ESSENTIAL READING

FINANCIAL MARKETS IN FOCUS

What are equity markets signalling about the economic outlook?

2 April 2015

Macro Financial Analysis Division[1]

This series of seeks to highlight key insights of recent financial markets analysis, and to invite suggestions for further work.

Main message: Combining company accounts data with a new MFAD dataset of earnings forecasts for individual companies, we assess equity market participants' outlook for the economy by focussing on earnings projections for domestically-focused firms. Equity prices and earnings forecasts for UK-focused FTSE companies have both increased by more than the wider index since July 2014. This is consistent with an improved outlook for the UK economy, although there is some evidence that the pace of improvement has moderated somewhat recently. Excluding oil and gas firms, earnings forecasts for US-focused S&P 500 companies have also been revised up. Perhaps surprisingly, this is also the case for Europe-focused Euro Stoxx companies, although these upwards revisions are from a much lower level.

Equity prices are forward looking and so contain information about the prospects for the corporate sector, which can be used to help shed light on the economic outlook. But benchmark equity indices do not give a clean read on the domestic outlook, for two reasons. First, many companies generate a significant proportion of their revenues overseas. And second, evidence suggests that movements in discount rates, rather than changes in earnings and dividend expectations, account for much of the variation in aggregate equity prices.

We address these issues by using information from two new MFAD datasets. The first dataset (from Worldscope) contains information from companies' financial accounts on the geographic source of their revenues. The second dataset (from IBES) contains equity analysts' company-level earnings forecasts. Combining these two sources, we explore the earnings outlook for domestically-focused firms within the UK, US and euro-area benchmark equity indices.

Focusing on the period since July 2014, when oil prices began to fall, our key findings are:

1) Equity prices of UK-focused companies within the FTSE All-Share have increased by more than the wider index. And earnings forecasts for these firms have been revised up since July, pointing to continued robust growth in earnings for these companies and an improved outlook for the UK economy. The rate at which earnings forecasts have been revised up has recently slowed somewhat, however, compared to late-2013 and early-2014.

2) The strength in equity prices and the positive earnings revisions for UK-focused companies have been broad-based across sectors. At the 1- and 2-year horizons, earnings forecasts for the construction, financial, manufacturing and services sectors have all been revised up since July 2014.

3) As the US and Europe-focused components of the FTSE may be affected by foreign exchange effects, we also examine domestically focused components of the S&P 500 and Euro Stoxx. Excluding oil and gas firms, earnings forecasts for US-focused S&P 500 firms have been revised up since July. Perhaps surprisingly, earnings forecasts for Europe-focused Euro Stoxx firms have been revised up too, although from a relatively low level.

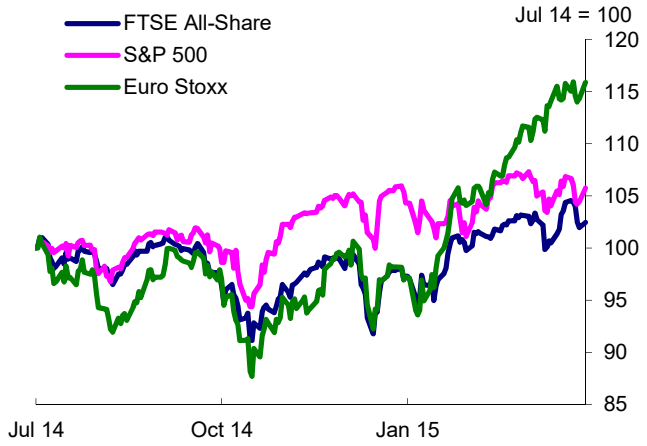
[1] With thanks to the Equities MI Team for comments, suggestions and arranging calls to discuss this work with external equity analysts.

I. Introduction

Equities can provide a signal about the economic outlook…

Equity prices can potentially provide a timely, forward-looking indicator of the economic outlook, as they reflect expected discounted future cash flows generated by companies. This note uses equity market data to shed light on growth prospects in the UK and elsewhere, focusing on developments over the period since July 2014, when oil prices began to fall. Over the second half of last year, the performance of benchmark equity indices was mixed. The FTSE All-Share and Euro Stoxx both fell (-2.7% and -2.8% respectively) while the S&P 500 rose (+4.3%), continuing its strength from the first half of the year (**Chart 1**). Since the start of 2015, however, the picture looks rather different. The S&P 500 has been broadly flat (+1.3%), while the Euro Stoxx has increased significantly (+19.2%). The performance of the FTSE All-Share has been somewhere in between (+5.3%).

Chart 1. Benchmark equity indices since July 2014



Source: Thomson Reuters Datastream

…but benchmark equity indices do not give a clean read.

