The lockdown exit roadmap has been set, cautiously but (hopefully) irreversibly. And come March 3, the Chancellor will table the Budget, outlining the future of the government support schemes which have been so effective in preventing a wider economic fallout. But charting a course out from the extraordinary levels of government spending will be challenging. While markets have awoken to such spending levels igniting inflation down the road.

Tightrope walking. Government plans to release the country from lockdown are an exercise in acrobatics: balancing greater freedoms with growth in vaccine-induced immunity. Little about England’s lockdown will change this month; the return of schools being a notable exception. But come mid-April, when everyone over 50 has been jabbed, economic life can resume with fanfare. Shops, hairdressers and gyms can re-open; pubs and restaurants can serve outdoors. Indoor service, along with cinemas and hotels will begin mid-May, when second doses will have been administered to all over 70s. And, from late-June, the promise of all remaining limits being lifted, paving the way for a strong, sustainable economic recovery. The catch? Nothing is set in stone; all depends on keeping COVID under control.

Slow. According to the CBI distributive trades survey, UK’s retail sales balance increased by five points to -45 in February vs January. Trade volumes also contracted at a softer pace. While the improvement is rather unimpressive, it does chime with other forward looking indicators on retail spending. For instance, retail footfall rose to 38% of its value a year ago for the week ending 20th Feb, recovering notably from its lows in mid January. Similarly, the Bank of England’s card spending data shows an increase of 9% from its Jan end levels….

But steady. ….driven by spending on “staples” with small increases in other categories, as only 1 in 10 were going out for shopping other than food and medicine. Across all industries, 1 in 5 workers are on furlough leave with 72% of businesses currently trading and 3%

planning to start in the next two weeks. Docks were busier than last week with 332 daily ship visits, 5% below pre-Covid levels. With cases going down, a swift vaccination drive, and increased confidence levels should help these high-frequency indicators to continue to improve in coming weeks and months.

Savings conundrum. In his latest speech MPC member Gertjan Vlieghe noted the wide income distribution of UK household savings. He cited a BoE survey showing the top 40% of income earners saw the largest rise in savings between late August and mid-September 2020. In contrast, the lowest income households have experienced the biggest fall in savings, highlighting diverging trends. The risk is that higher income householders who tend to also have elevated liquid assets are less inclined to spend their savings. This would (potentially) reduce the likelihood of a strong rebound in consumer spending over the medium-term amid a gradual re-opening of the UK economy.

Inching. The UK’s unemployment rate reached 5.1% in Q4 ‘20, inching up from 5% in the three months to November, and the 4% rate it was hovering close to pre-Covid. That represented an employment decline of 114k between Q3 and Q4 last year. But it looks like the deterioration is on hiatus. PAYE data – a timelier measure, and one less impacted by challenges of conducting surveys amidst a pandemic – shows that the number of employees rose by 0.3% in January.

Varying. At the regional level, the pattern has been one of deterioration, but with varying magnitude. Comparing January 2021 with a year ago, decreases in payrolled employees ranged from 0.8% in Northern Ireland to 5.2% in London. Not surprisingly London has the highest unemployment rate at 7%, with Northern Ireland the lowest at 3.6%.

Employment falling – Northern Ireland may have the lowest unemployment rate but it has the lowest employment rate and highest economic inactivity rates. Not a good combo to

have. Outside of the unemployment rate "good news" there was plenty of cause for concern. The Labour Force Survey for Q4 2020 revealed the biggest annual fall in individuals in employment (-36,000 or 4%) since Q3 2009. The younger generations are bearing the brunt of COVID-19. Close to 90% of the fall in employment is amongst the 16-34 year age-group with over 70% falling within the 16-24year-old age bracket. The younger age category posted a 24% fall in employment over the year to Q4 2020. Providing jobs for this age-group needs to be a top priority.

Queuing up – Northern Ireland's dole queue may be shortening but the number on furlough – availing of the Job Retention Scheme (JRS) – is lengthening. This has become the new key indicator of COVID-19's impact on the labour market. Furloughed employment jumped by almost one-fifth from 96,200 at the end of December to 114,600 on the 1st January, before ending the month at 106,200. That represents a 10% rise on the month with 1 in 7 jobs in NI on furlough, or 1 in 5 of all private sector jobs. With a further 62,000 claiming the third Self-Employment Income Support Scheme grant, that means 158,200 are in receipt of employment support.

15-year high – Pent-up demand in the Northern Ireland housing market saw the best Q4 (Q4 2020) for transactions since Q2 2007. January is traditionally one of the quietest months for transaction activity. But 2021 has begun the way 2020 ended with the best January in fifteen years. The 2,220 transactions represented a 16% increase year-on-year. The Non-residential market's recovery has been less impressive. Transactions had rebounded from the lockdown induced slump last April and May. But activity has started to fade with January's transactions down 4.5% y/y.

Scheming. As for future prospects forecasters still reckon UK unemployment will rise from here, reaching closer to 7% by the middle of the year. But an extension/ gentle tapering of the furlough scheme (details on which are expected in this week's Budget), aligned with a

successful reopening, raises the chances that more employees can be successfully reabsorbed back into employment.

Puzzle continues. Slow productivity growth in the UK since the financial crisis got a special name – productivity puzzle. Output per hour grew by only 0.5% per year between 2010 and 2019, compared with 2.1% during the preceding two decades. It was a mere 0.3% last year, falling 1.1% in Q4 2020 when compared to Q4 2019. Sectoral disparities were marked. Productivity increased in Wholesale & Retail (0.7%), Construction (0.3%) and Manufacturing (2%). While Real Estate (-0.8%), Hotels (-0.8%) and IT (-0.5%) fell the most. Getting a clear read on trends amidst a pandemic is certainly difficult. But it would be surprising if the puzzle didn’t remain once the economy recovers.

Tiger by the tail? Inflation is the tiger whose tail central banks control, noted the Bank of England’s Chief Economist last week. And of late, the tiger has been woken from its slumber by the structural forces of the pandemic and unprecedented levels of government spending. What the future holds is hard to predict. To put in context, Bank of England’s inflation chart depicts confidence intervals twice as large as normal. That said, Mr. Haldane argues that the risks could be skewed to the upside as resurgent demand (helped by winding down of forced savings) hits against constrained supply (aging demographics, weakening of global supply chains). And to top it all, the psychological scarring of risk appetite is expected to be less, as the pandemic led crisis differentiates itself from a financial one. Once again, financial markets are leading the way by pricing in rising inflation expectations.

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