Northern Ireland Quarterly Sectoral Forecasts

Forecast summary

Economic growth in the UK slowed in the third quarter of the year, with the rate of expansion falling from 0.5% in quarter two to 0.1% in quarter three. We think that the Northern Ireland economy is likely to have grown again in the third quarter of the year but expect growth in both Northern Ireland and the wider UK to be softer in the second half of this year than it was in the first half of 2024. Looking forward, closer to target inflation and the projected further loosening of monetary policy are expected to support consumer spending but there are still likely to be some challenges that could weigh on economic growth. We are forecasting that the Northern Ireland economy will grow by around 1.1% this year and by about 1.4% in 2025.

Economic growth projections for 2024 revised slightly downwards but pace of growth expected to pick up in 2025

The rate of economic growth in the UK slowed to a modest 0.1% in the third quarter of 2024, following rises in output of 0.5% in quarter two and 0.7% in the first quarter of the year. In Northern Ireland, the Composite Economic Index data for the second quarter of 2024 showed a rise of 0.4%, representing a slowdown from the 1.6% expansion in quarter one. We think that economic output in Northern Ireland will have increased in quarter three. For both Northern Ireland and the wider UK, we expect the pace of growth in the second half of 2024 to be weaker than experienced in the first half of the year.

Looking forward into 2025, we expect the pace of growth to increase as closer to target rates of inflation and continued loosening of monetary policy provide some support to consumer expenditure while the measures announced in the Budget are also likely to lead to higher levels of government spending. However, despite expectations of continued easing, Bank of England Bank Rate is still expected to remain relatively high and the increase in tax announced within the Budget is also likely to lead to challenges for businesses.

In annual terms, we are forecasting that the Northern Ireland economy will grow by around 1.1% in 2024, a slight downward revision from the 1.2% estimate in our previous report. We then expect the pace of growth to pick up to about 1.4% in 2025.

The labour market is expected to weaken slightly in 2025 but to remain in a relatively robust position

The labour market in Northern Ireland continues to experience a degree of tightness, with the unemployment rate remaining relatively low throughout 2024. However, there are some signs of a potential softening on the horizon. The Quarterly Employment Survey showed that the quarterly rate of employee jobs growth slowed from 0.5% in the first quarter of the year to 0.2% in quarter two. The number of payrolled employees fell slightly over the month in October, after being broadly flat in August and September. In addition, the annual rate of growth in payrolled employees in October of 1.1% was the lowest since May 2021.

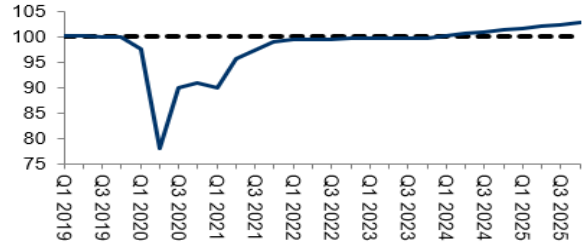
We also think that the long-term trend rate for unemployment in Northern Ireland is likely to be higher than the very low rates recorded recently, and that over the next couple of years the unemployment rate could normalise upwards.

We are forecasting that the annual average number of employee jobs in Northern Ireland will increase by around 0.9% in 2024 and about 0.8% in 2025. We are also projecting that the unemployment rate in Northern Ireland will average around 2.1% this year, before rising to an average of about 2.5% next year.

Forecast summary (%)			
	2023	2024	2025
UK GDP growth	0.3	0.9	1.4
NI GVA growth	0.2	1.1	1.4
NI employee jobs growth	1.9	0.9	0.8
NI unemployment rate	2.5	2.1	2.5
UK unemployment rate	4.0	4.3	4.4
UK CPI inflation rate	7.3	2.5	2.4

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

Closer to target inflation should continue to gradually support consumer spending

The rate of CPI inflation in the UK has normalised during 2024 to a rate closer to the 2% target but it did increase from 1.7% in September to 2.3% in October, largely driven by changes in energy prices. Underlying measures of price pressure, including core inflation – which excludes energy, food, alcohol and tobacco – and services inflation also remained relatively elevated at 3.3% and 5.0% respectively. Looking forward, the policies announced as part of the UK Budget could add some upward pressure to the rate of price rises. We expect the headline rate of inflation to average around 2.5% this year, the same as in our last report. We are then projecting that inflation will average about 2.4% in 2025, up from the 2.2% we expected previously. However, both of these forecasts are considerably lower than the 7.3% annual inflation experienced in 2023. This fall in the annual pace 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 projected to loosen further during 2025

