

# BDO MONTHLY BUSINESS TRENDS INDICES

September 2013

# 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 August, using the results from business surveys that were carried out between the first and last days of last month.

## Summary and key findings

Index	Current reading	Movement in month	Index level
BDO Output Index	✓✓	▲	98.3 in August from 96.8 in July
BDO Optimism Index	✓✓	▲	98.0 in August from 95.6 in July
BDO Inflation Index	✓	▼	101.0 in August from 102.2 in July
BDO Employment Index	✓✓	—	97.0 in August from 97.0 in July

KEY: ✓ = above 100; ✓✓ = (joint) highest in 12 months (takes precedence)  
✗ = below 100; ✗✗ = (joint) lowest for 12 months (takes precedence)

# KEY FINDINGS

Business conditions picked up further in August, as the BDO Output Index rose noticeably to 98.3, up from 96.8 previous month. The last time the index was higher was in March 2011. The BDO Output sub-indices show that the economic recovery is becoming ever more entrenched across the economy's major sectors. The services sector covers over three quarters of the economy and, encouragingly, the services sector sub-index rose to 97.7 in August, up from 96.5 in July - the highest such reading since mid-2010. The manufacturing sub-index rose to 100.7 in August, up on a July reading of 98.3. These indicator data suggest the UK economy is in line to post healthy growth over Q3.

Business confidence is going from strength to strength, as the BDO Optimism Index reached 98.0 in August, up from 95.6 in July. This is the seventh consecutive monthly increase and the last time the index was higher was in May 2011. The services sector confidence sub-index rose to 97.7 in August, up from 96.6 in June. Notably, the manufacturing confidence sub-index increased very significantly to 99.6 in August, up from 91.4 in July. The Eurozone is the UK's most significant trading partner and a recent return to economic growth there may translate into renewed demand for UK goods exports, raising confidence amongst UK manufacturers. The confidence sub-indexes are above 95.0 for both sectors, indicating that growth is expected across the board over the coming six months. Similarly, consumer confidence is also rising: the YouGov/Cebr HEAT Index, a broad measure of consumer confidence, recently reached its highest level since February 2010.

Overall inflation expectations for business input prices continued to come down slightly in August, recording a reading of 101.0. This is the third consecutive fall in businesses' inflation expectations and is down on a July reading of 102.2. Slack in the labour market means that wages are rising slowly, enabling labour-intensive services firms to control costs. Total wages were just 2.1% higher over April-June 2013 than one year earlier - very much outpaced by price rises. This drove the headline decline in overall business inflation expectations. Manufacturing firms were less fortunate; the price of their inputs increased by 5.0% over the year to July 2013.

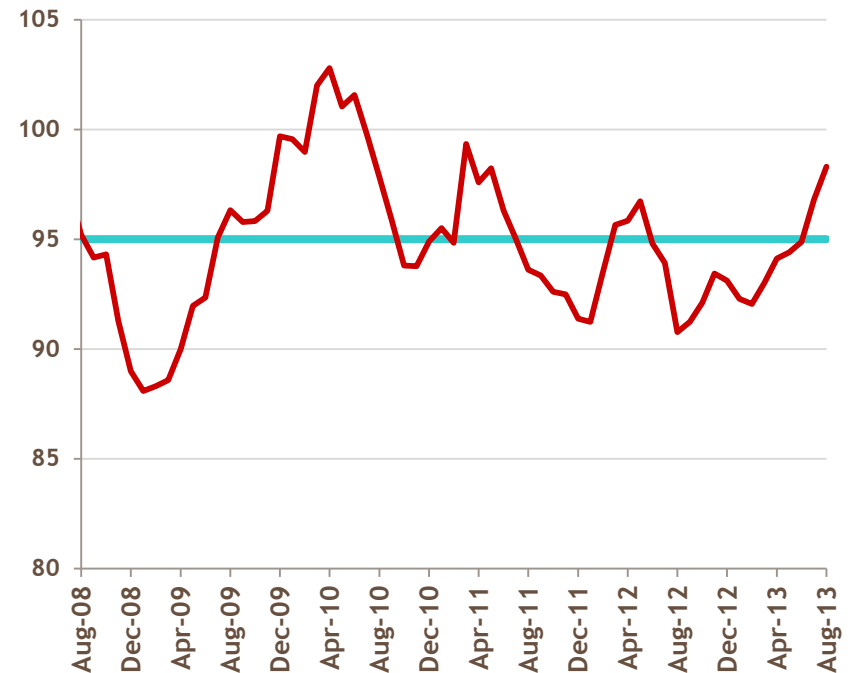
Hiring expectations held steady over August as the BDO Employment Index remained at 97.0 - the same as in July. The Bank of England's Governor, Mark Carney, recently commented that the UK is no more productive now than it was 2005. Despite the burgeoning economic recovery, low productivity per worker means that businesses have plenty of room to get more from their existing employees than go through the process of hiring more workers. This is keeping unemployment from falling significantly. Over April-June 2013, the unemployment rate was 7.8% - down only 0.1 percentage points on a year earlier. Lower productivity has also resulted in lower real wages: regular pay (which excludes bonus payments) was only 1.1% higher over April-June 2013 than over the same period in 2012. This is much lower than the rate of inflation, meaning real wages are falling.

