



BDO MONTHLY BUSINESS TRENDS INDICES

November 2015

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 November 2015, 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	✓	▽	103.9 in October from 104.3 in September
BDO Optimism Index	✓	▽	101.9 in October from 102.2 in September
BDO Inflation Index	✗	△	96.3 in October from 96.1 in September
BDO Employment Index	✓	▽	107.0 in October from 107.6 in September

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

KEY FINDINGS

The BDO Output Index fell marginally from 104.3 to 103.9. This was led by a decline in manufacturing firms' expectations. The level on the services sub-index held firm at 103.9, pointing to maintained strong expectations for that sector. The latest official figures show growth recently has been unbalanced across the two main sectors of the economy, a trend which is expected to continue.

The BDO Inflation Index has remained broadly stable over October. Its level is 96.3, marginally up on September's reading of 96.1. It points to growth in firms' costs, but at a very slow pace. This results from wage increases, as the tighter labour market pushes earnings up. Growth in raw material and commodity prices is low or negative, ensuring that firms overall are experiencing muted cost pressures.

The BDO Optimism Index returned to a downward trend, falling from 102.2 to 101.9, after a one-month uptick during October. Firms expect the pace of growth over the coming months to be little above the long-term trend rate. The disparity between services and manufacturing expectations was again highlighted, with the services sub-index at a level of 104.2. This is a level significantly above trend, though it declined this month. The manufacturing sub-index was very weak, at 90.2.

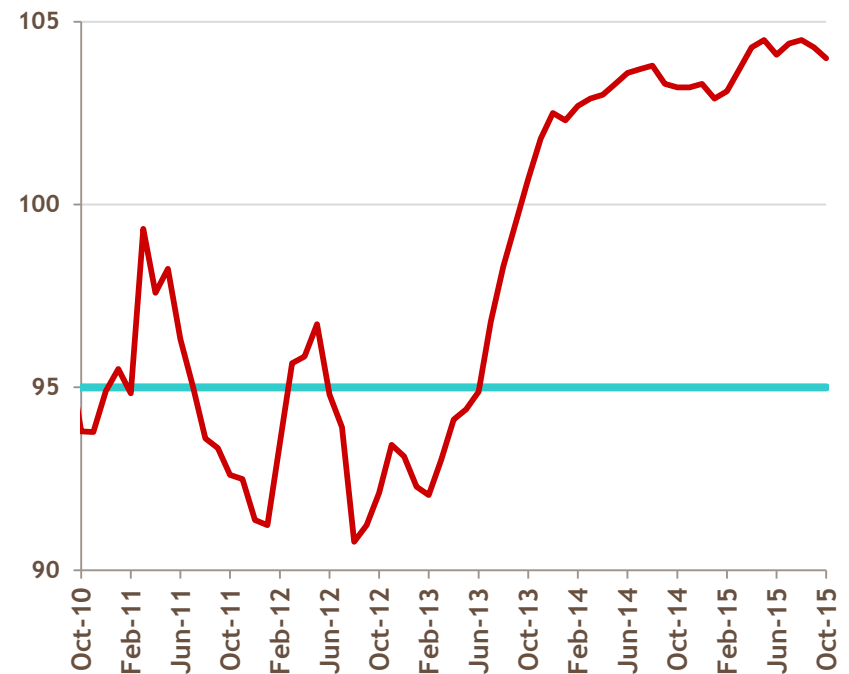
The Employment Index enters its eighth month of decline, reaching levels last seen in 2013 at 107.0. As in late 2013, hiring is proceeding at above its long-term rate. 140,000 more people were in employment during the three months from June to August compared with March to May. As the rise in employment begins to slow, gains in productivity (output per worker) are finally materialising, with latest figures showing growth around 1%.

OUTPUT INDEX HIGHLIGHTS RELIANCE ON SERVICE SECTOR

- The BDO Output Index stood at 103.9 in October, down from 104.3 in September.
- The movement is modest and leaves the index predicting similar output expansion as it did last month. That is, firms expect growth slightly above the long-term rate over the coming months.
- A gap has opened up between the prospects for the services and manufacturing sectors. While the service sub-index is stable at 103.9 (similar to where it has been for some time), manufacturing output has fallen from 106.5 to 103.8.
- This follows some months of decline in the optimism index for manufacturing, and is consistent with generally downbeat assessments for near-term prospects in the sector. Causes include slower growth in export markets and a strong pound.
- For instance, a recent development highlighted in the latest GDP figures was a 7% decline in the UK's steel output.

