



# BDO MONTHLY BUSINESS TRENDS INDICES

January 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 January 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	✓	▽	102.9 in December from 103.3 in November
BDO Optimism Index	✓	▽	100.5 in December from 101.0 in November
BDO Inflation Index	✗	▬	96.4 in December from 96.4 in November
BDO Employment Index	✓	▽	105.1 in December from 105.2 in November

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

# KEY FINDINGS

The BDO Output Index stands at 102.9 compared to a level of 103.3 during November. Firms expect to see a level of economic activity in the early months of 2016 slightly higher than the long-term average. The services-manufacturing split has opened up here. The manufacturing sub-index has slipped below 100, indicating growth slightly below average rates.

The BDO Inflation Index remains at 96.4 in December, having risen at a gentle pace for the preceding eight months. Low global inflation is probably set to continue, led by a falling oil price. In addition, the prolonged period of subdued price increases is likely to be reducing wage growth, as expectations shift. This softens the main upward pressure on company input prices. We may see expectations shift upwards as the introduction of the National Living Wage approaches, but the planned date in April remains some months off.

Firms' confidence, as measured by the BDO Optimism Index, is at a slightly lower level in December. Over the first half of 2016 firms expect that activity will be close to its long-term average level. Since the Output Index shows a reading above that level, we expect to see gradual slowing in activity over the coming months. Again, it masks a divide between firms producing physical goods and those producing services. Manufacturers are still expecting contraction.

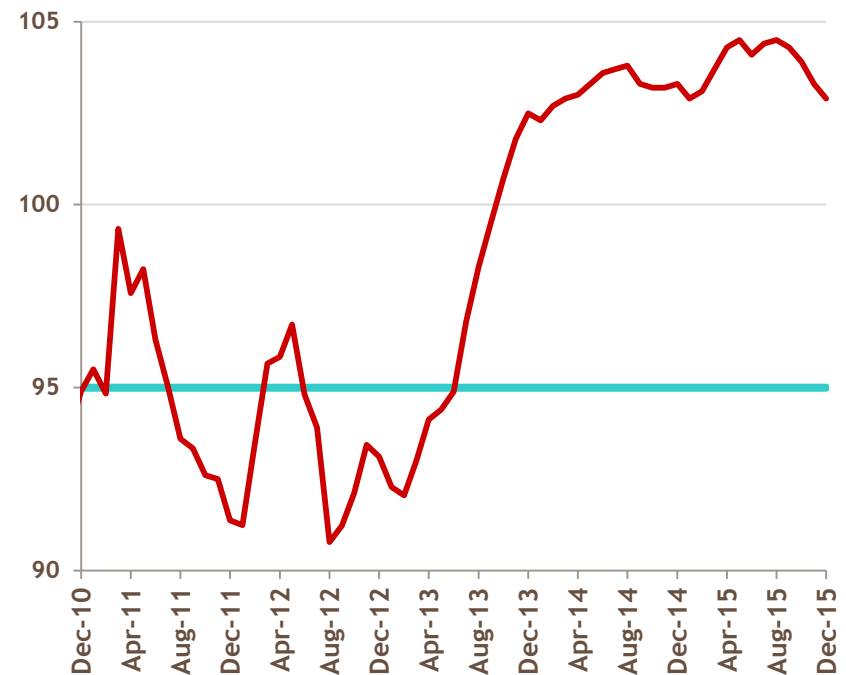
After a string of more hefty falls, the BDO Employment Index has declined only very little this month, inching down from 105.2 to 105.1. It continues to signal stronger-than-usual hiring activity, with unemployment set to fall further in 2016.

# DOWNWARD TREND IN OUTPUT GROWTH EXPECTED TO CONTINUE INTO 2016

- The BDO Output Index has fallen from 103.3 in November to 102.9 in December 2015.
- Firms expect the near term outlook to keep weakening as we move into the early months of 2016. This continues a trend starting around mid-2015. The strength of output should be slightly above the long-term trend, but not by a great margin.
- The manufacturing sub-index has fallen modestly again and now stands at 98.2. This sector is likely to see below long-term average growth, as has been predicted by the manufacturing confidence sub-index for some time. Weak exports continue to drag on the sector.
- In a familiar pattern for the UK economy, near-term growth will rely on the service sector. Fortunately service firms are still predicting above-trend expansion. The services sub-index stands at 103.8.

