Northern Ireland Assembly

Research and Information Service
Briefing Paper

Paper 18/24 | 24 May 2024 | NIAR 103-24

Executive Budget 2024-25: Northern Ireland Economic Context

Paper 3 of 3-part Series

Public Finance Scrutiny Unit

This Briefing Paper aims to facilitate Members of the Legislative Assembly (MLAs) in Northern Ireland Assembly committees and plenaries, when engaging on the Northern Ireland Executive Budget 2024-25.

Introduction

This Briefing Paper is the third in a three-part series that address Executive Budget 2024-25 (Budget 2024-25) – its formulation and approval – with the aim of supporting Members of the Legislative Assembly (MLAs) when working in Northern Ireland Assembly committees and plenaries.

Ultimately, the series aims to increase openness and transparency in budgetary/public finance matters in Northern Ireland, which in turn seeks to increase Executive and departmental accountability *via* Assembly plenaries and committees. It is premised on good budgetary practice identified by the Organisation of Economic Development and Cooperation (OECD); while also recognising the challenging circumstances in which Budget 2024-25 has been formulated and is considered, and ultimately approved by the Assembly. It follows on from the resumption of devolved governance in Northern Ireland in early February 2024.

The third in the series; this Briefing Paper provides an overview of the economic context in which the Executive Budget 2024-25 was formulated and agreed. Drawing on the most recent available data,[1] to help inform the contents of Papers 1 and 2 in the series. Looking at key economic performance metrics and highlighting some of the challenges facing the Northern Ireland economy, it underscores the many tests that this Budget will face in terms of Northern Ireland's: economic growth; employment; unemployment; inflation; and, other ongoing economic challenges, such as Northern Ireland's productivity gap, economic inactivity, and inclusion.

The Paper is presented as follows:

- Section 1 – Recent economic performance: economic growth; trends in Northern Ireland's labour market; and, inflation
- Section 2 – Key challenges facing the Northern Ireland economy; and,
- Section 3 – Key takeaways.

[1] All data referenced in this Paper was current as of 24 May 2024.

Throughout this Paper, blue boxes provide potential issues meriting Assembly consideration in plenaries and committees.

1 Recent economic performance

This section sets out Northern Ireland's recent economic performance in terms of: economic growth; employment; unemployment; and inflation – providing some context on the challenging circumstances in which Budget 2024-25 has been formulated. It does so as follows:

1.1 Economic growth;

1.2 Labour market; and,

1.3 Inflation.

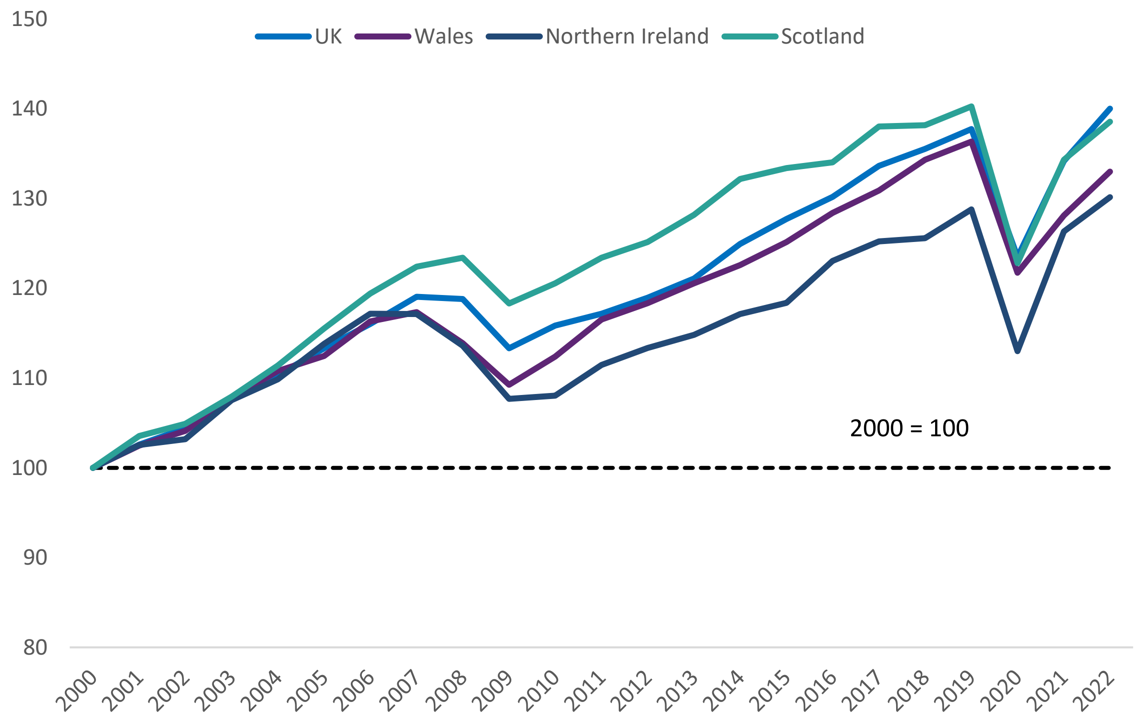
1.1 Economic growth

Gross Domestic Product (GDP) is a measure of the value of the goods and services produced in a country or region, and estimates the size and growth of the economy.

As illustrated in Figure 1 below, annual figures published by the Office for National Statistics (ONS) show that Northern Ireland's economy has grown by just over 30% in real terms[2] since 2000. This is lower than the United Kingdom average (40%) and the other devolved nations of Scotland (38.6%) and Wales (33%):

[2] Real terms data do not include the effects of inflation over time. Current (or "nominal") terms data do include it.

Figure 1: GDP growth, United Kingdom and Devolved Nations, 2000-2022, (2019 prices)



Source: ONS, April 2024

GDP in the United Kingdom and all devolved nations fell sharply in 2020 as a consequence of the pandemic and the restrictions that followed – but returned to growth in 2021 as the recovery began. The Northern Ireland economy grew by almost 12% in 2021, followed by 3% in 2022.

As of 2022, Northern Ireland's economy was 1.1% larger in real terms than it was in 2019, before the pandemic. By comparison, the economies of Scotland and Wales were 1.2% and 2.5% smaller, respectively.

Other data sources provide a more current picture of how both the United Kingdom; and Northern Ireland economies have been performing.

Monthly GDP data published by the ONS (available at the United Kingdom – but not regional – level) show that the economy grew by 0.4% in March. This took quarterly growth to 0.6%; which means that the United Kingdom economy is back out of the "technical" recession of late 2023. This data release also showed that GDP per person increased by 0.6%.

In Northern Ireland, the latest Ulster Bank Purchasing Managers' Index (PMI) showed that April marked the fifth consecutive monthly increase in business activity. Output increased across all four monitored sectors, led by manufacturing, where the pace of expansion quickened to a 25-month high.

