

A red watering can is positioned in the upper left quadrant, tilted as if pouring. Below it, four small, round, terracotta pots containing various types of 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

March 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 April 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	✓	▲	100.05 in March from 99.78 in February
BDO Optimism Index	✓	▼	102.26 in March from 102.29 in February
BDO Inflation Index	✘✘	▼	98.73 in March from 99.02 in February
BDO Employment Index	✓✓	▲	112.09 in March from 111.89 in February

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

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## KEY FINDINGS

In March, the BDO Output Index climbed 0.27 points to stand above 100, indicating that output is growing at a rate that exceeds the long-run average.

Both underlying measures of output increased in March. The Manufacturing Output Index climbed fastest, to stand at 105.91. This is substantially above its long-term growth rate (indicated by 100). The index has improved in the past 12 months, gaining 7.85 points over the period. Meanwhile, the Services Output Index rose a more modest 0.04 points to 99.30 in March.

Since the last BDO Business Trends report the Office for National Statistics has updated its estimate of GDP growth for 2017. It now calculates that UK economic output grew by 1.8% last year, up 0.1 points on the previous estimate. The revised figures also show that both services and manufacturing sectors expanded by 0.4% quarter-on-quarter in Q4 2017.

The BDO Optimism Index declined slightly in March. The index now stands at 102.26, having declined in both services and manufacturing sectors. One of the possible drivers behind of this is the higher threat of trade barriers to UK firms. Fears of a trade war caused market unrest in March, with technology shares in particular losing ground.

The BDO Inflation Index decreased again this month, falling 0.29 points to stand at 98.73 in March. This is a smaller decline than seen last month, but as in February it means that the falling Input Inflation Index was the primary driver of the decline.

Interestingly, after official data showed that consumer price growth slowed substantially in February, the steadiness of the BDO Consumer Inflation Index this month suggests that it will remain largely unchanged in March. On the CPIH measure consumer inflation declined 0.2 percentage points compared to January to 2.5% in February.

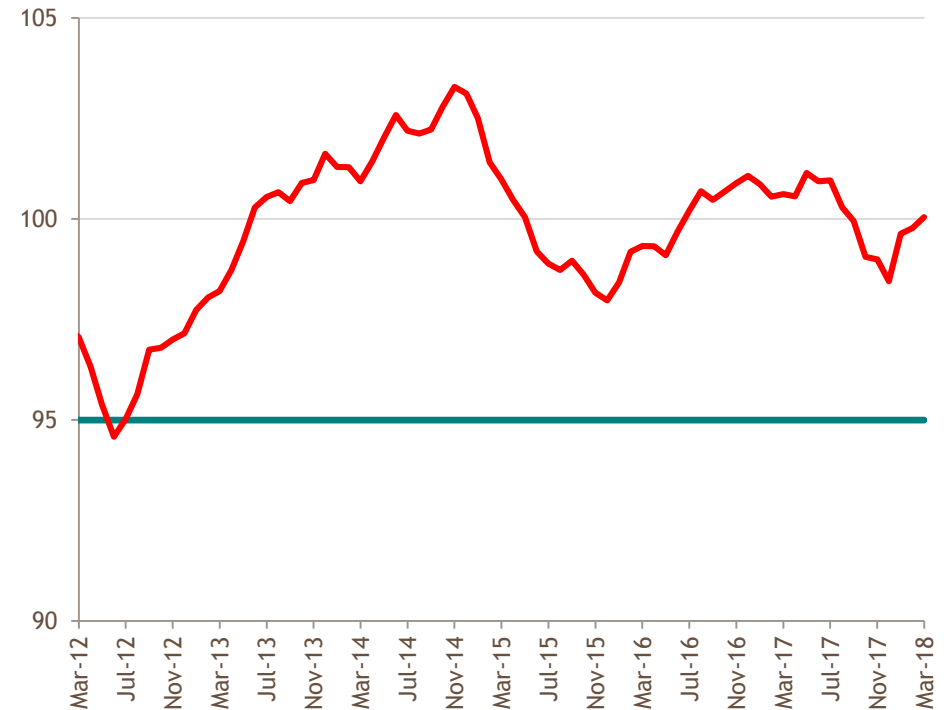
The Employment Index climbed yet again in March. The labour market has strengthened substantially in recent times and this month's measure suggests that the trend is set to continue. The most recent labour market data show that 402,000 more people were in work in the three months to January 2018, than in the corresponding period a year earlier.

