



BDO MONTHLY BUSINESS TRENDS INDICES

February 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 February 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	✓	▽	101.8 in January from 102.9 in December
BDO Optimism Index	✓	▽	100.0 in January from 100.5 in December
BDO Inflation Index	✗	△	96.7 in January from 96.4 in December
BDO Employment Index	✓	▽	104.9 in January from 105.1 in December

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

KEY FINDINGS

The BDO Output Index edged down from 102.9 in December to 101.8 in January. Turbulence in the global economy has only mildly affected the UK so far, but sentiment is certainly on a downward trend. This continues to have a more pronounced effect on the manufacturing sub-index, which fell below the 95 mark (which separates contraction from expansion) for the first time since 2013. The services sub-index is at a more buoyant 103.2.

The BDO Inflation Index remained broadly stable, at 96.7 for January. This represents a positive rate of change for prices but one still significantly below the long-term trend. Low commodity prices, which in some cases are still falling, are dragging on firms' total input costs. Wages are moving in an upward direction, but at a relatively slow pace.

The BDO Optimism Index fell during from 100.5 in December to 100.0 in January. Firms' expectations of growth over the next six months are at the long-term trend level. This is the lowest value it has taken since 2013. The services/manufacturing split is evident here as well: the sub-index representing manufacturers' confidence is at 90.2, significantly lower than that for services. But given the state of the global economy, a reading of 100 is fairly respectable.

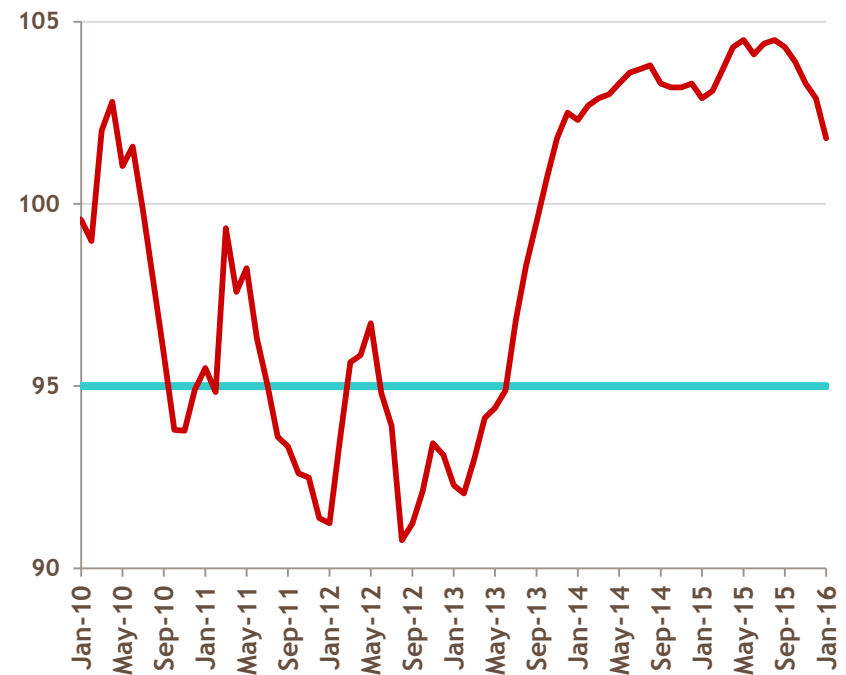
The BDO Employment Index has also remained fairly stable. It has moved from 105.1 to 104.9. This is the lowest level since early 2014, but still high, which highlights the unusual strength of the UK labour market. The low rate of productivity growth has meant that firms wishing to increase their output over the course of the recovery have had to raise headcount.

OUTPUT EXPECTATIONS FALL FURTHER

- The BDO Output Index fell from 102.9 in December to 101.8 in January.
- This continues the trend of a pronounced slowdown, which has gradually intensified recently. Figures for Q4 2015's UK GDP growth released last week showed it had registered the lowest year-on-year expansion for three years.
- The manufacturing sub-index still weighs on the overall level. This now stands at 94.7, just below the 95 level that separates growth from contraction. The latest data from the Office for National Statistics also showed the manufacturing sector is indeed contracting. The services sub-index edged down from 103.8 in December to 103.2 in January.
- The weak global economy is a key reason why manufacturing is performing worse than services, as it subdues demand for UK goods exports.

