

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

December 2020

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 January 2021, using the results from business surveys that were carried out between the first and last days of the previous month.

Summary and key findings

Index	Current reading	Movement in month	Index level
BDO Output Index	X	▲	69.13 in December from 69.06 in November
BDO Optimism Index	X	▲	86.96 in December from 86.70 in November
BDO Inflation Index	X	▼	92.20 in December from 92.50 in November
BDO Employment Index	✓	▼	108.15 in December from 108.74 in November

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

The UK economy remained in a fragile state in December. Indeed, despite the end of the national lockdown on 2nd December, there was only a limited uptick in economic activity, with the BDO Output Index rising by 0.07 points to 69.13.

The BDO Optimism Index rose by 0.26 points to reach 86.96 in December. The commencement of the vaccination programme and the trade agreement reached between the UK and the EU will have lifted business sentiment, although the dramatic escalation of the domestic COVID-19 outbreak is expected to weigh on the Optimism Index in the coming weeks and months.

The BDO Inflation Index dropped to 92.20 in December, down from 92.50 in November. This was the result of a 0.65 decline in the Input Inflation Index, driven by weak levels of domestic and international demand as well as a strengthening of the pound relative to other major global currencies.

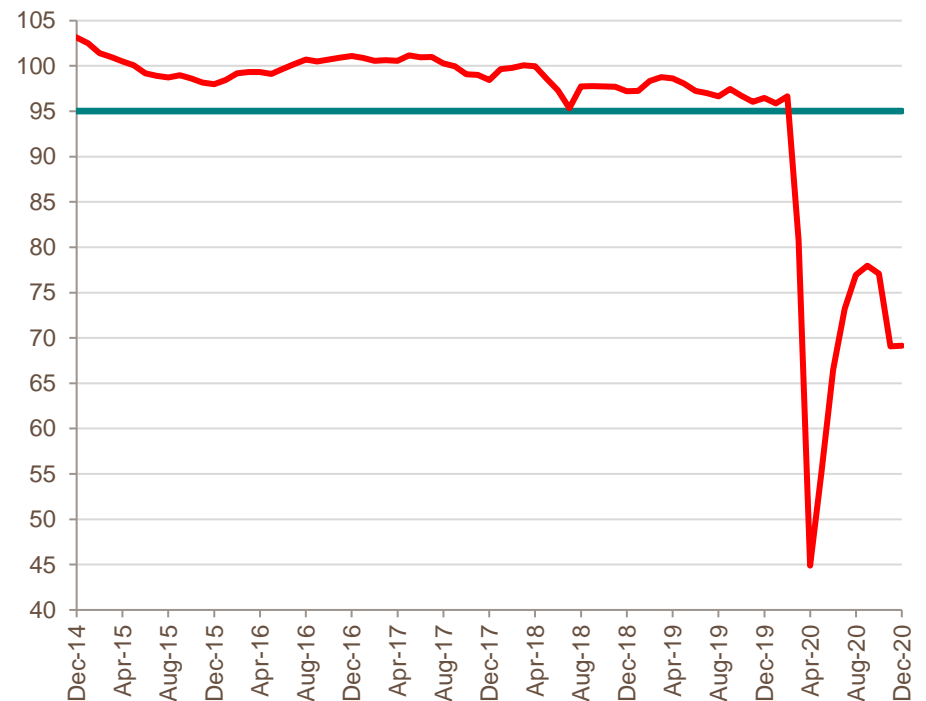
The BDO Employment Index fell for the second consecutive month in December, sinking by 0.59 points to 108.15. The latest data suggest that the slow but steady trickle of job losses continued at the end of 2020, with the recent tightening of COVID-19 related restrictions likely to place further pressure on the BDO Employment Index in the months ahead.

