

Northern Ireland Quarterly Sectoral Forecasts

Forecast summary

Economic performance was relatively subdued in the UK and in Northern Ireland in 2023 as high inflation, the tight monetary policy environment and elevated uncertainty weighed on activity levels. In 2024, the pace of economic growth is expected to remain relatively modest. Inflation is projected to fall further and monetary policy could begin to loosen though the overall policy stance is likely to remain relatively tight. The outlook for investment is also subdued and the labour market is expected to soften but continue to display some of the resilience observed during 2023. We are forecasting that economic output in Northern Ireland will grow by around 0.4% this year, with the rate of growth then projected to rise to about 1.2% in 2025.

Economic growth projected to remain modest in 2024

In 2023, the performance of the UK and Northern Ireland economies was relatively subdued as the high rate of inflation, the tight monetary policy environment and elevated uncertainty weighed on output levels. The UK economy expanded by an annual rate of 0.1% over the year but output declined in both quarter three and quarter four. The decline in GDP in those two consecutive quarters meant the economy entered into a technical recession at the end of the year. In Northern Ireland, the economy is estimated to have posted a low but positive rate of annual growth. The 2023 Q3 Composite Economic Index data showed an expansion of 0.6% in quarter three, following a contraction in the previous quarter.

In 2024, we expect the rate of annual economic growth to be modest. Inflation is expected to reduce further with a gradual easing of the pressure on household spending power. Provided that inflation does decline, the current tight monetary policy stance could begin to ease gradually. Though it is worth noting that even if policy is loosened somewhat, the monetary policy environment is expected to remain tighter than households and businesses have experienced over much of the past 15 years and weigh on activity levels. The outlook for investment is also subdued but political uncertainty in Northern Ireland could be lower given the recent restoration of the Executive.

In annual terms, we are forecasting that the Northern Ireland economy will grow by around 0.4% in 2024, with the rate of growth then expected to increase to about 1.2% in 2025.

The performance of the labour market is projected to soften this year though still display some resilience

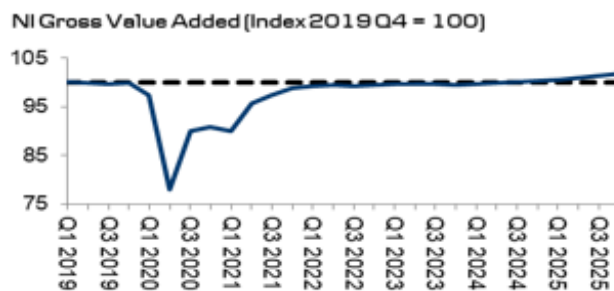
Northern Ireland's labour market displayed a degree of resilience in 2023. The 2023 Q3 data from the Quarterly Employment Survey showed a 0.9% quarterly rise in the number of employee jobs in 2023 Q3.

The HMRC Pay As You Earn data has also been positive with the number of payrolled employees being on an upward trend between May 2023 and January 2024. The unemployment rate in the October - December period was also relatively low at 2.6%.

Given the modest outlook for economic growth in 2024 and the subdued performance of the economy last year, as well as recognising that employment trends tend to lag wider economic developments, we expect the rate of jobs growth to soften this year when compared with 2023. We are projecting that the annual average number of employee jobs in Northern Ireland will increase by around 0.2% in 2024 and by about 0.8% in 2025. We are also forecasting that the unemployment rate in Northern Ireland will average around 3.0% this year and 3.3% in 2025. It's worth noting though that this would still represent a relatively low rate of unemployment.

Forecast summary (%)			
	2023	2024	2025
UK GDP growth	0.1	0.4	1.2
NI GVA growth	0.2	0.4	1.2
NI employee jobs growth	2.0	0.2	0.8
NI unemployment rate	2.5	3.0	3.3
UK unemployment rate	4.0	4.3	4.5
UK CPI inflation rate	7.3	2.5	2.0

Sources: ONS, NISRA, Oxford Economics, Danske Bank Analysis



Sources: Oxford Economics, Danske Bank Analysis

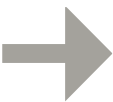
Key factors in the outlook

Inflation projected to ease further



The rate of CPI inflation in the UK was 4.0% in January 2024, unchanged from December 2023, but it has been on a broadly downward trend with the rate of price growth considerably lower than the 10.1% observed in January 2023. Looking beneath the headline figures, the rate of price rises in January 2024 was still above the 2% target for many of the main categories of goods and services on which households spend but the rate of inflation was slightly negative for housing, water, electricity, gas and other fuels as well as for transport, two areas in which inflationary pressures were particularly evident previously. Food and non-alcoholic beverages inflation has also fallen but remains relatively high at 6.9%. We expect the headline rate of inflation to fall further during 2024 and are forecasting that CPI inflation will average around 2.5% this year and about 2.0% next year. This expected fall in the rate of price rises is projected to lead to a gradual easing of the pressure on household purchasing power experienced over the last few years.

