



BDO MONTHLY BUSINESS TRENDS INDICES

August 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 August 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	✓✓✓	▲	103.7 in July from 103.6 in June
BDO Optimism Index	✓✓✓	▲	105.1 in July from 104.8 in June
BDO Inflation Index	✗	▼	97.6 in July from 97.9 in June
BDO Employment Index	✓✓✓	▲	109.6 in July from 108.8 in June

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

During July the BDO Output Index remained broadly unchanged, making a small gain of 0.1 which takes it to 103.7 from June's value of 103.6. Behind the headline figure, a gain in the services sub-index offset a small dip for manufacturing; however, overall the performance of the manufacturing index remains stronger at 114.4 versus 101.6 for services. Both of these readings denote growth of above the average rate of expansion of the economy, but the slight slowdown suggests it may be levelling off.

The BDO Inflation Index fell from 97.9 in June to 97.6 in July. Although costs continue to rise for businesses, the current rate of growth is very low and far below the long-term average rate of inflation that producers face. Sluggish wage growth is the main driver of this, though low energy costs are also contributing. The last reading of the producer price index, a backward-looking indicator that measures similar trends, showed that average prices only rose by 0.2% over the year to June. The Inflation Index suggests that low cost pressures will persist.

The BDO Optimism Index also registered a small increase. July's reading is 105.1, compared to 104.8 for June. This suggests that optimism among firms regarding the six months ahead remains high and we will continue to see above-average growth rates. Having climbed for the first half of the year, both the output and the optimism indices appear to be stabilising now, in line with data from other sources suggesting that UK growth may have peaked in the second quarter of 2014.

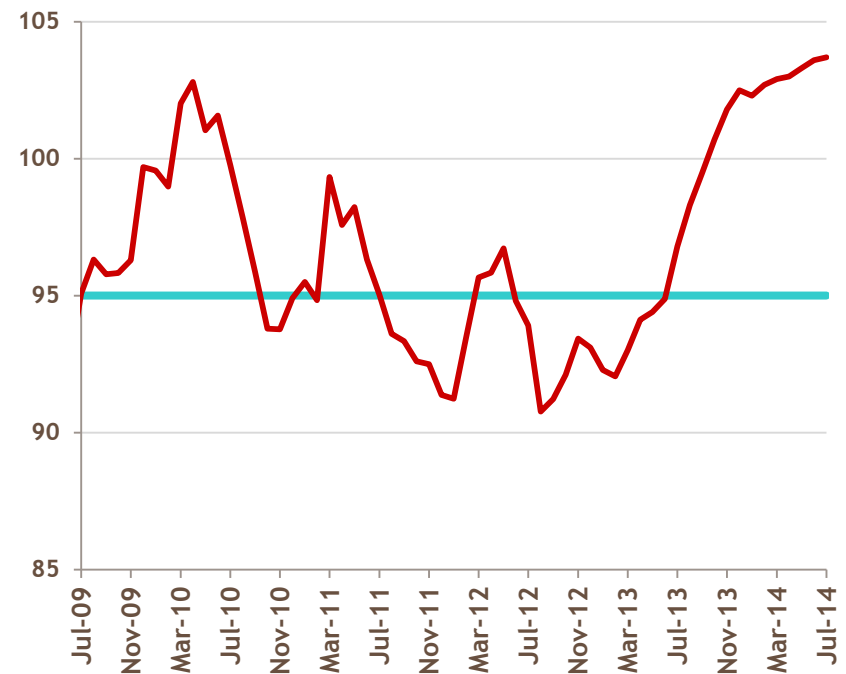
July's strongest performance was registered in the BDO Employment Index. This rose from 108.8 to 109.6, surpassing February 2007's level to reach its highest figure since 1998. The latest official employment data showed that almost a million jobs were added to the workforce between the three months to May 2013 and the equivalent period this year. The robust performance of the BDO Employment Index suggests continued strong jobs creation is likely over the next three months.

