

▶ 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

July 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 August 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	▲	73.20 in July from 66.50 in June
BDO Optimism Index	X	▲	80.90 in July from 79.59 in June
BDO Inflation Index	X	▲	90.87 in July from 88.06 in June
BDO Employment Index	XX	▼	107.37 in July from 108.03 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

There were increase in the BDO Output, Inflation and Optimism Indices between June and July, while the BDO Employment Index continued to edge down.

The re-opening of large parts of the hospitality sector at the start of the month fuelled an uptick in activity in the services sector last month. This supported an overall increase in the BDO Output Index, from 66.50 in June to 73.20 in July.

The BDO Optimism Index also recorded a small increase last month, rising from 79.59 in June to 80.90 in July. While the partial re-opening of the economy has been accompanied by an improvement in sentiment, the lingering risks of further restrictions together with limited progress in the Brexit negotiations will keep a lid on confidence for the foreseeable future.

The BDO Inflation Index increased from 88.06 to 90.87 in July, largely driven by a 5.33 point increase in the Input Inflation sub-index. The recovery of oil and commodity prices has caused inflation to stabilise in recent weeks.

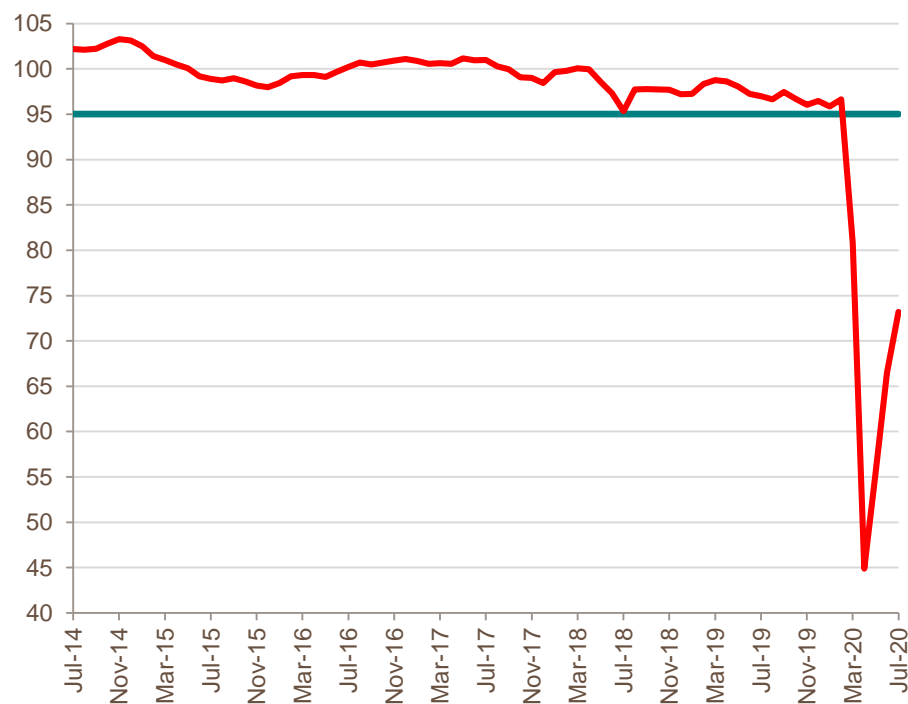
The BDO Employment Index sank to 107.37 in July - the lowest its been since 2016. While official labour market figures so far only point to a slow trickle of job losses, the termination of the furlough scheme in October will likely lead to more significant declines in the Index.

RE-OPENING OF HOSPITALITY SECTOR DRIVES GROWTH IN SERVICES INDEX

- The BDO Output Index rose again in July for the third consecutive month, although the pace of the recovery has begun to slow. The Output Index reached 73.20 last month, up from 66.50 in June.
- On 4th July, pubs, restaurants and hotels were given the go-ahead to re-open following several months of closure. While this provided a lifeline to thousands of ailing businesses, social distancing requirements and continued caution from the public about certain outdoor activities mean that it will be some time before trading conditions in the hospitality sector return to where they were before the crisis. With that being said, the re-opening appears to have contributed to an uptick in activity in the services sector as a whole, with the BDO Services Output Index climbing from 64.73 to 71.54 between June and July.
- The BDO Manufacturing Output Index recorded a more muted increase in July, rising by 5.81 points to 86.28. Further gains in the manufacturing sector will be contingent not only on domestic economic conditions but also on developments overseas, due to the industry's reliance on exports as a source of revenues.
- The lifting of many lockdown restrictions has helped economic activity to rebound quickly in some sectors of the economy. For instance, strong gains in May and June have brought retail sales volumes back up to the levels observed ahead of the coronavirus crisis. However, other parts of the economy - particularly those reliant on outdoor activities such as the hospitality and travel sectors - face more of an uphill battle. Looking ahead, the pace of recovery is expected to slow significantly, as levels of output settle around a new normal consistent with the partial re-opening of the economy.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



