

A red watering can is positioned in the upper left quadrant, tilted as if pouring. Below it, four small, round, 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

January 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 February 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	▼	70.44 in January from 75.82 in December
BDO Optimism Index	X	▼	86.34 in January from 86.96 in December
BDO Inflation Index	X	▲	93.66 in January from 92.20 in December
BDO Employment Index	✓	▼	107.64 in January from 108.15 in December

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

It was a difficult start to 2021 for the UK economy, which is reflected by falls in three of the four BDO Business Trends Indices. The BDO Output, Optimism and Employment Indices all registered declines last month, while the Inflation Index saw an increase.

The BDO Output Index experienced the sharpest monthly fall since last April in January 2021, driven by a 5.97 drop in the Services sub-index. The BDO Manufacturing Output Index also fell in January, although to a lesser extent than the Services Output Index due to the lesser impact of lockdown restrictions on activities in this sector.

The BDO Optimism Index fell from 86.96 in January 2021 to 86.34 in December 2020, meaning that business confidence is now at a six-month low. Again, the deterioration was driven by the services sector, with the BDO Manufacturing Optimism Index registering a slight increase as businesses welcomed the agreement of a free trade deal between the UK and the EU.

The BDO Inflation Index rose by 1.46 points in January to reach 93.66. This is the first increase in the Index since September 2020. The Input Inflation Index increased from 87.25 in December 2020 to 90.71 in January 2021, fuelled by rising commodity prices.

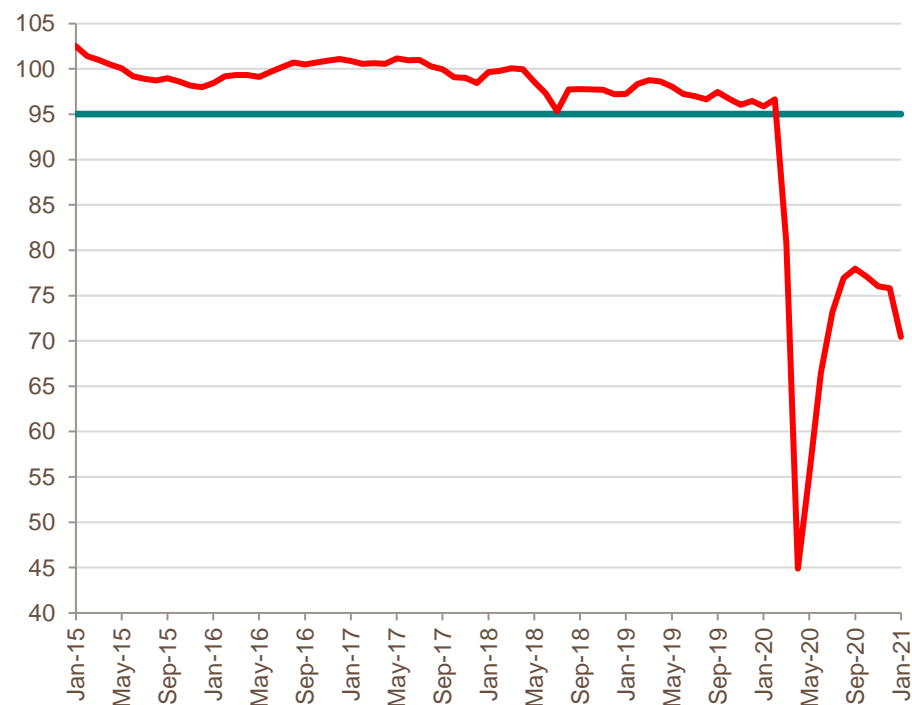
The BDO Employment Index fell for the third consecutive month to reach 107.64 in January. Unemployment has continued to rise in the UK despite the presence of the furlough scheme, as firm closures and a reluctance to hire drive a weakening of labour market conditions.

