

▶ A NEW ECONOMY
PUBLICATION

A top-down photograph of a red watering can and four small terracotta pots containing succulents, arranged on a grey surface. A red vertical bar is positioned on the left side of the image.

BDO MONTHLY BUSINESS TRENDS INDICES

June 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 July 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	▲	66.50 in June from 55.34 in May
BDO Optimism Index	X	▲	79.59 in June from 75.02 in May
BDO Inflation Index	X	▲	88.06 in June from 87.65 in May
BDO Employment Index	XX	▼	106.24 in June from 108.11 in May

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

There were signs of improvement in the BDO Output and Optimism Indices in June, which both saw small increases last month. However, the BDO Employment continued to decline for the fourth consecutive month.

The BDO Output Index rose significantly from 55.34 in May to 66.50 in June, as the continued easing of restrictions gave the green light for thousands more businesses to open - most notably in the retail sector. However, the Index remains lower than at any point prior to the coronavirus crisis.

The BDO Optimism Index increased for the second straight month in June, this time reaching 79.59. The largest improvements in sentiment was seen in the services sector, which reflects the positive announcements regarding restrictions on the retail and hospitality sectors. Again, despite recent improvements, business sentiment remains highly subdued by historical standards, which emphasises the array of significant risks that currently cloud the UK's economic outlook.

The BDO Inflation Index increased by 0.41 points to 88.06 points, as a recovery of commodity prices drove up the Input Inflation Index. Looking ahead, higher oil prices will begin to feed into input and consumer prices. However, a reduction in VAT in certain sectors - designed to spur consumer spending - could push the annual rate of consumer price inflation closer towards deflationary territory.

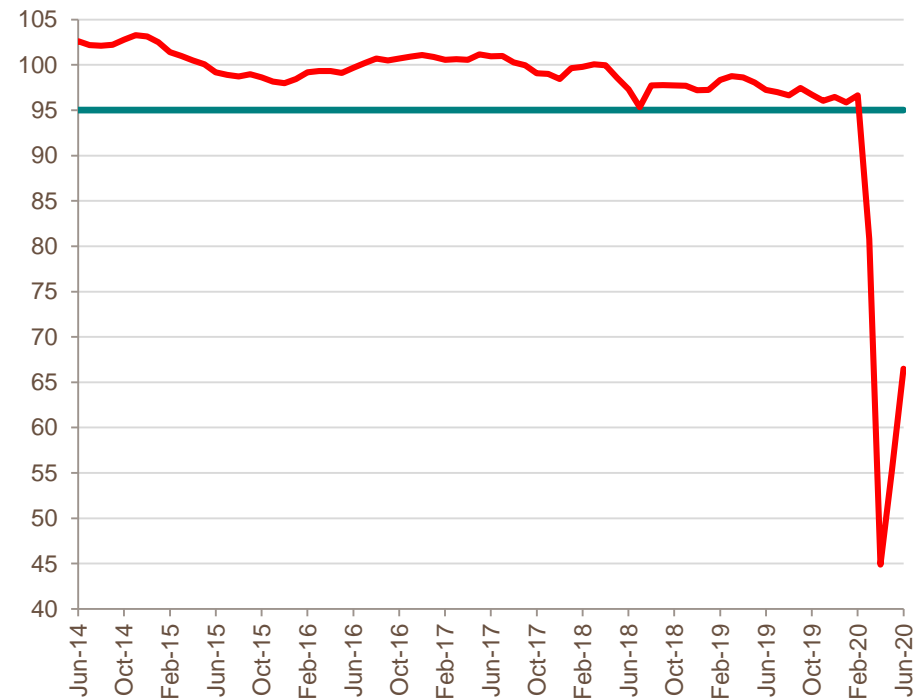
The BDO Employment Index fell for the fourth consecutive month in June, sinking to a more than four-year low. Since furloughed workers are still rightly classed as employed, headline measures of employment belie the true magnitude of the impact of the coronavirus crisis on the labour market. As the furlough scheme is gradually phased out, there is the risk that widespread layoffs could precipitate more dramatic declines in the Employment Index.

