The Department of Finance rarely turns heads. But last week it sent fiscal geeks delirious. While news of extended business rates relief was expected. The surprise was the unveiling of Sir Robert Chote, the former chair of the UK’s OBR, to head up NI’s new Fiscal Council. Effectively an NI OBR. In fiscal terms this is like Glentoran signing Lionel Messi. The second big signing was the IFS’s Paul Johnson to chair the Fiscal Commission looking at what further fiscal powers could be devolved to Stormont. Chapeau!

Getting over Covid. Governor Bailey’s speech last week noted that unlike our most other crises, the pandemic led economic shock has had a very large, synchronised, adverse impact across much of the world. More importantly, it differentiates itself from other economic crisis by hitting both the demand and supply side factors, simultaneously and notably. While the scarring may be quick to reverse, the structural change brought about by the virus, namely working from home, online shopping and changes in consumption pattern, will affect the future of demand and supply to a large extent. It is therefore imperative to boost the supply capacity for a sustainable growth trajectory, and consequently helping to manage high debt levels.

The last setback? UK GDP fell 2.9% in January leaving total output around 9% below its pre-Covid peak. With schools closed, the education sector shrank 16%. Meanwhile consumers began the year in cautious form with output in the retail & wholesale sector falling 9%. Both these sectors subtracted around 1 percentage point from GDP. But the rollout of the vaccine programme and test & tracing meant there was a boost from healthcare. Meanwhile the evidence continues to mount that a recovery has been underway since – retail footfall, spending, business turnover and surveys point to an improvement through February. That’ll pick-up further this month before accelerating as restrictions loosen through the spring and summer.

Shifting gears. Right on cue, data for the week 4th March showed that UK card spending increased by 10% on the previous week primarily driven by spending on “staples” and “delaybles”. Retail footfall is still 42% of its level in the equivalent week of last year with park footfall outshining other categories. However, roads and docks are slightly more busier with a weekly increase of 4% and 2% respectively. While 72% of businesses had been trading for more than the last two weeks (up from 70%). It’s tentative, but the recovery is building.

Cliff edge. January trade data are in and they do not look good. Exports of goods fell by 19.3%, because of a whopping 40.7% fall in exports to the EU. Imports of goods fell by 21.6%, driven by a 28.8% fall in imports from the EU. These monthly falls in goods imports and exports are the largest since records began in 1997. National lockdown in the UK and stockpiling at the end of the last year are important contributing factors. But it’s clear that adjusting to new trading arrangements with our biggest trading partner played a role. The better news is that road traffic at ports and ship visits suggest that trade flows have rebounded since January.

Buoyant. The local residential property market continues to bubble away with last year’s Q2 lockdown slump a distant memory. The RICS and Ulster Bank Residential Market Survey revealed a rise in sales and an increase in the number of properties coming on the market last month. February’s rise was the sharpest since last July’s easing of restrictions. Surveyors remain confident that sales and prices look set to rise in the coming months. The extension of furlough schemes coupled with a guarantee of 95% mortgages appear to have immunised the market against price falls. Back in November the UK’s OBR had pencilled in price falls in both 2021 & 2022. Now it expects a 5% rise this year with a modest fall of less than 2% next year. Northern Ireland could well see something similar.

Mixed bag. Four UK regions crossed the PMI expansion threshold (>50.0) in February with London leading the recovery charge. The West Midlands, Yorkshire & the Humber and the North West also recorded a rise in business activity. Lockdown restrictions continue to act as a hand brake on recovery. The Devolved regions, led by Northern Ireland, posted the steepest declines in output. Nine UK regions also reported a decline in employment levels. Yorkshire & the Humber was one notable exception with the region also the most optimistic for the year ahead. Indeed the vast majority of regions were their most optimistic since the pandemic struck – confidence is on the up. But accelerating input cost inflation, across the UK, is a growing concern and worth watching.

Anchored. Indeed, the potential inflationary impact of the pandemic, and the unprecedented fiscal stimulus accompanying it, is the source of intense debate. Recent rises in financial markets’ inflation expectations – to 3.4% p.a. over the next 5 years – have caused bond yields to climb and called certain share price valuations into question. Yet households remain of the view that inflation will remain much closer to the official target, with prices rising 2.7% over the coming 12 months and just 2.2% the year after according to median expectations. Not exactly screaming that inflation expectations are becoming ‘unanchored’.

Slow delivery. One story over the past 25 years that has provided reliably welcome news is the steady increase in the share of UK households with at least one adult working. In 1996, over one in five working age households (21%) had no one in paid work. By 2019 this had fallen to 13.5%. Thankfully Covid hasn’t reversed this too much. Workless households are up by just 0.1% on the year to the end-2020, the pain softened by a switch from joint to one earner households. But like much to do with jobs, the full impact’s still in the post.

Front-loaded. The ECB announced further stimulus for the struggling Euro area economy at its March 2021 Council meeting. Specifically, the ECB announced that asset purchases under the Pandemic Emergency Purchase Programme (PEPP) would be conducted “at a significantly higher pace over the next quarter than during the first months of the year”. This latest policy move was aimed at preventing a tightening of financial conditions, driven by the recent rise in Euro area government bond yields. Despite growing Covid case rates across much of the region the ECB changed its risk assessment from “tilted to the downside but less pronounced” to “more balanced”. All this suggests the ECB will sit on the sidelines near-term.