



# Q4 2015 ICAEW / Grant Thornton Business Confidence Monitor results

October 2015

# Outline

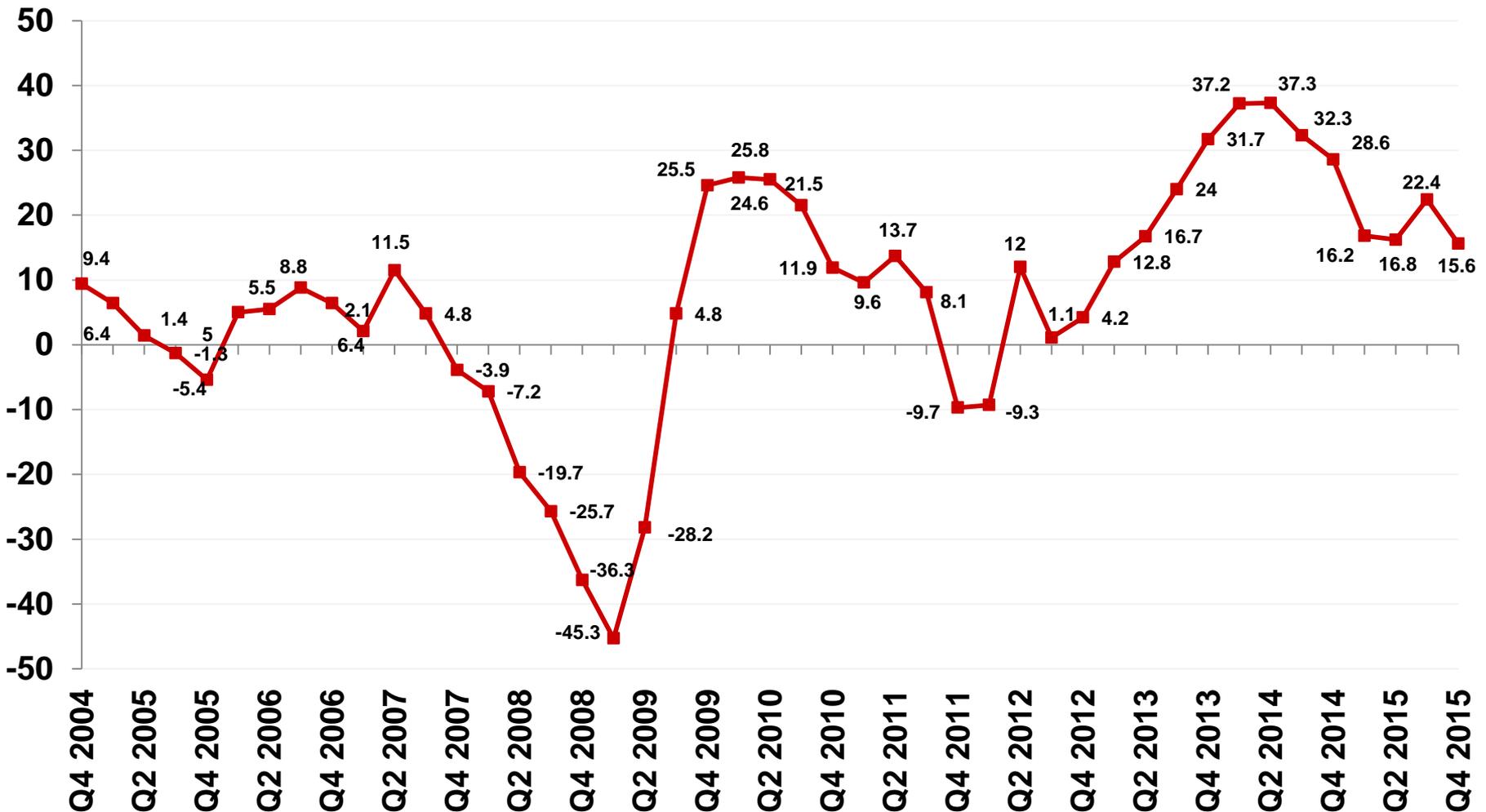
- Confidence Index top lines
  - Financial performance indicators
    - Growth indicators
    - Inflation & labour market indicators
  - Regional & sector stories
-

# Outline

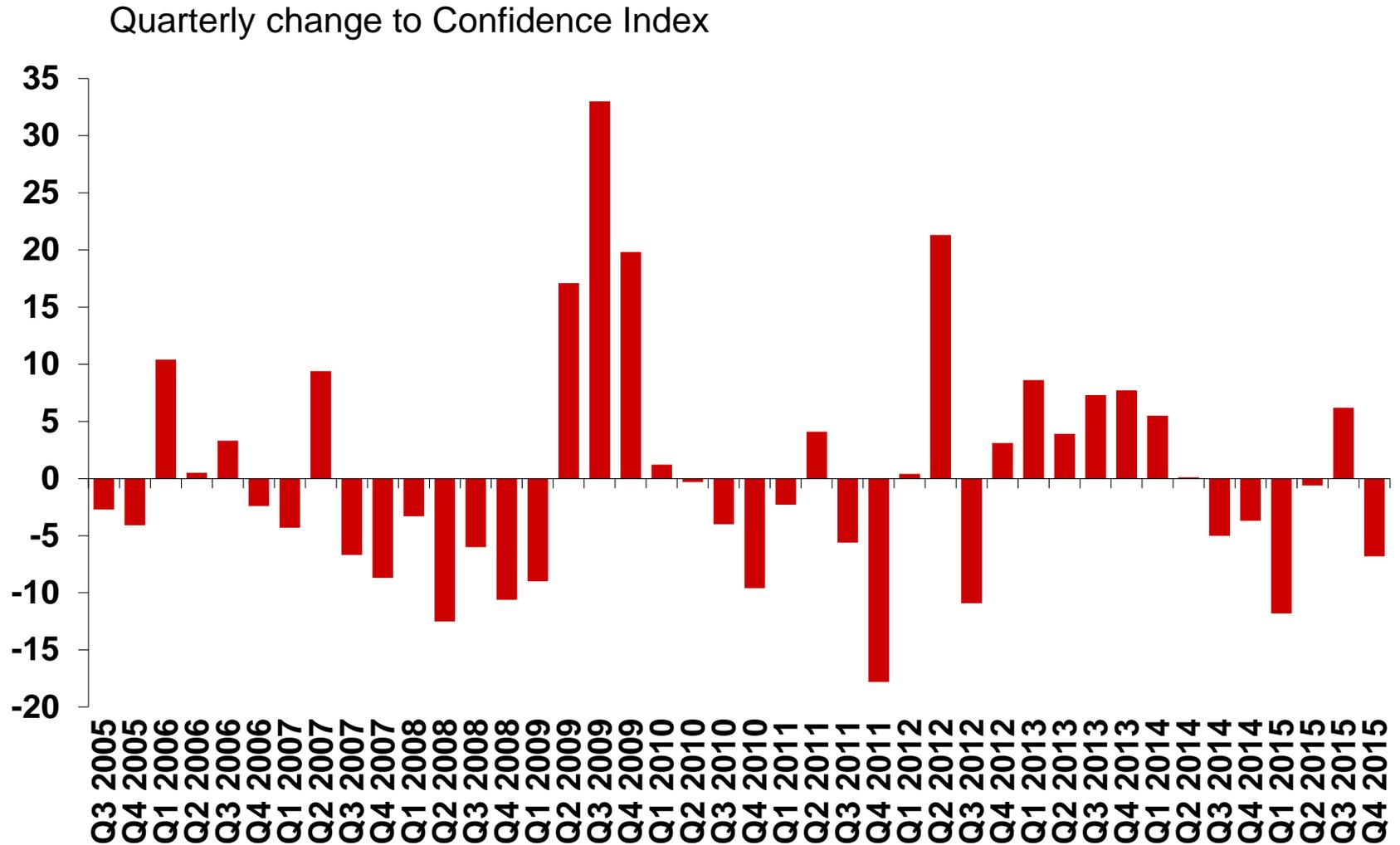
- Confidence Index top lines

# Confidence falls back again, although remains firmly in positive territory

ICAEW / Grant Thornton UK Business Confidence Index

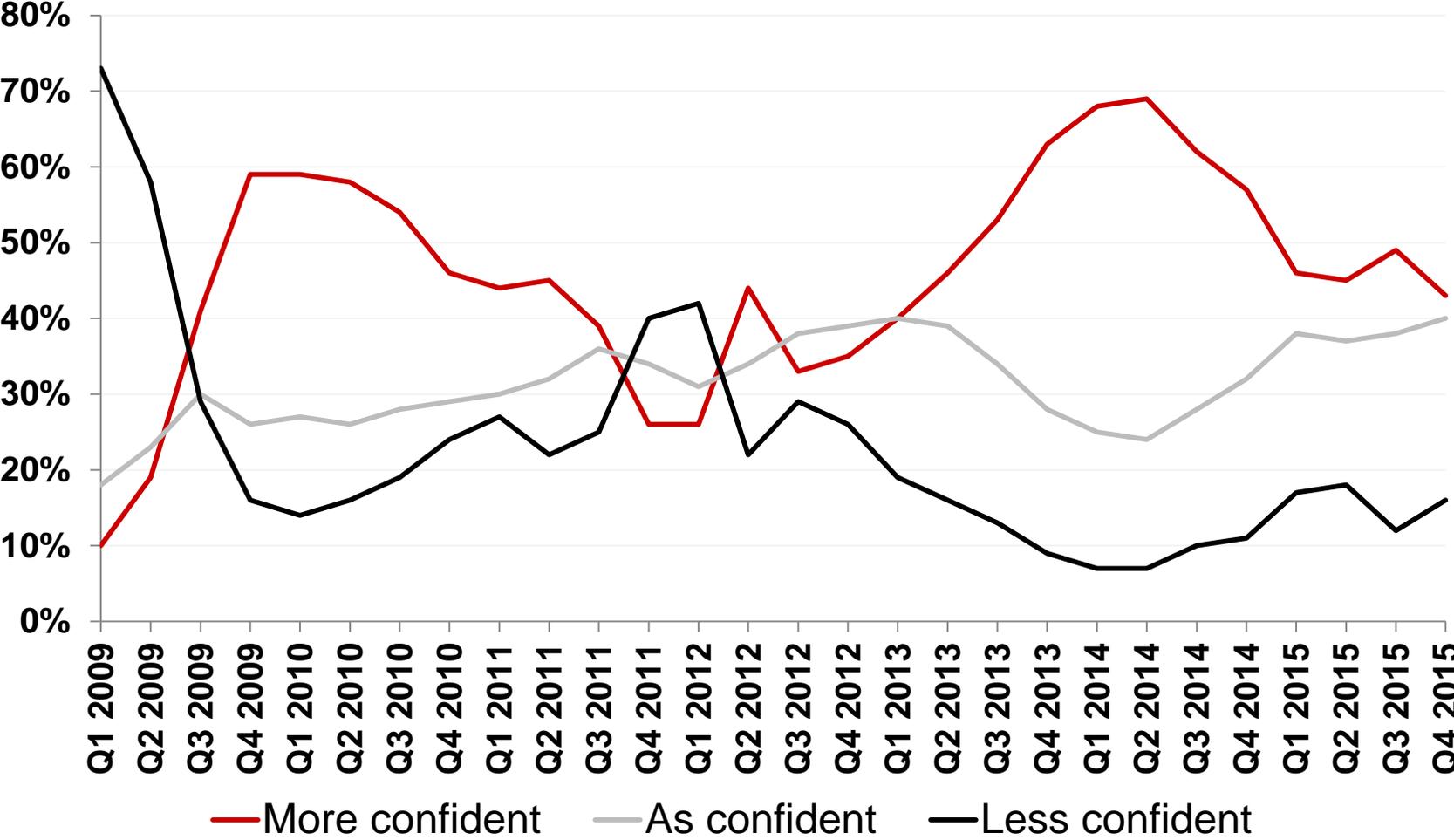


# Confidence back in quarter-on-quarter decline



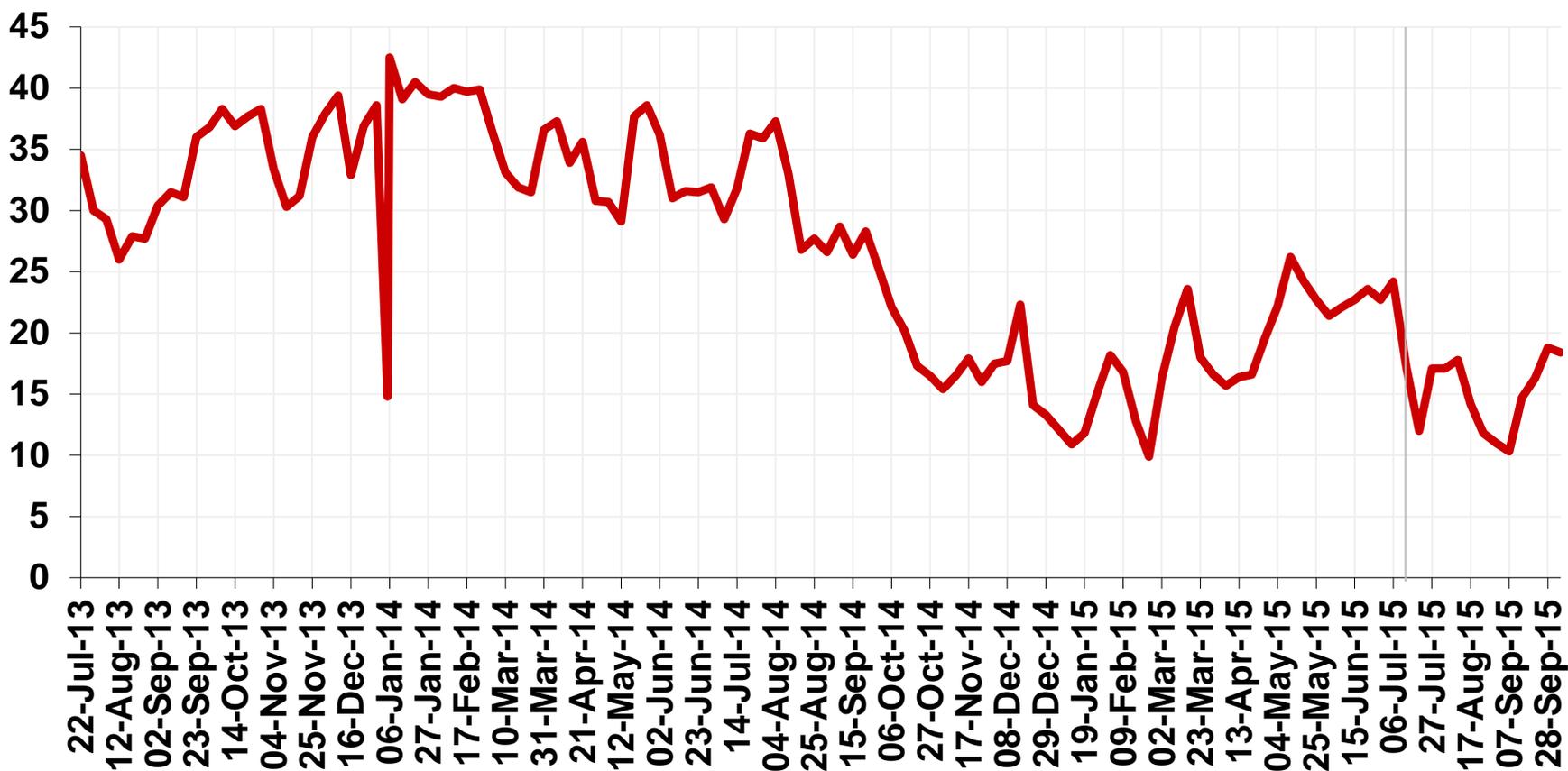
# Fewer firms are 'more confident' in prospects than a year ago

