

A red watering can is positioned in the upper left quadrant, tilted as if pouring. Below it, four small, round, 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**

March 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 April 2020, using the results from business surveys that were carried out between the first and last days of the previous month. **Given the extraordinary circumstances surrounding the economic situation that emerged late in March, some of the quarterly survey data have been imputed to keep pace with current events. These figures will be revised in the April release.**

## Summary and key findings

Index	Current reading	Movement in month	Index level
BDO Output Index	XX	▼	86.48 in March from 96.64 in February
BDO Optimism Index	XX	▼	79.95 in March from 101.64 in February
BDO Inflation Index	X	▲	98.70 in March from 95.59 in February
BDO Employment Index	XX	▼	85.97 in March from 112.86 in February

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 collapsed well below their historic averages and deep into negative territory as the impact of the coronavirus outbreak took hold in March. Only the BDO inflation index rose as the impact of weaker sterling drove up the cost of imports.

The BDO Optimism Index had recorded a strong rise in February as the UK economy started to find its feet as the political and economic uncertainty of 2019 began to subside. This was completely reversed by the escalation of social distancing guidance into a nationwide lockdown during March. This led the Optimism index to fall by 21.69 points in March.

The BDO Output Index also recorded a significant decline as many non-essential businesses were forced to close their doors. Those businesses that remained open were typically hit by supply chain disruption and widespread worker absences as employees with the symptoms of Covid-19 self-isolated. The Output index fell by 10.16 points in March, although economic activity looks certain to slow further as the economic lockdown extends into April.

The BDO Inflation Index rose by 3.11 points in March, as a rise in the Input Inflation Index of 7.75 points outweighed a decline in consumer price inflation of -1.53. The rapid depreciation of sterling as the coronavirus crisis reached pandemic status led many import prices higher, although the falling oil price will have softened the immediate blow to consumers.

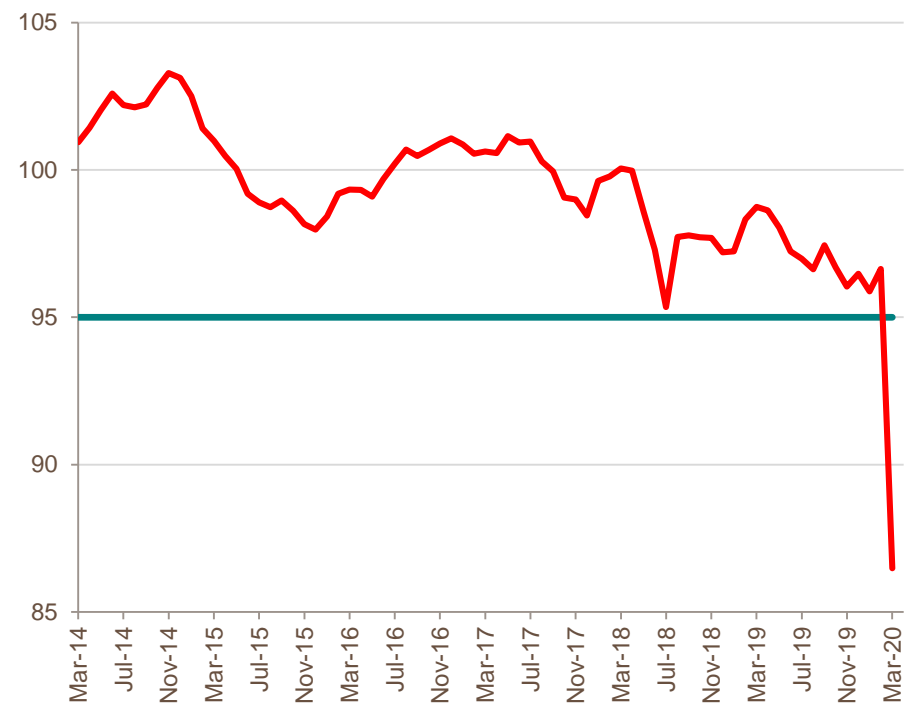
The BDO Employment Index fell steeply in March as millions of workers, both employees and self-employed found themselves out of work as a consequence of the coronavirus outbreak. Almost one million extra universal credit claims were made in the last two weeks of the month suggesting a huge rise in unemployment. Meanwhile, millions more look set to be temporarily suspended from work as part of the government's coronavirus job retention scheme.

