

A red watering can is positioned in the upper left quadrant, tilted as if pouring. Four small, round terracotta pots containing various green succulents are arranged on a grey surface. A vertical red bar runs down the center of the page, with a diagonal cutout at the top and bottom.

# BDO MONTHLY BUSINESS TRENDS INDICES

May 2020

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# 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 June 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	▲	55.34 in May from 44.90 in April
BDO Optimism Index	X	▲	75.02 in May from 73.08 in April
BDO Inflation Index	XX	▼	87.65 in May from 92.13 in April
BDO Employment Index	XX	▼	89.22 in May from 96.18 in April

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

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## KEY FINDINGS

As would be expected given the unprecedented economic challenges brought about by the coronavirus outbreak and the associated lockdown, all four of the BDO Business Trends Indices were at a very low level in May.

There was an increase in the BDO Output Index, which rose from 44.90 in April to 55.34 in May. This reflects the partial lifting of restrictions that took place, which boosted output in some sectors. However, the Index remains at the second-lowest point in its history, reflecting the highly distressed state of the UK economy last month.

The BDO Optimism Index edged up to 75.02 in May, as the UK's roadmap out of the lockdown began to become clearer. The shift in the guidance at the beginning of the May - which encouraged those who cannot work from home to go into work - delivered a boost to the manufacturing sector in particular.

The BDO Inflation Index fell to by 4.48 points to 87.65 in May - a near five-year low. This was due to the continued weakness in commodity prices - which had a large impact on the Input Inflation Index - as well as subdued levels of demand throughout the economy.

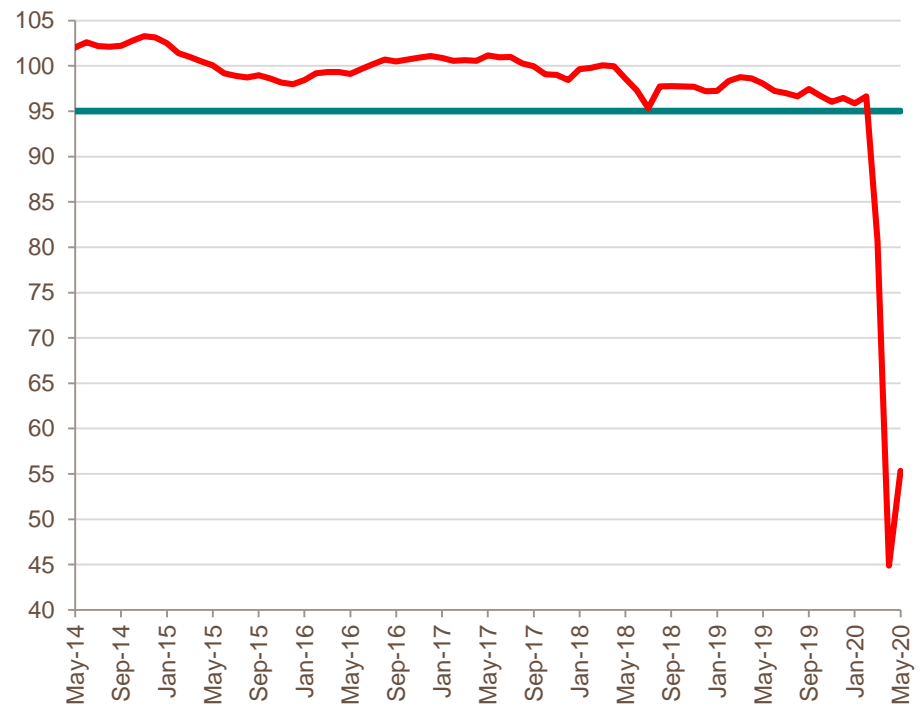
The BDO Employment Index plunged to a record low of 89.22 last month, as data from the Department for Work and Pensions continued to suggest a continuing stream of lay-offs in May. The 8.4 million workers that have been furloughed as part of the Coronavirus Job Retention Scheme are still classed as employed and therefore do not feed into the Employment Index. As a result, the full impact of the lockdown on the labour market is even more severe than the Index would suggest.

