

UUEPC OUTLOOK SUMMER 2024



Turning the Corner

Against expectations, the local economy has had a much stronger start to 2024 than many had anticipated. This has been driven by very encouraging employment growth, underpinned by marked expansion in the Transport, Construction and Health sectors. Given the tightness of the domestic labour market, this continued expansion has, been largely facilitated by migrant labour [1]. Therefore, with stricter migration rules, initiatives to re-engage the economically inactive will be key to maximising future economic growth opportunities.

In addition, as inflationary pressures ease, the Bank of England will have more flexibility to reduce interest rates and although concerns remain about the persistence of services inflation, the expectation remains that the Bank will apply two quarter-point cuts to base rates in the second half of 2024. Looking into the medium term, rates are expected to settle at a new equilibrium of approximately 3.5%, much higher than the 'emergency' rates observed throughout the 2010s.

This more benign monetary environment along with lower inflation and continued increases in real wages, will boost economic growth in the next few years, before falling slightly in the medium term. The only answer to a sustained period of higher economic growth is much stronger productivity growth, which must be a priority for both the NI Executive and the new UK Government.

Key Forecasts

Northern Ireland (NI)

	2024	2025	2026	2027	2028
GVA ⁽¹⁾ growth rate	1.4%	1.7%	1.8%	1.5%	1.4%
ILO Unemployment rate ⁽²⁾	2.2%	2.2%	2.1%	2.0%	2.0%
Jobs growth	1.3%	0.7%	0.7%	0.5%	0.4%

United Kingdom (UK)

	2024	2025	2026	2027	2028
GVA ⁽¹⁾ growth rate	1.1%	1.9%	2.1%	1.9%	1.7%
ILO Unemployment rate ⁽³⁾	4.4%	4.4%	4.2%	4.2%	4.1%

Macro-economic Variables

	2024	2025	2026	2027	2028
Interest Rates ⁽⁴⁾ (end of year)	4.75%	4.0%	3.5%	3.5%	3.5%
Inflation ⁽⁵⁾ (Q4)	2.6%	2.3%	1.6%	2.0%	2.0%

Source :UUEPC, OBR

Note 1: Gross Value Added (GVA) is the preferred measure of economic activity. It is similar to Gross Domestic Product (GDP) but excludes the impact of taxes and subsidies (most notably VAT). UK GVA growth forecast for 2024 based on consensus of latest independent forecasts captured by HM treasury, while subsequent forecasts are sourced from OBR.

Note 2: ILO Unemployment rate (16-64)

Note 3: ILO unemployment rate (16+) from OBR

Note 4: Bank of England Base Rate

Note 5: Bank of England forecasts 2024-26, OBR 2027-28

[1] 63% of additional payrolled jobs in 2023 filled by non-UK nationals.

