

A red watering can is positioned in the upper left quadrant, tilted as if pouring. Below it, four small, round, terracotta pots containing green succulents are arranged in a loose pattern. The background is a solid grey color. 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

October 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 of November 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	✓	▽	103.35 in October from 105.23 in September
BDO Optimism Index	✓	△	102.78 in October from 102.68 in September
BDO Inflation Index	✓✓	△	107.00 in October from 105.70 in September
BDO Employment Index	✓	▽	107.65 in October from 108.78 in September

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

Two out of the four BDO Business Trends Indices fell in October, as was also the case in August and September. All of the Indices stand in positive territory for the sixth consecutive month.

The BDO Output Index fell for the sixth consecutive month in October, reaching 103.35. This downward trend reflects the normalisation of the economy's output growth rate.

The BDO Optimism Index saw a slight increase of 0.10 points in October, reaching 102.78. This follows consecutive monthly falls in the prior three months.

The BDO Inflation Index picked up by 1.30 points in October, as inflationary pressures remain heightened across the economy. This takes the Inflation Index to 107.00, a high of four-and-a-half years.

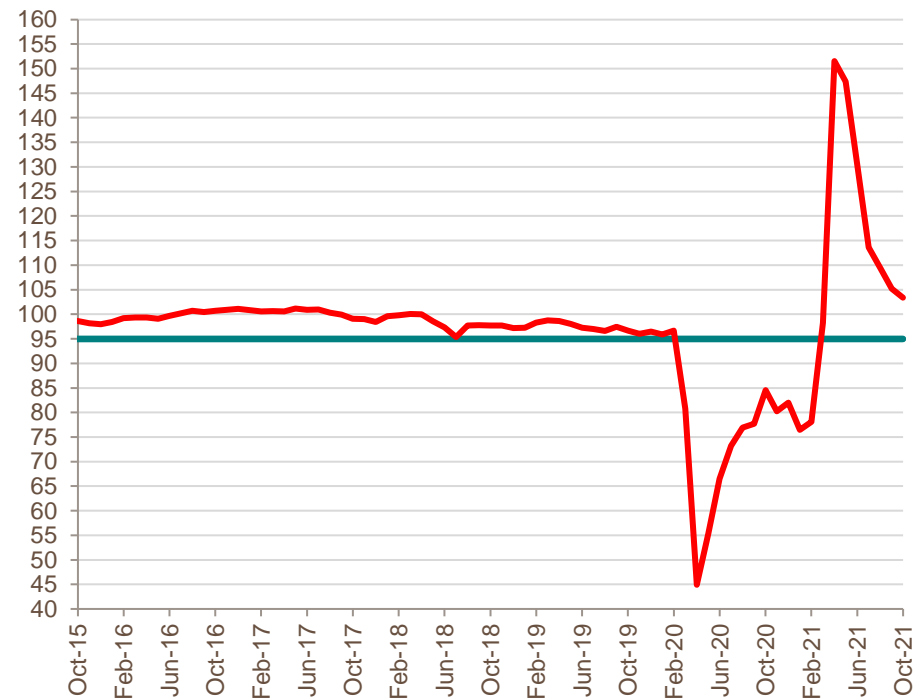
The BDO Employment Index slipped by 1.13 points in October. This marks the Employment Index's first fall since January 2021.

OUTPUT INDEX MARKS HALF A YEAR OF DECLINE

- The BDO Output Index fell from 105.23 in September to 103.35 in October. The Index has now fallen in each month of the last six months since its record high in April 2021, but October recorded the smallest fall in this period.
- The Index is approaching its long-term average trend value of 100.0.
- The recent decline in the Output Index reflects a normalisation of the rate of output growth. Having exhibited stark increases earlier in the year, when restriction measures were first eased, the uptick in output is now much slower, returning to pre-pandemic trends.
- Other factors have also contributed to the slowing rate of growth in recent months, including disruption to key input markets.
- These factors are having effects across sectors. This is reflected by the simultaneous declines in both the Manufacturing Output and Services Output Indices.
- The former slipped by 2.09 points to reach 97.03 in October. As such, it is nearing the 95.0 mark, which divides growth from decline. Manufacturing has been particularly impacted by supply disruptions and resulting shortages of input goods.
- Meanwhile, the Services Output Index dropped by 1.85 points to reach 104.15, meaning growth in the sector remains above the trend rate. Labour shortages are particularly prevalent in the services sector at present, putting downward pressure on the Index.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



