

DfE Economic Commentary **Autumn/Winter 2016**

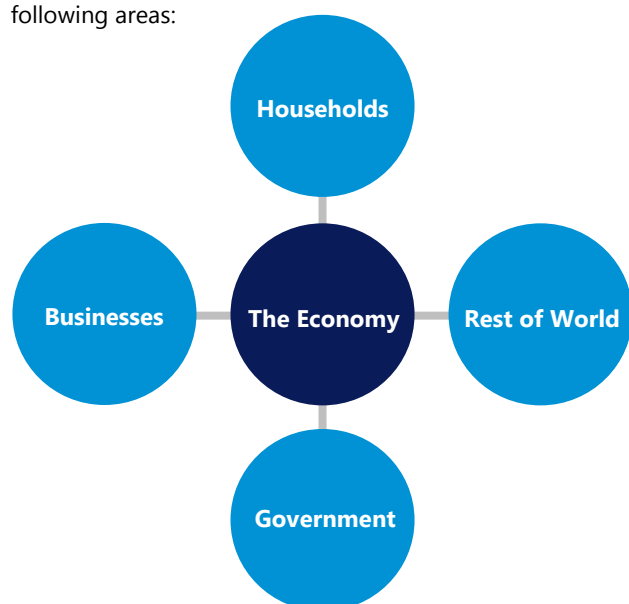
Since our last edition, the NI economy has continued on its path of recovery, gains have been particularly evident in the labour market with inactivity at an all time low and employment at an all time high. Furthermore, the latest statistics from HMRC illustrate strong export performance over the year to June 2016, with goods exports growing by just under a tenth for a total value of just over £6.7bn.

Overview

Since the last edition of this commentary in March 2016 the former Department of Enterprise Trade and Investment merged with the Department for Employment and Learning to create the Department for the Economy.

While a lot has happened in the intervening period we have continued to see a continuing recovery in the labour market through job creation and growth. There has been a record high in the employment rate, driven largely by an increase in the female employment rate and this has coincided with a record low in the economic inactivity rate.

Recent growth has been driven by the private sector, which has more than offset the stagnation and contraction in employment in the public sector emanating from continued public expenditure constraint. Overall growth is anticipated to be relatively modest this year and next and is again forecasted to be driven by the private sector. The remainder of this Commentary will consider performance in each of the following areas:



Research Highlights

- DfE has published its [Research Agenda 2016-17](#), which outlines research planned to support developing and implementing a newly refocused Economic Strategy.
- The Economic Advisory Group has published its [Competitiveness Summary](#) based on the Ulster University Economic Policy Centre's [Competitiveness Scorecard](#). Although there are positives in this to build on, our skills and employment levels have been improving, but other countries are moving ahead even faster.
- Research on [Understanding Productivity in Northern Ireland](#) by the Ulster University Economic Policy Centre highlights that NI's prosperity gap with the UK average is mainly caused by low productivity. This is due to both what NI does (being more focused on lower value sectors) and how it does it (lower productivity within sectors).
- DfE research on the [Potential Direct Impact of the National Living Wage](#) shows that around 158,000 people could benefit from this measure by 2020, bringing an extra £99 million in additional earnings.

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The Economy

The local economy has continued its recovery from the downturn with just under 42,000 net additional jobs created since the start of 2012. The private sector, through job creation and growth, has continued to lead this recovery. However, growth is expected to be relatively modest for this year and the next.

+1.0% <small>quarterly change in economic activity</small>	+1.6% <small>annual change in economic activity</small>	+860 <small>quarterly change in employee jobs</small>	+8,770 <small>annual change in employee jobs</small>	+1.4% <small>forecast economic growth in 2016</small>
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Economic Activity

