



BDO MONTHLY BUSINESS TRENDS INDICES

November 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 at the beginning of November 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	✓	▽	103.2 in October from 103.3 in September
BDO Optimism Index	✓	▽	104.6 in October from 105.0 in September
BDO Inflation Index	xxx	▽	96.2 in October from 96.6 in September
BDO Employment Index	✓✓✓	△	113.4 in October from 112.3 in September

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 stable over October. It experienced a very slight drop, moving from 103.3 in September to 103.2 on the latest data. This points to output expanding above the trend rate of growth, albeit at a slightly slower pace than recently. The manufacturing sub-index saw a fall, while services output expectations as measured by the sub-index remained broadly stable.

The BDO Inflation Index fell from 96.6 to 96.2, marking its sixth consecutive monthly decline since April. Firms are experiencing downward movement in input costs already as measured by official data, and this reading suggests the trend will continue. This appears the case from considering the drivers of the trend. Commodity prices, including notably food and energy, have been falling as global demand is relatively weak (Europe and Japan are stagnating, while China's growth is slowing), while supply has been strong.

The BDO Optimism Index fell from 105.0 in September to 104.6 in October. Firms' concerns primarily regard the global economy meaning that, as with the Output Index, the manufacturing sub-index had a significantly worse outcome than the services sub-index this month. Manufacturing is far more export-dependent and so exposed to global economic conditions to a greater extent: the near-term future is currently very uncertain for the global economy.

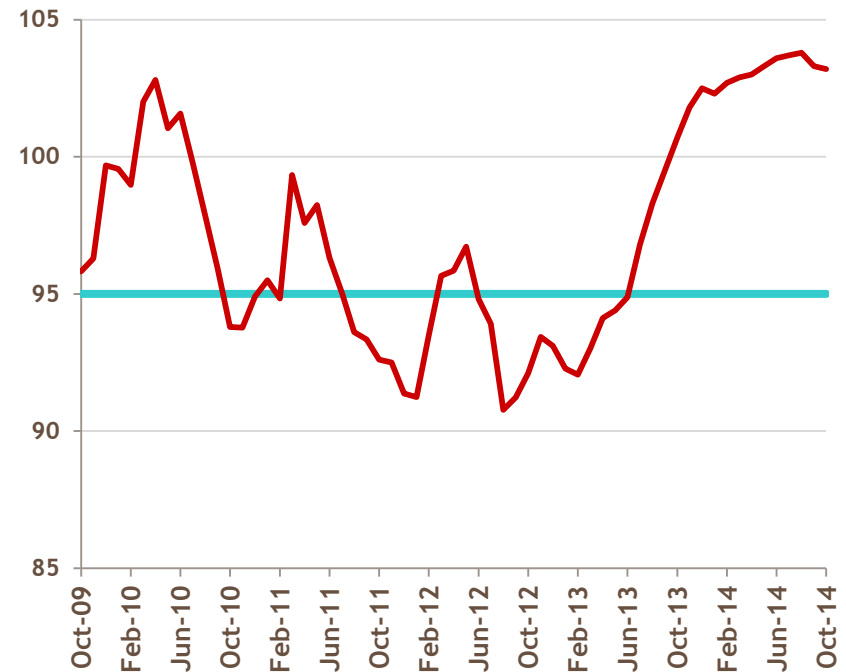
The BDO Employment Index outperformed all the others, continuing to rise at a robust pace. It increased from 112.3 to 113.4 between September and October, suggesting that while output growth may have seen its peak for this phase of the recovery, employment growth is set to continue at a solid pace. The past year has already seen the greatest fall in unemployment on record, but it still remains slightly above its long-term average, meaning that (assuming the Employment Index is correct) we are likely to see a continuation of the trend.

OUTPUT INDEX EXPERIENCES SMALL DROP

- The BDO Output Index remained broadly unchanged over October, inching down from 103.3 in September to 103.2.
- This points to growth above the long-term trend rate, although slightly lower than it has been. Firms are reporting ongoing growth in business activity.
- Official statistics corroborate this picture. The latest (Q3) economic growth rate showed a slight dip from Q2's 3.2% year on year expansion to 3.0%.
- We expect that from here, the index will gradually climb down towards the long-term trend rate, barring any dramatic turn in global events before that.
- The decline in the Output Index was driven by a fall in the manufacturing sub-index from 111.6 to 110.1. The services sub-index moved very little, October's reading showing 101.8 compared to September's 101.7.

