

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

BDO MONTHLY BUSINESS TRENDS INDICES

November 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 December 2020, 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	▼	69.06 in November from 77.09 in October
BDO Optimism Index	X	▼	86.70 in November from 88.94 in October
BDO Inflation Index	X	▼	92.50 in November from 94.19 in October
BDO Employment Index	XX	▼	108.74 in November from 109.49 in October

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 second national lockdown wiped out a significant chunk of the economic gains made in recent months. Indeed, in November, the BDO Output, Optimism, Inflation and Employment Indices all declined relative to October.

The BDO Output Index experienced the largest fall last month, dropping from 77.09 to 69.06. This was driven by a precipitous decline in the Services Output Index, as the closure of restaurants, pubs and non-essential shops once again brought many businesses to a standstill.

The BDO Optimism Index fell by 2.24 points to 86.70 in November. Last month's decline was again fuelled by a deterioration of sentiment in the services sector. By contrast, the Manufacturing Optimism Index registered a small increase in November, reflecting a lower level of disruption brought about by the lockdown restrictions.

The BDO Inflation Index sank to a four-month low of 92.50 in November, brought about by a 3.85 decline in the Input Inflation Index. Looking ahead, rising commodity prices and higher levels of demand are likely to exert upward pressure on the Inflation Index.

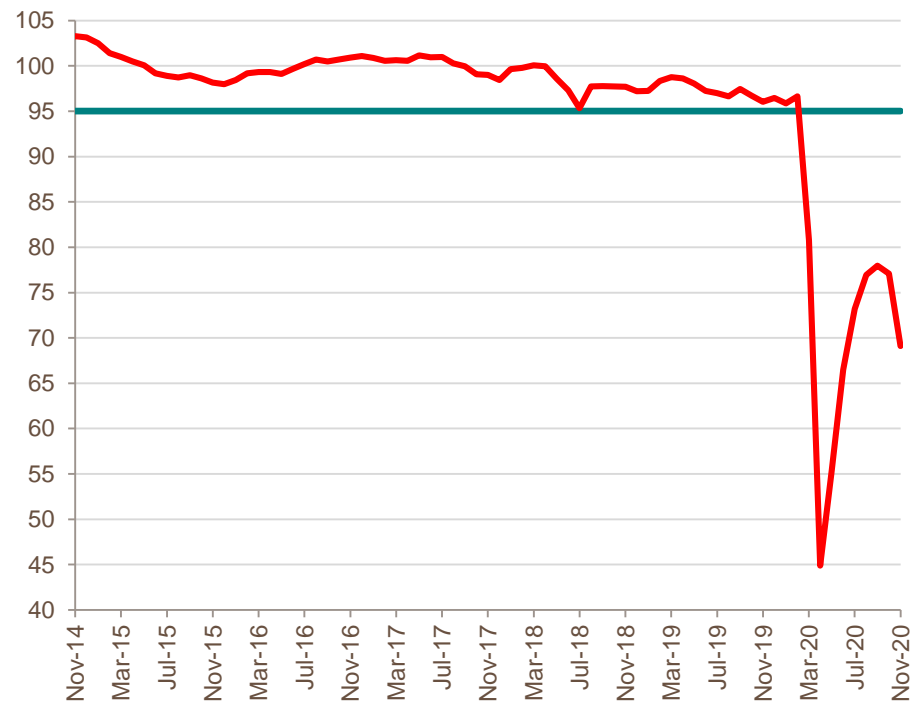
The BDO Employment Index fell by 0.75 points to 108.74, as the steady stream of job losses continues. Despite the extension of the furlough scheme, employment is coming under pressure due to the closure of businesses and workforce restructuring plans.

