

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

February 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 March 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	▲	98.32 in February from 97.24 in January
BDO Optimism Index	XX	▼	99.79 in February from 99.98 in January
BDO Inflation Index	XX	▼	97.41 in February from 98.23 in January
BDO Employment Index	✓	▼	113.99 in February from 115.11 in January

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

All of the measures with the exception of the BDO Output Index declined between January and February.

The BDO Output Index rose from 97.24 in January to 98.32 in February, despite a substantial decline in the BDO Manufacturing Output Index. The uptick in service sector growth can be attributed partially to the base effect of the fall in output in February 2018.

The BDO Optimism Index fell for the seventh consecutive month, from 99.98 in January to 99.79 in February. Declines in the Optimism Index were recorded in both the services and manufacturing sectors and reflect continued uncertainty surrounding Brexit as well as the weak domestic and external economic environment.

The BDO Inflation Index dipped to 97.41 in February, due to weak energy prices as well as a strengthening of the pound, which followed announcements that MPs would be given a vote on whether to request an extension to Article 50.

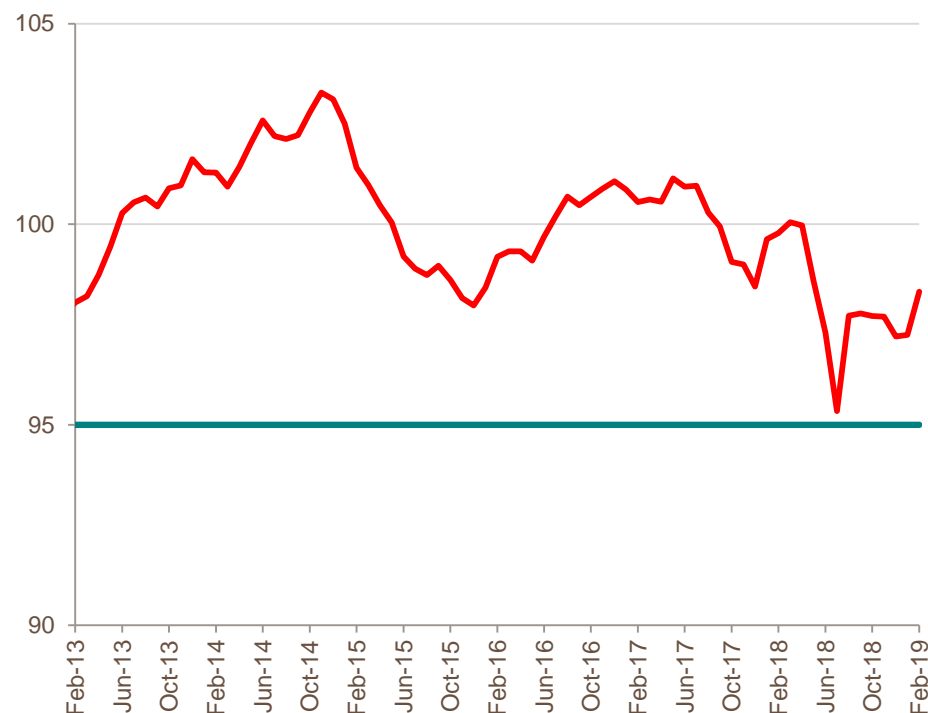
The BDO Employment Index fell to 113.99 in February, with survey data showing that many firms are reeling back their hiring plans given the slowing economy and widespread uncertainty.

SERVICE SECTOR DRIVES UPTICK IN OUTPUT GROWTH IN FEBRUARY

- The BDO Output Index rose from 97.24 in January to 98.32 in February, as gains in the Services Index offset a significant fall in the Manufacturing Index.
- The BDO Manufacturing Index fell by 1.01 points to 97.36 in February, mirroring the weak performance observed across advanced economies in recent months. Surveys show that manufacturing firms have continued to step up their contingency planning ahead of Brexit, with stockpiling activity at a record level.
- The BDO Services Index increased by 1.34 points to 98.44 in February. The continued strength of the labour market and rising real incomes is expected to support consumer spending at the start of 2019, leading to a slight improvement on the dismal growth recorded in Q4 2018.
- The uptick in the Services Index also reflects a base effect from last year, when output in the sector fell between January and February. This has had the effect of pushing up the year-on-year growth rate in February 2019.
- The BDO Output Index remains well below the long-run average, and is expected to decline later in the year as the disruptive impacts of Brexit begin to materialise.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



