

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**

January 2020

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# 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 February 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	XX	▼	95.88 in January from 96.47 in December
BDO Optimism Index	X	▲	95.84 in January from 95.72 in December
BDO Inflation Index	X	▲	96.07 in January from 95.27 in December
BDO Employment Index	✓	▲	112.46 in January from 112.25 in December

KEY: ✓ = above 100; ✓✓ = above 100 and (joint) highest in 12 months  
X = below 100; XX = below 100 and (joint) lowest in 12 months

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## KEY FINDINGS

Three of the four BDO Business Trends Indices rose in January, with just the BDO Output Index recording a decline. The BDO Optimism, Inflation and Employment Indices all recorded small improvements compared to December.

The BDO Manufacturing Output Index recorded an increase for the first time since September 2018, to stand at 86.78. This was offset by a decline in the BDO Services Output index, causing the combined BDO Output Index to slip back from 96.47 to 95.88. Despite a month-on-month improvement, the Manufacturing Index indicates the industry is still struggling, with the January score languishing well below the no-change mark of 95.

The BDO Optimism Index rose by 0.12 points in January and now stands at 95.84. Optimism rose among both manufacturing and service sector firms for the first time since June 2018.

The BDO Inflation Index rose by 0.8 points in January, moving the index up to 96.07. Even though the headline inflation index rose, the Consumer Inflation Index slipped back slightly as consumer price growth slowed. Meanwhile, despite a month-on-month increase in January, the Input Inflation Index remains below the 95 point no-change mark.

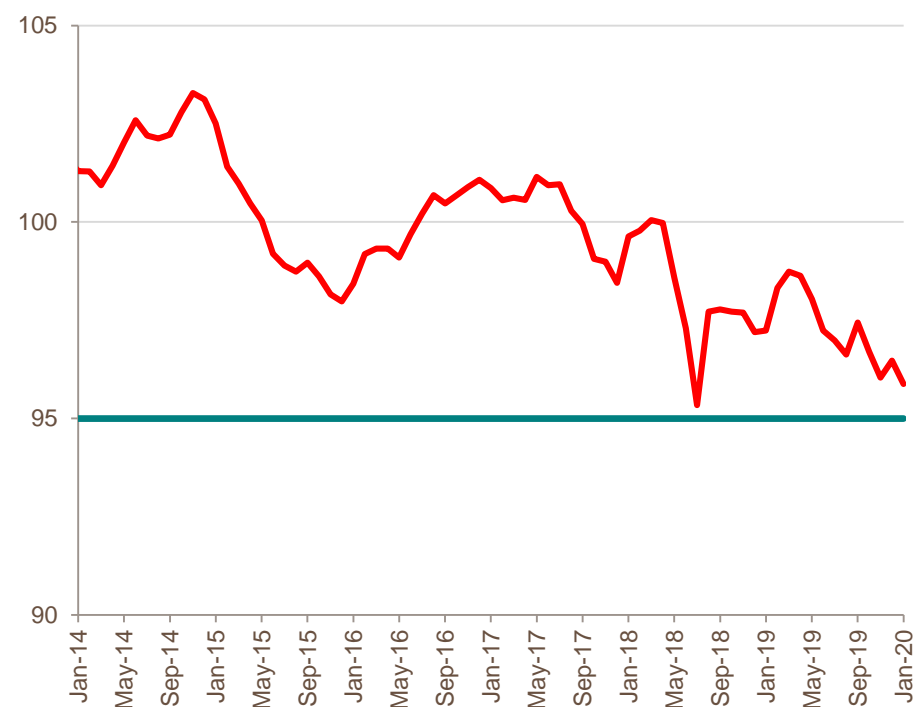
The BDO Employment Index rose by 0.21 points in January, to stand at 112.46. Employers' hiring intentions had softened during the second half of 2019 but now seem to be stabilising while the UK employment rate stood at a record high of 76.3% in the three months to November.

