

▶ 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 vertical red bar is positioned on the left side of the image.

BDO MONTHLY BUSINESS TRENDS INDICES

July 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 August 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	XX	▼	96.99 in July from 97.24 in June
BDO Optimism Index	X	▲	99.47 in July from 99.23 in June
BDO Inflation Index	X	▼	98.04 in July from 99.25 in June
BDO Employment Index	✓	▼	112.76 in July from 112.82 in June

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 Optimism Index rose for a second consecutive month in July, while the BDO Employment Index remained practically unchanged, registering a negligible decline. By contrast, the BDO Output and Inflation Indices both recorded more significant falls compared to June.

The BDO Output Index continued its decline in July falling 0.25 points to stand at 96.99. Both the BDO Manufacturing and Services Output Indices reported falls in July although in line with recent results manufacturing firms were most severely affected.

The upturn in the BDO Optimism Index was almost exclusively driven by the Manufacturing Optimism Index, where there was a slight rebound after confidence crashed to a multi-year low in June. Despite the improvement in sentiment, political and economic uncertainty is seriously affecting the outlook for manufacturers and confidence remains lower than it was in April when the index collapsed to a six year low.

The BDO Inflation Index fell back by 1.21 points to 98.04 in July, more than offsetting the gain recorded in June. The latest fall was largely driven by a slump in the price of crude oil holding back growth in producer prices although geopolitical tension and exchange rate movements represent upside risks for inflation in the coming months.

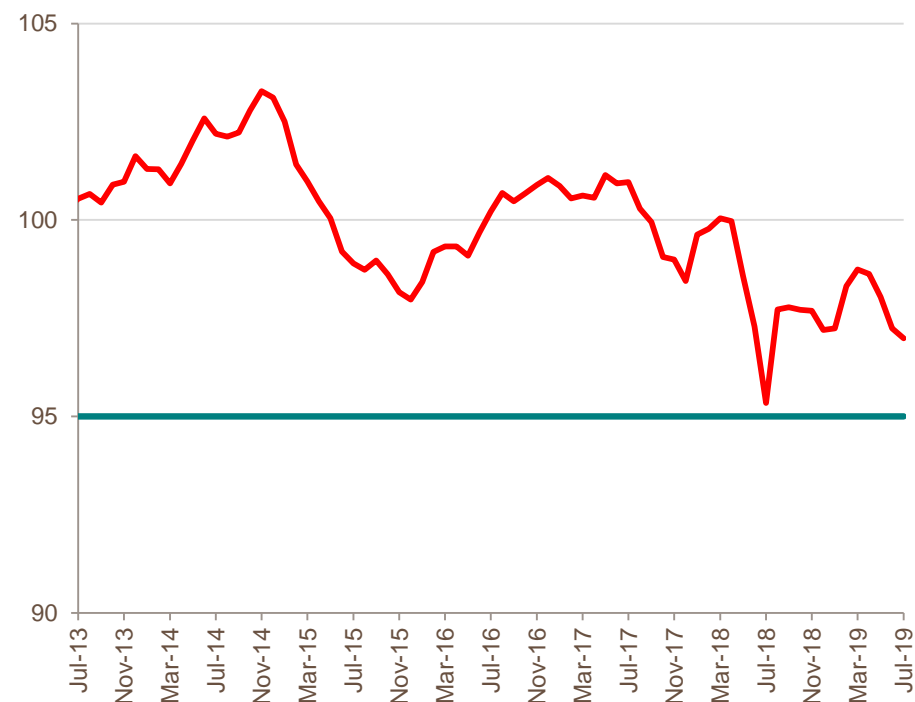
The BDO Employment Index fell marginally to 112.76 in July. After a long run of record breaking employment statistics cracks have been starting to appear in the strength of the labour market. This trend may well be exacerbated while uncertainty remains high and the economy slows.

