With a reality check on the recovery having been provided in recent weeks, forecasters are beginning to trim their expectations for the recovery in 2021. While labour market data underlines how the damage to date has been felt most keenly by the young.

Hospital(ity)pass. Daily confirmed cases and hospitalisations are on the rise. Movement restrictions are therefore all the rage once again. Unlike the first time though, this is not a national lockdown, rather what some might term a 'blended lockdown'. In England, a three-tier system of restrictions will aim to provide some balance between public health and economic stability. Scotland is likely to implement a similar system by the end of October. Wales is opting for deeper lockdown measures at the end of the week, having already announced a travel ban from hotspots elsewhere in the UK. Northern Ireland schools have a two week break while the hospitality sector, hairdressers, beauticians and the like get clobbered with a four week closure. Critical times ahead.

Awaiting a second wave. Following data revisions, UK unemployment breached the 1.5 million mark for the first time in over three years during the three months to August. That pushed the unemployment rate up to 4.5% and 13.1% for 18-24 year olds. On a more positive note, there was a modest rise in payroll numbers in September, although they still remain 673k below March levels. Encouragingly, vacancies increased by a record amount during the third quarter but that came off a record low. Of more concern was the record surge in redundancies (+114k) in the three months to August. With lockdown restrictions returning and the furlough scheme set to expire, a second wave of job losses looks all but inevitable.

Regional disparities. The North East (1.4 percentage points) and Northern Ireland (1.2 percentage points) posted the biggest quarterly rises in their respective unemployment rates in the three months to August. These two regions bookended the regional league table with the North East at 6.6% and Northern Ireland at 3.7%. All twelve UK regions have seen employment follow a downward trajectory but some regions have fared worse than others. While the UK has seen payroll numbers fall by 2.2% y/y in September, regional declines vary. The capital accounted for more than 1 in 5 of the 673k jobs lost since March. Meanwhile in NI there were 10,000 fewer people on the payrolls last month relative to March.

Crunch time. It seems an odd period even for these strangest of days. Will these weeks blend quietly amongst the months of slow economic recovery, or is a lurch downwards looming? Well, more of us within the UK are travelling to work (65%). And almost all those returning also travel to work (leaving 23% working exclusively from home). Company registrations and online jobs adverts were also encouraging, albeit job adverts are down 1/3rd on last year. But fewer than 1 in 5 of us met up with friends in early October and restrictions have tightened since. It’s crunch time.

Zombie nation. Take a minute to consider the longer-term health of the UK economy. The hallmarks of pre-pandemic Britain were high employment, sluggish productivity growth and near-stagnant real wages. New data suggest that falling business dynamism may explain many of these developments. Fewer jobs have been created by new businesses since the financial crisis struck. But far fewer are now lost as a result of businesses failing, especially the smallest firms (less than 10 employees). Movement between larger businesses has declined too. The net effect of the drop in what Economist Joseph Schumpeter called ‘creative destruction’ is that millions more are in work but not necessarily in the most valuable roles.

Caveat. Economic forecasting is difficult at the best of times. Pity those doing it in this environment! The IMF, having just updated its view, sees a 4.4% contraction in global GDP this year (marginally less severe than in June) but a 5.2% rise in 2021 (a modest downgrade from June).If only it were that simple. In the IMF’s words: “the forecast rests on public health and economic factors that are inherently difficult to predict.” Prime among that is the assumption social distancing will continue into 2021 but will then fade (better therapies and a vaccine). More generally, the recovery will be “long, uneven and uncertain.”

Bailout. The sharp rise in government debt on the back of outsized economic rescue packages is a worry for a number of observers. Some have begun signalling that tax rises will be needed down the road as part of a public finances repair job. But in a volte-face to its guidance a decade ago, the IMF last week signalled that might not necessarily be the case. For countries that can borrow freely (which includes the UK) debt levels could be stabilised by the middle of the decade. Crucially it assumes interest rates remain historically low. Even so, for those persuaded by the need for sustained large levels of spending through the recovery and beyond, it’s important support.

Upside surprise. US retail sales jumped 1.9% month-on-month rise in September, above market expectations. This was the largest increase in retail sales in three months, with strength widespread in September. Higher household savings have provided scope for consumers to boost spending recently but for how long can this be sustained? Income support is likely to fade in coming months given the current logjam between Republicans and Democrats over further fiscal measures. Latest weekly jobless claims were disappointing, pointing to softening labour market conditions. And then there is risk from the virus!

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