



BDO MONTHLY BUSINESS TRENDS INDICES

March 2015

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 February 2015, 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	✓	▲	103.1 in February from 102.9 in January
BDO Optimism Index	✓	▲	104.9 in February from 104.4 in January
BDO Inflation Index	xxx	▼	94.7 in February from 95.1 in January
BDO Employment Index	✓	▲	113.1 in February from 111.6 in January

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 stood broadly unchanged over February, edging up from 102.9 to 103.1. A small drop in expectations for manufacturing growth was offset by a gain in the services sector. Both continue to expect growth above the trend rate, and at broadly the same level as it is currently running. While we continue to expect a gradual downward trajectory on this index over the longer term (as has been exhibited during the last few months), it is holding steady for the time being.

The BDO Inflation Index moved into deflation for February. It fell below the dividing line of 95 for the first time since 2009, dropping from 95.1 to 94.7. This is almost entirely down to the oil price decline, with soft demand in other commodities keeping some of businesses' other input costs low. While the price of a barrel of crude recovered some ground during February, moving up to around \$60/barrel, it pass through to firms with a lag. So far, wage growth has not offset this downward pressure.

The BDO Optimism Index gained half a point and now stands at 104.9 compared to 104.4 for January. Firms remain sanguine about the uncertainty regarding the election in two months' time, expecting growth to retain its current momentum. A strong labour market and the consequent uplift in wage growth should allow consumer spending to power continued demand. Retail sales, which have been growing consistently for almost two years, attest to this strong consumer confidence.

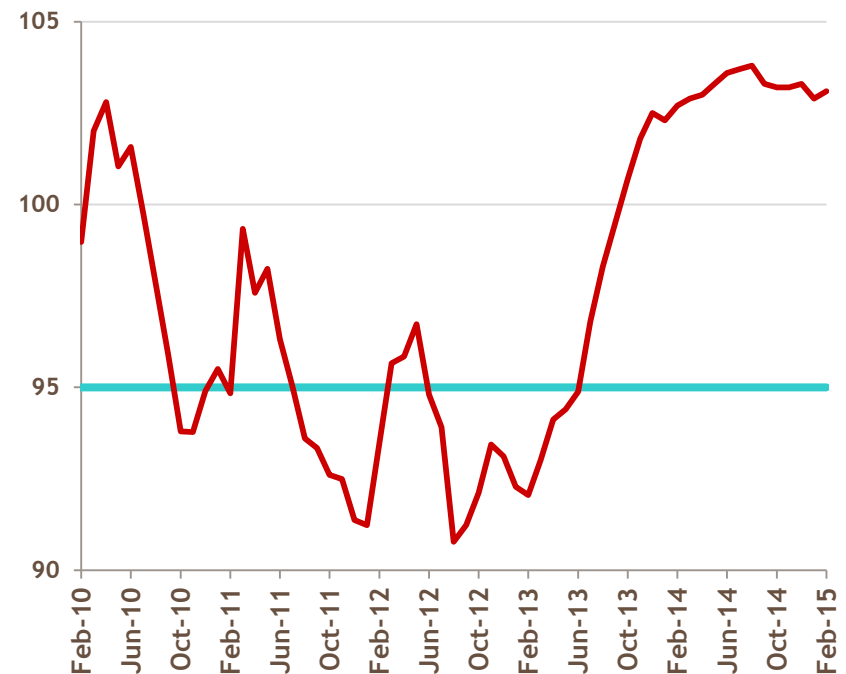
The BDO Employment Index recovered some of the ground it had lost during January, moving from 111.6 to 113.1. This points to sustained employment growth significantly above the long-term average trend. We expect a gradual decline in hiring activity as the economy cools, but currently firms still expect to create jobs at a relatively rapid rate.

OUTPUT HOLDS STEADY POINTING TO CONTINUING ABOVE-TREND GROWTH

- The BDO Output Index is broadly unchanged this month, rising slightly from 102.9 to 103.1.
- It continues to hold a high level, indicating that expansion at a rate above the long-term trend will be sustained in the near term.
- Recent moves are following a very gradual downward trend towards 100, the level representing the average rate of growth.
- Both sub-indices for the services and the manufacturing sectors exhibited very little change over the past month. While manufacturing has edged down, the services sub-index offset this with a slight gain. The most recent movement has narrowed the gap, but the manufacturing sub-index remains at a higher level than that for services.
- Manufacturers, which export about a third of their output, continue to tune down their expectations for growth as the global economy has failed to improve appreciably in recent months.

