Economic Research Digest Quarter 1 2023

Department for the Economy
www.economy-ni.gov.uk

The **Economic Research Digest** monitors recently published research across a number of economic areas relevant to the work of the Department for the Economy such as competitiveness, innovation, enterprise, trade, FDI, tourism and infrastructure. The Skills Research Digest deals separately with recently published skills and labour market research.

In each case, we provide a short summary of the key points and web links to the full article or report*. A full list of sources can be found at the end of the publication.

Highlights this quarter include:

- The BoE noted that overall business uncertainty continued to decline in February, with 53% of firms reporting that the overall level of uncertainty facing their business was high or very high, down from 57% last month. Uncertainty around the outlook for businesses' expectations for their own-price growth also fell back.
- Analysis done by ONS shows the UK employment rate was estimated at 75.7% in November 2022 to January 2023, 0.1 percentage points higher than the previous three-month period.
- A report published by KPMG shows that the composite PMI for February picked back up above the 50.0 threshold for the first time since July 2022. Business confidence, measured by the Lloyds Business Barometer, is close to its pre-pandemic average, while consumer confidence has risen.

** Links are correct at the time of publication; however, it is likely that some will break over time. The list of sources has more general links, which should help the reader to track down the original report.*

Contents

COMPETITIVENESS	1
PRODUCTIVITY AND GROWTH	2
LIVING STANDARDS, WELLBEING AND PROSPERITY	3
INNOVATION	4
RESEARCH AND DEVELOPMENT	5
SECTORS AND TECHNOLOGIES	5
ENTREPRENEURSHIP	5
BUSINESS GROWTH	6
BUSINESS REGULATION	6
TRADE	6
INWARD INVESTMENT	7
TOURISM	7
ENERGY	8
TELECOMS	9
AIR ACCESS	9
NORTHERN IRELAND	9
ENGLAND	10
SCOTLAND	10
WALES	11
REPUBLIC OF IRELAND (ROI)	11
Sources	**11**

The Economic Research Digest is issued by:
Analytical Services, Department for the Economy ✉ analyticalservices@economy-ni.gov.uk

Economic Outcomes

COMPETITIVENESS

National Institute UK Economic Outlook published by National Institute of Economic and Social Research.

- The labour market remains strong; however, because of weak growth, a slow rise in unemployment is forecasted for the coming year, peaking at around 4.7 per cent in the third quarter of 2024.
- The view remains that the participation rate for the working-age population will return to its pre-Covid level over the course of the next few years as workers in the 50-64 age group return to the labour force, as they find their savings run down, and fewer workers retire early.
- Higher interest rates mean higher costs on lending for businesses, increasing the risk of lower business investment. This may affect the longer-term growth and productivity prospects for the United Kingdom.
- The current monetary policy tightening cycle has been aggressive in terms of the pace and magnitude of rate hikes and, given the lags in monetary policy transmission will likely bear down on output and growth in 2024. However, the annual inflation rates seen throughout the course of 2022 have made this a necessity.
- Given the Monetary Policy Committee (MPC) received criticism for not tightening quickly enough, it is possible that they will loosen too quickly to avoid the converse criticism. Equally, if the MPC errs on the side of caution with the pace of its loosening, and in doing so, aggravates recessionary risks by more than is warranted they may also face criticism. Once the MPC starts loosening, expect the interest rate to return to a more 'normal' (i.e., pre-Financial Crisis) level. This is dependent on the rate at which inflation, and core inflation, fall.
- The freezes in income tax thresholds will lower personal disposable income and the corporation tax rises will likely reduce investment in the economy. However, the Chancellor has laid a path to be able to meet his fiscal targets with headroom to spare. As it stands, the Chancellor will get borrowing under 3 per cent of GDP and underlying debt falling as a percentage of GDP in five years' time with £18.6 billion and £9.2 billion to spare, respectively.
- That said, public finances remain vulnerable to interest rate rises as well as further shocks to the economy. Indeed, the medium-term outlook for public finances has deteriorated since our Autumn Outlook due to a worsening outlook for GDP and higher inflation persistence. Having said that, a downward shift in the yield curve and the debt-devaluing effects of inflation will have contributed positively to the outlook for government finances.
- Although the political and economic turmoil of the autumn may have served as a warning to policymakers of the perils of reckless policy experimentation, we hope that this did not dilute the political will to conduct a necessary reform of this country's fiscal framework, as NIESR has continuously recommended.

Global Economic Outlook published by KPMG.