A simple interpretation of these movements could lead to some pessimism regarding the UK outlook. But benchmark equity indices, such as the FTSE All-Share, do not give a clean read on domestic economic prospects, for two reasons. First, many companies in the index generate a large proportion of their revenues overseas. We estimate that FTSE All-Share companies generate around 75% of their revenues outside of the UK. Second, evidence from the finance literature suggests that much of the variation in aggregate equity prices reflects changes in the discount rate component of equities, rather than revisions to expected future cash flows. While discount rates also contain useful information about the economic outlook, it can be helpful to separate the cash flow and discount rate effects underlying equity price movements.

We use two new datasets to isolate domestically-focused earnings forecasts.

To address these issues, we utilise two new datasets within MFAD: the first (constructed using Worldscope data) contains information from companies' financial accounts on the geographic sources of their revenues; the second (based on IBES data) contains equity analysts' firm-level earnings forecasts. Each of these datasets is described further in the appendix at the end of the note. The combination of these two sources allows us to examine cash flow expectations for companies focused on particular regions, and therefore provides a cleaner assessment of equity market participants' views on the economic outlook. While our analysis is necessarily restricted to listed companies, these companies are likely to account for a significant proportion of output and particularly investment, so their prospects should provide a good signal about the economic outlook more generally.

II. Geographically focused components of the FTSE

Company accounts include information on revenues by region.

Our first dataset (from Worldscope) contains breakdowns of company revenues by geographic region. These annual data, obtained from companies' financial accounts, enable us to identify firms that are primarily exposed to particular regions, and hence to produce equity price indices and other metrics for baskets of firms focused on specific regions. Since firms are not required to report these figures, and the reporting is not standardised, significant work and some judgement is required to clean and compile the data. Once this has been done, we are able to

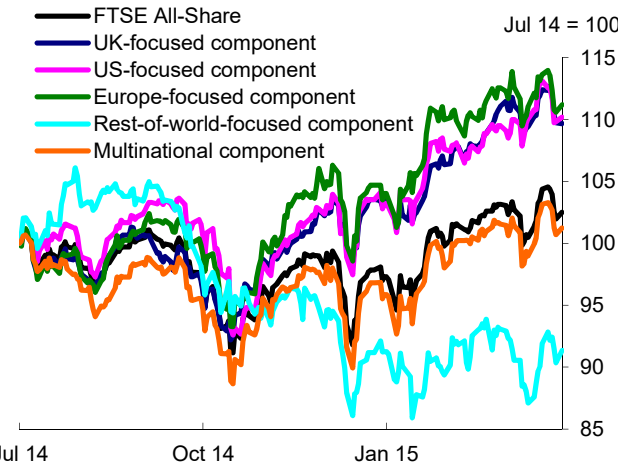
assign a geographic source to about 90% of revenues reported by FTSE All-Share firms. Our procedure ensures that each firm is assigned to a unique basket. In this section of the note we use these data to decompose the FTSE All-Share into geographically focused baskets, and then in the next section we turn to the equivalent decompositions for the S&P 500 and Euro Stoxx.

For the decomposition of the FTSE All-Share, we identify firms that generate 90% or more of their revenues in the UK as 'UK-focused', while for the US, Europe and rest of world[2] we require at least a 40% exposure.[3,4] This lower threshold reflects the trade-off between obtaining a high regional exposure for each basket, and ensuring that a basket contains a reasonable number of constituents. Our results are robust to the precise choice of thresholds. Further details of these issues and our methodology are provided in the appendix.

Equity prices of UK-focused companies have outperformed the wider FTSE All-Share.

Chart 2 shows that equity prices of UK-focused companies have outperformed the wider FTSE All-Share since July, increasing by 9.7% compared with 2.5%, and suggesting a more positive picture for the UK outlook than the benchmark index. The US- and Europe-focused components of the FTSE have also outperformed the index, while the multinational and particularly the rest-of-world focused components have pulled down on the index.

Chart 2. Equity price indices for geographically-focused components of the FTSE All-Share



Source: Thomson Reuters Datastream and Worldscope, Bank calculations

We also have new firm-level data on earnings forecasts.

Empirical evidence from the finance literature suggests that discount rates play a large role in equity price variation, so we also examine how cash flow expectations have evolved for the companies within each geographic basket. A new firm-level dataset from IBES (the Institutional Brokers' Estimate System) contains equity analysts' median forecasts for individual companies' future earnings, allowing us to construct earnings forecasts for each basket. We focus on earnings, rather than dividend, forecasts as the empirical evidence suggests that companies smooth dividend payments through the economic cycle. Earnings therefore provide a cleaner and more direct read on companies' prospects.

As with the geographic data, a significant amount of work and a certain amount of judgement is needed to clean and process the earnings forecast dataset; further details are provided in the appendix. In this note, we focus on changes in 1- and 2-year ahead earnings forecasts that have been equally weighted across firms. The **box** below provides some simple diagnostics demonstrating that these forecasts have predictive power for future realised earnings and that they are updated in a timely manner.

