Northern Ireland Quarterly Sectoral Forecasts

Forecast summary

Economic growth in the UK slowed further in the third quarter of the year, with the rate of expansion easing from 0.7% in quarter one, to 0.3% in quarter two and then to 0.1% in quarter three. In contrast, after a decline in the first quarter, the Northern Ireland Composite Economic Index rebounded in quarter two. We believe that the Northern Ireland economy likely experienced modest growth in the third quarter of the year. Looking ahead, economic growth in both Northern Ireland and the UK is forecast to remain sluggish. Inflation is projected to remain above target in 2026, higher taxes are likely to constrain activity and ongoing uncertainty will likely continue to weigh on the economy. However, we expect the gradual loosening of monetary policy to continue, which should provide some support to consumer spending and business investment, while higher government spending is also likely to contribute to economic growth. We are forecasting that the Northern Ireland economy will grow by around 1.3% in 2025, slightly below our projection of 1.4% for UK GDP growth. In 2026, we expect both economies to expand by about 1.1%.

Economic growth forecasts for 2025 revised upwards, but rate of expansion projected to weaken in 2026

The pace of economic growth in the UK slowed to a modest 0.1% in the third quarter of 2025, following increases of 0.3% in quarter two and 0.7% in the first quarter of the year. However, based on the latest data, we have slightly raised our forecast for annual UK GDP growth in 2025 to 1.4%, up from 1.3% in our last report.

In Northern Ireland, the Composite Economic Index increased by 2.0% in 2025 Q2, after contracting by 0.3% in quarter one. Reflecting this stronger than expected performance, we are now projecting that the Northern Ireland economy will grow by around 1.3% this year, compared with 1.1% previously.

Looking ahead to 2026, we expect more muted economic growth of around 1.1% in both the UK and Northern Ireland. Higher taxes, including those announced in previous Budgets, are expected to restrict output though government spending levels are projected to support growth. Furthermore, while monetary policy is expected to ease further, inflation and uncertainty are likely to continue to weigh on the pace of economic expansion.

Northern Ireland's labour market remains resilient but is expected to soften next year

The labour market in Northern Ireland remains in a reasonably strong position. The Quarterly Employment Survey showed that employee jobs growth slowed from 1.0% in the first quarter of the year to 0.4% in quarter two. However, this was a notably resilient outturn, considering the increased employment costs experienced by businesses since April of this year. In addition, the HMRC Pay As You Earn data suggests that the number of employees continued to increase in 2025 Q3 and in October, unlike in the wider UK.

We are now forecasting that the annual average number of employee jobs in Northern Ireland will increase by around 2.0% in 2025, up from 1.5% in our last report. However, we expect the pace of average jobs growth to slow to around 0.6% in 2026 given the modest expected output growth and as unemployment continues to normalise upwards.

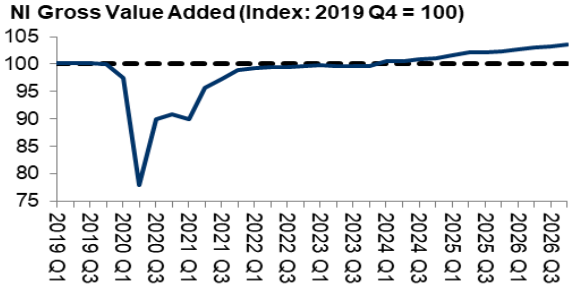
The unemployment rate in Northern Ireland was 2.4% in the third quarter of the year, below both the long-term average for Northern Ireland and the UK rate of 5.0% but up from 1.6% in quarter one. In addition, the number of people on the Claimant Count increased relatively sharply over the month in October. We are projecting that the unemployment rate in Northern Ireland will average about 2.3% in 2025 and around 2.6% in 2026.

Forecast summary (%)

	2024	2025	2026
UK GDP growth	1.1	1.4	1.1
NI GVA growth	1.1	1.3	1.1
NI employee jobs growth	1.0	2.0	0.6
NI unemployment rate	1.8	2.3	2.6
UK unemployment rate	4.3	4.8	5.1
UK CPI inflation rate	2.5	3.4	2.6

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 expected to continue to loosen

The Bank of England's Monetary Policy Committee (MPC) narrowly voted to keep Bank Rate at 4% at its November meeting. However, inflation declined in October and is projected to fall further during 2026, making a reduction in Bank Rate at the MPC's December 2025 or February 2026 meeting more likely. We then expect monetary policy to loosen a little further, with the less restrictive policy stance likely to provide some support to consumer spending and business investment. However, it is important to note that the overall policy rate is still expected to remain above the levels experienced over most of the past 15 years.

