The UK economy may be on the cusp of receiving two new little growth boosts. Firstly, the Chancellor signalled an adjustment in fiscal policy to free up cash for investment. Second, the recent fall in sterling may do what the crisis-driven fall in sterling couldn’t: help generate a sustained export improvement. Both would certainly be welcome.

New direction? The Chancellor Philip Hammond’s Party conference speech gave a number of hints as to what to expect in the Autumn Statement later this year. His predecessor’s commitment to turn the deficit into a surplus by 2020 looks set to be abandoned. The desire seems to be to funnel a bit more resources to infrastructure, housing and education. But deficit reduction as a whole is not being consigned to history. Public spending is likely to continue to be pressed down on, just at a slower pace. So maybe not quite an entirely new direction, but an important nudge nonetheless.

Little mixed. The first week of a month brings a raft of Purchasing Mangers’ Index (PMI) surveys, allowing us to take the pulse of economies. In the UK, growth continues at a moderate rate and the post-referendum fall in confidence increasingly looks like a blip. Indeed, the manufacturing PMI is at its highest level since 2014. The effects of sterling’s depreciation – down 15% this year and 10% since the referendum – are evident in two areas. Firms report strong growth in export orders, which is welcome. Second, input costs are rising, squeezing margins. Not so good. Higher consumer inflation beckons.

Falling behind. When it comes to Northern Ireland specifically, the story is, overall, a somewhat different one, with t*he latest Ulster Bank NI PMI signalling that local firms are facing a more difficult time of things at present, as business activity stagnated in September. Moreover, local firms have yet to see a return to new business growth since the referendum. One clear similarly with the UK story however is the inflationary pressures, in terms of both input costs and output prices. In Northern Ireland, these pressures were greatest in the manufacturing and retail sectors.*

Knocked. Further signs of life in manufacturing were visible in August's output data which recorded a 0.2% monthly rise. Unfortunately the rest of the UK's industrial sector didn't stick to the script. Output in oil & gas extraction fell by 4.4% from July. It meant British industry as a whole fell 0.4%, despite the better manufacturing data.

Ouch! If improved export performance is on the way it would certainly be welcome to the UK's trade deficit with the rest of the world. It widened to £4.7bn in August. It's not quite a record but has been surpassed on only one occasion before. Exports barely budged but imports rose by £2.6bn, entirely accounted for by a rise in imported goods. What is a record is the goods deficit with the EU. That reached £8.3bn in August or £93bn over the past 12 months, equal to c.5% of our GDP.

A small step. It doesn't dominate the headlines but productivity, how well we work, drives long term prosperity and by and large shapes our economic destiny. So it matters when productivity growth is weak. Since the 1970s productivity has risen by c20%-25%% each decade, but in the last ten years it's barely moved, up just 2%. So it's welcome news that a decent spurt in Q2 means our output per hour worked has finally returned to its pre-downturn level. But if it had continued its previous path, productivity would be one-sixth higher than it is. There's still a mountain to climb.

Enterprising. The number of businesses in the UK has grown by 4.3% in the last year. Sector-by-sector, the pattern is uneven. Growth has been strongest in a range of services – information and communication (+7%), business administration (+7%) and health (+6%) – while manufacturing and retailing were little changed. Employment growth has recently been strongest in London. The same is true of businesses, with a rise of 7%. Scotland (+2.4%) and Wales (+2.0%) lag behind.

Not swift. The euro zone (EZ) continued to grow at a modest rate in September. The EZwide PMI registered 52.6, down marginally from 52.9. That suggests GDP is rising at around 1.5%y/y. While that’s better than the EZ has seen in much of the last five years, it is paltry alongside the performances of the UK and the US, and it is insufficient to make much of a dent in the region’s double-digit unemployment rate. The ‘must do better’ calls continue to go unheeded.

No reason to hike. US growth accelerated in September but remained modest. The composite PMI gained 0.8 points to 52.3, with growth accelerating a little in services and slowing a little in manufacturing. Inflation remains subdued. While firms continue to add jobs, the pace of expansion is modest. There is little in the surveys to strengthen the hand of those in the Fed who want another interest rate rise soon.

Look elsewhere. The closely watched US payrolls also provided scant support for a rate rise. The US economy added 156k jobs in September while unemployment ticked up to 5% from 4.9%. Average job growth this year has been 178k per month, down over 20% from last year’s 229k. It chimes with what’s happening on income growth. It, too, has slowed since last year. The US economy is far from terrible, but it isn’t great either. It may be time to focus a bit less on the Fed’s ‘will they, won’t they’ raise rates and start to focus on why US growth has persistently failed to ignite since the crisis.

Share this:

- Twitter
- Facebook
- LinkedIn
- Email