



# BDO MONTHLY BUSINESS TRENDS INDICES

January 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 January 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	▲	97.4 in December from 97.1 in November
BDO Optimism Index	✓✓	▼	102.2 in December from 98.0 in November
BDO Inflation Index	✓✓	▲	103.8 in December from 103.6 in November
BDO Employment Index	✓	▲	101.1 in December from 101.2 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

The BDO Output Index has increased from 97.1 in November to 97.4 in December. In addition, the BDO Optimism Index has increased sharply from 98.0 to 102.2.

The latest BDO indices point to an improvement in the economic outlook for the UK over the next six months. A wide range of indicators - from retail sales to car production - point to much greater resilience than many had expected following the Brexit referendum result, which has significantly increased the degree of economic uncertainty.

The improvement in the BDO Output and Optimism indices comes at a time when many believe that the global economy has gathered momentum, especially compared with the start of 2016 in which there were significant concerns about China slowing and 'secular stagnation'. While there are huge concerns and question marks over the likely policies of President-elect Donald Trump, many believe that a fiscal loosening in the US and elsewhere, with lower taxes and increased government spending, could boost world economic performance.

The BDO Inflation Index edged up from 103.6 in November to 103.8 in December, as inflationary pressures on businesses continue to mount. The biggest inflationary development in recent weeks has been the decision by OPEC to cut oil production, which pushed the price of Brent crude up from below \$50 per barrel to over \$55 per barrel.

The BDO Employment Index remains stable and stood at 101.1 in December, broadly unchanged from the 101.2 seen in November. Indicators suggest the labour market is starting to soften after a strong performance which has seen the unemployment rate fall to 4.8% - the lowest rate since 2005. Compared to the May to July period, employment decreased by 6,000 over the three months to October. The proportion of people in work also fell slightly from the record high of 74.5% to 74.4%.

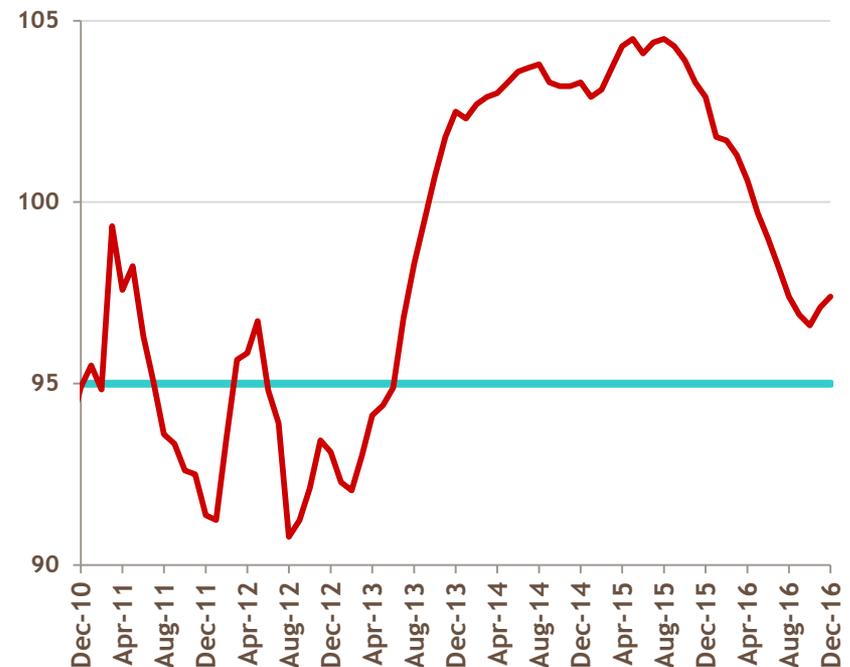


# OUTPUT INDEX PICKS UP AT THE END OF 2016

- The BDO Output Index rose from 97.1 in November to 97.4 in December, the second consecutive month in which it has increased.
- This suggests an improvement in the immediate and short-term economic outlook in the UK.
- The increase in the BDO Output measure was driven by the manufacturing sub-index which increased to 97.4, up from 94.9 in November. Meanwhile, the services sub-index was broadly unchanged, standing at 97.4 compared to 97.5 in November.
- While UK manufacturing data have been somewhat mixed in 2016, there have been some major success stories in the sector. In particular, the automotive industry has performed strongly, with data from the Society of Motor Manufacturers and Traders showing that 170,000 vehicles were built in the UK in November, an increase of 12.8% on the previous year and the best total for 17 years.

