



BDO MONTHLY BUSINESS TRENDS INDICES

February 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 March 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	✓	▽	101.7 in February from 101.8 in January
BDO Optimism Index	✓	▽	99.9 in February from 100.0 in January
BDO Inflation Index	✗	=	96.7 in February from 96.7 in January
BDO Employment Index	✓	△	105.1 in February from 104.9 in January

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

KEY FINDINGS

The BDO Output Index saw less of a fall than in recent months, but a dip from 101.8 to 101.7 between January and February was still its sixth in six months. The index is still supported by the services sector, while reported output for manufacturers is at a lower ebb. The manufacturing sub-index did, however, see a very slight rise taking it from 94.7 - just into contractionary territory - up to 95.

The BDO Inflation Index has remained stable this month. Firms report input costs holding steady at a low level, slightly positive but below the long-term trend in input-price inflation. Continuing falls in the price of everyday items have enabled firms to make less-generous pay offers than just a few months ago. This is in turn reducing the pressure on firms' input costs.

The BDO Optimism Index fell just below the dividing line for above- versus below-trend growth. From 100.0 in January, February's reading is 99.9. The Brexit referendum called towards the end of February has sparked volatility in currency markets, placing downward pressure on the pound, while consumer confidence fell to a two-year low on the latest GfK index. As with the Output Index, the sentiment in service businesses cooled while manufacturers reported a slightly better outlook compared to last month - although in absolute terms services remain in a much better shape and continue to power ongoing growth in the UK economy.

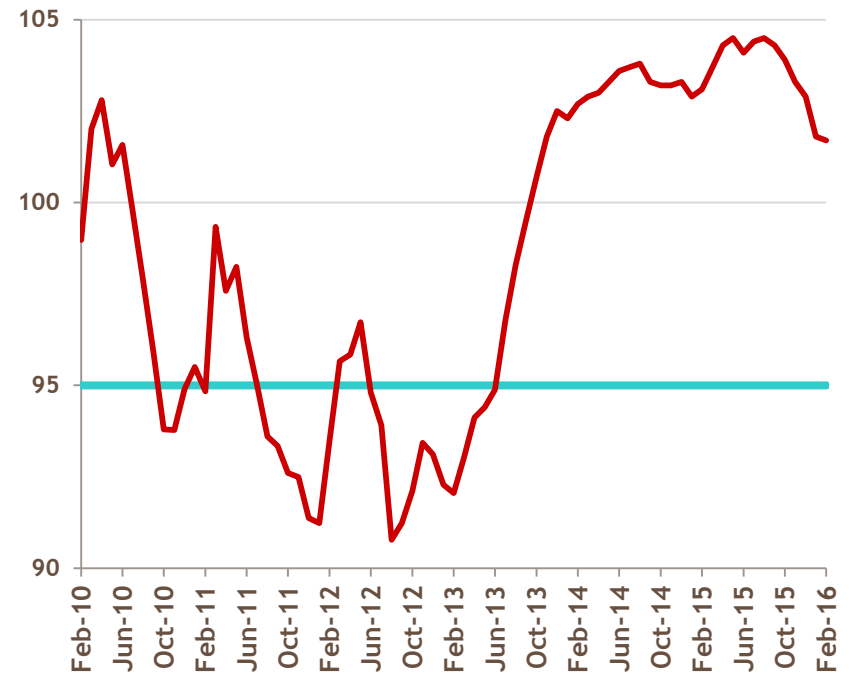
The BDO Employment Index showed little change, inching up from 104.9 in January to 105.1 in February. This leaves it a few points above the long-term trend for jobs growth - firms are continuing to report they are hiring at robust rates, according to employment surveys. Low expectations for future inflation enable this pace of hiring to continue while wage growth slows slightly.

MANUFACTURERS EXPECTING STAGNATION IN SECTOR

- The BDO Output Index continued its downward trend this month, falling from 101.8 to 101.7.
- This prolongs a six-month run of consecutive falls in output as reported by firms.
- Despite a small drop from January's 103.2, at 103.0, service firms' confidence remains elevated.
- This fall was offset to some extent by a modest rise in manufacturing, the first for nine months. The sub-index covering manufacturing firms moved from 94.7 to 95.0, putting it precisely on the level that separates contraction from expansion. Firms expect manufacturing output to be essentially flat over the short term.
- Globally, firms lack confidence to invest amid a fairly uncertain economic picture. Investment is a strong driver of demand for manufactures.

