



Labour Market

Employment Rate



71.4%

Unemployment Rate



2.7%

Economic Inactivity Rate



26.6%

Apr-Jun 2023. Source: NISRA LMR

Pay and Prices



NI Employee
Median Pay

+7.5%



UK Employee
Median Pay

+7.8%

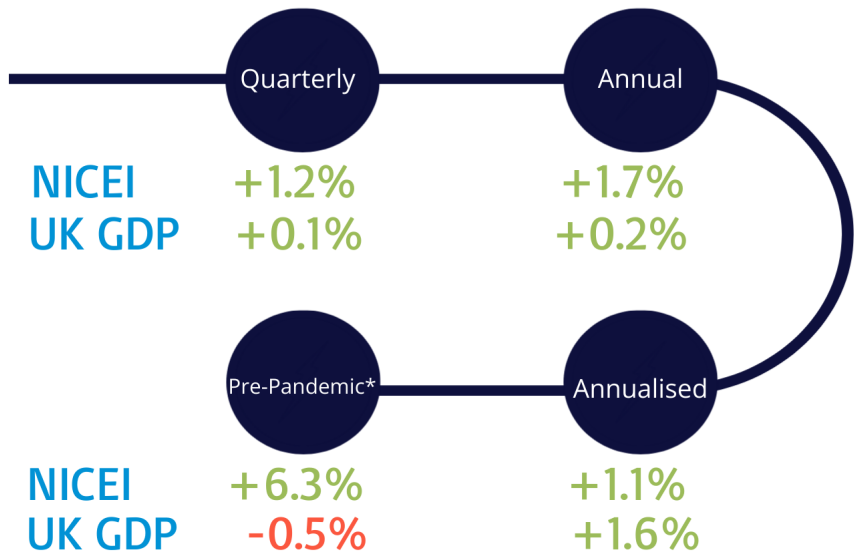


UK Inflation
Rate (CPIH)

+6.4%

Annual changes to July 2023. Sources: NISRA LMR & ONS CPIH

Economic Growth

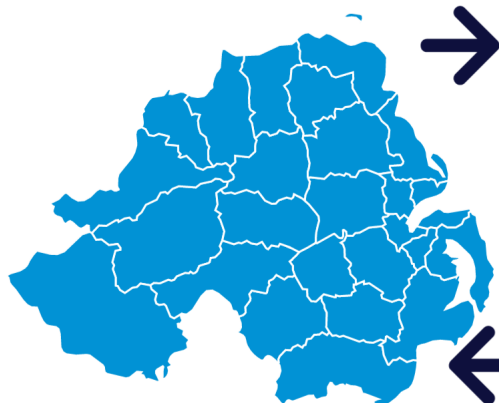


*Growth from Q4 2019

Q1 2023. Source: NISRA NICEI & ONS GDP Quarterly National Accounts

Exports and Imports of Goods

Year to Q1 2023



→ Total Exports
£9.8 bn
Up 17.9%

← Total Imports
£9.8 bn
Up 17.0%

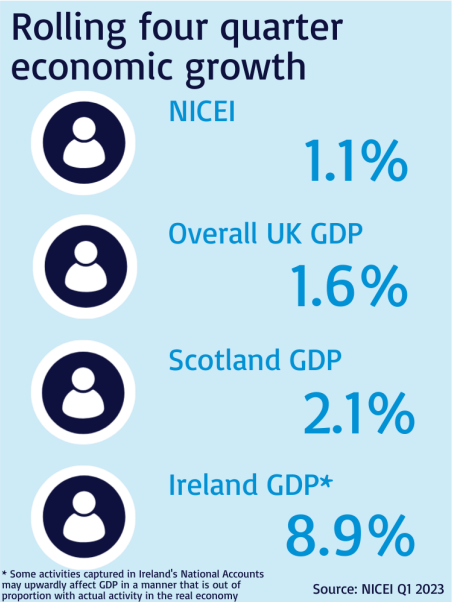
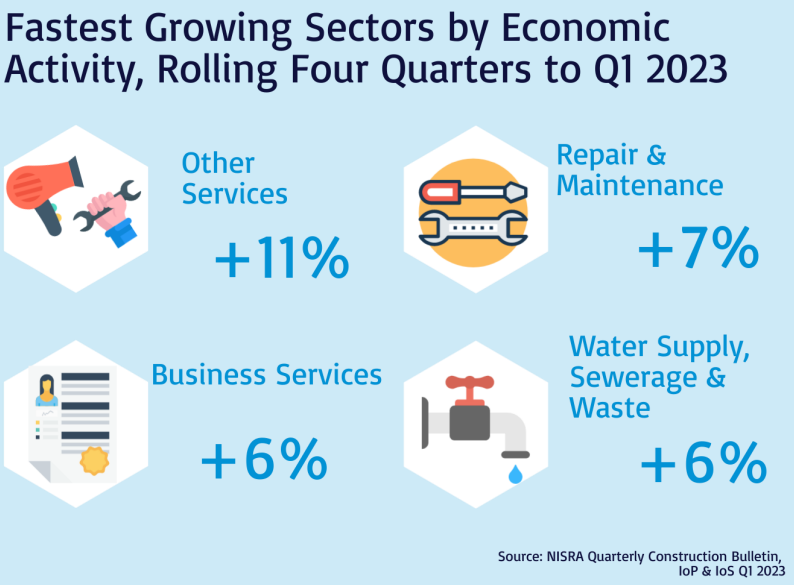
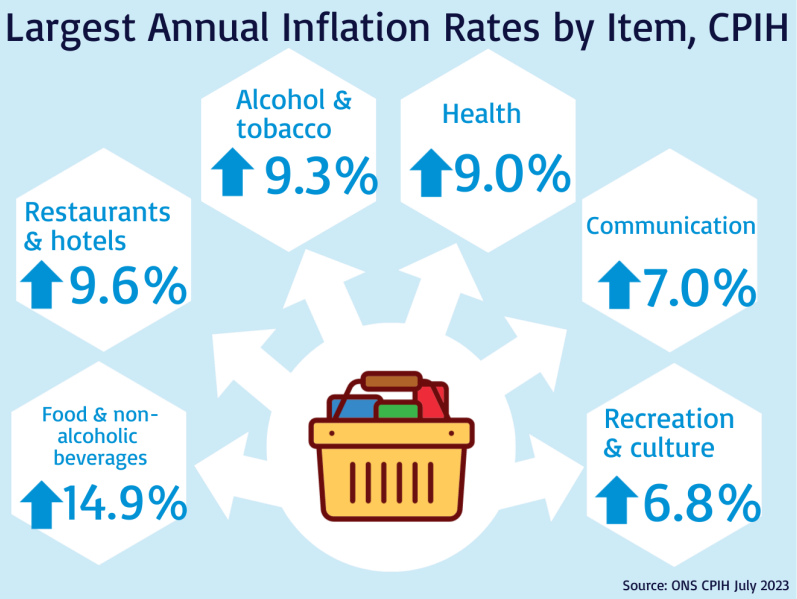
Source: HMRC Regional Trade Statistics Q1 2023

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The Economy

The local economy has shown signs of a recovery recently, with economic output returning to growth in Q1 2023 and the labour market remaining largely resilient. While business activity fell back slightly in the last month, businesses remain largely optimistic about the year ahead and the latest independent economic forecasts have predicted positive, albeit marginal, growth in 2023 as inflationary pressures begin to ease. With tighter monetary policy feeding through to the wider economy however, there are indications that demand may be weakening as businesses and consumers alike digest elevated prices and higher interest rates.



Economic Activity

The latest Northern Ireland Composite Economic Index (NICEI) indicated that local economic output increased by 1.2% over the quarter and 1.7% over the year in Q1 2023. This recovery was largely driven by the Services sector which contributed 1.1 pps to the overall quarterly growth. The Production sector had a small negative contribution of 0.1 pps while the Construction sector had no contribution to the most recent quarterly change.

While not produced on a fully equivalent basis, UK GDP increased by 0.1% over the quarter, and rose by 0.2% over the year to Q1 2023. Over the last 10 years, the UK has reported increases in GDP in 35 of the last 40 quarters, whereas the NICEI has reported increases in economic activity in 22 of the last 40 quarters.

The first quarterly estimate of UK GDP shows that the economy increased by 0.2% in Q2 2023. The equivalent figures for NI are due to be published on 28 September.

Economic activity in NI is now 6.3% above the pre-pandemic levels recorded in Q4 2019 while UK GDP remains 0.5% below the pre-pandemic level. While output in NI, Scotland and the UK increased over the quarter to Q1 2023, the Republic of Ireland (ROI) reported a decrease in activity as GDP declined by 4.6%.

During the pandemic, the NICEI reached a series low in Q2 2020, however economic activity post pandemic has recovered substantially, with a new series high reached in Q1 2023. Economic activity is now 28.8% above the series low point in Q2 2020.

Employee Jobs

The latest estimates from NISRA show that employee jobs reached a series high in March 2023 (818,840) marking an eighth consecutive quarterly increase. Employee jobs increased over the quarter (+0.6%) and year (+2.9%) and are now +38,350 (+4.9%) above the pre-pandemic level recorded in December 2019.

Both private and public sector jobs increased over the quarter (+0.7% and +0.3% respectively) and year (+3.3%; +1.5%), with private sector jobs reaching a series high in March 2023.

Quarterly increases in employee jobs were recorded in the services (+6,720 jobs) and other industries (+220 jobs) sectors in March 2023. However, there were quarterly decreases recorded in both the construction (-1,360 jobs) and manufacturing (-620 jobs) sectors. The increases in the services and other industries sectors led both to reach series highs in March 2023.

