



# BDO MONTHLY BUSINESS TRENDS INDICES

August 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 August 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	▼	98.2 in July from 99.0 in June
BDO Optimism Index	xx	▼	97.9 in July from 98.9 in June
BDO Inflation Index	x	▲	99.9 in July from 97.9 in June
BDO Employment Index	✓	▼	100.9 in July from 101.4 in June

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 seen a further fall from 99.0 to 98.2, its lowest level since mid-2013. The Output Index measures expectations of activity over the next three months, which are now expected to be lower than the scores seen earlier in 2016 (average 100.7). A downward trend in output has been evident throughout this year and this appears to have become more pronounced following the referendum.

There has been a sharp uptick in inflationary expectations, according to the BDO Inflation Index. The measure has risen from 97.9 to 99.9, just shy of the 100 level which represents the long-run average (about 2% year-on-year growth for producer prices). The sharp devaluation in the pound following the referendum on EU membership should raise cost pressures on firms - imported goods tend to have their prices set internationally, so pound values will rise.

The BDO Optimism Index has seen another slide from 98.9 to 97.9 between June and July. This continues a clear downward trend but one that is not hitting all firms strongly enough to see a crash in confidence. Concern exists in some quarters of the economy alongside relative calm elsewhere.

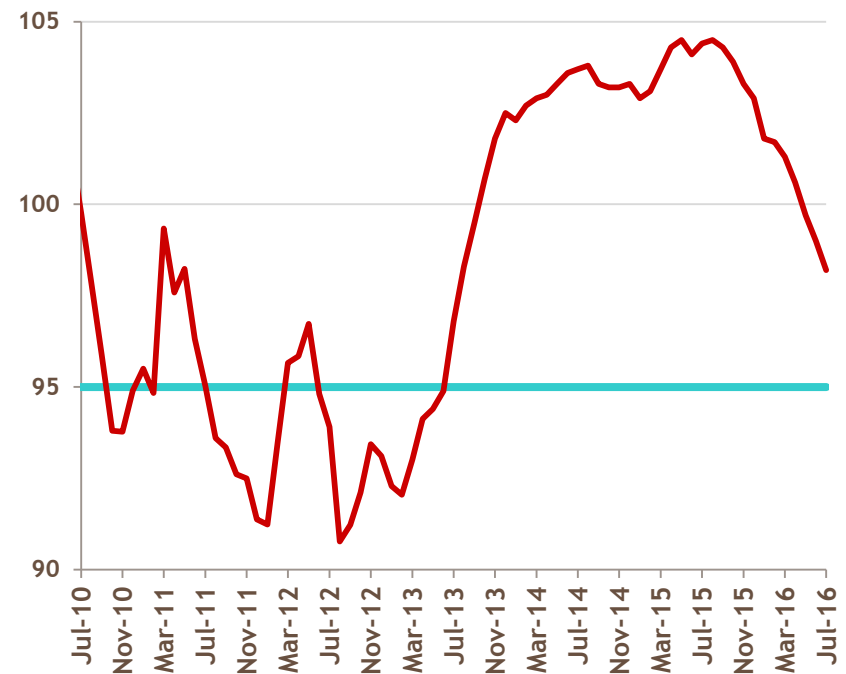
The BDO Employment Index continues to be the best performer. It stands at 100.9 in July compared to 101.4 in June. This is despite anecdotal evidence of a slowing employment market, such as Lloyds Bank's announcements at the end of July of large-scale job losses. It would appear that firms are seeing different impacts, and some are not unduly affected by referendum uncertainty for the time being.

# BREXIT EXACERBATES AN ALREADY GLOOMY ECONOMIC PICTURE

- The BDO Output Index has fallen from 99.0 in June to 98.2 in July, showing activity over the three month horizon is expected to slow to an anaemic pace.
- This is its lowest level since July 2013. However, in July 2013 business confidence was on a bullish upward trend. Three years later sees the trajectory reversed and almost as steep.
- Both manufacturers and services firms have been hit by post-referendum uncertainty, although clearly the slowdown in activity predates this. The manufacturing sub-index has fallen from 95.8 to 95.4, and services from 99.7 to 98.8.
- Office for National Statistics figures for Q2 GDP growth showed strong expansion, especially in manufacturing, during April. This slowed markedly during May and June, and appears to have lost further momentum since the EU membership referendum. Official data are expected to confirm this, but this period will not be available until October.

