



BDO MONTHLY BUSINESS TRENDS INDICES

May 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 May 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	✓✓✓	▲	104.2 in April from 103.7 in March
BDO Optimism Index	✓	▼	104.7 in April from 104.9 in March
BDO Inflation Index	xxx	—	93.8 in April from 93.8 in March
BDO Employment Index	✓	▼	112.0 in April from 113.0 in March

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

The BDO Output Index has moved up modestly from 103.7 in March to 104.3 in April. After pointing to a moderation in Q1 2015, recently corroborated by the latest GDP data from the ONS, the index points to a bounceback in the second quarter and the rest of 2015. Thus, growth is expected to continue above the trend rate and at a pace closer to that reached in the second half of 2014 than the pace recorded in early 2015.

The BDO Inflation Index stood still for the first time in a year at 93.8, pointing to downward movements in cost. But for the first time since April 2014, the index itself has not fallen. Input cost pressures on firms remain very weak. Wage growth, according to forward-looking data, is expected to slow down even from the low levels recorded in late 2014. According to official statistics other input costs are still far into negative territory, which are likely to offset the very mild wage growth.

Firms' optimism levels are holding broadly steady. The BDO Optimism Index dipped slightly from 104.9 in March to 104.7 in April. There are two significant sources of uncertainty for British firms in the months ahead - an unpredictable election and the possibility of a Greek exit from the single currency - and both of them are likely to have contributed. However, for most firms, output does not rely on exports substantially, and most are unlikely to be greatly affected by the election ahead. This is likely why the index is holding firm despite these potential difficulties.

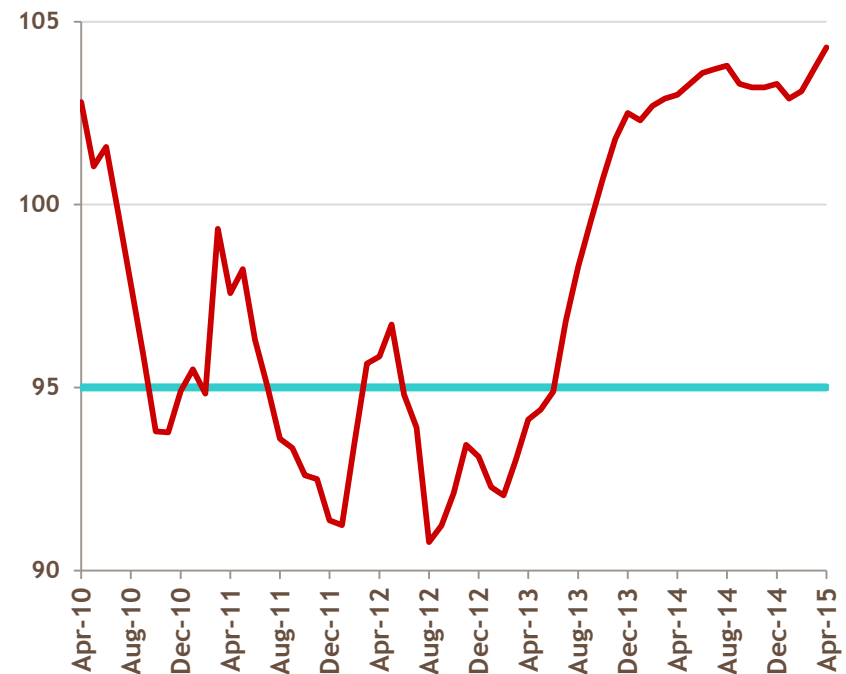
The BDO Employment Index has fallen by one point from 113.0 in March to 112.0 in April. This suggests the pace of hiring, which has been at record levels over the past two years, is to slow. However, the smaller pool of unemployed workers and the sustained rapid pace of hiring is not expected to translate into significant wage gains over 2015, according to surveys of firms. Slow productivity growth, still growing very slowly and yet to return to pre-crisis levels, is the main factor here.