OUTPUT INDEX REMAINS AT SUPPRESSED LEVEL DESPITE END OF NOVEMBER LOCKDOWN

- The BDO Output Index remained broadly stable in December, edging up by 0.07 points to 69.13. While the national lockdown ended on 2nd December, the localised Tier system that came in its stead meant that economic activity remained heavily curtailed across much of the country throughout December.
- From 3rd December, the vast majority of areas of England were subject to either Tier 2 restrictions or - in the case of much of the Midlands and the North of England - Tier 3 restrictions, which will have suppressed activity in the hospitality sector throughout the month. The list of areas under Tier 3 restrictions gradually increased throughout the month as the new COVID-19 variant drove an alarming surge in infection rates, culminating in the introduction of Tier 4 restrictions for much of the UK on 19th December which broadly mirror those that were in place during the November lockdown. The corresponding closure of non-essential shops in London and the South East ahead of the crucial Christmas period will have further weighed on economic output in December.
- Despite the continued impact of coronavirus restrictions, the BDO Services Output Index rose slightly from 66.36 in November to 66.50 in December. The re-opening of non-essential shops and the partial re-opening of the hospitality sector in parts of the country will have driven this increase.
- The BDO Manufacturing Output Index fell from 90.34 in November to 89.94 in December. The manufacturing sector continues to be less adversely impacted by COVID-19 related restrictions than the services sector, although the tightening of restrictions in many key export markets will have weighed on external demand in December.
- Across 2020 as a whole, the BDO Output Index averaged 73.62. This makes 2020 by far the worst year on record by this measure. By comparison, the Output Index average 83.28 during the Great Recession of 2009. The low point of the economic crisis was recorded in April 2020, when the Output Index plunged to an all-time low of 44.90. This is in line with the 25.1% year-on-year decline in GDP registered that month.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



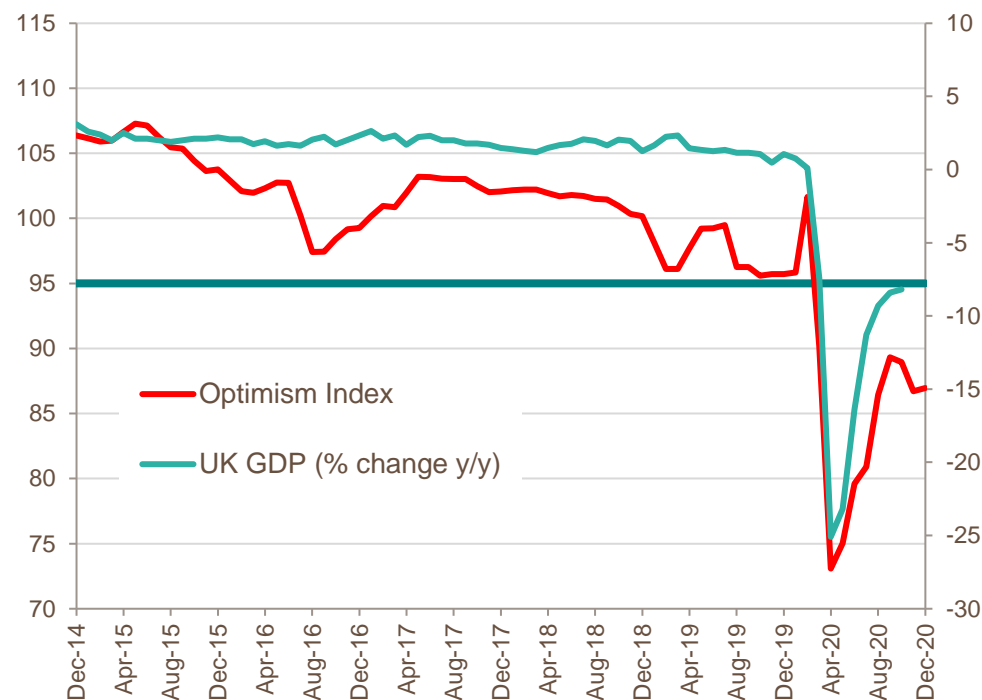
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

COMMENCEMENT OF VACCINE ROLLOUT LIFTS SENTIMENT IN DECEMBER

- Despite the intense challenges that continued to plague many businesses last month, the BDO Optimism Index rose by 0.26 points in December to reach 86.96. This was fuelled by 0.36 point rise in the BDO Services Optimism Index, which took the measure to 87.38. The UK began the rollout of COVID-19 vaccinations on 7th December, which represented the first definitive source of light at the end of the tunnel for businesses and households alike. Moreover, the ending of the national lockdown on 2nd December will have also temporarily lifted spirits, particularly for firms in the retail and hospitality sectors.
- It is important to note, however, that despite December's improvement, sentiment among businesses in the services sector remains more gloomy than it was prior to the November lockdown. Also, the latest index reading will not fully capture the impact on optimism of the dramatic escalation of the domestic COVID-19 outbreak that became clear in the latter part of December and which necessitated the eventual introduction of a third national lockdown that is likely to remain in force throughout much of the first quarter of 2021.
- Meanwhile, the BDO Manufacturing Optimism Index fell from 84.22 in November to 83.71. Manufacturers' operations were not as directly impacted by the November lockdown as those businesses in the services sector, meaning that the ending of the lockdown will also have had less of an impact on confidence. The decline in sentiment in December is likely to reflect weak levels of global demand together with concerns about a no-deal type outcome in the Brexit negotiations. The announcement that a trade agreement was reached on 24th December will have come as a major relief to British manufacturers. While the ending of the transition period will bring with it some disruption to businesses, the deal that has been agreed crucially means that tariff-free trade of goods across the channel will endure.
- At the start of 2020, business sentiment was on an upward trajectory, with confidence seemingly buoyed by the reduced uncertainty delivered by the decisive general election outcome. However, the onset of the pandemic subsequently drove business confidence into uncharted territory, with the BDO Optimism Index reaching a record-low of 73.08 in April 2020. The previous record low was 79.64, which was registered in February 2009 when the UK economy was reeling from the global financial crisis.