OUTPUT INDEX GROWTH SLOWS

- The BDO Output index is virtually unchanged from last month, moving up by only 0.1 over July to stand at 103.7.
- Growth may be tailing off a little: the average monthly rise in this index was significantly stronger than 0.1 for most of 2014.
- Its current value still denotes growth of output above the long-term rate of expansion, represented by 100.
- The services sub-index is essentially stable at 101.6, just 0.1 above its value for June.
- The manufacturing sub-index registered a slight fall to 114.4 in July from 114.5 in June, though it remains far above the long-term rate of expansion.
- The period of over a year of almost unbroken rises in the output index appears to be set to end as its level stabilises. This would match the evidence coming from other economic indicators that are suggesting growth has peaked and will slow somewhat in the second half of 2014.

BDO OUTPUT INDEX

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



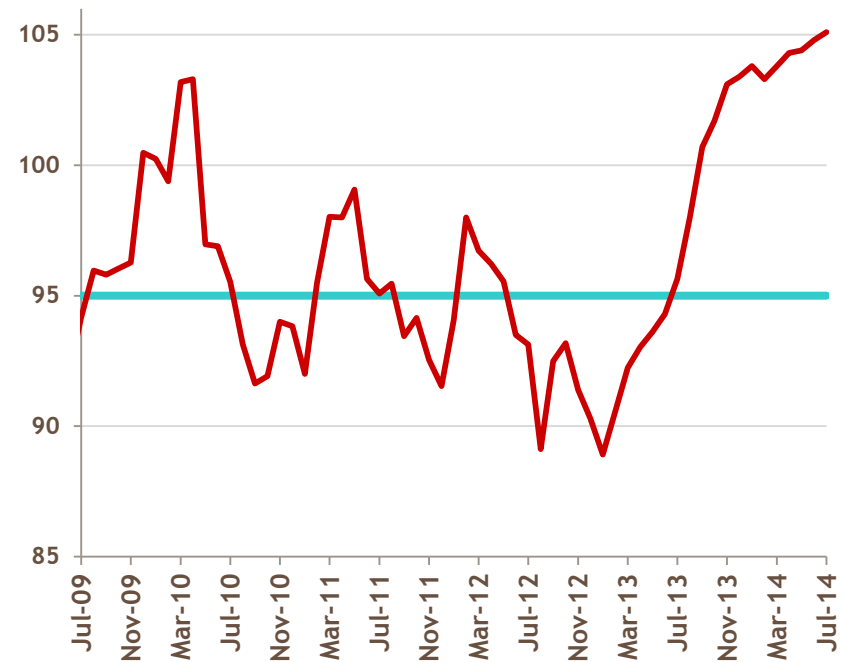
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

SLOW EXPANSION IN OPTIMISM INDEX SUGGESTS CONFIDENCE RISE MAY BE LEVELLING OFF

- The BDO Confidence Index inched up by 0.3 over July. It now stands at 105.1, compared to 104.8 during June.
- The reading suggests we will continue to see strong growth over the coming six months, as it remains comfortably above the long-term trend rate of growth which is denoted by a level of 100.
- However, its slow rate of increase suggests that the rate of growth is close to peaking. Like the Output Index, this suggests the second half of 2014 may see less impressive growth than the first half did.
- The manufacturing confidence sub-index rose by 0.5 over the month, to stand at 119.9. While still very high, manufacturers' confidence has fallen back from its own recent peak of 121.0, which was recorded in May. However, prospects for the sector remain strong.
- The services index posted a small rise from 101.9 to 102.2. Optimism in this subsector remains modestly above its long-term trend rate.

BDO OPTIMISM INDEX

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



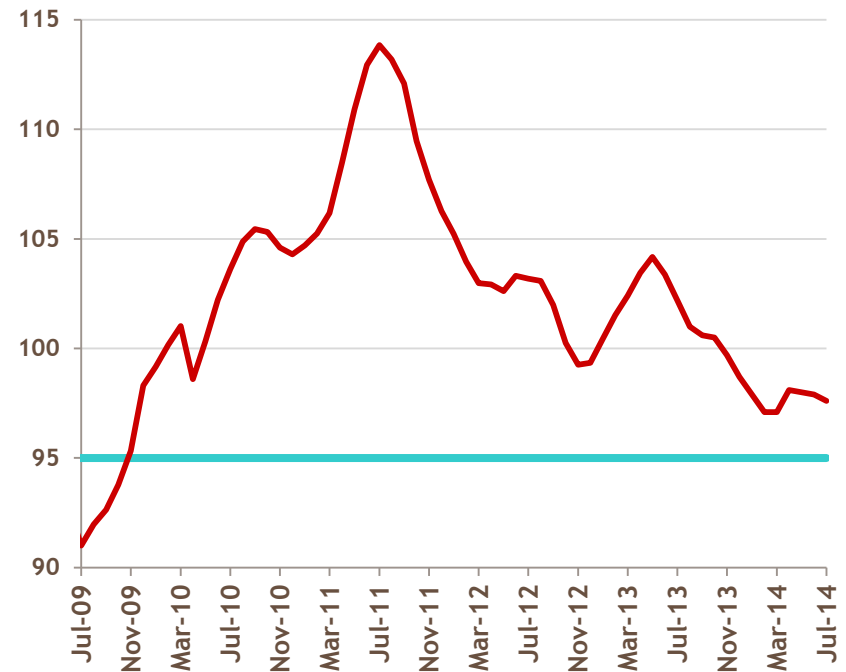
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

