

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

September 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 October 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	▲	77.95 in September from 76.94 in August
BDO Optimism Index	X	▲	89.31 in September from 86.44 in August
BDO Inflation Index	X	▲	94.46 in September from 94.06 in August
BDO Employment Index	XX	▼	109.46 in September from 109.69 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 Output, Inflation and Optimism Indices all increased between August and September. This was the fifth consecutive monthly increase for the output and optimism indices and the fourth consecutive monthly increase for the inflation index. Meanwhile, the BDO Employment Index continued to buck the trend set by the other indices, and fell between August and September.

The BDO Output Index rose by 1.01 points to stand at 77.95 in September. The reopening of schools at the start of September will have allowed more employees to go into workplaces, with childcare placing less of a burden on families, which will have raised output.

The BDO Optimism Index increased from 86.44 in August to 89.31 in September. This represents a loss of momentum compared to the much larger rise in optimism of 5.54 points in the month of August. Coronavirus cases began to rapidly rise in September, which will have caused many businesses to feel more cautions about the future.

The BDO Inflation Index rose from 94.06 in August to 94.46 in September, now standing just 0.54 points below the 95-mark that represents zero year-on-year growth of prices. Energy costs, which have been suppressed by low oil prices since the beginning of the coronavirus crisis, are keeping inflation subdued. Despite the ongoing challenges to the global economic recovery, there has been a gradual recovery of commodities demand, which is driving the rise in the index.

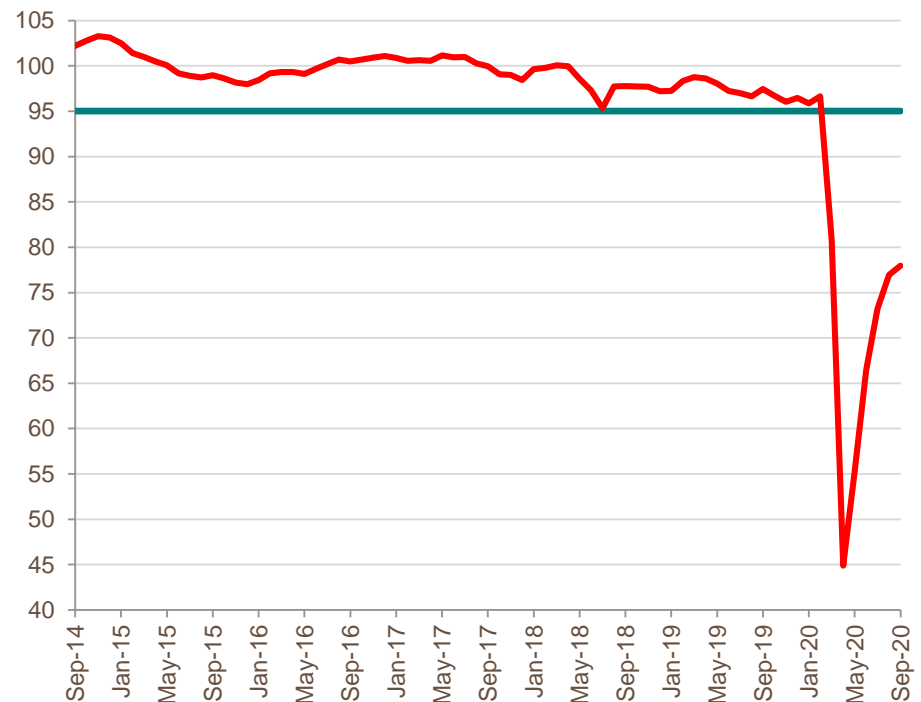
The BDO Employment Index moved in the opposite direction to the other three Business Trends Indices in September, falling to 109.46. The requirements for businesses to contribute an increasing share of the wages of furloughed employees as the Coronavirus Job Retention Scheme is being phased out has resulted in rising redundancies figures in recent months. The Job Support Scheme, which will replace the current furlough scheme from 1 November, will be considerably less generous for employers, further weighing on the employment outlook for the fourth quarter.

