# Northern Ireland Quarterly Sectoral Forecasts

## Forecast summary

*The Northern Ireland economy is estimated to have grown again in the first quarter of 2022 but the pace of economic growth is likely to slow from the second quarter of the year onwards. Inflation is at a multi-decade high as the war in Ukraine and global supply chain issues are contributing to higher prices and consumer spending is becoming increasingly squeezed. The economic policy environment is also less supportive of growth and uncertainty levels are particularly elevated. We continue to expect the Northern Ireland economy to grow by around 3.6% in 2022, but have downgraded our forecast for 2023 and now expect economic output to expand by about 1.0% next year.*

**Economic growth expected to slow as inflation stifles consumer activity**

The UK and Northern Ireland economies are both estimated to have grown in the first quarter of 2022. In the UK, GDP expanded by 0.8% compared with the previous quarter while early data suggests that the Northern Ireland economy also grew. In the *2022 Q1 Quarterly Economic Survey*, published by the Northern Ireland Chamber of Commerce and BDO, most of the key indicators considered where in positive territory while the model-based estimates of regional economic growth, published by the Office for National Statistics, also suggested that the local economy expanded in the first quarter of this year.

However, the pace of growth from quarter two onwards is expected to be slower as the squeeze on household incomes intensifies given the high rate of inflation. These inflationary pressures are likely to weigh on growth throughout the remainder of 2022 and into 2023. Overall, we are forecasting that the Northern Ireland economy will grow by around 3.6% in 2022 and 1.0% in 2023. Our projection for this year is unchanged from our last report though it is important to note that the annual rate of economic growth in 2022 still reflects an element of recovery from the coronavirus pandemic. However, we have revised our forecast for growth in 2023 downwards from our previous expectation that GVA would expand by 1.7%.

**The labour market remains in a strong position with jobs at a record high and forecast to continue rising**

Northern Ireland's labour market continues to perform strongly across a range of key metrics. The latest data from the Quarterly Employment Survey showed a 0.4% rise in the number of employee jobs in 2021 Q4. This growth brought the number of jobs to a new series high.

The HMRC Pay As You Earn data for April 2022 showed that the number of payrolled employees increased by 0.4% compared with the previous month and by 4.5% compared with April 2021 to a record high of 774,600.

The number of people on the claimant count declined by 2.4% in April 2022 compared with March. The unemployment rate also fell over the January – March 2022 period to 2.3%, the joint lowest on record and similar to the level recorded immediately prior to the onset of the pandemic. The employment rate increased to 72.2% in the first quarter of the year and the number of weekly hours worked was 6.4% higher than in the final quarter of 2021.

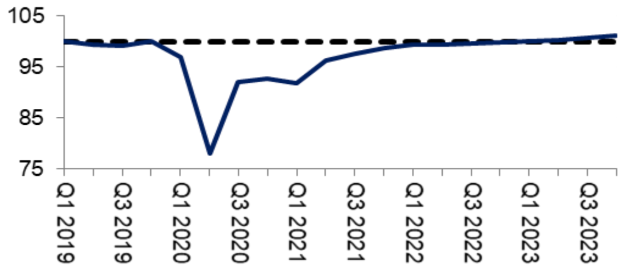
This robust performance underpins our view that the annual average number of employee jobs will increase by around 1.2% in 2022, followed by a further increase of about 0.6% in 2023. We are also forecasting that the unemployment rate in Northern Ireland will average around 2.7% in 2022 and 3.3% in 2023.

**Forecast summary (%)**

| | 2021 | 2022 | 2023 |
|---|---|---|---|
| UK GDP growth | 7.4 | 3.8 | 1.1 |
| NI GVA growth | 6.8 | 3.6 | 1.0 |
| NI consumer spending growth | 5.7 | 4.0 | 0.7 |
| NI employee jobs growth | 0.2 | 1.2 | 0.6 |
| NI unemployment rate | 3.5 | 2.7 | 3.3 |
| UK CPI inflation rate | 2.6 | 8.5 | 4.5 |

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

**High inflation eroding real incomes and squeezing consumer spending**

The annual CPI inflation rate in the UK hit an estimated 40-year high of 9% in April 2022, up from 7% in the previous month. Higher fuel and energy costs, combined with the impacts of supply chain disruption on global good prices, are among the key drivers of this high inflation. Higher prices is also the primary channel through which the war in Ukraine is impacting the UK and Northern Ireland economies. We expect inflation to rise even higher than the April figure and to peak in the fourth quarter of this year and so are now forecasting that inflation will average around 8.5% in 2022. We expect the inflationary pressures to ease next year but CPI is still projected to be above the Bank of England's 2% target rate and to average about 4.5% in 2023. The elevated rates of inflation are putting significant pressure on people's real incomes and it is likely that consumer spending will be squeezed throughout the remainder of this year and into next year.