# BDO OUTPUT INDEX FALLS TO AN 18 MONTH LOW

- The overall BDO Output Index was unable to maintain the momentum from December. The index fell by 0.59 points, wiping out last month's 0.43 point increase to leave the Index standing at 95.88, its lowest point since July 2018.
- The BDO Manufacturing Output Index recorded an increase of 0.47 points in January and now stands at 86.78. This was the first time the index has risen since September 2018. Despite this month-on-month improvement, the manufacturing industry is still struggling, with the January score languishing well below the no-change mark of 95.
- The rise in the Manufacturing Output Index was more than offset by a 0.73 decline in the BDO Services Output index. Since the UK economy is dominated by the service sector, slower growth among service providers has a considerable impact on the performance of the economy as a whole. An estimated 0.3% decline in services output in November is indicative of the was political and economic uncertainty has taken its toll on the economy. Sluggish growth is the outcome as business and households avoid taking risks.
- The UK formally left the European Union on 31 January 2020, which reduces the uncertainty over how and when Brexit might take place. However, the UK government is now pushing to avoid regulatory alignment with the EU in any future trade arrangements. This will inevitably reduce levels of market access for UK exporters to the EU, disrupting some existing supply chains.
- While the largest impacts are likely to be felt by UK firms in the manufacturing sector, this has been anticipated for some time and a more general improvement in global economic conditions will have raised the prospects for exporters that operate outside of the EU.

## BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



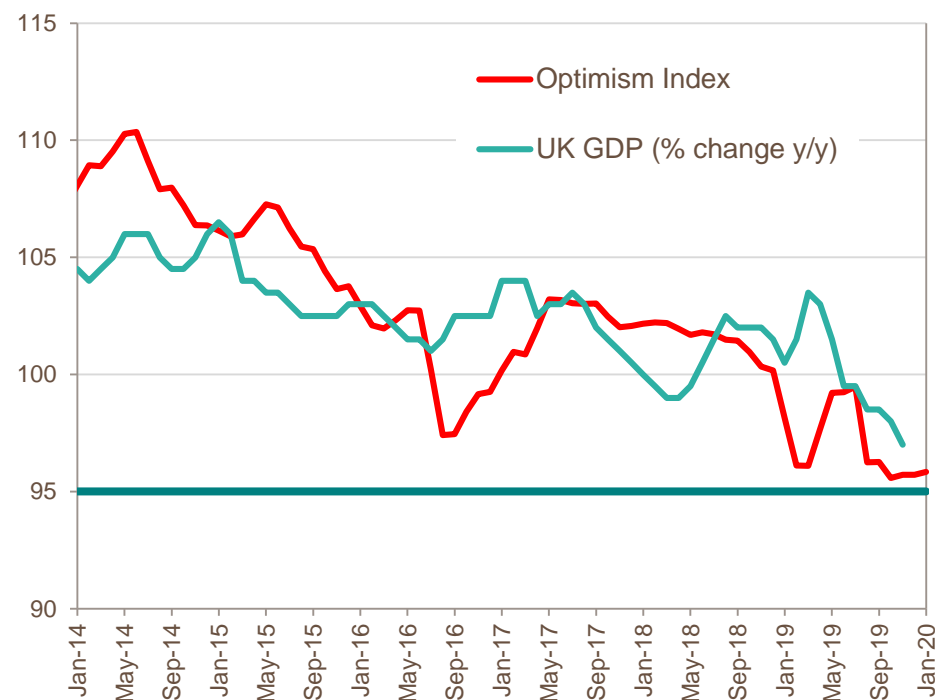
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# BUSINESSES CAUTIOUSLY OPTIMISTIC IN JANUARY 2020

- The BDO Optimism Index rose by 0.12 points in January and now stands at 95.84. Although this remains low by historical standards and the rise was relatively small, it marks a third consecutive monthly improvement in optimism. This is also the first time that both the Manufacturing and Services Optimism Indices have risen together since June 2018.
- An increase of just 0.01 points in December suggested that businesses may have been adopting a wait and see approach regarding the future until the general election result was announced. Now that the new government hold a firm majority and Brexit is destined to go ahead, businesses can focus their planning around a narrower range of potential policy outcomes and risks.
- For UK manufacturers this means potentially having to accept a lower level of market access to the EU. A thawing of trade relations between the US and China will have been cause for celebration among many exporters. The two economic superpowers signed a 'phase one' trade agreement this month, which deescalated the trade war and provided relief to exporting businesses and the firms in their supply chains that had been caught in the crossfire.
- The Manufacturing Optimism Index rose by just 0.05 points, compared to an increase of 0.13 points on the Services Optimism Index. For many services businesses, output will have been held back by political uncertainty which was damaging consumer confidence. The lifting of this uncertainty may be cause for greater optimism. With consumers feeling more comfortable in their economic situation, some pent up demand may now be released, meaning economic growth is likely to pick up pace this year.

## BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



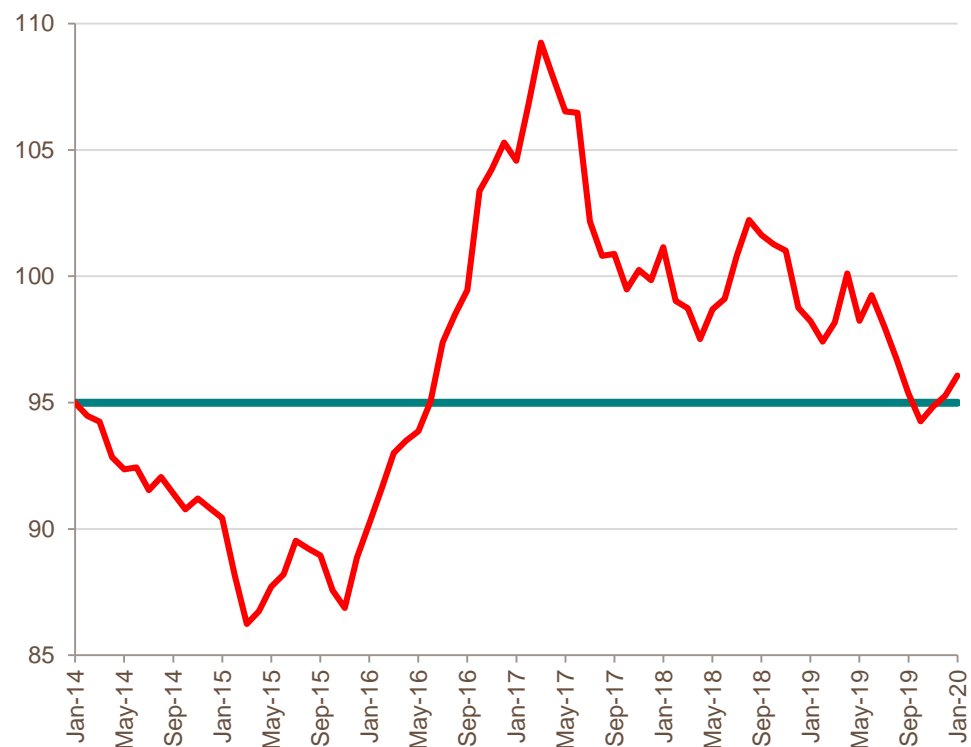
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# INPUT INFLATION INDEX RISES BUT CORONAVIRUS COULD CAUSE PRICE FALLS

- The BDO Inflation Index rose by 0.80 points to 96.07 in January. Growth in the BDO Input Inflation Index drove the change, rising by 1.65 points compared to December to stand at 94.34. The BDO Consumer Inflation Index fell by 0.06 points to 97.80.
- The BDO Input Inflation Index last stood above the 95 mark, which indicates no change, in July 2019. Falling commodity prices, which pushed input prices down in 2019, are now gradually rising again. The Input Inflation Index considers annual price growth, however, and despite a month-on-month increase in input prices the Index indicates lower costs compared to last year.
- The annual rate of consumer price inflation on the CPI stood at 1.3% in December, down 0.2 percentage points from 1.5% in November. Falling prices for clothing & footwear items, food, as well as slower price growth of alcohol & tobacco products and transport all fed into the lower level of headline inflation.
- The weakness of the global economy has been easing, especially as trade tensions between China and the US have receded. This will have supported demand for commodities and put pressure on input prices.
- A more recent development, which will not yet have fed into the BDO Indices is the outbreak of coronavirus in China. The outlook for global demand might yet be shaken as the travel bans and quarantines take effect in China and other affected area. It remains to be seen how far the virus spreads but while authorities in Asia and around the world deal with the fallout the cost of inputs may well fall again.

## BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



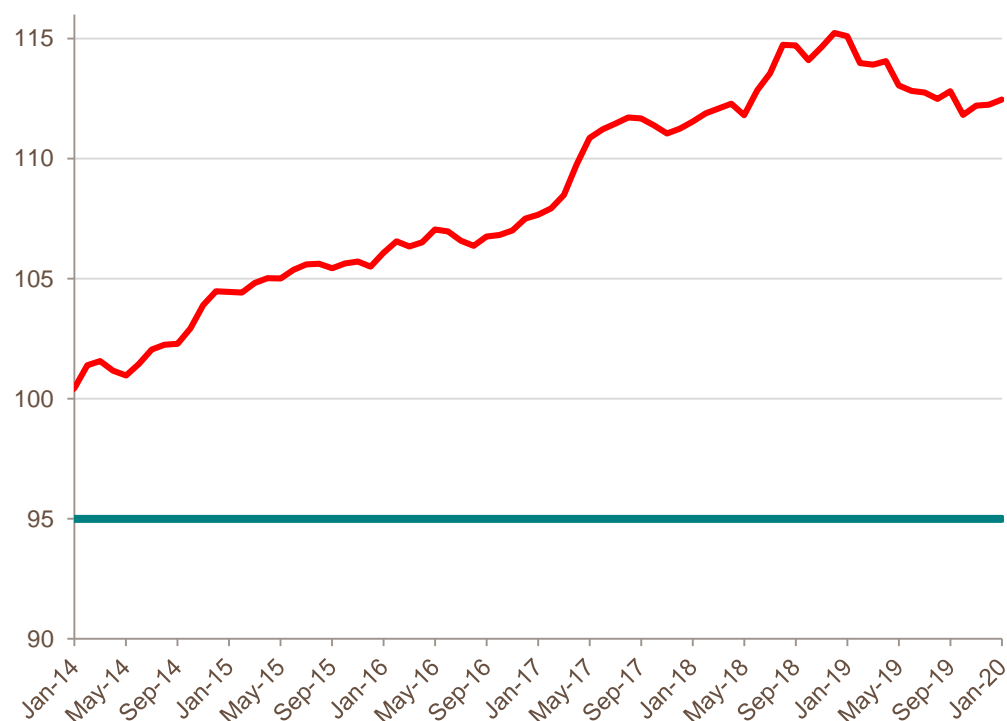
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# EMPLOYMENT INDEX RISES FOR THIRD CONSECUTIVE MONTH AS LABOUR MARKET CONTINUES TO BREAK RECORDS

- The BDO Employment Index rose by 0.21 points in January to stand at 112.46, up from the 112.25 in December. This is the third consecutive monthly increase in the Employment Index.
- The latest data on the labour market from the Office for National Statistics cover the three-months to November 2019, when the employment rate reached another record high of 76.3%, rising by 0.1 percentage points compared to October when the previous record of 76.2% was set. The unemployment rate was also very low, standing at 3.8%. Meanwhile, the economic inactivity rate hit a record low of 20.6% during the same time period.
- Improved optimism among businesses has been accompanied by a renewed appetite for hiring new staff. Some survey data indicates more openness to increasing employment and the number of vacancies rose to 805,000 in the October to December period, up from 798,000 in the three months to November.
- The ability to take on new staff remains hampered by the low unemployment and inactivity rates. Much of the growth in employment relates to the retention of women in the workforce who might otherwise have retired as the state pension age for women was raised to be equivalent with that for men.
- Rising vacancies and a more optimistic hiring managers may stabilise the Employment Index after a downward trend that had emerged since its peak in December 2018.

