



Danske Bank  
Oxford Economics  
Quarterly Sectoral  
Forecasts Quarter 3  
2013

## Executive Summary

### Is the economy heating up?

Headline indicators suggest some improvement in local economic conditions yet it is too early to confirm whether a sustained recovery is underway. The number of jobless people in Northern Ireland has seen the biggest monthly fall for more than a decade and the economy continued to enjoy year on year employment growth for the 2<sup>nd</sup> quarter of 2013. Furthermore house prices in Northern Ireland are reported to have experienced annual growth for the first time in more than five years and the latest housing bulletin by DSD reported the first increase in house completions in six years – all of which suggest the economy is finally heading towards recovery.

The latest results from the Northern Ireland Composite Economic Index for the first quarter (Q1 2013) suggest a fall in activity of -0.8%, and thus returning to a level previously recorded in Q2 2004. It is worth noting that Q1 2013 experienced unprecedented severe weather at the end of March which may have had a negative impact upon the figures. These indicators will be closely monitored as to whether the recovery is truly locked in.

### Recovery to gather pace...

The central forecast is for GVA to grow at 0.5% in 2013 and 1.7% in 2014. The wider issues of changes to austerity and welfare benefits will present challenges over the months ahead. Faced with such steady headwinds, below UK rates of growth are unfortunately now the norm and the Danske Bank quarterly forecast confirms this will be the case throughout the forecast period.

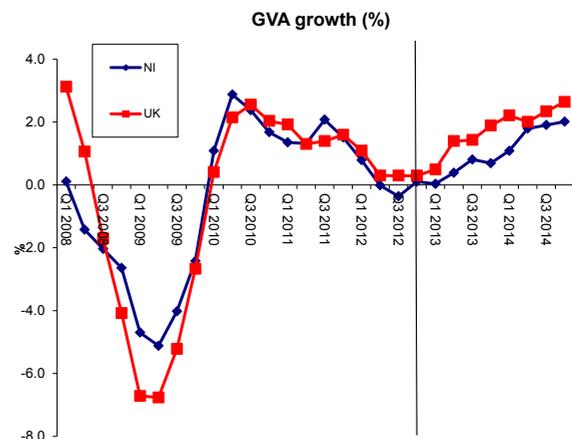
The outlook continues to be centred on export-led growth with the consumer also playing a key role. However, the regions relatively small export base is likely to hamper the pace of the recovery. Although policy is focussed on boosting exports, this will be challenging without specific weapons to help stimulate private sector activity.

GVA growth rates - NI			
	Q on Q growth	Y on Y growth	Annual growth
Q1 2012	-0.1	0.8	
Q2 2012	-0.1	0.0	
Q3 2012	0.0	-0.4	0.1
Q4 2012	0.4	0.1	
Q1 2013	-0.2	0.0	
Q2 2013	0.3	0.4	0.5
Q3 2013	0.4	0.8	
Q4 2013	0.3	0.7	
Q1 2014	0.2	1.1	
Q2 2014	0.9	1.8	1.7
Q3 2014	0.5	1.9	
Q4 2014	0.4	2.0	

GVA growth rates - UK			
	Q on Q growth	Y on Y growth	Annual growth
Q1 2012	0.0	1.1	
Q2 2012	-0.4	0.3	
Q3 2012	0.7	0.3	0.5
Q4 2012	0.0	0.3	
Q1 2013	0.2	0.5	
Q2 2013	0.6	1.4	1.3
Q3 2013	0.4	1.4	
Q4 2013	0.5	1.9	
Q1 2014	0.5	2.2	
Q2 2014	0.7	2.0	2.3
Q3 2014	0.7	2.3	
Q4 2014	0.7	2.6	

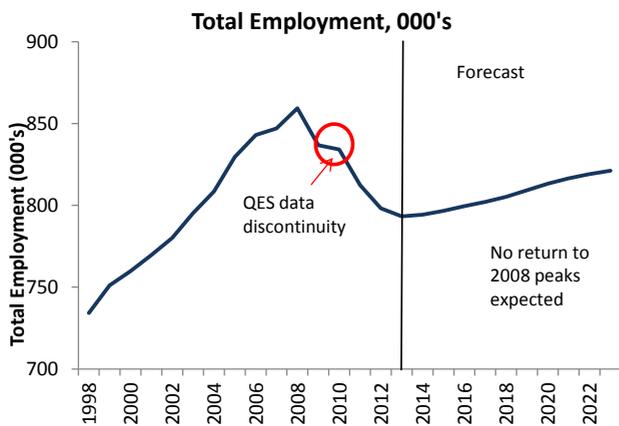
Source: Oxford Economics

Note: Year on year growth is calculated using the growth from say Q1 2010 to Q1 2011



**Scale of policy challenge clear**

Whilst Northern Ireland has been successful in announcing numerous significant job announcements recently; the scale of the labour market challenge is worth highlighting. According to Workforce Jobs employment data, Northern Ireland has lost 73,000 jobs between Q2 2008 and Q1 2013, thus regaining these losses will be a major challenge.



Source: Oxford Economics

The 'policy neutral' outlook is for job growth to average 2,500 per annum over the decade ahead, which keeps the employment rate at a disappointing 53%<sup>1</sup>. To put this into context, to get the resident employment rate to the UK average of 58% in 2023 would require over 8,000 additional jobs per annum or an additional 62,000 in total.

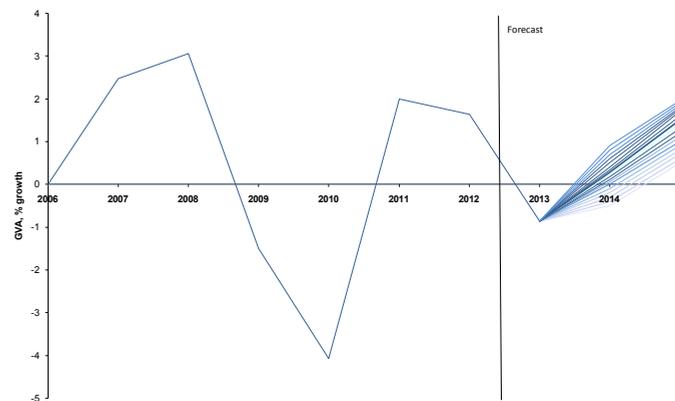
**Uncertainty remains**

We currently attribute a 50% probability to our baseline forecast, with the risks remaining skewed on the downside.

NI's specific downside risks include: a strengthening of £ Sterling versus the euro, hurting exports to ROI and the Eurozone; and further austerity, with the most severe UK spending cuts potentially yet to come.

Outcome	%	2013	2014
<b>Lower scenario</b>			
Mortgage pressures		-0.2 to -1.0	0.5 - 1.2
Multiple Eurozone exits	10		
Faster upturns in US & Ems			
<b>Below Main</b>	20	0.5 to -0.2	1.2 - 1.7
<b>Main scenario</b>	50	0.5	1.7
<b>Above main</b>	15	0.5-1.0	1.7 - 2.0
<b>Upper scenario</b>			
Stronger global recovery		1.0 +	2.0 +
Stronger export performance			
Increased private sector investment	5		
Rapidly improving public finances supporting confidence			

**GVA growth (%)**



Note: defined as percentage of population aged 16+

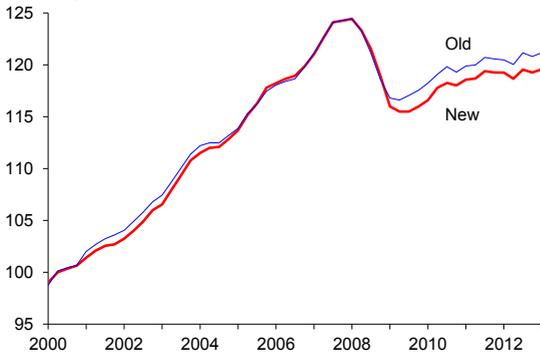
## Global and UK Overview

### Latest data suggests a much deeper recession than previously reported

The latest National Accounts release contained some substantial downward revisions to the historical GDP data revealing a much deeper recession than previously thought. Real GDP is now estimated to have fallen by 7.2% during the recession, compared with the previous estimate of 6.3%. The pace of the subsequent recovery has been scaled back slightly, which means that the economy is now 3.9% below its pre-recession peak. Italy is the only G7 country which is further behind its pre-recession peak.

#### UK: Real GDP revisions

Rebased, 2000=100



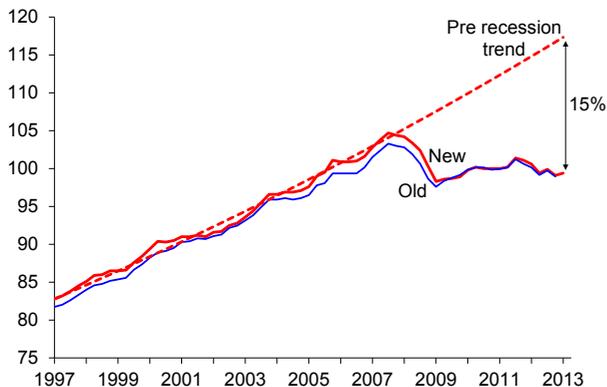
Source : Oxford Economics/Haver Analytics

### The productivity puzzle has become even more baffling...

The new data shows that output per worker is now more than 15% below where it would have been had the pre-recession trend continued.

