

A red watering can is positioned in the upper left quadrant, tilted as if pouring. Below it, four small terracotta pots containing various green succulents are arranged on a grey surface. 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

May 2022

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 June 2022, 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 | ✓ | ▽ | 100.53 in May, down from 102.39 in April |
| BDO Optimism Index | ✓ | ▽ | 101.93 in May, down from 106.75 in April |
| BDO Inflation Index | ✓✓ | △ | 116.25 in May, up from 115.26 in April |
| BDO Employment Index | ✓✓ | △ | 113.89 in May, up from 113.00 in April |

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

Two of the four BDO Business Trends indices increased in May.

All four indices stood in positive territory and above their long-term trend levels. This has now been the case for thirteen consecutive months. In the case of the Output Index, the reading is only just above the long-term trend, however.

The Output Index fell for a third consecutive month in May, reaching 100.53. The Output Index was last lower in March 2021, when the reading was 100.49.

The BDO Optimism Index fell for a second consecutive month. This amounted to a fall of 4.82 points, taking the Index to 102.07, its weakest reading since April 2021.

The BDO Inflation Index increased by further 0.99 points in May, reaching a new series high of 116.25. Increases were seen across both the Consumer Inflation and Input Inflation subindices.

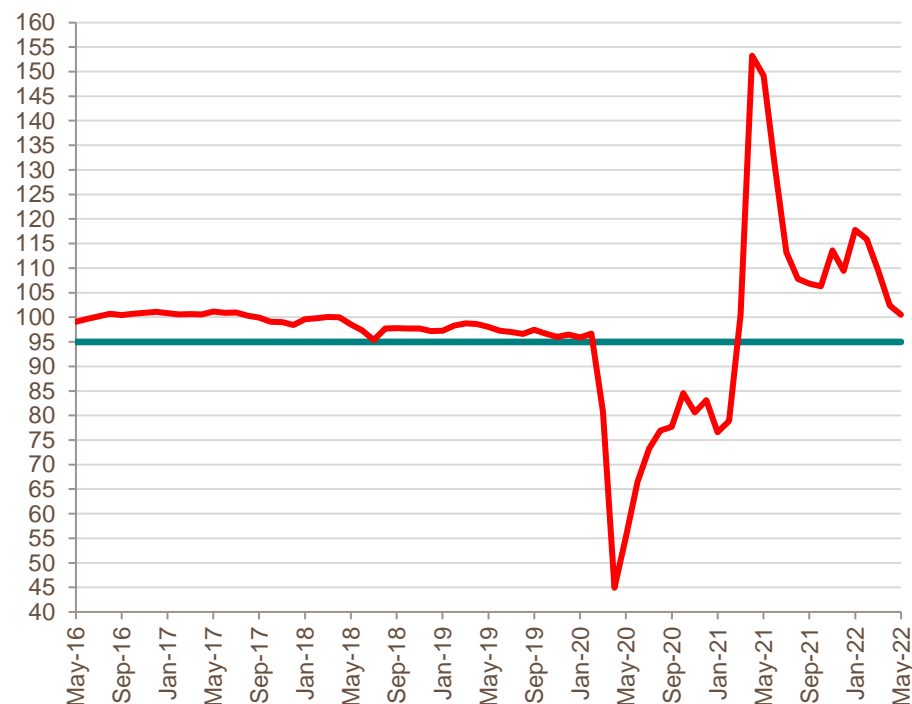
The BDO Employment Index also increased in May, marking a seventh consecutive month of improvement. The Index now stands at 113.89, its highest level since March 2019.

