

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

December 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 January 2022, 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	✓	▽	108.18 in December, down from 110.84 in November
BDO Optimism Index	✓	▽	103.81 in December, down from 104.27 in November
BDO Inflation Index	✓	▽	108.52 in December, down from 108.93 in November
BDO Employment Index	✓✓	△	109.08 in December, up from 108.09 in November

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

KEY FINDINGS

Three of the four BDO Business Trends indices fell back in December, reflecting a general cooling in economic activity and the spread of uncertainty as a result of the Omicron COVID-19 variant.

Despite these falls, all four indices remain in positive territory. This has now been the case for eight consecutive months.

The BDO Output Index slipped by 2.66 points to reach 108.18 in December. This followed a four-month high of 110.84 in November.

The BDO Optimism Index dropped by 0.46 points, reaching 103.81. There were falls across both the Manufacturing and Services Optimism indices, being more pronounced in the former.

The BDO Inflation Index fell for the first time since July, standing at 108.52. This still represents the second-highest reading since March 2017, however.

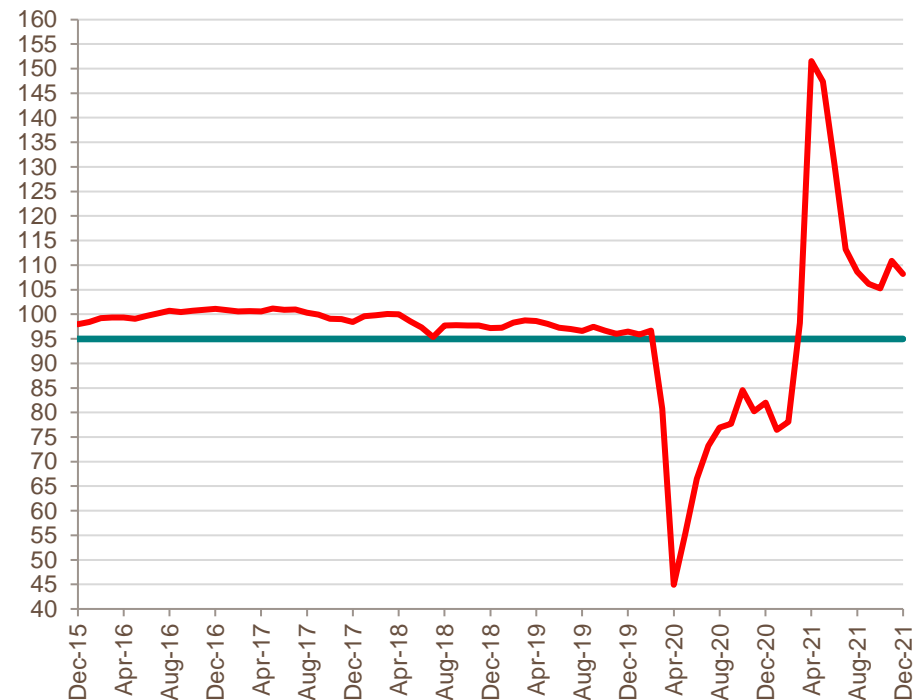
The BDO Employment Index increased by 0.99 points in December, taking this component to 109.08, its highest reading since March 2020.

OUTPUT INDEX RETURNS TO DOWNWARD TRAJECTORY IN DECEMBER

- The BDO Output Index fell by 2.66 points in December, reaching 108.18. This was down from November's value of 110.84, which had represented a four-month high.
- The high value in November partially reflected base effects. Lockdown measures were in place across much of November 2020, which curtailed economic output. The lifting of such measures in early December 2020 contributed to a month-on-month uptick in output. Therefore, base effects were diminished, putting downward pressure on the latest Output Index reading.
- Nonetheless, the Output Index remains at a strongly positive level. This reflects the extent of the economic recovery over the past year.
- The Services Output Index dropped by 3.20 points in December, reaching 109.76. This was also partially driven by base effects. The fall can also be attributed to a general cooling of economic activity in recent months, reflecting ongoing supply-side disruption as well as the greater uncertainty prompted by the Omicron variant.
- These factors have also been impacting the manufacturing sector, with the Manufacturing Output Index exhibiting below-trend values for four consecutive months. There was a slight improvement between November and December, however, with the index picking up by 1.58 points. This took the Index above the 95.0-point mark which divides growth from contraction, reaching 95.72.
- Improvements to both indices are expected for January's readings. This will compare activity with that seen in January 2021, when the UK was again subject to restriction measures.

BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



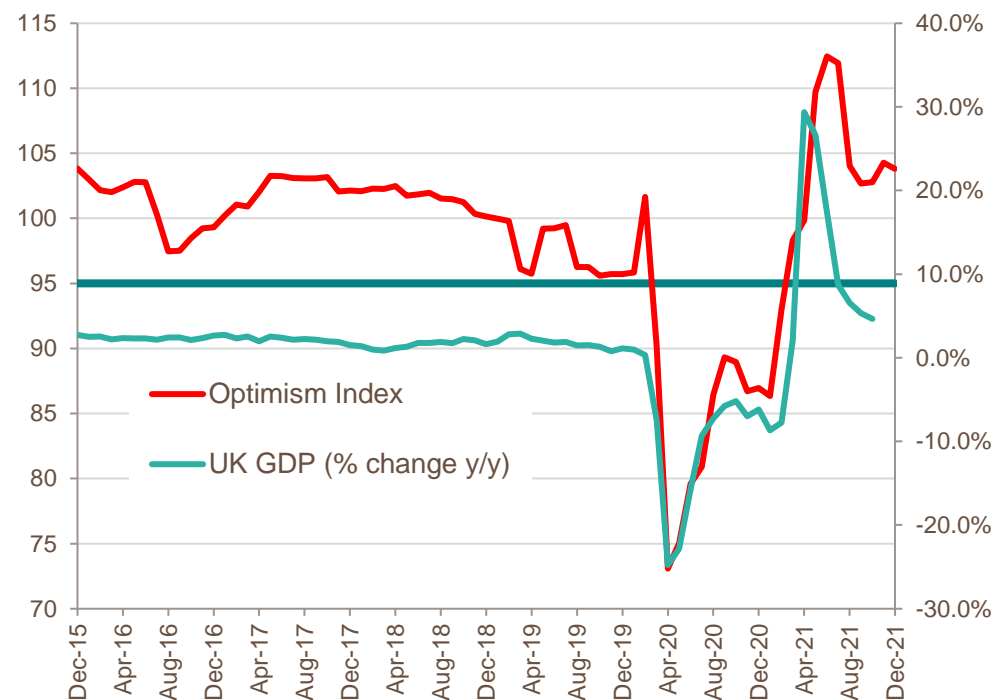
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

OPTIMISM INDEX WEAKENS AS OMICRON EFFECTS EMERGE

- The BDO Optimism Index slipped by 0.46 points between November and December. This took the index to 103.81.
- The emergence of the Omicron variant has brought considerable uncertainty to the economy, inducing greater cautiousness amongst both businesses and consumers.
- This has contributed to falls across both the Manufacturing and Services Optimism Indices. The fall was starker in the case of the Manufacturing Optimism Index, which dropped by 3.12 points to reach 106.80.
- In contrast to this, the Services Optimism Index dropped by only 0.60 points. The larger fall for the manufacturing subcomponent likely reflects the combination of Omicron uncertainty and general disruption to supply chains, which is expected to continue into 2022.
- The prospect of new restriction measures could significantly impact business optimism looking ahead. The devolved administrations in Scotland, Wales, and Northern Ireland have already implemented tighter measures than the Plan B restrictions imposed in England, such as operational constraints on hospitality businesses.
- At present, tighter restrictions in England - home to the vast majority of the UK's businesses - have not yet been implemented. Doing so would likely put significant downward pressure on the headline reading.

BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



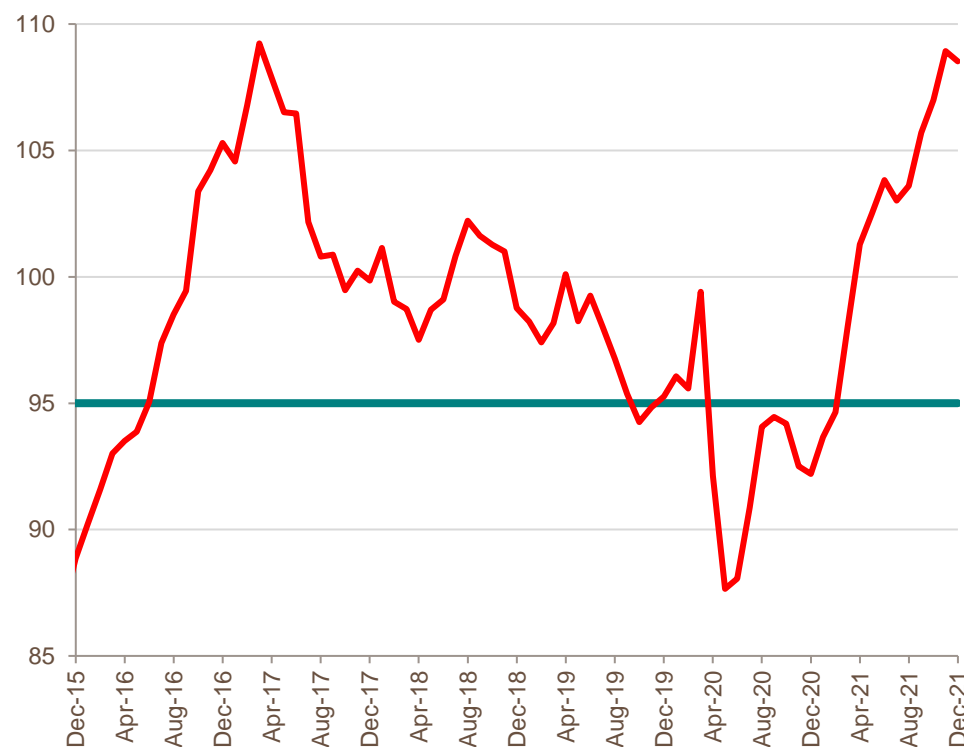
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

