

Q2 2015 ICAEW / Grant Thornton Business Confidence Monitor findings

May 2015

Outline

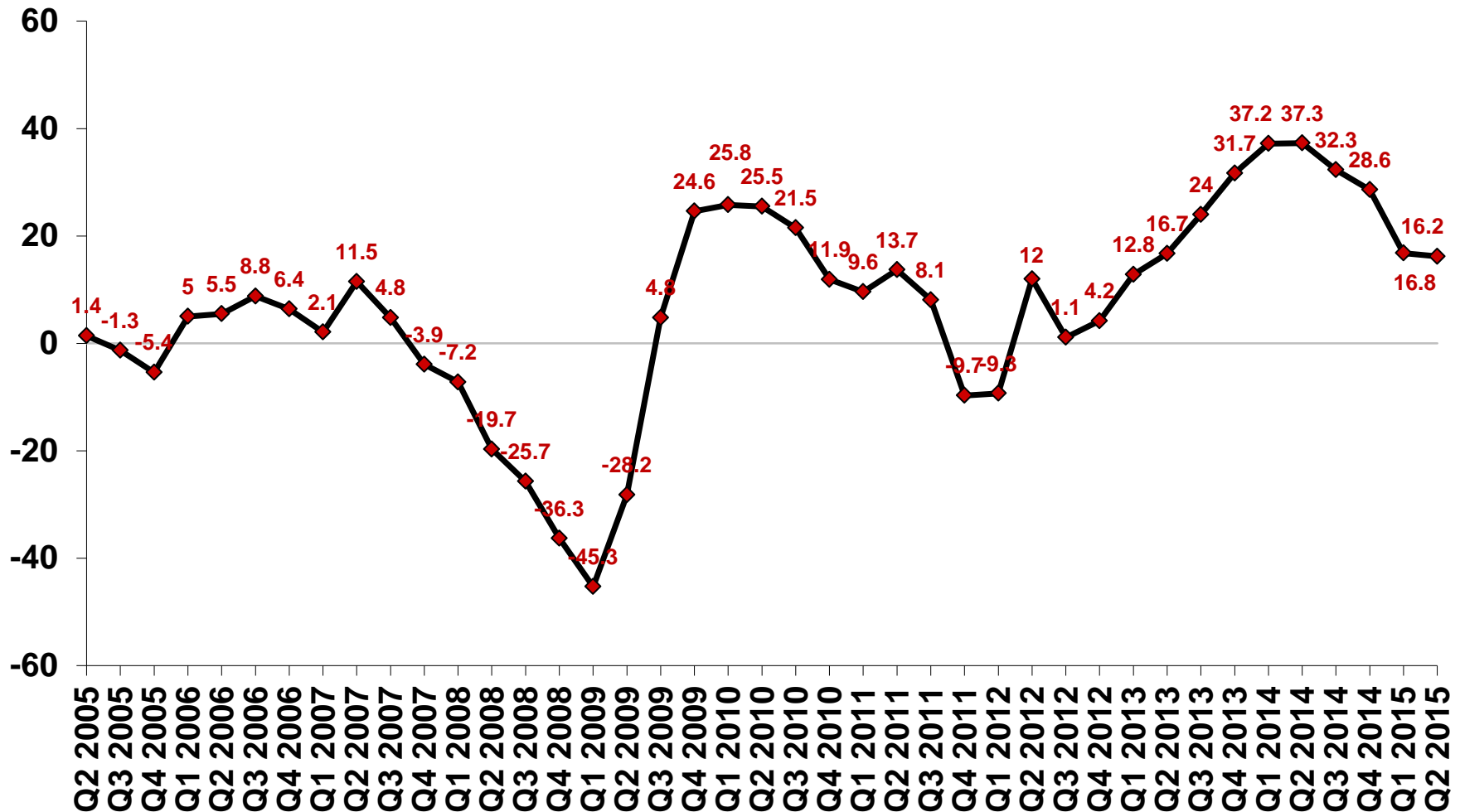
- Confidence Index top lines
 - Financial performance indicators
 - Growth indicators
 - Inflation & labour market indicators
 - Regional & sector stories
-

Outline

- Confidence Index top lines

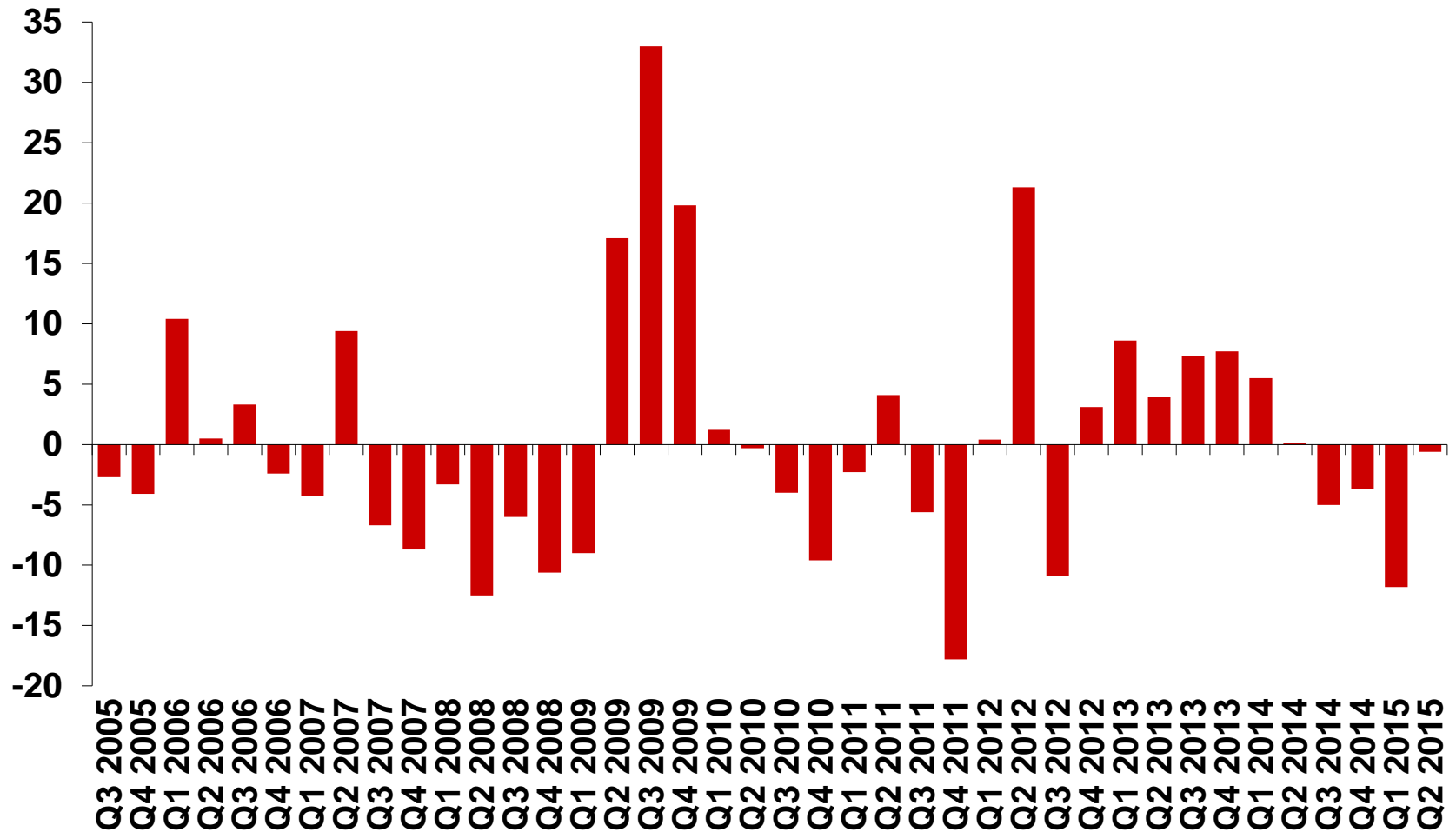
Confidence stabilising well above zero mark

ICAEW / Grant Thornton UK Business Confidence Index



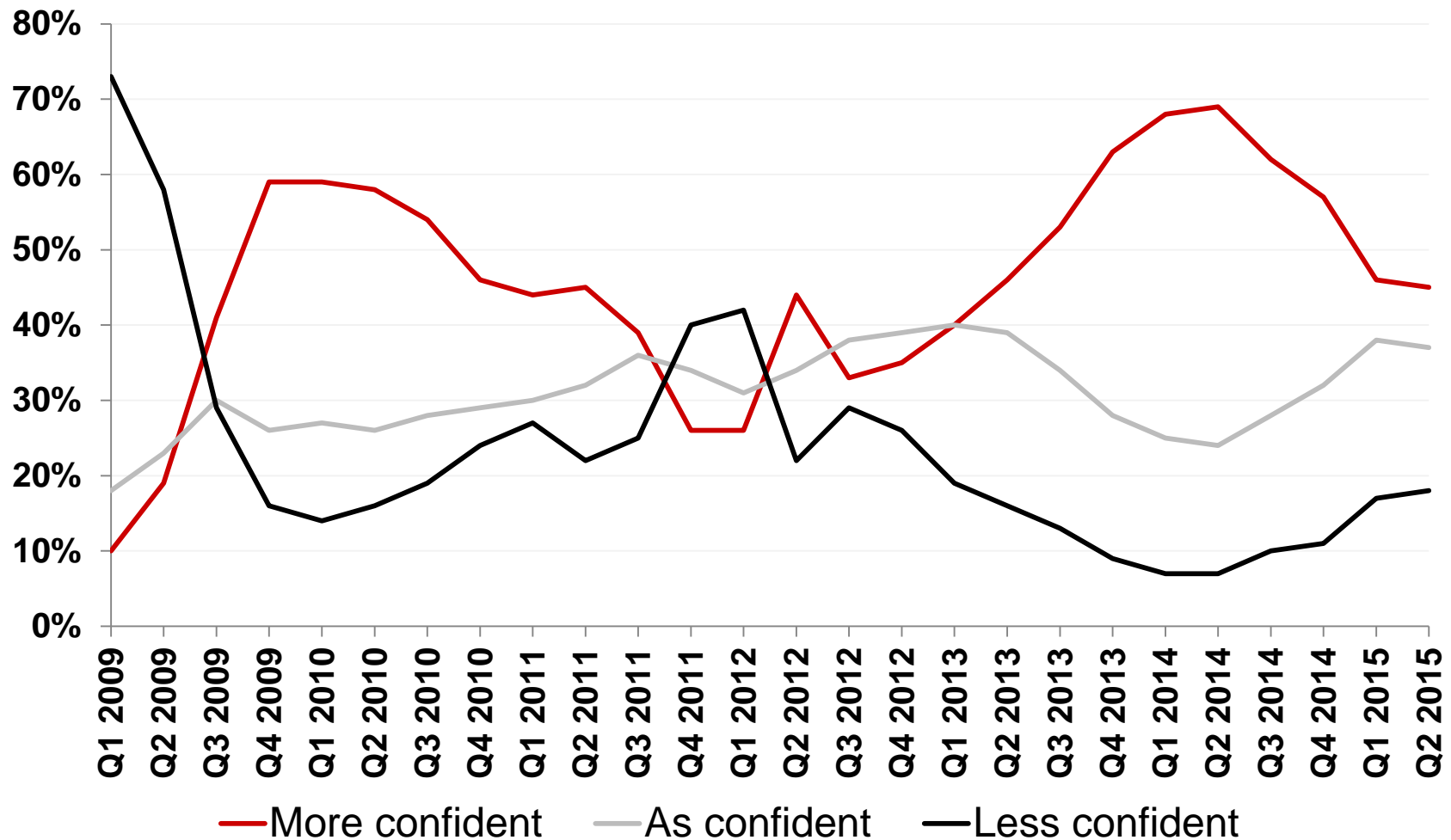
Run of declining confidence effectively comes to an end