#### UK: Output per worker

2010=100



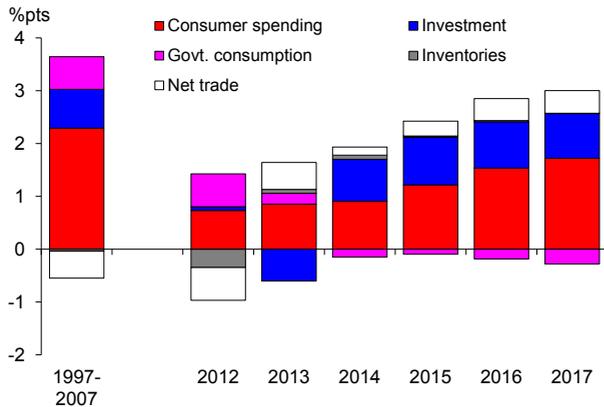
Source : Haver Analytics

We believe that a sustained recovery is under way within the UK and expect it to be driven by:

- Real income growth and lower household saving** – real incomes fell back in 2013 Q1, but we attribute this to higher earners deferring income to take advantage of April's fall in the top rate of income tax. With the large increase in the personal income tax allowance providing support and inflation set to slow through 2013 H2, real incomes should rebound firmly, boosting consumer purchasing power. With confidence recovering and the worst of the deleveraging over, we also expect the savings ratio to drop back from recent high levels.
- Corporate confidence strengthening, supporting investment** – data revisions mean that business investment is now estimated to be 34% below its previous peak. We believe that there is sizeable pent up investment demand and we expect this to be released as corporate confidence improves, encouraging firms to spend their accumulated cash surpluses.
- Improving export outlook** – net trade contributed 0.6% points to GDP growth in Q1 and survey data suggest a further expansion in export demand in Q2. We expect annual growth in world trade to accelerate from 1.3% in 2013 to 4.7% next year and 6% in 2015, underpinned by a strong US rebound and the Eurozone slowly recovering. Nevertheless, we have scaled back our expectations for export growth relative to recent months, due to downward revisions to our forecasts for emerging Asia.

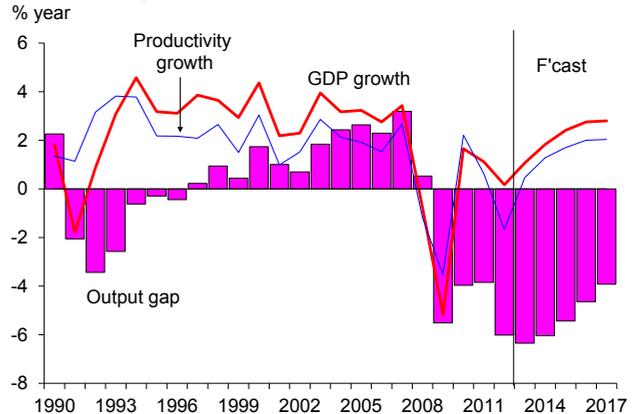
The pace of the recovery will, however, be constrained by further deleveraging. Households have made good progress in reducing their debt levels, from a peak of 175% of income to just over 140% now, but further deleveraging is needed to return debts to more sustainable levels. The government's austerity programme will also continue to suck demand out of the economy for several years to come.

**UK: Contributions to GDP growth**



Source : Oxford Economics

**UK: Supply-side performance**



Source: Oxford Economics

**Growth to accelerate in medium term...**

We estimate that the UK currently has an output gap of around 6.5%, implying a large amount of spare capacity. This should help to keep inflation low, once short-term external pressures have eased, while also allowing the MPC to maintain a very loose policy stance for a prolonged period, supporting a strong recovery through the medium term. We expect GDP growth to accelerate to 2.7% a year between 2015 and 2017

**...but downside risks cannot be ignored**

There is some upside risk to the forecast from the possibility of a stronger recovery in business investment. Nevertheless, there remain several sources of vulnerability that could lead to weaker outturns than our current forecast. The consumer is a key source of risk, with more aggressive retrenchment a possibility.

There is also uncertainty around the labour market; the slump in productivity could mean that the recovery sees even weaker job creation than we forecast. But it could also reflect a structural change that implies poorer medium-term growth prospects.

## NI Overview

### Has employment growth returned?

The latest regional employee data reveals a stark north/south divide in the latest quarter. The southern regions including London reported relatively strong employment growth in Q1 2013, with the labour markets in the northern and the devolved regions continuing to contract. Professional services was the key driver underpinning the recent southern performance. Given that the outlook is forecast to be primarily led by professional services, this return to traditional patterns of regional growth is likely to continue.

Employee growth (last quarter, last year)				
	Mar 12 - Mar 13		Dec 12 - Mar 13	
	000's	%	000's	%
South East	13.0	0.3	23.0	0.6
London	73.0	1.7	84.0	1.9
East	-48.0	-2.0	33.0	1.4
South West	40.0	1.7	14.0	0.6
West Midlands	7.0	0.3	17.0	0.7
East Midlands	-19.0	-1.0	19.0	1.0
Yorkshire & Humber	24.0	1.1	3.0	0.1
North West	35.0	1.2	-1.0	0.0
North East	-32.0	-3.0	-3.0	-0.3
Wales	15.0	1.3	-26.0	-2.1
Scotland	-26.0	-1.1	-16.0	-0.7
Northern Ireland	2.1	0.3	-7.6	-1.1
United Kingdom	86.0	0.3	149.0	0.5

The latest employee data for Northern Ireland revealed that the region continued to enjoy annual growth with an increase of 2,100 jobs reported in Q1 2013. In volume terms growth led by the professional services, admin and support services and health & social work. Health & social work has continued to enjoy job growth throughout the recession suggesting that frontline services are being protected from spending cuts. Going forward, the sector is likely to face pressures given the aging population.

Employee growth (last quarter, last year)				
	Mar 12 - Mar 13		Dec 12 - Mar 13	
	000's	%	000's	%
Agriculture, forestry and fishing	0.7	5.4	0.0	0.0
Mining and quarrying	-0.1	-3.5	0.0	-1.8
Manufacturing	-0.5	-0.7	-0.8	-1.1
Electricity, gas, & steam	0.2	15.8	0.0	2.0
Water supply; sewerage, waste management	-0.1	-2.3	-0.1	-2.1
Construction	-2.0	-6.3	-0.3	-1.1
Wholesale and retail trade	-0.2	-0.1	-4.8	-3.7
Transportation and storage	0.1	0.3	-0.3	-1.0
Accommodation and food service activities	-0.1	-0.3	-1.8	-4.3
Information and communication	0.3	2.1	-0.2	-1.0
Financial and insurance activities	-0.8	-4.3	-0.4	-1.9
Real estate activities	-0.1	-1.8	-0.1	-1.0
Professional, scientific and technical activities	1.0	4.1	0.1	0.4
Administrative and support service activities	1.9	4.8	-0.9	-2.0
Public administration and defence	-0.5	-0.9	-0.1	-0.1
Education	-0.4	-0.5	0.8	1.1
Human health and social work activities	3.0	2.6	1.0	0.8
Arts, entertainment and recreation	-0.4	-2.6	0.1	0.3
Other service activities	0.1	0.9	0.1	0.9
Total	2.1	0.3	-7.6	-1.1

Employee jobs in Northern Ireland fell by 7,600 in Q1 2013, though this is largely the result of a seasonality as the retail sector experienced its traditional fall in employment in the first quarter of 2013.

A return to positive employment growth is a welcomed development, though the recession has had a profound impact sectorally. Almost half of the job losses were felt within the construction sector – driven by the bust in the local housing market. In volume terms, retail experienced the second biggest losses as many of the high street stores succumbed to the recession, shedding 12,000 jobs. Electricity, gas & steam, health and arts & entertainment were the only sectors to enjoy net job growth over the period.

