



# BDO MONTHLY BUSINESS TRENDS INDICES

May 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 May 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	✓✓✓	▲	103.0 in April from 102.9 in March
BDO Optimism Index	✓✓✓	▲	104.3 in April from 103.8 in March
BDO Inflation Index	✗	▲	98.1 in April from 97.1 in March
BDO Employment Index	✓✓✓	▲	105.6 in April from 104.3 in March

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  
           ✓✓✗ = (joint) highest in 12 months, but below 100;     ✗✗✓ = (joint) lowest in 12 months, but above 100

# KEY FINDINGS

The BDO Output Index is broadly unchanged from last month. Over April it inched up by 0.1, meaning it now stands at 103.0. This movement is in line with recent trends in the economy: figures released last week showed that Q1's quarter-on-quarter GDP growth rate stood at 0.8%. The Index continues to move up into territory not seen since before the financial crisis and recession, but its pace of increase is slowing.

The BDO Optimism Index rose again, taking it to an all-time high of 104.3. It gained 0.5 on last month's value, which means that expectations for the next six months remain generally confident. The recent trend of stronger manufacturing than services confidence continued; confidence in the latter barely rose at all, and now stands almost twenty points below the level of the manufacturing sub-index. The services sub-index now stands at 101.1, barely higher than the mark which indicates long-term trend growth.

The BDO Inflation Index has moved up from 97.1 to 98.1 over April. This suggests prices will start rising by more than they have been in recent months - however, against a backdrop of relatively low inflation this does not present a threat, and is still below the 100 level that indicates the long-term trend in inflation. Rising inflation expectations do however present problems for real wage growth, which is still weak and could veer back into negative territory if inflation does begin to rise.

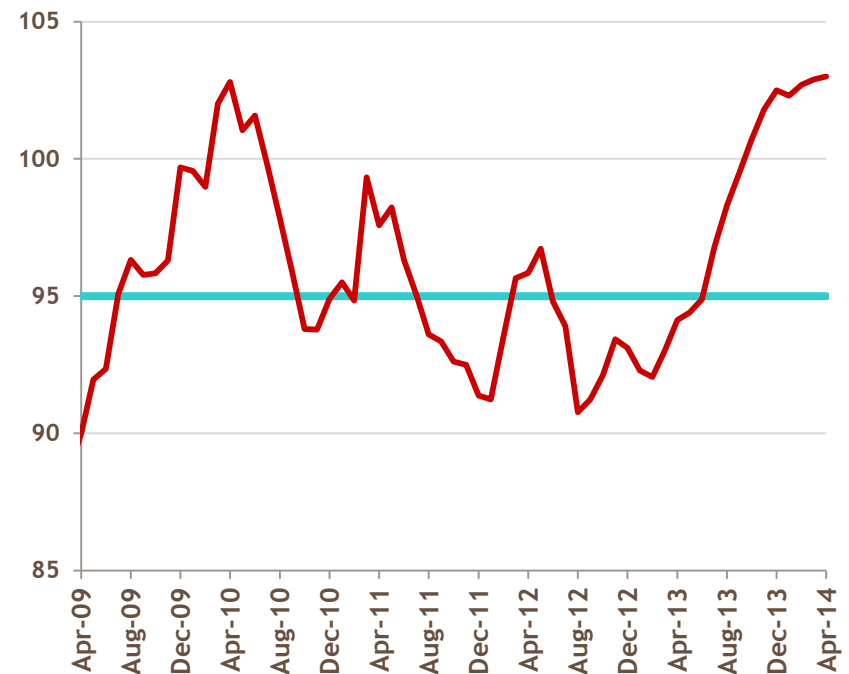
The BDO Employment Index, which reflects expectations for the labour market over the coming three months, showed another large rise, taking it to its highest level since June 2008. This suggests that the recent downward trend in the unemployment rate is set to continue, and means that the good news regarding output and optimism is translating into growth in jobs.

# OUTPUT INDEX REACHES NEW POST-CRISIS HIGH, BUT SHOWS SIGNS OF TAILING OFF

- In April, the BDO Output Index inched up by just 0.1 from its previous value of 112.9. This continues the trend of successive post-crisis highs.
- The only time it has exceeded this level is during May 2006, when it reached 103.6.
- Although the index has grown over each month of the past twelve months bar January, growth appears to be tailing off.
- It now stands at a very robust level, comfortably above trend, meaning this tailing off should not be of concern.
- However, the services sub-index has been showing relatively underwhelming performance. It remains at 101.0, which is exactly where it was last month and little changed on the beginning of the year.
- It fell on manufacturing to pick up the slack, as has been the pattern recently. Manufacturing rose from 112.8 to 113.5, bringing it to a level far above the long-term average. Overall, there are encouraging signs that growth is extending beyond services to other parts of the economy.

