

DETI Economic Commentary **March 2016**

This edition indicates that the local economy is continuing to grow. Despite some recent negative job announcements, labour market indicators and job numbers remain positive overall. Although economic activity and output measures remain positive in the medium term, there is a lot of instability evident and some signs of a slowdown within certain sectors.

Overview

The Economic Commentary reviews each of the key elements which contribute to economic growth:

The Economy

Despite some bumps along the way, the economy continues to move in the right direction with key measures of economic activity and jobs both increasing over the medium term. The private sector is driving this growth.

Businesses

All three major private sectors have enjoyed growth in jobs and output over the latest year, although there are signs of slowdown in manufacturing and construction more recently and service sector growth has lagged behind the UK.

Rest of World

Goods exports have been increasing faster in NI than any other UK nation, and more external visitors are coming even though spending is largely flat. Looking ahead, there are a number of risks in key markets which could impact locally.

Households

Labour market indicators continue to show a largely positive trend, with falling unemployment and inactivity alongside rising employment. Low price inflation will be continuing to help households and consumer confidence is higher than one year ago, although some negatives are also evident.

Government

The number of public sector jobs continues to fall in NI, although the reductions have been less severe than the UK overall. NI government departments have taken the brunt of the declining jobs over the past year.

Research Highlights

- DETI has published the **Corporation Tax** research by the UUEPC estimating that 32,000 additional jobs could be created by 2033 if NI implements a 12.5% rate from April 2018. This is based on the Autumn Statement 2015 position of a UK rate of 18%, and an updated estimate of the impact with the UK rate of 17% announced in Budget 2016 will be prepared in due course.
- Oxford Economics has modelled a number of scenarios of the **Economic Impact of a UK Exit from the EU** for both the UK and NI separately. For the UK, it estimates a net economic loss in the range from 0.1% of GDP to 4% of GDP depending on the scenario. For **Northern Ireland**, the impact ranges from a loss of 0.1% to 5.6% of GDP.
- DEL has published the **Northern Ireland Skills Barometer** report by the UUEPC which provides a 10 year forecast of the skills requirement for the NI economy.
- NISRA has developed a balanced estimate of **Northern Ireland Gross Domestic Product** for the first time and has also published the **Broad Economy Sales and Export Statistics** measure covering much of the private sector.

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The Economy

The economy continues to move in the right direction with key measures of economic activity and jobs both increasing over the medium term. The private sector is driving this growth. Whilst consistent job growth is evident, economic activity has been much more volatile with the latest quarter showing a decline.

-0.8% quarterly change in economic activity	+1.6% annual change in economic activity	+3,310 quarterly change in employee jobs	+11,590 annual change in employee jobs	+1.6% forecast economic growth in 2016
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Economic Activity

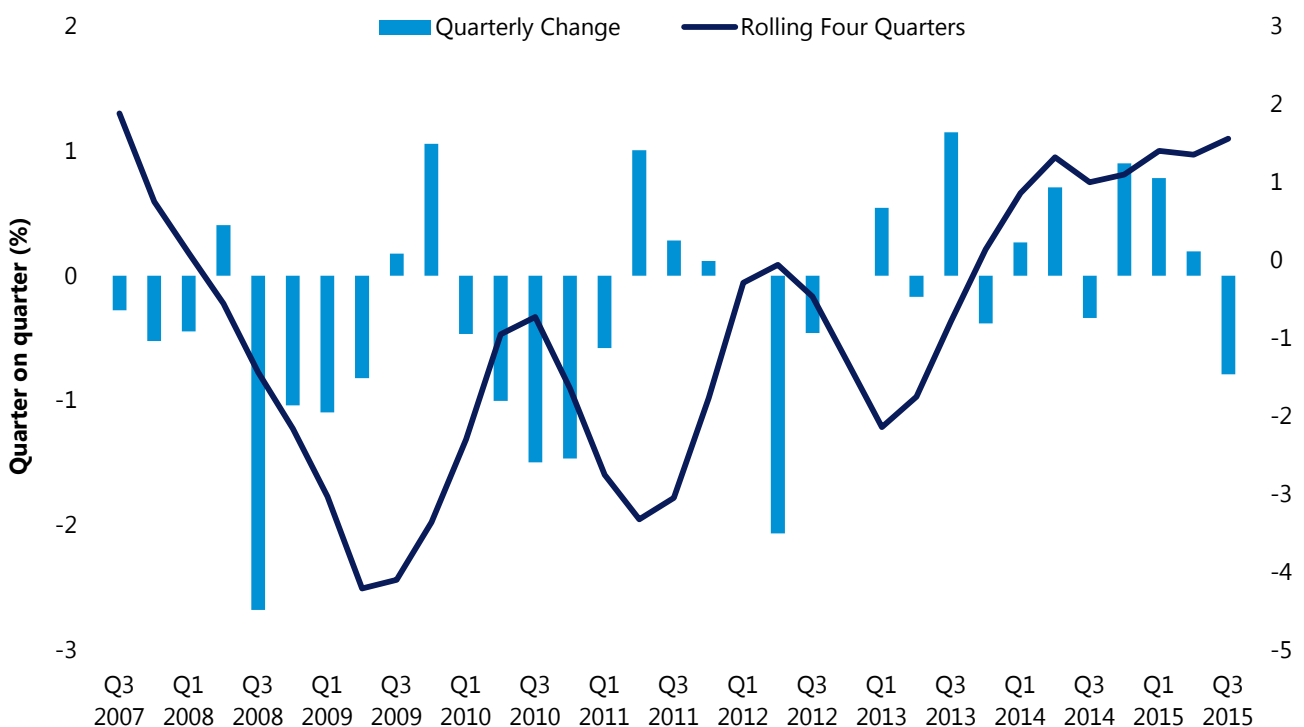
The latest economic activity figures from NISRA's Composite Economic Index indicate that the local economic recovery is broadly on track, with activity up 1.6% over the latest four quarters to Q3 2015.

