

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. The succulents are arranged in a loose pattern: one in the top right, one in the bottom left, one in the center, and one in the bottom right. A vertical red bar is on the left side of the image.

BDO MONTHLY BUSINESS TRENDS INDICES

June 2019

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 July 2019, 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	▼	97.24 in June from 98.04 in May
BDO Optimism Index	X	▲	99.23 in June from 99.22 in May
BDO Inflation Index	X	▲	99.25 in June from 98.24 in May
BDO Employment Index	✓	▼	112.82 in June from 113.05 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 marked declines in the BDO Output and Employment Indices in June. Meanwhile, the BDO Inflation Index recovered some of the losses from the previous month while the Optimism Index hardly changed.

The BDO Output Index fell for a third consecutive month in June to stand at 97.24, giving up all its gains since the beginning of the year. While firms in the manufacturing sector struggled most, both the BDO Manufacturing and Services Output Indices reported the falls.

The BDO Optimism Index was stable in June, rising by 0.01 points to 99.23. The BDO Manufacturing Optimism Index fell to the lowest level in more than six years, following the 3.9% contraction in output in the latest monthly data. June's results show that political and economic uncertainty is continuing to limit any significant gains in business confidence.

The BDO Inflation Index regained some ground in June, rising by 1.01 points to 99.25. This was driven largely by the Input Inflation Index, which was buoyed by higher oil prices as well as a weakening pound which pushed up import costs.

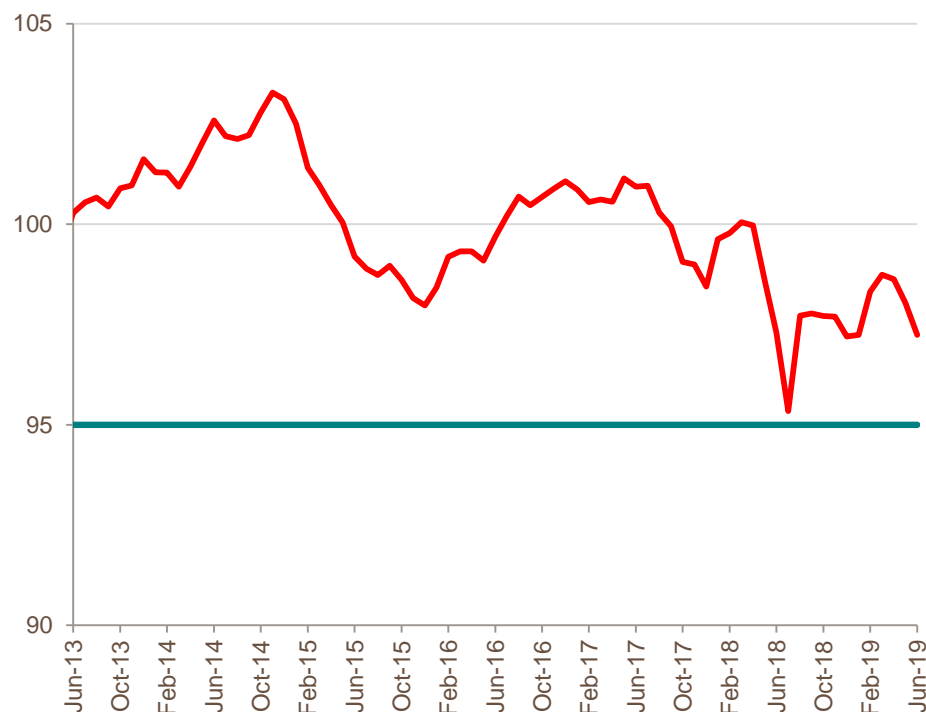
The BDO Employment Index fell to 112.82 in June. Falling vacancies and slowing wage growth are early signs that the labour market may have softened somewhat in Q2. A slowing UK economy is expected to weigh further on employment growth over the rest of the year.

