Customarily a month renowned for beer festivals, October is shaping up to be quite the opposite this year with restrictions around the hospitality sector to varying degrees across the UK. Indeed, time has been called across the pubs in Scotland’s central belt. Daily Covid-19 cases continue to surge across much of Europe, snuffing out any glimmer of hope for a V-shaped recovery. The ball is in the policymakers’ court, yet again.

Do(-ing) what is necessary. Chancellor Sunak is living up to the promise he made at the start of the coronavirus crisis. Swift to respond to the challenges posed by a second wave, the government has expanded the Job Support Scheme to offer a two-thirds wage subsidy to businesses who have to legally close due to new restrictions. Additionally, cash grants for English firms have been increased to £3k per month. Scotland, Wales & Northern Ireland will receive funds to do something similar (or completely different). The enhanced policy lifeline is sure to help many, especially the struggling hospitality sector.

Already? Basking in the August warmth, seeing the parts UK that we'd always meant to visit, all while enjoying a discounted meal out, the recovery had a 'feel good' factor a few months back. And that was at least partly true. Hospitality and eating out made a sizeable contribution to growth during August, more than half in fact. Away from those sectors it thinned out pretty quickly, collectively amounting to a 2.1% GDP monthly rise, less than a third of the pace of July. Other data was suggesting as much, this confirmed it – the recovery has lost momentum. Timelier data than GDP suggest September could be similarly weak. And that's before the renewed restrictions of October.

The Great Rewind. The Northern Ireland economy contracted by a record 13.5% q/q in Q2. Growth in the public sector (more jobs) contrasted with a whopping 18% q/q decline in private sector output. By way of context, these single-quarter declines exceed the cumulative fall, lasting 6 years, during the last recession. The local economy was contracting before the pandemic struck and has strung together three successive quarters of decline since Q3 2019. Over this period, the economy and private sector have fallen by 18% and 24% respectively, taking NISRA's Composite Economic Index and Private Sector Output Index to record lows. While these series began in Q1 2005 it appears private sector output has broadly returned to where it was when the Good Friday Agreement was signed.

Still growing…but Northern Ireland's September PMI revealed improvements rather than strength. Business activity (51.9) increased at a slightly faster rate but failed to match the pace set in July. New orders broadly stabilised after a notable fall in August. However, this conceals growth in the domestic market and steep declines in exports. NI's most important export market – the Republic of Ireland – slipped back into contraction (46.1) following two months of growth. Meanwhile all four sectors continued to reduce their headcount at a significant pace despite a pick-up in growth. What little momentum the local economy has, will be tested with more restrictions linked to COVID-19 and Brexit. The recovery will struggle to gain traction in this environment.

Life ain't always what it seem to be. Largely unnoticed amidst the Covid hubbub, something very unusual is unfolding. For the first time since Puff Daddy topped the charts with I'll be Missing You (1997), the UK is actually running a trade surplus. Not only that but the surplus grows larger, hitting £7.7bn, in the three months to August (excl. precious metals). Where UK plc really excels is net exports of services, which rose 10% to £30.7bn this summer. Our trade deficit in goods is still hefty but even this has shrunk by around one-quarter recently. Just nod along.

Party like its 1999. Pent-up demand was conspicuous by its absence in the UK's new car sales market last month. September is normally a strong month with the introduction of new plate numbers, but sales slipped by 4.4% y/y *(NI = -2.5% y/y),* marking the worst September sales figures in 21 years. Consumers appear to be reluctant to spend on the biggest discretionary spending item after a house purchase. Three-quarters of the way through 2020 and sales are down one-third on last year (NI = -35% y/y). One bright spot is the surge in electric vehicle and hybrid sales which have eclipsed diesel car registrations for the first time in September

On thin ice. The Bank of England's September Decision Makers' Panel survey, with over 2,600 respondents, confirms significant concern around the outlook remains. Estimated sales in 2020 Q3 are likely to be 14% lower than the pre-pandemic level. That's significantly better than Q2's -30%; which is good news, but a weaker recovery is expected over the subsequent two quarters. And Brexit is a further dampener on prospects. Only 4% of businesses seemed positive about being able to handle trading requirements at the end of the transition period. Looking at Brexit negotiations (again) for relief!

Home/Office. In the latest Business Impact of Coronavirus Survey, nearly a fifth of UK businesses reported an intention to use increased homeworking as a permanent business model in the future. The highest proportion of such businesses are in Education (private sector only; 51%) and Information & Communications (41%) industries. Businesses intending to use increased homeworking do it because of improved staff well-being, reduced overheads, and increased productivity. Those not intending to use increased homeworking attributed it primarily to lack of suitability and lack of communication. Still, there just might be a few extra households looking for an additional room.

Shifting gears. Nationwide’s house price index registered annual growth of 5% in September, further extending the mini- boom in the UK’s housing market. The surge continues to be powered by pent-up demand, stamp duty holiday and lifestyle changes. However, the story is not the same for each segment. Mortgage rates for higher loan-to-value loans have inched up of late, potentially squeezing first-time buyers. A trend potentially compounded by further deterioration in labour market conditions. Add to this the souring of sentiment arising from the second wave, this mini boom may be running its course.

United. The US Federal Reserve is in favour of more fiscal stimulus to prop up the economy. Its counting on it, too. Fed officials “noted that their economic outlook assumed additional fiscal support and that if future fiscal support was significantly smaller or arrived significantly later than they expected, the pace of the recovery could be slower than anticipated”. A view reiterated this past week by Fed Chairperson Jay Powell. But such calls appear to be landing on deaf ears, judging from latest comments from US President Trump. The risk is that further fiscal measures are delayed until early 2021, weighing on US activity.

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