



# BDO MONTHLY BUSINESS TRENDS INDICES

August 2015

# 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 August 2015, 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     | ✓               | ▲                 | 104.4 in July from 104.1 in June |
| BDO Optimism Index   | ✓               | ▼                 | 103.2 in July from 103.9 in June |
| BDO Inflation Index  | ✗               | ▲                 | 95.2 in July from 94.6 in June   |
| BDO Employment Index | ✓               | ▼                 | 108.4 in July from 109.1 in June |

KEY:      ✓ = above 100;      ✓✓ = (joint) highest in 12 months;      ✓✓✓ = above 100 and (joint) highest in 12 months  
             ✗ = below 100;      ✗✗ = (joint) lowest for 12 months;      ✗✗✗ = below 100 and (joint) lowest in 12 months

# KEY FINDINGS

The BDO Output Index climbed from 104.1 in June to 104.4 in July. Firms expect that output will continue to grow above its long-term trend rate over the short term. The services sub-index rose, while that in manufacturing registered a steep fall as global conditions weigh more heavily on that subsector of the economy.

The BDO Inflation Index has emerged from deflationary territory to 95.2, and now points to a period of (very slowly) increasing costs. The wage component is likely driving this, with official wage statistics registering a string of substantial rises in recent months. Cebr expects other important inputs, particularly oil and other commodities, to fall but not by so much as to outweigh the growth in wages which make up a larger part of firms' inputs.

The BDO Optimism Index fell from 103.9 to 103.2 in July. This was driven entirely by the manufacturing sub-index, while confidence in the services sector remained broadly unchanged. Manufacturing optimism has sunk to a level below 95, indicating that businesses in the sector expect to see a contraction in output over a medium-term horizon.

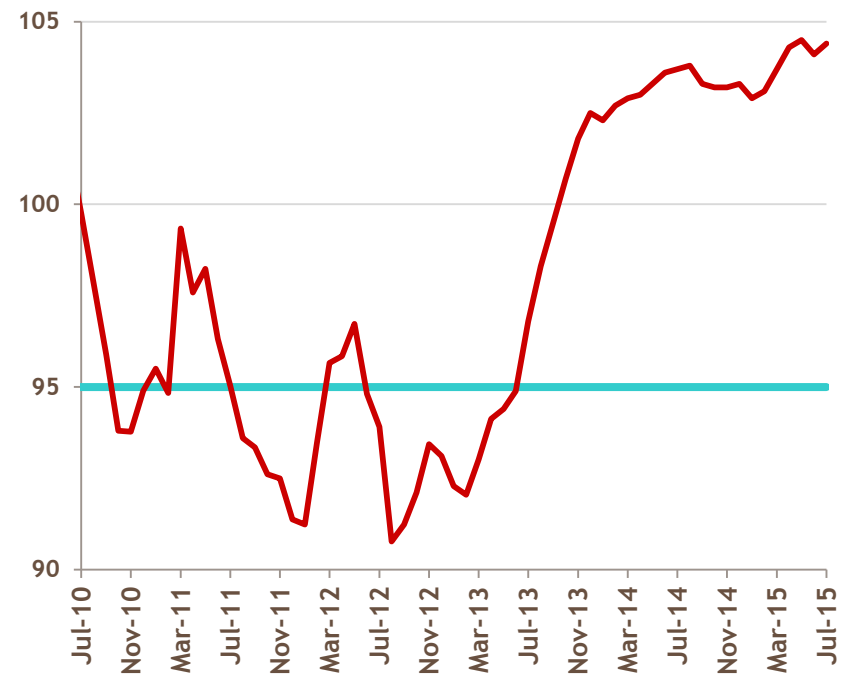
The BDO Employment Index saw its fifth consecutive fall, dropping from 109.1 to 108.4 in July. It points to continuing hiring but at a slower pace, as the unemployment rate nears pre-crisis levels. The current reading is the lowest in a year, which testifies to the extraordinary strength of hiring recently.

# SERVICES DRIVE UPTURN IN OUTPUT EXPECTATIONS

- The BDO Output Index has climbed from 104.1 in June to 104.4 in July.
- This is likely to be part of a “post-election bounce” witnessed in various surveys whereby businesses are welcoming the end of uncertainty regarding future policy. GDP grew in Q2 by 0.7% at quarter-on-quarter rate, up on Q1’s disappointing 0.4%, as pointed to by the index.
- Consumer confidence remains relatively high on many surveys, helped by the strong gains in employment and wages. Retail sales have been on a generally upward trend for a period of well over a year.
- There is a marked divergence between services and manufacturing. Services grew by half a point to 103.9. On the other hand, there is no sign of a post-election bounce in the manufacturing sub-index. This has declined again, falling from 107.8 to 106.8.

