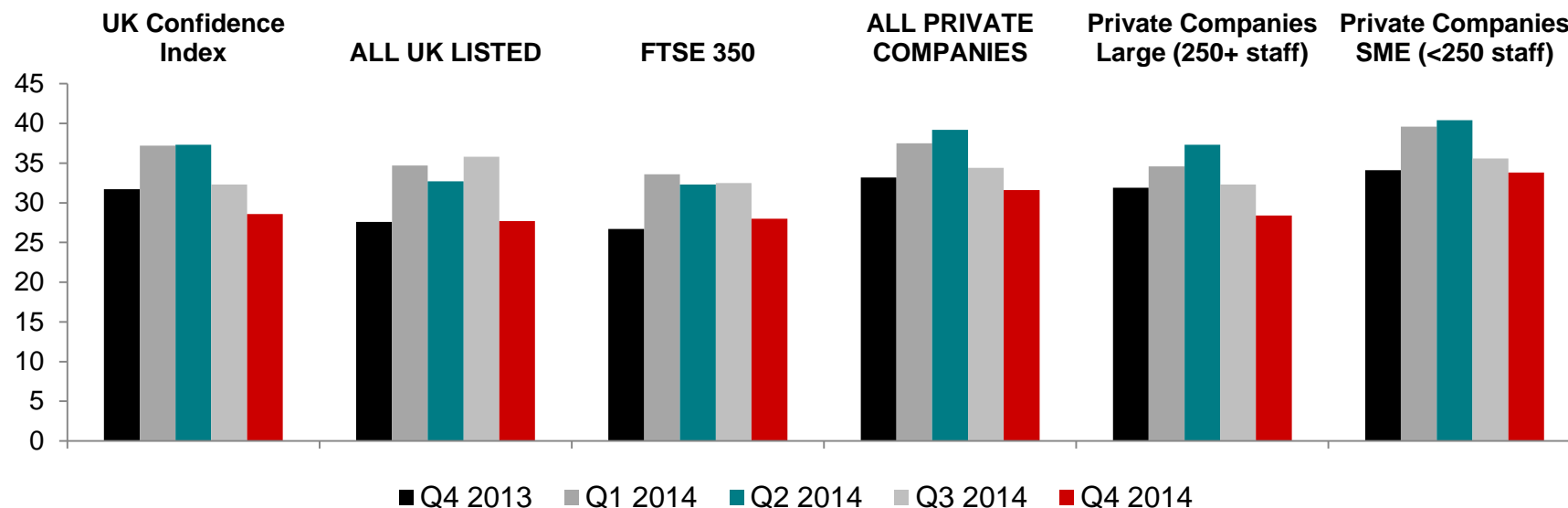


# Business confidence slips back across most of UK



# Confidence generally declining across all company types

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



# Conclusions

- Business confidence has fallen back for two consecutive quarters, but still remains relatively buoyant.
- This points to continued economic growth – the latest BCM results indicate an expansion of 1.0% in Q4, down from the implied growth of 1.1% in Q3.
- Growth in turnover and profits has now broadly stabilised at levels well above that seen over much of the past five years.
- Thanks to falling inflation, wage growth has now turned positive in real terms – although still remains generally weak.
- With continued employment growth, the strengthening labour market is posing challenges for more businesses. Staff turnover and the availability of skills are a greater challenge now than a year ago.
- This is particularly the case for the construction sector.
- Spare capacity levels continue to fall year on year, but not equally across the economy. More than half of businesses (56%) in the construction sector are operating at capacity, compared to just 31% among manufacturers.



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