Monetary policy expected to begin loosening during 2024 but continue to weigh on output



The Bank of England's Monetary Policy Committee (MPC) announced that Bank Rate would remain at 5.25% in February 2024. The headline rate of inflation has fallen considerably but there are still signs of underlying price pressures across the economy persisting. Core inflation, which excludes food, energy, alcohol and tobacco, has been unchanged between November 2023 and January 2024 at 5.1% and services inflation stood at 6.5% in January 2024. Wage growth is also relatively high with the latest data showing that earnings in Great Britain, excluding bonuses, increased by 6.2% in the year to the October - December 2023 period. These other factors may need to ease before monetary policy is loosened. We think that Bank Rate could begin to reduce from around the middle of 2024 but it is likely to be a gradual process and it is important to note that, even if the main policy rate is lowered, the overall monetary policy stance is still expected to be considerably tighter than households and businesses have experienced over much of the past 15 years and therefore still weigh on output levels to some extent.

Tight monetary policy and uncertainty could drag on investment



With monetary policy expected to remain relatively tight, even if Bank Rate begins to decline during 2024, investment levels are projected to be relatively subdued. Uncertainty, including around the outlook for the economy, economic policy and geopolitical developments could also weigh on business confidence and investment levels this year.

Labour market expected to soften but remain relatively resilient



The labour market in both Northern Ireland and the wider UK has displayed a degree of resilience despite the subdued performance of the economy. Given the continued modest outlook for economic growth, and that labour market impacts tend to lag wider economic developments, we expect the labour market to soften during 2024 with the rate of jobs growth expected to slow and the unemployment rate expected to increase. However, the projected increase to an annual average of around 3.0% in Northern Ireland and 4.3% in the wider UK would still represent relatively low rates of unemployment, particularly when set in the context of the modest expected output growth rates. The resilience of the labour market is likely to continue to offer a degree of support to aggregate household expenditure.

The outlook for the UK economy

The performance of the UK economy was relatively subdued in 2023 as a number of factors weighed on activity levels. The economy entered into a technical recession in the second half of the year as GDP declined in both the third and fourth quarters of 2023 but the annual rate of growth was positive, albeit low at 0.1%. Across the expenditure components in the fourth quarter of the year, **private consumption** declined by 0.1%, following a fall of 0.8% in quarter three. There were also quarterly falls in **government consumption**, **exports** and **imports**. However, **total investment** increased by 1.4% following a 1.4% decline in the previous quarter.

On a monthly basis, UK GDP contracted by 0.1% in December following growth of 0.2% in November. Contributing to December's decline was a 0.1% fall in **services** output and a 0.5% drop in **construction** activity. After increasing by 0.5% in November, **production** output expanded by 0.6% in December but these increases in activity followed a decline of 1.4% in October.

In 2024, we expect the rate of economic growth in the UK to remain relatively modest and are forecasting that GDP will expand by around 0.4%. We then expect the pace of growth to increase to about 1.2% in 2025. We are forecasting that the rate of growth of **private consumption** will remain modest in 2024 at around 0.5% but could then increase to about 1.5% in 2025 as the easing of inflationary pressures feeds through into spending levels and monetary policy potentially loosens. **Investment** is projected to decline in annual terms in 2024 as the tight monetary policy stance and uncertainty weighs on activity but the annual rate of change is expected to turn positive in 2025. **Government consumption** is projected to grow by around 2.8% in 2024 and by about 1.5% next year.

The latest data points to a degree of resilience in the UK labour market though there are some indications that a softening could be observed in 2024. The number of **employee jobs** in the UK increased by 0.6% in the third quarter of last year. In the October - December 2023 period, the **unemployment rate** was 3.8%, down from 4.1% in the previous three-month period and the **employment rate** rose over the same period to 75.0%, up from 74.8%. However, the number of redundancies in quarter four also increased and the estimated number of vacancies continued to fall in the three months to January 2024. We are projecting that the annual average number of **employee jobs** in the UK will increase by around 0.2% in 2024 and by about 0.8% next year. We are also forecasting that the UK **unemployment rate** will average around 4.3% this year and about 4.5% in 2025.

