

▶ A NEW ECONOMY
PUBLICATION

A red watering can is positioned in the upper left quadrant, tilted as if pouring. Four small, round, terracotta pots containing green succulents are scattered across the grey background. 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

October 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 November 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	▼	93.10 in October, down from 93.48 in September
BDO Optimism Index	XX	▼	94.63 in October, down from 96.32 in September
BDO Inflation Index	✓✓	▼	120.67 in October, down from 119.00 in September
BDO Employment Index	✓	▼	113.05 in October, down from 114.19 in September

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

Three of the BDO Business Trends indices fell in October.

The BDO Output Index fell by 0.39 points in October, marking a third consecutive monthly decline. The Index has stood below the 95-point mark, which divides expansion from contraction, for the past two months, recording 93.10 in October.

The BDO Optimism Index fell for a seventh consecutive month in October, reaching 94.63. This was a fall of 1.69 points and was sufficient to take the Index into negative territory for the first time since February 2021.

The BDO Inflation Index increased in October, picking up by 1.67 points to reach 120.67. This marked a return to the recent trend of monthly increases, following September's marginal fall of 0.05 points.

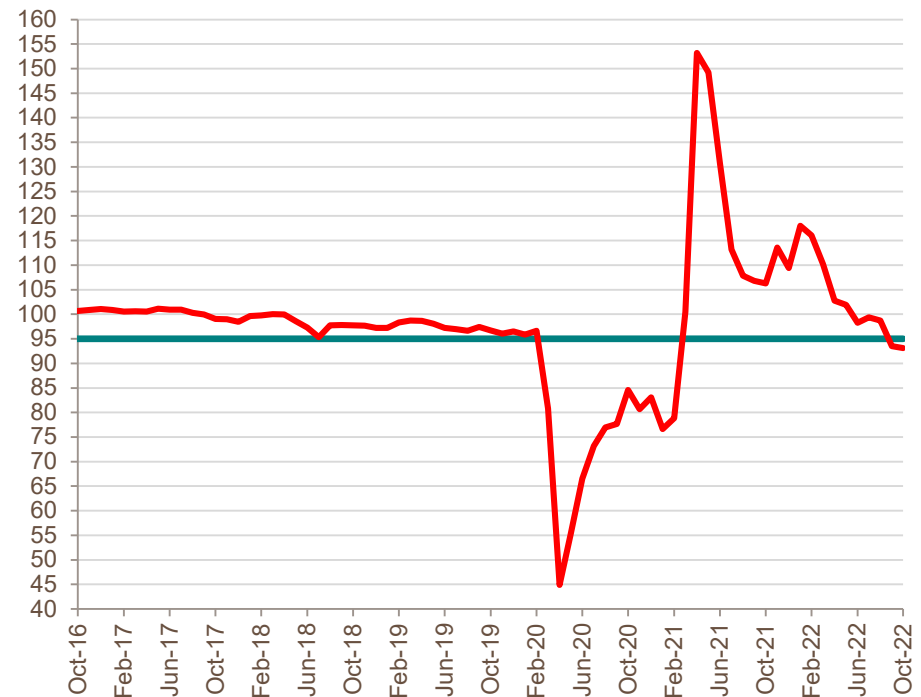
The BDO Employment Index fell by 1.14 points in October, having also fallen by that value in September. This has taken the Index to 113.05, its weakest reading since April 2022.

OUTPUT INDEX STANDS IN NEGATIVE TERRITORY FOR SECOND CONSECUTIVE MONTH

- The BDO Output Index fell by 0.39 points in October, marking a third consecutive monthly decline. The Index has stood below the 95-point mark, which divides expansion from contraction, for the past two months, reaching 93.10. The sub-95 reading 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.
- Two consecutive readings below 95, indicating an economic contraction, aligns with Cebr's general macroeconomic view, that is, that the UK economy is facing a recession. We expect this recession to last for four quarters, covering Q3 2022 to Q2 2023. During this period, further weakness in the Output Index should be expected.
- October brought declines across both of the sectoral components of the Output Index. The Services Output Index fell by 0.28 points, reaching 93.24 in September, its lowest value since February 2021. This sector is particularly impacted by demand-side headwinds facing the economy, notably the cost-of-living crisis and its effect on consumer activity.
- Meanwhile, the Manufacturing Output Index slipped by 1.19 points in October, reaching 92.0, also the lowest value since February 2021. Manufacturing's output has been curtailed from the supply side recently, given historic input price pressures and continued disruption to global logistics chains.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



