

▶ A NEW ECONOMY
PUBLICATION

A red watering can is positioned in the upper left quadrant, tilted as if pouring. Four small, round terracotta pots containing various types of green succulents are arranged in a loose pattern across the lower half of the image. The background is a solid grey color, with a vertical red bar running down the center.

BDO MONTHLY BUSINESS TRENDS INDICES

September 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 October 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	▲	97.44 in September from 96.62 in August
BDO Optimism Index	X	▬	96.26 in September unchanged from August
BDO Inflation Index	XX	▼	95.36 in September from 96.75 in August
BDO Employment Index	✓	▲	112.81 in September from 112.50 in August

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 Business Trends Indices painted a mixed picture in September. While the BDO Optimism Index was unchanged from August, the BDO Output Index rose from a 13-month low during the last month and the BDO Employment Index also ticked up. The BDO Inflation Index was the only measure to record a decline in September.

The BDO Output Index recovered some ground in September after falling for five consecutive months to hit a 13-month low in August. A further fall in the Manufacturing Output Index was more than offset by a gain on the Services Output Index.

The BDO Optimism Index was flat from August to September as the Services Optimism Index recorded a marginal gain that wiped out the impact of a small fall in the Manufacturing Index. This leaves the level of Optimism among UK manufacturers well below the long term average.

The BDO Inflation Index fell back by 1.39 points to 95.36 in September, its lowest level since June 2016. The BDO Input Inflation Index led the overall Index lower as the pound regained strength following declines earlier in the summer.

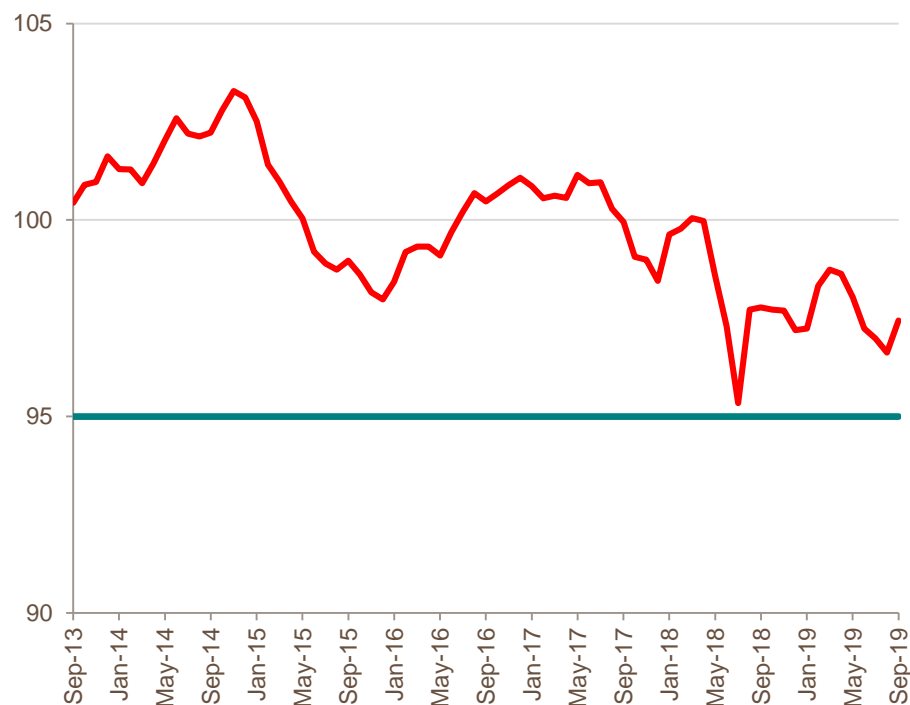
The BDO Employment Index rose by 0.31 points to 112.81 in September, the first rise in 9 months. The labour market remains extremely tight although lower productivity and higher wage costs are now keeping hiring intentions in check.