Economic activity has increased over three of the past four quarters, with only the last quarter posting a decline in activity. Much of the annual output growth has been driven by Q4 2014 and Q1 2015, with activity slowing down and then declining most recently.

When compared to over the longer term, the economy is broadly heading in the right direction, with economic activity now 2.9% above the low point reached in quarter three of 2012.

However, recent activity levels remain well below their previous peak levels. Local activity is currently 8.3% below its previous peak level recorded in Q4 2006. By comparison, UK GDP has since expanded by 9.7%, whilst ROI GDP is 14.3% above its Q4 2006 position.

Figure 1 - NI Composite Economic Activity

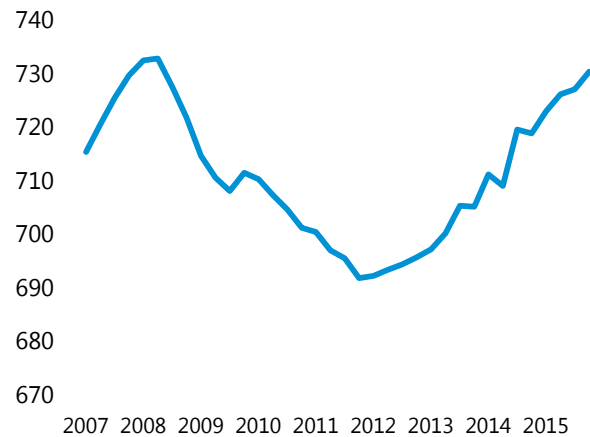


Employee Jobs

The number of employee jobs has continued to increase, continuing the trend that started at the beginning of 2012. Jobs growth has been recorded in all four quarters in 2015, with 11,590 additional jobs being added. Whilst this was down slightly on the jobs created in 2014, growth over the past year was more consistent.

The number of employee jobs now stands at 730,410 with almost 40,000 additional jobs recouped since the low point reached in December 2011. These latest figures will not take into account the recently announced job losses across a number of local manufacturers, many of which are planned for the future.

Figure 2 - Employee Jobs (000s)



Public and Private Sectors

The private sector continues to drive job creation in NI. Over the past four quarters, the private sector has added almost 17,000 jobs; this is in contrast to the public sector which has experienced a loss in jobs for the fourth consecutive quarter running (to Dec 2015), totalling more than 5,000.

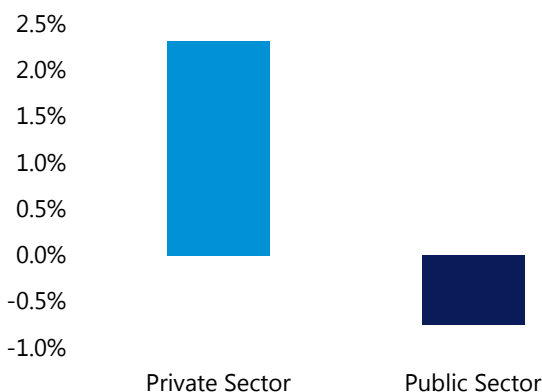
Public sector jobs are now at their lowest level since 2002, whilst private sector jobs have surpassed their previous high by almost 11,000 jobs. Meanwhile, the public sector has shed in the region of 20,000 jobs since its previous high (recorded in Sept 2009).

The Ulster Bank PMI suggests firms will continue adding jobs with increased employment recorded for each of the past 13 months (to February 2016) with hiring intentions expected to remain given backlogs are rising.

Table 1 – Latest NI Growth Forecasts

GVA	2015	2016	2017
Oxford Economics	1.6%	1.8%	2.0%
Ulster University	1.9%	1.6%	1.3%
Danske Bank	1.7%	1.8%	2.1%
Ernst & Young	1.7%	1.6%	1.7%
PwC	1.5%	1.4%	1.5%
Average	1.7%	1.6%	1.7%

Figure 3 - Economic activity (four quarters to Q3 2015)



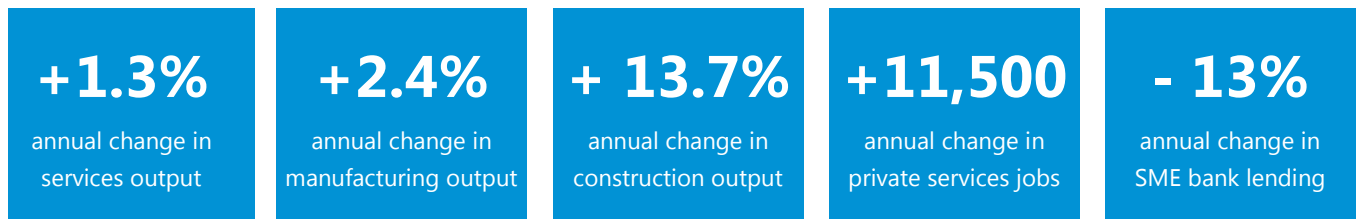
Outlook

DETI does not produce economic forecasts, but does monitor those from external providers. Lately, independent forecasters have been downgrading their projections for local growth. On average, they anticipate growth of 1.6% in 2016 and 1.7% in 2017. Four new outlooks have been released in recent months:

- The NI recovery is expected to continue steadily due to a strong private services sector and moderate labour market expansion according to **Danske Bank**.
- **PwC's** latest NI economic outlook shows that growth in NI is expected to remain the poorest-performing of the 12 UK regions in 2016.
- The **Ernst & Young Economic Eye** expects NI's growth rate to remain well behind the Republic of Ireland's, partly a result of continued austerity measures.
- The **Ulster University Economic Policy Centre** spring 2016 outlook noted that the local economy's current reliance on consumer spending was unsustainable in the long term. It also identified significant global risks which have the potential to impact locally.