OUTPUT INDEX SUGGESTS BOUNCEBACK AFTER WEAK Q1 GROWTH

- The BDO Output Index recorded a level of 104.3 during April 2015 compared to 103.7 during March. This points to further growth at above the trend level, at a marginally faster rate.
- Both services and manufacturing saw increases in their level, meaning that output growth in the near term in both sectors is expected to expand above long-term average rates.
- The index is showing a modest rebound since moderating during winter 2014 and early 2015. This slight slowing of growth was visible in Q1 2015 GDP figures, which fell from the 2014 rates of close to 3% to 2.4% year-on-year.
- Firms therefore expect output growth over the short term to quicken and return towards 2014 levels during the second quarter and the rest of 2015.

BDO OUTPUT INDEX

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



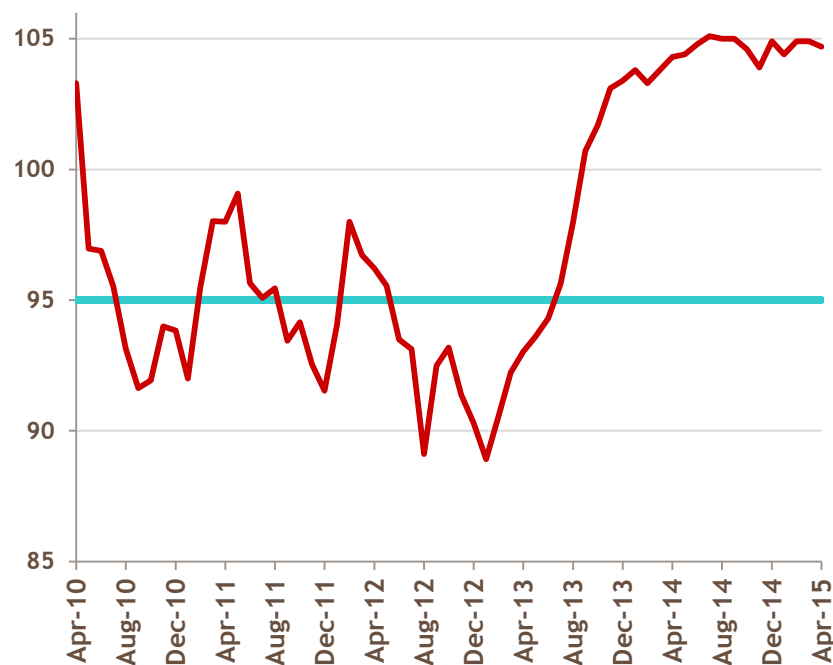
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

GROWTH ACROSS 2015 AS A WHOLE EXPECTED TO BE STABLE DESPITE UNCERTAINTY

- The BDO Optimism Index has dipped slightly, moving from 104.9 in March down to 104.7 in April.
- The outlook remains essentially on hold for the rest of the year, with firms expecting current levels of growth to continue in the near-to-medium term. Therefore the slow reading for Q1 is considered to be a blip.
- Two important uncertainties hang over the outlook for UK firms: the unpredictable general election, and potentially disruptive developments in the Eurozone particularly regarding Greece's risk of default or exit from the single currency.
- Both of these possibilities would have an adverse impact, though only for some firms. Cebr expects the election will have only a modest impact on UK prospects, concentrated on particular sectors which expect new government intervention. Only the minority of UK firms that export significant volumes to the Eurozone will experience difficulties from developments there (unless a particularly disruptive exit occurs).

BDO OPTIMISM INDEX

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



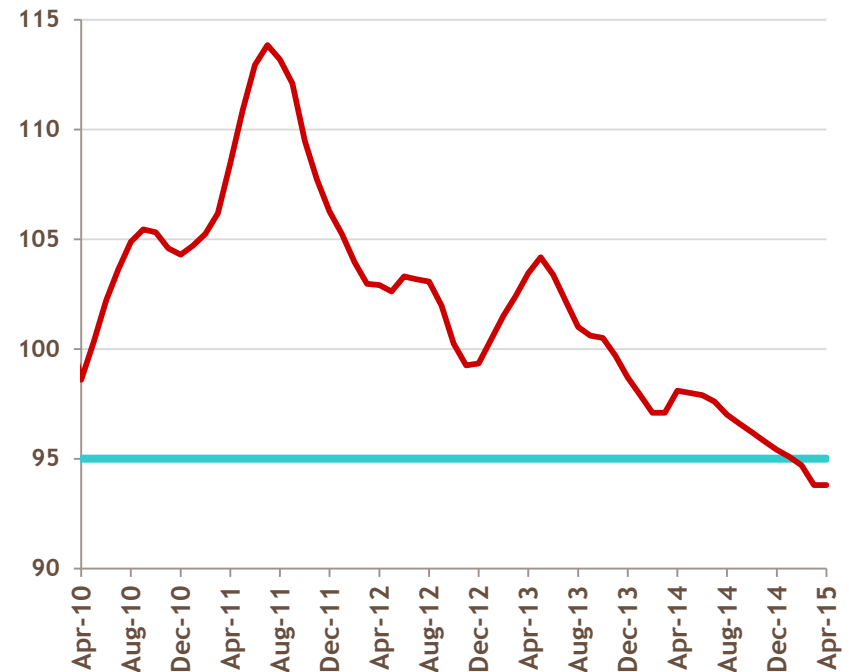
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