Quarterly change to Confidence Index



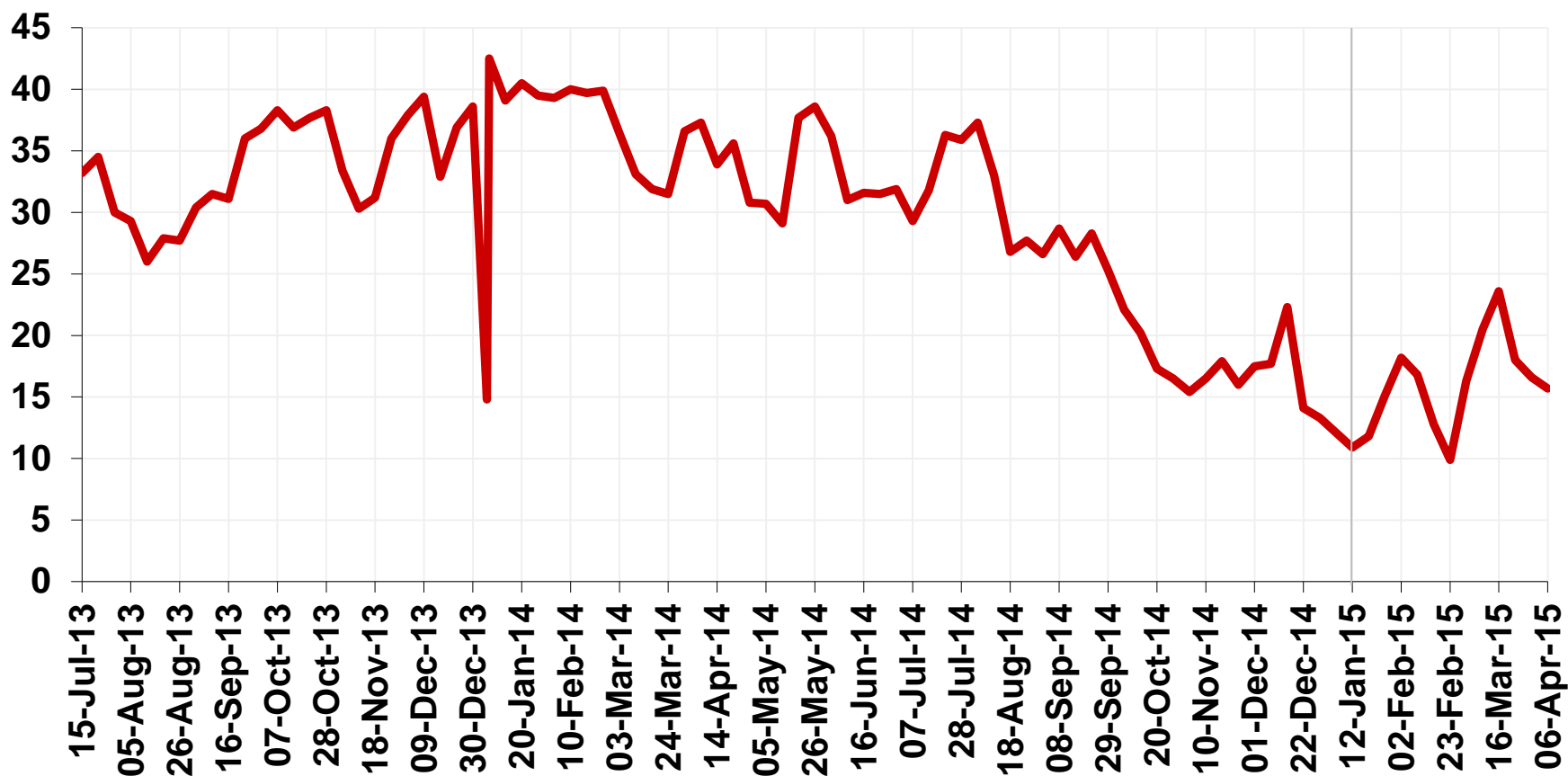
The proportion of firms expecting conditions to improve or worsen both remain largely on hold

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



Confidence reached a low in January and has since fluctuated up and down

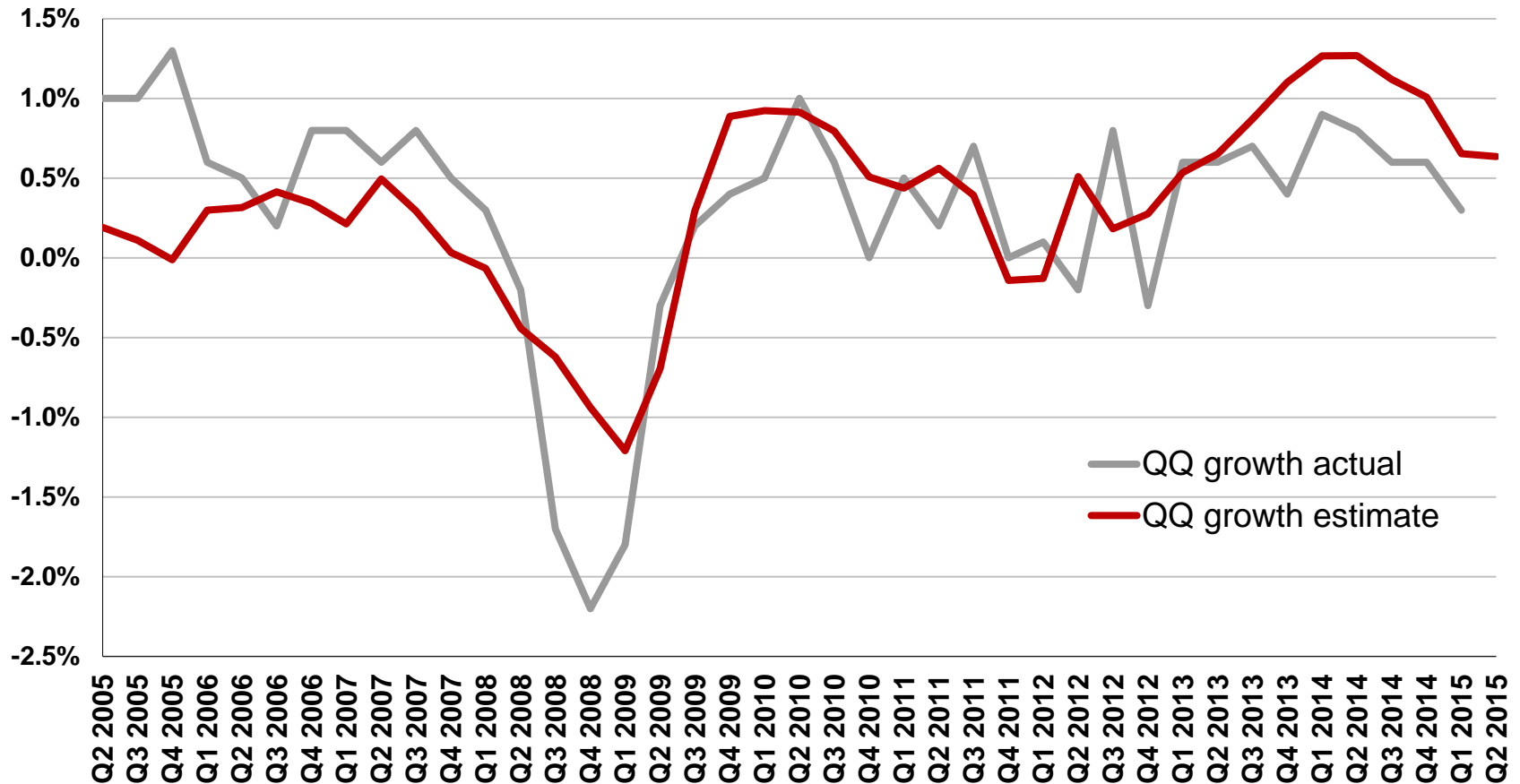
ICAEW / Grant Thornton Business Confidence Index, three week rolling trend



Three weeks beginning...

Economic growth projected to hold steady in Q2 2015, after falling back at start of the year

Quarter on quarter real GDP growth, per cent

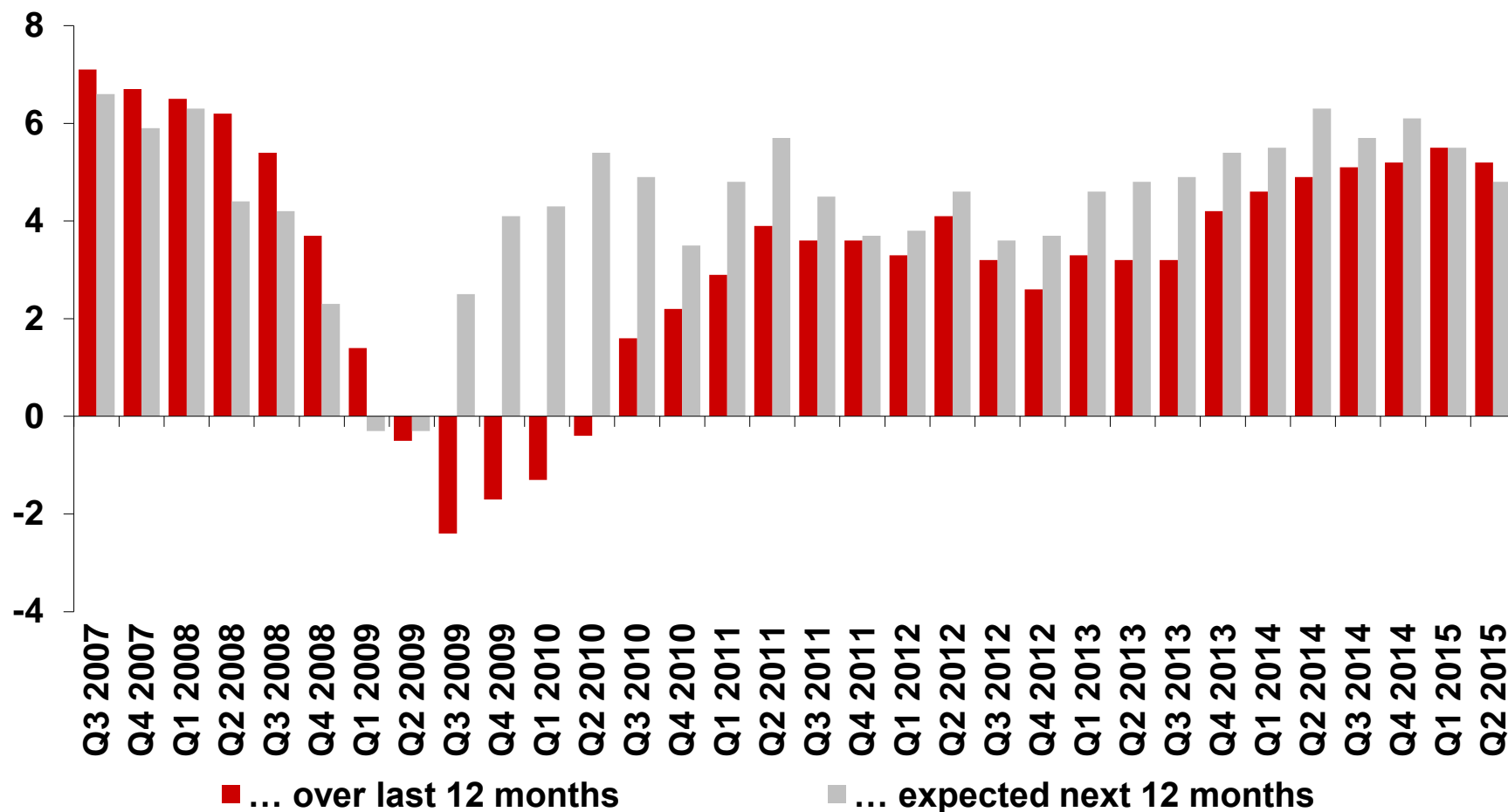


Outline

- Financial performance indicators
 - Growth indicators
-

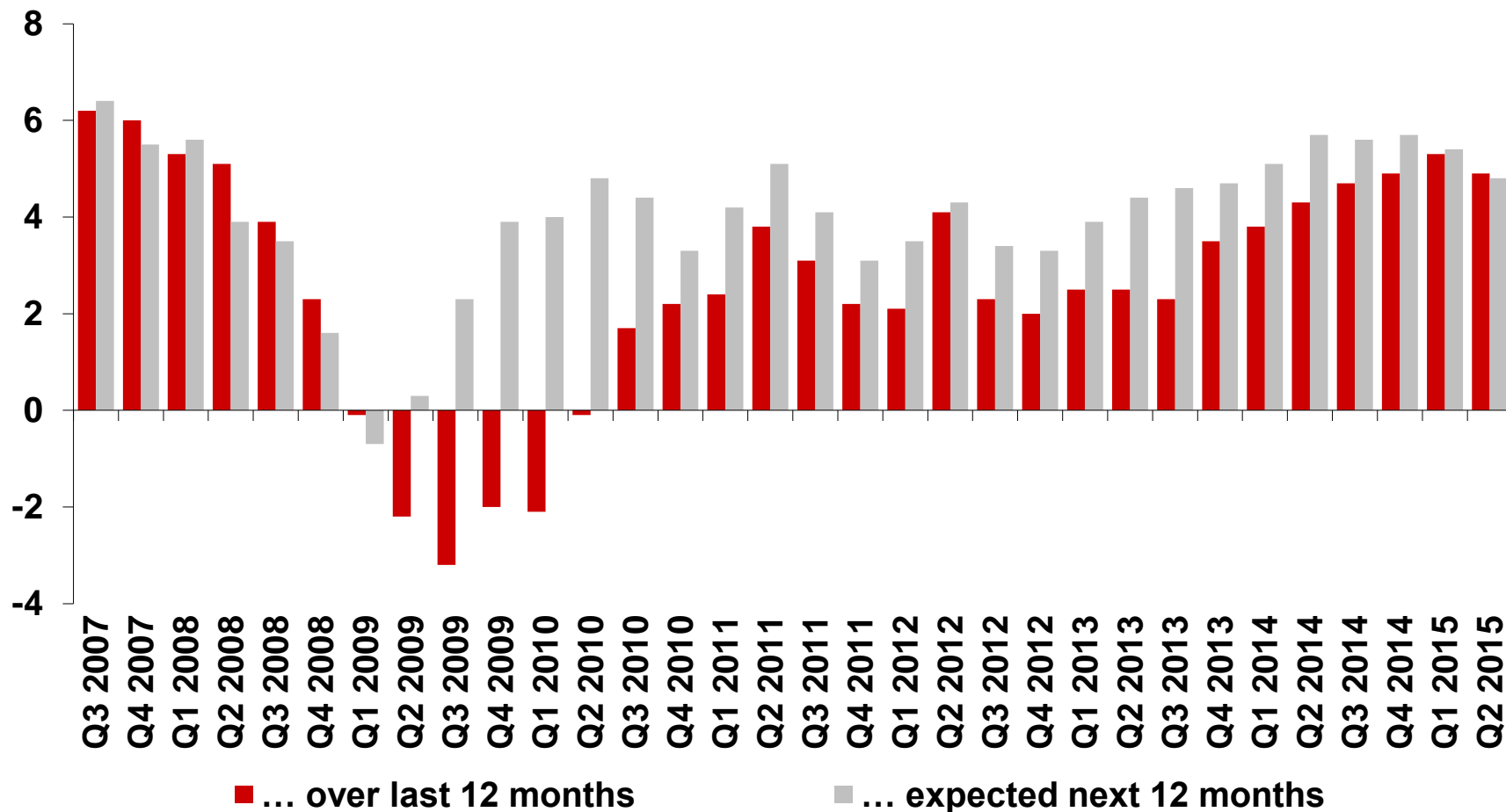
Turnover growth expected to fall for first time since 2009

