



# BDO MONTHLY BUSINESS TRENDS INDICES

December 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 December 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 November from 103.2 in October
BDO Optimism Index	✓	▽	103.9 in November from 104.6 in October
BDO Inflation Index	xxx	▽	95.8 in November from 96.2 in October
BDO Employment Index	✓✓✓	△	113.9 in November from 113.4 in October

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 stood still at 103.2 in November. While the services sub-index achieved a small rise of 0.3 points, the manufacturing sub-index dropped by a point and cancelled this out. Both sectors' scores remain above the long-term average trend rate - with manufacturing substantially above this at 109.1 - but the signs point to a moderation in the growth rate as 2015 begins. However, given the very impressive performance of the UK economy in 2014, this slowdown should be seen as a moderation rather than a slide back into difficult business conditions.

The BDO Inflation Index has continued to fall, dropping from 96.2 to 95.8 during November. Inflation rates are low throughout the world, driven by weak industrial production growth and strong supply of commodities feeding through into a range of goods prices. Wage growth remains modest, though there are early signs of a possible pick-up. A low oil price is likely to keep inflationary pressures weak in 2015.

The BDO Optimism Index fell during November as worries over the global economic climate continue to weigh on expectations. Economic conditions in the Eurozone have deteriorated recently and while the UK's domestic economy is still relatively strong, the mood abroad still puts downward pressure on the outlook. Manufacturing confidence remains relatively strong, but it is currently retreating from the very high levels it reached around mid-year. The dip in confidence now seems clear enough to be considered a trend.

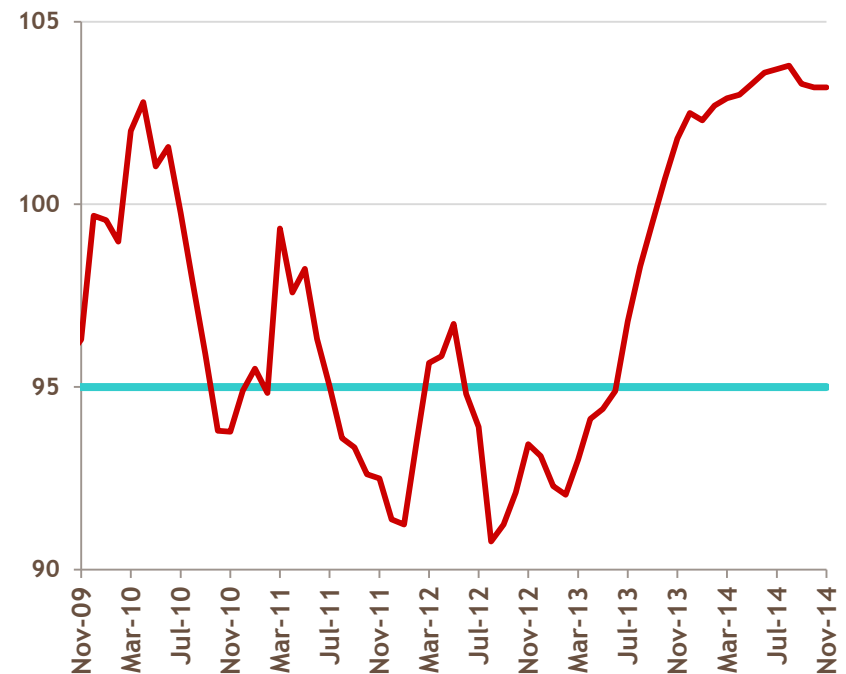
In November, the BDO Employment Index once again performed strongly. It now stands at 113.9, driven by strong hiring intentions across sectors. Unemployment, last measured at 6.0% for the July-to-September period, is now close to long-term average, pre-recession levels. But slack still remains in the labour market and, according to the surveys which feed into the Employment Index, firms intend to continue hiring strongly over the near term.

# OUTPUT INDEX FLATTENS OUT

- The BDO Output Index was flat during November. Its current score of 103.2 designates short-term output growth above the long-run trend level.
- A dip in the manufacturing sub-index of one point was offset by a rise in the services sub-index of 0.3 points, which precisely cancelled each other out.
- Companies have been reporting subdued foreign demand while domestic demand holds steady. This disproportionately impacts the manufacturing sector, which exports more and focuses on European markets in its exports to a greater extent than service companies do.
- UK output growth has been broadly stable across 2014, as predicted by the Output Index. However, the index now stands lower than earlier in the year, suggesting growth in Q4 and the start of 2015 will be slightly slower.

