

▶ 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

August 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 September 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	x	▲	97.72 in August from 95.34 in July
BDO Optimism Index	✓	▼	101.53 in August from 101.96 in July
BDO Inflation Index	✓	▲	102.23 in August from 100.82 in July
BDO Employment Index	✓✓	▲	114.74 in August from 113.55 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

In August, the BDO Output Index rebounded - partially recovering from sharp declines seen in June and July. The 2.38 point increase means that the index now stands at 97.72, comfortably within positive growth territory.

The rebound was primarily driven by the UK's all important service sector. The sector makes up about four fifths of UK output so a strong performance is key to healthy UK growth.

The BDO Optimism Index declined slightly this month, more than offsetting the slight increases seen in June and July. Optimism was plagued by political uncertainty and a worsening economic outlook in Europe.

The BDO Inflation Index increased for the fourth consecutive month, climbing 1.41 points to 102.23 in August. As in previous months, elevated global oil prices have kept up pressure on consumer and input inflation.

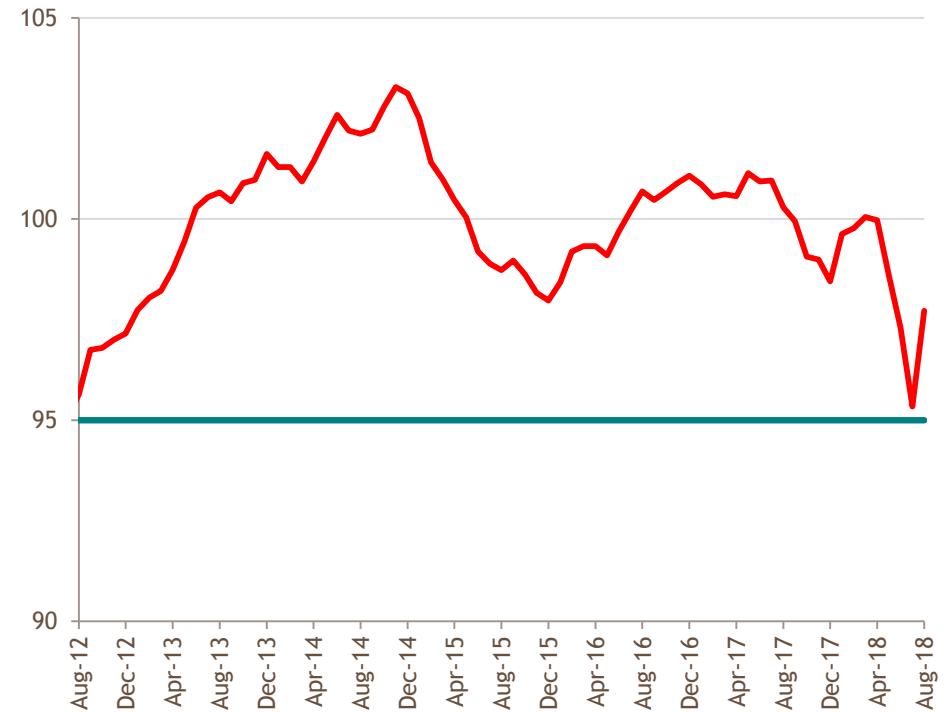
The BDO Employment Index continued to trend upward in August, marking the third consecutive monthly rise in the measure. Recent official figures have shown that employment remains strong, with an employment rate of 75.6% in the three months to June. The rise in the Employment Index since suggests that a further strengthening is likely in coming official data releases.

OUTPUT GROWTH REBOUNDS IN AUGUST

- The BDO Output Index climbed 2.38 points to stand at 97.72 in August.
- The increase was primarily driven by the services index, which rebounded 2.44 points to 97.17, after contracting in July.
- The manufacturing output index also strengthened, rising 1.90 points to stand at 102.06 in August.
- While the manufacturing index is up compared to this time last year, the services measure is down 3.12 points and has seen year-on-year declines since March last year.
- Recent data from the Office for National Statistics show that UK GDP growth rebounded in the second quarter, accelerating to a quarterly rate of 0.4%.
- Growth was primarily driven by the service sector, which grew 0.5% quarter-on-quarter. Though GDP growth is much improved on the 0.2% expansion seen in Q1, year-on-year growth remains weak at just 1.3%.
- The improvement in the index in August bodes well for Q3 growth figures, though this is counterbalanced somewhat by the disappointing July figures.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