Employment change, peak to date				
	(000's)		Change	
	2008 Q2	2013 Q1	000's	%
Agriculture, forestry and fishing	36.0	36.0	0.0	0%
Mining and quarrying	2.0	2.0	0.0	0%
Manufacturing	90.0	82.0	-8.0	-9%
Electricity, gas, & steam	1.0	2.0	1.0	100%
Water supply; sewerage, waste management	5.0	5.0	0.0	0%
Construction	80.0	45.0	-35.0	-44%
Wholesale and retail trade	151.0	139.0	-12.0	-8%
Transportation and storage	33.0	28.0	-5.0	-15%
Accommodation and food service activities	46.0	45.0	-1.0	-2%
Information and communication	20.0	20.0	0.0	0%
Financial and insurance activities	22.0	21.0	-1.0	-5%
Real estate activities	8.0	8.0	0.0	0%
Professional, scientific and technical activities	34.0	32.0	-2.0	-6%
Administrative and support service activities	50.0	46.0	-4.0	-8%
Public administration and defence	64.0	59.0	-5.0	-8%
Education	74.0	71.0	-3.0	-4%
Human health and social work activities	124.0	127.0	3.0	2%
Arts, entertainment and recreation	18.0	19.0	1.0	6%
Other service activities	19.0	19.0	0.0	0%
Total	877.0	806.0	-71.0	-8%

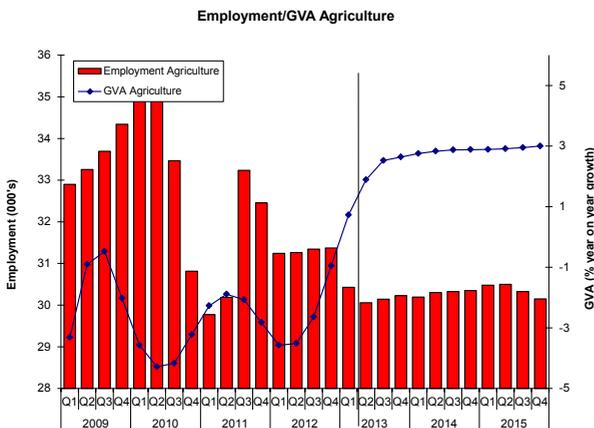
The outlook suggests a much different sectoral profile to that of the recession losses. Employment growth is forecast to be led primarily by professional, admin & support services and health & social work. The skills set of the people who lost their jobs may not be required by the sectors which are expected to lead the recovery, leaving many people out of work for an indefinite period.

# Sectoral Analysis

## Production

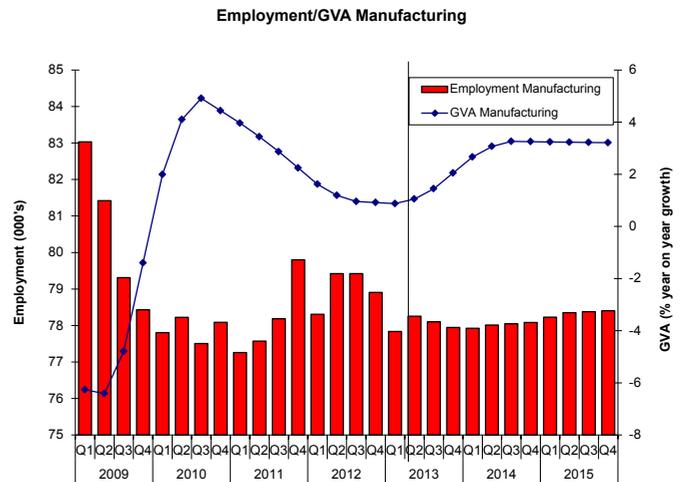
Despite the difficult start to 2013, with heavy snow fall resulting in over 44,000 livestock deaths, the **agriculture** sector has once again remained surprisingly resilient; with only marginal job losses of around 400 jobs over the first quarter of 2013. Albeit this resilient performance was no doubt aided by the support shown from Stormont, agreeing on a £5-million pound rescue package for affected farmers whilst also fitting the bill for the disposal of the thousands of carcasses.

### Agriculture (2.4 % yoy 2013)



In June Co. Fermanagh played host to the G8 summit. The summit sparked the beginning of talks between the EU and the US regarding market access on industrial and agricultural products, with special treatment for more sensitive products, such as beef. The aim of these negotiations is to remove all tariffs, or at least to reduce them. Should a deal be brokered, the Northern Ireland beef industry is likely to come under significant pressure, as the large industrial producers from the US are likely to undercut the typical 'family-style' producers of Northern Ireland. A deal could also bring about issues over quality, with hormones being routinely used in the US production process, particularly at a time when consumers are placing more value on quality than ever, in the wake of the horsemeat scandal. Our short term outlook sees year on year GVA growth remaining positive, whilst employment levels stay relatively stagnant.

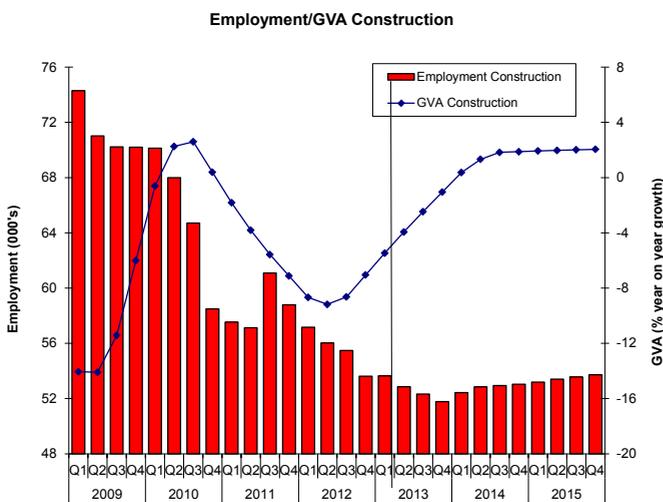
### Manufacturing (0.8% yoy 2013)



Both employment and GVA growth in the **manufacturing** sector fell for the third consecutive quarter in Q1 2013. Around 1000 job losses were endured in the first quarter of 2013 bringing the overall employment level to just below 78,000. The greatest losses came from within the manufacturing of food products sub-sector which suffered 870 jobs losses since Q4 2012 (though some of these may be seasonal), whilst the manufacturing of machinery and equipment sub-sector performed well, with the employment level growing by 220 jobs over the same period. Despite the recent poor employment figures there have been several positive announcements within the sector recently. Japanese firm Terumo BCT are creating 416 new jobs in their factory in Larne, the firm currently employs 260 people locally and the new posts will include positions involving entry-level manufacturing, scientific, microbiology, chemistry and engineering. This announcement comes as the Japanese prime minister Shinzo Abe recently described Northern Ireland as a "treasure trove of challenge, openness and innovation". Tayto NI has taken on 58 new staff at its Tandragee plant, the move was backed by Invest NI's 'jobs fund' which falls under the Boosting Business Initiative. The aeroplane manufacturer, Bombardier, have recently announced billions of pounds worth of aircraft sales, these sales boosted the Northern Ireland economy to the tune of £25 million as Bombardier placed orders with Northern Irish firms over the past few months.

Our employment outlook for the manufacturing sector is relatively weak, with employment levels likely to remain broadly stagnant over the period from 2013-2015. The GVA outlook is somewhat more positive, with the year on year rate of growth forecast to average above 3%. Given the weak employment outlook the growth in GVA highlights the expectation of increased productivity.

**Construction (-3.8% yoy 2013)**



The legacy of the recession continues to impact upon the **construction** sector in Northern Ireland. Employment in the sector fell in Q1 2013, to a level of 53,600. Similarly year on year GVA growth also fell. The latest index of construction for Northern Ireland sends out something of a mixed message, with the unadjusted volume of construction output in Q1 2013 marginally higher than Q4 2012 despite the seasonally adjusted figure showing slight contraction against the previous quarter.

The scale of the contraction within the construction sector has been heavily dictated by the contraction in the property market, average house prices in Northern Ireland have fallen 46% since their peak in 2007, having disastrous consequences on construction firms and their employees. Recent ONS data, however, has revealed that the Northern Ireland property market may be turning a corner. The latest mix-adjusted house price index for Northern Ireland shows that House prices in May 2013 were up 1.9%

against May 2012. A resurgence of the housing market could serve to breathe new life into the construction sector, with the incentive of a higher return on new developments. The government's 'Help to buy' scheme should also boost the sector, over and above our 'policy-neutral' forecasts. The scheme, which was announced in the 2013 budget, will come into effect in 2014 and will help to encourage home ownership over rental which should, in turn, translate into house price growth.

Our outlook sees the construction sector continuing to endure a difficult period of contraction over 2013 until slow and stable employment and GVA growth returns in 2014.

**Private services:**

The **wholesale and retail sector** in Northern Ireland continued to contract in Q1 2013 with the employment level falling by around 6000 jobs. These job losses, however, are to be expected during this quarter, and are likely to be the result of a seasonal affect as short term Christmas staff flock back to the ranks of the unemployed. Accordingly, the employment level returned to a level broadly in-line with that of Q1 2012.

