

▶ A NEW ECONOMY
PUBLICATION

A top-down photograph of a red watering can and four small potted succulents on a grey background. The watering can is in the upper left, tilted towards the right. The succulents are arranged in a loose pattern: one in the upper right, one in the lower left, one in the center, and one in the lower right. A vertical red bar is positioned on the left side of the image, extending from the top to the bottom.

BDO MONTHLY BUSINESS TRENDS INDICES

October 2020

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 November 2020, 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	X	▼	77.09 in October from 77.95 in September
BDO Optimism Index	X	▼	88.94 in October from 89.31 in September
BDO Inflation Index	X	▼	94.19 in October from 94.46 in September
BDO Employment Index	X	▲	109.49 in October from 109.46 in September

KEY: ✓ = above 100; ✓✓ = above 100 and (joint) highest in 12 months
X = below 100; XX = below 100 and (joint) lowest in 12 months

KEY FINDINGS

The BDO Output and Optimism Indices declined between September and October for the first time since the height of the first lockdown in April. There was also a small decline in the BDO Inflation Index last month, while the Employment Index edged up marginally.

The BDO Output Index fell by 0.86 points to 77.09 in October, driven by declines in both the Services and Manufacturing Output sub-indices. The re-imposition of restrictions across many parts of the country were the principal drivers of these trends.

The BDO Optimism Index decreased from 89.31 in September to 88.94 in October. Weakening confidence was tied to the growing threat of coronavirus-related restrictions together with heightened risks of a no-deal type outcome in the Brexit negotiations.

The BDO Inflation Index fell from 94.46 in September to 94.19 in October. This was fuelled by a 0.51 point drop in the BDO Input Inflation Index. Softening price pressures are associated with weak levels of demand in the economy as well as a slight decline in commodity prices in autumn.

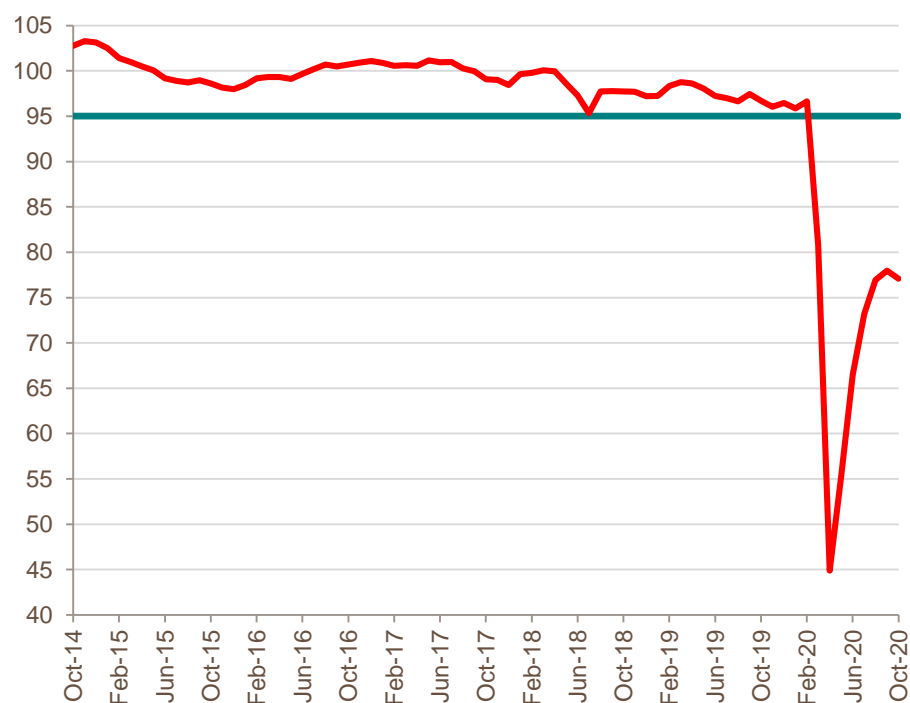
The BDO Employment Index was the only one of the four indices not to register a decline last month, instead rising by 0.03 points to reach 109.49. The extension of the furlough scheme until the end of March will significantly reduce the risk of widespread layoffs during what looks set to be a highly challenging winter period for the UK economy.