## BDO OUTPUT INDEX

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



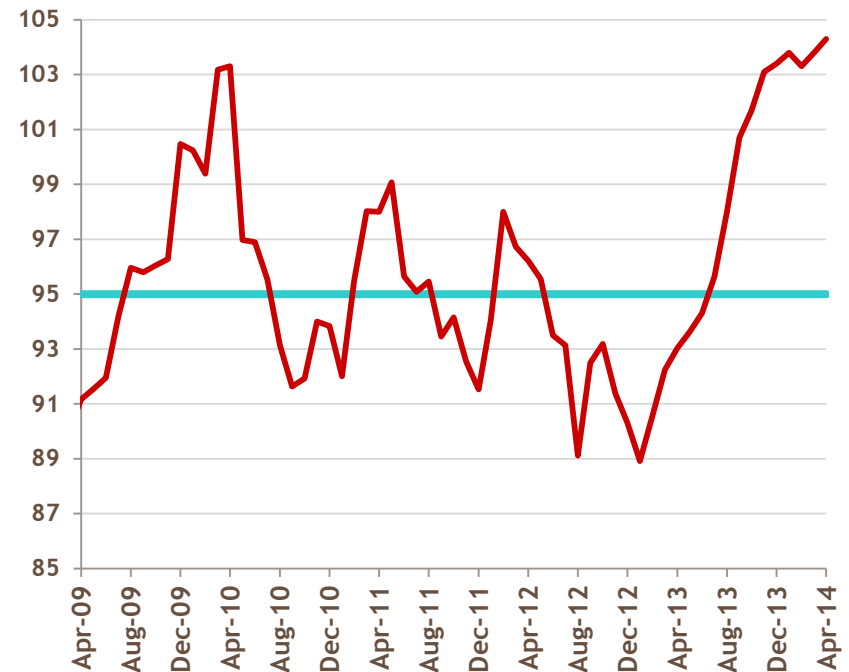
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# OPTIMISM INDEX MOVES TO NEW ALL-TIME HIGH

- The BDO Optimism Index continues to climb. It stands at 104.3 for April, modestly above March's level of 103.8.
- This implies that expectations for business conditions in six months' time remain very good.
- Again, the story differs across the two broad economic sectors. Just as with the Output Index, the optimism sub-index for services lags far behind that for manufacturing.
- The services sub-index stands at 101.1, broadly unchanged on last month. The fact that the optimism sub-index for services is on a par with the output sub-index for services means that conditions for six months ahead look broadly the same as conditions at present, for this economic sector.
- Meanwhile, the sub-index for manufacturing jumped up from 119.4 to 120.8, pointing to further acceleration in the sector.

## BDO OPTIMISM INDEX

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



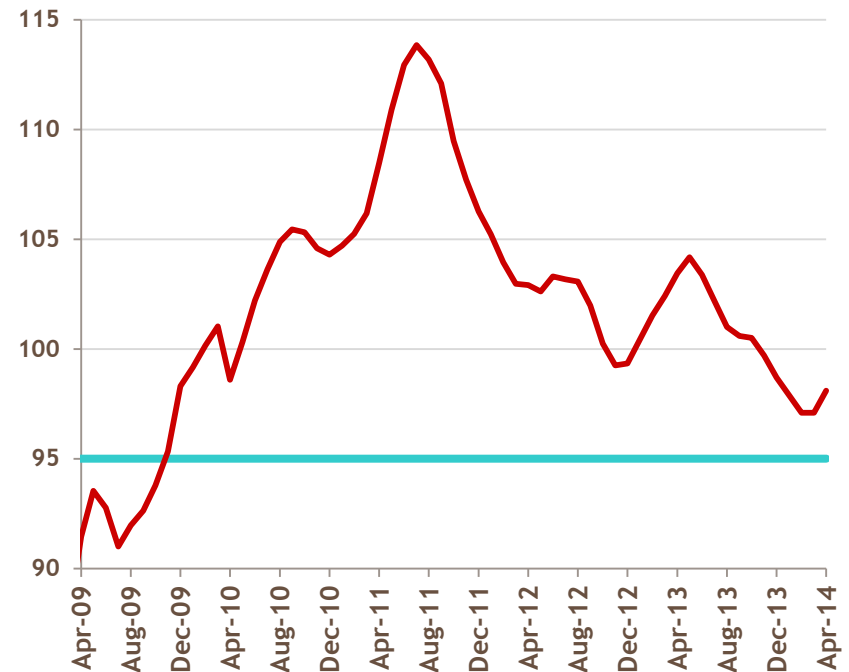
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# INFLATION EXPECTATIONS EDGE UP

