



BDO MONTHLY BUSINESS TRENDS INDICES

February 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 for January 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	✓✓	▽	102.3 in January from 102.5 in December
BDO Optimism Index	✓✓✓	▲	103.8 in January from 103.4 in December
BDO Inflation Index	×××	▽	97.9 in January from 98.7 in December
BDO Employment Index	✓✓✓	▲	101.3 in January from 99.4 in December

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

Business conditions continued to hold broadly steady in January as the BDO Output Index dipped slightly to 102.3, marginally down from 102.5 the previous month. The index is essentially unchanged and remains at an elevated level, boding well for near term UK economic growth. The manufacturing sub-index rose to 111.3 in January, up from 109.8 in December to stand at its highest level since March 2011. However, the sub-index for the all-important services sector, which covers over three quarters of the UK economy, dipped to 100.6 from 100.8 in December 2013, ending a string of seven consecutive monthly rises. Despite this small dip, the Output Index is still high in absolute terms and suggests that the UK economy will grow faster than its long-term trend rate over the first quarter of 2014.

The Optimism Index reached 103.8 in January, modestly up from 103.4 in December. The index now stands at the highest level since records began in 1992. The index is at a high level and is moving upward slowly, suggesting that the UK economy will continue to grow rapidly over the coming six months. Digging down below the headline numbers, the services sector optimism sub-index rose to 101.2 in January, up from 100.7 in December. The manufacturing optimism sub-index also rose to 117.1 in January, up from 115.5 in December - reaching a new all-time high. The Optimism Index suggests that UK economic growth will outperform its long-term historical trend over the coming six months, indicating that the UK is due for a period of robust economic growth over the first half of 2014.

Inflation expectations for business costs declined over January 2014 with the BDO Inflation Index recorded a reading of 97.9, down from a reading of 98.7 in December. Business inflation expectations have now fallen for the eighth consecutive month and are at their lowest level since November 2009. Helping manufacturers control costs, the Brent Crude oil price fell over the year to January 2014 in sterling terms. Similarly, total manufacturing input prices decreased by 1.2% over the year to December, easing manufacturing cost pressures. Holding down cost inflation for services firms, which are relatively labour intensive, total wages were only 0.9% higher during September-November 2013 than one year before. This is below the annual rate of consumer price inflation, which stood at 2.0% in December 2013, meaning that real wages are falling.

Hiring expectations increased markedly over January as the BDO Employment Index rose to 101.3, up from 99.4 the previous month. The Employment index now stands above the crucial 100.0 mark, indicating that UK job creation will outperform its historic long-run trend over the near term. January was the first time the Employment index had breached the 100.0 mark since March 2011 and the index now stands at its highest level since August 2008. The index readings tie in with official statistics; the UK unemployment rate has been coming down as the economy recovers, standing at 7.1% over September-November 2013, 0.6 percentage points lower than one year before. Taken together, the index and the official statistics indicate that companies are raising headcounts in response to rising client demand. The unemployment rate is likely to fall below the Bank of England's 7.0% threshold for considering raising interest rates in the very near future.

