



BDO MONTHLY BUSINESS TRENDS INDICES

November 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 October 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	xx	▼	96.6 in October from 96.9 in September
BDO Optimism Index	x	▼	98.5 in October from 99.5 in September
BDO Inflation Index	✓✓	▲	102.8 in October from 102.1 in September
BDO Employment Index	✓	▼	100.9 in October from 101.2 in September

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

The BDO Output Index has fallen from 96.9 in September to 96.6 in October. It remains in expansionary territory but only slightly above the level representing zero growth. The GDP figures released in October showed that Q3 GDP growth was slower than that recorded in Q2. However, for the moment it remains in positive territory.

The BDO Inflation Index continues to climb as the pound has fallen further. The “flash crash” in the currency in recent weeks raises the prospect of significant price rises for consumers and businesses over the coming months, squeezing company profits and household spending power.

The BDO Optimism Index has fallen from 99.5 in September to 98.5 in October. The index enjoyed a post-Brexit bounce especially as manufacturers cheered the lower pound, but this has now lost momentum. Concerns about higher cost price inflation and a lack of clarity over the shape of Brexit may be weighing on optimism.

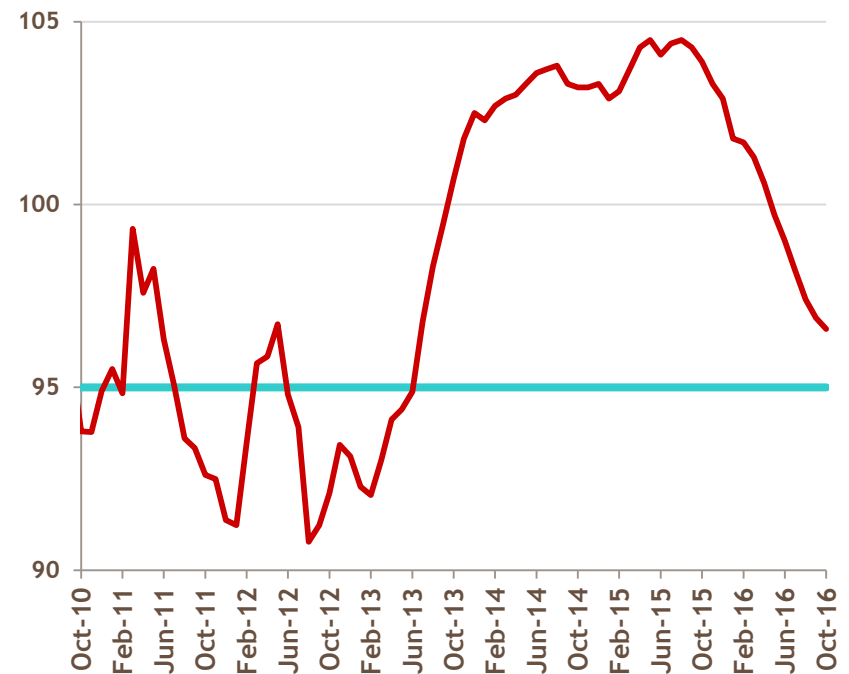
The BDO Employment Index has moved little, inching down from 101.2 in September to 100.9 in October. The labour market has been stable over recent months, with no movement at all in the unemployment rate and little change in the growth of wages.

GROWTH SET TO SLOW

- The BDO Output Index has fallen from 96.9 in September to 96.6 in October. This is its lowest level since June 2013. Both sub-indices - manufacturing and services - saw fairly similarly sized decreases. It remains in expansionary territory.
- The manufacturing output sub-index has fallen back below the 95 mark, a line around which it has been fluctuating for the best part of the past year, and which separates contraction from expansion. The sub-index stands at 94.1 for October compared to 95.1 in the previous month.
- The services sub-index has reached its lowest level since August 2013 (as services form the major component of the index, long-term trends are similar to those in the indicator overall).

