

A red watering can is positioned in the upper left quadrant, tilted as if pouring. Below it, four small 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

March 2019

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 April 2019, 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	▲	98.74 in March from 98.32 in February
BDO Optimism Index	XX	▼	96.10 in March from 99.79 in February
BDO Inflation Index	X	▲	98.17 in March from 97.41 in February
BDO Employment Index	✓	▼	113.92 in March from 113.99 in February

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 employment and optimism indices both fell between February and March, while the inflation and output indices recorded gains.

The BDO Output Index edged up from 98.32 in February to 98.74 in March. This suggests that while growth remains weak, the UK economy has not deteriorated in the early part of 2019.

The BDO Optimism Index fell by a dramatic 3.79 points to 96.10 in March, as survey data show that political uncertainty and the risks of a no-deal Brexit continue to cripple business confidence. The index is now below the level seen in the immediate aftermath of the EU referendum.

The BDO Inflation Index rose from 97.41 in February to 98.17 in March, as higher oil prices have buoyed input prices. The latest ONS data also show that the annual rate of consumer price inflation returned to an upward trajectory in February, as the improvement in wage growth begins to feed into prices.

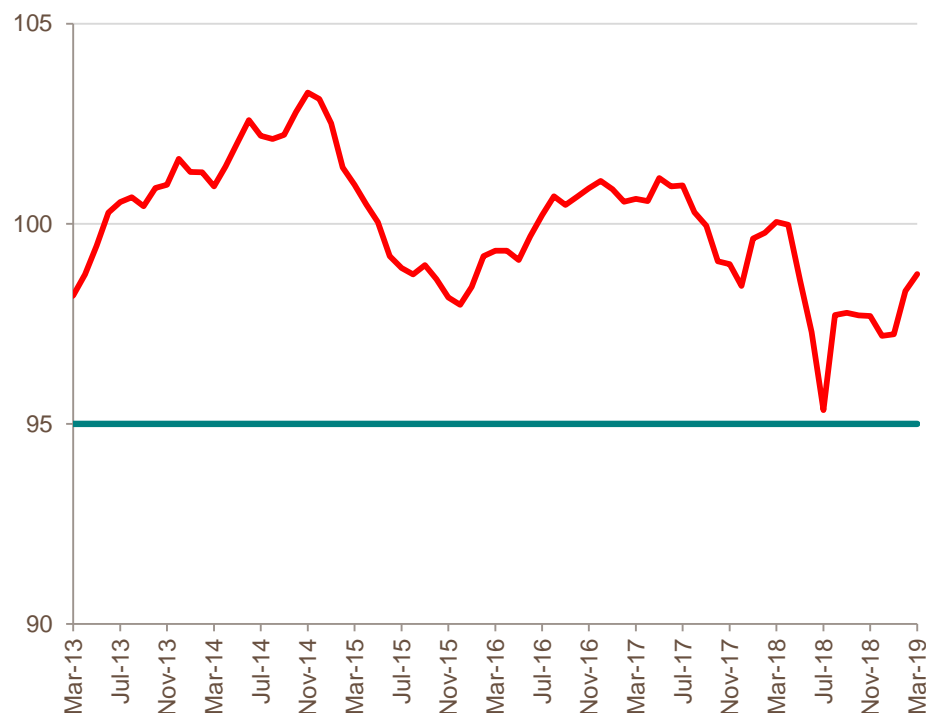
The BDO Employment Index edged down to 113.92 in March, from 113.99 in February. The projected slowdown in economic growth later in the year is expected to weigh further on the index going forward.

