



BDO MONTHLY BUSINESS TRENDS INDICES

June 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 June 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	✓✓✓	▲	104.5 in May from 104.3 in April
BDO Optimism Index	✓	▼	104.5 in May from 104.7 in April
BDO Inflation Index	✗	▲	94.2 in May from 93.8 in April
BDO Employment Index	✓	▼	111.3 in May from 112.0 in April

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

KEY FINDINGS

The BDO Output Index continued its rebound in the second quarter, after a weaker showing earlier in 2015. Its level at 104.5 suggests a return to faster growth in Q2 after the slowdown in Q1. Helping boost firms' output are a number of factors - the continuing deflationary environment, an increase in house prices making households feel more confident, and a return to higher growth in the Eurozone.

The BDO Inflation Index has moved onto an upward trajectory, climbing by 0.4 points from its lowest value since late 2009. It is now nearly at the 95 level, signalling no change in firms' costs. The brief bout of deflation that reduced prices for both firms and consumers is likely to abate soon, given that the oil price has picked up and wage growth is positive and expected to remain so.

The BDO Optimism Index is at a high level of 104.5 and largely unchanged. Its level is precisely that of the Output Index: this suggests that we will see a relatively constant rate of expansion in output over a 4-6 month horizon. Despite the fact that the election created some short-term uncertainty over the future business environment, business confidence appears not to have been particularly swayed by it in either direction.

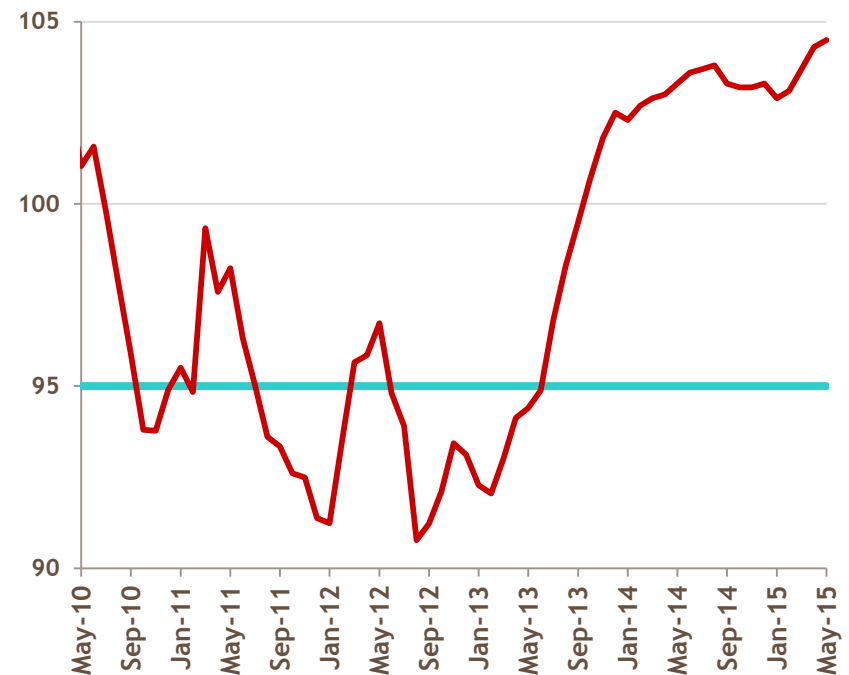
The BDO Employment Index continues a gradually declining trend, falling over May from 112.0 to 111.3. However, this is from a very high level and still shows a labour market in rude health, but with the pace of hiring set to slow gradually as unemployment declines towards pre-crisis levels. Looking further ahead, as these strong hiring expectations continue while unemployment is near pre-crisis levels, future job creation may start to expand the workforce by taking in some who are currently outside the labour market altogether.

Q2 PICKUP IN GROWTH SUSTAINED INTO MAY

- The BDO Output Index stood largely unchanged in May at a high level of 104.5, marginally above April's 104.3. The index suggests a pickup in growth after Q1's slowdown.
- Over the next few months, firms expect output to grow slightly above the long-term trend rate. This is visible in the small rises in both the services and manufacturing indices.
- Continuing low prices of essential items are supporting spending power, while recent figures also suggest that house prices have returned to strong growth. The latter tends to correlate reliably with consumer spending as households who own their house feel wealthier.
- The pickup in activity in the Eurozone is likely to provide increased demand for UK exports.