OUTPUT RECOVERY CONTINUES IN SEPTEMBER, ALTHOUGH AT SLOWER PACE

- The BDO Output Index saw a fifth consecutive monthly gain in September, rising by 1.01 points to stand at 77.95. However, this is a smaller gain than the 3.74 seen between July and August, suggesting that the economic recovery is losing momentum.
- The BDO Services Output Index rose from 75.36 in August to 76.32 in September. In August, the sector had seen a boost from the Eat Out to Help Out scheme, which offered discounts on meals eaten in restaurants and cafes. Many restaurants continued to offer discounts in September, in an attempt to keep sales up, which will have added to output in the latest index figures, although not offering quite the same-sized boost as in August.
- The rising coronavirus infection numbers throughout September are likely another reason for the slowdown in the recovery, with stricter social distancing measures such as the 'rule of six' having a dampening effect on demand in the leisure and hospitality sectors.
- The BDO Manufacturing Index recorded an increase last month, rising from 89.41 in August to 90.88 in September.
- Schools in the UK opened again in September, with many children returning for the first time since March. This will have allowed a number of parents to return to work, now that childcare does not mean they have to stay at home during the day. Therefore, in industries where it is harder to work from home, the reopening of schools will have allowed more employees to go into workplaces, raising output.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



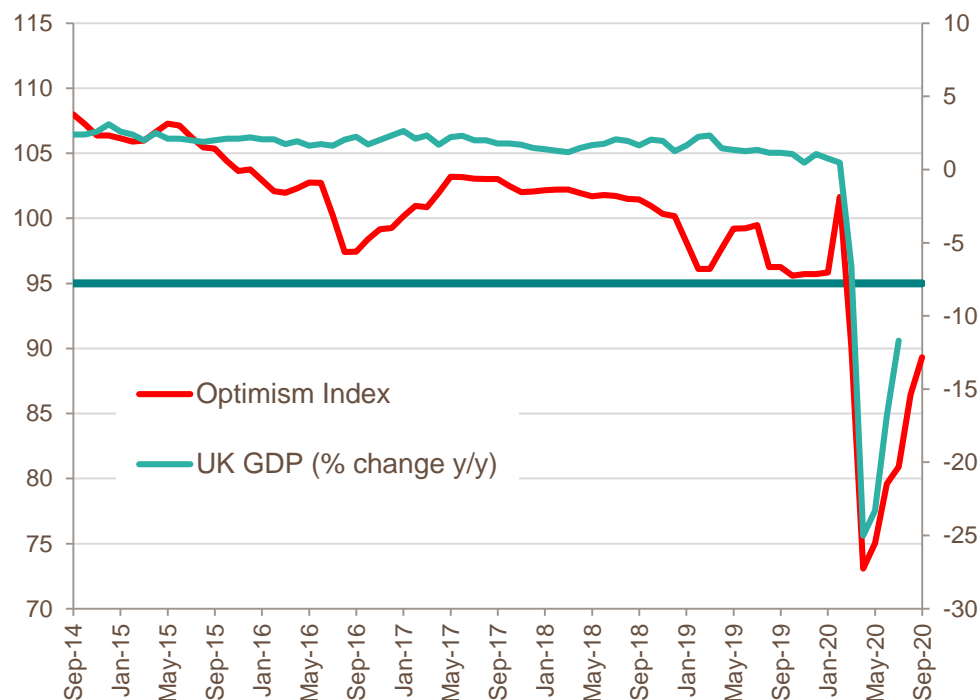
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

