

Market Overview



Update

14 July 2020

- **UK GDP**
- **Bailey raises concerns over jobs**
- **UK China relationship sours**
- **Irish Economy**

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UK GDP:

UK GDP, released at 7am this morning disappointed against expectations with just a 1.8% expansion recorded in May whilst consensus expectations had been for a rise of 5.5%. That corresponded to output standing 24.0% down on year-ago-levels whilst on a 3m/3m basis that left output 19.1% lower, thus leaving Q2 overall on track for very severe decline in GDP. The detail of the release shows that whilst there were solid rises in industrial output (+6.0% mom) and construction output (+8.2% mom) the service sector staged a small recovery of just 0.9% after the sharp April drop. However the material easing in restrictions, relevant for service sector activity, followed in June and July, such that a bigger services recovery should be staged in the coming months. Indeed, on this front we note that the BRC retail sales figures released overnight showed total sales up 3.4% (yoy) in June, in what was the biggest rise since May 2018.

Bailey raises concerns over jobs:

Bank of England Governor Andrew Bailey had a busy schedule yesterday, giving two speeches discussing both the Libor replacement project and the Bank of England response to the economic downturn and plans to reduce the balance sheet. However his comments on the prospects for the recovery for the UK sparked a slide in the pound, which saw EURGBP return back above the 0.90p level after enjoying a brief boost last week. The governor struck a pessimistic tone on the prospects for recovery in the UK, noting that they were still a long way from a full recovery and that he was “very worried about jobs” recovering to pre-Covid levels.

UK China relationship sours:

Meanwhile UK relations with China are deteriorating on a number of fronts. Firstly, the government is set to do a U-turn on UK 5G, with the government set to reverse course and announce the phasing out of Huawei's participation in the 5G network. This is expected to be announced later today and looks to be aimed at placating Tory rebels and the US who have objected to Huawei's participation on national security grounds. Secondly, China's new national security legislation for Hong Kong also looks to be causing a rift in UK-China relations, especially after the UK offered Hong Kong citizens a 'route to UK citizenship'; here the Foreign Office has now estimated that 200k could take up the UK's offer.

Irish Economy:

Cumulative 50% reduction in PUP claimants within sight

As flagged by the Department of Employment Affairs and Social Protection last week, the number of Pandemic Unemployment Payment (PUP) recipients fell by 67,300 (16%) in the past week, the largest decline since the payment was introduced in March. The accelerated pace of decline was prompted by the commencement of Phase 3 of the government's economic reopening roadmap which permitted many service sector business to recommence trading. A further decline of 44,400 (13%) is expected next week based on the number of people that have since closed their claims. This reduction will take the total number of claimants to just above 300,000, almost half of the peak in early May, and reduce the COVID-19-related unemployment rate to 12%. Further impetus to the fall in unemployment will come from Phase 4 of the government's roadmap due to commence on Monday (although much of the initially-planned easing was brought forward to Phase 3), but gains thereafter may be harder to come by. A further 405,000 employees remain on the Temporary Wage Subsidy Scheme, representing 16% of the labour force.

Reflecting the nature of the recent easing in restrictions, the sectors with the largest numbers that have returned to work in the past week are Accommodation and Food Services (12,400), Other Sectors e.g. hairdressers (5,100) and Wholesale/Retail (4,200). Former employees of the Accommodation and Food Service sector still represent close to a quarter of all PUP recipients, but claimants in this sector have fallen from 110,700 to 80,800 in just the past two weeks.

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