OUTPUT CONTINUES TO RECOVER IN JUNE

- The BDO Output Index continued to recover from the record low set in April, rising from 55.34 to 66.50 between May and June. However, the Index remains far below the 95-mark, indicating that growth remains firmly in negative territory on an annual basis. Moreover, the Output Index is still at a lower level than at any point prior to the coronavirus crisis, which puts the gains of recent months into some perspective.
- The Services Output Index saw the largest improvement in June, increasing by 11.20 points to 64.73. The re-opening of non-essential shops on 15th June provided a major boost to the ailing retail sector, and will have contributed to some of last month's gains in the Index. It is hoped that the re-opening of pubs, restaurants and hotels on 4th July will provide a similar lifeline to the hospitality sector this month.
- The Manufacturing Output Index rose from 69.55 in May to 80.47 in June. The PMI for the UK's manufacturing sector rose above 50 in June for the first time since February, indicating a return to growth for the industry. The manufacturing sector will have benefitted from the slight improvements in economic conditions in overseas markets, which will have supported exports to some degree.
- Although economic activity remained considerably suppressed in June, the recovery in the Output Index is nonetheless an encouraging signal that the easing of restrictions has breathed life back into certain sectors of the economy. Thus far, the government's furlough scheme has provided a crucial buffer between workers and the economic downturn, which has supported spending and allowed households to accumulate a decent cushion of savings. However, the true test will come further down the line as the government gradually removes the training wheels from the economy. Moreover, surveys of businesses still suggest that companies will need an average of eight months to return to pre-crisis levels of production.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



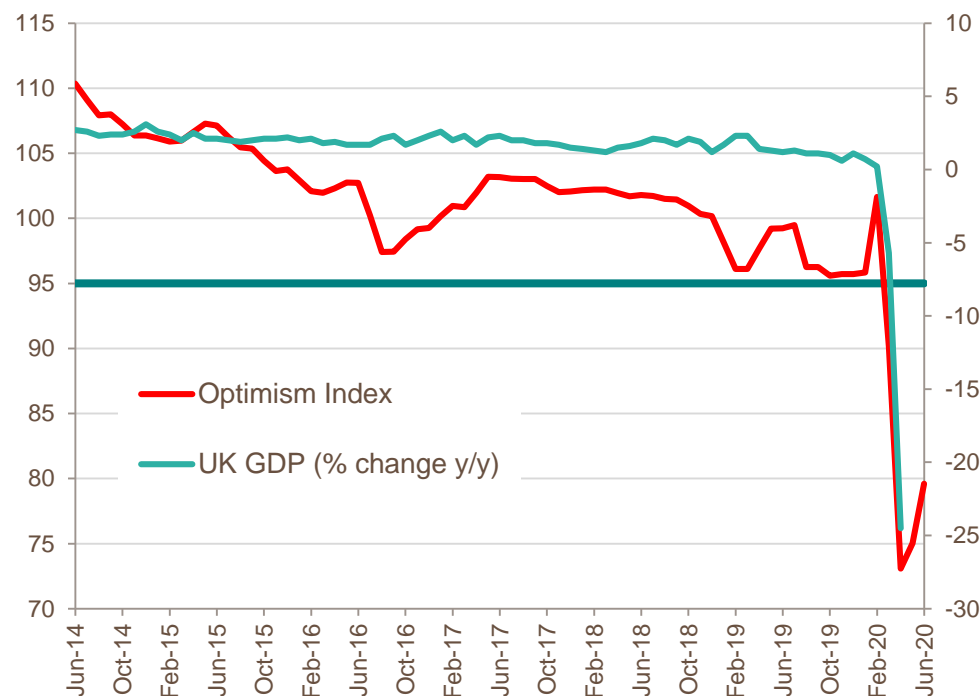
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

SENTIMENT REMAINS IN THE DOLDRUMS DESPITE IMPROVEMENT IN JUNE

- The BDO Optimism Index climbed from 75.02 in May to 79.59 in June. This is the second consecutive month in which business sentiment has improved. However, by historical standards, business confidence remains extremely subdued.
- Increases in the Optimism Index were recorded in both the manufacturing and services sectors. The Manufacturing Optimism Index rose by 3.16 points to 79.01 in June. Many employers in the sector were given the green light to restart work in May, allowing production lines to re-open. However, recent localised developments have led to concerns about the spread of coronavirus in manufacturing workplaces. Further instances of localised outbreaks in factories could suppress confidence in the sector going into Q3.
- The Services Optimism Index increased by 4.75 points to 79.67 in June. Vast swathes of the services sector remained shut in May, but the re-opening of non-essential shops last month together with the announced re-opening of the hospitality sector in July will have buoyed spirits in the affected industries.
- Despite the improvements in May and June, the Optimism Index is still below where it was during the depths of the Great Recession in 2009. This shows that, while recent economic data releases and policy announcements have been encouraging, businesses are remaining highly cautious. A number of uncertainties linger on the horizon, including the future development of the coronavirus outbreak, the performance of the economy as government support is gradually lifted, and the nature of the UK's relationship with the EU after the transition period ends on 31st December 2020.

