

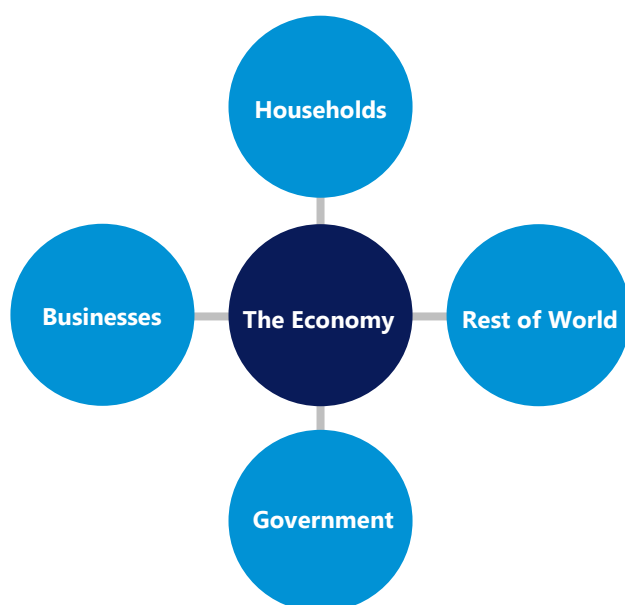
DETI Economic Commentary **October 2015**

Since our last edition, the local economic recovery has continued to progress but growth has been uneven across some indicators - although the latest data has been mostly positive. Independent forecasters expect local economic growth to be in the region of 1.9% this year but point out that risks, mostly on the downside, remain.

Overview

Across indicators there are signs that the NI economy is continuing to mend following the downturn. Since the last edition, there has been overall falls in the number of people claiming unemployment benefits, jobs growth, growth in economic activity and expansion across all three major sectors (services, production and construction) on a rolling 12 month basis.

However, growth has been uneven with some bumps along the continuing road to recovery. For example, the claimant count recorded its first rise in more than two years in June and job numbers decreased in two of the past four quarters – although the latest data points to a return to growth in jobs and falls in the claimant county tally. Growth is anticipated to be relatively modest this year and next and to be driven by the private sector. The remainder of this Commentary will consider performance in each of the following areas:



Research Highlights

- DETI has published a research report on the **Cost of Doing Business in Northern Ireland** which highlights that even taking into account some areas where NI has higher prices, it is overall a highly cost competitive location compared with both the UK and ROI.
- DETI has published an SQW report on **The Future of Early Stage and Growth Finance in Northern Ireland** in response to a recommendation from EAG in March 2013.
- The Enterprise Research Centre (ERC) published **Growth Dashboard** metrics where they identified that NI has the highest proportion of start-ups reaching at least £1m turnover within 3 years of any UK region.
- The ERC also published a report on **Benchmarking Local Innovation** across the UK with NI identified as one of the weakest reporting areas on innovation performance.
- The Northern Ireland Science Park published the latest edition of the **Knowledge Economy** which highlighted that NI has the second fastest growing Knowledge Economy Index in the UK for the second year running.

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The Economy

While all indications are that the local economy continues to mend, growth has not been consistently positive over the past year. The private sector continues to lead the recovery with independent forecasters expecting relatively modest growth for this year and next year.

-0.1% <small>quarterly change in economic activity</small>	+1.3% <small>annual change in economic activity</small>	+3,180 <small>quarterly change in employee jobs</small>	+8,680 <small>annual change in employee jobs</small>	+1.9% <small>forecast economic growth in 2015</small>
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Economic Activity

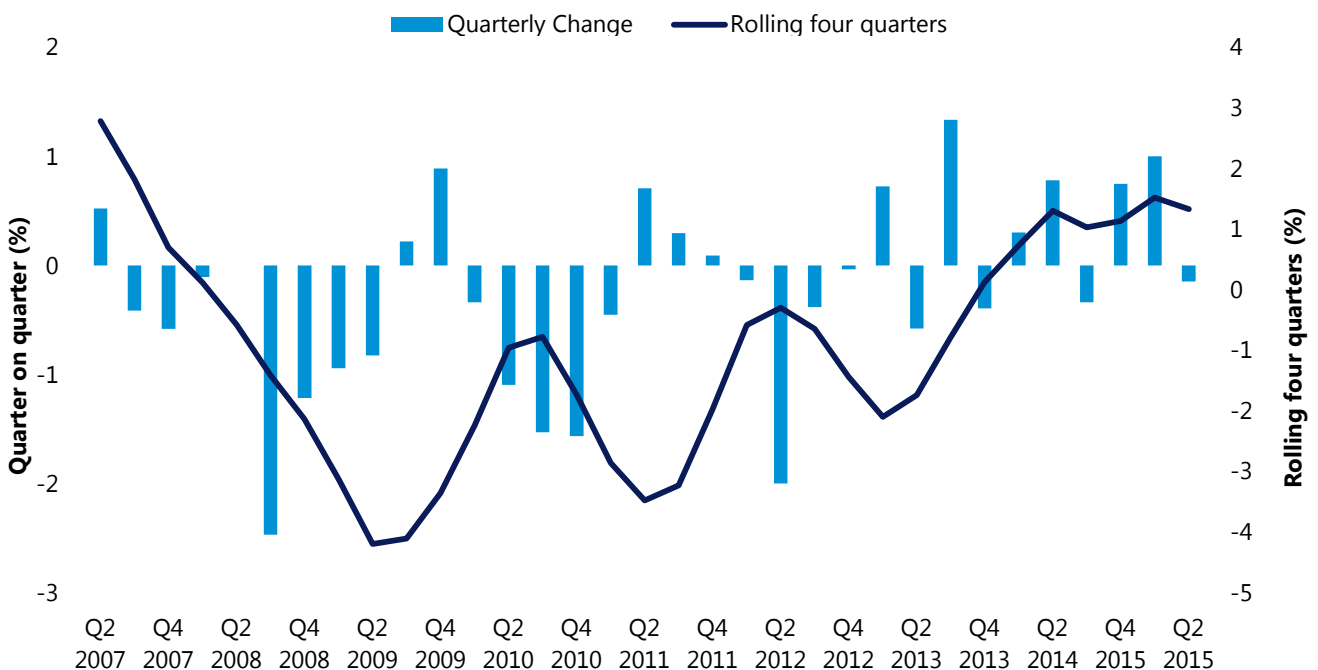
The latest economic activity figures from NISRA's Composite Economic Index indicate that the local economic recovery is continuing, with activity up 1.3% over the latest four quarters to Q2 2015.