## BDO OUTPUT INDEX

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



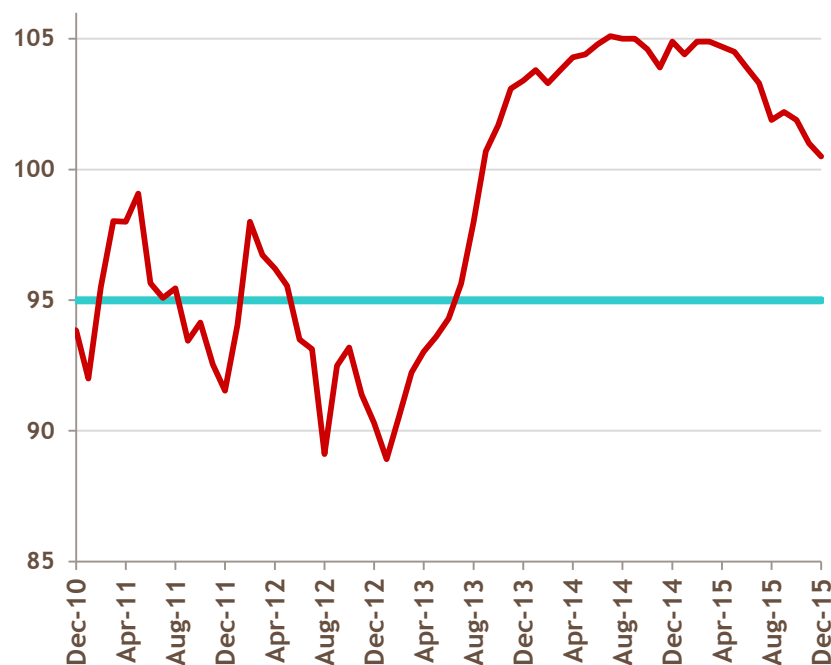
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# FIRMS EXPECTING MEDIOCRE PERFORMANCE OVER H1 2016

- The BDO Optimism Index has seen a modest fall during December, dropping from 101.0 in November to 100.5.
- The reading is close to the long-term trend level of 100. As it stands slightly below the reading on the Output Index, we expect to see gentle slowing in activity over the six-month horizon.
- The dip in the Optimism Index was driven by fading confidence in the service sector, which moved to 102.7 from 103.5.
- The manufacturing sub-index found firms expect slightly better conditions than they did last month. This is little cause for cheer as the reading stands at just 89.6 compared to 88.3 during November, and therefore still points to contraction.

## BDO OPTIMISM INDEX

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



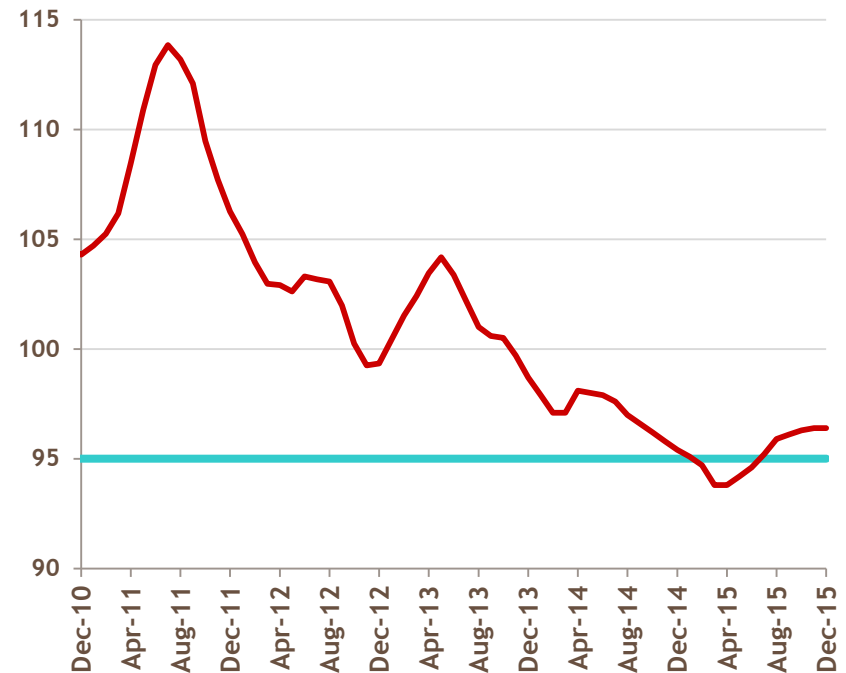
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# COST PRESSURES REMAIN MANAGEABLE FOR FIRMS

