

A top-down photograph of a red watering can and four small terracotta pots containing succulents, arranged on a grey surface. A red vertical bar is positioned on the left side of the image.

BDO MONTHLY BUSINESS TRENDS INDICES

July 2021

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 August 2021, 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	✓	▽	109.08 in July from 123.17 in June
BDO Optimism Index	✓	▽	111.92 in July from 112.45 in June
BDO Inflation Index	✓	▽	103.70 in July from 103.83 in June
BDO Employment Index	✓✓	△	107.62 in July from 106.05 in June

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 out of the four BDO Business Trends Indices fell between June and July. Nevertheless, all of the subindices remain firmly in positive territory, reflecting the recent loosening of restriction measures and ongoing economic recovery.

The BDO Output Index fell for the third consecutive month in July, reaching 109.08. This fall is once again driven by base effects, reflecting the initial reopening of the economy and increase in activity between June and July 2020.

The BDO Optimism Index slipped by 0.53 points in July, reaching 111.92. This represents the second highest reading since the series began in 2005. This subindex is expected to remain in positive territory in line with the economic recovery, though slightly weaker values may be witnessed on account of lesser scope for further gains.

The BDO Inflation Index fell by just 0.13 points in July. There was some divergence between the constituent subindices, with the magnitude of the fall in the Input Inflation Index outweighing the increase in the Consumer Inflation Index.

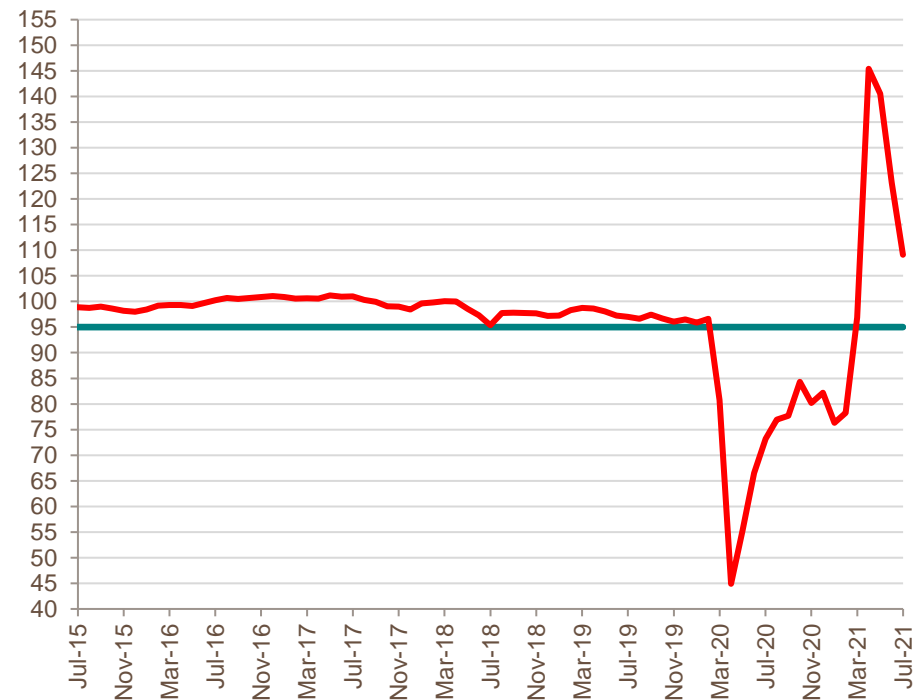
The BDO Employment Index was the only component to increase in July, picking up by 1.57 points to reach 107.62. The labour market has continued to strengthen as restrictions have eased, with record payroll addition in June. Nevertheless, with the furlough scheme having entered its final tapering phase, the Index could face some turbulence in the near future.