BDO OUTPUT INDEX

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



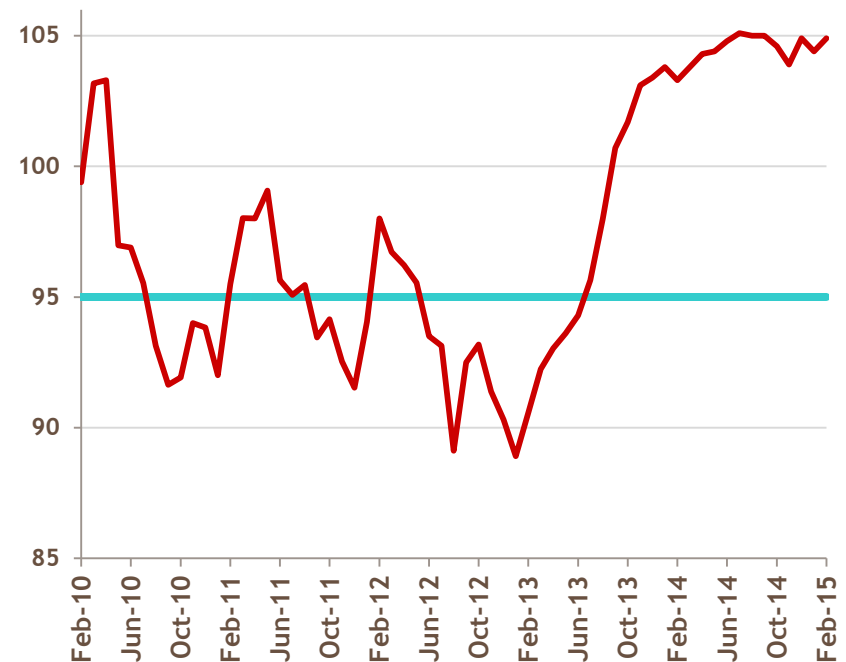
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

STRONG CONSUMER DEMAND KEEPS FIRMS BULLISH ON FUTURE

- The BDO Optimism Index recovered ground lost last month, moving from 104.4 to 104.9.
- Firms are still confident regarding output growth over the next six months. They expect the period of above long-term trend growth to continue.
- This is despite uncertainty from the general election in just two months. It appears that, despite the rhetorical differences between parties, most firms are not expecting economic policy to diverge greatly between the different prospective governments that could emerge from the election.
- Robust consumer confidence, driven by a strong labour market and higher wages, appears to be giving firms optimism that household spending will remain strong over the medium term.
- The latest data on retail sales corroborate this. Sales volumes rose 5.4% year-on-year during January, and have shown annual gains in every month of the last 22.

BDO OPTIMISM INDEX

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



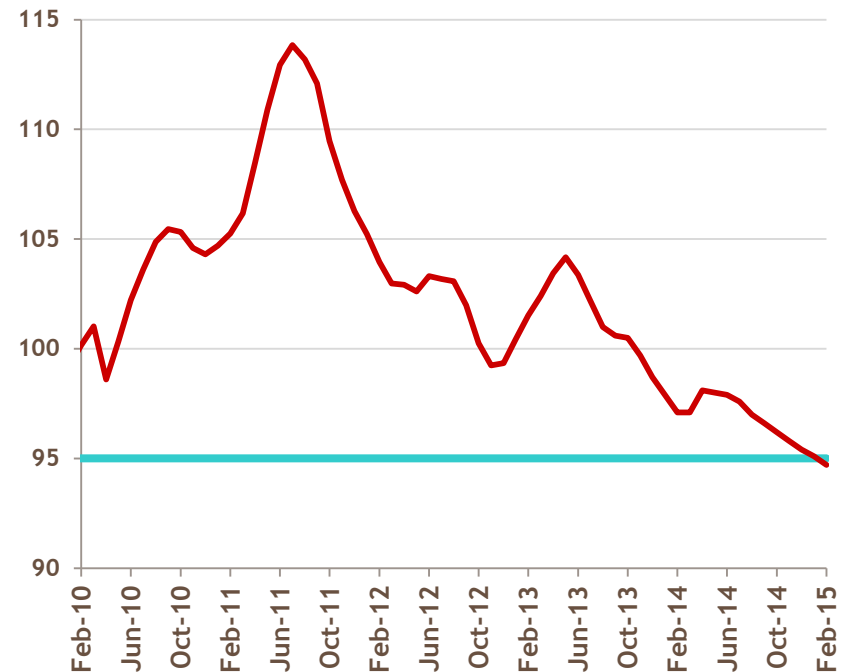
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

