

▶ A NEW ECONOMY
PUBLICATION

A red watering can is positioned in the upper left quadrant, tilted as if pouring. Below it, four small, round, terracotta pots containing green succulents are arranged in a loose pattern. The background is a solid grey color. 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

December 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 January 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	X	▲	96.47 in December from 96.04 in November
BDO Optimism Index	X	▲	95.72 in December from 95.71 in November
BDO Inflation Index	X	▲	95.27 in December from 94.84 in November
BDO Employment Index	✓	▲	112.25 in December from 112.22 in November

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 rose marginally in December, albeit from low starting points. The BDO Optimism, Output and Inflation Indices are all hovering just above the 95 level that reflects no change, following small improvements since November. Meanwhile, the BDO Employment Index also recorded a small rise last month.

In December, a rise in the BDO Services Output index offset a further fall in the Manufacturing Output Index, causing the combined BDO Output Index to rise from 96.04 to 96.47. The limited scope of any rapidly negotiated Brexit trade deal with the EU seems likely to present new trade barriers to UK exporters in the short-term, which may further constrain manufacturing output.

The BDO Optimism Index rose by just 0.01 points in December to stand at 95.72. While, optimism among service sector firms was unchanged from November, manufacturers recorded a 0.09 point uptick in sentiment which drove the change in the headline Optimism Index.

The BDO Inflation Index rose by 0.43 points in December, moving the index back above the 95 mark for the first time since September. Stable consumer prices left the Consumer Inflation Index unchanged, while the Input Inflation Index increased for the second consecutive month, rising by 0.88 points.

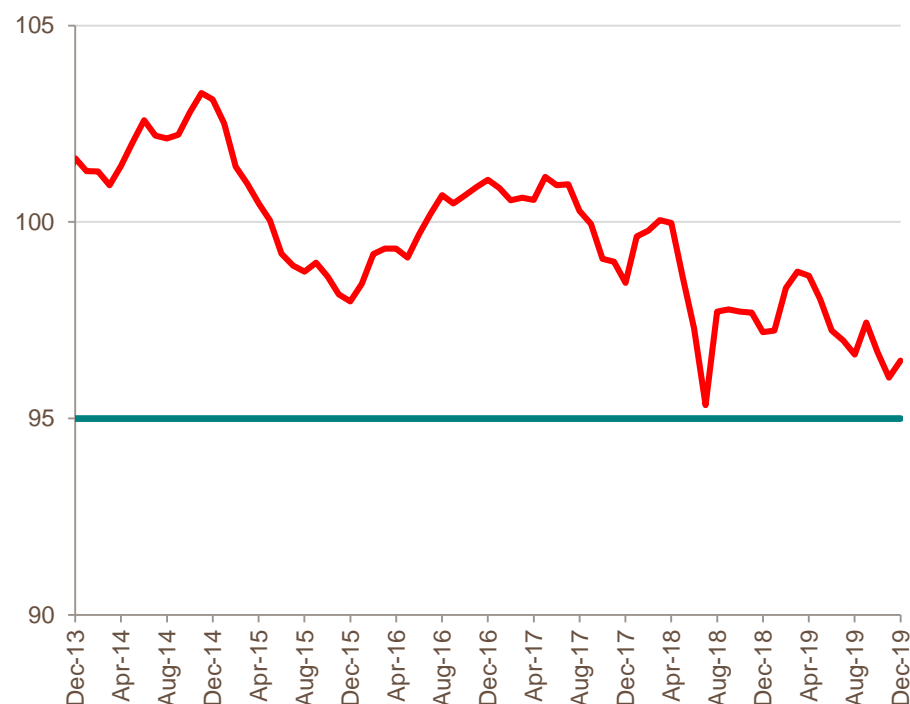
The BDO Employment Index rose by 0.03 points in December, to stand at 112.25. The latest labour market data show a minor improvement in the current employment rate but lower levels of hiring activity being planned for the future.

