

# BDO MONTHLY BUSINESS TRENDS INDICES

October 2013

# 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 for September, using the results from business surveys that were carried out between the first and last days of last month.

## Summary and key findings

Index	Current reading	Movement in month	Index level
BDO Output Index	✓✓	▲	99.5 in September from 98.3 in August
BDO Optimism Index	✓✓✓	▲	100.7 in September from 98.0 in August
BDO Inflation Index	✓	▼	100.6 in September from 101.0 in August
BDO Employment Index	✓✓	▲	97.5 in September from 97.0 in August

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

Business conditions continued to improve in September, as the BDO Output Index increased to 99.5, up from 98.3 the previous month. The last time the index was higher was in July 2010. The BDO Output sub-indices show that the economic recovery is now firmly entrenched in both the manufacturing and services sectors, covering the overwhelming majority of the UK economy. The services sector sub-index rose to 98.6 in September, up from 97.7 in August; this was the highest reading since June 2010. The manufacturing sub-index rose to 103.6 in September; this is above the August reading of 100.7. Overall, the most recent index data suggest the recovery is gathering pace and that UK economic growth is likely to accelerate over the final quarter of 2013.

The Optimism Index reached 100.7 in September, up from 98.0 in August. This level of confidence has not been seen mid-2010 and indicates that UK economic growth is expected to be above its long-term historical trend over the near term. The services sector confidence sub-index rose to 99.2 in September, up from 97.7 in August. The services sector covers over three quarters of the economy, so improvements here played a significant role in lifting the overall index. The manufacturing confidence sub-index continued to improve markedly, rising to 107.0 in September from 99.6 in August. Overall, the Optimism Index is up significantly, suggesting economic growth may pick up speed going forward.

Overall inflation expectations for business input prices continued to come down in September, as the BDO Inflation Index recorded a reading of 100.6, just down from 101.0 one month earlier. This is the fourth consecutive fall in businesses' inflation expectations, although declines are now slowing. Total wages were only 1.1% higher during May-July 2013 than one year earlier - down from a high of 2.2% pay growth over the year to April-June 2013. Input prices for UK manufacturers rose modestly, by only 2.8% over the year to August. This was down on the 5.1%, in line with declines in the Inflation Index. Manufacturers have also been aided by a declining oil prices. In sterling terms, the price of Brent Crude was 2.6% lower in September 2013 than in the same month of 2012.

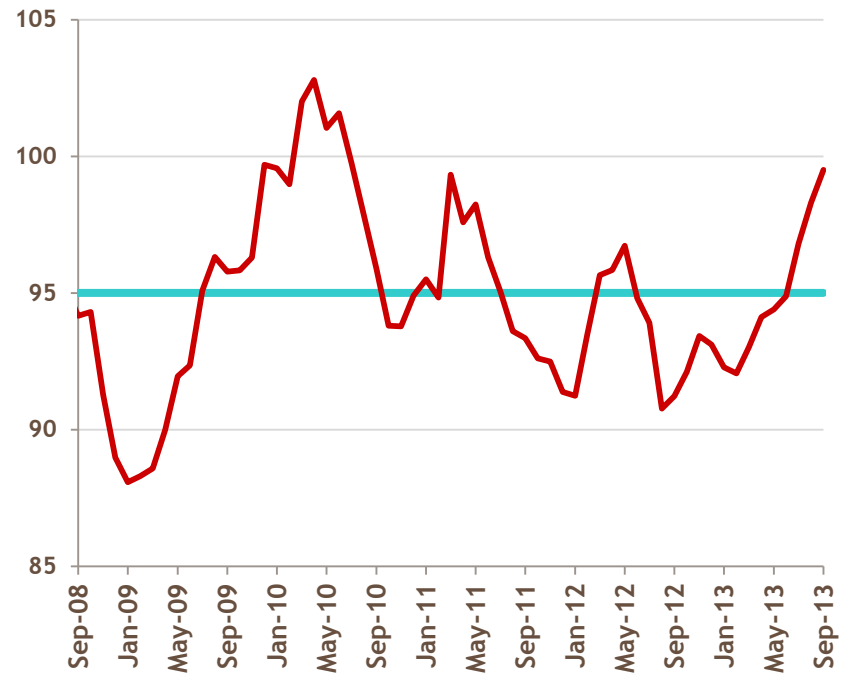
Hiring expectations improved modestly over September as the BDO Employment Index rose to 97.5, just up on the 97.0 figure recorded last month. The index is above the 95.0 level, indicating that private sector employment is expected to grow over the coming three months. The UK-wide unemployment rate is declining - albeit slowly. It was 7.7% over May-July 2013, down 0.1 percentage points from February-April 2013. While the current Employment Index indicates that employers are hiring more, it is below the 100.0 mark, suggesting that private sector employment growth is still below its long-term trend. Moreover, UK per-worker productivity is at levels similar to those seen in 2005. This means that over the medium term employers could choose to squeeze more out of existing employees - rather than hire more workers.

