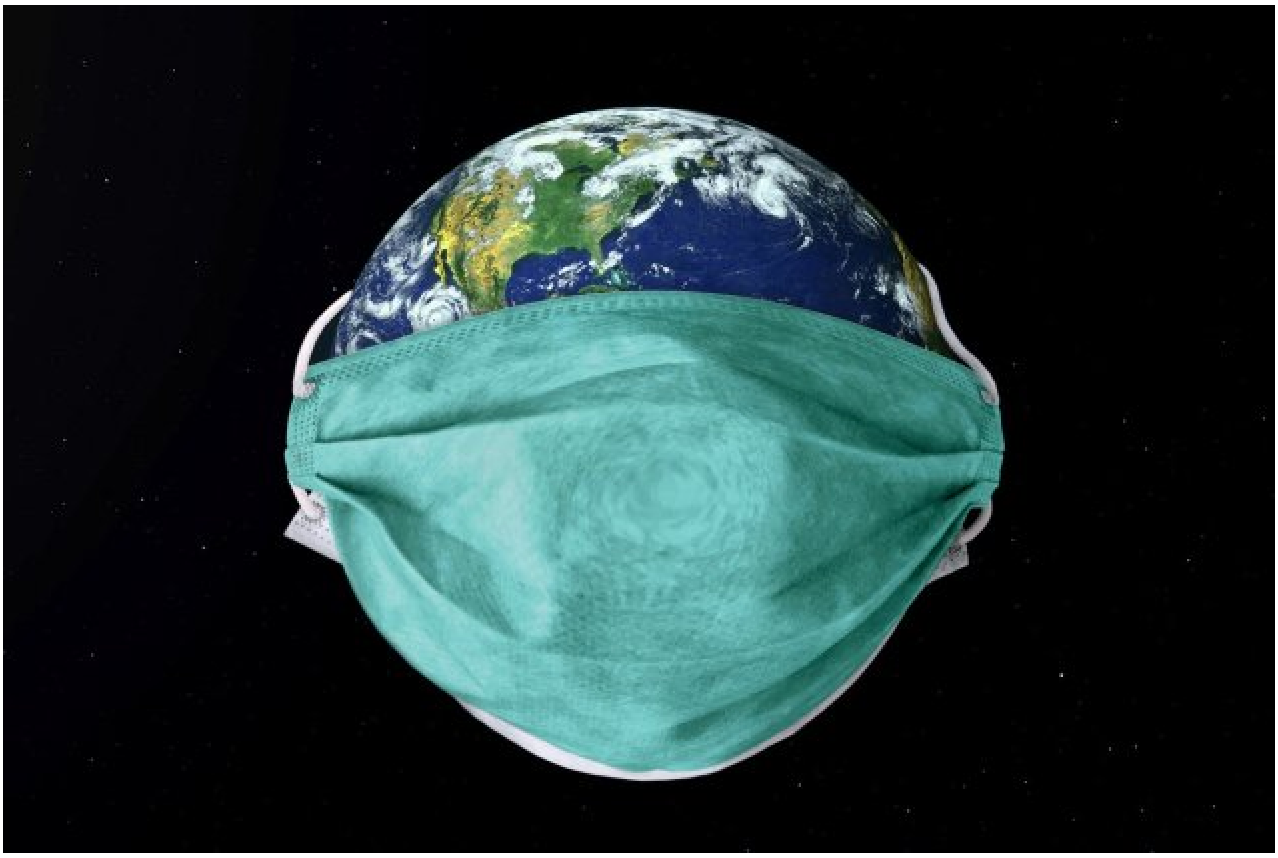
Both the UK and the Euro area PMIs rebounded strongly in July. And, in a historic moment, the members of the Euro area finally agreed on the recovery fund, widely touted as the first step towards a limited fiscal union. But US indicators painted a more sobering picture, like a mirror to the world, revealing how things could stall if the virus spread intensifies.



