



Northern Ireland
Assembly

Research and Information Service Briefing Paper

Paper 03/24

1 March 2024

NIAR 123-23

Northern Ireland economic overview

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This Briefing Paper has been prepared for the incoming Committee for the Economy, to provide an overview of the Northern Ireland economy as of early March 2024. Drawing on the most recent available data, it looks at areas in which Northern Ireland's economy is performing well and highlights some challenges facing it.

Key Points

Positives

Economic growth

Northern Ireland's economy has grown 38% in real terms since the Belfast/Good Friday Agreement was signed in 1998. During the same period, the economies of the United Kingdom, Scotland, and Wales grew by 41%, 38%, and 40%, respectively.

Labour market

Northern Ireland's labour market has recovered well since the COVID-19 pandemic. Total employment (employees plus the self-employed) has almost recovered to its pre-pandemic level. There are currently 840,000 people aged 16-64 in employment.

Furthermore, the unemployment rate is currently very low – 2.6% in the period of October – December 2023.

Trade

Northern Ireland has been performing well in terms of its overall trade balance (the balance of exports relative to imports). As of 2022, exports of goods and services were at a record high of £13.3 billion (bn) – with a trade surplus of £3.5 bn.

Challenges

Inflation

Inflation remained stubbornly high over the past year and a half, peaking at 11.2% in October 2022. However, headline inflation has been on a downward trend since then, and as of January 2024, was just 4%.

Core inflation (which excludes energy, food, alcohol and tobacco) has remained more stubbornly high. It fell to 5.1% in January 2024 – down only slightly from 5.2% in both November and December 2023.

Economic inactivity

High economic inactivity has been a significant, long-term issue for Northern Ireland. The headline rate has been much higher than the United Kingdom average for decades, and has remained stubbornly high. As of December 2023, the headline rate in Northern Ireland was 26.8% relative to 20.8% in the United Kingdom. In relative terms, Northern Ireland is similar to the United Kingdom average for most of these – **but** performs significantly worse in terms of economic inactivity due to long-term sick or disabled.

Productivity

Northern Ireland's productivity gap when compared to the United Kingdom average is another long-running economic issue. Key productivity metrics for Northern Ireland have been persistently and consistently below the United Kingdom average over the past two decades.

Labour Supply

A potential challenge faced by the Northern Ireland economy is weak labour supply growth. This is a combination of low growth in working age population and net migration.

Inclusion

Inclusion (in terms of how economic growth and opportunities are distributed across society) are below acceptable levels in a number of metrics in Northern Ireland. For example, employment rates for disabled people in Northern Ireland are much lower than those for non-disabled people; and are far below the United Kingdom average. Employment rates for the most deprived areas in Northern Ireland are also significantly lower than those in the least deprived areas, and the Northern Ireland average.

Introduction

This Briefing Paper has been prepared for the incoming Committee for the Economy (CfE) (the Committee), to provide an overview of the Northern Ireland economy as of March 2024. Drawing on the most recent available data,¹ it looks at areas in which Northern Ireland's economy is performing well and highlights some challenges facing it. In particular, it addresses employment, unemployment, trade balance and ongoing economic challenges, such as Northern Ireland's productivity gap, economic inactivity, inflation and inclusion.

The Paper is presented as follows:

- Section 1 – Context-setting;
- Section 2 – Positives – areas in which the Northern Ireland economy is performing well;
- Section 3 – Challenges – key challenges facing Northern Ireland's decision makers; and,
- Section 4 – Key takeaways.

The Paper is not intended to address the specific circumstances of any particular individual. It should not be relied upon as professional legal advice or as a substitute for it.

¹ All data referenced in this paper was current as of 1 March 2024.

1 Context setting

Prior to outlining Northern Ireland's current economic outlook, this section provides context in terms of key findings arising from the outgoing Committee for the Economy's micro inquiry on Northern Ireland's economic context (subsection 1.1) and existing Department for the Economy (DfE) policies (subsection 1.2).

1.1 Micro Inquiry – Economic Outlook

In autumn 2020, the former Committee undertook an Economic Outlook Micro Inquiry; aiming to engage with key stakeholders, seek their views and thereafter develop a [themes-based report](#) providing evidence on how the economy has been impacted as a result of the COVID-19 pandemic and ideas on how to rebuild it better.

In November 2020, the Committee held a discussion event with a wide range of stakeholders including Chambers of Commerce, business and industry representatives and economists.

Thereafter, it published a summation of the key themes arising from the micro inquiry, which stakeholders had felt were necessary to rebuild and boost the economy, including: technology and digital infrastructure; skills and employment; transport infrastructure; and, energy for businesses and consumers.

1.2 Relevant DfE policies

There are a number of policies, strategies and action plans currently published by DfE that are relevant to the areas discussed in sections 2 and 3 of this Paper. These include the [10X Economy](#), and its [associated delivery plan](#) – a strategy which focuses on innovation and productivity growth; and building on Northern Ireland's economic strengths.

In particular, DfE's Skills Strategy for Northern Ireland ([Skills for a 10X economy](#)) sets a strategic framework for the development of Northern Ireland's

skills system to 2030 – with a view to supporting the successful delivery of the 10X Economy.

The [Trade and investment for a 10X Economy](#) publication outlines the strategic priorities and high level ambitions that will shape DfE’s approach to trade and investment; and DfE’s Energy Strategy, [Path to Net Zero Energy](#) sets out a pathway for energy to 2030 that will “mobilise the skills, technologies and behaviours needed to take us towards our vision of net zero carbon and affordable energy by 2050”.

