



# BDO MONTHLY BUSINESS TRENDS INDICES

September 2014

# 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 September 2014, 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	✓✓✓	▲	103.8 in August from 103.7 in July
BDO Optimism Index	✓	▼	105.0 in August from 105.1 in July
BDO Inflation Index	xxx	▼	97.0 in August from 97.6 in July
BDO Employment Index	✓✓✓	▲	111.2 in August from 109.6 in July

KEY:     ✓ = above 100;     ✓✓ = (joint) highest in 12 months;     ✓✓✓ = above 100 and (joint) highest in 12 months  
           x = below 100;     xx = (joint) lowest for 12 months;     xxx = below 100 and (joint) lowest in 12 months  
           ✓✓x = (joint) highest in 12 months, but below 100;     xx✓ = (joint) lowest in 12 months, but above 100

# KEY FINDINGS

The BDO Output Index stayed broadly stable between July and August, inching up by just 0.1 to stand at 103.8. This indicates that the economy is managing a sustained, above-trend growth rate. It provides evidence that the speed of growth has levelled off, having shown acceleration over the earlier part of the year. A hefty fall in the manufacturing sub-index contrasted with a modest gain for services. This is moving the two sectors back towards similar levels, as manufacturing pulled away from services over the earlier part of the year.

The BDO Inflation Index fell from 97.6 to 97.0 between July and August. The Index has now stood below trend for the past ten months, reflecting the low-inflation economic environment currently prevailing. Low energy costs, a strong pound and weak wage growth are all contributing to low or negative cost movements for firms.

The BDO Optimism Index showed a slight drop of 0.1 during August. This was driven by a relatively large drop in manufacturing sentiment of 1.1 points while services grew by 0.1, which was not enough to offset it. Manufacturing saw a very strong start to the year, but its growth is slowing. It is still strongly up on the same period last year, however. But it will face a difficult second half of the year - the sector relies heavily on exports, especially to the Eurozone, meaning that it will suffer from weak demand in the currency bloc. The strong pound will compound this problem by making prices less competitive abroad.

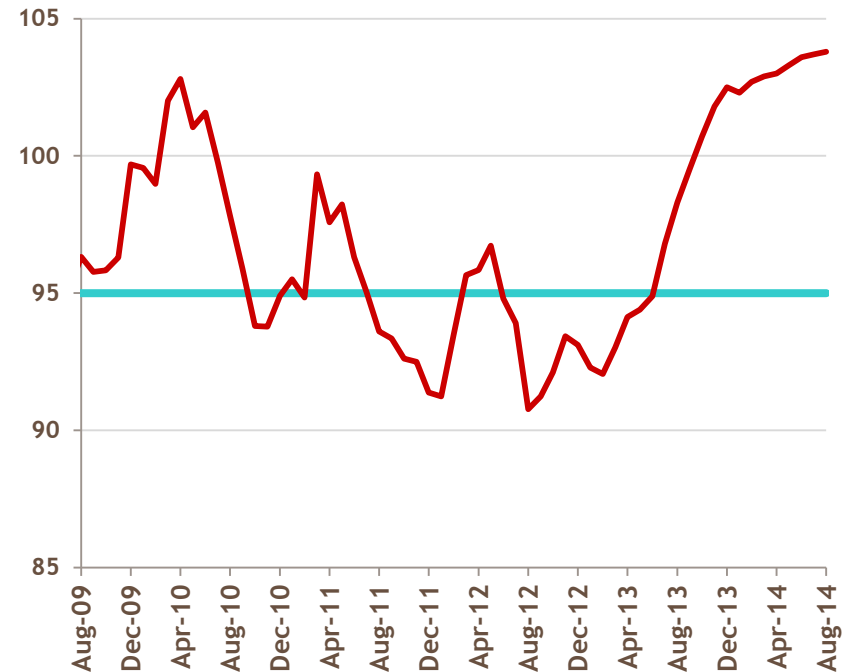
The BDO Employment Index grew by 1.6 points, defying the trends of cooling activity evident in the other indices. It rose from 109.6 to 111.2, which (as last month) means it is at its highest level since 1997. The Index, which relates to expectations for the next three months for hiring, suggests that we will see further falls and unemployment in the UK could soon return to pre-financial crisis levels.