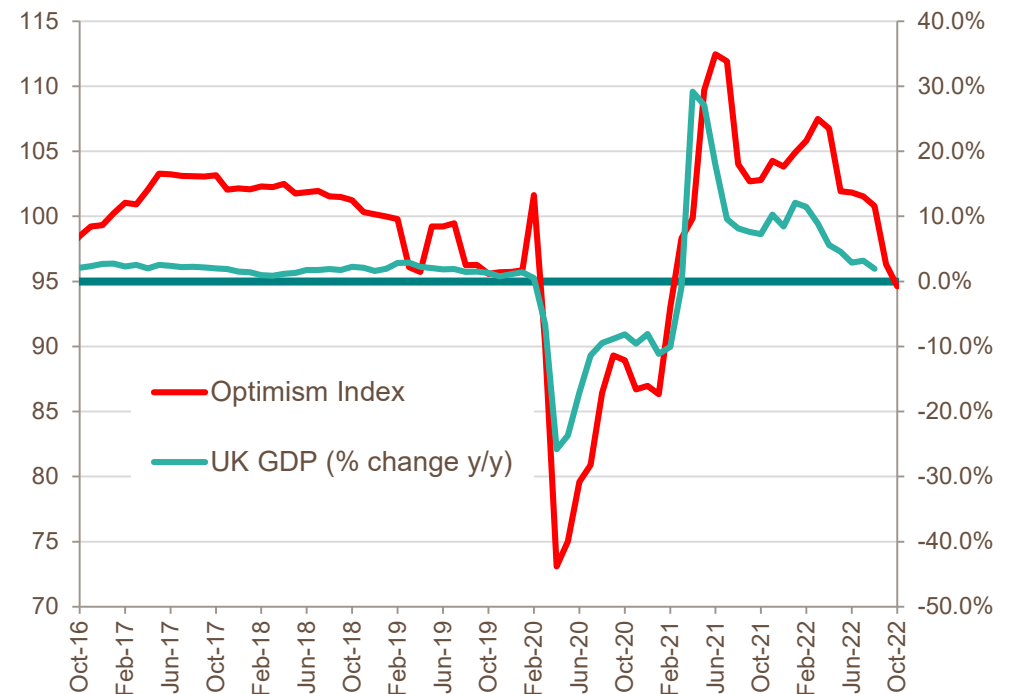
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

OPTIMISM INDEX FALLS INTO NEGATIVE TERRITORY, DRIVEN BY SERVICES SECTOR

- The BDO Optimism Index fell for a seventh consecutive month in October, reaching 94.63. This was a fall of 1.69 points and was sufficient to take the Index into negative territory for the first time since February 2021.
- The UK economy is facing considerable volatility at present, with headwinds from both the demand and supply side contributing to an expected recession. All else equal, this weaker macroeconomic environment feeds into more negative sentiment amongst businesses.
- The Services Optimism Index fell by 1.08 points in October, taking the Index to a negative reading of 94.54. Again, this was the first negative reading on this measure since February 2021.
- The Manufacturing Optimism Index saw a monthly fall of 0.46 points, taking the Index to 101.00. 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.
- Despite the fall, the indicators for manufacturing have been slightly more robust than the equivalents for services in recent months. Indicators such as the Export Climate Index and employment expectations amongst manufacturers have seen only marginal falls on the most recent readings.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



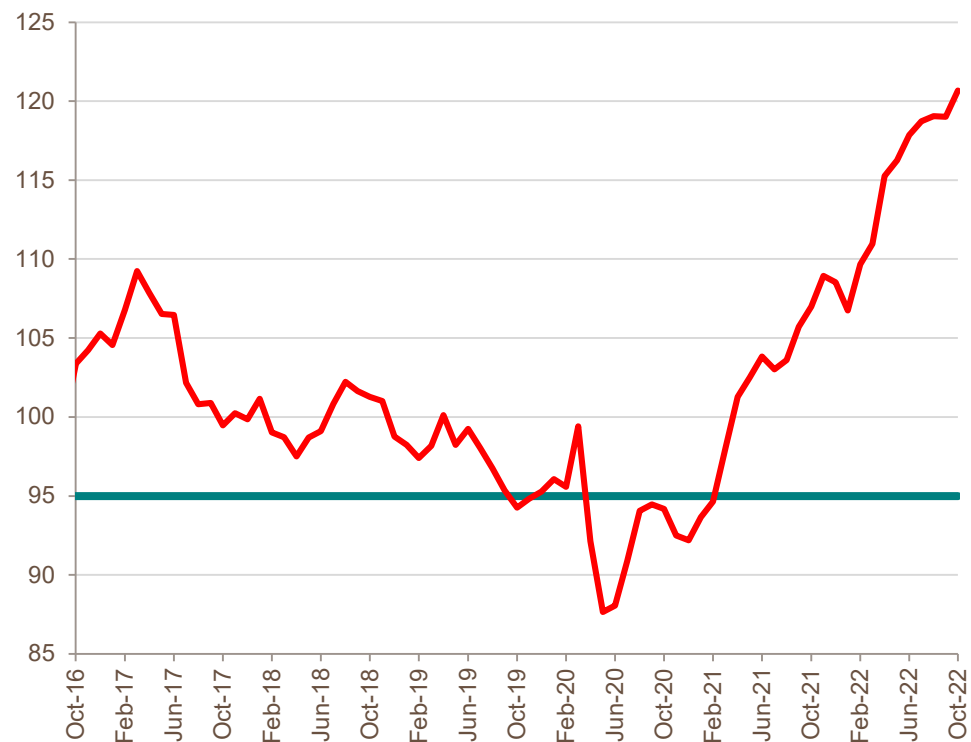
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION INDEX INCREASES ONCE MORE AFTER SEPTEMBER'S FALL