BDO OUTPUT INDEX

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



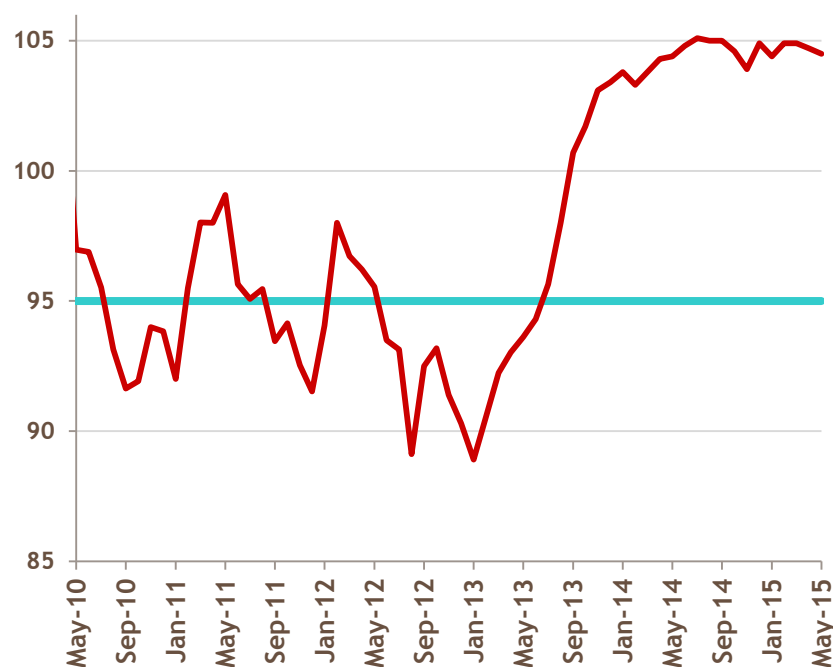
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

OPTIMISM INCHING DOWN, BUT FIRMS REMAIN BULLISH

- The BDO Optimism Index continued to fall back slowly for the second consecutive month. It stands at 104.5 compared to 104.7 during April.
- Overall, the high level of the index suggests a maintenance throughout 2015 of robust rates of growth. The slight decline over the past two months suggests we will see a gentle moderation in this pace, but we are unlikely to see a sharp slowdown.
- It does not point to any significant change in the pace of output expansion in the medium term, which is forecast to continue at above the long-term trend rate.
- However, there has been a divergence in the subsectors' performance. The services sub-index rose, while manufacturing confidence suffered a sharp drop. In recent months, manufacturing confidence has been subdued, by the standards of the past year. Weak business investment (which tends to create demand for manufactured goods) and the strong pound are two drags on manufacturing performance.

BDO OPTIMISM INDEX

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



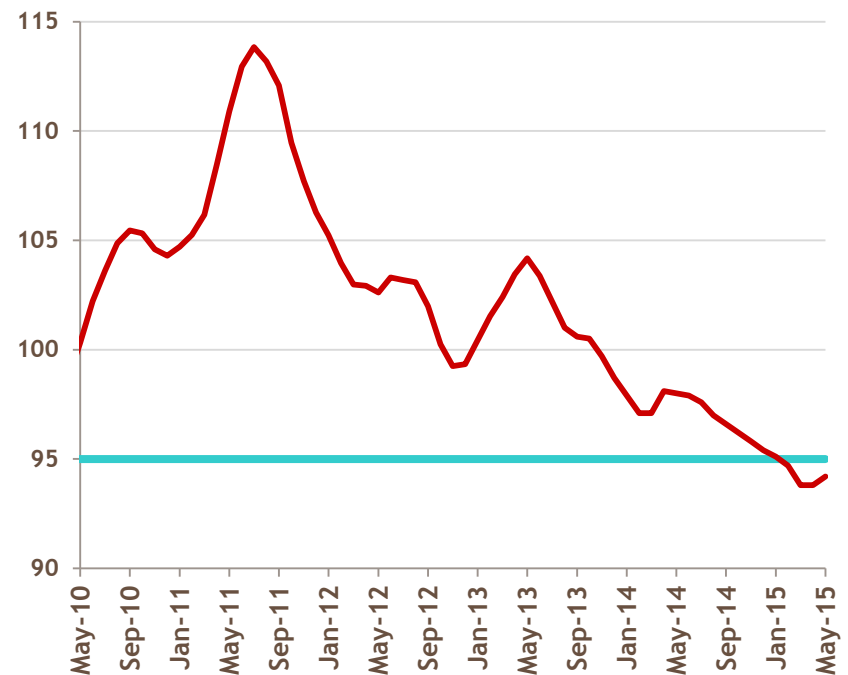
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

