



BDO MONTHLY BUSINESS TRENDS INDICES

September 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 September 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	xx	▼	97.4 in August from 98.2 in July
BDO Optimism Index	xx	▲	98.7 in August from 97.9 in July
BDO Inflation Index	✓✓	▲	101.4 in August from 99.9 in July
BDO Employment Index	✓	—	100.9 in August from 100.9 in July

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

The BDO Output Index has fallen to 97.4 from 98.2 between July and August. An immediate slide into recession does not look likely, but predictions of slower growth in the aftermath of the shock of the referendum vote appear to be coming to pass. Both services and manufacturing firms reported activity slowing in the latest surveys.

The BDO Inflation Index has moved into territory above its long-term trend, signalling that firms expect faster input price rises in the coming months. Certainly any parts or materials sourced from abroad will go up in price as a consequence of the pound's fall. Commodity prices are also on an upward trend.

The BDO Optimism Index has seen a boost after a sharp downward adjustment post-Brexit, climbing from 97.9 to 98.7 between July and August. It still lies below the long-term trend rate and below pre-Brexit referendum levels, but is holding up better than many had feared around a month ago, in view of the initial hit to confidence.

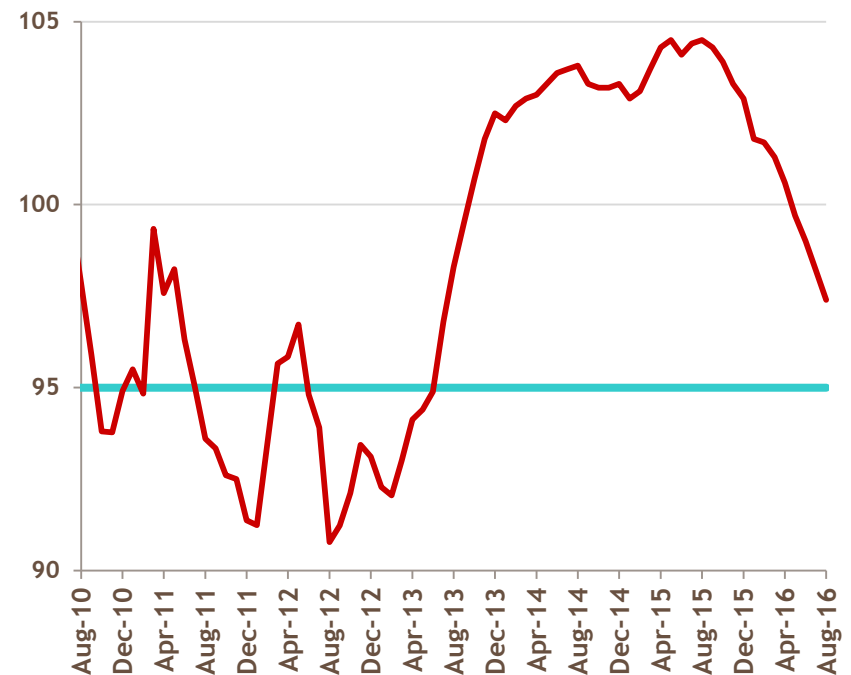
The BDO Employment Index now stands at 100.9, holding steady relative to its July value as the Output and Optimism indices show a greater degree of volatility. This is the Employment Index's lowest level since early 2014.

OUTPUT GROWTH CONTINUES TO SLIDE

- The BDO Output Index has fallen from 98.2 in July to 97.4 in August. This represents short-term expectations for economic activity growth at a lacklustre pace below its long-term average.
- The slowdown that has lasted several months has continued. The BDO Output Index shows a much smoother picture than other indicators, in contrast to some other indicators that showed a sharp dip in July and then a rebound in August.
- By taking an average of different polls, the BDO Output Index find the underlying trend which appears to be smoother than some reports. It appears the Brexit-related shock has been less bad, at least in the short term, than many feared. But the underlying trend of slowing growth is certainly evident.