# DECLINE IN MANUFACTURING SUB-INDEX OFFSETS SERVICES GAIN

- Over August the BDO Output Index continued growing at a very gradual pace, expanding to 103.8 from 103.7 in July.
- This indicates that output is expected to expand above the long-term trend rate and at roughly the same rate as the last two months.
- This chimes with the latest economic data, suggesting that growth is still good but no longer accelerating.
- The manufacturing output sub-index fell again this month, dropping from 114.4 to 113.2. Having maintained strong growth for the early part of the year, the index is now retreating from these high levels.
- The latest data from manufacturing showed the sector growing at 1.9% year-on-year for June, down from rates of around 4% in the months prior to that. The manufacturing sub-index predicts the rate of growth will decelerate.
- The services output sub-index continued to rise slowly, moving up from 101.6 to 102.0. This implies the sector's growth is at a level above the long-term trend, and set to speed up (modestly).
- The services sector kept the overall expansion of the Output Index just about continuing.

## BDO OUTPUT INDEX

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



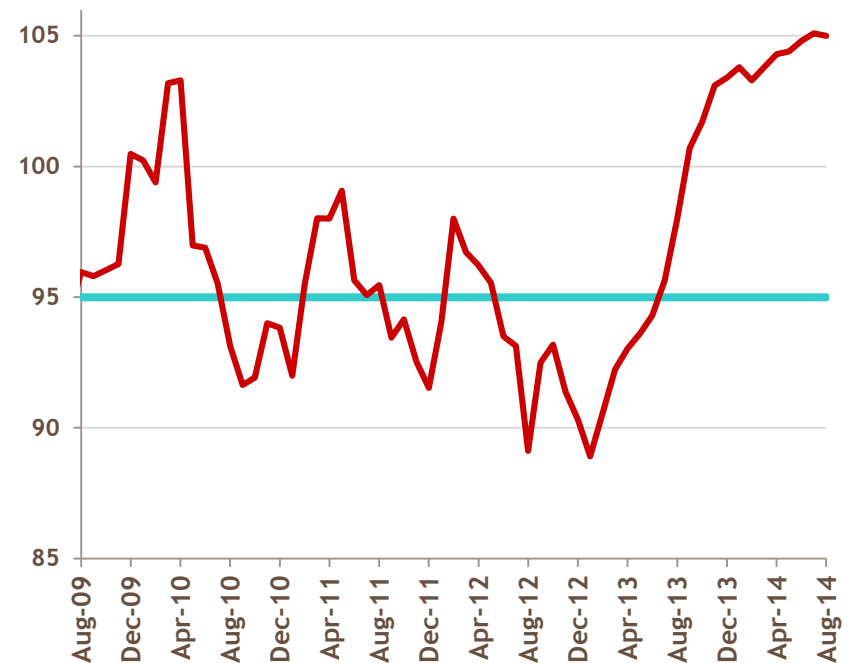
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# CONFIDENCE FALLS FOR FIRST TIME IN SIX MONTHS

- The BDO Optimism Index, which measures firms' expectations over the next six months, inched down over August but remains at a high level.
- Its level fell from 105.1 to 105.0. This was driven by a fall in the manufacturing confidence sub-index, which dropped from 119.9 to 118.8. The services sub-index grew, but only from 102.2 to 102.3. This did not provide enough upward momentum to offset the fall in the manufacturing sector.
- Expectations for future economic performance are still good. The current level represents expectations that are significantly above the long-term trend rate of growth for the economy, albeit slightly less optimistic than those recorded last month.
- Events in the Eurozone are set to place future pressure on UK manufacturers. The latest indications show that demand in Eurozone economies is weak and falling, which will hurt UK firms: manufacturing is more reliant on exports than services, and the Eurozone is easily the UK's largest export market.
- Two downside risks that could further worsen the outlook for exports are an intensification of the Ukraine crisis and the possibility of the currency bloc falling into deflation.