Turnover, annual percentage change



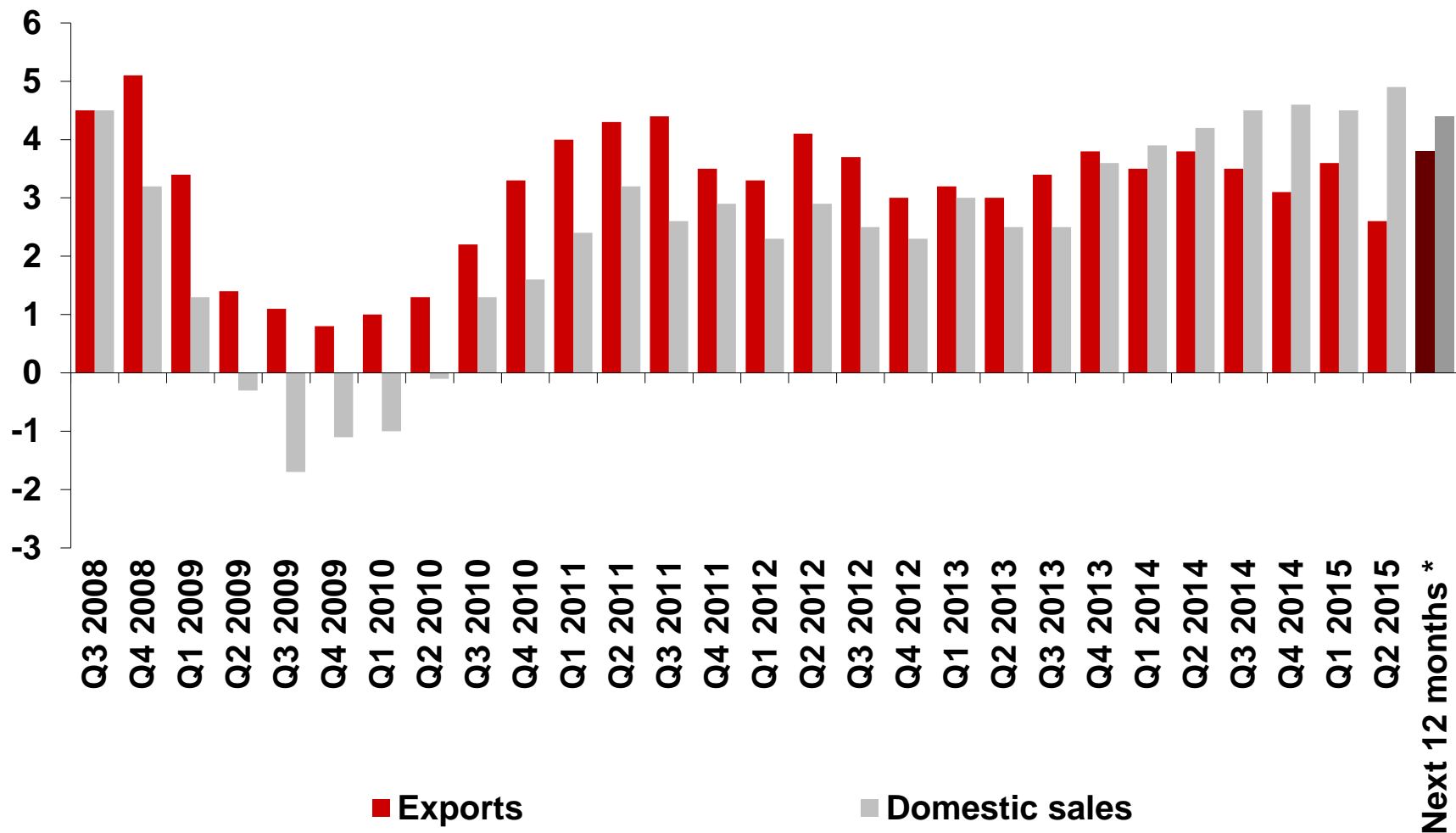
Profit growth expectations are also falling back

Gross profits, annual percentage change



Export growth continues to weaken, while domestic sales remain robust

Exports and domestic sales, annual percentage change

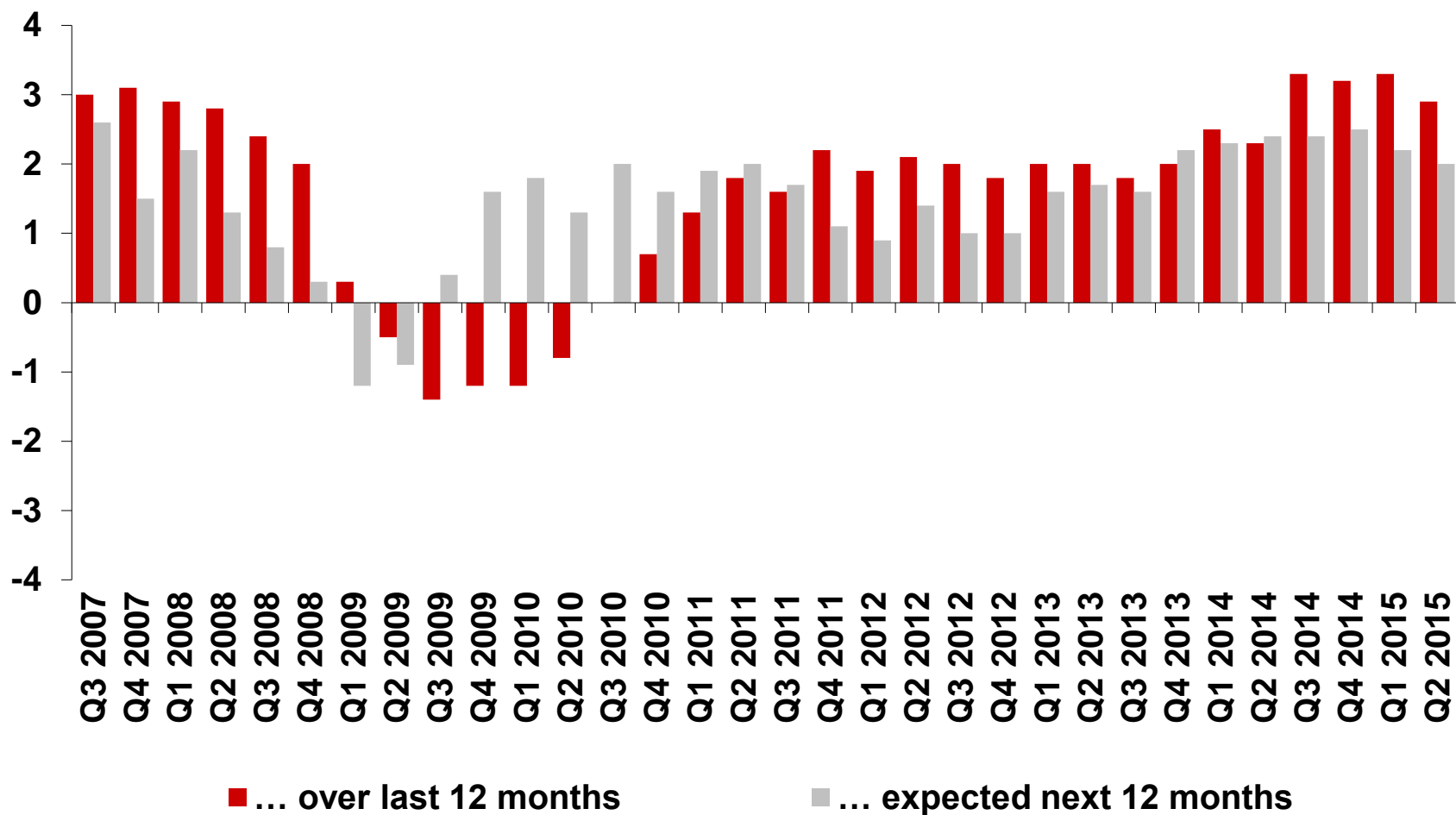


Next 12 months *

* expectation

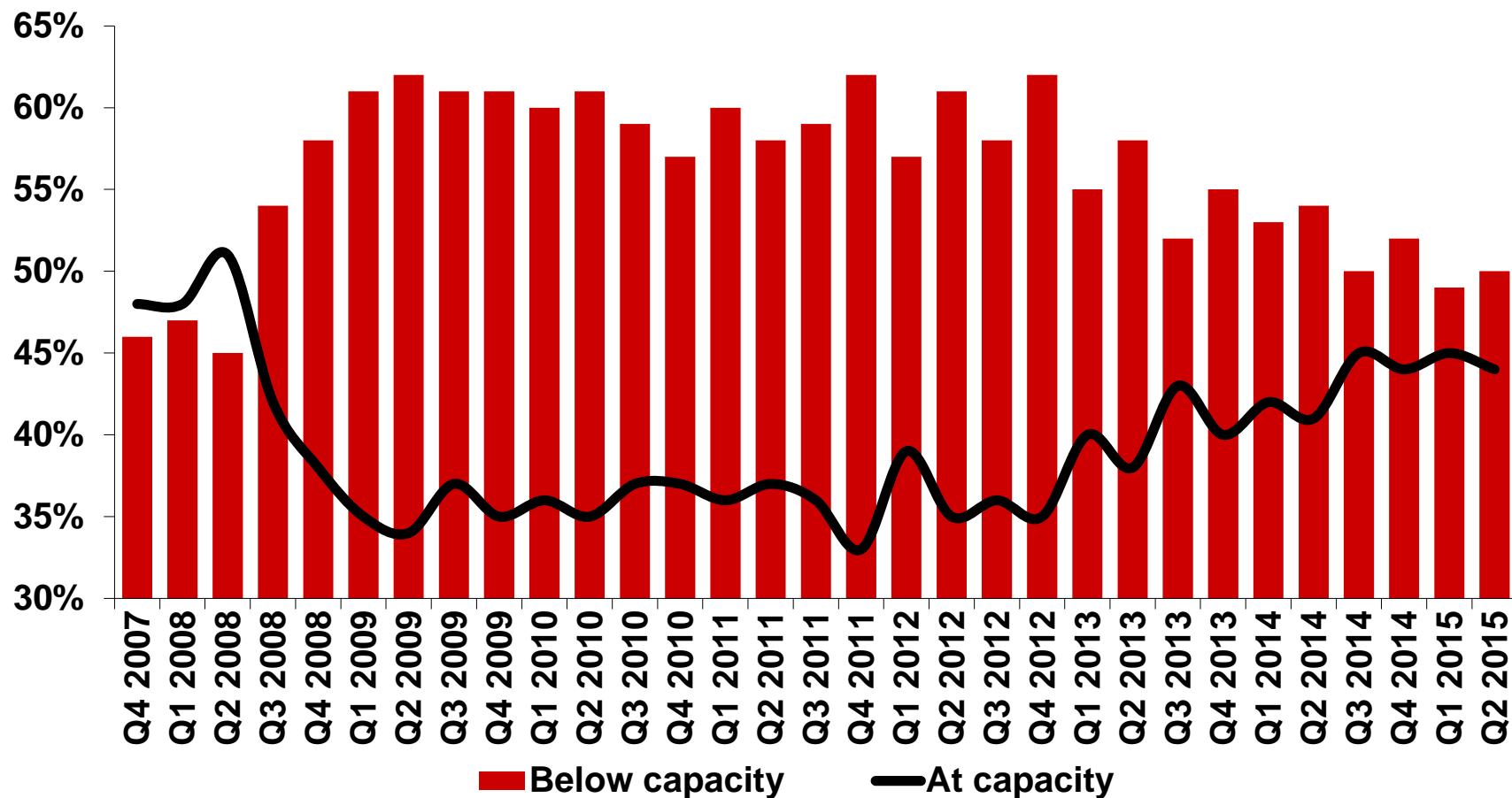
Investment growth and expectations are slowly weakening