- The UK economy at the end of 2022 has proved to be more resilient than expected. GDP was flat on the quarter, therefore avoiding a technical recession following the fall in Q3 2022 (although these data are still provisional). A widespread industrial action during winter has led to 1.7 million working days lost, distorting the headline growth figures. It is estimated that while the impact of strikes subtracted around 0.1 percentage point from underlying growth in Q4 2022, it would subsequently boost growth in the following quarter as the disruption unwinds and the impact on the volume of activity fades.
- The composite PMI for February picked back above the 50.0 threshold for the first time since July 2022. Business confidence, measured by the Lloyds Business Barometer, is close to its pre-pandemic average, while consumer confidence has risen, albeit from a historically low level.
- Higher interest rates and the ongoing correction in the housing market are set to negatively affect homeowners, especially those with a mortgage, which constitutes just under a third of all households. The cost of fixed-rate mortgages remains 250-300 basis points higher than a year ago, despite a drop in recent months.

- Around 1.4 million households are therefore facing the prospect of significantly higher interest rates during 2023 when they roll onto a new contract. Set against that, house prices have now fallen by 3.7% since the peak in August 2022, according to Nationwide.
- Business investment increased by 4.8% in Q4 2022, although survey evidence points to overall investment intentions remaining at subdued levels. Stronger recent growth reflects the timing of investments ahead of the ending of the government's super-deduction scheme on March 31, rather than a more sustained increase.
- It is expected UK exports to benefit from relatively stronger growth among the UK's main trading partners, with growth in exports outpacing that of imports. Despite this, the volume of overall UK exports has shown consistent weakness since 2020, with exports in January 2022 down by 4.1% compared to December 2019.

PRODUCTIVITY AND GROWTH

GDP first quarterly estimate, UK: October to December 2022 published by ONS.

- The first quarterly estimate of UK real gross domestic product (GDP) shows there was no growth in Quarter 4 (Oct to Dec) 2022. GDP is estimated to have fallen by 0.5% in December 2022, following an increase of 0.5% in October 2022 and an increase of 0.1% in November 2022.
- The level of quarterly GDP in Quarter 4 2022 is now 0.8% below its pre-coronavirus (COVID-19) level (Quarter 4 2019; Figure 1), while GDP is estimated to have increased by 4.0% in 2022.
- In Quarter 4 (Oct to Dec) 2022, services output was flat, production output fell by 0.2% and construction output rose by 0.3%. Across all of output, there were increases in 8 of the 20 sub-sectors on the quarter, while 12 sub-sectors saw a decrease on the quarter. There have been some revisions to earlier quarters in 2022 for some industries.
- There was no change in services output produced in Quarter 4 2022, which is a slowing from the 0.2% increase in the previous quarter. Overall, the services sector increased by 5.5% in 2022.
- The largest positive contribution to growth was from administrative and support service activities, particularly travel agents, which increased by 14.8% in Quarter 4 2022 following a fall in the previous quarter. However, this was largely offset by declines in education (1.6%) and transportation and storage output (2.4%).
- Production output fell by 0.2% in Quarter 4 2022, which is the sixth consecutive quarter of contraction. Overall, the production sector saw a 3.6% decline in 2022.
- The fall in production output in the latest quarter was driven by declines in electricity, gas, steam and air conditioning supply (1.3%) and mining and quarrying (1.6%). The declines in electricity, gas, steam, and air conditioning supply in the latest quarter continue the falling trend from the previous quarter.
- The manufacturing sector was broadly flat in the fourth quarter. There were declines in 10 out of the 13 sub-sectors, with the largest negative contributions from the manufactures of chemicals and chemical products: and basic metals and metal products. These falls were offset by increases in the manufacture of basic pharmaceutical products and pharmaceutical preparations, and the manufacture of transport equipment.
- Construction output rose by 0.3% in Quarter 4 2022, a slowing from the first half of this year. The main positive contributions in Quarter 4 2022 came from infrastructure, which grew 6.5%. This is the first positive quarterly growth in infrastructure since Quarter 3 (July to Sept) 2021 and the strongest since Quarter 2 (Apr to June) 2021 (6.5%).
- The main negative contributions in Quarter 4 2022 came from private housing (both new work and R&M) as both saw quarterly falls of 3.2% and 3.5%, respectively. In private housing R&M, this is the first quarterly fall since Quarter 2 2022 and may reflect the cost-of-living challenges and the lack of demand and funds in this area.
- There was a modest increase of 0.1% in private consumption in Quarter 4 (Oct to Dec) 2022, while there was also higher business and government investment on the quarter. However, early estimates show that businesses were de-stocking their levels of inventories in the final quarter of the year, while there was a decline in the volume of net trade in Quarter 4 2022 with a fall in exports.

LIVING STANDARDS, WELLBEING AND PROSPERITY

Monthly Decision Maker Panel data - February 2023 published by BoE is a survey of Chief Financial Officers from small, medium and large UK businesses.

