

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

August 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 of September 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	▲	76.94 in August from 73.20 in July
BDO Optimism Index	X	▲	86.44 in August from 80.90 in July
BDO Inflation Index	X	▲	94.06 in August from 90.87 in July
BDO Employment Index	XX	▼	106.76 in August from 107.37 in July

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 Output, Inflation and Optimism Indices all increased between July and August. This was the fourth consecutive monthly increase for the output and optimism indices and the third consecutive monthly increase for the Inflation Index. Meanwhile the BDO Employment Index fell to a near four-year low.

The Eat Out to Help Out scheme breathed much needed life back into the hospitality sector in August, with early evidence pointing to a considerable rise in activity last month. This drove a 3.82 point increase in the BDO Services Output Index, which helped to push the overall Output Index to 76.94.

The BDO Optimism Index rose by 5.54 points to reach 86.44 in August. This is the largest monthly improvement in confidence since the onset of the coronavirus pandemic, which reflects the uptick in economic activity that took place in a number of sectors in August.

The BDO Inflation Index increased from 90.87 in July to 94.06 in August. This increase was fuelled by the Input Inflation Index, which rose by 5.27 points to hit 91.20 in August, on the back of a recovery in major commodity prices.

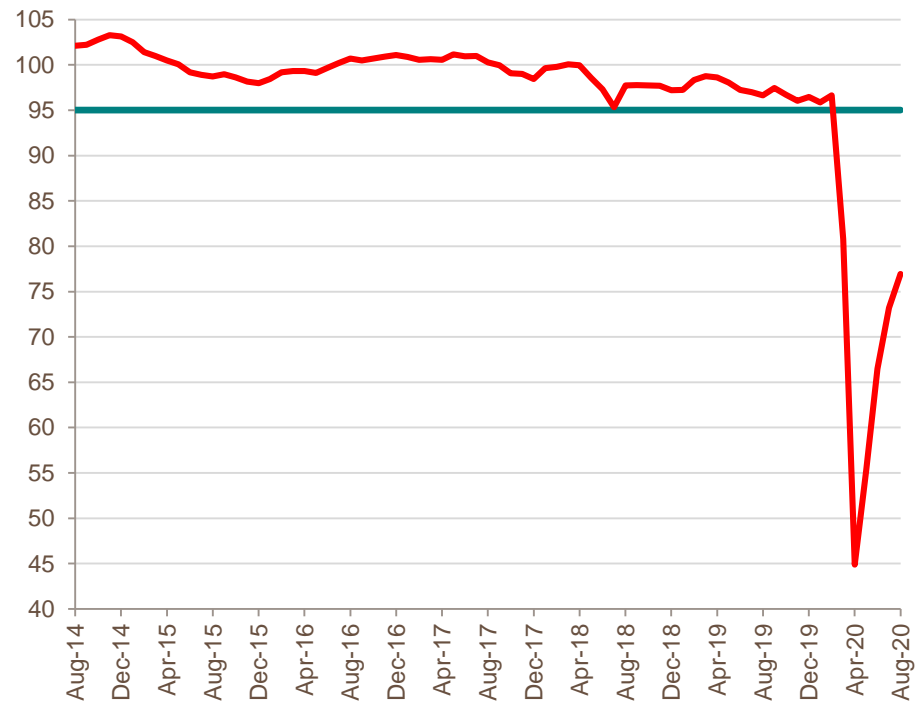
The BDO Employment Index dropped to 106.76 in August. This is the lowest the Index has been since September 2016. With the Coronavirus Job Retention Scheme due to terminate at the end of October, further declines are on the cards for the coming months.

