

▶ A NEW ECONOMY  
**PUBLICATION**

A red watering can is positioned in the upper left quadrant, tilted as if pouring. Below it, four small, round, terracotta pots containing various green succulents are arranged on a grey surface. A vertical red bar runs down the center of the page, with a diagonal cutout at the top and bottom.

# **BDO MONTHLY BUSINESS TRENDS INDICES**

April 2019

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# INTRODUCTION

The BDO Monthly Trends Indices are ‘polls of polls’ that pull together the results of all the main UK business surveys. This edition of the BDO Business Trends Report gives the Index numbers at the beginning of May 2019, using the results from business surveys that were carried out between the first and last days of the previous month.

## Summary and key findings

Index	Current reading	Movement in month	Index level
BDO Output Index	X	▼	98.63 in April from 98.74 in March
BDO Optimism Index	XX	▼	95.74 in April from 96.10 in March
BDO Inflation Index	✓	▲	100.11 in April from 98.17 in March
BDO Employment Index	✓	▲	114.06 in April from 113.92 in March

KEY: ✓ = above 100; ✓✓ = above 100 and (joint) highest in 12 months  
X = below 100; XX = below 100 and (joint) lowest in 12 months

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## KEY FINDINGS

The inflation index increased significantly in April, while the employment index edged up slightly. Declines were recorded in the output and optimism indices in April.

The BDO Output Index fell by 0.11 points to 98.63 in April, driven by declines in both the services and manufacturing sectors as the boost delivered by Brexit contingency planning ahead of the initial Brexit deadline of March 29<sup>th</sup> begins to fade.

The BDO Optimism Index registered another decline in April, falling by 0.36 points to 95.74. This is the lowest the index has been since 2012, and highlights that an extension of Article 50 alone is not sufficient to restore sentiment among businesses.

The BDO Inflation Index surged to 100.11 in April - the highest its been since November 2018. Driving this increase was the continued escalation of global oil prices in April, as well as rising employment costs.

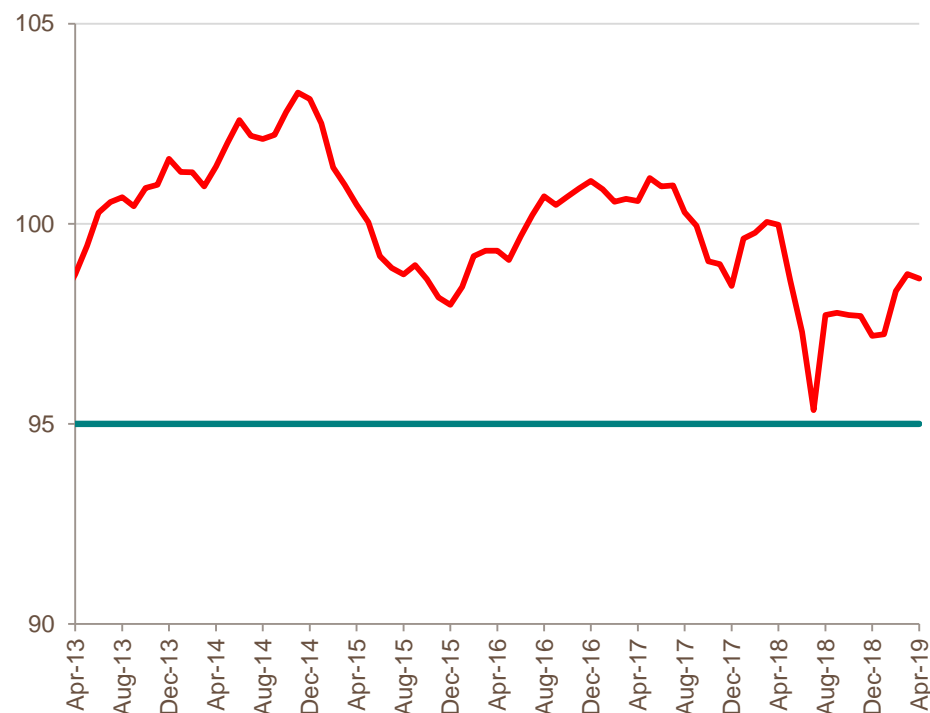
The BDO Employment Index rose slightly to 114.06 in April, regaining some of the losses recorded at the start of the year. Data from the ONS show that the labour market remains in good health, although a further strengthening is unlikely given the shrinking pool of available workers and growing caution among businesses.