OUTPUT INDEX TURNS POSITIVE IN SEPTEMBER DESPITE CONTINUED MANUFACTURING DECLINE

- The BDO Output Index rose by 0.81 points, to 97.44, in September. Despite the increase overall, the BDO Manufacturing Index fell by 0.87 points month-on-month to 88.00, from 88.87 in August. Although the pace of decline is slowing, having averaged 2.10 across the last four months, the BDO Manufacturing Output Index has now decreased every month for a year.
- The latest official data on UK manufacturing output show that in July, firms produced a similar volume of goods to the same month in 2017. The latest Output Index suggests that the approaching Brexit deadline may not provide a boost to the manufacturing sector. This stands in contrast to the widespread stockpiling that took place in February and March bringing output forward in the short-term to mitigate any potential disruption caused by no-deal.
- The BDO Services Output Index rose by 1.02 points to 98.63 in September. Following a tense period for many businesses around the original Brexit deadline in March service activity slowed down in the second quarter. With the level of preparedness for a potential no-deal Brexit improving, some of the volatility caused by the uncertainty has also subsided.
- Consequently, output within the services sector will more closely reflect the performance of its constituent industries. For instance, high-street retailers that have so far failed to adapt to competition from online, exemplified by the collapse of Thomas Cook, may continue to struggle while the information and communication industries grow more strongly.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



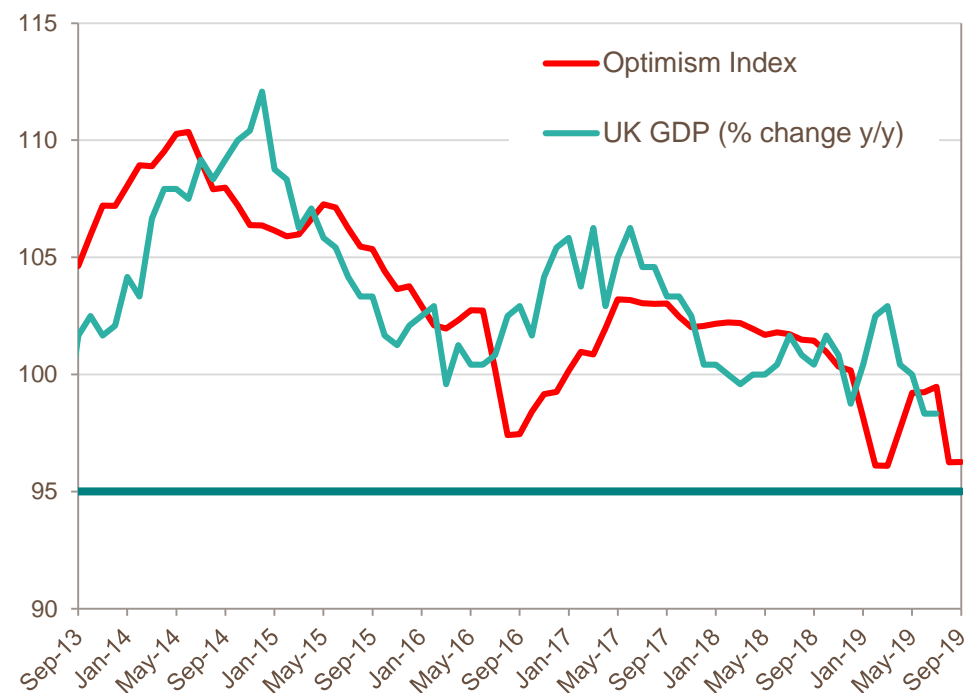
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

