2019 was characterised by political deadlock, not least with Brexit uncertainty and Stormont inaction. But a week can be a long time in politics. Two buses came at once, with the EU Withdrawal Agreement Bill passing its third reading in the Commons and Stormont resurrected after its three-year hiatus. The local private sector ended the decade on a low but politics has begun the 2020s on a high. Let's hope this newfound optimism lasts and can translate to the economy.

New Decade, New Approach. The Northern Ireland economy may still be in a downturn but the three-year political recession has ended. The return of Stormont, via the *New Decade New Approach* deal, is unambiguously positive for the economy. An extension of welfare mitigation measures, money for health pressures and 'turbocharging infrastructure' will all be welcomed. So too is the focus on medium to long-term planning in favour of short-termism. While many are waiting for the Jerry Maguire *"show me the money"* moment, it is important to remember the size of the financial package isn't everything. What you do with it is. Competitiveness of cities and regions is increasingly driven by efficiency and effectiveness of government and the ability to make tough choices.

Confidence rising. Northern Ireland's private sector ended the decade the way it began. Like 2010, last year was one of decline and underperformance albeit not as stark as the last deep recession. The PMI survey revealed 2019 was the weakest year for private sector output, orders and employment growth in seven years. Manufacturing and services firms posted their first annual fall in output since 2012 though the pace of decline was more marked amongst construction and retailers. Looking at December and Q4 signals more of the same but there are some signs that the downturn is easing. Confidence is returning with all sectors bar retail now expecting to expand. A return of Stormont certainly helps.

A tonic. It's not often we look to the euro zone for economic stability. But the region's stable news is a soothing balm against the increasingly blustery conditions elsewhere. Unemployment remained at 7.5% in November, unchanged monthly but down from 7.9% in November 2018 and from 12%+ in 2013. And in December annual inflation bounced to 1.3%, up from 1% in November. This is a salve for rate setters at the European Central Bank who've been trying to raise the rate of inflation. The economic mood this year has been distinctly downbeat. So a broadly benign euro zone is welcome news.

Feeling flat. Of the trio of UK PMIs, the services survey was the best of a bad bunch. No growth (50.0) in December was an improvement, and better than the steep declines recorded for manufacturing and construction. As a result, the composite PMI (48.9) signalled contraction for the fifth month running. Lacklustre demand is limiting pricing power, with services firms raising prices at their weakest pace since Feb 2016. So margins are squeezed. On a positive note, orders and sentiment are improving with firms the most optimistic in 15 months. Will this translate into expansion in 2020…time will tell?

Levelling-up. Complaints abound that UK public spending disproportionately benefits London. At £13,800 last year, per capita spending in the capital was £1,000 above the UK average and higher than in any other English region (incidentally each citizen in NI receives £2,000 p.a. more than their UK equivalent and the highest of all UK regions). That said, London is one of only three regions running a fiscal surplus, and typically generates double the tax revenue per head as some other regions. Nevertheless, per capita spending in the East and East Midlands lags a whopping £2,000 behind London. Differences in capital investment, especially in transport projects, explain why. Signs are that Government plans to use the Budget, on March 11th, to reduce this gap by boosting infrastructure investment in lagging regions.

Better visibility? According to the Bank of England’s survey of UK firms, the fog of Brexit uncertainty might be lifting just a little. Its Decision Maker Panel survey straddled December’s general election, and those that responded after the vote reported slightly less uncertainty over Brexit than those doing so before December 13th. That the UK will leave the EU on 31 January is indeed certain. What’s less certain is the shape of the trade deal the Government aims to agree by the end of the year. That’s not escaped firms’ attention, as 4 out of 10 expect uncertainty to be resolved only in 2021.

A puzzle. Most of the improvement in the UK’s standard of living since the Industrial Revolution has been due to productivity growth. In the decade before the financial crisis it was improving by 2.3% per year on average. This meant that this factor alone enabled output (and income) per worker to double every 30 years – not bad! But it all stopped in 2008. Since then productivity growth has been weak – 0.5% per year on average. The last 5 quarters were particularly bad – actually falling between Q3 2018 and Q2 2019 and managing growth of just 0.1% in Q3 2019. Now this is a puzzle worth solving!

Changing Landscape. The Bank of England governor Mark Carney delivered a thoughtful speech on inflation targeting. Reviewing the Monetary Policy Committee’s recent history, he credited its success to its independence, transparency, flexibility and focus on its primary target of price stability. However, the tools of conventional policy space are now more limited, the domestic economy is sluggish, and the global backdrop hardly accommodative. Is it time to change the framework? The bar for changing it very high but maybe now is the time to review the options.

Moderation. Hiring in the US economy lost momentum at the end of last year. Witness the 145k rise in non-farm payrolls in December 2019, below market expectations. For 2019, payrolls increase averaged 167k per month, down from 195k in 2018, but still healthy. The unemployment rate flat-lined at 3.5% last month, a 50yr low, but average hourly earnings growth dipped below 3%yoy in December 2019, the lowest rate since summer 2018. So perhaps wage growth has peaked in this cycle. Against this backdrop the Federal Reserve looks likely to sit on its hands near-term.

Persistent. China’s service PMI fell to 52.5 in December from 53.5 in November. A decent enough reading and firmly indicating growth. But the ’phase 1’ trade deal between the US and China, due to be signed this week, doesn’t seem to have shifted the cloud of uncertainty. Service firms’ expectations for the year ahead fell to the second-lowest level since 2005. Forecasters, too, expect the gradual slowdown in China’s growth seen over the past decade to continue into the new one. Both the World Bank and the IMF are forecasting sub-6% growth for China this year – the first time since 1990.

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