Omicron knocked back recovery hopes in December. But business adaptation and the fast roll-out of boosters means the setback might well be short-lived and a modest one. Meanwhile, outlasting Omicron and set to be among the big trends of 2022 is the shortage of workers, inflationary pressures and the climate transition. One-in-four cars sold last year were plug-ins of some variety. A reminder that things can change for the better, and fast.

Worst month. This is just what December was for the UK economy, since February at least, as per the PMI data. Private sector output growth eased considerably in response to tighter pandemic restrictions and renewed business uncertainty. The slowdown was driven by the services PMI, which dropped to 53.6 (a 10-month low), as the spread of Omicron battered hospitality and travel. Manufacturing, however, grew slightly more quickly than originally thought in December (57.9, from the preliminary 57.6) as supply chain problems eased a bit, taking some of the heat out of rising input prices. It just might be the worst of it. Survey respondents are still broadly upbeat on the outlook. A challenging start to the year, but better times ahead.

Out with a whimper. And it was regions with particularly large cities appeared to bear the Omicron-inspired dampener on business confidence with scores for London and the North

West falling by the most. Commuting and leisure activities have consistently been amongst the most sensitive sectors to covid sentiment, so it’s no surprise to see that pattern repeated. More encouraging though is the very modest impact on firms’ employment intentions. If Omicron does turn out to be a short sharp shock, this should help pave the way for a rapid recovery in the Spring.

Welcome back. The festive break may not have felt normal, but indications are that we’re continuing to find ways of living with the virus. Road traffic volumes dipped over the holidays and we certainly spent less time hitting the Boxing Day sales: retail footfall dropped to 25% below 2019 levels in the week to 2nd January. Yet credit and debit card spending held-up well, in line with seasonal trends, suggesting online shopping proved a popular alternative. And despite rising infections, one-third more people chose to dine-out on 2nd January than the equivalent day in 2020. Londoners proved more reticent (-9%) than Mancunians (+38%) though.

Resilience. Meanwhile the ONS Business Business Insights and Conditions survey underscored business adaptation with92% of businesses remaining open in late December – 81% of them fully. So while personal services including hairdressers, beauty-treatment and the hospitality sector reported cancellations by almost half of customers in December, the hope is a quick turnaround is not far away.

The squeeze. The same survey also points to the challenges that will outlast Omicron – worker shortages and inflationary pressures. While Covid kept ‘just’ 1% of the workforce out due to illness or isolation, businesses continued to struggle to find workers, especially in the hospitality, health, and construction sectors. In an ominous sign, 36% of firms reported an unusual increase in cost with only 16% reporting that prices charged had increased compared with normal expectations.

Misfiring. Supply chain disruption and a shortage of semi-conductors means car dealers' wait for a 'V-shaped' recovery continues. Following 2020's pandemic-induced slump, UK new car registrations rose by a paltry 1% last year, marking the second worst year for sales since 1992. Sales were still 29% below pre-Covid levels. But every cloud has a silver lining. It was a record year for electric vehicles with more new battery electric vehicles (BEVs) sold in 2021 than in the previous five years combined. More than 1-in-4 of all new cars sold last year were plug-ins of some variety with the Tesla Model 3 the second most popular car after the Vauxhall Corsa.

Shared. High inflation was a problem shared around the world in the second half of 2021. The Eurozone rounded out the year with a 5% rate, accelerating beyond the peak of 4.1% reached in 2008. Like the UK, the biggest headache is energy prices, which leapt 26% over the year. But while the UK's toughest period is likely ahead, there are hints the Eurozone is at the top of the hill. Services inflation cooled to 2.4% from 2.7% and some favourable base effects will help drag down the headline figure. But it will be slow. And Omicron's supply disruptions are still unknown while tight gas supply means high prices are an ever-present threat.

Back to work. In the last month of 2021, the US unemployment rate crashed below 4%, a remarkable turnaround from the peak of over 14% in April 2020. There are still 600,000 more people out of work than there were pre-pandemic when the unemployment was around 3.5%, but progress has been incredibly rapid. More troubling is the number of people participating in the labour force overall. There are 3.6 million fewer people in or seeking work, indicating that the pandemic has led many to drop out of the labour force. That loss of productive potential may yet provide a headwind to growth.

Improving. China's Caixin Manufacturing PMI rose above the watermark level to 50.9 in December, from 49.9 in November. Slightly above consensus expectations of 50.0 and the strongest print for the manufacturing sector since June. The improvement was led by a pickup in the output component as new orders also rose sharply. An improvement in domestic demand seems to be behind this as external demand remained lacklustre. Firms reported shipping difficulties alongside a resurgent pandemic amongst many trading partners. Delivery times lengthened too. Meanwhile, inflationary pressures eased, building on the sharp drop in November.