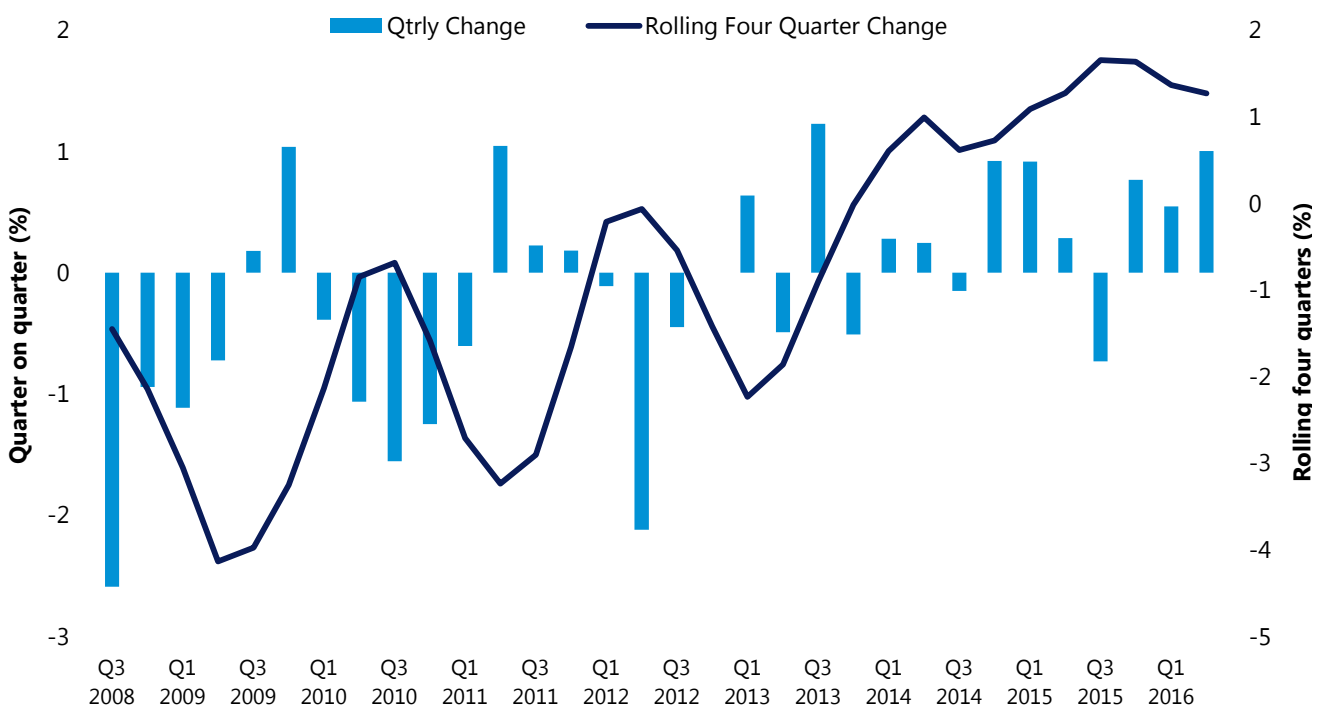
The latest economic activity figures from NISRA's Composite Economic Index indicate that the local economic recovery is continuing, with activity up 1.3% over the latest four quarters to Q2 2016.

Growth was comparatively strong in the latest data for the second quarter of 2016, up by 1.0%, recovering from the fall of 0.7% in Q3 2015.

In spite of the fall in Q3 of 2015 it is clear that the economy is heading in the right direction, with economic activity now 5.1% above the low point reached in the final quarter of 2012.

However, local activity remains 6.2% below the peak recorded in Q2 2007. By comparison, UK GDP has expanded by 9.4% over the same period.

Figure 1 - NI Composite Economic Activity

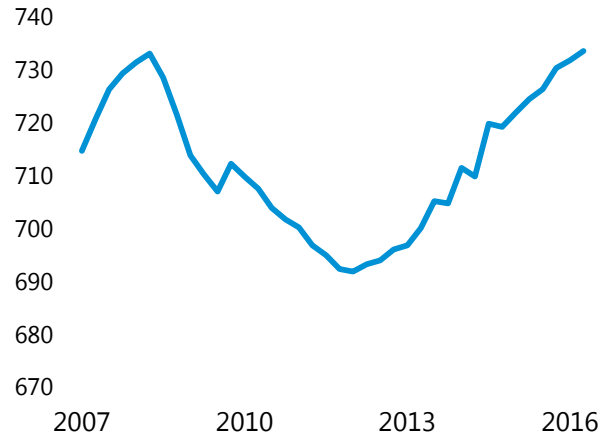


Employee Jobs

The latest set of quarterly figures from NISRA point to a continuing upward trend in jobs growth. Whilst there was a comparatively modest increase of 860 jobs between March and June 2016, consistent jobs growth has been recorded over the last six quarters when a total of 14,280 net additional jobs were added to the economy.

This recent growth has continued the upward trend which began in 2012. Overall, since jobs reached their recent low point (Dec 2011), the local economy has added a net additional 41,590 jobs.

Figure 2 - Employee Jobs (000s)



Private Sector

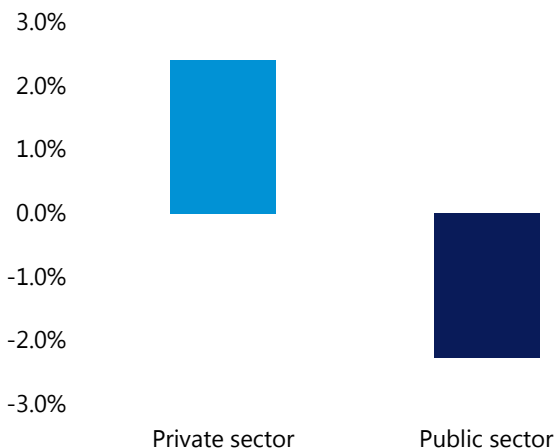
The private sector has continued on its recent trend of leading jobs growth. Since the low point in total employee jobs in the last quarter of 2011 there have only been three quarters out of 18 where there was a fall recorded in the number of private sector jobs, and over the period the private sector has grown by just over 53,200 jobs.