## BDO OUTPUT INDEX

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



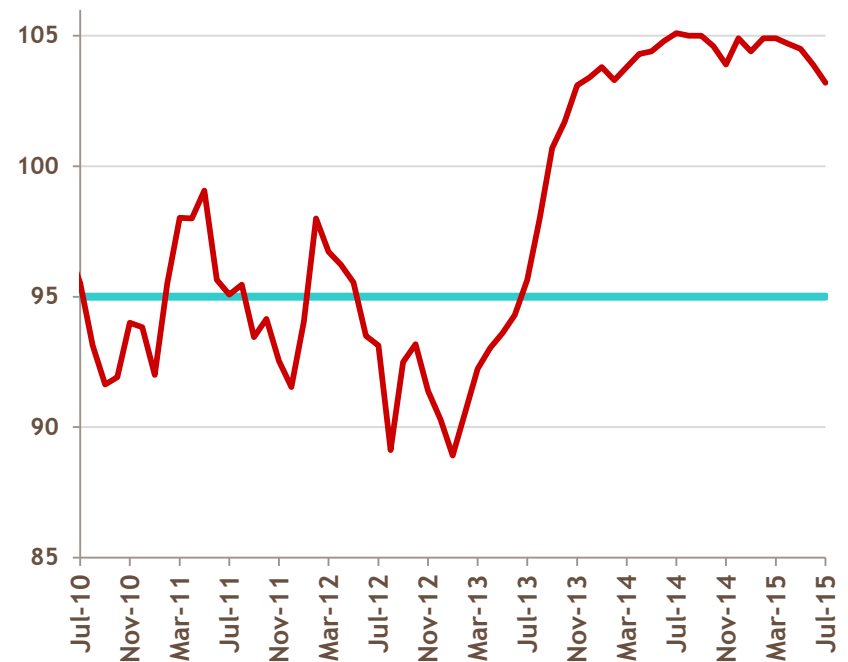
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# OUTLOOK FOR MANUFACTURERS DENTED BY GLOBAL WORRIES

- The BDO Optimism Index has fallen from 103.9 in June to 103.2 during July.
- This was entirely driven by manufacturing. The services sub-index was broadly unchanged at a relatively high level of 105.1 compared to 105.0 during June. But its manufacturing counterpart saw its twelfth consecutive decrease, a decline which has seen it fall over a year from a record high of 119.9 to 93.6, its lowest level since July 2013. As such, manufacturing firms expect that there will be a period of contraction for the sector over a six-month horizon, following on from recent poor performance.
- Weak demand in key markets is causing sluggish growth in trade. This includes the slowdown in Chinese growth and continuing nervousness in the Eurozone. The UK exports little directly to China, but its appetite for commodities now makes it central to prospects in many other markets. UK manufacturers report that while domestic consumer demand is holding up, the important export side of their order books has fallen recently.

## BDO OPTIMISM INDEX

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



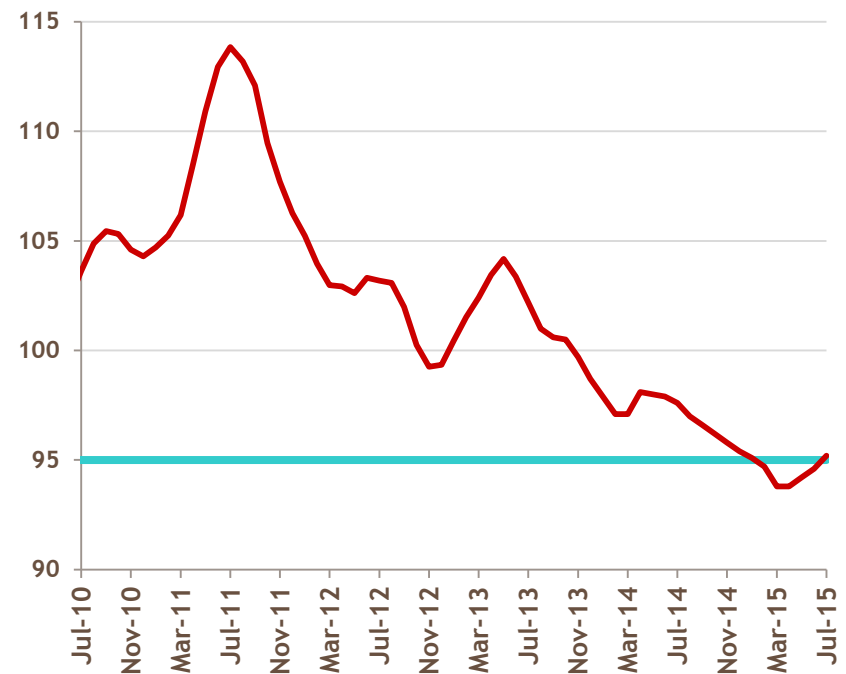
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# PRICES BACK TO SLOW POSITIVE GROWTH

