



BANK OF ENGLAND

# Agents' summary of business conditions

July 2015

- Growth of **consumer services turnover** had been steady, but **retail sales values** growth had eased.
- **Housing market** transactions had picked up and house prices had risen.
- **Investment intentions** pointed to moderate growth in capital expenditure over the next twelve months.
- **Business services** turnover growth remained firm overall, with growth in professional services outpacing other business services.
- **Manufacturing** output growth remained modest, although growth in manufacturing exports had edged up from a low base.
- **Construction** output growth had been steady.
- **Corporate credit conditions** had eased further.
- **Employment intentions** had continued to increase.
- **Recruitment difficulties** had risen to their highest level since 2007, having broadened across sectors.
- **Capacity utilisation** had edged higher overall, and was slightly above normal in the service sector and marginally below normal in manufacturing.
- Growth in **total labour costs per employee** had been little changed, but there were signs of building wage pressures.
- The pace of decline of **materials costs** and imported finished goods prices had slowed slightly.
- **Manufacturing output prices** had continued to fall on a year earlier, but business services prices had risen modestly.
- The rate of decline of **consumer prices** had stabilised for goods. Consumer services price inflation had remained modest.

This publication is a summary of monthly reports compiled by the Bank of England's Agents following discussions with contacts in the period between late May 2015 and late June 2015. It provides information on the state of business conditions from companies across all sectors of the economy. The report does not represent the Bank's own views, nor does it represent the views of any particular company or region. The Bank's Monetary Policy Committee uses the intelligence provided by the Agents, in conjunction with information from other sources, to assist its understanding and assessment of current economic conditions. A copy of this publication can be found at: [www.bankofengland.co.uk/publications/Pages/agentssummary/default.aspx](http://www.bankofengland.co.uk/publications/Pages/agentssummary/default.aspx).

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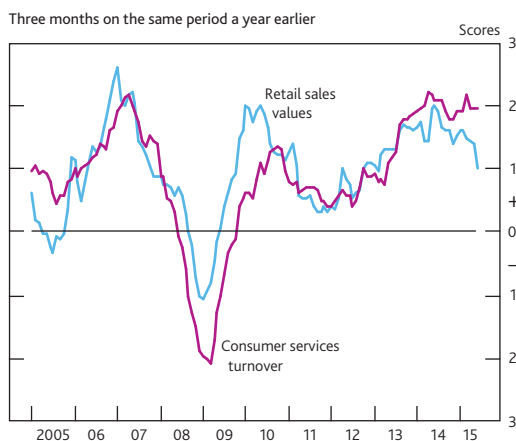
The Bank's assessment of current monetary and economic conditions, and the outlook for inflation, are contained in the *Inflation Report*, obtained from: [www.bankofengland.co.uk/publications/Pages/inflationreport/default.aspx](http://www.bankofengland.co.uk/publications/Pages/inflationreport/default.aspx).

## Demand

### Consumption

Annual growth in retail sales values had eased, though consumer services turnover growth had remained steady (**Chart 1**). Demand growth for some seasonal lines, such as summer fashions, had eased, partly on account of cooler-than-normal weather. More generally, annual comparisons had been adversely affected by somewhat elevated levels of retail sales a year ago, partly reflecting a boost from the 2014 World Cup. The value of food sales had been little changed on a year ago, while non-food retailers reported only modest growth. New car sales to private buyers had slowed recently from high levels. Some contacts ascribed that to a steadying of the frequency of car replacement, which had been rising alongside growing use of personal contract rental purchase agreements in car sales. Consumer services turnover growth was steady. Demand growth had benefited from increased discretionary spending: for example cinema-visit numbers had grown strongly. Leisure occupancy of hotels had increased and demand for overseas packaged holidays had risen.

**Chart 1** Retail sales values and consumer services turnover



### Housing market

The number of transactions in the housing market had picked up in most regions. The pickup had been strongest for higher priced properties. Shortages of homes for sale were cited as a constraint on the number of transactions in most areas, contributing to higher house price inflation. Nonetheless, the majority of estate agents anticipated stronger activity growth in the second half of the year than in the first. Demand for new homes had remained strong, supported in part by continued use of the Government's Help to Buy scheme. Buy-to-let activity had continued to expand, underpinned by steady growth in demand for rented accommodation.

### Investment intentions

Investment intentions were consistent with continued moderate growth in capital spending over the next twelve months. Manufacturers were increasing investment steadily, in particular with the aim of re-tooling for new products, or increasing energy efficiency or automation — in the latter case, partly to address skills shortages. But suppliers to the oil and gas sector had deferred non-essential capital expenditure. Investment growth by firms in the services sector had remained somewhat stronger, reinforced by relatively greater confidence in the strength of demand. Spending was often focused on ICT equipment or physical premises, including distribution facilities. Increased investment by consumer services firms in leisure facilities was also reported. However, some companies, such as large supermarkets, were fully or over-invested and had sharply reduced capital budgets.