**Strong labour market providing some support to consumers**

While high inflation is exerting pressure on household finances and a squeeze on spending levels, the strength of the labour market may give some support to consumers. The unemployment rate is relatively low in both Northern Ireland and in the wider UK with the number of jobs continuing to increase. The tightness of the labour market is also exerting upward pressure on wages. In addition, some households may be able to draw on the savings they built up during the pandemic to smooth their consumption patterns during this period of higher prices.

**Changes to fiscal policy**

The fiscal policy environment in the UK is changing as the Government has unwound the exceptional support introduced in the earlier stages of the pandemic and is now having to balance its aim to improve the public finances with the need to provide support in light of the high rate of inflation and the associated cost of living challenges. With regards to the former, National Insurance contributions rose by 1.25 percentage points in early April, income tax allowances and thresholds have been frozen for four years and the main rate of Corporation Tax is set to rise from the current 19% to 25% from April 2023. However, the Chancellor has also announced some measures to support household finances. The Spring Statement included a rise in the threshold at which National Insurance begins to be paid and further measures including support with energy bills and one-off payments were announced in late May.

**Tighter monetary policy with further base rate rises expected this year**

The Bank of England's Monetary Policy Committee (MPC) raised Bank Rate to 1% at its May 2022 meeting and we expect some further tightening in an attempt to bring inflation back to its 2% target over the medium-term. With regards to the pace of future base rate rises, it is important to note that a large part of the recent increase in inflation is due to global and supply-side factors including rises in energy and commodity prices as well as supply chain disruption. As such, raising Bank Rate is unlikely to curb inflation in the short-term. Furthermore, higher prices for necessities such as food, fuel, and energy are likely to weigh on consumer demand for non-essentials and could contribute towards a slowdown in price rises and economic activity levels even without further base rate increases. Both these factors will make upcoming monetary policy decisions complicated. At present we expect the MPC to increase Bank Rate twice more in 2022, with base rate expected to be 1.5% at the end of this year.

**Extra trade frictions due to Brexit**

Businesses across the UK are continuing to face barriers to trade following the UK's departure from the EU. The implementation of the Northern Ireland Protocol has also led to new processes for local firms when purchasing certain goods from Great Britain. Following the election, there appears to be fresh urgency to find solutions to the issues created by the Protocol. However, reaching a negotiated settlement will not be straightforward and there remains considerable uncertainty around how these issues will be resolved.

**Recovery in business investment**

The recovery in business investment in the UK has been relatively slow so far, with capital spending by firms in 2022 Q1 still around 9% below its pre-pandemic level. However, business surveys suggest firms have robust investment intentions and some firms also built up excess cash holdings during the pandemic which could be used for investment purposes. The temporary 'super-deduction' tax incentive could encourage firms to make use of this cash and bring forward capital spending before the scheme finishes next year.

# The outlook for the UK economy

The UK economy expanded for the fourth consecutive quarter in 2022 Q1 with GDP increasing by 0.8%, though this was slower than the 1.3% growth observed in the final three months of 2021. Within **private consumption**, spending by consumers grew by 0.6% over the quarter. **Government spending** decreased by 1.7% with reductions in Covid-19 related expenditure contributing towards a decline in health spending. **Total investment** expanded by 5.4%, driven by a rise in government investment, with business investment falling by 0.5%, leaving it 9.1% below its pre-pandemic level of 2019 Q4. Trade can be quite volatile on a quarterly basis and in the first quarter of the year **exports** fell by 4.9% and **imports** increased by 9.3%.