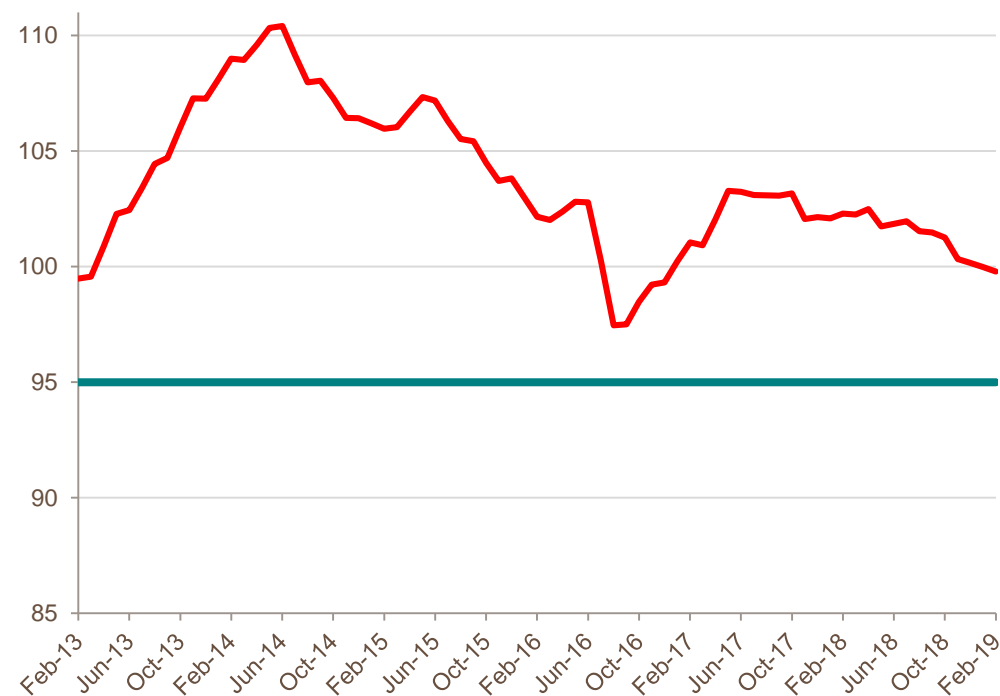
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

BDO OPTIMISM INDEX FALLS FOR SEVENTH CONSECUTIVE MONTH

- The BDO Optimism Index fell by 0.19 points in February to 99.79. This marks the seventh consecutive monthly fall and is the lowest the index has been since 2016.
- The most pronounced decline took place in the manufacturing sector. Between January and February, the BDO Manufacturing Optimism Index dipped from 104.40 to 103.84. As the clock ticks down to Brexit day on March 29th with still no withdrawal deal in place, the prospect of an acute and abrupt shock to the manufacturing sector following a no-deal Brexit has become more likely. This possibility has had a crippling effect on confidence in the industry.
- Prime Minister Theresa May has yielded to pressure from within the government to give MPs a vote on whether or not to request an extension to Article 50, in the event that the revised withdrawal deal and a no-deal outcome are rejected by MPs. This may steady some nerves in the manufacturing sector, although many fear that an extension of Article 50 would merely move the cliff-edge from March to later in the year.
- The BDO Services Optimism Index fell by 0.14 points to 99.28 in February. The continued fall reflects the economic and political uncertainty described above. However, firms in the services sector are less heavily exposed to the overnight impacts of a no-deal Brexit than those in the manufacturing sector, which explains the less dramatic decline in confidence.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



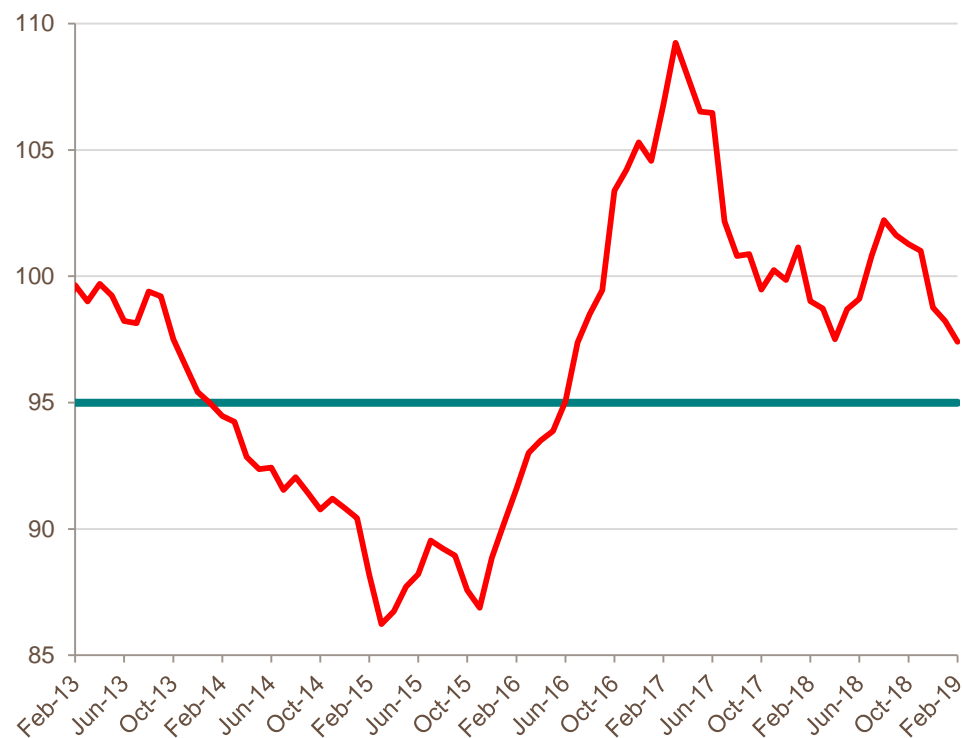
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION INDEX DIPS TO LOWEST LEVEL SINCE JULY 2016

