The Federal Open Market Committee has convinced pretty well everyone that it will raise the Fed Funds Target Rate when it meets on Tuesday and Wednesday. A first rise since June 2006 would be cause for modest celebration, signalling as it would that the need for extraordinary monetary policy is beginning to pass, if not quite yet a return to normality.

Crossroads. The Bank of England is charting the middle course between the ECB that cut rates last week and the Federal Reserve, which is expected to raise rates on Wednesday. This will be the most significant monetary policy divergence since the Eurozone’s ill-fated rate rises in 2011. Does it matter? Yes and no. Yes because capital flows have responded to the prospect of US rate rises and could accelerate if those expectations are met. Flows out of the UK don’t seem to be particularly strong, but emerging markets have felt the drain for most of this year. The Bank of England’s Financial Policy Committee is on alert for more turmoil. No because there can rarely have been such a well-trailed rate hike.

King Canute. King Canute didn’t try and halt the tide. He was showing his powerlessness to stop it. It seems policies designed to rebalance the UK economy are similarly ineffective in stemming the tide from manufacturing and towards services. The UK’s trade deficit in goods and services widened to £4.1bn in October. Excluding oil and other erratic items, October’s deficit was the largest on record. As usual, we enjoy a decent surplus in our trade in services. We simply import a lot of goods, which in October meant a lot of finished goods. It might well be shops stocking up for Christmas. Even so, if the rest of the world likes our services, is that such a bad thing?

Bah humbug. UK manufacturing output fell by 0.4% in October. Although this follows a decent 0.9% rise in September, over the longer term British manufacturing output is, at best, static. The wider measure of production fared better, up 0.1% in October. But again, strong-ish performances from mining and oil somewhat disguise longer-term decline. This is hardly the stuff of hardy festive cheer. So, more warming is the unexpected 0.2% rise in construction output in October, including a 2.3% rise in private sector housing. Great news. But as the adverts don't say, new housing is not just for Christmas.

Slip, sliding. The price of Brent crude slipped below $40 per barrel last week for the first time since February 2009. It's down 40%y/y and 20% since late summer. In part, this is a story of weakening world demand growth, notably in emerging markets. It also highlights two structural changes on the supply side of the market. First is the demise of OPEC, the oil producers' club, as an effective cartel. Second is the resilience and creativity of American frackers, who have risen to the challenge of boosting productivity with gusto. By keeping inflation depressed, the falling oil price is another force that will keep UK interest rates where they are for a while yet.

Green light. At first blush, growth in US retail sales of 1.4%y/y is hardly stellar. In normal times it's a pace that would have a cautious central banker thinking twice about raising interest rates. But reported growth continues to be depressed by the impact of the lower oil price on gasoline sales. They were down 20%y/y. Contrast that with the 6.5% rise in eating out and 5.4% growth in sales of home furnishings and the US shopper looks to be in fine fettle. The windfall from the falling oil price is being spent elsewhere. It was another green light for the Fed.

Blind spot. Among those waving a red flag at the prospect of a Fed rate rise is the Bank for International Settlements. Its concern is that higher US rates could have adverse consequences for the global economy and financial system. Higher US rates raises the prospect of negative financial spillovers in emerging markets as corporates there buckle under the weight of the debt loads they have accumulated in recent years. That's because lending rates in emerging markets are closely tied to US rates. So higher US rates means servicing debt burdens will become more onerous. It's also a further risk to growth in emerging markets, many of which are slowing sharply.

Life in the slow lane. Looking in the rear view mirror last week the ONS revealed their latest Regional GVA figures for 2014. These measure the total value of goods and services produced in an economy. The UK's smallest region – Northern Ireland – was valued at £34.4bn last year. Not surprisingly London led the way with the highest annual growth rate of the UK regions. However, the statistics don't make pleasant reading from a local perspective with Northern Ireland's economic recovery even weaker than previously thought. Northern Ireland posted the lowest annual growth rate of all the UK regions. The headline growth rate of 2.5% shrinks to 0.8% when inflation is taken into account. After Wales, this was the slowest rate of growth of all UK regions (UK= +2.9%). The Northern Ireland economy has failed to record an annual growth rate of at least 1% since the recovery began. Following 0% growth in 2010, Northern Ireland's annual growth rates in the three subsequent years were: 0.5% (2011), 0.9% (2012) and 0.7% (2013). 2015 and 2016 should be better with low / no inflation coupled with a return of pay rises providing a much needed boost to economic growth.

Mind the Gap. The key measure of economic prosperity within the ONS figures is GVA per head. Northern Ireland's GVA per capita recorded the lowest increase of all UK regions in 2014. After adjusting for inflation, Northern Ireland's growth rate was just 0.2% in 2014 (UK = +1.9%). This follows annual growth rates of 0% (2011), 0.3% (2012) and 0.4% (2013) in the three previous years. This highlights poor productivity growth. Looking at Northern Ireland's relative economic performance vis-à-vis the UK it is clear that the gap in GVA per head is widening. Northern Ireland's GVA per head was 84.5% of the UK average in 2007. Whilst the latter was artificially high due to the property boom etc., it is noted that Northern Ireland's GVA per head, relative to the UK, has fallen in each of the seven years that have followed. This is also due to the increasing dominance of London within the UK economy. In 2014, Northern Ireland's GDP per head stood at 75.9% of the UK average – which was still above Wales (71.4%) and the North East (74.0%) – this is Northern Ireland’s lowest level since the series began in 1997 when the equivalent share was 83.6%.

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