



BDO MONTHLY BUSINESS TRENDS INDICES

July 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 July 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	✓✓✓	▲	103.6 in June from 103.3 in May
BDO Optimism Index	✓✓✓	▲	104.8 in June from 104.4 in May
BDO Inflation Index	✗	▼	97.9 in June from 98.0 in May
BDO Employment Index	✓✓✓	▲	108.8 in June from 107.7 in May

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 June the BDO Output Index inched up slightly, taking it to 103.6 from the previous month's 103.3. This indicates that firms' expect output over the next three months to grow significantly above the long-term trend rate. This is in line with a buoyant recovery; the latest GDP growth figures confirmed output in the first quarter expanded 3.0% during the last quarter compared to Q1 2013, which is the same as Cebr's prediction for 2014 as a whole.

The BDO Inflation Index stands at 97.9, which is still below the long-term trend rate but in positive territory. It is almost unchanged from the previous month's reading of 98.0. This means inflation expectations for businesses remain low, with UK wage growth low and global prices of key commodities still subdued. Oil prices have shown a rise very recently, since insurgent group ISIS captured Iraq's second city Mosul and the struggle in Iraq intensified, with Brent crude oil rising to its highest levels since last summer.

The BDO Optimism Index rose from 104.4 to 108.8 between May and June. Firms remain optimistic about the six months ahead, with the overall view substantially above long-term trend. After slowing down last month, the manufacturing optimism sub-index fell modestly this month, but remains at very high levels. It still points to robust expansion over the six-month future period for manufacturing, but at a rate that is stabilising rather than accelerating. The sub-index for the services sector, a much larger part of the economy, recorded a solid rise for the month ensuring that overall confidence improved.

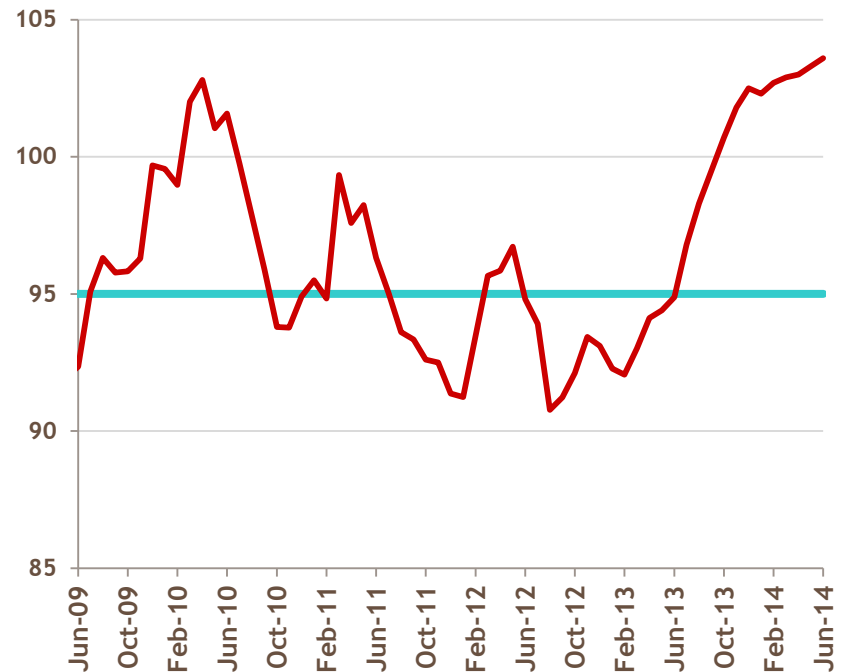
The BDO Employment Index posted another rise over June, taking it to 108.8 from May's value of 107.7. This represents the best outlook for firms' hiring intentions since February 2007, and continues an unbroken string of rises in the Index for every month since August 2013.

OUTPUT INDEX INCHES UP

- The BDO Output index remains broadly unchanged, inching up 0.3 points above last month's reading to stand at 103.6.
- The trend of rising performance continues, with the Index expanding in every month of 2014 so far.
- The gain was spread across both manufacturing and service subsectors, but it was significantly stronger in manufacturing over June, as has been the case generally during 2014.
- The services sub-index showed a very modest 0.2-point gain and now stands at 101.5, while manufacturing moved up 0.6 points to 114.5.
- The services sub-index is still at a level only just above the long-term trend, while manufacturing is significantly above this benchmark.
- The latest GDP data from the Office for National Statistics showed manufacturing rising at a strong 1.6% quarter-on-quarter rate in Q1 2014.
- The BDO Output sub-index for manufacturing, which is constructed from more timely sources than GDP data, shows that this quarter's performance has also been good for the manufacturing sector: it has risen more than services in every month since April 2013.