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



# Confidence falls back after post-election bounce

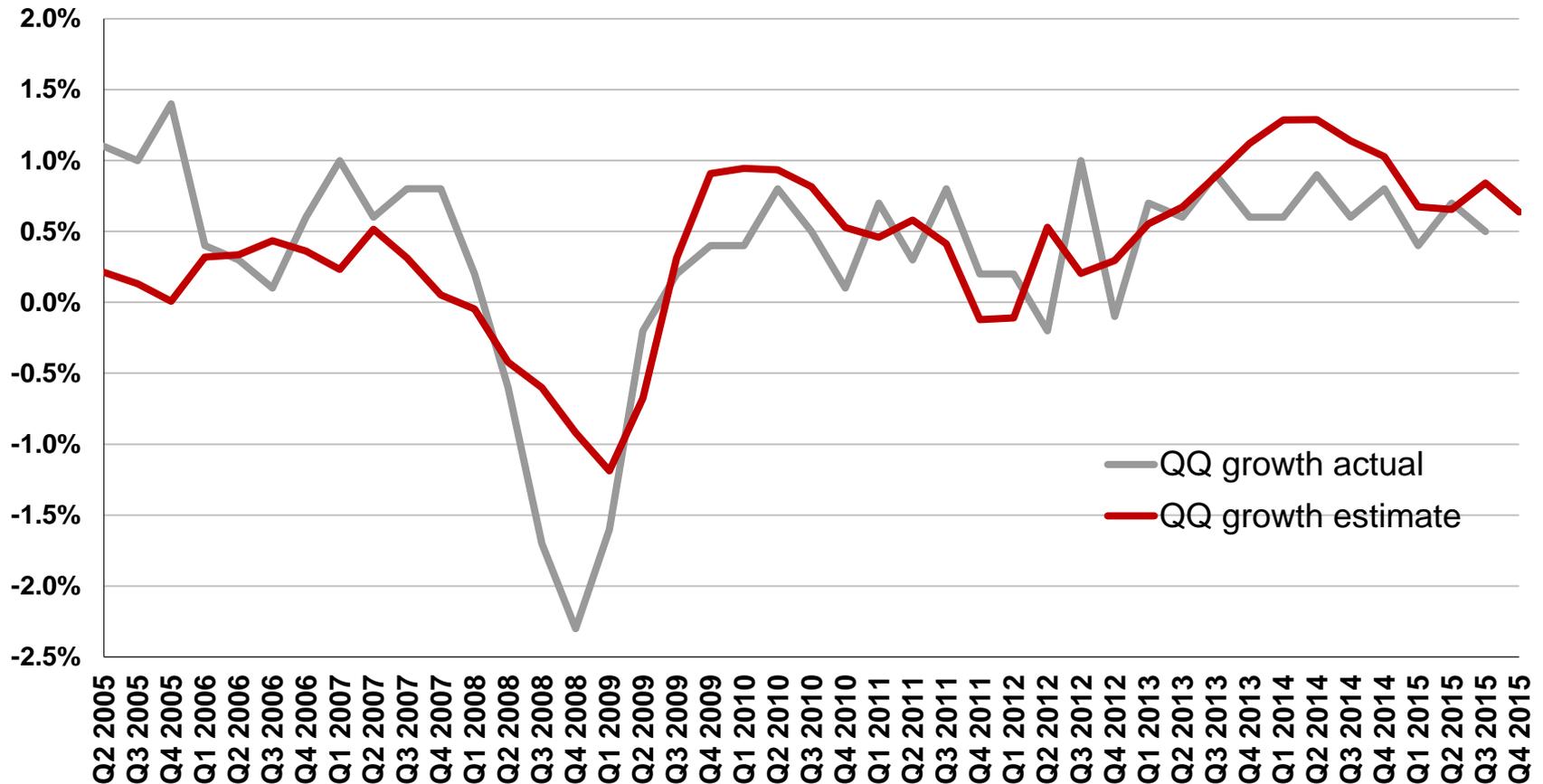
ICAEW / Grant Thornton Business Confidence Index, three week rolling trend



Three weeks beginning...

# Growth over 2015 as a whole looking solid, though weaker than 2014's stellar performance

Quarter on quarter real GDP growth, per cent

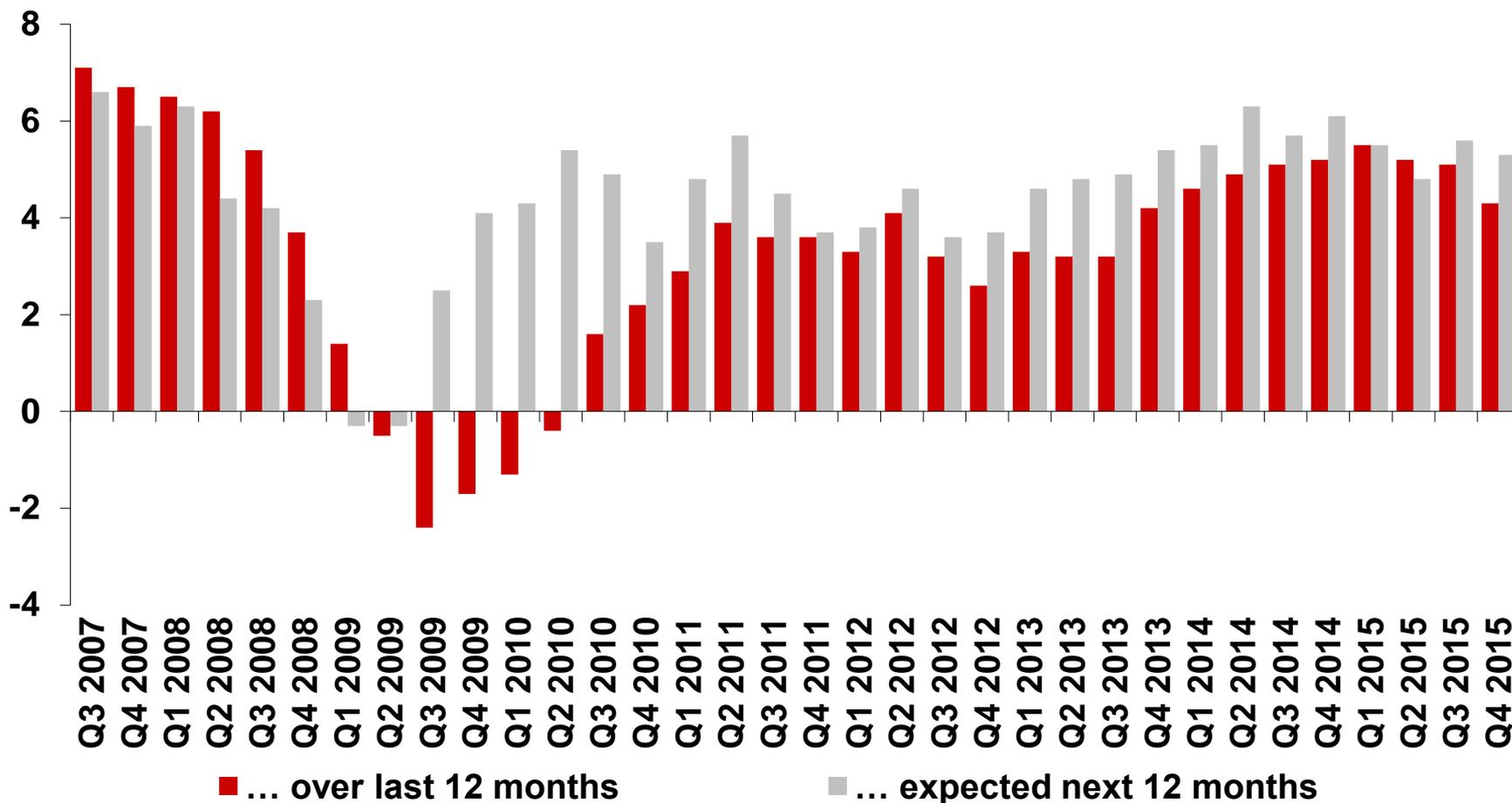


# Outline

- Financial performance indicators
    - Growth indicators
-

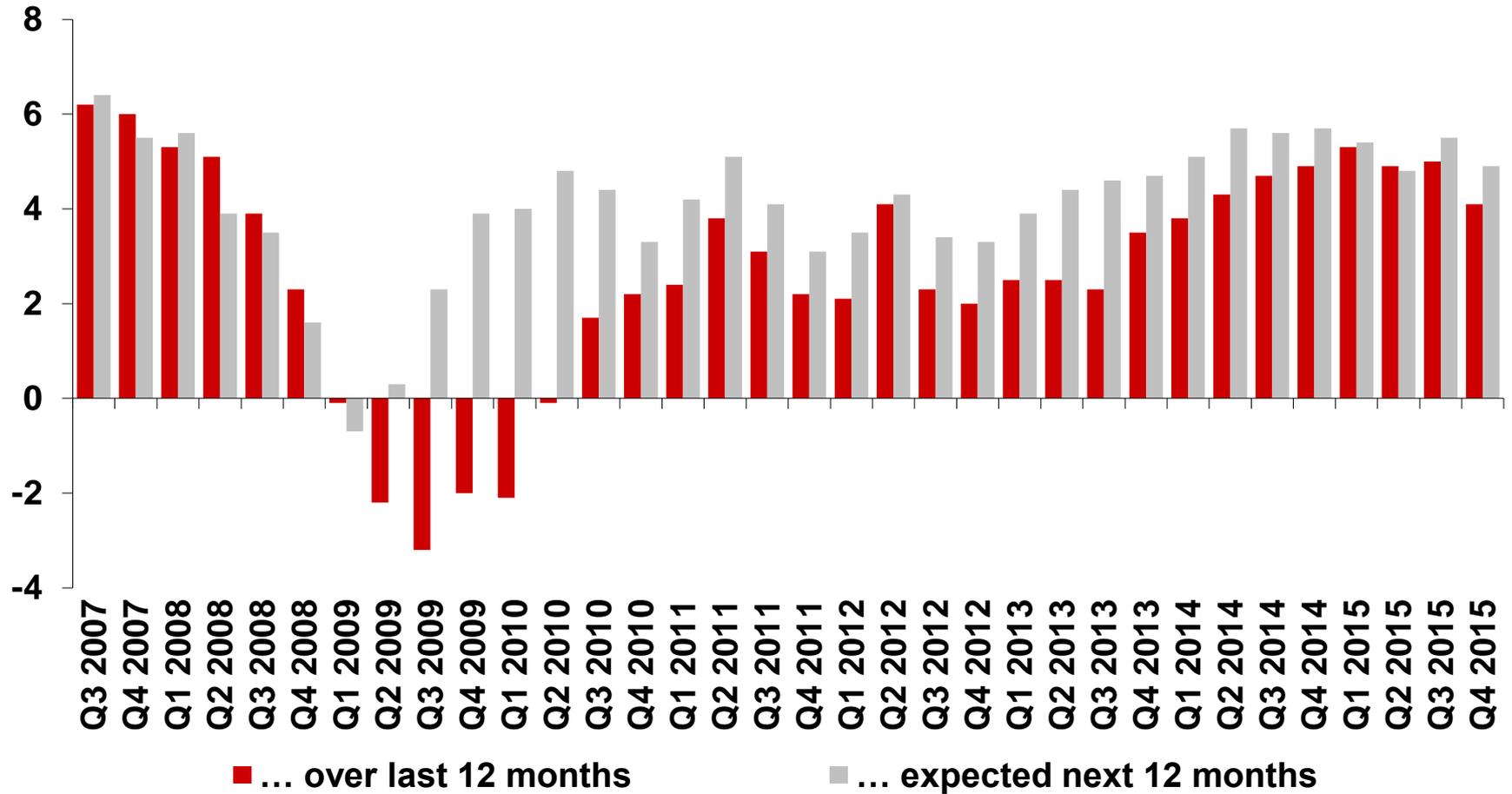
# Turnover growth now falling back, although outlook is brighter