## BDO OPTIMISM INDEX

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



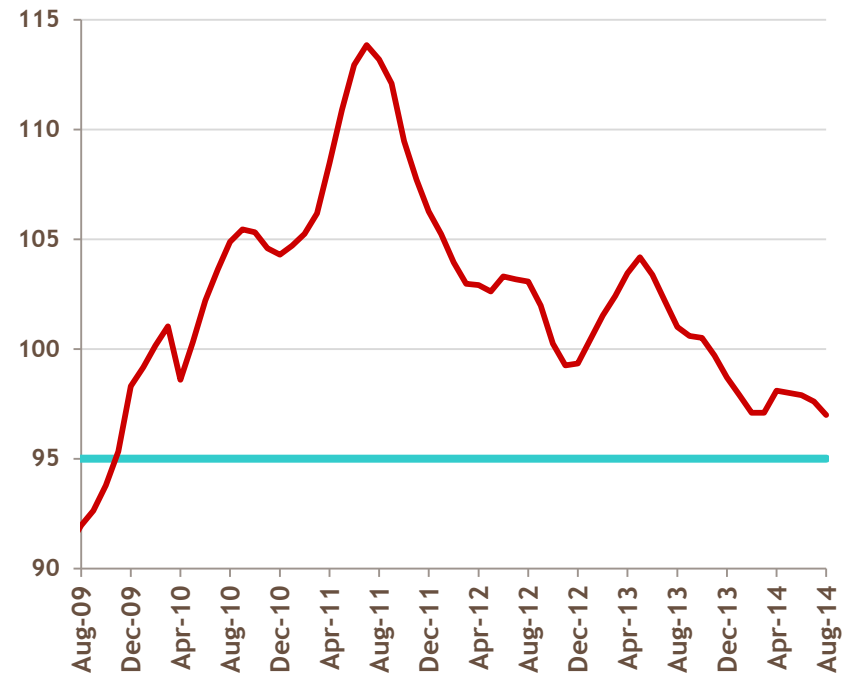
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# ANOTHER FALL IN PRODUCER INFLATION HELPS MARGINS

- The BDO Inflation Index fell further. From 97.6 for July, it reads 97.0 in August.
- This means that cost inflation is below the long-term average, as the index is below 100. It is not quite into negative territory, which would be represented by a score of below 95.
- Services firms are seeing very low wage growth: 0.2% year-on-year, according to the latest data from the second quarter.
- Meanwhile, manufacturing firms saw a 7.3% fall in prices in the year to July.
- Firms that rely on imported inputs have been helped by a strong pound, which has appreciated by about 4% against a basket of currencies since the start of the year.
- A Confederation of British Industry survey puts the balance of firms who report rising prices at -4%, which is the lowest reading on this metric since 2009.