BDO OUTPUT INDEX

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



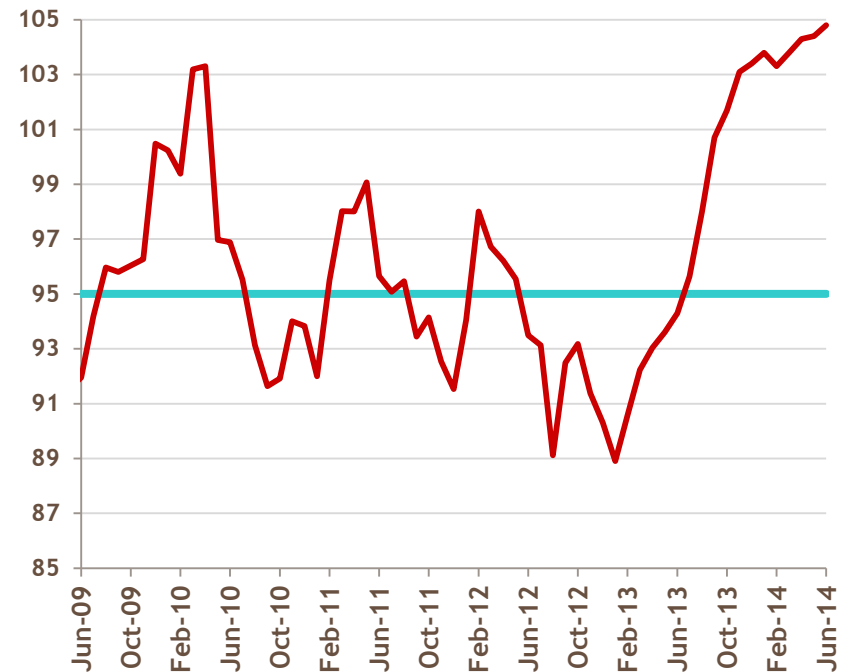
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

MANUFACTURING CONFIDENCE SUB-INDEX POSTS FALL BUT REMAINS AT VERY STRONG LEVEL

- The BDO Optimism Index has moved up from 104.4 to 104.8 over June.
- This takes it further above the long-term trend rate of growth. It suggests strong output growth will continue.
- The gain in this index was driven by services, which posted a strong 0.8-point increase.
- The manufacturing sub-index fell by 1.6 points over the month.
- The sub-index has stood at a level substantially above 100 for the best part of a year, and has risen every month for 14 months in a row.
- However, much of this recent strong performance is something of a rebound from a very harsh recession and we would not expect it to continue indefinitely at the same pace after recovering the lost ground.
- It is likely that the index will start to stabilise at a high level (currently 119.5), which would indicate growth that is no longer accelerating, but still strong.
- As business investment is still high and demand is growing as disposable incomes continue to rise, this suggests that we are not about to see a downturn in manufacturing, at any rate.

BDO OPTIMISM INDEX

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



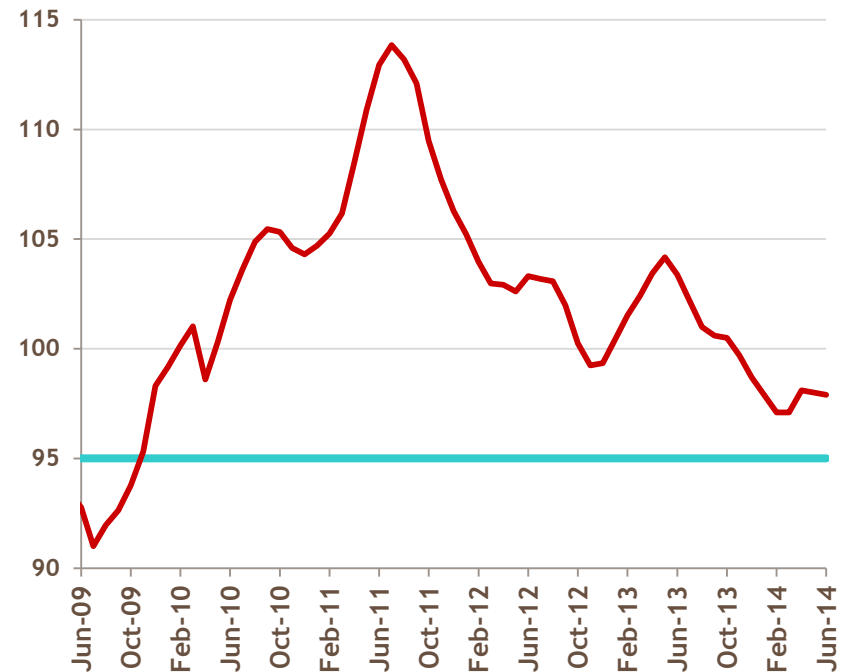
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

