

Northern Ireland Quarterly Sectoral Forecasts

Forecast summary

Following an expected contraction in the first quarter of the year, the gradual easing of coronavirus restrictions throughout the second quarter is likely to have enabled the Northern Ireland economy to return to growth. Early indicators at a UK level show a strong rebound in activity through April and May, and we expect something similar to have occurred in Northern Ireland. We also believe that the easing of restrictions and the successful rollout of the vaccine programme will continue to support the recovery over the coming months. As such, we have upgraded our forecasts for economic growth in Northern Ireland this year and now expect the economy to expand by 6.2% in 2021, with growth of around 4.5% projected for 2022. However, the uncertain future path of the pandemic continues to remain a downside risk to the outlook.

Economic growth returning as coronavirus restrictions are gradually eased

The Northern Ireland economy appears to have experienced a further fall in activity levels in the first quarter of 2021 due to the coronavirus restrictions in place at that time.

The Index of Services data showed a quarterly fall in output of 2.1%, with business services and finance the only subsector not to have experienced a decline in activity. The Index of Production also signalled a decrease in output, posting a decline of 1.1% in 2021 Q1.

More recently and on a positive note, the gradual easing of the restrictions in Northern Ireland has likely led to a rise in economic output, as has been the case in the wider UK where GDP is estimated to have grown by more than 2% in April.

Given the easing of the restrictions that has already taken place, and the ongoing rollout of the coronavirus vaccine programme, we expect the local economy to expand throughout the rest of this year and are forecasting that GVA will grow by 6.2% in 2021. We also expect relatively strong growth of around 4.5% next year, with economic activity expected to return to its pre-pandemic level in the first half of 2022.

Labour market demand is rising, but a decline in employment is still expected this year

The latest data suggests that demand in the labour market is beginning to pick up. The Quarterly Employment Survey showed that the number of employee jobs in Northern Ireland increased by 0.3% in the first quarter of this year, following four consecutive quarters of decline in 2020. The unemployment rate fell to 3.1% during the February-April 2021 period and the number of payrolled employees, based on HMRC PAYE data, increased by 0.7% in May.

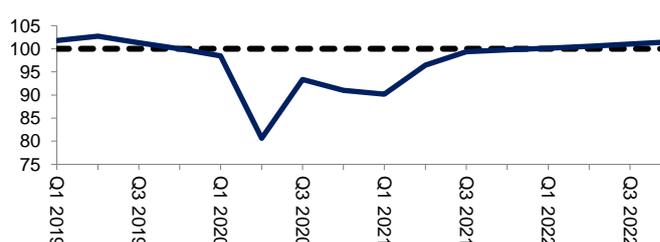
However, it's important to note that the Coronavirus Job Retention Scheme is still providing support to the labour market. At the end of April, there were an estimated 90,000 furloughed jobs in Northern Ireland. This is lower than the 117,000 at the very start of this year but we still expect to see a decline in employment as the scheme unwinds and then comes to an end in September 2021. We are, however, hopeful that the strengthening of economic growth and labour demand may limit the rise in unemployment.

We are forecasting that the annual average number of employee jobs in Northern Ireland will decline by around 1.2% in 2021, with jobs growth returning in 2022 at about 1.0%. We also expect the unemployment rate to average 4.2% in 2021 and 4.6% in 2022.

Forecast summary (%)			
	2020	2021	2022
UK GDP growth	-9.8	7.0	5.2
NI GVA growth	-10.4	6.2	4.5
NI consumer spending growth	-11.2	4.6	5.6
NI employee jobs growth	-0.4	-1.2	1.0
NI unemployment rate	3.0	4.2	4.6
UK CPI inflation rate	0.9	1.8	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

Recovery building momentum as restrictions are lifted



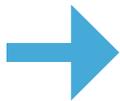
The coronavirus restrictions in Northern Ireland are being gradually eased, paving the way for the economic recovery to get underway. The reopening of non-essential retail, hospitality and close contact services is providing an outlet for pent-up consumer demand and this is expected to contribute to the economy returning to positive rates of growth from the second quarter of the year onwards. This reopening of the economy has been supported by the rapid rollout of the coronavirus vaccine programme, with more than 1.1 million people having received their first dose and over 800,000 having received both doses at the end of June.

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 throughout the course of the pandemic. The overall stance of fiscal policy remains highly stimulative in an attempt to support the economy and allow the recovery to really take hold. The Coronavirus Job Retention Scheme has been extended until September 2021, alongside further self-employment support, while the super-deduction announced as part of the March 2021 Budget is designed to encourage firms to invest. In Northern Ireland, the High Street Stimulus and Holiday at Home Voucher schemes, included within the Department for the Economy's *Economic Recovery Action Plan*, are expected to be launched later this year. Monetary policy also remains accommodative with Bank Rate at an historic low of 0.1%. We expect interest rates to remain at this level throughout the rest of 2021 and during 2022.