BDO OPTIMISM INDEX

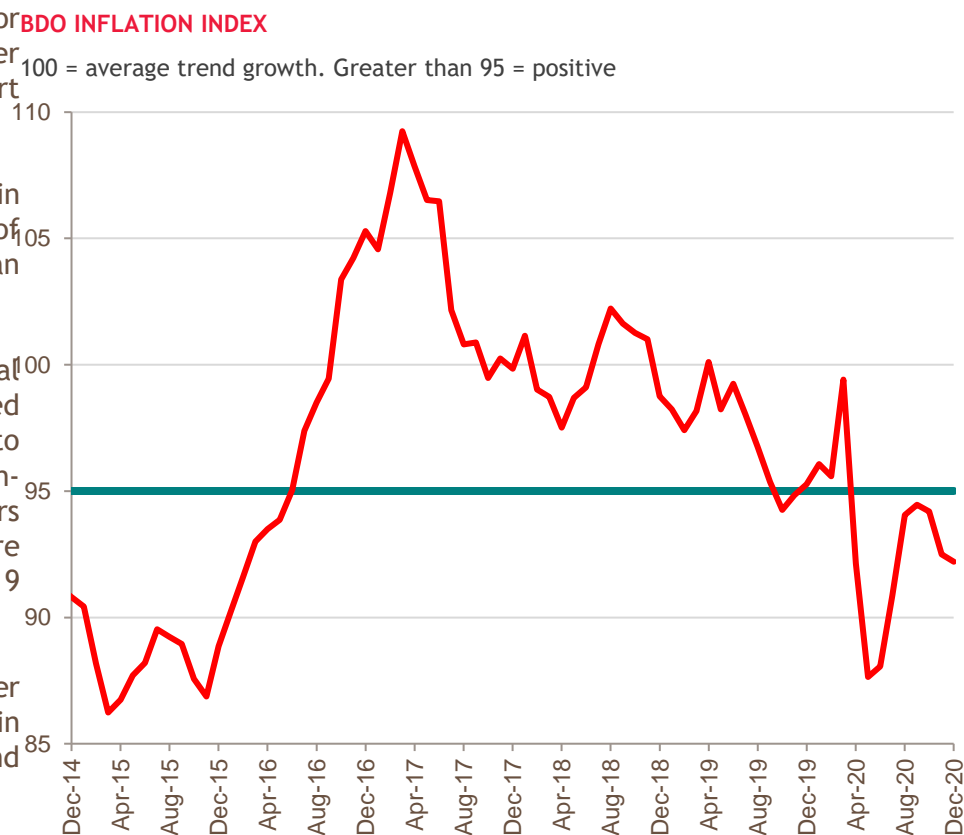
100 = average trend growth. Greater than 95 = positive



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

INFLATION INDEX FALLS AS INPUT PRICES DECLINE

- The BDO Inflation Index dropped from 92.50 in November to 92.20 in December. As was the case in November, the two component indices of the Inflation Index moved in opposite directions in December.
- The BDO Input Inflation Index fell by 0.65 points in December to hit a five-month low of 87.25. In recent months, the pound has appreciated in value relative to other major global currencies including the US dollar, the euro, the yen and the renminbi. For instance, the pound-US dollar exchange rate was 3.5% higher on average in December than it was in September. The strength of the currency will have weighed on import prices, which have a significant impact on the BDO Input Inflation Index.
- Meanwhile, the BDO Consumer Inflation Index rose by 0.06 points to reach 97.16 in December. The slight uptick in economic activity associated with the easing of restrictions in parts of the UK will have bolstered demand in December, leading to an uptick in inflationary pressures.
- According to the latest data release from the Office for National Statistics, the annual rate of consumer price inflation (including owner occupiers' housing costs) dropped from 0.9% in October to 0.6% in November. One of the largest factors contributing to this fall was the clothing & footwear category, which saw prices fall by 3.6% year-on-year. Ordinarily, November brings price hikes in this category, before retailers implement discounts in the run-up to the Christmas period. The latest figures therefore highlight the disruption to seasonal pricing patterns brought about by the COVID-19 pandemic.
- The high value of savings amassed by UK households during the course of 2020 together with an anticipated opening up of the economy in the Spring mean that a resurgence in consumer spending is anticipated later this year. The corresponding increase in demand is likely to lead to steady rises in the BDO Consumer Inflation Index.
- As both domestic and global demand dried up upon the onset of the COVID-19 pandemic, the price of major commodities plummeted, driving steep declines in the BDO Input Inflation Index and to a lesser extent the Consumer Inflation Index. Across 2020, the overall BDO Inflation Index averaged 93.10, compared to 97.16 in 2019.



