

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

November 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 December 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	▼	97.69 in November from 97.72 in October
BDO Optimism Index	✓	▼	100.33 in November from 101.25 in October
BDO Inflation Index	✓	▼	101.01 in November from 101.27 in October
BDO Employment Index	✓	▲	114.65 in November from 114.11 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

Three of the four measures fell between October and November, with only the BDO Employment Index recording an increase.

The BDO Output Index crept down from 97.72 to 97.69, driven by a decline in output growth for the manufacturing sector. This suggests that low levels of confidence and uncertainty are hampering growth in this area.

The BDO Optimism Index fell by 0.92 points to 100.33 in November, as sentiment in both the services and manufacturing sectors deteriorated. The evolution of this Index in the coming months will likely be shaped by upcoming developments in the Brexit negotiations.

The BDO Inflation Index dipped to 101.01 in November, with declines in both the consumer inflation and the input inflation sub-indices. Consumer price inflation has slowly fallen towards the Bank of England's 2% target so far in 2018, and recent oil price falls will weigh on the Index in the near term.

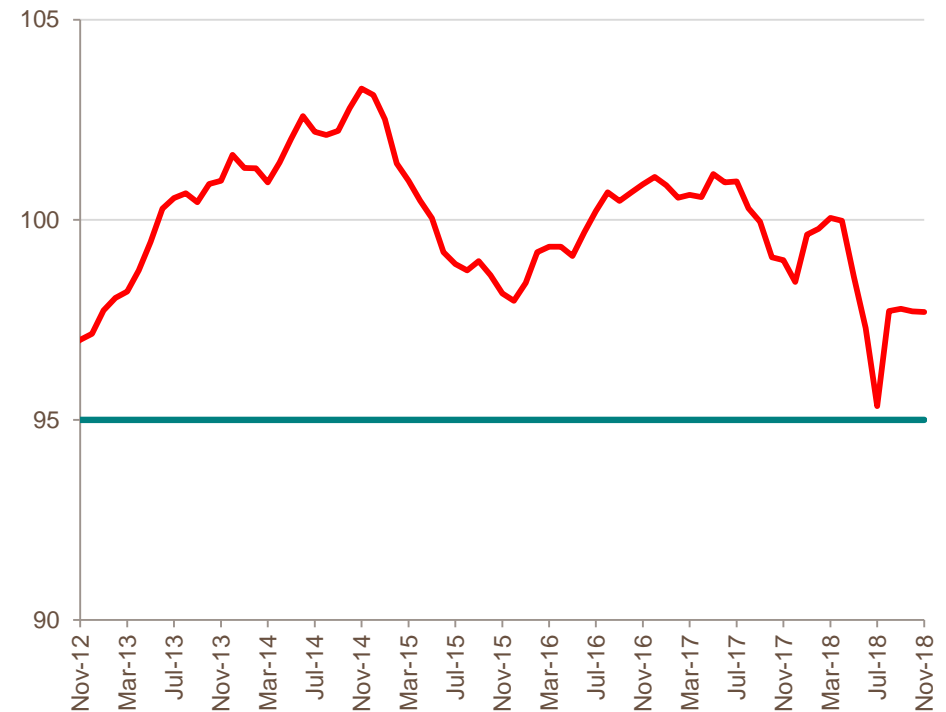
The BDO Employment Index recovered most of the losses sustained in October - rising by 0.54 points to 114.65. Low unemployment appears to finally be pushing up wages, which may constrain further gains in this indicator going into 2019.

OUTPUT GROWTH WEAKENS IN NOVEMBER

- The BDO Output Index fell marginally from 97.72 in October to 97.69 in November.
- The decline was driven by a reduction in output growth in the manufacturing sector, with the BDO Manufacturing Index dropping by 2.13 points to 100.61.
- The latest official data show that the manufacturing sector returned to positive growth in the third quarter following two consecutive quarterly contractions in the first half of 2018. However, a worsening of the export climate and low levels of confidence in the sector suggest that this recovery could prove short-lived.
- Manufacturing appears to be receiving a boost from stock-piling activities in the build-up to Brexit. However, this will likely be followed by a decline in output in 2019 as firms draw down their accumulated inventories.
- The BDO services index edged up to 97.32 in November. However, output growth in this sector remains below the long-run average.
- GDP growth is expected to moderate in the final quarter of the year. Cebr forecasts that the economy will expand by 0.5% in Q4 2018, compared to the 0.6% quarterly growth rate recorded in Q3.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