Consumer-facing sectors displayed considerable resilience at the start of the year and subsequently, Danske Bank now predicts that the annual average number of employee jobs in 2023 will increase in the arts, entertainment & recreation sector (+5.7%), accommodation & food services sector (+5.6%) and in the wholesale & retail trade sector (+1.9%). The professional, scientific & technical services sector experienced a year-on-year increase in employment of over 14% in Q1 2023 and is expected to have the fastest rate of employee jobs growth in 2023 (+6.4%). The information & communications sector is also predicted

Figure 1: Economic Growth

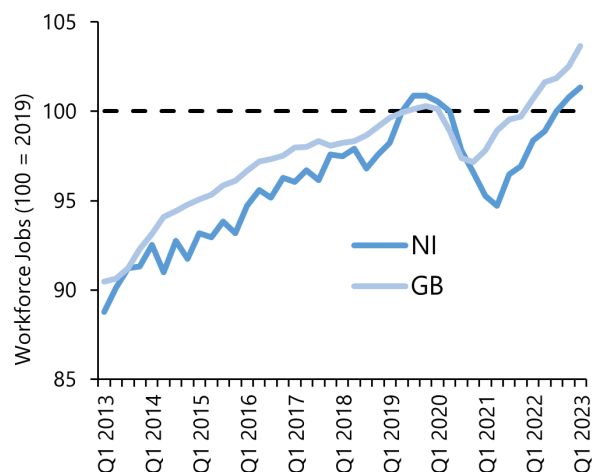
Quarterly and annualised changes in NICEI over the past ten years of available data. Note: the annualised rate is a longer-term measure of growth which is less prone to short-term volatility.



to have strong levels of job growth in 2023, of around 5.2%.

Figure 2: Workforce Jobs

The seasonally adjusted number of jobs in NI and GB over the last ten years of available data, indexed to 2019. In addition to employee jobs, workforce jobs also includes self-employed, government supported trainees and HM Forces. Note: non-zero axis.



The Private Sector

Private sector jobs reached a new series high in March 2023 (594,680), increasing both over the quarter (+0.7%) and the year (+3.3%).

The Business Activity Index in the Ulster Bank PMI decreased to 48.2 in July from 52.5 in June, representing the first decline in output in six months, which has been attributed to demand weakness and the impact of inflation. UK output increased marginally in July. New orders declined for the second consecutive month, in the sharpest rate of contraction since January. New export orders also contracted for the third consecutive month, again the sharpest in six months. Hiring continued to expand, leading to a sharp and accelerated reduction in backlogs, however the rate of job-creation eased to a six-month low. Inflationary pressures continued to moderate, with input and output cost rises reportedly easing to the slowest in 38 and 34 months respectively both of which were the slowest pace rises amongst the UK regions.

Vacancies

Information gathered using Lightcast Labour Insights reveals that there were 14,800 new job postings in June 2023 in Northern Ireland. This was unchanged over the year but a 10% decrease on the previous month.

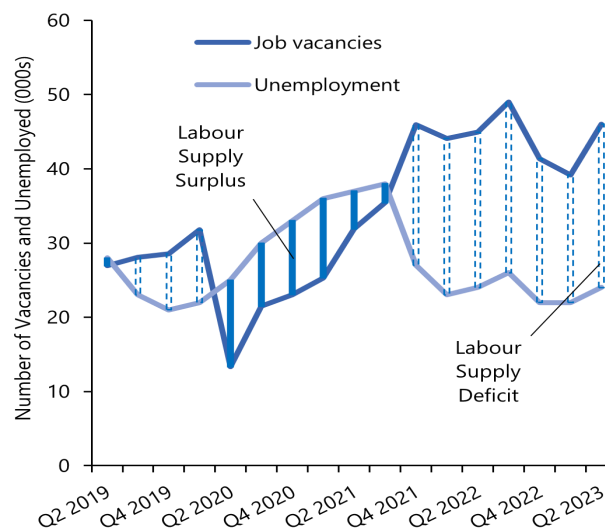
Over the last 3 months, Administrative and Support Service Activities has been the largest industry in terms

of new NI job postings, reaching an overall 19% increase since April.

The NI Chamber & BDO Quarterly Employment Survey (QES) for Q2 2023 reported that recruitment activity is holding up well with 72% of members trying to recruit and hiring difficulties easing since Q1 2023.

Figure 3: The Labour Supply Gap

The difference between the number of vacancies (online job postings) and the estimated number of unemployed people (aged 16 and over) in NI over time.



Prices and the Cost of Living

Consumer Price Inflation (CPI) in the UK remains above major international comparators such as France, Germany, the EU and the USA. However, the rate of inflation has fallen rapidly since May (from 8.7% to 6.8% in July). Most recently, declining wholesale energy prices and the lowering of the Ofgem price cap has led to the easing of the annual inflation rate for housing, water, electricity, gas and other fuels to 6.8% in July 2023, down from a peak of 26.7% in January. Food and non-alcoholic beverage prices rose by 0.1% between June and July 2023, compared with a rise of 2.3% between the same two months a year ago. This resulted in an easing in the annual rate to 14.9% in July 2023, the slowest annual rate of growth since September 2022.

Inflation remains above the Bank of England's 2% target and the Bank, in attempting to curb inflation, recently raised its base rate for the 14th consecutive time to 5.25%. The Bank now expects inflation to fall further to around 5% this year and return to target by early 2025.

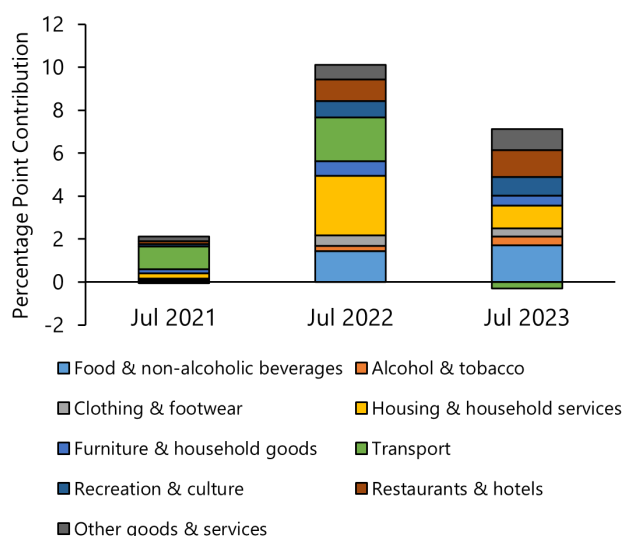
However, Core CPI (excluding energy, food, alcohol and tobacco) was unchanged from June (6.9%) while the CPI services annual rate rose slightly from 7.2% to 7.4% suggesting persistence in inflationary pressure. This persistence means that it remains uncertain whether the

Government's target of halving inflation by the end of 2023 will be realised. The Institute for Fiscal Studies (IFS) states that while the outlook for core inflation looks uncertain, producer prices for goods are increasing more slowly than consumer prices which is expected to feed through into lower consumer prices in the months ahead. However, rising fuel prices combined with strong wage growth could maintain significant upward pressure on core inflation.

The latest PMI indicates that the pace of increase for both input costs and prices charged is significantly lower in NI compared to the rest of the UK. The experimental NI CPI from ONS also suggested that prices were rising significantly more slowly in NI than nationally although the most recent data published by ONS was March 2023 (7.5% vs 10.1%).

Figure 4: The Drivers of CPI Inflation

Contributions to the annual change in the Consumer Price Index by category.



Productivity

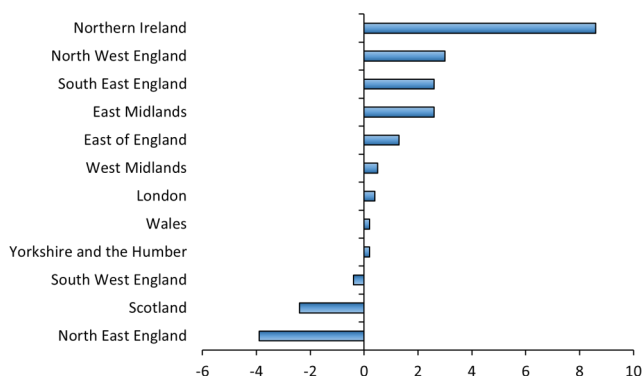
Between 2019 and 2021, NI labour productivity (on an output per hour basis) grew by 8.6%, an increase that was the largest of any UK region and one that saw NI improve its relative productivity ranking amongst UK regions (from 11th to 7th). For comparison, the region with the second largest rate of annual growth was the North-West of England at 3.0%. However NI labour productivity remains lower than the UK average (-10.6% in 2021) though this is an improvement from 2020 when NI was 15.8% lower and 2019 when NI was 17.7% lower.

Since 2019, UK output per hour worked has grown at a cumulative average annual growth rate of 0.4%. NI has experienced growth of 4.2% annually, which is the largest of any region.

It should be noted that both the number of hours worked and the nature (and therefore economic value) of work carried out during this period were heavily impacted by Covid and the associated government restrictions. This likely had differential effects across regions depending on the profile of their economies and workforces and the figures above should therefore be treated with a degree of caution.

Figure 5: Productivity

Output per hour growth rates by UK region, 2021 compared with 2019



NI Economic Outlook

While the NI economy still faces a range of economic challenges which have the potential to adversely affect spending, investment, and sentiment in the medium-term, forecasters are encouragingly no longer expecting the NI economy to contract in 2023.

Danske Bank's Q2 2023 Quarterly Sectoral Forecast expects the NI economy to grow by 0.2% in 2023, an upward revision from a previously forecasted contraction of 0.3%. EY and the UUEPC also expect NI to avoid recession in 2023, forecasting growth of 0.3% and 0.1% respectively.

Forecasters point to NI's strong labour market as a source of optimism, with Danske Bank expecting the annual average number of employee jobs to increase by around 1.6% in 2023. The Q2 2023 quarterly survey from the NI Chamber of Commerce, indicated that the economy continues to recover while business confidence is growing and investment intentions improving. The survey also noted that while inflation remains the most significant concern among respondents, cost pressures are easing. The latest NIESR economic outlook does, however, temper this optimism - expecting the labour market uptick, which has been driven by higher wages in low wage sectors, to be temporary. NIESR also states that the medium to longer-term economic prospects will be dependent on the politics and policy processes within Northern Ireland.