## BDO OUTPUT INDEX

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



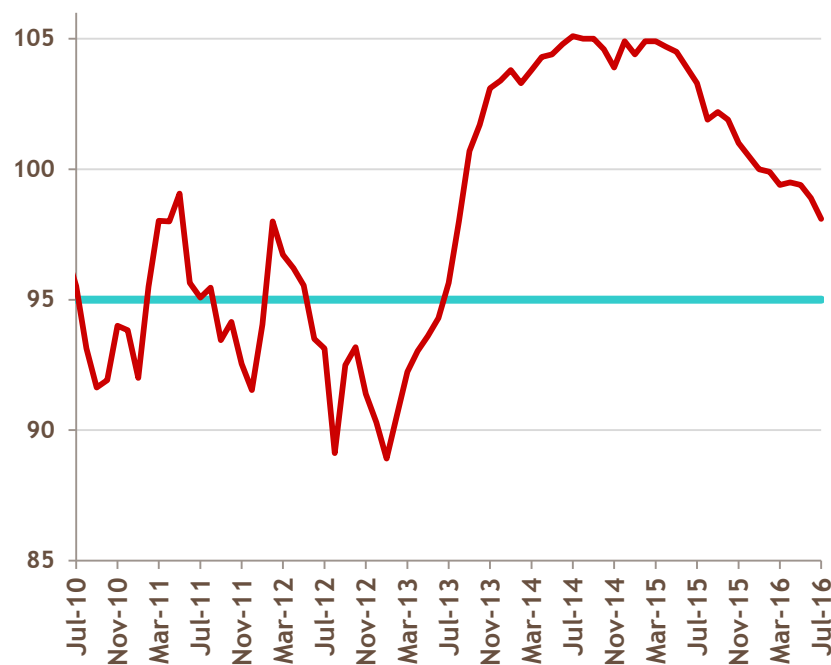
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# FURTHER PAIN FOR EMBATTLED MANUFACTURERS

- The BDO Optimism Index fell between June and July from 98.9 to 97.9.
- While some surveys have dropped sharply into contractionary territory, not all have done. The BDO Business Trends indices are all averages and so tend to be less volatile than individual surveys. The picture suggests that the overall direction of travel for the economy is negative, but with significant sectoral variation.
- Manufacturing, already struggling, saw a further plunge in sentiment. The sub-index fell from 83.8 to 81.0. Inputs driving this included an abysmal reading of 48 on the CBI's industrial trends (manufacturing) measure, the weakest since the depths of the financial crisis in Q1 2009.
- But not all firms are feeling so pessimistic. The Bank of England's agents' summary of business conditions found little change in many firms' current assessment, although most expected some deterioration within a slightly longer horizon.

## BDO OPTIMISM INDEX

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



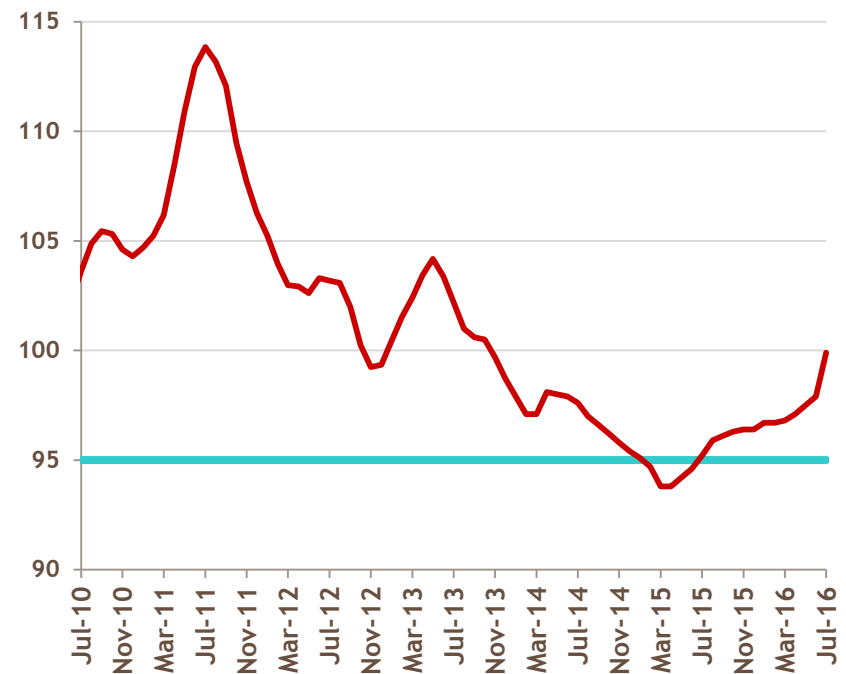
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# SHARP RISE IN PRICE EXPECTATIONS

- The BDO Inflation Index has moved up from 97.9 to 99.9, its highest level since October 2013. While a sharp rise, the index is still just below 100. But firms expect input prices to accelerate soon.
- For example, the Confederation of British Industry's survey of price expectations for the next three months shows firms anticipating the largest increases since mid-2014.
- Surveys by the European Commission's Directorate-General on Economics and Finance (EC DG ECFIN) are some of the other inputs reflected in the Inflation Index.
- The cause of this is a sharp depreciation of the pound that followed the EU referendum. This was to some extent a correction of an existing overvaluation and to some extent reflects the possibility of recession/slowdown in the UK economy. Both factors remain present, and so the prices of imported goods will also undergo a sharp correction at some point in the near future.

