

DfE Economic Commentary

Winter 2021

The Economy

NICEI **+3.5%**

UK GDP **-0.6%**



Source: NISRA & ONS Rolling Annual Average Change to Q2 2021

Businesses

Index of
Production

Index of
Services



Source: NISRA Rolling Annual Average Change to Q2 2021

Rest of World



NI Exports
Valued
£7.8bn
in year to Q2
2021

+3.2%
rise in
exports
to
Republic
of
Ireland



Source: HMRC

Annual Change to Q2 2021

Households

Employment
Rate

Unemployment
Rate

Inactivity
Rate

70.2% **4.0%** **26.8%**



Down over quarter,
Down over year

Up over quarter,
Up over year

Up over quarter,
Up over year

Source: NISRA

July-September 2021

Government



+0.6%

+1.2%

+2.2%

Total Public
Sector Jobs

NHS
Employment

NICS
Employment

Source: NISRA

Annual Change to Q2 2021

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The Economy

The relaxation of restrictions in the second quarter of 2021 has had a positive economic impact. While the furlough and self-employment income support schemes have come to an end they have sustained businesses and workers, however challenges remain. Local economic commentators predict our economy will return to growth of around 5.4% this year and 3.9% next year.



Economic Activity

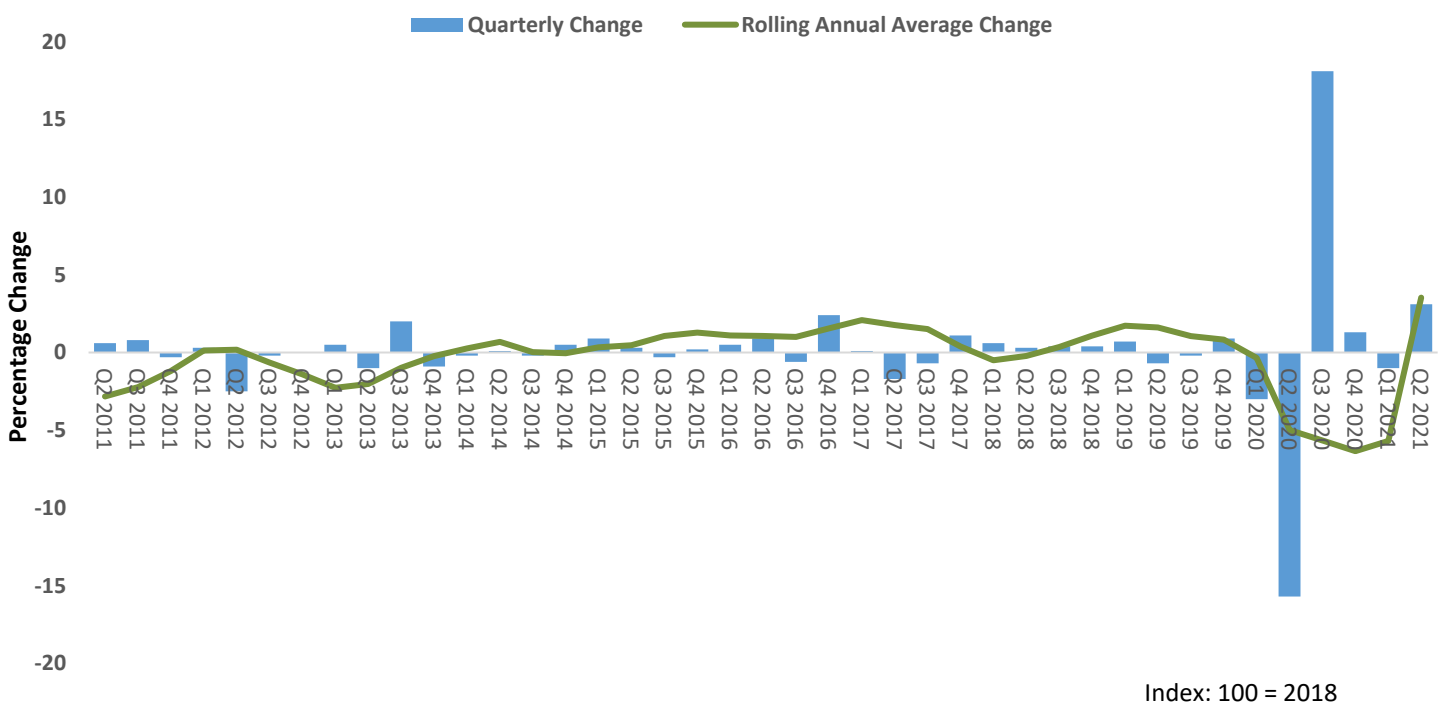
The latest NI Composite Economic Index (NICEI) for Quarter 2 2021 shows economic output increased by 3.1% compared to the previous quarter; this coincided with the easing of restrictions. This is the second highest rate of quarterly growth on record for NICEI, behind Q3 2020. The increase over the latest quarter was driven by the Services sector, which had a contribution of 2.8 percentage points (pps). There was only marginal growth over the quarter from Production (0.2pps), Construction (0.1pps) and the Public sector (0.1pps).

The growth in economic output over the year to Q2 2021 was 22.2% and the annualised increase in economic activity was 3.5%, with growth in all sectors. However the biennial growth, which compares Q2 2019 prior to the pandemic, was only 0.5%, with growth in Construction (0.5pps) and Public Sector (0.6pps) partially offset by Services and Production (-0.3pps each).

Gross Domestic Product (GDP) in the UK also experienced positive growth over the quarter (5.5%) and year (23.6%), but had negative growth compared to Q2 2019 (-2.9%). Although the measures are not produced on a fully equivalent basis to NICEI, this suggests that over the quarter and year NI's economic activity grew at a similar rate to the UK. In terms of growth rates the Republic of Ireland performed best across the quarter (+6.3%), annualised 4 quarters (11.9%) and biennially (+22.2%), whereas its annual growth (21.1%) was similar to NICEI and UK GDP.

Over the last ten years, the NICEI has reported growth in 24 of the last 40 quarters and is currently 4.9% below the maximum value recorded in Q2 2007. The UK, however, has reported growth in 34 of the last 40 quarters. Over the last two years both the NICEI and UK GDP have reported positive growth in 4 out of the last 8 quarters.

Figure 1 - NI Composite Economic Index

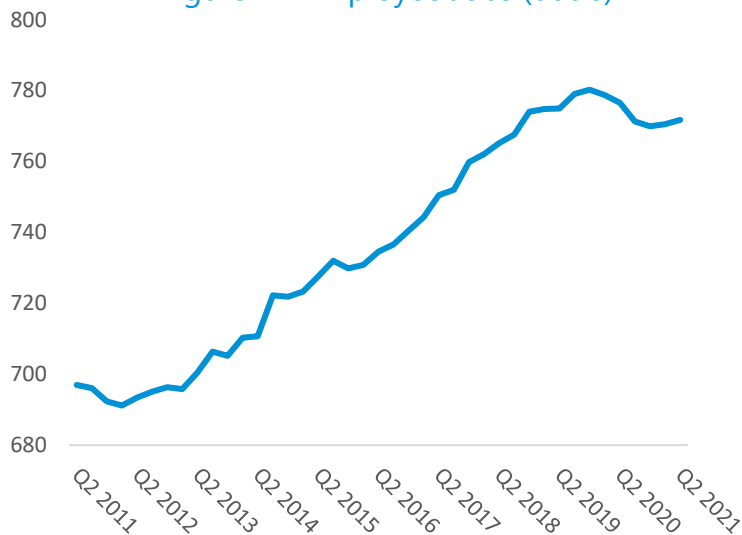


Employee Jobs

The latest NISRA figures show the number of employee jobs in the local economy for June 2021 rose over the quarter (+0.2%) but fell over the year (-0.6%) to 771,680. This was the second consecutive quarterly increase in employee jobs, which was preceded by four consecutive quarters of decline. Over the quarter all four monitored sectors except Construction experienced job growth.

Employee jobs fell by 4,860 over the year to June 2021, driven by losses in Services (-2,910 jobs or -0.5%) and Manufacturing (-1,190 jobs or -1.4%), with falls also in Construction (-700 or -2.0%) and Other industries (-60 or -0.2%). Over the last five years, the number of employee jobs rose by 5.0% (+37,090). Danske Bank forecasts the annual average number of employee jobs to decline by 0.6% in 2021, returning to growth of 1.0% in 2022.

