

▶ A NEW ECONOMY  
**PUBLICATION**

A red watering can is positioned in the upper left quadrant, tilted as if pouring. Four small, round terracotta pots containing green succulents are arranged in a loose pattern on a grey background. 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**

September 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 October 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	✓	▽	100.69 in September from 105.71 in August
BDO Optimism Index	✓	▽	102.68 in September from 104.03 in August
BDO Inflation Index	✓✓	△	105.60 in September from 103.60 in August
BDO Employment Index	✓✓	△	108.99 in September from 108.60 in August

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

Two out of the four BDO Business Trends Indices fell in September, as was also the case in August. All of the Indices stand in positive territory.

The BDO Output Index fell for the fifth consecutive month in September, reaching 100.69. This lower score reflects the recent slowdown in growth across the economy

The BDO Optimism Index slipped by 1.35 points in September, reaching 102.68. This marks a third consecutive monthly fall since the Index reached a record high of 112.45 in June.

The BDO Inflation Index picked up by 2.00 points in September, amidst mounting pressures driven by energy prices. This takes the Index to a more than four-year high of 105.60.

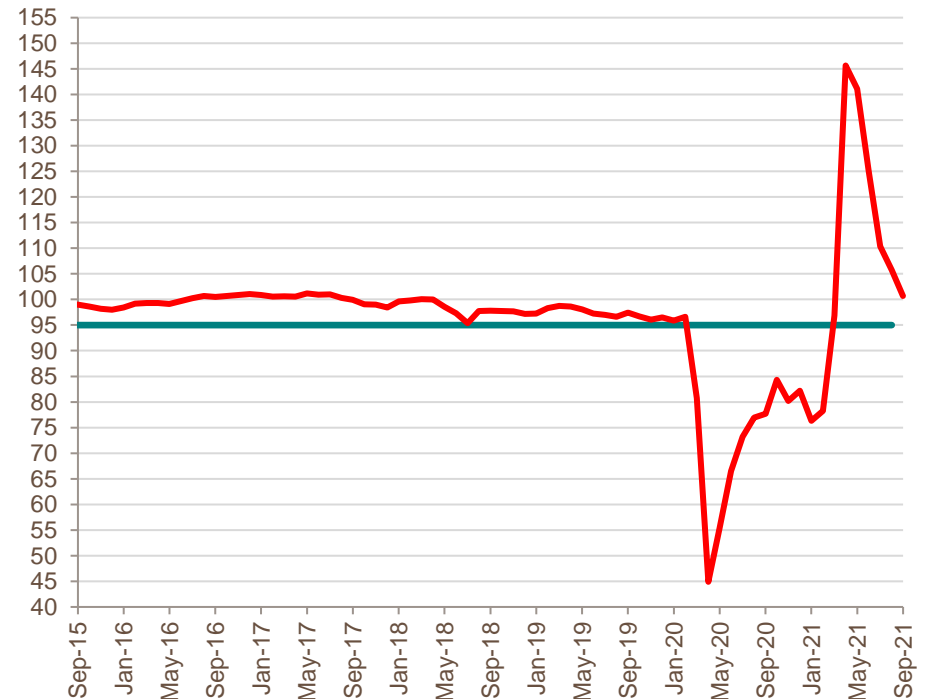
The BDO Employment Index picked up by 0.39 points in September, reflecting continued job growth during the month. This takes the Index to 108.99, the highest level since March 2020.

# OUTPUT INDEX FALLS FOR FIFTH CONSECUTIVE MONTH

- The BDO Output Index fell from 105.71 in August to 100.69 in September. The Index has now fallen in each month since its record high of 145.66 in April 2021.
- Though base effects have been key drivers behind this set of falls, the most recent fall likely reflects an overall slowdown in the rate of growth across the economy. This slowdown has been driven by the supply side of the economy, with continued disruption to global supply chains and labour market pressures serving to limit levels of activity.
- These phenomena have been witnessed near-universally across sectors, as shown by the falls in both the Services Output Index and the Manufacturing Output Index.
- September's fall was most prominent in the former, with the Service Output Index slipping by 5.45 points. Output in the services sector continues to be curtailed by an under supply of labour, with this particularly impacting the distribution and hospitality industries.
- The Manufacturing Output Index fell by 1.71 points. Activity in the manufacturing sector has also been impacted by shortages, notably in terms of inputs. Mounting price pressure in commodity markets is set to further impact output looking ahead.

## BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



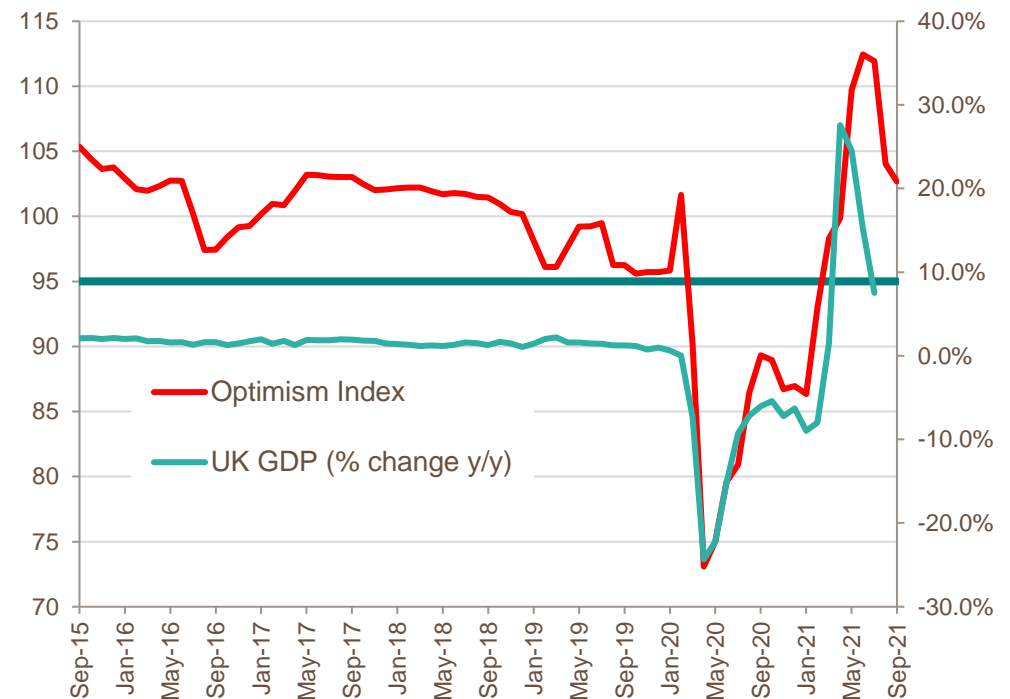
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# OPTIMISM INDEX APPROACHING AVERAGE TREND GROWTH LEVEL

- The BDO Optimism Index fell by 1.35 points in September, reaching 102.68. This marks a third consecutive monthly fall since the record high of 112.45 in June.
- Optimism amongst businesses is subsiding, reflecting the difficult supply-side conditions outlined in the Output Index. It should also be noted that many of the gains from easing restrictions have been exhausted, meaning relative improvements from the demand side are diminishing.
- Despite these falls, the Optimism Index remains above the trend rate of growth. The gradual decline in recent months likely suggests that businesses' outlooks are normalising towards this trend level, having been subject to significant swings over the course of the pandemic.
- The Manufacturing Optimism Index saw a fall of 2.80 points. This was a larger fall than that for the Services Optimism Index, which amounted to a dip of 1.17 points.
- Despite the larger fall in optimism amongst manufacturing businesses, the Manufacturing Optimism Index is more positive than the counterpart for services, with the former standing at 109.69 and the latter at 101.79. As such, the pattern of normalisation towards the trend level of optimism appears to be stronger amongst services businesses.

## BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



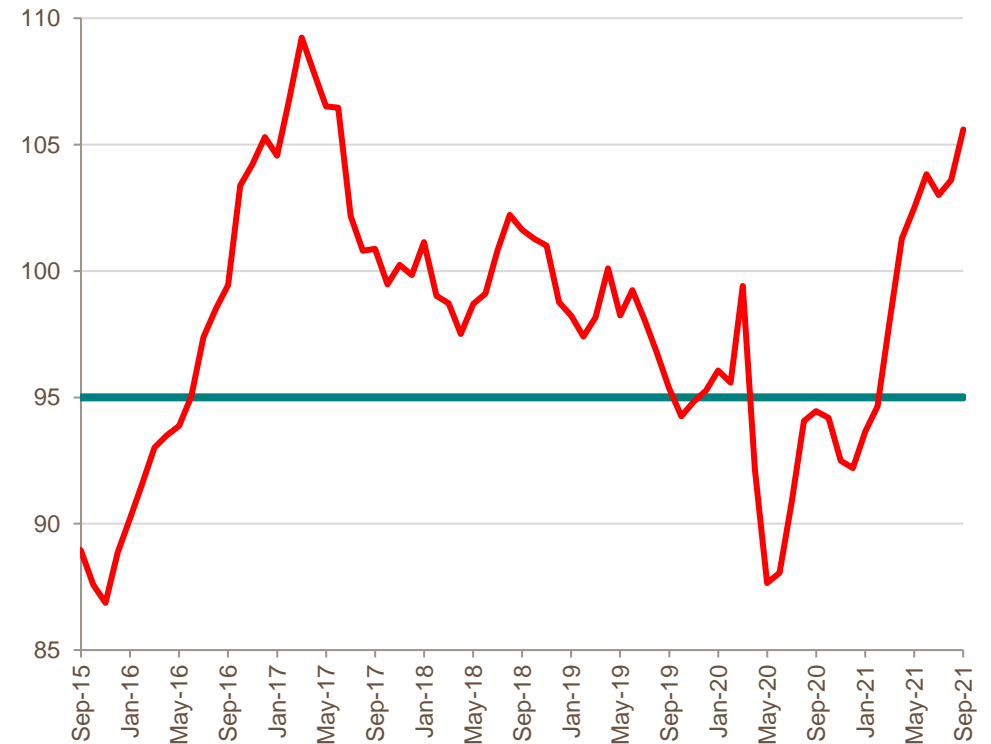
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# MOUNTING ENERGY PRICES PUT PRESSURE ON CONSUMERS AND PRODUCERS

- The BDO Inflation Index picked up by 2.00 points in September, reaching 105.60. The Index was last higher in June 2017.
- As was also the case in August, both consumer and producer prices put upward pressure on the overall Inflation Index.
- The Consumer Inflation Index picked up by 2.39 points, reaching a near ten-year high of 102.70. This increase reflects mounting energy and fuel prices.
- Rising energy and fuel prices are similarly impacting producers. Commodity markets have been subject to significant upward price pressure, putting particular strain on importing businesses.
- This has resulted in a 1.60-point increase in the Input Inflation Index, taking this measure to a near four-year high.
- Disruptions to global supply chains and pressures in energy markets are showing little sign of easing. As such, the rate of inflation is expected to accelerate further. Cebr forecasts a peak inflation rate of 5.6% in November on the Consumer Price Index including owner occupiers' housing costs. This is then expected to subside, yet remain firmly above the Bank of England's 2.0% target, for much of 2022.

## BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



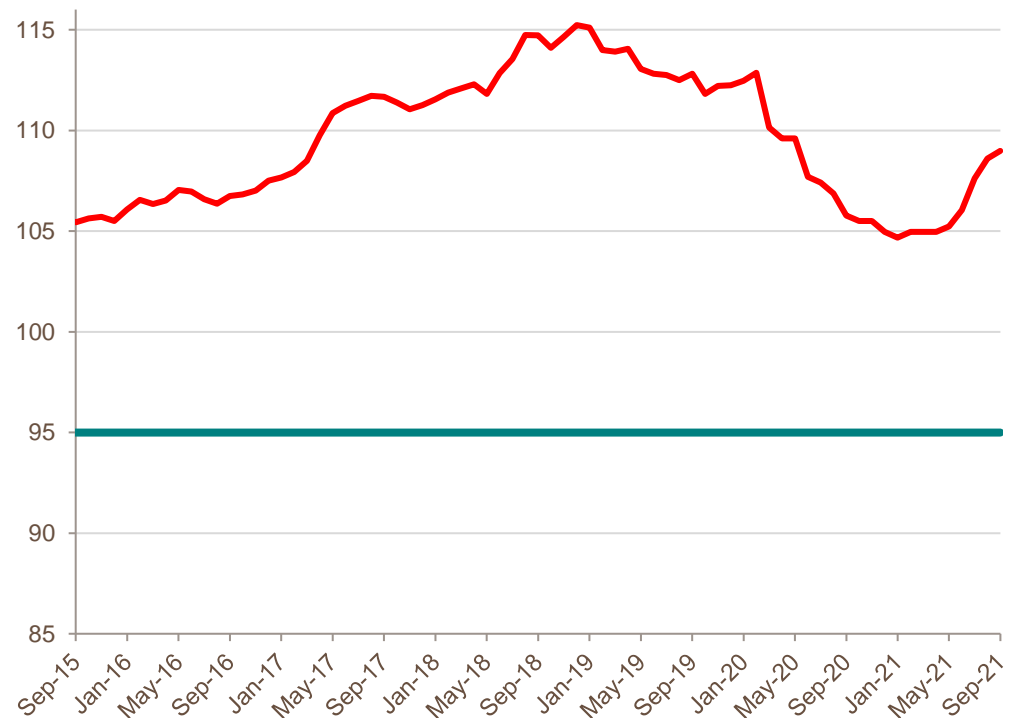
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# EMPLOYMENT INDEX INCREASED FURTHER IN FURLOUGH SCHEME'S FINAL MONTH

- The BDO Employment Index recorded an increase of 0.39 points in September, reaching 108.99. This marks the highest reading since March 2020, when many of Covid-19's labour market impacts had yet to come to fruition.
- Improvements to the labour market were witnessed over the course of Q3, reflecting the wider economic recovery. The latest figures for the unemployment rate only cover the period until the end of July, however, meaning timelier indicators are needed to assess the labour market situation.
- Data on the number of PAYE employees provides one such source. For instance, the number of payrolled employees saw a record monthly uptick of 241,000 between July and August, according to HMRC.
- Meanwhile, the strength of firms' hiring intentions was reflected in the number of vacancies, which exceeded 1 million for the first time since records began in the three months to August.
- Nevertheless, the labour market recovery appears to be hindered by a general undersupply of workers. This undersupply has been particularly observable in services industries, such as distribution and hospitality.
- The furlough scheme was terminated at the end of September. Some firms are set to be unable to afford their labour costs without government support, resulting in an increase in the unemployment rate. Cebr expects this to reach 5.2% in Q4.

