Economic Research Digest Quarter 3 2023

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:

- NI Composite Economic Index results for 2023 Q2 indicate a 1.7% increase in output in the year up until Q3.
- The latest estimates from the ONS indicate that the annual growth rate of average weekly earnings, including bonuses, reached 8.5% (7.8% excluding bonuses) in the second quarter of 2023, marking the highest annual regular pay growth rate since comparable records were initiated in 2001.
- In Q2 2023, Northern Ireland's economic output decreased by 0.5%, while the UK's GDP increased by 0.2%. Over the year, NI's output increased by 1.7% compared to the UK's 0.4% growth. The production sector in NI saw a significant increase, while services and retail sectors had mixed results. The private sector in NI contracted due to higher interest rates and inflation.

** 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*

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The Economic Research Digest is issued by:

Analytical Services, Department for the Economy analyticalservices@economy-ni.gov.uk

Economic Outcomes

COMPETITIVENESS

NICEI Publication and Tables Q2 2023 **Published by NISRA**

- In the second quarter of 2023, the Northern Ireland Composite Economic Index (NICEI) indicates a 0.5% decrease in economic output for the quarter, but a 1.7% increase over the year. On a rolling four quarters basis until June 2023, there was a 0.9% increase in output. As of now, NI's economic output stands 5.8% above the pre-pandemic levels observed in Quarter 4 of 2019.
- The decline in the NICEI for the latest quarter (0.5%) can be attributed to reduced activity in the Services sector (0.4 pps), the Construction Sector (0.3 pps), and a slight decrease in the agriculture sector (-0.1 pps). Conversely, the production sector and public sector made positive contributions (0.3 pps and 0.1 pps respectively).
- Though the measures aren't entirely comparable, a comparison with the UK reveals that NI's output decreased over the quarter (-0.5%), while the UK saw an increase (0.2%). Over the year, NI exhibited stronger growth (1.7% vs 0.4%), and in the rolling annual average (0.9% vs 0.8%). When contrasted with the pre-pandemic level, economic activity in NI has surged, whereas the UK experienced a reduction (5.8% vs -0.2%).
- In terms of NI's Private sector output, as gauged by the NICEI, there was an 0.8% decrease over the quarter, but a 1.9% increase over the year. On a rolling four quarter basis, private sector output increased by 0.7%, and in comparison to the pre-pandemic level recorded in Quarter 4 of 2019, it grew by 5.8%.
- Regarding the NICEI Public Sector (employee jobs) index, there was a 0.2% increase over the quarter, a 1.3% increase over the year, a 1.9% increase on a rolling four quarter basis, and a 5.8% increase compared to pre-pandemic levels.

The Resolution Foundation Labour Market Outlook **Published by Resolution Foundation**

- In the past year, the UK has witnessed a surge in strikes, reaching levels not seen since the 1980s. These strikes have been concentrated primarily in the public and transport sectors, which boast the highest rates of unionization. While the public and publicly funded sectors have experienced a greater impact on pay compared to the private sector overall, there are exceptions. Specifically, highly unionized transport workers have not experienced an average real pay decrease but have engaged in numerous strikes. Conversely, un-unionized personal service workers have refrained from striking but have faced significant pay reductions.
- Furthermore, there has been a notable rise in job vacancies within the public sector. Over the long term, the necessity to adequately staff the public sector may prompt the Government to address or rectify some of the relative pay reductions in the coming years.
- In the most recent announcement, in line with the recommendations of the public sector pay review bodies, the Government revealed plans for pay increases in 2023-24 ranging from 5-7% for various groups of public sector workers. While teachers' unions accepted the 6.5% offer, the 6% proposed to junior doctors was rejected by the British Medical Association.
- Over the past two years, the UK has experienced a level of industrial action reminiscent of the 1980s. In the 12 months leading up to May 2023, there were 3.9 million working days lost to strikes, a stark contrast to the average of 450,000 per year during the 2010s. This peak in 2023 is particularly noteworthy given the decline in union membership over recent decades; only 22% of employees were union members in 2022, a significant drop from the 39% in 1989.
- Across the economy, total average weekly pay, adjusted for CPI inflation, was 4.1% lower in real terms in the three months leading up to May 2023 (the latest available data point) compared to the same period in 2021. However, the impact has been more severe in the public sector, where average weekly pay in the three months leading up to May 2023 was 9.2% below its real value from two years prior. This is three times the decline experienced in the private sector (-2.9%) over the same period.
- The RPI has seen an 11-percentage point increase compared to CPI since 2010, painting a grimmer picture of real pay growth over the period. Using RPI, there is a reported 30% decrease in junior doctors' pay from August 2010 to March 2023, compared to a 19% drop when using CPI. This still

represents a substantial decline, far greater than the 6.6% decrease in average real public sector pay over the same period.

