The US economy had been sprinting into the lead, as key indicators for May and June recovered much of the pandemic imposed losses. But at a huge cost – the second wave will leave behind a weaker than earlier projected Q3. The UK’s disappointing May GDP data signalled a modest initial recovery. Welcome to the world of slow healing.

Is this it? Expectations were high that May data would herald a big rebound in economic activity, coming after the two biggest monthly contractions ever recorded. Alas, GDP grew only 1.8% in the month, leaving the economy a quarter smaller than it started this year. Barring the optimism reflected in some of the high frequency indicators, the modest recovery makes sense since most of the lockdown restrictions remained intact in May. Sectors where government urged people to get back to work – manufacturing and construction – did regain more lost ground (both grew 8%). The retail and wholesale industries also enjoyed decent growth (13%).

Frozen. The UK's headline unemployment rate of 3.9% belies the reality of the labour market. Unprecedented job retention and income support measures have effectively frozen the unemployment rate. But look elsewhere and the deterioration in labour market conditions is clear. There were 649k fewer people in paid employment in June relative to March. Meanwhile in the three months to May total weekly hours worked hit a record low and average weekly earnings posted their first annual fall in six years. When support measures expire the unemployment rate will thaw. The OBR has warned we can expect it to peak at between 10-14%.

Double take. The number of people claiming unemployment related benefits in Northern Ireland fell unexpectedly last month. With the total claimant count doubling in April, followed by a 10% rise in May, a further chunky rise was anticipated in June. Not so. Instead this measure of unemployment fell by 1,200 in June. Though at 63,100, the number of unemployment benefit claimants is still double March's figure. This unexpected fall doesn't represent a turning point. Once the Job Retention Scheme (JRS) and Self Employment Income Support Scheme (SEISS) expire in the coming weeks the ascent towards 100,000 unemployed (and a 10% plus unemployment rate) will resume. Indeed it is worth noting that June saw a record number of redundancies (almost 2,500) proposed with a further 745 in the first two weeks of July.

Four in ten. UB40 had a hit single "One in Ten" in 1981. It referred to the unemployment rate in the West Midlands that summer. The OBR is forecasting an unemployment in excess of 10% for the UK in the coming quarters. The various job / income support schemes have acted as a fog over the true level of unemployment. Last week it was revealed that in Northern Ireland there were 316,200 NI workers on furlough (240,200) or in receipt of self-employment support (76,000). That represents 37% of the all workers. Add in the 212,000 public sector jobs and you have a total of 528,000 jobs currently being funded by the tax-payer. That means only four in ten workers in Northern Ireland are not currently in receipt of government support.

Appetiser. The nearest thing Northern Ireland has to GDP – the Composite Economic Index – posted its steepest quarterly decline (-2.7%) on record in Q1 2020. Excluding the public sector, private sector output notched up a record fall too (-3.5% q/q) just shading Q4 2008’s decline. Private sector output has fallen back to a four-and-a-half year low. Q1’s drop marks the third consecutive successive quarter of contraction. Remember two consecutive quarters of decline represents a ‘technical recession’.. Prepare for all records to be smashed with a 25-30% fall in output pencilled in for Q2. Economists and statisticians are already rescaling the y-axis of their charts in anticipation.

Death and Taxes. Benjamin Franklin had proclaimed that only Death and Taxes are certain in the world. But few would have thought about interactions between these. This week, national fiscal watchdog OBR estimated that the Covid-19 downturn would require a tax rise of £60bn per year to sustainably fund the government spending sans austerity. It painted a gloomy economic picture, stating that recovering from current downturn with no long-term damage is “about the best that can be hoped for”. As a result of government stimulus and falling tax receipts, government borrowing would likely top £370bn this year, a peace-time record!

A blip. Last month saw the first unexpected increase in the rate of inflation since January. It was a small rise – from 0.5% in May to 0.6% in June, driven by the pick up in volatile computer game prices. Looking ahead, the deflationary push of a cut in VAT on hospitality services, an “eat out to help out” scheme and higher unemployment will more than outweigh any upward pull of higher oil prices and supply side constrains. That should leave the Bank of England comfortable to provide additional support measures, with an extension of its quantitative easing programme later this year likely.

Deadlock. Last weekend's EU summit failed to reach an agreement on the €750bn EU recovery fund. Dutch PM Rutte, the chief architect of the "frugal four" (Netherlands, Denmark, Sweden and Austria), insisted on having the right to unilaterally veto grant payments to stricken countries if they fail to meet reform demands. Ongoing differences over the size, design and conditions of the fund suggest a breakthrough is unlikely soon. Meanwhile, the ECB meeting was uneventful as monetary policy remained on hold. Notwithstanding the improvements in economic activity, the rhetoric remained cautious.

Hurdles. China's economy rebounded strongly in Q2, rising 10% from Q1 as industrial production rose and public investment was dialled up. But all is not well. One of the key factors in tracking the recovery is how quickly consumers re-adopt (or not) their old habits. The evidence from China is that it's a slow burn. While household appliances saw robust growth, catering services (eating out) fell 15%y/y in June. Car sales are also still down 8%y/y. Add in continued weakness in China's trading partners and the country's banking regulator warning of asset bubbles there's plenty to threaten the recovery.

Trade off. With the coronavirus led shutdowns suspending a big chunk of activity it's unsurprising that both exports and imports have seen a sharp fall. The fall in exports, by £47.7 billion in the three months to May, is linked to the fall in production and manufacturing. Indeed, exports of transport equipment fell 50%. And keep in mind 80% of manufactured cars are exported. The other side of the ledger was hit almost as hard with imports falling £42.6bn in the three months to May. And it was the services sector that took the majority of the hit, both in terms of lower exports and imports.

Due credit. Government schemes to support lending to businesses were reflected in **the** the Bank of England's Credit Conditions Survey for Q2. Lenders reported that the availability of credit to the corporate sector increased for all business sizes in Q2, underpinned by a sharp rise in demand. In contrast demand for lending from households, both secured and unsecured, fell sharply. But lenders expect expect to see a rebound in Q3, providing support to the ongoing recovery, with demand for credit for house purchase, remortgageing and buy-to-let activity expected to rise.