## 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

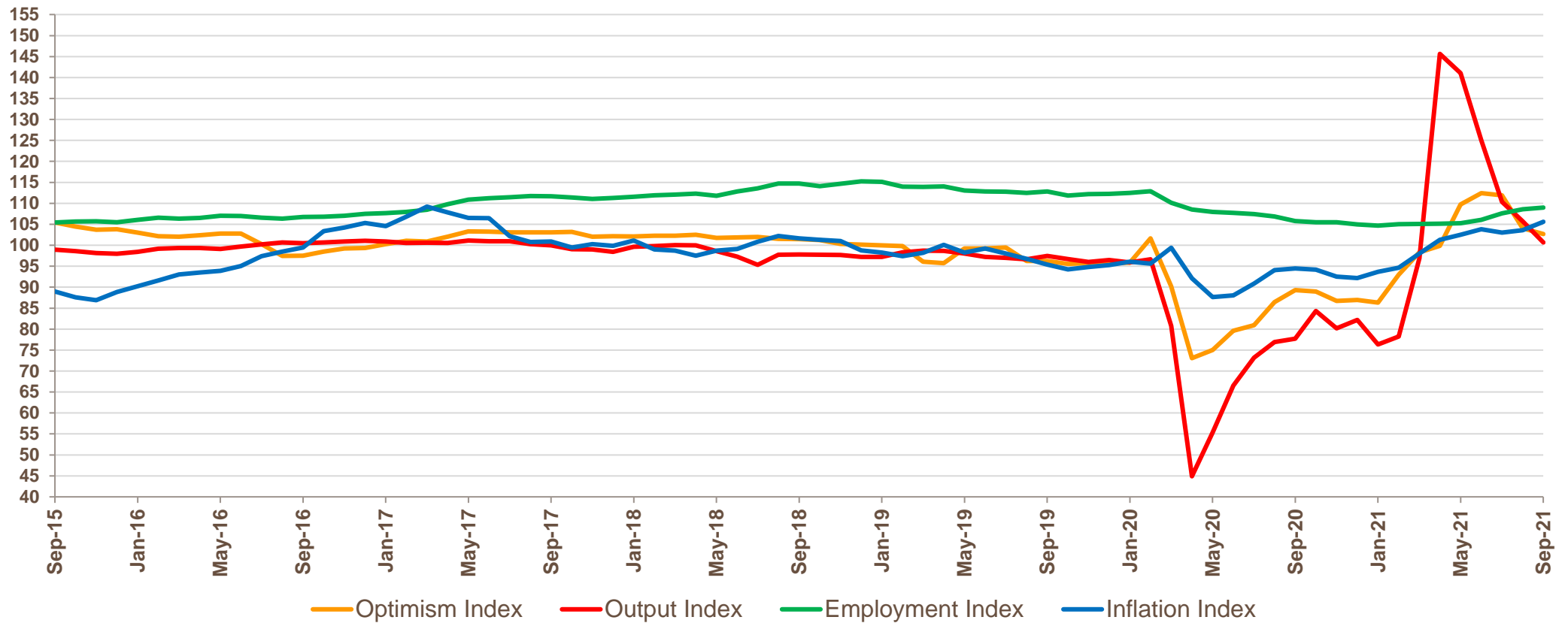
		Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
The BDO Optimism Index	<b>Total</b>	92.99	98.31	99.85	109.71	112.45	111.92	104.03	102.68
	Manuf.	83.99	96.82	99.79	102.98	113.22	112.34	112.49	109.69
	Service	94.13	98.50	99.86	110.56	112.35	111.86	102.96	101.79
The BDO Output Index	<b>Total</b>	78.24	96.86	145.66	141.06	125.04	110.33	105.71	100.69
	Manuf.	91.72	96.21	149.62	134.14	114.25	103.34	100.61	98.90
	Service	76.53	96.94	145.16	141.94	126.40	111.22	106.36	100.91
The BDO Inflation Index	<b>Total</b>	94.65	98.03	101.28	102.51	103.83	103.01	103.60	105.60
	Input	92.51	99.04	105.02	105.49	106.14	106.01	106.89	108.49
	Consumer	96.78	97.03	97.54	99.52	101.52	99.47	100.31	102.70
The BDO Employment Index	<b>Total</b>	105.01	105.07	105.15	105.23	106.05	107.62	108.60	108.99



# APPENDIX: TWO INDICES REACHED MULTI-YEAR HIGHS IN SEPTEMBER

## 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)

### **SAM MILEY**

**Centre for Economics and Business Research**

Unit 1, 4 Bath Street,

London EC1V 9DX

telephone: 020 7324 2874

email: [smiley@cebr.com](mailto:smiley@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.