OUTPUT INDEX FALLS BACK TO LEVELS SEEN AT THE BEGINNING OF THE YEAR AS MANUFACTURERS REDUCE STOCKPILES

- The BDO Output Index fell by 0.80 points to 97.24 in June. Following three consecutive months of contraction, the index has reached its joint-lowest score since January 2019, giving up all of the gains made since the beginning of the year.
- Once again, the BDO Manufacturing Index was the driving force behind the decline, as the measure fell sharply by 3.08 points to 92.83 in June, the lowest value since December 2016. This was the biggest single-month decrease in the past year.
- Output measures in the manufacturing sector continue to be weighed down by firms running down their stockpiles, which they accumulated in the first three months of the year to prepare for a potentially disruptive Brexit. Looking ahead, the prospect of a potential no-Deal exit from the European Union continues to weigh on confidence in the sector as does a weaker global economy.
- The BDO Services Output Index also fell back in June, declining by 0.51 points to 97.80. While a less steep decline than the one recorded for its manufacturing counterpart, the fall in the Services Index was nevertheless the largest since July 2018.
- Many businesses in the services sector continue to struggle as consumers rein in their spending. Despite a strong labour market, UK households prefer not to overextend themselves in the light of existing consumer debt. Paired with the ongoing domestic political uncertainty, spending growth has been modest, especially in the retail sector.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



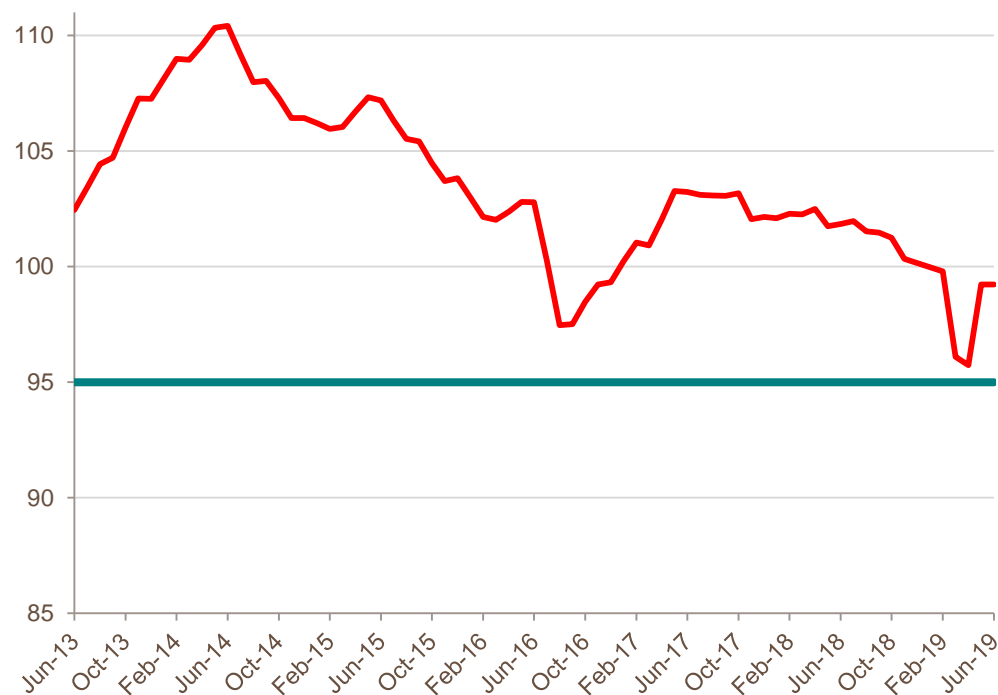
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

