



BDO MONTHLY BUSINESS TRENDS INDICES

July 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 July 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 | ✓ | ▽ | 104.1 in June from 104.5 in May |
| BDO Optimism Index | ✓ | ▽ | 103.9 in June from 104.5 in May |
| BDO Inflation Index | ✗ | △ | 94.6 in June from 94.2 in May |
| BDO Employment Index | ✓ | ▽ | 109.1 in June from 111.3 in May |

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 experienced its first fall since December. It stands at 104.1, still a high level, although firms are likely to be more wary in a global economic environment that has recently become more risky. As well as the threat of a chaotic Greek exit from the Eurozone, there is a risk that Chinese demand will slow. Both would have wide knock-on effects, primarily affecting those firms which export.

The BDO Inflation Index has climbed from 94.2 to 94.6. Firms' cost movements are essentially neutral, with overall movement likely to be downward but not so strongly as a few months ago. While inflation pressures are still very weak or negative for physical inputs such as oil, energy and commodities, wage growth is starting to pick up and offset this trend.

The BDO Optimism Index is also at a high level but down on May's reading, at 103.9 compared to 104.5 last month. The same fears apply over the medium term, while the continuing robust growth in the UK means that firms see a slowdown as a possibility, but by no means a certain outcome. Reflecting the global nature of these concerns, manufacturing firms have seen a steeper drop than those in services.

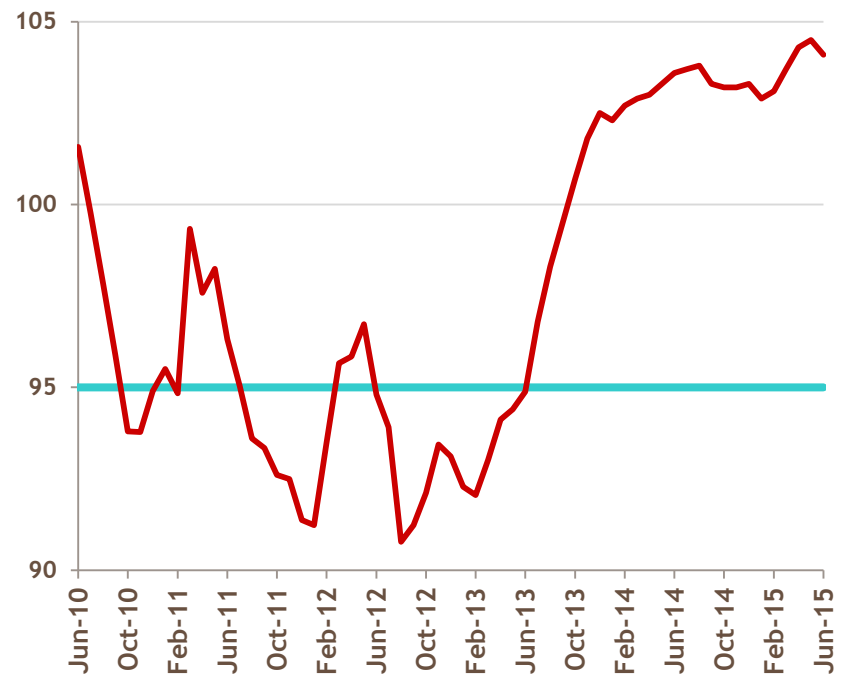
The BDO Employment Index has fallen sharply by 2.2 points from 111.3 to 109.1. However, this should be seen as a correction to more usual levels rather than suggesting difficulties for those seeking work. It may also reflect the caution that businesses are exhibiting in the other indices at present.

MANUFACTURING CONCERNS DRIVE A DECLINE IN OUTPUT EXPECTATIONS

- The BDO Output Index experienced a slight fall over June. It stands at 104.1: 0.4 points below last month's level, pointing to slower growth but still above the long-run trend rate.
- This dip was driven by a sharp fall in reported manufacturing output, while services output stood broadly unchanged.
- Manufacturers expect to see orders softening over the next three months, though still far from an outright contraction. A strong exchange rate and weak demand in overseas markets are continuing to dampen output expectations downward.
- The intense focus on Greece has overshadowed other fears in further away parts of the world. Chinese stock markets have been signalling a slowdown, which would in turn reduce growth in the many economies that have come to rely on its strong demand.