EAT OUT TO HELP OUT SCHEME FUELS RESURGENCE OF SERVICE SECTOR OUTPUT IN AUGUST

- The BDO Output Index recorded yet another solid gain in August, rising from 73.20 in 76.94. This is now the fourth consecutive month of improvement for the Output Index.
- The largest increase was seen in the BDO Services Output Index, which rose by 3.82 points to reach 75.36 in August. The evidence that is available so far suggests that the Eat Out to Help Out scheme provided a major boost to the hospitality sector, which is likely to have been a significant driver of the overall increase in the Services Output Index last month. Data from OpenTable suggests that the number of restaurant reservations made each day in August was on average 22% higher than last year. By contrast, despite the lifting of restrictions on 4th July, restaurant reservations were 52% down on average in July.
- While the strong performance in August will have provided a lifeline for many businesses, the key question is whether this momentum can be maintained heading into the autumn. The early data is not encouraging, with the year-on-year decline in restaurant bookings on the first Saturday of September the sharpest since the great re-opening on 4th July.
- The BDO Manufacturing Index recorded an increase last month, rising from 86.28 in July to 89.41 in August. Survey data suggests that growth in the sector reached a multi-year high in August, with a strong increase in domestic orders fuelling an uptick in the production of consumer, intermediate and investment goods.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



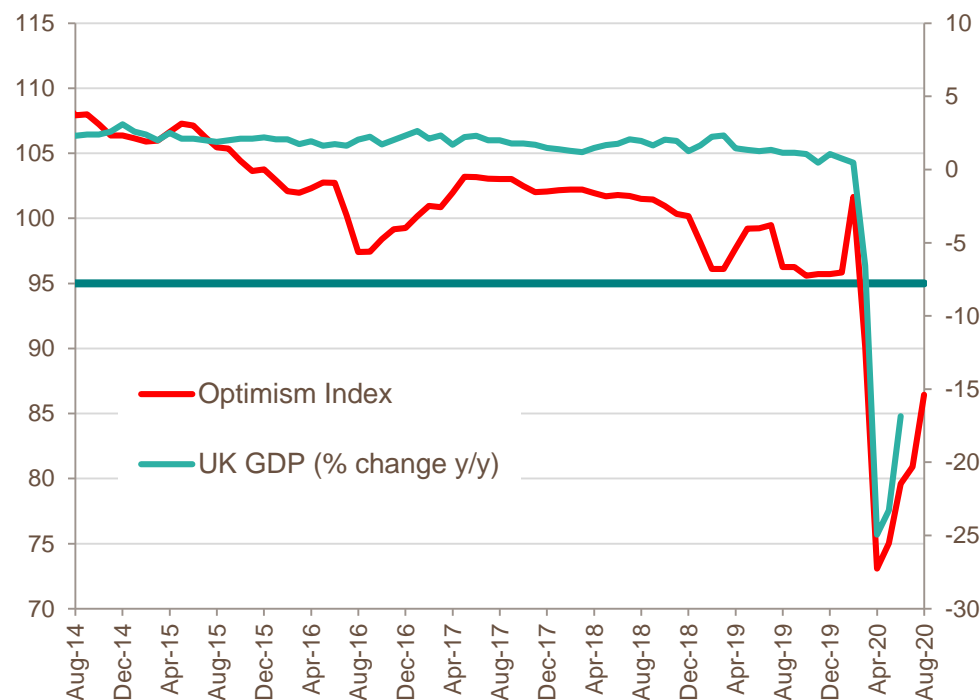
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

BUSINESS CONFIDENCE HITS 5-MONTH HIGH IN AUGUST

- The BDO Optimism Index jumped from 80.90 in July to 86.44 in August. This 5.54 point rise is the sharpest monthly increase since the onset of the coronavirus pandemic.
- Despite the highly challenging environment, levels of activity for many businesses during the summer months will have been better than would reasonably have been expected during the depths of the lockdown in April. Indeed, in July, retail sales volumes were 3.0% above their pre-pandemic level in February 2020. Meanwhile, after a very weak start to the summer, the Eat Out to Help Out scheme brought in a much needed flurry of trade for the hospitality sector. These developments meant that the BDO Services Optimism Index saw the greatest improvement in August, rising by 6.03 points to hit 86.72.
- The BDO Manufacturing Optimism Index increased by 1.59 points to 84.18 in August. The brightening of manufacturers' outlook in August reflects the uptick in demand both in the manufacturing sector and the economy more broadly in August.
- The manufacturing sector is particularly exposed to overseas developments, due to its reliance on exports. As a result, rising coronavirus cases across many parts of the world in recent weeks will have been a significant concern for many businesses in this industry.
- Another factor that will be weighing on the mind of many is the prospect of a no-deal type outcome in the Brexit negotiations. While a deal is still very much possible, the UK and the EU remain far apart on the issues of fishing access rights and level playing field stipulations.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



