

▶ A NEW ECONOMY
PUBLICATION

A red watering can is positioned in the upper left quadrant, tilted towards the right. 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

July 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 August 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	xx	▼	95.34 in July from 97.29 in June
BDO Optimism Index	✓	▲	101.96 in July from 101.85 in June
BDO Inflation Index	✓	▲	100.82 in July from 99.11 in June
BDO Employment Index	✓	▲	113.55 in July from 112.85 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

In July, the BDO Output Index declined sharply for the second consecutive month, indicating that economic growth in the UK's two largest sectors continued to slow. The measure fell 1.95 points to stand at 95.35 in July.

Both underlying measures fell, meaning that the output index is at its lowest point in six years. The Services Output Index declined most sharply and fell past the point of contraction, suggesting that output in the service sector shrank in July. As the UK's largest sector this paints a negative picture for the economic outlook.

More positively, the BDO Optimism Index increased slightly, meaning the index remained above its long run average rate. July saw Brexit related uncertainty persist but towards the end of the month there was more positive news for UK-US trade. US President Trump met with European Commission President Juncker and both parties committed to reduce tariffs and non-tariff barriers on a range of industrial goods (excluding the automotive sector). This stems the increasing tension between the EU and the US has which has added to uncertainty and has likely led to delayed investment decisions. However, with tariffs for industrial products off the table and the prospect of those for automotive exports reduced, the export outlook improved in July for some of the UK's key export industries.

The BDO Inflation Index increased for the third consecutive month, climbing 1.71 points to 100.82 in July. High global oil prices have kept up pressure on consumer and input inflation in recent months and are expected to continue to do so going forward.

Despite the high price of oil, consumer price inflation has been lower than anticipated in recent months. With the BDO Consumer Inflation Index declining this month, it seems likely that coming official data will reveal that inflation softened further in July.

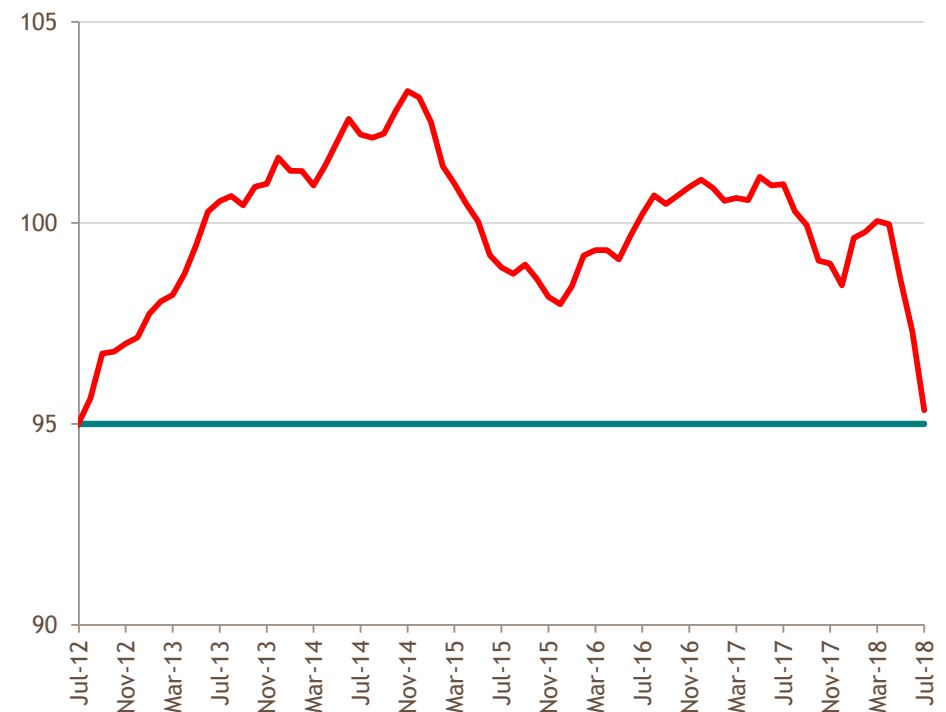
The BDO Employment Index hit a new high in July, climbing to 113.55. Recent official figures have shown that employment has continued to strengthen, reaching new a new record high in the three months to May. The continued climb of the BDO Employment Index suggests that improvements in the official employment statistics are set to continue.