# OUTPUT INDEX CONTINUES TO RISE

- In line with a flurry of positive official statistics and business sentiment data, the BDO Output Index showed business conditions continued to improve further in August. The Output Index rose noticeably to 98.3, up from 96.8 previous month.
- The economic recovery is becoming ever more entrenched across the economy's major sectors, according to official data and the BDO Output sub-indexes.
- The services sector sub-index rose to 97.7 in August, up from 96.5 in July. This reading signals healthy near-term growth in the services sector, which covers over three quarters of the economy.
- The manufacturing sub-index rose to 100.7 in August, up on a July reading of 98.3 - the highest reading since May 2011.
- Having grown by 0.7% over Q2, the BDO Output Index suggests the UK economy is poised to continue along a robust growth trajectory this quarter.

## BDO OUTPUT INDEX

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



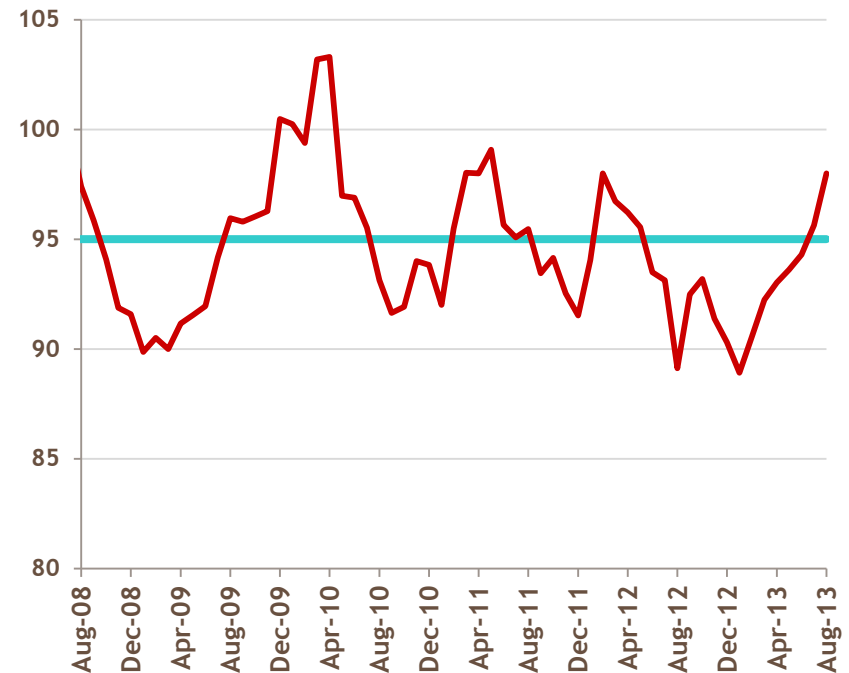
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# BUSINESS OPTIMISM RISES SHARPLY

