

A red watering can is positioned in the upper left quadrant, tilted as if pouring. Below it, four small, round, terracotta pots containing various types of 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

February 2021

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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 March 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	X	▲	76.42 in February from 75.81 in January
BDO Optimism Index	X	▲	92.99 in February from 86.34 in January
BDO Inflation Index	X	▲	94.65 in February from 93.66 in January
BDO Employment Index	✓	▲	107.68 in February from 107.64 in January

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

There were positive movements in all four of the BDO Business Trends Indices in February, providing an encouraging signal that the UK economy may have bottomed out amid the third national lockdown.

With lockdown restrictions remaining largely unchanged between January and February, the 0.61 point increase in the BDO Output Index was largely a result of a fall in output between January and February last year.

The BDO Optimism Index rose sharply in February to reach a 12-month high of 92.99. This was fuelled by an improvement in confidence in the services sector, as the success of the vaccination programme and falling infection rates sparked hopes of an easing of restrictions in the coming weeks and months.

The BDO Inflation Index rose by 0.99 points in February to 94.65. This was driven by increases in both the Consumer Inflation and Input Inflation sub-indices. Price pressures are expected to rise further in the near future due to higher commodity prices and the ending of the VAT holiday for the hospitality sector.

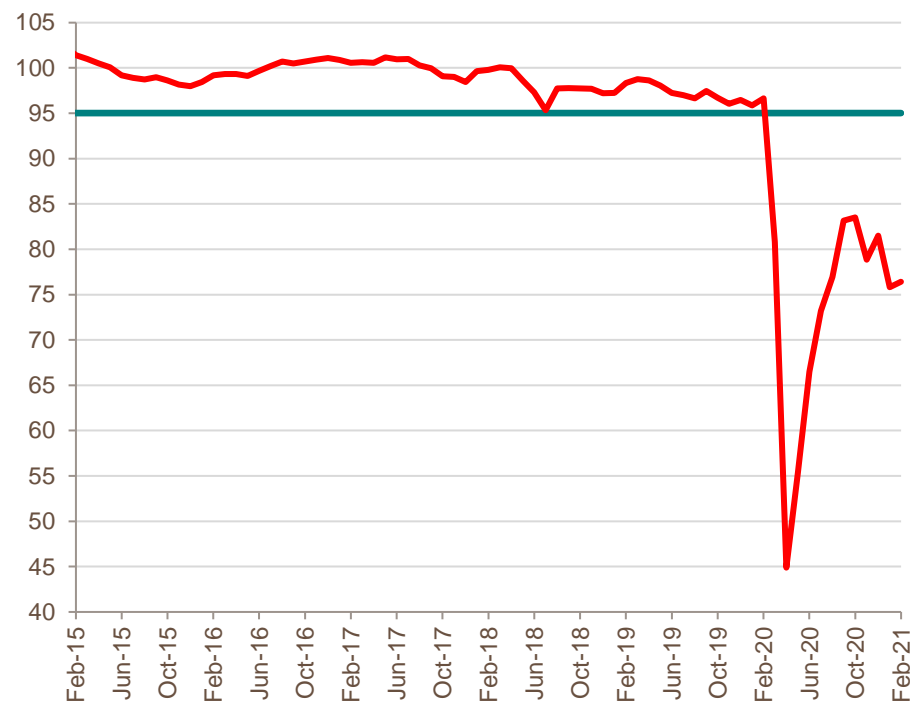
The BDO Employment Index was broadly stable between January and February, edging up by 0.04 points to 107.68. There are signs that the pace of job losses has slowed since November, as the cost to employers of furloughing employees was brought down.

