Northern Ireland Quarterly Sectoral Forecasts

Forecast summary

The UK economy continued to expand in the second quarter of 2024, and we think that output in Northern Ireland is also likely to have increased over the same period. Lower inflation and the robustness of the labour market likely supported economic growth. In response to the lower rate of price rises, Bank of England Bank Rate was reduced in August and we expect the monetary policy environment to continue to gradually loosen, further supporting household spending and business investment. Looking ahead, we expect the economy to grow at broadly similar annual rates this year and next as the pressure on consumer spending power continues to gradually ease. We are forecasting that the Northern Ireland economy will grow by around 1.2% this year, an upward revision from our last report. We then expect economic output to increase by about 1.3% in 2025.

Economic growth projections revised upwards as output rises in the first part of the year

The UK economy continued to expand in the second quarter of 2024 with GDP increasing by 0.6%, following growth of 0.7% in the first quarter of the year. In Northern Ireland, the Composite Economic Index data for the first quarter of 2024 showed an expansion of 1.4% and we think that output also likely increased in quarter two.

Looking forward, we expect the UK and Northern Ireland economies to continue to grow albeit at a slower pace during the second half of 2024 and throughout 2025. Lower inflation and an easing monetary policy environment should provide support to consumer spending and business investment, but some challenges remain. Bank of England Bank Rate, despite expectations of continued easing, is likely to remain higher than households and businesses have experienced over much of the past 15 years and public finance challenges are likely to lead to a degree of fiscal tightening which could exert a drag on growth.

In annual terms, we are forecasting that the Northern Ireland economy will grow by around 1.2% in 2024, an upward revision from the 0.5% estimate in our previous report, in response to the relatively strong growth observed in the first half of 2024. We then expect economic output to rise by about 1.3% in 2025.

The labour market remains robust but some softening is still expected

Northern Ireland's labour market has continued to display a degree of resilience in the first half of 2024. The Quarterly Employment Survey showed that the number of employee jobs increased by 0.6% in the first quarter of the year. The unemployment rate in the April – June 2024 period was 1.9%, a record low rate based on the available data. The number of payrolled employees in July was also 2.3% higher than at the same time last year.

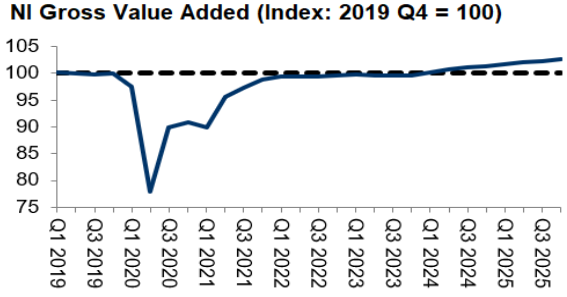
However, there are some signs of a potential softening on the horizon. The employment rate fell in quarter two and the annual number of confirmed redundancies in the year to July 2024 was just under double the figure for the previous twelve months.

In addition, we think that the long-term trend rate for unemployment in Northern Ireland is likely to be higher than the very low rates recorded recently, and that over the next couple of years unemployment could normalise upwards.

We are forecasting that the annual average number of employee jobs will increase by around 0.9% in both 2024 and 2025. We are also projecting that the unemployment rate in Northern Ireland will average around 2.2% this year, before increasing to an average of about 2.6% in 2025.

Forecast summary (%)			
	2023	2024	2025
UK GDP growth	0.1	1.2	1.3
NI GVA growth	0.2	1.2	1.3
NI employee jobs growth	1.9	0.9	0.9
NI unemployment rate	2.5	2.2	2.6
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



Sources: Oxford Economics, Danske Bank Analysis

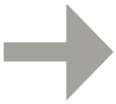
Key factors in the outlook

Lower inflation should continue to gradually support consumer spending

The rate of CPI inflation in the UK slowed to its 2% target in May and June then remained relatively close to the target in July when the rate of price rises was 2.2%. Looking beneath the headline measure, core inflation – which excludes food, energy, alcohol and tobacco – was 3.3% in July and services inflation was 5.2% suggesting there is still some underlying price pressures in the economy but these metrics are on a downward trajectory. 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 household purchasing power experienced over the last few years and support consumer spending levels.

