10 December 2021

Article

The Bank of England's Omicron conundrum in nine charts

A February Bank of England rate hike looks likely, but it relies on Omicron dealing only a modest blow to UK activity. That's our base case, but a combination of tighter restrictions, reduced consumer appetite to socialise, and more limited government support, would deliver a noticeable hit to January's GDP numbers

Bank Of England, London

February Bank of England rate hike likely but not guaranteed

The emergence of the Omicron Covid-19 variant has significantly lowered the chances of the Bank of England hiking interest rates this month.

As we discussed in our Global Outlook last week, we're now assuming policymakers will pull the trigger on a 15 basis-point increase at the February meeting. Recent comments suggest Bank officials are still nervous about inflation – and if anything Omicron could delay the recovery of supply chains. At least two rate rises during 2022, look likely.

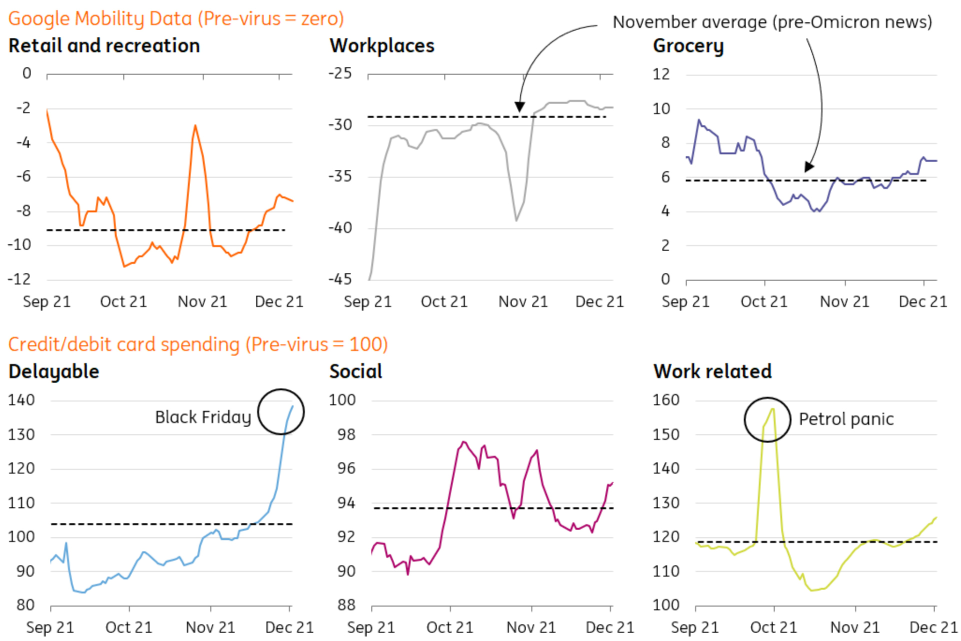
But officials have also shown themselves willing to wait, so the timing of the first move will also depend heavily on whether the new variant hits activity in the run-up to the first meeting of 2022.

In short, that's going to depend on:

1. **Further restrictions?** A full lockdown - unlikely as it currently looks - could deliver a 5% hit to January GDP
2. **Increased consumer caution?** Confidence in leaving home and socialising has grown since the summer. More relaxed self-isolation rules will help, but a lot depends on boosters and how effective they prove to be.
3. **More government support?** The surprisingly strong jobs market recovery this year could stall and potentially reverse if further mild restrictions are introduced, but government wage subsidies are not.

1 Hard to spot much Omicron impact so far in mobility and spending data

So far at least, it's hard to spot much of an Omicron impact in either the most recent Google mobility or Bank of England card spending data. If anything, there's been a slight increase in some of these indices over the past couple of weeks – though admittedly we've had to blow up the axes on the charts below to be able to spot much change.