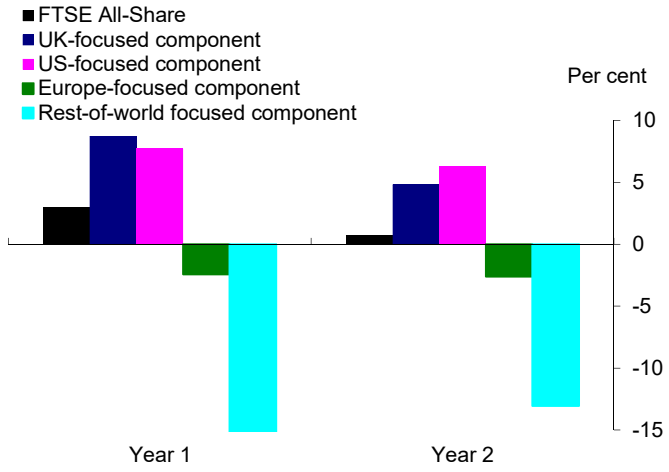
Chart 3 shows changes in the earnings forecasts for each geographic basket of the FTSE All-Share since July 2014. Earnings forecasts for UK-focused companies (navy bars) have increased by 8.7% and 4.8% at the 1- and 2-year horizons respectively, compared to increases of 3.0% and 0.7% for the aggregate FTSE (black bars). This suggests that the strong

[2] In our analysis the rest-of-world component covers Asia, Pacific countries, the Americas (excluding North America), Africa, the Middle East and other, mostly emerging market, economies.
[3] Companies that do not have a primary geographic revenue source, but instead generate revenues from multiples regions, are assigned to a multinational basket.
[4] Limitations in the granularity of reporting mean that some revenues labelled as being generated in Europe may have been derived from the UK, but we do not believe this will have had a significant effect on the composition of the baskets.

Earnings forecasts for UK-focused FTSE companies have been revised up.

performance of UK-focused equity prices has not been driven by discount rate effects alone: earnings forecasts for UK-focused companies have been revised up as well, consistent with an improved outlook for the UK economy.

Chart 3. Changes since July 2014 in earnings forecasts for geographic baskets of the FTSE All-Share



Source: Thomson Reuters Datastream and Worldscope, IBES, Bank calculations

Revisions to earnings forecasts for US- and Europe-focused FTSE firms may have been driven by changes in sterling bilateral exchange rates.

Turning to the other baskets, earnings forecasts for US-focused FTSE companies have been revised up since July (pink bars), while earnings forecasts for Europe-focused FTSE companies have been revised down (green bars).[5] While these moves may reflect developments in the domestic outlook for the US and euro-area, they are also consistent with changes in sterling bilateral exchange rates. It is likely that cash flows generated abroad by UK-listed firms (either directly or through exports) are denominated in US dollars or euros, and are subsequently translated into sterling earnings.[6] It is therefore possible that revisions to foreign earnings are strongly affected by changes in the exchange rate, mechanically resulting in currency translation effects.[7] In order to obtain a cleaner read on the domestic outlook for the US and euro-area, in the next section we construct domestically focused baskets of the S&P 500 and Euro Stoxx.

Both equity prices and earnings forecasts have been weak for the rest-of-world focused component of the FTSE.[8] While this may in part reflect exchange rate effects and the weakness in the domestic outlook for some EMEs, it is also likely to have been driven by weakness in oil and other commodity prices. Around a quarter of the companies in this basket are oil and gas firms, while around a third are in the basic materials sector.

III. Domestically focused components of the S&P 500 and Euro Stoxx

Domestically focused firms in the S&P 500 and Euro Stoxx may give a cleaner read on the outlook for the US and euro area.

In order to obtain a cleaner read on the domestic outlooks for the US and euro area, we have also constructed domestically focused baskets of S&P 500 and Euro Stoxx companies. These baskets are constructed in a similar manner to the UK-focused basket of the FTSE, using a threshold of 90% of earnings generated in the US or Europe respectively. **Chart 4** shows the changes in earnings forecasts since July for these baskets.

Earnings forecasts for US-focused S&P firms outside of the oil and gas sector have been revised

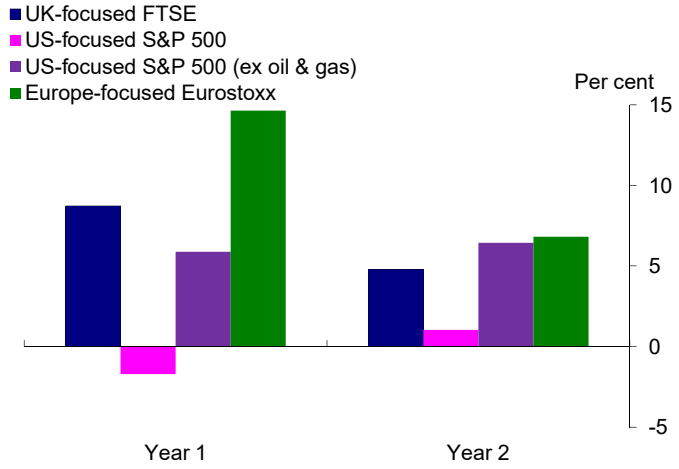
The earnings outlook for US-focused S&P companies appears a little weak, with earnings forecasts for this basket having been revised down at the 1-year horizon (pink bars). But this largely reflects the presence of domestically focused US oil and gas firms. With these firms removed (purple bars) earnings forecasts have been revised higher by a broadly similar amount to the UK domestically-focused basket.