BDO OUTPUT INDEX

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



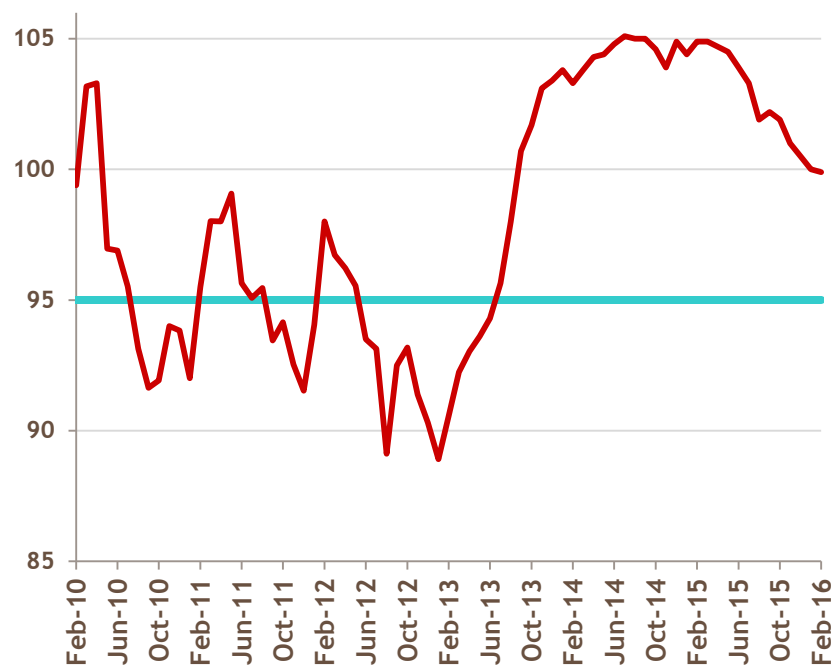
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

FIRMS ANTICIPATE GROWTH TO SLOW DOWN TO BELOW TREND

- Confidence has fallen below the 100 line separating above- from below-trend growth. The last month saw the level slip from 100.0 to 99.9, driven by a further slowing in service-sector confidence.
- The services sub-index fell from 101.9 to 101.7, its lowest level since early 2014. Services are the main driver of UK growth at present, with manufacturing and construction both contributing nothing or very little.
- The manufacturing confidence index has seen a slight uptick from 90.2 to 90.4. The main factors dragging on the sector, such as slower trade in goods and a widespread slump in international markets, still apply - explaining its poor level. However, the recent fall in the pound - sparked by uncertainty regarding Britain's EU membership referendum - may give exporters some relief. An overvalued pound had been damaging prospects.

BDO OPTIMISM INDEX

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



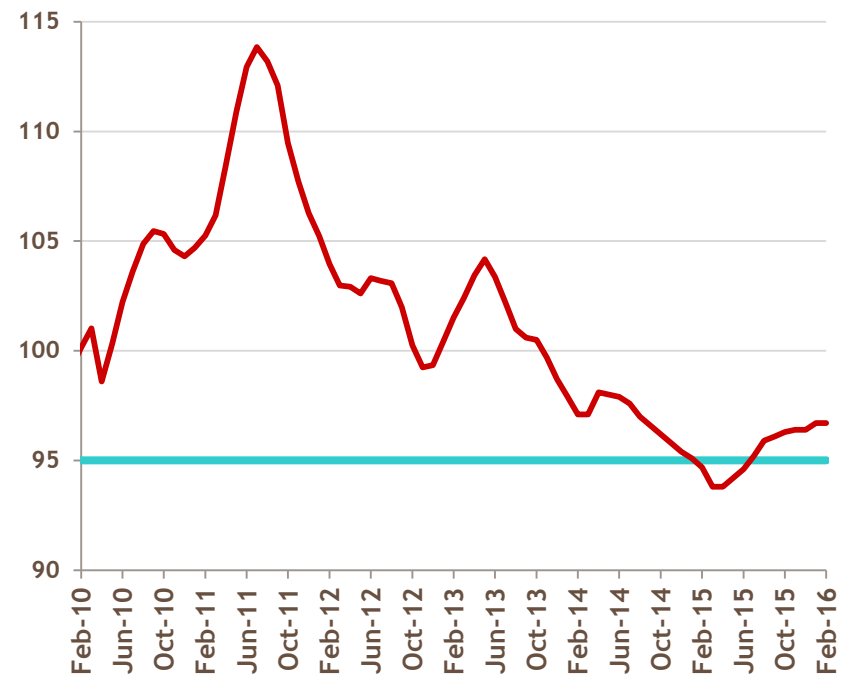
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