Businesses

Private sector economic activity reached a series high in the first quarter of 2023, largely driven by the services sector. Recent survey results from the Quarterly Economic Survey suggest that the economic recovery continued in Q2 2023 with confidence improving. However, the Ulster Bank PMI for July found that private sector business activity contracted for the first time in six months in the face of faltering demand, while elevated prices and tightening monetary policy, combined with recruitment and skills difficulties, continued to pose acute challenges to our local businesses. Despite the challenges reported however, firms remain largely optimistic about the year ahead.

+2.4%

Annual change in services output

-1.9%

Annual change in production output

+6.5%

Annual change in construction output

+3.7%

Annual change in service jobs

-1.1%

Annual change in manufacturing jobs

Construction Output



Construction output growth over the year:

↑ 6.5%

of which:
New work

↓ 3.5%

Repair & maintenance

↑ 24.7%



Source: NISRA Construction Output Q1 2023

Services - Annual Output Changes

Service Output

↑ 2.4%



Wholesale, Retail, Accommodation & Food

↑ 1.5%



Transport, Storage, Information & Communication

↓ 4.4%



Business & Finance

↑ 8.7%

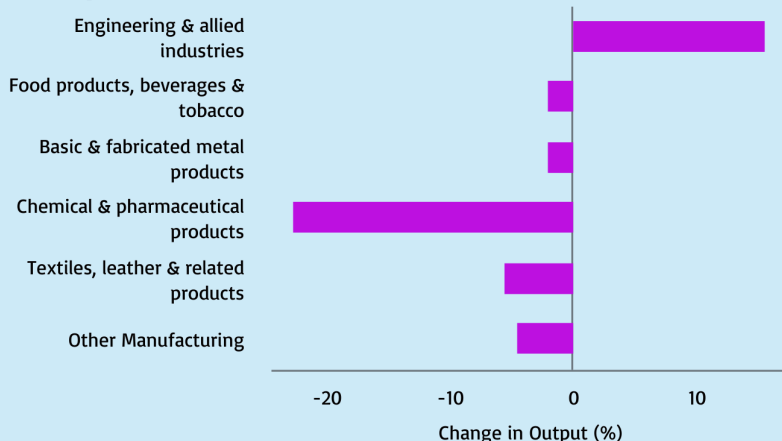


Other Services

↑ 5.7%

Source: NISRA IoS Q1 2023

Manufacturing Sub-Sectors Output over the year



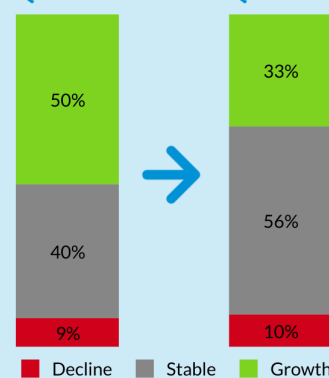
Source: NISRA IoP Q1 2023

InterTradeIreland

Business position of NI firms:

Q4 2022

Q1 2023



Source: InterTradeIreland All-Island Business Monitor Q1 2023

Business Environment

Recovery of business conditions continued in the second quarter of 2023, according to the NI Chamber & BDO Quarterly Economic Survey (QES). Confidence was reported to have improved and whilst some cost pressures had eased, a slowdown in demand was noted. The latest Ulster Bank PMI report suggests that this slowdown has further taken hold in the third quarter, with a renewed and broad-based decline in business activity recorded in July amidst falling numbers of new orders. Despite this, business sentiment remained relatively robust with local firms optimistic on the prospects for output growth over the year ahead.

It is likely that much of the fall in demand can be attributed to ongoing inflationary pressure, as rising prices squeeze discretionary incomes, and to the impact of tightening monetary policy (i.e. rising interest rates) which will press down on demand as well.

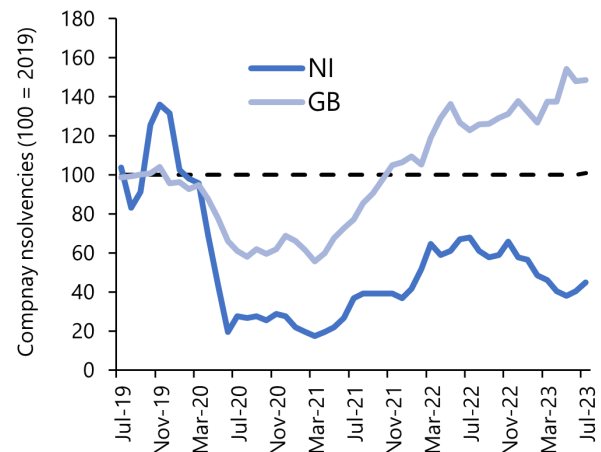
While falling demand is increasingly being reported as a significant issue, inflation continues to dominate the concerns of businesses (Figure 6). The rate of energy price inflation has eased in recent months, but the cost of inputs and labour continue to rise, with the latter increasingly reported as the main factor driving up output prices.

A key driver of these increased labour costs is the shortage of people and skills, leading to increased competition between employers and persistent recruitment difficulties. The QES reported that recruitment difficulties were faced by 79% of firms in Q2 2023 (down from 87% in the previous quarter), while the Open University's latest Business Barometer reported

that 68% of NI organisations were facing skills shortages and 24% were prevented from filling roles due to a lack of applicants.

Figure 7: Insolvencies

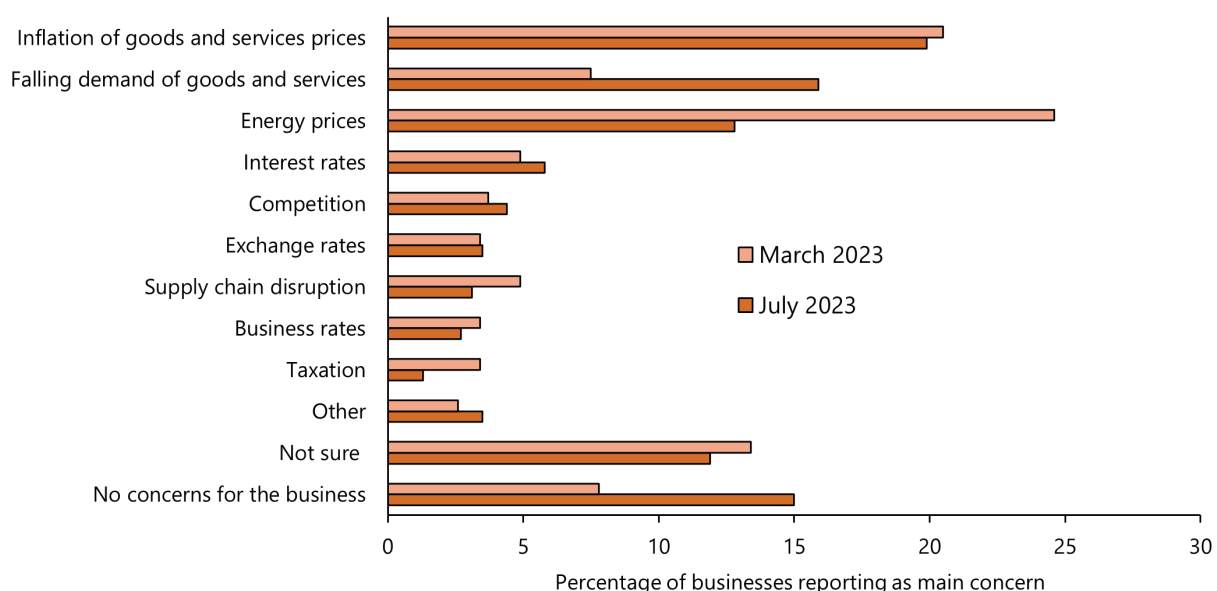
The number of company insolvencies in NI and GB from July 2019 to July 2023, indexed to 2019. Three month rolling average.



In addition to cost pressures, higher interest rates may be contributing to the increase in company insolvencies in Great Britain (GB), which have been following an upward trend since 2021. The interest on most bank lending to UK businesses is at floating rate, meaning tighter monetary policy will make debt more expensive. In NI, however, the number of insolvencies remain relatively low, as is shown in Figure 7. Begbies Traynor have cautioned however that while NI businesses are

Figure 6: Business Concerns

The main concerns of NI businesses for the following month, July 2023 compared to March 2023. Source: ONS BICS.



far from well relative to those in the rest of the UK, there are likely to be growing numbers of business failures in NI going into the winter.

Services

NI services output reached a new series high in the first quarter of 2023, increasing by 2.2% on the previous quarter. This was the largest quarterly increase recorded since Q3 2021, with only subdued or negative growth in the interim period. In contrast to the overall UK, where services output was 1.0% below pre-pandemic levels in Q1 2023, it was 7.4% higher in NI. The services sector has been the main contributor to economic growth in NI since the Covid-19 Pandemic.

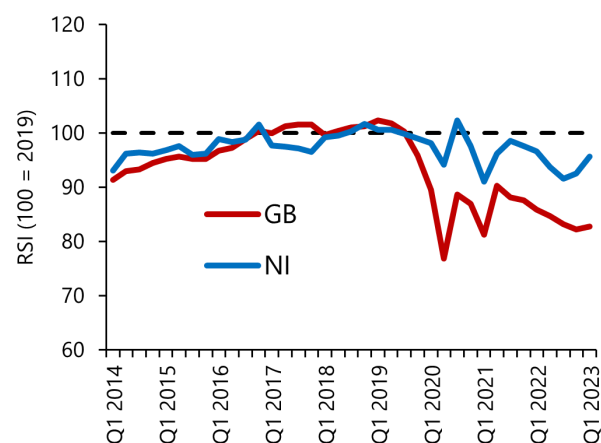
Survey results from the QES suggest that there was a continued solid performance in Q2 2023, with particularly strong indicators around turnover growth, employment and recruitment intentions. With the exception of the post-Pandemic rebound, confidence around turnover growth was the highest since 2016. However, concerns around labour costs and interest rates grew and recruitment difficulties remained prominent.

