

▶ A NEW ECONOMY  
**PUBLICATION**

A red watering can is positioned in the upper left quadrant, tilted as if pouring. Four small, round, terracotta pots containing green succulents are arranged in a loose pattern on a 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

November 2019

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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 December 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	▼	96.04 in November from 96.69 in October
BDO Optimism Index	X	▲	95.71 in November from 95.59 in October
BDO Inflation Index	X	▲	94.84 in November from 94.25 in October
BDO Employment Index	✓	▲	112.22 in November from 111.82 in October

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

The BDO Business Trends Indices saw the BDO Output Index fall back to its lowest point in 16 months, although the other three categories rebounded slightly in November. The BDO Optimism, Inflation and Employment Indices all saw small rises compared to October.

In November, the Manufacturing and Services Output indices both weakened causing the combined BDO Output Index to turn down for the second consecutive month, falling from 96.69 to 96.04. This was the lowest point for the overall BDO Output Index since July 2018.

The BDO Optimism Index recovered some of the decline recorded in the previous month, to stand 0.12 points higher at 95.71. Optimism among manufacturers fell heavily once again, recording a drop of 3.23 points. This was offset by the impact of a 0.55 point increase in the BDO Services Optimism Index.

The BDO Inflation Index rose by 0.59 points to 94.84 in November. Slower growth in energy prices led the Consumer Inflation Index to fall by 0.85 points, while the Input Inflation Index rose in November for the first time since June.

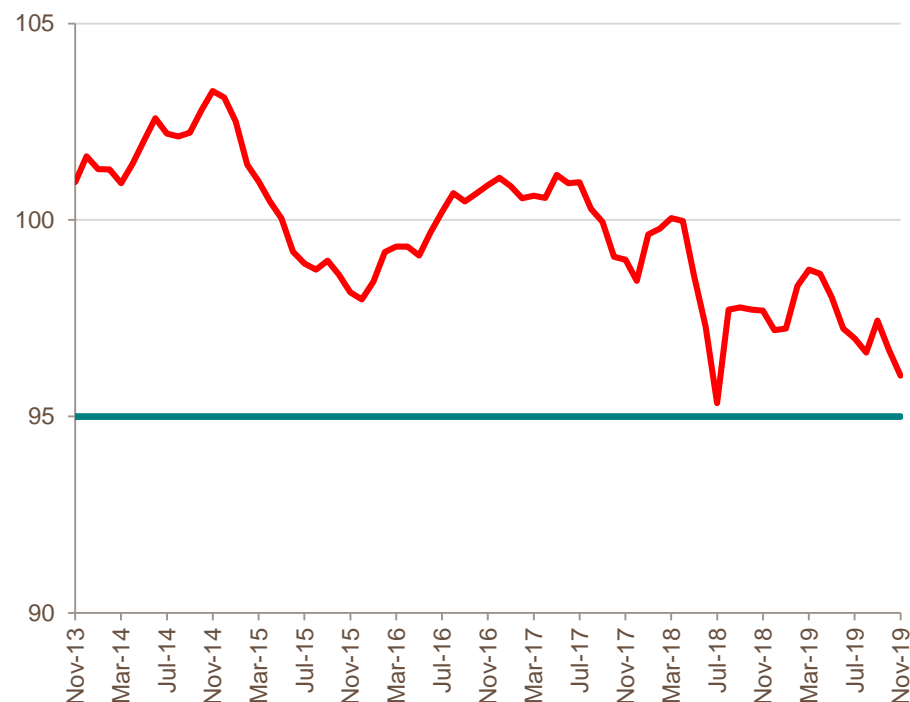
The BDO Employment Index also rose in November, climbing 0.40 points to stand at 112.22. Although a small increase in the Index during November serves as a reminder that the labour market is still very strong by historical standards, hiring sentiment seems to have come off its recent peak.

