It’s going to be some more time before we can wake the UK economy from its economic slumber. Last week, virus-led restrictions tightened in Scotland, Wales & Northern Ireland. And there are ominous signs of further weakening activity in January. That said, the November GDP print has strengthened hopes of lesser-than-expected damage in Q1 2021.

Middling. UK GDP retreated in November, falling 2.6% on the month from October. While this decline left the output tracking back to around August’s level, the fall was lower than consensus expectations of -6%. The 12% monthly contraction in consumer-facing services was partially offset by two differentiating features of the November lockdown – first, greater business adaptation which limited fall in accommodation & food sectors; and second, some sectors, notably manufacturing and construction, remained open. So, what does it tell us about the likely impact of the ongoing lockdown? It’s likely to be deeper than the November fall (school closures) but hopefully much more limited compared to the one witnessed in April.

Is it a V or a W? Northern Ireland's Composite Economic Index – the nearest thing we have to GDP – recouped almost all of Q2's record decline in output in Q3. Factor in the fall in Q1 and NI's 15.5% q/q 'V-shaped' rebound in Q3 has recovered 90% of the drop in output since the pandemic. Private sector output has followed a similar trampoline-style recovery with output surging 21% q/q in Q3. That means private sector output is just 2.1% below pre-pandemic levels but 5.4% below NI's pre-recession levels (Q2 2019). Remember this is Q3 and we have had more lockdown restrictions since then. Expect Q4 and Q1 2021 to show the 'V' turn into a squashed 'W' whereby the second dip is significantly shallower than the first one. Things will get worse before they get better.

New Year, new lockdown. The proportion of UK businesses trading fell sharply in early January, dropping 13pts to 71%. That's notably less activity than during England's November lockdown; the lowest since June in fact. Little more than 1 in 3 hospitality businesses are still trading, whilst one-third have little or no confidence they will survive the next three months. Some glimmers of hope come from reports that fewer of those who are still trading are now experiencing a decrease in turnover. Our entrepreneurial spirit continues to flourish amidst the pandemic too: 20,000 new businesses filed VAT returns for the first time in December.

Downbeat. The BRC's measure of UK retail sales posted a 1.8% y/y rise in December, down from a recent peak of 5.6% y/y in September, signalling a clear slowdown at the end of last year. 2020 marked the worst year for retailers since records began in 1995. Surging virus numbers forced non-essential retailers to close their doors again in London and the South East. This was followed by Scotland on December 27th and the rest of England on December 30th. The third national lockdown started on January 4th 2021. Further bad news looks inevitable for retailers near-term. One ray of light is hope of a successful rollout of vaccines in coming months.

Losing momentum. The housing market is often a leading indicator in downturns, but this time is different. Lockdown restrictions in Q2 last year led to a build-up of pent-up demand that has been released since the summer. A temporary cut in stamp duty helped push transactions to multi-year highs in recent months. But UK surveyors report a loss of momentum in their December residential market survey. Sales, new enquiries and instructions remain positive but new enquiries eased for the fifth successive month. Renewed lockdown restrictions and the end of the stamp duty holiday have hit near term expectations with transactions and prices set to fall. Northern Ireland surveyors remain more optimistic with prices and transactions expected to rise in Q1 albeit at a slower pace.

Tale of Trade. The uncertainty around Brexit translated into tensions in the market; evident in the UK's widening trade deficit in the 3 months to November. Imports grew by £13.8 billion, exports by the lesser £5.6 billion. The stockpiling of cars to prepare for the end of the transition period contributed to a considerable increase in imports (£4.7bn) of machinery and transport equipment. The simultaneous increase (£1.6bn) in pharmaceuticals' imports, to fight the ongoing battle with Covid, added to the deficit. As the businesses gradually ease out into the new framework, we can perhaps hope to see some improvement in the trade balances.

Destiny's Child. Demographics is destiny, so they say. And that should worry us. Pre-pandemic, an increasing share of UK economic growth (about half) came not from innovation or capital but rising labour supply (population growth). Yet new evidence has come that potentially around 1.3 million non-UK-born workers, many perhaps working in the hospitality sector in larger cities, especially London, have sensibly decided to wait the virus out back home. If largely true, then the UK population has fallen by over a million, the

1st fall since 1982. More omens that we're entering a period of huge change.

Recovering. The purported shapes of recovery these days look like an alphabet soup, with K-shaped, two-paced recovery catching the fancy recently. Arguably, nowhere is the dichotomous trend more apparent than between services and industrial sectors. While the Eurozone was struggling with the renewed lockdowns in November, the monthly industrial production increased by 2.5% and is now just 1% below than pre-Covid levels. In particular, capital good productions growth of 7% was a cause of optimism. All that said, the situation remains as uncertain as ever. And the direct or indirect impacts of a continuing lockdown on industries in the near future cannot be ruled out.

Lockdown resilience. In a Presidency that's seen a trade war with China as a policy hallmark, it's somewhat ironic that in its final days China reported its biggest trade surplus on record for a single month – a whopping $80bn. The country's exports expanded 18%y/y in December with booming demand in the West for medical equipment and technology to aid working from home. According to China's customs agency medical equipment and medicine exports rose 31% last year (including 224bn masks between March and December). Demand is so strong that firms are reporting a shortage of containers. That may explain some of the delays in goods coming to Northern Ireland.

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