



# BDO MONTHLY BUSINESS TRENDS INDICES

February 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 February 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	✓	▽	102.9 in January from 103.3 in December
BDO Optimism Index	✓	▽	104.4 in January from 104.9 in December
BDO Inflation Index	xxx	▽	95.1 in January from 95.4 in December
BDO Employment Index	✓	▽	111.6 in January from 113.8 in December

KEY:      ✓ = above 100;      ✓✓ = (joint) highest in 12 months;      ✓✓✓ = above 100 and (joint) highest in 12 months  
             x = below 100;      xx = (joint) lowest for 12 months;      xxx = below 100 and (joint) lowest in 12 months  
             ✓✓x = (joint) highest in 12 months, but below 100;      xx✓ = (joint) lowest in 12 months, but above 100

# KEY FINDINGS

The BDO Output Index showed a continuation of its gradual trend downwards, falling from 103.3 in December to 102.9 in January. The index is still above 100, representing continued output expansion above the long-term trend rate. This month's dip predicts that the recent moderation of the GDP growth rate will continue: figures released last week showed that the economy grew at 0.5% during Q4 2014, compared to 0.7% during the quarter before that. We expect the momentum in growth to ease, and expansion of output will be sustained at a slightly lower pace in 2015 than 2014.

With the oil price continuing to fall and inflation expectations around the world falling into deflation, this month's decline in the BDO Inflation Index from 95.4 to 95.1 was predictable. The next move is likely to take inflation into negative territory, represented by any number below 95. With interest rates already virtually at zero, central banks find themselves unable to stop the decline in inflation. Firms therefore expect continuing falls in input prices.

The BDO Optimism Index, which tracks output expectations over a six-month horizon, dipped by 0.5 points, moving from 104.9 to 104.4 between December and January. Firms remain broadly optimistic on the basis that in the domestic economy, employment, wages and output are all on the increase. It therefore appears that firms are focusing more on the positive side of the economic situation rather than the obvious risks, including most notably the stand-off between Greece and its creditors, and to a lesser extent the May general election.

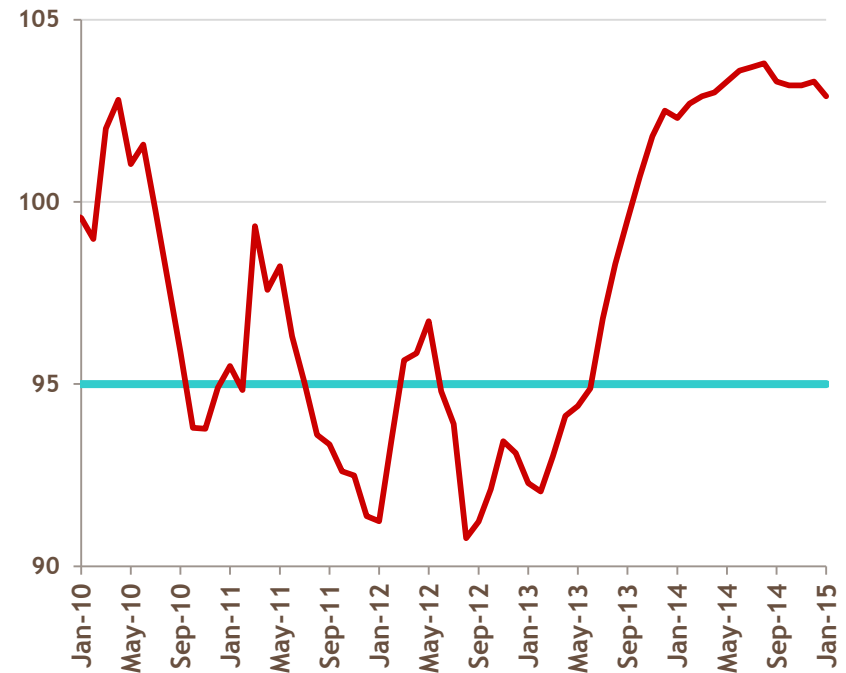
Hiring intentions are cooling off, as the BDO Employment Index fell from 113.8 to 111.6 for January, representing a level still comfortably above the trend rate of 100. With the unemployment rate last recorded at 5.8%, close to the long-term average, there is less slack in the labour market. After last year's record-breaking fall in unemployment, the pace of hiring appears to be slowing down at the beginning of 2015.

