



BDO MONTHLY BUSINESS TRENDS INDICES

June 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 June 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 May from 103.3 in April
BDO Optimism Index	✓✓✓	▲	104.4 in May from 104.3 in April
BDO Inflation Index	✗	▼	98.0 in May from 98.1 in April
BDO Employment Index	✓✓✓	▲	107.7 in May from 105.6 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
 ✓✓✗ = (joint) highest in 12 months, but below 100; ✗✗✓ = (joint) lowest in 12 months, but above 100

KEY FINDINGS

The BDO Output Index continues to grow at a modest pace, and at 103.3 still implies output growth above the long-term trend. This month's level is marginally up on last month's 103.0. The Index suggests the recovery will continue at its current strong pace: the latest set of GDP figures showed 3.1% growth over the year to the first quarter 2014. As has happened in every month this year, the manufacturing sub-index posted stronger growth than the services sub-index, with the former moving up by 0.4 to 113.9 and the latter moving 0.3 to 101.3.

The BDO Optimism Index, which looks ahead to growth over the next six months, stayed broadly stable in May at 104.4. The services sub-index remained unchanged at 101.1, while the manufacturing component pushed ahead from 120.8 to 121.0. The overall level, similar to that in the BDO Output Index, suggests that a similar rate of growth is likely to prevail in the UK economy in the latter part of the 2014 as has done during the year to date. Indeed, Cebr expects a growth rate of 3.0% for the year as a whole.

Over May, the BDO Inflation Index remained broadly unchanged, showing a very slight dip from 98.1 to 98.0. This means positive price growth is expected, but below the long-term trend. Inflation pressures are still muted, as slower growth in some emerging market manufacturing powerhouses, notably China and India, is feeding through into subdued price growth for commodities, easing inflationary pressures for British firms. Wage growth in the domestic labour market is also at a fairly low pace.

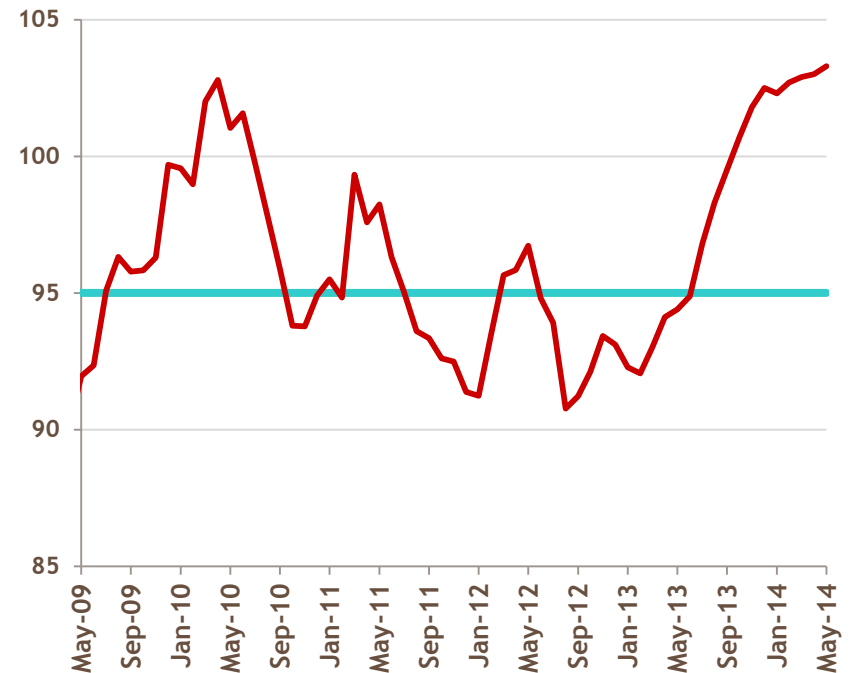
The BDO Employment Index continues to surge ahead, moving from 105.6 to 107.7. This reading suggests that businesses expect to keep hiring, and so the unemployment rate, currently at 6.8% for March, will continue to fall as more people return to work. A significant amount of spare capacity remains in the economy, especially in the labour market, although certain occupations are starting to see supply shortages.

