



BDO MONTHLY BUSINESS TRENDS INDICES

March 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 February 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	✓✓✓	▲	102.7 in February from 102.3 in January
BDO Optimism Index	✓	▼	103.3 in February from 103.8 in January
BDO Inflation Index	×××	▼	97.1 in February from 97.9 in January
BDO Employment Index	✓✓✓	▲	102.7 in February from 101.3 in January

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

The BDO Output Index for January was up on last month's reading, rising from 102.3 to 102.7. This indicates that business conditions at present are improving at a rate faster than the economy's long-term trend. The economy is recovering ground towards its pre-recession peak. Manufacturing rose to 112.0, its highest level since 2011, while the much larger service sector recovered ground from a small dip last month, edging back up to 100.8.

The BDO Optimism Index saw a modest rise to 103.3. This represents an expectation that in six months growth will be above trend, meaning we can expect robust expansion during the second half of 2014. The manufacturing sub-index rose from 117.1, its highest reading since its beginning, to 118.2, a new high. Meanwhile services fell by 0.7 percentage points.

The BDO Inflation Index, which measures expectations for business costs, declined slightly, falling from 97.9 to 97.1 over February. This represents positive inflation at less than its average long-term trend. However, energy costs are now at risk of increasing given as Russia's mobilisation in Crimea threatens energy supplies to Europe.

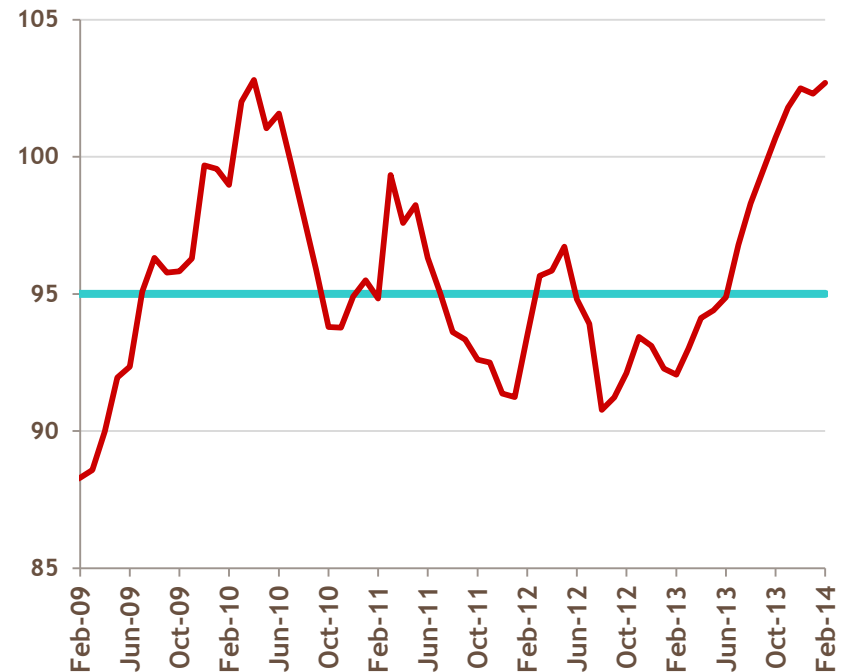
The BDO Employment Index, which reflects expectations for the labour market over the coming three months, showed a strong rise to 102.7 from 101.3. The indicator is approaching levels last seen during summer 2008. This tallies with the overall trend in unemployment which has been falling for several months and suggests further employment growth in 2014.

OUTPUT INDEX SUGGESTS STRONG GROWTH ACROSS FIRST HALF OF 2014

- In February, the BDO Output Index remains broadly unchanged, rising by about half a percentage point from last month's reading. This is its highest reading since April 2010.
- It is substantially up on the reading of 93.0 from this time last year.
- The services sub-index is broadly unchanged and well up on its position of a year ago.
- The manufacturing sub-index now stands at 112.0. This is its highest level since March 2011.
- The Output Index indicates that the prospects for the UK economy are improving. Recent GDP figures showed broadly based growth across all subsectors.
- The index stands comfortably above the 100 level that indicates a rate of expansion over the next three months above the long-term trend.

