

A woman with long dark hair, wearing a bright red coat and a grey skirt, stands on a balcony with an ornate black metal railing. She is looking up and to the right with her arms slightly outstretched. The background shows a city street with buildings and cars, bathed in warm, golden light. Two red vertical bars are positioned on the left side of the image.

BDO MONTHLY BUSINESS TRENDS INDICES





September 2024

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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 of September 2024, using the results from business surveys that were released during the previous month.

Summary and key findings

Index	Current reading	Movement in month	Index level
BDO Output Index	X		98.87 in August, up from 98.50 in July
BDO Optimism Index	✓		100.33 in August, down from 102.22 in July
BDO Inflation Index	X		96.79 in August, down from 97.76 in July
BDO Employment Index	X X		95.89 in August, down from 96.33 in July

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

KEY FINDINGS

Only the Output Index rose in August, while the Optimism, Inflation and Employment indices all fell relative to the previous month.

The BDO Output Index rose to 98.87 in August, marking its highest reading since August 2022. While the services sub-index rose marginally, the increase in the manufacturing sub-index drove the rise.

The BDO Optimism Index fell to 100.33, but remained above the 100-mark for the fourth consecutive month. Persistently high services inflation continues to weigh on the sector, dampening sentiment.

The BDO Inflation Index decreased to 96.79 in August. Despite the monthly decline, this marked a fourth straight month of expansionary readings. Both of the consumer and input inflation components fell on the month.

The BDO Employment Index fell for the fourteenth consecutive month, down to 95.89. Recent outturn data suggest there may be further loosening of the labour market in the near term, despite cuts to interest rates last month.

OUTPUT INDEX REACHES HIGHEST POINT IN TWO YEARS

- The BDO Output Index increased marginally to 98.87 in August, from 98.50 in July. This rise puts the Index at its highest level since the same month of 2022, when the UK economy was still enjoying the benefits of the post-pandemic recovery, and the effects of the Russia-Ukraine conflict and cost-of-living crisis had not yet fully filtered through to the economy.
- August's rise was driven by increases across both the manufacturing and services sub-indices. The Services Output Index rose to 99.03 in the month, reaching a two-year high similarly to the broader Output Index. This is likely due to an increase in new orders for the sector, as shown in the latest purchasing managers index (PMI) data. In addition, the tail-end of the summer tourism season likely boosted spending from both businesses and consumers. To cater for the rise in demand, employers also increased staff numbers in the month.
- At the same time, the Manufacturing Output Index rose to 97.63 in August, from 96.08 in the previous month. The rise was driven by an acceleration of new orders, in addition to a faster clearing of work backlogs. That said, input prices remain elevated for the sector, while tight financial conditions continue to weigh on manufacturing more broadly. These factors explain the continually sub-100 readings on this metric.
- August's improvement in the Output Index aligns with Cebr's view that the UK economy will continue to expand in Q3. We expect that economic activity will rise by 0.4% quarter-on-quarter in Q3, following an expansion of 0.6% in Q2.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



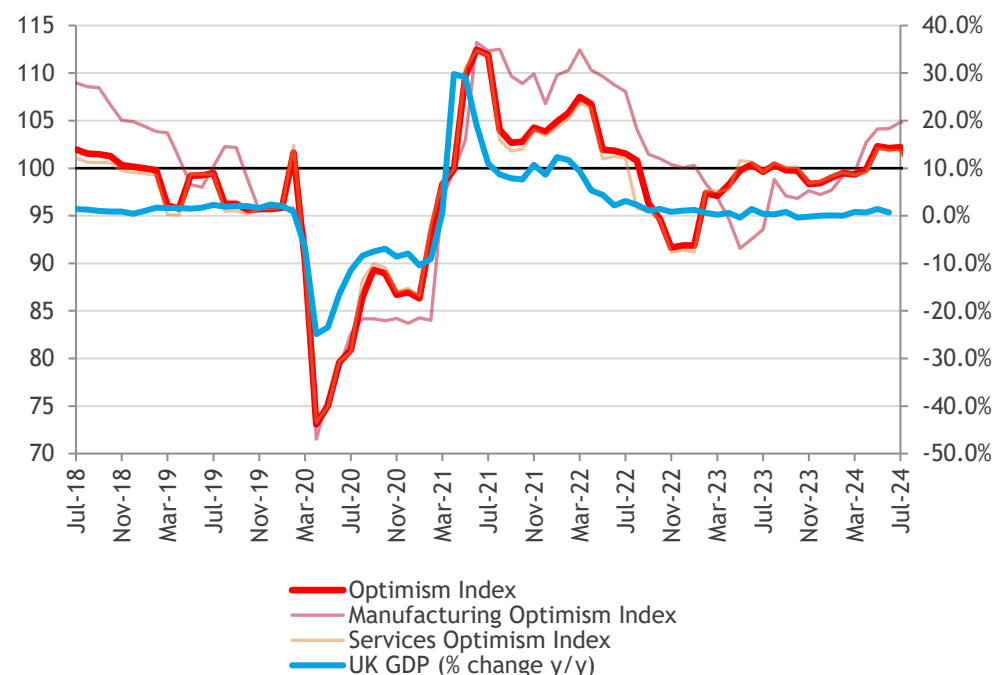
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