Retail and Hospitality

The Wholesale, retail, accommodation & food services sector accounts for nearly two-fifths of NI's private services sector GVA. Though overall output in this sector increased in Q1 2023, it remains below the series high of Q3 2021 amidst the rebound from the pandemic.

Figure 8: Retail Sales

The NI and GB RSI from Q1 2014 to Q1 2023. Note: non-zero axis.

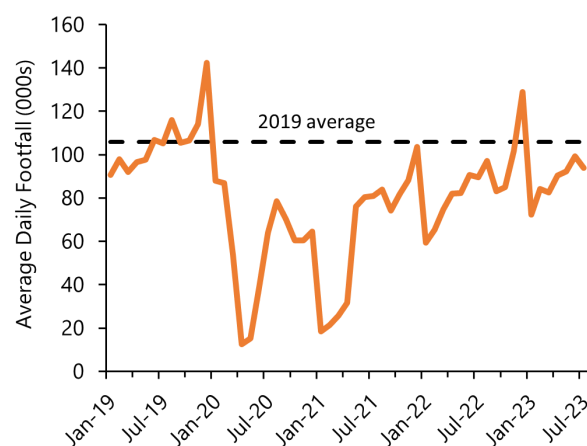


According to the Retail Sales Index (RSI), NI's retail sector posted a strong output increase of 3.3% in Q1 2023 but remains below both the pre-pandemic position and the Q3 2020 series high. However, as

shown in Figure 8, the RSI indicates that the recovery of the NI retail sector has, and continues to be stronger than that of GB. However, the Ulster Bank PMI indicates that as of July 2023, overall business activity in the NI retail sector had been in decline since May.

Figure 9: Belfast Footfall

The daily average number of people counted on five streets in Belfast City Centre since January 2019. Source: Springboard.



High street footfall, which may provide a rough indication of the number of potential retail and hospitality customers, has gradually been returning to pre-pandemic levels (Figure 9). Growth in NI retail output, as indicated by RSI, in addition to increasing employee jobs in consumer-facing industries, has led Danske Bank to upwardly revise its growth forecasts, with output in wholesale & retail and accommodation & food services expected to outpace the NI economy average in 2023. However, according to the UUEPC, a contraction in the retail sector is likely in the long-term.

Business Services and Finance

Output of the Business services & finance sector, which accounts for roughly a third of NI private services sector GVA, reached a fourteen-year high in Q1 2023.

The UUEPC notes suggestions that labour market pressures have started to ease in areas such as professional services. Danske Bank reports a positive outlook for the business services sector this year, with Administrative & support services, Professional, scientific & technical services and Information & communication sectors expected to see the strongest rates of growth in the NI economy in 2023.

Production

In contrast to services, the output of the NI production sector marginally decreased in Q1 2023 in what was a fourth consecutive quarter of decline. This was driven by

declines in the Electricity, gas, steam & air conditioning supply, Water supply, sewerage & waste management and Mining & quarrying sectors. Over the year to March 2023, the number of production businesses decreased for the first time since 2013, with the loss of around 75 firms (1.4%).

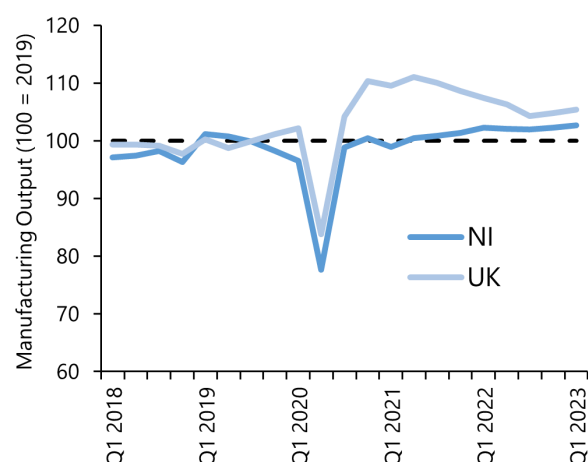
Manufacturing

As of Q1 2023, NI manufacturing output had been following a gradual upward trend since the rebound from the pandemic in Q3 2020 (Figure 10), slightly offsetting the recent decline in overall production output.

Figure 10: Manufacturing

The output of the manufacturing sector in NI and the overall UK over the last five years of available data, indexed to 2019.

Note: non-zero axis.



QES results suggest that recovery continued into Q2 2023. For the second time since 2018, the balance of manufacturers reporting an improving cashflow was positive, and confidence around turnover and profitability continued to improve. However, inflationary pressures continued to be a main concern, with rising labour costs becoming the dominant pressure driving price increases. Recruitment intentions were high, though had plateaued, and most manufacturers were still facing recruitment challenges.

The latest Ulster Bank PMI report suggests that input and output prices in the NI manufacturing sector having been falling in recent months (in line with UK PPI data). In July, the sector posted the sharpest fall in input costs since the survey began. Despite overall manufacturing activity declining in three out of four months since March, business confidence in the sector remained relatively buoyant as of July 2023 on the back of expectations of a rebound in demand.

According to Danske Bank, a weak outlook for investment may impede growth in the sector, with zero GVA growth projected in 2023. The UUEPC observed that as an energy-intensive sector, high energy costs and the long-term requirements to transition to net zero may also pose challenges to manufacturing going forward.

Construction

Though new construction work decreased in Q1 2023, overall construction output remained unchanged over the quarter due to an increase in repair & maintenance work. This increase was largely driven by private sector work defined as 'other' (i.e. non-housing and non-infrastructure), which may include work on commercial buildings (such as factories, warehouses, banks etc.).

According to the latest CIS Construction Activity Report, construction project starts in Q2 2023 increased by 112% over the year in terms of project value. The value of plans submitted was also up over the year, with the largest increase seen in the hospitality sector which rose to £46m from just £15m in Q2 2022.

However, the business conditions in the industry are evidently less than favourable. Responses to the RICS UK Construction Monitor suggest that in Q2 2023, a majority of NI construction firms experienced a decrease in workloads and business enquiries, and a net balance of roughly 30% of firms expected profit margins to decrease over the next 12 months. In a subsequent BBC article, RICS suggested that continuing political uncertainty was weighing on market conditions, and that skills shortages were a key challenge. The latest Ulster Bank PMI report notes that inflationary pressures remain stubborn in the sector with business activity declining and a sharp drop-off in new orders in July.

Danske Bank expects the tighter monetary policy environment and a weaker level of investment to constrain activity in the construction sector, with a decline in output of 0.6% projected for 2023. The UUEPC reported a positive longer-term outlook due to the significant capital investment and retrofitting of properties required in the future.

World Engagement

The global economy is responding in a more positive manner than expected as it experiences an easing of inflationary pressures as energy prices decline and interest rates are raised by central banks. However, some uncertainty still remains amid the ongoing conflict in Ukraine as well as potential climate risks and the effect they may have on commodity prices. Despite this, the IMF and OECD anticipate that most countries will see lower headline inflation this year compared to last year. There are positives in the tourism industry with some clear signs of a rebound in activity. A growing number of NI firms also report that they are successfully adapting to NI's post-EU exit trading arrangements.

+23.2%

Annual change in goods exported in Q1 2023

+9.4%

Annual change in goods imported in Q1 2023

+2.7%

OECD global economic growth forecast 2023

+0.3%

UK 2023 OECD growth forecast

+4.9%

UK Q4 2023 modal CPI forecast - Bank of England

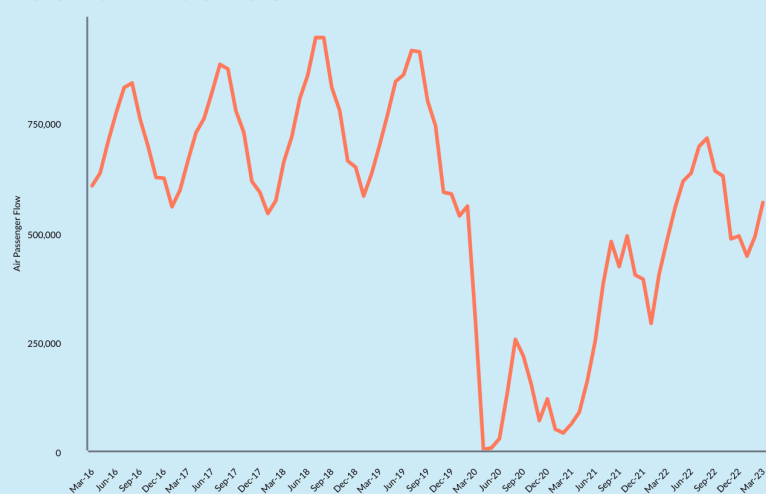
NI's Top 5 Exporting Commodities

- 1 Machinery & Transport equipment 33%
- 2 Food & live animals 19%
- 3 Chemicals & related products 12%
- 4 Miscellaneous manufactures 11%
- 5 Manufactured material goods 11%