## BDO OUTPUT INDEX

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



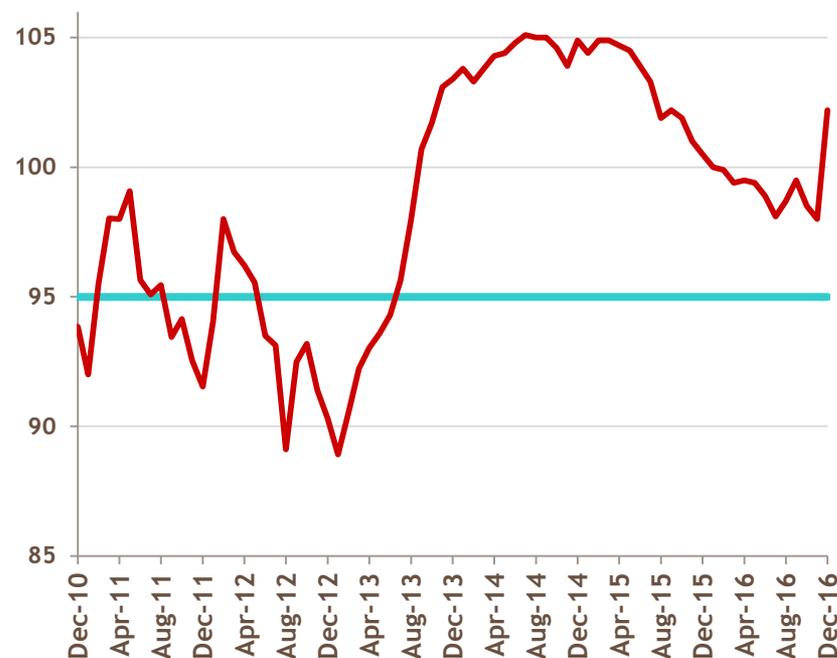
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# CONFIDENCE RISES TO HIGHEST LEVEL SINCE 2015

- The BDO Optimism Index ended 2016 on a high note, standing at 102.2. The last time it was this high was in September 2015.
- The Optimism Index increased for both the manufacturing and services sectors.
- A continued solid performance for the British economy may be supporting company optimism; retail sales data have been strong and UK economic growth was revised up to 0.6% in the third estimate of Q3 GDP, from a previous figure of 0.5%.
- In addition, there are signs that the global economy has gained a bit more momentum. The US Federal Reserve raised interest rates in December, following continued signs of good health for the world's largest economy. While there are concerns over Donald Trump's stances on international trade, foreign relations and a whole host of other issues, many expect a Trump presidency to be characterised by higher government spending and lower taxes - which should support economic growth.
- The FTSE 100 reached a record high at the end of 2016, partly reflecting increased economic optimism

## BDO OPTIMISM INDEX

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



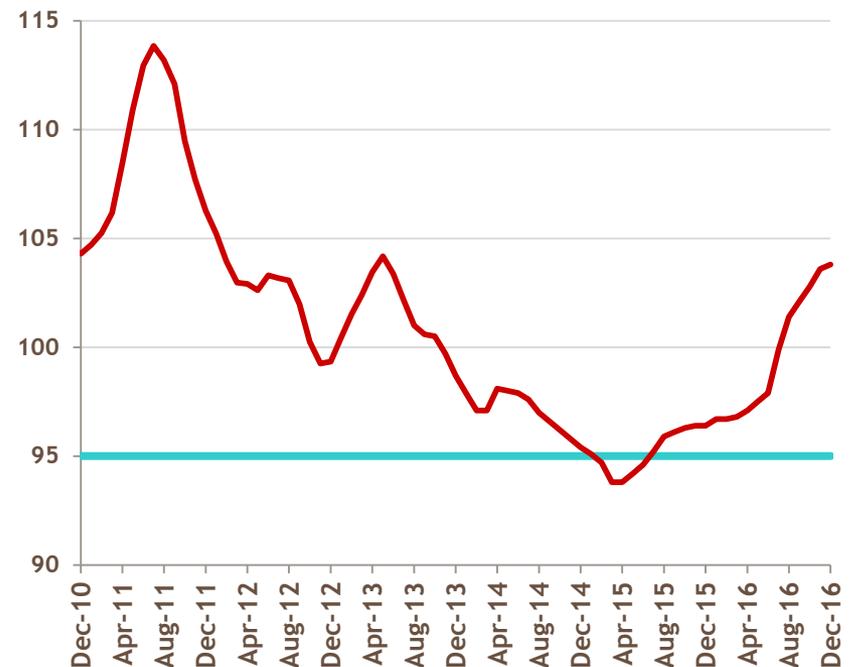
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# PRICE PRESSURES CONTINUE TO INCREASE

