

A red watering can is positioned in the upper left quadrant, tilted as if pouring. Below it, four small, round, terracotta pots containing various types of 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

November 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 December 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	✓	▲	107.02 in November from 101.76 in October
BDO Optimism Index	✓	▲	104.27 in November from 102.78 in October
BDO Inflation Index	✓✓	▲	108.93 in November from 107.00 in October
BDO Employment Index	✓	▲	108.09 in November from 107.65 in October

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

KEY FINDINGS

All four of the BDO Business Trends indices improved in November. This was the first time that all four indices have picked up simultaneously since April this year.

The unanimous improvement means that all four indices stand in positive territory for the seventh consecutive month.

The BDO Output Index picked up for the first time since April, having been subject to decline in each of the six interim months. This took the Output Index to a reading of 107.02, its highest since the 108.63 recorded in August.

The BDO Optimism Index increased for the second consecutive month, reaching 104.27. This marked a monthly improvement of 1.49 points, the largest uptick since June.

The BDO Inflation Index picked up for a fourth consecutive month, reflecting continued inflationary pressures across the economy. This takes the Inflation Index to 108.93, its highest reading since March 2017.

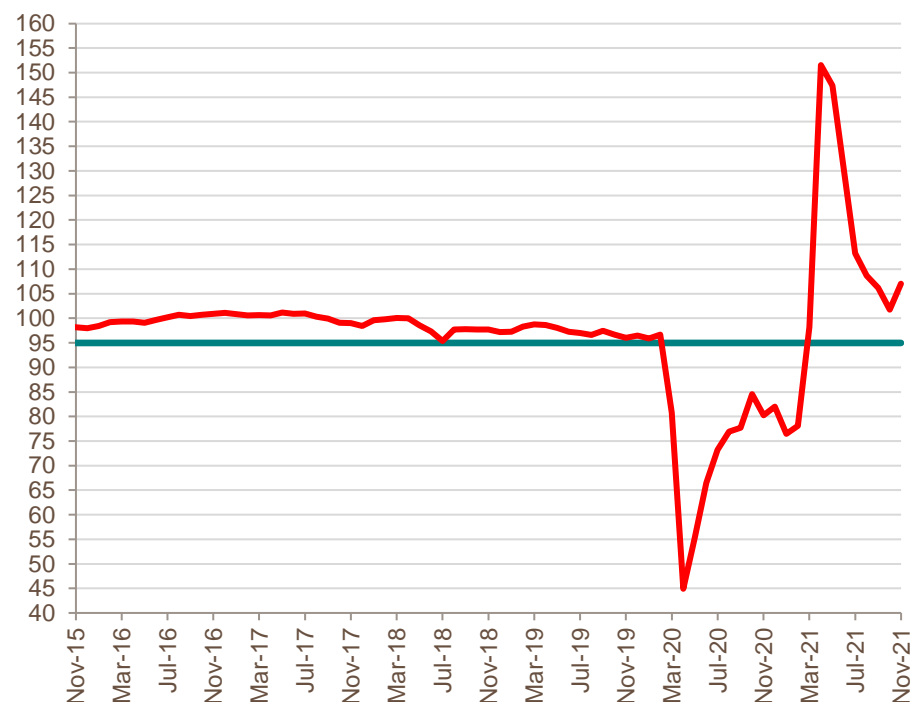
The BDO Employment Index increased by 0.44 points in November, partially reversing the fall seen in October.