The timelier monthly GDP data showed that growth in the first quarter was concentrated entirely in the first month of the year. Output stagnated in February and fell slightly in March, signalling a significant weakening in momentum even before inflation hit its 40-year high in April. At a sector level, **services** output declined by 0.2% in March, dragged down by a 2.8% monthly contraction in wholesale and retail trade activity. **Production** output also declined by 0.2%, while **construction** activity increased by 1.7% compared with the previous month.

The outlook for the UK economy is softening as higher inflation is increasingly weighing on consumer confidence, demand and spending, supply chains have been further disrupted by recent lockdowns in China and base rate is expected to rise more quickly than we previously anticipated. We expect UK GDP to grow by around 3.8% in 2022, unchanged from our previous forecast and still reflecting a degree of pandemic-related bounce back. However, we have downgraded our projection for economic growth in 2023 from 1.8% in our previous report to 1.1%. We expect aggregate **private consumption** to grow by about 4.2% in 2022 – this high rate of expansion is partly driven by pandemic-related base effects – with annual spending growth then expected to slow sharply to around 0.8% next year. Meanwhile, **investment** levels are forecast to grow by around 5.2% this year and 2.2% next year.

The UK labour market continues to show signs of tightness. The **unemployment rate** fell to 3.7% in the first quarter of this year, down from 4.1% in the previous quarter. The number of payrolled employees increased by 0.4% to another series high in April. Having been on an upward trajectory throughout last year, job vacancies rose further to a new record high of 1.3 million in the three months to April 2022. For the first time since records began, there were fewer unemployed people than vacancies in the UK economy during the first quarter of the year.

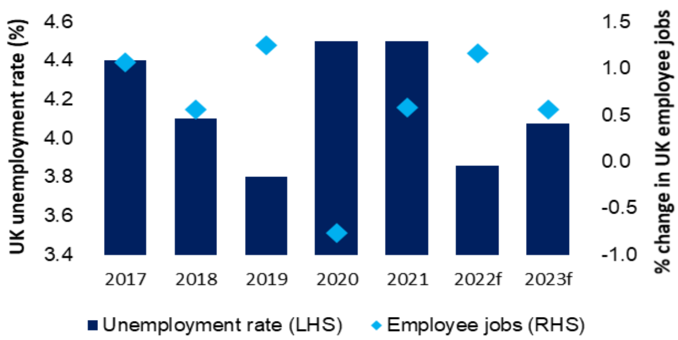
Given the robust demand for labour, we are forecasting that the annual average number of **employee jobs** in the UK will grow by around 1.2% in 2022, before slowing to about 0.6% in 2023. We also expect the **unemployment rate** to average 3.9% this year and 4.1% next year.

**Inflation** in the UK increased further in April 2022 to 9%, the highest it is estimated to have been since around 1982. We expect **inflation** to rise even higher and peak in the final quarter of the year, with CPI averaging 8.5% in 2022 and 4.5% in 2023. Given the high rate of inflation, we expect the Bank of England's Monetary Policy Committee to increase **Bank Rate** twice more this year, with base rate reaching 1.5% by the end of 2022.

**UK GDP forecasts (%)**

| | 2021 | 2022 | 2023 |
|---|---|---|---|
| UK GDP growth | 7.4 | 3.8 | 1.1 |
| Private Consumption | 6.2 | 4.2 | 0.8 |
| Investment | 5.9 | 5.2 | 2.2 |
| Government Consumption | 14.3 | 2.6 | 2.4 |
| Exports of Goods and Services | -1.3 | 5.0 | 6.6 |
| Imports of Goods and Services | 3.8 | 10.3 | 2.2 |

Source: Oxford Economics, Danske Bank Analysis




Source: Oxford Economics, Danske Bank Analysis

# Northern Ireland sectoral outlook

**Economic growth looks set to slow as high inflation squeezes consumer spending**
The Northern Ireland economy is estimated to have grown in the first quarter of 2022, but the rate of expansion is expected to slow from the second quarter of the year onwards. The main driver behind the slowdown in growth in quarter two is likely to be the negative impact of high inflation on consumer spending but other factors, such as the end of free Covid-19 testing and the extra bank holiday at the start of June are also expected to dampen the pace of growth. The rate of economic expansion is likely to remain relatively weak during the remainder of this year and we now expect the Northern Ireland economy to grow by around 3.6% in 2022 and 1.0% in 2023, marginally below our projected growth rates for the wider UK economy.