RECOVERY FALTERS IN OCTOBER AS RESTRICTIONS TIGHTEN

- The BDO Output Index fell from 77.95 in September to 77.09 in October. This is the first month-on-month decline in the Index since April, when the UK was in the midst of the first national lockdown in response to the coronavirus pandemic.
- As was the case throughout many parts of Europe, the coronavirus pandemic worsened significantly across the UK in October. Indeed, the number of daily infections surged from just over a thousand at the start of September to more than 20,000 by the end of October. During this period, the number of coronavirus deaths rose at an even faster pace. As a result of this, the government introduced a variety of restrictions throughout the month of October in an effort to contain the outbreak, with tougher measures coming into force in areas with a particularly high rate of the disease. These include Wales and Northern Ireland, which both entered into lockdown in October.
- The 10pm closing time on pubs and restaurants will have had a significant impact on levels of economic activity in the hospitality sector in October. This will have been exacerbated by measures in large parts of the UK that restrict people from mixing indoors with other households.
- These effects are reflected in the BDO Services Output Index, which sank by 0.82 points to reach 75.49. The Manufacturing Output Index also fell to 89.70 in October compared to 90.88 the previous month.
- The imposition of a second lockdown between 7th November and 2nd December will cause a significant contraction in activity in many parts of the economy, including the hospitality, travel and retail sectors. This will likely drive a significant fall in the BDO Output Index. However, the depth of the contraction is unlikely to be as pronounced as it was in April, due to slightly less severe restrictions as well as capabilities that have been built up in operating under lockdown conditions.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



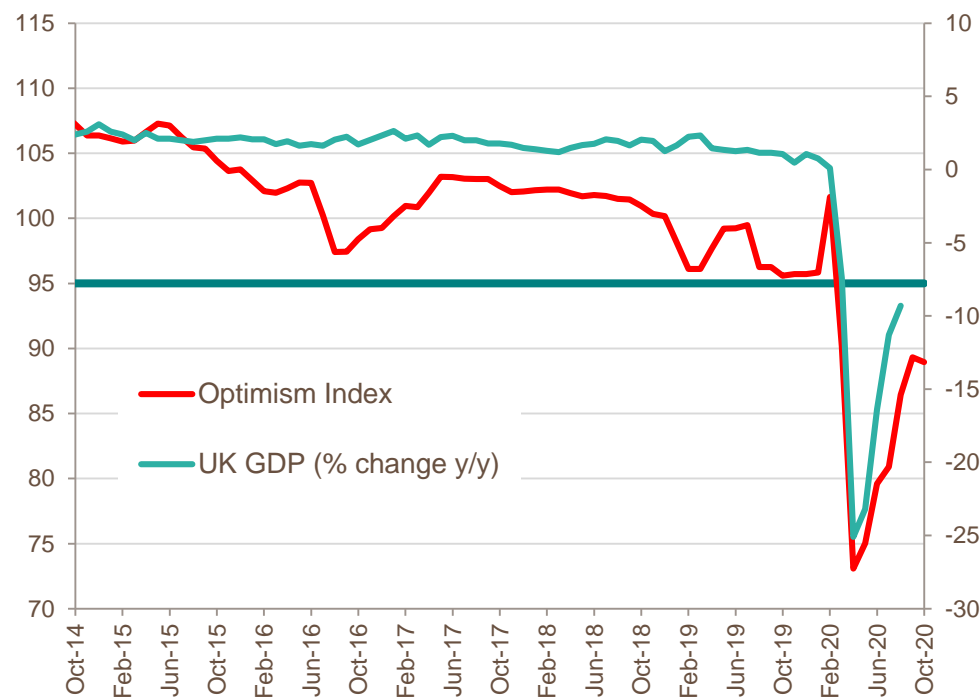
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

