



BDO MONTHLY BUSINESS TRENDS INDICES

January 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 for December 2013, 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	✓✓✓	▲	102.5 in December from 101.8 in November
BDO Optimism Index	✓✓✓	▲	103.4 in December from 103.1 in November
BDO Inflation Index	×××	▼	98.7 in December from 99.7 in November
BDO Employment Index	✓✓	▲	99.4 in December from 98.3 in November

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

KEY FINDINGS

Business conditions continued to improve in December as the BDO Output Index increased to 102.5, up from 101.8 the previous month. The last time the Index was higher was in April 2010. The manufacturing sub-index rose to 109.8 in December, up from 108.1 in November to stand at its highest level since April 2011. The sub-index for the all-important services sector, which covers over three quarters of the UK economy, rose for the seventh consecutive month to reach 100.8 in December, up from 100.4 in November. This was driven by rises in incoming new business according to the latest Markit/CIPS data. Overall, the BDO Output Index shows that the UK economy is in set for robust growth, which is expected to be faster than long-run trend growth, over the first quarter of 2014.

The Optimism Index reached 103.4 in December, up from 103.1 in November. The BDO Optimism Index is now only marginally below its all-time (post-1992) high, which was achieved in mid-2006. Digging down below the headline numbers, the services sector confidence sub-index rose to 100.7 in December, up from 100.4 in November. The manufacturing confidence sub-index also rose to 115.5 in December, up from 115.3 in November and stands close to an all-time high. The Optimism Index suggests that UK economic growth will outperform its long-term historical trend over the coming six months, indicating that the UK is due a period of robust economic growth over the first half of 2014.

Inflation expectations for business costs declined over December 2013. In December, the BDO Inflation Index recorded a reading of 98.7, down from a reading of 99.7 recorded in November. Business inflation expectations have now fallen for the seventh consecutive month and are now at their lowest level since April 2010. Helping manufacturers control costs, the Brent Crude oil price fell by 0.1% over the year to December 2013 in sterling terms. Similarly, total manufacturing input prices decreased by 1.0% over the year to November, easing manufacturing cost pressures. Holding down cost inflation for services firms, which are relatively labour intensive, total wages were only 0.9% higher during August-October 2013 than one year before. This is below the annual rate of consumer price inflation, which stood at 2.1% in November 2013, meaning that real wage costs are falling.

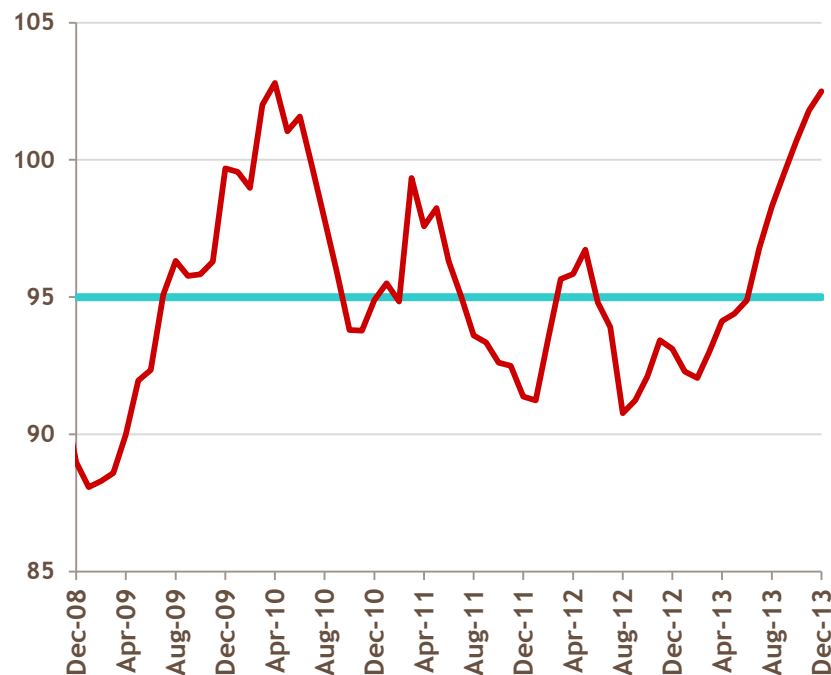
Hiring expectations increased over December as the BDO Employment Index rose to 99.4, up from 98.3 the previous month. The UK unemployment rate has been coming down as the economy recovers, standing at 7.4% over August-October 2013, 0.5 percentage points lower than one year before. Tying in with the BDO Employment Index and the official unemployment statistics, the latest data suggest that companies are raising headcounts in response to rising client demand and are likely to continue doing so, further bolstering the labour market. Despite these improving trends it's not all good news for employees: unemployment is still somewhat elevated and labour productivity is still far below the pre-crisis peak. Both of these factors mean that wage growth is unlikely to accelerate significantly over the near term.

