

UUEPC OUTLOOK

December 2024



Weathering the Fiscal Storm

The Northern Ireland economy has had a reasonably strong 2024 and this has been reflected in the local labour market which continued to perform strongly, particularly in the first half of the year, exceeding the UK performance. More recent indicators point to slower growth in the second half of the year, but for the 12 month period as a whole, GVA growth of 1.9% is anticipated.

At a national level, the additional borrowing and spending announced in the Budget will increase growth in the short term, but this also increases inflation expectations and therefore interest rates. Alongside higher taxes, in particular National Insurance Contributions, this will likely result in lower growth in the medium term.

Longer term employment growth will continue but at a reducing rate and given the already low level of unemployment and greater constraints on immigration, continued growth will require an ability to transition individuals out of economic inactivity and into the workforce.

Key Forecasts

Northern Ireland (NI)

	2024	2025	2026	2027	2028
GVA ⁽¹⁾ growth rate	1.9%	1.5%	1.6%	1.4%	1.4%
ILO Unemployment rate ⁽²⁾	2.2%	2.1%	2.1%	2.0%	2.0%
Jobs growth	1.5%	0.7%	0.5%	0.4%	0.4%

United Kingdom (UK)

	2024	2025	2026	2027	2028
GVA ⁽¹⁾ growth rate	1.2%	2.0%	1.9%	1.6%	1.6%
ILO Unemployment rate ⁽³⁾	4.3%	4.1%	4.0%	4.1%	4.1%

Macro-economic Variables

	2024	2025	2026	2027	2028
Interest Rates (end of year)	4.75%	3.75%	3.5%	3.5%	3.5%
Inflation ⁽⁴⁾ (Q4 forecast)	2.4%	2.5%	2.1%	2.1%	2.1%

Source: UUEPC, OBR

Note 1: Gross Value Added (GVA) is the preferred measure of economic inactivity. It is similar to Gross Domestic Product (GDP) but excludes the impact of taxes and subsidies (most notably VAT).

Note 2: ILO unemployment rate (16-64)

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

Note 4: OBR

Sectoral Forecasts

Manufacturing

Economic indicators present a mixed picture for NI's manufacturing sector. NISRA's latest quarterly Index of Production shows a decrease of 1.1%, the continuation of an existing downward trend in output.

However, growth in manufacturing employment remains strong with total workforce jobs increasing by approximately 1,900 or 1.9% in the 12 months to June 2024. This was primarily driven by increases in full time male jobs, whilst both full time and part time female manufacturing jobs declined over the period.

Ulster Bank's Purchasing Managers' Index (PMI) suggests companies continued to hire new staff in response to increased orders but experienced challenges finding suitably skilled labour in the local market.

Construction

Activity levels across the construction sector have been volatile in the year to date, but more recently growth is returning. In particular, workforce jobs in the 12 months to June 2024 increased by 16.3% and October saw an increase in new business (as per the PMI). The increase in public investment announced in the recent Autumn Budget is also a positive and should provide a much needed boost in the medium term.

The sector is also retaining pricing power in the market as 'selling prices' have posted faster growth than other areas of the economy. In addition, the pace of input cost inflation has eased which should help margins, although firms have reported higher wages which will increase further with higher employer National Insurance Contributions.

Private Sector Services

Private sector services enjoyed higher levels of output and employment growth than the UK as a whole and notable increases in both full time and part time workforce jobs in retail.

Given the Bank of England's Monetary Policy Committee is now on a rate reduction cycle having reduced the bank rate in recent meetings, with an anticipated three or four further quarter point reductions in 2025, consumer confidence should be maintained. In addition, professional services continues to be a key driver of economic growth and has been one of the fastest growing sectors in employment terms over the last decade.

However, the environment is challenging, particularly in the second half of the year and business confidence remains subdued. This may have been partially caused by negative sentiment in the run up to the Budget and conditions are unlikely to have improved since the Chancellor made her announcements [5].