OPTIMISM RISES AS SCHOOLS REOPEN, ALTHOUGH MOMENTUM SLOWED COMPARED TO AUGUST

- The BDO Optimism Index increased from 86.44 in August to 89.31 in September. Although this marks the fifth consecutive monthly rise, it is much smaller than the 5.54 point rise in August, pointing to a loss of momentum in the optimism index.
- The BDO Services Optimism Index rose to 89.96 in September. Meanwhile, the BDO Manufacturing Optimism Index fell slightly, to 84.17. At the beginning of the month, many employers were encouraging their employees to gradually return to workplaces. However, following a rise in COVID-19 cases, restrictions were ramped up throughout the month, including people being encouraged to work from home again where possible.
- To try and limit the spread of coronavirus as we head into Autumn, social gatherings of more than six people were made illegal from 14 September. Later in the month, it was announced that pubs and restaurants in England must close at 22:00 from Thursday 24 September and be restricted to table service only by law. There have also been even tighter restrictions placed on specific areas of the country in the form of 'local lockdowns'.
- These tightening restrictions will have limited the rise in optimism recorded in September, and are likely to dampen optimism for the foreseeable future.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



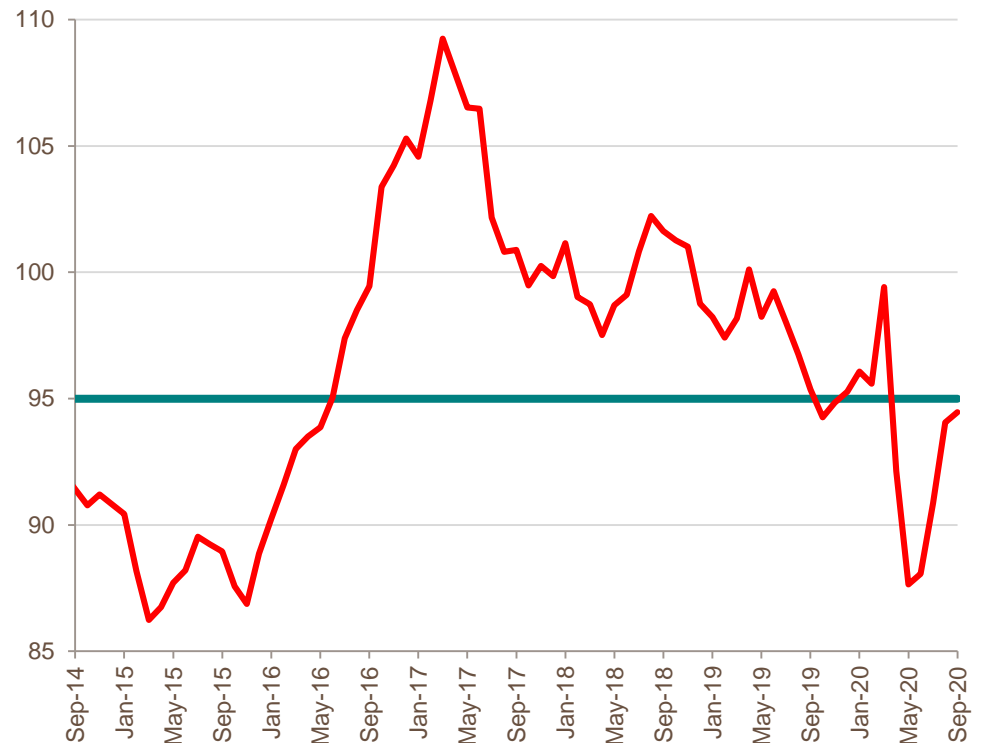
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION CONTINUES TO EDGE TOWARDS 95-MARK

- The BDO Inflation Index rose from 94.06 in August to 94.46 in September, now standing just 0.54 points below the 95-mark that represents zero year-on-year growth of prices.
- The BDO Consumer Price Index fell slightly, to stand at 96.67. However, the overall index increased, thanks to a rise of 1.06 points in the BDO Input Inflation Index, which reached 92.26.
- The BDO Inflation Index remains below the 95-mark largely thanks to energy costs, which have been suppressed by low oil prices since the beginning of the coronavirus crisis. This is despite a gradual recovery of demand, which is driving the rise in the index.
- According to the Office for National Statistics, inflation has been very difficult to measure amid the crisis. Yet, in line with the lifting of restrictions, and hence the reopening of many such businesses, the number of unobservable price points has fallen from a peak of 90 in April to just 8 in August. As such, there has been an easing of methodological difficulties in the latest data points, though the outlook for inflation continues to be one of the most uncertain of all economic indicators.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



