



BDO MONTHLY BUSINESS TRENDS INDICES

October 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 September 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	▼	96.9 in September from 97.4 in August
BDO Optimism Index	x	▲	99.5 in September from 98.7 in August
BDO Inflation Index	✓✓	▲	102.1 in September from 101.4 in August
BDO Employment Index	✓	▲	101.2 in September from 100.9 in August

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 between August and September from 97.4 to 96.9. The slowdown relates to the services sector, while manufacturing firms have actually seen a pickup in orders as the weak pound helps them sell to overseas markets. The manufacturing index, at 95.1, is now just back into positive territory.

The BDO Inflation Index has lifted slightly higher. It now stands at 102.1 compared to 101.4 last month. The slide in sterling will force firms to put up prices at some point, as they have currently absorbed higher imported input prices but will have to pass these on at some point.

The BDO Optimism Index has moved up for a second month. It reached 99.5 in September, almost the long-term trend level. Again, there was a sector divide with the services sub-index falling while manufacturing rose. UK businesses now face the threat of a “hard Brexit” without single market access. This may spook services firms more than manufacturers, as trade in goods rules are generally much more liberal than those regarding services under the “fallback” trading option of World Trade Organisation rules.

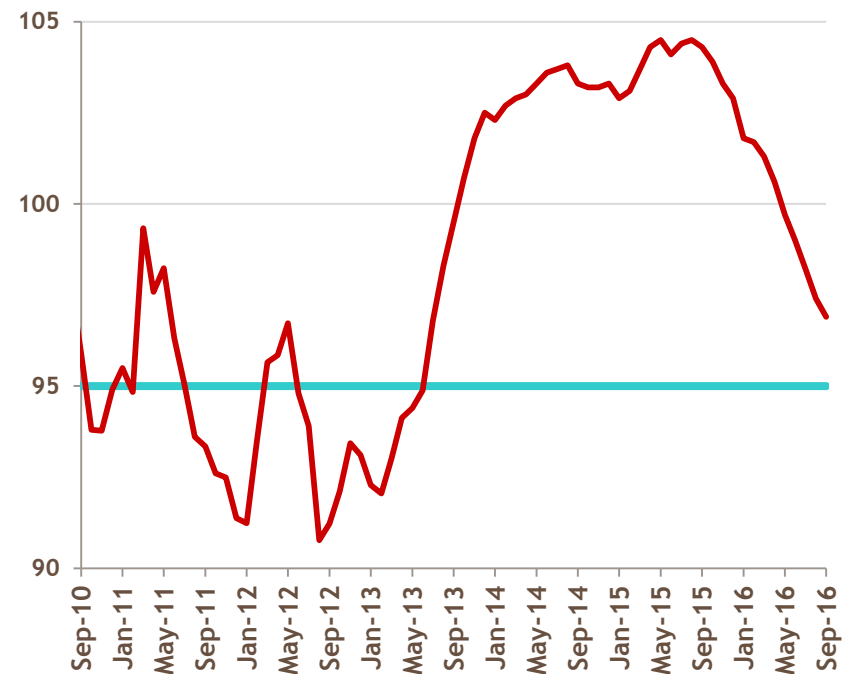
The BDO Employment Index edged closer to its pre-referendum level. It now stands at 101.2 compared to 100.9 last month, just shy of the 101.4 seen in June. Compared to levels in recent years, the Employment Index is relatively subdued. Firms are still expecting hiring to continue at just above the long-term average rate.

SERVICES FIRMS SEE SLOWDOWN CONTINUING

- The BDO Output Index has edged down between August and September from 97.4 to 96.9. The current level represents positive growth, though below the long-term trend. The fall represents a continuation of a trend that predated Brexit.
- Manufacturing firms have actually seen a slight lift, from 93.9 in August to 95.1 in September, reflecting a more benign environment for exports in the more international goods trade. The pound is weakened since the Brexit vote and likely to fall further now that single market membership is starting to look less probable.
- The slowdown is in the larger services sector. This has more to fear from departure from the single market, since financial firms and many auxiliary business service providers would be affected in the event of losing passporting rights.

