

▶ 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 succulents are arranged in a loose pattern. The background is a solid grey color. A vertical red bar is on the left side, and a diagonal red bar is at the bottom right.

# BDO MONTHLY BUSINESS TRENDS INDICES

September 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 September 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	▼	94.30 in September, down from 96.35 in August
BDO Optimism Index	XX	▼	96.32 in September, down from 100.80 in August
BDO Inflation Index	✓	▼	119.00 in September, down from 119.05 in August
BDO Employment Index	✓	▼	114.19 in September, down from 115.33 in August

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

All of the BDO Business Trends indices fell in September. This marked the first unanimous fall since April 2020, during the first national lockdown.

The Output Index contracted by 2.05 points in September to reach 94.30. The indicator has now dropped below the 95-point mark dividing expansion from contraction, signalling that UK economic output is falling.

The BDO Optimism Index fell to 96.32 in September, marking a sixth consecutive monthly fall. The Optimism Index was last lower in February 2021.

The BDO Inflation Index saw a marginal fall of 0.05 points in September. Despite this fall, it should be noted that this remains a significantly high reading, with the record having been set in August, at 119.05.

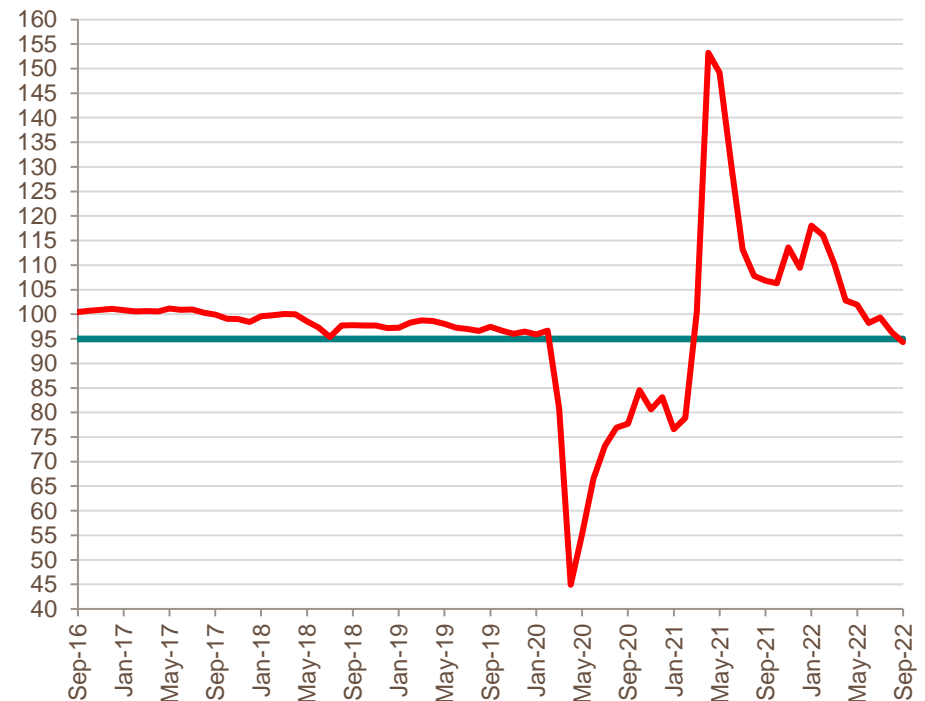
The BDO Employment Index saw its first fall since October 2021. The Index dropped by 1.14 points to reach 114.19 amidst a fall in hiring intentions.

