

A top-down photograph of a red watering can and four small terracotta pots containing succulents, arranged on a grey surface. A vertical red bar is positioned on the left side of the image.

BDO MONTHLY BUSINESS TRENDS INDICES

August 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 September 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	XX	▼	96.62 in August from 96.99 in July
BDO Optimism Index	X	▼	96.26 in August from 99.47 in July
BDO Inflation Index	X	▼	96.75 in August from 98.04 in July
BDO Employment Index	✓	▼	112.5 in August from 112.76 in July

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

All four of the BDO Business Trends Indices fell in August and only the BDO Employment Index now stands above its long term average. The BDO Output index is at its lowest level since July 2018, while the BDO Optimism Index reversed most of the last three months of gains in August.

The BDO Output Index continued its decline in August, falling 0.36 points to stand at 96.62. Both the BDO Manufacturing and Services Output Indices reported falls in August although in line with recent index results manufacturing firms were most severely affected.

The fall in the BDO Optimism Index was driven by a large downward swing in the Services Optimism Index, which fell by 3.89 points in August. Despite the second month of a strong improvement in sentiment among manufacturers, the BDO Manufacturing Optimism Index remains lower than it was in March and still presents a pessimistic picture regarding the outlook for the second half of 2019.

The BDO Inflation Index fell back by 1.29 points to 96.75 in August. The latest fall was driven by a slowdown in the BDO Input Price Index as the price of some raw materials and a partial recovery in the pound eased the cost pressure on producers.

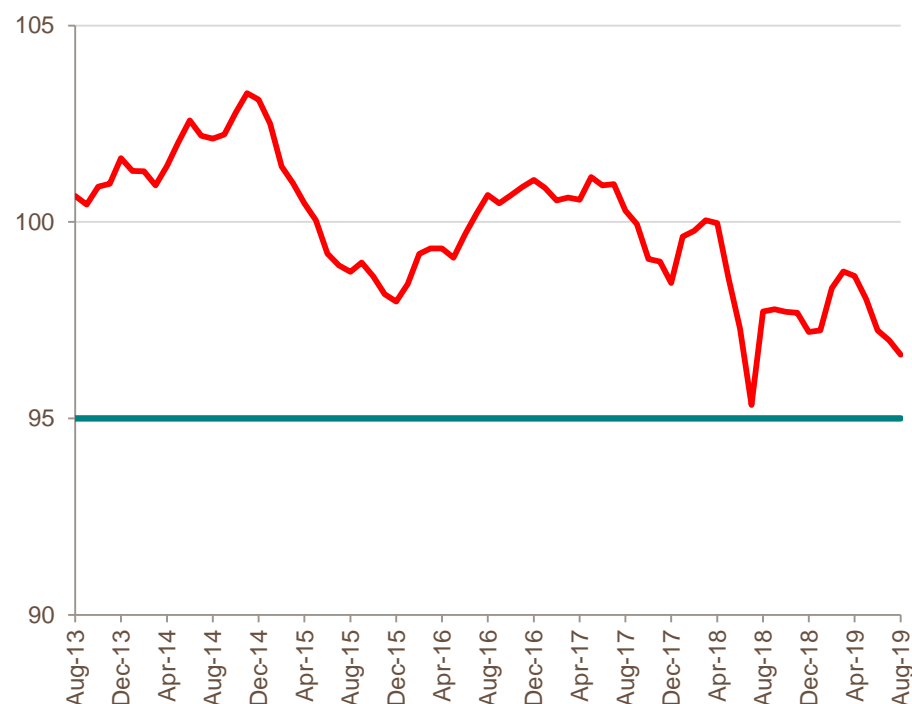
The BDO Employment Index fell marginally to 112.50 in August, continuing the trend of a downward drift in new hiring activity against the backdrop of otherwise strong labour market data. As wage growth picks up pace and the economy weakens, employers are thinking carefully before making new job offers.

