Northern Ireland Quarterly Sectoral Forecasts

Forecast summary

The Northern Ireland economy continues to be heavily influenced by the coronavirus pandemic, with the tighter restrictions in both the final quarter of 2020 and the first quarter of 2021 stalling the recovery that had begun over the summer and the early autumn. The rollout of the vaccine programme will hopefully see the gradual economic recovery restart in the second quarter of 2021, however it is likely to be a number of years before output returns to its pre-coronavirus level and there is still a great deal of uncertainty and risk to the outlook. We estimate that the Northern Ireland economy contracted by around 11% in 2020 and have revised our forecasts for 2021 downwards and now believe that the local economy will only expand by about 4% in 2021.

The coronavirus pandemic continues to dominate the economic landscape...

Following the lockdown period during the first half of 2020, the Northern Ireland economy appeared to experience a relatively strong bounce back in activity levels in the third quarter of the year as the initial coronavirus restrictions were gradually eased. The Index of Production and Index of Services data both showed strong growth in 2020 Q3.

However, the economic recovery is expected to have stalled in the fourth quarter of the year as higher numbers of Covid-19 cases led to the introduction of more stringent coronavirus restrictions. With a further six-week period of restrictions coming into effect in late December 2020 and expected to be in place until at least the first week of February, the economy is also likely to experience a challenging first quarter of 2021.

The rollout of the coronavirus vaccine programme will hopefully allow restrictions to be gradually eased as we move through 2021, with the economic recovery getting back underway from the second quarter of the year. However, we still expect economic output to be below its pre-coronavirus level in the final quarter of 2021.

Overall, we are forecasting that economic output in Northern Ireland contracted by around 11% in 2020 but will grow by about 4% in 2021.

...and further job losses are expected

Government measures are continuing to provide some protection to jobs but, despite the policy support, the labour market has deteriorated due to the pandemic. The number of employee jobs fell for the third quarter in succession in 2020 Q3, the unemployment rate is rising and the number of proposed redundancies over the twelve months to November 2020 was the highest on record at 10,720. The extension of the Furlough scheme until the end of April 2021 should continue to limit the number of job losses, but nevertheless, we still expect the labour market to weaken further in 2021.

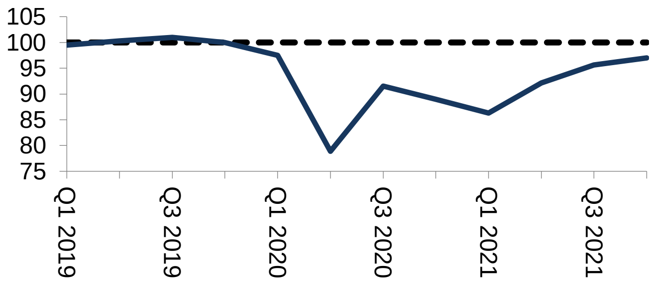
We are projecting that the annual average number of employee jobs fell by around 0.3% in 2020 with a larger decline of 3.0% expected in 2021, and that the annual average unemployment rate will increase from an estimated 3.5% in 2020 to 6.7% in 2021.

Forecast summary (%)

	2020	2021
UK GDP growth	-10.7	4.2
NI GVA growth	-11.0	4.0
NI consumer spending growth	-14.0	4.5
NI employee jobs growth	-0.3	-3.0
NI unemployment rate	3.5	6.7
UK CPI inflation rate	0.9	1.4

Source: Oxford Economics, Danske Bank Analysis

NI GVA (Index: 2019 Q4 = 100)



Source: Oxford Economics, Danske Bank Analysis

Key factors in the outlook

The extent of restrictions to limit the spread of coronavirus

In the final quarter of 2020, tighter coronavirus restrictions were imposed in response to the higher number of positive Covid-19 cases. Restrictions introduced in October saw the closure of hospitality businesses and close contact services as well as the extension of the school half-term break. In November, a two-week circuit breaker was imposed which also included the closure of non-essential retail firms. Then on 26 December, a six-week period of restrictions was announced with people required to stay at home and retail, hospitality and close contact services all having to close. Given these restrictions, we expect the economy to contract in both the final quarter of 2020 and the first quarter of 2021. However, the approval and rollout of the coronavirus vaccine programme will hopefully allow the restrictions to be gradually eased as we move through the year, with the economy expected to return to positive growth from the second quarter of 2021 onwards.

