



BDO MONTHLY BUSINESS TRENDS INDICES

April 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 April 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	✓	▲	103.7 in March from 103.1 in February
BDO Optimism Index	✓	▬	104.9 in March from 104.9 in February
BDO Inflation Index	xxx	▼	93.8 in March from 94.7 in February
BDO Employment Index	✓	▼	113.0 in March from 113.1 in February

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 received a small boost during March, moving from 103.1 at the beginning of the month to 103.7 now. Firms' expectations for output over the next three months are slightly higher compared to a month ago. While only a modest rise, this suggests firms are feeling the effects of continuing consumer confidence - the main factor powering the recovery - and a pick-up in export demand. The index is back at levels last seen in mid-2014 during the earlier part of the recovery, when growth was faster.

The BDO Inflation Index fell deeper into deflationary territory. The level representing no price growth is 95, whereas over March the reading on the index dipped from 94.7 to 93.8. The latest wage growth figures from the ONS suggest weak cost pressures from many firms' main input, and lacklustre productivity growth implies that this will continue. On material inputs, the price of oil fell over the past month and other costs show slow or negative change.

The BDO Optimism Index remained at the same level in March as the reading for February, a robust 104.9. Firms expect continued growth at above the long-term rate over a six-month horizon. This suggests a sanguine attitude to the election and the ensuing negotiations on the part of firms. Therefore it is likely that firms see the fiscal differences between the main parties as slight, or else not relevant to their future plans, in the early months of the next parliament at least.

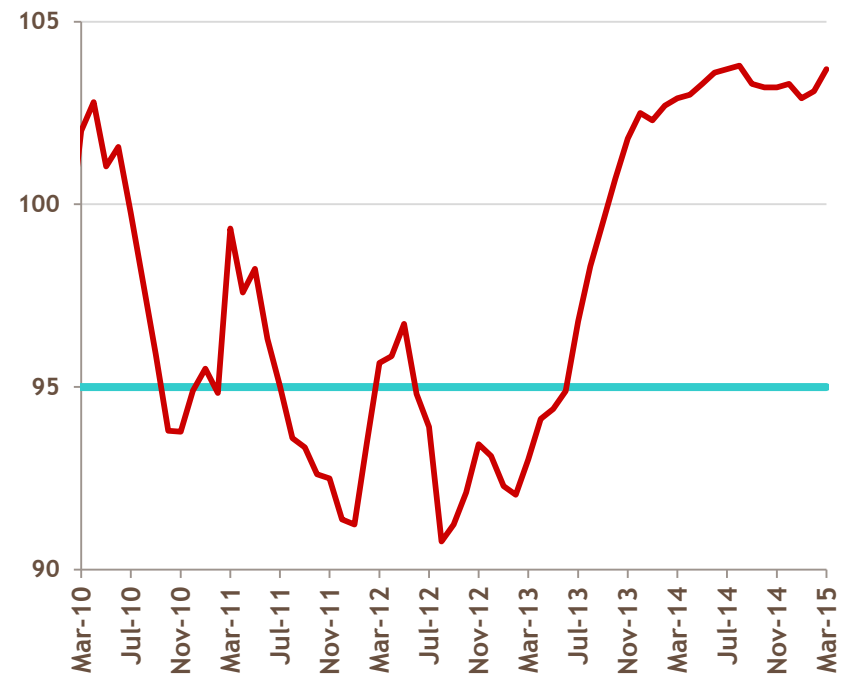
The BDO Employment Index stood essentially stable, moving from 113.1 to 113.0. This points to continuing rapid hiring by firms, which should drive the unemployment rate lower over coming months. Last recorded at 5.7%, it is approaching pre-crisis levels of around 5%. In recent surveys consumers have cited improving job security as a key driver of high confidence, meaning that this trend in the employment outlook is proving crucial to the recovery.

FIRMS EXPECTING OUTPUT GROWTH TO RETURN TO MID-2014 LEVELS

- The BDO Output Index posted a gain of 0.6 points during March from 103.1 to 103.7, indicating firms expect the rate of output expansion over the next three months to rise slightly.
- The boost to expectations was driven by improvements across both the services and manufacturing sectors of the economy.
- This takes the index back to a level not seen since July 2014. This suggests some of the worries around the global economy, particularly the slowing of Eurozone growth, have become less concerning to UK firms.
- Continuing strong consumer demand and improving export performance are improving firms' outlook for the near future.
- The main driver of consumer confidence is in turn driven partly by better perceptions of job security. (The high level of the Employment Index attests to this.)