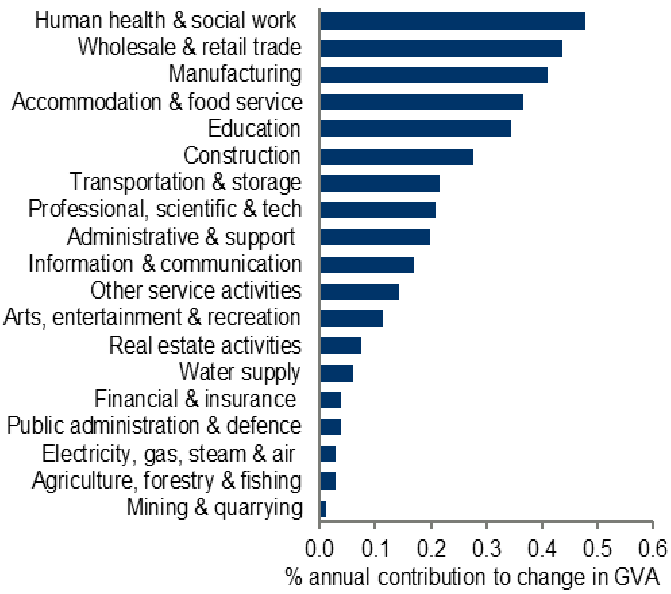
The **accommodation & food services** and **arts, entertainment, & recreation** sectors are expected to experience the fastest rates of growth in 2022, with activity rising by about 16.1% and 10.3% respectively as these sectors continue to recover from the pandemic. These double digit annual growth rates growth largely reflect the relatively low annual starting bases from 2021 and the associated rebound effects in 2022 are likely to mask the impact of weaker consumer spending on these sectors. The squeeze on consumer spending is more apparent in the 2023 figures when output is projected to grow by just 0.3% and 0.2% respectively, significantly lower than the 1.0% expected across the wider economy. The squeeze on household spending, combined with supply chain disruption and lower consumer confidence levels, is also expected to weigh down on growth in the **wholesale & retail trade** sector. We are projecting that output in the sector will rise by around 3.2% in 2022 but that growth will then slow to about 0.2% in 2023.

The **other services** and **administrative & support services** sectors are projected to experience relatively strong rates of growth in both 2022 and 2023 as they continue to recover from the impacts of the pandemic.

The **manufacturing** sector is projected to slightly lag the overall economy in 2022, with activity levels projected to rise by around 3.1%. Inflationary pressures on raw materials, energy and wages as well as ongoing supply chain issues are expected to negatively impact the sector. These issues are also expected to affect the outlook for the **construction** industry, in which we are forecasting that output will rise by around 3.8% this year.

As the effects of the recovery from the pandemic on sectoral growth patterns fade in 2023, we expect to see a return to more traditional drivers of growth and as a result the **information & communication** and **professional, scientific & technical services** sectors – both of which were traditionally strong performers prior to 2020 – move up the growth table. We are forecasting growth of around 2.1% and 2.3% respectively in these sectors in 2023, stronger than the rate expected for the overall economy.

**Sector contributions to GVA growth in 2022**




Source: Oxford Economics, Danske Bank Analysis

| GVA (%) | 2022 | 2023 |
|---|---|---|
| Accommodation & food service | 16.1 | 0.3 |
| Arts, entertainment & recreation | 10.3 | 0.2 |
| Other service activities | 7.8 | 3.5 |
| Administrative & support | 7.0 | 2.6 |
| Education | 6.3 | 0.3 |
| Transportation & storage | 5.8 | 1.1 |
| Information & communication | 5.4 | 2.1 |
| Professional, scientific & tech | 4.8 | 2.3 |
| Mining & quarrying | 4.1 | 0.7 |
| Human health & social work | 4.1 | 0.1 |
| Construction | 3.8 | 1.4 |
| Water supply | 3.8 | 0.7 |
| Wholesale & retail trade | 3.2 | 0.2 |
| Manufacturing | 3.1 | 1.6 |
| Electricity, gas, steam & air | 1.8 | 1.0 |
| Agriculture, forestry & fishing | 1.4 | 1.2 |
| Financial & insurance | 0.9 | 1.3 |
| Real estate activities | 0.6 | 1.2 |
| Public administration & defence | 0.5 | 0.1 |
| **Total** | **3.6** | **1.0** |

Source: Oxford Economics, Danske Bank Analysis

# Northern Ireland labour market outlook

**Number of jobs expected to continue rising as demand for labour remains strong**
The labour market in Northern Ireland appears to be in a relatively strong position with demand for workers remaining firm. Our expectation for employment levels in 2022 is slightly stronger than in our previous report, with the annual average number of employee jobs now forecast to increase by 1.2%, compared with 1.1% previously. However, the pace of jobs growth is then projected to slow to around 0.6% in 2023. Our expectations for job growth in Northern Ireland are broadly similar to those for the wider UK economy.

