



# BDO MONTHLY BUSINESS TRENDS INDICES

December 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 November, 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	✓✓✓	▲	101.8 in November from 100.7 in October
BDO Optimism Index	✓✓✓	▲	103.1 in November from 101.7 in October
BDO Inflation Index	✓	▼	99.7 in November from 100.5 in October
BDO Employment Index	✓✓	▲	98.3 in November from 98.1 in October

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

# KEY FINDINGS

Business conditions continued to improve in November, as the BDO Output Index increased to 101.8, up from 100.7 the previous month. The last time the Index was higher was in April 2010. The BDO Output sub-indices corroborate official statistics showing that the UK's economic recovery is broad-based and well-established in both the manufacturing and services sectors. The services sector sub-index rose to 100.4 in November, up from 99.4 in October. The manufacturing sub-index rose to 108.1 in November, up from 106.5 in October. Markit/CIPS data indicate that growth in the manufacturing sector is being assisted by strong demand as incoming new business increased at the fastest pace in over 19 years in November, with new orders from increasingly confident domestic clients being identified as the main growth driver, pointing to a strong start to 2014.

The Optimism Index reached 103.1 in November, up from 101.7 in October. The last time confidence was higher was in April 2010 and the Index suggests that UK economic growth will outperform its long-term historical trend over the coming six months. The services sector confidence sub-index rose to 100.4 in November, up from 99.9 in October. The sub-index now stands above the all-important 100.0 mark, indicating sectoral growth is expected to surpass its long-run average rate over the coming six months. The manufacturing confidence sub-index also rose to 115.3 in November, up from 109.6 in October and stands close to an all-time high. The Optimism Index indicates that economic growth during the first half of 2014 is likely to be at least as fast as in the second half of 2013. However, despite the buoyant short term outlook, growth over the medium term is likely to be constrained by necessary public sector spending cuts.

Inflation expectations for business costs declined modestly over November 2013. In November, the BDO Inflation Index recorded a reading of 99.7. This is just down from the October reading of 100.5. Business inflation expectations have now fallen for the sixth consecutive month and were last lower in December 2012. Holding down cost inflation for labour-intensive services firms, total wages were only 0.7% higher during July-September 2013 than one year before. This is below the rate of consumer price inflation, meaning that per employee wage costs are declining in real terms. Helping manufacturers control costs, the oil price fell by 2.3% over the year to November 2013 in sterling terms. Similarly, total manufacturing input prices decreased by 0.3%, easing manufacturing cost pressures.

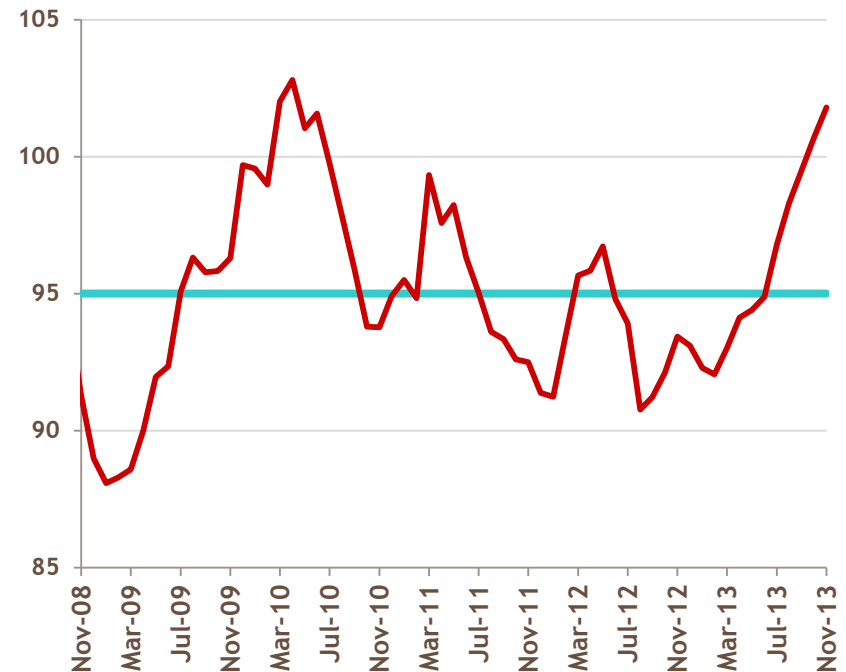
Hiring expectations increased modestly over November as the BDO Employment Index rose to 98.3, up from the 98.1 figure recorded one month earlier. The unemployment rate has been coming down as the economy recovers, standing at 7.6% over July-Sept 2013, 0.2 percentage points lower than one year before. While these trends are encouraging, employees are still struggling on the wage front: total pay rose by just 0.7% over the year to July-September 2013, meaning that wages are still falling in real terms. Although hiring intentions are climbing, scope to raise UK productivity presents downside a risk to the employment growth outlook. As noted by the Governor of the Bank of England recently, UK productivity is presently at a similar level to 2005. Consequently, employers have scope to improve worker productivity, rather than raise headcounts as the economy recovers.

