

Northern Ireland Quarterly Sectoral Forecasts

Forecast summary

The Northern Ireland economy is continuing to grow but at relatively modest rates. In the final quarter of 2018, the services sector grew strongly but this was accompanied by a decline in production activity and a fall in construction output. In 2019, household spending power is likely to continue its recovery, but Brexit-related uncertainty looks set to constrain business investment and weaker global growth is expected to lead to some challenges for exporting businesses. We are forecasting that economic growth in Northern Ireland will average 1.0% in 2019 and 1.3% in 2020.

Mixed results for the economy at the end of 2018

Services output remained strong in the final quarter of 2018, increasing by 0.9% over the quarter and up 2.8% compared with 2017 Q4. The quarterly rise was driven by wholesale & retail trade and accommodation & food services, up 1.0% compared with 2018 Q3, and 3.8% over the year.

However, production output acted as a drag on economic growth, falling by 0.7% over the quarter to 2018 Q4. Although over the year, output was boosted by growth earlier in 2018 and was up by 2.4%.

The Quarterly Construction Bulletin showed that construction output decreased by 4.0% between the third and fourth quarters of the year and by 1.7% when compared with the last quarter of 2017.

Subdued growth expected in 2019...

Household spending power is expected to continue its recovery in 2019, but economic growth is likely to remain subdued as Brexit-related uncertainty holds back business investment and global economic growth cools. Assuming that a no-deal Brexit is avoided and the UK leaves the EU in a managed and orderly way, we are forecasting that the Northern Ireland economy will grow by 1.0% in 2019, just slightly behind the UK average of 1.2%. In 2020, economic growth is expected to increase slightly to 1.3% in Northern Ireland and 1.5% in the UK.

The administration & support, information & communication and professional services sectors are expected to post the fastest rates of growth over the next two years. On the other hand, public administration will continue to act as a drag on growth, with the other services sector also expected to contract.

...and jobs growth is set to slow

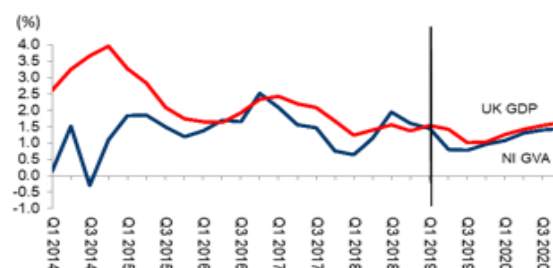
Employment growth picked up in 2018 Q4 with the strongest quarterly rise of the year (0.7%), according to the latest Quarterly Employment Survey. The rate of employee jobs growth is forecast to slow from 2.1% in 2018 to 0.5% in 2019 and then to 0.3% in 2020, partly reflecting the lack of spare capacity in the labour market, and the sluggish growth outlook.

The unemployment rate fell to 3.0% in the December-February period, and recorded an annual average rate of 3.6% for 2018. We expect the unemployment rate to average 3.6% again in 2019 and 3.8% in 2020.

Forecast summary (%)		
	2019	2020
UK GDP growth	1.2	1.5
NI GVA growth	1.0	1.3
NI consumer spending growth	0.9	1.2
NI employee jobs growth	0.5	0.3
NI unemployment rate	3.6	3.8
UK CPI inflation rate	1.9	2.0

Source: Oxford Economics, Danske Bank Analysis

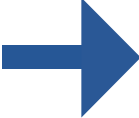
Economic growth (year-on-year)



Source: Oxford Economics, Danske Bank Analysis


Key factors in the outlook

Household spending power gradually recovering, but still under pressure




In January 2019, UK CPI inflation fell below the Bank of England's 2% target for the first time in two years. The rate of price growth remained below the target at 1.9% in both February and March, and is projected to remain broadly stable throughout this year. We expect the annual average inflation rate to decline from 2.5% in 2018 to 1.9% this year, and then to increase slightly back up to the 2.0% target in 2020. In addition to the lower inflation rate, firmer wage growth should also support household spending power, though there will be some offset from the government's welfare reforms and the slightly higher interest rates compared with recent years. With the savings ratio already very low, we expect households to become more wary about borrowing, so that spending growth moves more into line with real incomes. We are forecasting that consumer spending in Northern Ireland will grow by around 0.9% in 2019 and 1.2% in 2020.