# OUTPUT INDEX RISES FURTHER, INDICATING STRONG GROWTH PROSPECTS FOR Q4 2013

- The BDO Output Index showed short term business conditions continued to improve in September. The Output Index rose noticeably to 99.5, up from 98.3 the previous month.
- The index now stands at its highest level since July 2010 and the sub-indices show the recovery is now firmly entrenched throughout the UK economy.
- The sub-index for the services sector increased to 98.6 in September, up from 97.7 in August.
- The services sub-index now stands at its highest level since June 2010.
- Similarly, the manufacturing sub-index rose to 103.6 in September. This is above the August reading of 100.7.
- The broad-based recovery in these sectors covers the overwhelming majority of the UK economy. The data suggest the recovery is gathering pace and that UK economic growth will accelerate over Q4 2013.

## BDO OUTPUT INDEX

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



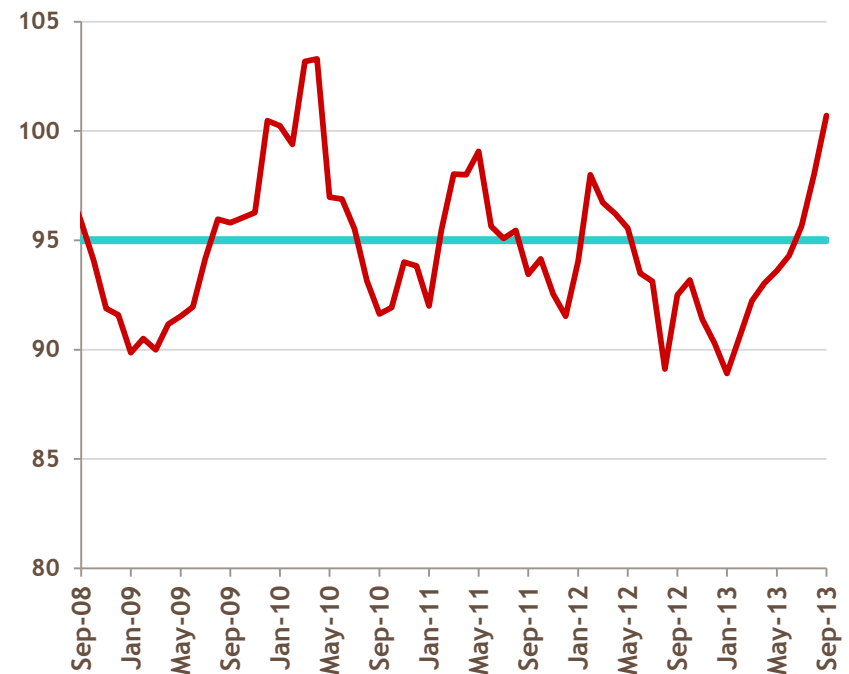
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# BUSINESS OPTIMISM RISES AGAIN, SUGGESTING ECONOMIC RECOVERY LIKELY TO SPEED UP

