With the release of UK GDP data for December the curtain has been drawn on 2020 (or statistically speaking anyway). But the effects of a year that saw the economy contract by a record 10% will live with us for some time yet. At least there are hints in the data that improvement lies not too far away.

Shocking figures. Last week’s UK GDP report had plenty of them – a 10% annual GDP drop (the largest on record), output still 6.3% below its pre-Covid peak (roughly equal to the financial crisis), with that ground to make up the largest among many of our developed economy peers. But that masks resilience and business adaptation. GDP grew 1.2% in December, rebounding from November’s lockdown. It meant that the economy grew in Q4, avoiding a double-dip recession. Construction and manufacturing grew at decent pace in the final quarter. While the recovery continued in much of the professional & business services space (in stark contrast to the consumer-facing bits). There’s a big repair job on, but signals it can be achieved.

Tight belts. An outsized drop in household spending lies behind much of the UK’s economic malaise. Government expenditure and business investment both continued to climb in the fourth quarter of 2020, with the former now above pre-pandemic levels. But, as the second wave struck, households trimmed their outgoings, leaving consumption spending 8.4% lower than a year before. Lockdown and tiered regional restrictions meant spending on restaurants and hotels fell by a fifth. Still, the flip side of our abstemious behaviour is that (some) households have accumulated substantial extra savings that could power the recovery when it comes.

Slowly slowly. The temperature may be bitter, but the latest UK economic indicators have a faint hint of sweetness. Card spending rose 8% on the week to the 4th Feb, helped by both month-end pay day and, perhaps, the cold snap – cupboard stocking as spending on staples was 13% higher than a year before. The share of business trading rose a touch (3ppts) as did online job advert (2ppts). And you’ve probably noticed, but traffic was slightly busier too. Add to that the 14.5 million having the 1st jab and infection rates the lowest since last autumn/early winter. Slowly, it’s coming.

Dry December. Even though December is typically a strong month for UK trade the total trade deficit widened by £0.3 billion to £5.6 billion. Companies were encouraged to stockpile medical supplies, machinery and transport equipment as a key part of contingency plans in preparation for Brexit, leading to an increase in imports by about a billion pounds. Exports, however, grew by just half that. Reports from the early part of the year paints a picture of disruption from adjusting to new trading arrangements between the UK and the EU. How that unfolds will go a long way to determining the future path of the UK’s trading position.

Spanner in the works. Unaware, unprepared or unwilling to engage. Sounds like home schooling but it was the overwhelming reaction of GB suppliers to the new NI Protocol arrangements. According to a survey by Manufacturing NI, over three-quarters of firms found their GB suppliers Unaware (8%), Unprepared (53%) or Unwilling to engage (15%) with the new requirements. One-fifth of manufacturers experienced no impact from the new Irish Sea border, over one-quarter suffered an initial disturbance but are now on top of the issues. Almost 3 out of 10 firms are struggling with the new processes but expect this to ease. Of more concern is close to 1 in 4 firms are struggling and expect these difficulties to persist.

Opportunity knocks? Westminster's Northern Ireland Affairs Committee chair described the first month of the NI Protocol as neither Armageddon nor nirvana. Preparation time has been practically non-existent as manufacturers and logistics firms familiarise themselves with the new complex red tape. Some 30% of local manufacturing firms have invested in expertise to adapt to the new world while 25% have reorientated supply chains away from GB altogether. Looking ahead, 40% of NI manufacturers expect disruption to persist over the next year. Remember a variety of 'grace periods' are due to expire in the coming months. But almost 3 in 10 manufacturing firms view NI's status in the UK and EU as an opportunity either now or in the medium to longer term.

Still strong. The local residential housing market continues to have a good pandemic. Momentum from late last year has spilled over into 2021 with demand remaining strong in January's RICS and Ulster Bank Residential Market Survey, though supply is softening. The number of homes estate agents were instructed to sell continued to rise, albeit it was the weakest increase since June last year when lockdown restrictions were initially lifted. The current supply and demand dynamic is supportive of house price growth in the near-term. Not what first-time buyers want to hear. But the housing market was running out of steam before COVID-19 arrived. The present situation has some of the characteristics of a sugar rush; but it remains to be seen when that will wear off.

(Non)Equivalence. Financial services contribute around 7% to UK GDP (compare this with 0.02% for fishing). Despite that the UK and EU are still negotiating the terms of post-Brexit access for City institutions to European financial markets. The EU insists the UK must outline its plans for future regulations before it can consider granting “equivalence” status (allowing the UK to trade more freely in Europe’s financial services market). Bank of England Governor Bailey in his speech insisted “a world in which the EU dictates and determines which rules and standards we have in the UK isn’t going to work.” Neither side seem to be prepared to compromise for now.

Up and up. The US federal budget deficit soared by $163bn last month, taking the total deficit to $736bn for the current financial year. To put those numbers in context it’s more than twice the deficit compared to the same time last year. The surge is mostly attributable to the Covid-19 relief package approved by the Congress in Dec’20, to fill the gap left by the fading stimulus of earlier rounds. And there’s yet more to come. The deficit is likely to widen further as President Biden’s American Rescue Plan, worth $1.9 trillion, is swiftly moving toward approval. Most notably it includes a third stimulus check for up to $1,400 and an extension to federal unemployment aid.

Still. Inflation customarily sat in the upper echelons of economic data. But the past decade had seen if drift down the rankings. But it’s starting to stir. Attention is increasingly focused on it as large fiscal stimulus packages fuel concerns of high inflation (an outcome financial markets are starting to consider) against a backdrop of pandemic-inspired output gaps and weak labour markets pulling in the other direction. For now core US prices are treading a path between two, with the index unchanged for two months in a row, making for a reading 1.4% higher compared to last year. That balancing act might be hard to maintain.

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