



BDO MONTHLY BUSINESS TRENDS INDICES

April 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 April 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 | ✓ | ▽ | 101.3 in March from 101.7 in February |
| BDO Optimism Index | ✕✕ | ▽ | 99.4 in March from 99.9 in February |
| BDO Inflation Index | ✕ | △ | 96.8 in March from 96.7 in February |
| BDO Employment Index | ✓ | ▽ | 104.8 in March from 105.1 in February |

KEY: ✓ = above 100; ✓✓ = above 100 and (joint) highest in 12 months

✕ = below 100; ✕✕ = below 100 and (joint) lowest in 12 months

KEY FINDINGS

The BDO Output Index fell from 101.7 to 101.3 between February and March. Firms are expecting a slightly slower rate of growth than recently, although no drastic deceleration is anticipated. The slowdown was driven by the service sub-index's fall from 103.0 to 102.3, meaning service firms still report being slightly more confident than the long-term trend.

The BDO Inflation Index remains broadly unchanged on February's level. It inched up from 96.7 to 96.8, continuing a virtually unbroken rising trend and reaching its highest level in a year. Firms expect "lowflation" to continue. Inflation - both for consumers and for producers, but particularly producers - has been unusually low and stable since the oil price plunged to multi-year lows in late 2014.

The turmoil in world financial markets may have subsided, but firms in the domestic economy are not feeling particularly reassured about the future. The BDO Optimism Index fell by half a point from 99.9 to 99.4 between February and March, indicating that firms expect the rate of growth to slow slightly further below the long-term trend rate of growth over the medium term.

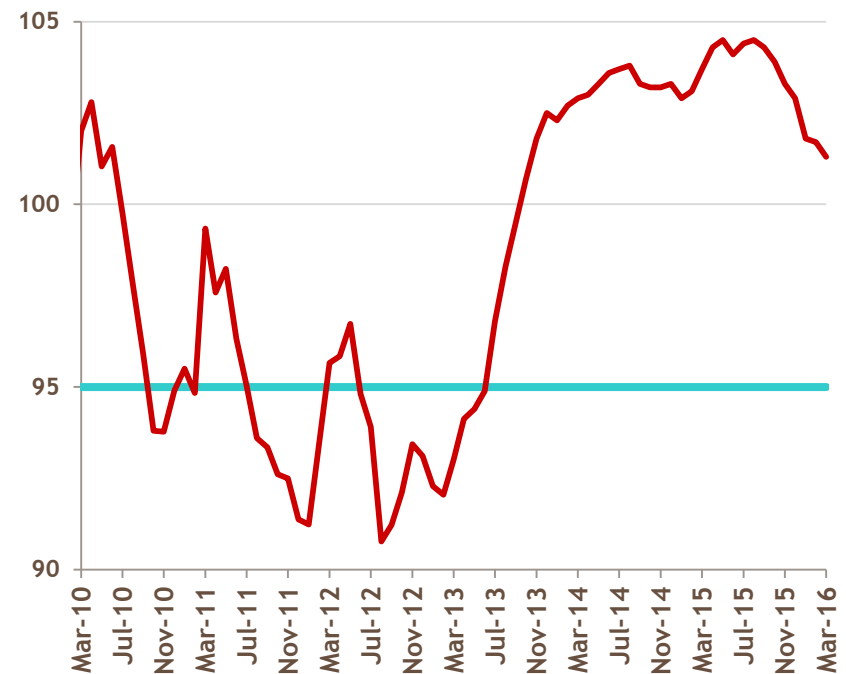
The BDO Employment Index has fallen from 105.1 to 104.8, its lowest level since early 2014. The labour market remains favourable for jobseekers, however, as this is still significantly above the long-term trend rate of hiring. The introduction of the National Living Wage on 1 April creates significant uncertainty in this market. It is substantially higher in relation to average wages than any minimum level introduced previously.

OUTPUT GROWTH SLOWING IN SERVICES SECTOR

- The BDO Output Index fell from 101.7 to 101.3 over March.
- This brings the index level towards the 100 mark which represents the long-term rate of growth in the economy.
- The fall was driven by services firms this time around. The sub-index representing the views of the service sector fell from 103.0 to 102.3, while that for manufacturing rose by a point to 96.0, meaning that manufacturers are expecting to see some tepid growth over a three-month horizon.
- An unusual feature of the UK economy at present is the strength of the pound given the UK's record trade deficit with the rest of the world. Its overvaluation has acted as a drag on the manufacturing sector, so recent sterling weakness may act as a slight boost to exporters' spirits.

