



# BDO MONTHLY BUSINESS TRENDS INDICES

December 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 December 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	✓	▽	103.3 in November from 103.9 in October
BDO Optimism Index	✓	▽	101.0 in November from 101.9 in October
BDO Inflation Index	✗	△	96.4 in November from 96.3 in October
BDO Employment Index	✓	▽	105.2 in November from 107.0 in October

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 has fallen from 103.9 during October to 103.3 in November. As was the case last month, the woes for the manufacturing sector continue while the service sector remains in better health. Manufacturers are having to contend with slowing export markets and the strength of the pound, whereas service sector firms are generally more domestically focused and reporting little change in prospects.

The BDO Inflation Index remains at 96.4 for November, making this the fifth consecutive month of expected price growth above zero but below the long-term trend rate. A combination of positive but modest wage rises while other inputs grow at negligible or negative rates continues to underlie these weak cost pressures.

The BDO Optimism Index has dipped from 101.9 during October to 101.0 in November. The same pattern of divergence is visible, with manufacturers seeing poorer prospects than service firms. Optimism in the former sector is at just 88.3 - well into contractionary territory. Trade bodies in the sector are forecasting almost no growth in 2016.

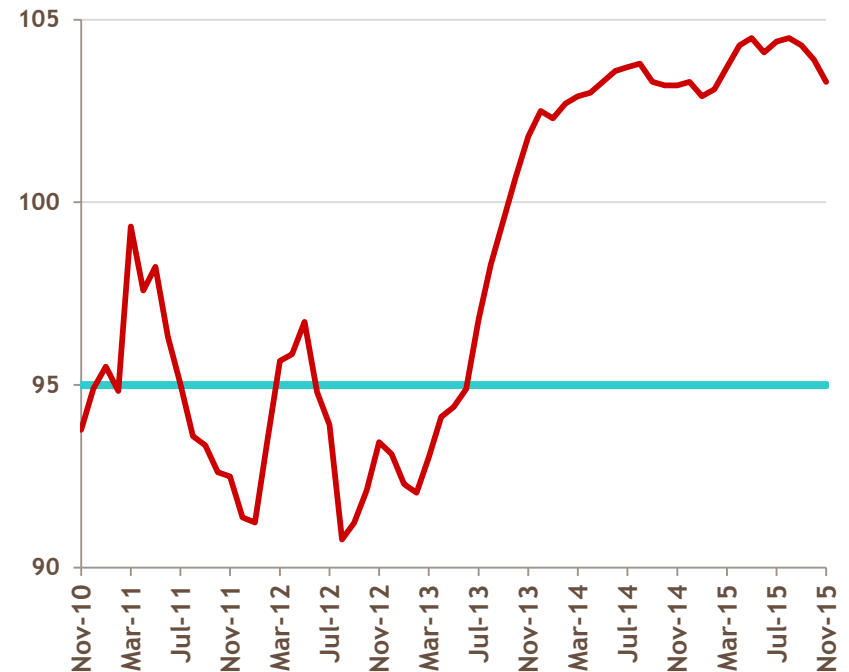
Dropping this month from 107.0 to 105.2, the Employment Index continues to fall towards long-run average levels while remaining comfortably above them for the time being. While hiring should continue to progress at a faster than usual pace, the unemployment rate is near pre-crisis lows.

# DIVERGENCE IN SECTORAL OUTLOOK OPENS

- The Output Index has fallen from 103.9 during October to 103.3 in November.
- This was driven by a fall in the manufacturing sub-index, which dropped from 103.8 to stand approximately at its long-run trend level at 100.5. At 103.5, the service sector sub-index remains relatively robust. This part of the economy is largely powering the UK recovery at present.
- The manufacturing sector is suffering difficulties largely linked to weak global demand. At the same time, the pound is relatively strong versus rival exporters' currencies. Carmakers, until recently a highly productive contributor to the UK's economic recovery, have pushed down their forecasts for next year's growth.

