Economic Research Digest Quarter 4 2023

The **Economic Research Digest** monitors recently published research across a number of economic areas relevant to the work of the Department for the Economy such as competitiveness, innovation, enterprise, trade, FDI, tourism and infrastructure. The Skills Research Digest deals separately with recently published skills and labour market research.

In each case, we provide a short summary of the key points and web links to the full article or report*. A full list of sources can be found at the end of the publication.

Highlights this quarter include:

- In the third quarter of 2023, economic output increased by 0.6% over the quarter and increased by 2.2% over the year. Output increased by 1.7% on a rolling four quarters basis to September 2023. NI economic output is now 6.2% above the pre-pandemic level seen in Quarter 4 2019.
- Consumer price inflation was 4.0% in December, rising from 3.9% in November, and marking the first time the rate has increased since February 2023.
- Services imports from Ireland saw a significant increase of nearly 74%, indicating a shift towards service-based transactions, despite being a small part of NI's overall trade. NI's international trade in goods also saw robust growth, outpacing the other UK nations in exports growth to Q3 2023.

** Links are correct at the time of publication; however, it is likely that some will break over time. The list of sources has more general links, which should help the reader to track down the original report.*

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The research summarised here presents the views of various researchers and organisations and does not represent the views or policy of the Northern Ireland Executive or those of the authors.

Economic Outcomes

COMPETITIVENESS

NI Composite Economic Index **Published by NISRA**

- In the third quarter of 2023, the NICEI indicates that economic output increased by 0.6% over the quarter and increased by 2.2% over the year. Output increased by 1.7% on a rolling four quarters basis to September 2023.
- NI economic output is now 6.2% above the pre-pandemic level seen in Quarter 4 2019.
- The increase in the NICEI over the latest quarter (0.6%) was driven by increased activity in the Services sector (0.8 pps), the Construction Sector (0.1 pps) and the Public Sector (0.2 pps). The Production sector and the agriculture sector had negative contributions (0.3 pps and 0.1 pps respectively). Note that figures may not sum due to rounding.
- Although the measures are not produced on a fully equivalent basis, comparisons with the UK show that NI's output increased over the quarter (0.6%) whilst the UK's output decreased (0.1%). NI had stronger growth over the year (2.2% vs 0.3%), over the rolling annual average (1.7% vs 0.4%) and over the pre-pandemic level (6.2% vs 1.5%).
- NI's Private sector output as measured by the NICEI increased by 0.6% over the quarter and increased by 2.2% over the year. Private sector output increased by 1.6% on a rolling four quarter basis and by 6.0% when compared to the pre-pandemic level recorded in Quarter 4 2019.
- The NICEI Public Sector (employee jobs) index increased by 1.0% over the quarter, by 2.0% over the year, by 1.8% on a rolling four quarter basis and by 6.9% compared to pre-pandemic levels.

The RF Labour Market Outlook Quarterly Briefing 4 2023 **Published by Resolution Foundation**

- Throughout 2023, the labour market has shown signs of cooling, with a notable decrease in vacancies for 16 consecutive months and a slowdown in the growth of pay-rolled employment. Despite these trends, nominal wage growth has demonstrated resilience, surpassing high inflation rates since June.
- This phenomenon raises questions about the sustainability of high wage growth and its potential implications on the economy. Both the Office for Budget Responsibility and the Bank of England anticipate a further loosening of the labour market in 2024, yet there's optimism due to policy measures such as the increase in the National Living Wage, set to meet the Low Pay Commission's target in April.
- In an environment of sluggish economic growth and stagnating living standards, wage growth has emerged as a countertrend, especially in the private sector where pay has grown at rates more than twice that of the pre-pandemic period. This exceptional growth has sparked concerns at the Bank of England, as it could contribute to prolonged high inflation in the UK.
- The tightness of the labour market is identified as a key driver of this wage growth, with a historic correlation between low jobseeker-to-vacancy ratios and higher wages. However, this situation poses risks if employers are forced to increase prices to cover wage costs, potentially fuelling further inflation and impacting living standards.
- The post-Covid-19 period has accentuated worker shortages, keeping vacancies higher than pre-pandemic levels despite some easing of the labour market's tightness. Sector analysis reveals that areas with notable worker shortages have seen corresponding wage increases. Nevertheless, signs of a shifting labour market are emerging, with early indicators pointing to a potential dampening of wage growth as the market softens.
- Additionally, the rising cost of living has been a significant factor propelling nominal wage growth, with workers demanding pay rises to offset real-term erosions in their wages due to inflation. This suggests that addressing wage growth may not necessitate mass job losses, with inflation itself and the cost of living crisis playing pivotal roles in driving pay increases.
- Despite the current trends, there are indications that wage growth is starting to slow, with expectations for future pay increases cooling. This shift offers a glimmer of hope that reducing inflationary pressure may be achievable without significant labour market loosening.