OUTPUT INDEX WITNESSES THIRD CONSECUTIVE MONTHLY FALL

- The BDO Output Index fell from 123.17 in June to 109.08 in July. This Index has now fallen for three consecutive months.
- Nevertheless, July's reading still ranks as the fourth highest on record.
- Base effects were once again the main drivers behind the fall in the Output Index. Economic activity picked up notably in July 2020 amidst a further easing of the first set of restriction measures. This saw particular gains amongst consumer-facing services, such as hospitality and entertainment. Given this increase in activity in July 2020, there was more limited scope for further annual gains in July 2021, certainly in comparison to months in the second quarter.
- The BDO Services Output Index decreased by 14.31 points to stand at 108.81 in July. This fall similarly reflects the base effects described above. This is a starker fall than that witnessed for the Manufacturing Output Index. This is due to the fact that gains in overall economic output between June 2020 and July 2020 were particularly concentrated amongst services, with subsectors such as hospitality and entertainment then being able to reopen for the first time since the initial lockdown.
- The BDO Manufacturing Index slipped by 12.33 points in July, reaching 111.22. Though base effects are also at play here, more near-term factors include global supply chain disruption and labour shortages, presenting barriers to output for many manufacturers.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



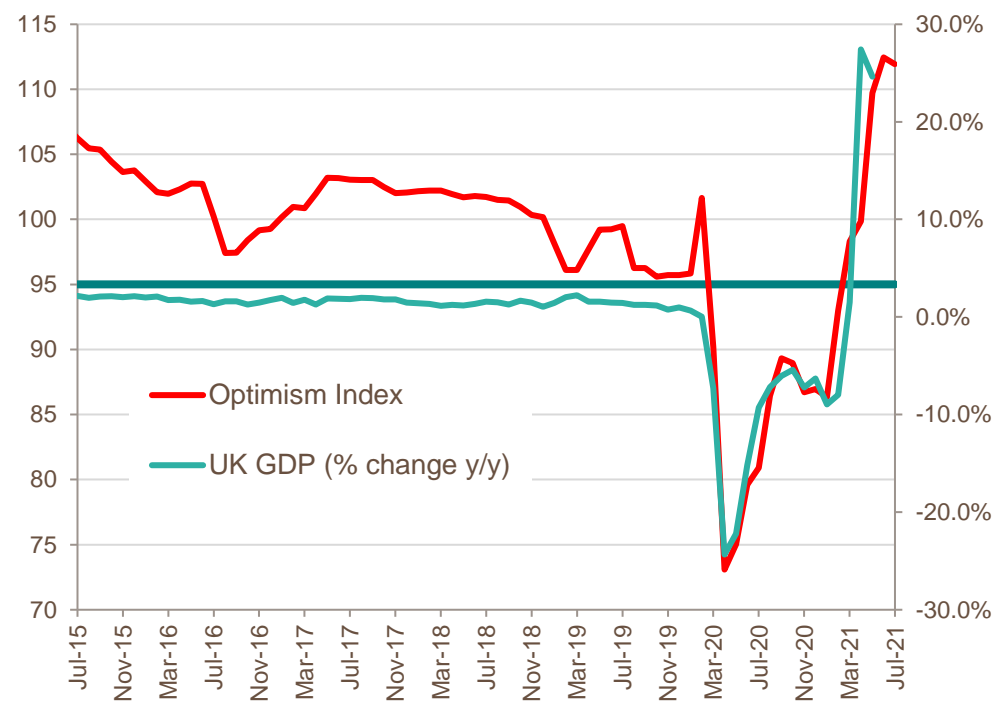
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

BUSINESS SENTIMENT SLIPS SLIGHTLY IN JULY, THOUGH REMAINS AT SECOND HIGHEST ON RECORD

- The BDO Optimism Index slipped slightly in July, reaching 111.92. This marks a fall of 0.53 points compared to June.
- The further lifting of restriction measures in July has facilitated another month of positivity amongst businesses and ensured that the Optimism Index remains high. Indeed, July's reading represents the second highest score since the series began in 2005.
- 19th July brought the final stage of the Government's roadmap in England, meaning the bulk of remaining restriction measures were eased. This has allowed certain businesses, such as nightclubs, to return to operation for the first time since the pandemic began, while others were able to alter their operations now that they no longer face restrictions.
- These changes have particularly impacted businesses in the service sector, given the consumer-facing nature of many such businesses. This is reflected by the smaller month-on-month fall in the BDO Services Optimism Index compared to the Manufacturing Optimism Index. The former slipped by 0.49 points in July to reach 111.86, while the latter fell by 0.88 points, reaching 112.34.
- Both the Services and Manufacturing Indices remain strongly in positive territory. This should continue in the near future, as businesses experience higher activity amidst the ongoing economic recovery. Nevertheless, with many restrictions now eased there is less scope for further gains, meaning further falls in the Indices should be expected.
- Such falls could be further exacerbated if the continued spread of the virus necessitates future reimplementations of restriction measures.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



