

## Introduction

The BDO Monthly Trends Indices are ‘polls of polls’ that pull together the results of all the main business surveys. The December Monthly Indices update the results in the ‘BDO Business Trends Report’ produced in November 2010. The latest results include new business surveys carried out between the 1st November and the 31st November 2010.

## Summary and key findings

Index	Current Confidence	Movement in Month	Index level: November compared to October
<b>BDO Output Index</b>	x	↔	93.8 in November from 93.8 in October
<b>BDO Optimism Index</b>	x	↑	93.0 in November from 91.9 in October
<b>BDO Inflation Index</b>	✓	↓	104.6 in November from 105.3 in October
<b>BDO Employment Index</b>	x	↑	95.5 in November from 94.0 in October

**KEY:** ✓ = above 100; ✓✓ = highest in 12 months; x = below 100; x x = lowest for 12 months

## Key Findings

November's data signal a turnaround in sentiment for UK businesses. Although prospects for growth remain weak, the deterioration experienced over recent months has eased.

The Output index, which looks one quarter ahead, remained flat in November, halting four months of decline. The optimism index, which looks two quarters ahead, increased by 1.7 points in November from October. Both indices remain below the crucial 95.0 mark – signalling potential contraction in UK output in Q1 2011. Nonetheless, this month's data are encouraging; ending a period of decline on both measures.

The Inflation index edged down in November for the second month, reaching 104.6. Although this suggests an easing of inflationary pressures, expectations are for annual price growth of well over 2.0% during the next quarter – a trend likely to persist for the whole of 2011.

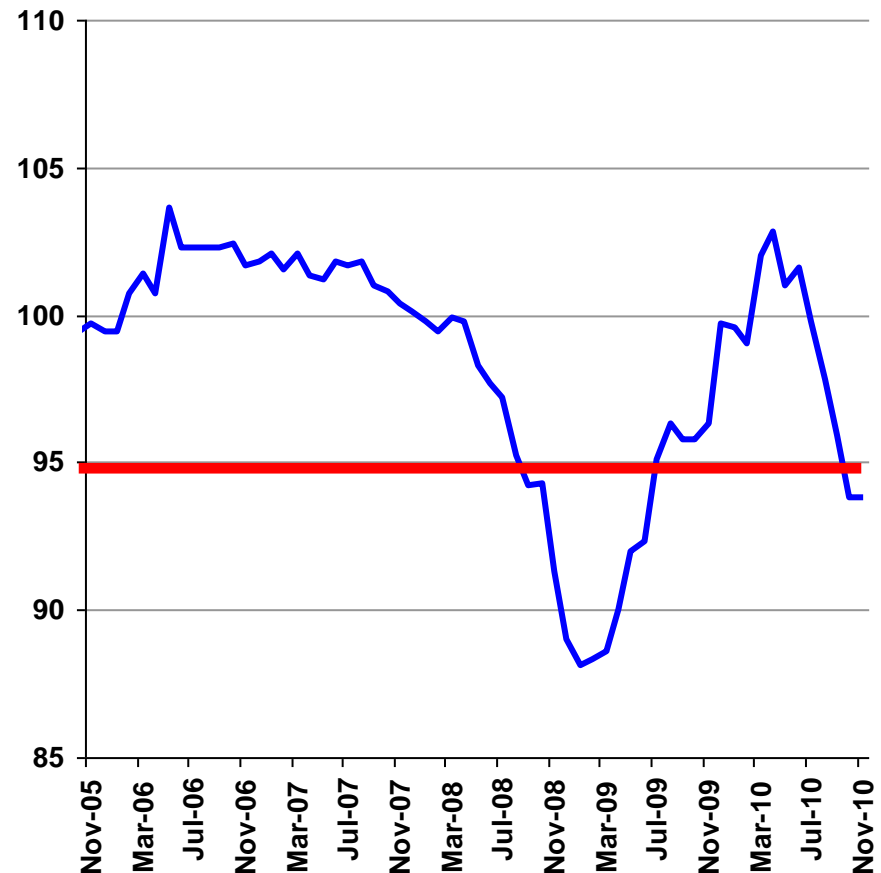
The employment index also showed some signs of improvement this month. The index edged above 95.0 for the first time in three months. Although far from suggesting a robust recovery in the labour market over the next month, employment in the private sector does appear to be stabilising.

Despite the stabilisation in the labour market and elevated inflation, we continue to expect the Bank of England to keep monetary policy extremely loose during 2011, as domestic inflationary pressures remain soft.