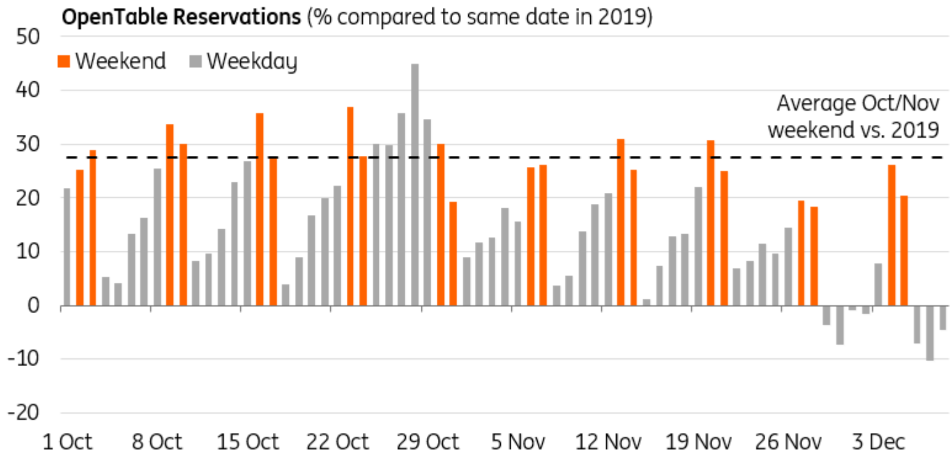


Source: Macrobond, ING

Dotted line is the average reading between 1-25 November before the Omicron news hit. Data presented as a 7-day moving average

2 Restaurant bookings are down mid-week but not at the weekend (yet)

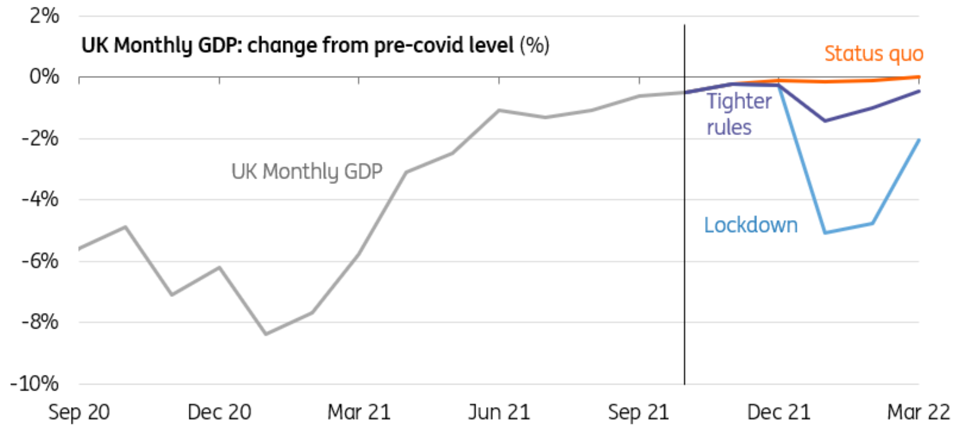
On their own, Wednesday's announced rules changes are unlikely to change the picture that much. Reduced transport usage due to work from home advice, and some office party cancellations, will probably knock a couple of tenths off December's growth figures. There's a bit of evidence that the latter is already happening: OpenTable restaurant bookings have been noticeably lower during the week since late November. Interestingly though, the latest weekend was pretty much in line with those of the past couple of months. That, taken with the mobility/spending data, tentatively suggests that people haven't changed their attitudes towards socialising and leaving home all that much, so far.



Source: Macrobond, ING

3 January GDP could fall by at least 5% if there's another lockdown

Having said all of that, the bar for a negative December and/or January growth reading, is set pretty low, particularly if we were to see further restrictions imposed to flatten the rate of hospital admissions in the new year. For now, that's not our base case, though it's not difficult to imagine extra measures if the Omicron variant proves highly transmissible and deals a significant hit to vaccine efficacy. If that were to happen, then we suspect that the ordering of any new restrictions, would look much like the four-stage reopening process from last spring, but in reverse. If the government closed nightclubs, curtailed large events, imposed some new constraints on hospitality (eg outdoor-only dining), and extended school holidays by a couple of weeks, then we think January GDP would fall by roughly 1-1.5%. If a full lockdown is needed, then that probably delivers a 5% hit. Still, we suspect any new restrictions would be more short-lived than last winter. That's partly because vaccines almost certainly won't be rendered totally useless, but also because the government may find it more politically challenging to maintain tight restrictions for as long as they did in early-2021.