- The BDO Inflation Index edged up from 103.6 in November to 103.8 in December, as inflationary pressures on businesses continue to mount.
- The price of goods bought and sold by UK manufacturers, as estimated by the Office for National Statistics Producer Price Index, rose again in the year to November 2016. This was the fifth consecutive increase following two years of falls and the largest increase since April 2012.
- The depreciation of sterling since the Brexit referendum has been a key contributor to rising import prices in the UK.
- In addition, oil prices have risen sharply as the OPEC oil cartel agreed to cut production at the end of November. The spot price of Brent crude subsequently rose from less than \$50 per barrel to over \$55.

## BDO INFLATION INDEX

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



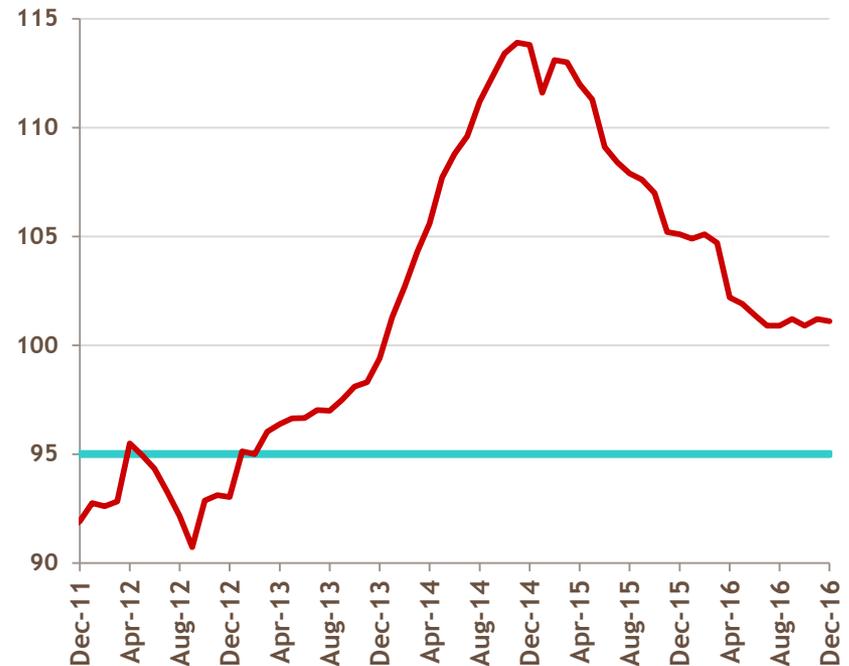
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# LABOUR MARKET SHOWS SIGNS OF SOFTENING

- The BDO Employment Index stood at 101.1 in December, broadly unchanged from the 101.2 seen in November.
- In the three months to October, the UK unemployment rate stood at 4.8% - the lowest level in more than a decade.
- Further, over the same three month period, average wages were 2.5% higher on the year, or 2.6% if bonuses are excluded. This is an acceleration from 2.4% for both in the three months to September.
- However, other indicators suggest that a labour market softening may not be far off.
- Compared to the May to July period, employment decreased by 6,000 in the three months to October. If we consider only those aged 16 to 64 the decrease was significantly greater at 29,000.
- The proportion of people in work also fell slightly from the record high of 74.5% to 74.4%.