BDO OUTPUT INDEX

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



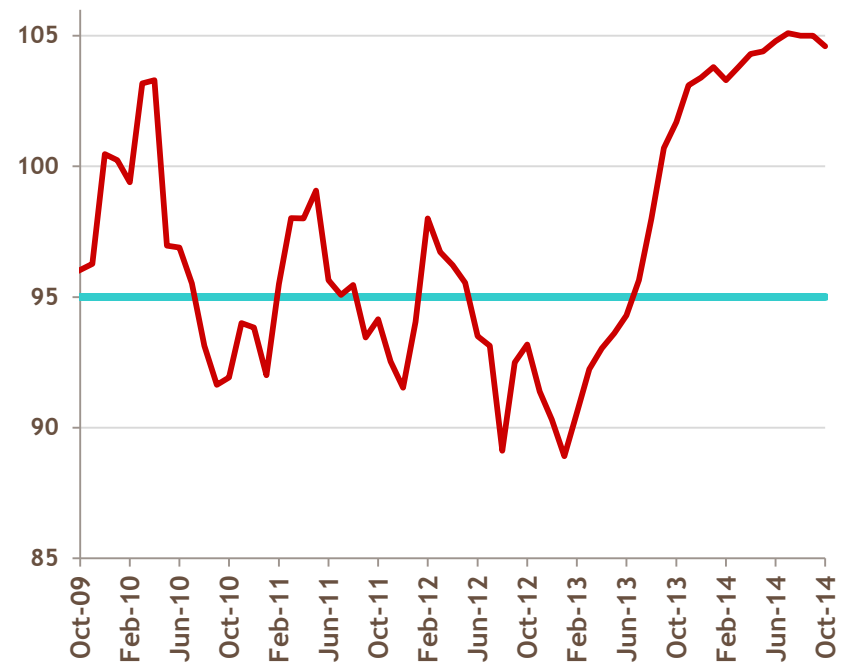
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

OPTIMISM INDEX TURNS CORNER

- The BDO Optimism Index has dipped, falling from 105.0 in September to 104.6 in October.
- Firms expect growth over a six month horizon to be strong and above the long-term trend rate, but are starting to adjust their confidence downwards.
- Manufacturing confidence dropped from 117.4 for September to 116.1 for October, while the measurement for services fell from 102.6 to 102.3.
- The primary driver of falling confidence is likely to be global. The UK economy is continuing to grow at a solid pace, but global conditions are very uncertain, undermining businesses' confidence regarding the future.
- The effect is stronger for the manufacturing sector, which is why this sub-index saw a drop of greater magnitude. Its high exposure to trade and especially with Eurozone markets means it has more cause for concern over the near future

BDO OPTIMISM INDEX

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



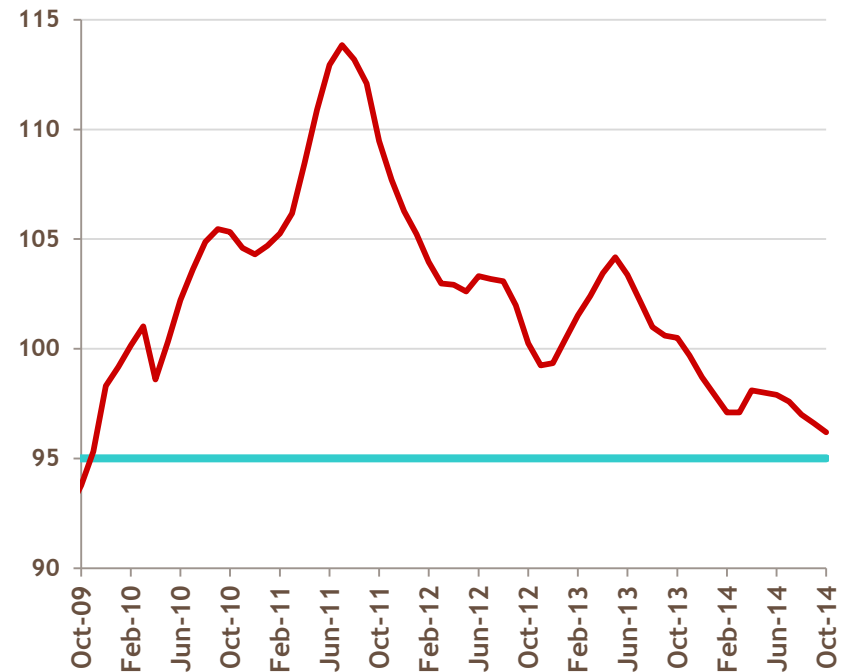
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

