Theresa May’s Brexit speech reiterated the Government’s negotiating priorities and spelled out some of the likely consequences. With the triggering of Article 50 at most 10 weeks away the real negotiations will soon begin.

Battle of wills. The fall in the pound since the referendum sits in stark contrast to the recent strength of UK growth. GDP growth in Q3 was faster than the MPC expected before the vote, even based on an outcome to remain in the EU. Consumers are spending like nothing has happened, yet sterling is now trading around $1.23, down from $1.42 a year ago. Bank of England Governor Mark Carney used a speech last week to declare that ultimately this tension will be resolved, one way or the other. Either the pace of household consumption will slow, weighing down on GDP growth, or markets will look more favourably on the UK’s prospects, boosting the currency. Neither ride is likely to be smooth.

It's productivity stupid! In recent month's we have heard about the UK's and Northern Ireland's poor and deteriorating productivity performance. To put this into perspective, it is noted that NI's private sector output in Q3 2016 is slightly below where it was 11½ years ago (Q1 2005). But, the big difference is that the number of private sector jobs has increased by 51,000 (or almost 11%) over the same period. This illustrates a lost decade in productivity performance that needs to be addressed. Last year, Northern Ireland's employment rate and levels hit record highs. However, with productivity moving in the opposite direction, job quality and the competitiveness of Northern Ireland's economy in general need to be addressed sooner rather than later.

Higher for longer. NI's tourism industry is in the midst of a purple patch – buoyed up by a weak pound – with the number of visitors up, as well the length of time they are staying and the amount they are spending. Visitors from the Republic increased by 27% y/y, double the rate for those tourists coming from outside the British Isles. But spending from RoI is down 8% y/y as the surge in visitors from the South has been due to a more than doubling in those visiting friends and family. The overall increase in visitor spending is due to big spenders from Asia and North America. Tourists from outside the UK and Ireland spent almost one quarter more in Jan-Sep 2016 relative to the previous year. Continued Sterling weakness should keep demand high in 2017.

Stalled. The UK (and NI) jobs machine has stalled. Between June and August and September to November the number of people in work fell by 9,000. The size of the decline may be small. It's significance larger. Over the past seven years the UK has netted a 2.7 million increase in employment, helping fuel wider economic growth. So if the job machine fails so might growth. The evidence for an engine failure is patchy. Employment fell most for more marginalised workers – those on temporary contracts and part time workers – who tend to be first to go whenever the tide turns. But it also means that employment for full time workers rose, a good thing, while unemployment fell slightly and average pay rose to

2.8% annualised, comfortably above inflation. In short, the jobs' market is on orange alert and one to watch.

Wake-up call. During 2010-2013 inflationary pressures rang loudly in consumers' ears. This, alongside no or low pay rises, gave birth to the 'cost of living crisis'. From mid-2014, the cost of living snooze button was pressed as inflationary concerns were put to bed. But inflationary pressures are back. December saw UK CPI jump to 1.6% y/y, the highest rate since July 2014. Air fares, the price of food, and motor fuels were the main culprits behind the rise, with motor fuels up 10% y/y. Inflationary pressures are broad based emerging across both consumer goods and services. With producer price inflation accelerating, expect inflationary alarm bells to ring even louder in 2017. The consumer sweet spot will turn sour.

Shelter. The cost of putting a roof over your head went up in 2016 too. UK house prices rose by 6.7% in the year to November with the East and South East of England at the top of the table posting growth of 10.5% and 8.6% respectively. For aspiring owners that next step got further out of reach and extra injury was added as rents rose by 2.3%. What does 2017 have in store? According to surveyors, UK-wide prices are likely to rise, but the London market's confidence will lag.

Getting back to normal. Prices in the US rose by 2.1%y/y in December. Core inflation – which strips out volatile items like food and energy – stood at 2.2%. On a slightly different measure, the Fed's inflation target is 2%. So after four years when inflation had been south of that mark it looks to have returned sustainably to target. With the economy growing, employment up and wage inflation rising, it's easy to see why the Fed expects to raise rates this year.

The splits. The Eurozone's inflation rate came in at 1.1%y/y in December, almost doubling from November's rate and the highest level since 2013. Even so, it's still low relative to the

European Central Bank’s target of 2%. But what might be a problem for the ECB is the divergence amongst countries. Italy’s languishing economy registered just 0.5%y/y while Germany notched up a rate of 1.7%. The Eurozone’s ever-present problem of finding a policy to suit all is being tested.

Unmoved. The ECB didn’t make any policy changes at its meeting last week, instead President Draghi spent most of his time defending its actions from Germany pressure. Germany wants a rethink of the Bank’s quantitative easing and ultra low interest rate policy. But Draghi stressed that low rates are still needed to aid the recovery of the weaker Eurozone members, even if that means higher inflation for Germany. The ECB’s own forecasts show inflation still falling short of target by 2019, Draghi will be fighting to keep rates low for the foreseeable future.

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