



# BDO MONTHLY BUSINESS TRENDS INDICES

August 2023

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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 2023, 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	▼	97.04 in August, down from 98.98 in July
BDO Optimism Index	✓	▲	100.36 in August, up from 99.62 in July
BDO Inflation Index	✓ <sup>1</sup>	▼	100.36 in August, down from 100.96 in July
BDO Employment Index	✓	▼	110.92 in August, down from 111.73 in July

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

1 Although the Inflation Index remains in positive territory, it is now at its weakest level in 12 months.

## KEY FINDINGS

Three of the four Business Trends indices declined in August.

The BDO Output Index fell to 97.04 in August. This marked a return to decline, following consecutive improvements in the prior two months.

The BDO Optimism Index increased by 0.74 points in August, reaching 100.36. This marked a return to improvement following July's decline. The Index now stands above the long-term trend value of 100.

The BDO Inflation Index saw a tenth consecutive monthly decline in August. The Index fell by 0.60 points relative to July, reaching 100.36. This represents the weakest reading since March 2021, the last time that the Inflation Index stood below the long-term trend value of 100.

The BDO Employment Index fell for a second consecutive month in August, dropping by 0.81 points relative to July to reach 110.92.

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## BOTH SECTORAL COMPONENTS CONTRIBUTED TO POSITIVE OUTPUT READING IN AUGUST

- The BDO Output Index fell to 97.04 in August. This marked a return to decline, following consecutive improvements in the prior two months. Despite the monthly decline, the Index remains in positive territory, defined as a reading in excess of 95. Such readings have been recorded for three consecutive months.
- The Services Output Index mirrored the headline figure with a monthly fall in August. This component fell by 2.38 points to reach 97.23. The fall suggests that output growth for services was slower in August than in July.
- The Manufacturing Output Index increased in August, picking up by 1.52 points on the month, returning to a positive reading of 95.52. This suggests that the manufacturing sector has returned to growth.
- Recent official data have shown that the manufacturing sector has been in a stronger position than suggested by alternative data sources. This has affected the back history of the Manufacturing Output Index, which now shows milder contractions in recent month.
- Recent data revisions have also shown that the economy performed stronger than expected in the period immediately after the pandemic. Despite this, the fundamentals for the economic outlook have not been altered. Cebr therefore still expects a recession across Q4 2023 and Q1 2024, reflecting the effect of tighter monetary policy. Weak readings on the Output Index are therefore anticipated across this period.

### BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



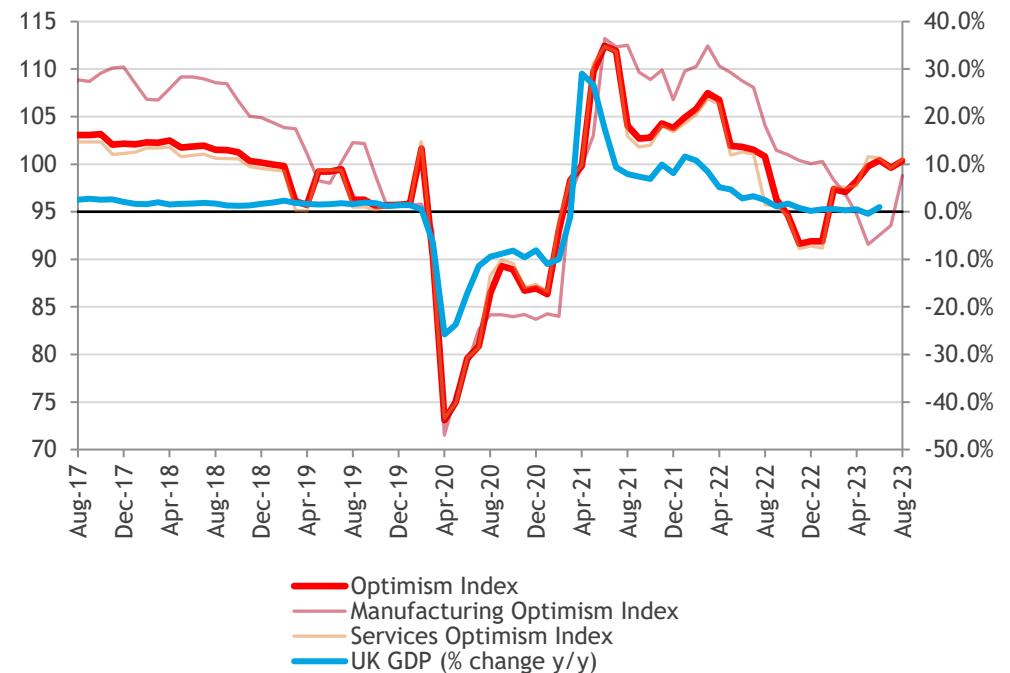
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# OPTIMISM INDEX IMPROVES, BUT FUTURE OUTLOOK REMAINS UNCERTAIN