The Bank of England's Monetary Policy Committee voted to reduce Bank Rate in November 2024 from 5.0% to 4.75%. With inflation now closer to target, we expect there to be additional downward movements in Bank Rate during 2025, but the pace of policy easing is likely to be gradual given the still relatively high levels of core inflation, services inflation and wage growth. Further easing of monetary policy is likely to provide 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.

Fiscal policy changes announced in the Budget to lead to higher government spending…

As part of the Budget, the Chancellor of the Exchequer announced significant increases in government spending, taxation and government borrowing. The rise in government spending is expected to support economic output levels in the UK. In Northern Ireland, the policies announced in the Budget are expected to provide increased funding for the Executive of around £640m for this financial year and about £1.5bn for the next financial year, however there is still expected to be some pressure on the public finances.

… but higher taxation is likely to present some challenges for businesses

The Budget also included a significant rise in the tax paid by businesses. The main tax increase announced was the rise in Employer's National Insurance Contributions. How this increase will impact the economy remains uncertain but potential impacts include businesses raising prices, scaling back on wage increases and recruitment and / or investing relatively less, which could weigh down on the pace of economic growth.

Labour market expected to soften but remain relatively resilient

The labour markets in Northern Ireland and the wider UK are both in a relatively resilient position. The unemployment rate in Northern Ireland has been around 2% so far during 2024 and between 4.0% and 4.5% in the wider UK, while average wage growth has also been relatively high. 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. We also expect the unemployment rate in Northern Ireland to normalise upwards. However, the projected increase in unemployment to an annual average of around 2.5% 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.

The outlook for the UK economy

GDP growth in the UK slowed to 0.1% in 2024 Q3, following a rise of 0.5% in the second quarter of the year. The expenditure data for the third quarter of the year showed that **government consumption** increased by 0.6% following growth of 1.1% in the previous quarter. Growth in **private consumption** rose by 0.5%, an increase from the 0.1% in the previous quarter. Growth in **total investment** also increased to 1.1%, with **business investment** increasing by 1.2%. Both **exports** and **imports** declined, with respective falls of 0.2% and 1.5% over the quarter.

On a monthly basis, GDP growth has been quite weak, with output rising in just one of the four months to September. In September, UK GDP declined by 0.1% over the month with **production** output falling by 0.5%. **Construction** activity rose by 0.1% and overall **services** output was flat, though there was some variation at the subsector level. For example, in the professional, scientific and technical activities subsector, output rose by 0.5% over the month, following growth of 1.8% in August. The wholesale & retail trade and accommodation & food services sectors also experienced increases in output over the month, though these followed declines in August. Activity declined in the information and communication, other services and the arts, entertainment & recreation sectors.

Looking forward and given the weaker growth experienced in the third quarter of the year, we have revised our forecast for annual UK GDP growth in 2024 downwards. We now expect GDP to grow by around 0.9% this year, down from 1.2% in our last report. We then expect the rate of output growth to rise to about 1.4% next year, up slightly from the 1.3% projected in our previous report. We are forecasting that the rate of growth of **private consumption** will be around 0.8% this year then increase to about 1.4% in 2025, as closer to target inflation and the expected further loosening of monetary policy provide some support to consumer spending. **Investment** is expected to rise by about 1.0% in annual terms both this year and next year. **Government consumption** is projected to grow by around 2.4% this year and then by about 2.7% in 2025, given the additional spending announced in the Budget.

The UK labour market remains in a relatively strong position. In the July – September 2024 period, the employment rate increased by 0.3 percentage points to 74.8% and the number of employee jobs increased by 0.2% in the second quarter of the year. However, the unemployment rate increased by 0.1 percentage points over the quarter to 4.3% in 2024 Q3 and the provisional estimate of the number of payrolled employees was marginally lower in October compared with the previous month. We are projecting that the growth rate of the annual average number of **employee jobs** in the UK will slow to around 0.9% in 2024 and 0.7% in 2025, and the annual **unemployment rate** will average around 4.3% in 2024 and 4.4% in 2025.

