

# Northern Ireland Quarterly Sectoral Forecasts

## Forecast summary

The coronavirus restrictions in place throughout the first quarter of this year are likely to lead to a contraction in economic activity in that period. However, the fall in coronavirus case numbers and the successful rollout of the vaccine programme are expected to lead to the gradual easing of the restrictions throughout 2021 with the local economy returning to positive rates of growth from the second quarter onwards. Economic policy measures are also expected to support people and businesses as the economy begins to recover from the impacts of the pandemic. Against this backdrop, we have upgraded our forecasts for economic growth in Northern Ireland this year and now expect the local economy to expand by around 4.8% in 2021, with growth of about 5.8% projected for 2022.

### The coronavirus pandemic remains the key determinant of economic growth

The coronavirus restrictions in place during the final quarter of 2020 appear to have led to a further decline in economic activity in Northern Ireland. The Index of Services and Index of Production data showed quarterly falls in output of 5.0% and 0.3% respectively in 2020 Q4.

The stringent restrictions in place throughout the first quarter of 2021 means that the local economy is likely to experience another quarterly contraction, albeit these falls in output are expected to be significantly smaller than that experienced during the first lockdown last year.

Coronavirus cases have been falling and the rollout of the coronavirus vaccine programme has progressed well so far, providing some optimism that the restrictions could begin to be gradually eased as we move into the second quarter of the year and the economic recovery can begin to take hold.

The extension of some government support for individuals and businesses announced as part of the Budget is also expected to support the recovery. However, the projected weakening of the labour market and ongoing uncertainty related to the post-Brexit trading arrangements are likely to limit the rate of economic growth.

Overall, we are forecasting that the Northern Ireland economy will grow by around 4.8% in 2021 and 5.8% in 2022, with economic activity expected to return to its pre-pandemic level in the second half of 2022.

### The full impacts of the pandemic on the labour market are yet to materialise

The latest labour market data showed that the unemployment rate in Northern Ireland remained relatively low at 3.7% over the November 2020 - January 2021 period as government support measures continued to protect jobs.

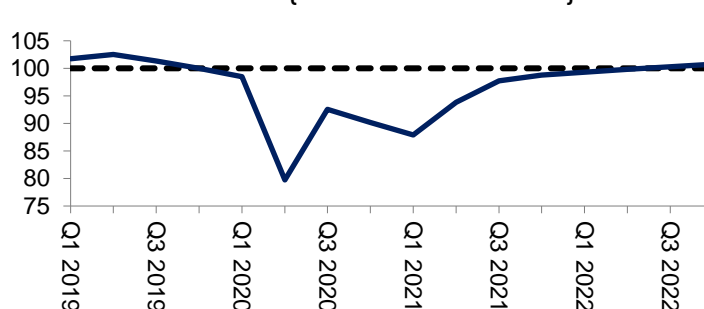
At the end of February, there were an estimated 106,500 furloughed jobs in Northern Ireland, representing a take up rate of 14%. While not expected to prevent all job losses, the extension of the Furlough scheme until September 2021 is welcome as it is likely to limit the peak in unemployment and push it out to later in the year.

We are forecasting that the annual average number of employee jobs in Northern Ireland will decline by around 1.9% in 2021, with jobs growth returning in 2022 at about 1.0%. We also expect the unemployment rate to average 5.0% in 2021 and 5.2% in 2022.

| Forecast summary (%)        |       |      |      |
|-----------------------------|-------|------|------|
|                             | 2020  | 2021 | 2022 |
| UK GDP growth               | -9.8  | 5.0  | 6.0  |
| NI GVA growth               | -11.0 | 4.8  | 5.8  |
| NI consumer spending growth | -12.0 | 5.0  | 6.0  |
| NI employee jobs growth     | -0.2  | -1.9 | 1.0  |
| NI unemployment rate        | 3.0   | 5.0  | 5.2  |
| UK CPI inflation rate       | 0.9   | 1.4  | 2.0  |

Source: Oxford Economics, Danske Bank Analysis

NI Gross Value Added (Index: 2019 Q4 = 100)