BDO OUTPUT INDEX

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



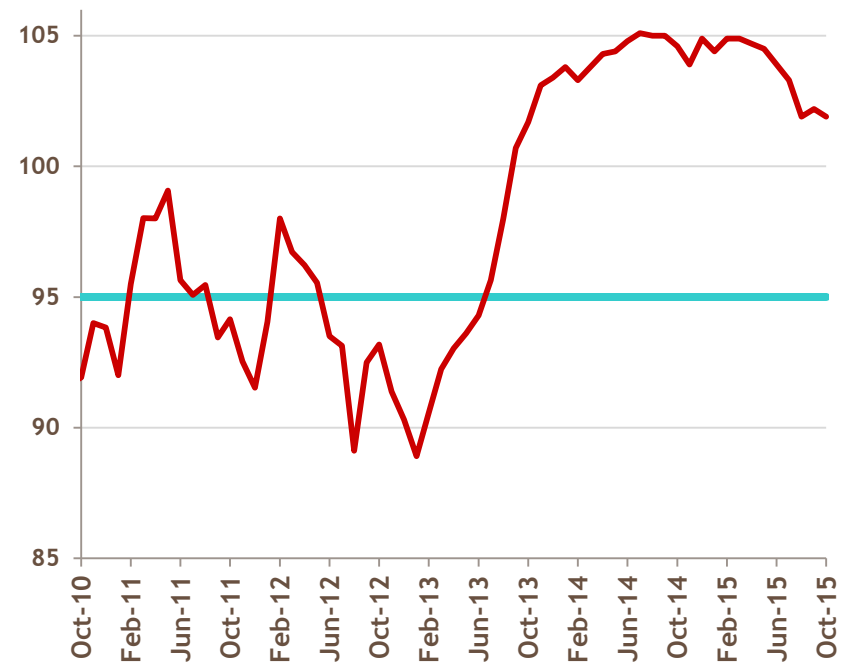
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

BUSINESS CONFIDENCE REVERTS TO DOWNWARD TREND

- The BOD Optimism Index fell during October from 102.2 to 101.9.
- This puts the Index back where it stood in August and also back on a downward trend. The level is the joint lowest since late 2013.
- The latest GDP figures show that growth slowed marginally in the third quarter, as predicted by earlier declines in the Optimism Index.
- Economic growth has become unbalanced and is expected to become more so. Firms' prospects remain worse for those in manufacturing sectors than those in services, mirroring the more recent development in the Output Index. The manufacturing sub-index stands at 90.2 versus 104.2 for services. Both levels are broadly similar to those held last month.

BDO OPTIMISM INDEX

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



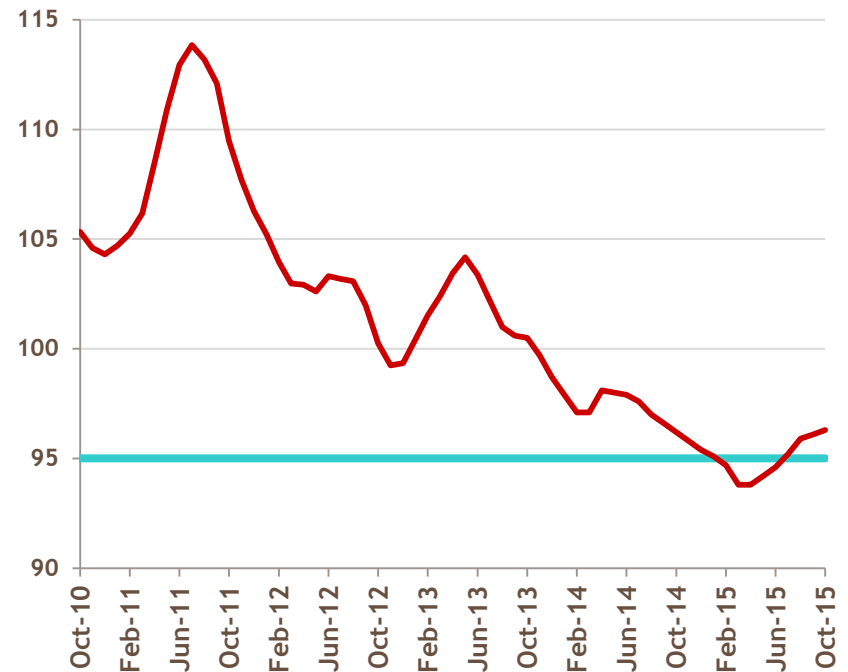
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