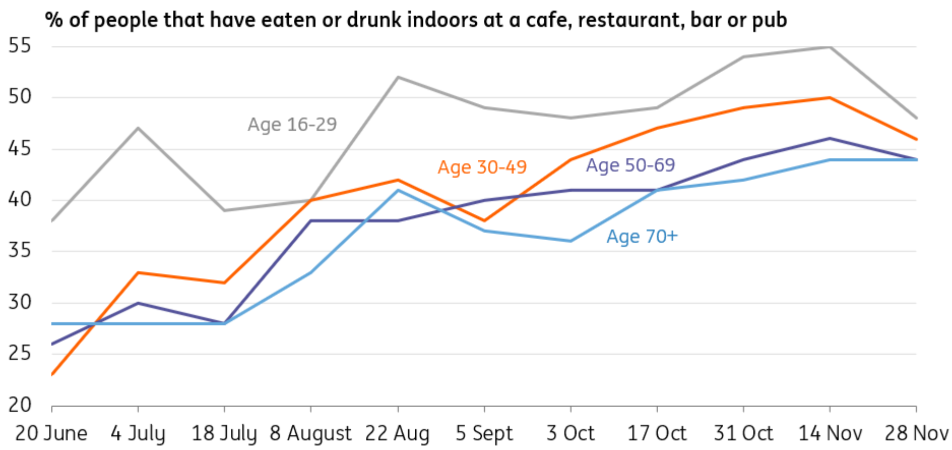


Source: Macrobond, ING

Tighter restrictions assumes the government closed nightclubs, curtails large events, imposes new constraints on consumer services/recreation (eg outdoor-only dining), and extends school holidays by a couple of weeks

4 A greater share of people are visiting indoor venues than during the summer's Delta wave

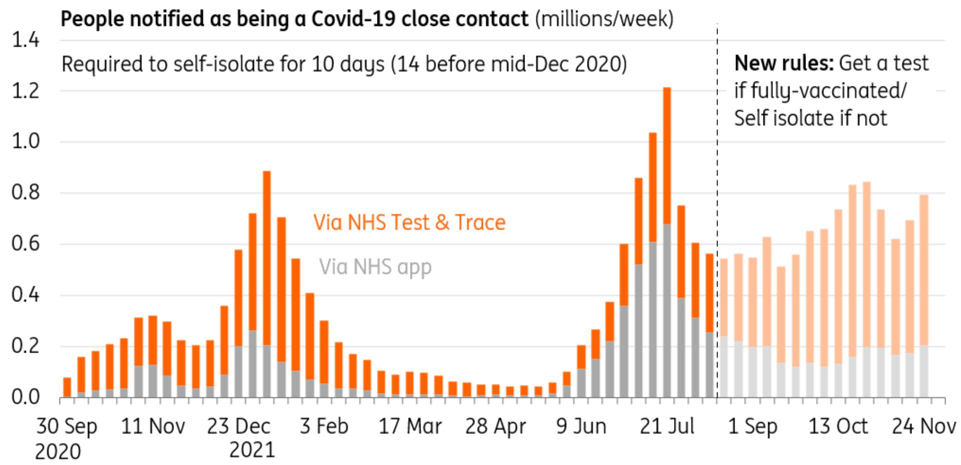
Of course, what the government decides is only one part of the story. Consecutive lockdowns have shown that public attitudes towards socialising and leaving home have had just as big an impact on activity as the government's restrictions themselves. We've seen a steady increase in the share of people willing to visit indoor hospitality since the wave of Covid-19 cases over the summer. This chart is taken from an ONS bi-weekly survey of individuals (we suspect the latest dip was unrelated to Omicron, given the cut-off date).



Source: ONS Coronavirus and the social impacts on Great Britain

5 Fewer people set to be 'pinged' compared to Delta variant

One of the interesting features of that last chart is that we saw a noticeable jump in mid-August. Before that point, every close contact of a Covid-19 case had to self-isolate for 10 days. The chart below shows that at the peak in July, over a million people were told to self-isolate in England as Delta took off - and that appears to have had an impact on the appetite to socialise. It also amplified the issue of staff shortages, as businesses, particularly in hospitality, began to reopen. That looks less likely to be much of an issue now. One of the lesser reported, but perhaps most important announcements on Wednesday, was that close contacts of Covid-19 cases will be able to continue to avoid self-isolation by taking daily rapid tests. That, and the fact that usage of the NHS app appears to have fallen considerably since the 'pingdemic' last July, suggests that staff shortages due to self-isolation are likely to be more minimal this time around.

