

BDO MONTHLY BUSINESS TRENDS INDICES

January 2013

INTRODUCTION

The BDO Monthly Trends Indices are ‘polls of polls’ that pull together the results of all the main UK business surveys. The Indices results in this January edition of the BDO Business Trends Report give the December Index numbers, using the results from business surveys that were carried out between the first and last days of last month.

Summary and key findings

Index	Current reading	Movement in month	Index level
BDO Output Index	x	—	93.1 in December from 93.4 in November
BDO Optimism Index	x	▼	90.3 in December from 91.4 in November
BDO Inflation Index	xx	—	99.3 in December from 99.2 in November
BDO Employment Index	x	—	93.0 in December from 93.1 in November

KEY: ✓ = above 100; ✓✓ = highest in 12 months; x = below 100; xx = lowest for 12 months

KEY FINDINGS

A cautious note still remains for the short-term business outlook, as the BDO Output Index halted in its upward movement in December. The Index stood at 93.1 this month, broadly unchanged from November's reading of 93.4, but remaining below the 95.0 threshold that points to positive economic growth. Index results below 95.0 over the past few months suggest that the UK economy is likely to contract again in Q4 2012, while December's result indicates that weak economic conditions are likely to prevail into Q1 2013.

There are also signs that growth in the first half of 2013 will be constrained, as business confidence remained in unstable territory in December. The BDO Optimism Index dropped back to a reading of 90.3 in December from 91.4 in November. World economic events are likely to be weighing down on confidence in the economic outlook. Although the US avoided the fiscal cliff at the start of the year, further agreements are required in March, with resulting uncertainty over the future of the world's largest economy. In addition, ongoing recession in the Eurozone is likely to weigh down on growth prospects, as the monetary union still purchases roughly half of UK goods exports. With the Optimism Index remaining below the 95.0 mark, it is likely that growth will remain weak over the coming six months.

Inflationary expectations remained on hold in December, as the BDO Inflation Index stood at 99.3, compared to November's reading of 99.2. This puts a halt in the downward trajectory of the Index, which now stands below the 100.0 mark that indicates the long-term average trend, suggesting that UK inflation is unlikely to increase over the coming three months. Consumer price inflation stood at 2.7% in November and although food prices are likely to rise notably in 2013 due to poor harvests in 2012, weak demand conditions are likely to hold back inflation in other areas of the economy.

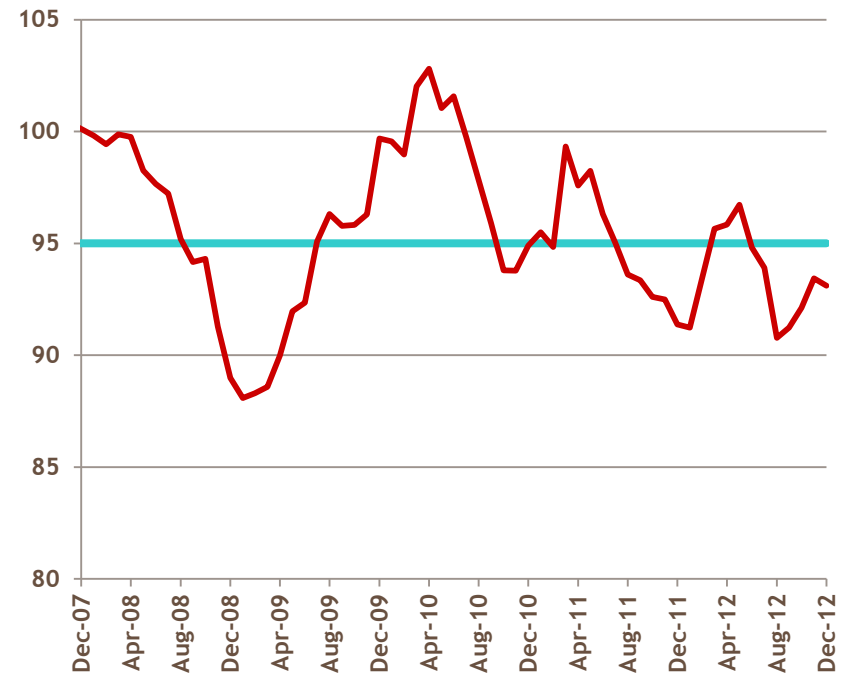
The BDO Employment Index stood at 93.0 in December, broadly unchanged from 93.1 the previous month. The Index results suggest that private sector employers are being cautious about making new hirings amid a backdrop of economic uncertainty. UK unemployment remained elevated at 7.8% in the three months to October, with fragility in the labour market illustrated by the 40% of temporary workers that would accept permanent employment if they could find a position. As public sector job cuts are scheduled to continue over 2013, the latest Employment Index findings suggest that upward pressure on the unemployment rate will remain this year.