BDO OUTPUT INDEX

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



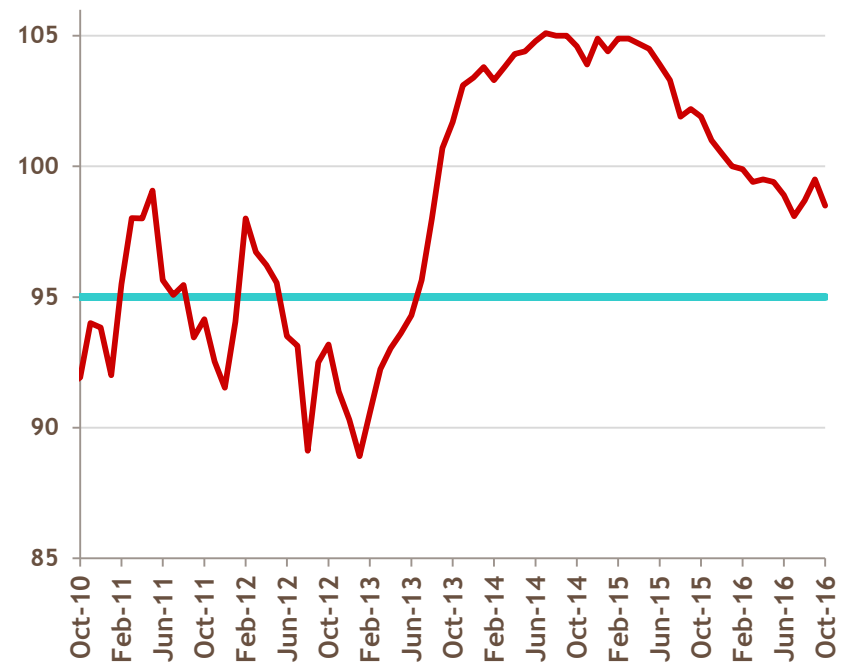
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

POST-REFERENDUM BOUNCE IN OPTIMISM WEARS OFF

- The BDO Optimism Index has fallen to 98.5 in October down from 99.5 in September.
- The bounce after the initial Brexit-related fall has turned out not to be a trend.
- The “flash crash” in the pound in recent weeks may have weighed on company optimism, given that this is likely to feed through into much higher prices for some imported goods and services.
- In addition, there may be some concerns about the ability of the UK to reach a good trade agreement with the EU following Brexit. The recent difficulties faced by the EU in reaching a trade agreement with Canada suggest that a UK-EU agreement could take several years to reach.

BDO OPTIMISM INDEX

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



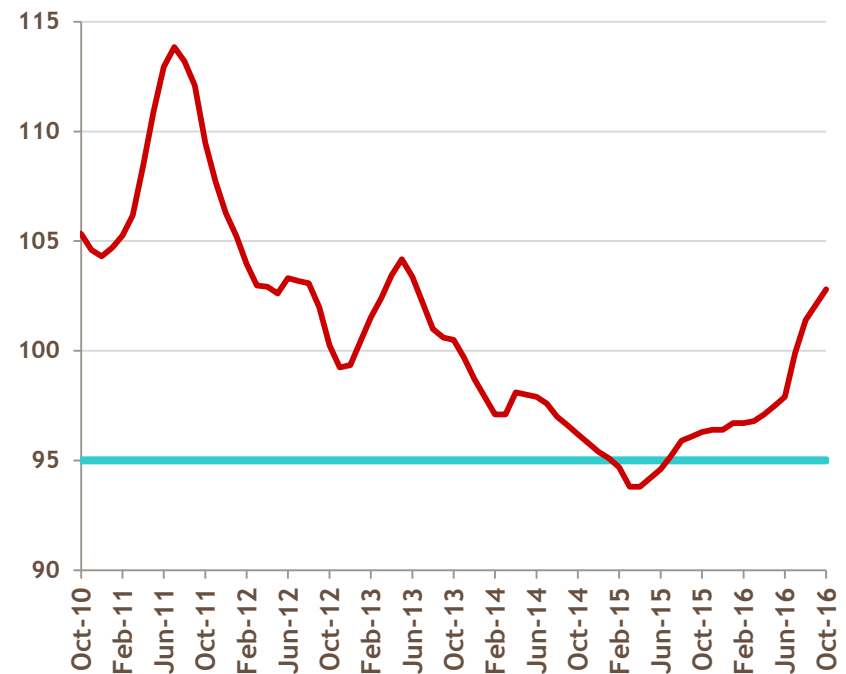
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

FIRMS EXPECTING FASTER PRICE RISES

- The BDO Inflation Index has climbed from 102.1 in September to 102.8 in October, further above the 100 line that separates below-average from above-average performance.
- Consumer inflation shot up from 0.6% in August to 1.0% in September. This was a development foreshadowed by the BDO Inflation Index, which started to rise rapidly immediately following the vote to leave the EU. This is its highest level since June 2013.
- Inflation is likely to rise further over the coming months, overshooting the Bank of England's central target in 2017. Rising import costs will squeeze both household finances and company profits.