FIRMS EXPECT FURTHER FALLS IN INPUT COSTS

- The BDO Inflation Index stood still in April, remaining at a level of 93.8.
- The level below 95 indicates that firms are still experiencing very weak cost pressures and, on balance, expect further falls in input prices over the coming three months.
- However, it has stopped sliding further into negative territory, and for the first time in a year has not moved downwards.
- Wage growth, the dominant factor here, still appears very weak. Though late 2014 saw a pick-up, this appears to have moderated according to the latest current and forward-looking data. The trend of very low consumer price inflation means that firms can award low pay rises without too much resistance - indeed, in some companies pay is inflation-linked and so this will happen automatically.
- Growth in output per worker, still weak, will prevent there being a significant pick-up in wages over the medium term.

BDO INFLATION INDEX

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



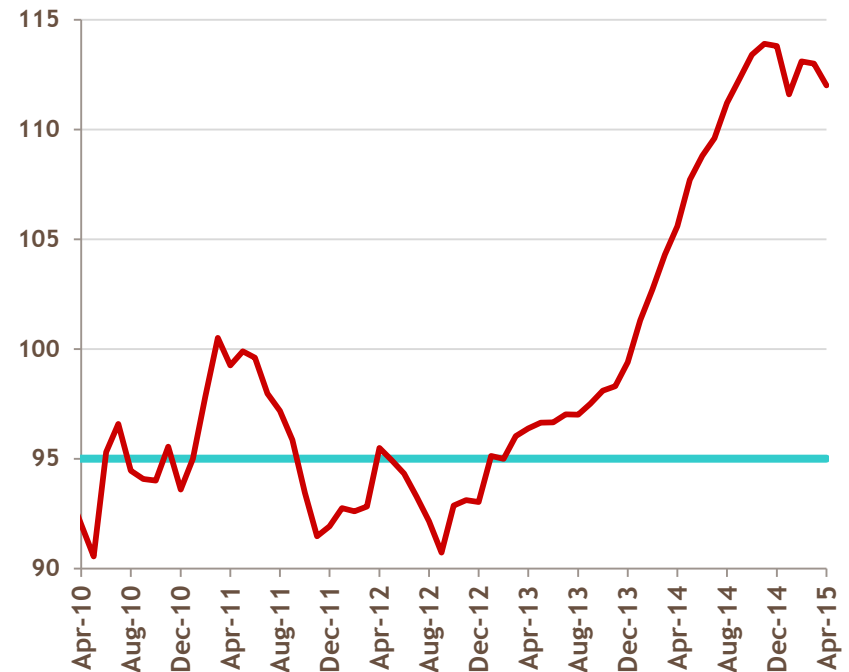
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT TO KEEP RISING, THOUGH AT SLIGHTLY SLOWER PACE

- The BDO Employment Index climbed down slightly in April, dropping from 113.0 to 112.0. This predicts a gradual slowing of the rapid pace of hiring that has prevailed so far during the recovery.
- The index maintains a high level. Firms' robust outlook for output growth, as shown by the Output and Optimism Indices, support continued strong hiring intentions.
- Though stronger wage growth would ordinarily be expected given the low level of unemployment and sustained hiring, forward-looking indicators do not point to that outcome, suggesting low inflation and slow productivity growth will hold it back. Stronger investment spending by firms will be required to turn around this trend.