BDO OUTPUT INDEX FALLS FOR FOURTH STRAIGHT MONTH

- The BDO Output Index fell by 5.38 points in January 2021 to hit a seven-month low of 70.44. While the index has been declining steadily since the escalation of the COVID-19 outbreak in the autumn and winter months, January's fall is the largest single-month fall since April 2020.
- The dismal start to the year for the Output Index reflects the severe economic impacts of the third national lockdown, which came into effect on 5th January in response to the rapid rise in COVID-19 infections brought about by the new variant of the virus. This was associated with the closure of schools, non-essential retailers and hospitality venues.
- The BDO Services Index suffered the largest fall in January, dropping from 73.99 to 68.02. This reflects the particularly severe impact that lockdown restrictions have on the services sector, with many businesses required to once again close their operations altogether as a result of the latest measures.
- The BDO Manufacturing Index recorded a smaller decline in January than the Services Index. Indeed, the Manufacturing Index dropped from 89.94 in December 2020 to 89.50 in January 2021. The manufacturing sector has continued to show more resilience amid lockdown-induced disruption, with most firms able to maintain some or all of their operating activities under the current rules.
- While the fall in the Output Index is a stark reminder of the compromised state of the economy at present, levels of economic activity remain significantly higher than during the first lockdown in April 2020. This is due to slightly more lax restrictions in some sectors - such as real estate - and the adaptations that businesses have made over the past ten months to remain operational in the context of a national lockdown.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



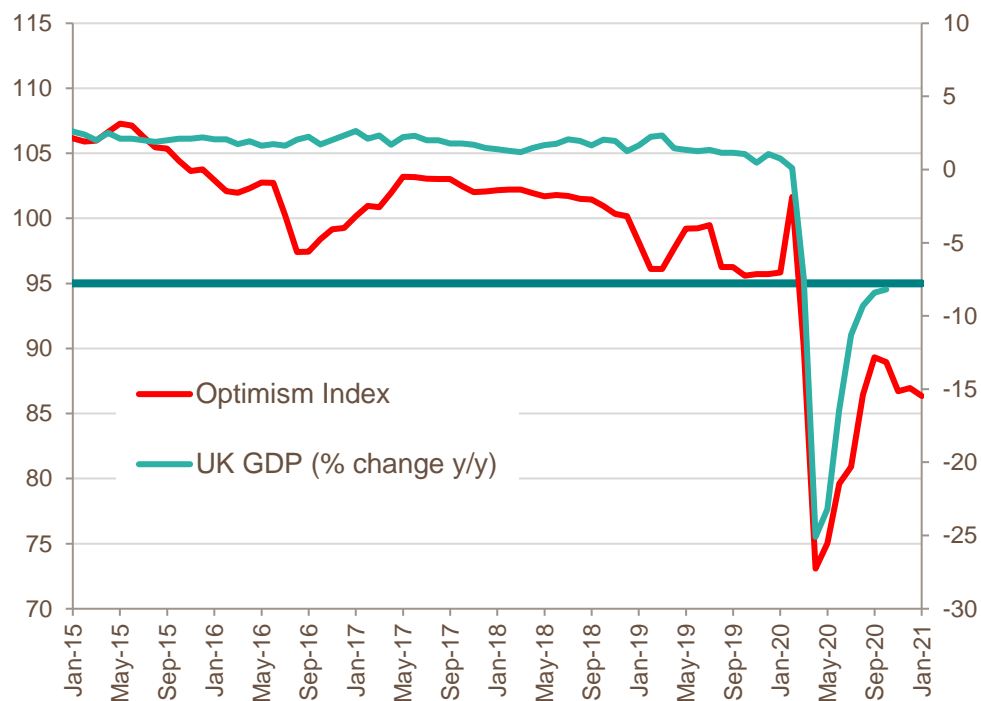
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

