Economic Research Digest
Quarter 2 2024

Department for the Economy
An Roinn Geilleagair
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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:

- NISRA published that economic activity in Northern Ireland increased by 1.4% in real terms over the quarter to Q1 2024. Compared to Q1 2023 NI's output has increased by 1.1% and is now 7.6% above the pre-pandemic level seen in Q4 2019. When assessing annualized change NI output has increased by 1.4%.
- PWC published that Northern Ireland is expected to be the fastest-growing region alongside London this year, up 1.2% in real GDP.
- The UUEPC found that the local economy has had a much stronger start to 2024 than many had anticipated. This has been driven by very encouraging employment growth, underpinned by marked expansion in the Transport, Construction and Health sectors. Given the tightness of the domestic labour market, this continued expansion has been largely facilitated by migrant labour.

** 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*

Contents

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Economic Outcomes

COMPETITIVENESS

Northern Ireland Composite Economic Index (NICEI) **Published by NISRA**

- Economic Activity in Northern Ireland increased by 1.4% in real terms over the quarter to Q1 2024. Compared to Q1 2023, NI's output has increased by 1.1% and is now 7.6% above the pre-pandemic level seen in Q4 2019. When assessing annualized change NI output has increased by 1.4%.
- The largest upward contribution to change this quarter came from increased activity in the Services sector (1.0 pps). This positive contribution was partially offset by a decrease in the Production sector (0.2 pps).
- NI's Private sector output as measured by the NICEI increased by 1.7% over the quarter and increased by 1.2% over the year. Private sector output increased by 1.5% on a rolling four quarter basis and by 7.9% when compared to pre-pandemic levels recorded in Quarter 4 2019.
- Although the measures are not produced on a fully equivalent basis, UK Gross Domestic Product (GDP) increased by 0.6% over the quarter and 0.2% over the year to Quarter 1 2024. UK GDP is now 1.7% above its pre-pandemic level seen in Q4 2019.

UK Mid-Year Market Outlook 2024 **Published by CBRE**

- Inflation continued its steady descent, falling from 4% at the end of 2023 to the Bank of England's 2% target rate in May. This was helped by falls in food price inflation and falls in energy prices. Still, core inflation has remained sticky, falling from 5.1% to 3.5% over the same period, in large pushed by services inflation not falling as much, moving from 6.5% to 5.7%.
- The Bank of England base rate has remained unchanged at 5.25% since March 2023. However, market sentiment has shifted towards rate cuts, with two members voting to cut rates at the most recent meeting in June.
- The labour market remained solid but has recently weakened slightly. The latest data show unemployment has risen to 4.4%, coupled with a fall in notified job vacancies. In addition, the number of people who are economically inactive due to long-term illness has increased by 750,000 since the end of 2019. This has contributed to the overall labour force being virtually static since then. This has potentially exacerbated upwards pressure on wages.
- The indexation of the National Minimum Wage has contributed to nominal wage inflation remaining above long-term average levels at 5.6% (including bonuses) and the feed through of these costs has contributed to the stickiness of core inflation.
- GDP increased by 0.6% in the first quarter. This was a welcome respite from the falls in activity seen in Q3 and Q4 2023. The strength of the service sector was a key component of growth. Consumer demand also picked up with retail sales bouncing back after a poor end to 2023.

PRODUCTIVITY AND GROWTH

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

- The number of employees receiving pay through HMRC PAYE in NI in June 2024 was 808,000, an increase of 0.4% over the month and an increase of 2.4% over the year.
- Earnings from HMRC PAYE indicated that NI employees had a median monthly pay of £2,329 in June 2024, an increase of £83 (3.7%) over the month and an increase of £235 (11.2%) over the year.
- In June 2024, the seasonally adjusted number of people on the claimant count was 38,800 (4.0% of the workforce), an increase of 3.1% from the previous month's revised figure. The June 2024 claimant count remains 30% higher than the pre-pandemic count in March 2020.
- NISRA, acting on behalf of the Department for the Economy, received confirmation that 310 redundancies occurred in June 2024. Over the year, July 2023 to June 2024, 2,560 redundancies were confirmed. There were 390 proposed redundancies in June 2024, taking the annual total to 2,890.
- The latest NI seasonally adjusted unemployment rate (the proportion of economically active people aged 16 and over who were unemployed) for the period March-May 2024 was estimated from the Labour Force Survey at 2.0%. This was a decrease of 0.2 percentage points (pps) over the quarter and a decrease of 0.3pps over the year.

- The proportion of people aged 16 to 64 in work (the employment rate) decreased by 0.6pps over the quarter and increased by 0.3pps over the year to 71.1%.
- The economic inactivity rate (the proportion of people aged 16 to 64 who were not working and not seeking or available to work) increased by 0.8pps over the quarter and decreased by 0.1pps over the year to 27.4%.
- The total number of weekly hours worked in NI was estimated at 28.3 million hours, an increase of 2.4% on the previous quarter and an increase of 0.6% on the equivalent period last year.