2 Positives

Drawing on the most recent available data, this section looks at areas in which Northern Ireland’s economy is performing well:

2.1 Economic growth;

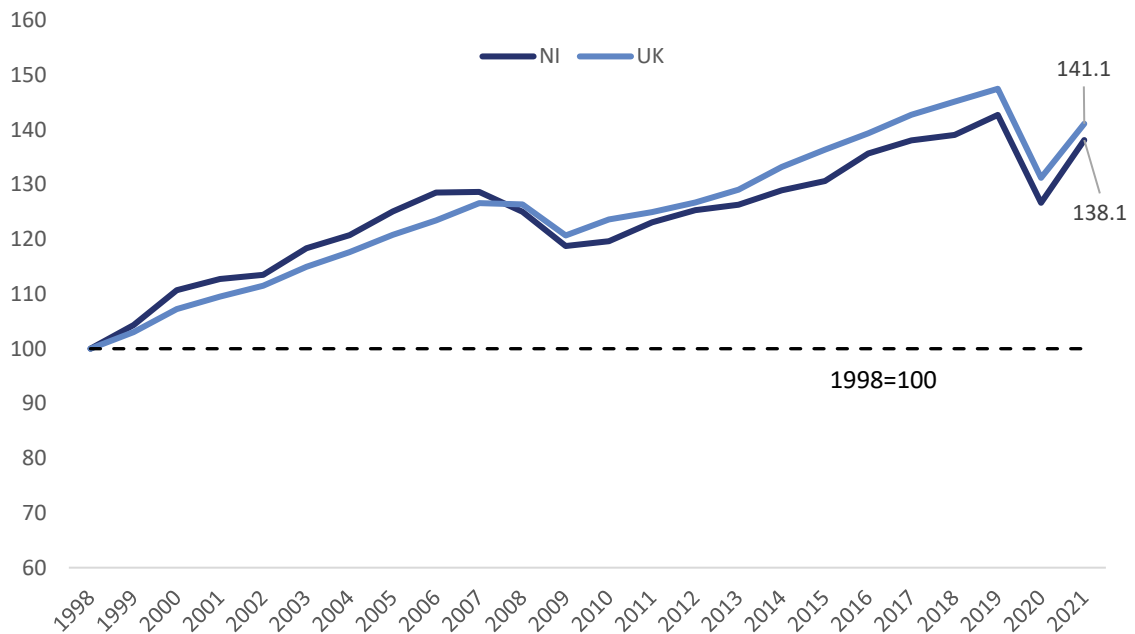
2.2 Labour market; and,

2.3 Trade.

2.1 Economic growth

Northern Ireland’s [Gross Domestic Product \(GDP\)](#) (a measure of the value of the goods and services produced in a country or region – which estimates the size and growth of the economy) has grown 38% in real terms since the Belfast/Good Friday Agreement was signed in 1998. During the same period, the economies of the United Kingdom, Scotland, and Wales grew by 41%, 38%, and 40%, respectively, as highlighted in Figure 1 below:

Figure 1: GDP growth, Northern Ireland & United Kingdom, 1998-2021, (2019 prices)



Source: [ONS](#), April 2023

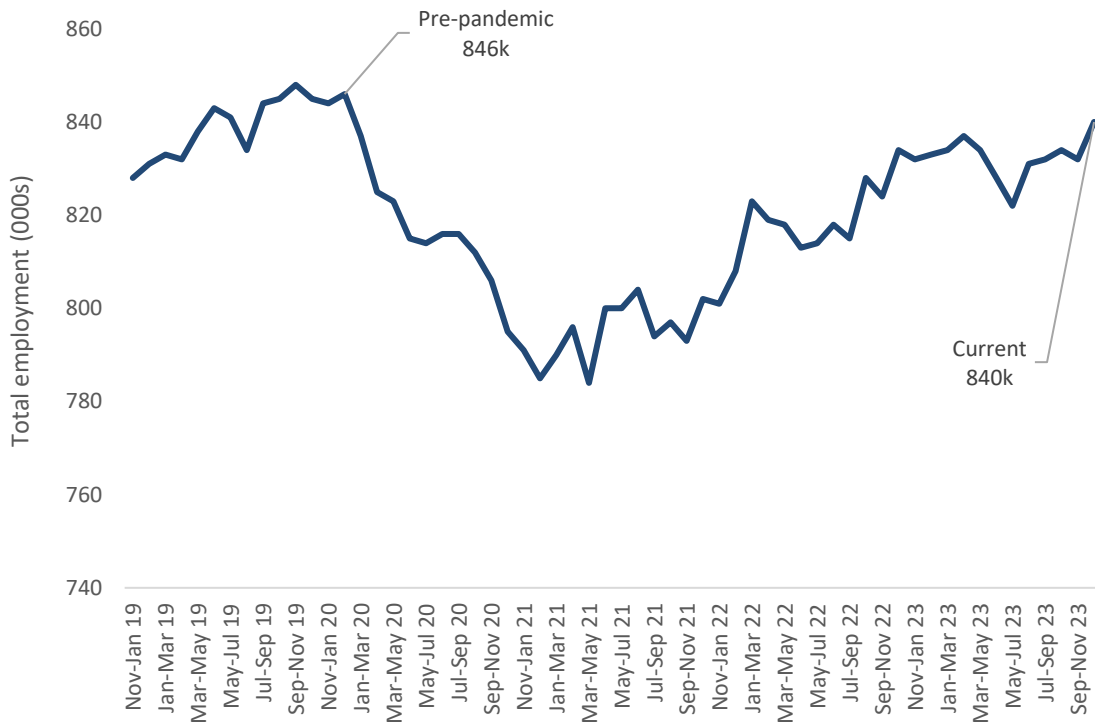
2.2 Labour market

This sub-section briefly outlines the performance of Northern Ireland's labour market in two key metrics: employment; and, unemployment.