COST PRESSURES FOR BUSINESSES FALL FURTHER

- The BDO Inflation Index fell from 97.9 to 97.6 during July.
- Businesses expect movements in costs to stay positive, but to remain at their already very low level.
- The latest reading of the producer price index shows a similar pattern, as it fell from 0.5% year-on-year in May to 0.2% during June. The BDO Inflation Index is forward-looking, and suggests that the low growth in prices will continue.
- Growth in the main cost for service firms, i.e. wages, fell to 0.3% in the three months to May 2014 compared to the same period in 2013.
- A strong pound, currently about 10% higher versus a basket of currencies than a year ago, means that manufacturers' imported input costs are relatively cheap.

BDO INFLATION INDEX

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



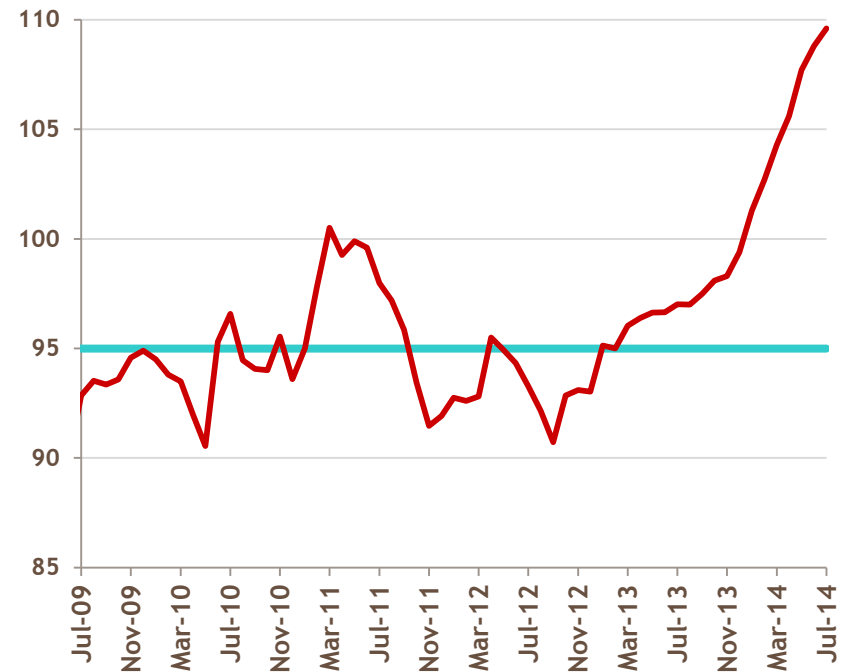
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT INDEX REACHES 16-YEAR HIGH

- The BDO Employment Index rose from 108.8 in June to 109.6 in July.
- This signifies that companies' hiring intentions over the coming three months are for employment growth to remain above the long-term average rate.
- This month's level is a 16-year high: July's level has surpassed February 2007's level of 108.9 and reached the highest level since 1998.
- The latest employment statistics showed that the number of people in work had grown by 929,000 over the year to the period between March and May 2014.
- Continuing falls in the unemployment rate - which is now at 6.5% - are likely to persist as companies keep reporting strong hiring intentions.
- Driving this expansion was hiring among service firms. A survey by the European Commission found that expectations of hiring in the services sector jumped from 21.2 in June to 41.2 in July. July's level is the highest ever (i.e., since 1997) for this indicator which measures the net balance of the percentage of firms expecting to increase hires.