[5] Limitations in the Worldscope data preclude us from producing a euro-area-focused basket; earnings labelled as European may have been derived from anywhere in continental Europe, including from countries outside the euro area.
[6] Such an effect assumes that companies do not fully hedge their foreign exchange exposure, for example through taking positions in futures contracts or holding cash / paying dividends in foreign currency.
[7] Our recent indicator pointed to currency movements as a significant negative factor for euro-exposed companies.
[8] The size of the downwards revisions for the rest-of-world basket are striking. Chart A2 in the appendix shows that the price index for this component of the FTSE tracks the MSCI Emerging Markets Index, providing a useful robustness check on the construction of the basket.

…as have earnings forecasts for Europe-focused Euro Stoxx firms.

Earnings forecasts for Europe-focused Euro Stoxx companies have been revised up, substantially so at the 1-year horizon (green bars). This contrasts with the downward revisions to the earnings forecasts for Europe-focused FTSE companies, suggesting that currency effects may indeed have played a role there. This strength also contrasts with the perceived weakness of the euro area over the second half of 2014. While it is difficult to fully reconcile this contrast, we show in the next section that these positive earnings-forecast revisions are from a low base. The Europe-focused Euro Stoxx basket also has a relatively high proportion of financial firms; if these firms are excluded from the basket, earnings forecasts have been revised up by a more modest 5% at the 1-year horizon. It is also possible that earnings forecasts may have been revised up over this period in the light of building expectations of ECB QE; if QE were successful in stimulating real activity it might be expected to boost firms' profits.

Chart 4. Changes since July 2014 in earnings forecasts for domestically-focused baskets

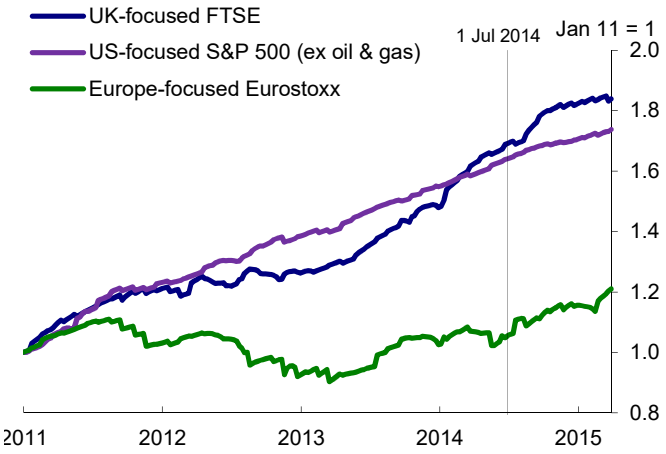


Source: Thomson Reuters Datastream and Worldscope, IBES, Bank calculations

IV. The longer-run context

So far we have considered revisions to earnings forecasts since July 2014; this section examines a longer-run time series of earnings forecasts, allowing us to put these changes into context.[9] **Chart 5** shows cumulative changes since January 2011 in our 1-year-ahead earnings forecast measure for the domestically-focused baskets of the three benchmark indices. **Chart 6** shows the 12-month growth rates of these earnings forecast series. For the US, we focus on the basket excluding oil and gas firms.

Chart 5. Cumulative changes since January 2011 in 1-year-ahead earnings forecasts for domestically-focused baskets



Source: Thomson Reuters Datastream and Worldscope, IBES, Bank calculations

Upward revisions to earnings forecasts for Europe-focused Euro Stoxx companies are from a low base.

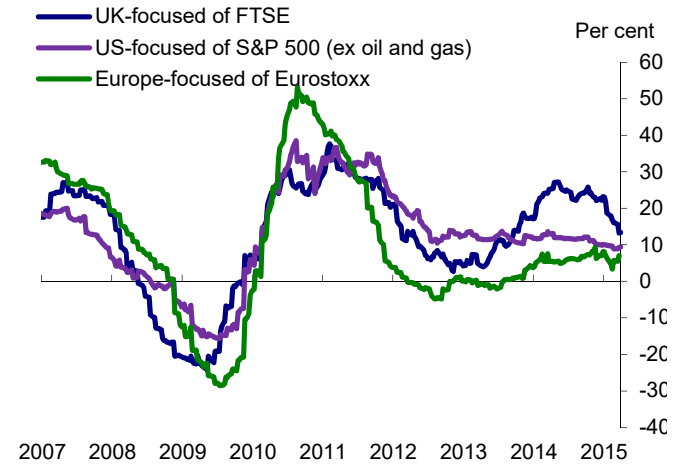
Chart 5 shows that, although earnings forecasts for the Europe-focused Euro Stoxx basket have increased since July, this is from a relatively low base. While 1-year-ahead earnings forecasts for the UK and US domestically focused baskets have increased by 84% and 74% respectively since 2011, they have increased by only 21% for the European domestically focused basket.