BDO OUTPUT INDEX

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



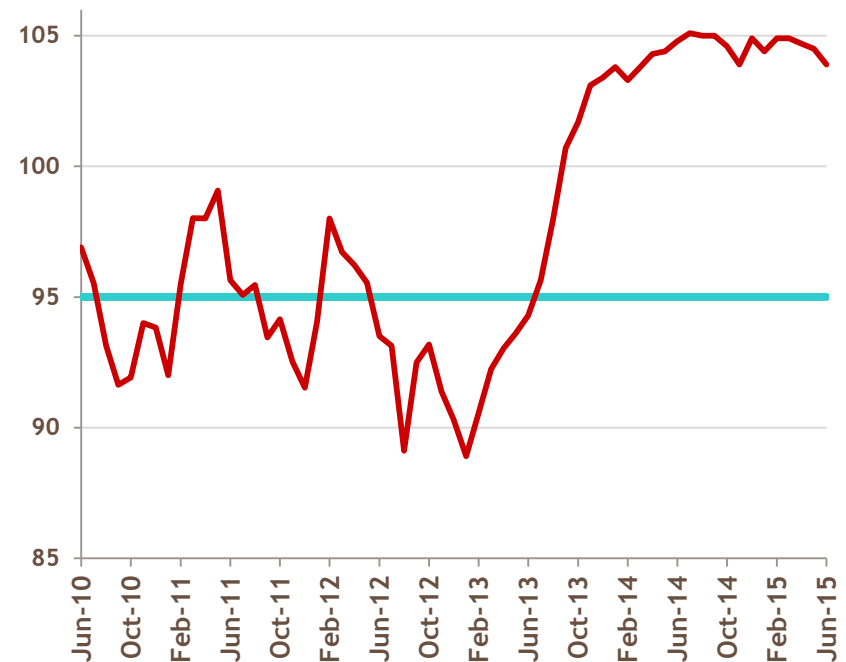
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

FEARS OVER GLOBAL ECONOMY SEND FIRMS' CONFIDENCE DOWNWARDS

- The BDO Optimism Index continues to fall back, declining from 104.5 to 103.9 this month. Without definitively pointing to trouble ahead, it is clear that firms are scaling back their ambitions for growth over the coming six months.
- A main source of (some) firms' worries is the crisis in Greece and its broader implications for the UK's largest export market of the Eurozone. As Greece has drifted closer to the chaotic exit from the Eurozone that markets have feared for many months, uncertainty over the future of the single currency has increased.
- With the main sources of potential trouble in emanating from overseas markets, UK manufacturers have seen a much sharper drop in sentiment. For the first time in almost two years, the manufacturing sub-index is below 100. The reading of 98.5 means this sector expects growth at just below its long-run trend rate.

BDO OPTIMISM INDEX

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



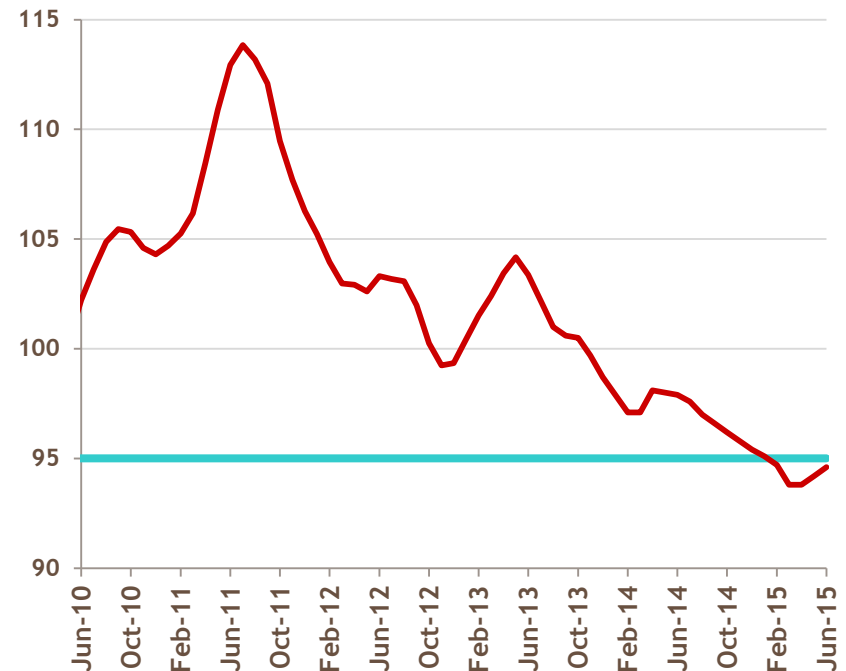
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