## BDO INFLATION INDEX

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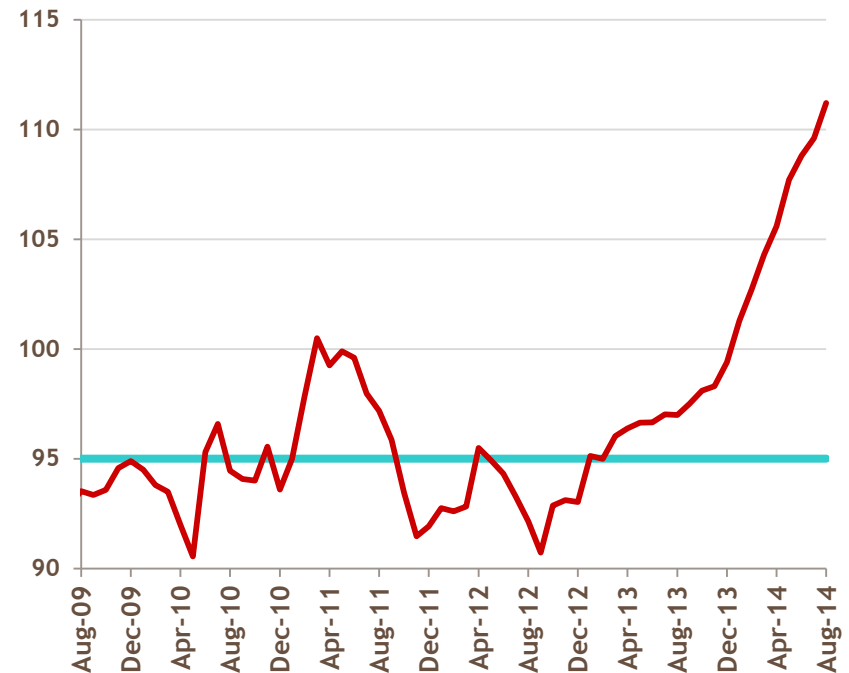
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# EMPLOYMENT INDEX HITS NEW POST-CRISIS HIGH

- The BDO Employment Index grew by a strong 1.6 points over August, moving from 109.6 to 111.2.
- Firms expect to hire at a rate above the long-term average over the next three months. This means we are very likely to return to the levels of unemployment that prevailed during better economic climates: from 2000 to 2007, the average rate was 5.1%.
- This marks eight months since the index last fell and it is the highest reading since 1997.
- UK unemployment ticked down again during the three months to June and is now at its lowest level since 2008.

