

Northern Ireland Quarterly Sectoral Forecasts

Forecast summary

Global uncertainty levels have been particularly elevated during the first half of 2025 and this has likely been a contributor to the mixed performance of the UK and Northern Ireland economies. UK GDP grew strongly in the first quarter of 2025 but increased activity ahead of potential US tariff announcements likely drove some of this increase with the rate of economic growth in the first quarter of the year unlikely to be maintained over the rest of 2025. The monthly data showed a fall in economic output in April. Looking forward, global uncertainty levels are expected to continue to weigh on economic activity, the Autumn 2024 Budget announcements have now taken effect and are putting pressure on business costs and inflation is running above target. The combination of these factors means that economic growth in the UK and Northern Ireland is projected to remain modest in 2025 and 2026. However, the expected continued easing of monetary policy is likely to give some support to consumer spending and business investment. We are forecasting that the UK and Northern Ireland economies will both grow by around 1.0% in 2025 and by about 1.1% in 2026.

Economic growth expected to remain modest as uncertainty persists

The UK economy experienced a relatively strong start to the year, with GDP in the first quarter of 2025 expanding by 0.7%. In contrast, the Northern Ireland Composite Economic Index reported a contraction of 0.6% over the same period.

Looking forward, we have marginally raised our forecast for UK GDP growth in 2025 to around 1.0%, reflecting the stronger than expected expansion in the first quarter of the year. However, more recent monthly data suggested that output contracted in April, and the outlook for the rest of this year and 2026 is likely to remain challenging. Global uncertainty, relating to both trade policy and wider geopolitical developments, looks set to remain elevated. In addition, the economy is also facing several domestic headwinds including increased business costs and above target inflation. As a result, we expect the overall economic growth rate to remain relatively modest in 2026, rising slightly to about 1.1%. However, this is below the 1.4% we projected in our previous report.

In Northern Ireland, we are projecting that annual economic output will grow by around 1.0% in 2025, reflecting a slight upward revision from our previous forecast of 0.9%. We then expect the economy to grow by about 1.1% in 2026, down from the 1.4% forecast in our last report.

Northern Ireland's unemployment rate remains low and jobs growth is expected to continue

Northern Ireland's labour market showed signs of continued resilience at the start of 2025. The Quarterly Employment Survey data showed that employee jobs increased by 1.0% in the first quarter of 2025, a higher rate of growth than the 0.3% observed in the final quarter of 2024.

However, there are some signs that the labour market could be beginning to soften. The HMRC Pay As You Earn data suggests that payrolled employees decreased slightly in both April and May. The increase in business costs and global uncertainty may have adversely impacted employment levels. While the unemployment rate remained very low at 1.8% in the February – April period, this was higher than the 1.5% recorded in the previous three-month period.

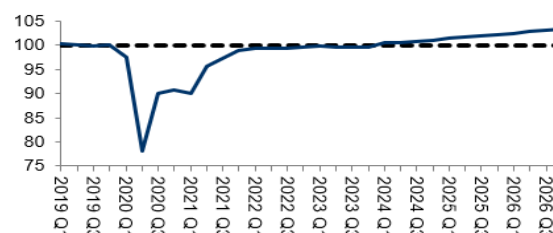
Looking ahead, we expect the annual average number of employee jobs in Northern Ireland to grow by around 1.4% in 2025, which reflects the strong data for quarter one but also our expectation that the data from quarter two onwards will be softer. We then expect the pace of annual jobs growth to slow in 2026 to around 0.4%. In addition, we are projecting that the unemployment rate in Northern Ireland will remain low, averaging about 1.9% this year, then rising to around 2.2% in 2026.

Forecast summary (%)

	2024	2025	2026
UK GDP growth	1.1	1.0	1.1
NI GVA growth	1.1	1.0	1.1
NI employee jobs growth	1.1	1.4	0.4
NI unemployment rate	1.8	1.9	2.2
UK unemployment rate	4.3	4.7	4.9
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

Further loosening of monetary policy is expected in 2025 and 2026

The Bank of England's Monetary Policy Committee (MPC) continued its policy loosening in May, reducing Bank Rate by a further 25 bps to 4.25% and then maintained this rate in June. Although inflation is expected to run higher than target throughout the rest of this year and some upside risks to price pressures remain, the narrative in the May Monetary Policy Report noted the progress on disinflation over the past number of years and highlighted the expectation that inflation will begin to decline after 2025 Q3. As a result, we expect the MPC to continue to reduce Bank Rate in a slow and gradual manner throughout the rest of 2025 and into 2026, providing some support to household spending and business investment. However, it is important to note that the overall policy rate is expected to remain higher than has been experienced over much of the past 15 years.

