

A red watering can is positioned in the upper left quadrant, tilted as if pouring. Below it, four small 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

September 2018

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 October 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	▲	97.78 in September from 97.72 in August
BDO Optimism Index	✓	▼	101.47 in September from 101.53 in August
BDO Inflation Index	✓	▼	101.63 in September from 102.23 in August
BDO Employment Index	✓	▼	114.72 in September from 114.74 in August

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

In September, the BDO Output Index climbed slightly, increasing 0.06 points to stand at 97.78. The index remains comfortably within positive growth territory.

The increase was driven solely by the UK's manufacturing sector. The index climbed from 101.06 to 103.26, while the service sector's performance worsened. Both the service and manufacturing output indices remained above the long term trend.

The BDO Optimism Index continued its gradual decline this month, falling to 101.47 points. Optimism worsened across the economy but both sub indices remain above their long run averages. Manufacturing confidence is the higher of the two at 108.48.

The BDO Inflation Index declined for the first time in five months. Inflation is expected to remain higher than average though in September, as the measure stands at 101.63. Declines were seen in both consumer and input inflation measures, but high global oil prices mean both measures remain above the long term trend.

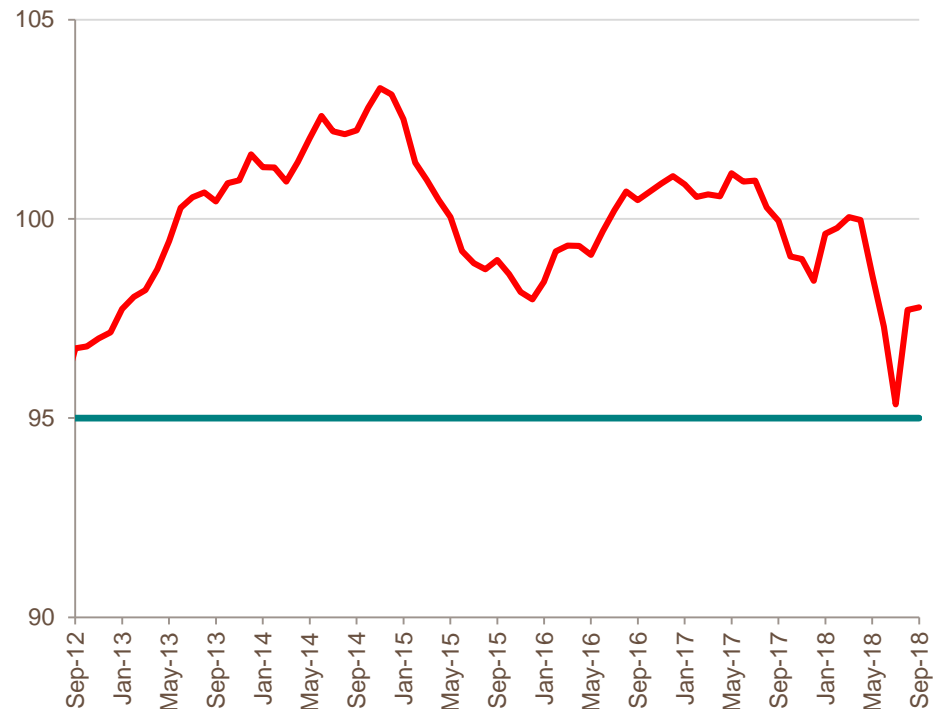
The BDO Employment Index remained largely unchanged in September, declining 0.02 points to 114.72. Official data show that the total number of people in employment in the three months to July was broadly the same as in the previous three month period.

OUTPUT GROWTH CLIMBS MODESTLY IN SEPTEMBER

- The BDO Output Index improved slightly, climbing 0.06 points to stand at 97.78 in September.
- Underlying this was an increase in manufacturing output growth, with the index rising by 1.20 points to 103.26. The measure is 5.69 points higher than this time last year, but still below the 105.91 registered in March this year.
- Meanwhile, growth in the services sector slowed. The BDO services index declined 0.09 points to 97.08.
- Official data show that in the three months to July manufacturing output increased by 1.3% compared with the three months to July 2017.
- Meanwhile, output in the services sector increased by 1.5% compared with the three months ending July 2017.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



