

▶ A NEW ECONOMY  
**PUBLICATION**

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

January 2022

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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 February 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	✓	▲	117.52 in January, up from 109.68 in December
BDO Optimism Index	✓	▲	104.91 in January, up from 103.81 in December
BDO Inflation Index	✓	▼	106.75 in January, down from 108.52 in December
BDO Employment Index	✓✓	▲	109.98 in January, up from 109.08 in December

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

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## KEY FINDINGS

Three of the four BDO Business Trends indices picked up in January, as the effects of Omicron began to subside.

All four indices stood in positive territory in February. This has now been the case for nine consecutive months.

The BDO Output Index increased by 7.84 points in February, reaching a seven-month high of 117.52. This was driven by growth across both the Services and Manufacturing Output subindices.

The BDO Optimism Index improved by 1.10 points, reaching 104.91. This was also driven by improvement across both the Manufacturing and Services Optimism subindices.

The BDO Inflation Index fell for a second consecutive month in January, reaching 106.75. There was varying performance across the Consumer Inflation and Input Inflation subindices.

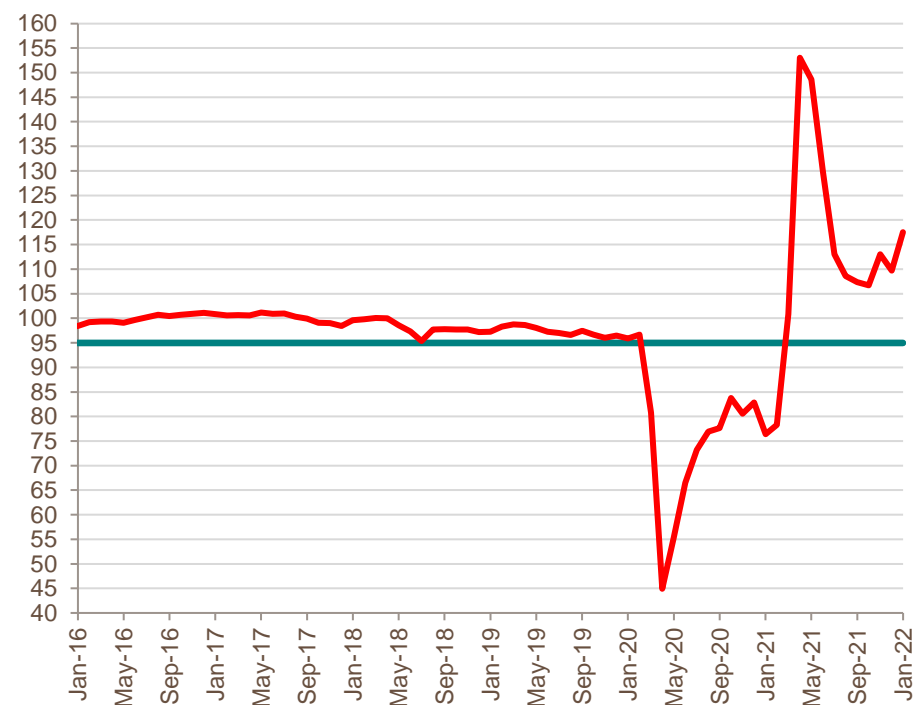
The BDO Employment Index increased further in January. This took the Index to 109.98, its highest reading since March 2020.

# OUTPUT INDEX PICKS UP ONCE MORE, WITH ACTIVITY SIGNIFICANTLY HIGHER THAN THIS TIME A YEAR AGO

- The BDO Output Index picked up by 7.84 points in January, reaching 117.52. This marked a return to improvement after December's fall and the highest value on this Index since June's reading of 129.81.
- The growth in the Output Index in January was driven by base effects. January 2021 saw stringent lockdown measures across the entire UK, with individuals encouraged to remain at home and many businesses forced to temporarily close. This significantly curtailed economic activity, providing scope for significant year-on-year output growth.
- However, there are also signs of near-term improvements which will have further driven January's month-on-month increase. Fears regarding the Omicron variant have subsided in recent weeks amidst encouraging data on caseloads and hospitalisations. This has led to changed government messaging, with working from home no longer encouraged. This has particularly stimulated consumer activity in January, with an overall uptick in economic output expected compared to December.
- These channels of influence, that is, base effects and near-term output improvements, manifested in improvements across both the Manufacturing and Services subindices. The former picked up by 2.83 points to reach 100.01, exceeding the average trend growth rate for the first time since August. Meanwhile, the latter improved by 8.48 points, picking up to 119.74.
- Looking ahead, the Output Index is set to subside. This will be due to the unravelling of base effects, as the lockdown periods fall out of the comparison. These effects are expected to outweigh the impacts of near-term output improvements.