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

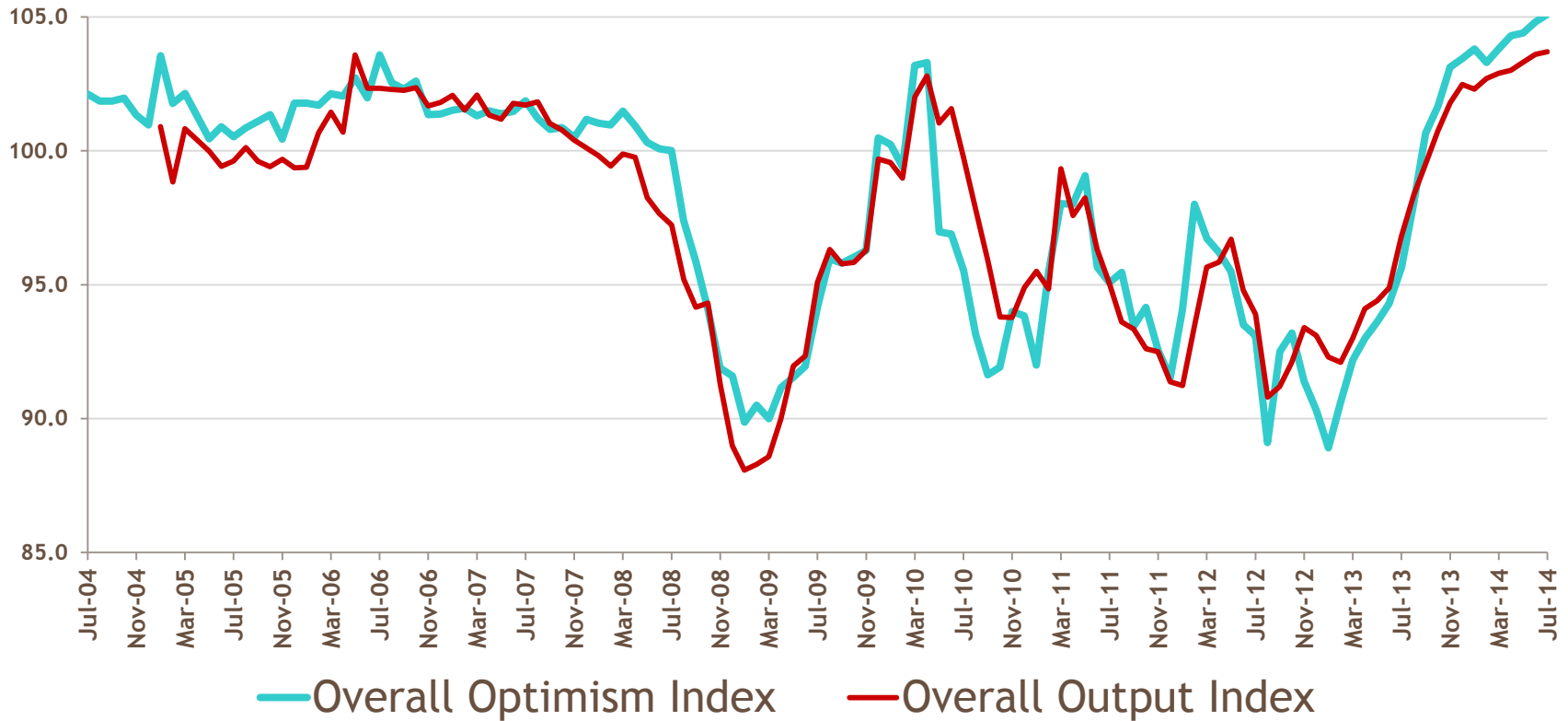
BDO INDICES TO LATEST MONTH

		July 2013	Aug 2013	Sept 2013	Oct 2013	Nov 2013	Dec 2013	Jan 2014	Feb 2014	Mar 2014	Apr 2014	May 2014	June 2014	July 2014
The BDO Optimism Index	Total	95.6	98.0	100.7	101.7	103.1	103.4	103.8	103.3	103.8	104.3	104.4	104.8	105.1
	Manuf.	91.4	99.6	107.0	109.6	115.3	115.5	117.1	118.2	119.4	120.8	121.0	119.5	119.9
	Service	96.6	97.7	99.2	99.9	100.4	100.7	101.2	100.5	100.8	101.1	101.1	101.9	102.2
The BDO Output Index	Total	96.8	98.3	99.5	100.7	101.8	102.5	102.3	102.7	102.9	103.0	103.3	103.6	103.7
	Manuf.	98.3	100.7	103.6	106.5	108.1	109.8	111.3	112.0	112.8	113.5	113.9	114.5	114.4
	Service	96.5	97.7	98.6	99.4	100.4	100.8	100.6	100.8	101.0	101.0	101.3	101.5	101.6
The BDO Inflation Index	Total	102.2	101.0	100.6	100.5	99.7	98.7	97.9	97.1	97.1	98.1	98.0	97.9	97.6
The BDO Employment Index	Total	97.0	97.0	97.5	98.1	98.3	99.4	101.3	102.7	104.3	105.6	107.7	108.8	109.6