## Cessation in output index fall

- The BDO output index remained at 93.8 in November, the first time the index has not fallen in four months.
- This highlights the risk that growth in the UK economy may be extremely sluggish, potentially even contracting, at the turn of the year.
- With falls in the output index coming to a halt, however, the deterioration in growth prospects may be bottoming out.
- One cautionary note is the fallout from the EU sovereign debt crisis escalation. Most of the surveys used to compile the output index were collected prior to the recently announced Ireland bailout package. Since then concerns over the stability of Portugal and Spain, as well as Belgium and Italy, have mounted.

**BDO Output Index, 100 = average trend growth.  
Greater than 95 = positive growth**

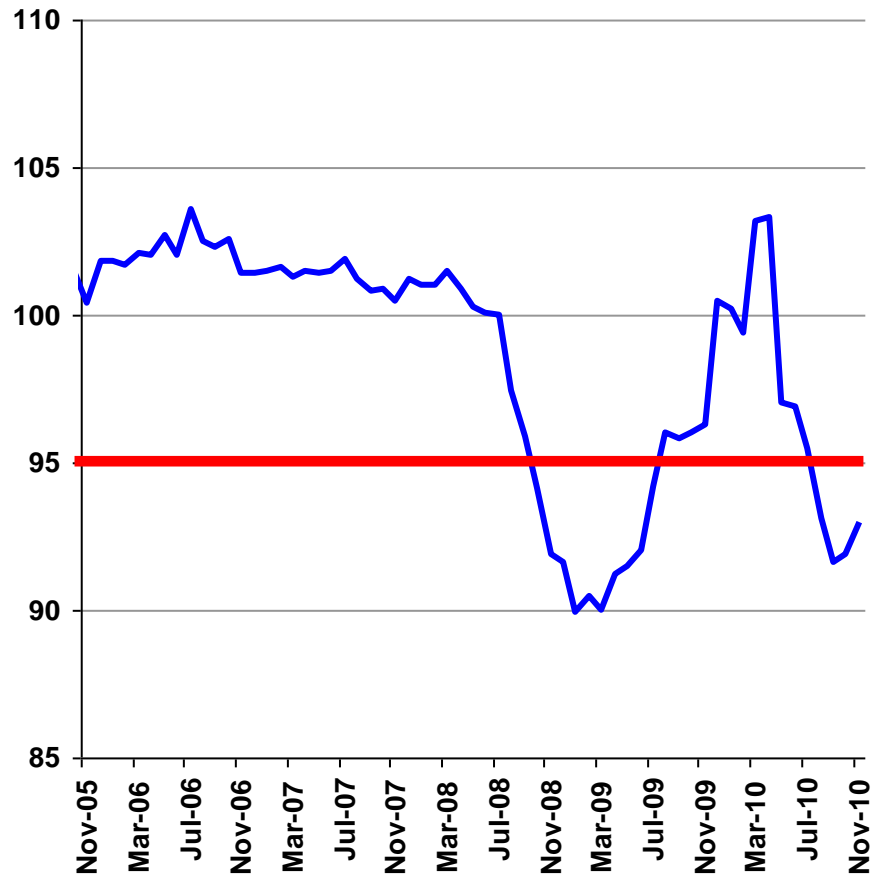


Source: PMI, Bank of England, CBI and the Office for National Statistics

## Optimism index rebounds for second month

- The optimism index edged up in November to stand at 93.0, from 91.9 the previous month. This is only the second increase in the index since it began to fall in April 2010.
- The optimism index, which looks at output two quarters ahead, has been below 95.0 (suggesting contraction) for the last four months.
- Similar to the output index, however, the index seems to have bottomed out, with the implied pace of contraction easing.
- Nonetheless, this month's score confirms that growth in early 2011 will be very slow and there is still a real risk of the UK economy experiencing negative quarterly growth early next year.

