

▶ 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

June 2018

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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 July 2018, 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	▼	97.29 in June from 98.58 in May
BDO Optimism Index	✓	▲	101.85 in June from 101.74 in May
BDO Inflation Index	x	▲	99.11 in June from 98.7 in May
BDO Employment Index	✓	▲	112.85 in June from 111.81 in May

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

In June, the BDO Output Index declined sharply to stand at 97.29, indicating that economic growth in the UK's two largest sectors continued to slow.

Both underlying measures fell, meaning that the output index is at its lowest point since December 2012. Despite the slowdown, this month's figures indicate that the manufacturing sector continues to grow at a faster rate than that observed over the long run.

The output index has been stifled by slowing global growth and Brexit-related uncertainty, and its continued decline suggests that UK GDP growth has failed to accelerate meaningfully since registering an underwhelming 0.2% quarter-on-quarter expansion in Q1.

Still, hope remains that the UK economy will prove more resilient over the rest of the year. The BDO Optimism Index improved slightly in June, climbing 0.11 points to stand at 101.85, after both underlying measures recorded marginal gains.

The BDO Inflation Index increased for the second consecutive month, climbing 0.41 points to 99.11 in June. High global oil prices have kept up pressure on inflation in recent months and are expected to continue to do so going forward. In addition, recently imposed commodity tariffs are expected to contribute to firms' costs in coming months.

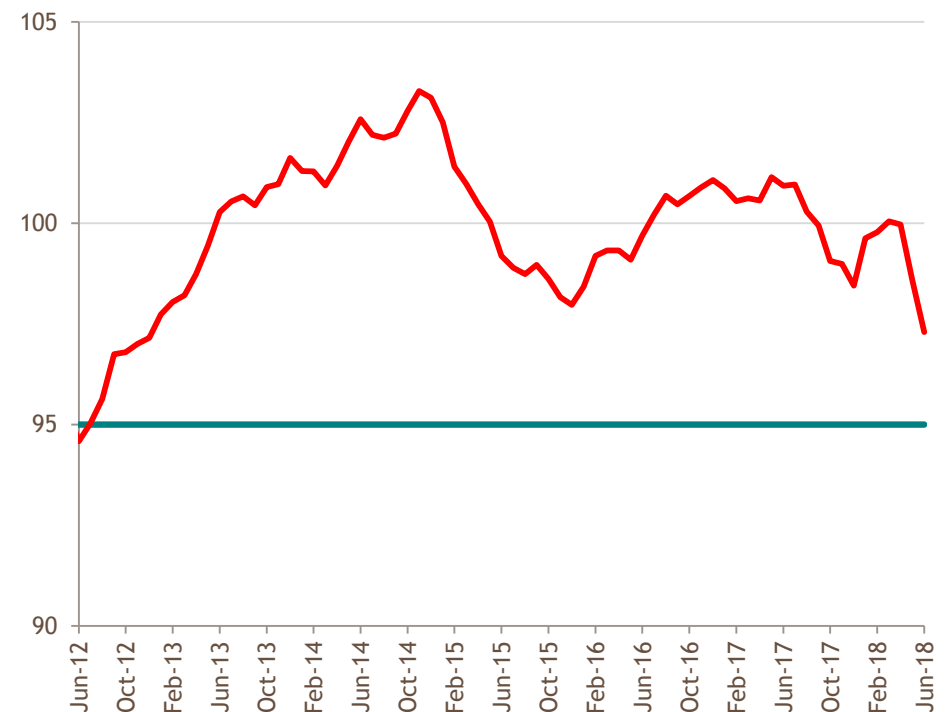
The BDO Employment Index rebounded in June, after dipping for the first time in six months in May. The index has been on a healthy upward trajectory in the past year, indicative of the strength of the labour market. Still, retail spending has faltered of late. Firms will hope that real wage growth picks up and so enables the record share of people in employment to spend more, boosting demand.