FIRMS' COSTS EXPECTED TO STAY LOW

- The BDO Inflation Index remains at a very low level but just out of deflationary territory, at 96.3 compared to 96.1 during September.
- Following weaker economic sentiment around the world, Brent crude oil has traded at slightly lower prices over the past two months than earlier in the year, keeping firms' expectations of price developments.
- On the other hand, faster wage growth reported over recent months demonstrates how a tighter labour market is forcing firms to raise salaries by more. As a more important component of most firms' overall costs, growing labour costs push the level of the index up despite weak prices of oil and other raw materials.
- This divergence between costs of labour and of physical inputs has underpinned movements in the Inflation Index for some time.

BDO INFLATION INDEX

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



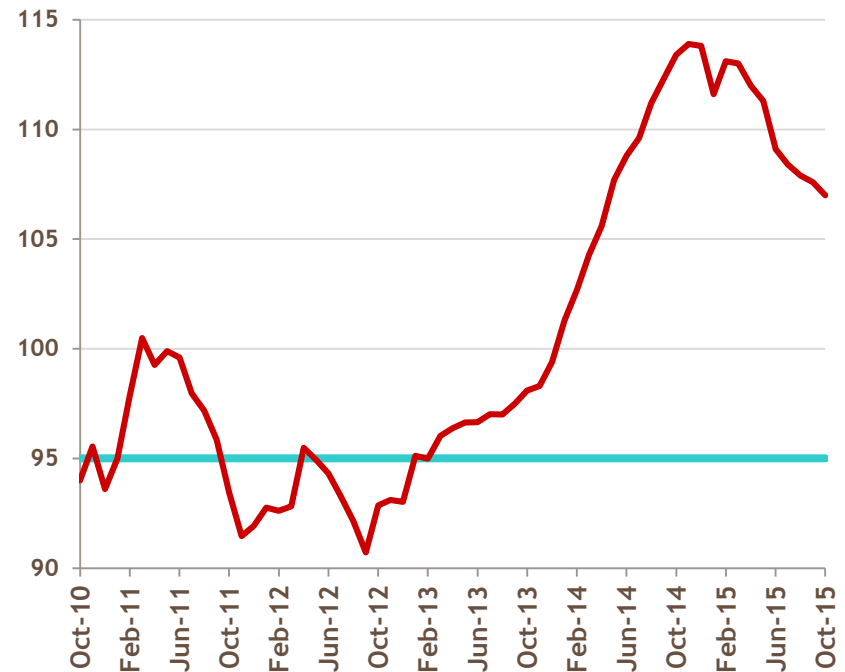
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT PROSPECTS CONTINUE TO RETREAT FROM PEAK

- The Employment Index has fallen from 107.6 during September to 107.0 in October.
- Firms continue to report that they are hiring, and the number in employment is still expanding above the long-term average rate. The workforce is at a record size of 31.1 million.
- However, the index implies the level of hiring activity has been on a downward trend since November of last year.
- While slightly less advantageous for those looking for work, slower hiring has coincided with productivity growth. As wages rise firms need to raise output of existing workers, as further expansion through hiring becomes uneconomical. Increasing productivity requires output expansion to outstrip growth in the number of workers, and was last recorded at a level of around 1%. The rate is low historically, but higher than recent years.