- The BDO Inflation Index has come out of deflationary territory after a five-month spell below the 95 mark which separates inflation from deflation. It grew from 94.6 to 95.2.
- This indicates that firms now expect input prices to be broadly stable over the next few months.
- Many firms' largest cost is employee wages. Growth in wages has picked up recently and now stands at 3.2% for the March to May period. On the other hand commodities, especially oil, are set to see further cheapening over coming months. This is driven by the ending of Iranian sanctions, further slowing of the Chinese economy and signs that US oil production is starting to recover from the recent slide in oil prices.
- This is a favourable position overall for UK businesses. While it is in an individual business's interest to see wages rises slowly, lacklustre earnings growth in the economy will ultimately lead to slow growth in business sales. However, if other inputs keep total costs down, bottom lines remain strong.

## BDO INFLATION INDEX

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



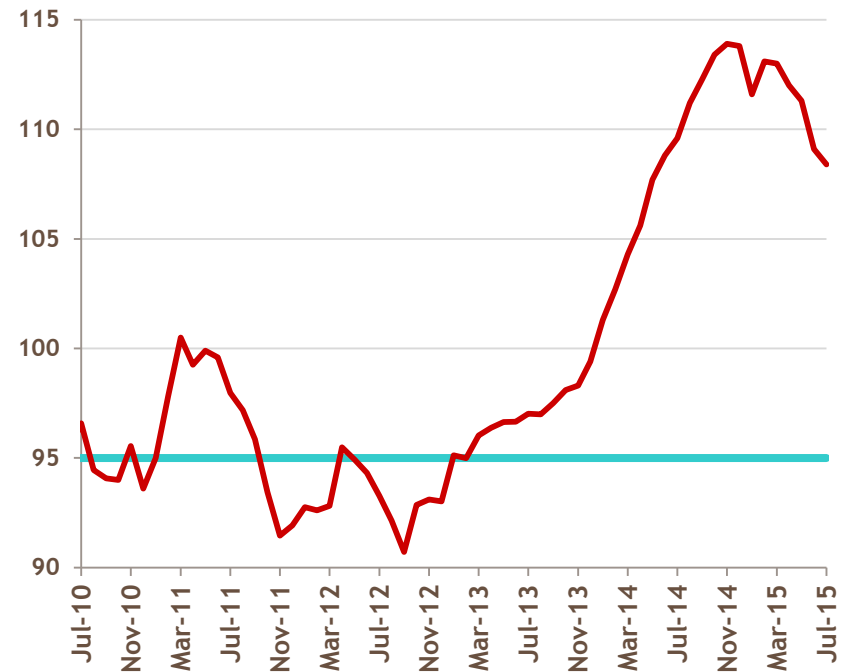
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# HIRING EXPECTATIONS LOWEST FOR A YEAR, BUT STILL ABOVE LONG-TERM AVERAGE

- The BDO Employment Index continued to fall towards long-term average levels between June and July, registering a drop from 109.1 to 108.4.
- This represents the continuing tightening in the labour market as it returns to pre-crisis unemployment levels. The current reading is its lowest in a year, indicating firms are slowing hiring.
- This is evident in labour market statistics, which show the unemployment rate actually rising slightly over the three months to July compared to the three months to February (though firms continue to hire rapidly - this suggests a greater amount of churn in and out of jobs in the labour market). The general trend in unemployment continues downward.