Turnover, annual percentage change



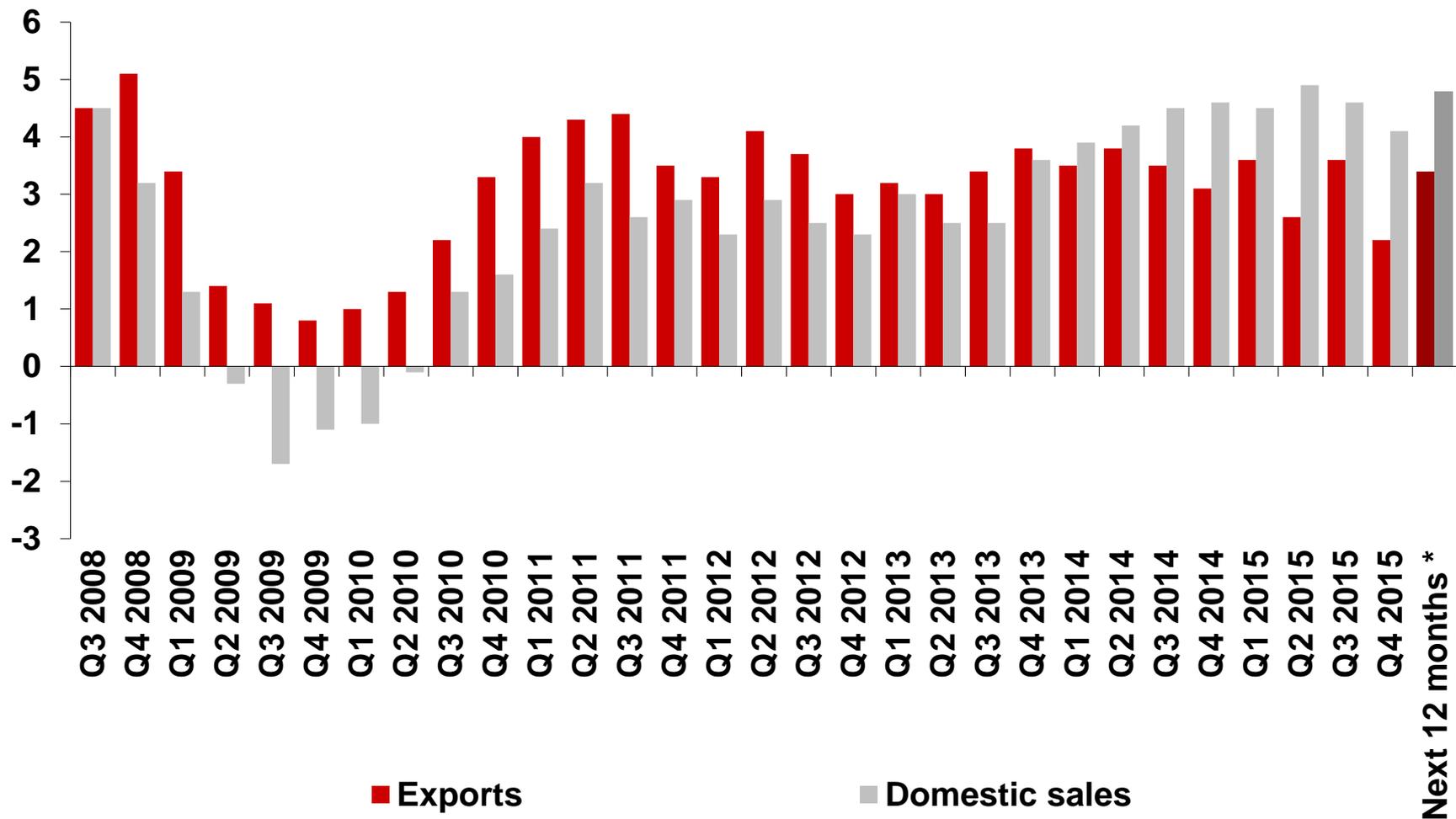
# Growth in profits also slowing, although businesses expect a boost over the next 12 months

Gross profits, annual percentage change



# Export growth weak this quarter, but higher demand expected ahead both at home and overseas

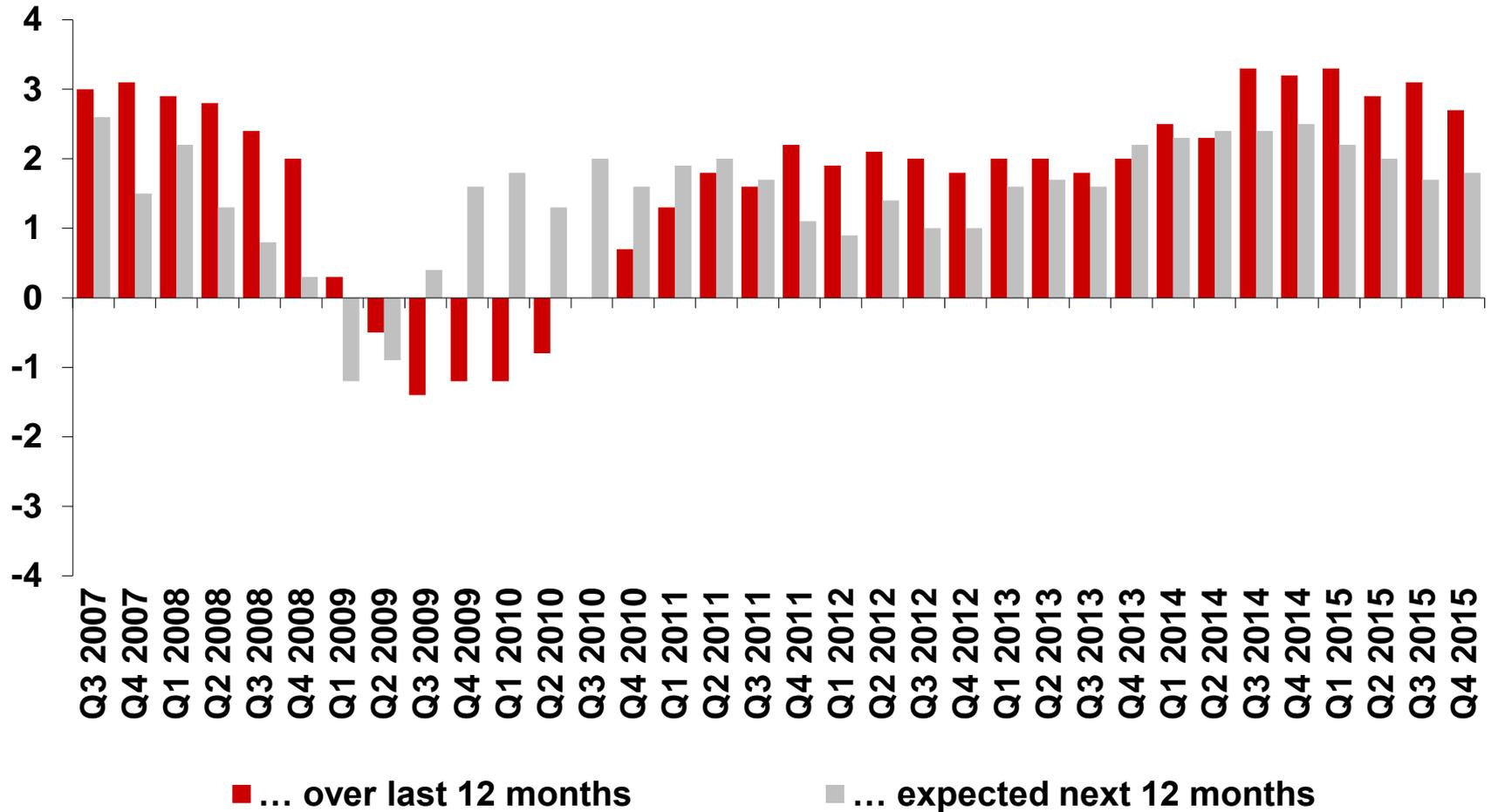
Exports and domestic sales, annual percentage change



\* expectation

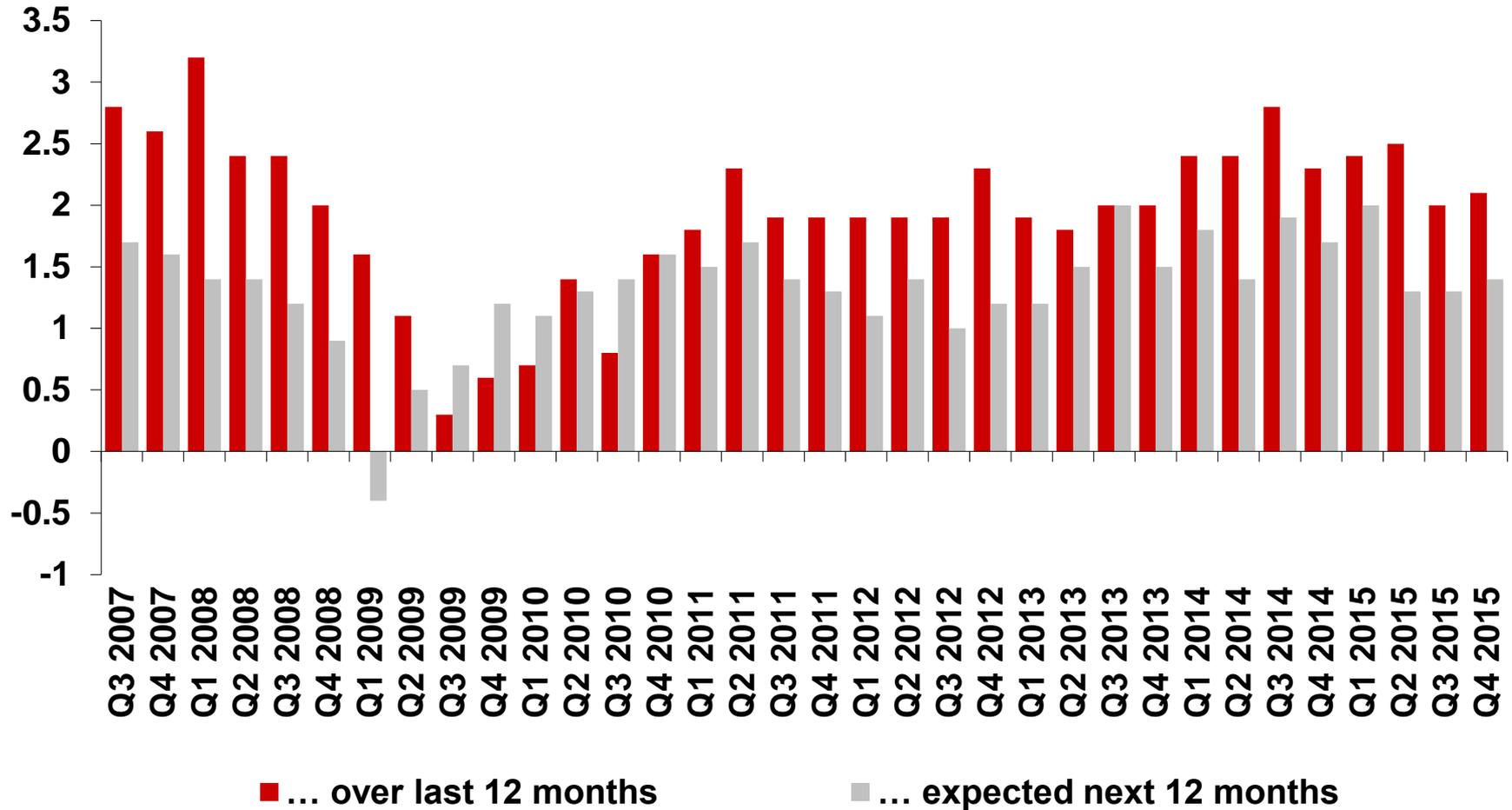
# Capital investment continues to slowly fall, and expected to slow further ahead

Capital investment, annual percentage change



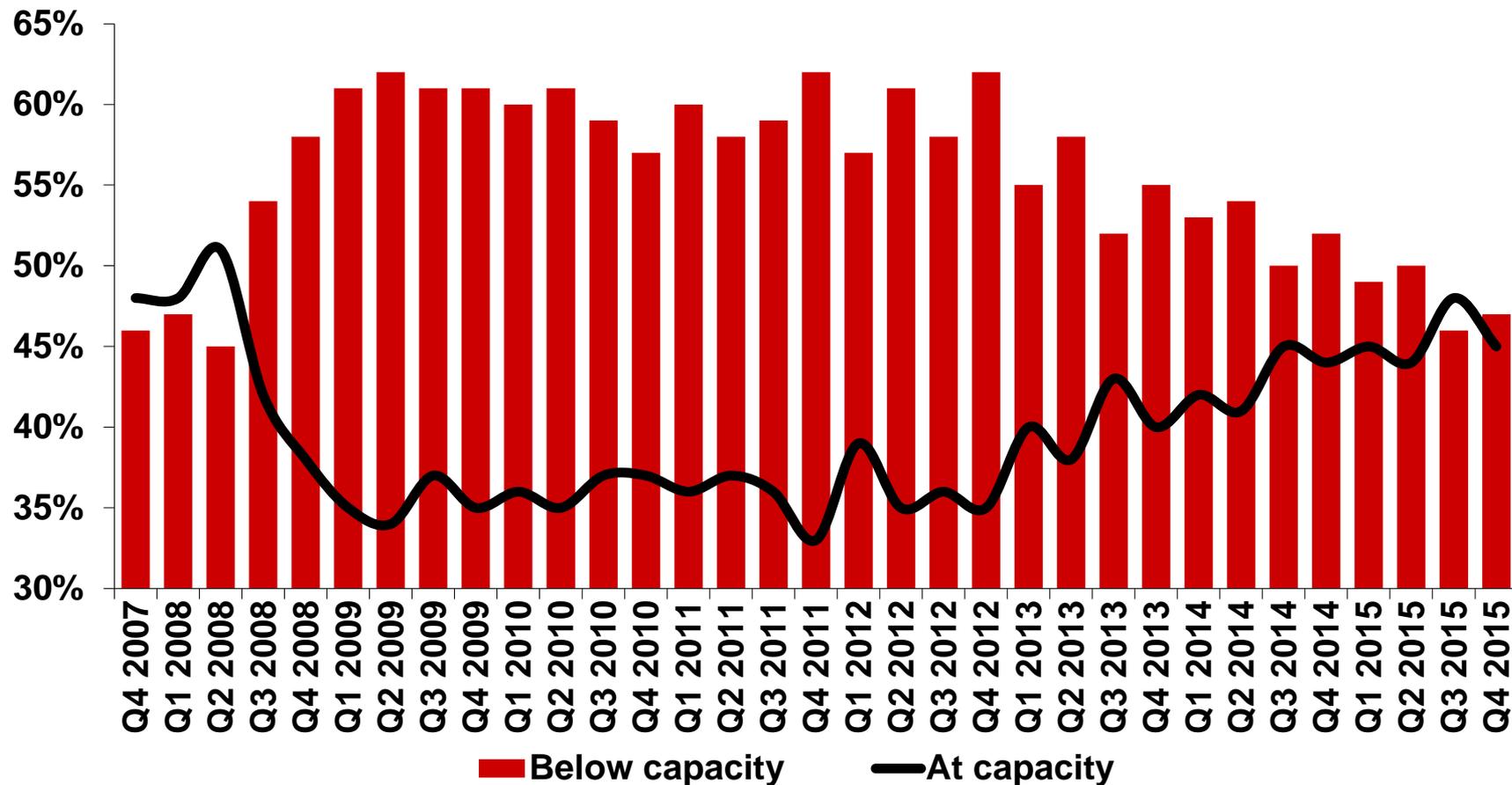
# R&D budget growth slower than pre-crisis and expected to fall further

