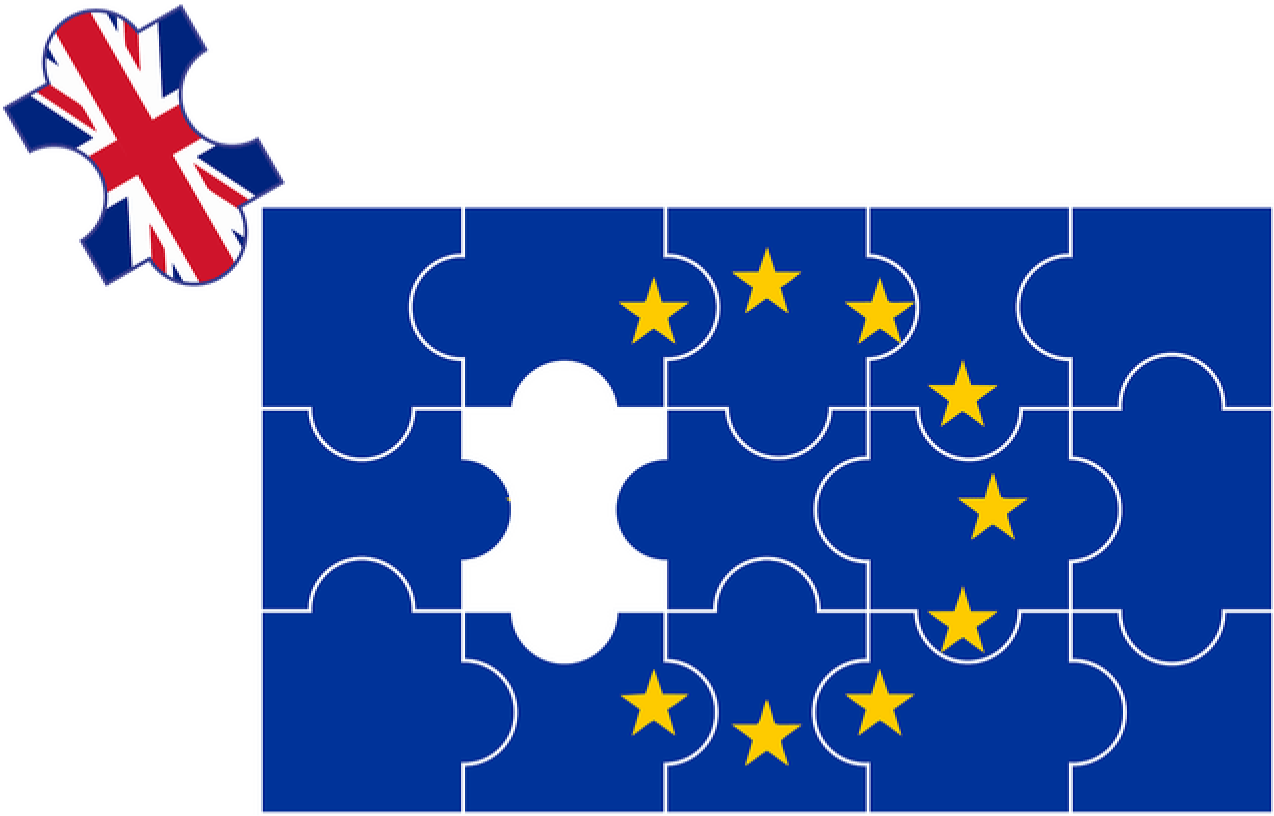
The landscape for UK politics is changing. News that seven Labour MPs and four Conservative MPs have defected to form a new Independent Group highlights the current fragmented state of UK politics. PM May delayed the "meaningful" vote on Brexit to March 12th, adding to the uncertain picture for the UK economy, meanwhile the labour market powers ahead.



Robust. UK employment growth remains strong, chalking up another rise of 167,000 in the three months to December to just shy of 32.6 million, a fresh record. The unemployment rate was unchanged at 4% whilst average weekly earnings notched up 3.4% in the year to December, the highest rate since 2008. Combine that pay growth with falling inflation, now below 2%, and you get very solid real wage growth. A key support for the consumer in the midst of a lot of change.