Government spending to support growth but fiscal policy uncertainty is likely to persist

In the Autumn Budget last year, the Chancellor of the Exchequer announced significant increases in UK government spending, taxation and public borrowing. The recent UK Spending Review outlined where government spending is set to be prioritised over the next few years, but day-to-day expenditure is likely to remain relatively constrained. In Northern Ireland, the Spending Review provided clarity around the funding that will be available to the Executive over the coming years. However, in the years to the end of the Spending Review period, day-to-day spending is likely to see only modest real terms increases and so the current public finance pressures in Northern Ireland are likely to persist. At the aggregate level, UK government spending is expected to support economic growth but the limited fiscal headroom that the Chancellor has to meet the fiscal rules means that uncertainty around potential fiscal policy tightening is likely to persist.

Challenges for businesses mount following tax rises

The increase in Employers' National Insurance Contributions - as announced in last Autumn's Budget - came into effect in April 2025, putting pressure on businesses. The potential economic impacts of this increase in tax include businesses raising prices, scaling back on pay rises and recruitment, and reducing investment, all of which may weigh on the pace of economic growth.

Inflation remains above target, with previous price rises exerting pressure on households

The rate of CPI inflation in the UK has moved upwards and remained above target at 3.4% in May. Underlying measures of price pressure, including core inflation - which excludes energy, food, alcohol and tobacco - and services inflation also remained elevated at 3.5% and 4.7% respectively. Looking forward, we expect inflation to average around 3.2% this year but the lingering impact of higher prices are continuing to weigh on consumers. The *Danske Bank NI Consumer Confidence Index* for 2025 Q1 showed that 39% of survey respondents pointed to the impact of higher prices on household budgets as having the largest negative impact on consumer confidence. In 2026, we expect the average rate of inflation to slow to around 2.5%.

Global developments are increasing uncertainty

The first half of 2025 has been marked by an increase in uncertainty in the global trading and foreign policy environment. The US Government has announced tariffs on goods including a 10% baseline tariff and a range of higher tariffs on specific countries, which at the time of writing are currently on pause until early July with uncertainty about what will happen when the pause ends. For the UK, a targeted UK-US agreement has been signed which will reduce tariffs for certain goods including cars and with tariffs on steel and aluminium subject to further negotiation. However, despite the agreement, the 10% baseline tariff continues to apply to most UK goods. In addition to trade policy, the geopolitical and foreign policy environment is also highly uncertain given the ongoing war in Ukraine and developments in the Middle East. The high levels of geopolitical and trade policy uncertainty are likely to weigh on the pace of economic growth.

The outlook for the UK economy

The UK economy has experienced a mixed start to the year, with economic output expanding by 0.7% in the first quarter followed by a monthly decline of 0.3% in April. Recovery from the subdued performance towards the end of 2024 and increased activity ahead of expected tariff announcements likely underpinned some of the strong outturn in the opening quarter of the year, but as a result we expect that the remainder of the year will see a much more subdued performance. In 2025 Q1, total **investment** grew by 2.9%, with a 5.9% increase in business investment more than reversing the fall observed in the previous quarter. Meanwhile, **government consumption** declined by 0.5%, following four consecutive quarterly increases and private consumption growth remained subdued at 0.2%. **Exports** grew by 3.5% following three quarterly contractions while **imports** experienced a second consecutive quarter of growth at 2.1%.

Monthly UK GDP data shows that economic activity was flat in January, before growing by 0.5% in February and 0.2% in March. The 0.3% contraction in activity in April was driven by a 0.4% decline in **services** activity and a 0.6% decrease in **production** output, but **construction** activity grew by 0.9% over the month.