It is also leading in terms of activity, with private sector output up 2.4% over the latest four quarters (to Q2 2016) compared with the previous four. The Ulster Bank PMI survey indicates that staffing levels in private firms has continued to increase, with staffing levels in the survey increasing for twenty consecutive months to September 2016.

Table 1 – Latest NI Growth Forecasts

GVA	2016	2017	2018
Oxford Economics	1.2%	0.7%	1.0%
Ulster University	2.2%	1.9%	1.1%
Danske Bank	1.0%	0.5%	0.9%
Ernst & Young	1.6%	1.7%	-
PwC	1.2%	0.3%	-
Average	1.4%	1.0%	1.0%

Figure 3 - Economic activity (four quarters to Q2 2016)



Outlook

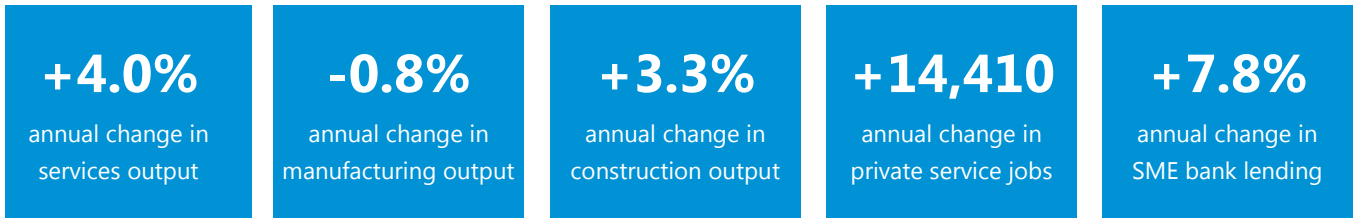
DfE does not produce economic forecasts, but does monitor those from external providers. Over the period since the last commentary two new local outlooks have been released in recent months:

- In their latest forecasts **Danske Bank** reduced their forecasts for growth citing inflation and business uncertainty.
- NI is forecast to remain the slowest growing region of the UK with marked slowdowns expected in all regions according to the latest **PwC outlook**.

It is expected that the new **Ulster University** outlook will be published in December 2016.

Businesses

The services sector continues to be the central force in revitalising the economy following the downturn and has posted strong growth. The construction sector also posted robust growth over the past year. However, this was not mirrored in the manufacturing sector where output contracted over the latest year.

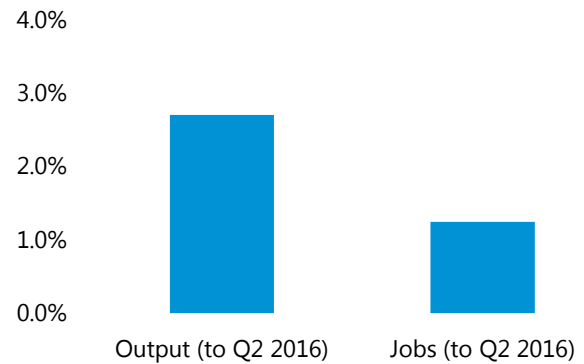


Services

Growth within the services sector remains robust, at 1.7% over the latest quarter and 4.0% annually to Q2 2016. This growth has outpaced that of the wider UK where services output increased by 0.5% over the quarter and 2.5% on an annual basis

The sector posted strong jobs growth over the latest quarter (to June 2016). Following a loss of jobs in Q4 of 2014, there have been six consecutive quarters of job growth averaging 3,650 jobs per quarter.

Figure 4 - Annual change in services output and jobs



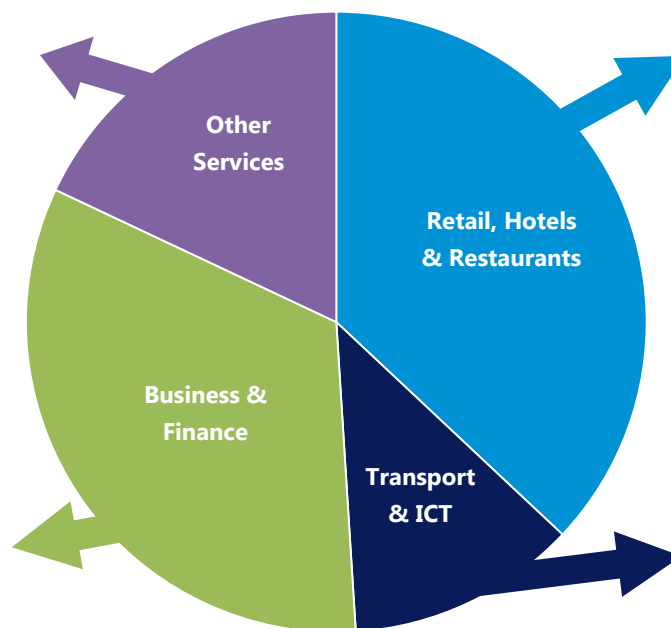
Other services

Output increased by 0.3% over latest year and employment in this sector grew by 780 jobs over the period. This was driven by jobs growth in the sports activities and amusement and recreation activities.