PRODUCTIVITY AND GROWTH

Remote Working in Northern Ireland 2023 (ulster.ac.uk) **Published by University of Ulster**

- The Covid-19 pandemic ushered in a substantial transformation in the realm of work and workplaces, largely driven by the swift adoption of digital technologies. This shift encompassed where many of us worked, how we communicated with colleagues, and how transactions were conducted.
- Of particular interest to this research is the surge in remote work brought about by pandemic-related restrictions. Businesses adapted to these changes, introducing many staff members to a new style of work. Now, as the world moves into a post-pandemic phase, both employers and employees are navigating a 'new normal' that incorporates a hybrid approach, combining office work with another location, often the home.
- The future remains uncertain, and the evolution of hybrid work approaches may be influenced by changing economic conditions. The current tight labour market, characterized by historically low unemployment rates in many advanced economies, adds an important backdrop. A significant increase in unemployment could alter the dynamics of the labour market and reshape the questions addressed in this research.
- Many employers acknowledged that the concept of being "tethered to a location" had evolved since the 2000s, with digitization and sectoral changes enabling more individuals to work remotely. Despite the challenges and stresses associated with mandated work-from-home arrangements during the pandemic, employees viewed remote work as a valuable benefit not easily relinquished.
- Employers faced a balancing act between two inclinations: 1) ensuring staff presence onsite for productivity and management, and 2) recognizing the competitive advantage, such as improved staff retention and recruitment, in offering higher levels of remote work.
- The research underscores that the future of remote work remains a subject of ongoing debate. Concerns persist regarding the potential impact of remote work on office spaces and urban centres. Additionally, there is a growing consensus, particularly in 2021 and 2022 as new frameworks were being developed, that hybrid models could present challenges for HR management. As 2022 progressed, there was an increasing sentiment that many employers harboured a desire for a return to office-based work.

NIESR October GDP Tracker **Published by NIESR**

- Monthly GDP grew by 0.2% in August, higher than our previous forecast of 0.1%, following a contraction of 0.6% in July. This monthly figure was driven by increasing output in the services sector, with particularly notable growth in the professional, scientific and technical activities sub-sector (including services such as architectural and engineering activities), as well as the education sub-sector. Besides the base effect resulting from the impact of strikes in July, growth in the education sub-sector may have been enhanced by a methodological choice by the ONS, which treats school attendance as constant, so that summer holidays do not reduce the estimate of education output in months like August. Services growth in August was partially offset by declining output in the production and construction sectors, which saw contractions of 0.7 and 0.5%, respectively.
- GDP grew by 0.3% in the three months to August relative to the previous three-month period. We now forecast GDP to contract by 0.1% in the third quarter of 2023, driven by declining output in all major sectors. Our early forecast for the fourth quarter of 2023 sees GDP growing by 0.2%, entailing our central forecast does not expect a recession in 2023. These forecasts remain broadly consistent with the longer-term trend of low, but stable economic growth in the United Kingdom. It should be noted that this growth profile was not affected by the recent revisions to GDP estimates.

Wage Tracker September 2023 **Published by NIESR**

- The latest ONS estimates suggest that the annual growth rate of average weekly earnings, including bonuses, was 8.5% in the three months to July, while pay growth excluding bonuses was 7.8% – representing the highest annual regular pay growth rate recorded since comparable records began in 2001. Our forecast for the third quarter of this year sees economy-wide regular pay growing at 7.5% and total pay growth at 7.2%.

- Private sector regular pay grew by 8.1% in the three months to July– representing one of the largest growth rates seen outside of the pandemic period - while regular pay in the public sector grew by 6.6%. Our forecast sees these figures at 7.5% and 7.2%, respectively, in the third quarter of 2023.
- Given today's data on the growth rate of economy-wide total average earnings, the state pension is set to rise by 8.5% in Spring due to the pensions triple lock. The required increase in government spending to fund this commitment may well squeeze the narrow margins the Chancellor left himself for meeting his fiscal targets.
- Services sector total AWE annual growth has been on an increasing path since the initial pandemic-related plummet, currently at 8.8% in the second quarter of 2023. Since pay in the services sector makes up most of the input costs in this sector, it is the main driver of services inflation. Elevated wage growth in this sector will concern monetary policymakers, who may take this as a sign that services inflation will continue to generate persistence in underlying inflation in the United Kingdom, despite monetary tightening.

LIVING STANDARDS, WELLBEING AND PROSPERITY

Living Standards, Poverty and Inequality in the UK: 2023 **Published by the Institute for Fiscal Studies**

- Median disposable household income increased by 0.5% in 2021-22 but remained 1.2% lower than pre-pandemic levels. The increase was due to a 4.8% rebound in nominal incomes, offset by a rise in inflation.
- Housing costs fell over the pandemic, resulting in a 0.2% increase in average incomes after deducting housing costs. Poorer households in the bottom third saw a 1.5% rise before housing costs and 2.7% after due to benefit income rise and lower housing costs.
- Benefit receipt increased across all earnings levels, with a 26% rise in disability benefits among working-age households.
- Individuals aged 50-70 who transitioned from employment to inactivity in 2020-21 were more likely to experience poverty.
- Absolute poverty rates fell in 2020-21 due to changes in benefit policies, with a notable impact from the £20 universal credit uplift.
- Cost of living payments significantly boosted discretionary spending for recipients, particularly on groceries and entertainment.
- Renters, especially in the private sector, are more likely to face low living standards, higher poverty rates, and material deprivation. Low-income households, especially younger generations, are increasingly in the private rented sector, with higher costs and lower quality housing.
- Local housing allowance rates were increased to the 30th percentile of local rents, but frozen since, leading to a decline in affordability for housing benefit recipients. Affordable properties in 2023Q1 were more likely to have lower energy ratings, higher heating costs, and be located in lower-employment, higher-crime areas.