Percentage of all exports. Year to Q1 2023. Source: HMRC RTS

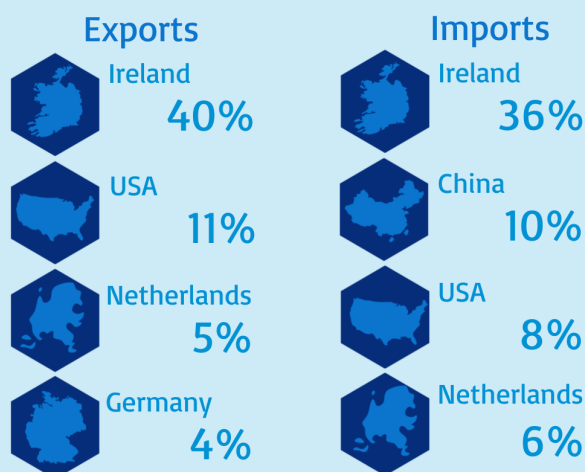
NI Airport Passenger Flow

March 2016 - March 2023



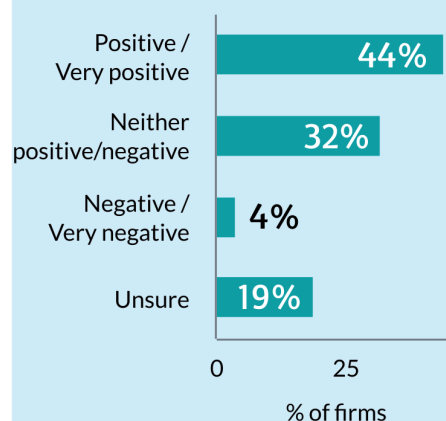
NI's Top Trading Partners

as a proportion of total NI trade in goods



Year to Q1 2023. Source: HMRC RTS

Firms assessment of impact of the Windsor Framework on their own business

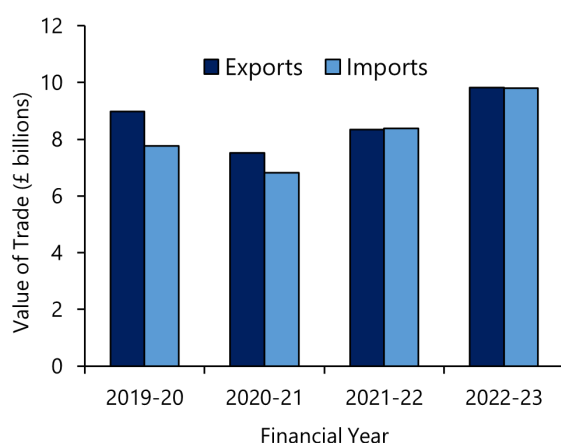


International Trade

According to the latest HMRC Regional Trade Statistics, NI exports increased 17.9% in the year to March 2023 with £9.8bn worth of exports recorded in those previous 12 months. Over the same period, imports to NI increased by 17.0%, amounting to £9.8bn.

Figure 11: International Trade in Goods

The value of NI's international imports and exports of goods from FY2019-20 to FY2022-23. Note that the values are nominal, and a significant proportion of the increase may be attributable to inflation in the last year.



In the year to March 2023, NI's exports to EU countries were worth £6.4bn (up £1.1bn, 20%). The largest increase in EU Exports was in Standard International Trade Classification (SITC) 02 – Dairy products & birds' eggs, which is up £0.2bn, equivalent to a 41% rise. The largest increase in EU exports was to the Republic of Ireland (ROI), with exports up £0.6bn, equivalent to a 17% rise.

In the year to March 2023, NI's exports to non-EU countries were worth £3.4bn (up £0.4bn, 14%). The largest increase in non-EU exports was in SITC 72 – Machinery specialised for particular industries, which is up £0.2bn, equivalent to a 48% rise. The largest increase in non-EU exports was to the USA, with exports up £0.2bn, equivalent to an 18% rise.

In the year to March 2023, NI's imports from EU countries were worth £6.7bn (up £0.9bn, 16%). The largest increase in EU imports was in SITC 54 – Medicinal & pharmaceutical products, which is up £0.1bn, equivalent to a 32% rise. The largest increase in EU imports was from the ROI, with imports up £0.5bn, equivalent to a 15% rise.

In the year to March 2023, NI's imports from non-EU countries were worth £3.1bn (up £0.5bn, 18%). The largest increase in non-EU imports was in SITC 32 – Coal, coke & briquettes, which is up £0.1bn, more than doubling the previous figure. The largest increase in non

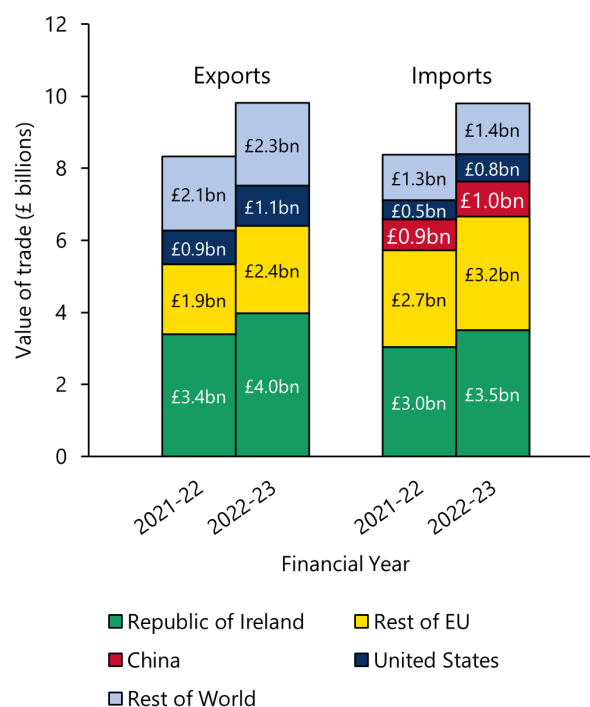
-EU imports was from the USA, with imports up £0.2bn, equivalent to a 41% rise.

As reported in previous commentaries, post-Brexit trading arrangements were of significant concern for NI businesses across a range of surveys, however the Windsor framework appears to be alleviating some concerns and easing trading processes. NI businesses will need to continue to adapt to the new processes and technologies in place, and while many businesses report that they are successfully adapting to these changes, there are still some who report encountering challenges. The NI Chamber & BDO NI's latest QES for Q2 2023 reports that 44% of members were positive or very positive about the potential impact on their business of the Windsor framework, while 4% were negative or very negative. Around 1 in 5 were less sure with some 15% responding that it was too early to say and 5% responding that they did not understand what the Windsor Framework meant.

The latest Ulster Bank PMI indicated a marked decrease in new demand within export markets, with new export orders falling continuously since May and the rate of contraction in July being the most pronounced in six months. Respondents noted particular weakness in European demand.

Figure 12: Broad Trade Partners

NI's international trade in goods in the 2021/22 and 2022/23 financial years, broken down by direction of flow and by broad destination/source. Values displayed are rounded to the nearest £10m. In the export columns, Rest of World includes China. Note that the values are nominal, and a significant proportion of the increase may be attributable to inflation in the last year.



Global Outlook

Worldwide growth is forecast to fall from an estimated 3.5% in 2022 to 3% in 2023 and is forecast at 3% for 2024 according to the IMF's World Economic Outlook. The OECD meanwhile forecasts a slightly slower rate of global growth falling from 3.3% in 2022 to 2.7% in 2023 before rising to 2.9% in 2024. The increase in central bank rates to fight rising inflation coupled with the war in Ukraine are continuing to weigh heavily on economic activity. Both the IMF and the OECD have revised their expectations for UK growth from negative to positive in 2023 (Table 1), reflecting falling energy prices, lower post-Brexit uncertainty and the resilience of the financial sector following the March global banking stress.

Table 1: International Economic Growth Forecasts

The OECD and IMF's latest economic growth (in Real GDP) forecasts for selected countries in 2023, in percentage terms.

Region	OECD	IMF
UK	0.3	0.4
Euro Area	0.9	0.9
US	1.6	1.8
China	5.4	5.2
World	2.7	3.0

Headline inflation has started declining, with the IMF noting that around three-quarters of the world's economies are expected to record lower headline inflation in 2023 – global headline inflation is set to fall to 6.8% in 2023 and 5.2% in 2024. The IMF highlights the risks of extreme weather events and a possibility of the intensification of the war in Ukraine on prices. The OECD also raises the concern of rising financial vulnerabilities globally, including the possibility of a stronger-than-expected rebound of the global economy which could push up commodity prices and hinder downward trending in inflation. There are also concerns that more restrictive monetary policy could trigger widespread financial stress and undermine growth.

Tourism

While the tourism industry was disproportionately impacted by the Covid-19 pandemic, it has been proactive in the aftermath of the pandemic and there are clear signs of a rebound in activity. There were an estimated 2.3 million rooms sold in Northern Irish hotels in the 12 months to June 2023, which is up from around 2.2 million in the 12 months to June 2022. This is higher than was recorded in the 12 months to June 2021 (around 1.6 million), however hotels were ordered to

close between 26th March 2020 to 2nd July 2020. There were an estimated 562,000 rooms sold in small service accommodation in the 12 months to June 2023, which is higher than in the 12 months to June 2020 (around 314,000) although they too were subject to the closure. Northern Ireland also received an estimated 1.1 million overnight trips from ROI residents during 2022, surpassing 1 million for the first time and up considerably from 756,000 in 2019.

TourismNI's latest Consumer Sentiment Analysis provides an encouraging outlook for the industry despite the challenging economic climate. The April 2023 survey reported high levels of ROI and domestic visitor volumes in Q1 2023, following a positive 2022 tourism performance. Similar to recent 2022 trends, approximately half of ROI visitors to NI in Q1 2023 were first time leisure visitors. Despite rising costs, the Value for Money net score increased suggesting an adjustment to the increased costs, with 36% of NI respondents claiming NI is good value for money as a tourist destination, compared to Great Britain and ROI which both recorded 22%.

Foreign Direct Investment

According to fDi markets there were 20 foreign direct investment (FDI) projects to Northern Ireland announced by 19 different companies in the year to August 2023.

The US was the main source market for investment with 8 projects, accounting for 40% of total projects. Ireland, Canada, Brazil and Austria all had 2 projects apiece. Software and IT Services was the main industry sector receiving investment with 7 projects, followed by Food & Beverages with 4 projects, while Financial Services and Aerospace had 3 and 2 projects respectively.

In 2022, Northern Ireland ranked behind only London (1.64 vs 1.69) on the UK Inward Investment Regional Competitiveness Index. Despite being the UK's smallest region by population, NI attracted 39 greenfield FDI projects in 2022, with the US and Republic of Ireland accounting for 56% of the inbound investments.

