

# Northern Ireland Quarterly Sectoral Forecasts

## Forecast summary

The UK economy had a reasonable first half of 2025 but the data for Northern Ireland has been slightly weaker. UK GDP expanded in quarters one and two but the Northern Ireland Composite Economic Index contracted in the first quarter of the year and unemployment increased quite sharply in quarter two. Looking forward, economic growth is expected to remain relatively modest in both Northern Ireland and the wider UK. Business taxes are higher, inflation is running above target and uncertainty around fiscal tightening is increasing. Alongside these domestic factors, uncertainty related to global trade policy and geopolitical developments remains elevated. However, we continue to expect further gradual loosening of monetary policy which could provide some support to household spending and business investment. We are forecasting that the Northern Ireland economy will grow by around 1.1% in 2025, slightly slower than the 1.3% we are projecting for UK GDP growth. In 2026, we expect the two economies to expand by about 1.1%.

### Economic growth projections remain modest

The UK economy grew by 0.3% in the second quarter of the year. While this represented a slowdown in the rate of growth from the 0.7% experienced in quarter one, it was stronger than we had expected when we published our last report. However, in Northern Ireland the Composite Economic Index contracted by 0.6% in the first quarter and early data since the end of quarter one suggests that the Northern Ireland economy has continued to lag the UK economy.

Looking forward, we have raised our forecast for UK GDP growth in 2025 to around 1.3%, reflecting the stronger than expected expansion in the second quarter of the year. However, we still expect modest economic growth of about 1.1% in 2026 as numerous headwinds continue to present challenges. Domestically, increased business costs and above-target inflation will likely weigh on growth. While globally, geopolitical and trade policy uncertainty are also likely to act as drags on economic activity.

In Northern Ireland, we are forecasting that economic output will grow by around 1.1% in 2025, slightly slower than in the wider UK. We then expect the economy to grow by about 1.1% next year, in line with the UK.

### Northern Ireland's job market remains relatively solid, though unemployment has increased

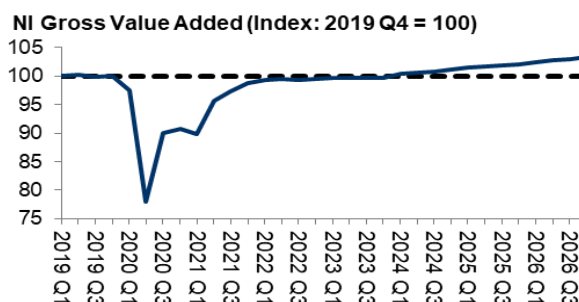
Northern Ireland's labour market showed continued resilience at the start of 2025. The Quarterly Employment Survey (QES) data showed that employee jobs grew by 1.0% in the first quarter of the year and the HMRC Pay As You Earn (PAYE) data also showed an increase of 0.4% in the average number of payrolled employees in quarter one.

However, some signs of softness are emerging in Northern Ireland's labour market data. The unemployment rate increased to 2.4% in the April - June period, representing a 0.8 percentage points rise from the previous quarter. In addition, the PAYE data suggests that growth in the number of payrolled employees slowed to 0.2% in quarter two.

Looking ahead, we are forecasting that the annual average number of employee jobs in Northern Ireland will increase by around 1.5% in 2025. We then expect the pace of annual jobs growth to slow to around 0.4% in 2026. In addition, we are projecting that the unemployment rate in Northern Ireland will continue to move upwards, averaging about 2.3% in 2025 and around 2.6% next year.

Forecast summary (%)			
	2024	2025	2026
UK GDP growth	1.1	1.3	1.1
NI GVA growth	1.1	1.1	1.1
NI employee jobs growth	1.1	1.5	0.4
NI unemployment rate	1.8	2.3	2.6
UK unemployment rate	4.3	4.7	4.9
UK CPI inflation rate	2.5	3.4	2.6

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



Sources: Oxford Economics, Danske Bank Analysis

# Key factors in the outlook



## Loosening of monetary policy expected to continue

The Bank of England's Monetary Policy Committee (MPC) reduced Bank Rate by 25 basis points to 4% at its August meeting, continuing the easing cycle that began in August last year. However, given the persistence of price pressures and the fact that inflation rose in July to its highest level since January 2024, there is now greater uncertainty around the timing of the MPC's next potential base rate cut. Nevertheless, with inflation expected to gradually decline after 2025 Q3, we still expect the MPC to continue to slowly reduce Bank Rate over the coming year, providing some support to consumer spending and business investment. However, it is important to note that the overall policy rate is still expected to remain higher than has been experienced over much of the past 15 years.