- The BDO Optimism Index showed a sustained rise in business confidence, signalling faster growth over the next six months.
- The Optimism Index reached 100.7 in September, up from 98.0 in August - a level of confidence last seen in mid-2010.
- This Confidence Index reading is above the 100.0 mark, implying that UK economic growth is expected to be above its long-term historical trend over the near term - the first time this has happened since April 2010.
- Improvements in the large services sector - which covers over three quarters of the UK economy - played a large part in lifting the overall Optimism Index.
- The services sector confidence sub-index rose to 99.2 in September, up from 97.7 in August.
- Just like gains over July-August, the manufacturing confidence sub-index improved markedly over August-September, rising to 107.0 in September from 99.6 in August.
- The Optimism Index is on a strong upward trend, suggesting economic growth over the next six months.

## BDO OPTIMISM INDEX

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



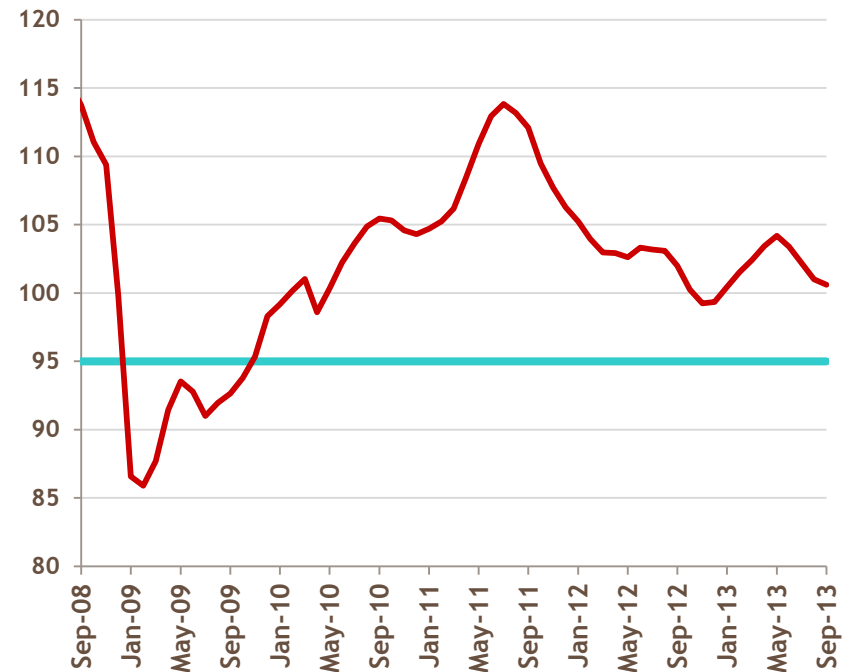
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# INFLATION EXPECTATIONS CONTINUE TO FALL BACK

- Business input inflation expectations retreated further in September. The BDO Inflation Index recorded its fourth consecutive month of decline, falling to 100.6 in September, down from 101.0 one month earlier.
- While inflation expectations continue to decline, falls in the index are levelling out.
- Services firms, which are dependent on labour, have been able to control their costs as wage growth has remained weak. Total average wages were only 1.1% higher during May-July 2013 than one year earlier. This is down from a high of 2.2% pay growth over the year to April-June 2013.
- In real terms - once inflation is accounted for - this means that wages actually declined, easing services firms' cost pressures.
- The inflationary environment also improved for UK manufacturers. Their input prices increased by 2.8% over the 12 months to August. This was a marked decline on the 5.1% growth seen over the year to July - in line with the falling BDO Inflation Index.
- Slowing demand from emerging economies may limit input price rises of energy and raw material over the next year.