Inflation is rising but is expected to move back towards its target



In May 2021, the rate of CPI inflation increased above the Bank of England's target to 2.1%. The higher rate of price rises observed in recent months is the result of a number of different factors including the reopening of the economy, global supply shortages, rising fuel and energy prices, Brexit-related costs and base effects. These factors, alongside other expected developments such as the reversal of the VAT cut for hospitality businesses is likely to lead to inflation rising further above its 2% target in the second half of this year. However, this rise in inflation is expected to be temporary, with the rate of price rises moving back towards its target rate in 2022.

Early signs of labour demand rising, but the end of support schemes is expected to bring a decline in jobs



The latest release of the Northern Ireland Quarterly Employment Survey showed a rise in the number of jobs in 2021 Q1, the first increase since the end of 2019 and a welcome indication of firming demand in the labour market. Ongoing government support measures, including the Furlough scheme, have been relatively successful at limiting the number of job losses in Northern Ireland and across the wider UK so far. However, as the Furlough scheme begins to unwind and comes to an end, we still expect the unemployment rate to increase, with knock on consequences for the pace of consumer spending and wider economic growth.

Consumer confidence is rising, but we expect some cautious behaviour to continue



Consumer spending is set to rise this year as the easing of restrictions provides more opportunities to spend, satisfying some of the pent-up demand for both goods and services. However, while consumer confidence in Northern Ireland increased in 2021 Q1, high levels of uncertainty related to the coronavirus pandemic are persisting. So while overall spending is expected to rise this year and contribute to strong growth in the consumer-focused sectors of the economy, some people may remain quite cautious and spend only a small proportion of any excess savings they may have accumulated during lockdown. Some businesses may also prefer to prioritise adding to their cash reserves or paying down debt rather than spending on new investment projects.

Extra trade frictions due to Brexit



Firms in Northern Ireland and across the UK have been adjusting to new trade processes following the UK's exit from the European Union. The UK-EU Trade and Co-operation agreement has introduced new customs and regulatory trade barriers that may weigh on export competitiveness. In addition, the Northern Ireland Protocol has caused an extra hurdle for local firms when purchasing certain goods. Uncertainty related to these new trading arrangements remains elevated and it will take time for businesses to fully adapt to these processes, which are expected to act as a drag on activity levels.

Sectoral outlook

Economic growth is likely to have returned in Q2 as coronavirus restrictions were eased

We think that the Northern Ireland economy likely returned to growth in 2021 Q2, after a projected contraction in the first quarter of the year when the coronavirus restrictions stifled activity levels. The reopening of non-essential retail and hospitality is providing an outlet for pent-up consumer demand, and early indicators are suggesting a pick-up in spending. Assuming there are no further lockdowns and the rollout of the vaccine programme continues as planned, we expect the economy to continue expanding in the third and fourth quarters of the year. Overall, we are forecasting that economic output in Northern Ireland will increase by around 6.2% in 2021 and by a further 4.5% in 2022.

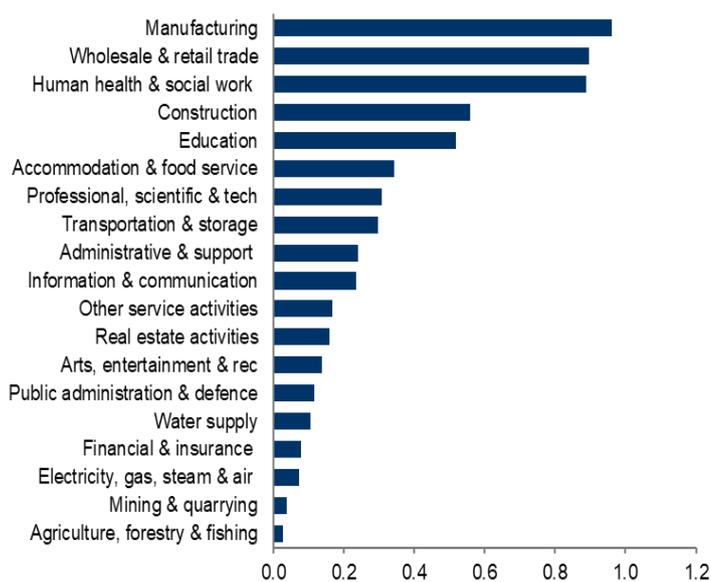
The fastest rates of growth in both 2021 and 2022 are expected to be in the **accommodation & food services** and **arts, entertainment & recreation** sectors. The easing of the lockdown restrictions – the impacts of which were concentrated in these sectors – is enabling a rebound in activity. However, it is important to note that these sectors experienced the largest falls in output in 2020 and the strong respective growth rates of around 19% and 15% expected in 2021 equates to only a partial recovery relative to annual output levels prior to the pandemic.