- Inflation expectations moved a point higher on the index over April, taking the BDO Inflation Index from 97.1 in March to 98.1 in April.
- The latest move in the ONS's official measure of inflation (the consumer prices index) was slightly downwards. The main driver of the fall was motor fuels, an external factor.
- The BDO Inflation Index reflects expectations. The rise in the index suggests that businesses expect other drivers of inflation, such as wages, will start putting upward pressure on prices soon, as the economy recovers and spare capacity gets used up.
- Against a backdrop of weak global commodity prices and little wage-related inflation in the UK since spare capacity still exists in the economy, we expect that inflation will stay at moderate levels in the near term.

## BDO INFLATION INDEX

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



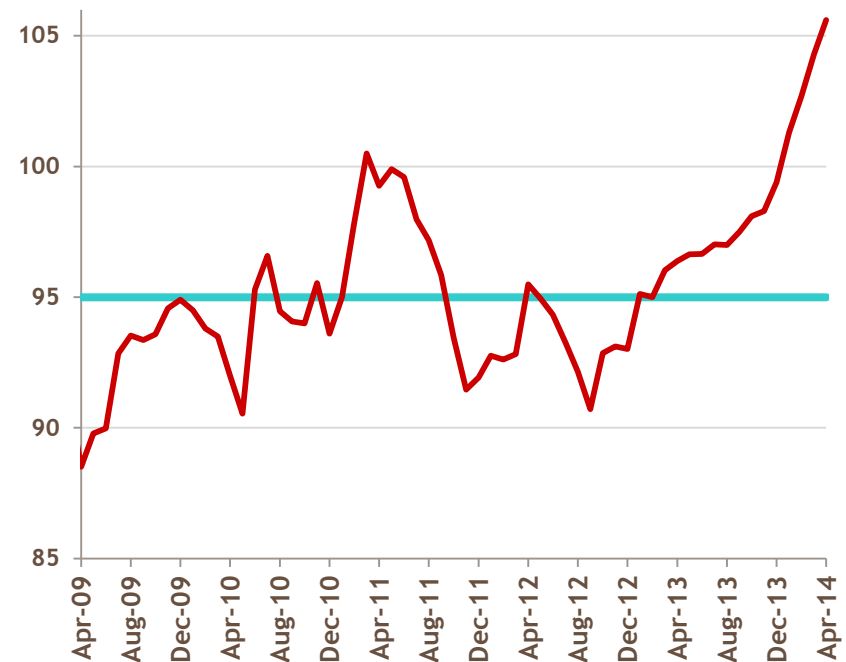
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# BDO EMPLOYMENT INDEX REACHES NEW POST-CRISIS PEAK

- The BDO Employment Index moved up again, climbing from 104.3 for March to 105.6 for April.
- The index has now grown in every month since December 2012. Its upward trajectory has been particularly rapid since November 2013: during the months since then, it has moved up by at least a point each month.
- Its current level is the highest since June 2008.
- The continued upward trajectory matches news from the ONS - the economy added almost 700,000 new jobs over the year leading up to the three-month period ending in February.
- The latest ONS figures for the unemployment rate showed that it had fallen to 6.9% for the three months to February. The optimism regarding future employment trends that the BDO Employment Index demonstrates suggests that the rate should continue to fall over the coming months.