BDO OUTPUT INDEX

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



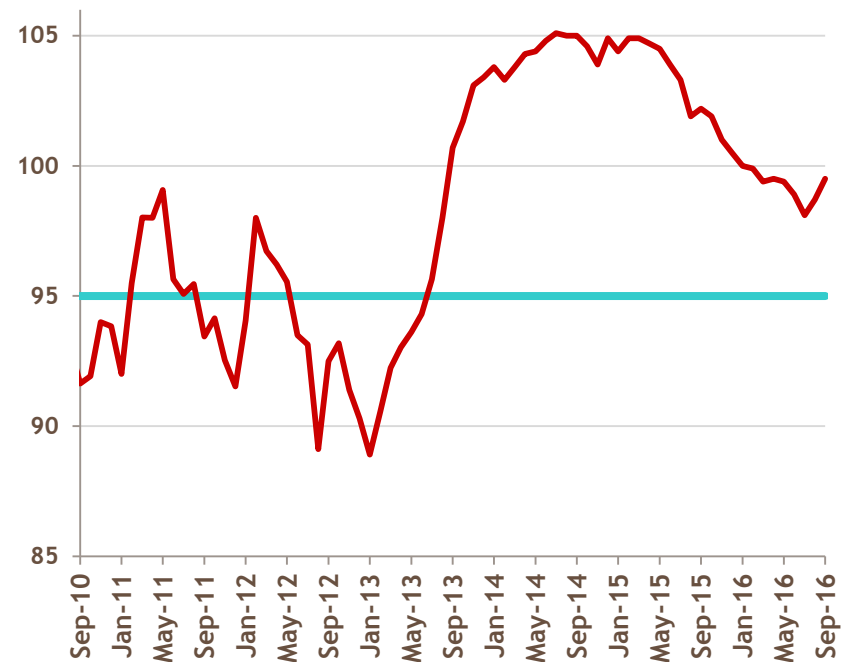
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

MANUFACTURERS CHEERED BY SLIDE IN STERLING

- The BDO Optimism Index has ticked up slightly. It now stands at 99.5, just below its long-term trend rate of growth.
- Confidence among services firms had another quiet month, edging down from 101.2 in August to 101.1 in September. Uncertainty over the post-Brexit future means that the services sector has little more clarity over its future than it did immediately after the referendum.
- There is slightly more information on future trading relations now that the timeline for triggering Article 50 has been announced. But the issue of single market membership remains undecided.
- Manufacturing firms have seen a 5.5 point rise in their confidence sub-index. From 85.8, the index now stands at 91.3 - still in negative territory but closer to neutral. The additional slide in the pound has probably contributed as manufacturers expect to see a further boost to competitiveness.

BDO OPTIMISM INDEX

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



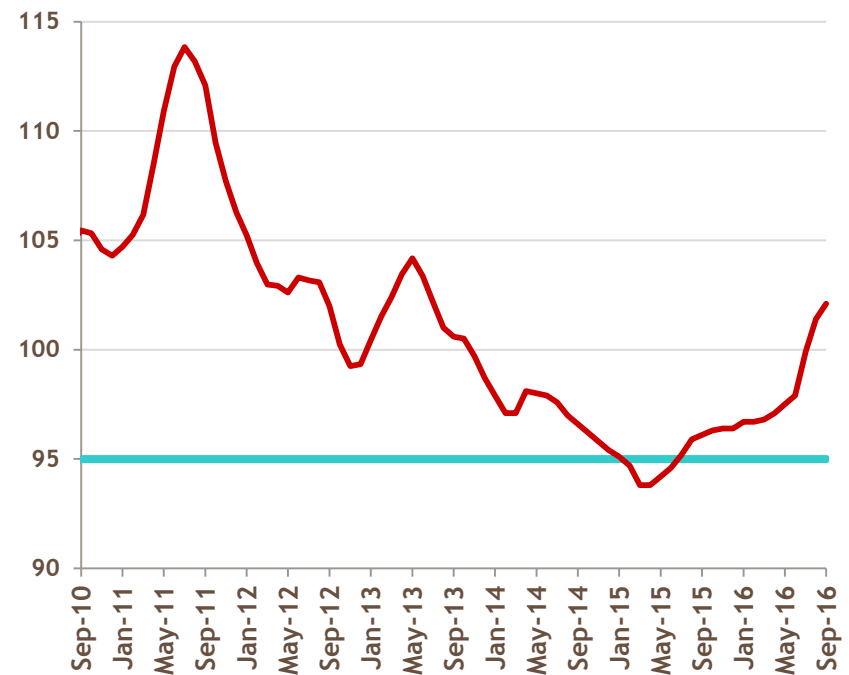
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INPUT COSTS TO CLIMB