BDO OUTPUT INDEX TICKS UP AS SERVICES OUTPUT STABILISES

- The overall BDO Output Index rose marginally in December, increasing by 0.43 points, to 96.47. This was insufficient to recover the ground lost in November, when the index fell by 0.65 points. The BDO Manufacturing Output Index fell by 0.63 points compared to November and now stands at 86.31. This is its 15th consecutive monthly fall.
- The UK economy is dominated by the service sector, however, and the BDO Services Output Index performed better in December. An increase of 0.57 points, to stand at 97.76, more than offset the weakness among manufacturers causing the headline Output Index to rise. Nevertheless, at 96.47 it remains well below the long term average and subdued economic growth appears inevitable going into 2020.
- The continued weakness among manufacturers in the UK has been replicated across many countries as a consequence of a global slowdown in trade. Aggressive protectionist policies being pursued by the US in its dealings with China and other North American trading partners had been responsible for much of the slowdown. Breakthroughs in negotiations on both of these fronts during December should raise the prospects for trade in the coming year.
- The UK general election in December delivered a strong Conservative majority, with a mandate to leave the EU and finalise negotiations over the future of trade within a year. This leaves little scope for a far-reaching deal with the EU or to implement trade deals with other nations. Barriers to trade therefore look set to increase for UK firms even as the global outlook improves.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



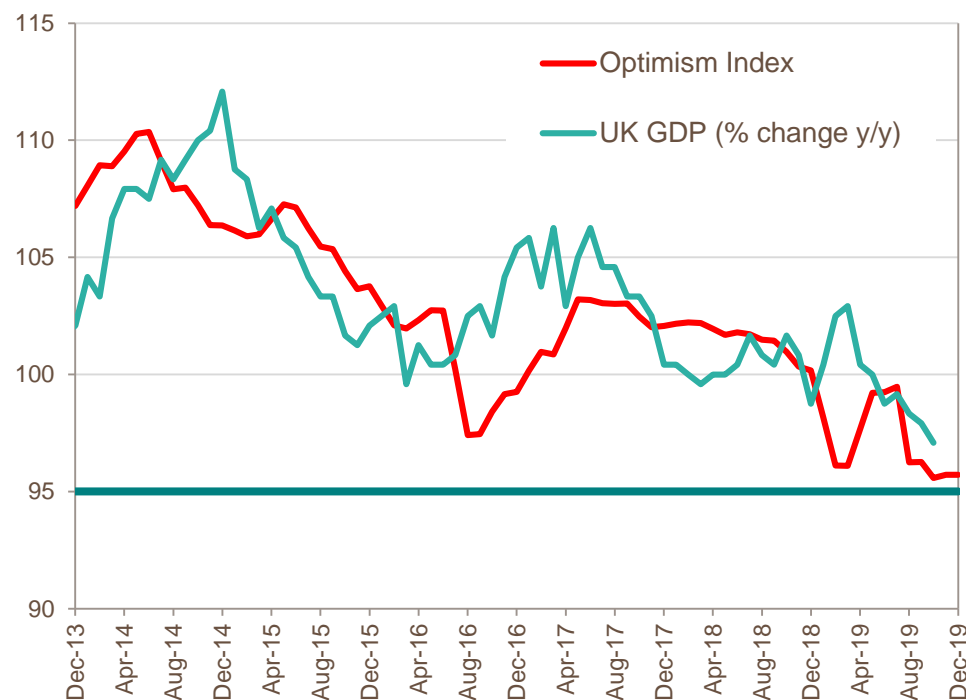
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

BDO OPTIMISM INDEX FLATLINES AS BUSINESSES REFLECT ON THE ELECTION

- The BDO Optimism Index rose by just 0.01 points in December and now stands at 95.72. This leaves the index still languishing close to the 95.59 mark recorded in October, which was a seven year low. Manufacturing optimism was up by 0.09 points compared to November, breaking a three-month run of falling sentiment. The Services Optimism Index was unchanged in December, at 95.73.
- In the absence of any major economic incidents, the general election, held on 12 December, will have been affecting business sentiment over the last two months. The limited movement in both the Manufacturing and Services Indices suggests that businesses may have been adopting a wait and see approach regarding the future.
- For manufacturers this meant a continuation of the pessimism of recent months. In November, the BDO Manufacturing Optimism Index fell by 3.23 points and this marginal upturn in December suggests little prospect of a sustained improvement in the sector's performance in the months to come.
- While the level of optimism among service sector firms was slightly higher than among manufacturers overall there was no month-on-month improvement recorded in December. Although some service industries such as information and communication have been expanding rapidly, other sectors are struggling. Consumer facing industries in particular have been suffering the consequences of declining consumer confidence.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



