

**UK PM Theresa May's meaningful vote on the Withdrawal Agreement takes place on Tuesday and so far looks set for another defeat. If the deal is rejected, again, the votes that follow will offer Parliament the chance to go for a no-deal Brexit (almost certain to be rejected) or request an extension of Article 50 (most likely). Such pivotal events are likely to overshadow the Chancellor's update on the Government's finances in the Spring Statement.**



**How low will they go?** With Brexit dominating the headlines and no significant new tax or spending policies expected, you'd be forgiven if the Spring Statement wasn't top of your watch list this week. But come Wednesday afternoon the Chancellor is due to unveil the

latest set of official economic and fiscal forecasts. It's less than five months since the Office for Budget Responsibility issued their last projections, yet they are widely expected to follow in the steps of other forecasters by significantly downgrading the near-term GDP growth outlook.

**Peak jobs?** Brexit uncertainty was once again evident in a rather uninspiring set of UK PMIs. Construction output fell in February, the first time in eleven months. Only housing posted positive growth. Brexit is cited as a factor slowing decision-making particularly within the commercial world. Confidence remains in short supply in UK services too. Business activity picked up from January's near stagnation, but at 51.3 remains pretty modest. Orders fell for the second month running, a feat last achieved over six years ago. In response, employment expectations fell at their fastest pace since November 2011.

**Last orders.** February's PMI marked the final survey before the Brexit withdrawal date, and last month was perhaps the point of peak uncertainty / fear regarding a 'no-deal exit' from the EU. This was evident in the latest report for Northern Ireland. Private sector firms saw a marked deterioration in business conditions, with output growth almost grinding to halt, employment falling, new orders decreasing, and export orders falling at their fastest pace in 69 months. In terms of output, private sector growth eased to a 29-month-low, with services being the only sector to remain in expansion mode. Manufacturing output stagnated but both construction and retail saw rapid rates of decline. Whilst Brexit uncertainty is clearly a factor, other factors are at play too, such as the wider economic slowdown across Europe.

**Downgrade.** ECB president Draghi unexpectedly announced further easing measures to shore up the fragile Euro area economy. This included increased liquidity support for the struggling banking sector - the so-called Targeted Long-Term Repo Operations (TLTROs). In addition, the ECB signalled interest rates would remain at their current level "at least

through the end of 2019” compared to “through the summer of 2019” previously, pointing to no rate hike until 2020. These latest measures are hardly surprising given the 2019 growth projection was slashed 0.6% to 1.1% from December: the inflation forecast was also lowered (1.6% to 1.2%). Mr Draghi could be the first ECB president not to hike rates during his tenure!

**On hand.** A data deluge from China over the past week revealed credit growth is stabilising, consumer price inflation is muted (just 1.5%/y/y in Feb), producer prices are a whisker from deflation and exports are having a challenging time of it (down 3.1%/y/y over the first two months of the year). But at least there’s some fiscal support on the way in the shape of tax cuts. Unlike previous slowdowns, China has refrained from turning on the infrastructure tap too much. The goal is to cushion the slowdown, keep credit to the private sector flowing but without letting debt accelerate. A difficult triumvirate.

**Target set.** Meanwhile, China is aiming for growth of 6% to 6.5% for this year, a modest downgrade to last year’s target of “about” 6.5%. Still, that’s a hefty dose of additional economic activity if it’s achieved. In fact, it would be approximately £600bn, that’s more than the entire annual GDP of Switzerland.

**Anaemic.** US nonfarm payrolls rose only 21k in January, well below market expectations and January’s 311k increase. The downshift is attributable to severe weather conditions which drove the cooling of jobs especially in construction and leisure sectors. The latest employment report contrasts with other labour market indicators which have been upbeat. Witness the 0.2% fall in the unemployment rate to 3.8% and a 0.4% rise in average hourly earnings to 3.4% (y/y). Rising worries of a global slowdown and mixed US labour market data suggest the US economy could be at a turning point.

**Running on empty?** America’s service sector is smoking hot. The ISM survey of non-

manufacturing business managers leapt three percentage points in February, to 59.7%. In other words the economy, already cruising, just accelerated. Overall activity reached 64.7%, 5ppts higher than January, while new orders scaled to 65.2%, up 7.5ppts. So what to make of this? First, confidence is building in the domestic economy, despite the spectre of tightening tariffs. That's good. Yet, with the private sector motoring, the US Government's budget deficit still ballooned 77% in the first four months of the fiscal year, mainly due to falling tax receipts.

**Disconnect.** Last week for the first time ONS published their measures of personal and economic wellbeing. Although economic indicators such as income, spending and employment continued to improve or showed very strong performance, people's subjective wellbeing is not improving with future perception worsening. The only measure of personal wellbeing which improved in 2018 was anxiety, aided by record low unemployment rate. Looking ahead, people expect the next 12 months to be worse, both for the UK economy and their personal financial situation.

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