IMPROVED SERVICES OPTIMISM NEGATED BY WEAKER SENTIMENT IN MANUFACTURING

- The BDO Optimism Index was unchanged from August, at 96.26 in September. Although the headline index was flat, the manufacturing and services confidence indices moved in opposite directions to offset one another.
- The latest BDO Manufacturing Optimism Index fell slightly in September, dropping 0.12 points following strong gains in July and August of 2.18 and 2.11 points, respectively. The sector saw a surge in optimism after the Article 50 deadline was extended in April and the UK began pressing for a new deal with the EU. But the recovery has only been partial and, at 102.16, the Manufacturing Optimism Index remains well down on the reading of 108.48 recorded in the same month last year.
- Manufacturing businesses must now consider the outlook for the sector if they sit outside of trading arrangements that fostered the development of EU-wide supply chains. Although Parliament has now legislated to avoid the disruption of a no-deal, the manufacturing sector in the UK may soon lose access to the EU single market with a more limited free trade deal a likely long term replacement to the current arrangements.
- In the context of a slowing domestic and global economy the route to growth for UK businesses looks diminished. The BDO Services Optimism Index had collapsed by 3.89 points in August to leave the sector's optimism score at 95.49. This remains the case in September following a marginal improvement of just 0.03 points, to 95.52.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



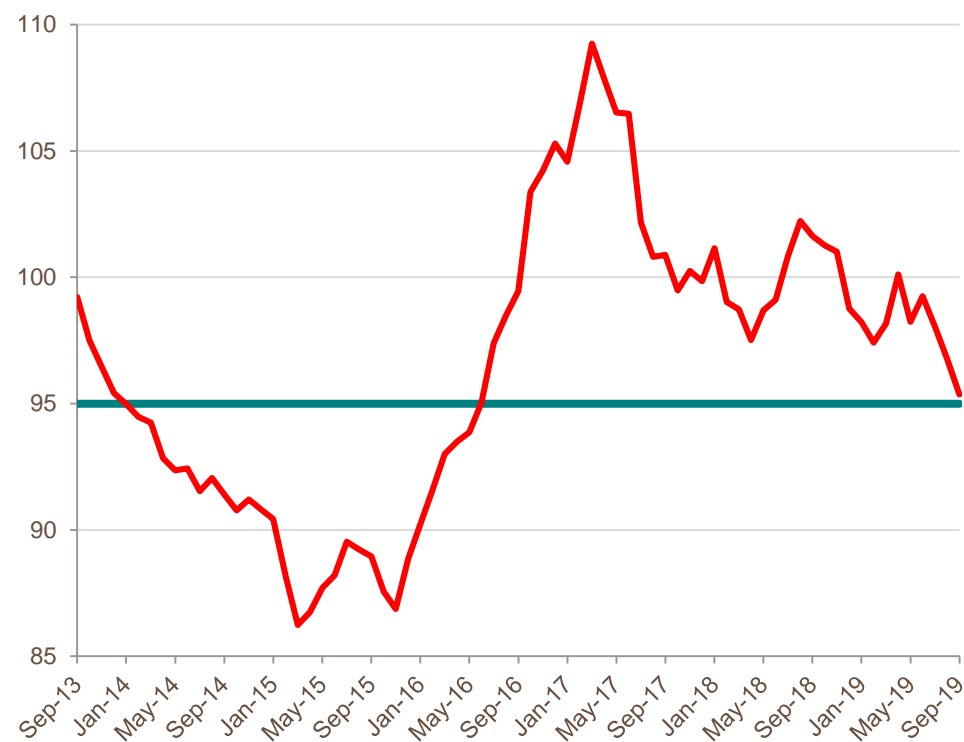
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

CONSUMER PRICES FALL BACK WHILE STRONGER POUND EASES IMPORT COSTS

- The BDO Inflation Index fell by 1.39 points to 95.36 in September. This is the lowest level for the Inflation Index since June 2016. This was the month of the EU referendum which led to a rapid depreciation of the pound and caused the Index to spike during 2017.
- For the third consecutive month the main driver of the decline was the BDO Input Inflation Index which fell 2.37 points to 91.86. The BDO Consumer Inflation Index also fell by 0.41 points in September to 98.87.
- The effect of changes in the exchange rate on consumer prices can take a long time to materialise and some of the recent reduction in price pressure can be attributed to the final effects of the 2016 depreciation of sterling falling out of the inflation calculations.
- For producers that rely on imported materials the impact of the exchange rate has more immediate consequences. The value of the pound has recovered from the weakness experienced through the summer, relieving some of the cost pressure felt by importers.
- Annual consumer price inflation fell faster than expected in August, slowing by 0.4 percentage points compared to July, to stand at 1.7% on the CPI measure. Changes in the cost of games and clothing & footwear helped lower the headline rate of inflation as retailers compete for business among consumers that are lacking the confidence to spend.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