A deterioration in the performance of the labour market

Government policy measures, such as the Coronavirus Job Retention Scheme or Furlough scheme, have helped to limit the number of jobs losses as a result of the pandemic. The Furlough scheme is now scheduled to remain in place until the end of April 2021, providing continued support to the labour market. But given many firms are still affected by coronavirus restrictions and that the economic recovery from the pandemic is likely to be a gradual one, we expect the unemployment rate to rise as we move through 2021, with knock on consequences for consumer spending and wider economic growth.

More cautious consumer and business behaviours

Given the continued high levels of uncertainty related to the coronavirus pandemic, we expect people and firms to remain cautious with regards to their spending decisions. With unemployment expected to rise, some consumers are likely to behave more prudently with regards to how much they spend over the coming months. Businesses may also prefer to prioritise rebuilding cash reserves and paying down debt, once they are in a position to do so, rather than spending on new investment projects.

Extra trade frictions due to Brexit

The Brexit transition period ended on 31 December 2020, at which point the new UK-EU Trade and Cooperation Agreement, as well as the Northern Ireland Protocol, took effect. While a ‘no trade deal’ outcome was avoided, the early part of 2021 has seen some trade frictions arising from the implementation of these new arrangements. For example, there are now new checks and processes involved with moving some goods from Great Britain to Northern Ireland. Firms across the UK will need time to adapt to these changes, with new trade frictions likely to act as a drag on the pace of economic growth.

Policy measures facilitating a return to economic growth

Measures put in place by policymakers have proven to be a key source of support for the economy in recent months and are expected to play an important role in the recovery from the pandemic. Fiscal policy measures have included, for example, the Furlough scheme, support payments to businesses and government-backed loan schemes. With regards to monetary policy, at its December 2020 policy meeting, the Bank of England’s Monetary Policy Committee voted to keep Bank Rate at its historic low of 0.1% and we expect base rate to remain unchanged throughout 2021.

Sectoral outlook

Economic recovery stalled in 2020 Q4 as new coronavirus restrictions were introduced

The coronavirus pandemic continues to dominate the short-term outlook for the Northern Ireland economy. The tightening of restrictions throughout the final quarter of 2020 and the announcement of a 6 week 'lockdown' stretching into the first quarter of 2021 are expected to dampen the performance of the economy. But with output growth expected to return to positive territory from quarter two, we expect all sectors of the economy to expand in 2021. We are forecasting that economic output in Northern Ireland will increase by around 4% in 2021, following a contraction of about 11% in 2020.

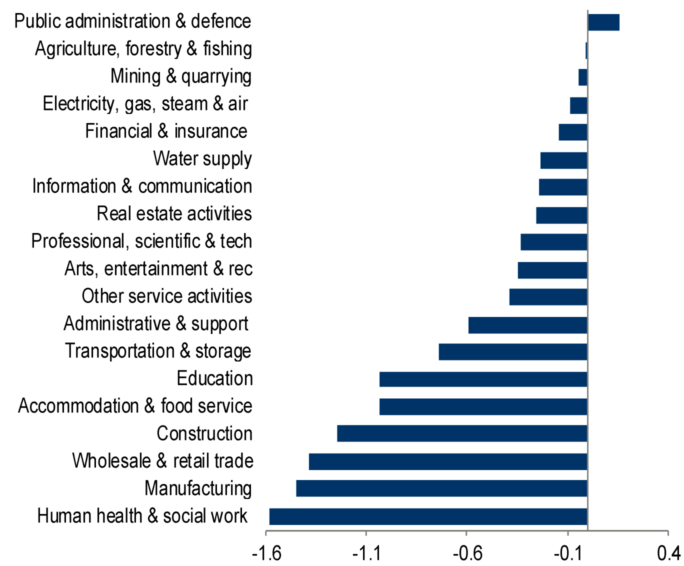
Consumer-focused sectors that are more reliant on close contact between individuals, such as **accommodation & food services** and **arts, entertainment & recreation**, are expected to have experienced the largest falls in output in 2020 due to the impacts of the coronavirus pandemic. These sectors are also likely to face a challenging start to 2021 due to the heightened coronavirus restrictions in place. Assuming that restrictions begin to be gradually lifted as the vaccine programme is rolled out, we expect output to rise by almost 17% in the accommodation & food services sector, with arts, entertainment & recreation also expected to post strong growth in 2021. That said, overall activity levels in these sectors at the end of 2021 are still likely to be below where they were prior to the onset of the pandemic.