### Exports

Growth of manufacturing export volumes had risen slightly, mostly reflecting a modest pickup in demand from the euro area. However, downward pressure on many exporters' margins had increased alongside a further rise in sterling. Overall, exporters remained more positive about prospects in US dollar-denominated markets than other destinations. For example, demand from the Middle East had continued to increase, with good medium-term growth prospects particularly for defence and infrastructure projects. Sales of manufactured goods to China had slowed and exports to Russia had fallen markedly.

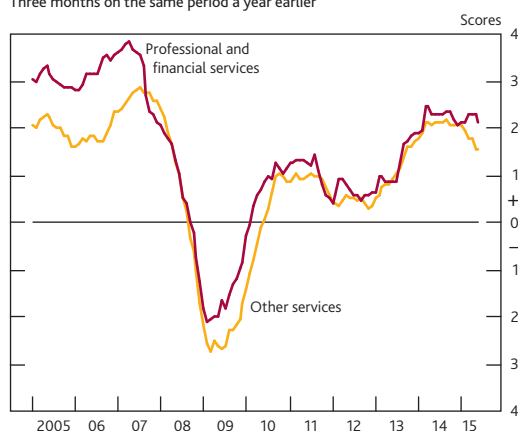
## Output

### Business and financial services

Growth in professional and financial services turnover had remained robust (**Chart 2**). Corporate mergers and acquisitions (M&A) activity had continued to increase, supporting demand for financial, legal, accounting and advisory services. Commercial real estate transaction volumes were rising steadily, in part reflecting improved credit conditions. That had increased demand for professional services such as architects, surveyors and commercial property advisors. Recruitment agencies had benefited from increased labour demand and staff turnover among their clients. In contrast, consultancies offering engineering and investment project expertise to the oil and gas sector reported a sharp drop in demand volumes and contract prices. The growth of turnover in other business services was steady at slightly below trend rates. Growth in demand for logistics and transportation services had remained robust, underpinned by the recovery in construction and expansion in retail and distribution activity. Corporate travel and hotel occupancy rates had continued to recover.

**Chart 2** Business services turnover

Three months on the same period a year earlier



### Manufacturing

Manufacturing output growth for the domestic market had been steady, if slightly below rates at the end of last year. Growth in demand for companies operating in export supply chains had remained more subdued. Contacts reported continued output growth in the automotive supply chain and in the production of construction materials, while the production of high-end consumer electronics had picked up over the year to date. But demand for capital and intermediate goods from the oil and gas sector had weakened. Import penetration had increased for lower value added products in the wake of the euro's depreciation.

### Construction

Construction output had grown steadily. Large house builders had revised up planned build rates, while smaller firms were increasingly acquiring sites that larger competitors considered insufficiently profitable. Commercial activity — most notably warehouse construction — had continued to recover. Contacts reported continued growth of repair and maintenance work.

### Credit conditions

Credit conditions had eased further. Credit supply had often outstripped demand, and competition between lenders was increasing on price and non-price terms, at least for lending to companies perceived to be of good credit quality. Demand for external finance for M&A activity had risen slightly. Despite the availability of finance at relatively low cost, many firms remained eager to pay down debts, or to fund investment or acquisitions from internal funds where possible. Loan refinancing was increasingly common, however, usually with the aim of reducing finance costs or improving lending terms. Non-bank lending had continued to grow and was increasingly accessible to small and medium-sized enterprises, for example through crowd-funding. Commercial property developers reported continued improvement in funding conditions, from bank and non-bank lenders.

## Employment

Employment intentions had picked up a little further. The employment outlook remained strongest in professional services, where contacts were recruiting as a result of expanding workloads. A modest pickup in consumer services' staffing intentions over recent months had largely reflected job creation in labour-intensive leisure sectors, such as hotels and restaurants. Only a minority of manufacturers anticipated significant recruitment this year, due to relatively subdued output growth and plans to raise productivity.

Recruitment difficulties had edged up and were at levels last seen during 2007, having broadened recently across a wide range of skills, levels of experience and occupations. For example, reports of a scarcity of experienced middle and senior managers had become fairly common. Reports of businesses struggling to source unskilled and semi-skilled workers had risen. In consequence, companies' reliance on skilled and unskilled migrant labour had increased, while apprenticeship, graduate and school-leaver recruitment programmes had been either maintained or increased. But some contacts had reported a slight easing of skills shortages, sometimes reflecting increased automation reducing their needs for skilled labour.

