Initial reports from the UK high street during the festive period were mildly encouraging. Witness stronger than expected outturns from John Lewis and Next. Still, it is premature to draw strong conclusions about retailing.

Reeled in. Cast your mind back to late November. Remember all those emails flashing up on your phone with inviting Black Friday offers? Well, it seems they worked. UK retail sales volumes rose by 1.4% between October and November with non-store sales (i.e. internet) sales up 2.2%. Household goods showed particularly strong growth. Indications are that this cannibalises some of December's Christmas shopping. Time will tell if shoppers were out in force over the festive period. One thing is more certain – the shift to more sales taking place online continues, for department stores, clothing stores and household goods, pointing to another challenging year for some bricks and mortar retailers.

Plodding home for Christmas. It's tepid on the UK services side. Granted, the services confidence index edged up from 50.4 to 51.2 in December. But it's still subdued. Q4 2018 was the weakest since the Brexit referendum. And survey respondents pointed to Brexit-related concerns as a key factor weighing on business spending. UK plc is waiting a bit of clarity. At least the employment index remains positive, although it has softened of late. Finding suitable staff remains an issue. So if your NY resolution is to retrain and forge a new career, there's a tight labour market out there lacking some key skills.

Stack into Christmas. The UK manufacturing PMI reached a six-month high of 54.2 to round off 2018, inching up from 53.6 in November. But in a strange way Brexit uncertainty flattered the figure. Stocks of purchases and finished goods both rose at near record rates as firms stepped up preparations for Brexit, bolstering their caches in the event of any disruptions. New orders and new export orders also rose, but manufacturers also linked that to firms wanting to build up their supplies ahead of 29 March. Dig underneath and underlying production remained somewhat more tepid.

Benign. The UK's inflation rate eased to a 20-month low of 2.3% in November, down from 2.4% in October. This was mainly on the back of falling petrol prices, which was partially offset by the post-budget increase in tobacco duty. The slump in energy prices accounted for the drop in annual producer input and output price inflation. This is good news for wage-earners as real wages have finally started inching northwards. While the BoE had anticipated pressure on inflation due to wage growth, its current reading and Brexit-related uncertainty gives little reason for rate hikes in the near term.

House it going? The UK housing market remained subdued in October. Average UK house prices eased to 2.7% y/y in October, from 3% y/y in September, a 5yr low. Weakness was most evident in London – house prices fell 1.7% in the year to October – which the BoE attributes to the disproportionate effect of regulatory and tax changes on the region.

However, it should be noted that many regions witnessed fewer transactions and weaker house prices in October, a notable exception being the North West. Mellowing demand was a feature in 2018, largely stemming from affordability issues, political ambiguity and supply stagnancy. This may be repeated in 2019. Time will tell!

Festive cheer. Many of us are entering the New Year wishing that our finances were in better shape. Not so the UK Exchequer. Tax receipts have risen a healthy 4.7% in the year to date, bang in line with official forecasts. Alongside muted public expenditure, this should take public borrowing over the course of 2018-19 to its lowest level for more than a decade. PAYE income tax receipts are now 5.1% higher than last year while VAT receipts are up 6%. Such strong receipts growth is a puzzle given the supposedly weak economic backdrop and suggests that underlying conditions may in fact be brighter than we are measuring.

Mixed up USA. December employment surged 312k, well above market expectations. Average hourly earnings posted a 3.2% y/y rise in December (3% y/y in November), the highest since April 2009 despite the unemployment rate edging higher 0.2% last month to 3.9% thanks largely to more people joining the labour force. In stark contrast, the ISM manufacturing index slumped to 54.1 in December, from 59.3 in November – the steepest monthly decline since 2008. No wonder the stock markets have been swinging wildly over the last few weeks.

Doubling down. Adding to the slew of weak Chinese economic data, December's manufacturing PMI print entered the contractionary zone for the first time in 18 months (49.7). Meanwhile, service sector activity improved but created fewer jobs. The overall message was that of notably weaker domestic demand alongside a challenging external environment. The government responded with large scale tax cuts, increased infrastructure funding and measures to support the private sector. Following in its footsteps, the central bank cut the reserve ratio by 1ppt in the New Year. But no new bold reforms.

Share this:

- Twitter
- Facebook
- Google
- LinkedIn
- Email