Northern Ireland Quarterly Sectoral Forecasts

Forecast summary

The Northern Ireland economy didn't pick up much underlying momentum in the first quarter of 2019. Services output fell over the quarter, and while production activity increased, this was likely related to stockpiling in anticipation of the original Brexit deadline. But on a positive note, employee jobs growth remained strong and consumer confidence increased. We are forecasting that the Northern Ireland economy will grow by 1.0% in 2019 and 1.3% in 2020.

Economic growth in 2019 off to a slow start

Services output, which has been the main driver of growth in Northern Ireland recently, declined by 0.4% in 2019 Q1 compared with 2018 Q4. However, output was up 0.7% compared with 2018 Q1. The latest Quarterly Construction Bulletin showed that construction activity fell by 4.0% over the quarter and 1.7% over the year to 2018 Q4.

Production output rose by 1.7% in 2019 Q1, mainly driven by increases in the largest sector, manufacturing. This was likely influenced by stockpiling ahead of the original Brexit deadline at the end of March 2019, and therefore we do not expect this pace of growth to be maintained throughout the rest of the year.

Subdued GVA growth to continue throughout 2019...

Assuming a no-deal Brexit is avoided, GVA in Northern Ireland is forecast to grow by 1.0% in 2019, slightly behind the UK GDP growth forecast of 1.3%. Consumer spending is projected to pick up throughout the year, boosted by rising wages and a moderation of inflationary pressures. But Brexit-related uncertainty is likely to continue to drag on business investment and the slower pace of global economic growth is expected to weigh on exports.

Interest rates are not expected to see any change this year, but the fiscal stance is due to begin becoming less restrictive.

The information & communication, administration & support and professional, scientific & technical services sectors are expected to post the fastest rates of growth over the next two years. On the other hand, public administration is likely to continue to act as a drag on growth.

...but jobs growth remains strong

The latest employment data showed that the labour market remained strong at the start of 2019. According to the Quarterly Employment Survey, the number of employee jobs increased by 0.5% in 2019 Q1 compared with the previous quarter, and by 2.0% compared with 2018 Q1. As a result of this strong data, we have revised our forecast for employee jobs growth up to 1.3% in 2019 but then expect jobs growth to slow to 0.5% in 2020. In 2019, the information & communication, professional, scientific & technical services and administration & support sectors are expected to experience the fastest rates of jobs growth.

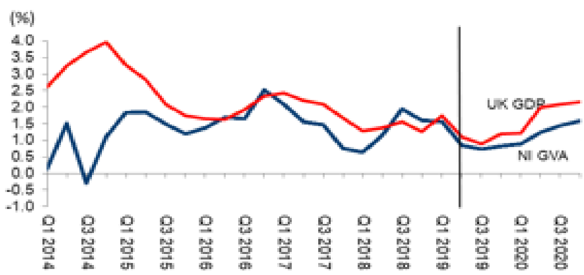
The unemployment rate in Northern Ireland stood at 3.1% in the February-April 2019 period. We are forecasting that the annual average unemployment rate for 2019 will reach 3.3%, and then rise to 3.7% in 2020.

Forecast summary (%)

	2019	2020
UK GDP growth	1.3	1.5
NI GVA growth	1.0	1.3
NI consumer spending growth	0.9	1.2
NI employee jobs growth	1.3	0.5
NI unemployment rate	3.3	3.7
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

Sustained growth in household spending power
A simultaneous pick-up in wage growth and a cooling in inflationary pressures has seen household spending power rise over the past twelve months. But momentum has started to ebb slightly, with the acceleration in wage growth levelling out and the government's welfare reforms remaining a headwind. The recovery in real income growth has enabled households to engage in some modest rebuilding of their balance sheets, though the savings ratio remains very low. Our forecast assumes that growth in spending closely tracks improvements in real incomes over the next few years, with consumer spending in Northern Ireland growing by 0.9% in 2019 and 1.2% in 2020, though quarterly growth rates are expected to pick up steadily during next year. We expect UK CPI inflation to average 1.9% in 2019 and to settle at its 2.0% target in 2020.