## Government spending is supporting growth but fiscal policy uncertainty remains

In the Autumn Budget last year, the Chancellor of the Exchequer announced increases in UK government spending, taxation and public borrowing. The UK Spending Review published in June 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 supporting economic growth, with government consumption a main driver of total GDP growth in 2025 Q2. However, keeping the public finances consistent with the fiscal rules will be challenging and so uncertainty around potential fiscal policy tightening is likely to persist as the Autumn Budget approaches.



## Tax rise proving challenging for businesses

Early evidence suggests companies have reduced spending on wages and salaries in response to the April increase in Employers' National Insurance Contributions (NICs). The monthly *Bank of England Decision Maker Panel* survey for August reported that 46% of firms surveyed have reduced employment whilst 20% were paying lower wages than they otherwise would have done. In addition, the tax increase could also be contributing to higher inflation and weighing on business investment. Taken together, these impacts may dampen the pace of economic growth.



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

The rate of CPI inflation in the UK rose to 3.8% in July, from 3.6% in June and 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 3.8% and 5.0% respectively. Looking forward, we expect inflation to remain close to 4% over the next couple of months before it begins to decline gradually, such that it averages around 3.4% this year. The lingering impact of higher prices is continuing to weigh on consumers, with the *Danske Bank NI Consumer Confidence Index* for 2025 Q2 showing it was the factor that had the largest negative impact on consumer confidence in the quarter. Next year, we expect the average rate of inflation to fall to around 2.6%.



## Uncertainty around trade and geopolitics persists

Trade-related instability increased sharply earlier this year following the US announcing higher tariffs on many of its trading partners. Though the US has announced a number of trade agreements in recent months, including one with the UK, other deals are still to be concluded and there is still a risk of currently exempt sectors facing higher tariffs in the future. This uncertainty will likely weigh on business investment and the wider UK economy. In addition to trade policy, the geopolitical and foreign policy environment is also unstable given the ongoing war in Ukraine and developments in the Middle East. The high levels of geopolitical uncertainty may also weigh on economic output.

# The outlook for the UK economy

The UK economy made a strong start to 2025 with GDP growth of 0.7% in the first quarter of the year, likely boosted by increased activity ahead of expected tariff announcements and changes to stamp duty in April. However, momentum has since waned and economic growth in 2025 Q2 was a more modest 0.3%. Total **investment** fell by 1.1% in 2025 Q2, with a 4.0% drop in business investment undoing the 3.9% increase recorded in the previous quarter. In contrast, **government consumption** grew by 1.2%, driven by increased expenditure on health and public administration & defence. Meanwhile, **private consumption** growth was marginal at 0.1%. A sturdy rise in services exports placed total **exports** 1.6% higher than recorded in the previous quarter while **imports** increased by 1.4%, marking a third consecutive quarter of growth.

The monthly breakdown of the UK GDP data indicates that economic activity declined in both April and May before rebounding strongly in June, growing by 0.4% over the month. An increase in services activity was a main driver of the pick up in June, supported by strong growth in professional services and the wholesale & retail trade sector. Production and construction output also increased over the month in June, following declines in the previous month.

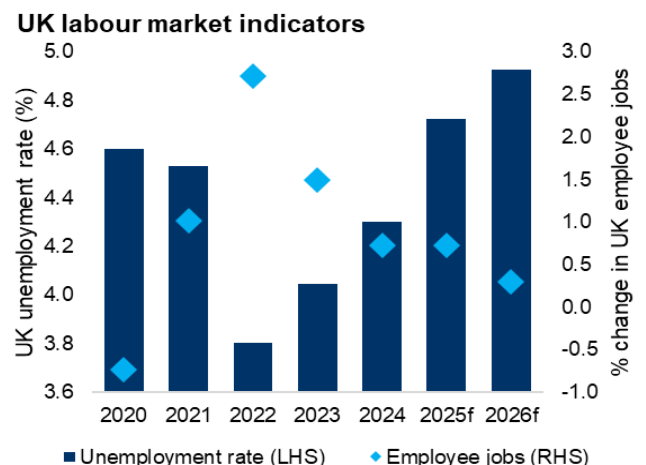
Looking forward, we are forecasting that the UK economy will expand by around 1.3% in 2025, accounting for the stronger than expected growth observed in the second quarter of the year and reflecting an upward revision from the 1.0% projection in our previous report. We then expect slightly more sluggish GDP growth of about 1.1% in 2026, given the strength of international and domestic headwinds. We expect **investment** to increase by about 1.9% in 2025, then slow to around 1.3% growth next year as the impacts of increased employer taxation and uncertainty continue to weigh on business investment. We are projecting that **private consumption** will grow by around 0.9% this year with growth then expected to pick up to about 1.2% in 2026 as inflation eases and the monetary policy environment loosens further. The robust growth of **government consumption** in the second quarter has contributed to an uplift in our expectation for its annual growth this year. We are now forecasting that government consumption will grow by around 1.8% in 2025 and about 1.7% in 2026.