BDO OUTPUT INDEX

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



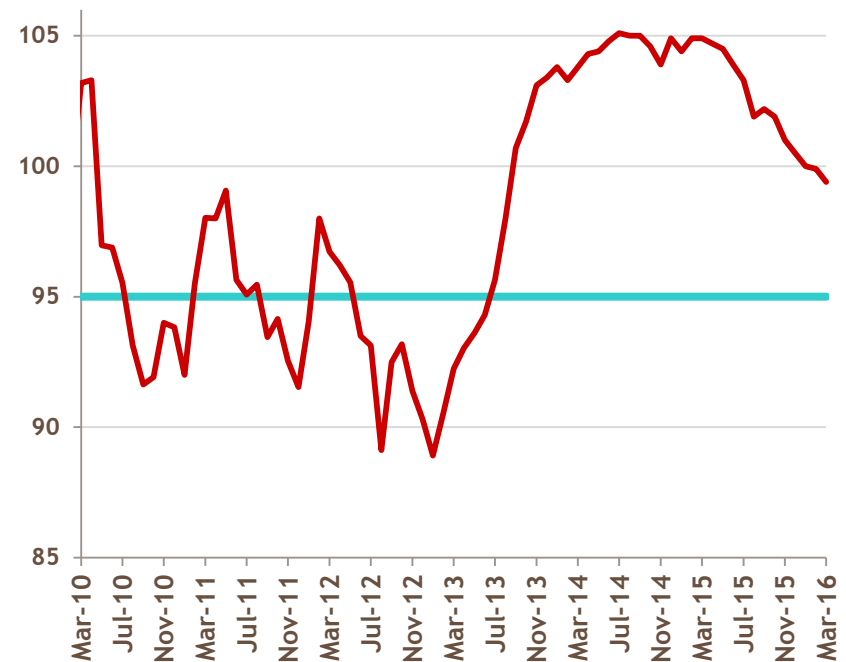
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

FIRMS' EXPECTATIONS DENTED BY MULTIPLE SOURCES OF UNCERTAINTY

- The BDO Optimism Index has fallen from 99.9 in February to 99.4 in March. Continuing a gradual downward trend that began in early 2015, its current level represents the lowest point since 2013.
- Firms expect growth to slow to somewhat below the long-term trend (a rate of around 2%-2.5% per year) over the next six months.
- Tata Steel, the conglomerate planning to close its UK operations, is responsible for 0.6% of all UK manufacturing employment. Tata's supply chains account for many more jobs. In this context it is unsurprising that manufacturing confidence fell over the past month (though the full effect will not have been felt quite yet). The manufacturing sub-index fell further below 95, dropping from 90.4 to 87.0. This is its lowest reading since last August.

BDO OPTIMISM INDEX

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



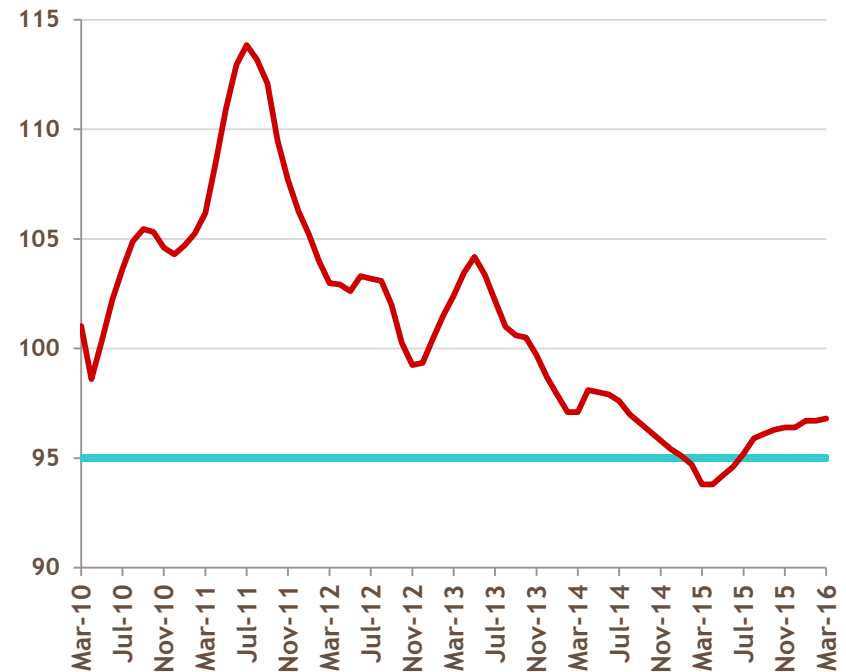
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INPUT COST INFLATION REMAINS SUBDUED

