



BDO MONTHLY BUSINESS TRENDS INDICES

January 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 January 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	✓	▲	103.3 in December from 103.2 in November
BDO Optimism Index	✓	▲	104.9 in December from 103.9 in November
BDO Inflation Index	xxx	▼	95.4 in December from 95.8 in November
BDO Employment Index	✓	▼	113.8 in December from 113.9 in November

KEY: ✓ = above 100; ✓✓ = (joint) highest in 12 months; ✓✓✓ = above 100 and (joint) highest in 12 months
 x = below 100; xx = (joint) lowest for 12 months; xxx = below 100 and (joint) lowest in 12 months
 ✓✓x = (joint) highest in 12 months, but below 100; xx✓ = (joint) lowest in 12 months, but above 100

KEY FINDINGS

The BDO Output Index was broadly unchanged in December. It inched up from 103.2 in November to 103.3, suggesting a strong start to 2015 for UK firms. While concerns over the global economy remain, firms remain generally upbeat about demand in the domestic economy, reflected in the sustained high level of the output index. Despite recent falls, manufacturers continue to report above-average expectations of output growth, with the sub-index still at a robust 108.0. The services sector also records a level of output above the long-term average pace of growth, at 102.4.

The BDO Inflation Index continues to move towards expected falling costs for inputs, falling from 95.8 in November to 95.4 in December. This puts it close to 95.0, at which level it signals an expectation of falling costs for businesses. The sharp decline in oil prices is likely having a significant impact on business expectations for costs, falling as it has to less than \$60/barrel for the first time since 2008.

The BDO Optimism Index showed a gain during December from 103.9 to 104.9, suggesting a strong performance through the first half of 2015. This is mainly a regaining of the ground it lost last month, as concerns over the state of the global economy have receded somewhat since then. Further, these concerns apply less to the UK than to other parts of the world. Prospects for firms that operate largely domestically remain good as the UK economy is predicted to continue growing in 2015, albeit at a reduced pace.

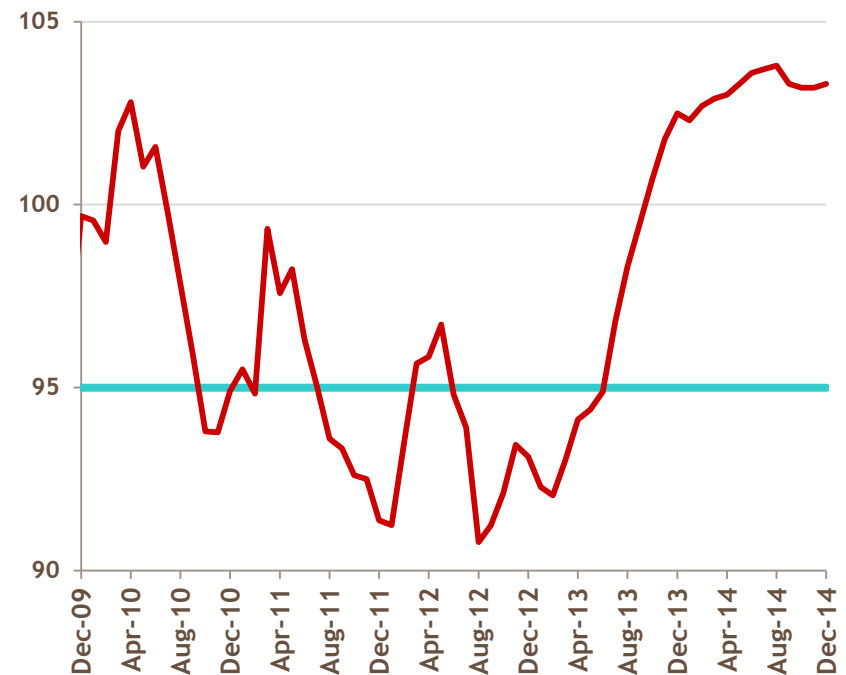
The BDO Employment Index ended a long run of continued growth during December. While only a modest decline from 113.9 to 113.8, it nevertheless suggests that the rate of employment growth will slow. This is to be expected in an environment where unemployment is almost back to its long-term average rate of around 5-6%; the normalisation of economic conditions post-recovery will also contribute to a lowering of the very high levels seen recently on the index.

