

A red watering can is positioned in the upper left quadrant, tilted as if pouring. Below it, four small 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

February 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 March 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	▲	96.64 in February from 95.88 in January
BDO Optimism Index	✓	▲	101.64 in February from 95.84 in January
BDO Inflation Index	X	▼	95.59 in February from 96.07 in January
BDO Employment Index	✓	▲	112.86 in February from 112.46 in January

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

Three of the four BDO Business Trends Indices rose in February, with only the BDO Inflation Index recording a decline. The BDO Optimism, Output and Employment Indices all recorded improvements compared to January.

The BDO Optimism Index stood out, rising by 5.80 points in February to stand at 101.64. This was the largest increase in the Optimism Index for more than a decade, with sentiment improving strongly among service sector firms in particular. The Services Optimism Index rose by 6.52 points in February.

The BDO Output Index also recorded an increase with both the BDO Services and Manufacturing Output indices climbing in February. The Manufacturing Index recorded its strongest improvement since March 2018, increasing by 1.97 points. This, coupled with a 0.61 point increase in the BDO Services Output index, caused the combined BDO Output Index to rise by 0.76 points.

The BDO Inflation Index fell by 0.48 points in February, as the Consumer Inflation and Input Inflation Indices moved in opposite directions. The coronavirus outbreak hit commodity prices during February, as the closure of factories saw Chinese demand fall suddenly. While the short-term impact is to cut global prices for many inputs, supply chain disruption may eventually cause prices to rise.

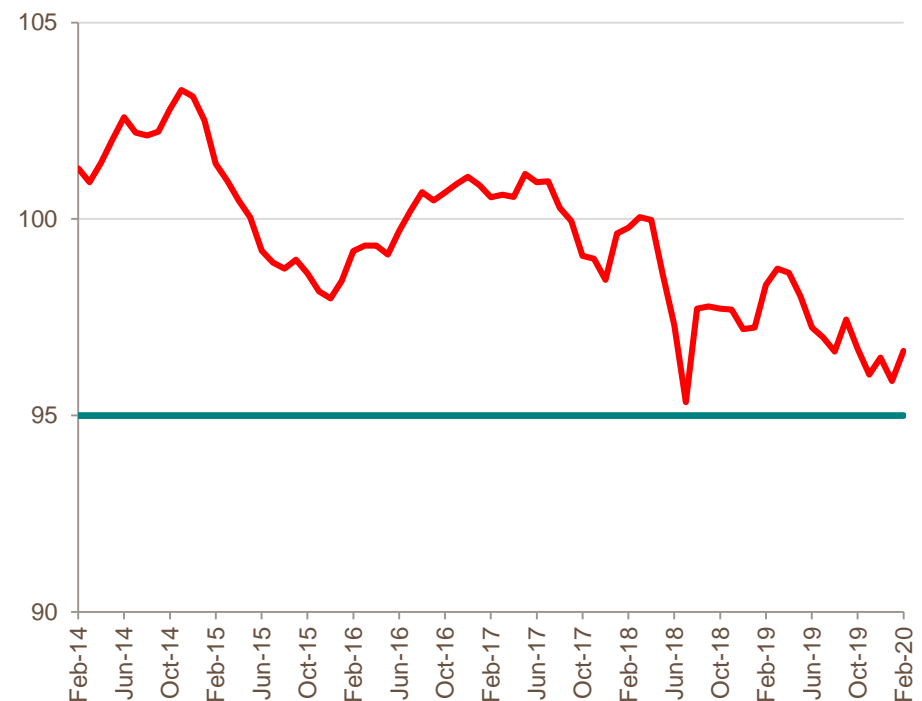
The BDO Employment Index rose by 0.40 points in February to 112.86. The employment rate hit another record high, of 76.5% in the three-months to December as improved business sentiment has boosted the employment outlook.