- The BDO Inflation Index remains broadly unchanged at 96.8 compared to February's 96.7.
- The index remains, just about, in inflationary territory. It is some way from its long-term average, though. The official target for consumer price inflation is 2.0%, and while there is no official target for producer price inflation, it would be expected to run somewhere around this level.
- Commodity prices are showing scant sign of departing from their multi-year lows, keeping input costs low. Wage growth is not high enough to counteract this, at 2.5% on the latest figures. It is very likely to rise soon as the National Living Wage raises the effective minimum wage to £7.20 per hour for those aged over 25.

BDO INFLATION INDEX

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



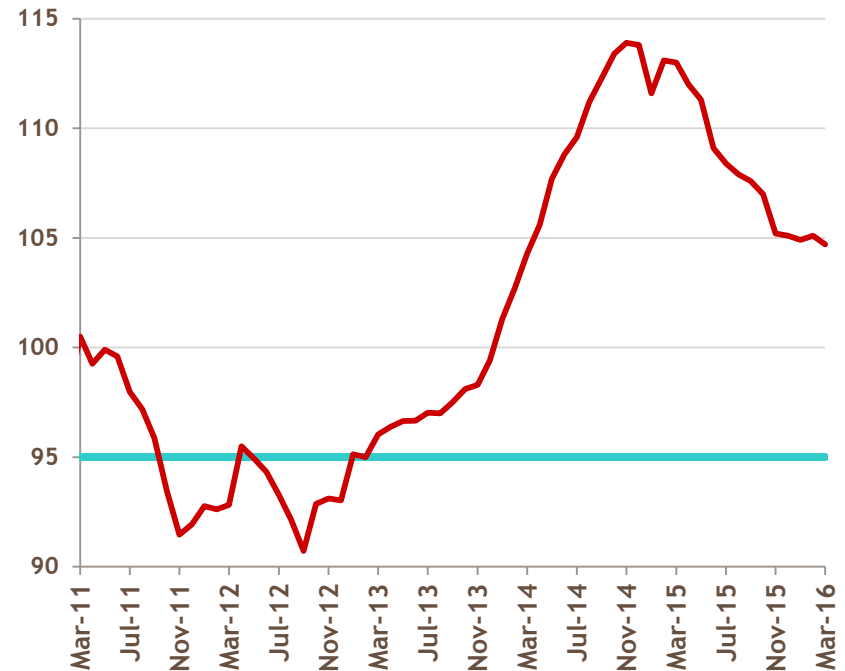
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

FIRMS SEEMINGLY UNPHASED BY LIVING WAGE INTRODUCTION

- The BDO Employment Index continues its gradual descent towards the long-run level.
- It is still elevated at 104.8 in March, indicating that despite the recovery slowing down considerably, firms expect to continue hiring not far off current rates. February's level was 105.1.
- This is encouraging for the National Living Wage policy. A little trepidation may underlie the modest fall, but firms are not unduly concerned. Labour costs have risen considerably overnight, but being fairly unprecedented, it is unclear whether it will have a great effect on the demand for labour. The National Minimum Wage was brought in without much adverse impact on employment, but it was considerably lower in relation to average wages than the NLW.