It is important to recognise that the Budget also included some positive interventions. To support the private sector in England, the Chancellor announced 40% rates relief for retail, hospitality and leisure businesses in England. This does not extend to NI as business rates are a devolved policy measure, but several bodies have called for similar rates support to be applied by the NI Executive.

Public Sector Services

The Chancellor's budget announced an additional £1.5bn next year for NI, with several calls on public funding across health, schools, housing and infrastructure.

Investment levels in water services in NI have historically lagged the rest of the UK [6]. NI Water's 6 year business plan (2021-27) highlighted plans for investment of around £2.1bn during this period, which is much needed given the current constraints in development projects due to capacity issues. Given the pause on planning applications for residential and business development projects across NI, due to capacity constraints in the wastewater infrastructure, this investment must be seen as a priority to unlock constrained economic potential.

The public sector also faces other short, medium and long term pressures, particularly in health to tackle the recent significant increase in waiting lists alongside funding the transformation and reform needed to address the demographic challenge of a growing older age population. Challenges also exist in the education sector with falling numbers of school age children and an education estate in need of modernisation.

Sectoral Employment Actual and UEPC 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	4.8	8.3
Utilities	0.8	-0.1	0.8	1.8
Water & Waste	1.6	0.7	1.2	1.7
Construction	7.5	-6.6	7.3	10.6
Retail	7.0	-1.9	-2.4	0.1
Transport & Storage	5.5	-1.7	4.0	6.0
Hospitality	9.0	5.4	5.8	8.2
Info & Communication	6.6	3.0	8.4	11.3
Financial Services	0.0	-0.2	1.5	2.5
Real Estate	0.4	0.3	0.0	0.7
Professional & Scientific	11.0	8.8	8.2	11.5
Administration Services	14.6	4.7	2.6	3.9
Public Admin' & Defence	-6.1	2.9	1.0	2.4
Education	4.8	7.5	0.4	1.2
Health & Social Work	13.7	-0.6	11.4	13.9
Arts & Entertainment	2.2	3.0	0.6	1.9
Other Services	9.8	0.7	0.6	2.5
Total	101.8	22.8	56.4	88.7

Forecasting

UEPC's inhouse economic forecasting model is used to produce two economic scenarios (Baseline and Upper) for the NI economy across a range of indicators.

Under the Baseline, the NI employment rate rises over the forecast period but remains below the current UK rate.

The Upper scenario forecasts a higher, more aspirational employment rate for Northern, which factors in policy success in achieving a substantially lower inactivity rate.

[5] The Chancellor's announcement that employer NICs will rise to 15% on earnings above £5,000 from April 2025 came after October's PMI survey was conducted and as such was not accounted for in latest PMI release.

[6] Independent Water Review Panel

Recent drivers of job growth

Despite considerable economic turbulence, the local labour market has displayed robust growth over the last decade. Total workforce jobs increased by approximately 84k between 2014 and 2023, with NI recording the fourth highest growth rate across the 12 UK regions. Approximately half of this growth was underpinned by expansions in the professional services, manufacturing and health sectors. Sub-sectoral (2-digit) employee data provides a deeper understanding of recent trends in these key sectors.

Increased concentration in professional services

Professional, scientific and technical services was the fastest growing sector in NI between 2014 and 2023, with an impressive annual growth rate of 5.7%. Historically, NI has had a proportionally smaller professional services sector than the UK, but it has been growing. In particular, this has been driven by the legal and accounting activities sub-sector which made the largest contribution to the expansion (see Chart 1). Other sub-sectors such as activities of head offices, management consultancy activities, architectural and engineering activities and other professional, scientific and technical activities remain less concentrated than in the UK, but encouragingly have been increasing their concentration over time. These are typically high value-added sectors and have an important role in raising productivity in the years ahead.