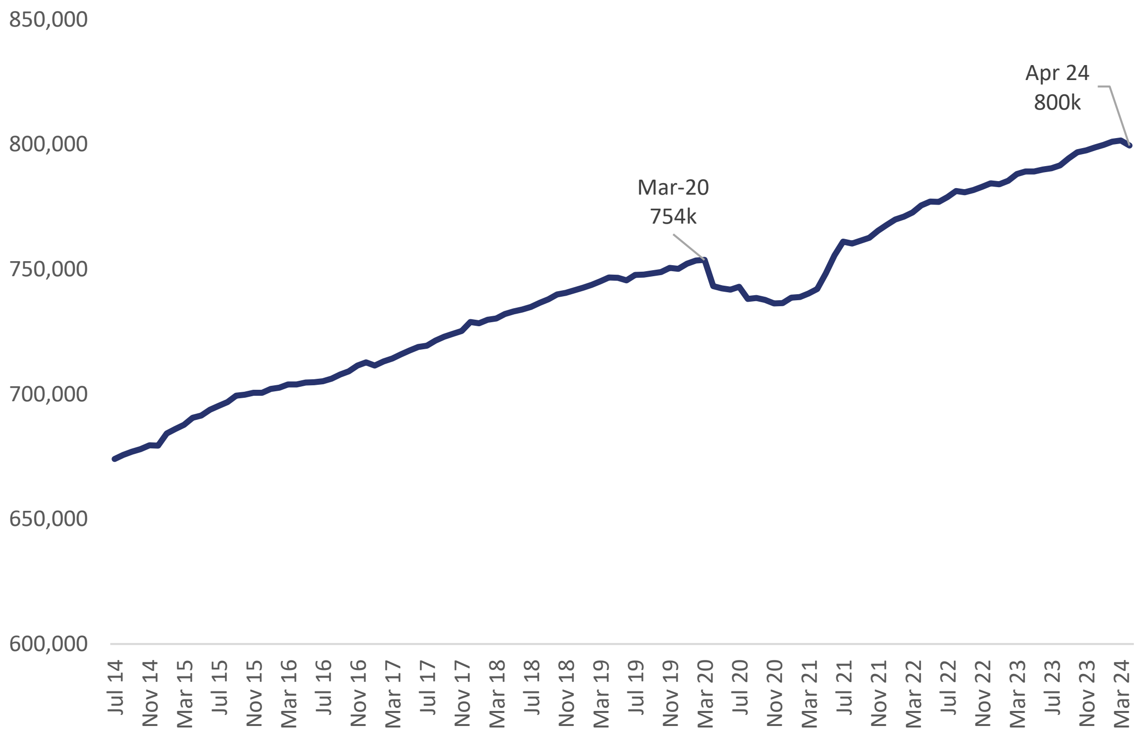
1.2 Labour market

This sub-section briefly outlines the performance of Northern Ireland's labour market in two key metrics: employment; and, unemployment. Economic inactivity is addressed separately in Section 2: "Challenges".

1.2.1 Employment

The latest labour market data from the Northern Ireland Statistics and Research Agency (NISRA) shows that the number of employees receiving pay through His Majesty's Revenue and Customs (HMRC) Pay as You Earn (PAYE) in April 2024 was 779,608. That represents a very slight decrease of 0.3% over the month, but an increase of 1.3% over the year. March 2024 was the highest level on record. Employee numbers have been back above pre-pandemic levels since June 2021. This is shown below in Figure 2 below:

Figure 2: Total payrolled employees, Northern Ireland, Jul 2014 – Apr 2024



Source: NISRA, May 2024

This headline employee jobs figure conceals some variation across sectors of the economy. According to the most recent sector-level data from NISRA, employee jobs are above their pre-pandemic level in all sectors of the economy. However, in April 2024, the majority of sectors saw a small decrease relative to March 2024.

Over the past year, the financial services (+4.1%), public administration (+3.3%) and energy production (+6.3%) have had the largest increases. Only two sectors have seen a decrease in employee jobs in the same time period: construction (-2.3%) and accommodation & food service (-2.8%).

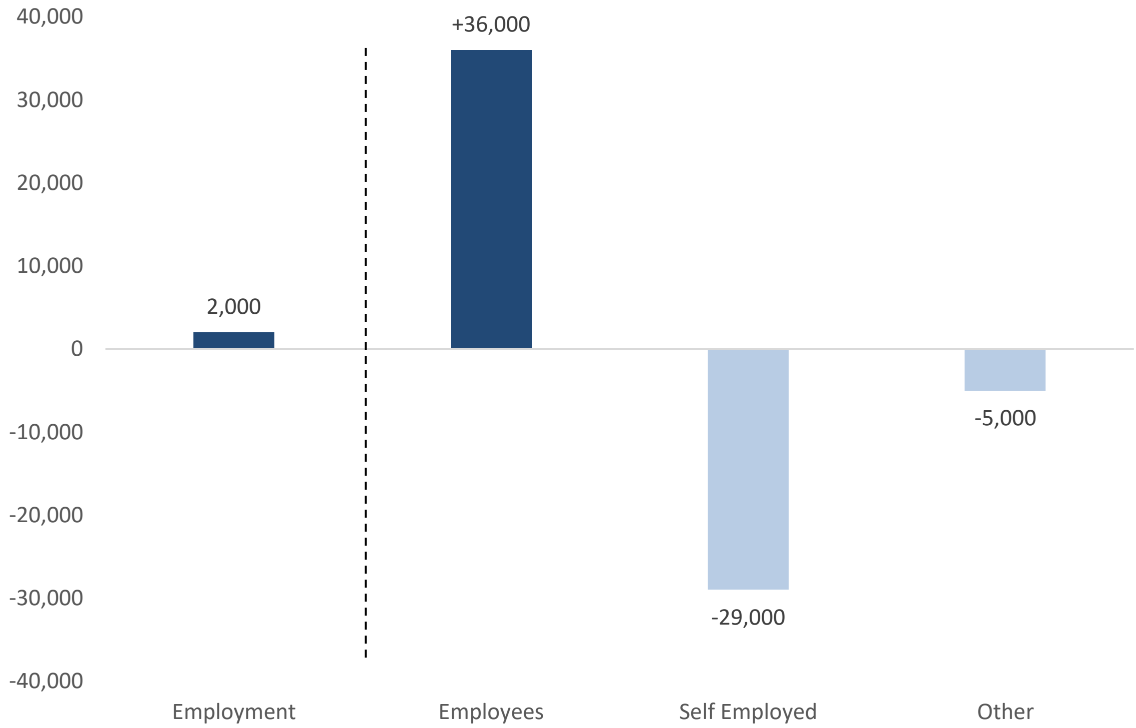
It is worth noting that despite the strong growth in the number of payrolled employees; the latest NISRA Labour Force Survey (LFS) data shows that **total employment**[3] has only just surpassed pre-pandemic levels. That is because

[3] Total employment = employee jobs + self-employed

“total employment” includes figures for the number of people who are self-employed.

