

UK: Three reasons to be cheerful

The UK's vaccination programme has exceeded all expectations so far, and it's not inconceivable that all adults will have been offered a first dose by the end of the second quarter. The lockdowns also appear to be working, and a spring recovery now looks likely. The major risk now is that a new, vaccine-resistant strain requires a return to lockdown



Britain, Brexit and better times?

ING's James Smith on why we're looking for 5% growth in the UK this year but Brexit continues to bring significant disruption

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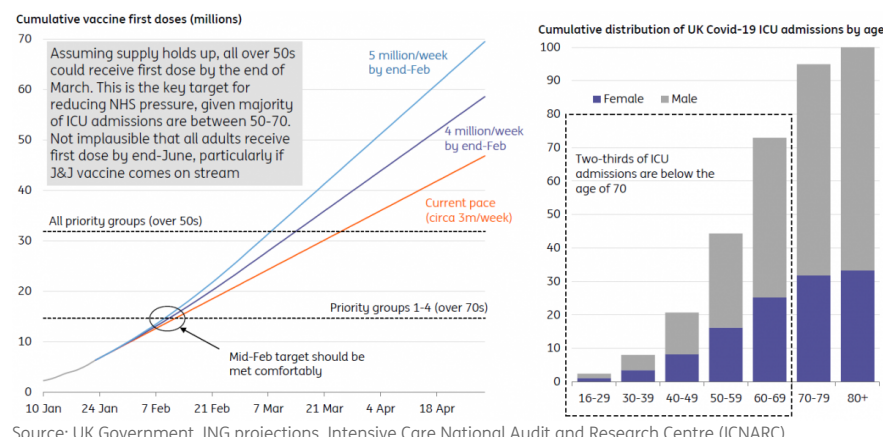
Despite grim virus news, there are some reasons to be positive

There's not been a great deal to celebrate in the UK over the past few months. Rapidly-changing restrictions and the emergence of a new, 30% more-transmissible strain, have culminated in hospital admissions peaking above the level seen in the spring. But almost one month into the latest national lockdown, there is hope that things are now starting to improve - and there are three positive developments since our last monthly update that are worth flagging.

Firstly, and most importantly, the vaccine rollout has so far exceeded all expectations. The UK is currently averaging around 2.5-3 million doses per week, equivalent to 4% of the population. The majority of over 80s have now received their first dose, and it now looks likely that over 70s will have been offered the jab by mid-February, and over 50s by late-March. It is also not inconceivable

that all adults receive at least one dose by the end of the second quarter, particularly if the single-dose Johnson & Johnson vaccine comes on stream as hoped.

All over 50s could receive the vaccine by the end of this quarter



Projections assume a smooth increase from the current pace to the new pace by the end of February, which is then constant thereafter

The second piece of good news is that, despite the concerns about the transmissibility of the new UK variant, lockdown has succeeded in bringing down case numbers - and in fact quite rapidly. School closures and a greater emphasis on working from home appears to have helped, while surveys show compliance with the new rules is high.

Finally, the latest GDP data shows that the damage from the lockdowns in November was much milder than first anticipated. The economy shrank by 'only' 2.6%, with most sectors coming away relatively unscathed. While the damage will be greater now than it was then - partly because schools are closed this time - it's clear that the economic impact is quite a bit smaller than last spring.

Piecing all of that together, the outlook beyond the first quarter looks relatively good. The key government priority is to reduce pressure on the health system, and the combination of lockdown and the inoculation of 50-70 year olds (who make up the bulk of ICU admissions), means that significant progress should have been made by Easter. We could see some mild reopening in March (shops?) followed by a gradual reopening through the second quarter. We're currently penciling in a 5% bounce in 2Q GDP, after a 3% fall in the first.

To us, that makes it seem increasingly unlikely that the Bank of England will introduce negative interest rates. There was already limited enthusiasm for the policy on the committee, and that has likely diminished further given the brighter outlook.

New variants pose biggest risk to the recovery

Of course, there's plenty that could yet go wrong. One possibility is that the UK's decision to focus on first doses reduces the effectiveness of the programme, though the tentative evidence so far is that it won't. Data from Israel indicates the Pfizer vaccine is highly effective after the first dose, while AstraZeneca has suggested the efficacy of the second dose is actually stronger with a longer interval of two to three months.

Instead, the biggest threat comes from the new strains. A new, vaccine-resistant version of Covid-19 would cast serious doubt on the recovery later this year - particularly given that it could be several months for new versions of the vaccines to reach people's arms. Mitigating the risk will require strong global progress on vaccinations - something that is likely to take much of this year and beyond.

With the UK likely to be one of the first to inoculate all adults, the government is clearly worried that a spring reopening could be curtailed later in 2021. The fact that the UK is preparing to introduce strict, hotel quarantine for international arrivals indicates how worried ministers are about this.

There are plenty of other reasons for caution too. Higher unemployment is likely to partially offset the boost from pent-up consumer demand, while Brexit disruption will also slow down the recovery (we write about this separately in this monthly update).

We don't expect the UK economy to return to its pre-virus levels until late 2022 or beyond.

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