

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

December 2018

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 January 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	▼	97.20 in December from 97.69 in November
BDO Optimism Index	✓	▼	100.16 in December from 100.33 in November
BDO Inflation Index	X	▼	98.76 in December from 101.01 in November
BDO Employment Index	✓	▲	115.24 in December from 114.65 in November

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 November and December, with only the BDO Employment Index recording an increase.

The BDO Output Index fell sharply to 97.20 in December, as the UK's economic growth returns to meagre territory following the resurgence over the summer.

Mounting political uncertainty, twinned with the UK's dim economic prospects for 2019 pushed the BDO Optimism Index down to 100.16. The index is now approaching the levels witnessed in the aftermath of the Brexit referendum in June 2016.

The BDO Inflation Index sunk to 98.76 in December, as falling oil prices have lowered producers' and consumers' energy bills while clothing retailers have cut prices in a bid to boost sales during the crucial Christmas period. The UK's projected economic slowdown will lessen domestic inflationary pressures in 2019, although currency movements in the coming months could counter this effect.

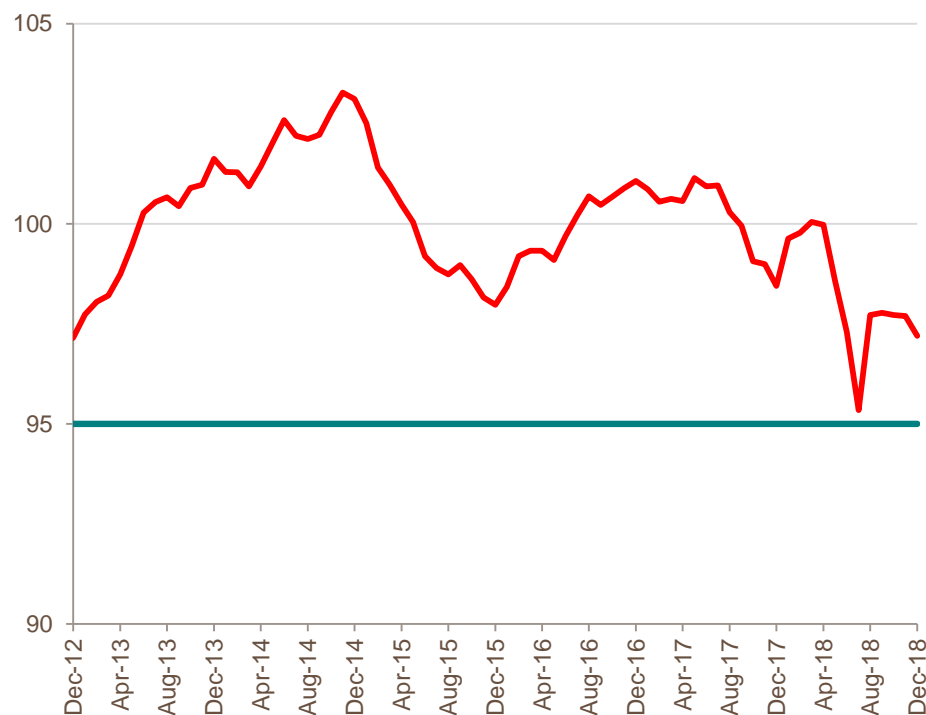
The BDO Employment Index rose to 115.24 in December, as the latest data from the ONS show the employment rate at its highest level since records began in 1971.

OUTPUT GROWTH SLOWS FOR THIRD CONSECUTIVE MONTH IN DECEMBER

- The BDO Output Index declined by 0.49 points between November and December to 97.20. This was driven by falls in both the manufacturing and services sub-indices.
- The BDO Manufacturing Index dipped sharply to 98.60 in December, meaning that growth is now below the long term trend for this sector. Early data from Q4 suggest that the partial recovery of manufacturing over the summer was a transitory phenomenon. Slowing economic growth in major trading partners such as the EU and China as well as the continued uncertainty surrounding Brexit are weighing on the sector's performance.
- The BDO Services Index stood at 97.02 in December - down from 97.32 in November. The sector - which accounts for around 80% of the UK's economic output - looks set to be hit by a slowdown in consumer spending and investment, as firms and households collectively hold their breaths ahead of the UK's withdrawal from the EU in March of this year.
- Data on retail sales during the crucial Christmas period has so far been mixed. While major retailers such as John Lewis and Next have reported strong sales, early data suggest that in 2018, footfall as a whole during the Christmas period was down on the previous year.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



