

▶ A NEW ECONOMY
PUBLICATION

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

May 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 June 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	✘	▼	98.58 in May from 99.97 in April
BDO Optimism Index	✓	▼	101.74 in May from 102.49 in April
BDO Inflation Index	✘	▲	98.70 in May from 97.51 in April
BDO Employment Index	✓	▼	111.81 in May from 112.29 in April

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

KEY FINDINGS

In May, the BDO Output Index declined sharply to stand at 98.58, indicating that output growth in the UK's two largest sectors grew more slowly than average.

Both measures declined this month, but the largest drag on the headline index came from the services sector which registered its lowest reading since October 2012.

May's disappointing score follows poor first quarter growth figures for the UK economy. Consumer spending growth slowed, held back by high household indebtedness and adverse weather. Business investment also fell, and overall the economy grew just 0.1% over the first quarter.

The BDO Optimism Index declined in May. While the services sector sub-measure declined, the manufacturing index increased to its highest level since December. While making up around 11% of economic activity in the UK, the export-oriented nature of the sector means that it accounts for 44% of total UK exports. Thus, the pick up in optimism, when taken alongside recent data on air freight, suggest that despite recent geopolitical tumult trade has been resilient in May.

The BDO Inflation Index increased 1.19 points in May, driven by higher global oil prices. The largest upward contribution came from the input inflation measure but the consumer inflation measure also increased. The higher oil prices follow OPEC production deals to constrain supply and are expected to continue to put upward pressure on inflation in coming months.

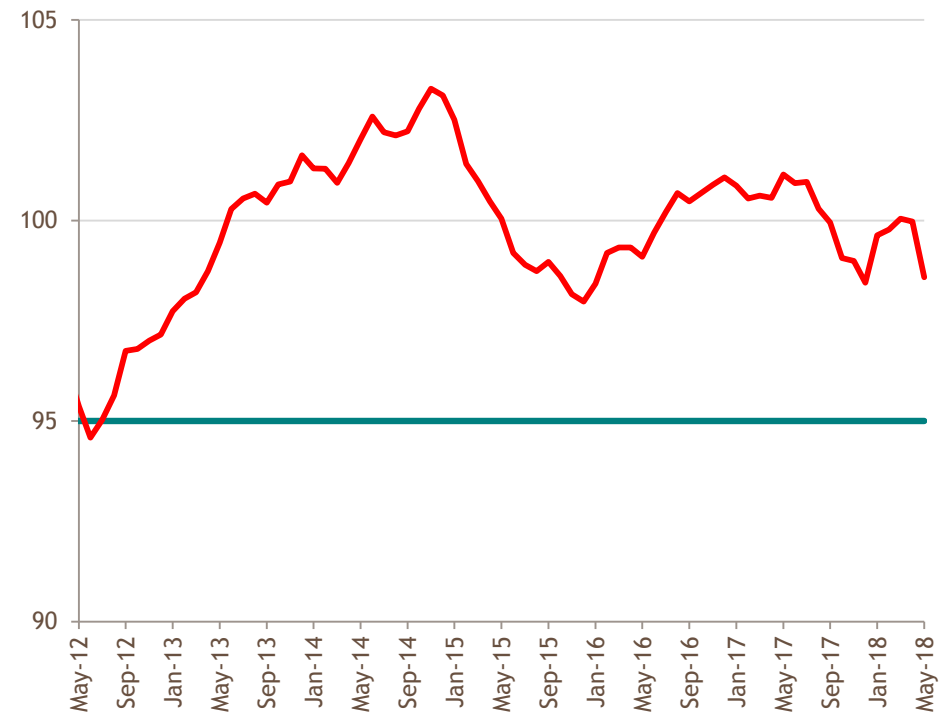
The BDO Employment Index declined for the first time in six months in May. Despite the modest decline the measure remains above the level seen this time last year. The latest official labour market statistics also suggest that labour demand remains strong, with vacancy numbers near record levels.