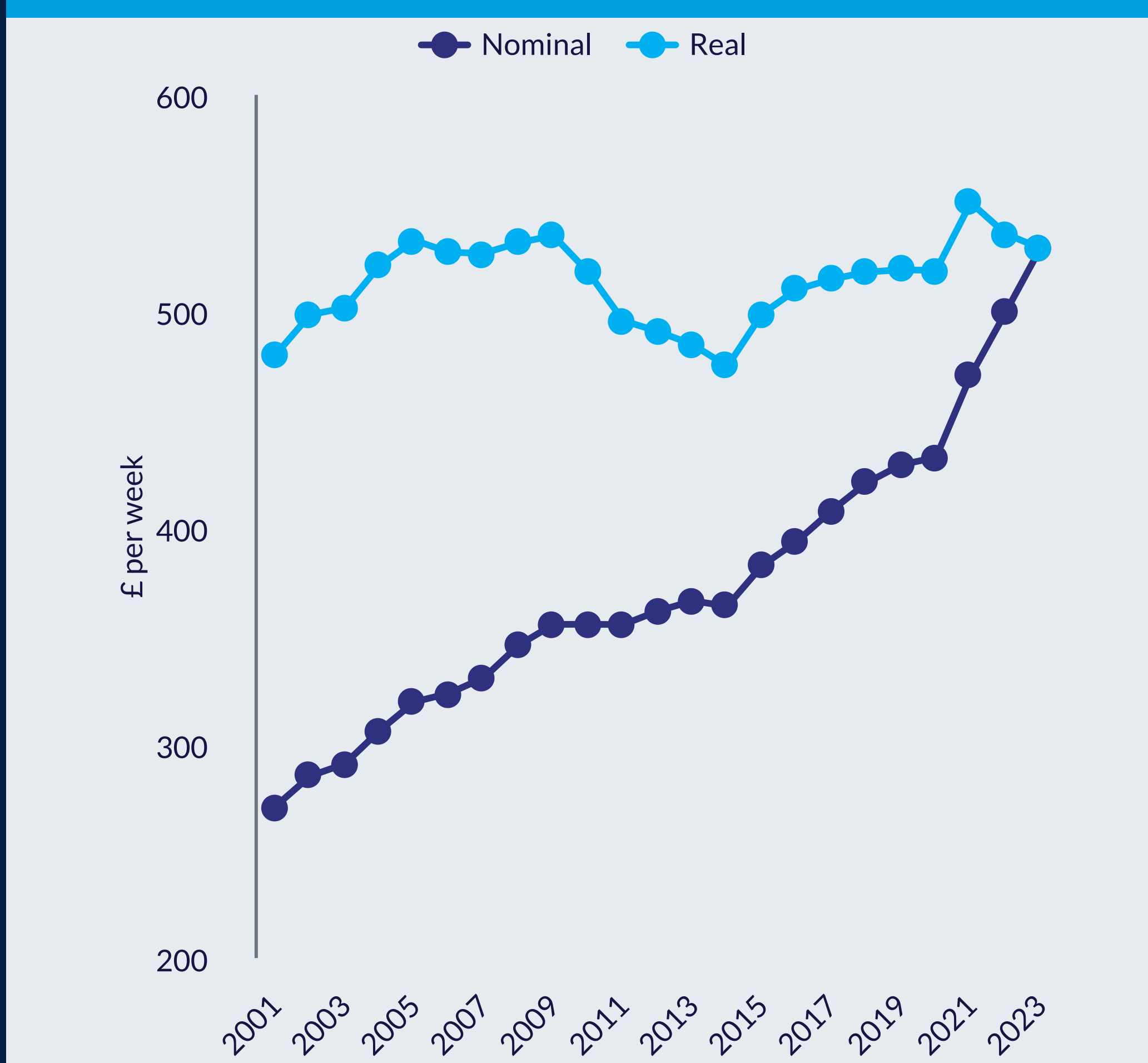
A Decade of Low Real Wage Growth

Nominal wage growth has been strong in recent years reflecting both inflationary pressures and a tightness in the labour market. The average NI *nominal* wage (all employees) increased by 5.9% in 2023, following similar rises in 2021 and 2022 (Chart 1), and although high by historic standards, NI still had the second lowest annual growth rates in 2023 across all 12 UK regions. However with higher inflation, the growth in *nominal* wages failed to compensate for cost of living pressures. Average *real* wages (adjusted for inflation) declined in both 2022 and 2023 and even prior to recent inflationary pressures, real wages only increased by 0.6% per year between 2013 and 2023.

In addition, not all employee types and sectors have experienced the same impact on their wages. Only full-time males saw their real wages increase in 2023, with others experiencing a decline, in particular female part-time workers saw their real wages decrease by 4.7% in 2023. At the sectoral level, public sectors workers across Public Administration, Education and Health experienced a decline in real wages in 2023, while employees in the Professional Services and Construction sectors have seen their real wages increase significantly.

Looking forward, real wages in NI are forecast to increase by 2.3% in 2024, reflecting continued labour market pressures, stronger economic growth and lower inflation. In addition, the 9.8% rise in the National Living Wages in April will provide an uplift to the lowest paid and is expected to reduce the spread between the lowest and highest earners, which had increased in recent years [2].

Chart 1: Median Weekly Gross Pay for All Employees: Nominal and Real (2023 prices)



Source: NISRA

[2] The difference in weekly gross pay for all employees between the 10th and 90th percentile increase by 20% between 2020 and 2023.

