

# Northern Ireland Quarterly Sectoral Forecasts

## Forecast summary

The UK economy returned to growth in the first quarter of 2024 and we think that output in Northern Ireland is also likely to have increased at the start of this year. Looking forward, we expect lower inflation to support a gradual easing of the pressure on consumer spending power and monetary policy to begin to loosen this year. However, even if Bank Rate does start to decline, the overall monetary policy stance is likely to remain relatively tight and the outlook for investment is still subdued. We are forecasting that the Northern Ireland economy will grow by around 0.5% this year, a slight upward revision from our last report but still relatively modest. We then expect the pace of annual growth to pick up with economic output projected to rise by about 1.2% in 2025.

### Economic growth projections revised slightly upwards but still relatively modest

The UK economy is estimated to have returned to growth in the first quarter of 2024 with GDP expanding by a relatively strong 0.6%. In Northern Ireland, the latest Composite Economic Index data for the final quarter of 2023 showed a contraction of 0.2% but we expect output to have increased in the first quarter of this year.

Looking forward, the UK and Northern Ireland economies are expected to continue to grow modestly during the rest of 2024 with the rate of expansion then picking up in 2025. Inflation has reduced further and this is expected to support a gradual easing of the pressure on household purchasing power. Monetary policy is also projected to begin to loosen in the second half of 2024 but the overall policy stance is likely to remain tighter than households and businesses have experienced over much of the past 15 years and the outlook for investment remains relatively subdued.

In annual terms, we are forecasting that the Northern Ireland economy will grow by around 0.5% in 2024, a slight upward revision from the 0.4% estimate in our previous report, but still relatively modest. We then expect the rate of economic growth to increase to about 1.2% in 2025, in line with our previous projection.

### The labour market remains resilient but some softening is expected

Northern Ireland's labour market has continued to display a degree of resilience in the early part of 2024. The unemployment rate in the January – March 2024 period was 2.1%, 0.4 percentage points lower than in the previous three-month period. The employment rate increased to 71.8% in quarter one – the last time it was as high was in the first quarter of 2020.

However, there is also some data that suggests that the labour market could be softening. The Quarterly Employment Survey showed that the number of employee jobs declined by 0.6% in the final quarter of 2023, following ten consecutive quarters of growth.

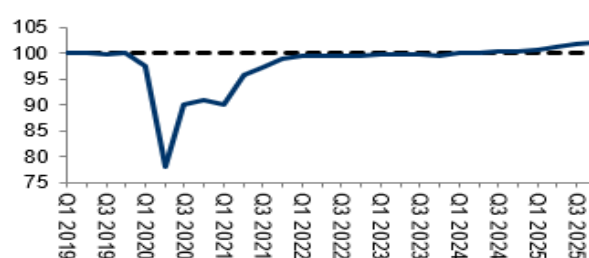
The latest HMRC Pay As You Earn data showed that the number of payrolled employees fell by 0.3% over the month in April. In addition, the annual number of confirmed redundancies in the year to April 2024 was more than double the figure for the previous 12 months.

Given this data, the modest outlook for economic growth and recognising that movements in the labour market tend to lag wider economic developments, we expect the annual rate of employee jobs growth to soften this year. We are forecasting that the annual average number of employee jobs will increase by around 0.4% in 2024 and by about 0.8% in 2025. We are also projecting that the unemployment rate in Northern Ireland will increase slightly, averaging around 2.7% this year, and about 3.0% in 2025.

Forecast summary (%)			
	2023	2024	2025
UK GDP growth	0.1	0.6	1.3
NI GVA growth	0.2	0.5	1.2
NI employee jobs growth	1.8	0.4	0.8
NI unemployment rate	2.5	2.7	3.0
UK unemployment rate	4.0	4.3	4.4
UK CPI inflation rate	7.3	2.5	2.2

Sources: ONS, NISRA, Oxford Economics, Danske Bank Analysis


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



Sources: Oxford Economics, Danske Bank Analysis


# Key factors in the outlook

## Lower inflation should support a gradual easing of the pressure on consumer spending power




The rate of CPI inflation in the UK slowed to 2.3% in April 2024, down from 3.2% in March as falling energy prices contributed to a decline in the headline inflation rate. The annual rate of inflation in April was negative for the housing, water, electricity, gas and other fuels as well as for the furniture, household equipment and maintenance spending categories. Transport inflation was also just 0.1% but the annual rate of price changes was still above the 2% headline target for many of the goods and services that people purchase. The inflation rate for food and non-alcoholic drinks was 2.9%, it was 3.7% for clothing and footwear and it came in at 6.0% for restaurants and hotels. We expect the headline rate of inflation to average around 2.5% in 2024 and 2.2% in 2025, both significantly lower than the 7.3% experienced in 2023. This fall in the annual rate of price rises is expected to contribute to a gradual easing of the pressure on consumer purchasing power experienced over the last few years.