- The BDO Inflation Index increased in October, picking up by 1.67 points to reach 120.67. This marked a return to the recent trend of monthly increases, following September's marginal fall of 0.05 points.
- October saw increases across both the Consumer Inflation Index and Input Inflation Index. The former picked up by 2.61 points, marking a tenth consecutive increase, and reaching 120.08, a record high.
- Consumer price inflation is expected to have accelerated during October, driven by the increase to the Ofgem energy price cap, increasing bills for many households. Cebr projects inflation in October to have stood at 11.5%, up from September's value of 10.1%.
- Inflation is then expected to decelerate somewhat in early 2023, albeit remaining historically elevated. A key factor impacting the likely path of inflation will be the extent to which the Government supports households on energy bills, with the Energy Price Guarantee now set to be reviewed from Q2 2023 onwards.
- The Input Inflation Index increased by 0.74 points in October, reaching a record high of 121.26. Considerable upward pressure on this component came from the exchange rate, with sterling being weakened during the month. All else equal, this has put upward pressure on costs for businesses reliant on imports.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



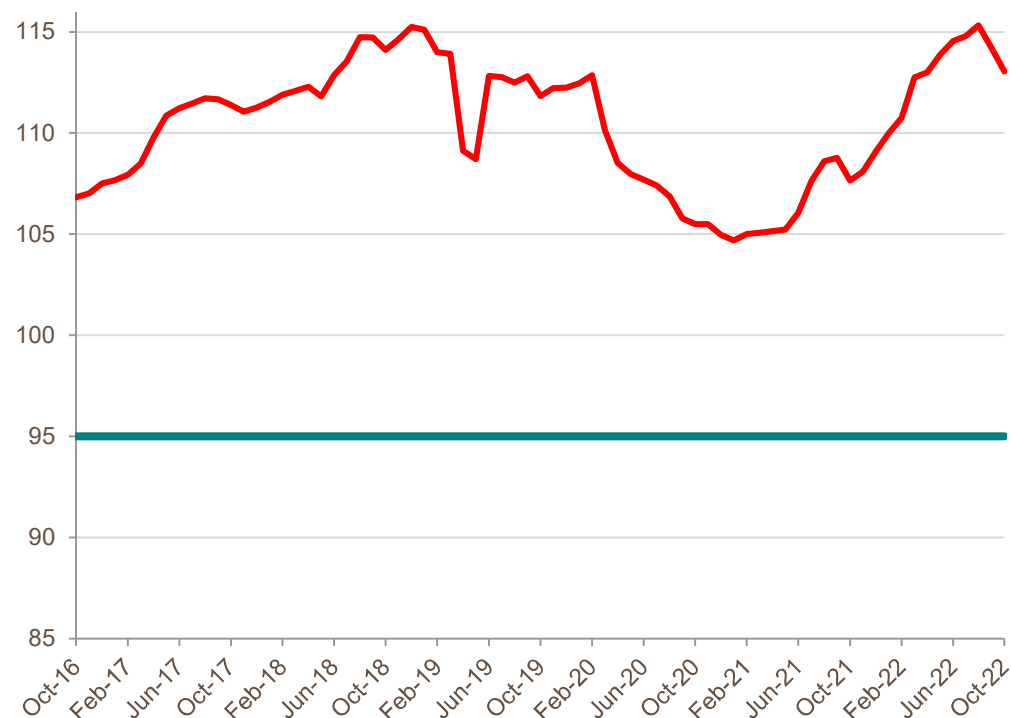
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT INDEX WITNESSES SECOND CONSECUTIVE MONTHLY DECLINE

- The BDO Employment Index fell by 1.14 points in October, having also fallen by that value in September. This has taken the Index to 113.05, its weakest reading since April 2022.
- October's fall was once again driven by weaker hiring intentions, particularly in the services sector. Meanwhile, the inactivity rate remained elevated at 21.7% in the three months to August.
- Despite the second consecutive monthly contraction, it should be noted that the Employment Index remains firmly in positive territory. The unemployment rate stood at a historic low on the most recent reading, reaching 3.5% in the three months to August.
- Given the anticipated recession, Cebr expects the labour market to face some pressure over the coming months. The unemployment rate is expected to hit a peak of 4.5% in Q3 2023.
- All else equal, this would put further downward pressure on the Employment Index.

