BANK OF ENGLAND

Agents' summary of business conditions

August 2017 Update

- Consumer spending growth had eased slightly further in values terms. Manufacturing output growth had risen again, with exports supported by the past fall in sterling. Investment intentions were consistent with modest growth in spending over the year ahead.
- Recruitment difficulties had edged higher and broadened slightly. Pay awards were clustered around 2%–3%.
- Consumer goods price inflation had picked up further, largely reflecting the effects of the past fall in sterling feeding through into retail prices. Consumer services price inflation had also edged higher.

Consumer spending growth had slowed slightly further (**Chart 1**). Some contacts ascribed this to increased caution among consumers, and to consumers trading down to cheaper products or brands. Growth in value terms was supported by price inflation, with growth weaker in volume terms.

Business services turnover growth had continued at a moderate pace (**Chart 2**). Services exports growth had remained steady.

Manufacturing output growth had strengthened again (**Chart 3**). Activity in export supply chains had increased, and there was some pickup in import substitution. Demand from the oil and gas sector had also edged up.

Construction output growth remained modest, with stronger growth in housebuilding in several regions offset by weaker growth in other sectors. There were also more reports of constraints from access to skills and materials.

Investment intentions remained modestly positive overall (**Chart 4**). Contacts had continued to invest to drive efficiency improvements, and some exporters were investing to increase capacity. Uncertainty, however, continued to weigh on some firms' longer-term spending plans.

Credit availability had improved slightly for small companies. Financing remained readily available generally. Corporate credit demand had remained muted.

Investor demand for UK **commercial real estate** had continued to increase. Occupier demand remained resilient and vacancy rates generally remained low.

Housing market activity had remained muted. The market for new homes remained stronger overall than the secondary market, supported by Help to Buy.

Capacity utilisation had increased marginally for manufacturers, remaining slightly higher than normal; utilisation for the service sector remained at normal levels.

Overall **employment intentions** remained modest. Service sector employment intentions reflected the slight pickup in activity earlier in the year within professional business services. Growth in manufacturing intentions was stable and was dampened by a stronger focus on productivity improvements and automation over job creation.

Recruitment difficulties had edged higher, and were gradually broadening across sectors and skill areas. Despite this, **labour cost** growth had been modest, with pay awards clustered around 2%–3%.

Input cost inflation remained heightened, though some manufacturing contacts reported that initial pass-through of the past fall in sterling into input costs was nearing completion (**Chart 5**). Manufacturing **output price** inflation had risen slightly. A number of food sector contacts reported continuing difficulties in passing through input cost rises.

Consumer goods price inflation had risen further (**Chart 6**), as past increases in import costs fed through and foreign currency hedges ran off. Some contacts across a range of sectors indicated that goods price inflation was reaching its peak. Inflation in retail services prices continued to edge higher.

This publication generally covers intelligence gathered from business contacts between June and mid-July 2017. It generally makes comparisons with activity and prices over the past three months on a year earlier.