## 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

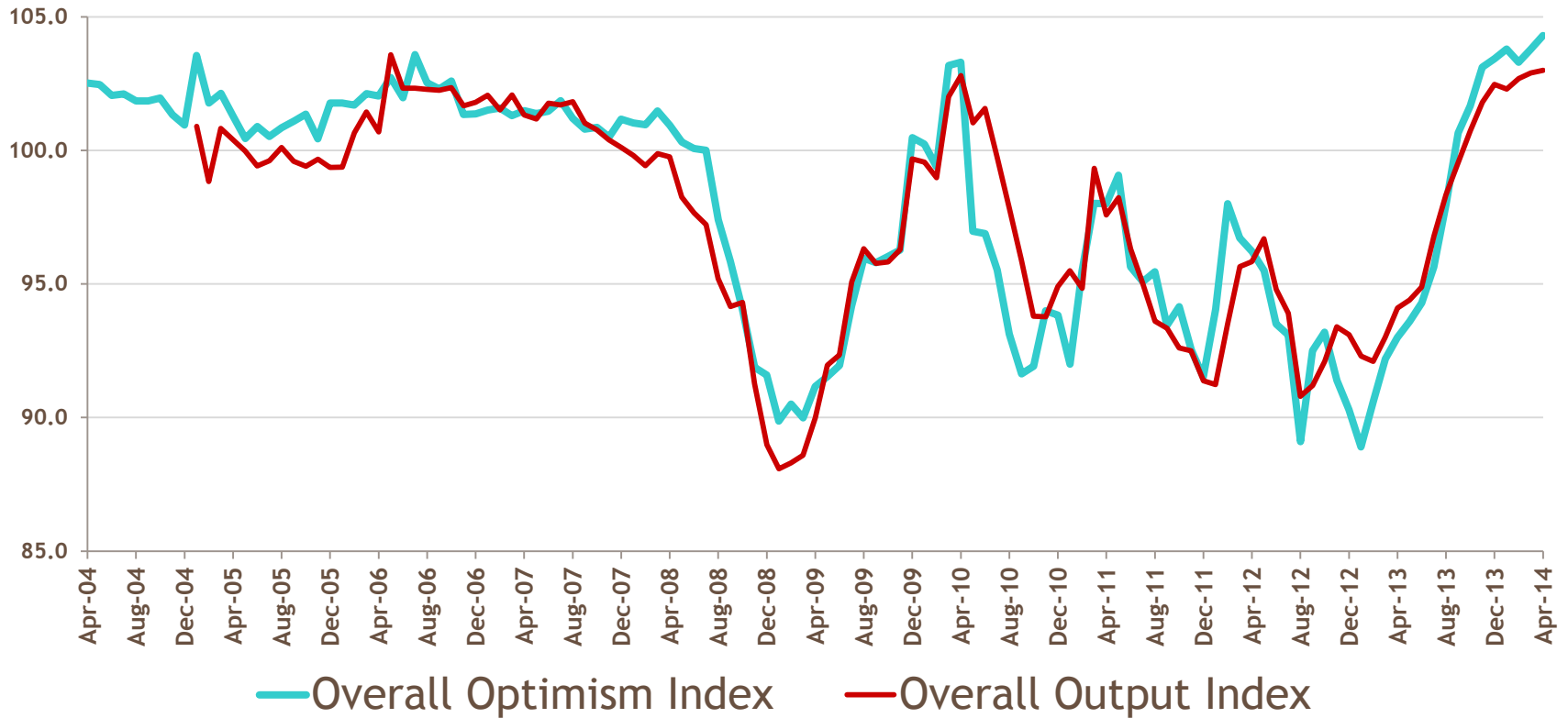
		Apr 2013	May 2013	June 2013	July 2013	Aug 2013	Sept 2013	Oct 2013	Nov 2013	Dec 2013	Jan 2014	Feb 2014	Mar 2014	Apr 2014
The BDO Optimism Index	<b>Total</b>	93.0	93.6	94.3	95.6	98.0	100.7	101.7	103.1	103.4	103.8	103.3	103.8	104.3
	Manuf.	88.3	88.5	89.0	91.4	99.6	107.0	109.6	115.3	115.5	117.1	118.2	119.4	120.8
	Service	94.1	94.8	95.5	96.6	97.7	99.2	99.9	100.4	100.7	101.2	100.5	100.8	101.1
The BDO Output Index	<b>Total</b>	94.1	94.4	94.9	96.8	98.3	99.5	100.7	101.8	102.5	102.3	102.7	102.9	103.0
	Manuf.	90.8	93.7	95.7	98.3	100.7	103.6	106.5	108.1	109.8	111.3	112.0	112.8	113.5
	Service	94.9	94.4	94.7	96.5	97.7	98.6	99.4	100.4	100.8	100.6	100.8	101.0	101.0
The BDO Inflation Index	<b>Total</b>	103.4	104.2	103.4	102.2	101.0	100.6	100.5	99.7	98.7	97.9	97.1	97.1	98.1
The BDO Employment Index	<b>Total</b>	96.4	96.6	96.7	97.0	97.0	97.5	98.1	98.3	99.4	101.3	102.7	104.3	105.6