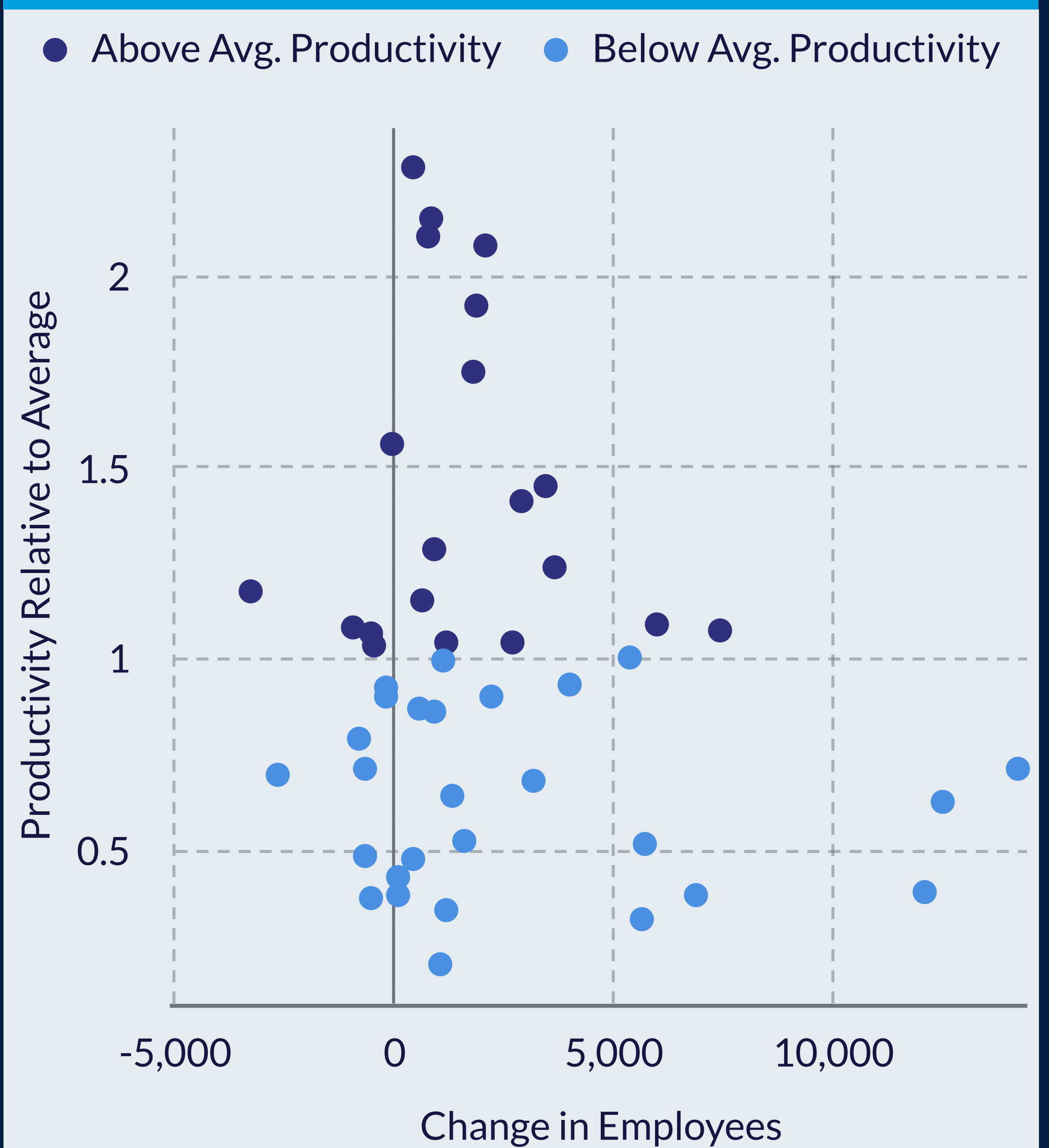
Beyond 2024, without a marked increase in productivity, it is expected that annual real wage growth is likely to return to 0.6% per annum (p.a.), similar to the growth rate experienced for much of the last 10 years.

Analysis of employee data disaggregated across the 78 (2-digit SIC) industrial categories, shows employment growth during the 2013 to 2023 period was predominantly in low labour productivity areas (Chart 2) [3]. For example, the largest employment gain was in *Residential Care*, which has below average productivity. Overall, approximately 69% of the total expansion in jobs between 2013 and 2023 were in sectors with below average productivity.

Productivity is a key driver of economic growth and impacts the financial ability of employers to raise wages [4]. Therefore, it is no surprise that 73% of the expansion in jobs were also in sectors with below average wages and that the greater employment increase in below average productivity sectors has resulted in low overall average wage growth.

The close correlation between productivity and wage growth reinforces the policy need to focus on measures that raise productivity to achieve higher real wages and improve living standards.

Chart 2: Change in Employees 2013 to 2023 and Relative Productivity per Job



Source: ONS and UUEPC

[3] Productivity is measured at the mid-point of the period of analysis, i.e. 2018.

[4] OECD (2024). OECD Compendium of Productivity Indicators 2024, OECD Publishing, Paris.