## BDO OUTPUT INDEX

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



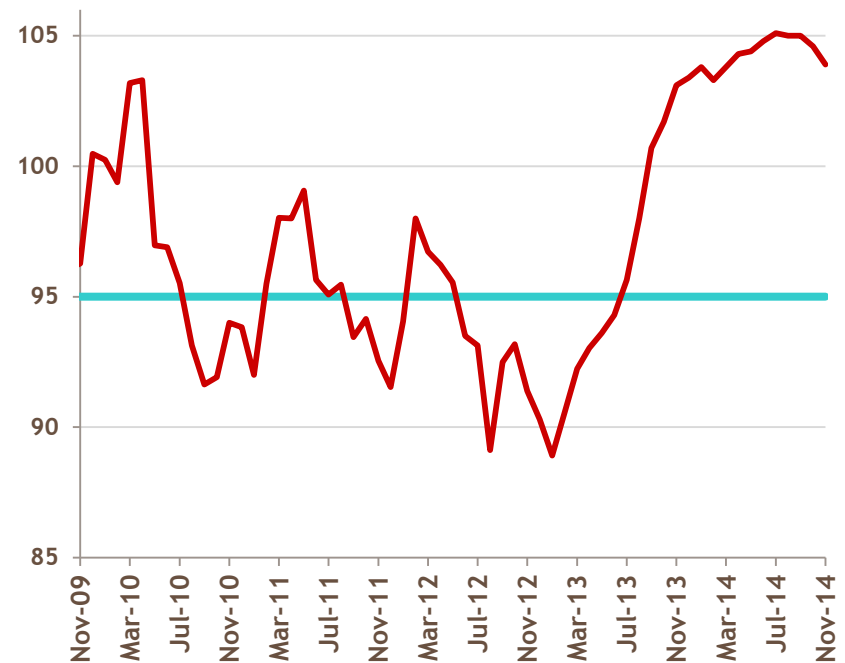
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# OPTIMISM INDEX ON DOWNWARD TREND

- The BDO Optimism Index has dropped further this month, falling from 104.6 to 103.9. This suggests over a six-month horizon, companies anticipate growth to be slightly slower than has been the case recently. (But still above the long-term average.)
- As with the Output Index, Optimism in November was hit by a fall in the manufacturing sector. The sub-index for the sector dropped two points from 116.1 to 114.1, but remains at a robust level.
- The service sector sub-index also fell marginally this month. The dip was modest at 0.4 points, and the sub-index also remains above 100.
- The drop in optimism appears to be the start of a downward trend. Following very strong economic performance in 2014, this likely reflects a return to more regular growth conditions, rather than a slide back into difficult business conditions. This would suggest a GDP growth rate of around 2%-2.5% during this quarter and next, compared to the rates of around 3% which we have seen recently.

## BDO OPTIMISM INDEX

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



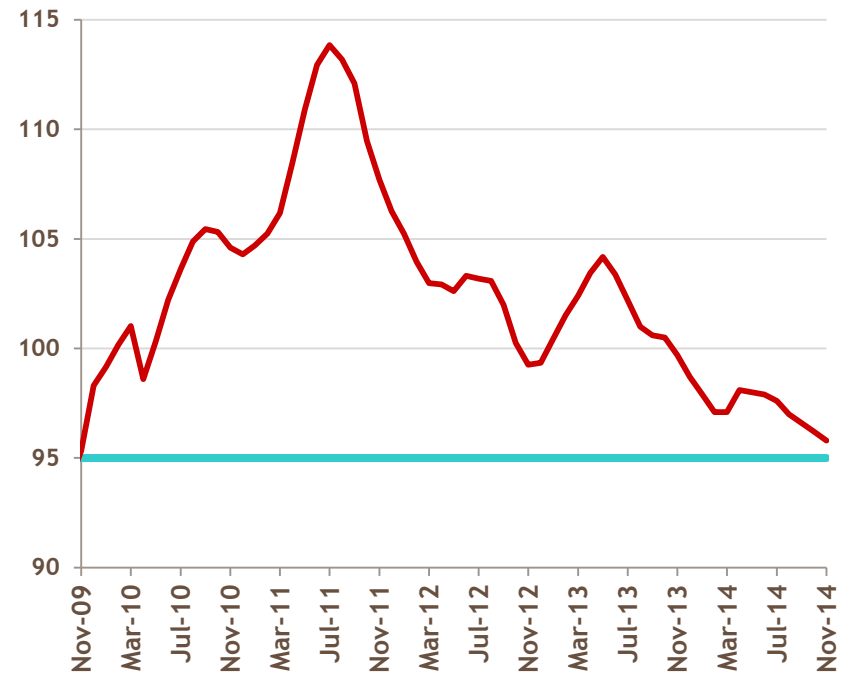
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# INFLATION INDEX STILL FALLING AS OIL PRICE DROPS