OUTPUT INDEX NOW JUST ABOVE LONG-TERM TREND RATE OF GROWTH AFTER FURTHER DROP IN MAY

- The BDO Output Index dropped by a further 1.86 points in May. This took the Index to 100.53, its lowest reading since March 2021. The Index now stands only just above the 100-point mark, indicating the average trend rate of growth.
- May saw falls across both the Manufacturing Output and Services Output subindices. The latter saw a larger drop, amounting to 2.01 points, while the former fell by 0.72 points.
- These falls reflect near-term pressures on output growth across the UK economy. The services sector has been affected by the ongoing cost-of-living crisis, which has brought weaker consumer activity in recent months. This has impacted output amongst sectors such as retail and accommodation and food services.
- Meanwhile, the manufacturing industry continues to be impacted by global supply chain disruption. This has curtailed growth in the sector for some time, by acting as a restriction on output. The Manufacturing Output Index has now fallen for four consecutive months.
- Cebr expects growth to slow further at the aggregate level of the coming months, driven by the aforementioned consumer pressures and supply-side issues. As such, the Output Index is expected to fall further, beneath its long-term trend rate.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



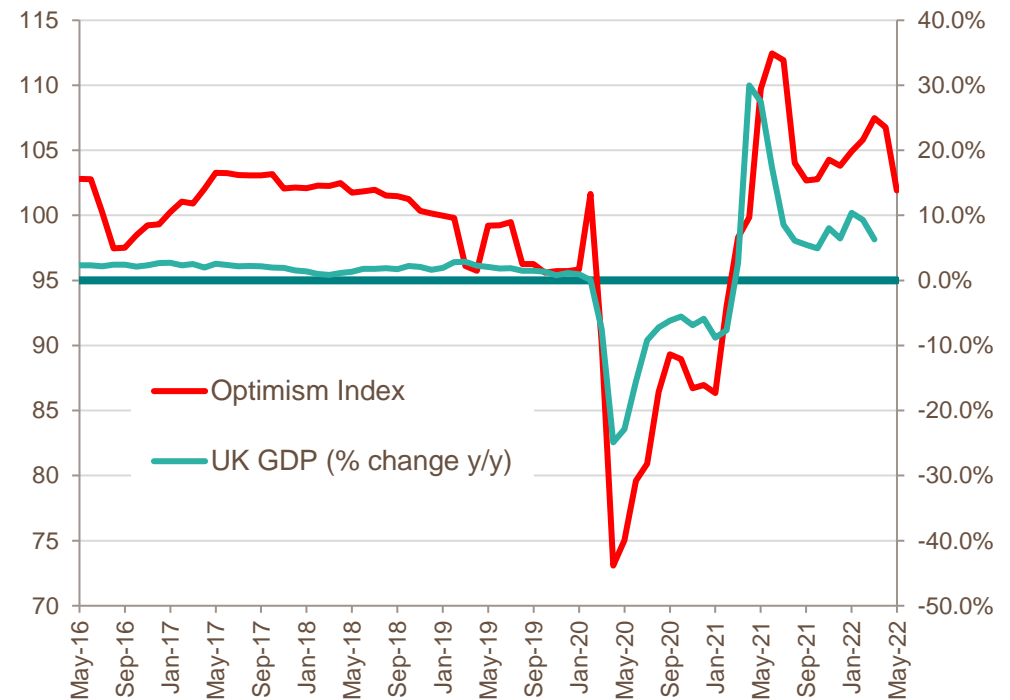
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

OPTIMISM INDEX WITNESSES SECOND CONSECUTIVE FALL

- The BDO Optimism Index slipped by 4.82 points in May, reaching 101.93. This marks a second consecutive month of decline and takes the index to its weakest reading since April 2021. Despite this, the index remains above its average trend growth level, as indicated by the score standing above 100.
- This second consecutive month of declining confidence reflects the wider manifestation of economic headwinds. For instance, though the cost-of-living crisis has been a key economic theme for several months, it is clear that it has worsened in the near-term. This has been driven by continually mounting inflation, as well as one-off factors such as the uplift to the Ofgem price cap and the increased rate of National Insurance Contributions.
- Collectively, these factors are weakening consumer spending power, with residual impacts on businesses.
- As with output, these consumer effects translate most directly to confidence of services businesses. This is reflected by the much sharper monthly fall in Services Optimism, amounting to a drop of 5.35 points. The sub-Index now stands at 100.95, standing only just above the 100-point mark signifying average trend growth.
- Manufacturing Optimism fell by 0.67 points. Sentiment remains weak amidst continued disruption to global supply chains, exacerbated by the fallout from Russia's invasion of Ukraine and renewed Covid-19 restrictions in China.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