PRODUCTIVITY AND GROWTH

Northern Ireland Labour Market Report **Published by NISRA**

- The number of employees receiving pay through HMRC PAYE in NI in December 2023 was 795,900, a decrease of 0.1% over the month and an increase of 1.5% over the year.
- Earnings from the HMRC PAYE indicated that NI employees had a median monthly pay of £2,160 in December 2023, an increase of £76 (3.6%) over the month and an increase of £150 (7.5%) over the year.
- In December 2023, the seasonally adjusted number of people on the claimant count was 36,300 (3.7% of the workforce), an increase of 0.3% from the previous month's revised figure. The December 2023 claimant count remains 21.6% higher than the pre-pandemic count in March 2020.
- NISRA, acting on behalf of the Department for the Economy, received confirmation that 60 redundancies occurred in December 2023, taking the annual total to 2,570. There were 4,190 redundancies proposed in the twelve months to December 2023.
- The latest NI seasonally adjusted unemployment rate (the proportion of economically active people age 16 and over who were unemployed) for the period September-November 2023 was estimated from the Labour Force Survey at 2.4%. This was an increase of 0.1 percentage points (pps) over the quarter and a decrease of 0.4pps over the year.
- The proportion of people aged 16 to 64 in work (the employment rate) increased by 0.4pps over the quarter and increased by 1.1pps over the year to 72.4%.
- The economic inactivity rate (the proportion of people aged 16 to 64 who were not working and not seeking or available to work) decreased by 0.6pps over the quarter and decreased by 0.8pps over the year to 25.8%.
- The total number of weekly hours worked in NI was estimated at 29.1 million hours, an increase of 5.0% on the previous quarter and an increase of 2.1% on the equivalent period last year.

Economic Indicators **Published by House of Commons Library**

- 10% of firms were responsible for nearly two thirds of productivity growth in recent years across the UK.
- GDP is estimated to have been flat (0.0% growth) in August–October 2023 compared to the previous three-month period (May–July 2023). Eurozone GDP fell by 0.1% in July–September 2023.
- Services output was up by 0.5% in the three months to October 2023 compared to the previous year. Manufacturing output rose by 2.3%.
- CPI inflation was 3.9% in November 2023, down from 4.6% in October. Inflation in the Eurozone was 2.4% in November, down from 2.9% in October.
- The Bank of England's Monetary Policy Committee (MPC) left interest rates unchanged at 5.25% on 14 December for the third meeting in a row. This followed 14 consecutive rate increases.
- Average wages excluding bonuses were 7.2% higher in the three months to October 2023 compared with the year before, and 1.2% higher after adjusting for inflation. CPI inflation for this period was 6.0%.
- 33.01 million people were in employment in August–October 2023, up 234,000 from a year before. The employment rate was 75.7%, up from 75.6% the previous year.
- 1.45 million people were unemployed in August–October 2023, up 206,000 from the year before. The unemployment rate was 4.2%. The UK harmonised unemployment rate for Q2 2023 was 4.2%, above the rate of Germany (2.9%) and the US (3.6%) but below that of France (7.3%).
- Productivity across the whole UK economy decreased by 0.2% in Q3 2023 compared with the previous quarter. Compared with the previous year, it was down by 0.3%.
- Government borrowing in April–October 2023 was £98 billion, £22 billion more than in the same period last year. At the end of October 2023, public sector net debt was equivalent to 97.8% of GDP, compared to 95.5% a year before.
- The UK had a trade deficit of £8.8 billion in the three months to October 2023, the same level as in the previous three months. The current account deficit was £25.3 billion in Q2 2023 (3.7% of GDP), up from £15.2 billion in Q1 2023 (2.3% of GDP).
- The value of sterling rose by 0.6% between October and November, following a fall of 1.1% between September and October. Compared with a year ago, it is 3.7% higher.

- The volume of retail sales fell by 1.1% in the three months to October 2023 compared with the previous three months and decreased by 1.8% compared with the previous year.
- Market research company GfK's Consumer Confidence Index, which measures consumer attitudes, was at -22 in December 2023, up by two points from -24 in November.
- House prices decreased by 1.2% in the year to October 2023.
- Household debt stood at 126.8% of disposable income in Q2 2023. This was its lowest level since at least 2007.

LIVING STANDARDS, WELLBEING AND PROSPERITY

Poverty in the UK: statistics **Published by House of Commons Library**

- In November 2023 the Office for Budget Responsibility forecasted that real household disposable incomes per head will increase by 0.3% in 2023, fall by 1.5% in 2024, and then increase by an average of 1.5% between 2025 and 2028. Based on these forecasts, real (inflation-adjusted) post-tax income per head will not return to its pre-pandemic level of Q4 2019 until Q3 2027. The OBR is an independent fiscal watchdog that analyses public finances and fiscal policy.
- Absolute low income is likely to rise in the short run: the Resolution Foundation forecasted in September 2023 that absolute poverty will increase by 300,000, from 11.7 million in 2023/24 to 12.0 million in 2024/25. This will bring the rate to 18.0% in 2024/25, the same rate as 2019/20.
- This is because real incomes are set to fall, and income is adjusted for inflation when measuring absolute low income.
- Since relative low income compares low-income households to median income, the fact that income is set to fall for everyone means that relative low income is likely to fall between 2022/23 and 2023/24.
- However, the Resolution Foundation expects relative child poverty to return to its upward trend at the end of the cost of living crisis and reach its highest levels since 1998/88 in 2027/28.
- Department for Work and Pensions (DWP) data shows that around one in six people in the UK were in relative low income (relative poverty) before housing costs in 2021/22. This rises to just over one in five people once housing costs are accounted for.
- In 2021/22, poverty rates were highest for people in households where the head of the household is from the Pakistani or Bangladeshi ethnic groups and lowest for those from White ethnic groups.
- Around 38% of working-age adults in workless families were in relative poverty before housing costs in 2021/22, compared to 10% in families where at least one adult was in work.
- 43% of social renters and 35% of private renters were in relative low income after housing costs in 2021/22, compared to 15% of people who owned their home outright and 9% of those who have a mortgage.
- The proportion of people in relative low income before housing costs (BHC) was 24% for families where someone is disabled, compared to 14% for people living in families where no one is disabled.