Business and Finance

Output up 2.4% over the year. The sub sector saw job growth of just under 5,000 over the period. This was supported by growth in management consultancy increasing by 1,030 jobs.

Figure 5 - Relative size of private services



Retail, Hotel & Restaurants

This sub sector recorded healthy growth over the past year (3.9%). However, employment in the sector contracted (by 0.6%) over the same period with wholesale trade jobs falling by 570.

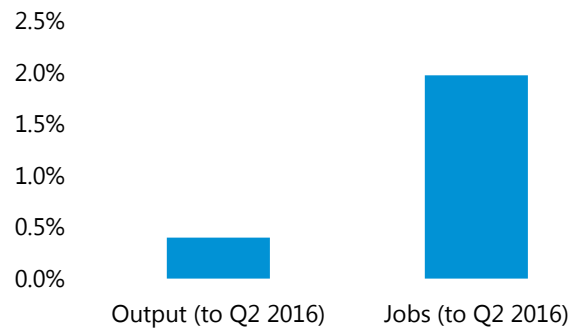
Transport and ICT

The strongest services sub sector for output growth, up by 4.7%. Jobs were also up by just under 6% driven by growth of just under a tenth in the ICT sector (1,590 jobs).

Manufacturing

Manufacturing output has generally outpaced UK growth since the recession growing by 18.3% since Q3 2009. Growth has slowed over the year and on a rolling four quarter average output is up less than half a percent. In the latest quarter output contracted by 0.5%, driven by a fall in the output of the chemical and pharmaceuticals subsector (-5.6%). In terms of jobs, the sector grew by just under 2%, adding 1,570 jobs over the last year, bringing the total number of jobs in the sector to almost 82,000.

Figure 6- Annual change in manufacturing output and jobs

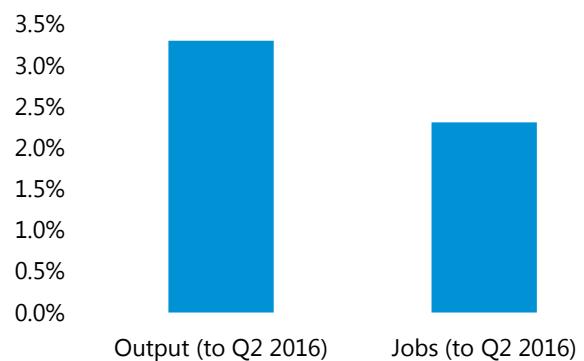


Construction

The Northern Ireland Construction Bulletin showed that the construction sector has continued the upward growth trend that began in 2014. The total volume of output increased by 4.1% on the quarter, its third consecutive quarterly increase and is now 3.3% higher than the same quarter last year.

Over the latest quarter, the sector continued on a trend of net job creation adding 180 jobs. However, jobs growth has been relatively shallow recently, increasing by 680 jobs over the year.

Figure 7 - Annual change in Construction Output and Jobs



Key Business Trends

Finance is a key driver of business growth, and approved bank loans to SMEs totalled £440 million in Q4 2015, around an 8% rise on the same quarter of 2014. Whilst the value is up it is worth observing that both the total number of applications and number of applications approved has fallen over the period by around 7%.

A number of positive announcements have been made this year regarding the provision of Invest NI support to local businesses. This included investment announcements by Dale Farm, Critical Power Systems and Payescape Ltd.

Table 2 – Selected Indigenous Investments

April – September 2016	Investment	Jobs
Dale Farm	£7m	60
Critical Power Systems	£2m	47
Payescape Ltd	£1m	23

Other Business Surveys

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

Ulster Bank PMI

- Over the past six months the PMI has shown that output only contracted once, in July of this year.
- The latest results for September show that, while there was no overall change in output, businesses were reporting that the rate of job creation has picked up, signalling confidence for the future.

InterTradeIreland Quarterly Business Monitor

- Results from Q2 2016 indicate that 90% of businesses in NI and the ROI were stable or growing although the momentum of growth has contracted over the year and is being replaced by stability.

NI Chamber Quarterly Economic Survey

- The latest survey for Q3 2016 showed that the economy is still growing and local companies remain ready to react to change with most maintaining staffing levels performance.

Rest of the World

Local export performance has been relatively strong over the last year, with NI the only UK nation to record an increase in the value of exports over the year.

