UK workers received a Christmas bonus with the highest wage growth for a decade reported last week. The labour market is yet again the star performer in an economy that is otherwise losing a little momentum.

£39 billion. That's the agreed Brexit "divorce bill". £39.6bn also represents the annual economic output (GVA) for Northern Ireland in 2017. Yes figures for last year are only out now! The local economy expanded by 1.7% in real terms in 2017, a shade slower than the UK average (1.9%) and the fifth fastest of all the UK regions. London (+3.0%) topped the regional league table with Yorkshire and the Humber the laggard at 0.7%. Had the JTI tobacco plant closure in Ballymena not occurred NI would have posted a very respectable ~2.5% growth rate – second only to London. As it turned out, last year was the weakest in four years and the NI economy is just £2bn larger (6%) than it was a decade earlier. 2018 is expected to reveal a growth rate of around 1.5% with growth set to slow for the fourth consecutive year in 2019 to below 1%, assuming a “no-deal Brexit” is avoided.

Maiden City Flyer. In 2017, NI had both the fastest and slowest growing NUTS3 areas (district council areas) within the UK! What’s more, both areas are beside each other. Causeway Coast & the Glens posted the highest annual real growth rate in the UK at 8.9%. Conversely, this GTI growth rate compared with a JTI-induced growth rate of -7% in neighbouring rate Mid and East Antrim. That decline in economic output in one year was larger than the cumulative three-year fall in Northern Ireland output to 2010 (6.4%). At a city level, Belfast underperformed against its peers with growth of just 0.7% in 2017 – less than a quarter of Edinburgh’s and one-fifth of the Derry~Londonderry City Region (+3.5%). The latter has expanded by almost 10% in the last three years – double Belfast’s growth rate. Coming from a low base helps.

Jobs for (more than) all. Recording the highest employment rate of 75.7%, a low-lying unemployment rate of 4.1% and an average weekly earnings growth of 3.3% over last year, the UK labour market’s impressive ride enthrals in October! Employment swelled across all sectors boosted by an increase in full-time workers, but not quite enough to fill the near-record high vacancies. The biggest pay rise since 2008 signals that employers are taking charge of the situation. However, amid labour and skill shortages, and uncertain future immigration policies, employer confidence remains shaky. Here’s wishing the businesses a Merry Christmas and a happy new hire!

Quality not quantity. NI revealed a record number of jobs in Q3 (765,880) for the tenth consecutive quarter. Despite a significant reduction in public sector employment, there are now 33,000 more jobs (+4.5%) than existed in Q2 2008 (the pre-recession peak). Service sector employment has never been higher while manufacturing employment is at a 14-year high. Construction on the other hand has just over three-quarters of the jobs it had over a decade ago. NI’s private sector has been growing continuously for 17 quarters generating a net gain of 77,000 jobs (+16%). Impressive stuff until you consider output. As of Q2 2018, private sector output was still over 3% below where it was a decade ago. Northern Ireland’s job machine is producing quantity. But job quality is where it matters.

Returning to the norm. The rolling three-month growth in UK GDP cooled to 0.4% in October, a marked departure from Q3 (0.6%). But things may not be as bad as they look. The pull back is partially attributed to fading of one-off supports to domestic demand from good weather, a royal wedding and the World Cup. Slower service sector activity was driven by retail. Similarly, manufacturing flat lined, dragged down from the volatile pharmaceuticals sector. One reassuring aspect is the resilient performance of construction, lifted by higher house building.

Manufacturing records. Manufacturing reported its fastest rate of growth in almost 7 years in Q3 2018 with output up 6.6% y/y. Notably the first annual increase in manufacturing output in six quarters. If the JTI tobacco plant hadn’t closed, local manufacturing output would be at an all-time high. Indeed, a number of sub-sectors have reported record highs in recent quarters. In Q2 it was the Basic & Fabricated metals sector. In Q3 it was the turn of two sectors: Machinery & Equipment (think of Co. Tyrone’s materials handling cluster) and Manufacturing of Chemicals and Pharmaceuticals (think Almac, Randox and Norbrook). Both of these sectors posted double-digit growth of 16% and 18% respectively over the last year. This highlights some of the sector specific strengths within NI and firms capitalising on strong global demand.

Services without a smile. NI’s private service sector saw output fall in Q3 (-0.6% q/q) although output was still 1.4% higher over the year (UK = +1.7% y/y). Despite record numbers of service sector jobs, output is close to 4% below its pre-downturn peak almost 12 years ago. In contrast, the UK service sector is one-fifth larger in terms of output over the same period. At a services sub-sector level, there are signs of weakening consumer demand. The Wholesale & Retail Trade; Accommodation and food services sector fell by 0.8% q/q. Bear in mind this sector includes the buoyant tourism and hospitality industries. The latter has been posting record highs in terms of visitor numbers and visitor spend. Therefore this implies much weaker activity within the retail sector and points to a lack of consumer confidence. Expect more of the same in 2019.

The good (trade) news are over. It looks like the boost from the weak pound to the UK trade deficit is over. During the three months to October the trade deficit widened by £3.1bn to £10.3bn. The trade deficit in goods has widened (£1.7bn) whilst the trade surplus in services has narrowed (£1.3bn). But what is interesting about this release is a massive revision to the trade deficit over the previous three months – it was £6.9bn larger than was reported previously. New data suggests much weaker exports than previously thought. Will this export weakness turn into slower output growth in future months?

The end of QE. As was flagged recently, ECB President Draghi confirmed at his last press conference for 2018 that central bank net asset purchases will cease by year-end despite softer Euro area growth and continued low core inflation. Mr Draghi acknowledged the balance of growth risks are “moving to the downside”. The ECB staff projections also showed a downward revision in medium-term EU GDP and, to a lesser extent, CPI from September. Against this backdrop the ECB unsurprisingly reiterated that an accommodating monetary policy would persist with interest rates remaining unchanged until “at least through the summer of 2019”. The risks are that an ECB rate hike is delayed to Q4 next year, if not 2020.

Tame. US CPI eased to 2.2% y/y in November, from 2.5% y/y in October, dragged down by plunging energy prices –reduced fears of a supply glut as demand expectations worsened. However, core inflation edged higher to 2.2% y/y last month (2.1% in October) thanks largely to a rise in used car prices and pick-up in the shelter index (the largest component of core inflation). Higher wage growth, driven by the continued tightening of the labour market, poses upside risks to underlying inflation in coming months. As a result, the Fed looks likely to hike rates at December’s FOMC meeting but the outlook for 2019 is clouded by uncertainty – both domestic and external.

Weak. Latest Chinese data was disappointing, signaling slower growth in early Q4. Industrial production softened to 5.4% in the year to October, from 5.9% y/y in September. Retail sales also lost ground last month, rising 8.1% y/y in October vs 8.6% y/y in September, the lowest annual rate since May 2003. Weakness was most evident in the auto sector as rising US/China trade tensions take their toll. The only crumb of comfort was higher fixed asset investment, up 5.9% y/y in October (5.7% y/y in September), suggesting recent fiscal easing is starting to feed through. Still, policy makers face a challenging backdrop at the upcoming annual Economic Work Conference in Beijing to arrest the recent decline in activity.

The Chief Economist’s Weekly Brief will return on Monday 7th January 2019.