BDO OUTPUT INDEX

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



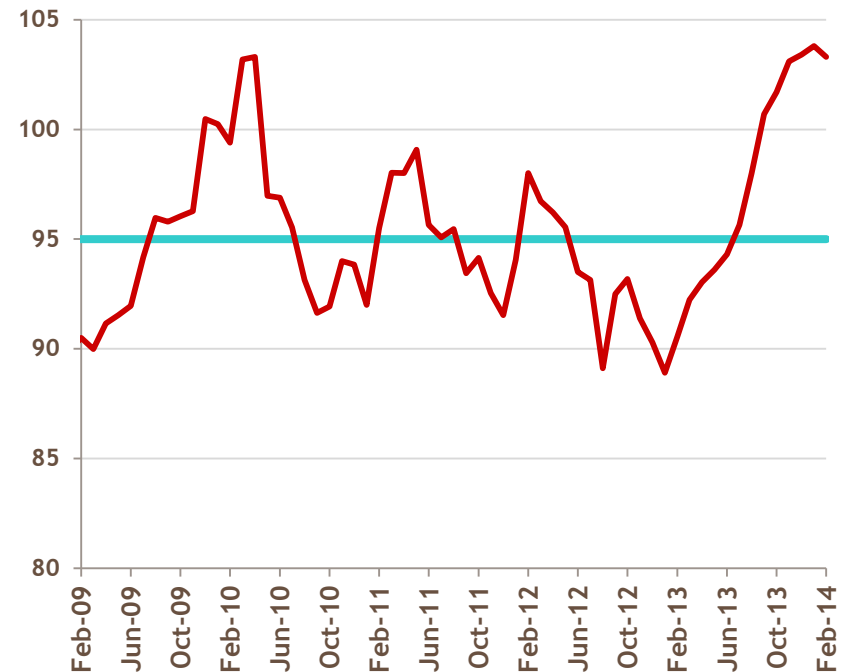
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

OPTIMISM INDEX SUGGESTS A RETURN TO PRE-CRISIS PEAK OUTPUT DURING 2014

- The Optimism Index also remains broadly unchanged. While manufacturing recorded a healthy rise, this was outweighed by a fall in the larger services sector.
- The manufacturing sub-index rose from 117.1 to 118.2, meaning it climbed to a new all-time high. This indicates a sharp turnaround for the manufacturing sector, which is seeing its first year-on-year growth for two years.
- The service sub-index by contrast recorded a fall to 100.4. Nevertheless, this is still above long-term growth expectations.
- 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 corroborates the Office for Budgetary Responsibility's central forecast of 2.4% growth during 2014, the UK's fastest rate since 2007.

BDO OPTIMISM INDEX

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



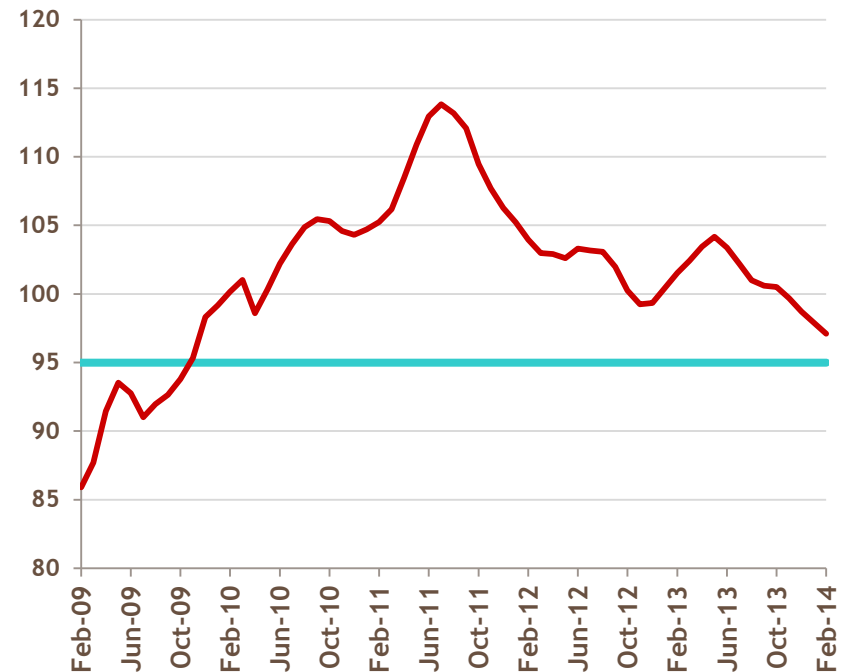
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION EXPECTATIONS FALL FURTHER