Households

While household finances remain under pressure, there are signs that this is easing slightly. Inflation has fallen rapidly in recent months, while food and non-alcoholic beverages experienced the slowest rate of annual growth since September 2022. NI's labour market remains relatively robust with employment increasing over the year and the unemployment rate in NI remaining the lowest within the UK. House prices increased over the quarter and year despite an unbroken streak of increases in the base rate rendering mortgage payments more expensive. Consumer sentiment is mixed with a noticeable easing in pessimism but there are still signs that households remain cautious and under pressure.

+1,300

Annual change in claimant count (July 2023)

0.0pps

Annual change in unemployment rate

+2.7%

Annual change in house prices

+7.5%

Annual change in median monthly PAYE pay

-4.0%

Annual change in NI discretionary income Q2 2023 (ASDA)

Pay - July 2023

Annual Change in Median Gross Weekly Earnings

NI **UK**
↑ 7.5% ↑ 7.8%

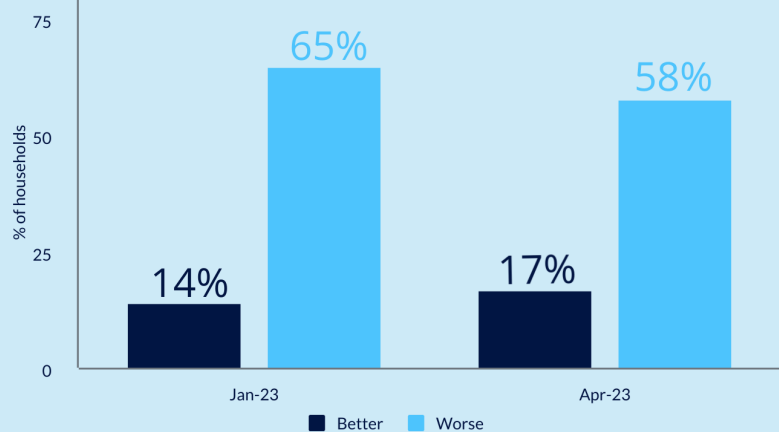
Payrolled employees

Annual Change in number of payrolled employees

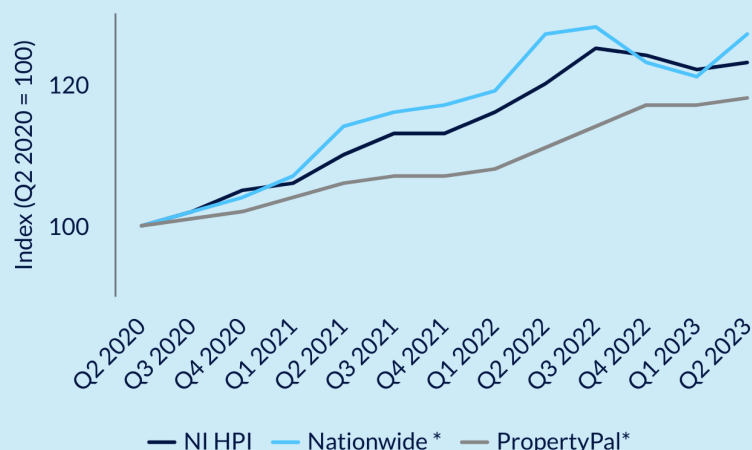
NI **UK**
↑ 1.9% ↑ 1.9%

Household Finances

How does the financial situation of your household compare now with what it was 12 months ago?



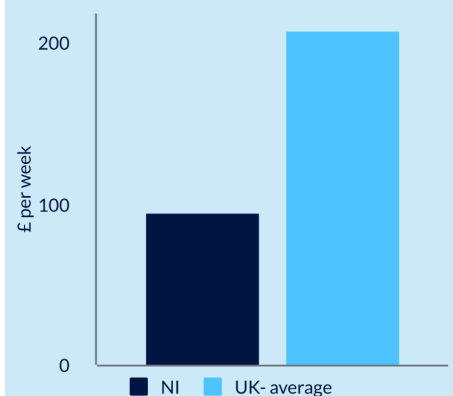
NI House Prices



* a different methodology is used for these sources from the official government endorsed house price index for NI, which is produced by NISRA and LPS.

Source: NISRA HPI, Nationwide HPI, PropertyPal

Average household discretionary income, Q2 2023



Source: ASDA Income Tracker

Unemployment and Inactivity

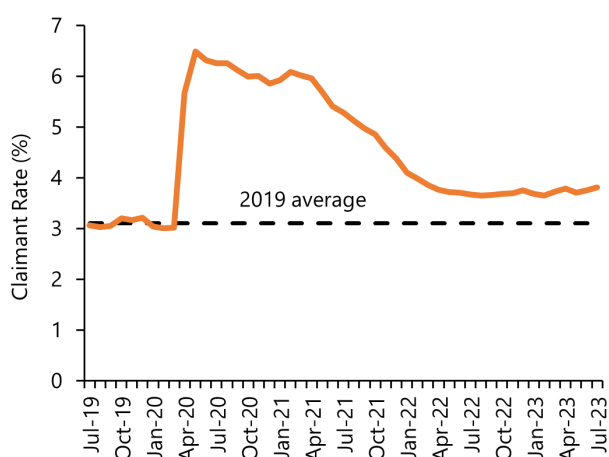
The Labour Force Survey (LFS) NI unemployment rate (16+) for April to June 2023 was unchanged from the same period last year at 2.7% and increased marginally over the quarter (0.2pps). NI's unemployment rate is 1.5pps below the overall UK rate of 4.2% and is the lowest of all 12 UK regions.

In July 2023, the number of people claiming unemployment benefits increased by 600 (+1.7%) over the month to 37,000 – representing 3.8% of the workforce. Both the male and female claimant counts increased over the month, but a larger increase was recorded by females at 3.4% compared to 0.5% for males. The NI claimant count is 23.8% above the pre-pandemic count in March 2020. The UK claimant count experienced an increase of 1.9% over the month, representing 4.0% of the workforce.

NI's economic inactivity rate for Q2 2023 increased over the quarter (0.4pps) but fell over the year (1.8pps) to 26.6%. 'Long-term sick' was the most cited reason for economic inactivity during this period, accounting for almost 40% of the total economically inactive.

Figure 13: The Claimant Count

The seasonally adjusted number of people claiming unemployment benefits in NI, expressed as a proportion of the claimant count and workforce jobs, over the last four years of available data.



Employment

Recruitment activity across NI remains strong, with the Q2 2023 NI Chamber QES noting that 72% of members surveyed were trying to recruit. Recruitment difficulties persist however, albeit the share reporting has fallen to 79% (-8 pps since Q1).

The number of people aged 16+ in employment for Q2 2023 was estimated at 867,000, representing a drop of 9,000 from the previous quarter but an increase of 14,000 from the same quarter in 2022.

The overall NI employment rate (for 16–64-year-olds) was 71.4% - a 0.6pps reduction over the quarter but a 1.7pps increase over the year. The NI employment rate remains below the overall UK rate of 75.7% and is the lowest among the 12 UK regions.

Both the male and female employment rates increased over the year, with the former increasing by 1.3pps while the latter rose 2.2pps. In 2019, there was a 7.7pps difference between the male (75.8%) and female (68.1%) employment rates in NI, which widened to 8.3pps in 2020 as the pandemic tended to have a greater adverse impact on female employment, with Deloitte noting 2 key reasons for this; firstly, the hardest-hit sectors were those where female employment accounted for a greater share and secondly, child care duties traditionally falling primarily to women. The gender gap has since moderated to 6.5pps, with both genders' employment rates exceeding their 2019 value.

The number of payrolled employees in July 2023 according to HMRC PAYE was 793,000, representing a monthly increase of 0.4% and an annual increase of 1.9% with the latter matching the increase registered for the UK. NI recorded the largest increase (5.2%) in payrolled employees of any UK region between March 2020 and July 2023.

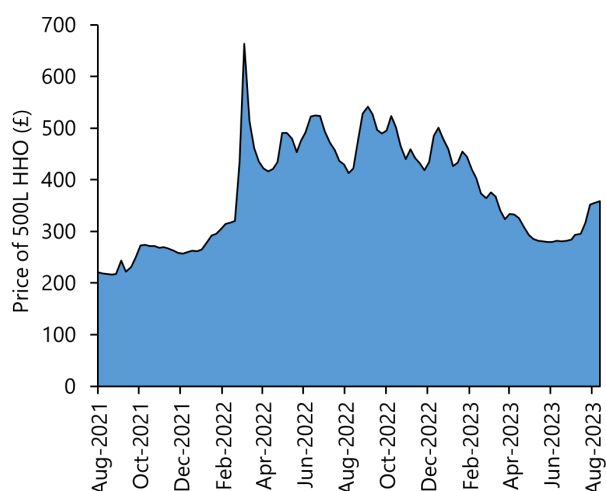
In Q2 2023, there were 100,000 self-employed, 3,000 less than a year ago, and 34,000 lower (25.2%) than the pre-pandemic figure in Q4 2019. The proportion who were self-employed (11.6%) remains below the pre-pandemic proportion (15.3%). This may prove to be a concern looking forward as research has demonstrated that the self-employed play an important role in driving innovation and productivity advancements.

Home Energy Costs

The Consumer Council's Home Energy Index was 237.08 at the end of July 2023, an 8.3% increase from June 2023. This rise is largely attributable to the price increases in home heating oil, which have been increasing from mid-June 2023. The latest data for the price of home heating oil show that it is continuing an upward trend, with the price of 500 litres of home heating oil increasing by over 20% over the month to August. The jump in prices is attributed to increased refinery costs and a stronger US dollar. Furthermore, recent decisions to maintain production cuts combined with the traditionally higher winter demand portend higher prices in the months ahead. The Consumer Council has voiced concerns for households facing the winter ahead, given that energy prices remain well above their pre pandemic norm while the head of the International Energy Agency, Fatih Birol, has warned that prices could rise this winter if the Chinese economy strengthens quickly and there is a harsh winter.