Boost to UK exports from global growth and currency movements continuing to fade



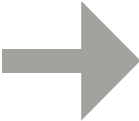
Although stronger global growth and a weak pound drove a marked pick-up in export growth in 2017, the boost from those factors faded last year. Looking ahead, we expect global economic and world trade growth to cool in 2019 as the impact of more protectionist trade policies are felt. This slower rate of global growth is likely to adversely impact international demand for goods and services from Northern Ireland and the rest of the UK. Our assumption continues to be that a Brexit deal will eventually be reached and that the UK will leave the EU in an orderly fashion. If this occurs and a no-deal Brexit is avoided, it is possible that there could be some appreciation in the value of sterling. If this occurs, it would mean that some of the competitiveness gains for net exporters would dissipate and, therefore, the boost to UK growth from the export channel would fade.

Brexit uncertainty weighs on business investment




While UK firms seem to be in solid financial shape, they have been reluctant to spend, with business investment having fallen in all four quarters of 2018. Uncertainty around Brexit has been a key factor and this is likely to persist until the UK's future trading relationship with the EU becomes clearer.

Interest rates unlikely to rise in 2019



Similar to other major central banks, the Monetary Policy Committee's (MPC) narrative has become markedly more dovish of late, both in terms of chunky downgrades to its forecasts in February's Inflation Report and a series of comments from Committee members suggesting that imminent rate hikes are not currently on the radar. And with Brexit-related uncertainty persisting, we think it is unlikely that the MPC will make any changes to interest rates in 2019.

Less restrictive fiscal stance



The Budget saw the Chancellor take advantage of large favourable revisions to the Office for Budget Responsibility (OBR) borrowing forecasts to loosen the fiscal stance in 2019-20, via higher government spending (mostly on the NHS) and increases in income tax thresholds. As a result, fiscal policy should offer modest support to GDP growth in 2019 and 2020, although the OBR forecasts imply that it will revert to dragging on growth in subsequent years.

Sectoral outlook

Economic growth set to remain modest in 2019

We expect economic growth in Northern Ireland to remain sluggish in 2019 at just 1.0% with Brexit-related uncertainty acting as a significant dampener on the economy. Growth was underpinned by services output at the end of last year, and we are forecasting that the business services sectors will continue to post the strongest growth throughout 2019 and 2020. The **administrative & support, information & communication** and **professional services** sectors are expected to be the three fastest growing sectors over the next two years.

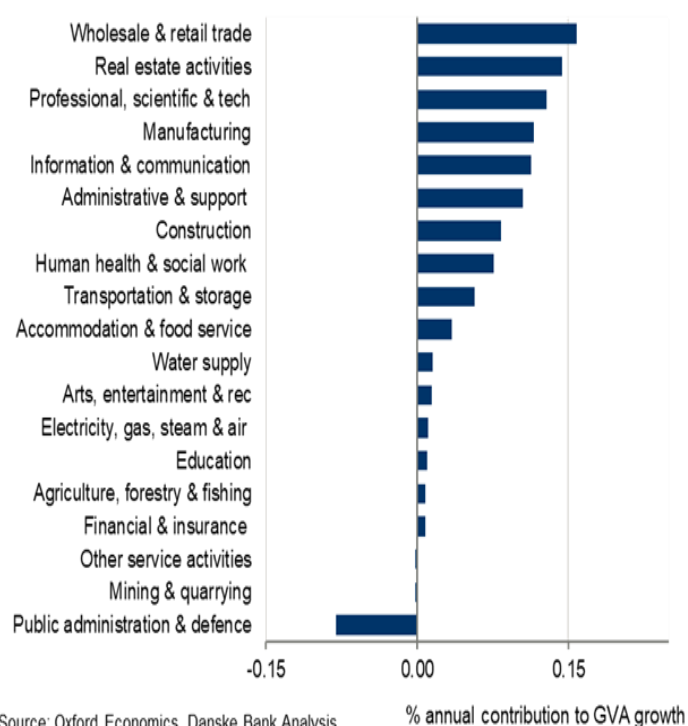
Output in the **wholesale & retail trade** sector is forecast to grow by 1.1% in 2019 and 1.5% in 2020. While the 2018 Q4 Danske Bank Northern Ireland Consumer Confidence Index reported a surprise increase in consumer confidence at the end of last year, concerns around Brexit and the local political impasse remain and may lead people to be more cautious when it comes to their discretionary spending.