Although the UK labour market is weakening, it is doing so gradually. The unemployment rate climbed slightly to 4.7% in the three months to June, up from 4.5% in the three months to March. Ongoing uncertainty and rising costs from the National Living Wage and Employer NICs increases have seen hiring plans weaken, as the number of vacancies slipped a little further below its pre-Covid-19 level in the May – July period. In addition, the HMRC Pay As You Earn data showed that the number of payrolled employees declined by around 8,000 in July. We now expect the annual average number of **employee jobs** in the UK to increase by around 0.7% in 2025, marginally up from the 0.6% projection in our previous report. We still expect employee jobs growth to slow next year, but now to around 0.3%. We are also forecasting that the **unemployment rate** will rise over the near term, averaging 4.7% in 2025 and 4.9% in 2026.

UK CPI **inflation** rose to 3.8% in July, nearly double its target rate of 2%. We expect inflation to remain above target this year, averaging 3.4% annually, before coming down gradually to an average of about 2.6% next year.

UK GDP forecasts (%)			
	2024	2025	2026
UK GDP growth	1.1	1.3	1.1
Private Consumption	0.6	0.9	1.2
Investment	1.5	1.9	1.3
Government Consumption	3.0	1.8	1.7
Exports of Goods and Services	-1.2	2.3	0.5
Imports of Goods and Services	2.7	4.0	-0.7

Sources: ONS, Oxford Economics, Danske Bank Analysis



Sources: ONS, Oxford Economics, Danske Bank Analysis

# Northern Ireland sectoral outlook

## Economic growth expected to be modest but steady in the face of headwinds

The Northern Ireland Composite Economic Index contracted in 2025 Q1. Looking forward, we are forecasting that the Northern Ireland economy will grow by around 1.1% in 2025, up marginally from the 1.0% we projected in our previous report. We then expect the economy to grow by about 1.1% in 2026, unchanged from our last projection.

We continue to expect the business services sectors to experience the strongest rates of output growth. The **information & communication** sector is expected to be the fastest growing, with output expanding by around 1.8% in 2025 and about 2.0% in 2026. We expect the **professional, scientific & technical services** and **administrative & support services** sectors to experience growth of about 1.7% and 1.5% respectively this year, and then 1.7% and 1.8% next year.

The consumer-focused sectors of the economy are expected to expand in 2025 and 2026 as the loosening of monetary policy and an expected gradual decline in inflation support household incomes and spending. Furthermore, the latest *Danske Bank Northern Ireland Consumer Confidence Index* showed a rise in consumer confidence in 2025 Q2, despite the heightened economic uncertainty. However, the lingering effects of previous price rises continued to have a negative impact on sentiment. We are forecasting that the **wholesale & retail trade** sector will experience output growth of around 1.3% this year. Given that it is Northern Ireland's largest sector in GVA terms, this expansion would see it contribute the most to overall GVA growth in 2025. Output growth in the sector is projected to slow to about 1.1% in 2026. Meanwhile, activity in the **accommodation & food service** sector is expected to expand by around 1.2% this year and by about 1.1% next year. The **arts, entertainment & recreation** sector is projected to grow by around 0.7% in 2025 then expand at a similar rate to the overall economy in 2026.

Government spending levels could provide some support to public sector growth. Output in the **human health & social work** sector is expected to expand by around 1.1% in 2025 and about 1.3% in 2026. Activity in the **education** sector is projected to grow at a slower pace of around 0.7% both this year and next. The **public administration & defence** sector is also expected to expand by 0.7% this year, but growth is then projected to slow to about 0.5% in 2026.

