Retail sales may look strong, but that can’t mask the pronounced weakness in other parts of the UK economy, especially with second-wave restrictions pulling down on the recovery. The government stepped in with more policy support last week. The Bank of England might just have to follow suit.

TVs over trainers. Our inability to spend as freely on consumer services as normal continues to be to the benefit of many retailers. UK sales rose by 1.5% month-on-month in September, well ahead of expectations. After the virus-induced slump of Q2, retail sales have just completed their best ever quarter and are almost 5% above their pre-pandemic level. We’re spending more on food (3.7% above their pre-Covid level), a lot more on household goods (11% above) and with many of us spending far more time at home we’re spending less on clothes (down 12.7%), save the odd nice top for Zoom calls!

Slowing down. As new local restrictions are being introduced in more areas, behavioural changes start showing up in national surveys. During the week ending October 18th, overall UK footfall decreased to below 70% of its level in the same period of the previous year. Footfall decreased in all regions of the UK, with the largest decrease in the East of England and Northern Ireland. The proportion of adults that travelled to work has decreased by 5 pp to 60%. And the proportion of those working exclusively from home has increased to 25% – the highest since the beginning of August.

Reality check. While some indicators of consumer spending look robust, external MPC member Gertjan Vlieghe last week pointed to those for investment and employment remaining “quite weak”. And with inflation already low, the signs are pointing to a longer period of weak inflationary pressure. His speech also contained a poignant reminder that even with the recovery to date, we are still not even at the bottom of the financial crisis. Sobering checks on the challenge ahead. For those setting monetary policy it points to more stimulus. Could that be negative rates? Yes, potentially. With evidence that there is a positive effect in other countries who have gone negative, there is a case for serious consideration in the UK.

Buoyed. UK consumer prices increased 0.5% y/y in September, compared to 0.2% in August. Public transport use continues to remain substantially below pre-COVID levels, with people preferring travel in personal vehicles. So it wasn’t surprising to see prices for (second-hand) cars being the main contributor to the increase. And of course, it was aided by post-Eat Out to Help Out increase in prices of catering services. On the other hand, furniture, household equipment and maintenance pushed the index down. All said and done, with plenty spare capacity and restrictions limiting large swathes of spending, inflation is unlikely to move much higher any time soon.

Here we go again: The PMI gave another indication that the UK economy is losing steam.

The flash composite reading fell to 52.9 in October (from 56.5 in September) as the surge in new Covid-19 cases led to tighter restrictions, limiting the overall recovery. Already ailing sectors like travel, leisure and hospitality were left more vulnerable with fears of worse to come should restrictions persits. Manufacturing fared slightly better with pent up demand and new export orders keeping production steady. However, with cases still rising and Brexit fears lurking, the challenges faced by businesses are pronounced.

Final furlong. The Job Retention Scheme (JRS), or ‘furlough’ scheme, is in its last week. It will be superseded by a beefed-up, but still less generous, Job Support Scheme. Just under 3.3 million people remained on furlough in the UK at the end of August – a 36% fall on the month. Northern Ireland saw a similar sized decline with 70,500 individuals still furloughed on 31 August. That compares with 111,800 at the end of July and well below June’s peak of almost 250,000. It remains to be seen what chunk of these employees will have a job to return to after Halloween. Meanwhile an additional 66,000 claimants secured the second self-employment grant with construction workers accounting for almost one-in-three of these claims.

More generous. The Job Retention Scheme (JRS) will be replaced by the Job Support Scheme (JSS) and, as of last Thursday, with enhanced incentives to retain staff. The employer contribution for missing employee hours is down from 33% to 5% with government chipping in 62% of the missing hours. Minimum hours has also fallen to just 20%. It markedly changes the calculus compared to how the scheme was originally conceived. Time will tell on the scale of headcount reduction as the JRS ends and consumer-facing services feel the bite of new restrictions, but this should better limit the fallout.

A global pandemic? The housing market didn’t get the memo. Prices rose 2.5% y/y in August with the average price of a UK home now £239k, up 3.6% since just before the pandemic struck. And given the index represents completed transactions it doesn’t yet reflect the fillip from the cut to stamp duty. The mini-boom has some room left to run. But it's not without its risks. Waning momentum in the economy, the expected rise in unemployment, higher mortgage rates and larger deposits required for first-time buyers are all threats.

Loans bounce back. The local property market is still trying to process the post-lockdown pent-up demand. Transaction activity picked up markedly in the third quarter most notable within the residential sphere. The latter surged by a whopping 157% q/q to 5,730 transactions. However, this was coming off Q2's lockdown-induced record low. The non-residential market notched up a 59% q/q rise although both it and residential sales remain over one-fifth below the same quarter a year ago. Research by the PropertyPal website revealed a record quarter (Q3) for local house sales. While this hasn't filtered into the official HMRC statistics, it suggests a strong Q4 could be in the pipeline.

Record rebound. Northern Ireland's recruitment market saw vacancies on the NIJobs.com website halving in Q2 relative to the previous quarter. But as sure as night follows day, Q2's record decline was followed by a record rise (+68% q/q) in Q3, although demand for new hires was just two-thirds of the corresponding quarter last year. Four categories posted record highs in Q3. Perhaps not surprisingly, these included occupations largely unaffected by COVID-19 (e.g. Big Data & Analytics) or those that have experienced increased demand because of the health emergency i.e. Nursing, Healthcare & Medical and Environmental , Health & Safety. A corner has been turned on the recruitment front, but fresh lockdown measures will restrict the hiring recovery in Q4.

Financial stress. The impact of the COVID-19 pandemic on the local economy has been well documented. Less obvious is how the household finances are bearing up. NISRA's third pulse check on local opinion following the pandemic sheds some light on this. Almost three out of ten people expect the financial position of their household to deteriorate over the next twelve months. These people outnumber those anticipating an improvement in their finances by more than two-to-one. Reduced income has become an unwelcomed but increasingly common feature of living with the virus. Prior to the outbreak just 3% of people found difficulty in paying their usual household bills. Since Coronavirus, that figure has risen to 14% with 37% of people unable to save due to the economic situation.

Oceans apart. Business surveys tell a tale of two continents. Where US firms are bullish their eurozone counterparts warn of an economy heading the wrong way. The US all sector PMI reached 55.5 in October, up from 54.3 in September and marked the best reading in 20 months. The reading for eurozone was a sobering 49.4, the lowest in four months and below the magic 50-mark and so formally flashing a recession. COVID probably means we need flexibility in our interpretations of the PMI. But the worry is that the eurozone is a canary in the UK’s coal mine.

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