- The BDO Inflation Index fell further over November, dropping from 96.2 to 95.8. This puts it within one point of indicating price deflation for firms.
- This is in part due to low or negative energy price growth, which feeds in, to varying extents, to virtually all other markets.
- Recent developments in oil markets suggest the trend will only intensify. The Organisation of Petroleum Exporting Countries (OPEC) failed to agree production cuts at its meeting on 28 November, which sent the oil price tumbling further from an already low level as it ensures that supply will keep growing at a faster rate than demand. Inflation is likely to stay at its already very low rates, or fall further.
- At the same time, wages are growing at low rates. There are signs of acceleration, but at the moment most firms are not feeling significant pressures from wage growth.

## BDO INFLATION INDEX

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



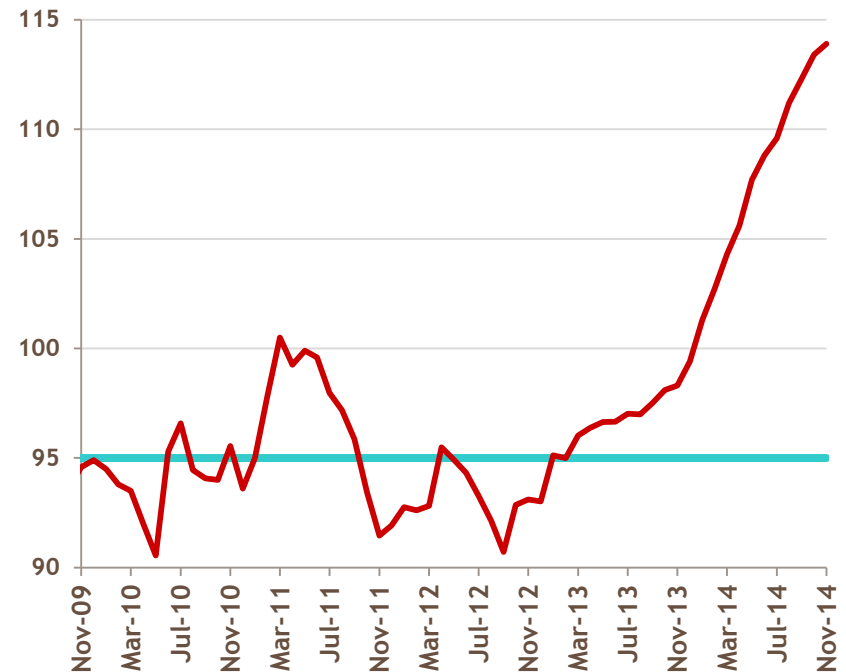
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# EMPLOYMENT CONTINUES TO GROW BUT PACE SLACKENS

- The BDO Employment Index has increased again, continuing its recent trajectory of virtually unbroken expansion. Over November it moved from 113.4 to 113.9.
- Although still heading upward, the momentum of the index appears to be slowing: the average monthly increase during 2014 has been 1.3 points.
- The most recent employment figures show jobs growth also slowing down after a record-breaking fall in unemployment over the past year.
- Employment growth in the construction sector is particularly buoyant. Skills shortages are reported in the sector, enabling workers to bargain for higher wages.
- A similar effect may be just starting in the wider economy - average weekly earnings increased above inflation on the latest data, suggesting that the pool of unemployed workers has shrunk enough that those in jobs can command higher wages. The continued expansion in the index is encouraging for workers in this sense.

