

## News Release

EMBARGOED UNTIL: 00:01 (UK), 17 March 2014

### Companies' expansion plans buoyed by Bank of England policy guidance

- 57% of companies more confident about economy due to Bank of England guidance
- Investment and hiring plans have been boosted by Bank policy guidance, especially in construction
- Rate hike expectations largely in line with forward guidance

The Bank of England's policy of 'forward guidance' has made the majority of companies feel more confident about the near-term prospects for the UK economy, according to a survey conducted by Markit.

Companies are on average more inclined to boost their business investment, take on more staff and purchase assets as a direct consequence. Construction firms have shown the strongest positive response, but are also more likely to increase prices as a result.

The data were collected from 723 UK manufacturing, service sector and construction companies between 12th – 26th February.

**Chris Williamson, Chief Economist at Markit** said:

"The survey results will provide a reassuring fillip to policymakers, with companies telling us that the Bank of England's forward guidance has engendered greater confidence in the UK economic outlook. More than half of all companies say they are now more optimistic about prospects over the next couple of years as a result of policy guidance.

"Perhaps more importantly, however, forward guidance is reported to be having a direct overall positive impact, most notably by boosting investment and hiring intentions.

"Not surprisingly, given the impact of interest rates on the housing market, the positive effect of forward guidance is most noticeable in the construction industry, though this is also the only sector where the policy is prompting companies to hike their prices."

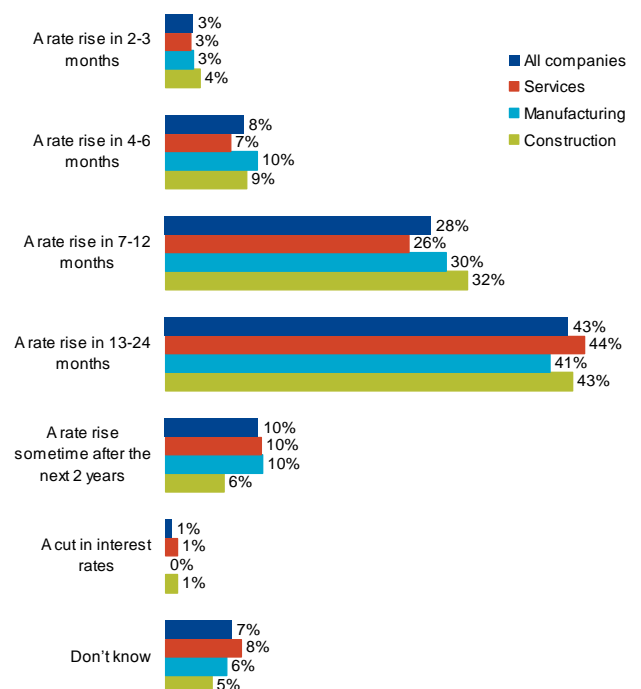
### Rate hike expectations

Set in the context of the Bank of England's recent communications, which indicate that interest rates are unlikely to rise soon and only gradually when they do rise, 40% of companies predict the Bank of England will start hiking interest rates over the course of the next 12 months. Just over one-in-ten (11%) expect the first hike to occur within the next six months, while only 3% expect the first hike to take place in the next three months. One-in-ten companies believe that it will be at least two years until the first rate rise. Barely any companies expect the next policy move to be a cut in interest rates.

This represents an earlier expected timing of rate hikes than seen in a [similar survey conducted last November](#), when 73% expected the Bank to start raising interest rates within the next two years and 31% predicted a rise over the next 12 months.

### Companies' views on interest rates

The interest rate set by the Bank of England is currently 0.5%. Please let us know when and how you think the Bank will next change interest rates by choosing one of the following:



### Impact on confidence

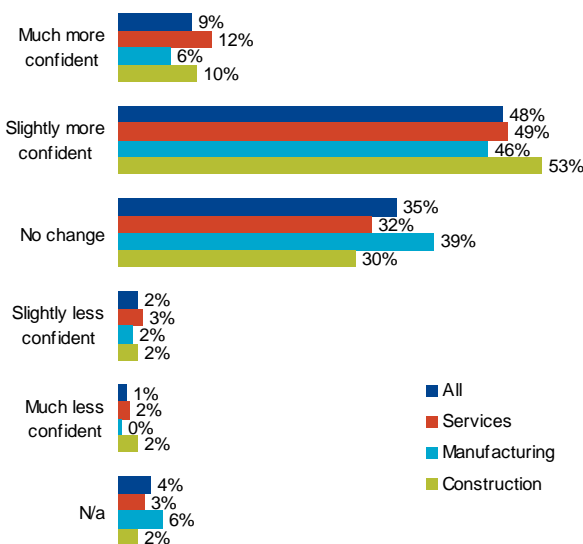
When asked how the Bank’s policy guidance has affected confidence about the near-term (1-2 year) prospects for the UK economy as a whole, 57% of respondents reported that they had become more confident. However, only 9% were ‘much more’ confident compared to 48% that were ‘slightly more’ confident.

Only 4% reported that they had lower confidence as a result of policy guidance. The results are largely unchanged from November’s pilot survey<sup>1</sup>, which showed 57% of companies were more confident about the outlook as a result of the Bank’s guidance while 3% were less confident.

Construction companies were the most confident as a result of policy guidance, followed by service sector firms.