Businesses

Overall, all three major private sectors have enjoyed growth in jobs and output over the latest year. However, underneath the headline figures, services growth has been steady rather than spectacular during 2015, with manufacturing growth volatile and construction output falling over the latest quarter.

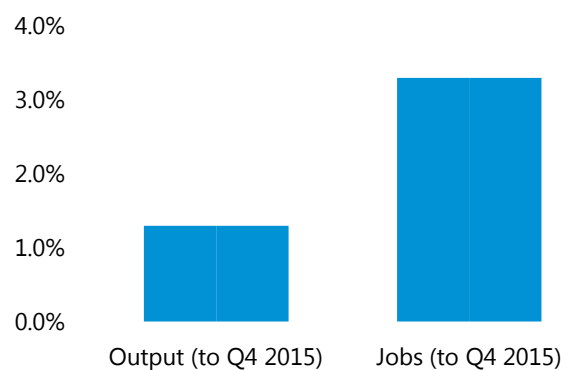


Services

Economic output in the services sector increased by 1.3% in 2015, about half the rate of UK services growth. The most recent three quarters have seen consistent growth with the latest quarter (Q4 2015) reporting an increase of 0.6% compared with a UK rise of 0.7% over the same period.

Private services jobs reached 356,700 in the quarter ending December 2015, an increase of 11,500 from the same period in 2014. Job growth in 2015 has been even strong than in 2014, and there are now 16,000 more jobs in private services than the pre-downturn peak in December 2007.

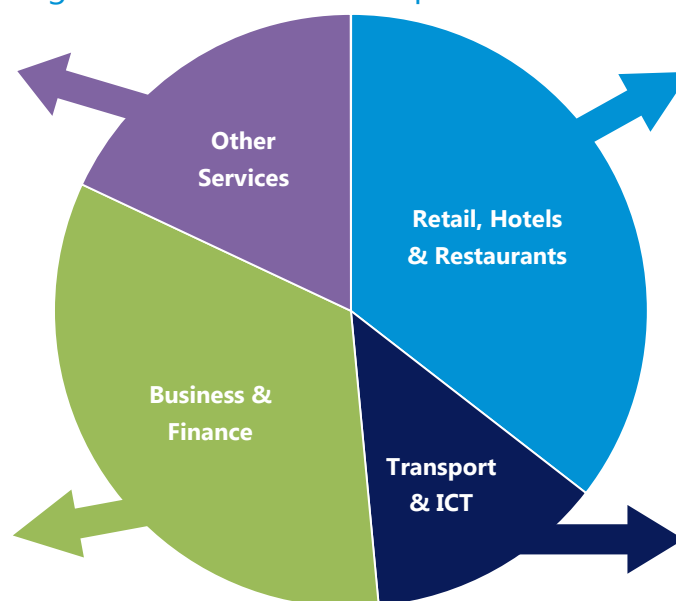
Figure 4 - Annual change in services output and jobs



Output decreased 2.7% in 2015 although there was positive growth recorded over the latest quarter (Q4 2015). Jobs increased by 190 over the past year, driven by sports activities and amusement & recreation activities (340).

Output fell by 1.5% in 2015, with jobs decreasing by 780. Services to buildings and landscape activities (760) and real estate activities (440) had the biggest falls, with the biggest growth seen in legal & accounting activities (990).

Figure 5 - Relative size of private services



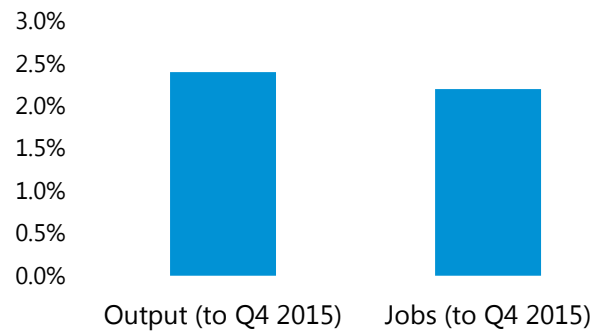
The strongest services sub-sector for output growth in 2015 (2.6%). It also added 8,830 jobs over year, primarily driven by growth in retail (5,870). There was also robust growth in wholesale trade jobs (2,630).

Output grew by 1.7% in 2015, although there was a decline in output of 1.2% over the latest quarter (Q4 2015). Jobs were up (3,270) with growth in both transport related jobs (1,210) and ICT related jobs (2,060).

Manufacturing

The manufacturing sector has posted positive output and jobs growth over the past year. In 2015, output was up by 2.4%, although growth has been uneven with only two of the past four quarters showing increases. This compares favourably with the UK, which recorded a 0.3% decrease in manufacturing output in 2015. The sector has added 1,710 jobs in 2015, although this is lower than in 2014. The sub-sector with the most job increases in 2015 was machinery and equipment, adding 660 jobs, with output up 2.7% in the wider engineering sector.