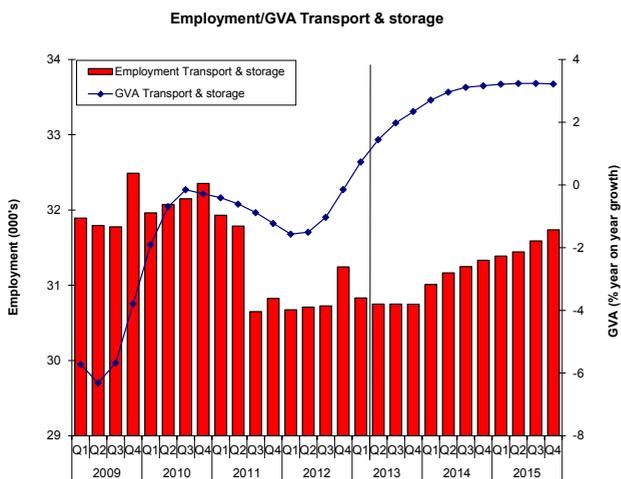
**Wholesale & retail trade (1.5% yoy 2013)**



Furthermore a report by the Northern Ireland Retail Consortium suggests that shopper numbers in Northern Ireland were 6% lower in June 2013 than the same month last year, "despite the good offers

and promotions that are available” putting Northern Ireland considerably behind the UK were shopper numbers are reported to have been up 0.1% on last year. June marks the fourth consecutive month of footfall contraction in the country, although it is hoped that the better weather enjoyed in July will serve to encourage shoppers back to the high street and lift the sector. The sector was dealt a blow recently as River Island, Dorothy Perkins, Wallis and Evans all announced that they would be closing their branches in Forestside shopping centre. All shops are part of the Arcadia group and it is hoped that employees will be re-deployed to other stores were feasible. Our outlook sees slow employment growth over the next few years, as the sector continues to be challenged by reduced consumer spending and online competitors.

**Transport & storage (1.6% yoy 2013)**

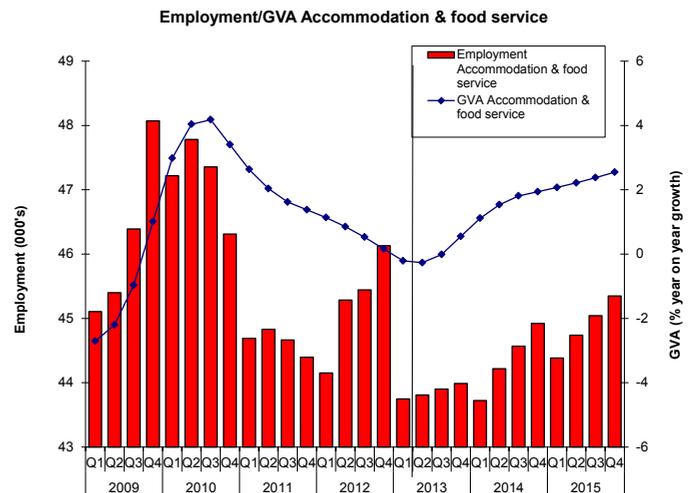


The **transport and storage** sector contracted marginally in Q1 2013. In total a net 400 jobs were lost over the period, with contractions in the warehousing and support sub-sector accounting for the lions' share of these losses.

The AA's June Fuel price report shows that Northern Ireland remains the most expensive region for both petrol and diesel (1.2p and 0.6p above the UK average respectively), no doubt hampering the growth of the transport and storage sector in the country to an extent. Furthermore there are fears over the future of royal mail jobs in Northern Ireland after a trade union has claimed that the sale of the company could result in 700 jobs losses in Northern Ireland. Regardless, stable growth in both

employment and GVA is forecast for the transport and storage sector over the next three years, with the employment level expected to exceed 32,000 by the end of 2015.

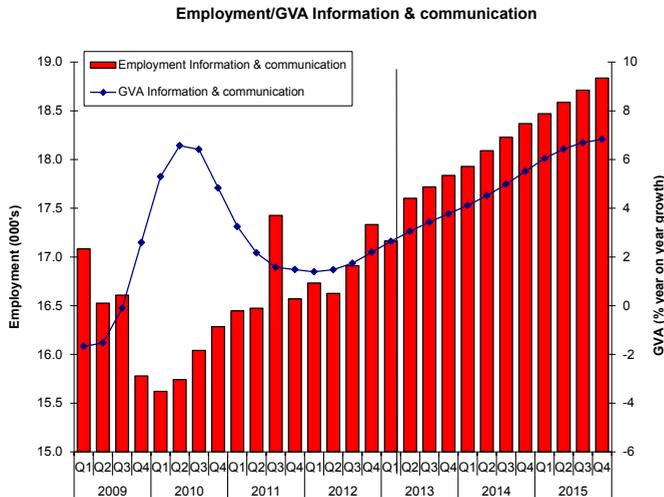
**Accommodation & food service (-0.6% yoy 2013)**



As expected the **accommodation and food** sector has not started 2013 as well as it ended 2012. There were over 2000 job losses experienced in the sector in Q1 2013. Despite the poor start to 2013, the accommodation and food sector is forecast to bounce back. The hosting of the G8 summit in Co. Fermanagh in June will no doubt have benefitted the sector, not only for the duration of the summit but also in terms of worldwide showcasing of the area. The Lough Erne resort in particular which hosted the summit. Furthermore Derry's appointment as 'City of Culture 2013' is having the desired affect with the local Hotels, as recent figures released by Derry Visitor and Convention Bureau report that the average hotel occupancy rate across the city in the month of May was 81%, some 12% greater than May 2012 and the highest May rate ever recorded in the city; serving to bolster the sector in areas other than Belfast. Finally in August Northern Ireland will play host to the 'World Police and Fire Games 2013', organisers are aiming to attract 25,000 visitors from over 60 countries worldwide. This event should help in giving the accommodation and food sector a short term injection whilst also putting Northern Ireland on the world stage once again with the promise of longer term benefits also. Accordingly our outlook for the

sector is positive, with an expectation of another 2000 people employed by Q4 2015.

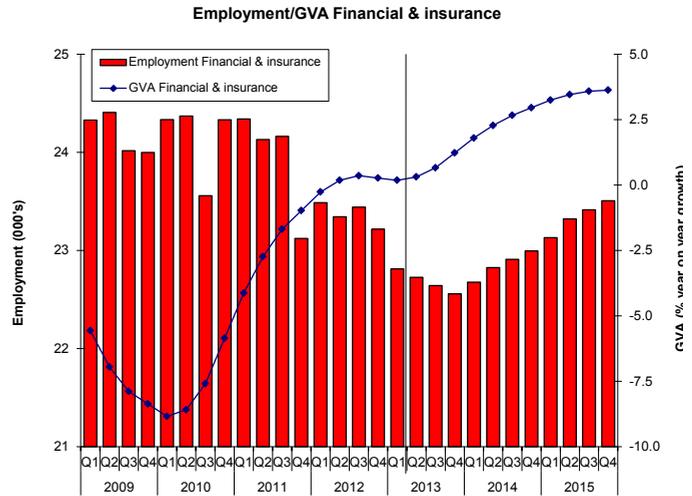
**Information & communication (3.1% yoy 2013)**



Whilst year on year GVA growth in the **Information and communication** sector continues to impress with the 14<sup>th</sup> consecutive quarter of growth, the labour market struggled somewhat during Q1 2013, with the employment level falling back by 100 jobs to a level of 17,200. Nonetheless sector continues to be boosted by the growth of the motion picture industry within the Country, in May it was announced that Belfast based BBC drama 'The Fall' will shoot a second series after the first series was well received. Moreover filming of the Universal Pictures production 'Dracula' is set to begin in August, the production will be based in Belfast but will be filmed at various location across Northern Ireland. Universal pictures have put out a casting call for Northern Ireland based extras to appear in the film, ensuring that there will be significant domestic benefits experienced. Whilst the motion picture industry is enjoying considerable growth in Northern Ireland, telecommunications still dominates employment in the information and communication sector and whilst 160 job losses were felt across the telecommunications industry in Q1 2013, our outlook for the information and communication sector is very strong, with 1,700 new jobs forecast to be created by the end of 2015. This view is supported by several recent announcements, Allstate Northern Ireland, for example, is to create a further 450 jobs at its software development operations in Belfast, Londonderry and Strabane by 2016 whilst US based Vello Systems have announced that they are going to set up a new

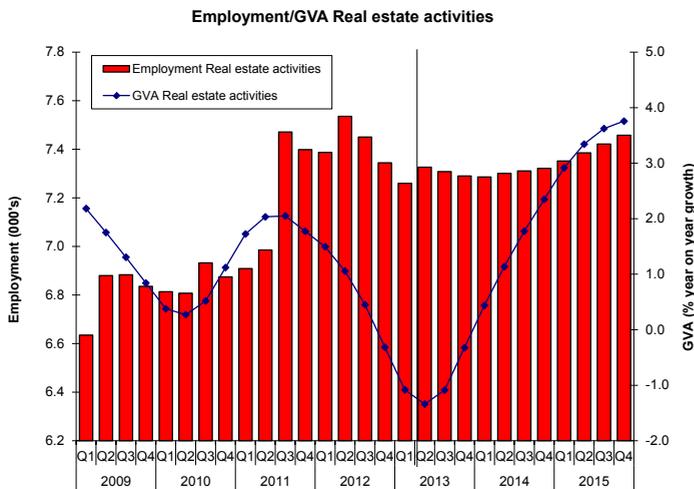
software development centre in Belfast, with the creation of 71 jobs over the next three years.