The **wholesale & retail trade** sector has also faced challenges due to the pandemic, and we are now forecasting that it will experience an annual increase in output of around 3.5% in 2021, following a decline of just over 10% in 2020. To date, the sector has not fared as badly as the other consumer-focused parts of the economy as the shift to online shopping, purchases of essential items and the pickup in household spending in the third quarter of 2020 provided support to some businesses.

The **manufacturing** and **construction** sectors are permitted to remain open during the period of tighter coronavirus restrictions at the beginning of 2021 and so we expect them to grow by around 5% and 5.7% respectively in 2021. However, as more investment-oriented industries, the subdued business investment climate is likely to constrain output growth and prolong the time taken for activity levels in these sectors to return to their pre-coronavirus levels.

Sectors such as **professional, scientific & technical services** and **information & communication**, where people and businesses have been able to adapt to remote working, are projected to have experienced less striking falls in output compared with some other industries during 2020 and are expected to grow by 4.5% and 3.7% respectively in 2021. These sectors are expected to be among the fastest growing over the medium-term in Northern Ireland, as they were prior to the onset of the pandemic.

Sector contributions to the change in GVA in 2020



Source: Oxford Economics, Danske Bank Analysis % annual contribution to change in GVA

GVA (%)	2020	2021
Public administration & defence	1.9	0.6
Agriculture, forestry & fishing	-0.4	0.3
Real estate activities	-2.2	0.8
Financial & insurance	-3.8	1.2
Information & communication	-7.2	3.7
Electricity, gas, steam & air	-7.2	4.5
Professional, scientific & tech	-8.2	4.5
Mining & quarrying	-8.8	4.5
Wholesale & retail trade	-10.1	3.5
Manufacturing	-10.1	5.0
Water supply	-14.5	5.3
Human health & social work	-15.2	5.5
Construction	-17.2	5.7
Administrative & support	-18.8	5.0
Education	-18.9	6.1
Transportation & storage	-19.2	6.9
Other service activities	-20.8	6.5
Arts, entertainment & rec	-29.6	8.9
Accommodation & food service	-39.4	16.5
Total	**-11.0**	**4.0**

Source: Oxford Economics, Danske Bank Analysis

Labour market outlook

Policy measures continue to protect jobs but unemployment is still expected to rise

Government policy measures have helped to limit the rise in unemployment resulting from the coronavirus pandemic and the extension of the Furlough scheme until the end of April 2021 will continue to provide some support to workers in impacted sectors. However, the data shows that there has been some deterioration in the labour market and, unfortunately, further jobs losses are expected. We are forecasting that the annual average number of employee jobs will fall by 3% in 2021, following a projected decline of 0.3% in 2020.

The projected fall in the total number of employee jobs in 2020 is due to the expected decline in employment in some sectors that employ large numbers of people, such as **wholesale & retail trade** and **manufacturing**. **Administrative & support services**, another relatively large sector which includes for example, employment activities and facilities management, is estimated to have experienced the sharpest rate of decline in the number of jobs in 2020 at 7.4%. Based on the data now available for the first three quarters of 2020, we expect a number of sectors in Northern Ireland to have experienced a rise in average employment levels over the year. **Electricity, gas, steam and air** is forecast to have experienced the fastest percentage rate of jobs growth in 2020, followed by **professional, scientific & technical services**. These gains are not, however, expected to be enough to prevent the total number of jobs declining in 2020.

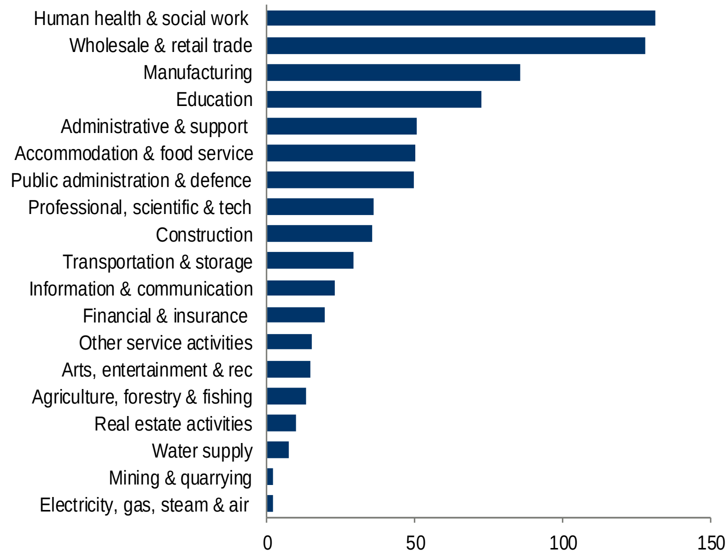
With regards to 2021, the **administrative & support services** sector is projected to experience a further decline of 5.4% in the number of jobs. Other business services sectors are expected to experience declines in employment in 2021 with the number of jobs in the **professional, scientific & technical services** and the **information & communication** sectors forecast to decline by 2.1% and 1.0% respectively.