The hospitality and tourism-related sectors are continuing to recover from the impacts of the pandemic and we expect them to experience relatively strong jobs growth this year. We are forecasting that the number of employee jobs in the **arts, entertainment, & recreation** sector will grow by around 3.5% in 2022 and 2.4% in 2023. The **accommodation & food services** sector is also forecast to experience above average employment growth this year, with the number of jobs rising by about 2.2%, but the pace of growth is expected to fall back to around 0.6% next year. Similar to our output forecasts, the strong jobs growth expected for these largely consumer-focused sectors at a time when high inflation is weighing down on household spending reflects their continued recovery from the effects of the pandemic.

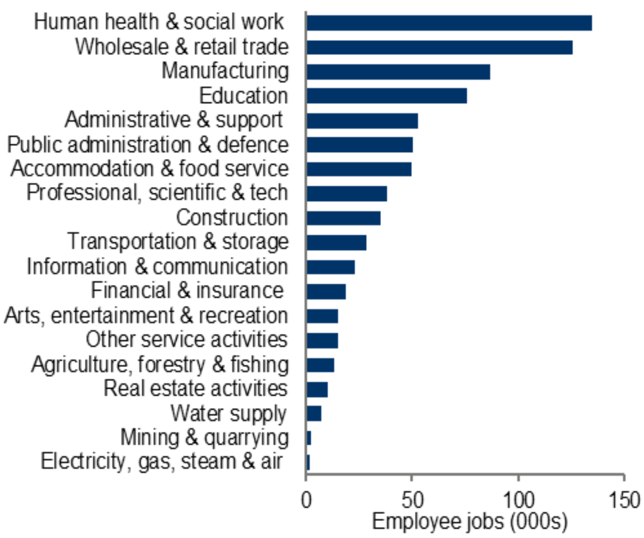
The business services sectors are expected to see rising employment levels this year. The **information & communication** sector is forecast to experience jobs growth of around 2.5% in 2022. We are also projecting that employment in the **administrative & support services** and **professional, scientific, & technical services** sectors will increase by about 1.8% and 0.9% respectively in 2022. However, the pace of jobs growth within these sectors is forecast to accelerate next year.

The number of employee jobs in the **manufacturing** sector is forecast to increase by 0.4% in 2022 but then decline in 2023 as skills shortages and longer-term trends towards increased automation reduce employment levels in the sector. Employment growth is forecast to be stronger in the **construction** industry, with the number of employee jobs expected to rise by about 2.2% this year and to grow by around 1.3% next year.

The **public administration & defence** sector is expected to see modest jobs growth of around 0.3% in 2022 followed by a fall in employment of 0.8% in 2023. The **education** sector is forecast to follow a similar path with growth of 0.3% this year, followed by a decline of 0.2% in 2023. However, the number of employee jobs in the **human health & social work** sector is forecast to increase by around 0.8% in 2022 and 0.6% in 2023.

We are forecasting that the unemployment rate in Northern Ireland will average around 2.7% in 2022 and 3.3% in 2023. The rise in the annual average unemployment rate in 2023, when employee jobs are expected to rise, is due to a weaker pace of jobs growth, an assumption that some economically inactive people may choose to enter the labour force and become unemployed before finding work and that the unemployment rate will gradually move back towards its natural rate.