- Businesses' expectations for their own-price inflation declined in February. Over the next year, businesses expected their output prices to increase by an average 5.4%, down 0.4% from the previous month. The three-month average fell from 5.8% to 5.6%. Note that the DMP covers own prices from firms across the whole economy, not just consumer-facing firms.
- In February, CPI inflation expectations also fell. DMP members' one-year ahead CPI inflation expectations decreased to 5.9%, down from 6.4% in January. Three-year ahead CPI inflation expectations also declined to 3.4% in February, from 3.7% in January.
- Cost pressures continued to soften in February. Businesses reported that unit costs had grown by 9.8% in the year to February, down from 9.9% in January. Unit costs were expected to grow by a further 7.0% over the coming year, down from 8.0% in January.
- Expected year-ahead wage growth remained at 5.7% in February. Realised annual wage growth ticked back up to 6.6% in February.
- Recruitment difficulties started to rise again in February, with 45% of firms finding recruitment 'much harder' than usual. That represents an increase from 35% in January. Supply chain disruptions were also reported to have ticked up in February. Around 11% of firms' non-labour inputs were disrupted in February, up from 9% in January.
- In spite of ongoing recruitment challenges, realised employment growth remained strong at 4.3% in the three months to February, although the single month February data were weaker at 3.3%. Moreover, expectations for year-ahead employment growth rose in February, with the single month data rising from 1.2% to 2.7%, and the three-month average increasing from 1.5% to 1.9%.
- Overall business uncertainty continued to decline in February, with 53% of firms reporting that the overall level of uncertainty facing their business was high or very high, down from 57% last month. Uncertainty around the outlook for businesses' expectations for their own-price growth also fell back, although it remains at historically high levels.

Labour market overview, UK: March 2023 published by ONS.

- The UK employment rate was estimated at 75.7% in November 2022 to January 2023, 0.1 percentage points higher than the previous three-month period. The increase in employment over the latest three-month period was driven by part-time employees and self-employed workers.
- The timeliest estimate of pay rolled employees for February 2023 shows another monthly increase, up 98,000 on the revised January 2023 figures, to 30.0 million.
- The unemployment rate for November 2022 to January 2023 was largely unchanged on the quarter at 3.7%. The number of people unemployed for over 12 months increased slightly in the latest three-month period.
- The economic inactivity rate decreased by 0.2 percentage points on the quarter, to 21.3% in November 2022 to January 2023. The decrease in economic inactivity during the latest three-month period was driven by people aged 16 to 24 years. Looking at economic inactivity by reason, the quarterly decrease was driven by people inactive because they are students or retired.
- In December 2022 to February 2023, the estimated number of vacancies fell by 51,000 on the quarter to 1,124,000. Vacancies fell on the quarter for the eighth consecutive period and reflects uncertainty across industries, as survey respondents continue to cite economic pressures as a factor in holding back on recruitment.
- Growth in average total pay (including bonuses) was 5.7% and growth in regular pay (excluding bonuses) was 6.5% among employees in November 2022 to January 2023. Average regular pay growth for the private sector was 7.0% in November 2022 to January 2023, and 4.8% for the public sector. A larger growth outside of the coronavirus (COVID-19) pandemic period for the public sector was last seen in December 2005 to February 2006 (5.2%). In real terms (adjusted for inflation), growth in total and regular pay fell on the year in November 2022 to January 2023, by 3.2% for total pay and by 2.4% for regular pay.

- A larger fall on the year for real total pay was last seen in February to April 2009, when it fell by 4.5%, but it still remains among the largest falls in growth since comparable records began in 2001.
- There were 220,000 working days lost because of labour disputes in January 2023, down from 822,000 in December 2022.
- In December 2022, workforce jobs rose by 211,000 on the quarter to a new record high of 36.4 million, with 6 of the 20 industry sectors at record high levels which include transport and storage, accommodation and food service activities, real estate activities and water supply, sewerage, waste and remediation activities, human health and social work and professional, scientific and technical activities.

Quality of life in the UK: February 2023 published by ONS.

- The percentage of adults in the UK reporting very high levels of feeling things they do in life are worthwhile (31.7%), and very low levels of anxiety (35.4%) remained similar between the latest quarter (Quarter 3, July to Sept 2022) and Quarter 3 2021.
- The percentage of adults in the UK reporting very high levels of life satisfaction (24.2%) and happiness (30.5%) decreased between the latest quarter (Quarter 3 2022) compared with the same quarter last year (from 26.8% and 33.6%, respectively).
- Between January 2020 and December 2021, less than half of adults in the UK were mostly or completely satisfied with their health (44.7%) and their amount of leisure time (47.9%).
- In January 2023, 87.7% of adults in Great Britain reported that they can rely on people in their lives if they have a serious problem and 66.4% said that in general, they trust most people.
- In January 2023, 23.3% of adults in Great Britain reported they trust the government while 68.3% of adults agreed or strongly agreed that they do not have any say in what the government does.
- In Quarter 3 2022, 10.6% of young people were not in education, employment or training, similar to Quarter 3 2021 (10.4%). In Quarter 3 2022, the number of adults aged 16 to 64 years in the UK with no qualifications was 6.9% (similar to Quarter 3 2021 (6.8%)).
- At the end of December 2022, the UK's public sector net debt reached 99.5% of gross domestic product (GDP); and inflation, as measured by Consumer Price Index including owner occupiers' housing costs (CPIH), reached 9.2% in the 12 months to December 2022, down from 9.3% in November 2022.