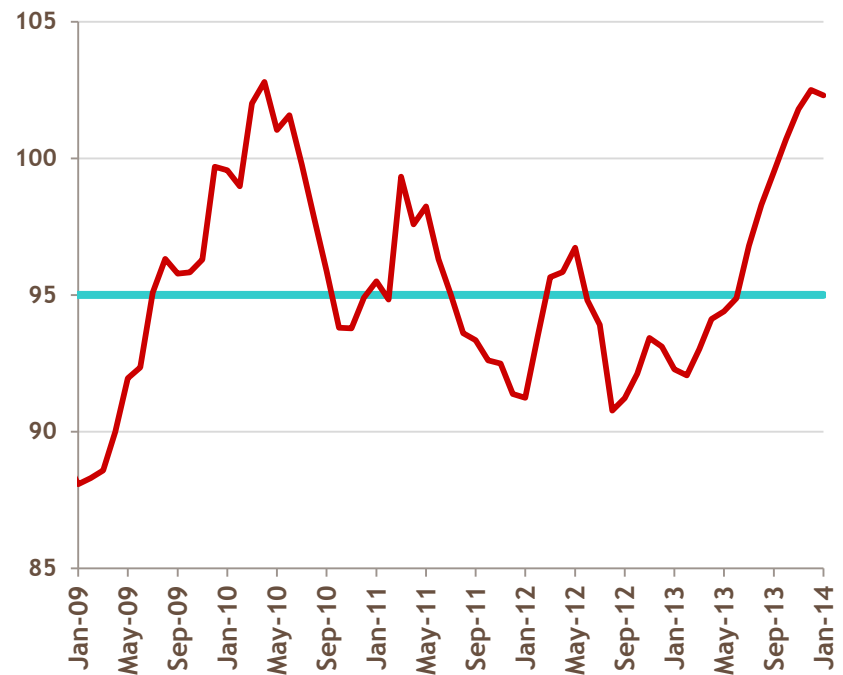


OUTPUT INDEX DIPS AS 2014 STARTS

- In January, the BDO Output Index dipped slightly to 102.3, marginally down from 102.5 in December. This means that business conditions held broadly steady as 2014 began.
- The services sector covers about three quarters of the UK economy and the sectoral Output sub-index dipped to 100.6 from 100.8 in December 2013. This fall pulled down the overall BDO Output Index.
- By contrast, the manufacturing sub-index rose to 111.3 in January. This was an improvement on December's reading of 109.8.
- The manufacturing sub-index now stands at its highest level since March 2011.
- The dip in the headline BDO Output Index ended a string of 10 consecutive month-on-month increases. Nevertheless, the index is still high in absolute terms.
- The Output Index still stands above the 100.0 mark, suggesting that the UK economy will grow faster than its long-term trend rate over the first quarter of 2014.

BDO OUTPUT INDEX

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



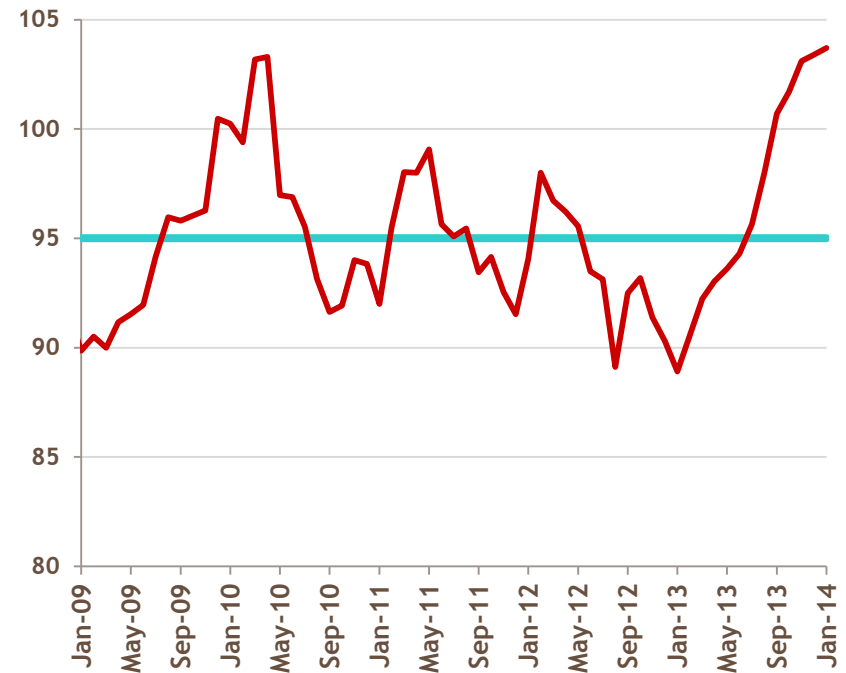
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