## BDO OUTPUT INDEX REACHED 17-MONTH LOW IN NOVEMBER

- The overall BDO Output Index fell by 0.65 points, to 96.04, in November. The BDO Manufacturing Index extended its losing run to 14 months with a fall of 0.16 points to 86.94, down from 87.10 in October. The BDO Services Output Index also fell in November, dropping by 0.72 points to 97.19.
- The latest GDP data for the third quarter of this year showed quarter-on-quarter growth of 0.3%. This rate of growth comes off the back of weak Q2 performance when stockpiles built up ahead of the March Brexit deadline were unwound. The monthly data show that the quarter saw its strongest growth in July and by September the economy had already started to slow.
- November's BDO Output Index may have been affected by a similar phenomenon as another Brexit extension was passed in October. This ensured that no-deal was avoided and manufacturers could wind down any inventories they had built up in preparation.
- While the future trading relationship with the EU remains unresolved, exporters of goods and companies in the supply chain are likely to suffer. Consequently, the BDO Manufacturing index now stands at its lowest level since May 2016 and with the official statistics indicating that manufacturing output was flat in Q3, output in the sector may be expected to start falling in the months to come.
- Services output in Q3 was boosted by rapid growth in information and communication businesses in particular. Industries like computer programming are less affected by the type of trade restrictions that might arise from Brexit than industries in manufacturing as these rely on the cross border flow of goods.

### BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



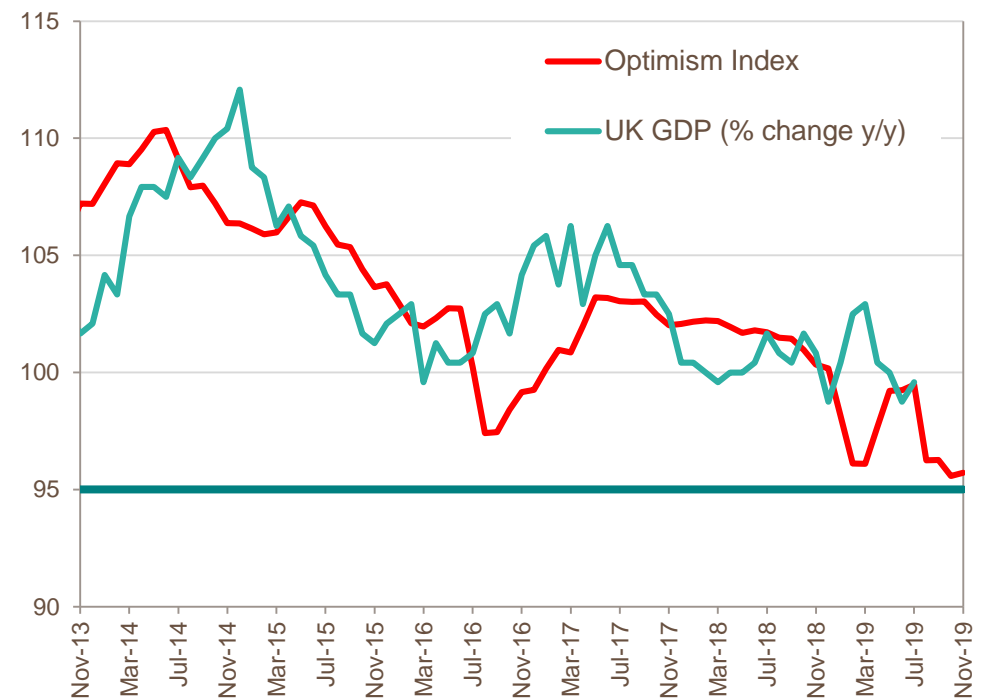
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# BDO OPTIMISM INDEX RISES DESPITE MANUFACTURING OPTIMISM REACHING SEVEN-YEAR LOW

- The BDO Optimism Index rose by 0.12 points in November to stand at 95.71. This brings the index up from a seven year low recorded in October, albeit only just. Sentiment among service industry firms led the Index higher despite manufacturers maintaining the pessimism that has seen the index fall in 14 of the last 16 months.
- The decline in the BDO Manufacturing Optimism Index of 3.23 points was slightly less severe than the 3.38 point fall seen in October but completely reversed the upturn in optimism recorded in the sector during the summer months. At 95.55 the Manufacturing Optimism Index has reached its lowest level since December 2012.
- In November, the focus shifted from the potential for Brexit to throw the economy into turmoil to the forthcoming general election. A possible change of government is a source of further uncertainty for businesses. While another hung parliament could simply extend the impasse of the past three years since the referendum, a decisive victory for either of the main parties could signal a major divergence in domestic policy.
- Indeed, while a Conservative majority raises the chances of a looser trade arrangement with the EU, a number of policy proposals from the Labour party are likely to concern businesses. Notably, the prospect of nationalisations or transferring shares to workers, higher taxes and an ambiguous position on Brexit are likely to weigh on investment decisions until the election.

