

▶ A NEW ECONOMY
PUBLICATION

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

September 2017

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 October 2017, 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	▽	99.9 in September from 100.3 in August
BDO Optimism Index	✓	-	103.1 in September from 103.1 in August
BDO Inflation Index	✓	△	101.4 in September from 100.8 in August
BDO Employment Index	✓✓	-	111.7 in September from 111.7 in August

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

In September, the BDO Output Index declined to 99.9. This indicates growth in September was just below the UK's long term average, as the index is scaled such that a reading of 100 represents long term average growth. The index fell for both services and manufacturing, but the decline was much more pronounced in the latter.

The Office for National Statistics (ONS) revised UK growth statistics significantly this month, meaning UK growth in the year to Q2 2017 is now estimated to have been just 1.5% - 0.2 percentage points lower than previously thought.

Similarly, service sector growth was revised down from 0.5% to 0.4% in the quarter, while manufacturing performance was revised up from a 0.6% decline to a lesser fall of 0.3%

The BDO Optimism Index remained unchanged at 103.1 in September. Optimism in manufacturing declined slightly, while the service sector saw a 0.1 point improvement. The BDO Manufacturing Optimism Index has climbed significantly since the beginning of the year but improved confidence amongst manufacturers has yet to be mirrored in the official output statistics.

The BDO Inflation Index climbed 0.6 points to 101.4 this month - the first increase in the index since June. ONS data showed that inflation increased to 2.7% year-on-year in August, according to the Consumer Prices Index including owner occupiers' housing costs. Prices for clothing & footwear, recreation & culture, and restaurants & hotels all made large upward contributions to the headline rate and fuel prices also picked up.

The latest official data from the ONS show that the employment rate continued to climb, but that wage growth remains stagnant. The BDO Employment Index stood unchanged at a record high 111.7 in September, suggesting little reason to think these labour market dynamics will change in the near future.

Productivity, a key driver of wages and output growth, has been poor in recent years. Figures for Q2 show that output per hour worked fell 0.1%, following a 0.5% drop in Q1. The decline in the BDO Output Index suggests there is little reason to expect an improvement in official statistics for Q3.

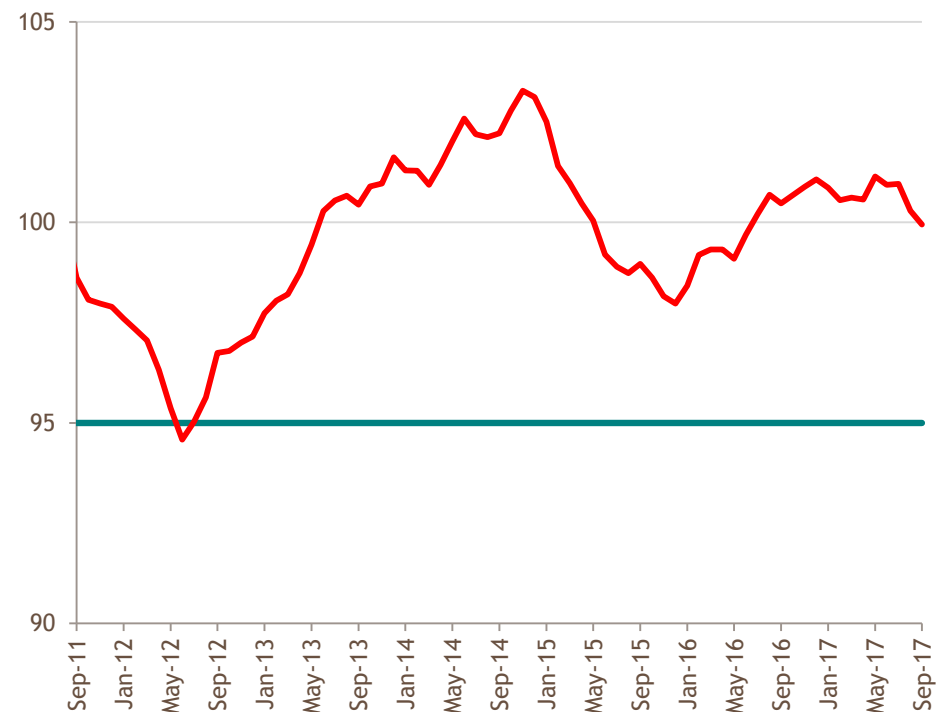
As economic relationships change over time the modelling assumptions behind Business Trends must be adjusted so the indices most accurately represent recent developments. This month these relationships have been refreshed, and the Indices' back histories have been updated accordingly.