BDO OUTPUT INDEX

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



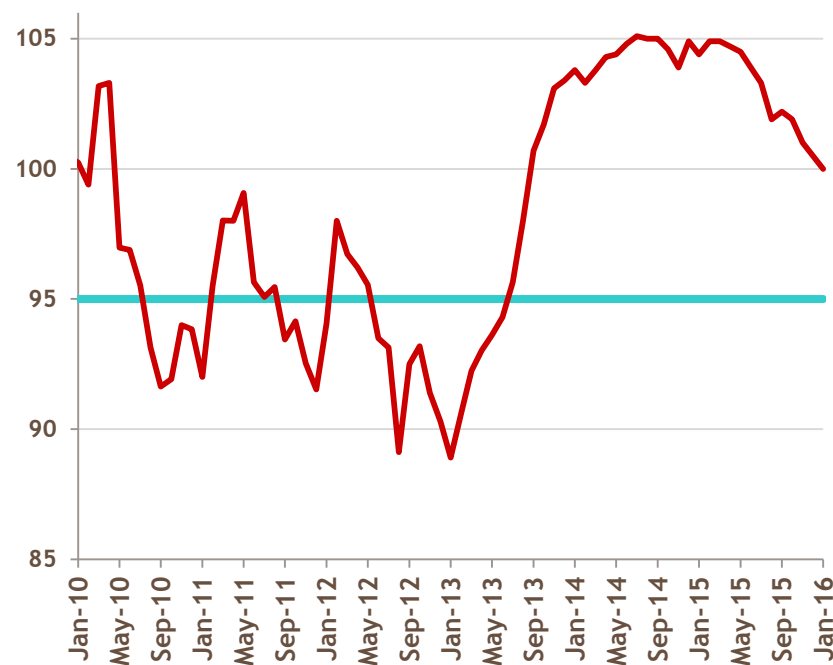
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

CONFIDENCE FALLS TO LOWEST LEVEL SINCE 2013

- The BDO Optimism Index has declined further, moving from 100.5 in December to 100.0 in January.
- This indicates firms expect the pace of output growth to fall a little more over a six-month horizon and to stand around the long-term trend rate. Over a period of recovery, the UK has been growing at a slightly faster pace than the trend up until now. This is the lowest reading on the confidence index since 2013.
- Global economic gloom is emanating from China. Worries around its growth rate have caused abnormally high financial market volatility. A general absence of other bright spots in the world economy makes the situation especially concerning for firms. Recent news about the US economy has also been downbeat.

BDO OPTIMISM INDEX

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



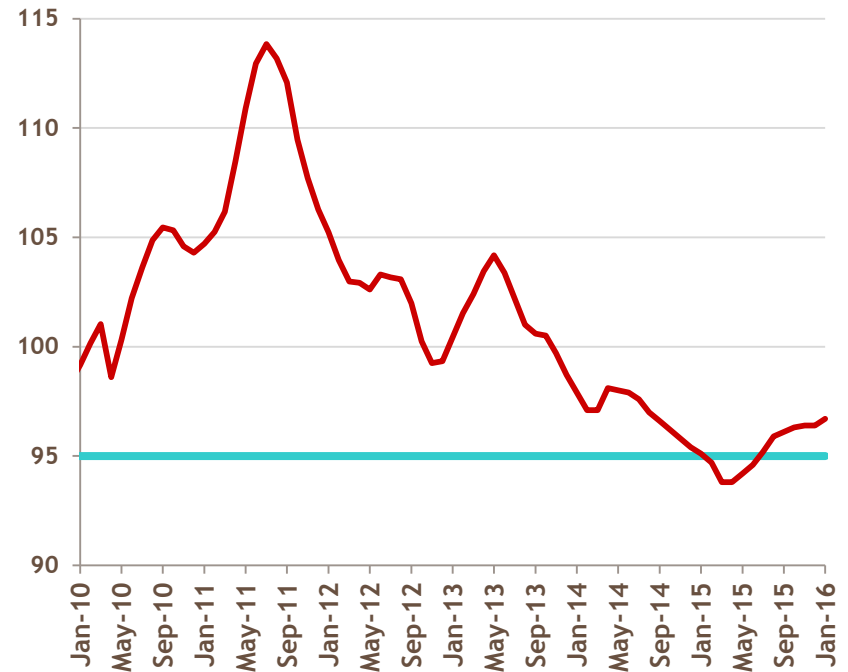
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