BDO OUTPUT INDEX

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



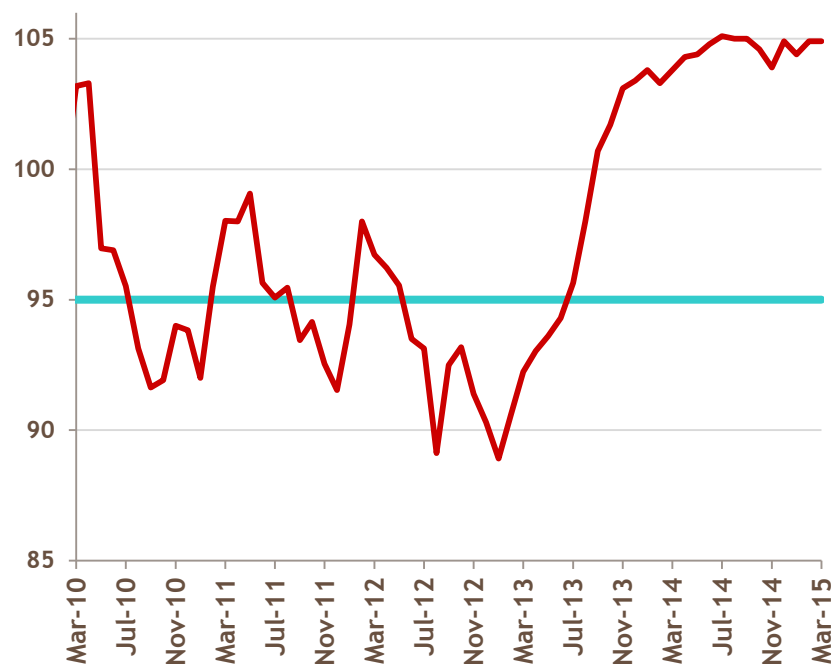
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

CONFIDENCE HOLDS FIRM POINTING TO ABOVE-TREND GROWTH RATES

- The BDO Optimism Index held its level of 104.9 from February. As with the Output Index, this is close to the highs reached last summer.
- During March, an increase in confidence among service firms was offset by a dip in confidence for their manufacturing counterparts, meaning no overall change. Despite these fluctuations, the positions of the two sub-indices point to comfortably above-trend growth.
- The prospect of the election does not seem to be worrying firms greatly, even with its likely result clouded by uncertainty.
- Firms expect a high level of output growth to continue, suggesting that they do not see great differences between the parties (in the early part of the next parliament at least) on business-critical issues such as consumer demand and government spending.

BDO OPTIMISM INDEX

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



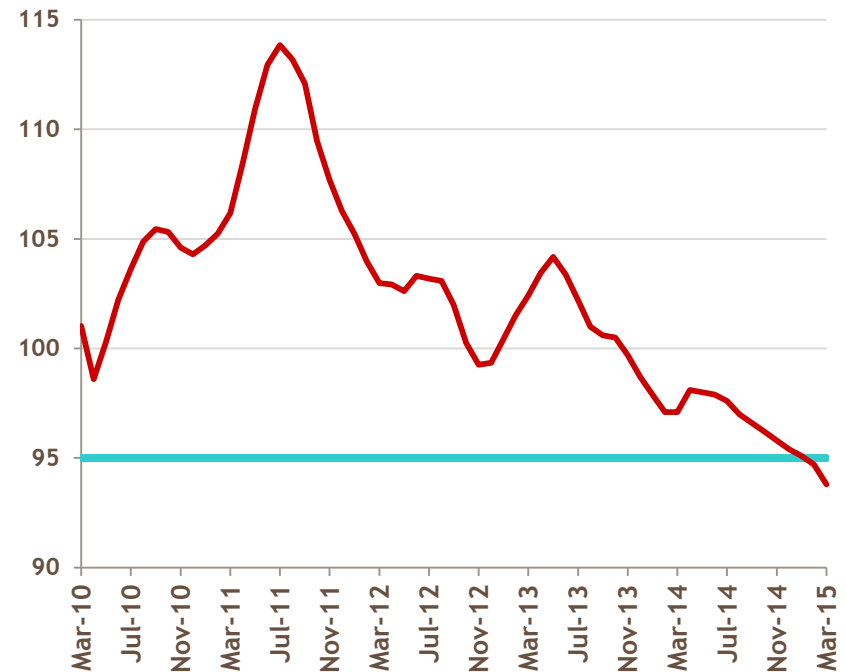
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INPUT COSTS TO FALL MORE RAPIDLY

