State of the Economy: CBI surveys show optimism for future output

June 2023

The CBI's latest Growth Indicator (a composite of activity across our business surveys) published 1st June found that private sector activity fell in the three months to May, continuing a streak of negative readings for the tenth successive rolling quarter. All three component sectors saw contractions, with manufacturing output, services business volumes and distribution sales all falling. Despite the weak results, activity is expected to mount a modest recovery over the next three months, largely reflecting a revival in the business & professional services sector.

May's Growth Indicator also saw a continued expansion of the workforce, albeit at rates slower than this time last year – chiming with the data in the Purchasing Managers Index (PMI) for the same month. Echoing the trends in activity, expectations for employment growth vary considerably across sectors: for the first time since February 2021, manufacturers do not expect headcount to grow. Distribution firms likewise anticipate broadly unchanged employment, with services the only sector expecting hiring to pick up over the next three months.

Encouragingly, our surveys also show an easing in expectations for output price inflation. In particular, manufacturers' expectations for output price inflation over the next three months are at their lowest since March 2021, while in distribution they are at their weakest since November 2020. While inflation expectations have also receded in non-financial services, cost pressures in this sector remain strong. Our survey data shows that costs per employed person rose at a near-record pace in the three months to May, as profitability fell at the fastest pace since 2020. This is consistent with the May services PMI, where wage pressures were one factor cited behind a pick-up in output price inflation.

Alongside expectations of growth in our latest surveys, other measures of economic activity have been strengthening since lows seen after the "mini"-Budget of October last year, such as GfK's measure of consumer confidence reaching its highest since February 2022. Taken together, recent indicators suggest that the UK will avoid recession this year. Further falls in inflation in the months ahead, partly driven by lower household energy bills from July, will also give some more support to economic activity. However, inflation is expected to fall more slowly than previously anticipated, which has already raised financing costs ahead of further expected rises in Bank of England base rate [see note on financial conditions].

The CBI's own economic forecast will be released next week, which will provide a more in-depth outlook for the UK economy up to the end of 2024.

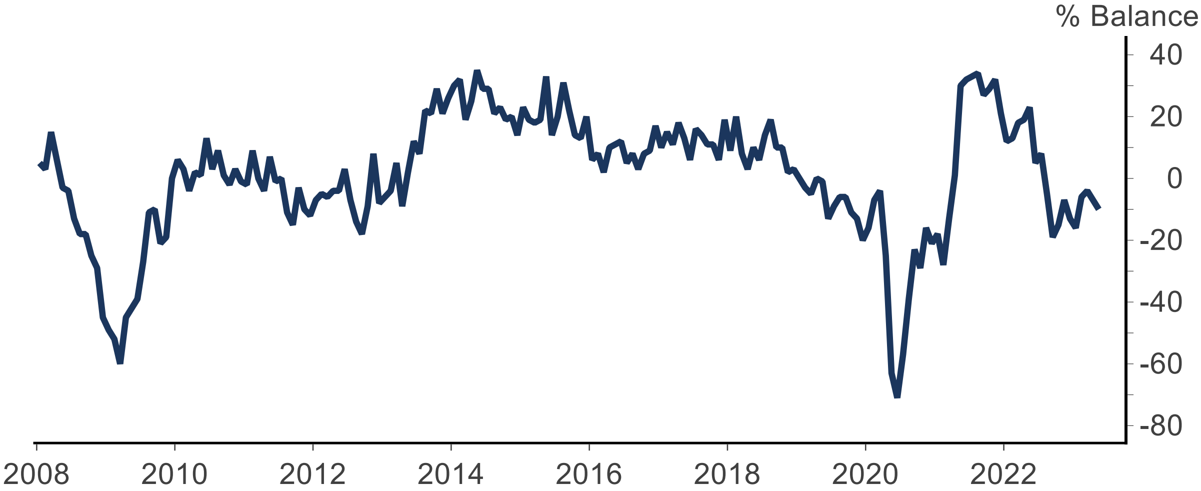
The CBI's latest Growth Indicator (a composite of activity across our business surveys) found that private sector activity fell in the three months to May (weighted

balance[1] of -10% from -7% in the three months to April), for the tenth consecutive rolling quarter. A steep fall in distribution sales weighed on activity, as business in non-financial services and manufacturing output declined moderately

   - **Services business volumes declined at a broadly similar pace to last month** (balance of -8% from -7% in April), reflecting a mild contraction in business & professional services (-4%) and a sharper fall in consumer services (-24%). Within the sectors, an improvement in travel services and office & personnel services was counterbalanced by ongoing weakness elsewhere.
   - **Distribution sales resumed their downward trend after two flat months** (-17% from +1% in April), falling at the fastest pace since November 2022. This reflected contractions in both the retail and wholesale sub-sectors.
   - **Manufacturing output also continued to fall, but at a slightly slower pace than last month** (-10% from -15% in April). Output fell in 9 out of 17 sub-sectors with the fall largely driven by motor vehicles & transport equipment, chemicals, and food, drink, & tobacco sub-sectors. While order books were stable overall, export order books deteriorated.

- Looking ahead, **private sector activity is expected to mount a modest recovery over the next three months (+8%)**. Business & professional services looks set to lead the recovery (+20%), while consumer services and distribution sales are expected to stabilise (-3% and -1% respectively). Manufacturing output is expected to fall, but at a slower pace once again (-5%).

CBI Growth Indicator: UK Output Volumes (Past Three Months)



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[1] A balance is the weighted percentage of companies reporting an increase minus those reporting a decrease

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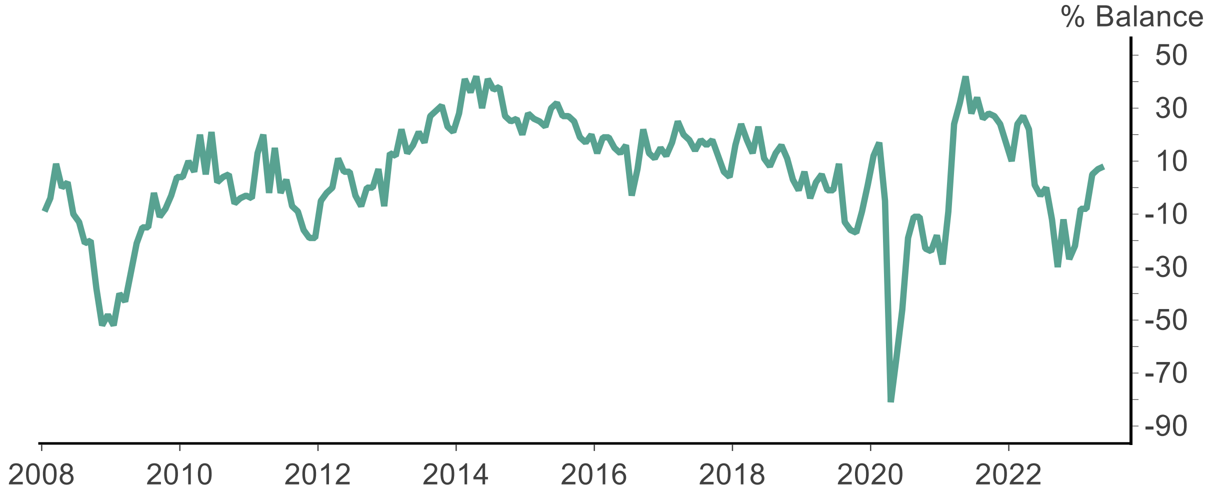

UK Private Sector Activity