Figure 2 - Employee Jobs (000's)



Furlough Scheme

The latest figures for the Coronavirus Job Retention Scheme, commonly known as the furlough scheme, show an estimated 287,100 unique jobs have been supported over the lifetime of the scheme from March 2020 to September 2021 in NI.

Provisional figures for 30 September 2021 indicate the furlough scheme was supporting 26,300 jobs in NI, 4% of eligible employments. Almost half (13,000) of these were on flexible or partial furlough. The number of employees furloughed on 30 September decreased by around 3,800 compared to 31 August 2021.

In terms of sectors, the largest absolute numbers of employees on furlough at the end of September were in Wholesale & retail (4,700), Accommodation & food services (3,700), Manufacturing (3,500), and Construction (2,600). Whereas Arts, entertainment & recreation; and Other Service activities had the highest take-up rate at 30 September 2021 (both 10%).

Figure 3 - NI Furloughed Jobs (000's)

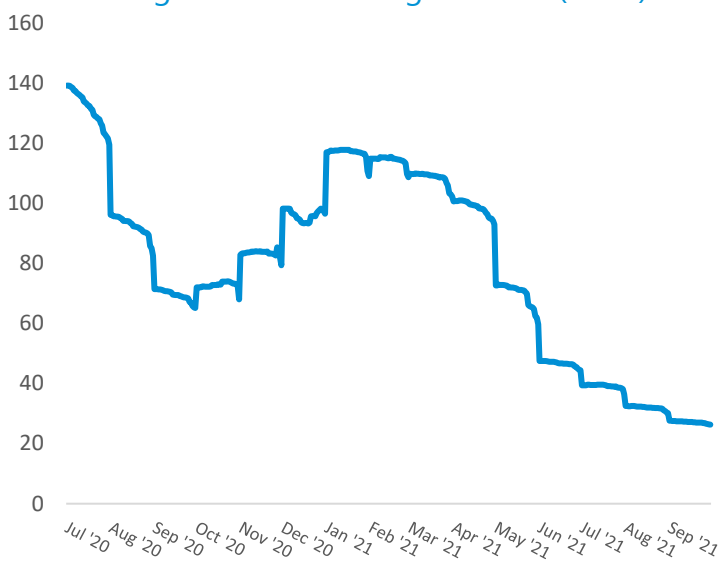
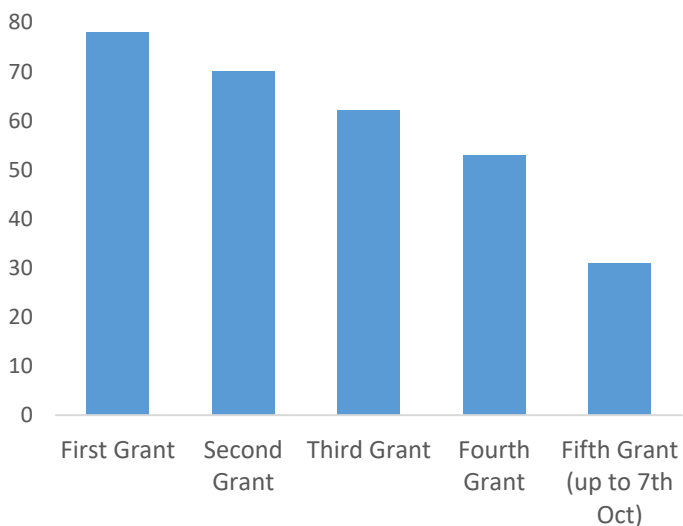


Figure 4 - SEISS Total NI Claims (000's)



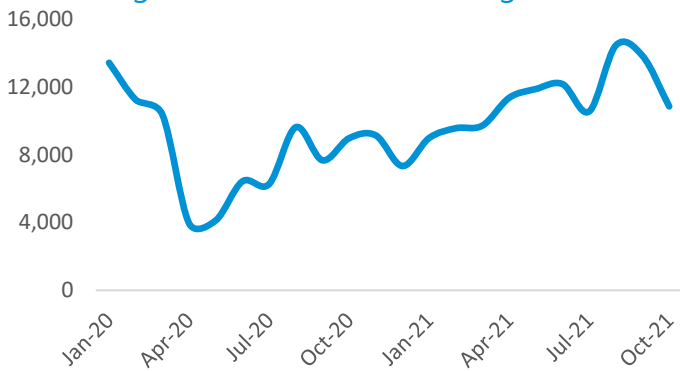
Pandemic Support for the Self Employed

The latest provisional HMRC figures show around 85,000 unique self-employed individuals in Northern Ireland have claimed grants across the five Self-Employment Income Support Scheme (SEISS) grants. The number of local claimants of the SEISS has decreased with each scheme. The fifth and final SEISS grant was for claims covering May to September this year.

Up until 7 October 2021 around 31,000 self-employed people had claimed the fifth SEISS grant, with an average of claim of £2,200. Less than a third (32%) of eligible self-employed workers in Northern Ireland took up the fifth grant. Within Northern Ireland, Belfast had the highest take-up rate of 46%.

Construction workers made 10,300 claims for the fifth grant, accounting for 28% of NI claims. There were around 1,000 claims by individuals in NI for the fifth grant who were previously ineligible individuals.

Figure 5 - Online Job Postings in NI



Online Job Postings

According to information gathered using Burning Glass Labour Insights, there were just under 10,900 online job postings in NI during October 2021. This was 22% lower compared with September but still 13% higher than the 3-year average.

The largest proportional increases over the month were recorded in Education (+44%) and Real Estate (+33%).

Health and Social work replaced Manufacturing as the largest industry by number of postings in October, accounting for 16% of all postings. This is the first month since February 2021 that Manufacturing has not been the largest industry.

Private Sector

ONS estimates that the private sector contributed 78% of Northern Ireland's GVA (Gross Value Added) in 2019, with 53% attributed to Services, 15% to Production, 8% to construction and 2% to Agriculture (with the remainder (22%) from the Public Sector).

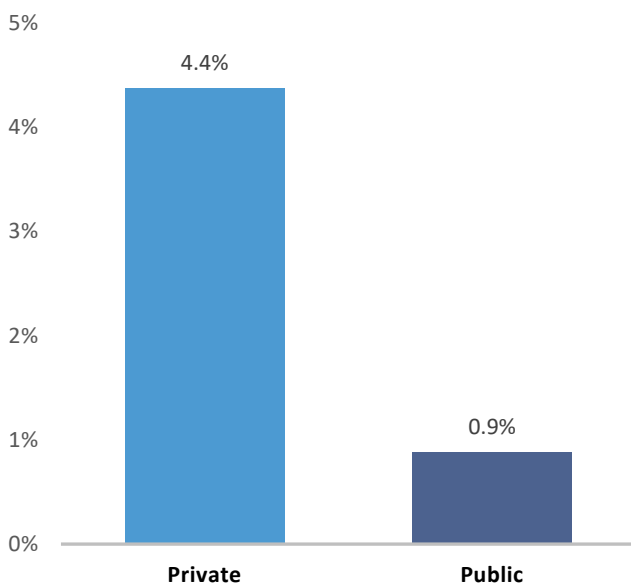
Private sector jobs increased marginally over the quarter to June 2021 (+0.1%) but decreased over the year (-1.1%). The private sector accounts for 72% of all local employee jobs. NI public sector jobs as a proportion of the NI population was 11%, compared to 8% in the UK.

Economic output in the private sector grew by 3.9% over the quarter and by 30.4% over the year to Quarter 2 2021. However on a biennial basis (i.e. compared to Q2 2019) it fell marginally (-0.1%).

