The biggest factor supporting the UK's recent relative economic strength is jobs. The proportion of the working-age population in work is the highest ever recorded. Jobs will largely shape the outlook too. If the labour market holds so should the wider economy.

Thriving. The UK job market continued its record-setting run between May and July. Employment rose by 174,000, taking the proportion of people in work to 74.5%, another new high. The unemployment rate fell to 4.9%, its lowest level since 2005. Particularly encouraging is the improved fortunes of young people. The unemployment rate among 18-24 year olds ballooned during the recession. At 11.8% it's still high. But this group, who represent only one in seven working-age people, accounted for almost half of the fall in unemployment.

Sticky wages. The average UK weekly pay packet grew by 2.2%y/y in July to £505. With prices rising by just 0.6% that month, real spending power was rising. However, wage growth at that pace is no harbinger of inflationary problems. Far from it.

Who's the boss? Across the UK 16.5% of people in work are in public sector jobs. The total has fallen by close to 800,000 since 2005, when the number peaked, while the number of private sector jobs has grown by getting on for four million. Public employment matters much more in some places than in others. In the North East, Northern Ireland, Scotland and Wales, more than one in five jobs is public. In contrast, it's just one in seven in London.

Mixed signals. Northern Ireland's unemployment figures continue to move in the right direction. Looking at the latest 3-month period to July it was pleasing to note that the unemployment rate fell to 5.6% – its lowest rate since Q4 2008. Youth unemployment, though still high at 13.0%, is almost half the rate achieved less than three years ago and is at levels last seen 6½-years ago. All encouraging stuff! Not entirely. The number of economically inactive jumped by 8,000 in the latest period, four times the drop in the unemployed. Also, unemployment benefit claimants may be falling but the take-up of other benefits continues to rise. The unemployment rate may be moving in the right direction, but is it for the wrong reasons?

Laboured. NI's jobs recovery appears to have stalled in Q2 according to the Quarterly Employment Survey (QES). While NI completed its sixth successive quarter of employment gains, the 0.1% q/q rise (+1.2% y/y) was the weakest in the current sequence. But headlines can be misleading. The slowdown in overall jobs growth conceals contrasting performance between public and private sectors. The former posted its sixth quarter of job losses, with the 0.9% q/q fall in Q2 the steepest in the current series. NI is playing catch-up with the UK as it shrinks the size of the state. Conversely, the private sector notched up its sixth quarter (+0.7% q/q) of job gains with employment growth running at a very healthy 2.8% y/y.

Manufacturing a downturn? The NI manufacturing industry reported a fall in both output and employment in Q2. The latter represented the first decline in jobs in eight quarters. With a significant number of high profile redundancies still to take effect, we look set for a period of job losses. The winding down of Ballymena's JTI cigarette plant is evident within the food, drink & tobacco sector, with the level of output down to its lowest level in almost 10½-years. Meanwhile manufacturers of rubber & plastic products (e.g. Michelin) & the sub-sector that includes computer hard drives (e.g. Seagate) saw annual output fall by over 8% and 10% respectively in Q2. Thankfully there are other sectors in expansion mode. Chemical & pharmaceutical products and metal products have both soared by 14% y/y.

Are you being served? NI's private sector services firms reported output growth of 4% y/y in Q2 – the fastest rate of growth in almost a decade. Despite this rebound, NI services firms have recouped only 55% of the output they lost during the downturn. Notably the UK business services and finance sector has recovered all of its lost output. Whereas the equivalent sector in NI is close to 1/3rd below its Q4 2006 peak. This highlights the legacy of the property crash. NI firms do appear to be out-performing their UK rivals in the retail and hospitality sectors. The tailwind of a weak currency has helped attract cross-border shoppers and tourist numbers. Q2 represented the best quarter for growth in 4½-years.

Steady, but not for long. Inflation stayed steady at 0.6% in August as higher food prices were offset by cheaper clothing. The Bank of England's Monetary Policy Committee (MPC) had been expecting a rise to 0.8% due to the effect of last year's fall in petrol prices dropping out of the calculation. But they won't have to wait long for the next increase. Manufacturers' input prices leapt 7.6% compared to a year ago, largely due to sterling's weakness. This cost pressure will be passed on, though not quite on that scale. The MPC expects inflation to be back to near 2% by this time next year.

Beating expectations. No change to interest rates from the Bank of England last week, but a slight shift in its outlook. Back in August the MPC said it expected to cut rates again this year if the economy behaved as predicted. Last week it concluded that asset prices and the housing market have instead performed better than anticipated and business confidence had rebounded faster than forecast. As a result, Q3 GDP growth is predicted to be 0.3%. Not stellar, but a lot better than the 0.1% forecast in August. Does this take further rate cuts off the table? No, they are still a possibility, but the MPC has conceded that economic conditions are better than it thought just six weeks ago.

Surfing and shopping. The volume of retail sales fell by 0.6% in August, having grown very strongly in July. Comparing June to August with March to May, sales were up 1.6%. Shop prices continued to fall, by 1.9%y/y, boosting shoppers' spending power and eating into retailers' margins. The star of the, ahem, "High Street" remains internet shopping. Online sales grew by 0.4% on the month and by a whopping 18.5%y/y. In just a decade we've gone from spending a little over £2 of every £100 online to more than £13.

Where to? More evidence that the latest burst of credit expansion has stabilised China's economic growth. Industrial production grew 6.3%y/y, matching the pace achieved since the spring. Retail sales are a similar story, rising by 10.6% annually. But since the crisis the question has been the same. What will be the response when the stimulus measures wear off? The choice is between accepting lower growth or again boosting credit. The route they'll probably take is clear. Its continued success and sustainability less so.

Teetering. The Eurozone remains afflicted by low inflation or even mild deflation. Italy has clocked up seven months of falling prices, albeit the declines have been modest. In Spain, the deflationary run extends to two and a half years. In the Republic of Ireland prices have been flat or falling in nine of the last twelve months. Even Germany has an inflation rate of just 0.4% and a core rate (which strips out food and energy) at a lowly 1%. Weak demand is primarily responsible, partly a consequence of deep-rooted economic challenges. As so often, avoiding the treatment intensifies the remedy, which will have to become more radical.

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