TOUGH BUSINESS CONDITIONS TO CONTINUE AS OUTPUT INDEX REMAINS SUBDUED

- A cautionary note remains for the UK growth outlook, as the BDO Output Index was checked in its upward path and fell back marginally in December.
- The Index recorded a score of 93.1 in December compared to November's reading of 93.4.
- This leaves the Index still below the 95.0 mark that indicates output expansion, suggesting that weakness remains in the UK economy.
- Although the Office for National Statistics estimated quarterly growth at 0.9% in Q3 2012, much of this was due to one-off distorting effects, such as Olympic ticket sales and the additional Diamond Jubilee bank holiday.
- Underlying growth is expected to have been much weaker, and the Output Index suggests that the UK may return to contraction in Q4 2012.
- In addition, as the Index points to output growth three months down the line, December's result indicates that there is a risk of a further contraction in Q1 2013.
- Such a result would plunge the UK into a triple-dip recession.

BDO OUTPUT INDEX

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



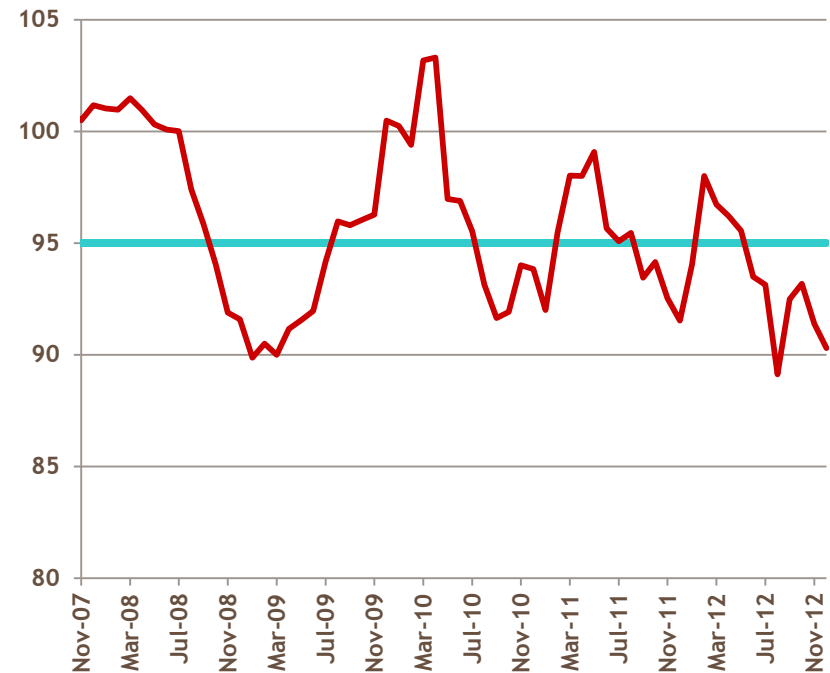
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

BUSINESSES REMAIN UNCONFIDENT AS ECONOMIC OUTLOOK UNCERTAIN FOR 2013

- Business confidence in the economic outlook took a hit in December, as the BDO Optimism Index fell back to 90.3 from a previous reading of 91.4.
- Confidence remains on unstable ground alongside weak domestic demand conditions and a persistently uncertain global economic outlook.
- Although the US reached a temporary agreement on the so-called fiscal cliff of increased taxation and reduced spending, further decision will be needed in two months. The uncertainty created by this delay is likely to be testing business confidence.
- The Optimism Index continues to stand well below the 95.0 mark the indicates economic expansion. As the Index predicts economic growth in six months' time, the latest results suggest that 2013 will bring further tough business conditions.
- Ongoing recession in the Eurozone is likely to weigh down on UK growth prospects this year, as the economic area continues to purchase roughly half of UK manufactured goods exports. The latest figures show unemployment in the Eurozone continuing to rise inexorably, which will likely hold back consumer demand for UK goods.

