The global economy seems to be on track for a swift recovery. PMI prints across key geographies improved over the month, notwithstanding the effect of ongoing restrictions. What's more, firms are increasingly upbeat on the outlook and even indicated reduced firing intentions.

Resilient. After a brutal decline in January, the composite UK PMI recovered swiftly in February, printing at 49.8 vs 41.2 last month. Though still a little shy of the watermark 50 level, the improvement is notable, bearing testimony to impressive adaptation demonstrated by business during the time of a third lockdown. At the sector level, the gain was led by the services sector which seems to have nearly stabilised, though inter-sectoral variations remain. But manufacturing sector turned out to be the Achilles heel. More than half of all companies reporting lower exports attributed the decline to Brexit related factors.

Online boost from lockdown 3.0. Talking about adaption,nowhere is this starker than the shift to online retail. January’s closure of non-essential stores across the UK pushed online purchases up to a new record share of spend at 35%. That’s higher than we saw in previous waves and colossal compared to the 19.5% recorded a year ago. But it wasn’t enough to totally offset the new restrictions. Overall spending still fell by 8% compared to December, leaving it 5.5% below pre-Covid levels. Trends in transaction data point towards higher spending in February so hopefully we’ll see that gap close rapidly from here.

Lingering. Two steps forward, one back this week. After encouraging spring-like signs the previous week, spending on cards dropped by 3%, while the share of the workforce furloughed rose to one in five (20%, from 18%). Nearly half of those working (48%) did so at least partly from home, almost the high of 49% reached back in April 2020. The squeeze on freedom, activity and ultimately, the virus, are all taking longer than some hoped. Yet roughly 1 in 5 of us have antibodies. So we’re getting there, thankfully, because unsurprisingly our collective wellbeing remains almost subterranean.

Nudging higher. UK consumer price inflation has remained below the Bank of England’s 2% y/y target for the last eighteen months. January’s print was no exception, though inflation rose slightly to 0.7% y/y. A pick-up in food prices alongside less discounting on some household goods contributed to the latest rise. There was no evidence of Brexit-related custom fees and transport costs pushing up consumer prices in January, though watch this space in the coming months. Moreover, rising global commodity prices and reversal of the emergency cut in VAT for the hospitality sector this year could quickly change things.

Hot property. UK house prices grew by 8.5% over the previous year in December 2020 – the fastest annual increase since 2014! Regional disparities continue – North West prices saw the highest increase at 11.2% while London was the lowest at 3.5%. The boom, in the backdrop of a struggling economy, is partly due to the stamp duty holiday introduced by the government in July (set to end in March) and partly because the lockdown provided an opportunity to reassess housing needs, pushing up overall demand. However, the trend has already begun to cool off with enquiries and sales taking a dip in the new year.

COVID-19 price accelerator. NI's residential property prices slowed to 2.5% y/y in Q4 2019, its weakest growth rate in six-years. But COVID-19 appears to have provided an adrenaline shot for demand. Residential property prices accelerated from 1.8% q/q in Q3 to 3.0% q/q in Q4 2020. The latter marked the fastest rate of quarterly growth in four-and-a-half years. As a result, the annual rate of residential property price inflation more than doubled to 5.3%, a two-year high. This compares with +0.6% y/y for the Republic of Ireland and +7.1% y/y for the UK. NI may lag behind the UK in terms of house price growth but not private sector rents. Local private sector rents increased by 2.7% y/y in the last quarter of 2020 which was the highest of all 12 regions and twice the national average.

Supply constraints. Lockdown triggered a record slump in house completions in Q2 (-61% y/y) but a healthy rebound kicked in during the second half of 2020. Over 2,100 units were completed in Q4 representing a 9% y/y rise. However, 2020 still recorded a 13.5% y/y decline relative to 2019. That equates to over 1,000 fewer units coming onto the market and at just 6,420 marked the lowest level of completed dwellings in five years. Looking ahead, 2021 looks set to see housing supply reduced for a third year given that housing starts continued to fall in Q3 and Q4 2020 by 14% y/y and 8% y/y respectively. Just over 6,000 dwellings were started last year which represents the lowest since 2014. Restricting supply will provide support for prices.

In the red. This years' Budget, due next Wednesday, will be written in red ink. Public sector borrowing totalled almost £9bn last month; the first January deficit in a decade. UK government borrowing over the ten months since April has totalled an eye-watering £270bn, taking the national debt to a level not seen since the 1960s. Big falls in VAT receipts and business rates are compounding huge spending pressures created by Coronavirus support schemes. With the deficit expected to remain elevated for some time to come, the Chancellor might draw comfort from the fact that borrowing is undershooting the last official forecasts at least.

Without chips. Like the UK, lockdowns across the eurozone appear to be having far less of an impact compared to spring last year. The region’s composite PMI rose marginally from 47.8 to 48.1 this month, led by a 57.7 reading in manufacturing, the highest since early 2018. That’s down to that sector’s greater ability to adapt to distancing restrictions and the recovery in global trade. So strong in fact that chip shortages are a potential brake on output (some car plants in the US have had to halt production). While the services reading languishes at 47.7, firms are increasingly upbeat on the outlook (vaccine rollout).

Strong. The flash US composite PMI index edged higher to 58.8 in February 2021, from 58.7 in January. Strength was most evident in the services sector: the headline PMI index rose to 58.9 in February (58.3 January), driven by rising demand on looser restrictions. This was the highest level since March 2015. In contrast, manufacturing activity eased to 58.5 in February, from 59.2 in January, owing to ongoing supply shortages and extreme weather, but remains elevated. Notable was a widespread rise in input prices, partially passed on to higher selling prices. A harbinger of rising inflation in the coming months?

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