Monetary policy is expected to loosen further during 2024 and 2025

The Bank of England's Monetary Policy Committee announced in early August that it had voted to reduce Bank Rate from 5.25% to 5.0%. With inflation now closer to its target rate, we expect monetary policy to loosen further over the rest of 2024 and 2025 though developments in underlying inflationary metrics and the labour market are likely to impact the pace of policy easing. Our expectation is that Bank Rate will reduce gradually, with one or two more cuts possible by the end of this year and further loosening during 2025, providing some support to consumer spending and business investment but it's important to note that, even if the main policy rate is lowered further, the overall monetary policy stance is still expected to be tighter than households and businesses have experienced over much of the past 15 years.



Labour market projected to soften but remain relatively resilient

The labour markets in Northern Ireland and the wider UK are both in a relatively resilient position. Unemployment in Northern Ireland in 2024 Q2 was just 1.9% and it was 4.2% in the UK, while average wage growth has also been relatively high. Between January and July 2024, the average year-on-year rate of earnings growth – based on the HMRC Pay As You Earn data – was 6.6% in Northern Ireland and 5.9% in the UK. Looking forward, we expect to see a modest softening in the labour market as the lagged effects of modest economic growth rates and restrictive monetary policy take hold, and as the unemployment rate normalises in Northern Ireland. However, the projected increase in unemployment to an annual average of around 2.6% in Northern Ireland and 4.4% in the wider UK in 2025 would still represent relatively low rates. As such, the resilience of the labour market is likely to continue to offer some support to total household spending.

Fiscal policy expected to be relatively restrictive

In the UK, there are challenges around the public finances and the Government recently announced a series of spending reductions totalling around £5.5bn in 2024-25, rising to around £8.1bn in the next financial year. It's also important to note that, at the time of the last Budget in March 2024, the estimate of fiscal headroom that the Government had to achieve its target of public sector debt as a percentage of GDP falling in the final year of the fiscal forecast horizon was relatively limited. While the new Government has committed not to increase National Insurance, Income Tax or VAT, it is expected that the autumn Budget will include a tightening of tax and public spending with a relatively restrictive fiscal policy stance potentially weighing down on economic activity levels.

The outlook for the UK economy

Economic output in the UK increased by 0.6% in 2024 Q2, following a rise of 0.7% in the first quarter of the year. The expenditure data for the second quarter of the year showed that **government consumption** increased by 1.4% after experiencing no growth in quarter one. **Private consumption** continued to grow but at a more modest pace of 0.2%. Growth in **total investment** slowed to 0.4%, with business investment declining by 0.1%. Both **exports** and **imports** returned to growth, with respective rises of 0.8% and 7.7% over the quarter.

On a monthly basis, GDP was estimated to have been flat in June following an increase of 0.4% in May and no growth in April. **Services** output fell by 0.1% in June 2024 after five consecutive monthly increases. The wholesale & retail trade and accommodation & food services sectors experienced declines in output over the month after posting strong growth in May. However, the professional, scientific & technical services sector expanded at a relatively strong rate in June, following robust growth in the previous month. There was a monthly rise of 0.8% in **production** output in June and **construction** activity increased by 0.5%.

Looking forward, and given the relatively strong growth experienced in the first half of the year, we have revised our forecasts for annual UK GDP growth upwards. We now expect GDP to grow by around 1.2% in 2024, up from 0.6% in our last report. We then expect the rate of output growth to rise slightly to about 1.3% next year, broadly similar to the projection in our previous report. We are forecasting that the rate of growth of **private consumption** will increase to around 0.5% this year and 1.5% in 2025, as the easing of inflationary pressures and loosening of monetary policy provide some support to consumer spending. **Investment** is expected to rise by about 1.0% in annual terms this year and by around 1.2% in 2025. **Government consumption** is projected to grow by around 2.4% this year and then by about 1.3% in 2025.

The UK labour market remains in a relatively robust position. The number of **employee jobs** increased by 0.4% in the first quarter of the year. In the April – June 2024 period, the **unemployment rate** fell over the quarter to 4.2%, while the **employment rate** was 74.5%. The number of payrolled employees is also estimated to have increased slightly in July compared with June. However, in the three months to July 2024 the number of vacancies continued to decrease. We are projecting that annual average **employee jobs** growth in the UK will slow to around 0.6% in 2024 and 0.8% in 2025, and the annual **unemployment rate** to average around 4.3% in 2024 and 4.4% in 2025.