Capital investment, annual percentage change



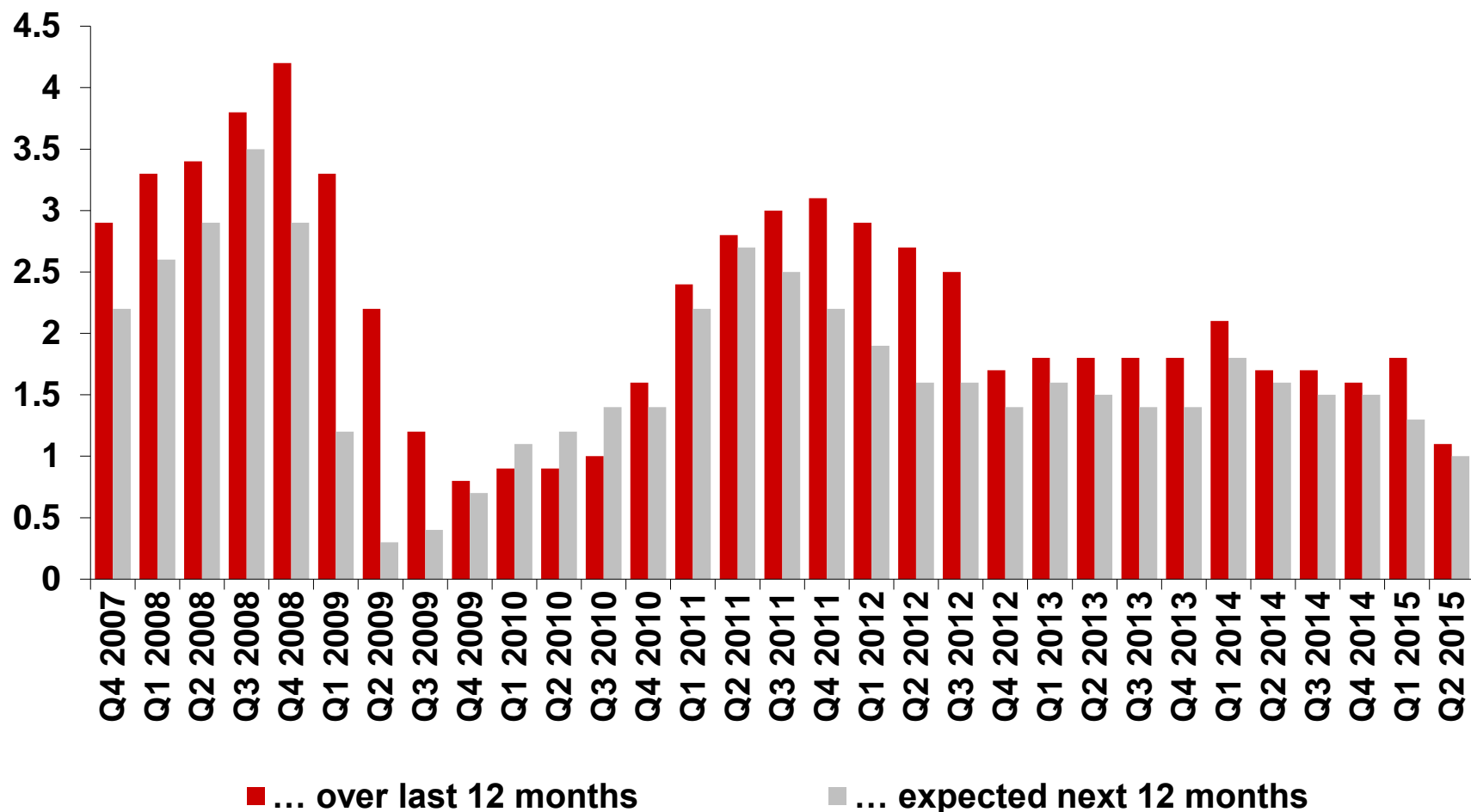
Spare capacity continues to fall back year on year

Share of businesses operating at and below capacity



Input price growth falls sharply alongside consumer price inflation reaching zero

Input prices, annual percentage change

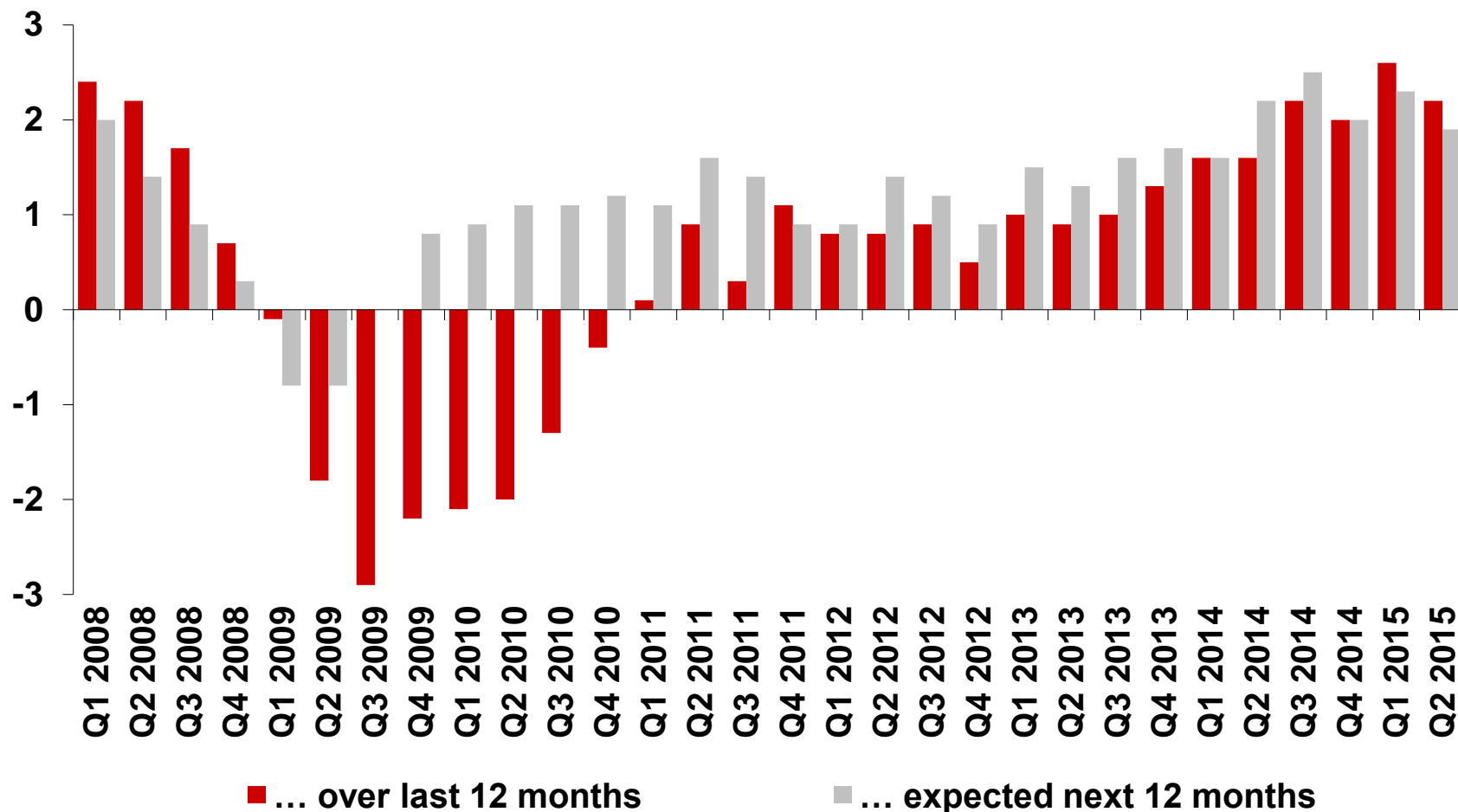


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- Financial performance indicators
 - Inflation & labour market indicators
-

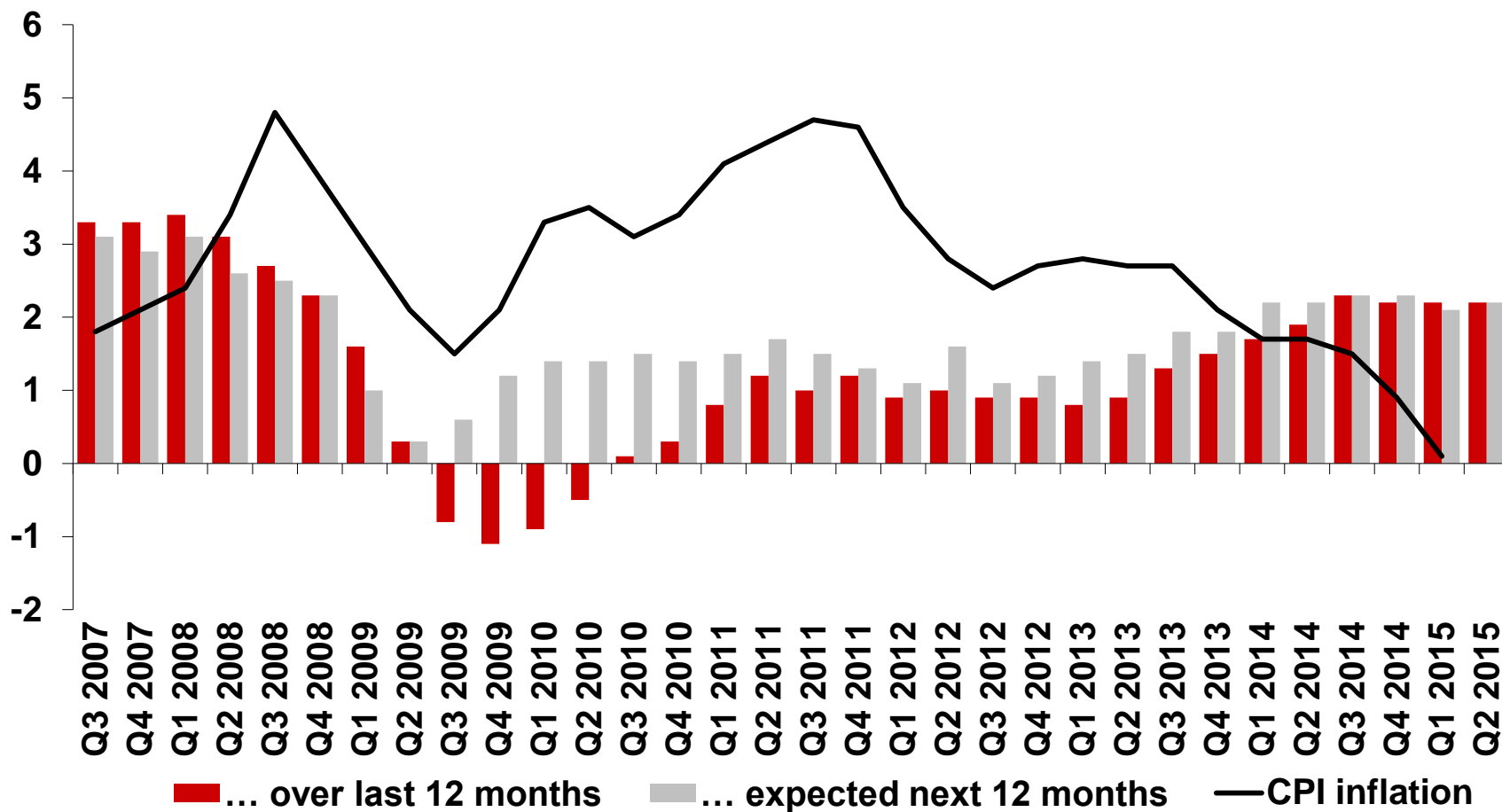
Headcount growth projected to slow over next year