OUTPUT GROWTH BARELY POSITIVE IN JULY

- The BDO Output Index declined 1.95 points to stand at 95.35 in July. This suggests that growth in the output of the UK's two largest sectors was only slightly positive in July.
- The output index was last lower six years ago, in July 2012.
- Both underlying measures declined this month, meaning the index stands 5.62 points down on July 2017.
- The Services Output Index declined most sharply, falling 2.12 points to 94.73 in July. As this is now just below 95 it suggests that output in the UK's key services sector declined marginally.
- The Office for National Statistics' recently released estimate of monthly GDP revealed that the UK economy expanded by 0.3% in May, driven by growth in the service sector at the same rate. This is down slightly on the 0.4% growth registered by the service sector in April.
- This month's BDO Services Output Index suggests that growth in the service sector has continued to decline since, and fell into negative territory in July.
- The BDO Manufacturing Output Index also fell, and now stands 0.66 points below June levels. The measure stayed above the long term trend at 100.16 though, indicating that manufacturing output growth remains healthy.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



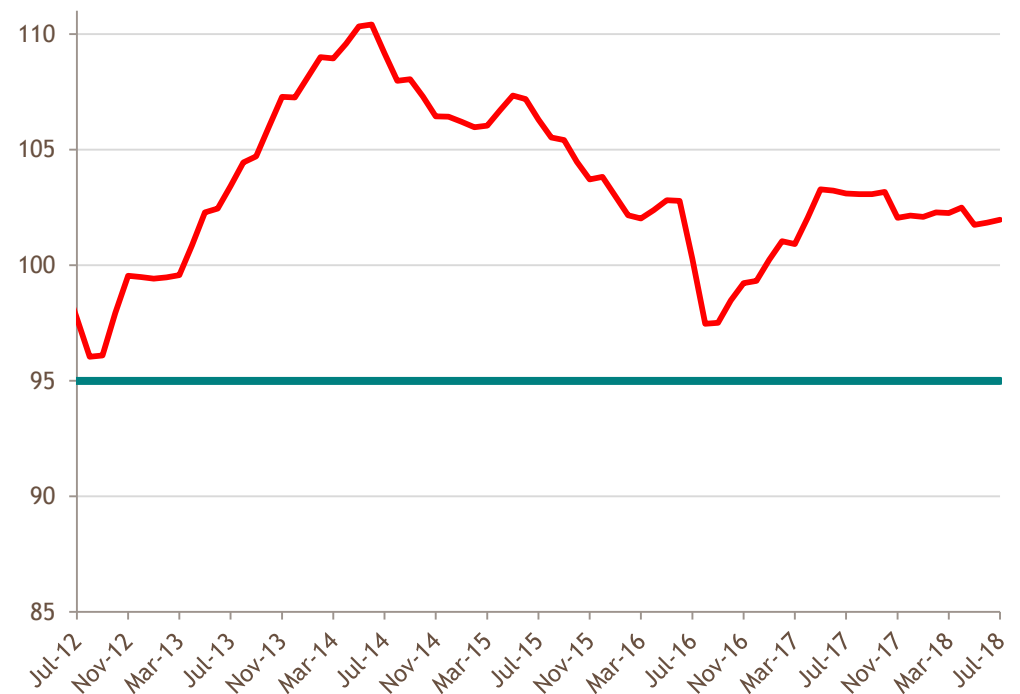
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

