

Northern Ireland Quarterly Sectoral Forecasts

Forecast summary

Economic growth in the UK lost momentum in the second half of 2024, and the overall annual growth rate was a relatively modest 0.9%. The Northern Ireland economy is also estimated to have grown last year, at a rate slightly stronger than the wider UK. In 2025, economic growth is expected to remain modest, reflecting the lack of momentum in the economy, the expectation that inflation may run somewhat higher than previously anticipated, the increase in business costs arising from the UK autumn Budget and elevated uncertainty stemming from emerging global risks. However, further gradual easing of monetary policy and increased government spending may provide some support to the pace of economic expansion. We are forecasting that the UK and Northern Ireland economies will both grow by around 0.9% in 2025 and by about 1.4% next year.

Economic growth expected to remain modest in 2025

For the UK economy, 2024 was a year of two halves, as economic activity expanded strongly in the first half of the year but grew much more modestly in the second half. In annual terms UK GDP rose by 0.9% last year and we estimate that GVA in Northern Ireland expanded by a slightly stronger 1.1%.

Looking to 2025, we expect the rate of growth to remain relatively modest. Additional government spending following the announcements in the autumn Budget may support output levels. The expected continued loosening of monetary policy should also gradually support household and business spending. However, inflation is forecast to be higher than previously anticipated which could weigh on spending power, while the impact of previous price rises is continuing to weigh on consumers. The upcoming increase in business taxes may negatively impact on investment and recruitment while heightened global uncertainties could also drag on spending and investment levels.

In annual terms, we are forecasting that the Northern Ireland economy will grow by around 0.9% in 2025, a downward revision from the 1.4% projection in our previous report, in part to reflect the rising inflationary risks and heightened uncertainty levels. We then expect the pace of growth to pick up to around 1.4% in 2026.

Northern Ireland's labour market remains resilient, but jobs growth is projected to slow this year

The labour market in Northern Ireland continued to show resilience throughout 2024. The Quarterly Employment Survey showed that the quarterly rate of employee jobs growth accelerated from 0.1% in the second quarter of 2024 to 0.9% in the third quarter. Furthermore, the unemployment rate fell to a record low of 1.6% in 2024 Q4. The HMRC Pay As You Earn data also showed continued growth in the number of payrolled employees, up 0.2% over the month in January and 1.0% higher than in January 2024.

While we anticipate that the labour market will remain relatively tight in 2025, the pace of annual employee jobs growth is expected to slow from an estimated 1.2% in 2024 to about 0.5% in 2025. This reflects a moderation from a relatively strong year in 2024 and an expectation of more modest hiring activity, potentially in the more labour-intensive sectors as businesses respond to the increased costs arising from the autumn Budget. We are projecting that the rate of jobs growth will increase slightly to about 0.6% in 2026 given the stronger expected pace of economic output growth.

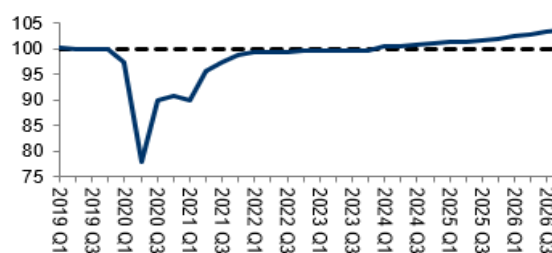
We also think that the long-term trend rate for unemployment in Northern Ireland is likely to be higher than the very low rates recorded recently, and that over the next couple of years the unemployment rate could start to normalise upwards.

We are forecasting that the unemployment rate in Northern Ireland will average around 2.0% this year, before rising to an average of about 2.4% next year – still relatively low compared to its historical average and the wider UK figure.