UPWARD MOMENTUM FOR FIRMS' COSTS HALTED

- The BDO Inflation Index has remained at January's level for another month. It held firm at 97.0.
- This halts the upward trajectory that input prices had maintained, virtually unbroken, since last April.
- Labour market figures have signalled a slowing in the pace of wage growth. Since this makes the largest contribution to many firms' costs, the upward momentum in input prices has in turn been lost.
- The balance of service firms' expectations over prices turned negative a month ago, suggesting more firms see decreasing than increasing costs.

BDO INFLATION INDEX

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



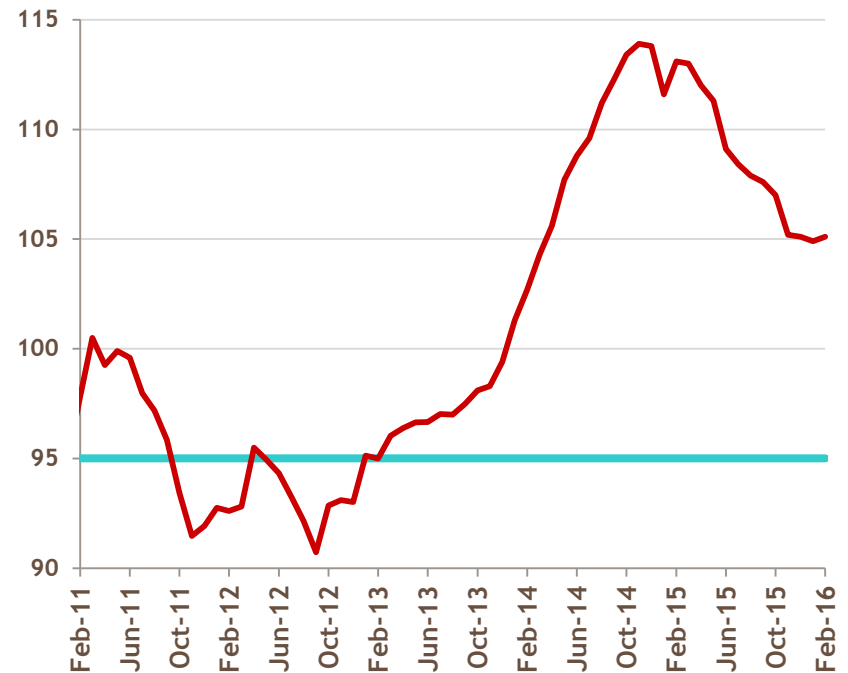
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

DEMAND FOR WORKERS MAINTAINS ELEVATED LEVEL

- The BDO Employment Index remains at its slightly elevated level. This month it saw a modest rise, ticking up from 104.9 to 105.1.
- The various employment surveys that are polled to generate this result continue to run at above-average levels. Official statistics covering the labour market (Nov 2015-Jan 2016) show above-average gains, as well as recording the highest level of job vacancies since comparable records began in 2001.
- In this context the slowing of wage rises is surprising. It appears that the softening of inflation has trumped the tightening of the labour market, to leave us in a situation where employment continues to increase yet wage growth does not accelerate.