# GLIMMER OF HOPE AS OUTPUT INDEX REGAINS SOME LOST GROUND

- In May, the BDO Output Index recovered some of the losses recorded the previous month. However, at 55.34, the Index remains lower than at any point with the exception of April 2020.
- The most significant improvement was recorded in the Manufacturing Output Index, which rose by 16.58 points to 69.55, regaining around half of the losses sustained between March and April. On May 10<sup>th</sup>, the UK government updated its lockdown guidance, by encouraging people who cannot work from home to go to work. Manufacturing is one of the sectors most impacted by this amendment of the guidelines, and survey data suggests that output picked up significantly in May relative to April as a result.
- For businesses in the services sector, restrictions were lifted to a significantly lesser extent in May. With that being said, the Services Output Index did rise to 53.53 in May, up from the record low of 43.88 the previous month. The partial easing of restrictions on the public's outdoor movements and activities will have provided a lifeline to some service sector businesses, although many others remain in a highly precarious position.
- The UK is currently experiencing the deepest economic contraction in living memory, and possibly in its history. The latest readings suggest that the UK has passed the lowest point of the crisis. However, while conditions stabilised and improved marginally in May, output remains drastically below where it would be in more ordinary times. Further gains in the Output Index are likely in June, if the UK proceeds with plans to continue opening up the economy, in particular by green-lighting the re-opening of non-essential retail stores.

## BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



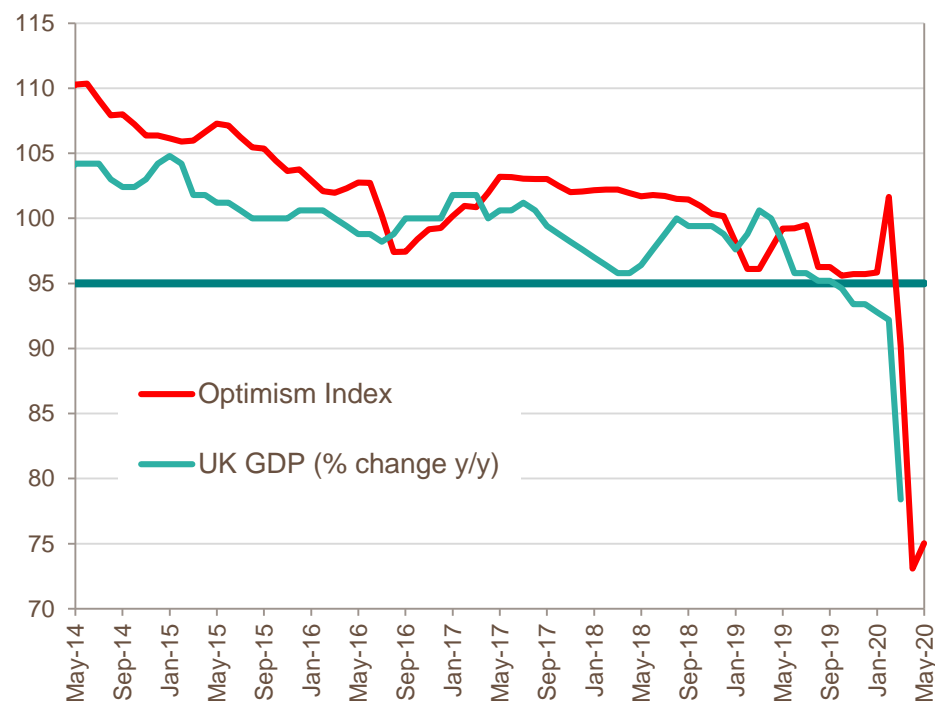
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# SENTIMENT BRIGHTENS IN MANUFACTURING SECTOR

- The BDO Optimism Index edged up by 1.94 points to 75.02 in May. While this is the second-lowest that the Index has been in its history, it does provide evidence of a small uplift in sentiment among businesses relative to April.
- The Manufacturing Optimism Index climbed by 4.32 points to 75.85 in May. This reflects the re-opening of many businesses in the sector last month, as well as hopes of a further lifting of restrictions in the coming weeks and months. Stepping back from the month-on-month improvement, sentiment among UK manufacturers remains highly subdued by historical standards. While, the coronavirus outbreak will be top of the list of manufacturers concerns, the rekindling of US-China trade tensions and limited developments in the Brexit negotiations are other important sources of apprehension for the sector.
- Many parts of the services sector remained completely closed in May. As a result, the uptick in the Services Optimism Index was more muted, rising from 73.27 in April to 74.92 last month.
- While progress has been made in containing the coronavirus outbreak and re-opening the economy, businesses remain understandably cautious given the unprecedented nature of the circumstances that they find themselves in. More sustained evidence that the outbreak is under control and further measures to open the economy can be implemented will be needed for confidence to even begin to approach pre-coronavirus levels.

## BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



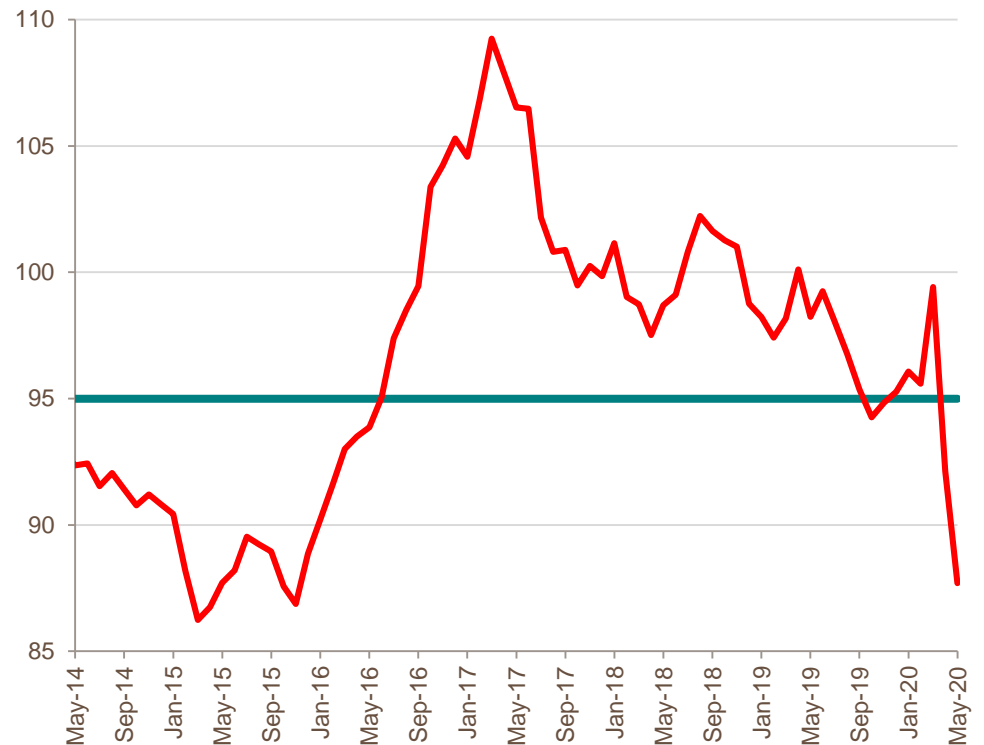
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# INFLATION CONTINUES TO PLUNGE AMID WEAK DEMAND AND ROCK BOTTOM COMMODITY PRICES

- The BDO Inflation Index fell by 4.48 points to 87.65 in May - a near five-year low. This was driven by declines in both the Consumer Inflation Index and the Input Inflation Index.
- The latest data from the Office for National Statistics (ONS) shows that the annual rate of inflation, including owner occupiers' housing costs, fell by 0.6 percentage points to 0.9% in April. This was the slowest rate of price growth since June 2016. Highly subdued levels of demand in the economy will likely have continued to weigh on consumer price inflation in May. The Consumer Inflation Index declined by 1.94 points to 95.54 in May, placing the UK on the brink of deflationary territory.
- The Input Inflation Index recorded an even larger 7.03 point monthly fall between April and May, as continued weakness in commodity markets weighed on producers' input costs.
- While weak demand and low commodity prices will keep a lid on prices in the short term, the combined policy response of the Bank of England and the government indicate an imminent and rapid rise in the broad money supply. In March alone - before most of the impacts of the coronavirus policy response had been felt - the broad money supply rose by a record £71 billion. The additional money sloshing around the economy, coupled with an erosion of the UK's productive capacity, mean that inflation is likely to rise as demand begins to recover.

## BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



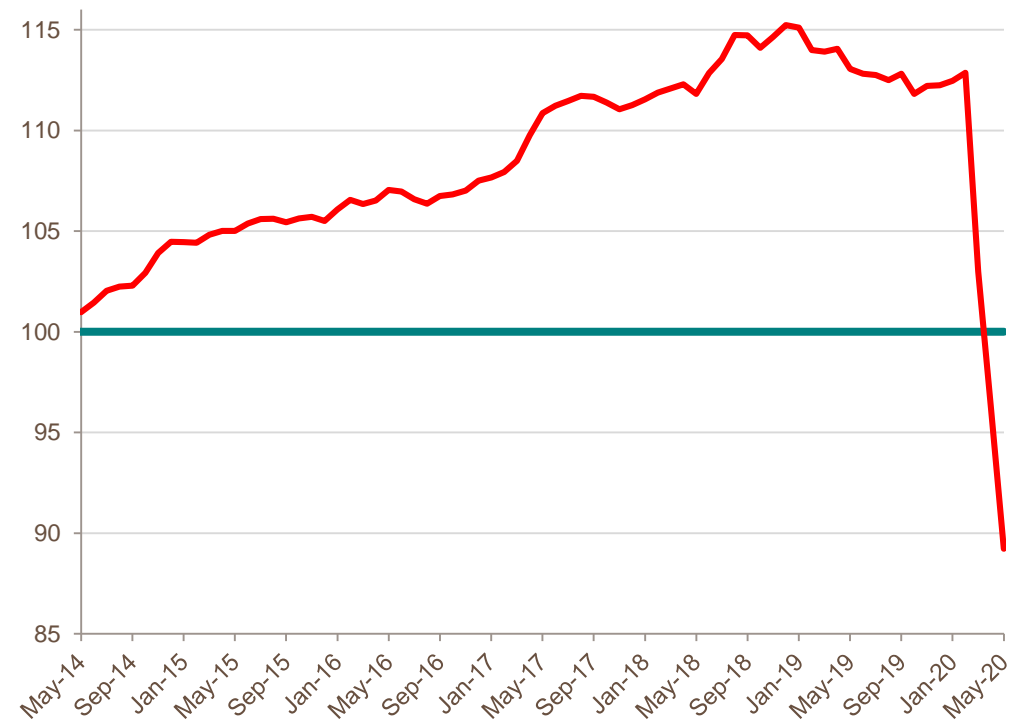
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# EMPLOYMENT INDEX COLLAPSES TO RECORD LOW

- The BDO Employment Index dropped further in May, sinking to a record low of 89.22 and wiping out yet more of the labour market gains observed in the years preceding the coronavirus crisis.
- Between the beginning of March and 19<sup>th</sup> May, 3.2 million people made Universal Credit declarations. While the scope of Universal Credit is not limited to unemployed individuals, the dramatic spike in applications is highly likely to reflect widespread layoffs given the extreme economic conditions of recent weeks.
- As striking as the movements in the Employment Index have been over the last two months, they reflect only a fraction of the true labour market impacts of the coronavirus outbreak. The latest Treasury estimates show that 8.4 million employees have been furloughed as part of the Coronavirus Job Retention Scheme - roughly a quarter of those in employment ahead of the crisis. While most of these employees are likely to return to work as the scheme is phased out, the highly distressed state that the lockdown has placed thousands of businesses into means that this is not a given for all workers.
- The depth and breath of the disruption brought about by the coronavirus outbreak mean that some long-term damage to the economy is inevitable. This will arise due to the closure of otherwise viable businesses, the severance of longstanding business-customer and employer-worker relationships, and supply chain disruptions. The erosion of the UK's productive capacity mean that the Employment Index is not likely to return to its pre-crisis peak in the short term.

