Both Germany and the UK escaped recession, figures last week showed. But both have reason to be concerned about their near-term outlook. UK election campaigning suggests either a (i) large or (ii) enormous dollop of government spending is coming. Germany could do with either.

Lost mojo. No recession for the UK. Not yet anyway. Though the jury is still out for Northern Ireland. After contracting by 0.2% in the second quarter, the UK economy regained enough composure to eke out 0.3% growth in three months to September. There's not much to celebrate though. Momentum is slowing: GDP growth is the most sluggish since the aftermath of the financial crisis in 2010 (just 1% y/y). The manufacturing industry failed to stage any recovery at all, with output flat. Thank goodness for the services sector, especially bright spots like film and TV production, which expanded 22% over the past 12 months and has doubled in size in just five years.

Trade steals the show. What do the components making up GDP tell us about the economy? Well, UK consumer spending is holding up, rising 0.4% in Q3, bang in line with its average over the past three years. The decent pace of real income growth is lending a good helping hand. Business investment, by contrast, was flat, continuing its recent weak performance. Not surprising. The latest Bank of England Agents’ Summary of business conditions reports that investment intentions remained at a nine-year low in Q3. There was better news from exports. The volume of goods we shipped abroad rose a robust 5.2%, meaning net trade (i.e. exports minus imports) bolstered the GDP growth number.

Pause for breath. UK shoppers had a sluggish start to Q4 with sales edging down a fraction on the previous month. Nevertheless spending is still 3.3% higher than a year ago, dwarfing growth rates seen across much of the economy. Heading into the festive season and Black Friday there’ll be intense scrutiny of our online shopping habits. 19% of our spending now happens online, a figure that’s likely to bust 20% for the last two months of the year. Yet more pressure on the high street, which saw a record 1,234 net store closures in the first half of the year.

Half now. The better news for UK consumers is inflation is weak, bolstering their real pay. Prices rose just 1.5% in October, the weakest pace in almost three years. The energy price cap meant gas & electricity were 1.9% lower than a year earlier. Stripping that out and inflation would still have been weak, just 1.7%y/y according to the ONS. And when you take out other volatile items and look at underlying inflationary pressures (‘core’ inflation), it’s similarly subdued at 1.7%y/y. It’s a peripheral factor to the major themes of this election but inflation is almost half its current pace compared to the last one in June 2017.

Perfect timing. Jobs swing elections. Think of Saatchi & Saatchi’s infamous 1979 “Labour

Isn’t Working” poster or, absent the Falklands, how the Tories might have fared in ‘83 with UK unemployment peaking at 11.9%. It’s just a bit lower today, at 3.8% between July & September. But timing is everything, and there are signs employment has peaked. At 76.0%, the employment rate fell a smidgen from the record 76.1% high. Numbers employed also fell, by 58,000 q/q as did vacancies and job moves. So, from a jobs cycle perspective, this may be the ideal time for a government to hold an election.

Selfie mad. Northern Ireland posted more record highs and lows in Q3. Unemployment plumbed a new low of 2.5% while the more meaningful employment rate hit a record high of 72.3%. Unlike the UK, employment is still rising with 878,000 NI citizens in work. That’s another record high with employment rising at its fastest pace in almost eight years. Though the headline conceals contrasting fortunes for employees and self-employed. The former fell in Q3 while the latter posted a 14% y/y gain. Male self-employment has surged by more than one-fifth in a year. An outbreak of entrepreneurship or forced self-employment?

Stagnant. The average UK house price in September rose by 1.3% y/y, unchanged from August. The pace of growth has remained below 2% throughout 2019. There’s still a north-south split. House price growth in the North West remains steady, rising 2.8% in September. London was again at the bottom with growth rate of -0.4% y/y. The average price of a house in London has effectively stagnated at around £475k over the past two years (but at that price it remains the most expensive place to buy a house). Uncertainty around the upcoming is likely another factor to keep activity cool in the coming months.

Two up, two down. Q3 figures for the Northern Ireland housing market were released last week in the form of the latest NI House Price Index. In short, it was a case of two up, two down. Two indicators – residential property prices and house completions – posted year-on-year growth, whilst housing starts and the number of residential property transactions were on the wane. Most significant of these numbers is perhaps housing starts. Before the latest figures, Northern Ireland looked as if it was finally getting close to building the required number of housing units per year (estimated 8,500 – 9,000 p.a.). The most recent data suggests that the period of under-building actually looks set to continue.

Technically. The global slowdown has buffeted Germany harder than most. And having registered a decline in GDP in Q2 a successive drop was forecast for Q3, and with it the label of being in a 'technical' recession. But it proved the naysayers wrong, hobbling over the line with a 0.1% quarterly rise as household and government spending picked up the slack while manufacturers struggled. But signs of a cooling labour market warrant monitoring. While Central & Eastern Europe, top performers in the economic growth leagues of late and having close ties to Germany, will also be keeping a close eye.

Mixed. US retail, excluding volatile items like autos and petrol, rose a modest 0.1% in October after a 0.1% decline the previous month. The softness was broad-based – seven out of thirteen categories fell, hinting at softer activity in Q4. Weakness was most evident in clothing and furniture sales. Throw car sales into the mix, which fell 3.7%, and the picture looks even weaker. Could US demand for big-ticket items be cooling? Still, despite the weaker readings the household sector looks set to remain the main source of growth for the US economy, keeping the Federal Reserve on the sidelines, at least near-term. Retailers will be hoping for a Black Friday blowout.

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