



BDO MONTHLY BUSINESS TRENDS INDICES

April 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 for March 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	✓✓✓	▲	102.9 in March from 102.7 in February
BDO Optimism Index	✓✓✓	▲	103.8 in March from 103.3 in February
BDO Inflation Index	×××	▬	97.1 in March from 97.1 in February
BDO Employment Index	✓✓✓	▲	104.3 in March from 102.7 in February

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 continued to rise, moving up by a modest amount from 102.7 to 102.9. This takes it to its second-highest reading ever: the only month in which it has topped this reading was in May 2006. This suggests the economy is expanding at a rate significantly above its trend rate. The services sub-index expanded modestly from 100.8 to 101.0, while the manufacturing index expanded more rapidly from 112.0 to 112.8.

The BDO Optimism Index saw a modest rise to 103.8, which puts it back at its joint-highest level attained in January of this year. As with the output index, the manufacturing sub-index is more buoyant than the services one. This indicates that in six months' time, expectations are that the economy will still be growing above trend. This index suggests a very confident economy with good expectations for jobs and growth, and no cost pressures as yet: there is spare capacity in the labour market.

The BDO Inflation Index stands at 97.1, unchanged on February's level. Expectations point towards inflation below trend, but at a positive level. This matches the latest ONS data (February), where annual consumer price index inflation is running at 1.7%, slightly below the Bank of England's central target rate of 2.0%. This suggests that there is spare capacity in the economy: in most sectors, wage rates have not started to rise significantly. In addition, fuel prices have fallen according to the latest Office for National Statistics data.

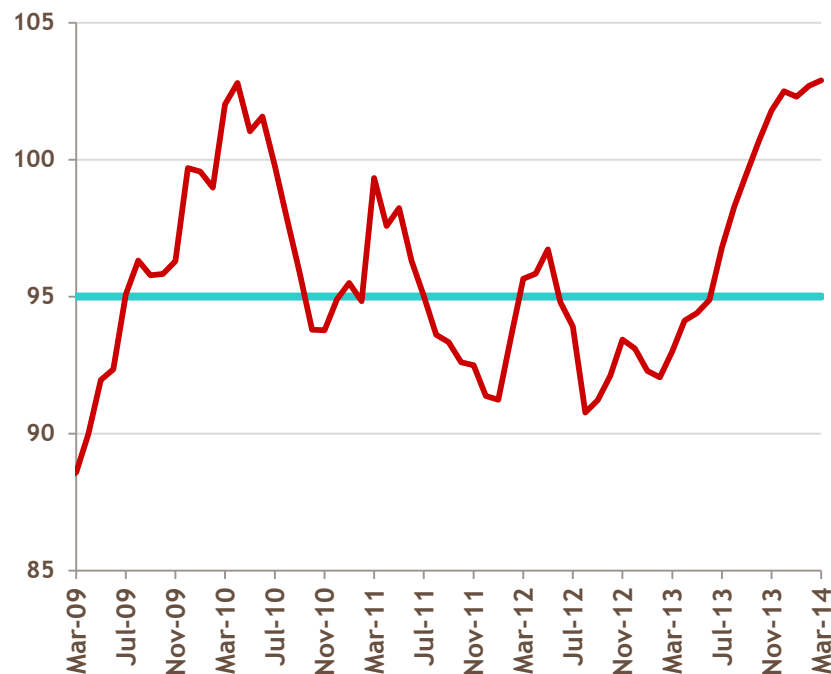
The BDO Employment Index, which reflects expectations for the labour market over the coming three months, showed a large rise from 102.7 to 104.3. This puts the index at its highest level since June 2008, and points to expansion in the labour market at a rate strongly above trend. Official unemployment statistics confirm that the rate is currently falling. The Employment Index provides evidence that businesses at least expect the trend to continue.