APPENDIX 1: SLOW GROWTH SUGGESTS RATE OF EXPANSION NEARING PEAK

BDO OUTPUT AND OPTIMISM INDICES

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

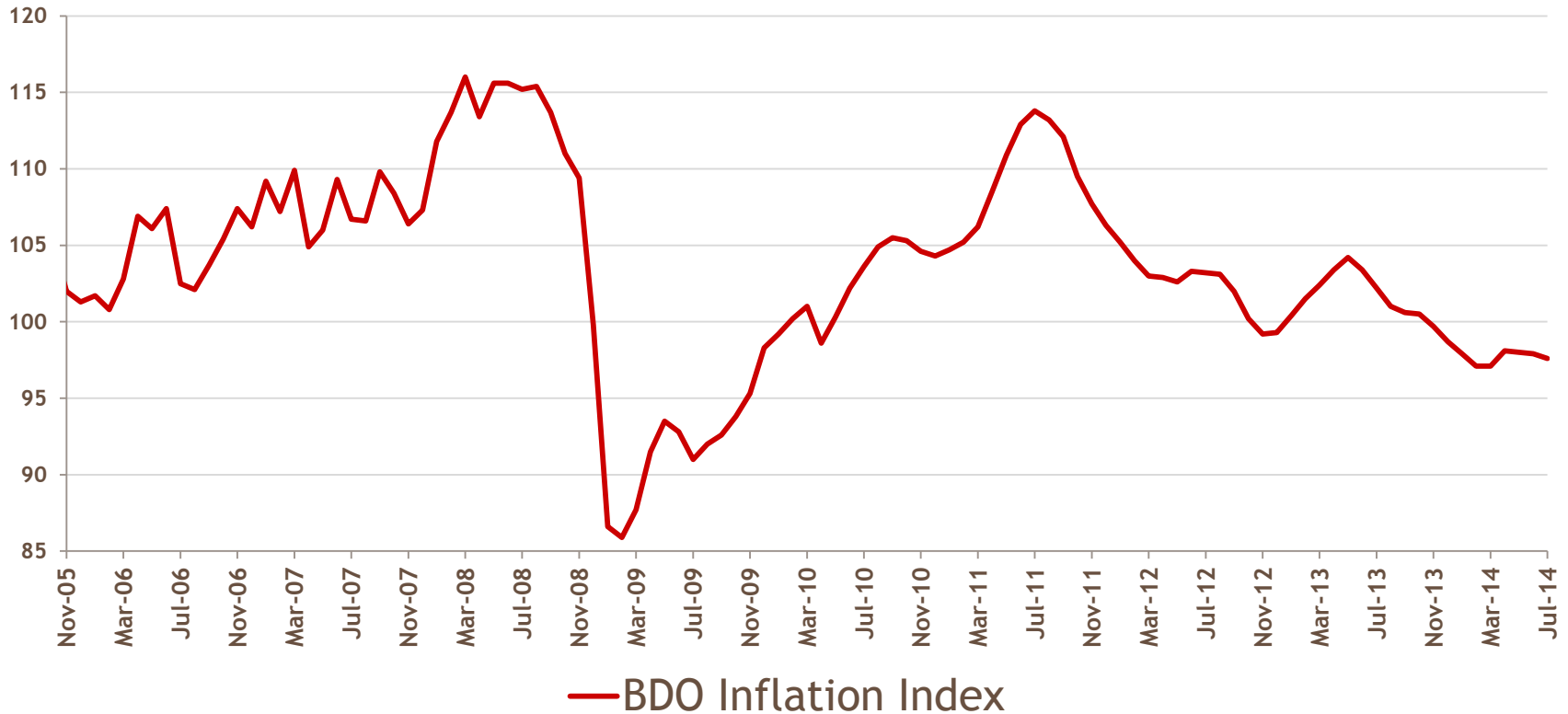


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 2: COST PRESSURES FOR BUSINESSES FALL FURTHER

