

DfE Economic Commentary Spring 2017

Since our last edition, the NI economy has continued to show strength in a number of areas including around an improving labour market, particularly on unemployment, and strong export performance. Set alongside this however, there has been a slowdown in the growth of employee jobs, a fall in consumer confidence and a continuing rise in price inflation.

Overview

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

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 with the private sector continuing to underpin recent growth.

Business

All major private sectors of the economy recorded growth over the year. Service sector output is now higher than the low in 2012 and increased over the latest year.

Rest of World

The latest export statistics show that the goods produced by Northern Ireland companies continue to be in demand across the world with goods exports continuing to increase at a faster rate than any other UK region. Looking ahead, independent forecasters have revised their forecasts for global growth upwards due to stronger than expected performance in the latter half of 2016.

Households

The latest labour market statistics continue to show improvement though the latest figures show evidence of the pace of this improvement moderating. Inflation has risen steadily over the year and appears to be impacting on broader consumer confidence which fell over the year.

Government

The number of public sector jobs has continued to fall over the year, with the NICS losing the most jobs in the sector over the period.

Research Highlights

- The Legatum Institute [UK Prosperity Index](#) which provides a broad measure of prosperity finds that Northern Ireland has the highest levels of prosperity of any devolved nation.
- CBI's report on [Unlocking Regional Productivity](#) finds that the main influences on regional productivity differences are education, transport links, management practices and innovation and exports.
- In relation to innovation and exports, the 2015 [R&D Survey](#) finds that spending on R&D is at a record high. However, the [Broad Economy Sales and Exports Measure](#) shows that export sales had fallen over the same period.
- On education, findings from the [Further Education Leavers Study](#) demonstrate the strong positive impact that courses had during 2014/15, both for those now in employment and carrying out further study.
- An ESRI study on [Improving the Employment Prospects of Graduates: What Can Universities Do?](#) shows that Higher Education courses with work placements and related components minimise graduate mismatches.

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The Economy

The local economy continues to build on the jobs front with 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, contributing to the rebalancing agenda. However, growth is expected to be relatively modest for this year.

2.9% <small>quarterly change in economic activity</small>	+1.6% <small>annual change in economic activity</small>	-100 <small>quarterly change in employee jobs</small>	+500 <small>annual change in employee jobs</small>	+0.8% <small>forecast economic growth in 2017</small>
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Economic Activity

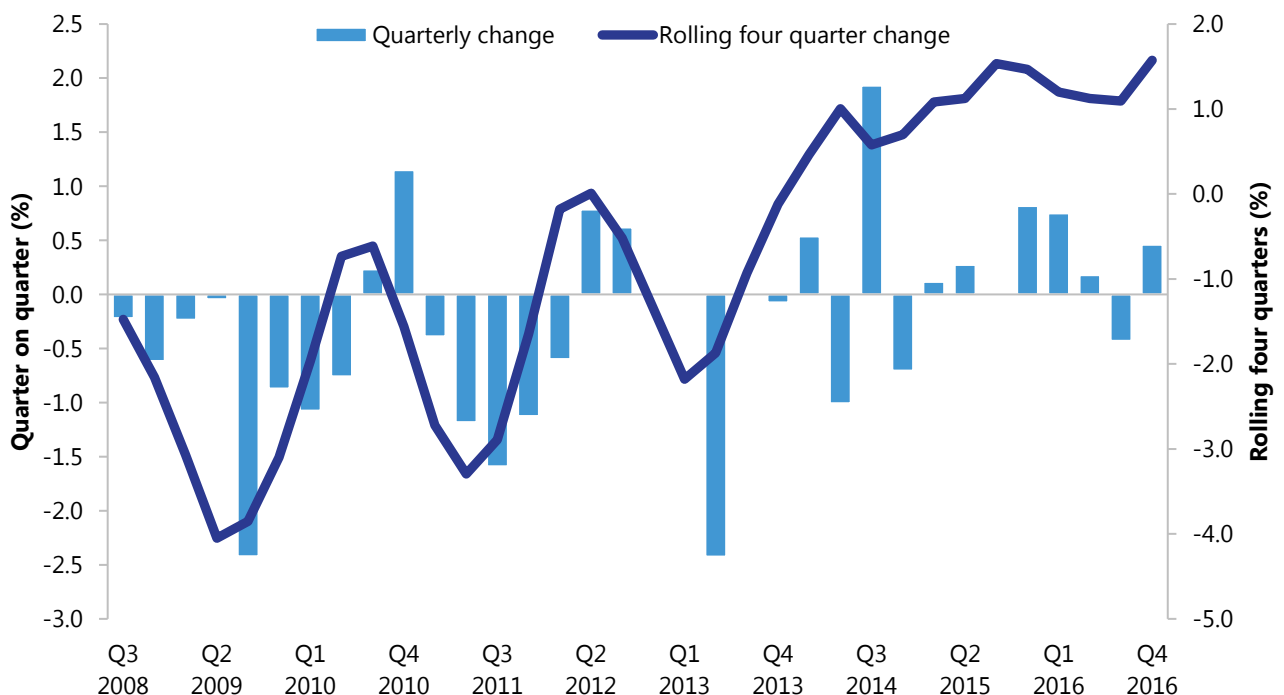
The latest economic activity figures from NISRA's Composite Economic Index indicate that the local economic recovery is continuing, with activity up 1.6% over the latest four quarters to Q4 2016.