## 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

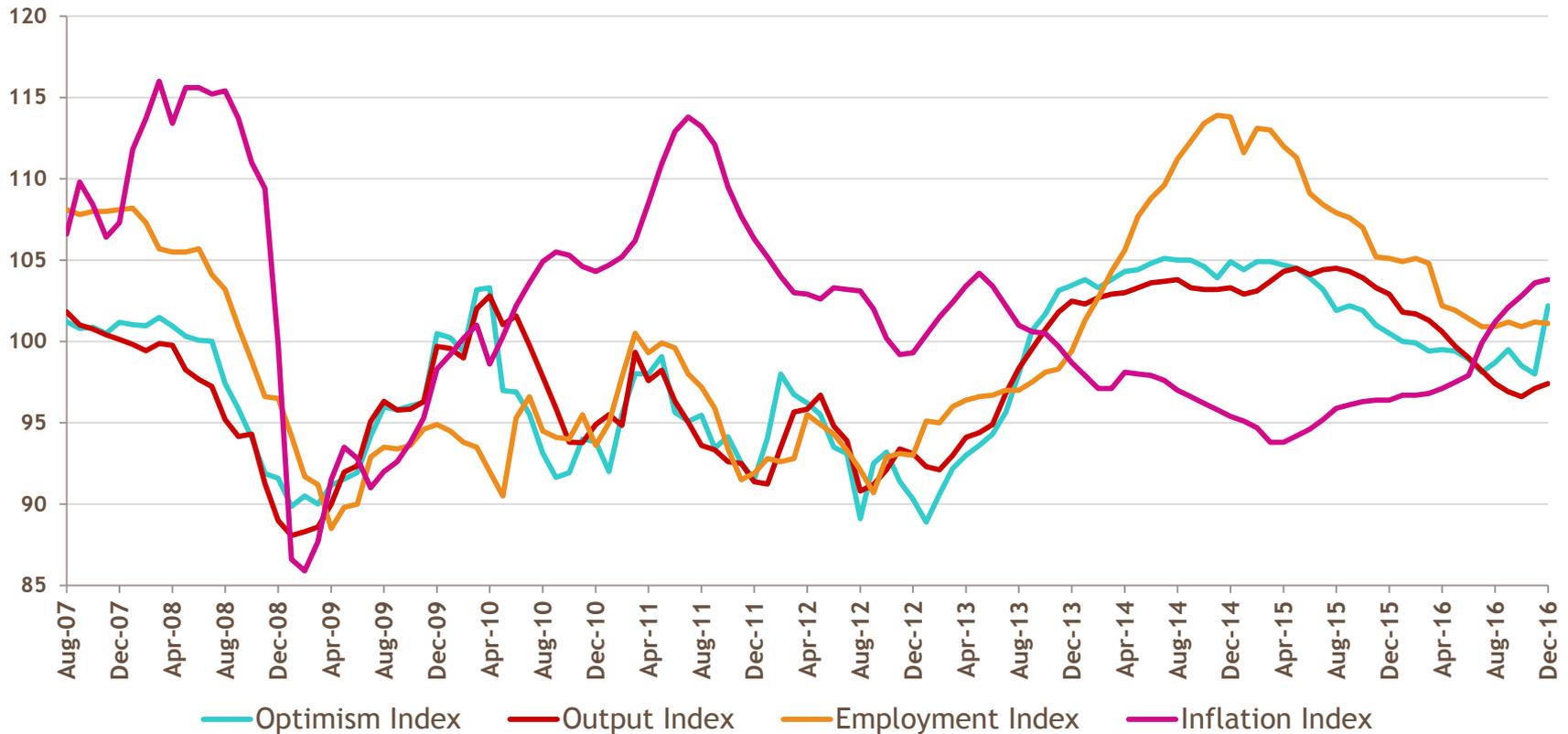
# BDO INDICES TO LATEST MONTH

		Dec 2015	Jan 2016	Feb 2016	Mar 2016	Apr 2016	May 2016	Jun 2016	Jul 2016	Aug 2016	Sep 2016	Oct 2016	Nov 2016	Dec 2016
The BDO Optimism Index	<b>Total</b>	100.5	100.0	99.9	99.4	99.5	99.4	98.9	97.9	98.7	99.5	98.5	98.0	102.2
	Manuf.	89.6	90.2	90.4	87.0	87.3	86.1	83.8	81.0	85.8	91.3	92.0	94.1	99.4
	Service	102.7	101.9	101.7	101.8	101.8	102.0	101.8	101.2	101.2	101.1	99.8	98.7	102.7
The BDO Output Index	<b>Total</b>	102.9	101.8	101.7	101.3	100.6	99.7	99.0	98.2	97.4	96.9	96.6	97.1	97.4
	Manuf.	98.2	94.7	95.0	96.0	94.4	95.9	95.8	95.4	93.9	95.1	94.1	94.9	97.4
	Service	103.8	103.2	103.0	102.3	101.8	100.4	99.7	98.8	98.0	97.3	97.0	97.5	97.4
The BDO Inflation Index	<b>Total</b>	96.4	96.7	96.7	96.8	97.1	97.5	97.9	99.9	101.4	102.1	102.8	103.6	103.8
The BDO Employment Index	<b>Total</b>	105.1	104.9	105.1	104.8	102.2	101.9	101.4	100.9	100.9	101.2	100.9	101.2	101.1

# APPENDIX: OPTIMISM BOUNCES AT END OF YEAR

## BDO 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

# 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.