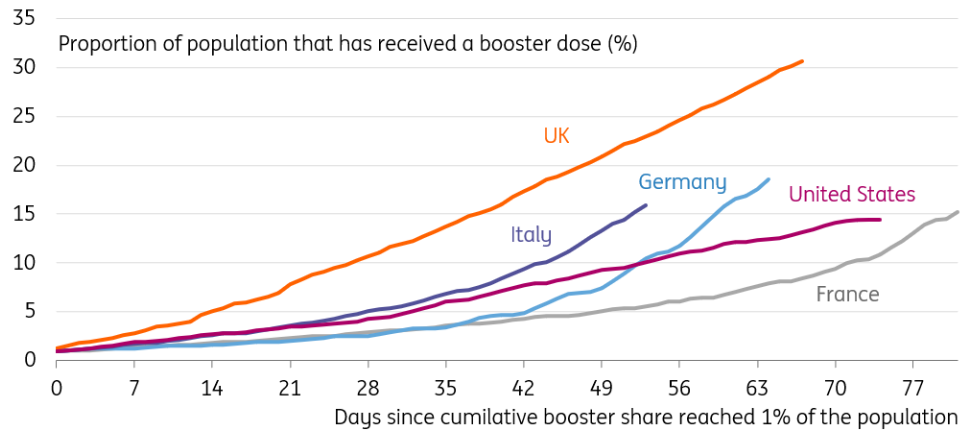


Source: NHS England

Since mid-August people are no longer required to self-isolate if they are a close contact of a Covid-19 positive case if they are fully-vaccinated

6 The UK is doing well on booster shots, but is it enough?

Consumer perceptions of safety can of course change fairly quickly. There's still plenty we don't know about Omicron, but scientists are increasingly agreed that it's likely to be dominant in the UK by early next year and that it could create a fairly significant new wave of cases. It's also becoming clear that booster vaccines are going to be pivotal, both for controlling the Omicron wave, but also for keeping up consumer confidence. On this score, the news is comparatively good. The UK has had a faster start than most with booster doses and has succeeded in administering a dose to the vast majority of the over 60s.

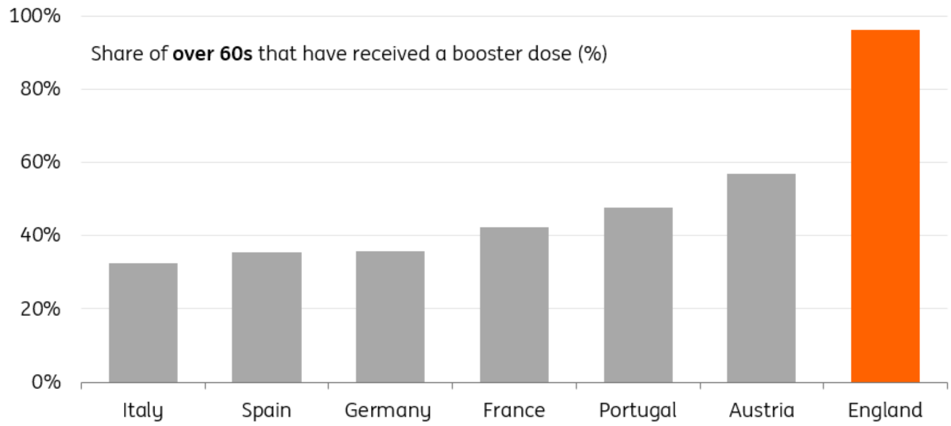


Source: Our World in Data, ING

Data as of 8 December

7 The UK also ranks well in terms of boosting over-60s

This could be crucial in keeping hospital admissions controlled in January, not least because the UK's regular antibody survey has shown a noticeable uptick in older population groups since boosters were rolled out.