INFLATION INDEX REMAINS AT HIGH READING DESPITE FIRST FALL SINCE JULY

- The BDO Inflation Index fell by 0.41 points to reach 108.52 in December. This marked the Index's first fall since July.
- Despite this fall, it is important to note that the Index remains at a considerable high. Disregarding the reading of 108.93 in November, December's reading would stand as the highest for over four-and-a-half years.
- Both the Input Inflation and Consumer Inflation Indices fell back in December. The Input Inflation Index dropped by 0.28 points, reaching 111.39. This partially reflected base effects, since producer price pressures were beginning their initial upward growth trajectory in late 2020.
- The Consumer Inflation Index fell by 0.53 points, to reach 105.65. Consumer price inflation is expected to have slowed slightly in December, having reached a more than ten-year high of 5.1% on the CPI measure in November.
- Inflationary pressure is set to continue into 2022, peaking in Q1. Beyond that, the rate of price growth is expected to slow, which would put some downward pressure on the Inflation Index. Nevertheless, Cebr forecasts an above target inflation rate for the entirety of 2022 and 2023, meaning that the Inflation Index will likely remain firmly above the average trend level, in spite of any falls.

BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



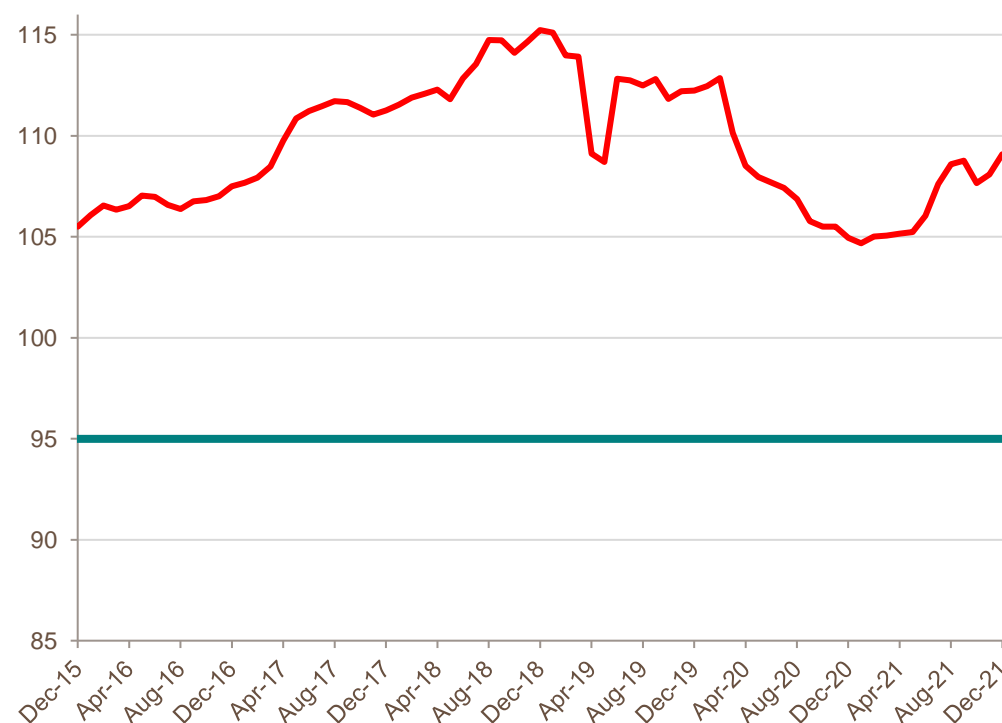
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

EMPLOYMENT INDEX IMPROVES FURTHER AS LABOUR MARKET REMAINS TIGHT

- The BDO Employment Index rose by 0.99 points between November and December. This took the Index to 109.08, its highest reading since March 2020.
- December's reading reflects the current strength of the labour market in the UK. The number of payrolled employees exceeded pre-pandemic levels for the first time in October, before witnessing further growth in November. This trend is expected to have continued into December, fuelled by strong hiring intentions amongst employers.
- These intentions are reflected by vacancy numbers, which reached a new record of 1.2 million in the three months to November.
- Despite this recent labour market strength, the Omicron variant poses a downside risk. If restriction measures lead to a decline in economic activity, then this could dampen demand for labour.
- The decline in labour demand could be concentrated in certain sectors, such as hospitality, where restrictions have been specifically targeted in the past.
- These risks will likely be exacerbated by the absence of the furlough scheme, which previously acted as a buffer for employers.

