

▶ A NEW ECONOMY  
**PUBLICATION**

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

June 2022

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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 July 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	XX	▼	97.73 in June, down from 100.39 in May
BDO Optimism Index	✓	▼	101.83 in June, down from 101.93 in May
BDO Inflation Index	✓✓	▲	117.85 in June, up from 116.25 in May
BDO Employment Index	✓✓	▲	114.56 in June, up from 113.89 in May

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

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## KEY FINDINGS

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

The Output Index fell in June, slipping beneath the long-term trend rate of 100 to reach 97.73. This marked its weakest reading since February 2021.

The BDO Optimism Index fell to 101.83 in June, in a third consecutive month of decline. The index was last lower in April 2021.

The BDO Inflation Index increased by 1.60 points in June, reaching a new series high of 117.85. Increases were seen across both the Consumer Inflation and Input Inflation subindices.

The BDO Employment Index also increased in May, marking an eighth consecutive month of improvement. The Index now stands at 114.56, its highest level since January 2019.

# OUTPUT INDEX FALLS BELOW LONG-TERM TREND RATE, WITH RECESSION NOW EXPECTED

- The BDO Output Index dropped by a further 2.66 points in June. This took the Index to 97.73, beneath the long-run trend value of 100. The Index now stands at its weakest level since February 2021, when output was being curtailed by the third national lockdown.
- June's fall in the Output Index was driven by the services sector. The Services Output Index slipped by 3.06 points to reach 97.99, falling below trend for the first time since February 2021. The services sector has been adversely impacted by weakening consumer spending power in recent months. For instance, this can be seen in the recent falls in retail sales volumes.
- The Manufacturing Output Index picked up slightly in June, rising by 0.57 points to stand at 95.71. It should be noted that this component remains in a weak position, standing just above the 95-point mark dividing expansion from contraction.
- The Manufacturing Index's weak position reflects continued headwinds impacting the sector. Input shortages and disruptions to supply chains have impacted output in the sector for some time, limiting the prospects for near-term growth. A weakening currency is also putting pressure on the sector via higher imported material costs.
- Cebr is now forecasting a recession across Q2 and Q3 2022. With aggregate economic output set to contract, this would put further downward pressure on the Output Index and its respective components.

## BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



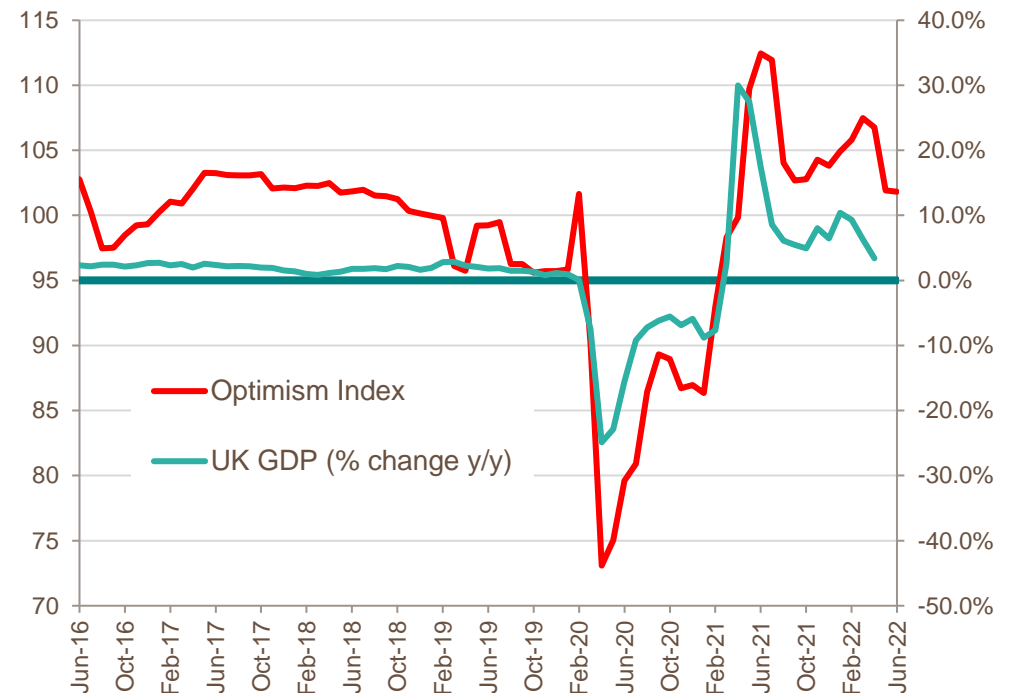
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# OPTIMISM INDEX WITNESSES THIRD CONSECUTIVE MONTHLY FALL

