BANK OF ENGLAND

Agents' summary of business conditions

November 2017 Update

- Growth in activity had remained broadly stable. Manufacturing output growth had risen again, with export supply chains supported by the past fall in sterling and some signs of increased domestic sourcing. But construction output growth had eased. Services turnover growth remained moderate.
- A survey of investment intentions pointed to continued modest growth in spending over the coming year, at a similar rate to that seen over the past twelve months. Expectations of investment growth in the following two years were weaker.
- Recruitment difficulties had intensified and were above normal in a range of activities, alongside continued modest employment growth. As a result, pay growth had edged up and was expected to be somewhat higher in 2018 than this year. But non-labour input cost inflation had eased and both output and consumer price inflation were unchanged.

Consumer spending growth was little changed (**Chart 1**). Retail sales volumes had picked up slightly, but weak car sales had dragged on spending overall. Consumer services turnover growth had been helped by strong growth in inbound tourism numbers, which were reported to be due to the fall in sterling.

Growth in **business services** turnover had remained moderate (**Chart 2**). Growth was supported in part by sustained mergers and acquisitions activity, including from some foreign investors, and by strong IT services spending in particular.

Manufacturing output growth had strengthened further (**Chart 3**). Exporters and their supply chains were benefiting from the fall in sterling and stronger global demand. Some manufacturers reported increased sourcing from domestic customers.

Construction output growth had eased (**Chart 4**). Uncertainty about economic prospects was reported to be slowing decision-making around building projects. Within the sector, housebuilding was showing the strongest growth.

A survey pointed to continued modest growth in **investment** over the coming year, at a similar rate to that seen over the past twelve months (see the box on page 3). Investment plans were being boosted by companies' desire to increase their efficiency and to meet expected increases in demand, but expectations about the United Kingdom's future trading relationships were dragging on spending. Expectations of investment growth in the following two years were weaker.

Most companies reported that **finance** was readily available, particularly for larger corporates. Some large companies were refinancing or extending loans to benefit from the low rates currently available.

Outside London, investor demand for **commercial real estate** had been modestly greater than available supply. Demand for London property had been negatively affected by concerns about stretched property values.

Housing market demand had strengthened overall. Contacts reported a divergence in regional conditions, with signs of excess supply in London and the South, but some excess demand in most other parts of the United Kingdom.

Capacity utilisation had remained slightly above normal in manufacturing and services.

Employment intentions pointed to modest growth in staffing over the next six months. **Recruitment difficulties** had increased (**Chart 5**) and were above normal in a range of activities. That had contributed to a slight increase in **pay growth** (**Chart 6**), with expectations that settlements next year could be clustered around 2½%–3½% rather than 2%–3% during 2017.

Annual **materials cost** inflation had fallen back overall. The rate of inflation in manufacturers' **output prices** had plateaued. **Business services price inflation** had remained moderate. Where contacts had not passed on fully increases in costs, they had sought to maintain their margins through increased efficiency.

Consumer price inflation had remained unchanged, both for goods and services. In groceries, pass-through of higher import costs had been incomplete due to competitive pressures.

This publication generally covers intelligence gathered from business contacts between late August 2017 and mid-October 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