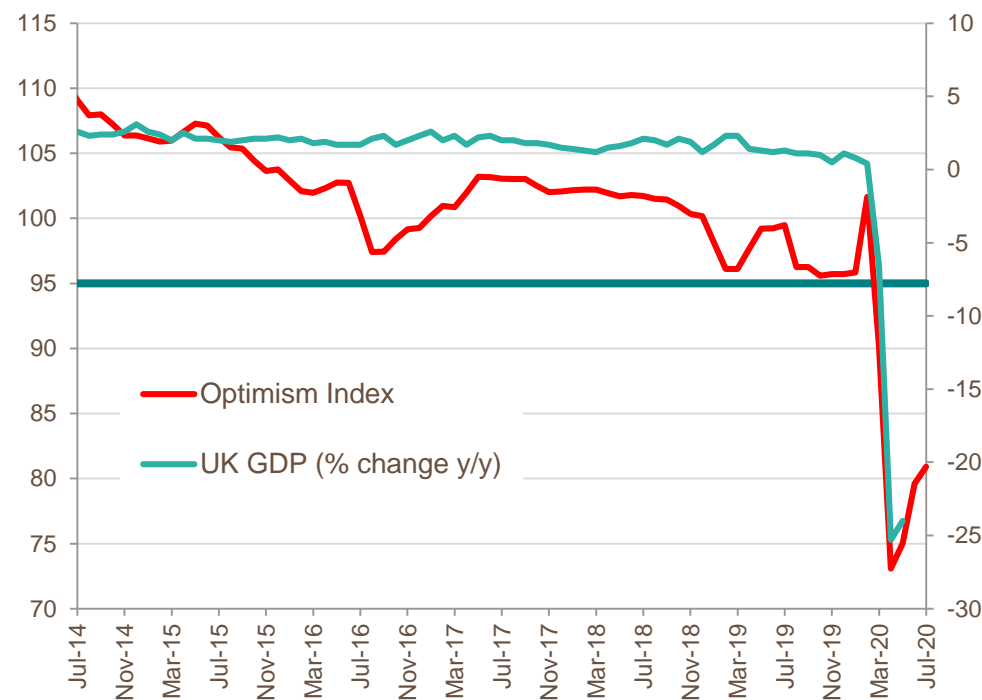
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

BUSINESS CONFIDENCE CONTINUES TO EDGE UP IN JULY

- The BDO Optimism Index climbed from 79.59 in June to 80.90 in July. This marks the third consecutive month in which business sentiment has improved, after it fell to an all-time record low during the height of the lockdown in April.
- The Manufacturing Optimism Index rose by 2.58 points to 82.59 in July, as surveys showed an increase in new order volumes associated with an uptick in domestic demand. Meanwhile, the BDO Services Optimism Index increased from 79.67 to 80.69 between June and July.
- Although business sentiment has become more positive in recent months, confidence remains extremely suppressed by historical standards. While a clearer picture has emerged of how the new normal will look, numerous uncertainties remain. Of particular concern to businesses will be the apparent resurgence of coronavirus cases in many parts of the world, including certain areas of the UK. Indeed, it is a tightening, rather than a loosening, of restrictions that appears more likely in the immediate term.
- Another significant concern to many businesses will be the progress of the Brexit negotiations, which remains limited as we move closer to the end of the transition period. The continued possibility of a no-deal outcome will likely weigh on the Optimism Index in the coming months.
- Manufacturers in particular will have been disheartened by the data emerging from the Eurozone and the US last week, which showed record GDP contractions in both economies in Q2. The IHS/Markit PMI survey found that export orders fell for the ninth consecutive month in July, suggesting that weak overseas demand has carried over into the third 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 RISES FOR SECOND CONSECUTIVE MONTH