BUSINESS CONFIDENCE RECEDES IN THE NEW YEAR

- The BDO Optimism Index experienced a small decline in January 2021, dropping from 86.96 to 86.34. Following the strong resurgence of business confidence in the late summer months, sentiment has been steadily deteriorating as the severity of the current wave of the COVID-19 pandemic has become clearer.
- The two constituent sub-indices that comprise the BDO Optimism Index moved in opposite directions in January. The Services Optimism Index fell from 87.38 to 86.60, while the Manufacturing Optimism Index registered a small increase of 0.55 points.
- While there was a general level of awareness regarding the risks posed by the winter wave of the pandemic, the speed of the escalation that was observed in December and January and the stringency of the associated lockdown measures will have been far worse than many had feared. This will have been the driver of the fall in the Services Optimism Index, with no clear end in sight for the businesses that have been forced to shut down.
- Optimism among manufacturing firms remained subdued in January, although spirits will have been lifted by the eleventh hour agreement of a free trade deal between the UK and the EU, the absence of which would have led to severe disruption for firms reliant on trade across the channel.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



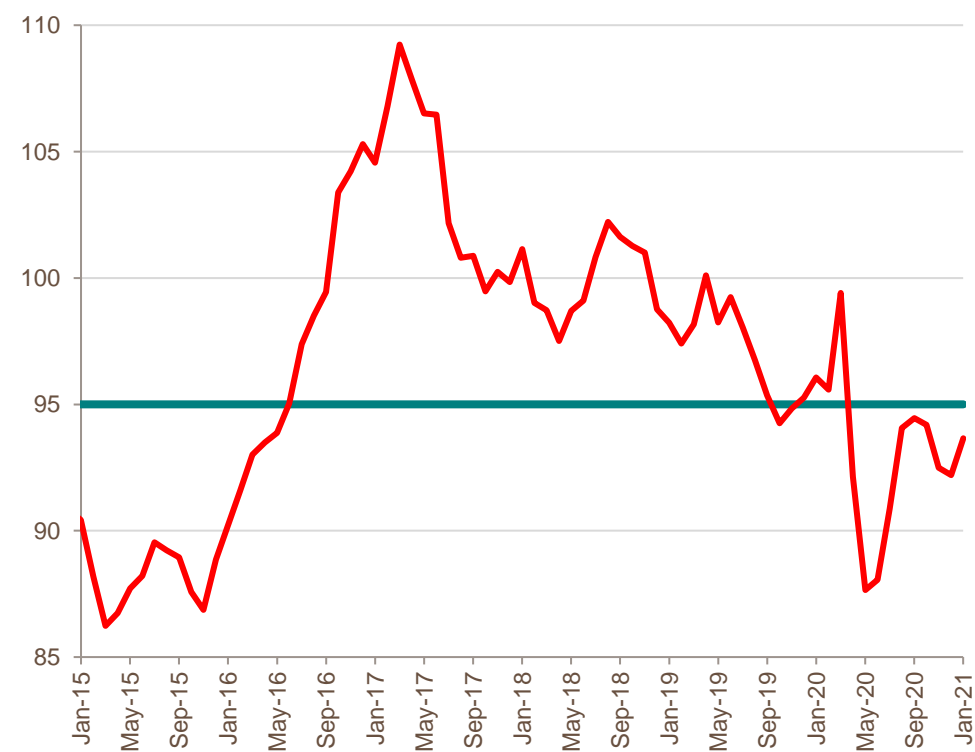
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

PRICE PRESSURES EDGE UP IN JANUARY

- The BDO Inflation Index climbed to a three-month high of 93.66 in January, up from 92.20 in December 2020. This increase was fuelled by the Input Inflation Index, which rose by 3.46 points to hit 90.71 in January. Meanwhile, the Consumer Inflation Index edged down by 0.55 points to 96.61.
- The latest data from the Office for National Statistics indicates that the annual rate of consumer price inflation (including owner occupiers' housing costs) rose by 0.2 percentage points to 0.8% in December, on the back of increasing prices in the transport and clothing & footwear categories. The ability to shop in person, combined with the usual rise in spending associated with the Christmas period will have driven up demand for consumer goods in December, contributing to the rise in the price level.
- However, demand will have suffered a severe blow in January in light of the harsher restrictions, which in turn will have weighed on inflationary pressures.
- The increase in the Input Inflation Index between December 2020 and January 2021 reflects the significant recovery of commodity prices in the latter months of 2020, which will have started to feed into the costs faced by producers. For instance, the price of WTI crude oil has increased from less than \$36 USD per barrel at the end of October 2020 to more than \$53 USD per barrel at the beginning of February 2021.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