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

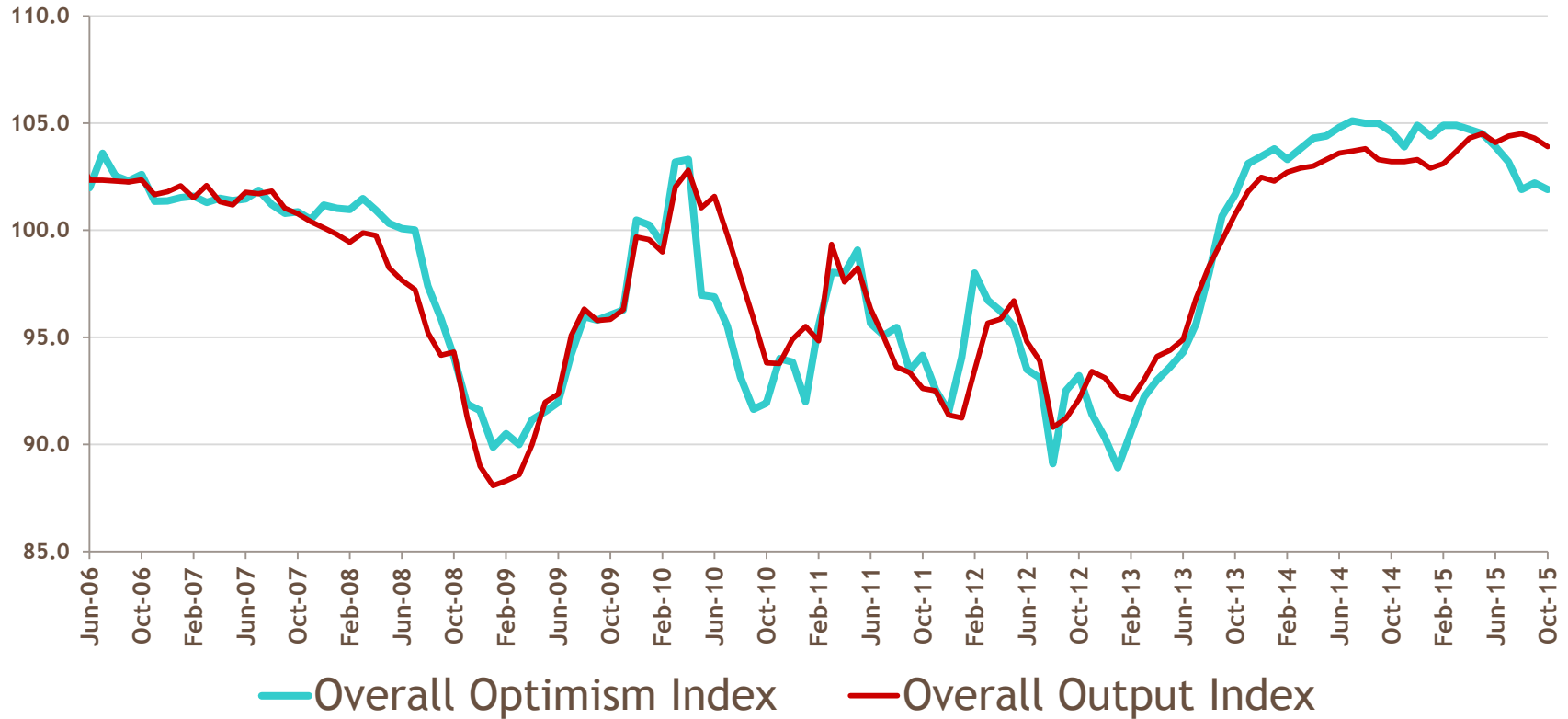
BDO INDICES TO LATEST MONTH

		Oct 2014	Nov 2014	Dec 2014	Jan 2015	Feb 2015	Mar 2015	Apr 2015	May 2015	Jun 2015	Jul 2015	Aug 2015	Sep 2015	Oct 2015
The BDO Optimism Index	Total	104.6	103.9	104.9	104.4	104.9	104.9	104.7	104.5	103.9	103.3	101.9	102.2	101.9
	Manuf.	116.1	114.1	113.9	113.0	111.6	109.8	107.4	103.4	98.5	93.5	86.2	89.0	90.2
	Service	102.3	101.9	103.1	102.7	103.6	103.9	104.1	104.7	105.0	105.1	105.0	104.8	104.2
The BDO Output Index	Total	103.2	103.2	103.3	102.9	103.1	103.7	104.3	104.5	104.1	104.4	104.5	104.3	103.9
	Manuf.	110.1	109.1	108.0	107.3	107.1	107.7	108.8	109.0	107.8	106.8	106.8	106.5	103.8
	Service	101.8	102.1	102.4	102.1	102.3	102.9	103.5	103.6	103.4	103.9	104.1	103.9	103.9
The BDO Inflation Index	Total	96.2	95.8	95.4	95.1	94.7	93.8	93.8	94.2	94.6	95.2	95.9	96.1	96.3
The BDO Employment Index	Total	113.4	113.9	113.8	111.6	113.1	113.0	112.0	111.3	109.1	108.4	107.9	107.6	107.0