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

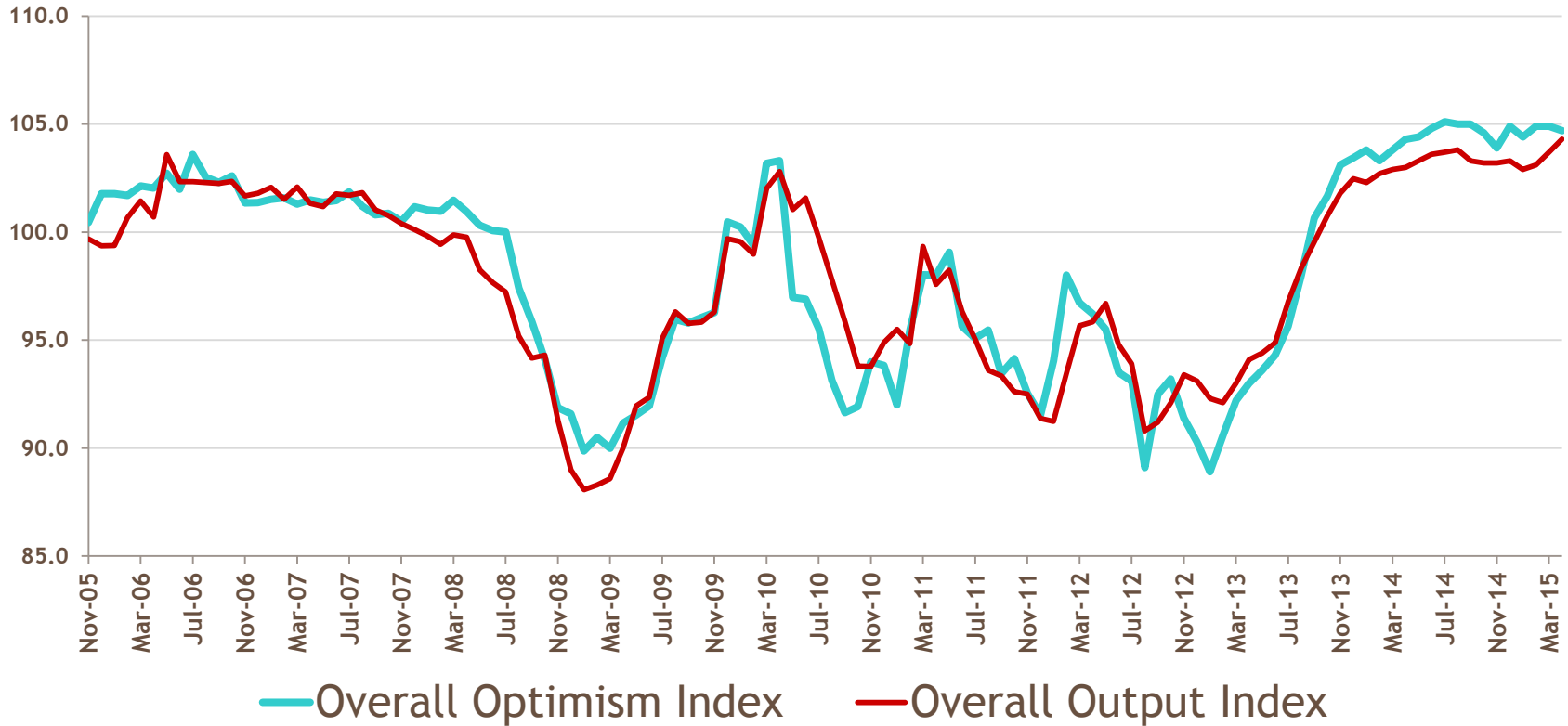
BDO INDICES TO LATEST MONTH

		Apr 2014	May 2014	Jun 2014	Jul 2014	Aug 2014	Sep 2014	Oct 2014	Nov 2014	Dec 2014	Jan 2015	Feb 2015	Mar 2015	Apr 2015
The BDO Optimism Index	Total	104.3	104.4	104.8	105.1	105.0	105.0	104.6	103.9	104.9	104.4	104.9	104.9	104.7
	Manuf.	120.8	121.0	119.5	119.9	118.8	117.4	116.1	114.1	113.9	113.0	111.6	109.8	107.4
	Service	101.1	101.1	101.9	102.2	102.3	102.6	102.3	101.9	103.1	102.7	103.6	103.9	104.1
The BDO Output Index	Total	103.0	103.3	103.6	103.7	103.8	103.3	103.2	103.2	103.3	102.9	103.1	103.7	104.3
	Manuf.	113.5	113.9	114.5	114.4	113.2	111.6	110.1	109.1	108.0	107.3	107.1	107.7	108.8
	Service	101.0	101.3	101.5	101.6	102.0	101.7	101.8	102.1	102.4	102.1	102.3	102.9	103.5
The BDO Inflation Index	Total	98.1	98.0	97.9	97.6	97.0	96.6	96.2	95.8	95.4	95.1	94.7	93.8	93.8
The BDO Employment Index	Total	105.6	107.7	108.8	109.6	111.2	112.3	113.4	113.9	113.8	111.6	113.1	113.0	112.0