2.2.1 Employment

Northern Ireland's labour market has recovered well since the COVID-19 pandemic. As Figure 2 below shows, total employment (of those aged 16-64) has almost recovered to its pre-pandemic level:

Figure 2: Total employment (age 16-64), Northern Ireland, Jan 2019 – Dec 2023



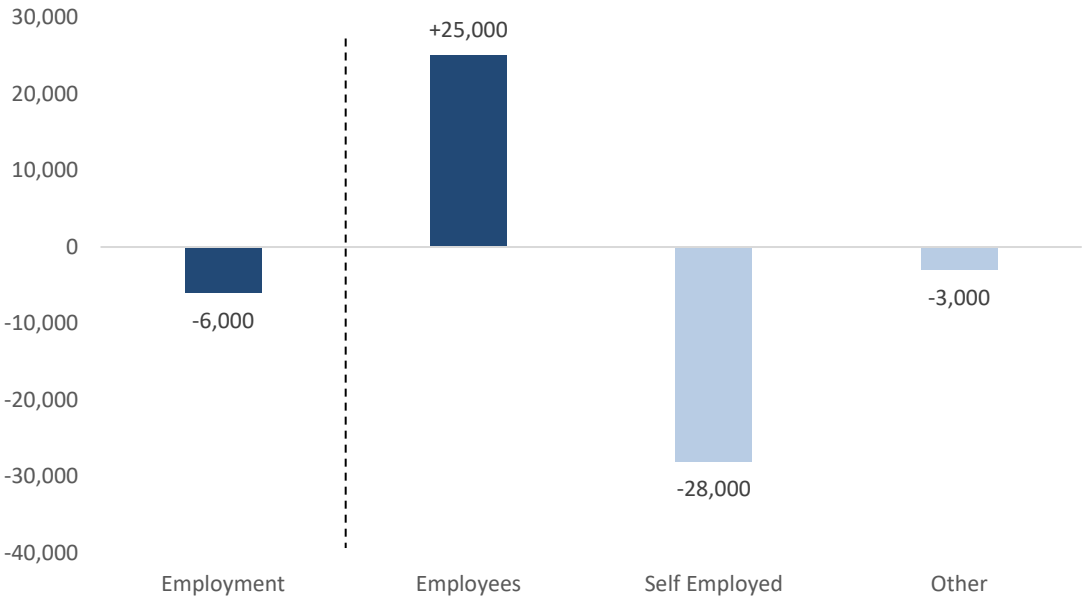
Source: [NISRA](#), February 2024

However, this aggregate performance conceals a wide variation in the composition of employment in Northern Ireland.

Total employment (of those aged 16+)² is slightly below its pre-pandemic level (in the period of December 2019-February 2020). This is because a large increase in the number of employees has been more than offset by a fall in the number of self-employed people during the same time period. The “other” category includes those on government training schemes and unpaid family workers. This is shown in Figure 3 below:

² Statistics on the composition of employment (employees, self-employed, and “other”) are available only for those aged 16+; whereas headline figures for employment and employment rates are typically stated in terms of those aged 16-64.

Figure 3: Drivers of employment change (age 16+), Feb 2020 – Dec 2023



Source: [NISRA](#), February 2024

2.2.2 Unemployment

In addition to high employment levels, the unemployment rate in Northern Ireland is now at a near-historic low. The rate in the period of October-December 2023 was just 2.6% – below the United Kingdom average of 4.2% – as shown in Figure 4 below. Whilst this is a positive in the economic narrative, it also reflects the fact that there are large numbers of people in Northern Ireland classified as economically inactive. Therefore, whilst they do not count as unemployed, they are outside the labour market altogether (see subsection 3.2):

Figure 4: Unemployment rate (age 16+), Northern Ireland and UK, Jan 2010 – Dec 2023

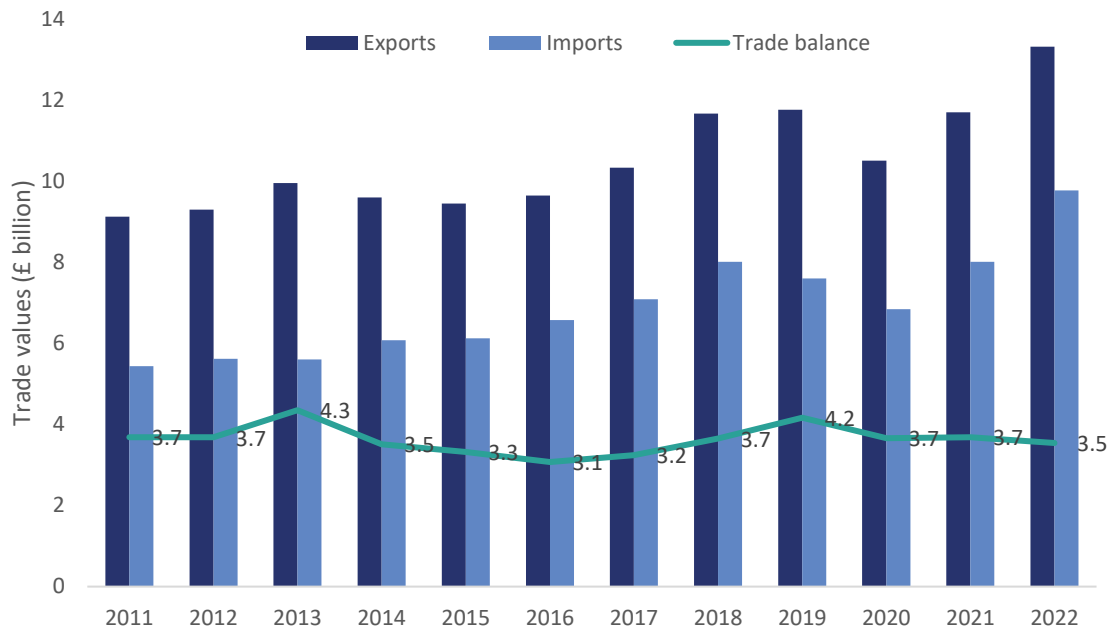


Source: [ONS](#), [NISRA](#), February 2024

2.3 Trade

Northern Ireland has also been performing well in terms of its overall trade balance (the balance of exports relative to imports). As of 2022, exports of goods and services are at a record high of £13.3 bn – with a trade surplus of £3.5 bn – as highlighted in Figure 5 below:³

³ NISRA trade values are published in current prices, and therefore do not include the effects of inflation over time.

