

United Kingdom

CBI survey confirms manufacturing slowdown

- **CBI survey sends mixed signals of manufacturing health**
- **Future output measure remains historically high but order book situation deteriorates**
- **Survey merely confirms PMI signal of sector's slowdown over summer**

The Confederation of British Industry's Industrial Trends Survey sent mixed signals about the health of the manufacturing economy in September. Firms' expectations about future output remained buoyant, but the current order situation deteriorated markedly.

A comparison of the CBI survey against the Markit/CIPS PMI suggests more weight should be put on the order book signal, as the fall in the orders balance confirms latest PMI results of a slowdown in the UK's goods-producing sector.

In confirming the PMI surveys' weakness, the CBI survey will add weight to those policymakers at the Bank of England who are concerned about a slowing economy, but the CBI survey in fact adds little to what we already know about the health of the UK's goods-producing sector.

The CBI's survey of UK manufacturers showed the net balance of companies expecting output to rise over the next three months remained at a lofty +27% in September, down only slightly from +31% in August.

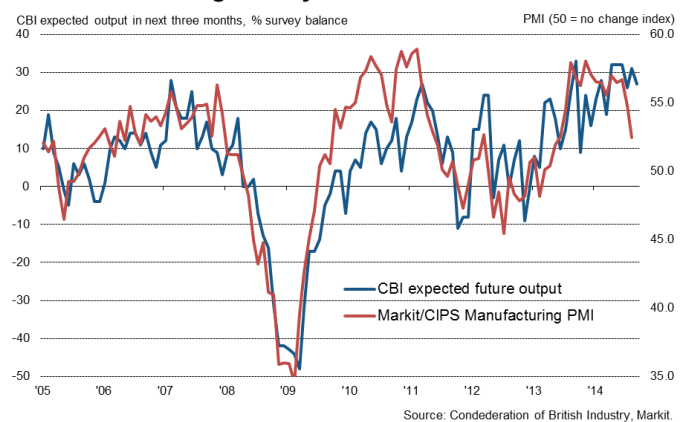
However, the number of companies reporting an improvement in their current order book situation was outweighed by those reporting a deterioration. At -4%, the order book net balance was the lowest for almost a year.

The survey is clearly sending confusing signals. In theory, order books should be a leading indicator of future output, and in the current situation this points to a slowing in output growth. However, the survey finds that firms are very upbeat about future production.

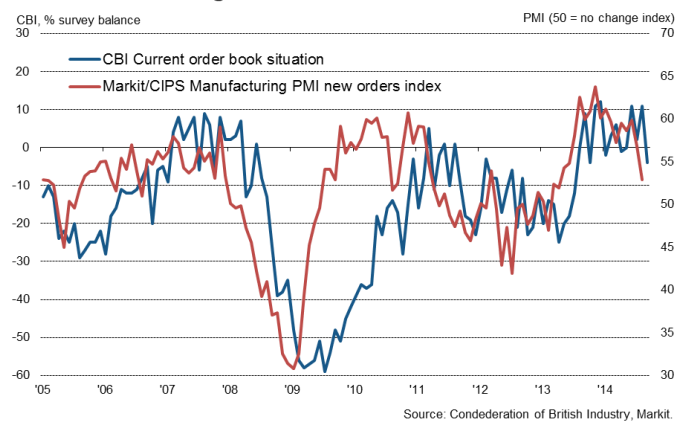
A comparison with the PMI survey, which showed manufacturing growth slowing to the sharpest for over a year in August, suggests it is the order book signal from the CBI which is sending the most reliable signal. The CBI series typically lags the PMI, so the

September CBI reading is merely confirming the PMI's weakness in August. We would therefore anticipate that the CBI's measure of expected future output will fall next month, in line with the headline PMI reading.

UK manufacturing surveys



UK manufacturing order books



Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

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