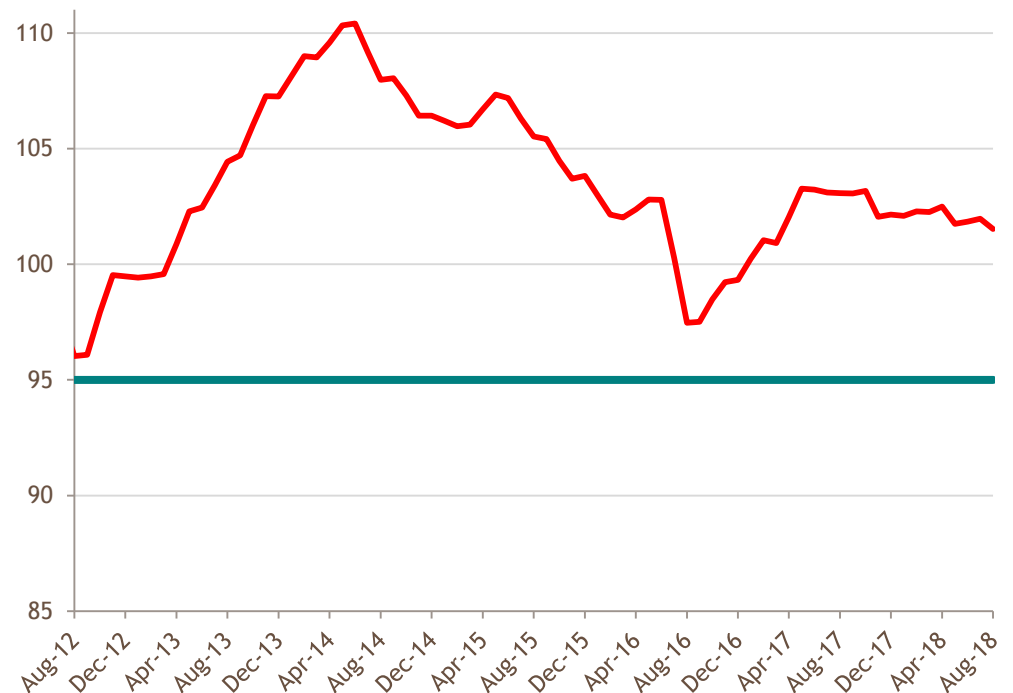
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

CONFIDENCE CONTINUES TO FLOAT DOWNWARDS

- The BDO Optimism Index declined slightly in August, falling 0.43 points to stand at 101.53 points.
- Optimism in both manufacturing (-0.42) and services (-0.44) declined by similar amounts, indicative of the economy-wide malaise felt in August.
- Optimism has trended gently downward since May 2017, when confidence had more than fully recovered the losses sustained in the wake of the Brexit referendum.
- The broad-based decline seen in August, is indicative of the lack of political progress made on key economic issues, primary of which is the UK's post-Brexit trading arrangements.
- The international economic outlook, particularly in Europe, has also soured. While Eurozone unemployment is at its lowest rate in nearly a decade, anaemic wage growth and weak confidence is threatening to undermine demand in these key export markets going forward.
- Indeed, Q2 trade data showed that UK export volumes declined by 3.6% and the total trade deficit widened by £4.7 billion.
- While EU exports declined, falling car and aircraft exports to non-EU countries was the leading factor behind the change.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



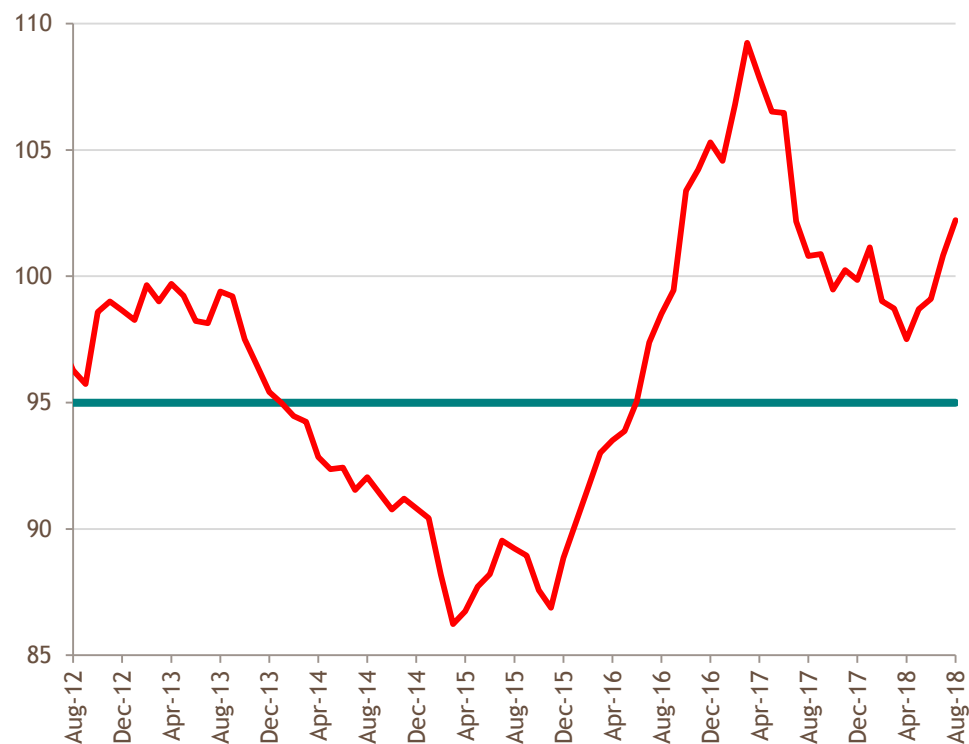
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION INDEX POINTS TOWARD FURTHER PRICE RISES

