A Happy New Year to our readers! Economic data over the last weeks of 2019 suggests the UK economy rounded off the decade struggling for momentum. But with some Brexit uncertainty sidelined, although certainly not all, and a government ready to loosen the fiscal spigots, there's hope that 2020 will see a gradual improvement in the economy's fortunes. But as events in the Middle East have shown, it's already looking bumpy. Just like 2019, then!

Who knew? Economists say to expect a recession every 10 years. It was touch and go for the UK in 2019. But the 2010s now mark the first decade that the UK has avoided a recession since the 1700s! While we await statistical confirmation whether Northern Ireland fell into recession in 2019, it recently emerged that the local economy shrank (in terms of real GDP) by 0.5% in 2018. That's the first contraction since 2009. The worst performing

sub-region in the UK was Mid and East Antrim (MEA). Its economy shrank by 10% in 2018 and by a whopping 40% since 2015. Remember MEA was home to JTI, Michelin and Wrightbus. Falling GDP and rising employment is not the normal mix for a recession. But these are abnormal times.

Fracture. 2019 saw some cracks begin to emerge in the performance of the UK labour market with employment falling over the summer and vacancies declining throughout the year. The latest data shows reprieve for the former with employment rising 24k in the three months to October from the previous three. But the latter continued to show deterioration. The number of vacancies has fallen below 800k for the first time since late 2017. That’s still a lot of “help wanted”, but the 7% fall on a year earlier is the biggest decline since 2009.

Capped. Are UK employers giving up on hiring because they can’t get the right skills? If they were then surely they would have a go at paying more to attract workers? Well, that doesn’t seem to be the case. Wage growth has been trending lower in recent months. Regular pay (i.e. excluding bonuses) rose 3.5% y/y in the three months to October, the weakest pace since April. But those on the National Living Wage will see an inflation busting 6.2% hike from April 2020. Overall, it’s hard to escape the conclusion that the labour market has lost its edge. A worrying development for an economy that has relied so heavily on a robust jobs growth machine.

Muted. Fortunately for consumers subdued inflation means they continue to enjoy a healthy pace of real income growth. Prices rose just 1.5% y/y in November, having as good as halved since hitting 2.8% in late 2017. Sterling’s rise of late (making imports a little cheaper) should continue to exert a downward force on inflation in the coming months. Of course, a potential spanner in the works is a rally in oil prices. It’s fair to say fears over supply disruption in the Middle East has risen in likelihood in the early part of the year. But for the moment inflation remains firmly quiescent. Solace for households and the economy.

Watch out for a Bank of England interest rate cut or two in 2020.

Backtrack. December’s PMIs for the UK made for disappointing reading. The services sector was flat having last posted growth in August. Firms attributed lower activity to a combination of domestic political uncertainty, a lack of clarity in relation to Brexit and subdued global economic conditions. At least reasons one and two have seen some degree of resolution since the survey was undertaken. That may mean a near-term pick-up is round the corner.

Can’t catch a break. A salient feature of 2019 was the downturn in global manufacturing. As the year progressed tentative signs of stabilisation emerged. Unfortunately December’s reading confirmed there’s a way to go. In fact, the downturn in the sector deepened in the UK, registering a figure of 47.5, the lowest since mid-2012. The struggle is particularly pronounced in investment goods (echoing with the weakness in business investment) while consumer goods are holding up a little better (chiming with consumer spending holding up amidst decent real income growth).

Fog on the Rhine. And if there’s one country that’s felt the downturn most acutely it’s Germany. The December reading of its PMI fell from 44.1 to 43.7. Very depressed, in other words. And judging by the PMIs Germany’s manufacturers are having a harder time than at the height of the eurozone crisis seven years ago. Like the UK, it’s investment goods that are faring the worst. Lingering uncertainties around trade and the global economic outlook seem to be at fault, prompting a lot of hand-wringing at the politics and hand-sitting when it comes to making investment decisions. Bad news for Germany’s export machine. The one ray of light is that the survey respondents are growing a bit more optimistic about the coming year.

Bailed in. A new Bank of England governor for a new decade. While many of the challenges

remain the same – low growth and low inflation, there’s a growing realisation that monetary policy cannot fix the problems the economy faces. When the outgoing governor took up his role in 2013 Bank Rate was at 0.5%. Six and a half years later it’s a whopping 25bps higher at 0.75%, so little room to provide conventional monetary support. The new governor could very quickly be debating the relative merits of a host of unconventional measures – more quantitative easing, negative interest rates, even ‘helicopter money’ (direct cash transfers to the government or households). More widely he will be expected to participate in the climate change debate, and build on the work already underway at the Bank, including incorporating climate risks into bank stress tests.

Our Big Economic Review of 2019 is still available to watch:

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