- The BDO Inflation Index fell further into deflationary territory in March, dropping from 94.7 to 93.8.
- This marks an acceleration of deflation. Firms continue to expect prices of their inputs to drop, and at a faster rate than before.
- The result is consistent with consensus expectations for consumer price inflation, most recently recorded at 0.0% for February but likely to turn negative for a period of a few months.
- Slow inflation allows firms to award smaller pay increases than they might otherwise have done. Combined with evidence of declining productivity from recent ONS statistics, this suggests there will not be substantial wage increases in the near future. This will keep down the cost of firms' most important input.
- Other major inputs for firms point to further cost reductions. For example, the oil price has fallen since its level one month ago.

BDO INFLATION INDEX

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



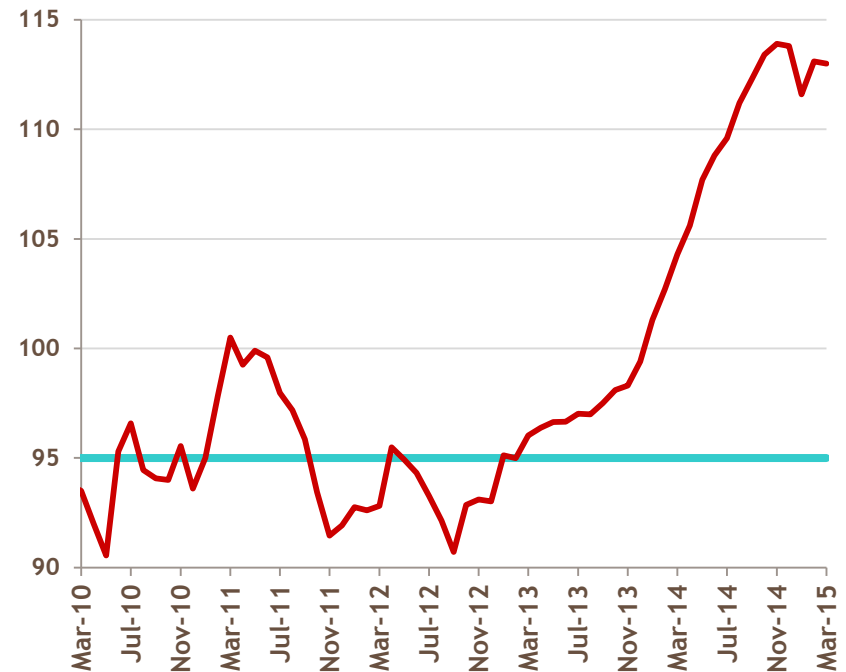
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

FURTHER FALLS IN UNEMPLOYMENT EXPECTED

- The BDO Employment Index stood essentially still over March. It fell by just 0.1 point, from 113.1 to 113.0.
- Firms expect to continue to hire more workers over a three-month horizon, at a rate significantly higher than the long-term trend.
- This suggests that further reductions in the unemployment rate will be seen as the economic recovery progresses. It is likely to fall from its more recent reading of 5.7% in the three months to January down to levels last seen before the financial crisis.
- At the same time, the percentage of people of working age who are either in work or looking for work continues to climb. It is currently at around 62.4%, a level not seen since the 1960s.

