

▶ 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 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**

April 2018

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# 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 May 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               | ▼                 | 99.97 in April from 100.05 in March  |
| BDO Optimism Index   | ✓               | ▲                 | 102.49 in April from 102.26 in March |
| BDO Inflation Index  | xx              | ▼                 | 97.51 in April from 98.73 in March   |
| BDO Employment Index | ✓✓              | ▲                 | 112.29 in April from 112.09 in March |

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

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## KEY FINDINGS

In April, the BDO Output Index declined 0.08 points on March's reading to stand at 99.97, indicating that output is growing at a rate just below the long-run average.

Both underlying measures of output decreased in April. While the Manufacturing Output Index remained above the average levels, the services measure stood below 100, indicating that output in the sector grew less quickly in April than it has over the long run.

The Office for National Statistics released a preliminary estimate of GDP growth for Q1 2018, which showed the UK economy grew just 0.1% over the first quarter as adverse weather disrupted construction activity and retail spending. The National House Building Council estimates that 30 construction days were lost in the first quarter.

The BDO Optimism Index improved to stand at 102.49 in April. The index indicates that in April firms were more optimistic than average on growth three to six months from now. After the disappointing first quarter performance revealed by official data, these findings are reassuring for UK growth prospects.

The BDO Inflation Index decreased this month, falling 1.22 points to 97.51. The largest downward contribution came from the input inflation measure which has declined dramatically over the past year. The BDO Consumer Inflation Index also fell in April. The measure now stands at 99.99 indicating that after over a year of above average inflation consumer price growth is set to return to typical levels in April.

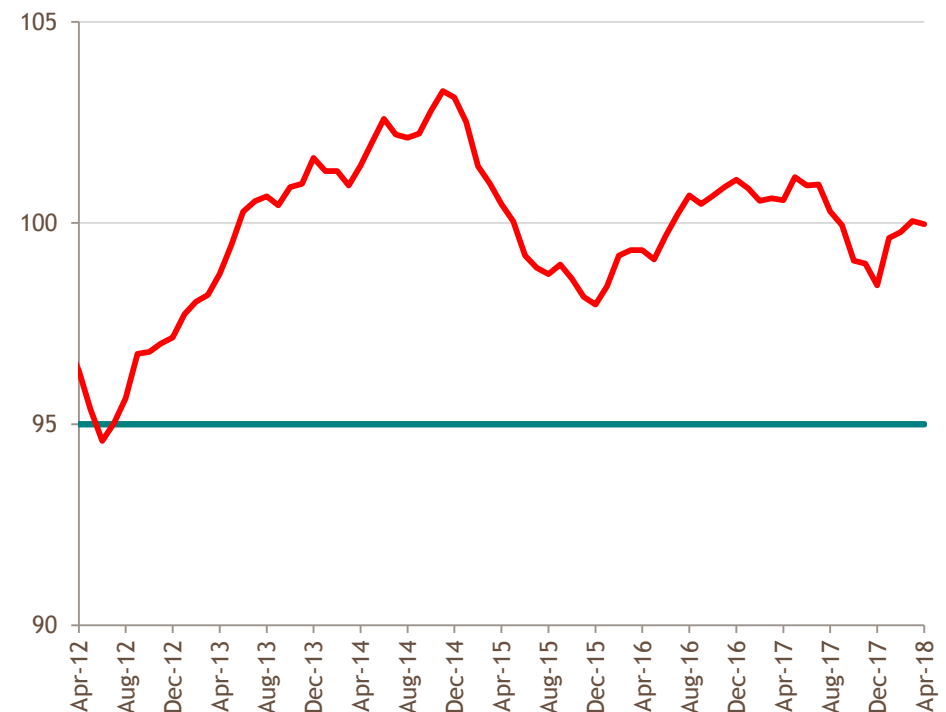
The BDO Employment Index climbed for the fifth consecutive month pointing to further gains in the labour market in April. Official data show that the employment rate stood at 75.4% in the three months to February, the highest rate since records began.

