Another week of upbeat economic data. UK Businesses have now joined consumers in setting records for high performance. But the ‘brightening outlook comes with some discomfort’, as OECD describes it. With a surge in the spread of the delta variant, UK officials are now drawing up a contingent plan for possible delay in June 21 easing.

Chance. The granular impacts of Covid echoes earlier ages when people were astonished that plagues could devastate one house while leaving the neighbour untouched. So with confidence in the UK economy rising almost daily, it’s easy to forget that the recovery is not shared evenly. Footfall rose 7% on the week to the end of May, to 73% the ‘beforetime’ rate. Yet while retail parks have returned to 92%, high-streets and shopping centres look forlorn at 68% and 67% respectively. Or take job adverts. There’s seemingly endless opportunities in logistics (up c. 300%), while graduate openings languish at 84%.

The business. Ask UK business leaders about the impact COVID is having and despite the seemingly ever-shifting epidemiological backdrop, their answers have told a remarkably similar story for the past several months. Both near and long term expectations have improved compared to the start of the year. While the virus continues to weigh on sales, estimated 10% lower in Q2, it is expected to recover virtually all lost ground over the remainder of 2021, consistent with forecasts of a rapid vaccine-led recovery. Business investment is expected to follow a similarly steep upward path and, along with sales, is actually predicted to be 1% higher from 2022 onwards than it would have been absent COVID.

U-turn. The dip in UK housing market activity in Q1 is behind us. Approvals rose to 86.9K in April, surprising the consensus on the upside. This is thanks to double good news – lifting of lockdown restrictions as well as extension of the stamp duty cut. And the strength is likely to be retained over the next few months as indicated by the RICS residential market survey and Google trends data on visit to the top 3 property websites. But consumers are still not going all out as consumer credit de-leveraging continued.

Burning rubber? The car industry may be displaying wheel-spinning growth rates but the volume of new car sales continues to disappoint. May saw UK and NI sales jump by 635% y/y and 2,600% y/y respectively. But these jaw dropping growth rates are coming off last year’s lockdown lows. Comparing against May 2019 is a better benchmark with both the UK (-15%) and NI (-21%) below the corresponding month two years ago. In NI, last month marked the second worst May for new car sales since 2012. After last year’s annus horriblis, 2021 already marks the worst start to a year on record with 9,000 fewer cars sold locally in the first five months of the year relative to the same period in 2019.

Greening. Speaking last week, the Governor of the Bank of England has said that the primary levers for driving the transition to net-zero rest not with central banks. But BoE is responsible for monetary and financial stability. This week it will launch a Climate Biennial Exploratory Scenario exercise to assess the resiliency of individual banks, insurers and the financial system to different climate scenarios. And from Q4 it will start adjusting the composition of the portfolio of corporate bonds held by the Bank, in order to incentivise companies to take actions contributing to an orderly transition to net–zero.

Heating up. May’s Eurozone PMI contained a series of record highs – some good and some bad. Manufacturing activity is smoking, having hit a series high of 63.1. Services activity also quickened but hasn’t yet entered the red hot sixties zone. Last month’s reading of 55.2 was the best services outturn in almost 3 years. With firms’ optimism higher than at any time in over 17 years, further improvements are expected. Though strong growth is being accompanied by inflationary pressures. Input cost inflation has pushed well into sixties. May’s reading of 66.8 marked a 122-month high and led firms to raise their own prices at a record rate.

Overheating already? With a large proportion of the US population vaccinated, the economy is on track to reopen fully. The optimism is coming through in business surveys. Manufacturing PMI rose to 61.5, the highest since October 2009 on the strength of new orders. Meanwhile, services PMI hit a record high of 64. To add to this, the ginormous $6 trillion stimulus provided by the government last year is supporting incomes and therefore spending on goods and services. But, with the economy recovering at an extraordinary pace, businesses are struggling to source raw materials and labour, driving up their production costs. Inflation ahead!

Mixed. US non-farm payrolls posted a 559k increase in May, below market expectations. The main driver of higher job gains in May was the hospitality and leisure sector, driven by the continued re-opening of the US economy. The drag came from decline in hiring in construction and retail. Notwithstanding, US unemployment dropped to 5.8% from 6.1% a month prior. However, a rising concern now is shortage of labour supply. Job vacancies are at a record high and still rising. This has also exerted upward pressure on wages, average hourly earnings rose at healthy clip, led by the hospitality & leisure sector. Another contributing factor towards build-up of inflationary pressure.

A problem shared. Unemployment is a blight on people’s lives in all sorts of situations, but especially so when no-one in a household is working. Unemployment has risen during the pandemic yet the number of households where all adults are looking for work hasn’t increased and remains at a little over a quarter of a million in the UK, close to its all-time low. It seems that most people who are looking for a job are in a household where there is another adult who is still working. The furlough scheme is still doing an important job of restraining rises in unemployment and the real test will come when that support is removed. But in the meantime this is yet another way in which the pandemic’s impact on the economy has been so different from previous recessions.

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