## 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

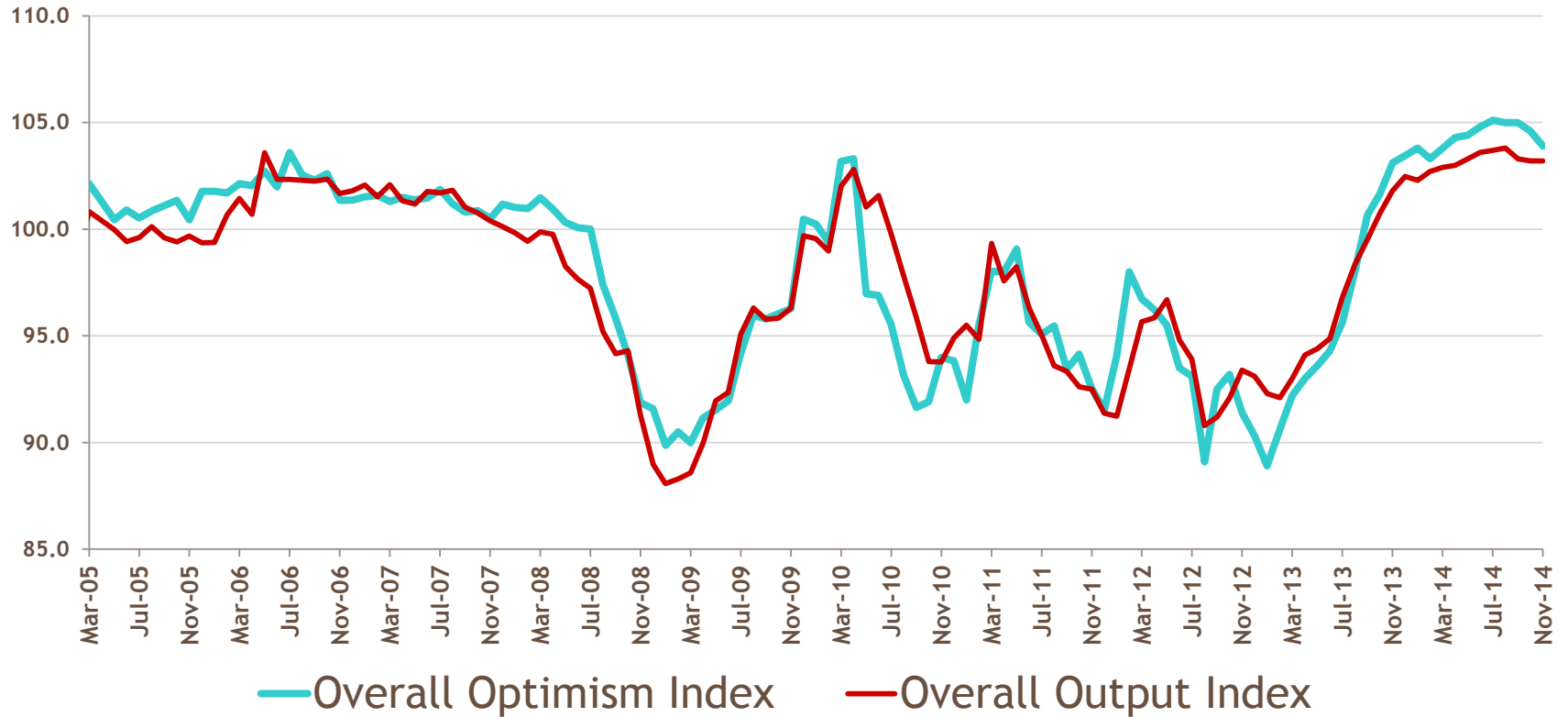
		Nov 2013	Dec 2013	Jan 2014	Feb 2014	Mar 2014	Apr 2014	May 2014	Jun 2014	Jul 2014	Aug 2014	Sep 2014	Oct 2014	Nov 2014
The BDO Optimism Index	<b>Total</b>	103.1	103.4	103.8	103.3	103.8	104.3	104.4	104.8	105.1	105.0	105.0	104.6	103.9
	Manuf.	115.3	115.5	117.1	118.2	119.4	120.8	121.0	119.5	119.9	118.8	117.4	116.1	114.1
	Service	100.4	100.7	101.2	100.5	100.8	101.1	101.1	101.9	102.2	102.3	102.6	102.3	101.9
The BDO Output Index	<b>Total</b>	101.8	102.5	102.3	102.7	102.9	103.0	103.3	103.6	103.7	103.8	103.3	103.2	103.2
	Manuf.	108.1	109.8	111.3	112.0	112.8	113.5	113.9	114.5	114.4	113.2	111.6	110.1	109.1
	Service	100.4	100.8	100.6	100.8	101.0	101.0	101.3	101.5	101.6	102.0	101.7	101.8	102.1
The BDO Inflation Index	<b>Total</b>	99.7	98.7	97.9	97.1	97.1	98.1	98.0	97.9	97.6	97.0	96.6	96.2	95.8
The BDO Employment Index	<b>Total</b>	98.3	99.4	101.3	102.7	104.3	105.6	107.7	108.8	109.6	111.2	112.3	113.4	113.9