SECOND LOCKDOWN PUSHES OUTPUT INDEX TO 5-MONTH LOW

- The BDO Output Index dropped sharply from 77.09 in October to 69.06 in November, as the second national lockdown halted activity across much of the economy. The Output Index is now at its lowest point since June, when the economy was emerging from the first national lockdown.
- The decline in economic output in November was fuelled by the services sector, with the BDO Services Output Index plummeting by 9.13 points to 66.36 in November. The closure of restaurants, pubs, gyms and non-essential shops drove these industries to a near standstill in November, fuelling the sharp declines observed in the Output Index.
- There was a different picture in the manufacturing sector, with the BDO Manufacturing Output Index rising by 0.64 points to hit 90.34 in November. Manufacturing faced less lockdown-induced disruption than most service sector activities in November, which will have supported the Output Index for this sector. Moreover, survey data suggests that the sector may currently be receiving a boost from Brexit-related stockpiling activities ahead of the termination of the transition period on 31st December.
- While November's Output Index figures make for grim reading, the extent of the economic contraction is less severe than was recorded during the first national lockdown in April. This is due to a number of factors, including less severe restrictions in certain sectors (most notably education), the skills and capabilities accumulated by businesses and workers in operating under lockdown conditions, and a more flexible furlough scheme, which enables some employees to work on a part-time basis.
- In December, much of the UK will remain under tight restrictions, which will limit the pace of rebuilding at the end of 2020. However, the recovery is likely to pick up steam at the start of the year conditional on the successful rollout of the COVID-19 vaccines.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



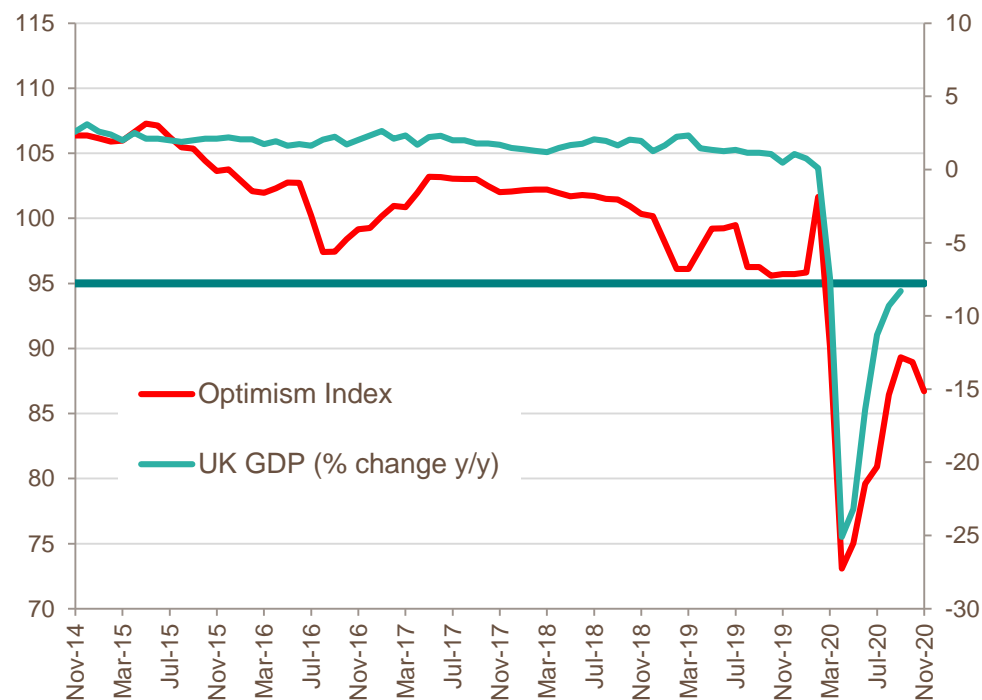
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