Following the EU referendum the pound has weakened against both the Euro and Dollar which has improved local business competitiveness in external markets.



Exports

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

The RTS measure shows that NI exports decreased by 2.3% over the latest quarter to Q2 2016, although exports in the previous quarter had been at a record level. Further, on an annual basis (four quarter average), NI was the only UK nation to see an increase in the total value of exports recording growth of 9.5% (£580m).

Over the past year, the biggest export gains were to the US (+£619m), and Switzerland (+£23m). Conversely, the largest declines were to the ROI (-£56m) and Taiwan (-£35m). In terms of sector, chemicals was the fastest growing (+£541m) whilst the largest decline was recorded in the food and live animals sector (-£123m).

The weakening pound continues to make NI exports more competitive in certain markets, in particular to the Dollar and Euro areas where the pound is down by 22% and 14% respectively since June 2016.

Figure 8 - Exports of goods



Inward Investment

Invest NI had a successful year in 2015/16. It secured £341m of employment related investment, £70m of investment in R&D, provided £10m in loans through the Growth Loan Fund and attracted 20 new foreign investors to Northern Ireland. Further, it has promoted 5,550 new jobs against a target of 4,000.

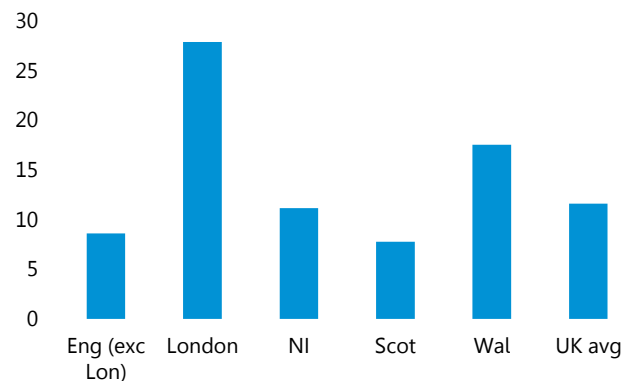
This includes Invest NI supported projects from Tullet Prebon who plan to employ 300 people in Belfast when fully operational in the next three years. Metaswitch Networks, who design and develop cloud-native communications software for telecommunications software providers, plan to create 94 new R&D and ICT jobs in their new Centre of Excellence in Belfast.

Other sources continue to demonstrate how successful NI has been in recent years at securing FDI projects and jobs. In statistics published by UK Trade and Industry for the period 2010/11 to 2014/15 NI gained nearly 4.5% of all new FDI jobs in spite of comprising less than 3% of the total UK population. In the latest figures produced by the new Department for International Trade Northern Ireland was just below the UK average in FDI jobs per 10,000 people in the period 2015-16.

Table 3 – Selected Inward Investments

April – September 2016	Investment	Jobs
Tullet Prebon	£18.5m	300
Metaswitch Networks	£5.5m	94
BDO NI	£2.2m	250

Figure 9 - FDI jobs per 10,000 persons 2015-16 (UKTI)



Tourism

The number of visitors to NI (non-resident) increased by 6% between 2014 and 2015 and associated spending increasing by 7%. Over the year, the only market that experienced a fall in both the number of visitors (-14%) and associated expenditure (-1%) was the ROI. Over the same period the number of visitors from GB increased by 10%, with spending by GB visitors up 7%. Similarly, visitor numbers from markets outside GB and ROI increased by 9%, with spending up by 11%.

Figure 10 - Non-resident Visitor Numbers and Spend

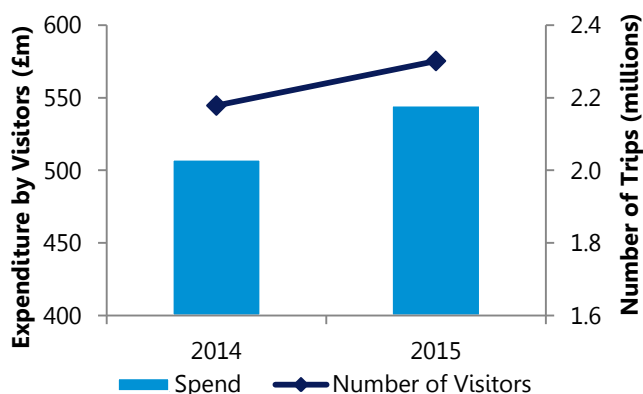


Table 4 – Key Market Growth Forecasts (IMF)

GDP	2016	2017
UK	1.8%	1.1%
Rep of Ireland	4.9%	3.2%
Eurozone	1.7%	1.5%
US	1.6%	2.2%
Canada	1.2%	1.9%
China	6.6%	6.2%

Key Markets Outlook

The latest short term forecasts for Advanced Economies show a weakening of expectations, with downward revisions in the latest International Monetary Fund (IMF) outlook report. The revised IMF predicts global growth of 3.1% for 2016 and 3.4% for 2017, down from 3.2% and 3.5% respectively since their previous report. The authors commenting that growth prospects across countries and regions remain relatively subdued. However, activity in emerging markets is projected to strengthen, following a five year period of declining growth.