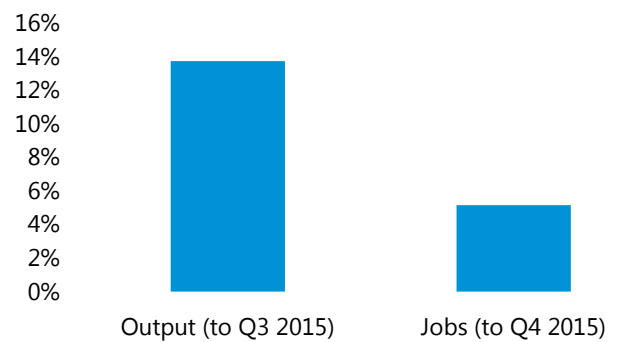
Figure 6- Annual change in manufacturing output and jobs



Construction

Output within the construction sector increased by 13.7% over the past year (to Q3 2015) although there was a dip in output over the latest quarter to Q3 2015 (by 2.4%) – the first since the last quarter of 2013. Output within the sector has increased by 18.3% since the end of 2013 but remains over a third lower than at its peak (in Q2 2007). In 2015, the sector added 1,450 jobs, its highest annual total since 2007. However, this growth is primarily due to growth at the beginning of 2015, with growth in jobs since being much more muted and then turning negative in Q3 2015.

Figure 7 - Annual change in Construction Output and Jobs



Other Business Trends

Approved bank loans to SMEs totalled £355 million in Q3 2015, a 13% decrease on the same quarter of 2014. This reduction appears to be due to a fall in the size of loans being requested, with the approval rate of applications up 1% and the number of applications down just 1%.

There have been a number of recent investment projects by indigenous firms, including from Hutchinson Engineering, JJ Loughran and Oak Grove Cabins. However, in Q4 2015, there were 109 local firms that became insolvent, a 4% decrease on the same period of last year.

Table 2 – Selected Indigenous Investments

Nov 2015 – Mar 2016	Jobs
Hutchinson Engineering	80
JJ Loughran	37
New World Developments (Apeer)	25
Heavy Built Environment (HBE)	24
Oak Grove Cabins	15

Other Business Surveys

Evidence from a range of independent surveys is mixed. Key points from these publications are shown below:

Ulster Bank PMI

- Business activity has increased for a tenth consecutive month to February 2016.
- In February, the rise in activity was faster than the UK average – the first time since July 2014.

InterTradeIreland Quarterly Business Monitor

- In Q4 2015, 89% of NI and ROI firms were stable or growing although the momentum of growth is showing signs of diminishing and being replaced by stability.

NI Chamber Quarterly Economic Survey

- Results from Q4 2015 indicate a positive outlook for both manufacturing and services, although both continue to face challenges.

Rest of the World

Goods exports from Northern Ireland have shown a strong increase during 2015, the fastest growth of any UK nation. There has also been a strong increase in external visitor numbers, although spending is largely flat. Looking ahead, there are a number of risks in key markets which could impact locally.



Exports

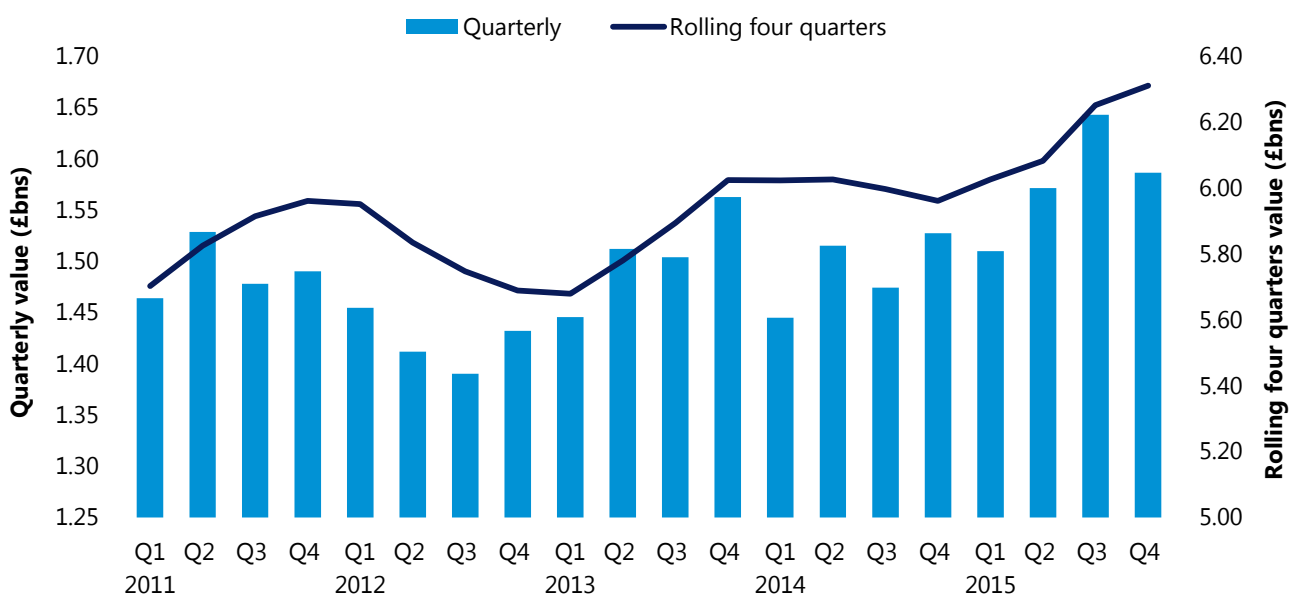
This section focuses on the latest results from HMRC Regional Trade Statistics (RTS). RTS measure the value of exported goods and accounts for approximately two-thirds of NI's overall exports.