Economic activity has increased over three of the last four quarters, with the latest quarter posting an increase in output led by the private sector. The general increase in activity over the year has been driven mainly by increases in the Service and Construction sectors.

In spite of the fall in Q3 of 2016 it is clear that the economy has been heading in the right direction, with economic activity now over 5% higher than the recent low point reached in the second quarter of 2013.

However, local activity is just over 5% below the peak recorded in Q2 2007. By comparison, UK GDP has expanded by just under 9% over the same period. This suggests that the NI economy experienced a sharper and longer downturn than that experienced in the UK.

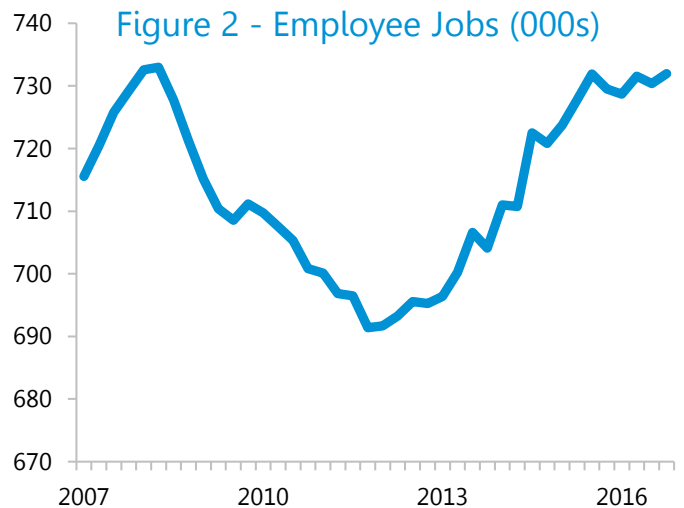
Figure 1 - NI Composite Economic Activity



Employee Jobs

The latest figures from NISRA show jobs growth of over 1,600 over the quarter to December 2016. However, over the last four quarters only two quarters have seen increases and whilst the number of employee jobs continues to rise the rate of growth has started to slow.

Over the latest quarter all sectors except manufacturing saw an increase in employee numbers. The total number of employee jobs now stands at 731,980 with over 40,000 additional jobs created since the low point in December 2011. The majority of these additional jobs (33,540) have come from the services sector.



Private Sector

Over the latest quarter overall jobs growth has continued to be led by the private sector. Since the low point in total employee jobs in the last quarter of 2011 there has only been three quarters out of 21 where there was a fall recorded in the number of private sector jobs. Over the period the private sector has expanded by over 51,000 jobs.

The private sector is also leading in terms of activity, with sector output up 2.3% over the latest four quarters (to Q3 2016) compared with the previous four. The latest Ulster Bank PMI survey for February 2017 indicates that all segments of the private sector recorded increases in both output and employment- with construction returning to expansion after ten months of contraction. Whilst business activity continued to expand in February, growth eased for the second month in a row, in line with the wider UK.

Figure 3 - Economic Activity (four quarters to Q3 2016)

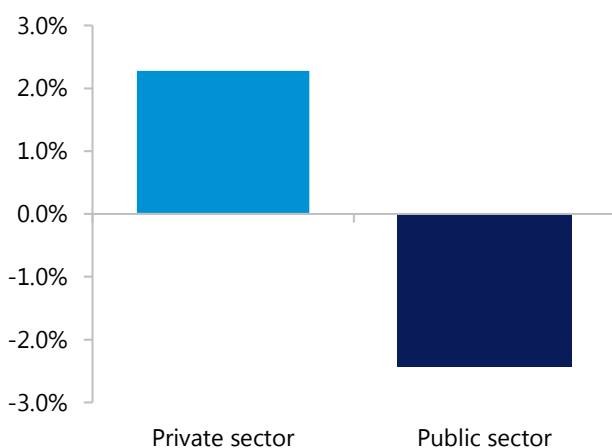


Table 1 – Latest NI Growth Forecasts

GVA	2017	2018	2019
Oxford Economics	1.2%	0.9%	1.2%
Ulster University	0.9%	1.1%	1.5%
Danske Bank	0.8%	1.0%	-
Ernst & Young	0.5%	1.2%	1.7%
PwC	0.3%	-	-
Average	0.7%	1.1%	1.5%

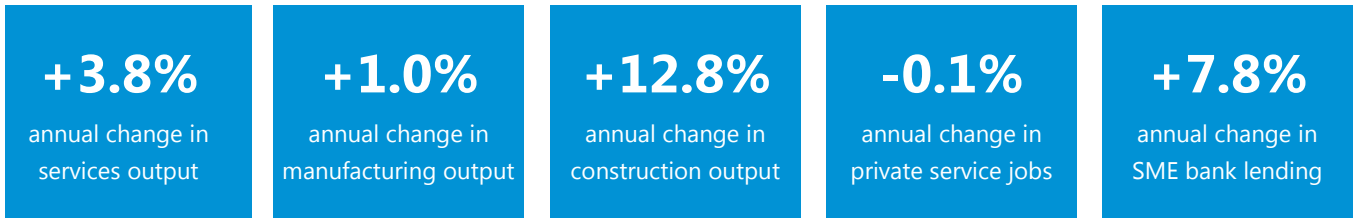
Outlook

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 **Ulster University Economic Policy Centre** forecast a slowdown in economic activity in 2017 followed by an increase in growth towards the end of the decade.
- The latest NI Quarterly Sectoral Forecast from **Danske Bank** have revised upwards their growth projections for 2017 from 0.5% to 0.8% following better than expected performance after the EU referendum. Growth in 2018 is subsequently forecast at 1.0%.