The Macroeconomic Policy Outlook **Published by Resolution Foundation**

- Real wages, measured in terms of the goods that workers can buy with their regular wages, rose by around 2% in the year to February 2024. This is much faster than the average in recent years whereby real wages did not grow at all in the preceding 16 years. The positive side to this wage growth is that it has protected household incomes, but it may worry the Bank of England because real wages are rising faster than productivity per worker, which fell by 0.6% in the year to Q4 2023.
- Productivity is the main determinant of real wages over the long run. Two main tailwinds have made recent real wage growth affordable. Firstly, firms have saved money on pension contributions as higher interest rates have closed the historic deficits in pension funds. Secondly, global commodity prices have fallen back from the highs of 2022, giving a boost to workers' real wages by reducing the price of what UK workers buy compared to what they produce.
- Overall, the current level of real wages now looks to be affordable, given productivity, taxes, and relative prices, although the data are uncertain, the labour share does not look high. The tailwinds of the past year cannot be relied on to propel future growth. For real wages to keep rising in the long run, a return to decent productivity growth is needed.

Ulster University Economic Policy Centre Summer 2024 Outlook **Published by UUEPC**

- Against expectations, the local economy has had a much stronger start to 2024 than many had anticipated. This has been driven by very encouraging employment growth, underpinned by marked expansion in the Transport, Construction and Health sectors. Given the tightness of the domestic labour market, this continued expansion has been largely facilitated by migrant labour. Therefore, with stricter migration rules, initiatives to re-engage the economically inactive will be key to maximising future economic growth opportunities.
- In addition, as inflationary pressures ease, the Bank of England will have more flexibility to reduce interest rates and although concerns remain about the persistence of services inflation, the expectation remains that the Bank will apply two quarter-point cuts to base rates in the second half of 2024. Looking into the medium term, rates are expected to settle at a new equilibrium of approximately 3.5%, much higher than the 'emergency' rates observed throughout the 2010s.
  This more benign monetary environment along with lower inflation and continued increases in real wages, will boost economic growth in the next few years, before falling slightly in the medium term.

UK Economic Outlook **Published by PWC**

- Northern Ireland is expected to be the fastest-growing region alongside London this year, up 1.2% in real GDP.
- The UK's GDP is predicted to grow by 1.0% in 2024, up from the 0.5% prediction made in PwC's November 2023 Outlook.
- Inflation has returned to the 2% target, and projections suggest it will hover around this level for the remainder of 2024.
- Northern Ireland is leading the UK's recovery with positive signs of growth, according to the latest PwC UK Economic Outlook. Despite post-pandemic challenges, the region is projected to achieve a 1.2% growth rate this year, tied for the highest in the UK. This growth is driven by Northern Ireland's robust public sector and thriving agriculture industry. Although the growth rate is modest compared to historical standards, it underscores the resilience of Northern Ireland's economy amid the UK's broader low-growth environment.
- Economic growth is expected to differ geographically across the UK, with London (1.2% growth) and Northern Ireland (1.2%) set to lead the way for 2024, while the West Midlands (0.7%), Southeast (0.8%) and Northeast (0.8%) are likely to lag behind.

LIVING STANDARDS, WELLBEING AND PROSPERITY

Seven key facts about UK living standards **Published by IFS**

- Median income growth since 2009–10 has been slow, with pensioners doing slightly (but not dramatically) better. Median income grew by 6% from 2009–10 to 2022–23. Before the Great Recession, growth of 30% in a 13-year period could have been expected. Even comparing with 2011–12, the year in which incomes reached their nadir after the Great Recession, incomes rose by only 10% over the subsequent 11 years.
- Income growth for high income households has been even weaker since 2009–10 than for people on average or lower incomes. At the 90th percentile, total income growth was just 1.5%. This has led to a small decline in income inequality.
- Absolute poverty has fallen since 2009–10, though slowly by historical standards. The overall rate of absolute poverty fell by 3.4 percentage points (ppts), a fifth of the speed seen over the previous 13 years (16.2ppts). Since the pandemic, income poverty rates have seen little changed, and some other measures of deprivation have got worse. In 2019–20, 4% of working-age adults (1.8 million) reported being unable to heat their home; by 2022–23, that figure had risen to 11% (4.6 million).
- There has been no average pay growth between the Great Recession and the pandemic, but a boom in jobs. Since 2019–20, pay has held up, despite high inflation. Average real pay in 2023–24 was just 3.5% higher than in 2009–10. Before the Great Recession, that kind of growth could have been expected every 17 months. After-tax pay is modestly higher (6.4%) thanks to tax cuts for middle earners. Together with further tax cuts in the past two months, someone on average earnings now pays about £1,600 less tax than someone on the same real earnings in 2010 would have.
- Latest data and forecasts show disposable incomes back at pre-pandemic levels and average earnings higher. Real average earnings this year are expected to be 4% higher than in 2019–20, with median disposable income remaining broadly unchanged.
- The UK went from one of the fastest growers for working-age incomes among developed countries pre-2007, to one of the slower performers. While growth slowed across the board, the UK's growth from 2007 to 2019 (6%) was well below that of the US (12%) and Germany (16%).
- Raising living standards over the long run means raising productivity, and policy can play a critical role.

