

A red watering can is positioned in the upper left quadrant, tilted as if pouring. Four small, round terracotta pots containing various green succulents are scattered across the grey background. 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

October 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 November 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	▼	96.69 in October from 97.44 in September
BDO Optimism Index	XX	▼	95.59 in October from 96.26 in September
BDO Inflation Index	XX	▼	94.25 in October from 95.36 in September
BDO Employment Index	✓	▼	111.82 in October from 112.81 in September

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 turned down across all categories in October. The BDO Optimism Index fell back to a seven-year low while the Output Index failed to gather momentum from a rise last month and gave up most of its September gains. The BDO Inflation and Employment Indices also both fell back in October.

In October, the BDO Output Index was unable to maintain the uptick recorded in September and dropped back to 96.69, only 0.07 points above the 13-month low point recorded in August. Contributing to the overall decline, both the BDO Manufacturing and Services Output Indices fell.

The BDO Optimism Index was down by 0.68 points in October and now stands at 95.59. This is the lowest level for the Index since March 2012. Although Optimism fell among both manufacturers and service providers, the BDO Manufacturing Optimism Index made the larger fall, dropping by 3.39 points compared to September.

The BDO Inflation Index fell back by 1.11 points to 94.25 in September, its lowest level since May 2016. The BDO Input Inflation Index led the way down for the second consecutive month, falling by 2.05 points as weaker global demand holds back commodity prices.

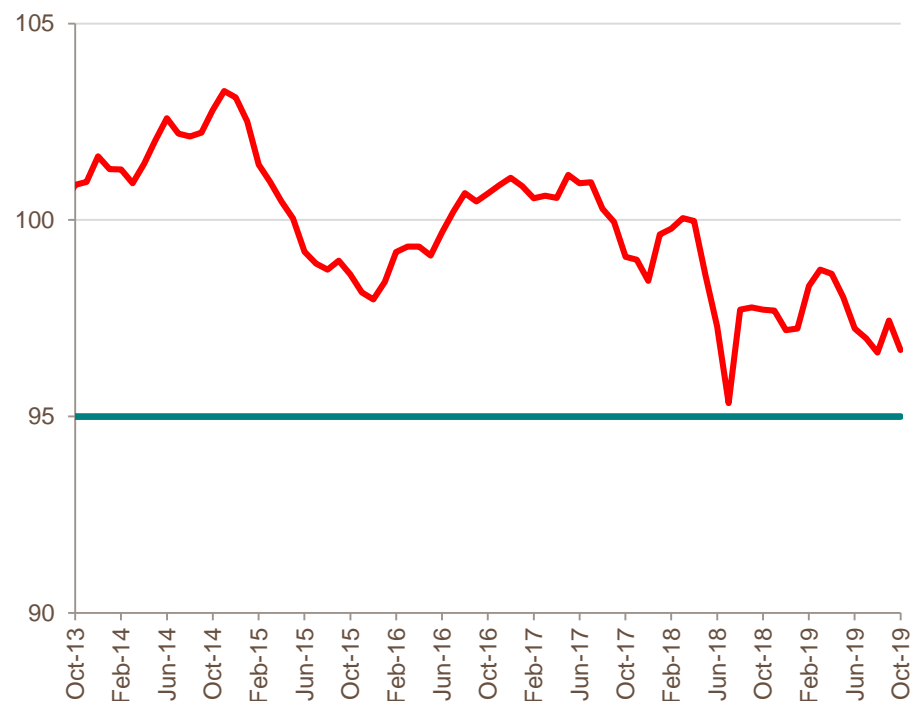
The BDO Employment Index fell by 0.99 points to stand at 111.82 as the labour market shows signs of having reached its peak. The combined impact of higher wage and slower economic growth are working to reduce hiring sentiment.