OUTPUT INDEX FALLS FOR FOURTH CONSECUTIVE MONTH AS MANUFACTURERS CONTINUE TO SUFFER

- The BDO Output Index fell by 0.25 points to 96.99 in July. The index has reached its lowest score since the same period last year, when output fell sharply to 95.34, before rebounding in August 2018.
- Although both indices fell, the BDO Manufacturing Index was the major contributor to the month-on-month decline, falling by 2.21 points in July to 90.62. This fall represents the second-worst monthly fall in the past year and follows a drop of 3.08 points in June.
- After building up stockpiles in advance of a potentially disruptive no-deal Brexit in March manufacturing firms have been reducing production as they run these stocks down. With the new government seemingly unwilling to commence talks with the EU until they drop the Irish Backstop, a key part of the previously agreed deal, the negotiations remain deadlocked and the default outcome of leaving with no-deal now looks increasingly likely.
- The BDO Services Output Index was essentially flat in July, declining by just 0.01 points to 97.79. While the fall in the BDO Services Index was minimal it marks the fourth consecutive month of decline as the economy slows.
- Although the latest retail sales data beat expectations consumers are reporting deteriorating confidence in their job security and have been reducing their willingness to borrow to fund further spending.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



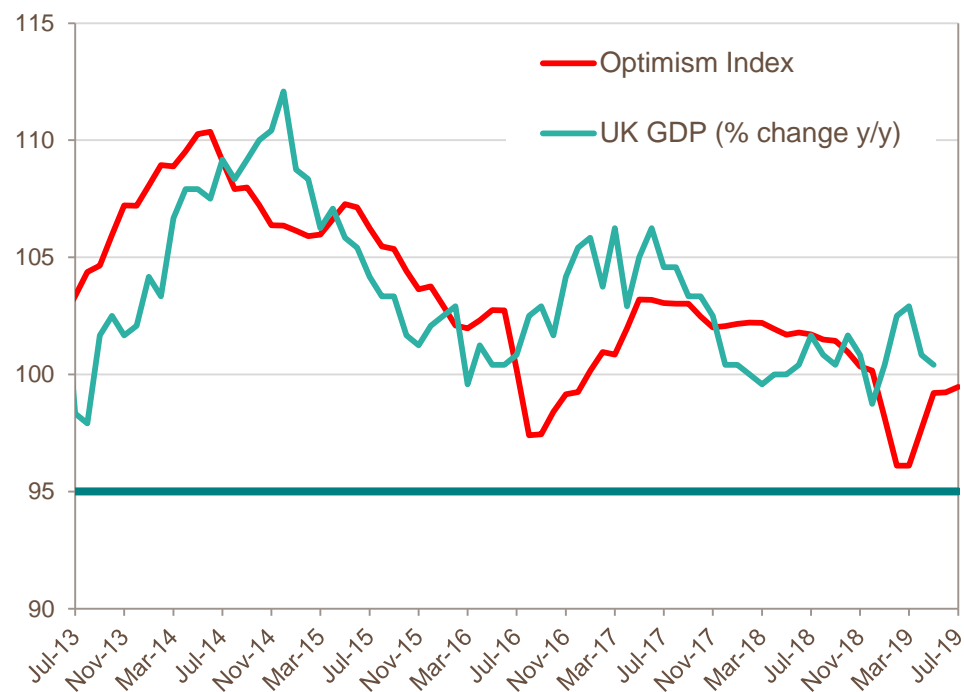
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