OUTPUT INDEX SHOWS ECONOMIC RECOVERY CONTINUING APACE

- In May, the BDO Output Index illustrated continued strong business conditions. Moving from 103.0 to 103.3, it remains just short of its May 2006 peak of 103.6, but is still comfortably over 100.
- This means that output is expected to expand above its long-term trend rate over the next three months.
- This latest finding follows the continuing strong growth in the economy, shown in recent GDP data. The second estimate for GDP growth over the first quarter of 2014 showed expansion of 3.1% compared to a year ago, and Cebr expects growth of 3.0% for 2014 as a whole.
- Again, the manufacturing sub-index outperformed the services sub-index. It has done so in every month so far in 2014. Manufacturing grew faster than services over the first quarter, and also is recovering from a relatively low base, having taken a particularly strong hit during the recession.
- The manufacturing sub-index rose by 0.4, bringing it to 113.9 compared to last month's 113.5.
- The services sub-index moved up just 0.3 from last month's reading of 101.0, registering 101.3 for May.

BDO OUTPUT INDEX

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



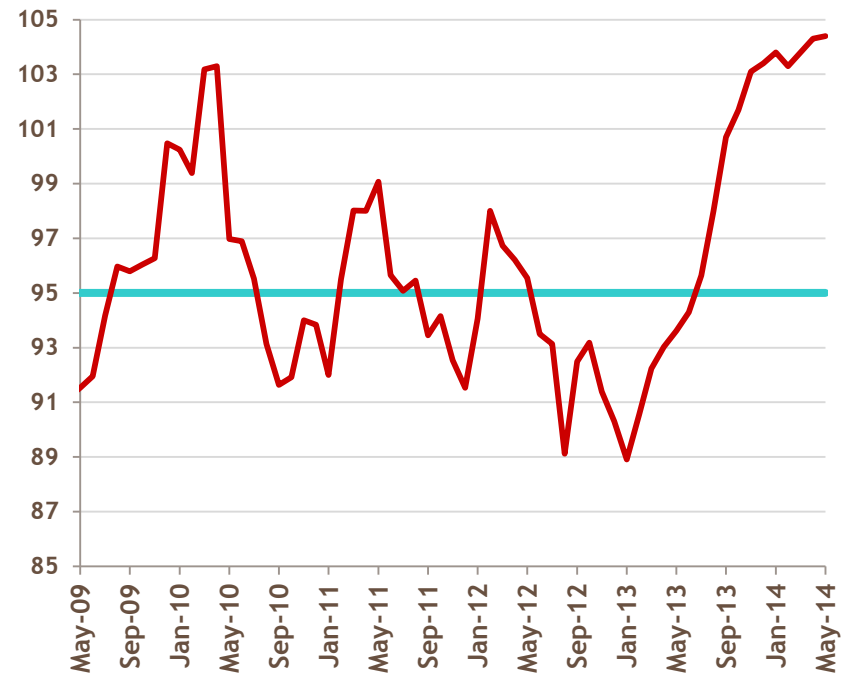
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

OPTIMISM INDEX SUGGESTS STRONG PERFORMANCE TO CONTINUE

- The BDO Optimism Index remained broadly unchanged in May, inching up to 104.4 from 104.3 the previous month.
- This means that expectations for output six months ahead remain optimistic, with businesses expecting further above-average growth.
- The manufacturing sector remains more bullish than the services sector of the economy. Latest figures show that manufacturing grew 1.4% during the first quarter of the year compared to the last quarter of 2013, while services growth over the same period was 0.9%.
- The sub-index for the sector stands at 121.0, well above the 100 that reflects long-run average growth, implying that better performance in manufacturing is set to continue.
- Manufacturers are reporting demand growth from both overseas and domestically, helping to support optimism.