Research and development budgets, annual percentage change



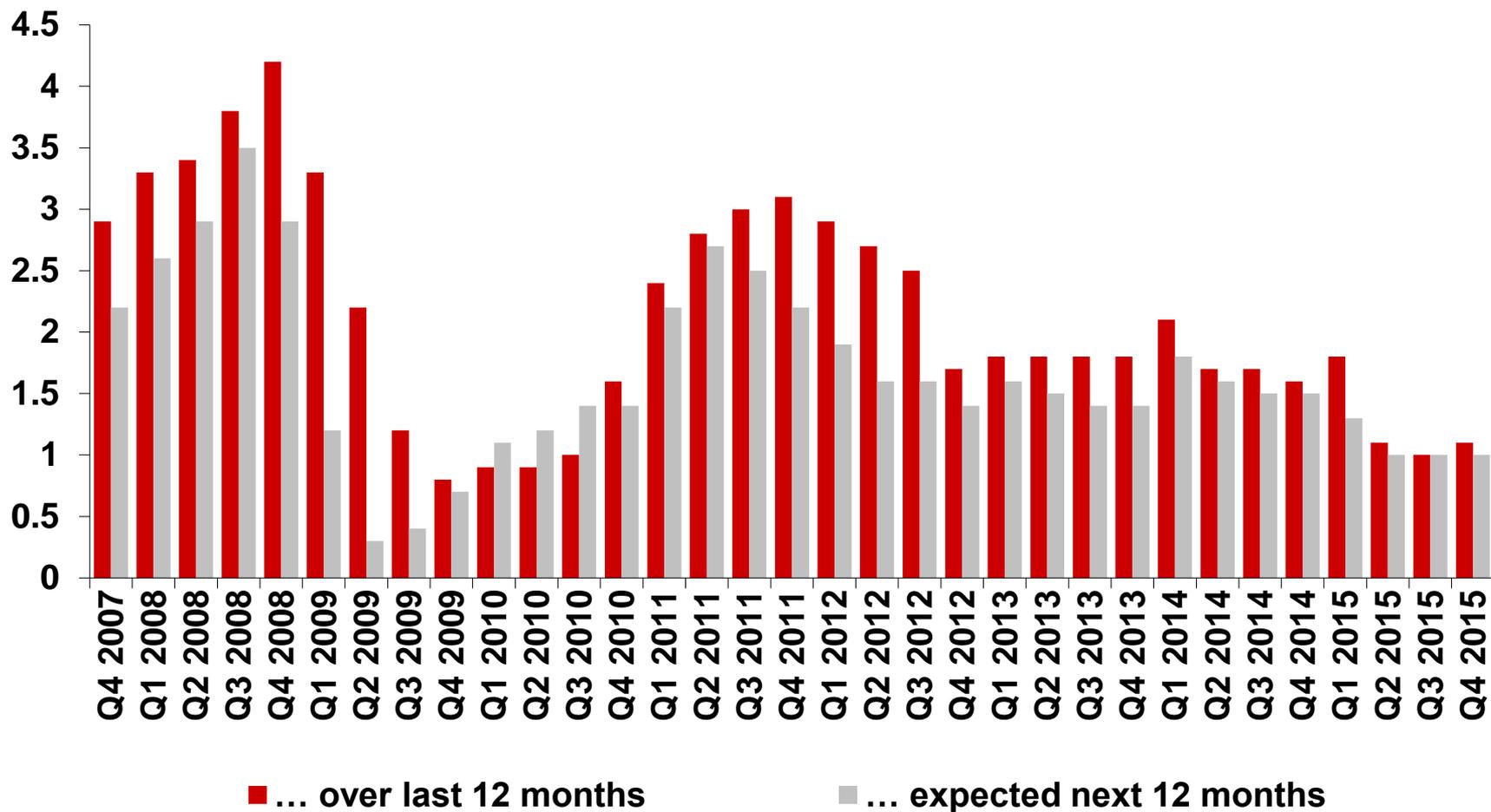
# Spare capacity still shrinking year on year

Share of businesses operating at and below capacity



# No real sign of uptick in cost inflation emerging yet

Input prices, annual percentage change

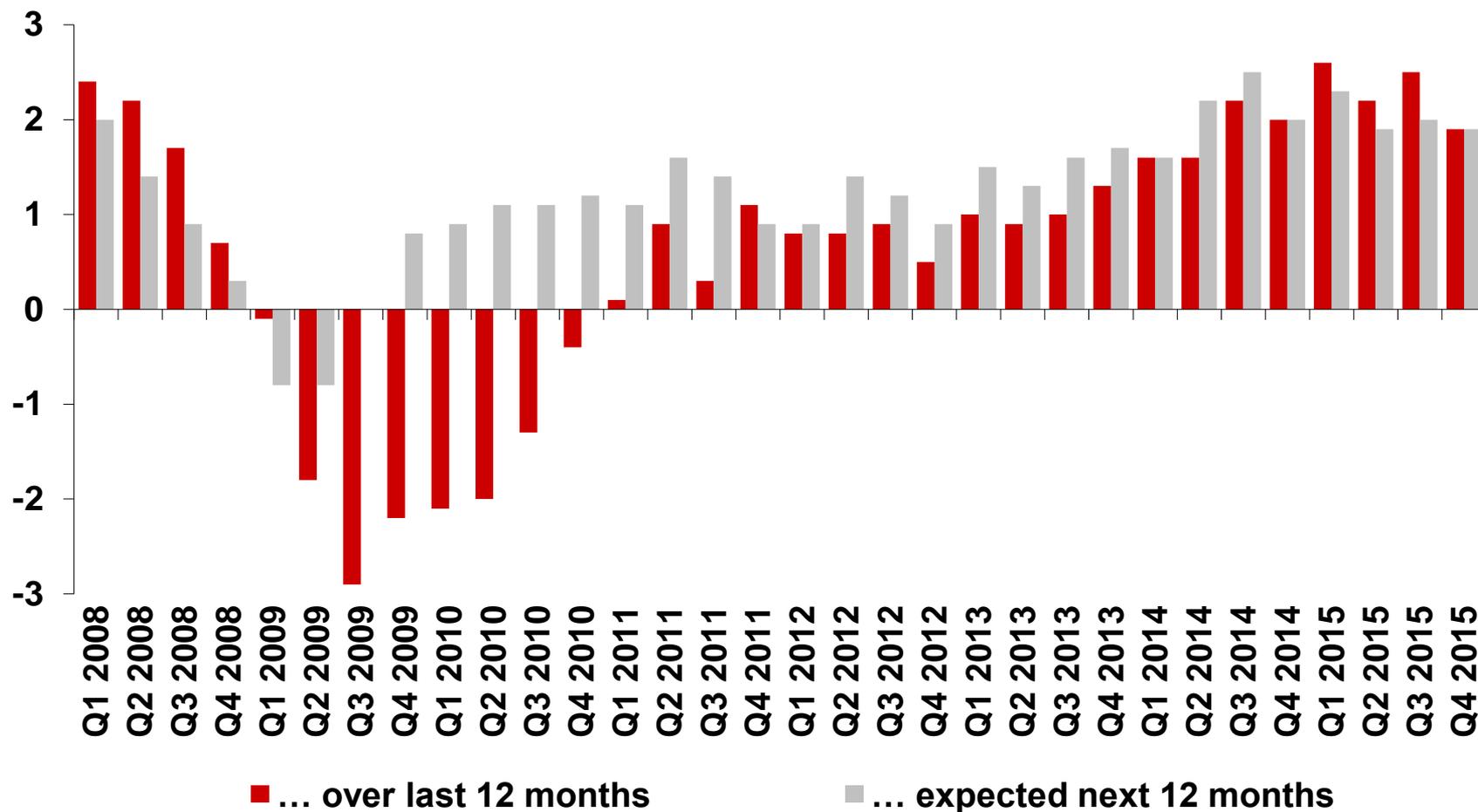


# Outline

- Financial performance indicators
  - Inflation & labour market indicators

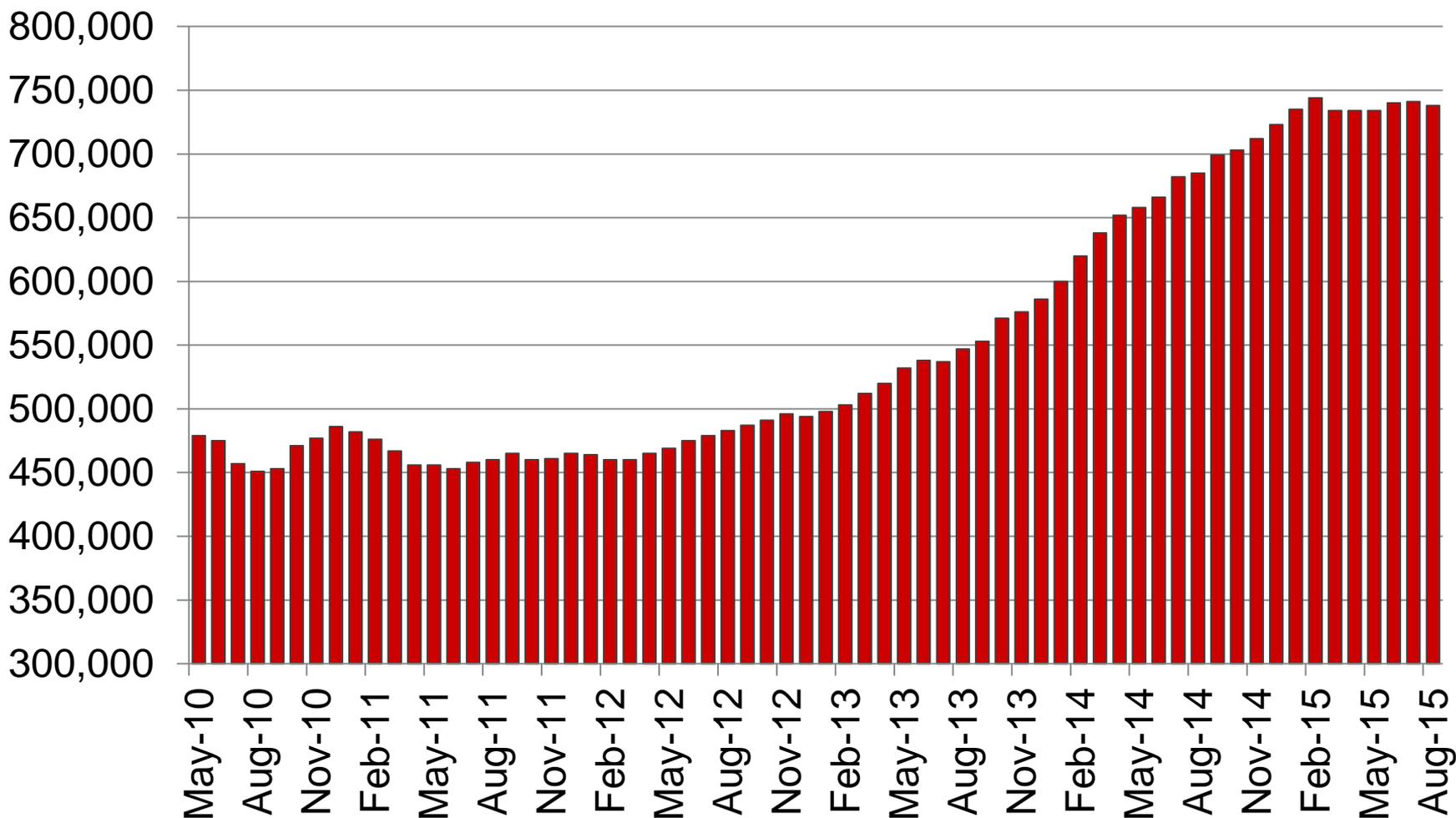
# Employment growth is expected to stabilise at buoyant levels