OUTPUT INDEX ENTERS THIRD MONTH OF DECLINE IN AUGUST

- The BDO Output Index fell by 0.37 points, to 96.62, in August. The BDO Manufacturing Index was the larger contributor to the month-on-month decline, falling by 1.75 points in August to 88.87. This was less of a steep decline than the 2.21 fall recorded in July but means the BDO Manufacturing Index has now been in contraction territory for three consecutive months.
- UK manufacturing firms ramped up production in the months leading up to the original Brexit deadline in March in order to prepare for a no-deal exit and much of the recent decline in output is due to that excess inventory being run down. These latest output estimates suggest that with another Brexit deadline looming in October, a second round of stock-building has yet to materialise.
- The BDO Services Output Index fell in by 0.18 points to 97.61 in August. This was the fifth consecutive month of decline on the index which now stands 1.31 points lower than it did in March, before the original Brexit deadline.
- In Q2 2019, the service sector grew by just 0.1%, down from growth of 0.4% in Q1. Indeed, most service industries saw output falling in the second quarter, with architectural and engineering firms recording particularly big declines. Falling investment has caused a fall in construction sector output which is affecting other related professions.
- Information and communication firms, however, grew strongly as computer programming activity continued the impressive growth of recent years.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



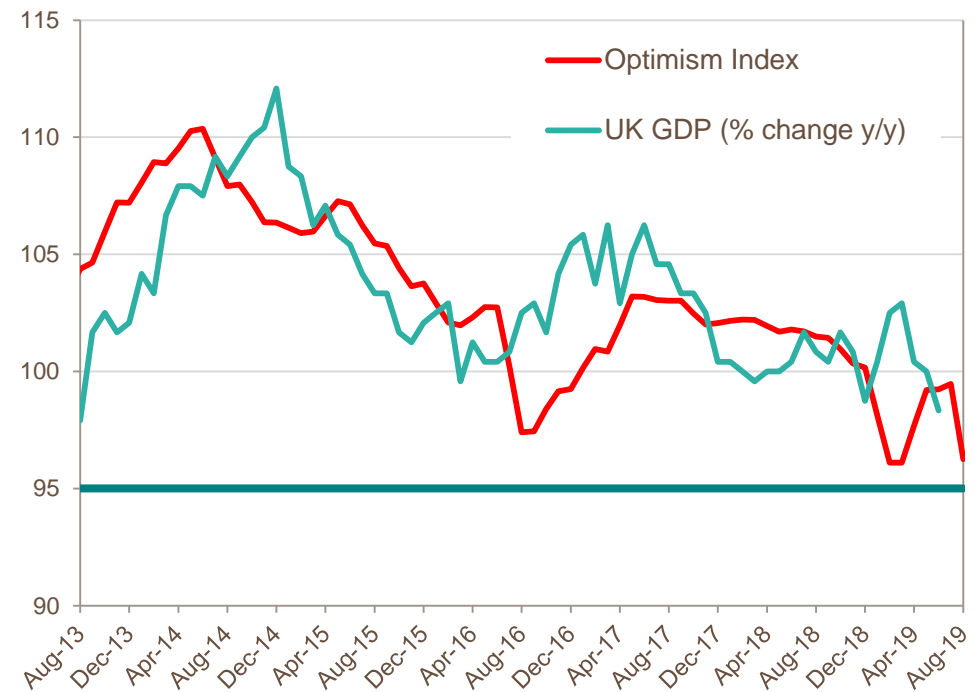
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

