



BDO MONTHLY BUSINESS TRENDS INDICES

September 2015

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 September 2015, 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	✓	▲	104.5 in August from 104.4 in July
BDO Optimism Index	✓	▼	101.9 in August from 103.3 in July
BDO Inflation Index	✗	▲	95.9 in August from 95.2 in July
BDO Employment Index	✓	▼	107.9 in August from 108.4 in July

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 rose marginally from 104.4 in July to 104.5 in August. However, there remains a clear division between services and manufacturing. While the manufacturing sub-index remained unchanged at a 12-month low, output in the service sector rose to its highest level in the past year.

The BDO Inflation Index continued to rise in August, reaching 95.9 from 95.2 in July. Following a period of readings below 95, the index now suggests that costs are increasingly, albeit very slowly. This comes despite renewed weakness in the prices of key commodities such as oil. As such, it is likely that rising wage costs are a key factor in the overall increase. Regular earnings growth across the economy stood at 2.8% in the latest official statistics available, well above the levels seen during the same period of 2014.

The BDO Optimism Index fell to its lowest level in 12 months, down to 101.9 in August from 103.3 in July. This was driven by falls in confidence in both the services and manufacturing sectors. However, optimism in the services sector remains above 100, indicating that businesses continue to expect output to expand further in the medium-term.

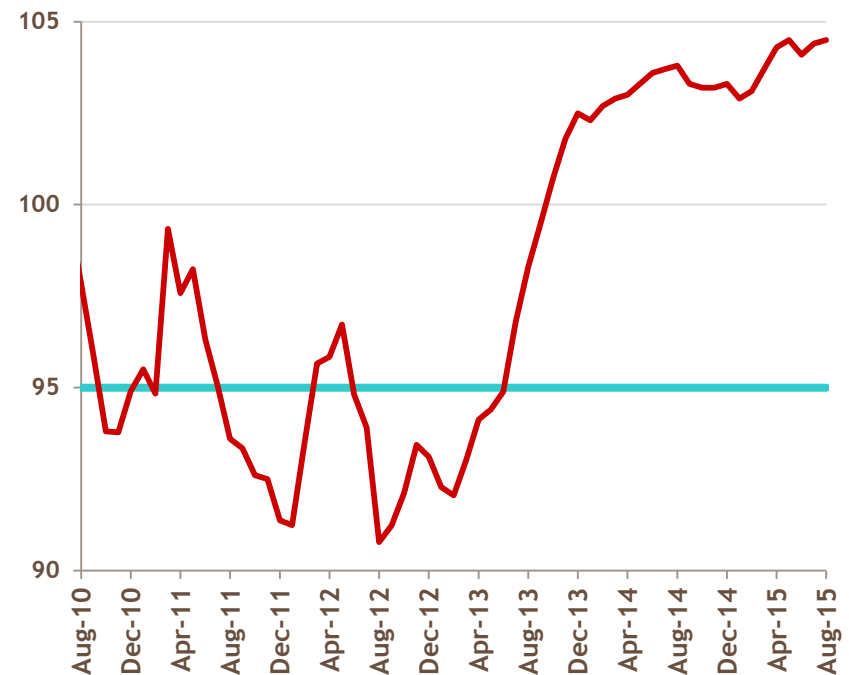
The BDO Employment Index has now experienced six consecutive months of declines, dropping from 108.4 to 107.9 in August. Despite these falls, the index still points to continuing employment growth, just at a slower pace than that seen since the second half of 2014. Increasing difficulty finding workers with appropriate skills may be one factor weighing on the rate of hiring.

OUTPUT INDEX POINTS TO ROBUST GROWTH IN Q3

- The BDO Output Index rose marginally from 104.4 in July to 104.5 in August.
- Having remained broadly steady over the past three months, the index suggests that the UK economy is in for another strong quarter of growth, expanding in Q3 at a similar rate to the 0.7% increase recorded in the second quarter of 2015.
- Household spending power continues to rise, supported by falling prices for essential items and stronger wage growth. This, in combination with high levels of consumer confidence, continues to support domestic demand for both goods and services.
- However, as a result of the continued strength of sterling, further subdued growth in the Eurozone and the economic slowdown in China, overseas demand remains a challenge. This is particularly notable in the manufacturing sector, whose output sub-index remained unchanged in August.

