The UK economy almost came to a halt in Q4 last year as mounting Brexit concerns took its toll on business investment. However, consumer spending maintains its gradual recovery, driven by higher real incomes.

Well that ended well. Finishing with a flourish was not something the UK economy managed in 2018. More a busted flush. On the volatile monthly measure, output declined by 0.4% in December, enough to slow growth to only 0.2% in Q4. Growth for 2018 was just 1.4%, sharing with 2012 the dubious honour of the weakest annual growth since 2009. So is uncertainty to blame? Partly. The decline was broad-based. Services managed a decent 0.4% rise in Q4 despite dropping 0.2% in December. Manufacturing fell by 0.7% m/m and construction plummeted by an implausible 2.8%. These declines mirror weakness across European economies. But investment fell by 3.7% y/y. And that does have the scent of Brexit about it.

Shoppers rejoice! During the 12 months to January UK consumer prices increased by 1.8%, the lowest level in two years and below the Bank of England's 2% target. The largest monthly contribution to lower inflation was from weaker energy prices, partially due to Ofgem's energy price cap. With wages growing at 3.3% y/y, this provides a welcome boost to households' real spending power. The outlook, however, like many things, depends on the outcome of Brexit – a no deal Brexit would result in a significant rise in prices, driven by new trade restrictions and a weaker pound.

Don't panic…okay, we won't. UK consumers stood firm in January with retail sales rising 1% from the previous month, well ahead of expectations. And the pace of growth remains solid overall. The volume of retail sales are up 3.5% y/y over the past three months, in line with the five-year average. The political mood music and softening confidence surveys belie some strong means of support – low inflation, a decade-high pace of nominal wage growth and robust employment growth. Business investment and the housing market may be showing signs of a Brexit impact. But, so far, not consumer spending.

Widespread slippage. UK growth almost stagnated in January according to the latest PMI survey. Weakness was widespread: 10 out of 12 regions posted slower rates of growth or declines. Seven regions reported job losses. Notably, London registered the fastest rates of decline in both business activity (48.0) and new orders (46.1) in the UK. London and three other regions (the West Midlands, Scotland and the North) posted a contraction in business activity. Apart from the post-EU referendum decline, January's report showed the highest number of regions reporting falling output in six years.

Slowly but surely slowing. UK house price growth moderated to 2.5% in the year to December 2018; it's weakest since mid-2013. The deceleration is not purely a London phenomenon; it reflects an increasingly broad-based slowdown across regions. The North East (-1%) joined London (-0.6%) in recording sub-zero price growth over the course of

2018. Gloomy reports from surveyors indicate that the slowdown will continue into early 2019 as Brexit-related concerns and affordability constraints weigh on market activity.

Table-topper. Once again Northern Ireland sits atop of the UK regional residential property price growth charts. Prices accelerated to 5.5% y/y in the fourth quarter of 2018 – double the UK growth rate and above all other regions. Within NI, Belfast posted the largest rise of close to 8% y/y while Mid and East Antrim saw the smallest increase at less than 2%. It is worth remembering that NI's property prices are still a whopping 39% below their Q3 2007 'freak peak'. Therefore NI's 'outperformance' vis-à-vis its regional peers should be seen in that context. Following the biggest residential property correction in UK history, NI's house prices have a much greater potential to 'outperform' as prices are coming-off such a low base.

Turning-on supply. The more encouraging news, as far as the Northern Ireland housing market is concerned, was on the supply front. House building continues to recover strongly with Q4 2018 posting the highest number of starts (1,840) for the fourth quarter in 11 years. 2018 as a whole saw over 8,600 starts, a rise of 16% year-on-year and a nine-year high. This should lead to house completions exceeding the 8,000 mark for the first time since 2009. Ultimately, the ideal position for the housing market is when supply closely matches demand. With more supply expected to come on-stream in 2019, this factor, alongside a slowdown in economic growth, should help to moderate house price growth.

Festive fervour. China's January trade data surprised on the upside as exports grew 9.1% y/y and imports fell by 1.5% y/y. While this could be indicative of front-loading ahead of the Chinese New Year, recent speculation of stockpiling over concerns of higher US tariffs might have been overplayed. Another reason for some growth optimism came from record high credit data. The monthly rise of ¥4.6trn in funds available to the private sector has benefited from recent monetary easing. But, the road ahead might be bumpy. An extension of the disinflationary trend is exerting pressure on corporate profits, reducing firms' ability to pay off debt or undertake fresh investment. All eyes on policy makers for targeted stimulus.

Gloomy. Eurozone GDP increased a meagre 0.2% in Q4 2018, the same rate as Q3. The slowdown in the single currency block was mainly driven by sub-par performances from Italy and Germany, augmented by Brexit uncertainty and the US/China trade war. Weaker demand from the UK and China was offset by slightly higher internal demand. With weak growth persisting and political uncertainty rising, the European Commission slashed its 2019 growth forecast to 1.3%. This backdrop suggests the ECB will be in no rush to hike rates.

Who stole Christmas? US December retail sales fell 1.2% mom, contrary to expectations of a gain. Apart from autos and building materials, weakness was widespread. It is hard to decipher the reasons for the worst holiday season since 2009. One may dismiss it as volatility, seasonal adjustment problems or a cooling from a previously strong performance. Certainly the resilient labour market provides a platform for a rebound. Alternatively, the data could point toward a weakening domestic economy as the world approaches a synchronized slowdown. Either way, the Fed has further reasons to stay put.

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