BDO OPTIMISM INDEX HOLDS STEADY IN JUNE AS BUSINESS CLIMATE REMAINS IN LIMBO

- The BDO Optimism Index remained fairly steady in June, edging up by 0.01 points to 99.23. This marks a contrast to previous months, which have been characterised by dramatic swings in the index. Despite the relative stability of the index, it remains low by historical standards, in line with the levels recorded at the end of 2016.
- Sentiment in the manufacturing sector continued to slide in June, as the Manufacturing Optimism Index fell by 0.27 points to 97.99 - the lowest it's been since January 2013. The latest ONS data show that manufacturing output declined by 3.9% in April - the most severe monthly contraction since June 2002. While monthly data are volatile and subject to revision, this appears to confirm that pre-Brexit stockpiling could only temporarily make up for significant underlying weakness in the sector.
- The BDO Services Optimism Index rose by 0.05 points to 99.39 in June, which is the highest it's been since January. The overall stability of the index over the first half of the year reflects a services sector in delicate balance. With the pool of Conservative Party leadership candidates now whittled down to the final two - Boris Johnson and Jeremy Hunt - there remains considerable uncertainty about the UK's future course with respect to Brexit. While both candidates have pledged to take the UK out of the EU on October 31st without a deal if - as the EU is currently signalling - a reopening of the withdrawal agreement is not possible, doubts remain about the ability of the new Prime Minister to implement such a plan given parliamentary opposition. This also throws into play the prospect of one of the most unpredictable general elections in modern times, presenting yet further uncertainty for UK businesses.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



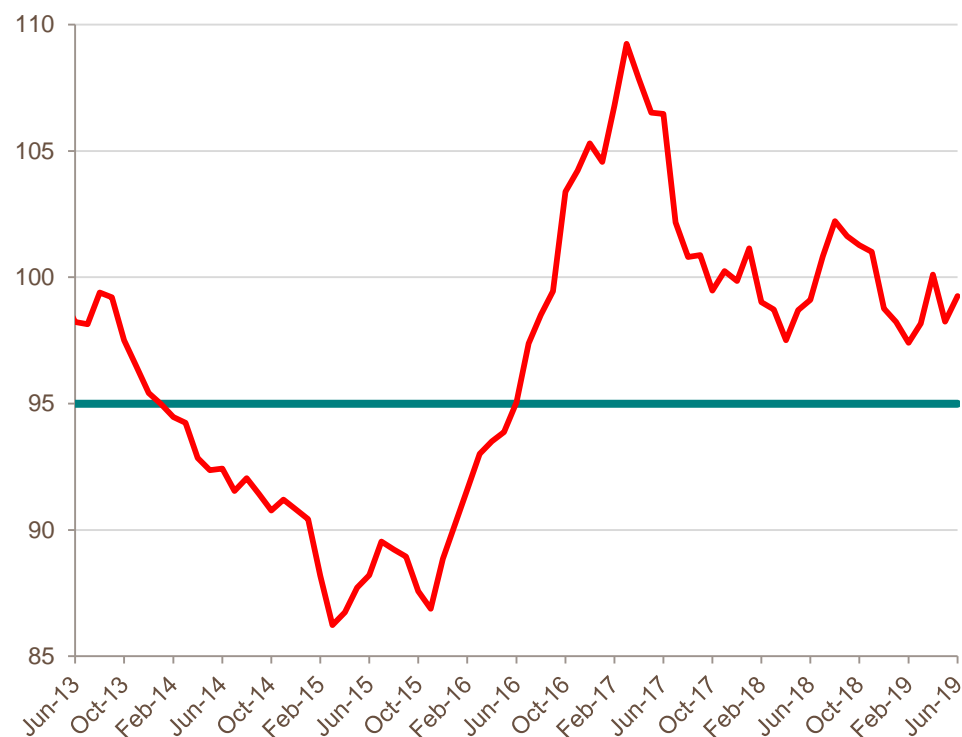
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION INDEX REGAINS GROUND IN JUNE

- The BDO Inflation index recovered somewhat in June, rising by 1.01 points to 99.25. This was led by a 2.12 point increase in the BDO Input Inflation Index. Meanwhile the BDO Consumer Inflation Index edged down slightly to 99.66 in June from 99.75 in May.
- Over the course of June, the pound depreciated by around 1.3% against the dollar and by 2.2% against the euro. Given that the majority of the UK's goods imports originate either from the US or the Eurozone, the weakening of the pound will have placed upwards pressures on import prices and hence overall inflation.
- Central banks across the world, including the US Federal Reserve, the European Central Bank, the People's Bank of China, and the Reserve Bank of India have all signalled a willingness to loosen monetary policy in order to support their respective economies in the face of a deteriorating outlook for the global economy. However, the Bank of England has been a noticeable exception, with gradual interest rate rises still projected (assuming an orderly Brexit). This divergence of monetary policy from the rest of the world would strengthen the pound, potentially lowering import costs going into 2020.
- Input costs were also buoyed by the partial recovery of global oil prices last month, boosted by disruption to supply and distribution in Russia, the Middle East and Venezuela.
- The latest ONS data show that the annual rate of CPI inflation fell to 2.0% in May, driven by a price contraction in the clothing & footwear sector, as well as weakness in the automotive industry.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