[9] The geographically focused baskets are based on firms reported exposures in 2013.

The growth in earnings forecasts for UK-focused FTSE companies has slowed a little recently.

Chart 5 and 6 also show that the rate of change in upward revisions to UK-focused earnings forecasts has slowed recently – the year-on-year growth rate has slowed to 13%, from a high of 26% in October. This might suggest that there has been some moderation recently in the pace of improvement in the UK economic outlook.

Chart 6. Year-on-year growth in 1-year-ahead earnings forecasts for domestically-focused baskets



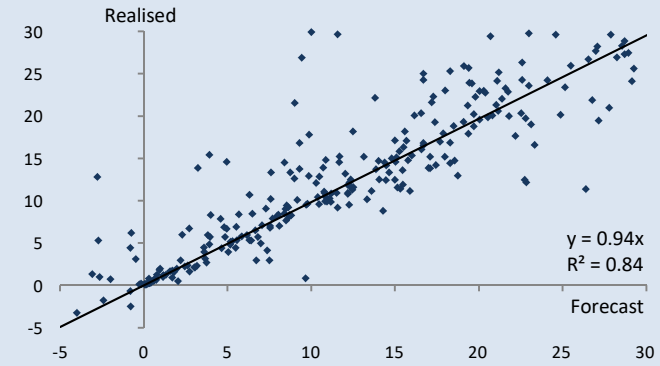
Source: Thomson Reuters Datastream and Worldscope, IBES, Bank calculations

Box: The information content of IBES earnings forecasts

Equity analysts' forecasts for companies' future earnings are a potentially valuable indicator for the economic outlook. MI calls conducted by MFAD and the Equities MI Team indicated that external market strategists use the IBES forecasts and are generally confident about their quality, particularly at the 1- and 2-year horizons. This box presents some simple diagnostics confirming that these data have predictive power and respond to new information in a timely manner.

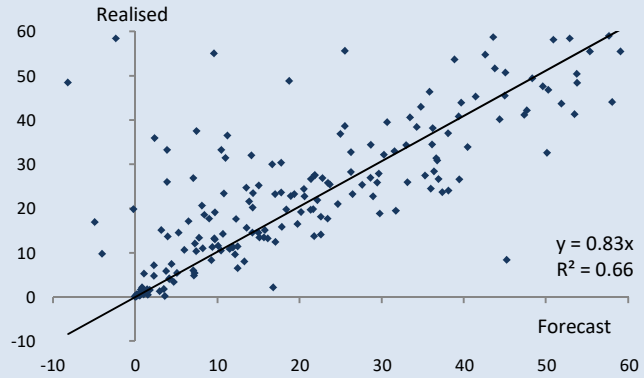
First, the forecasts have a positive relationship with realised future earnings. **Charts A and B** show scatter plots of forecast and realised earnings of individual firms, at one- and three-year horizons. There is a statistically significant positive relationship and high R^2 values, although, as would be expected, the variance of the forecast errors is higher at the 3-year horizon.

Chart A: Firm-level 1-year forecast earnings vs. realised earnings



Source: Thomson reuters Datstream and Worldscope, IBES, Bank calculations

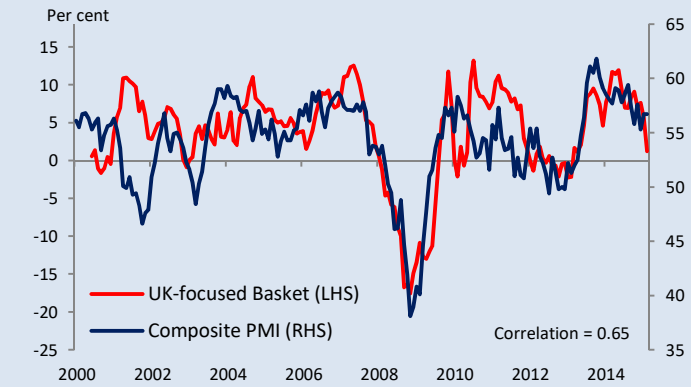
Chart B: Firm-level 3-year forecast earnings vs. realised earnings



Source: Thomson reuters Datstream and Worldscope, IBES, Bank calculations

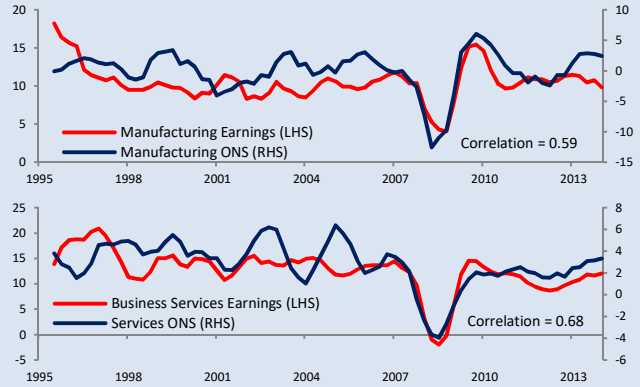
Second, the forecasts broadly align with other domestic macroeconomic indicators. **Chart C** compares the UK composite PMI series with revisions to our 1-year-ahead equally-weighted earnings forecasts measure. **Chart D** compares ONS manufacturing and business services output growth with earnings-forecast revisions our for baskets covering these sectors. These series are contemporaneously correlated, suggesting that the IBES surveys are not slow to respond to new information.