## Capacity utilisation

Capacity utilisation in manufacturing had declined marginally, but had risen for services. In manufacturing, utilisation was slightly below normal. An increase in capacity had, to some degree, reflected capital investment over the past year and in some cases, the recruitment of skilled labour beyond immediate needs. Some constraints remained in the manufacture of construction materials (although capacity was being increased) and skills shortages, especially for engineers, were increasingly mentioned by contacts. In construction itself, capacity constraints were being alleviated by the recruitment of migrant labour. Capacity utilisation in services had increased and was slightly above normal overall. Contacts in professional services often reported that labour was fully or over-utilised. And capacity constraints had also increased in some other business services, such as for prime warehouse space. Utilisation rates for hotels, airports and rail infrastructure had remained above their historic averages. By contrast, there was excess space in some parts of the retail sector. And firms providing services to the energy sector (principally oil and gas exploration and production) reported increased slack owing to sharp falls in demand.

## Costs and prices

### Labour costs

Growth in labour costs per employee had been little changed. Contacts' reports suggested that wage pressures had edged higher, especially in the services sector, but those pressures had been largely restrained so far by countervailing effects, such as competitive pressures that were causing companies to bear down on cost growth. Concerns over staff recruitment and retention were, for the most part, reflected in targeted awards at key staff, rather than higher general pay awards. However, there was some concern that such pressures may intensify and, in construction, more widespread skills shortages had already resulted in some elevated pay rises. Increases in the National Minimum Wage in October last year had raised pay growth for the lowest-paid employees and in some cases for those paid slightly more, in order to maintain differentials. Improved trading performance for some firms had led to growth of commission, bonuses and profit-related pay. But in some cases, especially in manufacturing, companies had reported reduced overtime and shift working which had lowered growth in labour costs per employee.

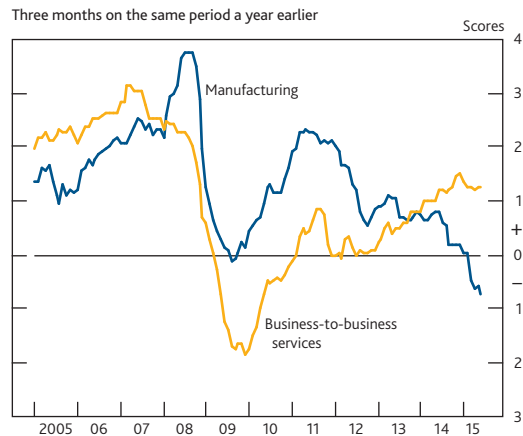
### Non-labour costs

The pace of decline in material costs had slowed slightly, although many input prices remained well below those of a year ago. The price of some oil-based materials, such as plastics, had risen during the past few months, following an increase in oil prices that had since reversed. Food commodity costs had remained around their recent lows, largely due to good harvests, excess supply in Europe (in some cases because supplies had been diverted from Russia) and the impact of a weaker euro. By contrast, after a period of rapid increases, construction materials inflation had slowed. Imported finished goods deflation had lessened a little further, as the appreciation of the US dollar fed through to import prices for consumer goods from the Far East.

### Output prices and margins

Manufacturers' output prices had declined slightly on a year ago (**Chart 3**), in part reflecting greater price competition from euro-area manufacturers. Food manufacturers and firms supplying the non-food retail sector had been under pressure to pass on lower input costs. Output prices for companies in the oil and gas supply chain had fallen sharply. Manufacturers of construction materials continued to raise prices — albeit at lower rates of inflation than last year. Business services price inflation had remained moderate. Competitive pressures and a continuing tendency for clients to negotiate on fees had often made it difficult for professional firms to obtain significant price rises, while suppliers to the public sector reported further pressure to reduce prices. However, faced with capacity constraints, some professional services firms had increased fees and were able to be increasingly selective in the

**Chart 3** Manufacturing and services output prices



work they undertook. And while lower fuel prices had reduced the cost of haulage, pass-through to customers had been incomplete as hauliers sought to recover increased wage costs. Profit growth had been steady in both the manufacturing and services sectors.

### Consumer prices

The rate of decline in consumer goods prices had stabilised (**Chart 4**). Forecourt fuel prices had risen. Prices had fallen further for groceries and clothing, although there were signs that the pace of decreases was starting to ease. More generally, price inflation for a range of consumer goods had been suppressed by the competitive effects of internet retailing. Consumer services price inflation was steady (**Chart 4**). Inflation was reported to be rising for hotels, restaurants and tourism alongside growing demand. The rate of increase in private rents had also risen, in part reflecting housing shortages. By contrast, inflation for services where prices were linked to the retail prices index, such as railway transport and water, had fallen. Sectors exposed to e-commerce (such as car and property insurance) reported sustained downward pressure on inflation.

**Chart 4** Consumer goods and services prices

