



Agents' summary of business conditions

October 2015 Update

- Activity had continued to grow at a solid rate on a year earlier, driven by services and construction output, but the pace of growth had eased a little overall. In particular, manufacturing growth had slowed, partly reflecting the effects of sterling's earlier appreciation and subdued world demand on export supply chains.
- Housing market activity had picked up modestly, though it remained constrained by the number of properties available for sale. High levels of competition were reported among lenders, which had led to falls in mortgage rates and increased remortgaging activity.
- Employment intentions indicated continued growth in the workforce. Recruitment difficulties were reported to be contributing to rising wage pressure in the service sector, but weak consumer price inflation had reduced the pressure on some employers to raise pay growth.

Consumer spending had continued to grow at a moderate rate on a year earlier (**Chart 1**), supported by rising real incomes and increasing availability of low-cost finance.

Business services turnover growth had remained relatively robust (**Chart 2**), with a range of professional services buoyed by increasing corporate finance and mergers and acquisitions activity. Turnover growth for some other services had eased.

Manufacturing output growth had slowed further (**Chart 2**), largely reflecting the effects on export supply chains of sterling's appreciation over the past 18 months and subdued world demand growth, as well as weak oil and gas investment.

Construction output growth had increased further (**Chart 2**), reflecting strengthening commercial development and infrastructure activity.

Investment intentions were unchanged, remaining consistent with modest growth in capital spending.

Credit availability for medium and large-sized firms had increased slightly, although more slowly than earlier in the year (**Chart 3**). There was some evidence of growing competition for lending to smaller companies with strong balance sheets.

Occupier demand had risen in the **commercial real estate market**, with rents reported to have increased in many areas. Strong investor demand was reported to be putting upward pressure on property values.

Housing market activity had risen modestly, but remained constrained by a shortage of properties available for sale. Intense competition was reported in the mortgage market, driving increased remortgaging activity.

Capacity utilisation was slightly above normal in services firms and slightly below normal for manufacturing.

Employment intentions continued to point to rising staff numbers (**Chart 4**). A survey indicated that companies' vacancies had risen over the past year and had become harder to fill; over half of respondents reported that **recruitment difficulties** were constraining workforce growth, albeit only slightly in most cases (see the box on page 2).

There were reports of rising wage pressure in the service sector, but weak consumer price inflation had reduced the pressure on some employers to raise pay growth. **Labour cost growth** had remained moderate overall (**Chart 5**).

Materials costs and **imported finished goods prices** were lower than a year earlier, reflecting sterling's earlier appreciation and lower freight costs.

Manufacturing **output prices** were slightly lower than a year ago, reflecting the pass-through of weak input costs. Business services price inflation had remained modest.

Consumer price inflation for goods had remained negative, having stabilised following sharp declines earlier in the year (**Chart 6**). Consumer services inflation had remained modest.

This Update covers intelligence gathered from business contacts between late August 2015 and late September 2015. A fuller report for 2015 Q4 will be published on 16 December. This report generally makes comparisons with activity and prices over the past three months on a year earlier. It 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 prospects for employment

The Bank's Agents ran a survey from mid-August to mid-September to examine trends in employment, vacancies and recruitment difficulties over the past twelve months, expectations for employment growth for the coming year, and businesses' planned response to any recruitment difficulties. Some 360 companies responded to the survey, with combined employment of more than 300,000. All of the results in this box have been weighted by employment and adjusted to reflect the actual employment shares of each sector, based on ONS data.

A net balance of respondents had increased employment over the past year; and a comparable balance expected to increase employment over the coming twelve months (**Chart A**). Fewer companies reported plans to either greatly increase or decrease their workforces than the number that had made such changes during the past twelve months. The survey revealed that small and medium-sized enterprises (SMEs) expected employment growth to be slower over the coming year than over the past twelve months, whereas expectations for large businesses' employment intentions were in line with employment growth over the past year. The survey also asked how companies' 'desired' workforce had changed over the past twelve months and found that for the majority of contacts, changes in employment had been close to what they had planned.

Alongside rising employment the survey indicated a rise in vacancies over the past year, and increasing difficulties in filling those vacancies (**Chart B**), affecting all business sizes and sectors. Across firms, smaller businesses and consumer services firms reported the largest increase in recruitment difficulties.

Although firms had generally been able to adjust employment as they desired over the past year, more than half of the weighted sample of contacts — in particular large businesses, construction and consumer services companies — reported that recruitment difficulties were now binding on workforce growth, albeit only slightly in most cases (**Chart C**). Recruitment difficulties were less commonly reported to be binding on workforce growth for SMEs and for firms in business services and manufacturing, compared with the sample overall.

Businesses reported three main planned responses to recruitment difficulties: to increase training and apprenticeship programmes; to utilise existing staff more productively; and to target pay increases on key skills and new hires (with around half of firms reporting each of these responses). There were noticeable sectoral differences in responses however: for example, construction firms were much more likely to plan to increase pay across the board, hire

foreign labour and even turn some work away, than was the average survey respondent, as they reported little scope to improve productivity. In contrast, consumer services firms planned productivity improvements as their primary response to recruitment difficulties.