- The BDO Optimism Index fell slightly in June, reaching 101.83. This was a decrease of 0.10 points on May's value and marked a third consecutive month of contraction.
- The Index remains only just above the average trend growth score of 100.
- The overall fall in the Optimism Index likely reflects the weaker growth described in the Output section, as well as the mounting recessionary risk facing the UK economy.
- With a recession anticipated across Q2 and Q3, a further dampening of the Optimism Index can be expected in the coming months.
- There was varying sectoral performance on the Optimism Index in June. The Manufacturing Optimism Index fell by 0.87 points to reach 108.77. Meanwhile, the Services Optimism Index picked up by a 0.30 points, taking this component to 101.25.

## BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



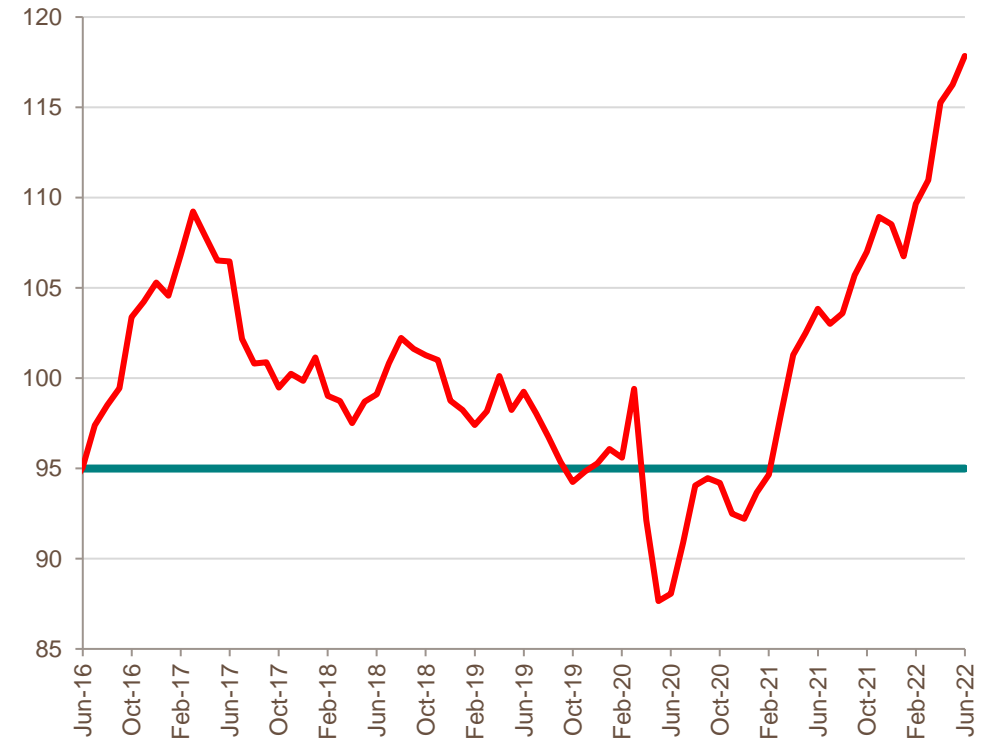
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# OVERALL INFLATION INDEX AND BOTH SUBCOMPONENTS REACHED RECORD HIGHS IN JUNE

- The BDO Inflation Index increased by 1.60 points in June. This took the Index to a further record high of 117.85.
- Though increases were seen across both the Consumer and Input Inflation Indices in June, the overall uptick was driven by the latter. This component picked up by 3.05 points to reach 120.00, a record high, reflecting the continued upward pressure on input prices as a result of shortages, supply chain disruption and a weakening currency.
- The Consumer Inflation Index picked up just 0.14 points. Nevertheless, this rise brought the Index to a new record high of 115.69. Cebr expects the headline rate of CPI inflation to have accelerated in June, following a rate below consensus expectations in May.
- A minor deceleration of inflation is expected over the summer months, which would put some downward pressure on the Inflation Index.
- However, a more severe inflationary spike is forecasted for Q4, particularly from the perspective of consumers. CPI inflation in excess of 10.0% is forecasted, driven by the expected further uplift to the Ofgem price cap from October.

## BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



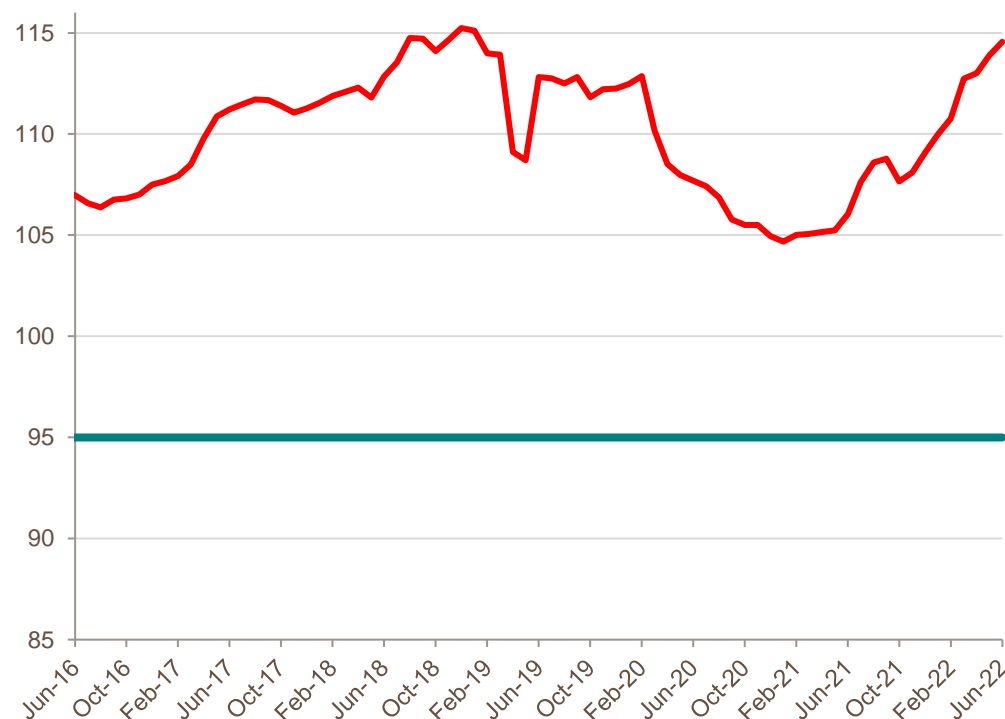
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# EMPLOYMENT INDEX INCREASES FURTHER AS HIRING INTENTIONS REMAIN STRONG

- The BDO Employment Index increased by 0.67 points in June, to stand at 114.56. The index now firmly exceeds its pre-pandemic level, posting the highest reading since January 2019.
- The labour market is tight at present. The unemployment rate currently stands at 3.8%, as of the three months to April, a reading well below historic averages.
- Hiring intentions remain strong. The number of vacancies rose to a new record of 1.3 million in the three months to May, an increase of 503,900 on the pre-pandemic three-month period to March 2020.
- Another large increase in the number of payrolled employees was witnessed in May, with a monthly uptick of 90,000.
- Given that the UK is expected to soon enter recession, the labour market is likely to weaken over the coming months. With weaker economic activity at the aggregate level, job losses are expected.
- Cebr's forecasts place the unemployment rate at 4.1% by the end of the year, before increasing further into 2023. A peak unemployment rate of 4.5% is anticipated in Q2 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