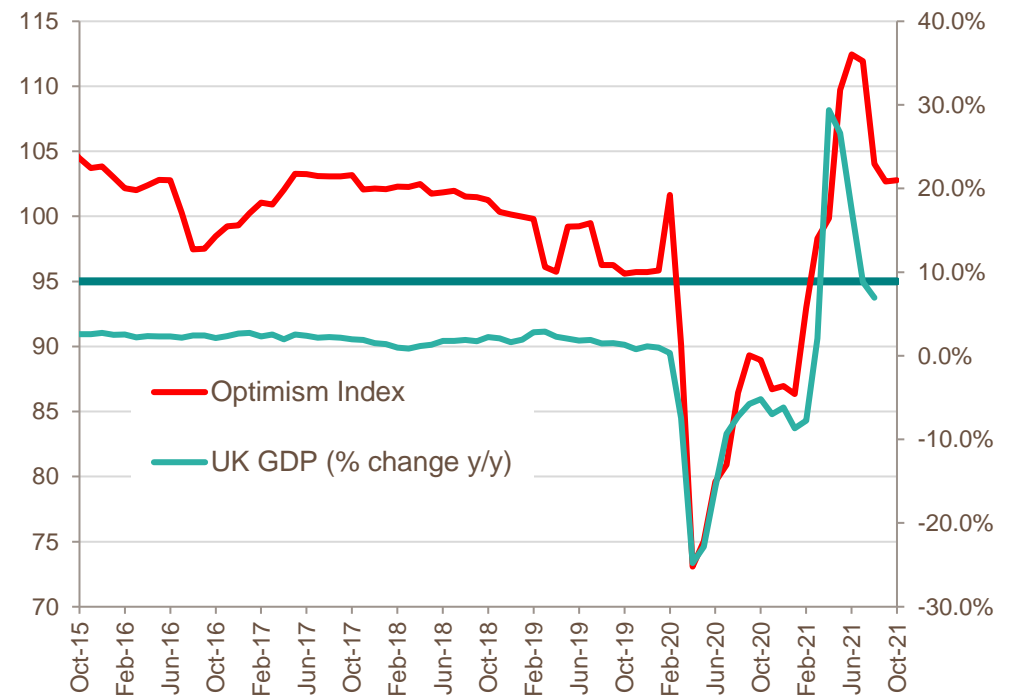
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

OPTIMISM INDEX SEES SLIGHT INCREASE AFTER QUARTER OF DECLINE

- The BDO Optimism Index picked up by 0.10 points between September and October, reaching 102.78. This puts an end to consecutive declines in each of the prior three months.
- The fact the Optimism Index recorded only a slight change in October suggests that there was a continuation of trends from September.
- As with the Output Index, the Optimism Index is approaching its long-term average trend value of 100.0. This has been driven by the normalisation of activity across the economy, while also reflecting some of the uncertainty caused by disruption to the supply side of the economy.
- There was some slight variation in sectoral performance on this measure in October, however. While the Manufacturing Optimism Index slipped by 0.80 points, the Services Optimism Index picked up by 0.22 points. The greater weight attached to the latter due to the larger size of the services sector meant that the headline index also increased in October.
- Nonetheless, it is important to note the Manufacturing Optimism Index remains above the Services Optimism Index, with values of 108.89 and 102.02, respectively. As such, the former is relatively more optimistic compared to the long-term trend level.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