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 PICKS UP IN JUNE AS OIL PRICES RECOVER

- The BDO Inflation Index increased for the first time in three-months, rising from 87.65 in May to 88.06 in June.
- The Consumer Inflation Index remained largely stable, edging down from 95.54 to 95.52 between May and June. This suggests that consumer prices remain on the cusp of deflationary territory. The latest data from the Office for National Statistics (ONS) shows that the annual rate of inflation, including owner occupiers' housing costs, fell by 0.2 percentage points to 0.7% in May. The major driver of this was the collapse in oil prices in March and April, which continued to feed into energy and fuel prices. With that being said, price falls were by no means contained to these sectors. The categories of recreation & culture, furniture and household goods all recorded year-on-year price falls in May. This is a reflection of the economy-wide demand slump brought about by the lockdown restrictions.
- The Input Inflation Index rose from 79.76 in May to 80.60 in June. Prices of many major commodities - including steel and aluminium - have recovered significantly since April, which will have pushed up businesses' input costs. An important dynamic going forwards is the marked rebound in oil prices, which came about as OPEC members and Russia agreed considerable production cuts.
- Later this week, it is speculated that the UK Chancellor will announce a cut in the rate of VAT for certain sectors, in an attempt to spur consumer spending as businesses gradually re-open. This move could push the annual rate of consumer price inflation closer towards deflationary territory. However, any such VAT cut would likely be a temporary measure, and the direct impact on the inflation rate would therefore only be transitory.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



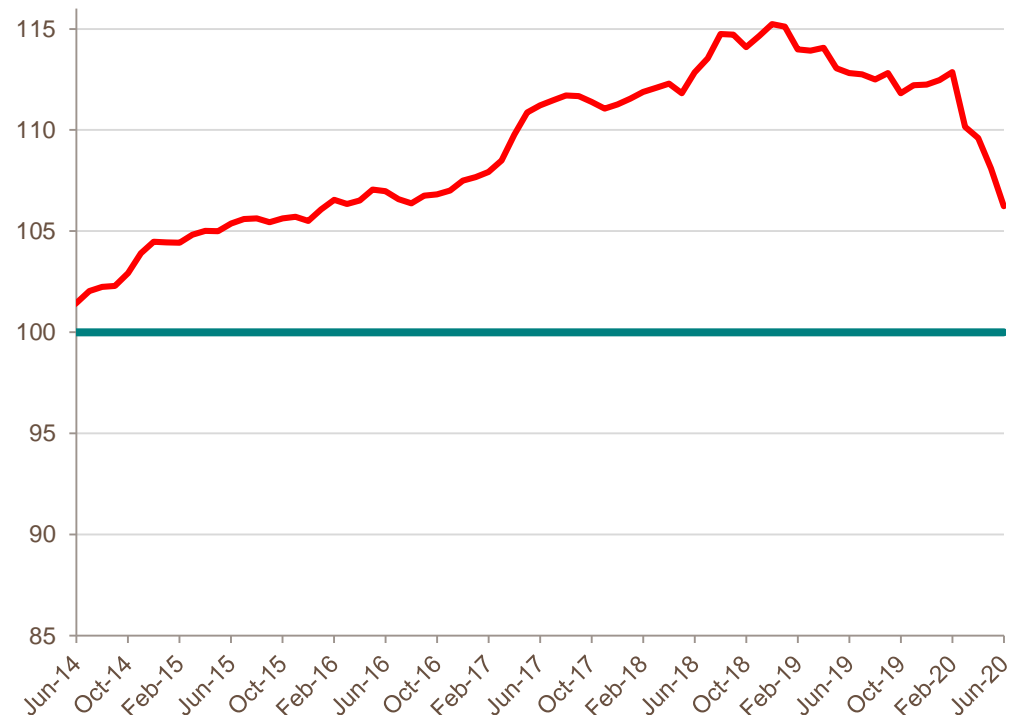
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT INDEX CONTINUES TO MOVE DOWNWARDS WITH MORE LAYOFFS EXPECTED OVER THE COMING MONTHS

- In June, the BDO Employment Index fell to its lowest point since January 2016, dropping by 1.87 points to 106.24. This is the fourth consecutive monthly decline in the Index, reflecting the continued impacts of the coronavirus crisis on the UK labour market.
- It is important to note that, despite the recent falls in the BDO Employment Index, these do not capture the full extent of the labour market disruption brought about by the lockdown. This is because, furloughed workers are not counted as unemployed in the ONS statistics, which has helped to maintain a relatively high employment rate. A more holistic metric is the total number of hours worked, which was down 8.9% year-on-year in the three months to April.
- Despite the various government schemes that have sought to protect jobs, some businesses have nonetheless been unable to retain staff, either due to closures or permanent downsizing. ONS data shows that the number of payroll employees fell by more than 162,000 between April and May, adding to the 449,000 drop between March and April.
- Perhaps the most significant risk to the UK's economic recovery is the threat of widespread layoffs as the government's furlough scheme is gradually wound down. Bank of England surveys suggest that by the end of this year, employment could be 10% lower as a result of the coronavirus crisis. This implies that coronavirus-related redundancies could run into the millions over the coming months.