- The BDO Inflation Index fell again in February 2014 and now stands at a modest 97.1, the lowest figure in since November 2009.
- Business inflation expectations have fallen for nine consecutive months.
- Input prices for manufacturers continue to fall year-on-year, helping to ease inflationary pressures for the UK's manufacturing sector.
- In addition, falling real wages have helped services firms - which are particularly reliant on labour to produce output - to control costs.
- However, there is a risk that certain input prices will rise due to the crisis in Ukraine. In particular, oil, gas and wheat prices are likely to be affected by the conflict.

BDO INFLATION INDEX

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



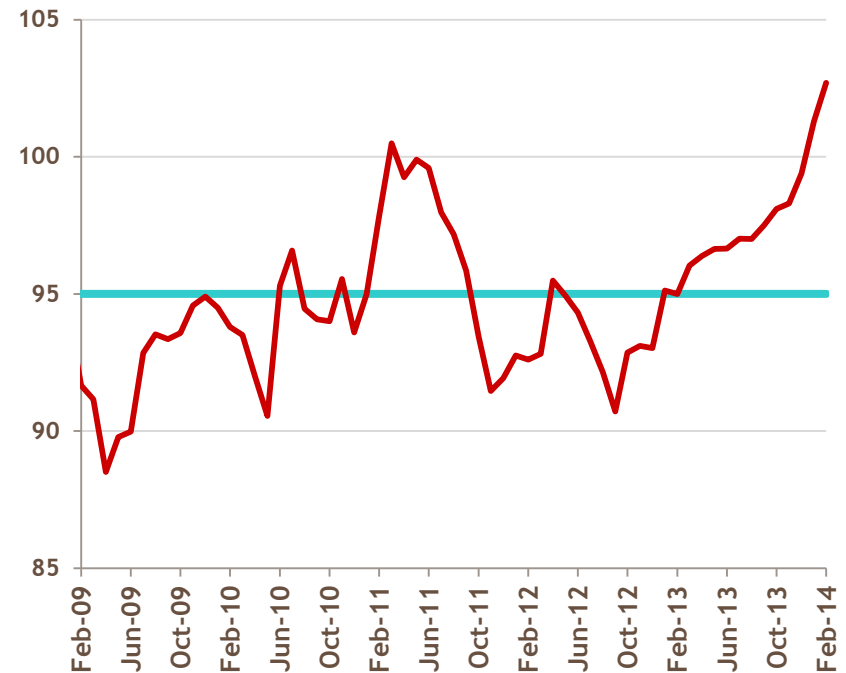
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

JOB CREATION CLIMBS AGAIN

- The BDO Employment Index moved up again, climbing from 101.3 to 102.7 in February.
- This puts it solidly above trend and the Index is back at the highest level since the financial crisis started in earnest in August 2008.
- Official unemployment statistics fit this picture. The unemployment level inched up to 7.2% during the October to December period, though it is still on a solid downward trend compared to a year before.
- The BDO Employment Index looks ahead to the coming three months. Therefore we expect to see continuing job creation bringing unemployment down below the 7% mark, despite further planned public-sector job cuts.