## Monetary policy expected to loosen during 2024 but continue to weigh on output




The Bank of England's Monetary Policy Committee voted to keep Bank Rate at 5.25% at its May meeting. The headline inflation rate has declined considerably but there are still some signs of underlying price pressures across the economy persisting. Core inflation, which excludes food, energy, alcohol and tobacco, was 3.9% in April and services inflation was 5.9%. In addition, wage growth is relatively high, with regular earnings in Great Britain up by 6.0% over the year to January - March 2024. These metrics may need to ease before monetary policy is loosened. We think that Bank Rate could begin to reduce in the second half of 2024 but it is likely to be a gradual process and it is important to note that, even if the main policy rate is lowered, the overall monetary policy stance is still expected to be considerably tighter than households and businesses have experienced over much of the past 15 years and therefore still weigh on output levels to some extent.

## Tight monetary policy and uncertainty could drag on investment



Investment in the UK increased by 1.4% in the first quarter of 2024 but was 0.3% lower than in 2023 Q1. With monetary policy expected to remain relatively tight, even if Bank Rate begins to decline during the second half of 2024, investment levels are projected to be relatively subdued. Uncertainty, including around the outlook for the economy, economic policy and geopolitical developments could also weigh on business confidence and investment levels this year.

## Labour market expected to soften but remain relatively resilient



The labour markets in Northern Ireland and the wider UK are both still relatively resilient but with some metrics pointing to a softening. Given some of the recent data, the relatively modest outlook for output growth in 2024 and recognising that labour market impacts tend to lag wider economic developments, we expect the labour market to soften this year with the annual rate of jobs growth expected to slow and the unemployment rate expected to increase. However, the projected increase to an annual average of around 2.7% in Northern Ireland and 4.3% in the wider UK would still represent relatively low rates of unemployment. The resilience of the labour market is likely to continue to offer some support to total household spending.

# The outlook for the UK economy

The UK economy returned to growth in the first quarter of 2024, with output increasing by 0.6% and bringing an end to the technical recession experienced in the second half of last year. The expenditure data for the first quarter of the year showed **private consumption** grew by 0.2% following two quarters of decline and **government consumption** rose by 0.3%. **Total investment** grew by 1.4%, up from 0.9% in the previous quarter with business investment expanding by 0.9%. However, both **exports** and **imports** continued to decline, with respective falls of 1.0% and 2.3% over the quarter.

On a monthly basis, UK GDP expanded by 0.4% in March following growth of 0.2% in February and 0.3% in January. Growth in March was largely driven by an increase in **services** output, up by 0.5% over the month. **Production** output expanded for the second consecutive month, by 0.2%. Meanwhile, **construction** output continued to decline in March although to a lesser extent than observed in February, with output down by 0.4% compared with the previous month's 2.0% decline.

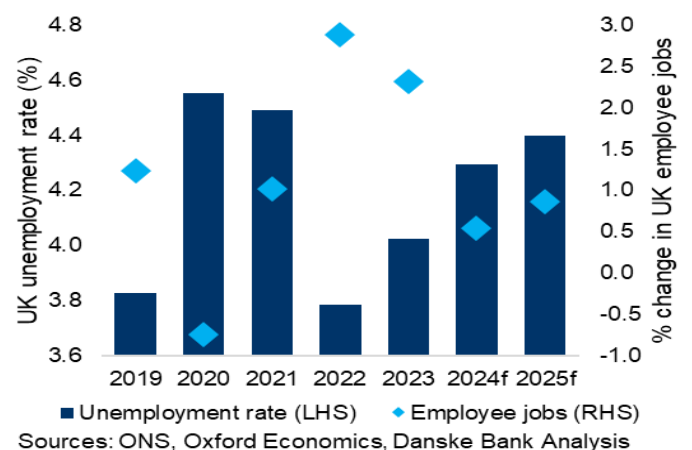
Looking forward, and given the relatively strong growth experienced in the first quarter of the year, we have revised our forecasts for annual UK GDP growth slightly upwards. We expect GDP to grow by a relatively modest 0.6% in 2024, up from 0.4% in our last report. We then expect the rate of output growth to rise to around 1.3% next year, up from 1.2% previously. We are forecasting that the rate of growth of **private consumption** will increase to around 0.5% this year and 1.4% in 2025 as the easing of inflationary pressures and potentially looser monetary policy begins to support stronger spending levels. **Investment** is expected to decline in annual terms this year as the tight monetary policy stance and uncertainty weigh on activity but then return to positive annual growth in 2025. **Government consumption** is projected to grow by around 2.0% this year and about 1.8% in 2025.