**Employee jobs per sector in 2022**




Source: Oxford Economics, Danske Bank Analysis

| Employee jobs (%) | 2022 | 2023 |
|---|---|---|
| Arts, entertainment & recreation | 3.5 | 2.4 |
| Transportation & storage | 3.1 | 0.1 |
| Information & communication | 2.5 | 2.2 |
| Accommodation & food service | 2.2 | 0.6 |
| Construction | 2.2 | 1.3 |
| Administrative & support | 1.8 | 2.1 |
| Wholesale & retail trade | 1.5 | 1.5 |
| Electricity, gas, steam & air | 1.2 | 0.0 |
| Other service activities | 1.1 | 2.8 |
| Agriculture, forestry & fishing | 1.1 | 0.1 |
| Professional, scientific & tech | 0.9 | 1.2 |
| Mining & quarrying | 0.9 | -0.5 |
| Human health & social work | 0.8 | 0.6 |
| Real estate activities | 0.6 | 0.2 |
| Financial & insurance | 0.5 | -0.3 |
| Manufacturing | 0.4 | -0.8 |
| Water supply | 0.3 | 0.3 |
| Education | 0.3 | -0.2 |
| Public administration & defence | 0.3 | -0.8 |
| **Total** | **1.2** | **0.6** |

Source: Oxford Economics, Danske Bank Analysis

# Risks and uncertainties

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

- **Persistent inflation and supply chain disruption** – Inflation in the UK is at a multi-decade high and it is expected to rise even further before the end of this year. This inflation is being partly driven by higher fuel, energy and commodity prices and by supply chain disruption exerting upward pressure on global goods prices. High inflation erodes consumers' purchasing power and puts upward pressure on firms' costs, which can lead to a squeeze on consumer spending and act as drag on business investment. If inflation runs higher than forecast and remains at more elevated levels for a longer period of time, it has the potential to constrain economic growth even further. This could occur if fuel and energy prices remain higher for longer, supply chains take longer to normalise or if the current tightness of the labour market begins to result in more domestically driven inflation, with a wage-price spiral keeping the rate of price rises above its target rate. Higher and more prolonged inflation could also mean that Bank Rate would be increased at a faster pace to contain the rate of price rises and that could further dampen economic activity. Persistent supply chain disruption could also adversely impact activity levels in goods-based businesses if they are unable to source the products they sell or use as inputs.

- **Prolonged political uncertainty, including around the implementation of the post-Brexit trading arrangements** – Following the Assembly election in May and the subsequent inability to form a fully functioning Executive, there is considerable political uncertainty in Northern Ireland and this could weaken consumer and business confidence. Issues around the Northern Ireland Protocol are preventing the local political institutions being re-established, and while there appears to be more urgency around finding a way forward, there is no new time line around when the UK and EU might hope to reach an agreement. Furthermore, the UK Government has announced its intention to introduce legislation to address some of the issues it sees with the Protocol, while also saying its preference would be to reach a negotiated settlement with the EU. The EU has responded by saying that it is ready to continue engaging with the UK Government to find solutions but would respond if legislation to change the Protocol were to be introduced. At this time, it appears that the uncertainty around the post-Brexit trading arrangements in Northern Ireland looks set to continue. In the short-term, the challenges that some businesses are facing in relation to the current arrangements, particularly with regards to the new checks and processes required when moving some goods from Great Britain to Northern Ireland, will continue. In the medium to longer-term, if a negotiated settlement can be reached, there is the potential for the arrangements to present opportunities for firms in Northern Ireland but a stable solution to the current difficulties is likely to be needed to give both local and international firms the certainty they need to pursue those potential opportunities. The current situation is fragile and remains a significant source of uncertainty for businesses and consumers.

- **Coronavirus** – While the risk to the economic outlook posed by coronavirus appears to be smaller now than during the last two years, there remains a possibility that new Covid-19 variants may emerge. If these were to result in more serious illness and put more pressure on the health service, then it may be necessary to reintroduce some coronavirus restrictions and this would likely have adverse consequences for the pace of economic growth.

In addition, a key global uncertainty relates to:

- **The war in Ukraine** – Higher commodity prices, in particular for oil and gas, and their contribution to higher inflation is one of the main channels through which the war in Ukraine is impacting the UK and Northern Ireland economies. The conflict has also likely dented consumer and business confidence. How the crisis evolves over the weeks and months ahead remains particularly uncertain. However, if the war and the associated geopolitical tensions were to be particularly prolonged or to escalate further, in addition to the tragic human consequences that could ensue, the performance of the economy could also be negatively affected. This could be the case if, for instance, energy prices remained higher for longer and if sentiment levels were even more adversely impacted over a longer period of time.

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