# APPENDIX 1: BDO OPTIMISM INDEX MOVES TO NEW HIGH

## BDO OUTPUT AND OPTIMISM INDICES

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

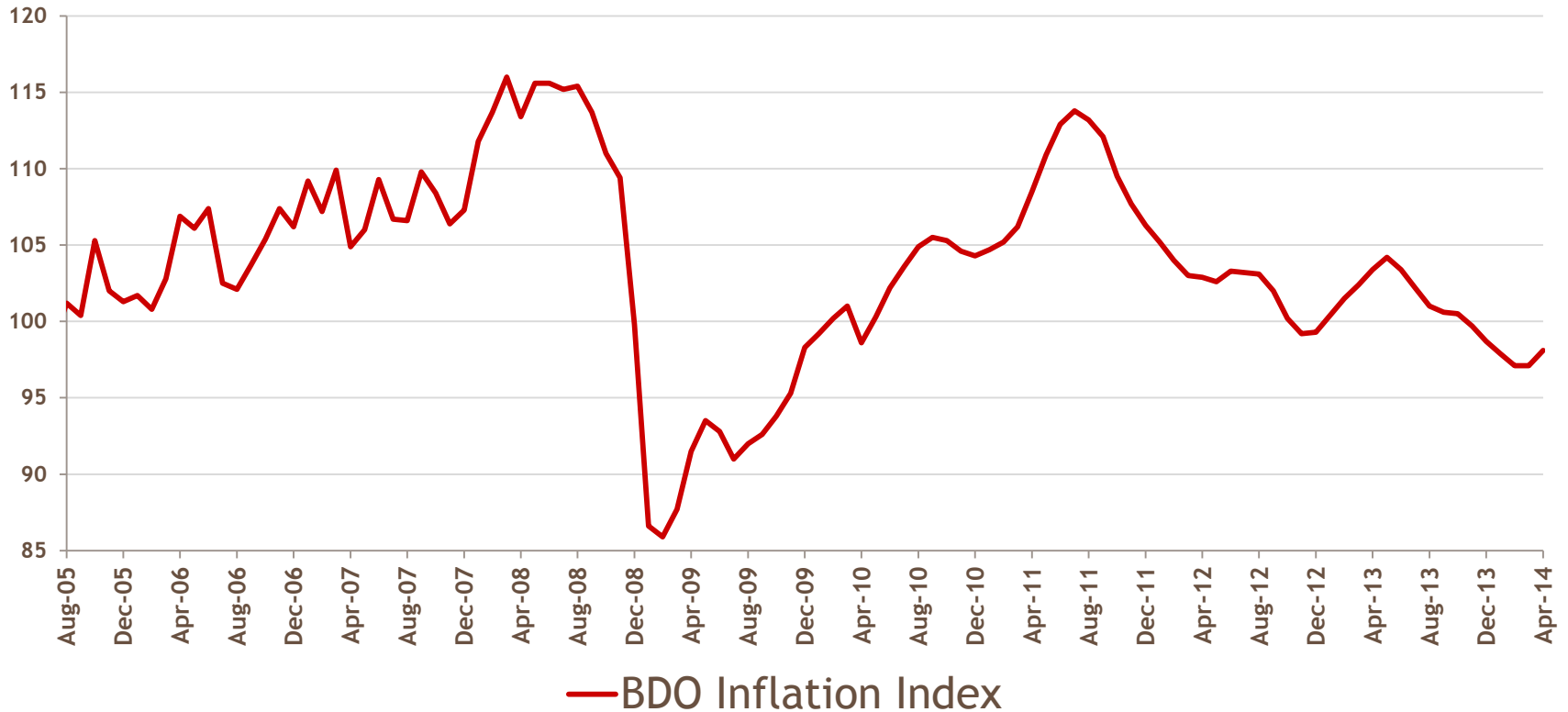


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# APPENDIX 2: BDO INFLATION INDEX REMAINS SUBDUED

## BDO INFLATION INDEX

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

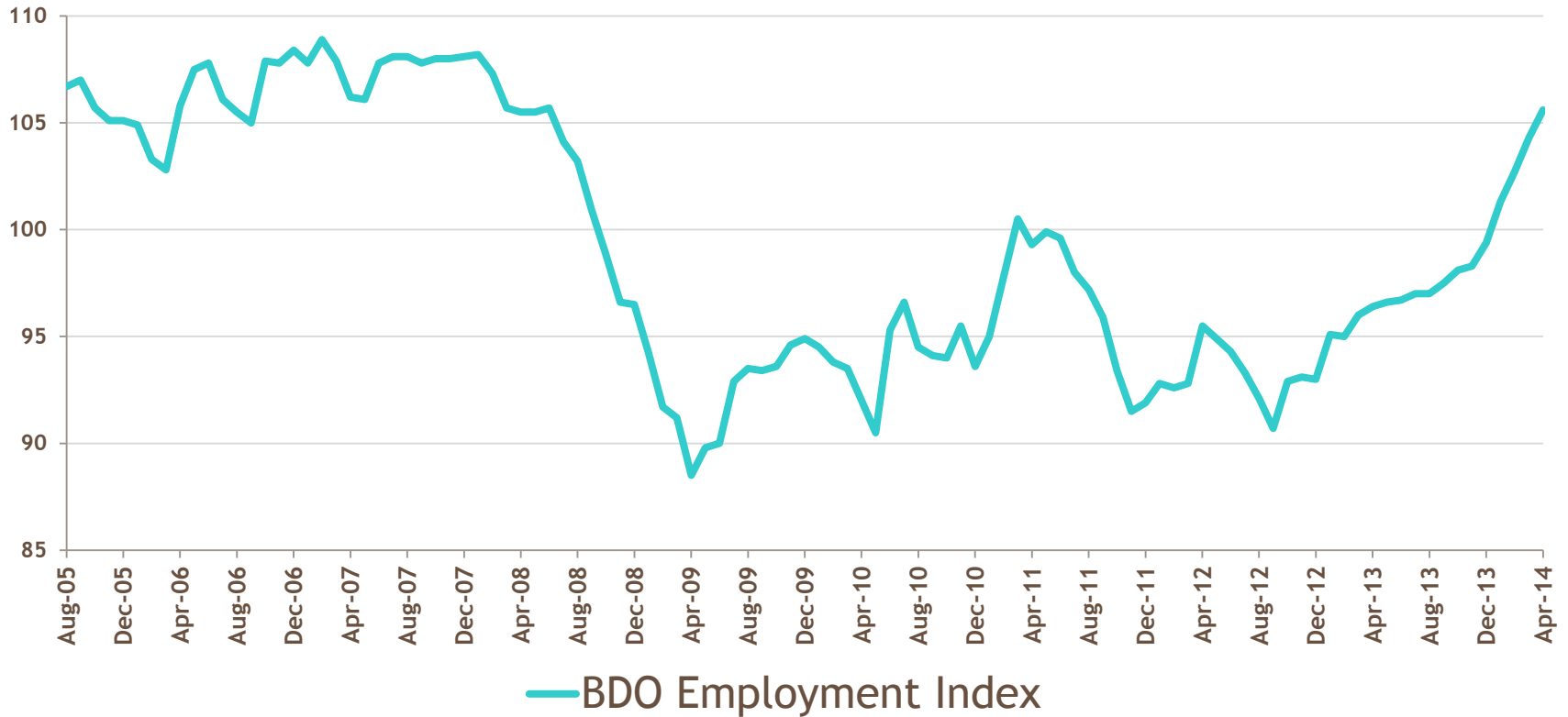


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# APPENDIX 3: EMPLOYMENT INDEX CONTINUES TO CLIMB

## 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](mailto:peter.hemington@bdo.co.uk)

## **SCOTT CORFE, ROB HARBRON OR ALASDAIR CAVALLA**

Centre for Economics and Business Research,  
Unit 1, 4 Bath Street,  
London EC1V 9DX

telephone: 020 7324 2850

email:

[scorfe@cebr.com](mailto:scorfe@cebr.com) / [rharbron@cebr.com](mailto:rharbron@cebr.com) / [acavalla@cebr.com](mailto:acavalla@cebr.com)

web: [www.cebr.com](http://www.cebr.com)



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.