APPENDIX 1: STRONG CONSUMER DEMAND KEEPS FIRMS BULLISH ON FUTURE

BDO OUTPUT AND OPTIMISM INDICES

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

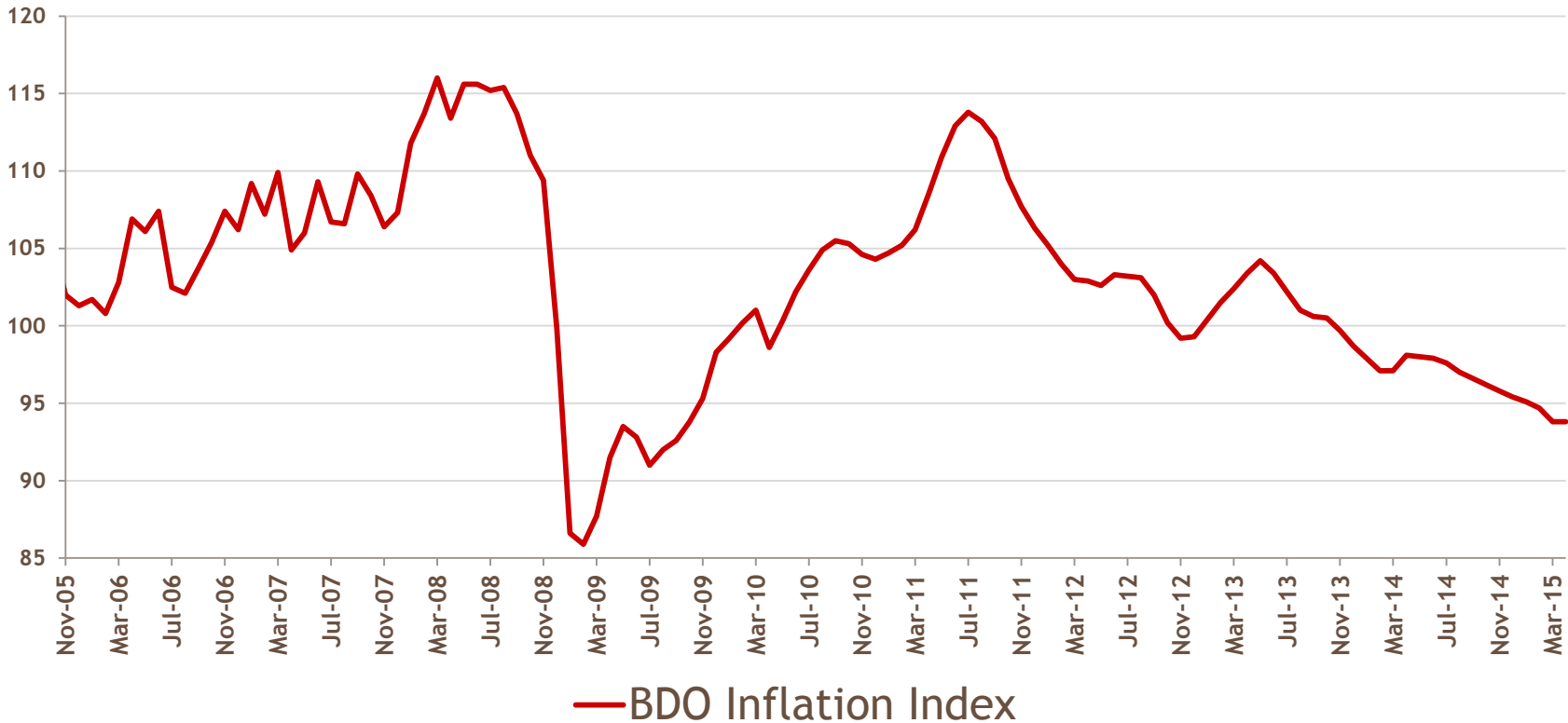


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 2: BUSINESS COST DEFLATION TO HIT FIRMS