Looking forward, we are projecting that the UK economy will grow by around 1.0% in 2025, accounting for the stronger than expected activity observed in the first quarter of the year and reflecting a modest upward revision from our previous report. We expect **investment** to grow by about 1.9% this year, then slow to around 0.7% growth in 2026 as the impacts of increased business taxation and uncertainty continue to weigh on business investment. We are projecting that **private consumption** will grow by around 1.0% this year before picking up to about 1.4% in 2026 as inflation eases and the monetary policy stance loosens further. The contraction of **government consumption** in quarter one has contributed to a more subdued expectation for the year ahead, but annual growth is expected to remain positive. We are forecasting growth in government consumption of around 1.4% in 2025, followed by an expansion of about 1.6% in 2026.

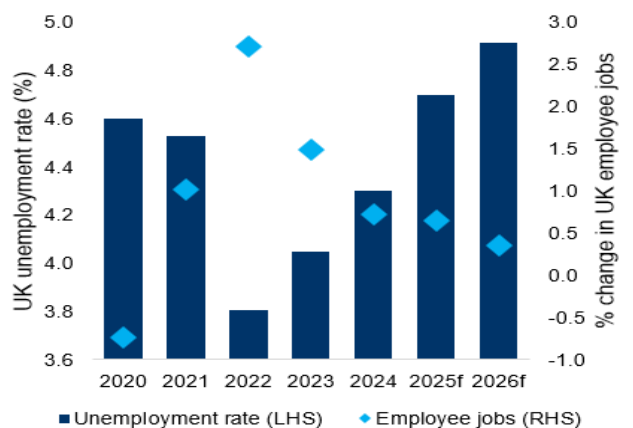
The number of employee jobs in the UK increased by 0.4% in the first quarter of 2025 but other labour market indicators have begun to show some signs of softening. HMRC Pay As You Earn data indicated that the number of payrolled employees declined by 0.4% between April and May and was down 0.9% compared with May 2024. The unemployment rate also climbed by 0.2 percentage points to 4.6% in the February - April 2025 period, while vacancies continued to decline in the March - May 2025 period. We expect the annual average number of **employee jobs** in the UK to grow by around 0.6% in 2025, with the pace of annual growth then projected to slow to about 0.4% in 2026. We are also forecasting that the **unemployment rate** will climb higher over the near term, averaging 4.7% in 2025 and 4.9% in 2026.

UK CPI **inflation** was 3.4% in May, ahead of the 2% target rate. We expect inflation to remain above target this year, averaging 3.2% annually, before coming down gradually to an average of about 2.5% in 2026.

UK GDP forecasts (%)			
	2024	2025	2026
UK GDP growth	1.1	1.0	1.1
Private Consumption	0.6	1.0	1.4
Investment	1.5	1.9	0.7
Government Consumption	3.0	1.4	1.6
Exports of Goods and Services	-1.2	1.2	0.5
Imports of Goods and Services	2.7	2.5	0.6

Sources: ONS, Oxford Economics, Danske Bank Analysis

UK labour market indicators



Sources: ONS, Oxford Economics, Danske Bank Analysis

Northern Ireland sectoral outlook

Economic growth expected to remain modest as challenges persist

The latest Northern Ireland Composite Economic Index for 2025 Q1 reported a decline of 0.6% over the quarter, following growth of 1.0% in the final quarter of 2024. We are forecasting that the Northern Ireland economy will grow by around 1.0% this year, 0.1 percentage points higher than expected in our last report, and then expand by about 1.1% in 2026, a downward revision from the 1.4% we projected previously.

We continue to expect the business services sectors to experience the fastest rates of output growth in 2025 and 2026. The **information & communication** sector is projected to be the fastest growing, with output expanding by around 1.9% this year and 1.8% in 2026, with growth in the **professional, scientific & technical services** sector following closely behind. Output in the **administrative and support services** sector is expected to grow by around 1.5% this year, with growth then projected to accelerate to about 1.8% in 2026.