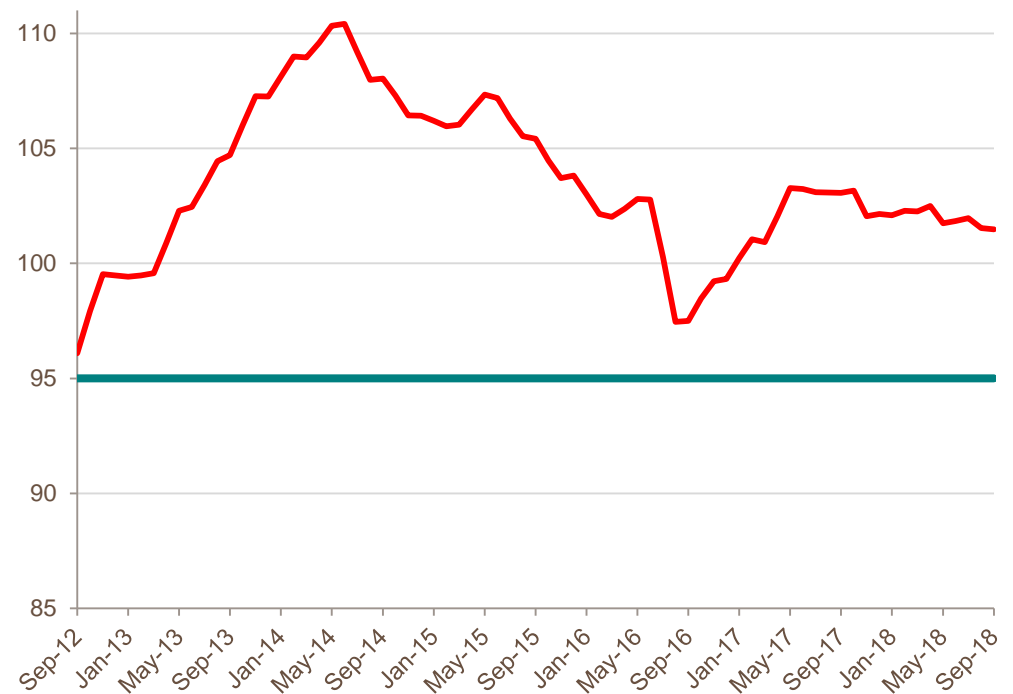
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

CONFIDENCE DIPS IN SEPTEMBER

- The BDO Optimism Index declined marginally in September, falling 0.06 points to stand at 101.47.
- Optimism in both manufacturing (-0.07) and services (-0.05) declined.
- This is a similar story to the findings of the August report, where an economy-wide malaise saw optimism fall across the board.
- Confidence has been on a gentle downward trend since May 2017, when confidence had more than fully recovered the losses sustained in the wake of the Brexit referendum.
- Recent retail sales data show that, despite the modest levels of confidence seen in recent months, consumer spending growth has been surprisingly robust.
- Sales volumes increased by 3.3% annually in August. The increase in July was also revised up by 0.3 percentage points to 3.8% annual growth.
- As confidence has remained largely level since then, consumer spending conditions look to be largely unchanged.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



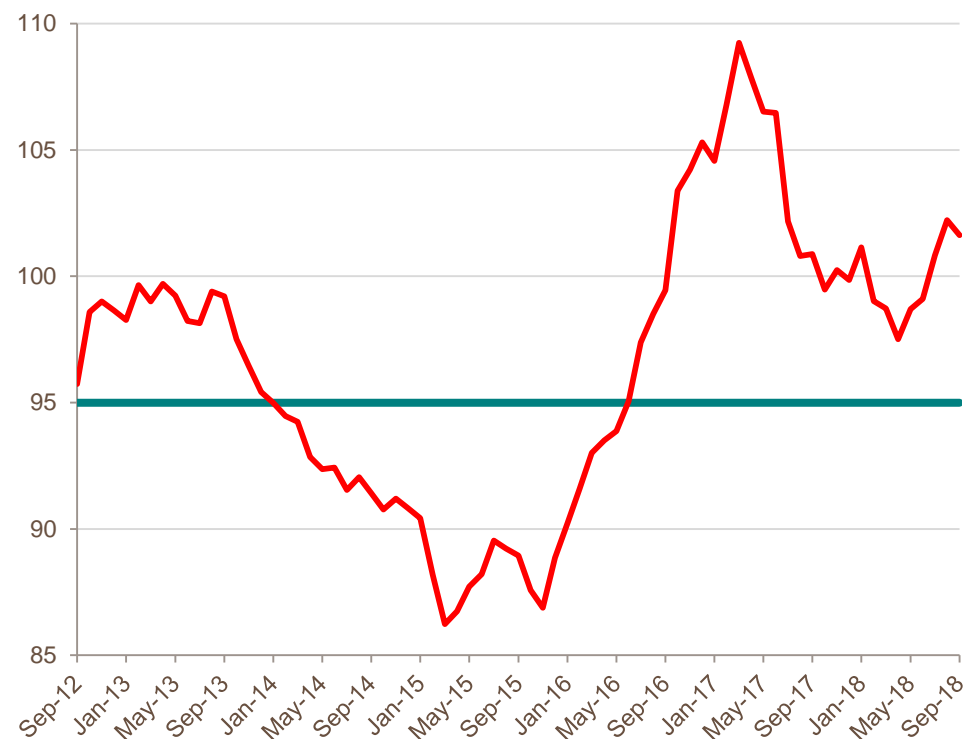
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION INDEX REMAINS HIGH IN SEPTEMBER