PRICE GROWTH CLOSE TO TURNING NEGATIVE

- The BDO Inflation Index continues to fall, and for October stands at 96.2. Firms still report rising prices, but only just.
- The current level is only slightly above the dividing line between rising and falling prices of 95. However, it is significantly below the long-term trend of price growth.
- While consumer price inflation is still some way above zero, producer price inflation for inputs has already turned negative at -7.4% for August, year on year.
- The outlook for prices depends primarily on fuel and material costs for manufacturers, and on wage costs for consumers. Prices of the former items are likely to fall as supply of commodities is growing more quickly than global demand at present. Wage growth is more likely to accelerate, as spare capacity in the labour market tightens. This means that manufacturers should see reduced cost pressures compared to than service firms.
- Overall, in the near term, falls in the first group of prices are likely to outweigh rises in the second.

BDO INFLATION INDEX

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



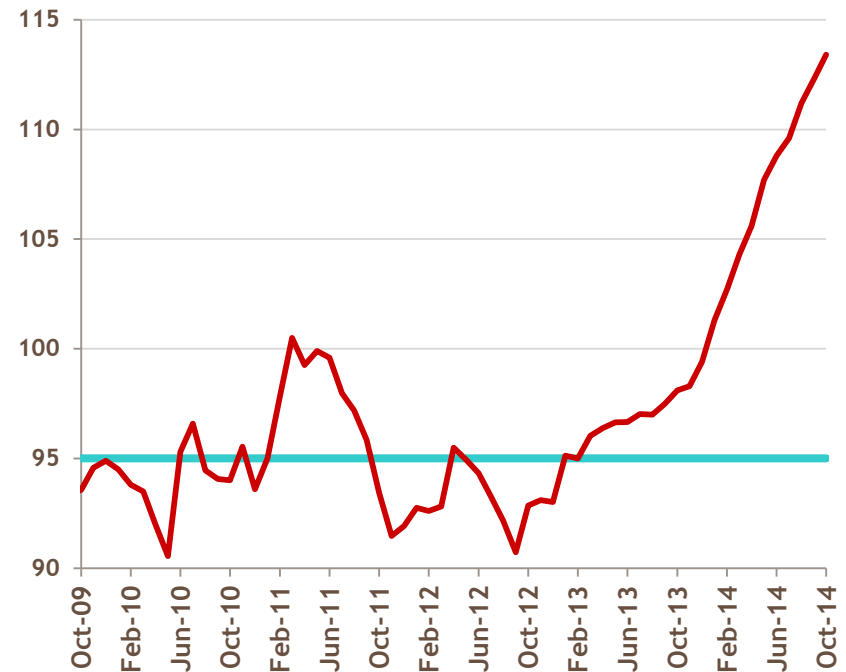
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT CONTINUES TO OUTPERFORM OTHER INDICES

- The BDO Employment Index grew from 112.3 in September to 113.4 in October.
- It continues to defy the slowdown in output and confidence. Firms are still expecting to keep hiring over the next three months.
- With wage growth still low and domestic demand in good shape, many can afford to: the latest figures for the three months to September showed that wages only grew at 0.8% year on year.
- We have seen an extraordinary fall in unemployment over the past year, which is reflected in the unprecedented streak of growth in the Employment Index. Over the year it has moved from 97.5, which indicates barely positive growth, to 113.4, a sixteen-point gain.
- The latest official labour market statistics cover the three months June to August. The decline in unemployment of 538,000 since the same period last year is the largest on record.