# OUTPUT INDEX DECLINES BUT SUGGESTS FUNDAMENTALS REMAIN RESOLUTE

- The BDO Output Index fell below 100 points to 99.97 in April, indicating that output growth was marginally below its long run average.
- The index declined 0.08 points on March's reading. When compared to April 2017, the measure is down 0.59 points. Both underlying measures declined this month.
- The Manufacturing Output Index stood at 105.59 indicating that output in the sector continues to grow at a rate faster than it has on average in the long run. The same is not true for the Services Output Index which stood at 99.26 this month.
- The headline measure stood near the long-run average, indicating that the economy's fundamentals remain strong despite the weather-affected first quarter performance.
- Preliminary estimates of the economy's Q1 performance show that output grew just 0.1% over the period. This is down from the 0.4% quarterly growth recorded in the Q4 2017.
- The construction sector was the main drag on growth, while production (which includes manufacturing) was the UK's fastest growing sector.
- Owing to its considerable size, the service sector was the main driver of growth, expanding by 0.3% and contributing 0.2 percentage points to the headline rate.

## BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



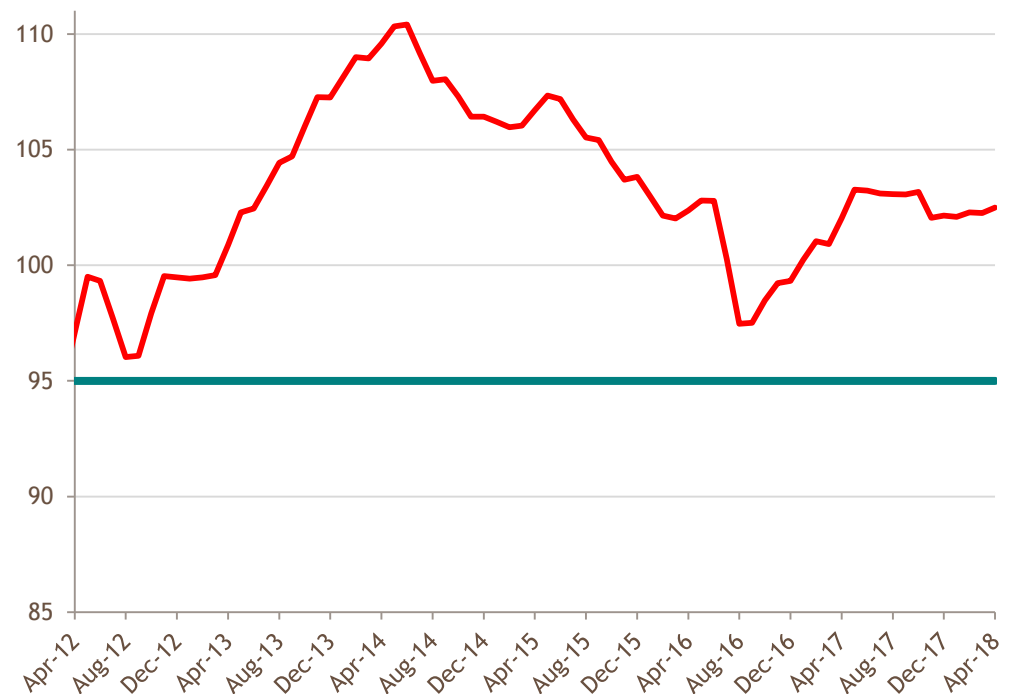
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# MANUFACTURING AND SERVICES CONFIDENCE STRENGTHENS

- The BDO Optimism Index improved 0.23 points to stand at 102.49. The index, which assesses how optimistic firms are about output three to six months from now, suggests more positive growth prospects lie ahead for UK firms.
- Manufacturing confidence gained most substantially, climbing 1.18 points.
- Having declined in the three months prior to this, manufacturing confidence still stands lower than at the end of 2017.
- Year-on-year growth in manufacturing peaked at 4.5% in October 2017 but current confidence suggests growth is not set to reach those levels soon.
- Optimism in the service sector climbed 0.12 points to stand at 101.81 points in April. This is 0.24 points more than in April 2017.
- The pick up in confidence across the board bodes well, suggesting that despite the economic headwinds presented by a slowing Eurozone, additional compliance costs of incoming GDPR regulation, and perpetual geopolitical uncertainty, UK firms remain confident in their financial future.

## BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



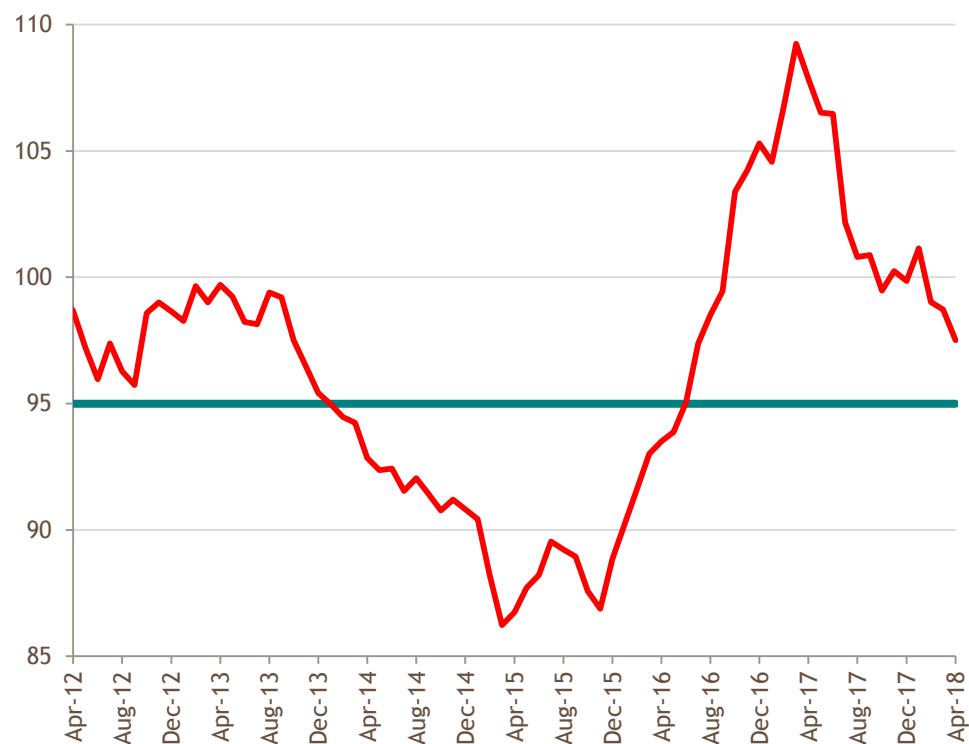
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# CONSUMER INFLATION TO RETURN TO TYPICAL LEVELS IN APRIL

- The BDO Inflation Index continued to decline in April, falling 1.22 points to 97.51.
- Again, the largest downward contribution came from the input inflation sub measure, which fell 1.57 points from March and now stands 19.97 points below its April 2017 level.
- The continued decline in input inflation comes as the effect of pound's devaluation continues to unwind from year-on-year calculations.
- Still, there have been some early signals that this may reverse later in the year as the pound has weakened of late and oil prices have trended upward.
- The Consumer Inflation Index also fell, though less substantively. The index fell from 100.86 in March to 99.99 in April.
- The decline signifies the return of consumer price growth to typical levels, having stood above trend for the past 13 months.
- The latest data on consumer prices, released by the Office for National Statistics, show that in February CPIH inflation stood at 2.3% year-on-year - down 0.2 percentage points compared to February.

## BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



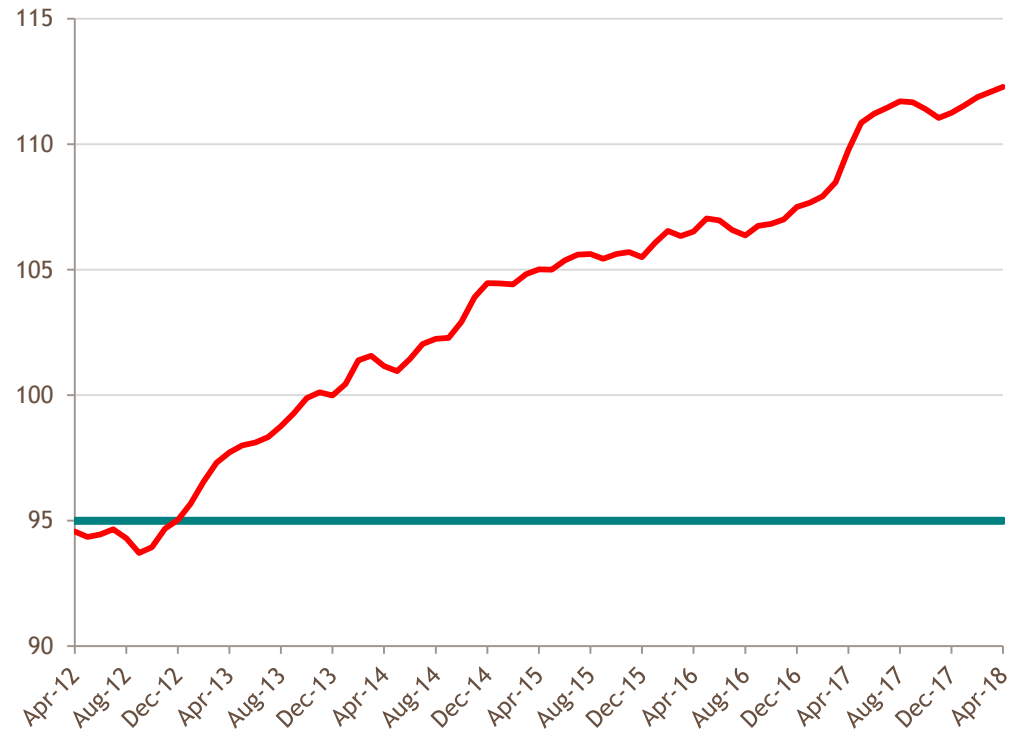
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# LABOUR MARKET CONTINUES TO STRENGTHEN

- In April, the BDO Employment Index climbed for the fifth consecutive month, rising 0.20 points to stand at 112.29.
- The latest figures on the UK labour market, released by the Office for National Statistics, show that the rate of unemployment fell to 4.2% in the three months to February, the lowest rate since 1975.
- Similarly, the employment rate, i.e. the share of people aged 16-64 who are in work, rose to 75.4%, the highest rate since records began.
- The continued improvement in the Employment Index this month suggests that official employment figures are set to continue strengthening.
- Vacancies remain high at 815,000 in the three months to March suggesting demand for labour remains resolute.