# DROP IN OUTPUT POINTS TO A MODERATION RATHER THAN A SLUMP

- The BDO Output Index slipped from 103.3 to 102.9 between December 2014 and January 2015.
- While slightly lower than recent months - the index is below any month since February 2014 - it is still comfortably higher than 100. This indicates that the momentum from last year's robust growth is continuing into 2015, but at a slightly slower rate.
- Signs elsewhere in the economy point to a moderation of output growth, after a recovery period during which expansion was rapid and the Output Index posted levels substantially above 100. For example, the latest GDP figures showed growth of 0.5% during Q4 2014, down from the 0.7% recorded in the preceding quarter, indicating growth closer to the long-term trend rate.
- Both the services and manufacturing sub-indices were down on last month, but the declines were small at 0.3 and 0.7 points respectively and both remain above 100. Despite losing ground during every month since June, the manufacturing sub-index still holds the robust level of 107.3, indicating expectations of further expansion.

## BDO OUTPUT INDEX

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



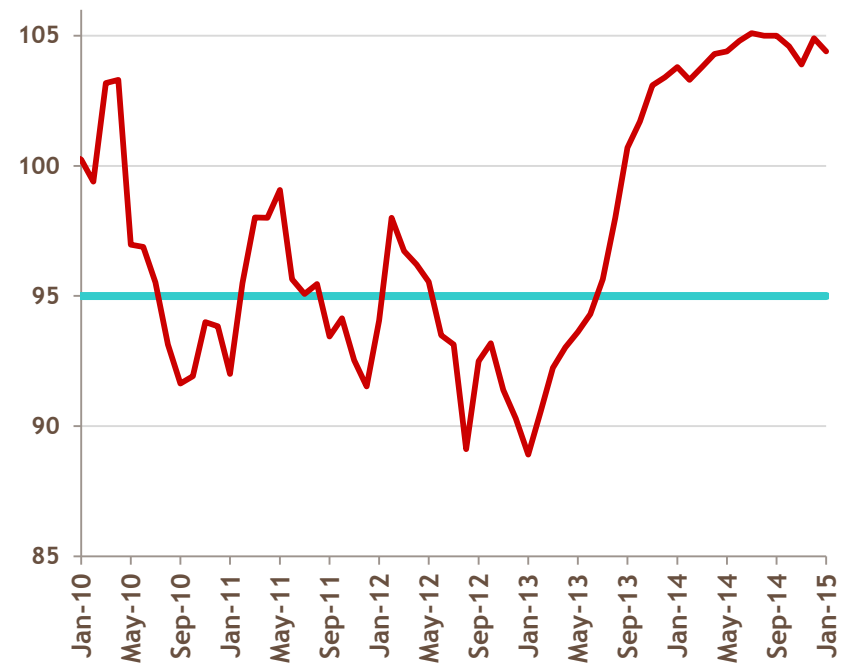
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# FIRMS FOCUSING ON POSITIVES DESPITE SIGNIFICANT UNCERTAINTIES FOR 2015

- The BDO Optimism Index fell from 104.9 to 104.4 between December and January.
- It should be seen simply as a moderation of recent confidence.
- Firms continue to have a positive outlook regarding the first half of 2015, but there are clearly risks ahead contributing to the moderation. Most notably, this includes the possibility of Greece and its creditors failing to reach a compromise and leading to its exit of the Eurozone. On the domestic front, uncertainty regarding May's general election is a key risk.
- However, this must be balanced against the positive effects of recent rises in wages. The end of 2014 saw increasing gains for workers, which ensures that consumer spending will continue to grow, while inflation should remain low. The latest figures showed 1.7% and 0.5% for wage and price growth respectively.
- Overall, this makes for a cautiously optimistic view of the medium-term future. A level of 104.4 suggests that firms are focusing more on the positive side. They are more concerned with domestic events, and relatively unconcerned about the election, at least at the time being.