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

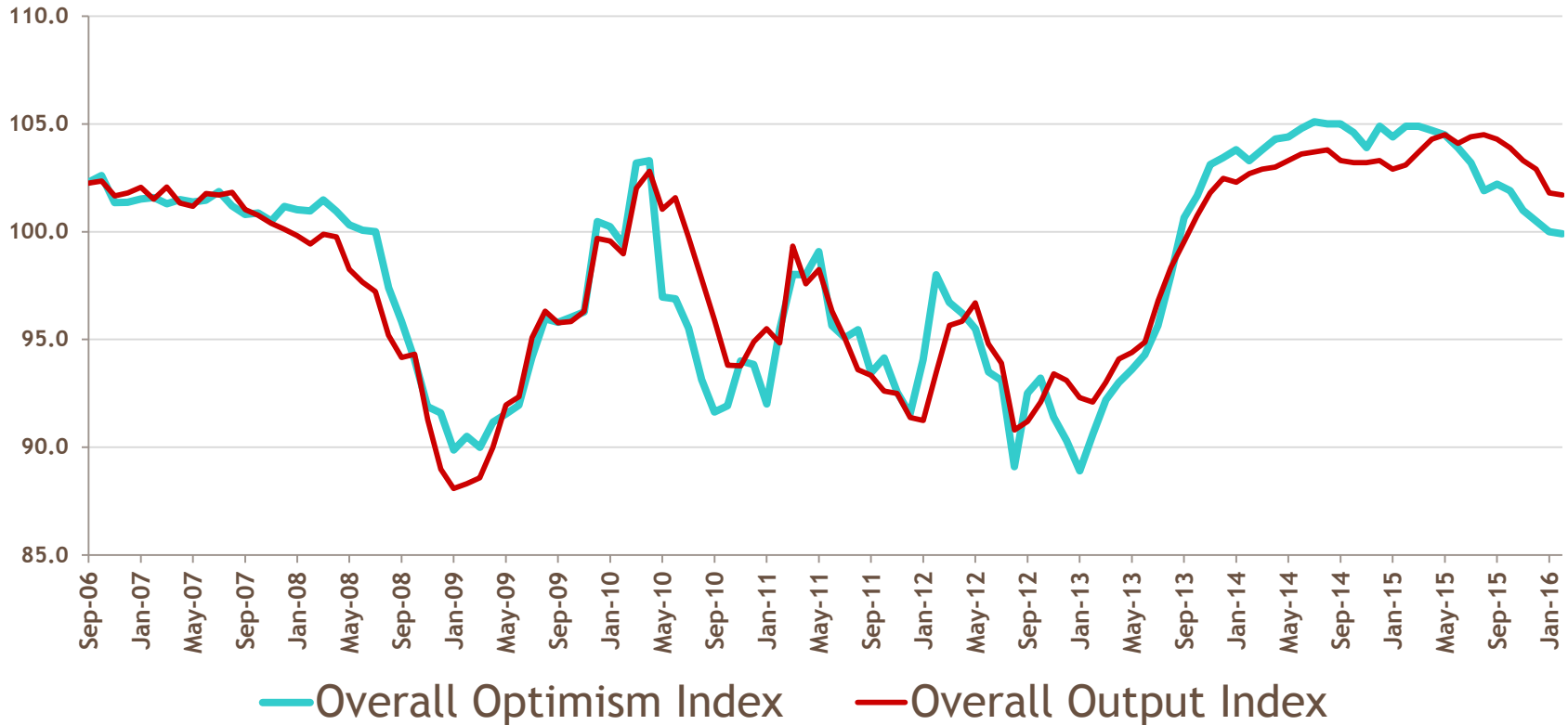
BDO INDICES TO LATEST MONTH

		Feb 2015	Mar 2015	Apr 2015	May 2015	Jun 2015	Jul 2015	Aug 2015	Sep 2015	Oct 2015	Nov 2015	Dec 2015	Jan 2016	Feb 2016
The BDO Optimism Index	Total	104.9	104.9	104.7	104.5	103.9	103.3	101.9	102.2	101.9	101.0	100.5	100.0	99.9
	Manuf.	111.6	109.8	107.4	103.4	98.5	93.5	86.2	89.0	90.2	88.3	89.6	90.2	90.4
	Service	103.6	103.9	104.1	104.7	105.0	105.1	105.0	104.8	104.2	103.5	102.7	101.9	101.7
The BDO Output Index	Total	103.1	103.7	104.3	104.5	104.1	104.4	104.5	104.3	103.9	103.3	102.9	101.8	101.7
	Manuf.	107.1	107.7	108.8	109.0	107.8	106.8	106.8	106.5	103.8	100.5	98.2	94.7	95.0
	Service	102.3	102.9	103.5	103.6	103.4	103.9	104.1	103.9	103.9	103.9	103.8	103.2	103.0
The BDO Inflation Index	Total	94.7	93.8	93.8	94.2	94.6	95.2	95.9	96.1	96.3	96.4	96.4	96.7	96.7
The BDO Employment Index	Total	113.1	113.0	112.0	111.3	109.1	108.4	107.9	107.6	107.0	105.2	105.1	104.9	105.1