BDO OUTPUT INDEX

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



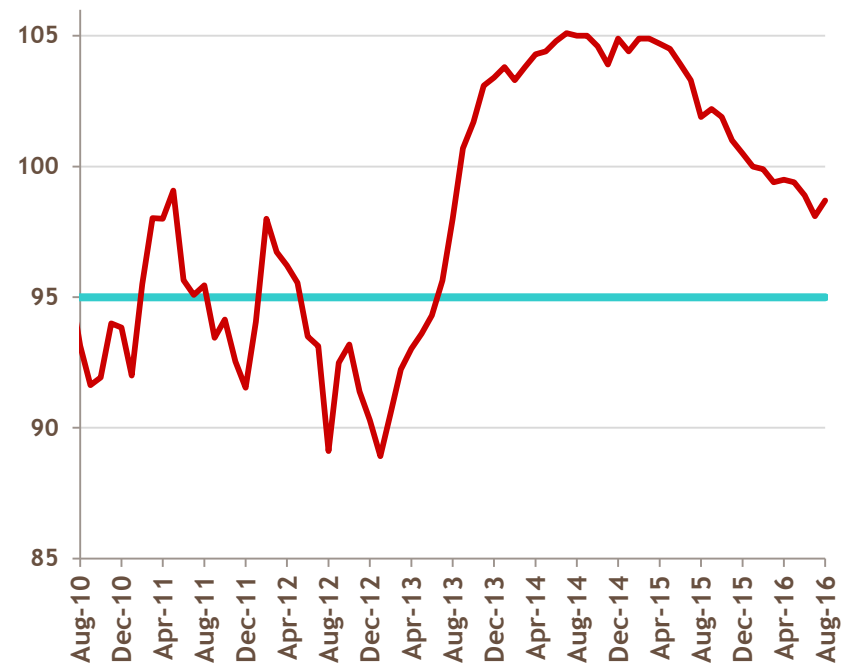
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

FIRMS RECOVER NERVE AFTER SHOCK OF REFERENDUM

- The BDO Optimism Index recovered between June and July to 98.7 from 97.9. Growth is expected over a six-month horizon, but only at a meagre pace.
- Clearly firms felt a wave of pessimism in the immediate aftermath of the vote, but now some have decided that the economy may withstand the shock. However, the index remains below its pre-referendum level.
- Confidence was supported by a timely and assertive response from the Bank of England. It lowered interest rates to a new all-time low of 0.25% and stressed that it was prepared to do more.

BDO OPTIMISM INDEX

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



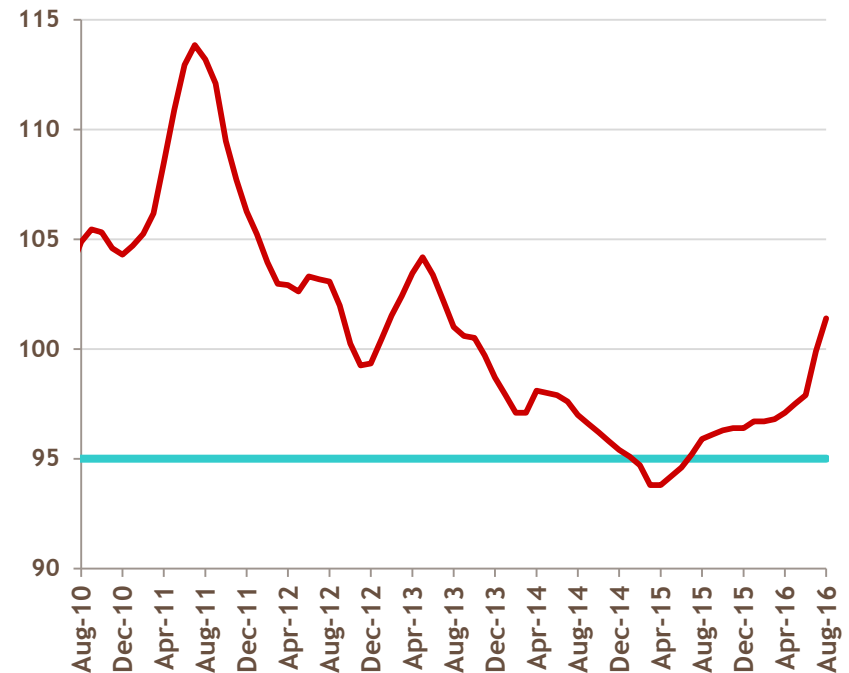
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

PRICE EXPECTATIONS RISING FAST

- Another sharp upward movement in the BDO Inflation Index has moved it, for the first time in almost three years, above the long-term trend level at 101.2.
- There are two main reasons for this. Firstly, the post-Brexit pound has remained at its new lower level. The August average was \$1.31 versus \$1.48 before the referendum, which is yet to push up input prices greatly but will begin to soon.
- Second, the oil price is now around level with where it stood a year ago, rather than lower. When the effects of this feed through, firm input costs will return towards a normal rate of growth. The price of oil is set to continue climbing thanks to a deal to cut production between Saudi Arabia and Russia, two large producers.