## BDO OUTPUT INDEX

100 = average trend growth. Greater than 95 = positive



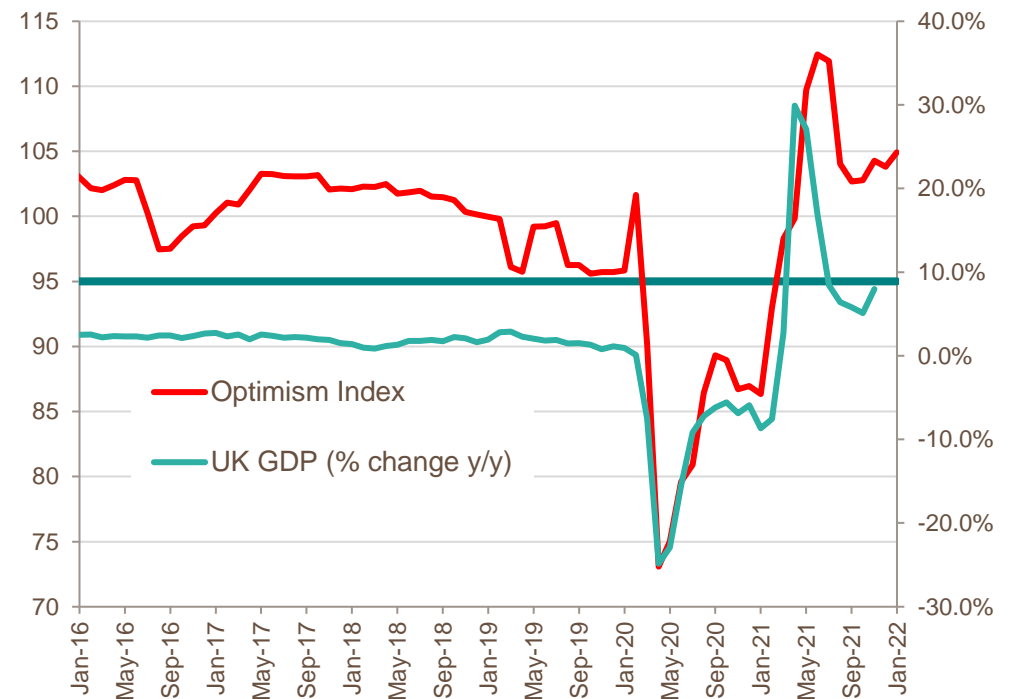
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

## OPTIMISM INDEX IMPROVES AS OMICRON FEARS SUBSIDE

- The BDO Optimism Index increased by 1.10 points in January. This marked a return to improvement following December's dip. This took the Index to 104.91, its highest value since July.
- December's dip in the Optimism Index had been driven by the emergence of the Omicron variant, which brought a degree of uncertainty to the economy, across both the business and consumer sphere.
- Fears surrounding the variant seem to have subsided, however, leading to changing government policy and improving confidence.
- Improvement was seen across both the Manufacturing and Services Optimism indices. The former picked up by 2.96 points to reach 109.76, while the latter improved by 0.87 points, hitting 104.30.
- The larger increase amongst the Manufacturing Optimism Index likely reflects an initial easing of the supply-side issues that have hindered the global economy. Though global supply chains remain disrupted, there are signs that these problems are subsiding. For instance, air freight volumes saw a marked year-on-year growth rate in January, while other indicators, such as IHS Markit's measure of suppliers' delivery times have also shown improvement.
- Looking ahead, if supply chain issues continue to alleviate and concerns around the Omicron variant remain muted, then further improvements to the Optimism Index are expected.