OUTPUT INDEX DECLINES SHARPLY

- The BDO Output Index fell 1.39 points to 98.58, suggesting that output growth was below the UK's long run average growth in May.
- Both underlying measures declined this month, meaning the index is at its lowest value since December 2017, when it stood at 98.45.
- The Manufacturing Output Index stood at 103.94 in May, indicating that output in the sector continues to grow at a faster rate than it has over the long run. The same was not true for the UK's dominant service sector that registered an index score of 97.90 in May.
- The Office for National Statistics' second GDP estimate confirmed that the economy expanded 0.1% quarter-on-quarter in Q1 2018.
- The quarterly growth rate of consumer spending fell from 0.3% in Q4 2017 to 0.2% in Q1 2018, while business investment contracted by 0.2% - the worst performance since Q3 2015.
- Given the substantial slowdown in GDP growth, the Bank of England is expected to take a more dovish stance than previously indicated, meaning that just one rate rise, no earlier than August, is anticipated this year.
- Retail sales growth and PMI figures have also underwhelmed in recent months.
- This month's output indices add to the evidence that the UK economy is struggling to pick up the pace of growth in Q2.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



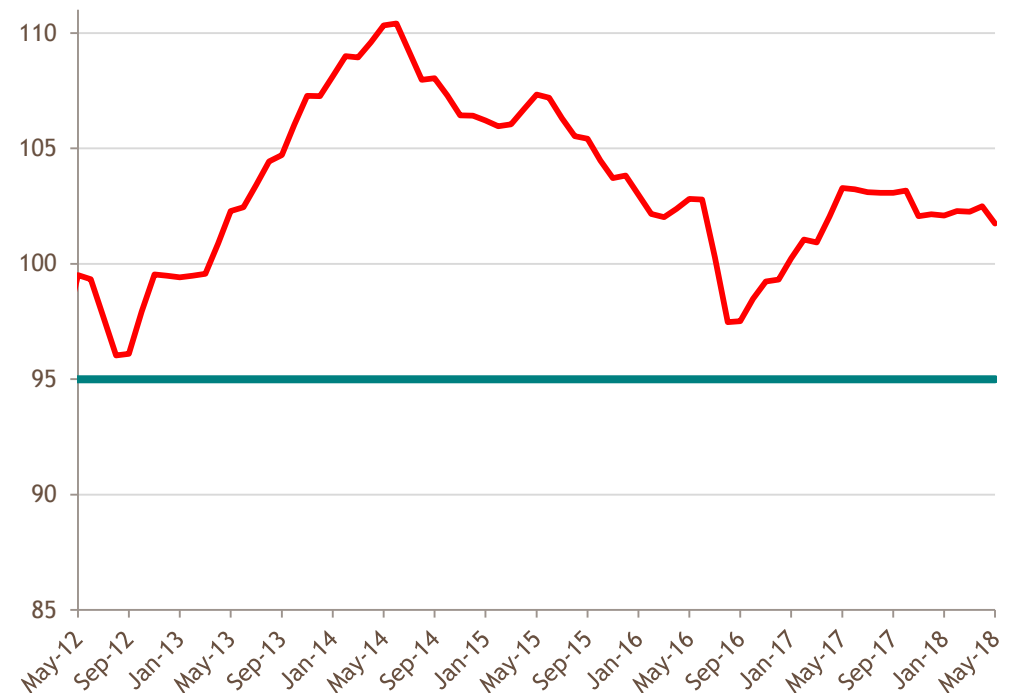
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

CONFIDENCE DECLINES TO ITS LOWEST VALUE IN 14 MONTHS

- The BDO Optimism Index declined 0.75 points to stand at 101.74 in May - its lowest value since March 2017. At 100.80 the services index also recorded its lowest value over the same period.
- The index, which assesses how optimistic firms are about output three to six months from now, suggests weaker growth is ahead for the UK services sector.
- The manufacturing index picked up 1.26 points to stand at 109.18. The last time confidence in the industry was higher was in December 2017, when strong demand growth in the Eurozone and US economies were supporting world trade.
- Since then trade growth has slowed. Still, there have been signs of a recovery more recently. IATA's data on global air freight show that growth picked up in April and more than doubled when only European airlines are considered.
- Still, the heightened trade tensions, which culminated in the imposition of trade barriers by the US on key allies will likely disrupt trade growth going forward.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