STRONG START TO 2015 AS FIRMS EXPECT GROWTH MOMENTUM TO CONTINUE

- The BDO Output Index remained largely unchanged in December compared to November, rising by 0.1 points from 103.2 to 103.3.
- This means firms expect continued growth in output above the long-term trend. The index has exceeded 100 (denoting its long-run average) for all of 2014, accompanied by above-average economic growth.
- Both sectoral sub-indices remain above 100. Despite recent worries over the health of the global economy, British firms exit 2014 with a view that domestic output is growing at a robust pace. This suggests that the early part of next year will continue to see strong growth, though slightly weaker than that experienced earlier this year.
- The manufacturing output sub-index maintained a downward trajectory but, at 108.0, still shows significant momentum. The services sub-index moved up modestly to 102.4, driving the overall uptick.

BDO OUTPUT INDEX

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



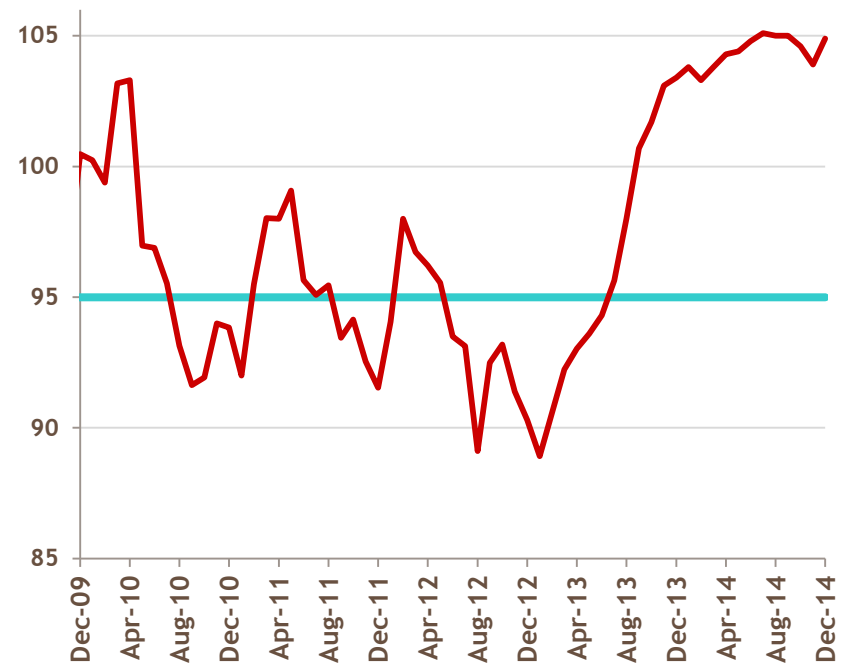
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

FIRMS POSITIVE ON FIRST HALF OF 2015

- The BDO Optimism Index moved up over December from 103.9 to 104.9.
- This brings the index broadly back in line with levels seen through much of the second half of 2014.
- The strength of the index suggests UK firms expect conditions to remain at these elevated levels over a six-month horizon.
- Domestic growth has broadly held up so far, despite concerns that the Eurozone slowdown would affect it through a loss of confidence. While October and November saw a loss of confidence among firms, reflected in the dip in the Optimism Index in those months, it has not translated into a significant knock to growth.
- Firms in manufacturing still expect more buoyant conditions than those in services. However, manufacturers' expectations have been rapidly adjusting downward over recent months as global growth has looked weaker and more uncertain, and goods are more likely to be sold internationally than services.