BDO INFLATION INDEX

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



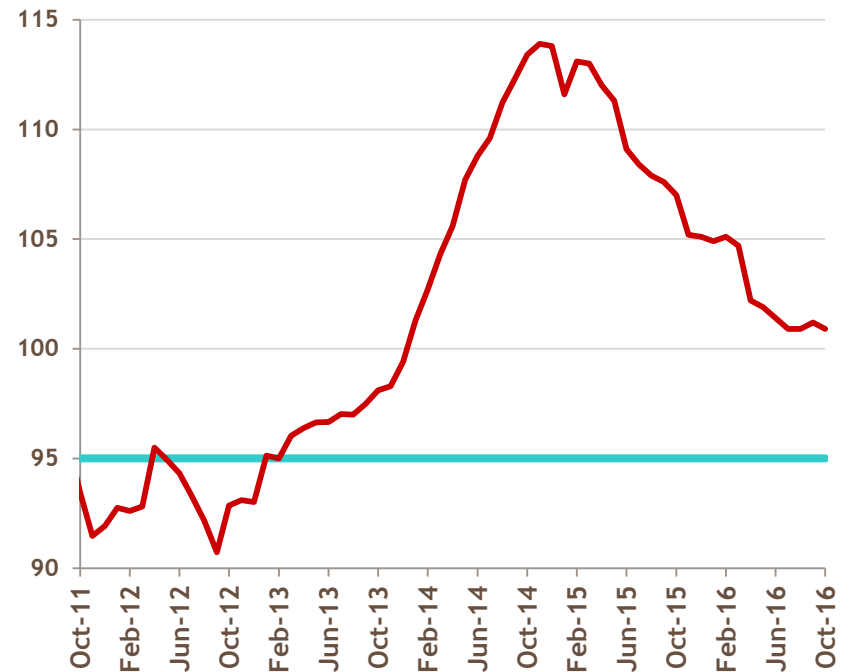
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

LITTLE CHANGE IN LABOUR MARKET

- The BDO Employment Index has fallen from 101.2 in September to 100.9 in October.
- It remains above the long-run average level of 100, below which it has not fallen since 2013.
- Employment is carrying on post-referendum at a fairly consistent pace. The index has been significantly more stable than the others. This is mirrored in official statistics: the unemployment rate has been at 4.9% in the past four months of employment statistics.