### BDO OPTIMISM INDEX

100 = average trend growth. Greater than 95 = positive



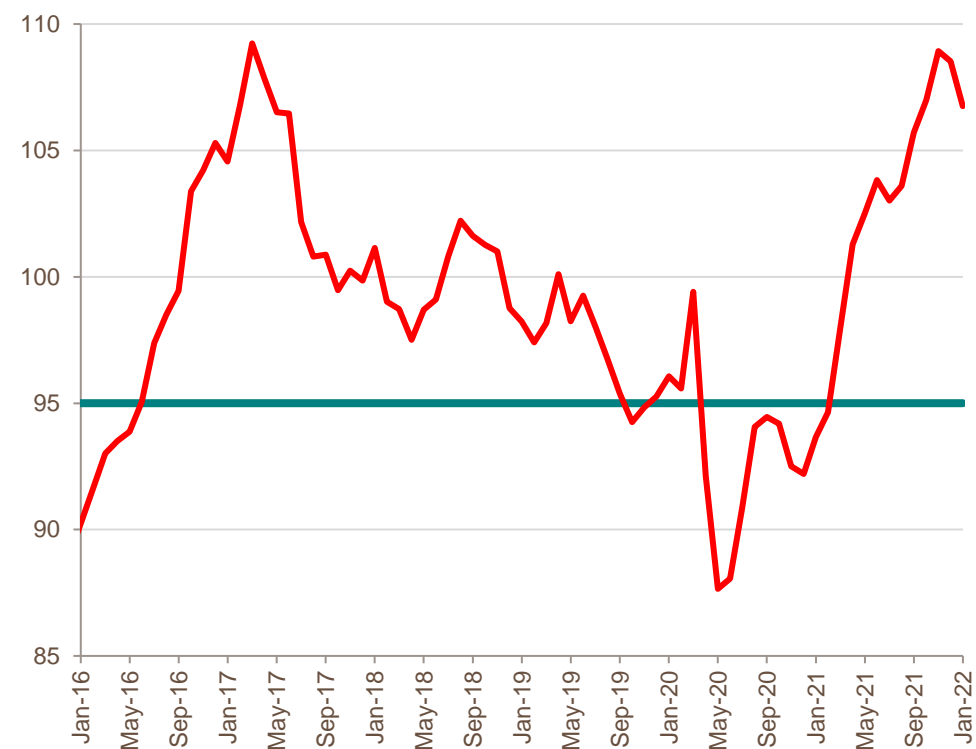
Source: IHS Markit / CIPS PMI, Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

# INFLATION INDEX WITNESSES SECOND CONSECUTIVE MONTHLY FALL, THOUGH REMAINS ELEVATED

- The BDO Inflation Index fell by 1.77 points to reach 106.75 in January. This marked a second consecutive monthly fall.
- Despite this further fall, it is important to note that the Index remains at a considerable high. For comparison, the average reading for the two years prior to the pandemic stands at just 98.58.
- There was divergence amongst the Input and Consumer Inflation subindices in January. The former slipped by 5.69 points, reaching 105.70. This suggests that price pressures amongst producers are weakening, albeit remaining at a high level, with this fitting the narrative of an initial easing of supply chain issues.
- Meanwhile, the Consumer Inflation Index picked up by 2.16 points, reaching 107.81. This marked the highest reading on this subindex since October 2008, when a value of 109.24 was witnessed.
- The consumer price landscape is expected to see mounting inflationary pressure in the coming months, putting considerable strain on households' living costs. This has been particularly driven by energy prices, amidst volatility in global commodity markets and the changing energy price cap. Nevertheless, household goods are also contributing to price pressures, with this being a knock-on effect from the stark producer price inflation seen in recent months.
- Inflation is set to accelerate further into 2022. Cebr now expects a peak rate of 6.7% across Q2 2022 on the CPI measure. Though multiple interest rate hikes are anticipated this year in order to combat these inflationary pressures, inflation is set to remain above the Bank of England's target rate for several years.

