



BDO MONTHLY BUSINESS TRENDS INDICES

July 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 July 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	▼	99.0 in June from 99.7 in May
BDO Optimism Index	xx	▼	98.9 in June from 99.4 in May
BDO Inflation Index	x	▲	97.9 in June from 97.5 in May
BDO Employment Index	✓	▼	101.4 in June from 101.9 in May

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 from 99.7 to 99.0 between May and June. This reading is a poll of polls from June and as such many of the readings would reflect firms' responses **before** the UK voted to leave the European Union. Economically, an expected consequence of the vote is a contraction in the size of the economy in the short term, as firms put plans for the future on hold until more is known about the UK's new regimes regarding trade and the political landscape.

The BDO Inflation Index has risen from 97.5 to 97.9 in June. In the coming months we expect some large rises in input costs as the weakness of the pound forces up the cost of imported consumer goods and commodities. However, these will not come through immediately as contracts in the short term have already been set up and so the depreciation will not be reflected yet.

The BDO Optimism Index fell from 99.4 in May to 98.9 in June. Both service providers and manufacturers face serious threats in the wake of the British exit - the UK's crucial financial services sector faces the loss of its "passporting" regime, which allows banking and insurance firms operating in London to use their licence throughout the EU. Manufacturers face similar uncertainty, with worst-case scenarios more grave, if less likely.

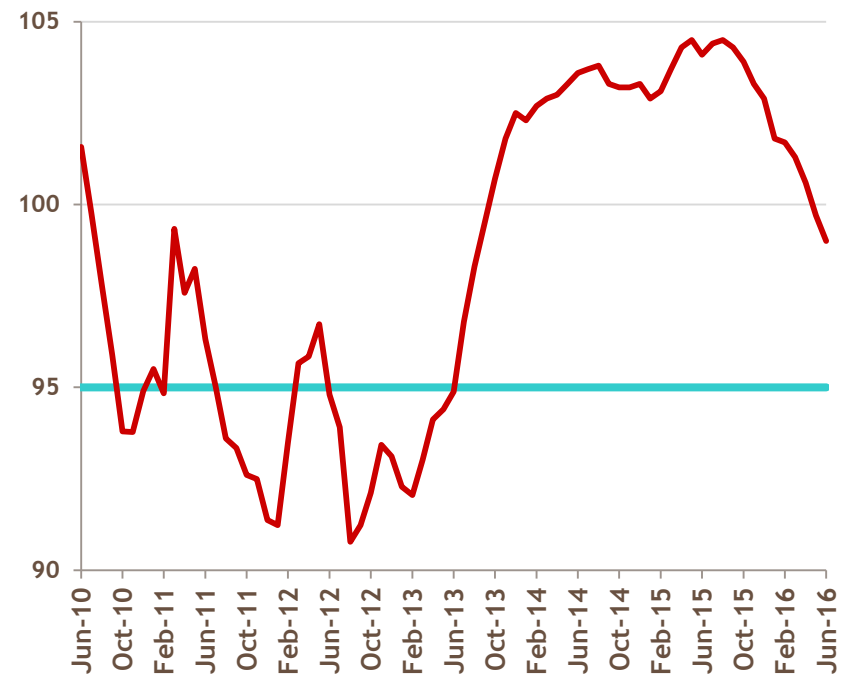
The BDO Employment Index continued its long, gradual decline from near-record levels to the long-term average. In June it stands at 101.4 - slightly above the long-term rate of hiring - compared to 101.9 in May. Over the coming months we would expect to see gradual slowing as the index remains somewhat ahead of the two others.

OUTPUT STILL SLOWING AS UNCERTAINTY RISES

- The BDO Output Index has fallen from 99.7 in May to 99.0 in June, bringing it further below the long-term trend rate.
- Notably, most of the surveys were carried out before the referendum, which happened in the final days of the month, and which had been widely predicted to be a vote for Remain. The fallout is likely to be evident in July's value.
- The outlook ahead is likely to see further slowing of growth due to the well-known tendency of uncertainty to dampen activity. At this stage it is not yet known whether the UK will certainly leave. Even if it does - probably the most likely option - the consequences are far from clear. The UK itself may break up. Its future trading arrangements with Europe are unclear given the political difficulties of allowing continued free movement from the EU, theoretically a requirement of maintaining the UK's place in the single market.