Cementing recovery. UK PMIs gained further momentum in July as the composite flash PMI leapt forward to 57.1 (vs 47.7 in June), the highest in last five years! Both services (56.6 from 47.1) and manufacturing (53.6 from 50.1) crossed the water mark level (50), helped by the return to work and phased re-opening of the economy. This chimes well with other fast indicators pointing towards a stronger Q3. However, the labour market continues to be a chink in the armour, as a third of the survey respondents reported a fall in employment, typically linked to redundancies and higher operating costs.

Good start. UK retail sales data felt like sunshine after the rain. The volume of sales rose 13.9% between May and June, returning total retail spending close to pre-Covid levels. Lockdown is dividing winners and losers. If you’re an internet firm, sell food or DIY goods then business is back to 2019 levels. Things are tougher if you physically sell clothes or books. And before we get too euphoric, there’s been a shift from spending on leisure and ‘experiences’ to physical things. Retail sales account for 1/3 of consumption. So there’s still some way to go.

Build me up. The good news is that the UK Consumer Confidence is up in July from the record lows of previous months, primarily driven by the easing lockdown. The July number is at -27, certainly better than -34 (April, May) but not the best. People have begun returning from furlough to their jobs and spending avenues are reopening, which has helped generate some steam in the economic engine. However, the larger backdrop is still that of coronavirus and Brexit. The last time we had a positive confidence number was in 2016. Looks like a while before we get that back.

New Normal. After a huge jolt to the traditional ways of life, we’re now settling into a strange new routine. That’s according to the latest indicators probing the impacts of Covid-19. By early July, most businesses (92%) were trading as normal again. Staff are steadily returning to the workplace too; for the first time in months, more than half are travelling to work each week. But things are not what they once were. Face coverings are now worn by 7 in 10 adults when leaving home. And public nervousness means that retail footfall remains stubbornly 40% below 2019 levels.

Winding down. Fiscal support for the UK economy eased more than expected between May and June. Public sector borrowing (excl. banks) fell by £10bn to £35.5bn, thanks to lower income support payments for self-employed workers and reduced costs of the CJRS as firms begin to recall furloughed workers. Still, borrowing continues to rise at an exceptional rate compared to the pre-Covid times. Moreover, it is likely to stabilize at the elevated level as pointed out the nation’s fiscal watchdog, OBR, in its July fiscal update. Needless to say, downside risks remain.

Encouraging. The Euro area composite PMI index surprised on the upside in July, rising to 54.8 versus June’s 48.5. This was the first monthly reading above 50 – the level that separates expansion from contraction – and the highest since June 2018. In another surprise, the EU leaders reached a landmark deal to issue mutual debt for the first time. After 4 days of negotiations the heads of governments agreed to borrow €750bn to fight the consequences of the coronavirus pandemic across the EU. The hardest decision was to agree on €390bn in grants, which will be directed to the most economically affected countries.

It was never going to be easy. And so the US is showing. Whether it’s the increasing number of businesses closing, the stalling of the recovery in eating out or the persistent weakness in air travel, the economic damage from the Covid-19, second wave is palpable. And now the labour market too. Unemployment claims for the week ending 18 July rose for the first time since March, suggesting the labour market recovery has been checked. The looming expiration of enhanced jobless benefits on 31 July, absent a political agreement to extend them in some form, provides an additional headwind.

Not so novel. Whether it is US-China or UK-China or UK-EU, rising diplomatic tensions have been the flavour of the week. It is, therefore, not surprising that President Xi announced a “new development model” for China, one where *domestic* demand and *domestic* innovation have a larger role to play. In the coronavirus battered world, States have become the driver of growth, China being no exception. But, infrastructure spending, a key driver of current recovery, will quickly reach its limits. Also, the thing with innovation is that free-market play rather than a directive from the State sets the ball rolling. Time to truly widen the base.

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