The labour market in the UK remains in a relatively robust position but there are some signs of softening. **Employee jobs** growth slowed to 0.2% in the final quarter of 2023. In the January - March 2024 period, the **unemployment rate** increased by 0.5 percentage points over the quarter to 4.3%, while the **employment rate** declined by 0.6 percentage points to 74.5%. Moreover, the number of payrolled employees is estimated to have declined by 0.3% in April compared with March, and in the three months to April 2024 the number of vacancies fell below 900,000 for the first time since mid-2021. We are projecting that the rate of growth of the annual average number of **employee jobs** in the UK will slow to around 0.5% in 2024 then rise to about 0.9% in 2025. We also expect the annual average **unemployment rate** to rise to about 4.3% in 2024 and around 4.4% in 2025.

UK CPI **inflation** continued on its generally downward trajectory in April, falling to 2.3%, from 3.2% in March. We expect the annual rate of inflation to average around 2.5% in 2024 and about 2.2% in 2025.

UK GDP forecasts (%)			
	2023	2024	2025
UK GDP growth	0.1	0.6	1.3
Private Consumption	0.3	0.5	1.4
Investment	2.2	-0.5	0.7
Government Consumption	0.5	2.0	1.8
Exports of Goods and Services	-0.5	-1.5	2.4
Imports of Goods and Services	-1.5	-0.8	3.4

Sources: ONS, Oxford Economics, Danske Bank Analysis



# Northern Ireland sectoral outlook

## Economic growth to remain relatively modest this year but forecast revised slightly upwards

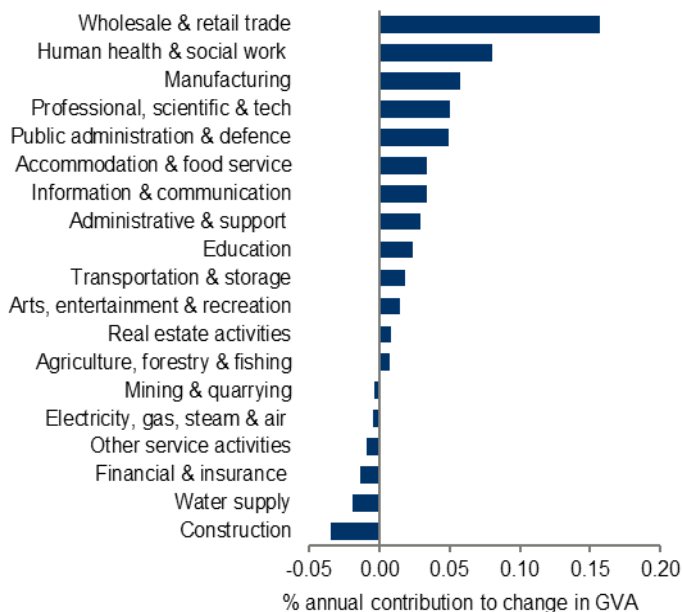
The latest Northern Ireland Composite Economic Index for 2023 Q4 showed a decline over the quarter of 0.2%, however we think that output is likely to have increased in the first quarter of 2024. We expect the annual rate of economic growth to be relatively modest this year at around 0.5%, up slightly from the 0.4% we projected in our last report. We then expect the pace of growth to increase with output in Northern Ireland forecast to rise by about 1.2% in 2025, the same as we projected previously.

The reduction in the headline rate of inflation and the potential for a loosening in monetary policy are expected to support a gradual easing of the squeeze on household purchasing power and support output growth in the consumer-focused sectors of the economy. Output in the **arts, entertainment & recreation** sector is expected to expand by around 1.4% in 2024 and about 1.9% in 2025. The **accommodation & food service** and **wholesale & retail trade** sectors are also expected to be among the fastest growing sectors over this year and next. Activity in each is projected to rise by about 1.1% in 2024 and the sectors are then forecast to post a growth rate above that expected for the overall economy in 2025.