OUTPUT INDEX AT HIGHEST LEVEL FOR NEARLY EIGHT YEARS

- In March, the BDO Output Index was essentially unchanged on its February level. It inched up by 0.2, from 102.7 to 102.9.
- This still indicates that growth is above the long-term trend rate, and indeed faster than during February.
- The manufacturing sub-index which measures output in the smaller manufacturing sector of the economy moved upwards at a robust rate, climbing from 112.0 to 112.8.
- This picture matches the official data. Data released in mid-March by the Office for National Statistics showed that the manufacturing sector increased output by 0.4% in January compared with December, and by 3.3% comparing January 2014 with January 2013.
- The services sub-index, which measures activity such as orders in the larger service sector of the economy, stood broadly unchanged at 101.0, compared to February's rate of 100.8.

BDO OUTPUT INDEX

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



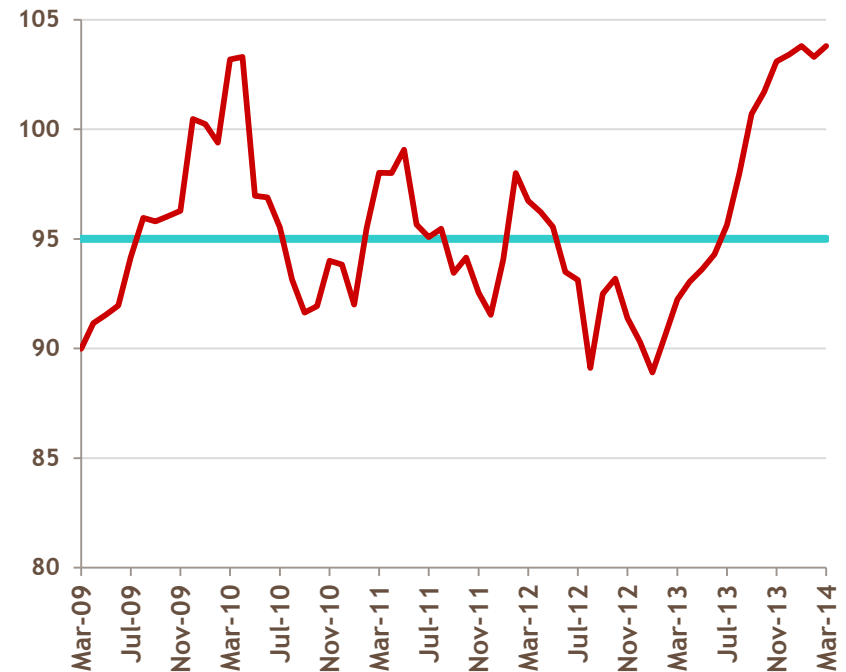
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

OPTIMISM INDEX MOVES BACK TO RECORD HIGH

- The Optimism Index remained broadly unchanged in March, climbing by 0.5 from 103.3 to 103.8. This was the same level it attained in January, and is the joint-highest it has ever reached.
- This reflects expectations for six months' time, suggesting that businesses are confident of seeing continued above-trend growth six months from now.
- Looking beneath the headline figures, we find a similar pattern between services and manufacturing as there is in the output index. The services sub-index remained broadly unchanged, moving up by just 0.3 to 100.8, while the manufacturing counterpart climbed from 118.2 to 119.4.
- The manufacturing optimism sub-index is thus both at a much higher level and climbing faster than its services counterpart.

BDO OPTIMISM INDEX

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



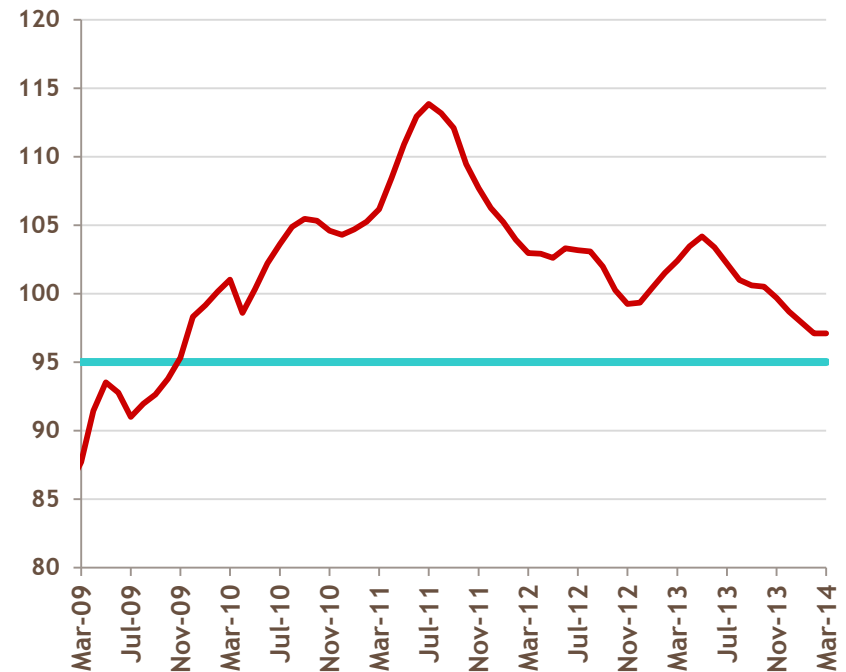
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION EXPECTATIONS REMAIN SUBDUED

