…from the first lockdown last spring we continue to find ourselves under partial lockdown. Have we frozen in time? The answer is emphatically not. Reports on the recovery gathering pace continues to flow in, with job adverts the latest to show a marked improvement. Locally, some manufacturing sectors (e.g. pharma) are posting record levels of output. But some of us are not so lucky. Italy has entered lockdown, again!

Progress. The UK’s exceptionally rapid vaccine roll out has been a huge positive for the economy’s prospects and another milestone was passed last week as half the UK adult population has now been at least partly vaccinated. The impact on the health statistics is encouraging and it appears firms may be becoming more encouraged about the future too. The ONS reported job adverts being just 7% below pre-covid levels, despite almost a fifth of the workforce being on furlough right now. Job hunting is hard at the best of times, let alone in a pandemic-induced recession. This recovery in opportunities will be a big help to many.

But its not over yet. Business conditions continue to be very challenging, according to intelligence gathered by the Bank of England’s Agents over January and February this year. Consumer spending continued to be weaker than a year ago. Although this is not universal

— sales of clothing and cars were particularly weak, while sales of household, technology, home-improvement and sports and leisure goods continued to be stronger than a year ago. Contacts in sectors most affected by the pandemic remained concerned about the need for large-scale redundancies when the CJRS ends later this year. The significant increases in raw materials costs so far has not been passed on to customers.

Upgraded. The Bank of England’s Monetary Policy Committee voted unanimously to keep Bank Rate unchanged at 0.1% leave quantitative easing programme unchanged. However, it upgraded its economic outlook in the short-term compared to its February assessment. This is thanks to a more rapid easing of restrictions, the successful vaccination drive alongside the big budget delivered by the Chancellor. But the Bank stressed that they are not in a hurry to raise interest rates unless there is clear evidence of closing of the output gap, aka sustained inflation and robust medium-term recovery.

Inflation, no biggie? According to a study conducted by the ONS, the March budget will have a net downward pull on inflation in financial year 2022. That counts for very little given the size of the stimulus delivered by the Chancellor earlier this month, 4% of GDP. What sits behind this? The freeze in alcohol, tobacco and road fuel duty for this year. This more than offsets the upward push from vehicle excise duty that will come into effect from April this year. But that’s not the end of the story. The measured effects don’t account for the indirect effects of policy changes within the Budget nor…

…does it account for the potential impact the events of the past year have had on household spending patterns. Nowhere is this clearer than the contents of the basket of consumer goods used to measure inflation. Lifestyle changes have seen new items added to the ‘basket’: hand sanitizer is now a staple; hand weights and smart watches feature as people exercise more from home; as do new types of lounge wear, reflecting shifting fashions. Much diminished spending on travel, leisure and eating out means these services all now comprise a smaller proportion of the 'basket'. Sandwiches from staff canteens have been removed altogether.

Undershoot? Last month the UK government needed just over £19bn to plug the gap between spending and income, marking the highest February figure since records began in 1993. No surprise given COVID-19 has pushed spending and receipts in opposite directions. But even the decline in receipts has been far less than might have been expected – down just 1.4%y/y. Better still, January's deficit was revised down by £5.5bn. At the margins this is good news. With one month remaining, borrowing now stands at £278.8 billion, around five times last year's figure. Relative to the OBR's 2020/21 forecast, an undershoot now looks likely. An overshoot in the 2021 growth forecast would be even better.

Services slump. Following the record rates of decline and expansion in Q2 (-17.6%) and Q3 (+21.5%) Northern Ireland's private services sector saw output fall by 5% q/q in Q4 2020. That represented the second steepest quarterly decline on record. As a result, 2020's contraction of 9.4% was more than twice that of 2009's record decline. Following the latest fall, NI's services sector has recouped just two-thirds of the decrease in output following the pandemic. Services activity is 6.6% below Q4 2019 levels (pre-pandemic) but is 10.4% below the peak in services output in Q2 2019. Private sector services has now contracted in five of the last six quarters.

Modest in comparison. Northern Ireland's industrial sectors fared much better than their service counterparts. The quarterly declines in industrial production (-0.3% q/q) and manufacturing output (-0.6% q/q) in Q4 2020 were relatively modest and followed the record rates of decline and expansion in Q2 and Q3 2020 respectively. It should be remembered that Northern Ireland manufacturers recouped almost all of their post-pandemic slump in output in a single quarter (Q3). As with services, the decline in industrial production and manufacturing output compared unfavourably with increases of

1.7% q/q and 3.3% q/q respectively within the UK.

2020 not all bad! While last year was a year to forget for most sectors in Northern Ireland, some fared better than others. Taking 2020 as a whole, four local manufacturing sub-sectors managed to secure higher levels of output relative to 2019. These were: Chemical & Pharmaceutical Products +20.8% y/y (record high); Textiles & Textile Products +12.1% y/y (series high); Rubber, plastics and non-metallic mineral products +2.7% y/y; and Food, beverages & tobacco products +0.1%. The first three areas all benefited from COVID-19 either though testing / medication or the manufacturing of PPE and social distancing related equipment (e.g. signage, plastic screens).

Fed loose, bond yields up, stocks down. As the Fed pledged to continue to support its easy-money policies i.e. hold interest rates against the backdrop of growing concerns around inflation, bond yields spiked, and equity markets closed sharply lower and all this had ripple effects across emerging markets. An unintended negative economic consequence, basically. Investors’ concerns are that the situation is being handled rather loosely. Indeed, inflation has replaced Covid-19 as the principal concerns amongst fund managers.

Base effects. The blockbuster figures over the past week came out of China. Witness the 35% rise in fixed asset investment and industrial production alike in the year to February 2021. Of course, the figures are somewhat flattered by a favourable base effect as Covid adversely hit last year’s figures. The story of China’s recovery remains similar to that of late last year. The renaissance of its industrial sector is strong, facilitated by robust demand for the country’s exports. The rebound in investment in areas including real estate is similarly secure. Retail sales also recovered robustly, but not quite to the same degree, suggesting that the recovery is slightly lopsided. Probably not too much to worry about amidst an expected 8.5% rise in GDP this year.

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