OPTIMISM REMAINS ABOVE 100-POINT MARK FOR FOURTH CONSECUTIVE MONTH

- The BDO Optimism Index remained above its historic trend in August, despite dipping down to 100.33 from 102.22 in July. As a result, the Index has stayed above its 100-point mark for four consecutive months and at levels similar to mid-2022, when the conflict in Eastern Europe was beginning to weigh on the optimism surrounding post-pandemic recovery.
- Small declines in both of the sub-indices contributed to the fall in the headline Index. The Manufacturing Optimism Index fell slightly to 104.63 in August, from 104.84 in July. Excluding July's reading, the sub-index was at its highest level since July 2022. This suggests that manufacturers feel positively about the prospects of their sector, as well as the wider economy.
- Similarly, the Services Optimism Index fell to 99.78, from 101.88 in July. This marks its first reading below the 100-point mark since April of this year.
- Broadly, optimism has been supported by easing inflationary pressures and the subsequent expectations of interest rate cuts. However, there has been a marked difference in optimism between the sectors in recent months. This is likely driven by persistently high services inflation, at 5.2% as of July, which has weighed on sentiment in the sector.
- Looking ahead, the reduction in interest rates in August is expected to boost optimism in the following months, with further interest rate cuts anticipated later in the year. Cebr forecasts an additional interest rate cut by the end of 2024, lowering the Bank Rate to 4.75%.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



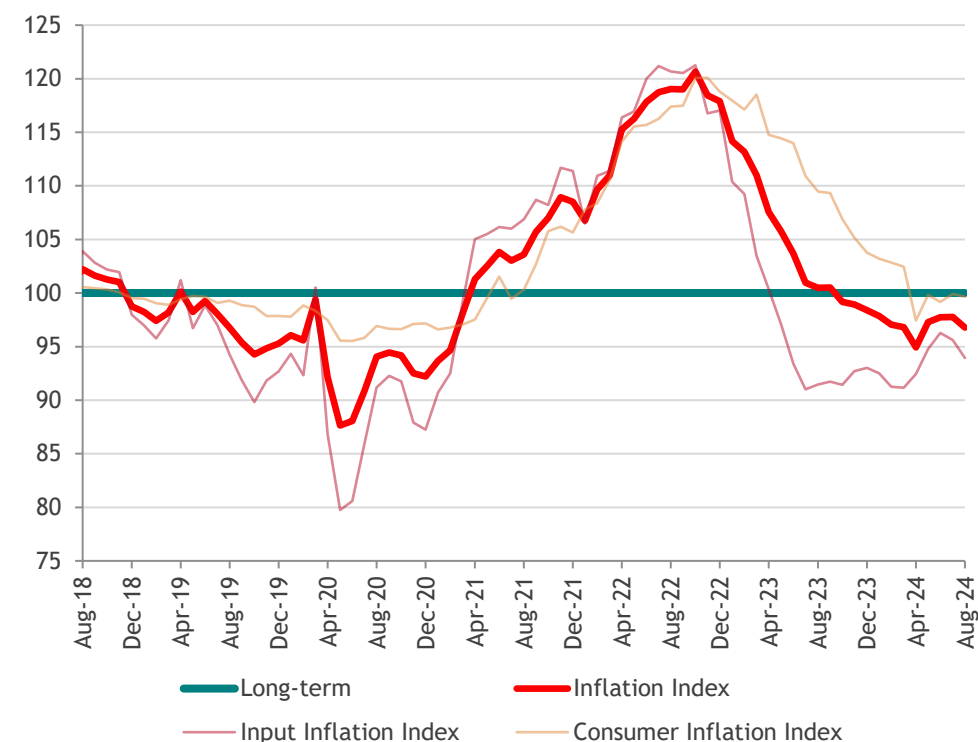
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION INDEX EASES, BUT REMAINS IN GROWTH TERRITORY FOR FOURTH CONSECUTIVE MONTH

