

Between the lines

Week
26

UK economy comes roaring back in June

The latest purchasing managers' index (PMI) data for the UK shows a record recovery in June, although the economy has yet to return to growth.

The Markit composite PMI numbers (released 23 Jun) showed a reading of 47.6 for the month – a four-month high and a record jump from May's reading of 30.

Importantly, any PMI reading below 50 shows economic contraction, but the massive leap, which reflects shops and businesses re-opening, illustrates that the rate of decline has stabilised.

This was the second successive month of record-breaking positive jumps in PMI numbers after they cratered to all-time lows in April.

Within the composite numbers, the reading for UK services, which accounts for around 80% of the total economy, jumped to 47 in June (from 29 in May).



Credit: Alphotographic/Stock

Meanwhile, both manufacturing and manufacturing output crept into positive territory with flash readings of 50.1 and 50.8 respectively.

Analysts now expect the UK economy to return to growth in the third quarter helped by the further easing of lockdown restrictions scheduled for 4 July.

However, much of the good news may already be priced in with the prospects for longer-term recovery looking more muted thanks to weak demand, widespread job uncertainty and the agonies of Brexit.

Europe warming up

It was a similar story in Europe, which saw its all-time record bounce in PMI numbers in May, before another huge leap in June. The flash eurozone composite reading jumped to 47.5 in June from 31.9 in May.

Although Germany's numbers showed a greatly reduced rate of decline, they still showed a contraction contrasting with France where the flash composite reading for June hit 51.3, up from 32.1 in May, with both services and manufacturing showing modest growth.

German giants court catastrophe

Two of Germany's largest companies were on the edge of failure this week, with Lufthansa hoping shareholders accepted a government bailout, and Wirecard in emergency talks after €1.9bn went missing from its accounts.



Credit: horstgerlach/Stock

Flagship airline Lufthansa had agreed a €9bn bailout from the German government after it was hit by the coronavirus. But, its largest shareholder – Heinz Thiele – had threatened to block the deal at this week's annual general meeting, over concerns the state's 20% stake and board seats would dilute existing shareholdings. However, German officials suggested the deal would be approved after they met key shareholders.

Elsewhere, tech firm Wirecard, which has faced allegations of fraud, saw its share price tumble after auditors refused to sign off its 2019 accounts over a missing €1.9bn, leading chief executive Markus Braun to resign. On Monday (22 Jun) Wirecard acknowledged it was likely the missing account balances of €1.9bn "do not exist", and on Tuesday Mr Braun was arrested, accused of inflating Wirecard's finances to make them appear healthier to investors.

Quilter Market Explainer: Trade war 2.0?

In response to the severe market volatility that has accompanied the outbreak of the global coronavirus pandemic, Quilter has launched the Quilter Market Explainer, a special fortnightly webcast for advisers and clients.

All our previous broadcasts in this series are available on demand, to listen please click on the play button.

The latest *Explainer* aired at midday today (26 Jun) and featured experts from across Quilter discussing the re-emergence of hostilities in the China/US trade war and the potential it has to redraw the global trade map.

Our panel discussed how investors are likely to be affected by China's new Hong Kong gambit, the impact of the coronavirus blame game and how November's US presidential election is likely to skew the playing field even further.

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