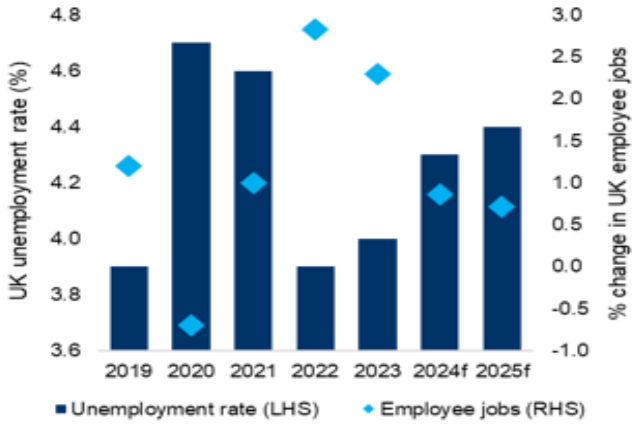
UK CPI **inflation** increased to 2.3% in October, up from 1.7% in September, largely due to changes in energy prices. We expect the annual rate of inflation to average around 2.5% in 2024 and about 2.4% in 2025.

UK GDP forecasts (%)

	2023	2024	2025
UK GDP growth	0.3	0.9	1.4
Private Consumption	0.7	0.8	1.4
Investment	-0.1	1.0	1.0
Government Consumption	0.6	2.4	2.7
Exports of Goods and Services	-2.2	-1.9	1.7
Imports of Goods and Services	-3.4	2.5	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 projection revised slightly downwards for 2024 but rate of growth expected to rise next year

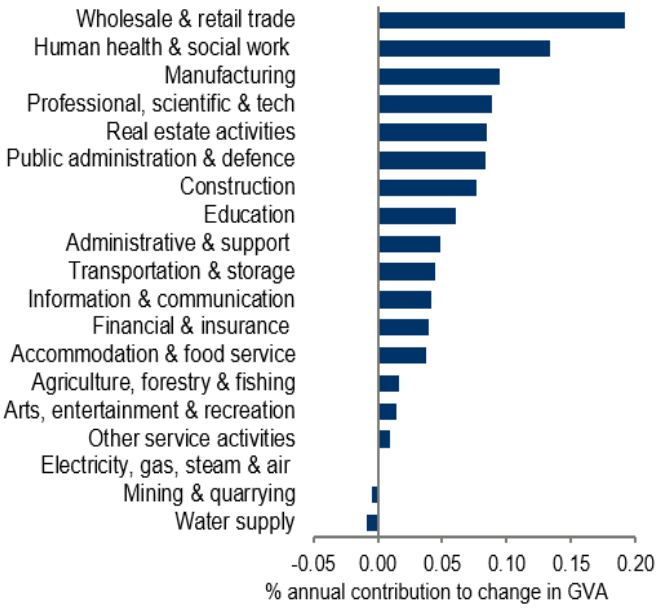
The Northern Ireland Composite Economic Index for 2024 Q2 showed an increase of 0.4% over the quarter, down from the 1.6% increase in the opening quarter of the year. We expect output to have increased in the third quarter of 2024 and think that the pace of growth in the second half of the year is likely to be slower than in the first half. For 2024 as a whole, we are forecasting that GVA in Northern Ireland will grow by around 1.1%, slightly lower than the 1.2% we projected in our last report but stronger than our expectation for UK GDP growth. We then expect the rate of economic growth to pick up in 2025 to about 1.4%, a slight upward revision from the 1.3% we projected previously.

The lower 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-orientated parts of the economy over the coming year. In addition, while the *Danske Bank Northern Ireland Consumer Confidence Index* declined in 2024 Q3, the index was at its second highest reading since the start of 2022, suggesting that there was more caution in quarter three but that there was still a reasonable level of confidence among consumers. Output in the **accommodation & food service** sector is expected to expand by around 1.5% in 2024 and by about 1.7% in 2025. Activity in the **wholesale & retail trade** and **arts, entertainment & recreation** sectors is projected to rise by around 1.4% and 1.3% respectively in 2024 then grow at a stronger pace than the overall economy in 2025. Our projections for relatively strong growth in these sectors 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 3.3% over the year to 2024 Q2.

