

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**

March 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 of April 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	✓✓	▲	94.54 in March from 76.27 in February
BDO Optimism Index	✓✓	▲	98.31 in March from 92.99 in February
BDO Inflation Index	✓✓	▲	98.03 in March from 94.65 in February
BDO Employment Index	✓	▲	107.91 in March from 107.68 in February

KEY:            ✓ = above 100; ✓✓ = above 100 and (joint) highest in 12 months  
                  ✗ = below 100; ✗✗ = below 100 and (joint) lowest in 12 months

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## KEY FINDINGS

For the second consecutive month, all four of the BDO Business Trends Indices registered increases in March, in a sign that the UK's economic recovery is gathering momentum.

The BDO Output Index rose to a 13-month high of 94.54 in March, driven by the partial lifting of Covid-19-related restrictions last month, together with the sharp fall in output registered this time last year upon the onset of the pandemic. This had the effect of pushing up the year-on-year growth rate.

The BDO Optimism Index also reached a 13-month high in March, increasing from 92.99 to 98.31. The prospect of restrictions being lifted in the coming weeks and months will have bolstered sentiment throughout the economy in March.

The BDO Inflation Index reached 98.03 in March 2021. This marks the first time that the Index has surpassed the value of 95, representing positive year-on-year growth, since March 2020. The Input Inflation Index registered a particularly significant increase, as the effect of the collapse in commodity prices in early 2020 began to fall out of the year-on-year calculations.

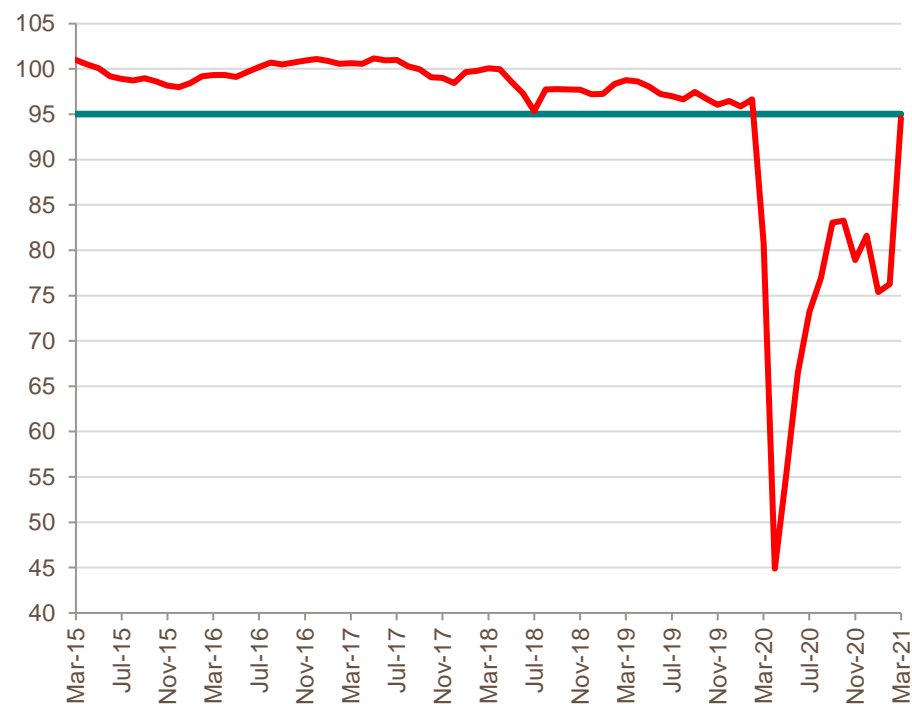
The BDO Employment Index rose for the second consecutive month to reach 107.91 in March. Rising numbers of payrolled employees in the UK suggests that the furlough scheme continues to be effective in insulating the UK labour market from the economic slowdown precipitated by the national lockdown.