Figure 5: Northern Ireland exports, imports & trade balance, 2011-2022

Source: [NISRA](#), December 2023

3 Challenges

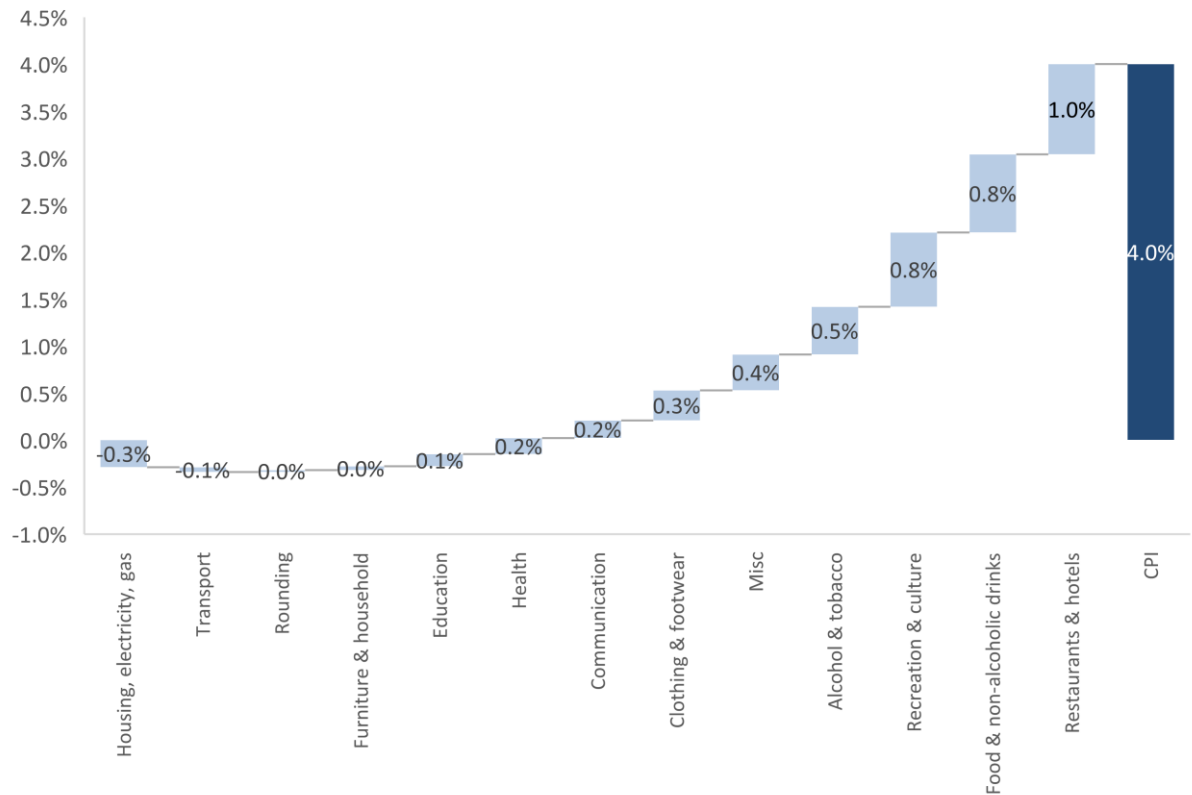
This section focuses on some of the key challenges facing Northern Ireland's economy. These include: above-target inflation; persistently high economic inactivity; lower productivity than the United Kingdom average; potentially weak labour supply growth; and, poor inclusion performance.

3.1 Inflation

Consumer Price Inflation (CPI) remained high over the past year, staying above 10% for the nine months between July 2022 and March 2023; peaking at 11.2% in October 2022. However, headline inflation has been on a downward trend since then. It was 4% in January 2024 – unchanged from December 2023. Whilst this is still higher than the [Bank of England's target of 2%](#), it is nearly three times lower than it was in October 2022.

The biggest contributors to January's 4% headline rate of CPI inflation were: restaurants and hotels (1%) food and non-alcoholic drinks (0.8%) and recreation and culture (0.8%), as illustrated in Figure 6 below:

Figure 6: Components of CPI inflation, January 2024



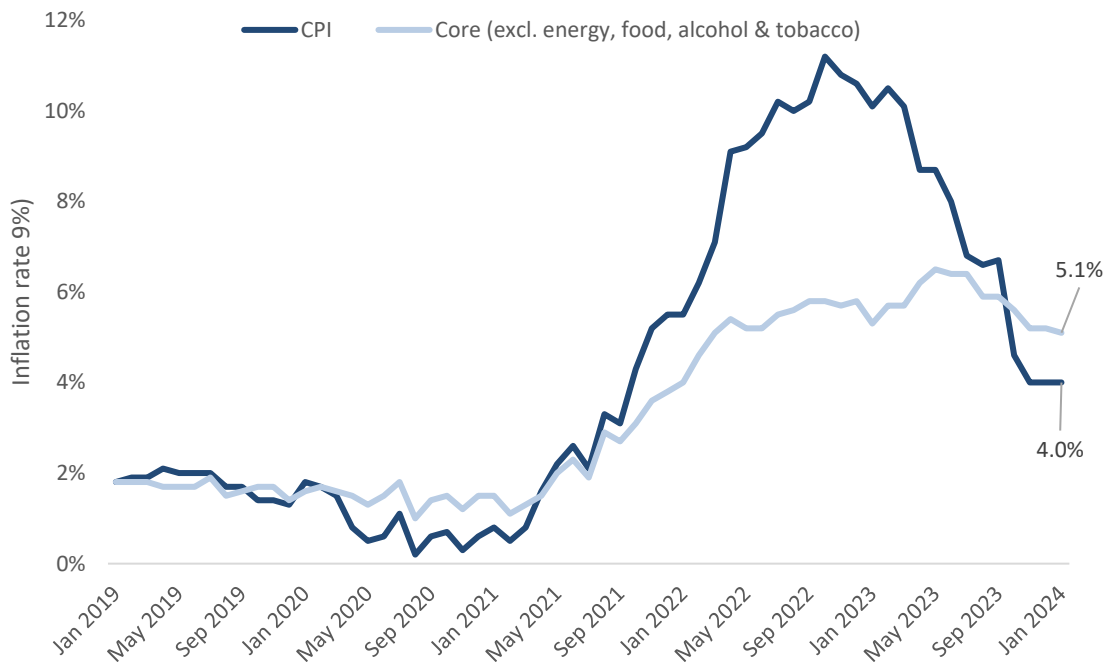
Source: [ONS](#), February 2024

Core inflation (which excludes energy, food, alcohol and tobacco) has remained more stubbornly high. It was 5.1% in January 2024 – down only slightly from 5.2% in December 2023.

It is worth noting that whilst inflation is falling, that does not mean price levels are falling. In fact, they are still increasing, but at **a slower rate of increase**.

Figure 7 below illustrates this:

Figure 7: CPI and “core” inflation, Jan 2019 – Jan 2024

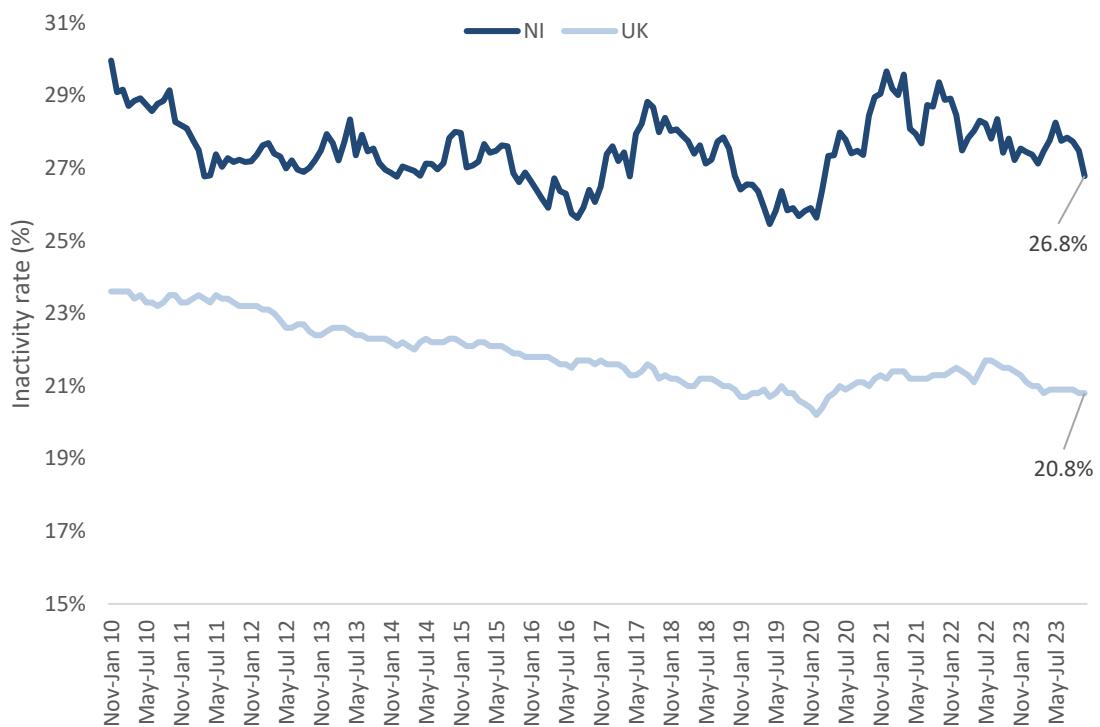


Source: [ONS](#), February 2024

3.2 Economic inactivity

High economic inactivity has been a significant, long-term issue for Northern Ireland. The headline rate has been much higher than the United Kingdom average for decades, and has remained stubbornly high. As of December 2023, the headline rate in Northern Ireland was 26.8% relative to 20.8% in the United Kingdom. Figure 8 below highlights this:

Figure 8: Economic inactivity rate, Northern Ireland & United Kingdom, Jan 2010 – December 2023



Source: [ONS](#), [NISRA](#), January 2024

There are a number of reasons for economic inactivity among the working age population in Northern Ireland (such as retirement, student status, carers for relatives, long-term sickness and disability). In relative terms, Northern Ireland is similar to the United Kingdom average for most of these – **but** performs significantly worse in terms of economic inactivity due to being long-term sick or disabled. Long-term sick and disabled accounts for 41% of total inactivity in Northern Ireland, as opposed to [just 30% in the United Kingdom](#).