Boost to UK exports from global growth and currency movements continuing to fade
Though stronger global growth and a weak pound drove a marked pick-up in export growth in 2017, the boost from these factors faded last year. We expect the annual average rate of global GDP growth to weaken in 2019 as the impact of more protectionist trade policies are felt, with adverse consequences for exports from Northern Ireland and the rest of the UK. The protracted uncertainty associated with Brexit has acted as a drag on the value of sterling. However, if a Brexit deal were to be agreed and the UK were to leave the EU in an orderly way, it is possible that the value of sterling could recover somewhat and that would reduce some of the price competitiveness of UK goods and services in international markets that has been observed in recent years.

Brexit uncertainty weighs on business investment
Although firms are in solid financial shape, they have been reluctant to spend – as of the first quarter of 2019, business investment in the UK was still 2% below its late-2017 post-crisis peak. Uncertainty around Brexit has been a key factor behind this and business investment is likely to remain subdued until the UK's future trading relationship with the EU becomes clearer.

Interest rates unlikely to rise in 2019
Inflation in May came in at the Bank of England's 2.0% target while UK economic growth remains relatively modest. As such, there is no immediate pressure on the Monetary Policy Committee (MPC) to increase interest rates in the short-term. And with uncertainty around the terms of the UK's exit from the EU persisting, we think that the MPC will wait and see how Brexit plays out before making its next move. Therefore, we do not expect any rate rises in 2019.

Less restrictive fiscal stance
We estimate that fiscal policy exerted a 1 percentage point drag on UK economic growth in fiscal year 2018-19. But, moving forward, the fiscal stance is expected to become less restrictive, with the majority of the real term cuts to government spending likely now behind us. Indeed, with substantial headroom against the fiscal rules, it is possible that the Chancellor will decide to loosen policy at one of the upcoming fiscal events.

Sectoral outlook

Weak start to the year reinforces sluggish outlook for 2019
The outlook for economic growth in Northern Ireland remains subdued, as Brexit, local political uncertainty and weaker global growth are continuing to take a toll on the economy. The first quarter of 2019 saw a decline in services output, and production was boosted in a large part by temporary stockpiling. Despite the recent fall in overall services output, the **information & communication**, **administrative & support** and **professional services** sectors are expected to be the fastest growing over the next two years. We are forecasting that overall economic growth will average just 1.0% in 2019, rising slightly to 1.3% in 2020.

Our forecast for output growth in the **construction** sector has been revised downwards, to 1.0% in 2019 and 1.1% in 2020. This revision is in part due to the weak results from the latest Northern Ireland Quarterly Construction Bulletin, which showed a 4.0% quarterly fall in output in 2018 Q4, and a 1.7% drop compared with 2017 Q4.

Output in the **wholesale & retail trade** sector is forecast to grow by 1.1% in 2019 and 1.3% in 2020. The high employment rate, stronger wage growth and an improvement in consumer confidence in the first quarter of 2019 are all supportive of growth in this sector, as well as other consumer-focused sectors such as **arts, entertainment & recreation** and **accommodation & food services**.

Our forecast for growth in the **manufacturing** sector is unchanged at 0.9% in 2019. The latest Index of Production data for 2019 Q1 showed a 1.9% rise in manufacturing activity. However, we do not expect this pace of growth to continue throughout the rest of the year, and so have not adjusted the forecast for 2019. Output growth is expected to rise to 1.5% in 2020.

Public administration & defence continues to have the weakest outlook of all the sectors of the Northern Ireland economy. Output is expected to contract by 0.5% in 2019, and by a further 0.3% in 2020.