Monthly CPI Tracker **Published by NIESR**

- ONS figures indicate that annual CPI inflation remained at the Bank of England's target of 2% in June, after hitting the target for the first time since July 2021. This figure reflects upward contributions, such as those from restaurants and hotels, being offset by downward contributions from several item categories, particularly clothing and footwear.
- Inflation is expected to rise throughout the second half of 2024, before falling back towards target in early 2025. Moving forward, it would be important to keep an eye on month-on-month inflation figures ('new' inflation) to determine to what extent inflation will rebound in the coming months.
- Although headline inflation remaining at the target level is good news, underlying inflationary pressures remain high. Today's data show that core inflation remains elevated at 3.5%, as does services inflation at 5.7%. Given last month's strong wage growth data, services inflation may remain elevated in the near-term, posing an upward pressure to headline inflation.
- However, it is encouraging that NIESR's trimmed-mean inflation measure (which excludes 5% of the highest and lowest price changes to eliminate volatility) has fallen to 1.7%, remaining around the lowest levels in nearly three years. This figure reflects large price increases in some sectors, driving the headline rate upwards.
- Considering that core and service inflation remain elevated, and the fact that inflation is expected to rise throughout the rest of the year due to base effects, the BoE may exercise some caution on their decision.

Innovation and Enterprise

INNOVATION

Micro Business Innovation Survey 2024 **Published by Department for the Economy**

- The Micro Business Innovation Survey (MBIS) is a voluntary telephone survey of 1,000 businesses in Northern Ireland that have between 1 and 9 employees. Some key takeaways from the 2024 edition of the survey are as follows:
    - There was a significant decrease in innovation rates amongst micro businesses when compared to 2014, with the number of innovation active businesses dropping to 47% from 56%, and the number of broader innovators declining to 59% from 86%.
    - Higher rates for innovation activity and broader innovation were evident amongst those: trading for five years or less, those with 5-9 employees, those whose most senior person was educated to HND level or higher, those that had at least one female owner, those that had turnover in excess of £250k in 2023, and those that had markets outside Northern Ireland.
    - Considerably fewer micro businesses had invested in innovation-related activities when compared to 2014, with the most notable decreases occurring in computer hardware (down to 14% from 55%), training for innovation activities (down to 5% from 40%), and computer software (down to 22% from 52%) investment.
    - Amongst product innovators, process innovators, those with ongoing innovation activities and those who had abandoned them, there was a notable decrease when compared to 2014 in the number that had co-operated with external partners for innovation purposes.
    - More than four in five innovation active micro businesses cited a factor that restricts innovation activity, with around seven in ten having referenced more than one.

Leadership diversity, business advice and firm-level innovation outcomes **Published by Enterprise Research Centre**

- Business advice has been shown to contribute to business growth and performance. Providing business advice has therefore been seen as having the potential to address the impact of gender and ethnic differences on business start-up rates, growth and survival. Internationally, these considerations have led to advice programmes directing targeted advice at female owned and minority-owned enterprises.
- Interest in diversity and its impact on business leadership and performance has also increased significantly in recent years as organisations seek to establish a business case for supporting diversity.
- Here, the relationship between diversity, business advice, and innovation outcomes is considered. Two specific research questions are addressed:
    - Does diversity in firms' leadership teams influence their willingness to seek external business advice?
    - Does diversity in firms' leadership team impact firms' ability to benefit from external advice?
- The analysis uses new data from the UK Innovation State of the Nation Survey (ISNS 2023) which provides information on firm-level innovation-related indicators, as well as information on diversity in firms' leadership teams. A two-stage model is used which simultaneously reflects the impacts of diversity on firms' willingness to take, and ability to benefit from, external advice.
- The analysis suggests three key findings:
    - Both gender and ethnicity diversity in leadership are positively associated with a higher likelihood of a firm seeking external advice.
    - When firms seek external advice; they significantly and consistently outperform their non-advice-seeking counterparts in product and process innovation. These effects are stronger for product innovation.
    - The effect of advice on innovation becomes stronger as firms gravitate towards gender-balanced and ethnic-balanced management. Statistically, this effect is strongest for gender diversity and product innovation.
- Overall, gender and ethnic diversity in leadership have a twin effect on the link between business advice and innovation. Greater diversity means firms are more likely to seek advice, and when they do, greater diversity means advice provides stronger innovation benefits.

- The results suggest that promoting diversity in leadership is likely to maximise the innovation benefits of business advice. In short, firms with more diverse teams are more likely to seek advice and to be able to leverage its benefits to support innovation.
- For providers of business advice, the implication is that the innovation payoff will be greatest where firms have more diverse leadership teams. For firms, the findings reinforce the broader case for diversity, helping to maximise the benefits derived from external advice.

RESEARCH AND DEVELOPMENT

R&D and innovation pathways to business productivity and growth **Published by Enterprise Research Centre**

- There are four direct mechanisms which may link public R&D support for firms to increased innovation activity and economic performance.
  - Public R&D support will increase liquidity and financial slack in recipient companies which may help to overcome innovation risk and increase the likelihood that a firm will undertake risky projects such as innovations. Over subsidising R&D and innovation, however, can risk grant dependency.
  - Through cost-sharing, public support for private R&D and innovation reduces the required investment and de-risks private investment. Public support may encourage firms to undertake projects with a higher risk-reward ratio, with the potential for a greater impact where rates of subsidy are higher. At the same time, there is a risk of negative selection bias if subsidy rates are high, and this encourages firms to seek public support for their riskier projects.
  - Where there are market failures, public support for innovation may have market making objectives to address particular social or economic challenges. For example, there may be a particular role for public sector market-making where technologies are emergent and markets uncertain (Van Alphen et al. 2009), or where there are wider social benefits (e.g. to disadvantaged groups) from an innovation.
  - Public R&D and innovation support can play an enabling or bridging role, helping firms to access otherwise unavailable, new, or pre-existing knowledge. Innovation vouchers, for example, incentivise firms to approach knowledge providers, something they may not have done without the voucher. At the same time vouchers incentivise knowledge providers to work with new partners who they might not have worked with otherwise.