## BDO INFLATION INDEX

100 = average trend growth. Greater than 95 = positive



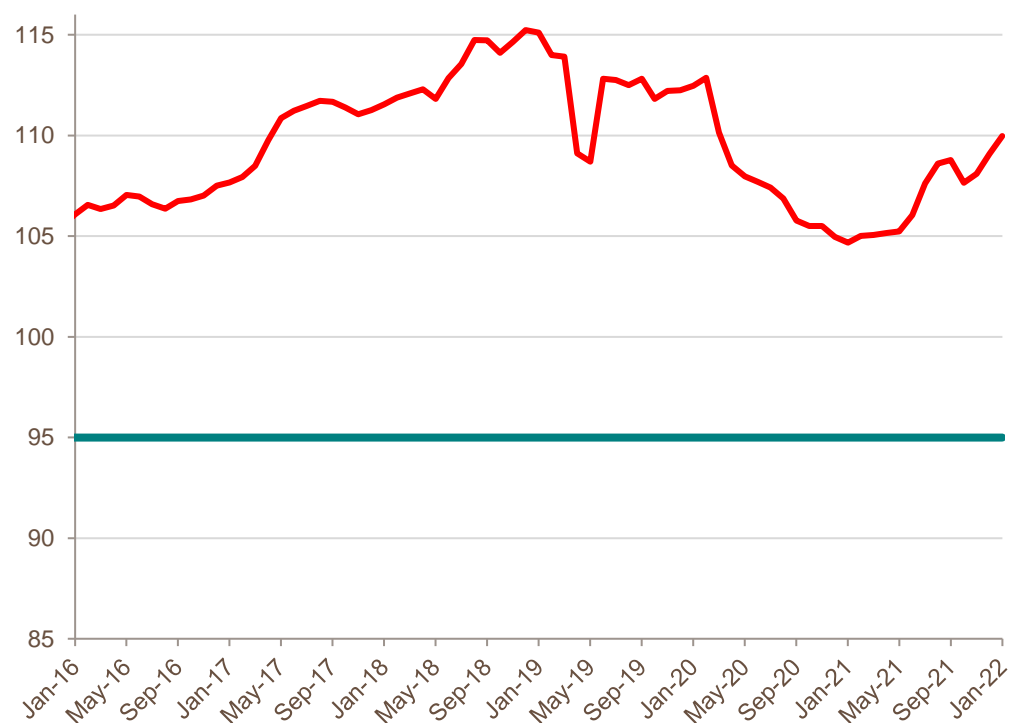
Source: Bank of England, CBI, Eurostat, Office for National Statistics and Cebr analysis

## FURTHER IMPROVEMENT TO EMPLOYMENT INDEX DUE TO RESIDUAL DEMAND FROM WIDER ECONOMIC RECOVERY

- The BDO Employment Index increased by 0.90 points between December and January. This took the Index to 109.98, its highest reading since March 2020.
- January's reading further reflects the strength of the UK labour market. The number of payrolled employees saw a further uptick in the final month of 2021, with this expected to continue into 2022.
- This expectation of further improvement reflects the residual demand for labour which accompanies a general uptick in economy activity. So long as the economy recovers into 2022, the labour market is expected to follow.
- There remain some downside risks to the labour market, however, stemming notably from rising living costs. If wage demands increase as a result of rising prices, this may contribute to an inflationary spiral. Ultimately, through raising labour costs, this may also encourage firms to lay off staff, potentially hindering the labour market recovery.
- At present, Cebr does not expect such wage inflation to become deeply embedded in the labour market. As such, a further improvement is anticipated, albeit at a slower rate than that seen previously.
- The unemployment rate is forecasted to reach a low of 4.0% from the second quarter of this year, a value above pre-pandemic levels.

