Triggering Article 50 was the starting pistol for the real Brexit negotiations, now the real work begins.

Contrast. The UK Government’s formal declaration of our intention of exiting the EU was a letter comprised of inevitable contradictions. At almost 2,200 words long, it’s a long letter, but one that also seems short given it’s consequences. The most common word used was European, intended no doubt as reassurance that the UK retains committed to Europe, just not as a member of EU. The letter spoke of cooperation and partnership, alongside sovereignty and will. And it was evident that this process will extend far beyond issues of economics and politics to matters of national security and even a sense of identity. The outcome may not be known but this letter will have significant consequences for both the UK and the EU.

Now to work. The first consequence of the Article 50 letter was for the European Council to publish a draft of its guidance for the Brexit negotiations. This confirmed a number of significant negotiating positions and procedural points, such as ruling out sector-specific access to the single market, prioritising agreement over the exit bill before discussing future relations and stressing that nothing is agreed until everything is agreed. The hard work starts now.

The wrong type of growth. The final estimate of UK GDP growth for Q4 came in at 0.7%, boosting the overall pace of growth for 2016 to 1.8%. Most striking is the strength of household expenditure which rose 2.8% last year, far faster than capital formation (basically investment by public and private sectors) which rose by just 0.5%. Business investment had a particularly poor Q4, falling by 0.9%, reversing Q3’s rise. That means business investment fell in 2016, shrinking by 1.5%, the first contraction since the recession in 2009. Disappointing investment is hurting broader measures of growth. Record levels of employment are normally good news but when combined with mediocre growth overall they mean GDP per head rose just 1.1% in 2016, slower even than 2015’s 1.5%. No wonder wage growth is weak.

Pushing the envelope. Consumers’ spending isn’t just boosting growth, its changing their financial situation as well. The saving ratio fell to a new low in Q4 as households put aside just 3.3% of their income. Have they had enough? Not likely. The latest monthly borrowing figures show debt rising at 3.9% in February as mortgages grew at 3% and unsecured credit expanded by 10.5%. That’s a lot of extra credit card, personal loan and car finance deals, almost £20bn more over the last 12 months. This year the question is whether such optimism will survive the squeeze on incomes that higher inflation will bring.

Pullback. After a ‘surge’ to 2% in February, the eurozone’s inflation rate moderated in March with a figure of 1.5%. And the core rate, which strips out volatile items like food (they surged earlier in the year owing to adverse weather in southern Europe), fell from 0.9% to 0.7% – the lowest level in a year. It’s a bit of vindication for the European Central Bank, its policy-makers had been underlining that the conditions for sustained inflation – namely stronger gains in wages – are still elusive from the region’s ongoing recovery. Recent talk of the ECB tapering its asset purchase programme looks premature.

Not as hot as it looks. The latest estimate of US growth in the final quarter of last year was an occasion for more head scratching. Gross domestic product – the amount America produced – grew at an annualised rate of 2.1%. Gross domestic income should have grown at precisely the same pace as product as they are two ways of measuring the same thing. But income rose by just 1.0%. Split the difference and at 1.5% you’re on the coolish side of tepid growth. Much like the UK, the US is firmly in a period of weak productivity performance, which is delivering decent employment numbers but disappointing income growth. SAD!

Soft. The Fed’s preferred measure of inflation, a core measure which strips out food and energy, was unchanged at 1.8%y/y in February. That’s still below the Fed’s 2% target but enough to keep the Fed on its rate tightening path. The market is still expecting a few hikes from the Fed this year. Other data showed personal income rose just 0.1% on the month, the weakest since August, supporting the idea that the US has had a bit of a soft start to the year. SAD!

Great expectations. Bob the Builder was number one at Christmas and Bill Clinton was still US president the last time US consumers were as chipper as they are now. Consumer confidence leapt by almost ten points in March to its highest level since December 2000. They are optimistic about business conditions and the job market. They are optimistic about the present and the future. If this confidence translates into additional consumer spending it could spark additional investment and employment. GREAT!

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