Chart A Change in size of workforce: distribution of responses

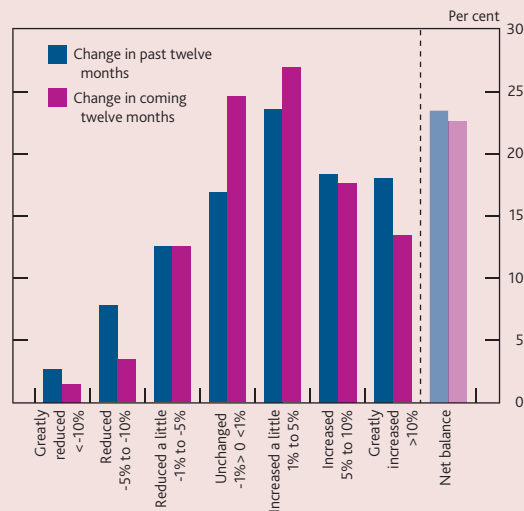


Chart B Difficulty in filling vacancies relative to a year earlier

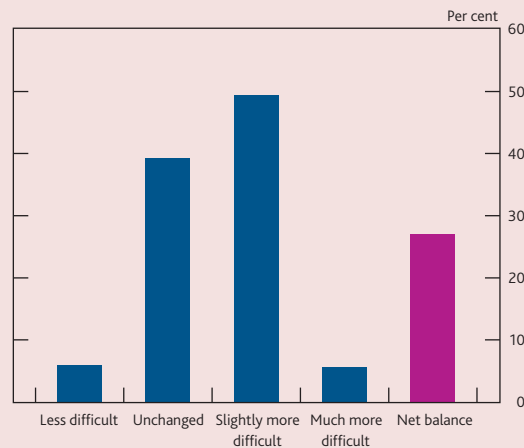
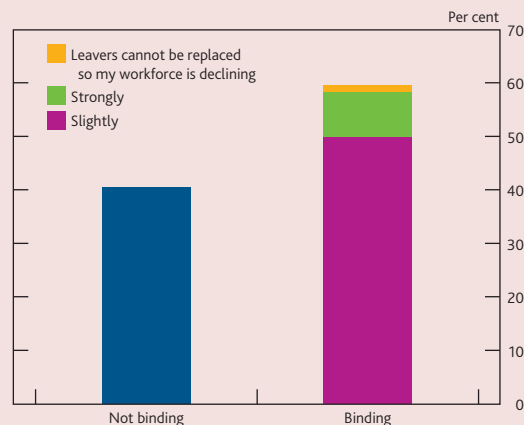


Chart C Impact of recruitment difficulties on workforce growth



Selected charts of the Agents' national scores

Chart 1 Retail sales values and consumer services values

Three months on the same period a year earlier

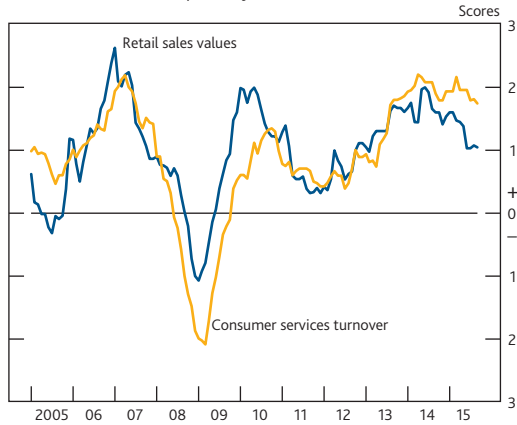


Chart 2 Activity

Three months on the same period a year earlier

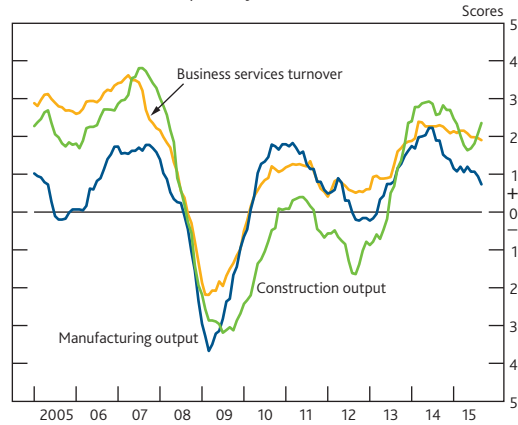
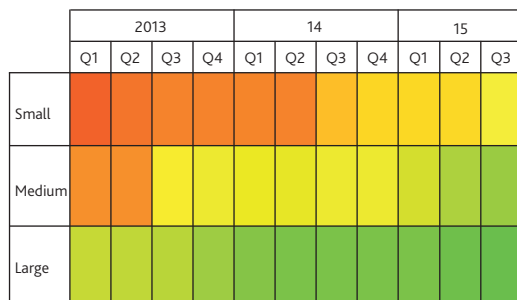


Chart 3 Credit availability^(a)



(a) The mapping is based on individual Agencies' national assessments of corporate credit availability, weighted by the gross value added of their regions or countries. 2013 Q1 uses assessment as at end-2012. The greater the intensity of red, the tighter credit availability; the greater the intensity of green, the looser the credit availability. Yellow indicates normal conditions. Includes bank and non-bank credit.

Chart 4 Employment intentions

Over the coming six months

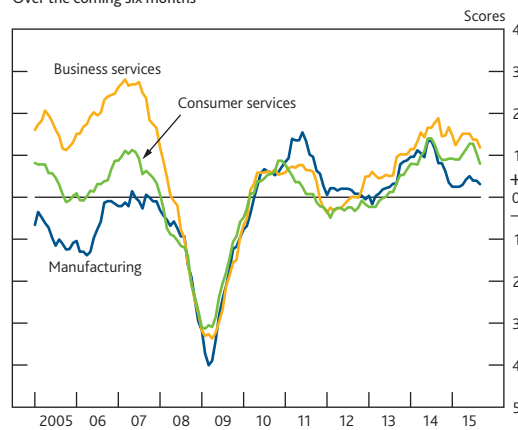


Chart 5 Total labour costs per employee

Three months on the same period a year earlier



Chart 6 Retail goods and consumer services prices

Three months on the same period a year earlier

