

Latest monthly UK PMI surveys were upbeat, hinting at firmer Q3 GDP. Increasing skill shortages suggest a pick-up in wage growth in coming months, supportive for cash strapped consumers.



Scarcity. Economics is, partly, the study of scarce resources. Well, UK employers are starting to get a first hand taste. Respondents to last month's services PMI survey widely reported that they can't find suitably skilled candidates, reflecting the tight UK labour market. Some expansion plans are being put on hold. In theory, this should spark wage rises as employers attempt to lure staff in. As for the survey as a whole it was pretty good. With an average reading of 54 from June to September the UK economy looks on track to have grown 0.4% last quarter, possibly even 0.5%.

Making progress. A half-decent PMI score for UK manufacturers. The sector ended Q3 with a quick single off the pads as output rose to 53.8 in September, up from an upwardly-revised 53 in August. So the makers and doers should contribute a little to Q3's official growth figures, which are looking reasonably spritely - i.e., growth should equal or even beat trend. Manufacturers were also more optimistic for the next 12 months, in contrast to their construction colleagues, whose optimism waned. Building activity remained positive but the loss of momentum is hitting civil engineering hardest.

Go West. Four of the twelve UK regions saw their rates of business activity accelerate in September. The South West, South East and the North West all saw notable monthly improvements with the latter posting the fastest rate of growth. But Wales was the most consistent performer in Q3 and saw the biggest improvement relative to Q2. In contrast, the North East appears stuck in a rut as the only region where output fell and employment declined in September. Looking forward, businesses in the North West are brimming with confidence and are the most optimistic for the year ahead.

Lacking confidence. Northern Ireland started the third quarter (July) with the fastest growing private sector in the UK. However, output growth eased to 52.1 in September - a 23-month low with only the North East faring worse. Confidence is on the slide with Northern Ireland firms the least optimistic in the UK, and their most pessimistic since this indicator began 19-months ago. Brexit uncertainty and no government are taking their toll. Sentiment is most negative within construction. Firms in this sector expect workloads to be lower in 12 months' time with public sector infrastructure projects being put on hold. The grass is much greener in GB with confidence still reasonably high.

Keep on carrying on. If all this uncertainty was supposed to frighten households into being cautious then someone forgot to tell the public. Credit card borrowings grew for yet another month at roughly 9%. Growth slowed in other unsecured borrowings, mainly car

finance, but only to 7.7%. Meanwhile, mortgage debt rose by a very steady 3.1%. No sign of panic here. Yet that confidence isn't universal. SMEs haven't increased their indebtedness in 2018 at all. It looks like they're carrying on, but with a bit more caution.

Brexit, what Brexit? No sign yet that fears of a 'no deal' outcome are upsetting the UK housing market. In September UK house price growth remained stable: average prices rose between 2% (Nationwide) to 2.5% (Halifax). In London prices fell for the fifth quarter running, down 0.7% but remain within 3% of their 2017 high. Worryingly, house prices fell for the first time in the Outer Metropolitan region, albeit by just 0.3% in Q3. Are we seeing the beginning of a ripple effect or just a blip?

Rising. UK productivity posted a 1.4% rise in the year to Q2 2018, the highest level in over a year. Strength was widespread: service and manufacturing productivity grew by 1.8% y-o-y and 1.3% y-o-y respectively in Q2, above Q1. Meanwhile, UK business formation was broadly unchanged in the year to March, reflecting a slowing economy. A rise was evident in the professional, scientific and technical industry, except Wales and Northern Ireland which are dominated by the agricultural sector. The number of sole proprietors and partnerships shrank 2.9% in Q1.

Back to the 1960s. US non-farm payrolls posted a lower than expected 134k rise in September but this was distorted by Hurricane Florence. July and August data were upgraded sharply, pointing to a continued healthy employment trend. Notably, the unemployment rate dipped 0.2% to 3.7%, a 49yr low! Yet average earnings slipped to 2.8% y-o-y, from 2.9% y-o-y. Still, tighter labour market conditions look set to keep the Fed on course for another modest rate hike in December, if not beyond.

Strong. September's US ISM manufacturing index edged down to 59.8, from 61.3 in August, but remains strong despite recent disruptions caused by hurricane Florence and the

US/China trade war. The employment index, imports and new exports rose last month whilst inventories and backlog of orders fell, signalling healthy demand for manufactured goods. With new orders and production remaining in expansion territory last month, the outlook for manufacturing looks positive in Q4.

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