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PRIVATE SECTOR ACTIVITY FLAT IN THREE MONTHS TO APRIL

Private sector activity was flat in the quarter to April, marking the sixth consecutive rolling quarter of flat or falling volumes. April's outturn reflected a (continued) decline in services volumes, balanced out by a pick-up in growth in both manufacturing and distribution volumes. The pick-up in distribution was largely driven by stronger retail sales growth – the first rise in five rolling quarters – though this may have been boosted by the Easter trading period. Manufacturing output growth also picked up slightly, though remained modest overall.

Looking ahead, private sector activity is expected to pick up slightly over the three months to July (+5%), reflecting a recovery in services volumes but flat activity in both distribution and manufacturing.

Brexit uncertainty weighing on growth

The latest growth indicator suggests that momentum has remained subdued going into Q2 2019, continuing the theme of muted activity seen in Q1. While this chimes with other business surveys, ONS data seems to imply stronger economic growth over January and February. However, it is possible that the data may have been boosted by stockpiling, occurring in the midst of heightened uncertainty over Brexit. Surveys, such as the growth indicator, may be more indicative of underlying economic growth.

Brexit uncertainty is clearly having a more tangible bearing on activity, with anecdote from our members pointing to delays in corporate decision making, hitting the pipeline of work in many sectors. In a special CBI survey run in March, over 60% of respondents said that Brexit uncertainty had hit their sales.

As a result, a “smooth” resolution to Brexit—i.e. Parliament ratifying a deal that is acceptable to the EU—may lift activity and investment in the near-term, as the initial uncertainty dissipates. This, alongside widespread stockpiling in Q1, may result in some volatility in the profile of economic growth this year. But underlying conditions are unlikely to differ materially to those expected in our last economic forecast (released in December 2018). Following growth of 1.4% in 2018, we expected growth to remain similarly subdued in 2019 (also at 1.4%), before picking up slightly to 1.6% in 2020. Our forecast is conditioned on a smooth transition to an orderly Brexit outcome, particularly the implementation of a transition period until at least the end of 2020.

Key judgements underpinning our forecast include:

- Household spending remains subdued, reflecting tepid growth in real incomes – while living standards should improve as wage growth picks up, they are likely to remain below pre-crisis norms.
- Brexit uncertainty – including uncertainty around the end-state of the UK's relationship with the EU – will likely continue weighing on business investment. Our survey data on investment intentions remain weaker than levels prior to the referendum.
- Support to growth from net trade peters out over our forecast. While solid (albeit slowing) global growth continues to support exports, this is largely matched by a mild pick-up in imports growth, supported by a mild firming in domestic demand.

The prospect of a “no deal” remains the most immediate risk to the UK economy, and would likely lead to both greater financial market volatility and significantly weaker economic growth than in our baseline forecast. Global risks have also shifted higher, particularly the prospect of a further escalation in trade protectionism, which could weigh on global investment and trade flows.

Growth indicator: sector detail**INDUSTRIAL TRENDS SURVEY****Manufacturing — slight pick-up in output growth**

Manufacturing output growth picked up in the quarter to April. Total and export order books both dipped below “normal” levels, but remained above their respective long-run averages. Output volumes are expected to be roughly flat in the next quarter.

DISTRIBUTIVE TRADES SURVEY**Retail, wholesale and motor trades — growth in distribution speeds up**

Distribution growth accelerated in the quarter to April, underpinned by a strong recovery in retail sales growth and a slight pick-up in wholesaling growth (note that the retail sales measure used in the CBI composite is three month-on-three-month growth, rather than the headline year-on-year measure published separately in the survey). The retail sector particularly is likely to have seen a temporary boost from the Easter trading period. Next quarter, distribution growth is expected to be flat, as falls in wholesale and motor trades sales offset expectations of similar strong growth in retail.