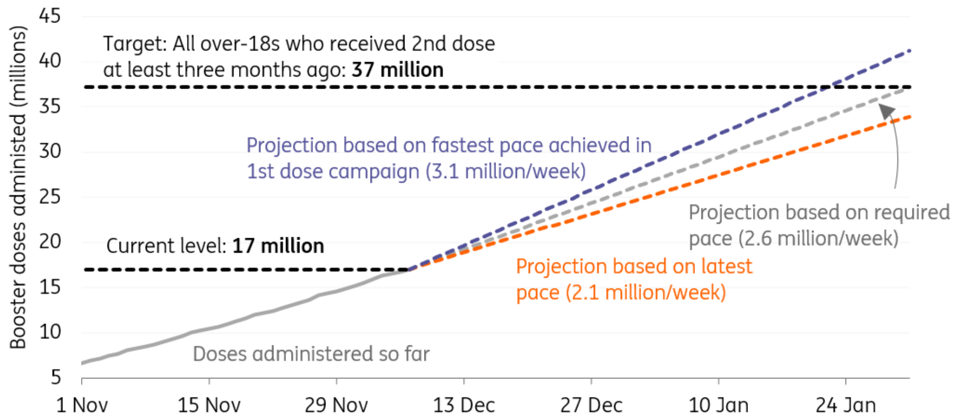


Source: Public Health England, ECDC

Data as of 8 December

8 The booster programme needs to accelerate for all eligible adults to receive a booster by late-January

Ultimately though, whether the UK's progress on boosters so far, is sufficient to stop hospitals from being overwhelmed, is still largely guesswork. Prime minister Johnson's target to offer a booster vaccine to all eligible adults (ie received their 2nd dose more than three months before) hangs in the balance. Achieving it relies on the programme stepping up a gear through January - not least because a day or more will naturally be lost over Christmas.This chart shows some rough projections for booster numbers based on different speeds (and covers over-18s in England)

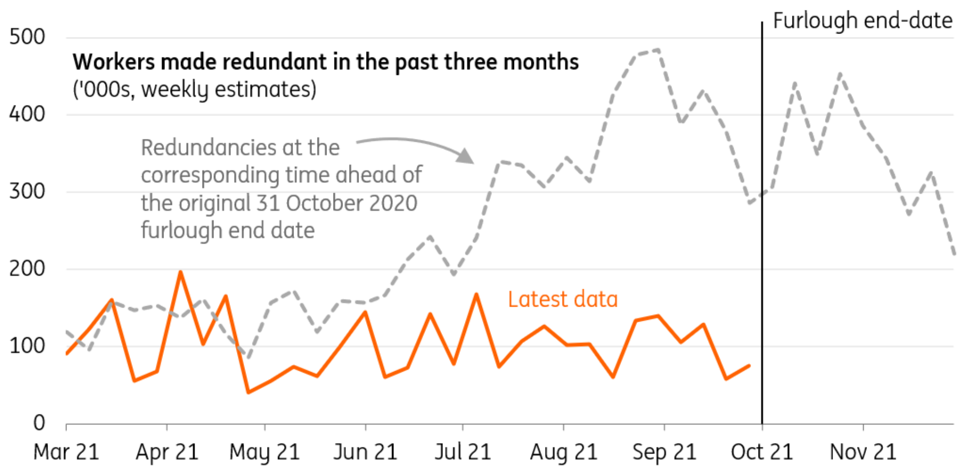


Source: UK Coronavirus Dashboard, ING calculations

Data covers England only, and includes over 18s only. The target level is assumed to be the number of over 18s who had received two doses on 31 October, three months before the prime minister's end-January goal

9 The fate of the jobs market hinges on whether the government reintroduces financial support for companies

The fact that the Treasury extended the key Covid support measures until well after last spring's reopenings has been credited with driving up hiring demand this year.The Bank of England's delay last month was partially motivated by a need to see more data on the end of the furlough scheme in September. And so far redundancies have remained flat. Whether Omicron changes that picture will largely depend on how government support evolves to any further restrictions that are imposed. We have little doubt that, should a full lockdown be required, then the government will reintroduce most, if not all, of the tools used last winter to insulate shuttered companies. What's less clear is what level of support would return should the government curtail, but not fully close, consumer services businesses once again.Would we see furlough return for certain businesses? That could make sense but would be logistically challenging. And if it did return, would the government cover the full wage bill, or require firms to make a greater contribution this time around?In practice it's hard to say, though the risk is that government support measures are less comprehensive than during past periods of restrictions. Still, barring further Covid measures, our base case is that the recovery in the jobs market stalls but fundamentally doesn't deteriorate.



Source: ONS Labour Force Survey, ING calculations

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