Employee numbers, annual percentage change



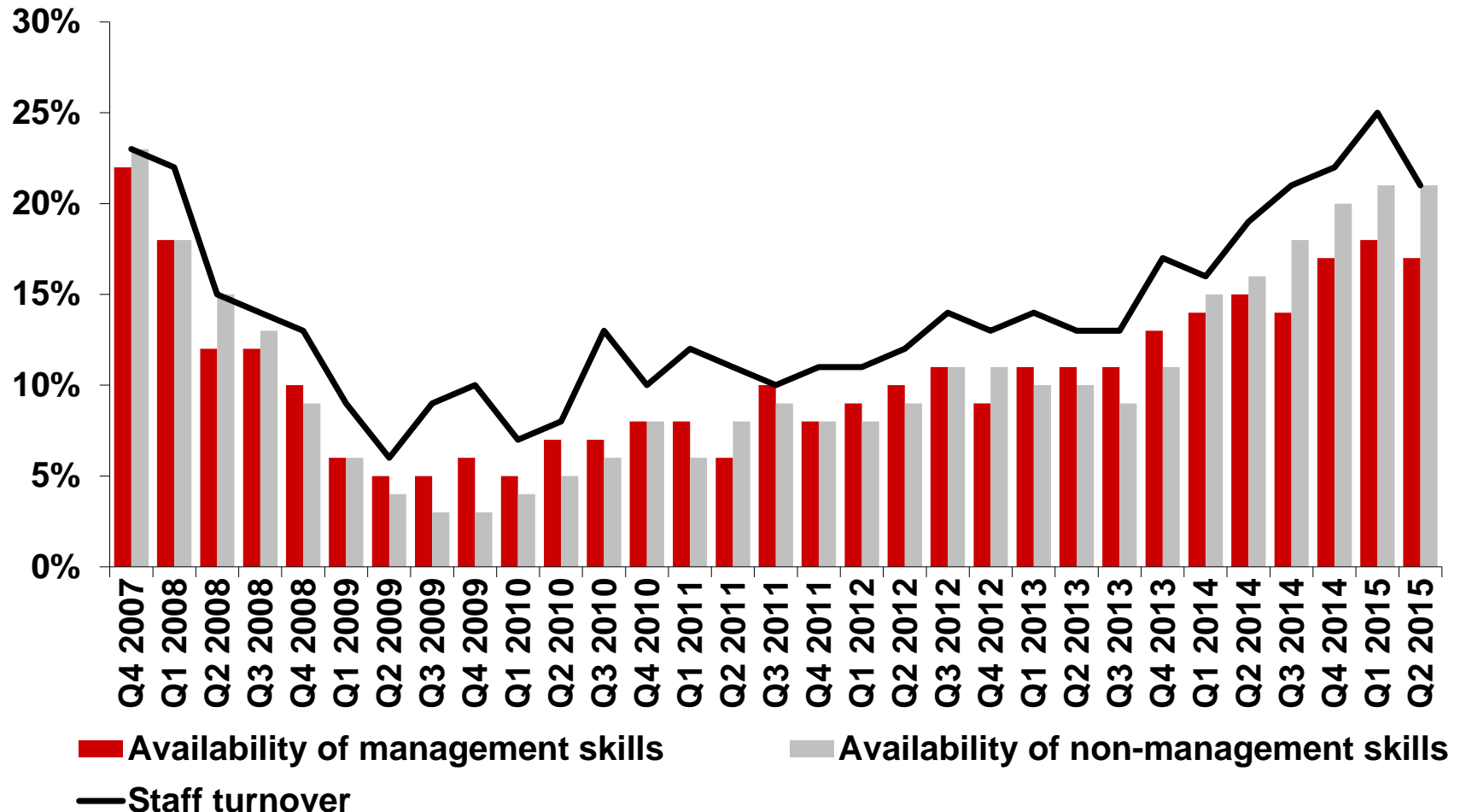
Salary growth appears to have plateaued, but inflationary slowdown means sharp gains in real terms

Average total salary, annual percentage change

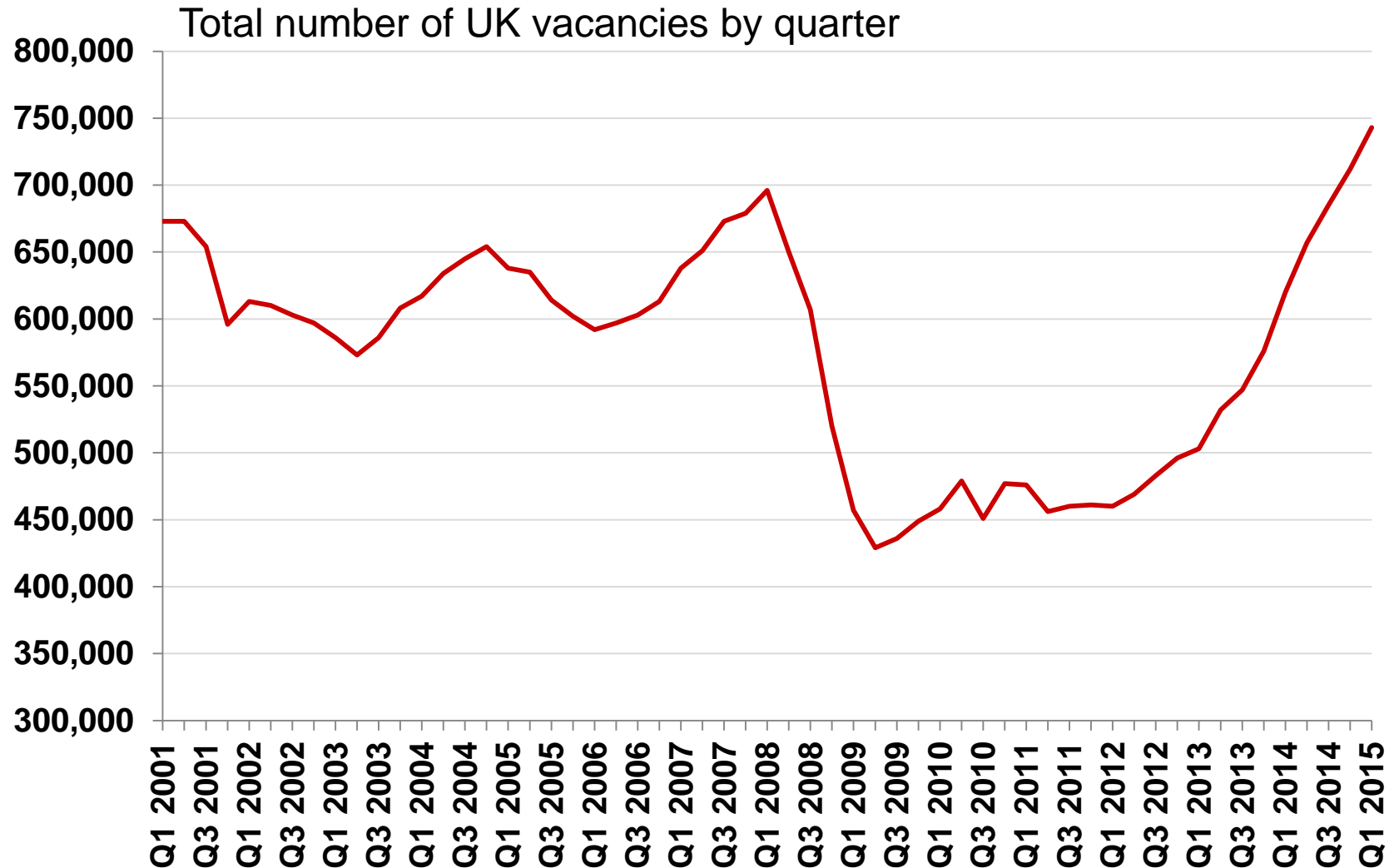


Skills shortages may have reached peak, in line with pre crisis levels

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



However, vacancy growth has shown no sign of slowing yet – further skills shortages could emerge ahead