OUTPUT INDEX EDGES UP FOR THIRD CONSECUTIVE MONTH IN MARCH

- The BDO Output Index rose from 98.32 in February to 98.74 in March. While this score remains weak by historical standards, the data suggest that the UK economy has been able to keep its head above the water so far in 2019, despite the headwinds of domestic political uncertainty and a darkening global economic outlook.
- Following five months of major declines, the BDO Manufacturing Output Index stabilised somewhat in March, falling by a modest 0.04 points to 97.32. Stockpiling of both inputs and finished goods reached yet new heights last month, as manufacturers scrambled to implement their Brexit contingency plans.
- The BDO Services Output Index rose by 0.48 points to 98.92 between February and March, which is the highest level since April 2018. ONS data for January show that the services sector continues to outperform the rest of the economy, as the rolling three-month growth rate accelerated by 0.1 percentage points to 0.5%. The largest contributor to growth in services came from wholesale and retail trade, with wholesalers in particular benefitting from firms' continued stockpiling activities.
- As was the case in February, the output indices for both the services and manufacturing sectors have been supported by the very weak levels of growth that took place at the start of last year due to adverse weather, which has pushed up the year-on-year growth rates recorded in recent months.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



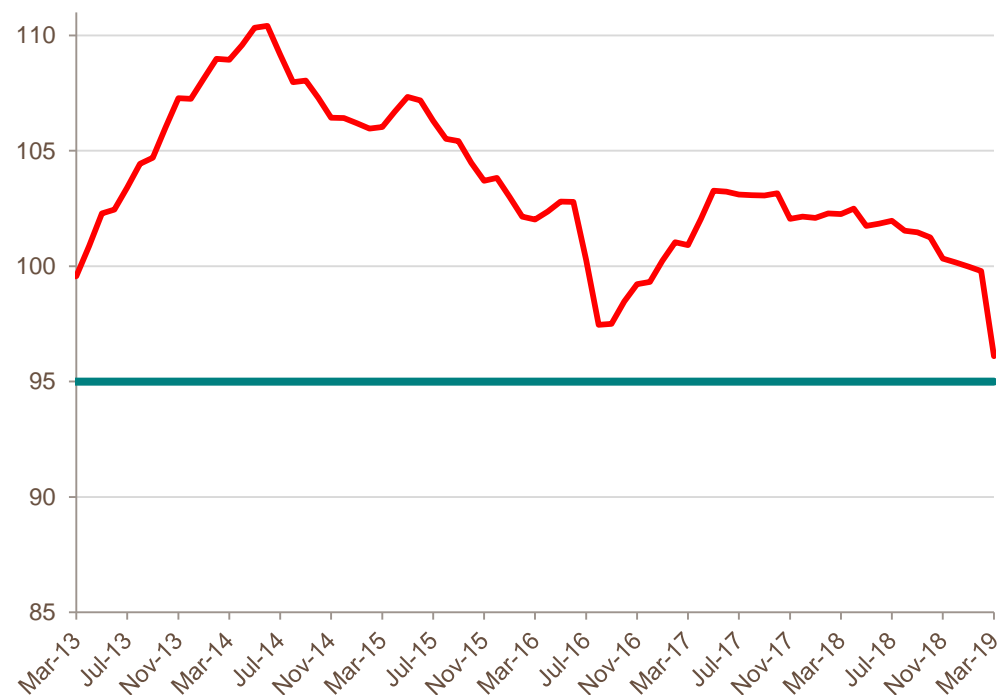
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

BDO OPTIMISM INDEX TUMBLES IN MARCH

- The BDO Optimism Index fell precipitously last month, from 99.79 in February to 96.10 in March. This is the lowest that the index has been since 2012, suggesting that business sentiment is even weaker now than it was in the immediate aftermath of the EU referendum in June 2016.
- The BDO Manufacturing Optimism Index declined to 103.73 in March from 103.84 in February. However, the BDO Services Index fell by a more dramatic 4.15 points to 95.13 in March, as new survey data show that UK businesses' concerns have intensified in 2019.
- While a slowing UK economy and a gloomy global outlook will be undermining firms' confidence, political uncertainty is the most immediate factor weighing on sentiment. Fears of a no-deal Brexit had been assuaged slightly after MPs voted to take this outcome off the table and request an extension to Article 50. However, while a short-term extension until April 12th was agreed, it is by no means clear whether parliament will be able to find a consensus on a path forward. A no-deal Brexit remains the legal default outcome.
- With Brexit uncertainty raging on and the prospect of further extensions to Article 50, confidence looks set to stay weak going into the second quarter.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