COSTS MOVING BACK TOWARDS FLAT PATH

- After a long stretch of decline, the BDO Inflation Index has stopped falling and moved onto a cautious upward trajectory, climbing from 93.8 during April to 94.2 during May.
- The index is within one point of the 95 line which separates inflation and deflation, meaning cost pressures for firms are likely to be around flat or slightly negative over the coming months. Neither firmly deflationary nor inflationary, this cost environment has been termed “no-flation”.
- Broadly flat costs alongside output figures showing robust demand suggest that firms are well-placed to see strong bottom lines over the short-term future.

BDO INFLATION INDEX

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



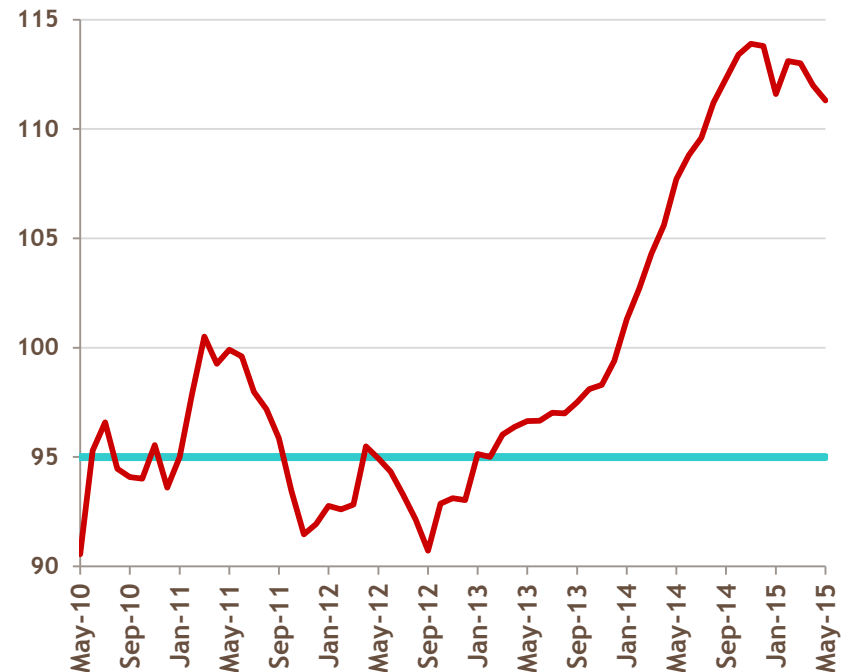
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

JOBS BOOM TO SLOW AS HIRING STARTS TO EASE

- The BDO Employment Index continued to climb down gradually, although it remains high. During May, the index fell from 112.0 to 111.3.
- Firms expect to continue hiring workers at a relatively rapid rate, close to that sustained over the past two years. However, the recent trend downwards suggests there will be a gradual deceleration of that rate over coming months.
- The environment remains favourable for those looking for work. Wages are increasing at around 2%, which is relatively slow, but contribute to higher spending power in an environment of zero inflation. However, this rate of growth will be difficult to maintain unless there is a sign of productivity gains.
- An increase in employment to its highest ever level over the course of the recovery has allowed overall output to grow regardless of stagnant productivity.

