A new variant of the virus has sent cases soaring, pushing the UK into a third lockdown. With it will come a setback to the recovery. Only the vaccine can unlock its resumption.

Vaccine the light. With the UK back into lockdown Q1 is likely to see a fall in output to start the year. It was only a few weeks ago a resumption of growth was being pencilled in by forecasters. Coming on the back of what looks to be a decline in Q4 last year the UK may have technically re-entered recession. Although it's splitting hairs really. And the impact on growth for the year as a whole shouldn't be particularly significant if, and it's a big if……

…….vaccine rollout proceeds as planned. The government intends to reach the top four vulnerable groups, around 13m people, by mid-February. Factor in a few weeks from that point for immunity to be built and restrictions can begin to be tapered. Planning, logistics, availability of appropriate workers – there's certainly room for slippage in any vaccination programme. So far the UK’s progress is good when compared to other countries, ahead of Europe and the US. But lags some way behind the leader Israel.

Deep freeze. Early January tends to be quiet at the best of times but there’s an especial stillness this year. Footfall in the UK was just 38% of that seen last year, the lowest since the first spring lockdown. And you have to feel for the restaurant industry. Reservations are 2% of last year’s (0% in London). And it was a slightly more isolated Christmas then we’d hoped, with 44% of us forming a bubble, lower than the half who hoped to. It’s a tough time in many ways and about 1 in 5 of us struggled to obey the rules. Was that you?

Gloomy. December’s Decision Maker Panel survey from the Bank of England reflected a worsening of sentiment compared to November. The expected impact of Covid-19 on both sales and employment deteriorated, -14% (vs -11% in Nov) and -7% (vs -6%) respectively for Q1-21. And this is when the fieldwork was conducted prior to tighter restrictions coming in. What’s even worse is that the participating businesses no longer expect the damage caused by the pandemic to get reversed completely in 2022 compared to their outlook in November. Overall uncertainty remained elevated despite positive news on the vaccine front and better preparedness reported by firms for Brexit.

Fast & Furious. UK new car sales have been stuck in a high speed reverse manoeuvre for most of the last year. Sales slumped by 29% (NI = -30%) in 2020 – the steepest annual fall since WW2. This equates to a loss of turnover of £20bn with sales back at 1992 levels. Every cloud has a silver lining and within the motor trade it is a green one. Last year was a record year for electric vehicle sales with hybrids and battery powered vehicles increasing their market share. Petrol and diesel sales have fallen from 89% to 71% in just 12 months. This trend is set to continue.

Time to move. The housing market’s continuing surge was the most striking point from

November’s UK lending statistics. Over 100,000 mortgages for house movers were approved, the highest since 2007. But whilst the property market was firing on all cylinders the tighter Covid restrictions meant regular spending was more subdued. UK households actually paid back unsecured borrowing of £1.5bn, meaning outstanding balances are 6.7% below their level a year ago. Meanwhile deposit account balances were boosted by lower spending and transfers from savings and investments, rising by £17bn. Plenty of spending fire-power available in some places, for when the time comes to deploy it.

Done but not dusted. As the rest of the country was busy wrapping presents, the Brexit deal was finally agreed on Christmas Eve. While not quite the comprehensive free trade agreement once promised, zero tariff and zero quota trade in goods is a better deal than Canada has with the EU, although it comes with more stringent obligations on maintaining a level playing field. It also means significant costs related to red tape and border checks. While the service sector, which constitutes 80% of Britain’s economy and is the fastest-growing arrear of global exports, is largely left out, for now at least.

Downshift. US non-farm payrolls posted a 120k fall in December 2020, following a revised 336k increase in November. This was the first monthly decline in US employment since April 2020. The main casualty last month was the consumer-facing leisure and accommodation sector (-498k) as tighter local restrictions took their toll. Hiring persists in manufacturing and construction, but the biggest surprise was more jobs in the retail sector in December. The unemployment rate was unchanged at 6.7% last month. Weaker US labour market conditions raises the pressure for further fiscal measures in the near-term, particularly after the Democrats victory in Georgia which now provides them a (thin) majority in Congress.

Bitter-Sweet. Eurozone retail sales contracted by 6.1% m/m in November due to more stringent Covid-19 containment measures taken by most countries. France (-18% m/m) and

Belgium (-16% m/m) were heavily impacted with clothing and automotive fuel taking most of the heat. But things could have improved in December. Consumer confidence ticked up as restrictions were relaxed during the holiday season and vaccine approvals lifted sentiment. But, like the UK, it will be a while before a meaningful recovery sets in as the new strain of the virus has ushered in renewed lockdowns across the continent.

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