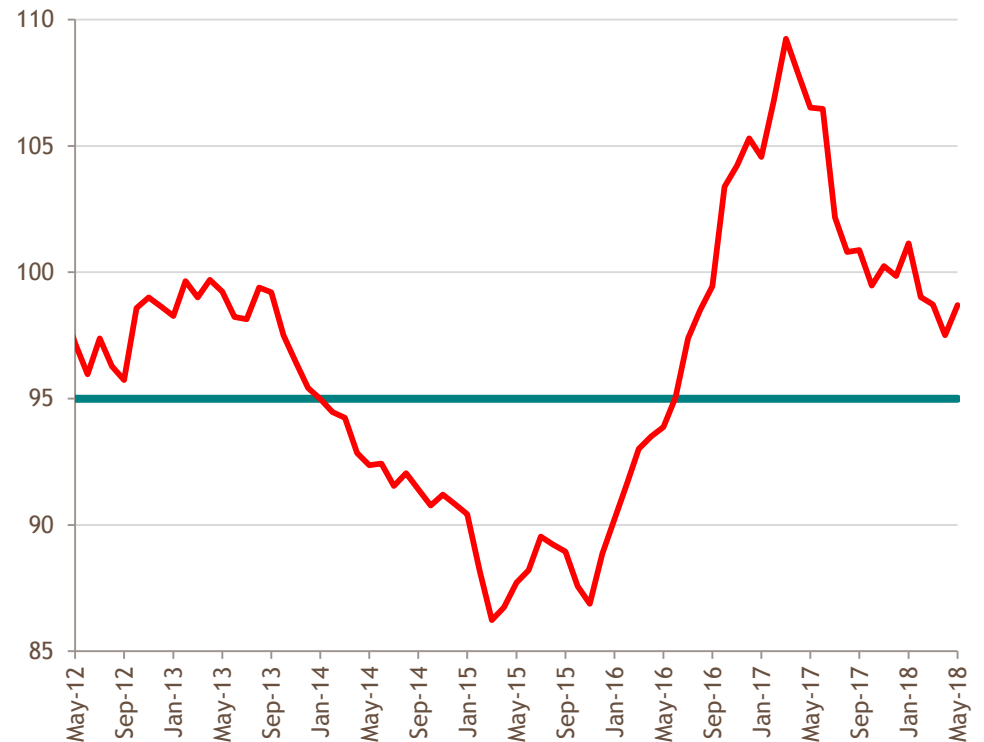
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

OIL PRICES DRIVE UP INFLATION IN MAY

- The BDO Inflation Index rebounded in May, increasing 1.19 points to 98.70.
- The largest upward contribution came from the input inflation measure, which climbed 2.27 points compared to April. Still, after declining for nine of the last 12 months, the index remains 14.59 points below its value in May last year.
- The consumer inflation measure increased 0.10 points this month to stand at 100.09.
- In late May, Brent oil topped \$80 per barrel, something which hasn't happened since November 2014.
- The price increase follows various OPEC production deals and geopolitical issues. A rebound in the oil price can drive up the cost of energy for households, but also impacts the costs of other products via higher transport costs.
- Petrol prices, as tracked by the RAC, the automotive services company, rose 6p a litre in May - the largest monthly rise since tracking began 18 years ago.
- The rise in both measures of inflation suggests coming official releases will show an acceleration in inflation, which threatens to return real wage growth to negative territory.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