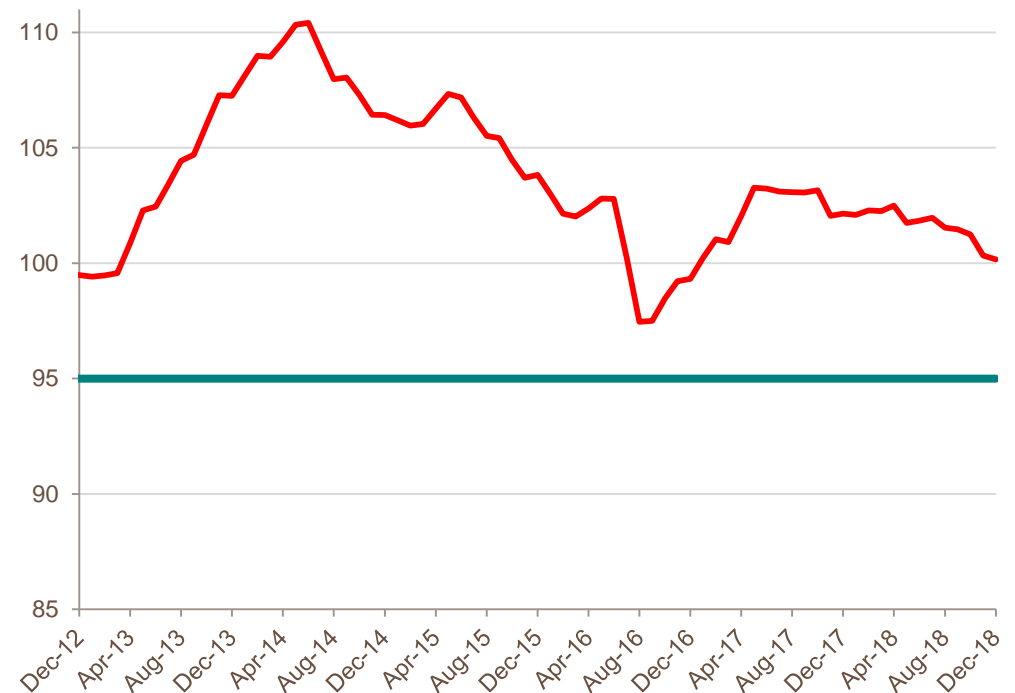
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

CONFIDENCE CONTINUES TO SLIDE IN DECEMBER

- The BDO Optimism Index fell by 0.17 points to 100.16 between November and December, which takes the index to its lowest level since December 2016.
- The BDO Services Optimism Index dipped to 99.55 - the lowest its been in two years.
- Meanwhile, confidence in the manufacturing sector also declined, with the BDO Manufacturing Optimism Index falling by 0.12 points to 104.90.
- Businesses in the UK are troubled by the country's weak economic prospects in 2019. Consumer spending is likely to be constrained by rapid credit growth which has meant that many households have reached their borrowing limits.
- Following a highly eventful December, the nature of the UK's relationship with the EU after March 2019 and in the longer term remains up in the air. This uncertainty is a key driver of the weakening sentiment among UK businesses and is causing many to postpone their investment plans. Firms are particularly concerned about the impacts of a disorderly Brexit, which remains a distinct possibility.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



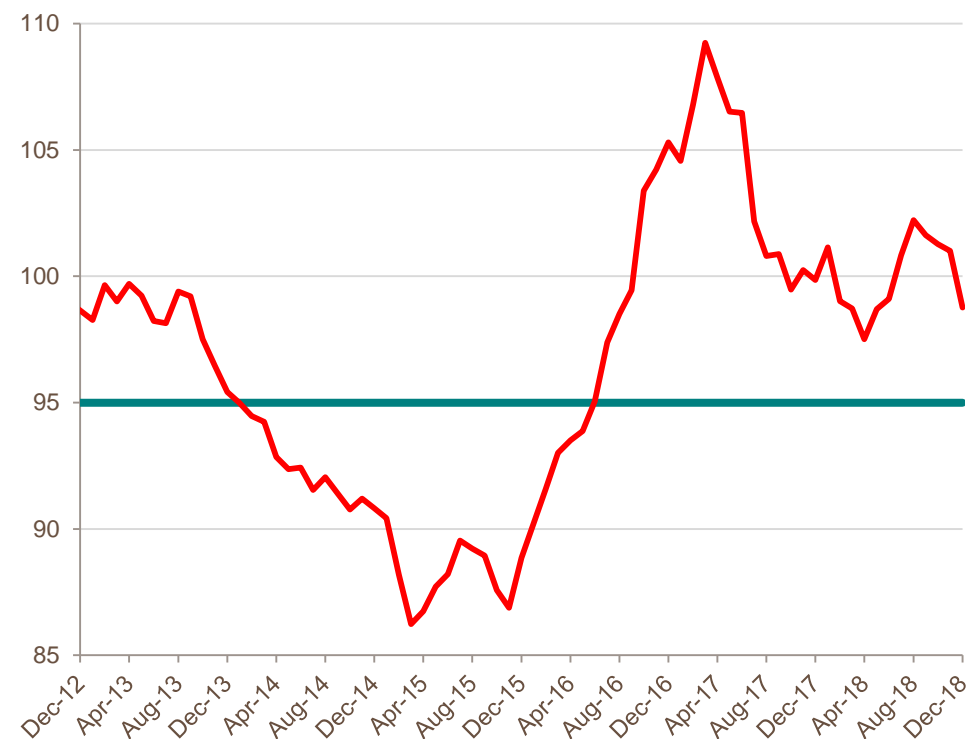
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION INDEX SINKS TO SEVEN MONTH LOW

