

▶ A NEW ECONOMY
PUBLICATION

A red watering can is positioned in the upper left quadrant, tilted as if pouring. Below and to the right of the watering can are four small, round, terracotta pots, each containing a different variety of green succulent. The background is a solid grey color. A vertical red bar is located on the left side of the page, extending from the top to the bottom.

BDO MONTHLY BUSINESS TRENDS INDICES

November 2017

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 December 2017, 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	▼	98.99 in November from 99.06 in October
BDO Optimism Index	✓	▼	102.05 in November from 103.17 in October
BDO Inflation Index	✓	▲	100.25 in November from 99.48 in October
BDO Employment Index	✓	▼	111.06 in November from 111.39 in October

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 November, the BDO Output Index stood at 98.99. The index is now at its lowest value in almost 2 years as a result of four consecutive monthly declines.

Underlying the fall in the Output Index is a 3.45 point decline in the BDO Service Output Index. This has been partially offset by a rise in the Manufacturing Output Index. Yet, as four fifths of UK output is services, the sector's fall has a greater bearing on the headline measure.

November's Autumn Budget was accompanied by revised growth projections from the Office for Budget Responsibility (OBR). The downgraded growth projections reflect the slowdown seen in the Output Index in recent months.

The BDO Optimism Index declined sharply in November, as a result of weaker service sector optimism. The index now stands at 102.05.

The November Budget brought some positive news for manufacturers though, with the announcement of an increase in infrastructure investment. The Manufacturing Optimism Index climbed 0.55 points to 110.12 in November, and now stands 9.13 points higher than it did a year ago.

The BDO Inflation Index has been updated this month to account for input price growth as well as that of consumer prices. The index's back history has been changed in line with this.

The Inflation Index climbed to 100.25 in November, up from 99.48 in October. This rise was driven by an increase in the Input Inflation index, which rose 1.7 points to 99.48. Consumer price growth looks set to slow in November, as the Consumer Inflation Index fell marginally to 101.02.

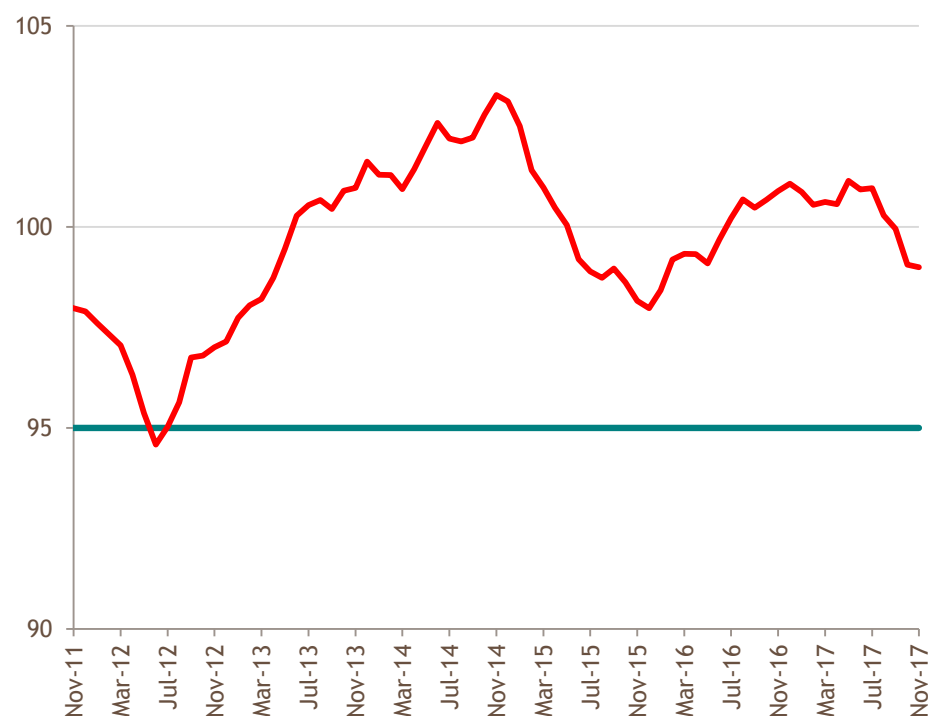
The BDO Employment Index suggests the UK labour market may have passed its peak, having registered three consecutive monthly declines. This would mark a continuation of the decline in the most recent official statistics released by the Office for National Statistics. In the three months to September official statistics show that the employment rate fell 0.2 percentage points to 75.1% compared to Q2 2017. A potential explanation for this is reduced EU migration, with official figures showing that net migration has declined by nearly a third since last year's referendum.