OUTPUT INDEX POINTS TO A SEPTEMBER SLOWDOWN

- In September, the BDO Output index stood at 99.9 down from 100.3 in August. This month's reading marks the first time that the index has been below its long term growth trend since June of last year.
- The decline seen this month was primarily caused by a fall in the BDO Manufacturing Output Index, which dropped 2.7 points to 97.6. The BDO Services Output Index also declined this month, though more marginally.
- In terms of output, manufacturing tends to be more volatile than services in the UK. This performance is mirrored in the historic performances of the BDO Output Indices.
- In the final estimate of output released recently by the Office for National Statistics (ONS), year-on-year GDP growth was revised down 0.2 percentage points to 1.5%. Quarter-on-quarter, output growth remained unchanged at 0.3% though.
- Growth was driven by services, which grew 0.4% over the second quarter. This marked a pick up in growth compared to Q1.
- Manufacturing, meanwhile, declined by 0.3%, though over the year-to-date the sector has performed positively.
- Construction and agriculture - the UK's third and fourth largest sectors, respectively - also declined in Q2, making services the sole engine of growth.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



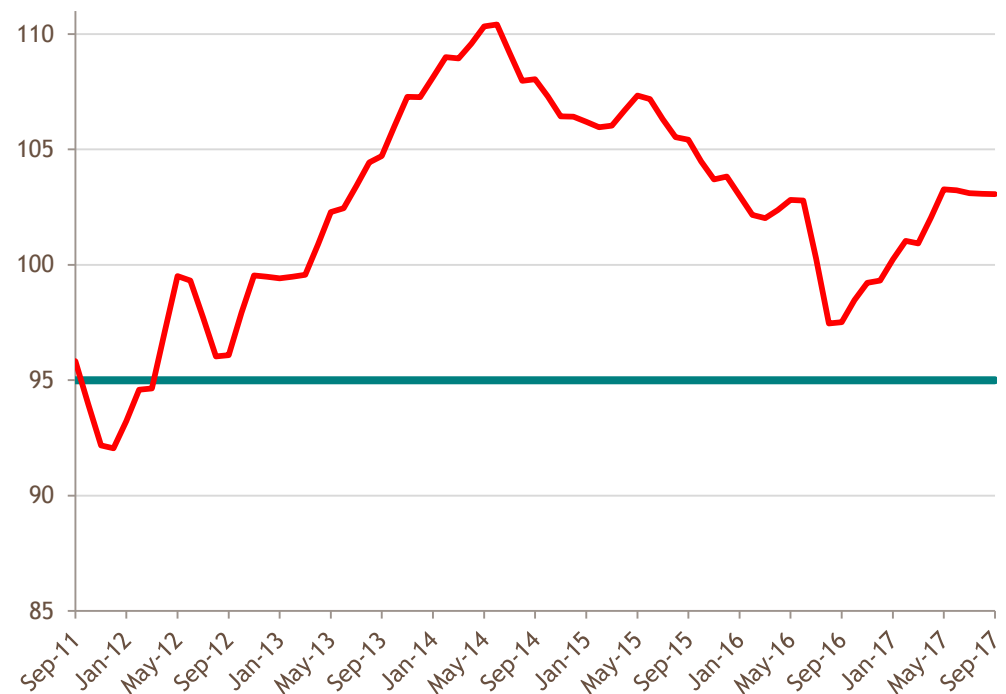
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