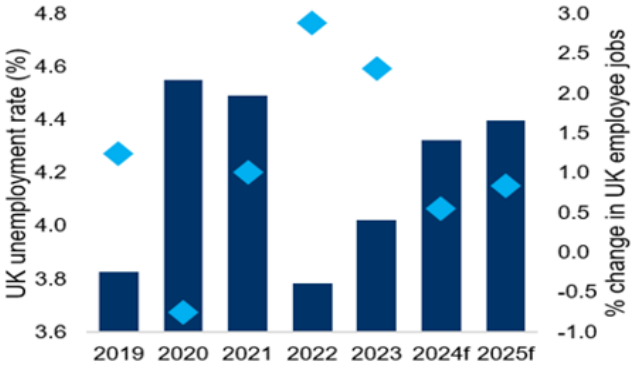
UK CPI **inflation** slowed to its 2% target rate in May and June and remained relatively close to its target in July, at 2.2%. Overall, we expect the annual rate of inflation to average around 2.5% in 2024 and about 2.2% in 2025.

UK GDP forecasts (%)

	2023	2024	2025
UK GDP growth	0.1	1.2	1.3
Private Consumption	0.3	0.5	1.5
Investment	2.2	1.0	1.2
Government Consumption	0.5	2.4	1.3
Exports of Goods and Services	-0.5	-0.8	2.1
Imports of Goods and Services	-1.5	0.6	2.1

Sources: ONS, Oxford Economics, Danske Bank Analysis

UK labour market indicators



Sources: ONS, Oxford Economics, Danske Bank Analysis

Northern Ireland sectoral outlook

Economic growth projections revised upwards after a relatively strong first part of the year

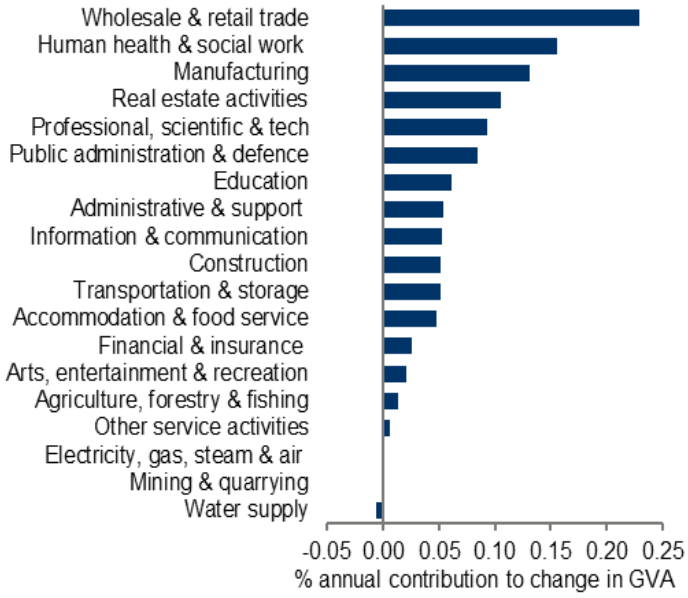
The Northern Ireland Composite Economic Index for 2024 Q1 showed a rise of 1.4% over the quarter. We also expect output to have increased in the second quarter of the year. As a result of the stronger than expected outturn in the first part of the year, we have revised our forecast for GVA growth in 2024 upwards to 1.2%, compared with the 0.5% we projected in our last report. We then expect output to rise at a broadly similar rate next year with economic activity in Northern Ireland forecast to increase by about 1.3% in 2025, a slight upward revision from the 1.2% we projected previously.

The reduction in the headline rate of inflation relative to the last few years, combined with strong wage growth and the loosening monetary policy environment is expected to provide some support to household spending power and the consumer-focused sectors of the economy over the next two years. Output in the **arts, entertainment & recreation** sector is expected to expand by around 1.9% in 2024 and by about 2.0% in 2025. The **accommodation & food service** and **wholesale & retail trade** sectors are also expected to be among the fastest growing over this year and next. Activity in these sectors is projected to rise by about 1.8% and 1.6% respectively in 2024, and then at rates above the average for the overall economy in 2025. Our projections for this relatively strong growth are supported by the Index of Services data with the broad sub-index for the wholesale & retail trade; repair of motor vehicles & motorcycles and accommodation & food service sector rising by 2.2% in the first quarter of this year.