Businesses

Over the last year all major parts of the private sector recorded growth in output with the construction sector recording the largest percentage increase in output. The service sector continues to lead the way in terms of scale of employment over the last five years.

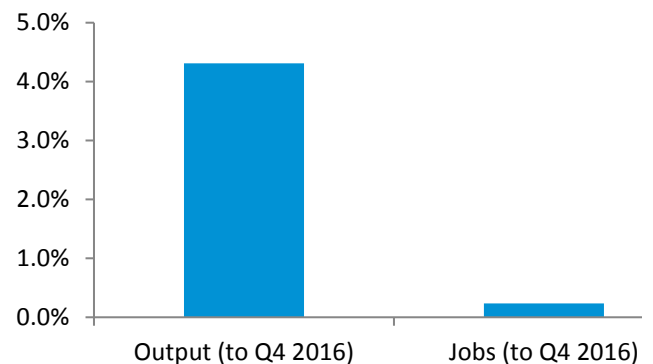


Services

Services sector output grew over the last quarter by 1.6% and over the year by 3.8%, the index has now recovered by 8.8% since the recent minimum value recorded in Q2 2012 but remains 5.1% below the peak output level recorded in Q4 2006.

The services sector gained 1,620 jobs in the quarter to Q4 2016 and on a rolling four quarter basis has grown by over 5,000 jobs. Whilst over the latest year the sector has lost over 700 jobs, over the last five years the sector generally has increased by almost 6% and contributed over 33,000 jobs to the NI economy by far the largest of any sector.

Figure 4 - Rolling four quarter change in service output and jobs



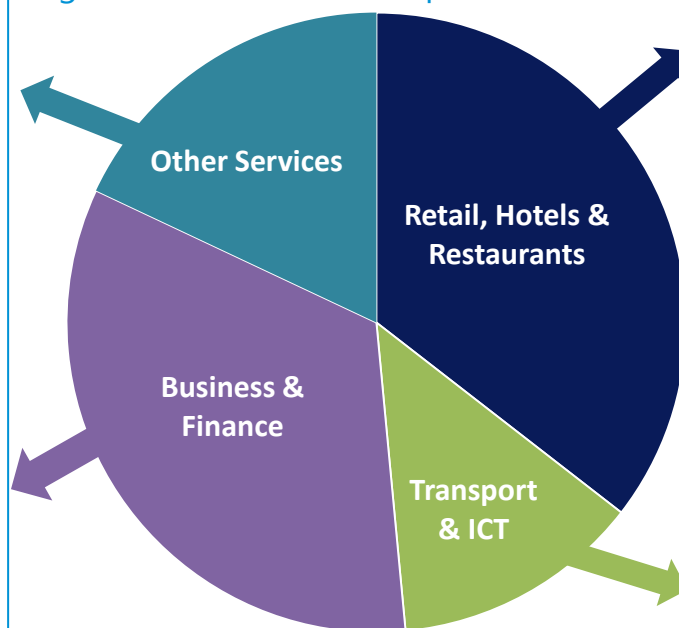
Other services

Output increased by 6.6% over the latest year and employment in this sector grew by 1,200 jobs over the period. This was driven by growth in sports activities and amusement and recreation activities.

Business and Finance

Output up 2.0% over the year. The sub sector saw job growth of just over 3,200 over the period supported by growth in employment activities which increased by over 1,200 jobs.

Figure 5 - Relative size of private services



Retail, Hotel & Restaurants

Whilst growth (2.9%) was recorded in this sub sector over the past year, sectoral employment contracted (by 3.7%) over the period with jobs in retail trade, falling by over 3,300.

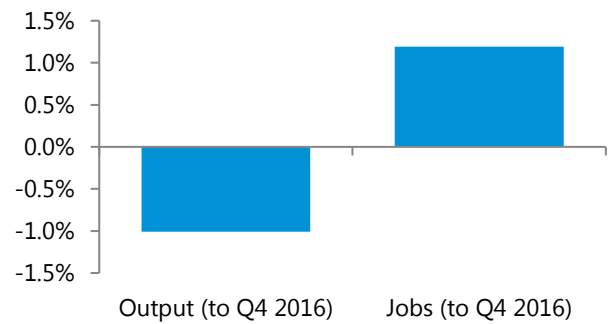
Transport and ICT

This sub sector reported a large increase in output with growth of 7.0%. Sectoral employment grew by almost 4% (1740 jobs) mainly driven by an increase of 770 jobs in land transport activities.