FIRMS SET TO ENJOY MUTED COST PRESSURES

- The BDO Inflation Index has inched up from 96.4 in December to 96.7 in January.
- The cost of firms' inputs has remained relatively stable. Wages are increasing at a relatively sedate pace - last recorded at about 2.0% year-on-year. Meanwhile the costs of commodities, most notably oil, continued to fall in January, depressed by weak global conditions. The price of Brent crude, the international oil benchmark, fell below \$30/barrel for a period in January.
- Since wages are a more important input component for most firms, the overall result is a situation of slowly rising prices.

BDO INFLATION INDEX

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



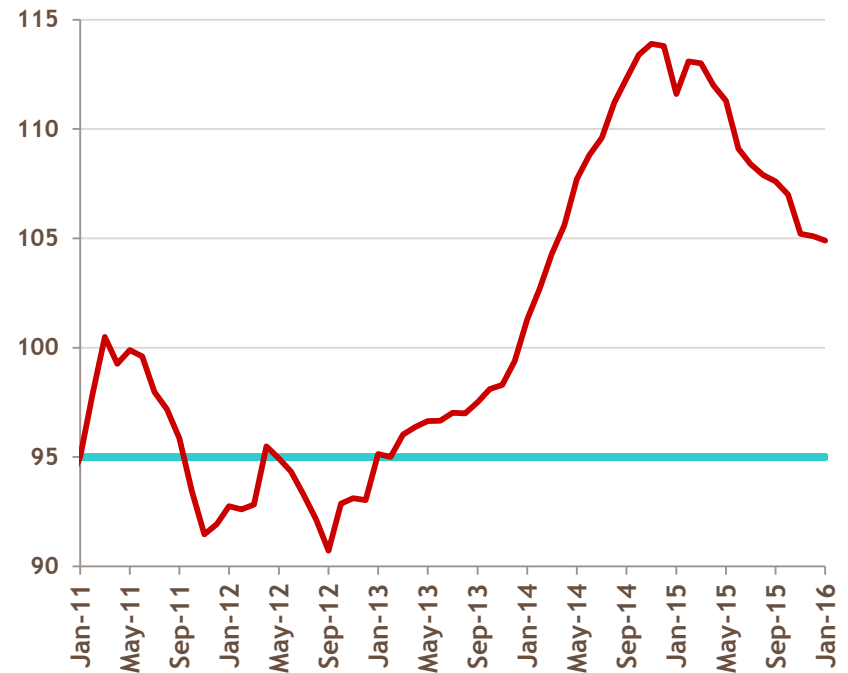
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

LABOUR MARKET SOFTENING BUT STILL HEALTHIER THAN USUAL

- Firms' expectations for hiring have changed little on December. In January the BDO Employment Index stands at 104.9 compared to 105.1 in December.
- As the economy cools more generally, a gentle slowing of hiring is inevitable. But the strength of hiring has been notable throughout the post-crisis period.
- As productivity (=output per worker) has not risen by much, increasing the size of workforces is the main way that firms have boosted their output over the last couple of years. The jobs market enjoyed a much stronger recovery than the overall economy, and its strength seems to be persisting for longer.