The **manufacturing** sector is expected to underperform the overall economy in 2025 and 2026, growing by around 0.8% in each year given challenges emanating from various headwinds. The sector is among the most directly affected by the increase in US tariffs on UK goods and the wider trade uncertainty that has emerged this year. Skills shortages, input cost pressures and the soft investment environment will also likely weigh down on the sector. Even prior to the US tariff announcements, the latest Northern Ireland Index of Production data showed that manufacturing activity declined in the first quarter of 2025. Meanwhile, **construction** output is projected to grow 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	1.8	2.0
Professional, scientific & tech	1.7	1.7
Administrative & support	1.5	1.8
Wholesale & retail trade	1.3	1.1
Transportation & storage	1.2	1.3
Accommodation & food service	1.2	1.1
Real estate activities	1.2	1.0
Human health & social work	1.1	1.3
Construction	1.1	1.2
Other service activities	1.1	0.9
Electricity, gas, steam & air	0.9	1.1
Financial & insurance	0.8	1.0
Agriculture, forestry & fishing	0.8	1.0
Manufacturing	0.8	0.8
Water supply	0.7	0.9
Arts, entertainment & recreation	0.7	1.1
Education	0.7	0.7
Public administration & defence	0.7	0.5
Mining & quarrying	0.5	0.5
<b>Total</b>	<b>1.1</b>	<b>1.1</b>

Sources: Oxford Economics, Danske Bank Analysis

# Northern Ireland labour market outlook

## Employee jobs growth to remain solid this year before slowing in 2026

Northern Ireland's labour market remained resilient in the first quarter of this year but there are some indications that it is beginning to soften as higher business costs and heightened global uncertainty start to take their toll. The latest Quarterly Employment Survey data showed employee jobs climbed to a new series high in 2025 Q1, following quarterly growth of 1.0%. However, growth in the number of payrolled employees slowed from 0.4% in 2025 Q1 to 0.2% in 2025 Q2, while Northern Ireland's unemployment rate increased quite sharply over the same period. Looking ahead, we think that the fast pace of employee jobs growth in the first quarter is unlikely to be sustained and so are forecasting that annual average employee jobs growth will be around 1.5% this year, before slowing to about 0.4% in 2026.

We expect the **construction** sector to experience the fastest rate of employment growth this year, of around 2.9%, and remain one of the leading sectors in terms of jobs growth next year. The employment outlook for the sector is supported by strong recent employee jobs growth and expectations for further output growth in 2025 and 2026.

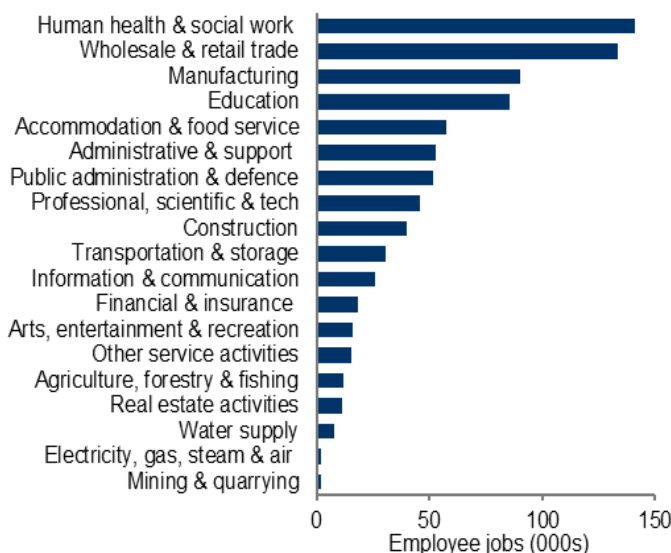
The **wholesale & retail trade** sector also experienced robust employee jobs growth in 2025 Q1. Although we expect a softening in the sector's jobs data over the rest of the year, we are forecasting that it will record annual average employee jobs growth of around 2.5% in 2025. The **accommodation & food service** sector has more moderate growth expectations, with the increased staffing costs brought on by the previous Autumn's Budget announcements seeming to adversely impact hiring in the hospitality industry more so than others. Employment in the sector is expected to increase by around 0.9% in 2025, while the rise in **arts, entertainment & recreation** employment is projected to be even softer, at about 0.5%.

The outlook for jobs growth in 2025 across the business services sectors is mixed. Employment in both the **administrative & support services** and **professional, scientific & technical services** sectors is forecast to grow faster than the average for the overall economy in 2025. Meanwhile, the number of jobs in the **information & communication** sector is expected to grow by only 0.6% this year. According to the Quarterly Employment Survey, the number of jobs in the sector contracted by 1.1% in 2025 Q1. However, all three sectors are expected to outperform the economy-wide average for employee jobs growth in 2026.