OPTIMISM STAYS HIGH AMONG MANUFACTURERS

- The BDO Optimism Index stood at 103.1 in September, unchanged from August. The index, which assesses how optimistic firms are about their future order books (and business more broadly) remained above its long-term average.
- The Service Optimism Index picked up 0.1 points to 102.4 this month. The measure peaked at 109.4 in May 2014 and confidence has been on a downward trend for much of the time since then.
- The BDO Manufacturing Optimism Index stood at 108.7 in September, unchanged from August, meaning confidence has now been higher in manufacturing than in services for 15 consecutive months.
- Despite the strength of manufacturing confidence, output data has disappointed. There may be reason to think this will change in Q3 though, as the average value of the BDO Manufacturing Optimism Index over the quarter stands higher than that seen in Q2.
- Moreover, recent business survey data from the manufacturers' organisation EEF supports the view that the sector's performance should improve in the coming months.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



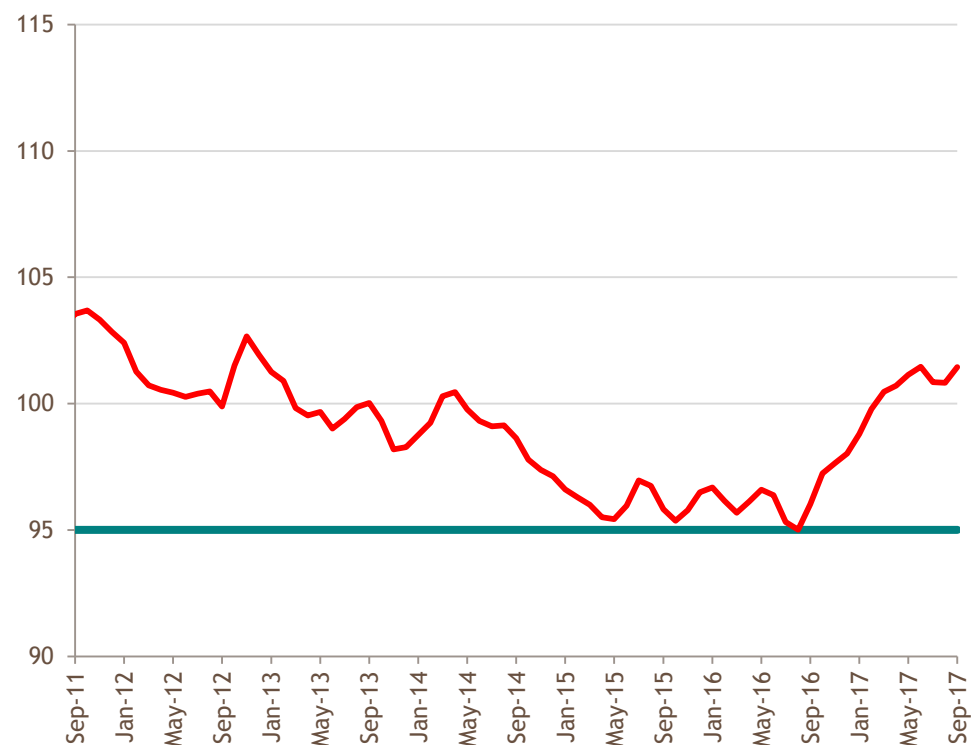
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION CONTINUES TO SQUEEZE CONSUMER BUDGETS

- The BDO Inflation Index climbed to 101.4 in September, up 0.6 points on August levels. This is the index's highest value since December 2012.
- The most recent official data show price growth accelerating, with inflation standing at 2.7% in August - as measured by the Consumer Prices Index including owner occupiers' housing costs (CPIH).
- Rises in prices for clothing & footwear, recreation & culture, and restaurants & hotels all made large upward contributions to the headline rate, while fuel prices, which had fallen in each month between March and July, rose at an annual rate of 1.6% in August
- The most recent labour market data showed that while nominal wages rise at 2.1%, inflation-adjusted wages are falling.
- Falling real pay translates into weaker demand though, as illustrated by the most recent official sales figures. Retail sales grew just 2.4% in the year to August, markedly slower than the 4.9% seen in 2016.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