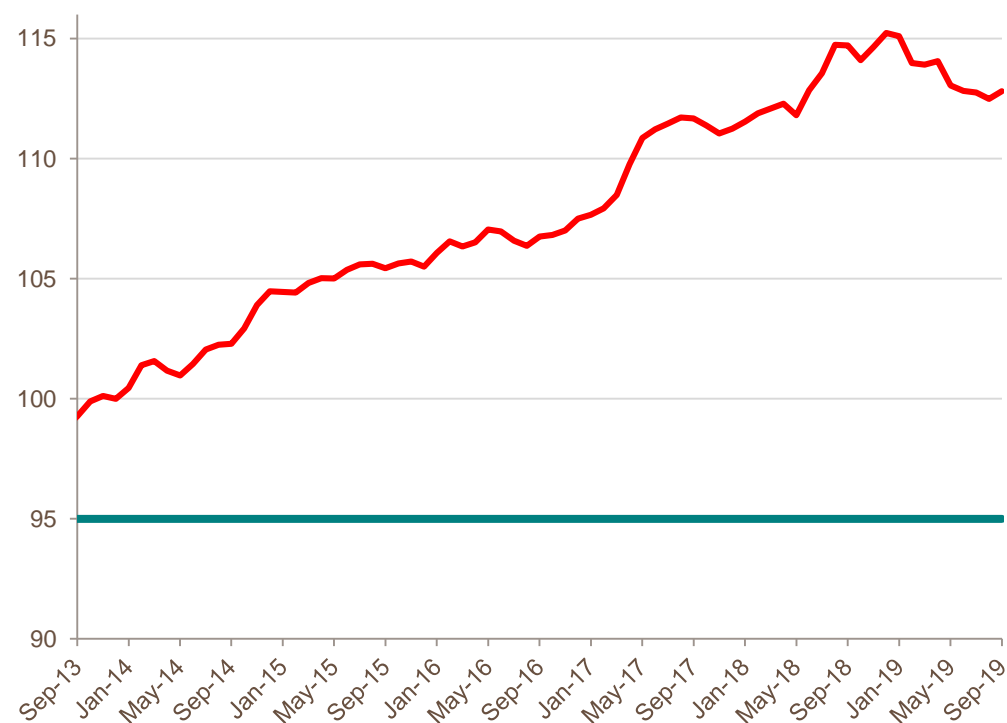
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT INDEX RISES FOR THE FIRST TIME IN 2019

- The BDO Employment Index rose for the first time in 9 months in September, increasing by 0.31 points to 112.81, up from 112.50 in August.
- The improvement in the Index reflects the continued strength of a labour market that boasted a joint-record high employment rate in the three-months to July. A historically low unemployment rate and falling share of part-time workers both indicate a labour market with very little slack.
- The most recent data on labour productivity indicate that the annual change in output per hour worked declined for the third consecutive quarter in Q1 2019. The tight labour market has also entrenched solid wage growth, with average weekly earnings growing by 4.0% year-on-year in the three-months to July. Taken together, higher wages costs and poor productivity growth makes taking on additional staff seem a costly way to expand.
- Consequently, forward looking surveys indicate that employers are now less confident about further hiring. This effect is reflected in the number of job vacancies in the UK which fell 33,000 in the three months to July 2019 compared to the same period in the previous 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