APPENDIX 1: FIRMS ANTICIPATE GROWTH TO SLOW DOWN TO BELOW TREND

BDO OUTPUT AND OPTIMISM INDICES

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

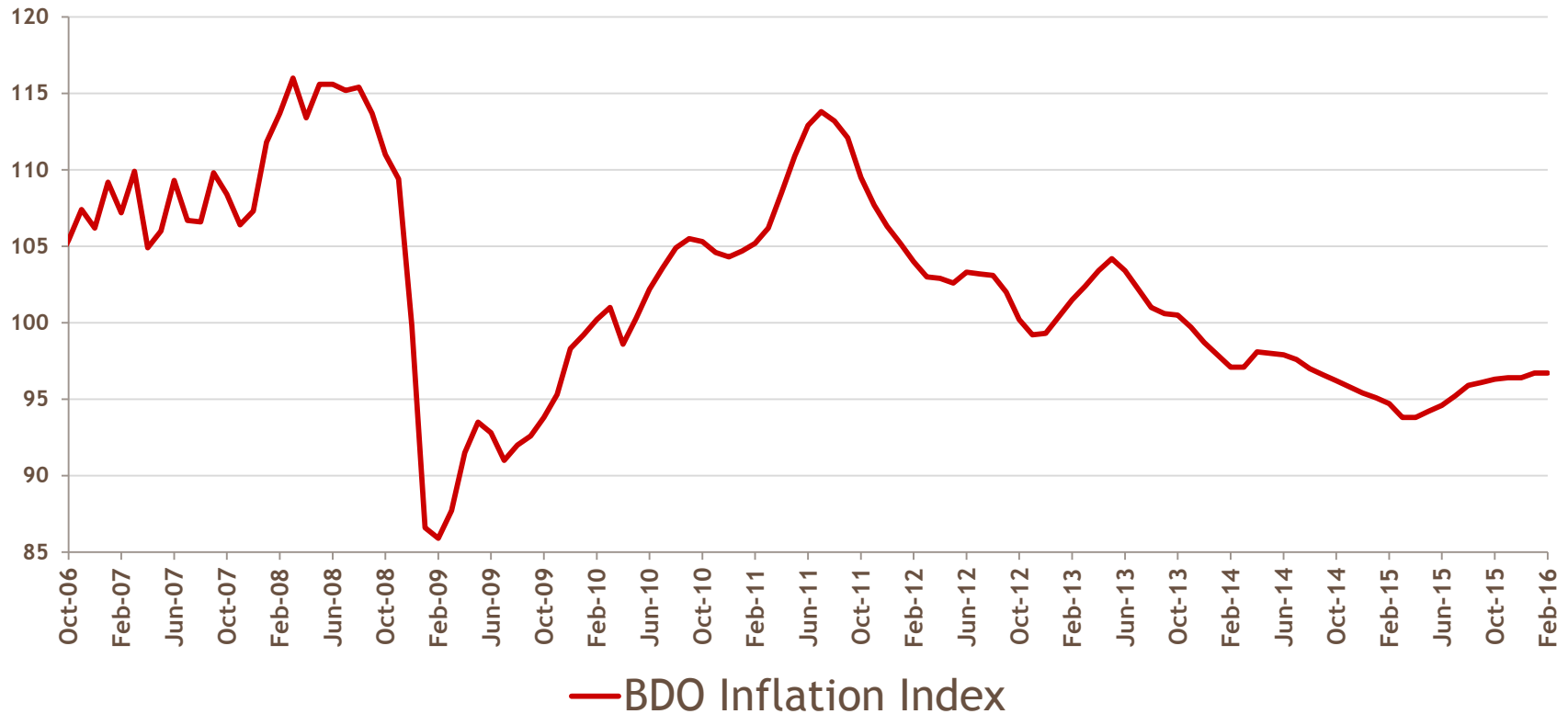


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 2: UPWARD MOMENTUM FOR FIRMS' COSTS HALTED