**BDO Optimism Index, 100 = average trend growth. Greater than 95 = positive growth**

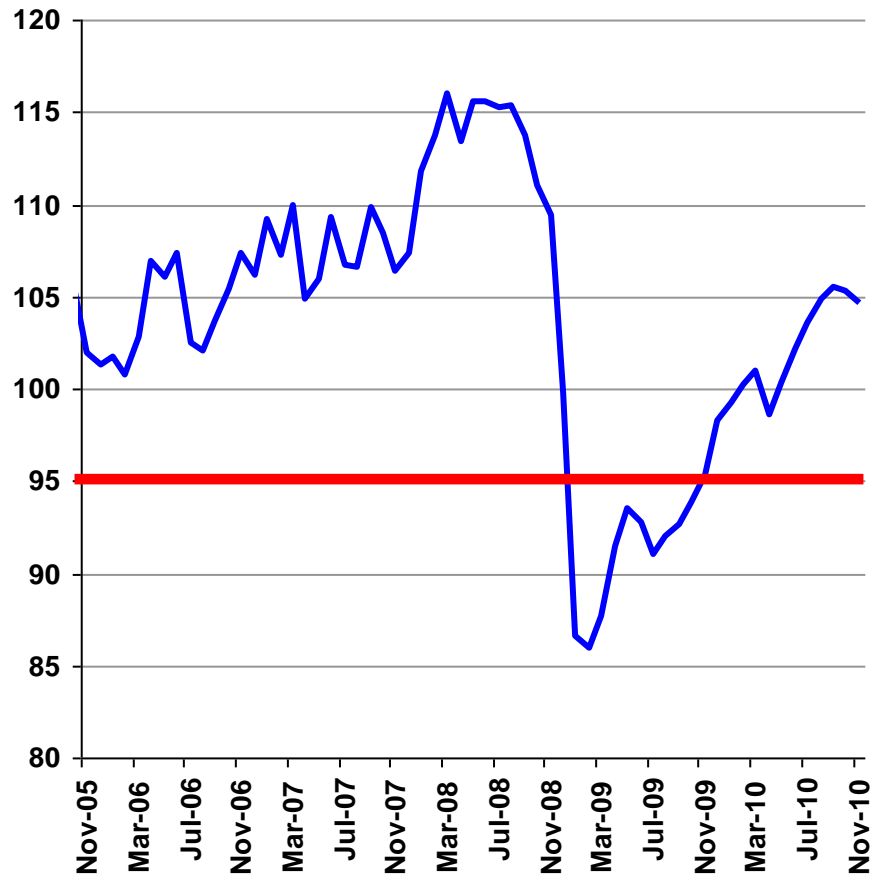


Source: PMI, Bank of England, CBI and the Office for National Statistics

## Inflation expectations ease but remain elevated

- The BDO inflation index fell slightly in November to 104.6, down from 105.3 in October.
- The BDO inflation index measures inflation expectations over the coming quarter. A value above 95.0 indicates positive annual inflation, on the consumer price index (CPI) measure, while above 100 suggests above the Bank of England target of 2.0 per cent.
- The current score supports Cebr's view that inflation will remain elevated well into next year due to upward pressure from commodity price rises and the VAT rise on January 4<sup>th</sup>.
- Indeed, this index is likely to remain above 100 for the whole year, although it should wane as 2011 progresses.