CPI Tracker October 2023 **Published by NIESR**

- Annual consumer price inflation was 6.7% in September, unchanged from August. This figure reflects decreases in the annual rates of inflation of items such as food and alcoholic beverages, and furniture and household goods being offset by price rises in motor fuels and categories such as transport and education.
- Food inflation fell to an annual rate of 12.1%, down from 13.6% in August. Still, that it remains so elevated is concerning since there is no government support to help households (especially lower income households, who spend a greater part of their incomes on food) offset this cost.
- Core CPI was 6.1% in the year to September, down from 6.2% in August; NIESR's measure of trimmed-mean CPI inflation fell from 7.9% to 7.3% on the month; and annual services CPI inflation rose marginally from 6.8% in August to 6.9% in September. These measures indicate that underlying inflationary pressures remain elevated and continue to generate persistence in the headline rate.

- The ONS recently released an article on the role of labour costs and profits in UK inflation from 2010 to 2023. The article finds that the GDP deflator (a good measure of domestic inflation) rose by 7.9% in the year to the second quarter of 2023; of this, higher unit labour costs contributed around 3.3 percentage points while higher unit profits contributed about 1.6 percentage points, in line with previous inflation cycles. Thus, the article finds that there has been no clear increase in the relative contributions of each of these components in domestic inflation in recent quarters compared to the period studied.

Innovation and Enterprise

INNOVATION

The impact of Brexit on the Internationalisation, Innovation, and Turnover of UK SMEs: Implications for the UK's Industrial Strategy and the 'Levelling Up' Agenda **Published by Enterprise Research Centre**

- Between 2018 and 2021, Brexit was identified as a significant business obstacle by a notable proportion of SMEs, ranging from 20.3% to 24.5%, with a noticeable uptick observed in 2021. The sectors most profoundly affected were Transport, Retail, and Food Service/Accommodation.
- The impacts of Brexit, such as increased import/export costs and restricted investment, exhibited wide-ranging variations by sector, affecting anywhere from 9.6% to 76.9% of SMEs.
- Approximately 33% of SMEs perceived Brexit as a factor contributing to projected turnover reduction, with discernible disparities based on geography and sector.
- In terms of capital investment plans (including premises and machinery), between 12.7% and 15.7% of SMEs with established plans acknowledged Brexit's influence from 2018 to 2021, with the most pronounced impacts seen in the production and construction sectors.
- For development plans involving new products or services, between 13.7% and 20.9% of SMEs with established plans cited Brexit as an influencing factor from 2018 to 2021, with the most notable impact again observed in the production and construction industries.
- R&D investment plans exhibited an oscillating trend from 2018 to 2021, with a surge noted in 2021. The sector-specific impact was uniform, with the most significant influence experienced in the transport, retail, and food service/accommodation sector.
- Regarding export and market expansion plans, 30.2% of SMEs with established plans acknowledged Brexit's influence in 2018, a figure which slightly decreased to 25.7% by 2020, but then surged to 34.7% in 2021. The most prominent influence was noted in the production and construction sector.
- Brexit's perception as a major obstacle had negative repercussions on various aspects of SMEs' future operations, including a potential 15% reduction in their aim to grow sales, and a 20% decrease in future capital investments.
- Innovative SMEs encountered greater challenges due to Brexit, including reduced investment, heightened difficulties in raising capital, and shifts in import/export costs.
- Both innovative and export-oriented SMEs anticipated changes in their turnover due to Brexit, though to varying degrees. This underscores the intricate and diverse nature of Brexit's impact on the financial expectations of SMEs.
- The connections between 'levelling-up' metrics, such as Gross Value Added (GVA) per hour worked (£), and the potential impacts of Brexit on internationalization, turnover, and innovation of SMEs emphasize the multifaceted and varied effects of Brexit on different UK regions. This highlights the necessity for tailored policy initiatives to address the distinct challenges faced by SMEs in each region.

SME Performance in Core and Peripheral UK Regions: Exploring the Role of Innovation and Firm Networks during times of Financial Distress **Published by Enterprise Research Centre**

- The impact of Covid-19 was felt across both peripheral and core regions, with a slightly higher effect observed in the peripheral areas. During the study period of 2015-2021, several peripheral regions demonstrated lower performance compared to core regions. This could be attributed to the stronger resource base and greater access to scientific knowledge and information in core regions. Additionally, proximity to policy-making units emerged as a notable advantage for core regions.