Forecast summary (%)			
	2024	2025	2026
UK GDP growth	0.9	0.9	1.4
NI GVA growth	1.1	0.9	1.4
NI employee jobs growth	1.2	0.5	0.6
NI unemployment rate	1.8	2.0	2.4
UK unemployment rate	4.3	4.5	4.5
UK CPI inflation rate	2.5	3.2	2.5

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

Monetary policy is projected to loosen further during 2025



The Bank of England's Monetary Policy Committee (MPC) continued its policy loosening in February 2025, reducing Bank Rate from 4.75% to 4.5%. However, its accompanying Monetary Policy Report projected that inflation would rise this year more than the MPC had previously forecast, and that the pace of economic growth would be weaker than previously expected. While inflation is now projected to run higher this year, it is still considerably lower than experienced over recent years and the current stance of monetary policy remains restrictive. As such, we expect the MPC to continue to gradually reduce Bank Rate during this year, providing some support to household spending and business investment. However, it's important to note that the overall policy rate is still expected to be higher than households and businesses have experienced over much of the past 15 years.

Government spending to support growth but fiscal rules may lead to further policy changes



In the autumn 2024 Budget, the Chancellor of the Exchequer announced significant increases in UK government spending, taxation and public borrowing. In Northern Ireland, the policies announced in the Budget are expected to provide increased funding for the Executive of around £640 million for the current financial year and about £1.5 billion for the 2025/26 financial year. The increase in government consumption is expected to positively impact the pace of economic growth in 2025. However, given the modest performance of the UK economy in recent quarters, the higher cost of government borrowing and the limited fiscal headroom that the Chancellor had to meet the UK's fiscal rules at the time of the last Budget, there is the possibility that further policy action – such as a squeeze on government spending – may be implemented to remain in line with the fiscal commitments. While government spending is still expected to support economic growth, the extent of the anticipated positive contribution over the medium term could depend on what the Government announces at the Spring Statement and what the Office for Budget Responsibility's projections show with regards to the fiscal rules.

Higher taxation is likely to present challenges for businesses



The UK Budget last autumn included a significant rise in the tax paid by businesses. The main tax rise announced was the increase in Employers' National Insurance Contributions, which will take effect from April 2025. The potential economic impacts of this increase in tax include businesses raising prices, scaling back on pay rises and recruitment, and reducing investment levels, all of which could dampen economic activity.

Inflation remains closer to target but is now expected to run higher than previously anticipated



The rate of CPI inflation in the UK rose to 3% in January, up from 2.5% in December. Underlying measures of price pressures, including core inflation – which excludes energy, food, alcohol and tobacco – and services inflation also increased in the first month of this year, to 3.7% and 5.0% respectively. Looking forward, we expect inflation to average around 3.2% this year, up from 2.4% in our last report, as factors including higher energy and utility prices, global pressures and increased business costs put upward pressure on the pace of price rises. While this annual forecast would represent a much lower projection than the 9.1% experienced in 2022 and the 7.3% observed in 2023, it is higher than the 2.5% rate of inflation in 2024 and could add some pressure to household spending power relative to what we had expected previously. For 2026, we are projecting that the annual average rate of inflation will come down to about 2.5%.

Emerging global developments are leading to higher uncertainty levels



During the first part of 2025, there have been a number of global and geopolitical developments that are leading to elevated uncertainty levels. The US Government has announced, and begun to implement, its intention to levy tariffs on goods from a number of countries, leading to uncertainty around the outlook for global trade. Ongoing geopolitical uncertainty also remains elevated, including regarding the war in Ukraine and developments in the Middle East. High levels of global uncertainty have the potential to weigh on spending and business investment levels, while restrictions placed on global trade could also weigh on the pace of economic growth.

The outlook for the UK economy

The UK economy experienced a mixed year in terms of growth in 2024. In quarter one, the economy expanded by 0.8%, in part reflecting the recovery from the technical recession at the end of the previous year. However, the economy lost some momentum in quarter two when growth slowed to 0.4% and then in quarter three there was no increase in economic output. While growth picked up in the final quarter of the year, the expansion was a marginal one of just 0.1%. Overall, this resulted in annual GDP growth of 0.9%, an improvement on the 2023 growth rate, but still modest compared to the long-term trend rate. The latest expenditure data for the final quarter of last year showed that growth in **government consumption** was positive throughout 2024 and rose by 0.8% in quarter four. After three consecutive quarterly rises, **private consumption** contracted by 0.1% in the last quarter of the year. **Investment** also contracted by 0.9%, with business investment falling by 3.2%. **Exports** experienced its third consecutive quarterly contraction, falling by 2.5%, while **imports** grew by 2.1%.