- The BDO Inflation Index recorded a sharp fall in December, declining by 2.3 points to 98.76. This is the lowest that the index has been since May 2018.
- The input inflation index declined significantly last month, as oil prices continued to plummet. At the end of December, the price of Brent Crude oil stood at \$53.21 per barrel. This is 38% down on the 2018 peak of \$86.29 per barrel recorded in early October.
- The BDO Consumer Inflation Index fell to 99.53 in December, the first time its been below 100 since April 2018. This also marks the lowest level since January 2017, when the depreciation of the pound following the Brexit referendum began to generate considerable inflationary pressures.
- According to the latest data from the ONS, the annual rate of consumer price inflation fell by 0.1 percentage points to 2.3% in November. This is the slowest year-on-year growth rate of consumer prices since March 2017. Softening inflation was driven by annual declines in the cost of clothing and footwear as well as a monthly fall in domestic energy and fuel prices. Heavy discounting by retailers in the aftermath of Christmas together with continued declines in oil prices in December mean that these trends are likely to have continued during the final month of 2018.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



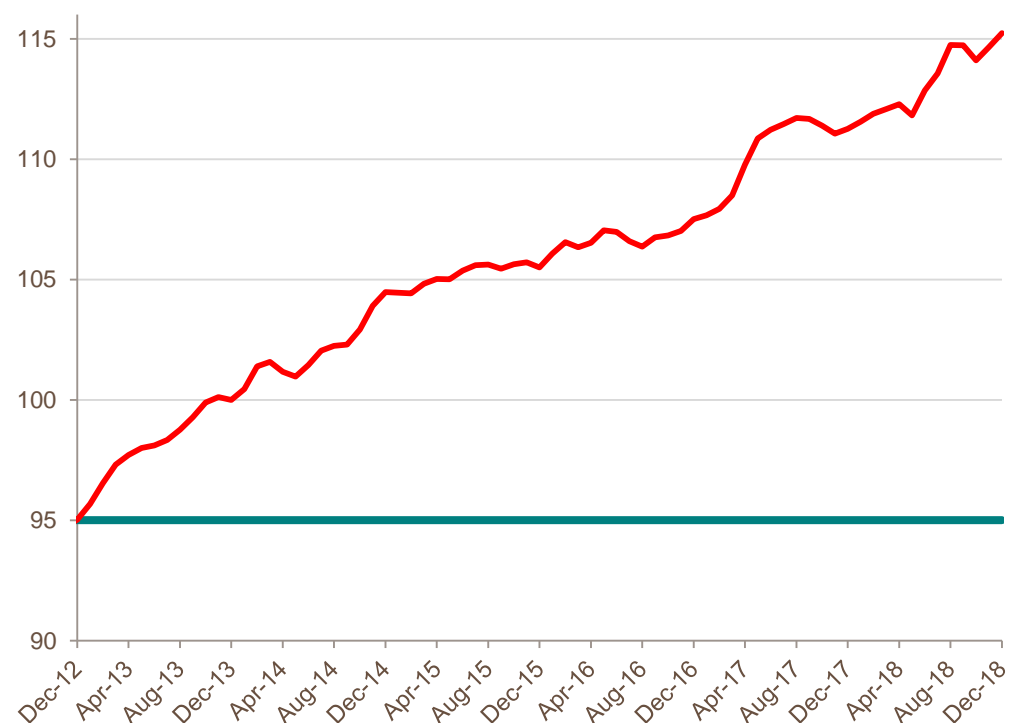
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT INDEX REMAINS STRONG IN DECEMBER

- The BDO Employment Index rose to 115.24 in December, driven by a slight pickup in businesses' hiring intentions.
- In the three months to October, the UK's employment rate was 75.7% - the highest since comparable estimates began in 1971. Compared to the previous three month period, the number of people in work rose by 79,000. This suggests that the UK labour market has not run out of steam despite the slowing economy and growing preoccupation with Brexit.
- The combined effects of rising wages - with average earnings growth now at a 10-year high - and a weakening economy are set to constrain further gains in the BDO Employment Index this year.
- The manner of the UK's departure from the EU will shape the Employment Index in 2019. A disorderly Brexit would likely cause many firms to reign in their hiring plans, while confirmation of a less disruptive Brexit could induce them to bring forward expansion plans that had been put on hold during the prolonged period of uncertainty.
- The slowdown in employment growth in 2019 will constrain the rate of average earnings growth, and hence will exert downward pressure on the BDO Inflation Index.