- As business conditions improve, the BDO Optimism Index showed business confidence is going from strength to strength. The Optimism Index reached 98.0 in August, up from 95.6 in July.
- The last time the index was higher was in May 2011.
- Confidence increased across both major sectors of the economy as the services sector confidence sub-index rose to 97.7 in August, up from 96.6 in June.
- Increases were even more pronounced in the manufacturing sector. The manufacturing confidence sub-index rose to 99.6 in August, up from 91.4 in July.
- This dramatic rise in manufacturing sector confidence can be partially attributed to improvements in the Eurozone economy which recently exited recession, growing by 0.3% over the second quarter.
- Growth in the Eurozone - which is the UK's main trading partner - could mean increased demand for UK goods exports, leading to improved optimism.

## BDO OPTIMISM INDEX

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



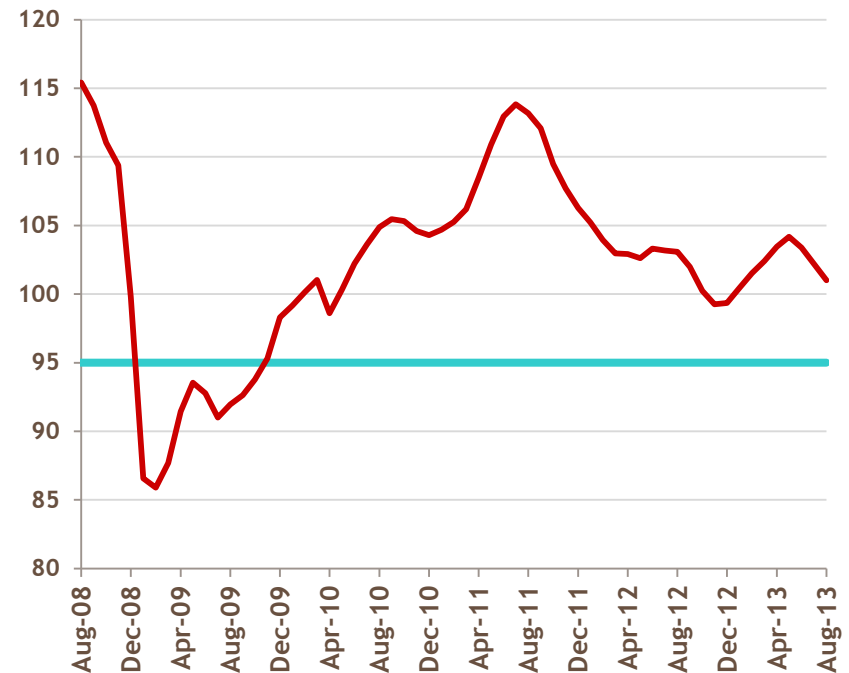
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# INFLATION INDEX CONTINUES TO DECLINE

- Business input inflation expectations continued to come down in August, recording their third consecutive monthly decline according to the BDO Inflation Index.
- The Inflation Index recorded a value of 101.0 in August, down from 102.2 in July.
- Subdued worker productivity and elevated unemployment are keeping a lid on wage growth. Wages are rising far more slowly than consumer prices, meaning they are falling in real terms.
- For instance, total wages were just 2.1% higher over April-June 2013 than one year earlier, even as rose by 2.9% over the year to June 2013.
- This has enabled labour-hungry services firms to control their real wage costs, accounting for the fall in the Inflation Index.
- By contrast, inflation continues to be a concern for manufacturing firms. The sterling price of oil rose by 5.1% over the year to August, putting upward pressure on manufacturing input prices across the board.