- The BDO Optimism Index increased by 0.74 points in August, reaching 100.36. This marked a return to improvement following July's decline. The Index now stands above the long-term trend value of 100.
- The increase in the Optimism Index was driven by manufacturing. The Manufacturing Optimism Index picked up by 5.25 points in August, taking this component back to positive territory for the first time since March this year, at a reading of 98.81.
- Turnover amongst manufacturers has been stronger than expected in recent months, supporting the improved outlook amongst these businesses.
- The Services Optimism Index also improved on the month, reaching 100.55. This marked an increase of 0.98 points relative to July. Net optimism improved amongst service sector businesses in August, having experienced a protracted period of negativity amidst difficult economic conditions over much of the last year.
- As outlined previously, Cebr expects the economy to experience a mild recession between Q4 2023 and Q1 2024. This will likely put some downward pressure on business 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

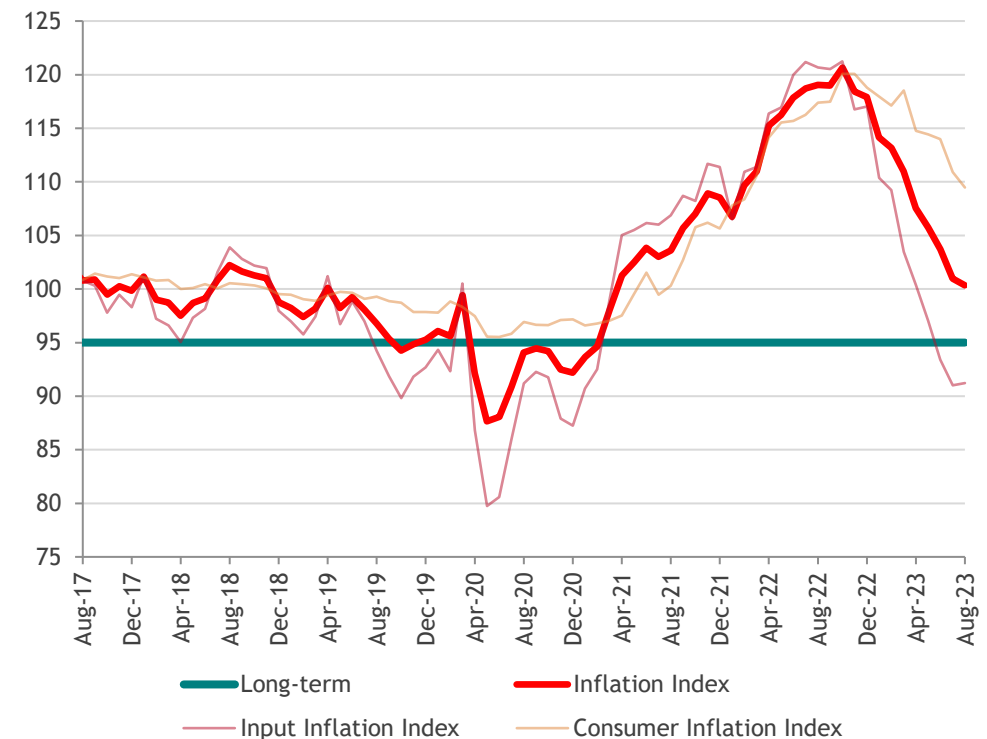


# INFLATION INDEX CONTINUES DOWNWARD TREND DESPITE NEAR-TERM INPUT PRICE VOLATILITY

- The BDO Inflation Index saw a tenth consecutive monthly decline in August. The Index fell by 0.60 points relative to July, reaching 100.36.
- This represents the weakest reading since March 2021, the last time that the Inflation Index stood below the long-term trend value of 100.
- The decline in August was driven by the Consumer Inflation Index, which fell by 1.42 points to reach 109.49. This represents the weakest reading for this component since February 2022.
- Consumer price inflation is expected to have continued decelerating in August, with downward contributions from energy prices.