The **wholesale & retail trade** sector has also faced challenges due to the pandemic, but was relatively less impacted than the other consumer-focused parts of the economy during the lockdown periods given the rise in online shopping and the fact that essential retail remained open. It is expected to grow at around 6.6% in 2021 and 5.5% in 2022. The latest Danske Bank Northern Ireland Consumer Confidence Index reported that confidence levels rose in 2021 Q1, with the rollout of the vaccine programme identified as a key driver, supporting the view that there should be a cautious increase in consumer spending this year.

We are forecasting growth in the **manufacturing** sector of around 6.7% in 2021. The coronavirus restrictions in place at the end of 2020 and start of 2021 caused less disruption than those in place during the second quarter of last year, but other challenges are emerging for the sector. A survey conducted by *Manufacturing NI* and *Tughans* suggests that firms are experiencing issues related to the availability of raw materials, Brexit-related challenges and rising input costs. These issues may also impact the **construction** industry, which we expect to grow by around 8.3% this year.

Historically, the **professional, scientific & technical services** and **information & communication** sectors have been among the strongest performing sectors in Northern Ireland in terms of GVA growth. We expect them to grow by around 7.1% and 6.5% respectively in 2021, slightly faster than the average for the overall economy this year.

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	19.2	17.8
Arts, entertainment & rec	15.4	16.4
Education	10.3	7.7
Other service activities	9.9	11.8
Administrative & support	8.7	10.2
Transportation & storage	8.6	8.8
Human health & social work	8.4	3.5
Construction	8.3	5.3
Mining & quarrying	8.1	4.6
Professional, scientific & tech	7.1	4.6
Manufacturing	6.7	4.2
Wholesale & retail trade	6.6	5.5
Information & communication	6.5	5.6
Water supply	6.3	3.0
Electricity, gas, steam & air	5.5	1.8
Financial & insurance	1.9	0.8
Agriculture, forestry & fishing	1.4	1.3
Real estate activities	1.3	0.8
Public administration & defence	1.2	0.2
Total	6.2	4.5

Source: Oxford Economics, Danske Bank Analysis

Labour market outlook

Initial signs of labour market demand are emerging, but a decline in the number of jobs is still expected

The latest data from the Quarterly Employment Survey suggests that demand in the Northern Ireland labour market is beginning to pick up, with a rise in employment of 0.3% in March 2021 ending four consecutive quarters of decline. Throughout the pandemic government support schemes, particularly the Furlough Scheme, have helped to limit job losses. The latest figures show that around 90,000 jobs in Northern Ireland were furloughed at the end of April, representing a take-up rate of 12%. These measures are expected to continue supporting the labour market, especially in the hardest hit sectors, until the end of September 2021. However, we still expect employment to decline as the support schemes wind down and come to an end. Overall, we are forecasting that the annual average number of employee jobs in Northern Ireland will fall by 1.2% in 2021, before returning to growth of around 1.0% in 2022.

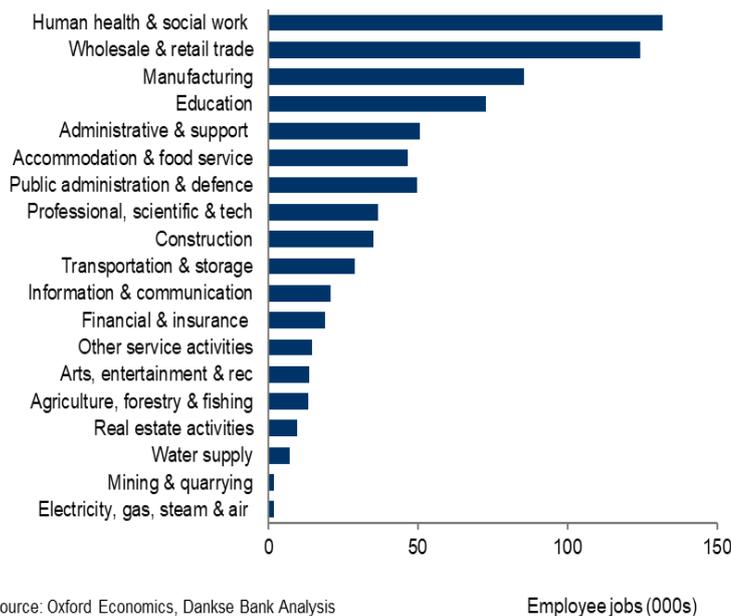
The **arts, entertainment & recreation** and the **accommodation & food services** sectors are forecast to experience the sharpest falls in employment this year of around 6.1% and 5.8% respectively, as they were hardest hit by the restrictions in place at the start of the year and had the highest take-up rates of the Furlough scheme, at over 50% in April 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 experienced a sharp rise in employment of 6.5% in the first quarter of this year and so we now expect a relatively modest decline in the annual average number of jobs of 0.2% in 2021. Other business services sectors, namely **information & communication** and **professional, scientific & technical services**, are projected to experience the fastest growth in the average number of employee jobs this year, rising by 0.8% and 0.6% respectively.