- However, there is a positive aspect to consider. SMEs focusing on innovation and internalizing network externalities are better positioned to not only weather competition but also thrive and expand during economic downturns. Innovation serves as an effective hedge for survival, growth, and leadership in uncertain times, and network capital can assist SMEs in managing risks.
- The study underscores the pivotal role played by innovation in SME performance. It is a crucial strategy for achieving resilience and adaptability in uncertain environments, enabling peripheral firms to stay competitive and reduce over-reliance on government support.
- The research also emphasizes the significance of firms' networks. However, their impact is found to be more pronounced in core regions compared to peripheral ones. This underscores the need to bolster networking and collaborative practices in peripheral regions through initiatives like knowledge creation, resource sharing, and information exchange.
- Financial hurdles can impede SME performance, but government support proved instrumental in helping organizations navigate through the challenges posed by the Covid-19 pandemic. Furthermore, our findings indicate that variables such as internationalization strategies, as reflected by exporting activities, can also bolster SME performance.
- In summary, four key policy points based on this study are:
    - Encouraging innovation in peripheral regions can serve as an effective policy to withstand external shocks and foster regional growth.
    - Strengthening firm networks and collaborations between peripheral and core regions can serve as a catalyst for SME performance, economic parity, and prosperity.
    - While both innovation and firm networks are vital for SME growth, in times of economic uncertainty, innovation emerges as a more potent strategy for maintaining competitiveness.
    - Government support can alleviate the adverse impacts of financial obstacles on firm performance during uncertain times, enabling businesses to remain viable.

RESEARCH AND DEVELOPMENT

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

SECTORS AND TECHNOLOGIES

Components of GDP: Key Economic Indicators **Published by House of Commons Library**

- GDP can be analysed in terms of the output produced by different industries, or in terms of spending by households, business, and government.
- GDP fell by 0.5% in July 2023, following growth of 0.5% in June 2022.
- Figures up to the end of 2021 are in the process of being revised.
- Services are the largest part of the economy – making up about 82% of output in 2021. Service sector output fell by 0.5% in July 2023.
- Manufacturing output fell by 0.8% in July 2023. Manufacturing is part of the wider production sector; production sector output fell by 0.7% in July 2023.
- Construction sector output decreased by 0.5% in July 2023.
- Household consumption is the largest element of expenditure across the economy, accounting for 61% of the total in 2022.
- In Apr-Jun 2023, household consumption grew by 0.7% compared with the previous quarter.
- Government consumption increased by 3.1% on the quarter and there was no growth in investment (GFCF). Exports were down 2.5% and imports increased by 1.0%.

NI Quarterly Index of Services **Published by NISRA**

- Retail output in NI increased by 0.5% over the quarter to Quarter 2 2023 and increased by 1.2% over the year.
- GB RSI output saw an increase of 0.4% over the quarter and a decrease of 2.5% over the year.
- NI RSI output remains 3.6% below the pre-Coronavirus pandemic level seen in Quarter 4 2019 while GB RSI output is now 1.6% below its Quarter 4 2019 level.

- When the most recent four quarters are compared to the previous four quarters the NI RSI decreased by 3.0% and the GB RSI decreased by 4.8%.
- NI RSI output is 6.7% below the series high seen in Quarter 3 2020.
- NI RSI output is 6.1% higher than the lowest point (Quarter 1 2021) since the series began.

NI Quarterly Index of Services **Published by NISRA**

- The NI IOS decreased by 0.8% over the quarter (April - June) from the series high seen in Q1 2023 but increased by 1.5% over the year.
- UK output increased by 0.1% over the second quarter of 2023 and saw an increase of 0.5% over the year.
- NI services output is now 6.0% above the pre-Coronavirus pandemic level seen in Quarter 4 2019 while UK services output remains 0.9% below its Quarter 4 2019 level.
- When the most recent four quarters are compared to the previous four quarters the NI services sector increased by 0.5% while the UK services sector increased by 1.4%.
- NI services output is 36.2% higher than the lowest point (Quarter 2 2020) since the series began.
- Over the quarter the Wholesale and retail trade; repair of motor vehicles and motorcycles; accommodation and food service sector decreased by 0.4%. The Business services and finance sector increased by 1.3%; the Other services sector increased by 0.9%; and the Transport, storage, information and communications sector also increased by 1.0%.
- Over the year there were increases seen in Wholesale and retail trade; repair of motor vehicles and motorcycles; accommodation and food service sector (0.3%); the Business services and finance sector (9.2%); and the Other services sector (3.4%). The only sector to show a decrease was the Transport, storage, information & communication sector (4.2%).

Northern Ireland Quarterly Index of Production **Published by NISRA**

- The NI IOP increased by 1.6% over the quarter (April - June) and by 1.6% over the year.
- The UK IOP reported an increase of 0.8% over the quarter and a decrease of 0.8% over the year.
- When the most recent four quarters are compared to the previous four quarters, the NI production sector had no change (0.0%) while the UK production sector decreased by 2.5%.
- The NI IOP is 6.1% above the pre-Coronavirus pandemic level seen in Quarter 4 2019, while the UK is 3.8% above its Quarter 4 2019 level.
- The quarterly increase in NI production output of 1.6% was driven by increases in Manufacturing (1.9%) and Mining and quarrying sector (5.1%). This was offset by decreases in Electricity, gas, steam and air conditioning supply (0.8%) and Water supply, sewerage and waste management (Inc. recycling) (2.3%).
- The annual increase in NI production output of 1.6% was driven by increases in Manufacturing (3.4%) and Mining and quarrying (10.5%). This was offset by decreases in Electricity, gas, steam and air conditioning supply (7.0%) and Water supply, sewerage and waste management (Inc. recycling) (9.0%).