BDO OPTIMISM INDEX

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



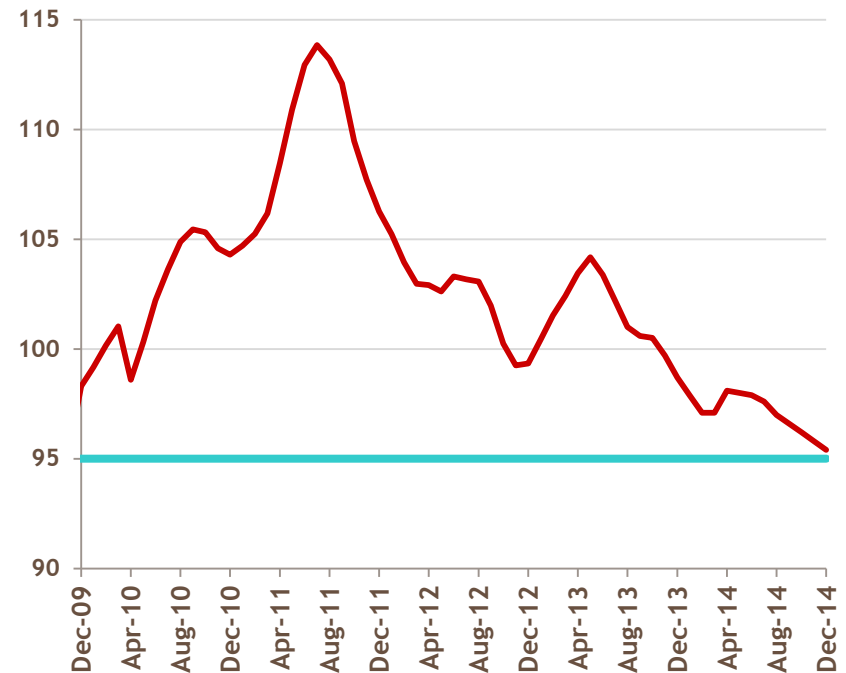
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION INDEX PUSHED TO LOWEST LEVEL IN 5 YEARS BY LOW OIL PRICES

- The BDO Inflation Index fell further over December from 95.8 to 95.4, its lowest level since the worst of the financial crisis in late 2009.
- This suggests virtually stagnant growth in costs. With a zero growth rate represented by 95, the current level means that businesses expect to see virtually no cost growth over the coming months.
- The oil price has fallen below \$60/barrel for the first time since 2009. This month's Inflation Index reading suggests a continuation of the trend of falling input costs. Since OPEC has decided to keep the supply of oil high for the near future and the world economy is not expected to pick up considerably in that time, continued cheap fuel is very likely.
- Other trends complement that in oil: continued low wage growth means that this key driver of firms' costs fails to offset the effects of falling oil prices. Many commodities other than oil also suffer from oversupply and weak demand, meaning their prices are also falling.
- Official data reflect this: the latest ONS data reports that input prices for manufacturers fell by 8.8% in the year to November.

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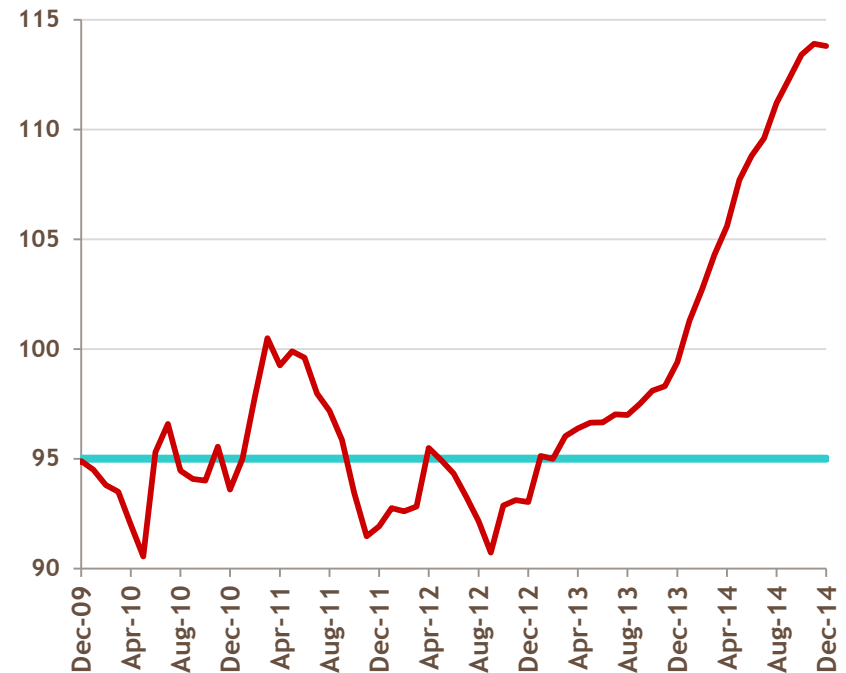
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

HIRING EXPECTATIONS COOL AS LABOUR MARKET TIGHTENS

- The BDO Employment Index during December stood broadly unchanged, in a break from the steady upward trend in recent months. It dipped from 113.9 to 113.8.
- The present level still signals that businesses intend to hire at a rate significantly above the long-run trend rate, but the labour market is expected to cool going forward.
- Until last month, the index had risen in every single month since February 2013. Over that time it rose from 95.0 to an all-time high of 113.9.
- The rise coincided with rapid growth in employment, which continues to the present. The number in employment grew by around 945,000 between January-March 2013 and August-October 2014 (the latest period for which figures are available).
- The index continues to predict strong hiring, but at a slightly slower rate than was predicted by November's results. It is expected to normalise as the labour market returns to more usual conditions post-recovery.