BDO INFLATION INDEX SHOWS BUSINESS COSTS REMAIN LOW

- The BDO Inflation Index has moved very little for the second month in a row.
- It stands at 97.9, having edged down 0.1 points since May. This represents a level of inflation in positive territory but below the long-term trend in prices.
- The closest official measure to this, the Producer Price Index, rose 0.5% in the year to May. This is also below long-term trends, but above zero.
- The latest wage data show that annual earnings growth fell from 1.7% to 0.7% in the three months to April, keeping a lid on many businesses' most significant cost. This shows that although the unemployment rate is falling towards normal levels (its latest reading was 6.6% for the three months to April), there remains slack in the labour market.
- Instability in Iraq has affected the price of oil, raising it to the highest level for almost a year, but this does not appear to have been reflected in the index. The fact that other prices are still low will have offset it.

BDO INFLATION INDEX

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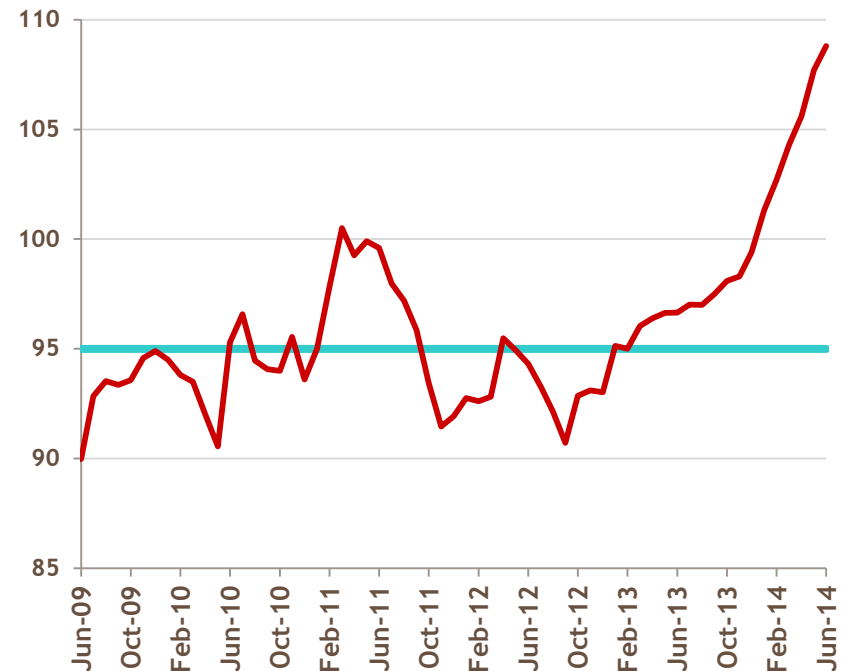
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

BDO EMPLOYMENT INDEX REACHES HIGHEST LEVEL SINCE 2007

- Though growth in the BDO Output and Optimism indices has slowed slightly in recent months, there is little slowing in the Employment Index.
- The index leapt from 107.7 to 108.8 in June, its highest reading since February 2007.
- This indicates that firms' hiring intentions for the next three months are stronger than they have been since before the recession and financial crisis.
- The index has risen during every month since August 2013.
- This matches the picture emerging from official unemployment statistics, which show a steadily declining trend in unemployment to 6.6% on the latest (three months to April) reading. The Employment Index suggests this trend can be expected to continue over the near future.