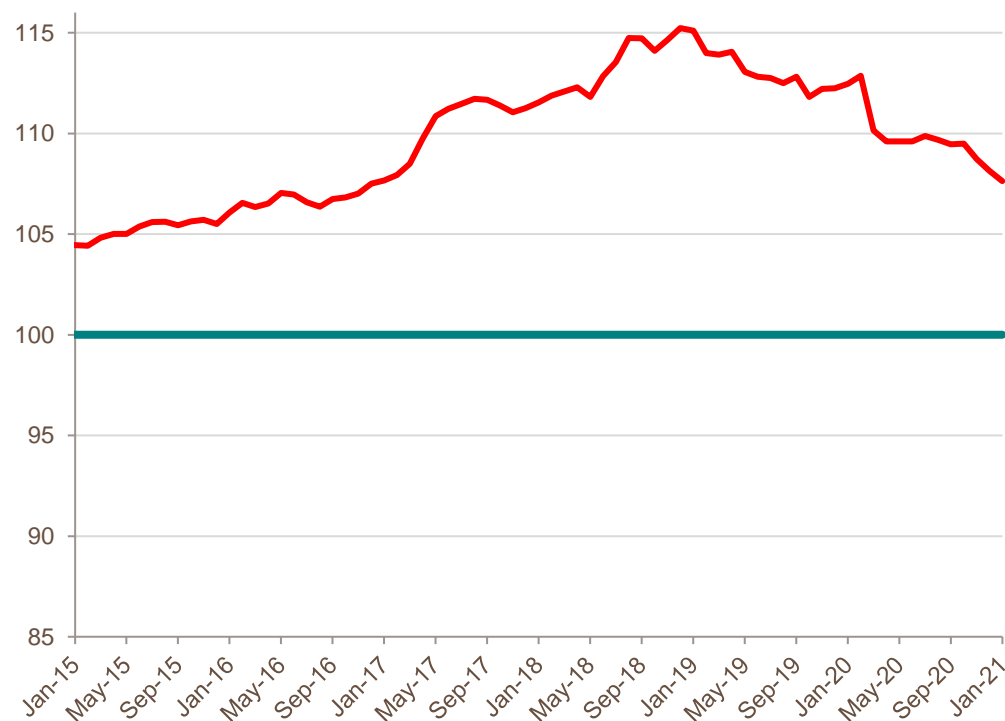
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT INDEX SINKS FURTHER IN JANUARY 2021

- The BDO Employment Index declined from 108.15 in December 2020 to 107.64 in January 2021, marking the third consecutive monthly fall in the Index.
- The UK's unemployment rate hit 5.0% in the three months to November, the highest it has been in more than four years and 1.2 percentage points higher than a year earlier. This highlights how, even with the furlough scheme remaining in place, the COVID-19 crisis has slowly but surely begun to take its toll on the UK labour market. Indeed, the number of payroll employees in the UK is 828,000 lower than it was in February 2020.
- Falling levels of employment despite the availability of the furlough scheme reflect a variety of factors, including the permanent closure of businesses, the suspension of specific elements of businesses' operations, and a hesitancy towards taking on new staff amid the intense economic uncertainty.
- The government has so far maintained that further announcements on the future of the Coronavirus Job Retention Scheme will not be made until the Budget on 3rd March. With the scheme currently due to expire at the end of April 2021, the risks for the Employment Index are very much skewed to the downside.