Source: Oxford Economics, Danske Bank Analysis

# Key factors in the outlook

## An expected gradual easing of the coronavirus restrictions

Strict coronavirus restrictions, including the closure of all non-essential retail, hospitality and close contact services, have been in place in Northern Ireland since the end of 2020 and throughout the first quarter of 2021. As such, we believe that the economy will have continued to contract in 2021 Q1. However, coronavirus case numbers have reduced significantly and the rollout of the vaccine programme has progressed well with more than 700,000 people having received their first dose of the vaccine by the end of March 2021. At the beginning of March, the Executive published its *Pathway Out of Restrictions*, and while we expect the unwinding of the current restrictions to proceed cautiously, we think that the gradual reopening of the economy will see economic output begin to grow again from the second quarter of 2021 onwards. The re-opening of the economy is also likely to be accompanied by a rise in household spending and, as such, we expect consumer spending in Northern Ireland to increase by around 5.0% in 2021 and 6.0% in 2022.



## 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 since the start of the pandemic and are expected to play an important role in the recovery. As part of the Budget, the Chancellor of the Exchequer announced an extension of the Coronavirus Job Retention, or Furlough, scheme until September 2021. There was also a new super-deduction tax policy to encourage businesses to bring forward investment and a Recovery Loan Scheme to provide firms with access to finance to support their expansion out of the pandemic. In Northern Ireland, the Department for the Economy has published its *Economic Recovery Action Plan* which includes plans to support skills development, R&D and innovation, investment and exports, and the transition to a greener economy. It's also important to note that the monetary policy environment remains accommodative with the Bank of England's Monetary Policy Committee voting to maintain Bank Rate at its historic low of 0.1% at its March 2021 meeting. We expect interest rates to remain at this level throughout the rest of 2021.



## A deterioration in the performance of the labour market

Government support has been relatively successful at limiting the number of job losses in Northern Ireland and across the UK and the aforementioned extension of the Furlough scheme should serve to limit the peak in the unemployment rate. However, it will take time for the economy to fully recover and as the Furlough scheme begins to unwind and comes to an end, we expect the unemployment rate to increase, with knock on consequences for the pace of consumer spending and wider economic growth.



## Continued cautious consumer and business behaviour

Given the continued high levels of uncertainty related to the coronavirus pandemic, we expect people and firms to remain somewhat cautious with regards to their spending decisions. Overall consumer spending is expected to increase this year but with unemployment expected to rise, some consumers are likely to behave more prudently with regards to how much they spend over the coming months. Some businesses may also prefer to prioritise rebuilding cash reserves and paying down debt rather than spending on new investment projects.



## Extra trade frictions due to Brexit

The early part of 2021 has seen a number of firms face challenges due to the new checks and processes involved with moving some goods from Great Britain to Northern Ireland brought about by the implementation of the UK-EU Trade and Cooperation Agreement and the Northern Ireland Protocol. In addition, political uncertainty related to these new trading arrangements remains elevated and it will take times for businesses to fully adapt to these new processes.



# Sectoral outlook

## Coronavirus restrictions mean a contraction is likely in 2021 Q1 but growth is expected from Q2 onwards

The coronavirus pandemic continues to dominate the short-term outlook for the Northern Ireland economy. The restrictions in place throughout the first quarter of the year means the economy is likely to contract in 2021 Q1. However, assuming that the restrictions are gradually eased as we move through the year, output growth is expected to return to positive territory from quarter two onwards. We are forecasting that economic output in Northern Ireland will increase by around 4.8% in 2021 and by a further 5.8% in 2022, following a contraction of around 11% in 2020.

In terms of annual percentage growth rates, consumer-focused sectors including **accommodation & food services** and **arts, entertainment & recreation**, are expected to experience the fastest rates of output growth in 2021 as the restrictions, which have been concentrated in these sectors, are gradually eased, creating a 'rebound' effect. However, it is important to note that this growth is against the backdrop of these sectors experiencing the largest falls in 2020 and the strong expansion of around 17.6% and 11.4% respectively in 2021 equates to only a partial recovery relative to pre-pandemic activity levels.