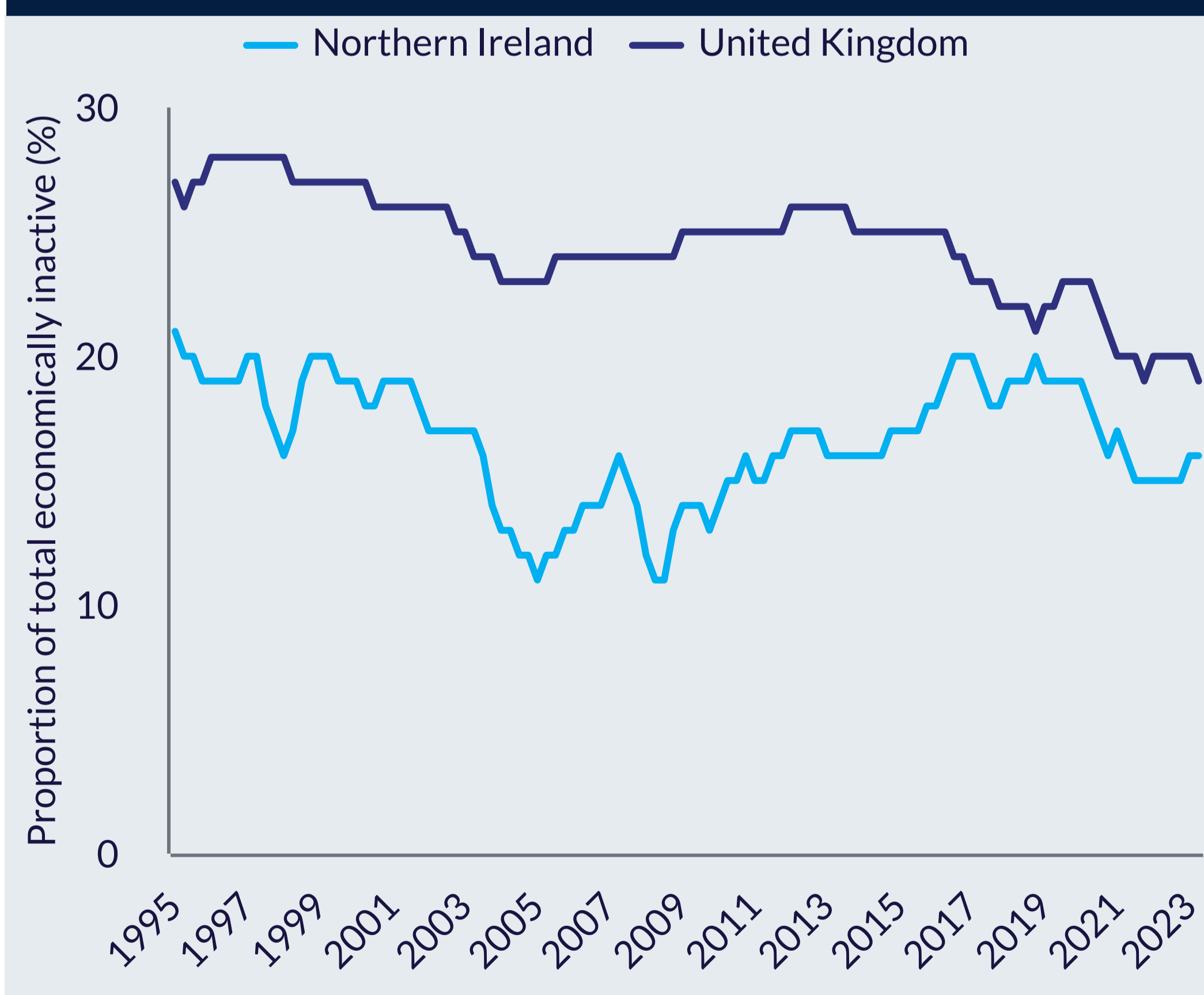
Spare Capacity in the Labour Market

Staff shortages and recruitment challenges have become an increasing problem for employers across all sectors in the local economy. The latest NI Chamber of Commerce Quarterly Economic Survey found that the proportion of firms reporting recruitment challenges in Manufacturing and Services sectors peaked in 2021 and 2023 respectively. Although the number of businesses reporting recruitment difficulties has fallen from recent highs, they remain elevated by historic standards.

Demographic transition has contributed to this staff shortage. Between 1980 and 2010, NI's working age population (individuals aged 16 to 64) increased by an average of 90k people per decade. However, it increased by only 22k in the 2010s, and is projected to grow by just 3k this decade. This creates a significant constraint on economic growth and will require employers to change their attitudes to capital investment and recruitment approaches.

The NI unemployment rate is now back to its record low of 2.0%, however, there are approximately 320k economically inactive, who are neither in employment nor classified as unemployed. For many in this group, participating in work is not a realistic option, but approximately 16% state that they 'want to work' (Chart 3). Typically, these people have not been able to access job opportunities because of barriers to employment such as caring responsibilities or health problems alongside lower level skills.

Chart 3: Economically Inactive (aged 16-64), would like to work, NI & UK, 1995-2024