Government spending to support growth but higher taxes likely to weigh on activity

At an overall level, the 2025 Budget tightened fiscal policy in the UK over the next five years as the Chancellor announced a series of tax rises, though they are mostly pencilled in for the later years of the horizon period. In the short-term, the Government announced increased spending levels. Higher government spending has supported UK economic growth lately and will likely continue to do so. However, the ratio of tax to GDP is projected to increase in each year out to 2030-31, with higher taxes likely to weigh on output moving forward. In Northern Ireland, the spending rises announced in the Budget mean the Executive is expected to receive an additional £370 million in funding over the Spending Review period. However, despite this uplift, Northern Ireland's public finances are likely to remain under pressure.

Inflation remains above target with higher prices weighing on households

The rate of CPI inflation in the UK remains above its 2% target but slowed to 3.6% in October, down from 3.8% in September. Underlying measures of price pressure, including core inflation – which excludes energy, food, alcohol and tobacco – and services inflation are still elevated but also declined in October. Looking forward, we expect inflation to remain at a broadly similar rate to the October outturn over the last two months of 2025 then gradually decline in 2026 such that it averages around 3.4% this year and about 2.6% next year. A number of factors are expected to contribute to a gradual fall in inflation including the recent softening observed in the UK labour market with higher unemployment and slower wage growth, the impacts of monetary policy, modest rates of output growth and measures announced in the Budget including to reduce household energy bills and on the fuel duty freeze. However, given the inflationary pressures of recent years and the expectation of another year with annual average inflation above its target, household finances and consumer confidence are likely to remain under some pressure.

Tax rise negatively affecting businesses and jobs

Evidence suggests that some UK businesses have reduced employment and spending on wages in response to the April 2025 increase in Employers' National Insurance Contributions (NICs). Over the August – October 2025 period, the *Bank of England Decision Maker Panel* survey reported that, on average, 44% of businesses surveyed have lowered employment, while 17% were paying lower wages than they otherwise would have done. Some firms have also passed on some of the cost increase in the form of higher prices, while others have seen their profit margins squeezed. Though the peak impact from the NICs rise has likely now passed, its impact on jobs, wages, inflation and profit margins has left the economy on a weaker footing for growth.

Uncertainty around trade and geopolitics remains

Trade-related instability increased sharply earlier this year following the US announcing higher tariffs on many of its trading partners in April. Though trade-related uncertainty has since eased, it remains elevated and is likely to stay high. The US has announced a number of trade agreements since April, including one with the UK, and has recently agreed a one-year trade arrangement with China. However, high levels of trade related uncertainty could weigh on business investment and the wider UK economy. Geopolitical tensions also remain a challenge given, for example, the ongoing war in Ukraine. The still elevated levels of geopolitical uncertainty may also weigh on economic output.

The outlook for the UK economy

The strong start that the UK economy made to 2025 has diminished. UK GDP increased by just 0.1% in the third quarter of the year, down from growth of 0.3% in quarter two and 0.7% in quarter one. The expenditure data for the third quarter of the year showed that **private consumption** remained fairly soft, expanding by 0.2% following growth of 0.1% in the previous quarter. Total **investment** increased by 1.8% in quarter three, although the business investment component declined for the second consecutive quarter, a potential sign that companies may have delayed investment decisions in the run up to the Budget. Following growth of 1.3% in quarter two, **government consumption** grew by 0.3% in the third quarter of the year. In contrast, **exports** contracted by 0.1%, while **imports** fell by 0.3%.

The monthly GDP data showed that UK economic activity was sluggish throughout the third quarter of 2025 – GDP contracted slightly in July, flatlined in August and fell again in September, by 0.1%. Although **services** and **construction** output both expanded by 0.2% in September, that growth was not enough to offset the 2.0% decline in **production** activity. The fall in production output was largely due to a decline in motor vehicle manufacturing.

Based on the latest UK GDP data, we have slightly increased our forecast for GDP growth in 2025 to 1.4%, up from 1.3% in our last report. We are then projecting slightly weaker GDP growth of about 1.1% in 2026. Despite business investment being sluggish in quarters two and three, total **investment** has remained relatively robust this year, and we expect it to increase by about 2.9% in 2025. However, we expect growth in investment to slow to around 1.0% in 2026, as the fragile state of business investment eventually dampens overall investment. We are projecting that **private consumption** will grow by around 0.9% in 2025, with growth then picking up slightly to about 1.1% next year, supported by the loosening of monetary policy. **Government consumption** is forecast to grow by about 2.0% in 2025 and by about 1.5% next year, faster than the expected overall GDP growth rate in the respective years.