- The BDO Inflation Index measures the outlook for cost pressures over the short term.
- After strengthening throughout the second half of 2015, inflation expectations have plateaued, with the Index standing at 96.4. As this is only just north of the neutral level of 95, it shows that firms still expect little change in costs.
- December saw the main benchmark price of oil, Brent crude, fall to \$35, just two dollars above the financial crisis low. Continuing concerns around overcapacity have driven this.
- Low commodity prices help to offset the wage growth that we are seeing now that unemployment is low and labour market slack has diminished. In addition, there are signs employers are starting to price ongoing weak inflation into their wage offers, with strong recent earnings growth tailing off a little in the most up-to-date figures.

## BDO INFLATION INDEX

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



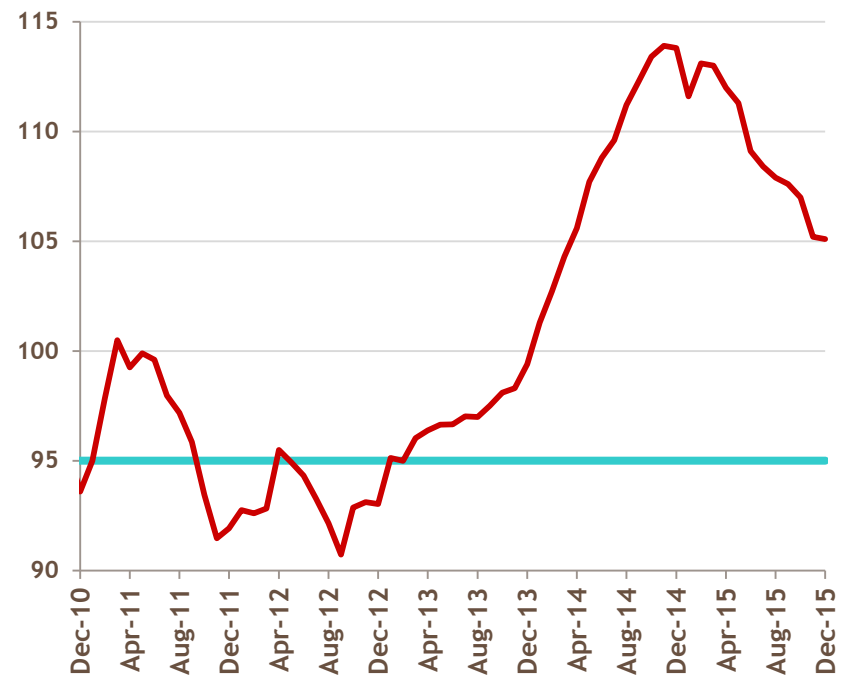
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# EXPECTATIONS ON HIRING SEE LITTLE CHANGE

- The strong downward trend on the BDO Employment Index has been temporarily arrested. December's value, at 105.1, is virtually unchanged on November's 105.2.
- This is the lowest level on the index since April 2015. Nonetheless, firms still expect to keep hiring at a fairly constant pace. Activity in the labour market will continue to exceed the long-term average pace of hiring.
- The employment rate - which measures the proportion of all those aged 16-64 in jobs - is at a record high of 74% on the latest data and recent moves have maintained the upward trend. The boom in hiring appears therefore to be gently slowing, rather than coming to an abrupt halt. December's move is the smallest decline in the index since February 2015.