OUTPUT INDEX SUGGESTS STRONG START TO 2014

- Business conditions continued to improve in December as the BDO Output Index increased to 102.5, up from 101.8 the previous month.
- This was the highest reading in the Index since April 2010.
- The manufacturing sub-index stood at 109.8 in December. This was up from a November reading of 108.1. This sub-index is now at its highest level since April 2011.
- The services sector sub-index reached 100.8 in December, up from 100.4 one month earlier. This was the seventh consecutive rise in the sub-index.
- This sustained improvement is welcome news as the services sector covers over three quarters of the UK economy.
- According to the latest Markit/CIPS data, rises in incoming new business have driven recent increases in activity in the services sector.
- Overall, the UK economy is likely to grow faster than its long-run average growth rate over the first quarter of 2014 according to the BDO Output Index.

BDO OUTPUT INDEX

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



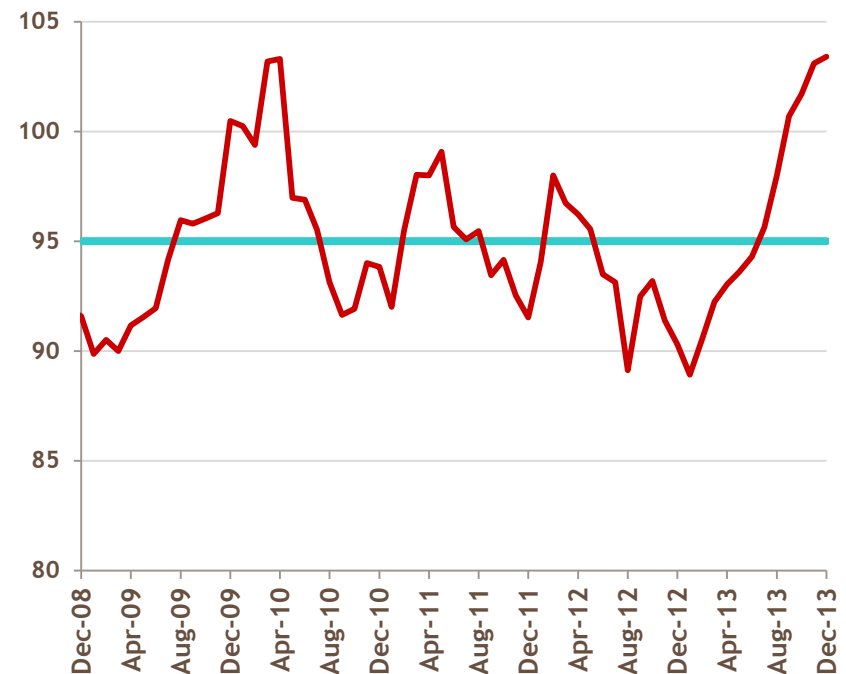
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