# OUTPUT INDEX SLIPS INTO CONTRACTIONARY TERRITORY AS UK ECONOMY FACES RECESSION

- The BDO Output Index fell by 2.05 points in September, marking a second consecutive monthly decline. This has taken the Index below the 95-point mark, which divides expansion from contraction, with a reading of 94.30. As such, the Index now signals that UK output is now falling.
- The Output Index was last lower in February 2021, when output was still curtailed by the third national lockdown, leading to a reading of 78.88.
- The Output Index has fallen into contractionary territory amidst recessionary pressures across the economy. The economy is facing headwinds from a variety of sources, notably the cost-of-living crisis and mounting energy prices. Cebr expects a recession of three quarters, spanning Q3 2022 to Q1 2023, as a result of these factors. During this period, further sub-95 values for the Output Index should be expected.
- Both sectoral components of the Output Index now stand below 95.0. The Manufacturing Output Index has done so for two consecutive months, with values of 93.84 and 94.11 in August and September, respectively. The slight month-on-month uptick means the pace of contraction was less severe in September than in August.
- Meanwhile, the Services Output Index fell from a positive reading of 96.35 in August to a negative reading of 94.30 in September.

## BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



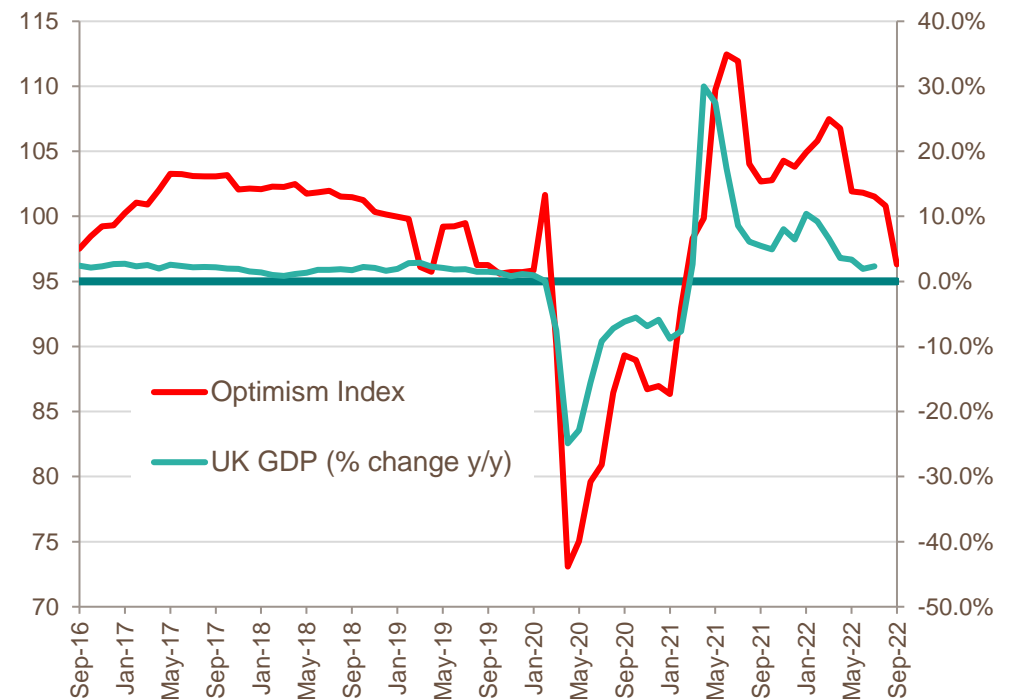
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# OPTIMISM INDEX HAS NOW SEEN HALF A YEAR OF FALLS, WITH MORE ANTICIPATED

- The BDO Optimism Index fell for a sixth consecutive month in September, reaching 96.32. This was a fall of 4.48 points.
- The reading has now fallen below the 100-point mark, highlighting the average trend rate of growth.
- Weakened optimism likely reflects the recessionary pressures facing the UK economy and associated headwinds. Amidst an expected output slump, businesses are more pessimistic about their prospects. Accordingly, further falls in the Optimism Index are expected over the coming months.
- Businesses in the services sector are particularly pessimistic. The Services Optimism Index stands just above the 95-point mark dividing expansion from contraction, at 95.62.
- A portion of these businesses are set to be impacted by the cost-of-living crisis, as consumers withdraw some of their discretionary spending. This will impact output in subsectors such as retail and hospitality.
- Meanwhile, the Manufacturing Output Index saw a monthly fall of 2.61 points, taking the Index to 101.46. A weaker reading has not been seen on this metric since April 2021, when the economy had not yet reopened from the third national lockdown.

## BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



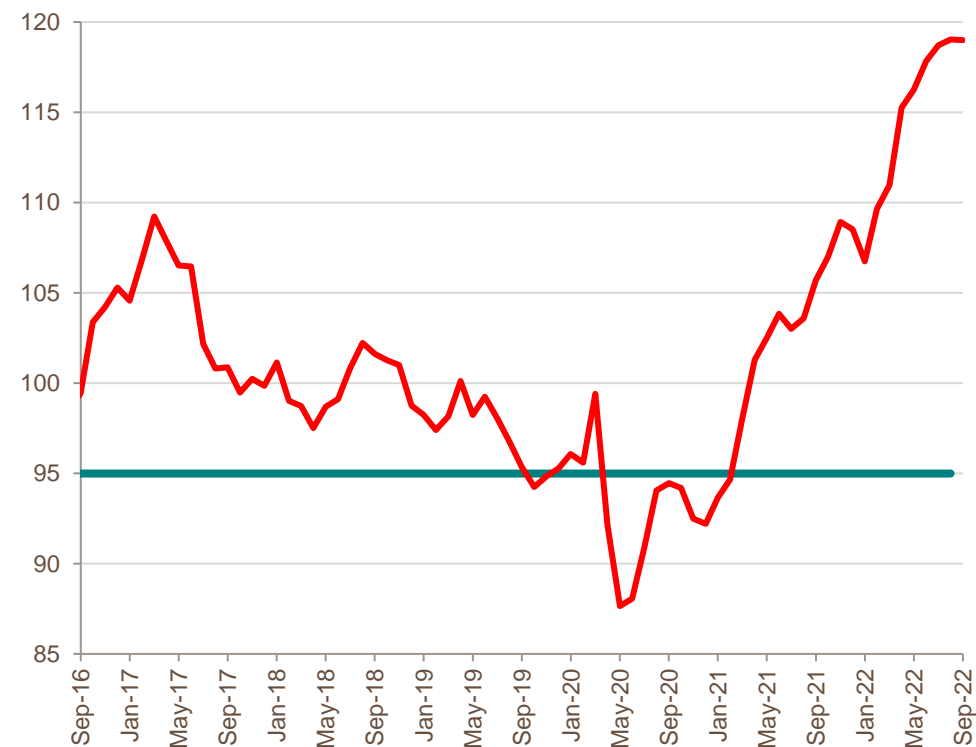
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# INFLATION INDEX SEES MARGINAL FALL BUT REMAINS AT HIGH LEVEL

- The BDO Inflation Index fell marginally in September, being down by 0.05 points at 119.00. Monthly increases to the Inflation Index had been seen for the previous seven months.
- It should be noted that the Inflation Index remains at a considerable high despite this fall. Indeed, August's reading of 119.05 had represented a record high for this metric.
- The slight fall in the Inflation Index was driven by the Input Inflation Index. This component fell by 0.17 points on a month-on-month basis to reach 120.52.
- There were several opposing trends within this component during September, however. Commodity prices, including oil, gas, and coal, largely fell during the month. There was some upward pressure on input prices from the depreciating pound towards the end of the month, which makes imports more expensive, all else equal. Ultimately, the former trend outweighed the latter, resulting in an overall fall in the Index.
- The Consumer Inflation Index picked up once more in September. This was only a slight increase of 0.07 points, however, taking this metric to 117.48.
- Cebr expects inflation to accelerate over Q4, driven by energy prices. However, the Government's recently announced Energy Price Guarantee will limit the peak of inflation by reducing the amount households and businesses pay per unit of gas and electricity. Cebr's latest forecasts show CPI inflation peaking at 11.5% in October.

## BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



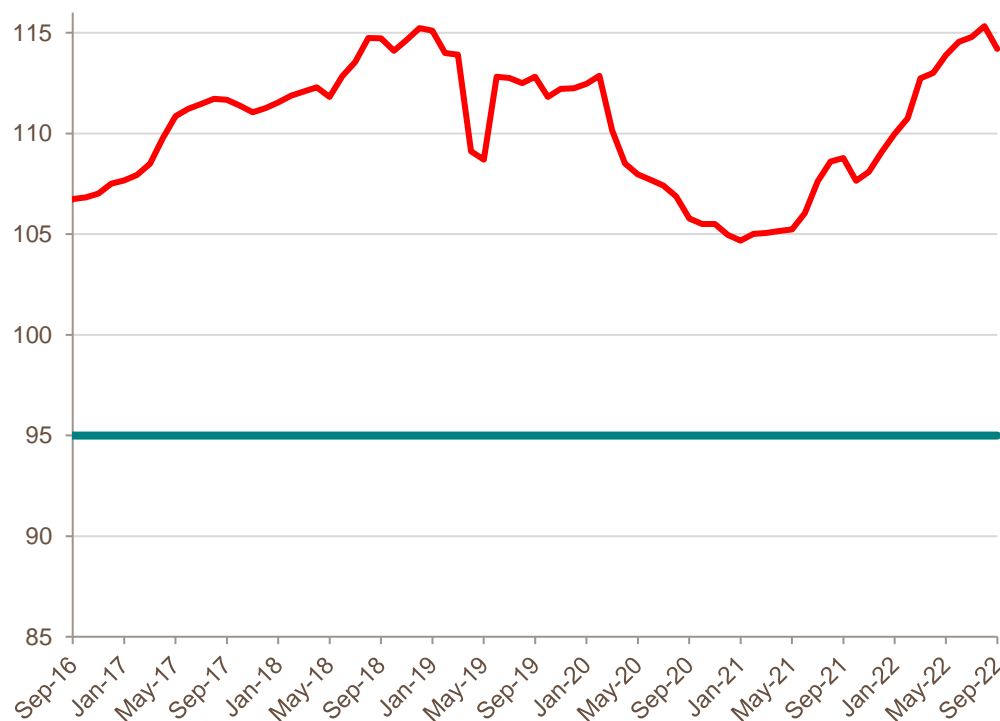
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

## EMPLOYMENT INDEX FALLS FOR FIRST TIME SINCE OCTOBER 2021 AS BUSINESSES REDUCE HIRING INTENTIONS

- The BDO Employment Index fell by 1.14 points in September, reaching 114.19. Having increased for ten consecutive months, this marked the first fall since October 2021.
- Official data sources are still pointing to a strong labour market at present. For instance, the unemployment rate fell to 3.6% in the three months to July, its lowest reading since the early 1970s.
- However, there are also some negative aspects to consider. Key amongst these is the economic inactivity rate, which has remained elevated since the onset of the pandemic. Indeed, this increased further in the three months to July, reaching 21.7%. A higher reading has not been seen since 2016.
- Meanwhile, there are signs that businesses are reducing their hiring intentions. For instance, the Confederation of British Industry's (CBI) survey of services businesses showed that hiring intentions are now at their weakest since Q3 2021. Amidst the expected recession, businesses are likely to cut back on their labour inputs, meaning this trend should be expected to continue.
- Overall, Cebr expects the recession to yield an increase in the unemployment rate. A peak of 4.5% is expected across Q2 and Q3 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