SERVICES DECLINE DRAGS BDO OPTIMISM INDEX LOWER

- The BDO Optimism Index fell by 3.21 points in August, more than reversing the 0.24 point rise in confidence recorded in July. Although the headline index declined significantly, the manufacturing and services confidence indices moved in opposite directions.
- The latest BDO Manufacturing Optimism Index built on July's 2.18 increase in confidence with a further 2.11 increase in August. A return to the political uncertainty seen before the original Article 50 deadline may appear at odds with this reversal of attitude among manufacturers in recent months. Indeed, these improvements only represent a partial recover from the collapse seen earlier in the year and the Manufacturing index stood 1.45 points lower in August than it did before the original Brexit deadline in March.
- By contrast, after two months of little movement, the BDO Services Optimism Index collapsed to 95.49 in August, 3.89 points lower than in July. This leaves optimism among service sector businesses teetering just above the 95 mark which separates an expansion in sentiment from a contraction.
- The importance of services to the UK economy, with around four-fifths of output produced in the service sector, means the latest collapse in the BDO Services Optimism Index tilts risks to the downside for future economic growth. The potential for weaker sentiment to hold back investment or delay the roll out of new products and services while the dust settles over Brexit could have knock-on effects throughout the supply chain.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



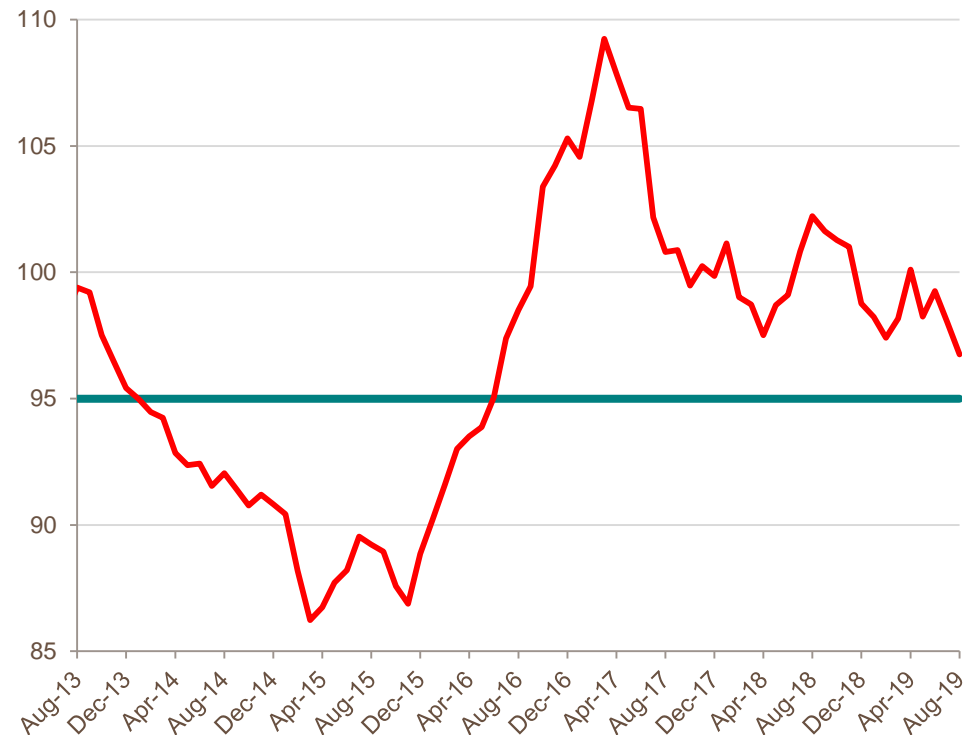
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION INDEX SLIDES FURTHER AS CURRENCY RECOVERS LOST GROUND

- The BDO Inflation index fell for the second consecutive month in August, dropping a further 1.29 points to 96.75. The main driver of the decline was the BDO Input Inflation Index which fell 2.76 points to 94.23. The BDO Consumer Inflation Index edged up 0.19 points to 99.28 in August.
- As the global economy cools, the prices of some commodities, including oil, has weakened taking the pressure off producers. The lower cost of these goods has helped keep price growth down.
- With around two thirds of UK producers' raw materials imported from abroad the value of the pound can cause significant changes in the cost of imports. Although financial markets are still relatively downbeat over the prospects for the UK economy, the value of the pound has risen from its most recent lows, in July. Leaving the EU without a deal in place would inevitably weaken the currency once again, however, driving up the cost of imports.
- Annual consumer price inflation rose by 0.1 percentage points in July, to stand at 2.1% on the CPI measure. Further declines in the cost of transport linked to falling oil prices offset some of the increase in prices for recreation & culture and restaurants & hotels.
- These fairly labour intensive service industries are now feeling the pinch from the tightness of the labour market and raising prices to cope with their high wage costs.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