CPI Tracker January 2024 **Published by NIESR**

- Annual consumer price inflation was 4.0% in December, rising from 3.9% in November, and marking the first time the rate has increased since February 2023. This figure reflects price increases in alcoholic beverages and tobacco, as well as categories such as clothing and footwear, which were partially offset by price decreases in food and non-alcoholic beverages. However, food, alcohol and tobacco are items that often see volatile price movements; thus, it is likely that this slight rise is more reflective of 'noise' rather than a genuine signal of a change in the declining trend of inflation.
- NIESR's measure of underlying inflation, which excludes 5% of the highest and lowest price changes to eliminate volatility and separate the signal from the 'noise', fell to 5.5% in December from 5.7% in November. At the same time, core CPI remained unchanged at 5.1% in December. These measures can be taken as further evidence that, though underlying inflationary pressures remain elevated (above the headline rate), today's upward surprise in headline inflation is reflective of volatile, but transient, price movements that should not affect the path of interest rates.
- Food inflation fell to an annual rate of 8.0%, down from 9.2% in November. However, the fact that it remains so elevated is concerning since there is no government support to help households (especially lower income households, who spend a greater part of their incomes on food) offset this cost.

Innovation and Enterprise

INNOVATION

Net zero and productivity in SMES: overlaps and evidence needs **Published by NESTA**

- Lack of innovation and investment towards engaging and supporting SMEs in the net-zero journey can jeopardise greening across the entire economy.
- The challenges involved in encouraging SMEs to move towards net zero have much in common with the barriers to promoting the adoption of other technologies and management practices.
- Targeted policy interventions to overcome these barriers can be effective but are not always so. The evidence base is thin, with very little information on what interventions are most effective, when, why, and for which types of businesses.
- SMEs are an extremely diverse group, and they differ widely in how much they contribute to emissions. There is also a lot of variation between them in the barriers they face to reducing emissions, as well as their capacities and their motivations for taking action. Lack of innovation and investment towards engaging and supporting SMEs in the net-zero journey can jeopardise greening across the entire economy.
- The challenges involved in encouraging SMEs to move towards net zero have much in common with the barriers to promoting the adoption of other technologies and management practices.

RESEARCH AND DEVELOPMENT

Research and development spending **Published by House of Commons Library**

- In 2022, the Office for National Statistics changed the methods it uses to produce estimates of R&D spending which led to a substantial increase in the figures. For example, the estimate for R&D spending in 2019 increased from £38.5 billion using the old method to £59.7 billion under the new method.
- Using this new method total spending on R&D in 2021 was £66.2 billion.
- The government has said this equates to around 2.9% to 3% of GDP, which exceeds its target for total R&D spending to reach 2.4% of GDP by 2027.
- This target is discussed further in our briefing on R&D funding policy.
- In 2021, the business sector funded £38.7 billion (59%) and performed £46.9 billion (71%) of R&D in the UK.
- The public sector (that is the UK Government, devolved administrations and their respective agencies and the higher education research councils) funded £12.8 billion (19%) and performed £3.4 billion (5%) of R&D.
- Higher education institutions funded £5.6 billion (8%) and performed £14.9 billion (25%) of R&D.
- Of the research funded by the public sector in 2021, 35% went towards the general advancement of knowledge, 21% to health and 13% to defence.
- Of the research performed by businesses in 2021, 23% was spent on research into computer programming and software development, 18% on miscellaneous activities, technical testing and analysis, and 17% on chemicals and pharmaceuticals.
- There are large differences in R&D spending across the UK.
- In 2021, R&D performed in London and the East and Southeast of England was worth £34.4 billion, or 52% of the total. This was £1,406 per person, 42% above the UK average of £987 per person.
- At the other end of the spectrum, £534 of R&D was performed per person in Wales, 46% below the UK average.
- It is estimated that, in 2020, R&D spending in the UK was equivalent to 2.9% to 3% of GDP.
- This was above the OECD and EU average. Among G7 nations, the USA spent the most on R&D (3.47% of GDP) followed by Japan (3.27%) and Germany (3.13%). The UK spent the fourth highest as a share of GDP.
- In the UK, pharmaceuticals company AstraZeneca spent the most on R&D (£6.1 billion in 2021) followed by fellow pharmaceuticals company GSK (£4.7 billion). Banks made up three of the largest ten R&D spenders in the UK.

- Globally, the highest spenders were Google's parent company Alphabet (£24.0 billion), Facebook's parent company Meta (£18.8 billion) and Microsoft (£18.7 billion).