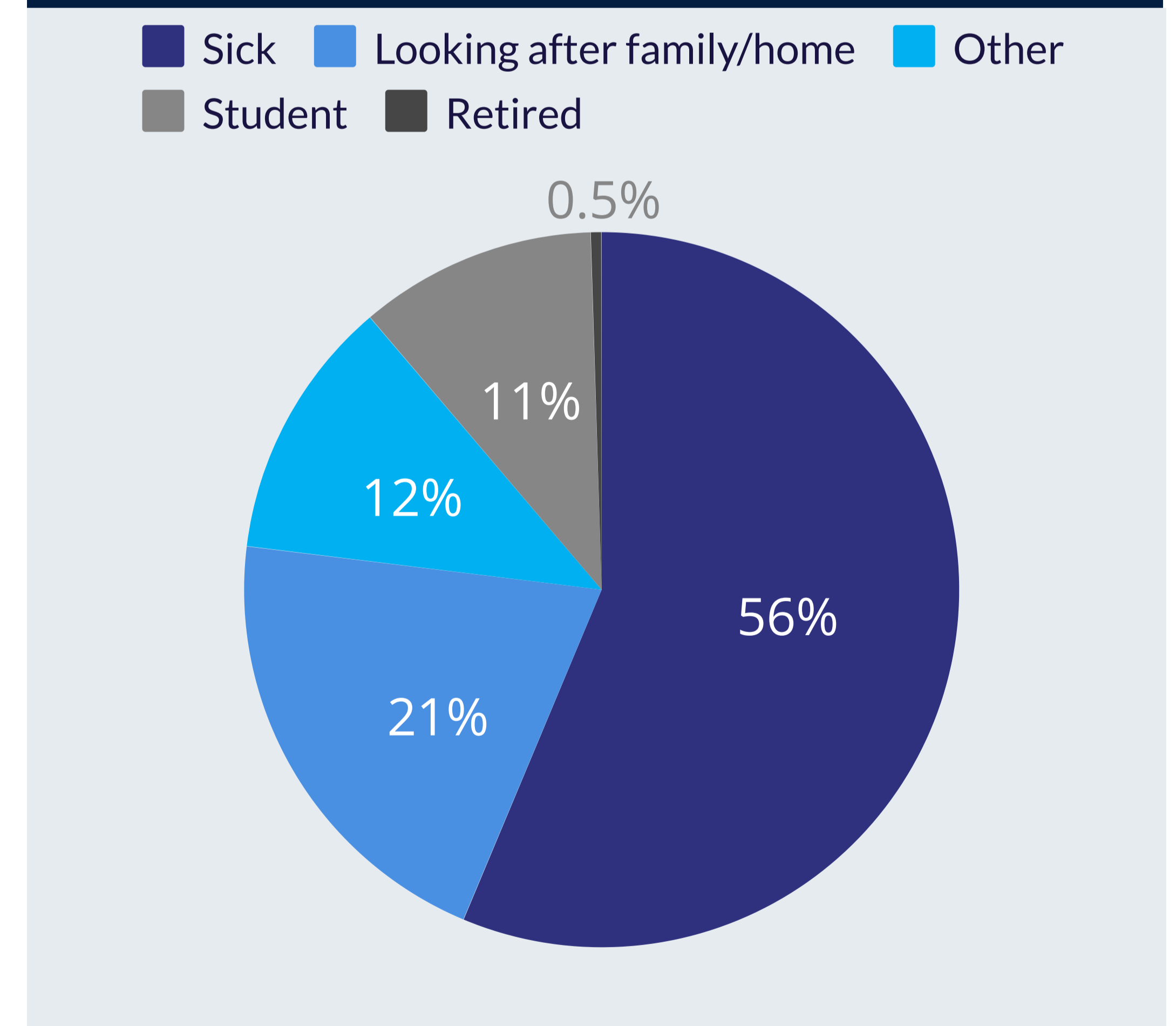
Source: Labour Force Survey
Note: Figures refer to a 4-quarter rolling average

This represents approximately 51k people and is the largest pool of untapped labour in the economy, more than double the 23k people officially unemployed. If this 'hidden unemployed' group were to be included in the unemployment rate calculation, it would more than treble to 8.3%.

Over half (56%) of the economically inactive who state that they 'want to work' are suffering from health problems, followed by those looking after the family/home (21%), other reasons (12%), non-working students (11%) and retired persons (0.5%) (Chart 4).

The composition of this group has changed over time. For example, those looking after the family/home in 1996 accounted for around two-fifths (43%) of the economically inactive who would like to work (now 21%). In contrast, those with health problems have increased from 20% to 56% over the same period. Separately, people with a self-declared disability now represents over three-fifths (64%) of the total hidden unemployed group. This highlights the importance of improving access and inclusivity across NI workplaces and the need for employers to re-think their approach to recruitment.