NOVEMBER BRINGS FIRST IMPROVEMENT IN SEVEN MONTHS FOR OUTPUT INDEX

- The BDO Output Index increased from 101.76 in October to 107.02 in November. This marks the Output Index's first improvement since April 2021.
- November's high value on the Output Index is partly driven by base effects. This reflects the fact that the inputs for the Output Index draw upon year-on-year comparisons. November 2020 brought the second set of lockdown measures across the UK, which curtailed output amongst many businesses.
- There was a clear divergence in outcomes between subcomponents of the Output Index, however. While the Services Output Index picked up on a month-on-month basis, reaching 108.61, the Manufacturing Output Index was subject to a fall of 2.46 points, reaching 94.43.
- These outcomes are predominantly driven by the sector-specific impacts of the restrictions in the past year. Manufacturing was one of the few sectors able to continue operations with relatively few restrictions during the second national lockdown. Meanwhile, the services sector was more significantly affected, particularly services reliant on consumer-facing operations.
- As such, there was greater scope for annual improvement amongst services businesses than their manufacturing counterparts.
- The weaker score on the Manufacturing Output Index also reflects the near-term disruption to supply chains, with this curtailing businesses' ability to boost their output. This has caused the Index to fall beneath the 95-point mark dividing growth from contraction.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



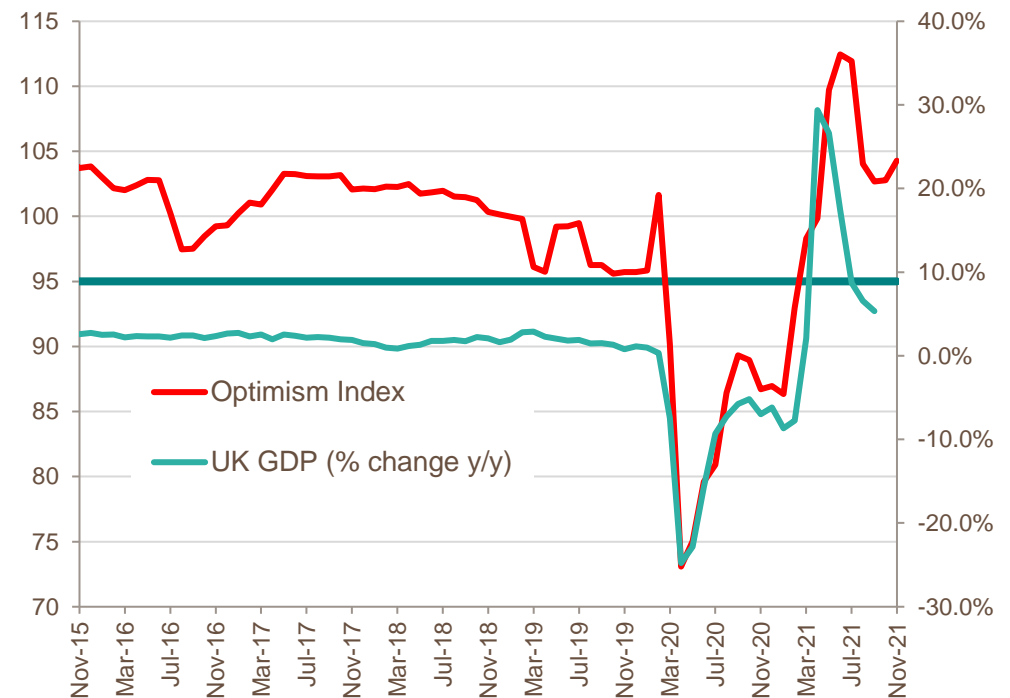
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

OPTIMISM INDEX INCREASES, THOUGH NEW VARIANT POSES CLEAR DOWNSIDE RISK

- The BDO Optimism Index picked up by 1.49 points between October and November, taking the Index to 104.27.
- This marks a second consecutive month of improvement following a smaller increase of 0.10 points in October and takes the Optimism Index to its highest value since July.
- There were increases across both the Manufacturing and Services Optimism Indices. The former picked up by 1.03 points to reach 109.92, while the latter improved by 2.02 points, hitting 104.03.
- The improvements in business optimism likely reflect near-term improvements in economic activity. Some sources suggest that the usual uptick in activity in anticipation of the Christmas period has arrived earlier this year, reflecting concerns around possible supply disruptions. This has prompted a slight uptick in activity, particularly amongst retail businesses and other stakeholders in the Christmas supply chain.
- Nevertheless, it should be noted that many of the data inputs for the Optimism Index were gathered prior to the emergence of the new Omicron variant of Covid-19. The impact of the variant on confidence and activity, as well as the potential for new restriction measures, could significantly hamper business optimism looking ahead.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



