CBI forecasts 2.3% drop in factory output

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THE Confederation of British Industry has joined the most gloomy economic forecasters in predicting that output will fall for four successive quarters, starting in the last three months of this year, and that manufacturing output will drop by 2.3 per cent in 1991.

This short-term pessimism is strongly tempered, however, by signs that sectors hit early in the recession have already passed their nadir, giving some confidence that economic activity will pick up in the second half of next year.

In its latest economic situation report, the CBI says that the downturn in the economy is expected to continue in the first half of 1991, but that "the forecasts point to a recovery in economic activity in the second half of 1991".

The confederation, which was relatively cheerful about economic prospects until August, now forecasts a 1 per cent decline in economic activity in 1991 as a whole – far worse than the Chancellor's forecast of 0.5 per cent growth. The report says: "The cost of achieving a downward trend in inflation will prove to be a very significant downturn in economic activity at the end of this year and the early part of next year."

CBI leaders say anecdotal evidence suggests that some sectors that were hit earliest by the recession may now be past the worst, raising confidence that the recession can be contained and will not be as severe as in the early Eighties. Some business leaders were reporting guarded optimism in such areas as truck sales.

The CBI has sharply altered its estimates of output, based on the evidence of its own trends survey, which shows business confidence at its lowest for a decade.

Three months ago, the CBI was expecting manufacturing output to fall back, with the economy remaining flat until next year. Output was forecast to grow by 1.3 per cent this year and by 0.3 per cent in 1991.

Now, because overall economic activity is already declining, the CBI is expecting manufacturing output this year to grow by only 0.3 per cent, and to fall by 2.3 per cent next year.

The CBI says unemployment will continue to increase beyond the end of the recession in output, rising to 2.1 million by early 1992. Retail price inflation, currently 10.9 per cent, will fall to 5.4 per cent by the end of 1991, virtually in line with Treasury forecasts, and to 4.5 per cent by the end of the following year.

The current account deficit, forecast by the Treasury to be £15.5 billion this year, will fall to £9.8 billion next year, the CBI says, followed by a further slight reduction to £9.2 billion in 1992.

The CBI's forecasts are based on expectations that the government will reduce interest rates to 12 per cent by next summer and that there is no further fighting in the Gulf.

City opinion remains divided on the depth and severity of the recession. Andrew Milligan, UK economic adviser to Lloyds Bank, sees weak recovery in the second half of 1991 to allow 0.7 per cent growth for the full year. But, as a result of ERM entry, he expects weak growth for the next five years, averaging 2 per cent, or about half the level achieved during the late Eighties.

Gerard Lyons, chief economist at DKB International, believes the recession will be deep and severe, with the economy shrinking 0.75 per cent next year after 0.5 per cent growth this. The current account deficit is foreseen narrowing to below £10 billion in 1991, but remaining stuck around this level.

Business confidence at lowest for decade

THE CBI's latest monthly survey shows that manufacturers are expecting output to fall over the next four months.

On balance, more companies expect the volume of output to decline than at any time since December 1980, the onset of the early Eighties recession.

David Wigglesworth, chairman of the CBI's economic situation committee, said that overall demand remained weak, and profit margins were under considerable pressure. Many manufacturers were looking for interest rates to be cut as quickly as possible.

About 39 per cent of companies expect the volume of output to decline over the next four-month period, continuing a trend since July of falling output expectations. The "balance" of 23 per cent expecting output to fall compares with a figure for October of 17 per cent. Stocks are reported to be adequate, and price expectations weak.

The survey, based on replies from 1,379 firms received between October 30 and November 14, shows 55 per cent of companies are reporting orders below normal levels.

Demand was particularly weak in metal manufacturing, followed by engineering. Taking into account those reporting orders above-normal, a balance of 44 per cent have below-normal order books, the same as in October.

Mr Wigglesworth said this indicated some hope that the fall in domestic orders might be reaching a low point. Export orders have weakened markedly since October, with a "balance" of 31 per cent reporting insufficient orders compared with 23 per cent.