Households

The local labour market has continued its strong recovery from the downturn, with unemployment and inactivity both continuing to decline. However, whilst consumer confidence has fallen, spending expectations are rising. This mixed picture is also reflected in domestic tourism with the number of stays down and spending up.



Unemployment

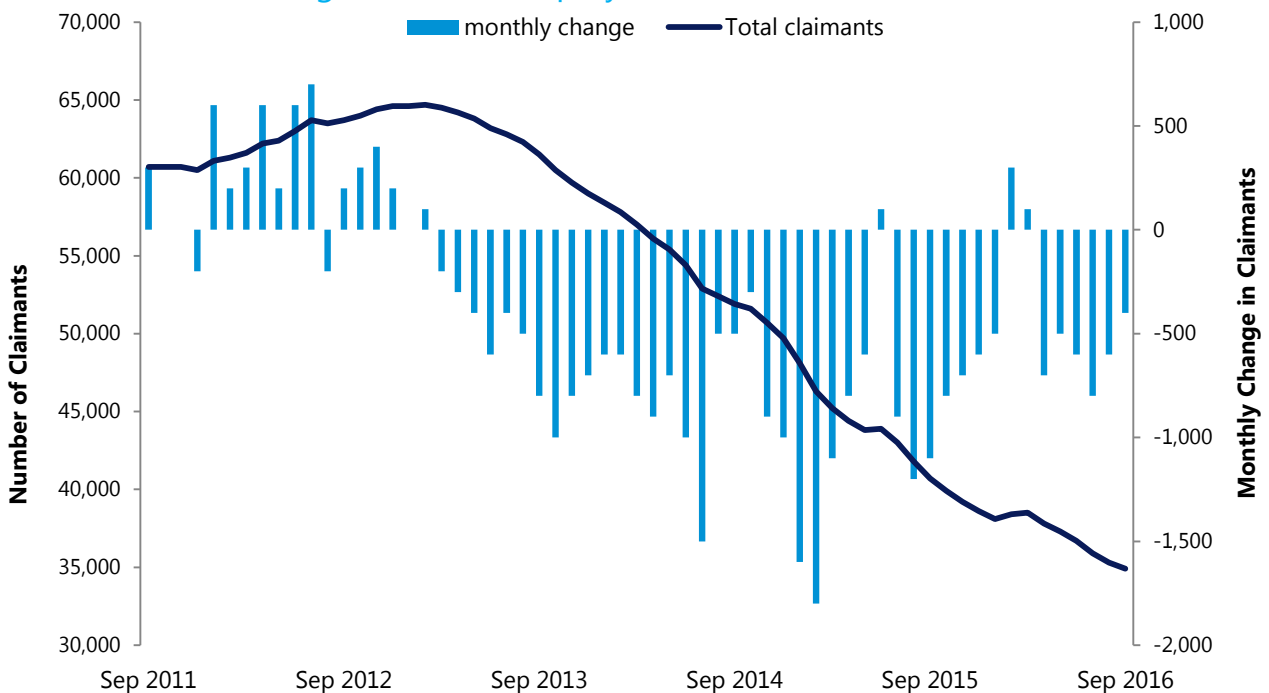
The number of people claiming unemployment benefits has fallen in almost every month since its peak in February 2013, increasing in just three months when it rose marginally (by a total of 500). Over the past year, the claimant count tally has fallen by 5,800, and has now decreased by just over 46% since the peak in claimants.

Furthermore, both the number of youth and long term claimants has fallen over the year by 21.2% and 19.0% respectively. However, despite NI's recent positive performance, the claimant count is still 48% higher than its previous low in August 2007.

The LFS unemployment rate for the June to August 2015 period was 5.5%, the lowest rate since September – November 2008. The LFS rate has been trending downwards following its peak in November to January 2013 (when the rate was 8.3%). However, in spite of this progress the latest rate remains above the UK rate of 4.9%.

The long term unemployment rate (percentage of unemployed who have been unemployed for 1 year or more) was down 13.0pps over the year but at 45.9% remains markedly higher than the UK average rate of 25.6%.

Figure 11 - Unemployment Benefit Claimants



Employment and Activity

The latest increase in the employment rate was driven by an increase in the female employment rate of 4.3 pps over the year. Overall employment increased to 70.1%, the highest rate since the time series began in 1995. Whilst this performance should be welcome it is worth noting this was the lowest employment rate of all the UK regions. The proportion of economically inactive persons in NI stands at 25.7%, the lowest level since 1995. Again this remains the highest amongst the 12 UK regions and is well above the UK rate of 21.5%.