BDO MANUFACTURING OUTPUT INDEX RECORDS SECOND MONTH OF GROWTH

- The BDO Output Index rose by 0.76 points in February, reversing the 0.59 point decline recorded in January. Both the Manufacturing and Services Output Indices rose in February, the first time this has happened since August 2018.
- The BDO Manufacturing Output Index recorded the stronger gain, increasing by 1.97 points in February to stand at 88.75. Although this was the second consecutive month-on-month increase, after a long period of decline the index remains 8.61 points down on February 2019 and well below the 95 mark that would indicate growth in the sector.
- The BDO Services Output index also rose in February, by 0.61 points. Over 2019 as a whole the service sector grew by 1.8%, although Brexit induced uncertainty meant that output was volatile. Indeed, services output grew by just 0.1% in the final quarter of the year.
- Falling business investment and slower growth in consumer spending are two drivers of the UK's lacklustre economic performance towards the end of 2019. Business investment fell by 1.0% during the fourth quarter, while retail sales were flat or falling in each of the final five months of 2019. In the absence of any external shocks to the economy a return to confidence among consumers and business alike looks set to reverse these trends in the coming months.
- However, downside risks loom large for the economy. Now that the UK has left the EU, the short deadline to the end of the transition period and hard-line rhetoric from key figures in UK and EU's trade negotiations mean a disruptive exit remains a distinct possibility at the end of the year. Moreover, the risk of coronavirus disrupting supply chains and closing schools and offices has the potential to undermine the recovery in the short to medium term.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



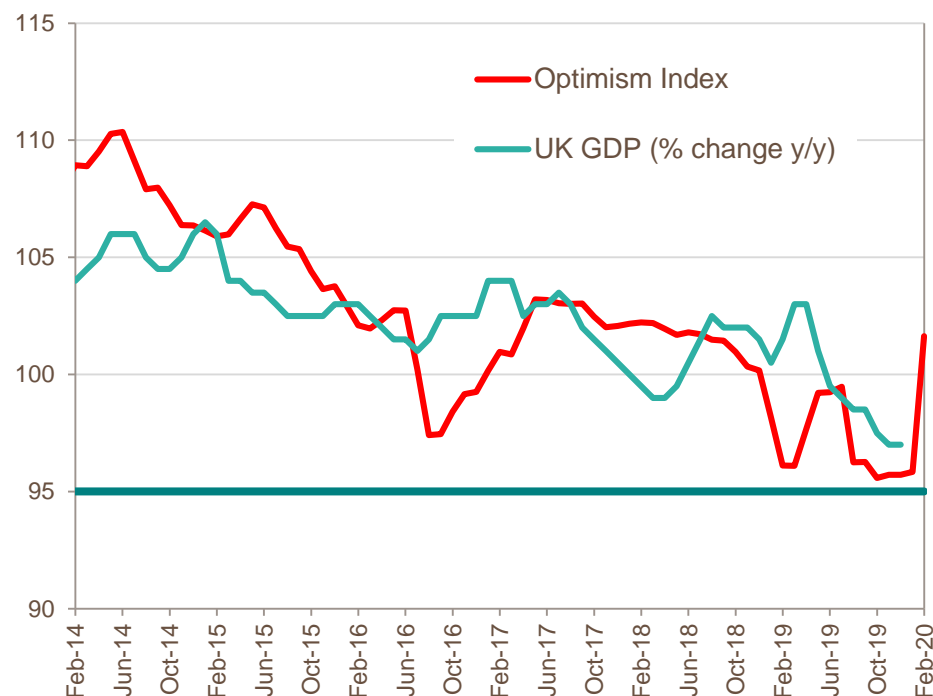
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