BDO EMPLOYMENT INDEX

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

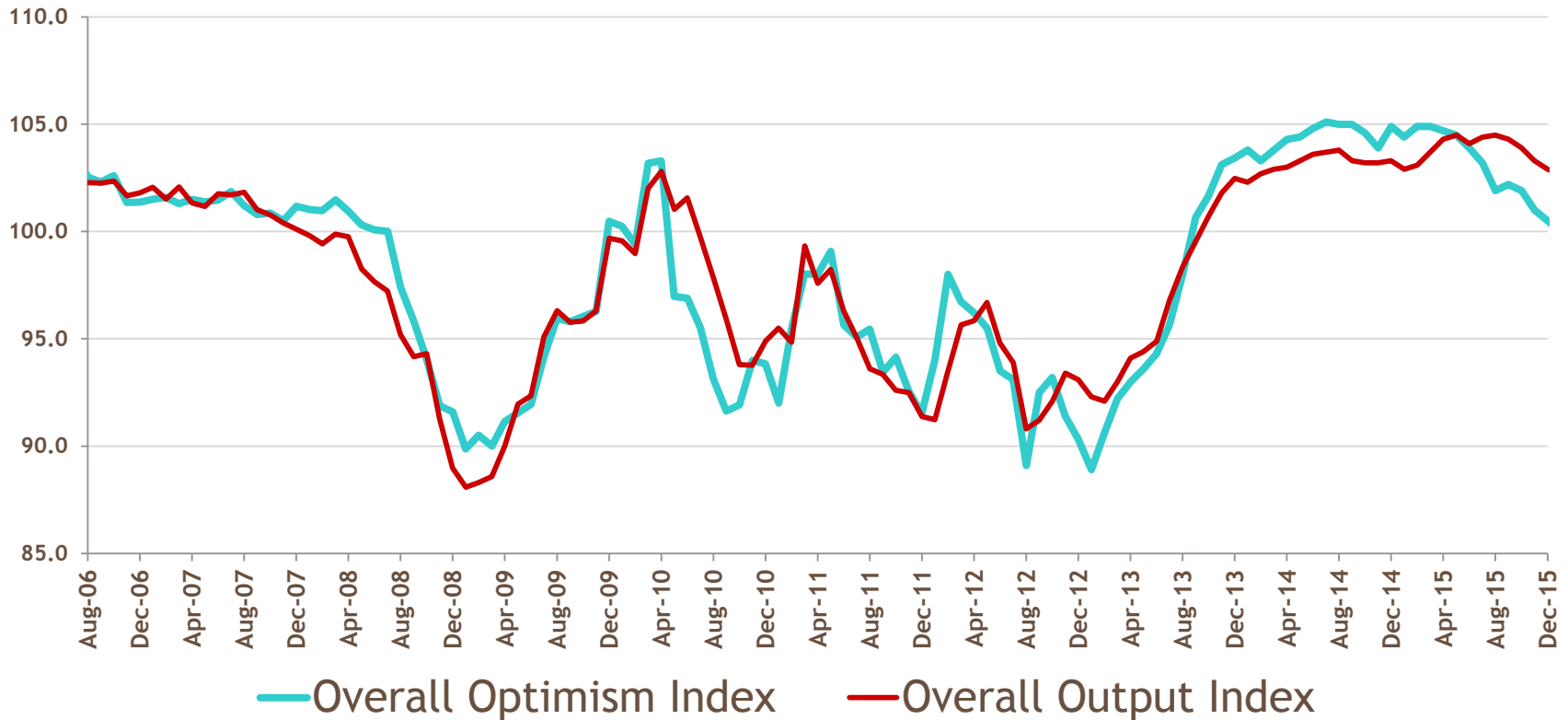
BDO INDICES TO LATEST MONTH

		Jan 2015	Feb 2015	Mar 2015	Apr 2015	May 2015	Jun 2015	Jul 2015	Aug 2015	Sep 2015	Oct 2015	Nov 2015	Dec 2015	Jan 2016
The BDO Optimism Index	Total	104.4	104.9	104.9	104.7	104.5	103.9	103.3	101.9	102.2	101.9	101.0	100.5	100.0
	Manuf.	113.0	111.6	109.8	107.4	103.4	98.5	93.5	86.2	89.0	90.2	88.3	89.6	90.2
	Service	102.7	103.6	103.9	104.1	104.7	105.0	105.1	105.0	104.8	104.2	103.5	102.7	101.9
The BDO Output Index	Total	102.9	103.1	103.7	104.3	104.5	104.1	104.4	104.5	104.3	103.9	103.3	102.9	101.8
	Manuf.	107.3	107.1	107.7	108.8	109.0	107.8	106.8	106.8	106.5	103.8	100.5	98.2	94.7
	Service	102.1	102.3	102.9	103.5	103.6	103.4	103.9	104.1	103.9	103.9	103.9	103.8	103.2
The BDO Inflation Index	Total	95.1	94.7	93.8	93.8	94.2	94.6	95.2	95.9	96.1	96.3	96.4	96.4	96.7
The BDO Employment Index	Total	111.6	113.1	113.0	112.0	111.3	109.1	108.4	107.9	107.6	107.0	105.2	105.1	104.9