- The BDO Inflation Index stayed at the same low level at which it stood in February.
- The Office for National Statistics reported consumer price inflation fell in February, driven by falls in the price of petrol.
- This kept an important cost for businesses in check.
- Falling real wages, meaning that the growth in wages lagged behind even the slow inflation rate, continue to help services firms with wages, the main contributor to their costs.
- The reason for this is spare capacity in the economy. Unemployment levels are still significantly elevated compared to pre-crisis levels, meaning employees have not yet attained the significant bargaining power which a dearth of workers would create.

BDO INFLATION INDEX

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



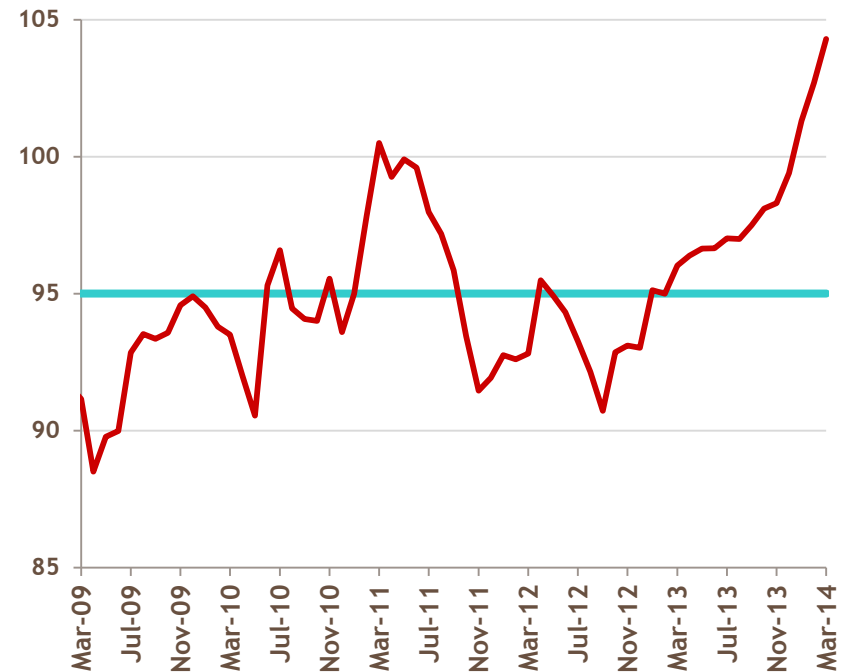
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

BDO EMPLOYMENT INDEX CLIMBS TO HIGHEST LEVEL SINCE JUNE 2008

- The BDO Employment Index moved up again, climbing from 102.7 to 104.3 in March. This took it to a higher level than any month since June 2008.
- This suggests employment expectations are even further above trend than during February.
- The latest Office for National Statistics figures showed that the unemployment rate was still on a downward trend on a quarterly basis, at 7.2%.
- The Employment Index looks ahead to three months' time. This index suggests that business expectations are of the view that the downward trend will continue.
- This completes a very encouraging set of BDO Indices. All are the highest they have been at any point during the past twelve months, with the exception of the inflation index, which is the lowest it has been in the past twelve 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

