After record declines the PMI surveys for June suggests that a rebound is underway. But then this was expected. And doesn’t alter the outlook of a long and uncertain recovery. The chances of substantial job losses and preventing a flare-up in infections as the economy open up will be among the key challenges. Look no further than the US which has already seen some of the states reimpose restrictions as the second wave continues to intensify.

The only way is up. You can easily guess the headlines for the incoming Q2 data without looking at the release. The latest CBI Industrial Trends Survey is a case in point. “UK manufacturing sector endures worst quarter on record”. Output volumes fell at their fastest pace since the survey began (July 1975). The slump in global demand saw export order books hit a new record low too. One silver lining in an otherwise dark cloud was manufacturers’ expectation that the pace of output decline would slow in Q3. With other surveys pointing to a stabilisation in the sector in June, those expectations may well be exceeded.

Forward, march. UK PMIs continued to recover in June as composite index climbed to 47.6 (vs 30 in May), thanks to THE re-opening of the economy in mid-June. This trend is likely to continue next month as large parts of the hospitality sector open from the 4th of July alongside relaxation of the 2m social distancing rule. However, the optimism around recovery needs to be tempered. For one, the composite number is still below the 50-level. Second, some of the sub-indices, particularly, employment, have been slow to recover, bringing us to back to long-term concerns over scarring.

Over to policy-makers. The latest Business Impact of Coronavirus Survey makes a strong case for fiscal support to spur the economic recovery. For the first half of June 64% of UK businesses said turnover was below normal for this time of year. A fifth said it was down by more than 50%. 44% of businesses had less than six months cash reserves, little changed from the previous month. While about 40% of businesses were providing top-ups to the Job Retention Scheme. Other survey data shows job adverts are starting to show signs of life. But it’s tentative. And they are still down by around 50% on 2019 levels.

Lifeline. The Coronavirus Job Retention Scheme so far has been used by 1.1 million businesses to furlough 9.2m workers during the pandemic. This novel form of support has enabled firms experiencing huge drops in turnover to avert a cashflow crisis, while keeping staff on the books. The heaviest users have been businesses which have temporarily ceased trading: 85% of their workforce was on furlough in late May. Still, many firms that continue to trade also rely heavily on the ability to furlough – especially hospitality and leisure industries – and only 5% of their workforce has yet returned to work.

Rewriting the record books. It was assumed that Northern Ireland’s property market had seen all the record rises and falls it would ever see in the noughties. Not so. Residential transactions had already been easing before the pandemic struck. Sales fell by a modest 2.5% y/y in Q1 2020. Q2 is set to be a shocker. Transactions fell by a record 80% y/y in April (UK = -58%) eclipsing December 2007’s record decline of 69%. May saw 530 sales, up from April’s low of 410. Yet this still marked a 78% y/y decline. Before COVID-19 the previous low was 720 sales in January 2009. A rebound will follow but fans of a ‘V-shaped’ recovery may be disappointed. Sales volumes in 2020 look set to be half that of last year.

Same problem… different market. The lockdown has had the same effect on the non-residential property market. Northern Ireland recorded 710 non-residential sales in Q1 2020, the fewest number in five years and down almost one-fifth over the year. April and May saw sales fall 62% y/y and 66% y/y respectively. Dramatic, but not quite as bad as the record annual decline in April 2009 (-69%). Nevertheless, new lows have still been plumbed. May’s sales figures (100) eclipsed the previous record low of 120 in August 2009. A recovery is now underway. But what will ‘recovered’ look like? The commercial property market – and the ‘High Street’ – look set to be transformed by COVID-19 and the new era of working from home.

Time to act! Many regulators around the world, including the Bank of England, believe that the financial system carries substantial financial risks associated with climate change and it should play an important part in facilitating carbon transition. To account for inherent uncertainty but still allowing a common basis for international action, the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) published its first set of climate scenarios. They explore both transition (policy and technology) and physical (climate) effects of climate change, and lay the foundation for future work.

Must try harder. The UK Committee on Climate Change’s (CCC) assessment of progress towards net zero highlighted big gaps in policy, but also the opportunity to have a greener economic recovery. A year ago its critique focused on the lack of policies in specific sectors designed to meet the overall net zero target. That assessment still stands, but this time the CCC has come up with wide ranging policy suggestions of it own. Whether that’s phasing out petrol and diesel vehicles by 2032 or kick-starting the energy efficiency upgrades of our homes, there are plenty of policy cues for the Government’s anticipated economic announcements this week then.

So tough. Air guitars ready? Good. Because borrowing from Bon Jovi’s classic ballad of blue-collar struggle, “we’re halfway there”. The PMI composite business surveys for both the US and the eurozone look distinctly V-shaped, with the US flash June reading bouncing back to 46.8 (from 37 in May), pipped by the eurozone’s 47.5 (from 31.9). So far, so good. But images deceive, and a meaningful rebound, one where we regain a decent chunk of lost activity, requires a run of survey readings closer to 60. But like hope in the song, I fear we may be “livin’ on a prayer”.

Here to help. Germany’s constitutional court had ruled last month that there wasn’t enough scrutiny of the European Central Bank’s bond-buying programme. Cue lots of concern over the ECB potentially having its ability to purchase assets constrained. The ECB in its June meeting focussed on pleading not guilty. Meeting minutes reveal the detailed discussion and broad agreement amongst the members that tools such as PEPP, TLTROs, policy interest rate and forward guidance have played a net positive role in mitigating the economic impact of Covid-19. There was also a now-customary call out that the recovery could be precarious given the effect of uncertainty and behavioural changes of consumers and businesses.

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