BUSINESS COST DEFLATION TO HIT FIRMS

- The BDO Inflation Index fell into deflationary territory during January, for the first time since 2009.
- The index continues to travel along the steady downward path which it has followed since the middle of last year.
- The drivers are the huge drop in the oil price and similar movements in the prices of other commodities, caused by strong global supply and lacklustre demand in many major economies.
- While the oil price fall has stopped and has regained a little ground, it still stands far below levels even of six months ago. Moreover, the fall in price takes time to feed into firms' inputs, so further falls in the Inflation Index are to be expected despite the turnaround in energy prices seen recently.
- However, we do not expect to see the period of input-price deflation to last for a long time. When the temporary effects of low energy prices wear off, the stronger wage growth that began to show towards the end of 2014 should put the reading back on an upward trajectory.

BDO INFLATION INDEX

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



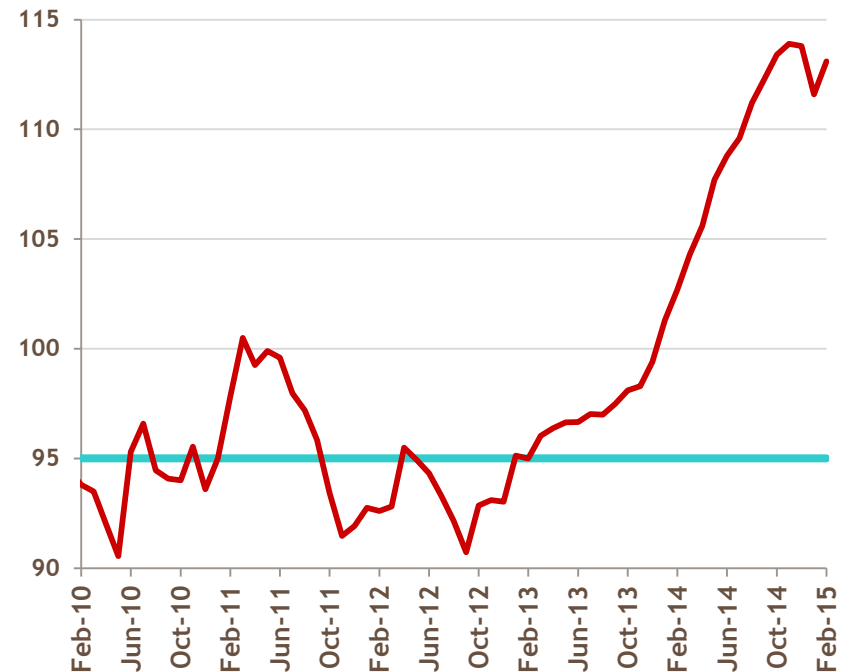
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

HIRING ACTIVITY SPEEDS UP AGAIN, BUT EXPECTED TO RETURN TO DOWNWARD TREND

- The BDO Employment Index has recovered some of the ground lost last month, moving back to 113.1 from 111.6.
- This reflects continuing strong readings on various hiring polls as well as low levels of redundancies.
- Firms continue to have high expectations for hiring, despite the relatively small pool of unemployed compared to the situation over the past year.
- However, unemployment is not quite down to this level yet, and in addition, firms can still maintain high hiring expectations with very little unemployment; it simply means that workers move around more rapidly. So the fact that there is little slack left in the labour market does not necessarily mean the index will fall.
- On the other hand, the general pattern of cooling in economic output growth has fed into a generally downward trend in hiring activity, now one point off its peak.