BDO OPTIMISM RISES IN JULY AS MANUFACTURERS' CONFIDENCE RECOVERS FROM A SIX-YEAR LOW

- The BDO Optimism Index rose by 0.24 points in July, largely driven by a recovery in the confidence of manufacturers. Having reached 97.99 in June, the lowest level since January 2013, the BDO Manufacturing Optimism Index rose 2.18 points in July to 100.17.
- The latest ONS data show that manufacturing output rebounded in the month of May - rising 1.4% following a decline of 4.2% in April. The cautious boost to industry sentiment reflects the partial rebound in output following April's steep decline. As the no-deal Brexit feared by the sector was avoided at the end of March, manufacturers had immediately cut back output to run down the stockpiles they had built up in the preceding months.
- By contrast, the BDO Services Optimism Index fell by 0.01 points in July. Growth in the service sector fell to just 0.3% in the three months to May as the economy slows.
- The Manufacturing and Services Optimism Indices are now hovering either side of the 100 mark that represents the long term average trend and it remains to be seen whether the recent boost to confidence among manufacturers can be sustained. The potential for a new prime Minister to overcome the Parliamentary deadlock that brought the UK so close to leaving the EU without a deal may have energised the sector in recent months. However, as the new government's hard-line rhetoric over its willingness to leave the EU without a deal intensifies this may instead place many firms back in the defensive mind set that explained the stockpiling of the first quarter.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



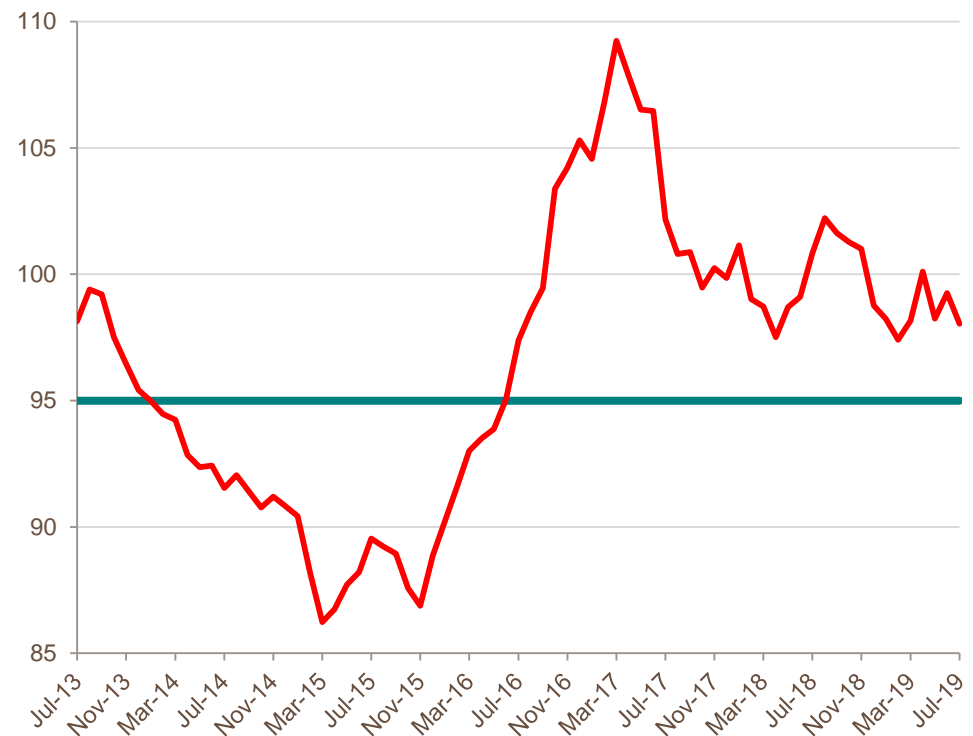
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION INDEX DROPS BACK AS PRODUCER PRICES DECLINE FOLLOWING OIL PRICE SLUMP

- The BDO Inflation index fell back in July, dropping by 1.21 points to 98.04. The main driver of the decline came from the BDO Input Inflation Index which fell 1.85 points to 96.99. Meanwhile, the BDO Consumer Inflation Index fell by 0.58 points to 99.08 in July.
- Compared to the same period last year the global oil price has declined fairly significantly, lowering the annual headline rates of inflation for both consumers and businesses.
- However, sterling has depreciated by more than 7% against the dollar since July 2018, which will have offset the benefit of lower oil prices. The currency remains under pressure as the prospect of no-deal Brexit becomes more likely and this will continue to push up the cost of imported goods. The realisation of a no-deal outcome would have major ramifications due to the combined effect of both new tariffs and a weakened currency.
- Consumer price inflation remained unchanged in June at 2.0% on the CPI measure with the decline in the cost of transport linked to falling oil prices offset by increases in the cost clothing and footwear.
- This is in line with the Bank of England's target level of inflation. In its August Inflation Report the Bank suggests that domestic inflationary pressure will only build slowly despite a tight labour market as a consequence of weak economic growth.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