BDO OPTIMISM INDEX

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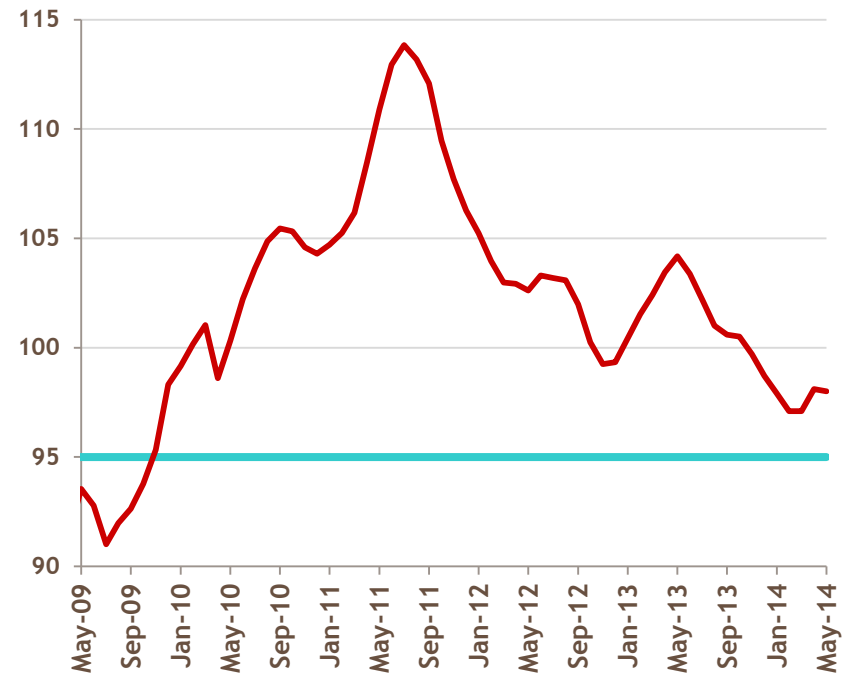
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION EXPECTATIONS HOLDING STEADY

- Inflation expectations remained broadly unchanged on last month's reading, as the BDO Inflation Index now stands at 98.0 compared to April's reading of 98.1.
- This implies that prices are expected to move up in the near term, but below their long-term trend rate.
- The backdrop of weak global demand for commodities is the principal driver of this trend.
- The latest producer price inflation figures showed input prices for manufacturers fell by 5.5% over the year to April. This is set to continue: the IMF expects global oil prices to fall in dollar terms over the next few years.
- Another factor keeping the index below its long-term trend level is weak wage growth.
- Wages are particularly important for service firms: the latest data showed that the overall services producer price index rose by just 1.2% between Q1 2013 and Q1 2014.
- The Bank of England estimates there is much spare capacity in the UK labour market and the economy as a whole. This is one reason that there is an improving labour market but as yet little inflationary pressure.

BDO INFLATION INDEX

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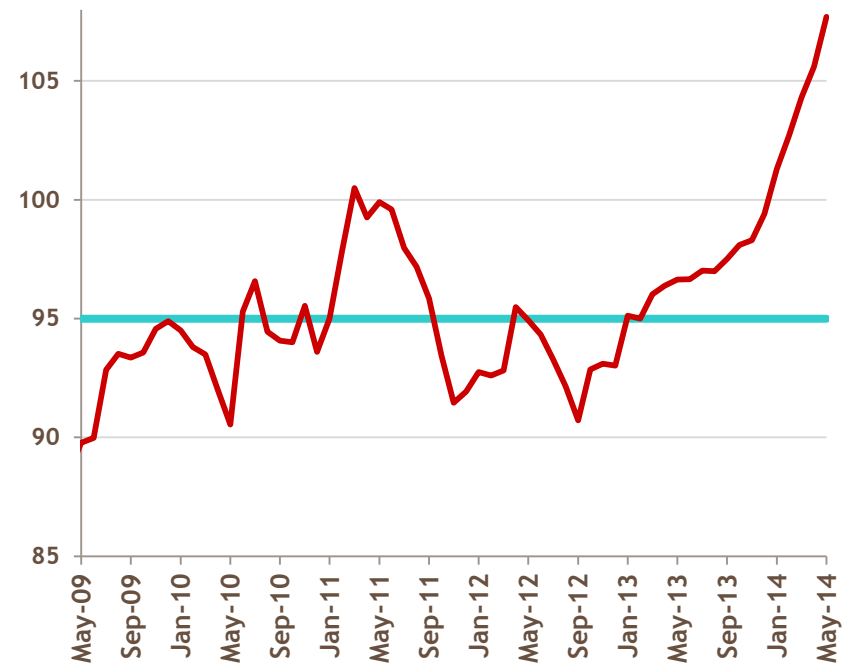
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

BDO EMPLOYMENT INDEX SURGES FURTHER AHEAD

- The BDO Employment Index continues to indicate robust hiring intentions. In May the Index climbed to 107.7 from 105.6 the previous month and is now approaching its all-time high, recorded in February 2007 at 108.9.
- This is very good news for the UK labour market in the near future, showing that firms expect to hire above the long-term average rate, putting their confidence into action.
- Less timely figures from the Office for National Statistics highlight what the Employment Index had previously indicated, as the latest data reported year-on-year employment growth of 2.4%. This is equivalent to 720,000 workers and is the fastest growth in 25 years.
- Although unemployment remains above pre-financial crisis levels, skills shortages are already emerging in sectors such as manufacturing and construction.