- The BDO Inflation Index ticked up again last month, rising from 88.06 in June to 90.87 in July. This was driven primarily by the Input Inflation Index, which increased by 5.33 points to reach 85.93 in July. While the annual rate of input price inflation remains firmly in negative territory in July, the partial recovery of oil and other key commodity prices in recent months has helped to slow the rate of decline.
- The BDO Consumer Inflation Index rose from 95.52 in June to 95.81 in July. The VAT reduction for the hospitality sector came into force last month, which will have weighed on the rate of price growth in this sector. With that being said, it is an open question how much of this tax reduction will have been passed on to consumers given the intense pressures faced by businesses in this sector.
- The latest figures from the Office for National Statistics (ONS) showed that the annual rate of consumer price inflation (including owner occupiers' housing costs) increased by 0.1 percentage points to 0.8% in June. This followed four consecutive months of slowing price growth. The uptick in inflation reflects the increase in demand in certain sectors as the economy continued to re-open, as well as a reduction in volatility in global oil markets.
- The pound has made some gains against other major currencies in recent weeks, most notably the US dollar and Chinese yuan. This will suppress the cost of imported goods and services in the coming weeks. Overall, however, the BDO Inflation Index is expected to continue rising in the coming months, in line with a gradual recovery of demand and supply-side constraints in certain sectors.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



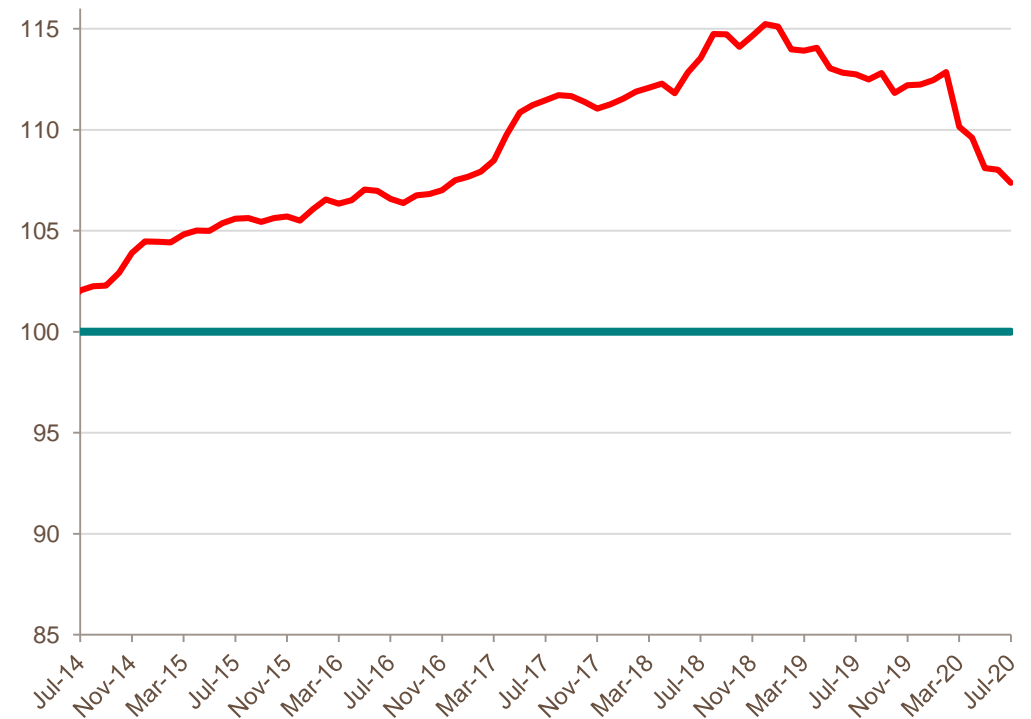
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT INDEX CONTINUES TO EDGE DOWN WITH STEEPER FALLS EXPECTED FOR Q4

- The BDO Employment Index fell for the fifth consecutive month, sinking to 107.37 in July from 108.03 the previous month. This is the lowest the Index has been since November 2016.
- Despite the falls of recent months, the movements of the Employment Index have been far less dramatic than in the other Indices that make up the BDO Business Trends report.
- Remarkably given the backdrop of the coronavirus-induced lockdown, the latest ONS figures show that the number of people classed as unemployed in the three months to May was 17,000 lower than between December 2019 and February 2020. However, this is due largely to a fall in the labour force participation rate, with the number of economically inactive people rising by 98,000 during the same period. As has been the case throughout the coronavirus pandemic, the relatively gentle movements in headline labour market measures belie a far more concerning economic environment.
- The Coronavirus Job Retention Scheme has provided a buffer between millions of workers and the economic downturn. As a result, labour market data so far reflect the calm before the storm. With the furlough scheme scheduled to terminate at the end of October, widespread layoffs are expected further down the road. The Cebr-Opinium Business Distress Tracker finds that only a third of businesses are confident that they will rehire all of their furloughed workers once government support is withdrawn. This would lead to very significant declines in the BDO Employment Index later in the year.