- The BDO Inflation Index declined 0.60 points to stand at 101.63 in September. This breaks the streak of four consecutive monthly rises registered in May to August.
- While both measures declined, input inflation fell most sharply, falling 1.08 points to stand at 102.82.
- Meanwhile, the consumer inflation index declined 0.11 point to 100.44.
- In August, official data showed that the annual rate of CPI inflation rose by 0.2 percentage points compared to July, to stand at 2.7%. The rise was in line with the sharp pick up in last month's BDO Inflation Index, which climbed to 102.23 - a 14 month high.
- Recreation and culture was the largest upward contributor to the official inflation rate with prices rising 3.6% in the year ending August 2018. The cost of clothing & footwear and transport also contributed significantly to the higher rate of inflation
- The high global oil prices have driven up the cost of transport and energy. Following OPEC's recent meeting, where it decided to keep its June production targets in place, global oil prices have risen again, suggesting they will continue to be a significant factor in coming releases.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



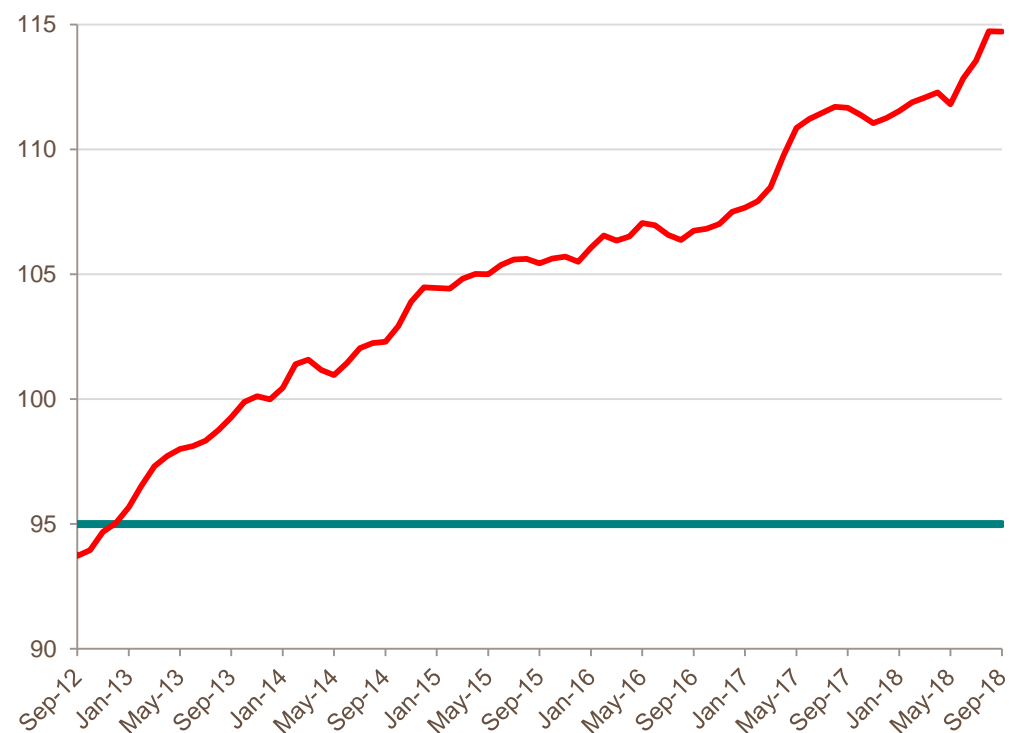
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

WAGE GROWTH PICKS UP AS LABOUR MARKET TIGHTNESS TAKES EFFECT

- In September, the BDO Employment index remained largely unchanged, declining 0.02 points to 114.72.
- The latest official data show that the unemployment rate stood at 4.0% in the three months to July.
- The stabilisation of the BDO Employment Index at a high level is illustrative of the gains already made in the UK labour market.
- Official data show that the total number of people in employment in the three months to July was broadly the same as the number in the previous three month period, although the employment rate ticked down by 0.1 percentage points to 75.5%.
- The official data also provide some evidence that the emerging shortage of labour implied by the vacancies and unemployment data are beginning to have an impact on earnings.
- In the three months to July, total pay (including bonus) rose at an annual rate of 2.6% - 0.2 percentage points higher than the year-on-year growth rate in the three months to June.
- Despite the pick up, wage growth remains around half the level seen in the immediate run up to the global financial crisis.