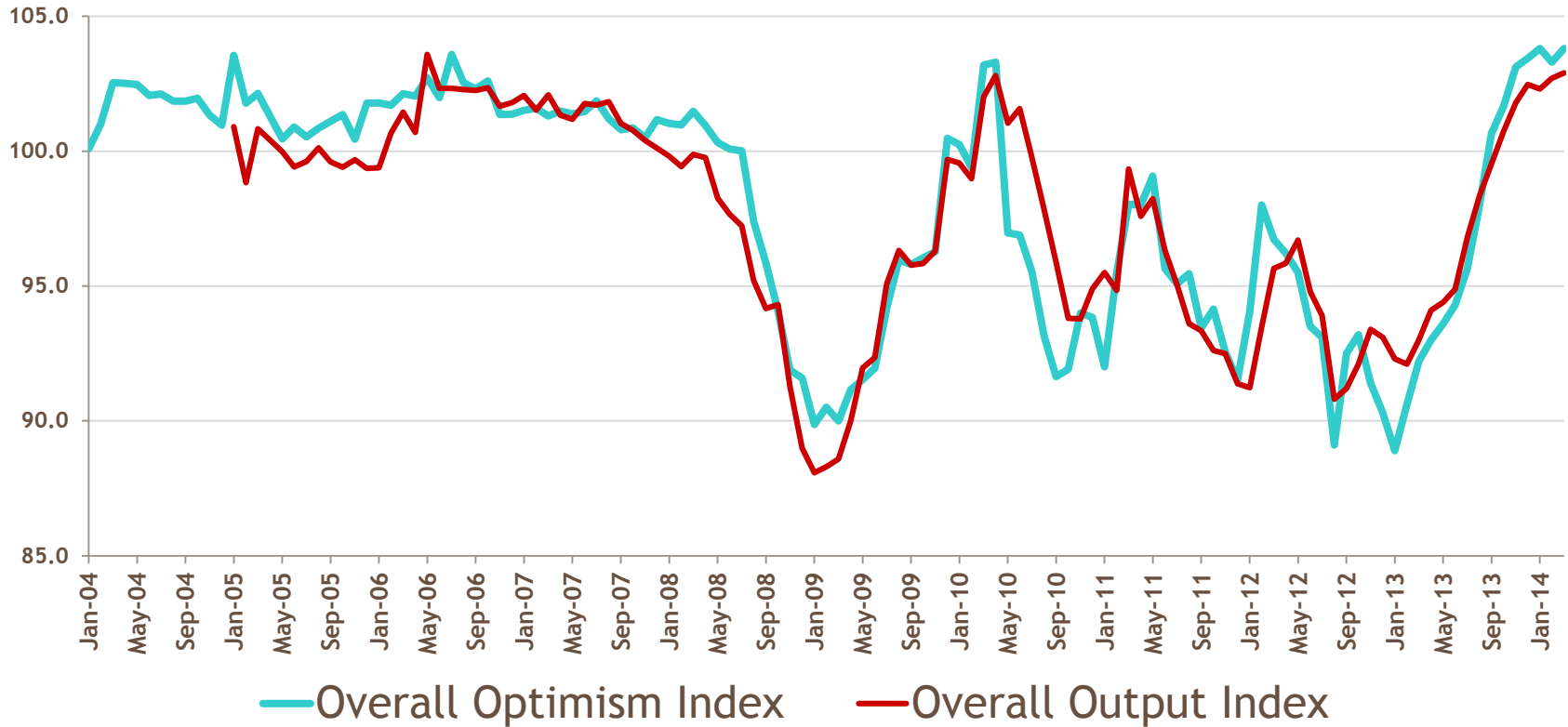
BDO INDICES TO LATEST MONTH

		Mar 2013	Apr 2013	May 2013	June 2013	July 2013	Aug 2013	Sept 2013	Oct 2013	Nov 2013	Dec 2013	Jan 2014	Feb 2014	Mar 2014
The BDO Optimism Index	Total	92.2	93.0	93.6	94.3	95.6	98.0	100.7	101.7	103.1	103.4	103.8	103.3	103.8
	Manuf.	88.2	88.3	88.5	89.0	91.4	99.6	107.0	109.6	115.3	115.5	117.1	118.2	119.4
	Service	93.2	94.1	94.8	95.5	96.6	97.7	99.2	99.9	100.4	100.7	101.2	100.5	100.8
The BDO Output Index	Total	93.0	94.1	94.4	94.9	96.8	98.3	99.5	100.7	101.8	102.5	102.3	102.7	102.9
	Manuf.	92.4	90.8	93.7	95.7	98.3	100.7	103.6	106.5	108.1	109.8	111.3	112.0	112.8