Growing contribution of food processing to manufacturing

Although UK manufacturing employee numbers remained flat over the 2014 to 2023 period, the sector in NI grew at an annual rate of 1.6%. At the sub

sectoral level, manufacturing of food products was the largest contributor to growth making up 25% of total manufacturing employees in 2023 (compared to 17% of UK manufacturing employees). Over this period, the fastest growing sub-sector was repair and installation of machinery and equipment with an annual growth rate of 6.5%. In contrast, manufacturing of beverages and tobacco products experienced an annual decline of 4.7%, caused largely by the closure of Gallaher's tobacco factory in 2017.

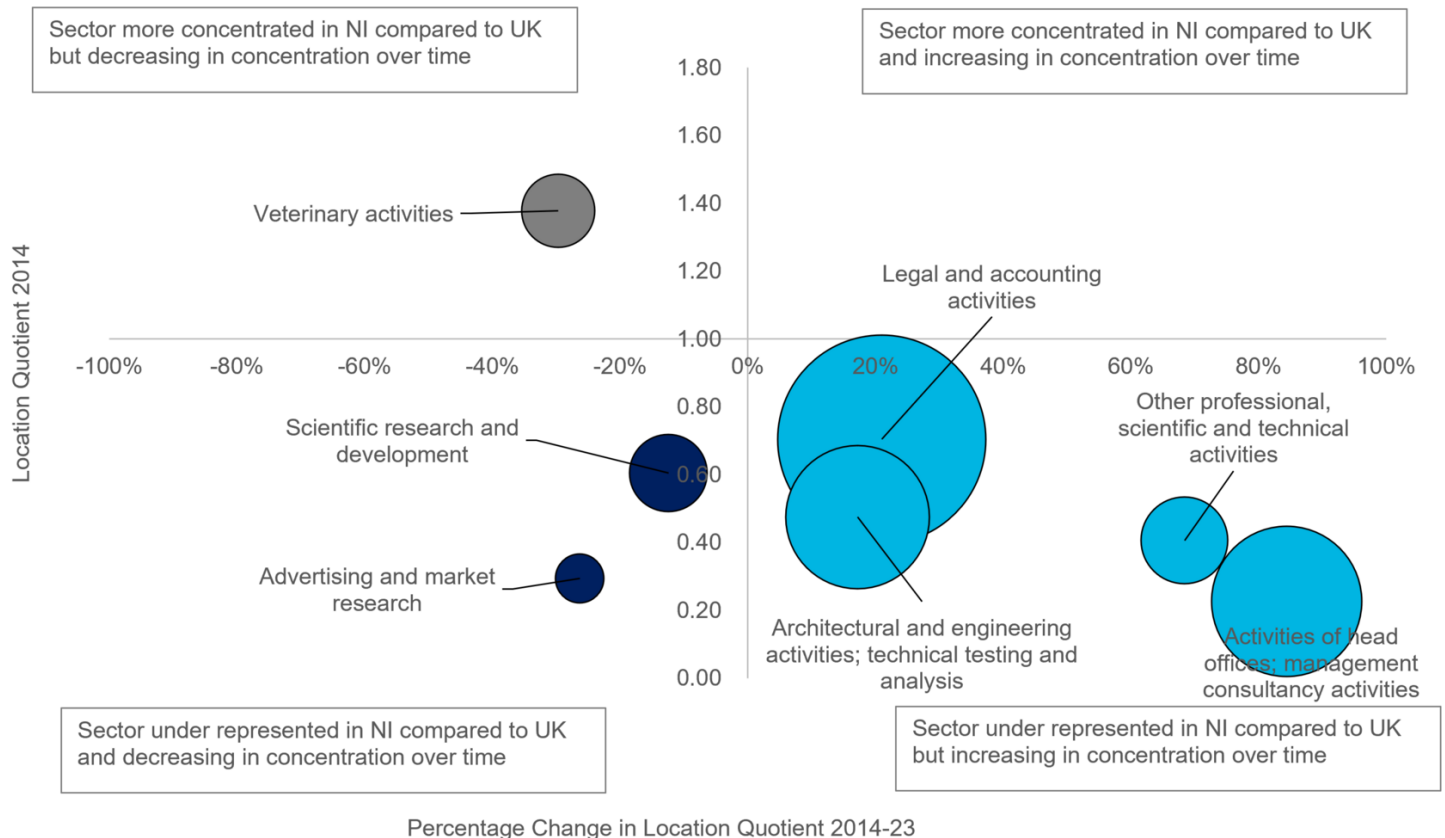
Strong demand in the health sector

The health and social work sector displayed consistent employment growth across the period of analysis, increasing from 121k in 2014 to 137k in 2023, an annual growth rate of 1.4%. This increase was primarily driven by growth in residential care activities which experienced an annual growth of 4.2% and an overall increase of 7,800 jobs, reflecting the impact of aging demographics. The continued challenges in the health sector underpins the future job growth projections.

Alignment with NI Executive strategies

It is important to build on the strengths of these sectors to ensure that they remain competitive and continue to exhibit growth. This is potentially linked to the development of a clusters policy aligning with the Department for the Economy's seven priority sectors and an associated skills strategy to ensure employers do not face a human resource constraint.