UK CPI **inflation** remained unchanged at 4.0% in January but has been on a broadly downward trajectory and is much lower than the 10.1% observed in January 2023. We expect **inflation** to ease further and are forecasting that the annual rate of price rises will average around 2.5% in 2024 and about 2.0% in 2025.

UK GDP forecasts (%)			
	2023	2024	2025
UK GDP growth	0.1	0.4	1.2
Private Consumption	0.4	0.5	1.5
Investment	2.9	-1.5	0.7
Government Consumption	0.6	2.8	1.5
Exports of Goods and Services	-1.4	-1.0	2.8
Imports of Goods and Services	-1.6	1.0	3.3

Sources: ONS, Oxford Economics, Danske Bank Analysis



Sources: ONS, Oxford Economics, Danske Bank Analysis

Northern Ireland sectoral outlook

Economic growth expected to remain modest in 2024

Northern Ireland experienced a subdued economic performance in 2023 as activity was weighed down by high inflation, the tight monetary policy environment and elevated levels of uncertainty. We estimate that the economy expanded by around 0.2% in 2023. Looking forward, inflation is expected to ease further and monetary policy is projected to begin loosening. It is also hoped that political uncertainty levels will be lower given the recent restoration of the Northern Ireland Executive. However even if it does begin to loosen, the monetary policy environment is still expected to be relatively tight and the investment outlook is subdued. As such, we are projecting that the Northern Ireland economy will grow by around 0.4% in 2024 and that the rate of growth will then increase to about 1.2% in 2025.

We expect the **arts, entertainment & recreation** sector to experience a relatively strong rate of growth in 2024, reflecting its continued recovery from the pandemic and the expected gradual easing in the squeeze on household purchasing power. Output in the sector is projected to grow by around 1.2% in 2024 and about 1.8% in 2025. Other consumer-focused sectors are also expected to grow with output in the **wholesale & retail trade** sector forecast to expand by about 0.6% this year and around 1.8% next year. Activity in the **accommodation & food services** sector is expected to increase by around 0.9% in 2024 and about 1.9% in 2025.

Given the challenging investment outlook resulting from the tight monetary policy environment and uncertainty levels, we expect the **manufacturing** and **construction** sectors to experience a relatively subdued performance in 2024. The manufacturing component of the 2023 Q3 Northern Ireland Index of Production was in negative territory in the first three quarters of last year. Looking forward, manufacturing output is expected to grow by around 0.3% in 2024 and by about 0.6% in 2025. Activity in the construction sector is forecast to contract by about 0.6% this year but then grow by about 1.9% next year.

The business services sectors, which are traditionally strong performers in Northern Ireland, are expected to grow at a faster rate than the overall economy in 2024 and 2025. The **administrative & support services, professional, scientific & technical services** and **information & communication** sectors are forecast to experience output growth of around 1.1%, 0.9% and 0.7% respectively in 2024. These three sectors are then projected to grow at rates of about 1.9%, 1.8% and 2.0% respectively in 2025.

Projected sector contributions to GVA growth in 2024



Sources: Oxford Economics, Danske Bank Analysis

GVA (%)	2024	2025
Arts, entertainment & recreation	1.2	1.8
Administrative & support	1.1	1.9
Professional, scientific & tech	0.9	1.8
Accommodation & food service	0.9	1.9
Human health & social work	0.8	0.8
Electricity, gas, steam & air	0.7	1.5
Information & communication	0.7	2.0
Public administration & defence	0.7	0.1
Education	0.6	0.3
Wholesale & retail trade	0.6	1.8
Agriculture, forestry & fishing	0.6	1.0
Manufacturing	0.3	0.6
Transportation & storage	0.0	1.8
Real estate activities	-0.1	0.5
Financial & insurance	-0.2	1.3
Construction	-0.6	1.9
Water supply	-1.0	0.8
Other service activities	-1.2	1.8
Mining & quarrying	-1.5	0.2
Total	0.4	1.2

Sources: Oxford Economics, Danske Bank Analysis

Northern Ireland labour market outlook

The labour market is expected to soften this year but continue to show a degree of resilience