	Service	93.2	94.9	94.4	94.7	96.5	97.7	98.6	99.4	100.4	100.8	100.6	100.8	101.0
The BDO Inflation Index	Total	102.4	103.4	104.2	103.4	102.2	101.0	100.6	100.5	99.7	98.7	97.9	97.1	97.1
The BDO Employment Index	Total	96.0	96.4	96.6	96.7	97.0	97.0	97.5	98.1	98.3	99.4	101.3	102.7	104.3

APPENDIX 1: BDO OPTIMISM INDEX MOVES BACK TO RECORD HIGH

BDO OUTPUT AND OPTIMISM INDICES

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

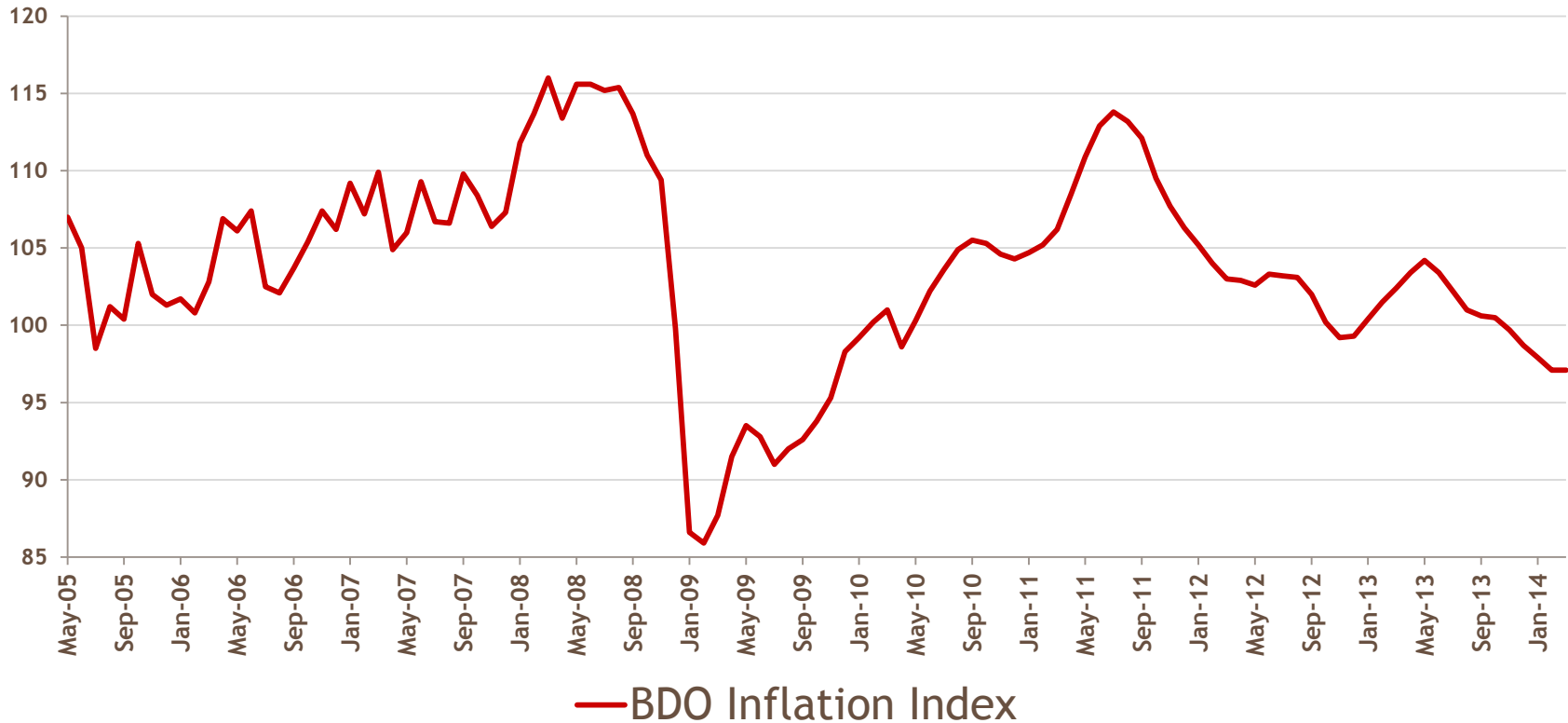


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 2: BDO INFLATION INDEX REMAINS SUBDUED