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

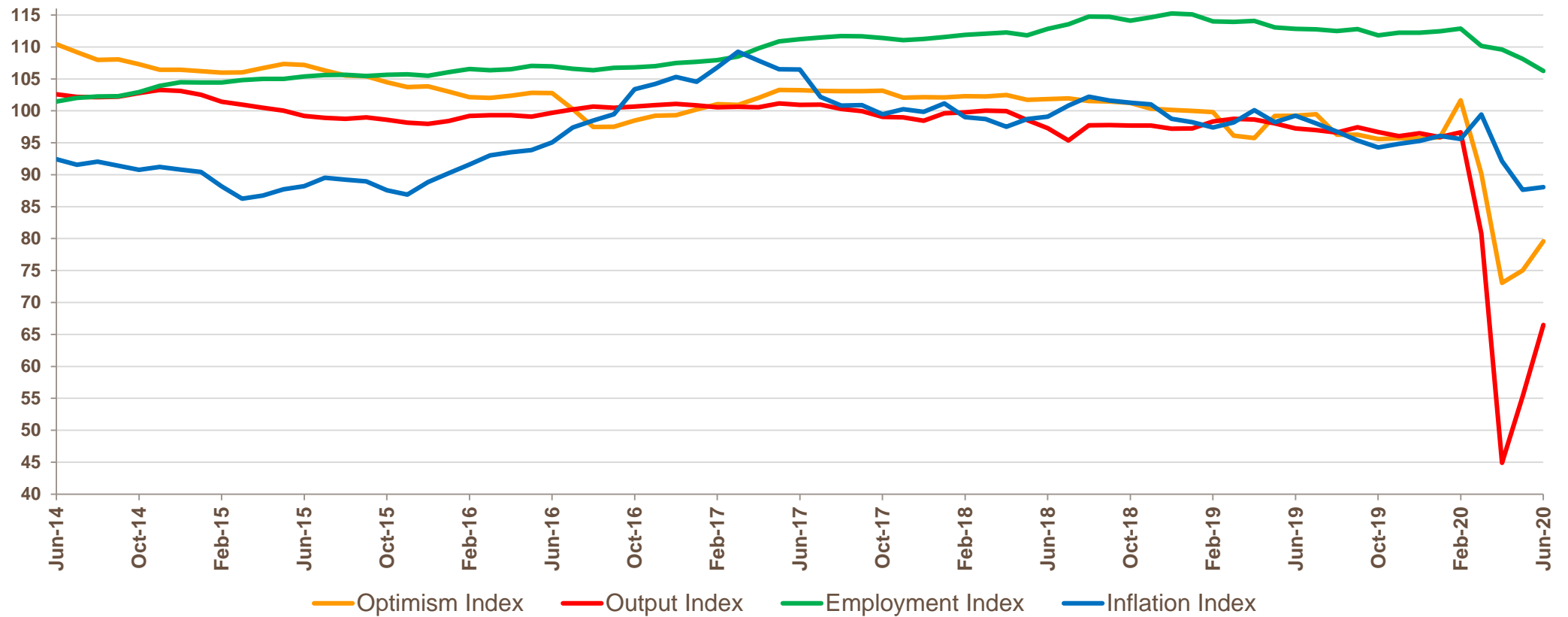
BDO INDICES TO LATEST MONTH

		Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
The BDO Optimism Index	Total	95.71	95.72	95.84	101.64	90.15	73.08	75.02	79.59
	Manuf.	95.55	95.64	95.69	95.82	93.11	71.53	75.85	79.01
	Service	95.73	95.73	95.86	102.38	89.77	73.27	74.92	79.67
The BDO Output Index	Total	96.04	96.47	95.88	96.64	80.77	44.90	55.34	66.50
	Manuf.	86.94	86.31	86.78	88.75	84.27	52.97	69.55	80.47
	Service	97.19	97.76	97.03	97.64	80.33	43.88	53.53	64.73
The BDO Inflation Index	Total	94.84	95.27	96.07	95.59	99.41	92.13	87.65	88.06
	Input	91.81	92.69	94.34	92.33	100.50	86.79	79.76	80.60
	Consumer	97.86	97.86	97.80	98.84	98.32	97.48	95.54	95.52
The BDO Employment Index	Total	112.22	112.25	112.46	112.86	110.15	109.61	108.11	106.24

APPENDIX: ECONOMIC CONDITIONS REMAIN WEAK DESPITE CONTINUED RECOVERY OF OUTPUT IN JUNE

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.