SECTORS AND TECHNOLOGIES

Components of GDP: Key Economic Indicators **Published by House of Commons Library**

- GDP can be analysed in terms of the output produced by different industries, or in terms of spending by households, business, and government. GDP is estimated to have grown by 0.4% in May 2024, following no growth in April 2024.
- Services are the largest part of the economy, making up four-fifths of output in 2022. Service sector output grew by 0.3% in May 2024.
- Manufacturing output grew by 0.4% in May 2024. Manufacturing is part of the wider production sector; production sector output grew by 0.2% in May 2024.
- Construction sector output increased by 1.9% in May 2024.
- Household consumption is the largest element of expenditure across the economy, accounting for 60% of the total in 2023.
- In Jan-Mar 2024, household consumption rose by 0.4% compared with the previous quarter.
- Government consumption is estimated to have shown no growth in Q1 2024, and investment (Gross fixed capital formation - GFCF) increased by 0.9%. Exports were down 1.0% and imports decreased by 2.7%.

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

- The NI IOS increased by 1.9% over the quarter (January - March), reaching a series high. NI IOS increased by 2.9% over the year and 2.7% on a rolling four quarter basis.
- UK output increased by 0.7% over the quarter and 0.3% over the year to reach a UK series high.
- NI services output is now 9.9% above the pre-Coronavirus pandemic level seen in Quarter 4 2019 while UK services output is 4.1% above its Quarter 4 2019 level.

- NI services output is 41.0% 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 2.2%; the Business services and finance sector increased by 0.7%; and the Other services sector also increased by 3.5%. The only sector to show a quarterly decrease was the Transport, storage, information and communications sector (3.3%).
- Over the year there were increases seen in Wholesale and retail trade; repair of motor vehicles and motorcycles; accommodation and food service sector (2.6%); the Business services and finance sector (6.7%); and the Transport, storage, information & communication sector (0.5%). In contrast the Other services sector decreased (0.1%).
- NI Retail Sales Index (RSI) increased by 4.1% over the quarter, increased by 2.6% over the year, and increased by 2.0% on a rolling four quarter basis.

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

- The NI IOP decreased by 1.5% over the quarter (January - March) and decreased by 4.5% over the year. In comparison, the UK IOP increased by 0.9% over the quarter and by 0.5% over the year.
- When the most recent four quarters are compared to the previous four quarters, the NI production sector decreased by 3.6% while the UK production sector increased by 0.2%.
- The NI IOP is 0.9% above the pre-Coronavirus pandemic level seen in Quarter 4 2019, while the UK remains 8.1% below its Quarter 4 2019 level.
- The quarterly decrease in NI production output of 1.5% was driven by decreases in Manufacturing (0.4%) and Mining and quarrying (11.8%). This was partially offset by an increase in Electricity, gas, steam and air conditioning supply (0.9%). Water supply, sewerage and waste management (Inc. recycling) was unchanged over the quarter (0.0%).
- The annual decrease in NI production output of 4.5% was driven by decreases in all four sectors - Manufacturing (3.7%), Electricity, gas, steam and air conditioning supply (0.2%), Water supply, sewerage and waste management (Inc. recycling) (1.8%) and Mining and quarrying (21.9%).

ENTREPRENEURSHIP

GEM Northern Ireland 2023/2024 National Report **Published by Global Entrepreneurship Monitor**

- Northern Ireland has historically lagged behind the rest of the UK in terms of enterprise start-up activity and the GEM Global project tracks this through its unique annual survey which focuses on the measurement of new business formation at the level of the individual.
- The rate of Total early-stage Entrepreneurial Activity (TEA) in Northern Ireland in 2023 is 9.7%, up from 8.7% in 2022. This figure is just slightly lower than a figure of 10.7% in the UK overall and 10.8% in England in 2023, the differences are statistically insignificant.
- Pooling the data over the most recent three years (2021-23), to remove annual fluctuations, gives a TEA rate of 9.2% for Northern Ireland. This rate, along with that in Scotland (9.1%) is significantly lower than the rate of 11.4% in England and 11.0% in the UK.
- The female TEA rate in Northern Ireland in 2023 is 8.2%, continuing its increasing trend in the most recent years (7.3% in 2022). The male rate in 2023 is 11.3%, also higher than that of 2022 (10.2%). As a result, the gap in TEA rate between males and females has remained the same in 2023, after its slight decrease in 2022.
- With regards to gender differences, on average female TEA rates over the 2021-23 period are around three fifths the male TEA rates although the ratios vary from 25.3% in Derry and Strabane to over 130% in Causeway Coast and Glens. In fact, 2023 saw that three councils: Causeway Coast and Glens, Newry, Mourne and Down, and Belfast reported higher female TEA rate than that for males, while Antrim and Newtownabbey and Mid and East Antrim, together with Derry and Strabane, are the three councils in which the female TEA rate is considerably lower than the male rate, even though the differences are mostly statistically insignificant.
- TEA rates tend to vary by age with individuals in the UK aged between 25 and 34 typically having higher rates of early-stage entrepreneurial activity than other groups. In 2023, however, two nations that diverge from this pattern are Wales and Northern Ireland (where the 18 to 24 age groups have the highest rate, although these are not statistically significant). In particular, the TEA rate for this younger group in Northern Ireland has increased from 10.5% in 2022 to 13% in 2023. However, the differences between this and other older groups are statistically insignificant.