BDO EMPLOYMENT INDEX

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

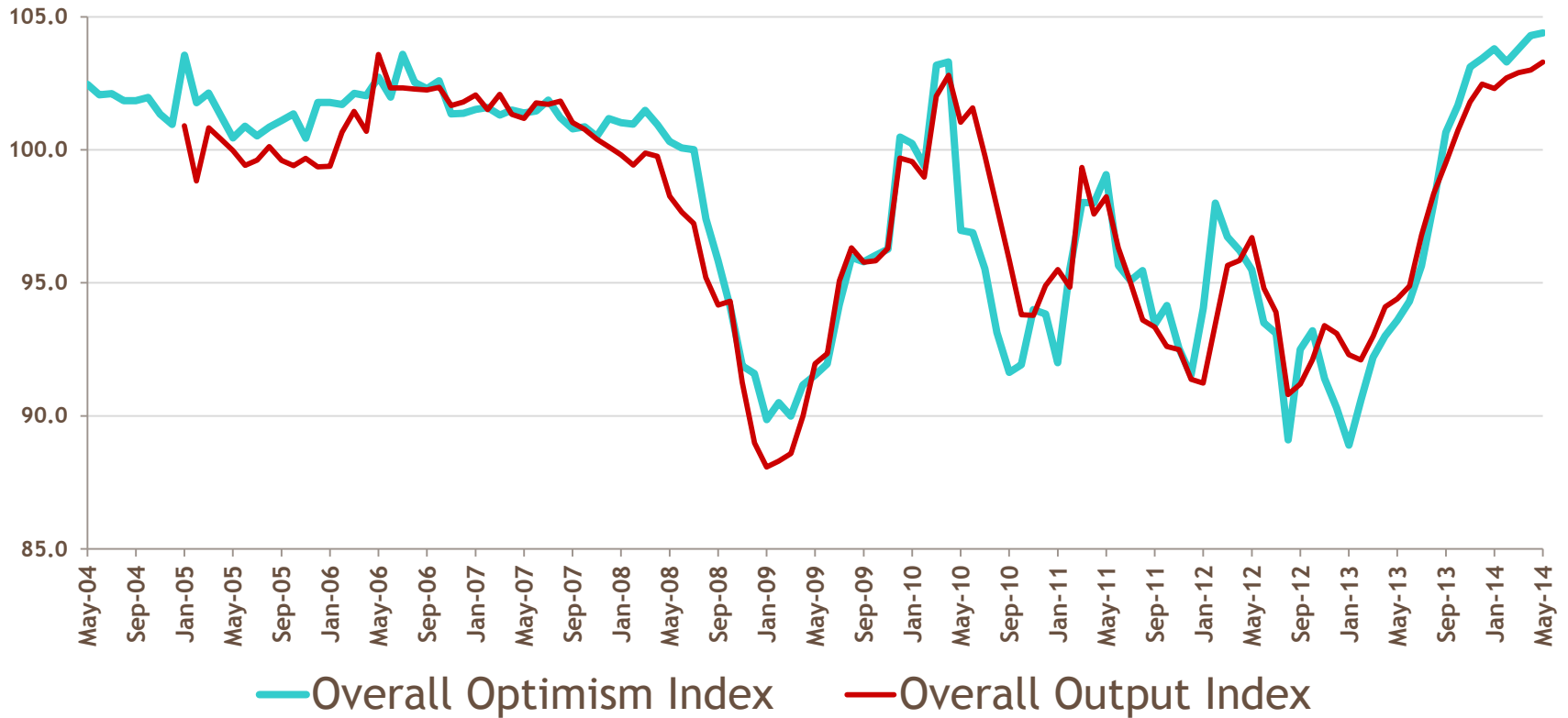
BDO INDICES TO LATEST MONTH

		May 2013	June 2013	July 2013	Aug 2013	Sept 2013	Oct 2013	Nov 2013	Dec 2013	Jan 2014	Feb 2014	Mar 2014	Apr 2014	May 2014
The BDO Optimism Index	Total	93.6	94.3	95.6	98.0	100.7	101.7	103.1	103.4	103.8	103.3	103.8	104.3	104.4
	Manuf.	88.5	89.0	91.4	99.6	107.0	109.6	115.3	115.5	117.1	118.2	119.4	120.8	121.0
	Service	94.8	95.5	96.6	97.7	99.2	99.9	100.4	100.7	101.2	100.5	100.8	101.1	101.1
The BDO Output Index	Total	94.4	94.9	96.8	98.3	99.5	100.7	101.8	102.5	102.3	102.7	102.9	103.0	103.3
	Manuf.	93.7	95.7	98.3	100.7	103.6	106.5	108.1	109.8	111.3	112.0	112.8	113.5	113.9
	Service	94.4	94.7	96.5	97.7	98.6	99.4	100.4	100.8	100.6	100.8	101.0	101.0	101.3
The BDO Inflation Index	Total	104.2	103.4	102.2	101.0	100.6	100.5	99.7	98.7	97.9	97.1	97.1	98.1	98.0
The BDO Employment Index	Total	96.6	96.7	97.0	97.0	97.5	98.1	98.3	99.4	101.3	102.7	104.3	105.6	107.7