- The Input Inflation Index saw a slight uptick in August, reaching 91.22. This represented the first increase for this subcomponent since December 2022.
- The sub-95 reading on this metric means that prices are falling on the year. However, the fact that the component increased on the month suggests that the scale of the annual price fall narrowed.
- Input prices were subject to some upward pressure in August. This was most noticeable for gas prices, which increased as a result of global supply chain volatility.

## BDO INFLATION INDEX

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



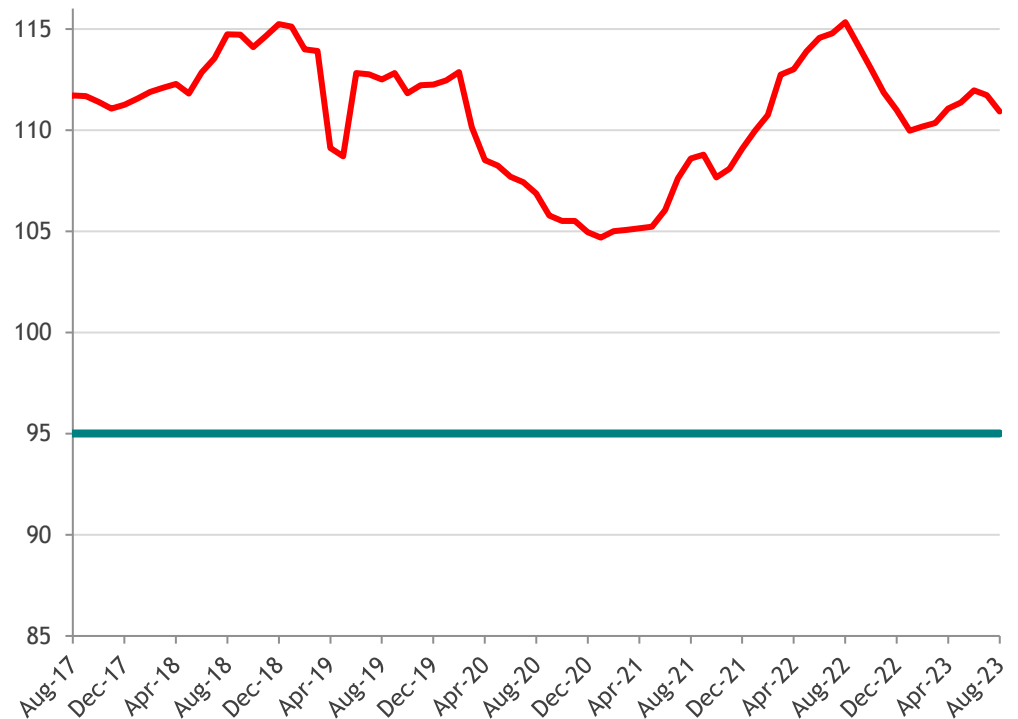
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# COOLING LABOUR MARKET PUTS DOWNWARD PRESSURE ON EMPLOYMENT INDEX

- The BDO Employment Index fell for a second consecutive month in August, dropping by 0.81 points relative to July to reach 110.92.
- The labour market continues to show signs of cooling. The latest official data show that the number of vacancies, an indicator of hiring intentions, was down by more than 250,000 on the year in the three months to July. Meanwhile, the unemployment rate is on the up, reaching 4.2% in Q2, its highest since Q3 2021.
- The cooling labour market is likely a consequence of the Bank of England's monetary tightening campaign. Higher interest rates act to slow economic activity, reducing firms' demand for workers. Given that further interest rate hikes are anticipated, this trend is set to continue.
- Indeed, Cebr expects the unemployment rate to continue rising over the coming months. As a result of the forecasted recession, Cebr projects the unemployment rate to peak at 4.9% across the first half of 2024. Further declines in the BDO Employment Index will likely accompany this trend.