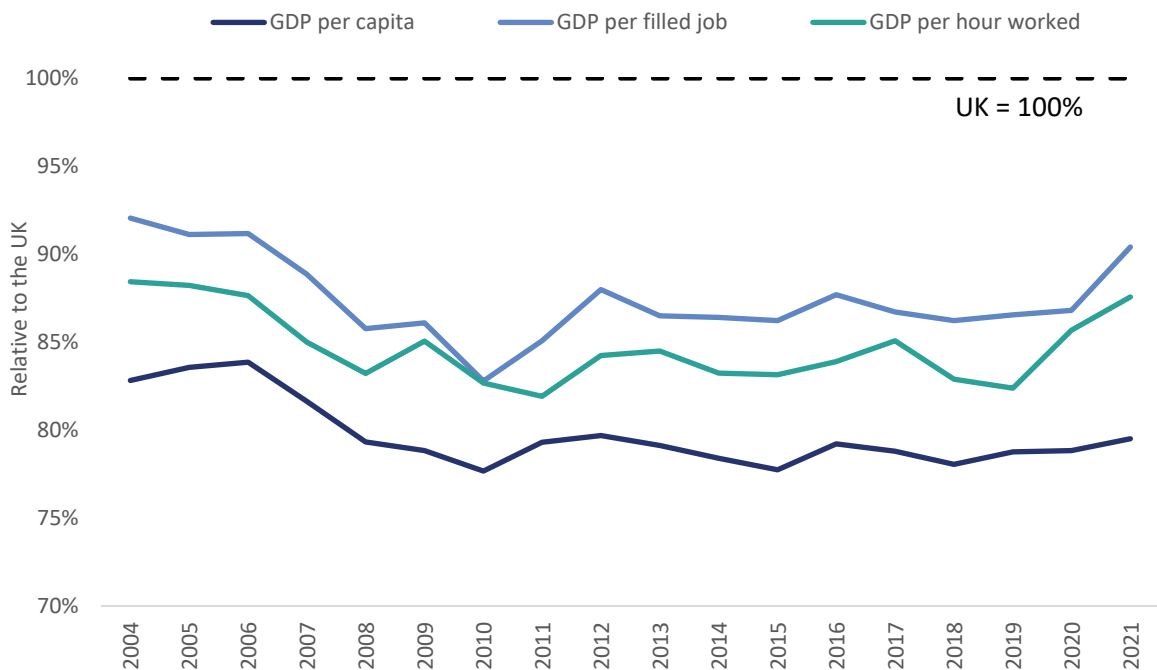
Potential scrutiny point:

1) How will the Executive/departments address the persistently high levels of economic inactivity? In particular, what practical steps will they take to reduce the proportion of long-term sick and disabled in Northern Ireland relative to the United Kingdom average?

3.3 Productivity gap

Northern Ireland’s productivity gap to the United Kingdom average is another long-running economic issue. Key productivity metrics have been persistently below the United Kingdom average over the past two decades. Currently, as illustrated in Figure 9 below: GDP per capita (20% gap); GDP per filled job (10% gap); and GDP per hour worked (12% gap):

Figure 9: Productivity measures, Northern Ireland vs. United Kingdom, 2004-2021



Source: [ONS](#), June 2023

The productivity gap highlighted at Figure 9 is a result of a combination of two things:

1. **The sectoral mix of the Northern Ireland economy** – more reliance on lower-productivity sectors relative to the United Kingdom average; and
2. **Productivity differences within sectors** – for example, lower productivity in the financial services sector in Northern Ireland relative to the United Kingdom average in the same sector (which itself could be caused by a number of factors, including [poor management performance](#)).

In other words, the productivity gap is due to a combination of what Northern Ireland does; and how it does it. It should be noted that there are lots of potential reasons for lower productivity – for example, the second (“how it does it”) category, could include human capital, lack of research and development, etc. Estimating the extent to which each of these factors contributes to Northern Ireland’s productivity gap requires further research.

Potential scrutiny point(s):

- 2) What areas will the Executive or the DfE focus on to close the productivity gap? When will that happen? If not, please detail why not.
- 3) When seeking to do that, what balance will they strike between attracting investment in higher productivity sectors versus investing in management and upskilling?
- 4) What type/size of firms will government support focus most on?

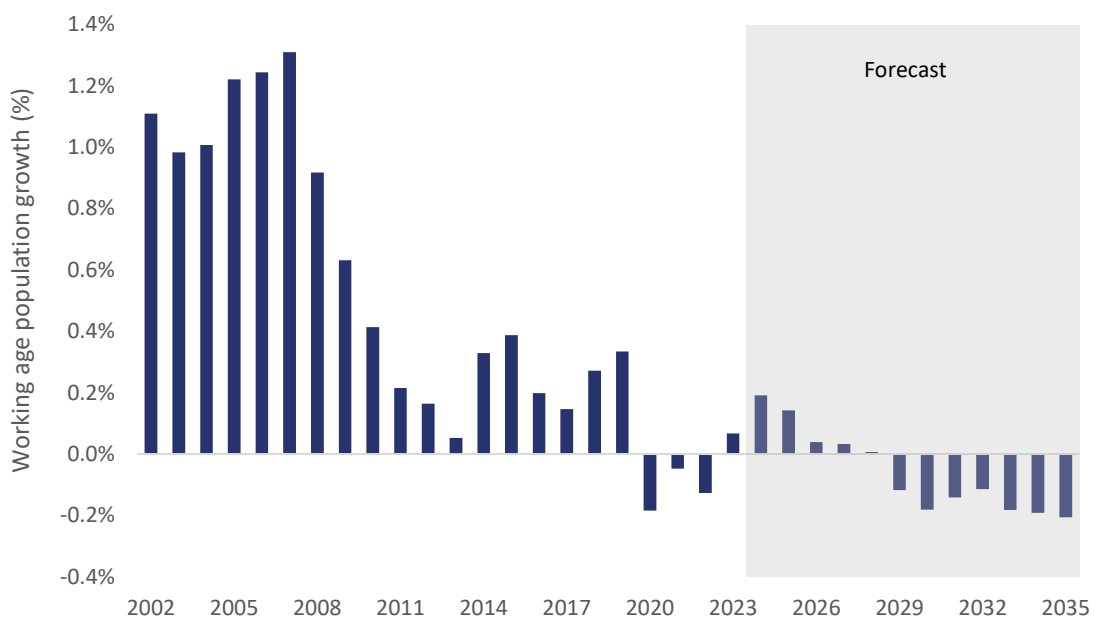
3.4 Labour supply

A potential challenge faced by the Northern Ireland economy is weak labour supply growth – an issue noted in [Ulster University's Competitiveness Scorecard for Northern Ireland](#).⁴ This is a combination of low growth in working age population (internal) and net migration (external).