The Northern Ireland labour market displayed a degree of resilience during 2023. The 2023 Q3 Quarterly Employment Survey reported that the number of employee jobs grew by 0.9% in the third quarter of 2023 and was 2.4% higher than in 2022 Q3. The employment rate in October - December 2023 was 71.3%, the highest rate since the first quarter of 2020. The HMRC Pay As You Earn data also shows that the number of payrolled employees has been on an upward trend between May 2023 and January 2024. However, there are some signs that the labour market could be beginning to soften. The unemployment rate increased from 2.2% in the third quarter of last year to 2.6% in the final quarter and the annual number of confirmed redundancies in the twelve months to January 2024 was more than double that in the previous year. Given these signs of softening and the expectation of another modest economic performance in 2024, we are projecting that the growth rate of the annual average number of employee jobs will slow to around 0.2% this year before increasing to about 0.8% in 2025.

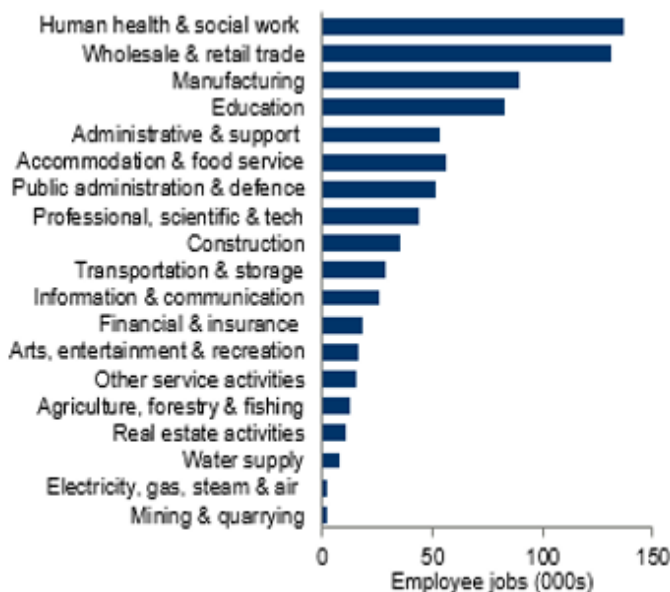
With positive output growth expected in the consumer-focused parts of the economy this year, we expect to see a rise in the annual number of employee jobs in these sectors. We are forecasting that the annual average number of employee jobs in the **accommodation & food services** and the **arts, entertainment & recreation** sectors will increase by around 0.9% this year and then by about 1.1% next year. We also expect employment in the **wholesale & retail trade** sector to grow by around 0.5% in 2024 and about 1.0% in 2025.

The **information & communication** sector is projected to experience an increase in the number of employee jobs of around 0.9% in 2024 and about 1.8% in 2025. The 2023 Q3 data from the Quarterly Employment Survey showed strong jobs growth last year, with the number of jobs in the sector 5.5% higher in 2023 Q3 compared with the same quarter in 2022. The other business services sectors are also projected to experience relatively strong employee jobs growth. Employment in the **professional, scientific & technical services** sector is expected to grow by around 0.8% this year then by 1.9% next year. The number of jobs in the **administrative & support services** sector is expected to grow by about 0.4% this year and 1.2% in 2025.

We are forecasting that the annual average number of employee jobs in the **manufacturing** sector will fall modestly as the weak investment outlook and skills shortages impact the sector. The number of employee jobs is projected to decline by about 0.2% this year but then grow by 0.1% in 2025. The employment outlook for **construction** is also relatively weak with the number of jobs projected to decline by about 0.2% this year then grow by about 0.4% next year.

Northern Ireland's **unemployment rate** was 2.6% in the October - December 2023 period, higher than the previous three-month period but below both its long-term average and the UK rate of 3.8%. We are forecasting that the unemployment rate in Northern Ireland will rise to an average of around 3.0% in 2024 and 3.3% in 2025, though these would still represent relatively low rates of unemployment.