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

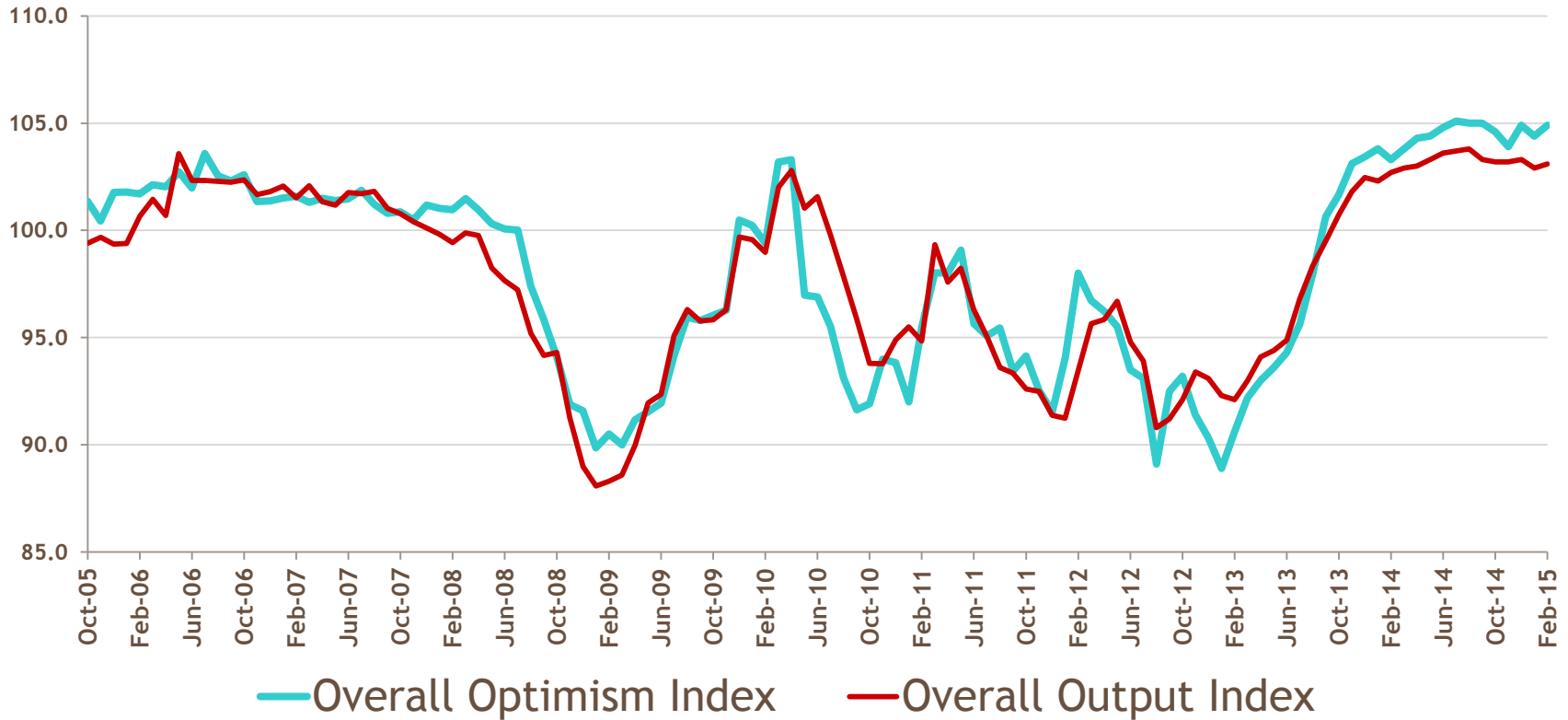
BDO INDICES TO LATEST MONTH

		Feb 2014	Mar 2014	Apr 2014	May 2014	Jun 2014	Jul 2014	Aug 2014	Sep 2014	Oct 2014	Nov 2014	Dec 2014	Jan 2015	Feb 2015
The BDO Optimism Index	Total	103.3	103.8	104.3	104.4	104.8	105.1	105.0	105.0	104.6	103.9	104.9	104.4	104.9
	Manuf.	118.2	119.4	120.8	121.0	119.5	119.9	118.8	117.4	116.1	114.1	113.9	113.0	111.6
	Service	100.5	100.8	101.1	101.1	101.9	102.2	102.3	102.6	102.3	101.9	103.1	102.7	103.6
The BDO Output Index	Total	102.7	102.9	103.0	103.3	103.6	103.7	103.8	103.3	103.2	103.2	103.3	102.9	103.1