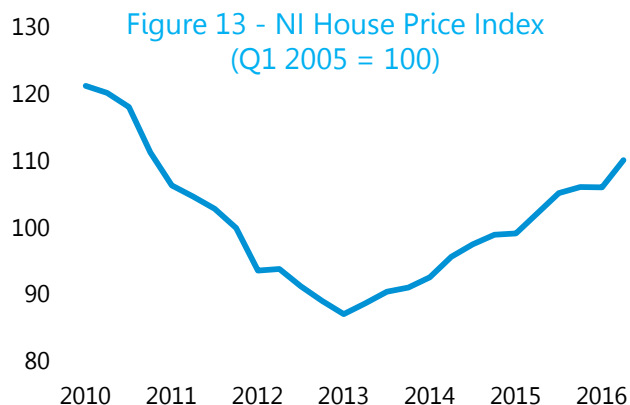
Figure 12 - Participation rates (annual percentage point change)



Housing Market

According to the latest NI Residential Property Price Index house prices in NI have risen by 3.8% over the latest quarter to Q2 2016 and by 7.8% compared with the same quarter last year. Growth has now been recorded in the 13 quarters since Q2 2013 in spite of this growth, local house prices remain over 50% lower than their peak, achieved in Q3 2007. ONS estimates that UK house prices increased 8.3% over the year to July 2016. Over the period all UK nations witnessed growth with England recording the highest growth of 9.1% over the year to July 2016.

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



Consumer Spending

There are mixed signals across household indicators with household confidence down but spending expectations on the up:

Retail sector

- Footfall in September was up 1.0% over the four months from May, this was above the UK average rate of just 0.1% growth.

Domestic tourism

- There were 20% fewer overnight stays in NI in Q1 2016 compared with Q1 2015.
- However, spend by locals on tourism increased by almost one-quarter (23%) over the same period.

Consumer confidence

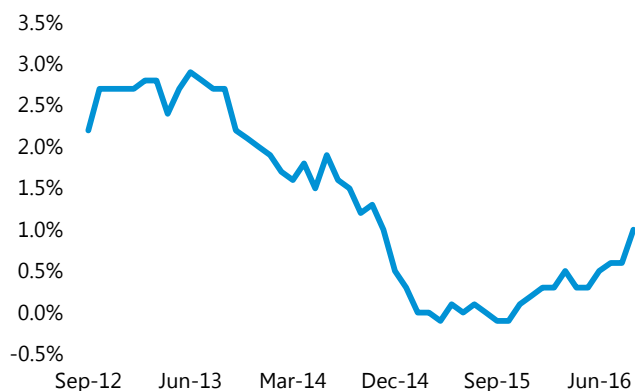
- Danske Bank reports that household confidence fell over the year to Q3 2016.
- The survey also found that spending expectations had grown slightly over the latest quarter particularly consumers aged 50-64.

Prices

Price inflation remained around the zero mark for most of 2015 with the latest figures showing evidence that the rate had begun to creep upward. Over the year to September, inflation increased to 1.0% driven by rising prices for clothing, overnight hotel stays and motor fuels

The current CPI rate is well below the Bank of England target of 2%, although its latest inflation report notes its expectation that the rate will return to 2% in 2017.

Figure 14 - CPI annual inflation



Government

Over the past few years, following a significant contraction in public spending and associated efficiency savings, the public sector in Northern Ireland undertook a Voluntary Exit Scheme (VES) between March 2015 and May 2016. Almost 3,000 people chose to exit the NICS under this scheme over the period.



Jobs

The number of jobs within the local public sector has continued on their downward trend, and at June 2016 there are now 22,860 (10%) fewer jobs when compared to the peak in public sector jobs at September 2009.

Since our last economic commentary there have been a number of changes in the public sector in Northern Ireland. In May 2016 the number of Northern Ireland government departments reduced from 12 to nine with the functions and services delivered by former departments restructured and transferred to the relevant new departments.

The UK public sector has contracted at a faster pace than Northern Ireland between 2009 and 2016 falling by just over 16%. However, the pace of contraction has slowed recently with UK public sector employment falling by 0.4% over the last year.

Table 5 – NI Public Sector Jobs Breakdown

	Jobs June 16	Annual Change	
		No.	%
NI Central Government*	106,475	-2,818	-2.6%
Northern Ireland Civil Service (NICS)	23,888	-3,191	-11.8%
UK Central Government	3,504	-385	-9.9%
Local Government	11,450	-495	-4.1
Public Corporations	6,515	-200	-3.0%

*totals include NICS, Health and Education etc.