BDO EMPLOYMENT INDEX

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

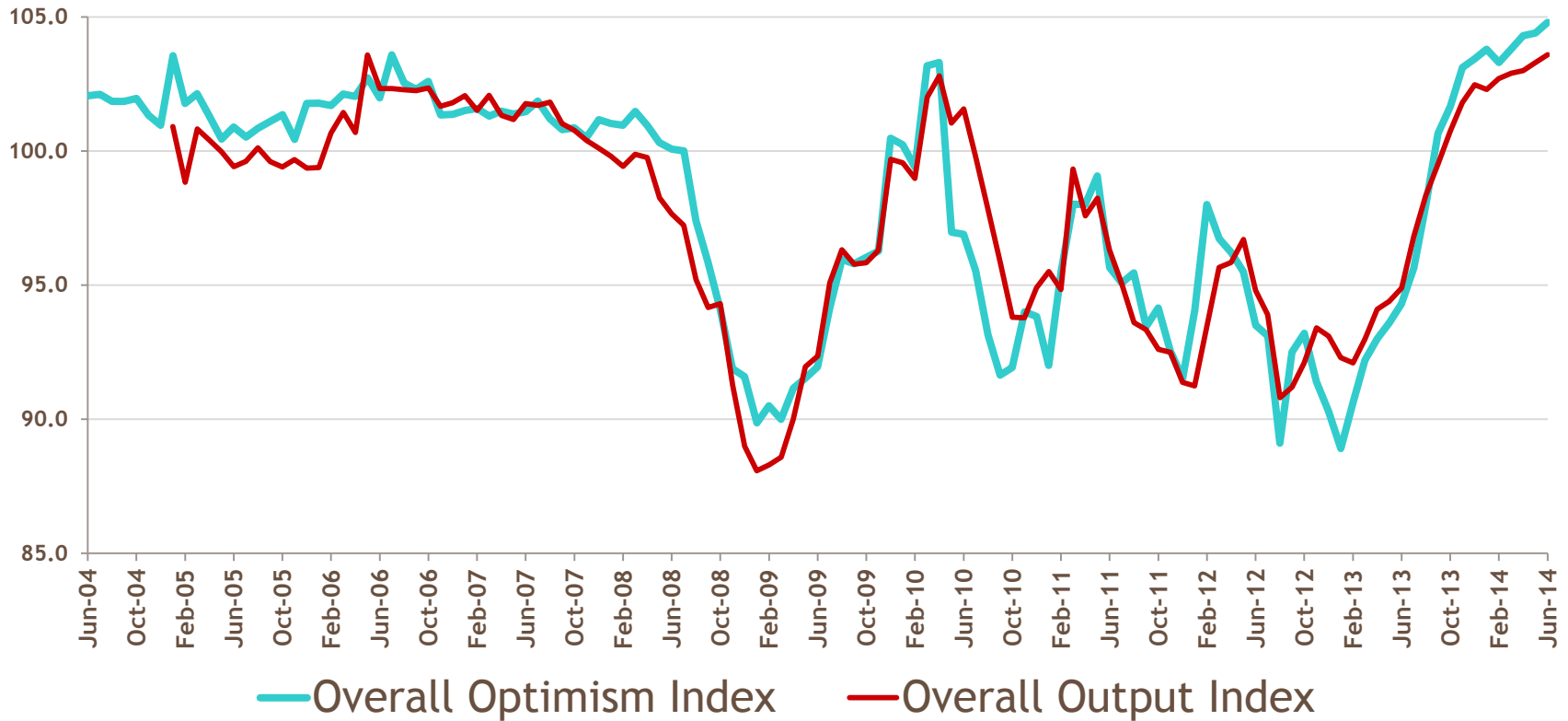
BDO INDICES TO LATEST MONTH

		June 2013	July 2013	Aug 2013	Sept 2013	Oct 2013	Nov 2013	Dec 2013	Jan 2014	Feb 2014	Mar 2014	Apr 2014	May 2014	June 2014
The BDO Optimism Index	Total	94.3	95.6	98.0	100.7	101.7	103.1	103.4	103.8	103.3	103.8	104.3	104.4	104.8
	Manuf.	89.0	91.4	99.6	107.0	109.6	115.3	115.5	117.1	118.2	119.4	120.8	121.0	119.5
	Service	95.5	96.6	97.7	99.2	99.9	100.4	100.7	101.2	100.5	100.8	101.1	101.1	101.9
The BDO Output Index	Total	94.9	96.8	98.3	99.5	100.7	101.8	102.5	102.3	102.7	102.9	103.0	103.3	103.6
	Manuf.	95.7	98.3	100.7	103.6	106.5	108.1	109.8	111.3	112.0	112.8	113.5	113.9	114.5
	Service	94.7	96.5	97.7	98.6	99.4	100.4	100.8	100.6	100.8	101.0	101.0	101.3	101.5
The BDO Inflation Index	Total	103.4	102.2	101.0	100.6	100.5	99.7	98.7	97.9	97.1	97.1	98.1	98.0	97.9
The BDO Employment Index	Total	96.7	97.0	97.0	97.5	98.1	98.3	99.4	101.3	102.7	104.3	105.6	107.7	108.8