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

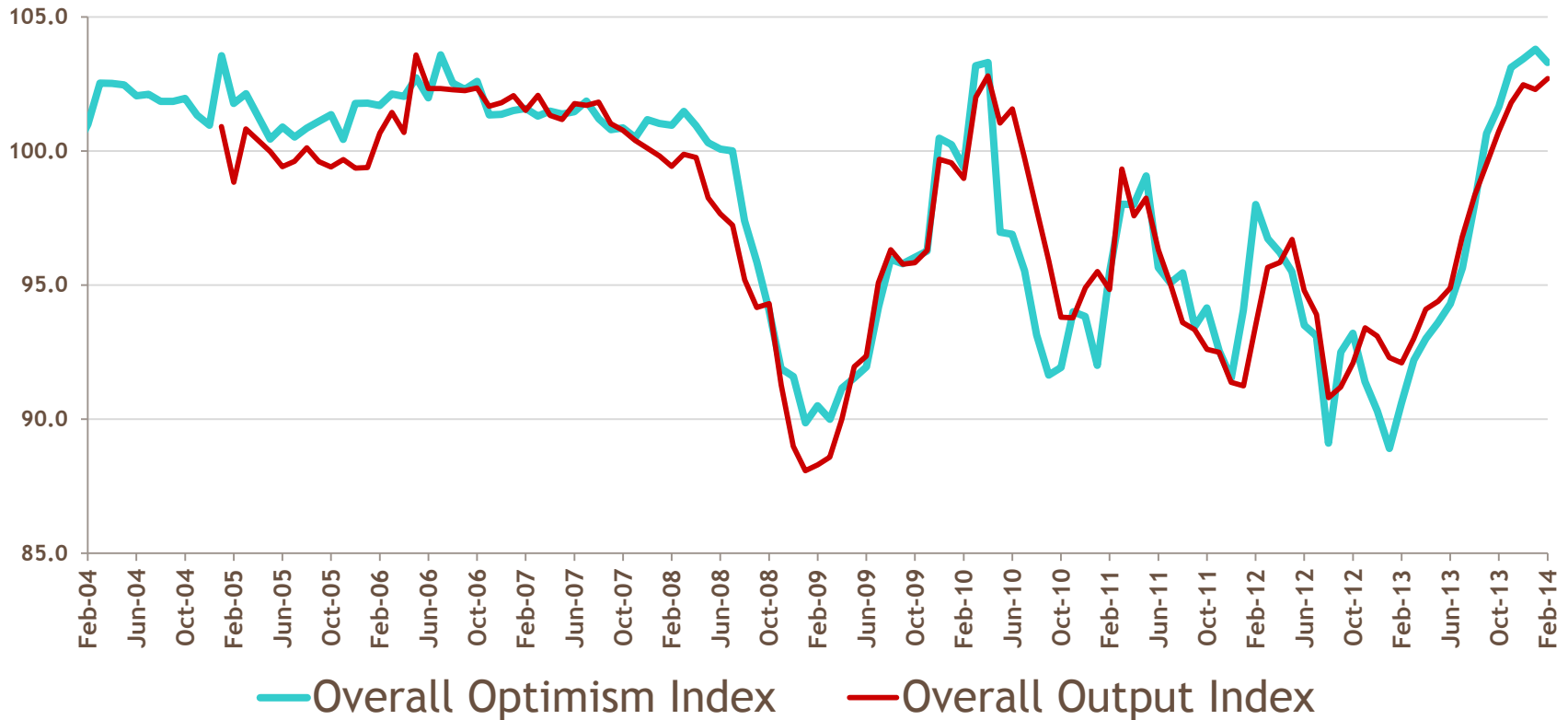
BDO INDICES TO LATEST MONTH

		Feb 2013	Mar 2013	Apr 2013	May 2013	June 2013	July 2013	Aug 2013	Sept 2013	Oct 2013	Nov 2013	Dec 2013	Jan 2014	Feb 2014
The BDO Optimism Index	Total	90.6	92.2	93.0	93.6	94.3	95.6	98.0	100.7	101.7	103.1	103.4	103.8	103.3
	Manuf.	94.5	88.2	88.3	88.5	89.0	91.4	99.6	107.0	109.6	115.3	115.5	117.1	118.2
	Service	89.6	93.2	94.1	94.8	95.5	96.6	97.7	99.2	99.9	100.4	100.7	101.2	100.5
The BDO Output Index	Total	92.1	93.0	94.1	94.4	94.9	96.8	98.3	99.5	100.7	101.8	102.5	102.3	102.7
	Manuf.	94.1	92.4	90.8	93.7	95.7	98.3	100.7	103.6	106.5	108.1	109.8	111.3	112.0
	Service	91.5	93.2	94.9	94.4	94.7	96.5	97.7	98.6	99.4	100.4	100.8	100.6	100.8
The BDO Inflation Index	Total	101.5	102.4	103.4	104.2	103.4	102.2	101.0	100.6	100.5	99.7	98.7	97.9	97.1
The BDO Employment Index	Total	95.0	96.0	96.4	96.6	96.7	97.0	97.0	97.5	98.1	98.3	99.4	101.3	102.7

APPENDIX: BDO OPTIMISM INDEX FALLS BACK FROM 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, ROB HARBRON OR ALASDAIR CAVALLA

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

telephone: 020 7324 2850

email:

scorfe@cebr.com / rharbron@cebr.com / acavalla@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.