Chart C: UK Composite PMI vs. 6-month revisions to 1-year earnings forecasts for the UK-focused FTSE basket



Source: Thomson Reuters Datastream and Worldscope, IBES, Markit, Bank calculations

Chart D: ONS 12-month sectoral output growth vs. 12-month revisions to 1-year sectoral earnings forecasts (per cent)



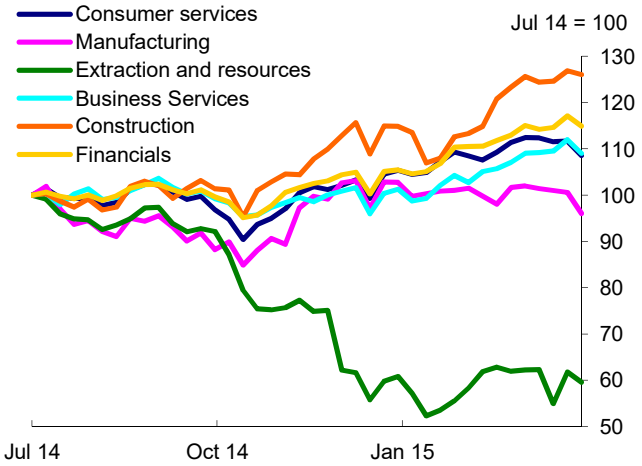
Source: Thomson Reuters Datastream and Worldscope, IBES, ONS, Bank calculations

V. A sectoral decomposition of the UK-focused basket

We can further decompose the UK-focused FTSE basket by sector…

In order to assess how broad-based the picture of UK strength is, we further decompose the UK-focused FTSE basket into sectoral components aligned with the ONS output sectors. As the UK-focused FTSE basket contains only around 200 companies, sectoral baskets produced in this way are likely to be quite small. To allow for larger baskets, we therefore relax the 90% UK-earnings threshold, allowing the threshold to vary across sectors such that each of our UK-focused sectoral baskets contains at least 15 companies.[10]

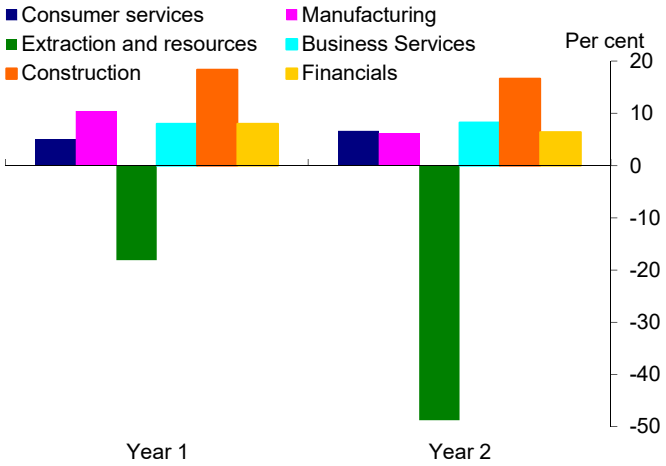
Chart 7. Equity price indices for sectors of the UK-focused FTSE basket



Source: Thomson Reuters Datastream and Worldscope, Bank calculations

…which shows that the upward revisions are broad-based…

Chart 8. Changes since July 2014 in earnings forecasts for sectors of the UK-focused FTSE basket



Source: Thomson Reuters Datastream and Worldscope, IBES, Bank calculations

Chart 7 shows that the equity price strength of UK-focused FTSE companies is reasonably broad based. Equity prices have risen in four out of the six sectors. And **Chart 8** shows that earnings forecasts have been revised up at the 1 year and 2 year horizons across five of the six sectors since July. This suggests that the improvement to the UK outlook over this period may itself be broad based.

The obvious exception is the extraction and resources sector.

[10] Except the extraction and resources sector, which contains 6 companies.

…with the exception of the extraction and resources sector.

This sector is mostly oil companies, which have been adversely affected by the fall in oil prices since last summer. Since July, equity prices in this sector have fallen by around 40%. And earnings forecasts for the sector have been revised down by 18% at the 1-year horizon and 49% at the 2-year horizon.

Revisions across sectors are broadly consistent with lower oil prices being a driver.