OPTIMISM INDEX REACHES RECORD HIGH

- The Optimism Index reached a new record high of 103.8 in January.
- This just surpassed the index's previous high of 103.6, achieved in the mid-2000s. It was also a marginal increase on the December reading of 103.4.
- The index's two components both rose between December and January.
- The manufacturing Optimism sub-index reached a new record high of 117.1 in January. This was an increase on the December reading of 115.5.
- Similarly, the services sector Optimism sub-index, which represents over three quarters of the UK economy, rose to 101.2 in January. This was an increase on the December reading of 100.7.
- Overall, the Optimism Index suggests the UK economy is likely to grow faster than its long-run trend rate over the coming six months.
- This indicates that the UK is due a period of robust economic growth over the first half of 2014, building on total economic growth of 1.9% seen over 2013.

BDO OPTIMISM INDEX

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



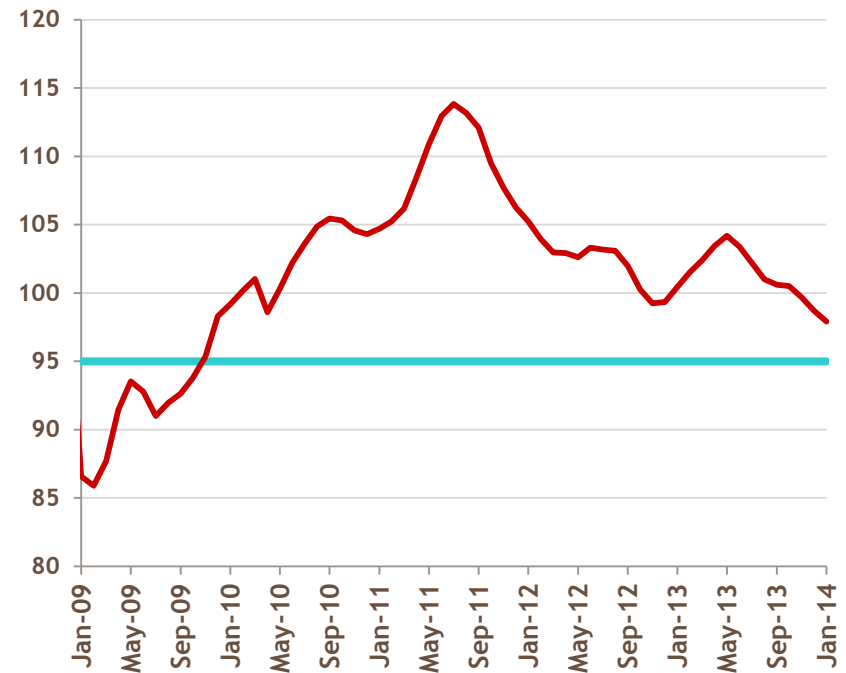
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION EXPECTATIONS LOWEST SINCE LATE 2009

- The BDO Inflation Index recorded a reading of 97.9 in January. This was down from a reading of 98.7 recorded in December, implying inflation expectations for business costs declined over January 2014.
- Business inflation expectations are now at their lowest level since November 2009 and have fallen for eight consecutive months.
- Falling real wages have helped services firms - which are particularly reliant on labour to produce output - to control costs.
- In nominal terms, total wages were only 0.9% higher during September-November 2013 than over the same period of 2012. Because annual consumer price inflation stood at a rate of 2.0% over this time period, this means that wages are falling in real terms.
- Costs have also been declining for manufacturers as total manufacturing input prices decreased by 1.2% over the year to December and the Brent Crude price fell in sterling terms over the year to January 2014.