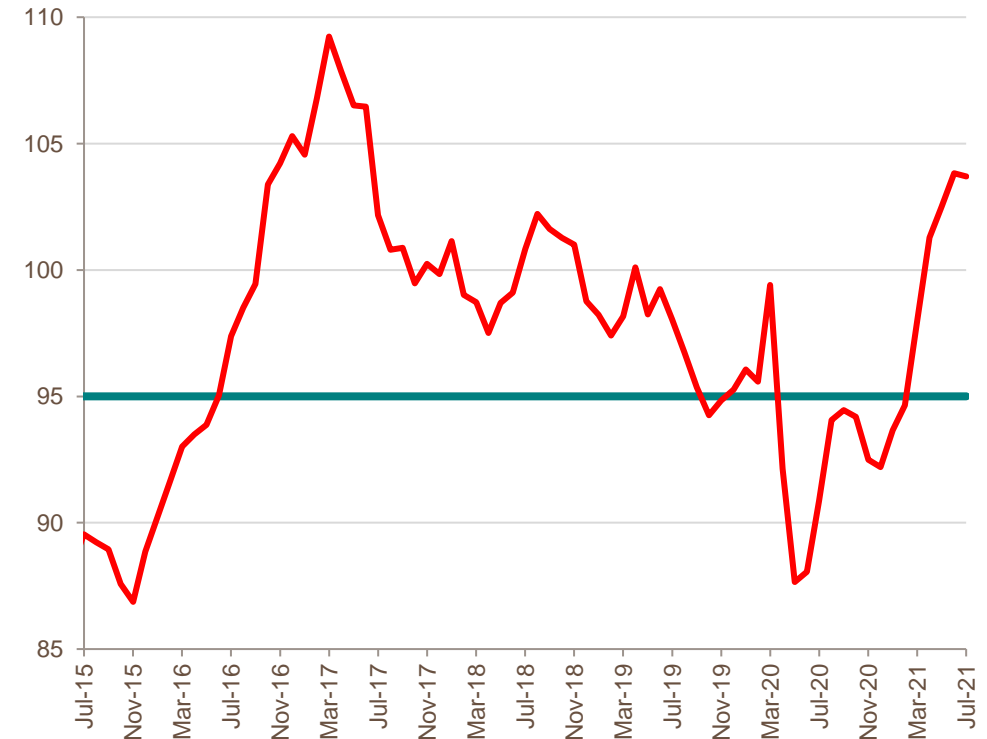
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION INDEX REMAINS HIGH, DRIVEN BY DISRUPTION AND SHORTAGES

- The BDO Inflation Index also slipped slightly in July, reaching 103.7. This marks a fall of 0.13 points. This still represents the second highest reading since June 2017.
- The BDO Input Inflation Index drove the fall in the main Inflation Index, with a drop of 0.75 points. Input inflation remains high despite this fall, driven by a combination of base effects, supply chain disruption, and input shortages. This is particularly stark amongst manufacturers, with 72% of such businesses reporting an increase in input costs in July, according to figures from IHS Markit.
- These effects are set to continue in the near term and will likely be exacerbated as the economy continues its recovery, with demand set to further outstrip supply. The labour shortage trend could also become a key factor here, if wage inflation becomes more deeply embedded.
- Higher prices are also impacting consumers, as evidence by the increase in the BDO Consumer Inflation Index. This picked up by 0.49 points to reach 102.01 in July. This corroborates with recent data releases from the Office for National Statistics, which showed that the annual rate of consumer price inflation reached 2.5% in June. Much of this price growth was concentrated in the transport category, with particularly strong increases across fuel prices.
- Cebr expects inflationary pressures to persist throughout the ongoing economic recovery, fuelled by burgeoning demand levels. This is set to result in a peak inflation rate of 4.3% in late 2021, before subsiding slightly into 2022, though remaining above the Bank of England's 2.0% target.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