OUTPUT INDEX FALLS IN OCTOBER, REVERSING SEPTEMBER GAINS

- The overall BDO Output Index fell by 0.75 points, to 96.69, in October. The BDO Manufacturing Index fell by 0.90 points to 87.10, from 88.00 in September. The Manufacturing Index has now fallen for 13 consecutive months as UK manufacturers battle multiple headwinds. The BDO Services Output Index also fell in October, dropping by 0.72 points to 97.91, reversing most of the 1.02 gain recorded last month.
- The latest GDP data, for the three months to August showed a relatively robust 0.3% growth compared to the previous three month period. The boost to activity over the summer reflected a low base, as a period of Brexit induced volatility saw output fall during the second quarter of 2019. Following September's brief increase, a further dip in the BDO Output Index indicates that this growth boost is likely to be short-lived.
- Indeed, the latest ONS data on UK manufacturing output show the sector continued to decline into the third quarter. Weak global demand and Brexit based uncertainty have continued to cloud the horizon for manufacturers both at home and abroad. However, while the March Brexit deadline brought forward output, boosting GDP numbers, the prospect of a departure on 31 October was not sufficient to raise production this time around.
- Consumer facing service industries also face weakening demand as risk averse households steer clear of additional borrowing. Data from the Bank of England indicated that in September, credit growth of £0.8 billion lagged behind the monthly average of £1.1 billion recorded since July 2018.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



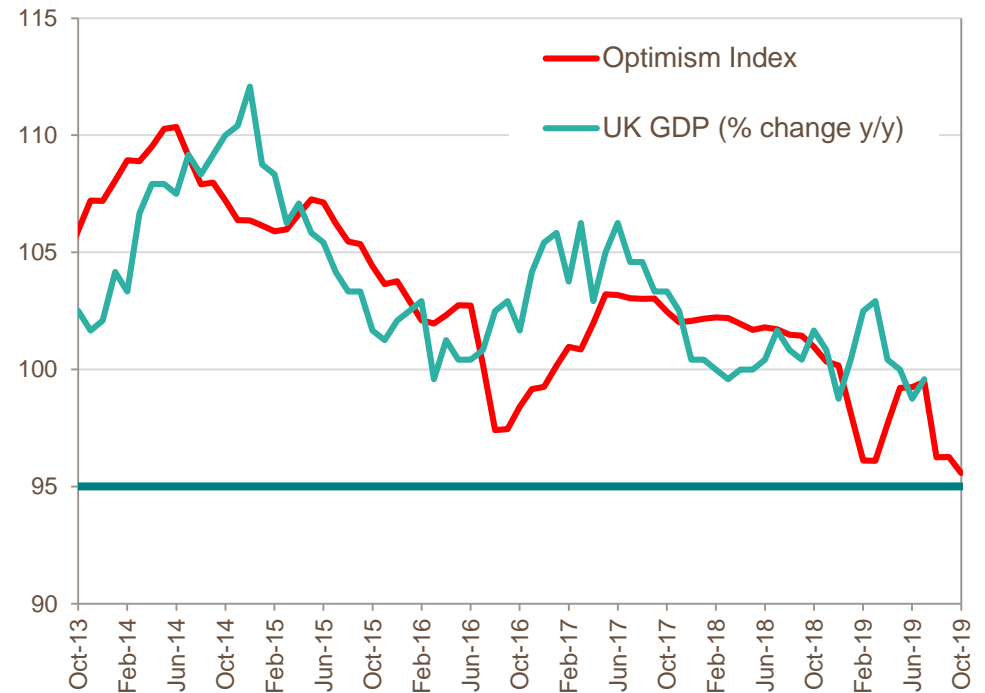
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