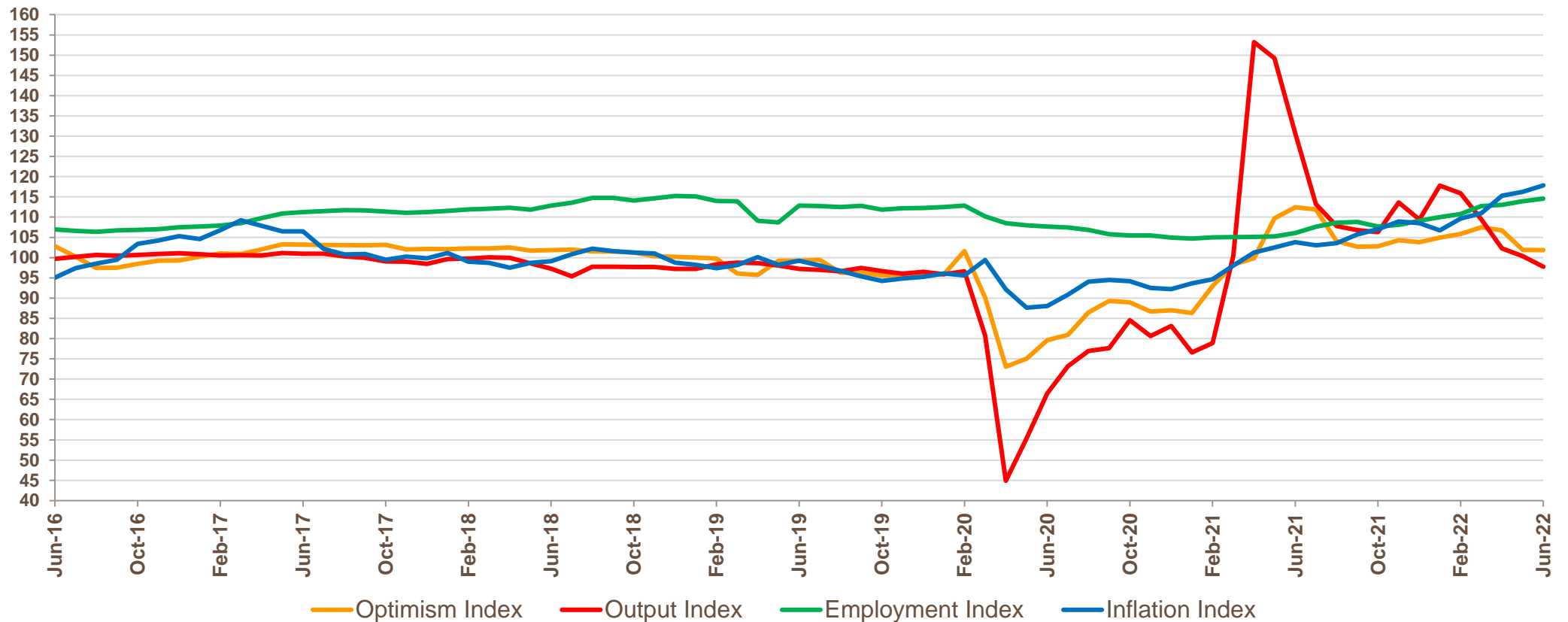
## BDO INDICES TO LATEST MONTH

		Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
The BDO Optimism Index	<b>Total</b>	104.27	103.81	104.91	105.81	107.49	106.75	101.93	101.83
	Manuf.	109.92	106.80	109.76	110.30	112.43	110.31	109.64	108.77
	Service	104.03	103.43	104.30	105.24	106.86	106.30	100.95	101.25
The BDO Output Index	<b>Total</b>	113.60	109.41	117.79	115.89	109.48	102.25	100.39	97.73
	Manuf.	95.43	98.45	102.48	99.92	97.57	95.85	95.14	95.71
	Service	115.91	110.79	119.73	117.92	110.98	103.06	101.05	97.99
The BDO Inflation Index	<b>Total</b>	108.93	108.52	106.75	109.66	110.97	115.26	116.25	117.85
	Input	111.68	111.39	106.48	110.93	111.38	116.37	116.95	120.00
	Consumer	106.18	105.65	107.81	108.38	110.56	114.14	115.55	115.69
The BDO Employment Index	<b>Total</b>	108.09	109.08	109.98	110.75	112.74	113.00	113.89	114.56

# APPENDIX: OUTPUT INDEX BECOMES FIRST COMPONENT TO FALL BELOW AVERAGE TREND RATE SINCE APRIL 2021

## 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

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## 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.