# OUTPUT INDEX CONTINUES UPWARD MARCH, INDICATING STRONG START TO 2014

- Business conditions continued to improve in November, as the BDO Output Index increased to 101.8, up from 100.7 the previous month.
- The Index now stands at levels last seen in the short recovery period of mid-2010 and ties in with official statistics showing that the UK's economic recovery is taking firmer hold in both the manufacturing and services sectors.
- The manufacturing sub-index rose to 108.1 in November, up from 106.5 in October.
- Strong customer demand is supporting growth in the manufacturing sector, according to the latest Markit/CIPS data.
- The services sector sub-index rose to 100.4 in November, up from 99.4 in October.
- Overall, the BDO Output Index data indicate that the UK is undergoing sustained recovery and suggests that annual economic growth could pick up further in the first quarter of 2014.

## BDO OUTPUT INDEX

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



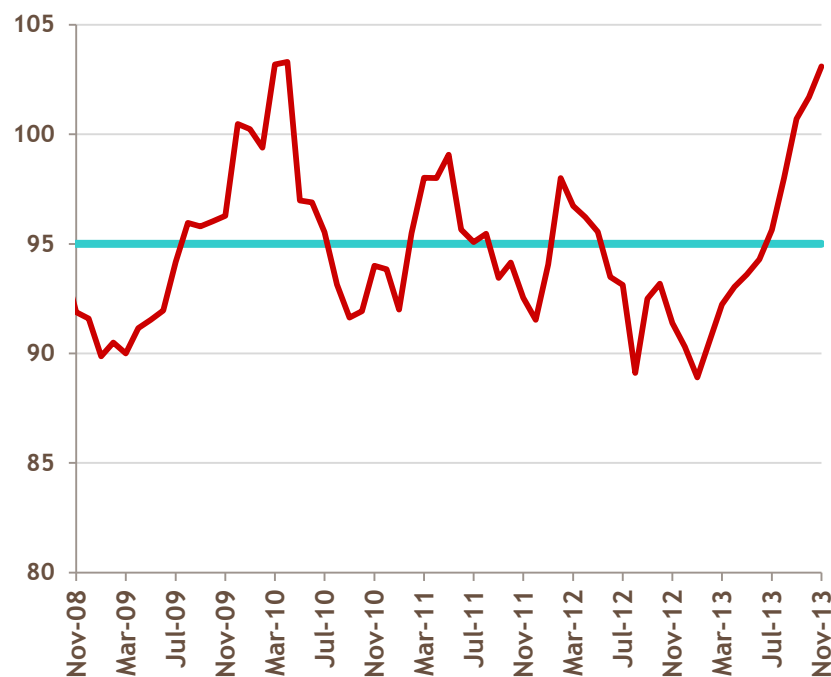
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# RISING OPTIMISM INDICATES STRONG ECONOMIC GROWTH OVER FIRST HALF OF 2014

- The Optimism Index reached 103.1 in November, up from 101.7 in October.
- UK economic growth is likely to outperform its long-term historical trend over the coming six months, as the Optimism Index stands above the 100.0 threshold.
- The services sector confidence sub-index rose to 100.4 in November, up from 99.9 in October. The services sector accounts for over three quarters of the UK economy and the sectoral sub-index now stands above the all-important 100.0 mark. This indicates that, over the coming six months, sectoral growth is expected to surpass its long-run average.
- The manufacturing confidence sub-index also stands close to an all-time high, having risen to 115.3 in November. Reported rapid growth in new business orders is likely a key driver of rising confidence.
- Overall, both sub-indices of the BDO Optimism Index are now standing above the 100.0 mark for the first time since April 2010, indicating that the UK economy is on a firm growth footing for the first half of 2014.