Employee numbers, annual percentage change



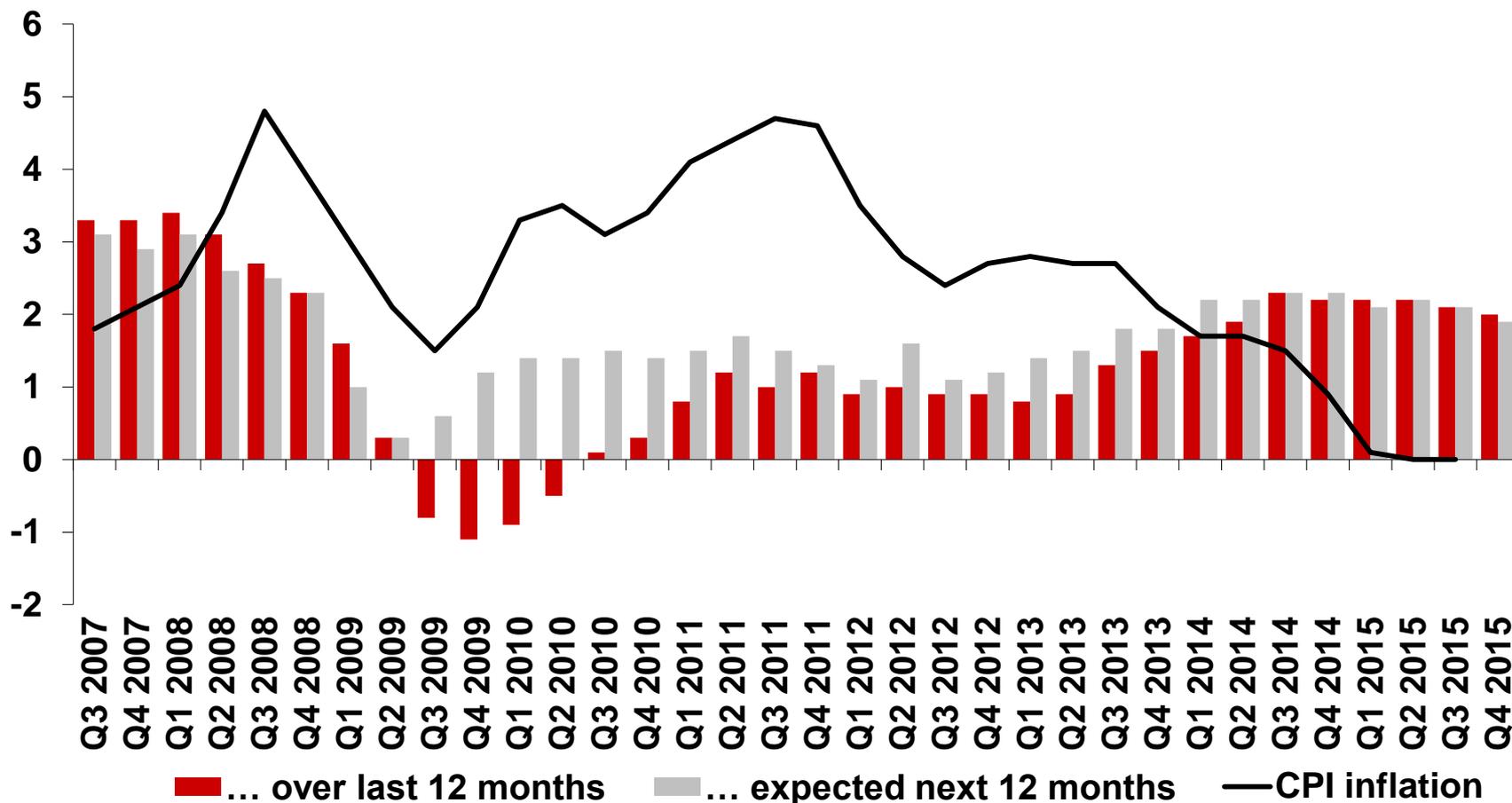
# This is reflected in job vacancy data, which has held steady in recent quarters

Total vacancies, UK, ONS data



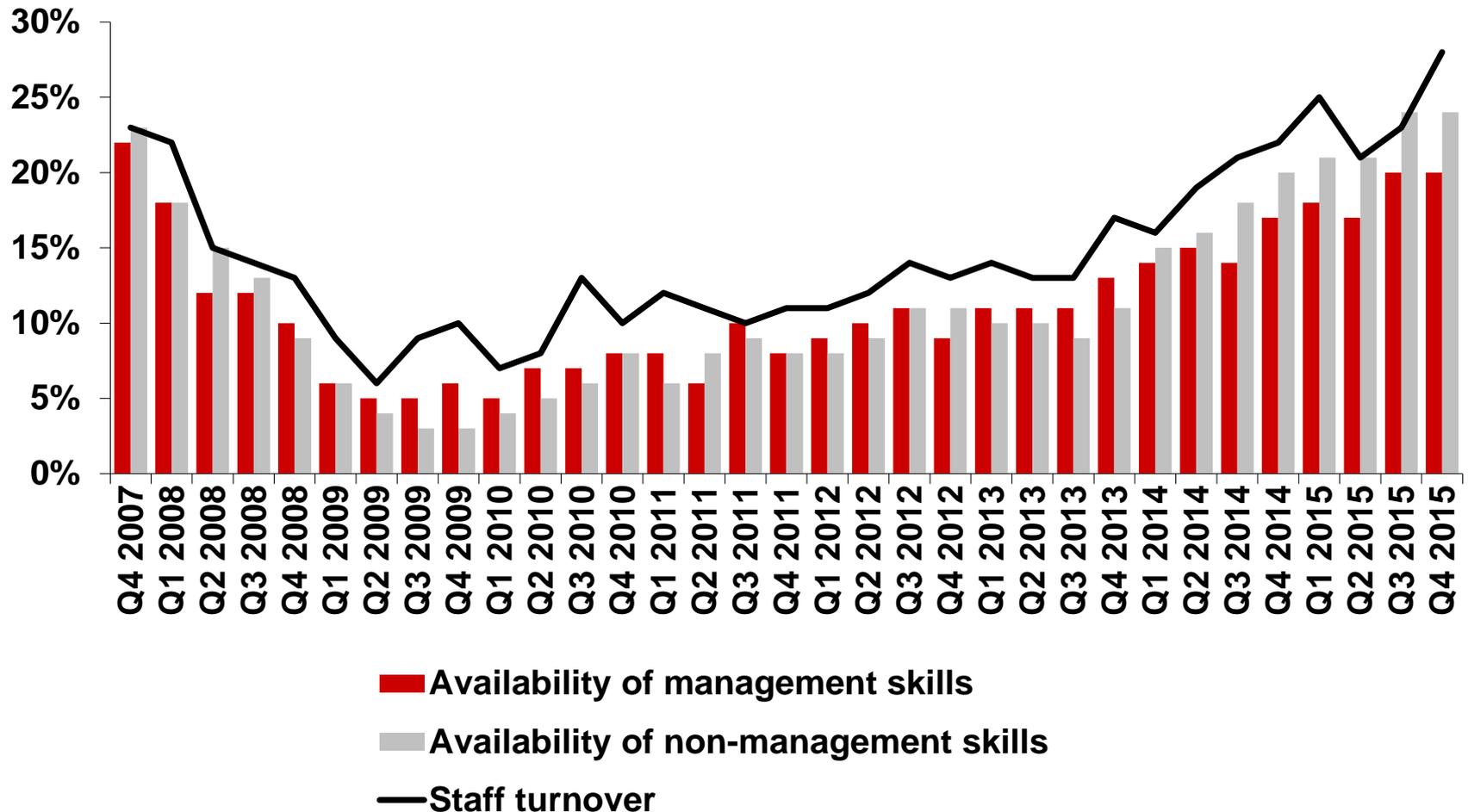
# 'No-flation' continues to boost spending power, although firms show some signs of slowing salary growth

Average total salary, annual percentage change



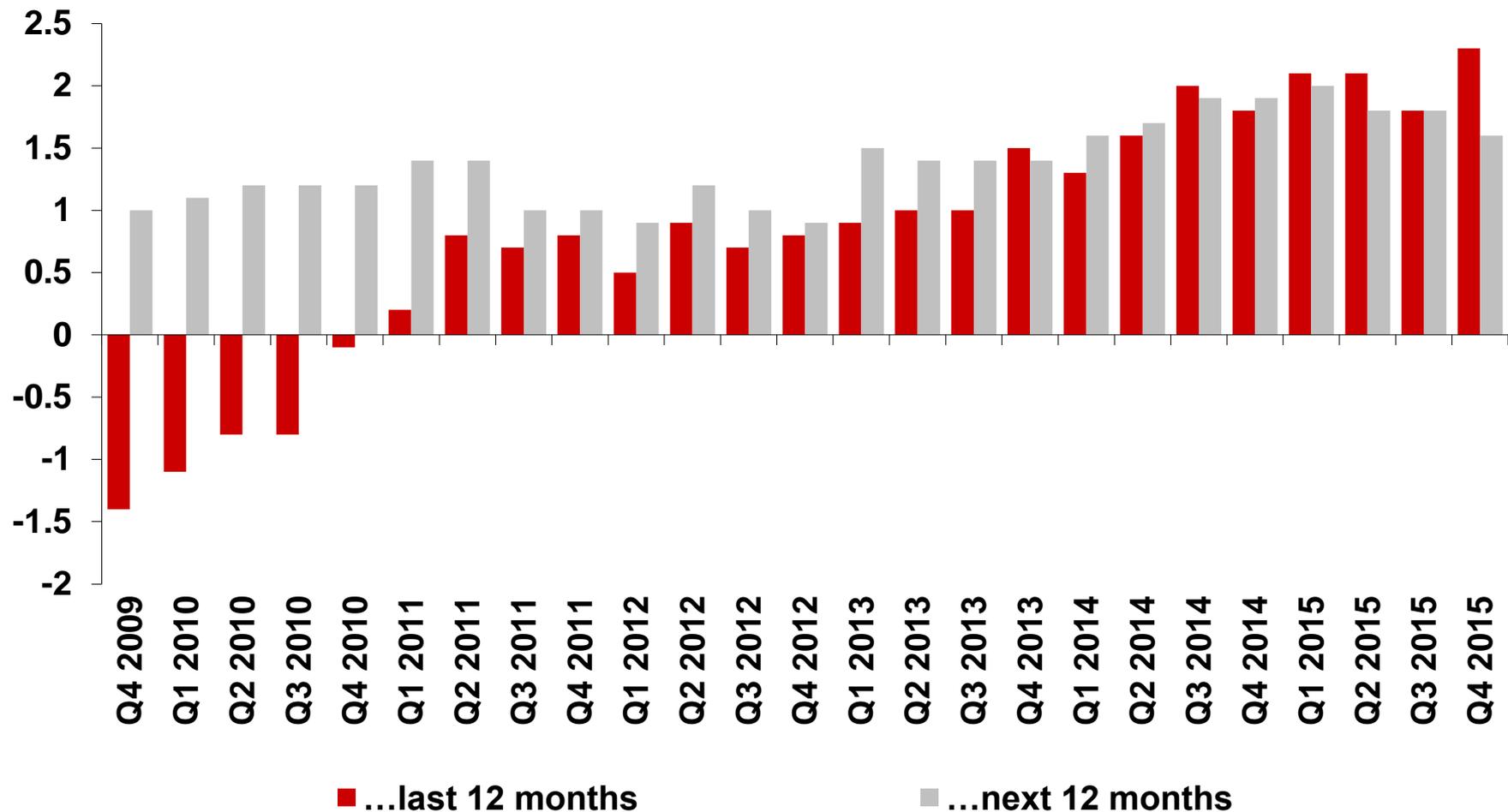
# Staff turnover becoming a greater issue as unemployment rate drops back to near pre-crisis levels

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



# Growth in staff development budgets expected to slow, a trend that may not help emerging skills shortages

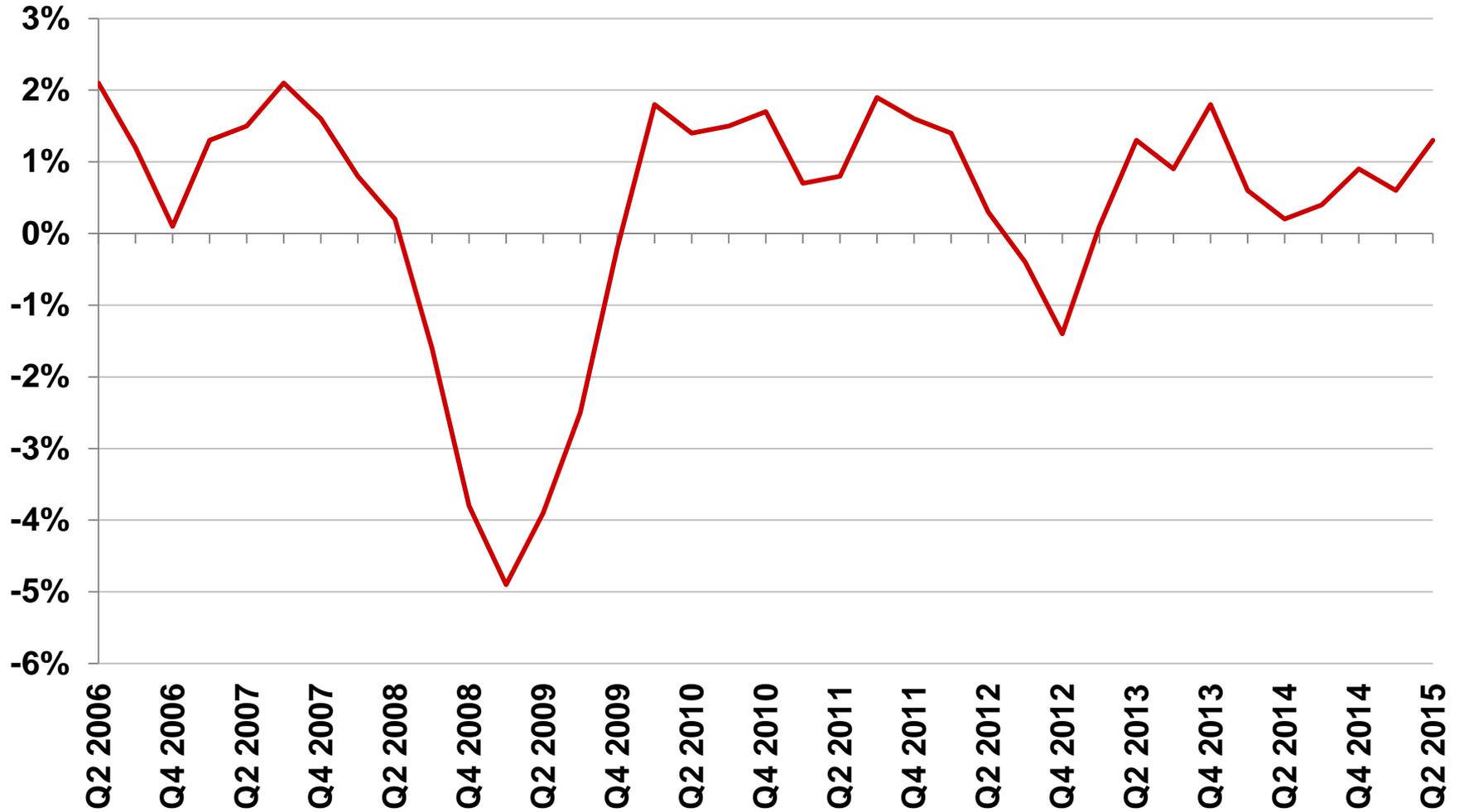
Staff development budgets, annual percentage change