Table 1 - Latest NI Growth Forecasts

GVA	2021	2022
Danske Bank (published September 2021)	5.8%	4.7%
EY (published April 2021)	5.9%	4.1%
PWC (published June 2021)	4.0%	2.5%
UUEPC (published June 2021)	5.8%	4.1%
Average	5.4%	3.9%

Figure 6 - Public and Private Sector Economic Activity (rolling four quarter change to Q2 2021)

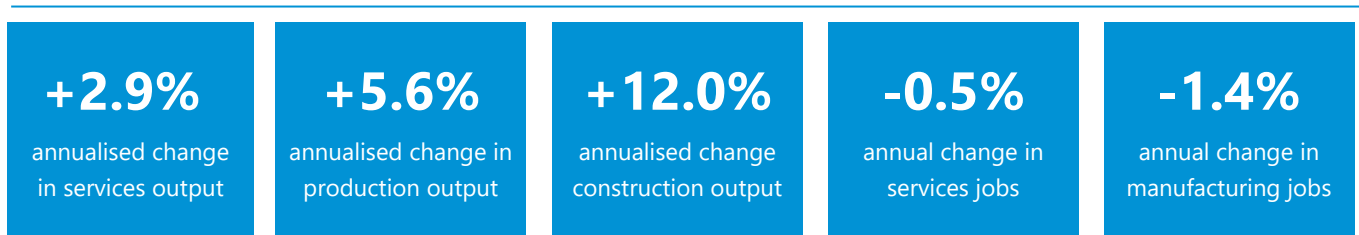


Outlook

- **Danske Bank** expects NI's economic activity to return to its pre-pandemic level in the second half of 2022. It also predicts a rise in the annual unemployment rate to average 4.1% this year and 4.4% in 2022. Disruption to supply chains is becoming an increasingly significant challenge for businesses.
- **EY** expects it to take until 2023 for NI to recover to 2019 GDP levels, with jobs not back to their Q4 2019 peak until 2024. Estimated growth in 2021 will be more modest in the Republic of Ireland (5.0%) than the UK (6.8%) and NI (5.9%), due to the absence of a sharp contraction in 2020.
- **PWC** expects growth in 2021 to drag due to potential pressure from additional non-tariff barriers under the new UK-EU trading arrangement.
- **UUEPC** states that overall the short-term prospects for the local economy are positive. They expect NI to return to pre-COVID levels of GVA in 2023 and pre-COVID levels of employment in 2024.

Businesses

The relaxing of restrictions during the second quarter of this year impacted output in Services and Production, with both recording quarterly and annual increases. Construction output also increased and is above pre-pandemic levels. Jobs in the Services and Production sectors increased over the quarter but fell over the year whereas employment in Construction fell over the quarter and year.

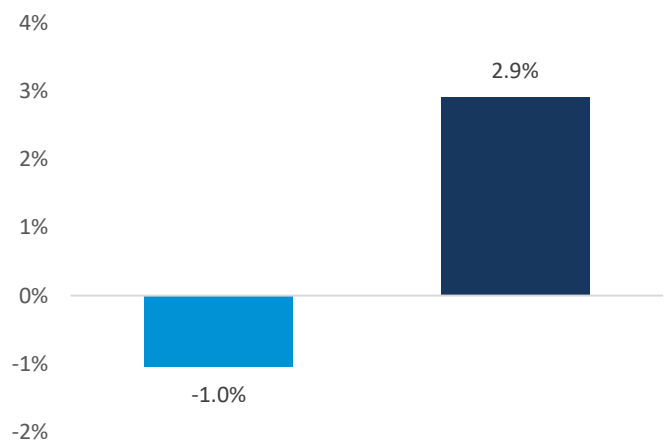


Services

The lifting of restrictions during the second quarter this year is reflected in services output in NI which increased by 5.5% over the quarter and 29.2% over the year to Q2 2021 (the series low was Q2 2020). It remains 1.2% below Q4 2019. Services output across the UK increased by 5.8% over the quarter and 21.0% over the year. When the most recent four quarters are compared to the previous four quarters (annualised change) the NI services sector increased by 2.9% compared to a decrease of 1.0% for UK.

This is the second quarterly increase in NI services output since the start of 2020. The services sector saw an increase of 1,360 jobs (+0.2%) over the quarter but decreased by 2,910 jobs (-0.5%) over the year to June 2021. It accounted for 81.2% of all employee jobs in June. Over the last five years, the number of employee jobs in the Services sector has increased by 27,000.

Figure 7 - Services output and jobs (rolling four quarter change to Q2 2021)



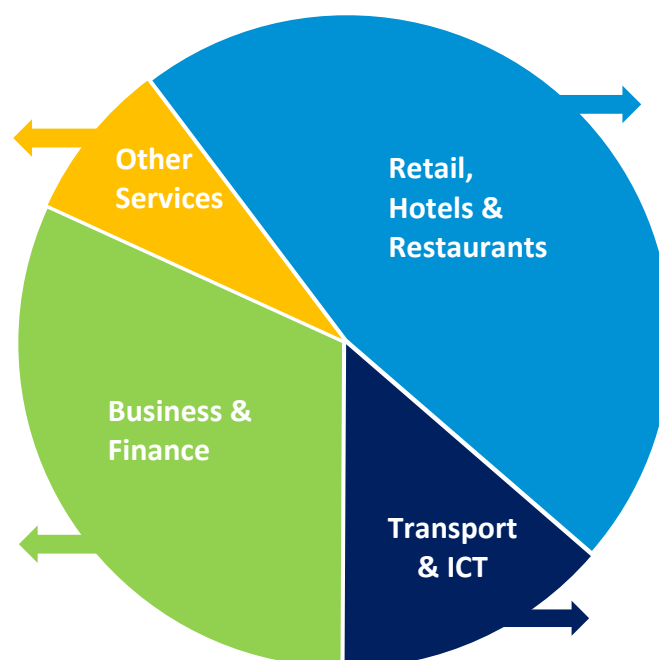
Other Services

Output increased over the quarter (13.9%) and year (47.0%) but decreased when annualised (-9.1%). Other Services employment figures decreased over the year by 5.7% (-1,760 jobs), driven by Sports activities, amusement and recreation activities (-1,040 jobs).

Business and Finance

Output in this sector decreased by 1.9% over the quarter but increased by 20.0% over the year. The sector saw employment fall by 1,000 jobs (-0.9%) with activities auxiliary to financial services and insurance activities; and services to buildings and landscape driving the decrease in jobs in the sector over the year.

Figure 8 - Relative size of private services



Retail, Hotels & Restaurants

Output in this sector increased by 8.3% over the quarter, 30.1% over the year and 4.2% annualised. Jobs decreased by 8,430 (-4.7%) over the year, with a fall in employment across all areas. Large falls were recorded in Retail trade; Wholesale trade; and Accommodation.

Transport and ICT

Output in this sector increased by 4.2% over the quarter and 27.5% over the year and 3.3% annualised. Employment fell by 1,460 jobs (-2.8%), driven by a decrease in jobs within Telecommunications; and Warehousing and support activities for transportation.

Production

The relaxation of restrictions in the second quarter this year has resulted in the NI Index of Production (IOP) increasing by 1.1% over the quarter and by 27.6% over the year (Q2 2020 is the series low). It is marginally below (0.8%) Q4 2019. The annualised change in NI IOP increased by 5.6% in the most recent four quarters. The UK IOP reported smaller increases of 0.4% and 18.2% over the quarter and year and remains 3.3% below Q4 2019.

The quarterly rise was driven by increases in all sectors except Mining and quarrying (-4.6%). Manufacturing (0.8%), Water supply, sewerage and waste management (10.8%) and Electricity, gas, steam and air conditioning supply (1.7%) all increased. In terms of employment, the manufacturing sector increased by 0.4% over the quarter (310 jobs) but fell by 1.4% over the year (-1,190) to 86,080 jobs.

Construction

The latest NI Construction Bulletin shows the total volume of construction output in Q2 2021 increased by 0.6% on the previous quarter, by 53.2% over the year and by 12.0% on a rolling four quarter basis. Construction output is 3.8% above the pre-pandemic level in Q4 2019. The increase in output over the quarter was driven by a rise in New Work (3.9%), offset by a fall in Repair and Maintenance (-3.7%).

This sector reported a decrease in employment by 1.5% (-520 jobs) over the quarter and by 2.0% (-690 jobs) over the year to an estimated 34,390 jobs in June 2021. In the Ulster Bank PMI the construction sector highlighted price rises had deterred customers and construction businesses expect activity to fall.