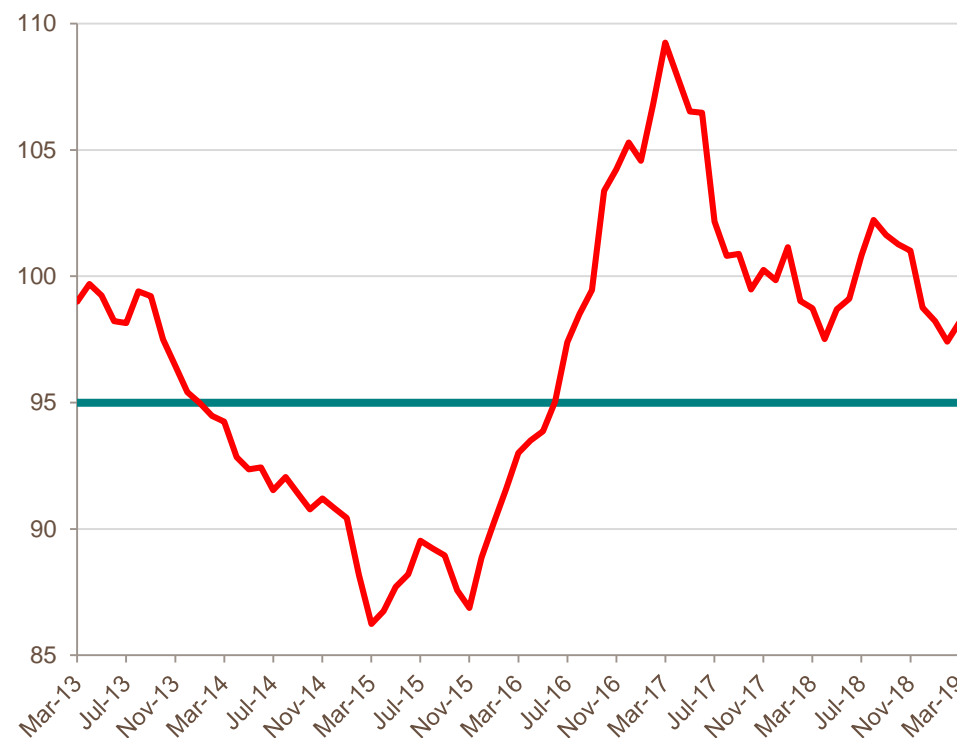
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION INDEX RISES FOR FIRST TIME SINCE AUGUST 2018

- The BDO Inflation Index rose by 0.76 points from 97.41 in February to 98.17 in March.
- The major driver of this increase was the BDO Input Inflation Index, which climbed from 95.75 in February to 97.45 in March. This was driven by a continued recovery in oil prices. A slight strengthening of the pound in March against the euro and the US dollar prevented an even more pronounced increase in the index.
- Official data from the ONS show that the annual rate of CPI inflation increased by 0.1 percentage points to 1.9% in February. Food, alcohol, tobacco, recreational goods and cultural goods all made positive contributions to the headline rate.
- With average wage growth remaining strong and oil prices bouncing back, Cebr forecasts that inflation will pick up again in Q2, averaging 2.0% year-on-year.
- However, this forecast is very much dependent on political developments. In particular, the outcome of the Brexit process could have significant ramifications for interest rates, trade policy and the pound, which would each feed into both consumer and producer prices.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