**Financial & insurance (0.1% yoy 2013)**

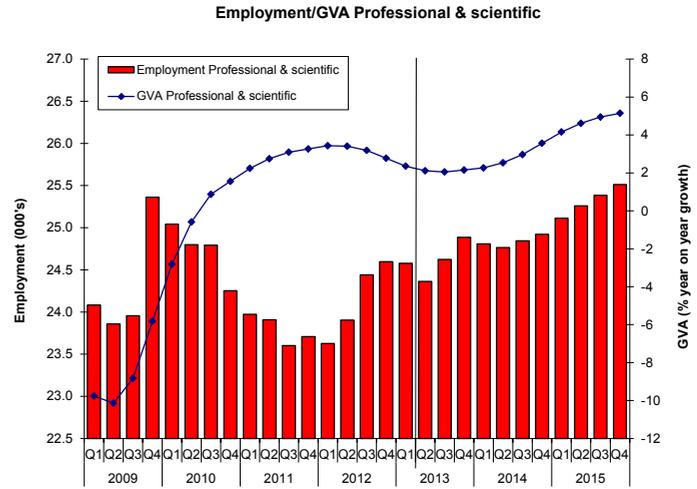


Employment in the **financial & insurance** sector fell in the first quarter of 2013 to the tune of 400 jobs. These job losses came predominantly from within the financial services sub-sector, albeit the insurance industry didn't come through completely unscathed either. Despite the poor labour market performance, GVA year on year growth remained in positive territory for the 4<sup>th</sup> consecutive quarter, posting an expansion of 0.5%. Despite restructuring and falling employment numbers in the financial sector in response to changing consumer behaviour, the latest CBI/PWC Financial services survey suggests that financial services business volumes grew strongly, optimism improved and operating costs fell in the second quarter of 2013. The survey revealed that growth in profits, however, slowed significantly as stagnant commissions, fees and premiums outweighed the increase in business volumes and reduced operating costs. Our labour market outlook for the financial & insurance sector sees a continuing trend of job losses over 2013 before some grow returns in 2014, with a net increase of 700 jobs expected by 2015.

**Real estate activities (-1.8% yoy 2013)**



**Professional & scientific (2.0% yoy 2013)**



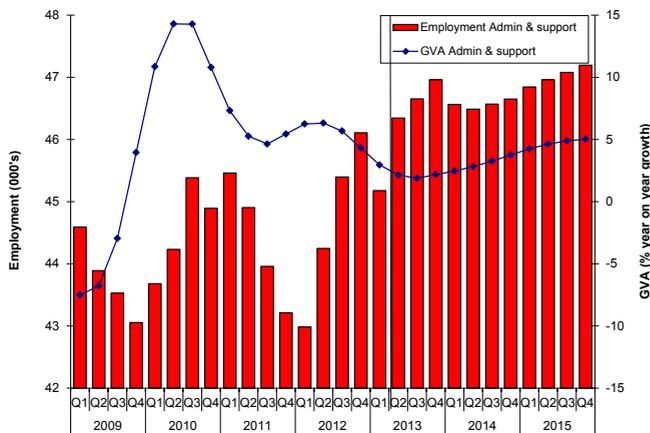
The **real estate activities** sector suffered another difficult quarter in Q1 2013, year on year GVA growth fell by 0.8% whilst the labour market contracted also, with over 100 job losses during the period. Given the innate links between this sector and the property market, it follows that this trend mirrors that of the number of residential property sales. The latest Northern Ireland Residential Property Price Index release shows that the number of residential property sales in the first quarter of 2013 fell 14% short of the number of sales experienced during the last quarter of 2012 to a level of 3,200. Whilst sales of all types of properties fell, the most significant contraction was in detached house sales which fell by some 19%, the sales of apartments, by contrast, fell by just 5%. Continued uncertainty in the property market is likely to be much to blame for the fall in house sales, as fears of negative equity coupled with poor access to finance drive potential buyers to rent instead. The recent release of ONS house price data which suggests an upturn in Northern Ireland house prices may go some way towards restoring confidence in the market. The latest mix-adjusted house price index for Northern Ireland shows that House prices in May 2013 were 1.9% higher than in May 2012.

The **professional & scientific** sector enjoyed over 4% year on year GVA growth during Q1 2013 although the employment level fell marginally over the same period, bringing an end to three consecutive quarters of employment growth in the sector. Despite the net loss of jobs over the quarter the advertising and market research sub-sector enjoyed significant employment growth of around 18%, unfortunately this growth was insufficient to negate losses in the legal and accounting sub-sector. The outlook for the professional & scientific sector is very strong, with the pre-recession peak employment level expected to be superseded by Q4 2014 whilst the year on year GVA growth is forecast to remain consistently above 3% over the next three years. Given the systemic nature of the professional & scientific sector, its fortunes will be inherently linked to the performances other industries.

Our relatively weak outlook reflects the continued challenges faced by the real estate activities sector; we anticipate a difficult end to 2013 for the sector, with further job losses before the beginning of a slow and stable recovery in 2014 with year on year GVA growth of 3.5% expected by Q4 2015.

**Admin & support (1.2 % yoy 2013)**

Employment/GVA Admin & support

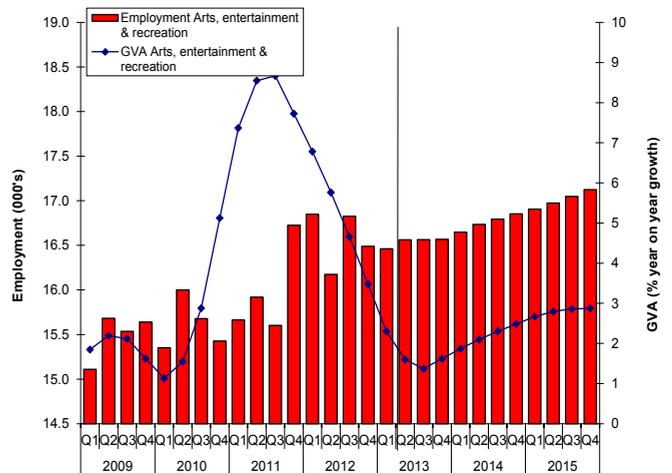


Following three consecutive quarters of strong employment growth, the **admin & support** sector has suffered 800 job losses in Q1 2013; bringing the total level of employment in the sector down to 45,000 – still some 2000 jobs greater than the same period in 2012. Admin & support is a sector which, by its nature, is strongly linked to the overall performance of the economy, the largest contributor to the sector is employment activities. With a lack of employment opportunities in the current market the employment activities sub-sector has struggled, accounting for the majority of the 1000 job losses felt across the sector as a whole in Q1 2013. By contrast to the labour market performance in Q1 2013, GVA posted positive year on year growth for the 14<sup>th</sup> consecutive quarter, placing it as one of Northern Ireland’s most resilient sectors in GVA terms over recent years. Our outlook for the admin & support sector is strong with an additional 2,000 jobs expected by Q4 2015 and consistent year on year GVA growth, averaging almost 5% by 2015.

The **arts, entertainment & recreation** enjoyed yet another quarter of year on year GVA growth in 2013 whilst the employment level remained broadly similar. The sector has received a welcome boost of late with the opening of a new attraction in Dundonald. Clip’n Climb, an indoor climbing facility, has attracted over 6000 visitors since opening earlier this year and employs 33 people. The World Police and Fire Games should bring significant short term benefits to the sector when it commences in August, with over 25,000 visitors expected to attend from over 60 countries.

**Arts, entertainment & recreation (1.1% yoy 2013)**

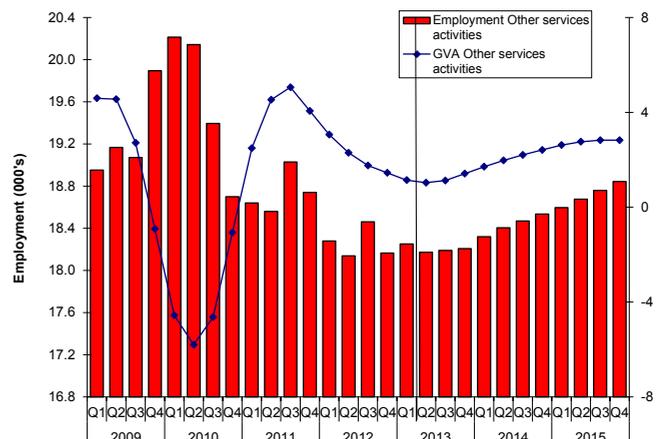
Employment/GVA Arts, entertainment & recreation



The **other services activities** sector enjoyed another quarter of employment and year on year GVA growth at the beginning of 2013. Growth in the activities of membership organisations sub-sector accounted for the majority of the marginal employment rise in Q1. The outlook for the sector is strong, with year on year GVA growth expected to remain positive over the next few years whilst the overall employment level is set to rise by an additional 600 jobs.

