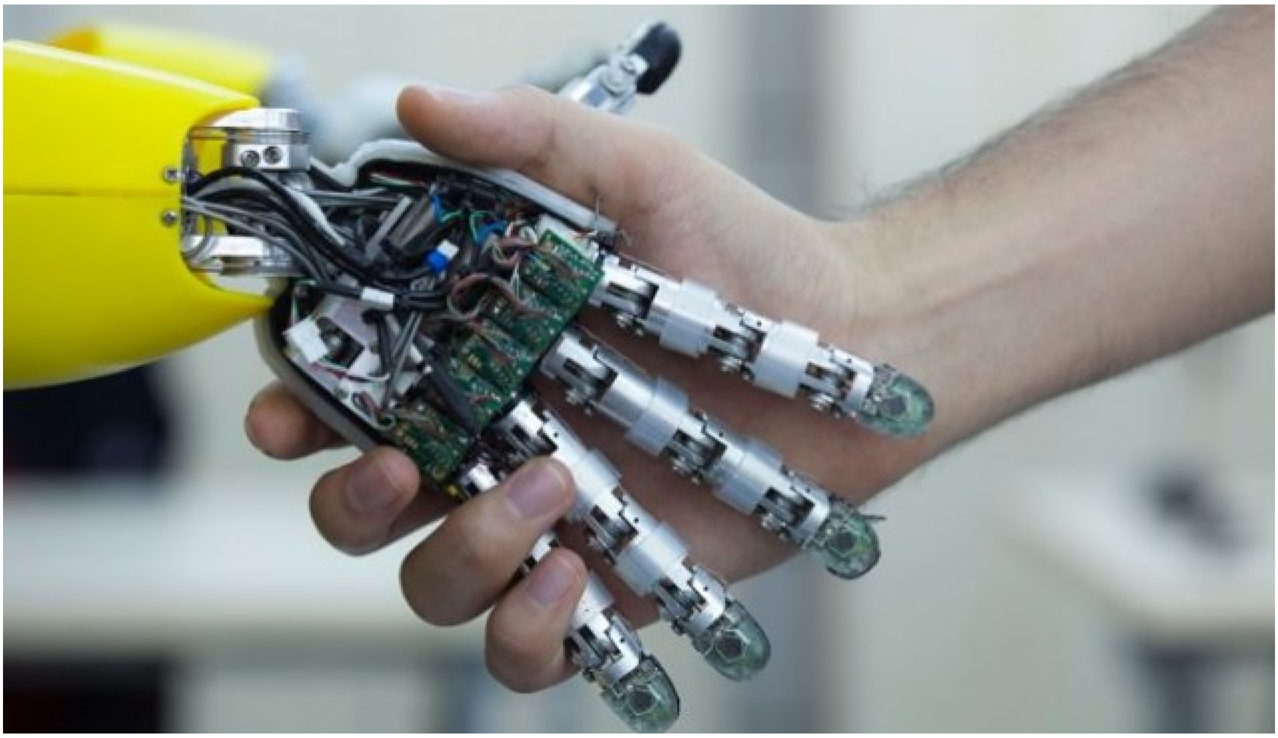

We’re all at risk of robots stealing our jobs, or so futurologists are fond of saying. For now though the UK is creating plenty of jobs for humans. The problem remains woeful productivity and weak wage growth.

Jobs aplenty. The UK labour market ended 2015 on a high note. Over half a million more people were in work than 12 months ago, pushing the employment rate to yet another high. Strong job growth seems to have become the norm, but it’s worth reflecting that this is the third highest number of jobs created in the last quarter of a century (only 2012 and 2014 was stronger). But it’s not an even recovery. At 5.1%, UK unemployment is the same as it was ten years ago. But in the North East it’s 1.6% higher than it was before the recession, whilst London is 1% lower. Meanwhile in NI, the unemployment rate (5.8%) is 1.9% above its pre-downturn level.

Hard landing. NI's post-recession labour market recovery has been less impressive than the UK's. One notable exception is within manufacturing. NI manufacturing has recouped 70% of the jobs it lost during the downturn – twice the corresponding figure for the UK. But 2016 is set to be a difficult year, with the Ulster Bank PMI signalling manufacturing job losses in recent months. Some 3,000 jobs are set to be lost from just three firms in the next two years. Bombardier's announcement to shed over 1,000 jobs follows the planned closures of JTI – Gallahers and Michelin in Ballymena. Meanwhile, the collapse in global commodity markets will impact on NI firms too. 40% of the world's mobile crushing and screening equipment is made in NI – and concentrated in County Tyrone. Beyond these difficulties however, a significant number of manufacturing firms are in actually in expansion mode and are increasing their staffing levels.