OPTIMISM RECEDES AS SECOND WAVE SWEEPS ACROSS THE COUNTRY

- The BDO Optimism Index decreased from 89.31 in September to 88.94 in October. As is the case with the Output Index, October saw the first decline in the Optimism Index since April.
- There were small falls in both of the sub-components of the BDO Optimism Index. Indeed, the Services Optimism Index dropped by 0.39 points to 89.57 in October, while the Manufacturing Optimism Index edged down by 0.19 points to hit 83.98.
- The declines in the Optimism Index will primarily have been linked to the dramatic spike in coronavirus cases, both in the UK and other parts of the world. This led to a steady and substantial re-imposition of national and regional restrictions, which will have hit businesses' revenues. Confidence will have also been dampened by the spectre of a second lockdown. These fears were eventually realised following the Prime Minister's announcements on 31st October.
- Another important factor affecting the BDO Optimism Index will have been the continued lack of concrete progress in the Brexit negotiations. While intensive discussions are currently underway and there are continued hopes that a deal can be reached this month, the risks of a no-deal outcome rose considerably during October.
- With businesses across many sectors of the economy now staring down the barrel of weeks if not months of highly suppressed revenues, the BDO Optimism Index is likely to take a significant hit in the coming editions.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



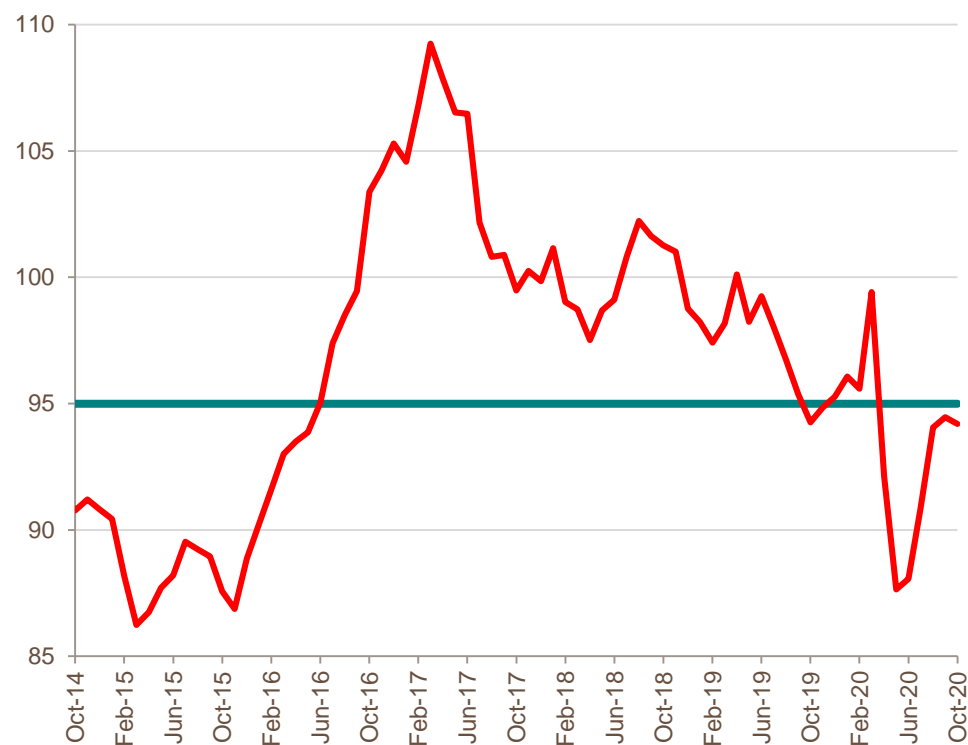
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATIONARY PRESSURES EASE IN OCTOBER AS DEMAND SOFTENS

- The BDO Inflation Index fell by 0.27 points to 94.19 in October, signalling that the annual rate of price growth remains below zero (across consumers' and producers' baskets of goods and services).
- The BDO Consumer Inflation Index was broadly stable last month, edging down slightly from 96.67 in September to 96.62 in October. Meanwhile, the BDO Input Inflation Index recorded a more substantial decline, dropping from 92.26 to 91.75 between September and October.
- The softening of inflationary pressures is likely to reflect weak levels of demand in the economy, which has the effect of stifling price increases. Commodity prices have also lost some ground in the autumn, which have placed a downward pressure on the BDO Input Inflation Index.
- The latest data from the Office for National Statistics (ONS) show that the annual rate of inflation (including owner occupiers' housing costs) rose from 0.5% in August to 0.7% in September. This reflects the termination of the Eat Out to Help Out scheme as well as rising transport costs.
- Inflation fell significantly following the onset of the first wave of the coronavirus pandemic, driven by a collapse in domestic demand and international commodity prices. The extent of any future declines in the BDO Inflation Index will be closely linked to development in the coronavirus pandemic, both in the UK and overseas.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



