Northern Ireland Quarterly Sectoral Forecasts

Forecast summary

The Northern Ireland economy likely expanded in 2019 Q2, but the rate of growth over the first half of the year remained modest given Brexit, the softening global economy and local political uncertainty. Looking forward, household spending power is likely to be the main driver of economic growth as the export environment has deteriorated and Brexit is expected to continue weighing on business investment. We are forecasting economic growth in Northern Ireland of 0.9% this year and 1.0% in 2020.

Economic output in Northern Ireland expanded in 2019 Q2...

According to the latest data, services output in Northern Ireland picked up in 2019 Q2 after declining in the first quarter of the year. Output increased by 0.8% over the quarter, but only by 0.5% when compared with 2018 Q2. The consumer sector, which combines retail trade and accommodation and food services, saw particularly strong gains over the quarter, while output in the other services sector declined.

Quarterly growth in production output remained strong but was lower than at the start of the year when businesses were stockpiling in anticipation of the original Brexit date. Output in Northern Ireland increased by 1.2% over the quarter to 2019 Q2, and was up by 3.6% when compared over the year. Growth was driven by increases in output across all the production sectors, with manufacturing – the largest contributor – up by 1.0% over the quarter.

...but GVA growth is expected to remain subdued

We have revised our forecast for economic growth in Northern Ireland downwards for both 2019 and 2020. This largely reflects the modest data for the first half of the year, increased Brexit-related uncertainty and the weaker global economic environment. Assuming that a no-deal Brexit is avoided, we expect the Northern Ireland economy to grow by 0.9% in 2019 and 1.0% in 2020, below the 1.2% we expect UK GDP to grow by in both years.

A combination of strong wage growth and more stable inflation is likely to lead to solid growth in consumer spending, but the lack of clarity around the UK's future relationship with the EU is expected to continue holding back business investment.

Job creation shows signs of slowing

While the latest employment data showed an increase in the number of jobs in the first half of 2019, the pace of job creation appears to be slowing. According to the Quarterly Employment Survey, growth in the number of employee jobs slowed in 2019 Q2, up just 0.2% compared with the first quarter of the year. This slowdown in jobs growth was to be expected given that spare capacity in the labour market has declined following a period of consistent increases in the number of jobs.

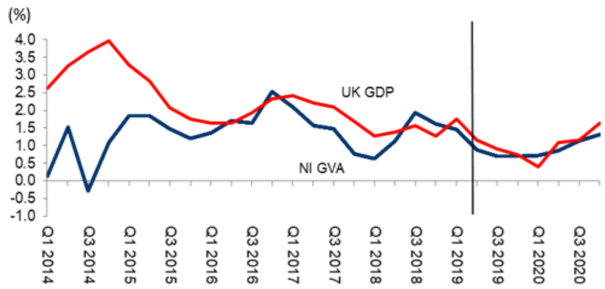
The unemployment rate in Northern Ireland fell to 2.8% in the May-July 2019 period, a record low. We expect the unemployment rate to average 3.2% in 2019, and 3.8% in 2020.

Forecast summary (%)

	2019	2020
UK GDP growth	1.2	1.2
NI GVA growth	0.9	1.0
NI consumer spending growth	0.9	1.0
NI employee jobs growth	1.3	0.5
NI unemployment rate	3.2	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

Solid growth in household spending

A simultaneous pick-up in wage growth and a moderation of inflationary pressures has seen household spending power strengthen over the past year. The latest data showed that over the year to May-July 2019, wages in Great Britain increased by 3.8% while inflation has averaged 1.9% over the year-to-date. This supported the stronger rates of consumer spending growth observed in the UK in the first half of the year. Improvements in consumer spending power are now likely to level off, with wage growth expected to stabilise at around 3.5% and inflation likely to settle close to its 2% target. The recovery in real income growth in 2018 and 2019 has enabled households to engage in some modest rebuilding of their balance sheets, although it is worth noting that the savings ratio remains very low. Our forecast assumes that growth in spending closely tracks real income growth over the next few years, with consumer spending in Northern Ireland expected to grow by 0.9% in 2019 and 1.0% in 2020.

Slower global growth and a weaker export enivronment

Exporting business across the UK have found life much tougher of late as the global economic outlook has deteriorated. The pace of economic growth in both the US and the euro area was slower in the second quarter of the year than the first and in July, the IMF revised its 2019 global economic growth forecast slightly downwards. We expect growth in world trade (weighted by UK export shares) to slow considerably this year as the impact of greater trade protectionism feeds through. In 2020, world trade growth should be stronger than 2019, but is likely to remain relatively subdued.

Brexit uncertainty weighs on business investment

Although most firms are still in solid financial shape, they have been reluctant to spend – as of 2019 Q2, UK business investment was still close to 3% below its late-2017, post-crisis peak. Uncertainty around Brexit has been one of the main factors behind the subdued investment levels, 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

August's Inflation Report saw the Bank of England's Monetary Policy Committee (MPC) repeat its view that a smooth Brexit would see excess demand build over the medium-term, necessitating a gradual rise in Bank Rate. While the Federal Reserve has cut US interest rates as "insurance" against downside risks, the MPC has been focused on setting policy according to its baseline forecast, even though it too has acknowledged the presence of downside risks. The future path of UK interest rates is likely to be heavily dependent on how the Brexit process plays out over the coming weeks and months. Assuming a no-deal Brexit is avoided, we expect Bank Rate to remain at 0.75% for the rest of 2019.

