



Agents' summary of business conditions

August 2016 Update

- This Update generally covers intelligence gathered from business contacts between late June 2016 and late July 2016.
- A survey of companies indicated the result of the EU referendum would have a negative effect, overall, on capital spending, hiring and turnover over the coming year (see box on page 2, previously published in the August *Inflation Report*). Consistent with those results, Agents' scores for employment and investment intentions had weakened in absolute terms, pointing to expectations of little change in staff numbers and capital spending over the coming six to twelve months.
- Business services growth had softened further, partly reflecting weakness in commercial property investment and corporate transactions. Consumer spending growth had also slowed, although that appeared to have partly reflected the effects of unusually wet weather. A decline in manufacturing export volumes had been arrested, aided by the depreciation of sterling.

Annual **consumer spending** growth had eased further (**Chart 1**), with unseasonal weather likely to have been a significant factor. Consumer caution had increased prior to and since the referendum, reducing demand growth for larger-value goods.

Business services turnover growth had softened further (**Chart 2**), partly reflecting weakness in commercial property investment and other corporate transactions, such as mergers and acquisitions activity.

Manufacturing output for the domestic market had continued to increase gently on a year ago (**Chart 3**). A decline in manufacturing export volumes had been arrested, aided by the depreciation of sterling.

Construction output growth had eased, with many contacts expecting a further weakening to come.

Contacts, particularly in services, had been revising down **investment intentions** in recent weeks, as uncertainty had picked up (**Chart 4**). Most businesses were not making immediate changes to capital spending plans, but a significant minority were reviewing their risk appetite and some were deferring decisions.

Credit availability and associated terms and conditions had been broadly unchanged.

Activity in the **commercial real estate** sector had been materially affected by the referendum result, with the investment market in London particularly weak. Occupier demand had held up better.

The outlook for **housing market** activity had weakened, but it was hard for contacts to distinguish between the impact of the vote and other factors including the usual seasonal lull and recent lower demand from buy-to-let investors.

Capacity utilisation had remained a little below normal in manufacturing. Service sector capacity utilisation had eased on account of slower activity growth, but remained slightly above normal.

Employment intentions in the business services sector had been scaled back, with contacts now expecting flat employment over the next six months (**Chart 5**). Some recruitment plans had been put on hold, reflecting lower expected demand growth.

Recruitment difficulties had been unchanged.

Growth in total **labour costs** had edged higher in manufacturing, but was little changed overall, with the majority of pay awards remaining in a range of 1%–3%.

Materials costs had stopped falling and overall were unchanged on a year ago (**Chart 6**). **Imported finished goods** cost inflation had picked up, largely as a result of the depreciation of sterling, although it remained modest.

The annual rate of decline of manufacturing **output prices** had eased further and business services price inflation had remained modest.

Consumer price inflation had been little changed. Contacts expected goods price inflation to increase as a result of weaker sterling, albeit more quickly for some products than others.

This Update generally covers intelligence gathered from business contacts between late June 2016 and late July 2016. It generally makes comparisons with activity and prices over the past three months on a year earlier. The Update represents the aggregate view offered from business contacts across the whole of the United Kingdom. More information on the Bank's Agencies can be found at www.bankofengland.co.uk/publications/Pages/agentssummary/default.aspx.

Agents' survey on the impact on businesses of the vote to leave the European Union

The Bank's Agents surveyed a range of contacts with the aim of understanding how the vote to leave the European Union is expected to affect their businesses over the coming year. The questions asked about expected effects on capital spending, corporate transactions (such as mergers and acquisitions activity), hiring activity, turnover and prices over the coming twelve months. The survey covered around 270 businesses in the month or so following the referendum result, with a total UK employment of 1.2 million people.⁽¹⁾

The survey results relate to the marginal effect of the vote on each business aspect: whether the vote would have a positive or negative expected effect on turnover, for example, rather than whether it would lead to an absolute rise or fall in turnover over the coming year.

Overall, respondents expected a negative effect from the vote on turnover, capital spending and hiring activity over the next twelve months (Table 1). Output prices were expected to be boosted, on balance, as the rise in imported costs following the decline in sterling is passed through. That upward price effect suggests the effect on activity in real terms is more negative than that shown for turnover.