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

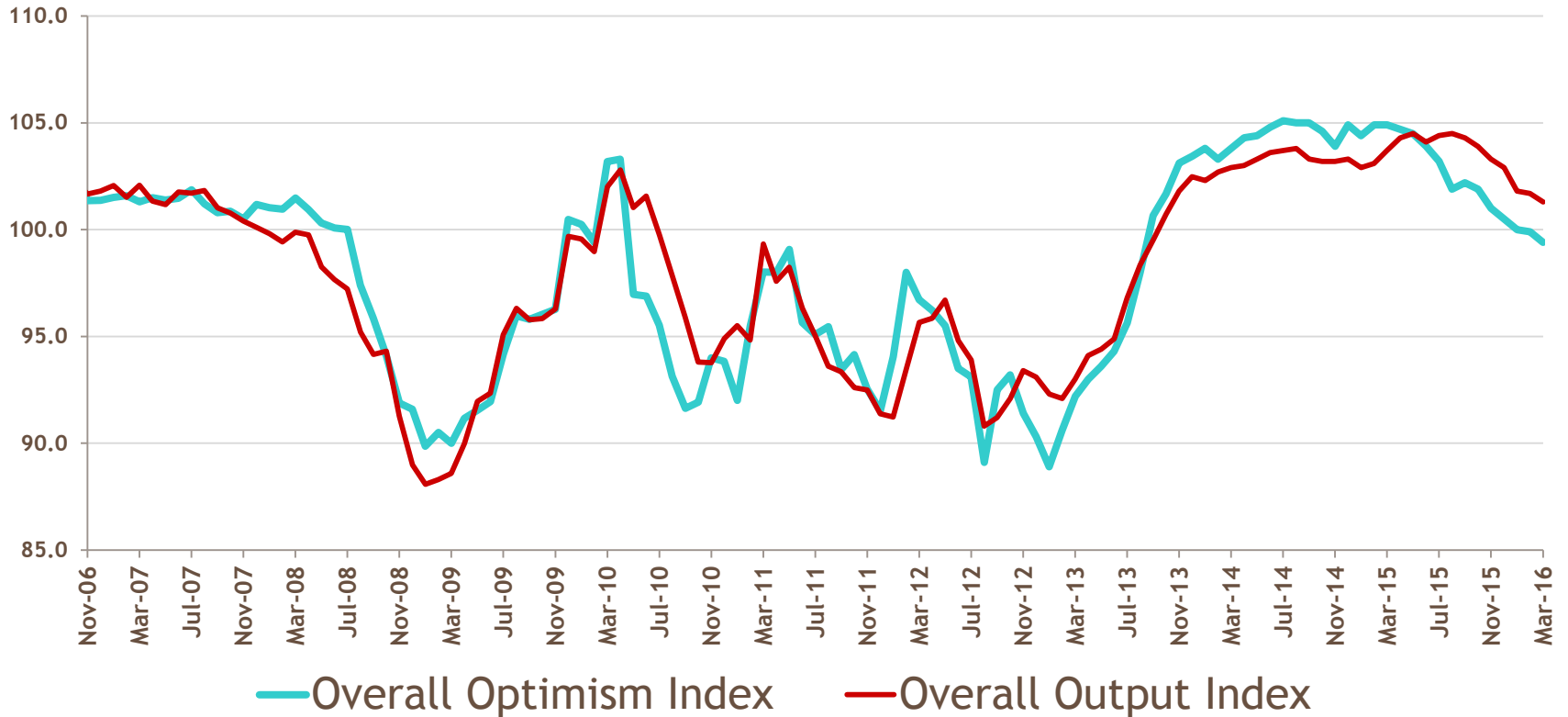
BDO INDICES TO LATEST MONTH

| | | Mar 2015 | Apr 2015 | May 2015 | Jun 2015 | Jul 2015 | Aug 2015 | Sep 2015 | Oct 2015 | Nov 2015 | Dec 2015 | Jan 2016 | Feb 2016 | Mar 2016 |
|--------------------------|--------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| The BDO Optimism Index | Total | 104.9 | 104.7 | 104.5 | 103.9 | 103.3 | 101.9 | 102.2 | 101.9 | 101.0 | 100.5 | 100.0 | 99.9 | 99.4 |
| | Manuf. | 109.8 | 107.4 | 103.4 | 98.5 | 93.5 | 86.2 | 89.0 | 90.2 | 88.3 | 89.6 | 90.2 | 90.4 | 87.0 |
| | Service | 103.9 | 104.1 | 104.7 | 105.0 | 105.1 | 105.0 | 104.8 | 104.2 | 103.5 | 102.7 | 101.9 | 101.7 | 101.8 |
| The BDO Output Index | Total | 103.7 | 104.3 | 104.5 | 104.1 | 104.4 | 104.5 | 104.3 | 103.9 | 103.3 | 102.9 | 101.8 | 101.7 | 101.3 |
| | Manuf. | 107.7 | 108.8 | 109.0 | 107.8 | 106.8 | 106.8 | 106.5 | 103.8 | 100.5 | 98.2 | 94.7 | 95.0 | 96.0 |
| | Service | 102.9 | 103.5 | 103.6 | 103.4 | 103.9 | 104.1 | 103.9 | 103.9 | 103.9 | 103.8 | 103.2 | 103.0 | 102.3 |
| The BDO Inflation Index | Total | 93.8 | 93.8 | 94.2 | 94.6 | 95.2 | 95.9 | 96.1 | 96.3 | 96.4 | 96.4 | 96.7 | 96.7 | 96.8 |
| The BDO Employment Index | Total | 113.0 | 112.0 | 111.3 | 109.1 | 108.4 | 107.9 | 107.6 | 107.0 | 105.2 | 105.1 | 104.9 | 105.1 | 104.8 |