The business services sectors are also projected to grow at relatively strong rates in 2024 and 2025. Output in the **professional, scientific & technical** services sector is forecast to rise by around 1.9% in 2024 and 2.0% in 2025 – the joint fastest growing sector in both years. We are also projecting that the **administrative & support** services and **information & communication** sectors will experience growth of about 1.6% and 1.5% respectively this year, and then 1.7% and 1.9% next year.

We are forecasting that output in the **manufacturing** sector will increase by around 1.0% in 2024 and 1.2% in 2025. Easing inflationary pressures, particularly for raw materials and energy, could provide upward support to this sector but growth could be limited by skills shortages. The **construction** sector is expected to see growth pick up next year, with the rate of output growth projected to increase from around 0.6% in 2024 to 1.3% in 2025.

Projected sector contributions to GVA growth in 2024



Sources: Oxford Economics, Danske Bank Analysis

GVA (%)	2024	2025
Professional, scientific & tech	1.9	2.0
Arts, entertainment & recreation	1.9	2.0
Accommodation & food service	1.8	1.8
Administrative & support	1.6	1.7
Wholesale & retail trade	1.6	1.7
Transportation & storage	1.5	1.8
Information & communication	1.5	1.9
Human health & social work	1.3	0.9
Public administration & defence	1.2	0.5
Education	1.1	0.8
Manufacturing	1.0	1.2
Real estate activities	0.9	1.2
Agriculture, forestry & fishing	0.9	1.3
Construction	0.6	1.3
Financial & insurance	0.6	1.4
Other service activities	0.4	1.6
Electricity, gas, steam & air	0.1	1.1
Mining & quarrying	-0.3	0.7
Water supply	-0.5	0.9
Total	**1.2**	**1.3**

Sources: Oxford Economics, Danske Bank Analysis

Northern Ireland labour market outlook

Labour market in Northern Ireland is expected to soften slightly but remain in a relatively robust position

The Northern Ireland labour market continues to show a degree of resilience. The number of employee jobs increased in the first quarter of the year, and the HMRC Pay As You Earn data showed a slight monthly increase in the number of payrolled employees in July. The unemployment rate fell to 1.9% in the April - June 2024 period — the lowest rate observed based on the available data series. However, there are some signs that the labour market may soften in the future with the employment rate declining in quarter two and confirmed redundancies in the year to July 2024 being just under double that for the previous twelve months. We also expect to see a degree of normalisation within the unemployment figures for Northern Ireland. We are projecting that the growth rate of the annual average number of employee jobs will slow to around 0.9% this year then remain at a similar rate of growth in 2025. These projections have been revised up from the 0.4% and 0.8% we projected previously.

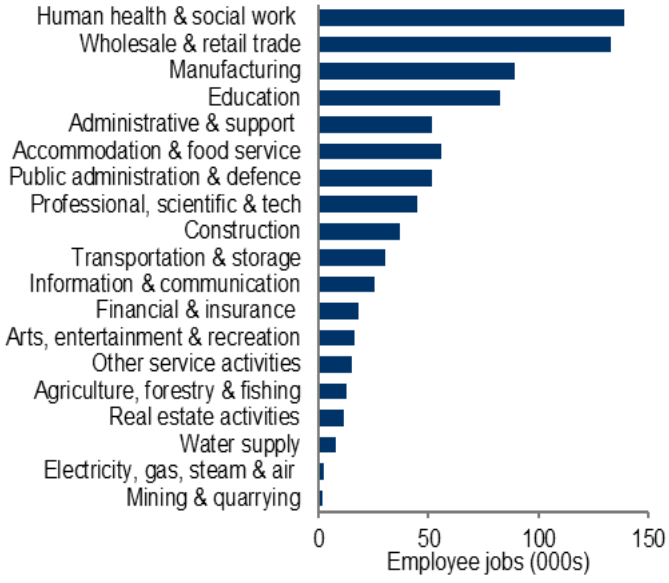
With the consumer-focused sectors of the economy expected to experience positive output growth, we also expect to see a rise in the annual number of employee jobs in some of these sectors. Data from the Quarterly Employment Survey showed that the number of jobs in the **wholesale & retail trade** sector increased by 1.1% in 2024 Q1. We expect that the number of employee jobs in this sector will continue to grow throughout the rest of the year and increase by an annual average growth rate of around 2.1% in 2024 and about 1.3% next year. The **arts, entertainment & recreation** sector is expected to experience an increase in employment of around 1.3% in 2024 and 1.6% in 2025. However, we are forecasting that employee jobs in the **accommodation & food service** sector will decline by around 0.4% in 2024 reflecting a weak start to the year when the number of jobs declined, before returning to annual growth of about 1.3% in 2025.