SENTIMENT DIPS FOR SECOND CONSECUTIVE MONTH AS SUMMER OPTIMISM FADES

- The BDO Optimism Index declined for the second consecutive month in November, dropping from 88.94 to 86.70. This brings confidence down towards the levels seen in August 2020.
- As was the case with the Output Index, the fall in the BDO Optimism Index in November was driven by the services sector. Indeed, the BDO Services Optimism Index registered a 2.55 point drop last month, taking the Index to a four-month low of 87.02.
- Meanwhile, the BDO Manufacturing Optimism Index rose by 0.24 points from 83.98 to 84.22 in November. This more than offsets the decline in the Manufacturing Optimism Index that was seen between September and October.
- The contrasting movements in the Services and Manufacturing Optimism Indices reflect the differential impact of the second lockdown in either sector. Many service sector businesses were forced to suspend their operations yet again in November, while the extent of the disruption faced by manufacturing firms was less severe.
- Sentiment in the UK's manufacturing sector going forward will be influenced by the nature of the trading relationship with the European Union following the end of the transition period on 31st October. While hopes remain that a deal can be reached, nothing concrete has yet been produced. Failure to arrive at a free-trade agreement would lead to a significant increase in manufacturers' costs and a fall in their ability to compete in the European market, both of which would impose a considerable burden on their operations.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



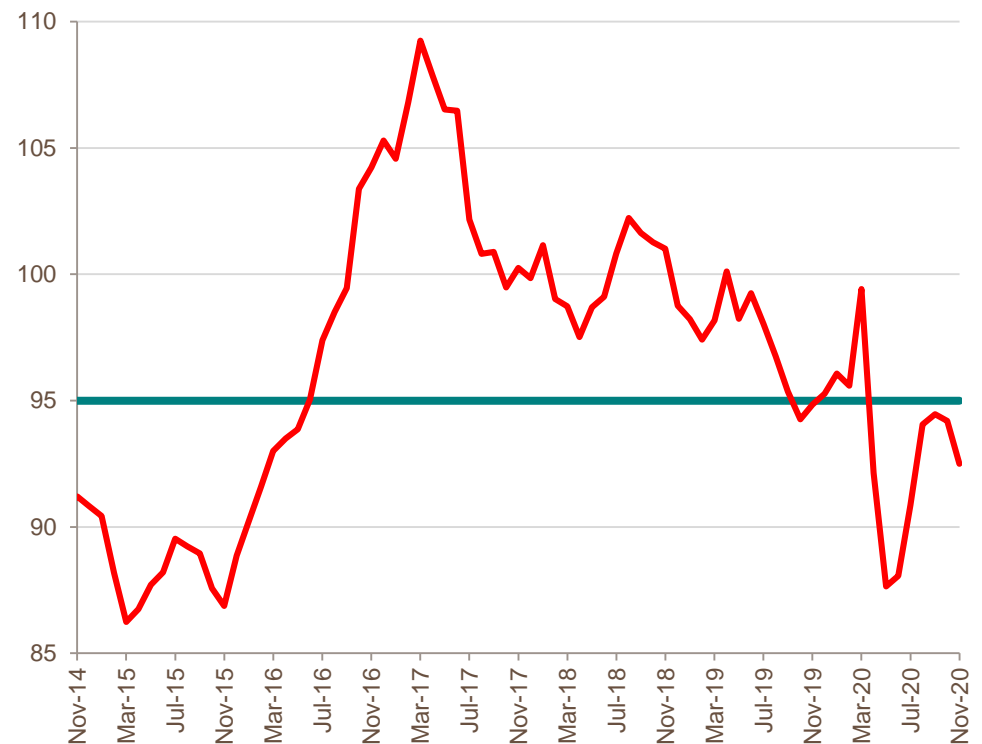
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION INDEX DROPS TO LOWEST LEVEL SINCE JULY

- The BDO Inflation Index fell for the third consecutive month in November, taking the score down to 92.50. This is the lowest the Index has been since July.
- The two component Indices of the Inflation Index moved in opposite directions last month. The BDO Consumer Inflation Index increased by 0.47 points to reach 97.10 in November. The annual rate of consumer price inflation has been rising steadily in recent months. Data from the Office for National Statistics shows that the annual rate of inflation (including owner occupiers' housing costs) rose by 0.2 percentage points to 0.9% in October, driven by rising prices for clothing and second-hand cars.
- The BDO Input Inflation Index dropped sharply from 91.75 in October to 87.90 in November. Energy prices have been falling in recent months, which will have weighed on the Input Inflation Index. Also, the pound appreciated in value against major currencies, including the US dollar and the euro in October and November, which will have reduced the cost of imported goods.
- The prices of commodities such as oil and steel have increased significantly over the past month, with the positive vaccine developments heralding stronger demand in 2021 than was previously expected. This, together with rising domestic demand as restrictions are lifted, means that the BDO Inflation Index is likely to increase as we head into the New Year.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