BDO EMPLOYMENT INDEX

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

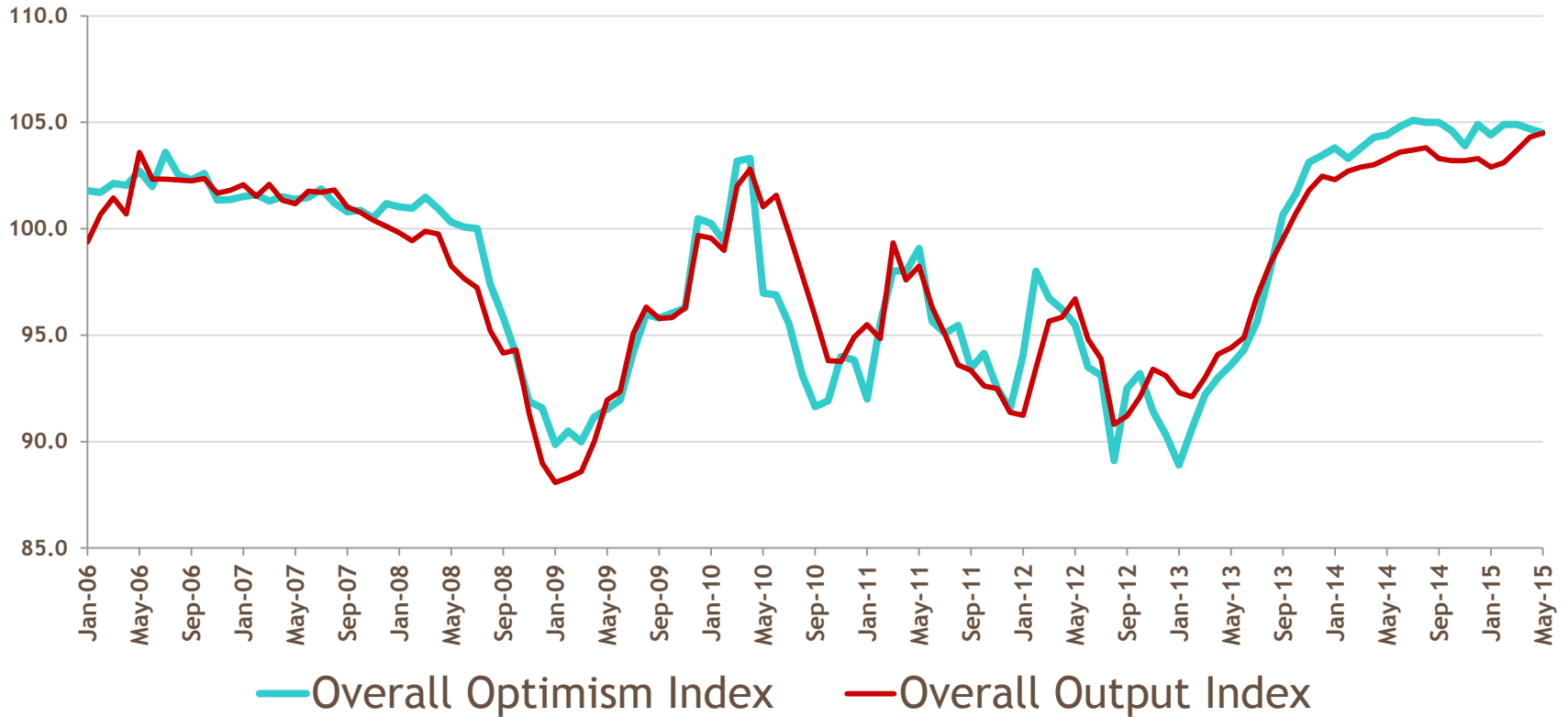
BDO INDICES TO LATEST MONTH

		May 2014	Jun 2014	Jul 2014	Aug 2014	Sep 2014	Oct 2014	Nov 2014	Dec 2014	Jan 2015	Feb 2015	Mar 2015	Apr 2015	May 2015
The BDO Optimism Index	Total	104.4	104.8	105.1	105.0	105.0	104.6	103.9	104.9	104.4	104.9	104.9	104.7	104.5
	Manuf.	121.0	119.5	119.9	118.8	117.4	116.1	114.1	113.9	113.0	111.6	109.8	107.4	103.4
	Service	101.1	101.9	102.2	102.3	102.6	102.3	101.9	103.1	102.7	103.6	103.9	104.1	104.7
The BDO Output Index	Total	103.3	103.6	103.7	103.8	103.3	103.2	103.2	103.3	102.9	103.1	103.7	104.3	104.5
	Manuf.	113.9	114.5	114.4	113.2	111.6	110.1	109.1	108.0	107.3	107.1	107.7	108.8	109.0
	Service	101.3	101.5	101.6	102.0	101.7	101.8	102.1	102.4	102.1	102.3	102.9	103.5	103.6
The BDO Inflation Index	Total	98.0	97.9	97.6	97.0	96.6	96.2	95.8	95.4	95.1	94.7	93.8	93.8	94.2
The BDO Employment Index	Total	107.7	108.8	109.6	111.2	112.3	113.4	113.9	113.8	111.6	113.1	113.0	112.0	111.3

