

United Kingdom

Demand for investment goods surges at fastest rate for two decades

- **Manufacturers of investment goods have reported the largest surge in demand for 20 years in recent months**
- **Data add to indications of an increasingly broad-based economic upturn**

UK manufacturers are reporting surging demand for goods such as IT equipment, plant and machinery, suggesting that a long-awaited upturn in business investment is finally taking place.

Over the past three months, companies participating in the PMI business survey that make investment goods have reported the strongest increase in new orders for 20 years. Although some of the improvement is due to export sales (new export orders rose at the fastest rate since mid-2011), overall new orders growth exceeded growth of exports by a significant margin, pointing to rising domestic demand.

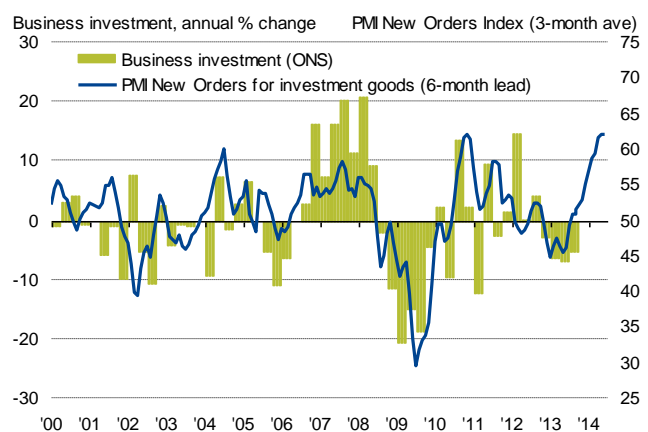
The new orders index correlates well with actual business investment in the UK, providing a reliable six-month lead on annual business investment growth (see chart).

The index points to a strong turnaround in investment growth over the past year: new orders were falling sharply up until November of 2012, but growth has since picked up sharply.

The latest available official data (from the Office for National Statistics) showed investment down 5.3% on a year ago in the third quarter, with the rate of decline merely easing from 6.9% in the second quarter. The PMI data therefore indicate that investment may have risen in the fourth quarter, and that an improving trend is signalled over the first half of 2014.

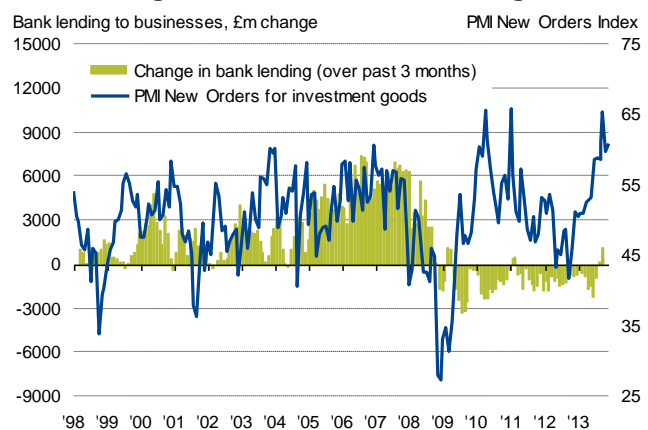
The upturn in investment comes as companies report far fewer concerns about the economic outlook, both at home and abroad. These include a reduced fear of a Eurozone break-up, improved prospects for economic growth in countries such as the US and Japan, and fewer concerns about the banking system.

PMI survey new orders for investment goods in latest 3 months v investment spending



Source: Markit, CIPS, EcoWin.

Bank lending and orders for investment goods



Source: Markit, CIPS, Bank of England.

The upturn in investment suggest that the UK economic recovery is becoming more broad based, as companies gain confidence in the economic outlook and start to expand in terms of fixed assets as well as employment. If sustained, the increase in investment could therefore help drive a strong economic recovery in 2014, adding to the sense that current consensus estimates of 2.4% GDP growth for the year are already looking too pessimistic.

A key concern is bank lending, the lack of which has been widely cited as a persistent constraint on

investment since the financial crisis. However, falling bank lending has not necessarily prevented rising demand for investment goods since the financial crisis (see chart), suggesting companies have had to seek alternative means of finance.

Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

[Click here](#) for more PMI and economic commentary.

For further information, please visit www.markit.com