SECTORS AND TECHNOLOGIES

NI Quarterly Index of Services **Published by NISRA**

- The NI IOS increased by 1.5% over the quarter (July - September), reaching a new series high. NI IOS increased by 3.5% over the year and 2.3% on a rolling four quarter basis.
- UK output decreased by 0.1% over the third quarter of 2023 but saw an increase of 0.5% over the year.
- NI services output is now 8.0% above the pre-Coronavirus pandemic level seen in Quarter 4 2019 while UK services output is 3.8% above its Quarter 4 2019 level. NI services output is 38.5% higher than the series low point (Quarter 2 2020).
- Over the quarter the Wholesale and retail trade; repair of motor vehicles and motorcycles; accommodation and food service sector increased by 0.6%; the Business services and finance sector increased by 4.0%; the other services sector increased by 1.3%; and the Transport, storage, information and communications sector also increased by 3.4%.
- Over the year there were increases seen in Wholesale and retail trade; repair of motor vehicles and motorcycles; accommodation and food service sector (1.9%); the Business services and finance sector (11.0%); and the other services sector (5.0%). The only sector to show a decrease was the Transport, storage, information & communication sector (1.5%).
- NI Retail Sales Index output decreased 0.9% over the quarter; increased by 3.6% over the year; and decreased by 0.1% over the most recent four quarters compared to the previous four quarters.

Northern Ireland Quarterly Index of Production **Published by NISRA**

- The NI IOP decreased by 2.1% over the quarter (July - September) and by 4.1% over the year.
- The UK IOP was unchanged (0.0%) over the quarter and increased by 1.4% over the year.
- When the most recent four quarters are compared to the previous four quarters, the NI production sector decreased by 2.4% while the UK production sector decreased by 0.9%.
- The NI IOP is 1.0% above the pre-Coronavirus pandemic level seen in Quarter 4 2019, while the UK remains 7.8% below its Quarter 4 2019 level.
- The quarterly decrease in NI production output of 2.1% was driven by decreases in Manufacturing (2.7%), Electricity, gas, steam, and air conditioning supply (0.1%) and Mining and quarrying sector (15.3%). This was partially offset by an increase in water supply, sewerage and waste management (Inc. recycling) (0.9%).
- The annual decrease in NI production output of 4.1% was driven by decreases in all four sectors - Manufacturing (3.6%), Electricity, gas, steam, and air conditioning supply (12.0%), Water supply, sewerage and waste management (Inc. recycling) (0.8%) and Mining and quarrying (9.2%).

ENTREPRENEURSHIP

NI Enterprise Barometer 2023 **Published by Enterprise NI**

- More businesses are growing in 2023 than in 2022 but business growth remains below pre-COVID levels. 44% of businesses are growing (29% 2022).
- 1 in 13 businesses are growing significantly; over the last year 43% have seen turnover increase, 33% have seen profits increase, and 23% have taken on employees.
- Almost 1 in 5 (1 in 3 2022) are contracting with 1 in 10 in difficulty/at risk of closure.
- 3 in 5 have seen wages increase over the last year.
- There is a steadily increasing confidence in opportunities for sales growth, but growing concerns around future profitability and how to navigate the resultant uncertainty.
- As NI's employment rates are at record levels there are growing concerns around filling vacancies and getting the necessary skills mix to enable business growth.
- The onset of inertia and strategic frustration due to increasing productivity skills/development gaps are threatening the competitiveness of many businesses.
- There is a clear need for more awareness (and education) of and then access to the right sensitive finance at the right time, to underpin business growth.

BUSINESS GROWTH

Profitability of businesses in Northern Ireland **Published by DfE**

- Utilising data from the Northern Ireland Annual Business Inquiry (NIABI) survey 2017 to 2021, a measure of pre-tax profitability was derived. This measure is comprised of Gross Value Added (GVA) and is net of both wages and salaries and capital expenditure. The NIABI covers most of the economy, excluding Financial Services and the crop and animal production components of agriculture. Government and not for profit businesses have been removed from the analysis.
- The proportion of businesses reporting pre-tax profitability between 2017 and 2020 was between 80% and 82%. The proportion of businesses reporting profitability increased to 85% in 2021 reflecting a rebound effect to the Covid-impacted 2020.
- As might be expected, the key driver in changes to pre-tax profitability over the period 2017 to 2021, was turnover which increased, amongst the businesses included within these analyses, to £74.55bn in 2021. Whilst the value of purchases and the level of salaries and wages broadly increased 2017 to 2021, the increase in turnover over the period was such that pre-tax profitability rose from £8.12bn in 2017 to £13.18bn in 2021.
- Gross Value Added (GVA) rose from £20.61bn in 2017 to £28.51bn in 2021 with pre-tax profitability as a share of GVA at between 39% and 42% between 2017 and 2020, rising to 46% in 2021.
- Businesses were categorised into one of five groups reflecting the broad structure of the Northern Ireland economy: Agriculture, Construction, Distribution (wholesale and retail), Production, and Services.
- In 2021, turnover was highest for Distribution businesses (£29.52bn) followed by Production businesses (£19.67bn) and Services (£15.8bn). Purchases were highest for Distribution businesses (£23.03bn), followed by Production (£12.8bn) and Construction (£6.09bn). Salaries and wages were highest for Services businesses (£5.93bn), followed by Production (£3.21bn) and Distribution (£2.51bn).
- Services businesses as a group had pre-tax profitability of £5.05bn in 2021 compared to £3.62bn for Production businesses, £2.62bn for Distribution (wholesale and Retail) businesses, and £1.82bn for Construction businesses. The increase in total pre-tax profitability in 2021 compared to previous years was driven mainly by Services and Production businesses.
- The whole economy average pre-tax profitability per business was £236,000. Given the differences in the number of businesses in each group, average pre-tax profitability per business in 2021 was highest for Production businesses (£651,000), followed by Distribution (£214,000), Services (£193,000) and Construction (£163,000).
- Looking at each business groups' pre-tax profitability share of GVA between 2017 and 2021, Distribution (wholesale and retail) businesses was the only group of businesses to show a decline in 2021 compared to previous years reflecting a contraction in the pre-tax profitability values in 2021 to levels last seen in 2017.
- At a more disaggregated individual Standard Industrial Classification (SIC) sector level, the three groups of businesses that consistently ranked the highest in terms of values for the key element underpinning pre-tax profitability were in the Wholesale and Retail, Manufacturing and Construction sectors.
- The Wholesale and Retail trade had the highest value of pre-tax profitability in 2021 at £2.62bn, accounting for 20% of all profitability in the economy in that year. This was closely followed by Manufacturing at £2.46bn (19% of all profitability) and Construction at £1.82bn (14% of all profitability).