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

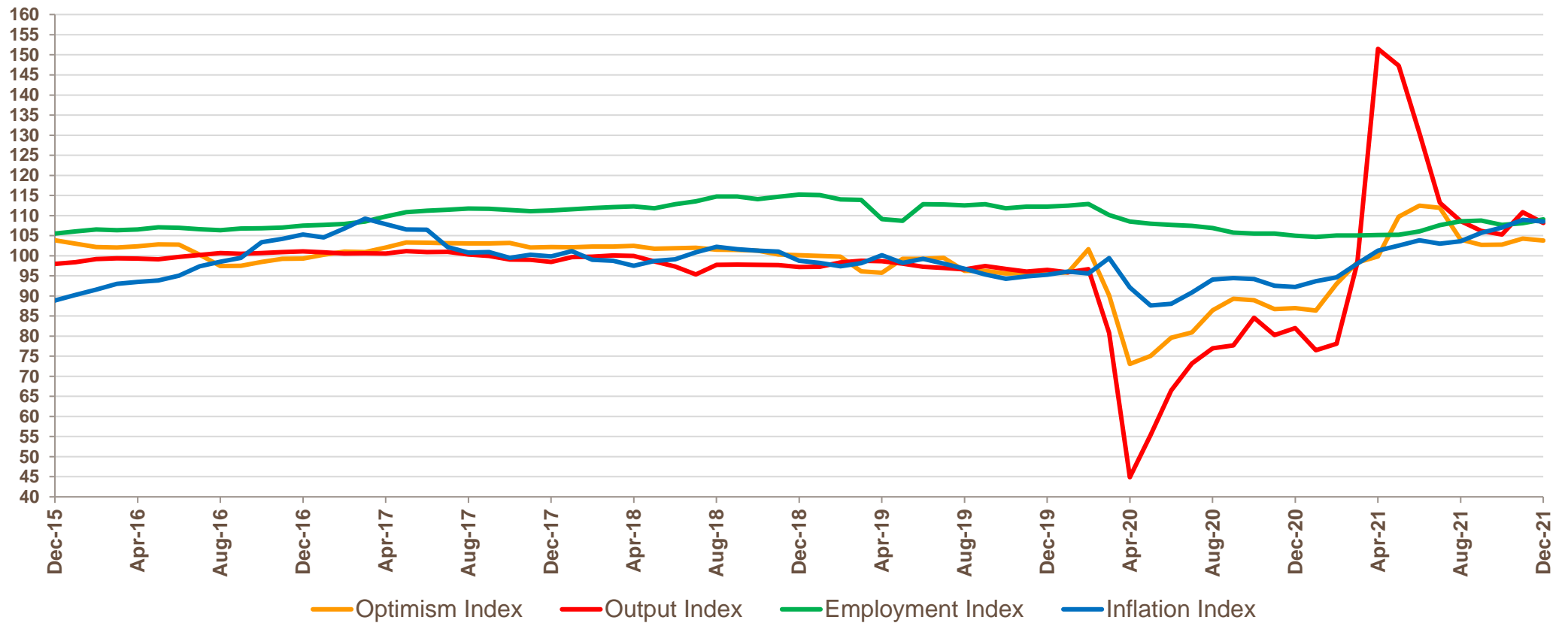
BDO INDICES TO LATEST MONTH

		May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
The BDO Optimism Index	Total	109.71	112.45	111.92	104.03	102.68	102.78	104.27	103.81
	Manuf.	102.98	113.22	112.34	112.49	109.69	108.89	109.92	106.80
	Service	110.56	112.35	111.86	102.96	101.79	102.01	104.03	103.43
The BDO Output Index	Total	147.33	130.54	113.20	108.63	106.20	105.29	110.84	108.18
	Manuf.	136.91	115.65	103.84	100.81	98.97	96.74	94.14	95.72
	Service	148.65	132.42	114.38	109.62	107.12	106.37	112.96	109.76
The BDO Inflation Index	Total	102.51	103.83	103.01	103.60	105.70	107.00	108.93	108.52
	Input	105.49	106.14	106.01	106.89	108.70	108.23	111.68	111.39
	Consumer	99.52	101.52	99.47	100.31	102.70	105.76	106.18	105.65
The BDO Employment Index	Total	105.23	106.05	107.62	108.60	108.78	107.65	108.09	109.08

APPENDIX: THREE OUT OF FOUR SUBINDICES FALL BACK AS OMICRON BRINGS UNCERTAINTY

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.