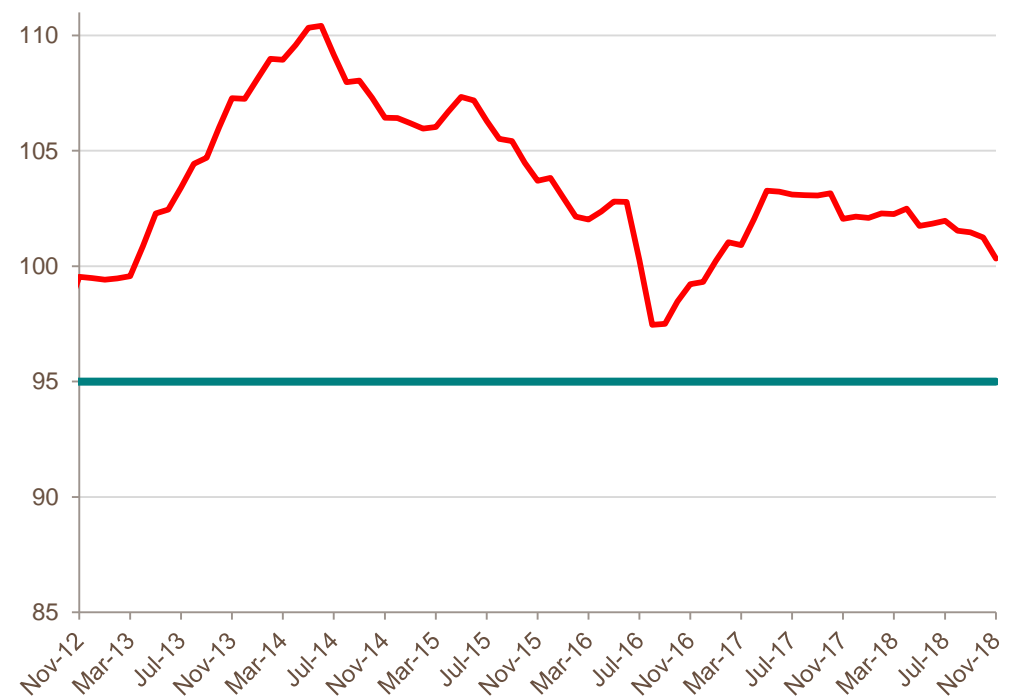
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

CONFIDENCE DECLINES ACROSS THE BOARD IN NOVEMBER

- The BDO Optimism Index fell by 0.9 points to 100.3 between October and November.
- The BDO Manufacturing Optimism Index declined for the second consecutive month, taking it to 105.0 - the lowest level since March 2017.
- Optimism in the service sector also worsened for the fifth consecutive month taking the BDO Services Optimism Index to 99.7, which is below the long-run average.
- Businesses in the manufacturing sector are particularly exposed to the risks associated with a disorderly Brexit, given their reliance on complex supply-chains and export revenues. An economic slowdown in the Eurozone also looks set to weigh on external demand in the near term.
- This month's figures suggest that the economy has started to cool following a strong summer. The combination of weak consumer and business sentiment will constrain growth in the final quarter of the year.
- The BDO Optimism Index will inevitably be impacted by the outcome of the Brexit discussions. If the draft withdrawal agreement is voted down in Parliament on December 11th, there would likely be a further deterioration in sentiment due to the increased risk of a 'no-deal' Brexit.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



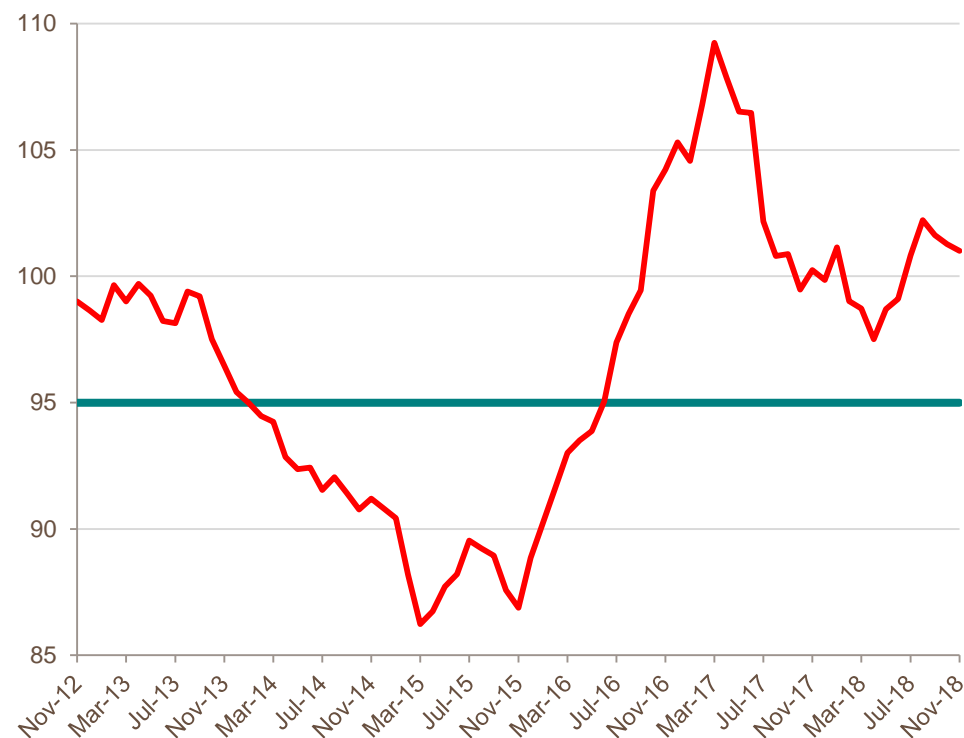
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION INDEX FALLS FOR FOURTH STRAIGHT MONTH IN NOVEMBER