BDO INFLATION INDEX

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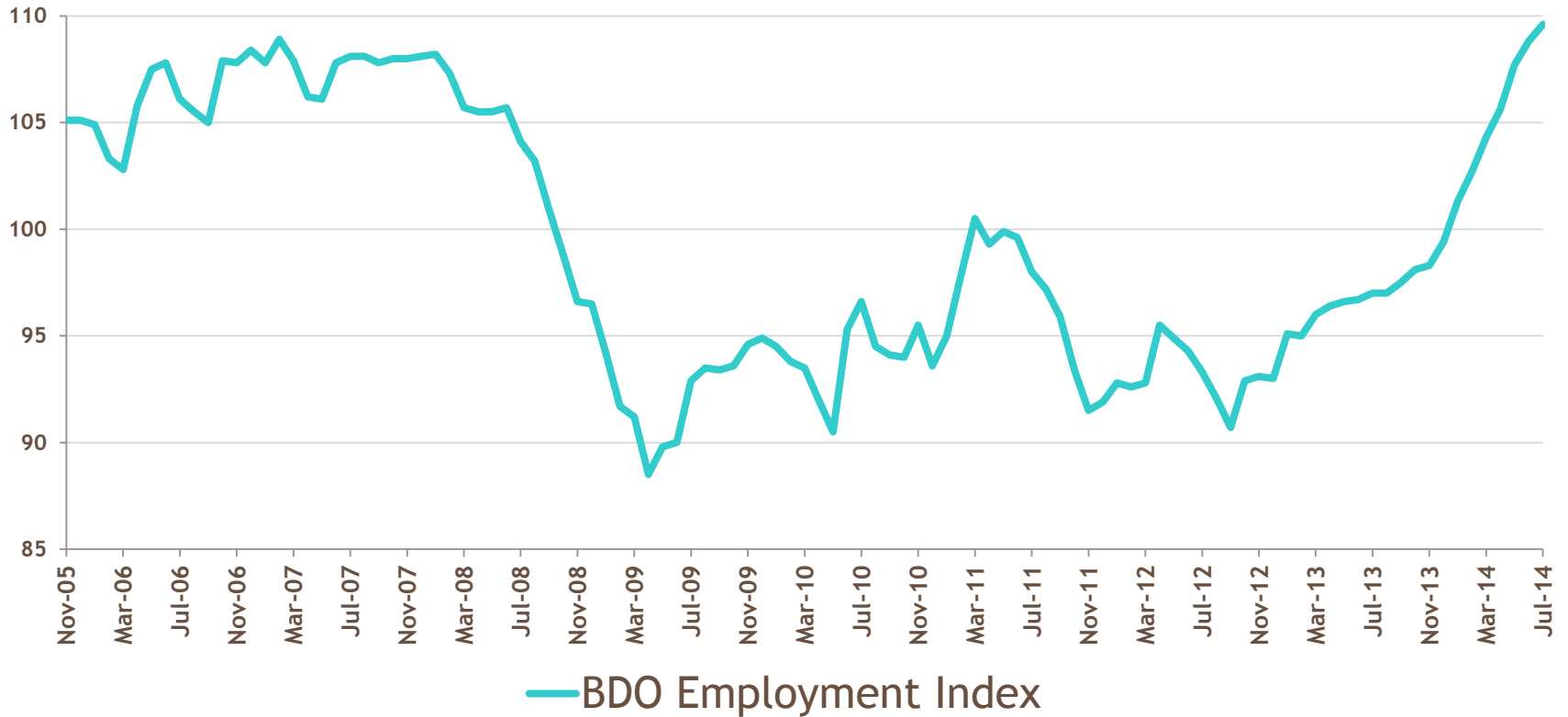


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

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.