OPTIMISM INDEX NEARS ALL-TIME HIGH

- The BDO Optimism Index rose to 103.4 in December, up from 103.1 one month before.
- The Index is now well above the crucial 100.0 mark and suggests that UK the economy will grow faster than its long-term historical trend over the coming six months.
- The BDO Optimism Index began in 1992 and is now almost equal to its all-time high, achieved in mid-2006.
- These buoyant index readings suggests that the UK is likely to experience robust economic growth over the first half of 2014.
- Below the level of the headline index, the services sector sub-index rose to 100.7 in December, up from 100.4 one month earlier. Rising new orders and clients' willingness to commit to contracts have lifted optimism in the sector.
- The manufacturing confidence sub-index also rose to 115.5 in December and stands close to a record high.
- Medium term growth is likely to be constrained by tightening monetary policy and public sector spending cuts in the next Parliament, however.

BDO OPTIMISM INDEX

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



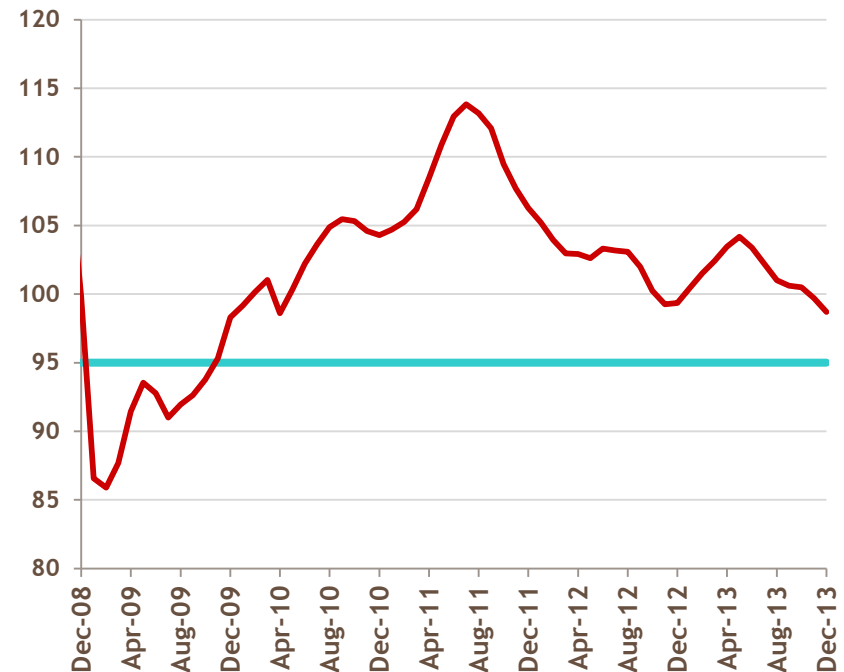
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION EXPECTATIONS LOWEST SINCE APRIL 2010

- Businesses' inflation expectations declined over December 2013.
- In December, the BDO Inflation Index recorded a reading of 98.7. This was down from a reading of 99.7 recorded during the previous month.
- Business inflation expectations are now at their lowest level since April 2010. Moreover, December represented the seventh consecutive monthly decline in the index.
- Services firms are relatively labour intensive and so their costs are affected significantly by wages. Total wages were only 0.9% higher during August-October 2013 than over the same period of 2012. Because this was below the 2.2.% annual rate of consumer price inflation seen in October 2013, real wage costs have been falling. This has helped services firms control cost inflation.
- Declining commodities and input prices have helped manufacturers control cost inflation. Total manufacturing input prices decreased by 1.0% over the year to November. Similarly, the Brent Crude oil price fell by 0.1% over the year to December 2013 in sterling terms.