On a monthly basis, following marginal declines in September and October, UK GDP grew by 0.1% in November and by 0.4% in December. The main driver of December's growth was a 0.4% increase in **services** output. The smaller **production** sector also made a positive contribution to growth, with output expanding by 0.5%. However, **construction** activity contracted by 0.2%.

In 2025, we expect the pace of economic growth in the UK to remain relatively modest at around 0.9%. This reflects a downward revision from our previous report as we account for the weak end to 2024, the higher rate of inflation and the global risks to the outlook. The rate of growth of **private consumption** is forecast to be around 1.0% this year, 0.4 percentage points lower than in our last report, as higher than expected inflation is projected to weigh on household purchasing power. We then expect it to grow by 1.4% in 2026 as inflation trends downwards and to reflect the expected further loosening of the monetary policy stance. **Investment** is expected to rise by just 0.5% in 2025, in part due to the impact of elevated uncertainty on business investment, but then expand by about 1.9% in 2026. Given the additional public spending announced in the Budget, **government consumption** is projected to grow by around 2.4% this year before the rate of growth is expected to slow to about 1.5% next year.

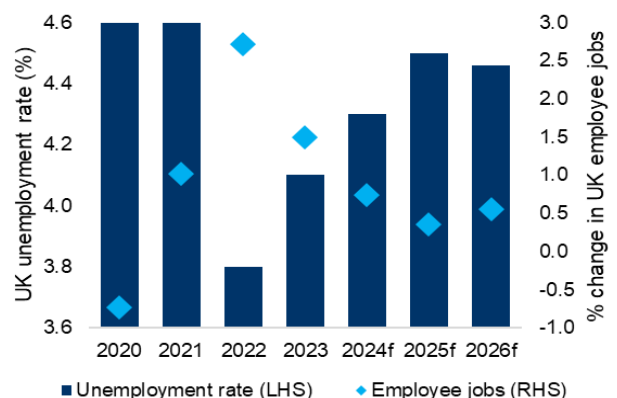
The UK labour market remains broadly stable, despite showing signs of a slowdown in recent quarters. After growing by 0.3% in the first quarter of 2024, the expansion in the number of employee jobs slowed to 0.1% in each of the following two quarters. The number of payrolled employees reached an all-time high in October 2024 but then contracted in November and December. The unemployment rate also increased by 0.1 percentage points in both quarter three and quarter four to end the year at 4.4% and the number of vacancies decreased in the three months to January 2025, continuing the downward trend that started in mid-2022. We are projecting that annual average **employee jobs** growth in the UK will slow from an estimated 0.7% in 2024 to around 0.4% in 2025. However, we are then forecasting that annual jobs growth will rise slightly to about 0.5% in 2026. We expect the **unemployment rate** to average around 4.5% in 2025 and 2026.

UK CPI **inflation** both finished the year and averaged 2.5% in 2024 but then rose to 3.0% in January. We expect inflation to remain elevated throughout this year and are forecasting that it will average around 3.2% in 2025 then come down to about 2.5% in 2026.

UK GDP forecasts (%)			
	2024	2025	2026
UK GDP growth	0.9	0.9	1.4
Private Consumption	0.7	1.0	1.4
Investment	1.3	0.5	1.9
Government Consumption	2.0	2.4	1.5
Exports of Goods and Services	-2.2	-1.1	1.4
Imports of Goods and Services	1.6	0.3	1.6

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 down for 2025 as inflation, business taxes and global factors weigh on the outlook

We estimate that the Northern Ireland economy expanded by around 1.1% in 2024, slightly stronger than the wider UK economy. Economic growth picked up as challenges including high inflation and elevated interest rates began to ease. For 2025, we are forecasting that GVA in Northern Ireland will grow by around 0.9%, lower than the 1.4% we projected in our last report and in line with our expectation for UK GDP growth. We then expect the rate of growth to pick up in 2026 to about 1.4%, as the expected loosening of monetary policy and easing inflation support the pace of growth.