APPENDIX 1: OUTPUT EXPECTATIONS FALL FURTHER

BDO OUTPUT AND OPTIMISM INDICES

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

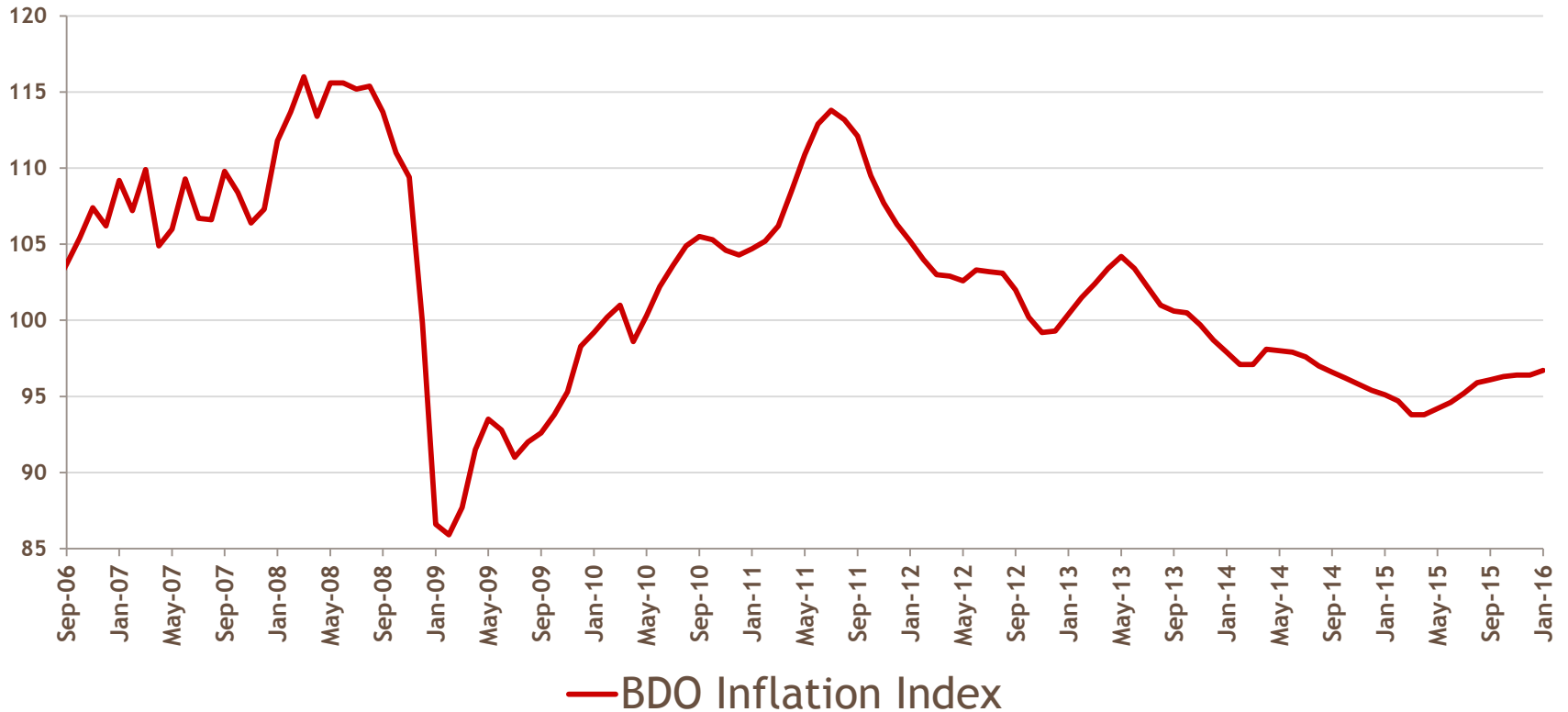


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 2: FIRMS SET TO ENJOY CONTINUING MUTED COST PRESSURES

BDO INFLATION INDEX