BDO OUTPUT INDEX

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



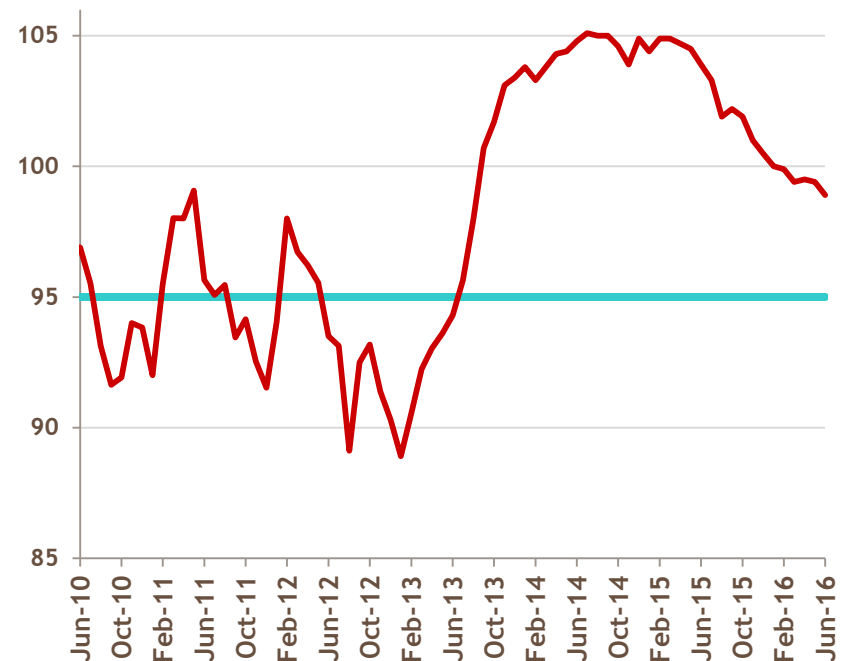
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

OPTIMISM WANES AS FIRMS PONDER TRADING FUTURE

- The BDO Optimism Index has fallen from 99.4 in May to 98.9 in June.
- This index has been below the long-term trend level represented by 100 for some months now. Both are dipping - for once, international considerations are equally pressing for both. The position of the UK financial sector is in jeopardy, thanks to the potential loss of the right UK banks have to “passport” their operations across the Union from UK headquarters.
- However, so far the larger fall has been in the manufacturing sub-index, which has fallen from 86.1 to 83.8, its weakest reading since 2012. For manufacturing firms, the great worry is that a preferential deal for trade is not worked out. Much of the UK’s manufacturing output is exported to the EU and supply chains stretch across the continent. While unlikely, the possibility of not reaching a deal guaranteeing free trade would be disastrous for the embattled sector. If not, there is still a risk that non-tariff barriers - such as regulatory requirements - weaken UK manufacturers further.

BDO OPTIMISM INDEX

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



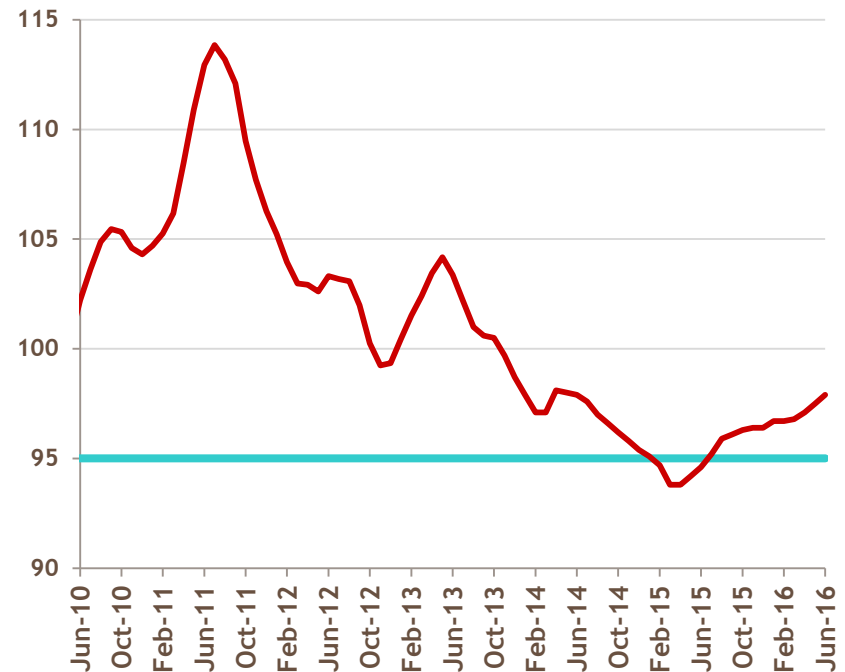
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION STEADILY RETURNING TOWARDS TARGET LEVELS