CONFIDENCE REMAINS BROADLY UNCHANGED IN JULY

- The BDO Optimism Index improved slightly in July, climbing 0.11 points to stand at 101.96.
- Optimism amongst manufacturers declined by 0.22 points to 108.97, but the measure remains well above its long run average. This suggests that output growth in the sector in the next three to six months looks set to improve.
- Service sector optimism improved in July, climbing 0.16 points to 101.08. Although modest, this change is reassuring given the decline in services output indicated by the services output index this month.
- July saw government publish a whitepaper on Brexit, which was then followed by some high profile cabinet resignations.
- While uncertainty over the UK's future trading arrangements with the EU persists, some progress was made in resolving US-related trade tensions at the end of July. Improving investment conditions while the UK is still part of the trading bloc.
- US President Trump met with European Commission President Juncker and both parties committed to reduce tariffs and non-tariff barriers on a range of industrial goods (excluding the automotive sector).
- The UK has the largest aerospace industry in Europe, so a reduction of tariffs for this key export sector should boost optimism in coming months.
- The UK's most significant good export is motor vehicles. Though they have not been included in the commitment, European car makers will be happy that the prospect of increased tariffs for their industry have been markedly reduced.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



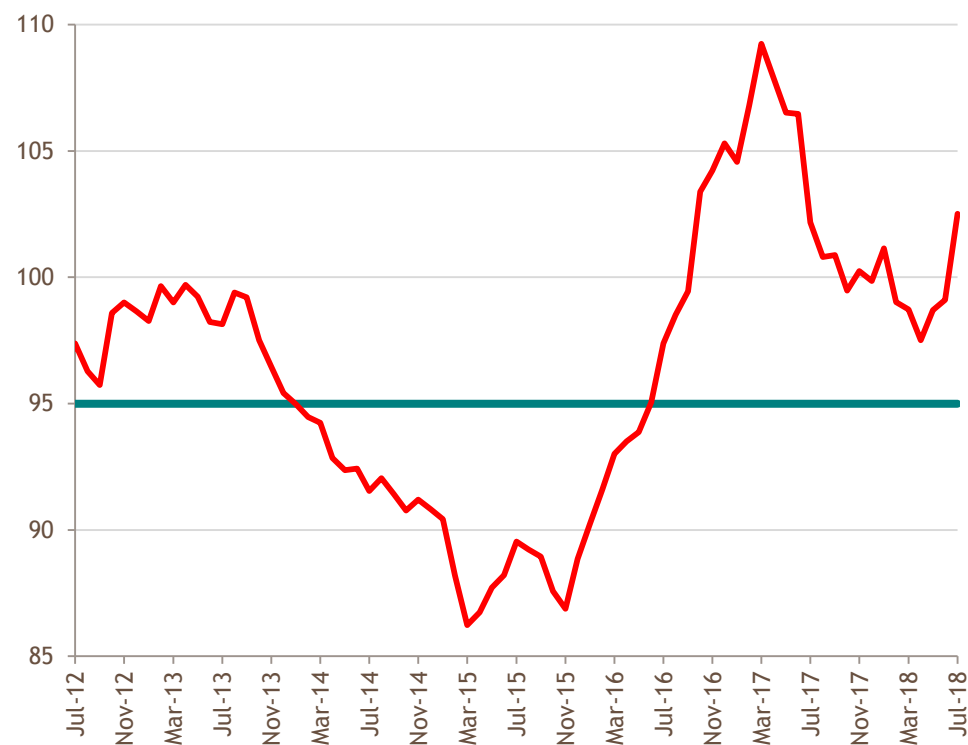
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION INDEX SUGGESTS CONSUMER INFLATION SET TO SLOW

- The BDO Inflation Index climbed for the third consecutive month in July, rising by 1.71 points to stand at 100.82.
- The largest upward contribution came from the input inflation measure, which climbed 3.44 points compared to June and is now at 101.59. In contrast, the consumer inflation measure declined by 0.41 points over the month to stand at 100.06.
- Input inflation has been driven up by the rise of oil prices, which took place from the end of 2017 to the start of 2018. These elevated levels look set to keep upward pressure on the index in coming months.
- Consumer price growth has also been supported by the higher oil prices but official data has seen inflation register at below market expectations, with the annual CPIH inflation rate at 2.3% in May and June.
- The lower than anticipated rate is suggestive that the economy is not as buoyant as hoped, and, together with weak wage growth data, it casts fresh doubt over the whether the Bank of England will opt to raise interest rates in their coming meeting.
- The Bank will be seeking justification to raise rates in August, after heavily indicating that they will be doing so at recent events and speeches. However, the weakening of the BDO consumer inflation measure this month fails to provide this, suggesting that coming official data are unlikely to show a rise in price growth for July.
- Notwithstanding market expectations, CPI inflation remains above the Bank's 2.0% target, so a policy change would still not be completely unfounded