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

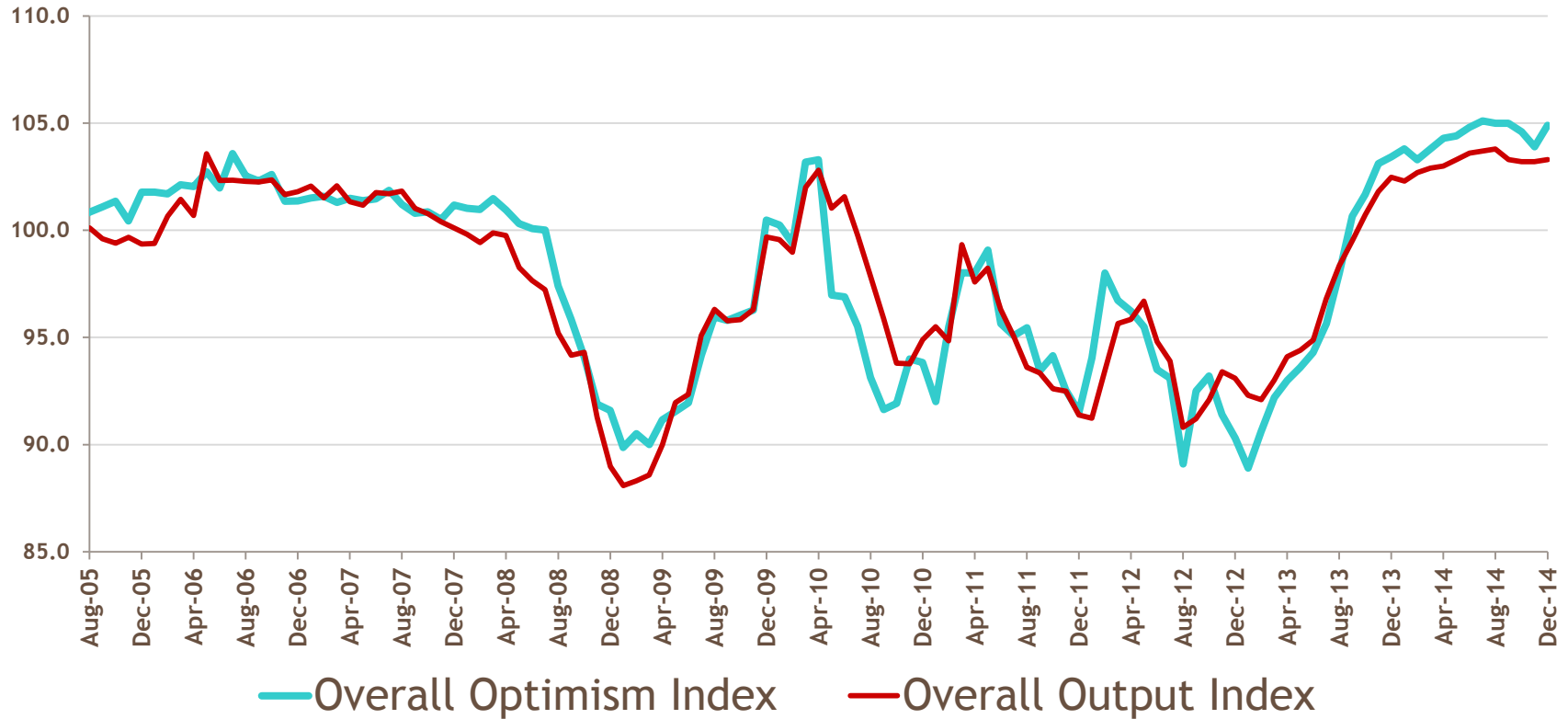
BDO INDICES TO LATEST MONTH

		Dec 2013	Jan 2014	Feb 2014	Mar 2014	Apr 2014	May 2014	Jun 2014	Jul 2014	Aug 2014	Sep 2014	Oct 2014	Nov 2014	Dec 2014
The BDO Optimism Index	Total	103.4	103.8	103.3	103.8	104.3	104.4	104.8	105.1	105.0	105.0	104.6	103.9	104.9
	Manuf.	115.5	117.1	118.2	119.4	120.8	121.0	119.5	119.9	118.8	117.4	116.1	114.1	113.9
	Service	100.7	101.2	100.5	100.8	101.1	101.1	101.9	102.2	102.3	102.6	102.3	101.9	103.1
The BDO Output Index	Total	102.5	102.3	102.7	102.9	103.0	103.3	103.6	103.7	103.8	103.3	103.2	103.2	103.3
	Manuf.	109.8	111.3	112.0	112.8	113.5	113.9	114.5	114.4	113.2	111.6	110.1	109.1	108.0
	Service	100.8	100.6	100.8	101.0	101.0	101.3	101.5	101.6	102.0	101.7	101.8	102.1	102.4
The BDO Inflation Index	Total	98.7	97.9	97.1	97.1	98.1	98.0	97.9	97.6	97.0	96.6	96.2	95.8	95.4
The BDO Employment Index	Total	99.4	101.3	102.7	104.3	105.6	107.7	108.8	109.6	111.2	112.3	113.4	113.9	113.8