**Other services activities (0.8% yoy 2013)**

Employment/GVA Other services activities



## Public services

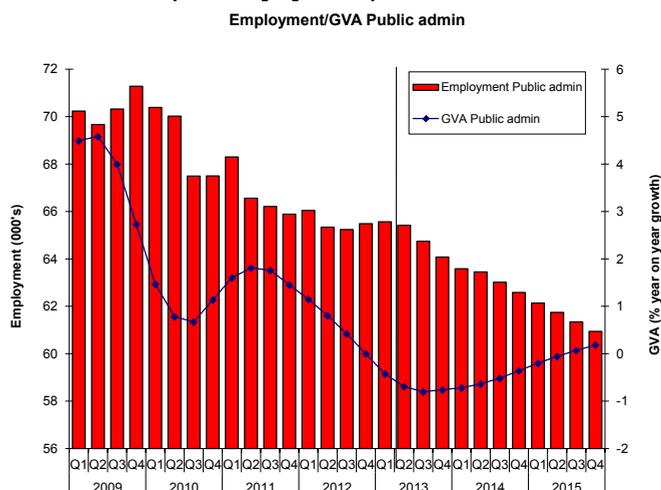
The most recent labour market statistics suggest that the respite enjoyed by the public sector at the end of 2012 looks to have continued into the beginning of 2013. Employment levels in the **public admin** sector look to have remained relatively flat whilst the **health** and **education** sectors appear to have grown by 900 and 1,100 jobs respectively. Nevertheless, the public administration sector has come under significant threat of late, as the debate over the relocation of more than 300 DVA jobs in Coleraine to Swansea heats up. This move would come as part of a plan to centralise the DVA service. For now the jobs are safe, as the plan is put 'on hold' pending the outcome of an impact assessment. The DVA is an important employer for the Coleraine area and as such the overall impact is likely to go significantly beyond the 300 jobs that would be directly lost, giving weight to the argument that the jobs should be protected.

Our weak outlook for the public administration sector reflects the on-going government austerity measures and the increased pressure that is likely to result. We forecast a further 4600 jobs losses within the sector by the end of 2015 at which point year on year GVA growth will return to positive territory.

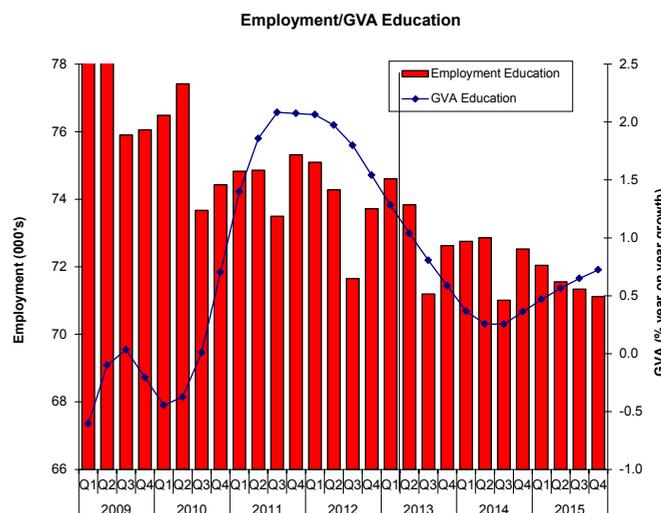
Given the current protection surrounding the education and health sector budgets, which were cemented by June's spending review; job losses in these sectors are forecast to come on a smaller scale than in the public admin sector, with 3,500 and 300 respective job losses forecast by the end of 2015.

The latest population estimates for 2012 suggest net migration of -1,300 for NI, the second consecutive net outflow. However, population continues to rise, being driven by natural increase (births minus deaths). Natural increase has continued to rise over recent years and is exerting pressure on publicly delivered services at both ends of the age spectrum, with high numbers of births and increasing life expectancy at a time when spending is being cut back. Thus the need to find ways of making public finances 'go further' is evident from the forecasts for additional demand.

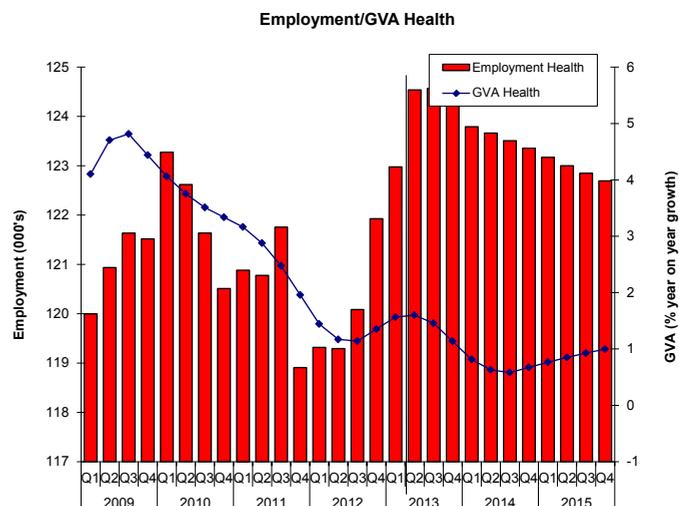
### Public admin (-0.8 % yoy 2013)



### Education (1.0% yoy 2013)



### Health (1.8% yoy 2013)



**Unemployment**

The latest claimant count figures for NI suggest a continued fall in unemployment, with the current level standing at 61,780. Examining the data in detail suggests that the fall in claimants have been felt across all age categories. All major occupation groups also contracted over the same period, with skilled trades accounting for over one third of the decline from January. Off-flows within this category doubled over this 6 month period. Skilled trades occupations are largely linked to the construction sector and thus indicating that the rate of fall in construction employment should begin to slow.

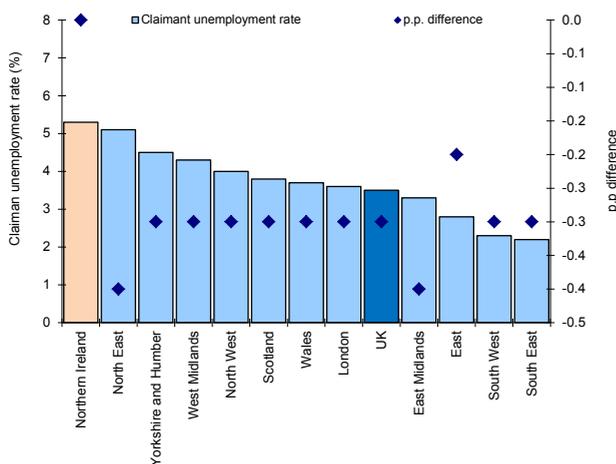
Despite the recent positive data, our estimate suggest that 2013 will continue to be another challenging year in which jobs remain sadly elusive for many in Northern Ireland.

**Wage inflation**

Wage pressures remain muted as there appears to be little evidence that the squeeze on private sector pay settlements has eased, while public sector pay continues to be squeezed as part of the planned public spending cuts. Meanwhile inflation will only be a little weaker than last year, given the sustained pressures from food and, domestic energy bills. However, the position should begin to gradually improve from next year, with earnings starting to steadily pick up as employment growth is likely to improve workers' bargaining position, while inflation is likely to dip back below the 2% target. This should be sufficient to ensure that earnings growth accelerates ahead of inflation by next spring.

Household incomes will also be supplemented by the generous increases in the income tax personal allowance, which rose from £8,105 to £9,440 in April and will increase to £10,000 in April 2014. The Budget Red Book estimates that these changes will reduce tax revenues by almost £6bn in fiscal year 2014-15, which represents a boost to real household disposable income of around 0.5 percentage points (ppts).

Unemployment (Jun 12 - Jun 13)



Furthermore the rise in the number of redundancies in NI has slowed, with the retail sector accounting for over one third of confirmed redundancies in 2013 to date. However, the current rate of claimant unemployment of 5.3% remains the highest of any of the UK regions.