Manufacturing

Manufacturing output has generally outpaced UK growth since the recession, growing by 20% since Q3 2009. However, growth has since slowed and over the year to Q4 2016 output has fallen slightly by less than one percent. In the latest quarter all manufacturing subsectors except textiles, leather and related products saw an increase in their output which helped to contribute to a 3.9% increase in overall output. In terms of jobs, the sector grew by just under 1.2%, adding 840 jobs over the last year, bringing the total number of jobs in the sector to over 80,500.

Fig 6 - Rolling four quarter change in manufacturing output and jobs

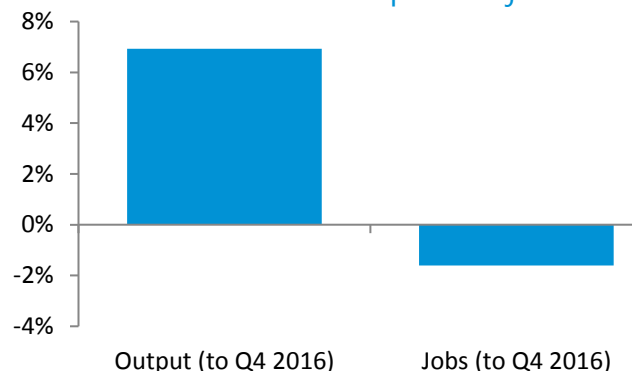


Construction

The Northern Ireland Construction Bulletin showed that construction sector output increased by 6.9% over the last quarter and is now 12.8% higher than the same quarter in 2015 and on a rolling four quarter basis is up by just under 7%.

Over the latest quarter, sectoral employment increased by 350 jobs and by just over 1,000 jobs over the year. Furthermore, when compared with the low point reached in Q4 2014 there are now an additional 1,570 jobs in the sector. However, on a rolling four quarter basis the number of jobs fell slightly by just over 1.5%.

Fig 7 - Rolling four quarter change in construction output and jobs



Key Business Trends

The latest figures from the British Banker's Association (BBA) show that approved bank loans to NI SMEs totalled just over £390 million in Q3 2016, whilst this was a fall over the quarter of over 6% the annual figures show an increase of over 11% on the same quarter of 2015. On a rolling four quarter basis both the number of applications and loans approved fell by 9.5 and 10.5% respectively although the value of loans approved has risen by almost 8%.

A number of positive announcements have been made recently regarding the provision of Invest NI support to local businesses some of which are highlighted below:

Table 2 – Selected Indigenous Investments

November – January 2017	Investment	Jobs
Cirdan Imaging	£3m	46
FAST Technologies	£1.1m	17
Mechanical Installations & Maintenance	£0.8m	16

Other Business Surveys

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

Ulster Bank PMI

- Northern Ireland had a strong first quarter of 2017 with output in March increasing at a slightly faster rate than the growth recorded in February.
- All four segments of the private sector recorded increases in both output and employment, with retail remaining the fastest growing sector.

InterTradeIreland Quarterly Business Monitor

- Results from Q4 2016 indicate that 84% of business in NI and ROI were stable or growing in the last quarter; exporters continue to fare better than non-exporters with 51% experiencing growth compared to 36%.

NI Chamber Quarterly Economic Survey

- The latest survey for Q4 2016 showed that the majority of businesses are positive about prospects for their business in 2017 – 62% expect business to grow (16% strongly) whilst 20% expect it to contract.

Engagement with the Rest of the World

Local export performance has been relatively strong over the last year, with NI experiencing the highest growth of any UK nation. The weakened pound against both the Euro and Dollar continues to support local business competitiveness in external markets.



Exports

The Regional Trade Statistics show that NI exports (note goods only) increased by 11.8% over the latest quarter to Q4 2016. Compared to the same quarter of the previous year exports have increased by 20%. On a rolling four quarter basis all regions of the UK bar Scotland increased. Over the year to Q4 2016 Northern Ireland experienced the highest growth of any of the UK nations of 11.7%.

The Republic of Ireland remains Northern Ireland's biggest export market with over 30% of all NI exports going to the ROI in 2016. Over the year the largest value increases were to the USA (up £485 million), followed by RoI (up £195 million). Over the same period Northern Ireland's export trade saw the largest decreases with France, down £37 million and Malaysia, down £24 million

The latest Broad Economy Sales and Exports Statistics (BESES) from NISRA provides a comprehensive measure of Northern Ireland sales of both goods and services, including at industry level.

Results from the latest BESES cover the period up to 2015 and include sales within NI, sales outside NI but including GB (classed as external sales) and sales beyond NI and GB (defined as exports). The report notes that the total value of external sales in 2015 was £23bn, this was an increase of 1.3% over the previous year. Furthermore, the results show that the recent upward trend in sales to GB has continued with sales up by 5.9% to £13.8bn over the year. However, exports (sales outside the UK) for the same period were down by 5% to £9.1bn.