# OUTPUT GROWTH PICKS UP IN Q1 2018

- The BDO Output Index climbed above 100 points to 100.05 in March. This suggests that output grew slightly faster than its long run average.
- Though the index climbed 0.27 points on February's reading, when compared to March 2017 the measure is down 0.57 points.
- The underlying Service Output Index increased 0.04 points month-on-month to 99.30. Still, it stands 1.64 points down on this time last year.
- Manufacturing, which accounts for a much more modest share of total UK output, grew at a faster rate than services in March. The Manufacturing Output Index climbed 2.06 points month-on-month, to stand at 105.91.
- The UK economy expanded by 0.4% in the fourth quarter of 2017 and 1.8% over the year as a whole. The recent release of finalised official data showed annual GDP growth was revised up slightly from the previous estimate, but still stood 0.1 points below that seen in 2016.
- Services sector output increased by 0.4% overall between Q3 and Q4 2017. This was revised downwards from 0.6% from the second estimate of GDP.
- Production output, of which manufactured goods form a part, also grew by 0.4% quarter-on-quarter in Q4 2017. Manufacturing increased by 1.3% making it the fastest growing subsector.
- Both the indices for manufacturing and services scored higher than their Q4 2017 averages in Q1 2018, suggesting more positive official data are to come.

## BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



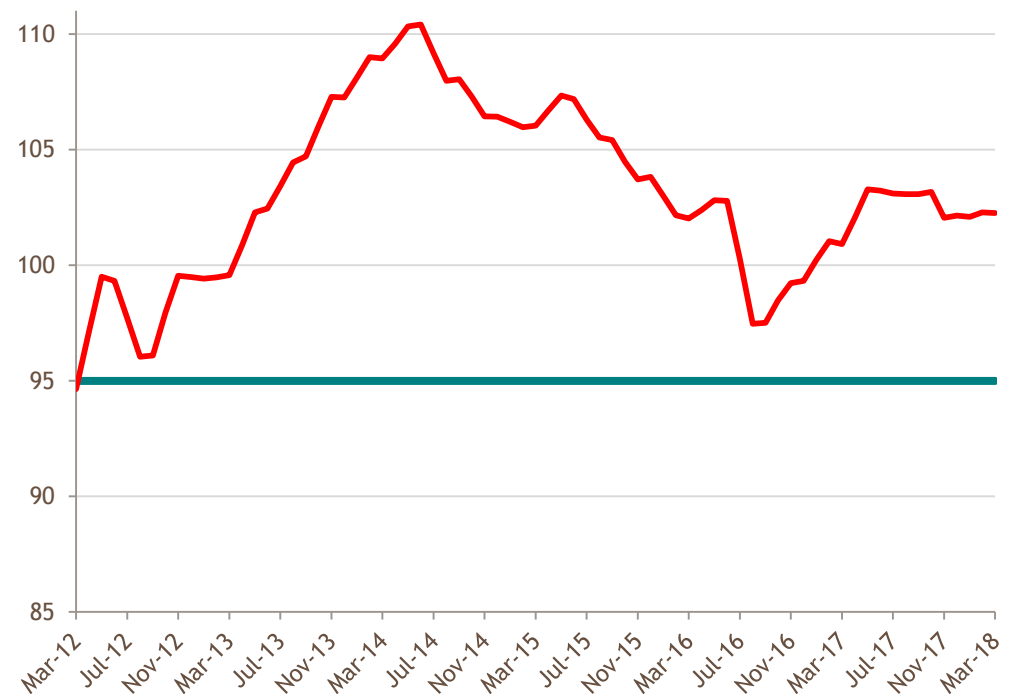
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# MANUFACTURING AND SERVICES OPTIMISM WEAKENS IN MARCH