Figure 14: The Price of Home Heating Oil

The price of 500L of home heating oil in Northern Ireland since August 2021.



Pay and Consumer Confidence

HMRC PAYE Real Time Information

The median monthly pay in NI for July 2023 was £2,103 – unchanged over the month but increasing by £147 over the year. This equated to an annual increase of 7.5% – a rate which exceeded the annual CPI rate (6.8%) marking the first time pay has grown in real terms since March 2022. NI recorded the fourth lowest annual increase of the 12 UK regions, but had the lowest median monthly pay in the UK.

SMMT New Car Sales

In July 2023, sales of new cars in NI amounted to 3,415, representing an increase of almost 24% compared to the same month in 2022. 20,737 new cars were registered so far this year, an 18% improvement compared to the same period a year ago. The increase in sales was partially attributable to an increase in supply as manufacturers work through the backlog triggered by the global semiconductor shortage.

Consumer Sentiment

The NI Credit Union Consumer Sentiment Survey (NICUCSS) for April 2023 found that there has been an improvement in consumer thinking regarding their own household finances, with a decline in negative responses to how consumers think their financial position will change over the next 12 months, from 51% in January 2023 to 45% in April 2023. Consumers however remain cautious in their spending plans with over one third of respondents reporting that they view now as a bad time to purchase big ticket items and that they are likely to postpone such purchases.

ASDA Income Tracker

The June 2023 ASDA Income Tracker reported that NI remains the UK region with the weakest growth in spending power, contracting by 4.0% in Q2. This equates to a drop of £4 per week or £17 per month in household spending power and represented the seventh consecutive quarter of a decline in annual spending power. However, the scale of these contractions has narrowed recently, due to continued gross income growth and a slight cooling in inflationary pressure. NI recorded a higher gross income growth than the UK-wide average in Q2, though remains significantly exposed to inflation. Despite these lingering inflationary-related concerns, a return to annual growth in discretionary income for NI is expected in Q3 2023.

Cost of Living Support

The Energy Price Guarantee (EPG) Scheme was fully withdrawn on June 30th this year. The UK government continues to provide targeted financial support aimed at those on lower incomes and those receiving disability payment through its Cost of Living Payments scheme.

The second round of payments for those on lower incomes is due in Autumn 2023 while an additional £300 Winter Fuel Payment is set to be provided during Winter 2023/24. Further information on Cost of Living Payments and eligibility can be found on NI Direct.

Housing Market and Prices

Despite interest rates increasing and wider ongoing cost of living concerns, the NI House Price Index reported that average house prices increased over the quarter and year by 1.4% and 2.7% respectively to just under £174k in Q2 2023. All property types in NI recorded quarterly and annual increases in Q2 2023, with apartments the largest quarterly increase at 4.0%.

In Q2 2023, there were 4,776 verified residential property sales in NI, 26% lower over the year, though this may be revised upwards as additional data feeds through to NISRA. Terrace properties accounted for the largest share (32.3%) of properties sold.

PropertyPal's Q2 2023 Housing Market Update also reported quarterly (1.4%) and annual (7.6%) increases with the average property price recorded at just over £200k. The report also highlighted that NI is the best regional performer in the UK, something corroborated by both Nationwide's Regional House Price Index (Q2 2023) and the RICS Residential Market Survey (July 2023).

However, the NI Housing Executive points toward a likely slowdown in momentum for the housing market due to pressures on household finances and housing supply as Autumn/Winter approach.

Public Sector

Public Sector employment continued to expand in Q1 2023. This further extends the run of growth in public sector jobs observed since mid-2017, with figures reaching a 12-year high, though staffing levels are still 2% below the series high of September 2009.

+1.5%

Annual change in NI public sector jobs

+1.7%

Annual change in UK public sector jobs

27%

Public sector share of total employee jobs

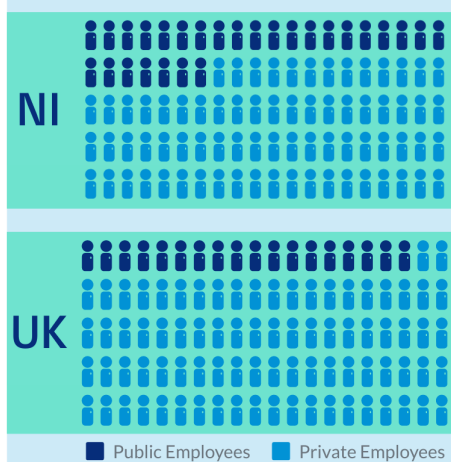
+0.2%

Annual change in NI Civil Service jobs

+1.6%

Annual change in NHS Trusts jobs

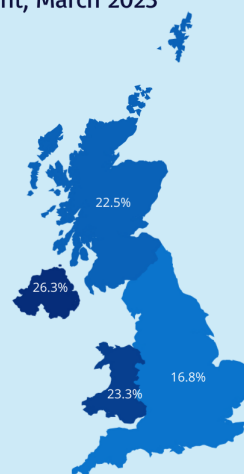
Public & Private Jobs



Source: NISRA QES & ONS Public Sector Employment Q1 2023

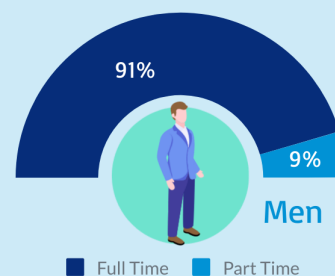
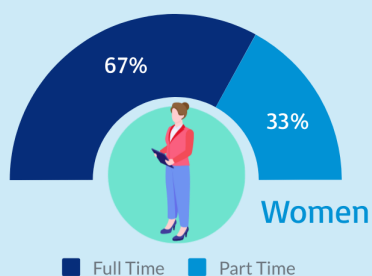
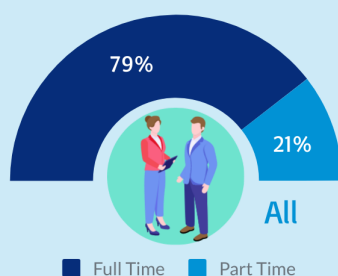
Regional Public Sector Employment

as % of total employment, March 2023



Source: Quarterly Public Sector Employment Survey, ONS

NICS Full & Part Time Employment



Source: NISRA NICS Personnel Statistics 2023

Public Sector Employment

In Q1 2023 the number of public sector jobs rose over the quarter by 0.3%, which was an increase of 610 jobs. While over the year, public sector jobs rose by 1.5% (3,410 jobs). Private sector jobs reached a new series high in March 2023, outpacing the public sector both over the quarter (+0.7%, or +4,190 jobs) and over the year (+3.3% or +19,230 jobs). This caused the public sector's share of total employee jobs to fall marginally to around 27.3%. Historically, the public sector has accounted for a relatively large proportion of employment in NI, where around 12% of the population are public servants – this compares with a figure of around 9% for the UK overall.

The Northern Ireland Civil Service (NICS) headcount fell by around 216 personnel (or 0.9%) over the last quarter, with the greatest decreases seen in the Department for Communities (-83 or -1.1%), the Department of Finance (-43 or -1.2%) and the Department for Infrastructure (-34 or -1.1%). Over the last year the NICS saw an overall increase in headcount of around 50 (or 0.2%), with a notable increase in personnel seen in The Executive Office of 75 (or 21.4%).

There has been continual growth in the number of public sector jobs between September 2017 and March 2023, however, there are still 1,417 (-0.6%) fewer public sector jobs than the series peak in September 2009.

Table 2: Public Sector Employment

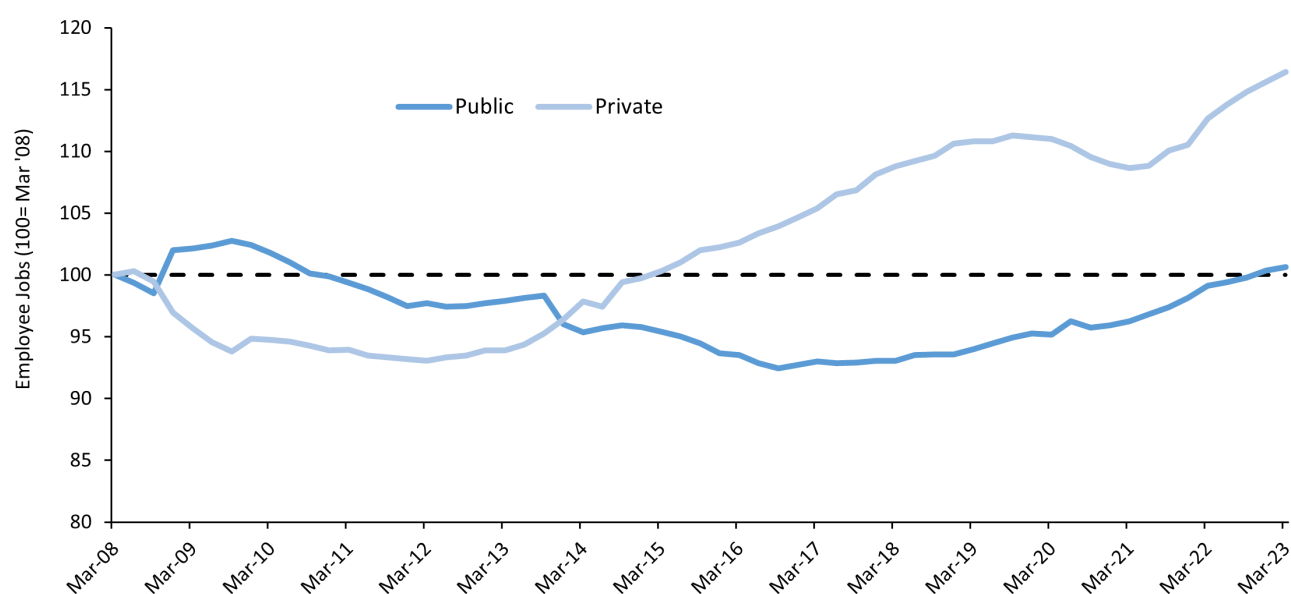
A breakdown of the NI public sector employment structure, with annual changes, in March 2023.