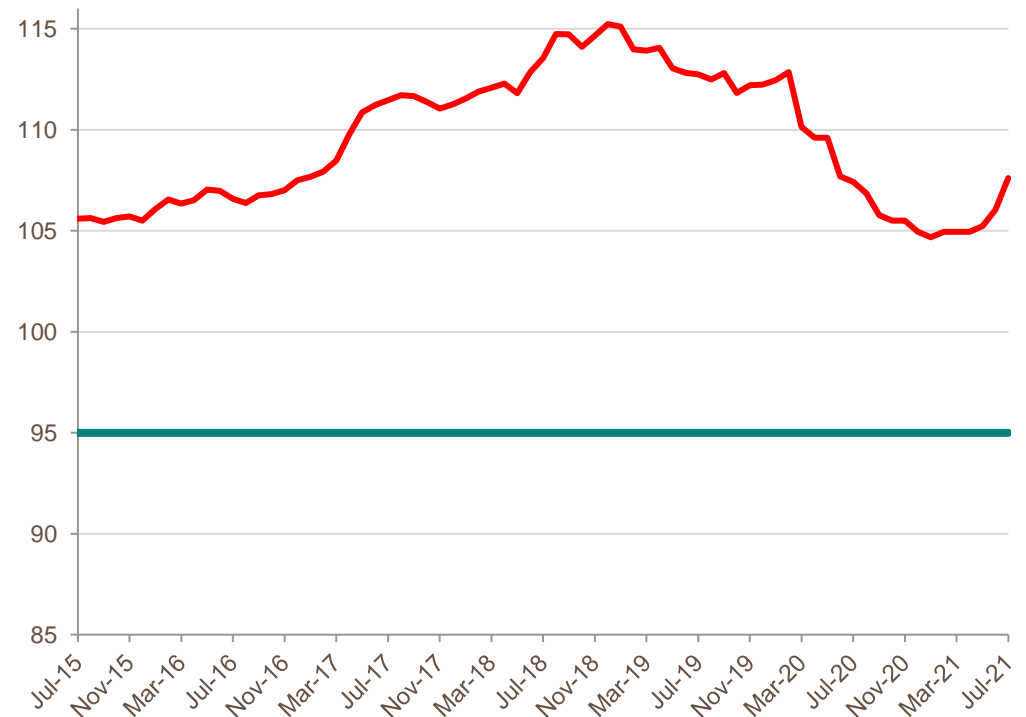
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT INDEX INCREASES FURTHER AMIDST RECORD PAYROLL ADDITION

- The BDO Employment Index was the only subindex to record a monthly increase in July, reaching 107.62. This marks an improvement of 1.57 points.
- The labour market has been strengthened by the recent loosening of restriction measures and subsequent return to economic activity. Timely labour market data show that this is continuing, with HMRC figures pointing to an estimated 28.6 million payrolled employees in June. Notably, this marks an increase of 356,000 on May's value, representing the largest month-on-month increase since the series began in 2014.
- Recent amendments to the weighting process have resulted in considerable revisions to ONS labour market data. Such revisions have resulted in lower employment rates, amongst other variables. As such, values for the Employment Index since April 2020 have been similarly revised.
- Looking ahead, the main impact on the Employment Index will stem from the termination of the furlough scheme. As of the start of August, the scheme has now entered its final tapering phase before its final withdrawal at the end of September. Even given the ongoing economic recovery, many businesses remain in a precarious position, having faced many months with limited revenues.
- Such businesses may be unable to cover their labour costs once government support is withdrawn and may subsequently be forced to make redundancies. Cebr expects this to result in a peak unemployment rate of 5.6% in Q4, which would put 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