However, growth has been uneven on a quarterly basis, with only two of the past four quarters posting growth. Growth was relatively strong in the final quarter of 2014 and the first quarter of 2015 but turned marginally negative in Q2 2015.

Despite this, the economy is heading in the right direction, with economic activity now 3.5% above the low point reached in the final quarter of 2012.

However, recent activity levels remain well below their previous peak levels. Local activity is currently 8.2% below its previous peak level recorded in Q2 2007. By comparison, UK GDP has since expanded by 7.7%, whilst ROI GDP is 8.5% above its Q2 2007 position.

Figure 1 - NI Composite Economic Activity

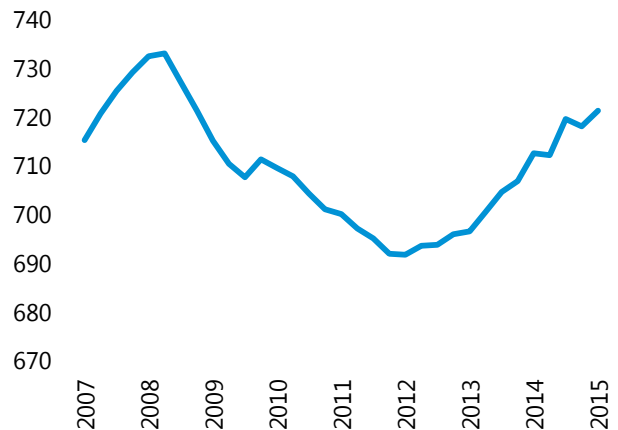


Employee Jobs

NISRA has delayed its employee jobs publication to allow for additional quality assurance checks to be carried out. For this reason, the latest results relate to March 2015. Over the latest quarter, more than 3,000 jobs were added to the local economy.

The latest set of quarterly figures point to a more fragile recovery, with jobs growth recorded in only two of the past four quarters. Over these four recent quarters, 8,680 net jobs were still added. However, this growth is slower than the preceding four quarters when jobs growth was almost double the rate. Overall, since jobs reached their recent low point (Mar 2012), the local economy has added 29,540 jobs.

Figure 2 - Employee jobs (000s)



Public and Private Sectors

The private sector has driven jobs growth over the past three years, adding just over 29,500 jobs during the period. It is also leading in terms of activity, which is up 2.1% over the latest four quarters (to Q2 2015).

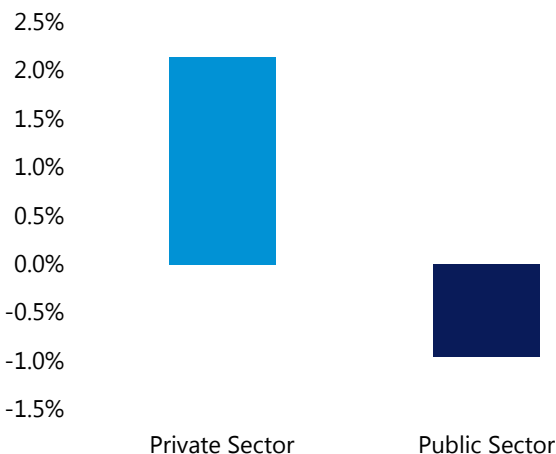
While 8,000 additional private sector jobs were added over the past four quarters, there has been some volatility in the job series with declines posted in two of the past four quarters. The Ulster Bank PMI survey indicates that staffing levels in private firms has continued to increase, with staffing levels in the survey increasing for eight consecutive months to September 2015.

In contrast, the public sector has experienced stagnant conditions. Over the latest quarter, 510 jobs were lost with the sector now 7.0% smaller in terms of jobs compared to its peak (Sept 2009).