- The BDO Inflation Index fell to 96.79 in August, marking the first decline since the Index fell below the 95-point mark in April. The Index continued to exhibit below-trend growth for a fourth consecutive month.
- August's fall was driven by the Input Inflation Index. The sub-index fell to 93.93, signalling a contraction in input prices. Producer prices have largely exhibited deflation since mid-2023, owing to base effects related to the initial price spike in 2022 and the general easing of supply-side issues.
- The Consumer Inflation Index also recorded a decline, albeit marginal, to 99.65 in August. This is from 99.91 in the month prior. The sub-index remains below the year-to-date average of 100.56, as inflationary pressures continue to ease.
- Cebr forecasts that headline inflation will linger just above the Bank of England's 2% target rate for the remainder of 2024, while domestic price pressures remain stubborn. Energy price effects from Q4 are set to exert minor inflationary pressure. As a result, slightly higher readings on the Inflation Index are expected over the coming months.

BDO INFLATION INDEX

100 = average price growth. Greater than 95 = price growth



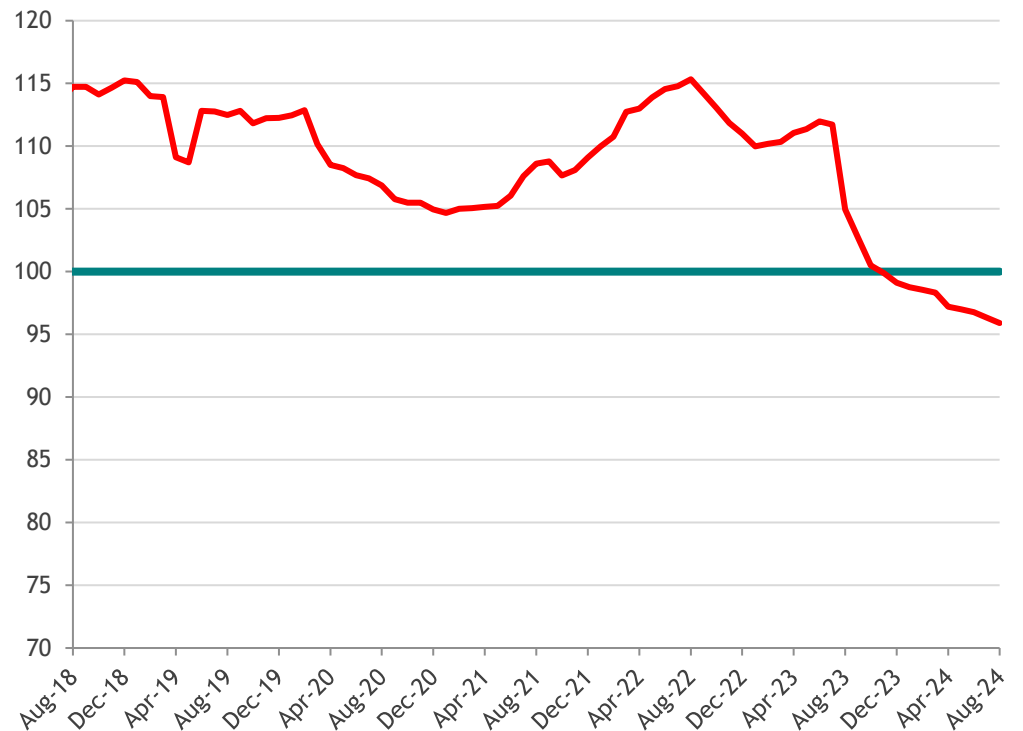
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT INDEX FALLS FOR FOURTEENTH CONSECUTIVE MONTH

- The BDO Employment Index fell for the fourteenth consecutive month in August, to 95.89. This reading is the weakest since January 2013, when the UK labour market was still recovering from the global financial crisis.
- The latest labour market data from the Office for National Statistics (ONS) indicate that the UK claimant count, a measure of those claiming unemployment-related benefits, rose to 1.8 million in July. This is up from 1.7 million in June and is the highest count since December 2021.
- Meanwhile, job vacancies have continued to fall, decreasing by 26,000 in the three months to July compared with the previous three-month period. Together, declining job vacancies and an increasing number of claimants suggest that the UK labour market continues to loosen.
- The recent outturn data suggest that there may be further loosening ahead, despite the cut to interest rates by the Bank of England last month. This has led Cebr to push back its expectations of the peak in the unemployment rate, from Q3 2024 to Q1 2025.
- Further falls in the Employment Index are expected to be marginal, but the Index will likely continue its downward trend throughout the rest of the year.