## BDO INFLATION INDEX

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



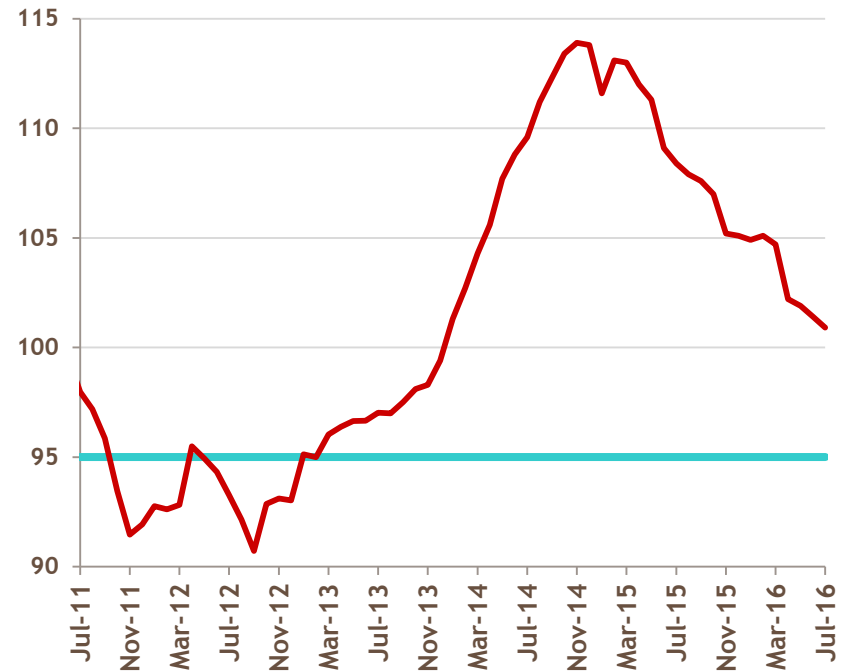
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# FURTHER GRADUAL SLOWDOWN IN HIRING

- The BDO Employment Index is holding up relatively well compared to the others. From 101.4 in June it has slipped to 100.9 in July.
- This keeps it in better shape than the overall economy.
- But like the other Business Trends indices, it is on a downward path. This pattern predates the EU referendum.
- This contrasts with some recent anecdotal evidence from the jobs market. For example, Lloyds Bank recently announced the loss of 3,000 jobs over the coming year. However, as with output and optimism, sectoral variation is significant. Banking is in a particularly precarious state at present, and not only due to Brexit - some of the cuts reflect technological change such as more people banking using smartphone apps.