Table 1 Negative effects are expected on business activity over the next year

Survey responses on the impact of the vote to leave the EU on business

Proportion of companies, weighted by employment (per cent)^(a)

| | Substantially increase | Slightly increase | No effect | Slightly reduce | Substantially reduce | Net balance ^(b) |
|--------------------------|------------------------|-------------------|-----------|-----------------|----------------------|----------------------------|
| Capital spending | 0 | 0 | 40 | 51 | 9 | -34 |
| Corporate transactions | 0 | 1 | 84 | 11 | 3 | -8 |
| Hiring activity | 0 | 3 | 43 | 49 | 6 | -29 |
| Turnover | 1 | 12 | 35 | 42 | 11 | -25 |
| <i>of which, exports</i> | 1 | 28 | 47 | 20 | 5 | 0 |
| Prices | 4 | 32 | 50 | 14 | 1 | 12 |

(a) Results are weighted by employment within the companies, and then re-weighted by sectoral employment shares in aggregate ONS data.

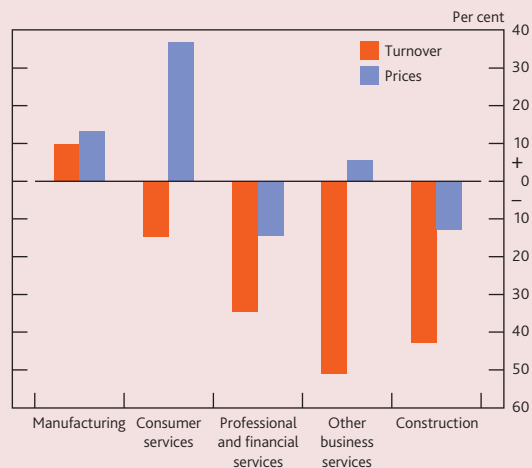
(b) When calculating the net balance of responses, half weight is given to those responding slightly increase or slightly reduce, and full weight is given to those that have responded substantially increase or substantially reduce.

Across sectors, the expected effects on turnover were most negative for business services and construction (Chart A). In contrast, for manufacturing there was a slight positive effect on balance, reflecting an expected boost to export demand from the fall in sterling. But exports overall were expected to be broadly unaffected, as that positive effect was offset by an adverse impact on services exports associated with lower commercial real estate and mergers activity by overseas investors.

On corporate pricing, downward pressure on prices was expected for professional and financial services and

Chart A Only manufacturers expected a positive effect on turnover; upward effects are expected on consumer prices

Balance of survey responses for turnover and prices by sector

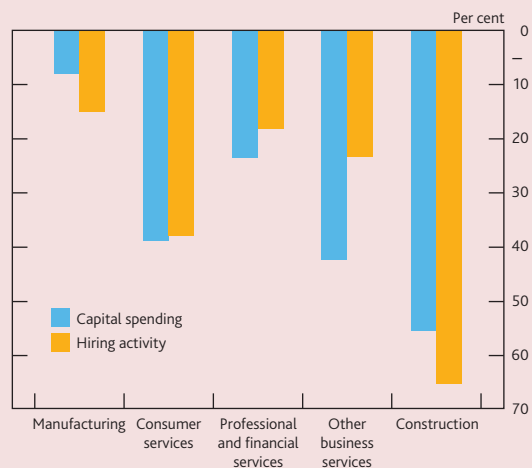


construction, reflecting a weaker outlook for demand. In contrast, for consumer services firms, any downward pressure from demand was expected to be more than offset by the pass-through of higher import prices.

Expected effects on capital spending and hiring activity were negative across all sectors, on balance, but particularly so for construction businesses (Chart B).

Chart B Negative effects on hiring and investment are expected across all sectors

Balance of survey responses for capital spending and hiring activity by sector



Consistent with the survey results, Agents' scores for companies' investment and employment intentions have weakened in absolute terms since the referendum result. Those scores point to broadly unchanged levels of staff numbers and capital spending over the next six and twelve months respectively.

(1) The results shown are weighted by employment within the companies, and then re-weighted by sectoral employment shares in aggregate ONS data to be more representative of the economy as a whole.