# OUTPUT INDEX RECORDS FIRST DECLINE IN 2019 IN APRIL

- The BDO Output Index fell by 0.11 points in April to 98.63. This is the first time that the overall output index has declined in 2019, with small increases recorded in each of the three months prior to April.
- The BDO Services Output Index declined by 0.12 points in April to 98.80. The latest ONS data show that the three-month on three-month growth rate in the services sector slowed by 0.1 percentage points in February to 0.4%.
- The BDO Manufacturing Output Index also fell in April to 97.27 - down from 97.32 in March. Growth in the first quarter of the year was buoyed to a large degree by Brexit contingency planning, in particular the stock-piling of imported goods. With the urgency of these preparations now lessened, growth is likely to moderate in Q2.
- There are however some factors that will cushion the UK economy in the coming months. Unemployment remains at historic lows while earnings growth is robust, which appears to be supporting consumer spending for the time being. Turning to the global economy, while a moderation in growth is still anticipated this year, several key developments indicate that this slowdown may be less severe than initially feared. Firstly, efforts by the Chinese government appear to have been successful in stabilising growth in the world's second largest economy, while major western economies also outperformed expectations in the first quarter of 2019. If this momentum continues, exporting industries in the UK should experience a boost in demand.

## BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



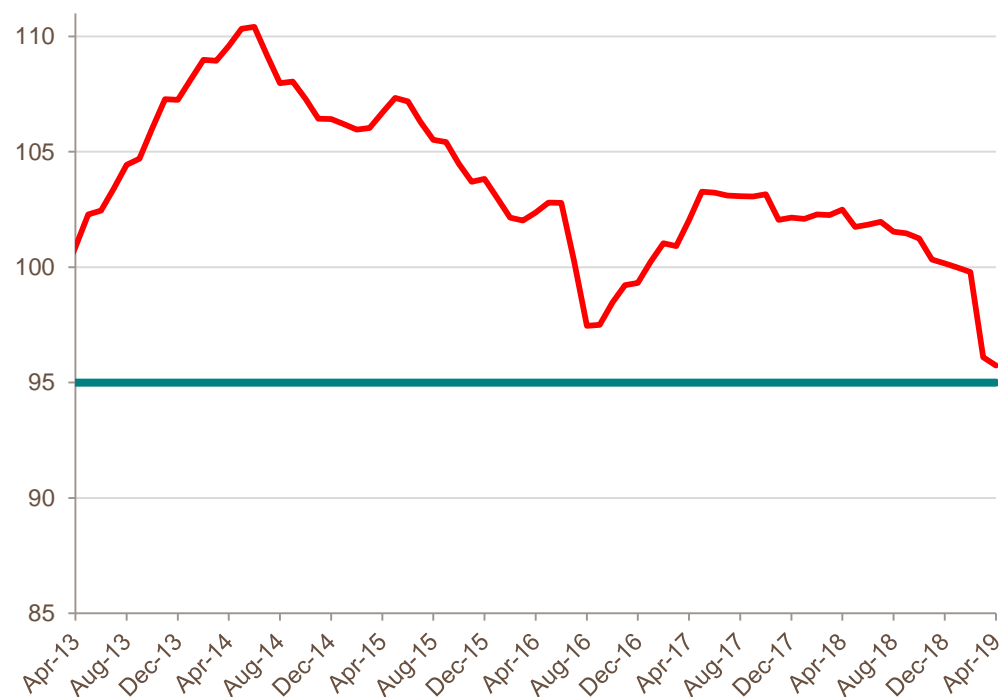
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# BDO OPTIMISM INDEX FALLS TO LOWEST LEVEL SINCE 2012

- Following the dramatic fall in the BDO Optimism Index in March, the index declined by a further 0.36 points to 95.74 in April.
- While the services sector led the deterioration in the BDO Optimism Index in March, the largest fall in April was in the manufacturing sector. The BDO Manufacturing Optimism Index decreased by 2.64 points to 101.09. The BDO Services Optimism Index recorded a smaller 0.07 point decline in April, bringing the index down to 95.06.
- While the extension of Article 50 to October 31st 2019 will have allayed fears of a disruptive Brexit in the immediate term, it has done little to provide meaningful clarity to households and businesses on the long term economic and political relationship between the UK and the EU.
- April's BDO Optimism Index readings suggest that the extension to Article 50 is likely to have the effect of holding business confidence at multi-year lows, rather than delivering a notable boost to sentiment.
- While Brexit remains a key issue on the minds of businesses in the UK, rising input costs represent another concern going forward. With unemployment rate at a historically low level and vacancies at near record highs, wage costs look set to continue rising in the coming months. Also, oil prices have surged throughout 2019, placing further cost pressures on businesses.

## BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



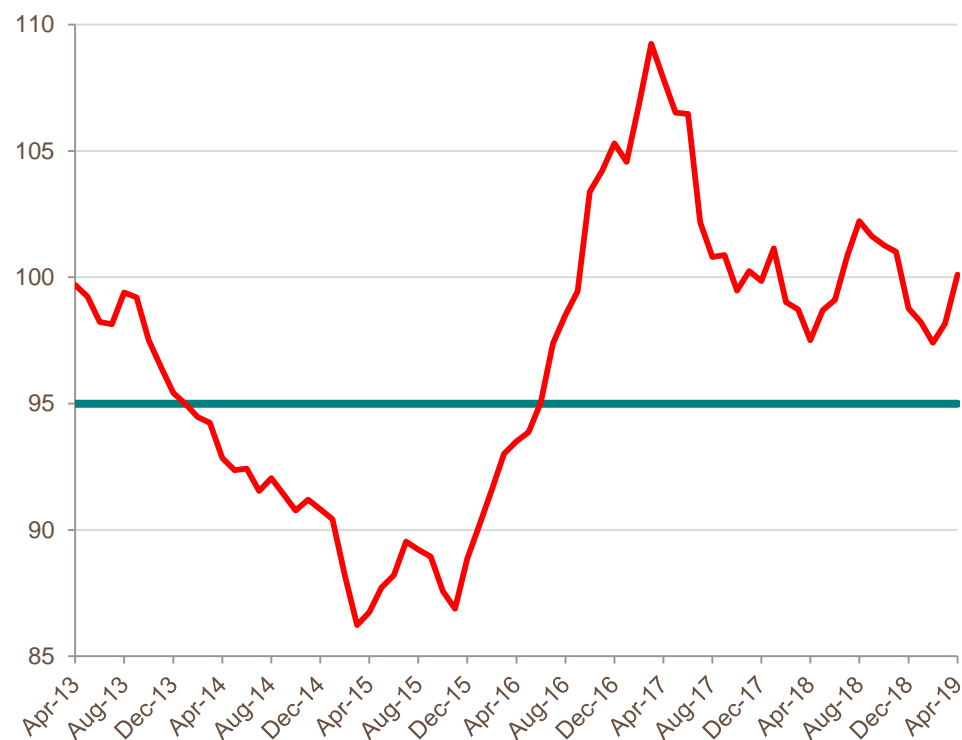
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# INFLATION INDEX SURGES TO 5 MONTH HIGH

- The BDO Inflation Index rose by 1.94 points to 100.11 in April, taking it above the long run average for the first time since November 2018.
- As was the case in the previous month, the BDO Input Inflation Index was the main contributor to the increase in the overall index, rising by 3.75 points to 101.20. This is the largest monthly increase since March 2017.
- Meanwhile, the BDO Consumer Inflation Index ticked up by 0.13 points to 99.03 in April. The latest data on consumer prices released by the ONS, show that the annual rate of growth in the Consumer Price Index including owner occupiers' housing costs (CPIH) was 1.8% in March. This marked the third consecutive month inflation has been recorded at this level. The largest upward contributions to the headline rate came from owner occupiers' housing costs and transport. While most categories saw prices rise, a decline in the cost of clothing and footwear was the exception with prices falling by 1.6% in the year to March 2019.
- Global oil prices have been one of the primary drivers of the recent volatility in the BDO Inflation Index in recent months. After declining by nearly 40% in the final quarter of 2018, oil prices have since staged a remarkable recovery, with the price of Brent crude currently above \$70 per barrel. The US' decision not to extend exemptions to oil sanctions on Iran, together with continued instability in Venezuela triggered fears of a supply shortage over the summer. However, these were alleviated somewhat by higher than expected production in the US and Russia.

## BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



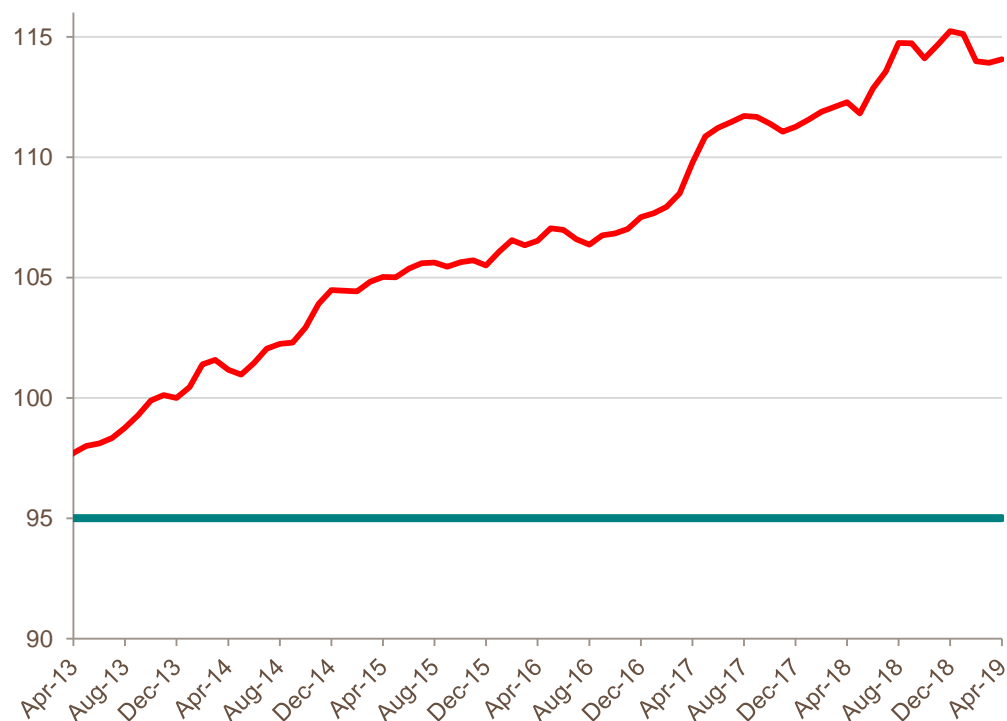
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# EMPLOYMENT INDEX RECORDS A SMALL GAIN IN APRIL

- The BDO Employment Index rose by 0.14 points to 114.06 in April, recovering some of the losses recorded by the index since the start of the year.
- ONS data show that the employment rate remained at 76.1% - the joint-highest on record - in the three months to February, while the unemployment rate was 3.9% - the lowest since 1975 and 0.3 percentage points lower than a year earlier. With vacancies in the UK also in excess of 850,000, the labour market appears to be maintaining its strength so far in 2019.
- Also, the share of part time workers - an indicator of underemployment and therefore the tightness of the labour market - declined according to the latest official estimates.
- Rising employment has been a major characteristic of the UK economy in the past years, and has been one of the primary sources of growth in the context of persistently weak productivity figures. However, spare capacity in the labour market is now significantly diminished, as evidenced by accelerating wage inflation. This, together with the caution currently being exercised by firms concerned by Brexit related uncertainty, makes further increases in the employment rate unlikely through the rest of the year.