3.4.1 Internal labour supply

Growth in Northern Ireland's working age population has been weak in the last decade. Moreover, according to Northern Ireland Statistics and Research Agency (NISRA) estimates, growth for that group is anticipated to be flat from 2026, and negative from 2029 onwards.⁵ That means the working age population will decrease after 2029, as highlighted in Figure 10 below:

Figure 10: Working age population growth, Northern Ireland, 2002-2035



Source: [NISRA](#), January 2022

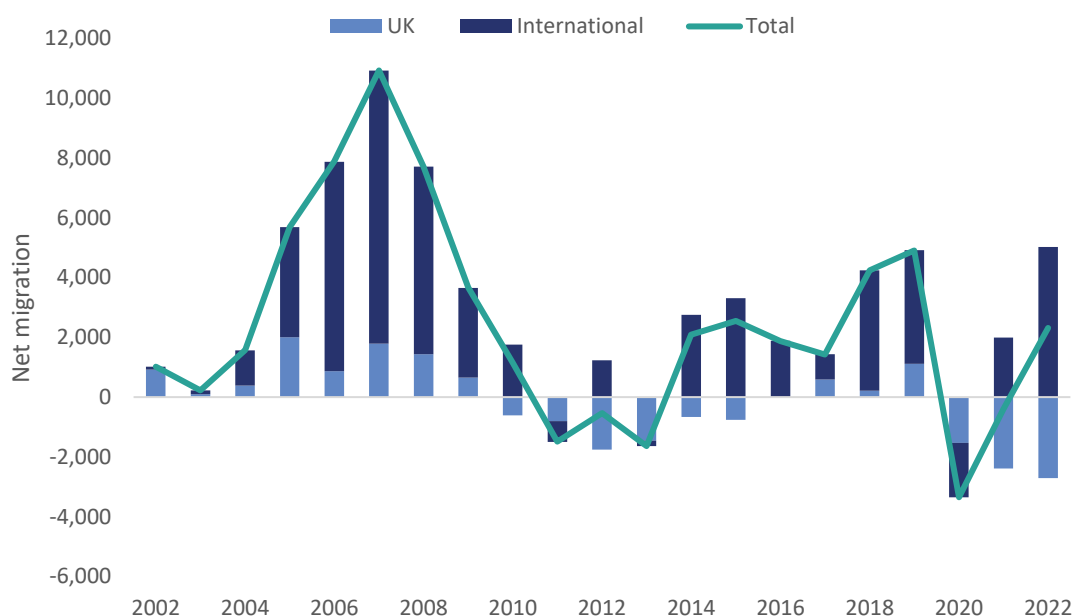
⁴ Section 5.4.3

⁵ The ONS notes that national population projections are not forecasts and do not attempt to predict potential changes in international migration.

3.4.2 External labour supply

It should be noted that when a working age population is not growing – that is, staying the same or contracting – additional reliance is placed on migration for future labour supply. That trend presents a challenge for Northern Ireland when considered in the context of inward migration from the United Kingdom and internationally in recent years, which has been somewhat limited. [Existing and potential future immigration rules](#) in the United Kingdom also could have implications for labour supply growth in Northern Ireland. Figure 11 below highlights the trend from 2002-2022:

Figure 11: Northern Ireland net migration, UK & Rest of world, 2002-2022



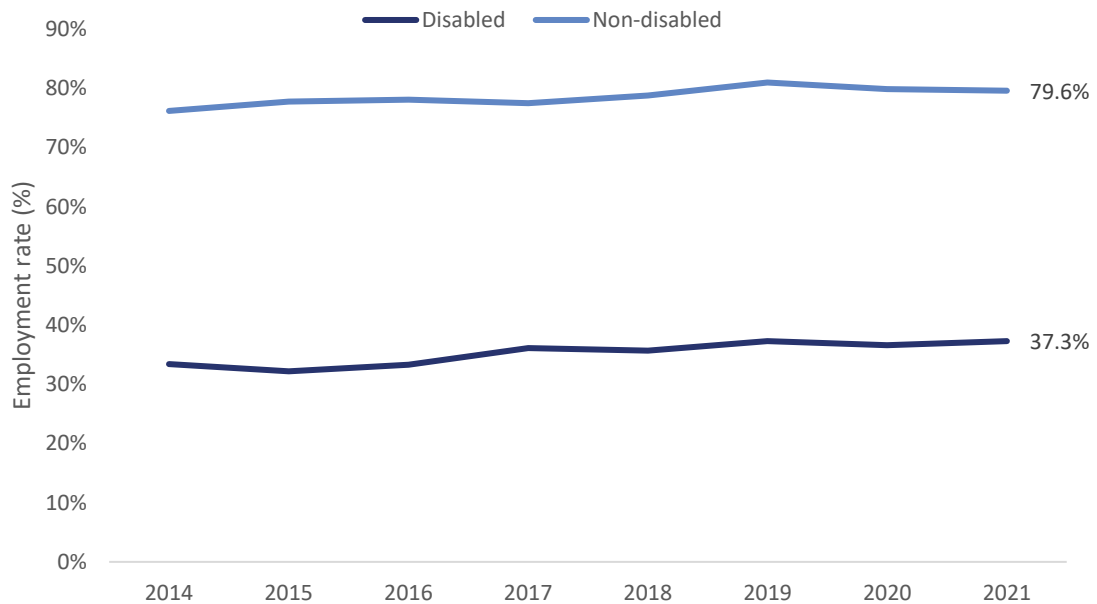
Source: [NISRA](#), August 2023

3.5 Inclusion

There are other long-running challenges facing the Northern Ireland economy, which are worth noting. Inclusion is one of them; defined by the [OECD](#) as “...economic growth that is distributed fairly across society and creates opportunities for all...”. It is below acceptable levels in a number of metrics in Northern Ireland. For example, employment rates for disabled people in Northern Ireland are much lower than those for non-disabled people; and are far below the United Kingdom average.