BUSINESS OPTIMISM INDEX RECORDS LARGEST MONTHLY RISE IN OVER A DECADE

- The BDO Optimism Index rose by 5.80 points in February and now stands at 101.64. This is the fourth consecutive month of growth in the BDO Optimism Index as the green shoots of a recovery, that started to emerge in November, have finally bloomed into life over the last month. The spike in the index in February marks the largest month-on-month rise in the index for over a decade.
- Both the Manufacturing and Services Optimism Indices rose in February, although it was the services sector that recorded the larger increase, rising by 6.52 points. Manufacturing businesses recorded a more modest increase in sentiment of 0.13 points compared to January.
- As the UK formally left the EU on the 31st January, most businesses probably saw cause to celebrate the end of the Brexit uncertainty, for the short-term at least. This, together with the decisive general election result helped put an end to parliamentary stalemate and allows government to move on to addressing a range of other policy challenges without the immediate threat of no-deal Brexit. The surge in business confidence recorded across a range of surveys in February indicates the extent of the relief released by the move into a transition period until the end of 2020.
- The smaller rise in the Manufacturing Optimism Index probably reflects wider structural problems faced by the sector, including the higher cost of trade that will be imposed by leaving the EU single market and customs union.
- Looking ahead, the Optimism Index is likely to fall back in March as the impact of new cases of coronavirus in the UK and across Europe knock business sentiment. Unless the government can signal a very clear plan for dealing with the spread of the virus that does not involve extensive disruption to businesses then rising uncertainty will once again hold back confidence.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



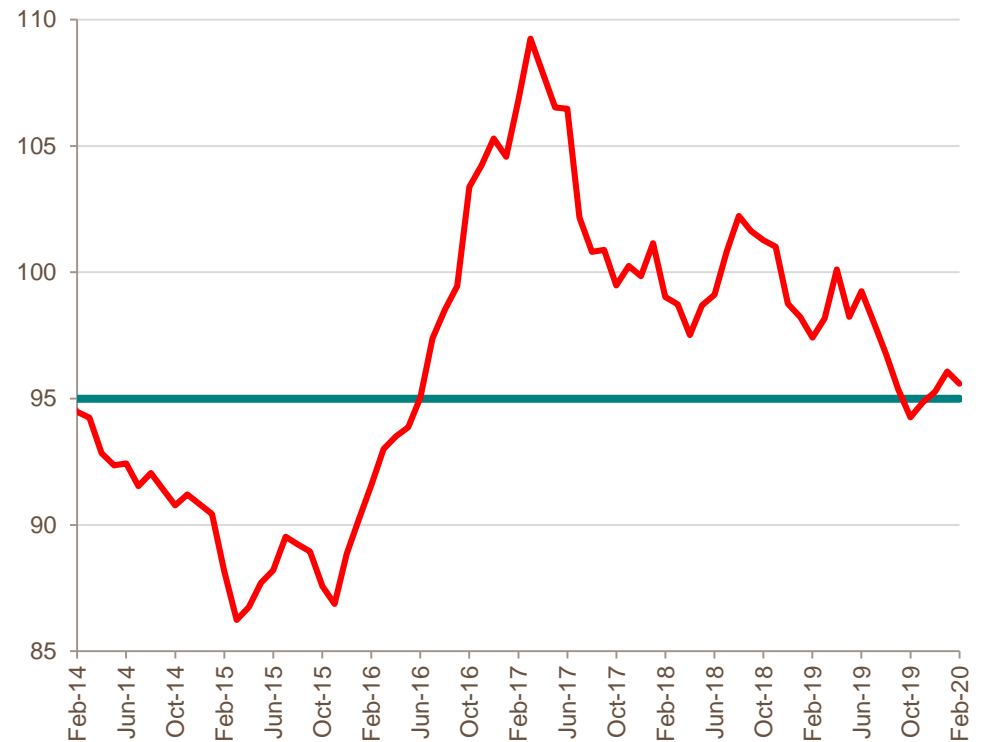
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INPUT INFLATION INDEX FALLS BACK AS CORONAVIRUS DENTS COMMODITIES DEMAND

- The BDO Inflation Index fell by 0.48 points in February. The Input Inflation Index turned down after three consecutive months of growth, falling 2.01 points to stand at 92.33 last month. Meanwhile, the BDO Consumer Inflation Index rose by 1.04 points to 98.84.
- The BDO Input Inflation Index has once again been affected by volatility in global commodity prices. Faster global growth towards the end of 2019 had caused oil and other input prices to pick up as demand increased. The shutdown of factories in China in response to the coronavirus outbreak, and the impact on other economies that are closely integrated within the region's supply chains have subsequently caused prices for many commodities to fall.
- Meanwhile, the annual rate of consumer price inflation on the CPI measure rose to 1.8% in January, an increase of 0.5 percentage points from 1.3% in December. This was largely driven by the year-on-year comparison with January 2019, when the imposition of an energy price cap automatically caused energy bills to fall for many households. With no such change this year, prices appeared to grow quickly relative to a lower base.
- The fall in input prices and lower fuel prices for consumers are also set to feed through into consumer price inflation in the coming months. With that being said, unless the coronavirus can be brought under control soon then restrictions on the movement of inputs may start to raise costs for producers even as global demand for commodities remains subdued.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