APPENDIX 1: BDO OPTIMISM INDEX POSTS YET ANOTHER HIGH

BDO OUTPUT AND OPTIMISM INDICES

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

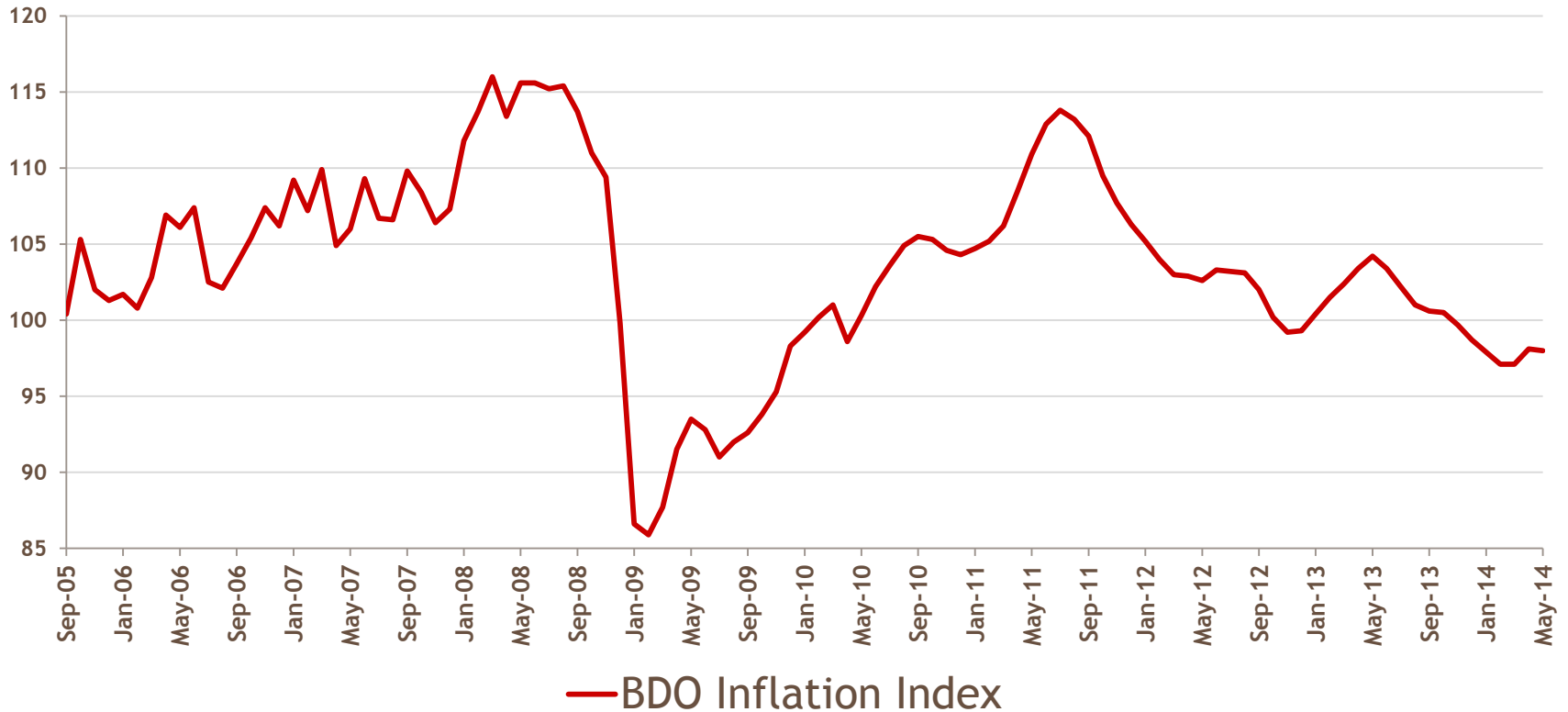


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 2: BDO INFLATION INDEX STILL SHOWING SUBDUED COST PRESSURES

BDO INFLATION INDEX