The business services sectors are also forecast to grow at relatively strong rates in 2024 and 2025. The **professional, scientific & technical services** sector is expected to be the fastest growing in Northern Ireland both this year and next year with output projected to rise by around 1.8% in 2024 and 2.1% in 2025. We are also forecasting that the **information & communication** and **administrative & support services** sectors will experience growth of about 1.4% and 1.5% respectively this year, and then 2.0% and 1.9% next year.

We are projecting that output in the **manufacturing** sector will increase by around 0.8% in 2024 and about 1.4% in 2025. Lower inflationary pressures, particularly for energy and raw materials, could provide upward support to this sector but growth could be constrained by other cost pressures and skills shortages. The **construction** sector is also expected to see the pace of growth increase next year, with the rate of expansion forecast to rise from around 0.9% this year to 1.5% next year.

Projected sector contributions to GVA growth in 2024



Sources: Oxford Economics, Danske Bank Analysis

GVA (%)	2024	2025
Professional, scientific & tech	1.8	2.1
Accommodation & food service	1.5	1.7
Administrative & support	1.5	1.9
Information & communication	1.4	2.0
Wholesale & retail trade	1.4	1.7
Arts, entertainment & recreation	1.3	1.6
Transportation & storage	1.3	1.6
Public administration & defence	1.2	0.7
Human health & social work	1.1	1.1
Education	1.1	1.0
Construction	0.9	1.5
Agriculture, forestry & fishing	0.9	1.4
Manufacturing	0.8	1.4
Financial & insurance	0.8	1.4
Real estate activities	0.7	1.3
Other service activities	0.6	1.8
Electricity, gas, steam & air	0.0	1.0
Water supply	-0.7	1.2
Mining & quarrying	-0.7	0.7
Total	**1.1**	**1.4**

Sources: Oxford Economics, Danske Bank Analysis

Northern Ireland labour market outlook

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

The labour market in Northern Ireland is in a relatively strong position with low unemployment but showing some signs of a modest softening in jobs growth. The rate of growth in employee jobs slowed from 0.5% in 2024 Q1 to 0.2% in the second quarter of the year, according to the Quarterly Employment Survey (QES). In addition, the year-on-year growth rate of the number of payrolled employees was 1.1% in October 2024, the lowest since May 2021. We are projecting that the growth rate of the annual average number of **employee jobs** will slow to around 0.9% this year then about 0.8% in 2025.

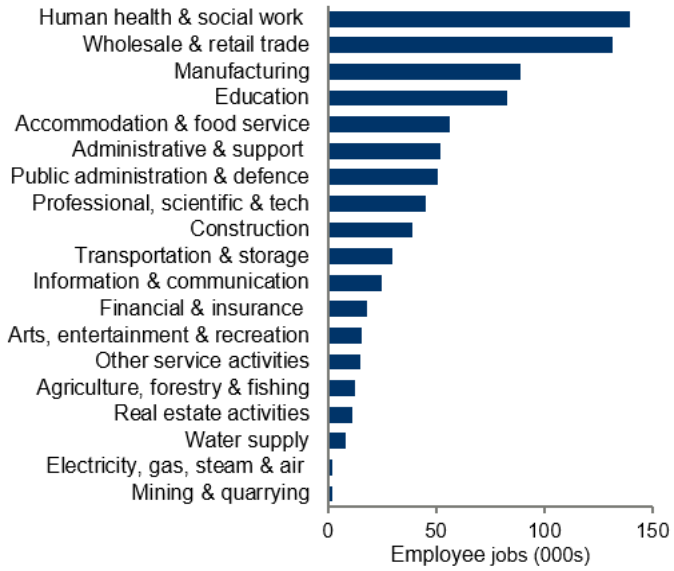
Employee jobs growth in the **construction** sector has been particularly strong according to the QES, rising by 10.8% over the year to 2024 Q2. As a result of the employment data and the strong increases in the construction output statistics for Northern Ireland in the first half of the year, we expect this sector to experience the fastest employment growth for 2024 as a whole of around 9.4%. We then expect the average number of employee jobs in the sector to rise by about 1.1% in 2025.