Sector contributions to GVA growth in 2019

Source: Oxford Economics, Danske Bank Analysis

GVA (%)	2019	2020
Information & communication	3.4	3.7
Administrative & support	3.0	3.3
Professional, scientific & tech	2.8	3.4
Real estate activities	1.4	1.7
Transportation & storage	1.2	1.6
Arts, entertainment & rec	1.2	1.2
Accommodation & food service	1.2	1.4
Wholesale & retail trade	1.1	1.3
Construction	1.0	1.1
Manufacturing	0.9	1.5
Water supply	0.9	1.0
Human health & social work	0.6	0.9
Education	0.5	0.7
Agriculture, forestry & fishing	0.4	0.7
Mining & quarrying	0.2	0.2
Other service activities	0.1	0.3
Financial & insurance	0.1	0.3
Electricity, gas, steam & air	0.0	0.3
Public administration & defence	-0.5	-0.3
Total	**1.0**	**1.3**

Source: Oxford Economics, Danske Bank Analysis

Labour market outlook

Employment growth in Northern Ireland surprised on the upside in the opening quarter of 2019
The Northern Ireland labour market had a strong start to the year despite the subdued economic environment. The latest Quarterly Employment Survey (QES) showed that in 2019 Q1, the number of employee jobs increased by 0.5% over the quarter and 2.0% compared with the first quarter of 2018. Given this strong data, we have revised our forecast for employee jobs growth up to 1.3% this year, but expect employment growth to slow to 0.5% in 2020 due to the little spare capacity left in the labour market.

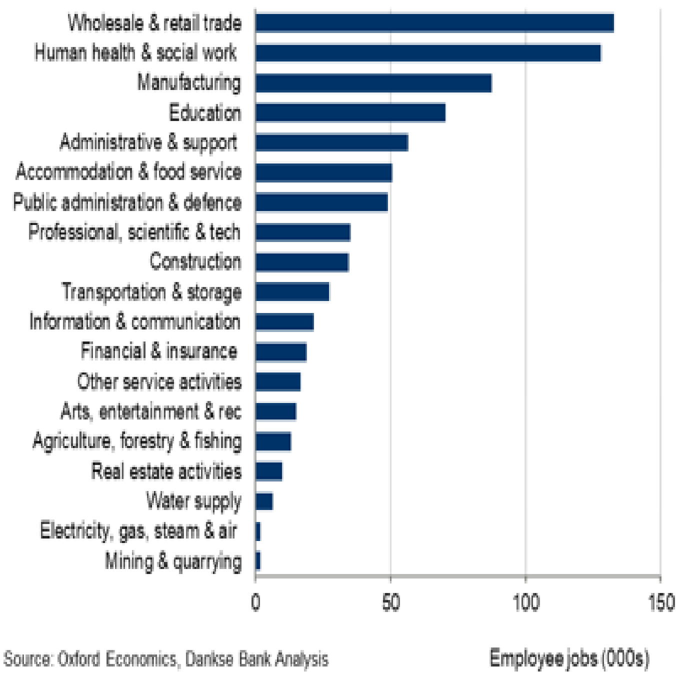
The **information & communication** sector is forecast to experience the fastest employment growth in 2019, with the number of jobs expected to rise by 2.9%. The latest QES data showed that employee jobs in the sector increased by 4.6% over the quarter and 7.5% over the year to 2019 Q1. The **professional, scientific & technical** and **administration & support** services sectors are also expected to be among the sectors experiencing the fastest employment growth, with the number of jobs projected to rise by 2.4% and 2.0% respectively this year.

Our forecast for employment growth in **construction** is now slightly below our expectation of average jobs growth in 2019, in part reflecting the weakness of the latest output data, and the downward revision seen in the latest QES figures. We are forecasting jobs growth of 1.2% in 2019 and 0.9% in 2020.

Employment growth in **wholesale & retail trade** is forecast to be 0.8% in 2019 and 0.5% in 2020. The sector should be boosted this year by stronger household spending power, as inflationary pressures have moderated and wage growth remains relatively high.

