

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

BDO MONTHLY BUSINESS TRENDS INDICES

April 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 May 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	▼	44.90 in April from 80.77 in March
BDO Optimism Index	XX	▼	73.08 in April from 90.15 in March
BDO Inflation Index	XX	▼	92.13 in April from 99.41 in March
BDO Employment Index	XX	▼	96.18 in April from 102.99 in March

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 were at their lowest point for a number of years in April. Indeed, both the BDO Output and Optimism indices have reached their lowest points since comparable records began in 2005. Meanwhile, the Inflation and Employment measures both fell to levels not recorded in a number of years as the shock of a full month spent in lockdown gripped the economy.

The swift escalation from social distancing to economic lockdown in March had already caused the BDO Optimism Index to tumble from 101.64 to 90.15 between February and March. As more data have become available and the severity of the lockdown for the UK economy has become apparent the Optimism Index has fallen further still, to stand at a record low of 73.08 in April.

The BDO Output Index has also fallen to a record low of 44.90 in April. The fall of 35.87 points was the largest month-on-month decline on record. The Services Output Index reached a record low of 43.88. The sector, which makes up the majority of the economy, has faced unprecedented disruption, with many workplaces forced to close throughout April in order to slow the spread of the virus.

The BDO Inflation Index fell sharply as global demand for commodities collapsed with most major economies simultaneously shutting down large sections of their economies during April. The BDO Input Inflation Index fell by 13.71 points to stand at 86.79 points while the Consumer Inflation Index declined by 6.02 points in April.

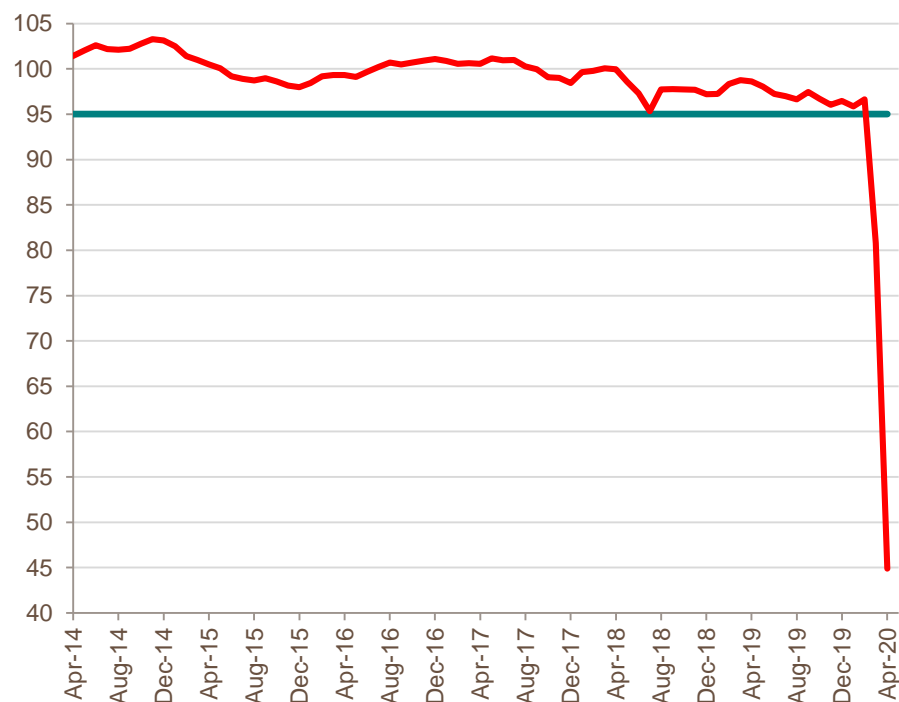
The BDO Employment Index fell steeply for the second consecutive month, to stand at 96.18 as redundancies that started during March continued to mount up into April. While more than 800,000 employers have now used the Coronavirus Job Retention Scheme to furlough staff temporarily, business closures or restructuring and the impact of the lockdown will have forced many others into unemployment.