# OUTPUT GROWTH CONTINUES TO DECLINE

- The BDO Output Index declined 1.29 points to 97.29 in June, meaning output growth continued to slow below the UK's average growth rate.
- The output index was last lower five and a half years ago, in December 2012. Then, the UK economy was on a sluggish trend and shrank by 0.1% quarter-on-quarter after maintenance delays at the UK largest North Sea oil field meant output in mining and quarrying industry fell.
- Both underlying measures declined this month, meaning the index stands 3.64 points down on June 2017.
- The Manufacturing Output index declined most sharply, falling 3.12 points to 100.82 in June.
- Although this indicates that the sector is growing faster than its long run average, it is down 5.84 points on June last year, when manufacturers were still benefiting from strong foreign demand.
- The global economy has slowed considerably since. For instance, a recently released estimate of Q1 US GDP growth was downgraded 0.2 percentage points to an annual rate of +2.0%, after consumer spending underwhelmed.
- The BDO Services Output Index also slowed this month, and now stands at 96.85, just 1.85 points above the point of contraction.
- There have been renewed calls from the sector for increased clarity on the UK's post-Brexit arrangements in recent weeks, and business leaders will be watching closely when the Cabinet convenes at Chequers in early July.

## BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



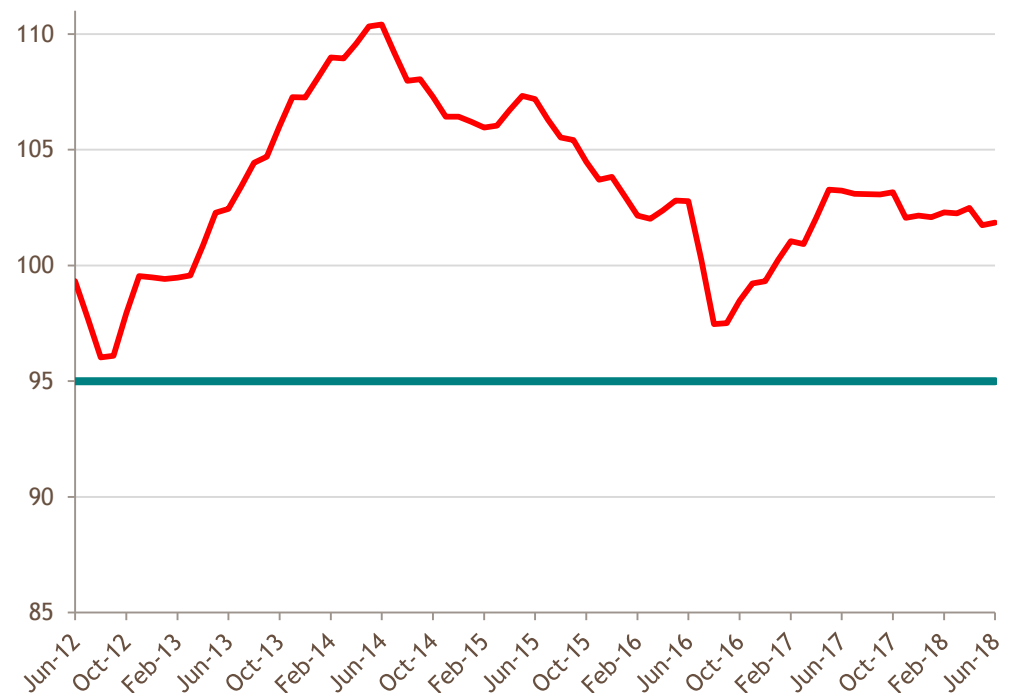
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# CONFIDENCE TICKS UP BUT CONCERNS REMAIN

- The BDO Optimism Index improved slightly in June, climbing 0.11 points to stand at 101.85.
- Optimism amongst manufacturers improved a modest 0.01 points, but the measure remains well inside positive territory at 109.19.
- The measure of services confidence improved 0.12 points meaning the measure edged above its long run average in June at 100.92.
- UK firms have had to deal with a challenging global business climate of late. The lack of Brexit-related clarity, the rise of trade barriers and spectre of a US-China trade war, together with slowing world economic growth, have all complicated proceedings.
- Against this backdrop, the modest improvement in confidence suggests that UK growth may be less susceptible to these headwinds than many feared.
- Still, given that the UK economy grew just 0.2% over the first quarter and the BDO Output Index fell sharply in May and June, the UK economic outlook remains less than rosy.

## BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



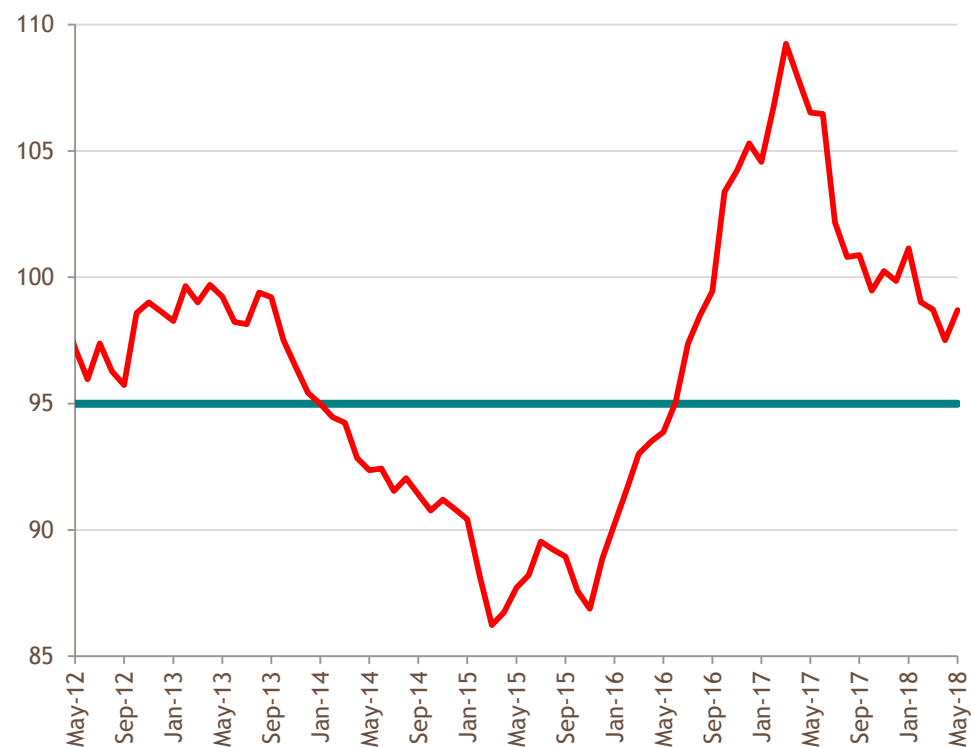
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

## DESPITE OPEC DECISION, HIGH OIL PRICES SEE INFLATION INDICES RISE

- The BDO Inflation Index continued to climb in June, increasing 0.41 points to 99.11.
- The largest upward contribution came from the input inflation measure, which climbed 0.85 points compared to May.
- Meanwhile, the consumer inflation measure increased by 0.38 points over the month.
- It is unsurprising that both measures picked up for the second consecutive month, as global oil prices have risen to relatively high levels.
- Brent crude oil spot prices averaged at their highest value since November 2017 in May. This fell slightly in June, and by the end of the month (25th June) the spot price of Brent crude was \$72.8 per barrel, \$3.8 lower than on 25th May.
- Oil production has been limited by OPEC constraints over the past year. However, after the June meeting, ministers stated that there will be an increase in production compared to May 2018 levels, by up to 1 million barrels per day.
- Oil prices are set to remain elevated though, keeping the pressure on the inflation indices. In addition, tariffs on commodities also look set to drive up firms' costs, keeping pressure on the BDO inflation indices in the coming months. The US has already placed tariffs on steel and aluminium of 25% and 10% respectively.

### BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



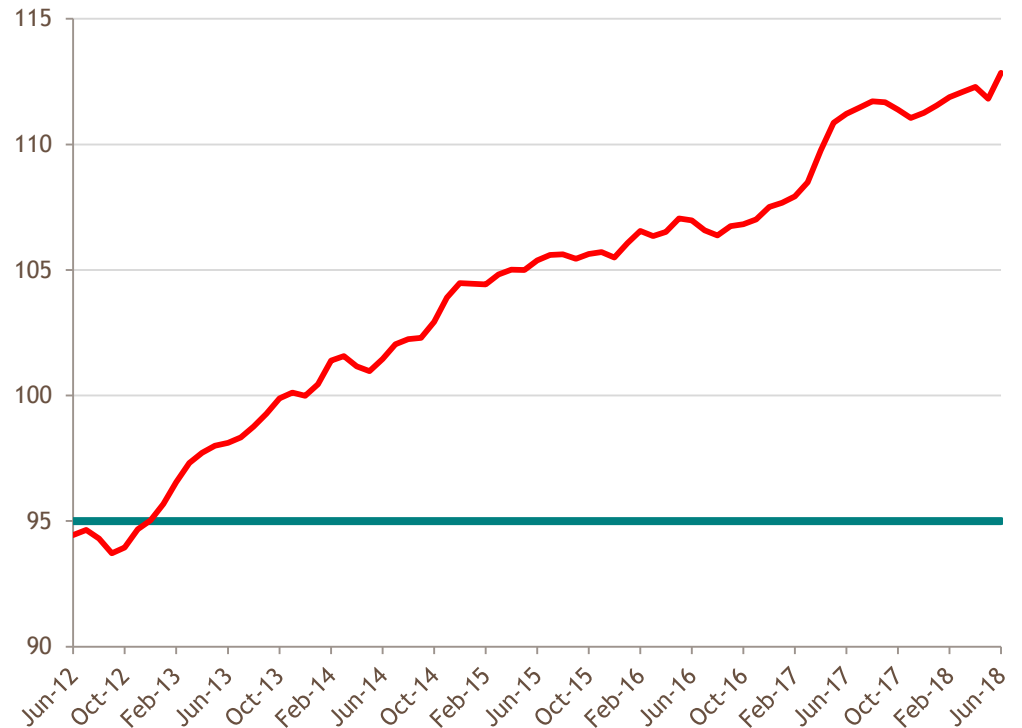
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# LABOUR MARKET REBOUNDS IN JUNE

- In June, the BDO Employment Index climbed 1.04 points to 112.85, the highest rate on record.
- The pick up in June comes after the measure declined for the first time in six months in May.
- The February to April figures on the UK labour market, released by the Office for National Statistics (ONS), show that the employment rate increased by 0.3 percentage points compared to the three months to January to stand at 75.6%. The number of people in work now stands at 32 million.
- In addition, the rate of unemployment was 4.2% in the three months to April, the joint lowest rate since 1975. This is down by 0.1 percentage points compared to the previous three month period.
- The labour market continues to be one of the stronger aspects of the UK's economic performance and the pick up in the BDO Employment Index in June suggests that the outlook remains positive.
- Real wage growth is also expected to improve in coming quarters boding well for the consumer-facing firms.