The **wholesale & retail trade** sector is projected to see a rise in output of around 4.4% in 2021, followed by growth of 7.4% in 2022. Similar to the other consumer-focused industries, the restrictions during the first quarter are likely to have led to a contraction in activity levels. However, the continued operation of essential retail businesses and the shift to online shopping have provided some support to this sector, with output expected to rise again from the second quarter of 2021 onwards.

We are forecasting that the **manufacturing** and **construction** sectors will grow by 5.7% and 6.7% respectively in 2021. These relatively strong growth rates are in part due to the fact that these sectors have been largely able to continue operating throughout the most recent lockdown period. The super-deduction, announced as part of the March 2021 Budget, may also lead some firms to bring forward investment and provide some additional demand to these industries.

Sectors such as **professional, scientific & technical services** and **information & communication** are forecast to grow broadly in line with the Northern Ireland average this year, each expanding by 4.6% in 2021, then pick up pace to 6.4% and 6.2% respectively in 2022 and again settle as some of the faster growing sectors of the local economy. These sectors have avoided the worst of the output declines as people and businesses have been more able to adapt to remote working. Therefore they are not expected to see as wide a variation in growth rates as those observed in the most impacted sectors.

### Sector contributions to GVA growth in 2021



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

| GVA (%)                         | 2021       | 2022       |
|---------------------------------|------------|------------|
| Accommodation & food service    | 17.6       | 20.6       |
| Arts, entertainment & rec       | 11.4       | 16.7       |
| Other service activities        | 8.8        | 13.7       |
| Education                       | 8.4        | 9.3        |
| Transportation & storage        | 7.2        | 11.4       |
| Administrative & support        | 7.2        | 12.4       |
| Human health & social work      | 7.1        | 3.0        |
| Construction                    | 6.7        | 6.4        |
| Manufacturing                   | 5.7        | 5.5        |
| Water supply                    | 5.0        | 3.1        |
| Information & communication     | 4.6        | 6.2        |
| Professional, scientific & tech | 4.6        | 6.4        |
| Wholesale & retail trade        | 4.4        | 7.4        |
| Electricity, gas, steam & air   | 4.1        | 3.0        |
| Mining & quarrying              | 3.6        | 3.3        |
| Agriculture, forestry & fishing | 1.8        | 3.3        |
| Financial & insurance           | 1.2        | 3.8        |
| Real estate activities          | 0.7        | 1.9        |
| Public administration & defence | 0.3        | 1.3        |
| <b>Total</b>                    | <b>4.8</b> | <b>5.8</b> |

Source: Oxford Economics, Danske Bank Analysis

# Labour market outlook

## Government support measures are protecting some jobs, but the labour market has still weakened

Government policy measures, such as the Coronavirus Job Retention scheme and the Self Employment Income Support scheme, have helped to limit job losses since the beginning of the pandemic. These measures are expected to continue supporting the labour market, particularly in the hardest hit sectors, due to the extensions of the schemes until September 2021. However, despite the extensive support in place, the labour market has continued to weaken with the Quarterly Employment Survey for December 2020 showing the third quarterly decline in employee jobs in succession. We expect further job losses to occur this year as the full labour market impacts of the pandemic begin to materialise. Overall, and after a decline of 0.2% last year, we are forecasting that the annual average number of employee jobs in Northern Ireland will decline by a further 1.9% in 2021, before returning to growth of around 1.0% in 2022.

With the Furlough scheme expected to end in September 2021, and recognising that trends in the labour market tend to lag slightly behind that of economic output, we are expecting to see the sharpest job losses in the consumer-focused sectors that have been most impacted by the lockdown restrictions and have the highest Furlough scheme take-up rates. We believe that the **arts, entertainment & recreation** and the **accommodation & food services** sectors could see falls in employment of around 6.5% and 6.2% respectively in 2021. However, these sectors are also expected to see the strongest rates of jobs growth in 2022 as they recover from the impacts of the pandemic.

