

# UK business investment

## Investment spending surge loses momentum

- **PMI data on new orders for investment goods show only modest growth in Q4.**
- **Data provide some clarity to official estimates of business investment.**

National accounts data were revised to show a sharp rise in business investment spending in the third quarter of last year. But PMI data suggest that the surge has already waned (and possibly did not even occur in the first place), pointing to a less robust economic recovery than official data currently suggest.

### Business investment surge?

The Office for National Statistics is once again struggling to provide a clear picture of UK economic growth. In late-November, national accounts data pointed to a 0.2% contraction in business investment in 2010 Q3 compared to Q2. Just one month later, on 22 December, that decline was revised away. Instead, investment spending is said to have shot up by 3.1%.

The wider measure of 'gross fixed capital formation' (of which business investment accounts for just over half) was also revised up. Instead of the earlier estimate of a 0.6% rise in Q3, this spending, which includes expenditure on fixed assets such as dwellings, other buildings, vehicles, plants, machinery and other equipment, jumped 3.4% higher. That was the largest quarterly rise for four years.

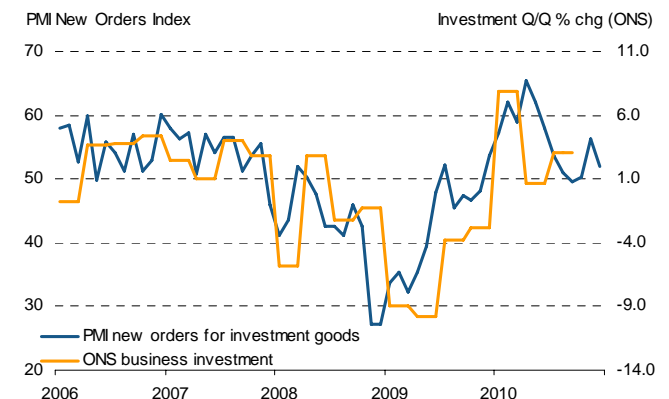
Business investment and fixed asset trends are being watched closely at the moment, as rising spend is considered an element of a maturing and sustainable recovery. However, the data revisions do nothing to inspire confidence in the statistics and merely add to uncertainty about the true health of the UK corporate sector and the prospects for the recovery in 2011.

### 'Reality check'

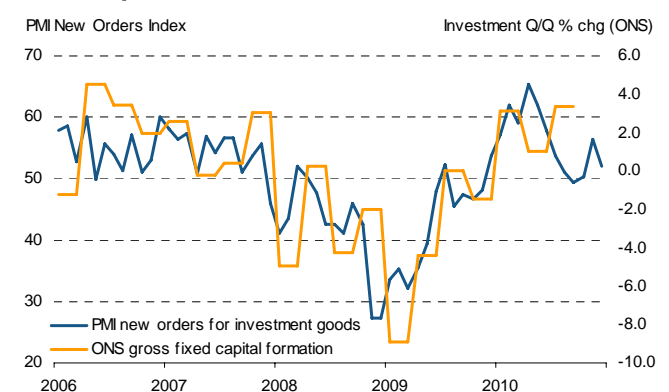
A 'reality check' on the data can be provided by looking at the Markit/CIPS PMI business survey data relating to new orders received by manufacturers of investment goods. This series has a good track record against

historical data relating to both business investment and fixed capital formation. The PMI series spiked higher in the first half of 2010, reaching a peak in April. However, by the start of the second half of the year, the rate of growth in new orders had waned substantially, and wilted completely in September when a small drop in demand was recorded. Although the series (on average) has staged a modest recovery in the final quarter of the year, the rate of increase slowed in December following a promising upturn in November.

### Business investment



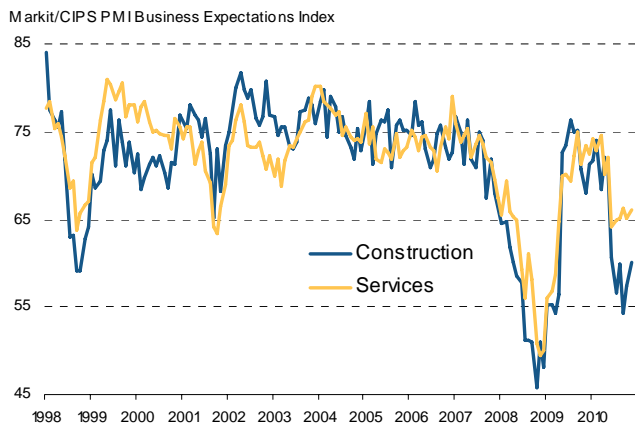
### Fixed capital formation



The survey data therefore raise the possibility that the surge in fixed capital spending in Q3 will prove to have been a statistical mirage, or will at least be short-lived. Growth of business investment, meanwhile, certainly seems to have slowed sharply compared to earlier in the year, as companies have become less confident in

future prospects since the spring. Investment therefore looks unlikely to contribute significantly to GDP growth in Q4, and sends a signal that the recovery is less robust than recent official data have suggested.

**Business confidence (updated to November)**



Sources for all charts: Markit, ONS.

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