APPENDIX 1: OPTIMISM INDEX SHOWS SURPRISE UPTICK

BDO OUTPUT AND OPTIMISM INDICES

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

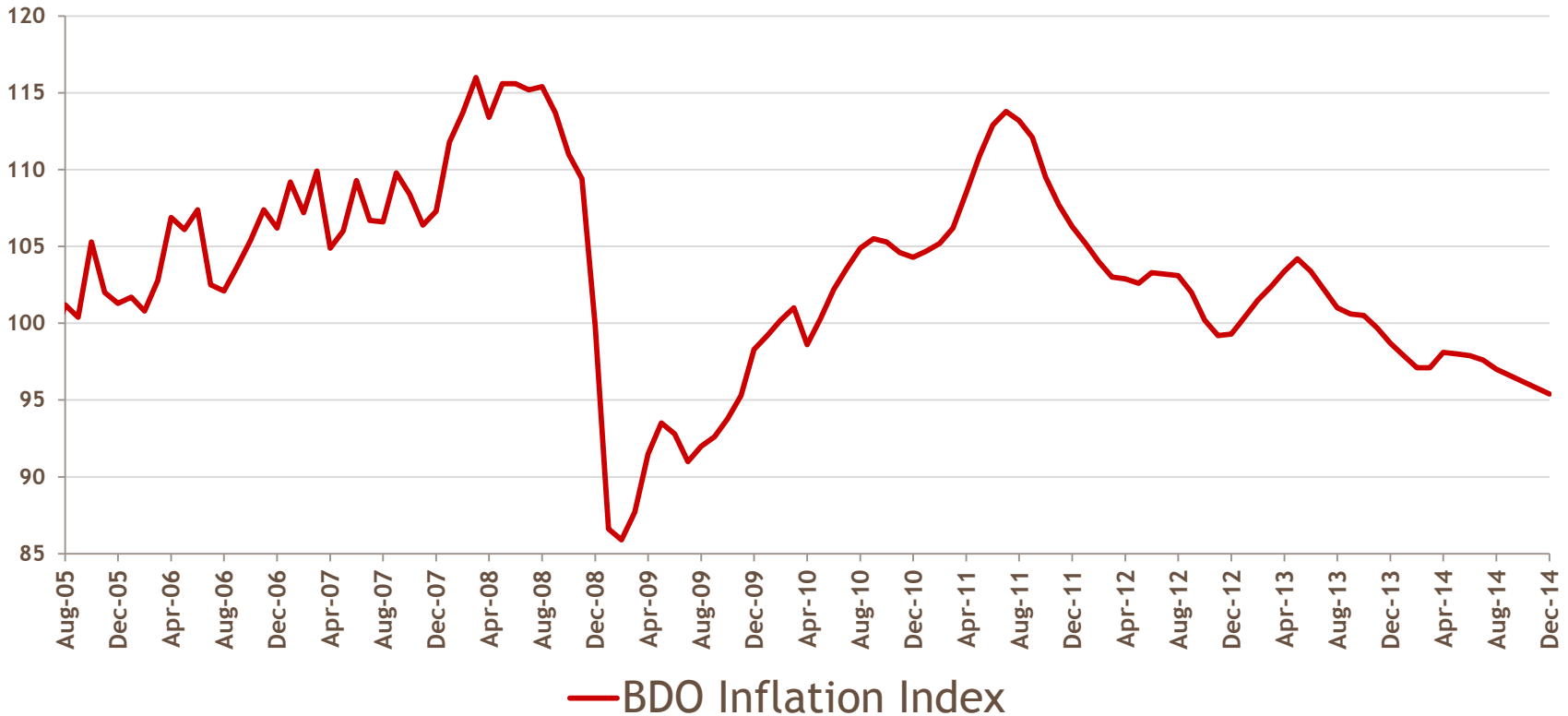


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 2: INFLATION INDEX SIGNALS VIRTUALLY STAGNANT INPUT PRICES

BDO INFLATION INDEX