## 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

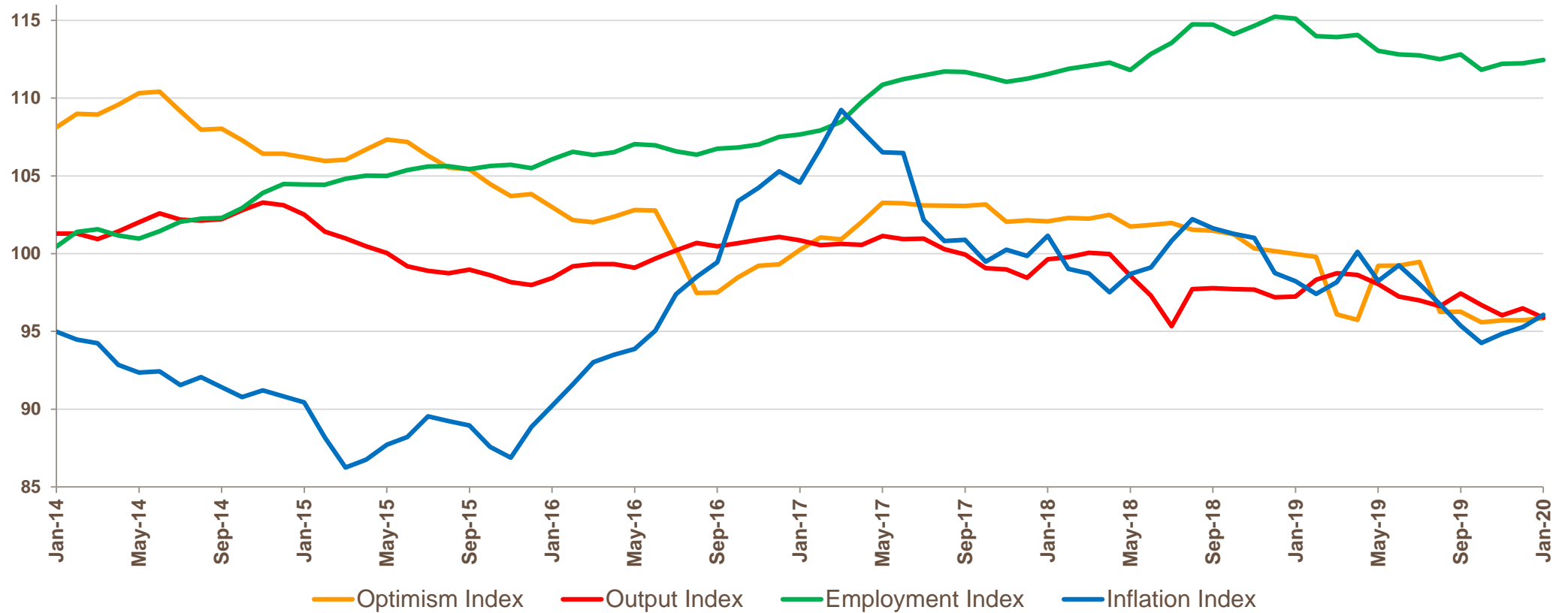
		Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
The BDO Optimism Index	Total	99.23	99.47	96.26	96.26	95.59	95.71	95.72	95.84
	Manuf.	97.99	100.17	102.28	102.16	98.78	95.55	95.64	95.69
	Service	99.39	99.38	95.49	95.52	95.18	95.73	95.73	95.86
The BDO Output Index	Total	97.24	96.99	96.62	97.44	96.69	96.04	96.47	95.88
	Manuf.	92.83	90.62	88.87	88.00	87.10	86.94	86.31	86.78
	Service	97.80	97.79	97.61	98.63	97.91	97.19	97.76	97.03
The BDO Inflation Index	Total	99.25	98.04	96.75	95.36	94.25	94.84	95.27	96.07
	Input	98.84	96.99	94.23	91.86	89.80	91.81	92.69	94.34
	Consumer	99.66	99.08	99.28	98.87	98.71	97.86	97.86	97.80
The BDO Employment Index	Total	112.82	112.76	112.50	112.81	111.82	112.22	112.25	112.46



# APPENDIX: OUTPUT INDEX FALLS DESPITE RISING BUSINESS OPTIMISM

## 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

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## 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.