Innovation and Enterprise

INNOVATION

UK Innovation Report 2023 published by Cambridge Industrial Innovation Policy.

- A new methodology introduced by the Office for National Statistics (ONS) has pushed the estimated UK expenditure on R&D as percentage of GDP for 2019 from 1.7% to 2.7%. While this means that the 2.4% target has been achieved, the UK remains well behind countries such as Germany, the United States and South Korea, which invested between 3.2% and 4.6% of GDP on R&D. At 0.12% the UK government’s expenditure on R&D in 2019 was still half the OECD average of 0.24%.
- Although science, technology, engineering, and mathematics (STEM) graduates in the UK accounted for 41% of total graduates – above countries such as France and Canada, and similar to the United States – the share of graduates in the STEM sub-discipline of engineering, manufacturing and construction represented only 9% of graduates, well below comparator countries such as Germany (26%) and Korea (21%).
- The UK had a relatively low share of researchers working in the business sector in 2020 (42%), below Korea (82%), Japan (75%), the United States (72%), France (63%) and Germany (60%).
- Although women account for 39% of total researchers, placing the UK in the top 10 of OECD countries, female graduates are under-represented in some STEM disciplines in the UK, particularly in engineering, manufacturing and construction.

The OECD estimates that at 6%, the UK had the sixth highest government budget allocation for R&D in environment and energy innovation among OECD countries in 2020. This is higher than that of the United States (3%), but lower than Japan (8%), Germany (8%), Korea (8%), and France (9%).

- Gross value added in the UK environmental goods and services sector (EGSS), as defined by the ONS, was estimated to be £45.2 billion in 2019 (up 5.4% from 2018). The sector's employment is estimated at 394,900 full-time equivalent employees in 2019 (down 4.7% from 2018).
- Few firms with headquarters in the UK are among the world's top R&D investors and patent applicants. In 2021, 95 of the world's 2,500 top R&D-investing companies were headquartered in the UK, behind the US (822), China (678), Japan (233) and Germany (114).
- The UK hosted only 3 of the top 100 R&D-investing firms in the world in 2021. In 2021 there were no UK-headquartered applicants among the top 100 applicants at the United States Patent and Trademark Office (USPTO) and only 1 among the top 100 applicants at the European Patent Office (EPO).
- Two sectors explain over 60% of the increase in business R&D expenditure under the "new" methodology, Information and communication activities account for 39% of the increase (£6.9 billion) and Professional, scientific and technical activities account for 22% of the increase (£3.9 billion).

RESEARCH AND DEVELOPMENT

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

SECTORS AND TECHNOLOGIES

Economic output statistics published by NISRA.

- The 1.0% quarterly increase in NI services output was driven by increases in three of the four subsectors: the Wholesale and retail trade; repair of motor vehicles and motorcycles; accommodation and food service sector (0.9%); the Business services and finance sector (1.0%); and the other services sector (1.6%). There was a decrease in the Transport, storage, information, and communications sector (2.0%).
- The 4.4% increase seen in NI services output when the current four quarters are compared to the previous four quarters was driven by all four subsectors, with increases in the Wholesale and retail trade; repair of motor vehicles and motorcycles; accommodation and food service sector (0.2%); the Business services and finance sector (5.6%); the Other services sector (26.0%); and the Transport, storage, information and communications sector (10.0%).
- The quarterly decrease in NI production output of 0.6% was driven by decreases in Manufacturing (0.1%), Electricity, gas, steam and air conditioning supply (9.5%) and Mining and quarrying sector (7.4%). This was offset by an increase in Water supply, sewerage, and waste management (Inc. recycling) (1.7%).
- Over the year the increase in Manufacturing (0.9%) was driven by increases in three of the six main subsectors: Engineering and allied industries (19.9%); Food products, beverages, and tobacco (8.3%); and Manufacture of textiles, leather, and related products (2.5%). These annual increases were partially offset by decreases in Total other manufacturing (8.0%); Basic metals and fabricated metal products (1.7%); and Manufacture of chemical and pharmaceutical products (36.7%) subsectors.
- When comparing current output with the pre-Coronavirus pandemic levels seen in Quarter 4 2019, Northern Ireland production output is 4.5% above its pre-pandemic level and Northern Ireland service output is 6.2% above its pre-pandemic level. In contrast, Northern Ireland Retail output remains 4.5% below its pre-pandemic level seen in Quarter 4 2019.

ENTREPRENEURSHIP

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

BUSINESS GROWTH

Business insights and impact on the UK economy: 23 March 2023 published by ONS.

