**Chancellor Sunak set out what will (hopefully) be the final phase of the extraordinary support in response to the pandemic. A host of support measures were announced, amounting to a whopping £65bn (around 3% of GDP) worth of spending. Looks like the UK economy is now even better positioned to bridge the gap to recovery. But there was a strong steer on the public finance repair job to come.**

**Extend.** As expected, last week’s Budget saw emergency support measures extended by several months after the restrictions are scheduled to be lifted. The Job Retention Scheme, Self-Employment Income Support Scheme, £20 weekly uplift in Universal Credit and temporary reduction in Stamp Duty Land Tax were all extended until the end of September. So too was the 5% VAT rate for the hospitality sector, rising to 12.5% for six months before returning to its normal rate in April 2022. Business rates relief for the next 12 months was also unveiled.

**Spend now, tax later.** Is it a bird? Is it a plane?  No it is a ‘Super-Deduction’. UK business investment has slumped. But the chancellor hopes a two-year 130% capital allowance – the ‘Super-Deduction’ – will entice corporates to put some of their cash piles to work in aid of the recovery. It’s set to to run until April 2023. This whopping tax cut, of £12bn p.a., will be followed by a hike in the corporation tax rate from 19% to 25% in 2023. That marks the first rise in the corporation tax rate since 1974.

**Freeze**. Sunak also implemented a range of multi-year freezes (4-5 years) on income tax thresholds, inheritance tax threshold, capital gains tax allowance and the pensions lifetime allowance. The income tax threshold freeze, beginning April 2022, is projected to yield a chunky £19bn over four years. To help struggling pubs, alcohol duty was held for a second year in a row. Further, to keep the cost of living low, the Chancellor cancelled the planned hike in fuel duty, leaving them unchanged for the tenth year running.

**Upgraded.** On the back of various support measures announced, the Office for Budget Responsibility upgraded its UK growth outlook. While forecasting an annual growth of 4% this year, the headline masks a robust rebound from Q2 onwards as the economy reopens. Growth in ‘22 is a very strong 7.3%, with the pre-Covid peak in output reached in mid ’22 (six months earlier than its Nov ‘20 forecast).  On the labour market front, an extension of the Job Retention Scheme to September  has resulted in a downwardly revised and delayed unemployment peak of 6.5% in Q4’21 (vs 7.5% in November forecasts).

**Worst of both worlds**. Northern Ireland found itself at the wrong ends of the UK regional PMI league tables in February. Local firms posted the fastest rates of declines in output, orders and employment amongst the 12 UK regions.  Meanwhile NI’s private sector recorded the steepest rates of input cost inflation and raised their prices by more than anywhere else within the UK. Rising material, shipping and Brexit related costs saw firms report the sharpest rise in input costs since July 2008. As a result, firms have raised the prices of their goods & services at a record rate. The one real positive in the latest Ulster Bank PMI is that local businesses are more optimistic about business activity in 12 months' time than they have been since the pandemic began.

**Outlier.** Despite a 5% q/q fall in real GDP in Q4 2020, the Republic of Ireland's economy still managed to grow by 3.4% for 2020 as a whole. That represented the fastest growing advanced economy in the world and was underpinned by the multinational dominated activity within the tech and pharma sectors. The alternative Modified Domestic Demand (MDD) measure (which aims to strip out some multinational-related distortions) also fell in Q4, but by a more modest 2.2% q/q, with consumer spending – the largest part of MDD – falling by a similar amount. Activity on these measures fell by between 5% and 10% in 2020 – a more plausible representation of what happened to Ireland's underlying domestic economy last year.

**1959.** Last month's annual rate of decline in new car sales (-25%) in Northern Ireland more than halved relative to January's fall (-54% y/y) but was still sizeable nonetheless. The weakest January on record has been followed by the worst February on record. The dismal figures conceal a 'K-shaped' green recovery. Sales of petrol and diesel cars in the UK market fell by almost 45% y/y and 61% y/y respectively. Meanwhile the market share of environmentally friendly vehicles has more than doubled to 13% with sales of Battery Electric Vehicles (BEVs) surging by 49% y/y. Despite this green surge, the UK still posted its lowest February sales (-36% y/y) figures since 1959 when the iconic Mini was born.

**Optimism in the air.** Longer and warmer days in spring usually lift our spirits. But this year we have other reasons for cheer. The numbers of Covid-19 cases and deaths are declining steadily. The proportion of adults that felt that life will return to normal in six months or less increased to 32% compared with just 22% a week ago. All four personal well-being measures are improving slowly since recent lows in January. Positive sentiment towards the vaccine remains high; 94% of adults had now either received the vaccine or would be likely to have it if offered.

**Not your typical recession. UK** housing market conditions have cooled a little bit, but January was still easily the strongest start to the year since 2007, with 99k home purchase mortgages approved as buyers rushed to beat the (now extended) deadline for SDLT holidays. Locked-down households, meanwhile, continue to pay down their credit card bills and amass savings, bank deposits rose by £18.5bn; nearly 4x the pre-pandemic norm. Even large corporates are at it, repaying bank borrowing facilities (annual 'growth' rate now -1%). The common thread here is, of course, government support for the economy on a scale never seen before.

**Uncertain.** A survey of CFOs conducted by the Bank of England shows that the impact of Covid-19 on both sales and employment is expected to ease over 2021. But both employment and investment show an adverse impact beyond 2021. This pessimism was also reflected in their view on uncertainty, where almost half of the respondents thought it would persist beyond 2021, compared to one-in-four who held such belief two month ago. That said, it is important the note the timing of the survey which was conducted before the roadmap out of lockdown was announced. Let's see if that has lifted spirits and recovery expectations.

**Stronger.** US employment printed a 379k increase in February, exceeding market expectations. The main driver was higher service jobs as businesses gradually reopen in some US states. Witness a 355k rise in leisure & hospitality employment. More good news was evident from a 0.1% decline in the unemployment rate to 6.2%. Barring a renewed surge in Covid-19 cases further rises in employment should be forthcoming in coming months, supporting the household sector, particularly as many are about to receive their third government cheque since the stimulus started. The passing of Joe Biden's $1.9trn stimulus will see around 280m Americans receive a $1,400 cash injection.

**Inward looking.** China's National People's Congress – the country's annual rubber-stamp parliament session – announced a 6% GDP growth target for the year. That should be easily achieved given the low base of 2020. Forecasters are pencilling in over 8%. But the fact that there is a target underlines the authorities' confidence in the post-Covid recovery. The 14th five-year plan meanwhile will focus increasing "technological self-reliance". That means huge sums will be thrown at building key strategic areas like semi-conductors, AI and quantum computing. Action on climate came in the form an aim to pursue "green development" and a proposal to increase the share of non-fossil energy generation from 15% to 20%.