ENTREPRENEURSHIP

Global Entrepreneurship Monitor, Northern Ireland Report 2022 **Published by Global Entrepreneurship Monitor**

- The Global Entrepreneurship Monitor (GEM) provides data on entrepreneurial activity in 49 countries in 2022, emphasizing its importance for economic growth, competitiveness, and job creation.
- In Northern Ireland, the total early-stage entrepreneurship (TEA) rate was 8.7% in 2022, a slight decrease from 9.1% in 2021, but a significant improvement from 5.4% in 2020.
- The TEA rate in Northern Ireland is lower than the UK average (11%) and England's rate (11.5%), though the difference is statistically insignificant.

- The female TEA rate in Northern Ireland increased from 4.5% in 2020 to 7.3% in 2022, while the male rate dropped from 11% in 2021 to 10.2%.
- TEA rates tend to vary by age, with those over 30 more likely to be involved in entrepreneurial activity, although the pandemic caused shifts in trends.
- Over 20 years, Mid-Ulster Council consistently had the highest TEA rates in Northern Ireland, while Derry City and Strabane had the lowest.
- Female TEA rates were generally around three fifths of male rates, with Belfast being the only council with higher female TEA rate.
- Nearly half of non-entrepreneurial working age adults in Northern Ireland perceived good start-up opportunities locally in 2022.
- The proportion of non-entrepreneurial working age adults in Northern Ireland expecting to start a business in the next three years slightly decreased from 20.1% in 2021 to 18.1% in 2022.
- Fear of failure among potential entrepreneurs in Northern Ireland increased from 56.5% in 2021 to 60.6% in 2022.
- In 2022, only 17.1% of early-stage business owners in Northern Ireland expected to achieve high growth, down from 21.3% in 2021.
- Motivations for starting a business included making a difference, building wealth, continuing a family tradition, or earning a living due to job scarcity.
- In 2022, the primary motivation for entrepreneurs in Northern Ireland was to earn a living due to job scarcity, followed by making a difference, building wealth, and continuing a family tradition.

BUSINESS GROWTH

Monthly Statistics of Building Materials and Components - August 2023 **Published by the Department for Business & Trade**

- The material price index for 'All Work' decreased by 4.0% in July 2023 compared to the same month the previous year.
- Imports of construction materials increased by £155 million in Quarter 2 2023 compared to the previous quarter, an increase of 2.8%.
- Exports of construction materials increased by £16 million in Quarter 2 2023 compared to the previous quarter, an increase of 0.8%.

BUSINESS REGULATION

The Customs (Northern Ireland) (EU Exit) (Amendment) Regulations 2023 **Published by HM Revenue & Customs**

- The Customs (Northern Ireland) (EU Exit) (Amendment) Regulations 2023 will affect UK businesses that are moving goods or parcels from Great Britain into Northern Ireland. It will also affect UK or Crown Dependency businesses claiming a relief from customs duty in respect of goods imported into the UK as a result of their entry into Northern Ireland; or removed to Northern Ireland from Great Britain.
- The measure is expected to have a positive impact on Northern Ireland businesses, by expanding the range of goods movements that will not be subject to customs duty and reducing the administrative burden of processes associated with claiming a duty waiver.
- HMRC will incur negligible costs because of this change due to the operational costs of the digital service that will collect information from undertaking leads and registering additional businesses for the UK Internal Market Scheme.

Succeeding Globally

TRADE

Trade: Key Economic Indicators **Published by House of Commons Library**

- In 2022, the UK's combined exports of goods and services amounted to £815 billion, while imports totalled £902 billion. The European Union (EU) accounted for 42% of UK exports and 48% of imports during the same year.
- Typically, the UK imports more than it exports, resulting in a trade deficit. This was exemplified by a deficit of £231 billion on trade in goods, which was partially offset by a surplus of £144 billion on trade in services in 2022. Overall, the trade deficit stood at £87 billion.
- Specifically with the EU, the UK experienced a trade deficit of £92 billion in 2022, contrasted with a £5 billion surplus with non-EU countries.
- Looking at more recent data, the trade deficit with all countries widened to £15.9 billion in the three months leading up to July 2023, compared to a £12.1 billion deficit in the preceding three months. During this period, exports decreased by 2.6% in cash terms, while imports saw a 0.8% decrease.
- Taking into account investment income and transfers along with trade, the current account showed a deficit of £94 billion in 2022, a significant increase from the £34 billion deficit in 2021. This meant the current account deficit was 3.8% of GDP in 2022, compared to 1.5% in 2021.