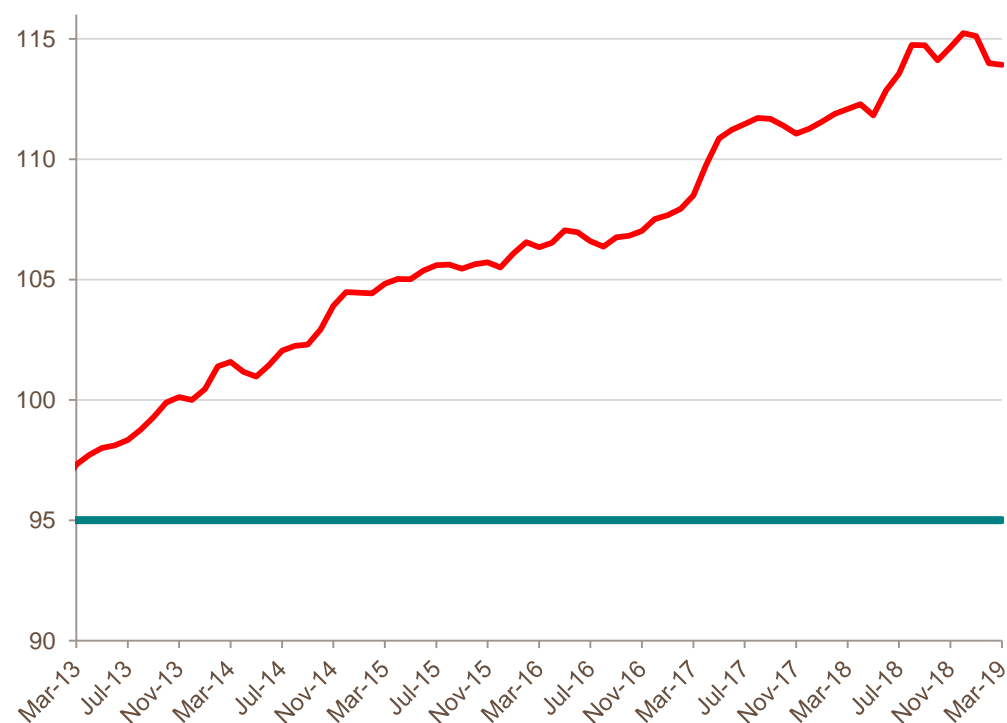
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT INDEX CREEPS DOWN IN MARCH

- The BDO Employment Index remained broadly stable in March, edging down to 113.92 from 113.99 in February.
- While business surveys continue to suggest that uncertainty is constraining firms' hiring plans, the latest data from the ONS show that this has yet to feed into the overall figures on the UK labour market. In the three months to January 2019 the employment rate rose to 76.1%, which is the highest estimate on record, while simultaneously the economic inactivity rate fell to 20.7%, its lowest ever level. The number of people aged 16 years and over in employment rose to 32.71 million people, 473,000 more than for a year earlier.
- This data, together with the persistent decline in business investment observed in recent quarters indicates that firms have met demand through hiring additional staff rather than by making longer term investments to boost activity. Given the UK's uncertainty economic outlook, this reflects a preference for the relative flexibility associated with investments in labour compared to investments in capital.
- Spare capacity in the labour market is running extremely low, which is continuing to power solid growth in average earnings. However, this is also likely to weigh on firms' demand for labour going forward. The projected slowdown in economic activity in 2019 is expected to bring with it a decline in the employment index in the coming months.