We have revised down our forecast for output growth in **construction** to 1.2% in 2019 and 1.5% in 2020 in light of recent data. The latest Northern Ireland Quarterly Construction Bulletin showed a decline in output at the end of 2018. The total volume of construction output in 2018 Q4 was 4.0% lower when compared with 2018 Q3, and down 1.7% compared with the same quarter in 2017. A quarterly fall was seen in the housing and other work subsectors (down 12.0% and 7.5% respectively), but infrastructure output was up 13.3%. Looking forward, high levels of political uncertainty are expected to continue to dampen capital spending by businesses and this is likely to constrain growth in the construction sector.

We expect the **manufacturing** sector to grow by just 0.9% in 2019. The latest Index of Production for 2018 Q4 reported a 0.5% contraction in manufacturing output over the quarter, although stronger growth earlier in the year meant output was up by 2.4% when compared with 2017 Q4. Growth is forecast to pick up to 1.3% in 2020, based on the assumption that a Brexit deal is eventually agreed.

Public administration & defence continues to have the weakest outlook of all the sectors of the Northern Ireland economy. Output is expected to contract by 1.0% in 2019, and by a further 0.8% in 2020.

Sector contributions to GVA growth in 2019



Source: Oxford Economics, Danske Bank Analysis

GVA (%)	2019	2020
Administrative & support	3.8	3.8
Information & communication	3.5	3.6
Professional, scientific & tech	3.0	3.8
Transportation & storage	1.4	1.8
Real estate activities	1.3	1.7
Accommodation & food service	1.2	1.3
Arts, entertainment & rec	1.2	1.1
Construction	1.2	1.5
Water supply	1.1	1.3
Wholesale & retail trade	1.1	1.5
Manufacturing	0.9	1.3
Electricity, gas, steam & air	0.7	1.0
Human health & social work	0.7	1.2
Agriculture, forestry & fishing	0.5	0.7
Financial & insurance	0.2	0.1
Education	0.2	0.5
Other service activities	-0.1	-0.2
Mining & quarrying	-0.3	0.0
Public administration & defence	-1.0	-0.8
Total	1.0	1.3

Source: Oxford Economics, Danske Bank Analysis

Labour market outlook

Employment growth in Northern Ireland remained strong throughout 2018 but could slow this year

The latest jobs data continued to show growth in employment in Northern Ireland, despite subdued economic growth and a labour market close to full capacity. The latest Quarterly Employment Survey (QES) data showed that in 2018 Q4, the number of employee jobs rose by 0.7% over the quarter and by 1.9% compared with the same quarter in 2017. We estimate that employment growth will slow to 0.5% in 2019 and to 0.3% in 2020 as economic growth remains subdued, spare capacity in the labour market erodes further and firms begin to shift their focus away from recruiting workers and towards improving productivity.

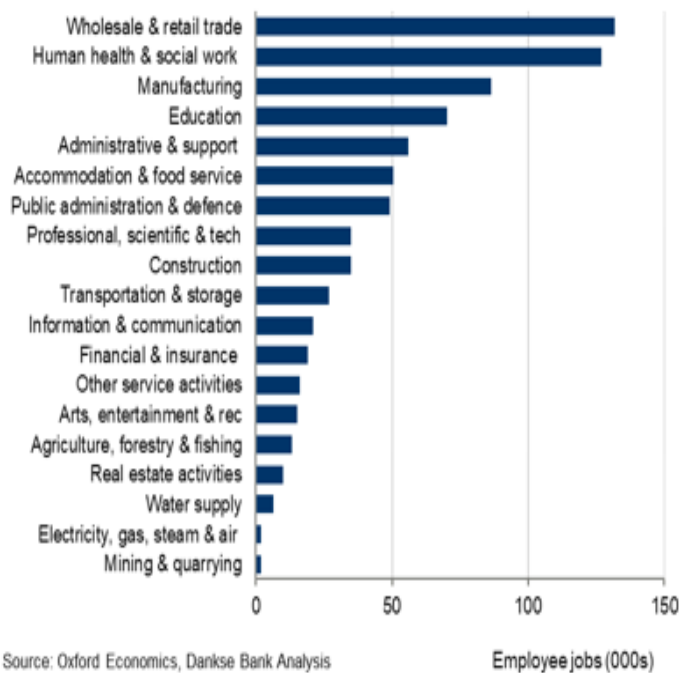
We are forecasting that the **professional, scientific & technical** and **administrative & support services** sectors will experience the fastest employment growth in 2019, at 1.2% and 1.0% respectively. The sectors have seen a slight increase to their forecasts for 2019 since our last report, largely based on recent upward revisions in the QES data. Both sectors are expected to see a slight slowdown in the pace of job creation in 2020, but should continue to experience faster rates of jobs growth than the other sectors of the Northern Ireland economy.