BDO OUTPUT INDEX

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



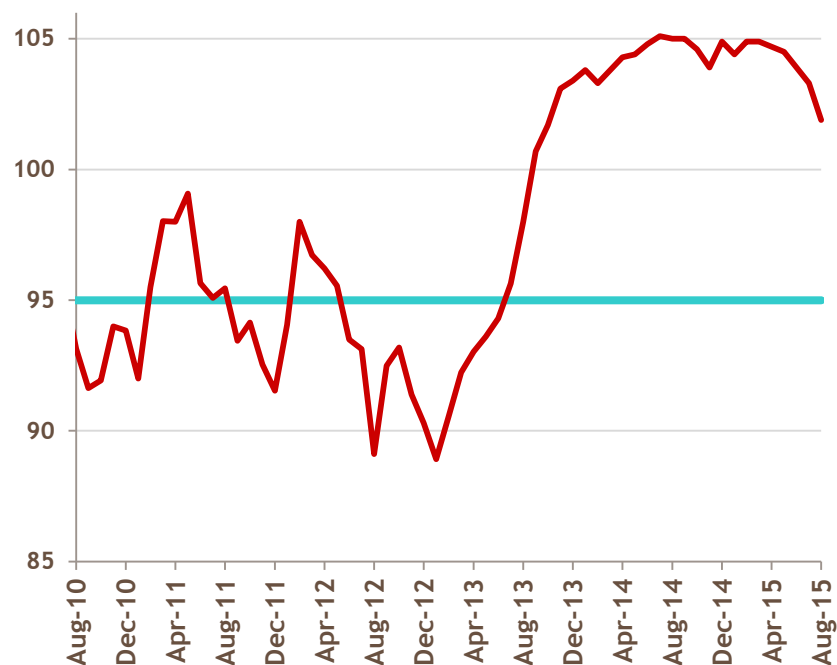
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

GLOBAL CONCERNS WEIGH ON CONFIDENCE ACROSS THE ECONOMY

- The BDO Optimism Index dropped from 103.3 in July to 101.9 in August.
- This represents the fifth consecutive monthly decline in overall confidence levels. However, in contrast to previous months, both the manufacturing and services sub-indices fell.
- Still, the services sub-index, at 105.0, remains well above 100, its long-run average, in sharp contrast with the manufacturing sector. The manufacturing sub-index fell from 93.6 to 86.2 in August. This represents its lowest level since November 2012 and sits well below 95, suggesting that businesses expect a period of contraction over the next six months.
- Concerns are likely heavily centred around the potential spillover effects from the economic slowdown in China. While the UK's exports to China are relatively small, the country is key to the prospects of many other nations. Additionally, weak economic data from China had a notable impact on global stock markets through August.

BDO OPTIMISM INDEX

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



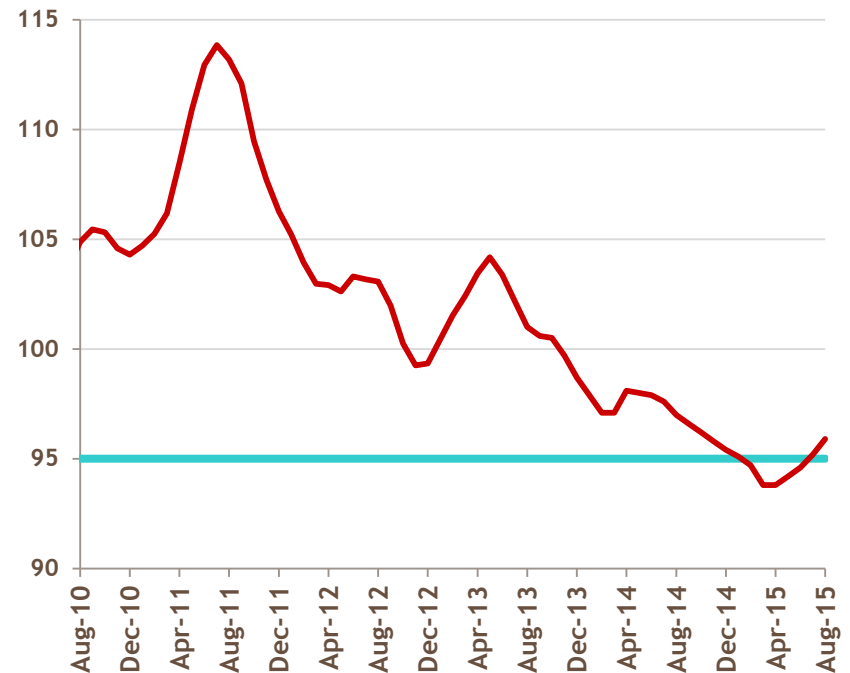
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