# APPENDIX 1: OUTPUT STABLE BUT CONFIDENCE FALLS

## BDO OUTPUT AND OPTIMISM INDICES

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

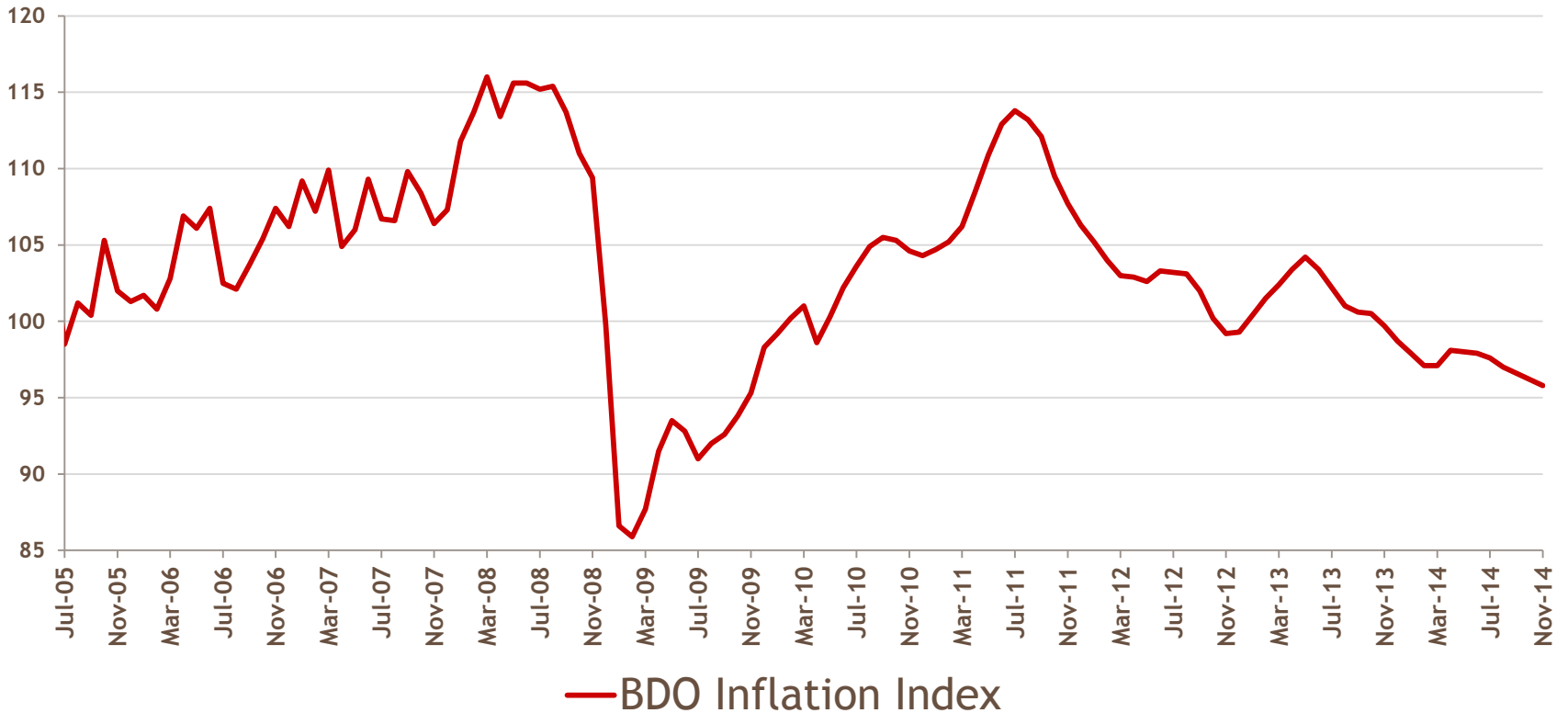


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# APPENDIX 2: PRICE GROWTH CLOSE TO TURNING NEGATIVE