APPENDIX 1: MANUFACTURING WOES DRIVE DIP IN OUTPUT EXPECTATIONS

BDO OUTPUT AND OPTIMISM INDICES

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

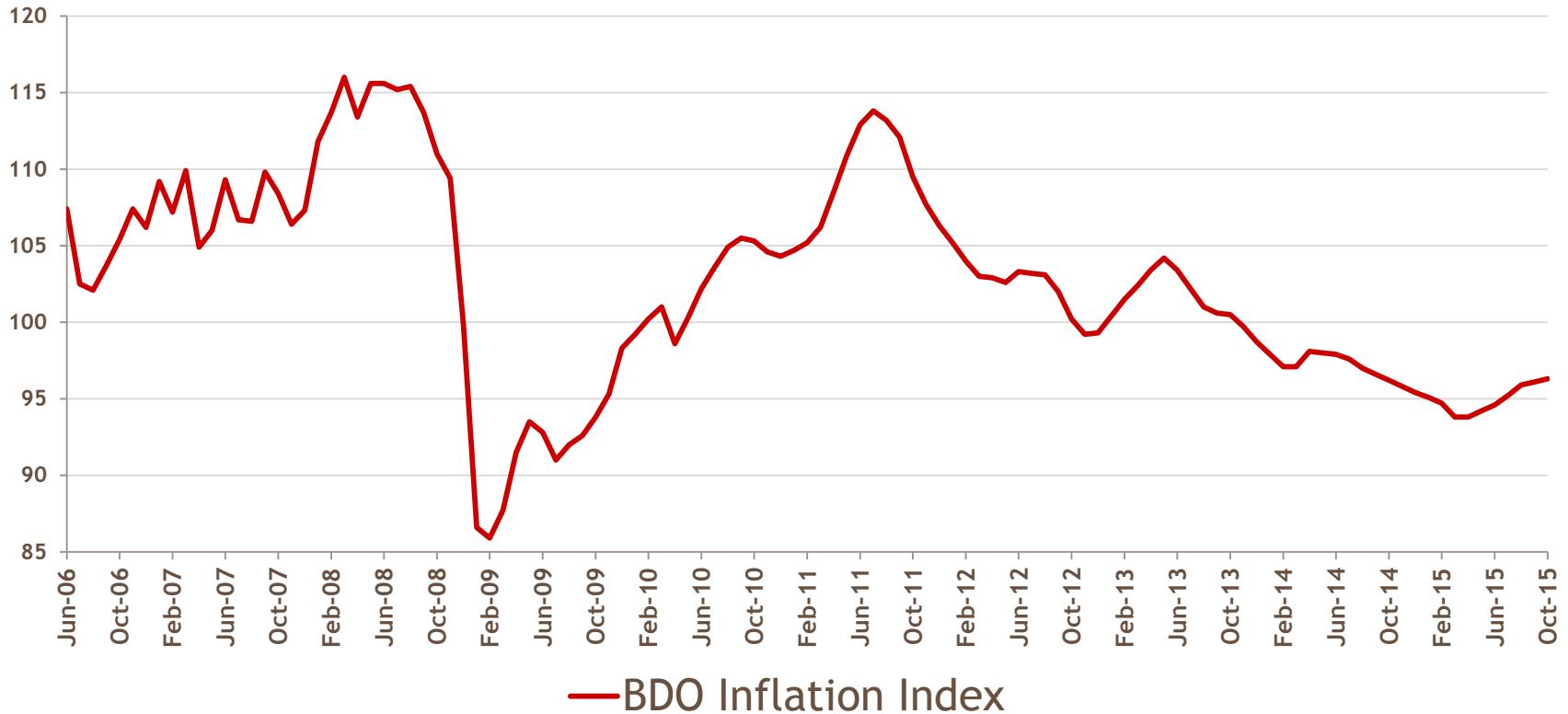


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 2: FIRMS' COSTS STILL SET TO GROW ONLY SLOWLY