BDO OPTIMISM INDEX

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



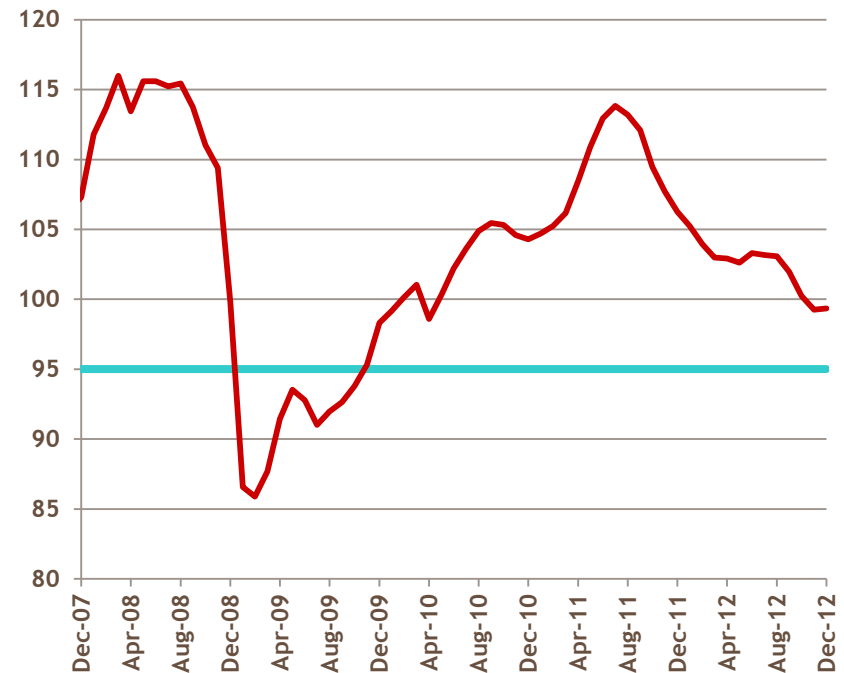
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

DOWNWARD MOVEMENT OF INFLATIONARY EXPECTATIONS COMES TO A HALT

- Expectations for future inflation remained unchanged in December, as the BDO Inflation Index stood at 99.3 compared to the previous month's reading of 99.2.
- These are the lowest results from the Index since April 2010, well down from the July 2011 high of 113.8.
- The Index has now stood marginally below the 100.0 mark that indicates average trend growth for two months, suggesting that inflation is unlikely to rise further in 2013.
- Annual UK consumer price inflation stood at 2.7% in December, driven largely by food, transport and education costs.
- Although food price inflation is expected to rise in the coming months on the back of poor harvests in 2012, ongoing weak demand conditions are likely to hold back inflation in other areas of the economy.
- Manufacturers have been experiencing particularly weak input price inflation in recent months, with physical input costs falling back by 0.3% over the year to November. A weak global economy means demand for inputs such as metals and chemicals has fallen back, with corresponding price decreases.