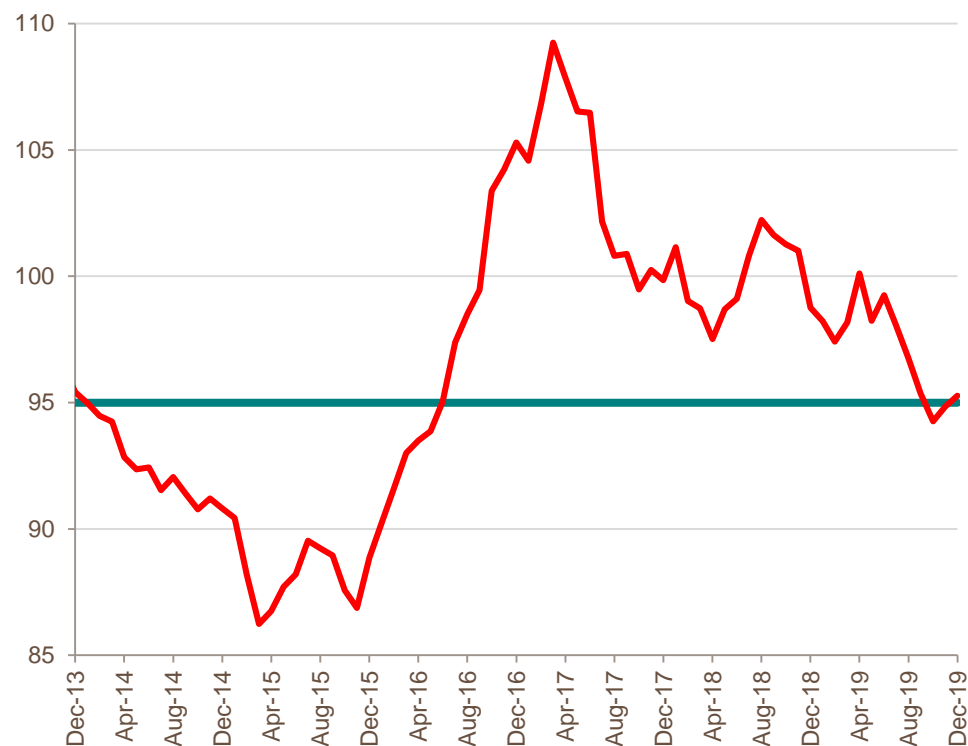
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

WEAK GROWTH AND STRONGER POUND KEEPS INFLATION INDEX SUBDUED

- The BDO Inflation Index rose by 0.43 points to 95.27 in December. For the second month running, the upturn was driven by the BDO Input Inflation Index, which rose by 0.88 points compared to November and now stands at 92.69. The BDO Consumer Inflation Index remained unchanged in December at 97.86.
- Despite consecutive monthly increases the BDO Input Inflation Index remains depressed, standing below the 95 mark that would indicate input prices are rising year-on-year. While many commodity prices are still down year-on-year, the influence of these price reductions on the index has diminished.
- The annual rate of consumer price inflation on the CPI stood at 1.5% in November, unchanged from October. A weak economy and falling energy prices have been holding back the rate at which consumer prices have risen in recent months. A stronger pound has also helped to reduce the cost of imports during the final quarter of 2019.
- While financial markets initially reacted favourably to the Conservative Party winning a strong majority in the December election, the Prime Minister's comments regarding the approach to trade negotiations soon reversed those gains. The value of the pound therefore seems unlikely to strengthen further until the EU and UK are able to set out more detail on trade negotiations.
- Rising oil prices also look set to increase inflationary pressure in 2020. Geopolitical tensions in the middle east, focussed on the rising risk of armed conflict between the US and Iran, could cause disruptions in the supply of oil leading to price spikes.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