OUTPUT INDEX POINTS TO CONTINUATION OF SLOW GROWTH

- In November, the BDO Output Index stood at 98.99 marginally down from 99.06 in October. The index is now at its lowest level in 23 months after four consecutive monthly declines.
- The index is below 100 indicating that output is currently growing at a slower rate than its long-term trend.
- Since November 2016, the measure has fallen 1.90 points. Though the Manufacturing Output Index has seen double digit growth over this period, the Services Output Index has declined 3.45 points.
- As the service sector makes up around four fifths of UK output, any fall in the sector weighs heavily on the BDO Output Index.
- Updated economic growth projections from the Office for Budget Responsibility (OBR), released this month, reflect the slowdown seen in the Output Index.
- The OBR now expects the UK economy to grow by just 1.5% in 2017, markedly down on the 2.0% forecast at the March Budget.
- The revision came after the OBR revised down assumptions about Britain's persistently low productivity growth.
- Moreover, the Index looks set to stay subdued next year, with the OBR expecting GDP growth of 1.4% instead of the 1.6% it expected in March.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



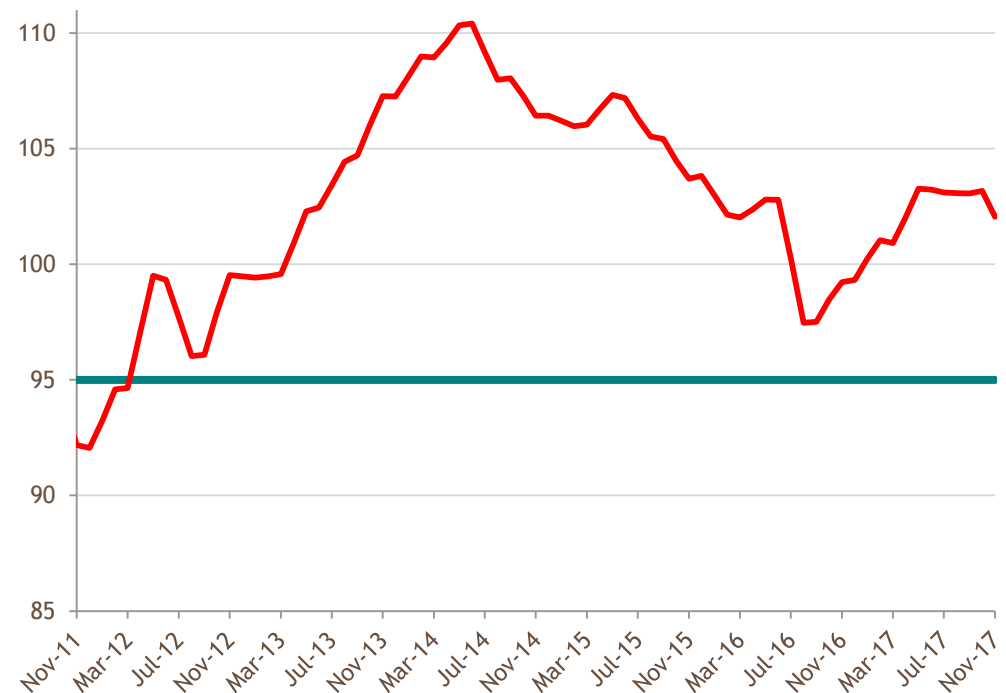
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