PRICES HEADING OUT OF DEFLATIONARY TERRITORY

- The BDO Inflation Index sees its second month of upward movement, climbing from 94.2 to 94.6 between May and June.
- This puts price movements for inputs essentially in neutral territory, a state of affairs termed “no-flation”.
- The price of Brent crude has stabilised at a level just north of \$60/barrel, with other commodities “finding their floors” recently. As wage growth picks up, we expect that this will push firms’ price pressures back into positive territory.
- For the time being these pressures remain weak; the latest official producers’ price index showed that total input prices fell by 0.9% between April and May. When official data for June become available, they may show that deflation slowed in the meantime.
- Low cost inflation keeps firms’ bottom lines strong; along with still-robust demand it supports UK businesses’ continued optimism.

BDO INFLATION INDEX

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



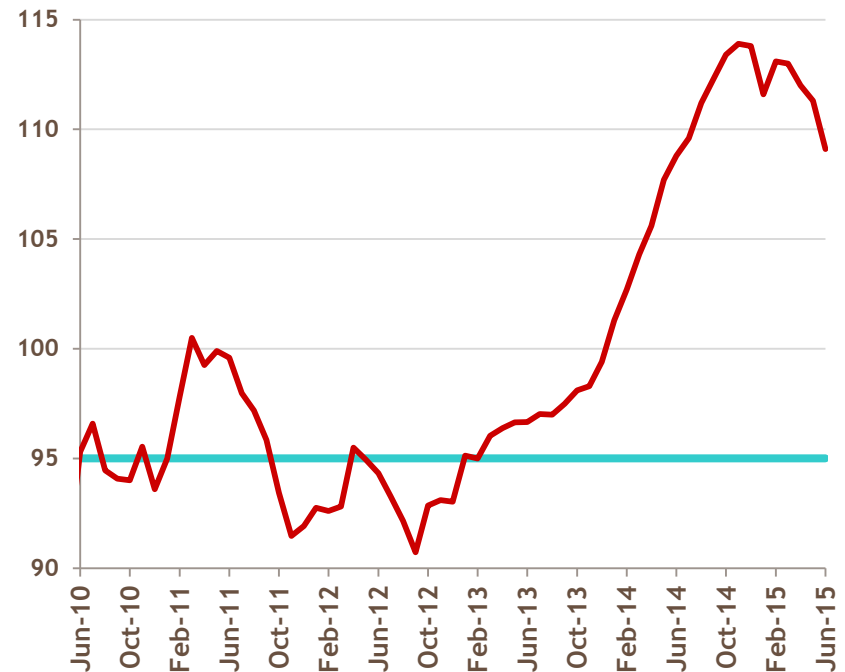
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

HIRING EXPECTATIONS REMAIN HIGH BUT RATE SLOWS SHARPLY

- The BDO Employment Index saw a sharp fall over June, from 111.3 to 109.1.
- Even at its lowest level in a year, its recent strength has been such that the reading still indicates a very favourable environment for those looking for work, as the unemployment rate heads towards its pre-crisis level.
- However, concerns firms have over the future direction of the economy may be starting to translate into hiring decisions. Firms are scaling these back from the very expansionary levels which prevailed over most of the past year.
- Nevertheless, firms for the most part plan to keep increasing headcounts. The amount of slack in the labour market appears to be shrinking further. Official statistics show the number of involuntarily part-time numbers has fallen by 25,000 during February and April compared to the previous quarter, while the employment rate at 73.4% is close to its highest ever.

