The oft-repeated light at the end of the tunnel may just be glowing a little brighter. Falling infection rates coupled with the timely vaccine rollout, the impressive housing market bounceback and an optimistic forecast set by the Bank of England are all stock for the refreshment station of this long marathon. But this is not the only race we are running. A timely reminder last week came on the miles ahead to protect the natural world.

The Circus. Admit it. There’s one show in town, and it’s the vaccination programme. The economy bumbles along, with UK spending about a 1/3 lower than last year (32%, based on cards), footfall down 2/3rds (65%), 18% of the workforce are furloughed and 36% of us worked exclusively from home. And this is probably largely how things will stay until we can ease lockdown. Falling infection rates, while clearly good, don’t materially change this. Only vaccination does. So now 11 million of us have had the first dose *(>275k in Northern Ireland*), running at c.1/2m doses a day. Every day brings a little more hope.

Consistency. All 12 UK regions – and the Republic of Ireland – started 2021 with the sharpest deterioration in business activity since May last year. Lockdown restrictions was the culprit both then and now. All 12 regions also posted declines in orders and employment. Within Northern Ireland, this hat-trick of falling output, orders and employment was evident across all four sectors. While these contractions were less severe than lockdown 1.0, the same cannot be said for inflationary pressures. Input cost inflation hit a 31-mth high with construction firms seeing cost increases not witnessed in almost 9 years. Higher shipping and raw material costs coupled with increased transport costs linked to Brexit are all being blamed. The rollout of the Brexit red tape has only just begun…

Hill start. Last year January was the best month for new car sales and traditionally is the busiest month after March. Not this year. Following 2020's record decline (-30%), car sales are still rolling backwards. Local showrooms did see sales in January rise by over one-third relative to December (*the quietest month of the year*) but they were down 54% relative to January 2020. A decline of this magnitude has never occurred outside of the first lockdown (March – May 2020). Lockdown restrictions, which largely limited showrooms to a click and collect service, significantly impacted on sales. Northern Ireland's decline compared with a 40% y/y fall across the UK which marked the worst January since 1970.

Getting moving. For several months of last year it was virtually impossible to move house in the UK, yet such is the scale of the housing market bounceback that 2020 ended up beating 2019 for mortgaged house moves. Though for NI, activity was less buoyant and down year-on-year. With the stamp duty holiday due to expire in April, the market may need some more policy support to avoid a slowdown. There's no sign of households' deposit accumulation slowing down though, with another £20bn increase in December. That brings the rise in liquid savings in 2020 to around £130bn, according to the Bank of England, and 2021's economic prospects hang on whether people are willing and able to spend it.

Stand ready. The BoE's latest policy meeting could be described as all talk, no action. No change in Bank Rate (0.1%) or asset purchases (QE). But banks must be operationally ready to implement negative rates in six months’ time. That doesn’t mean they will be used, just available in the policy toolbox. If the BoE’s racy forecasts prove correct, the next interest rate move will be up, not down. A rapid economic recovery is expected from Q2 as the vaccine rollout enables lockdown restrictions to be lifted. Economic growth of 5% this year and 7.25% in 2022, should see the UK economy return to its pre-pandemic size by Q1 2022. Unemployment is set to peak just shy of 8% in Q3 before returning to 5% in 2022.

Existential. Our economies, livelihoods and wellbeing all depend on nature. A landmark Review by Professor Dasgupta offers a stark reminder of our collective failings to manage natural assets effectively and highlights the fragility of ecosystems we all depend on. Nature is degrading faster than ever: natural capital stocks per person have fallen 40% since the 1990s. Forget about boundless growth; we need 1.6 Earths just to maintain current living standards. To secure long-term prosperity we must rebalance our demands and restore natural assets. Redefining economic success by measuring *all* sources of wealth, transforming our financial system to better manage risks and channel investments towards sustainable activities will be crucial. Expect action to be firmly on the agenda as the UK hosts the G7 and COP26 summit.

Hole in a purse. The last year was tough on government finances, and that’s putting it mildly. UK spending has skyrocketed in tackling the virus, providing much needed support to businesses, workers and incomes. While depressed activity has hit revenues. Value Added Tax receipts fell by 25% from their peak in October 2019 to May 2020. At its trough in July 2020 Income Tax receipts were 17% lower than in the same month in 2019. Air Passenger Duty and Fuel Duty receipts were also substantially lower. The Office for Budget Responsibility forecast a budget deficit of 19% of GDP, the highest since 1944/45.

Relapse.The euro area rounded off 2020 with a renewed decline in activity on account of a fresh set of lockdown measures. The shutting down of non-essential services and travel restrictions resulted in a 0.7% decline in GDP in Q4 compared with Q3 2020. Among the big four economies Italy’s performance (-2%) was the weakest. France fell 1.3%, while Germany actually expanded (very slightly) as its manufacturers benefitted from recovery trade. Spain rose 0.4% (the country didn’t materially tighten restrictions, unlike others). But in a country so dependent on tourism, the expected delayed recovery in that sector will take its toll for months and perhaps years to come.

Soft. US non-farm payrolls posted a lacklustre 49,000 rise in January 2021, below market expectations. November and December’s data were revised lower by 159,000, signalling waning momentum in the labour market late 2020. The unemployment rate dropped to 6.3% in January compared to 6.7% in December 2020. However, the bulk of this was due to a 405,000 fall in labour force. This is a sign of people leaving the labour market, which is hardly encouraging. One crumb of comfort is the recent fall in weekly jobless claims. The outlook depends on the pace of reopening.

The battle goes on, even for China. Travel restrictions have had to be reintroduced on the back of a renewed Covid outbreak. The annual trip home for hundreds of millions ahead of the Lunar New Year has been discouraged. So customary images of packed travel hubs are scarce. And it’s showing up in the services PMI, which fell from 55.7 to 52.4, as eating out, hotels, entertainment and transportation dropped. But at least the index is still pointing to expansion. So too is the manufacturing version at 51.3 (although it too has retreated), thanks to buoyant export demand for electronics and medical goods.

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