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

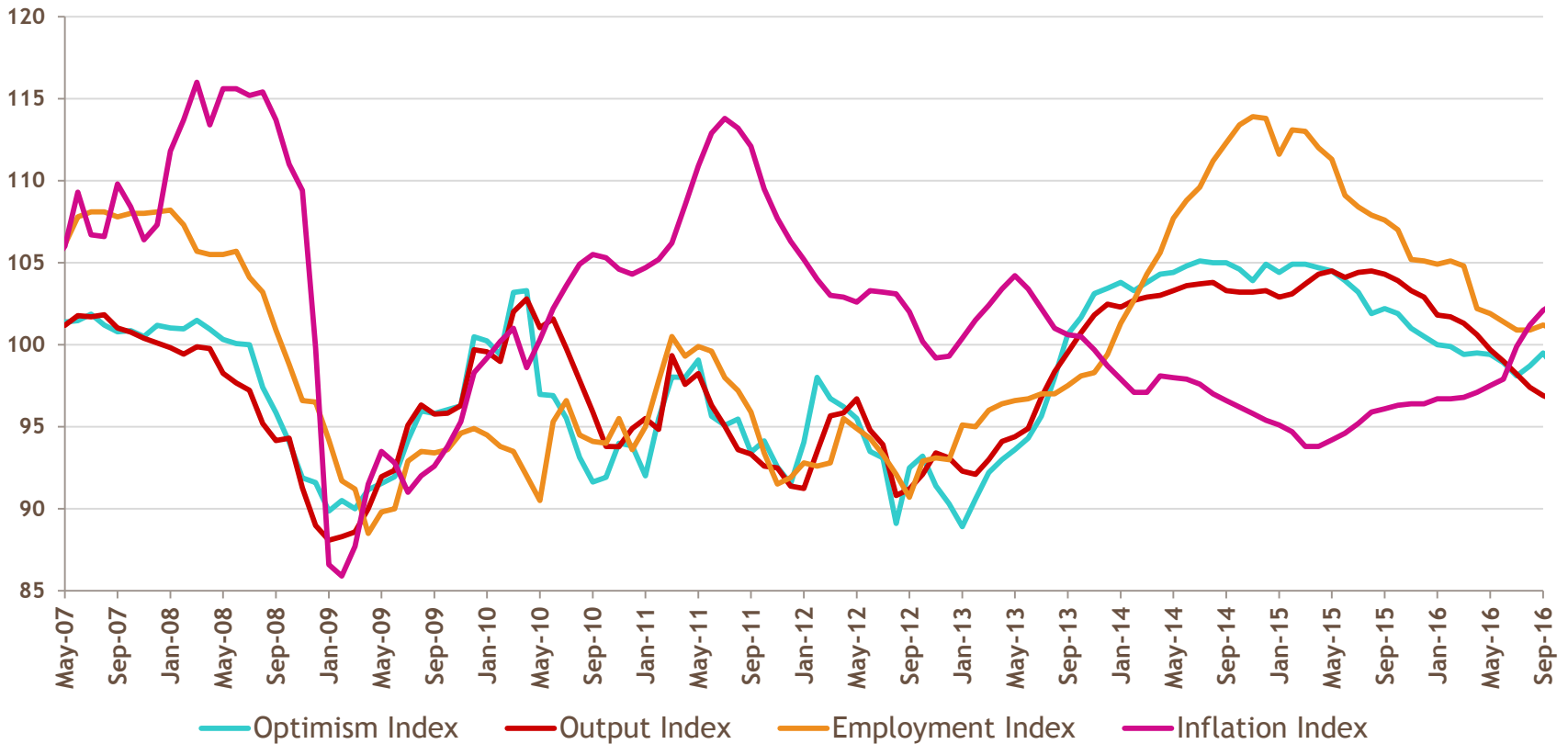
BDO INDICES TO LATEST MONTH

		Oct 2015	Nov 2015	Dec 2015	Jan 2016	Feb 2016	Mar 2016	Apr 2016	May 2016	Jun 2016	Jul 2016	Aug 2016	Sep 2016	Oct 2016
The BDO Optimism Index	Total	101.9	101.0	100.5	100.0	99.9	99.4	99.5	99.4	98.9	97.9	98.7	99.5	98.5
	Manuf.	90.2	88.3	89.6	90.2	90.4	87.0	87.3	86.1	83.8	81.0	85.8	91.3	92.0
	Service	104.2	103.5	102.7	101.9	101.7	101.8	101.8	102.0	101.8	101.2	101.2	101.1	99.8
The BDO Output Index	Total	103.9	103.3	102.9	101.8	101.7	101.3	100.6	99.7	99.0	98.2	97.4	96.9	96.6
	Manuf.	103.8	100.5	98.2	94.7	95.0	96.0	94.4	95.9	95.8	95.4	93.9	95.1	94.1
	Service	103.9	103.9	103.8	103.2	103.0	102.3	101.8	100.4	99.7	98.8	98.0	97.3	97.0
The BDO Inflation Index	Total	96.3	96.4	96.4	96.7	96.7	96.8	97.1	97.5	97.9	99.9	101.4	102.1	102.8
The BDO Employment Index	Total	107.0	105.2	105.1	104.9	105.1	104.8	102.2	101.9	101.4	100.9	100.9	101.2	100.9

APPENDIX: SERVICES FIRMS SEE SLOWDOWN CONTINUING

BDO 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

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.