Two things are becoming increasingly clear. The low hanging fruits of the recovery may have been plucked, things look set to get harder from here. While policy support needs to remain in abundance to help the recovery along.

Escape velocity. News last week that the UK economy is officially in recession for the first time in 11 years came as no surprise. But the scale of the decline was still shocking. A record 20.4% q/q contraction in Q2, over and above a 2.2% contraction in Q1 has left UK's GDP four times weaker than during the Global Financial Crisis. Accommodation and food services plunged by 86.7%! That said, a record decline looks to be followed by a record rate of expansion. A recovery has been underway since May with economic growth accelerating to 8.7% m/m in June.

So last year. The Q2 GDP figures confirmed that the UK is in recession. But what about Northern Ireland? NISRA's NICEI (NI Composite Economic Index) is the nearest thing NI has to GDP. While Q2 data won't be available until October, Q1 data released last month revealed that the local economy is already 'unofficially' in recession. Revisions to Q4 2019 data point to a second consecutive quarterly decline – and a technical recession – following a fall in Q3. 2020 has seen this trend continue for a third consecutive quarter with a record slump of 2.7% q/q in Q1. A decline of 9-10 times this latter figure is expected in Q2 which will mark the fourth successive quarter of contraction. After that the only way is up!

Opening salvo. Here’s a lesser-known fact. The same number of people lost their jobs in the UK recessions of the early-90s and 80s (employment fell by 1.6m in both cases). Yet whereas one is carved in the collective memory, the other barely registers. But events burn deeper when they embody wider structural change. Hence the current desperation to minimise job losses and avoid long-term worklessness. Corona claimed 3/4 million paid jobs from March to June, roughly the fall in employment in 2009. Yet 7.5m people were temporarily away from work in June. And many may not return.

Club(bed) 18-34. The Job Retention Scheme continues to cast a statistical fog over the true state of the local labour market. Northern Ireland’s headline unemployment rate of 2.5% is waiting to be blasted higher when the furlough scheme ends. The Labour Force Survey highlights that employment (lower) and inactivity (higher) have moved in opposite directions in Q2. These trends are expected to continue with redundancies coming in thick and fast. July saw 610 redundancies confirmed with a further 1,904 proposed. Since March there have been over 6,000 redundancies proposed. Younger generations have been hit hardest by labour market impact so far. Under 35s account for 55% of the rise in unemployment related benefit claims (+33,000) that have occurred between March – July.

One step forward, 2.5% back. Fretting about the UK’s dire productivity track record during the white heat of a pandemic may seem a fool’s errand. Certainly, it’s hard to measure output per hour worked accurately when both economic activity and hours worked are plunging, as they were in Q2. Still, the omens bode ill: labour productivity dropped by a record 2.5% between March and June, meaning we produced less per hour than on the eve of the financial crisis. Falls were widespread, though much worse in hardest-hit sectors like hotels and catering (-75%) and manufacture of transport equipment (-34%).

Restarting. The UK's trade surplus (yes, that's surplus, not a deficit) widened to £8.6bn in June, as imports took a bigger hit than exports. Trade in goods was more affected than the trade in services, with the major impact seen in machinery and transport equipment, and fuel, due to the knock on effects of virus-caused lockdown on demand for vehicles and oils. However, on a monthly basis, things were better in June than May with imports and exports increasing by 21.9% and 16.8% respectively. The rise chimes well with the results of the Business Impact of COVID-19 Survey (BICS), which show a reduced impact on trade for surveyed businesses.

What's next? This is the question on everybody's mind. Fast indicators and surveys indicate continued recovery. According to the Business Impact of Coronavirus Survey (BICS), of the UK businesses that responded 94% reported currently trading. At the end of April only 75% reported trading. However, 29% of currently trading businesses reported that operating costs were equal to or higher than turnover. In businesses that had not permanently stopped trading, 14% of the workforce had been furloughed. In the last two weeks 6% of workers had returned from furlough and 4% had returned to the normal workplace.

Rebound. Eurozone industrial production made up a lot of lost ground in June, growing by 9% as firms started the recovery from lockdown. There's still a long way to go, output has another 12% left to grow to match last year's level, but it is an encouraging start. Growth was strongest in the durable consumer goods component, reflecting the fact that retail sales have rebounded incredibly strongly to be above last year's level in June. Slowest to respond are capital goods, as many firms' investment plans have been interrupted by the pandemic. Across countries Spain and Portugal are the furthest from normal, whilst Ireland and

Norway are the only countries to be producing more now than a year ago.

Mixed bag. Better than expected retail sales and stronger labour market data have painted an upbeat image for the US economy in Q3.The spotlight has been on the weekly jobless claims which dropped below 1 million for the first time since March. However, the University of Michigan’s preliminary August consumer confidence measure remained close to 8 year lows. Divisions between Republicans and Democrats over further fiscal stimulus persists. Further delay in policy support could result in derailing some of the gains in consumer spending.

Not helping. China’s latest data may again be indicating what awaits our own Covid-19 recovery. Demand weakness appears to be holding back the nation’s rebound. Retail sales were off 1.1%y/y in July. That may not seem much, but Chinese retail sales customarily grow at 10%y/y. The rebound in industry continues to fare better, rising 4.8%y/y, about its pre-Covid pace. But another obstacle to recovery has arrived in the shape of flooding, contributing to higher prices. While the regulator has again been sounding the alarm over bad debts in the banking system, a whopping $0.5 trillion worth.

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