Reasons to be Cheerful 2020

Let's be honest- the year 2020 and the COVID-19 pandemic has shaken most of us. It has been depressing, to say the least.

This year will be remembered as the year when 'Working from Home' stopped being code for 'taking a day off to watch banal daytime TV'.

Some younger readers have even joked that we should delete 2020 and re-install! And that takes me back to the early days of Microsoft's Windows 95, when my generation would get so frustrated trying to get a clean install from a CD! Install, try it, delete, repeat! If only it were so easy!

Well I was delighted to read an article last week by economist Julian Jessop, which shed some positive light on the current turmoil.

His focus is on the UK economy, but since it is distinctly against the backdrop of so much negativity, aspects may well apply to many other economies, too.

Whilst I am not allowed to simply copy his article, this takes some of his points to present a more positive future than most people can see.

The UK is leading the charge of a global recovery

The Bank of England's Chief Economist Andy Haldane has told City AM that the recovery "isn't being given enough credit" and on the face of it, he seems to be right. In August, the UK's composite PMI (a survey of changes in business activity) was the strongest of any major economy, anywhere in the world.

GDP is on track to return to pre-Covid levels

UK GDP is on track to return to pre-Covid levels by Christmas, even allowing for a slowdown because of increasing COVID infections in the last week or so, and the anticipated fall in activity at the end of the year.

The monthly GDP figures for July, show that the economy had already regained more than half of the loss in March and April.

The retail sector has already completed its 'V-shaped' recovery

According to the British 'Office of National Statistics' the official data for July show that sales volumes were three per cent higher than in February. A more recent survey by the BRC–KPMG Retail Sales Monitor, shows that August UK retail sales were 4.7% higher than August 2019. Financial services, and the housing market are also quickly recovering from a miserable 2nd quarter.

The reopening of schools and universities will provide another boost

It is thought that about 2% of GDP was lost directly and indirectly (as parents stayed off work to take care of kids), simply due to schools closing for the 2nd quarter.

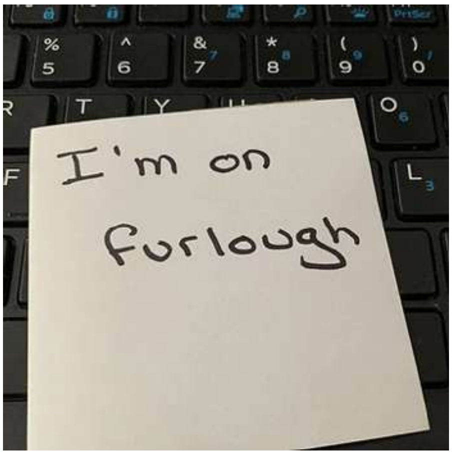
With schools and universities back, the economy will recover the loss from Q2. The return of the healthcare sector to something near normal will also help too.

Borrowing is better than expected

Even the latest data on the public finances were less bad than expected. Government debts and deficits have surged, but new borrowing for Q2 was still £28 billion lower than the Office for Budget Responsibility estimated, and this could well fend off the need for increasing taxes..

The labour market is more buoyant than expected

Despite the big fall in GDP in the second quarter, the UK saw the smallest drop in employment of any major European economy, with a fall in employed of only 0.7%, compared to an average of 2.9 percent in the euro area. (All these countries measure employment in the same way and most have furlough schemes similar to those in the UK.)



Most people have already come off furlough

This is a bit debatable, but surveys suggest that fewer than three million workers are still on the government furlough scheme. Sadly, some of these people will inevitably lose their jobs when the scheme is withdrawn in October.

However, economic recovery seems be winning the race against the winding down of the furlough scheme, so the rise in unemployment should be a lot smaller than initially expected.

Unemployment is a lagging indicator

Employment typically recovers more slowly than GDP, and job losses are likely to be concentrated in the few sectors where social distancing has greatest impact. Sadly, the unemployment will hit the young and the low-paid, and that brings its own attendant social problems. However, the immediate impact on the rest of the economy should be much milder.

The economy tends to be pretty good at replacing lost jobs

Above all, the UK economy is usually pretty good at creating jobs to replace any that are lost, even though announcements of redundancies tend to get more headlines. The UK unemployment rate would rise to about seven percent if a million people need to find new work in the coming months. However, this would still be lower than the peak of about 8.5 percent in the UK in the wake of the global financial crisis.

In short, there are plenty of reasons to think that the economic recovery is strong enough to weather a jump in unemployment and – just as importantly – that unemployment itself will fall back more quickly than most expect too.