

rose to 62.3 in January, from 60.1 in December.

Public purse. As the country is emerging from the pandemic, one area where we will see deep scars persist is in the public finances. More than 50 schemes have been announced by the UK government and the devolved administrations to support individuals and businesses during the pandemic. Provisional estimates indicate that in the financial year ending (FYE) 2021, the public sector borrowed £322 bn or 15% of GDP, more than double the previous record of £158 bn in FYE 2010. Total public sector net debt at the end of December 2021 reached 96% of GDP, a level last seen in the early 1960s.

Pressure. New data from the Office for National Statistics showed that since 2014 higher- and lower-income UK households have experienced similar inflation rates. However, the composition of those price rises was different. High-income households' experience of inflation was driven by rising transport costs, on which they spend a larger proportion of their expenditure, while housing-related costs were more important for low-income households. What about the current inflation resurgence? Well in December the experience was similar across high-income households (a 5.5% pace) and low-income (5.3%). But the upcoming sharp rise in energy prices is expected to disproportionately affect poorer households, fuelling the cost-of-living crisis.

Creative destruction. The number of active businesses in the UK fell by 19,000 in the last three months of 2021; the third straight quarterly decline. Business closures were 14% higher in Q4 than the same period in 2020. Almost every industry witnessed more firms shutting up shop. But it's not just closures that have risen. Many parts of the economy are experiencing much greater churn as the pandemic upends established business models. Just look at the transport and storage industry: closures in 2021 were more than double pre-pandemic levels, yet at the same time, the number of new businesses created was up by two-thirds.

On Road to Recovery. After nearly two whole years of pandemic-related disruption, uncertainty, and nervousness, business is, at last, getting on its feet. Confidence may remain fragile, but it is growing. Around a third (32%) of all businesses currently trading, reported that their turnover had decreased in the last two weeks compared with normal expectations for this time of year. This was primarily driven by a shortage of workers (13% of businesses); led by hospitality industry (28%) as well as the Omicron hit earlier in December. Further, 34% in the hospitality industry had difficulties in intra-UK procurement of goods. However, a mild increase in the percentage of businesses fully trading (80%, compared with 77% in early January'22) is a silver lining as things are getting closer to full recovery.

Don't desp-air! A welcome data week. Footfall, payments, and dining are up (by 2%, 2ppts and 5ppts respectively), more firms are trading (8 in 10), while London, a sleeping Leviathan for much of the past two years (absent SW1A it seems), begins to stir again, as measured by both mobility and sandwiches. Wholesale gas prices fell, by 4% on the week. At this rate they'll no doubt be back to their longer-run average of ~2p/kwh just as we switch the boiler to summer mode! But the perma-shift remains flying, with flights stuck at half their pre-pandemic number (52%). An industry rebrand to 'desp-air' perhaps?

Splash. The US Composite PMI saw growth slow dramatically from 57.0 in December to 50.9 in January - an 18-month low. A surge in Covid infections poured cold water over activity in the services sector due to deteriorating supply chain conditions and labour shortages linked to the Omicron wave. US manufacturing (55.0) was hit with similar challenges although its loss of momentum was modest compared with services (50.8). Eurozone services activity was also curtailed due to renewed Covid-19 restrictions with growth slipping to a 9-month low of 51.2. A pick-up in manufacturing activity, linked to fewer supply shortages, failed to offset the services slowdown with the Eurozone composite easing to an 11-month low of 52.4.

Totally Fed up. The US economy turned in a robust 6.9% annualised pace of economic growth in Q4, three times the Q3 pace. Firms rebuilt inventories, previously battered by supply issues. Consumers spent liberally early in the quarter, only to pull back as Omicron emerged later on. While data suggested price pressures remained pronounced. Earlier in the week the Fed bowed to the seemingly inevitable, indicating an interest rate tightening cycle will get underway in March. Markets expect (almost) five hikes this year. Some are predicting as much as seven. But financial conditions have been tightening anyway in recent months (equities are down, lending rates are up), and growth is set to cool. Tricky territory for rate-setters.

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