The consumer-focused sectors of the economy are expected to grow in 2025 and 2026, supported by the projected continued loosening of monetary policy and a gradual decline in the rate of inflation. The *Danske Bank Northern Ireland Consumer Confidence Index* for the first quarter of 2025 showed resilience in confidence levels despite the uncertain environment, with the index reading unchanged from 2024 Q4 and improved sentiment around current finances and expected spending on expensive items. However, the lingering impacts of previous price rises continued to have a negative impact on confidence. We expect output in the **wholesale & retail trade** sector to grow by around 1.3% both this year and next. Output growth in the **accommodation & food service** sector is projected to be slightly slower, with activity rising by around 1.1% this year and about 1.2% in 2026. Meanwhile, growth in the **arts, entertainment & recreation** sector is projected to be weaker, with the expected pace of expansion below the average for the overall economy in 2025.

Government spending levels could provide some support to public sector growth. Output in the **human health & social work** sector is expected to grow by around 1.2% in 2025 and 2026. The **education** sector is projected to expand more modestly and the **public administration & defence** sector is expected to experience growth of around 0.7% in 2025 with the rate of expansion then forecast to slow to about 0.5% in 2026.

The **manufacturing** sector continues to face a number of challenges which may be impacting on activity levels, including heightened global uncertainty, skills shortages, input cost pressures and a softer investment outlook. The latest Northern Ireland Index of Production data showed that manufacturing activity declined in the first quarter of 2025. We expect output growth in the sector of around 0.4% in 2025 and about 1.0% in 2026. Meanwhile, **construction** activity is projected to increase at around the same pace as the overall economy this year.

Projected sector contributions to GVA growth in 2025



Sources: Oxford Economics, Danske Bank Analysis

GVA (%)	2025	2026
Information & communication	1.9	1.8
Professional, scientific & tech	1.8	1.7
Administrative & support	1.5	1.8
Wholesale & retail trade	1.3	1.3
Other service activities	1.2	0.9
Human health & social work	1.2	1.2
Transportation & storage	1.1	1.3
Accommodation & food service	1.1	1.2
Electricity, gas, steam & air	1.0	1.0
Agriculture, forestry & fishing	1.0	0.9
Construction	1.0	1.3
Real estate activities	1.0	1.1
Financial & insurance	0.9	1.1
Public administration & defence	0.7	0.5
Arts, entertainment & recreation	0.7	1.1
Water supply	0.6	0.9
Education	0.6	0.7
Manufacturing	0.4	1.0
Mining & quarrying	0.2	0.4
Total	1.0	1.1

Sources: Oxford Economics, Danske Bank Analysis

Northern Ireland labour market outlook

Employee jobs expected to grow again this year with the unemployment rate forecast to stay low

Northern Ireland’s labour market indicators showed a strong start to the year but there is some evidence of a slowdown beginning to emerge with higher business costs, increased global uncertainty and normalisation of the unemployment rate all potential contributors. According to the latest Quarterly Employment Survey data, employee jobs growth picked up to 1.0% in the first quarter of 2025, from 0.3% in the final quarter of 2024, raising the total number of employee jobs to a new series high. However, other data showed a rise in the unemployment rate in the February – April period, a decrease in HMRC payrolled employees in both April and May and a decline in median monthly pay in May. Looking forward, we think that the strong pace of employee jobs growth in quarter one is unlikely to be maintained and so are projecting that annual average employee jobs growth will be around 1.4% this year, before slowing to about 0.4% in 2026.

The **construction** sector is expected to experience the highest rate of jobs growth in 2025 and remain one of the leading sectors in terms of employment growth in 2026, boosted by strong employee jobs growth data in the last two quarters and expectations for further output growth in the sector over this year and next.

The outlook for jobs growth across the consumer-focused sectors is mixed. Following growth of 2.8% in the first quarter of 2025, annual average employee jobs in the **wholesale & retail trade** sector is forecast to increase by around 2.5% this year. The number of jobs in the **accommodation & food services** sector is expected to expand by around 0.8% in 2025, while the rise in **arts, entertainment & recreation** employment is projected to be weaker at about 0.4%.

The annual number of employee jobs in the **administrative & support services** sector is forecast to rise by around 1.5% in 2025 and about 1.0% in 2026. Meanwhile, the **professional, scientific & technical services** sector is expected to experience employment growth of about 1.6% in 2025 with growth then projected to moderate to about 1.2% in 2026. The Quarterly Employment Survey data for 2025 Q1 showed that the number of employee jobs in the **information & communication** sector fell by 1.1% compared with the previous quarter. Given the weaker start to the year, we now expect annual employee jobs growth in the sector of around 0.6% in 2025, with growth of 1.0% then forecast for 2026.