BDO INFLATION INDEX

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

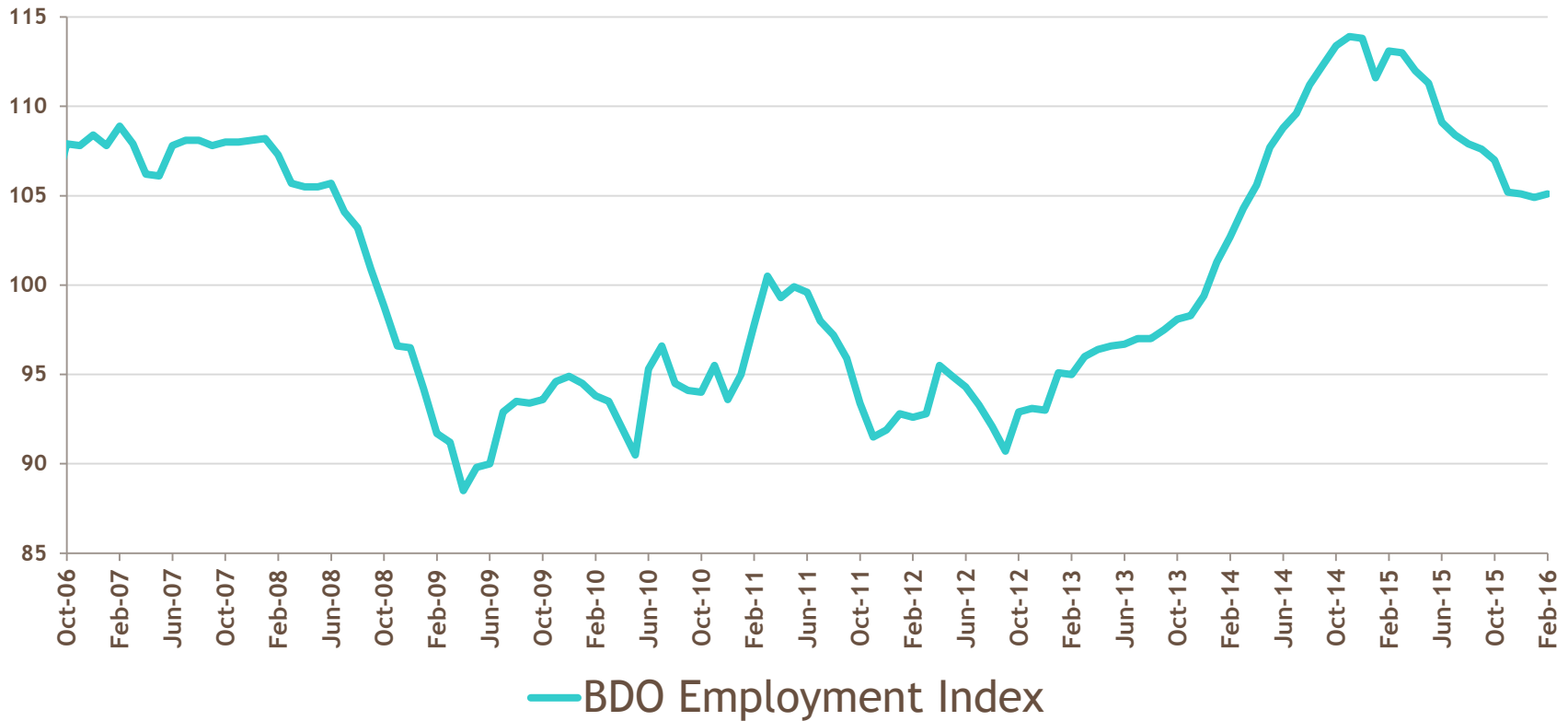


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 3: DEMAND FOR WORKERS MAINTAINS ELEVATED LEVEL

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

PETER HEMINGTON

BDO LLP,
55 Baker Street, London W1M 1DA
telephone: 020 7486 5888
fax: 020 7487 3686
email: 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
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.