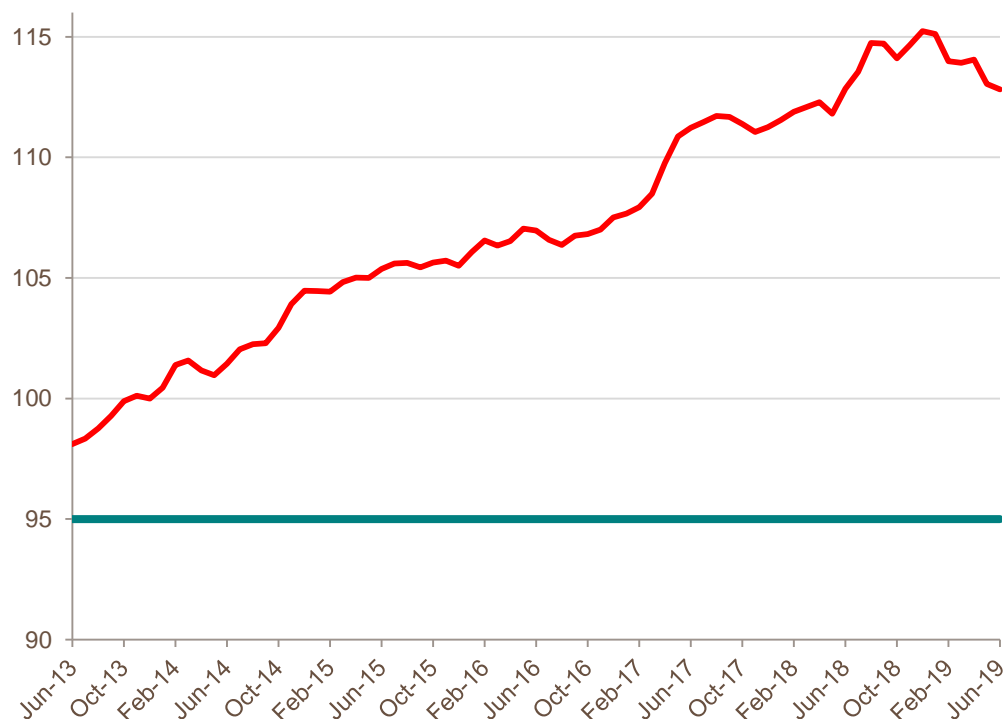
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT INDEX FALLS FOR SECOND CONSECUTIVE MONTH IN JUNE

- The BDO Employment Index crept down further in June, falling by 0.23 points to 112.82.
- The UK economy contracted by 0.4% in April, as the hangover from the flurry of pre-Brexit stockpiling activities kicked in. For Q2 as a whole, Cebr forecasts that the UK economy will have expanded by just 0.1% - significantly below the 0.5% quarterly growth rate recorded in the first three months of the year.
- While the labour market has appeared immune to swings in economic activity in recent years, the anticipated slowdown is expected to stave off any further gains in the employment rate.
- The number of vacancies in the UK reached a record high of 861,000 in the three months to January. However, since then it has been on the decline, falling to 837,000 in the three months to May. This is consistent with survey data pointing towards a softening of hiring plans among UK businesses.
- Another signal of a cooling labour market is wage data, with average weekly earnings growth falling back at the start of Q2. This suggests that the demand for new employees has started to recede somewhat.