Whilst there was a 3.4% decrease in the value of local goods exports over the latest quarter (to Q4 2015), this was merely a result of such a strong outturn in the previous quarter. The value of exports in Q4 2015 was still at its second highest value since the end of 2008 (behind Q3 2015 only). For the whole of 2015, exports were up by 5.9% (£349m), the highest growth of any the UK nations.

Local export growth in 2015 has been primarily due to growth in the value of goods exported to the US (+£470m). However, there was a big decline in exports to NI's biggest market - the Republic of Ireland (-£185m). In terms of sectoral performance, chemicals was the fastest growing over the year (+£348m) whilst the largest decline was recorded for the food sector (-£143m).

The pound sterling has been weakening against both the US dollar and the euro since November 2015; this should boost the competitiveness of local export firms on the global stage.

Figure 8 - Exports of goods



Inward Investment

Invest NI has supported several external investment projects since our last edition in October 2015. This has included new investment projects by Alert Logic, Hanweck, Simulity Labs and Clarus Financial Technology.

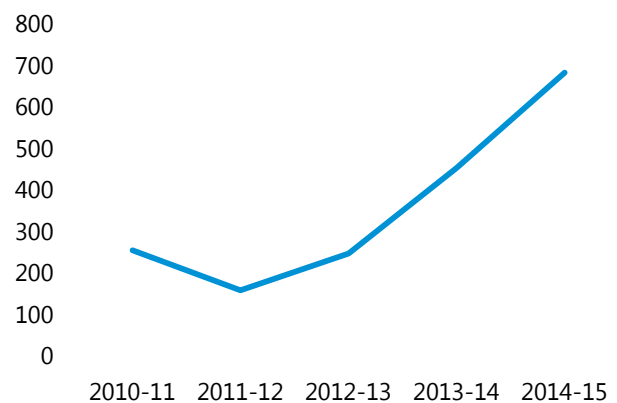
US-based cyber security firm Alert Logic has established a security R&TD centre in Belfast that will create 88 new jobs. Hanweck, a US-based financial technology services company, has also announced that it will establish its European headquarters in Belfast, with the creation of 19 new jobs. Simulity Labs, a specialist in embedded communications software, has also established a software engineering centre in Belfast. London-based Clarus Financial Technology is establishing an R&D centre in Belfast, creating 15 new jobs.

The last full year of performance data available refers to 2014-15. This proved to be a successful year for Invest NI with the total value of supported FDI reaching £683 million, its second highest yearly total in its history. Overall, assistance was offered to 350 FDI projects that planned to create more than 5,500 jobs. It is expected that Invest NI outturn for 2015-16 are expected to be made available in May 2016.

Table 3 – Selected External Investments

Nov 2015 – Mar 2016	Investment	Jobs
Alert Logic	£3.9m	88
Hanweck Associates	£1.7m	19
Vennetics	-	15
Clarus Financial Technology	£0.9m	15
Simulity Labs	£0.9m	10

Figure 9 - Invest NI Supported FDI (£millions)



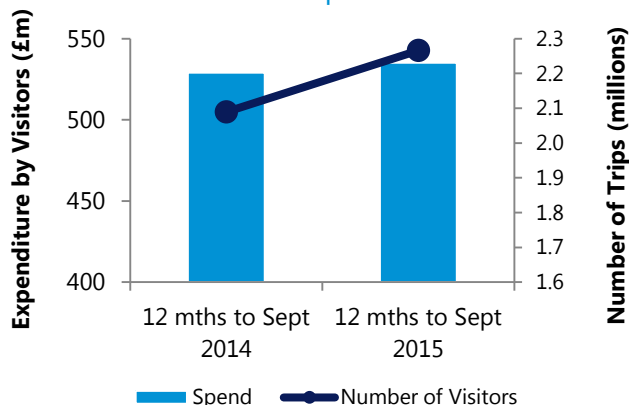
Tourism

The number of visitors to NI (non-resident) increased by 8% in the 12 months to September 2015, with associated spending increasing marginally by 1%. Over the year, the only market that experienced a decrease in the number of visitors was the ROI (9%) with associated expenditure from ROI visitors also down (17%). Whilst there was a recorded rise in the number of visitors from GB of 10%, expenditure by GB visitors decreased by 2% over the year.

Table 4 – Key Market Growth Forecasts

GDP	2016	2017
UK	2.2%	2.2%
Rep of Ireland	3.8%	3.2%
Eurozone	1.7%	1.7%
US	2.6%	2.6%
Canada	1.7%	2.1%
China	6.3%	6.0%

Figure 10 - Non-resident Visitor Numbers and Spend



Key Markets Outlook

Global growth is projected to be slightly higher in 2016 but slower than previously estimated according to IMF's January 2016 update. The slowdown and rebalancing of the Chinese economy, lower commodity prices, and strains in some large emerging market economies will continue to weigh on growth this year and next.

In advanced economies, a modest and uneven recovery is projected. Growth in the US is expected to remain resilient whilst Canada's growth is expected to become more upbeat next year. The Republic of Ireland is expected to continue growing strongly although its speed will moderate.

Households

Labour market indicators continue to show a largely positive trend, with falling unemployment and inactivity alongside rising employment. Low price inflation will be continuing to help households and consumer confidence is higher than one year ago, but retail footfall and domestic tourism spending are both down.