SERVICE SECTOR OPTIMISM SLIDES

- The BDO Optimism Index stood at 102.05 in November, down from 103.17 in October. The index, which assesses how optimistic firms are about output three to six months from now, remained above its long-term average.
- The sharp decrease was driven entirely by a fall in service sector optimism. The Service Optimism Index is now at 101.03, 1.32 points lower than in October, though still above its value in November of last year.
- Meanwhile, the Manufacturing Optimism Index climbed 0.55 points to 110.12 in November. The measure has been boosted by the pound's continued slide and now stands 9.13 points higher than it did in the same month last year.
- The November Budget brought some positive news for manufacturers as the Chancellor increased the R&D tax credit to 12% and announced a Transforming Cities Fund to boost regional infrastructure. This will be welcomed by manufacturers, as they look to transport their goods more cheaply around the UK.
- The perpetual uncertainty around the UK's future trade and migration arrangements remains a threat to confidence going forward.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



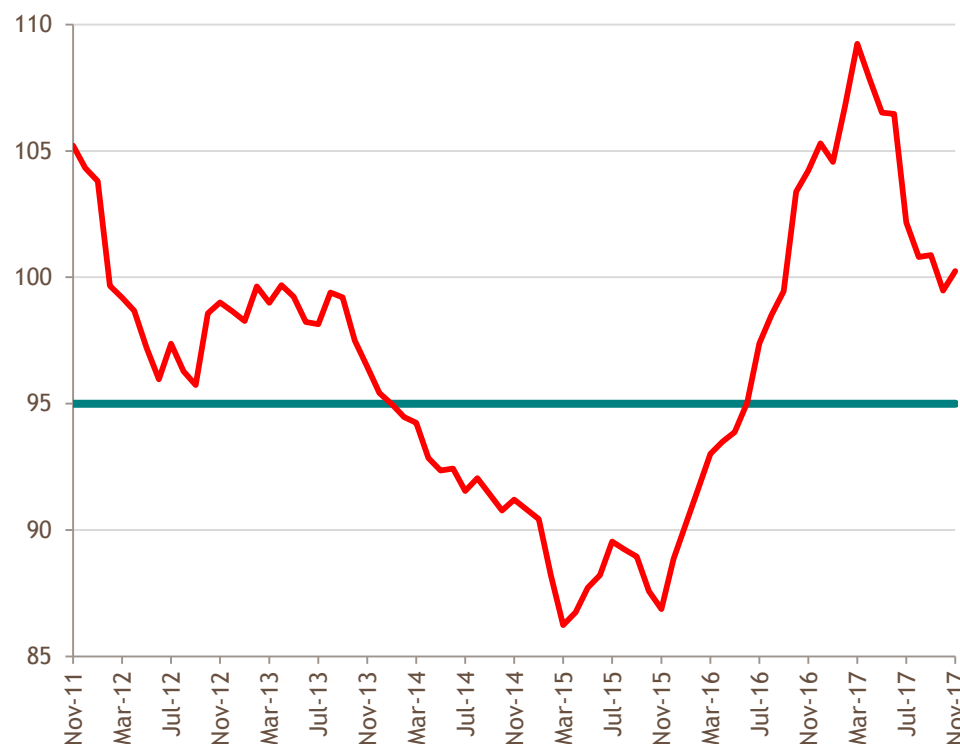
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INPUT PRICES CLIMB IN NOVEMBER

- The BDO Inflation Index climbed to 100.25 in November from 99.48 in October. Having risen rapidly in the wake of last year's referendum to a high of 109.24, the index has moderated somewhat but rose again above its long run average last month.
- The BDO Consumer Inflation Index declined 0.15 points to 101.02 in November. Though it is the second consecutive monthly decline, the measure remains higher than it stood in November last year.
- The rise in the overall index seen this month was driven by the BDO Input Inflation Index. The measure, which tracks the price growth of manufacturers input costs, climbed 1.7 points to 99.48.
- The most recent official data show that input prices grew by 4.6% year-on-year in October. Though this is high relative to the pace of consumer price growth, it is still well below the 19.9% year-on-year growth registered in January.
- It is thanks to the UK's competitive retail environment that consumer price growth has remained fairly moderate, with the BDO Consumer Price Index peaking at 101.45 in September despite the high input price growth seen since last year's referendum.
- Food and drink prices are prime example of the UK's competitive retail landscape. About 40% of food and non-alcoholic beverages are imported into the UK, yet while the trade-weighted value of the pound has fallen 17% since its peak in August 2015, food and beverage prices have increased only 1%, thanks to a prolonged period of falling prices in 2015-16.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