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

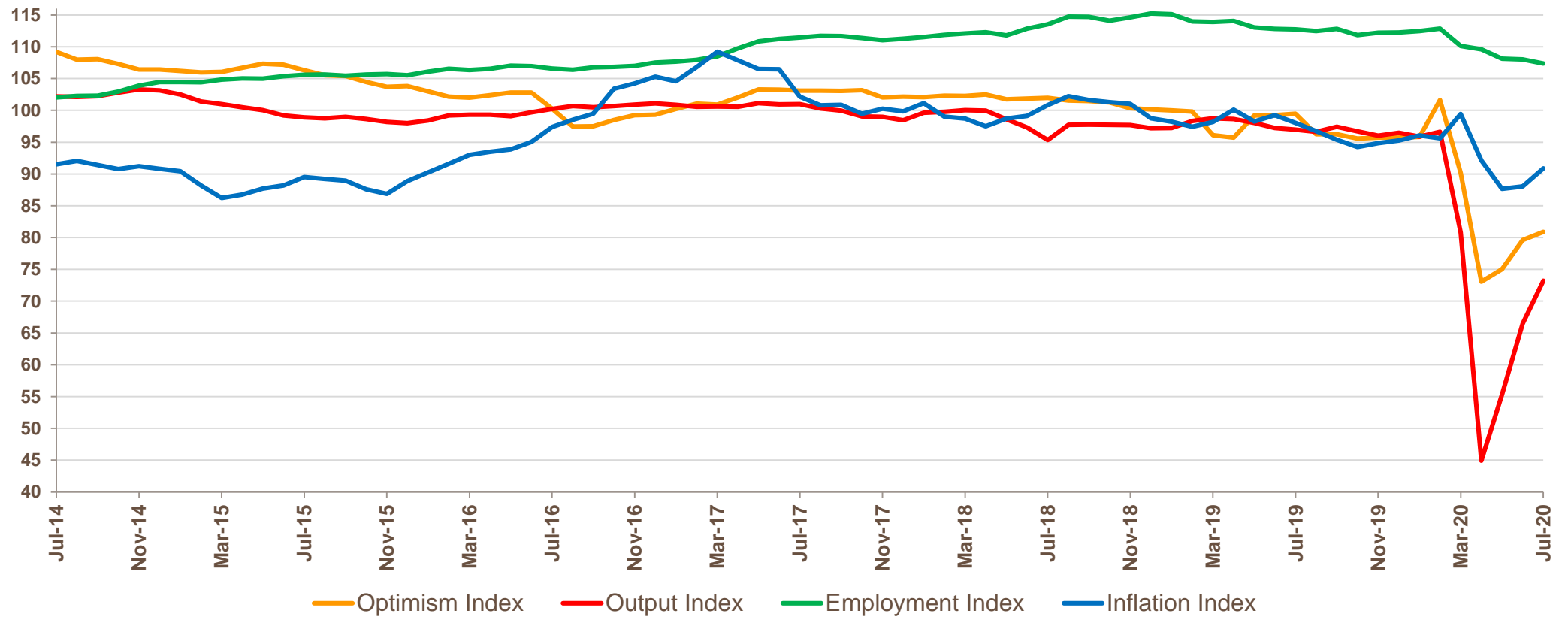
BDO INDICES TO LATEST MONTH

		Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
The BDO Optimism Index	Total	95.72	95.84	101.64	90.15	73.08	75.02	79.59	80.90
	Manuf.	95.64	95.69	95.82	93.11	71.53	75.85	79.01	82.59
	Service	95.73	95.86	102.38	89.77	73.27	74.92	79.67	80.69
The BDO Output Index	Total	96.47	95.88	96.64	80.77	44.90	55.34	66.50	73.20
	Manuf.	86.31	86.78	88.75	84.27	52.97	69.55	80.47	86.28
	Service	97.76	97.03	97.64	80.33	43.88	53.53	64.73	71.54
The BDO Inflation Index	Total	95.27	96.07	95.59	99.41	92.13	87.65	88.06	90.87
	Input	92.69	94.34	92.33	100.50	86.79	79.76	80.60	85.93
	Consumer	97.86	97.80	98.84	98.32	97.48	95.54	95.52	95.81
The BDO Employment Index	Total	112.25	112.46	112.86	110.15	109.61	108.11	108.03	107.37

APPENDIX: ECONOMIC ACTIVITY CONTINUES TO INCREASE IN JULY BUT PACE OF RECOVERY SLOWS

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.