**BDO OPTIMISM INDEX**

100 = average trend growth. Greater than 95 = positive



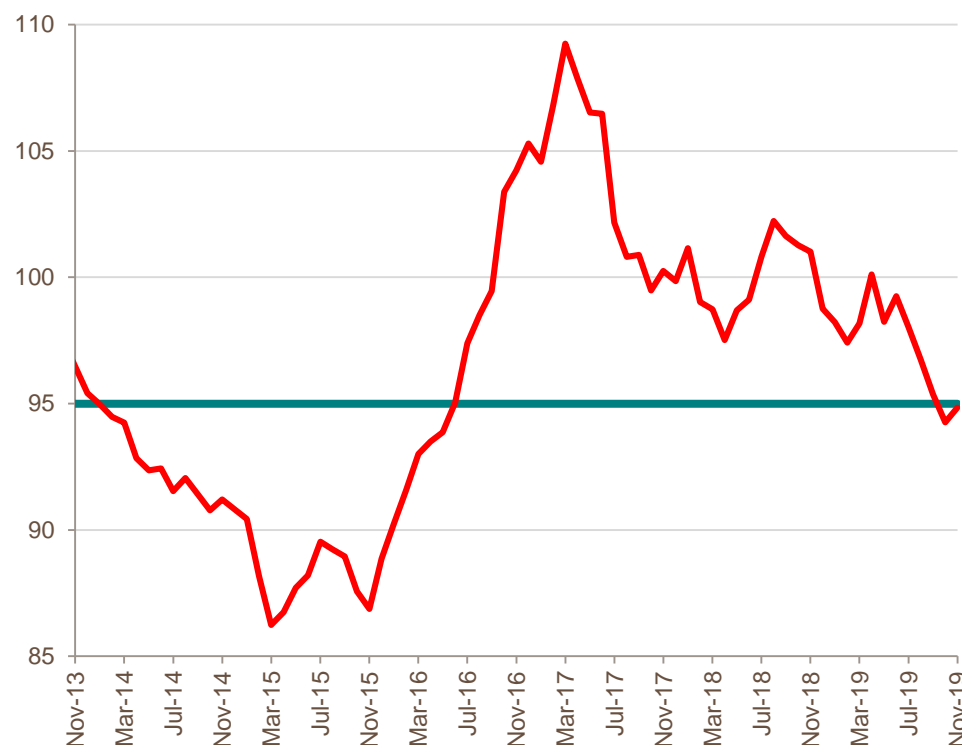
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# BDO INFLATION INDEX HIGHER IN NOVEMBER AS INPUT INFLATION FALLS MORE SLOWLY

- The BDO Inflation Index rose by 0.59 points to 94.84 in November. This upturn was driven by the BDO Input Inflation Index, which rose by 2.01 points in November, offsetting a smaller decline in the BDO Consumer Inflation Index.
- The BDO Input Inflation Index rose by 2.01 points to stand at 91.81 in November. This mostly offset the fall of 2.06 recorded in October but at less than 95 points is still representative of input prices falling, albeit at a slower rate than in the previous four months. By contrast, the BDO Consumer Inflation Index also fell by 0.85 points in November to stand at 97.86.
- The annual rate of consumer price inflation on the CPI fell to 1.5% in October, after standing at 1.7% for two consecutive months. The primary driver of this fall in consumer price inflation was an adjustment in the energy price cap by Ofgem which automatically reduced the energy prices faced by many consumers as a result of lower wholesale energy costs.
- This effect has already been seen in the Input Inflation Index over recent months as global commodity prices for some raw materials, including energy, have fallen. These price falls were driven primarily by weaker global demand and caused the shift in the UK energy price cap.
- The strengthening of the pound since the latest Brexit extension will help to reduce inflationary pressure in the coming months as imports become cheaper for UK businesses and consumers.

## BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



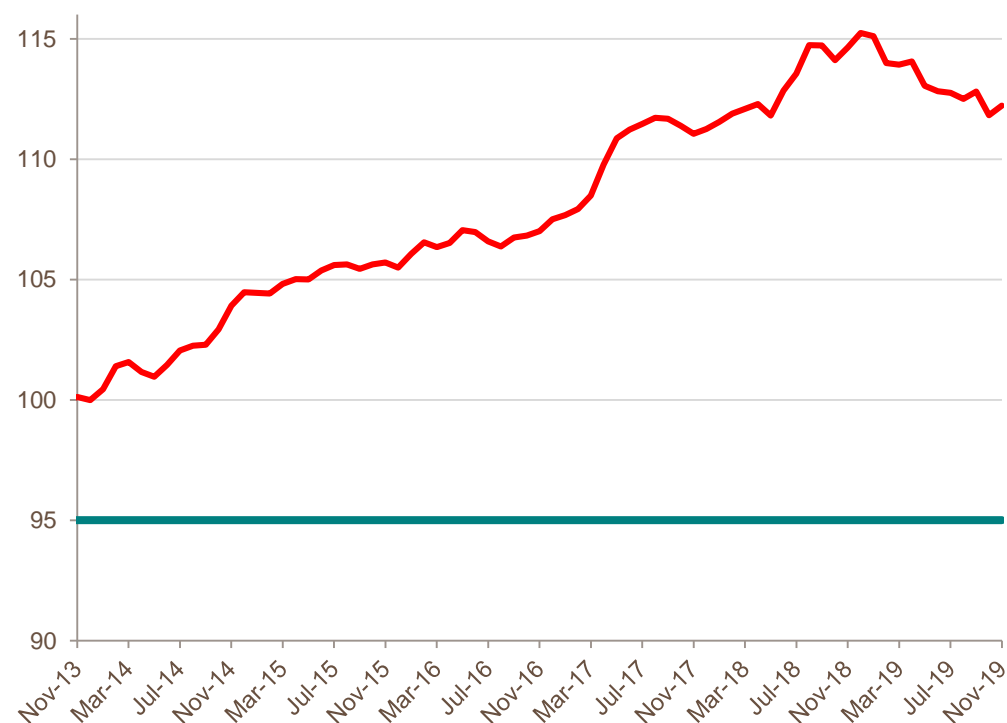
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# BDO EMPLOYMENT INDEX RECOVERS SOME GROUND DESPITE FALLING VACANCIES

- A 0.40 point rise in in November brought the BDO Employment Index to stand at 112.22, up from the 111.82 recorded in October, its lowest level since May 2018.
- After increasing to 3.9% in Q2 the unemployment rate dropped back to 3.8% in Q3, as the labour market continues to show resilience in the face of slower economic growth. This is low by historical standards and shows that those who want work are in general able to find it.
- Employers are now indicating less of an appetite to expand their headcount, however. The number of vacancies fell to 800,000 in October, which is the lowest level since May 2017 and survey data shows that hiring intentions have also waned in recent months.
- With limited spare capacity in the labour market, wages have been rising at a reasonable pace and annual growth in weekly earnings was 3.6% in the three months to October. This is down on the previous three-month period when total weekly pay grew by 3.8% on average.
- Productivity data might explain why the heat is coming off the labour market now. The latest estimates show that output per hour worked was flat in Q3 compared to the previous year, and had fallen in the year to Q2. If the output of their employees is falling relative to their pay, employers are probably finding profit margins are being squeezed by the growth of their workforce. This is likely to hold back the Employment Index in the months ahead.