The employment rate for disabled people in Northern Ireland in 2021 was just 37.3%, compared with 79.6% for non-disabled people. The equivalent disabled employment rate in the [United Kingdom in 2021 was 53%](#). Figure 12 below highlights this:

Figure 12: Employment rate, Northern Ireland, disabled & non-disabled, 2014-2021



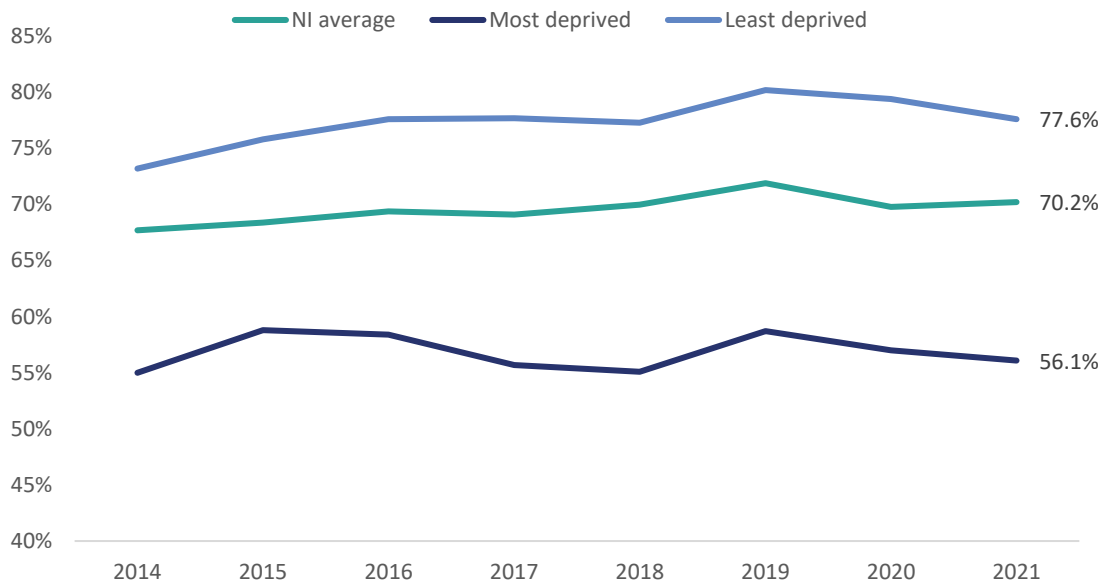
Source: [NISRA](#), October 2023

Making improvements in this area would have positive implications from economic, social, and health perspectives. However, to illustrate the scale of the challenge, if the gap in employment rate for disabled to the non-disabled in Northern Ireland was halved (making it similar to the United Kingdom average), there would be more than 40,000 more disabled people in employment in Northern Ireland. At the average productivity level, this additional employment would be equivalent to around 5% of Northern Ireland's GDP.

Employment rates for the most deprived areas in Northern Ireland are also significantly lower than those in the least deprived areas, and the Northern Ireland average. In 2021, the rate in the most deprived areas was 56.1% - compared with a regional average of 70.2%, and a rate in the least deprived areas of 77.6%.

For illustrative purposes, if the employment rate in Northern Ireland’s most deprived areas was increased to match the Northern Ireland average, there would be almost 29,000 more people in employment – equivalent to more than 3% of Northern Ireland’s GDP, as Figure 13 shows:

Figure 13: Employment rate, Northern Ireland, most deprived & least deprived areas, 2014-2021



Source: [NISRA](#), October 2023

Potential scrutiny point:

- 5) What steps will the Executive and the DfE take to reduce the employment rate gap for those in Northern Ireland’s most deprived areas; and those with a disability?

4 Key takeaways

Northern Ireland's economy has been performing well on a number of important measures: the economy has grown 38% in real terms since the signing of the Belfast/Good Friday Agreement in 1998; employment levels have almost returned to pre-pandemic levels; the unemployment rate is at a near-historic low; and, exports are at record high levels.

However, those positives are offset by some significant challenges – both in the immediate and longer terms. For example, the persistence of high inflation over the past year has put pressure on businesses and consumers; and whilst it has fallen from its peak in late 2022, it still remains above the Bank of England's 2% target.

Moreover, the high rate of economic inactivity remains one of Northern Ireland's most significant challenges, despite record low unemployment. Specifically, the proportion of economically inactive working age adults that are long-term sick or disabled is much higher than the United Kingdom average.

Additionally, persistently low productivity, weak labour supply growth and poor inclusion performance in terms of disability and deprivation all need addressed.

This Paper – drawing on most recent available data – provides an update for the incoming CfE on key aspects of the Northern Ireland economy and potential scrutiny points, which could help to inform the Committee's deliberations when formulating its forward work plans and when engaging in future with the DfE and other stakeholders. In particular, it has noted some of the areas in which Northern Ireland's economy has been performing well – including: the economy growing almost 40% since the Belfast/Good Friday agreement was signed; total employment surpassing its pre-pandemic peak; historic low unemployment rates; and export values at a record high level. It has also outlined some of the key challenges facing Northern Ireland's economy. Those include: above-target inflation; persistently high economic inactivity; lower productivity than the United Kingdom average; potentially weak labour supply growth; and, poor inclusion performance.