

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

January 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 February 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	▲	97.24 in January from 97.20 in December
BDO Optimism Index	XX	▼	99.98 in January from 100.16 in December
BDO Inflation Index	X	▼	98.23 in January from 98.76 in December
BDO Employment Index	✓	▼	115.11 in January from 115.24 in December

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

Three of the four measures fell between December and January, with only the BDO Output Index recording a small increase.

The BDO Output Index edged up to 97.24 in January, driven by a slight pickup in the Services Output Index. The manufacturing index continued to worsen however, despite the surge in stockpiling activity ahead of Brexit.

The BDO Optimism Index fell below the 100 mark for the first time since December 2016, as confidence deteriorated further in both the manufacturing and service sectors. This fall was driven by continued uncertainty surrounding Brexit as well as a gradual worsening of domestic and global economic conditions.

The BDO Inflation Index fell for the fifth consecutive month to 98.23 in January. Low energy prices weighed on both consumer prices and producer prices, while a slight strengthening of the pound against the dollar and the euro helped to contain the price of imports.

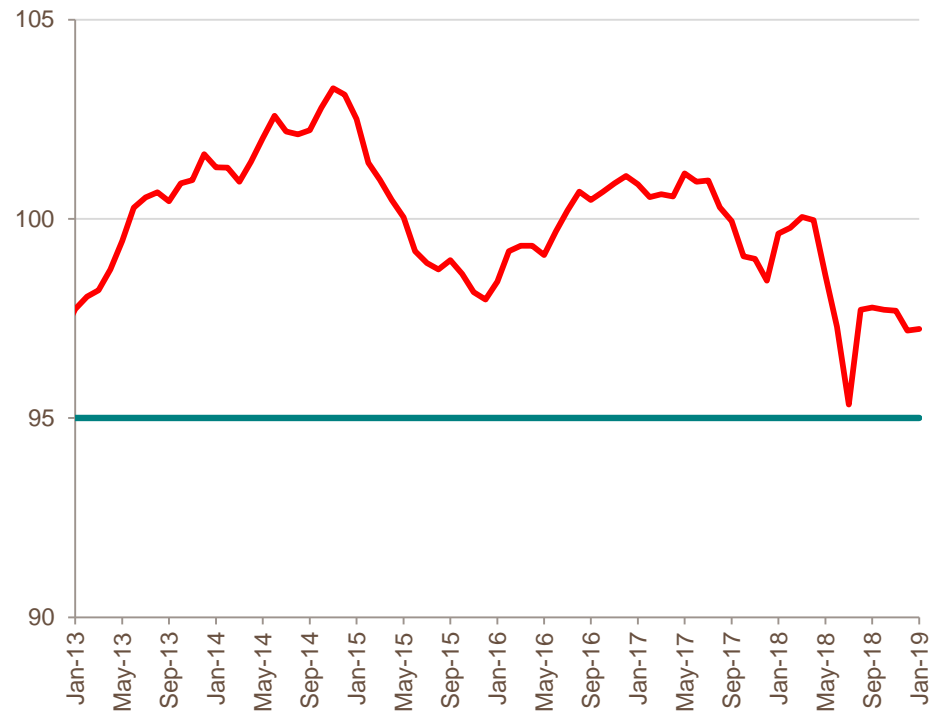
The BDO Employment Index edged down to 115.11 in January, but remains at the second highest level that the index has been. The UK's employment rate is now at a record high, although weaker economic prospects and potential offshoring of jobs in some sectors could impact the index later in the year.

OUTPUT GROWTH EDGES UP marginally in January

- The BDO Output Index rose by 0.04 points to 97.24 between December and January, driven by a slight improvement in the services sub-index.
- The BDO Services Index increased from 97.02 in December to 97.10 in January. This remains well below the long term average rate of growth. As no-deal remains on the table, there is the prospect of an uptick in activity in some sectors as firms take steps to ready themselves for the potential disruption.
- The BDO Manufacturing Index declined by 0.23 points to 98.37 in January - the lowest it has been since October 2017. Survey data show that new orders and employment in the manufacturing sector were weak in January.
- Manufacturing firms have been ramping up their preparations for a disorderly Brexit, in a large part through the stockpiling of imported goods. This has had the effect of inflating the level of activity recorded in the industry, meaning that the underlying slowdown is likely to be even worse than suggested by headline output figures.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