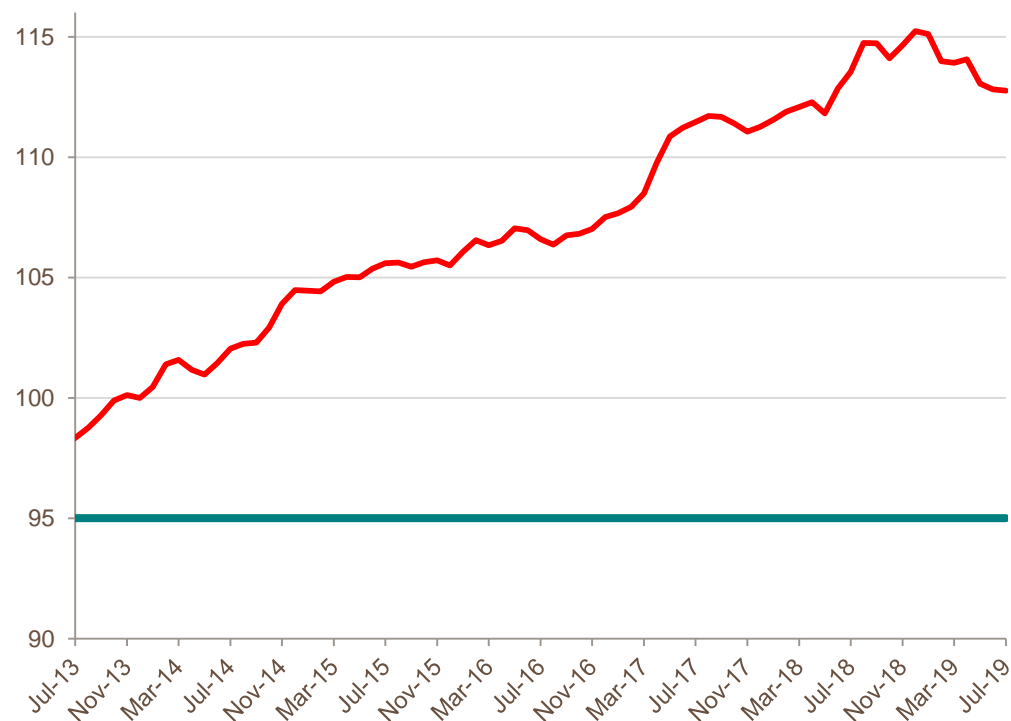
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT INDEX FALLS TO LOWEST LEVEL SINCE MAY 2018

- The BDO Employment edged down in July, falling by 0.06 points to 112.76 from 112.82 in June. This is the lowest level since May 2018.
- Although the headline labour market indicators remained strong in the latest readings, other figures suggest that a certain degree of slack is emerging. Most notably, the number of job vacancies in the UK has fallen from its peak of 861,000 between November 2018 and January 2019 to 827,000 in the three months to June, marking a 4% decline since the start of the year.
- Despite the declining number of vacancies, the annual growth rate of average weekly earnings (including bonuses) was 3.4% in the three months to May - 0.2 percentage points higher than in the three months to April.
- With the economy starting to cool and wage growth taking hold there will be pressure building within businesses to hold back on further hiring to manage costs.
- Similarly, reports of redundancies are emerging from household names such as Ryanair, HSBC and Tesco in recent weeks suggest the positive flow of employment data may have run its course for the time being.