SERVICES OUTPUT INDEX HITS RECORD LOW AS UK COMPLETES A FULL MONTH IN LOCKDOWN

- The BDO Output Index reacted to a full month of lockdown by recording a collapse of 35.87 points in April. This was the largest monthly decline on record, which brings the Output Index to its lowest ever level of 44.90. The unprecedented fall is driven by an unprecedented set of measures to control the spread of coronavirus. Production was effectively suspended overnight from the last week of March for many businesses as the lockdown came into effect, leaving most firms unable to operate normally, if at all.
- The BDO Manufacturing Output Index fell by 31.30 points, to 52.97 in April. While some manufacturers have been able to work through the crisis, working from home is typically not possible in this sector. Moreover, an acute lack of demand both at home and abroad alongside concerns over employee safety saw many shut down production. Plans for reopening have emerged from some major car manufacturers, setting out the path to safely restore output as the lockdown is gradually lifted.
- In contrast to manufacturing which had already seen output in decline for most of 2019, the services sector had continued to grow up until March 2020. The coronavirus lockdown hit many services businesses especially hard, however, with those providing services face-to-face effectively banned from operating. The Services Output Index fell by 17.31 points in March, a decline that was compounded in April with a further 36.45 point fall to 43.88. This is a record low for the Services Output Index.
- The nature of the current economic crisis stands apart from any contraction seen in recent history. Between March and April the government has shut down parts the economy overnight, albeit on a temporary basis, to slow the spread of the coronavirus. This has created a far more dramatic drop in output than would be expected during more typical economic shocks, after which output tends to fall more slowly over a longer period. The unusual circumstances also mean that provided the measures are temporary, and avoid long-term economic scarring, a recovery may materialise relatively quickly once restrictions are lifted.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



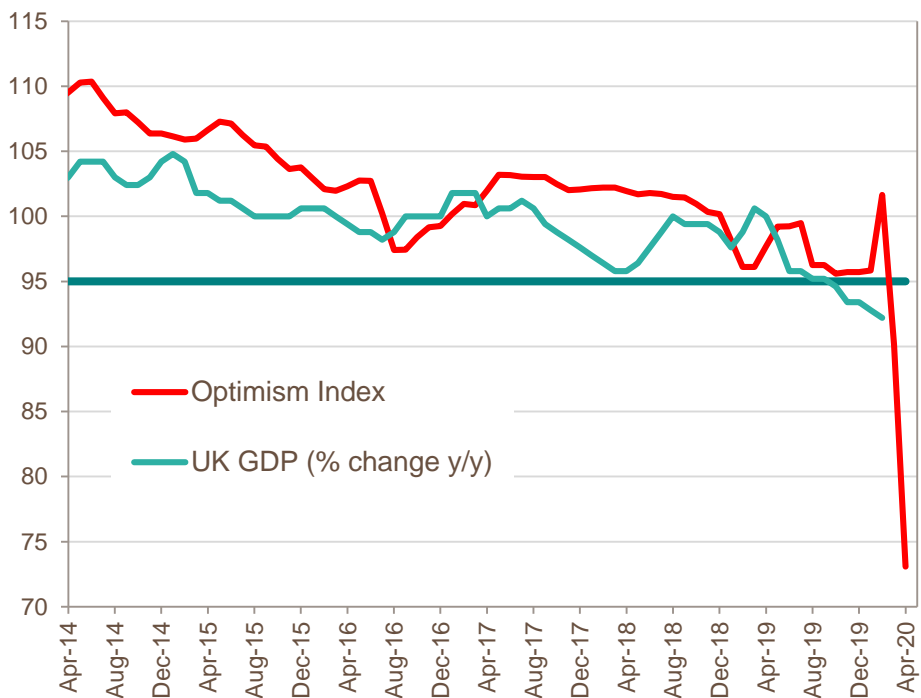
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