## BDO OPTIMISM INDEX

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



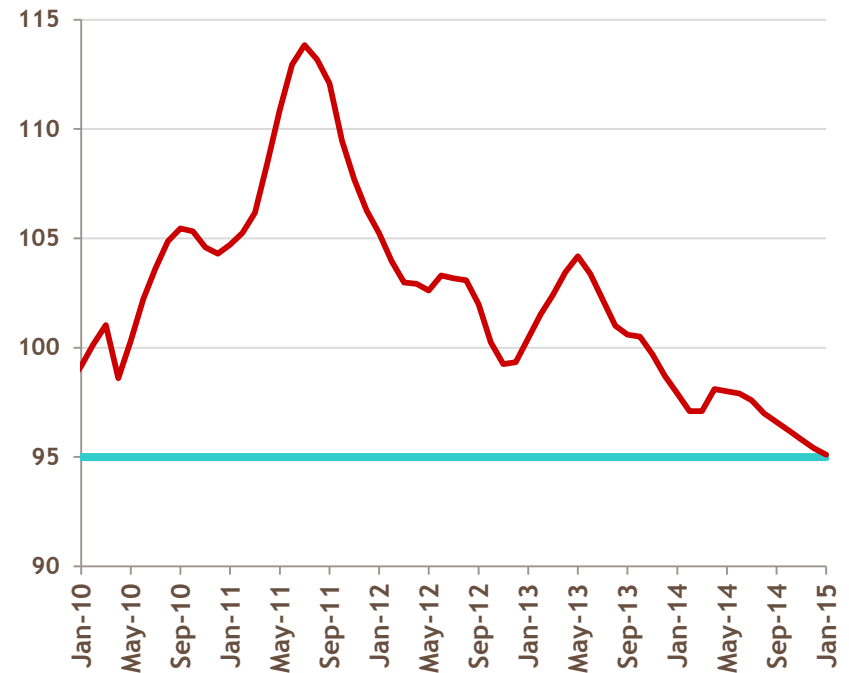
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# INFLATION INDEX HIGHLIGHTS PROSPECT OF BUSINESS COST DEFLATION

- The BDO Inflation Index fell from 95.4 in December to 95.1 in January.
- This represents business input prices remaining broadly on hold. On the current trend, the index is likely to move to below 95, representing negative price growth, next month.
- The trend, which has continued since June 2013 virtually unbroken, is driven in large part by the decrease in the price of oil. Brent crude dipped below \$50/barrel in January, and has remained there since.
- Most firms are expecting the low-inflation environment to persist. This is in spite of the efforts of central banks worldwide to engineer an increase in price growth. Several of these have eased monetary policy recently. However, given that monetary policy was already as loose as possible in most major economies, firms do not expect inflation to respond until demand recovers, of which there is not yet a clear sign.