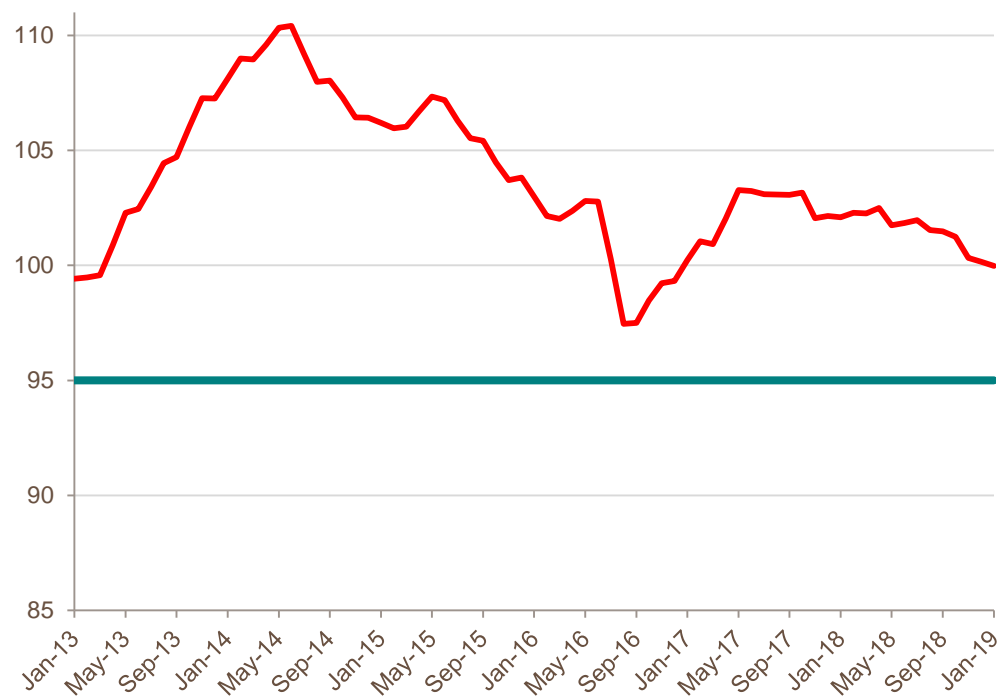
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

BDO OPTIMISM INDEX FALLS BELOW 100 FOR FIRST TIME SINCE 2016

- The BDO Optimism Index fell by 0.18 points to 99.98 between December and January - the first time that it has fallen below 100 since December 2016. This means that business confidence in the UK is again below the long term average.
- The most significant worsening of sentiment took place in the manufacturing industry, with the BDO Manufacturing Optimism Index falling by 0.5 points to 104.4 in January. Firms in this sector are among the most exposed to the effects of a disorderly Brexit. The industry's reliance on both imports and exports mean that the imposition of tariffs between the UK and the EU would be highly challenging, while regulatory and customs checks would disrupt international supply chains.
- The BDO Services Optimism Index also declined in January, falling by 0.13 points to 99.42. With less than two months before the UK is scheduled to formally leave the EU, parliament has yet to agree on the terms of departure and a no-deal Brexit remains a possibility. This uncertainty continues to cripple business confidence.
- Looking past Brexit, businesses have many other causes for concern. Among these are a pronounced slowdown in consumer credit growth and a weakening outlook for the global economy, both of which threaten to weigh on demand this year.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



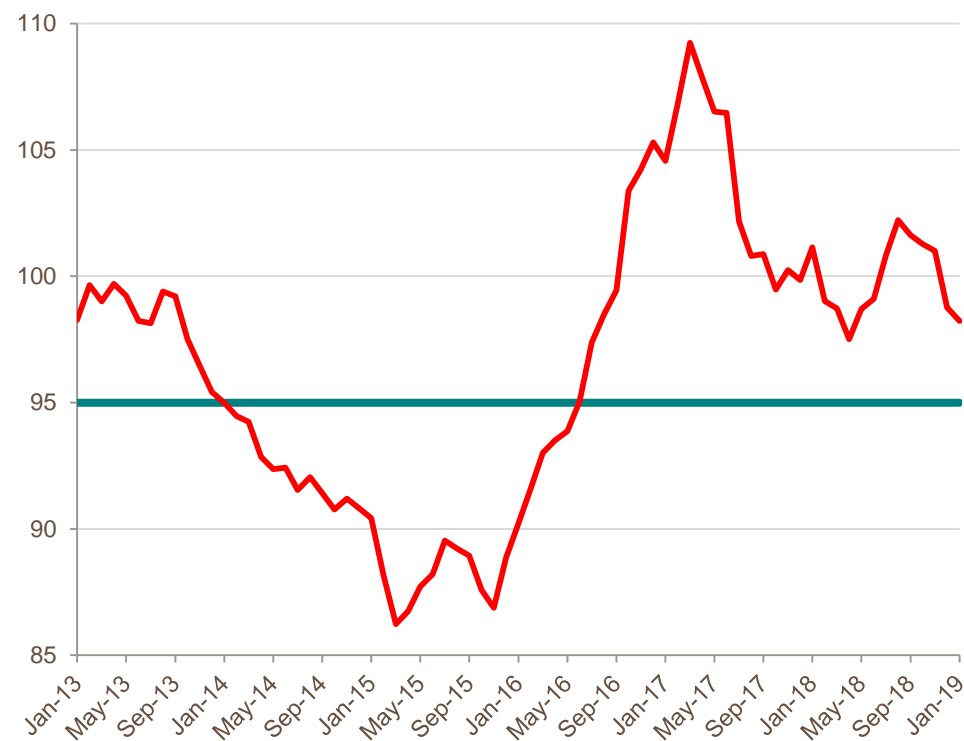
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION INDEX DIPS TO LOWEST LEVEL SINCE APRIL 2018