Structure of International Goods Trade for Ireland and Northern Ireland **Published by ESRI**

- This report delves into the newly available data for 2021, providing a comprehensive analysis of Northern Ireland's goods exports and imports, alongside equivalent data for Ireland. This allows for a consistent examination of trade structures for both economies, offering insights into international trade patterns and cross-border trade within this broader context.
- In 2021, Northern Ireland recorded €7.6 billion in goods imports and €10.5 billion in goods exports (excluding sales to Great Britain). Of these, approximately 35% of imports (€2.6 billion) originated from Ireland, while 53% of exports were destined for Ireland (€5.6 billion). In contrast, Ireland reported significantly higher total goods imports and exports, standing at €99.8 billion and €160.3 billion, respectively, for the same year.
- The trade patterns across partner countries are influenced by factors like distance and the economic size of the partner. Interestingly, the levels of cross-border trade in 2021 exceeded what would be anticipated based on these factors alone, suggesting a relatively high degree of trade integration on the island.
- When considering international trade excluding Great Britain, sales and purchases with Ireland constitute a substantial portion of Northern Ireland's external trade. Comparing the key trading partners, both Ireland and Northern Ireland heavily engage with the UK, EU Member States, the United States, China, and Switzerland.
- However, Ireland demonstrates a unique trade structure, with the United States playing a prominent role in both total Irish goods exports and imports. For Northern Ireland, trade concentration in a few partner countries, particularly Ireland, is notably high.
- At a sectoral level, both Northern Ireland and Ireland exhibit significant concentrations of trade in the chemicals and pharmaceuticals sector, distinguishing them from the broader trade patterns of the UK and the rest of the EU.
- A deeper examination of the composition of cross-border trade reveals distinctive patterns in both directions, featuring a wider array of traded goods compared to the more specialized overall trade structures. Notably, the food and beverages sector plays a much larger role in cross-border trade than in the overall trade structure of either country.

INWARD INVESTMENT

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

TOURISM

Tourism NI - Consumer Sentiment Research **Published by Tourism Northern Ireland**

- Continued high levels of domestic visitor volumes - 1 in 3 domestic consumers have taken a short or long break in NI this year, with 92% saying their expectations were met or exceeded. In particular, hospitality and the range of places to eat and drink / things to see and do, scored highly.
- Consumers continue to rate NI as better value for money than ROI and GB. Competition from abroad remains potentially strong however, as both Spain and Portugal are perceived as better value for money destinations.
- Trip intentions have dipped vs. this time last year - not only for NI but also for ROI. Short break intentions for next 3 months decrease by 4 percentage points vs. September 2022; intentions for early 2024 decrease by 9 percentage points.
- Of those planning trips in NI, relaxation and escapism remain the top 2 reasons; quality accommodation and "pampering" increase notably.
- It's notable that the decrease in NI trip intentions is not significantly offset by an increase in planned trips abroad (no change YoY in long trips abroad planned for next 6 months).
- Cost of living continues to be a significant issue affecting most people – 85% said they expect to be affected in the coming months.
- And when prompted, 27% said they would be more likely to choose the island of Ireland over a trip abroad (compared to 19% who would be more likely to go abroad). However, a small majority do agree that if they can only take one holiday a year, it will be abroad.

Tourism NI - NISRA Accommodation Summary **Published by NISRA**

- As of year-to-date (YTD) figures, Northern Ireland (NI) hotels are experiencing a room occupancy of 67% and a bed occupancy of 52%. These numbers show no change in room occupancy compared to 2019, but there has been a 2-percentage point decrease in bed occupancy.
- When looking at monthly performance, room occupancy in July 2023 was at 76%, which is 4 percentage points lower than July 2019. Additionally, June 2023 saw a 5-percentage point decrease in room occupancy compared to the previous month.
- Year-to-date, hotel room occupancy in 2023 is 3-percentage points higher than the same period in 2022.
- In terms of room sales, July 2023 saw a 12% decline compared to July 2019. This follows previous monthly decreases in room sales in May and June 2023 compared to 2019.
- Year-to-date room sales remain 6% below January-July 2019, which is 1-percentage point lower than the previous month's report.
- Bed sales in July 2023 decreased by 8%, following a 2% decline in June 2023. Year-to-date bed sales for January-July 2023 have decreased by 2-percentage points compared to 2019.
- Comparing to 2022, both room and bed sales for January-July 2023 are 3% below 2022 levels.
- On a positive note, Northern Ireland guest houses, guest accommodations, and B&Bs have seen growth in room occupancy of 5 percentage points and bed occupancy of 7-percentage points in January-July 2023 compared to 2019.
- Looking at individual monthly performance, room occupancy in July 2023 grew by 2 percentage points compared to the same month in 2019, marking the seventh consecutive month of growth compared to 2019.
- In terms of sales, there have been over 305,000 rooms and more than 601,000 bed spaces sold in guest houses, guest accommodations, and B&Bs in January-July 2023.
- Room sales for NI guest houses, guest accommodations, and B&Bs in January-July 2023 have increased by an impressive 19% compared to the same period in 2019.

- Breaking it down further, room sales in July 2023 increased by 8% compared to July 2019. This follows previous increases of 18% in June, 10% in May, 18% in April, 26% in March, 13% in February 2019, and a substantial 73% increase in January 2019.
- In comparison to 2022, room sales for January-July 2023 have increased by 3%.