## 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

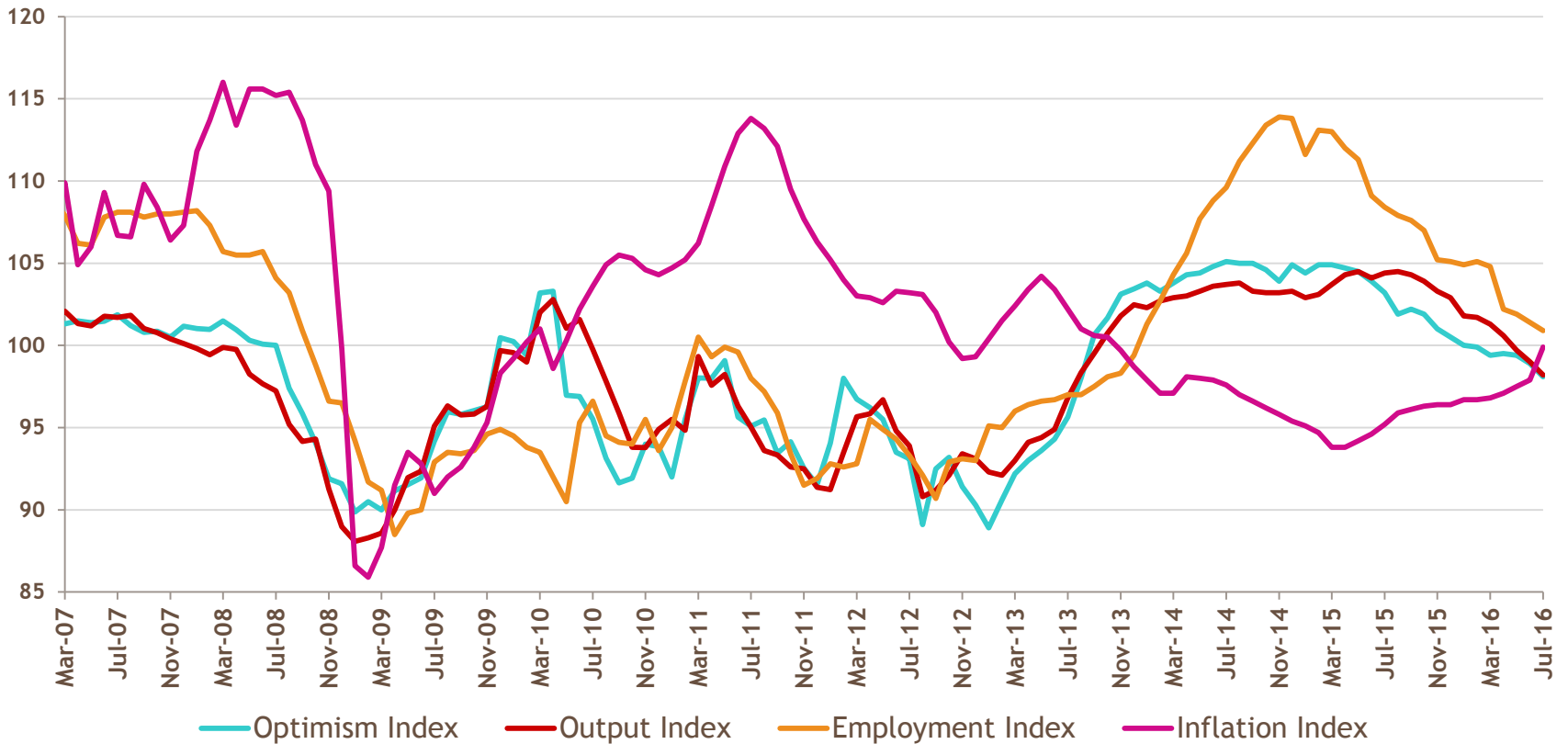
		Jul 2015	Aug 2015	Sep 2015	Oct 2015	Nov 2015	Dec 2015	Jan 2016	Feb 2016	Mar 2016	Apr 2016	May 2016	June 2016	July 2016
The BDO Optimism Index	<b>Total</b>	103.3	101.9	102.2	101.9	101.0	100.5	100.0	99.9	99.4	99.5	99.4	98.9	97.9
	Manuf.	93.5	86.2	89.0	90.2	88.3	89.6	90.2	90.4	87.0	87.3	86.1	83.8	81.0
	Service	105.1	105.0	104.8	104.2	103.5	102.7	101.9	101.7	101.8	101.8	102.0	101.8	101.2
The BDO Output Index	<b>Total</b>	104.4	104.5	104.3	103.9	103.3	102.9	101.8	101.7	101.3	100.6	99.7	99.0	98.2
	Manuf.	106.8	106.8	106.5	103.8	100.5	98.2	94.7	95.0	96.0	94.4	95.9	95.8	95.4
	Service	103.9	104.1	103.9	103.9	103.9	103.8	103.2	103.0	102.3	101.8	100.4	99.7	98.8
The BDO Inflation Index	<b>Total</b>	95.2	95.9	96.1	96.3	96.4	96.4	96.7	96.7	96.8	97.1	97.5	97.9	99.9
The BDO Employment Index	<b>Total</b>	108.4	107.9	107.6	107.0	105.2	105.1	104.9	105.1	104.8	102.2	101.9	101.4	100.9



# APPENDIX 1: BREXIT EXACERBATES AN ALREADY GLOOMY ECONOMIC PICTURE

## BDO 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

# FOR FURTHER DETAILS

## PETER HEMINGTON

BDO LLP,  
55 Baker Street, London W1M 1DA  
telephone: 020 7486 5888  
fax: 020 7487 3686  
email: [peter.hemington@bdo.co.uk](mailto:peter.hemington@bdo.co.uk)

## ALASDAIR CAVALLA

Centre for Economics and Business Research,  
Unit 1, 4 Bath Street,  
London EC1V 9DX

telephone: 020 7324 2850

email:  
[acavalla@cebr.com](mailto:acavalla@cebr.com)  
web: [www.cebr.com](http://www.cebr.com)

# 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.