Given they are among the most adversely impacted by the coronavirus pandemic, we expect there to be significant job losses in the consumer-focused sectors in 2021. **Accommodation & food services** and **arts, entertainment & recreation** are forecast to experience contractions in employment of 7.6% and 7.3% respectively. Similarly, employment in the **wholesale & retail trade** sector is also expected to decline by 4.8% in 2021.

For the **construction** sector, the reasonably strong rate of jobs growth expected in 2020 is unlikely to be repeated with employment projected to contract by 2.4% in 2021. And the **manufacturing** sector is expected to experience job losses in both 2020 and 2021.

The unemployment rate in Northern Ireland increased to 3.9% in the August - October 2020 period. We expect the unemployment rate to increase from an annual average rate of 3.5% in 2020 to 6.7% in 2021, reaching a peak of around 7% in the second quarter of 2021.

Employee jobs per sector in 2020



Source: Oxford Economics, Dankse Bank Analysis

Employee jobs (%)	2020	2021
Electricity, gas, steam & air	11.8	-2.1
Professional, scientific & tech	4.2	-2.1
Water supply	4.0	-2.3
Financial & insurance	3.5	-1.3
Construction	2.3	-2.4
Transportation & storage	2.1	-2.0
Human health & social work	2.1	-1.1
Education	1.7	-0.2
Agriculture, forestry & fishing	1.4	-2.0
Information & communication	1.1	-1.0
Public administration & defence	0.6	-1.1
Real estate activities	0.2	-1.0
Mining & quarrying	0.1	-2.5
Accommodation & food service	-1.4	-7.6
Arts, entertainment & rec	-1.9	-7.3
Wholesale & retail trade	-2.1	-4.8
Manufacturing	-2.6	-3.4
Other service activities	-5.0	-5.7
Administrative & support	-7.4	-5.4
Total	**-0.3**	**-3.0**

Source: Oxford Economics, Danske Bank Analysis

Risks and uncertainties

While there is always uncertainty around economic forecasts, the extent of the risks and uncertainties around these projections is considered to be more elevated than is normally the case. The main sources of uncertainty include:

- **Coronavirus** – The coronavirus pandemic remains the most significant risk facing the economy and there are a number of downside events that could materialise during 2021. The recent increase in the number of Covid-19 cases has already resulted in the introduction of a 6-week 'lockdown' which will hamper business activity during the first quarter of 2021, particularly in consumer-focused sectors. If this full lockdown period had to be extended, tighter measures were to be introduced or stringent coronavirus restrictions had to be reintroduced later in the year, the pace of the economic recovery would be likely to slow further. The rise in the spread of the virus could also lead to even greater changes in consumer and business behaviours towards more precautionary spending habits than we have assumed, which would serve to further constrain the pace of consumer spending and business investment growth.

- **Disruption related to the end of the Brexit transition period** – Towards the end of 2020, the UK and EU reached a deal on their future relationship which avoided trade between the two economies moving on to World Trade Organization terms when the transition period came to an end. From the beginning of 2021 the UK-EU Trade and Cooperation Agreement and the Northern Ireland Protocol took effect. However, despite a 'no trade deal' Brexit being avoided, the implementation of these new arrangements still requires new trade processes to be undertaken. It will take some time for businesses to adjust to these new processes and this will serve to constrain the pace of economic growth. If it takes firms longer or costs them more than expected to make these adjustments, then the adverse impact on the rate of growth would likely be larger.

In addition, a key global uncertainty is that:

- **The global economic outlook deteriorates** – While we anticipate the coronavirus pandemic to have caused a sharp global recession but for the world economy to begin to gradually recovery as we move through 2021, there is a risk of further coronavirus-related disruption occurring in different countries with spillover effects on global trade flows. There is also the risk that the pandemic will have long-term scarring effects on economies around the world, with unemployment running at higher rates and firms and households taking a more cautious approach to spending for a longer period of time and in many different economies, thus weakening the pace of the global recovery and lengthening the amount of time needed for aggregate economic output to return to its pre-coronavirus level.

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