- The BDO Inflation Index fell by 0.26 points to stand at 101.01 in November.
- The decline in the overall index was driven by a 0.31 point fall in the consumer inflation index to 100.1 and a 0.24 point fall in the input inflation index to 102.0.
- The annual rate of CPI inflation was 2.4% in October - unchanged from the previous month. The rate of price growth was driven down by the food, clothing, transport and footwear categories.
- The price of oil has plummeted in recent months, which is set to weigh on both the consumer inflation and the input inflation indices in the coming months. Indeed, this effect is set to override the pickup in earnings growth observed in recent months and the inflationary pressures that this generates.
- Currency movements in the run-up to the UK's withdrawal from the EU on 29th March 2019 have the potential to impact the BDO Inflation Index going forwards. Any significant depreciation would lead to a spike in import costs, elevating both the consumer inflation and input inflation indices.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



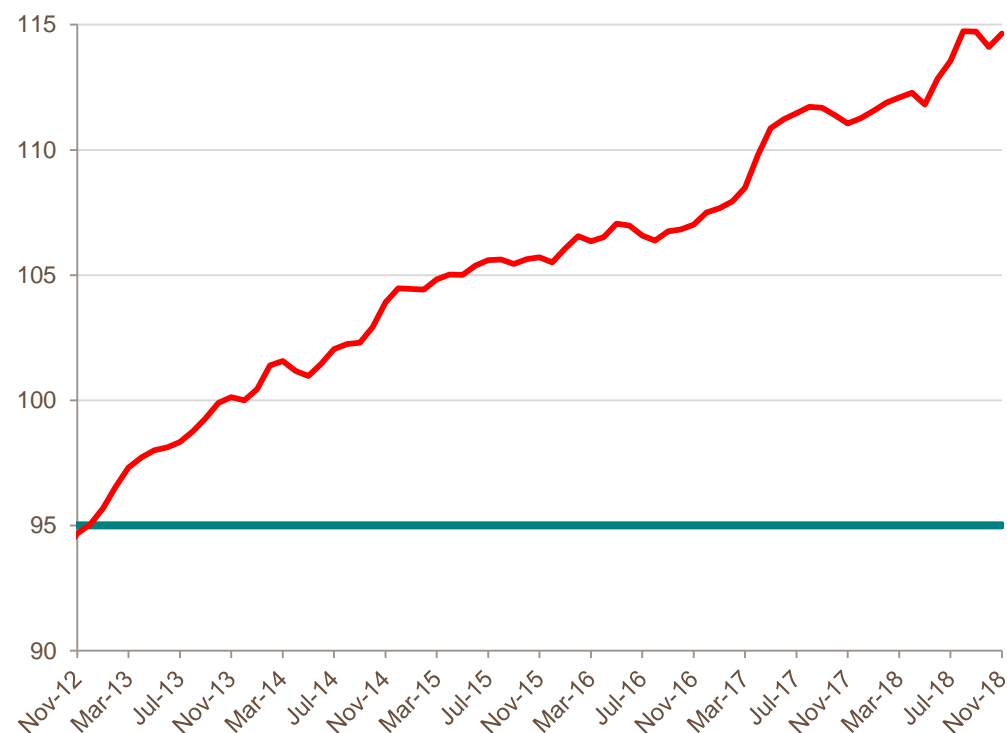
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT INDEX PICKS UP IN NOVEMBER

- In November, the BDO Employment Index rose by 0.54 points to 114.65. This is 3.59 points higher than the level recorded at this point last year, reflecting the persistent tightening of the labour market that has taken place.
- The UK's unemployment rate in the third quarter of 2018 averaged 4.1% - 0.1 percentage points above the average over Q2.
- The latest data on wages suggest that low levels of unemployment and record numbers of vacancies are starting to feed into earnings. In the three months to September, the annual rate of regular pay growth (excluding bonuses) rose to 3.2% - the highest since 2008. If this trend continues, higher employment costs could cause some firms to rein in their hiring plans, weighing on the BDO Employment Index in the coming months.
- With domestic demand set to slow going into 2019, many firms are likely to limit their hiring activity - particularly if uncertainty surrounding Brexit continues to linger.

