



# BDO MONTHLY BUSINESS TRENDS INDICES

December 2016

# 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 December 2016, 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	▲	97.1 in November from 96.6 in October
BDO Optimism Index	xx	▼	98.0 in November from 98.5 in October
BDO Inflation Index	✓✓	▲	103.6 in November from 102.8 in October
BDO Employment Index	✓	▲	101.2 in November from 100.9 in October

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

# KEY FINDINGS

The BDO Output Index has edged up from 96.6 in October to 97.1 in November. This comes after a long string of months in which its level fell, which predated the UK's referendum on EU membership. It represents continued growth in the UK economy, but at a subdued rate.

The BDO Inflation Index rose again to 103.6, continuing the upward trend sparked by the pound's post-referendum depreciation. Producer prices, as measured by the Office for National Statistics (ONS) are starting to move upward at speed, and the index makes clear that firms expect more to come.

The BDO Optimism Index has fallen from 98.5 in October to 98.0 in November. This is the lowest rate since August 2013. Firms in the services sector have seen a fall in optimism from 99.8 to 98.7 while manufacturing firms have seen a pick-up, presumably having more to celebrate from the exchange rate given that their sector is more export-oriented.

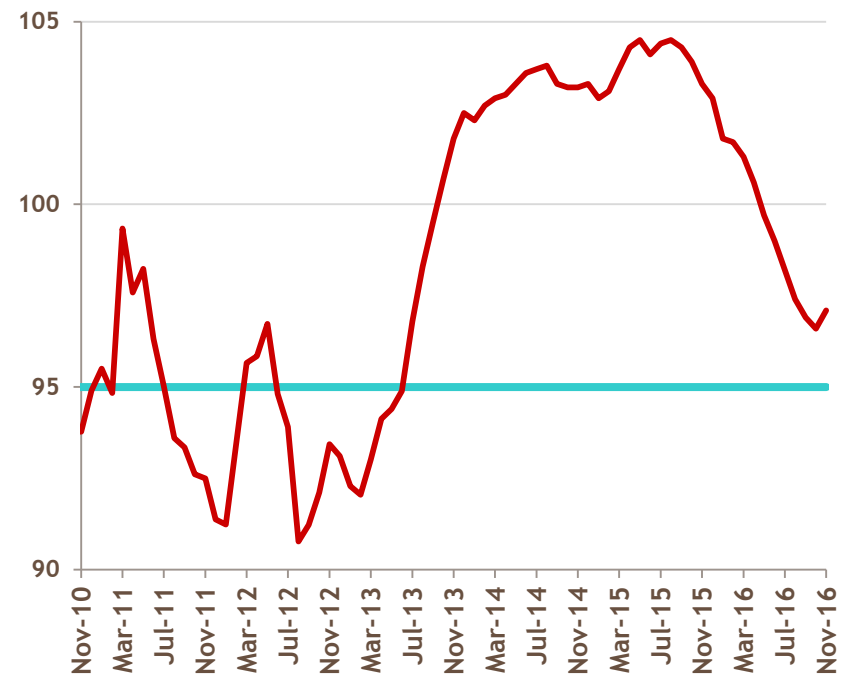
The BDO Employment Index remains relatively stable. It holds a level of 101.2, slightly up from October's 100.9. Hiring is proving the most resilient sector in the face of uncertainty; the recent impact on confidence and output levels will probably affect the labour market but only with a lag.

# GROWTH SETTLING IN LOWER GEAR

- The BDO Output Index has edged up from 96.7 in October to 97.1 in November. This is positive but below the long-run trend rate of growth.
- This is the first upward movement in seventeen months. While output had been falling for months before the referendum, the loss in confidence following the Brexit vote appeared to sustain this momentum.
- For now, the economy seems to have stabilised in a lower gear than it had been running at pre-referendum. Claims of an immediate recession proved unfounded, as did counterclaims that the referendum would cause no economic damage. This is not so surprising given the key facts remain unchanged and the future very uncertain.

## BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive growth



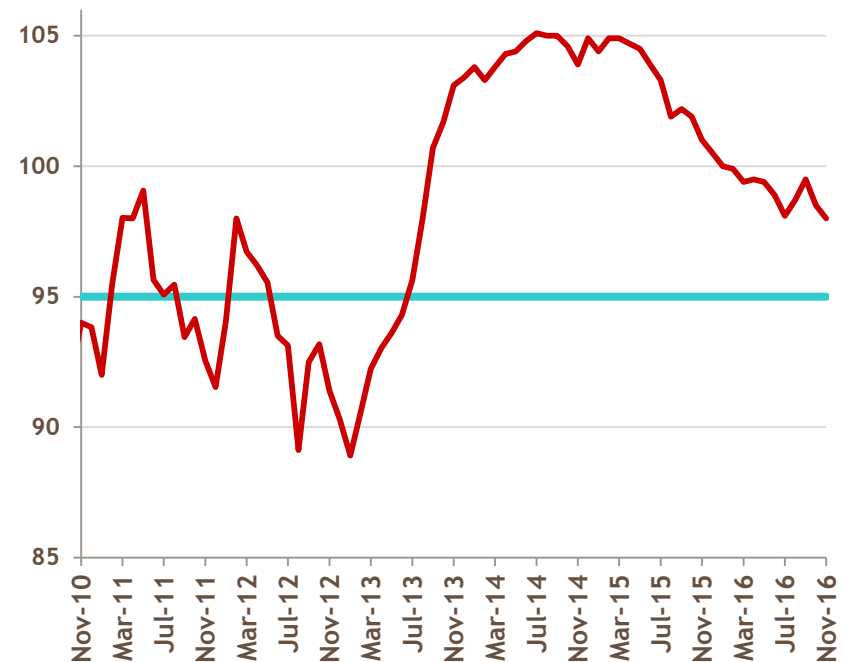
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# CONFIDENCE MAINTAINS DOWNWARD TRAJECTORY

- The BDO Optimism Index remains on a downward trajectory, with a slight bounce in late summer having now worn off. Over November, it fell from 98.5 to 98.0 by the end of the month.
- While the economy has maintained strength for the present, trepidation regarding the future is increasing. 98.0 is the lowest reading since August 2013.
- Confidence on the manufacturing sub-index is up, while services fell this month. This reversal of fortunes is typical of the post-referendum situation, with the more trade-intensive manufacturing sector more pleased with the cheaper pound. November's 94.1 reading is the highest since June 2015.
- Talk of an infrastructure boost at the Autumn Statement by Chancellor Philip Hammond may also have helped manufacturing firms, though the relatively modest scale is unlikely to prove a game-changer.

## BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive growth



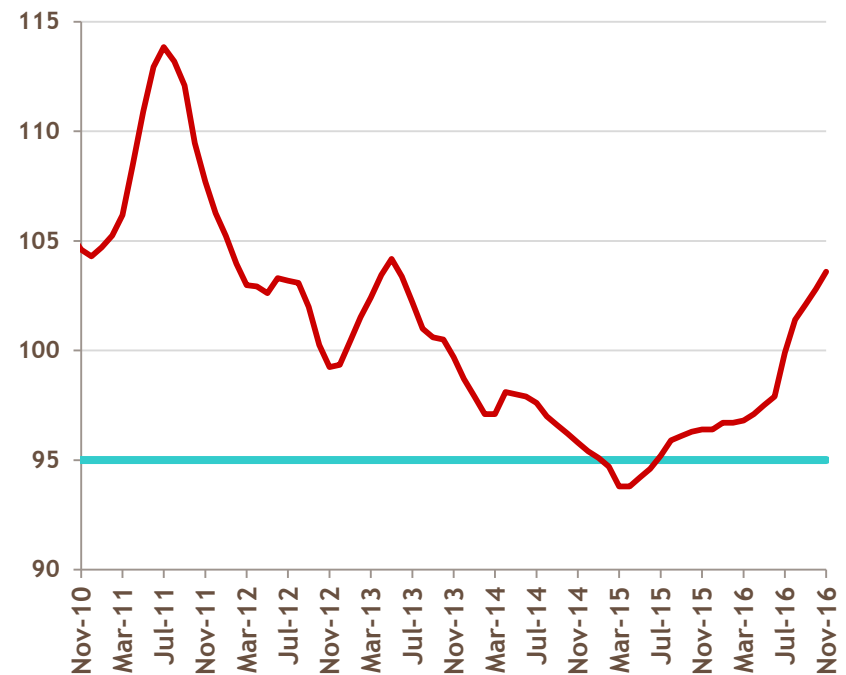
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# INPUT COSTS STARTING TO CATCH UP WITH BDO INFLATION INDEX

- The BDO Inflation Index continues its post-referendum upward momentum. At 103.6, it is significantly above the long-term average.
- As has been predicted by the position of the BDO Inflation Index since the referendum, the weakness of the pound is pushing producers' costs up.
- Official statistics are starting to reflect this reality. The overall price of inputs bought by manufacturers rose by 2.1% in the year to October 2016, according to the ONS. This is the highest figure since 2012.
- This is slightly above the 2% central target for consumer price inflation (implicitly, the producer price target is the same). The overshoot will increase as more up-to-date data become available, and as the weak currency effect continues to filter through.

## BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive growth



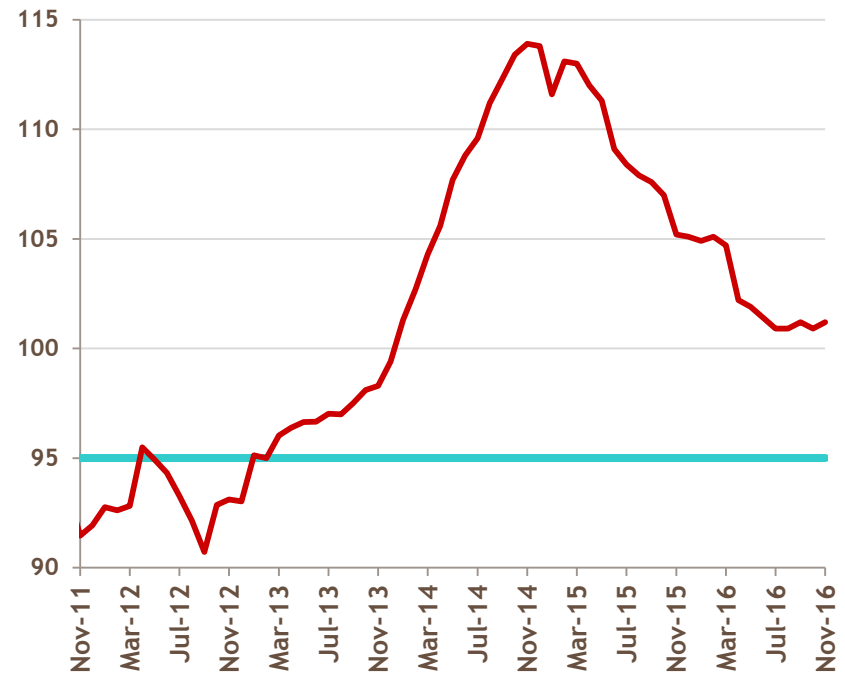
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# LABOUR MARKET HOLDS FIRM ABOVE TREND

- The BDO Employment Index stands at 101.2 for November, slightly above the long-run average rate of job creation. This is up on November's 100.9.
- As a variable which tends to lag the overall economy by a few months, it has not yet responded to recent deterioration in the Output and Optimism Indices.
- The latest official statistics (covering the three months to September) show the unemployment rate at 4.8%, the lowest rate since before the financial crisis.