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

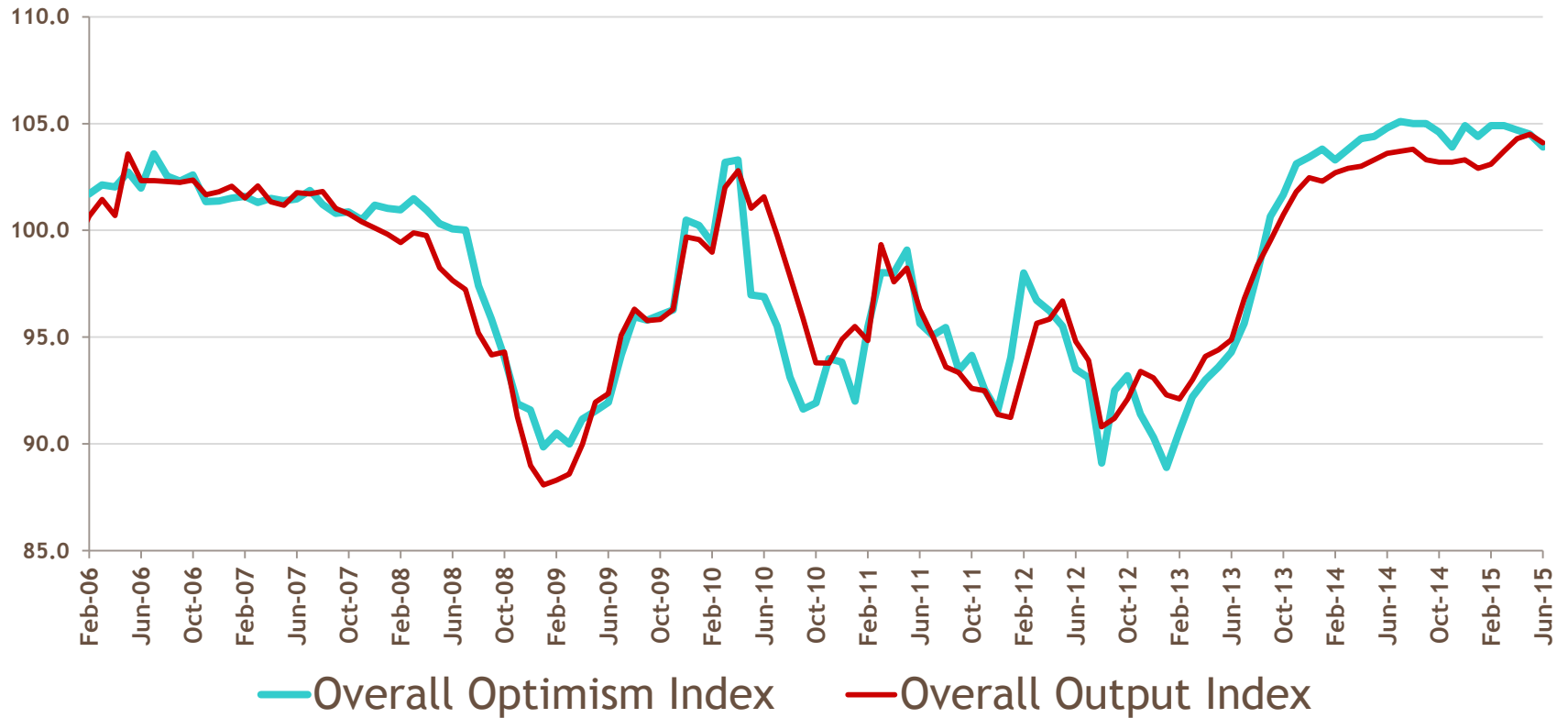
BDO INDICES TO LATEST MONTH

| | | Jun 2014 | Jul 2014 | Aug 2014 | Sep 2014 | Oct 2014 | Nov 2014 | Dec 2014 | Jan 2015 | Feb 2015 | Mar 2015 | Apr 2015 | May 2015 | Jun 2015 |
|--------------------------|--------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| The BDO Optimism Index | Total | 104.8 | 105.1 | 105.0 | 105.0 | 104.6 | 103.9 | 104.9 | 104.4 | 104.9 | 104.9 | 104.7 | 104.5 | 104.1 |
| | Manuf. | 119.5 | 119.9 | 118.8 | 117.4 | 116.1 | 114.1 | 113.9 | 113.0 | 111.6 | 109.8 | 107.4 | 103.4 | 98.5 |
| | Service | 101.9 | 102.2 | 102.3 | 102.6 | 102.3 | 101.9 | 103.1 | 102.7 | 103.6 | 103.9 | 104.1 | 104.7 | 105.0 |
| The BDO Output Index | Total | 103.6 | 103.7 | 103.8 | 103.3 | 103.2 | 103.2 | 103.3 | 102.9 | 103.1 | 103.7 | 104.3 | 104.5 | 103.9 |
| | Manuf. | 114.5 | 114.4 | 113.2 | 111.6 | 110.1 | 109.1 | 108.0 | 107.3 | 107.1 | 107.7 | 108.8 | 109.0 | 107.8 |
| | Service | 101.5 | 101.6 | 102.0 | 101.7 | 101.8 | 102.1 | 102.4 | 102.1 | 102.3 | 102.9 | 103.5 | 103.6 | 103.4 |
| The BDO Inflation Index | Total | 97.9 | 97.6 | 97.0 | 96.6 | 96.2 | 95.8 | 95.4 | 95.1 | 94.7 | 93.8 | 93.8 | 94.2 | 94.6 |
| The BDO Employment Index | Total | 108.8 | 109.6 | 111.2 | 112.3 | 113.4 | 113.9 | 113.8 | 111.6 | 113.1 | 113.0 | 112.0 | 111.3 | 109.1 |