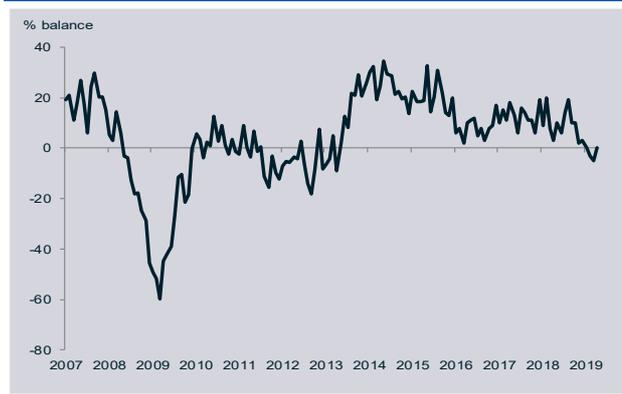
SERVICE SECTOR SURVEY**Business & professional and consumer services — Business volumes continue to fall**

Business volumes in the services sector continued to fall in the quarter to April, at a broadly similar pace to the three months to March, underpinned by a continued decline in business and professional services volumes, and a broadly flat volumes in consumer services (following six rolling quarters of continuously falling volumes in this sector). Over the next three months, overall services volumes are expected to recover somewhat, driven by a small rebound in business and professional services

Figures are percentage balances — ie the difference between those replying 'more', 'up', 'above normal' or 'more than adequate' and those replying 'less', 'down', 'below normal' or 'less than adequate'.

Monthly composite: output volumes				
		- past three months	- next three months	
2017	Mar	+11	+25	
	Apr	+18	+20	
	May	+13	+18	
	Jun	+6	+14	
	Jul	+16	+18	
	Aug	+14	+16	
	Sep	+11	+18	
	Oct	+11	+12	
	Nov	+6	+6	
	Dec	+19	+4	
	2018	Jan	+9	+16
		Feb	+20	+24
Mar		+8	+18	
Apr		+3	+13	
May		+10	+23	
Jun		+6	+11	
Jul		+14	+8	
Aug		+19	+13	
Sep		+10	+16	
Oct		+10	+11	
Nov		+2	+3	
Dec		+3	-1	
2019	Jan	0	+6	
	Feb	-3	-4	
	Mar	-5	+2	
	Apr	0	+5	

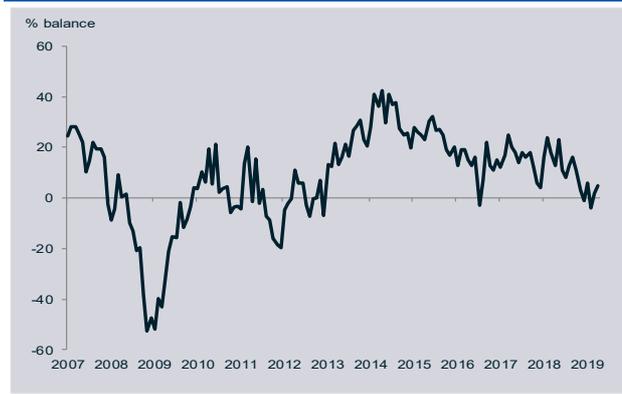
Monthly composite: output volumes, past three months



Past 3 months

Latest	+0
Previous	-5
Average	+6

Monthly composite: output volumes, next three months



Next 3 months

Latest	+5
Previous	+2
Average	+10

Launched in January 2014, the CBI composite survey indicator brings together CBI surveys of economic activity into an aggregate index. The indicator includes our survey results for output volumes as reported on a monthly basis for the manufacturing, distribution, consumer, business & professional services sectors. It offers an early perspective on the pace of economic growth and covers around 75% of the private sector economy.

Weighting together the other CBI business surveys, the indicator relies on a qualitative rather than quantitative approach. The indicator results are reported in a similar way to other CBI surveys and use the 'balance' statistic – the difference between the percentage of respondents replying 'up' minus the percentage A 'down'. The 'balance' provides a simplified method of interpreting the A and over a period of time, and the trend in the balance gives a good indication of the trend in the economic indicator. The CBI acknowledges the European Union's financial support for the technical development and supply of this data'.

Publications & services

The CBI economics and survey teams take advantage of the CBI's diverse contacts with British business to build up an accurate assessment of the latest developments in the UK and international economy. Widely acknowledged for their professional standards, the teams' work is vital since government statistics, where available, are often slow to be published and are subject to revision. Apart from the quarterly International Economic Outlook and UK Economic Outlook, the teams publish the unique CBI business surveys, covering manufacturing, distribution, consumer, business and professional services, financial services and SMEs. All results are carefully scrutinised and discussed by business people and economists before publication.

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