Economic Infrastructure

ENERGY

Electricity Consumption and Renewable Generation in Northern Ireland **Published by NISRA**

- For the 12-month period July 2022 to June 2023, 45.5% of total electricity consumption in Northern Ireland was generated from renewable sources. This represents a decrease of 1.2 percentage points on the previous 12-month period (July 2021 to June 2022).
- 7,420 Gigawatt hours (GWh) of total electricity was consumed in Northern Ireland. Over the same period, some 3,379 GWh was generated from renewable sources located in Northern Ireland.
- 83.5% of all renewable electricity generated within Northern Ireland was generated from wind. This compares to 84.2% for the previous 12-month period (July 2021 to June 2022.

Investigating Potential Offshore Wind Supply Chain Northern Ireland **Published by University of Strathclyde**

- The analysis of the current economic structure in Northern Ireland has identified four key areas for the development of offshore wind:
    - Fabrication of Foundations: This area holds significant potential for economic growth, especially in relation to the construction of wind farms. There is a notable distinction between fixed and floating foundations, with floating foundations being based on current costs. It's anticipated that over time, these costs may decrease, potentially reducing the economy-wide benefits associated with their fabrication.
    - Electrical Manufacturing: While not explicitly mentioned, it can be inferred that electrical manufacturing is a crucial aspect of the offshore wind industry. This area is likely to contribute to the growth and development of the sector.
    - Construction: The construction sector is vital for the realization of offshore wind projects. This area is expected to have a substantial economic impact, particularly in relation to job creation and project execution.
    - Ports: Investment in ports, particularly those involved in the Operations and Maintenance (O&M) of offshore wind farms, is predicted to have a significant and long-lasting economic impact. It's important to conduct further research on the existing capacity of Northern Ireland ports and explore their potential for expansion to meet the demands of the offshore wind industry.
- Additionally, the analysis suggests that Northern Ireland has the potential to export its expertise in foundation fabrication to offshore wind farms globally. This could lead to additional economic benefits over an extended period.
- It's worth noting that while the identified areas hold substantial promise for economic growth, ongoing research, strategic planning, and investment will be essential to fully realize the potential of the offshore wind industry in Northern Ireland.

TELECOMS

Q1 2023 Telecoms Data Update **published by Ofcom**

- The number of fixed exchange lines (including PSTN, ISDN and managed VoIP connections) fell by 667k (2.2%) during the quarter to 29.4 million. This decline is due to the growing availability and take-up of standalone broadband services and the decline of residential landlines.
- Total fixed-originated call volumes decreased by 1498 million minutes (17.1%) year on year, to 7.3 billion minutes.

- There were 27.7 million fixed broadband lines at the end of Q1 2022, an increase of 296k (1.1%) from Q1 2021. The number of ADSL lines fell by 377k (10.1%), while the number of 'Other inc. FTTx' lines increased by 348k (1.9%) during the quarter.
- There were 28.1 million fixed broadband lines at the end of Q1 2023, an increase of 261k (0.9%) year-on-year.
- There were 20.0 million 'other inc. FTTx' broadband connections (predominantly fibre-to-the cabinet and full fibre connections) at the end of Q1 2023, accounting for 71.1% of all lines.
- The number of ADSL lines fell by 176k (6.2%) during the quarter, while the number of cable lines increased by 25k (0.5%) and the number of 'other inc. FTTx' lines increased by 368k (1.9%).
- Mobile telephony services generated £3.2bn in retail revenues in Q1 2023, a £113.3 (3.7%) increase from a year previously.
- Average monthly retail revenue per subscriber was £12.17 in Q1 2023, with post-pay subscribers generating more revenue than pre-pay users (averaging £14.64 compared to £5.04 for pre-pay).
- The number of active mobile subscriptions (excluding M2M) was 86.9 million at the end of Q1 2023, up 1.6 million (1.9%) from the year before.
- Over the same period, the number of dedicated mobile broadband subscriptions grew by 168k (3.3%) to 5.2 million.
- The number of mobile-originated voice call minutes decreased by 2.4 billion (5.4%) to 42.3 billion minutes year-on-year, with calls to landlines decreasing by 11.3% to 8.4 billion minutes.
- The number of mobile messages (including SMS and MMS) saw a year-on-year decline, down 1.6 billion messages (17.1%) to 7.9 billion.

AIR ACCESS

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

Government

NORTHERN IRELAND

DfE Monthly Economic Update September 2023 **published by Department for the Economy**

- In Q2 2023, Northern Ireland's economic output decreased by 0.5%, while the UK's GDP increased by 0.2%. Over the year, NI's output increased by 1.7% compared to the UK's 0.4% growth.
- The production sector in NI saw a significant increase, while services and retail sectors had mixed results. The private sector in NI contracted due to higher interest rates and inflation.
- There was a rise in unemployment and inactivity rates, signalling a cooling labour market. Around 18,000 young people in NI were not in education, employment, or training.
- A survey showed that skills gaps remain a challenge for local businesses, particularly in hospitality, foodservice, manufacturing, and retail. Addressing this gap will be a focus in 2024.
- Central banks in the UK and the US maintained their interest rates, citing better-than-expected Consumer Price Index figures.
- Consumer confidence in NI improved slightly, with more people expecting the economic situation to improve.
- Northern Ireland recorded the highest increase in gross disposable household income in the UK, but still had the lowest per capita income.
- The impact of Brexit on businesses in NI has decreased, but some are still struggling to adapt to new trading arrangements. Encouragingly, more businesses reported profitability in Q2 2023 compared to the previous quarter.