BDO INFLATION INDEX

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



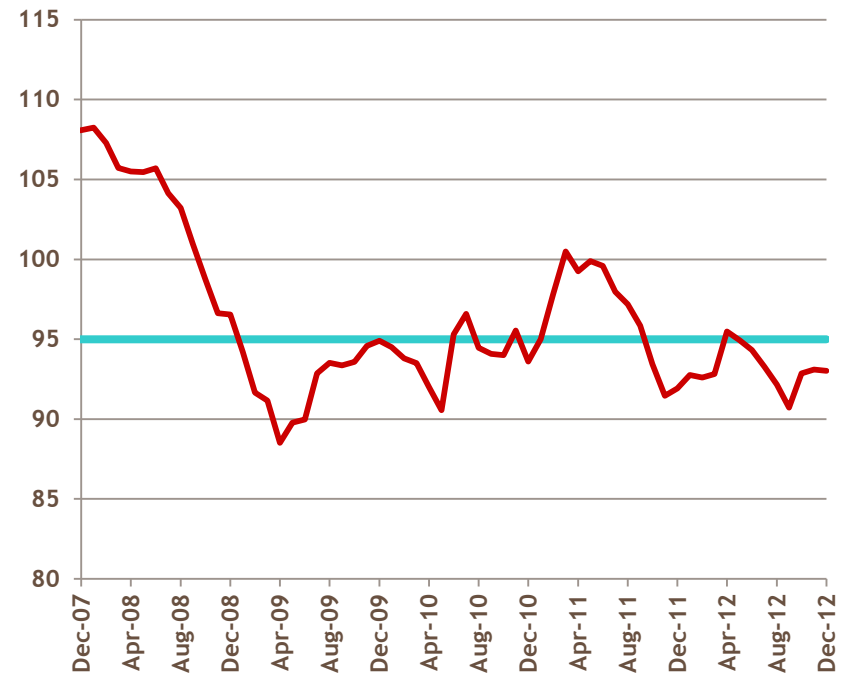
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

PRIVATE SECTOR HIRING INTENTIONS REMAIN SUBDUED

- The BDO Employment Index remained broadly unchanged in December, standing at 93.0, compared to a reading of 93.1 in November.
- The latest reading continues to stand below the 95.0 mark that indicates employment growth, suggesting that private sector employers will be reluctant to increase staffing levels over the coming quarter.
- The UK unemployment rate stood at 7.8% in the three months to October. Although this was 0.5 percentage points on the previous year, more than half of the increase in employment was due to people working part time as firms remain unconfident in the current economic environment.
- More than two fifths of those working temporary contracts were only doing so because they could not find permanent work, reflecting the fragile nature of the labour market.
- With public sector job cuts scheduled to continue over 2013 and these latest findings suggesting little net job creation from the private sector, upward pressure will remain on the unemployment rate.

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

		Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
The BDO Optimism Index	Total	91.5	94.1	98.0	96.7	96.2	95.5	93.5	93.1	89.1	92.5	93.2	91.4	90.3
	Small	90.5	93.0	96.9	95.7	95.2	94.5	92.5	92.1	88.1	91.5	92.2	90.4	89.3
	Large	92.2	94.8	98.7	97.5	96.9	96.3	94.2	93.8	89.8	93.2	93.9	92.1	91.0
	Manuf.	86.6	91.3	96.9	94.6	96.5	92.2	83.8	90.5	80.5	90.2	89.2	85.9	91.9
	Service	92.8	94.7	98.3	97.3	96.1	96.4	95.9	93.8	91.3	93.1	94.2	92.8	89.9
The BDO Output Index	Total	91.4	91.2	93.5	95.7	95.8	96.7	94.8	93.9	90.8	91.2	92.1	93.4	93.1
	Small	89.8	89.7	91.9	94.1	94.2	95.1	93.2	92.3	89.3	89.7	90.6	91.9	91.6
	Large	92.6	92.5	94.8	97.0	97.1	98.0	96.1	95.2	92.0	92.5	93.4	94.7	94.4
	Manuf.	87.4	88.6	93.6	95.5	96.6	94.6	90.5	89.2	85.1	87.3	87.0	88.8	90.6
	Service	92.4	91.9	93.5	95.7	95.6	97.3	95.9	95.1	92.2	92.2	93.4	94.6	93.8
The BDO Inflation Index	Total	106.3	105.2	104.0	103.0	102.9	102.6	103.3	103.2	103.1	102.0	100.2	99.2	99.3
The BDO Employment Index	Total	91.9	92.8	92.6	92.8	95.5	94.9	94.3	93.3	92.1	90.7	92.9	93.1	93.0

FOR FURTHER DETAILS

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METHODOLOGICAL 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 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 Chartered Institute of Purchasing and Supply's Surveys of Manufacturing and of Services; 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.