Retail sales bounced back in May across much of the developed world, thanks to pent up consumer demand. Infections also seem stable across much of Europe. So does this mean a swift recovery from here on? Sadly, perhaps not. Labour markets remain fragile and new infections are rising globally, including parts of the US. So unsurprisingly, policy taps were loosened further last week.

Cautiously optimistic. The Bank of England judges that the economy looks likely to have shrunk less than it first feared. First estimates from the ONS suggests that in the depths of lockdown output was roughly 25% below pre-Covid levels, rather than the 33% in the MPC’s illustrative scenario. But there remains huge uncertainty about how many furloughed staff will return to their jobs and so the MPC launched another £100bn round of quantitative easing. That takes the total gilt purchases planned for this year to £300bn, a rounding error away from the Office for Budget Responsibility’s deficit forecast.

Iconoclasm. The second crisis in a dozen years has transmogrified the UK's public finances. Large cheques vs. small revenues mean net borrowing was £55bn in May, pushing the ratio of total net debt to GDP to 100.9% (it was 31% in 2005). For some, breaching 100% is talismanic, akin to crossing the fiscal Rubicon. From here lays ruination. Unlikely. The UK remains monetarily sovereign. It has (ahem) political credibility and interest payments comprised just 3.8% of revenue in May. Although this may rise, for now there's plenty more to worry about.

Better. UK retail sales staged a partial rebound in May, climbing 12% from their lockdown lows. A spate of DIY activity (what else to do?) drove a 42% jump in household goods sales and fuel sales picked-up as traffic slowly returned to the streets. But although things are moving in the right direction, sales are still a worrying 13% less than before the virus struck. Habits are changing too. One-third of all sales now take place online. And, despite non-essential shops in England reopening with fanfare last week, retail footfall remains at less than half pre-Covid levels. The high street may never look the same again.

Ups and downs. The latest fortnightly survey of the UK businesses (18th-31st May) shows that an overwhelming majority, c.84%, are now trading. Also, few businesses are seeing their turnovers increase, particularly within retail & wholesale trade and manufacturing. But, there are elements which worrying. 38% of the workforce continues to be on the Job Retention Scheme as only a miniscule 6% has returned from their furlough leave. What's more worrying is that only 42% of the responding firms were topping up their workers' pay above the 80% guaranteed by the government. Come August, the going will get tough as the government mandates the remaining 20% contribution from the employers.

Anaemic. Consumer prices increased by just 0.5% in May compared to the last year, hitting the lowest level in the past 4 years. While this was in line with the consensus estimates, it remains far below the Bank of England target of 2%. And many, including sentiment surveys, expect that downward trend to continue in the coming months. The strongest negative effect on the change in CPI came from Transport and Recreation & Culture. It was partially offset by the increase in prices for Food and Non-alcoholic beverages. Just a word of caution here, price of c.14% of the consumer basket remains imputed.

Surge & slump. UK unemployment remained unchanged at 3.9% for the period February to April. Where’s the employment shock? It’s there, just not front and centre in the Labour Force Survey (LFS). The latter did witness record quarterly declines in self-employment and total hours worked. In time, rising unemployment will become more obvious, not least when the Job Retention Scheme expires. Indeed, we may not need to wait until then. More timely PAYE data for May from the HMRC reveals that employee numbers have fallen by a hefty 612,000 since March. Meanwhile claimants of unemployment-related benefits has surged by 1.6 million in the last two months. COVID-19’s labour market shock and awe is well underway.

Turbo-charged. Once again, Northern Ireland’s latest labour market report produced some eye-catching headlines. Employee jobs hit a record high of 783,500 in March 2020 (reference date 2nd March). Meanwhile unemployment, using the ILO Labour Force Survey measure, hit 2.3% in the three months to April – its joint-lowest rate on record. But much has changed since then. Not least the numbers of people claiming unemployment related benefit doubled in April with a further rise of almost 10% in May. That equates to a rise of 34,500 benefit claimants in just two months. It took three years in the last recession for a cumulative rise of this magnitude. Granted eligibility criteria for claimants is now wider in scope. Nevertheless, the turbo-charged rises in unemployment are truly unprecedented.

Three-in-a-row. As far as the service sector is concerned, this recession has been more brutal than previous ones. From a Northern Ireland perspective, the official statistics are only now starting to show the scale of the hit to output. In Q1 2020, the local services sector notched up its largest quarterly decline since the survey began. The 4.2% quarterly drop takes activity back four years. 'Other Services' – think of nail bars, dentists & hairdressing – saw activity drop by almost 9% with activity approaching a 13-year low. Services firms were already technically in recession having contracted in each of the previous two quarters. But these declines will be dwarfed by the whopper coming for Q2.

Chinks of light. US retail sales rebounded in May, up 17.7%, more than offsetting April's revised 14.7% drop. Autos, furniture, electronics and clothing saw a strong bounce in activity last month, aided by a reopening of the US economy. Weekly jobless fell a modest 58,000 to 1.5 million, but continuing claims were stable at 20.5 million. This points towards little momentum in the labour market despite an upside surprise in May's non-farm payrolls. Thus, while the US consumer sector may be showing some signs of life, it is a long way from "normality". Consequently, the Fed has commenced its purchase of up to $250 billion in individual corporate bonds and the Trump administration is preparing for a nearly $1trn infrastructure plan.

50 days. That's how long China had gone without reporting new Covid-19 infections. But Beijing has seen a spate of cases in the past week. So goes Covid-19, so goes the economy. Neighbourhood lockdowns, school closures, flight cancellations and caution around use of public transport are back. And it'll prompt close monitoring for signs it undermines the nascent recovery. In a sign of what passes for good news these days nationwide retail sales fell only 2.8%y/y in May (down from a 7.5% decline in April). Industrial production is faring better, up 4.4%y/y in May as steel output hit a record high.