Unemployment

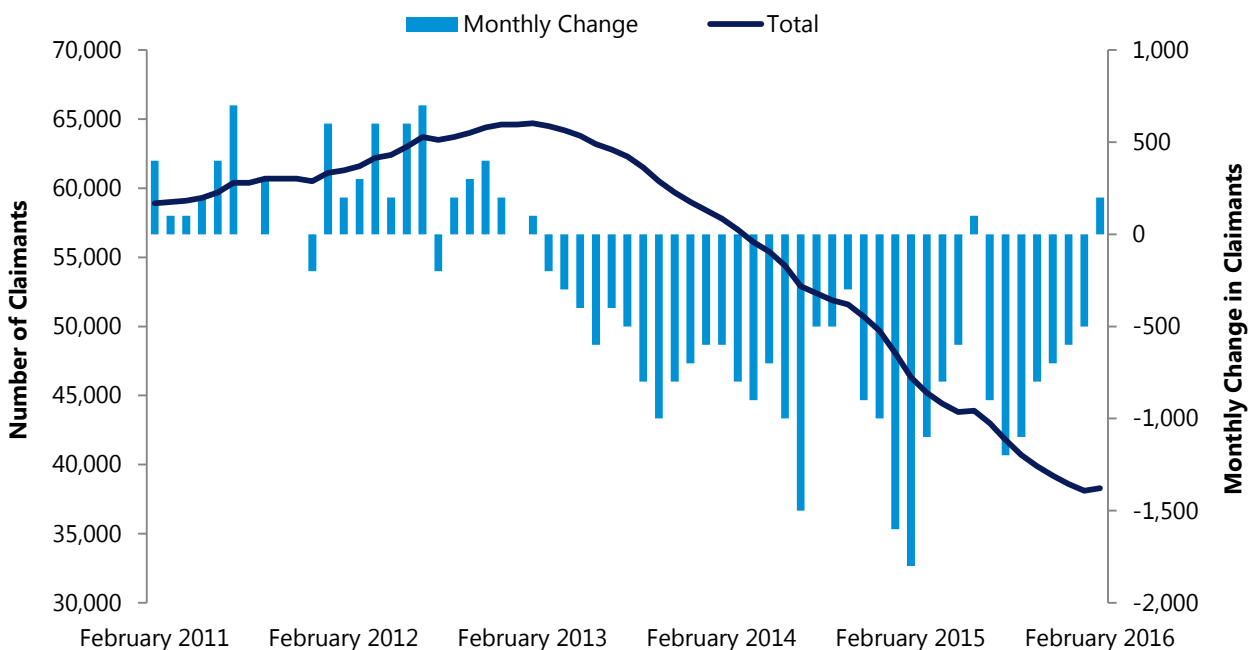
The number of people claiming unemployment benefits has fallen significantly since its peak in February 2013. Whilst there was an increase in the number of claimants over the latest month, by 200 to February, this is only the second increase in the past 36 months. Looking over the past year, the claimant count tally has fallen by 8,000.

In total, the number of people claiming unemployment benefits is down by some 41% since its most recent peak but, despite the mostly positive performance recently, the claimant count still remains 63% higher than its previous low in August 2007.

The LFS unemployment rate for the November to January 2016 period was 6.0%, above the overall UK rate (5.1%) but below the EU (9.0%) rate for December 2015 and the Republic of Ireland (8.6%) rate for January 2016. The LFS rate has fallen some 2.3 percentage points since its previous peak (Nov – Jan 2013).

Both the long-term (49.7%) and youth (18.4%) LFS unemployment rates have fallen over the past year but both remain above the equivalent UK rates – 29.1% and 11.7% respectively.

Unemployment Benefit Claimants



Employment and Activity

The employment rate has been increasing since the middle of 2009, standing at 69.0% during the latest quarter (Nov – Jan 2016). This represents an increase of 1.3 percentage points over the year and is now 5.2 percentage points above its recent low. However, this still remains well below the UK (74.1%) rate, which is at its joint highest rate on record. The economic inactivity rate in NI stands at 26.4%, down 1.4pp over the year and some 5.4pp since its recent high (Mar – May 2009). This remains well above the equivalent UK rate of 21.8%.

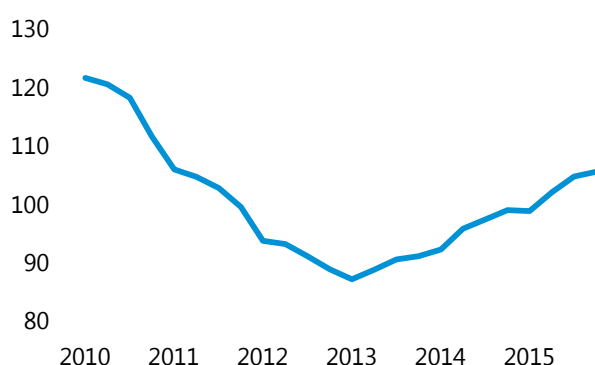
Figure 12 - Participation rates (annual percentage point change)



Housing Market

According to the NI Residential Property Price Index, house prices increased by a further 1% over the latest quarter to Q4 2015, with prices now 21% above the low point recorded in Q1 2013. However, prices still remain at almost half of their peak level. A separate UK regional measure of house prices from ONS shows that NI's house prices increased by 1.5% in the 12 months to December 2015, much slower than the UK average rate of growth (6.7%). According to this measure, house prices in NI stood at £148,000 in December 2015, below the UK national average of £288,000.