## 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

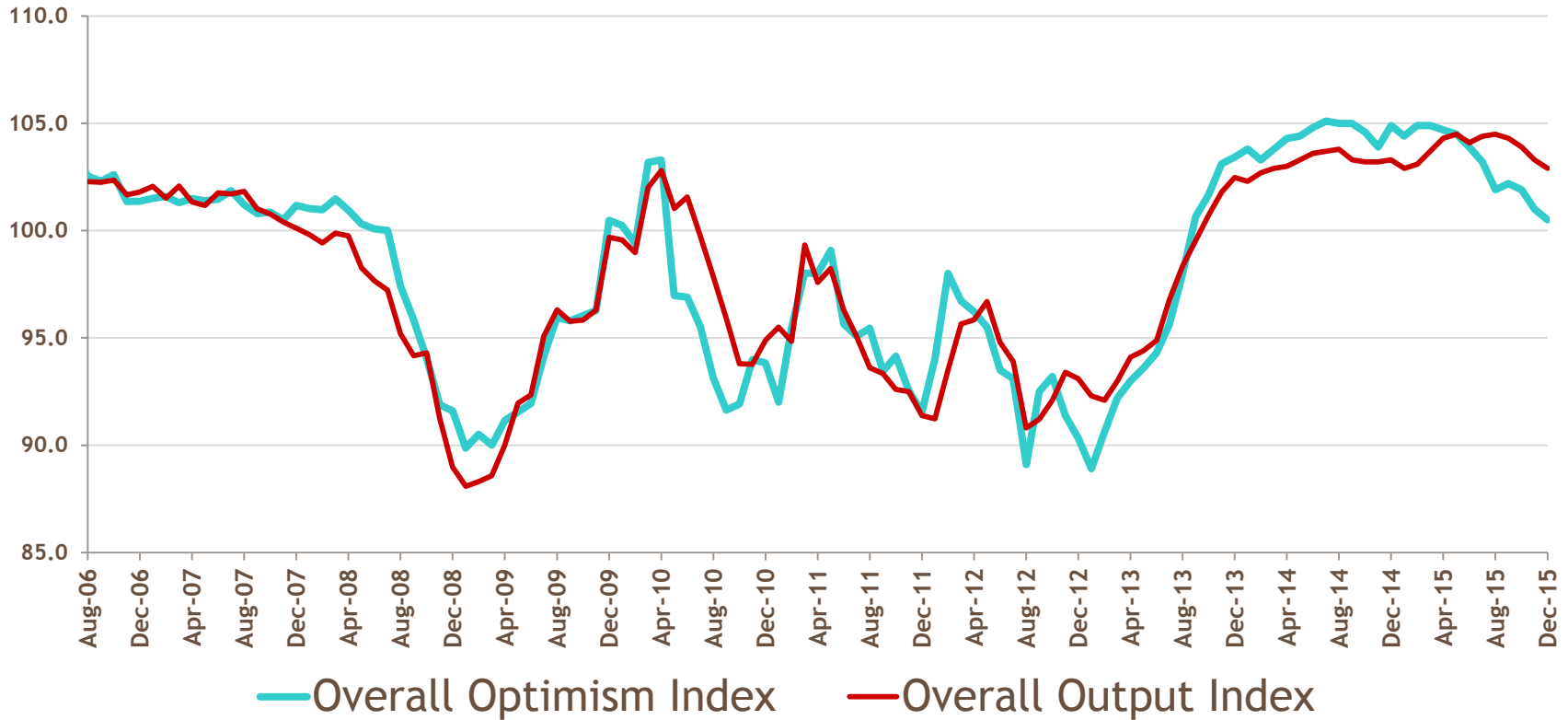
		Dec 2014	Jan 2015	Feb 2015	Mar 2015	Apr 2015	May 2015	Jun 2015	Jul 2015	Aug 2015	Sep 2015	Oct 2015	Nov 2015	Dec 2015
The BDO Optimism Index	<b>Total</b>	104.9	104.4	104.9	104.9	104.7	104.5	103.9	103.3	101.9	102.2	101.9	101.0	100.5
	Manuf.	113.9	113.0	111.6	109.8	107.4	103.4	98.5	93.5	86.2	89.0	90.2	88.3	89.6
	Service	103.1	102.7	103.6	103.9	104.1	104.7	105.0	105.1	105.0	104.8	104.2	103.5	102.7
The BDO Output Index	<b>Total</b>	103.3	102.9	103.1	103.7	104.3	104.5	104.1	104.4	104.5	104.3	103.9	103.3	102.9
	Manuf.	108.0	107.3	107.1	107.7	108.8	109.0	107.8	106.8	106.8	106.5	103.8	100.5	98.2
	Service	102.4	102.1	102.3	102.9	103.5	103.6	103.4	103.9	104.1	103.9	103.9	103.9	103.8
The BDO Inflation Index	<b>Total</b>	95.4	95.1	94.7	93.8	93.8	94.2	94.6	95.2	95.9	96.1	96.3	96.4	96.4
The BDO Employment Index	<b>Total</b>	113.8	111.6	113.1	113.0	112.0	111.3	109.1	108.4	107.9	107.6	107.0	105.2	105.1