The manufacturing component of the Northern Ireland Index of Production contracted in the second and third quarters of 2023 but then increased by 0.7% in the final quarter of the year. The subdued outlook for investment is expected to weigh on activity in the sector this year and we are forecasting that **manufacturing** output will increase by around 0.4% in 2024 with the rate of growth then projected to rise to about 0.8% next year. The **construction** sector is also expected to be impacted by relatively weak investment levels with output projected to decline by around 0.4% this year but grow by about 1.6% next year.

The business services sectors are projected to grow at a faster rate than the overall economy in 2024 and 2025. Output in the **professional, scientific & technical services** sector is forecast to rise by around 1.1% in 2024 and 1.9% in 2025. We are also projecting that the **administrative & support services** and **information & communication** sectors will experience growth of about 0.9% and 0.8% respectively this year, and then 1.6% and 2.0% next year.

### Projected sector contributions to GVA growth in 2024



Sources: Oxford Economics, Danske Bank Analysis

GVA (%)	2024	2025
Arts, entertainment & recreation	1.4	1.9
Professional, scientific & tech	1.1	1.9
Accommodation & food service	1.1	1.8
Wholesale & retail trade	1.1	1.9
Administrative & support	0.9	1.6
Information & communication	0.8	2.0
Public administration & defence	0.7	0.5
Human health & social work	0.7	1.0
Transportation & storage	0.6	1.6
Education	0.5	0.6
Agriculture, forestry & fishing	0.5	1.3
Manufacturing	0.4	0.8
Real estate activities	0.1	0.7
Financial & insurance	-0.3	1.3
Construction	-0.4	1.6
Electricity, gas, steam & air	-0.5	1.5
Other service activities	-0.5	1.4
Mining & quarrying	-1.3	0.6
Water supply	-1.4	0.9
<b>Total</b>	<b>0.5</b>	<b>1.2</b>

Sources: Oxford Economics, Danske Bank Analysis

# Northern Ireland labour market outlook

## Labour market expected to remain relatively resilient but soften in 2024

The Northern Ireland labour market is still in a relatively robust position. The unemployment rate fell to 2.1% and the employment rate increased to 71.8% in the January – March 2024 period. However, there are also some signs that the labour market could be softening somewhat. The number of employee jobs declined in the final quarter of last year and the more timely HMRC Pay As You Earn data showed a monthly fall in the number of payrolled employees in April. The number of confirmed redundancies in the year to April 2024 was also more than double that observed in the previous 12 months. Given these initial indications of softening, the modest outlook for economic growth in 2024 and recognising that employment trends tend to lag wider economic developments, we are projecting that the growth rate of the annual average number of employee jobs will slow to around 0.4% this year before increasing to about 0.8% in 2025. Our forecast for 2024 has been revised up from the 0.2% growth we projected previously.

With the consumer-focused sectors of the economy expected to experience positive output growth, we also expect to see a rise in the annual number of employee jobs in these sectors. We are forecasting that the annual average number of employee jobs in the **accommodation & food service** sector will increase by around 1.3% in both 2024 and 2025. The **arts, entertainment & recreation** sector is expected to experience an increase in employment of around 1.0% in 2024 and 1.4% in 2025. We also expect the annual number of jobs in the **wholesale & retail trade** sector to grow by about 0.6% this year and 1.2% next year.

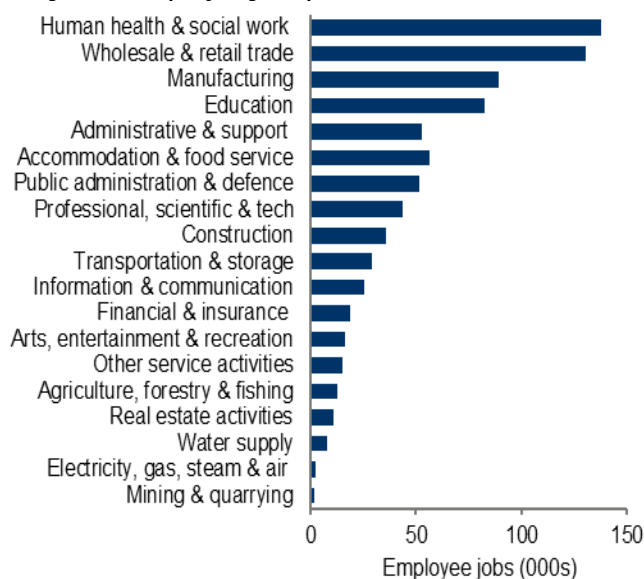
The latest data from the Quarterly Employment Survey showed the construction and human health & social work sectors ended last year with a reasonable degree of momentum. As such, we now expect the annual number of employee jobs in the **construction** sector to grow by around 0.5% in 2024, while the number of jobs in the **human health & social work** sector is projected to expand by about 0.6%.