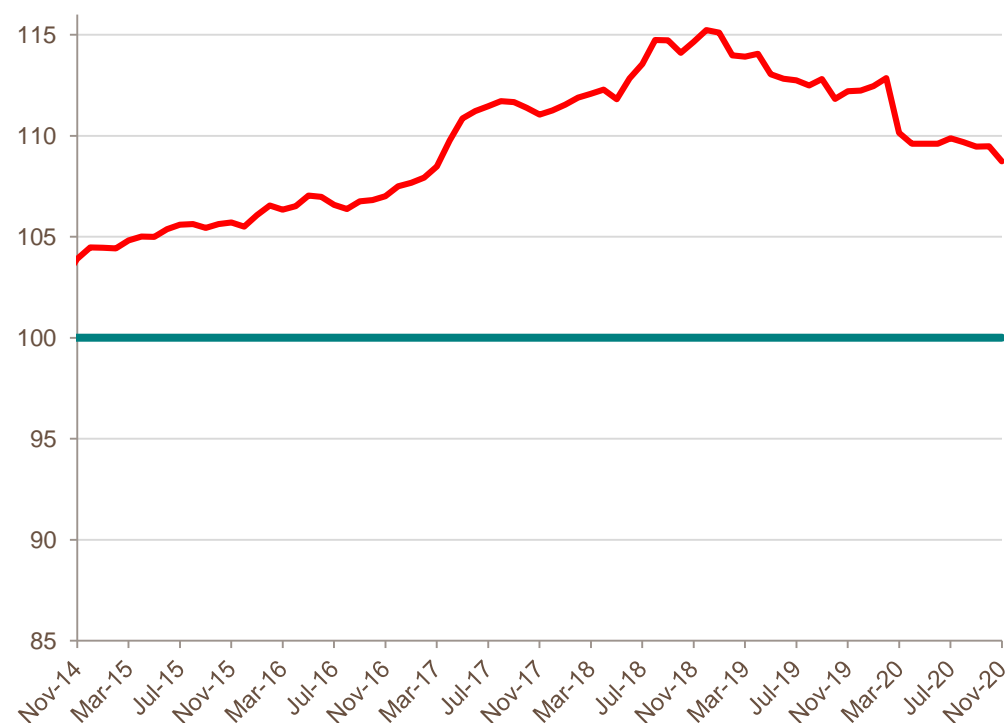
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT INDEX LOSES GROUND IN NOVEMBER

- The BDO Employment Index fell from 109.49 in October to 108.74 in November, as the economic fallout from the coronavirus crisis slowly but surely feeds through to the labour market.
- Since the onset of the pandemic, the swings in labour market figures have been less volatile than those of other measures of the economy, reflecting the success of the Coronavirus Job Retention Scheme in supporting employment.
- The extension of the furlough scheme until the end of March will avert the dramatic spike in unemployment that had been previously feared. However, in recent months, employment numbers have been gradually edging down, despite the continued presence of the furlough scheme.
- In the coming months, this trend is expected to persist. One factor behind the creeping increase in unemployment is the closure of businesses and the corresponding loss of jobs that were supported either directly or indirectly by these now shuttered firms.
- Meanwhile, many businesses are in the process of restructuring their workforce to reflect the dramatic changes to their operating environments that have taken place this year. The uncertain outlook together with the high levels of debt that many businesses are now saddled with are likely to constrain hiring significantly in the coming 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