- The BDO Inflation Index climbed for the fourth consecutive month in August, rising by 1.41 points to stand at 102.23.
- The largest upward contribution came from the input inflation measure, which climbed 2.31 points to stand at 103.90 in August.
- The consumer inflation index rose more marginally in August, climbing 0.49 points to 100.55.
- Inflation has been supported by elevated oil prices, which have made plastic production more costly and noticeably driven up the cost of transport.
- The extreme weather seen this year in the UK and much of Europe, has put pressure on farming costs and yields, and is also expected to put upward pressure on input and consumer prices going forward.
- In July, the annual rate of CPI inflation rose by 0.1 percentage points compared to June, to stand at 2.5%. The CPI inflation rate has now been above the Bank of England's (BoE) target rate of 2% for 18 consecutive months.
- The increase has provided some justification for the actions of the BoE's Monetary Policy Committee (MPC) who voted unanimously on the 2nd August to raise interest rates to 0.75% - only the second rate rise in over nine years.
- This month's index suggests that a further moderate rise is possible in future releases.

BDO INFLATION INDEX

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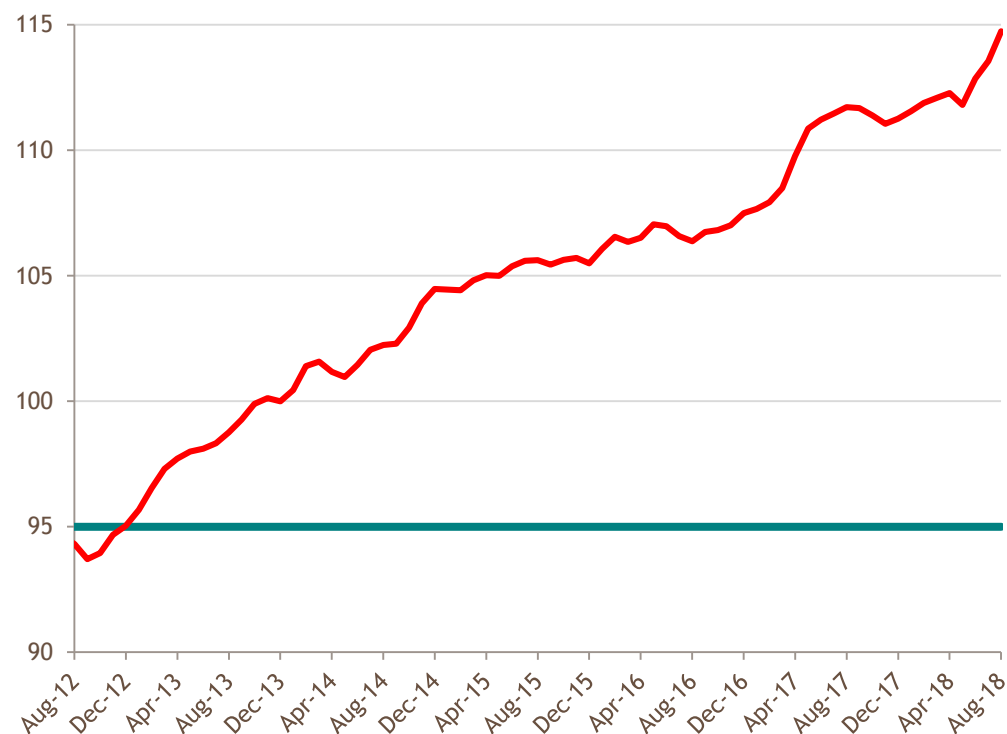
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

WAGE GROWTH DECLINES DESPITE RISING EMPLOYMENT

- In August, the BDO Employment index climbed 1.19 points to 114.74.
- The latest official data show that for April to June 2018, the employment rate was 75.6%, up from 75.1% for a year earlier. This is near the record high of 75.7% seen in the three months to May.
- Over the same period, employment increased for UK and non-EU nationals but declined for EU nationals.
- The rise in the BDO employment index seen this month was the third consecutive rise, suggesting that further improvements in official statistics are to come.
- Still, despite the continued growth of the labour market, consumer-facing firms will be concerned by the decline of wage growth seen in Q2.
- The annual rate of regular wage growth, which peaked at +2.9% earlier in the year, slowed to +2.7% in the three months to June, 0.1 percentage points down on the first quarter.
- Despite seeing the lowest unemployment level in 43 years, factors such as higher levels of underemployment, technological advances and increased education attainment have meant that wages have not risen as quickly as expected.