The UK labour market has weakened further in recent months. The unemployment rate increased to 5.0% in the three months to September, up from 4.7% in the three months to June, and the highest rate recorded since the end of 2020 and start of 2021. Meanwhile, HMRC data showed that the number of payrolled employees fell in September and October. The number of employee jobs in the UK increased by 0.2% in quarter one but was then broadly flat in quarter two. We now anticipate that the annual average number of **employee jobs** in the UK will increase by around 0.4% in 2025, down from 0.7% in our previous report. We still expect a slowdown in employee jobs growth next year, but we now expect it to ease to around 0.2%. We are also forecasting that the **unemployment rate** in the UK will average around 4.8% in 2025, increasing to an average of about 5.1% in 2026.

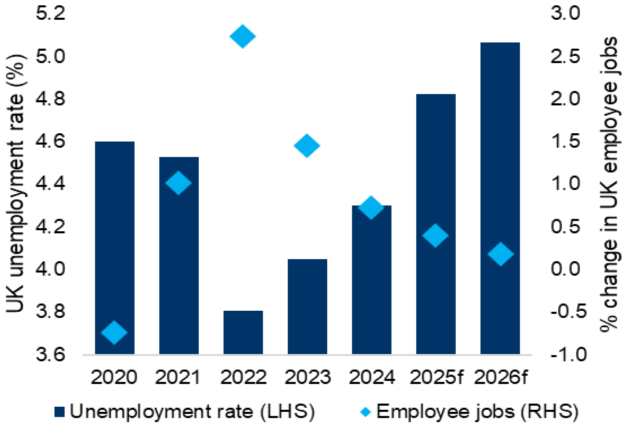
UK CPI **inflation** slowed to 3.6% in October from 3.8% in September. Looking ahead, inflation is likely to remain at broadly similar levels over the final months of this year but decline gradually throughout next year. Overall, we expect the annual average rate of inflation to be around 3.4% in 2025 and about 2.6% in 2026.

UK GDP forecasts (%)

	2024	2025	2026
UK GDP growth	1.1	1.4	1.1
Private Consumption	-0.2	0.9	1.1
Investment	1.8	2.9	1.0
Government Consumption	3.4	2.0	1.5
Exports of Goods and Services	0.6	2.9	0.2
Imports of Goods and Services	2.6	3.6	-0.2

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 upwards for 2025 but rate of growth expected to slow next year

The Northern Ireland Composite Economic Index (NICEI) for 2025 Q2 showed an increase of 2.0% over the quarter, following on from a 0.3% decline in 2025 Q1. The strong quarter two NICEI outturn has contributed to the upgrade of our forecast for GVA growth in Northern Ireland this year, which we now expect will be around 1.3%, up from 1.1% in our last report. We have maintained our forecast for 2026 at the same rate as in our previous report and expect the Northern Ireland economy to expand by about 1.1% next year.

At the sectoral level, we are forecasting that the business services sectors will be the strongest in terms of output growth over the short term. Of these sectors, **professional, scientific & technical services** and **information & communication** are projected to be the fastest growing, with GVA growth of around 2.0% and 1.9% respectively in 2025, followed by growth of about 1.5% and 1.6% in 2026. Our forecasts for the **administrative & support services** sector are also relatively strong, with projected output growth of about 1.8% in 2025, followed by a further GVA expansion of around 1.4% next year.

We continue to expect activity in the consumer-oriented sectors of the economy to grow in both 2025 and 2026 as looser monetary policy supports household spending. However, the *Danske Bank Northern Ireland Consumer Confidence Index* showed that consumer confidence fell in 2025 Q3 with sentiment related to peoples' current finances, future finances, expected spending on expensive items and job security declining over the quarter. We expect the pace of growth in the consumer-focused sectors to soften in 2026. We are forecasting that output in the **wholesale & retail trade** sector will grow by around 1.7% in 2025, with growth then projected to slow to about 1.3% in 2026. Activity in the **accommodation & food service** sector is expected to expand by about 1.5% in 2025 and around 1.2% next year, while output in the **arts, entertainment & recreation** sector is projected to grow by around 1.4% this year and about 1.3% in 2026. The Index of Services data supports our expectations for relatively strong growth in 2025 with the combined wholesale & retail trade; repair of motor vehicles & motorcycles; and accommodation & food service sector sub-index expanding by 5.5% over the year to 2025 Q2, reaching a series high as a result.