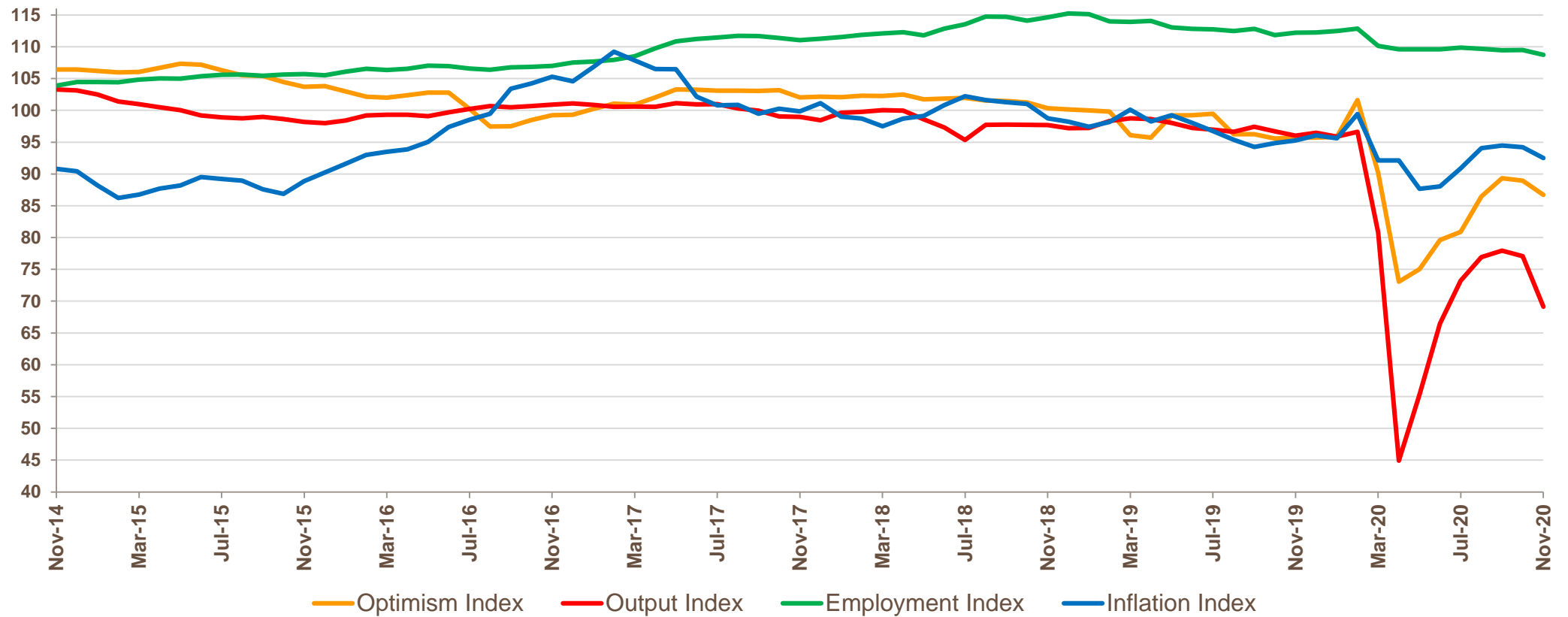
BDO INDICES TO LATEST MONTH

		Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
The BDO Optimism Index	Total	73.08	75.02	79.59	80.90	86.44	89.31	88.94	86.70
	Manuf.	71.53	75.85	79.01	82.59	84.18	84.17	83.98	84.22
	Service	73.27	74.92	79.67	80.69	88.25	89.96	89.57	87.02
The BDO Output Index	Total	44.90	55.34	66.50	73.20	76.94	77.95	77.09	69.06
	Manuf.	52.97	69.55	80.47	86.28	89.41	90.88	89.70	90.34
	Service	43.88	53.53	64.73	71.54	75.36	76.32	75.49	66.36
The BDO Inflation Index	Total	92.13	87.65	88.06	90.87	94.06	94.46	94.19	92.50
	Input	86.79	79.76	80.60	85.93	91.20	92.26	91.75	87.90
	Consumer	97.48	95.54	95.52	95.81	96.93	96.67	96.62	97.10
The BDO Employment Index	Total	109.61	109.61	109.61	109.88	109.69	109.46	109.49	108.74

APPENDIX: DECLINES RECORDED IN ALL FOUR 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

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.