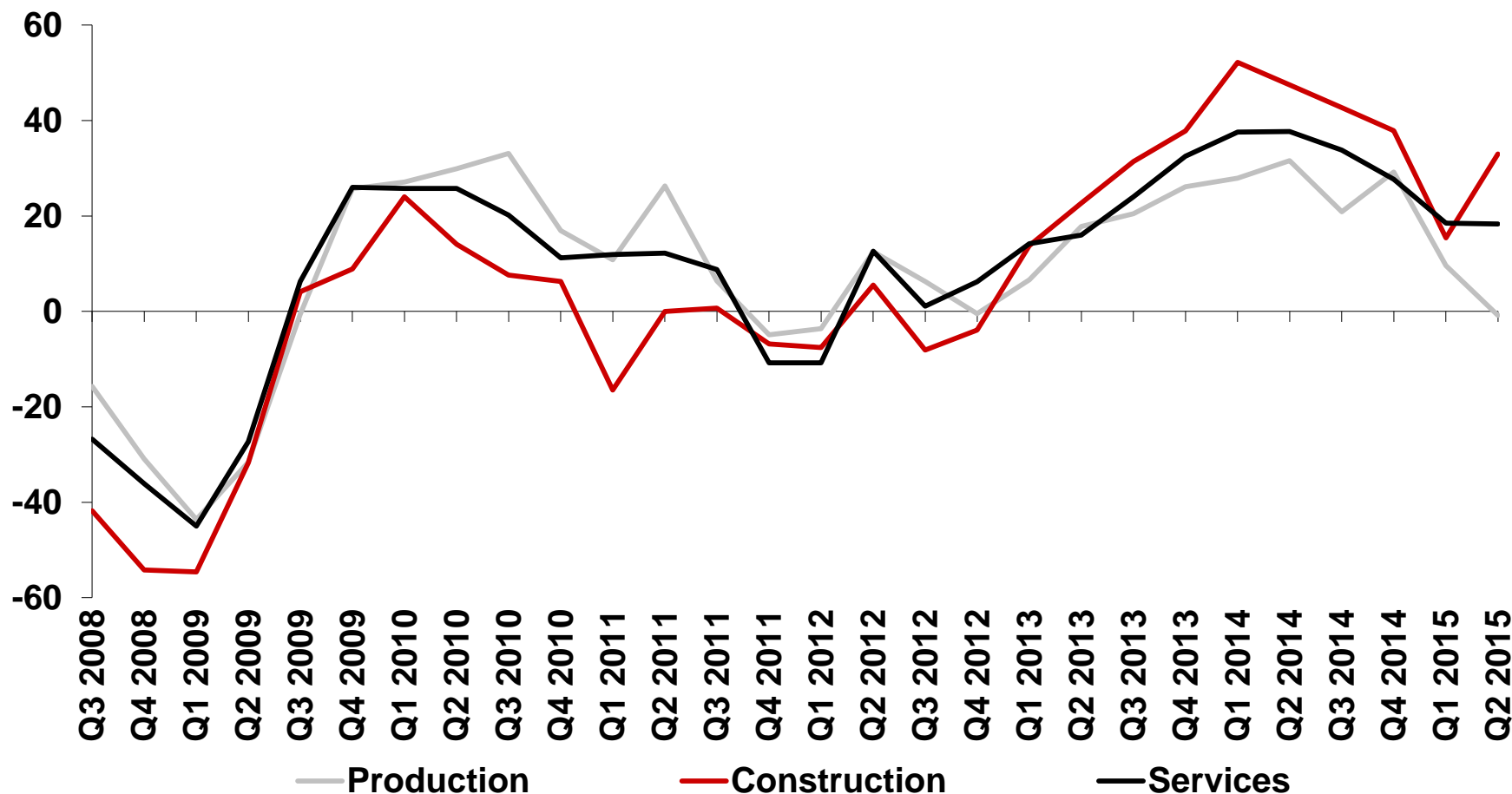


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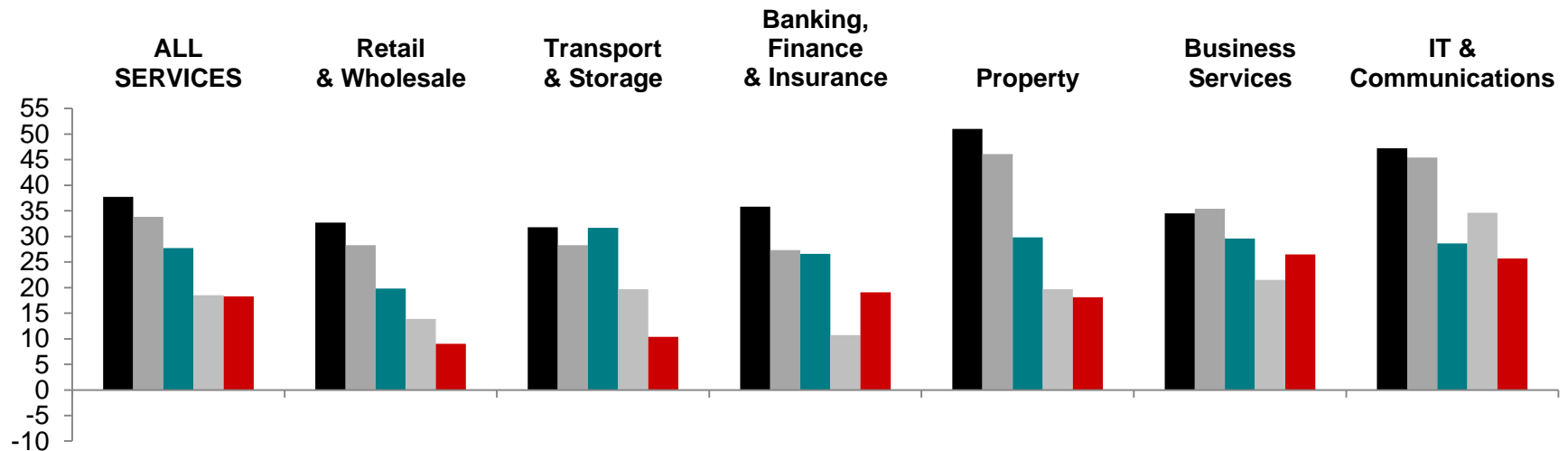
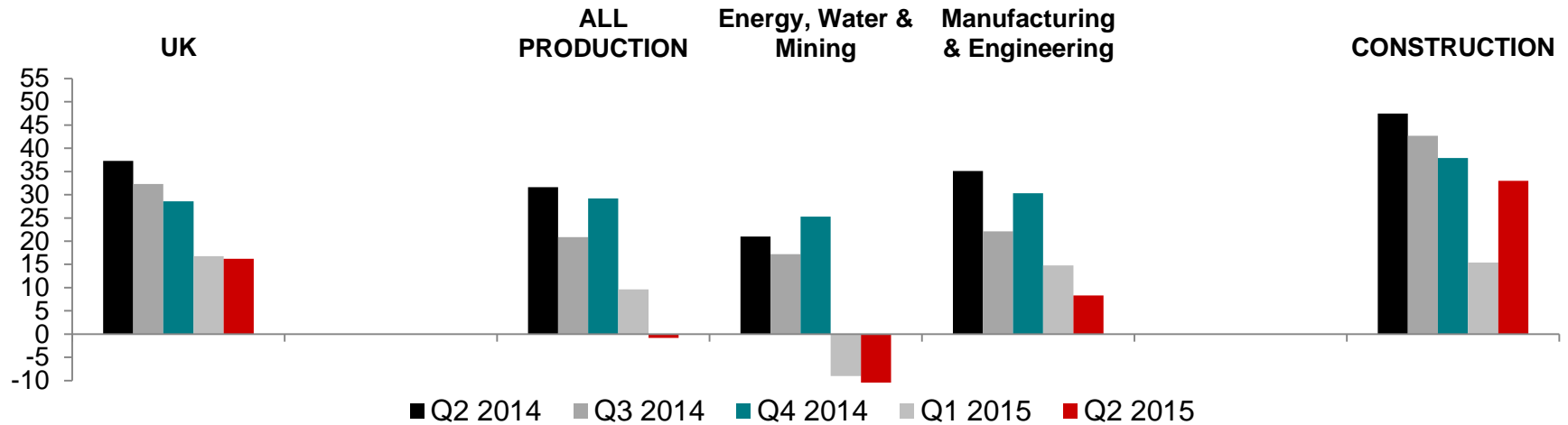
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Service sector confidence stabilises – in contrast to nervous production sector and buoyant construction firms

ICAEW / Grant Thornton Business Confidence Index

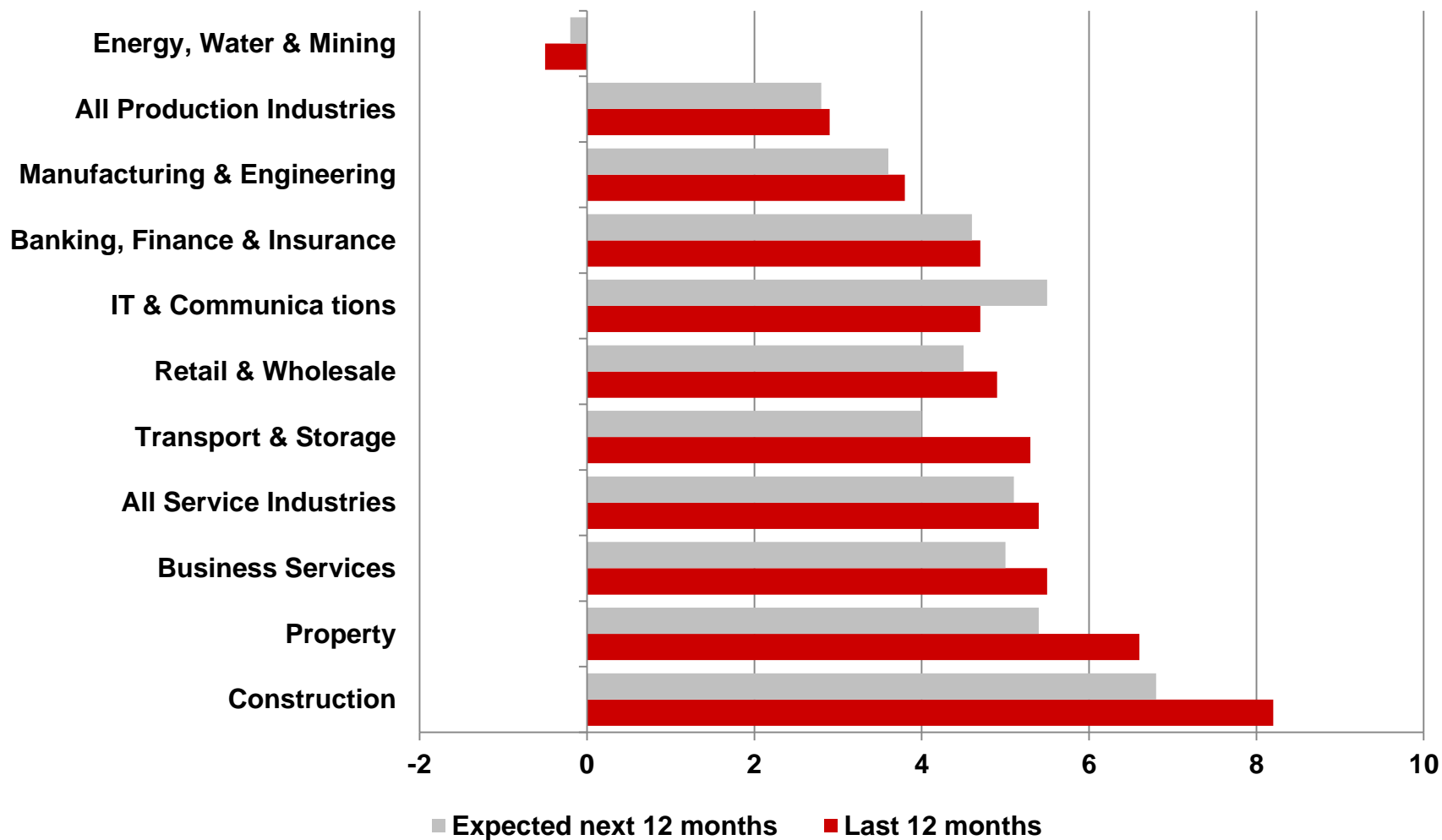


Construction sector is one of the most confident parts of the economy, while manufacturing and retail slide into pessimism



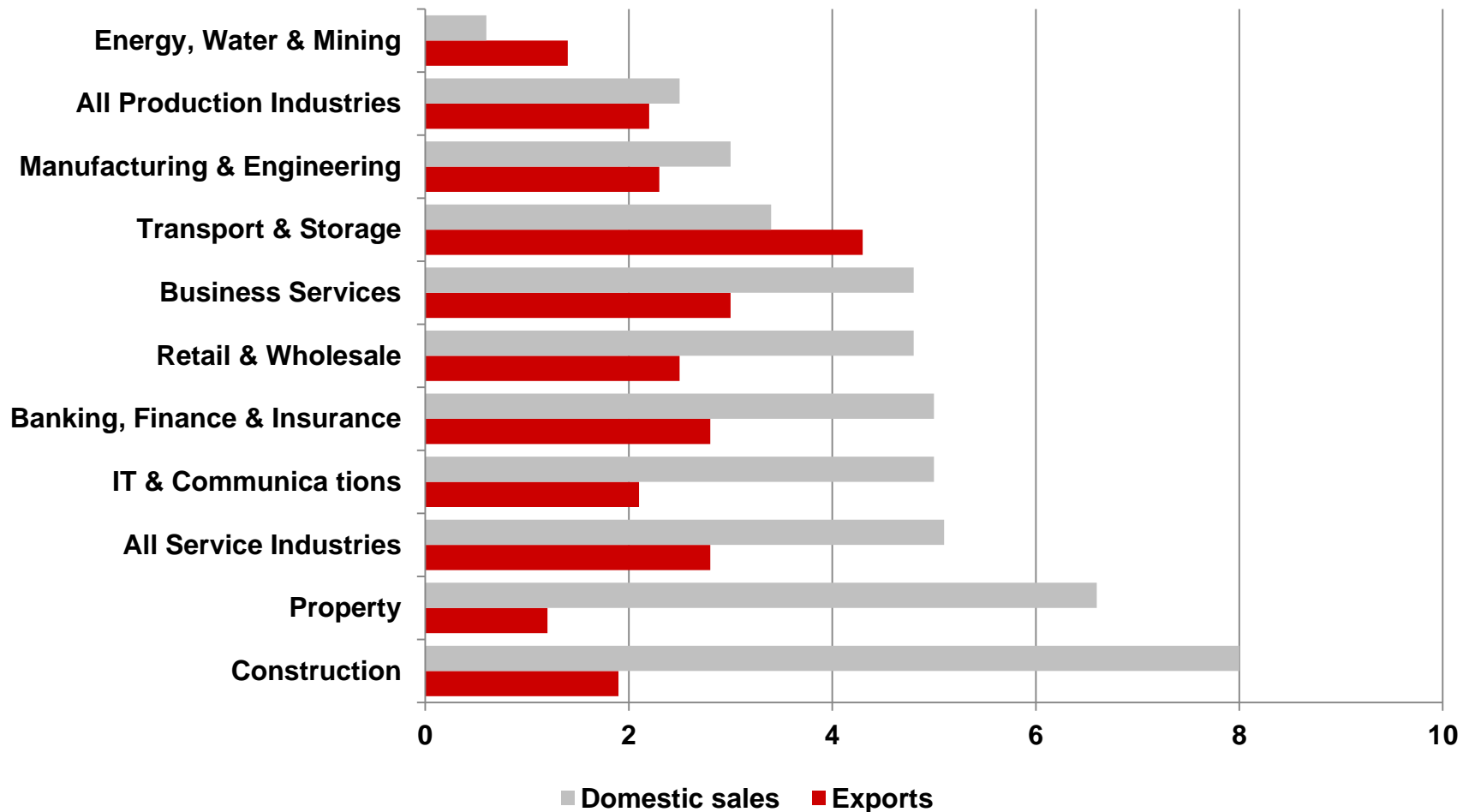
Construction also seeing the fastest increases in turnover

Change in sales volumes over 12 months



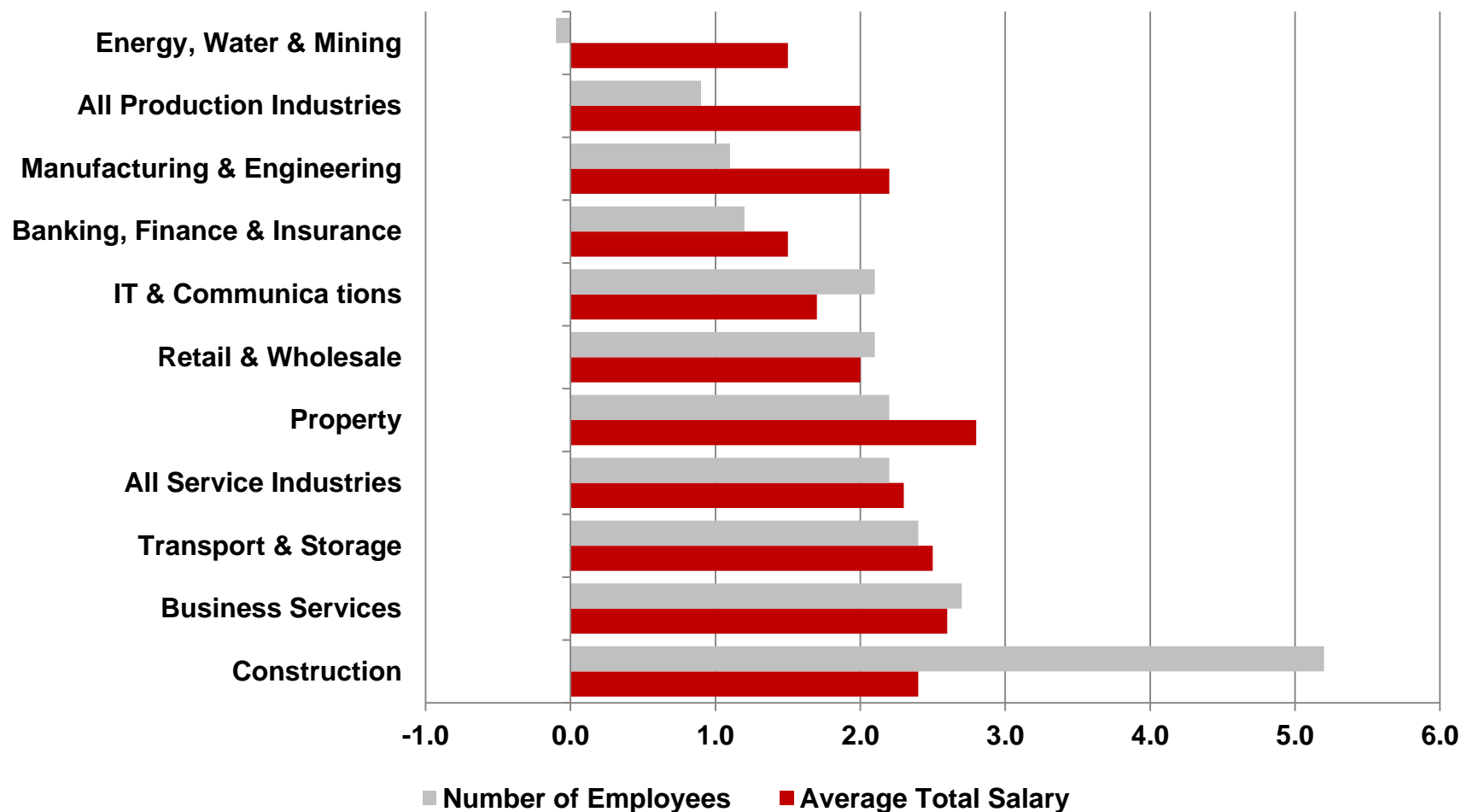
Domestic sales outpacing exports across most of the economy