### 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

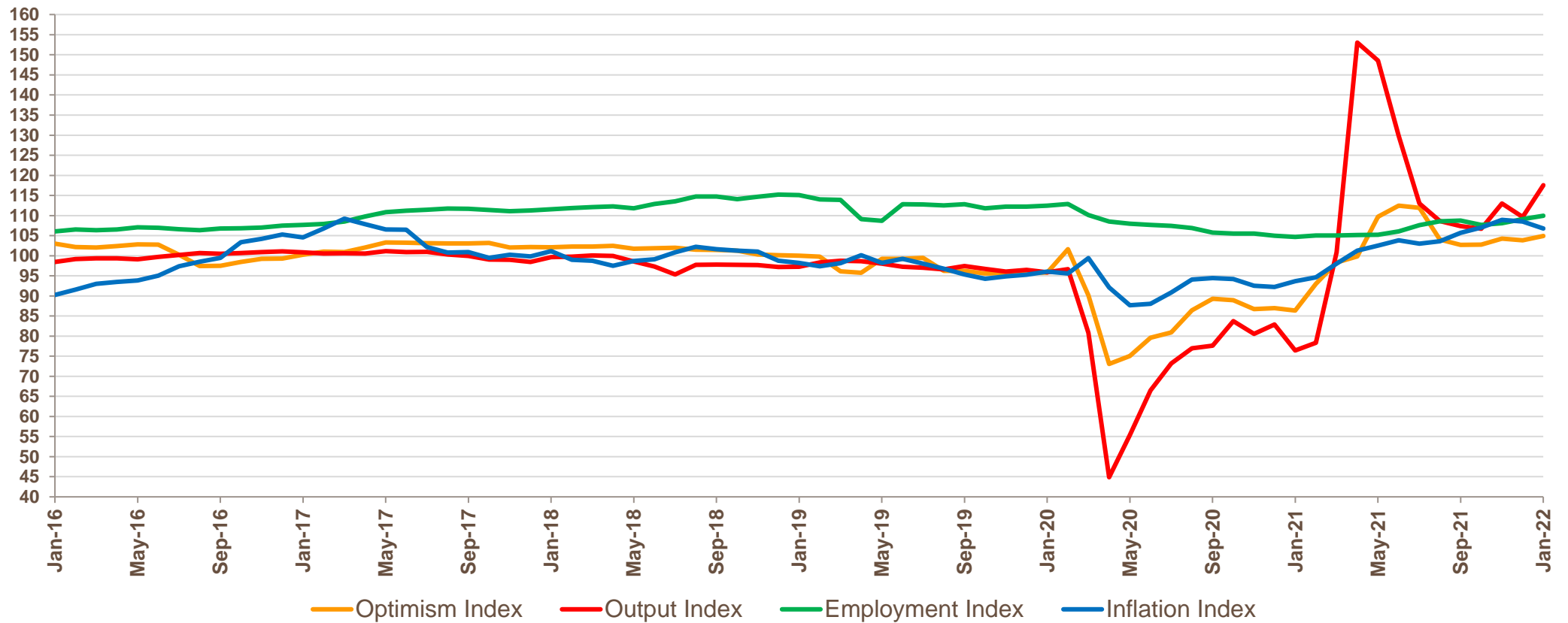
## BDO INDICES TO LATEST MONTH

		Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
The BDO Optimism Index	<b>Total</b>	112.45	111.92	104.03	102.68	102.78	104.27	103.81	104.91
	Manuf.	113.22	112.34	112.49	109.69	108.89	109.92	106.80	109.76
	Service	112.35	111.86	102.96	101.79	102.01	104.03	103.43	104.30
The BDO Output Index	<b>Total</b>	129.81	113.00	108.61	107.38	106.71	112.99	109.68	117.52
	Manuf.	115.80	104.22	100.70	98.26	96.61	95.43	97.18	100.01
	Service	131.58	114.11	109.61	108.54	107.99	115.22	111.26	119.74
The BDO Inflation Index	<b>Total</b>	103.83	103.01	103.60	105.70	107.00	108.93	108.52	106.75
	Input	106.14	106.01	106.89	108.70	108.23	111.68	111.39	105.70
	Consumer	101.52	99.47	100.31	102.70	105.76	106.18	105.65	107.81
The BDO Employment Index	<b>Total</b>	106.05	107.62	108.60	108.78	107.65	108.09	109.08	109.98

# APPENDIX: THREE OUT OF FOUR SUBINDICES IMPROVE AS OMICRON FEARS SUBSIDE

## 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

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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.