The **administrative & support services** sector is also expected to experience relatively high job losses with average employment forecast to fall by 3.4% in 2021. Other business services sectors, including **professional, scientific & technical services** and **information & communication** are projected to experience more modest declines of around 1.4% and 0.3% respectively.

For the **construction** sector, an annual average fall of 1.7% in employee jobs is forecast in 2021. Employment is also expected to decline by around 1.5% in the **manufacturing** sector this year. However, both sectors are projected to see the average number of jobs increase in 2022.

The unemployment rate in Northern Ireland remained relatively low at 3.7% in the November 2020 – January 2021 period. We expect the unemployment rate to increase throughout 2021, averaging 5.0% over the year and rising slightly to an annual average of 5.2% in 2022. However, this masks the fact that we expect unemployment to decline as we move through 2022.

### Employee jobs per sector in 2021



Source: Oxford Economics, Danske Bank Analysis

| Employee jobs (%)               | 2021        | 2022       |
|---------------------------------|-------------|------------|
| Education                       | 0.1         | 0.1        |
| Human health & social work      | 0.1         | 0.2        |
| Public administration & defence | 0.0         | 0.1        |
| Agriculture, forestry & fishing | -0.3        | 0.6        |
| Information & communication     | -0.3        | 0.7        |
| Transportation & storage        | -0.9        | 0.7        |
| Electricity, gas, steam & air   | -1.0        | 0.7        |
| Real estate activities          | -1.1        | 0.3        |
| Professional, scientific & tech | -1.4        | 0.7        |
| Manufacturing                   | -1.5        | 0.5        |
| Mining & quarrying              | -1.5        | 0.8        |
| Financial & insurance           | -1.6        | 0.9        |
| Construction                    | -1.7        | 0.9        |
| Water supply                    | -1.7        | 0.9        |
| Administrative & support        | -3.4        | 2.3        |
| Wholesale & retail trade        | -4.2        | 1.1        |
| Other service activities        | -5.7        | 2.0        |
| Accommodation & food service    | -6.2        | 4.1        |
| Arts, entertainment & rec       | -6.5        | 4.1        |
| <b>Total</b>                    | <b>-1.9</b> | <b>1.0</b> |

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 still 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. Considerable uncertainty still exists around how the re-opening of the economy will impact coronavirus case numbers and the pace at which the restrictions can be eased. The emergence of new variants of the virus is also a significant risk and could impact the unwinding of the restrictions, or potentially lead to restrictions needing to be reintroduced later in the year. In addition, high uncertainty related to the pandemic may lead to weaker consumer and business confidence and more precautionary spending and investment habits than we have assumed.
- **The need for firms to adapt to the post-Brexit trading arrangements** – The new checks and processes on the movement of some goods from Great Britain to Northern Ireland resulting from the post-Brexit trading arrangements are proving a challenge for some businesses. Political uncertainty around these arrangements is also particularly elevated and a lack of clarity relating to what will happen when the grace periods come to an end is persisting. It will take time for firms to adapt to these processes and, as such, Brexit-related impacts are expected to weigh on the pace of economic growth in Northern Ireland and in the rest of the UK. If it takes firms longer or costs them more to make the changes needed to adapt to the new commercial environment, this could further constrain the pace of economic growth. It is also expected to take time before businesses that have identified opportunities arising from the new arrangements are able to fully bring these to fruition.

In addition, a key global uncertainty is that:

- **The global economic outlook could deteriorate** – While the world gradually recovers from the pandemic-induced recession, there is a risk of further coronavirus-related disruption occurring in different countries with spillover effects on global trade flows. Broadly speaking, global coronavirus cases were declining during January and most of February, but more recently they have again begun to increase. The way in which different countries gradually return to some form of normality is likely to be uneven, as coronavirus case numbers rise, vaccination programmes rollout at different speeds and restrictions are re-introduced. 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. This would weaken the pace of the recovery and lengthen the amount of time needed for the global economy to recover from the impacts of the pandemic.

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