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

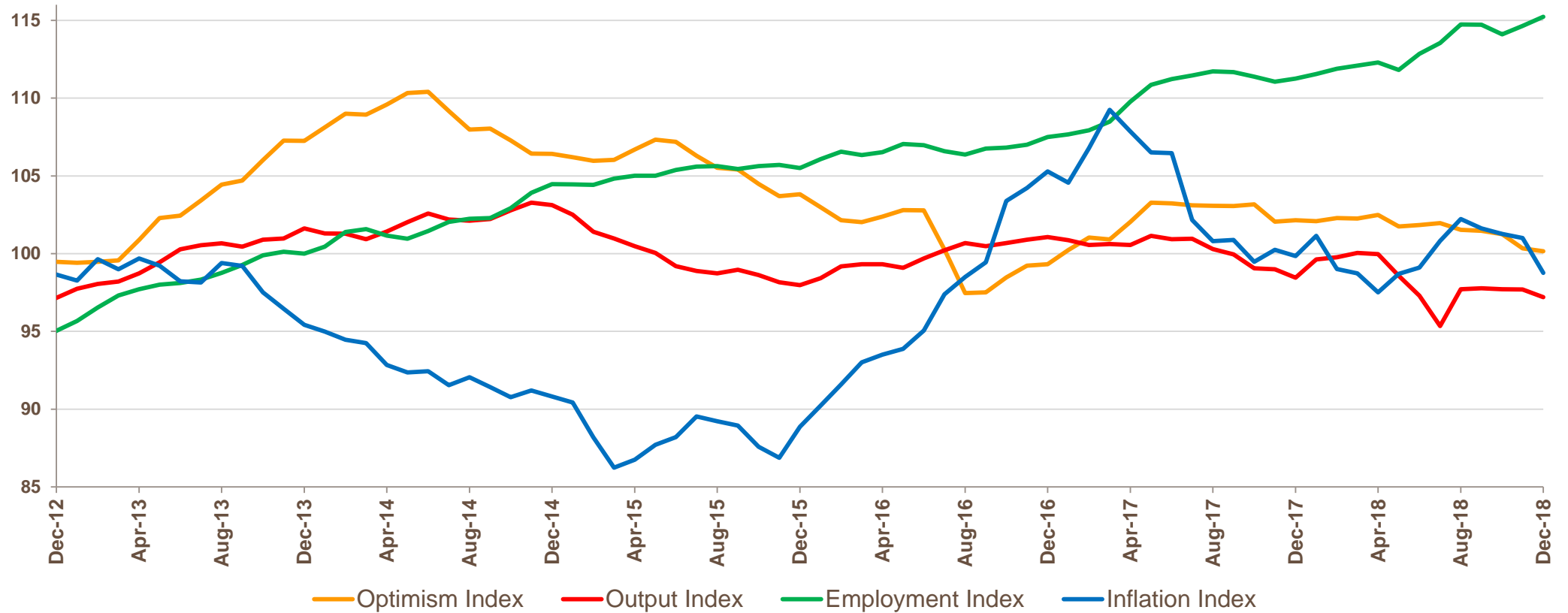
BDO INDICES TO LATEST MONTH

		May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
The BDO Optimism Index	Total	101.74	101.85	101.96	101.53	101.47	101.25	100.33	100.16
	Manuf.	109.18	109.19	108.97	108.55	108.48	106.66	105.02	104.90
	Service	100.80	100.92	101.08	100.64	100.59	100.56	99.74	99.55
The BDO Output Index	Total	98.58	97.29	95.34	97.72	97.78	97.72	97.69	97.20
	Manuf.	103.94	100.82	100.16	102.06	103.26	102.74	100.61	98.60
	Service	97.90	96.85	94.73	97.17	97.08	97.08	97.32	97.02
The BDO Inflation Index	Total	98.70	99.11	100.82	102.23	101.63	101.27	101.01	98.76
	Input	97.30	98.15	101.59	103.90	102.82	102.19	101.95	97.99
	Consumer	100.09	100.47	100.06	100.55	100.44	100.35	100.06	99.53
The BDO Employment Index	Total	111.81	112.85	113.55	114.74	114.72	114.11	114.65	115.24

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.