Although the claimant count unemployment has fallen in recent months, there remains to be potential for a further rise as welfare reforms continue, with some claimants being transferred from long term benefits to Jobseeker's Allowance (with the probable reduction in the amount of benefit). Our estimates suggest that the level of unemployment could easily reach 80,000 as a result of welfare reform. This could reduce consumer spending, keep wage levels low on low

## Annex Tables

Table 1: GVA (£m2009)																				
	2011				2012				2013				2014				2015			
	Q1	Q2	Q3	Q4																
Agriculture, forestry and fishing	271	292	327	320	285	287	291	294	283	290	305	308	298	305	307	309	310	312	315	318
Mining and quarrying	96	91	90	88	85	82	80	79	79	77	76	75	75	74	73	72	71	70	69	68
Manufacturing	4408	4457	4496	4560	4490	4542	4540	4526	4520	4574	4577	4579	4639	4693	4736	4779	4786	4831	4890	4949
Electricity, gas, & steam	273	265	261	265	273	280	283	288	286	287	289	292	292	293	295	297	298	300	302	304
Water supply; sewerage, waste management	378	382	376	370	370	370	372	375	371	375	378	380	377	381	384	387	385	388	392	396
Construction	2119	2155	2169	2087	2000	1942	1885	1831	1870	1831	1849	1811	1820	1862	1891	1920	1866	1897	1925	1952
Wholesale and retail trade	3697	3724	3700	3720	3688	3589	3601	3715	3652	3644	3725	3791	3676	3743	3804	3887	3771	3811	3868	3947
Transportation and storage	1049	1046	1015	1014	1019	1005	1005	1016	1013	1021	1036	1041	1049	1057	1063	1068	1087	1091	1096	1101
Accommodation and food service activities	825	838	837	835	833	845	839	848	840	833	833	840	848	860	843	851	853	862	874	887
Information and communication	940	940	973	985	961	964	975	989	983	997	1012	1017	1027	1033	1057	1071	1077	1100	1128	1157
Financial and insurance activities	1277	1264	1263	1230	1259	1253	1269	1275	1280	1251	1261	1270	1265	1281	1305	1330	1303	1330	1354	1378
Real estate activities	2069	2061	2054	2056	2078	2084	2095	2084	2062	2055	2041	2028	2051	2059	2078	2096	2111	2130	2154	2178
Professional, scientific and technical activities	1123	1135	1143	1161	1154	1175	1194	1203	1200	1200	1206	1212	1220	1218	1237	1256	1268	1276	1299	1322
Administrative and support service activities	1003	1002	1021	1043	1064	1097	1106	1107	1082	1100	1115	1129	1130	1127	1139	1151	1174	1187	1197	1206
Public administration and defence	2872	2890	2924	2959	2920	2914	2938	2973	2916	2880	2891	2959	2914	2911	2884	2858	2883	2887	2893	2899
Education	2416	2444	2413	2411	2507	2513	2420	2443	2489	2542	2464	2489	2517	2533	2482	2468	2484	2492	2525	2557
Human health and social work activities	3172	3171	3183	3108	3194	3183	3199	3175	3248	3280	3265	3185	3284	3298	3285	3174	3252	3272	3300	3329
Arts, entertainment and recreation	409	419	420	438	445	440	451	447	447	441	457	460	455	455	462	470	464	472	477	481
Other service activities	393	404	408	399	393	410	424	411	393	407	428	423	403	423	432	427	416	437	443	436
<b>Total</b>	<b>28791</b>	<b>28980</b>	<b>29074</b>	<b>29049</b>	<b>29017</b>	<b>28975</b>	<b>28968</b>	<b>29079</b>	<b>29013</b>	<b>29087</b>	<b>29206</b>	<b>29288</b>	<b>29339</b>	<b>29606</b>	<b>29758</b>	<b>29871</b>	<b>29861</b>	<b>30145</b>	<b>30501</b>	<b>30865</b>
<b>Year on Year Growth (%)</b>																				
Agriculture, forestry and fishing	-16.8	-7.3	8.4	12.8	5.5	-1.7	-11.1	-8.1	-0.9	1.0	4.7	4.7	5.5	5.3	0.7	0.3	3.8	2.2	2.6	3.0
Mining and quarrying	-17.3	-21.5	-17.8	-15.6	-11.4	-9.8	-11.5	-10.3	-6.9	-5.4	-4.6	-4.4	-5.1	-3.9	-4.3	-4.6	-5.9	-6.4	-6.0	-5.5
Manufacturing	4.0	3.1	3.4	3.5	1.9	1.9	1.0	-0.8	0.7	0.7	0.8	1.2	2.6	2.6	3.5	4.4	3.2	2.9	3.3	3.5
Electricity, gas, & steam	0.4	-2.1	-2.8	-1.6	0.0	5.5	8.4	8.7	5.0	2.8	2.3	1.3	1.8	2.1	1.9	1.8	2.2	2.3	2.4	2.4
Water supply; sewerage, waste management	4.1	5.7	2.3	0.7	-2.2	-3.1	-1.1	1.2	0.3	1.3	1.6	1.5	1.7	1.4	1.6	1.8	1.9	2.1	2.2	2.3
Construction	-6.8	-4.9	-2.7	-1.4	-5.6	-9.9	-13.1	-12.3	-6.5	-5.7	-1.9	-1.1	-2.7	1.7	2.3	6.0	2.6	1.9	1.8	1.7
Wholesale and retail trade	1.2	1.3	1.3	-0.5	-0.3	-3.6	-2.7	-0.1	-1.0	1.5	3.4	2.0	0.7	2.7	2.1	2.5	2.6	1.8	1.7	1.5
Transportation and storage	1.5	1.1	-2.1	-2.6	-2.9	-3.9	-1.0	0.2	-0.6	1.6	3.1	2.4	3.6	3.6	2.6	2.6	3.6	3.2	3.1	3.1
Accommodation and food service activities	2.1	2.5	1.6	1.3	1.0	0.8	0.3	1.5	0.8	-1.4	-0.8	-0.9	1.0	3.2	1.2	1.3	0.6	0.2	3.8	4.3
Information and communication	2.2	-0.6	2.2	2.8	2.2	2.6	0.1	0.4	2.3	3.4	3.8	2.8	4.5	3.6	4.5	5.3	4.9	6.5	6.7	8.0
Financial and insurance activities	-3.6	-2.2	0.1	-3.9	-1.4	-0.9	0.4	3.7	1.6	-0.1	-0.7	-0.4	-1.2	2.4	3.6	4.8	3.0	3.8	3.7	3.6
Real estate activities	4.8	4.4	1.3	-1.0	0.4	1.1	2.0	1.3	-0.8	-1.4	-2.5	-2.7	-0.5	0.2	1.8	3.4	2.9	3.5	3.7	3.9
Professional, scientific and technical activities	2.6	-1.2	4.5	6.1	2.7	3.5	4.5	3.7	4.0	2.1	1.0	0.7	1.7	1.5	2.6	3.6	3.9	4.7	5.0	5.3
Administrative and support service activities	7.3	2.4	1.8	4.0	6.1	9.5	8.3	6.2	1.6	0.3	0.8	2.0	4.4	2.4	2.2	2.0	3.9	5.4	5.0	4.7
Public administration and defence	-0.1	1.0	3.3	4.1	1.6	0.8	0.5	0.5	-0.1	-1.2	-1.6	-0.5	-0.1	1.1	-0.2	-3.4	-1.0	-0.8	0.3	1.4
Education	1.5	1.7	3.1	2.0	3.8	2.8	0.3	1.3	-0.7	1.2	1.8	1.9	1.1	-0.3	0.7	-0.9	-1.3	-1.6	1.7	3.6
Human health and social work activities	3.8	3.6	3.6	0.9	0.7	0.4	0.5	2.2	1.7	3.1	2.1	0.3	1.1	0.5	0.6	-0.3	-1.0	-0.8	0.5	4.9
Arts, entertainment and recreation	9.7	9.2	8.2	11.3	8.8	5.1	7.5	2.1	0.4	0.1	1.2	2.8	1.8	3.2	1.2	2.3	2.1	3.9	3.1	2.4
Other service activities	1.2	7.9	8.9	6.3	-0.1	1.5	3.9	2.9	0.0	-0.6	0.8	3.1	2.4	3.9	0.9	0.9	3.4	3.2	2.6	2.0
<b>Total</b>	<b>1.4</b>	<b>1.3</b>	<b>2.1</b>	<b>1.5</b>	<b>0.8</b>	<b>0.0</b>	<b>-0.4</b>	<b>0.1</b>	<b>0.0</b>	<b>0.4</b>	<b>0.8</b>	<b>0.7</b>	<b>1.1</b>	<b>1.8</b>	<b>1.9</b>	<b>2.0</b>	<b>1.8</b>	<b>1.8</b>	<b>2.5</b>	<b>3.3</b>