## BDO EMPLOYMENT 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 INDICES TO LATEST MONTH

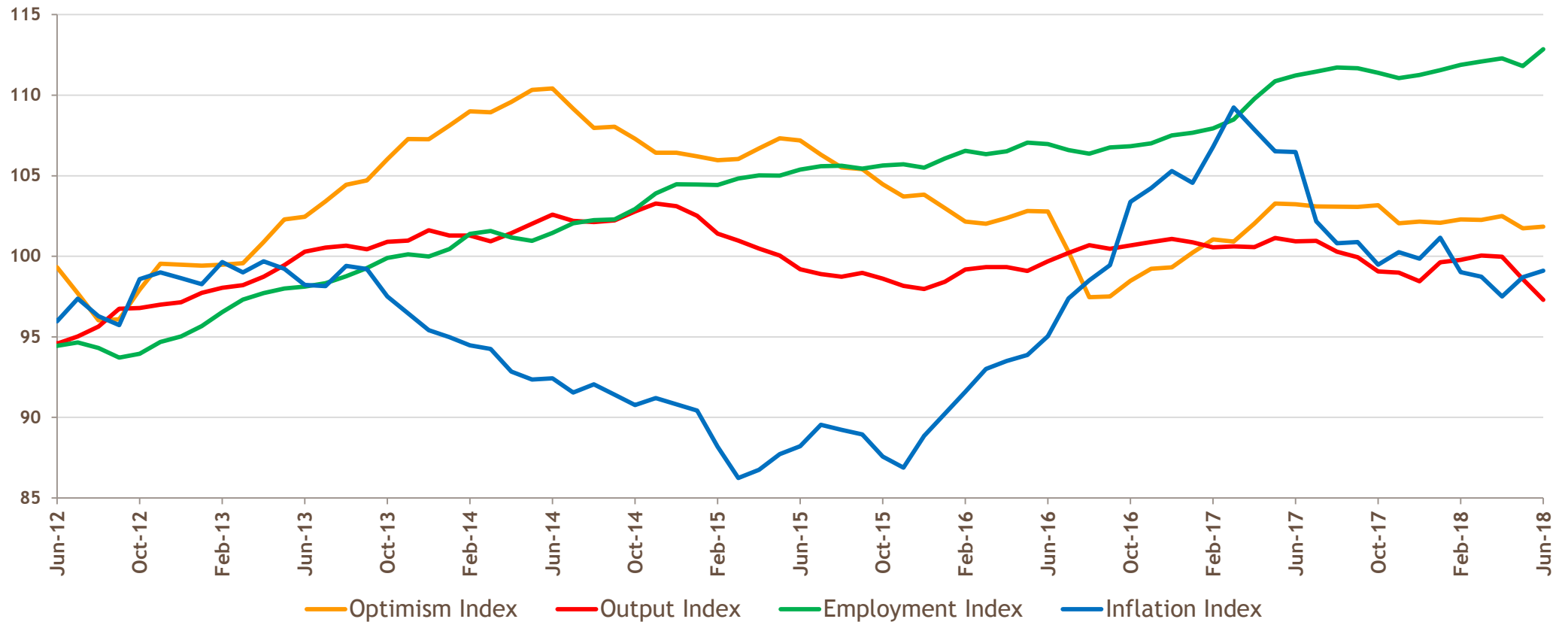
		Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
The BDO Optimism Index	<b>Total</b>	103.07	103.17	102.05	102.15	102.09	102.29	102.26	102.49	101.74	101.85
	Manuf.	108.71	109.57	110.12	110.22	108.51	106.82	106.74	107.92	109.18	109.19
	Service	102.35	102.36	101.03	101.13	101.27	101.72	101.69	101.81	100.80	100.92
The BDO Output Index	<b>Total</b>	99.95	99.06	98.99	98.45	99.63	99.78	100.05	99.97	98.58	97.29
	Manuf.	97.57	97.63	99.33	100.33	100.67	103.85	105.91	105.59	103.94	100.82
	Service	100.25	99.24	98.95	98.21	99.50	99.26	99.30	99.26	97.90	96.85
The BDO Inflation Index	<b>Total</b>	100.88	99.48	100.25	99.85	101.15	99.02	98.73	97.51	98.70	99.11
	Input	100.32	97.78	99.48	98.30	101.22	97.24	96.60	95.03	97.30	98.15
	Consumer	101.45	101.17	101.02	101.39	101.08	100.80	100.86	99.99	100.09	100.47
The BDO Employment Index	<b>Total</b>	111.68	111.39	111.06	111.26	111.55	111.89	112.09	112.29	111.81	112.85



# APPENDIX: OUTPUT INDEX SINKS IN JUNE

## 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.