- Latest results suggest business conditions remain challenging, but estimates show small signs of positive improvement for some measures; examples include, a smaller proportion of businesses reporting lower turnover and reporting higher prices for goods or services bought, however, it is too early to know if this is the start of a longer-term change in conditions.
- In February 2023, a quarter (25%) of trading businesses reported their turnover was lower compared with January 2023, while 16% reported their turnover was higher; therefore, a net 9% of businesses reported their turnover decreased, this is up from a negative net position of 13% in January 2023.
- More than one in five (22%) trading businesses expect turnover to increase in April 2023, while 12% of businesses expect turnover to decrease; the net 9% of businesses expecting turnover to increase is the highest net position since the question was first asked in April 2022.
- More than a third (37%) of trading businesses reported an increase in the prices of goods or services bought in February 2023 compared with January 2023; this proportion has been falling since the first time the question was asked in March 2022 (50%).
- Just over half (54%) of trading businesses expect the prices of goods or services they sell to stay the same in April 2023, while nearly a quarter (24%) of trading businesses expect to raise their prices.
- Over two-thirds (68%) of trading businesses reported their overall performance had stayed the same or improved in February 2023 compared with February 2022; 18% of those reported their performance had increased.

BUSINESS REGULATION

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

Succeeding Globally

TRADE

UK trade: January 2023 published by ONS.

- The value of goods imports decreased by £4.9 billion (8.7%) in January 2023; after removing the effect of inflation, imports of goods fell by £4.1 billion (9.3%).
- Goods imports from the EU fell by £2.5 billion (8.8%) and those from non-EU countries fell by £2.4 billion (8.7%) in January 2023.
- Lower gas prices reduced fuel imports in value terms from non-EU countries; when the effect of inflation is removed, fuel imports increased.
- The value of goods exports decreased by £0.6 billion (1.8%) in January 2023, as exports of fuels, chemicals and material manufactures to EU countries each fell by £0.2 billion; after removing the effect of inflation, total exports of goods decreased by £0.3 billion (1.0%).
- The total trade in goods and services deficit widened by £3.5 billion to £27.6 billion in the three months to January 2023, as exports fell by more than imports.
- The trade in goods deficit widened by £1.4 billion to £64.1 billion in the three months to January 2023, while the trade in services surplus narrowed by £2.1 billion to £36.5 billion.

INWARD INVESTMENT

[Business investment in the UK: October to December 2022 revised results] published by ONS.

- Business investment growth in Quarter 4 (Oct to Dec) 2022 has been revised downwards by 5.0 percentage points to now be a quarterly fall of 0.2%. This means business investment has still not returned to its pre-coronavirus (COVID-19) pandemic peak, being 2.2% below this level.
- The downward revisions in Quarter 4 2022 have been mainly driven by other machinery, with some offsetting positive revisions from software data and research and development. Upward revisions to Quarter 3 (July to Sept) 2022 levels have exacerbated these downward revisions to Quarter 4 2022 business investment growth.
- Quarterly whole economy investment growth (technically labelled gross fixed capital formation (GFCF)) was revised down in Quarter 4 2022 from the provisional estimate by 1.2 percentage points to 0.3%. The revision in levels was relatively small, remaining 3.4% above where it was in Quarter 4 2019 (the pre-coronavirus pandemic quarter), down from 3.7% above this level in the provisional estimate.
- Dwellings investment was revised upwards in Quarter 4 2022 by 1.3 percentage points from the provisional estimate, though remained in minus numbers at negative 1.9%. Government investment continued to contribute positively to whole economy investment in revised estimates, increasing by 8.3% in Quarter 4 2022, revised up from 1.8%.
- The temporary tax relief on qualifying capital asset investment, known as "super-deduction" came to an end on the 31 March 2023. This tax allowance was introduced to encourage investment after the coronavirus pandemic.
- ICT equipment and other machinery and equipment was revised downwards, falling from 11.9% in the provisional estimate to negative 8.2% in the revised estimate of Quarter 4 2022. This was driven primarily by a downward revision in other machinery and equipment. Transport investment can be particularly volatile because of the high value of some transport equipment.
- Transport increased by 14.9% in Quarter 4 2022 and remained one of the strongest components, despite a downward revision of 12.6 percentage points. This strength potentially reflects the "super deduction" incentive to purchase such equipment.
- Whole economy investment in the UK increased by 0.9% in current prices in Quarter 4 (Oct to Dec) 2022, the second largest of the G7 nations, surpassed only by Italy. The UK is also the only G7 nation, along with Italy, to have experienced positive whole economy investment growth in all the previous seven quarters.
- The 9.9% growth experienced in the UK in Quarter 1 2022 is the highest any G7 nation has experienced over the last two years by a margin. It has also experienced the highest growth rate in two other quarters over the past two years, and the second highest growth rate in an additional two quarters. These numbers show the UK has experienced strong current price growth relative to the other G7 nations over the two-year period highlighted.