- The BDO Optimism Index declined a marginal 0.03 points to stand at 102.26 in March. The index, which assesses how optimistic firms are about output three to six months from now, is up 1.34 points on March 2017.
- Confidence worsened across the board compared to February, with a 0.08 decline in the manufacturing measure accompanied by a 0.03 fall in the services measure.
- Despite their marginal declines, both measures remain above their long-run averages. More concerning for output growth in the longer term is that average confidence in Q1 2018 declined quarter-on-quarter.
- Fears of a global trade war spiked after the US administration announced plans to impose taxes on imported steel and aluminium at end of February. China's imposition of up to 25% tariffs on \$3 billion of imports from the US has continued to stoke concerns.
- The moderate size and scope of this retaliation suggests that China is eager to prevent a significant escalation in hostilities. Although the material threat to UK output is relatively low, it has likely contributed to the slight decline in optimism seen in March.

## BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



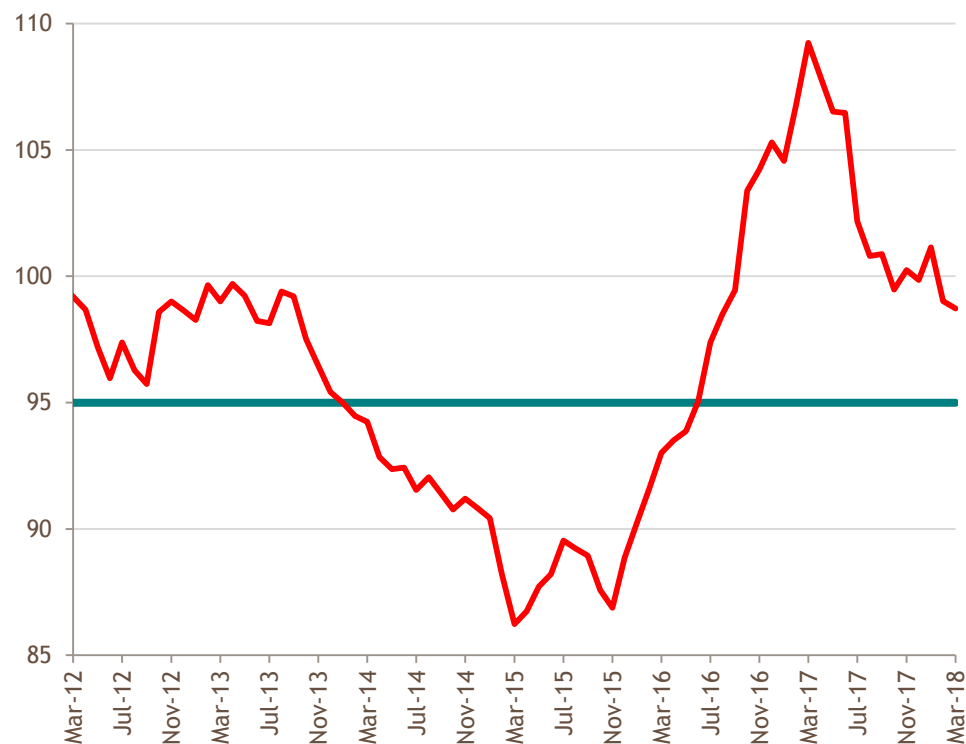
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# INFLATION TO CONTINUE DECELERATING IN MARCH

- The BDO Inflation Index decreased 0.29 points to 98.73 in March.
- The decline was once again primarily driven by the Input Inflation Index, which fell 0.64 points to 96.60. The measure is down 10.51 points on March 2017.
- The Consumer Inflation Index increased slightly this month, rising 0.06 points to 100.86.
- The latest data on consumer prices, released by the Office for National Statistics, show that in February CPIH inflation stood at 2.5% year-on-year. The CPIH rate fell 0.2 percentage points compared to January, giving the strongest indication yet that the effect of the sterling's decline is wearing off.
- The marginal rebound in the index this month suggests that consumer price growth is set to remain broadly unchanged, when official figures are released for March.

## BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



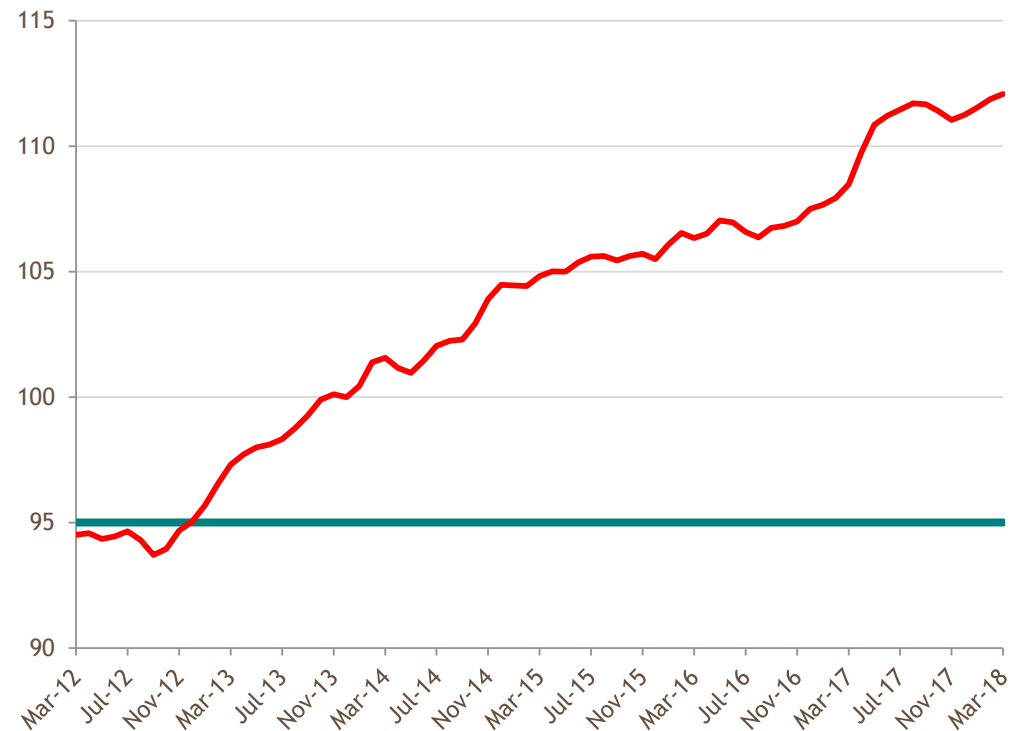
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# EMPLOYMENT INDEX IMPROVES IN MARCH

- In March, the BDO Employment Index climbed for the fourth consecutive month, rising 0.20 points to stand at 112.09.
- The most recent official labour market figures show that in three months to January the employment rate was 75.3%, higher than for a year earlier (74.6%) and the joint highest since comparable records began in 1971.
- Over the period there were 32.25 million people in work, 168,000 more than for August to October 2017 and 402,000 more than for a year earlier.
- The unemployment rate was 4.3%, down from 4.4% in the previous three month period.
- The continued improvement in the Employment Index this month suggests that official employment figures are set to continue strengthening. There may be a limit to the gains, as the high number of vacancies in the UK labour market suggests that many firms are increasingly struggling to find suitable workers.