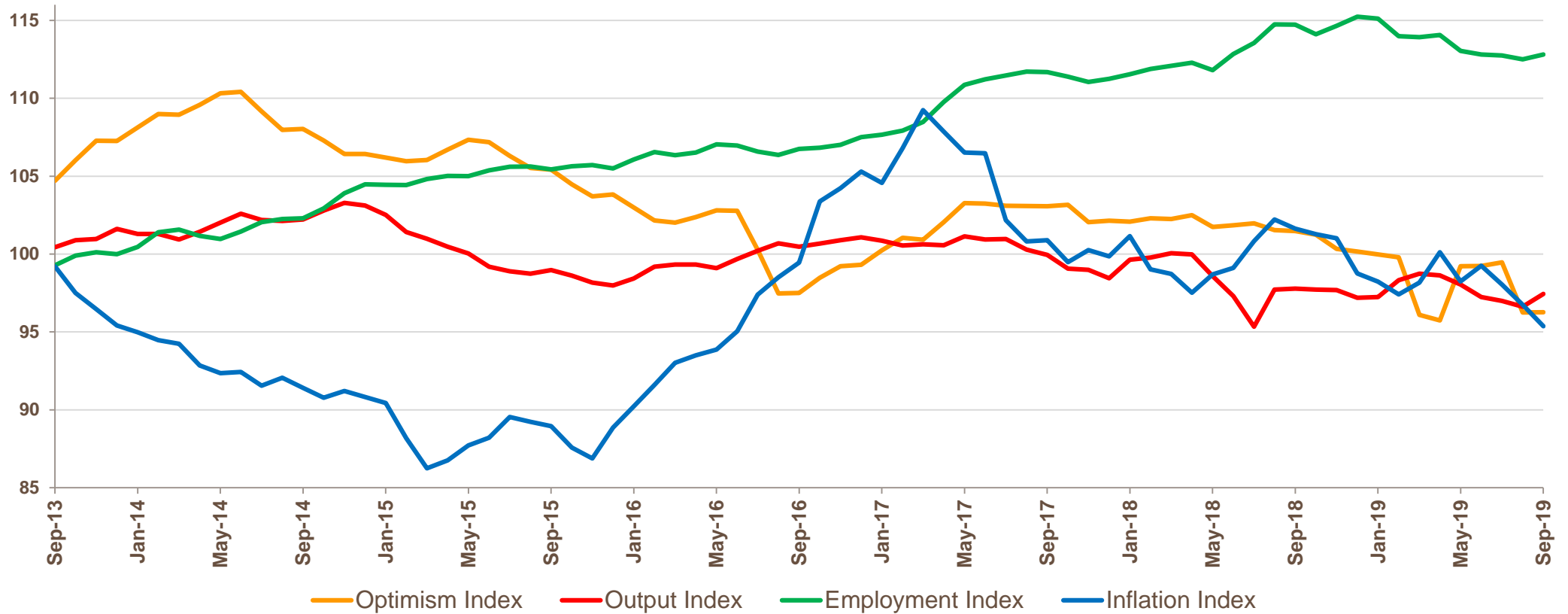
BDO INDICES TO LATEST MONTH

		Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
The BDO Optimism Index	Total	99.79	96.10	95.74	99.22	99.23	99.47	96.26	96.26
	Manuf.	103.84	103.73	101.09	98.26	97.99	100.17	102.28	102.16
	Service	99.28	95.13	95.06	99.34	99.39	99.38	95.49	95.52
The BDO Output Index	Total	98.32	98.74	98.63	98.04	97.24	96.99	96.62	97.44
	Manuf.	97.36	97.32	97.27	95.91	92.83	90.62	88.87	88.00
	Service	98.44	98.92	98.80	98.31	97.80	97.79	97.61	98.63
The BDO Inflation Index	Total	97.41	98.17	100.11	98.24	99.25	98.04	96.75	95.36
	Input	95.75	97.45	101.20	96.72	98.84	96.99	94.23	91.86
	Consumer	99.06	98.90	99.42	99.75	99.66	99.08	99.28	98.87
The BDO Employment Index	Total	113.99	113.92	113.61	113.05	112.82	112.76	112.50	112.81

APPENDIX: OPTIMISM INDEX FLAT DESPITE EMPLOYMENT AND OUTPUT INDICES RISING IN SEPTEMBER

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.