Wholesale & retail trade employment growth has been revised slightly downwards to 0.4% in 2019 and is expected to increase marginally to 0.5% in 2020. The latest QES employment data for 2018 Q4 showed a quarterly decline in the number of jobs of 0.2%, and over the year employment in the sector was up by just 0.5%.

The increase in the number of **manufacturing** jobs is expected to be much lower than the 3.4% achieved in 2018. We expect the number of jobs to rise by 0.6% in 2019 and 0.4% in 2020, just slightly above the Northern Ireland average.

The unemployment rate in Northern Ireland fell to 3.0% in the December-February period, down by 0.5 percentage points compared with September-November. The employment rate reached a record high of 71.2% in December-February, and the economic inactivity rate declined to 26.6%. We expect the annual average unemployment rate to remain unchanged from last year at 3.6% in 2019, but to rise slightly to 3.8% in 2020.

Employee jobs per sector in 2019



Employee jobs (%)	2019	2020
Professional, scientific & tech	1.2	0.9
Administrative & support	1.0	0.6
Information & communication	0.9	0.5
Construction	0.7	0.6
Accommodation & food service	0.7	0.5
Real estate activities	0.6	0.5
Manufacturing	0.6	0.4
Human health & social work	0.5	0.2
Other service activities	0.4	0.3
Wholesale & retail trade	0.4	0.5
Arts, entertainment & rec	0.3	0.1
Water supply	0.3	0.1
Education	0.3	0.1
Electricity, gas, steam & air	0.3	0.1
Agriculture, forestry & fishing	0.2	0.0
Transportation & storage	0.2	0.1
Financial & insurance	0.0	0.1
Mining & quarrying	0.0	-0.3
Public administration & defence	-0.2	-0.4
Total	0.5	0.3

Source: Oxford Economics, Danske Bank Analysis

Risks and uncertainties

There are several risks and uncertainties which may impact upon the forecasts presented above. These include:

- **Brexit** – Following the European Council summit on 10 April, the Article 50 process has been extended again. This extension is scheduled to last until 31 October, but if the House of Commons passes a Withdrawal Agreement and it is subsequently ratified by the EU, the UK will leave the European Union on the first day of the following month. Given that Parliament does not support a no-deal Brexit, the UK leaving the European Union without a deal is an unlikely outcome. However, it is still a possibility and if it were to occur, it would have severe consequences for both the UK and Northern Ireland economies. We continue to believe that the UK will eventually leave the EU with a deal but a number of outcomes are still possible over the months ahead, including a further extension of the Article 50 process, a second referendum or a general election. With high levels of uncertainty continuing to linger, Brexit remains a drag on economic growth and it poses a significant risk to Northern Ireland's future economic prospects.
- **Political uncertainty** – Northern Ireland remains without a Stormont Executive, following the collapse of the power-sharing administration back in January 2017. The Secretary of State for Northern Ireland recently made the decision to use a one-off extension to suspend the appointment of Northern Ireland Ministers until August 2019. Businesses and consumers are continuing to express concerns about the lack of political stability in Northern Ireland, with investment decisions and confidence both being negatively affected by the uncertainty.

In addition, key global uncertainties include:

- **Slowdown in global economic growth** – A sharp slowdown in global economic growth over the last year has resulted from a series of mutually reinforcing negative shocks. The largest contributors to the slowdown have included weaker import growth in some emerging markets, the steep deceleration in the Eurozone and downturns in sectors such as the manufacture of semiconductors. World trade growth looks set to remain weak for a number of months while the risks of an economic slowdown in China and the US are still looming. While it is likely that policymakers in the two countries will be successful in delivering a soft landing, any significant downturn in these two countries will negatively affect global economic growth.

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