Fig 8i Value of goods exports

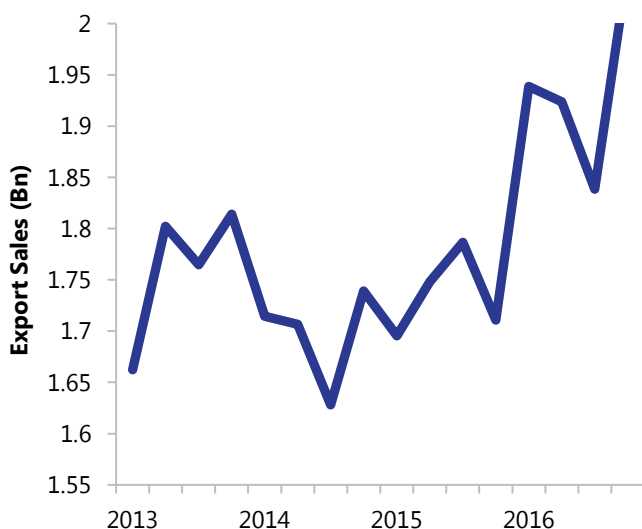
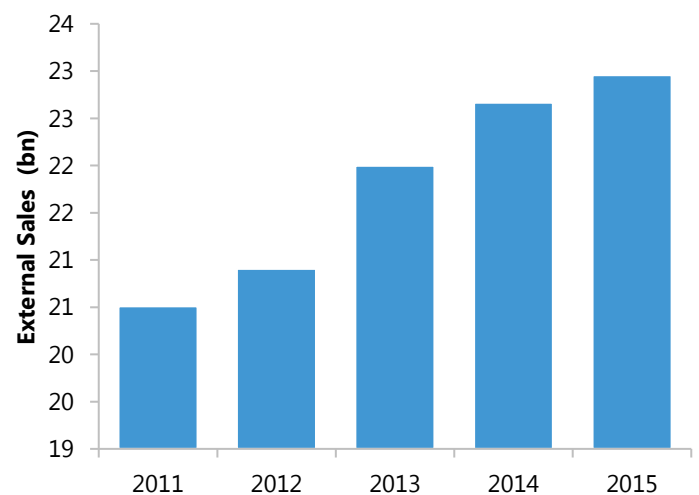


Fig 8ii External Sales in Goods and Services



Inward Investment

Invest NI has supported several external investment projects since our last edition in October 2016. This has included new investment projects by FinTrU, Bemis Systems Inc, Moo.la Systems Ltd, TerraQuest and CloudMigrator365.

Some of Invest NI's recent successes to attract investment outside the UK include the decision by Bemis Company Inc., a NYSE listed business, which is to establish its European Business Services Centre in the North West, creating up to 95 jobs by 2021.

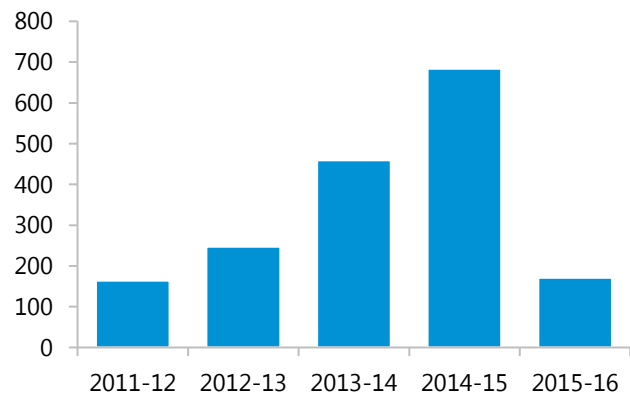
Invest NI has also been very successful in attracting investment from GB as evidenced by the decision of FinTrU and Moo.la Systems, both London based companies who together plan to create 102 jobs and contribute £5.6million a year to the local economy.

Invest NI experienced a surge in projects in 2014-15 due to a rush of projects being approved prior to a change in EU Regional Aid Guidelines. Nonetheless, in 2015-16 INI secured £341m of employment related investment, £70m investment in R&D, attracted 20 new foreign investors to NI and promoted 5,550 new jobs against a target of 4,000.

Table 3 – Selected Inward Investments

November – January 2017	Investment	Jobs
FinTrU	£9.8m	160
Bemis Systems Inc	£5.2m	95
Moo.la Systems Ltd	£2.8m	42

Figure 9 - Invest NI Supported FDI (£millions)



Tourism

The number of visitors to NI (non-resident) increased by 8% in the year to September 2016 and associated spending increasing by 14%. Over the year, the only market that experienced a fall in both the number of visitors (-6%) and associated expenditure (-1%) was the domestic tourism market. Over the same period the number of visitors from GB increased by 5%, with spending by GB visitors up 11%. Similarly, visitor numbers from markets outside UK and ROI increased by 11%, with spending up by 24%.

Fig 10 Non Resident Visitor Numbers and Spend

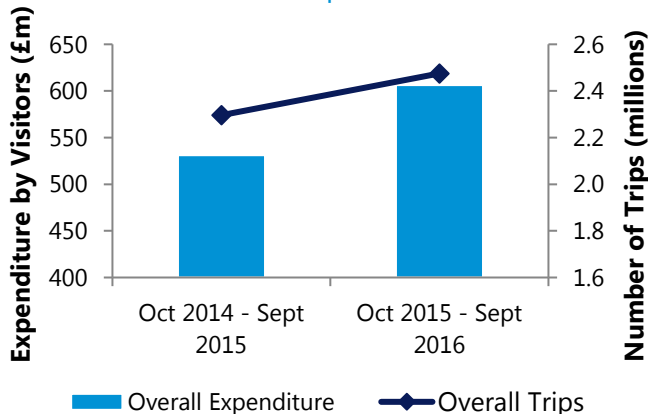


Table 4 – Key Market Growth Forecasts (IMF)

GDP	2017	2018
UK	2.0%	1.5%
Eurozone	1.7%	1.6%
US	2.3%	2.5%
Canada	1.9%	2.0%
China	6.6%	6.2%

Key Markets Outlook

The International Monetary Fund (IMF) estimates global growth for 2016 at 3.1 percent, in line with the October 2016 forecast. Global economic activity is increasing and global growth in 2017 if forecasted to be 3.6% on foot of robust demand and optimistic financial markets. However, the risk posed by inward looking policies in some countries continues and its potential to erode global integration and co-operation is dampening expectations for global growth. Emerging market and developing economies now account for more than 75% of global growth. The external market is central to their continued development and therefore robust terms of trade and buoyant external demand remain central to theirs and thus wider global growth.