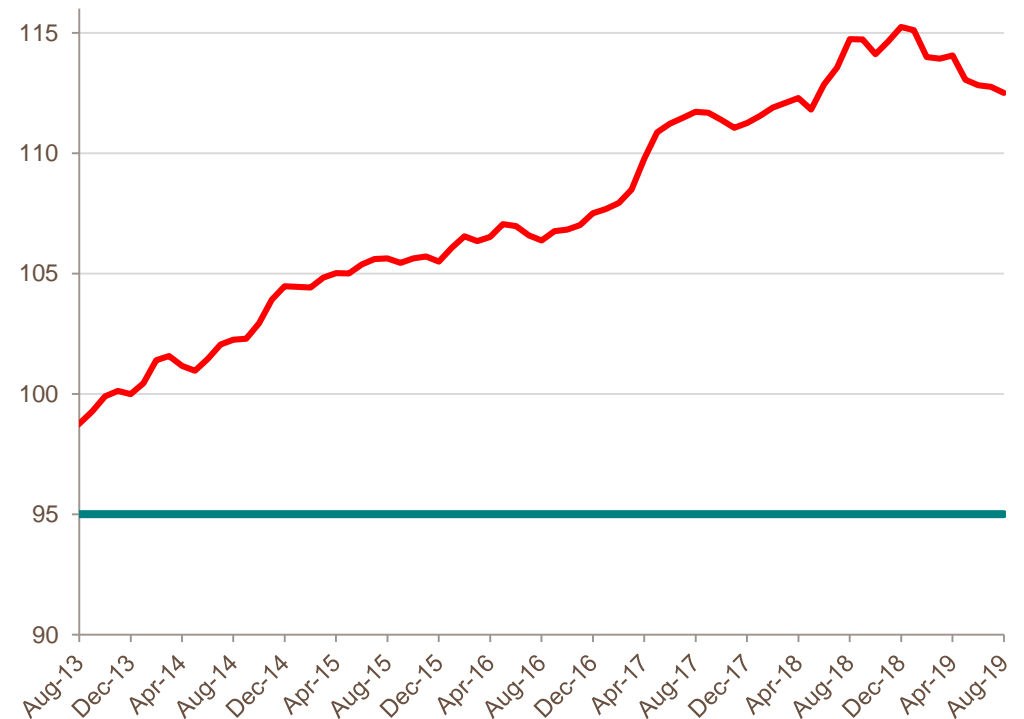
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT INDEX HAS FALLEN EVERY MONTH IN 2019

- The BDO Employment Index continued its recent downward trend in August, falling by 0.26 points to 112.50 from 112.76 in July. The index was last lower in May 2018, at 111.81.
- Headline labour market indicators are still very robust, with a joint-record high employment rate and the highest recorded employment rate among women. With unemployment also low by historical standards employers have been forced to increase wages as competition for workers and legal changes to the national minimum wage rates have taken hold.
- The latest estimates of average weekly earnings (excluding bonuses) indicated growth of 3.9% in the three months to June. This pick up in earnings, at a time when output is declining, suggests that profits are likely to be squeezed in industries that are performing poorly.
- Higher wages costs combined with considerable uncertainty over the future of the economy means many firms may be pulling back on their expansion plans including for hiring more staff.
- This effect is reflected in the number of job vacancies in the UK which fell 20,000 in the three months to June 2019 compared to the previous three months.