TOURISM

[Overseas travel and tourism: October and November 2022 provisional results] published by ONS.

- Visits to the UK increased from 3.0 million in September 2022 to 3.2 million in October 2022 and remained at 3.2 million in November 2022. Spending by overseas residents visiting the UK rose from £2.6 billion in September 2022 to £2.7 billion in October 2022; spending decreased in November 2022 to £2.1 billion.
- UK residents' visits overseas fell from 8.4 million in September 2022 to 7.2 million in October 2022; visits fell further in November 2022 to 4.4 million. Spending by UK residents overseas decreased in October and November 2022; UK residents spent £5.8 billion in October 2022 and £3.4 billion in November 2022 (down from £7.4 billion in September).
- Overseas residents' visits to the UK in November 2022 (3.2 million) were higher than November 2019 (3.1 million); this is the first time that visits to, or from, the UK have been higher than the last comparable month before the coronavirus (COVID-19) pandemic.
- UK residents' visits overseas still lag behind comparable months prior to the pandemic; there were 7.2 million visits in October 2022 compared with 8.4 million in October 2019, and 4.4 million in November 2022 compared with 5.7 million in November 2019.

Consumer Sentiment Analysis published by Tourism Northern Ireland

- Results point to continued high levels of ROI and domestic visitor volumes in 2022, with over 9 in 10 respondents in each market saying their trip matched or exceeded expectations.
- Anxiety levels relating to Covid-19 remain low, with the majority of consumers in both markets believing that the worst has passed. Comfort levels generally remain high for engaging in a range of indoor and outdoor activities. When thinking ahead to holidays planned for 2023, excitement and optimism were the top emotions expressed in each market.
- NI and ROI consumers' travel intentions indicate a generally steady performance for short breaks in the first quarter of 2023. Competition from ROI and GB remains strong however, with a significant increase in those considering a longer break abroad also evident.
- For island of Ireland trips, approximately one in three NI and ROI consumers indicated that they still have a tendency to book a little closer to the date than they would have before Covid.
- Compared to the previous research in October 2022, expectations of being significantly negatively affected by cost-of-living increases have reduced in both NI and ROI, although 9 out of 10 still expect to be negatively affected in the coming months.
- When it comes to cancelling or reducing spend on staycations, a slight softening is evident. While spend on eating out, going to pubs and events will likely see a reduction, the number in both markets saying they won't reduce spend on these things has also increased since the October research. The proportion of NI residents planning to reduce spending on leisure day trips remains high but has declined compared to the October survey wave.
- While there is still a sense of worry about the cost-of-living, many respondents are still relatively optimistic, with over half of ROI consumers (53%) and 46% of NI consumers saying they "intend to keep doing things I enjoy in 2023 even if the impact of cost-of-living increases is a concern".

Economic Infrastructure

ENERGY

Energy Trends: March 2023 published by Department for Energy Security & Net Zero

- In 2022 total production was 109.6 million tonnes of oil equivalent, 2.8 per cent higher than the record low level of 106.6 million tonnes of oil equivalent in 2021. Production of oil and coal hit a record low, but gas production increased significantly and there was a record high for output from wind, solar & hydro. Production in the fourth quarter of 2022 was 3.8 per cent lower than the same period in 2021, again reflecting weaker output from oil but strong output from wind, solar & hydro.
- Total coal demand in 2022 fell to 6.1 million tonnes, 16 per cent lower than in 2021. The decrease was mainly due to a 17 per cent fall in coal-fired electricity as it continues to be displaced by renewables and gas. Coal production in 2022 fell to a record low of 0.7 million tonnes, down 38 per cent compared with 2021.
- Demand for petroleum products increased 9.6 per cent in 2022 compared to 2021 but remains down by 13 per cent compared to 2019. Much of this growth in demand was driven by increasing demand for transport fuels, which were up by 15 per cent. In 2022, UK oil stocks hit a record low of 8.7 million tonnes, falling 13.8 per cent in comparison with 2021.
- In 2022, UK gas demand decreased by 7.5 per cent compared with 2021, down by 65 TWh to 799 TWh. This decrease was the result of both the warmest year on record and changes in consumer behaviour driven by higher gas prices.
- Final consumption of electricity decreased by 3.9 percent in 2022, with domestic demand down 5.9 per cent to a level last seen in the mid-1990s as a result of record temperatures and increased prices. Industrial consumption fell 6.3 per cent and consumption by other users rose by 0.7 per cent.
- Total electricity generation increased 5.6 percent in 2022 despite a 3.5 per cent drop in demand. The difference was accounted for by record electricity exports of 5.3 TWh, which saw the UK become a net exporter of electricity for the first time in more than forty years.
- Renewable generation produced 134.8 TWh in 2022, a 10 per cent increase compared to 2021 and broadly matching the previous record high in 2020. There were also record levels of wind generation. Increased renewable and nuclear generation meant that low carbon sources represented 56.0 per

cent of generation in 2022, 1.5 percentage points higher than in 2021. Generation from fossil fuels also increased slightly in 2022 to 133.0 TWh, a 1.2 per cent increase compared to 2021.