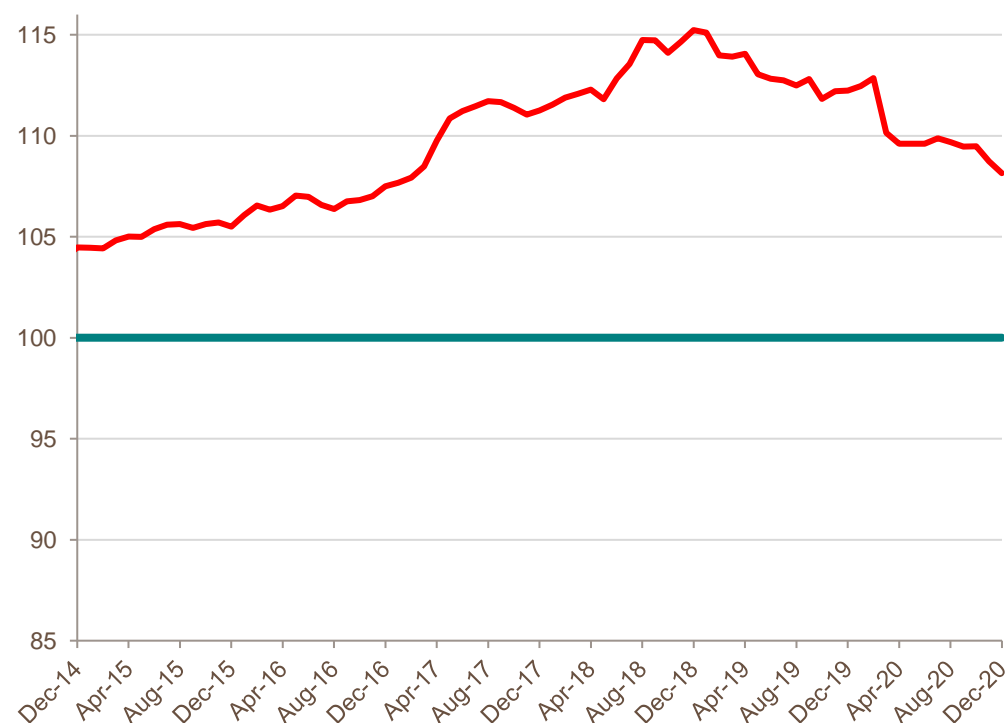
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

STREAM OF JOB LOSSES CONTINUES IN DECEMBER

- The BDO Employment Index fell for the second consecutive month in December, declining by 0.59 points to 108.15. This is consistent with the trend signalled by the latest data from the ONS, which showed that the unemployment rate hit a four-year high of 4.9% in the three months to October. Moreover, early estimates suggest that the number of payrolled employees fell by more than 28,000 in November.
- The continued presence of the furlough scheme supported the labour market in December, as has been the case throughout the COVID-19 pandemic. On 17th December, the Chancellor announced a further one-month extension of the scheme, which is now set to terminate at the end of April 2021.
- The rollout of COVID-19 vaccinations means that an end is in sight for the economic restrictions that have curtailed businesses' activities to an unprecedented extent since the onset of the pandemic. However, it will be several weeks before the vaccination programme will have a sizeable impact on the public health situation, and the recent escalation of the domestic outbreak means that restrictions in the first two months of the year will be far more stringent than previously expected.
- The period of intense disruption at the start of 2021 will lead to a further deterioration of many businesses' financial position and, in some cases, permanent closures. As a result, the BDO Employment Index is expected to register further declines during the first quarter, with a more significant uptick in Q2 as government support is withdrawn.
- Looking back at the year as a whole, the BDO Employment Index has been far more stable than the other three Business Trends Indices. This is the result of the sizeable steps taken by the government early on in the crisis to minimise job losses, most notably the introduction of the furlough scheme. With that being said, the government's labour market interventions have not been able to fully absorb the economic shock brought about by the pandemic, and the BDO Employment Index has been on a steady downward trajectory throughout much of the year.