# BDO OUTPUT INDEX RETURNS TO GROWTH AS ECONOMY BOTTOMS OUT

- The BDO Output Index increased from 75.81 in January to 76.42 in February. Despite the month-on-month improvement, the Index remains well below its October level, highlighting the toll that the winter wave of the Covid-19 pandemic has had on the UK economy.
- There were increases in both the Services and Manufacturing Output Indices in February. The BDO Services Output Index rose by 0.53 points to reach 74.53 last month. The stringency of lockdown restrictions remained largely unchanged between January and February, meaning that the level of economic activity will not have changed markedly. Therefore, the uptick in the Index is largely due to the base effects of a decrease in output between January and February last year.
- The BDO Manufacturing Output Index increased to 91.32 in February. Covid-19 related restrictions have generally had a less severe impact on manufacturers' operations than they have had for many businesses in the services sector. As a result, output in the manufacturing sector has been able to recover at a faster pace than the rest of the economy.
- The government's road map for lockdown easing would see many parts of the economy gradually reopen in the near future, starting with schools in March, non-essential retail in April and hospitality venues from May. If this plan materialises, this would lead to substantial increases in the BDO Output Index in the months ahead. However, it is important to note that these plans are very much contingent on the path of the pandemic, and in particular the absence of vaccine-resistant variants of the disease.

## BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



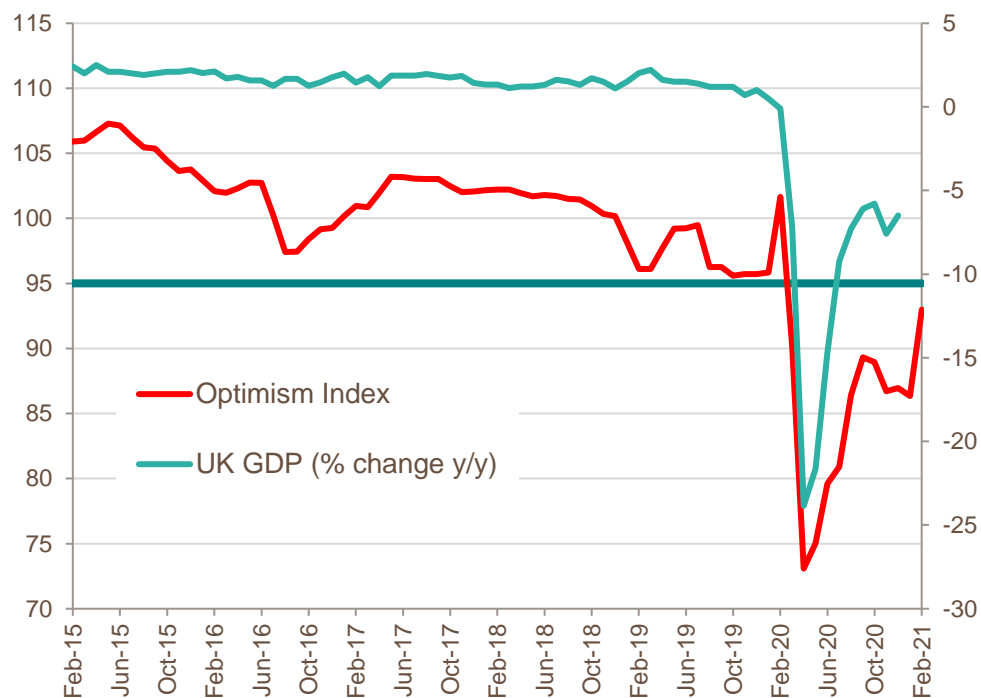
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# BUSINESS SENTIMENT LIFTS DESPITE LOCKDOWN

- The BDO Optimism Index jumped by 6.65 points to reach 92.99 in February. This is the highest it has been since February 2020 - the last month prior to the onset of the Covid-19 crisis.
- The improvement in business confidence was witnessed primarily in the services sector. The BDO Services Optimism Index rose from 86.60 in January to 94.13 in February. While the severity of lockdown restrictions remained largely unchanged during the first two months of 2021, a number of developments have contributed to a more upbeat outlook. Most importantly, the success of the UK's vaccination rollout programme has increased the probability of a significant easing of Covid-19 related restrictions in the not too distant future. The prospect of this has been further boosted by falling infection rates in the UK. According to the Office for National Statistics' Covid-19 Infection Survey, the share of the UK population infected with Covid-19 has fallen from an estimated 2% in early January to around 0.7% in mid-February.
- The BDO Manufacturing Optimism Index registered a 0.27 fall between January and February, taking the Index to 83.99. Brexit-related trading frictions have had a disruptive impact on many manufacturing businesses in the early months of 2021, which will have weighed on sentiment.
- February's rise in business confidence reflects hopes that the UK economy will be able to reopen over the coming weeks and months. However, the outlook is laced with uncertainty and it is worth noting that the BDO Optimism Index remains below its pre-pandemic level.

## BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



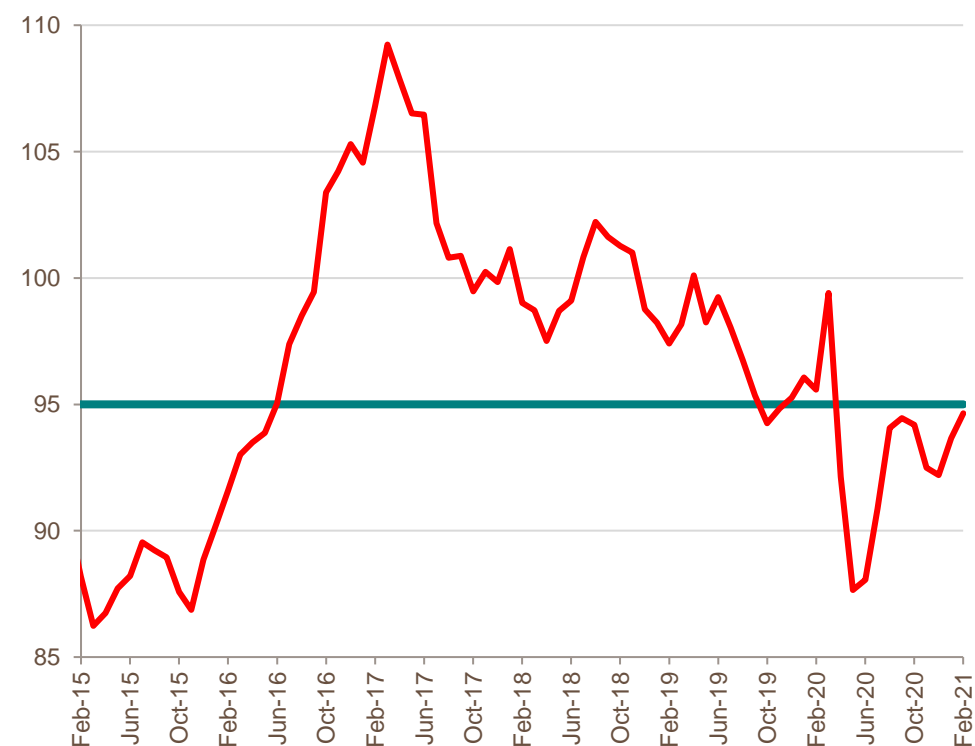
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# INFLATIONARY PRESSURES ESCALATE IN FEBRUARY

- The BDO Inflation Index increased for a third consecutive month in February, rising by 0.99 points to reach 94.65. This was driven by upticks in both the Consumer Inflation and Input Inflation sub-indices.
- The BDO Consumer Inflation Index rose from 96.61 in January to 96.78 in February. The data available so far indicate that the steep fall in inflation observed during the first national lockdown in spring 2020 has not been replicated during the current lockdown. Indeed, the latest figures from the Office for National Statistics show that the annual rate of consumer price inflation, including owner occupiers' housing costs, increased from 0.8% in December to 0.9% in January 2021. One factor contributing to this was a reduction in the seasonal discounting that is typically seen in January in categories such as furniture & household goods. The food category also contributed to the upward movement in inflation, suggesting that the lockdown has caused a spike in demand as a result of the closure of hospitality venues.
- While the BDO Consumer Inflation Index saw a fairly modest increase in February, the Input Inflation Index witnessed a much larger jump. Between January and February, the BDO Input Inflation Index rose from 90.71 to 92.51. This movement took the index to an 11-month high, meaning that the annual rate of input cost inflation has not been higher since the onset of the pandemic in March 2020.
- In the months ahead, the ending of the VAT holiday for the hospitality sector and an increase in Ofgem's energy price cap are set to push up consumer prices further. The intensity of inflationary pressures will also be determined by the degree to which consumer spending recovers as restrictions are lifted.

## BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



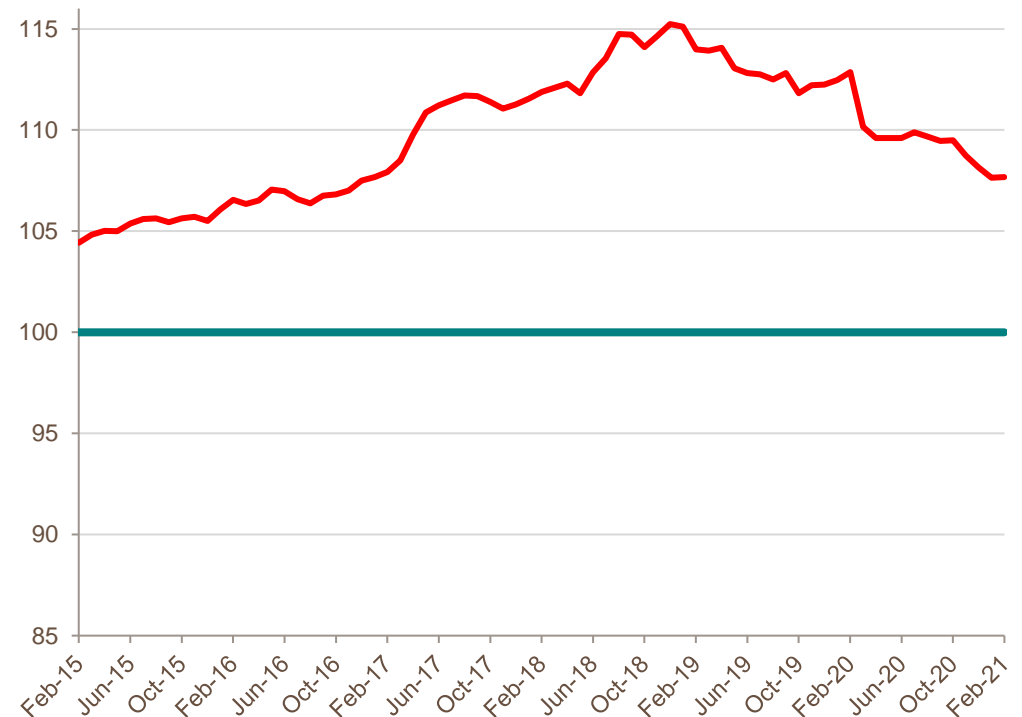
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# EMPLOYMENT INDEX STABILISES IN FEBRUARY

- The BDO Employment Index rose from 107.64 in January to 107.68 in February, as the UK labour market shows some early signs of stabilising. This is the first increase in the Employment Index in four months.
- While the headline rate of unemployment rate has continued to creep up, the pace of increase declined towards the end of 2020. Indeed, between Q2 and Q3 2020, data from the Office for National Statistics show that the unemployment rate rose by 0.7 percentage points from 4.1% to 4.8%. Between Q3 and Q4, there was a smaller 0.3 percentage point rise in the unemployment rate, which took the measure to 5.1% in the three months to December.
- Meanwhile, preliminary HMRC data suggest that the number of payroll employees has been edging up at the start of the year, rising by an estimated 165,974 between December 2020 and February 2021.
- In October 2020, employers were required to cover 20% of furloughed employees wages in addition to paying national insurance and pension contributions. From November, the former requirement was lifted, which has made it more affordable for businesses to furlough their staff. This appears to have been a factor contributing to the recent stabilisation of the labour market.
- With significant Covid-19 related restrictions set to be in place throughout the first half of 2021, employers will continue to require government support in order to retain staff and avoid a spike in the unemployment rate in future months.