Looking at the consumer-focused sectors, the **wholesale & retail trade** sector is expected to experience a rise of around 1.1% in the average number of employee jobs in 2024, largely due to a relatively strong outturn in the data for the opening quarter of the year. Employment in the sector is then projected to rise by about 0.9% in 2025. The **accommodation & food service** sector is expected to see jobs growth pick up pace next year to around 1.1%, following the more modest increase of about 0.5% projected for 2024. The average number of employee jobs is projected to decrease by around 3.7% in the **arts, entertainment & recreation** sector in 2024. The QES shows that employment in the sector declined by 0.4% in quarter one and by a further 4.5% in the second quarter of the year. However, we are projecting that average employment in the sector will return to growth in 2025.

The outlook for the financial and business services sectors is relatively mixed. The **professional, scientific & technical services** sector is forecast to experience relatively strong jobs growth of around 3.4% this year then about 1.3% next year. For the **financial & insurance** sector, the QES data suggests that the number of jobs decreased in the first half of the year and so we expect the annual average number of employee jobs to fall by about 2.2% in 2024. We are also forecasting that the average number of jobs will decline in the **information & communication** and the **administrative & support services** sectors in 2024, though annual average employment is expected to increase in both sectors in 2025.

Northern Ireland's unemployment rate has been around 2% so far in 2024, below its long-term average and the rate in the wider UK. Looking forward, we expect to see a degree of normalisation within the unemployment figures and are forecasting that the **unemployment rate** in Northern Ireland will average around 2.1% in 2024 then rise to an average of about 2.5% in 2025.

Projected employee jobs per sector in 2024



Sources: Oxford Economics, Danske Bank Analysis

Employee jobs (%)	2024	2025
Construction	9.4	1.1
Water supply	3.4	0.4
Professional, scientific & tech	3.4	1.3
Real estate activities	2.2	0.3
Human health & social work	2.2	0.8
Transportation & storage	2.0	0.5
Electricity, gas, steam & air	2.0	0.8
Wholesale & retail trade	1.1	0.9
Accommodation & food service	0.5	1.1
Agriculture, forestry & fishing	0.4	0.1
Other service activities	0.4	0.8
Education	0.2	0.5
Manufacturing	0.0	0.1
Information & communication	-0.9	1.3
Public administration & defence	-1.8	-0.1
Administrative & support	-1.9	1.4
Financial & insurance	-2.2	0.3
Mining & quarrying	-3.3	-1.0
Arts, entertainment & recreation	-3.7	1.5
Total	**0.9**	**0.8**

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 inflation rose to 2.3% in October, slightly above its 2% target, largely due to changes in energy prices. We expect annual inflation to remain slightly above target and to average around 2.4% next year but there are risks to the outlook for the pace of price rises. Measures of underlying price pressures remain elevated, including core inflation and services inflation. Wage growth also remains relatively high, with the annual rate of growth in average regular earnings in Great Britain at 4.8% in the July – September period. If inflation was to run significantly higher than expected, potentially due to persistence in underlying price pressures, impacts from the recent UK Budget measures or external factors such as a rise in commodity prices or disruption to supply chains, the pace of economic growth could be constrained. Monetary policy may also need to remain more restrictive which could dampen economic activity.

- **Higher taxation weighs more heavily than expected on businesses** – As part of the Budget, an increase in the tax paid by businesses was announced with Employer's National Insurance Contributions set to rise. There are a number of channels through which this could impact the wider economy including relatively slower recruitment and business investment and there is uncertainty around the potential scale of these impacts. If the tax rise was to weigh more heavily than expected on businesses, with resulting larger adverse impacts on firms' recruitment and investment decisions, this could weigh down on the pace of economic growth.

- **Skills shortages and recruitment challenges** – Across the economy, many firms are still struggling to fill job vacancies with the skills that they require. The *2024 Q3 Quarterly Economic Survey* published by the *Northern Ireland Chamber of Commerce and Industry* and *BDO* reported that 80% of the manufacturing businesses and 76% of the services firms that responded to the survey were facing difficulties when it came to recruiting staff. While there is some evidence of a softening in the labour market, competition for employees 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 growth.

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

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