Households

There is a mixed picture facing households. On one hand the local labour market has continued its strong recovery, with claimant count numbers and inactivity both continuing to decline. However, price inflation continues to increase which may have impacted on consumer confidence and consumer spending which have both fallen.



Unemployment

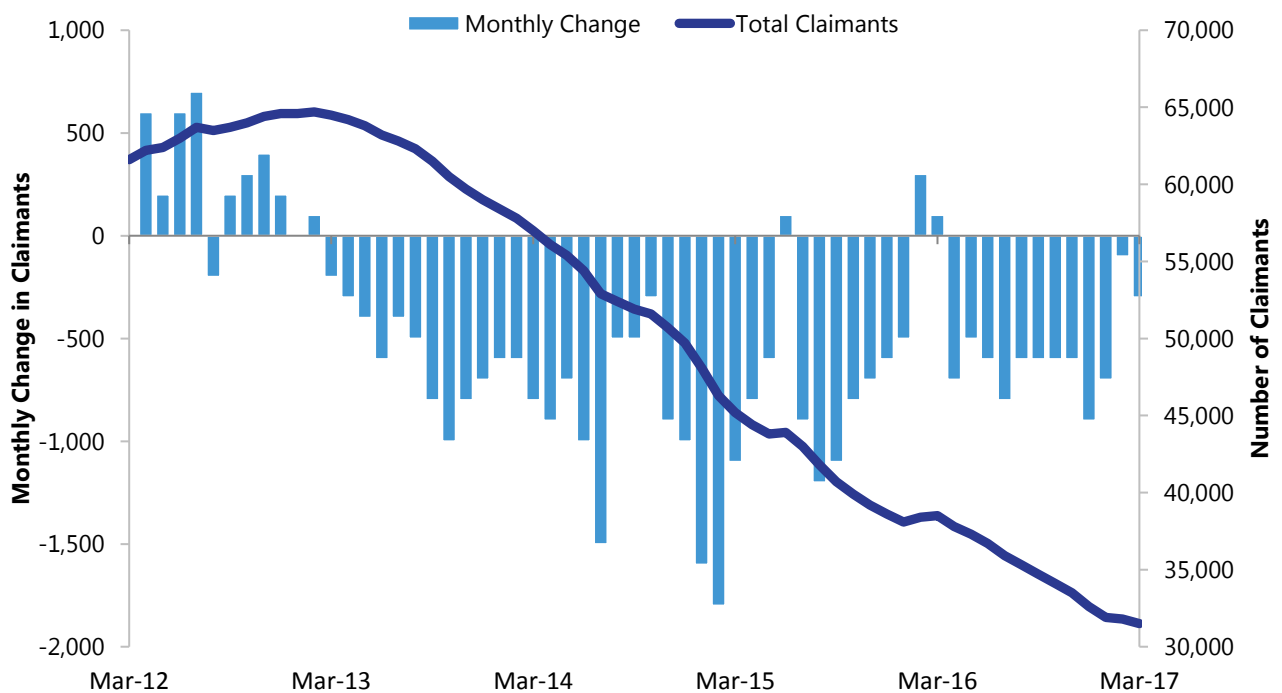
The number of people claiming unemployment benefits has fallen in almost every month since its peak in February 2013, increasing in just three months when it rose marginally (by a total of 500). Over the past year, the claimant count tally has fallen by 7,000, and has now decreased by just over 50% since the peak in claimants.

Furthermore, both the number of youth and long term claimants has fallen over the year by 5.7 and 1.7 percentage points respectively. However, despite NI's recent positive performance, the claimant count is still around one third higher than its previous low in September 2007.

The LFS unemployment rate for the December to February 2017 period was 5.2%. The LFS rate has been trending downwards following its peak in December to February 2013 (when the rate was 8.2%). However, in spite of this progress NI remains above the UK rate of 4.7% but below the European Union rate in January 2017 (8.1%) and RoI rate for February 2017 (6.6%).

The long term unemployment rate (percentage of unemployed who have been unemployed for 1 year or more) was down 1.7pps over the year but at 45.6% remains markedly higher than the UK average rate of 25.6%.