## BDO EMPLOYMENT INDEX

100 = average trend growth. Greater than 95 = positive growth



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

# BDO INDICES TO LATEST MONTH

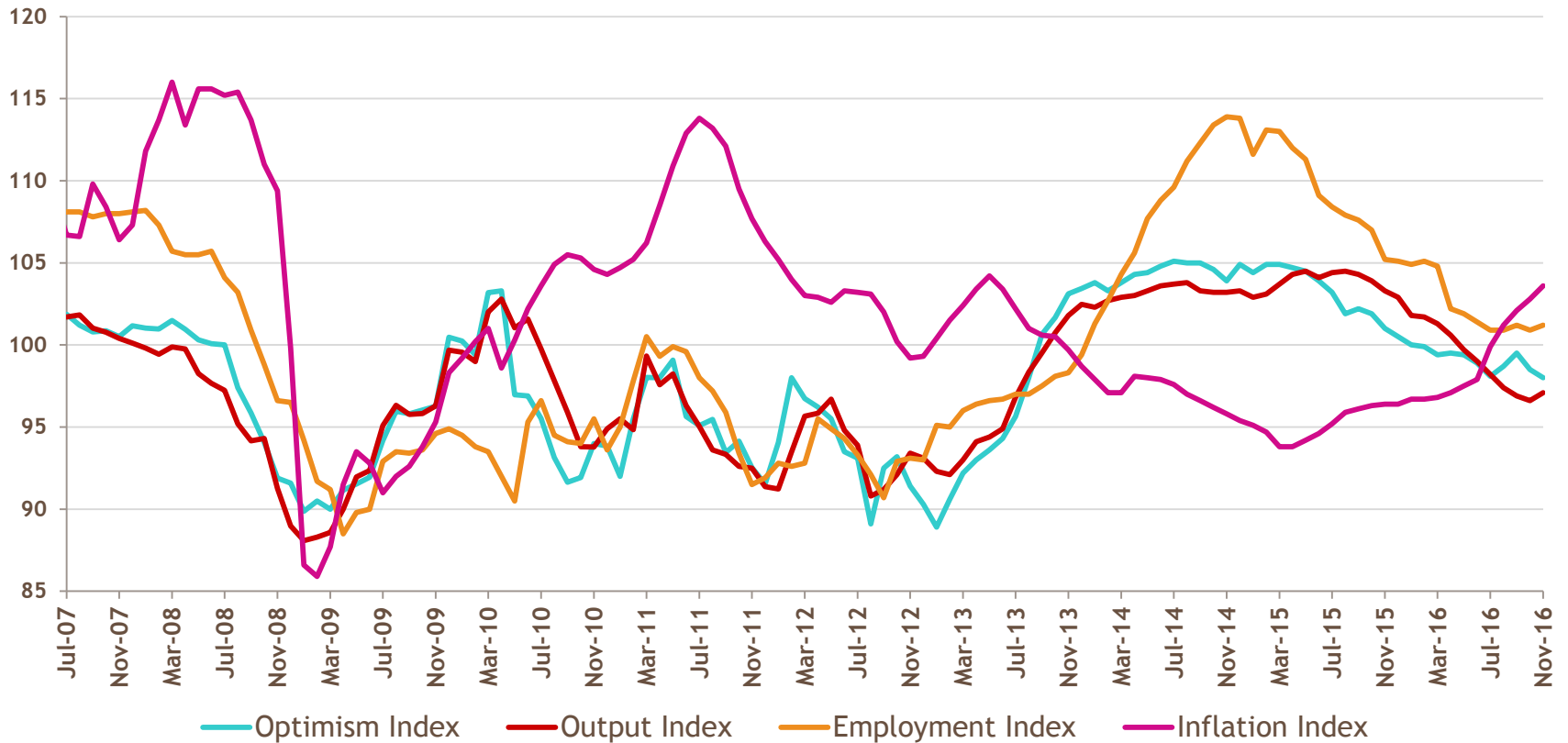
		Nov 2015	Dec 2015	Jan 2016	Feb 2016	Mar 2016	Apr 2016	May 2016	Jun 2016	Jul 2016	Aug 2016	Sep 2016	Oct 2016	Nov 2016
The BDO Optimism Index	<b>Total</b>	101.0	100.5	100.0	99.9	99.4	99.5	99.4	98.9	97.9	98.7	99.5	98.5	98.0
	Manuf.	88.3	89.6	90.2	90.4	87.0	87.3	86.1	83.8	81.0	85.8	91.3	92.0	94.1
	Service	103.5	102.7	101.9	101.7	101.8	101.8	102.0	101.8	101.2	101.2	101.1	99.8	98.7
The BDO Output Index	<b>Total</b>	103.3	102.9	101.8	101.7	101.3	100.6	99.7	99.0	98.2	97.4	96.9	96.6	97.1
	Manuf.	100.5	98.2	94.7	95.0	96.0	94.4	95.9	95.8	95.4	93.9	95.1	94.1	94.9
	Service	103.9	103.8	103.2	103.0	102.3	101.8	100.4	99.7	98.8	98.0	97.3	97.0	97.5
The BDO Inflation Index	<b>Total</b>	96.4	96.4	96.7	96.7	96.8	97.1	97.5	97.9	99.9	101.4	102.1	102.8	103.6
The BDO Employment Index	<b>Total</b>	105.2	105.1	104.9	105.1	104.8	102.2	101.9	101.4	100.9	100.9	101.2	100.9	101.2



# APPENDIX: GROWTH SETTLING IN LOWER GEAR

## BDO INDICES

100 = average trend growth. Greater than 95 = positive growth



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

# 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.