BDO INFLATION INDEX

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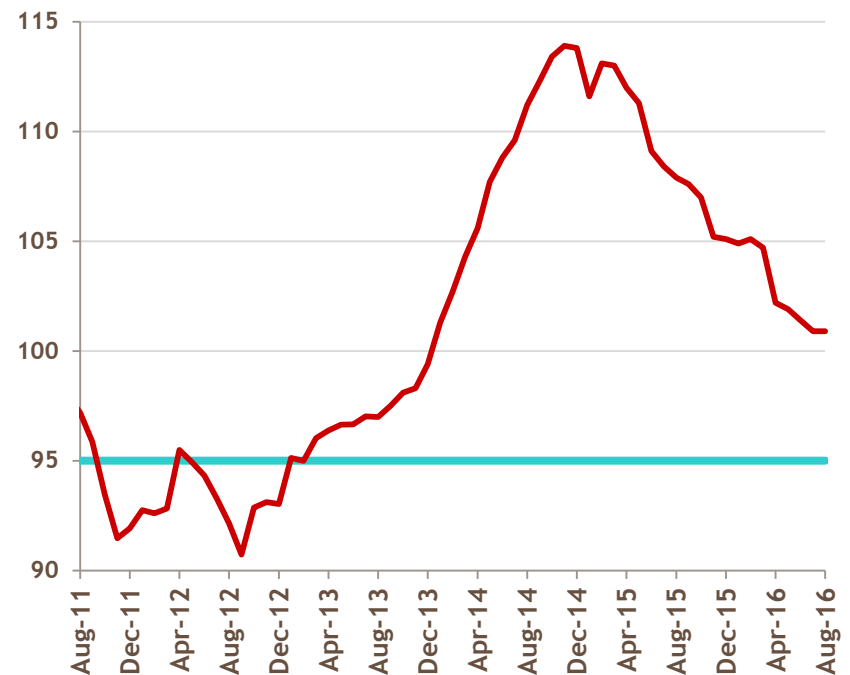
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

JOBS MARKET TREADS WATER AT JULY LEVEL

- The BDO Employment Index has held steady on the month but this appears to be a pause in a longer term declining trend. It stands at 100.9 in August, the same level it held in July, meaning that Employment conditions are slightly better than the long-term trend in the labour market.
- Still, showing how far the labour market has recovered, the July/August figure was the lowest since January 2014, suggesting that job creation is likely to slow further from recent levels.
- This is the first time since the recovery began in earnest that it is not the highest of the four indices, having just been overtaken by the Inflation Index.