Figure 9 - Production output and jobs (rolling four quarter change to Q2 2021)

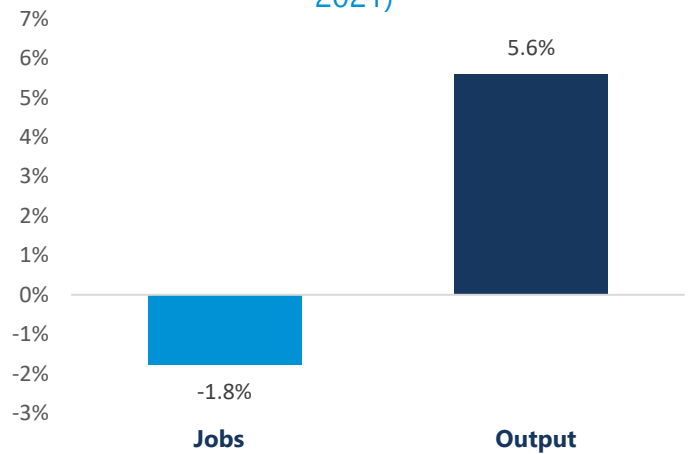
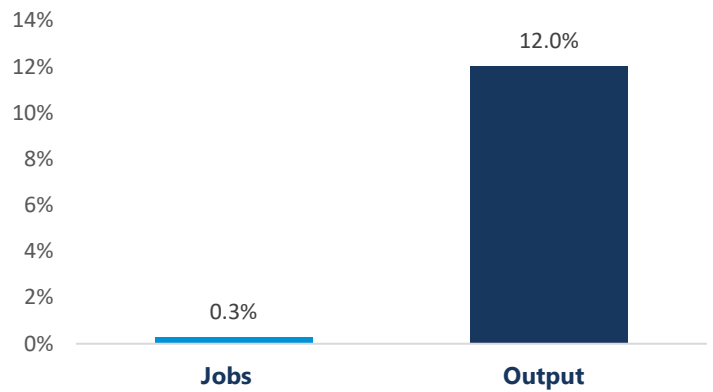


Figure 10 - Construction output and jobs (rolling four quarter change to Q2 2021)



Other Business Surveys

Ulster Bank PMI – November 2021

- The November PMI reported that surging price rises acted as a brake on the NI private sector in October, restricting growth of business activity and contributing to a decrease in new orders. Manufacturers and service providers saw business activity rise, but declines were posted in construction and retail. Both input costs and output prices rose at new record rates. Conversely, companies expanded their staffing levels at a sharp and accelerated pace. A further lengthening of suppliers' delivery times was signalled, with difficulties securing materials contributing to a build-up of backlogs of work. Inflationary pressures and supply-chain disruption led to a more cautious outlook, with sentiment at a nine-month low.

InterTradeIreland Business Monitor Q3 2021

- Compared with Q2 2021 NI maintained 50% of businesses in growth and the RoI improved the businesses in growth from 30% to 36%. In an improvement from Q2 2021 (NI 26% & RoI 30%), 15% of NI businesses and 20% of RoI businesses were in decline during Q3 2021. Businesses in both jurisdictions with cross-border sales were more likely to be profitable than those with no cross border sales (71%

vs 38%). Of the businesses surveyed, 62% stated rising overhead costs as an issue and 41% mentioned recruiting appropriate skills as an issue.

NI Chamber & BDO Quarterly Economic Survey Q3 2021

- There are positive signs of recovery in the NI economy during Q3 2021, however inflationary pressures and labour availability are affecting business confidence and prospects for future growth. Most of the key indicators around domestic sales, exports and jobs have continued to show signs of improvement. After a relatively strong performance in the last quarter for the manufacturing sector, in Q3 2021 all key indicators fell over the quarter. The service sector saw the strongest trading performance in Q3 2021 since the pandemic, with recruitment activity recovering strongly. However, 58% of the overall surveyed firms have seen costs rise by 6% or more, while for 10% business costs have risen by more than 20% over the last 9 months. Cost pressure drivers include the impact of EU Exit, raw material costs, energy costs, wage increases and supply chain disruption. Recruitment difficulties were one of the most persistent and growing concerns among members pre-COVID, in Q3 2021 80% of members are finding it difficult to get staff, which is back to pre-pandemic levels.

Engagement with the Rest of the World

The global pandemic continues to affect international trade; while other factors such as soaring freight rates and delivery delays are also having a negative effect. NI's sales continue to be dominated by sales to GB, exports to the Republic of Ireland and USA, with one third of exports being Machinery and Transport goods. Restrictions on international travel continue to negatively affect local tourism.



Exports & Imports

Exports growth is a key element to delivering the aspirations of NI's 10X trade and investment vision. The latest HMRC Regional Trade Statistics (cover goods only) shows that in the year to June 2021 the value of NI exports was £7.8 billion, a decrease of 6.1% over the year. All countries of the UK experienced a decrease in the value of exports over this period, with the overall value of UK trade in goods exports decreasing by 3.5%, and by 13% in Wales and 14% in Scotland. All UK countries apart from NI saw a decrease in value of imports, in NI the value rose by 3.8% to £7.5 billion, but is 6.6% lower than in the year to June 2019.

In terms of external sales of goods and services, GB is our largest market (using BESES data). However, the latest RTS data shows that the Republic of Ireland remains NI's largest exporting trading partner with total exports of £3.2 billion, up by 3.2% on the previous year. Over two-fifths (40.5%) of NI's exports go to the RoI. The majority of NI's exports are destined for the EU

(63.1%). However, over the year to June exports to the EU decreased by 1.4% to £4.9 billion while exports to non-EU countries decreased by 13.2% to £2.9 billion. Conversely imports from the EU rose by £578m (12%) while non-EU imports fell by £299m (-12%).

Compared to the same quarter last year, the markets that have seen the largest value increases in goods exported from NI were the Republic of Ireland (up £129m) and the United States (up £40m). The markets with the largest value decreases were Belgium (down £14m) and Mexico (down £6m).

NI's goods exports continued to be dominated by Machinery & Transport goods, accounting for just over a third (34%) of all of NI's goods exports over the year to June 2021. Machinery & Transport goods also had the largest value decrease in NI's goods exports over the year to June (down £322m or 11%), while largest increase was in Crude Materials (up £72m or 36%).

Figure 11 - NI Export Value by Destination in year to June 2021



Invest NI Business Strategy

2020/21 was the final year of Invest NI's four year business strategy. While the global pandemic significantly impacted the agency's final year priorities, Invest NI adapted its support across the economy. Invest NI has delivered four of its five strategic outturn targets, with the fifth still to be reported on. Final figures for Business Expenditure in R&D for 2020 are due to be released later this month.

Invest NI's Business Strategy outturn figures are compiled from Key Performance Indicator (KPI) data collected from a cohort of over 1,700 businesses which Invest NI works most intensively with.

Table 3 – 2017-21 INI Business Strategy Targets

2017 21 Business Strategy Targets	2017	2018	2019	2020	Final Outturn
30,000-40,000 Additional Jobs	10,987	9,298	8,886	7,658	36,828
£3.2 - £4.2bn Total Sales	£1.7bn	£1.6bn	£1.3bn	£0.4bn	£4.1bn
£2.4 - £3.1bn External Sales	£1.3bn	£1.4bn	£1.0bn	£0.4bn	£3.2bn
£0.8-£1.2bn Export Sales	£0.8bn	£0.8bn	£0.4bn	£0.9bn	£1.1bn
£160m-£200m Increase Business R&D Expenditure	£14.8m	£10.1m	£81.3m	TBC***	TBC***

Examples of Recent Inward Investment

Some examples of successfully attracted foreign investment by Invest NI announced between June and October this year include:

- PwC announced it was investing £40m in a new Advanced Research & Engineering centre in NI with £9.8m assistance from Invest NI. The new Research Centre will focus on the delivery challenging R&D projects in core technology areas such as RPA, Workflow Automation, AI and Data Analytics.
- Hinduja Global Solutions UK plans to create 565 new jobs across NI, all of which can be home based. The company combines technology-powered services in automation, analytics and digital with domain expertise focusing on back office processing and contact centres.
- Tribe Technology, an Australian engineering company, whose main business is to research, develop and supply autonomous drill rigs to the mining industry, plans to recruit 120 new engineering positions based in Mallusk over the next 5 years. Invest NI is providing assistance towards 82 of the new jobs.
- ASOS, a British online fashion and cosmetic retailer, plans to recruit 184 new tech employees over the next 3 years with 130 of those positions filled by Assured Skills Academy Graduates, with a projected average salary of £35k.
- Workrise, a US workforce management company, is to set up a technology engineering centre in NI, creating 153 jobs. Workrise matches skilled labour contractors to companies that require staff for time bound projects.