	Manuf.	112.0	112.8	113.5	113.9	114.5	114.4	113.2	111.6	110.1	109.1	108.0	107.3	107.1
	Service	100.8	101.0	101.0	101.3	101.5	101.6	102.0	101.7	101.8	102.1	102.4	102.1	102.3
The BDO Inflation Index	Total	97.1	97.1	98.1	98.0	97.9	97.6	97.0	96.6	96.2	95.8	95.4	95.1	94.7
The BDO Employment Index	Total	102.7	104.3	105.6	107.7	108.8	109.6	111.2	112.3	113.4	113.9	113.8	111.6	113.1

APPENDIX 1: STRONG CONSUMER DEMAND KEEPS FIRMS BULLISH ON FUTURE

BDO OUTPUT AND OPTIMISM INDICES

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

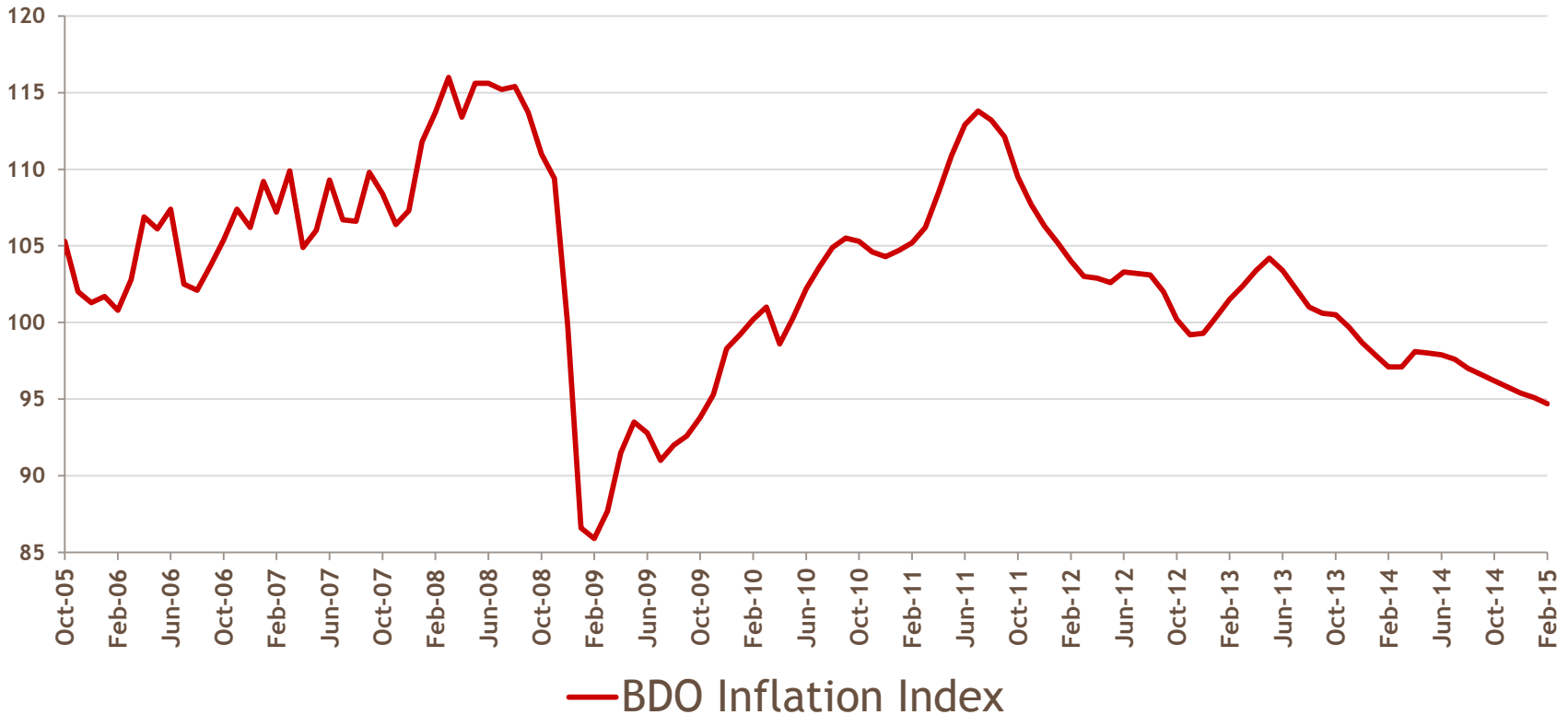


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 2: BUSINESS COST DEFLATION TO HIT FIRMS