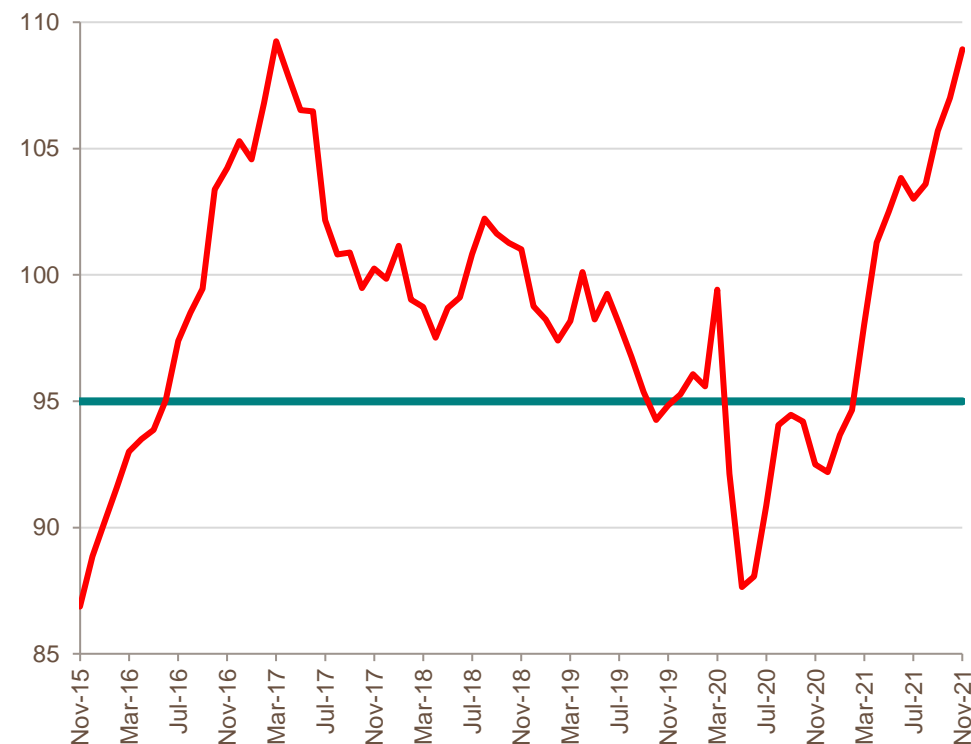
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION INDEX SOARS, DRIVEN BY SURGING CONSUMER AND PRODUCER PRICES

- The BDO Inflation Index picked up by 1.93 points in October, reaching 108.93. This marks the Index's highest value since March 2017, when the Index stood at 109.24.
- Upward pressure on the Inflation Index in November came from both input and consumer prices.
- The Input Inflation Index picked up 3.45 points, reaching 111.68. There has been considerable evidence of price pressures from the perspective of producers, reflecting continued disruption to global supply chains. Annual input price inflation reached 13.0% in October, according to the ONS, marking the highest rate since September 2008.
- The Consumer Inflation Index increased by 0.42 points in November, reaching 106.18. Measures of consumer price growth have reached significant highs in recent months. For instance, the rate of inflation on the headline CPIH measure reached 3.8% in October, while the CPI rate amounted to 4.2%. These marked the highest respective values since November 2011.
- Inflation is expected to continue its upward trajectory into 2022. Cebr forecasts point to a peak annual inflation rate of 5.1% on the CPI measure in Q1, with price growth set to remain above the Bank of England's 2.0% target rate for the rest of the year. As such, the Inflation Index will likely remain elevated.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