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

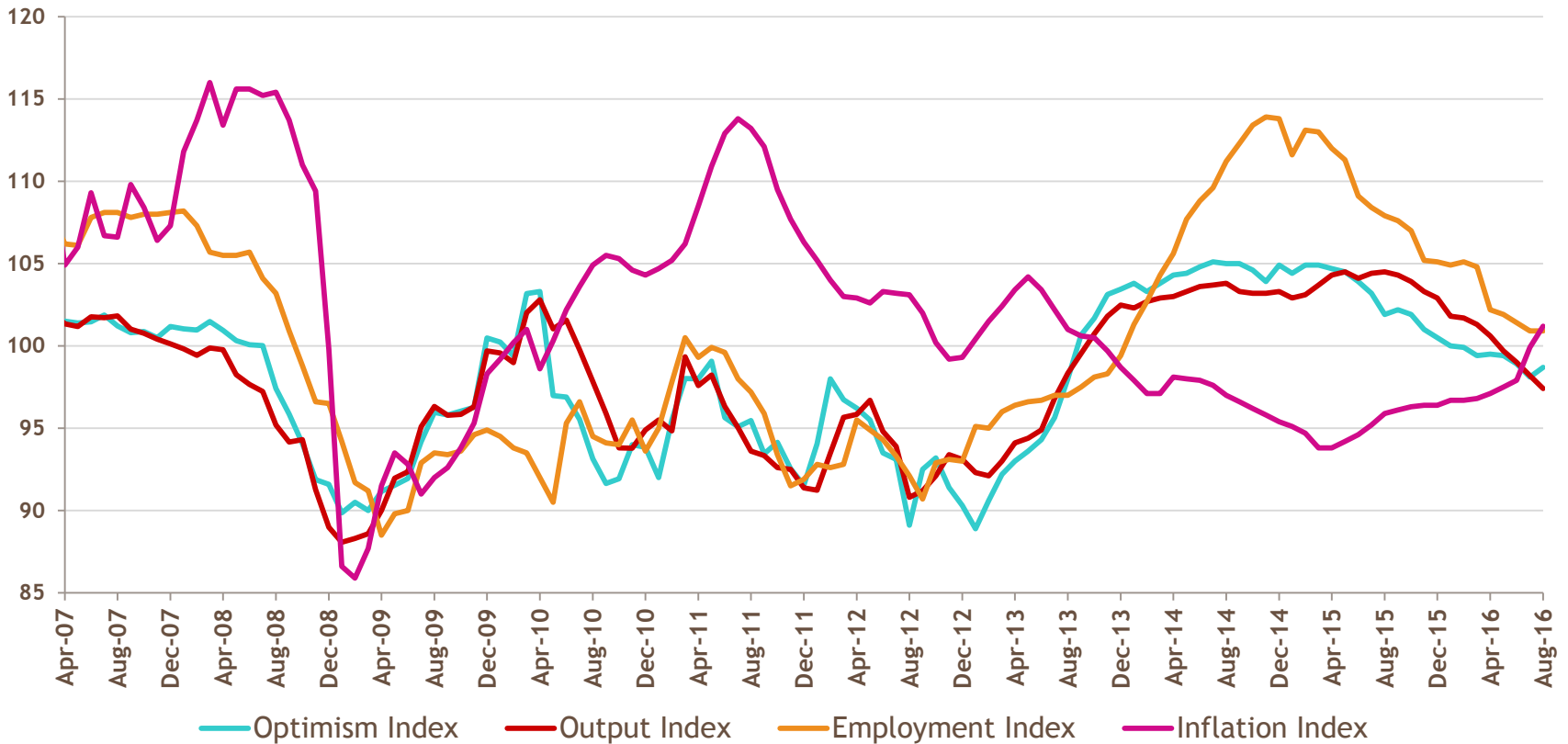
BDO INDICES TO LATEST MONTH

		Aug 2015	Sep 2015	Oct 2015	Nov 2015	Dec 2015	Jan 2016	Feb 2016	Mar 2016	Apr 2016	May 2016	Jun 2016	Jul 2016	Aug 2016
The BDO Optimism Index	Total	101.9	102.2	101.9	101.0	100.5	100.0	99.9	99.4	99.5	99.4	98.9	97.9	98.7
	Manuf.	86.2	89.0	90.2	88.3	89.6	90.2	90.4	87.0	87.3	86.1	83.8	81.0	85.8
	Service	105.0	104.8	104.2	103.5	102.7	101.9	101.7	101.8	101.8	102.0	101.8	101.2	101.2
The BDO Output Index	Total	104.5	104.3	103.9	103.3	102.9	101.8	101.7	101.3	100.6	99.7	99.0	98.2	97.4
	Manuf.	106.8	106.5	103.8	100.5	98.2	94.7	95.0	96.0	94.4	95.9	95.8	95.4	93.9
	Service	104.1	103.9	103.9	103.9	103.8	103.2	103.0	102.3	101.8	100.4	99.7	98.8	98.0
The BDO Inflation Index	Total	95.9	96.1	96.3	96.4	96.4	96.7	96.7	96.8	97.1	97.5	97.9	99.9	101.4
The BDO Employment Index	Total	107.9	107.6	107.0	105.2	105.1	104.9	105.1	104.8	102.2	101.9	101.4	100.9	100.9

APPENDIX 1: BREXIT EXACERBATES AN ALREADY GLOOMY ECONOMIC PICTURE

BDO INDICES

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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.