BDO EMPLOYMENT INDEX

100 = average value. Greater than 95 = positive



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

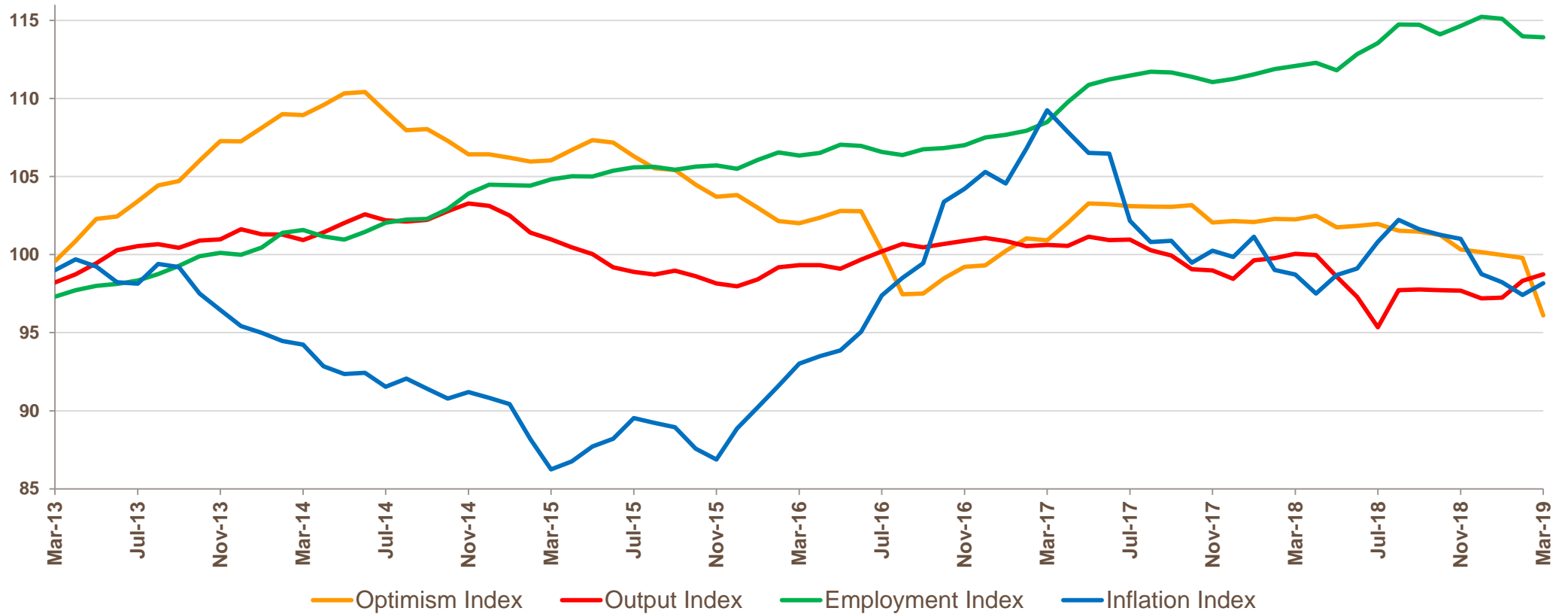
BDO INDICES TO LATEST MONTH

		Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
The BDO Optimism Index	Total	101.53	101.47	101.25	100.33	100.16	99.98	99.79	96.10
	Manuf.	108.55	108.48	106.66	105.02	104.90	104.40	103.84	103.73
	Service	100.64	100.59	100.56	99.74	99.55	99.42	99.28	95.13
The BDO Output Index	Total	97.72	97.78	97.72	97.69	97.20	97.24	98.32	98.74
	Manuf.	102.06	103.26	102.74	100.61	98.60	98.37	97.36	97.32
	Service	97.17	97.08	97.08	97.32	97.02	97.10	98.44	98.92
The BDO Inflation Index	Total	102.23	101.63	101.27	101.01	98.76	98.23	97.41	98.17
	Input	103.90	102.82	102.19	101.95	97.99	97.00	95.75	97.45
	Consumer	100.55	100.44	100.35	100.06	99.53	99.47	99.06	98.90
The BDO Employment Index	Total	114.74	114.72	114.11	114.65	115.24	115.11	113.99	113.92

APPENDIX: INCREASES REGISTERED IN TWO OF THE FOUR INDICES

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.