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

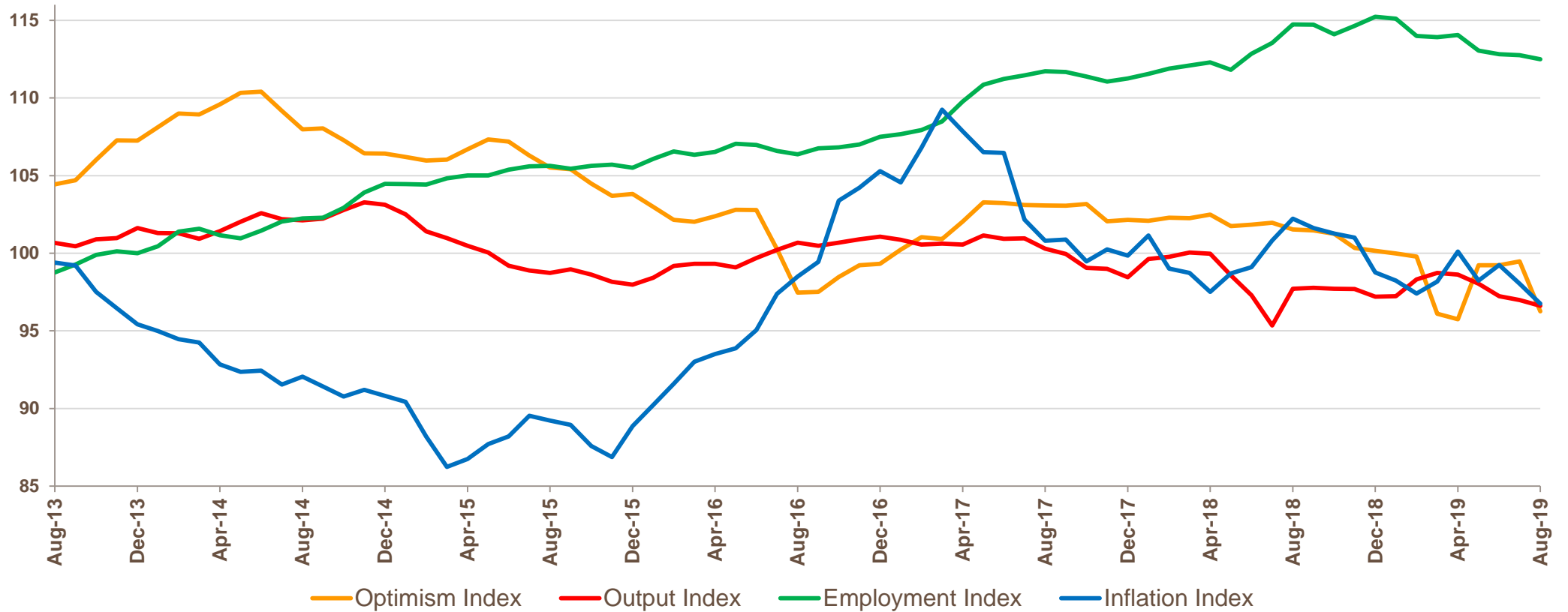
BDO INDICES TO LATEST MONTH

		Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
The BDO Optimism Index	Total	99.98	99.79	96.10	95.74	99.22	99.23	99.47	96.26
	Manuf.	104.40	103.84	103.73	101.09	98.26	97.99	100.17	102.28
	Service	99.42	99.28	95.13	95.06	99.34	99.39	99.38	95.49
The BDO Output Index	Total	97.24	98.32	98.74	98.63	98.04	97.24	96.99	96.62
	Manuf.	98.37	97.36	97.32	97.27	95.91	92.83	90.62	88.87
	Service	97.10	98.44	98.92	98.80	98.31	97.80	97.79	97.61
The BDO Inflation Index	Total	98.23	97.41	98.17	100.11	98.24	99.25	98.04	96.75
	Input	97.00	95.75	97.45	101.20	96.72	98.84	96.99	94.23
	Consumer	99.47	99.06	98.90	99.42	99.75	99.66	99.08	99.28
The BDO Employment Index	Total	115.11	113.99	113.92	114.06	113.05	112.82	112.76	112.50

APPENDIX: DECLINES REGISTERED IN ALL FOUR OF THE BDO INDICES

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.