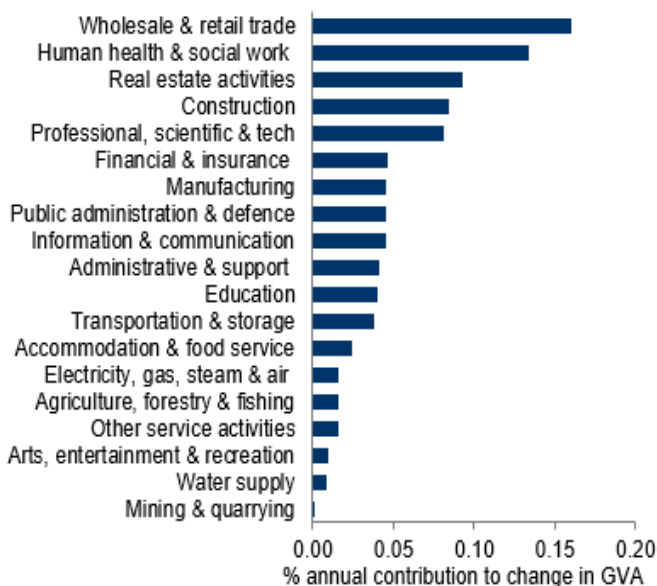
The business services sectors, which are traditionally strong performers in Northern Ireland, are expected to experience the strongest rates of GVA growth this year and next. The **professional, scientific & technical services** sector is expected to experience output growth of around 1.6% in 2025 and growth of about 2.2% in 2026. The **information & communication** and **administrative & support services** sectors are expected to experience growth of about 1.5% and 1.2% respectively this year, then above 2% next year.

The projected continued loosening of monetary policy, lower inflation than experienced in recent years, strong wage growth and a resilience in consumer confidence are factors that could positively impact the consumer-focused sectors of the economy in 2025 and 2026. The *Danske Bank Northern Ireland Consumer Confidence Index* increased in the final quarter of 2024, with sentiment related to people’s current finances, future finances and expected spending on expensive items all improving. Output in the **wholesale & retail trade** sector is expected to expand by around 1.1% this year and by about 1.7% next year. Growth in the **accommodation & food service** sector is projected to be just slightly slower, at around 1.0% in 2025 followed by 1.6% in 2026. Meanwhile, the **arts, entertainment & recreation** sector is expected to experience a slightly slower pace of growth.

With additional government spending in the 2025/26 financial year as a result of the autumn Budget announcements, output in the public sectors may see an uplift. Output in the **human health & social work** sector is forecast to grow by around 1.1% in 2025 and 1.3% in 2026. The **education** and the **public administration & defence** sectors are also forecast to experience positive growth this year, but have a slightly weaker outlook for 2026.

The **manufacturing** sector has faced a number of challenges in recent years including skills shortages, higher input costs and a weakness in global demand. While the Northern Ireland Index of Production data showed an increase in activity over the quarter in 2024 Q3, manufacturing output was still 1.6% lower than in 2023 Q1. Given continued uncertainties and the challenging investment outlook, we expect recent trends in the manufacturing sector to continue in 2025. Activity in the sector is expected to grow by around 0.4% this year, with the pace of growth then projected to rise to about 1.4% in 2026. The **construction** sector is expected to experience a stronger performance with output projected to rise by around 1.0% in 2025 and about 1.5% in 2026. The Northern Ireland Quarterly Construction Bulletin showed a strong rise in output in the third quarter of 2024.