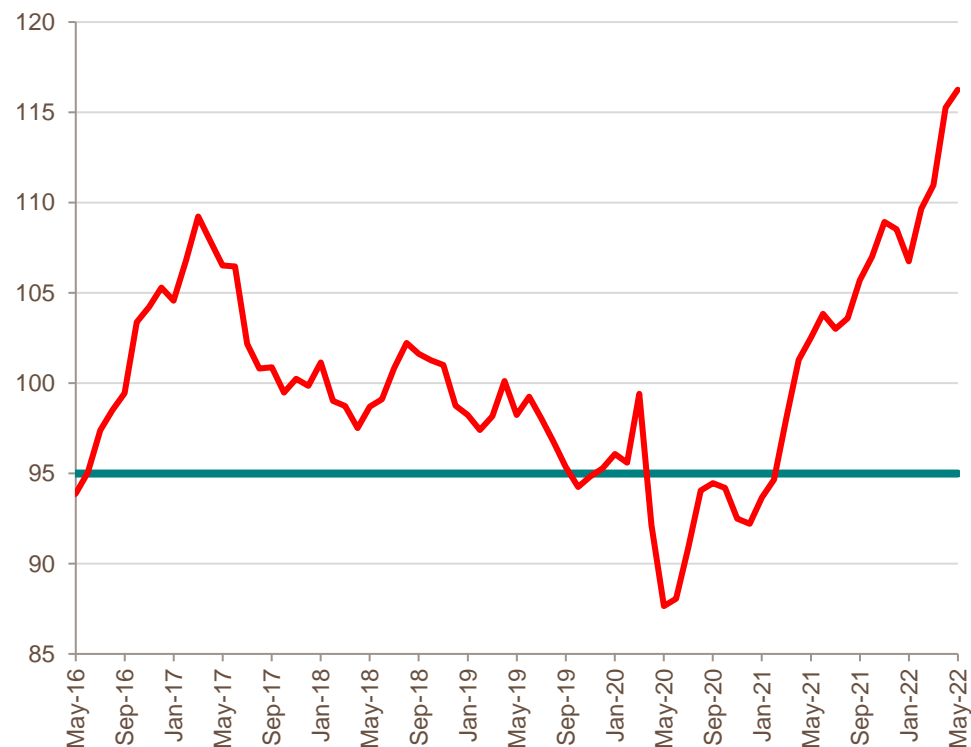
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION INDEX RISES FURTHER WITH CONSUMER COMPONENT SET TO PEAK AGAIN IN Q4

- The BDO Inflation Index increased by 0.99 points in May. This took the Index to a further record high of 116.25.
- The increase in May was once more driven by both the Input Inflation and Consumer Inflation components. Inflationary pressures continued across the board during the month.
- Though such pressures continued, the rate of increase was slower than that witnessed in prior months. April had witnessed the largest ever month-on-month increase in the history of the Inflation Index, for instance, while the scale of the increase in May was within the ordinary pre-pandemic range.
- The Consumer Inflation Index increased by 1.41 points in May, reaching 115.55. This marked a further record high for this component. Cebr expects the headline rate of CPI inflation to have accelerated further in May, having stood at 9.0% in April. A partial deceleration in the rate of price growth is forecasted for Q3, before a further peak across Q4 following the next expected uplift in the energy price cap. This index component is expected to mirror this trajectory.
- The Input Inflation Index increased by 0.58 points in May, reaching 116.95. This marked the second-highest ever reading for this component, falling short only of the 118.00 seen in March 2017. Stark input inflation remains an ongoing concern, with annual growth of 18.6% in April, according to the latest ONS figures.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