COSTS EXPECTED TO CREEP UP IN THE COMING MONTHS

- The BDO Inflation Index rose for the sixth consecutive month, up from 95.2 to 95.9 in August.
- This indicates that firms now expect input prices to very gradually rise over the next few months.
- The uptick comes despite renewed weakness in commodity markets through much of August. Having stood at over \$60 a barrel, the price of Brent crude briefly fell below \$45 a barrel towards the end of August. Further, with the slower global growth and additional output from Iran to add to the glut in 2016, the outlook for oil remains subdued.
- As such, it is clear that an upturn in wage growth is a key factor behind the rising costs. Many firms' largest cost is employee wages. Regular earnings growth stood at 2.8% year-on-year in the three months to June 2015, considerably higher than the 0.7% rise recorded in the same period a year before.

BDO INFLATION INDEX

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



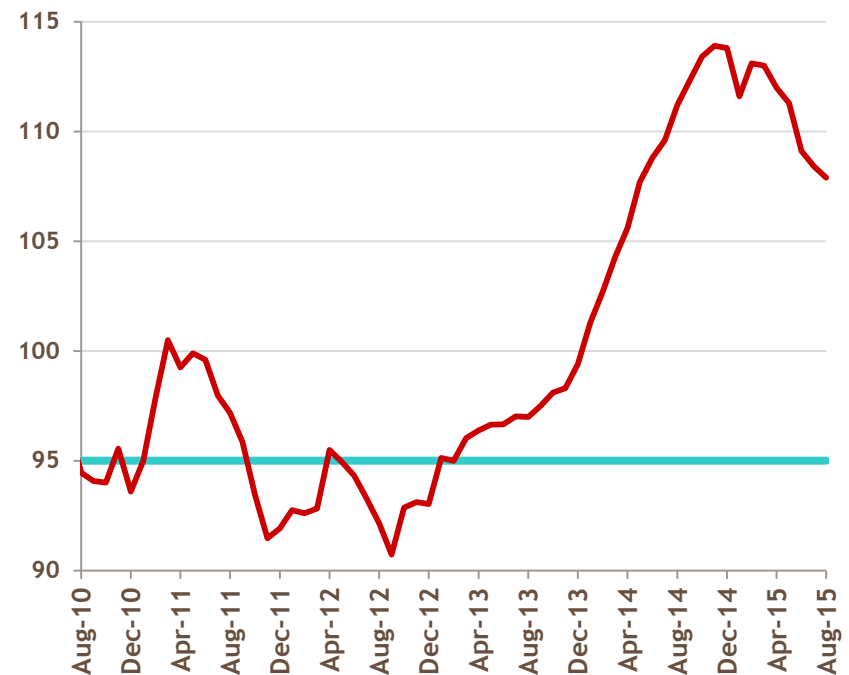
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

HIRING SLOWDOWN CONTINUES BUT EMPLOYMENT GROWTH TO REMAIN ROBUST

- The BDO Employment Index saw its sixth consecutive monthly fall in August, dropping to 107.9 from the 108.4 recorded in July and the lowest reading since May 2014.
- However, while the rate of unemployment rose slightly between the first and second quarter of 2015, the employment index, which remains considerably above its long-run average, suggests that the outlook for the labour market remains positive, with unemployment continuing to decline just at a slower rate.
- While falling levels of optimism may have played a role, the falls in hiring expectations are largely likely to reflect the tighter labour market in the UK. Wages have risen as firms increasingly find it more difficult to find appropriately skilled workers. As a result, hiring additional members of staff is becoming a more costly option and businesses have appropriately adjusted hiring expectations down.