Ulster Bank Northern Ireland PMI **Published by Ulster Bank Northern Ireland**

- Business activity returned to growth in the Northern Ireland private sector in the final month of 2023, but new orders continued to fall as demand remained subdued and the pace of job creation eased. Rates of inflation of both input costs and output prices quickened, but were softer than the averages for 2023 as a whole.
- The headline seasonally adjusted Business Activity Index rose back above the 50.0 no-change mark for the first time in six months in December, posting 51.6 from 49.2 in November. Activity rose in manufacturing, services and retail, but fell in construction.
- Data suggested that the rise in activity in part reflected the completion of outstanding business, levels of which decreased sharply in December. Firms worked through backlogs amid a further reduction in new orders, albeit one that was the least marked in seven months of decline.

- Companies in Northern Ireland raised employment again, but only marginally and to the smallest extent in the period of job creation which covered each month of 2023. Some firms highlighted difficulties finding new staff.
- A marked rise in input costs was recorded, primarily due to increased wages. In turn, companies raised their own selling prices at a solid pace that was the fastest in three months. In both cases, however, rates of inflation were softer than the averages for the year.
- Firms remained optimistic that output will increase over the coming year, with positive sentiment reflecting hopes for a rise in new orders and business investment plans. That said, confidence eased slightly from November.

BUSINESS REGULATION

Being better informed- FS Regulatory Bulletin: January 2024 **Published by PwC**

- In late 2023, regulatory bodies introduced significant updates in various areas including Basel 3.1 reforms, wholesale markets reform, regulations concerning critical third parties (CTPs), and ensuring access to cash.
- The Financial Conduct Authority (FCA) confirmed the establishment of a UK consolidated tape for bonds and proposed changes to transparency requirements in bond and derivatives markets, aiming to finalize these rules in 2024 for a 2025 implementation. Additionally, the FCA released a consultation paper aimed at transforming the UK Listing Rules to simplify them and make them more appealing to a broader range of companies, with plans to finalize these rules in the second half of 2024.
- The Prudential Regulation Authority (PRA) outlined its method for implementing Basel Committee on Banking Supervision reforms, targeting a 3.2% increase in Tier 1 capital requirements by January 2030. The PRA also advanced the Strong and Simple regime, renaming simpler-regime firms as Small Domestic Deposit Takers (SDDTs) and aligning rules with previous consultations.
- For retail banking, the FCA proposed rules to ensure reasonable access to cash for customers, requiring firms to conduct thorough assessments of cash access and address any deficiencies by the third quarter of 2024.
- On the topic of CTPs, the Bank of England (BoE), PRA, and FCA sought feedback on regulations to mitigate risks from service providers critical to financial stability, emphasizing operational resilience without imposing additional requirements on firms.
- In the insurance sector, the PRA issued a letter expressing concerns over General Insurance (GI) firms' increasing assumptions of underwriting profits in their internal models, which could unjustifiably lower their Solvency Capital Requirement.
- HM Treasury and the FCA initiated a discussion on the boundary between financial advice and guidance, proposing ways to clarify and simplify advice, and seeking input on enabling firms to provide tailored support and simplified advice.
- These regulatory updates and proposals reflect a comprehensive effort to enhance transparency, operational resilience, and access to financial services, while aligning UK regulations with international standards and addressing industry feedback.

Succeeding Globally

TRADE

Northern Ireland Economic Trade Statistics 2022 **Published by NISRA**

- In 2022, total sales by businesses in Northern Ireland (NI) were estimated to be worth £85.2 billion.
- Sales within NI amounted to £56.1 billion, accounting for 65.9% of total sales.
- The remainder of sales were evenly split between those to GB (£15.7 billion) and sales to markets outside the UK (i.e. exports) of £13.3 billion, accounting for 18.5% and 15.6% of total sales respectively in 2022.
- Total sales of goods were estimated to be worth £55.6 billion in 2022, an increase of 7.6% (£3.9 billion) over the year. Total sales of goods represented 65.3% of total sales in 2022.
- Sales of services represented 34.7% of total sales in 2022 and were estimated to be worth £29.5 billion, an increase of 9.3% over the year (£2.5 billion).
- Total purchases by NI businesses were estimated to be £54.0 billion in 2022.
- Purchases within NI amounted to £31.1 billion, accounting for 57.6% of total purchases.