Table 2 – Selected Inward Investments

	Assistance	Investment	New Jobs
PricewaterhouseCoopers LLP	£9,838k	£39.7m	771
Hinduja Global Solutions UK Ltd	£1,695k	£22.1m	565
ASOS.com Ltd	£1,196k	£14.1m	184
Workrise Technologies Inc	£995k	£13.6m	153
Tribe Technology Group Ltd	£984k	£5.4m	120

Tourism

The Tourism Sector has been severely impacted throughout the pandemic. Restrictions resulted in hotels and B&Bs having to close to the majority of customers for most of last year and the earlier part of this year. The latest statistics for room occupancy rates show levels for hotels were similar to pre-pandemic levels in August and September. Whereas B&B and Guesthouse accommodation has similar room occupancy rates for September 2021 to pre-pandemic levels but remained below rates over the summer months. International tourism remains below 2019 levels.

Table 4 – Key Markets Growth Forecasts (IMF)

GDP	2021	2022
World	5.9%	4.9%
UK	6.8%	5.0%
Euro Area	5.0%	4.3%
US	6.0%	5.2%
China	8.0%	5.6%

Key Markets Outlook

The October World Economic Outlook by the IMF projects the global economy to grow by 5.9% in 2021 (0.1pps lower than in its July forecast) and 4.9% in 2022. Beyond 2022, global growth is projected to moderate to around 3.3% over the medium term. Advanced economy output is forecast to exceed pre-pandemic medium-term projections - largely reflecting sizable anticipated further policy support in the United States that includes measures to increase potential.

The downward revision for 2021 reflects a downgrade for advanced economies - in part due to supply disruptions - and for low-income developing countries, largely due to worsening pandemic dynamics. This is partially offset by stronger near-term prospects among some commodity-exporting emerging market and developing economies. Rapid spread of Delta and the threat of new variants have increased uncertainty about how quickly the pandemic can be overcome.

Households

While wages are rising so are prices, with inflation affecting households as well as businesses. House prices continue to rise significantly while consumer confidence has dipped. There continue to be concerning rises in economic inactivity and young people not in education, employment or training, although the end of the furlough scheme has not had any immediate impact on the claimant count.



Unemployment

The latest Labour Force Survey estimates the unemployment rate (16+) in NI for period July-September 2021 at 4.0%, an increase of 0.2 pps over the quarter and of 0.6pps over the year. The latest unemployment rate remains below the UK rate (4.3%).

The Coronavirus Job Retention Scheme closed on 30th September 2021 (at that time 26,300 jobs were supported in NI). Despite this, October's Claimant Count decreased from September's total and the number of proposed collective redundancies remained low through September, October and the first half of November.

Total weekly hours worked was estimated at 26.9 million hours per week for the period July-September 2021. This was a decrease on the previous quarter (-2.4%), 1.0 million hours (3.7%) higher than the same period last year, but 2.0 million hours below the same period in 2019.

In October, the number of people claiming unemployment benefits decreased by 0.6% over the month and 20.7% over the year to 47,000. This equates to 4.8% of the NI workforce on the claimant count, which is 26% less than the

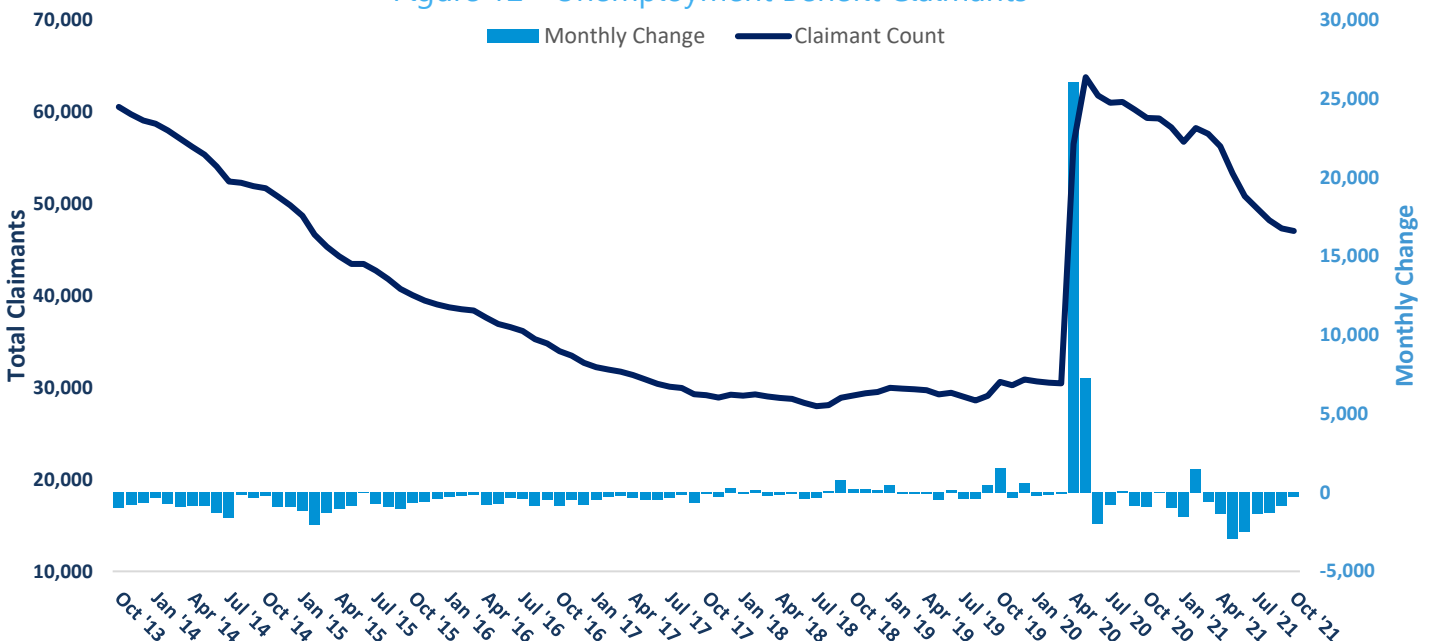
recent peak in May 2020 (of 6.5%) and lower than the UK rate of 5.1%. However, this remains 54% more than the count in March 2020. Between March 2020 and October 2021 the claimant count has risen substantially across all age groups, with 25-49 year olds (+60%) relatively more impacted than those aged 16-24 (+41%) or those aged 50 and over (+48%).

NI's economic inactivity rate remains high; it rose over the quarter (+0.8pps) and over the year (+0.5pps) to 26.8% for July-September 2021, and is significantly above the UK rate of 21.1%. This increase is driven by a rise in male inactivity rates.

As at Q3 2021, an estimated 23,000 young people (16-24) were not in education, employment or training (NEET), a decrease of 1,000 on the previous quarter and a decrease of 2,000 on the previous year. This equates to 11.9% of all people aged 16-24 years in NI, and is higher than the UK NEET rate of 11.6%.

A recently published survey of Further Education College Leavers found the proportion in employment six months after leaving college at the end of the 2019/2020 academic year was lower than in 2018/19 (43.6% vs 47.7%) whereas the unemployment rate was higher (7.7% vs 4.0%).

Figure 12 - Unemployment Benefit Claimants



Employment

The number of people in employment (16+) in the period July-September 2021 was estimated at 851,000, a decrease of 12,000 over the year. The overall employment rate is estimated at 70.2%, a fall of 0.9pps over the quarter and over the year.

The decrease in employment over the year was driven by a fall in the number of young people employed (16-24 years) and those aged 25-34 (-7.5% and -5.0% respectively) whereas there were rises in the numbers in employment for 35-49, 50-64 and 65+ age groups. The working age male employment rate decreased by 3.8pps over the year to 70.6% while the female employment rate increased by 1.9pps to 69.8%. NI's employment rate remains below the UK average (75.4%) and is the lowest of the 12 UK regions.