\* expectation

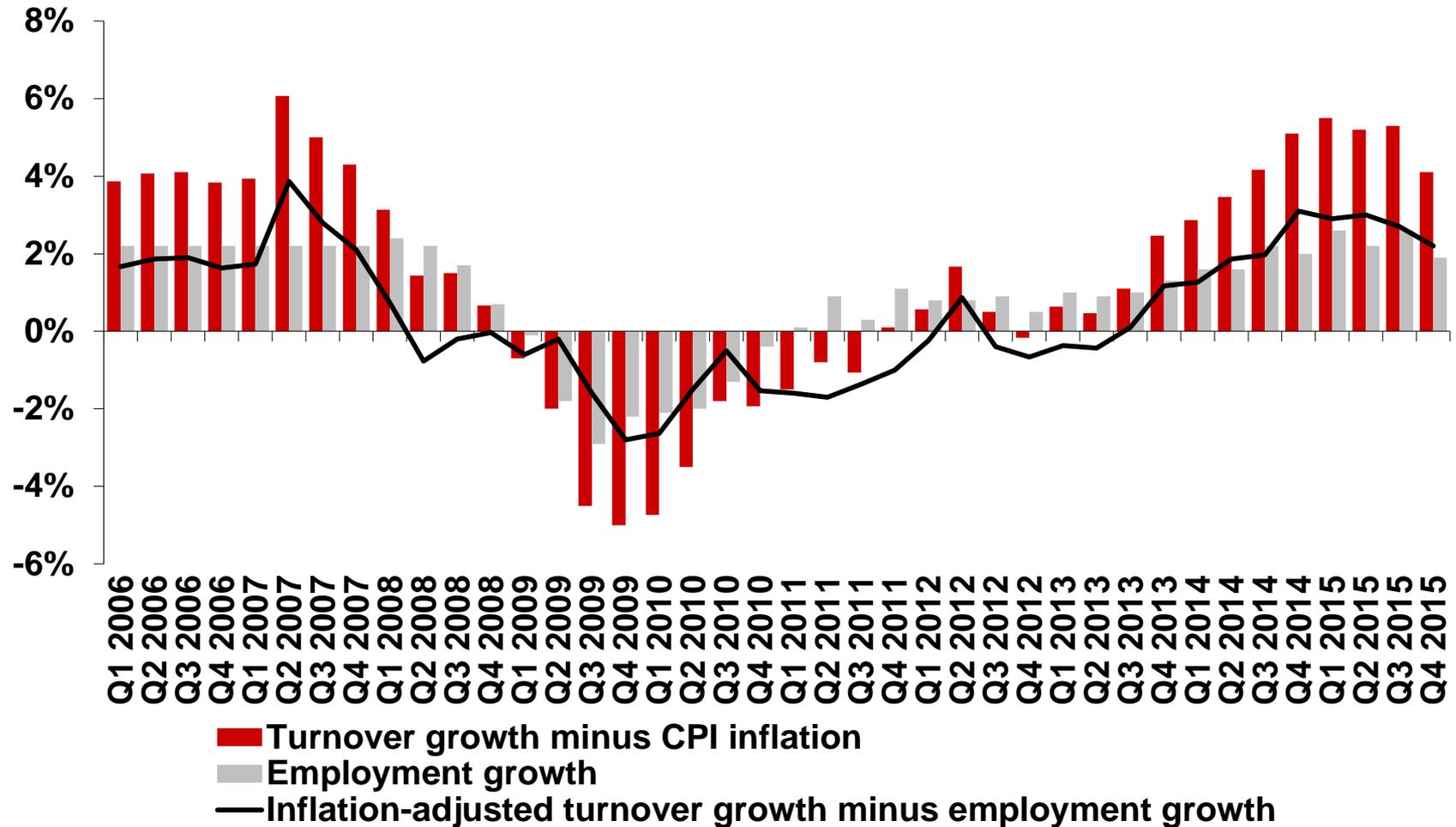
# Overall UK productivity growth has accelerated recently

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



# However, BCM data suggest this trend may be short-lived

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

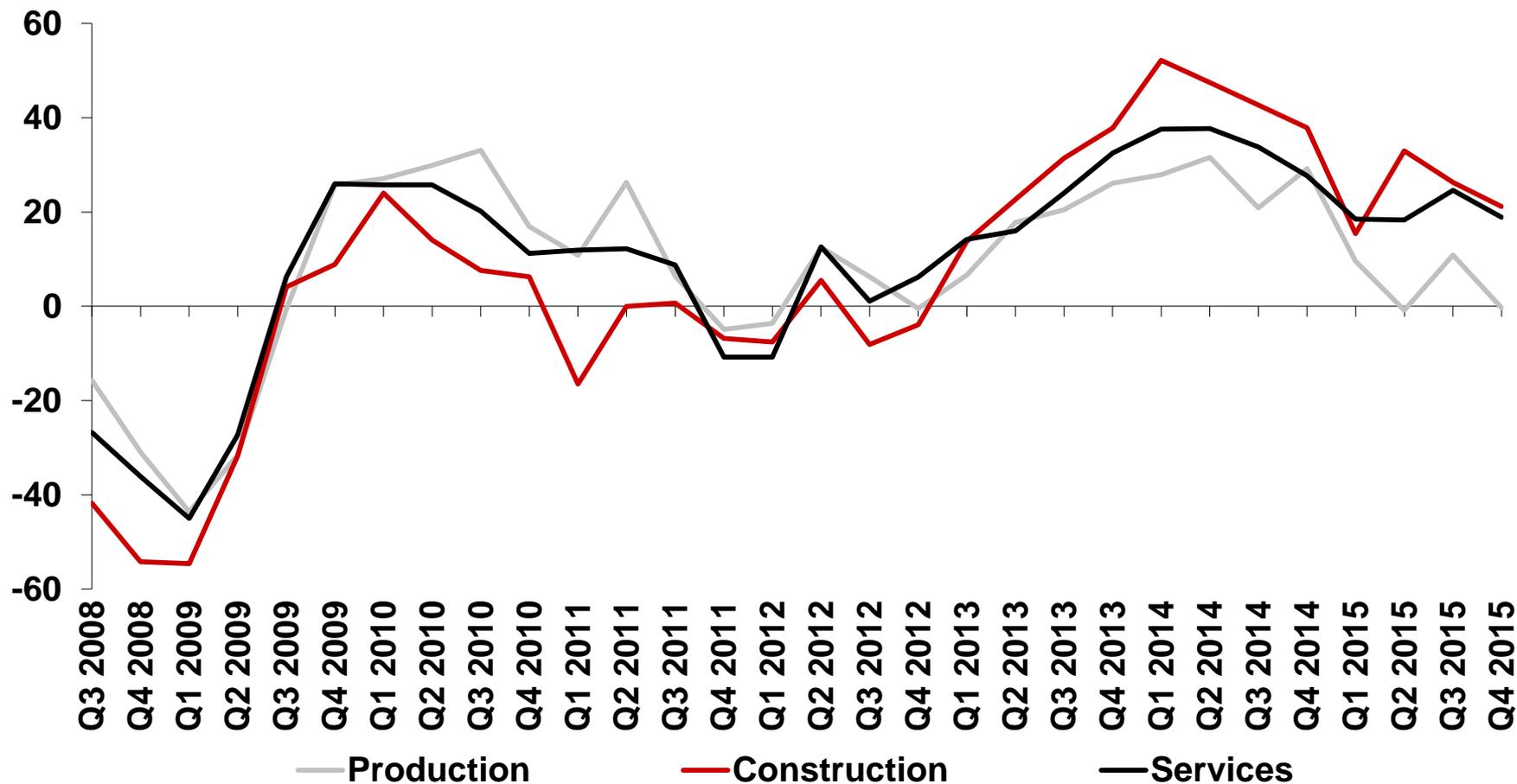


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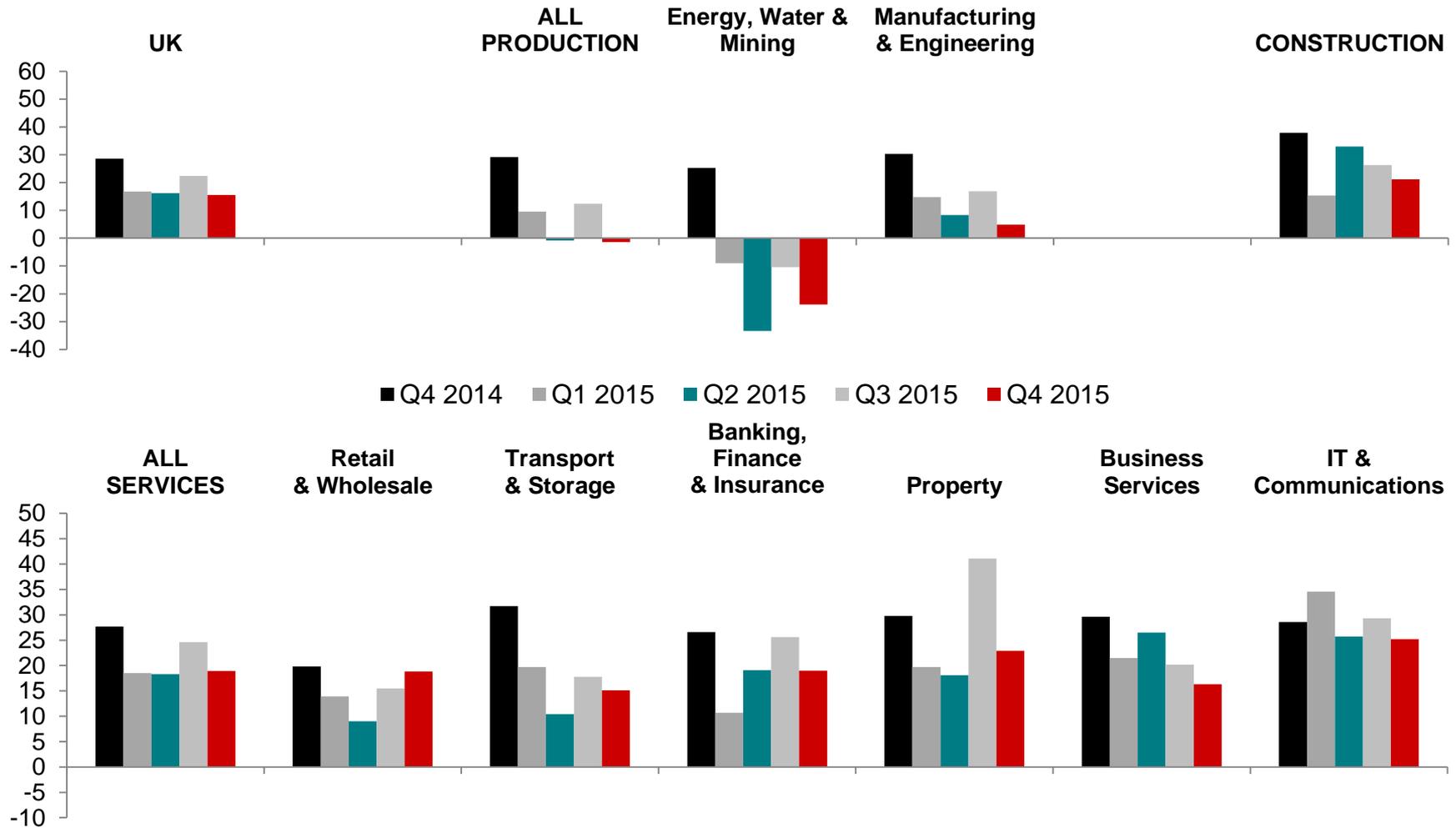
- Regional & sector stories
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# Confidence slides across the economy, but particularly in the production sector