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

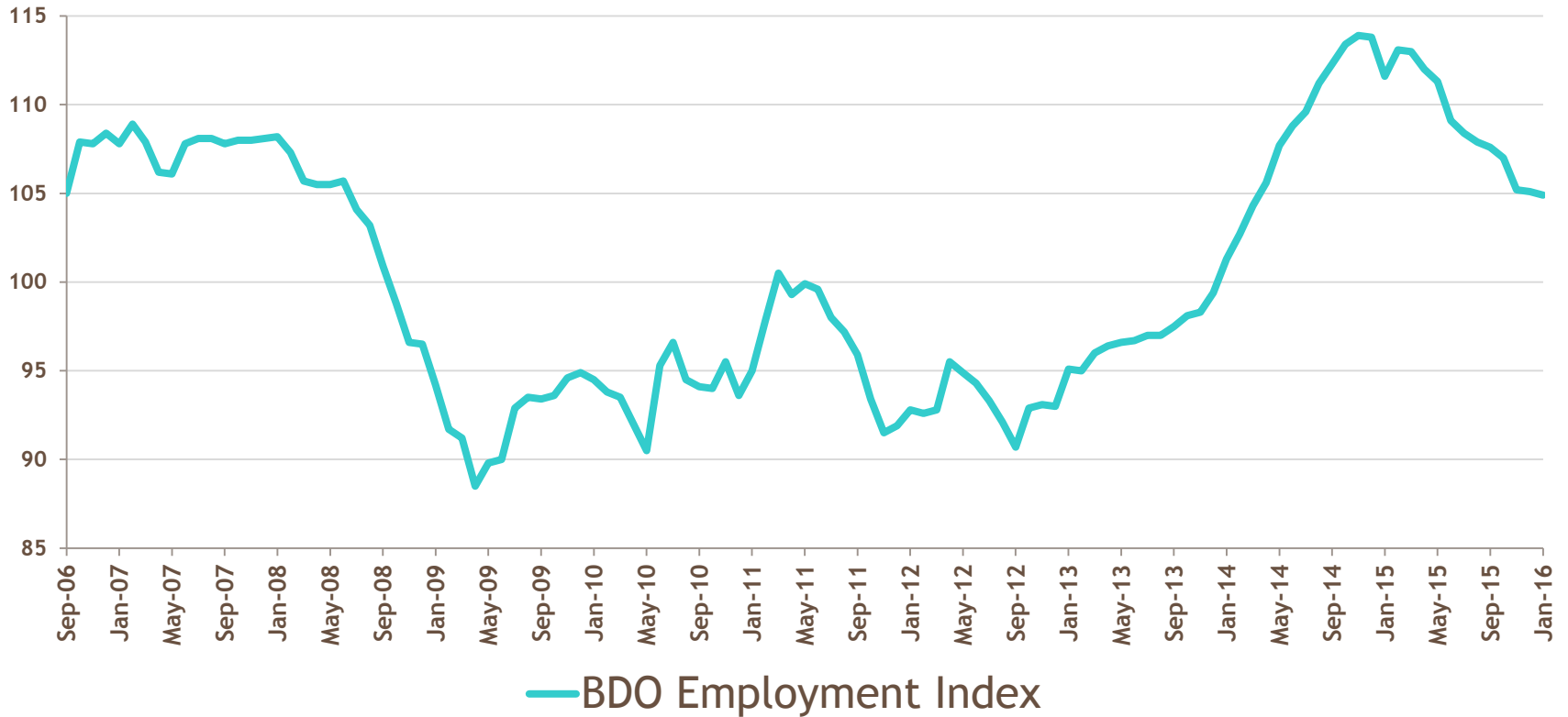


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 3: LABOUR MARKET SOFTENING BUT STILL HEALTHIER THAN USUAL

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

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.