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

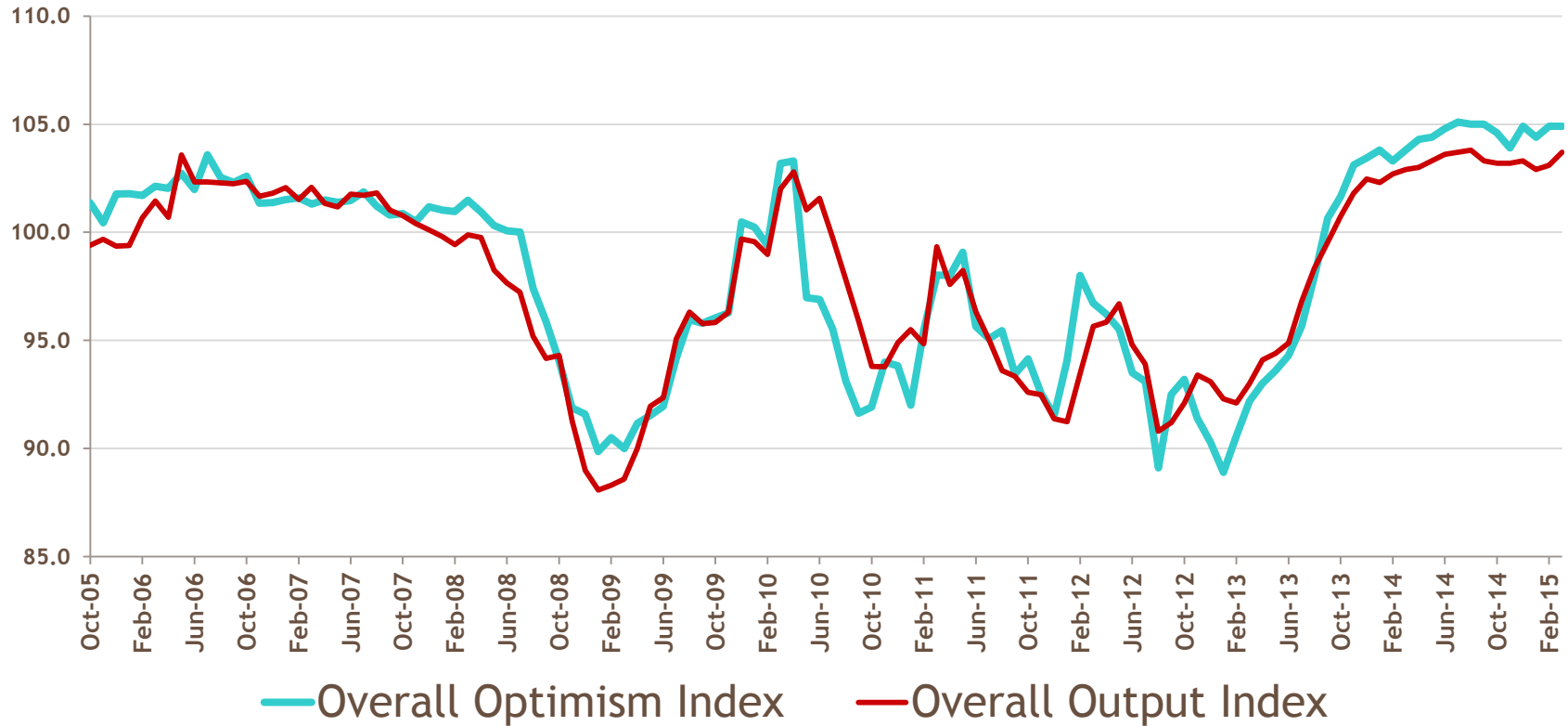
BDO INDICES TO LATEST MONTH

		Mar 2014	Apr 2014	May 2014	Jun 2014	Jul 2014	Aug 2014	Sep 2014	Oct 2014	Nov 2014	Dec 2014	Jan 2015	Feb 2015	Mar 2015
The BDO Optimism Index	Total	103.8	104.3	104.4	104.8	105.1	105.0	105.0	104.6	103.9	104.9	104.4	104.9	104.9
	Manuf.	119.4	120.8	121.0	119.5	119.9	118.8	117.4	116.1	114.1	113.9	113.0	111.6	109.8
	Service	100.8	101.1	101.1	101.9	102.2	102.3	102.6	102.3	101.9	103.1	102.7	103.6	103.9
The BDO Output Index	Total	102.9	103.0	103.3	103.6	103.7	103.8	103.3	103.2	103.2	103.3	102.9	103.1	103.7
	Manuf.	112.8	113.5	113.9	114.5	114.4	113.2	111.6	110.1	109.1	108.0	107.3	107.1	107.7
	Service	101.0	101.0	101.3	101.5	101.6	102.0	101.7	101.8	102.1	102.4	102.1	102.3	102.9
The BDO Inflation Index	Total	97.1	98.1	98.0	97.9	97.6	97.0	96.6	96.2	95.8	95.4	95.1	94.7	93.8
The BDO Employment Index	Total	104.3	105.6	107.7	108.8	109.6	111.2	112.3	113.4	113.9	113.8	111.6	113.1	113.0