## BDO INFLATION INDEX

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



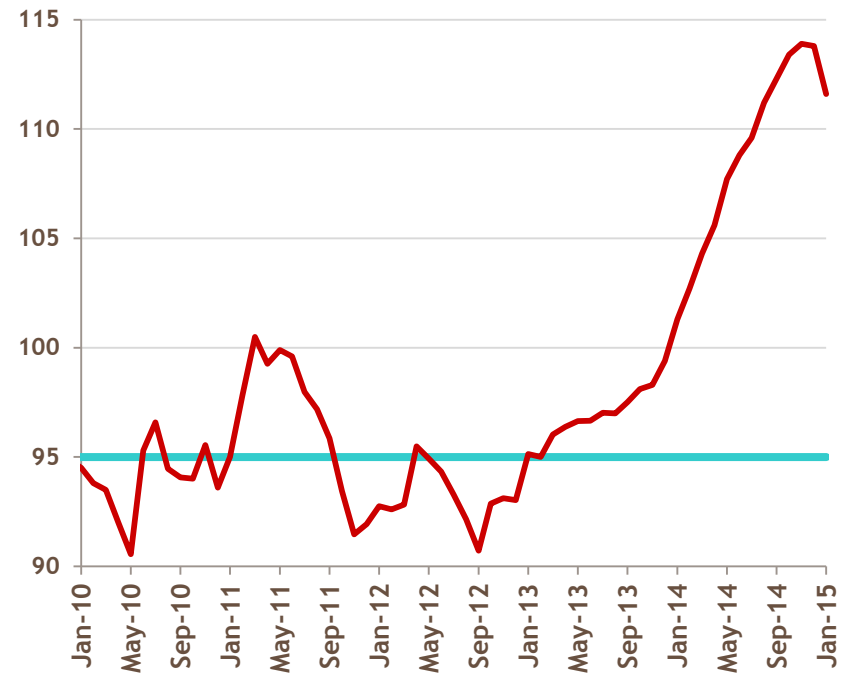
Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# HIRING INTENTIONS COOLING AFTER RECORD EMPLOYMENT GROWTH

- Hiring intentions appear to be cooling off, following a period of record-breaking job creation. The BDO Employment Index, which measures expected employment growth, fell to 111.6 in January from 113.8 in December.
- However, despite this latest fall, there still exists a favourable employment situation for workers. Firms expect comfortably above-average rates of hiring over the next three months.
- Now that the unemployment rate has come down to near its long-term trend level (the last reading was 5.8% for October, from which it has likely decreased further), a decline in the rate of hiring activity was very likely, as skills shortages make finding the right workers harder.
- The labour market has shown particularly strong performance during the recovery, expanding for longer and to a significantly higher level than the Output and Optimism indices. As those indices cool down, we would also expect to see growth in total employment fall back to a normal level, after expanding at an average of around 0.1% per month over the latest year of data.