More generally, the relative changes in the earnings forecasts across each of the sectors are also broadly consistent with lower oil prices being an important driver. Earnings forecasts for more oil intensive sectors, such as manufacturing and construction, have been revised up more than earnings forecasts for less oil intensive sectors, such as services and finance.[11]

VI. Conclusion

This note examined the equity market's view of the economic outlook, looking at both equity prices and earnings expectations to obtain a cleaner read on companies' prospects, abstracting from discount rate effects. Two new datasets, one of firms' geographic revenue sources, and the other of equity analysts' company-level earnings forecasts, enabled us to disaggregate the benchmark equity indices into domestically-focused baskets, and to construct earnings forecasts for these components.

Since last July, equity prices and earnings forecasts for UK-focused FTSE companies have both increased by more than the wider index. This is consistent with an improved outlook for the UK economy, although there is some evidence that the pace of improvement has moderated somewhat recently. The strength in equity prices and the positive earnings revisions for UK-focused FTSE companies have been broad-based across sectors. Excluding oil and gas firms, earnings forecasts for US-focused S&P 500 companies have also been revised up. Perhaps surprisingly, this is also the case for Europe-focused Euro Stoxx companies, although these upwards revisions are from a much lower level.

Appendix

Producing geographically focused baskets from financial accounts data

We create a firm-level dataset of the geographic sources of FTSE-All Share, S&P 500 and Euro Stoxx companies' revenues. Our dataset is derived from Worldscope data on companies' annual financial accounts. The geographic categorisation is not standardised, so the data need to be cleaned and aggregated before use. For the UK, we can categorise and account for around 90% of FTSE-All Share firms' revenues. We estimate that in 2013, the share of revenues generated domestically was about 25%[12] for FTSE firms, and around 70% and 60% for firms in the S&P 500 and Euro Stoxx, respectively.

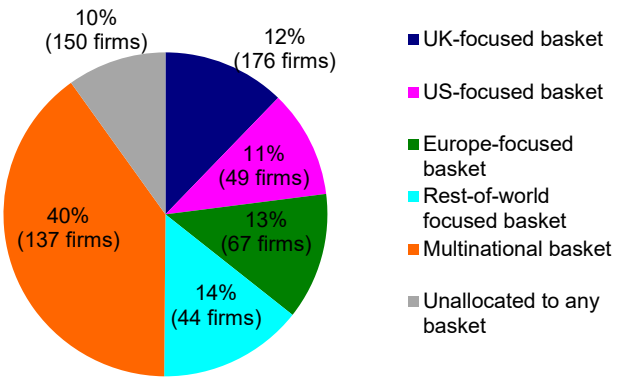
We next use our firm-level dataset to decompose the benchmark equity indices into baskets based on companies' primary geographic revenue source. In these decompositions, each company is assigned to a unique basket.

We first describe the decomposition of the FTSE All-Share. We want each basket to be sufficiently large and diverse that movements in its equity price index are driven by systematic rather than firm-specific shocks. But as few firms derive their revenues entirely from a single region, we face a trade-off between the size of each basket and its geographic concentration. We assign FTSE All-Share firms that generate 90% or more of their revenues in the UK to the UK-focused basket, while for the US, Europe and the rest-of-world components of the FTSE we require an exposure of at least 40%. So for example, a FTSE All-Share company deriving 80% of its revenues from the US and 20% from elsewhere is categorised as a US-focused firm. These thresholds maximise the regional exposure of each basket, while ensuring that each basket contains sufficiently many constituents.

[11] Sectoral oil intensities have been calculated by based on ONS data. .
[12] This estimate is a lower bound, as some companies' data do not distinguish between revenues generated in UK and revenues generated from the rest of Europe.

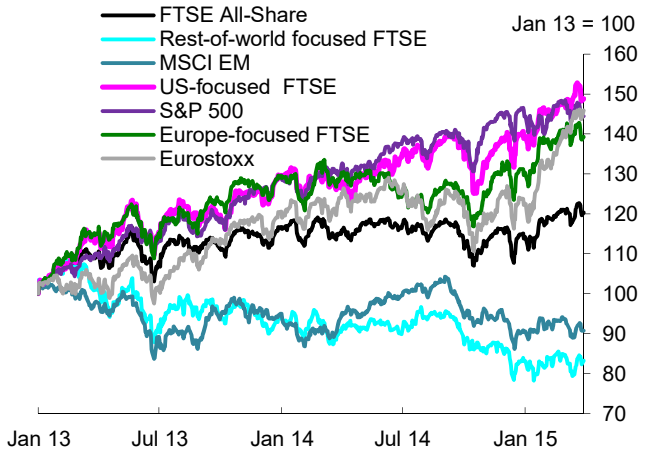
In the few cases where a company's revenues are concentrated in two regions that both pass the 40% threshold, it is assigned to the region from which it generates the highest share of revenues. So for example, if 55% of a FTSE firm's revenues are generated in the US and 45% in Europe, the firm will be assigned to the US-focused basket. Firms that are not assigned a primary revenue source based on these rules are assigned to a multinational basket, provided they report at least two distinct geographic revenue sources. As an example of a multinational firm, Barclays generates 40% of its earnings in the UK, 25% in the US, 15% in Europe and 20% in the rest of the world. Firms that do not report their geographic revenue breakdown are marked as 'unallocated to any geographic basket'. The breakdown of the FTSE All-Share is shown in **Chart A1**.

