Pressure eases on public finances, but not enough to finance a big Birthday gift without recourse to higher taxes.

~~Honey~~, Hammond, I shrank the deficit. Another welcome surprise for UK public finances, with the amount of borrowing needed to plug the deficit falling by £5bn in May, £2bn lower than a year earlier. We've just two months of data, but borrowing this fiscal year is £11.8bn, an 11-year low and some £4bn lower than last year. Most of this improvement is due to weaker spending growth, primarily lower debt interest payments. Further revisions to last year's borrowing shaved another £1bn off the deficit. Every billion counts. The Chancellor is determined to decrease the deficit to secure £20bn for the NHS. Some Birthday present. Despite being ahead of plan, Philip Hammond stills needs more taxes. Taxing times.

Worth it. An apt moment then, as the NHS reaches 70, to review our tax and benefit system. So, before taxes, the income of the richest fifth of households (that's one in five!) is 12 times the income of the poorest fifth. Taxes halve that to six times. Add in benefit in kind such as health, education and plane-less aircraft carriers, it's four times. So while tax and benefits may not be everyone's preferred moderator, they're not doing a bad job.

6-3. No, not a prediction of England's final group game against Belgium. Rather it was the vote split between members of the Bank of England's MPC at last week's meeting. Six voted to hike, three dissented. Two of the minority were familiar culprits, but somewhat surprisingly the Bank's chief economist made it a triumvirate. A swing into an outright majority voting for hikes might not be far away. The Committee collectively pointed to better economic data of late, seemingly confirming its judgement that Q1 weakness was temporary. Market-implied probability of a hike in August duly rose, from 48% to 70%.

Kryptonite. Justice Potter Stewart created legal history when admitting that, while unable to *define* obscenity, "I know it when I see it". Indeed he may. But he crafted a useful phrase that aptly applies to money, especially in the age of cryptocurrencies. The BIS (the central banks' central bank) has opined that, in addition to the usual functions of store of value and unit of account, money must also offer cost-effectiveness, scalability and trust, and that digital, decentralised, money does not. Although to expect the BIS to conclude otherwise may demonstrate naivety equal to turkey's buying cranberry sauce in November.

North-South Divide. An FCA (the financial regulator) survey highlighted another north-south divide, in savings and investments. One in eight (12%) adults has no savings or investments at all, ranging from 17% in the North East to 8% in the South East. And almost half of adults (25 million people) have savings and investments worth less than £10k. Debt is less clear-cut. The South (notably London), understandably has the highest levels of mortgage debt and were most likely to be dissatisfied with their financial circumstances. Yet

Northern Ireland had the highest level of unsecured debt and the highest proportion of over-indebtedness (1 in 5).

Look away now. Last week's FCA survey put the financial lives of consumers under the spotlight. Across a raft of indicators, NI found itself at the wrong end of the UK regional rankings. Despite having the second lowest household incomes, and 20% below the national average, NI adults have 20% more unsecured debt (£4k on average). Excluding those with no debt the NI average is £10.7k. More adults use catalogue (10%) and store card credit (8%) than elsewhere. Indeed, the take-up is at least double the UK average. Close to six out of ten adults show characteristics of potential vulnerability in their finances. When you consider that over two-thirds of the economy is driven by consumer spending, this is not a good look.

Manufacturing a boom. Despite high profile job losses, most notably Wrightbus and the JTI tobacco plant, NI's manufacturing sector remains in rude health. A new survey by Manufacturing NI and Tughan's revealed that close to three-quarters of firms were in expansion mode and 45% increased staffing levels. Companies expect this trend to continue with 55% of manufacturers expect to hire and grow in the year ahead. Skills shortages within engineering and automated manufacturing are proving difficult to fill. Against this backdrop inflation busting pay rises are becoming more common. Uncertainty surrounding Brexit continues to thwart business planning and acts as a barrier to growth. Recent comments by Airbus, and by extension Bombardier, highlights large firm exposure will remain a theme worth watching going forward.

Soft patch. The Euro area economy clearly lost momentum in early 2018. The EZ PMI composite index has fallen from a peak of 58.8 in January 2018 to 54.1 in May, an eighteen month low. Weakness was widespread. Rising fears of a global trade war and increased political tensions in Italy pose downside risks but the softer Euro is a supportive factor particularly for manufacturers. The European Central Bank are predicting a temporary slowdown, pointing to QE exit by end of 2018.

Gauntlet. US economist Larry Summers was characteristically provocative at the ECB's annual research conference. Much of the focus centred on why unemployment could now fall so far without sparking inflation. But Summers' contribution was more broadly based. He highlighted that central banks are still thinking about monetary policy today in the same terms as they did before the crisis, largely an inflation targeting mindset. But that following equivalent shocks in the last century (Great Depression of the 1930's, inflation shocks in the 70's) there'd been much more regime change. Summers' challenge therefore: central bankers need to try to do more and they should start by targeting maximum sustainable employment.

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