- The BDO Inflation Index fell for the fifth consecutive month in January, declining by 0.53 points to 98.23.
- Input price growth continued to slow in January, driven largely by declining energy prices as well as a slight strengthening of the pound against major currencies including the euro and the US dollar, which pushed down the cost of imports. These currency movements likely reflect some cautious optimism among investors that a no-deal Brexit will indeed be blocked by MPs, a majority of which have now come out as being against this outcome.
- Consumer price growth has also continued to slow, with the BDO Consumer Inflation Index dipping to 99.47. This will have provided a welcome boost to households' disposable incomes. According to the latest data from the ONS, the 12 month growth rate of the Consumer Price Index including owner occupiers' housing costs (CPIH) fell to 2.0% in December, down from the 2.2% measured in November. This marks the lowest rate of inflation since January 2017.
- The inflation outlook in the short term will be shaped in a large part by developments in Westminster and Brussels. A no-deal Brexit would likely be met by a sharp fall in the pound and a corresponding surge in inflation. Meanwhile, the confirmation of a deal would greatly reassure investors and would be accompanied by a strengthening of the pound.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



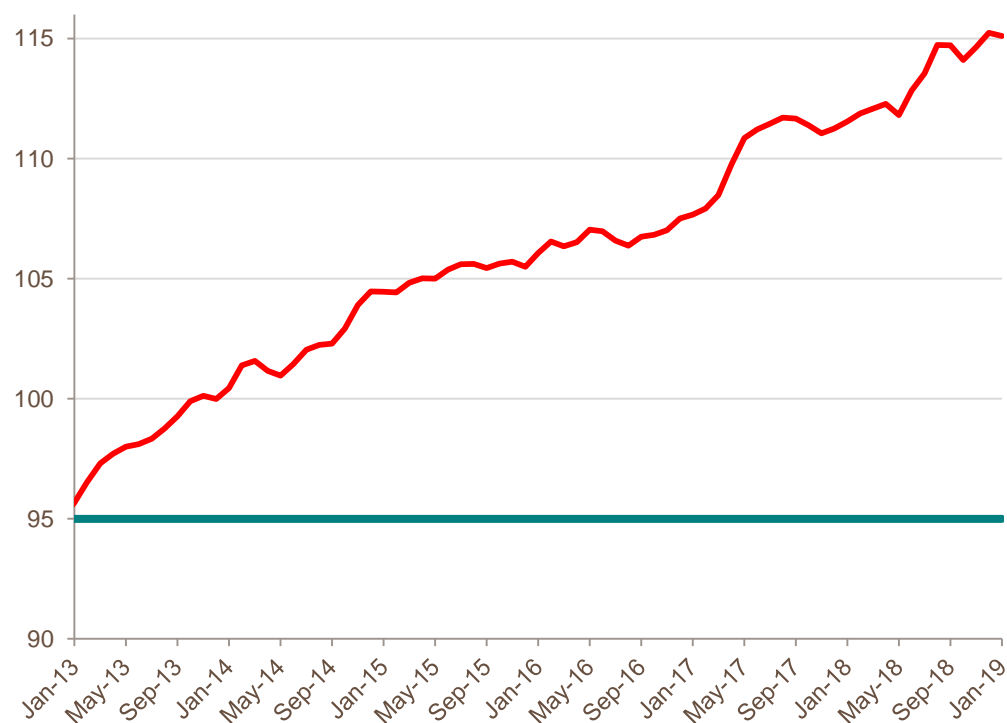
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT INDEX CREEPS DOWN BUT REMAINS WELL ABOVE LONG-RUN AVERAGE

- The BDO Employment Index edged down by 0.13 points to 115.11 in January. Despite the marginal fall, it is important to note that the index is still at the second highest level it's ever been.
- Data from the ONS show that the employment rate climbed to yet another record high of 75.8% in the three months to November. Meanwhile, the unemployment rate is the joint-lowest since 1975.
- The remarkable consistency with which the labour market has tightened in recent years can be attributed to a variety of factors including increased female participation, the use of the internet to more efficiently match job-seekers and employers, as well as later retirement ages. These factors reflect longer term structural shifts in the labour market and are therefore more resilient to swings in the UK's economic fortunes.
- That being said, recent business surveys have shown that a significant number of firms are considering or have already started moving their operations and parts of their workforce to Europe, to offset some of the challenges that will accompany Brexit. Also, the UK is poised to enter a period of weaker growth in 2019, which will inevitably impact upon firms' hiring decisions. Therefore, we expect the BDO Employment Index to remain fairly stable in the coming months.