# APPENDIX 1: DOWNWARD TREND IN OUTPUT GROWTH EXPECTED TO CONTINUE INTO 2016

## BDO OUTPUT AND OPTIMISM INDICES

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

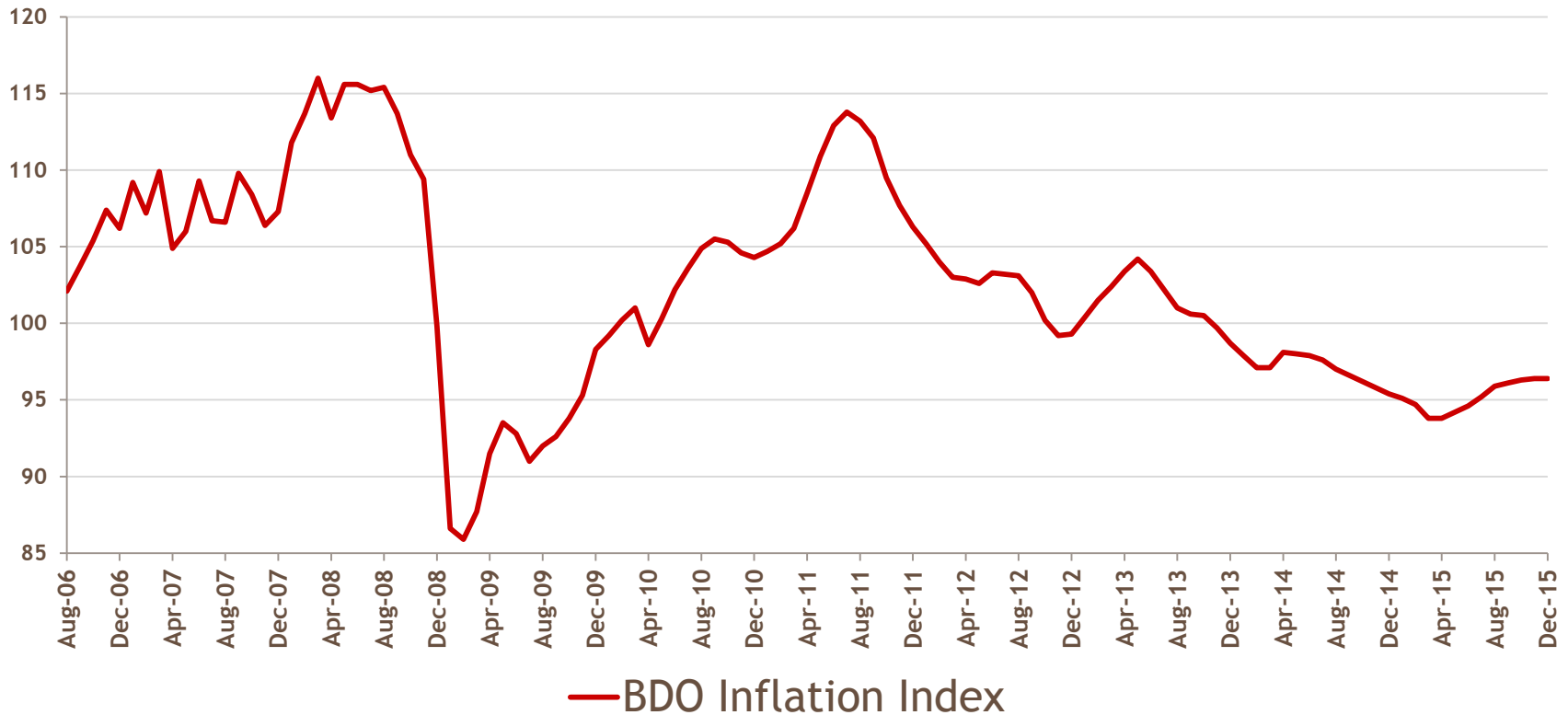


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# APPENDIX 2: COST PRESSURES REMAIN MANAGEABLE FOR FIRMS

