The going was expected to get tough. Whether it is the newly released transactions data or the familiar PMI prints, indications are the UK economy’s Covid recovery has gone into reverse. But we could recover “at a rate of knots” from the second quarter, as per the Bank of England’s Chief Economist, with the roll out of the vaccine. Fingers crossed!

A sombre YE report card. Retail sales grew a mere 0.3%m/m in December (unsurprising as non-essential retail closed as the month wore on). So how did 40% of overall consumer spending fare in 2020? Total quantity bought decreased by 1.9%, the largest annual decline in record! Clothing and fuel stores were the biggest losers, declining by over 20%. But all was not lost. Non-store retailing (i.e. online), now accounting for c.30% of all purchases, skyrocketed by 32% over the year. Cut to 2021. We expect to see more of the same until Q1 as a third lockdown grips. As the economy reopens the degree to which the change in how we spend our money reverses will go a long way to dictating the recovery.

Better late than never? New data on debit and credit card payments give a first glimpse of how UK consumer spending patterns are evolving in response to the latest nationwide lockdown. Overall card spending dropped sharply in the week following Christmas and has remained very subdued ever since, with a staggering 30% fewer purchases than normal through mid-January. At just half usual levels, ‘social’ spending – on activities like eating & drinking out – remains thoroughly depressed. But it’s ‘delayable’ purchases – such as clothing, household goods & vehicles – that have seen the biggest drop over the past few weeks.

Before the Dawn. The impact of current lockdown is also visible in the UK’s latest PMI reading. The flash reading for January fell to its lowest level since May last year. The service sector reading was recorded at 38.8 (49.4 in Dec) with manufacturing at 52.9 (57.5 in Dec). The services sector was hit by trade restrictions and reduced consumer spending while the manufacturing sector felt the post Brexit hangover and struggled with increased paperwork and reduced stockpiling by EU companies. But companies are upbeat with business expectation at its highest since May’14, buoyed by the vaccine roll out.

Everybody knows. How we’ve fared financially through Covid depends partly on our finances pre Covid. A story perhaps as old as money itself. So, of those unable to work, over half of those on middle and top incomes continued to enjoy full pay, compared with just 28% of the lowest paid. And this pattern repeats for income overall. So, whereas over 4 in 10 households with the lowest incomes saw their funds fall, just 3 in 10 top income households did. Yet the Government’s support programmes did work. Far fewer workers who accessed the schemes saw a fall in income.

UK inflation remains subdued. For now at least. The headline CPI rate rose to 0.6%y/y in

December from half that pace in November.The rate is expected to trend closer to 2% from the spring as some favourable base effects fall out of comparison. Very much still contained, in other words, and unlikely to prompt the Bank of England to change its stance. But price pressures are still worth paying close attention to. Inflation expectations in the US have hit their highest level in over two years. Oil has reversed its Covid-inspired fall and a widely-tracked food commodity index is at a six-year high. Meanwhile strong demand for numerous goods have quadrupled the cost of moving goods from Shanghai to Rotterdam since June.

Soaring deficit. The COVID-19 pandemic triggered a tsunami of red ink in the UK’s public finances with £34bn of borrowing accruing in December alone. That’s a whopping £28bn above December 2019. That brings the total borrowing, or ‘the deficit’, during the first nine months of the fiscal year to £271bn or 12.7% of GDP. Remember Greece’s record annual deficit was 15% of GDP in 2009. With lockdown restrictions currently in place, the public finances are going to continue to get worse before they get better. According to the OBR we can expect another £120bn for January – March. An economic recovery remains the Chancellor’s priority, a fiscal recovery can wait.

December to remember. Positive economic indicators have been conspicuous by their absence in 2020. But property transactions ended the year with a bang. UK & NI residential property markets recorded the most transactions for December in fourteen years. Pent-up demand and the carrot of a temporary stamp duty cut have seen transactions surge by 34% y/y and 47% y/y for the UK and NI respectively. Despite the strong rebound late last year, 2020’s residential and commercial property sales volumes for NI and the UK still fell to seven and eight-year lows respectively.

Old world and new. The difference in business sentiment between the EU and the US could not be starker. While Europe is struggling with an upsurge in Covid infections and new lockdowns, US business seem almost impervious to the pandemic troubles. The preliminary US composite PMI reading for January saw its second highest reading since March 2015 – climbing from 55.3 to 58.0. In contrast the EZ PMI declined further into contraction territory (a sub-50 reading) from 49.1 to 47.5. With US fiscal stimulus on the way the gap could widen further.

Firmly on hold. This was the clear message from ECB president Lagarde at her latest monthly press conference. It is hardly surprising that monetary policy was unchanged in January 2021 following the announcement of further monetary stimulus last month. The economic assessment was broadly unchanged from December 2020 whilst risks to the Euro area economy were described as "tilted to the downside but less "pronounced". The ECB president stated the Pandemic Emergency Purchasing Programme (PEPP) will be "conducted to preserve favourable financial conditions over the pandemic period". All this suggests the ECB is in no urgency to alter its current accommodating monetary stance.

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