- The proportion of non-entrepreneurial working age adults in Northern Ireland who expect to start a business within the next three years is 18.9% in 2023, a slight increase from its value of 18.1% in 2022. For the UK, this figure also increased from 18.5% in 2022 to 19.7% in 2023.
- In 2023 there was a slight increase in fear of failure, with the proportion of non-entrepreneurial individuals of working age in Northern Ireland who agreed there were good start-up opportunities but also report they are afraid of starting a business in case it might fail, raising from 60.6% in 2022 to 62.9% in 2023. The opposite trend is found for the UK, where the figure decreased slightly from 58% in 2022 to 56.5% in 2023.
- In 2023, less than one-sixth of Northern Ireland early-stage business owners expect to achieve high growth (15.3%), continuing the decreasing trend from 21.3% in 2021 to 17.1% in 2022. In contrast, this rate has increased slightly in the UK, from 14.6% in 2022 to 15.1% in 2023.
- GEM measures motivation to start a business across four main categories, they are: to make a difference in the world; to build great wealth or a very high income; to continue a family tradition; or to earn a living because jobs are scarce.
    - "To build great wealth or a very high income" was the most stated motivation for entrepreneurs in Northern Ireland, overcoming the "to earn a living because jobs are scarce" option that consistently dominated in previous years.
    - While the proportion of respondents who stated that "to earn a living because jobs are scarce" is their main motivation decreased from 63.3% to 56.3% for Northern Ireland, it has increased from 63.9% in 2022 to 66.5% in 2023 in the UK.

BUSINESS GROWTH

NI Local Growth Dashboard 2024 **Published by Enterprise Research Centre**

- As with previous years this overview of a range of business growth metrics has underlined the fact that, irrespective of the measure adopted, there are very few firms in Northern Ireland which can be categorised as 'high growth' or 'scaling' and indeed contributing to productivity growth. It is also known that this small group of firms, whether startups scaling or more established businesses growing rapidly for the first or second time, have had a disproportionate impact on job creation. They are crucial to the growth and re-balancing of the economy.
- A single-minded preoccupation with HGFs and indeed SHGFs, whatever definition the OECD decide to use, may not be a sensible focus for policymakers as they seek to address the growth and productivity problems confronting the Northern Ireland economy. Not only are these measures somewhat artificially defined, but they also have the disadvantage of rendering invisible the reality of growth for the majority of businesses which is usually episodic and not constrained by an arbitrary 3-year period.
- As has been argued on many previous occasions, it would be more informative to concentrate on the importance of creating a growth pipeline at local level and monitoring its development over time. Tracking cohorts of start-ups over time, and other groups of established firms as they begin to engage in a range of activity which prepares them for future growth, would be a more meaningful focus for business support policy.

BUSINESS REGULATION

DfE Research Bulletin: Northern Ireland's unique market access position **Published by Department for the Economy**

- The Windsor Framework places Northern Ireland in a unique trading position for goods. NI is the only place that is entitled to trade goods into both the EU and Great Britain without border checks, tariffs or customs declarations. Combined, these markets have well over 500 million people and produce around £17.5 trillion in GDP (2023).
- Goods flowing into NI directly from Great Britain or Rest of the World for end use or consumption in NI can avail of the UK Internal Market System, which involves fewer customs checks and regulatory controls. Goods moving into NI that are at risk of onward movement into the EU enter through a 'red lane' process in which full EU customs checks and EU regulatory controls apply.
- Northern Ireland's unique market access is likely to be appealing for those producing highly regulated goods and looking to sell into both the UK and EU markets. That appeal is greater if it coincides with manufacturing activities where Northern Ireland already excels: the Priority Sectors – Agri-Tech, Life and Health Sciences, Advanced Manufacturing, Fintech and Financial Services, Software, Screen Industries and Low Carbon.

- However, the unique appeal of NI's unique market access may be limited currently by the extent to which goods traders rely on GB supply chains, where frictions remain. In this context, NI traders will also wish to take account of potential uncertainty about the regulatory divergence between the UK and EU and indeed NI's own potential to have regulatory divergence from these markets.