ENGLAND

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

SCOTLAND

Economic Commentary **Published by Scottish Enterprise**

- Global growth is expected to be 3% in both 2023 and 2024, with persistent inflation and higher borrowing costs weighing down on activity. UK Growth is expected to be just 0.4% in 2023 and remain subdued into 2026.
- Business surveys point to a slowdown in global growth in July for both the service and manufacturing sectors. The euro area was the main source of underlying global weakness, but activity slowed across many other major economies.
- The UK economy continues to be subdued. GDP was up just 0.2% over Q2 2023, marginally better than Q1 (+0.1%). More recent business surveys show activity continuing to grow in July but at a slower page. Performance was uneven, with activity rising in just six out of 12 nations/regions (including Scotland).
- In July consumer price inflation declined slightly but remained high at 6.8%, while core inflation remained unchanged at 6.9%. Producer input prices fell in June.
- Scotland's onshore GDP fell by 0.4% in the 3 months to May, and there were monthly falls in output in March, April and May. Output fell in both the service and the manufacturing sectors which make up the majority of the economy.
- A quarter of businesses reported increased in turnover in June. This is down from 31% in May. 17% reported a decrease, up from the previous month. 24% reported exporting less and just 16% exported more than a year ago.
- Scotland's unemployment rate remains low (4% in April to June), while the employment rate fell over the year to 74.2%. Over a third of Scottish businesses continue to report worker shortages which may have had a knock-on effect on wages which rose by 8.2% over the year to July.
- Intelligence from SE customers suggests that despite ongoing challenges with recruitment, accessing raw materials and rising costs (and for start-ups accessing investment) most businesses are cautiously optimistic and keen to grow.
- The Fraser of Allander Institute are predicting subdued economic growth into 2025 (+0.7% in 2024 and 1.2% growth in 2025) as inflation continues to remain high putting pressure on household incomes.

WALES

Labour Market Overview, September 2023 **Published by Welsh Government**

- The employment rate in Wales was 74.0% (approximately 1.48 million). This is up 2.1 percentage points on the quarter and up 1.9 percentage points on the year.
- The unemployment rate in Wales was 3.8% (approximately 58,300 people). This is down 1.1 percentage points on the quarter and up 0.5 percentage points on the year.
- The economic inactivity rate in Wales was 23.2% (approximately 443,800 people). This is down 1.2 percentage points on the quarter and down 2.4 percentage points on the year.
- Early estimates for August 2023 indicate that the number of paid employees in Wales has decreased by 1,700 (0.1%) over the month to 1.32 million.
- The claimant count now (August 2023) stands at 60,800, a decrease of 4.3% (2,800) compared to the same month in the previous year. This is a rate of 3.7%, a decrease of 0.2 percentage points over the same period.

REPUBLIC OF IRELAND (ROI)

Quarterly Economic Commentary, Autumn 2023 **Published by ESRI**

- While the Irish economy emerged in a strong and resilient manner post the COVID-19 pandemic, it now looks set to experience more moderate, normalised, rates of growth.

- International economic activity is contributing to this slowdown; inflation remains elevated, interest rates have continued to increase, and demand in countries such as Germany and, in particular, China, has faltered.
- Typically, developments in the multinational (MNE) sector tend to overstate underlying domestic growth in the Irish economy. However, at the present time, we believe modified domestic demand (MDD) – a more accurate reflection of domestic activity – is growing at 1.8% in 2023, while GDP is set to decline by 1.6%.
- Notwithstanding the normalising activity domestically and the slowdown in international trade, the domestic Irish economy is currently operating at capacity, in particular in relation to employment intensive sectors like construction. The Irish labour market continues to perform robustly, with unemployment stabilising at approximately 4% over the past year, indicating the economy is close to, or at, full employment.
- In this environment, additional domestic pressures are likely to feed through to prices in the short term. However, targeting expenditure towards addressing infrastructure bottlenecks and improving the productive capacity of the economy can alleviate capacity constraints in the medium term.
- With increased construction costs and rising interest rates, challenges facing the housing market continue. Many of the issues in the housing market can be traced back to the Great Financial Crisis (GFC). A Box to the *Commentary* estimates how house prices would have evolved if supply had increased at a much more vigorous pace post-2010 than was actually the case.
- Inflationary effects appear to be broadening and the direct impact of initial energy prices has subsided. Given this changing context for inflation, it increases the likelihood of domestic sources predominating and inflation becoming more engrained as second round effects occur. The CPI for 2023 and 2024 is forecast to be 6.0% and 3.2%, respectively.
- The high intake of tax revenue continues to be driven by income tax, VAT, and corporation tax.

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CBRE

CBRE UK

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