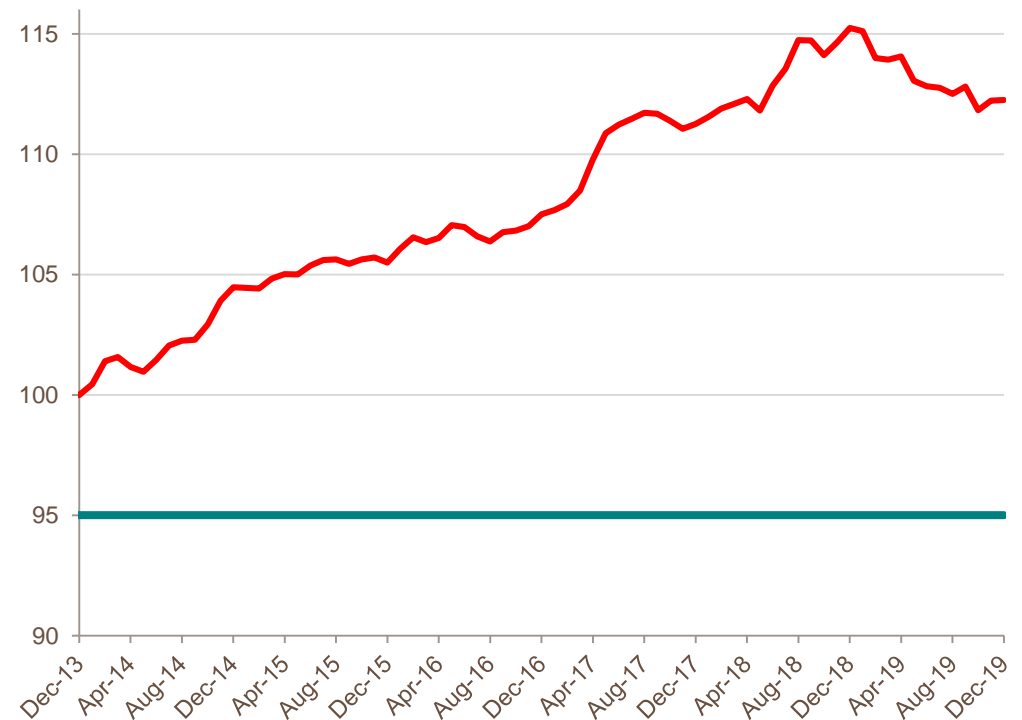
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

BDO EMPLOYMENT INDEX STABLE AS STRONG EMPLOYMENT IS BALANCED BY SLOWER HIRING

- A 0.03 point rise in December leaves the BDO Employment Index standing at 112.25, up from the 112.22 in November. This places the Employment Index in line with its level from late 2017 and 2.99 points down on the recent peak of 115.24 in December 2018.
- The latest data on the labour market from the Office for National Statistics cover the three-months to October 2019 when the employment rate hit a new record high of 76.2%. This was 0.1 percentage points higher than the previous three-month period. However, with the unemployment rate also very low, the prospect of further employment growth is somewhat limited.
- The prospect of further job creation is also reflected in the forward looking survey data. Employers are generally reporting less of an appetite to grow their headcount as the rate of economic growth flattens off. With demand only growing slowly, it is not in the interest of most employers to raise wages in competition for the limited pool of available labour in order to expand production.
- As a consequence of employers cutting their hiring plans, the number of open vacancies also continues to fall. In the period from September to November last year the number of vacancies in the UK was down by 20,000 on the previous quarter, at 794,000. Year-on-year the number of vacancies fell by 59,000 - the strongest decline since the final quarter of 2009 in the midst of the financial crisis.