Selected charts of the Agents' national scores

Chart 1 Retail sales values and consumer services turnover

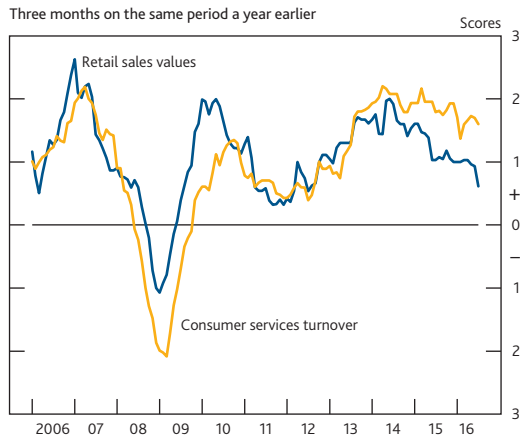


Chart 2 Business services turnover

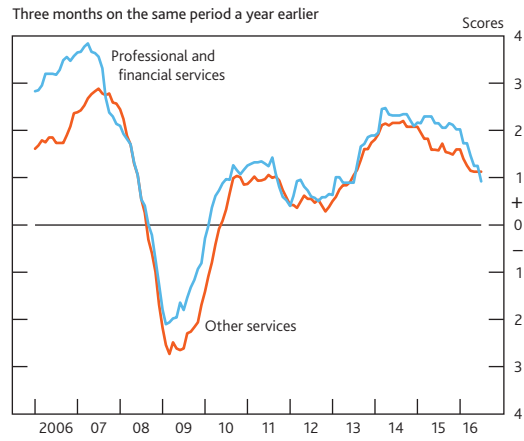


Chart 3 Manufacturing output

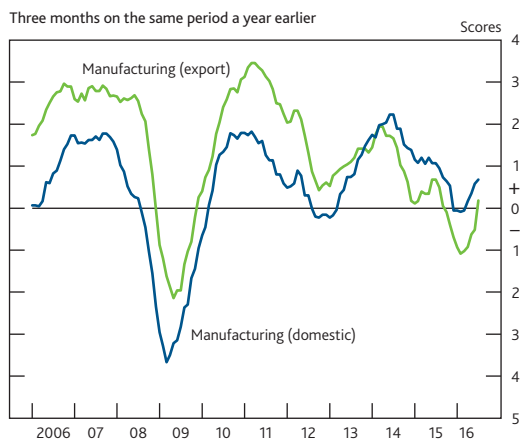


Chart 4 Investment intentions

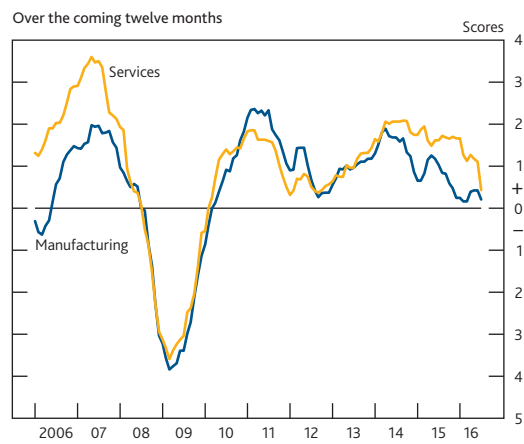


Chart 5 Employment intentions

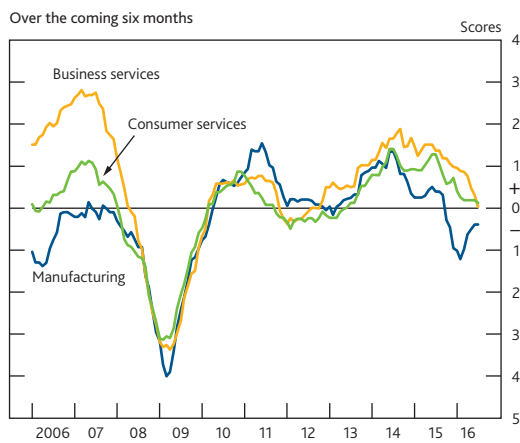


Chart 6 Retail goods and consumer services prices