Table 1 – Latest NI Growth Forecasts

GVA	2014	2015	2016
Oxford Economics	1.7%	1.7%	2.2%
Ulster University	2.2%	1.9%	1.1%
Danske Bank	1.3%	2.0%	2.2%
Ernst & Young	1.7%	2.0%	-
PwC	2.2%	1.8%	1.7%
Average	1.8%	1.9%	1.8%

Figure 3 - Economic activity (four quarters to Q2 2015)



Outlook

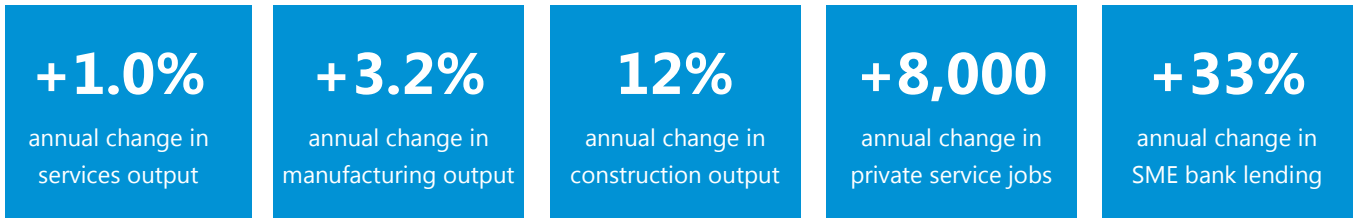
DETI does not produce economic forecasts, but does monitor those from external providers. On average, forecasters remain optimistic on NI's prospects with growth forecast to be marginally higher in 2015 at 1.9% than in 2014 (1.8%). Three new outlooks have been released in recent months:

- Conditions remain supportive for growth to continue according to **Danske Bank's** latest outlook. However, it notes that risks remain on the downside given the political uncertainty and the welfare reform impasse.
- NI is forecast to be the slowest growing region of the UK according to the latest **PwC** outlook. It expects gains from the relatively low oil prices to be partly offset by the higher exchange rate against the Euro.
- The **Ernst & Young** outlook predicts local growth to lag that of the UK and the Republic of Ireland with the strong pound impacting exports.

It is expected that the new **Ulster University** outlook will be published in November 2015.

Businesses

The services sector continues to post growth, although its pace has slowed. Meanwhile, manufacturing output contracted over the latest quarter but remains strong on an annual basis while construction output continues to mend at a fast pace.

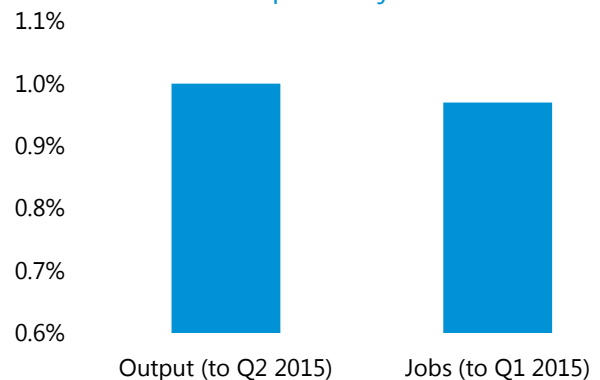


Services

Growth within the services sector remains relatively weak; at 0.5% over the latest quarter and 1.0% annually to Q2 2015. This compares unfavourably to the UK where services output increased by 3.1% on an annual basis.

The sector posted relatively modest jobs growth over the latest quarter (to Mar 2015) following a loss of jobs in the previous quarter, the first quarterly loss in the sector since the end of 2011. Over the past four quarters, the sector added 5,630 net jobs, 50% less than the previous four quarters.

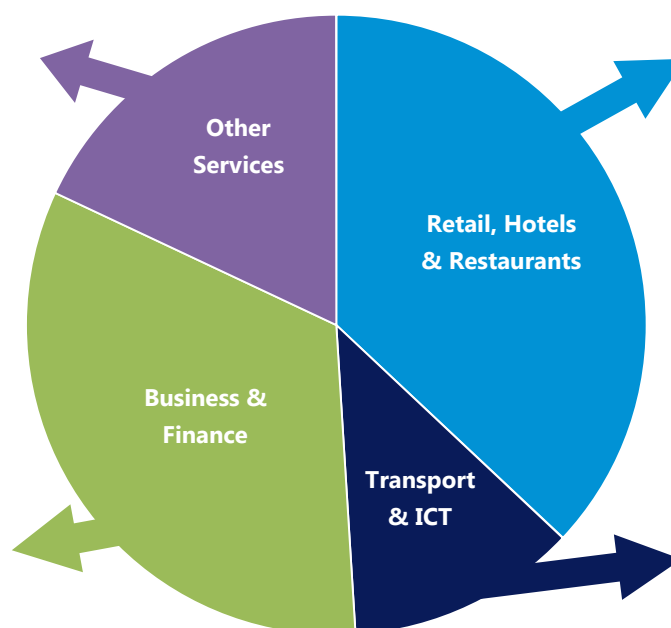
Figure 4 - Annual change in services output and jobs



Output decreased by 1.5% over latest year driven by particularly poor performance in Q1 2015 (-8.5%). There was net job growth over the latest year (490), driven by increased education jobs (+1,660).

Output up 1.0% over the year but three of the last four quarters recorded declines. Jobs were up 860 over the year with growth driven by legal and accounting activities (+1,290) and rental and leasing activities (+850).

Figure 5 - Relative size of private services



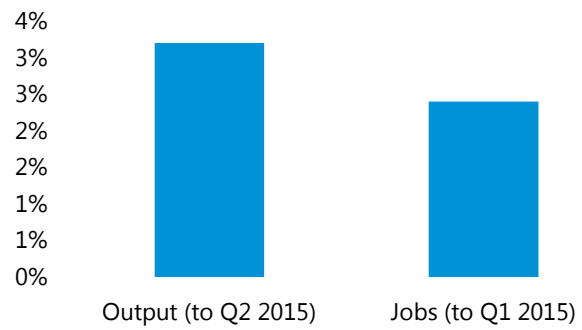
Strongest services sub-sector for output growth over the past year (1.6%). Also added 4,530 jobs over past year driven by growth in wholesale trade (7,520) although there was a big decline in retail jobs (-5,460).