## 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

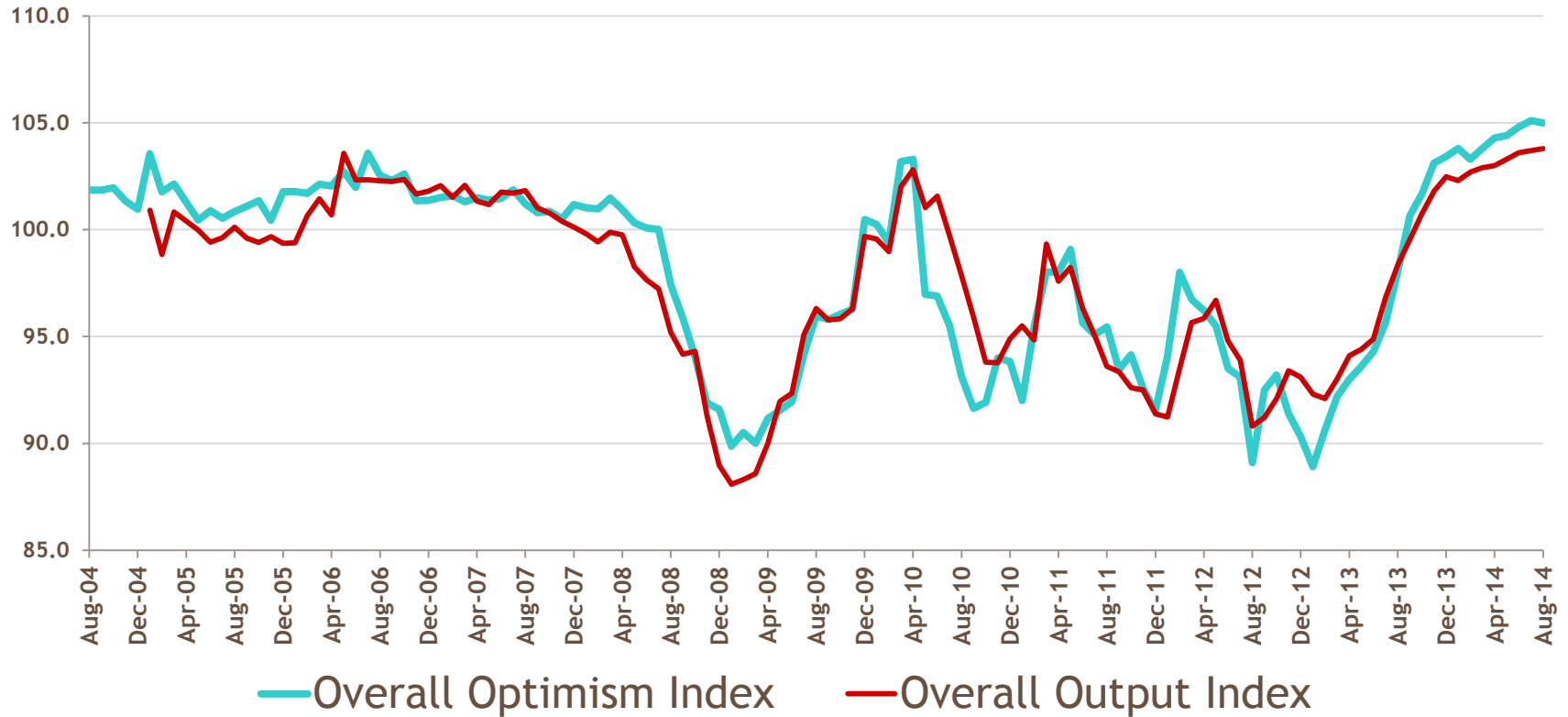
		Aug 2013	Sept 2013	Oct 2013	Nov 2013	Dec 2013	Jan 2014	Feb 2014	Mar 2014	Apr 2014	May 2014	Jun 2014	Jul 2014	Aug 2014
The BDO Optimism Index	<b>Total</b>	<b>98.0</b>	<b>100.7</b>	<b>101.7</b>	<b>103.1</b>	<b>103.4</b>	<b>103.8</b>	<b>103.3</b>	<b>103.8</b>	<b>104.3</b>	<b>104.4</b>	<b>104.8</b>	<b>105.1</b>	<b>105.0</b>
	Manuf.	99.6	107.0	109.6	115.3	115.5	117.1	118.2	119.4	120.8	121.0	119.5	119.9	118.8
	Service	97.7	99.2	99.9	100.4	100.7	101.2	100.5	100.8	101.1	101.1	101.9	102.2	102.3
The BDO Output Index	<b>Total</b>	<b>98.3</b>	<b>99.5</b>	<b>100.7</b>	<b>101.8</b>	<b>102.5</b>	<b>102.3</b>	<b>102.7</b>	<b>102.9</b>	<b>103.0</b>	<b>103.3</b>	<b>103.6</b>	<b>103.7</b>	<b>103.8</b>
	Manuf.	100.7	103.6	106.5	108.1	109.8	111.3	112.0	112.8	113.5	113.9	114.5	114.4	113.2
	Service	97.7	98.6	99.4	100.4	100.8	100.6	100.8	101.0	101.0	101.3	101.5	101.6	102.0
The BDO Inflation Index	<b>Total</b>	<b>101.0</b>	<b>100.6</b>	<b>100.5</b>	<b>99.7</b>	<b>98.7</b>	<b>97.9</b>	<b>97.1</b>	<b>97.1</b>	<b>98.1</b>	<b>98.0</b>	<b>97.9</b>	<b>97.6</b>	<b>97.0</b>
The BDO Employment Index	<b>Total</b>	<b>97.0</b>	<b>97.5</b>	<b>98.1</b>	<b>98.3</b>	<b>99.4</b>	<b>101.3</b>	<b>102.7</b>	<b>104.3</b>	<b>105.6</b>	<b>107.7</b>	<b>108.8</b>	<b>109.6</b>	<b>111.2</b>