Figure 13 - Participation rates
(annual percentage point change to Q3 2021)

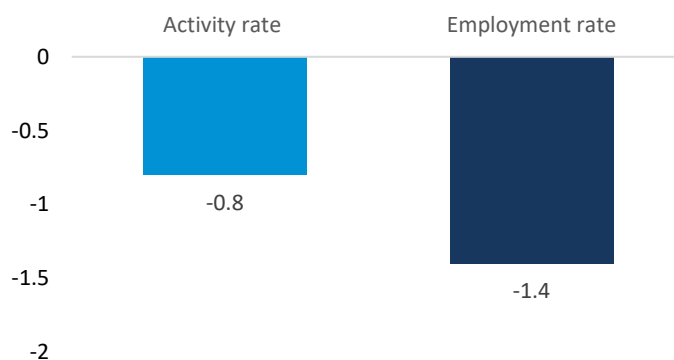
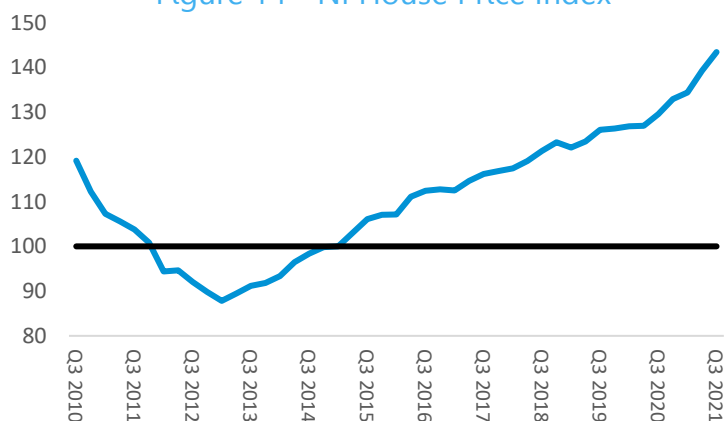


Figure 14 - NI House Price Index



Housing Market

NISRA's latest NI House Price Index (HPI) reports that in Q3 2021 the average local house price was around £159,109, representing a quarterly increase of 3.0% (£4,634) and an annual increase of 10.7% (£15,379). The UK's average house price rose by 11.8% over the year to a record £269,945 in September 2021.

The average house price varied across the eleven Council Areas, ranging from £140,983 in Armagh City, Banbridge & Craigavon to £183,392 in Lisburn & Castlereagh. Average terrace, semi-detached and detached property prices increased, while apartment prices decreased. There were 7,529 verified residential properties sold, around 3% less than the previous quarter.

Pay & Consumer Confidence

HMRC PAYE Real Time Information

- The number of payrolled employees in NI in October was up 0.5% over the month and up 4.4% over the year.
- Median monthly pay for NI employees in October 2021 was £1,849, increasing by 0.2% over the month and 4.2% over the year. However, NI has the lowest median monthly pay of the 12 UK regions (UK average is £2,005).

Annual Survey of Hours and Earnings

- Median gross weekly earnings for full-time employees increased by a record 8.8% to £575 over the year to April 2021 in NI, following a record 1.1% decrease in the previous year.
- NI had the 6th lowest weekly earnings of 12 UK regions, experiencing a greater increase over the year than all other regions. UK weekly earnings were £611 (4.3% increase).
- Real weekly earnings in NI increased by a record 7.0% in the year to April 2021 after a 2.0% decrease the previous year.

Danske Bank Consumer Confidence Q3 2021

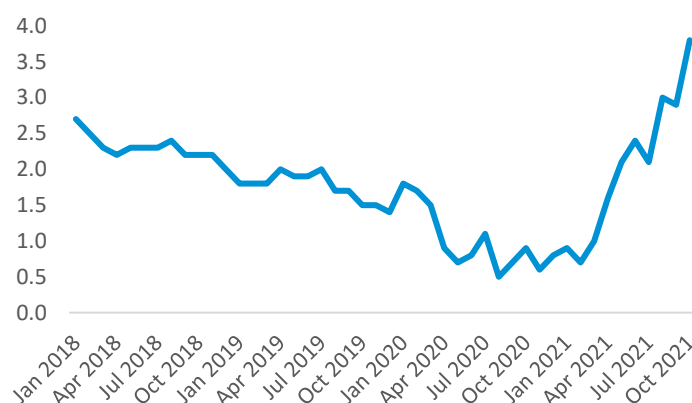
- The Consumer Confidence Index decreased to 137 in Q3 2021, down from 149 in Q2, but higher than in Q3 2020 (119).
- The largest positive impact on confidence levels was the coronavirus vaccine roll out (45%). Whereas 36% said the NI trading arrangements after EU Exit made them less confident. A further 18% stated higher prices on household finances was their largest negative impact on confidence.
- A quarter of respondents expect their financial position to worsen over the next year. A third expect to spend less on expensive items. However 14% expected to become more secure in their job position.

Prices

Inflationary cost pressures have been rising during 2021, affecting both households and businesses. Inflation as measured by the Consumer Price Index (CPI) rose by 4.2% in the year to October 2021, up from 3.1% in the year to September. The CPIH (which includes owner occupiers' housing costs) rose by 3.8% in the year to October 2021, up from 2.9% in the year to September 2021.

The largest contribution to the 12-month inflation rate came from housing & household services (1.23pps) as owner occupiers' housing costs rose. There were also significant contributions from transport (1.08pps) and restaurants & hotels (0.43pps). The Bank of England's quarterly Monetary Policy Report published in November projects UK inflation to peak in April of next year at around 5%.

Figure 15 - CPIH Annual inflation rate (%)



Government

Over the last four years local public employment has risen gradually, although employment in the public sector remains well below the peak figures twelve years ago. The last year has seen another rise in public employment, driven by the need to respond to the pandemic. Local government and Public Corporations were the only areas where public sector jobs declined over the year.

+1,335

annual change in number of public sector jobs

+0.6%

annual change in public sector jobs

+2.2%

annual change in NICS jobs

-4.2%

annual change in local government jobs

+1.2%

annual change in NHS Trusts jobs

Jobs

Since September 2017, jobs in the public sector have gradually increased, although they remain 5.9% smaller than the peak figures in September 2009, with around 13,500 fewer jobs in June 2021. Conversely, the private sector has grown over the same period by 16.2%, with an additional 77,580 jobs; most of this increase being from the services sector.

Public sector jobs in NI totalled 28% of all the employee jobs in June 2021. NI public sector jobs as a proportion of the local population was 11%, which compares to 8% in the UK. Public sector jobs in NI increased marginally over the recent quarter (0.3%) to June 2021 and over the year (0.6%). UK public sector jobs rose over the quarter (0.7%) but fell over the year (-0.7%).

Jobs in NI NHS Trusts and in NI Central Government both rose by 1.2%, whereas jobs in Local Government (District Councils) fell by 4.2% over the year. Jobs in the NI Civil Service also rose by 2.2% with the largest percentage increase (13.9%) in the Department of Health (DoH) and an additional increase in jobs (10.8%) for public bodies under DoH.

Table 5 – NI Selected Public Sector Jobs Breakdown

	Jobs		Annual Change	
	Jun 21	No.	%	
Total Public Sector Jobs	215,850	1,335	0.6%	
NI Central Government*	114,549	1,412	1.2%	
<i>Of which:</i>				
Northern Ireland Civil Service	23,589	516	2.2%	
NHS Trusts	77,293	893	1.2%	
UK Central Government	3,823	89	2.4%	
Local Government	11,330	-501	-4.2%	
Public Corporations	6,337	-3,338	-34.5%	
Bodies under NI Central Government**	79,811	3,672	4.8%	

* totals include NICS, Health, Education, Fire Service, PSNI and BBC etc.