Selected charts of the Agents' national scores

Chart 1 Retail sales values and consumer services turnover

Three months on the same period a year earlier

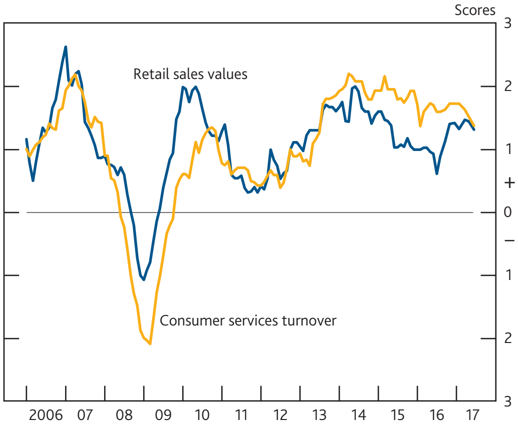


Chart 2 Business services turnover

Three months on the same period a year earlier

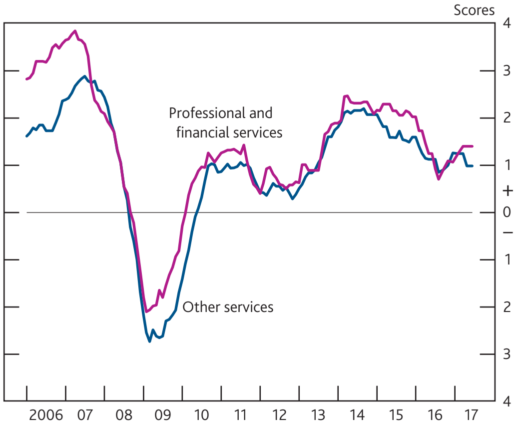


Chart 3 Manufacturing output

Three months on the same period a year earlier

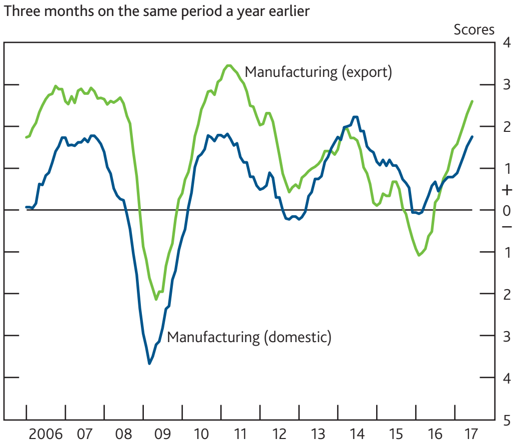


Chart 4 Investment intentions

Over the coming twelve months

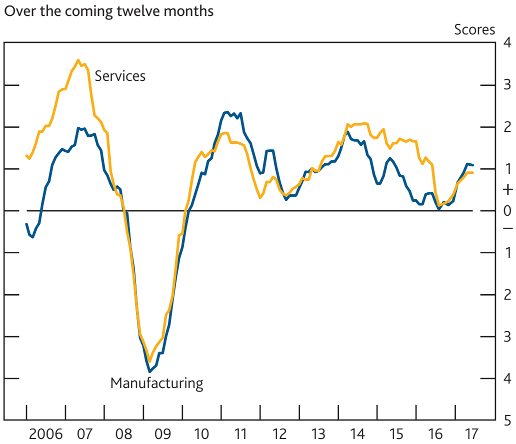


Chart 5 Materials costs and imported finished goods prices

Three months on the same period a year earlier

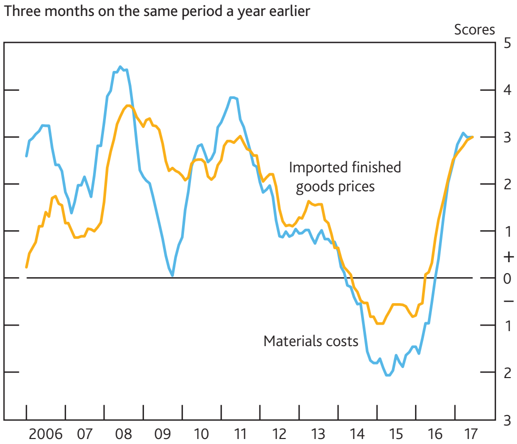
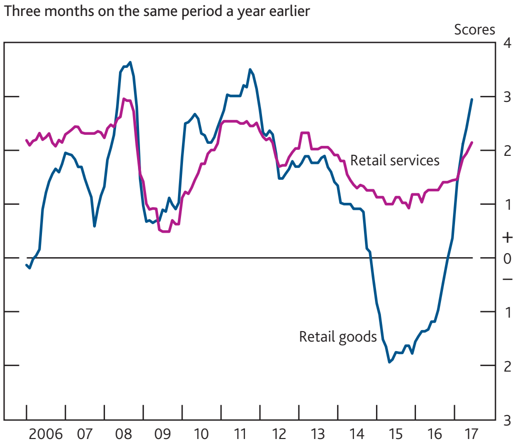


Chart 6 Retail goods and services prices

Three months on the same period a year earlier



For data on the full set of Agents' scores see
www.bankofengland.co.uk/publications/Documents/agentssummary/agentsscores.xlsx.