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

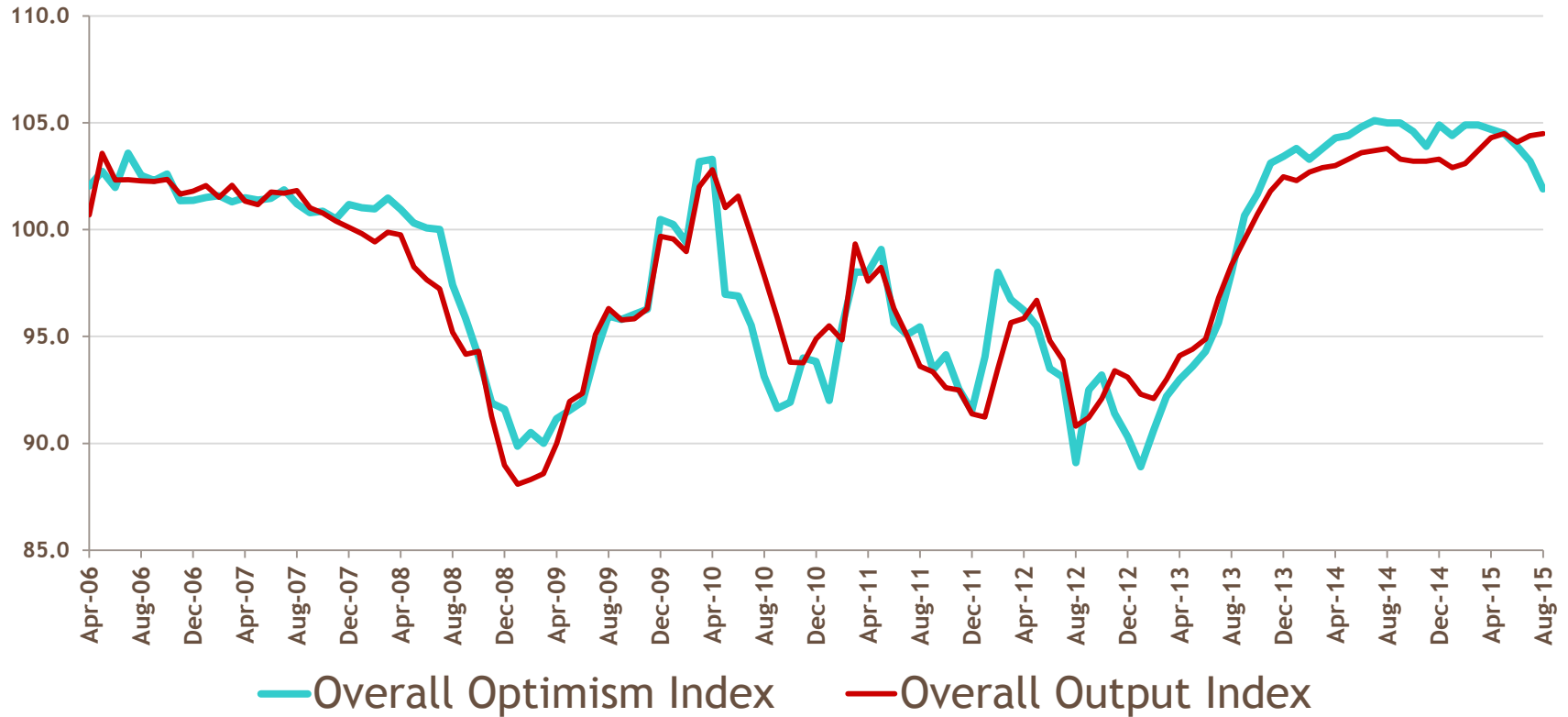
BDO INDICES TO LATEST MONTH

		Aug 2014	Sep 2014	Oct 2014	Nov 2014	Dec 2014	Jan 2015	Feb 2015	Mar 2015	Apr 2015	May 2015	Jun 2015	Jul 2015	Jul 2015
The BDO Optimism Index	Total	105.0	105.0	104.6	103.9	104.9	104.4	104.9	104.9	104.7	104.5	103.9	103.3	101.9
	Manuf.	118.8	117.4	116.1	114.1	113.9	113.0	111.6	109.8	107.4	103.4	98.5	93.5	86.2
	Service	102.3	102.6	102.3	101.9	103.1	102.7	103.6	103.9	104.1	104.7	105.0	105.1	105.0
The BDO Output Index	Total	103.8	103.3	103.2	103.2	103.3	102.9	103.1	103.7	104.3	104.5	104.1	104.4	104.5
	Manuf.	113.2	111.6	110.1	109.1	108.0	107.3	107.1	107.7	108.8	109.0	107.8	106.8	106.8
	Service	102.0	101.7	101.8	102.1	102.4	102.1	102.3	102.9	103.5	103.6	103.4	103.9	104.1
The BDO Inflation Index	Total	97.0	96.6	96.2	95.8	95.4	95.1	94.7	93.8	93.8	94.2	94.6	95.2	95.9
The BDO Employment Index	Total	111.2	112.3	113.4	113.9	113.8	111.6	113.1	113.0	112.0	111.3	109.1	108.4	107.9