Figure 11 - Unemployment Benefit Claimants

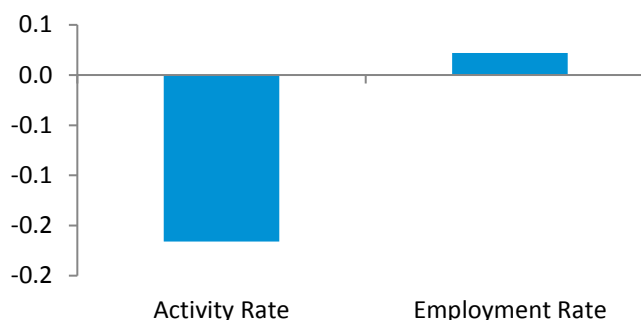


Employment and Activity

The overall employment rate currently sits at 68.8%, which is unchanged over the year however a decrease over the last quarter (0.5pps). The female employment rate continued to increase by 2.4pps over the year whilst the male employment rate decreased by 2.5pps.

Whilst this performance is concerning it is worth noting that the employment rate has been gradually increasing from its low point in Mar-May 2009 when it was 63.8%. Despite this, it remains the lowest employment rate of all the UK regions.

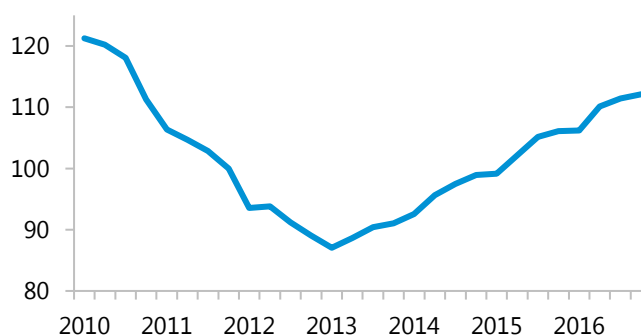
Figure 12 - Participation rates
(annual percentage point change)



Housing Market

According to the latest NI Residential Property Price Index house prices have risen by 0.6% over the quarter to Q4 2016 and by 5.7% compared with the same quarter last year. Growth has now been recorded in the 15 quarters since Q2 2013. In spite of this growth, local house prices remain over 44% lower than their peak, achieved in Q3 2007. ONS estimates that UK house prices increased 7.2% over the year to December 2016. Over the period all UK nations witnessed growth with England recording the highest growth of 7.7% over the year to December 2016.

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



Consumer Spending

Signals across household indicators show that household confidence and spending expectations have all fallen recently:

Retail sector

- After three months of growth footfall in high streets in NI dropped by 4% during February 2017, the most pronounced slump of any UK region.

Domestic tourism

- In the year to September 2016 46% (2.1m) of all overnight trips were made by locals.
- However spend by locals on tourism accounted for just 26% (£213m) of total visitor expenditure over this time.

Consumer confidence

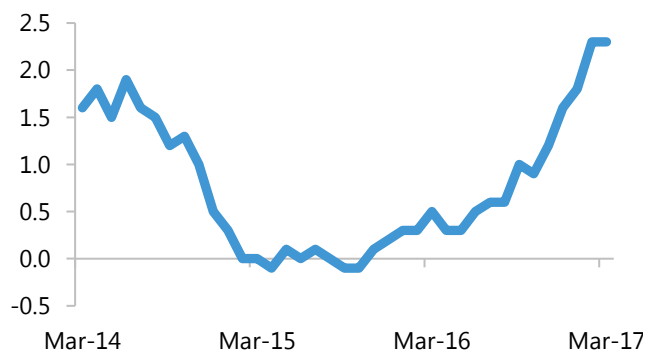
- Danske Bank reports that household confidence fell over the year to Q4 2016.
- Households' expectations for the strength of their future finances experienced the largest fall both over the latest quarter and year.

Prices

Inflation in March 2017 remained unchanged from February its highest rate for almost three and a half years with price increases seen across a range of items but with food, alcohol, tobacco, clothing, footwear, miscellaneous goods and services the main upward contributors.

The current CPI rate in March 2017 is 2.3%, above the Bank of England's (BoE) target of 2%. The latest inflation report expects inflation to increase to 2.8% in the first half of 2018, before falling back gradually to 2.4% in three years' time.

Figure 14 - CPI Annual Inflation



Government

The contraction of public sector jobs has continued in NI, although the rate of reduction has been less severe than the UK overall. Most NI government departments have experienced a continued reduction in job numbers with only Finance and Justice seeing marginal increases.

-2,443 annual change in number of public sector jobs	-1.2% annual change in number of public sector jobs	-6.8% annual change in NICS jobs	-1.5% annual jobs change in local government	-3.7% annual jobs change public corporations
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Jobs

Jobs within the NI local public sector have been trending downwards since September 2009 with the sector now just over 10% smaller and with 23,180 fewer jobs. At the same time the private sector has grown by almost 10% and by over 47,000 jobs with most of these being within the services sector.

Over the same time period the UK public sector has contracted at a faster pace than Northern Ireland falling by just over 15%.

However, the pace of contraction has slowed recently with UK public sector employment falling by just 0.2% over the last year. The Northern Ireland public sector in contrast has contracted by almost 1.2% over the year.

Table 5 – NI Selected Public Sector Jobs Breakdown

	Jobs Dec 16	Annual Change	
		No.	%
Total Public Sector Jobs	202,499	-2,443	-1.2%
NI Central Government*	105,879	-1,613	-1.5%
Northern Ireland Civil Service (NICS)	23,495	-1,711	-6.8%
UK Central Government	3,621	-155	-4.1%
Local Government	11,636	-177	-1.5%
NHS Trusts	68,560	490	0.7%

*totals include NICS, Health and Education etc.