BDO INFLATION INDEX

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

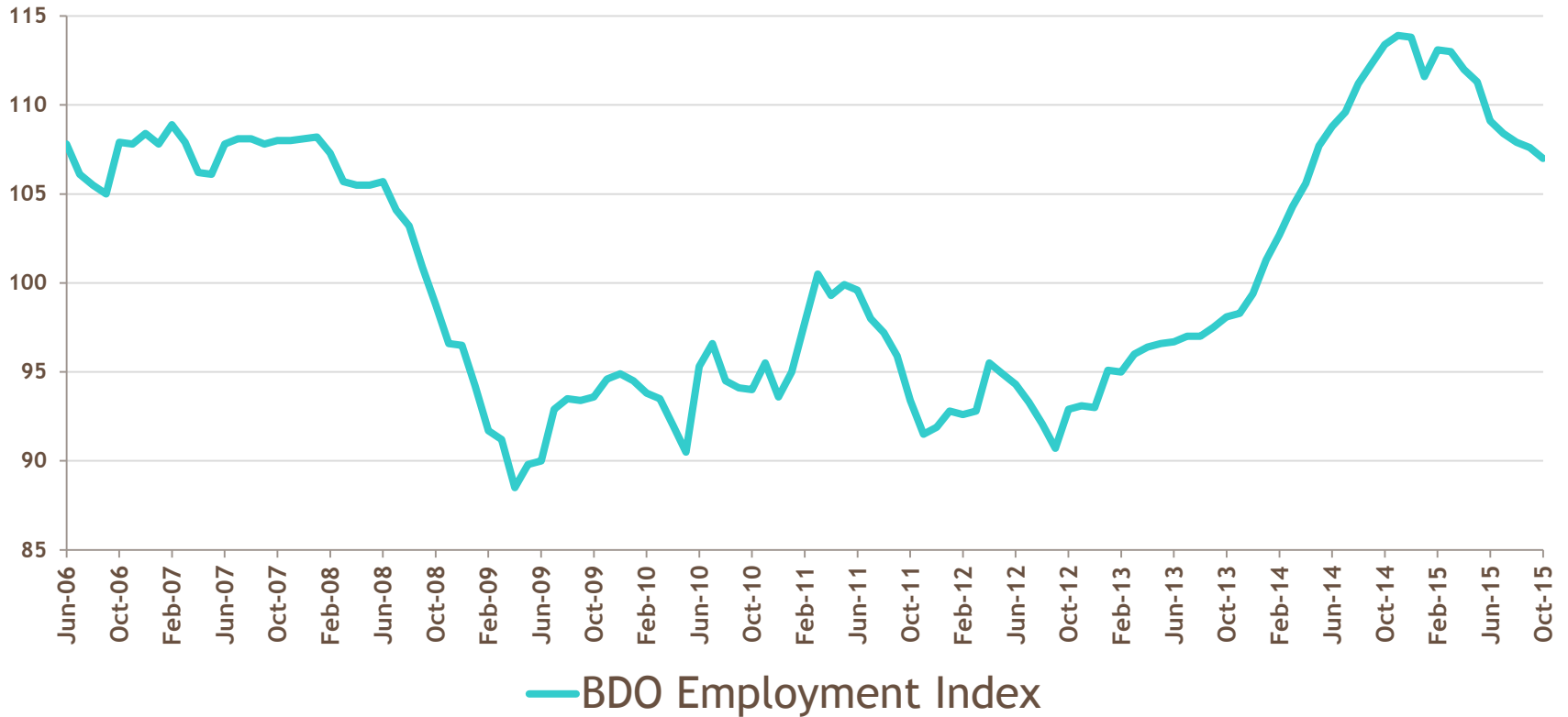


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 3: EMPLOYMENT PROSPECTS CONTINUE RETREAT FROM PEAK

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

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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, the average of the past two cyclical peaks as 110 and the average of the past two cyclical troughs as 90.

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.