- The BDO Inflation Index declined to 97.41 in February, down from 98.23 in January. This was driven by falls in both consumer price inflation and input price inflation.
- The latest data from the ONS show that the annual rate of consumer price inflation (including owner occupiers' housing costs) fell by 0.2 percentage points to 1.8% in January - the lowest rate since 2016. The decline in the rate of price growth was driven by a 1.3% month-on-month fall in footwear and clothing prices together with downward contributions from electricity, gas and other fuels.
- Since the middle of February, the pound has recorded strong gains against the euro and the US dollar, as markets reacted favourably to news that Theresa May would offer MPs a vote on whether to approve a no-deal Brexit or an extension to Article 50. This will weigh on the cost of imports in the immediate term, although the broad spectrum of outcomes that could materialise from the Brexit discussions mean that the pound may swing in either direction in the coming months.
- The BDO Input Inflation Index fell from 97.00 in January to 95.75 in February. This was a result of a softening of energy prices as well as the strengthened pound described above.
- Looking ahead, the partial recovery of oil prices so far in 2019 as well as the uptick in earnings growth are expected to push up the rate of inflation later in the year.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



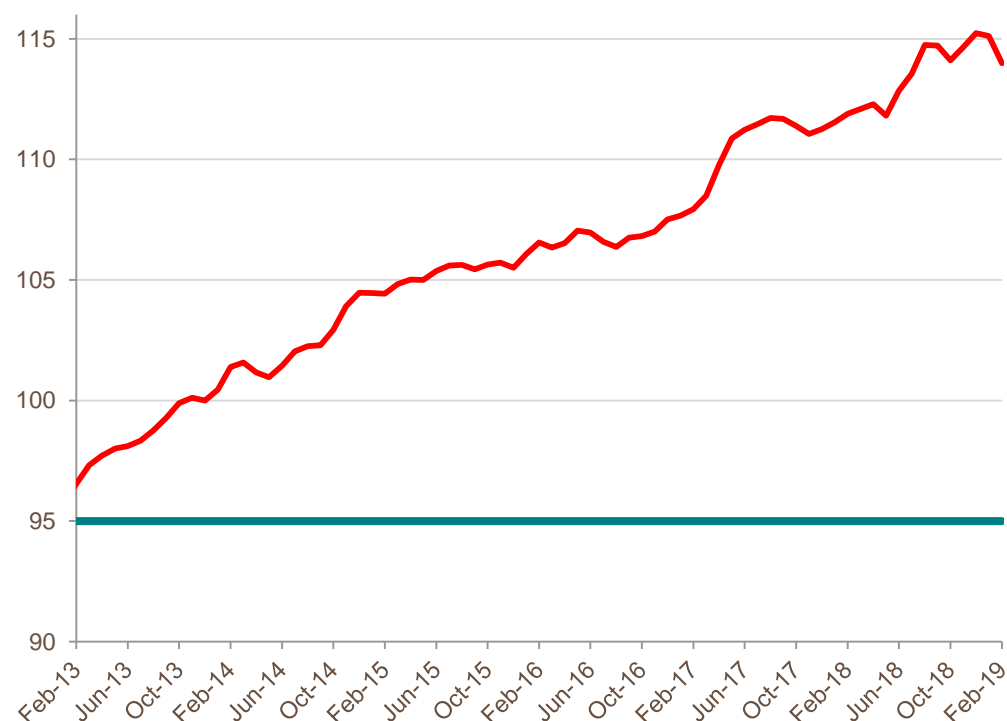
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT INDEX FALLS FOR SECOND CONSECUTIVE MONTH

- The BDO Employment Index fell from 115.11 in January to 113.99 in February, as survey data suggest that firms' hiring plans have taken a hit amid the economic and political uncertainty facing the UK.
- With that being said, the Index remains well above the historical average, and the most recent data from the ONS show that the labour market is in fine fettle. The unemployment rate in the three months to December 2018 was the joint lowest since February 1975, while the overall levels of employment and vacancies are at record highs. Based on these headline figures, the labour market has been seemingly impervious to various economic and political developments and headwinds over the past year.
- The latest employment data comes after some high profile announcements in the UK's car manufacturing industry. At the beginning of February, Nissan announced its decision not to build the X-Trail SUV in Sunderland, choosing instead to move production to Japan. Jaguar Land Rover also announced 4,500 job cuts in January, citing not just Brexit but also a slowdown in Chinese sales as a factor in their decision. While in isolation these decisions are not likely to put a major dent in the labour market, they point to the potential for some structural unemployment in the short to medium term, as workers are forced to move between industries.