**BDO Inflation Index, 100 = average trend growth. Greater than 95 = positive growth**

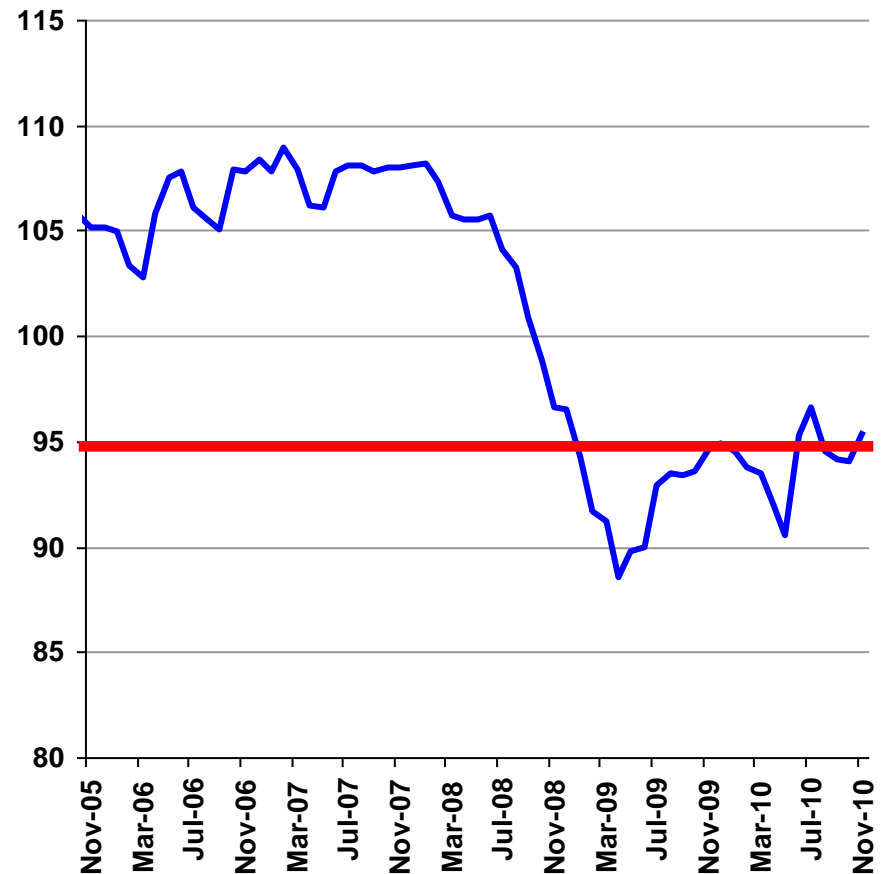


Source: PMI, Bank of England, CBI and the Office for National Statistics

## Labour market continues to weaken

- The employment index rose to 95.5 in November from 94.0 in October. This is the first time in three months the index has been above 95.0, indicating improvement in the labour market.
- A value of 95.0 on the BDO employment index indicates no change to employment over the coming quarter.
- There has been some stabilisation in the labour market data released over the past month. Claimant count unemployment surprisingly fell in October.
- The labour market is, however, a long way from recovery. Employment was not shed by as much as previous recessions and there is evidence of significant underutilisation.
- As such, employment growth is likely to be modest over the coming year, as a score of 95.5 on the BDO employment index suggests.

**BDO Employment Index, 100 = average trend growth. Greater than 95 = positive growth**



Source: PMI, Bank of England, CBI and the Office for National Statistics

## BDO Indices to October 2010

		Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov
The BDO optimism index	Total	100.5	100.2	99.4	103.2	103.3	97.0	96.9	95.5	93.1	91.6	91.9	93.0
	Small	99.4	99.2	98.3	102.1	102.2	95.9	95.9	94.5	92.1	90.7	90.9	92.0
	Large	101.3	101.1	100.2	104.0	104.2	97.8	97.7	96.3	93.9	92.4	92.7	93.7
	Manuf.	99.7	100.0	100.5	103.5	109.2	108.0	106.4	106.0	101.7	97.7	98.4	99.7
	Service	100.7	100.3	99.1	103.1	101.8	94.2	94.5	92.9	91.0	90.1	90.3	91.3
The BDO output index	Total	99.7	99.6	99.0	102.0	102.8	101.0	101.6	99.8	97.8	95.9	93.8	93.8
	Small	98.0	97.9	97.3	100.3	101.0	99.3	99.8	98.1	96.2	94.3	92.2	92.3
	Large	101.0	100.9	100.3	103.4	104.2	102.4	102.9	101.1	99.1	97.2	95.1	95.0
	Manuf.	99.3	99.8	100.0	101.3	107.5	109.1	108.5	107.9	106.7	103.0	99.1	98.8
	Service	99.8	99.5	98.7	102.2	101.6	99.0	99.9	97.7	95.6	94.1	92.5	92.5
The BDO inflation index	Total	98.3	99.2	100.2	101.0	98.6	100.3	102.2	103.6	104.9	105.5	105.3	104.6
The BDO employment index	Total	94.9	94.5	93.8	93.5	92.0	90.5	95.3	96.6	94.5	94.1	94.0	95.5

## For further details

### Peter Hemington:

BDO LLP,

55 Baker Street, London W1M 1DA

Telephone: 020 7486 5888

Fax: 020 7487 3686

E-mail [peter.hemington@bdo.co.uk](mailto:peter.hemington@bdo.co.uk)

### Douglas McWilliams, Charles Davis or Owen James:

the centre for economics and business research ltd,

Unit 1, 4 Bath Street, London EC1V 9DX

Telephone: 020 7324 2850

Fax: 020 7324 2855

E-mail [dmcwilliams@cebr.com](mailto:dmcwilliams@cebr.com) or [ojames@cebr.com](mailto:ojames@cebr.com)

## Methodological Notes

The BDO Monthly Business Trends Indices are prepared on behalf of BDO LLP by the centre for economics and business research ltd., 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 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; and the Chartered Institute of Purchasing and Supply's Surveys of Manufacturing and of Services.

Taken together the surveys cover over 11,000 different respondents from companies employing approximately five million employees. The respondents cover a range of different industries and a range 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.