BDO INFLATION INDEX

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



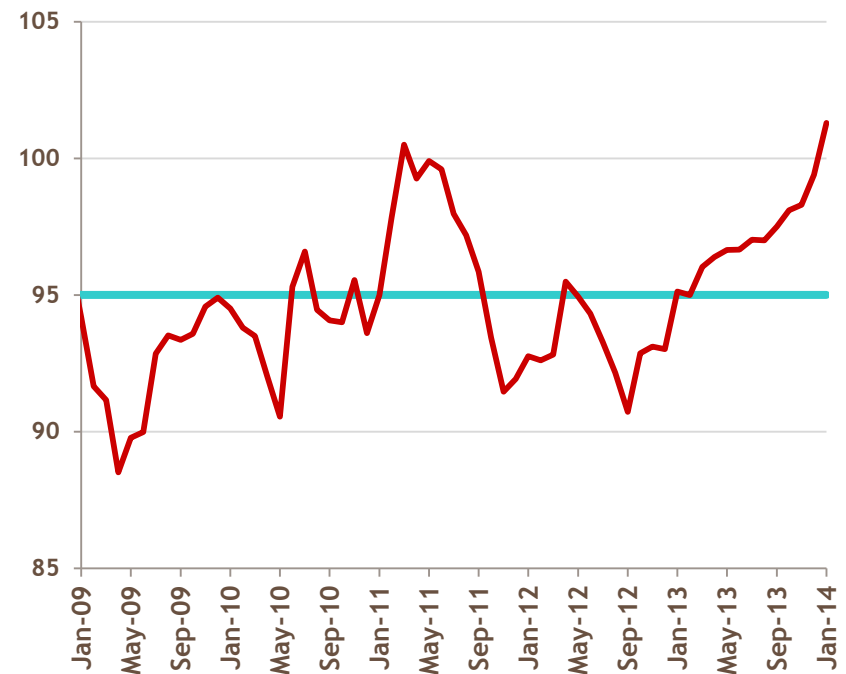
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

JOB CREATION SET TO EXCEED TREND GROWTH

- Job creation seems set to exceed its long-run trend growth rate over the coming three months as the hiring expectations increased markedly over January. The BDO Employment Index, standing at 99.4 in December, rose to 101.3 in January.
- This means that the BDO Employment index now stands above the crucial 100.0 mark. This indicates that, over the near term, UK job creation is likely to outperform its historic long-run trend. The index now stands at its highest level since August 2008 and January was the first time it had breached the 100.0 mark since March 2011.
- The upward trend in the BDO Employment Index, seen since late 2012, fits with official statistics showing an improving labour market. The UK unemployment rate stood at 7.1% over September-November 2013; this was 0.6 percentage points lower than over the same period of 2012.
- The index suggest companies are raising headcounts as client demand and the economy recover. Consequently, the unemployment rate is likely to fall below the Bank of England's 7.0% threshold for considering raising interest rates in the very near future.