** includes Teaching and Non Teaching Staff in Schools, Colleges and Education Authority

Figure 16 – NI Public Sector Jobs (000's)

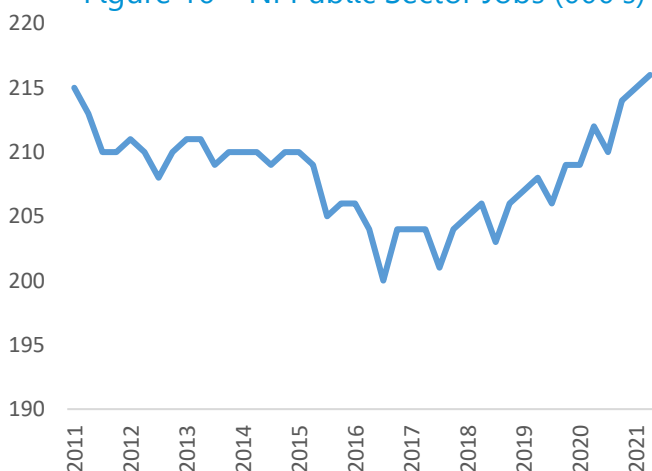
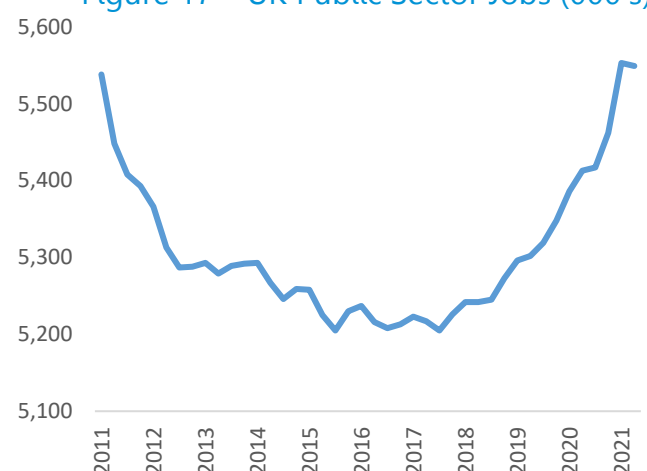


Figure 17 – UK Public Sector Jobs (000's)



FOCUS: At the Close of Furlough

This section briefly examines the characteristics of those on furlough at the close of the scheme on 30 September 2021, using the HMRC provisional data published on 4 November 2021.

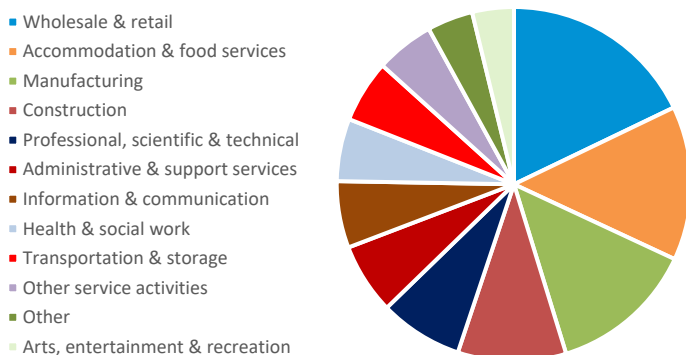
The Coronavirus Job Retention Scheme (CJRS) in Northern Ireland

In March 2020, the UK Government introduced the Coronavirus Job Retention Scheme (CJRS), more commonly known as the furlough scheme, to support employers through the COVID-19 period. This scheme ran to the end of September 2021, much longer than initially envisioned. In Northern Ireland an estimated 287,100 unique jobs have been supported by the furlough scheme during this period. The number of people in NI on the furlough scheme has varied since its peak in May 2020, with steady reductions in employees on furlough during the final six months. At the end of the scheme 26,300 employees in NI were furloughed (4% of eligible employments).

Sector

At the end of the furlough scheme the sectors with the most employees on furlough were Wholesale and Retail (4,700), Accommodation and Food Services (3,700) and Manufacturing (3,500). This equates to 4%, 9% and 4% respectively take up rates of employees eligible for furlough. The sectors with the highest take up rate of 10% of employees on furlough at the end of the scheme were Other Service Activities (1,400 - this sector includes repair of personal and household goods, drycleaners, hairdressers and beauticians) and Arts, entertainment and recreation (1,000).

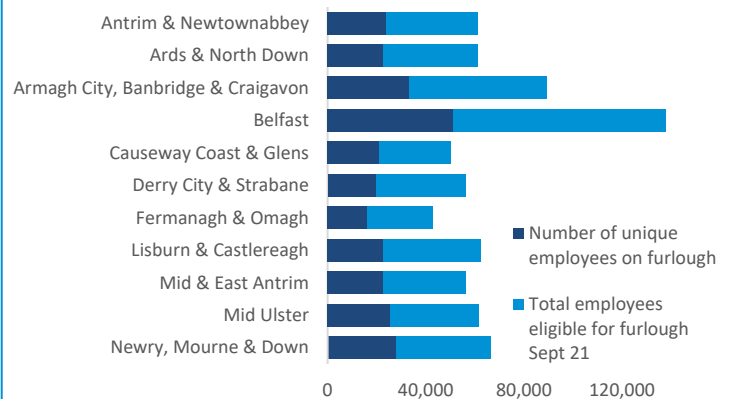
Figure 18 - NI Furloughed Workers by Sector (30 Sept 2021)



Local Authority Area

At the end of CJRS the take up rate for eligible employees across NI was 4%, having dropped from 14% at the end of March 2021. At the end of September 2021 all local District Councils had a take up rate of 3% or 4%. Belfast had the highest absolute number of unique jobs furloughed during the scheme, with 37% of the total jobs eligible for furlough in September 2021. The highest percentage of furloughed employees as a percentage of jobs eligible for furlough was in Newry, Mourne & Down, Mid Ulster and Causeway Coast & Glens (all with 42%).

Figure 19 - No. of Unique Jobs Furloughed by DCA



Flexible Furlough

At the beginning of the furlough scheme a key principle was that employees could not undertake any work for their employer when furloughed. However, since 1 July 2020, the UK Government introduced the flexibility for employers to bring furloughed employees back to work part time, paying them in full for the hours they work, while they received a furlough payment for the rest of their hours.

At the end of September 2021 just under half of the employees furloughed (49% or 13,000 employees) were also working some of their usual hours. The proportion of furloughed workers on flexible furlough has increased from around a third (32%) at the end of March 2021.

Gender and Age

In NI at the end of the furlough scheme there were slightly more male employees than female employees on the scheme (13,700 vs 12,500), which is equivalent to 4% and 3% of eligible employments respectively.

In terms of age the largest number of employees on furlough in NI at 30 September 2021 were aged 45 to 54 (6,140) followed by 35 to 44 year olds (6,040). The age groups with the smallest number of furloughed workers were under 25s (2,590) and 65 and over (1,770). However it should be noted that the number of people on furlough aged under 25 has dropped dramatically in recent months, falling from 9,700 at the end of May, a fall of 73% in four months.

Conclusion

The CJRS scheme has assisted many local businesses to keep trained staff and many employees to retain their jobs during a significant period of uncertainty. It is not possible at this stage to know how many of those on furlough at the end of the scheme were re-employed at the end of the scheme.

FOCUS: What has been happening to prices and why should we be interested?

Both businesses and households have faced increased prices during 2021. This section briefly examines the cause of these rising prices and the implications going forward, with a particular focus on Northern Ireland.

Introduction

Inflation refers to an increase in prices of goods and services in an economy. When the price level rises there is a reduction in the purchasing power of money over time.

Small amounts of inflation are considered a good sign, encouraging people to purchase goods now rather than waiting. If prices were falling then people might delay buying non-essential items in the hope of getting them cheaper. However if prices are rising too sharply, it is seen as a sign that the economy is running into difficulties. Sustained inflation can have a cumulative effect, cause stockpiling and supply issues, demand for increased wages and reduced business profitability.

Interest rates are intrinsically linked to inflation and tend to rise as inflation rises. The Governor of the Bank of England has stated that current conditions have been caused by global "supply shocks" rather than demand pressure in the UK economy. Electricity and gas prices have surged as the global economy reopens. Factories and businesses are also struggling with staff shortages and a backlog of orders which has also pushed up prices. The Bank of England has said higher inflation is expected to put pressure on household finances for the next two years.