Succeeding Globally

TRADE

Trade and Investment Factsheet **Published by Department for Business and Trade**

- Total trade in goods and services (exports plus imports) between the UK and Ireland was £89.3 billion in the four quarters to the end of Q1 2024, an increase of 3.0% or £2.6 billion in current prices from the four quarters to the end of Q1 2023. Of this £89.3 billion:
  - Total UK exports to Ireland amounted to £57.0 billion in the four quarters to the end of Q1 2024 (an increase of 1.1% or £634 million in current prices, compared to the four quarters to the end of Q1 2023).
  - Total UK imports from Ireland amounted to £32.3 billion in the four quarters to the end of Q1 2024 (an increase of 6.6% or £2.0 billion in current prices, compared to the four quarters to the end of Q1 2023).
- Ireland was the UK's 5th largest trading partner in the four quarters to the end of Q1 2024 accounting for 5.1% of total UK trade.
- In 2021, the outward stock of foreign direct investment (FDI) from the UK in Ireland was £70.2 billion accounting for 4.0% of the total UK outward FDI stock.
- In 2021, the inward stock of foreign direct investment (FDI) in the UK from Ireland was £36.8 billion accounting for 1.8% of the total UK inward FDI stock.

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

- In 2023, the UK's exports of goods and services totalled £865 billion, and imports totalled £898 billion. The EU accounted for 41% of UK exports of goods and services and 52% of imports in 2023.
- The UK generally imports more than it exports meaning that it runs a trade deficit. A deficit of £187 billion on trade in goods was partly offset by a surplus of £153 billion on trade in services in 2023. The overall trade deficit was £33 billion in 2023.
- The UK had a trade deficit with the EU of £109 billion in 2023 and a trade surplus of £75 billion with non-EU countries.
- The trade deficit with all countries increased to £12.8 billion in the three months to May 2024 compared to £2.5 billion in the previous three months. Exports fell by 1.8% and imports increased by 2.9% in cash terms over this period.
- The current account, which includes investment income and transfers as well as trade, saw a deficit of £89 billion in 2023, compared with £77 billion in 2022. The current account deficit was 3.3% of GDP in 2023 compared with 3.1% in 2022.
- The current account deficit narrowed to £21.0 billion in Q1 2024 (3.1% of GDP), compared with £21.2 billion Q3 2023 (3.1% of GDP).

INWARD INVESTMENT

Business investment in the UK **Published by ONS**

- UK business investment increased by 0.5% in Quarter 1 (Jan to Mar) 2024, revised down from an initial estimate of a 0.9% increase in the provisional estimate.
- The largest contributor to business investment growth was an increase in information and communication technology (ICT) and other machinery and equipment investment.
- UK business investment is 1.0% below where it was the same quarter a year ago.
- UK whole economy investment (technically known as gross fixed capital formation (GFCF)), which includes business and public sector investment, increased by 0.9% in Quarter 1 2024, revised down from a 1.4% increase in the provisional estimate.
- UK GFCF is 0.8% below where it was the same quarter a year ago.

TOURISM

T360 - Performance Update **Published by Tourism Northern Ireland**

- Northern Ireland hotel and self-catering performance for the first three months of the year was positive, with rates remaining above those achieved during January-March 2023.
- However, there are indications of a reduced appetite for travel generally among Republic of Ireland (ROI) and NI consumers for spring/summer 2024, which follows a wider trend seen elsewhere. This is likely linked to the cost-of-living and a reduction in the pent-up demand that followed COVID. This softening in demand brings opportunities for travel on the island of Ireland as well as threats.
- There are signs of a stable performance from the international markets, with scheduled airline seat capacity to Northern Ireland during May-September 2024 currently sitting at 109% of the levels experienced in 2023.
- In the current climate, value for money and visitor experience will remain important drivers for 2024.
- According to figures released by the CSO, 1.3m overnight trips were taken by visitors from ROI to NI in 2023, up 46% compared to 2022.
- These trips translated into 3m nights spent in NI and spend of £268m, an increase of 48% on the spend recorded for 2022.
- The CSO data showed that all types of tourism grew rapidly in 2023, including holiday trips, visiting friends and relatives, and business tourism.
- While ROI domestic performance also saw growth in overnight trips and spend during 2023, increases were not to the same levels experienced for ROI to NI trips.
- NI market share of ROI trips and spend on the island of Ireland both increased in 2023.
- This positive ROI performance provided a very important source of income for the NI tourism industry at a time when the recovery in visitors from other countries was slower.

Economic Infrastructure

ENERGY

Energy Trends June 2024 **Published by Department of energy Security and Net Zero**

- Renewable electricity generation reached a near record share of 50.9% of total generation in the first quarter of the year, second only to the last quarter of 2023. Wind contributed more electricity than gas generation for the second consecutive quarter, with strong performance despite outages.
- Despite warmer weather compared to the same period last year, final energy consumption was stable on last year. On an adjusted basis that reflects seasonal and temperature trends, industrial consumption was flat but consumption by households was up by 3.1% breaking a recent run of declining quarter-on-quarter energy consumption that was associated with higher energy prices from Summer 2022. Transport demand decreased 1.7%, with increases in petrol and aviation fuel use but a drop in diesel demand.
- Energy production fell 8.9% on the same period last year, mainly due to continued low oil production which has not fully recovered since the extensive maintenance carried out in the summer of 2021. Nuclear output hit a record low as a result of maintenance and unplanned outages, down 16% on the same quarter last year.
- Gas trade is reverting to close to normal, following higher than usual trade in recent quarters as the UK supported European gas markets following Russia’s invasion of Ukraine. Imports of electricity reached a new record high of 11.2 TWh, as imports from France reached a new high. UK net import dependency was 44.4% for the quarter up 1.2 percentage points on last year.