TELECOMS

Telecommunications Market Data Update Q3 2022 published by Ofcom.

- UK fixed voice service revenues totalled £1.42bn in Q3 2022; a decrease of £21m (1.5%) from the previous quarter and £97m (6.4%) year-on-year. BT's share of these revenues was 48.9%.
- The number of fixed exchange lines (including PSTN, ISDN and managed VoIP connections) fell by 492k (1.6%) during the quarter to 30.5 million. This decline is due to the growing availability and take-up of standalone broadband services. Total fixed-originated call volumes decreased by 138 million minutes (1.7%) during the quarter, to 7.8 billion minutes.
- There were 27.8 million fixed broadband lines at the end of Q3 2022, an increase of 91k (0.3%) year-on-year. There were 19.4 million 'other inc. FTTx' broadband connections (predominantly fibre-to-the cabinet and full fibre connections) at the end of Q3 2022, accounting for 69.9% of all lines. The number of ADSL lines fell by 209k (6.6%) during the quarter, while the number of cable lines increased by 13k (0.2%) and the number of 'other inc. FTTx' lines increased by 154k (0.8%).
- Mobile telephony services generated £3.32bn in retail revenues in Q3 2022, a £231m (7.5%) increase from a year previously. Average monthly retail revenue per subscriber was £12.74 in Q3 2022, with post-pay subscribers generating more revenue than pre-pay users (averaging £15.41 compared to £5.22 for pre-pay). The number of active mobile subscriptions (excluding M2M) was 87.5 million at the end of Q3 2022, up 3.0 million (3.5%) from the year before. Over the same period, the number of dedicated mobile broadband subscriptions increased by 0.1 million (1.2%) to 5.3 million.
- The number of mobile messages (including SMS and MMS) saw a year-on-year decline, down 1.5 billion messages (14.3%) to 9.1 billion. The number of mobile-originated voice call minutes decreased by 4.3 billion (9.4%) to 41.1 billion minutes year-on-year, with calls to landlines decreasing by 12.6% to 8.5 billion minutes.

AIR ACCESS

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

Government

NORTHERN IRELAND

Monthly Economic Update published by Department for the Economy

- NI economic output increased by 1.4% in the final quarter of 2022, reaching a record high and signalling an end to the technical recession in NI. Excluding the pandemic period, this was the 3rd largest quarterly increase on record.
- Construction output had been following a downward trend for two years following a recent peak but increased strongly (8.0%) in Q4 2022.
- The value of NI's international trade in goods increased in 2022, but by the lowest percentage of the four UK nations. When comparing 2022 with 2021, exports increased by 15% and imports by 21%, against a UK average of 19% and 37% respectively.
- The Ulster Bank PMI indicated an improved business situation in February 2023, with business activity and new orders increasing for the first time in 10 months. This increase in new orders led to job creation, which reached a 15-month high.
- It also led to improved business confidence, which reached a one-year high following a return to optimism in the previous month. New export orders increased for the first time after four years of continuous decline, aided by a recovery in international demand. Input and output prices continued to rise sharply, but at the slowest rate in over two years.
- As of the three months to January 2023, the NI unemployment rate is estimated to have returned its pre-pandemic position. The NI employment rate increased by 3.1 percentage points (pps) over the year, while the economic inactivity rate decreased by 2.5pps.

- NI consumer confidence increased modestly in the final quarter of 2022, the main contributing factor being the adjustment of society to Covid-19. However, sentiment remained relatively subdued due to the impact of inflation. Relative to the end of 2021, all indicators were in negative territory.
- UK consumer prices, as measured by ONS, increased by 9.2% in the 12 months to February 2023. This represents an increase from the previous month's annual rate, with the increase driven mainly by restaurants & cafes, food, and clothing, partially offset by downward contributions from recreational & cultural goods & services and motor fuels.

ENGLAND

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

SCOTLAND

Monthly economic brief: March 2023 published by the Office of the Chief Economic Adviser