	Jobs	Annual Change	
	Mar-23	No.	%
NI Central Government	115,458	-234	-0.2
of which NICS	24,633	267	1.1
of which NHS Trusts	77,248	-266	-0.3
other NI Central Government*	13,577	-235	-1.7
UK Central Government	4,281	286	7.2
Local Government (District Councils)	11,565	291	2.6
Public Corporations	6,569	185	2.9
Bodies under Aegis of NI Central Government	86,804	2,947	3.5
of which education staff**	73,202	3,281	4.7
other Bodies under Aegis***	13,602	-334	-2.4
Total	224,676	3,475	1.6

*Includes Fire Service, NI Audit Office, NI Assembly, Police Service NI, BBC and Agri-Food & Bioscience Institute. **Teaching and Non Teaching staff in Schools, Colleges and Education and Library boards. ***Arm's Length Bodies and Partners of the nine government departments.

Figure 15: Public vs. Private Sector Jobs

Public and private sector employee jobs in NI over the last 15 years of available data, indexed to March 2008.



FOCUS: 10X Cluster Profiles

Karen Moore, Analytical Services Division

This Focus Piece provides a brief overview of progress made in defining the 10X Clusters; how the Department overcame issues encountered when defining the clusters; and how ultimately this workstream provides key baseline data which the Department can draw upon when deciding which policy levers should be pulled to best support the clusters as well as allowing for progress comparisons as we deliver upon the 10x Economic Vision.

The Vision

The 10x Economy – ‘an Economic Vision for a Decade of Innovation’ provides the basis for an innovation-led economic transformation and sets out long term plans on how to make Northern Ireland a world leading economy by 2030. The ambition is centred on refocusing on the core technologies and priority clusters where Northern Ireland has existing strengths and can be a global leader within the next decade. Seven clusters have been identified as providing particular opportunities for NI: Advanced manufacturing; Agri-tech; Life and health sciences; Software; Financial services; Low carbon; and Screen.

The Journey

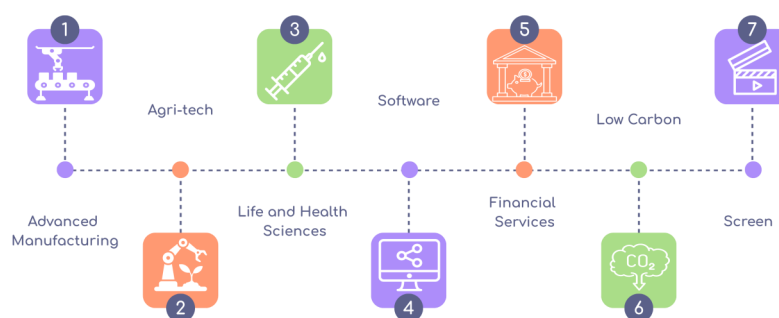
In order to measure progress against the 10x objectives as the Department seeks to deliver the vision, a baseline position of the identified sectors needs to be established. Normally, this would be done using data collected by NISRA provided in the Standard Industrial Classification (SIC) to monitor economic inputs and outputs. SIC was developed to measure national accounts but crucially, it has not been updated by ONS since 2007. This means that the sectors and clusters identified as being strategically important to Northern Ireland do not fit neatly into the current SIC system of data classification due to many of them emerging in the years after the last update.

To counter this issue, the Department undertook an extensive exercise to define these seven clusters by 5 digit SIC. This involved reviewing every 5 digit SIC code and deciding if it belonged in one (or more) of the 10x clusters. Where it was determined that the SIC code could be aligned to one or more of the clusters, an assessment was made as to whether it would be included in whole or in part. Where SIC codes were found to overlap across multiple clusters, the code was weighed across each depending on the nature of businesses operating under that SIC code.

This exercise was completed with input from a wide variety of sources including information from Data City as well as engaging key stakeholders such as policy leads, statisticians, economists and industry specialists. This was necessary to ensure our developed SIC cluster definitions are as clear and as accurate as possible, enabling the Department to gain a vital understanding of what these clusters currently look like.

It is also imperative that the Department can periodically measure progress against the ambitions set out in 10x so that policy levers can be adjusted to support the clusters as appropriate to maximise impacts. Having a clear and solid baseline and an ongoing understanding of which policy levers have the greatest impact to these clusters will be an important aspect of helping Northern Ireland on its way to becoming a world leading economy by 2030.

The Seven 10x Clusters



Please note: this focus piece is based on a more detailed paper that the Department plans to publish in the near future.

Focus Piece: 10X Cluster Profiles

Our research has shown that businesses operating in the 10x Clusters tend to be more internationally focused than their counterparts in the overall economy, with 56% of sales from businesses in the 10x clusters being made outside of NI compared to 32% for the overall economy. Despite making up 10% of the total number of registered businesses in NI, 10x cluster businesses account for just under a quarter of local high growth businesses. As of 2021, 121,000 are employed in the 10x clusters representing 14% of total NI employment. However, significant gender imbalances are prevalent when comparing employment in the clusters against the overall economy.

44%

10X Clusters
share of total NI
exports

121,000

Employed in 10X
Clusters

14%

10X Clusters
share of total NI
employment

10%

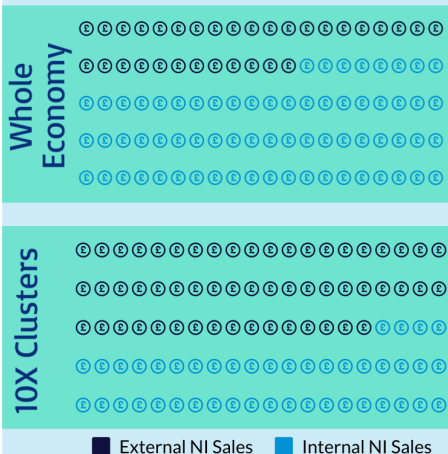
10X Clusters
share of total NI
registered
businesses

23%

10X Clusters
share of High
Growth
Businesses

Trade

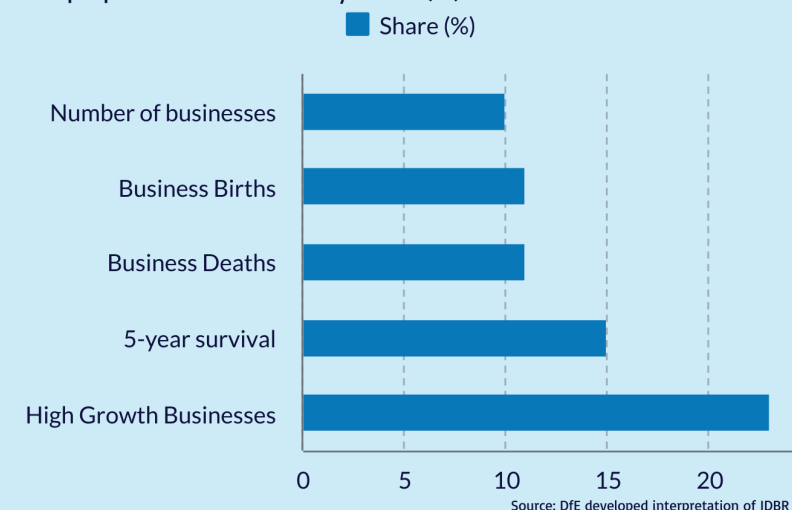
proportion of total sales by destination (%)



Source: DfE developed interpretation of Northern Ireland Economic Trade Statistics 2021

10X Business Counts

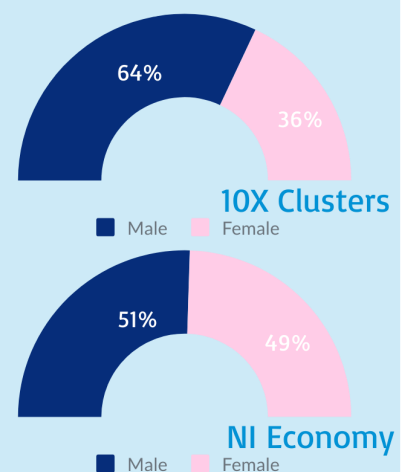
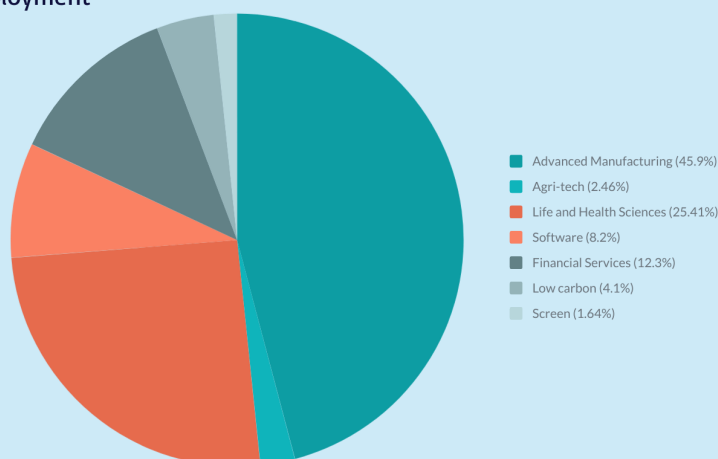
as a proportion of NI economy totals (%)



Source: DfE developed interpretation of IDBR

10X Cluster Employment

by gender and by sectoral proportion of total 10X cluster employment



Source: DfE developed interpretation of NISRA LFS

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 Labour Market Report (NISRA) - August 2023.

Contact

For any queries, or to be added to the distribution list for the DfE Economic Commentary or related research publications, please contact DfE Analytical Services at: analyticalservices@economy-ni.gov.uk