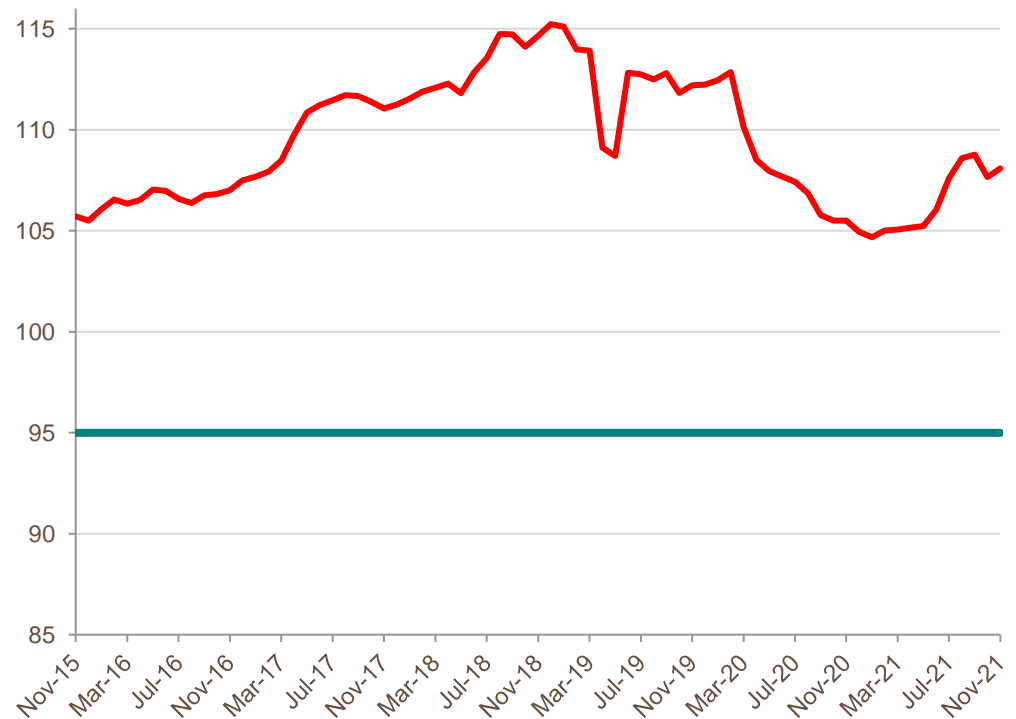
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT INDEX PICKS UP AS LABOUR MARKET OVERCOMES FURLOUGH TERMINATION

- The BDO Employment Index rose by 0.44 points between October and November, reaching 108.09. This marks a return to improvement following a month-on-month dip in October.
- One of the key labour market stories has been the potential impact of the furlough scheme's termination. Though an uptick in unemployment is still expected, early signs suggest that this is set to be small in magnitude.
- For instance, an ONS survey showed that 65% of employees who were still on furlough at the end of the scheme returned to their usual level of hours once support was withdrawn.
- Meanwhile, there have been increases in the number of payrolled employments since the scheme's termination.
- Cebr's forecasts for unemployment have been revised as a result of these initial trends. The unemployment rate is now expected to peak at just 4.5% in Q4 2021, before continuing its recovery into 2022. This is set to take the unemployment rate below its pre-pandemic levels by the end of the year.
- All else equal, this will 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