Total employment (of those aged 16+) is slightly above (+2,000) its pre-pandemic level (in the period of December 2019-February 2020). This is because although there has been a large increase of +36,000 in the number of employees; the number of people who are self-employed or “other”[4] employees have seen a significant decrease – almost offsetting the rise in employee jobs. This is shown in Figure 3 below:

Figure 3: Drivers of employment change (age 16+), Feb 2020 – Mar 2024



Source: NISRA, May 2024

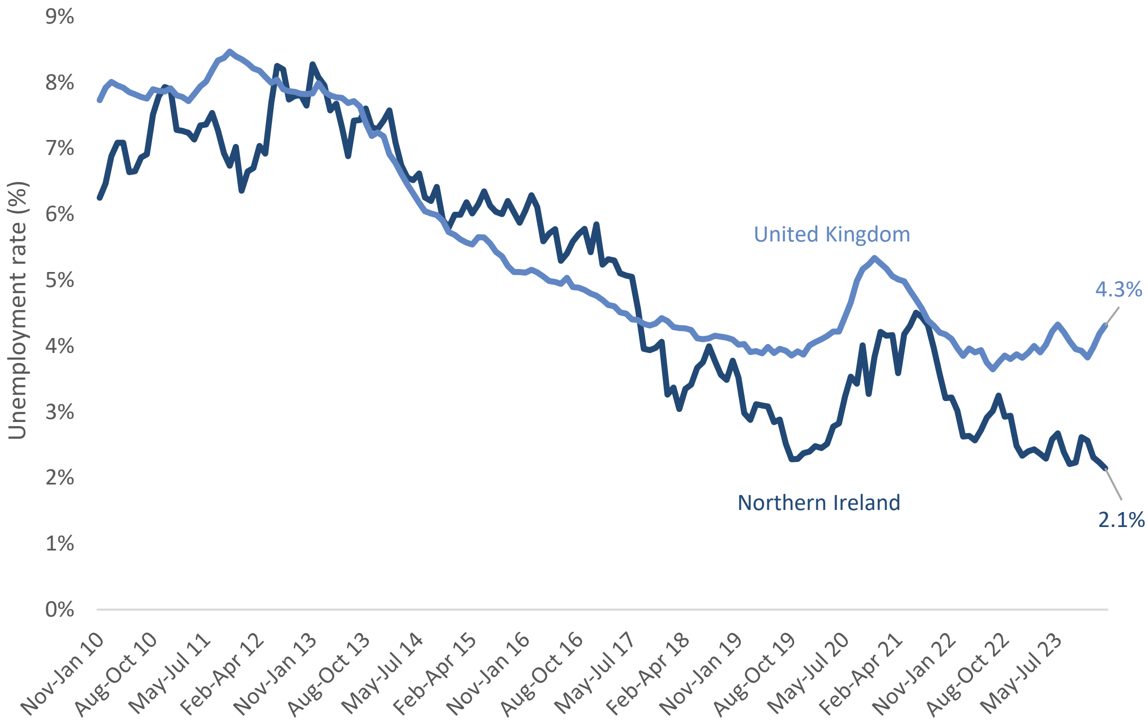
1.2.2 Unemployment

In addition to high employment levels, the unemployment rate in Northern Ireland is now at a historic low. The rate in the period of January-March 2024 was just 2.1% – below the United Kingdom average of 4.3% – as shown in Figure 4 below. A low unemployment rate indicates that there is a large number

[4] The “other” category includes those on government training schemes and unpaid family workers

of the working age population that are not unemployed – meaning that, instead, they could either be employed or economically inactive. In Northern Ireland, it is largely a consequence of a high economic inactivity rate (see subsection 2.1).

Figure 4: Unemployment rate (age 16+), Northern Ireland and UK, Jan 2010 – Mar 2024



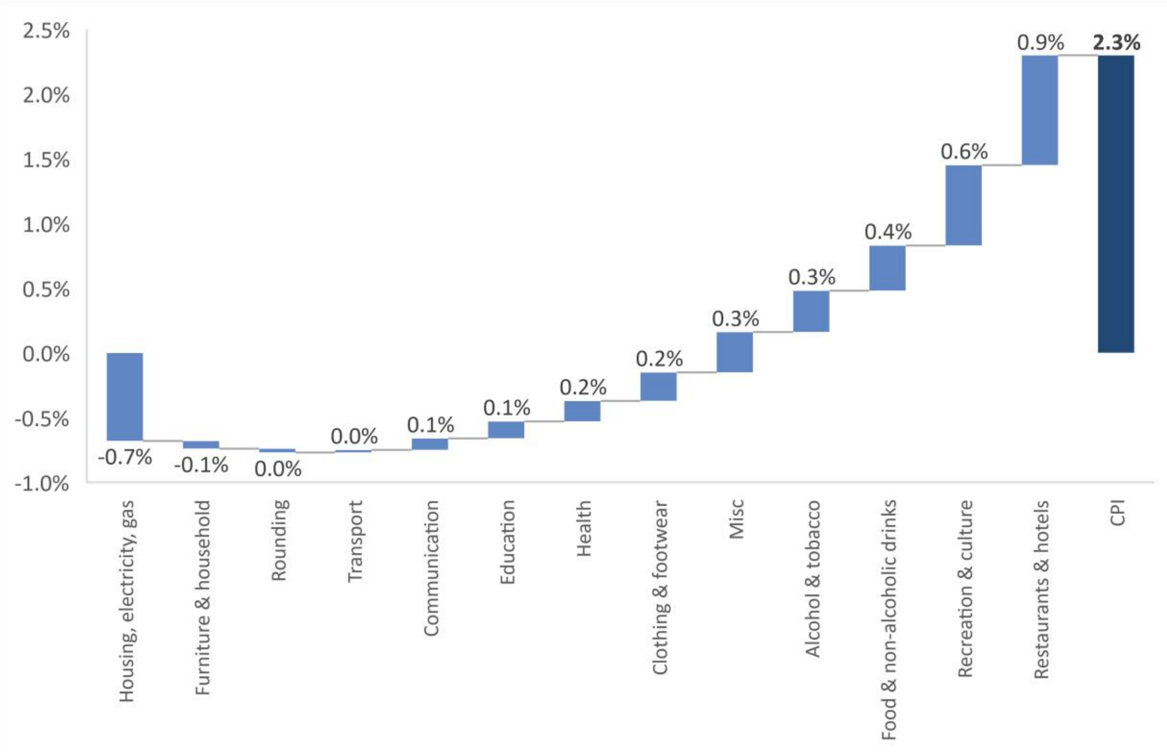
Source: [ONS](), [NISRA](), May 2024

1.3 Inflation

High Consumer Price Inflation (CPI) has been one of the United Kingdom (and Northern Ireland's) biggest challenges in the years following the pandemic – but has improved significantly in recent months. As of May 2024, the CPI rate was 2.3% – the lowest in three years – and just slightly above the Bank of England's target of 2%. In particular, gas and electricity prices were 38% and 21% lower, respectively, in April than 12 months ago.