ICAEW / Grant Thornton Business Confidence Index

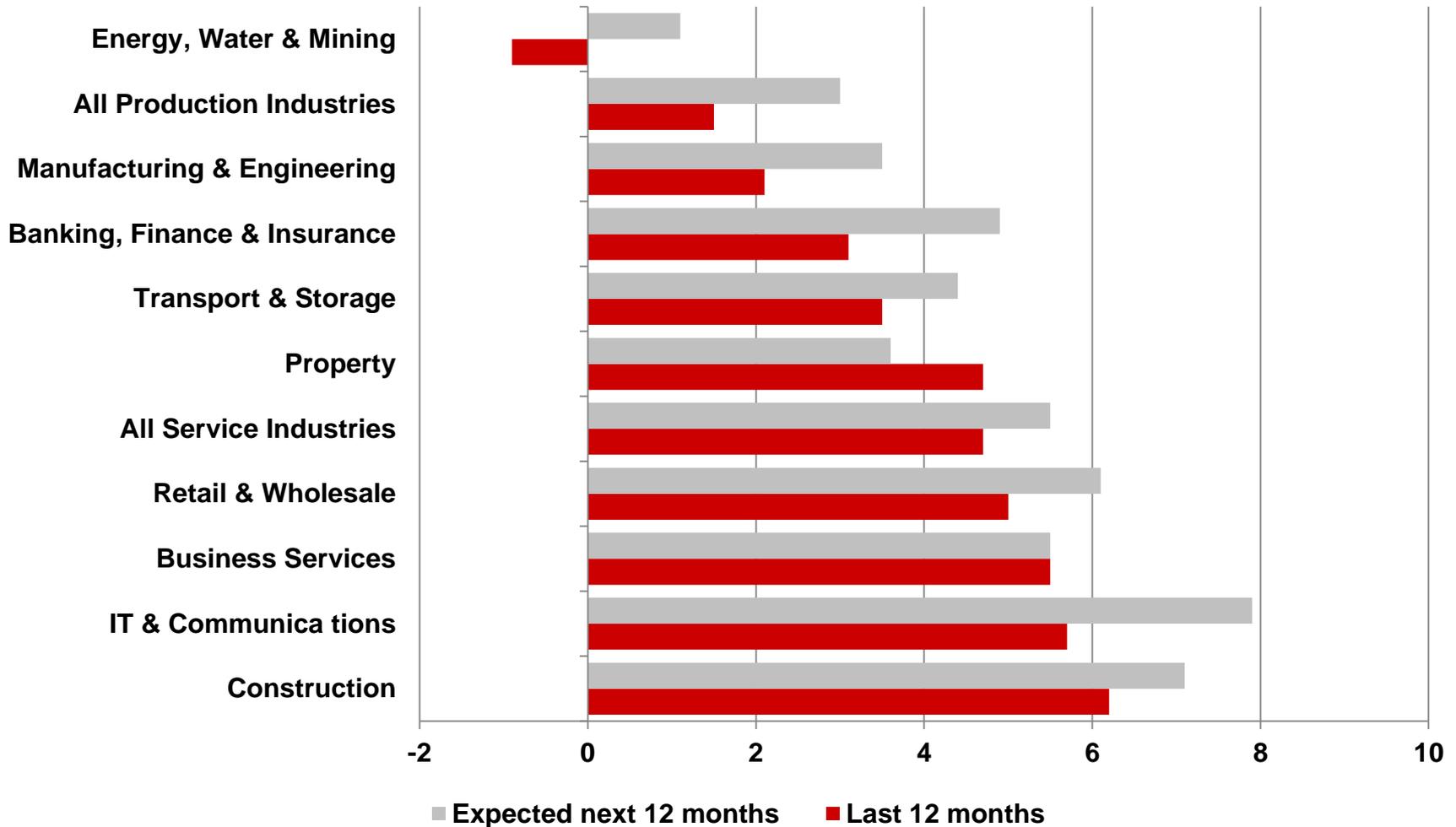


# Confidence slipping back almost everywhere, except among retailers and wholesalers



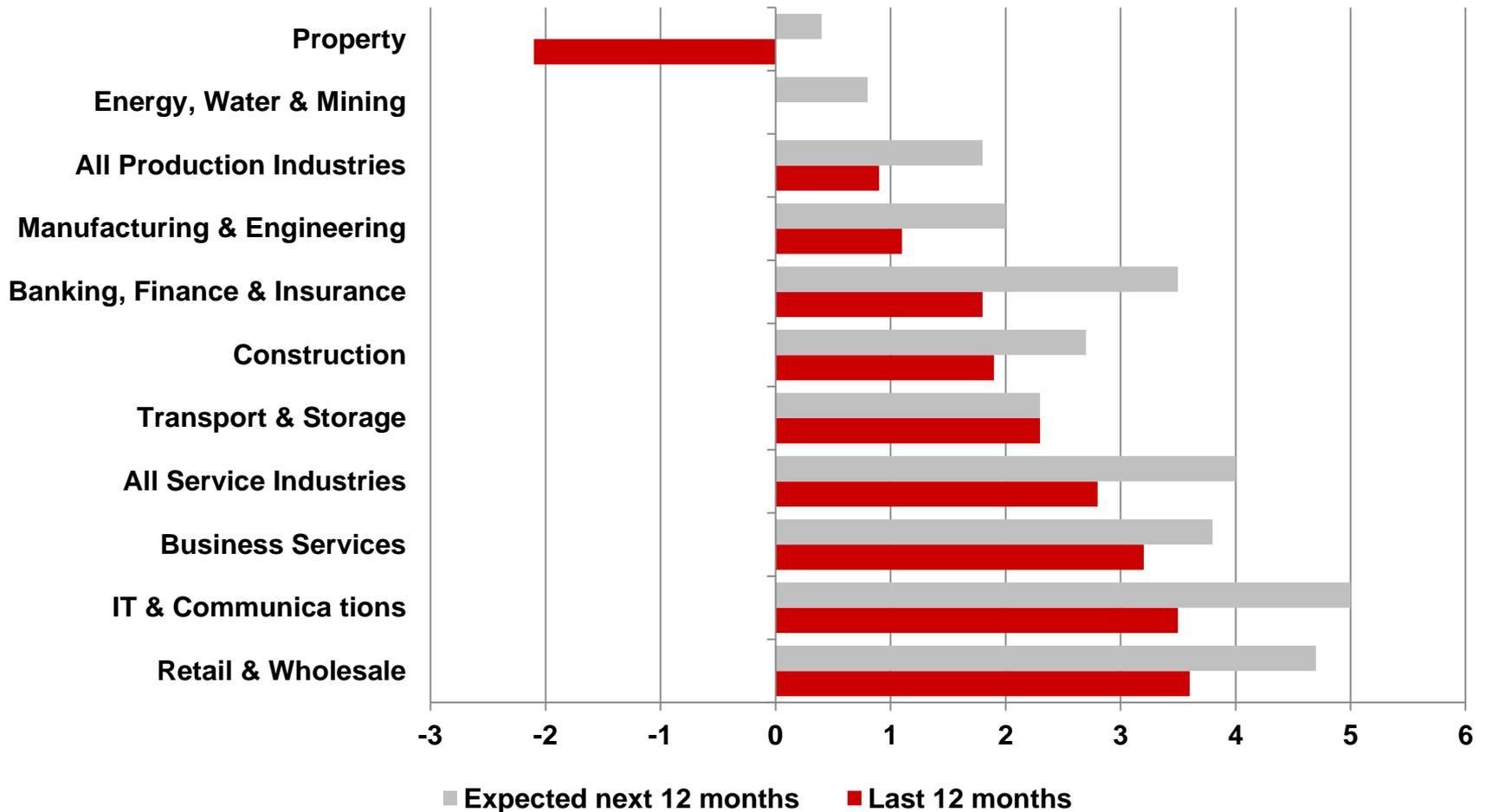
# Construction and IT sectors seeing fastest growth and expecting to expand the most quickly in the next year

Change in sales volumes over 12 months



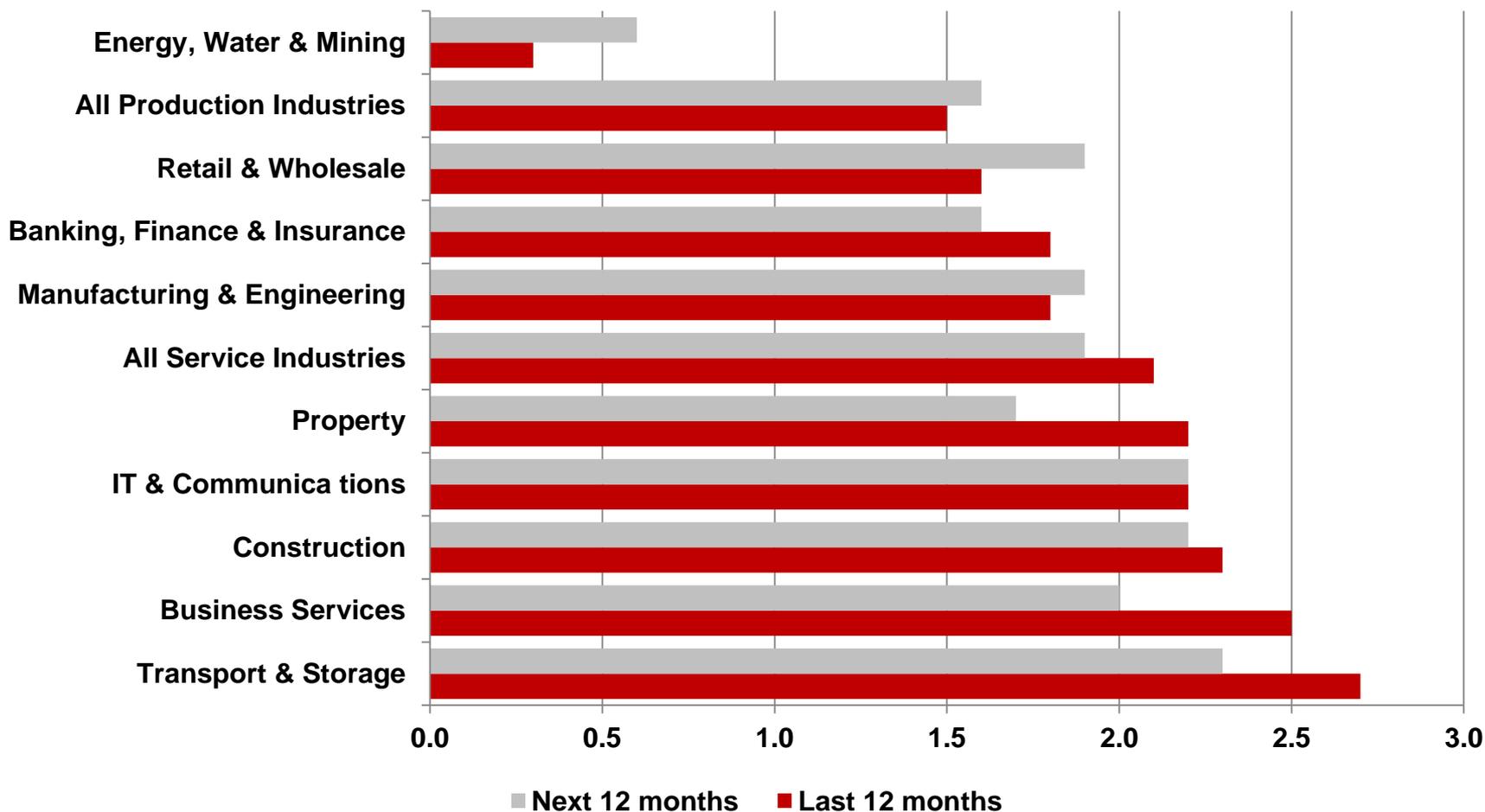
# Retailers seeing an uptick in export performance and confident about the next year

Change in exports over 12 months



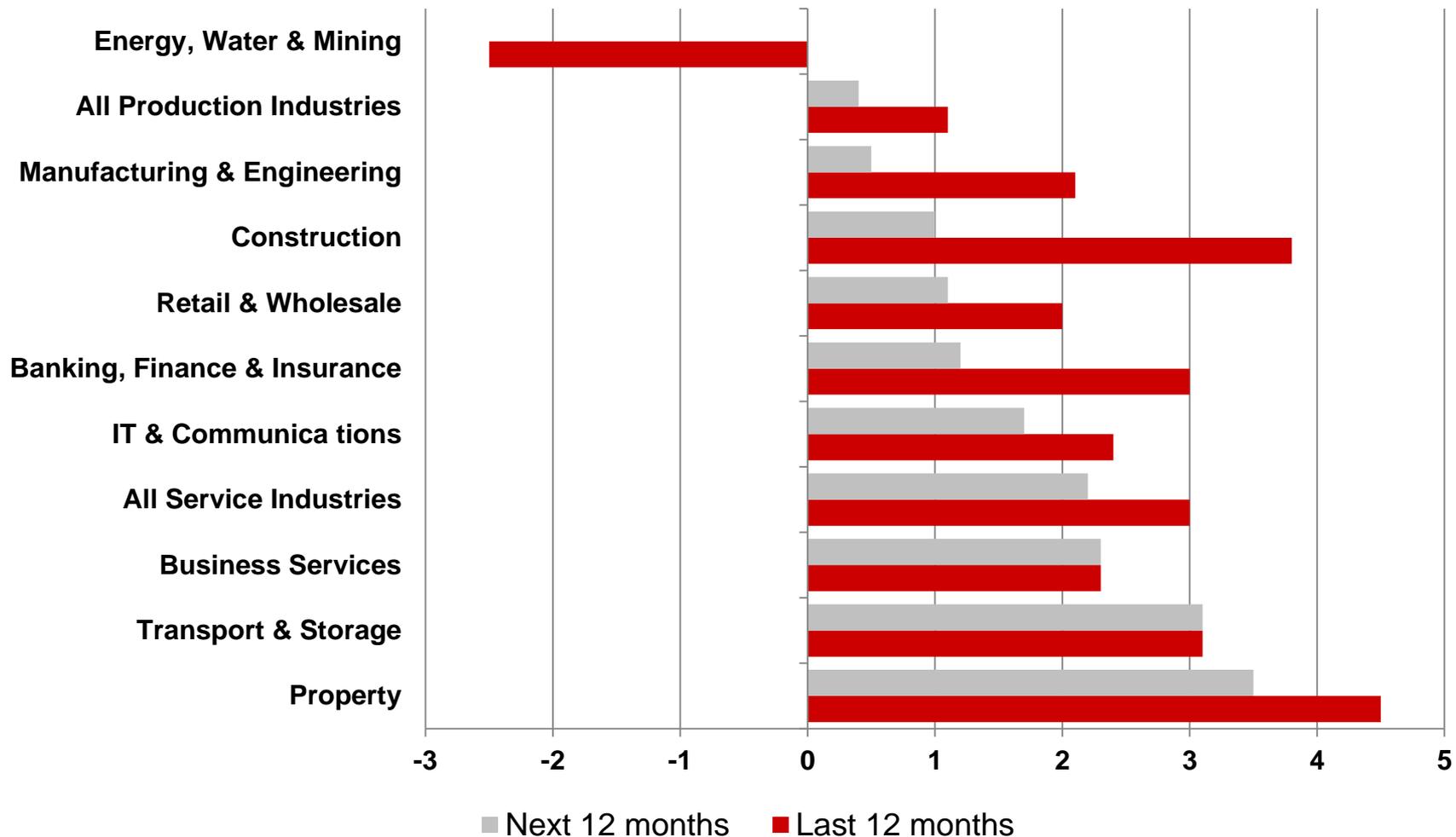
# Salary expectations for the next year lower than last 12 months across most sectors