# BDO OUTPUT INDEX REACHES 13-MONTH HIGH IN MARCH

- The BDO Output Index surged to a 13-month high of 94.54 in March, driven by large gains in both the Services Output Index and the Manufacturing Output Index. Indeed, the Services Output Index increased from 74.33 in February to 94.57 in March, meaning that the sub-index is on the cusp of the threshold of 95.0 that separates negative and positive annual growth. The Manufacturing Output Index rose to 94.33 in March, up from 91.59 the previous month.
- The improvement in March was driven to some extent by a slight easing of Covid-19-related restrictions. The most significant of these was the re-opening of schools for all pupils from 8th March, which will have led to a significant rise in output from the education sector.
- There is also evidence of a slight pickup in activity elsewhere in the economy in March, with data on credit card spending registering a notable increase last month. Higher levels of consumer spending will have been driven by the partial easing of restrictions from 8th March, together with increased confidence about future economic conditions.
- While the level of economic output is set to have risen in March, the dramatic increase in the BDO Output Index is primarily due to the base effect created by the sharp (7.0%) fall in economic activity that took place between February and March 2020 upon the onset of the Covid-19 pandemic. This has had the effect of pushing up the year-on-year growth of output in March 2021.

## BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



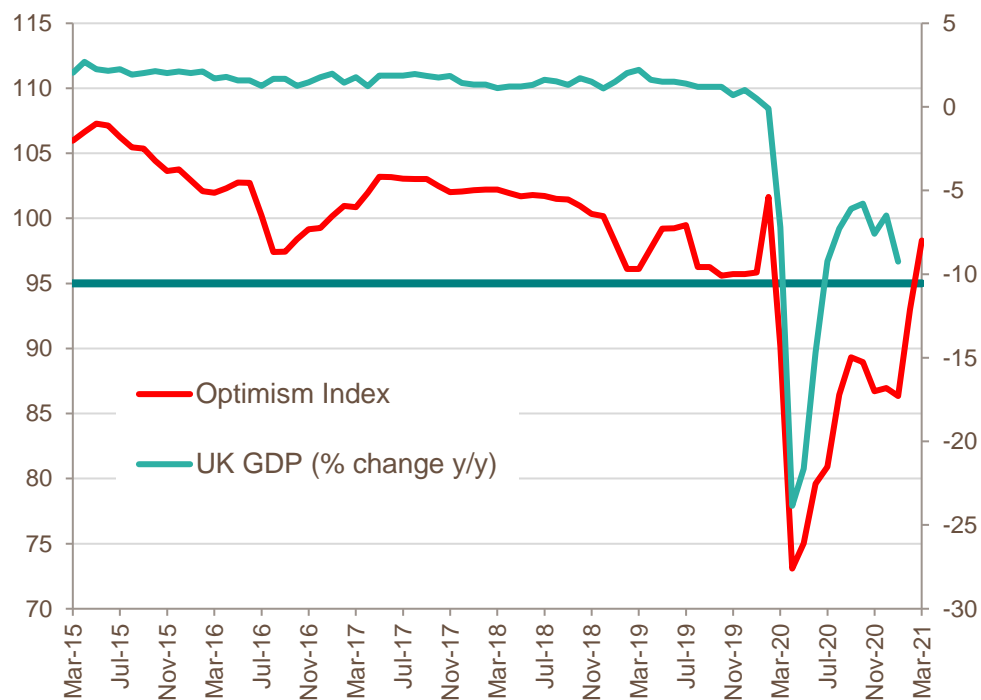
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# BUSINESS SENTIMENT REACHES HIGHEST POINT SINCE ONSET OF PANDEMIC

- The BDO Optimism Index registered sizeable gains in March 2021, rising from 92.99 to a 13-month high of 98.31.
- Sentiment has lifted throughout the economy in recent weeks. The partial easing of restrictions in March led to an uptick in economic activity, which in turn will have buoyed levels of confidence among businesses. Meanwhile, the continued success of the vaccination rollout - with 31 million people in the UK now having received at least one dose of the vaccine - means that the UK remains on track to further open up the economy over the coming weeks and months. This is set to begin with the re-opening of outdoor hospitality venues, personal care premises and non-essential retailers from 12th April.
- Another important factor that will have boosted the BDO Optimism Index last month is the level of support announced by the government in the Spring Budget, which includes an extension of the furlough scheme until the end of September.
- The Manufacturing Optimism Index rose by 12.83 points to reach 96.82 in March. This dramatic increase suggests that the prospects of lockdown easing, together with the absence of Brexit-related uncertainty, significantly improved sentiment among firms in this sector. The Services Optimism Index increased from 94.13 in February to 98.50 in March, which also reflects the renewed confidence that has been imparted upon businesses by the roadmap for lockdown easing.

## BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



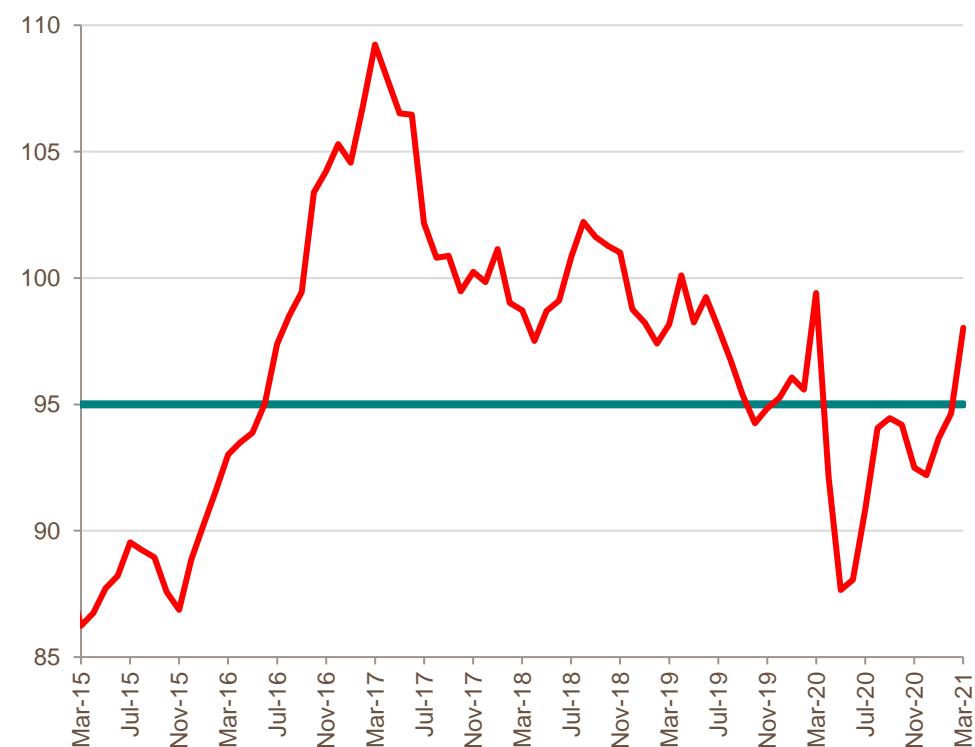
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# INFLATION RETURNS TO POSITIVE TERRITORY IN MARCH

- The BDO Inflation Index rose from 94.65 in February to 98.03 in March. This marks the first time the Inflation Index has exceeded the 95-point that marks positive year-on-year growth since March 2020.
- The largest increase last month was registered in the BDO Input Inflation Index, which rose by 6.53 points to reach 99.04 in March. Base effects were an important contributor to this movement. Indeed, upon the onset of the Covid-19 pandemic, global commodity prices plummeted as levels of confidence and demand dried up. This fed through into the level of input prices, pushing down the base price level against which that of March 2021 is compared.
- The BDO Consumer Inflation Index increased from 96.78 in February to 97.03 in March. According to the latest data from the Office for National Statistics (ONS), the annual rate of consumer price inflation, including owner occupiers' housing costs, was 0.7% in February. A large source of downward pressure came from the clothing & footwear category, where prices fell by 5.6% annually.
- However, there are a number of factors that are set to drive up inflation in the coming months. These include increases to Ofgem's energy price cap, the eventual termination of VAT reductions for certain sectors, rising levels of demand as the economy re-opens, and the base effects of falling fuel prices around this time last year.

## BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



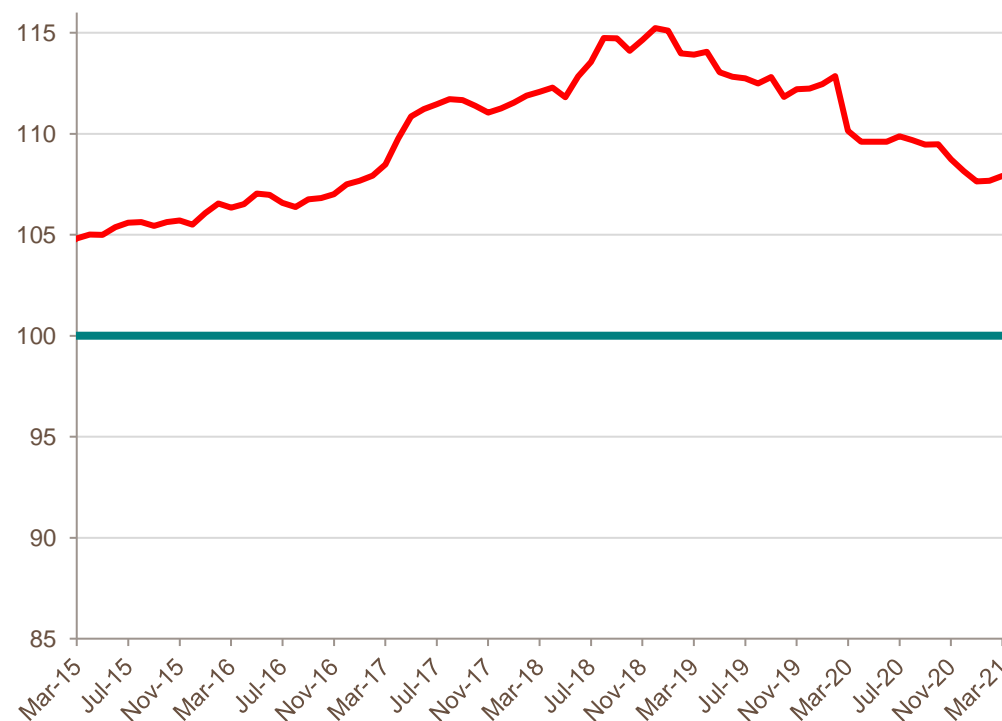
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# EMPLOYMENT INDEX RISES FOR SECOND CONSECUTIVE MONTH

- The BDO Employment Index increased by 0.23 points to reach a three-month high of 107.91 in March. This also represents the second consecutive monthly increase of the BDO Employment Index.
- Preliminary HMRC data show that the number of payrolled employees rose by nearly 68,000 between January and February, following an increase of just over 55,000 the previous month. These figures suggest that the furlough scheme has been largely successful in “freezing” the labour market amid the winter wave of the Covid-19 pandemic.
- In the Spring Budget, the Chancellor announced an extension of the Coronavirus Job Retention Scheme, which is now set to be gradually phased out from July 2021 before being fully withdrawn at the end of September. If infections continue to fall and vaccination coverage continues to rise, the UK is on track to lift the bulk of its domestic Covid-19 restrictions by the time the furlough scheme is terminated. This means that the spike in unemployment when government support is eventually withdrawn will likely be smaller than previously feared.
- With that being said, the financial toll of the Covid-19 crisis coupled with the lingering effects of the pandemic on global demand mean that many businesses will not be able to retain all of their furloughed employees, and a corresponding fall in the BDO Employment Index is still on the cards for later in 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