The picture of inflation in UK and globally

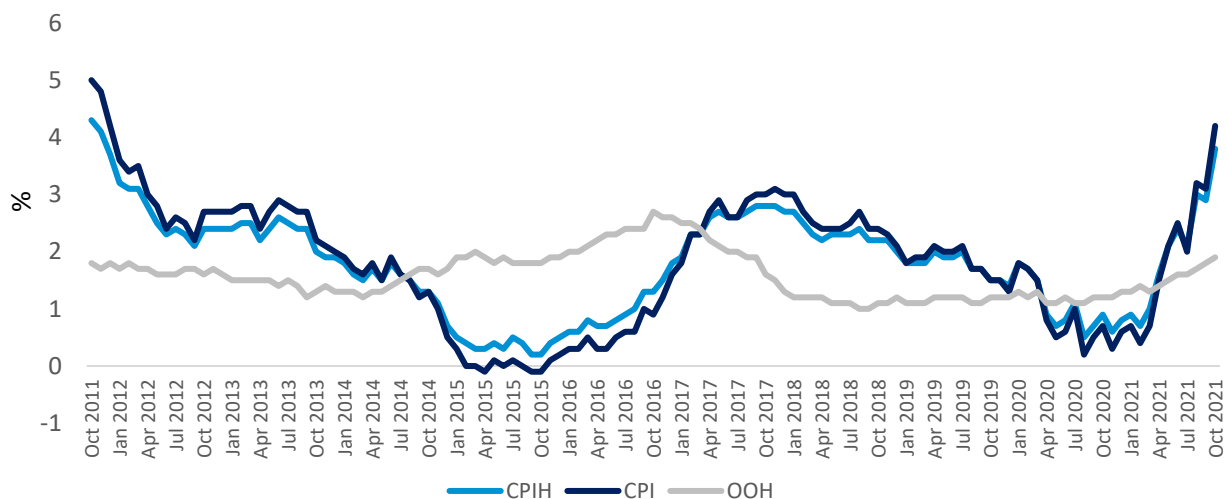
The UK breached its 2% inflationary target in May 2021 and other major economies have experienced rising inflation. In the US, the annual inflation rate was 5.4% in September, representing the largest increase since August 2008 driven by increases in energy and food prices.

Annual inflation for the Euro Area was 3.4% in September. At its latest Monetary Policy Committee (MPC) meeting (November 2021) the Bank of England said inflation in October was driven by the impact on utility bills of rising wholesale gas prices. Consumer Prices Index (CPI) inflation is expected to rise to 4.5% in November and remain around that level through the winter.

The MPC's central expectation continues to be that upward pressure on CPI inflation is expected to dissipate over time, as supply disruption eases, global demand rebalances, and energy prices stop rising. As a result, CPI inflation is projected to fall back materially from the second half of next year.

UK CPI and CPIH (CPI including housing costs) have risen substantially over recent months – with CPI 4.2% in October 2021. This is its highest level since Nov 2011. CPI inflation is now expected to peak at around 5% in April 2022.

Figure 20 – UK Inflation Oct 2011 – Oct 2021



The graph above also shows owner occupiers' housing costs (OOH) which is an element of CPIH

The key drivers of inflation

As major economic markets return to growth coming out of the global pandemic, some inflationary pressure is inevitable. NI businesses have experienced some of the highest inflationary input and output costs in the UK, with the compounding effect of increased costs and supply chain issues caused by Covid-19 and EU exit. Significant recent price increases for utility bills have been well publicised. The average price of petrol in the UK hit a new record high in late October 2021.

The disruption to supply chains caused by the pandemic and changes in demand from consumers has also impacted prices. Input costs such as raw materials, transportation costs and energy costs are all contributing. There has also been some inflation from increased food prices. Pandemic border restrictions, distancing requirements and factory closures have all placed strain on traditional supply chains, leading to congestion at ports, delivery delays and soaring freight rates on the main shipping routes between China, the US and Europe.

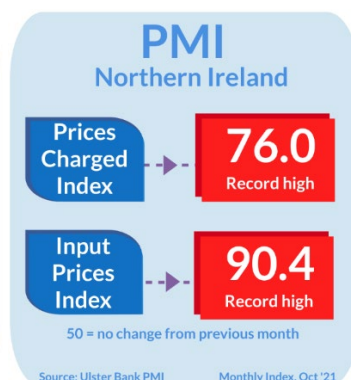
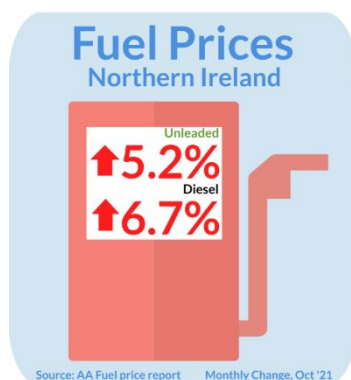
The latest Ulster Bank PMI shows the rate of input cost inflation for NI businesses was the strongest since the survey began in 2002. Higher freight charges were widely mentioned with panellists also reporting increases in costs for fuel and raw materials. Increased input costs are being passed on to customers.

Potential implications for NI

Inflation may be viewed as 'affordable' in a fast-growing economy, but even short periods of price rises bring inequality risks as there will be people for whom prices rise faster than incomes, especially if the increases are in essentials such as food and fuel. In the UK before Covid-19, those on the lowest incomes spent 37% of their incomes on food, housing and fuel compared to just 20% of spending on these categories by the wealthiest cohorts. Research has shown that those in lower income groups have been more impacted by the pandemic than high earners.

Public confidence and the overall state of the labour market will play a significant role in determining economic recovery. Not all spend will flow back immediately, and if the labour market looks uncertain or expectations are for future lockdowns, there may be a need to encourage spending through policy. A more targeted choice may be needed to direct spending to where it can have the maximum local economic impact.

Many workers will be pushing for above-inflation pay rises which could lead to a ramping up of costs. The potential brake on this is the impact of technology, with many firms reporting that digital progress has been accelerated by as much as a decade. This could lead to an increased substitution of labour by technology which, in turn, would act as a counter-balance to overall wage inflation.



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 quarters 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 generally prefer to look at the latest four quarters compared with the previous four quarters 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.

Sources:

	Sources
The Economy	Northern Ireland Composite Economic Index (NISRA); Gross Domestic Product (ONS); Quarterly Employment Survey (NISRA); Coronavirus Job Retention Scheme statistics (ONS); Self-Employment Income Support Scheme statistics (ONS); Online Job Posting Trends 2021 (DfE); Purchasing Managers Index (Ulster Bank); Quarterly Sectoral Forecasts (Danske Bank); Economic Eye Ireland (EY); UK Economic Update (PwC); Summer Outlook 2021 (UUEPC).
Businesses	Index of Services (NISRA); Index of Production (NISRA); NI Construction Bulletin (NISRA); Construction Skills Network (CITB & Experian); Quarterly Employment Survey (NISRA); Inter Departmental Business Register (NISRA); Purchasing Managers Index (Ulster Bank); Business Monitor (InterTradelreland); Quarterly Economic Survey (NI Chamber of Commerce and Industry).
Engagement with the Rest of the World	Broad Economy Export and Sales Statistics (NISRA); Regional Trade Statistics (HMRC); Inward Investment (Invest NI); Tourism Statistics (NISRA); World Economic Outlook (IMF).
Households	Labour Force Survey (NISRA); Claimant Count (NISRA); Quarterly Employment Survey (NISRA); Survey of Further Education College Leavers: Academic Year 2019/20 (DfE); NI House Price Index (NISRA); UK House Price Index (ONS); PAYE Real Time Information (HMRC); Annual Survey of Hours and Earnings (NISRA); Consumer Confidence Index (Danske Bank); Consumer Prices Index (ONS); Monetary Policy Report – November 2021 (Bank of England).
Government	Quarterly Employment Survey (NISRA); UK Public Sector Employment (ONS).
Focus: At the Close of Furlough	Coronavirus Job Retention Scheme Statistics (HMRC).
Focus: What has been happening to prices and why should we be interested?	Monetary Policy Report (Bank of England); Consumer Price Index (ONS); Purchasing Managers Index (Ulster Bank); Home Energy Index (The Consumer Council); Fuel Price Report (The AA).

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