Change in average total salary over 12 months



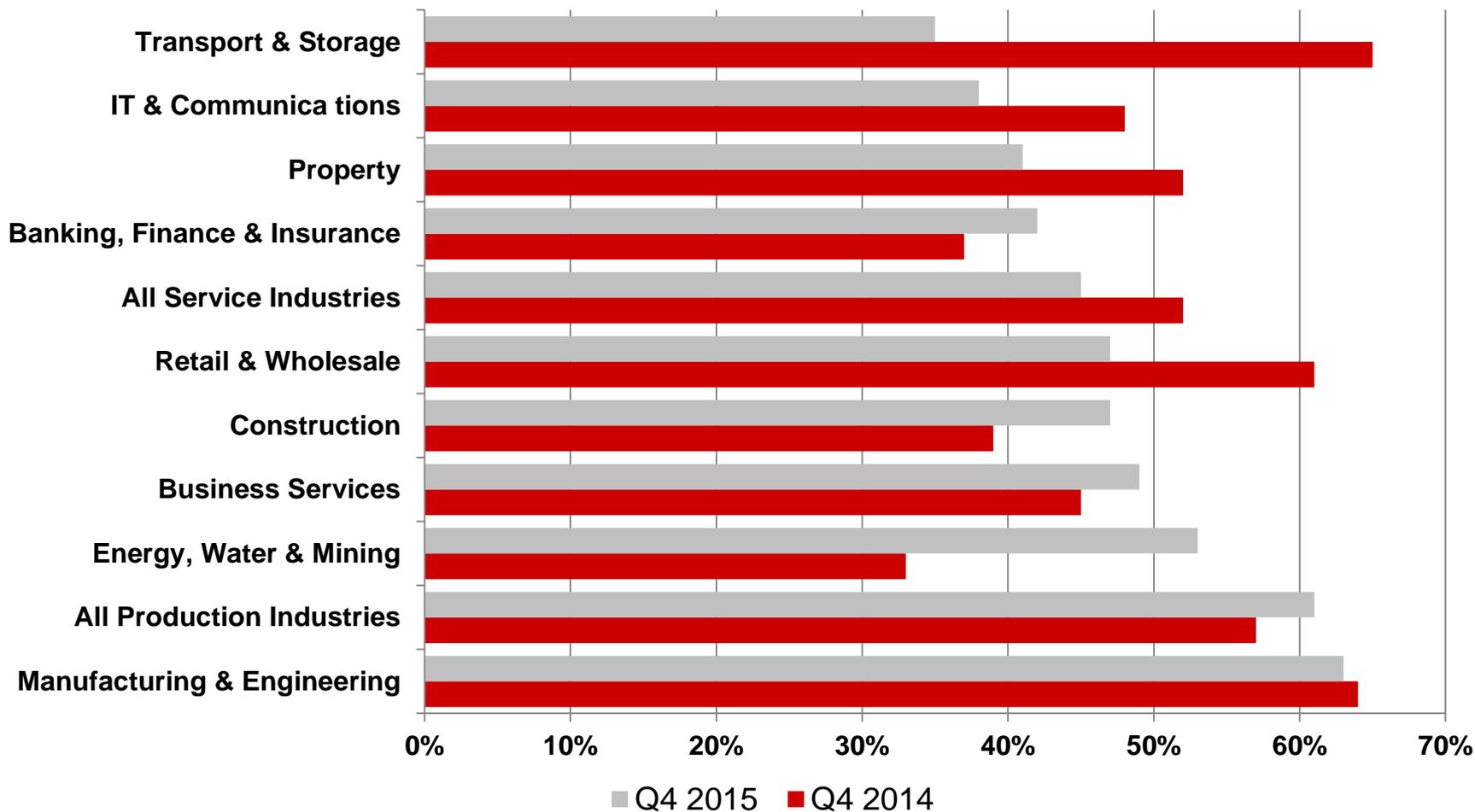
# Property and logistics sectors expecting the strongest growth in capital investment in year ahead

Capital investment growth expected over next 12 months



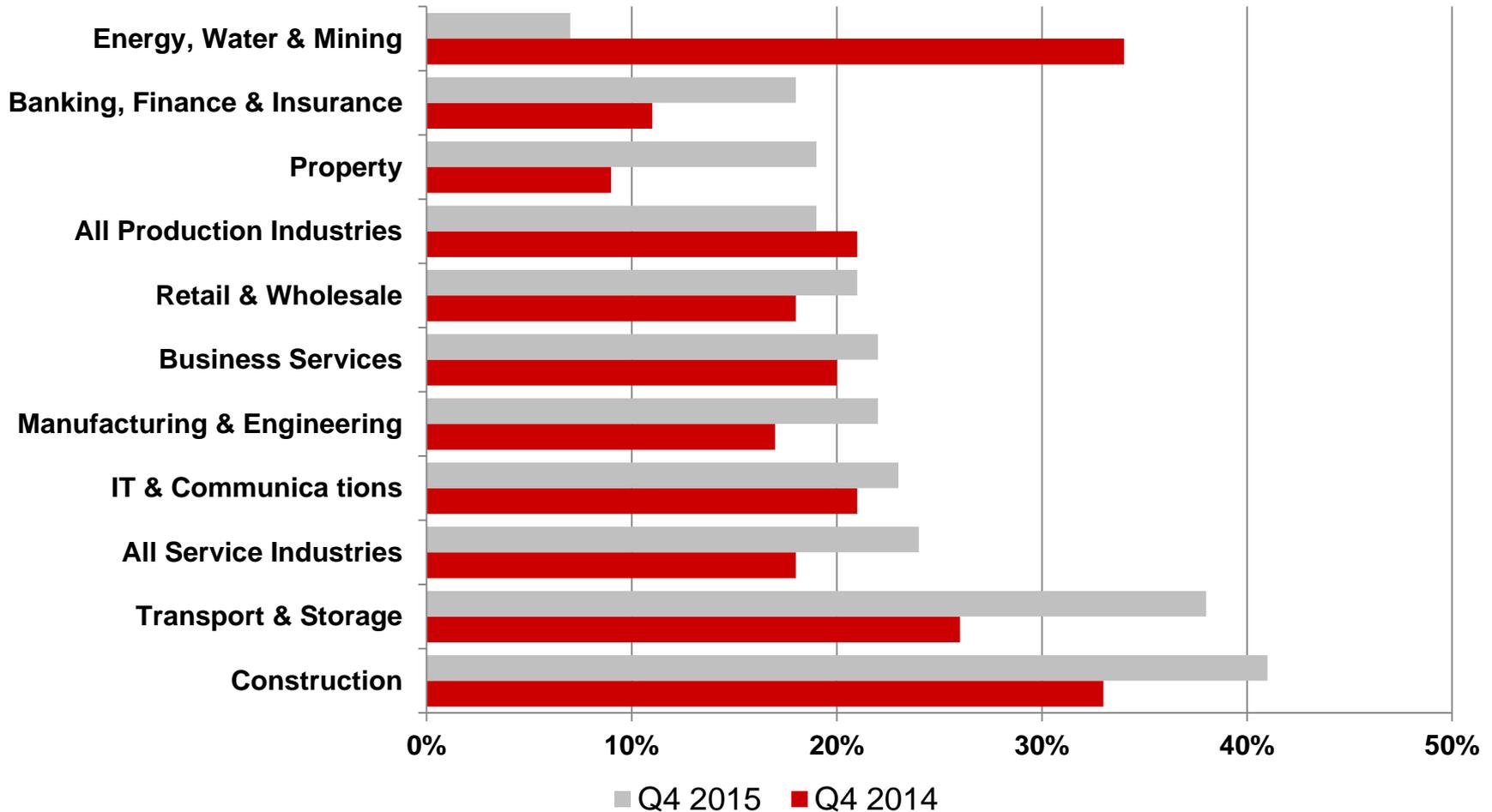
# Spare capacity halves over past year in Transport & Storage industry

Proportion of businesses operating below capacity

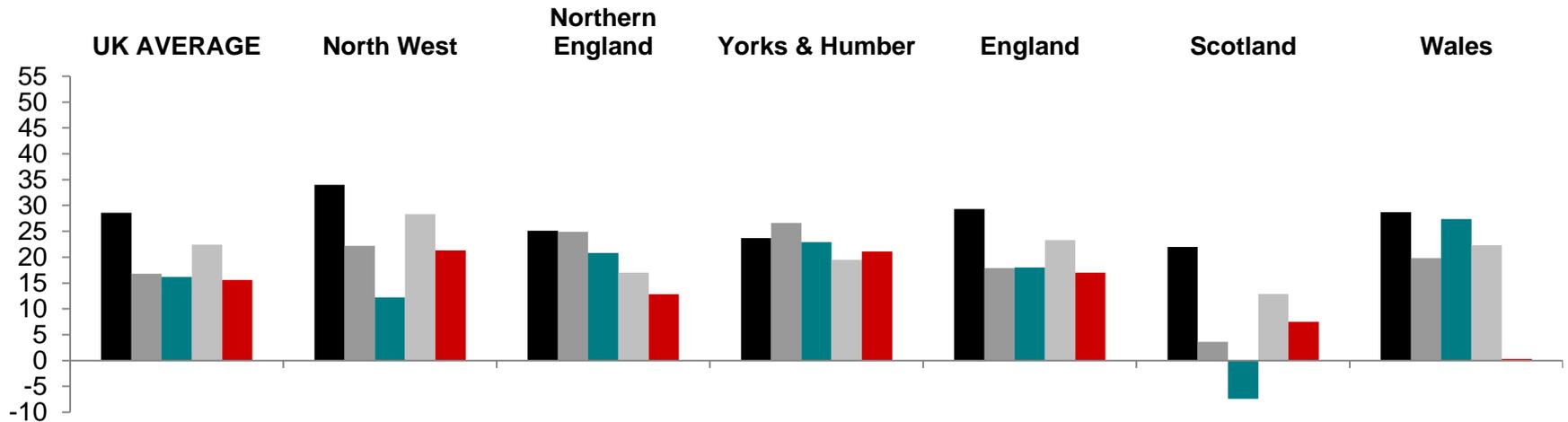
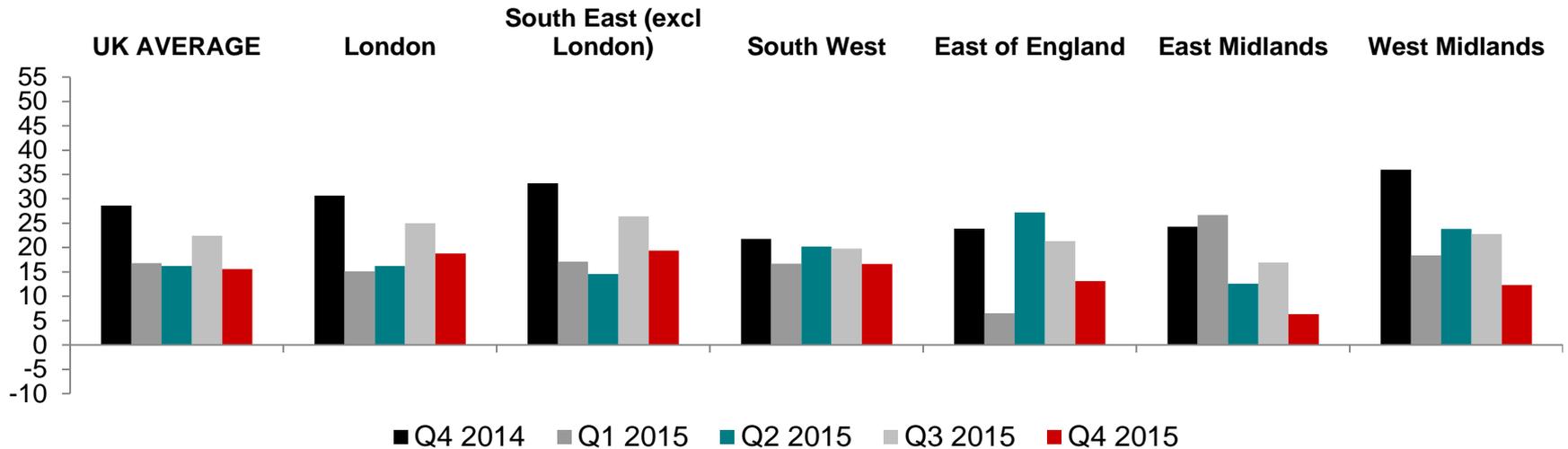


# Skills shortages are building up in Transport & Storage sector as a result, as well as among construction firms

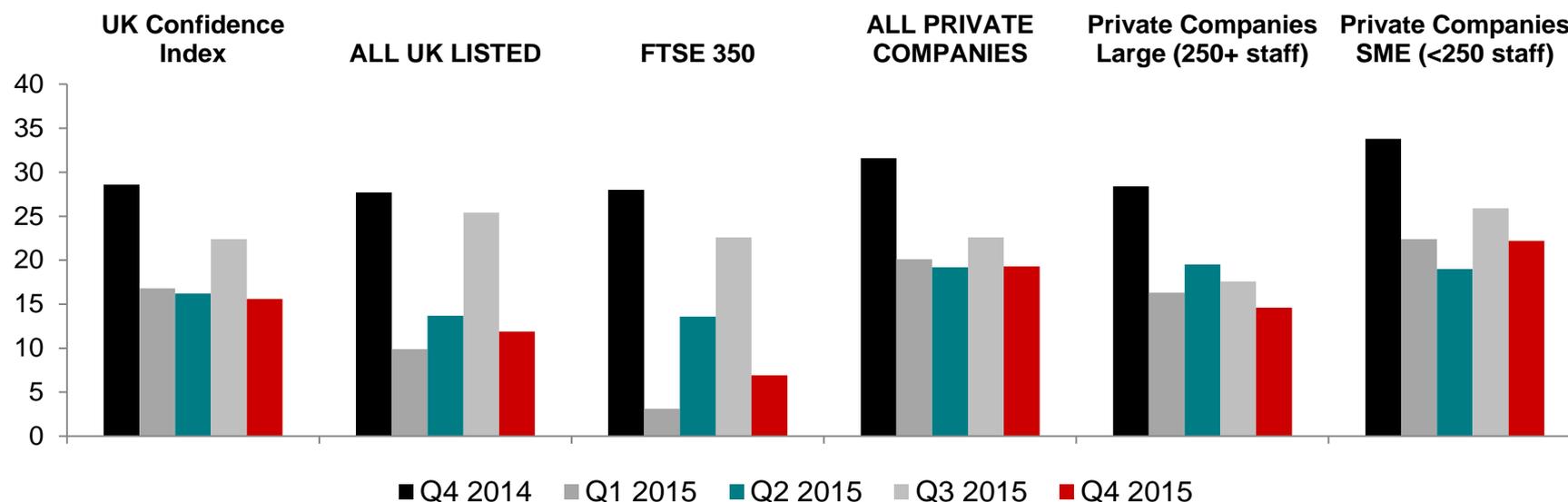
Proportion of businesses reporting that the availability of non-management skills is more of a challenge than a year before



# Confidence falls back further in Northern England and the Midlands; holds up stronger in the South of England



# Confidence falling back among FTSE 350 firms, but holding generally fast among privately owned companies



# Conclusions

- Business confidence sank again this quarter and is down on a year ago, but remains well into positive territory.
  - Turnover and gross profit growth has been slowing, although firms expect faster increases ahead.
  - Employment growth looks to be steadying at buoyant levels of close to 2.0%.
  - As the labour market recovery continues, skills shortages appear to be worsening, particularly in construction and logistics.
  - Wage growth has slowed only marginally, and with continued 'no-flation', these increases are adding significantly to household spending power.
  - Confidence rising in the retail & wholesale sector, but sliding back almost everywhere else.
  - The South of England continues to see optimism levels holding firm, but Northern England and the Midlands are experiencing a confidence decline.
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