# OUTPUT CRASHES AFTER CORONAVIRUS LOCKDOWN

- The BDO Output Index saw a huge decline in March as the effects of the coronavirus outbreak and the government's response to the crisis started to take hold. The headline index fell by 10.16 points, to 86.48, as social distancing and enforced business closures hit economic activity across the country.
- The BDO Manufacturing Output Index recorded a decline of 9.43 points. The manufacturing sector had been struggling throughout 2019 as uncertainty over a potential no-deal Brexit held back investment in the UK. This and a global trade slowdown in 2019 affected demand and led output in the sector to contract by 1.5% compared to 2018. The election of a new government with a strong majority and the successful move into a transition period while the UK negotiated a new trade deal with EU had signalled greater certainty for manufacturers and the easing of trade tensions between the US and China saw the output index rise in January and February.
- However, as the coronavirus emerged in China, manufacturers were some of the first businesses in the West to feel the impact as disruption to supply chains meant the flow of inputs sourced from China began to slow. The spread of the disease in the UK and government guidance for those with symptoms to self-isolate will have meant much more widespread absences among staff and weaker domestic demand.
- The Services Output Index fell even more sharply in March, dropping by 10.25 points. At the start of the month social distancing measures initially reduced demand for many leisure activities, before stricter measures led to the enforced closure of non-essential businesses nationwide as the UK entered a period of lockdown. This will have essentially reduced the output of many pubs, restaurants and hotels to zero for the final two weeks of the month.

## BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



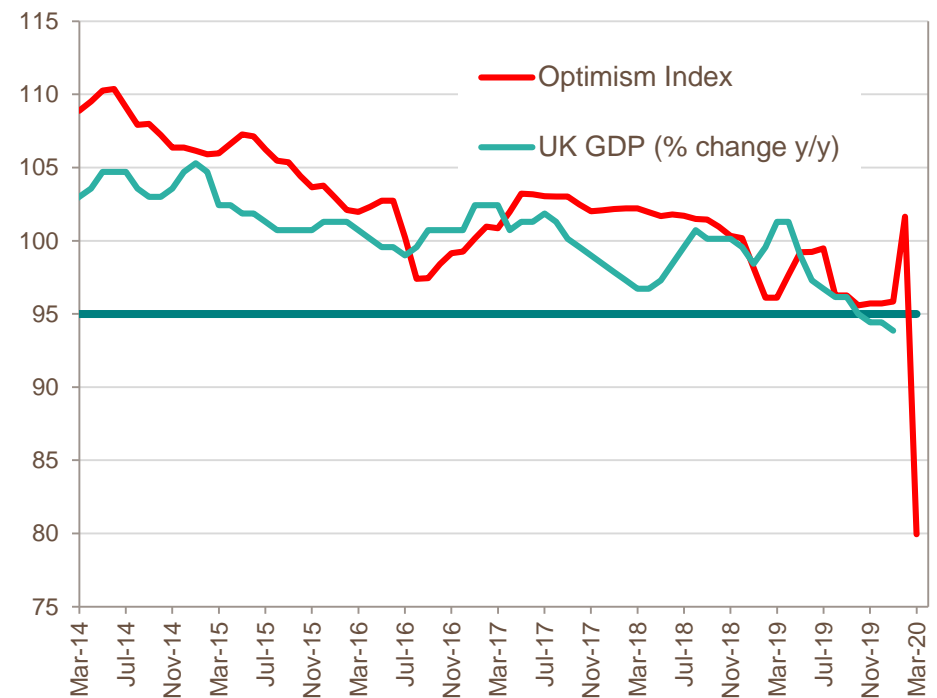
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# OPTIMISM COLLAPSES IN MARCH WITH NO CLEAR END IN SIGHT FOR BUSINESSES SHUTTERED BY CORONAVIRUS

- The BDO Optimism Index fell by 21.69 points in March to stand at 79.95, as the implications of the lockdown imposed by the government in an attempt to slow the spread of coronavirus left many businesses facing a prolonged period of lost revenue. The scale of the decline is unprecedented for a single month and is similar in magnitude to the cumulative falls throughout 2008 as the financial crisis hit.
- However, the nature of the recession that is almost certain to hit the UK is unusual in itself as it is essentially self-imposed with huge numbers of businesses forced to close overnight, rather than facing a more gradual and steady shortfall in demand as would be the case during a more typical economic downturn.
- The BDO Optimism Index for March marks a major reversal of sentiment from February, when both the Manufacturing and Services Optimism Indices rose. The latest data show the services sector recorded 0.2% growth in output over the three-months to February 2020, up from 0.0% in the three months to January. This coincided with an increase in the Services Optimism of 6.52 points in February as the sector found its feet. However, a decline of 21.41 points left the index standing at 80.97 in March, which is lower than at any point during the financial crisis.
- The Manufacturing Optimism Index saw an even steeper decline. A fall of 23.94 points to 71.88 places the manufacturing optimism at its lowest level since July 2009.
- Since the lockdown was announced it has been unclear exactly for how long businesses need to stay closed. Despite huge levels of support being made available in the form of loans, guarantees and direct support to cover the cost of retaining employees, businesses still face a period of low or no revenues while many of their fixed costs are often at best being deferred. With no end in sight, businesses with assets sitting idle are concerned that they won't be able to weather the storm.

## BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



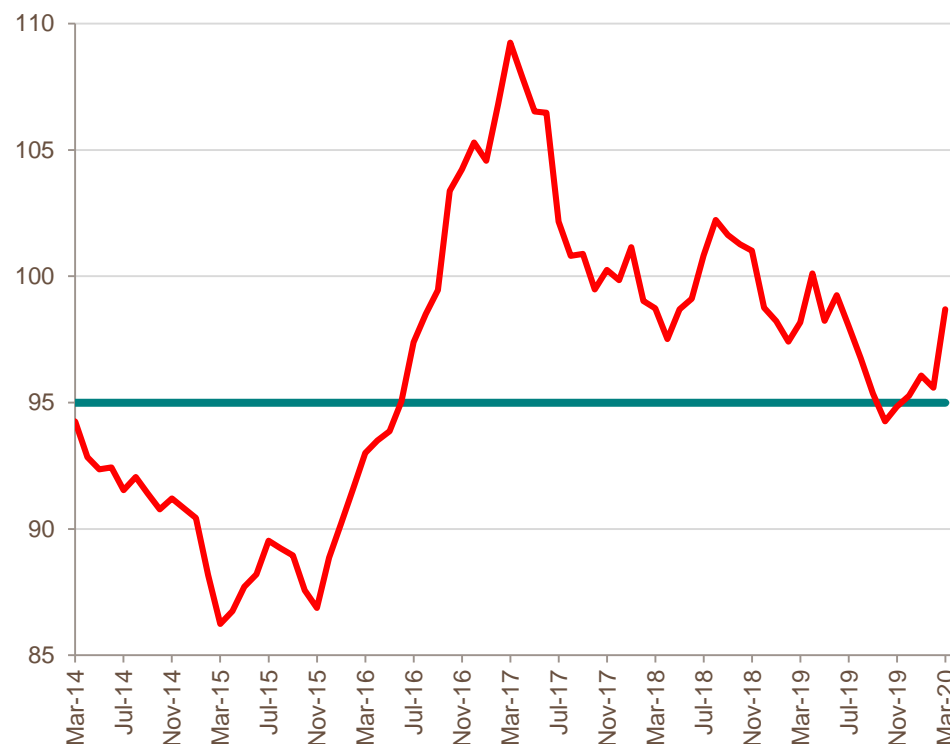
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# INPUT INFLATION INDEX RISES ON WEAK STERLING DESPITE CHEAPER OIL

- The BDO Inflation Index rose by 3.11 point in March to stand at 98.70. The Input Inflation Index turned sharply upwards, rising by 7.75 points to 100.08. Meanwhile, the Consumer Inflation Index fell by 1.53 points to stand at 97.31.
- A stronger pound kept import inflation low during the second half of 2019, causing the BDO Input Inflation Index to fall below the 95 marker that indicates falling prices. However, the turmoil in financial markets caused by the coronavirus outbreak led investors to flee sterling in March. This will have rapidly translated into higher import costs for businesses, despite a fall in demand for commodities offsetting some of the impact
- Disruption to supply chains caused by the lockdown in China, where the coronavirus outbreak originated, likely also caused costs to rise as businesses sought out alternative suppliers for their inputs.
- Month-on-month, the annual rate of consumer price inflation on the Consumer Price Index fell by 0.1 percentage points to 1.7% in February. During March, oil prices fell to an 18-year low due to a lack of demand as economic activity started shutting down across much of the world combined with a price war between Saudi Arabia and Russia.
- Lower fuel prices for consumers and a crushing lack of demand may well keep consumer price inflation low in the coming months. Over the longer term, the risk of a burst of inflation remains on the cards when an economy that has potentially lost significant productive capacity comes up against the flow of monetary and fiscal stimulus.

## BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



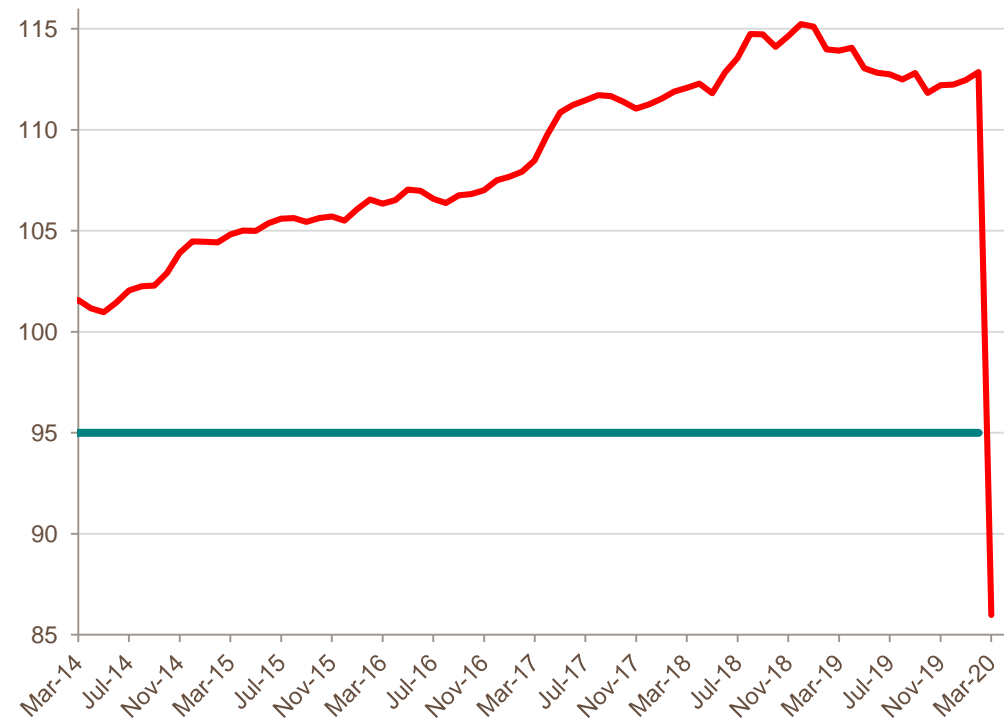
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# WIDESPREAD UNEMPLOYMENT AND MILLIONS OF FURLOUGHED EMPLOYEES SEND THE BDO EMPLOYMENT INDEX TUMBLING

- The BDO Employment Index crashed to 85.97 in March, a decline of 26.89 points from 112.86 recorded in February. This brought the employment index below the 95 mark which separates growth from expansion for the first time since November 2012.
- The UK labour market had been proving exceptionally resilient even as the economy slowed, reaching a record high employment rate of 76.5% in the final quarter of the 2019. This was combined with a record low rate of economic inactivity (20.4%) over the same time period as businesses continued to build their headcount, despite holding back on capital investment.
- The coronavirus crisis has now completely reversed this situation, with sweeping action mandated by government forcing people to stay at home unless their work is essential. For many businesses in the hospitality sector and non-essential retailers this has caused widespread lay-offs.
- To limit the long-term impact of this enforced shutdown on the economy, the government introduced a job-retention scheme, allowing employers to put their employees on furlough, while claiming back a portion of the wage costs from a government fund. However, there have also already been widespread redundancies, and the number of claims for universal credit rose by 950,000 in the final two weeks of March - suggesting that the unemployment rate could be ready to spike from 3.9%, in the three months to January, to over 6% as soon as next month.
- With business surveys indicating that close to half of firms may make use of the furlough scheme many millions more may soon find themselves temporarily suspended from working and unable to contribute productively to their employer's business.