Figure 13 - House Price Index (Q1 2005 = 100)



Consumer Spending

There are mixed signals across household indicators with signs that challenging conditions exist for local retailers:

Retail sector

- The number of jobs within retail has increased by 5,870 over the past year to December 2015.
- Footfall in February was down 5.1% compared to one year earlier, the worst performance of any UK region.

Domestic tourism

- The number of overnight stays in NI by locals increased marginally by 1% over the 12 months to Sept 2015.
- However, spend by locals on tourism decreased by 12% over the year.

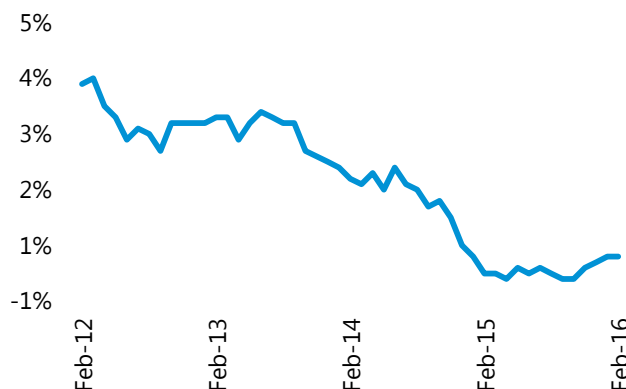
Consumer confidence

- Danske Bank reports that household confidence fell over the quarter to Q4 2015.
- However, confidence levels were still higher in Q4 2015 when compared to same quarter of the previous year.

Prices

Price inflation increased by 0.3% in the year to February 2016, unchanged from January. The CPI rate has been trending upwards since November 2015; albeit at a very slow rate. Over the latest year, the largest downward contribution came from the transport sector although rising food prices offset this. The current CPI rate has now been below the 2% Bank of England target since the end of 2013. However, in its latest inflation report, the Bank notes that it expects the rate will begin to pick up in coming months.

Figure 14 - CPI annual inflation



Government

The number of public sector jobs continues to fall in NI, although the reductions have been less severe than the UK overall. NI government departments have taken the brunt of the declining jobs over the past year, although almost all areas have faced declines with the exception of NHS trusts.



Jobs

Jobs within the local public sector have been trending downwards since mid 2009, with the sector now some 9% smaller and where job numbers are now back to 2002 levels. This decline is still less than the UK overall, which is some 16% smaller than at its peak in Q3 2009.

The downward trend in the number local public sector jobs has continued more recently with declines in all four quarters of 2015; equating to a loss of 5,160 jobs. This is the biggest yearly job loss for the public sector since 2011.

All civil service departments experienced a fall in job numbers over the past year with the exception of the Department for Education which saw a marginal rise. The majority of other public sector organisations saw a drop in job numbers over the year, although NHS trusts increased their job numbers.

Table 5 – NI Public Sector Jobs Breakdown

	Jobs Dec 15	Annual Change No	Annual Change %
NI depts (incl bodies)	35,410	-2,690	-7.1%
DFP	3,655	-232	-6.0%
DRD	3,237	-234	-6.7%
DEL	2,724	-235	-8.5%
DETI	1,476	-89	-5.7%
DE	1,143	3	0.3%
OFMDFM	590	-33	-5.3%
Other NI central govt	65,370	-1,493	-2.2%
Other public sector	104,523	-991	-0.9%
NHS trusts	68,560	463	0.7%
Local government	11,717	-633	-5.1%
Public corporations	6,744	-229	-3.3%
UK central govt	3,776	-183	-4.6%

Figure 15 - NI Public Sector Jobs

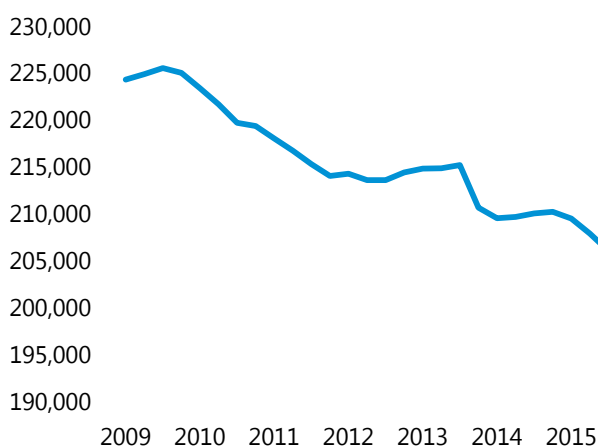
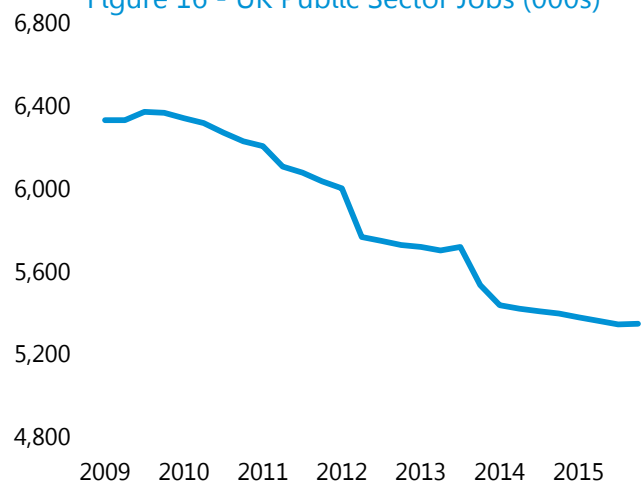


Figure 16 - UK Public Sector Jobs (000s)



Research Highlights

This section highlights recent publications in key economic policy areas that will be of interest to readers over the period October 2015 to March 2016. Links (where available) to each report can be found by clicking on the highlighted title.