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

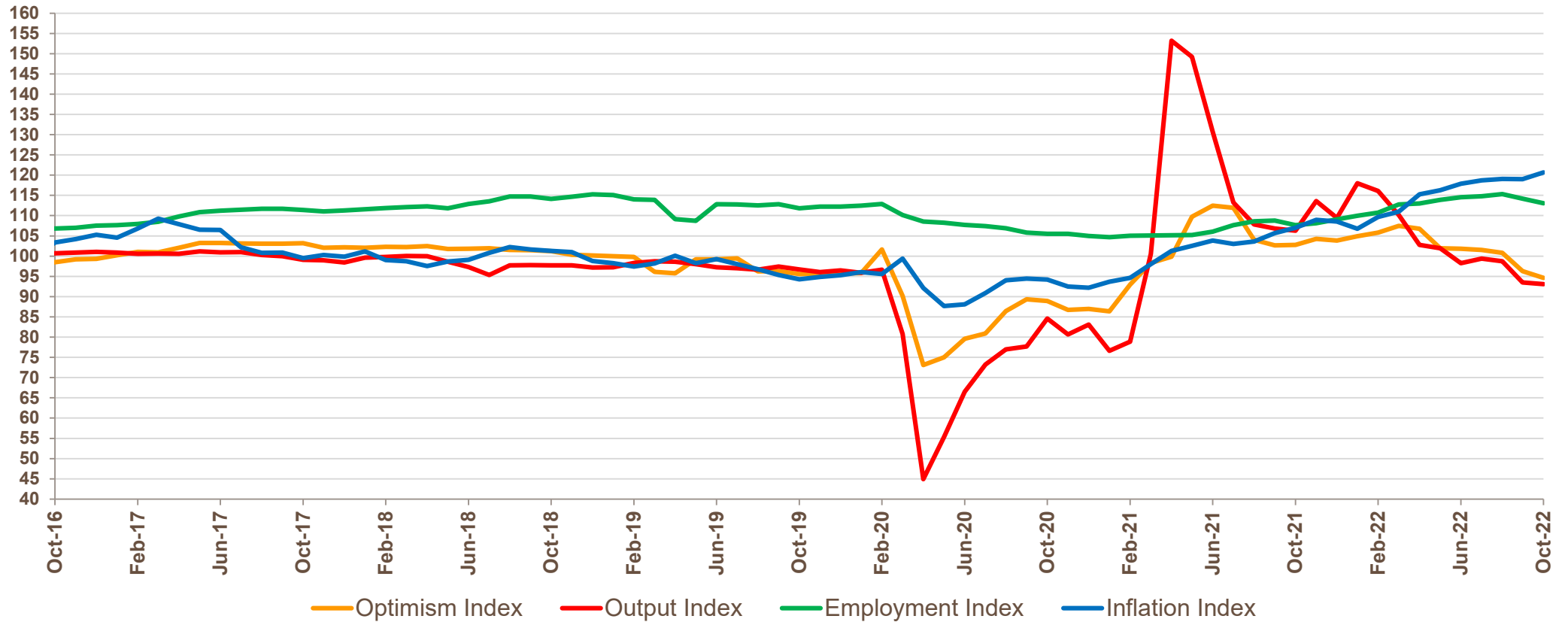
BDO INDICES TO LATEST MONTH

		Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
The BDO Optimism Index	Total	107.49	106.75	101.93	101.83	101.53	100.80	96.32	94.63
	Manuf.	112.43	110.31	109.64	108.77	108.08	104.07	101.46	101.00
	Service	106.86	106.30	100.95	101.25	101.06	95.76	95.62	94.54
The BDO Output Index	Total	110.16	102.76	101.94	98.26	99.35	98.74	93.48	93.10
	Manuf.	98.29	96.99	98.69	96.99	96.56	94.55	93.19	92.00
	Service	111.66	103.49	102.35	98.42	99.71	99.27	93.52	93.24
The BDO Inflation Index	Total	110.97	115.26	116.25	117.85	118.72	119.05	119.00	120.67
	Input	111.38	116.37	116.95	120.00	121.19	120.69	120.52	121.26
	Consumer	110.56	114.14	115.55	115.69	116.26	117.41	117.48	120.08
The BDO Employment Index	Total	112.74	113.00	113.89	114.56	114.79	115.33	114.19	113.05

APPENDIX: INFLATION ON THE RISE BUT ALL OTHER INDICES FALLING

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.