

**We're heading into a crucial period as countries begin to ease lockdown measures.**



**Lockdown lite.** Last Wednesday saw the UK Government take the first baby-steps towards easing lockdown. But with the Coronavirus caseload currently still estimated at 150,000, the exit strategy is 'slowly, slowly' (even more so in Northern Ireland) not big bang. Many social distancing restrictions - including a 14 day quarantine for international arrivals - are here to stay. From 1st June, in the next phase of easing, more shops will be allowed to open their doors. Only if new infections keep declining will hospitality, leisure and other service businesses be gradually allowed to resume, from July onwards. It's a long road back to normality.

**Worse yet to come.** UK GDP fell by 2% in Q1, the biggest quarterly decline since the financial crisis of 2008. While the reading provided an upside surprise to both consensus and Bank of England's forecast, it captures the impact of a mere seven working days under lockdown. Services sector took the biggest hit, as food and accommodation were battered. The pandemic ended more than four years of uninterrupted growth in consumer spending. All brace for a bigger impact in Q2.

**Battle-scarred.** The data fog lifts revealing a business landscape battered by CV19. Just under four in five UK businesses (77%) continue to trade. Yet 61% have seen revenues drop and, for one in four firms, income is down more than half. Still, flowers grow. A 1/3 of firms are trading normally and, with 44% of us working from home, it's probably boon time for makers of garden offices. And socially there are speckles of sunlight. Before March just one in five believed the UK was a united place. Yet nearly three in five (57%) expect it will be.

**Lower.** Whether it was imports or exports, goods or services, all forms of international trade were lower in Q1 2020 than at the end of last year. The result was a modest reduction in the UK's underlying trade deficit, to a comparatively small £2.3bn. Dramatic further falls in both exports and imports are to be expected in Q2. The huge reduction in air traffic will mean less produce moving in and out of the country. Longer term questions are whether the international trend for greater protectionism will be accelerated by Covid and, of course, what will happen the UK / EU trade deal; remember those days?

**Locked out.** The lockdown, unsurprisingly, has been a spanner in the works for the UK housing market. April's RICS survey remained, unsurprisingly, highly negative with 80% of surveyors indicating that buyers and sellers were pulling out of transactions. New buyer enquiries and new instructions to sell fell to their weakest reading since the survey began back in 1999. Many would-be buyers have seen their borrowing capacity dented by a lowering of max LTVs and if furloughed their financial circumstances have changed. Close

to three-quarters of those polled expect residential prices to fall when the market reopens. The industry wants a stamp duty holiday to help reboot the market.

**Last orders.** Buoyed up by record numbers of tourists, Northern Ireland's hospitality sector was on a high. Cue a global pandemic. Now the industry is the most affected of all. Hospitality Ulster have warned the economic fallout will be significant. 1 in 4 businesses are at risk, including 2 in 5 restaurants and 1 in 3 direct jobs. Social distancing for businesses that promote socialising is a revenue killer. With tourism expected to remain in the doldrums until air travel rebounds and working from home reducing footfall for the coffee and sandwich economy. Too many outlets chasing too few customers. Reopening is one thing but being profitable is another. The sector will have to downsize.

**Skin in the game.** Last week the Chancellor, Rishi Sunak, announced that the flagship job retention scheme, under which the government pays 80% of the furloughed workers salary, will be extended until the end of October. As of last Monday, the scheme supported 7.5m workers (almost a quarter of the workforce) at a cost of £14bn per month. From August employers will start sharing the cost of the scheme, although full details have not been announced yet. And they will be allowed to bring workers back part time. This will also be a litmus test to see if those jobs still exist.

**Prediction game.** The ECB described the disruption caused by the CV-19 'of a magnitude and speed that are unprecedented in peacetime' for the Euro area. The pandemic and its associated containment measures has not only hit domestic demand and production but also productive capacity. Given the widespread uncertainty, the ECB published a range of scenarios that put the 2020 GDP fall between 5% and 12%. It is against this backdrop that the ECB explained the liquidity easing measures announced in its April meeting.

**Downbeat.** Further grim US economic data. Retail sales tumbled 16.5% in April as the

lockdown took its toll, industrial production fell an unprecedented 11.2% last month. On the inflation front, core consumer prices (excluding food & energy) dropped 0.4% in April, the biggest monthly fall since the series began in 1957. Witness record declines in apparel (-4.7%), airfares (-15.2%), and motor vehicle insurance. No wonder Federal Reserve Chair Jay Powell acknowledged “the scope and speed of the downturn are without modern precedent”.

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