BDO EMPLOYMENT INDEX

100 = average trend. Greater than 95 = positive



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

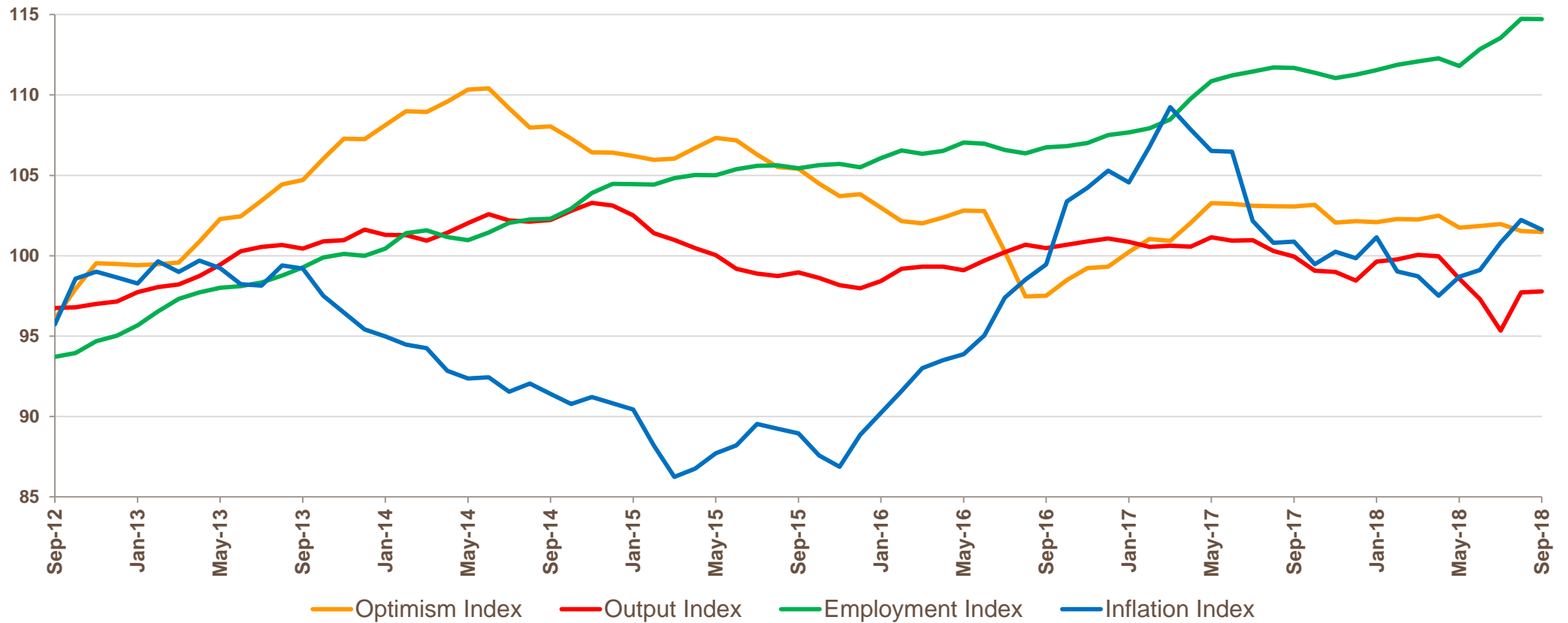
BDO INDICES TO LATEST MONTH

		Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
The BDO Optimism Index	Total	102.09	102.29	102.26	102.49	101.74	101.85	101.96	101.53	101.47
	Manuf.	108.51	106.82	106.74	107.92	109.18	109.19	108.97	108.55	108.48
	Service	101.27	101.72	101.69	101.81	100.80	100.92	101.08	100.64	100.59
The BDO Output Index	Total	99.63	99.78	100.05	99.97	98.58	97.29	95.34	97.72	97.78
	Manuf.	100.67	103.85	105.91	105.59	103.94	100.82	100.16	102.06	103.26
	Service	99.50	99.26	99.30	99.26	97.90	96.85	94.73	97.17	97.08
The BDO Inflation Index	Total	101.15	99.02	98.73	97.51	98.70	99.11	100.82	102.23	101.63
	Input	101.22	97.24	96.60	95.03	97.30	98.15	101.59	103.90	102.82
	Consumer	101.08	100.80	100.86	99.99	100.09	100.47	100.06	100.55	100.44
The BDO Employment Index	Total	111.55	111.89	112.09	112.29	111.81	112.85	113.55	114.74	114.72

APPENDIX: INDICES MODERATE ACROSS THE BOARD

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

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.