APPENDIX 1: STRONG CONSUMER DEMAND KEEPS FIRMS BULLISH ON FUTURE

BDO OUTPUT AND OPTIMISM INDICES

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

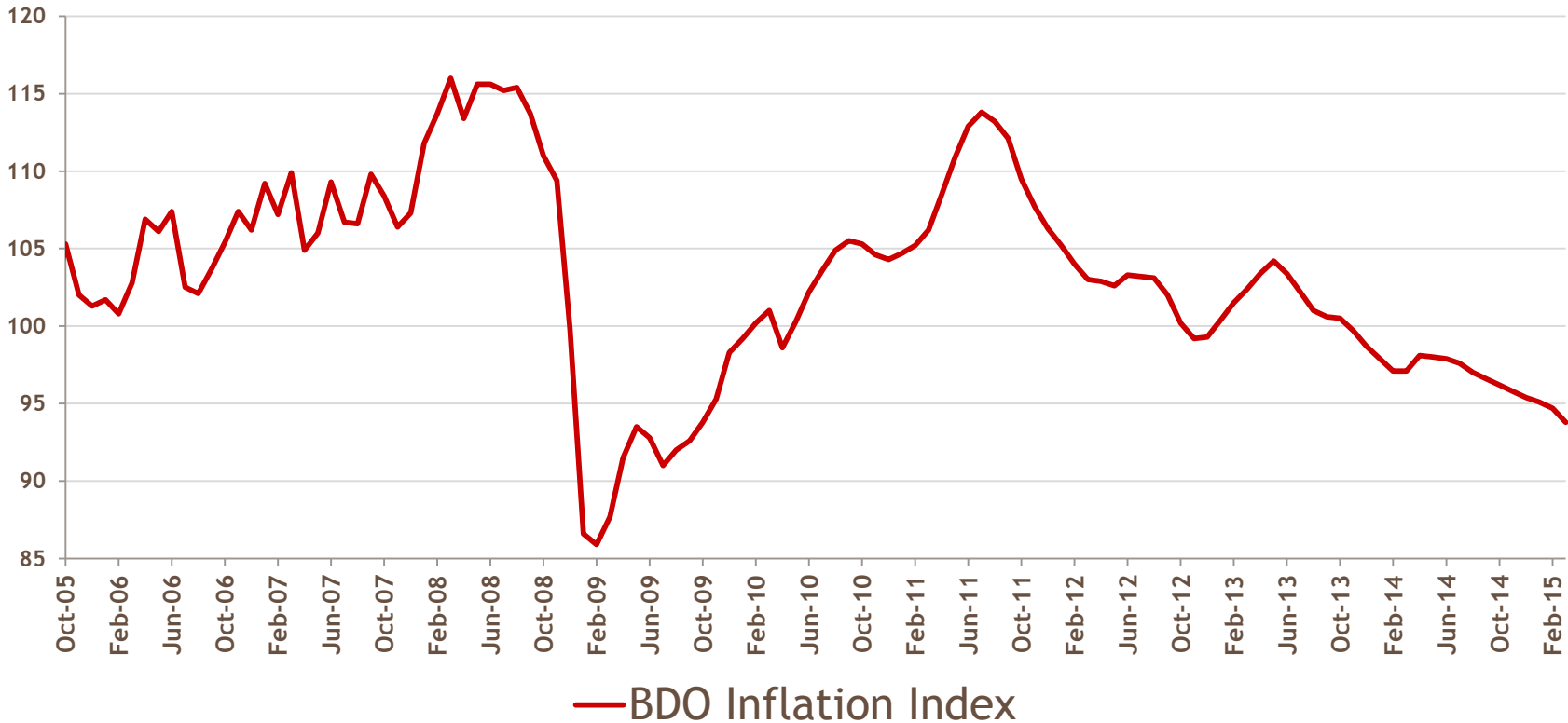


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 2: BUSINESS COST DEFLATION TO HIT FIRMS