## 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

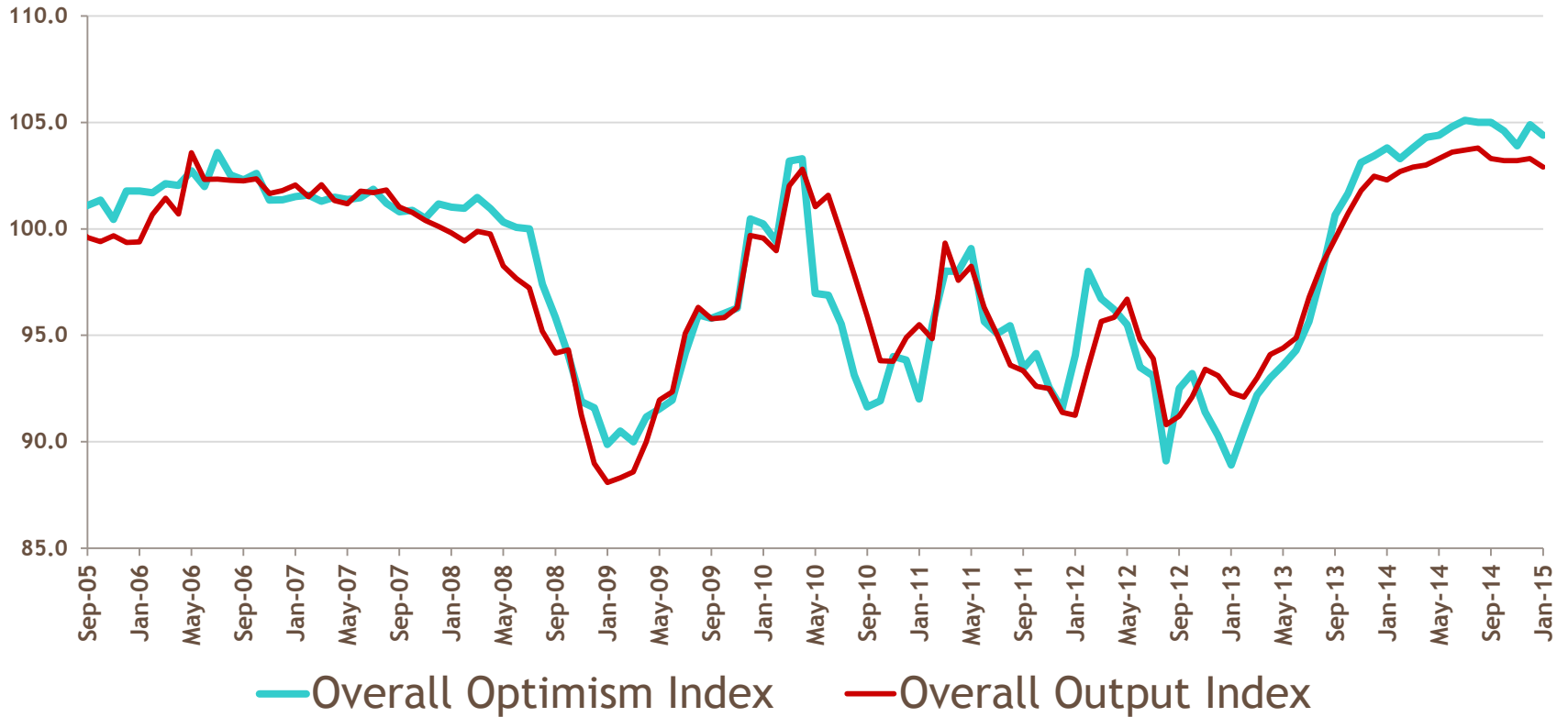
		Jan 2014	Feb 2014	Mar 2014	Apr 2014	May 2014	Jun 2014	Jul 2014	Aug 2014	Sep 2014	Oct 2014	Nov 2014	Dec 2014	Jan 2015
The BDO Optimism Index	<b>Total</b>	103.8	103.3	103.8	104.3	104.4	104.8	105.1	105.0	105.0	104.6	103.9	104.9	104.4
	Manuf.	117.1	118.2	119.4	120.8	121.0	119.5	119.9	118.8	117.4	116.1	114.1	113.9	113.0
	Service	101.2	100.5	100.8	101.1	101.1	101.9	102.2	102.3	102.6	102.3	101.9	103.1	102.7
The BDO Output Index	<b>Total</b>	102.3	102.7	102.9	103.0	103.3	103.6	103.7	103.8	103.3	103.2	103.2	103.3	102.9
	Manuf.	111.3	112.0	112.8	113.5	113.9	114.5	114.4	113.2	111.6	110.1	109.1	108.0	107.3
	Service	100.6	100.8	101.0	101.0	101.3	101.5	101.6	102.0	101.7	101.8	102.1	102.4	102.1
The BDO Inflation Index	<b>Total</b>	97.9	97.1	97.1	98.1	98.0	97.9	97.6	97.0	96.6	96.2	95.8	95.4	95.1
The BDO Employment Index	<b>Total</b>	101.3	102.7	104.3	105.6	107.7	108.8	109.6	111.2	112.3	113.4	113.9	113.8	111.6



