

The UK economic outlook has warmed a little of late. A strong labour market performance and business surveys signalling growth for the first time in five months both provided a ray of light. Yet warmth also featured prominently at the World Economic Forum in Davos. The top five global risks identified in the Global Risks report for 2020 are all about the environment.



Boom. Like sunbeams bursting through heavy clouds, the jobs market data yet again provided the UK economy with a well needed tonic. Employment rose by 208,000 (yup, a 1/5th of a million), in the quarter to Sep-Nov with the share of the working age grafting hitting a new high of 76.3%. It was women, working in London, that accounted for 37% of the total rise in employment (London accounted for just over half, 51%). Still, annual pay growth slipped to 3.2%, or 1.6% in real terms. But that's not bad, considering productivity grew by just 0.1% annually in Q3 2019.

Not quite. With such strong job growth, the unemployment rate remained at 3.8%. Indeed,

the majority of regions are registering figures around the 4% mark, including the North West (4.2%), East Midlands (3.9%) and Scotland (3.8%). The lowest rates are to be found in the South West (2.8%) and Northern Ireland (2.3% - a joint-record low) where employment has risen by an impressive 3% over the past year. The exception is the North East where it stands at 6.2%, having steadily crept up over the prior 12 months or so from 4.4%.

Rebound. Reduced political uncertainty following the general election boosted business confidence in December. It was hoped that this would translate into a meaningful pick-up in business activity. So, it proved. The UK's composite PMI returned to expansion in January for the first time in five months. At 52.4 it marked the fastest rate of growth since October 2018. Services firms drove the increase while the downturn in manufacturing appears to have bottomed out. Further improvements look likely with optimism for the year ahead surging to levels last seen in mid-2015. That imminent Bank of England interest rate cut could now be deferred.

Budgeting. HM Treasury is preparing for a new Budget, due on 11 March, and will have cheered the news of relatively modest increases in borrowing to date. Three quarters of the way through the fiscal year the UK has borrowed £9bn more than it had at the same point last year. A rise of 8%, but not as much as the 25% rise forecasted by the OBR. Cue a bit more wriggle room for the Chancellor and scope to boost regional spending on his "levelling up" theme. The fiscal data also pointed to reasonably strong underlying economic performance. Income tax and National insurance contributions are up 3.5%, signifying healthy household incomes. January and February are big months for self-assessment tax returns, so we'll soon find out if they too boost the Chancellor's coffers.

Measuring. You would have noticed that climate change became a front-page issue in recent months. And the Office for National Statistics is tracking the UK low carbon and renewable energy economy (LCREE). Between 2015 and 2018 its turnover has increased by

9% in real terms and reached £47 bn. And in 2018 it employed almost 225K people (12% growth). If you are wondering what counts as LEREE the three largest sectors by turnover are Energy efficient products (36%), Low emission vehicles (9%) and Bioenergy (9%). To hit the net-zero target by 2050 we need a lot more growth.

Stabilisation. The Euro area flash manufacturing PMI surprised on the upside in January 2020, rising to 47.8 versus 46.3 in December 2019, a five-month high. German manufacturing sentiment, a key source of weakness in the Eurozone, ticked higher in January, driven by rising new orders. Still, the headline index remains in contraction territory. French manufacturing started 2020 on a positive note. The worst appears to be over for Eurozone manufacturing, but recovery is tepid. This backdrop points to little urgency for ECB action. ECB president Lagarde confirmed the review of its monetary policy strategy will be completed by the end of 2020.

Hot air balloons. The United States is in the midst of an unprecedented economic boom. So said President Trump in an assured speech to the World Economic Forum. This omitted to mention that the US economic growth rate eased through 2019. But he still has a point. The Flash PMI, which climbed to a 10-month high of 53.1 in January, shows output and job growth accelerating. The upturn in activity stems from a further pick-up in the services and businesses are increasingly optimistic about prospects. The longest economic expansion ever recorded shows no signs of drawing to a close.

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