The main contributions to April's 2.3% headline rate of CPI inflation were: restaurants and hotels (0.9%) and recreation and culture (0.6%) – as illustrated in Figure 5 below:

Figure 5: Components of CPI inflation, April 2024

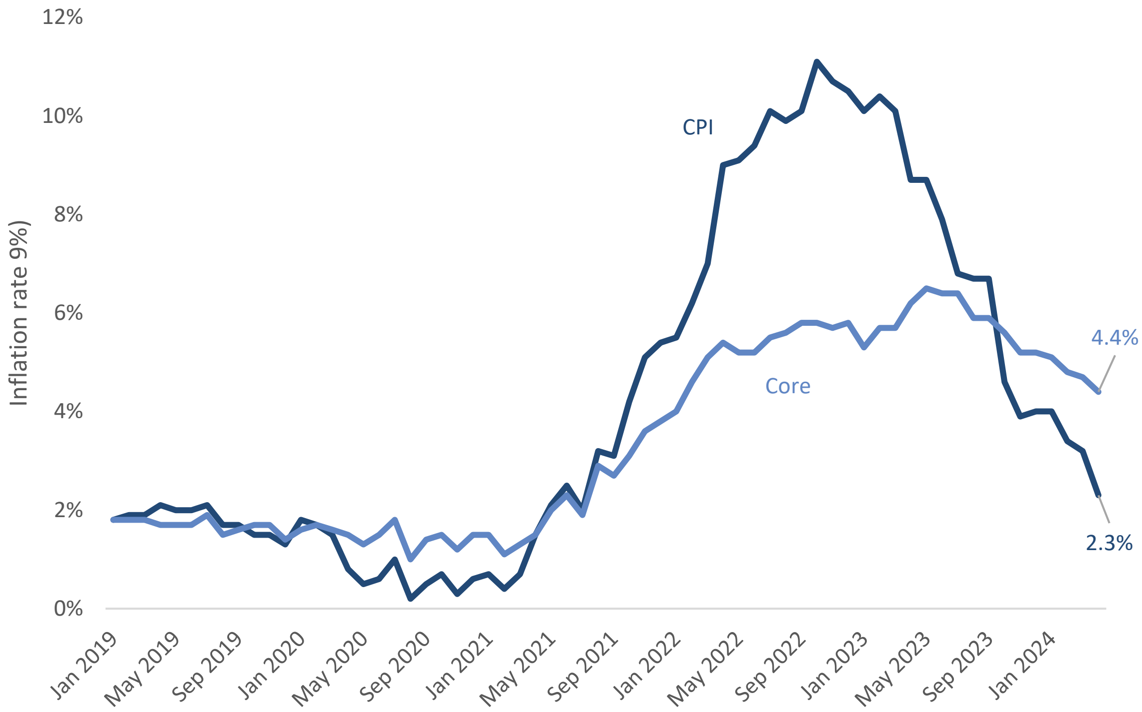


Source: ONS, May 2024

Core inflation (which excludes energy, food, alcohol and tobacco) has remained more stubbornly high. It has fallen each month over the past year, and was 4.4% in April 2024 – down only slightly from 4.7% in March 2024. This is shown in Figure 6 below.

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 6: CPI and "core" inflation, Jan 2019 – Apr 2024



Source: ONS, May 2024

2 Challenges

This section focuses on some of the key challenges facing Northern Ireland's economy. These include: persistently high economic inactivity; lower productivity than the United Kingdom average; potentially weak labour supply growth; and, poor inclusion performance. In the current budgetary context, it is important to understand the challenges facing the Northern Ireland economy, and the economic environment in which Budget 2024-25 has been formulated. This section is laid out as follows:

2.1 Economic inactivity;

2.2 Productivity gap;

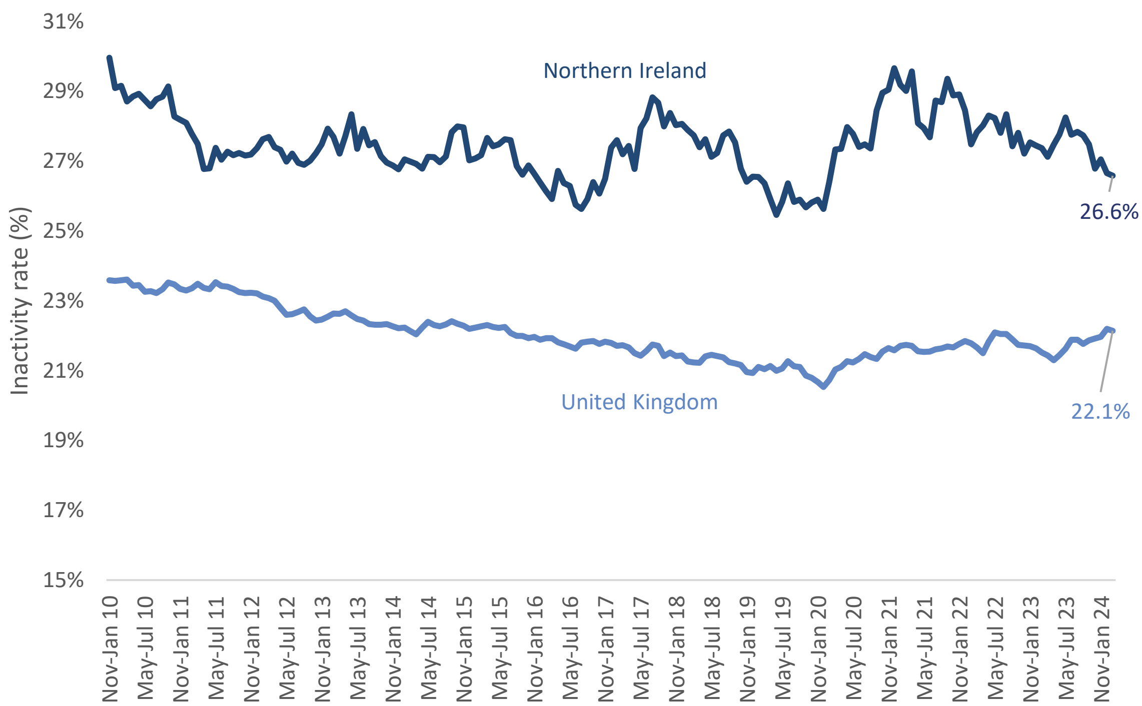
2.3 Labour supply; and,

2.4 Inclusion

2.1 Economic inactivity

High economic inactivity is 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 March 2024, the headline rate in Northern Ireland was 26.6%, relative to 22.1% in the United Kingdom. Figure 7 below highlights this:

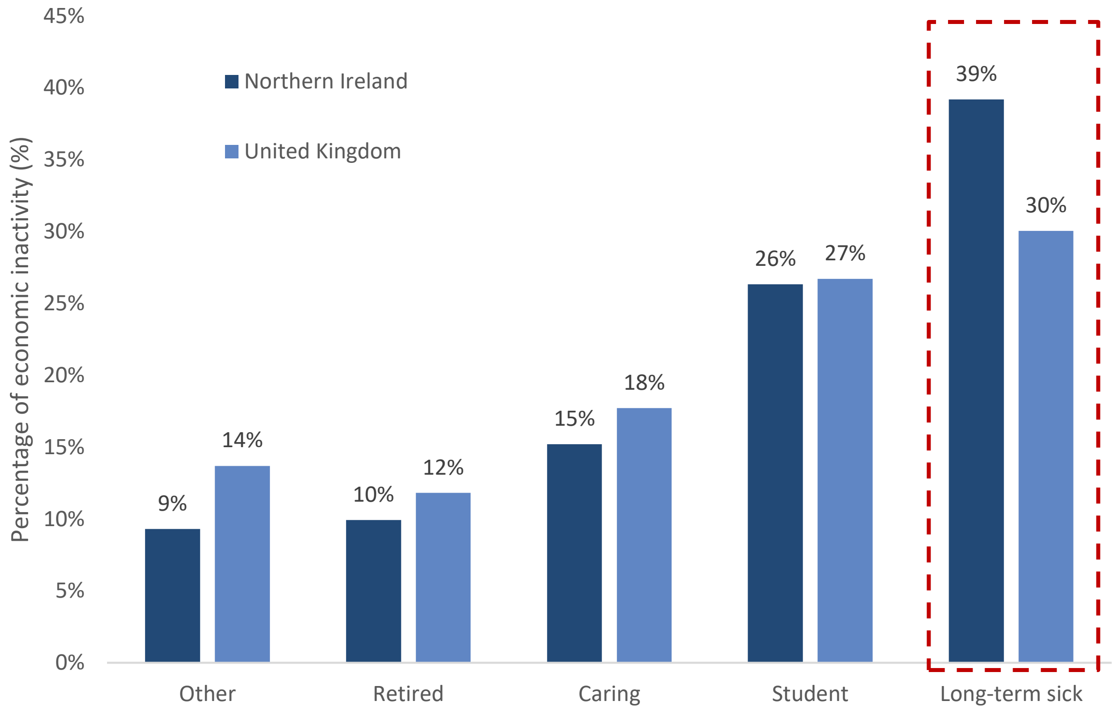
Figure 7: Economic inactivity rate, Northern Ireland & United Kingdom, Jan 2010 – Mar 2024



Source: ONS, NISRA, May 2024

There are a number of reasons for why people are economically inactive: dealing with long-term sickness or disability; looking after family or the home; students; and retirees. In relative terms, Northern Ireland is similar to the United Kingdom average for most of these reasons. However, it performs significantly worse in terms of economic inactivity due to long-term sickness or disability – which accounts for 39% of total inactivity in Northern Ireland, as opposed to just 30% in the United Kingdom. This is shown in Figure 8 below:

Figure 8: Reasons for economic inactivity, as a proportion of total economic inactivity, Northern Ireland and United Kingdom, March 2024



Source: ONS, NISRA, May 2024

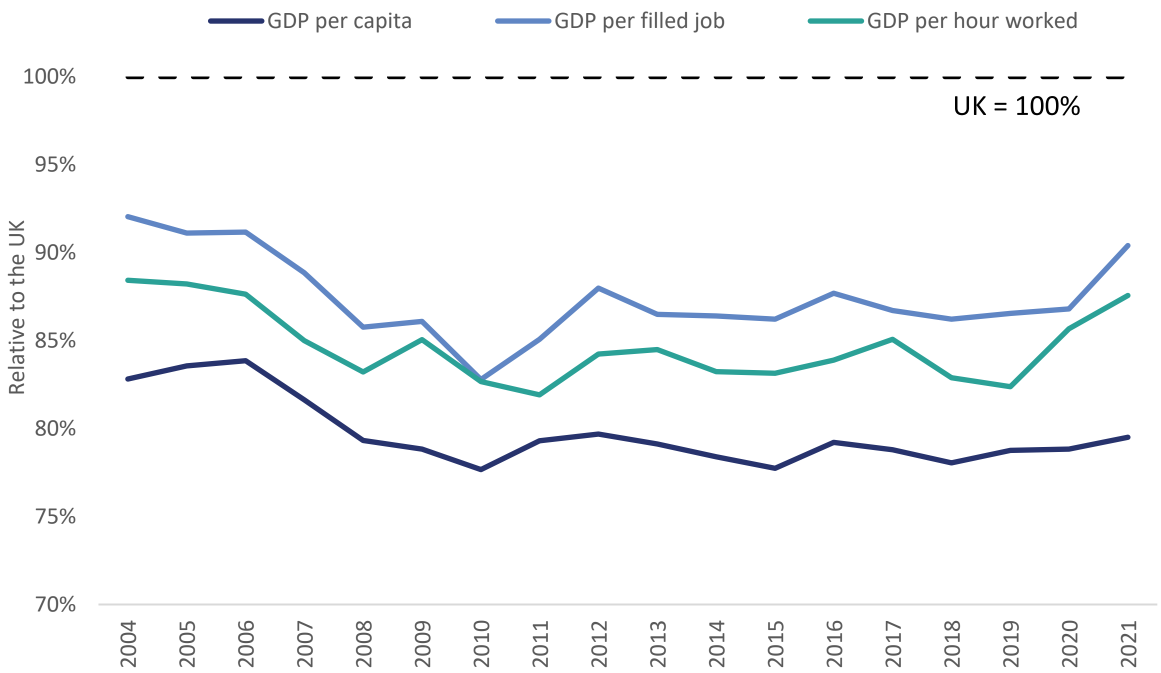
Potential Scrutiny Points for Consideration:

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?

2.2 Productivity gap

Northern Ireland's productivity gap to the United Kingdom average is another long-running economic challenge. 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