APPENDIX 1: BDO OPTIMISM INDEX POSTS YET ANOTHER HIGH

BDO OUTPUT AND OPTIMISM INDICES

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

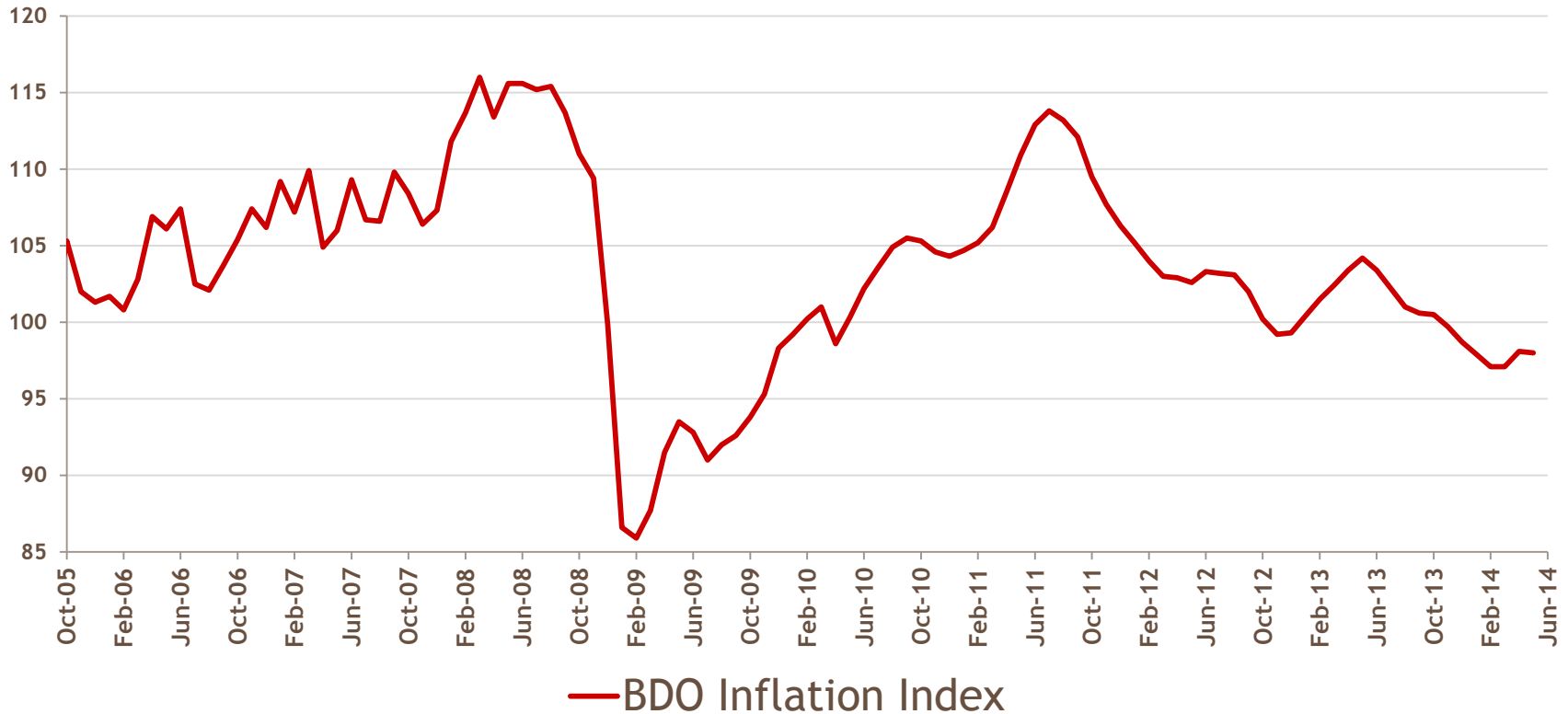


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 2: BDO INFLATION INDEX STILL SHOWING SUBDUED COST PRESSURES