Employee jobs grew in the **manufacturing** sector in the first quarter of 2025, rising by 0.6% compared with 2024 Q4. As a result, we are now projecting that the annual average number of employee jobs in the sector will increase by around 0.7% in 2025. However, employee jobs in the manufacturing industry are forecast to decline by 0.4% in 2026 given skills shortages, subdued investment levels, rising business costs and increased automation.

The unemployment rate in Northern Ireland rose to 1.8% in February – April, up from 1.5% in the previous period. Looking ahead, we expect the unemployment figures to slowly rise but remain relatively low over the short-term. We are projecting that the unemployment rate in Northern Ireland will average 1.9% this year, before rising to an average of 2.2% in 2026.

Projected employee jobs per sector in 2025



Sources: Oxford Economics, Danske Bank Analysis

Employee jobs (%)	2025	2026
Construction	2.9	1.1
Wholesale & retail trade	2.5	0.5
Other service activities	2.0	0.9
Education	2.0	0.4
Transportation & storage	2.0	1.1
Professional, scientific & tech	1.6	1.2
Real estate activities	1.6	0.4
Administrative & support	1.5	1.0
Human health & social work	1.3	0.3
Financial & insurance	1.2	0.3
Accommodation & food service	0.8	0.6
Manufacturing	0.7	-0.4
Information & communication	0.6	1.0
Arts, entertainment & recreation	0.4	0.7
Public administration & defence	0.2	-0.6
Agriculture, forestry & fishing	0.2	0.2
Mining & quarrying	-0.3	-0.5
Water supply	-1.2	0.2
Electricity, gas, steam & air	-6.1	0.3
Total	1.4	0.4

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:

- **Rising uncertainty in the global economy** – The global trade policy environment remains highly uncertain. There is a lack of clarity around what may follow the end of the pause period on country-specific US tariffs in July with possibilities including targeted agreements being made between the US and other trading partners, the pause period being extended to allow further negotiations or the elevated tariff rates on specific countries being implemented. The UK-US agreement reduced some of the direct impacts of tariffs on the UK and NI economies, but tariffs on steel and aluminium are still under negotiation. In addition to the uncertain trade policy environment, geopolitical risks and foreign policy uncertainty have also increased. There are potential risks to global economic growth, supply chains and commodity prices stemming from elevated geopolitical tensions, including the war in Ukraine and developments in the Middle East.
- **Fiscal policy changes negatively impact the economy** – The UK Spending Review provided details around the increase in government capital spending but also showed the relatively constrained outlook for day-to-day government expenditure. Tight public finances and the limited headroom against the fiscal rules means that the outlook for UK fiscal policy is uncertain. Should the 2025 Autumn Budget contain more tax rises and/or spending reductions, the performance of the economy could be adversely affected.
- **Higher costs weigh more heavily than expected on businesses** – In April 2025, the increase in Employers' National Insurance Contributions announced in the 2024 UK Autumn Budget came into effect. There are a number of channels through which this could affect the wider economy, including slower recruitment and weaker business investment, and the scale of the impacts will be better understood as more data becomes available. 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 drag on the pace of economic growth.
- **Inflation increases at a faster pace** – UK CPI inflation has remained above its 2% target in recent months and was 3.4% in May. We expect inflation to remain above target and average around 3.2% in 2025, but there are risks around price pressures in the economy. Any potential movements in energy prices, ongoing geopolitical tensions and higher business costs could exert further upward pressure on prices. Higher than expected inflation could lead to diminished household purchasing power and weaker prospects for economic growth. In addition, monetary policy may need to remain tighter than expected, further weakening the economic outlook.
- **Skills shortages and recruitment challenges** – Many businesses across the Northern Ireland economy are facing challenges filling job vacancies with the skills they require. Persistently low unemployment rates, combined with continued growth in the number of employee jobs, has contributed to the tightness in the labour market. Skills shortages and recruitment difficulties pose challenges for businesses 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.

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