- The BDO Inflation Index, which tracks firms' expectations of price movements over the near future, has inched higher to 102.4. Firms expect price movements to go slightly above the long-term average trend in the near future.
- This is to be expected owing to the further slide in the pound's value. After Prime Minister May's Conservative Party Conference speech it fell back to the post-Brexit low of 91.28. This will raise prices for UK firms using imported inputs, and eventually pass through into consumer prices as well.
- So far, firms are generally absorbing the costs rather than passing them on, but this will create strains on margins and so cannot go on indefinitely.

BDO INFLATION INDEX

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



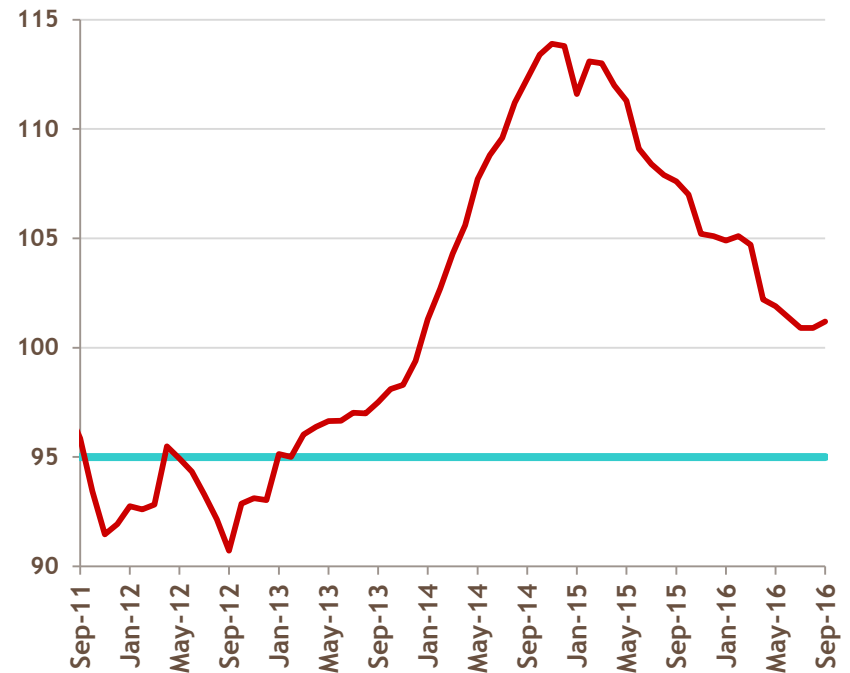
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

HIRING INCHES HIGHER

- The BDO Employment Index has ticked up from 100.9 in August to 101.2 in September. Hiring is expected to continue at a rate just above the long-term trend.
- This takes it back almost to its pre-referendum level of 101.4. It appears that the jobs market has lost a little momentum in recent months, but this is linked more to a general medium-term slowing in the UK economy, rather than being due to the EU referendum shock. This trend matches similar patterns in other economic indicators.
- However, there may be further disruption when negotiations over post-Brexit trading arrangements begin.

