Vaccine effectiveness and the degree of transmissibility of the Omicron variant are still under investigation. In the meantime, the spread is quick–UK has detected 160 cases. Tighter rules and changes in behaviour are already affecting the near-term economic outlook. But it’s too early to conclude if the new variant is a game-changer.

Stormy. Real time data from the ONS shows that the UK recovery continued through last week, although not without hiccups. The biggest short-term disruptions were due to the adverse weather conditions during Storm Arwen. It negatively affected daily ship visits to UK ports, the level of traffic and the volume of overall retail footfall. Trends that might persist. Not because of the weather, but the emergence of the Omicron variant. Indeed, there are hints already that consumer demand has taken a hit. Witness the cancellation of Christmas parties! The coming weeks will show how tightening rules and changing behaviour will affect the recovery.

Regional angle. How are the different regions performing?Experimental new data suggests the Northern Ireland economy is leading the recovery from COVID, outperforming other regions. Economic output in Q3 is estimated at just 0.3% below pre-pandemic levels. Much less than the 2.1% UK-average shortfall and the whopping 9.7% gap in the worst performing region, manufacturing-heavy West Midlands. Tentative evidence perhaps, that Northern Ireland is adapting to life post-Brexit? But NI’s recovery appears to be more public sector led than private sector. A special mention goes to London, which, with the second-most advanced recovery (-1.8%), appears to be bouncing back strongly despite the blow dealt to consumer-facing services.

Changing mindset? The Bank of England’s latest money and credit report shows that the pace of build-up in UK households savings slowed notably in October, while borrowing picked up in pace. Does this mean consumer confidence has lifted? Yes, but it’s complicated. Data elsewhere, notably retail sales for October, suggests many were buying Christmas gifts early amid a fear of shortages. Higher inflation, particularly a jump in energy bills, too could have played a role. The bigger question remains – will this last? The emergence of Omicron is likely to create some uncertainty until more information is available on its health impact. This could possibly pull households back to a more cautious spending stance.

Until the dust settles. November’s businesses activity survey from the ONS points to no let up in the inflationary pressures and labour shortages businesses are facing in the UK. 38% of businesses reported prices being higher than normal, with manufacturing experiencing the biggest cost pressures (67%). Staff shortages have become so acute that 40% of hospitality employers are reporting shortages with many businesses demanding workers put in overtime (65%). This is one of the most badly hit sectors. And it’s an industry that accounts of 10% of UK employment and 5% of GDP. With the emergence of the

Omicron variant some of those labour and supply shortages might get worse before they get better.

Lopsided. That's how the OECD describes the global recovery. Within labour markets many are finding it hard to find jobs, but many sectors can't fill positions (a phenomenon coming through loud & clear in any UK business survey!). Sectoral imbalances are clearly visible, too. Goods demand is robust, while many interpersonal contact sectors are still struggling. But while askew, the recovery is strong, and set to continue, with monetary and fiscal policies being generally supportive through 2022. That should see global growth of 4.5% in '22 after a 5.6% pace this year. However, downside risks outnumber upside ones. So central banks can afford to wait and see on inflationary pressures, holding off until supply issues recede.

Higher for longer. Inflation has been hitting multi-year and multi-decade highs around the world. The Eurozone's harmonised index of consumer prices (HICP) jumped from an annual rate of 4.1% in October to 4.9% in November. Last month's reading not only exceeded economists' expectations but represented the highest rate of Eurozone inflation since its inception almost 23 years ago. Energy is the main driver with prices rising by 27.4% y/y. But inflationary pressures are broad-based with food prices, services and consumer goods all eclipsing the ECB's 2% target rate. The ECB is set to issue new forecasts next week and these are set to show inflation rising higher for longer.

Mixed. The world's largest economy experienced weak job growth in November. Employers in the US added just 210k jobs following the 546k positions created in October – a sharp slowdown from previous months. On a positive note, the unemployment rate dropped 0.4% to 4.2% – its lowest level since the pandemic began. Average earnings moderated in November, rising 0.4% m/m, but are a healthy 4.8% above levels of a year ago amid labour shortages. With demand exceeding supply, price pressures look set to persist. No wonder

Fed Chair Jay Powell stated that describing US inflation as “transitory” should be put into hibernation.

Rebound. China’s factory activity slightly expanded in November with the official PMI reaching 50.1 from 49.2 in October, following two months of contraction. But it doesn’t hide the fact that the world’s factory has lost momentum in recent months following the energy crisis, a property sector downturn and COVID-19 outbreaks. At least an easing in power shortages and some stablisation in commodity prices allowed some more optimism. An alternative PMI tells a similar story for small firms. The index fell to just below 50 for the second time since the worst of Covid was felt in spring last year. A bit sluggish, in other words.

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