- The BDO Inflation Index has ticked up again from 97.5 in May to 97.9 in June.
- There is a strong likelihood that prices will start to rise significantly more quickly in coming months.
- The pound plunged following the vote to \$1.32, a 31-year low, as investors re-evaluated prospects for the UK economy.
- A very likely consequence of this will be a rise in the prices of imported goods - a very broad category including many consumer goods. As trading contracts are typically arranged some months in advance, this impact will be felt in a few months rather than immediately. The steep falls in the oil price stand to go into reverse. However, we start from a relatively benign position, with a strong pound just before the vote, and commodities cheaper than they were during most of the last decade or so.

BDO INFLATION INDEX

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



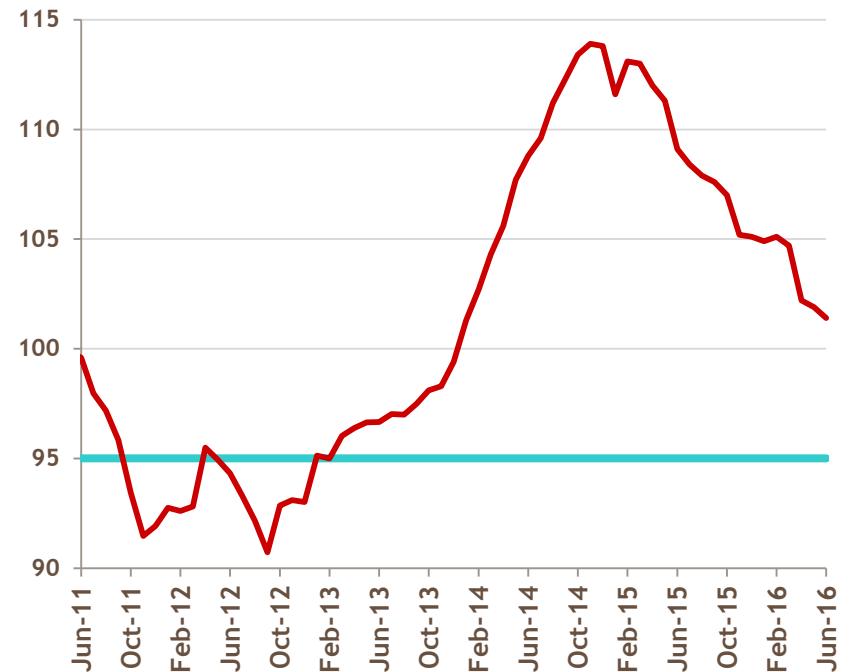
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

HIRING INTENTIONS SLOWING THOUGH STILL AHEAD OF ECONOMY OVERALL

- The BDO Employment Index continues to moderate, falling from 101.9 to 101.4.
- Alone among the indices, it is representing growth above the long-run trend growth in its variable. Its value continues to fall, albeit at a gradual rate, indicating that hiring is slowing down but still robust. Its better than expected performance among the indices is down to the legacy of the jobs boom in 2013-15, where employment rose but productivity stagnated.
- As the economy moves into a slower phase in the business cycle, the readings on the Output and Optimism indices - now, both below trend - reinforce the signal given by the Employment Index that the jobs market is set to slow as well. At present employment is at 30.4 million, a near record high, and the participation rate is at 74.2% - also a record.