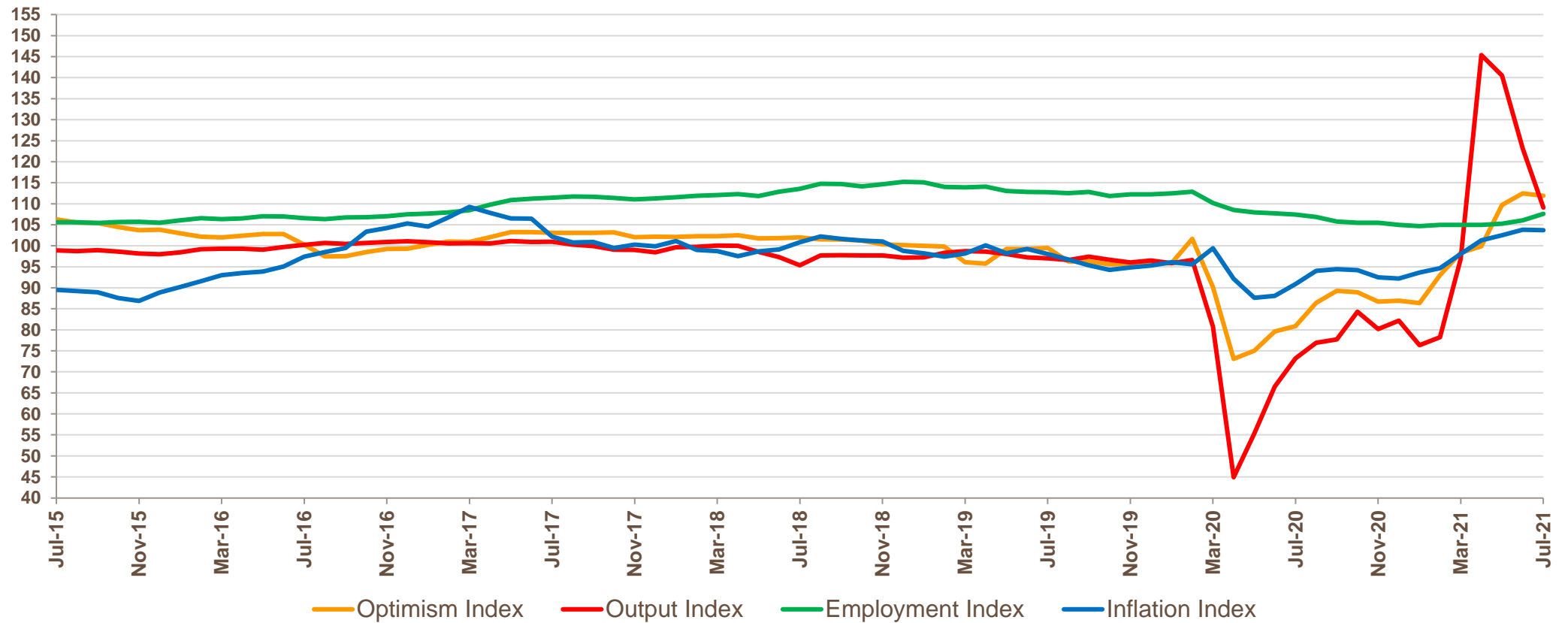
BDO INDICES TO LATEST MONTH

		Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21
The BDO Optimism Index	Total	86.96	86.34	92.99	98.31	99.85	109.71	112.45	111.92
	Manuf.	83.71	84.26	83.99	96.82	99.79	102.98	113.22	112.34
	Service	87.38	86.60	94.13	98.50	99.86	110.56	112.35	111.86
The BDO Output Index	Total	82.19	76.32	78.24	96.86	145.39	140.53	123.17	109.08
	Manuf.	92.12	88.28	91.72	96.21	149.21	133.39	123.55	111.22
	Service	80.93	74.81	76.53	96.94	144.91	141.43	123.12	108.81
The BDO Inflation Index	Total	92.20	93.66	94.65	98.03	101.28	102.51	103.83	103.70
	Input	87.25	90.71	92.51	99.04	105.02	105.49	106.14	105.39
	Consumer	97.16	96.61	96.78	97.03	97.54	99.52	101.52	102.01
The BDO Employment Index	Total	104.96	104.68	105.01	105.07	105.15	105.23	106.05	107.62

APPENDIX: THREE OUT OF FOUR INDICES FALL IN JULY

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.