The **professional, scientific & technical services** sector is forecast to experience an increase in the average number of employee jobs of around 1.2% in 2024 and 1.4% in 2025. The **information & communication** sector is also projected to experience relatively strong employee jobs growth this year and next. The number of employees in this sector is forecast to grow by about 0.9% in 2024 and 1.6% in 2025.

We are projecting that the **manufacturing** sector will broadly maintain its annual level of jobs this year with employment then projected to grow by a modest 0.2% in 2025. The weak investment outlook and skills shortages may negatively impact the sector. For the **administrative & support services** sector, we now expect an annual decline of about 0.4% in 2024, partly due to the contraction in employment in this sector in the third and fourth quarters of last year.

Northern Ireland’s **unemployment rate** was 2.1% in the January – March 2024 period, lower than in the previous three-month period and considerably lower than the UK rate of 4.3%. We are forecasting that the unemployment rate in Northern Ireland will rise to an average of around 2.7% in 2024 and about 3.0% in 2025.

### Projected employee jobs per sector in 2024



Sources: Oxford Economics, Danske Bank Analysis

Employee jobs (%)	2024	2025
Accommodation & food service	1.3	1.3
Professional, scientific & tech	1.2	1.4
Arts, entertainment & recreation	1.0	1.4
Information & communication	0.9	1.6
Human health & social work	0.6	0.9
Wholesale & retail trade	0.6	1.2
Construction	0.5	0.6
Education	0.4	0.4
Transportation & storage	0.3	0.9
Agriculture, forestry & fishing	0.1	0.1
Real estate activities	0.1	0.4
Manufacturing	0.0	0.2
Public administration & defence	0.0	0.2
Financial & insurance	-0.2	0.8
Water supply	-0.3	-0.3
Other service activities	-0.4	0.6
Administrative & support	-0.4	1.3
Electricity, gas, steam & air	-0.7	-0.3
Mining & quarrying	-0.9	-0.6
<b>Total</b>	<b>0.4</b>	<b>0.8</b>

Sources: Oxford Economics, Danske Bank Analysis

# Risks and uncertainties

There are several risks and uncertainties which may impact upon the economy and the forecasts presented above. These include:

- **Persistent inflation** – Inflation in the UK was 2.3% in April, its lowest rate since July 2021 and just ahead of the 2% target. We expect the annual rate of inflation to average around 2.5% in 2024 and about 2.2% in 2025. However, if inflation runs higher than forecast it has the potential to continue to constrain economic growth. Factors which could see this come about include rising wages feeding into increased prices or commodity prices rising again. If inflation were to be higher than expected, this could weigh on household spending power and the Bank of England's Monetary Policy Committee may need to keep Bank Rate at its current level for a longer period of time or potentially increase it to constrain the pace of price rises, which in turn could further dampen economic activity.
- **Skills shortages and recruitment challenges** – Across the economy, many businesses are still experiencing some challenges when it comes to filling job openings with the skills that they require. The *2024 Q1 Quarterly Economic Survey* published by the *Northern Ireland Chamber of Commerce and Industry* and *BDO* reported that 77% of the manufacturing businesses and 66% of the services firms that responded to the survey were facing difficulties when it came to recruiting employees, although this is down from the 85% of manufacturing firms and 74% of services businesses reporting difficulties in the 2023 Q4 survey. While there are some signs of a softening in the labour market, competition for workers remains high and this is one of the reasons that we think the extent of the expected rise in unemployment may be lower than what might typically be assumed given the recent modest performance of the economy. Skills shortages and recruitment challenges could weigh on economic output levels and taking steps to address this issue, alongside other labour market challenges such as low productivity and high levels of economic inactivity, are examples of policy areas in Northern Ireland that could be focused on in an attempt to raise the economy's long-term growth potential.
- **Geopolitical uncertainty** – Geopolitical uncertainty is currently particularly elevated given the war in Ukraine and events in the Middle East. Geopolitical developments are highly uncertain but have the potential to lead to volatility in commodity prices and to disrupt supply chains, which could add to inflationary pressures and weigh on wider economic output levels.



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This report takes account of events and economic data published up to Friday 31<sup>st</sup> May 2024.



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