## BDO OPTIMISM INDEX

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



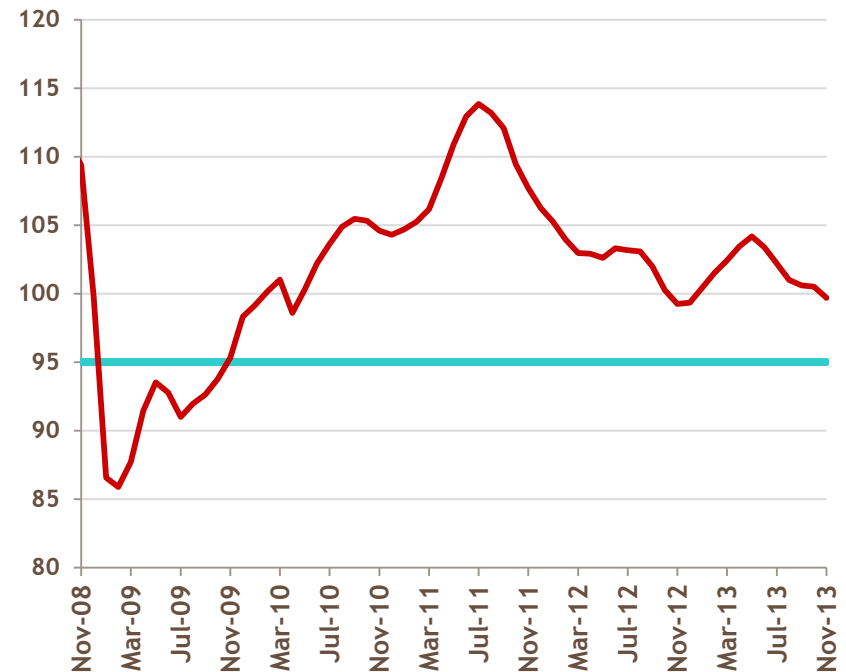
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# INFLATION EXPECTATIONS LOWEST SINCE LATE 2012

- In November, the BDO Inflation Index recorded a reading of 99.7, just down from the October reading of 100.5.
- The Index is now at its lowest level since December 2012 and the reading - below the crucial 100.0 mark - means that business cost inflation is expected to be below its long-term trend over the next quarter.
- Total wages were only 0.7% higher during July-September 2013 than one year before, helping to hold down cost inflation for labour-intensive services firms. Wage growth is well below the annual rate of consumer price inflation; consequently, per employee wage costs are declining in real terms.
- The overall price of materials and fuels used for processing by UK manufacturers decreased by 0.3% over the year to October 2013, helping to control costs throughout the sector.
- Specifically, manufacturers are exposed to oil price fluctuations. The oil price fell by 2.3% over the year to November 2013 in sterling terms - again helping manufacturers to control costs.

## BDO INFLATION INDEX

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



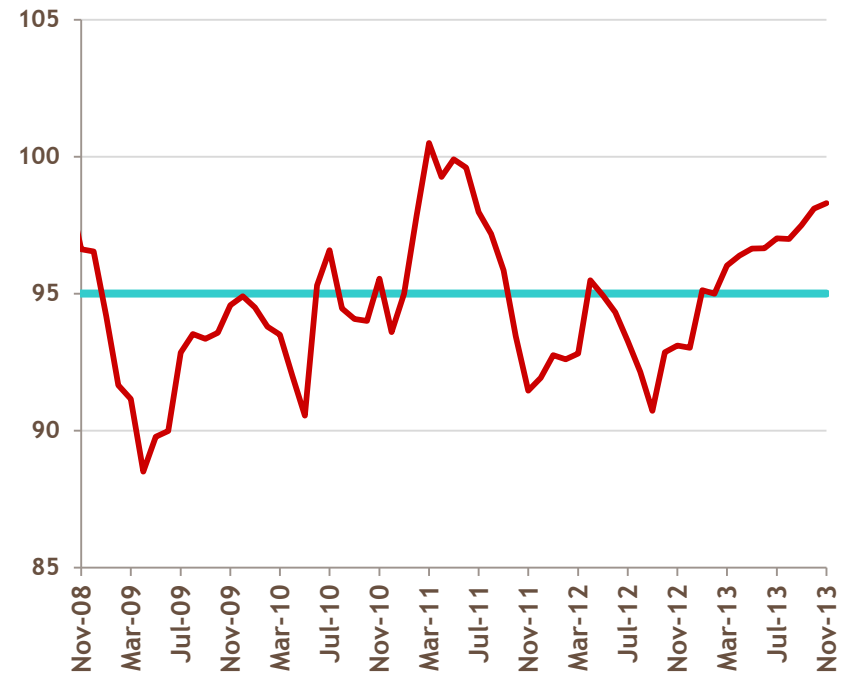
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# PRIVATE SECTOR HIRING INTENTIONS CONTINUE TO RISE SLOWLY