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

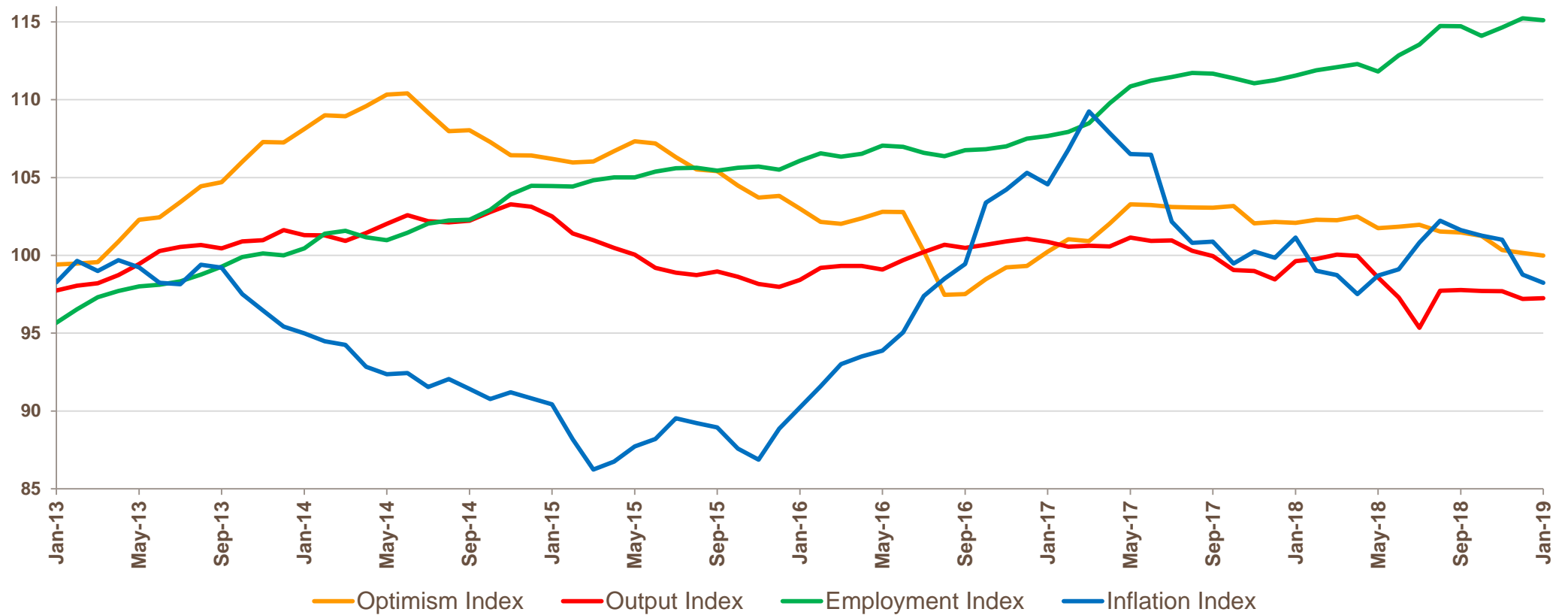
BDO INDICES TO LATEST MONTH

		Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
The BDO Optimism Index	Total	101.85	101.96	101.53	101.47	101.25	100.33	100.16	99.98
	Manuf.	109.19	108.97	108.55	108.48	106.66	105.02	104.90	104.40
	Service	100.92	101.08	100.64	100.59	100.56	99.74	99.55	99.42
The BDO Output Index	Total	97.29	95.34	97.72	97.78	97.72	97.69	97.20	97.24
	Manuf.	100.82	100.16	102.06	103.26	102.74	100.61	98.60	98.37
	Service	96.85	94.73	97.17	97.08	97.08	97.32	97.02	97.10
The BDO Inflation Index	Total	99.11	100.82	102.23	101.63	101.27	101.01	98.76	98.23
	Input	98.15	101.59	103.90	102.82	102.19	101.95	97.99	97.00
	Consumer	100.47	100.06	100.55	100.44	100.35	100.06	99.53	99.47
The BDO Employment Index	Total	112.85	113.55	114.74	114.72	114.11	114.65	115.24	115.11

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.