## BDO OUTPUT INDEX

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



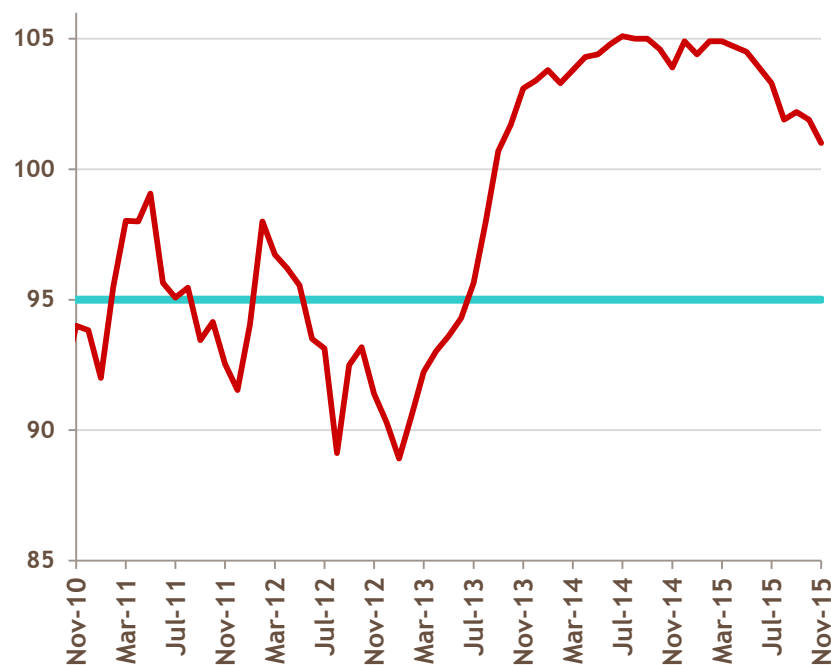
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# FIRMS' EXPECTATIONS FOR 2016 FALL BACK TOWARDS LONG-RUN AVERAGE

- The Optimism Index also remains on its downward trend. At 101.0 in December compared to 101.9 last month, it is still above the long-run average growth rate, but not by much.
- UK firms still expect to see steady growth during the remainder of 2015 and first few months of 2016. However, expectations are being gradually toned down.
- The main challenges will be continued weakness in the Eurozone. Domestically, maintaining expansion when the labour market is back at near full employment will require a pick-up in productivity, something that has been weak so far.
- The services/manufacturing split has a similar pattern to that seen in the Output Index. The manufacturing sub-index is at 88.3 - slightly above the very weak level reached in August, but still pointing to contraction. Optimism in the services sector remains at a robust, above-average 103.9.

## BDO OPTIMISM INDEX

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



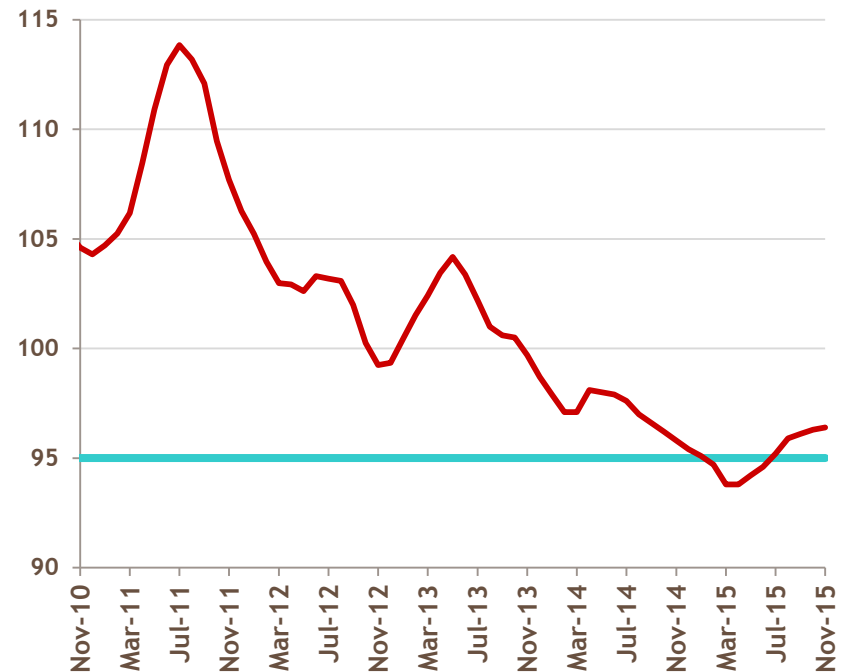
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# FIRMS STILL ANTICIPATING WEAK COST PRESSURES