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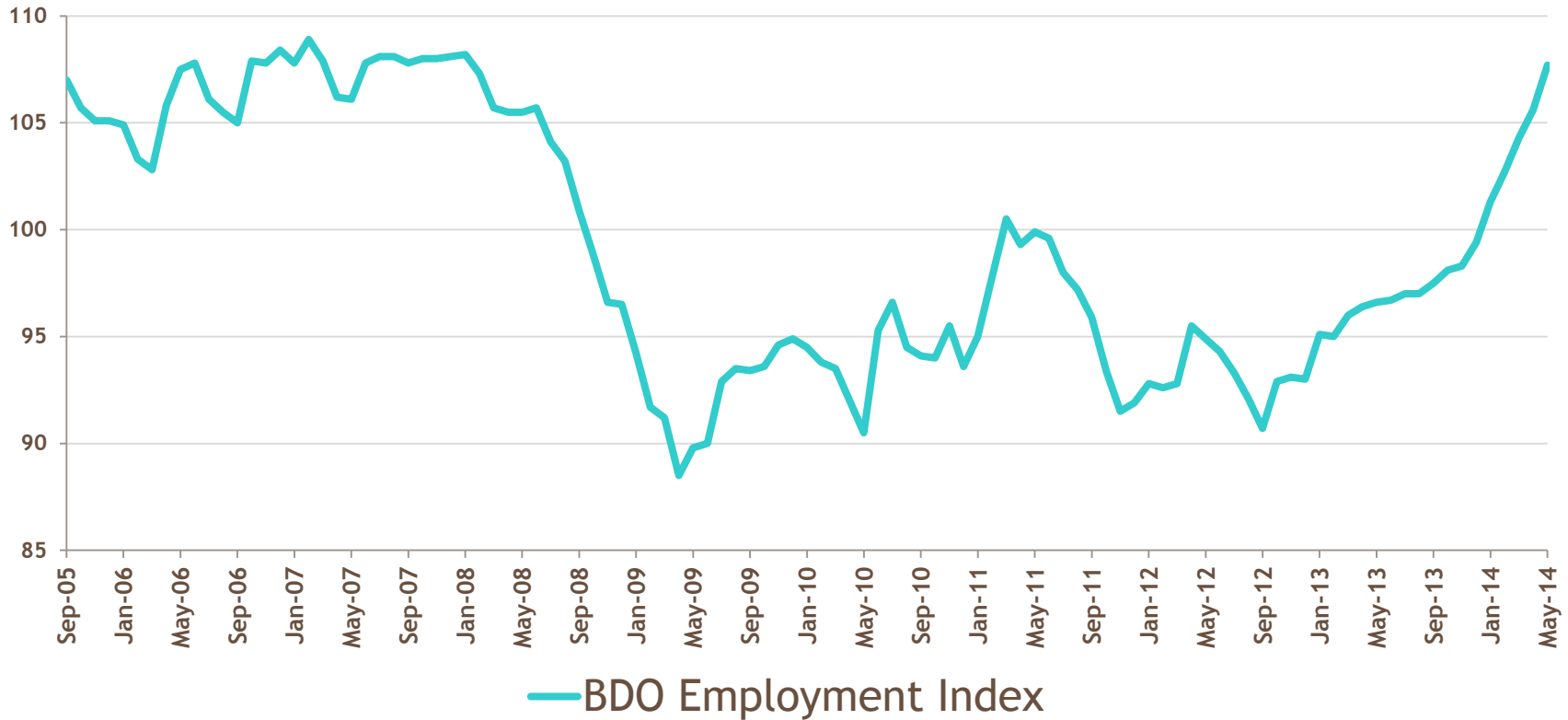


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 3: EMPLOYMENT INDEX CONTINUES TO CLIMB TOWARDS ALL-TIME PEAK

BDO EMPLOYMENT INDEX

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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.