Output contracted by 0.6% over past year but there was a positive showing in latest quarter (1.9% growth in Q2 2015). Jobs were marginally up over the year (+260) with transport jobs up +820 but ICT jobs down -560.

Manufacturing

Manufacturing has continued to post strong growth, with output up 3.2% over the past four quarters; however output did contract by 2.1% over the latest quarter to Q2 2015. This latest quarterly decrease was driven by a fall in the output of the manufacture of food, beverages and tobacco subsector (-5.3%). In terms of jobs, the sector has added 830 jobs over the latest quarter, bringing the total number of jobs in the sector to more than 80,000, the first time this has been the case since the end of 2008. Over the year, the sector added 1,870 net jobs.

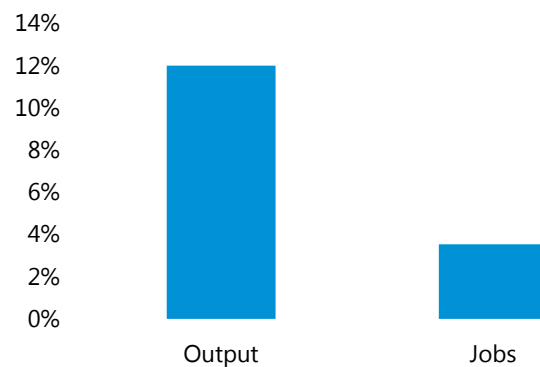
Figure 6 - Annual change in manufacturing output and jobs



Construction

Signs from the construction sector are that it is firmly in recovery mode; albeit from a relatively low base. Output increased by 2.0% over the latest quarter and on an annual basis by 12% (to Q2 2015) with output now 25% above its recent low, recorded in Q4 2013. This increased output has translated into additional jobs. Over the latest quarter, the sector added 1,620 jobs, its highest quarterly jobs growth in over 15 years. However, jobs growth has been fragile with growth reported in two of the past four quarters, although there was still net job creation overall (+1,070).

Figure 7 - Annual change in construction output and jobs



Key Business Trends

Finance is a key driver of business growth, and approved bank loans to SMEs totalled £462 million in Q1 2015, a 33% rise on the same quarter of 2014. A number of positive announcements have been made this year regarding the provision of support to local businesses. This included investment announcements by Decora Blinds and McAuley Precision and Mc Auley Fabrication which will help create 167 new jobs.

For the first half of 2015, there were 142 local firms that became insolvent, a 4% decrease on the same period of last year.

Table 2 – Selected Indigenous Investments

June – October 2015	Jobs
McAuley Precision and McAuley Fabrication	87
Decora Blind Systems	80
Westland Horticulture	70
Denroy Plastics	32
Kane Engineering	28

Other Business Surveys

Evidence from a range of independent surveys is mixed. Key points from these publications are shown below:

Ulster Bank PMI

- Business activity has increased for a fifth consecutive month to September.
- In September, growth was also seen across other indicators, including employment and exports.

InterTradeIreland Quarterly Business Monitor

- Results from Q2 2015 indicate that a similar proportion of businesses in NI (36%) and the ROI (40%) were in growth mode.
- Only 5% of local businesses were increasing employment, the lowest level since Q4 2013.

NI Chamber Quarterly Economic Survey

- Q2 2015 results indicate that the recovery is continuing but the pace has slowed.
- Challenging quarter for both manufacturing and services but some positives such as export performance.

Rest of the World

Local export performance has been weak although NI was the only UK nation to record an increase in activity over the year. The pound continues to be strong against the Euro which could reduce local business competitiveness in external markets; but potentially offsetting this, the outlook for key markets is positive.



Exports

This section focuses on the latest results from HMRC Regional Trade Statistics (RTS). RTS measure the value of exported goods and accounts for approximately two-thirds of NI's overall exports.

The RTS measure shows that NI exports increased by 3.6% over the latest quarter to Q2 2015, below the overall UK growth rate (4.9%). However, on an annual basis (four quarter average), NI recorded exports growth of 0.7% (£42.2m), the only UK nation to record a rise. On the same basis, the value of UK exports declined by 2.6%.

Over the past year, the biggest export gains were to the US (+£248m), Taiwan (+£34m) and Germany (+£17m). Conversely, the largest declines were to the ROI (-£126m), Australia (-£33m) and Russia (-£30m). In terms of sector, chemicals was the fastest growing (+£158m) whilst the largest decline was recorded in the machinery and transport sector (-£98m).

The strong pound continues to impact on NI's costs competitiveness in certain markets, in particular to the Euro area where the pound is up 6% against the Euro since the start of 2015.