## 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

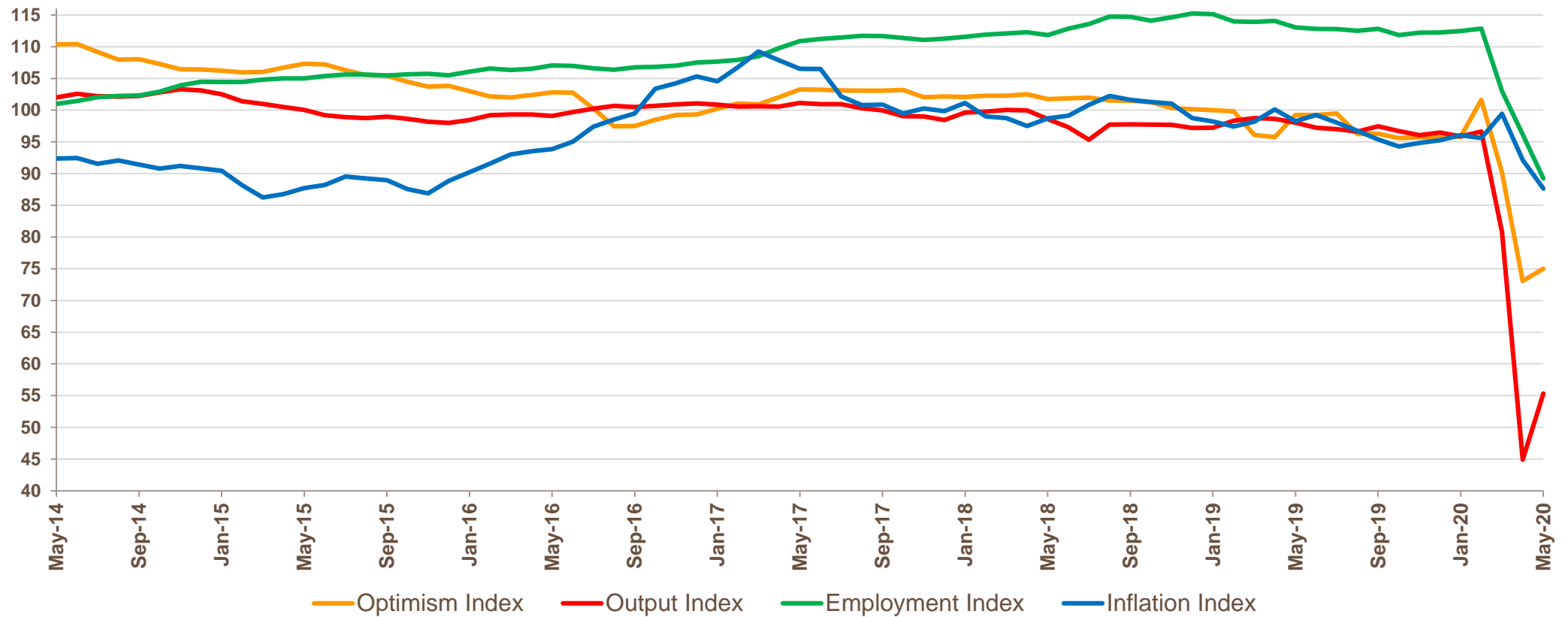
		Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20
The BDO Optimism Index	Total	95.59	95.71	95.72	95.84	101.64	90.15	73.08	75.02
	Manuf.	98.78	95.55	95.64	95.69	95.82	93.11	71.53	75.85
	Service	95.18	95.73	95.73	95.86	102.38	89.77	73.27	74.92
The BDO Output Index	Total	96.69	96.04	96.47	95.88	96.64	80.77	44.90	55.34
	Manuf.	87.10	86.94	86.31	86.78	88.75	84.27	52.97	69.55
	Service	97.91	97.19	97.76	97.03	97.64	80.33	43.88	53.53
The BDO Inflation Index	Total	94.25	94.84	95.27	96.07	95.59	99.41	92.13	87.65
	Input	89.80	91.81	92.69	94.34	92.33	100.50	86.79	79.76
	Consumer	98.71	97.86	97.86	97.80	98.84	98.32	97.48	95.54
The BDO Employment Index	Total	111.82	112.22	112.25	112.46	112.86	102.99	96.18	89.22



# APPENDIX: ECONOMIC SLOWDOWN DRIVES FURTHER FALLS IN EMPLOYMENT AND INFLATION INDICATORS

## 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

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## 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.