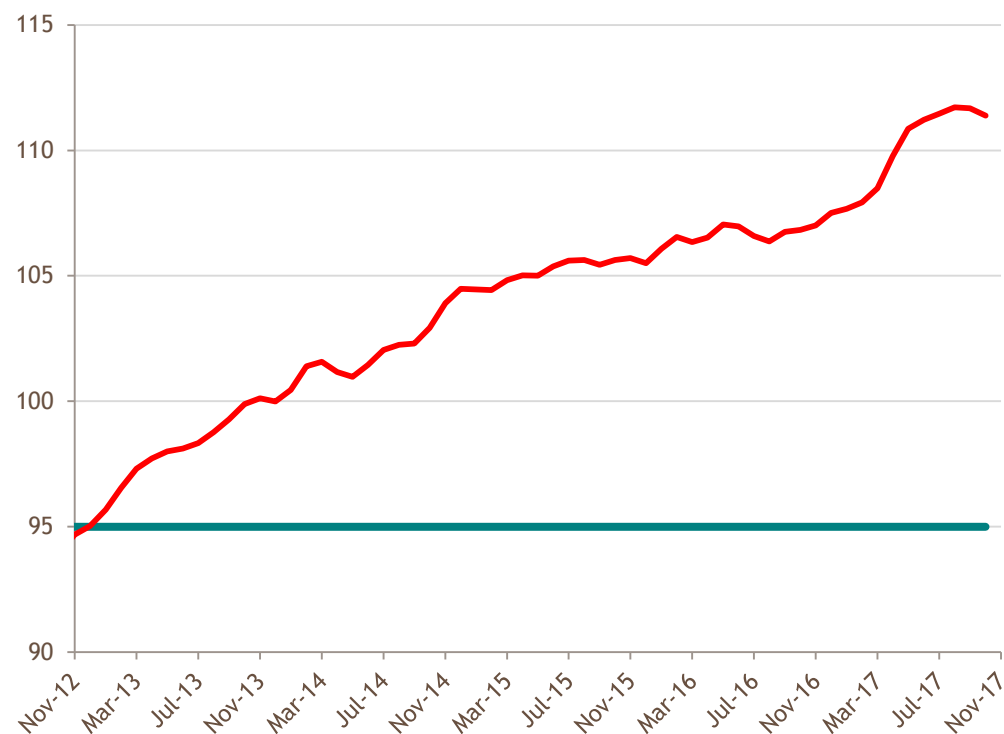
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

UK EMPLOYMENT LOOKS TO HAVE PASSED ITS PEAK

- In November, the BDO Employment Index fell 0.33 points to 111.06. Having now declined for three consecutive months, when taken in conjunction with official statistics, the BDO Employment Index suggests that the labour market has passed its peak.
- Nevertheless, the Employment Index remains at high level, reflecting the soaring levels of labour market participation shown in the official data in recent months.
- In the three months to September official statistics show that the unemployment rate remained unchanged at 4.3%, while the employment rate fell 0.2 percentage points to 75.1%, compared to Q2 2017.
- Comparing the second and third quarters of 2017 shows that the number of people in work decreased slightly by 14,000.
- A potential explanation for the recent decline is that reduced migration figures are already starting to impact the labour market. The latest migration data from the Office for National Statistics show net migration is estimated to have fallen by nearly a third to +230,000 in the year since the UK voted to leave the EU last June.
- Immigration declined by 80,000 people over the year, with around three-quarters of the drop due to fewer EU citizens coming to live in the UK. Emigration also increased, again particularly among EU citizens.