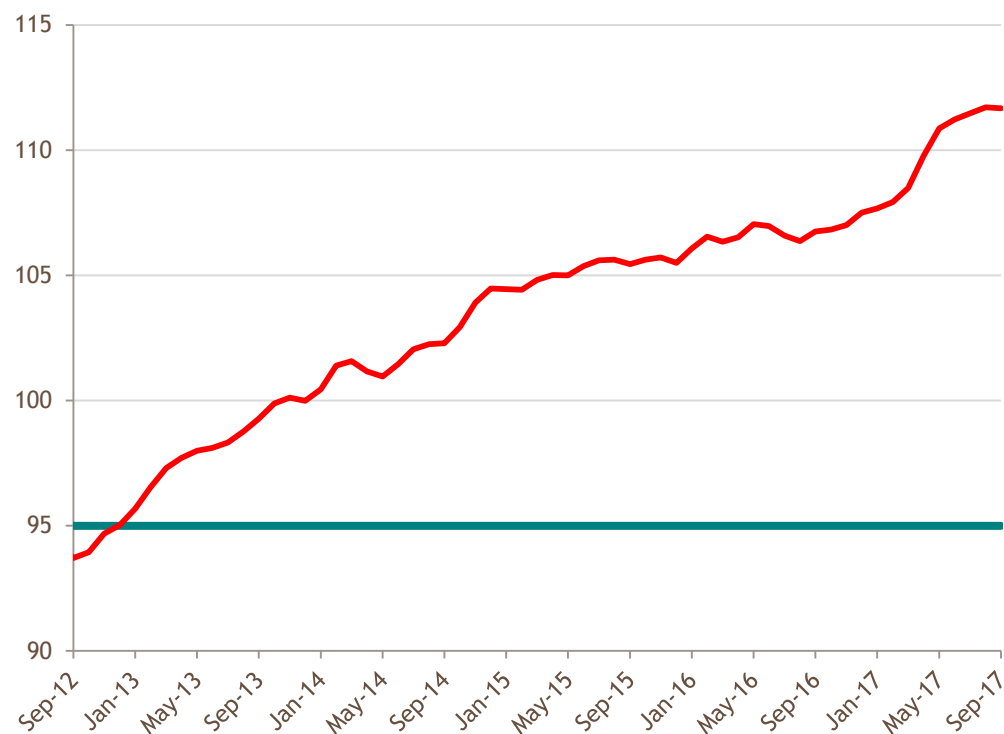
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

UK EMPLOYMENT REMAINS ROBUST

- In September, the BDO Employment Index held steady at 111.7. This is the joint highest value on record for the index.
- The recent gains in the Employment Index reflect the soaring labour market participation rates seen in recent months.
- The unemployment rate fell a further 0.1 percentage points to 4.3% in the three months to July, its lowest in over four decades, while the share of those aged 16 to 64 in work rose to a new record high of 75.3%
- However, the two-tale story of the UK labour market continues as ultra-low unemployment contrasts with subdued wage growth and declining productivity.
- ONS productivity figures for Q2 show that output per hour worked fell 0.1%, following a 0.5% drop in Q1. As a result, labour productivity - which is an important factor in raising living standards and generating higher wages - remains at around its pre-crisis peak.
- The strength of the BDO Employment Index seen this month suggests this trend is set to continue.