Figure 8 - Exports of goods



Inward Investment

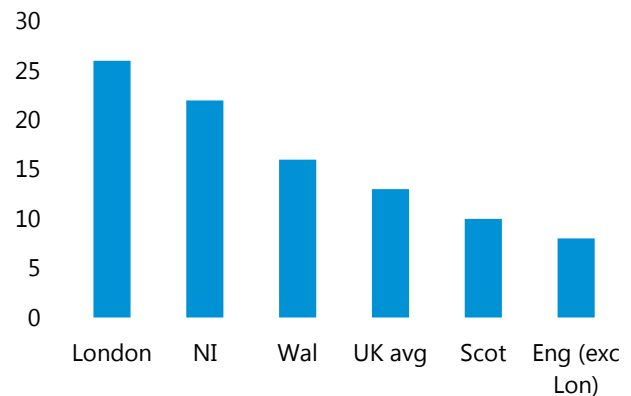
Following on from a strong year for Invest NI in attracting FDI during 2014/15, there have been notable announcements from the start of 2015/16. This includes Invest NI supported projects from Teleperformance who plan to invest £25m in a new site in Enniskillen which will employ 800 people when fully operational; OneSource Virtual who plan to invest £21m in a new site in Derry/Londonderry that will create 289 jobs; and Intelling, who plan to invest £8m in a new Belfast facility which will employ 250 people when fully operational. Invest NI's half year results for 2015/16 are expected to be published in December 2015.

Other sources continue to demonstrate how successful NI has been in recent years at securing FDI projects and jobs. For example, data from Ernst & Young's Investment Monitor indicates that NI secured approximately 1 in every 6 FDI jobs into the UK in 2014, the highest of any of the 12 UK regions. In terms of attracting FDI projects, the report also noted that Belfast was the second most successful city in the UK in 2014. As well as this, the UKTI Inward Investment report for 2014/15 showed that NI was the top destination for FDI jobs per capita outside of London.

Table 3 – Selected Foreign Investments

June – October 2015	Investment	Jobs
Teleperformance	£25m	800
OneSource Virtual	£21m	289
Intelling	£8m	250
Metaverse Mod Squad	-	100
NuoDB	-	20

Figure 9 - FDI Jobs per 10,000 persons 2014-15 (UKTI)



Tourism

The number of visitors to NI (non-resident) increased by 8% in 2014-15 but associated spending decreased by 9%. Over the year, the only market that experienced a rise in both the number of visitors (2%) and associated expenditure (11%) was the ROI. While the number of visitors from GB increased by 2%, spending by GB visitors fell 9%. Likewise, whilst visitor numbers from markets outside GB and ROI increased by 16%, spending fell by 14%.

Figure 10 - Visitor numbers and spend

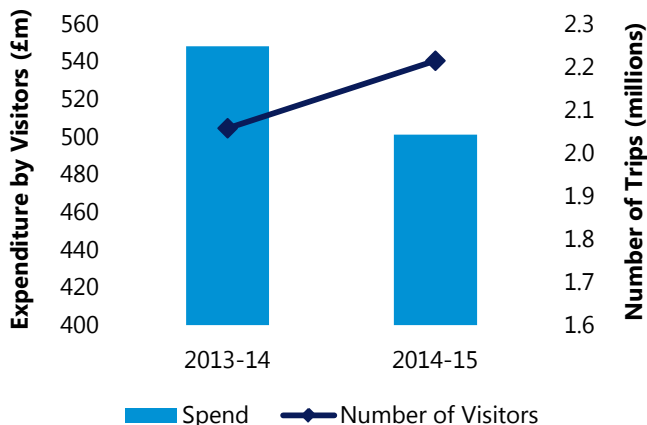


Table 4 – Key Market Growth Forecasts

GDP	2015	2016
UK	2.5%	2.2%
Rep of Ireland	4.8%	3.8%
Eurozone	1.5%	1.6%
US	2.6%	2.8%
Canada	1.0%	1.7%
China	6.8%	6.3%

Key Markets Outlook

Global growth is projected to slow in 2015 before picking up speed next year - with growth to be stronger in both advanced and emerging economies when compared to 2015. For the UK, steady growth is predicted, supported by low oil prices and a recovery in wage growth. The Eurozone is projected to continue its recovery sustained by lower oil prices, monetary easing and euro depreciation. The Republic of Ireland is expected to be the bloc's fastest growing economy in 2015. Elsewhere, the US recovery is expected to continue partially supported by lower energy prices, however; as a commodity exporter, Canada's economic outlook has worsened.

Households

It has been a mixed bag for households. There are a range of encouraging signs including further falls in the number of people claiming unemployment benefits and rising house prices. However, consumer confidence has been knocked and there are indications that retail is facing challenging times.