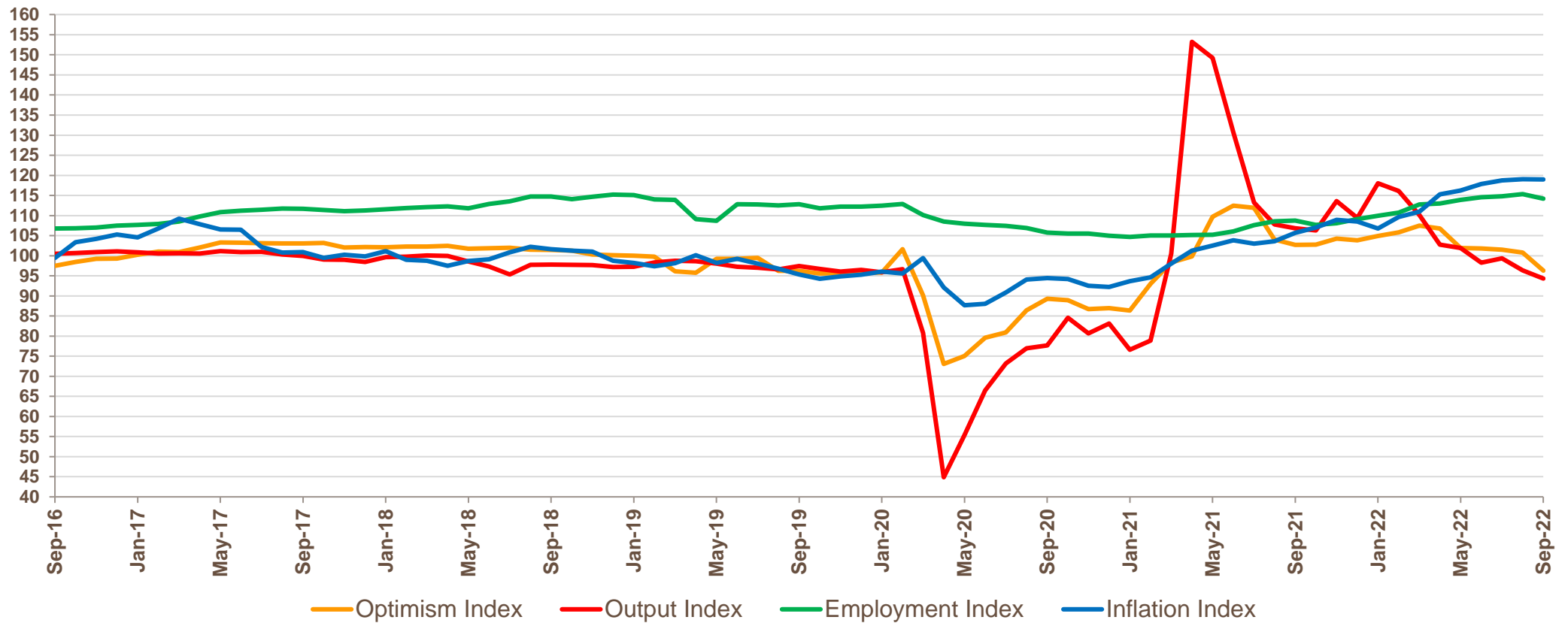
## BDO INDICES TO LATEST MONTH

		Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
The BDO Optimism Index	<b>Total</b>	105.81	107.49	106.75	101.93	101.83	101.53	100.80	96.32
	Manuf.	110.30	112.43	110.31	109.64	108.77	108.08	104.07	101.46
	Service	105.24	106.86	106.30	100.95	101.25	101.06	95.76	95.62
The BDO Output Index	<b>Total</b>	116.08	110.16	102.76	101.94	98.26	99.35	96.35	94.30
	Manuf.	99.78	98.29	96.99	98.69	96.99	96.56	93.84	94.11
	Service	118.15	111.66	103.49	102.35	98.42	99.71	96.67	94.33
The BDO Inflation Index	<b>Total</b>	109.66	110.97	115.26	116.25	117.85	118.72	119.05	119.00
	Input	110.93	111.38	116.37	116.95	120.00	121.19	120.69	120.52
	Consumer	108.38	110.56	114.14	115.55	115.69	116.26	117.41	117.48
The BDO Employment Index	<b>Total</b>	110.75	112.74	113.00	113.89	114.56	114.79	115.33	114.19

# APPENDIX: ALL INDICES FELL IN SEPTEMBER AS UK ECONOMY FACES RECESSION

## 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.