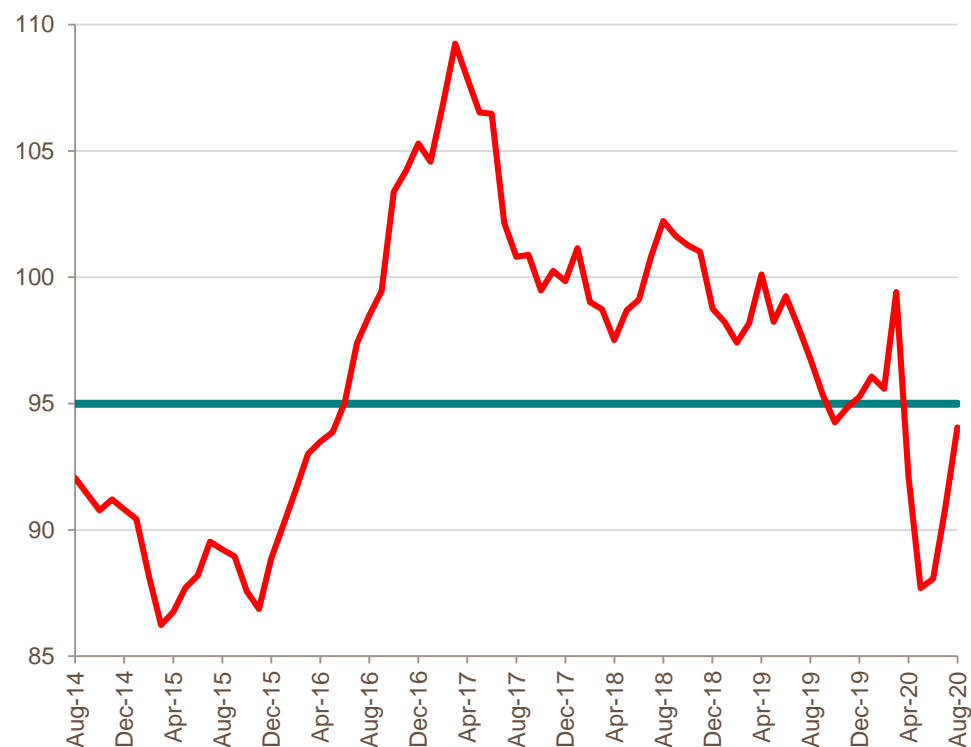
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION INDEX APPROACHES 95-MARK

- The BDO Inflation Index rose sharply from 90.87 in July to 94.06 in August. This means that the Index is now just below the 95-mark that represents zero year-on-year growth of prices.
- The largest movement last month took place in the BDO Input Inflation Index, which increased by 5.27 points to reach 91.20. Since May, oil prices have recovered around 60% of the losses they sustained during the first four months of the year, which were tied to volatility in the Middle East, a price war between Saudi Arabia and Russia and a collapse in demand as a result of the coronavirus pandemic. There has also been a marked recovery in the price of other major commodities, such as aluminium, steel and copper. This reflects the gradual recovery of demand as coronavirus-related restrictions were eased across the world.
- The BDO Consumer Price Index rose from 95.81 in July to 96.93 in August. This is the largest single-month increase since the start of the coronavirus crisis.
- According to data from the Office for National Statistics, the annual rate of consumer price inflation (including owner occupiers' housing costs) jumped by 0.3 percentage points to reach 1.1% in July. This was driven by a recovery of demand in the hospitality and travel sectors coinciding with the partial lifting of restrictions, as well as global movements in oil prices feeding into pump prices.
- One-off supply side factors will have also played a role. Indeed, many businesses have faced incurred significant costs in order to ensure that their operations were consistent with social distancing and safety regulations, some of which are being passed to consumers. For instance, in July the annual rate of price growth for men's and women's haircuts was 6.1% and 4.5%, respectively.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