BDO EMPLOYMENT INDEX

100 = average trend growth. Greater than 95 = positive



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

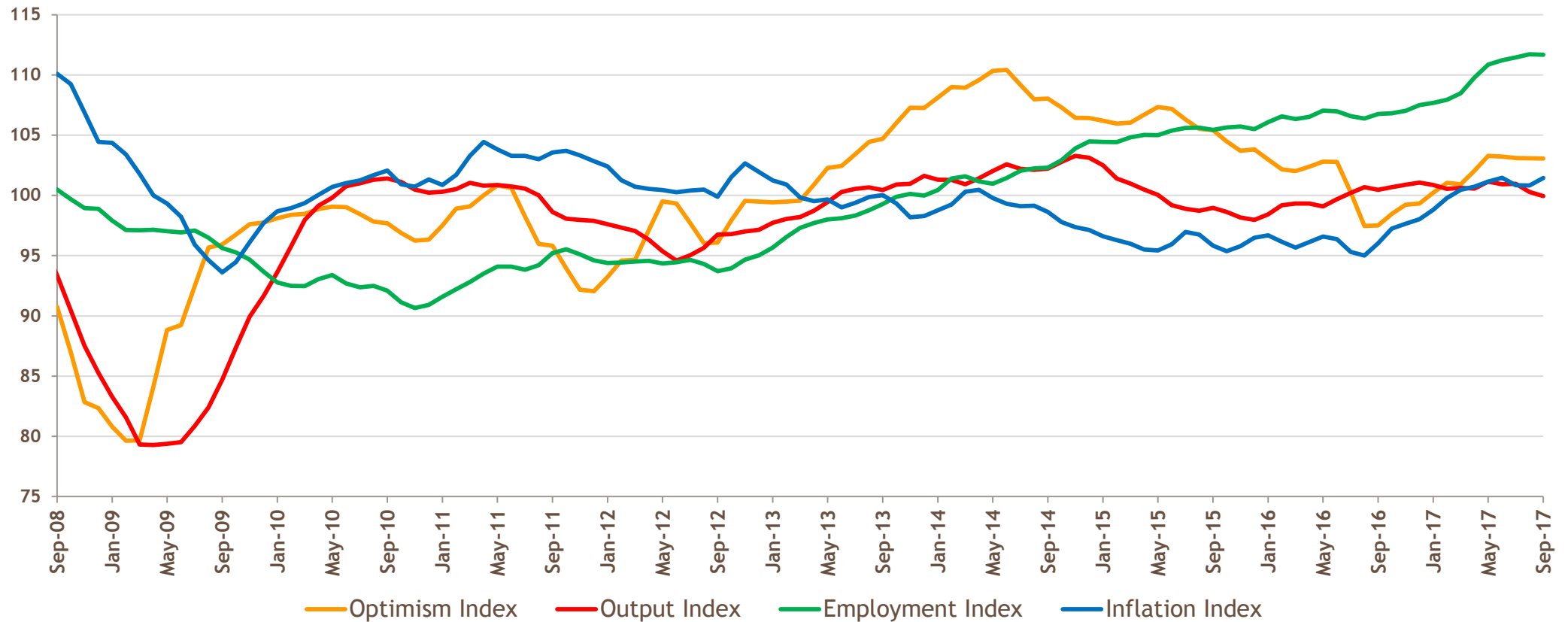
BDO INDICES TO LATEST MONTH

		Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17
The BDO Optimism Index	Total	102.8	100.3	97.5	97.5	98.5	99.2	99.3	100.2	101.0	100.9	102.0	103.3	103.2	103.1	103.1	103.1
	Manuf.	102.2	102.5	102.8	102.9	101.8	101.0	101.3	103.0	104.6	104.8	105.8	106.7	106.5	107.7	108.9	108.7
	Service	102.9	100.0	96.8	96.8	98.1	99.0	99.1	99.9	100.6	100.4	101.6	102.8	102.8	102.5	102.3	102.4
The BDO Output Index	Total	99.7	100.2	100.7	100.5	100.7	100.9	101.1	100.9	100.6	100.6	100.6	101.1	100.9	101.0	100.3	99.9
	Manuf.	88.2	88.6	89.1	87.1	87.5	89.0	91.9	94.2	94.8	98.1	101.2	106.2	106.7	105.9	100.3	97.6
	Service	101.1	101.7	102.1	102.2	102.3	102.4	102.2	101.7	101.3	100.9	100.5	100.5	100.2	100.3	100.3	100.2
The BDO Inflation Index	Total	96.4	95.3	95.0	96.0	97.2	97.6	98.0	98.8	99.8	100.5	100.7	101.1	101.5	100.8	100.8	101.4
The BDO Employment Index	Total	107.0	106.6	106.4	106.8	106.8	107.0	107.5	107.7	107.9	108.5	109.8	110.9	111.2	111.5	111.7	111.7

APPENDIX: EMPLOYMENT INDEX CONTINUES TO LEAD THE WAY IN SEPTEMBER

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

PETER HEMINGTON

BDO LLP

55 Baker Street, London W1M 1DA

telephone: 020 7486 5888

fax: 020 7487 3686

email: peter.hemington@bdo.co.uk

CHRISTIAN JACCARINI

Centre for Economics and Business Research

Unit 1, 4 Bath Street,

London EC1V 9DX

telephone: 020 7324 2865

email: cjaccarini@cebr.com

web: 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.