Activity in the **construction** sector is expected to expand by around 1.6% in 2025 and about 1.2% in 2026, reflecting the sector's recent robust output performance. The Quarterly Construction Bulletin data showed strong growth of 7.3% over the year to 2025 Q2, underpinned by expansions in both the new work and repair and maintenance work categories.

We are projecting that output in the **manufacturing** sector will grow but at a weaker 1.1% in 2025 and 0.7% in 2026. The manufacturing measure within the Index of Production increased in quarter two following a decline in the previous quarter, but experienced fairly muted growth over the first half of 2025 as a whole. Furthermore, the sector is facing various headwinds such as high business costs, skills shortages, trade uncertainty and the soft investment outlook.

Projected sector contributions to GVA growth in 2025

Sources: Oxford Economics, Danske Bank Analysis

GVA (%)	2025	2026
Professional, scientific & tech	2.0	1.5
Information & communication	1.9	1.6
Administrative & support	1.8	1.4
Wholesale & retail trade	1.7	1.3
Construction	1.6	1.2
Transportation & storage	1.6	1.1
Accommodation & food service	1.5	1.2
Arts, entertainment & recreation	1.4	1.3
Human health & social work	1.3	1.2
Other service activities	1.2	0.9
Real estate activities	1.2	1.0
Manufacturing	1.1	0.7
Agriculture, forestry & fishing	1.0	0.8
Financial & insurance	0.9	0.9
Education	0.9	0.7
Electricity, gas, steam & air	0.9	0.7
Public administration & defence	0.7	0.5
Water supply	0.7	0.8
Mining & quarrying	0.6	0.4
Total	**1.3**	**1.1**

Sources: Oxford Economics, Danske Bank Analysis

Northern Ireland labour market outlook

Labour market in Northern Ireland showing resilience, though it is expected to soften next year

Although there are some signs the Northern Ireland labour market is slowing, it has remained relatively resilient compared to the UK as a whole. According to the Quarterly Employment Survey (QES), the rate of growth in employee jobs in Northern Ireland slowed from 1.0% in 2025 Q1 to 0.4% in the second quarter of the year. While this is a clear slowdown, it was firmer than we expected given the policy-related cost increases employers have experienced since April 2025. The timelier HMRC PAYE data also suggests that the number of employees continued to grow in 2025 Q3 and in October. Reflecting the strong jobs growth in quarter two, we have revised our forecast for annual average employee jobs growth in 2025 upwards to around 2.0%. However, we expect jobs growth to slow to about 0.6% in 2026.

Recent employee jobs growth in the **construction** sector has been strong according to the QES, rising by 4.1% in 2025 Q1 and then remaining broadly flat in quarter two. In the first half of 2025, the number of employees in the sector exceeded 40,000 for the first time since the final quarter of 2008. As a result of the firm employment data, we are forecasting that the construction sector will experience the fastest average employment growth for 2025, of around 5.3%. We then expect the average number of employee jobs in the sector to rise by about 1.1% in 2026.

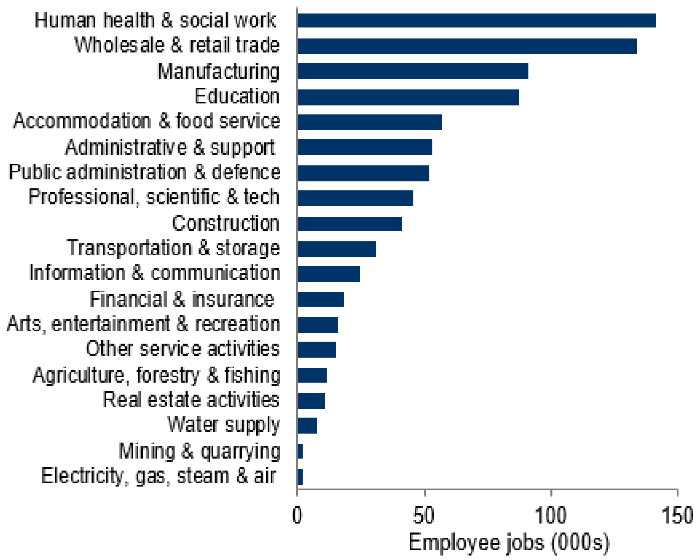
Alongside construction, the **transport & storage**, **education** and **arts, entertainment & recreation** sectors have experienced strong jobs growth this year. The transport & storage and arts, entertainment & recreation sectors are projected to exceed our economy-wide jobs growth forecast for 2026, however, employee jobs growth in the education sector is expected to weaken as public finance challenges contribute to slower recruitment in the public sector.