BDO INFLATION INDEX

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

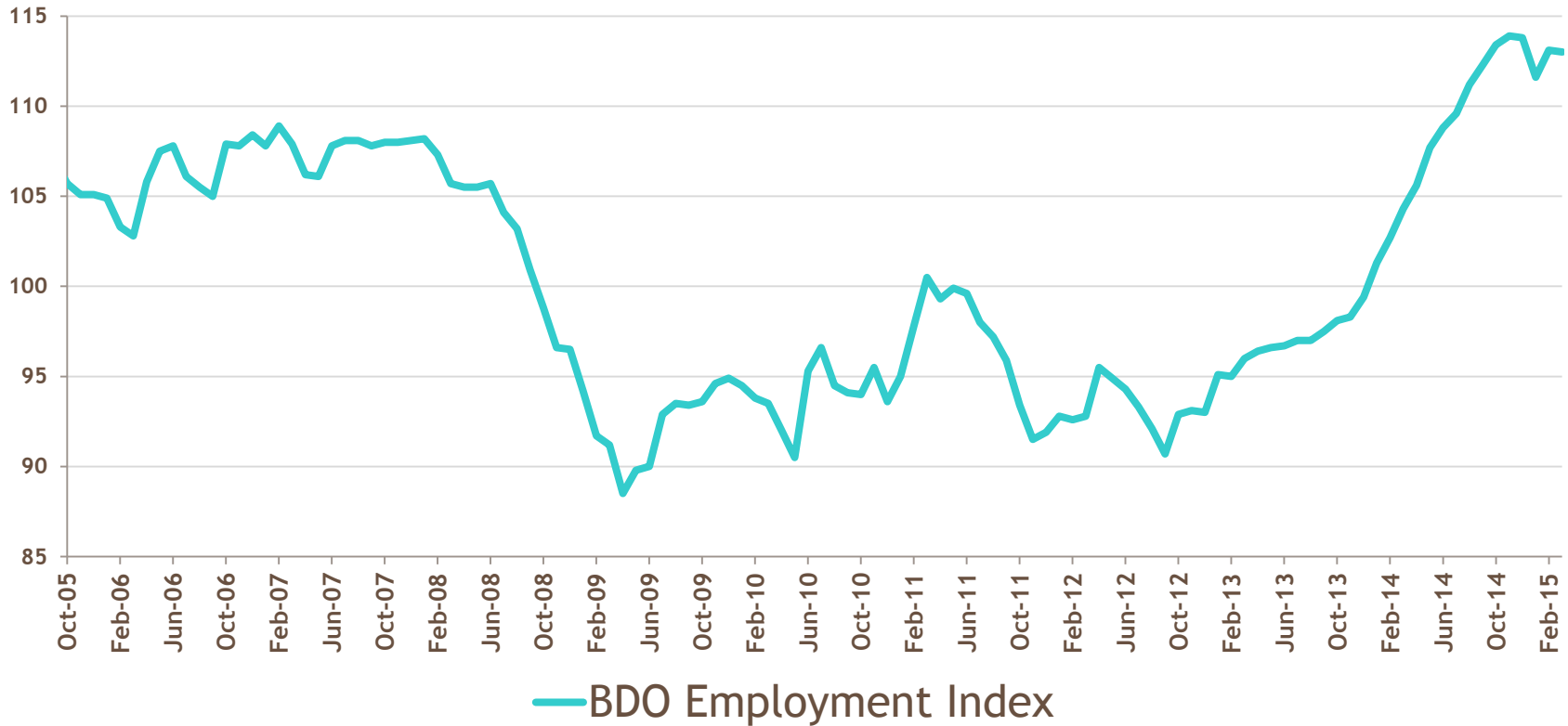


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

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.