Underpaid. The UK economy might be awash with jobs, but it isn't translating into rapid pay growth. Average earnings growth was just 1.9% last year, slightly less than the 2.2% recorded in 2014. The big difference between these two years is the real value of the increase. Inflation eroded just 0.1% of workers' purchasing power last year, whereas in 2014 it chewed off 0.9%. That means 2015 was the best year for real wage rises (1.8%) since 2007, but given real pay was actually falling in six of those years it's hardly a triumph. Low inflation might not continue to help workers for long though. The Bank of England reports that firms are using the lack of inflation to justify low wage rises.

Taxing. With an extra half a million people working over the last year you'd expect the tax revenues to be rolling into The Exchequer. They're not. Public sector borrowing is about £10bn lower than it was at this point last year. That's good progress, but as recently as November the OBR forecast a fall of £17bn by the end of March. The Treasury will be hoping that the growth in income tax receipts continues to climb from its current 4.7% to help plug the gap.

Life, Jim, but not as we knew it. Inflation ticked up to 0.3%y/y in January, the highest rate for a year. Falling energy and food prices continue to depress the headline figure. But even without them, underlying inflation was just 1.2%, a considerable distance from the Bank of England's 2.0% target. Recent further declines in the oil price mean weak inflation is with us for some time yet. And that's another reason to expect interest rate setters to sit on their hands throughout 2016.

Floating away. Seems everyone forgot to tell the UK housing market that inflation was meant to be low. House prices rose by 6.7% in 2015. Even removing London from the measure prices still rose by 5.8% nationally. That's odd, as there's a clear north/south divide. Average prices rose between 9-10% in London and the greater south east. In cash terms, the price of an average London property rose by £34k in 2015 and is now well north of half a million pounds. North of the Watford Gap however, rises were more modest and actually fell by 0.2% in Scotland. But for now at least, house price growth particularly in the south of England, shows little sign of stalling.

Up and down. NI's house price recovery continues according to the DFP's latest Residential Property Price Index (RPPI). The latest figures confirmed a 7% y/y increase in 2015. This follows the 7.5% rise in 2014. The NI RPPI has now risen by 21% relative to its Q1 2013 trough and has recouped almost one-sixth of the fall in prices that occurred between Q3 2007 and Q1 2013. Despite this rise, prices remain some 47% below the peak recorded in Q3 2007. Rising levels of transactions is a more meaningful indicator of a housing market recovery. Following four successive years of growth, the number of NI residential property transactions fell by over 3% in 2015 with the Q4 figure down 8% y/y. Transactions are broadly half of 2007's 'freak peak' and close to 30% below 2005's more normal levels of activity.

Boom time. With fears over excess credit growth in recent years you would think China would be looking to rein in bank lending. Not a bit of it. 2.54 trillion RMB (about £272bn) of new loans left Chinese banks in January. That's about £8.8bn a day. It's likely that a share is going to pay existing debts, perhaps even loans that Chinese corporates have taken in foreign currency. But it points to the authorities combating the growth slowdown by yet again pumping credit into the economy. And crucially, delays China's much-needed deleveraging and making the eventual reckoning with its debt all the more painful.

Regret? What a difference a month makes. Back in December the Fed raised interest rates and pencilled in four more hikes for 2016. But stock market declines, global growth concerns, heightened fears over China and the impact all of the above has on the US economy made for a different tone to January's meeting of Fed officials. Caution is increasing. Some members of the committee want to see "direct evidence" that inflation was rising toward 2% before backing further rate rises. There may even be some that feel a little regretful over December's move. While the concern amongst Fed officials is that they have withdrawn stimulus too early, the ECB may regret that they haven't injected enough stimulus. In the ECB's latest minutes, the Governing Council unanimously concluded that its current policy stance "needed to be reviewed and possibly reconsidered". Watch out for more action at next month's meeting.

Not minding the gap. The UK's labour market recovery has been impressive but the same cannot be said for productivity. Narrowing the productivity gap with our international peers lay at the heart of economic strategy during the Brown years. More recently that gap has been widening. The UK is lagging behind the rest of the major G7 advanced economies (by 18 percentage points) and Northern Ireland is lagging the UK by around the same amount. Closing this gap has been a key aim of the Stormont Executive. Granted NI has a high concentration of low productivity sectors. However, even across sectors NI lags well behind the UK average. The new mantra should be: "Productivity, Productivity, Productivity".

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