## BDO INFLATION INDEX

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

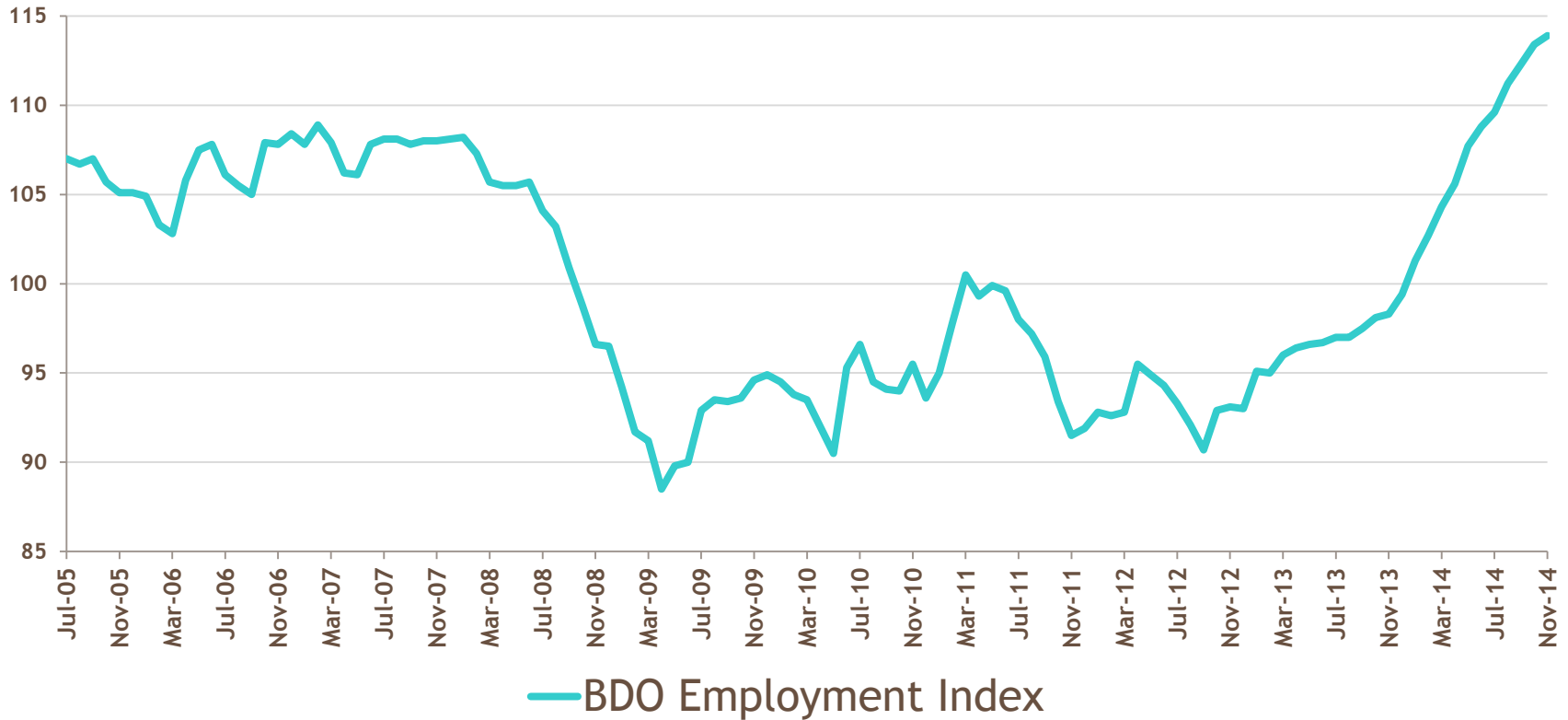


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# APPENDIX 3: EMPLOYMENT 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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# 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.