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

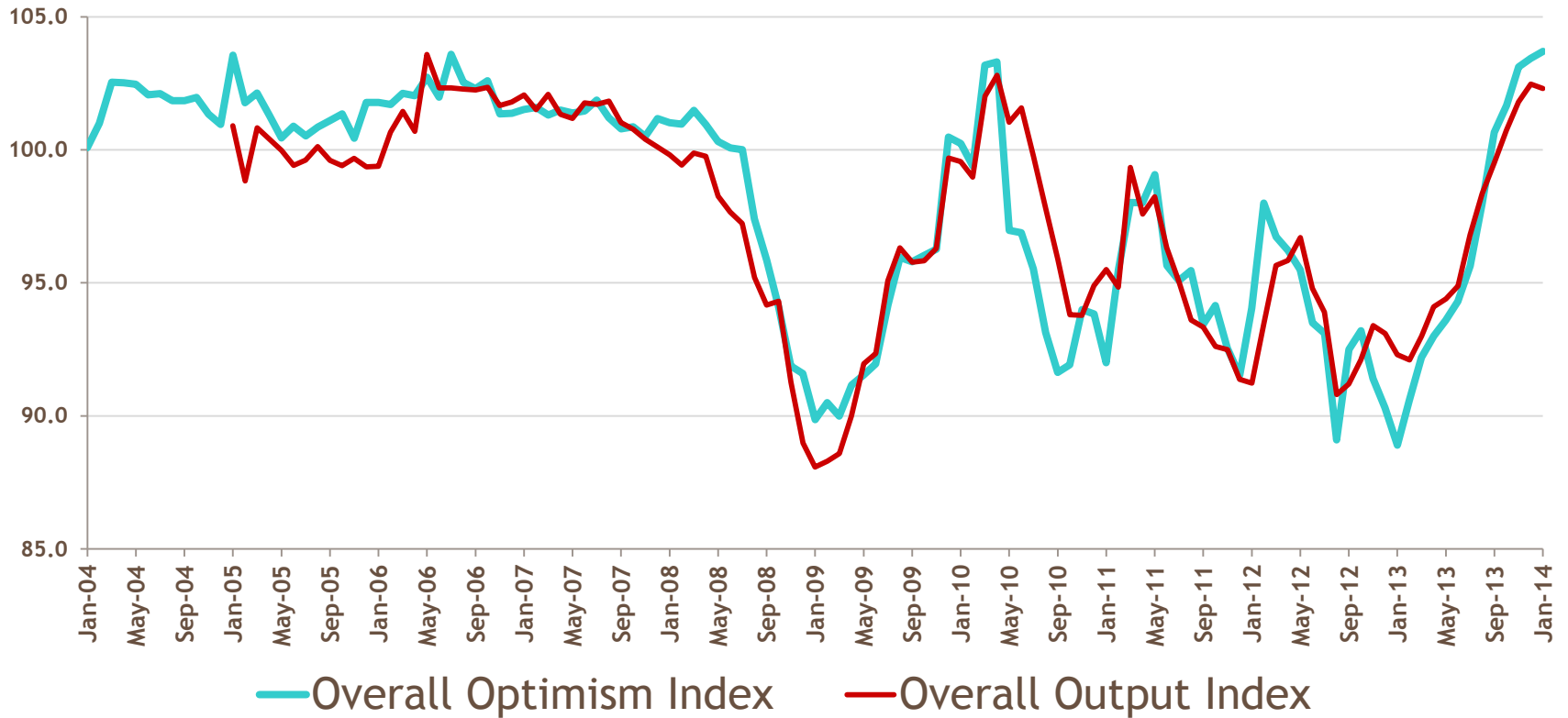
BDO INDICES TO LATEST MONTH

		Jan 2013	Feb 2013	Mar 2013	Apr 2013	May 2013	June 2013	July 2013	Aug 2013	Sept 2013	Oct 2013	Nov 2013	Dec 2013	Jan 2014
The BDO Optimism Index	Total	88.9	90.6	92.2	93.0	93.6	94.3	95.6	98.0	100.7	101.7	103.1	103.4	103.8
	Manuf.	95.2	94.5	88.2	88.3	88.5	89.0	91.4	99.6	107.0	109.6	115.3	115.5	117.1
	Service	87.3	89.6	93.2	94.1	94.8	95.5	96.6	97.7	99.2	99.9	100.4	100.7	101.2
The BDO Output Index	Total	92.3	92.1	93.0	94.1	94.4	94.9	96.8	98.3	99.5	100.7	101.8	102.5	102.3
	Manuf.	92.3	94.1	92.4	90.8	93.7	95.7	98.3	100.7	103.6	106.5	108.1	109.8	111.3
	Service	92.3	91.5	93.2	94.9	94.4	94.7	96.5	97.7	98.6	99.4	100.4	100.8	100.6
The BDO Inflation Index	Total	100.4	101.5	102.4	103.4	104.2	103.4	102.2	101.0	100.6	100.5	99.7	98.7	97.9
The BDO Employment Index	Total	95.1	95.0	96.0	96.4	96.6	96.7	97.0	97.0	97.5	98.1	98.3	99.4	101.3

APPENDIX: BDO OPTIMISM INDEX REACHES RECORD 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

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

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 / cdavis@cebr.com / rharbron@cebr.com /
dsolomon@cebr.com

web: www.cebr.com



Cebr Making Business Sense



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.