Chart 4: Economic Inactivity (aged 16-64), would like to work by reason, Q1 2024



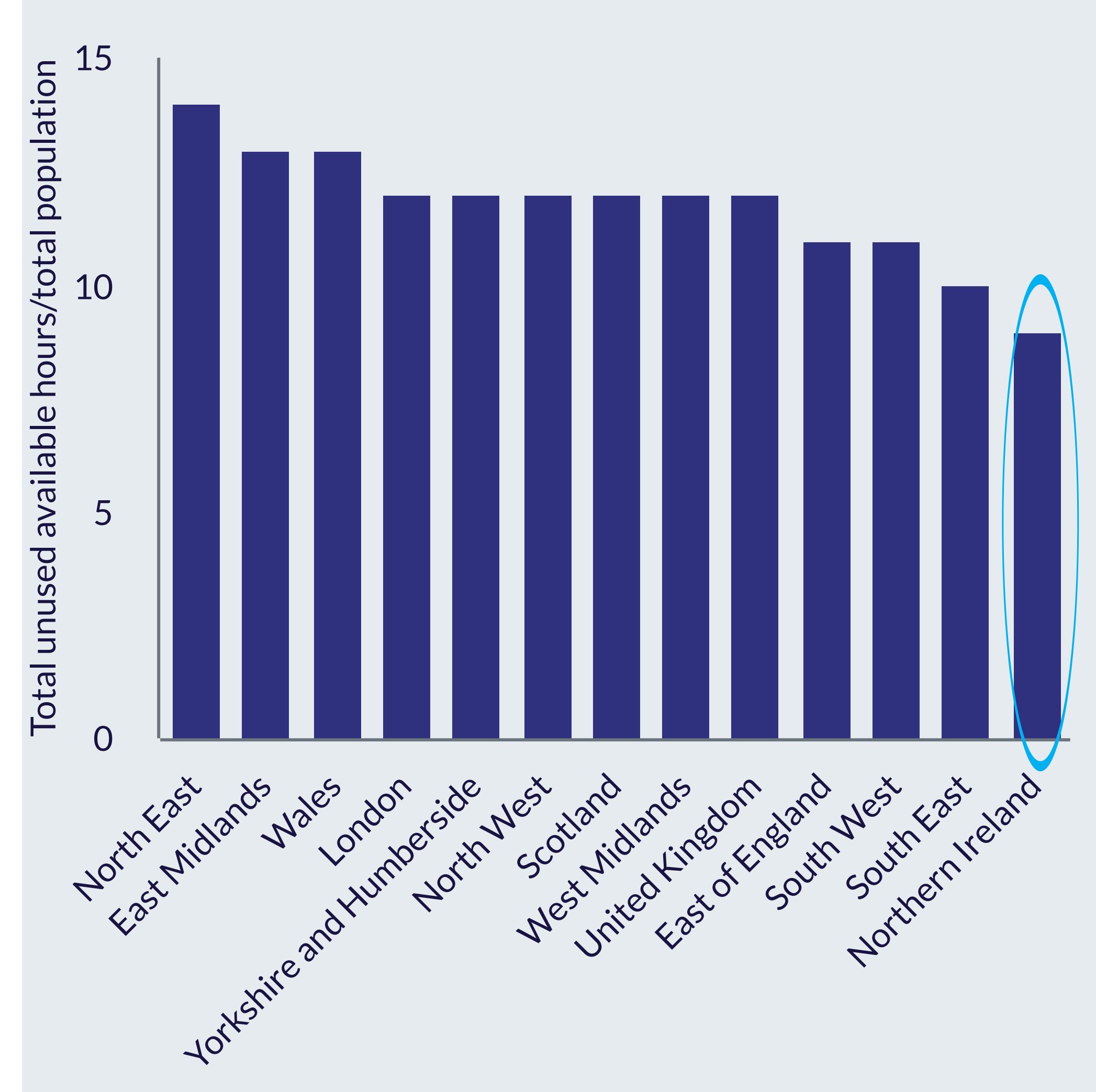
Source: Labour Force Survey
Note: Figures refer to a 4-quarter rolling average

[5] Spare capacity refers to an hours-based measurement of the total available labour within the economy. This measure is standardised by calculating total unused hours that workers are willing to supply (i.e., from underemployed and those out of work) as a proportion of total actual hours worked plus total potential hours (i.e., actual hours worked plus unused hours).

For those in work, the headline employment rate does not account for 'underemployed' workers, who report they would like to work more hours. There are currently 46k workers in NI who fall into this category, equating to 5.4% of total employed and they are typically younger, female and have lower-level qualifications.

Recent [UUEPC research](#) quantified the overall level of spare capacity [5] in the NI labour market by estimating the unused labour hours across the unemployed, underemployed and economically inactive who 'want to work'. The research highlighted that NI has the lowest rate of spare capacity across the 12 UK regions (Chart 5).

Chart 5: Standardised Spare Capacity (%) in the Labour Market (hours based), UK Regions, Q1 2024