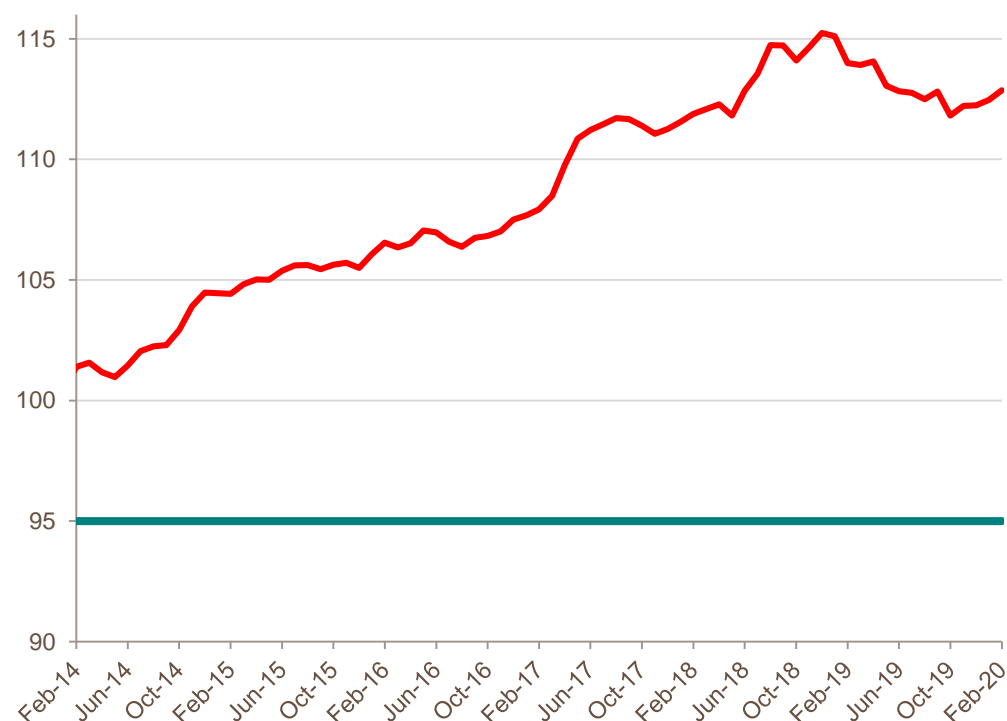
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

BUSINESS CONFIDENCE TRANSLATES TO HIGHER EMPLOYMENT INDEX IN FEBRUARY

- The BDO Employment Index rose by 0.40 points to 112.86 in February. This is the fourth consecutive monthly increase in the Employment Index.
- The latest data on the labour market from the Office for National Statistics cover the final quarter of 2019, when the employment and economic inactivity rates both broke records. The employment rate reached 76.5%, as the impact of a higher state pension age for women kept more people in work for longer. Meanwhile, the economic inactivity rate hit a record low of 20.5% during the same time period. The unemployment also remained low, standing at just 3.8%.
- Although below the record level set a year earlier, the number of vacancies in the three months to January was 7,000 higher than in the previous three-month period ending in October 2019. This indicates businesses were ready to increase hiring activity again at the start of 2020. A further boost to business sentiment during February looks set to keep the labour market buoyant.
- Nevertheless, the government's post-Brexit immigration policy which is due to be implemented at the end of 2020, when the free movement of labour within the EU comes to an end, may impact employment prospects over the longer term. A move to limit the number of 'unskilled' immigrants entering the UK could hold back further growth in the labour force.

