

Robust rise in confidence drives 2.5 per cent growth in early 2010, says BDO LLP

Report confirms biggest spike in UK output since early 90s

Optimism and output have reached their highest levels for almost two years, leading to predictions of GDP growth of 2.5 per cent in Q4 and Q1, according to the latest Business Trends report by accountants and business advisers BDO LLP.

After a two month plateau in confidence, this month's Business Trends output index increased significantly in December to 99.7 up from 96.3 in November. This is the largest rise since the end of the early 90s recession and suggests a strong bounce over the next three months. The rise is supported by robust confidence levels, as the optimism index rose to 100.5, from 96.3 in November. Taken together, the indices are consistent with annualised GDP growth of around 2.5 per cent in the fourth quarter of 2009 and the first quarter of 2010.

The driving force behind the rise will be reduced de-stocking and a revival in restocking. The decline in stock levels reduced gross domestic product by £4.6 billion in the third quarter, but increased confidence is likely to drive production to replace depleted stock.

Kim Hayward, Lead Partner for BDO LLP in Southampton commented:

Back in July BDO predicted a saxophone-shaped recovery. The marked increase in output and optimism suggests we are now on the brink of a sharp upturn (see diagram). However, the saxophone might hit a flat note. Restrained lending, a likely increase in taxes and the possible effect of political uncertainty on sterling could all hamper performance later on in the year.

This means renewed optimism should be paired with a sense of caution. Credit conditions remain difficult, so businesses must seize opportunities to secure funding and monitor their cash-flow closely – we're not out of the woods yet.

– Ends –

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Note to editors Annualised GDP growth of 2.5 per cent in Q4 2009 and Q1 2010. Annualised growth rates (annualised rate of change) show the value that would be registered if the quarter-on-quarter rate of change were maintained for a full year. The December optimism index was the highest value since February 2008 and December's output index was the highest since March 2008. The BDO Business Trends Report Indices are calculated by taking a weighted average of the results of all the UK's main business surveys carried out during the last month. Methodological notes: The BDO Monthly Business Trends Indices are prepared on behalf of BDO LLP by the centre for economics and business research (cebr). 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

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