## BDO INFLATION INDEX

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

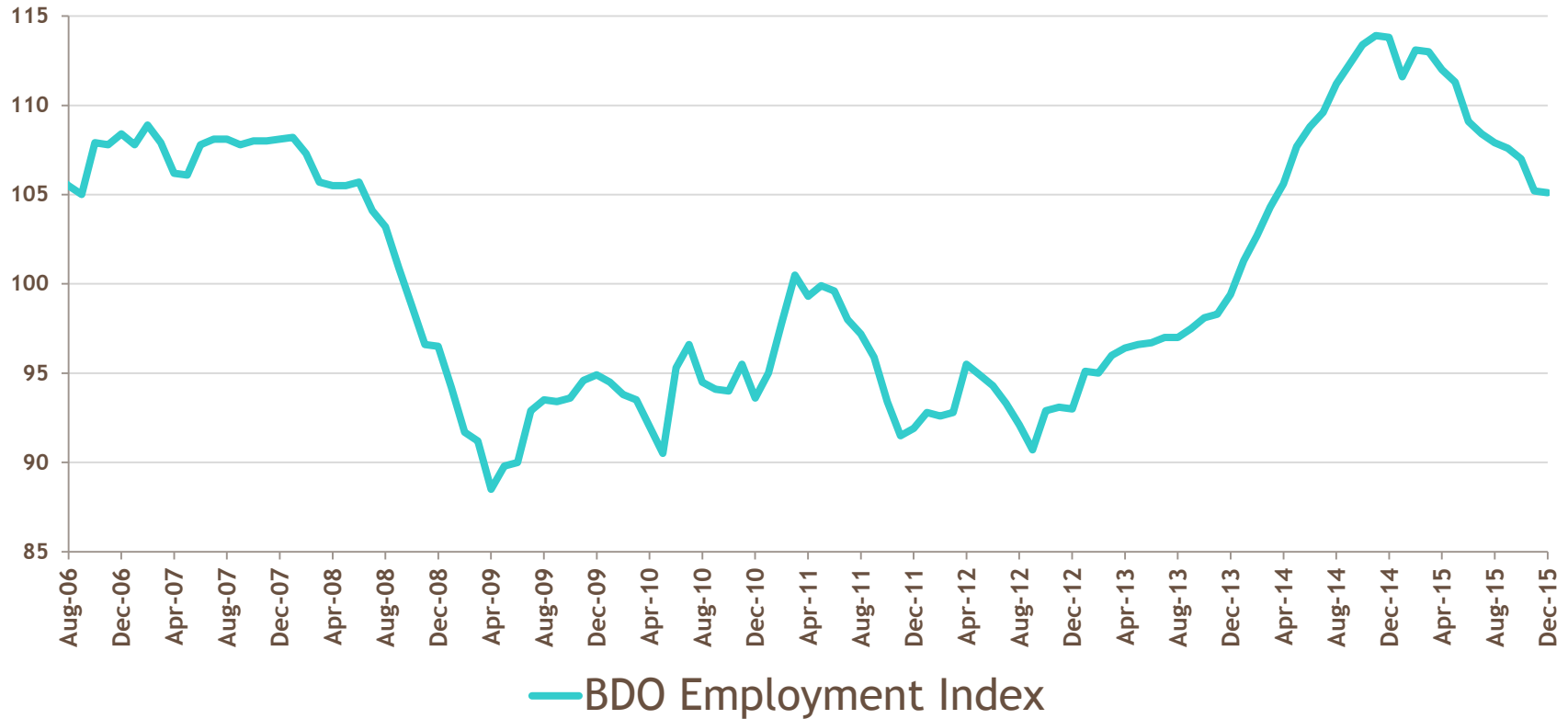


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# APPENDIX 3: EXPECTATIONS ON HIRING SEE LITTLE CHANGE

## 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.