## BDO INFLATION INDEX

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



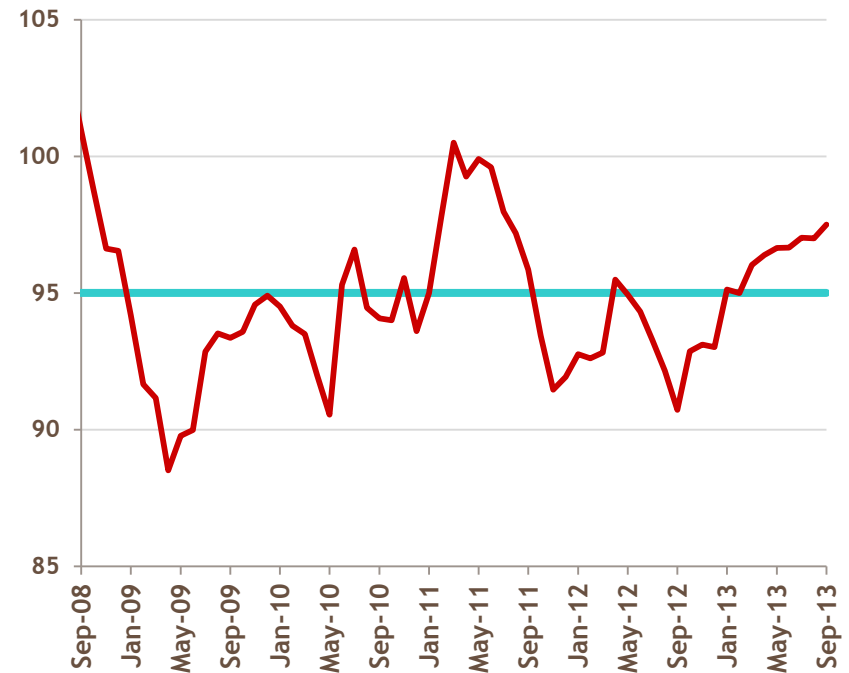
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# PRIVATE SECTOR HIRING INTENTIONS PICK UP FURTHER

- Businesses' expectations for private sector hiring growth rose marginally in September as the BDO Employment Index rose to 97.5, from 97.0 in August.
- The index remains firmly above the 95.0 mark, indicating that employment growth is likely three months down the line.
- September's BDO Employment Index reading, above the 95.0 mark that points toward growth three months in the future, shows that the private sector has the potential to reduce the headline overall unemployment rate over the near term.
- Over May-July 2013, the UK-wide unemployment rate was 7.7%, down only 0.1 percentage points from February-April 2013.
- However, the BDO Employment Index remains stubbornly below the 100.0 mark, indicating that employment growth is still below its long-term trend.
- Moreover, UK per-worker productivity is subdued at levels similar to those seen in 2005. This could limit falls in unemployment rate over the medium term if employers choose to squeeze more out of existing employees - rather than hire more workers.

## 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

		Sept 2012	Oct 2012	Nov 2012	Dec 2012	Jan 2013	Feb 2013	Mar 2013	Apr 2013	May 2013	June 2013	July 2013	Aug 2013	Sept 2013
The BDO Optimism Index	<b>Total</b>	92.5	93.2	91.4	90.3	88.9	90.6	92.2	93.0	93.6	94.3	95.6	98.0	100.7
	Manuf.	90.2	89.2	85.9	91.9	95.2	94.5	88.2	88.3	88.5	89.0	91.4	99.6	107.0
	Service	93.1	94.2	92.8	89.9	87.3	89.6	93.2	94.1	94.8	95.5	96.6	97.7	99.2
The BDO Output Index	<b>Total</b>	91.2	92.1	93.4	93.1	92.3	92.1	93.0	94.1	94.4	94.9	96.8	98.3	99.5
	Manuf.	87.3	87.0	88.8	90.6	92.3	94.1	92.4	90.8	93.7	95.7	98.3	100.7	103.6
	Service	92.2	93.4	94.6	93.8	92.3	91.5	93.2	94.9	94.4	94.7	96.5	97.7	98.6
The BDO Inflation Index	<b>Total</b>	102.0	100.2	99.2	99.3	100.4	101.5	102.4	103.4	104.2	103.4	102.2	101.0	100.6
The BDO Employment Index	<b>Total</b>	90.7	92.9	93.1	93.0	95.1	95.0	96.0	96.4	96.6	96.7	97.0	97.0	97.5



# 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.