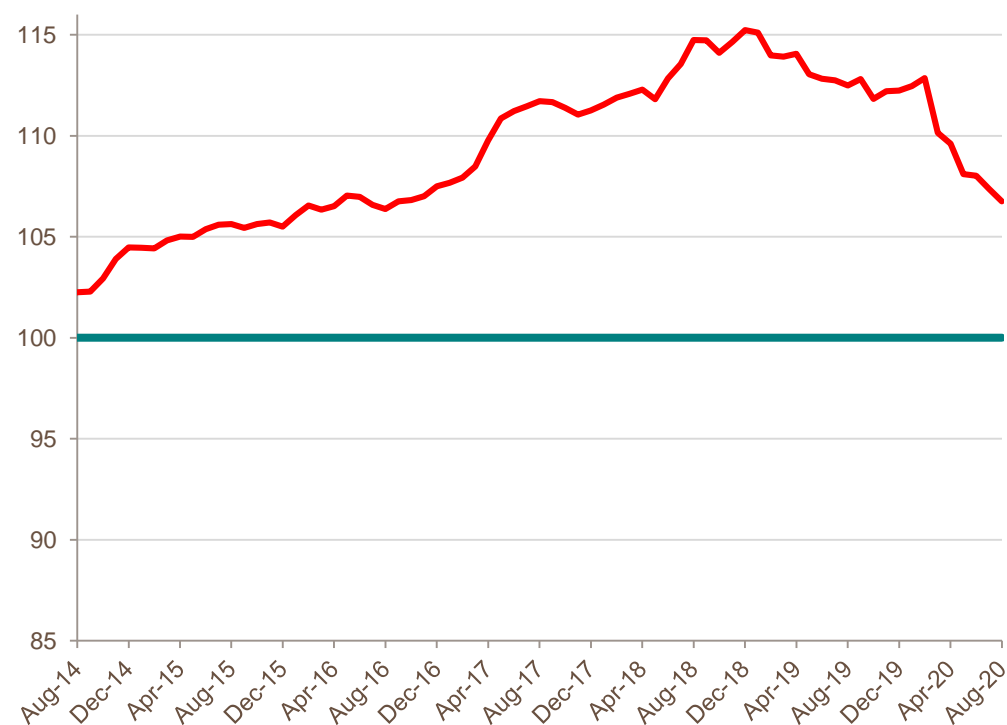
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT INDEX DECLINES TO NEAR 4-YEAR LOW

- As has consistently been the case in recent months, the BDO Employment Index moved in an opposite direction to the other three Business Trends Indices in August. The Employment Index edged down to a near four-year low of 106.76 last month - a 0.61 point fall.
- While the reduction in output upon the onset of the coronavirus pandemic and associated lockdown was sudden and severe in nature, the labour market has displayed more of a “slow-motion” response, as firms gradually adjust to changes in government support schemes and wider economic conditions.
- The latest ONS figures show that the employment rate stood at 76.4% in the three months to June - down 0.2 percentage points on the previous three-month period ending in March. Pay As you Earn data from HMRC suggests that there were 114,000 fewer people working in July than in June. This is a significantly larger decrease than the 20,200 figure recorded in June, suggesting that the pace of job losses has started to accelerate. This is consistent with the steady stream of high-profile companies announcing widespread redundancies in recent weeks.
- The government’s Coronavirus Job Retention Scheme will draw to a close at the end of October. With 9.6 million workers on furlough as of the middle of August, large numbers of lay-offs are likely to take place in the weeks after the government support is withdrawn. The termination of the furlough scheme represents a significant scaling back of the government’s fiscal stimulus, which will have a significant effect on levels of demand in the economy.