- The BDO Inflation Index has shown another slight rise. It stands at 96.4 for November, compared to 96.3 for October.
- This represents expected gradual positive inflation in input prices, but at a level considerably below the long-run average of 2%.
- Changes in costs of many physical inputs remain around zero or in negative territory. The price of oil is back on a downward trend which could take it close to levels not reached since the depths of the financial crisis of just \$35/barrel.
- Meanwhile, wage growth was most recently measured in the three months to September at 2.5% year on year - a fairly modest level, by pre-crisis standards. Low inflation means that increases in the real value of wages are more in line with pre-crisis rates.

## BDO INFLATION INDEX

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



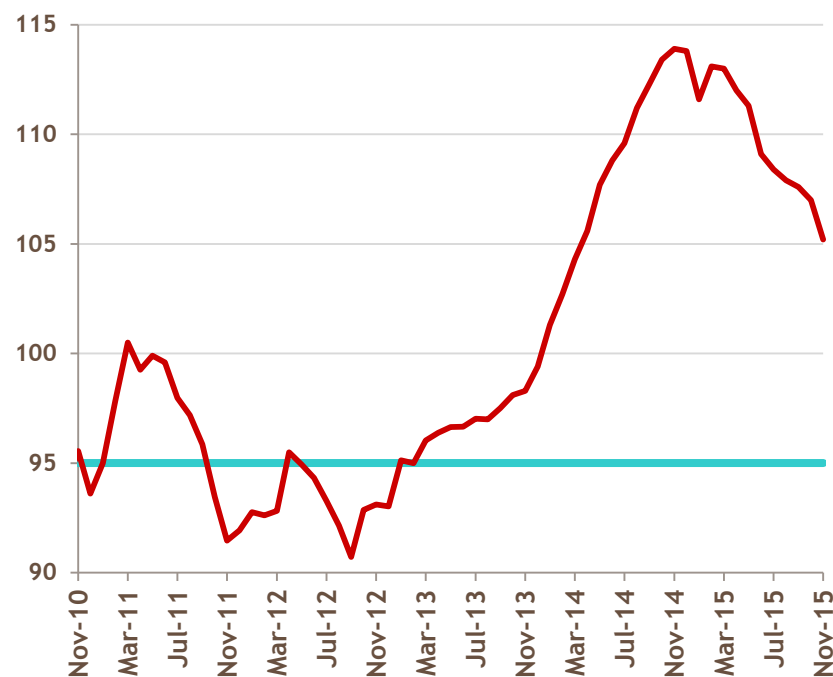
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# EMPLOYMENT INDEX STILL ELEVATED BUT TRENDING DOWNWARDS

- The BDO Employment Index has fallen from 107.0 to 105.2 in November, the tenth consecutive monthly decline. While significantly below levels of a year ago, the index still signals employment growth above the long-run average rate.
- The unemployment rate was last recorded at just 5.3%. Firms' intentions for hiring over the near term are to do so at slightly slower but still above-average levels. This suggests that pre-crisis unemployment lows could be reached again soon.
- The improving outlook in the labour market might in more normal times prompt consideration of monetary tightening from the Bank of England. However, the Bank's extreme caution due to the protracted nature of the post-financial crisis recovery makes it unlikely that it would risk such a move at the present time. Inflation is also too low to warrant it currently. The next scheduled meeting of the BoE Monetary Policy Committee on Thursday 10<sup>th</sup> December is seen as very unlikely to result in a rise in interest rates. Cebr expects the first rise from 0.5% to take place in Q2 2016.