BDO INFLATION INDEX

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



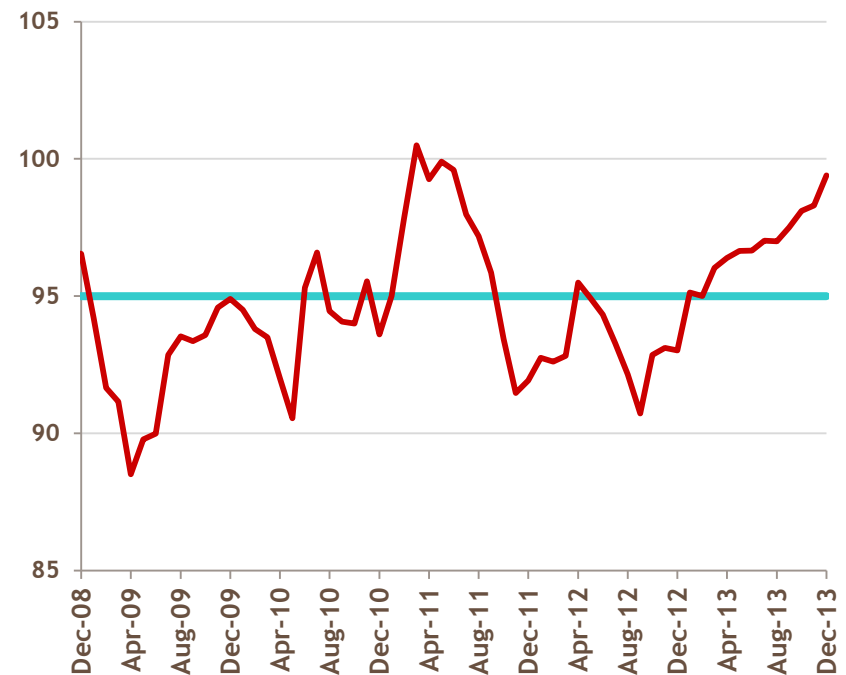
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

HIRING INTENTIONS UP AMID RISING BUSINESS ACTIVITY

- Rising business activity has led to an increase in hiring expectations over December. The BDO Employment Index rose to 99.4, up from 98.3 in November.
- As the UK's economic recovery has become more firmly established, the unemployment rate has fallen. It stood at 7.4% over August-October 2013, some 0.5 percentage points lower than over the same period of 2012, one year before.
- This encouraging labour market trend looks set to continue as the economic recovery gathers pace going into 2014. Moreover, companies are raising headcounts in response to rising client demand and are likely to continue doing so, according to the latest Markit/CIPS data.
- However, elevated unemployment and low labour productivity will continue to restrict wage growth - which is already very slow.
- Further, underemployment remains an issue: some 1.5 million workers who would have liked full-time jobs had to work part-time over August-October 2013 because they were unable to get full-time work.