The **professional, scientific & technical services** sector is forecast to experience an increase in the average number of employee jobs of around 2.7% in 2024 and 1.6% in 2025. The average number of jobs in this sector increased strongly last year and in the first quarter of 2024. The **information & communication** sector is also projected to experience relatively strong employee jobs growth this year and next, at around 0.8% in 2024 and 1.6% in 2025. For the **administrative & support services** sector, we now expect an annual decline of about 2.8% in 2024 given the contractions in employment in the second half of last year and that employment was broadly flat in quarter one of this year.

The **construction** sector is projected to experience relatively strong employee jobs growth this year with an increase of around 4.3% with the rate of jobs growth projected to slow to about 0.8% in 2025. The **manufacturing** sector is projected to broadly maintain its annual level of jobs this year, with employment then projected to grow by a modest 0.2% in 2025.

Northern Ireland's **unemployment rate** was 1.9% in the April - June 2024 period, lower than in the previous three-month period and considerably lower than the UK rate of 4.2%. We are forecasting that the unemployment rate in Northern Ireland will average around 2.2% in 2024 then rise to about 2.6% in 2025.

Projected employee jobs per sector in 2024



Sources: Oxford Economics, Danske Bank Analysis

Employee jobs (%)	2024	2025
Transportation & storage	4.4	0.8
Construction	4.3	0.8
Real estate activities	4.3	0.6
Professional, scientific & tech	2.7	1.6
Wholesale & retail trade	2.1	1.3
Human health & social work	1.7	0.9
Water supply	1.5	-0.5
Arts, entertainment & recreation	1.3	1.6
Other service activities	1.1	0.9
Information & communication	0.8	1.6
Education	0.3	0.4
Manufacturing	0.0	0.2
Agriculture, forestry & fishing	0.0	0.1
Accommodation & food service	-0.4	1.3
Public administration & defence	-0.8	0.2
Financial & insurance	-1.8	0.5
Mining & quarrying	-2.2	-0.7
Electricity, gas, steam & air	-2.8	-0.5
Administrative & support	-2.8	1.7
Total	**0.9**	**0.9**

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:

- **Inflation increases** – UK CPI inflation returned to its 2% target in May and June, and remained reasonably close to its target in July, at 2.2%. However, there is a risk that inflation could increase again. Measures of underlying price pressures in the economy are still relatively elevated, despite being on a downward trajectory. Core inflation in July was 3.3% and services inflation was 5.2%. In addition, wage growth is also relatively high – the annual rate of growth in average regular earnings (excluding bonuses) was 5.4% in the April – June period. It is also worth noting that there are base effects underpinning some of the recent downward movements in headline inflation. If inflation were to rise again, perhaps driven by persistence in underlying price pressures, tightness in the labour market or external factors impacting commodity prices, the pace of economic growth could be constrained. Monetary policy may also need to remain more restrictive which could dampen economic activity.

- **Tightening fiscal policy** – Given the challenges around the UK public finances, the upcoming autumn Budget is expected to include a degree of fiscal tightening. There is still uncertainty around the extent to which fiscal policy could be tightened but if the policy environment becomes more restrictive than expected, it could weigh down on economic output levels.

- **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 Q2 Quarterly Economic Survey* published by the *Northern Ireland Chamber of Commerce and Industry* and *BDO* reported that 78% of the manufacturing businesses and 75% of the services firms that responded to the survey were facing difficulties when it came to recruiting employees, both of which are up from the 77% of manufacturing firms and 66% of services businesses reporting difficulties in the 2024 Q1 survey. While there are some signs of a softening in the labour market, competition for workers remains high. 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 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 Monday 9th September 2024.

The information in this document has been prepared in conjunction with Oxford Economics.

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