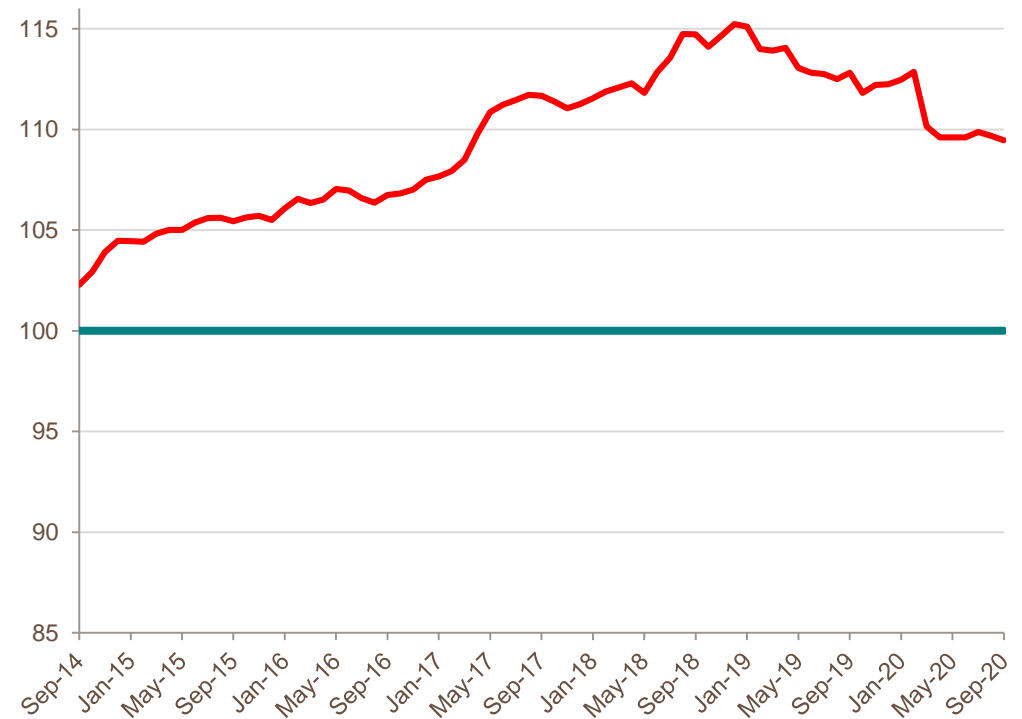
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

FALL IN EMPLOYMENT INDEX REVEALS STRUGGLING LABOUR MARKET

- The BDO Employment Index moved in the opposite direction to the other three Business Trends Indices in September, falling by 0.23 points to 109.46.
- The labour market has been shielded from the economic effects of the coronavirus crisis by the government's Coronavirus Job Retention Scheme (CJRS), allowing the BDO Employment Index to remain positive. Yet, the scheme has been gradually requiring employers to cover an increasing share of their workers' wages, and will draw to a close at the end of October. This easing of government support has driven the decline in the index in recent months.
- Large numbers of lay-offs are likely to take place in the weeks after the government support is withdrawn. Indeed, the latest redundancy statistics from the Office for National Statistics already show that both the quarterly and annual rises in the data were the largest seen since 2009 in the three months to July. Redundancies increased by 48,000 compared to the three months to April.
- In an attempt to support the labour market once the CJRS ends, a new Job Support Scheme will commence in November. Under the new scheme, workers must do at least one-third of normal hours, and the government and employer will pay one-third each of the wages for the hours not worked. This is much less attractive to employers than the current furlough scheme, as they will have to pay for more hours than they are receiving from their employees. Also, there is no support for employees who can't work. In industries where it is easy to hire new part-time workers or where employers don't have a strong interest in retaining the skills of their workforce, take-up of the new scheme is likely to be limited.