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

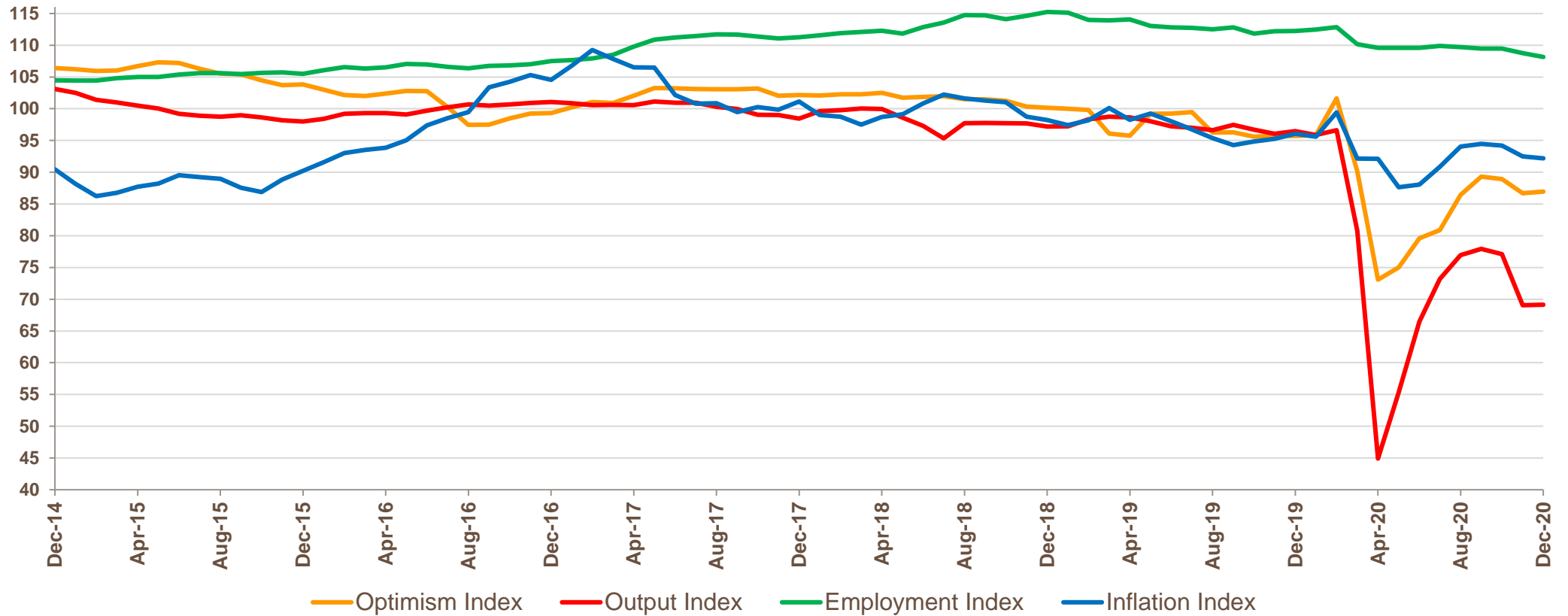
BDO INDICES TO LATEST MONTH

		May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
The BDO Optimism Index	Total	75.02	79.59	80.90	86.44	89.31	88.94	86.70	86.96
	Manuf.	75.85	79.01	82.59	84.18	84.17	83.98	84.22	83.71
	Service	74.92	79.67	80.69	88.25	89.96	89.57	87.02	87.38
The BDO Output Index	Total	55.34	66.50	73.20	76.94	77.95	77.09	69.06	69.13
	Manuf.	69.55	80.47	86.28	89.41	90.88	89.70	90.34	89.94
	Service	53.53	64.73	71.54	75.36	76.32	79.59	66.36	66.50
The BDO Inflation Index	Total	87.65	88.06	90.87	94.06	94.46	94.19	92.50	92.20
	Input	79.76	80.60	85.93	91.20	92.26	91.75	87.90	87.25
	Consumer	95.54	95.52	95.81	96.93	96.67	96.62	97.10	97.16
The BDO Employment Index	Total	109.61	109.61	109.88	109.69	109.46	109.49	108.74	108.15

APPENDIX: OUTPUT AND OPTIMISM INDICES REGISTER SMALL GAINS IN DECEMBER

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.