OPTIMISM INDEX REACHES RECORD LOW IN APRIL AS LOCKDOWN IS EXTENDED

- The BDO Optimism Index fell by 17.07 points in April. This added to a fall of 11.49 points recorded between February and March to leave the index at 73.08. This is a record low that falls well short of the previous low point of 79.64 recorded in February 2009 in the aftermath of the global financial crisis.
- This decline in business optimism affected manufacturing businesses more heavily in April causing the BDO Manufacturing Optimism Index to fall by 21.58 points to 71.53. This followed a smaller decline of 2.71 points recorded in March. UK manufacturers entered the coronavirus crisis in a fairly weakened position, after output fell consistently during 2019 and Brexit-related trade policy uncertainty loomed for exporters in 2020.
- Although, compared to services firms, social distancing measures will initially have taken longer to impact the sector, a lack of demand resulting from the lockdown will have created cashflow problems for many manufacturing businesses. With uncertainty over when and how the restrictions will be lifted adding to more longstanding concerns, the manufacturing sector faces a difficult period.
- The Services Optimism Index also recorded a second consecutive monthly decline in April. The index fell by 16.50 to stand at 73.27, following a fall of 12.61 in March. This is a record low for the Services Optimism Index as lockdown closed significant parts of the sector completely and left many other businesses facing a steep learning curve in the move to widespread remote working.
- Many hospitality firms have effectively entered a state of hibernation while social distancing is being adhered to, with no clear path to reopening while the lockdown remains in force. An extension of the initial three-week lockdown will have worried many service firms. More recently, polls indicating that fear of contracting covid-19 may continue beyond the lifting of any lockdown restrictions will further weigh on services optimism.

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

LACK OF DEMAND SEES INFLATION INDEX FALL BACK INTO NEGATIVE TERRITORY

- The BDO Inflation Index fell by 7.28 points in April to stand at 92.13. The biggest driver of the decline was a fall of 13.71 points in the Input Inflation Index. Meanwhile, the Consumer Inflation Index also fell by 0.84 points to 97.48.
- Economies the world over have simultaneously seen demand weaken as economic growth has tumbled in the face of the coronavirus outbreak. In Q1 2020, Chinese GDP fell by 9.8% on a quarterly basis. In the US, where restrictions on economic activity were implemented much later, the economy contracted at an annualised rate of 4.8%. This is equivalent to a 1.2% fall in economic output over the first quarter which was driven by a lockdown that only began in the second half of March.
- With the slowdown in global output continuing into April, commodity prices have dropped markedly. Oil prices fell sharply during March and April, with the West Texas Intermediate benchmark price even turning negative as storage facilities approached capacity, due to a glut of supply. This will have reduced input costs for UK businesses and the Input Inflation Index fell to 86.79, its lowest level since January 2016.
- Lower oil prices will have also been feeding through into lower consumer prices, although the lockdown has reduced road traffic as most households cut back on unnecessary travel. The annual rate of consumer price inflation fell by 0,2 percentage points to 1.5% in March. The lockdown will make price levels hard to measure in the short-term as some elements of a typical consumer spending basket prove hard to access with non-essential shops, pubs, restaurants and hotels closed. Nevertheless, a widespread reduction in demand will weigh on price levels for both businesses and consumers in the coming months.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