APPENDIX 1: Q2 PICKUP IN GROWTH SUSTAINED INTO MAY

BDO OUTPUT AND OPTIMISM INDICES

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

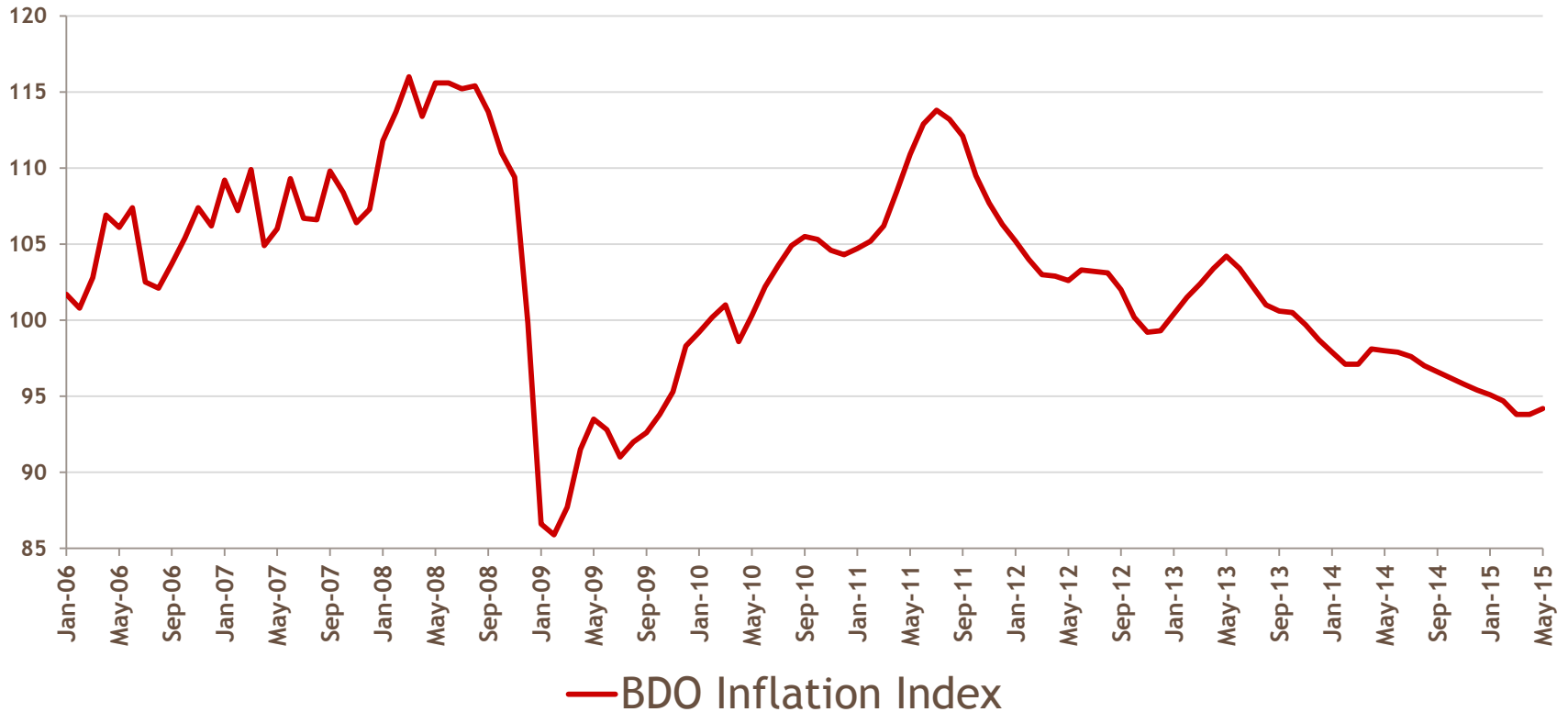


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 2: COSTS MOVING BACK TOWARDS FLAT PATH