Projected sector contributions to GVA growth in 2025



Sources: Oxford Economics, Danske Bank Analysis

GVA (%)	2025	2026
Professional, scientific & tech	1.6	2.2
Information & communication	1.5	2.3
Administrative & support	1.2	2.1
Wholesale & retail trade	1.1	1.7
Human health & social work	1.1	1.3
Transportation & storage	1.1	1.7
Other service activities	1.1	1.7
Construction	1.0	1.5
Electricity, gas, steam & air	1.0	1.5
Accommodation & food service	1.0	1.6
Arts, entertainment & recreation	0.9	1.3
Financial & insurance	0.9	1.4
Real estate activities	0.8	1.3
Agriculture, forestry & fishing	0.8	1.2
Education	0.7	0.6
Water supply	0.7	1.2
Public administration & defence	0.6	0.4
Manufacturing	0.4	1.4
Mining & quarrying	0.2	0.5
Total	0.9	1.4

Sources: Oxford Economics, Danske Bank Analysis

Northern Ireland labour market outlook

Employee jobs growth may slow in 2025, but the unemployment rate is expected to remain relatively low

In Northern Ireland, many of the labour market indicators remain in a strong position. The rate of growth in employee jobs accelerated from 0.1% in 2024 Q2 to 0.9% in the third quarter of the year, according to the Quarterly Employment Survey, bringing the number of employee jobs to an all-time high. In addition, the unemployment rate fell by 0.1 percentage points to 1.6% in October – December 2024, a series low. The year-on-year growth rate of the number of payrolled employees – based on the HMRC Pay As You Earn data – was 1.0% in January 2025, positive but suggesting a slight slowdown in jobs growth compared to recent years. The additional costs that businesses will face in terms of the rise in National Insurance Contributions and the National Living Wage from April has increased uncertainty regarding the short-term movements in the labour market. We are projecting that the growth rate of the annual average number of **employee jobs** will slow to around 0.5% this year and then increase slightly to 0.6% in 2026 as economic growth strengthens.

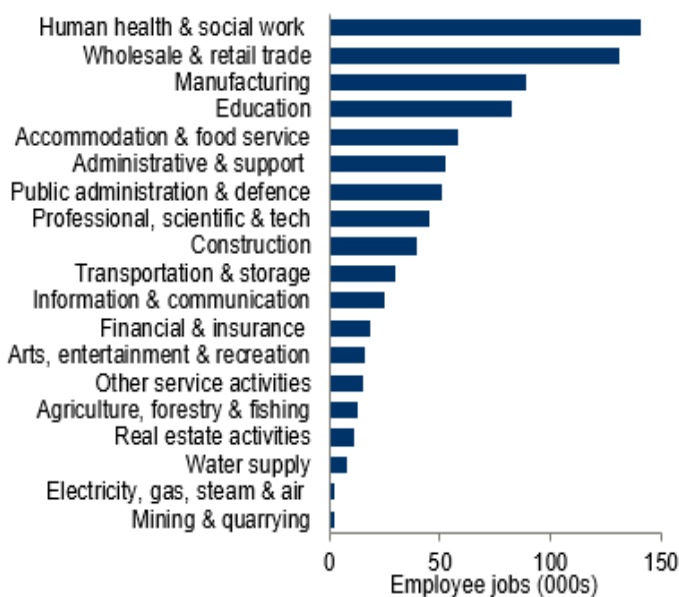
In line with the outlook for output growth, the business services sectors are expected to be among the strongest performing sectors in terms of employment growth over the next two years. The **professional, scientific & technical services** sector is expected to experience a rise in the annual number of employee jobs of around 1.2% this year, and the **administrative & support services** sector is set to follow closely with jobs growth of about 1.0%.

With economic activity expected to rise across the consumer-focused sectors this year, we expect to see an associated increase in the number of jobs. However, the employment outlook for these sectors is slightly more modest as we account for the impact that rising business costs may have on these more labour-intensive sectors. The **accommodation & food service** and **arts, entertainment & recreation** sectors are expected to experience employee jobs growth of around 0.7% in 2025, while the **wholesale & retail trade** sector is projected to see a more modest increase of about 0.4% this year.