SYNCHRONISED DECLINE LEADS BDO OPTIMISM INDEX TO A SEVEN YEAR LOW IN OCTOBER

- The BDO Optimism Index fell by 0.68 points in October to stand at 95.59. This is the lowest level for the Index since March 2012. Both the manufacturing and services output indices fell compared to September.
- The BDO Manufacturing Optimism Index recorded a rapid decline in October, falling 3.38 points to stand at 98.78 after a summer in which confidence had been buoyed by avoiding a no-deal Brexit in March. Confidence in the service sector also turned down month-on-month, falling by 0.34 points compared to September, to 95.18. Even though both have individually seen lower levels during the course of 2019 a synchronised decline in the manufacturing and service indices brings the overall BDO Optimism Index to its lowest level for over seven years.
- The worst fears over Brexit may now be subsiding and crashing out of the EU now looks a slim prospect. However, even as no deal became a more distant prospect during October it has remained apparent that the most likely course for exiting the EU will mean exporters trading with Europe on less favourable terms in the years to come, through a more limited free trade agreement.
- However, progress towards resolving Brexit came at the cost of more widespread political instability. As the government lost its majority in Parliament the likelihood of a general election rose. With a date for the poll now set for 12 December, the potential for more widespread changes to domestic policy and taxes will inevitably hold sway over business sentiment in the final quarter of the year.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



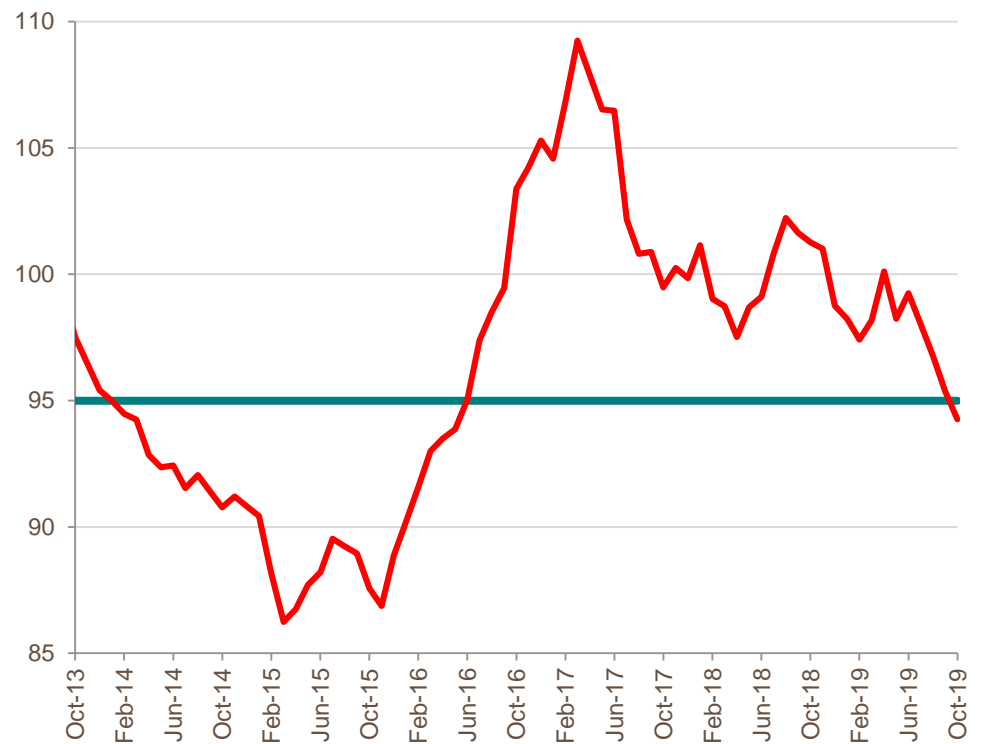
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

OCTOBER INPUT INFLATION DROPS BACK ON SLOW GLOBAL GROWTH

- The BDO Inflation Index fell by 1.11 points to 94.25 in October. This brings the index to its lowest level since May 2016, the month before the EU referendum, the outcome of which drove the pound down causing a spike in import inflation that has taken two years to subside.
- The main driver of the more recent decline was the BDO Input Inflation Index which fell 2.06 points compared to September and now stands at 89.80. This was the fourth consecutive month in which this measure has fallen, with an average monthly decline of 2.26 points. The BDO Consumer Inflation Index also slipped back by a more modest 0.16 points in October to 98.71.
- Annual consumer price inflation was unchanged in September, standing at 1.7% on the CPI measure following an unexpected 0.4 percentage point fall during August. The falling cost of electricity, gas and motor fuels offset price rises among restaurants & hotels and recreation & cultural activities like concert and theatre tickets. Notably, the sectors with the fastest price increases are labour intensive, suggesting businesses may be feeling squeezed into raising prices by higher wages.
- The fall in the input prices reflects the decline in global prices for some raw materials, especially oil. The slowdown in global demand - as protectionism in the US has taken its toll on trade - is holding back economic growth worldwide and helping to keep some key commodity prices lower.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