APPENDIX 1: FIRMS' EXPECTATIONS DENTED BY MULTIPLE SOURCES OF UNCERTAINTY

BDO OUTPUT AND OPTIMISM INDICES

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

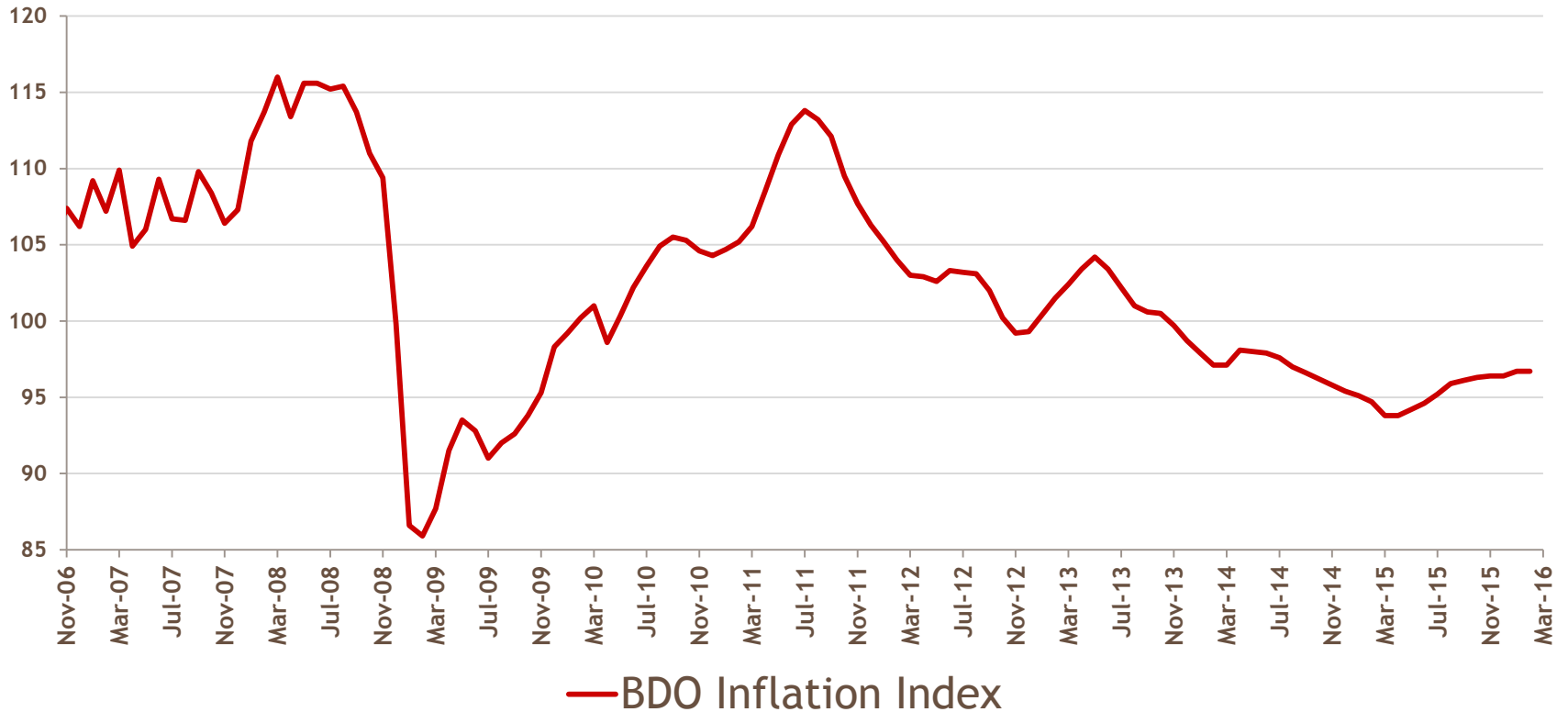


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 2: INPUT COST INFLATION REMAINS SUBDUED