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

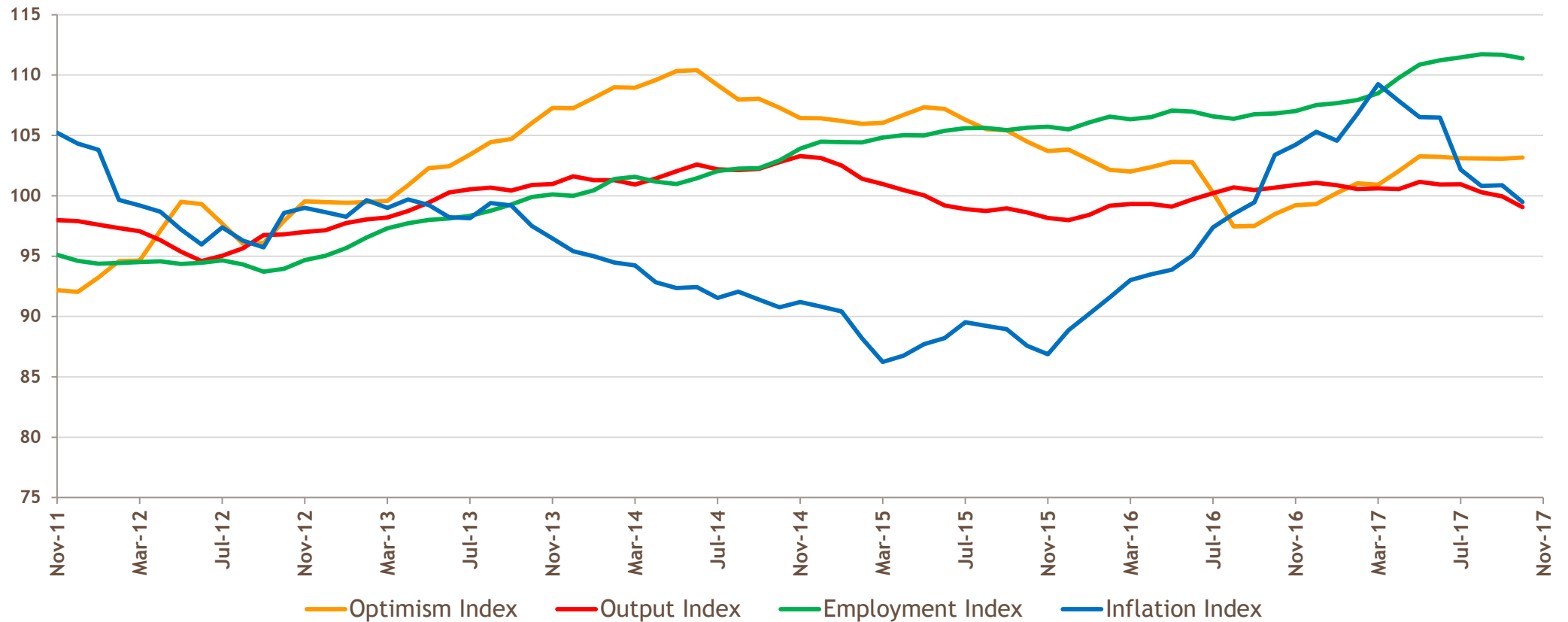
BDO INDICES TO LATEST MONTH

		Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
The BDO Optimism Index	Total	100.23	101.04	100.92	102.04	103.27	103.23	103.10	103.08	103.07	103.17	102.05
	Manuf.	103.00	104.62	104.75	105.79	106.65	106.54	107.67	108.86	108.71	109.57	110.12
	Service	99.88	100.59	100.43	101.57	102.85	102.81	102.52	102.35	102.35	102.36	101.03
The BDO Output Index	Total	100.87	100.55	100.62	100.56	101.14	100.93	100.96	100.29	99.95	99.06	98.99
	Manuf.	94.15	94.76	98.06	101.17	106.21	106.66	105.90	100.28	97.57	97.63	99.33
	Service	101.72	101.28	100.94	100.49	100.50	100.21	100.34	100.29	100.25	99.24	98.95
The BDO Inflation Index	Total	104.56	106.79	109.24	107.86	106.51	106.47	102.17	100.81	100.88	99.48	100.25
	Input	110.33	113.81	118.01	115.00	111.89	111.48	103.49	100.79	100.32	97.78	99.48
	Consumer	98.80	99.78	100.47	100.72	101.14	101.46	100.85	100.83	101.45	101.17	101.02
The BDO Employment Index	Total	107.67	107.93	108.49	109.77	110.86	111.22	111.46	111.72	111.68	111.39	111.06

APPENDIX: OUTPUT GROWTH WEAKENS IN NOVEMBER

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.