After bumper readings in April and May, activity indicators are levelling off in the UK. Covid 19 cases have continued to pick up, with some hints that consumers have turned a little more cautious in response. But firms remain optimistic, indicating they want to keep hiring. Meanwhile, despite the chatter on inflation, the Bank of England remain firmly of the view that it will prove temporary or ‘transitory’. So no monetary tightening coming any time soon.

Upbeat. The UK composite PMI moderated slightly to 61.7 in June, from its high of 62.9 in May. While the services sector retained its strength, the manufacturing sector slowed down a shade, with the export orders component underperforming its Eurozone counterpart. Some of that is due to Brexit. The ONS Business Insights survey as of end May shows that exporting and importing challenges for UK firms remain elevated, close to the levels seen in January. But the overall picture painted by the PMI remains strong, with firms indicating a robust pace of hiring.

Transitory. The MPC voted unanimously to keep Bank Rate at 0.10% and voted 8-1 to maintain its target for the stock of government bond purchase at £875bn. Reflecting the strong performance of the UK economy, the Bank revised up its Q2 GDP estimates from 4.25% q/q to 5.5% q/q. Further, it addressed the inflation issue after a notable firming of CPI inflation print in May. The Committee continues see above target inflation as transitory and maintained its stance to not prematurely tighten policy. The Bank will wait for “clear” and “significant” evidence of medium-term growth and “lean strongly against downside risks” to the economic outlook.

Booming. The BoE’s Q2 Agent Survey (of around 700 businesses) showed that the post-easing recovery is very much in train. Pent-up demand led to bumper spending on consumer goods and services.

Manufacturing is close to pre-Covid levels. A growing number of businesses are intending to increase hiring in response to the better than expected recovery. The housing market continued to flourish while investor appetite for commercial real estate recovered. That, along with public infrastructure projects, fuelled construction output. But the survey also revealed the issues around supply chain disruptions, cost pressures, labour shortage and uneven recoveries. So expect it to be a bumpy ride, at least for some.

Mixed Bag. Step 3 of lockdown easing on May 17 resulted in the widespread opening and lifting of most social contact rules. This triggered a surge in the official retail sales volume as per the June’s CBI Distributive Trade Survey. The reported sales for the time of year balance climbed to +23 (highest in 4 years). But the picture is not all that rosy as other indicators were subdued. The GfK confidence (-9) indicated no improvement in sentiment, while the CHAPS debt & credit card spending data showed an incomplete spending recovery (transactions 9.5% below Feb'20 levels).

Sticky. 'Real time' indicators are used to track the economic recovery. Yet they also reveal how 'sticky' Covid-induced behavioural changes may be. So let's mash the data up to reveal the state of play in late June. Thumbs' up, the economy is booming. Yet it's being reshaped too. Overall, just 6% of the workforce remain furloughed and job adverts are up nearly 1/3 versus Feb 2020. Yet just 64% of the workforce commuted and shopping IRL (that's 'in real life' – footfall for the aficionados) is roughly three quarters pre-pandemic numbers. Unfortunately, road traffic is back to being equally congested. Boo!

Ch-ch-changes. Comparing what we got up to during the latest lockdown with Spring 2020, reveals just how much life has adapted to the pandemic. Adults in the UK spent an extra 18 minutes per day working from home on average this March, as remote work became routine for many. Time spent outdoors – travelling, socialising and shopping – jumped by 35 minutes per day as we took advantage of slightly looser restrictions to, for instance, meet friends for coffee in the park. And whilst re-opening schools gave parents back 30 minutes per day, everyone cut back on those lockdown lie-ins (-23 mins sleep).

Hot property. Residential property transactions in the UK and NI jumped by 123% y/y & 369% y/y respectively in May. But these impressive growth rates largely reflect how bad May 2020 was. A more meaningful comparison is with May 2019 (pre-pandemic) with last month's sales up by 3% (NI) and 6% (UK) higher than two years ago. Year-to-date (January – May) local residential property sales have almost doubled relative to last year and are 28% above the corresponding five-month period for 2019 (UK = +38%). Indeed, NI & UK residential sales have had their best Jan-May period since 2007.

In the zone. The Eurozone was on its own amongst the big four developed economies in seeing growth accelerate in June. Business activity within the PMI survey accelerated from

57.1 in May to 59.2 – its fastest rate in 15 years. Whilst the strength of the upturn is to be welcomed, meeting that demand is becoming increasingly more difficult. This is underscored by the record rise in backlogs despite a notable pick-up in staffing levels. Lengthening supplier chains continue to add time and cost to businesses with input cost inflation hitting its second-highest rate in the survey’s 23-year history. As a result, Eurozone firms hiked their prices at a record pace. Sounds all too familiar.

Bottlenecks. The US composite output index declined to 63.9 in June, from 68.7 in May, dragged down by ongoing capacity constraints. Manufacturing output edged down to 62.6 in June compared to 62.1 in May, but the main driver of weakness was in the service sector: the headline index dropped to 64.8 in June (70.4 in May). Labour shortages were prevalent in services and manufacturing in June as firms raised wages to attract more workers. The upshot was that employment growth moderated and cost pressures remained elevated. More US firms are passing on higher prices to clients, hinting at ongoing momentum in US inflation in H2 2021.

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