BDO INFLATION INDEX

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

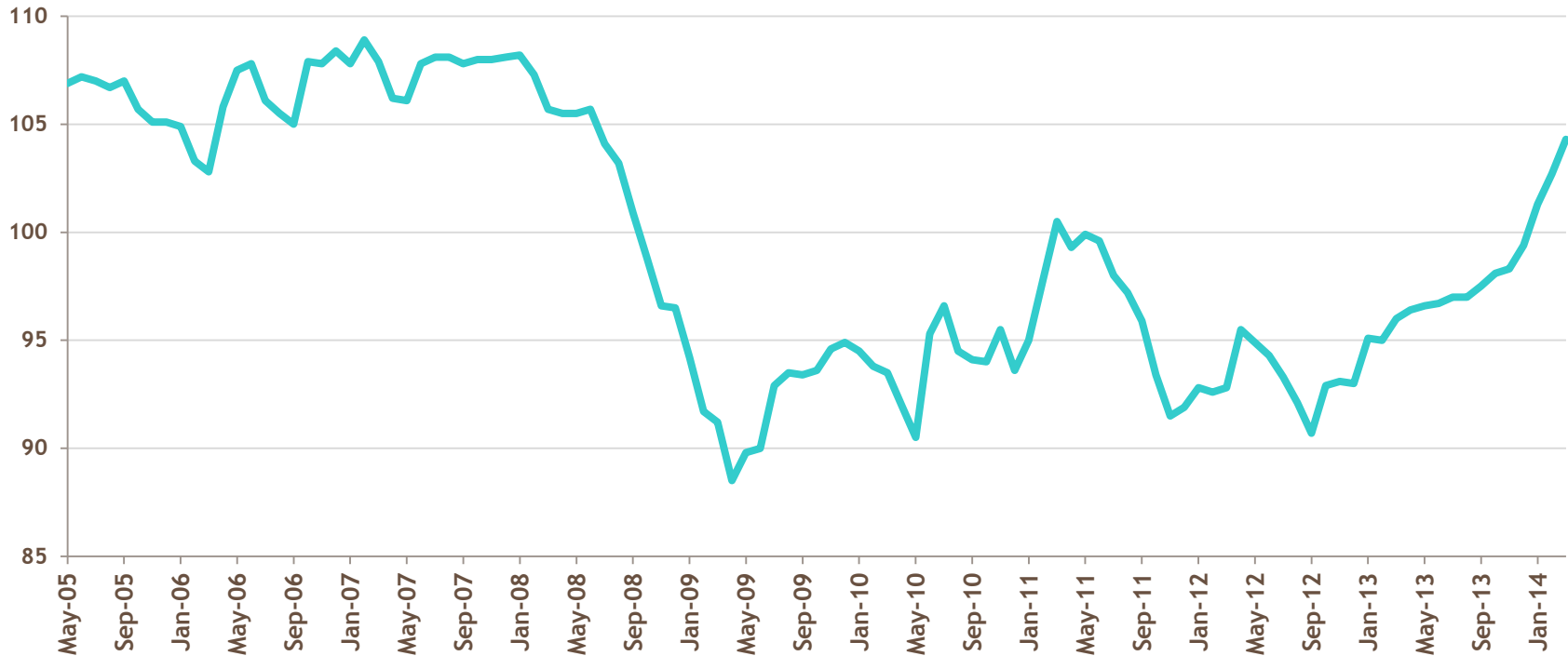


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

APPENDIX 3: EMPLOYMENT INDEX CLIMBS TO HIGHEST LEVEL SINCE JUNE 2008

BDO EMPLOYMENT INDEX

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



— BDO Employment Index

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.