Unemployment

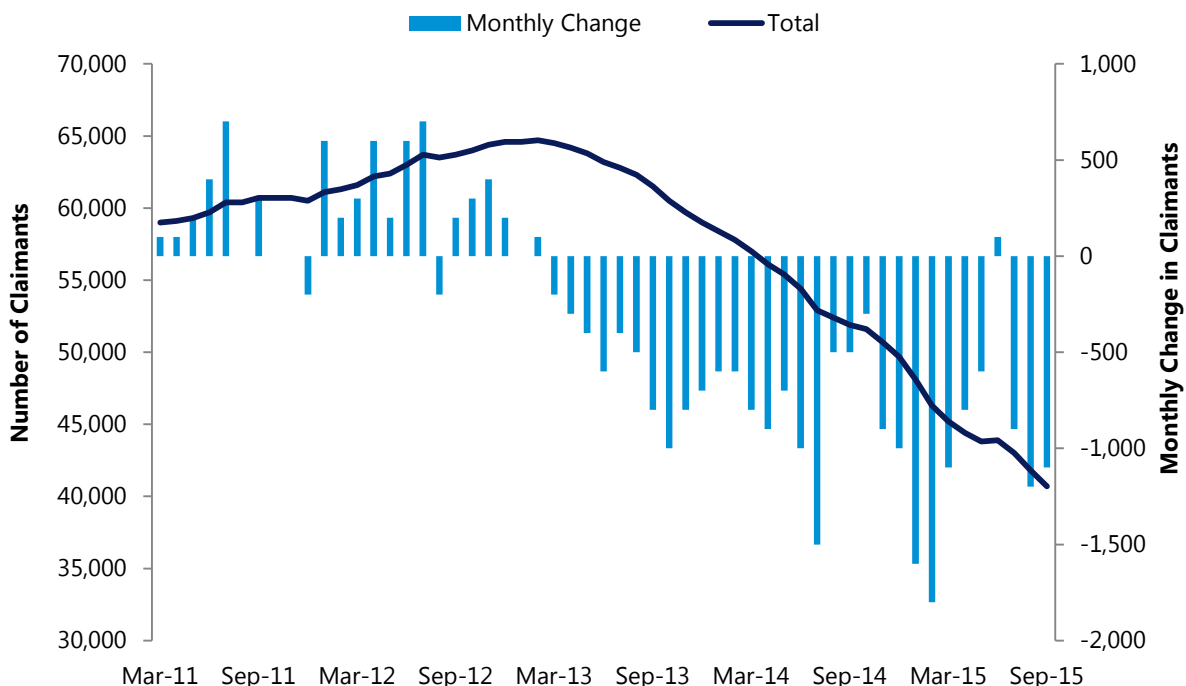
The number of people claiming unemployment benefits has fallen every month since its peak in February 2013 with the exception of June 2015 when it rose marginally (by 100). Over the past year, the claimant count tally has fallen by 11,200, an annual decrease of 21.6%, the largest annual fall in percentage terms since April 2000.

Despite NI's recent positive performance, the claimant count is still 73% higher than its previous low in August 2007. As well as this, the proportion of people claiming benefits for one year or more has been rising over time, now reflecting nearly four in every 10 (38%) people claiming benefits.

The LFS unemployment rate for the June to August 2015 period was 6.0%. The LFS rate has been trending downwards following its peak in November to January 2013 (when the rate was 8.3%). The latest rate is above the UK rate of 5.4% and is ranked fifth highest of the 12 UK regions.

Despite recent improvements, the current unemployment rate remains well above its previous low of 3.2% in May to July 2007. The youth (aged 18-24) unemployment rate, at 18.7%, is well above the UK rate (13.8%), as is long term unemployment (those unemployed for 1 year+, with the NI rate at 59.1%, more than double the UK rate (59.1%).

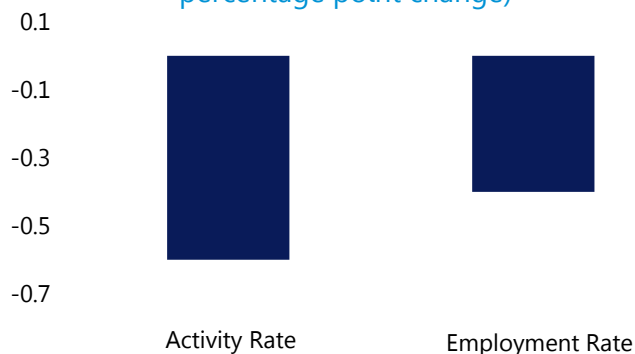
Unemployment Benefit Claimants



Employment and Activity

The LFS employment rate has been increasing since the middle of 2009 but has remained relatively static at around 68% over the past two years. The current rate of 67.9% (Jun-Aug 2015) is 0.4 pps lower than one year earlier, but 4.1 pps above its lowest point. The NI employment rate remains well below the UK (73.6%), which is at its highest rate on record. The proportion of economically inactive persons in NI stands at 27.6%, slightly above its level last year but down 4.2 pps on its downturn peak. Again this remains well above the UK rate of 22.1%.

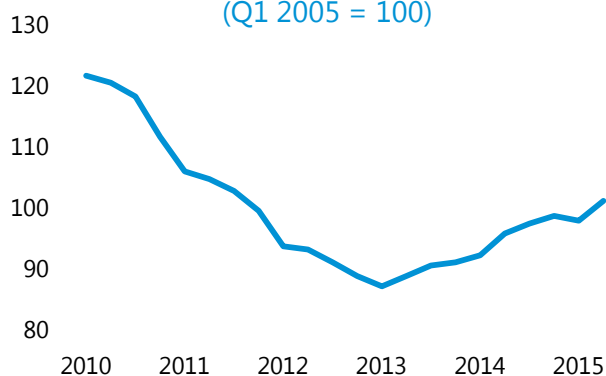
Figure 12 - Participation rates (annual percentage point change)



Housing Market

The NI Residential Property Price Index reflects that local house prices have increased by 3% over the latest quarter to Q2 2015 with growth now recorded in eight of the last nine quarters. Despite this, local house prices remain 50% lower than their peak, achieved in Q3 2007. ONS estimate that UK house prices increased 5.2% over the year to August 2015. However, there are clear disparities between UK nations with Scotland recording a decline over the year (-0.9%), Wales recording limited growth (0.8%), but both NI (2.9%) and England (5.6%) posting solid growth.