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

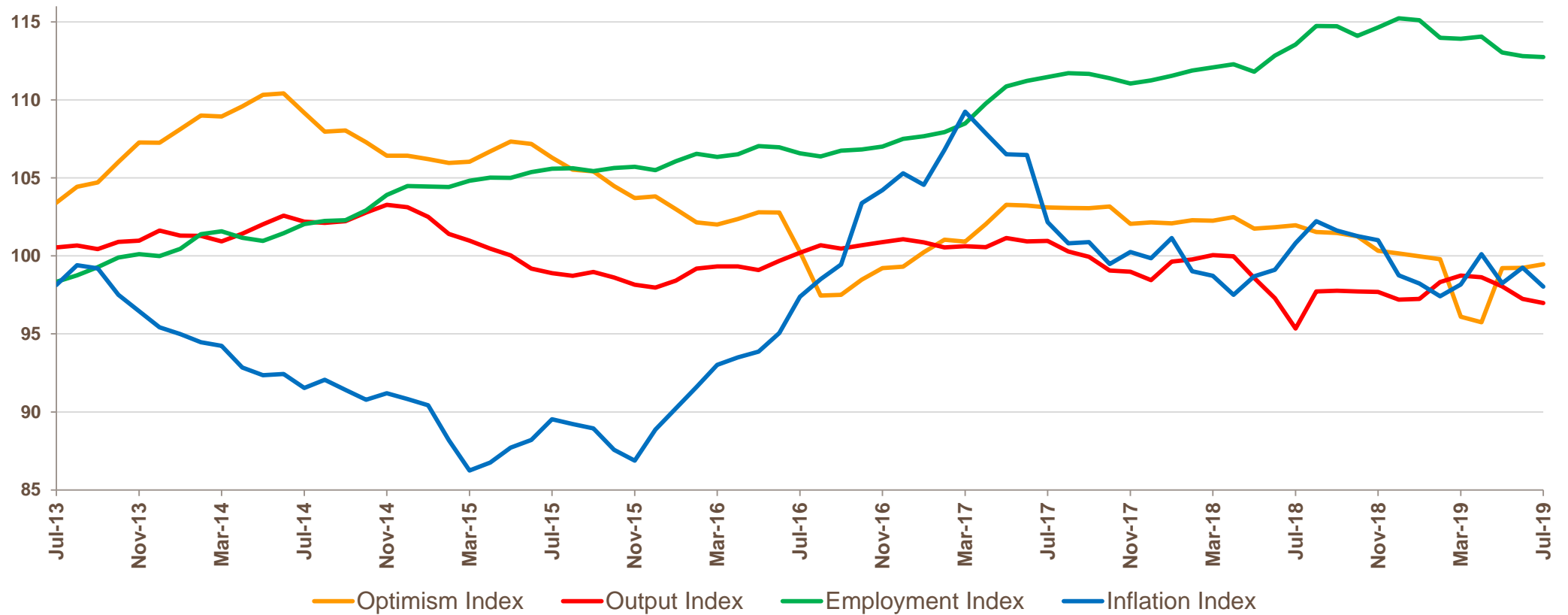
BDO INDICES TO LATEST MONTH

		Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
The BDO Optimism Index	Total	100.16	99.98	99.79	96.10	95.74	99.22	99.23	99.47
	Manuf.	104.90	104.40	103.84	103.73	101.09	98.26	97.99	100.17
	Service	99.55	99.42	99.28	95.13	95.06	99.34	99.39	99.38
The BDO Output Index	Total	97.20	97.24	98.32	98.74	98.63	98.04	97.24	96.99
	Manuf.	98.60	98.37	97.36	97.32	97.27	95.91	92.83	90.62
	Service	97.02	97.10	98.44	98.92	98.80	98.31	97.80	97.79
The BDO Inflation Index	Total	98.76	98.23	97.41	98.17	100.11	98.24	99.25	98.04
	Input	97.99	97.00	95.75	97.45	101.20	96.72	98.84	96.99
	Consumer	99.53	99.47	99.06	98.90	99.42	99.75	99.66	99.08
The BDO Employment Index	Total	115.24	115.11	113.99	113.92	114.06	113.05	112.82	112.76

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

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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.