BDO INFLATION INDEX

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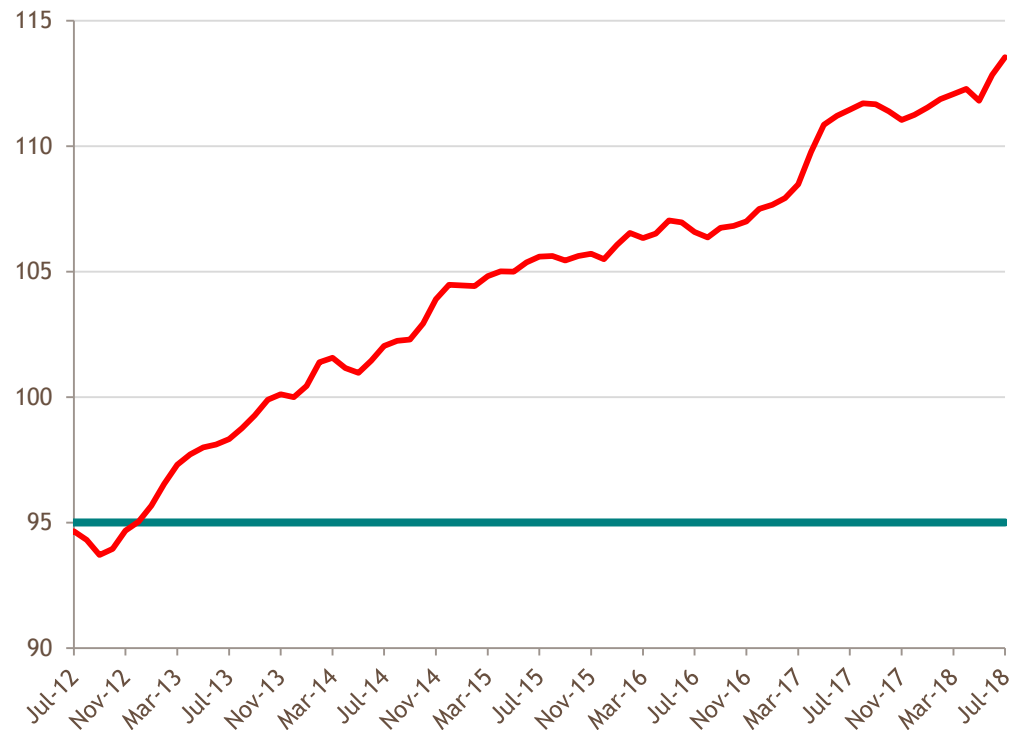
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

LABOUR MARKET GOES FROM STRENGTH TO STRENGTH BUT WAGE GROWTH A CONCERN

- In July, the BDO Employment index climbed 0.70 points to 113.55, another new high.
- The latest data from The Office for National Statistics (ONS) show that in the three months to May the rate of unemployment held steady at 4.2%.
- The employment boom in the country continues as the employment rate, i.e. the share of people aged 16 to 64 in work, reached 75.7% over the same three-month period, a new record high.
- The continued improvement in the BDO Employment index suggests that further improvements in official data are yet to come.
- Still despite the continued strengthening of the size of the labour market, consumer-facing firms will remain concerned at the softening of wage growth. Wages including bonuses increased by 2.5% in the three months to May, down from 2.8% in the December to February period.
- Slowing wage growth in combination with rising inflationary pressure means that real earnings growth is held back, slowing demand growth for new goods and services.