TELECOMS

Telecommunications Market Data Update - Q1 2024 **Published by Ofcom**

- UK fixed voice service revenues totalled £1.22bn in Q1 2024, a decrease of £81.3m (6.3%) from the previous quarter and a decrease of £112.9m (8.5%) year-on-year. BT’s share of these revenues was 51.9%.

- The total number of fixed lines (including PSTN lines, ISDN channels and managed VoIP connections) declined by 588k (2.2%) during the quarter to 26.1 million.
- Total fixed-originated call volumes fell by 1,431 million minutes (22.1%) year on year, to 5.05 billion minutes.
- There were 28.5 million fixed broadband lines at the end of Q1 2024, an increase of 89k (0.3%) year-on-year but unchanged quarter-on-quarter.
- There were 20.9 million 'other inc. FTTx' broadband connections (predominantly fibre-to-the-cabinet and full fibre connections) at the end of Q1 2024, accounting for 73.4% of all lines.
- The number of ADSL lines fell by 97k (4.2%) during the quarter, while the number of cable lines decreased by 165k (3.0%) and the number of 'other inc. FTTx' lines increased by 262k (1.3%).
- Mobile telephony services generated £3.41bn in retail revenues in Q1 2024, a £227.7m (7.2%) increase from a year previously.
- Average monthly retail revenue per subscriber was £12.75 in Q1 2024, with post-pay subscribers generating more revenue than pre-pay users (averaging £15.29 compared to £5.36 for pre-pay).
- The number of active mobile subscriptions (excluding M2M) was 89.0 million at the end of Q1 2024, up 2.2 million (2.5%) from the year before.
- Over the same period, the number of dedicated mobile broadband subscriptions decreased by 185k (3.8%) to 4.7 million.
- The number of mobile-originated voice call minutes decreased by 914.4 million (2.2%) to 41.19 billion minutes year-on-year, with calls to landlines decreasing by 5.9% to 7.31 billion minutes.
- The number of mobile messages (including SMS and MMS) saw a year-on-year decline, down 0.83 billion messages (10.2%) to 7.31 billion.
- Data usage increased, with volumes up 297 PB (13.5%) year-on-year to 2497 PB.

AIR ACCESS

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

Government

NORTHERN IRELAND

DfE Monthly Economic Update July 2024 **Published by Department for the Economy**

- Danske Bank predicts modest economic growth in 2024, with an acceleration in 2025.
- Cost of living pressures are expected to ease gradually, but tight monetary policy and economic/geopolitical uncertainty may hinder investment.
- Pay gap between the NI and the UK is narrowing, with median monthly pay increasing by 7.3% since March.
- NISRA LMR (Labour Market Report) indicates continued labour market stability with low unemployment and a strong employment rate. Redundancies in June totalled 310, with an annual figure almost double the previous year but in line with pre-pandemic levels.
- NISRA LFS (Labour Force Survey) highlights a regional employment gap of up to 14.1 percentage points, with employment rates being lower in the North-West and Belfast. The disability employment gap remains around 41 percentage points, significantly wider than in Great Britain.
- Local labour productivity was 13.2% below the UK average in 2022, but the NI had the 2nd highest cumulative growth in productivity from 2019 to 2022. Innovation activity in local microbusinesses significantly declined from 86% (2010-12) to 59% (2021-23).
- Annual UK CPI inflation was 2.0% in June, aligning with MPC's forecast, while annual Irish CPI inflation was 2.2%. Average UK house price inflation was 2.2% in the year to May 2024, with the North experiencing a 4.0% increase.
- NI private sector rents rose by 10.3% in the year to April 2024, outpacing Scotland, England, and Wales.

ENGLAND

[What is the outlook for English councils' funding?](#) **Published by Institute for Fiscal Studies**

- English councils saw big cuts to their funding during the 2010s, with spending on some services down between 40% and 70% over the decade. Although like virtually all public services, funding for local government was increased during the 2019–24 parliament, councils' finances are still under significant pressure.
- This reflects increases in demands and costs for key services that have often far outpaced economy-wide inflation and has led to a growing number of councils requiring exceptional financial support.
- Despite this, the main parties' manifestos were virtually silent on their plans for council funding post-election. This means there is significant uncertainty about exactly what to expect over the next five years. This report therefore looks at a number of scenarios for councils' funding – and what these might mean for service delivery and financial sustainability given the spending pressures councils face.
- It finds that, given the current fiscal environment and overall spending plans implicit in the main parties' manifestos, cuts to some council services are highly likely unless spending pressures abate – even with big increases in council tax, and particularly in poorer parts of the country. There is also a real risk of significantly more councils being pushed to financial breaking point, joining the likes of Birmingham, Thurrock, and Woking.