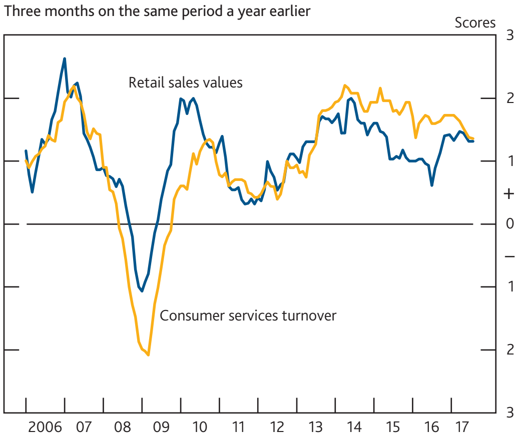


Chart 2 Business services turnover

Three months on the same period a year earlier

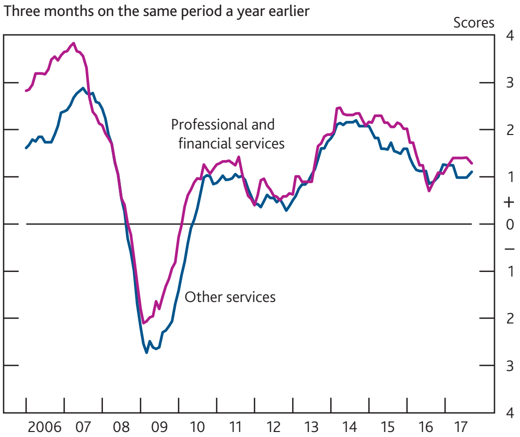


Chart 3 Manufacturing output

Three months on the same period a year earlier

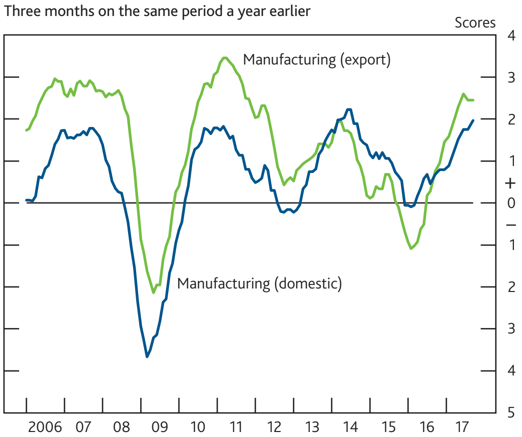


Chart 4 Construction output

Three months on the same period a year earlier

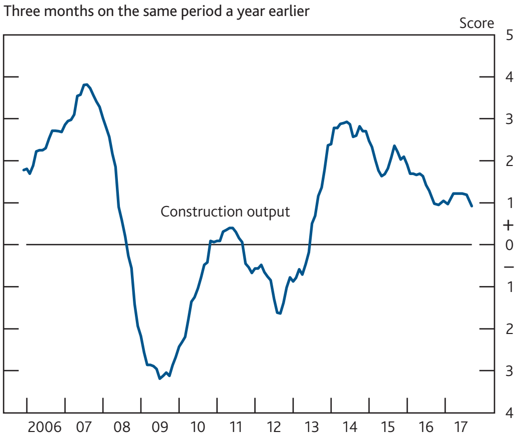


Chart 5 Recruitment difficulties

In the past three months, 'relative to normal'

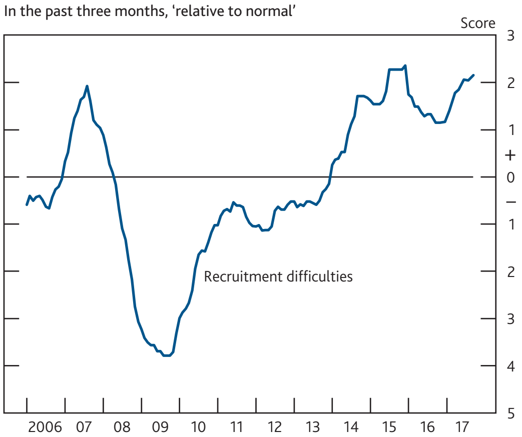
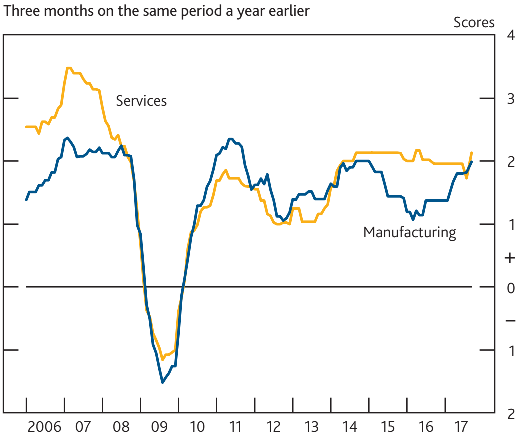


Chart 6 Total labour costs per employee

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.

Agents' survey on investment intentions

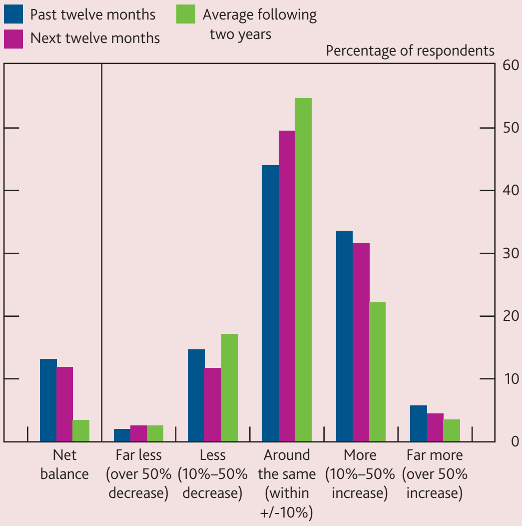
The Agents surveyed business contacts about changes to investment over the past twelve months and their plans for the twelve months ahead. Additionally contacts were asked about expectations of average capital spending over the following two years, compared to the past twelve months. The survey also asked how a range of factors were affecting these investment plans. A total of 375 businesses responded to the survey, accounting for 578,000 UK employees and £7.6 billion of UK capital spending. The survey results were weighted by employment.

Overall, firms in the survey expected investment growth to be little changed over the next twelve months, relative to the past twelve months. However, investment growth was expected to be somewhat weaker over the following two years (**Chart A**).

Expectations for investment growth in the coming twelve months were strongest for business services contacts, and were weakest — at broadly unchanged levels — for construction. While the level of investment spending two to three years ahead was expected to be modestly higher across most sectors relative to the past year, spending in construction was expected to be lower.

Among factors driving investment decisions over the next year, the most positive influences were the desire to achieve future efficiency gains and to provide capacity to meet expected domestic and export demand (**Chart B**). Economic uncertainty was the biggest drag on investment plans. Expectations about future trading arrangements and other factors related to the United Kingdom's decision to leave the European Union, such as concerns around the future availability of overseas labour, were also reported to be restraining investment.

Chart A Change in investment, past twelve months, expectations for next twelve months and average over two and three years from now[(a)(b)]



(a) For this and subsequent charts, results are weighted by employment within the companies, and then reweighted by sectoral employment shares in aggregate ONS data.
(b) When calculating the net balance of responses, half weight is given to those responding 'less' or 'more', and full weight is given to those that have responded 'far less' or 'far more'.

Chart B Factors affecting investment growth in the next twelve months