## 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

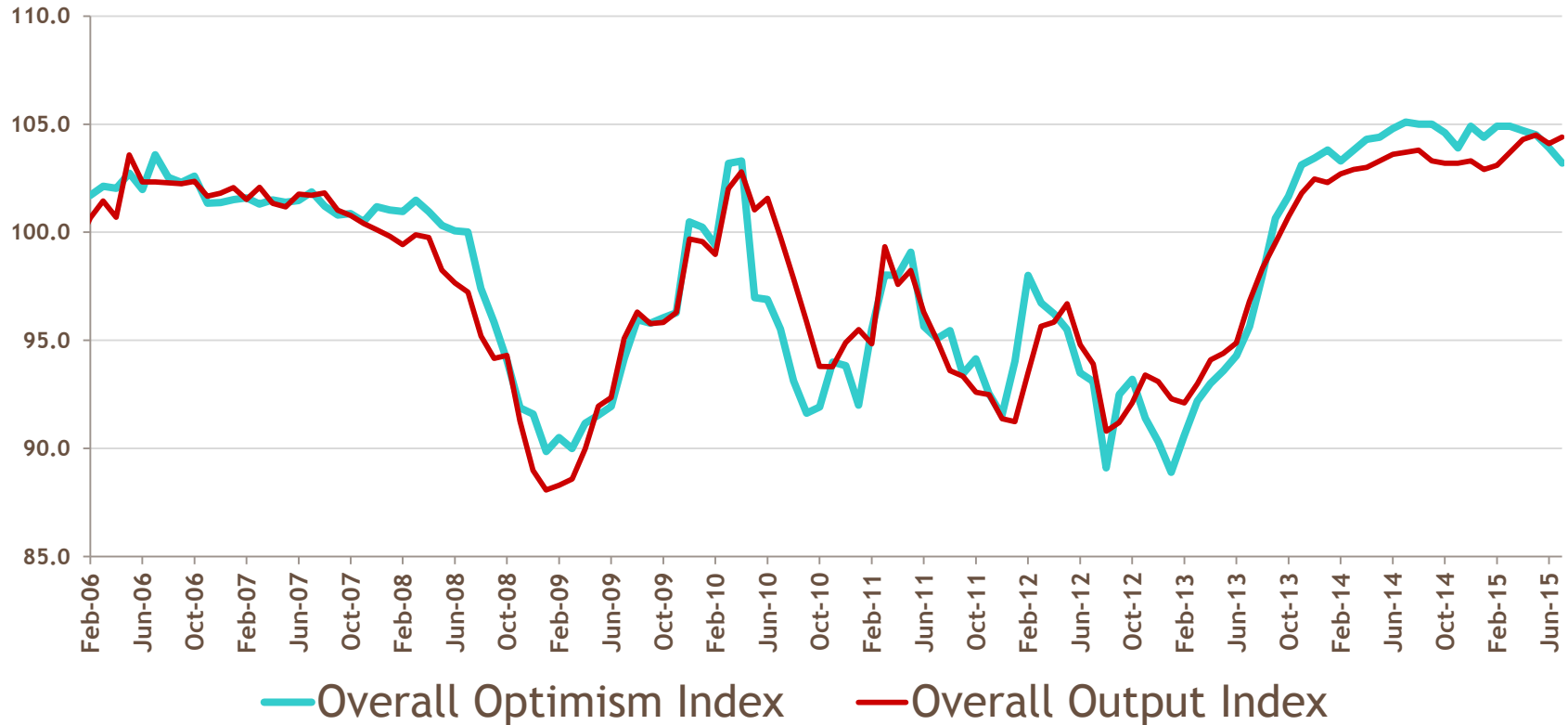
|                          |              | Jul 2014 | Aug 2014 | Sep 2014 | Oct 2014 | Nov 2014 | Dec 2014 | Jan 2015 | Feb 2015 | Mar 2015 | Apr 2015 | May 2015 | Jun 2015 | Jul 2015 |
|--------------------------|--------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| The BDO Optimism Index   | <b>Total</b> | 105.1    | 105.0    | 105.0    | 104.6    | 103.9    | 104.9    | 104.4    | 104.9    | 104.9    | 104.7    | 104.5    | 103.9    | 103.2    |
|                          | Manuf.       | 119.9    | 118.8    | 117.4    | 116.1    | 114.1    | 113.9    | 113.0    | 111.6    | 109.8    | 107.4    | 103.4    | 98.5     | 93.5     |
|                          | Service      | 102.2    | 102.3    | 102.6    | 102.3    | 101.9    | 103.1    | 102.7    | 103.6    | 103.9    | 104.1    | 104.7    | 105.0    | 105.1    |
| The BDO Output Index     | <b>Total</b> | 103.7    | 103.8    | 103.3    | 103.2    | 103.2    | 103.3    | 102.9    | 103.1    | 103.7    | 104.3    | 104.5    | 104.1    | 104.4    |
|                          | Manuf.       | 114.4    | 113.2    | 111.6    | 110.1    | 109.1    | 108.0    | 107.3    | 107.1    | 107.7    | 108.8    | 109.0    | 107.8    | 106.8    |
|                          | Service      | 101.6    | 102.0    | 101.7    | 101.8    | 102.1    | 102.4    | 102.1    | 102.3    | 102.9    | 103.5    | 103.6    | 103.4    | 103.9    |
| The BDO Inflation Index  | <b>Total</b> | 97.6     | 97.0     | 96.6     | 96.2     | 95.8     | 95.4     | 95.1     | 94.7     | 93.8     | 93.8     | 94.2     | 94.6     | 95.2     |
| The BDO Employment Index | <b>Total</b> | 109.6    | 111.2    | 112.3    | 113.4    | 113.9    | 113.8    | 111.6    | 113.1    | 113.0    | 112.0    | 111.3    | 109.1    | 108.4    |