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

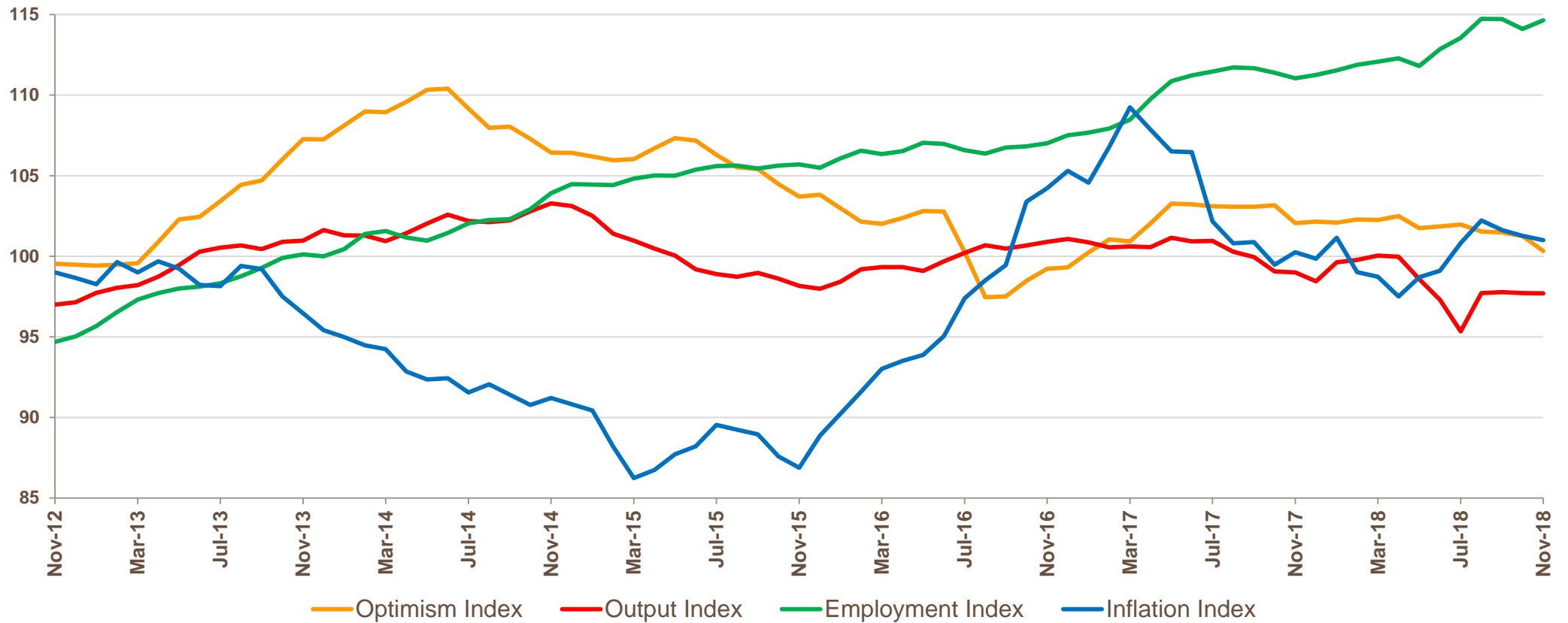
BDO INDICES TO LATEST MONTH

		Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18
The BDO Optimism Index	Total	102.49	101.74	101.85	101.96	101.53	101.47	101.25	100.33
	Manuf.	107.92	109.18	109.19	108.97	108.55	108.48	106.66	105.02
	Service	101.81	100.80	100.92	101.08	100.64	100.59	100.56	99.74
The BDO Output Index	Total	99.97	98.58	97.29	95.34	97.72	97.78	97.72	97.69
	Manuf.	105.59	103.94	100.82	100.16	102.06	103.26	102.74	100.61
	Service	99.26	97.90	96.85	94.73	97.17	97.08	97.08	97.32
The BDO Inflation Index	Total	97.51	98.70	99.11	100.82	102.23	101.63	101.27	101.01
	Input	95.03	97.30	98.15	101.59	103.90	102.82	102.19	101.95
	Consumer	99.99	100.09	100.47	100.06	100.55	100.44	100.35	100.06
The BDO Employment Index	Total	112.29	111.81	112.85	113.55	114.74	114.72	114.11	114.65

APPENDIX: DECLINES REGISTERED IN THREE 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

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.