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Table 2: Employment (000's)																				
	2011				2012				2013				2014				2015			
	Q1	Q2	Q3	Q4																
Agriculture, forestry and fishing	29.8	30.2	33.2	32.5	31.2	31.3	31.3	31.4	30.4	30.1	30.1	30.2	30.2	30.3	30.3	30.3	30.5	30.5	30.3	30.2
Mining and quarrying	1.6	1.6	1.7	1.7	1.7	1.7	1.7	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.5
Manufacturing	77.3	77.6	78.2	79.8	78.3	79.4	79.4	78.9	77.8	78.3	78.1	77.9	77.9	78.0	78.0	78.1	78.2	78.4	78.4	78.4
Electricity, gas, & steam	1.4	1.4	1.3	1.3	1.3	1.4	1.4	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Water supply; sewerage, waste management	5.0	5.1	4.9	4.7	4.7	4.8	4.7	4.7	4.6	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.8
Construction	57.5	57.1	61.1	58.8	57.2	56.0	55.5	53.6	53.6	52.9	52.3	51.8	52.4	52.8	52.9	53.0	53.2	53.4	53.6	53.7
Wholesale and retail trade	138.5	137.5	139.1	143.5	137.0	136.3	136.1	142.4	136.1	134.7	135.3	137.3	135.2	135.2	136.3	138.9	136.3	136.2	137.1	139.3
Transportation and storage	31.9	31.8	30.7	30.8	30.7	30.7	30.7	31.2	30.8	30.8	30.7	30.7	31.0	31.2	31.2	31.3	31.4	31.4	31.6	31.7
Accommodation and food service activities	44.7	44.8	44.7	44.4	44.2	45.3	45.4	46.1	43.7	43.8	43.9	44.0	43.7	44.2	44.6	44.9	44.4	44.7	45.0	45.3
Information and communication	16.4	16.5	17.4	16.6	16.7	16.6	16.9	17.3	17.2	17.6	17.7	17.8	17.9	18.1	18.2	18.4	18.5	18.6	18.7	18.8
Financial and insurance activities	24.3	24.1	24.2	23.1	23.5	23.3	23.4	23.2	22.8	22.7	22.6	22.6	22.7	22.8	22.9	23.0	23.1	23.3	23.4	23.5
Real estate activities	6.9	7.0	7.5	7.4	7.4	7.5	7.5	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.4	7.4	7.4	7.5
Professional, scientific and technical activities	24.0	23.9	23.6	23.7	23.6	23.9	24.4	24.6	24.6	24.4	24.6	24.9	24.8	24.8	24.8	24.9	25.1	25.3	25.4	25.5
Administrative and support service activities	45.5	44.9	44.0	43.2	43.0	44.2	45.4	46.1	45.2	46.3	46.7	47.0	46.6	46.5	46.6	46.6	46.8	47.0	47.1	47.2
Public administration and defence	68.3	66.6	66.2	65.9	66.0	65.3	65.2	65.5	65.6	65.4	64.7	64.1	63.6	63.4	63.0	62.6	62.1	61.7	61.3	60.9
Education	74.8	74.9	73.5	75.3	75.1	74.3	71.7	73.7	74.6	73.8	71.2	72.6	72.8	72.9	71.0	72.5	72.0	71.6	71.3	71.1
Human health and social work activities	120.9	120.8	121.8	118.9	119.3	119.3	120.1	121.9	123.0	124.5	124.6	124.6	123.8	123.7	123.5	123.4	123.2	123.0	122.8	122.7
Arts, entertainment and recreation	15.7	15.9	15.6	16.7	16.8	16.2	16.8	16.5	16.5	16.6	16.6	16.6	16.6	16.7	16.8	16.9	16.9	17.0	17.0	17.1
Other service activities	18.6	18.6	19.0	18.7	18.3	18.1	18.5	18.2	18.2	18.2	18.2	18.2	18.3	18.4	18.5	18.5	18.6	18.7	18.8	18.8
<b>Total</b>	<b>803.1</b>	<b>800.2</b>	<b>807.5</b>	<b>807.1</b>	<b>796.1</b>	<b>795.8</b>	<b>796.3</b>	<b>806.0</b>	<b>795.3</b>	<b>795.1</b>	<b>792.5</b>	<b>795.3</b>	<b>792.5</b>	<b>794.0</b>	<b>793.9</b>	<b>798.5</b>	<b>795.5</b>	<b>795.8</b>	<b>797.1</b>	<b>799.7</b>
<b>Year on Year Growth (%)</b>																				
Agriculture, forestry and fishing	-16.0	-15.0	-0.7	5.3	4.9	3.6	-5.7	-3.3	-2.6	-3.9	-3.8	-3.7	-0.8	0.8	0.6	0.4	0.9	0.6	0.0	-0.7
Mining and quarrying	-4.7	-6.5	1.8	6.2	4.3	6.3	-1.5	-2.4	-3.7	-4.2	-4.2	-5.2	-3.2	-2.6	-2.5	-2.3	-2.7	-2.8	-2.9	-2.9
Manufacturing	-0.7	-0.8	0.9	2.2	1.4	2.4	1.6	-1.1	-0.6	-1.5	-1.7	-1.2	0.1	-0.3	-0.1	0.2	0.4	0.4	0.4	0.4
Electricity, gas, & steam	2.2	5.9	-5.2	-5.7	-3.6	-2.8	12.0	14.1	15.5	8.9	5.6	-0.1	-1.9	-1.1	-1.5	-1.9	-1.2	-0.5	-0.3	-0.2
Water supply; sewerage, waste management	9.8	9.7	-0.4	-4.1	-4.4	-5.3	-2.6	0.9	-2.1	-2.9	-1.6	-2.0	0.5	-0.2	0.2	0.7	1.3	1.5	1.4	1.4
Construction	-18.0	-16.0	-5.6	0.5	-0.6	-1.9	-9.2	-8.8	-6.2	-5.6	-5.7	-3.4	-2.3	0.0	1.2	2.4	1.5	1.1	1.2	1.3
Wholesale and retail trade	-4.7	-5.9	-2.1	-0.9	-1.1	-0.9	-2.1	-0.8	-0.6	-1.2	-0.6	-3.6	-0.7	0.3	0.8	1.2	0.8	0.8	0.5	0.3
Transportation and storage	-0.1	-0.9	-4.7	-4.7	-3.9	-3.4	0.2	1.4	0.5	0.1	0.1	-1.6	0.6	1.3	1.6	1.9	1.2	0.9	1.1	1.3
Accommodation and food service activities	-5.3	-6.2	-5.7	-4.1	-1.2	1.0	1.7	3.9	-0.9	-3.3	-3.4	-4.6	-0.1	0.9	1.5	2.1	1.5	1.2	1.1	1.0
Information and communication	5.3	4.7	8.6	1.7	1.7	0.9	-3.0	4.6	2.6	5.9	4.8	2.9	4.4	2.8	2.9	3.0	3.0	2.7	2.6	2.5
Financial and insurance activities	0.0	-1.0	2.6	-5.0	-3.5	-3.3	-3.0	0.4	-2.9	-2.6	-3.4	-2.8	-0.6	0.4	1.2	1.9	2.0	2.2	2.2	2.2
Real estate activities	1.4	2.6	7.8	7.6	6.9	7.9	-0.3	-0.7	-1.7	-2.8	-1.9	-0.7	0.4	-0.3	0.0	0.4	0.9	1.2	1.5	1.9
Professional, scientific and technical activities	-4.3	-3.6	-4.8	-2.2	-1.4	0.0	3.6	3.7	4.0	1.9	0.7	1.2	0.9	1.7	0.9	0.1	1.2	2.0	2.2	2.4
Administrative and support service activities	4.1	1.5	-3.1	-3.7	-5.5	-1.5	3.3	6.7	5.1	4.7	2.8	1.8	3.1	0.3	-0.2	-0.7	0.6	1.0	1.1	1.2
Public administration and defence	-3.0	-4.9	-1.9	-2.4	-3.3	-1.8	-1.5	-0.6	-0.7	0.1	-0.8	-2.1	-3.0	-3.0	-2.7	-2.3	-2.3	-2.7	-2.7	-2.6
Education	-2.2	-3.3	-0.2	1.2	0.3	-0.8	-2.5	-2.1	-0.6	-0.6	-0.6	-1.5	-2.5	-1.3	-0.3	-0.1	-1.0	-1.8	0.5	-1.9
Human health and social work activities	-1.9	-1.5	0.1	-1.3	-1.3	-1.2	-1.4	2.5	3.1	4.4	3.7	2.2	0.7	-0.7	-0.8	-1.0	-0.5	-0.5	-0.5	-0.5
Arts, entertainment and recreation	2.0	-0.5	-0.5	8.4	7.6	1.6	7.8	-1.4	-2.3	2.4	-1.6	0.5	1.1	1.0	1.4	1.7	1.6	1.4	1.5	1.6
Other service activities	-7.8	-7.9	-1.9	0.2	-1.9	-2.3	-3.0	-3.1	-0.2	0.2	-1.5	0.2	0.4	1.3	1.5	1.8	1.5	1.5	1.6	1.7
<b>Total</b>	<b>-4.0</b>	<b>-4.5</b>	<b>-1.5</b>	<b>-0.6</b>	<b>-0.9</b>	<b>-0.6</b>	<b>-1.4</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.5</b>	<b>-1.3</b>	<b>-0.3</b>	<b>-0.1</b>	<b>0.2</b>	<b>0.4</b>	<b>0.4</b>	<b>0.2</b>	<b>0.4</b>	<b>0.2</b>

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Table 3: Other variables

	2011				2012				2013				2014				2015				
	Q1	Q2	Q3	Q4																	
Unemployment	60.0	59.9	61.3	59.5	62.5	63.0	64.2	63.5	65.8	63.0	63.3	63.8	64.3	65.1	65.1	65.1	65.1	65.1	65.1	64.9	64.8
Wage inflation	-1.0	-0.4	-0.3	-0.4	0.6	1.1	1.0	0.6	0.6	0.7	1.1	1.7	1.9	2.2	2.3	2.4	2.6	2.6	2.9	3.1	
Year on Year Growth (%)																					
Unemployment	6.1	5.5	5.3	4.2	4.1	5.3	4.8	6.7	5.3	0.0	-1.5	0.6	-2.2	3.3	2.8	2.0	1.2	0.0	-0.3	-0.5	

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