Change in indicator over the last 12 months



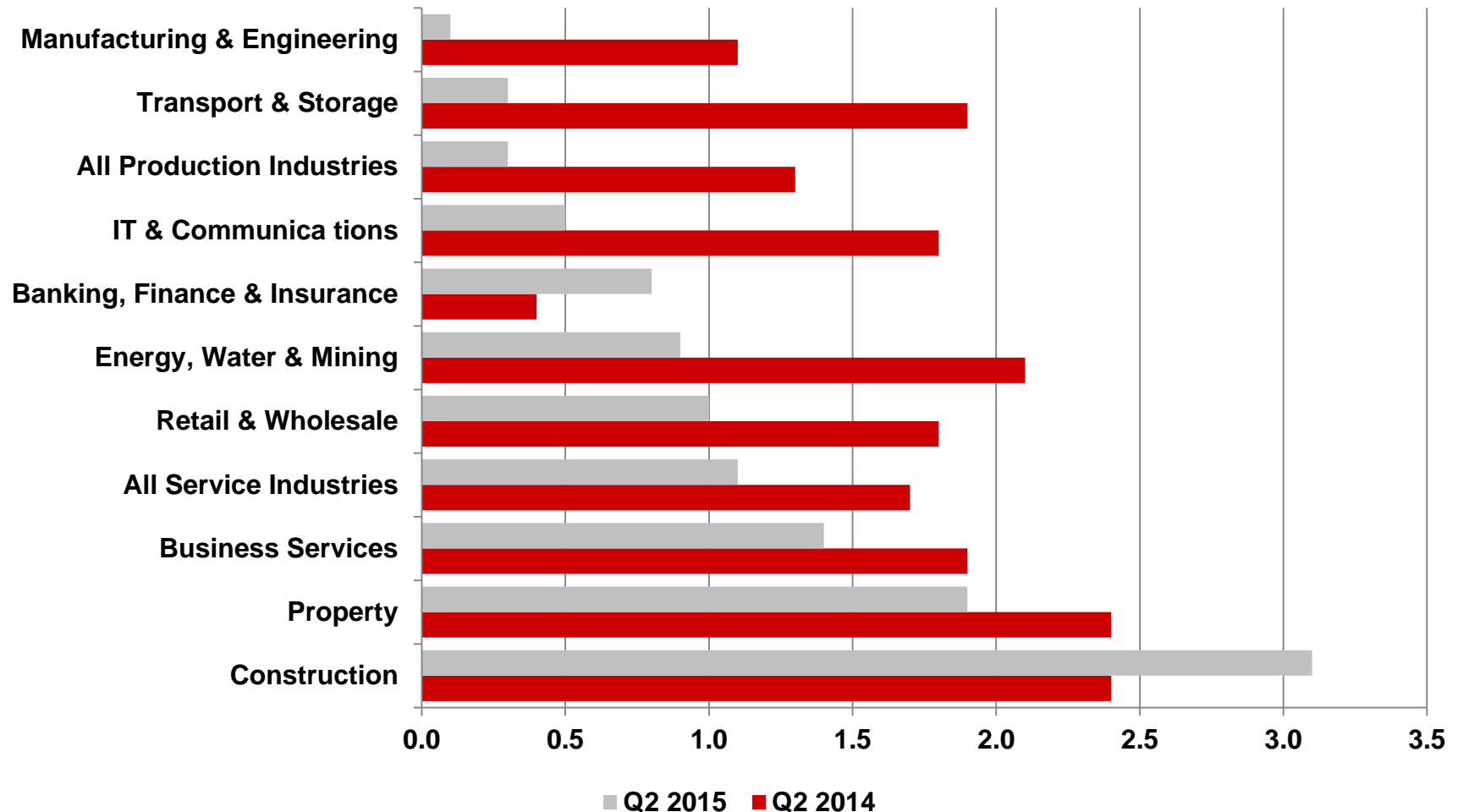
Construction and business services sectors helping to drive employment increases

Change in indicator over the last 12 months



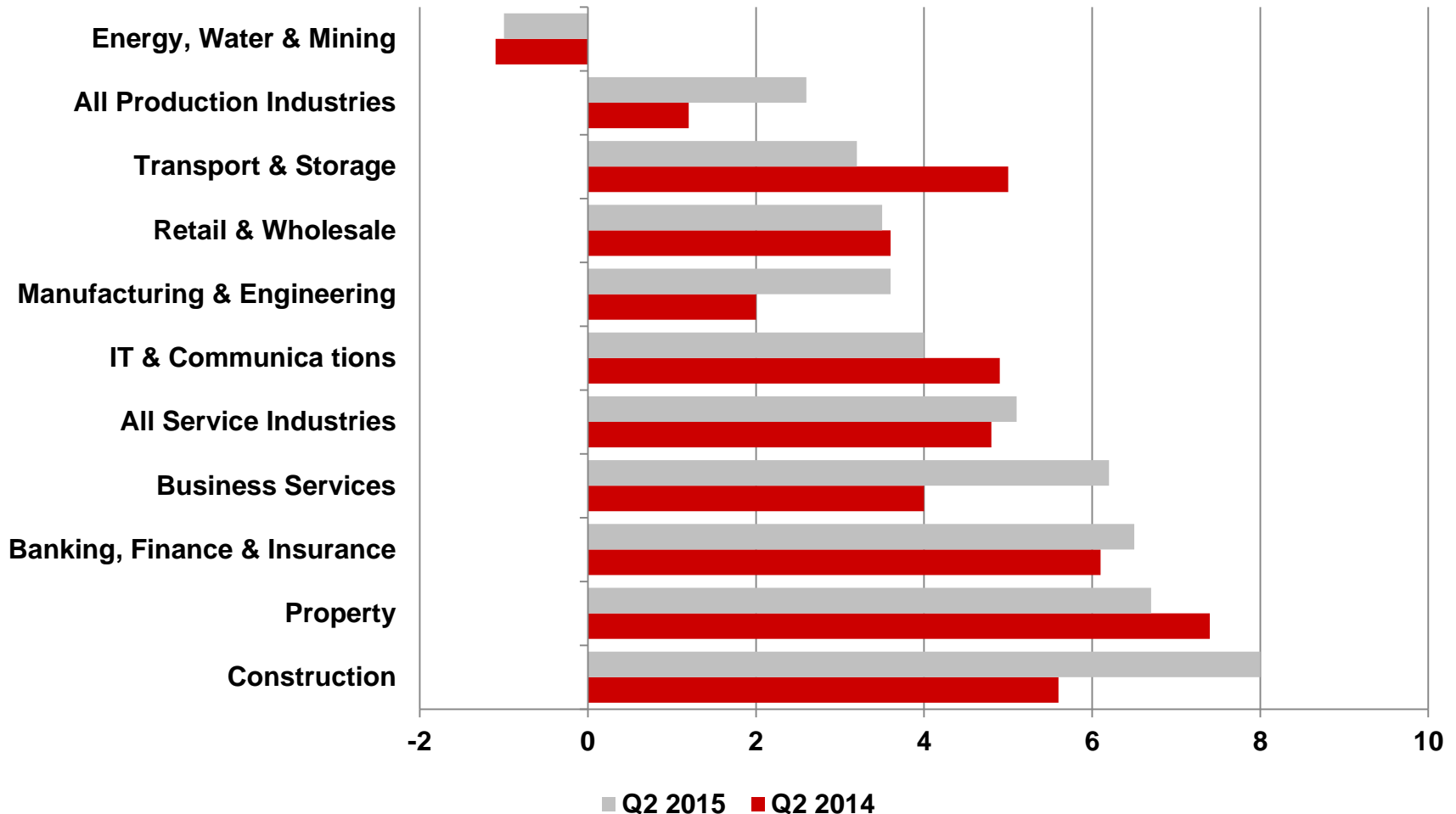
Manufacturers and logistics firms have seen some of the sharpest decline in input cost growth during the past year, in line with oil price drops

Change in input price growth over the year to the quarter stated



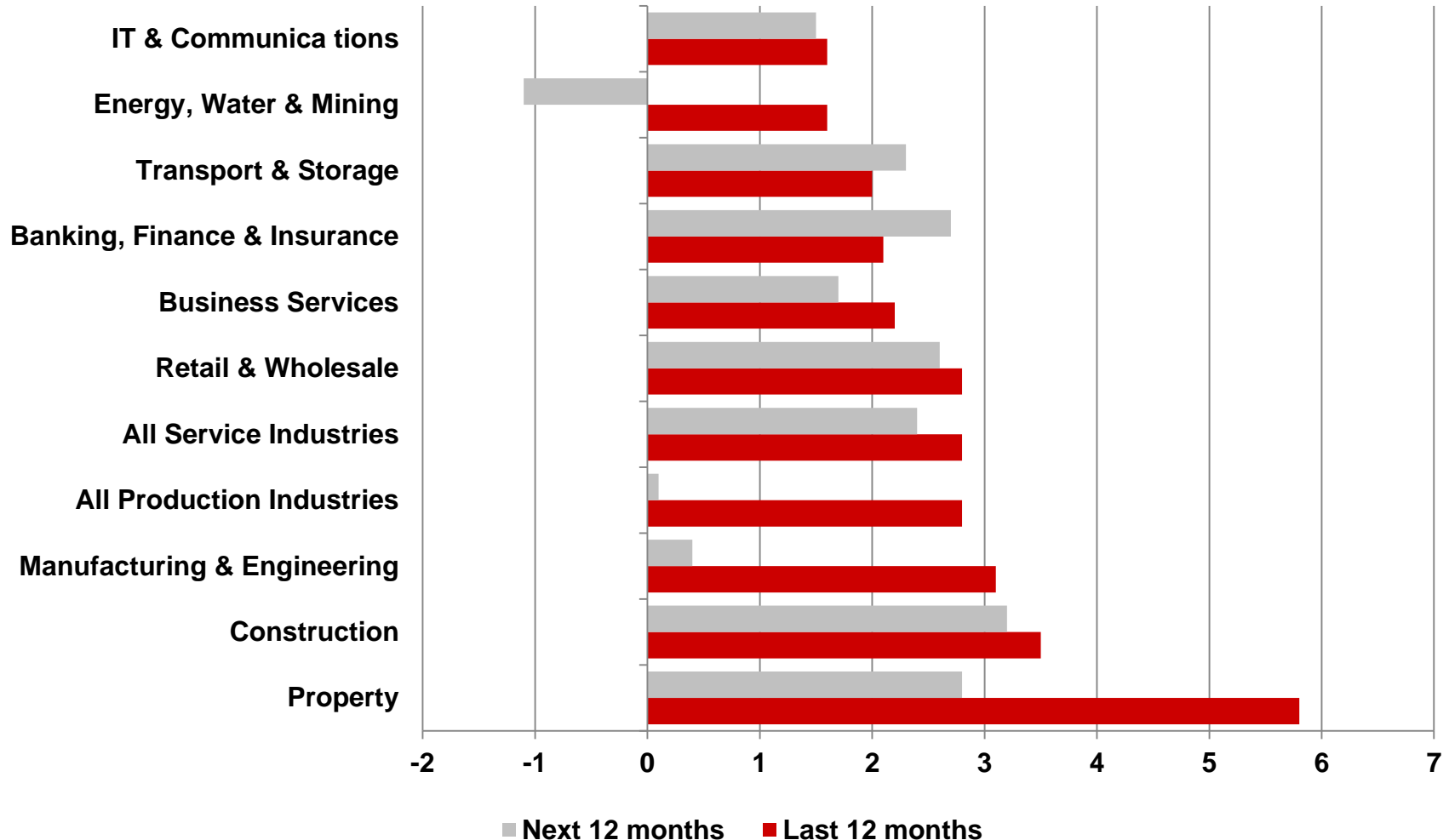
Oil price decline may have helped manufacturing profit growth, but transport sector profit growth has fallen back