## 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

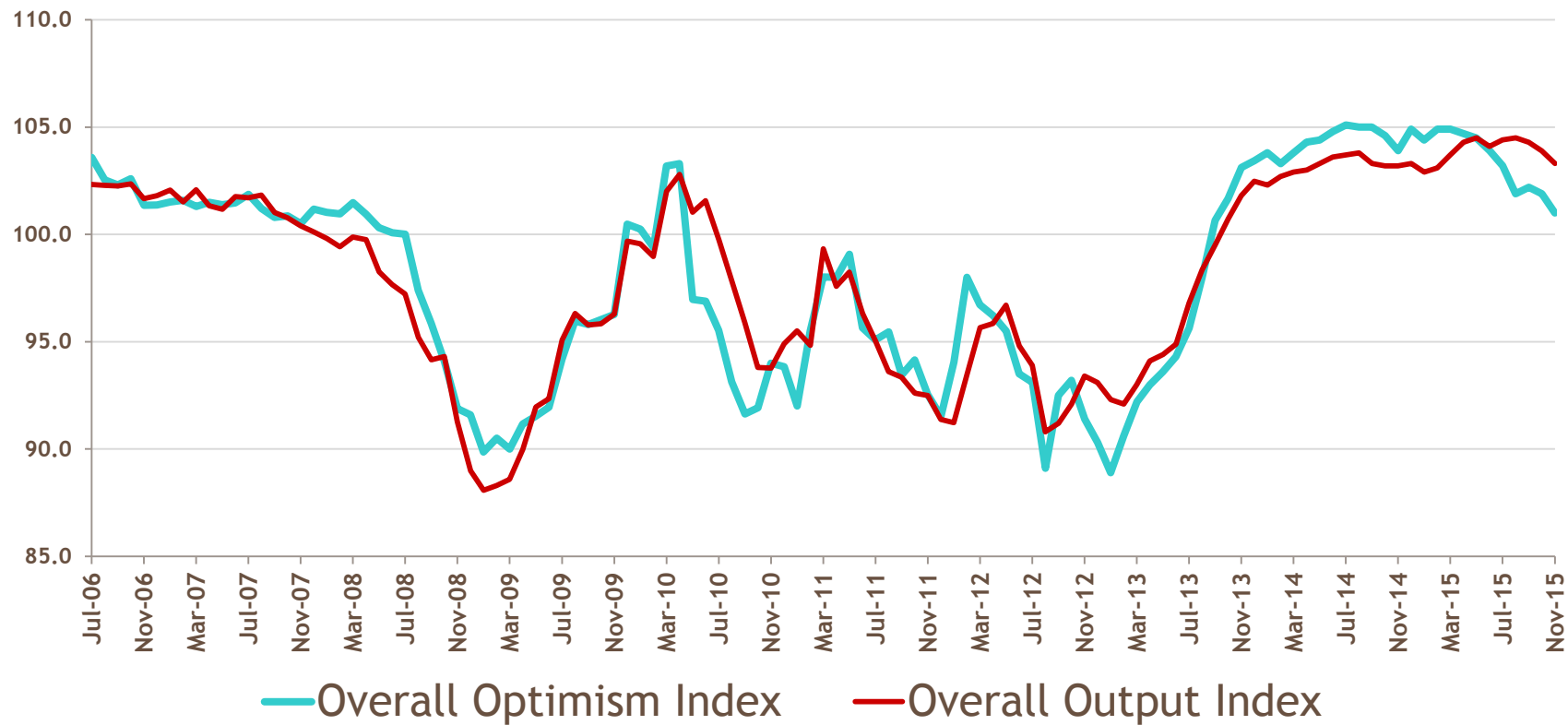
		Nov 2014	Dec 2014	Jan 2015	Feb 2015	Mar 2015	Apr 2015	May 2015	Jun 2015	Jul 2015	Aug 2015	Sep 2015	Oct 2015	Nov 2015
The BDO Optimism Index	<b>Total</b>	103.9	104.9	104.4	104.9	104.9	104.7	104.5	103.9	103.3	101.9	102.2	101.9	101.0
	Manuf.	114.1	113.9	113.0	111.6	109.8	107.4	103.4	98.5	93.5	86.2	89.0	90.2	88.3
	Service	101.9	103.1	102.7	103.6	103.9	104.1	104.7	105.0	105.1	105.0	104.8	104.2	103.5
The BDO Output Index	<b>Total</b>	103.2	103.3	102.9	103.1	103.7	104.3	104.5	104.1	104.4	104.5	104.3	103.9	103.3
	Manuf.	109.1	108.0	107.3	107.1	107.7	108.8	109.0	107.8	106.8	106.8	106.5	103.8	100.5
	Service	102.1	102.4	102.1	102.3	102.9	103.5	103.6	103.4	103.9	104.1	103.9	103.9	103.9
The BDO Inflation Index	<b>Total</b>	95.8	95.4	95.1	94.7	93.8	93.8	94.2	94.6	95.2	95.9	96.1	96.3	96.4
The BDO Employment Index	<b>Total</b>	113.9	113.8	111.6	113.1	113.0	112.0	111.3	109.1	108.4	107.9	107.6	107.0	105.2