SCOTLAND

[Scottish Economic Bulletin](#) **Published by Scottish Government**

- The economic outlook continues to improve, with the Scottish economy set to return to growth in 2024 after the economy remained largely flat in 2023, although growth is expected to remain modest. The UK outlook is similar, with the Bank of England's latest forecast showing growth of 0.4% in 2024. Globally, the OECD's assessment is that there are signs that the global outlook has started to brighten, and the OECD forecast global growth of 3.1% in 2024, with European economies in particular growing more slowly this year than the US and other emerging economies.

- Scottish GDP grew 0.4% in the three months to February 2024, although it fell in the latest month in the more volatile monthly data. However, it is now very likely that the economy will show growth in the first quarter of 2024, confirming that the Scottish economy has avoided a recession. The growth in services (0.7% over the three months to February) is encouraging, particularly consumer facing services growth which remains high at 1.3% over the three months. The stabilisation of the manufacturing sector is also welcome, although the further fall in construction shows that growth is far from being widespread.

- Stronger growth in consumer facing services is a sign of improved consumer confidence. Although the Scottish Consumer Sentiment Indicator remains negative and fell slightly in the first quarter to -6.2, it has improved significantly over the past year as the inflation rate has fallen, and households' assessment of the economy's performance continues to improve.

- The inflation rate fell to 3.2% in March 2024, its lowest rate since September 2021 and is expected to fall further towards the Bank of England target rate in April, although ongoing pressure from core inflation means that it may again increase slightly over the course of the year. Markets' expectations are for to the Bank Rate to fall during the year. The labour market continues to be robust, with unemployment falling to 4.0% in the latest data, and the number of payrolled employees in Scotland remaining close to its series high. Earnings also continue to grow faster than inflation, with annual earnings growth of 6.3% in March, 3.1 percentage points faster than inflation.

- Latest business surveys show that business activity continued to strengthen into March 2024, with activity reaching its highest level in 11 months. While this mainly reflects strength in the services sector, overall business optimism for the year ahead continues to improve, and there are signs that business investment is strengthening.

- Looking ahead, economic growth is forecast to strengthen, albeit modestly, across 2024 and 2025, as lower inflation supports real earnings growth. With interest rates also expected to fall this will support a pick-up in consumption. However, the path for inflation, earnings, and interest rates remains uncertain and will be an important determinant of the economic outlook. Risks to the economic outlook are becoming more balanced.

WALES

Economic Intelligence Wales Quarterly Report May 2024 **Published by Economic Intelligence Wales**

- Between December 2023 and February 2024, total UK vacancies were down by 224,000 from the level of a year ago. Estimates from PAYE show a rise in the number of payroll employees in the UK for February 2024 to 30.4m, an increase of 368,000 employees compared to February 2023. In Wales the number of payrolled employees grew by 12,200 to 1.32m in the year to February 2024.
- The UK economic inactivity rate was 21.8% in the quarter November 2023 to January 2024. In Wales the comparative figure was 26.9%.
- The value of goods exported from Wales decreased by 5.2% to £19.4bn in the year ending December 2023.
- There were an estimated 246,375 active SMEs in Wales in 2023, the vast majority (95.2%) being micro businesses employing fewer than nine people. Provisional figures for 2023 suggest that the total number of SMEs in Wales fell by around 7,000 compared with 2022, with most of this loss being within the micro enterprise category.
- The number of business births in Wales in 2023 Q4 was 2,325, whilst the number of business deaths in Wales during the same period was 2,705. The number of business deaths in Wales continues to be greater than business births, as it has done since 2021 Q2.
- The ONS Business Impacts and Conditions Survey (BICS) for 1 to 31 January 2024 (Wave 102) reported that 43.8% of Welsh businesses expected their performance would increase in the year ahead (UK 39.1%).
- ONS data showed that UK house prices fell by 1.4% in the 12 months to December 2023. The average house price in Wales in December 2023 was £214,000, representing a 2.5% decrease from December 2022.

REPUBLIC OF IRELAND (ROI)

Quarterly Economic Commentary, June 2024 **Published by ESRI**

- Headline and underlying indicators of the Irish economy both suggest the economy will grow in a robust fashion in 2024 and 2025. This is driven by a better-than-expected international outlook and robust domestic growth.
- It is now believed MDD will grow by 2.2% in 2024 and by 2.9% in 2025. This is largely influenced by an expected increase in real income this year and next of approximately 3% per annum.
- Underpinning this increase in real income is a strong expected increase in nominal income and a continued deceleration in the rate of inflation in both 2024 and 2025 of 2.3 and 1.9% respectively.
- The unemployment rate, another key indicator of underlying growth in the economy, is now set to fall to 4.1% in 2024 and to 4.0% in 2025.
- The Commentary highlights the important role played by net inward migration in increasing the labour force in the domestic economy and, by association, the potential output of the economy.
- Risks to the outlook emanate from the continued tensions in the geopolitical situation which, if escalated, could have significant implications for a small open economy such as Ireland's.
- Given the low rate of unemployment and the robustly growing domestic economy, the issue of capacity constraints is critical. Recent data from the Housing Commission suggest an upward revision in housing supply targets will be needed to cater for demographic demand for housing.
- Overall, it is evident that while housing supply is on an upward trajectory, it needs to increase at a faster pace if it is to meet the underlying demand for housing in the Irish economy. In addition to housing supply, critical infrastructure around the carbon transition will also draw on resources, putting pressure on labour in the construction sector in particular.

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