Employee jobs growth in the **construction** sector is expected to outpace the average for the overall economy this year. The sector experienced a significant 9.3% increase in jobs over the year to 2024 Q3. Meanwhile, we are forecasting that the annual average number of employee jobs in the **manufacturing** sector will fall modestly as skills shortages, the subdued investment backdrop, increasing costs and continuing automation affect employment in the sector. The annual average number of employee jobs is projected to decline by about 0.2% this year and around 0.4% in 2026.

Northern Ireland’s unemployment rate was less than 2% in the last three quarters of 2024, below its long-term average and the rate in the wider UK. Looking forward, we expect to start to see a degree of normalisation within the unemployment figures, although the rate is likely to remain relatively low. We are forecasting that the **unemployment rate** in Northern Ireland will average around 2.0% in 2025 then rise to an average of about 2.4% in 2026.

Projected employee jobs per sector in 2025



Sources: Oxford Economics, Danske Bank Analysis

Employee jobs (%)	2025	2026
Professional, scientific & tech	1.2	1.5
Administrative & support	1.0	1.7
Construction	1.0	1.3
Human health & social work	0.9	0.8
Information & communication	0.8	1.1
Accommodation & food service	0.7	0.9
Arts, entertainment & recreation	0.7	0.7
Other service activities	0.5	0.6
Wholesale & retail trade	0.4	0.8
Transportation & storage	0.4	0.8
Mining & quarrying	0.3	-0.3
Real estate activities	0.2	0.1
Agriculture, forestry & fishing	0.1	0.1
Education	0.0	0.2
Financial & insurance	0.0	0.3
Electricity, gas, steam & air	-0.1	-0.4
Public administration & defence	-0.2	-0.6
Manufacturing	-0.2	-0.4
Water supply	-0.2	0.2
Total	0.5	0.6

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 at a faster pace** – UK CPI inflation rose further above its 2% target in January to 3%, up from 2.5% in December. We expect inflation to average around 3.2% this year, but there are current and emerging risks that could lead to inflation rising at a faster pace. Core and services inflation, measures of underlying price pressures, remain higher than the headline rate and wage growth also remains relatively elevated, with the annual rate of growth in average regular earnings in Great Britain estimated at 5.9% in the October–December 2024 period. These factors point to the potential for persistence in the domestic price pressures evident in the economy. Other risks to the outlook for inflation include the uncertainty that exists around future energy prices, particularly given how they can be impacted by geopolitical developments. In addition, there is elevated uncertainty regarding the extent to which businesses may pass on the additional costs arising from the increase in Employers' National Insurance Contributions (NICs) and the National Living Wage to the prices of goods and services paid by customers. The risk of increased restrictions to global trade flows could also lead to inflationary pressures. If inflation were to come in higher than expected, more pressure could be exerted on household purchasing power and that could weigh down on the pace of economic growth. 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 autumn Budget, an increase in the tax paid by businesses was announced with Employers' NICs set to rise from April 2025. 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 businesses are still struggling to fill job vacancies with the skills they require. The *2024 Q4 Quarterly Economic Survey* published by the *Northern Ireland Chamber of Commerce and Industry and BDO* reported that over 75% of the manufacturing and services firms that responded to the survey were facing difficulties when it came to recruiting employees. We expect competition for staff to remain high this year as the unemployment rate remains low and the number of jobs continues to grow. 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.
- **Global developments weigh on growth** – The global political and economic landscape is particularly uncertain at this time. The US Government has announced the introduction of tariffs on a number of countries and specific industries. Tariffs increase costs for businesses that import materials or goods, which could be inflationary or may cause disruptions in supply chains and ultimately weigh on economic growth. Countries impacted by tariffs may implement retaliatory trade policies which could further impact on global trade flows. If tariffs are higher and more widely applied than expected, global trade will likely be weaker than anticipated, and the UK and NI economies could be adversely affected, either directly or indirectly. Geopolitical uncertainty also remains elevated, particularly around the war in Ukraine and developments in the Middle East.

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This report takes account of events and economic data published up to Tuesday 11th March 2025.



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