**A solid report card on the recovery in this week’s data – retail sales above pre-Covid levels, PMI levels marching upward and 95% of businesses back up and trading. In many respects the worst appears behind us. Unfortunately that can’t be said for the labour market. Meanwhile the familiar choreography of Brexit talks continues.**

**Get Back.** Countless have been the times when the consumer has ‘ridden to the rescue’ to the UK economy. And again, this stalwart of seemingly boundless optimism, the trusty shopper, brushes aside internal doubts and spends. The volume of retail sales rose by 3.6% between June and July and is now 3% above pre-Covid levels. But the effects are uneven. Whereas spending in clothing stores is down over 25%, online sales are up 50%. Yet underlying attitudes remain nervous, with consumers’ worried about the future. So a last hurrah before job losses mount? Let’s hope not.

**Up & down.** The August flash PMIs saw UK private sector output (60.3) accelerate at its fastest pace since October 2013. Back then, Miley Cyrus topped the charts with “Wrecking Ball”, a title that chimes with COVID-19’s impact. Fortunately July’s recovery has strengthened further in August. Manufacturing and services both experienced a notable pick-up in demand with activity accelerating to 61.6 and 60.1 respectively, at the fastest rates of growth since 2014. Output growth is on the up but firms are still shedding jobs rapidlly.The pandemic will be a wrecking ball on employment for some time yet.

**Getting back to work.** 95% of businesses in the UK are back up and trading at the start of August, up from 75% in April, according to the Office for National Statistics. But being open is far from business as usual. One in four has seen turnover fall by more than 20%, so it isn’t surprising that one in ten are moderately or severely concerned about their solvency. A big boost to companies’ cash flow has been the wage subsidy provided by the Government through the JRS. The support from the scheme has now started to taper and yet 11% of the workforce is still furloughed. Normality is still a long way away for them.

**Peak furlough.** Updated HMRC figures revealed almost 250,000 employees in Northern Ireland had been furloughed as of 30 June. That’s up 9,000 on the previous estimate and 32% of all employees. Mid-Ulster is the furlough capital with 38% while South Belfast had the smallest share of its employees (26%) availing of the Job Retention Scheme (JRS). Not surprisingly the local hospitality sector topped the JRS take-up rate charts with 81%. That equates to a chunky 41,500 or one-sixth of NI’s total number of furloughed staff. Construction also came in with a 71% take-up rate. The current picture will be vastly different with building sites, eateries and the majority of the economy reopened. But thousands will fail to return to their pre-COVID jobs when the scheme expires.

**Stirring?** UK inflation rose higher than expected in July, reaching 1% y/y from 0.6% previously while core inflation reached 1.8% – above the rate immediately pre-Covid. A number of forecasters have been warning of the potential for this crisis to herald the end of the low inflation era. But this is unlikely that moment. Yes some firms have raised prices to make themselves Covid-19 compliant. For example, hairdressers and dentists have increased their fees by 5.1% y/y and 7.4% y/y respectively. But factors including the VAT cut and the Eat Out to Help Out Scheme will likely exert downward pressure in the coming months. More generally, pricing power looks limited amid such a severe downturn.

**Playing catch-up**. Disruption to the inner workings of the property market means it’s only now that we’re starting to get a picture of the post-Covid housing world. Official UK figures, based on less than half the usual number of transactions, show that the average price of homes sold back in April fell fractionally (0.2%) month-on-month, taking annual growth down to a modest 2.6%. But this actually says little of the pandemic’s impact, as these sales were in the pipeline long before the virus struck. Thankfully, we’re now due a data deluge encompassing four more months’ house price movements by October with Northern Ireland’s Q2 house price data due in mid-September. Keep watching.

**Unfinished business.** “I’ve started so I’ll finish” was Magnus Magnusson’s catchphrase on Mastermind. The lockdown from late-March through most of Q2 prevented master builders from doing either. Northern Ireland housing starts fell by 34% y/y and completions by 61% y/y. The latter marked a record rate of decline, with the 691 dwellings completed in Q2 also an all-time low. That means 1,100 fewer units coming onto the market relative to the same period last year. This temporary dent in supply will provide support for residential prices in the short-term, particularly when set alongside the current sugar rush of demand. Longer-term though supply will likely increase and demand ease. It doesn’t take a mastermind to work out that this isn’t good for values.

**Milestone.** Public sector finances for July 2020 revealed that the UK’s debt hit £2tn for the first time eve,. The debt to GDP ratio at just over 100% was the highest in almost 60 years. Lower receipts and sharp increases in public spending meant that the current financial year deficit of c. £150bn, while already almost three times compared to whole of last year, was not surprising. That being said, the trend from here is important and it will depend on the shape and the speed of recovery, along with the size of future government support.

**Groundhog Day**. Another round of Brexit negotiations completed this week with the same result — both sides insist they want a deal and yet there is no deal in sight. For the EU a “level playing field” and fishing rights are two key preconditions for any trade deal. While Britain seeks “sovereign control of our own laws, borders, and waters”. The next round of talks will take place in London on September 7. That leaves little time for agreeing treaty text ahead of an EU summit on October 15.

**Mixed**. The Euro area composite PMI slipped to 51.6 in August, from 54.9 in July, hinting at a loss of momentum in the Euro area. Weakness was most evident in in the service sector, largely reflecting the adverse impact of increased local lockdowns following a renewed rise in virus cases, particularly in Spain. Manufacturing confidence was more resilient in the Euro area. Countrywise, Germany fared better than France. In the US, the latest monthly Markit PMI survey saw broad-based strength. US employment picked up, unlike the Euro area. Still, disappointing weekly jobless claims warrant caution on US labour market trends.

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