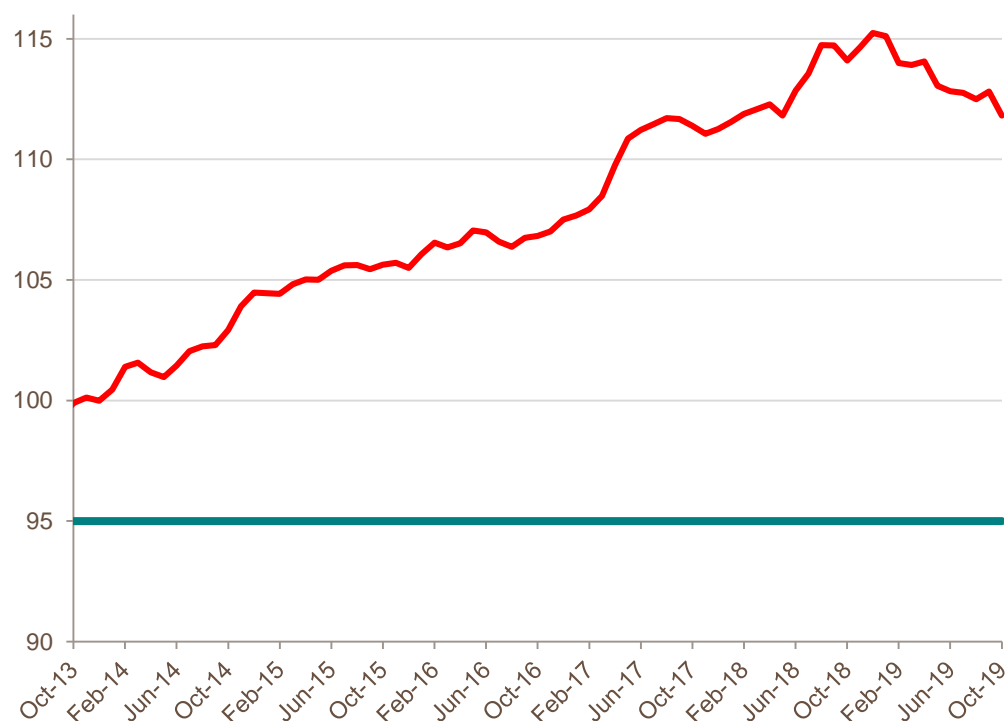
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT INDEX RETURNS TO DOWNWARD TREND IN OCTOBER

- A 0.99 point fall in in October leaves the BDO Employment Index standing at 111.82, its lowest level since May 2018. This more than offsets the 0.31 point gain recorded in September, when the index rose for the first time in 2019.
- While surveys have shown hiring sentiment was waning for some time, the BDO employment Index peaked in December 2018, the official statistics are now beginning to reflect changes on the ground. Indeed, labour market figures from the Office for National Statistics showed that the number of employed people fell by 56,000 and unemployment rate rose in the three months to August.
- In fact the employment rate has come off its joint highest level, dropping back by 0.2 percentage points to 75.9% over the same time period. While this is still strong by historical standards, the end to what had been persistently strong labour market data in the face of a softening economy is telling.
- For firms in the grip of economic uncertainty over recent years, a strategy to avoid costly long-term capital investment was to expand through hiring. With the supply of labour now limited, attracting new staff is becoming more costly and average weekly earnings rose by 3.8% in the three months to August. As the economy weakens, the number of businesses willing to pay this premium to expand headcount further is likely to decline, dragging employment and wage growth lower.

