A reversal of fortune in the service sector should hail a return to business as usual for the UK economy.

Pressure building. Confidence returned to the UK service industry in May with its PMI reaching 54.0, up from 52.8 in April. That's the second month of recovery since the snow-induced slowdown and bodes well for Q2 GDP. But it wasn't all good news. Cost pressures are back, with mixed implications. How? Well if costs are up because you're paying staff more then that's a good sign for an economy that's been struggling to ignite wage growth for the last decade. Firms say they are paying up to attract new workers. But as we discussed last week, higher oil prices also mean higher transport and energy costs, and there'll be relatively few people outside of Aberdeen's oil & gas industry who are happy about that.

Sinking feeling. The UK construction PMI for May matched April's reading of 52.5. While this should signify an industry in expansion mode, recent form suggests otherwise. Housing is the only area growing faster than its historic trend. Most of the indicators in the survey deteriorated last month. Worryingly, even the disappointing overall rate of activity appears to be based on shaky foundations. New orders dipped into contraction territory for the fourth time in five months. And with cost pressures intensifying, optimism slumped to a seven-month low.

Midlands engine. Car sales aren’t booming but that isn’t holding back sentiment in the manufacturing hubs of the Midlands. East and West Midlands top the business confidence table for May, according to the NatWest regional PMI survey. Growing order books and strong performances by international trading partners are helping. Further north, the most optimistic businesses are in Yorkshire & the Humber, closely followed by the North West with the North East not far behind. Scotland is notable for its concerns about cost pressures. Rising energy and staff costs are squeezing margins there, down south it’s the squeeze on the consumer. Hopefully this week’s labour market figures on wages will bring some good news.

Jobs machine. Faster growth is the main theme of the latest NI PMI, with business activity, new orders, and employment all seeing their respective indices rising at increased rates in May. This is particularly the case for the services sector, which was the biggest riser for the second month in a row. Service sector firms reported the fastest rate of input cost inflation in more than seven years, driven by wage pressures. As a result, fees and charges are being hiked at their sharpest rate since 2008. About time too! Looking across the UK, the NatWest regional PMIs reveal that job creation, input cost and price inflation were all strongest in NI. But business confidence amongst local firms was the lowest of all the UK regions. That’s due primarily to a fall-off in confidence amongst NI retailers.

Lookin’ good. The first quarter of 2018 saw overseas owners dispose with £6.9bn worth of UK business assets, the highest on records! A vote of no confidence in UK plc? Not really.

Even as sellers sold, buyers bought and cross-border deals worth £21bn made it one of the most valuable quarters for M&A activity in a decade. Should we thank low interest rates and a weak pound for incentivising investors? Yes. And the year looks promising, with global strategies orienting themselves around AI/tech, and London becoming a timely magnet courtesy of its tech scene.

Not sucking diesel. While last month was the hottest May on record, new car sales were distinctly lukewarm. While convertibles saw a near 12% y/y rise, the overall UK market rose by a modest 3.4%. The trend for 2018 remains depressingly downhill. Year-to-date, UK new car sales have fallen by almost 7% y/y – or just over 3% in NI. This is driven by diesel. While diesel prices soared, sales of cars fell by almost a quarter, relative to May 2017. Registrations of petrol cars increased by the same margin. Meanwhile the plug-in and hybrid market continues to rocket, off a low base. That segment may only account for 1 in 20 of new cars sold but sales are up 36% y/y. Even in a falling market there are always winners and losers.

Sucking diesel. In recent years, NI's tourism performance has started to sound like a broken record *(pun intended!)*. The latest figures for 2017 continued this theme with tourism generating 4.9 million trips and £926m of visitor spend. These represent annual rises of 6% and 9% respectively. Some 1.5m NI residents opted for a staycation of some description last year, an 18% rise on 2016. Meanwhile sterling's weakness helped boost the Republic of Ireland market with a whopping 49% y/y rise in holidays to NI. Records are there to be broken with 2017's all-time-highs likely to be eclipsed this year.

Cloudy Skies. While recent data rained a little on Eurozone's (EZ) growth parade, the composite PMI reading for May, at 54.1, still indicates a possibility of reasonably bright summer. Yes the reading was lower than in Apri's 55.1, but that's not surprising. Recall political uncertainty in Italy and disruptions due to bridge breaks in France and Germany.

They all darkened the economic outlook. Only Spain’s PMI provided some hazy sunshine. The region’s facing a combination of weak job creation, a slow down in new businesses, reduced rate of expansion for private sector and squeezed margins.

Slight. There’s been plenty of talk around trade tariffs, trade wars and such like in recent months. But so far there’s been little tangible impact in the economic data. Last week’s services ISM survey in the US gave just a hint of one. The input prices component of the survey rose. A move partly attributable to some businesses having to fork out a bit more for steel and Canadian lumber (both of which have had tariffs slapped on them). But let’s be clear, this is small beer. The report was otherwise robust. The headline reading rose from 56.8 to 58.6. Like the UK, Q2 growth in the US is looking solid.

Significant. Postmodern alert! What’s the relationship between the signifier and the signified, or, in this case, between income and spending? Most measures of poverty focus on the 23% who are income ‘poor’, defined as 60% of median income. Slightly fewer are consumption ‘poor’ (22%). But as income fluctuates more than consumption, half of those unemployed are income poor, while just a third are consumption poor (many are between jobs). It’s the opposite for pensioners. We humans are an odd lot. We tend to spend when we need to save and save when we need to spend.

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