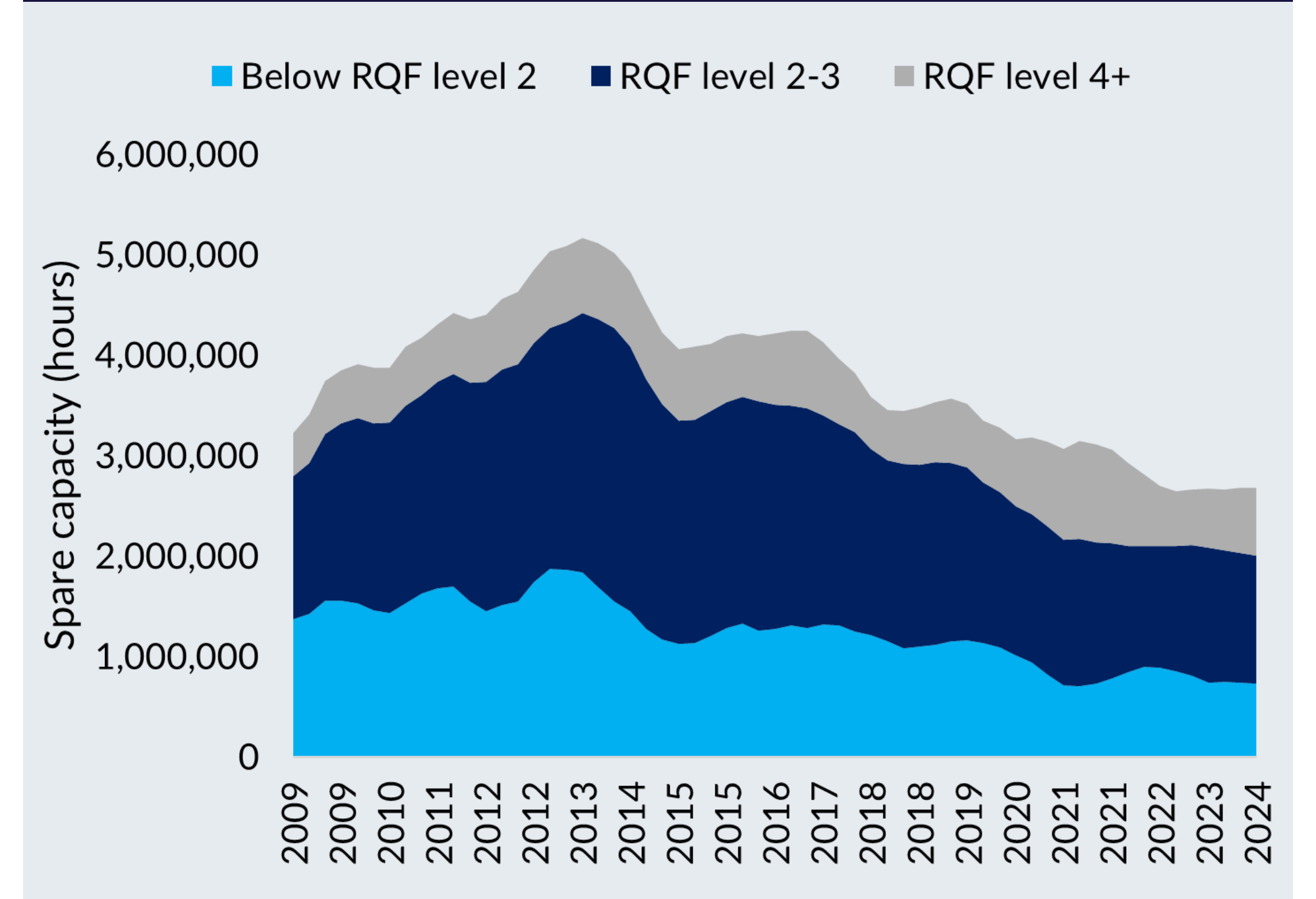
Source: Labour Force Survey
Note: Figures refer to a 4-quarter rolling average

Taken together, the NI labour market has the UK's lowest unemployment rate, the lowest underemployment rate and the lowest percentage of economically inactive who 'want to work' (despite having one of the highest economic inactivity rates in the UK). These factors have combined to create one of the tightest labour markets ever recorded in NI.

Encouragingly, the total number of used labour hours has fallen year on year since 2012, but the skills mix has changed significantly. Those with lower-level qualifications have recorded a fall in their share of the total number of unused hours from two-fifths (40%) in 2009 to over a quarter (27%) in 2024 (Chart 6). This has been driven by the strong employment growth in sectors such as hospitality over the last decade, as they tend to rely heavily on recruitment from non-graduates, but this will have a disproportionate impact on future growth in those same sectors as the pool of available labour shrinks.

This also reflects changes in the qualifications profile of the working age population where there are fewer people with lower-level qualifications and higher numbers with a tertiary level education. This trend is expected to continue as older workers, with lower formal qualifications, retire and are replaced by younger people with higher level qualifications.

Chart 6: Spare Capacity in the Labour Market (hours based, aged 16+) by qualification level, NI, 2009-2024



Source: Labour Force Survey
Note: Figures refer to a 4-quarter rolling average

A growing working age population has played an important role in driving the NI economy over the past 50 years, but a slowdown in the growth of labour inputs because of demographic trends, will impact economic growth potential. As a result, NI can no longer afford to have underutilised spare capacity in its labour market and maximising the potential of mothers, older workers, disabled talent, person with health problems and those with lower level qualifications are key to unlocking future economic growth.

This is a diverse group, requiring a broad range of interventions to enable labour market participation and in the absence of successful policy, employers will experience increased competition for skills and the potential of many working age people will be lost.

Sectoral Forecasts

Manufacturing

Following a challenging period for NI Manufacturing, the 12 months to March 2024 saw a 2.1% increase in employment in the sector, (compared to a 1.3% decline in overall UK Manufacturing employment). This was driven by strong growth in the *Transport, Food* and *Chemical* sub-sectors.