BDO INFLATION INDEX

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

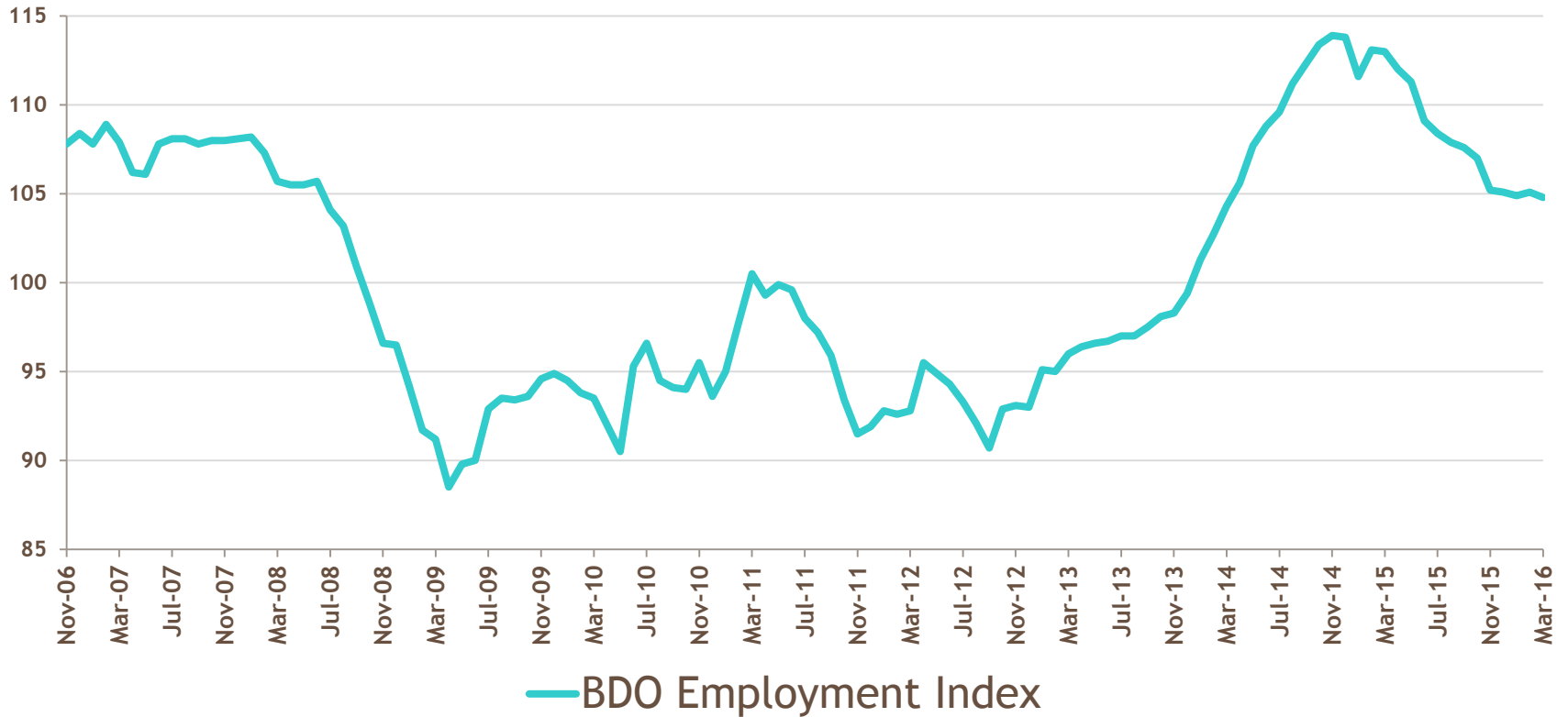


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 3: FIRMS SEEMINGLY UNPHASED BY LIVING WAGE INTRODUCTION

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

PETER HEMINGTON

BDO LLP,
55 Baker Street, London W1M 1DA
telephone: 020 7486 5888
fax: 020 7487 3686
email: peter.hemington@bdo.co.uk

ALASDAIR CAVALLA

Centre for Economics and Business Research,
Unit 1, 4 Bath Street,
London EC1V 9DX

telephone: 020 7324 2850

email:
acavalla@cebr.com
web: www.cebr.com

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.