BDO INFLATION INDEX

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

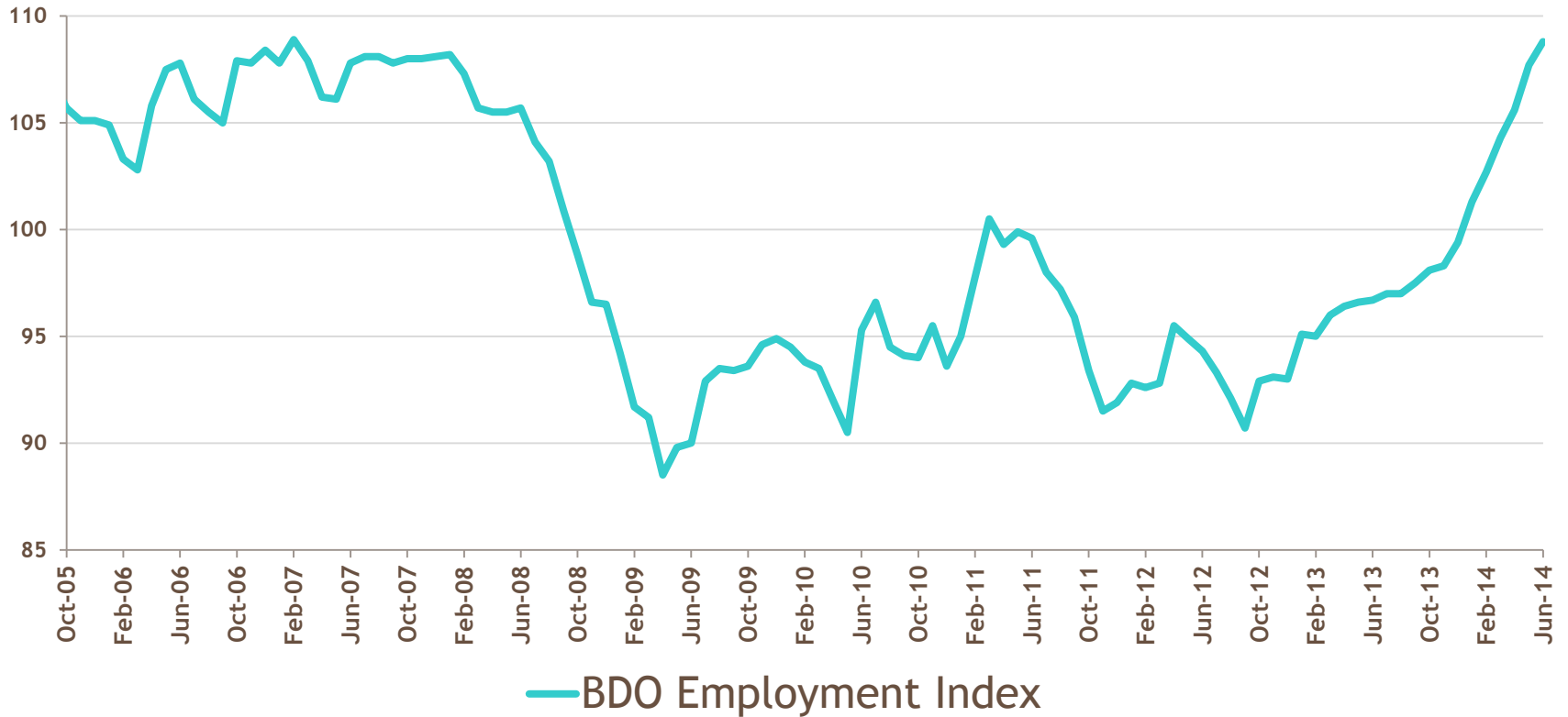


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 3: EMPLOYMENT INDEX REACHES HIGHEST LEVEL SINCE 2007

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.