The outlook for employee jobs growth in 2025 across the business services sectors is mixed. The number of jobs in the **information & communication** sector is expected to contract by around 2.4% this year. The QES shows that employment in the sector declined by 1.2% in quarter one and by a further 3.3% in the second quarter of the year. We are projecting that the average number of employee jobs in the **administrative & support services** and **professional, scientific & technical services** sectors will increase in 2025 and expect all three sectors to outperform the economy-wide projection for employee jobs growth in 2026.

Recent jobs growth in the **manufacturing** sector has been steady, underpinning our expectation that the sector will experience annual average employee jobs growth of around 1.4% in 2025. However, employment growth in the sector is then projected to slow to about 0.2% in 2026, as the subdued trade and investment environment weighs on recruitment. The **electricity, gas, steam & air** sector experienced a large 11.1% decline in the number of jobs in the first quarter of this year, followed by a decline of 1.0% in quarter two. As such, we are projecting that the annual average number of employee jobs in the sector will decline significantly this year, but rise slightly in 2026.

The unemployment rate in Northern Ireland remained at 2.4% in the July – September period, the same as in the previous three-month period but up from 1.6% in the first quarter of the year. We expect the unemployment rate to average around 2.3% in 2025 and about 2.6% in 2026.

Projected employee jobs per sector in 2025



Sources: Oxford Economics, Danske Bank Analysis

Employee jobs (%)	2025	2026
Construction	5.3	1.1
Transportation & storage	4.7	1.1
Education	3.7	0.3
Arts, entertainment & recreation	3.3	0.7
Wholesale & retail trade	2.8	0.7
Other service activities	2.5	1.1
Mining & quarrying	2.1	0.2
Administrative & support	2.0	1.4
Professional, scientific & tech	1.6	1.4
Manufacturing	1.4	0.2
Human health & social work	1.3	0.4
Accommodation & food service	1.3	1.2
Public administration & defence	0.7	-0.2
Financial & insurance	0.6	0.2
Agriculture, forestry & fishing	0.5	0.3
Real estate activities	0.3	0.4
Water supply	-1.2	0.3
Information & communication	-2.4	0.8
Electricity, gas, steam & air	-11.2	0.2
Total	**2.0**	**0.6**

Sources: Oxford Economics, Danske Bank Analysis

Risks and uncertainties

There are several risks and uncertainties which may affect 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 since it announced tariff increases in April, providing some certainty for exporters, the global trade policy environment remains uncertain. In addition to the volatile trade policy environment, geopolitical risks remain elevated, including those stemming from the ongoing war in Ukraine. If trade or geopolitical uncertainty is more severe or lasts longer than anticipated, the UK and Northern Ireland economies could be more constrained than forecast.

- **Inflation exceeds expectations** – UK CPI inflation decreased in October to 3.6% however it is still above its 2% target. We expect inflation to average around 3.4% in 2025 and then fall to an average of about 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 anticipated. Higher than projected inflation could lead to diminished consumer purchasing power and weaker prospects for economic growth. In addition, monetary policy may need to remain tighter than expected, which could further weigh on economic activity.

- **Uncertainty around fiscal policy re-emerges** – As part of the 2025 Budget, the Chancellor increased the headroom available against the main fiscal rule from around £10bn to about £22bn. This larger buffer could reduce uncertainty and the scope for potentially large changes in fiscal policy at subsequent Budgets. However, the fiscal headroom is still lower than has been the case historically and given the uncertain economic backdrop, any unfavourable shocks could lead to erosion of some or all of the buffer and a re-emergence of uncertainty around the future path of fiscal policy. If there was a need for further fiscal tightening, that could weigh down on economic growth while increased policy uncertainty could also act as a drag on 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 Q3 Quarterly Business Insights* published by the *Northern Ireland Chamber of Commerce and Industry* and *Queen's University Belfast* reported that 84% of the manufacturers and 75% of the services firms that responded to the survey were facing difficulties when it came to finding suitable job 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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Contact details

Conor Lambe
Chief Economist
Email: conor.lambe@danskebank.co.uk
LinkedIn: *Conor Lambe*

Hannah Martin
Economist
Email: hannah.martin@danskebank.co.uk
LinkedIn: *Hannah Martin*