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

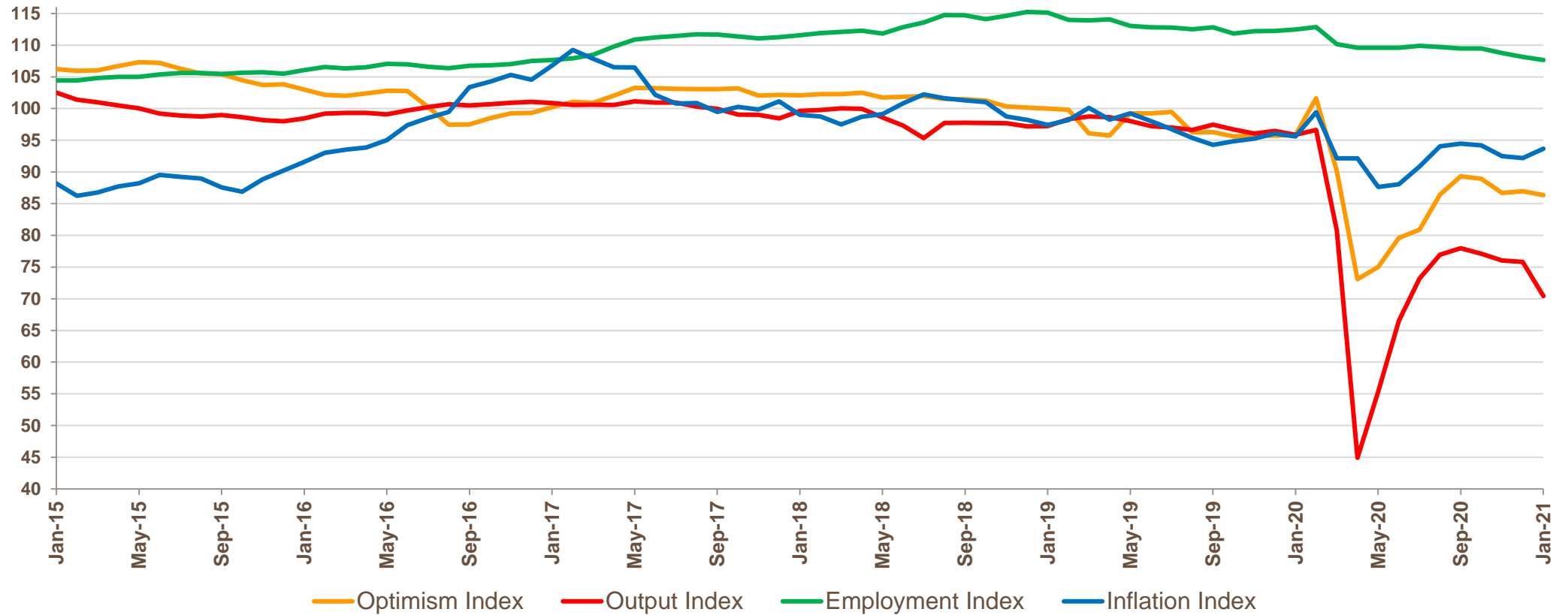
BDO INDICES TO LATEST MONTH

		Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21
The BDO Optimism Index	Total	79.59	80.90	86.44	89.31	88.94	86.70	86.96	86.34
	Manuf.	79.01	82.59	84.18	84.17	83.98	84.22	83.71	84.26
	Service	79.67	80.69	88.25	89.96	89.57	87.02	87.38	86.60
The BDO Output Index	Total	66.50	73.20	76.94	77.95	77.09	76.02	75.82	70.44
	Manuf.	80.47	86.28	89.41	90.88	89.70	90.34	89.94	89.50
	Service	64.73	71.54	75.36	76.32	82.17	74.17	73.99	68.02
The BDO Inflation Index	Total	88.06	90.87	94.06	94.46	94.19	92.50	92.20	93.66
	Input	80.60	85.93	91.20	92.26	91.75	87.90	87.25	90.71
	Consumer	95.52	95.81	96.93	96.67	96.62	97.10	97.16	96.61
The BDO Employment Index	Total	109.61	109.88	109.69	109.46	109.49	108.74	108.15	107.64

APPENDIX: ECONOMIC CONDITIONS DETERIORATE IN JANUARY

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.