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

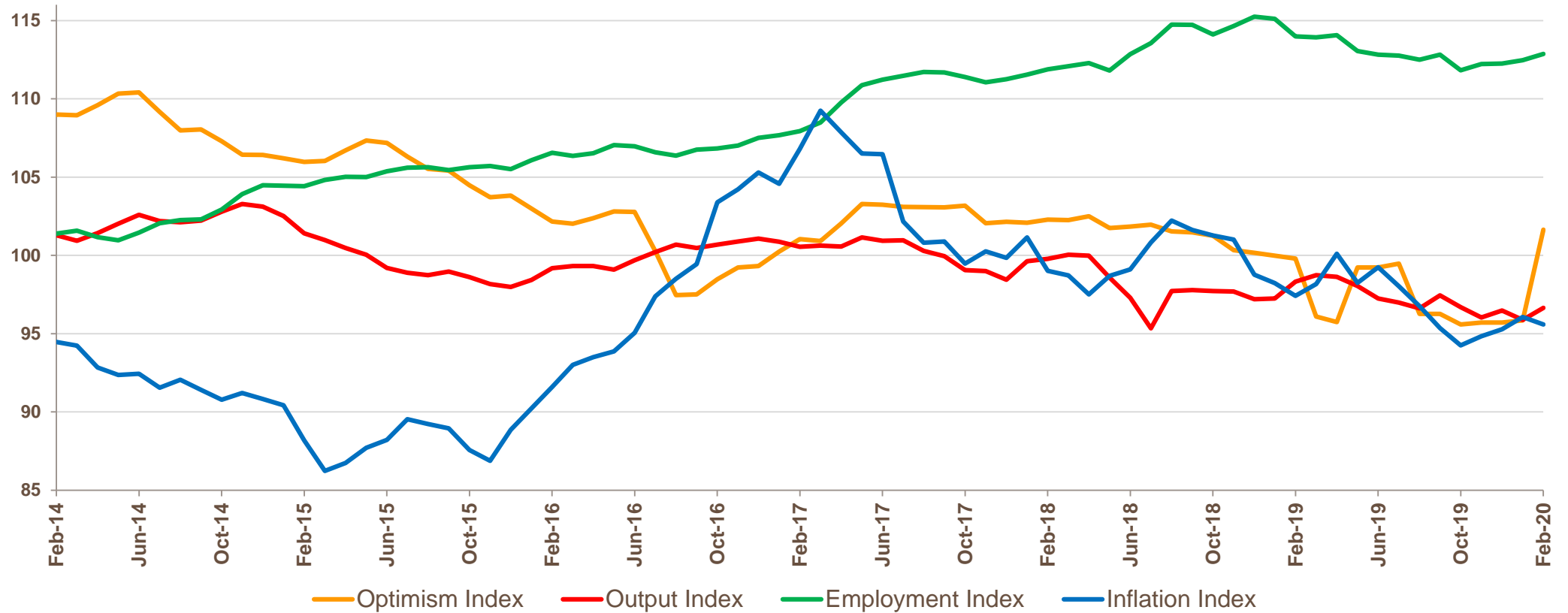
BDO INDICES TO LATEST MONTH

		Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
The BDO Optimism Index	Total	99.47	96.26	96.26	95.59	95.71	95.72	95.84	101.64
	Manuf.	100.17	102.28	102.16	98.78	95.55	95.64	95.69	95.82
	Service	99.38	95.49	95.52	95.18	95.73	95.73	95.86	102.38
The BDO Output Index	Total	96.99	96.62	97.44	96.69	96.04	96.47	95.88	96.64
	Manuf.	90.62	88.87	88.00	87.10	86.94	86.31	86.78	88.75
	Service	97.79	97.61	98.63	97.91	97.19	97.76	97.03	97.64
The BDO Inflation Index	Total	98.04	96.75	95.36	94.25	94.84	95.27	96.07	95.59
	Input	96.99	94.23	91.86	89.80	91.81	92.69	94.34	92.33
	Consumer	99.08	99.28	98.87	98.71	97.86	97.86	97.80	98.84
The BDO Employment Index	Total	112.76	112.50	112.81	111.82	112.22	112.25	112.46	112.86

APPENDIX: BUSINESS OPTIMISM LEAPS IN FEBRUARY AT RELIEF OVER BREXIT TRANSITION

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.