## 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

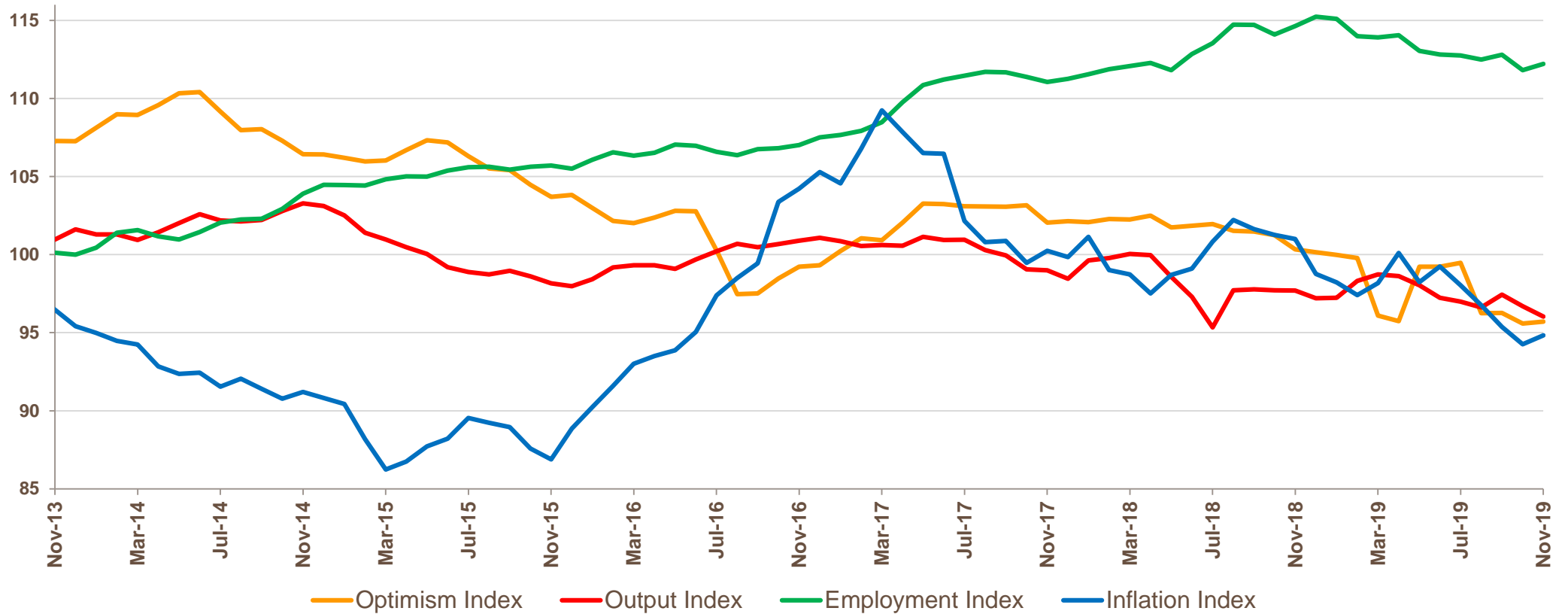
		Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19
The BDO Optimism Index	<b>Total</b>	95.74	99.22	99.23	99.47	96.26	96.26	95.59	95.71
	Manuf.	101.09	98.26	97.99	100.17	102.28	102.16	98.78	95.55
	Service	95.06	99.34	99.39	99.38	95.49	95.52	95.18	95.73
The BDO Output Index	<b>Total</b>	98.63	98.04	97.24	96.99	96.62	97.44	96.69	96.04
	Manuf.	97.27	95.91	92.83	90.62	88.87	88.00	87.10	86.94
	Service	98.80	98.31	97.80	97.79	97.61	98.63	97.91	97.19
The BDO Inflation Index	<b>Total</b>	100.11	98.24	99.25	98.04	96.75	95.36	94.25	94.84
	Input	101.20	96.72	98.84	96.99	94.23	91.86	89.80	91.81
	Consumer	99.42	99.75	99.66	99.08	99.28	98.87	98.71	97.86
The BDO Employment Index	<b>Total</b>	111.79	111.31	112.82	112.76	112.50	112.81	111.82	112.22



# APPENDIX: BDO OUTPUT INDEX REACHES 17-MONTH LOW AS OPTIMISM RISES

## 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.