BDO INFLATION INDEX

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

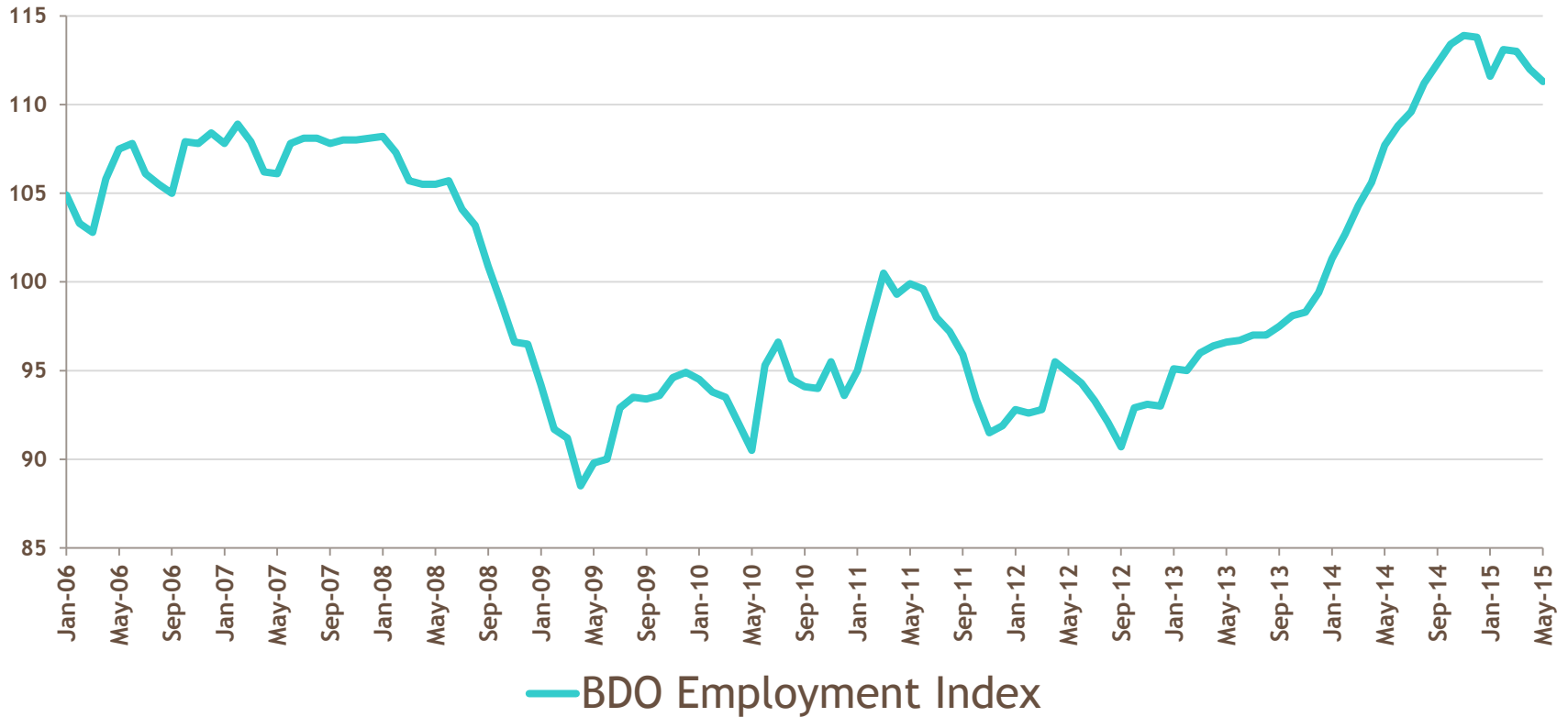


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 3: JOBS BOOM TO SLOW AS HIRING STARTS TO EASE

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.