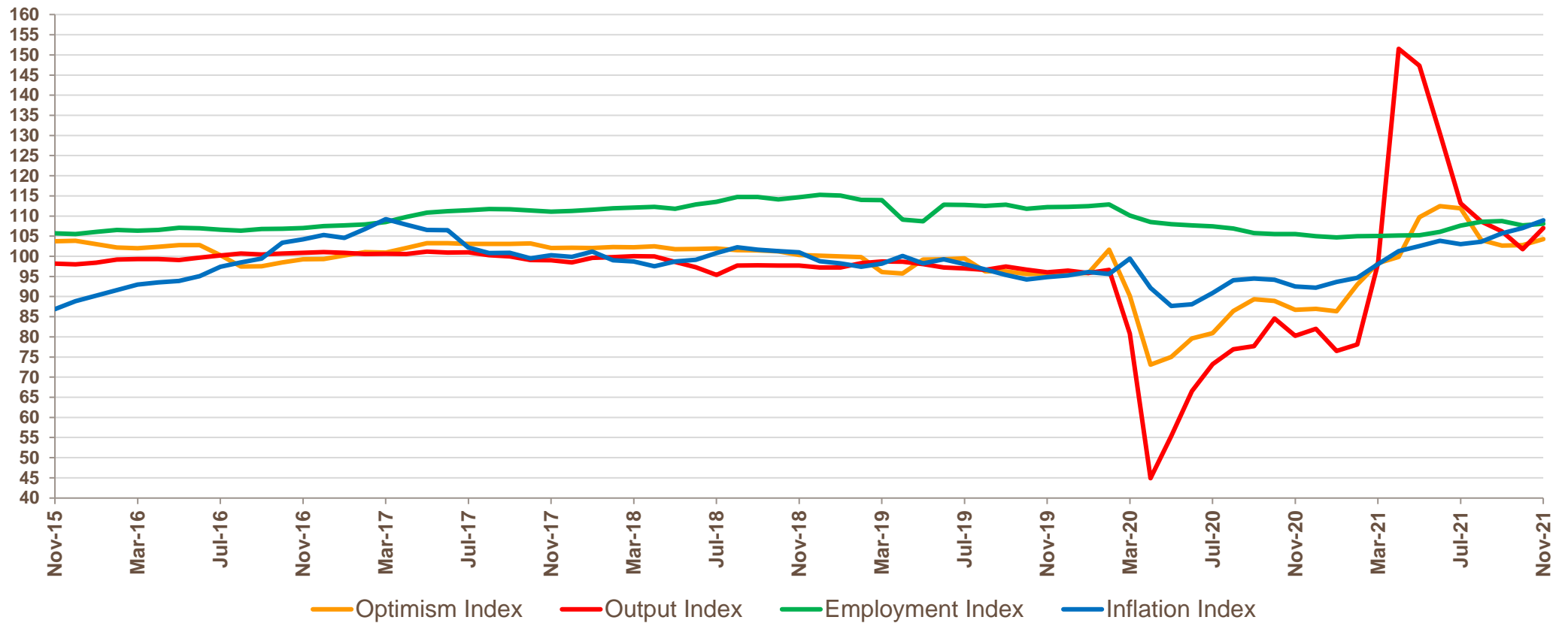
BDO INDICES TO LATEST MONTH

		Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21
The BDO Optimism Index	Total	99.85	109.71	112.45	111.92	104.03	102.68	102.78	104.27
	Manuf.	99.79	102.98	113.22	112.34	112.49	109.69	108.89	109.92
	Service	99.86	110.56	112.35	111.86	102.96	101.79	102.01	104.03
The BDO Output Index	Total	151.52	147.33	130.54	113.20	108.63	106.20	101.76	107.02
	Manuf.	153.27	136.91	115.65	103.84	100.81	98.97	96.89	94.43
	Service	151.29	148.65	132.42	114.38	109.62	107.12	102.37	108.61
The BDO Inflation Index	Total	101.28	102.51	103.83	103.01	103.60	105.70	107.00	108.93
	Input	105.02	105.49	106.14	106.01	106.89	108.70	108.23	111.68
	Consumer	97.54	99.52	101.52	99.47	100.31	102.70	105.76	106.18
The BDO Employment Index	Total	105.15	105.23	106.05	107.62	108.60	108.78	107.65	108.09

APPENDIX: ALL SUBINDICES IMPROVE FOR FIRST TIME SINCE APRIL

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.