Projected employee jobs per sector in 2024



Sources: Oxford Economics, Danske Bank Analysis

Employee jobs (%)	2024	2025
Accommodation & food service	0.9	1.1
Arts, entertainment & recreation	0.9	1.1
Information & communication	0.9	1.8
Professional, scientific & tech	0.8	1.9
Human health & social work	0.6	1.1
Wholesale & retail trade	0.5	1.0
Administrative & support	0.4	1.2
Education	0.3	0.4
Agriculture, forestry & fishing	0.0	0.1
Transportation & storage	0.0	1.0
Manufacturing	-0.2	0.1
Construction	-0.2	0.4
Real estate activities	-0.3	0.4
Financial & insurance	-0.3	1.0
Public administration & defence	-0.4	0.0
Other service activities	-0.8	0.5
Mining & quarrying	-1.0	-0.5
Water supply	-1.0	-0.3
Electricity, gas, steam & air	-1.2	-0.3
Total	0.2	0.8

Sources: Oxford Economics, Danske Bank Analysis

Risks and uncertainties

There are several risks and uncertainties which may impact upon the economy and the forecasts presented above. These include:

- **Persistent inflation** – Inflation in the UK remains elevated – it was unchanged at 4.0% in January, double the 2% inflation target but has been on a broadly downward trajectory. We expect inflation to ease further this year with the rate of price rises averaging around 2.5% in 2024 and about 2.0% in 2025. However, if inflation runs higher than forecast and falls more slowly than anticipated, it has the potential to continue to constrain economic output. Factors which could see this come about include rising wages feeding into increased prices or commodity prices rising again. If inflation runs higher than expected, this could weigh on household spending power and the Bank of England's Monetary Policy Committee may need to keep Bank Rate at its current level for a longer period of time or potentially increase it to contain the rate of price rises, which in turn could further dampen economic growth.
- **Skills shortages and recruitment challenges** – Across the economy, many businesses are still experiencing some challenges when it comes to filling job vacancies with the skills that they require. The *2023 Q4 Quarterly Economic Survey* published by the *Northern Ireland Chamber of Commerce and Industry* and *BDO* reported that 85% of the manufacturing firms and 74% of the services businesses that responded to the survey were experiencing difficulties when it came to recruiting staff. While the labour market is starting to show signs of softening, competition for workers remains high and this is one of the reasons that we think the extent of the expected rise in unemployment may be lower than what might typically be assumed given the modest performance of the economy. Skills shortages and recruitment challenges could weigh on economic output levels and taking steps to address this issue, alongside other labour market challenges such as low productivity and high levels of economic inactivity, are examples of policy areas in Northern Ireland that could be focused on in an attempt to raise the economy's long-term growth potential.
- **Geopolitical uncertainty** – Geopolitical uncertainty is currently particularly elevated given the war in Ukraine and events in the Middle East. Geopolitical developments are highly uncertain but have the potential to lead to volatility in commodity prices and to disrupt supply chains, which could add to inflationary pressures and weigh on wider economic activity levels.

Disclaimer and copyright

Danske Bank Disclaimer

Issued by Northern Bank Limited trading as Danske Bank (the “Bank” or “we”).

This report is for information purposes only, is not intended as an offer or solicitation, nor is it the intention of the Bank to create legal relations on the basis of the information contained in it. So far as the law or regulation allow, we disclaim any warranty or representation as to the accuracy or reliability of the information and statements in this report. We will not be liable for any loss or damage suffered from relying on this report. This report does not purport to contain all relevant information. Recipients should not rely on its contents but should make their own assessment and seek professional advice relevant to their circumstances.

Danske Bank is a trading name of Northern Bank Limited which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered in Northern Ireland (registered number R568). Registered Office: Donegall Square West Belfast BT1 6JS. Northern Bank Limited is a member of the Danske Bank Group.

This report takes account of events and economic data published up to Friday 1st March 2024.



The information in this document has been prepared in conjunction with Oxford Economics.

Oxford Economics Disclaimer

Because of the uncertainty of future events and circumstances and because the contents are based on data and information provided by third parties upon which Oxford Economics has relied in producing its reports and forecasts in good faith, Oxford Economics does not warrant that its forecasts, projections, advice, recommendations or the contents of any report, presentation or other document will be accurate or achievable and Oxford Economics will not be liable for the contents of any of the foregoing or for the reliance by the customer on any of the foregoing.



Copyright

© Copyright Danske Bank / Oxford Economics. 2024. All rights reserved.

The contents of this publication, either in whole or in part, may not be reproduced, stored or transmitted without prior written permission from Danske Bank / Oxford Economics.

Contact details



Conor Lambe

Chief Economist & Head of Strategy

Email: conor.lambe@danskebank.co.uk

LinkedIn: [Conor Lambe](#)