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

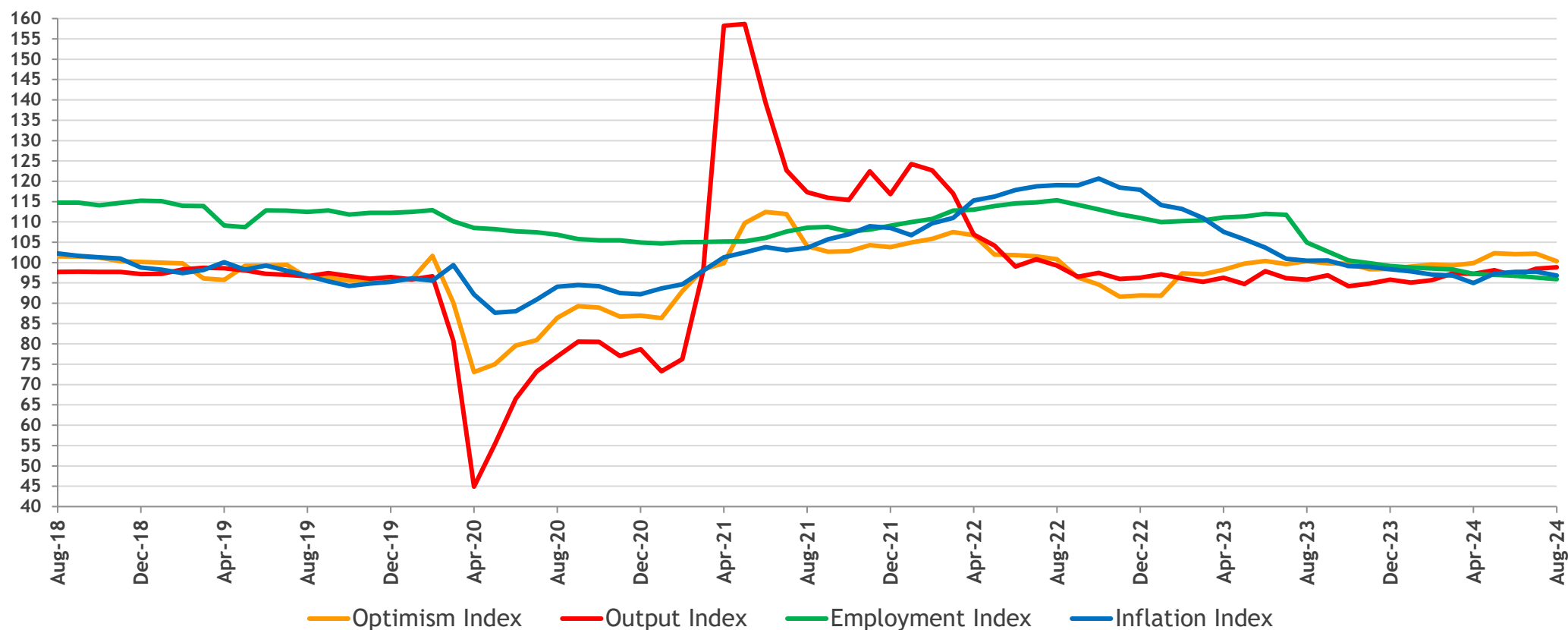
BDO INDICES TO LATEST MONTH

		Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24
The BDO Optimism Index	Total	99.03	99.49	99.33	99.88	102.30	102.09	102.22	100.33
	Manuf.	97.71	99.22	99.59	102.71	104.11	104.15	104.84	104.63
	Service	99.19	99.52	99.30	99.52	102.07	101.83	101.88	99.78
The BDO Output Index	Total	95.10	95.68	97.38	97.20	98.15	96.78	98.50	98.87
	Manuf.	97.45	99.49	98.66	93.99	96.02	91.85	96.08	97.63
	Service	94.80	95.20	97.21	97.61	98.42	97.41	98.80	99.03
The BDO Inflation Index	Total	97.86	97.05	96.81	94.94	97.30	97.72	97.76	96.79
	Input	92.51	91.25	91.16	92.46	94.77	96.26	95.61	93.93
	Consumer	103.20	102.85	102.46	97.42	99.83	99.17	99.91	99.65
The BDO Employment Index	Total	98.77	98.54	98.32	97.21	96.99	96.77	96.33	95.89

APPENDIX: OUTPUT INDEX AT TWO-YEAR HIGH

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.