## BDO EMPLOYMENT INDEX

100 = average value. Greater than 95 = positive



Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

## BDO INDICES TO LATEST MONTH

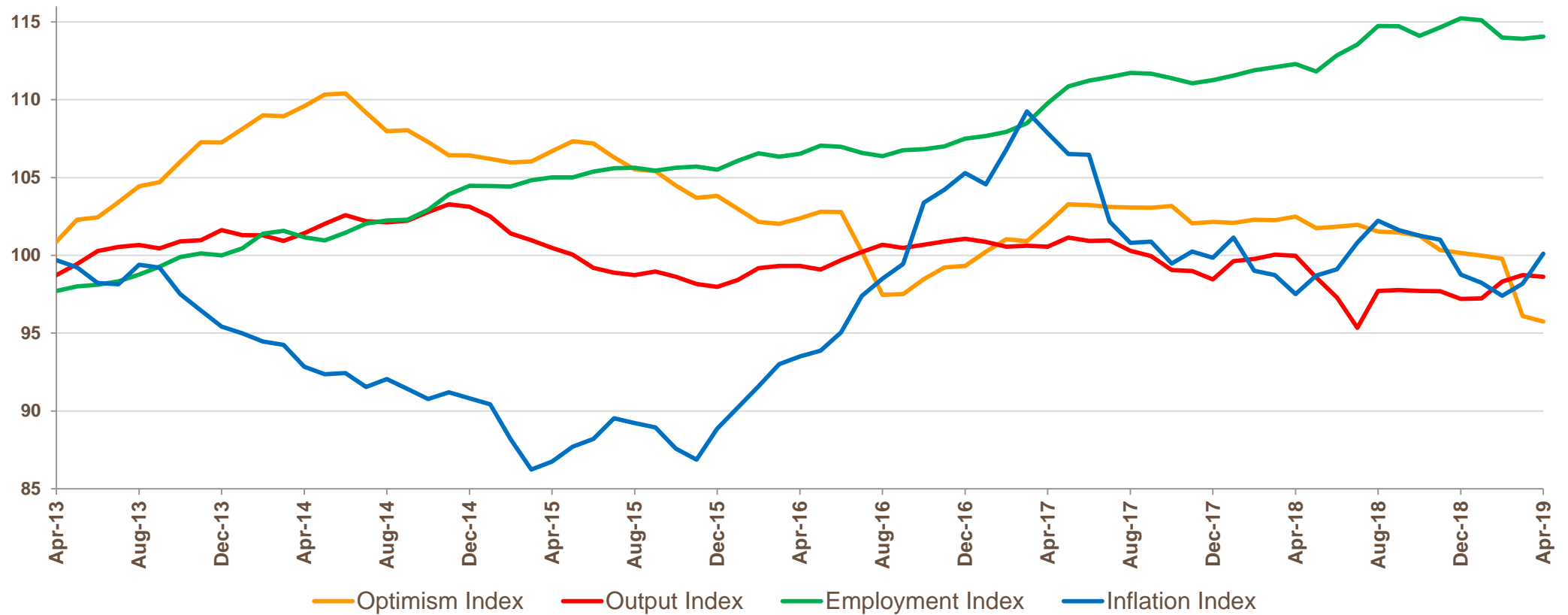
		Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
The BDO Optimism Index	<b>Total</b>	101.47	101.25	100.33	100.16	99.98	99.79	96.10	95.74
	Manuf.	108.48	106.66	105.02	104.90	104.40	103.84	103.73	101.09
	Service	100.59	100.56	99.74	99.55	99.42	99.28	95.13	95.06
The BDO Output Index	<b>Total</b>	97.78	97.72	97.69	97.20	97.24	98.32	98.74	98.63
	Manuf.	103.26	102.74	100.61	98.60	98.37	97.36	97.32	97.27
	Service	97.08	97.08	97.32	97.02	97.10	98.44	98.92	98.80
The BDO Inflation Index	<b>Total</b>	101.63	101.27	101.01	98.76	98.23	97.41	98.17	100.11
	Input	102.82	102.19	101.95	97.99	97.00	95.75	97.45	101.20
	Consumer	100.44	100.35	100.06	99.53	99.47	99.06	98.90	99.03
The BDO Employment Index	<b>Total</b>	114.72	114.11	114.65	115.24	115.11	113.99	113.92	114.06



# APPENDIX: INCREASES REGISTERED IN TWO OF THE FOUR INDICES

## BDO INDICES

100 = average trend growth. Greater than 95 = positive



Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

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## FOR FURTHER DETAILS

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## METHOD NOTES

The BDO Monthly Business Trends Indices are prepared on behalf of BDO LLP by the Centre for Economics and Business Research, a leading independent economics consultancy. Cebr has particular strengths in all forms of macroeconomic and market forecasting for the UK and European economies and in the use of business survey techniques.

The indices are calculated by taking a weighted average of the results of the UK's main publicly available business surveys. It incorporates the results of the quarterly CBI Industrial Trends Survey (and the CBI Monthly Trends Enquiry which is carried out in the intervening months); the Bank of England Agents' summary of business conditions; the Markit / the Chartered Institute of Purchasing and Supply's Surveys of Manufacturing and of Services; the DG ECFIN industrial and services confidence indices; the RICS construction market survey; the Manpower Employment Outlook Survey; and Eurostat's monthly business surveys.

Taken together the surveys cover over 4,000 different respondent companies, covering a range of different industries and of different business functions. Together they make up the most representative measure of business trends available.

The surveys are weighted together by a three-stage process. First, the results of each individual survey are correlated against the relevant economic cycles for manufacturing and services. This determines the extent of the correlations between each set of survey results and the relevant timing relationships. Then the surveys are weighted together based on their scaling, on the extent of these correlations and the timing of their relationships with the relevant reference cycles. Finally, the weighted total is scaled into an index with 100 as the mean and 95 as the level dividing expansion from contraction.

The results can not only be used as indicators of turning points in the economy but also, because of their method of construction, be seen as leading indicators of the rates of inflation and growth.