BDO EMPLOYMENT INDEX

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

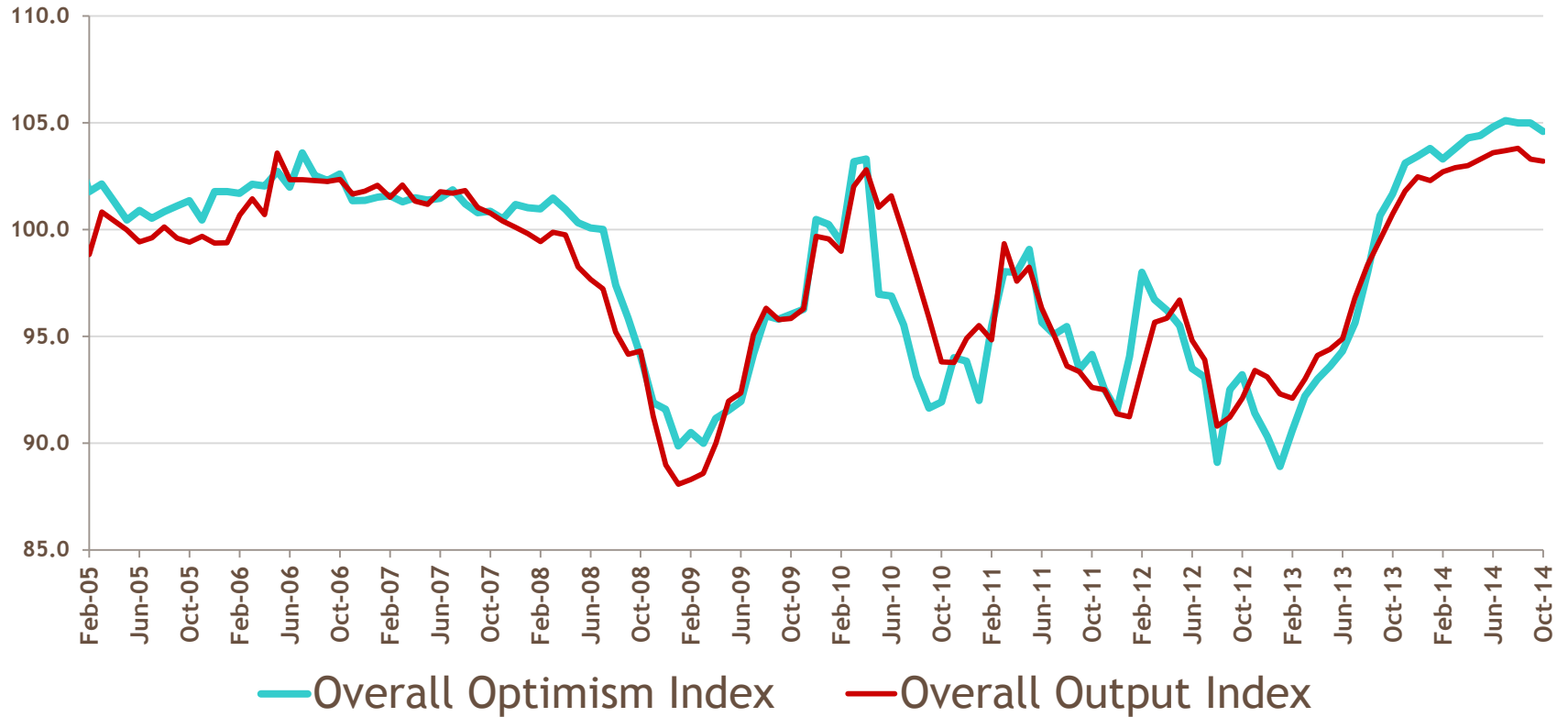
BDO INDICES TO LATEST MONTH

		Oct 2013	Nov 2013	Dec 2013	Jan 2014	Feb 2014	Mar 2014	Apr 2014	May 2014	Jun 2014	Jul 2014	Aug 2014	Sep 2014	Oct 2014
The BDO Optimism Index	Total	101.7	103.1	103.4	103.8	103.3	103.8	104.3	104.4	104.8	105.1	105.0	105.0	104.6
	Manuf.	109.6	115.3	115.5	117.1	118.2	119.4	120.8	121.0	119.5	119.9	118.8	117.4	116.1
	Service	99.9	100.4	100.7	101.2	100.5	100.8	101.1	101.1	101.9	102.2	102.3	102.6	102.3
The BDO Output Index	Total	100.7	101.8	102.5	102.3	102.7	102.9	103.0	103.3	103.6	103.7	103.8	103.3	103.2