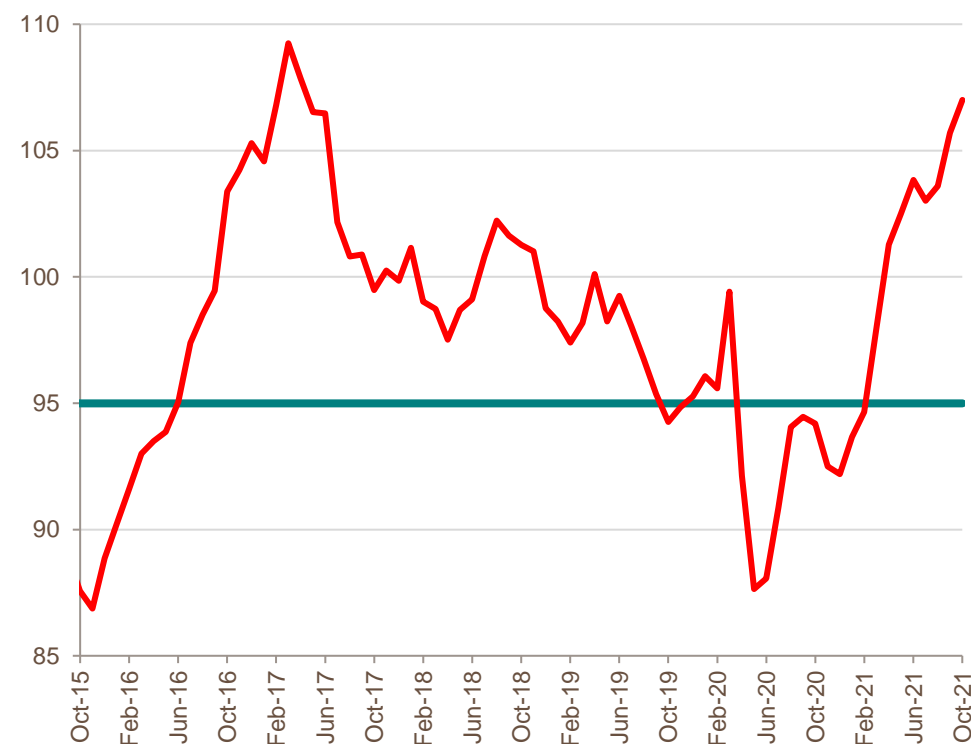
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION INDEX REACHES HIGH OF FOUR-AND-A-HALF YEARS

- The BDO Inflation Index picked up by 1.30 points in October, reaching 107.00. This marks the Index's highest value since April 2017.
- Consumer prices drove the increase in the headline Inflation Index in October. The Consumer Inflation Index increased by 3.06 points to reach 105.76, its highest value since November 2008.
- Particular pressure on consumer prices has stemmed from transport and energy costs in recent months. Fuel prices continued to rise in October, while the Ofgem energy price cap was also raised, prompting another month of increase on the Index.
- The Input Inflation Index subsided slightly in October, falling by 0.47 points. Factors driving this fall included a slight strengthening of the pound against the euro, making some imports cheaper.
- Nevertheless, at a reading of 108.23, the Index remains considerably elevated compared to historic trends, reflecting the continued heightened prices in input markets.
- Cebr expects inflation to continue its upward trajectory over the coming months. A peak annual inflation rate of 4.6% is expected on the CPI measure in November 2021, with the rate of price growth set to remain above the Bank of England's 2.0% target for much of 2022.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