Harder, better, faster, stronger? Hardly. Yet another year has passed without any productivity growth in the UK. In fact, output per hour worked actually fell 0.2% over the year to Q4 2018. The only reason the economy grew at all was because more people worked than ever before. Yet each worker now produces a mere 2% more than before the 2008 recession struck (whereas our American cousins are churning out 15% more every hour worked). Bad news is that the awful run is unlikely to let-up soon; both weak investment and slowing trade are likely to drag on productivity growth in 2019.

17yr low. January's public sector finances revealed a record high surplus to the tune of £14.9bn, exceeding market expectations, and £5.6bn above levels of a year ago. UK government borrowing in the first ten months of FY18/19 was £21.2bn, a 17yr low. Admittedly, January's strong receipts were boosted by a £3.1bn rise in self-assessed income and capital gains revenues and February may yet disappoint. Still, the official forecast of £25.5bn for this fiscal year should be comfortably undershot. Good news for Chancellor Hammond ahead of the Spring statement, due on March 13th.

And the winner is? Four UK regions topped the table for labour market performance at the end of 2018 – the East of England, South West, Wales and Northern Ireland, with record highs in both employment levels and employment rates. The South West bagged the awards for highest employment rate (79.8%) and lowest economic activity rate (17.7%) for Q4 and narrowly missed out on the lowest unemployment rate. The South West was pipped by the East of England's 2.8% – that's almost half the rate in the North East (5.4%). Meanwhile, Wales saw a significant improvement. Its employment rate jumped from 72.6% to 76.2% in a year, moving Wales from tenth position to fourth.

Never better. Despite Northern Ireland having the lowest employment rate within the UK, Q4's employment rate (70.3%) and employment level (853,000) represented all-time-highs. Meanwhile Northern Ireland's record low unemployment rate in Q1 2018 has been revised down to 3.0%. This compares with the 3.8% for Q4. Labour market conditions remain tight with demand exceeding supply. Vacancies continue to rise with the number of posts notified to Job Centres increasing by 13% y/y in the last quarter. 2018 was certainly a good year. But remember the labour market is a lagging indicator of economic activity. We are effectively looking in the rear-view mirror in order to gauge the state economy. Looking through the windscreen, significant challenges lie ahead.

Longer not smarter. Northern Ireland may be at the wrong-end of the regional league table as far as economic activity and employment are concerned. But when it comes to hours worked it is a different story. London (33.8hrs) pipped Northern Ireland (33.5hrs) into second-spot for average weekly hours worked over the year to September 2018. But full-timers in Northern Ireland work longer-hours (38.4 hours on average) than anywhere else and almost two hours above the lowest region – Scotland. It was the same story with part-time workers who worked 17.8 hours in an average week. That was above all other regions and two hours more than the South West. Looking through the lens of productivity the challenge for Northern Ireland's workforce is working smarter rather than longer.

Keep the creative fire burning. Will robots take our jobs? Absolutely not – reassured Andy Haldane, Bank of England's Chief Economist, in his speech at Glasgow. But this had strings attached. We need to leverage the 2 I's unique to humans – ideas driving innovation. More importantly, the change has to be carefully managed with social institutions to prevent the undesirable 'I' – inequality. To drive his point home, Haldane drew parallels between technology and domestication of fire – a boon for the human race, the destruction it caused ('The Great Fire') and institutions that sprang up to cope with it.

About turn. The minutes of the Federal Reserve meeting in January confirmed a shift from a tightening bias to a neutral stance. Rising uncertainty about the global economy, tighter financing conditions and muted US inflation were the main factors warranting a patient stance. Considerable discussion took place on the outlook on the Fed's balance sheet; the committee hinted an announcement on ending balance sheet normalisation before year-end will be sooner rather than later. That means the Fed selling fewer bonds than it had previously intended, which should give the US more space to borrow.

Run down. Germany came within a whisker of a technical recession in the latter half of 2018 – contracting in Q3 and stagnating in Q4. But details last week revealed things aren't quite as bad as that. A big decline in inventories drove the weak Q4 figure. That seems to be carmakers running down stocks after changes to emissions standards caused major disruptions to production earlier in the year. The rest of the domestic picture was much rosier. Consumer spending, capital investment and public spending all rose. More widely the Eurozone PMI edged up to 51.4 in February from 51.0 in January on stronger service sector activity. A bumpy end to 2018 looks to be giving way to a slightly improved early 2019.

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