An annual average fall of 1.1% in employment is projected for both the **construction** and **manufacturing** sectors this year. However, the two industries are forecast to see an increase in the number of jobs in 2022.

The unemployment rate in Northern Ireland fell to just 3.1% in the February-April 2021 period. However, we expect it to increase as we move through 2021, averaging 4.2% over the year and rising slightly to an annual average of 4.6% in 2022. However, this masks the fact that we expect unemployment to decline as we move through 2022 and the economy begins to stabilise.

Employee jobs per sector in 2021



Source: Oxford Economics, Danske Bank Analysis

Employee jobs (%)	2021	2022
Information & communication	0.8	0.6
Professional, scientific & tech	0.6	0.9
Education	0.5	0.3
Agriculture, forestry & fishing	0.4	0.3
Public administration & defence	0.3	0.1
Human health & social work	0.2	0.4
Mining & quarrying	0.2	0.4
Real estate activities	0.1	0.1
Administrative & support	-0.2	0.7
Water supply	-0.3	0.4
Electricity, gas, steam & air	-0.9	1.3
Transportation & storage	-1.0	1.1
Manufacturing	-1.1	0.4
Construction	-1.1	0.7
Financial & insurance	-1.7	1.1
Wholesale & retail trade	-2.8	1.5
Other service activities	-4.1	2.0
Accommodation & food service	-5.8	5.0
Arts, entertainment & rec	-6.1	4.7
Total	-1.2	1.0

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 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. During the second quarter of the year, there was a gradual relaxation of restrictions, including outdoor hospitality and non-essential retail reopening on 30 April, followed by indoor hospitality on 24 May. However, some restrictions remain in place such as social distancing rules and restrictions on the numbers of people allowed at certain venues. The continued rollout of the vaccine programme provides hope that the impacts of the pandemic are, and will continue to become, more manageable but it is important to note that rising cases, the spread of new variants, and the potential for further lockdowns or periods of heightened restrictions all represent significant downside risks to the economic outlook. Indeed, the postponement of the next step in relaxing restrictions highlights these risks. In addition, high uncertainty related to the pandemic may also lead to more precautionary spending and investment habits than we have assumed.
- **The need for firms to adapt to the post-Brexit trading arrangements** – Challenges relating to the implementation of the Northern Ireland Protocol are continuing, particularly with regards to the new checks and processes required when moving some goods from Great Britain to Northern Ireland. In a survey published by *Manufacturing NI* and *Tughans* in May 2021, it was reported that over three quarters of respondents said that they had been negatively impacted by post-Brexit factors during the first three months of 2021 while the 2021 Q1 Quarterly Economic Survey published by the *NI Chamber* and *BDO*, showed that over half of the local firms that responded said the new arrangements had negatively impacted their trade with Great Britain. The Protocol continues to be a cause of uncertainty and there remains a lack of agreement on how to move forward on certain issues once the grace periods that are currently in place come to an end. It is clear that firms need time 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 relates to:

- **Vulnerabilities lingering in the global economy** – The global economy is continuing to recover from the pandemic-induced recession, as many countries see restrictions easing and a rebound in consumer activity. Global coronavirus cases trended downwards in May and June. However, this has not been the case everywhere with case numbers, vaccine availability and uptake, and restrictions differing across countries. Ongoing coronavirus-related disruption occurring in different countries runs the risk of escalating with spillover effects on global trade flows. The level of government support also differs across countries, with emerging markets in particular leaning towards a more moderate fiscal response, despite larger downward revisions to activity. This threatens to entrench weak demand and low inflation in these economies. There is also the risk that the pandemic will have longer-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, which would weaken the pace of the global recovery.

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