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

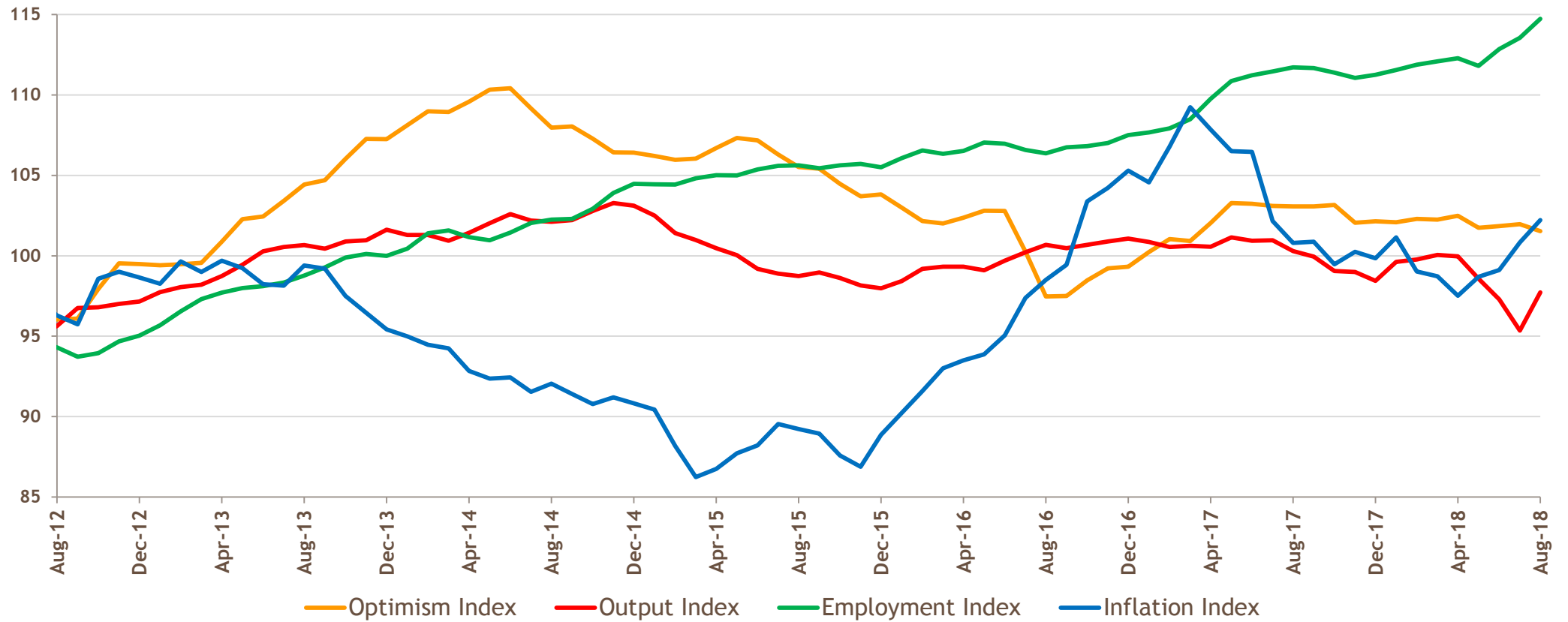
BDO INDICES TO LATEST MONTH

		Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-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	101.53
	Manuf.	109.57	110.12	110.22	108.51	106.82	106.74	107.92	109.18	109.19	108.97	108.55
	Service	102.36	101.03	101.13	101.27	101.72	101.69	101.81	100.80	100.92	101.08	100.64
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	97.72
	Manuf.	97.63	99.33	100.33	100.67	103.85	105.91	105.59	103.94	100.82	100.16	102.06
	Service	99.24	98.95	98.21	99.50	99.26	99.30	99.26	97.90	96.85	94.73	97.17
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	102.23
	Input	97.78	99.48	98.30	101.22	97.24	96.60	95.03	97.30	98.15	101.59	103.90
	Consumer	101.17	101.02	101.39	101.08	100.80	100.86	99.99	100.09	100.47	100.06	100.55
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	114.74

APPENDIX: OUTPUT INDEX REBOUNDS SHARPLY

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.