## 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

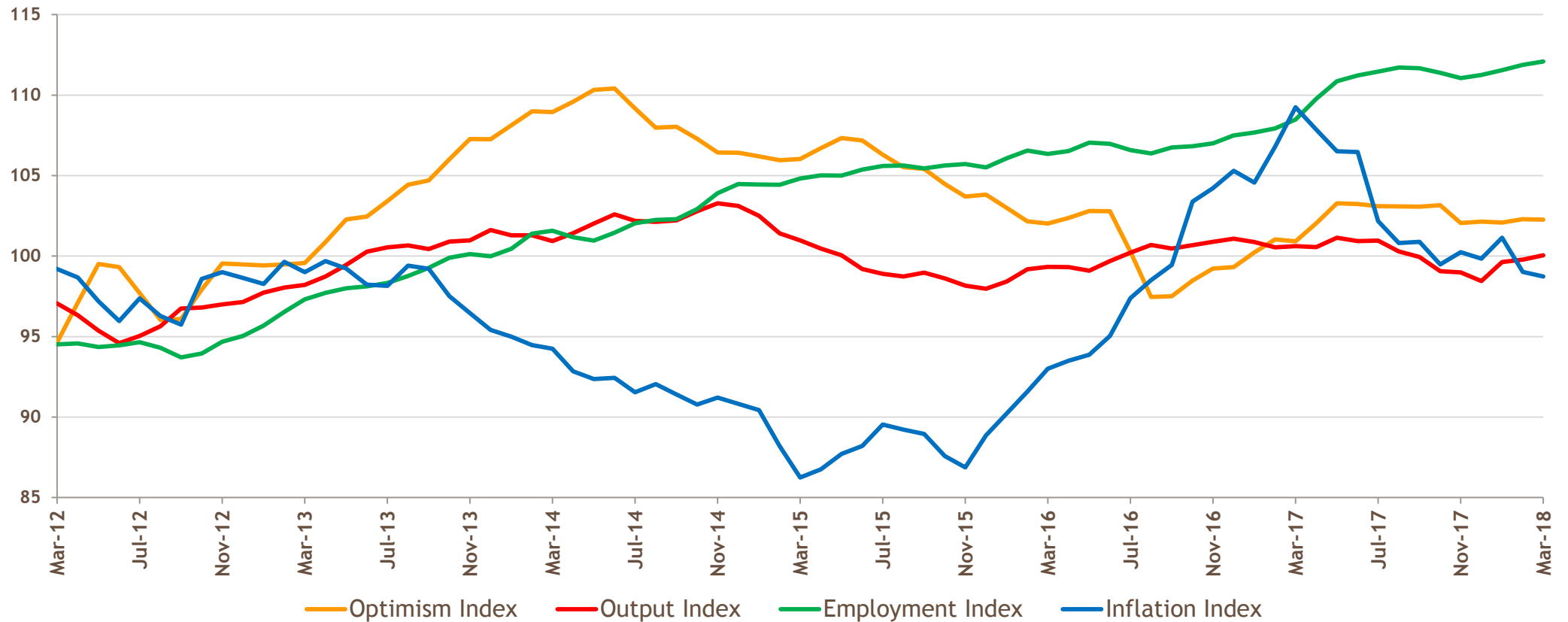
		May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18
The BDO Optimism Index	<b>Total</b>	103.27	103.23	103.10	103.08	103.07	103.17	102.05	102.15	102.09	102.29	102.26
	Manuf.	106.65	106.54	107.67	108.86	108.71	109.57	110.12	110.22	108.51	106.82	106.74
	Service	102.85	102.81	102.52	102.35	102.35	102.36	101.03	101.13	101.27	101.72	101.69
The BDO Output Index	<b>Total</b>	101.14	100.93	100.96	100.29	99.95	99.06	98.99	98.45	99.63	99.78	100.05
	Manuf.	106.21	106.66	105.90	100.28	97.57	97.63	99.33	100.33	100.67	103.85	105.91
	Service	100.50	100.21	100.34	100.29	100.25	99.24	98.95	98.21	99.50	99.26	99.30
The BDO Inflation Index	<b>Total</b>	106.51	106.47	102.17	100.81	100.88	99.48	100.25	99.85	101.15	99.02	98.73
	Input	111.89	111.48	103.49	100.79	100.32	97.78	99.48	98.30	101.22	97.24	96.60
	Consumer	101.14	101.46	100.85	100.83	101.45	101.17	101.02	101.39	101.08	100.80	100.86
The BDO Employment Index	<b>Total</b>	110.86	111.22	111.46	111.72	111.68	111.39	111.06	111.26	111.55	111.89	112.09



# APPENDIX: ONLY THE INFLATION INDEX BELOW TREND IN MARCH

## 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.