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

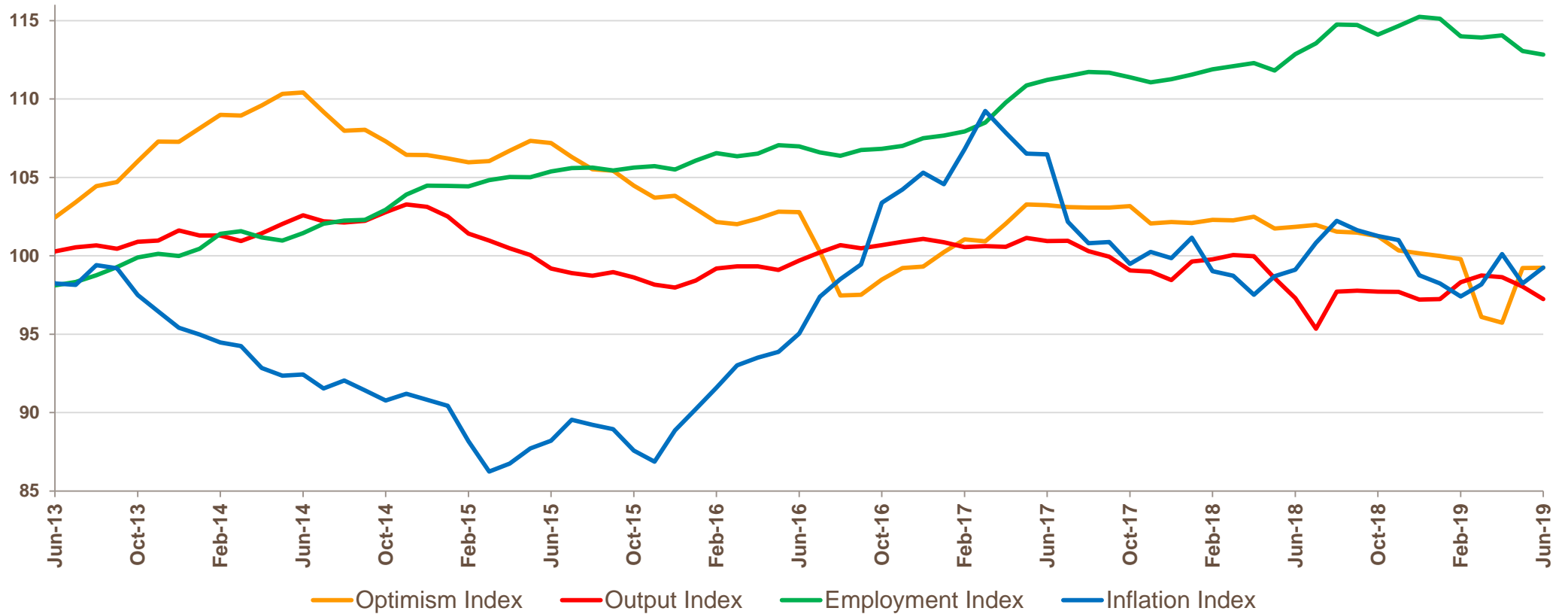
BDO INDICES TO LATEST MONTH

		Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
The BDO Optimism Index	Total	100.33	100.16	99.98	99.79	96.10	95.74	99.22	99.23
	Manuf.	105.02	104.90	104.40	103.84	103.73	101.09	98.26	97.99
	Service	99.74	99.55	99.42	99.28	95.13	95.06	99.34	99.39
The BDO Output Index	Total	97.69	97.20	97.24	98.32	98.74	98.63	98.04	97.24
	Manuf.	100.61	98.60	98.37	97.36	97.32	97.27	95.91	92.83
	Service	97.32	97.02	97.10	98.44	98.92	98.80	98.31	97.80
The BDO Inflation Index	Total	101.01	98.76	98.23	97.41	98.17	100.11	98.24	99.25
	Input	101.95	97.99	97.00	95.75	97.45	101.20	96.72	98.84
	Consumer	100.06	99.53	99.47	99.06	98.90	99.03	99.75	99.66
The BDO Employment Index	Total	114.65	115.24	115.11	113.99	113.92	114.06	113.05	112.82

APPENDIX: DECLINES REGISTERED IN THREE OF THE 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

PETER HEMINGTON

BDO LLP

55 Baker Street, London W1M 1DA

telephone: 020 7486 5888

fax: 020 7487 3686

email: peter.hemington@bdo.co.uk

PABLO SHAH

Centre for Economics and Business Research

Unit 1, 4 Bath Street,

London EC1V 9DX

telephone: 020 7324 2843

email: pshah@cebr.com

web: www.cebr.com

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.