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

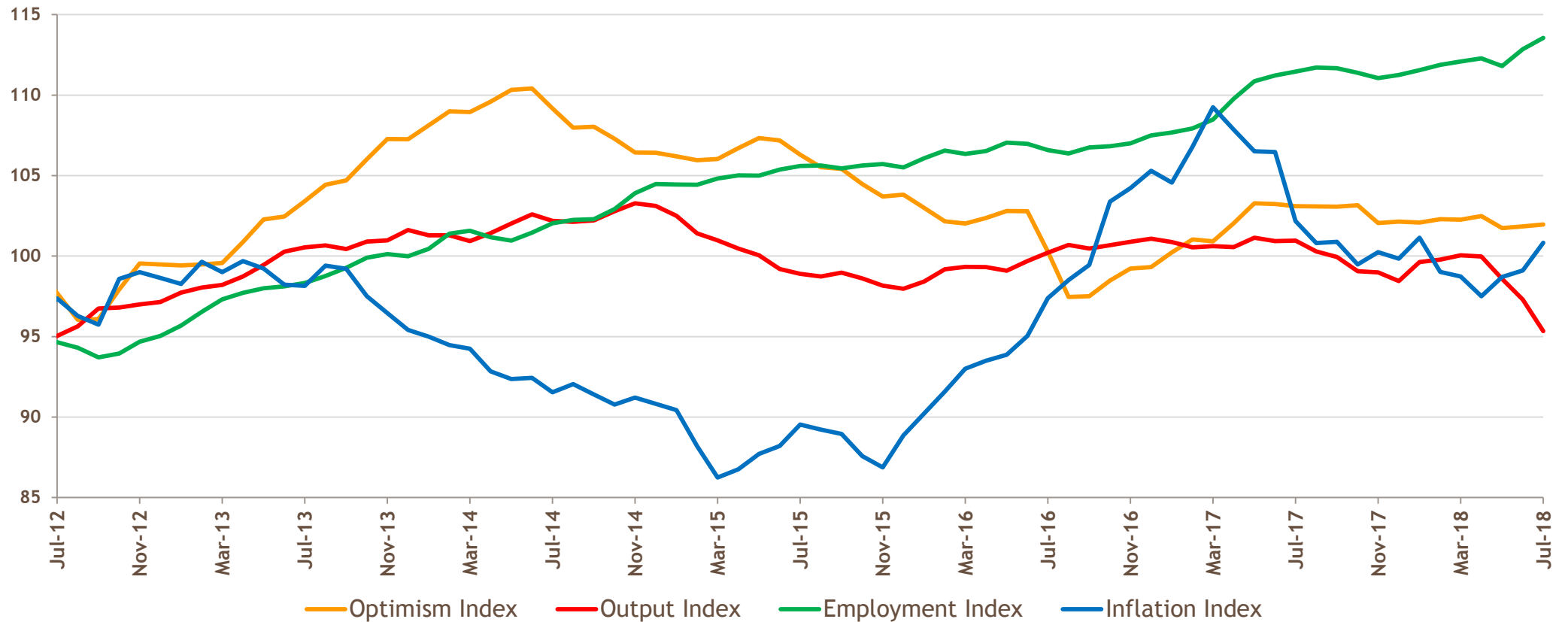
BDO INDICES TO LATEST MONTH

		Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
The BDO Optimism Index	Total	103.17	102.05	102.15	102.09	102.29	102.26	102.49	101.74	101.85	101.96
	Manuf.	109.57	110.12	110.22	108.51	106.82	106.74	107.92	109.18	109.19	108.97
	Service	102.36	101.03	101.13	101.27	101.72	101.69	101.81	100.80	100.92	101.08
The BDO Output Index	Total	99.06	98.99	98.45	99.63	99.78	100.05	99.97	98.58	97.29	95.34
	Manuf.	97.63	99.33	100.33	100.67	103.85	105.91	105.59	103.94	100.82	100.16
	Service	99.24	98.95	98.21	99.50	99.26	99.30	99.26	97.90	96.85	94.73
The BDO Inflation Index	Total	99.48	100.25	99.85	101.15	99.02	98.73	97.51	98.70	99.11	100.82
	Input	97.78	99.48	98.30	101.22	97.24	96.60	95.03	97.30	98.15	101.59
	Consumer	101.17	101.02	101.39	101.08	100.80	100.86	99.99	100.09	100.47	100.06
The BDO Employment Index	Total	111.39	111.06	111.26	111.55	111.89	112.09	112.29	111.81	112.85	113.55

APPENDIX: EMPLOYMENT INDEX LEADS THE WAY

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

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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.