## 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

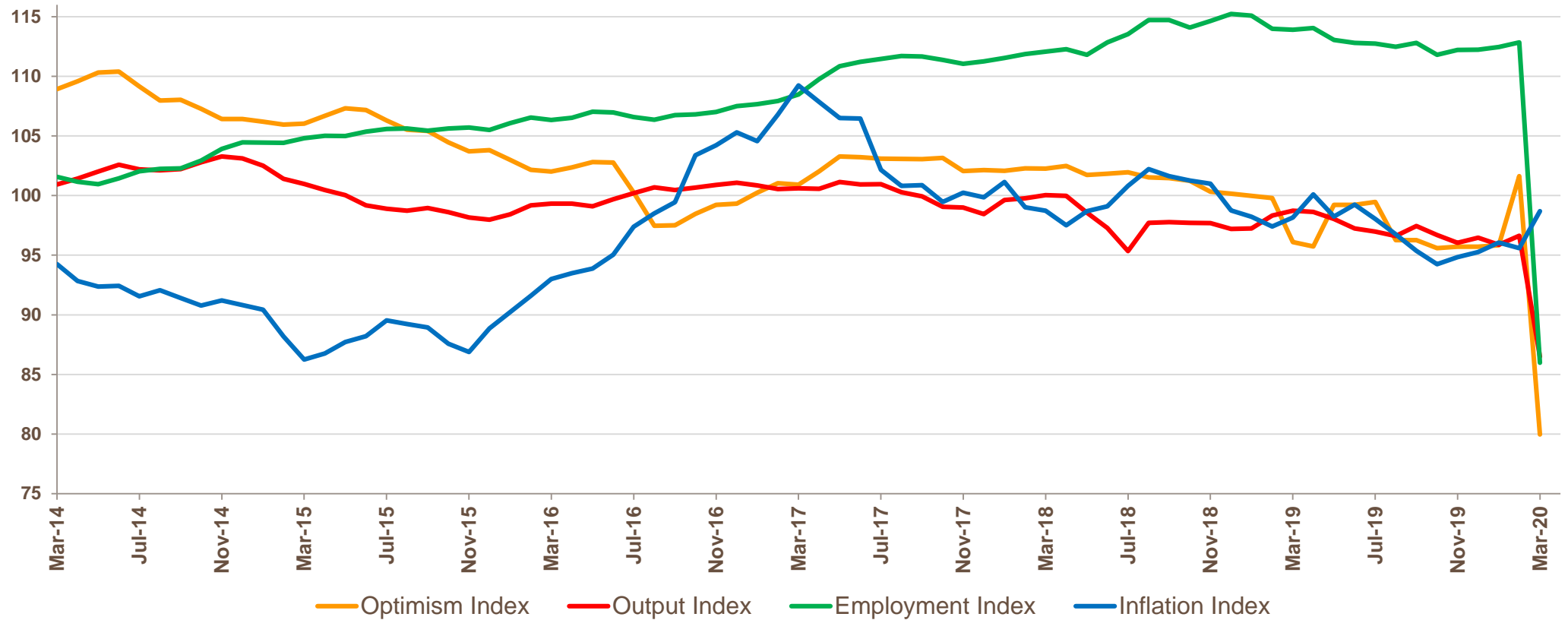
		Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
The BDO Optimism Index	<b>Total</b>	96.26	96.26	95.59	95.71	95.72	95.84	101.64	79.95
	Manuf.	102.28	102.16	98.78	95.55	95.64	95.69	95.82	71.88
	Service	95.49	95.52	95.18	95.73	95.73	95.86	102.38	80.97
The BDO Output Index	<b>Total</b>	96.62	97.44	96.69	96.04	96.47	95.88	96.64	86.48
	Manuf.	88.87	88.00	87.10	86.94	86.31	86.78	88.75	79.32
	Service	97.61	98.63	97.91	97.19	97.76	97.03	97.64	87.39
The BDO Inflation Index	<b>Total</b>	96.75	95.36	94.25	94.84	95.27	96.07	95.59	98.70
	Input	94.23	91.86	89.80	91.81	92.69	94.34	92.33	100.08
	Consumer	99.28	98.87	98.71	97.86	97.86	97.80	98.84	97.31
The BDO Employment Index	<b>Total</b>	112.50	112.81	111.82	112.22	112.25	112.46	112.86	85.97



# APPENDIX: CORONAVIRUS IMPACT LEADS OPTIMISM, OUTPUT AND EMPLOYMENT INDICES TO CRASH

## 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

### **KALEY CROSTHWAITE**

**BDO LLP**

55 Baker Street, London W1M 1DA

telephone: 020 7486 5888

fax: 020 7487 3686

email: [Kaley.Crossthwaite@bdo.co.uk](mailto:Kaley.Crossthwaite@bdo.co.uk)

### **ALASTAIR NEAME**

**Centre for Economics and Business Research**

Unit 1, 4 Bath Street,

London EC1V 9DX

telephone: 020 7324 2878

email: [aneame@cebr.com](mailto:aneame@cebr.com)

web: [www.cebr.com](http://www.cebr.com)

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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.