Chart 1: Change in "Professional, Scientific and Technical Services" sub-sector Location Quotients, 2014-23, bubble size denotes number of employees in 2023



Source: NISRA, Quarterly employment Survey

Note: The computed Location Quotients quantifies the concentration of employment in an economic sector in NI compared to that of the UK. A value greater than one indicates NI is more specialised in an economic sector compared to the UK as a whole, while a value less than one indicates NI is less specialised compared to the UK

The demographic challenge facing Northern Ireland

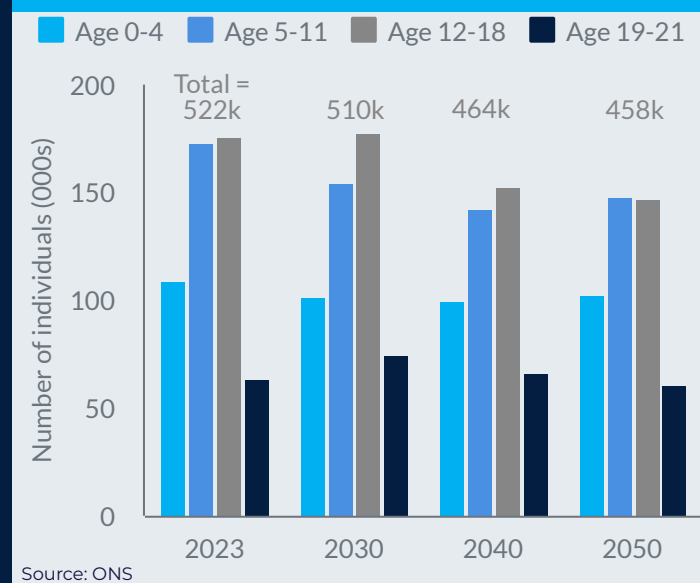
People are becoming much more aware of changing demographics and some of the challenges this creates, but the debate tends to focus solely on the growing older population and the issues raised in terms of health and social care. There seems to be less of an understanding about the changes across other age groups and the pace at which change is coming down the track.

The UUEPC recently completed research on the ONS and NISRA population projections to help inform the wider policy debate and bring into focus the decisions that the current NI Executive must take. Although these demographic challenges are not unique to NI, they are more acute than across the UK as a whole and in the Republic of Ireland (RoI). The local population is projected to grow by just 3.6% between 2023 and 2050, compared to 12.7% UK growth and 19.9% for the RoI over the same period.

The falling number of children and young people

The number of children and young people (under the age of 22 years) is projected to fall from 522k in 2023 to 458k in 2050 and importantly, 58k of that 64k contraction is projected to occur by 2040.

