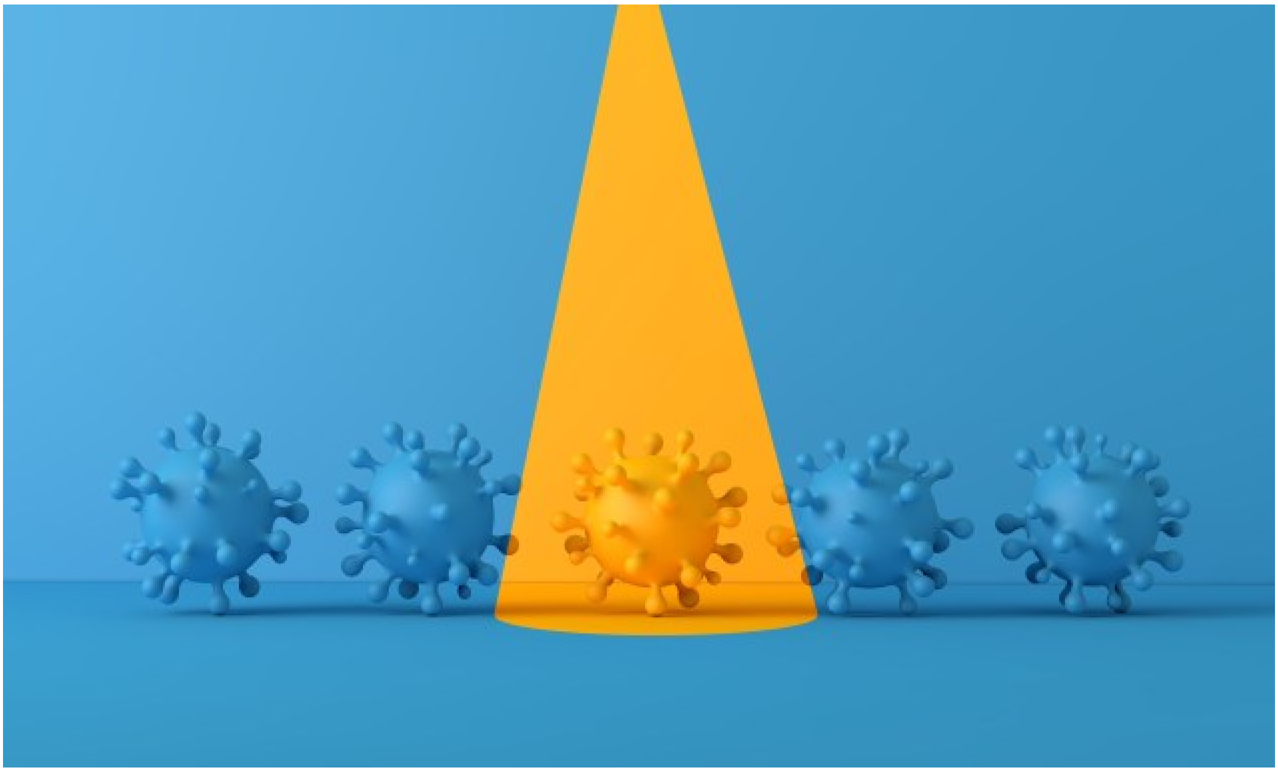
Amidst the steady drip of very good news on the recovery, last week came a reminder that we’re not out of the woods yet. Rising cases of the Indian variant (or Delta to use the World Health Organisation’s new labelling) underlines that while the risks posed by the virus have certainly diminished, they have not been eliminated.



Stepping Up. The latest indicators suggest that the UK’s recovery is in rude health. The number of furloughed workers has declined to the lows of last October already. Assuming NI has followed a similar path that’s a reduction of 30% / 31,000 since March. Job opening remain very strong, too, now 18% above pre pandemic levels. On the consumer spending front there has been a notable rise in restaurant reservations, driven by the re-opening of indoor dining. CHAPS spending data is around 96% of its pre-Covid level, though growth is softening a bit. Retail footfall data has retreated somewhat which could be down to more time socialising (there was plenty of spending during lockdown after all).

To infinity and beyond? UK car production rocketed by 34,573% y/y in April. Sounds out of this world but the inevitable base effects are at work here. To put things in context, lockdown restrictions last April result in a slump in production, levels down to a record low of 197 vehicles. But as life returns to normal, production levels too are recovering. Year-to-date the number of cars rolling off production lines is up 17% relative to Jan – Apr'20 but is still down, close to one-third relative to the five-year average for those four months. A shortage of semiconductors is restricting output. This slump in car production has drastically reduced the supply of stock flowing into the second-hand car market. So that's maybe one pocket of inflation.

Sobering. The CBI trade survey data was a little disappointing, with the headline sales balance moderating to 18 in May (vs 20 in April). But before we start worrying over the vigour of the UK recovery a few things are worth pointing out. For one, the survey has a higher share of high street retailers compared to online retailers. Further, the survey was conducted between April 28 – May 17, missing out on the effect of full reopening of the hospitality sector. Lastly, other fast-moving indicators such as CHAPS spending data suggest May saw continued recovery in spending.

It's not all good news. The percentage of UK 16-24 year olds who were not in education, employment, or training (NEET) was down to 728,000 for Q1. A record low for the series which began in 2001. One contributing factor to the overall reduction was a rise in the return to education for young people looking to avoid the labour market. However, the impact of Covid-19 on retail and hospitality jobs has meant that 44% of the group were classified as unemployed, nearly 20,000 more than pre-pandemic estimates. In Northern Ireland there were 21,000 'NEETS' or 10.4% of 16-24 year olds in Q1 2021. That's back to pre-pandemic (Q4 2019) levels and rates.

Smaller and better. UK public sector net borrowing totaled £31.7bn in April. If that sounds like a lot, it is. The second highest April deficit since records began. Around £475 per head. But, at the same time, it also represents a big step in the right direction: one-third less Government borrowing than last April and almost 20% less than the Office for Budget Responsibility forecast just three months ago. In part that reflects the UK’s improving economic fortunes and strong labour market, with tax receipts holding up better than expected, especially employment taxes.

Special K. There’s a economists’ gag that the best letter to describe Covid’s impact is K-shaped (neatly demonstrating why economists are not generally hired for their gags). The point is that Covid amplifies polarisation between winners & losers. Just before the virus arrived, the pre-tax and benefit income of the richest fifth of households was £107,800, 12.7 times the poorest fifth (£8,464). Tax and benefits reduced that to 8.3 times, still a sizeable wedge. And after years of relative stability, income inequality is rising again, due to benefit freezes. Covid may change attitudes towards fairness, so watch this space.

Nosedive. Last year saw large drops in activity in many areas. And very few of them were influenced as much as international travel. According to the recent statistical release, in 2020 the number of visitors to the UK declined by 73% and the number of the UK residents traveling abroad decreased by 74%, testimony to the profound level of disruption. The number of commercial flights is well up on last year but still around 40% below the equivalent pre-Covid. There’s a long way to go in the travel industry’s recovery.

Recoiling. Personal income in the US rose by 21.1% over the month in March, the largest monthly increase observed since 1959. Federal relief funds have helped many to not only float their way through Covid-prompted financial hardships but also spend more and hence provide considerable stimulus to the recover (even with sizeable chunks being saved!). Spending on goods was up 8.1%, particularly recreational (games, toys, and hobbies), motor vehicle and parts. Spending on services, however, was somewhat muted, rising only

2.2%. The swift vaccination rollout should eliminate any last obstacles standing in the way of re-opening, while excess savings and income support will help propel consumption.