# APPENDIX 1: FIRMS' EXPECTATIONS OVER FUTURE FALL BACK TOWARDS LONG-RUN AVERAGE

## BDO OUTPUT AND OPTIMISM INDICES

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



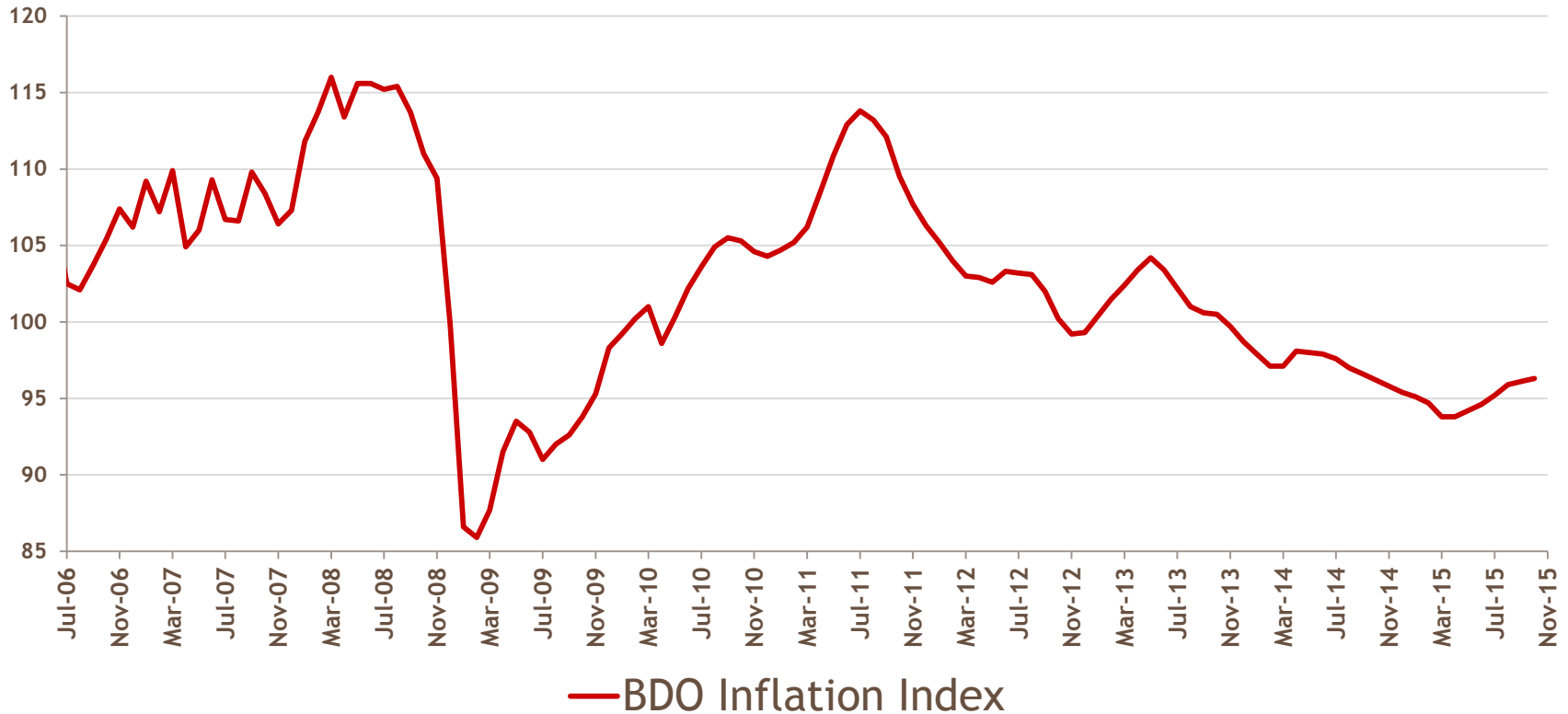
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis



# APPENDIX 2: FIRMS STILL ANTICIPATING WEAK COST PRESSURES

## BDO INFLATION INDEX

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

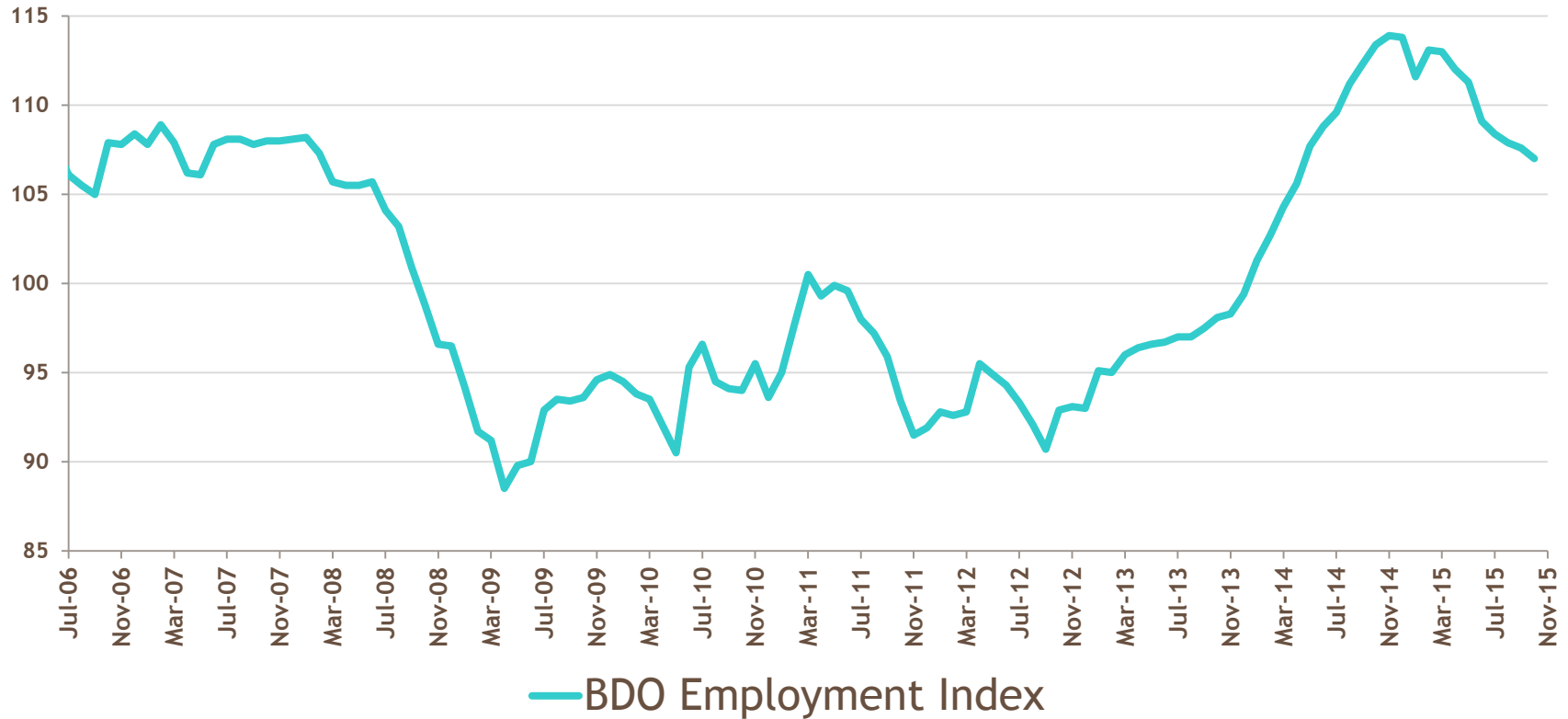


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# APPENDIX 3: EMPLOYMENT INDEX STILL ELEVATED BUT TRENDING DOWNWARDS

## 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](mailto:peter.hemington@bdo.co.uk)

## **ALASDAIR CAVALLA OR ROB HARBRON**

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

telephone: 020 7324 2850

email:

[acavalla@cebr.com](mailto:acavalla@cebr.com) / [rharbron@cebr.com](mailto:rharbron@cebr.com)

web: [www.cebr.com](http://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.