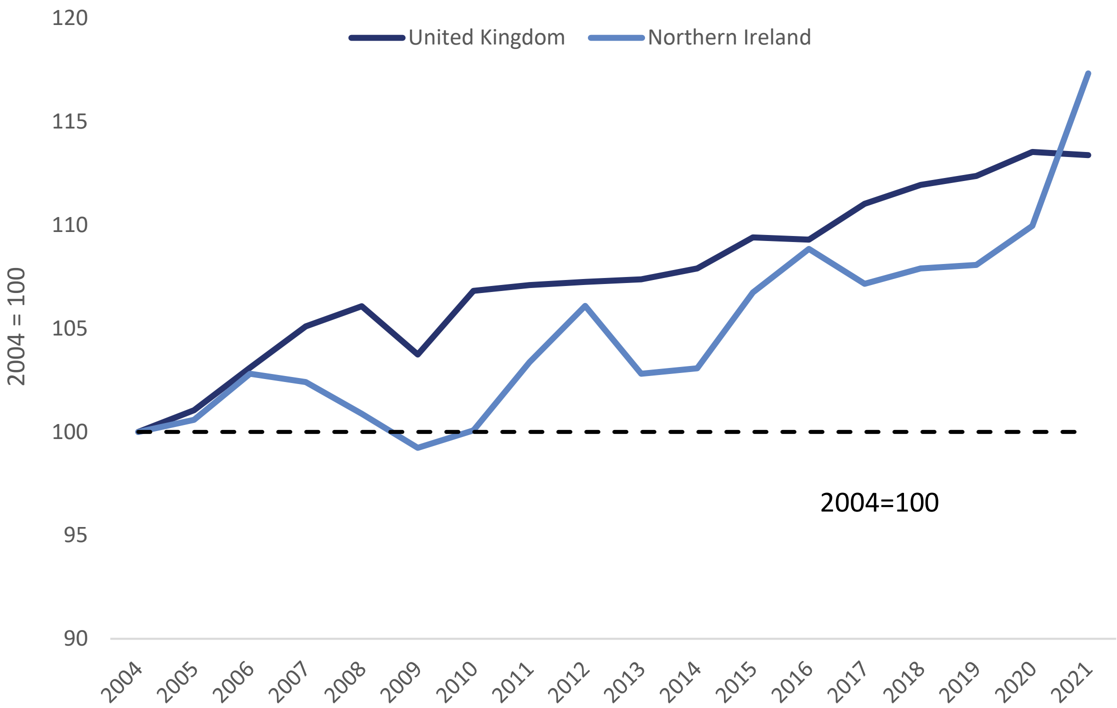
Source: ONS, June 2023

As shown in Figure 9 above, Northern Ireland has lagged the United Kingdom in terms of productivity growth (as measured by GDP per hour worked) since 2004.[5]

However, the most recently published data shows that in 2021, real GDP per hour worked increased significantly in Northern Ireland relative to other regions. It had moved up to 7th place from previously (and historically) having been ranked the lowest of the United Kingdom's twelve regions – see Figure 10 below:

[5] 2004 is the furthest back that published data on GDP per hour worked at both a Northern Ireland and United Kingdom level is available

Figure 10: Real GDP per hour worked, Northern Ireland and UK, 2004-2021, 2004=100



Source: ONS, June 2023

The sudden improvement in productivity highlighted above is largely due to the fact that between 2019 and 2021, Northern Ireland saw the **largest decrease in worked hours** of any region; falling by 10%. However, during the same time period, Northern Ireland also saw the **smallest decrease in GDP**, which fell by only 1%. Together, those factors drove Northern Ireland's unusually strong productivity growth in 2021.[6]

Northern Ireland's productivity gap 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

[6] Research by Queens University Belfast (2023) suggested that this improvement in Northern Ireland's productivity relative to other UK regions is unlikely to be maintained into the future – because it continues to possess weaknesses across key areas that drive long-term growth in productivity.

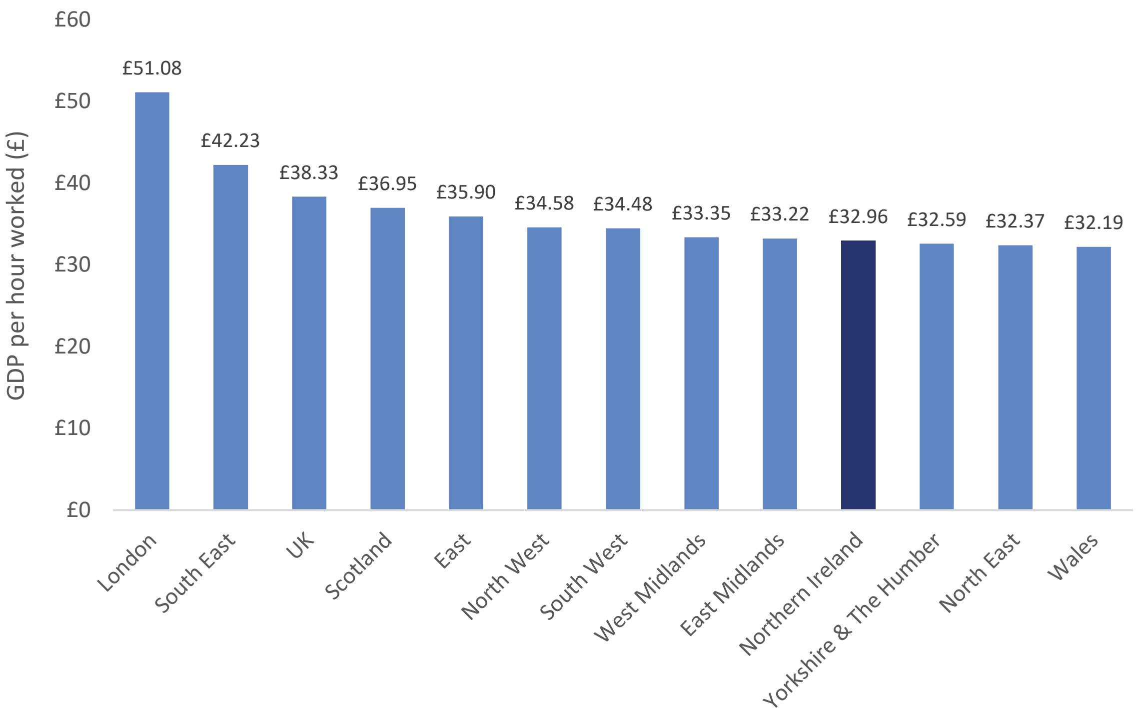
the United Kingdom average in the same sector (which itself could be caused by a number of factors, including poor management performance).

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 many possible 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.

Relative to the rest of the United Kingdom,[7] Northern Ireland was one of the lowest ranked regions in terms of GDP per hour worked (£32.96), and below the United Kingdom average (£38.33) – as of 2021. Only London (£51.08) and the South East (£42.23) ranked higher than the average. This is illustrated in Figure 11 below:

[7] In current price terms. Real terms data do not include the effects of inflation over time. Current (or "nominal") terms data do include it.

Figure 11: GDP per hour worked, UK and regions, 2021



Source: ONS, June 2023

Potential Scrutiny Points for Consideration:

2) Within the last 10 years, has Invest NI (non-departmental public body) and/or the Executive undertaken any work to identify factors contributing the productivity gap between Northern Ireland and the United Kingdom or the Republic of Ireland?

3) If yes, please detail what the work noted in response to (2.) above identified in terms of potential or actual proposals aiming to offer support or interventions that could help narrow the productivity gap between Northern Ireland and the UK or the Republic of Ireland?

4) If any support and interventions noted in response to (3.) above:

a. To what extent were those intended to attract investment in higher productivity sectors, versus investing in management and upskilling?

b. What would be or is the eligibility criteria for them, including, but not limited to, firm type, size and geographic location?