Figure 15 - NI Public Sector Jobs

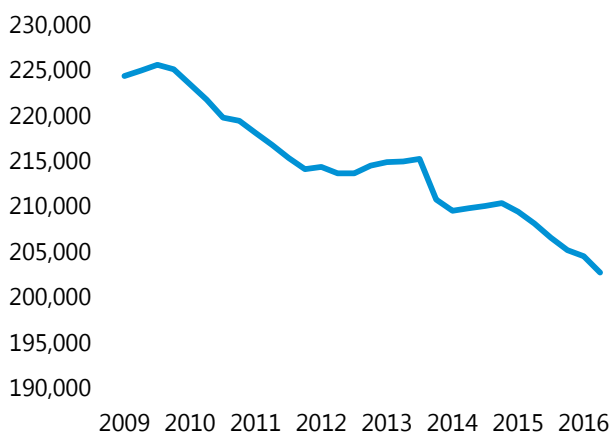
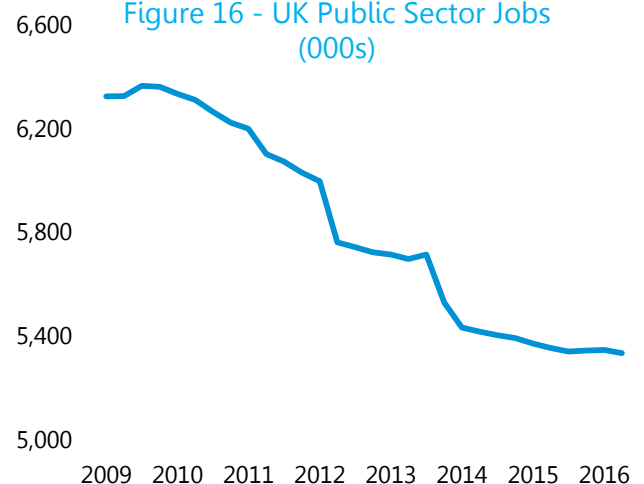


Figure 16 - UK Public Sector Jobs (000s)



Research Highlights

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

Research Agenda 2016-17

The Department for the Economy has published its [Research Agenda 2016-17](#). This one-year research programme aims to provide an evidence base for developing and implementing the refocused NI Economic Strategy. A total of 30 research areas have been identified across four key themes: competitiveness; trade and investment; skills and employability; and innovation and enterprise.

Understanding Productivity

Following on from the Competitiveness Scorecard, the Ulster University Economic Policy Centre carried out research on [Understanding Productivity in Northern Ireland](#). This finds that the relative income gap between NI and the UK has been persistent and widening over the last decade, with the main contributory factor being lower productivity. What NI does, with a sectoral mix that is relatively lower value added, explains a large proportion of the productivity gap. However, productivity within sectors – i.e. how NI does it - is also lower on average.

Further Education Outcomes

In order to better understand the reasons for differences in student success rates in Further Education colleges, the Ulster University Economic Policy Centre were commissioned to carry out research on [Factors Contributing to Student Outcomes in Northern Ireland FE Colleges](#). Those students that are most likely to succeed study retail and commercial enterprise, at level 4 or above on a full-time basis, are from rural and less deprived backgrounds, and are married and in full-time employment.

National Living Wage

Research by the Department for the Economy, on the [Potential Direct Impact of the National Living Wage](#), shows that 56,000 employees will benefit in 2016. This figure could rise to 158,000 by 2020, leading to additional earnings of £99m. However, the benefits will depend on the response that businesses choose to take, and research is currently being undertaken by the Ulster University Economy Policy Centre to explore this further.

Competitiveness Scorecard

The Economic Advisory Group (EAG) commissioned the Ulster University Economic Policy Centre to develop a [Competitiveness Scorecard](#) for Northern Ireland. This provides a comprehensive benchmark of competitiveness over the latest five-year period across more than 150 indicators. The [EAG Competitiveness Summary](#) highlights that there are positives in the Scorecard; business performance has improved in recent years, driven by a strong FDI proposition, with environmental sustainability and quality of life also moving in the right direction. But NI's overall competitiveness ranking in many key areas is too low, reflecting weak performance on productivity, employment & labour supply and macro & fiscal sustainability. Whilst our performance has improved somewhat over the five year period, other countries and regions have improved more quickly meaning that our comparative position has worsened.

Economic Accounts

The Northern Ireland Statistics and Research Agency (NISRA) published [Economic Accounts](#) for 2012, including Input-Output tables and estimates of multipliers. This shows that households contributed 44% of total expenditure in the NI economy, more than exports (30%), government spending (19%) and business investment (6%). But NI imported more than it exported, resulting in a trade deficit of £6.1bn.

Business Angels

InterTradeIreland research on the [Business Angels Market on the Island of Ireland](#) explores this important group of investors in early-stage, high-risk businesses. It highlights that the scale of investment is around £10-20m per annum, increasing over time. Recommendations are made to develop the all-island market further, although a key issue is the asymmetric tax incentives on offer either side of the border.

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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