	Manuf.	106.5	108.1	109.8	111.3	112.0	112.8	113.5	113.9	114.5	114.4	113.2	111.6	110.1
	Service	99.4	100.4	100.8	100.6	100.8	101.0	101.0	101.3	101.5	101.6	102.0	101.7	101.8
The BDO Inflation Index	Total	100.5	99.7	98.7	97.9	97.1	97.1	98.1	98.0	97.9	97.6	97.0	96.6	96.2
The BDO Employment Index	Total	98.1	98.3	99.4	101.3	102.7	104.3	105.6	107.7	108.8	109.6	111.2	112.3	113.4

APPENDIX 1: OUTPUT AND CONFIDENCE FALL

BDO OUTPUT AND OPTIMISM INDICES

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

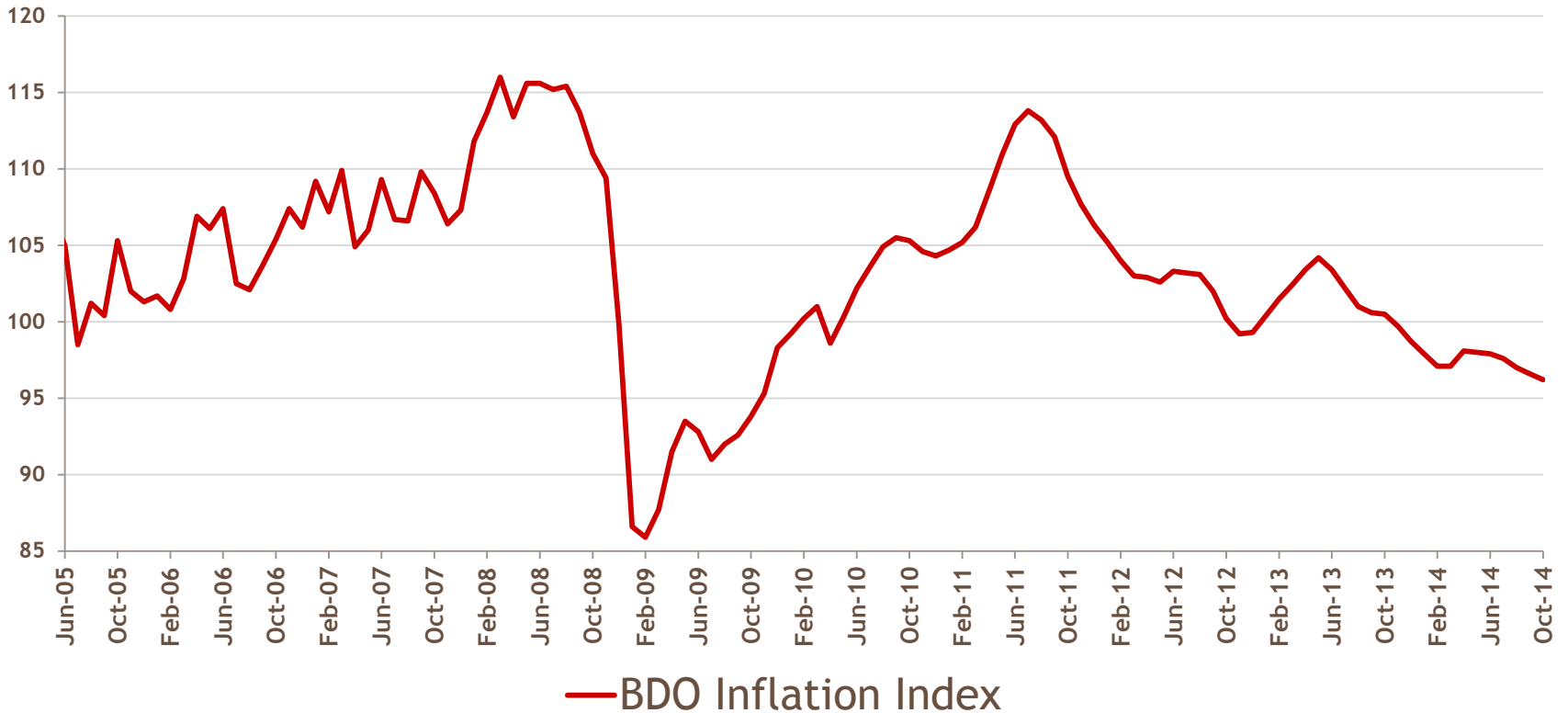


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 2: PRICE GROWTH CLOSE TO TURNING NEGATIVE