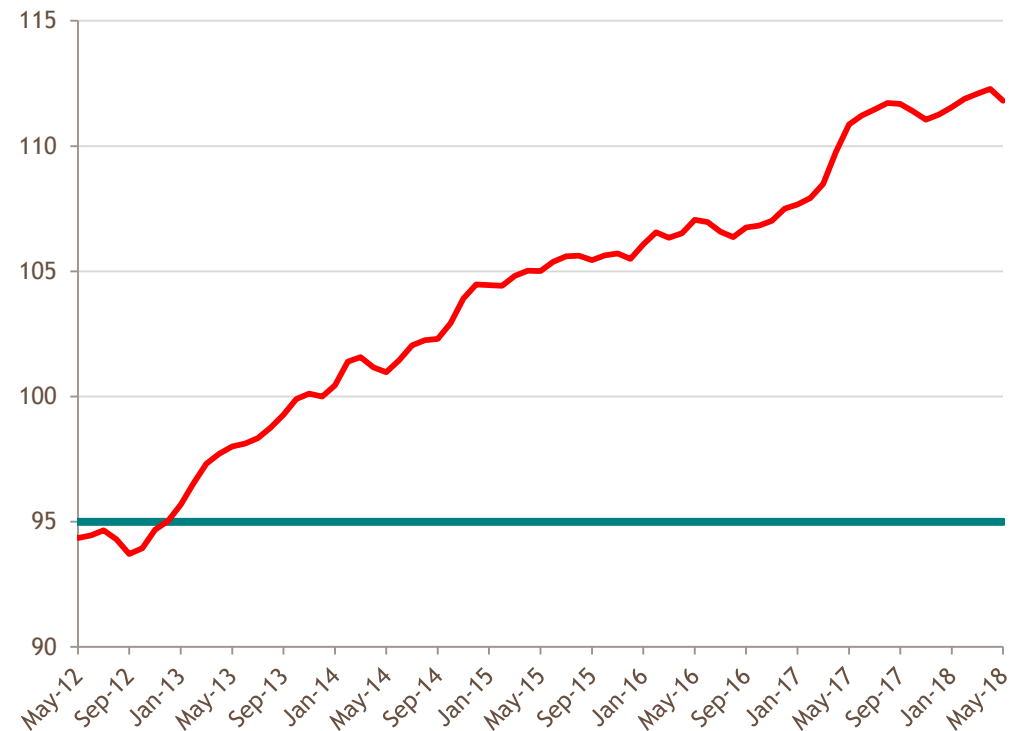
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

LABOUR MARKET COOLS FROM RECENT HIGH

- In May, the BDO Employment Index dipped for the first time in six months, falling 0.48 points to stand at 111.81.
- The index remains above its May 2017 reading as the labour market has gone from strength to strength since then.
- Indeed, the latest figures on the UK labour market, released by the Office for National Statistics (ONS), show that the rate of unemployment was 4.2% in the three months to March, the joint lowest rate since 1975. This is down from 4.6% in the same period in 2017.
- Similarly, the employment rate, i.e. the share of people aged 16-64 who are in work, was up to 75.6% the highest rate since records began in 1971. In total there were 32.34 million people in work, 197,000 more than for October to December 2017 and 396,000 more than a year earlier.
- There were 806,000 vacancies in the three months to April, 16,000 less than the record level observed in the three months to December but still indicative of strong demand for labour.
- The highest vacancy rates were in the accommodation and food service sector, which had 3.9 vacancies per 100 filled employee jobs, 1.2 more than the average UK rate.