Chart A1: Market capitalisation of the FTSE All-Share by geographic basket (number of firms in parentheses)



Source: Thomson Reuters Datastream and Worldscope, Bank calculations

Chart A2: Benchmark equity indices and equity price indices for geographically-focused components of the FTSE All-Share



Source: Thomson Reuters Datastream and Worldscope, Bank calculations

To provide some examples of typical companies in each basket, the UK-focused component of the FTSE contains companies such as Next and Sainsbury's. Companies such as Compass and Pearson are in the US-focused FTSE basket; Easyjet and Vodafone are in the Europe-focused FTSE basket; and Glencore and Standard Chartered are in the rest-of-world focused FTSE basket. Companies that generate a significant amount of revenues from multiple regions, for example BP and Astrazeneca, are in the multinational basket of the FTSE.

As a robustness check, **Chart A2** compares equity price indices for these geographically-focused components of the FTSE to the respective benchmark equity indices for each region. Each geographic basket co-moves with the relevant benchmark index, providing some reassurance that the baskets are capturing developments in their respective regions.

To obtain a cleaner read on the outlook for the US and Europe, we also produce domestically focused baskets of companies in the S&P 500 and Euro Stoxx. As for the UK-focused FTSE basket, we require at least 90% of a company's revenues to be generated domestically for it to be assigned to one of these baskets. The US-focused basket of the S&P 500 contains 174 firms out of the 500 firms in the aggregate index. And the Europe-focused basket of the Euro Stoxx contains 58 firms out of the 292 firms in the aggregate index.

The sectoral composition of the geographically focused baskets can differ from the composition of the wider benchmark indices, reflecting the types of business that are typically done in a region. For example, the UK-focused basket of the FTSE, while diversified across sectors, is relatively overweight in financial, consumer services and utility companies relative to the FTSE.

A new dataset of firm-level IBES earnings forecasts

MFAD has recently acquired new data on company-level forecasts from IBES, the Institutional Brokers' Estimate System. IBES, owned by Thomson Reuters, collates forecasts for individual companies' financial accounts variables such as earnings, dividends and free cash flow. These forecasts are produced by equity analysts based in investment research departments. Multiple analysts follow each company, and forecasts are averaged across analysts to give a

projection for each company. To give an idea of coverage, in July 2014 there were around 4700 individual analysts' 1-year earnings forecasts across the 587 constituents of the FTSE All-Share.

While fiscal-year earnings forecasts for individual companies are available at 1 to 5 year horizons, this note focuses on the 1- and 2-year forecasts, since the coverage (i.e. the number of forecasts available for each company) declines substantially at longer horizons. MI also indicates that market participants place more weight on the 1- and 2-year-ahead forecasts.

There are a number of challenges in using the IBES data, meaning that a significant amount of work is needed to clean and process the earnings forecast data before it can be used. One challenge is that the dataset is large, covering over 3500 companies (both living and dead) in the FTSE All-Share, S&P 500 and Euro Stoxx. Another challenge is that earnings forecasts are for companies' fiscal-year earnings-per-share, but the timing of fiscal years varies across companies. To allow for a consistent comparison of earnings projections, we convert fiscal year forecasts to constant maturity forecasts by linear interpolation.

A further challenge is that the data contain many instances of extreme values for some companies at certain points in time, and forecasts for some firms can become unavailable over some periods. We remove data points that appear unrealistic by applying filters, for example removing earnings forecasts that increase by more than 200% over a 6-month or shorter period. This is a simple rule and may remove genuine forecast revisions from our dataset, but this loss of information is outweighed by the benefit of removing very noisy data points. In any case, these extreme values are likely to be concentrated in small or unusual firms that may be less informative for UK growth prospects more generally. An implication of this data cleaning is that the composition of the baskets used in this note can vary between when it is used to produce equity indices and earnings projections. For example, compared to the basket used to produce equity price indices, the UK-focused FTSE basket drops some firms when putting together the 1-year earnings forecasts. As much as possible, we have ensured that the basket sizes do not change too substantially across our analysis.

Finally, we are concerned that the units in which earnings-per-share forecast are expressed may not be consistent across firms (for example if some firms had their forecasts expressed in pence and others in pounds, although other types of inconsistency may be present too). This inconsistency makes it hard to produce forecasts for firms' total earnings. To overcome this issue, we normalise each company's earnings forecasts by indexing them to 1 July 2014. Our earnings forecast measure for each basket is then produced by taking an equally-weighted average across the firms in the basket of these normalised earnings forecasts.