APPENDIX 1: OPTIMISM FALLS SHARPLY OVER CONCERNS ABOUT CHINA AND GLOBAL GROWTH

BDO OUTPUT AND OPTIMISM INDICES

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

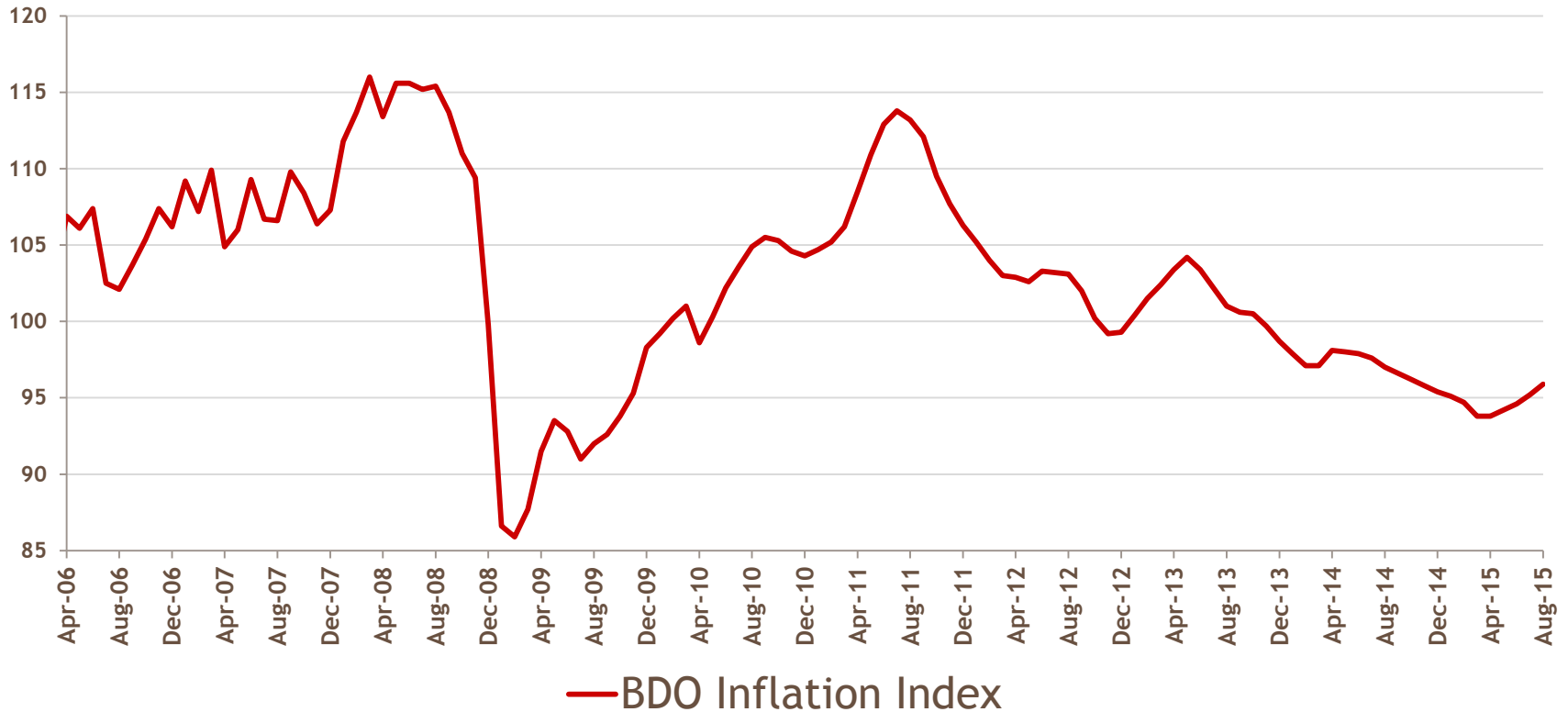


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 2: PRICES RISING BUT AT RELATIVELY STEADY RATES

BDO INFLATION INDEX