BDO INFLATION INDEX

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

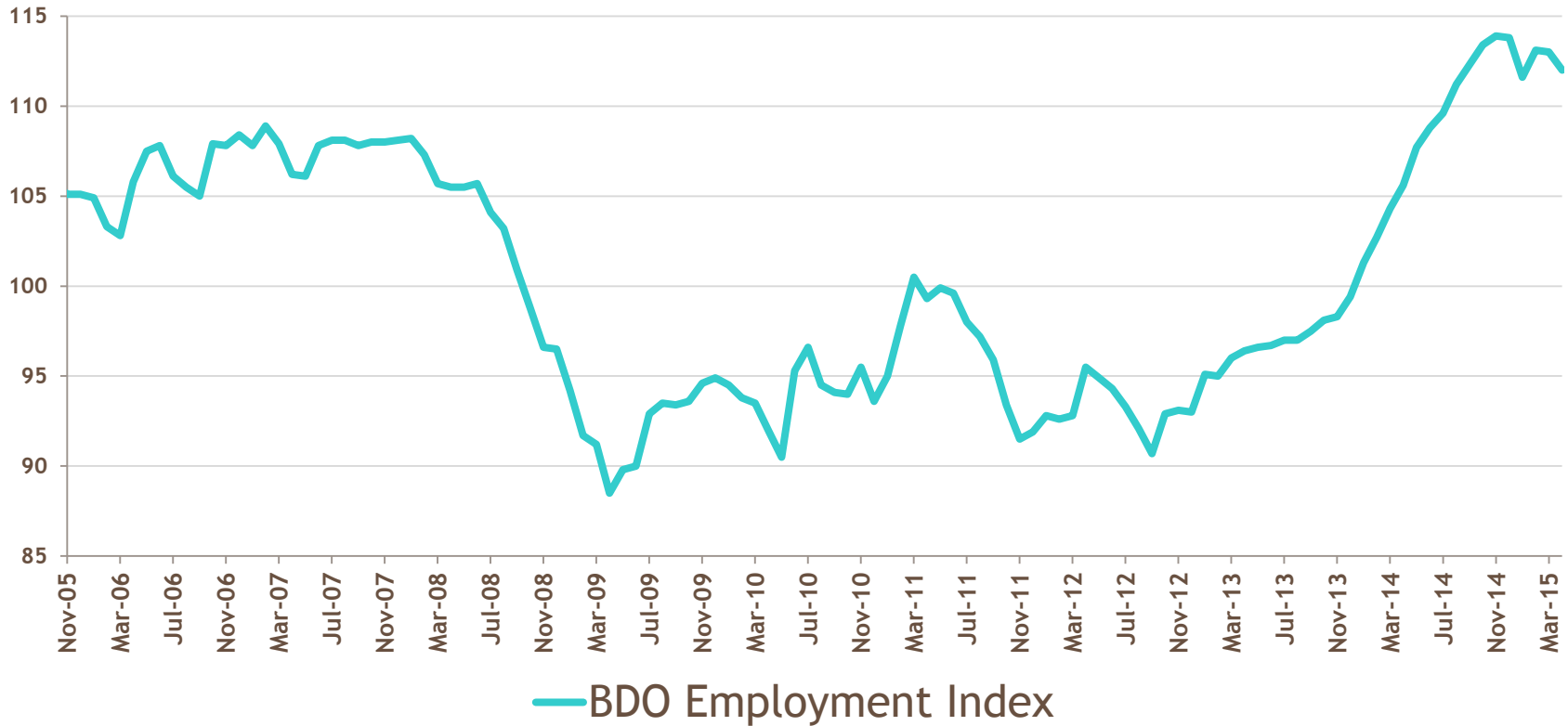


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

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

PETER HEMINGTON

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

ALASDAIR CAVALLA OR ROB HARBRON

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

telephone: 020 7324 2850

email:

acavalla@cebr.com / rharbron@cebr.com

web: 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.