# APPENDIX 1: OUTLOOK FOR MANUFACTURERS DENTED BY GLOBAL WORRIES

## BDO OUTPUT AND OPTIMISM INDICES

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

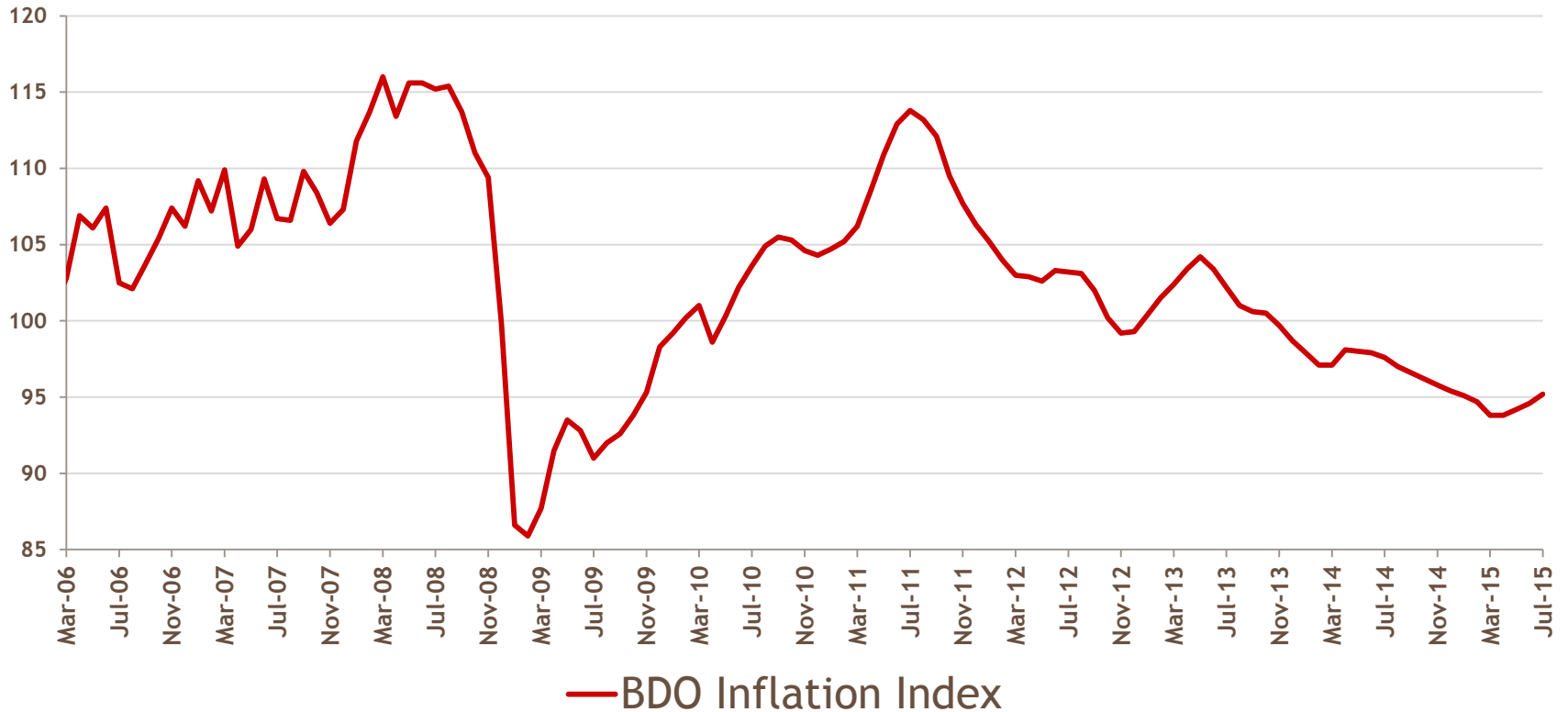


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# APPENDIX 2: PRICES BACK TO SLOW POSITIVE GROWTH

## BDO INFLATION INDEX

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

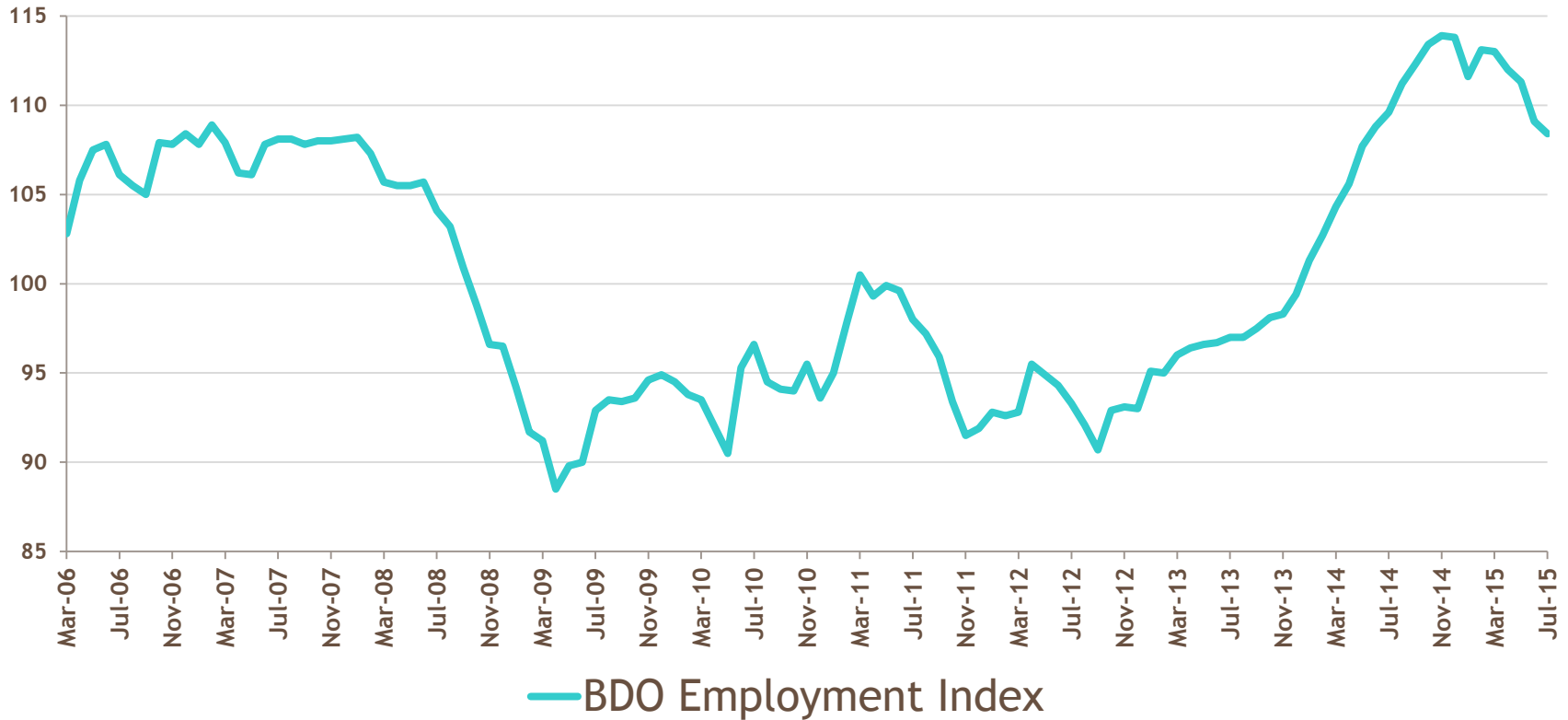


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# APPENDIX 3: HIRING EXPECTATIONS LOWEST FOR A YEAR, BUT STILL ABOVE LONG-TERM AVERAGE

## 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

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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, the average of the past two cyclical peaks as 110 and the average of the past two cyclical troughs as 90.

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.