## BDO INFLATION INDEX

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



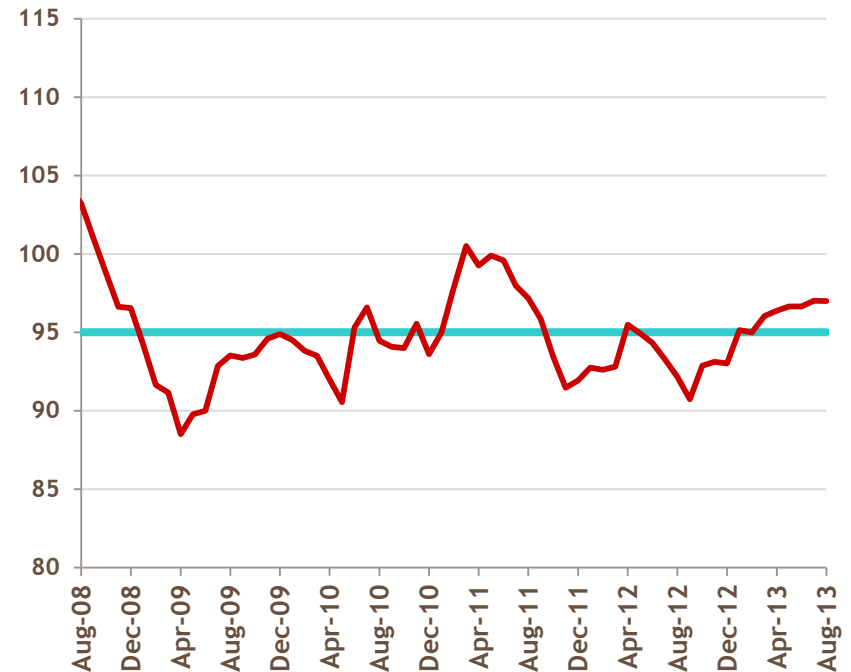
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# PRIVATE SECTOR HIRING INTENTIONS HOLD STEADY

- Businesses' expectations for private sector hiring growth held steady in August as the BDO Employment Index remained at 97.0 - the same as in July.
- This means that private sector hiring growth is not expected to accelerate over the next quarter.
- Mark Carney, the Bank of England's Governor, recently commented that "the UK is no more productive [this year] than it was back in 2005".
- Low per worker productivity means that existing employees could produce more for businesses, without additional staff needing to be hired.
- This may have already acted to stem employment growth: over April-June 2013, the unemployment rate was 7.8%, barely down on the same period one year earlier. If further productivity gains can be coaxed out of existing employees, this could limit employment growth going forward.
- Elevated unemployment and subdued productivity have brought about nominal wage growth which is noticeably lower than the rate of inflation, meaning real wages are falling.

## 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 2012	Sept 2012	Oct 2012	Nov 2012	Dec 2012	Jan 2013	Feb 2013	Mar 2013	Apr 2013	May 2013	June 2013	July 2013	Aug 2013
The BDO Optimism Index	<b>Total</b>	89.1	92.5	93.2	91.4	90.3	88.9	90.6	92.2	93.0	93.6	94.3	95.6	98.0
	Manuf.	80.5	90.2	89.2	85.9	91.9	95.2	94.5	88.2	88.3	88.5	89.0	91.4	99.6
	Service	91.3	93.1	94.2	92.8	89.9	87.3	89.6	93.2	94.1	94.8	95.5	96.6	97.7
The BDO Output Index	<b>Total</b>	90.8	91.2	92.1	93.4	93.1	92.3	92.1	93.0	94.1	94.4	94.9	96.8	98.3
	Manuf.	85.1	87.3	87.0	88.8	90.6	92.3	94.1	92.4	90.8	93.7	95.7	98.3	100.7
	Service	92.2	92.2	93.4	94.6	93.8	92.3	91.5	93.2	94.9	94.4	94.7	96.5	97.7
The BDO Inflation Index	<b>Total</b>	103.1	102.0	100.2	99.2	99.3	100.4	101.5	102.4	103.4	104.2	103.4	102.2	101.0
The BDO Employment Index	<b>Total</b>	92.1	90.7	92.9	93.1	93.0	95.1	95.0	96.0	96.4	96.6	96.7	97.0	97.0



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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.