- Economic conditions continue to be extremely challenging in 2023 as the inflationary shock progresses through the economy. However, outturn data indicate that the Scottish economy has shown a greater degree of resilience than forecast during last year while latest UK and global projections set out a shallower downturn than was previously expected.
- Latest GDP data estimates that the Scottish (and UK) economy avoided entering the recession during 2022 which had previously been forecast. That said, economic growth was largely confined to the first quarter of the year and effectively stalled over the following three quarters. The final quarter of 2022 saw Scotland's GDP grow 0.1% over the quarter and 0.6% annually, with flat quarterly growth in the services sector particularly weighing on overall output.
- Scotland's labour market continued to perform very strongly at the headline level in the final quarter of 2022, outperforming the UK as a whole on the unemployment rate (3.3%), employment rate (76.6%) and inactivity rate (20.8%) indicators, although the number of economically inactive due to long term sickness remains high. Latest business surveys provide further evidence that recruitment activity has continued to moderate into the start of 2023 and there has been further rebalancing in the demand for and availability of staff, at least in the short term. However, the underlying tightness in the labour market and increased costs of living continue to place upward pressure on nominal pay growth. Average regular pay growth (GB) was 7.3% for the private sector in the final quarter of 2022 and 4.2% for the public sector and remains a key consideration for employers.
- The inflation rate fell for a third consecutive month in January to 10.1%, providing further indication that inflation is now on a downward trend. Inflation is expected on average to fall to around 4% by the end of the year with the outlook for energy prices a key element of this. The fall in the Ofgem energy price cap for April and the forecast of a further fall in July presents an improving outlook for energy prices, however the scale and timing of benefit to households in the short term will be dependent on the level of government support (through the Energy Price Guarantee or otherwise) made available over the coming months.
- However, for now, price rises continue to outpace earnings growth, resulting in a 4.1% fall in real terms pay over the year to January and emphasises that while the initial inflation shock may be starting to ease, the cost of living pressures facing households is a longer term concern, particularly as some cost of living support is expected to end in 2023-24.
- Reflecting the underlying resilience in economic and labour market activity and the recent easing in the inflation rate, both consumer and business sentiment strengthened into the start of the new year. However, both remain notably weaker than their historical averages.
- Looking ahead, the latest forecasts from the start of the year indicate that a recession (two consecutive quarters of declining output) remains likely in 2023 as consumers continue to face falling real household incomes and tighter financial conditions. Where savings or borrowing have supported spending to date, we may see consumption more exposed and at greater risk to these conditions in the year ahead.

WALES

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

REPUBLIC OF IRELAND (ROI)

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

Sources

Cambridge Industrial Innovation Policy

Catalyst Inc

CBI UK

CBRE

CBRE UK

Centre for Business Research (CBR)

Centre for Economic Policy Studies (CEPS)

Centre for Economics and Business Research (CEBR)

Centre for Enterprise and Economic Development Research (CEEDR)

Centre for European Economic Research (ZEW)

Davy

Department for Digital, Culture, Media, and Sport

Department for Exiting the European Union

Department for the Economy

Department of Finance

Department of Jobs, Enterprise, and Innovation (DJEI)

Department of Transport, Tourism and Sport

Dept for Business, Energy & Industrial Strategy (BEIS)

Economic Advisory Group (EAG)

Economic and Social Research Council (ESRC)

Economic and Social Research Institute (ESRI)

Economics Ejournal

Economist Intelligence Unit

Enterprise Research Centre (ERC)

European Association of Research and Technology Organisations (EARTO)

European Commission - Enterprise and Industry - Growth publications

European Investment Bank (EIB)

Eurostat

Federation of Small Businesses (FSB)

GEM Consortium

Green Alliance

HM Treasury (HMT)

Imperial College London - Business School

Institute for Fiscal Studies (IFS)

Institute for Government

International Institute for Management Development (IMD)

International Monetary Fund (IMF)

InterTradeIreland

Invest NI

Ipsos MORI

Irish Exporters Association (IEA)

Joseph Rowntree Foundation

Journal of Business Research

Kiel Institute

Legatum Institute

LSE - Centre for Economic Performance (CEP)

LSE - Spatial Economics Research Centre (SERC)

McKinsey UK

National Assembly for Wales

National Competitiveness Council (NCC)

National Economic and Social Research Council (NECS)

National Institute of Economic and Social Research (NIESR)

Nesta

Nevin Economic Research Institute (NERI)

NI Assembly Research and Information Service (RaISe)

NI Council for Voluntary Action (NICVA)

NI Science and Industry Panel – MATRIX

NISRA

OECD iLibrary

Open Europe

Organisation for Economic Development and Co-operation (OECD)

Oxera

Oxford Economics

Oxford Review of Economic Policy

Parliament Briefings

Peterson Institute for International Economics (PIIE)

PricewaterhouseCoopers (PWC NI)

PricewaterhouseCoopers (PWC)

Queen’s University Belfast – Economics

Queen’s University Belfast - Research Centre in Sustainable Energy

Resolution Foundation

ResPublica

Scottish Enterprise

Scottish Government

Small Business Research Centre (Kingston University London)

Taxpayers Alliance

Technical Research Centre of Finland (VTT)

Technopolis

The Executive Office (TEO)

Tourism NI

Trinity College Dublin

Ulster University Economic Policy Centre

University College Dublin (UCD)

University of Ulster - Business Management Research Institute (BMRI)

Visit Britain

Visit Scotland

Wavteq

Welsh Government

World Bank

World Economic Forum (WEF)