Less restrictive fiscal stance

We estimate that fiscal policy exerted a 1 percentage point drag on economic growth in the fiscal year 2018-19. But higher NHS spending and increases in income tax thresholds mean the fiscal stance will be modestly supportive of growth this year. In addition, the Chancellor of the Exchequer announced a further loosening of the fiscal stance in September's Spending Round, with real day-to-day spending set to grow by 4.1% in fiscal year 2020-21, a 15-year high.

Sectoral outlook

Modest economic outlook for Northern Ireland as uncertainties persist
Economic growth in Northern Ireland looks set to remain subdued over the rest of 2019 and into 2020 as the weaker global economy, Brexit and political uncertainty take their toll. Assuming that a no-deal Brexit is avoided, we expect the Northern Ireland economy to grow by 0.9% in 2019 and 1.0% in 2020, with the **information & communication** and **professional, scientific & technical** services sectors leading the way.

Output in the **construction** sector is forecast to rise by 1.0% in 2019 and 0.9% in 2020. According to the latest Northern Ireland Quarterly Construction Bulletin, the volume of construction output rose by 2.3% over the quarter to 2019 Q1, with the increase strongest in housing (7.7%), with other work (0.9%) and infrastructure (0.7%) seeing slower gains.

Expected output growth in the **wholesale & retail trade** sector has been revised down to 0.9% in 2019 and 0.9% in 2020. The latest Danske Bank Consumer Confidence Index showed a quarterly drop in consumer confidence in 2019 Q2, with the main areas of concern still the lack of an Executive at Stormont and Brexit. Growth in the other consumer driven sectors has also been revised downwards, including the **accommodation & food services** sector to 1.0% in 2019 and 1.2% in 2020.

Our forecast for growth in the **manufacturing** sector has been revised upwards from 0.9% to 1.3% in 2019, boosted by the stockpiling activity ahead of the original Brexit deadline in March 2019 and continued output growth in the second quarter of the year. But the outlook for 2020 has been revised slightly downwards to 1.4%, reflecting the weaker external environment.

Public administration & defence continues to have the weakest outlook of all the sectors of the Northern Ireland economy. Output is expected to contract by 0.7% in 2019, and by a further 0.2% in 2020.

Sector contributions to GVA growth in 2019

Source: Oxford Economics, Danske Bank Analysis

GVA (%)	2019	2020
Information & communication	3.7	3.5
Professional, scientific & tech	2.9	3.1
Administrative & support	1.9	1.8
Transportation & storage	1.4	1.4
Manufacturing	1.3	1.4
Real estate activities	1.2	1.1
Water supply	1.0	1.2
Construction	1.0	0.9
Accommodation & food service	1.0	1.2
Wholesale & retail trade	0.9	0.9
Arts, entertainment & rec	0.8	0.9
Human health & social work	0.4	0.6
Mining & quarrying	0.3	0.2
Education	0.3	0.4
Electricity, gas, steam & air	0.2	0.4
Other service activities	0.1	0.1
Agriculture, forestry & fishing	0.1	0.2
Financial & insurance	0.1	0.1
Public administration & defence	-0.7	-0.2
Total	**0.9**	**1.0**

Source: Oxford Economics, Danske Bank Analysis

Labour market outlook

Employment growth in Northern Ireland is showing signs of a slowdown
The pace of growth in the Northern Ireland labour market looks to be experiencing an anticipated slowdown, with the latest Quarterly Employment Survey (QES) showing jobs growth of 0.2% in 2019 Q2, compared with 0.5% in 2019 Q1. Our forecast for jobs growth in Northern Ireland is unchanged at 1.3% in 2019 and slowing to 0.5% in 2020 as a result of the modest rates of economic growth, the little spare capacity left in the labour market and the need for businesses to shift their focus away from further recruitment and more towards productivity improvements.

The **information & communication** sector is forecast to experience the fastest employment growth in 2019, with the number of jobs expected to rise by 3.7%. Following behind is another business services sector – **professional, scientific & technical services** – with jobs forecast to rise by 2.8% in 2019 but with employment growth slowing to 1.1% in 2020.