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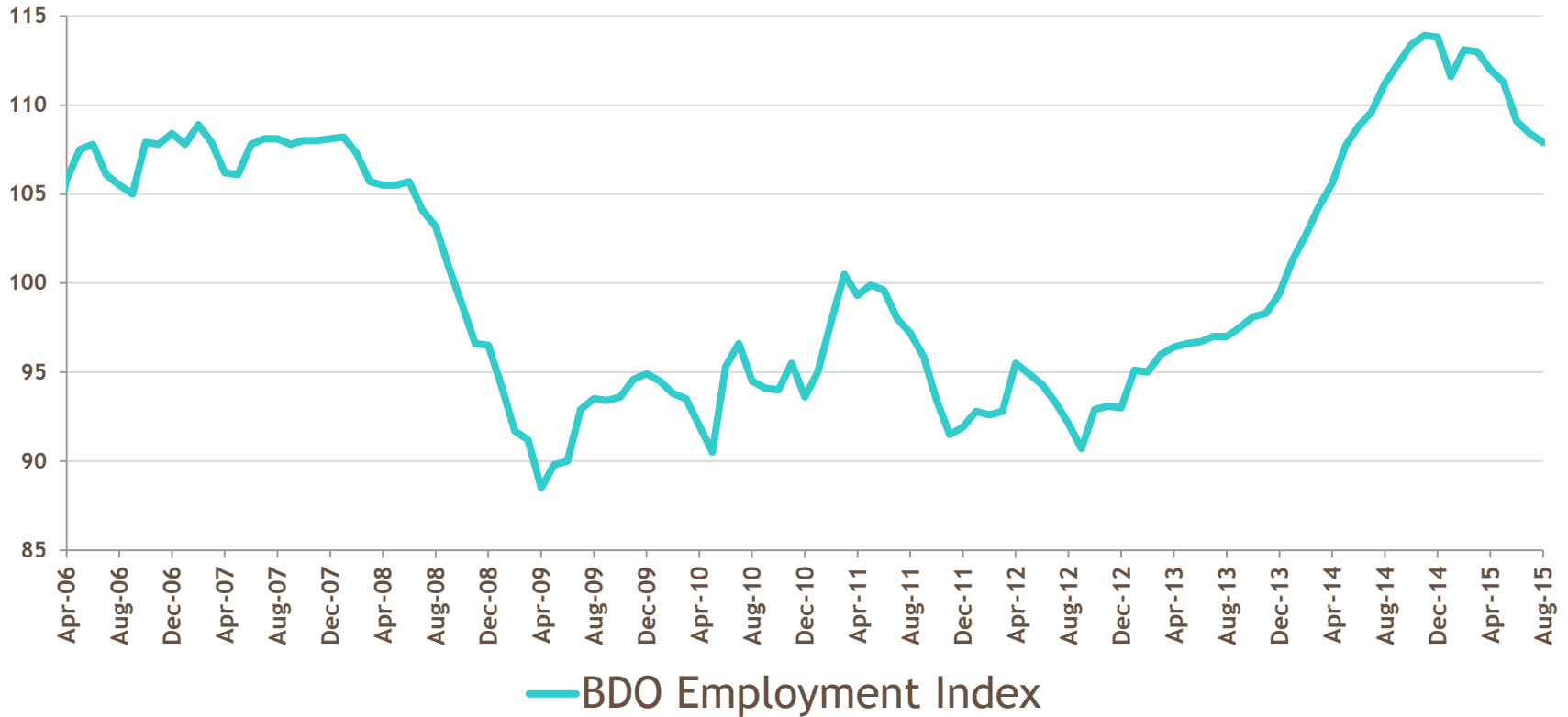


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 3: HIRING EXPECTATIONS SLOW FOR A SIXTH CONSECUTIVE MONTH

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, the average of the past two cyclical peaks as 110 and the average of the past two cyclical troughs as 90.

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.