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

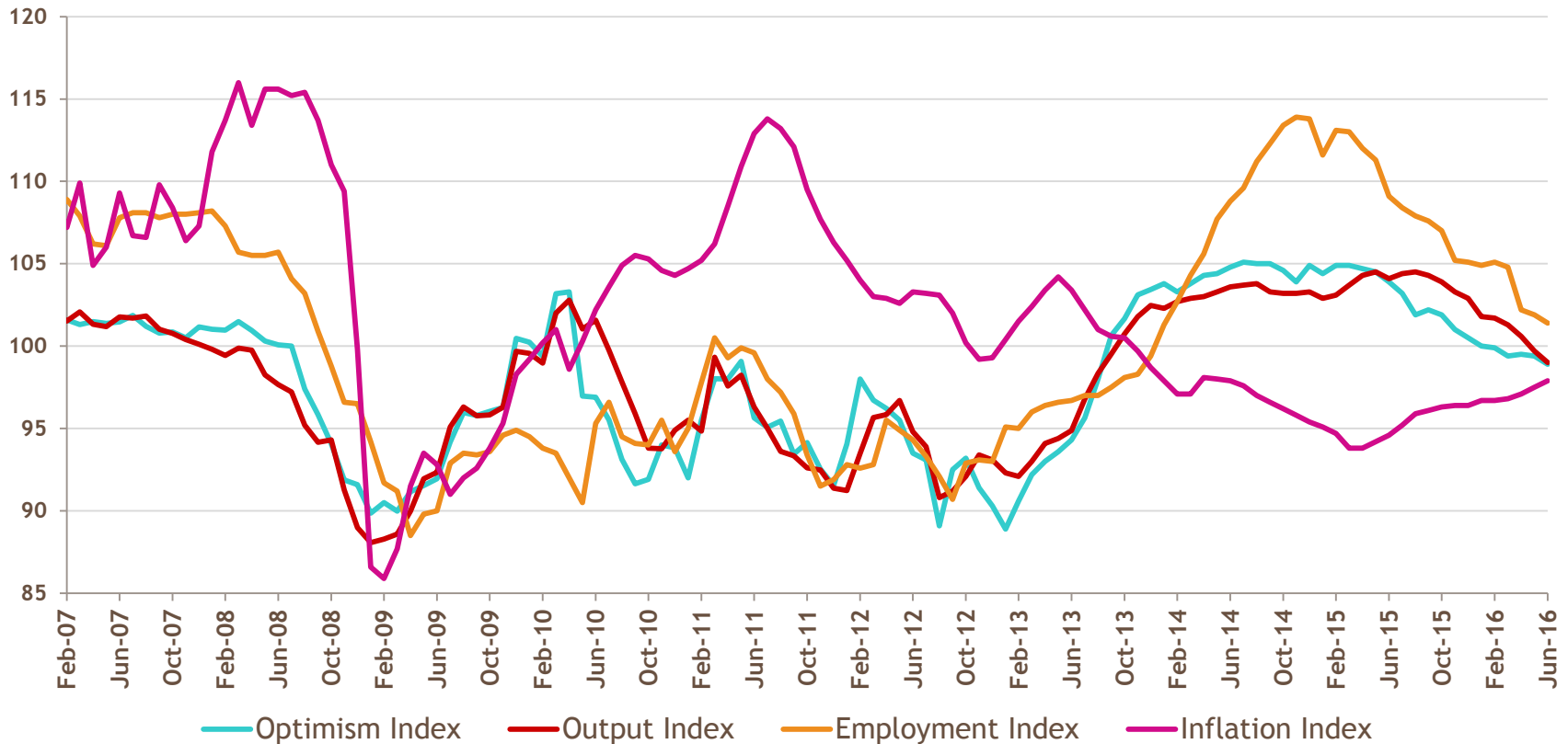
BDO INDICES TO LATEST MONTH

		Jun 2015	Jul 2015	Aug 2015	Sep 2015	Oct 2015	Nov 2015	Dec 2015	Jan 2016	Feb 2016	Mar 2016	Apr 2016	May 2016	June 2016
The BDO Optimism Index	Total	103.9	103.3	101.9	102.2	101.9	101.0	100.5	100.0	99.9	99.4	99.5	99.4	98.9
	Manuf.	98.5	93.5	86.2	89.0	90.2	88.3	89.6	90.2	90.4	87.0	87.3	86.1	83.8
	Service	105.0	105.1	105.0	104.8	104.2	103.5	102.7	101.9	101.7	101.8	101.8	102.0	101.8
The BDO Output Index	Total	104.1	104.4	104.5	104.3	103.9	103.3	102.9	101.8	101.7	101.3	100.6	99.7	99.0
	Manuf.	107.8	106.8	106.8	106.5	103.8	100.5	98.2	94.7	95.0	96.0	94.4	95.9	95.8
	Service	103.4	103.9	104.1	103.9	103.9	103.9	103.8	103.2	103.0	102.3	101.8	100.4	99.7
The BDO Inflation Index	Total	94.6	95.2	95.9	96.1	96.3	96.4	96.4	96.7	96.7	96.8	97.1	97.5	97.9
The BDO Employment Index	Total	109.1	108.4	107.9	107.6	107.0	105.2	105.1	104.9	105.1	104.8	102.2	101.9	101.4

APPENDIX 1: OUTPUT EXPECTATIONS SLUMP TO 2013 LEVELS

BDO 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

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.