## 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

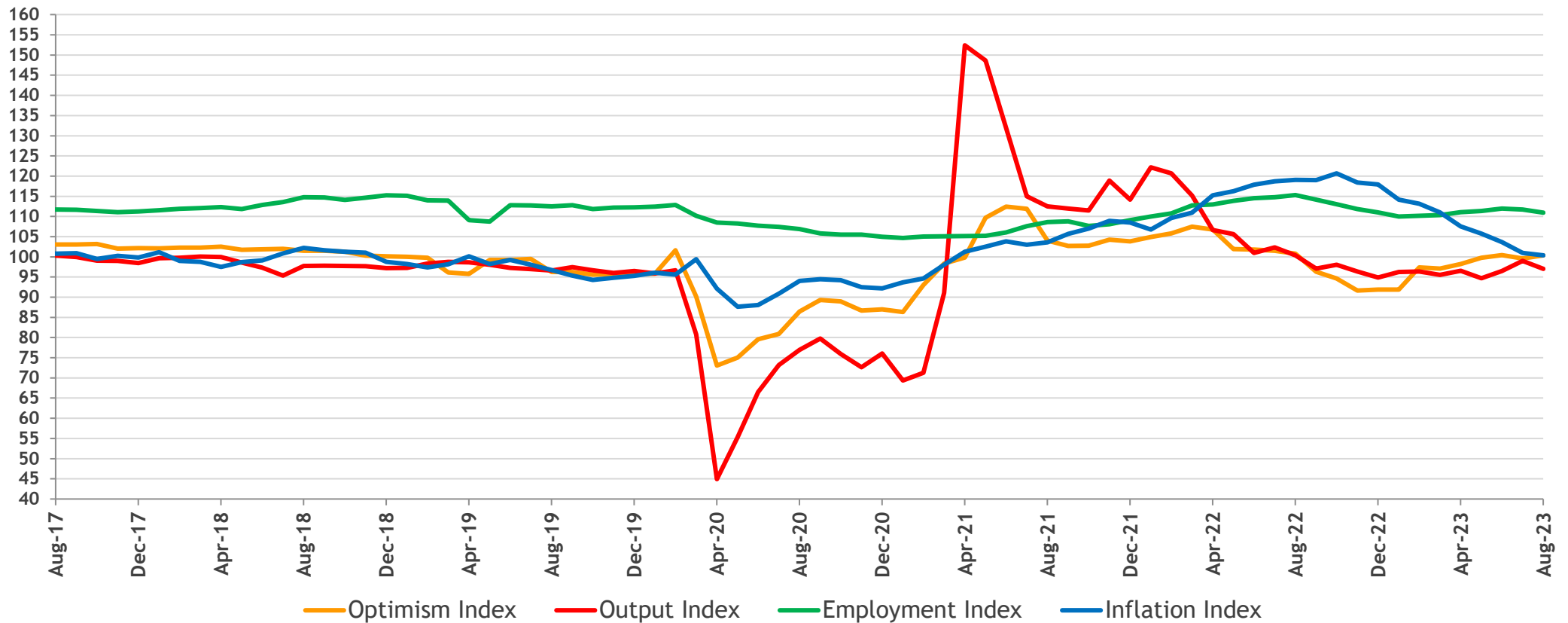
		Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23
The BDO Optimism Index	<b>Total</b>	91.88	97.36	97.09	98.22	99.75	100.40	99.62	100.36
	Manuf.	100.29	98.37	96.88	94.72	91.56	92.56	93.56	98.81
	Service	91.18	97.66	97.56	97.75	100.79	100.67	99.57	100.55
The BDO Output Index	<b>Total</b>	96.26	96.37	95.54	96.53	94.70	96.48	98.98	97.04
	Manuf.	90.88	91.86	93.02	95.00	94.00	96.34	94.00	95.52
	Service	96.94	96.94	95.86	96.72	94.79	96.50	99.61	97.23
The BDO Inflation Index	<b>Total</b>	114.16	113.18	110.99	107.55	105.74	103.68	100.96	100.36
	Input	110.36	109.23	103.46	100.35	97.03	93.39	91.01	91.22
	Consumer	117.95	117.12	118.53	114.75	114.44	113.98	110.91	109.49
The BDO Employment Index	<b>Total</b>	109.97	110.18	110.35	111.07	111.36	111.96	111.73	110.92



# APPENDIX: DECLINE ACROSS THREE OF THE BDO BUSINESS TRENDS INDICES IN AUGUST

## 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.

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