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

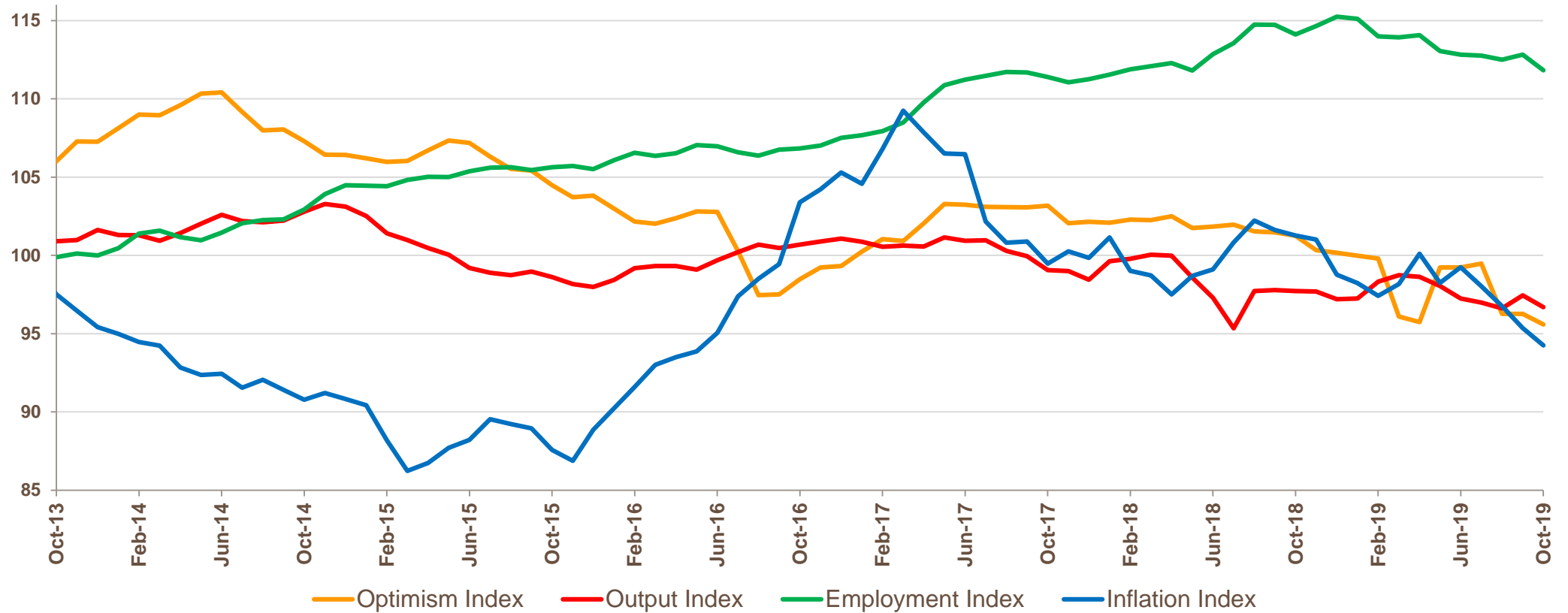
BDO INDICES TO LATEST MONTH

		Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
The BDO Optimism Index	Total	96.10	95.74	99.22	99.23	99.47	96.26	96.26	95.59
	Manuf.	103.73	101.09	98.26	97.99	100.17	102.28	102.16	98.78
	Service	95.13	95.06	99.34	99.39	99.38	95.49	95.52	95.18
The BDO Output Index	Total	98.74	98.63	98.04	97.24	96.99	96.62	97.44	96.69
	Manuf.	97.32	97.27	95.91	92.83	90.62	88.87	88.00	87.10
	Service	98.92	98.80	98.31	97.80	97.79	97.61	98.63	97.91
The BDO Inflation Index	Total	98.17	100.11	98.24	99.25	98.04	96.75	95.36	94.25
	Input	97.45	101.20	96.72	98.84	96.99	94.23	91.86	89.80
	Consumer	98.90	99.42	99.75	99.66	99.08	99.28	98.87	98.71
The BDO Employment Index	Total	113.92	111.79	111.31	112.82	112.76	112.50	112.81	111.82

APPENDIX: ALL FOUR BDO BUSINESS TRENDS INDICES FALL IN OCTOBER

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.