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

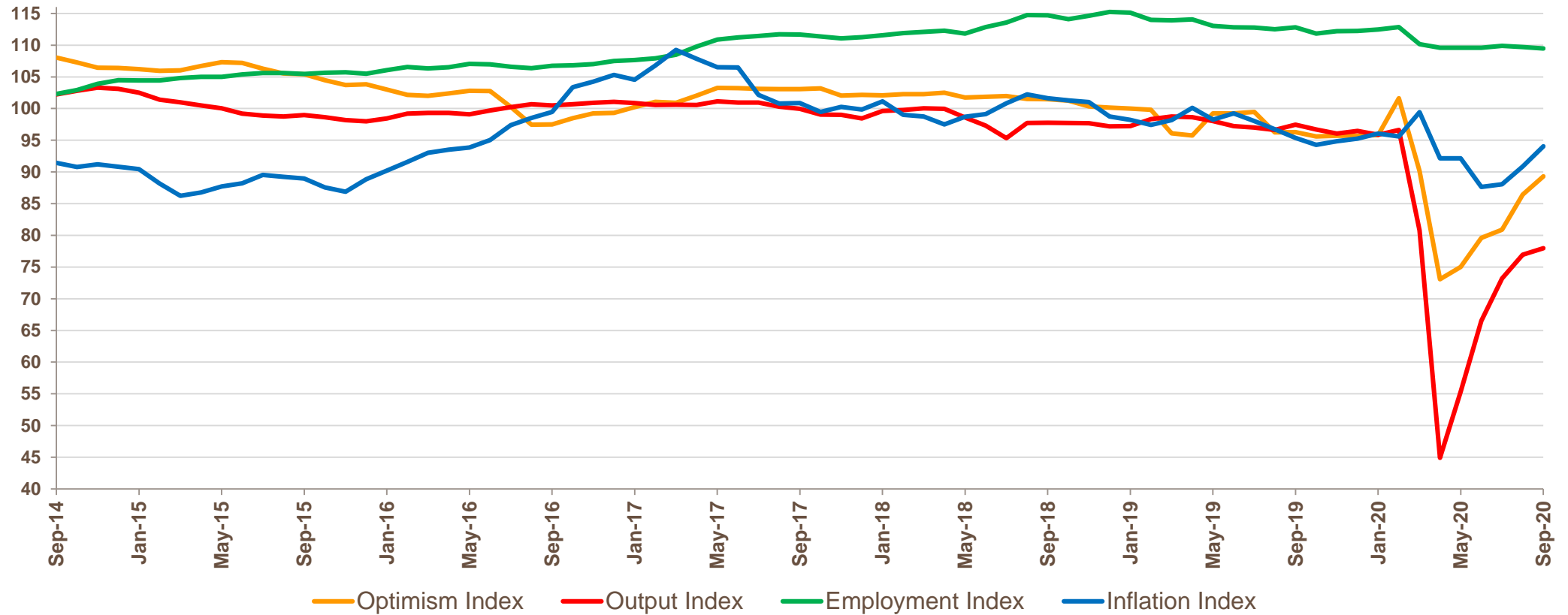
BDO INDICES TO LATEST MONTH

		Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
The BDO Optimism Index	Total	101.64	90.15	73.08	75.02	79.59	80.90	86.44	89.31
	Manuf.	95.82	93.11	71.53	75.85	79.01	82.59	84.18	84.17
	Service	102.38	89.77	73.27	74.92	79.67	80.69	88.25	89.96
The BDO Output Index	Total	96.64	80.77	44.90	55.34	66.50	73.20	76.94	77.95
	Manuf.	88.75	84.27	52.97	69.55	80.47	86.28	89.41	90.88
	Service	97.64	80.33	43.88	53.53	64.73	71.54	75.36	76.32
The BDO Inflation Index	Total	95.59	99.41	92.13	87.65	88.06	90.87	94.06	94.46
	Input	92.33	100.50	86.79	79.76	80.60	85.93	91.20	92.26
	Consumer	98.84	98.32	97.48	95.54	95.52	95.81	96.93	96.67
The BDO Employment Index	Total	112.86	110.15	109.61	109.61	109.61	109.88	109.69	109.46

APPENDIX: SERVICES OPTIMISM INDEX CONTINUES TO IMPROVE 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.