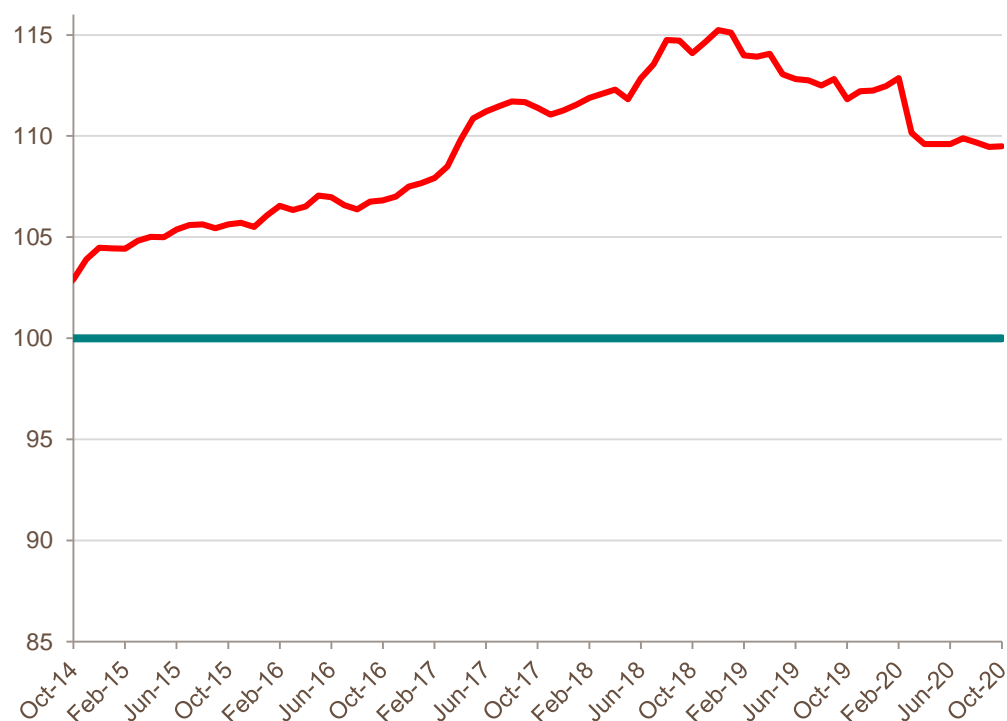
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT INDEX STABILISES AHEAD OF FURLOUGH SCHEME EXTENSION

- The BDO Employment Index was largely stable in October, rising by 0.03 points to hit 109.49.
- The Coronavirus Job Retention Scheme has so far provided an important buffer between the labour market and the wider economic slowdown. However, the extent of the economic turmoil that has unfolded in recent months has meant that some pass through to the labour market is inevitable, as indicated by the gradual declines in the BDO Employment Index.
- With that being said, data from the ONS showed that the number of payroll employees rose between August and September. The number of vacancies also saw a record quarterly increase of 144,000 in the three months to September.
- For many months, the ending of the furlough scheme on 31st October cast a long shadow over the labour market, with significant layoffs expected in the subsequent weeks. However, following its imposition of a lockdown during much of November, the government has since announced that the Coronavirus Job Retention Scheme would be extended until the end of March. Furloughed employees will now receive 80% of their previous salary up to £2,500 per month from the government, with employers asked to cover workers' national insurance and pension contributions.
- The extension of the scheme will likely suppress any dramatic spike in unemployment in the coming weeks and months, although the distressed financial position of many businesses means that their ability to cover even the limited costs associated with furloughing employees has diminished.