- In November, the BDO Employment Index rose to 98.3, up from the 93.1 figure recorded one year earlier. Hiring intentions are on a modest upward trend as the economy continues to recover.
- The economy-wide unemployment rate has been falling as the economy has recovers, standing at 7.6% over July-Sept 2013. This was 0.2 percentage points lower than over the same period in 2012.
- Although hiring intentions are rising slowly, there are downside risks to near term job creation in the UK private sector.
- The productivity of UK employees is presently 4.5% lower than it was during the pre-crisis peak. This implies that businesses have the option of improving worker productivity as the economy grows, rather than increasing total payrolls.
- Businesses have spare capacity and scope to raise productivity. As the economy recovers, they could choose to raise productivity and therefore operate closer to full capacity, instead of increasing payrolls. This could weigh on private sector hiring growth.

## 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

		Nov 2012	Dec 2012	Jan 2013	Feb 2013	Mar 2013	Apr 2013	May 2013	June 2013	July 2013	Aug 2013	Sept 2013	Oct 2013	Nov 2013
The BDO Optimism Index	<b>Total</b>	91.4	90.3	88.9	90.6	92.2	93.0	93.6	94.3	95.6	98.0	100.7	101.7	103.1
	Manuf.	85.9	91.9	95.2	94.5	88.2	88.3	88.5	89.0	91.4	99.6	107.0	109.6	115.3
	Service	92.8	89.9	87.3	89.6	93.2	94.1	94.8	95.5	96.6	97.7	99.2	99.9	100.4
The BDO Output Index	<b>Total</b>	93.4	93.1	92.3	92.1	93.0	94.1	94.4	94.9	96.8	98.3	99.5	100.7	101.8
	Manuf.	88.8	90.6	92.3	94.1	92.4	90.8	93.7	95.7	98.3	100.7	103.6	106.5	108.1
	Service	94.6	93.8	92.3	91.5	93.2	94.9	94.4	94.7	96.5	97.7	98.6	99.4	100.4
The BDO Inflation Index	<b>Total</b>	99.2	99.3	100.4	101.5	102.4	103.4	104.2	103.4	102.2	101.0	100.6	100.5	99.7
The BDO Employment Index	<b>Total</b>	93.1	93.0	95.1	95.0	96.0	96.4	96.6	96.7	97.0	97.0	97.5	98.1	98.3



# FOR FURTHER DETAILS

## PETER HEMINGTON

BDO LLP,  
55 Baker Street, London W1M 1DA  
telephone: 020 7486 5888  
fax: 020 7487 3686  
email: [peter.hemington@bdo.co.uk](mailto:peter.hemington@bdo.co.uk)

## SCOTT CORFE, CHARLES DAVIS, ROB HARBRON OR DANIEL SOLOMON

Centre for Economics and Business Research,  
Unit 1, 4 Bath Street,  
London EC1V 9DX

telephone: 020 7324 2850

email:

[scorfe@cebr.com](mailto:scorfe@cebr.com) / [cdavis@cebr.com](mailto:cdavis@cebr.com) / [rharbron@cebr.com](mailto:rharbron@cebr.com) /  
[dsolomon@cebr.com](mailto:dsolomon@cebr.com)

web: [www.cebr.com](http://www.cebr.com)

# 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.