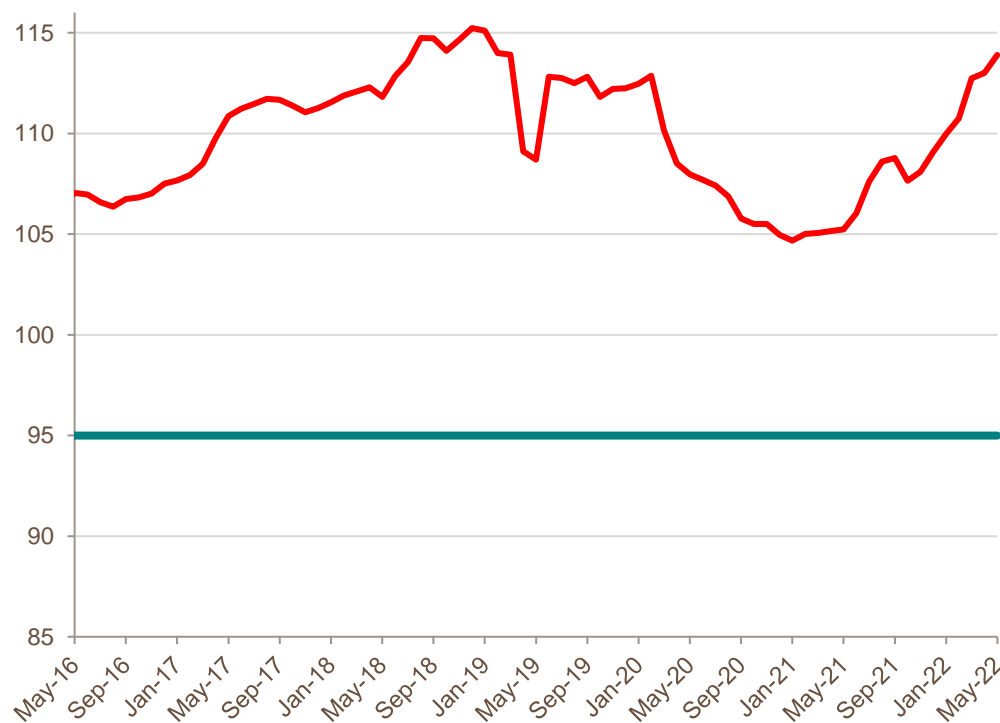
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT INDEX REACHES MORE THAN THREE-YEAR HIGH AS LABOUR MARKET REMAINS TIGHT

- The BDO Employment Index increased by 0.89 points in May, to stand at 113.89. The index now firmly exceeds its pre-pandemic level, reaching its highest reading since March 2019.
- The labour market is tight at present. The unemployment rate fell to 3.7% in Q1 2022, the lowest reading in nearly 50 years.
- Other labour market indicators reaffirm this strength. For instance, the number of vacancies rose to another record high in the three months to April.
- Meanwhile, there was another stark monthly uptick in the number of payrolled employees in April, amounting to an increase of 121,000.
- It should be noted that overall employment levels remains down on pre-pandemic levels despite the strength of these other indicators.
- The medium-term outlook for the labour market is more negative. Due to the forecasted slowdown in economic growth, job losses are also expected. Cebr's forecasts place the unemployment rate at 4.3% by the end of the year, before increasing further into 2023.