Ulster Bank's Purchasing Managers' Index (PMI) suggests the highest level of optimism in the sector over the next 12 months since 2017 [6]. In the medium to long-term, the sector will face increasing competition from lower cost overseas producers, however it is forecast that the sector will continue to expand, with strong growth expected in advanced manufacturing such as *Transport Equipment* and *Computer, Electronic and Optical Parts* alongside the very important *Food Manufacturing* sub-sector. Importantly, this growth must be underpinned by capital investment and ongoing development of the skills base.

Construction

Construction has had a very difficult few years, but finally seems to have turned a corner with a return to employment growth. This is supported by the latest Ulster Bank PMI which reports overall construction output increasing at its fastest rate in 4 years.

Although construction costs continue to rise, the rate of increase is at its slowest pace in nearly 4 years, with the 2024 average tender price inflation rate expected to fall to 3.1% [7]. NI construction costs remain significantly above the global average, with an International Construction Cost Index 2024 score of 145 [8] (a score of 100 represents the global average). Encouragingly, Belfast's index score is significantly lower than other parts of these islands, London (score of 223, the highest globally), Edinburgh (169), Cardiff (167) and Dublin (163). Global supply chain issues post-Covid followed by the war in Ukraine set the backdrop for many of these cost issues, but longer term net zero regulations also continue to add to construction costs. Lastly, Construction is also amongst the most sensitive to interest rates, and as the Bank of England starts its process of adopting a more accommodative monetary policy, demand in areas such as domestic new build could start to recover [9].

Private Sector Services

The prospects for Retail had been negative for some time with the shift to online shopping and the persistence of working from home impacting urban centres. However, employment growth has returned and although not back to pre-pandemic levels, job numbers have increased by almost 0.5% in the 12 months to March 2024.

There remains mixed evidence on the levels of footfall with Belfast City Council reporting a 7.5% increase in average footfall between November 2022 and November 2023 (equivalent to weekly footfall increase of approximately 50k [10]).

However, a BRC [11] survey (4 week, period 31 March to 27 April 2024), reported that NI had the largest year-on-year decrease in footfall across all the UK nations (of 11.1%).

In contrast to these challenges, Professional Services, Admin' & Support and Information and Communication Technology continue to show strong growth. The local tech sector has continued to grow and the region remains one of the leading FDI locations for US cyber security investment and EU new software development [12].

Public Sector Services

Despite the recent funding boost and a return of the NI Executive, significant financial pressures remain to address the impacts of long-standing under-investment and the need to reform the delivery of public services. Water Supply and Waste is a primary candidate for increased investment which would boost wider economic growth and is projected to see an increase in employment driven by the Department for Infrastructure's "Living with Water" project.

In addition, lengthy waiting lists and the longer-term strain on the Health Service, will result in continued employment growth. Furthermore, reliance on migrant labour will be less of a challenge for Health than other parts of the economy as the UK Government will exclude the sector from the £38,700 salary threshold applied to skilled workers visa applications to alleviate recruitment pressures.

Sectoral Employment Actual and UUEPC Forecast ('000's)

Industry	2012-19 (Recovery)	2020-23 (COVID& Recovery)	2023-33 (Baseline)	2023-33 (Upper)
Agriculture	-4.9	-4.8	0.2	0.3
Mining	0.1	-0.1	0.0	0.0
Manufacturing	18.2	1.8	5.0	5.7
Utilities	0.8	-0.1	0.8	1.8
Water & Waste	1.6	0.7	1.2	1.4
Construction	7.5	-6.6	7.4	7.6
Retail	7.0	-1.9	-2.6	0.9
Transport & Storage	5.5	-1.7	4.2	6.0
Hospitality	9.0	5.4	6.0	7.2
Info' & Communication	6.6	3.0	8.6	9.9
Financial Services	0.0	-0.2	1.7	3.3
Real Estate	0.4	0.3	0.1	0.6
Professional & Scientific	11.0	8.8	8.3	10.3
Administration Services	14.6	4.7	3.2	3.4
Public Admin' & Defence	-6.1	2.9	0.4	2.1
Education	4.8	7.5	0.4	1.0
Health & Social Work	13.7	-0.6	11.3	12.3
Arts & Entertainment	2.2	3.0	0.7	2.4
Other Services	9.8	0.7	0.9	3.2
Total	101.8	22.8	57.7	79.3

[6]Ulster Bank (2024): Ulster Bank Northern Ireland PMI

[7]AECOM (2024): Ireland Annual Review 2024.

[8] ARCADIS (2024): International Construction Costs 2024.

[9] Department of Finance (2024): New Dwelling Statistics Quarter 1 2024.

[10]Belfast City Council (2023): All-Party Working Group on the City Centre.

[11] British Retail Consortium (2024): Slow Start to Spring as Footfall Declines.

[12]InvestNI (2024).

About UUEPC

UUEPC is an independent economic research centre focused on producing evidence-based research to inform policy development and implementation. It engages with all organisations that have an interest in enhancing the Northern Ireland economy. The UUEPC's work is relevant to government, business and the wider public with the aim of engaging those who may previously have been disengaged from economic debate.

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