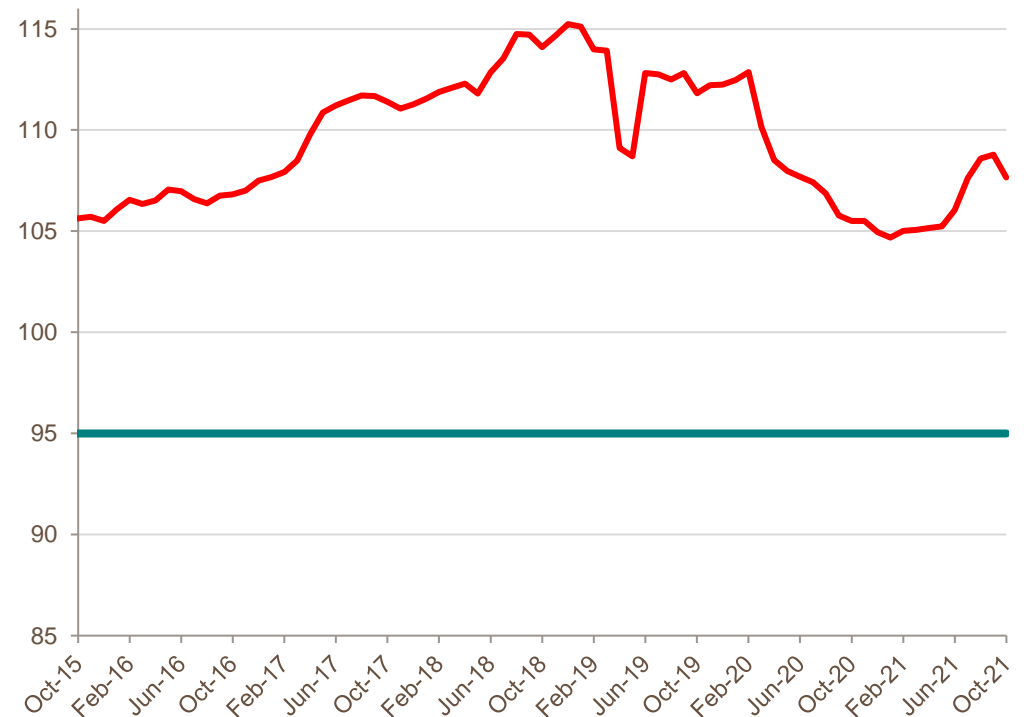
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT INDEX WITNESSES FIRST DECLINE SINCE WINTER LOCKDOWN

- The BDO Employment Index fell by 1.13 points between September and October, reaching 107.65. This marks the Index's first fall since January 2021, when the reimplementation of lockdown measures curtailed economic activity.
- Though the labour market saw improvement over the summer months in line with the broader economic recovery, some slight turbulence is now expected.
- The main factor behind this is the termination of the furlough scheme at the end of September, due to which businesses now no longer receive support for labour costs from the Government.
- This is expected to prompt a slight uptick in redundancies. Cebr expects this to result in a peak unemployment rate of 4.9% over the final quarter of 2021.
- According to the HMRC, 1.3 million individuals were still on furlough at the end of August 2021. These individuals will be most at risk of job losses.
- Beyond the anticipated uptick in the unemployment rate, the labour market is expected to strengthen in 2022, taking the unemployment rate below pre-pandemic levels. This is set to put upward pressure on the Employment Index.