# APPENDIX 1: FIRMS FOCUSING ON POSITIVES DESPITE SIGNIFICANT UNCERTAINTIES FOR 2015

## BDO OUTPUT AND OPTIMISM INDICES

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

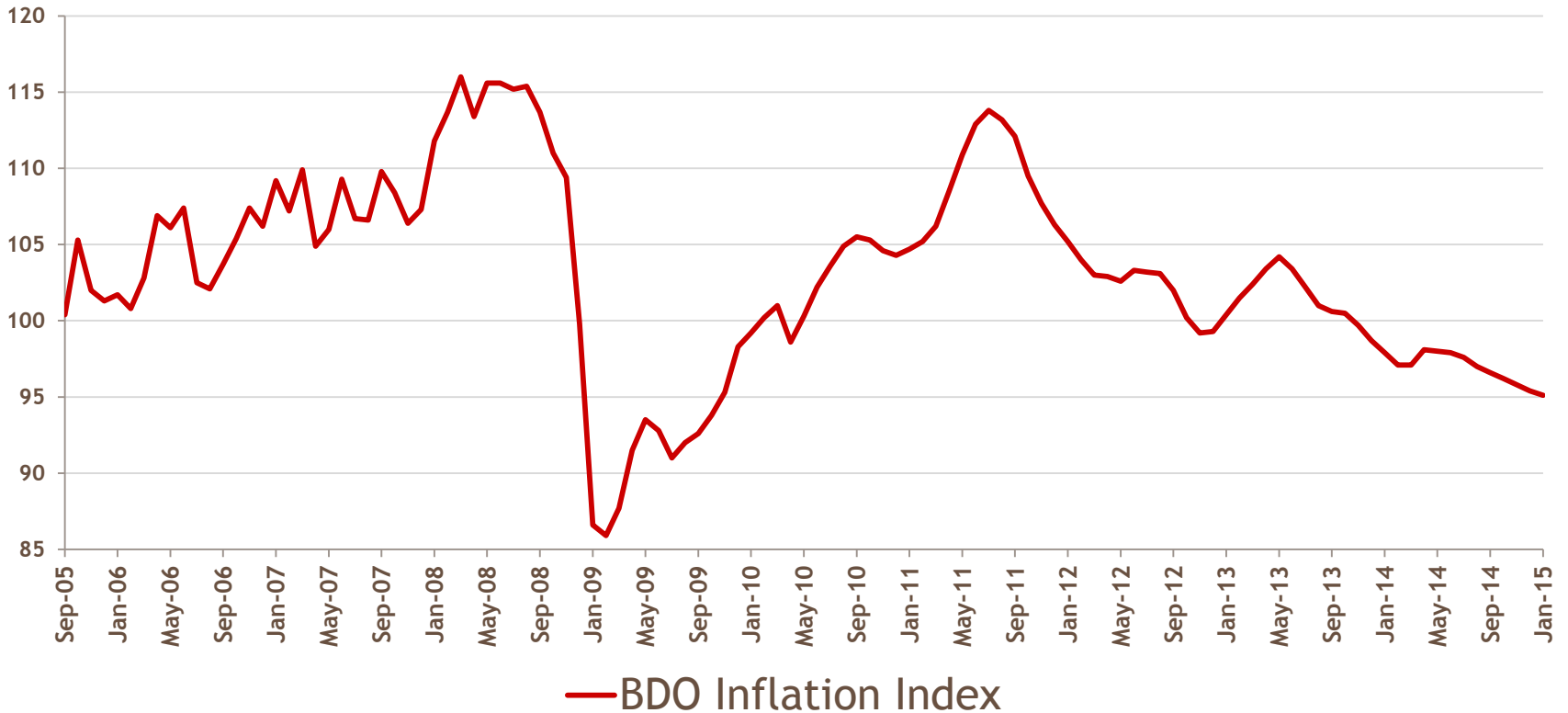


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# APPENDIX 2: INFLATION INDEX HIGHLIGHTS PROSPECT OF BUSINESS COST DEFLATION