APPENDIX 1: FEARS OVER GLOBAL ECONOMY SEND FIRMS' CONFIDENCE DOWNWARDS

BDO OUTPUT AND OPTIMISM INDICES

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

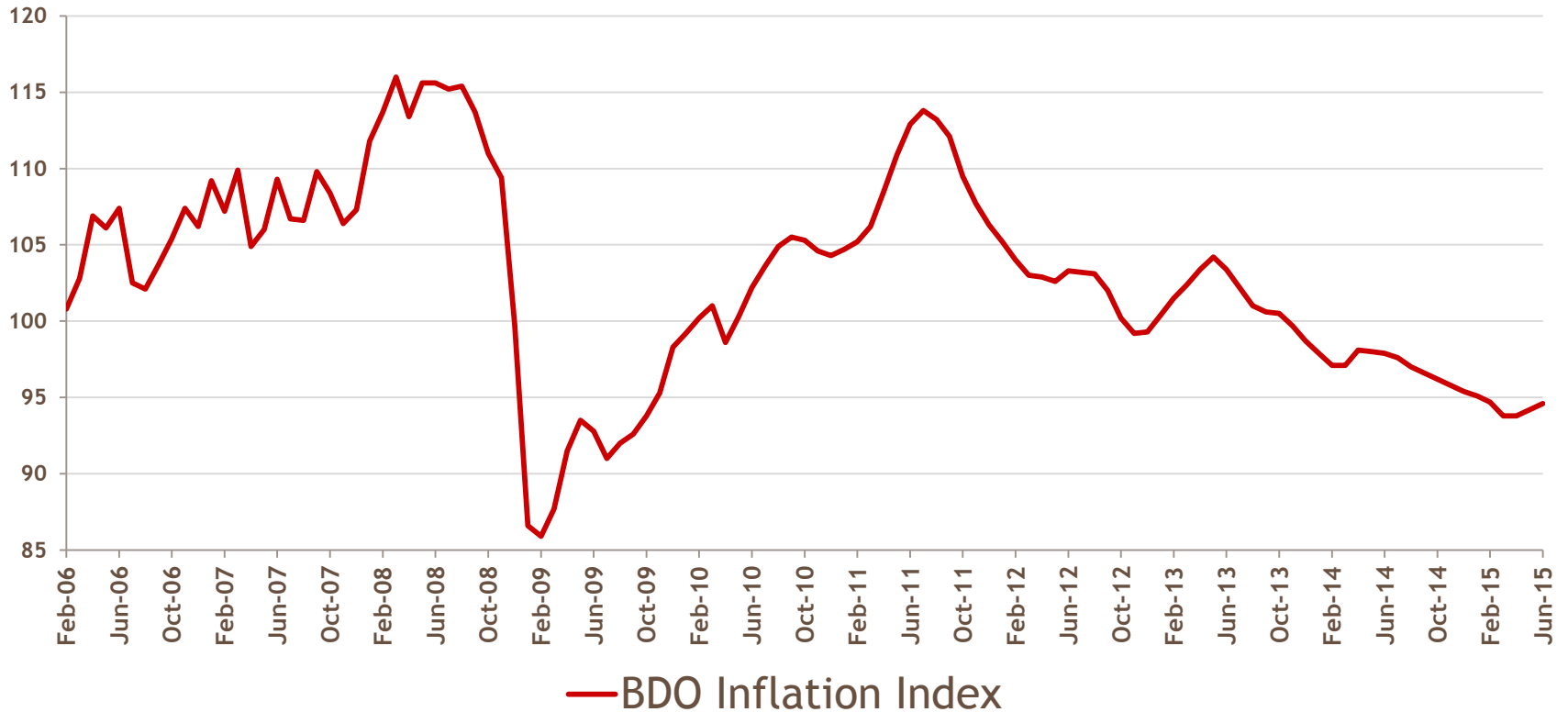


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 2: PRICES HEADING OUT OF DEFLATIONARY TERRITORY