- Total purchases of goods were estimated to be worth £43.4 billion, an increase of 8.8% (£3.5 billion) over the year. Total purchases of goods represented 80.5% of total purchases in 2022.
- Purchases of services represented 19.5% of total purchases in 2022 and were estimated to be worth £10.5 billion, an increase of 0.7%.
- In terms of the balance of trade, NI businesses exported more goods and services (£13.3 billion) than they imported (£9.8 billion), resulting in a trade surplus of £3.5 billion.

INWARD INVESTMENT

[No relevant material sourced for this quarter's release.]

TOURISM

Tourism 360 - Performance Update **Published by Tourism NI**

- Available data for 2023 indicate an overall positive year to-date tourism picture. Northern Ireland hotel room occupancy for January-September 2023 exceeded pre-pandemic levels, with continued strong growth evident for January-September's average daily rate and revenue per available room.
- However, following a very strong 2022, coupled with the re-opening of world markets, there are some indications of a slowdown in growth for the closer to home markets as anticipated. This is balanced with continued signs of recovery from international markets.
- Overall while concerns around cost-of-living are impacting on consumer confidence, with spending on leisure activities likely affected, the desire to travel and the air access forward picture remain strong. As consumers' wallets will be further strained with winter fuel bills and Christmas approaching, price sensitivity and value for money are becoming even more important.

Tourism Industry Barometer **Published by Tourism NI**

- Overall, findings suggest the industry had a positive business performance during January-September 2023 with the majority reporting business turnover exceeding or similar to 2022 levels.
- Room yields have been higher (52%) or similar (30%) to 2022 for the majority of accommodation providers.
- A significant proportion of businesses report growth across the closer to home markets (NI, ROI & GB), although a minority of around one fifth experienced a decline in visitor volumes from these key markets compared to 2022.
- Over 8 in 10 businesses have seen international visitor volumes either exceed or match 2022 visitor volumes, with just under one fifth reporting a decline on the previous year.
- Overall, the outlook is generally favourable for the remainder of the year, although around one quarter expect reduced levels of business in the months ahead.
- Expectations regarding visitor volumes for 2024 are largely positive, with the majority of businesses anticipating similar or higher visitor volumes than 2023. Just under one fifth expect visitor volumes to be below this year's performance levels.
- Significant levels of concern prevail regarding the continued impact of reduced consumer disposable income, alongside rising energy costs, which sit alongside other increasing operating costs.
- In response to rising operating costs and consumer cost of living pressures, just over 4 in 10 businesses indicated that they had or were raising their prices.
- Other key actions businesses are taking in relation to rising operating costs include reducing energy consumption and searching for better supplier deals. One in 10 businesses indicate that they are operating under reduced opening days/hours, with a similar proportion opting to cut back on some products/services.
- In response to rising operating costs and consumer cost of living pressures, just over 4 in 10 businesses indicate that they had or were raising their prices.
- Approximately one third of businesses employing staff highlight ongoing challenges in relation to staff recruitment and retention, particularly for entry level positions.
- Despite the concerns expressed regarding the challenging operating environment, the majority of business remain confident that they will maintain overall business profitability for the months ahead.
- The continued success of repeat visitors and the return of overseas visitors were most likely to be highlighted as reasons to be positive for the remainder of the year and into 2024.

Economic Infrastructure

ENERGY

[Electricity Consumption and Renewable Generation in Northern Ireland] **Published by NISRA**

- For the 12-month period October 2022 to September 2023: 47.4% of total electricity consumption in Northern Ireland was generated from renewable sources. This represents a decrease of 1.6 percentage points on the previous 12-month period (October 2021 to September 2022).
- 7,357 Gigawatt hours (GWh) of total electricity was consumed in Northern Ireland. Over the same period, some 3,490 GWh was generated from renewable sources located in Northern Ireland.
- 83.7% of all renewable electricity generated within Northern Ireland was generated from wind. This compares to 84.9% for the previous 12 month period (October 2021 to September 2022).

Sustainability Index 2023 **Published by CBRE**

- Better energy efficiency appears to correspond with greater resilience to market downturns. In the context of falling values during the 12 months to Q2 2023, the index shows that efficient properties in the Office and Industrial sectors experienced smaller declines in total returns than inefficient properties.
- Since the start of the index, efficient assets in the Office and Retail sectors experienced higher cumulative total returns. In contrast, there was little differentiation between total returns for efficient and inefficient assets in the Industrial sector over the same period.