Skills Barometer

DEL commissioned the Ulster University Economic Policy Centre to develop a **Northern Ireland Skills Barometer** to estimate the quantum of future skills needs. It provides forecasts for both the supply and demand for skills over the next ten years and identifies areas where supply gaps are likely to occur. Overall it shows that under the high growth scenario, the skills shortage will be most acute in mid-tier skills levels across most subject areas and at both mid-level and high level skills, the largest supply gaps are forecast in STEM related subjects.

Employer Skills Survey

Results from the **NI Employer Skills Survey for 2015** have been published. The survey, managed by the UK Commission for Employment and Skills showed growth in the number of employers active in the recruitment market across NI in 2015 compared to 2013. Among other things, it also showed that the number of establishments in NI that reported vacancies rose as did the number vacancies in businesses as a percentage of their employment

Further Education Sector

DEL commissioned Viewforth Consulting Ltd to undertake research on the **Economic Impact of Northern Ireland's Further Education sector** on the economy. The report indicates that the sector generates over £524million of output and has 7,139 full time equivalent jobs.

NI GDP and Broad Economy Exports

NISRA has published two sets of new statistics which will significantly enhance the evidence base available on the local economy. For the first time, a balanced estimate of **Northern Ireland Gross Domestic Product (GDP)** and its component parts for 2012 have been produced using the international standard approach. Results show that in 2012, GDP for NI was £37.2bn, which is 2.2% of the UK GDP figure. The **Broad Economy Sales and Exports Statistics (BESES)** measure provides information on both internal and external sales across almost all of the private sector. This identifies £22.5bn of sales made outside NI by local businesses in 2014, up 2.1% over the year.

Corporation Tax

DETI has published research on **Measuring the Economic Impact of a Reduced Rate of Corporation Tax in Northern Ireland** by Ulster University Economic Policy Centre. The estimates in the work are based on the Autumn Statement position with an 18% UK rate rather than the 17% announced in the latest Budget, and an update taking into account the lower UK rate will be prepared in due course. This study estimates that a 12.5% rate of Corporation Tax from April 2018 could generate an additional 32,000 jobs and boost output by 8.5% over 15 years when compared to the baseline forecasts. Productivity is also expected to be significantly higher.

Economic Impact of UK Exit from EU

Oxford Economics has modelled a total of nine scenarios on the **Economic Implications of a UK Exit from the EU** by 2030 for both the UK and NI separately. Its UK report finds that the best case economic scenario is a GDP loss of 0.1%, with a worst case scenario resulting in a 4% loss of GDP. The report highlights that the UK government's policy response will be vital in determining the impact of a potential exit. The **Northern Ireland** work estimates that the impact would be worse for the NI economy compared with the UK as a whole, the local economic impact estimated to range from a 0.1% loss to a 5.6% loss in GDP by 2030.

High Growth Firms

DETI has published a sixth update bulletin in its series analysing the performance of **High Growth Firms**. The latest data for 2012-15 indicates emerging signs of a somewhat strengthening employment contribution by both High Growth and non-High Growth businesses.

Notes and Sources

Notes:

Statistical publications often refer to an annual change when referring to the latest reference period compared with the same period one year earlier. However, results for individual quarter are often highly volatile, and looking at changes just within this specific reference period across years can give a misleading picture as to what trend performance actually is. We prefer to look at the latest four quarters compared with the previous four quarter for many variables to give a better overview of actual trend performance, which is particularly relevant when looking at output/activity as this is what annual GDP/GVA relates to. For ease of reference we have used the term 'annual change' to represent a four quarter change for some indicators. However, for indicators such as job numbers, annual change continues to refer to the latest quarter compared to the same quarter one year earlier. To avoid confusion, our references to annual change may therefore differ from those in published statistics relating to:

- Economic activity
- Production output
- Services output
- Construction output
- Exports of goods
- Tourism statistics

Sources:

Sources	
The Economy	NI Composite Economic Index (NISRA); Quarterly Employment Survey (NISRA); Economic Eye (Ernst and Young); Quarterly Sectoral Forecast (Danske Bank); NI Economic Outlook (PwC); Forecasts Subscription (Oxford Economics)
Businesses	Index of Services (NISRA); Index of Production (NISRA); NI Construction Bulletin (NISRA); Quarterly Sectoral Forecasts (Danske Bank); NI Banking Statistics (British Bankers Association); Invest NI; Insolvency Statistics (The Insolvency Service); Redundancies (DETI); Purchasing Managers Index (Ulster Bank); Business Monitor (InterTradeIreland); Quarterly Economic Survey (NI Chamber of Commerce and Industry)
Rest of the World	Regional Trade Statistics (HMRC); Invest NI; Tourism Statistics (NISRA); World Economic Outlook (International Monetary Fund)
Households	Claimant Count (NISRA); Labour Force Survey (NISRA); NI Residential Property Price Index (NISRA); House Price Index (ONS); Quarterly Employment Survey (NISRA); Footfall (Northern Ireland Retail Consortium); Tourism Statistics (NISRA); Consumer Confidence Index (Danske Bank); Consumer Prices Index (ONS)
Government	Quarterly Employment Survey (NISRA); Public Sector Employment (ONS)

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