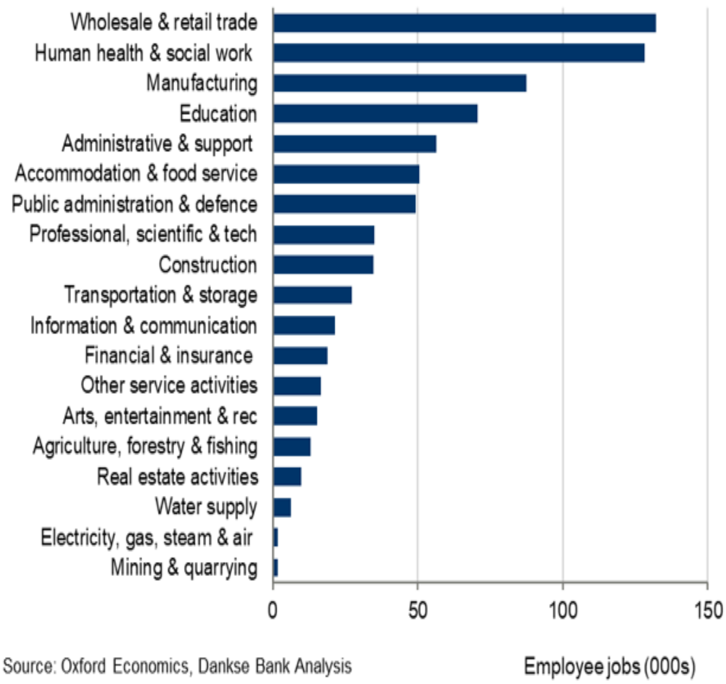
Our forecast for employment growth in **administration & support services** has been revised downwards to 1.6% this year and maintained at 1.0% in 2020. The revision reflects the weakness in the latest QES data, which showed jobs in the sector declined by 2.9% over the quarter to 2019 Q2, and fell by 2.4% compared with 2018 Q2.

We expect jobs growth in the **construction** sector of 1.3% in 2019 and 0.9% in 2020. This forecast reflects both the strength in the latest Quarterly Construction Bulletin and the strength in the latest QES data, showing construction jobs increased by 1.6% over the quarter to 2019 Q2, and by 2.8% over the year.

Employment growth in **wholesale & retail trade** is forecast to be 0.9% in 2019 and 0.5% in 2020. The sector saw the largest quarterly rise in the number of jobs according to the QES, but we don't expect this pace of job creation to be maintained going forward.

The unemployment rate in Northern Ireland fell to 2.8% in the May - July 2019 period, a record low. The rate was down by 0.3 percentage points compared with February - April, and 0.9 percentage points lower than over May - July 2018. We expect the unemployment rate to average 3.2% in 2019 and 3.8% in 2020.

Employee jobs per sector in 2019



Source: Oxford Economics, Danske Bank Analysis

Employee jobs (%)	2019	2020
Information & communication	3.7	1.0
Professional, scientific & tech	2.8	1.1
Transportation & storage	2.5	1.1
Arts, entertainment & rec	2.0	0.8
Manufacturing	1.7	0.7
Human health & social work	1.6	0.4
Administrative & support	1.6	1.0
Mining & quarrying	1.5	0.9
Real estate activities	1.4	1.0
Water supply	1.4	0.7
Construction	1.3	0.9
Accommodation & food service	1.2	0.8
Wholesale & retail trade	0.9	0.5
Other service activities	0.9	0.8
Education	0.7	0.1
Agriculture, forestry & fishing	0.5	0.2
Financial & insurance	0.3	0.0
Electricity, gas, steam & air	0.2	0.1
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 path to leaving the EU looks to have taken a new direction under Prime Minister Boris Johnson. Keen to implement the referendum decision, the Prime Minister has repeatedly insisted that the UK will be leaving the EU in October, whether there is an agreed deal or not. However, legislation has been passed that compels the UK Government to seek an extension to the Article 50 period from the EU, unless it can gain parliamentary approval for a withdrawal agreement or a no-deal Brexit, both of which look unlikely at this stage. Over the coming weeks, a number of potential Brexit options are all possible. A no-deal Brexit could still occur at the end of October if an extension cannot be agreed. Discussions between the UK and EU over the next five weeks could result in a situation where a reworked withdrawal agreement is finalised at the October European Council meeting and ratified by the two sides. There could be a further extension to the Article 50 period to allow for further negotiations or to pass the necessary legislation linked to any approved withdrawal agreement. Or there could be a general election if the Government is unable to agree a deal with the EU and is forced to extend the Article 50 period by the aforementioned legislation.

- **Political uncertainty –** Northern Ireland remains without a Stormont Executive, following the collapse of the power-sharing administration back in January 2017. A new talks process was set up in May but there are no signs of an imminent return of the Executive and Assembly. Until the devolved institutions are restored, the political stalemate will continue to drag on business investment and consumer confidence.

In addition, key global uncertainties include:

- **US and China trade war –** A clear global downside risk is a further escalation of the trade war between the US and China. The existing tariffs, coupled with the possibility of more aggressive policy action from both sides, is set to lower GDP growth in the two economies next year, with inevitable spill-overs to the rest of the world.

- **World recession risks rising –** The global economy has softened over the first half of 2019 while the US yield curve, which has a record of being a reliable and early warning sign for recessions, has recently inverted. We do not currently expect a global recession to occur, but the risks of such are rising.

- **Geopolitical tensions in the Middle East –** The recent attack on oil-processing facilities in Saudi Arabia has rattled the global oil market and could have wider ramifications across the Middle East and for the global energy sector.

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