Energy Trends December 2023 **Published by Department for Energy Security & Net Zero**

- Total energy production for the third quarter of 2023 was down 8% on the same period last year. Oil production dropped 10% to a new record quarterly low, and gas production fell by 13%. Energy production from renewable assets increased with wind, solar and hydro output up by 17%.
- Renewable electricity generation grew 7% on the same period last year due to increases in capacity (up 5%) and more favourable weather conditions. As a share of total generation, renewable generation increased to 44.5%, outpacing fossil fuel's share for the fourth consecutive quarter.
- Fossil fuel electricity generation decreased, down 31% largely to near a new record low because of stronger renewable generation and higher net imports from France. These imports contrast with last year where the UK was a net exporter of electricity. The fossil fuel share of generation decreased nearly 10 percentage points to 37.0%.
- Final energy consumption by households fell 6% on the same period last year to a record quarterly low. Whilst the warmest September in our records will have contributed to lower demand, high energy and other prices also played a part. Consumption by industrial users fell 2% and other final users (including commercial, public and agriculture) fell by 5%. Transport consumption rose by 3% but remains down 7% on pre-pandemic levels.
- Net import dependency increased slightly, up from 36.3% to 37.8%, similar to the annual figures from 2021 and 2022. With European gas storage nearing capacity, the UK imported less gas for export through the pipeline infrastructure to Europe. In contrast to last year, the UK was also a net importer of electricity due to favourable pricing differentials through the interconnectors this summer.

TELECOMS

Telecommunications Market Data Update - Q3 2023 **Published by Ofcom**

- UK fixed voice service revenues totalled £1.30bn in Q3 2023; a decrease of £18.6m (1.4%) from the previous quarter and £117.8m (8.3%) year-on-year. BT's share of these revenues was 49.3%.
- The total number of fixed lines (including PSTN lines, ISDN channels and managed VoIP connections) declined by 950k (3.3%) during the quarter to 27.6 million.
- Total fixed-originated call volumes fell by 1328 million minutes (18.9%) year on year, to 5.69 billion minutes.
- There were 28.6 million fixed broadband lines at the end of Q3 2023, an increase of 528k (1.9%) year on year.
- There were 20.8 million 'other inc. FTTx' broadband connections (predominantly fibre-to-the-cabinet and full fibre connections) at the end of Q3 2023, accounting for 72.8% of all lines.

- The number of ADSL lines fell by 155k (6.2%) during the quarter, while the number of cable lines grew by 28k (0.5%) and the number of 'other inc. FTTx' lines increased by 499k (2.5%).
- Mobile telephony services generated £3.51bn in retail revenues in Q3 2023, a £144.2m (4.3%) increase from a year previously.
- Average monthly retail revenue per subscriber was £13.30 in Q3 2023, with post-pay subscribers generating more revenue than pre-pay users (averaging £16.22 compared to £5.19 for pre-pay).
- The number of active mobile subscriptions (excluding M2M) was 88.7 million at the end of Q3 2023, up 1.5 million (1.7%) from the year before.
- Over the same period, the number of dedicated mobile broadband subscriptions declined by 172k (3.5%) to 4.8 million.
- The number of mobile-originated voice call minutes declined by 3.53 billion (8.5%) to 37.98 billion minutes year-on-year, with calls to landlines decreasing by 13.4% to 7.39 billion minutes.
- The number of mobile messages (including SMS and MMS) saw a year-on-year decline, down 1.72 billion messages (18.9%) to 7.38 billion.
- Data usage increased, with volumes up 363 PB (18.9%) year-on-year to 2286 PB.

AIR ACCESS

Overseas travel and tourism, provisional **Published by ONS**

- Overseas residents made 10.9 million visits to the UK in Quarter 3 (July to Sept) 2023; this has increased from the 9.9 million visits that were made in Quarter 3 2022.
- Overseas residents spent £10.1 billion on their visits to the UK in Quarter 3 2023, an increase of £1 billion compared with visits in Quarter 3 2022.
- UK residents made 28.3 million visits abroad in Quarter 3 2023; this compares with 25 million visits in Quarter 3 2022.
- UK residents spent £24.5 billion on their visits abroad in Quarter 3 2023; this was £2.2 billion more than they spent in Quarter 3 2022.
- Holidays were the most popular reason for UK residents to travel abroad in Quarter 3 2023; this is also true for overseas residents visiting the UK.
- Overseas residents' visits to the UK and UK residents' visits abroad remain lower than pre-coronavirus (COVID-19) pandemic levels from 2019; however, spending was higher in Quarter 3 2023 than in Quarter 3 2019 for both groups.

Government

NORTHERN IRELAND

DfE Monthly Economic Update December 2023 **Published by DfE**

- The latest statistics show significant changes in Northern Ireland's (NI) economic and trade landscape for 2022 and 2023.
- External trade increased notably in 2022, with sales and purchases to and from countries outside NI rising by approximately 14% and 9%, respectively. Sales to Great Britain and Ireland grew by around 15% and 18%, respectively, while purchases from these areas also increased, albeit at different rates.
- Services imports from Ireland saw a significant increase of nearly 74%, indicating a shift towards service-based transactions, despite being a small part of NI's overall trade.
- NI's international trade in goods also saw robust growth, outpacing the other UK nations in exports growth to Q3 2023.
- Global trade is projected to decrease by 5% by the end of 2023, with a decline in goods trade but an increase in services trade. The outlook for 2024 is uncertain and generally pessimistic, influenced by geopolitical tensions, debt, and economic fragility.
- NI's service sector showed growth, reaching a new high, while both the production and retail sectors declined. Business activity contracted for the fifth consecutive month in November due to weak demand, although business confidence and employment showed some positive signs.