The unemployment rate in Northern Ireland fell to 3.1% in the February-April 2019 period, down by 0.4 percentage points compared with November-January, but up slightly from the record low of 2.9% observed in the first quarter of the year. The economic inactivity rate in Northern Ireland has also been on a downward trajectory, potentially due to more people moving into the labour market in response to the rise in real wages. We expect the annual average unemployment rate to reach 3.3% in 2019 and 3.7% in 2020.

Employee jobs per sector in 2019



Source: Oxford Economics, Dankse Bank Analysis

Employee jobs (%)	2019	2020
Information & communication	2.9	0.8
Professional, scientific & tech	2.4	1.0
Administrative & support	2.0	1.0
Arts, entertainment & rec	1.9	0.9
Transportation & storage	1.7	0.8
Manufacturing	1.7	0.9
Real estate activities	1.6	0.9
Human health & social work	1.4	0.3
Water supply	1.4	0.9
Accommodation & food service	1.3	0.7
Other service activities	1.2	0.7
Construction	1.2	0.9
Mining & quarrying	0.9	0.3
Wholesale & retail trade	0.8	0.5
Education	0.5	0.2
Agriculture, forestry & fishing	0.4	0.1
Electricity, gas, steam & air	0.2	0.3
Financial & insurance	0.1	0.0
Public administration & defence	0.0	0.0
Total	**1.3**	**0.5**

Source: Oxford Economics, Danske Bank Analysis

Risks and uncertainties

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

- **Brexit –** The UK was due to leave the EU in March 2019, but failure to back a withdrawal agreement in time led to a request for an extension to the Article 50 process, delaying the UK's exit until the end of October. As a result of the failure to obtain parliamentary backing for a deal and leave the European Union by the original deadline, and under pressure from her own party, the Prime Minister announced her resignation, adding to the uncertainty regarding how the UK will leave the EU. In addition, the outcome of elections to the European Parliament revealed a public still polarised by Brexit, with success for parties at the two extremes of the Brexit debate. A number of possible Brexit options remain possible including some form of the withdrawal agreement being passed by the House of Commons, a general election, a second referendum, leaving the EU without a deal or a further extension to the Article 50 process. If the UK Government were to pursue a no-deal Brexit it would likely face hefty parliamentary opposition but while it is an unlikely outcome, leaving without a deal still remains a possibility. Between now and October, time constraints alone make a renegotiation of the current deal very difficult and the EU has made clear that it does not want to renegotiate the draft withdrawal agreement. It's also not clear what question the public would be asked in a second referendum and if there were to be a general election, it would be difficult for the two main UK political parties to include a Brexit policy in their manifestos that would command broad-based support within the party. Given the lack of a clear way forward, we think a further extension of the Article 50 process appears to be, just about, the most likely outcome at this stage.

- **Political uncertainty –** Northern Ireland remains without a Stormont Executive, following the collapse of the power-sharing administration back in January 2017. Despite the start of a new talks process in May, the local political parties have been unable to come to an agreement to restore the devolved institutions, with a number of key issues still unresolved. There is also a possibility that these talks could be put on hold over the summer. Until an agreement is reached, the political stalemate will continue to act as a drag on business investment and consumer confidence.

In addition, key global uncertainties include:

- **Tariff tension escalations –** The latest US-China tariff hikes add to the risk of further, more substantive measures that could have a significant impact on global economic growth. It is also important to note the impact that the current tariffs will have, even if there are no further escalations. The Trump administration's tariff hike to 25% on half of US imports from China is estimated to cost the US economy $62 billion by 2020, or 0.3% of GDP, according to analysis by Oxford Economics. The cost to the global economy will likely surpass $360 billion.

- **Potential oil price spikes –** Supply concerns across oil-exporting economies mean the prospect of higher oil prices, which would act as a drag on global growth and could lead to a spike in inflation, is a possibility.

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