Chart 2: Age profile of children/young people, NI, 2023-2050



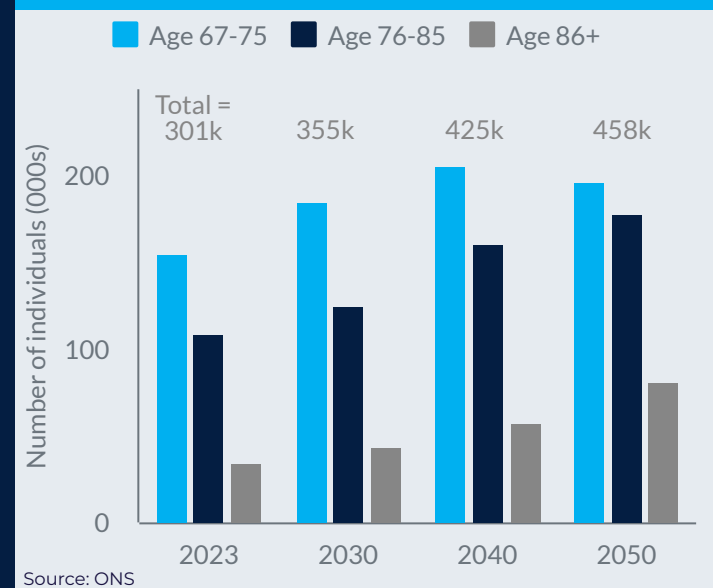
Looking at individual age groups, both the pre school age group (0-4 years) and primary school age group (5-11 years) will see their numbers fall most this current decade, with pre school numbers falling by 7k and primary school numbers falling by 18k by 2030. Thereafter, reductions are more modest. In contrast, secondary school numbers hold up in the 2020s and then experience a significant reduction of 25k in the 2030s. During the entire period to 2050, the number of tertiary age young people (19-21 years) increases strongly this decade before falling back in the 2030s and 2040s. By 2050, the number of 19-21 year olds will be only 3k lower than in 2023.

This should significantly influence NI Executive decisions with respect to the school estate, which is projected to see a total reduction of 53k (or 15%) in school age numbers by 2040. It is unrealistic to expect individual school principals to find further efficiencies with falling pupil numbers, those efficiencies will need to be found through overall school estate rationalisation.

The older age cohort to increase by over 50%

With the improvements in health technologies and medication, the number of older people is set to increase 157k by 2050. Similar to the children/young people demographic, most of this increase is expected to occur by 2040 (with 124k of the total increase by 2040 and then 'only' a further 33k increase in the 10 years to 2050).

Chart 3: Age profile of older population (67+), NI, 2023-2050



Breaking down those sub age groups:

- the 67-75 age group is projected to grow by 41k,
- the 76-85 age group is projected to grow by 69k, and
- the 86+ age group is projected to grow by 47k (or 132%).

The very significant increase in this older group will have a major impact on demand for health and social care services.

The Department of Health already takes over half of the Stormont budget and that share of the budget is likely to continue to grow, putting greater strain across all areas of the public sector and increase the pressure on the NI Executive to raise more revenue locally. This is one further argument supporting the need to reform the delivery of health and social care in Northern Ireland.

The working age population to remain broadly stable

Those of working age (in the 22-66 years cohort) is projected to remain broadly stable from 2023 to 2050 falling by just 13k from its current level of just over 1.1 million. However, consistent with broader trends, the cohort is projected to age, with those in their 20s expected to fall by 17k and those from 61-66 expected to increase by 16k.

