There’s no doubt the lockdown has taken a significant toll on the UK economy. Add to that Brexit effects are showing up in the form of higher costs and disruptions at the border. But the pace of vaccination remains very impressive, and with it confidence builds of a strong recovery. An outlook echoed by the IMF this past week.

Bad, but could get worse. The UK labour market is in distress. The number of payroll employees has decreased by over 800K since February 2020. The unemployment rate, in the three months to November 2020, was estimated at 5%, 1.2 p.p. higher than a year earlier. The redundancy rate during the same period reached a record high of 14.2 per thousand. However, in the context of the worst recession in 300 years, it could be a lot worse. Policy support has been immensely helpful. Expectations are that unemployment will rise further once it’s wound down. So the race is on. Not just vaccine v virus. But vaccine v unemployment. Unleashing the recovery in the quickest time possible will be its salvation.

Trouble with a Capital T. In the space of just three months unemployment in London has jumped by almost 2ppts, hitting 6.9% in November. The capital, with its higher proportion of service sector jobs (92% of the total), has leapfrogged the North East to become the region with UK’s highest unemployment rate. By December the number of workers on the payroll in London had fallen almost one-quarter of a million below pre-pandemic levels. At the other end of the spectrum lies Northern Ireland, where service industries account for fewer jobs than other parts of the UK and unemployment stands at just 3.2%. **That’s a fall on the previous quarter.**

False dawn. Unprecedented employment support measures, such as the Job Retention Scheme (JRS) and the Self-Employment Income Support Scheme (SEISS), largely inoculated the UK and NI against a severe labour market shock. Indeed, many of Northern Ireland’s latest labour market indicators point to an improvement. For example, the number of individuals claiming unemployment related benefits and the unemployment rate are falling. Meanwhile NI’s labour market ‘R-number’ (redundancies) also fell sharply in December with just 340 redundancies proposed. That was over 1,000 fewer than November. Other indicators, such as the number of employees on payrolls and hours worked, continued their recent upward trends. Talk of a labour market recovery is premature. Once employment support measures are removed unemployment will soar.

Best supporting act. In the Economic Oscars, the Job Retention Scheme would be a shoo-in for the best supporting act during the pandemic award. At the end of December, the number of furloughed jobs in Northern Ireland was just shy of 95,000 – or 1 in 6 of private sector jobs. That’s up almost 40% from the proposed 31 October expiry date but well down on the 139,100 peak at the start of July. The hospitality and wholesale & retail sectors account for half of the furloughed total with manufacturing a further 10%. Don’t forget the self-employed! Another 52,000 individuals – that's more than 40% of the self-employed – claimed the third SEISS grant. 1 in 3 of these were construction workers.

Drag. The days may be lengthening, but it rarely feels like it. Time often drags, with Christmas long gone and spring hard to spot. Now Covid – related data seems the same. A little over two-thirds of firms remain trading (with a mere 34% of firms in the accommodation and food service sector doing so). Card spending is still 35% below last year's. While more of us are furloughed (17%, up from 14%). Further, there are worrying indications of dwindling cash reserves amongst some firms. And then there are Brexit effects! 1 in 4 reported a change in transportation cost and a fifth faced disruptions at the border when exporting.

But yet. There are more jobs advertised across all parts of the UK (except the East of England). And infections are falling (1 in 55, down from 1 in 45 post-Christmas). New Covid cases are falling sharply and 9.5m doses of the vaccine have been distributed. Look closely and early buds are emerging.

Industrial strength. 2020 has been a tumultuous year for Northern Ireland's commercial property market. According to the RICS Commercial Market Survey, occupier demand fell in Q4 2020 for the sixth successive quarter and near term expectations were for falling rents. Lockdown restrictions have hit tenant demand for the retail and office sector with the latter impacted by the shift to working from home. As a result, these sectors are experiencing a strong rise in vacant space. Industrial property remains the one bright spot with strong demand and expectations for rental growth for the year ahead remain upbeat.

In decent shape. US GDP recorded annualised growth of 4% in fourth quarter, a tad lower than the consensus estimate of 4.2%. Consumer spending grew just 2.5%. But other parts of the economy performed better – non-residential fixed-investment grew 13.8%, reflecting optimism in parts of the business landscape at least. Overall, US GDP fell by 3.5% in 2020 compared to the previous year (compare that with the UK's estimated 10% figure!) and remained only 2.5% below pre-Covid levels. With the vaccination program picking up pace and the latest batch of $600 stimulus payments being distributed, there are hopes that economy can be in full-swing in the second quarter of this year.

Cautious. Despite the fortunes of the US economy relative to the UK's, the tone of Federal Reserve Chairman Jay Powell's latest monthly press conference was clearly more downbeat than at the end of 2020, noting the US economy is a long way off from being healed. As expected, rates were left unchanged at 0-0.25%, so too the QE programme. The Fed's statement warned that "the pace of the recovery in economic activity and employment has moderated in recent months". In particular the health crisis poses "considerable risks to the economic outlook". All this suggests an unwinding of the Fed's current accommodating policy is not on the agenda any time soon.

Jab and go. The global economy is gearing up for a "vaccine-powered strengthening of activity later in the year" according to the latest IMF World Economic Outlook. Advanced economies are collectively expected to grow 4.3% this year, with the UK in line at a 4.5% pace. But given the UK's decline of c.10% in 2020 (worst amongst its peers bar Spain) that still leaves a lot of catching-up to do. So the IMF has pencilled in growth of 5% next year – well ahead of the advanced economy pack. In developing nations the 2021 recovery will be spearheaded by a forecast 8% expansion in China and a 11.5% rise in India.

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