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

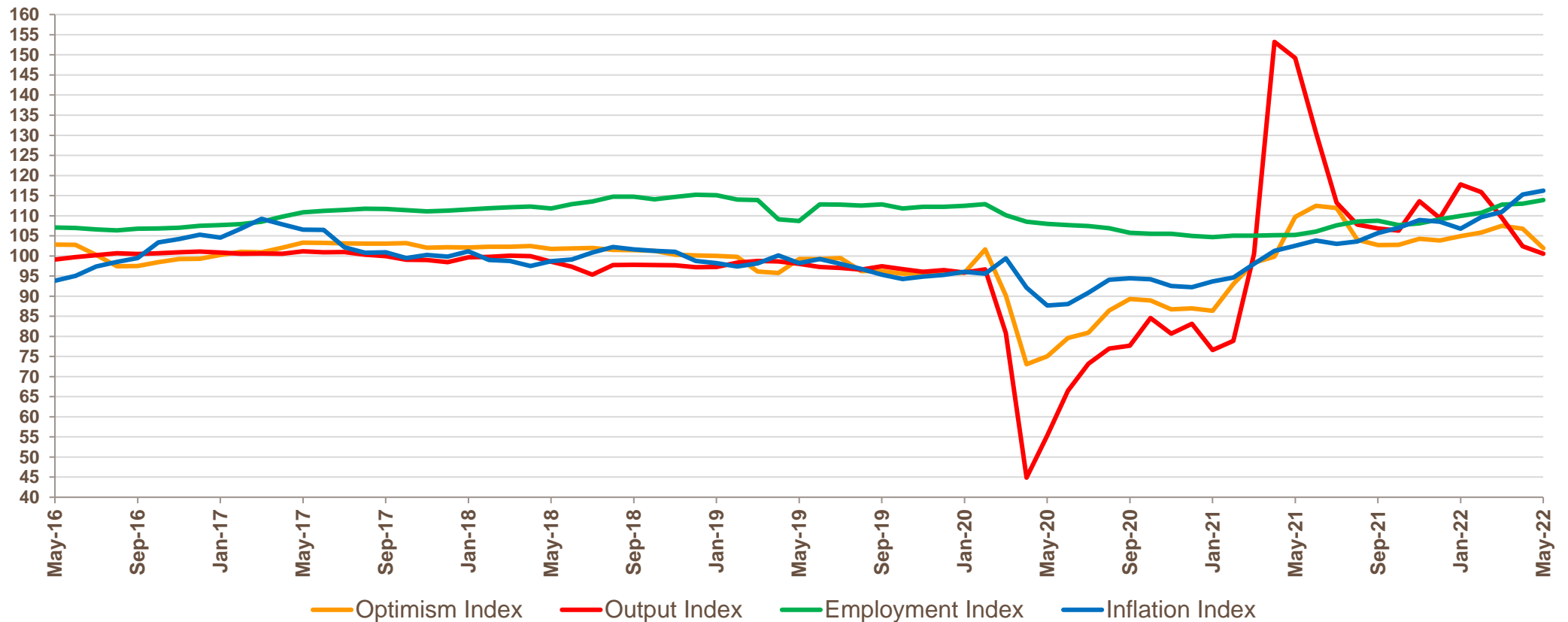
BDO INDICES TO LATEST MONTH

| | | Oct-21 | Nov-21 | Dec-21 | Jan-22 | Feb-22 | Mar-22 | Apr-22 | May-22 |
|--------------------------|--------------|--------|--------|--------|--------|--------|--------|--------|--------|
| The BDO Optimism Index | Total | 102.78 | 104.27 | 103.81 | 104.91 | 105.81 | 107.49 | 106.75 | 101.93 |
| | Manuf. | 108.89 | 109.92 | 106.80 | 109.76 | 110.30 | 112.43 | 110.31 | 109.64 |
| | Service | 102.01 | 104.03 | 103.43 | 104.30 | 105.24 | 106.86 | 106.30 | 100.95 |
| The BDO Output Index | Total | 106.28 | 113.60 | 109.41 | 117.79 | 115.89 | 109.48 | 102.39 | 100.53 |
| | Manuf. | 96.74 | 95.43 | 98.45 | 102.48 | 99.92 | 97.57 | 97.14 | 96.42 |
| | Service | 107.49 | 115.91 | 110.79 | 119.73 | 117.92 | 110.98 | 103.06 | 101.05 |
| The BDO Inflation Index | Total | 107.00 | 108.93 | 108.52 | 106.75 | 109.66 | 110.97 | 115.26 | 116.25 |
| | Input | 108.23 | 111.68 | 111.39 | 106.48 | 110.93 | 111.38 | 116.37 | 116.95 |
| | Consumer | 105.76 | 106.18 | 105.65 | 107.81 | 108.38 | 110.56 | 114.14 | 115.55 |
| The BDO Employment Index | Total | 107.65 | 108.09 | 109.08 | 109.98 | 110.75 | 112.74 | 113.00 | 113.89 |

APPENDIX: ALL CORE INDICES REMAIN ABOVE TREND DESPITE MONTHLY DOWNTICK FOR OUTPUT AND OPTIMISM

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

KALEY CROSTHWAITE

BDO LLP

55 Baker Street, London W1M 1DA

telephone: 020 7486 5888

fax: 020 7487 3686

email: Kaley.Crossthwaite@bdo.co.uk

SAM MILEY

Centre for Economics and Business Research

Unit 1, 4 Bath Street,

London EC1V 9DX

telephone: 020 7324 2874

email: smiley@cebr.com

web: www.cebr.com

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.