Change in profit growth over the year to the quarter stated



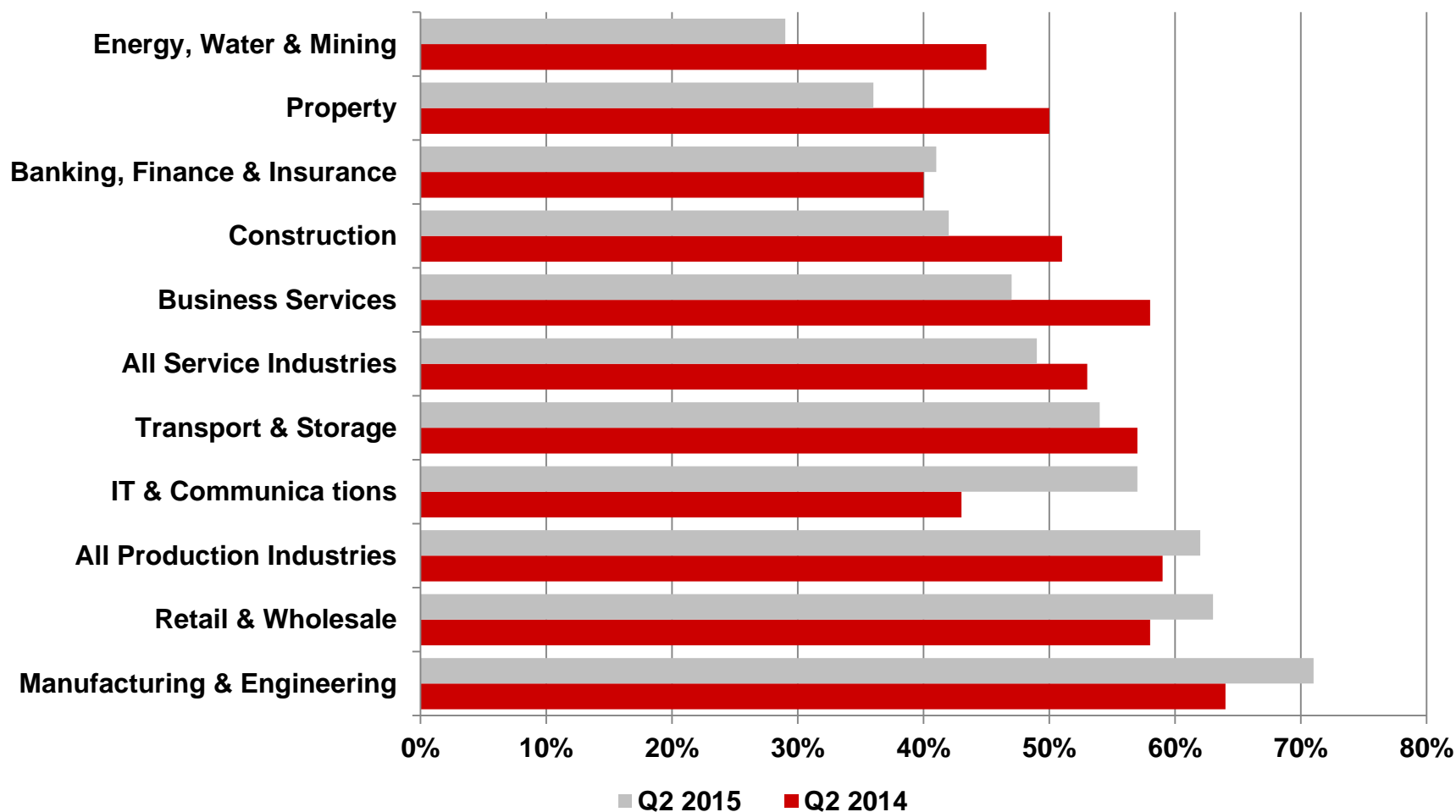
Construction and property firms planning to increase capital investment growth over the next 12 months

Capital investment growth expected over next 12 months

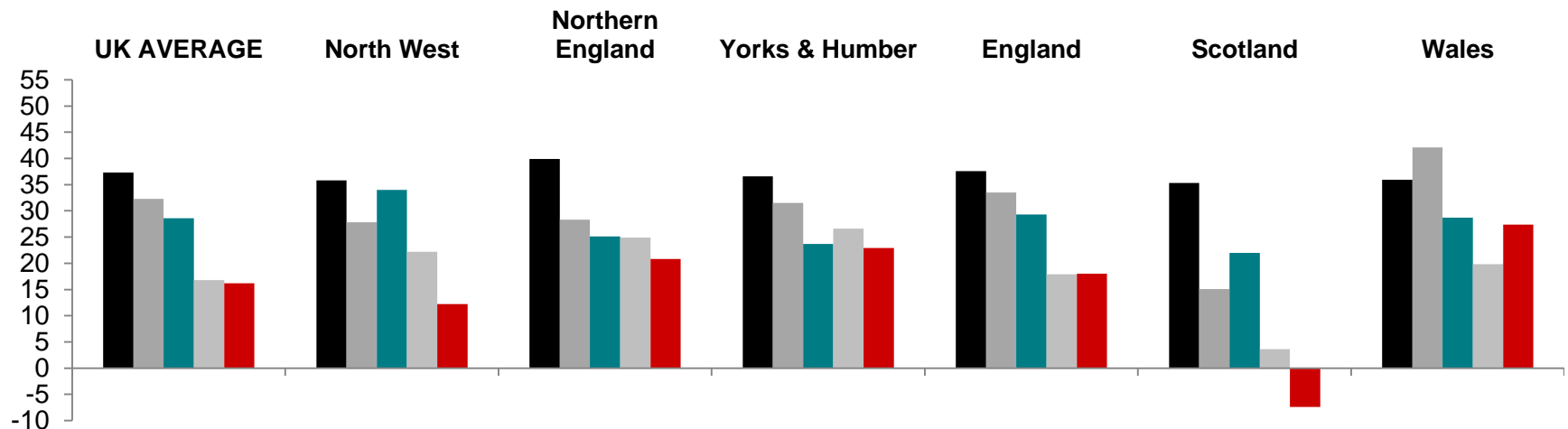
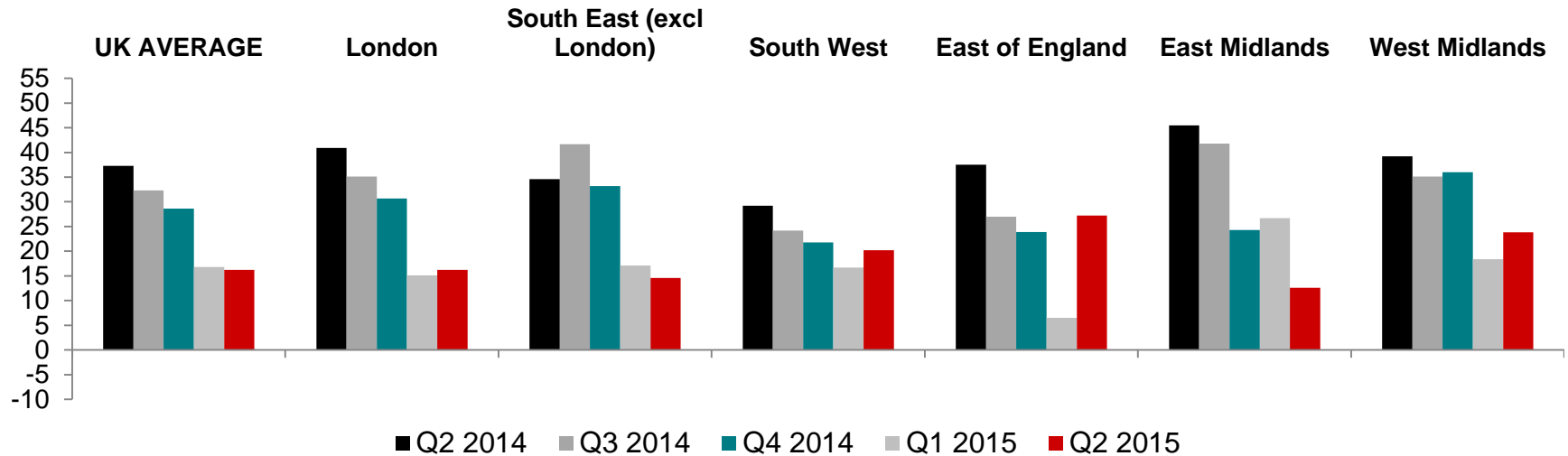


Manufacturing firms have actually increased spare capacity during the past 12 months

Proportion of businesses operating below capacity

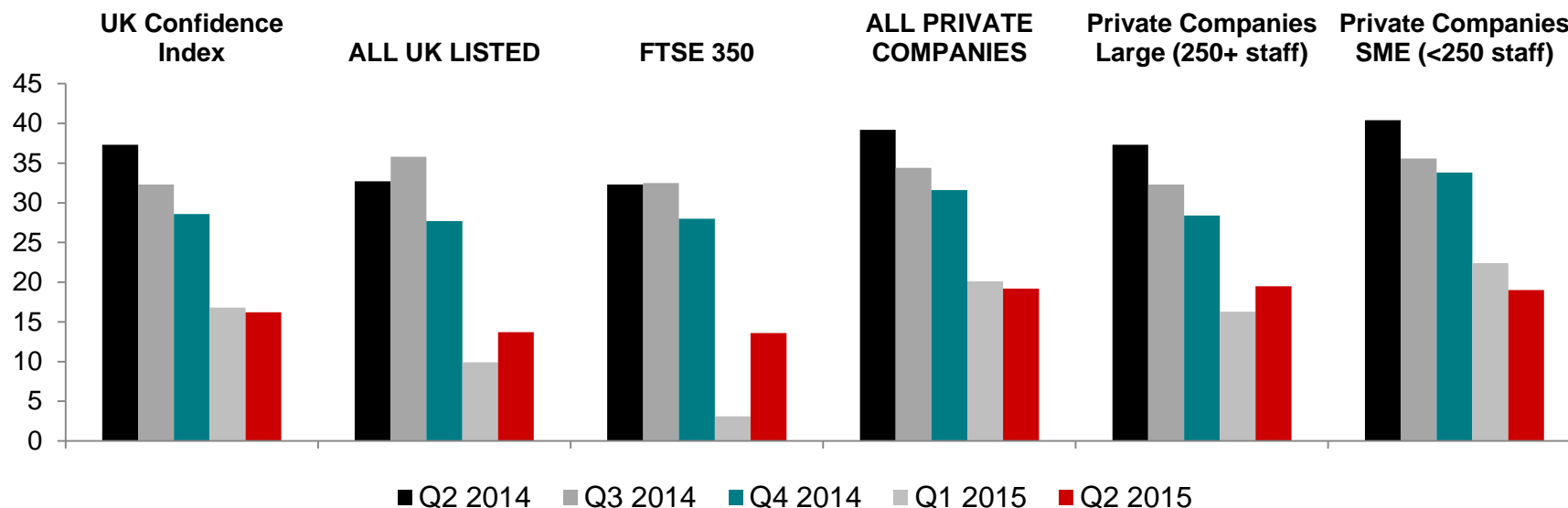


Confidence falls into negative territory in Scotland for first time in three years



Confidence remains higher at privately-held companies than their publicly-listed counterparts

ICAEW / Grant Thornton Business Confidence Index by organisation type



Conclusions

- Business confidence has now effectively stabilised at a level well into positive territory, suggesting continuing economic growth in the year ahead.
- However, turnover and profit expectations have been softening, and growth in these indicators is expected to slow over the coming year for the first time since 2009.
- There are further signs that the business environment is supported largely by domestic consumers, as export performance has weakened further.
- Confidence in the service sector remains relatively buoyant. However, optimism among manufacturers has declined sharply, alongside rising spare capacity levels.
- Salary growth remains on hold, below pre-crisis levels. However, inflation falling to zero provides a significant boost to earnings in real terms.
- In addition, employment growth is falling back, as the UK unemployment rate returns to near 2007 levels.
- Capital investment growth and intentions both continue to gradually cool, potentially reflecting election uncertainty.



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