BDO INFLATION INDEX

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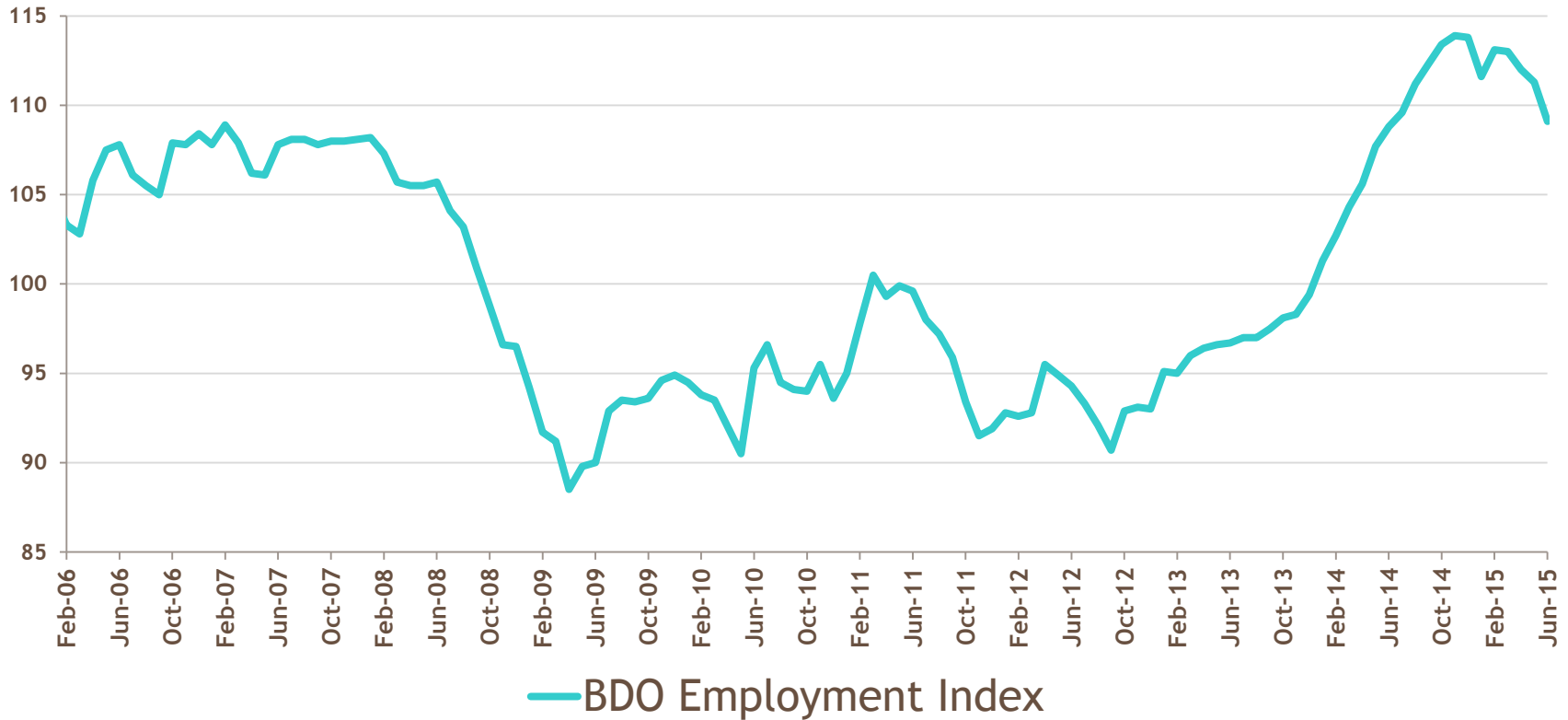


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 3: HIRING EXPECTATIONS REMAIN HIGH BUT RATE SLOWS SHARPLY

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.