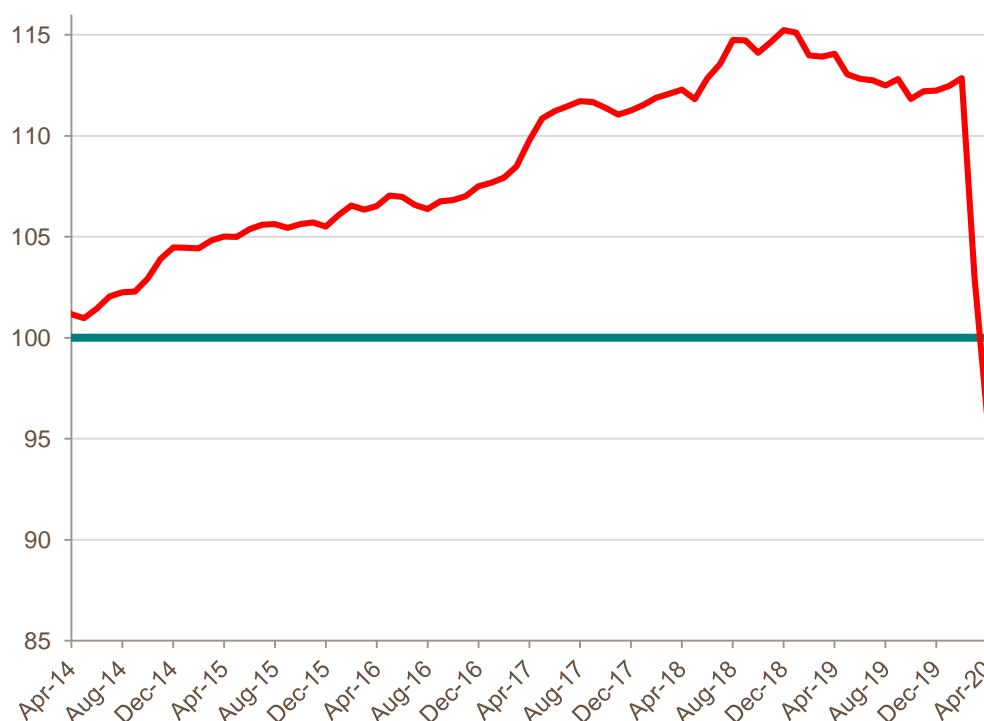
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

RAPID INCREASE IN UNIVERSAL CREDIT CLAIMS POINT TOWARD HIGH UNEMPLOYMENT DESPITE FURLOUGH SCHEME AVAILABILITY

- The BDO Employment Index slumped to 96.18 points in April, far below the long term average level of 100. The index fell by 6.81 points April, following a 9.87 point fall in March. These figures have been revised since the previous BDO Business trends report to reflect just the unemployment count and not the temporary lay-offs supported by the Coronavirus Job Retention Scheme.
- UK labour market data is released with a large lag and the latest statistics, for the three months to February, show the employment rate at a record high of 76.6%. These figures are no longer representative of the UK labour market as the unprecedented level of disruption caused by the coronavirus will have left many more without work.
- The introduction of the Coronavirus Job Retention Scheme will allow many business to retain their employees during the period of reduced operations. However, the impact of the lockdown will have been particularly severe for the self-employed who cannot access the scheme and may now find themselves unemployed. Although many businesses have been able to furlough their staff temporarily to cut costs, some will have run into cashflow difficulties early and been forced to close permanently, leading to redundancies.
- Management information from the Department of Work and Pensions shows that close to 2.3 million Universal Credit declarations were made between 16 March and 28 April. Many of these declarations will have been claims made by newly unemployed individuals. As a result, the employment rate is sure to have fallen rapidly and businesses are largely cutting back on hiring while uncertainty is high and revenues are down.