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

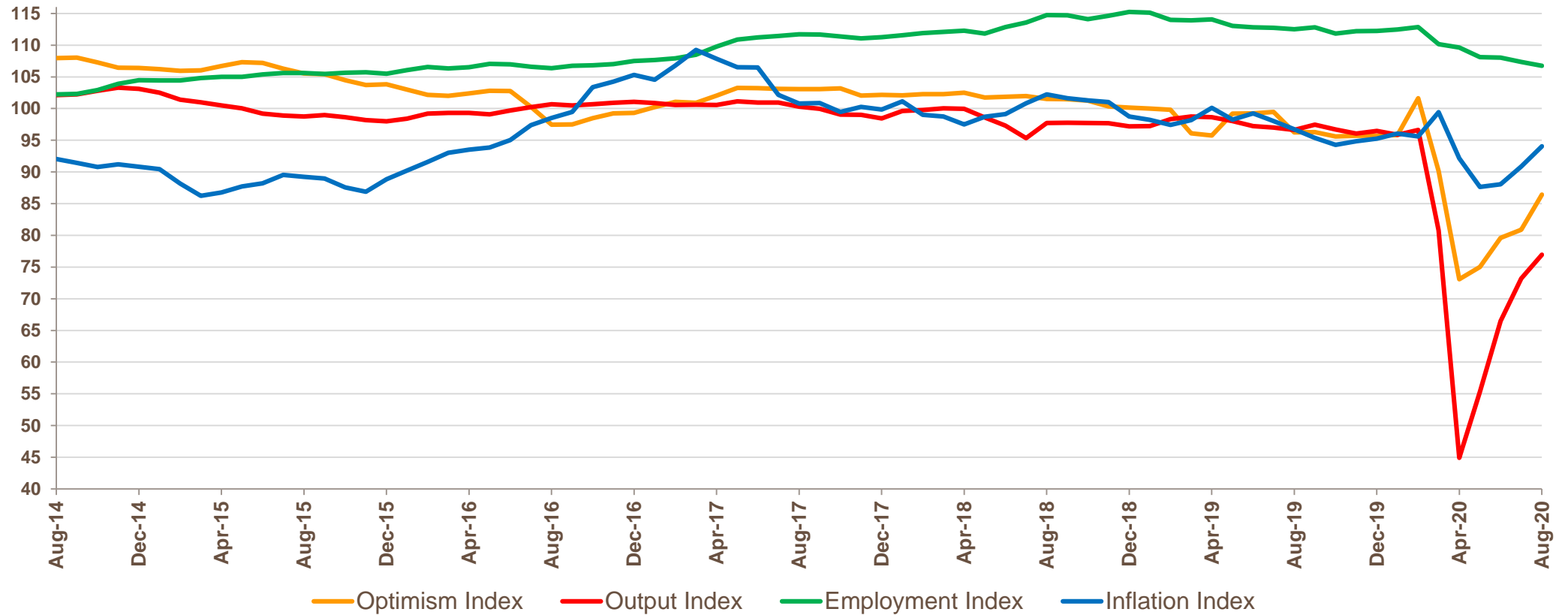
BDO INDICES TO LATEST MONTH

		Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20
The BDO Optimism Index	Total	95.84	101.64	90.15	73.08	75.02	79.59	80.90	86.44
	Manuf.	95.69	95.82	93.11	71.53	75.85	79.01	82.59	84.18
	Service	95.86	102.38	89.77	73.27	74.92	79.67	80.69	86.72
The BDO Output Index	Total	95.88	96.64	80.77	44.90	55.34	66.50	73.20	76.94
	Manuf.	86.78	88.75	84.27	52.97	69.55	80.47	86.28	89.41
	Service	97.03	97.64	80.33	43.88	53.53	64.73	71.54	75.36
The BDO Inflation Index	Total	96.07	95.59	99.41	92.13	87.65	88.06	90.87	94.06
	Input	94.34	92.33	100.50	86.79	79.76	80.60	85.93	91.20
	Consumer	97.80	98.84	98.32	97.48	95.54	95.52	95.81	96.93
The BDO Employment Index	Total	112.46	112.86	110.15	109.61	109.61	109.61	107.37	106.76

APPENDIX: SERVICES OUTPUT AND OPTIMISM INDICES RECORD STRONG GAINS IN AUGUST

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.