Figure 13 - House price index (Q1 2005 = 100)



Consumer Spending

There are mixed signals across household indicators with signs that challenging conditions exist for local retailers:

Retail sector

- The number of jobs within retail has fallen by 5,460 over past year to March 2015.
- Footfall in July was down 4.5% compared to one year earlier with vacancy rates also rising.

Domestic tourism

- There were 20% more overnight stays in NI by locals in 2014-15 compared with 2013-14.
- Spend by locals on tourism also increased by almost one-quarter (23%) over the year.

Consumer confidence

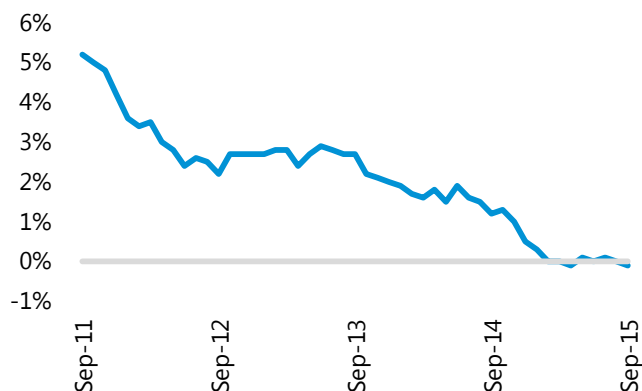
- Danske Bank reports that household confidence fell over the quarter to Q2 2015.
- All aspects of the survey worsened over the latest quarter.

Prices

Price inflation has remained around the zero mark for most of 2015 with the latest figures indicating the rate returned to negative territory once again in September, although only marginally (-0.1%). Over the year to September, food prices fell 2.5% while the price of motor fuels fell 14.9%.

This current CPI rate is well below the Bank of England target of 2%, although its latest inflation report notes its expectation that the rate will return to 2% within two years.

Figure 14 - CPI annual inflation



Government

The public sector remains a dormant factor in NI's economic recovery. While there was a marginal increase in public sector jobs over the past year, jobs here have been steadily declining since 2009. Further declines are anticipated in coming years, given the ongoing reductions to public spending.



Jobs

Conditions within the local public sector remain stagnant with 15,880 fewer jobs in March 2015 compared to September 2009. However, the rate of decline has been slowing, with two of the past four quarters posting job growth and 20 net jobs added overall. This is in contrast to the UK where public sector employment continues to decline at a faster pace, with the sector 15.6% smaller in Q1 2015 when compared to Q3 2009 and experiencing a further decline (-1.0%) over the past year.

It has been a tale of two halves over the past year in NI's public sector. Jobs within central government increased over the year, driven by an increase in teaching and non-teaching staff. Outside of this, jobs within NI's departments and their bodies decreased. Local government jobs also decreased along with UK central government jobs.

Table 5 – NI Public Sector Jobs Breakdown

	Jobs Mar 15	Jobs No	Annual Change %
NI depts (incl bodies)	37,685	-498	-1.3%
DFP	3,861	57	1.5%
DRD	3,460	-37	-1.1%
DEL	2,747	35	1.3%
DETI	1,523	-12	-0.8%
DE	1,162	1	0.1%
OFMDFM	612	-14	-2.2%
Other NI central govt	67,321	1,243	1.9%
Other public sector	105,026	-845	-0.8%
NHS trusts	68,242	21	0.0%
Local government	11,934	-415	-3.4%
Public corporations	6,769	-71	-1.0%
UK central government	3,818	-335	-8.1%

Figure 15 - NI public sector jobs

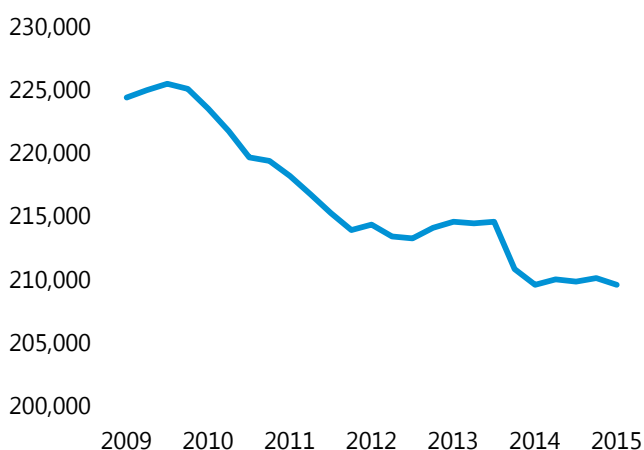
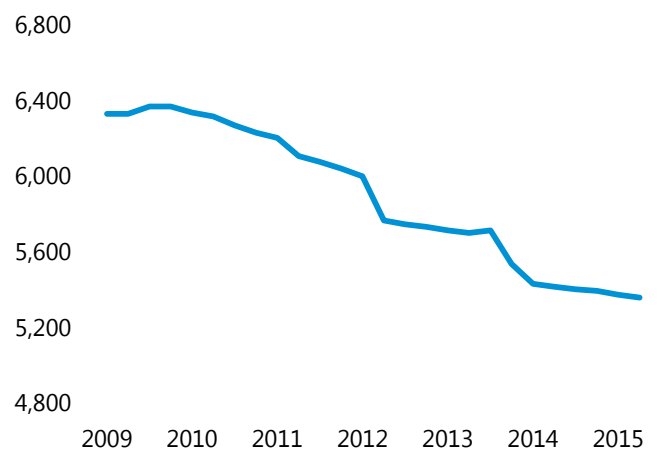


Figure 16 - UK public sector jobs (000s)



Research Highlights

This section highlights recent publications in key economic policy areas that will be of interest to readers over the period June 2015 to October 2015. Links to each report can be found by clicking on the highlighted title.