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

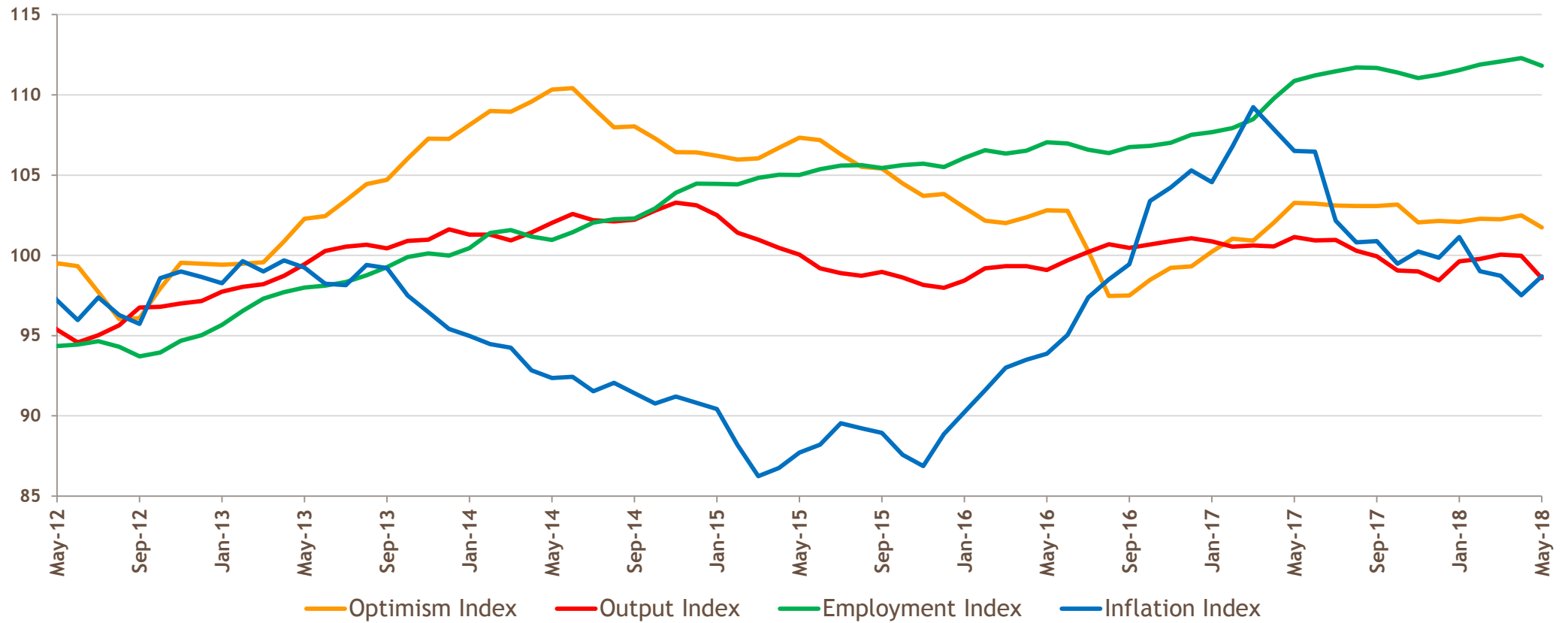
BDO INDICES TO LATEST MONTH

		Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
The BDO Optimism Index	Total	103.08	103.07	103.17	102.05	102.15	102.09	102.29	102.26	102.49	101.74
	Manuf.	108.86	108.71	109.57	110.12	110.22	108.51	106.82	106.74	107.92	109.18
	Service	102.35	102.35	102.36	101.03	101.13	101.27	101.72	101.69	101.81	100.80
The BDO Output Index	Total	100.29	99.95	99.06	98.99	98.45	99.63	99.78	100.05	99.97	98.58
	Manuf.	100.28	97.57	97.63	99.33	100.33	100.67	103.85	105.91	105.59	103.94
	Service	100.29	100.25	99.24	98.95	98.21	99.50	99.26	99.30	99.26	97.90
The BDO Inflation Index	Total	100.81	100.88	99.48	100.25	99.85	101.15	99.02	98.73	97.51	98.70
	Input	100.79	100.32	97.78	99.48	98.30	101.22	97.24	96.60	95.03	97.30
	Consumer	100.83	101.45	101.17	101.02	101.39	101.08	100.80	100.86	99.99	100.09
The BDO Employment Index	Total	111.72	111.68	111.39	111.06	111.26	111.55	111.89	112.09	112.29	111.81

APPENDIX: OUTPUT AND OPTIMISM DECLINE

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

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

CHRISTIAN JACCARINI

Centre for Economics and Business Research

Unit 1, 4 Bath Street,

London EC1V 9DX

telephone: 020 7324 2865

email: cjaccarini@cebr.com

web: 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.