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

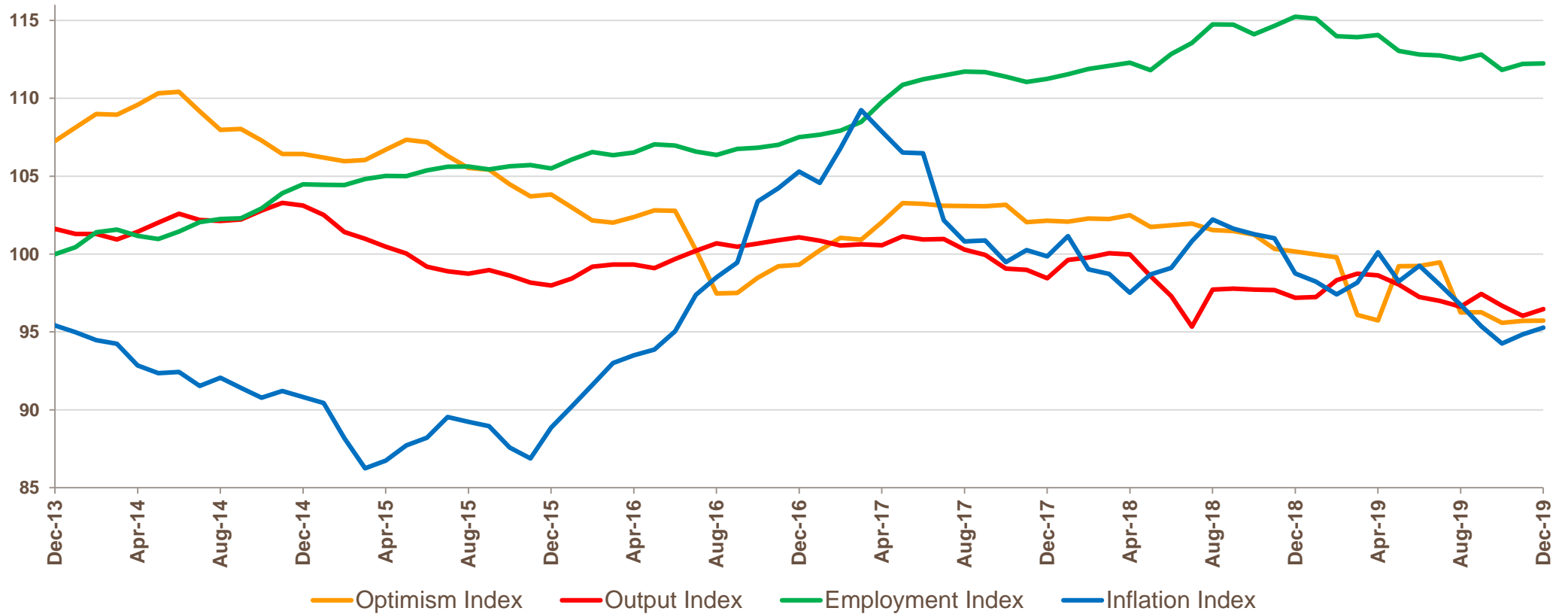
BDO INDICES TO LATEST MONTH

		May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
The BDO Optimism Index	Total	99.22	99.23	99.47	96.26	96.26	95.59	95.71	95.72
	Manuf.	98.26	97.99	100.17	102.28	102.16	98.78	95.55	95.64
	Service	99.34	99.39	99.38	95.49	95.52	95.18	95.73	95.73
The BDO Output Index	Total	98.04	97.24	96.99	96.62	97.44	96.69	96.04	96.47
	Manuf.	95.91	92.83	90.62	88.87	88.00	87.10	86.94	86.31
	Service	98.31	97.80	97.79	97.61	98.63	97.91	97.19	97.76
The BDO Inflation Index	Total	98.24	99.25	98.04	96.75	95.36	94.25	94.84	95.27
	Input	96.72	98.84	96.99	94.23	91.86	89.80	91.81	92.69
	Consumer	99.75	99.66	99.08	99.28	98.87	98.71	97.86	97.86
The BDO Employment Index	Total	111.31	112.82	112.76	112.50	112.81	111.82	112.22	112.25

APPENDIX: ALL BDO BUSINESS TRENDS INDICES POST MARGINAL GAINS IN DECEMBER

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.