## 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

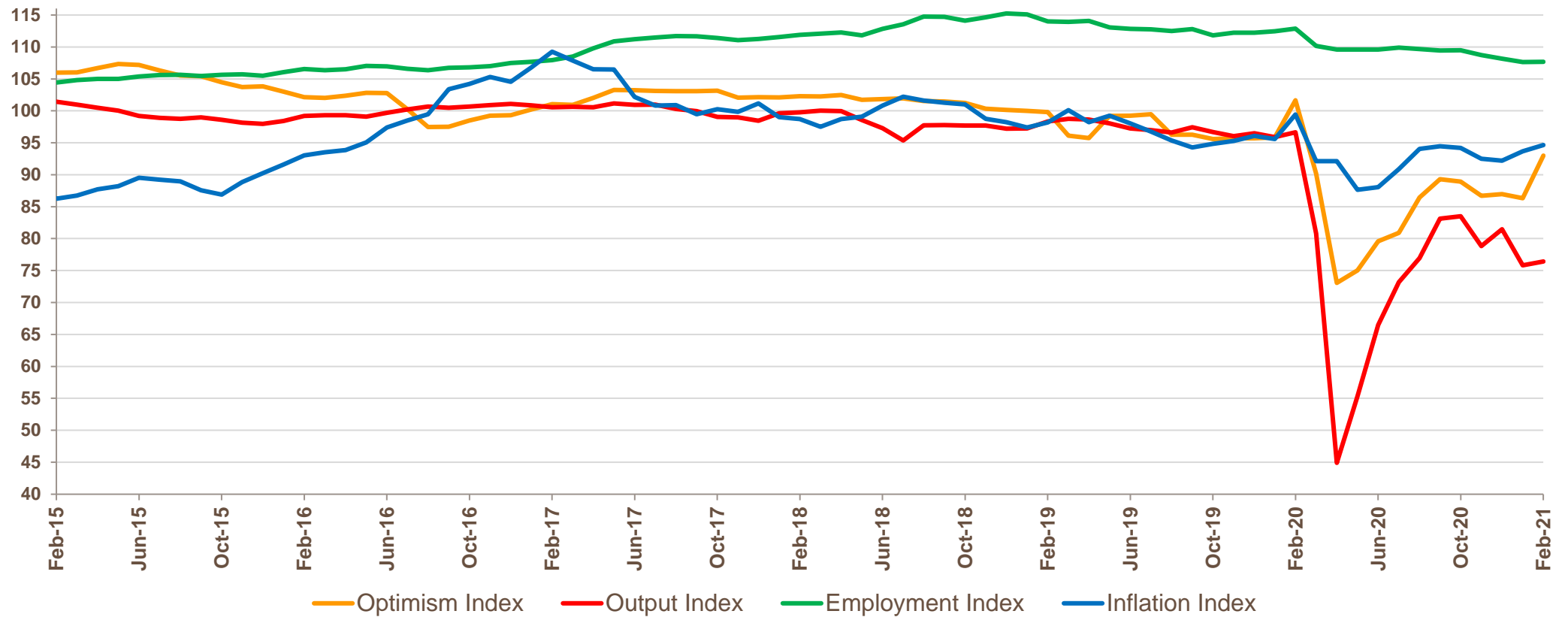
		Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21
The BDO Optimism Index	<b>Total</b>	80.90	86.44	89.31	88.94	86.70	86.96	86.34	92.99
	Manuf.	82.59	84.18	84.17	83.98	84.22	83.71	84.26	83.99
	Service	80.69	88.25	89.96	89.57	87.02	87.38	86.60	94.13
The BDO Output Index	<b>Total</b>	73.20	76.94	83.14	83.51	78.85	81.48	75.81	76.42
	Manuf.	86.28	89.41	88.28	89.59	90.71	90.47	90.13	91.32
	Service	71.54	75.36	82.49	82.74	77.35	80.34	73.99	74.53
The BDO Inflation Index	<b>Total</b>	90.87	94.06	94.46	94.19	92.50	92.20	93.66	94.65
	Input	85.93	91.20	92.26	91.75	87.90	87.25	90.71	92.51
	Consumer	95.81	96.93	96.67	96.62	97.10	97.16	96.61	96.78
The BDO Employment Index	<b>Total</b>	109.88	109.69	109.46	109.49	108.74	108.15	107.64	107.68



# APPENDIX: ALL FOUR BUSINESS TRENDS INDICES IMPROVE IN FEBRUARY

## 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.