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

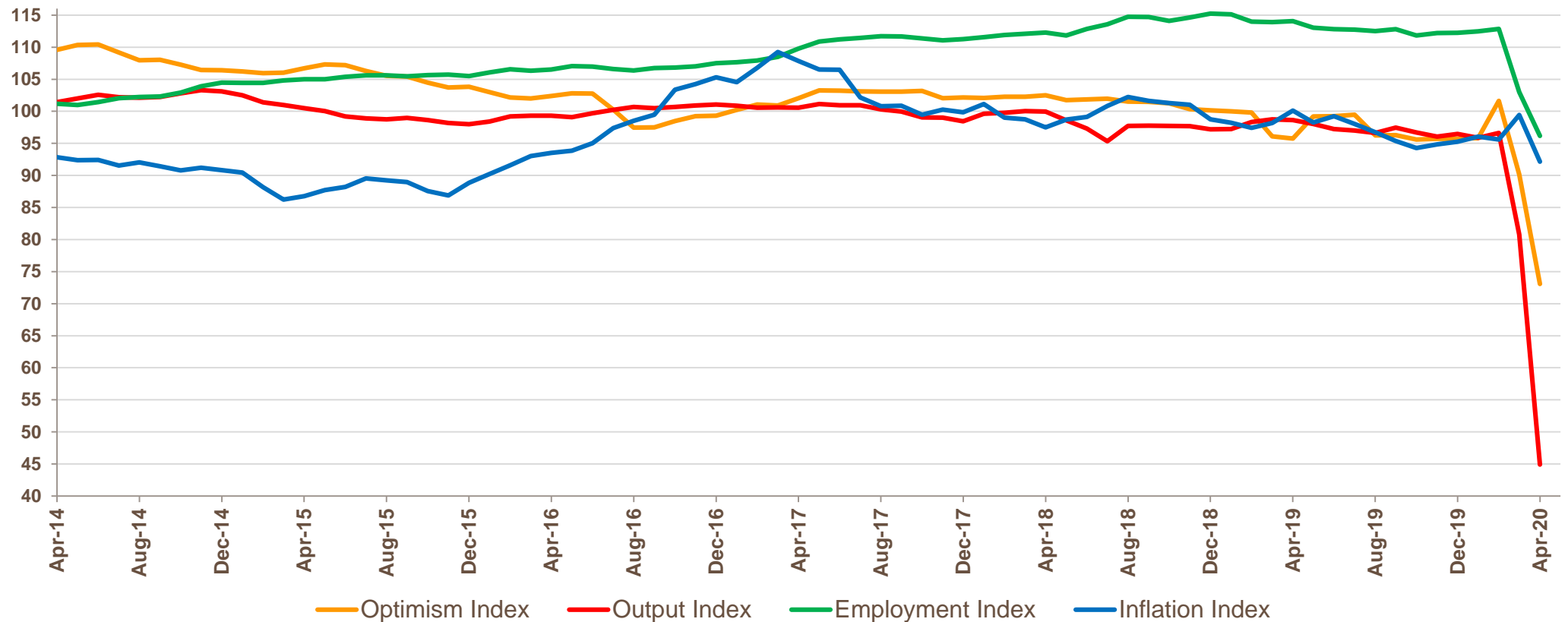
BDO INDICES TO LATEST MONTH

		Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
The BDO Optimism Index	Total	96.26	95.59	95.71	95.72	95.84	101.64	90.15	73.08
	Manuf.	102.16	98.78	95.55	95.64	95.69	95.82	93.11	71.53
	Service	95.52	95.18	95.73	95.73	95.86	102.38	89.77	73.27
The BDO Output Index	Total	97.44	96.69	96.04	96.47	95.88	96.64	80.77	44.90
	Manuf.	88.00	87.10	86.94	86.31	86.78	88.75	84.27	52.97
	Service	98.63	97.91	97.19	97.76	97.03	97.64	80.33	43.88
The BDO Inflation Index	Total	95.36	94.25	94.84	95.27	96.07	95.59	99.41	92.13
	Input	91.86	89.80	91.81	92.69	94.34	92.33	100.50	86.79
	Consumer	98.87	98.71	97.86	97.86	97.80	98.84	98.32	97.48
The BDO Employment Index	Total	112.81	111.82	112.22	112.25	112.46	112.86	102.99	96.18

APPENDIX: LOCKDOWN LEADS ALL FOUR BDO BUSINESS TRENDS INDICES TO MULTI-YEAR LOWS

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.