Cost of Doing Business

DETI Analytical Services Unit, with InterTradeIreland and the Ulster University Economic Policy Centre both playing an important role as part of the steering group, has undertaken research on the **Costs of Doing Business in NI**. The research aimed to identify those costs which represented the greatest burden to businesses, how they have changed in recent years and how this compared to costs in the UK and ROI. The research highlighted that although rising costs were a key issue for businesses during the downturn, these pressures have now eased substantially. NI is a more competitive location than both the UK and ROI with costs of doing business that are 95% of those in ROI and 84% of those in the UK.

Equity Finance

DETI commissioned SQW to undertake research on the **Future of Early Stage and Growth Finance in NI**. This study found that although there have been recognisable improvements in the availability and supply of growth finance in NI (largely driven by public sector intervention) NI needs to be ambitious in developing its growth finance market as it has been estimated that the demand for growth finance in NI will rise from c.£10m currently to £25-30m by 2025.

Growth Dashboard

The Enterprise Research Centre developed a **Growth Dashboard** to present growth metrics for start-ups and existing firms across the UK. Whilst NI was identified as having the lowest proportions of fast growing businesses between 2011-14 it did have the highest proportion of start-ups reaching at least £1m turnover within three years which is a much higher level than in Scotland and Wales and many of the local areas in England.

High Growth Firms

DETI Analytical Services Unit published a fifth update bulletin in their series analysing the performance of **High Growth Firms**. The latest release focused on the practicalities of linking the existing IDBR High Growth Firm database onto other Northern Ireland business survey databases, e.g. the Northern Ireland Annual Business Inquiry (ABI) and the Manufacturing, Sales and Exports Survey (MSES). The results showed that High Growth businesses did produce different outcomes from non-High Growth businesses across a range of metrics. For example, HGFs appear to have been generally more successful than non-HGFs in their business performance during the period 2008 to 2011. Whilst other results also showed changes which appeared correlated with being a HGF, for example HGFs experienced higher rising employment costs per head as well as purchases per head.

Knowledge Economy

The Northern Ireland Science Park published the latest edition of the **Knowledge Economy Index** highlighting that NI has the second fastest growing Knowledge Economy (KE) index in the UK for the second year running, ranked 10th out of the 12 UK regions. Around 10% of NI's GVA is generated directly or indirectly by the KE with KE salaries 50% higher than the NI average.

Benchmarking Local Innovation

The Enterprise Research Centre published a report on **Benchmarking Local Innovation** to provide a 'geography of innovation' across the UK using innovation benchmarks for local areas.

The report identified NI, along with Eastern Scotland and Cumbria, as the weakest regions based on innovation performance. For example, the proportion of firms reporting they had undertaken R&D in Scotland, Wales and NI was either at or below the English average.

Notes and Sources

Notes:

Statistical publications often refer to an annual change when referring to the latest reference period compared with the same period one year earlier. However, results for individual quarter are often highly volatile, and looking at changes just within this specific reference period across years can give a misleading picture as to what trend performance actually is. We prefer to look at the latest four quarters compared with the previous four quarter for many variables to give a better overview of actual trend performance, which is particularly relevant when looking at output/activity as this is what annual GDP/GVA relates to. For ease of reference we have used the term 'annual change' to represent a four quarter change for some indicators. However, for indicators such as job numbers, annual change continues to refer to the latest quarter compared to the same quarter one year earlier. To avoid confusion, our references to annual change may therefore differ from those in published statistics relating to:

- Economic activity
- Production output
- Services output
- Construction output
- Exports of goods
- Tourism statistics

Sources:

Sources	
The Economy	NI Composite Economic Index (NISRA); Quarterly Employment Survey (NISRA); Economic Eye Summer 2015 (Ernst and Young); Quarterly Sectoral Forecast Q3 2015 (Danske Bank); NI Economic Outlook (PwC); Forecasts Subscription (Oxford Economics)
Businesses	Index of Services (NISRA); Index of Production (NISRA); NI Construction Bulletin (NISRA); Quarterly Sectoral Forecasts Q3 2015 (Danske Bank); NI Banking Statistics (British Bankers Association); Invest NI; Insolvency Statistics (The Insolvency Service); Redundancies (DETI); Purchasing Managers Index (Ulster Bank); Business Monitor Q2 2015 (InterTradeIreland); Quarterly Economic Survey Q3 2015 (NI Chamber of Commerce and Industry)
Rest of the World	Regional Trade Statistics (HMRC); Invest NI; Tourism Statistics (NISRA); World Economic Outlook October 2015 (International Monetary Fund)
Households	Claimant Count (NISRA); Labour Force Survey (NISRA); NI Residential Property Price Index (NISRA); House Price Index (ONS); Quarterly Employment Survey (NISRA); Footfall (Northern Ireland Retail Consortium); Tourism Statistics (NISRA); Consumer Confidence Index Q2 2015 (Danske Bank); Consumer Prices Index (ONS)
Government	Quarterly Employment Survey (NISRA); Public Sector Employment (ONS)

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