## 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

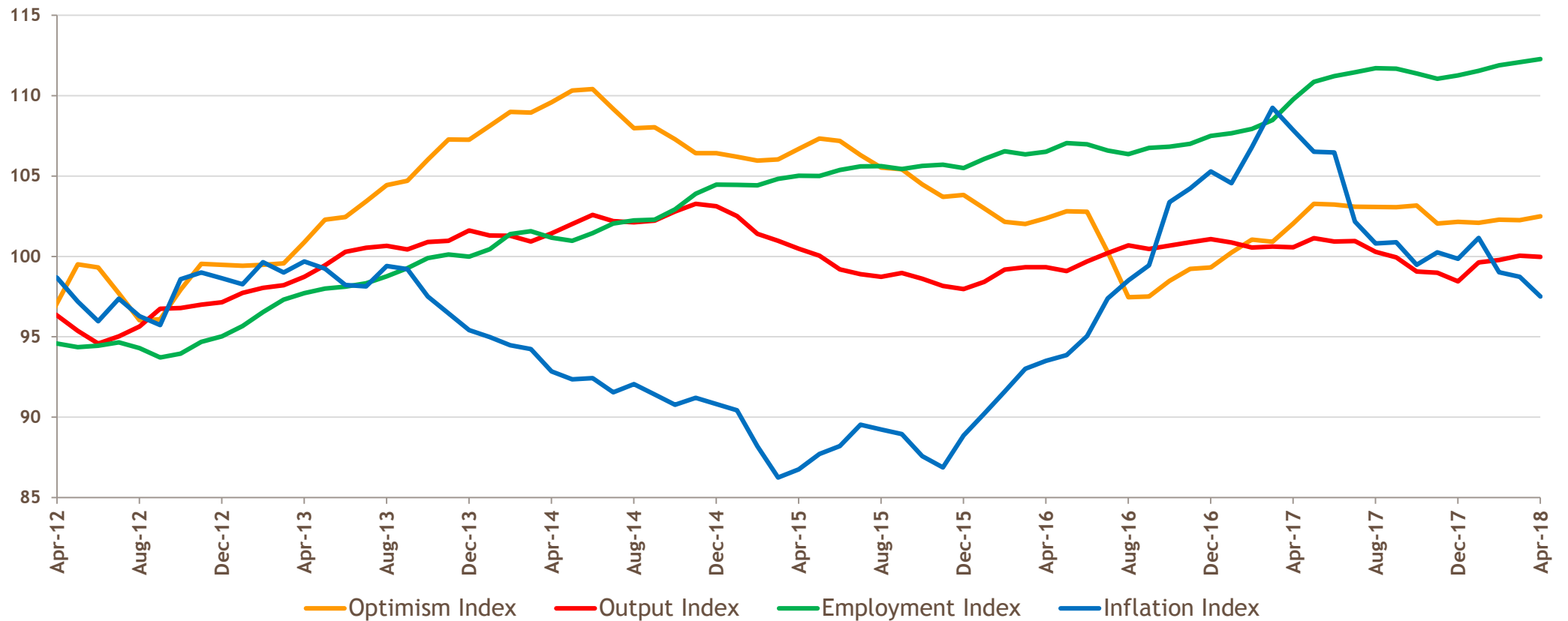
|                          |              | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Nov-17 | Dec-17 | Jan-18 | Feb-18 | Mar-18 | Apr-18 |
|--------------------------|--------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| The BDO Optimism Index   | <b>Total</b> | 103.10 | 103.08 | 103.07 | 103.17 | 102.05 | 102.15 | 102.09 | 102.29 | 102.26 | 102.49 |
|                          | Manuf.       | 107.67 | 108.86 | 108.71 | 109.57 | 110.12 | 110.22 | 108.51 | 106.82 | 106.74 | 107.92 |
|                          | Service      | 102.52 | 102.35 | 102.35 | 102.36 | 101.03 | 101.13 | 101.27 | 101.72 | 101.69 | 101.81 |
| The BDO Output Index     | <b>Total</b> | 100.96 | 100.29 | 99.95  | 99.06  | 98.99  | 98.45  | 99.63  | 99.78  | 100.05 | 99.97  |
|                          | Manuf.       | 105.90 | 100.28 | 97.57  | 97.63  | 99.33  | 100.33 | 100.67 | 103.85 | 105.91 | 105.59 |
|                          | Service      | 100.34 | 100.29 | 100.25 | 99.24  | 98.95  | 98.21  | 99.50  | 99.26  | 99.30  | 99.26  |
| The BDO Inflation Index  | <b>Total</b> | 102.17 | 100.81 | 100.88 | 99.48  | 100.25 | 99.85  | 101.15 | 99.02  | 98.73  | 97.51  |
|                          | Input        | 103.49 | 100.79 | 100.32 | 97.78  | 99.48  | 98.30  | 101.22 | 97.24  | 96.60  | 95.03  |
|                          | Consumer     | 100.85 | 100.83 | 101.45 | 101.17 | 101.02 | 101.39 | 101.08 | 100.80 | 100.86 | 99.99  |
| The BDO Employment Index | <b>Total</b> | 111.46 | 111.72 | 111.68 | 111.39 | 111.06 | 111.26 | 111.55 | 111.89 | 112.09 | 112.29 |



# APPENDIX: OUTPUT GROWTH RETURNS TO TREND

## 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

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## 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.