2.3 Labour supply

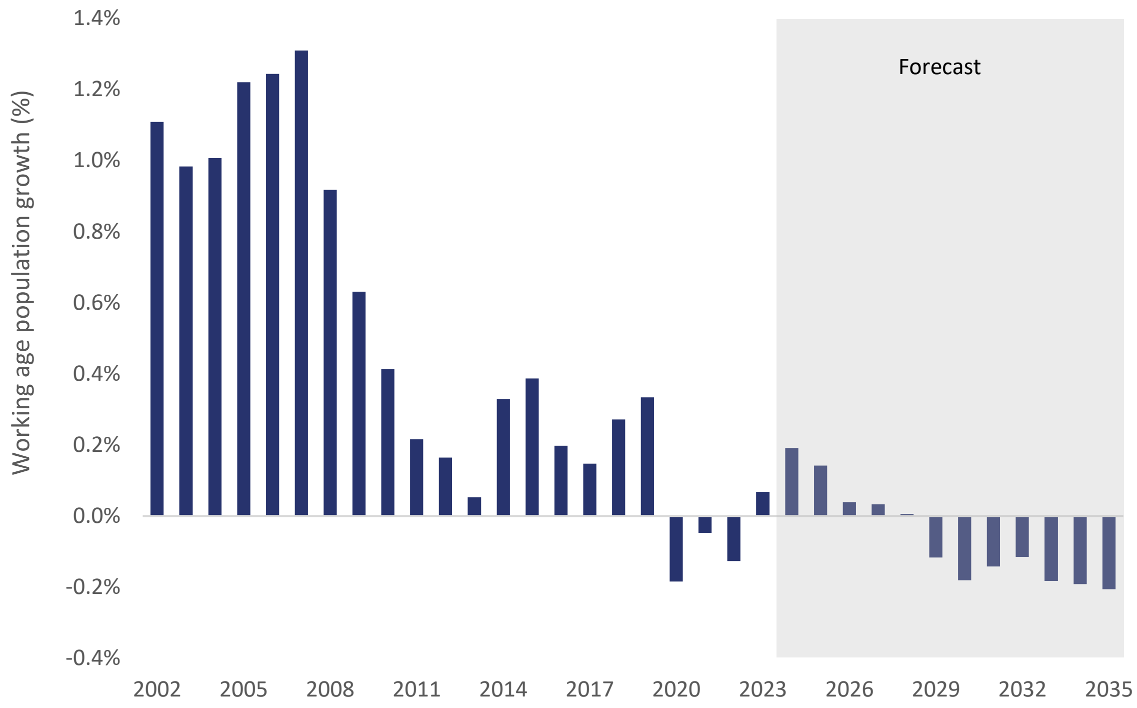
A potential challenge faced by the Northern Ireland economy is weak labour supply growth – an issue noted in Ulster University's Competitiveness Scorecard for Northern Ireland. This is a combination of low growth in working age population (internal) and net migration (external).

2.3.1 Internal labour supply

Growth in Northern Ireland's working age population has been weak in the last decade. Moreover, according to NISRA estimates, growth for that group is anticipated to be flat from 2026, and negative from 2029 onwards.[8] That means the working age population will decrease after 2029, as highlighted in Figure 12 below:

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

Figure 12: Working age population growth, Northern Ireland, 2002-2035

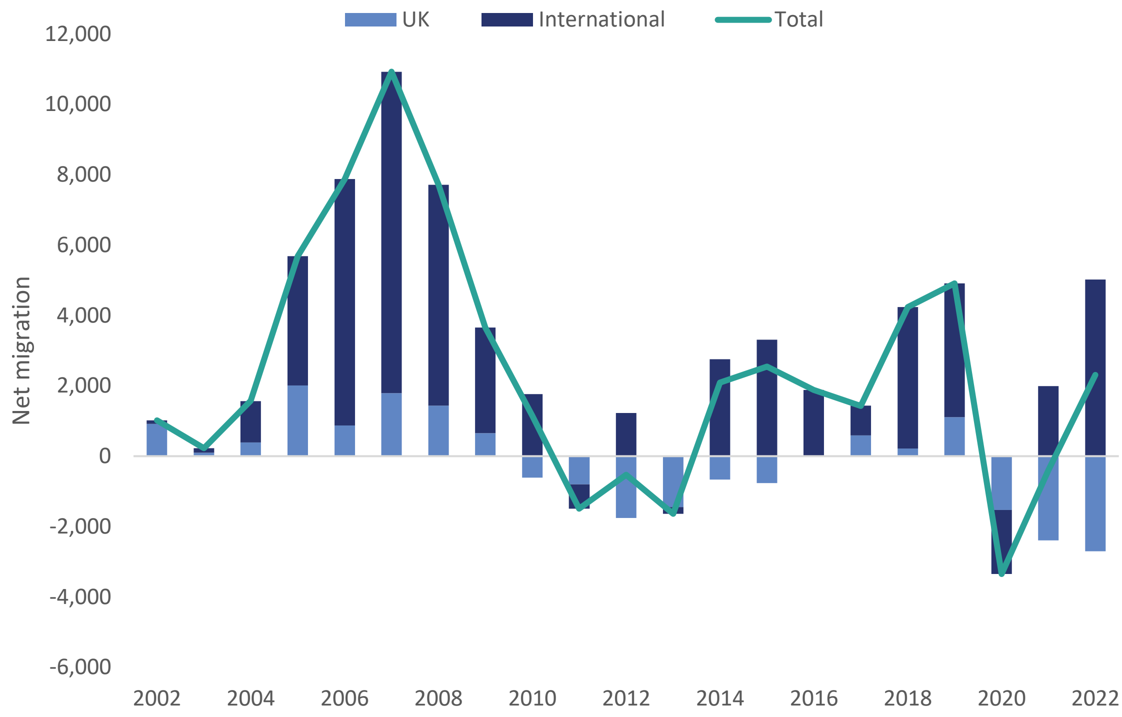


Source: NISRA, January 2022

2.3.2 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 13 below highlights the trend from 2002-2022:

Figure 13: Northern Ireland net migration, UK & Rest of world, 2002-2022



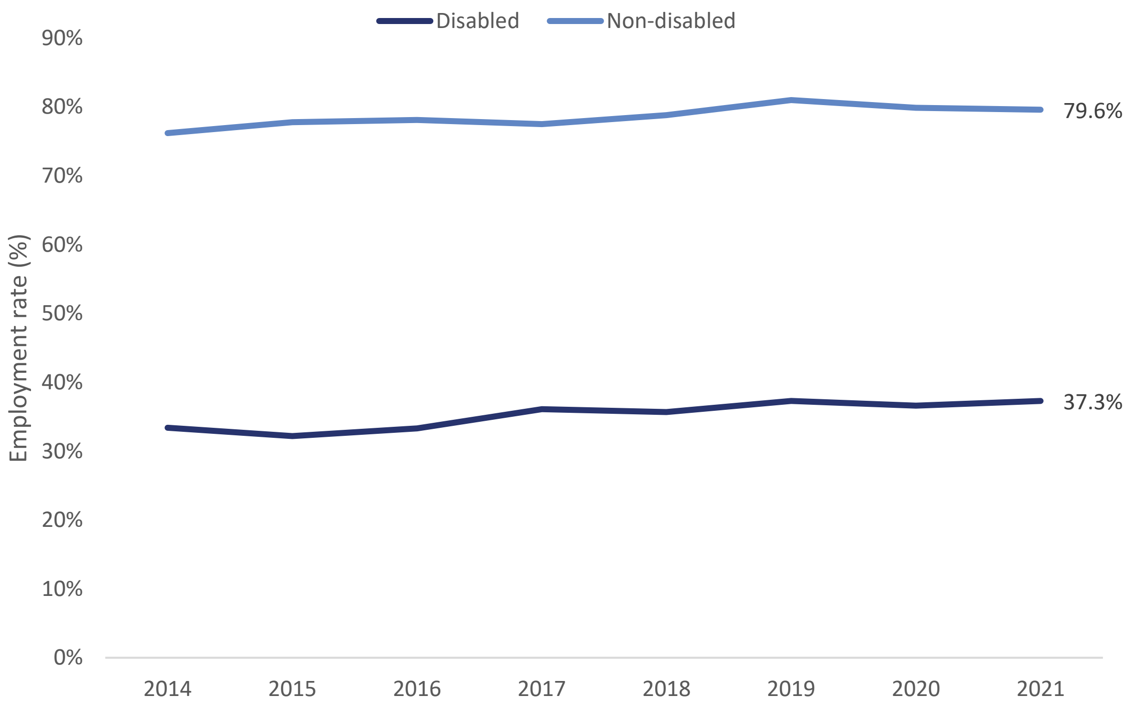
Source: NISRA, August 2023

2.4 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 14 below highlights this:

Figure 14: Employment rate, Northern Ireland, disabled & non-disabled, 2014-2021



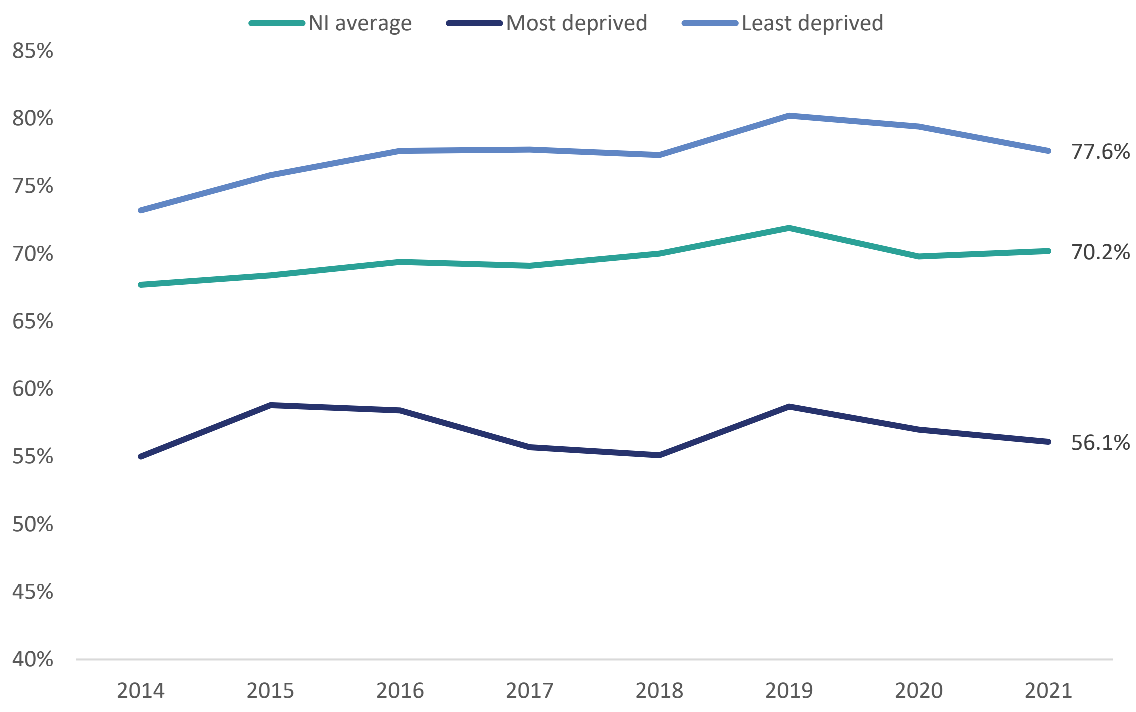
Source: NISRA, October 2023

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 15 shows:

Figure 15: Employment rate, Northern Ireland, most deprived & least deprived areas, 2014-2021



Source: NISRA, October 2023

3 Key takeaways

The third in the series; this Briefing Paper provides an overview of the economic context in which the Executive Budget 2024-25 was formulated and agreed.

Northern Ireland's economy has grown by just over 30% in real terms since 2000. This is lower than the United Kingdom average (40%) and the other devolved nations of Scotland (38.6%) and Wales (33%).

GDP in the United Kingdom and all devolved nations fell sharply in 2020 as a consequence of the pandemic. As of 2022, Northern Ireland's economy was 1.1% larger in real terms than it was in 2019, before the pandemic. By comparison, the economies of Scotland and Wales were 1.2% and 2.5% smaller, respectively.

Other data sources provide a more current picture of how both the United Kingdom; and Northern Ireland economies have been performing.

The latest GDP data published by the ONS shows that the United Kingdom economy grew by 0.4% in March, taking quarterly growth to 0.6%. This data release also showed that GDP per person increased by 0.6%. Meanwhile, the latest Ulster Bank Purchasing Managers' Index (PMI) showed that April marked the fifth consecutive monthly increase in business activity in Northern Ireland.

The latest labour market data from NISRA shows that the number of employees receiving pay through HMRC PAYE in April 2024 was 779,608 – a very slight decrease on March 2024 – which was the highest level on record. Employee numbers have been back above pre-pandemic levels since June 2021.

It is worth noting that despite the strong growth in the number of payrolled employees, total employment has only just surpassed pre-pandemic levels. That is because "total employment" includes figures for the number of people who are self-employed. So, although there has been a large increase in the number of payrolled employees; the number of people who are self-employed has seen a significant decrease – almost offsetting the rise in employee jobs.

In addition to high employment levels, the unemployment rate in Northern Ireland is now at a historic low of 2.1%. However, this is largely a consequence of a high economic inactivity rate of 26.6%, compared to the United Kingdom rate of 22.1%.

Inflationary pressures have eased significantly. In April 2024, the Consumer Price Inflation (CPI) rate was 2.3% – its lowest rate in three years – and just slightly above the Bank of England's target of 2%. In particular, gas and electricity prices were 38% and 21% lower, respectively, in April than 12 months ago.

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.

These points – both Northern Ireland's recent economic performance; and the challenges facing the economy – are important to consider as they provide a picture of the economic context in which the Executive Budget 2024-25 was formulated and agreed.