Last week's releases suggest that February has been a favourable month for UK economic activity. An improved economic outlook since Q4 seems to be the main driver, along with some seasonal factors. But let's not heave a sigh of relief just yet. Inflation is still in double digits, and borrowing costs are elevated. A recession is still on the table, although latest figures suggest it's likely to be milder than many thought. And the NI Protocol logjam appears to be on the cusp of a breakthrough. Watch this space.

Bounce back. Business sentiment improved notably last month. The UK flash PMI jumped to 53.0 in February, from 48.5 at the start of the year. The services sector registered the biggest turnaround, recovering from 48.7 to 53.3, but things are looking much less gloomy for manufacturers too (PMI rose to 49.2). Will this newfound business confidence be enough for the UK to sidestep a recession in Q1? It would be premature to say anything right now – the February jump should be taken with a pinch of salt; after all, the PMIs exclude the retail, construction, and public services sectors, all of which are under their own pressures due to squeezed consumers, high borrowing costs and strike action.

Winter came. And we know what came with it—Inflation reaching the most eye-watering levels in 40 years. Granted, the value of UK consumer spending increased even as prices brutally outpaced earnings but that itself reflects said price effects. What consumers received in return decreased. Still, despite negative consumer sentiment and cost-of-living pressures, this winter did not see significant declines in consumer spending; in fact, discretionary spending was in line with previous winter patterns. Cue the Christmas and New Year festivities and sale days such as Black Friday and Boxing Day, which precluded the cheer from being stifled.

A ray of hope. UK consumer sentiment has been improving of late. The Gfk Consumer Confidence index recovered slightly in Feb to -38, from -45 in Jan. Although the Cost of Living (CoL) crisis and the economy remain the most common concerns for UK households, there are some bright spots. The share of households reporting an increase in their CoL compared to the previous month came down a touch in Feb (67%) from Jan (69%). As a result, households' assessment of their personal finances compared to a year ago (-26 vs -31 in Jan) and over the next 12 months (-18 vs -27) also strengthened.

Big spenders. And that improved sentiment might just help buoy the high-frequency activity data, which saw notable increases in UK retail footfall and spending. Revolut debit card spending rose by 5% from the previous week, with all categories scoring above their equivalent weeks in 2022. The highest increase in spending was recorded for the "pubs, restaurants and fast food” category (up 15% this week), which was complemented by a 23% hike in UK seated diners, coinciding Valentine’s Day. Overall retail footfall also rose to 108% of the previous week’s level, most likely boosted due to UK school half terms. In other good news, both average gas and electricity prices continued to fall, reducing the pressure on prices down the track.

Get Back. Less of us are working. The UK’s employment rate is one percentage point lower than pre-pandemic. And as the Resolution Foundation (RF) points out in a new report, although that’s a not too shabby 15th out of 38 OECD economies, we were seventh in 2019. What’s going on? Pandemic-era retirement is one factor. But there’s a longer-term issue of rising economic inactivity due to long-term sickness. That’s not just those outside of the labour market. Strikingly, people in employment drove 83% of the 2.3m rise in the number of working-age people with disabilities from 2013 to 2022. A policy focus should be to keep those who become ill or disabled in work, rather than just returning those out of work to employment.

How to spend it? The Government’s finances got a boost last month as the lower cost of energy price policies and bumper tax revenues boosted the Treasury’s coffers. Cue rising demands to settle public sector pay disputes and cancel the planned rise in the Energy Price Guarantee (due to climb from £2,500 to £3,000 for a typical household from April). Energy markets may see yet more volatility, but what are we to make of strong tax receipts? In the first 10 months of the year PAYE income tax revenues are up 11% and self-assessed receipts up 18%. The progressive tax system guarantees those rises exceed pay growth, but the fact that they’re virtually double the headline rate of wages suggests pay might actually be higher than the official surveys are reporting. Strong corporation tax receipts show this isn’t coming at the expense of margins either. Chancellor Hunt may have rather more fiscal firepower at his disposal than planned.

On the turn. Almost 30% of UK businesses reported lower turnover in January relative to December, outnumbering those signalling a rise (16%). But that picture is changing. Over one in five expect turnover to increase in March—double the rate at the start of the year. This is largely due to a resurgence in the accommodation and food service sector. Conversely, the proportion of firms hiking their prices has been on a downward trend. 39% of firms raised prices in January, down from nearly half in September 2022 with just one-quarter set to raise their prices in March. Recruitment difficulties remain a challenge for 28% of firms with more than 10 employees with one-in-two health and social care firms citing hiring problems.

Green shoots. Spring’s fast approaching and it’s much brighter as firms in both the Eurozone and the US reported rising activity in February. The EZ flash PMI rose to a nine-month high of 52.3 (from 50.3). The US eked out a net-positive 50.2 (from a woeful 46.8). Comparatively, the EZ seems in better shape, with almost a full bingo card (rising demand, easing supply constraints, softening input prices). The US story is more nuanced, e.g., while input costs softened, output prices rose and manufacturing, new orders and exports underwhelmed). Still, the news is both pretty good and definitely welcome.

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