Rebounding UK PMIs mask troubling employment story

The latest UK PMIs don't add a great deal of new information to our understanding of how the UK economy is rebounding. That said, the employment aspect of the report is yet another sign that the jobless rate is likely to climb over the coming months, posing a major challenge to the economic recovery

Source: iStockphoto

The level of PMIs aren't especially helpful right now...

If you're looking to gauge the strength of the UK recovery, the latest PMIs are probably not the best place to look.

At 56.6, the service-sector index (which accounts for around 80% of UK output) is a bit better than expected, as more importantly, it is back above the all-important 50-level for the first time since the pandemic began.

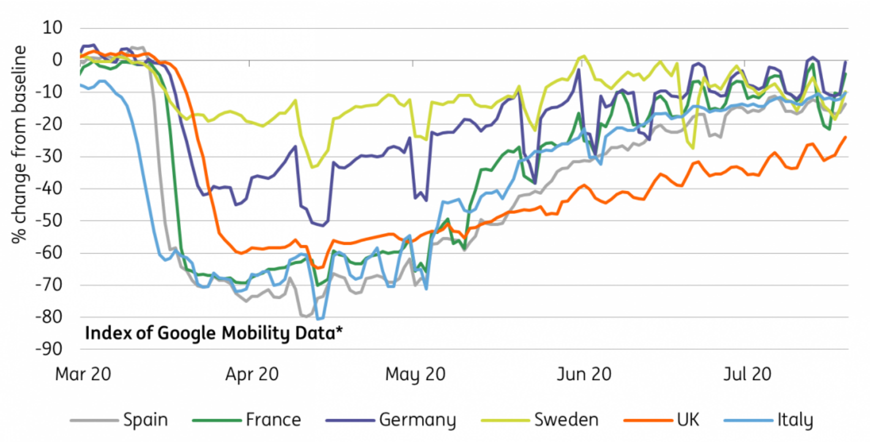
These latest PMI numbers tell us that on balance, a higher *proportion of firms are seeing things getting better - but it doesn't tell us much about the magnitude of that improvement.*

But while this is undoubtedly a positive step, it only really tells us that the sector is no longer contracting, something that we already know from various other data sources, including the official GDP data for May.

The general point is that, while PMIs are usually the gold-standard when it comes to nowcasting growth in normal times, they aren't all-that-helpful at economic turning points.

Like other survey-based data, they are calculated by netting out the number of businesses saying conditions are improving against those that say they are worsening. So what these latest PMI numbers tell us is that on balance, a higher proportion of firms are seeing things getting better - but it doesn't tell us much about the magnitude of that improvement.

UK movement is still below 'normal' according to Google



Source: Google Mobility Report, ING

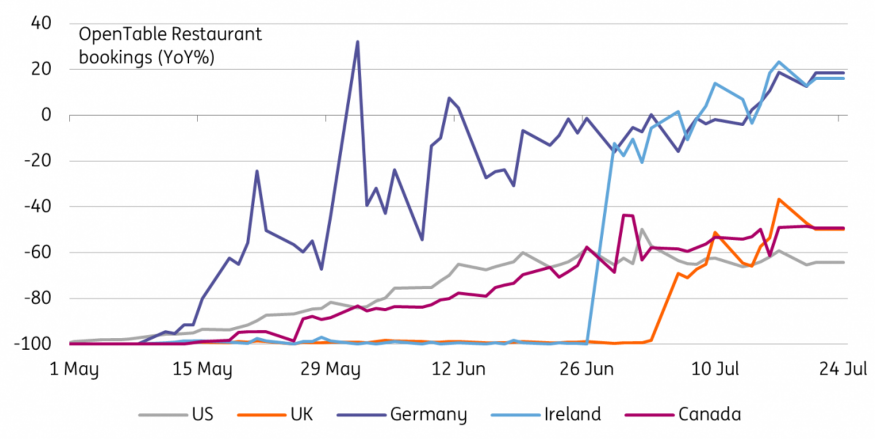
Unemployment set to rise as furlough scheme wound down

That said, the IHS Market/CIPS accompanying press release provides an important reminder that the recovery is likely to be slow. They noted for instance that one-in-three service providers reported a fall in employment in July, reflecting higher costs and weaker-than-expected demand. This comes as the government prepares to gradually withdraw the support provided by the job retention (furlough) scheme over the next few months.

These signs of weaker demand are largely backed-up by other data sources too. We know by looking at Google Mobility indices, as well as footfall data from Springboard/UK government and OpenTable restaurant reservations, that consumers are still reluctant to spend time (and money) away from home. We suspect some of these measures will improve over coming weeks, but a more sustained recovery will hinge on public confidence in country's ability to control localised outbreaks of Covid-19, through contact tracing and other measures.

A safety-conscious consumer, as well as the increasing financial challenge posed by rising unemployment, suggest that the overall economic recovery is unlikely to a full 'V-shape'. Despite a strong recovery in retail sales during June, we don't expect the size of the UK economy to return to pre-virus levels until 2022 or later.

OpenTable reservations still much lower than usual



Source: OpenTable, Bloomberg

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