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

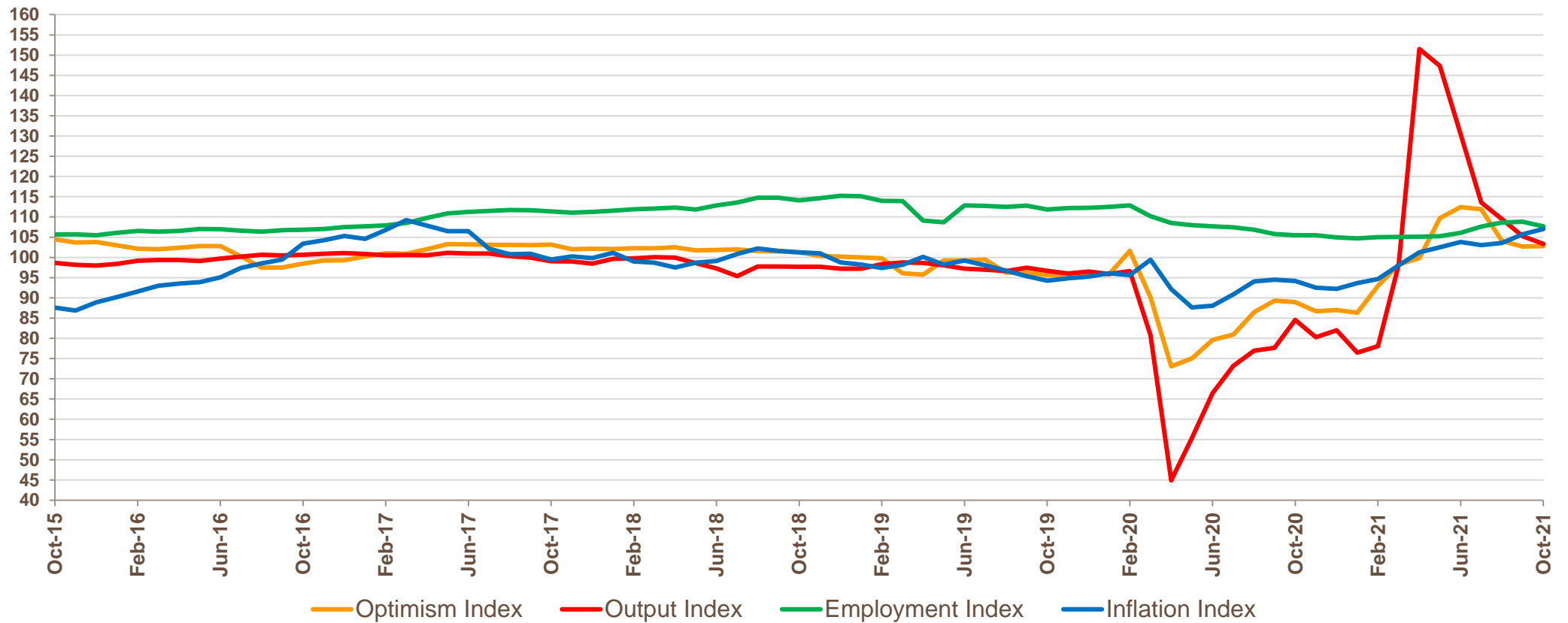
BDO INDICES TO LATEST MONTH

		Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21
The BDO Optimism Index	Total	98.31	99.85	109.71	112.45	111.92	104.03	102.68	102.78
	Manuf.	96.82	99.79	102.98	113.22	112.34	112.49	109.69	108.89
	Service	98.50	99.86	110.56	112.35	111.86	102.96	101.79	102.01
The BDO Output Index	Total	98.21	151.52	147.33	130.54	113.58	109.44	105.23	103.35
	Manuf.	96.22	153.27	136.91	115.65	103.54	100.81	99.12	97.03
	Service	98.46	151.29	148.65	132.42	114.85	110.54	106.00	104.15
The BDO Inflation Index	Total	98.03	101.28	102.51	103.83	103.01	103.60	105.70	107.00
	Input	99.04	105.02	105.49	106.14	106.01	106.89	108.70	108.23
	Consumer	97.03	97.54	99.52	101.52	99.47	100.31	102.70	105.76
The BDO Employment Index	Total	105.07	105.15	105.23	106.05	107.62	108.60	108.78	107.65

APPENDIX: INFLATION INDEX CONTINUED TO CLIMB AS OTHER INDICES FALL OR STABILISE

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

KALEY CROSTHWAITE

BDO LLP

55 Baker Street, London W1M 1DA

telephone: 020 7486 5888

fax: 020 7487 3686

email: 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

web: www.cebr.com

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.