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

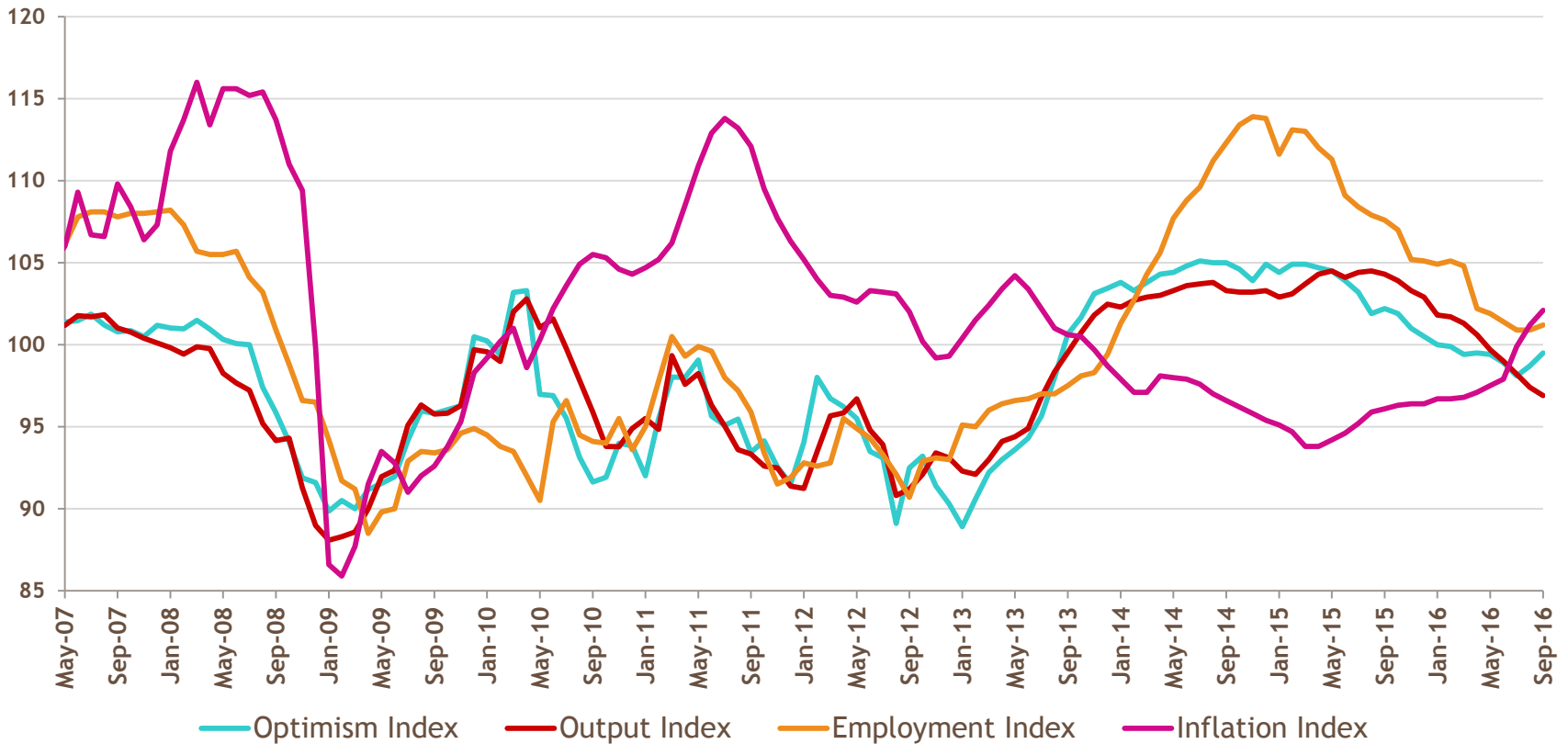
BDO INDICES TO LATEST MONTH

		Sep 2015	Oct 2015	Nov 2015	Dec 2015	Jan 2016	Feb 2016	Mar 2016	Apr 2016	May 2016	Jun 2016	Jul 2016	Aug 2016	Sep 2016
The BDO Optimism Index	Total	102.2	101.9	101.0	100.5	100.0	99.9	99.4	99.5	99.4	98.9	97.9	98.7	99.5
	Manuf.	89.0	90.2	88.3	89.6	90.2	90.4	87.0	87.3	86.1	83.8	81.0	85.8	91.3
	Service	104.8	104.2	103.5	102.7	101.9	101.7	101.8	101.8	102.0	101.8	101.2	101.2	101.1
The BDO Output Index	Total	104.3	103.9	103.3	102.9	101.8	101.7	101.3	100.6	99.7	99.0	98.2	97.4	96.9
	Manuf.	106.5	103.8	100.5	98.2	94.7	95.0	96.0	94.4	95.9	95.8	95.4	93.9	95.1
	Service	103.9	103.9	103.9	103.8	103.2	103.0	102.3	101.8	100.4	99.7	98.8	98.0	97.3
The BDO Inflation Index	Total	96.1	96.3	96.4	96.4	96.7	96.7	96.8	97.1	97.5	97.9	99.9	101.4	102.1
The BDO Employment Index	Total	107.6	107.0	105.2	105.1	104.9	105.1	104.8	102.2	101.9	101.4	100.9	100.9	101.2

APPENDIX: SERVICES FIRMS SEE SLOWDOWN CONTINUING

BDO INDICES

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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.