Figure 15 - NI Public Sector Jobs

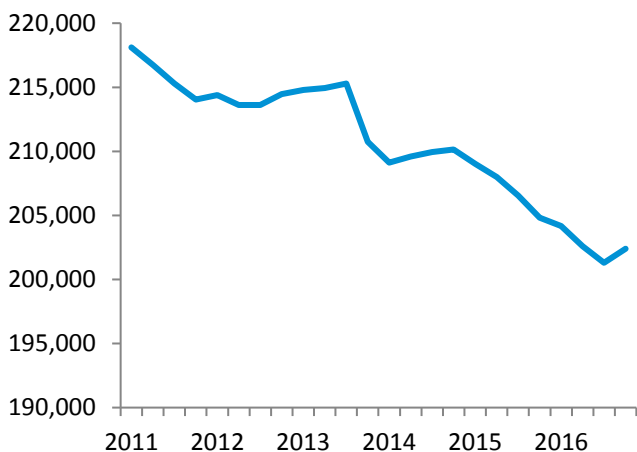
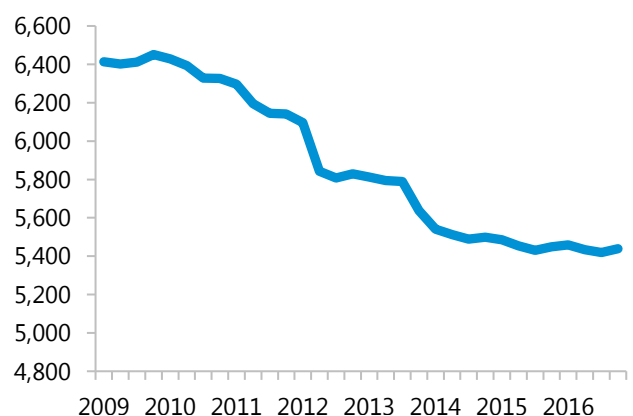


Fig 16 - UK Public Sector Jobs (000's)



Research Highlights

This section highlights recent publications in key economic policy areas that will be of interest to readers over the period October 2016 to February 2017. Links (where available) to each report can be found by clicking on the highlighted title.

Unlocking Regional Growth

The CBI published its report on [Unlocking Regional Growth](#). This provides an assessment of the drivers of productivity across the UK's regions and nations. It finds that the four main drivers of regional productivity differences are educational attainment, transport links that widen access to labour, better management practices and more firms that innovate and export.

High Growth Firms

Research on [Myth Busting and Entrepreneurship Policy: The Case of High Growth Firms](#) helps to shed light on this high performing group of companies. It suggests that policy remains underpinned by a series of myths and presents the evidence to dispute these. One of the myths – that high growth firms are the same irrespective of their location – is explored in a NESTA report looking [Firm Growth Dynamics Across Countries](#). This highlights that there are significant differences in growth distributions across countries, with those with a more dynamic growth distribution also having faster productivity growth.

Graduate Employment

An ESRI research bulletin into [Improving the Employment Prospects of Graduates: What Can Universities Do?](#) identifies that Higher Education courses which offer work placements, job placement assistance and work-related components reduce the probability of graduate mismatches in first employment. The research reinforces the importance of strengthening links with employers and investing more heavily in career support functions, universities and other third-level institutions.

SME Tax Incentives

The Centre for European Economic Research discussion paper on [The Use of SME Tax Incentives in the European Union](#) finds that SME tax incentives add distortions and complexities to the tax system for SMEs. It concludes that the focus of policy-makers should shift from providing discriminatory incentives to the design of a generally neutral and simple tax system, which would benefit small as well as large enterprises.

Prosperity

The Legatum Institute has produced their first ever [UK Prosperity Index](#). Looking across a broad range of measures which reflect overall prosperity, NI is found to rank highest of all the devolved nations, with high levels of social engagement and trust in others. Fermanagh and Omagh emerges as the most prosperous region within the province.

Exports and R&D

The [NI R&D Survey](#) and the [Broad Economy Sales and Exports Survey](#) report mixed performance. R&D spending was up 34% over the year to 2015 and is currently the highest level on record. External sales also rose, by 1.3% on an annual basis, but export sales fell by 5.0%, with decreases found to the Republic of Ireland, Rest of EU and Rest of World.

Further Education Leavers

The latest [Further Education Leavers Survey](#) for 2014/15 highlights a large increase in the proportion of FE leavers now in paid or self-employment following their course, with over two-thirds now using the skills and knowledge they developed at FE in their job. For those who progressed to further learning, over four-fifths were studying at a higher level, with the majority in learning only able to do this because of their FE course.

Public Investment in R&D

The Department for Jobs, Enterprise and Innovation report on the [Economic and Enterprise Impacts from Public Investment in R&D in Ireland](#) takes a holistic look at R&D support to date. It finds that public investment in R&D has stimulated business R&D activity – leading to sales, exports and value added growth – and that such firms rely on the public R&D system to support their activities.

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)
Engagement with the Rest of the World	Regional Trade Statistics (HMRC); Broad Economy Sales and Exports Statistics (BESES); 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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