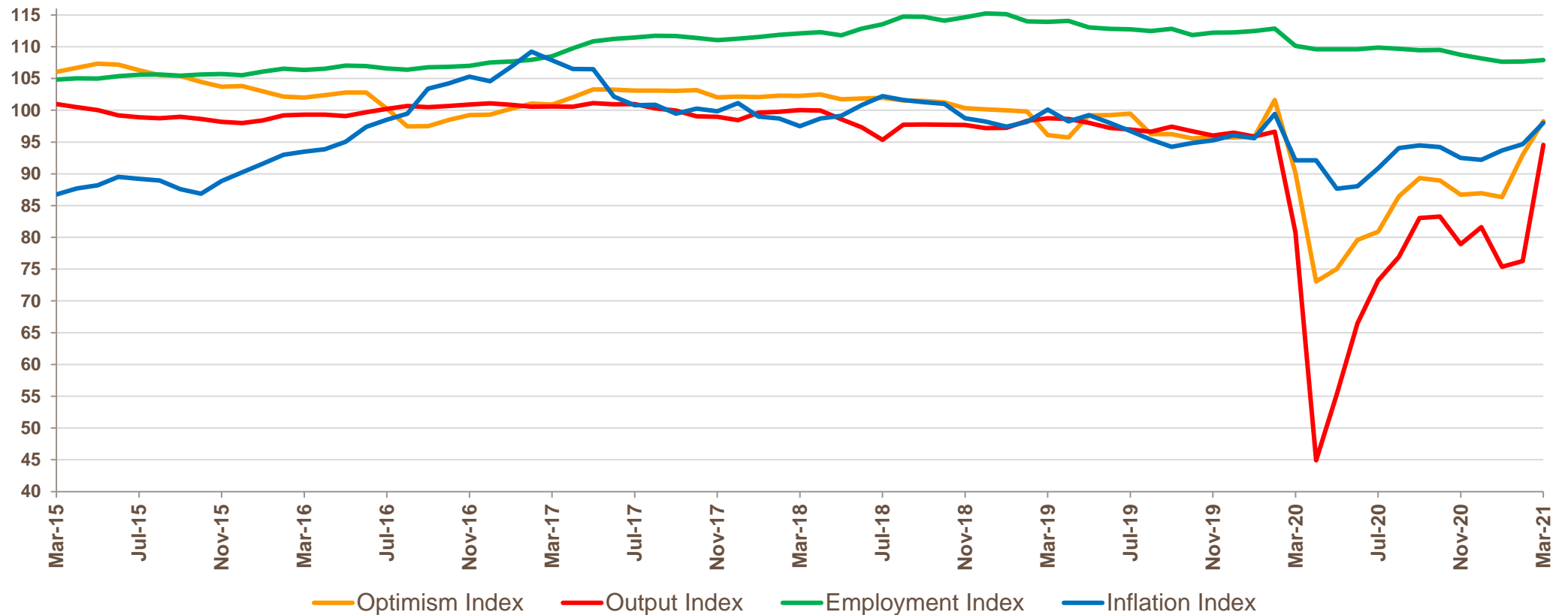
		Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
The BDO Optimism Index	<b>Total</b>	86.44	89.31	88.94	86.70	86.96	86.34	92.99	98.31
	Manuf.	84.18	84.17	83.98	84.22	83.71	84.26	83.99	96.82
	Service	88.25	89.96	89.57	87.02	87.38	86.60	94.13	98.50
The BDO Output Index	<b>Total</b>	76.94	83.05	83.27	78.93	81.61	75.38	76.27	94.54
	Manuf.	89.41	87.42	87.51	91.40	91.69	87.84	91.59	94.33
	Service	75.36	82.49	82.74	77.35	80.34	73.80	74.33	94.57
The BDO Inflation Index	<b>Total</b>	94.06	94.46	94.19	92.50	92.20	93.66	94.65	98.03
	Input	91.20	92.26	91.75	87.90	87.25	90.71	92.51	99.04
	Consumer	96.93	96.67	96.62	97.10	97.16	96.61	96.78	97.03
The BDO Employment Index	<b>Total</b>	109.69	109.46	109.49	108.74	108.15	107.64	107.68	107.91



# APPENDIX: UK RECOVERY ACCELERATES IN MARCH WITH GROWTH IN ALL FOUR BUSINESS TRENDS INDICES

## 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

### **KALEY CROSTHWAITE**

**BDO LLP**

55 Baker Street, London W1M 1DA

telephone: 020 7486 5888

fax: 020 7487 3686

email: [Kaley.Crossthwaite@bdo.co.uk](mailto:Kaley.Crossthwaite@bdo.co.uk)

### **PABLO SHAH**

**Centre for Economics and Business Research**

Unit 1, 4 Bath Street,

London EC1V 9DX

telephone: 020 7324 2843

email: [pshah@cebr.com](mailto:pshah@cebr.com)

web: [www.cebr.com](http://www.cebr.com)

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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.