## BDO INFLATION INDEX

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

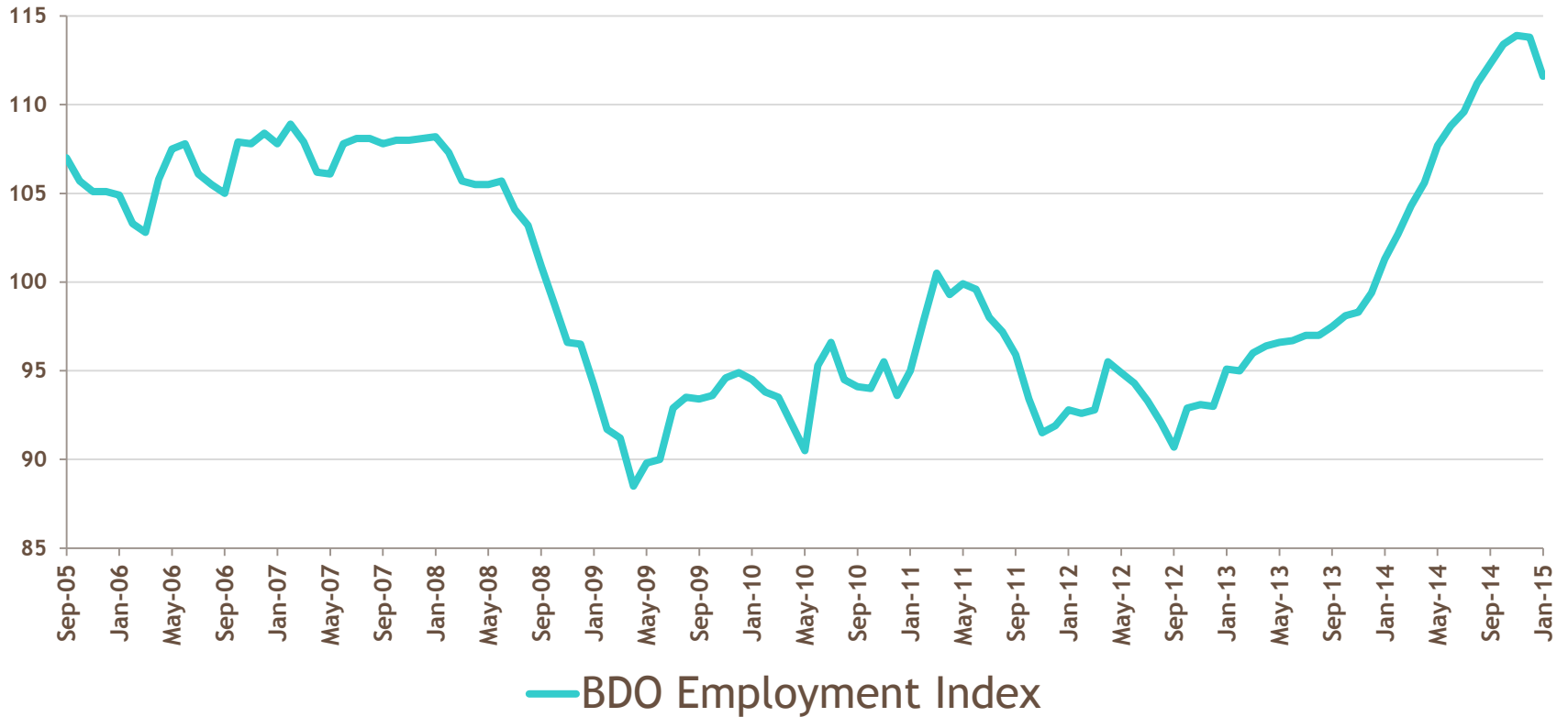


Source: Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# APPENDIX 3: HIRING INTENTIONS COOLING AFTER RECORD EMPLOYMENT GROWTH

## 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)

## **CHARLES DAVIS, ROB HARBRON OR ALASDAIR CAVALLA**

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

telephone: 020 7324 2850

email:

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

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

# 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.