# APPENDIX 1: SLOW GROWTH SUGGESTS RATE OF EXPANSION NEARING PEAK

## BDO OUTPUT AND OPTIMISM INDICES

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

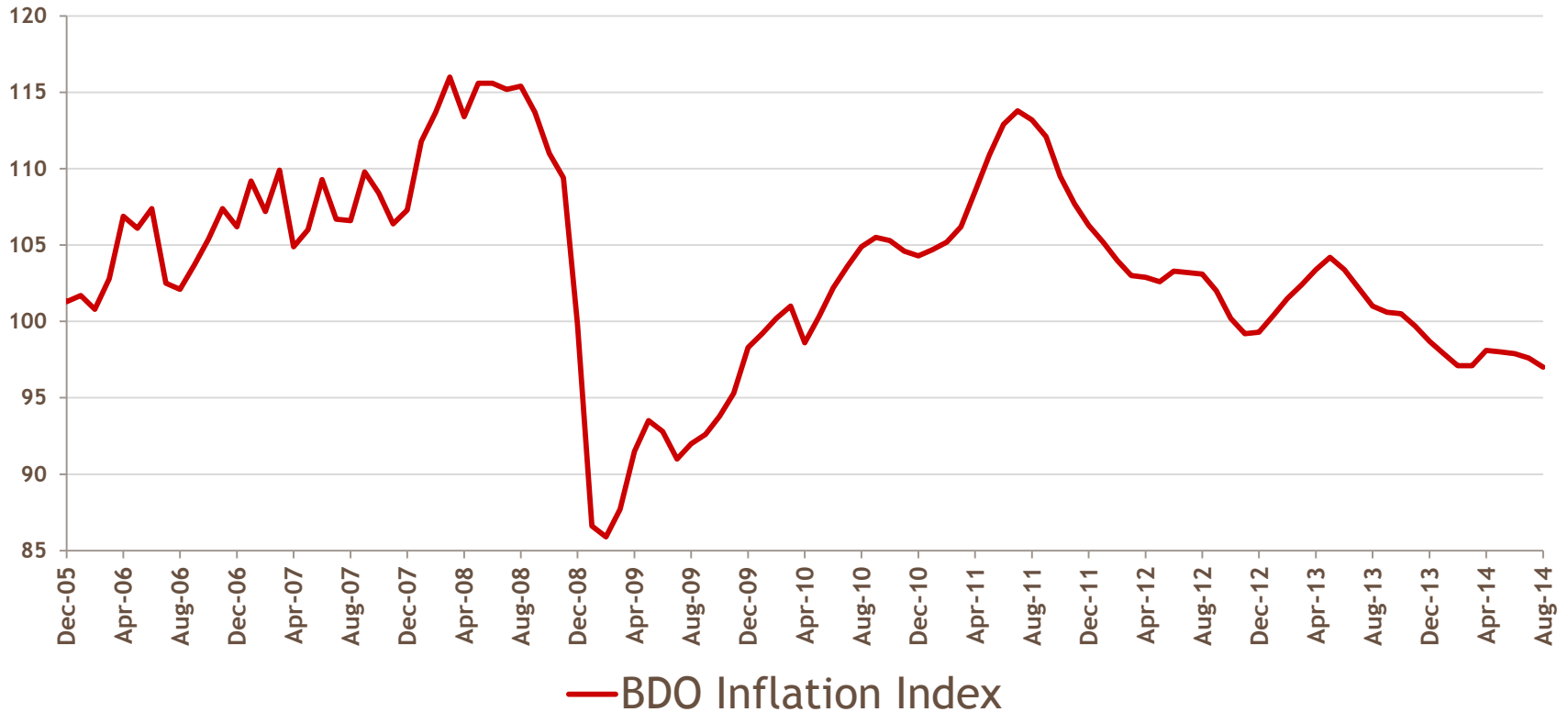


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# APPENDIX 2: COST PRESSURES FOR BUSINESSES FALL FURTHER

## BDO INFLATION INDEX

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

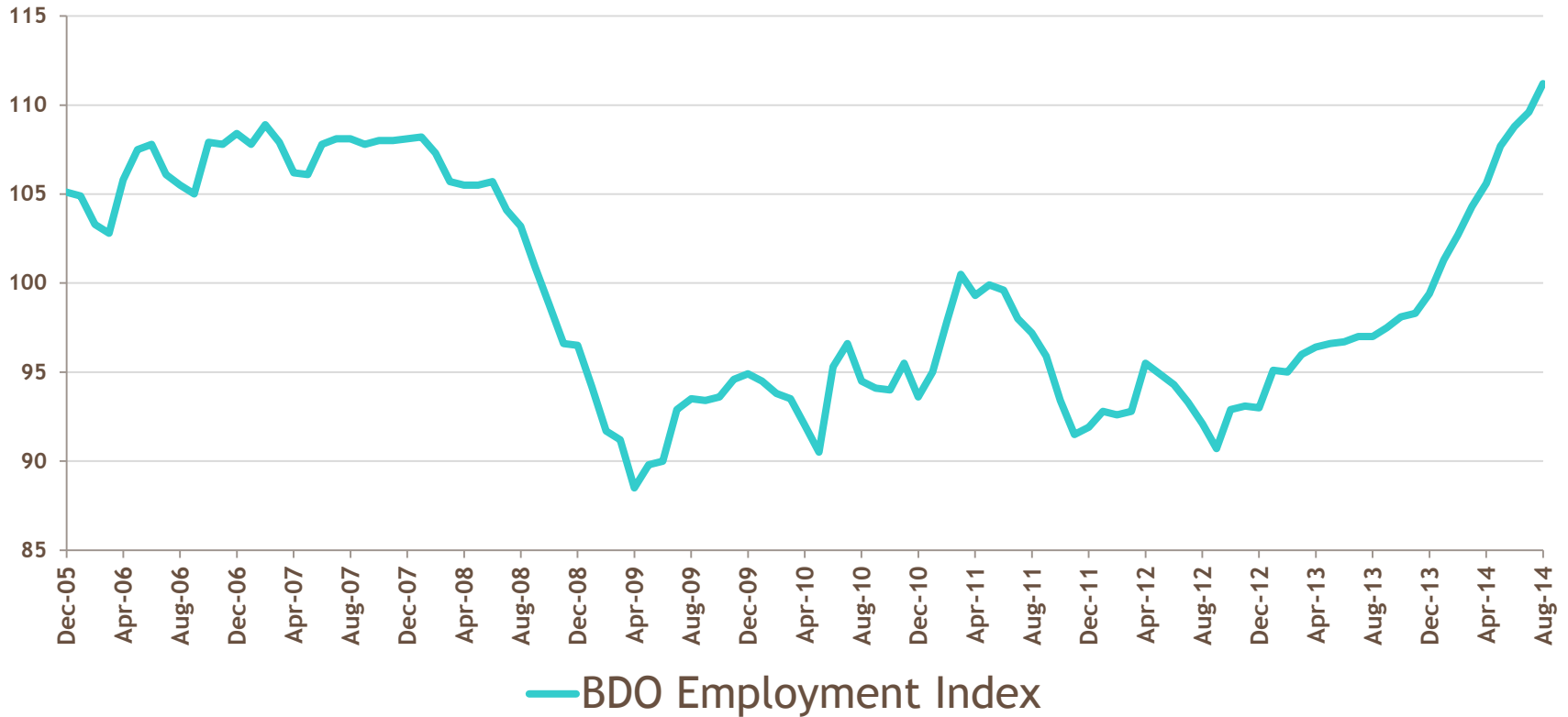


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# APPENDIX 3: EMPLOYMENT INDEX REACHES 16-YEAR HIGH

## 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

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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, the average of the past two cyclical peaks as 110 and the average of the past two cyclical troughs as 90.

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.