BDO INFLATION INDEX

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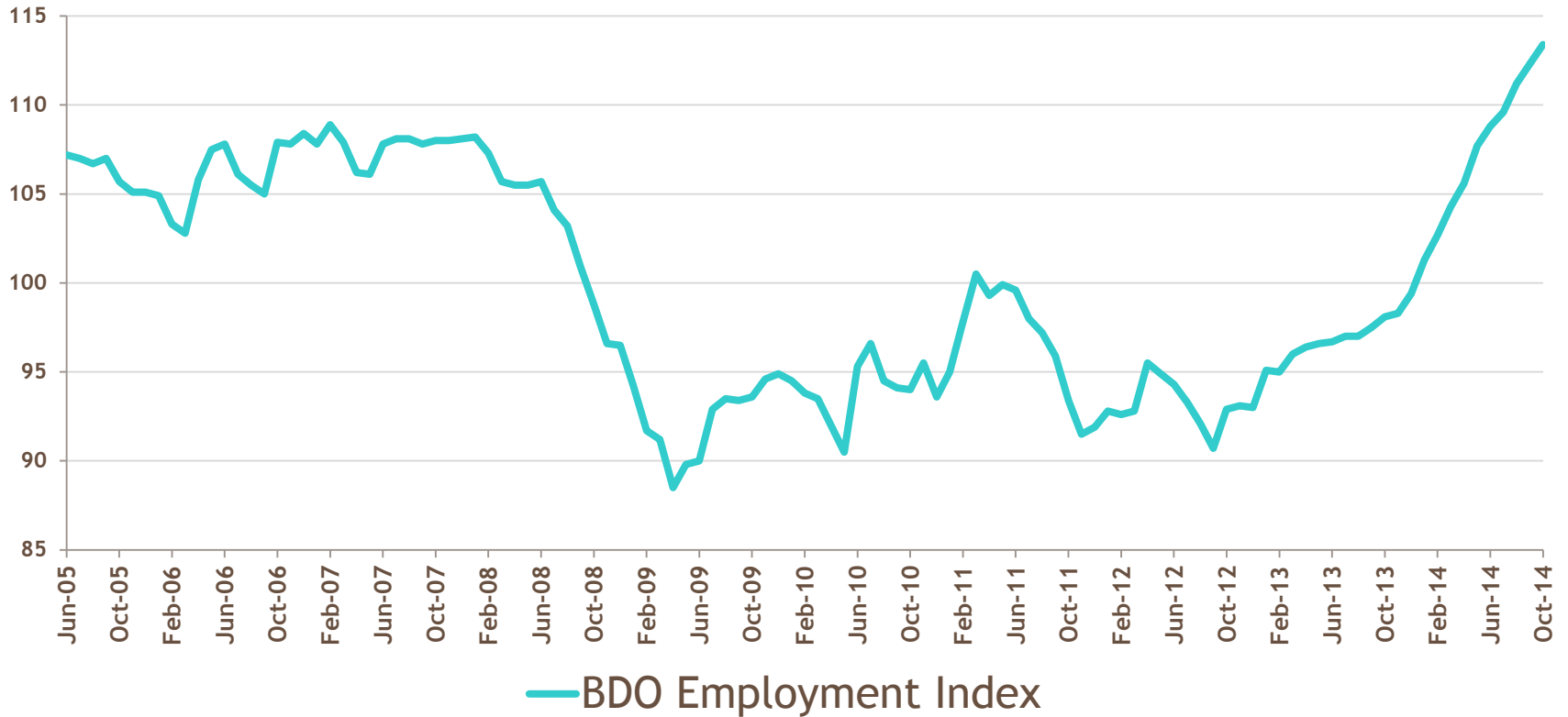


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 3: EMPLOYMENT CONTINUES TO OUTPERFORM OTHER INDICES

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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Cebr Making Business Sense



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.