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

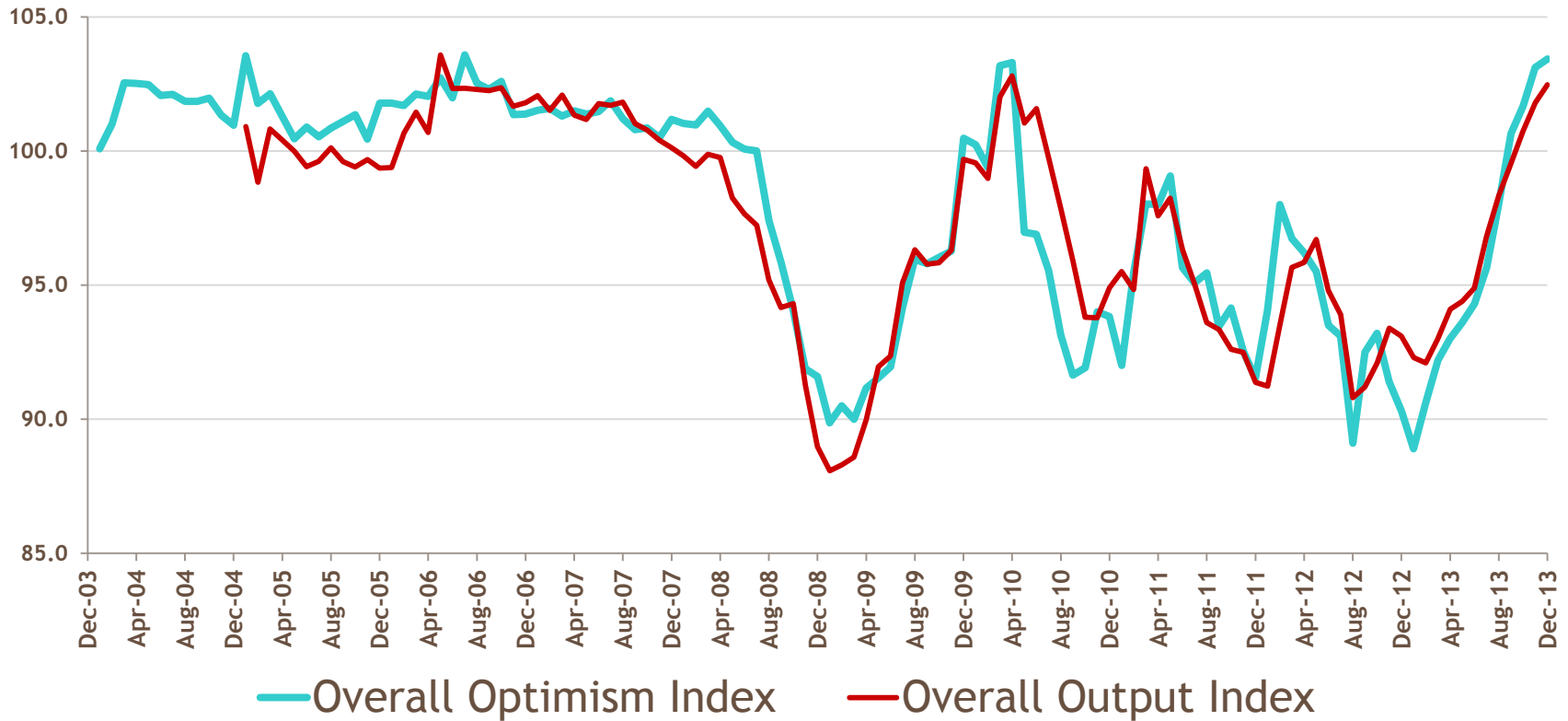
BDO INDICES TO LATEST MONTH

		Dec 2012	Jan 2013	Feb 2013	Mar 2013	Apr 2013	May 2013	June 2013	July 2013	Aug 2013	Sept 2013	Oct 2013	Nov 2013	Dec 2013
The BDO Optimism Index	Total	90.3	88.9	90.6	92.2	93.0	93.6	94.3	95.6	98.0	100.7	101.7	103.1	103.4
	Manuf.	91.9	95.2	94.5	88.2	88.3	88.5	89.0	91.4	99.6	107.0	109.6	115.3	115.5
	Service	89.9	87.3	89.6	93.2	94.1	94.8	95.5	96.6	97.7	99.2	99.9	100.4	100.7
The BDO Output Index	Total	93.1	92.3	92.1	93.0	94.1	94.4	94.9	96.8	98.3	99.5	100.7	101.8	102.5
	Manuf.	90.6	92.3	94.1	92.4	90.8	93.7	95.7	98.3	100.7	103.6	106.5	108.1	109.8
	Service	93.8	92.3	91.5	93.2	94.9	94.4	94.7	96.5	97.7	98.6	99.4	100.4	100.8
The BDO Inflation Index	Total	99.3	100.4	101.5	102.4	103.4	104.2	103.4	102.2	101.0	100.6	100.5	99.7	98.7
The BDO Employment Index	Total	93.0	95.1	95.0	96.0	96.4	96.6	96.7	97.0	97.0	97.5	98.1	98.3	99.4

APPENDIX: BDO OUTPUT AND OPTIMISM INDICES CLOSE TO ALL-TIME HIGHS

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

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.