### How companies’ confidence about prospects for UK economy have been affected by policy guidance

*How has the Bank’s policy guidance affected your confidence about the near-term (1-2 year) prospects for the UK economy as a whole?*



	Much more confident	Slightly more confident	No change	Slightly less confident	Much less confident	N/A
Construction	10%	53%	30%	2%	2%	2%
Manufacturing	6%	46%	39%	2%	0%	6%
Services	12%	49%	32%	3%	2%	3%
<b>All companies</b>	<b>9%</b>	<b>48%</b>	<b>35%</b>	<b>3%</b>	<b>1%</b>	<b>4%</b>

### Policy guidance impact

The survey indicated that the Bank’s policy guidance has had a positive net effect on companies’ plans to bring forward capital spending plans, increase their total investment spending, take on more staff and purchase other assets such as property.

On balance, construction firms were more likely than manufacturing and service sector firms, on average, to react positively in response to the Bank’s guidance, though manufacturers were the most encouraged in respect of new investment spending.

The results are not significantly different from the pilot survey conducted last November<sup>2</sup>, with the possible exception of a smaller positive effect on firms’ inclinations toward buying new assets such as property.

- Just over one-in-ten (11%) of companies were more likely to **bring forward their existing capital spending plans** as a result of the Bank’s ‘forward guidance’, while just 2% were less likely. The resulting net balance of +9% compares with +10% in November’s pilot survey.
- Some 13% reported they were more likely to **increase their overall investment spending** while just 3% were less likely to boost investment. The resulting net balance of +11% is down marginally from +13% in November.
- Likewise, 13% of companies were more likely to **take on extra staff** compared to just 3% that were less likely (N.B. question not asked in November).
- Across all sectors, 11% said they were now more likely to **purchase assets** such as property or financial assets against 6% that were less likely (a net balance of +5%; down from 10% in November).
- However, companies are less likely to **take on more debt**. Just 7% reported that policy guidance was likely to result in them taking on more debt (from either banks or capital markets) while 11% were less likely to increase their debt. At -4%, the net balance was unchanged on November.
- The Bank’s recent policy guidance also appears to be having a disinflationary impact. Only 4% of companies were more likely to **raise their prices** as a result of the Bank’s guidance whereas 7% were less likely. Construction firms bucked the trend, however, with 12% more likely to raise prices compared to 5% reporting they were less likely.

<sup>1</sup> The November pilot survey asked about ‘the Bank’s recent policies and communications’.

<sup>2</sup> The November pilot asked about ‘the Banks recent policies and guidance’.

## How companies are likely to respond to policy guidance

The Bank of England has been applying a policy known generally as “forward guidance” since August 2013. How has the Bank’s recent policy guidance influenced your company’s decisions in relation to the following?

### Survey % net balances

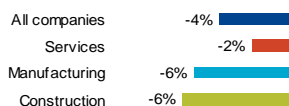
#### Bring forward existing capital spending plans



#### Increase investment spending



#### Take on more debt



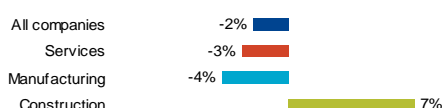
#### Purchase other assets



#### Take on more staff



#### Raise prices by more than otherwise



## About the survey

The February survey results reflected responses from 723 companies that are regular participants in Markit’s monthly PMI surveys (specifically, 333 service sector companies, 309 manufacturing firms and 81 construction companies).

In manufacturing and construction, survey respondents are typically high-level executives responsible for purchasing inputs and managing supply chains. In services, respondents are typically CEOs, CFOs, managing directors or other similar high ranking executives

The November data were collected from a [smaller pilot survey](#) of 231 UK manufacturing, service sector and construction companies between 8th – 11th November (prior to the publication of that month’s Bank of England Inflation Report).

The Bank of England was consulted on the wording of the questions and contributed towards the cost of the survey.

17/03/2014

	More likely	No change	Less likely	Don't know	N/A	Net balance
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#### Bring forward existing capital spending plans

All companies	11%	71%	2%	7%	9%	9%
Services	11%	74%	2%	4%	9%	8%
Manufacturing	10%	71%	2%	10%	7%	8%
Construction	15%	62%	1%	6%	16%	14%

#### Increase investment spending

All companies	13%	69%	3%	6%	9%	11%
Services	12%	72%	3%	4%	8%	9%
Manufacturing	14%	68%	2%	8%	8%	12%
Construction	14%	64%	2%	5%	15%	11%

#### Take on more debt (from banks or capital markets)

All companies	7%	65%	11%	7%	11%	-4%
Services	8%	66%	10%	5%	11%	-2%
Manufacturing	6%	63%	12%	9%	10%	-6%
Construction	6%	63%	12%	6%	12%	-6%

#### Purchase other assets, e.g. property or financial investments

All companies	11%	66%	6%	7%	10%	5%
Services	9%	71%	5%	6%	9%	4%
Manufacturing	13%	62%	6%	9%	9%	6%
Construction	11%	57%	7%	5%	20%	4%

#### Take on more staff

All companies	13%	70%	3%	6%	9%	10%
Services	13%	71%	3%	5%	8%	10%
Manufacturing	11%	71%	3%	7%	8%	8%
Construction	20%	59%	2%	4%	15%	17%

#### Raise prices by more than otherwise

All companies	4%	75%	7%	6%	9%	-2%
Services	4%	77%	6%	5%	8%	-3%
Manufacturing	3%	75%	7%	7%	8%	-4%
Construction	12%	64%	5%	5%	14%	7%

## For more details please contact ...

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