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

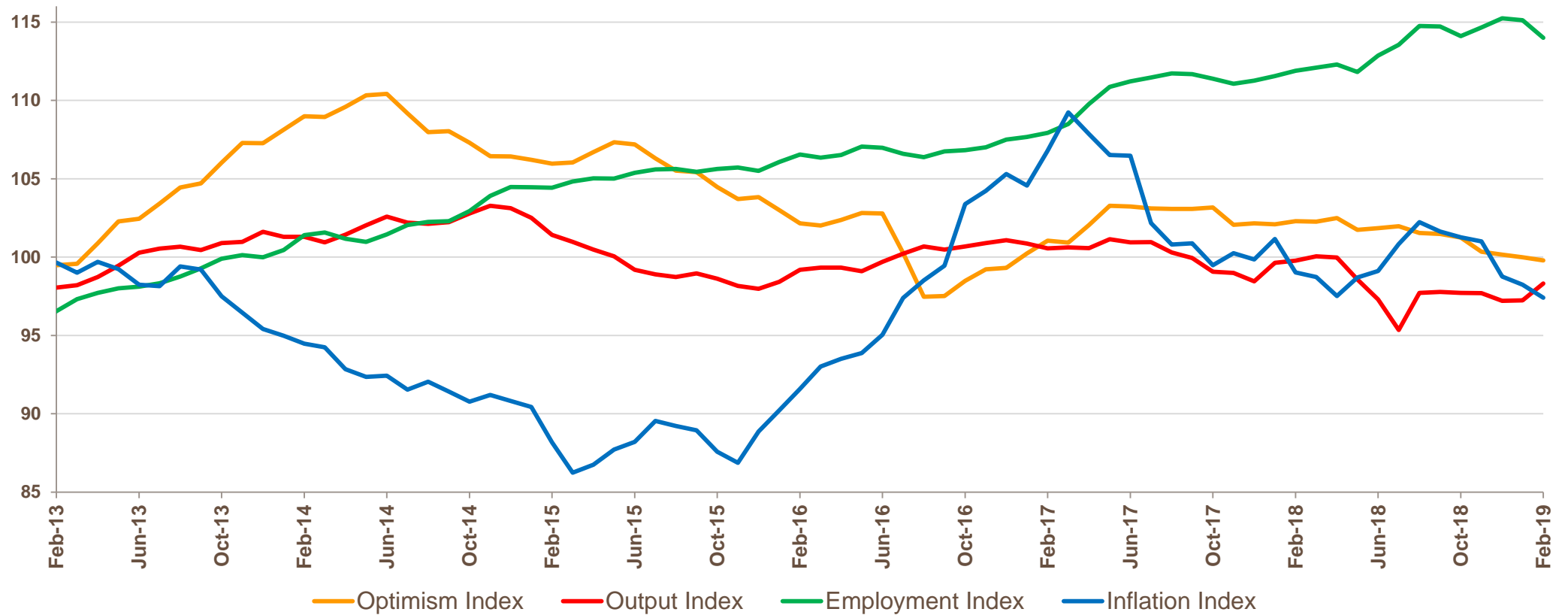
BDO INDICES TO LATEST MONTH

		Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
The BDO Optimism Index	Total	101.96	101.53	101.47	101.25	100.33	100.16	99.98	99.79
	Manuf.	108.97	108.55	108.48	106.66	105.02	104.90	104.40	103.84
	Service	101.08	100.64	100.59	100.56	99.74	99.55	99.42	99.28
The BDO Output Index	Total	95.34	97.72	97.78	97.72	97.69	97.20	97.24	98.32
	Manuf.	100.16	102.06	103.26	102.74	100.61	98.60	98.37	97.36
	Service	94.73	97.17	97.08	97.08	97.32	97.02	97.10	98.44
The BDO Inflation Index	Total	100.82	102.23	101.63	101.27	101.01	98.76	98.23	97.41
	Input	101.59	103.90	102.82	102.19	101.95	97.99	97.00	95.75
	Consumer	100.06	100.55	100.44	100.35	100.06	99.53	99.47	99.06
The BDO Employment Index	Total	113.55	114.74	114.72	114.11	114.65	115.24	115.11	113.99

APPENDIX: DECLINES REGISTERED IN THREE 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.