Freedom Day in England – a much awaited milestone. Consumer behaviour, rather than restrictions, is in the driving seat now when it comes to gauging the recovery. But with daily cases surpassing January levels and a “ping-demic”, spending appetite might just be a little dented in the near-term. For now, the data continues to look robust.

Surprise. UK inflation hit 2.5% y/y in June, exceeding analysts’ expectations for the third month running and its highest rate in almost three years. If changes to indirect taxation are excluded (such as the temporary VAT cut for hospitality) prices are up 4.2% y/y – marking the highest rate since 2009. Inflationary pressures were broad based with notable price rises within food, eating out, clothing and transport. Motorists have seen fuel prices increase by 20% y/y as oil has rebounded. Meanwhile the global computer chip shortage is restricting the supply of cars – second-hand car prices jumped by 4.4% in June and were

5.6% higher than June 2020. But that is tame relative to the 45% y/y surge in the US!

Steady. UK unemployment rate remained flat at 4.8% in the three months to May with NI’s unemployment rate remained also unchanged at 3.6%. Things are likely to improve even further in June as the number of payrolled employees rose by a whopping 356k for the UK and 10k in NI, the highest addition since the onset of the pandemic. That said the recovery is far from complete. Inter-regional variations remain with London still left with the most ground to cover. Further, the share of workers on furlough in the high-contact sectors is notably above the UK average. While older workers are coming off furlough more slowly than the young.

Mission accomplished? HMRC payrolls data for Northern Ireland reported 757,211 employees in June. Significantly that is back above February 2020’s pre-pandemic high. Clearly the 3% rise (+21,769 jobs) in local employee numbers since November 2020’s trough is encouraging. However, don’t be fooled into thinking the labour market has recovered from the pandemic. Far from it! Northern Ireland may have a record number of people on the payrolls but the local workforce are working fewer hours than they did before the pandemic. Part of this is explained by the thousands still on furlough and not working. Another factor is the 29% slump in self-employment which is currently plumbing a 20+ year low. Things are far from being back to normal.

Up or down? But at least the overall furlough picture is one of improvement. The proportion of workers on furlough has decreased to 5%. 64% of previously furloughed workers are now working from their normal pre-pandemic place of work. On 9 July the total volume of online job adverts decreased by 4% relative to the previous week, but remained substantially higher than pre-pandemic at 129% of its February 2020 level. How the recovery will proceed from here will be influenced by two factors: further relaxation of Covid-19 restrictions and increasing number of cases and hospitalisations. What will win:

natural caution or a desire to celebrate freedom?

Buying Frenzy. UK house prices rose by 10% in the year to May 2021, the fastest rate since before the 2008 financial crisis, as buyers scrambled to take advantage of the stamp duty holiday. The average property price across the UK is now £255k (that’s over £100k above NI), compared to the roughly £230k pre-pandemic. Property prices in the North West had the highest annual growth, whilst London homeowners were left behind, with the capital continuing to be the region with lowest annual growth for the sixth consecutive month. However, properties in London remain the most expensive in the UK.

Available. The latest UK credit conditions survey revealed that availability of credit, both secured and unsecured, increased in the second quarter and is expected to increase further in the third. However, the demand side is expected to weaken in Q3 as the stamp-duty holiday expires. With an increase in lenders’ risk appetite, spreads for both secured and unsecured credit tightened. On the corporate side, credit demand from small and medium firms decreased, possibly due to reopening releasing some pressure. But demand by large firms increased. Defaults were steady across households and corporates, but are expected to increase in Q3 as government support tapers off.

One Step Ahead: The Bank of England’s Financial Policy Committee, in its latest financial stability report, indicated that the outlook has improved. However, new variants of Covid still remain a threat to the recovery and with the unwinding of government support, households and businesses would need reinforcement from the financial system. The FPC believes that the major banks and building societies are resilient with sufficient capital and liquidity to provide the required support, the statement backed by the interim results from the solvency test on banks currently being run. The Committee is also stressing the resilience to climate change and exploring digital money to ensure that the banks are future-ready.

Price pressures. The latest monthly UK regional PMI survey revealed a widespread rise in business confidence in June, driven by the recent gradual reopening of the UK economy. Demand is picking up at a healthy pace and companies are boosting employment. Supply side constraints are increasingly evident as companies struggle to keep up with increasing demand. Witness recent reports of higher labour shortages across UK regions, boosting wage costs. Stronger demand is encouraging firms to pass on higher input costs to prices charged. Regionally-speaking London saw the lowest increase in final prices, possibly reflecting the lack of pricing power in the struggling hospitality and leisure sector. Unfortunately NI firms posted the sharpest rise in both input costs and output prices.

Spike. US inflation surprised on the upside again in June 2021: both US headline and core CPI jumped 0.9% m/m. The annual rate of CPI increased to 5.4% in June (5% y/y May), the highest annual rate since August 2008. Transitory factors were again evident last month. In particular surging used car prices, contributing 0.4% to core CPI. However, rents, a key component of the core CPI, printed a solid rise in June, hinting at a more sustained rise in US inflation. Still, Fed Chair Jay Powell signalled no urgency to unwind QE soon let alone hike official rates at his latest semi-annual testimony before Congress.

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