- Despite a convergence trend, high street footfall hasn't returned to pre-pandemic levels, with Belfast City Centre footfall for Black Friday 2023 being 15% lower than in 2019.
- The labor market presents a mixed picture: while unemployment remains low and employment rates high, payrolls saw a marginal decrease, and redundancies increased significantly. The decline in self-employment jobs in NI was notably steep compared to other UK nations.
- The Bank of England kept the Bank Rate steady at 5.25%, with UK GDP growth expected to be flat in the near term. Inflation rates showed a slight decrease, with CPI at 3.9% for the year to November 2023.
- Renewable energy generation in NI decreased slightly, with wind energy dominating the renewable sector.
- The business landscape shows signs of recovery but remains below pre-COVID levels. The Enterprise NI 2023 Enterprise Barometer highlights challenges in filling vacancies and mixed views on post-Brexit trading arrangements, with a significant proportion seeing NI's dual market access as a business opportunity.

ENGLAND

[No relevant material sourced for this quarter's release.]

SCOTLAND

Scottish economic bulletin: December 2023 **Published by Scottish Government**

- Latest data show Scotland's GDP grew 0.2% in the three months to October, down from 0.4% in the three months to September. This reflected a sharp fall in output of 0.5% during the month of October (-0.3% across the UK as a whole) with anecdotal evidence indicating that the winter storms and exceptionally wet weather during the month impacted on business activity across sectors.
- Over the three months to October, growth was driven by the services sector (0.1%) and production sector (1.4%) offsetting a fall in construction sector output (-0.4%). Within the production sector, manufacturing output continued its downward trend, falling 1.4% in the three months to October and has now fallen 5.6% over the past year. In the services sector, consumer facing services grew 0.2%, with growth across hospitality and recreational activities, while retail output continued to contract.
- Business conditions remain challenging, however falling inflationary pressures over 2023 (including input costs) is providing a welcome albeit gradual easing in cost pressures for businesses and households. Cost pressures related to wage and energy costs remain key concerns for business, alongside weakening new orders as interest rates continue to squeeze demand and spending in the economy. That said, business optimism for output growth over the year ahead has remained resilient, partly reflected in businesses continuing to add to their staffing levels, though economic uncertainty is continuing to impact on wider business investment intentions.
- Latest consumer sentiment data for November shows a slight fall over the month and remains in negative territory. However, sentiment has improved significantly over the past year as inflationary pressures have gradually eased, unemployment has remained low and earnings growth has remained robust with average earnings in Scotland forecast to grow faster than the UK over 2023-24. Despite this, households continue to report challenges relating to mortgage and energy bills and more broadly are less relaxed about spending money in these circumstances.
- Looking ahead, the SFC forecast GDP growth to remain relatively subdued over 2024 and 2025 with growth of 0.7% and 1.1%. This reflects their view that both inflation and interest rates are expected to remain higher for longer than previously forecast. That said, the resilience of business optimism for the coming year, increased expectations that interest rates may have peaked, the tight labour market with increased earnings growth, improved consumer sentiment, alongside the opportunities for investment in Scotland, provide a strengthening basis for an improving growth outturn in 2024.

WALES

Quarterly Report **Published by Economic Intelligence Wales**

- Growth outlook: Economic growth projections for 2023 have been upgraded, inflation continues to ease from the 11.1% peak in October 2022, and there is an increase estimated in the latest UK GDP figures.

- Changing business conditions: Investment levels have grown and are now above 2019 Q4 levels, payroll employees in Wales grew in the year to August 2023, and Welsh construction index experiences continued growth.
- SME finance: Average interest rates increased to 7.55% as the base rate rose, SMEs were using external finance in 2023 Q2, and high credit risk small businesses in Wales are up from 4.7%.

REPUBLIC OF IRELAND (ROI)

Quarterly Economic Commentary, Winter 2023 **Published by ESRI**

- While the underlying Irish economy as measured by modified domestic demand (MDD) continues to grow, it is clear that external sources of growth are slowing somewhat.
- Global conditions continue to moderate as households and firms in most Western economies are facing elevated costs of finance through higher interest rates.
- This has implications for the domestic economy given its small and open nature. However, the moderating impact on the Irish economy is compounded by the slowdown in growth rates experienced by sectors which have been central to the recent strong growth performance.
- Exports and investment levels in the domestic economy, for example, have registered negative growth rates in recent quarters principally due to the slowdown in multinational-related activities.
- Despite this, MDD is still growing at a consistent rate of approximately 0.6%, and other indicators such as Exchequer receipts and the labour market variables all indicate resilient domestic growth. We expect MDD to grow at an average of 2% in 2024.
- The recent Budget was a sizeable package with an additional expenditure level of approximately €14 billion being outlined for the coming year. While there were elements in the Budget which were laudable, overall, the package was quite stimulatory and would have benefitted from being more targeted in nature.
- This is particularly the case given the persistence observed in the rates of CPI inflation. We now forecast that inflation will be 6.4% in 2023 before falling to a still elevated rate of 2.9% in 2024.
- A Special Article to the Commentary by Doorley et al. presents the annual distributional review of the impacts of the Budget. Doorley et al. conclude that the Budget left households across the income distribution better off by just over 2%, with the lowest income quintile benefitting the most by 5-6% of disposable income. They also note that policymakers should move away from the use of temporary measures to compensate households for the presence of inflation.

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