BDO INFLATION INDEX

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

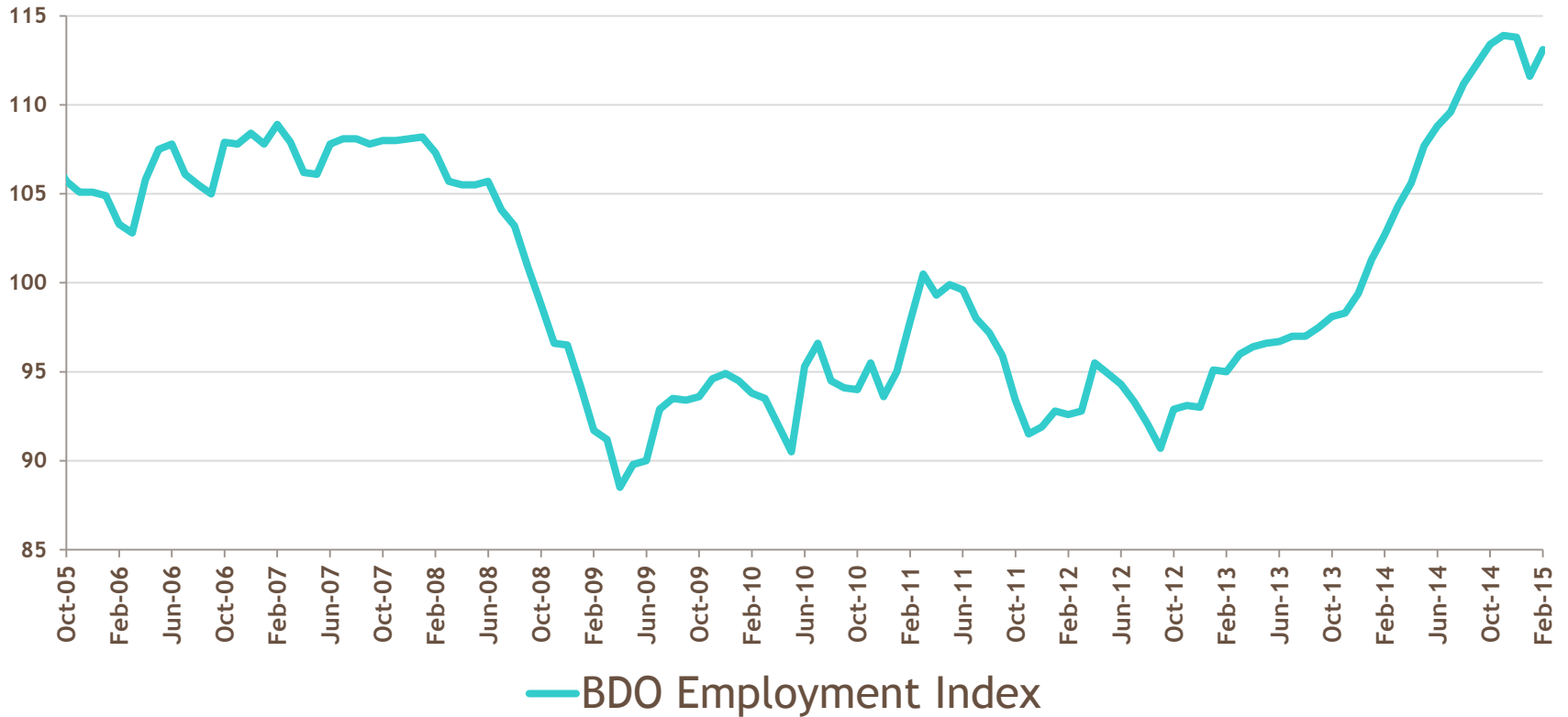


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 3: EMPLOYMENT INDEX REGAINS SOME LOST GROUND

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.