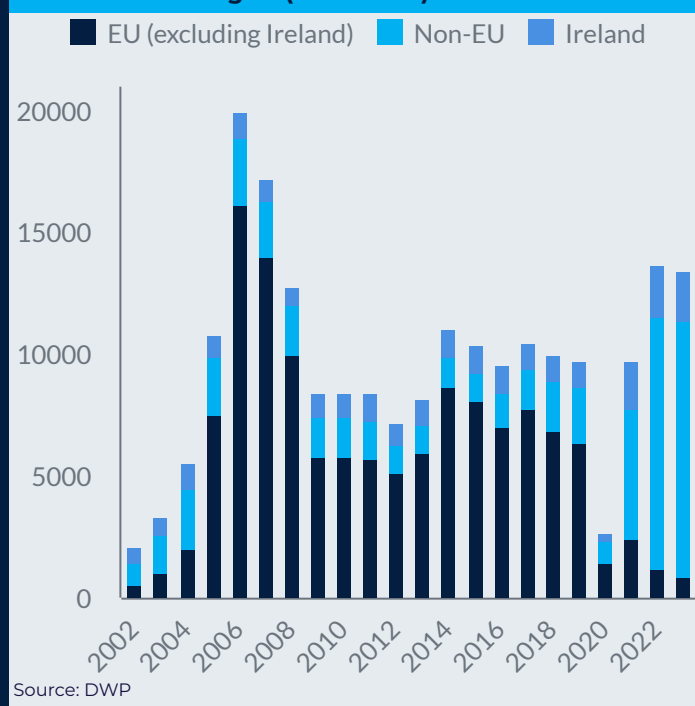
This may seem relatively positive but must be put in the context of recent historical trends. The working age population increased by approx. 270k between 1980 and 2010 (or 90k per decade), but growth then

fell to 22k in the 2010s. However, in 2010 the local economy was still working through the implications of the Global Financial Crisis and therefore there was greater excess supply in the labour market. This is no longer the case and therefore the recruitment challenges currently faced by local employers are likely to continue in the longer term.

Migration levels now above pre-Brexit levels

The tight labour market continues to create demand from employers for relatively open borders and access to migrant labour. These recruitment challenges have also created a perception in some quarters that the UK's departure from the EU has resulted in a reduction in migration. However, the data shows that in both 2022 and 2023, National Insurance Number (NINO) registrations to adult overseas nationals were higher than in every year since 2007.

Chart 4: NINO Registrations to adult overseas nationals entering NI (2002-2023)



The big change in migration patterns post Brexit and post Covid is where they have come from. Historically, most NINO registrations were awarded to people from continental EU, however this significantly changed after 2020. The majority are now non EU, in particular from India, the Philippines, Nigeria and Ukraine. Interestingly, NINO registrations from the Republic of Ireland have doubled since the pandemic, increasing from a relatively stable 1k per annum to 2k per annum.

A wide range of policy implications

Given these changing demographics will have its most significant impact by 2040, it is imperative that policy solutions are identified and implemented as a priority. These may include:

1. Education and Workforce Development

- **Schools estate:** with fewer young people, a focus is required on optimising educational resources which may include consolidating the school estate as part of a broader strategy to raise educational standards.
- **Supporting older workers:** with labour supply trending down, older workers may need to be facilitated to stay in work for longer. This may require more flexible working arrangements and greater emphasis on training and development to allow people to transition from declining industries/ sectors into growing sectors where demand for labour will be high.
- **Migration:** these trends all show a continued reliance on migrant labour.

2. Healthcare Infrastructure and Social Services

- **Elderly Care:** significant investment in healthcare infrastructure and services tailored to the needs of an aging population will be essential. This may include expanding care facilities, integrating advanced healthcare technologies to improve quality and efficiency, increased training of healthcare professionals specialising in elder care, and increasing home care support.
- **Preventive Health:** promoting healthy lifestyles and preventive healthcare can help manage future healthcare costs and improve the quality of life for older people.

3. Housing infrastructure

- **Developing smaller units and incentivising downsizing:** encouraging the construction of smaller housing units to meet the demand from one and two person households and encouraging older people to downsize can increase the supply of larger homes for younger families, ensuring a more efficient use of the housing stock. Surveys have shown that approx. one third of older people are amenable to downsizing, but only a small proportion, approx. 7%, proceed. The main barrier is a lack of appropriate housing for older people.

4. Infrastructure and Community Services

- **Transportation and Accessibility:** improving transport infrastructure to connect more remote and declining population areas with growing economic hubs.
- **Community Services:** ensuring that community services adapt to demographic changes, providing support for both young families and the elderly.

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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