BDO EMPLOYMENT INDEX

100 = average value. Greater than 95 = positive



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

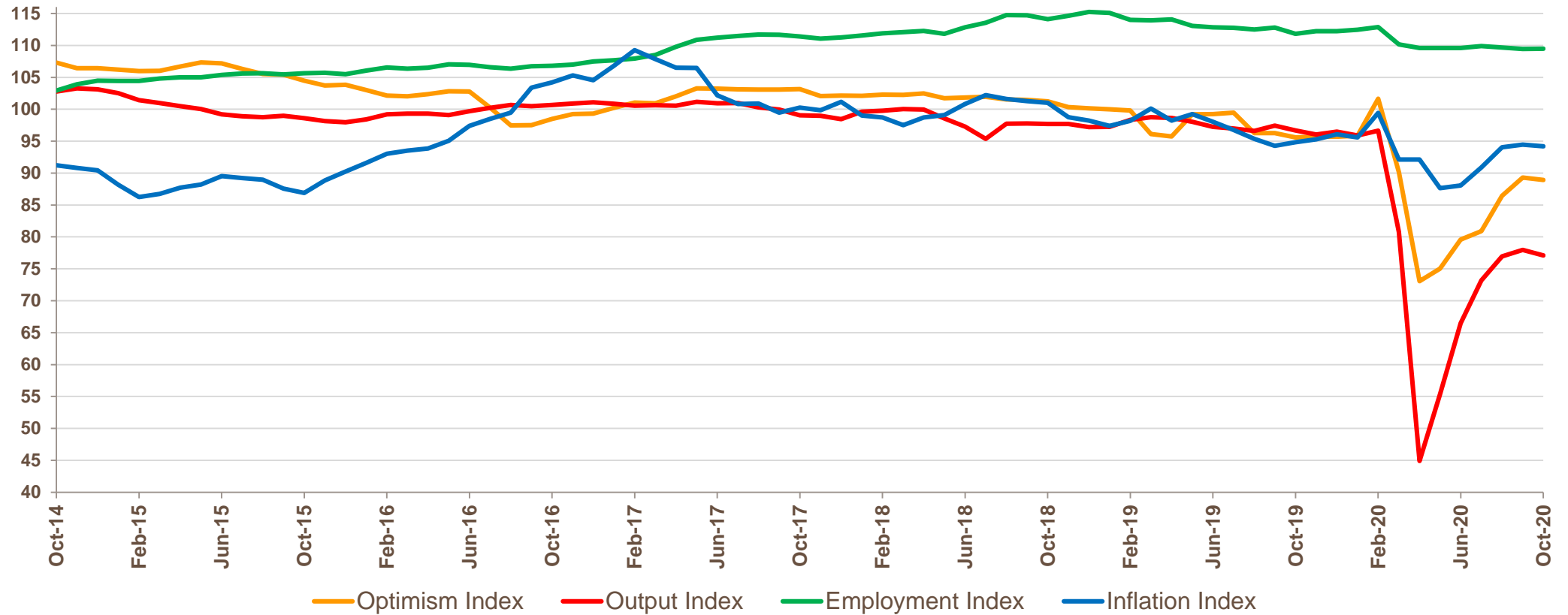
BDO INDICES TO LATEST MONTH

		Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20
The BDO Optimism Index	Total	90.15	73.08	75.02	79.59	80.90	86.44	89.31	88.94
	Manuf.	93.11	71.53	75.85	79.01	82.59	84.18	84.17	83.98
	Service	89.77	73.27	74.92	79.67	80.69	88.25	89.96	89.57
The BDO Output Index	Total	80.77	44.90	55.34	66.50	73.20	76.94	77.95	77.09
	Manuf.	84.27	52.97	69.55	80.47	86.28	89.41	90.88	89.70
	Service	80.33	43.88	53.53	64.73	71.54	75.36	76.32	75.49
The BDO Inflation Index	Total	99.41	92.13	87.65	88.06	90.87	94.06	94.46	94.19
	Input	100.50	86.79	79.76	80.60	85.93	91.20	92.26	91.75
	Consumer	98.32	97.48	95.54	95.52	95.81	96.93	96.67	96.62
The BDO Employment Index	Total	110.15	109.61	109.61	109.61	109.88	109.69	109.46	109.49

APPENDIX: DECLINES RECORDED THREE OUT OF FOUR INDICES

BDO INDICES

100 = average trend growth. Greater than 95 = positive



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 and 95 as the level dividing expansion from contraction.

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.