The **manufacturing** sector experienced employee jobs growth of 0.6% in 2025 Q1. We think this sturdy growth will contribute to the sector experiencing annual average employee jobs growth of around 1.0% in 2025. However, manufacturing jobs growth is then projected to slow to about 0.1% in 2026 as the recent trade uncertainty, the subdued investment environment and rising business costs gradually dampen recruitment.

The unemployment rate in Northern Ireland increased by 0.8 percentage points over the quarter to 2.4% in the April - June period. Looking forward, we are forecasting that the unemployment rate will average around 2.3% in 2025, before rising to an annual average of about 2.6% in 2026.

### Projected employee jobs per sector in 2025



Sources: Oxford Economics, Danske Bank Analysis

Employee jobs (%)	2025	2026
Construction	2.9	1.0
Wholesale & retail trade	2.5	0.5
Transportation & storage	2.1	1.0
Other service activities	2.0	0.8
Education	2.0	0.2
Administrative & support	1.7	0.9
Professional, scientific & tech	1.6	1.2
Real estate activities	1.5	0.2
Human health & social work	1.4	0.3
Financial & insurance	1.2	0.1
Manufacturing	1.0	0.1
Accommodation & food service	0.9	0.6
Information & communication	0.6	0.9
Arts, entertainment & recreation	0.5	0.6
Public administration & defence	0.3	-0.4
Agriculture, forestry & fishing	0.2	0.1
Mining & quarrying	-0.3	-0.7
Water supply	-1.1	0.1
Electricity, gas, steam & air	-6.1	0.1
<b>Total</b>	<b>1.5</b>	<b>0.4</b>

Sources: Oxford Economics, Danske Bank Analysis

# Risks and uncertainties

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

- **Elevated uncertainty in the global economy** – Although the UK, EU, Japan and other countries have announced trade agreements with the US in recent months, providing some certainty to exporters, the global trade policy environment remains highly unstable. For example, there is a lack of clarity around what may follow the end of the current US-China pause on the introduction of higher tariffs on 10 November. Furthermore, in the UK's case, there's still uncertainty around whether the proposed reduction in US metal tariffs will be implemented, and there is also a risk that currently exempt sectors could face higher tariffs in the future. In addition to the volatile trade policy environment, geopolitical risks remain elevated, stemming from the ongoing war in Ukraine and developments in the Middle East. If trade or geopolitical tensions are more severe or last longer than anticipated, the UK and NI economies could be more constrained than forecast.
- **Fiscal policy may tighten** – The June UK Spending Review provided details around the increase in government capital expenditure over the coming years but also showed the relatively constrained outlook for day-to-day government spending. Squeezed public finances and the need to remain within the fiscal rules means that the direction of UK fiscal policy is uncertain. Should the 2025 Autumn Budget contain more tax increases and/or spending cuts, the performance of the economy could be negatively affected.
- **Higher costs weigh more heavily than expected on companies** – In April 2025, the increase in Employers' NICs announced in the 2024 UK Autumn Budget came into effect. The move could deter businesses from investing. Moreover, early evidence suggests it is already putting pressure on firms' recruitment plans and pay decisions, though the scale of the impacts will be better understood as more data become available. If the tax rise was to weigh more heavily than expected on companies, with larger adverse impacts on firms' hiring, pay and investment decisions, this could drag on the pace of economic growth.
- **Inflation increases at a faster pace** – UK CPI inflation increased again in July to 3.8%, notably higher than its 2% target. We expect inflation to average 3.4% in 2025 and then fall to an average of 2.6% next year, but there are risks to this forecast. Factors including higher business costs, ongoing geopolitical tensions and potential movements in energy prices could exert more upward pressure on prices than expected. Higher than projected 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, which could further dampen economic activity.
- **Skills shortages and recruitment challenges** – Across the Northern Ireland economy, many firms are still struggling to fill job vacancies with the skills that they require. The *2025 Q2 Quarterly Economic Survey* published by the *Northern Ireland Chamber of Commerce and Industry* and *BDO* reported that 79% of the manufacturing businesses and 70% of the services firms that responded to the survey were facing difficulties when it came to finding appropriate employment candidates. We expect that competition for staff will remain high as the unemployment rate remains relatively low and the number of jobs continues to grow. 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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