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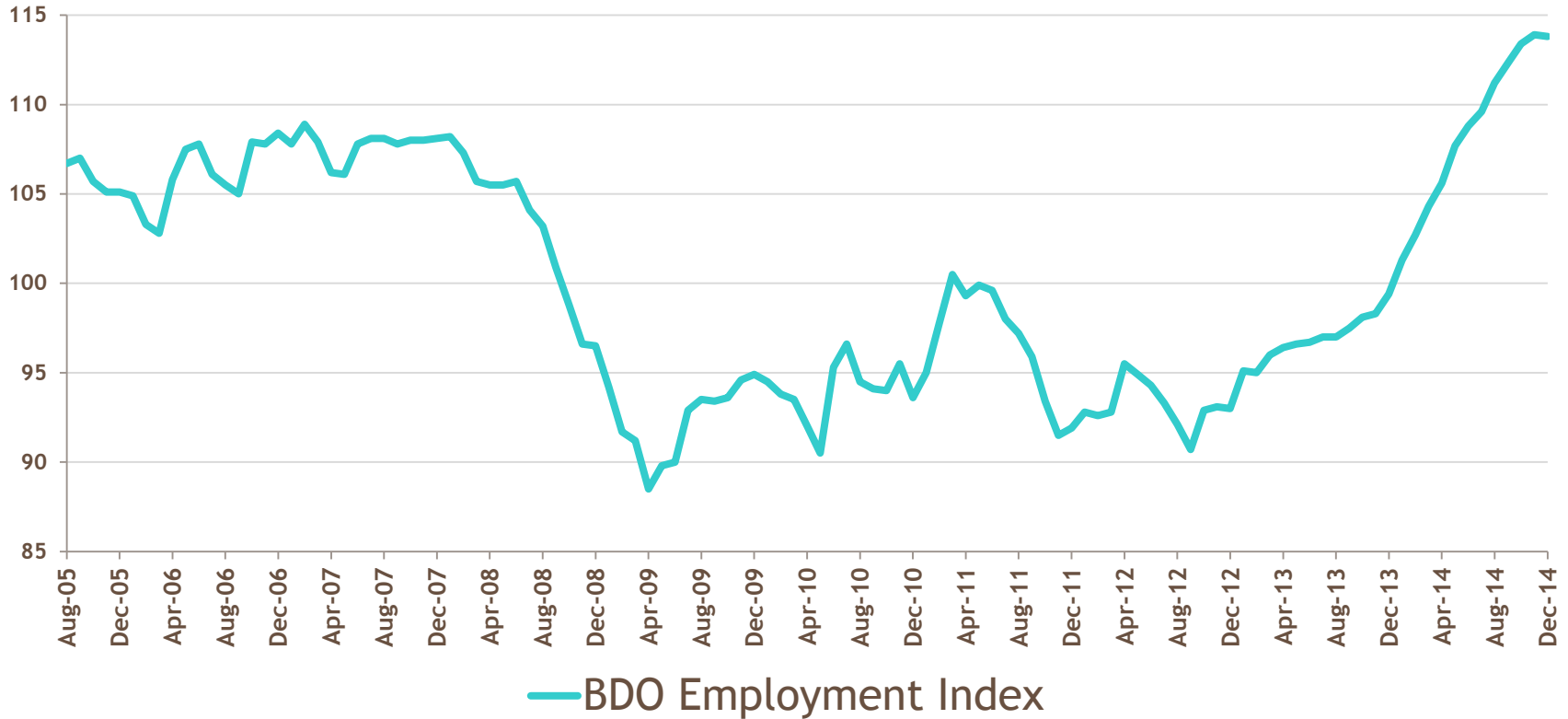


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 3: EMPLOYMENT INDEX SHOWS FIRST DOWNWARD MOVEMENT FOR ALMOST TWO YEARS

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

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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.