

## Sluggish NI Economy Recovery Continues - October 2011

Northern Ireland's recovery is far from spectacular, but nonetheless growth will continue albeit at a very sluggish pace, according to Northern Bank Chief Economist Angela McGowan.

The latest 'Quarterly Sectoral Forecasts' report, published recently by Northern Bank, revised annual growth forecasts downwards to 1.1 per cent overall for 2011 and 2.0 per cent for 2012. The report finds that the probability of the local economy falling back into recession has fallen to 15 per cent from 25 per cent in last quarter.

Public expenditure constraints combined with a significant squeeze on household incomes from elevated inflation means that, overall; growth in the economy will remain fragile. Despite the significant challenges that the economy faces, the central forecast for this year suggests that we should see growth in a number of sectors including: Manufacturing at 4.3 per cent, Agriculture at 3.9 per cent, Personal Services at 2.6 per cent, Transport at 2.0 per cent and Hospitality at 1.9 per cent.

Ms McGowan said: "The impact of austerity cuts have naturally taken their toll on growth levels this year. Households have also felt the sharp impact from higher prices which have eroded their purchasing power. A correction in international commodity prices would clearly improve the situation but cannot be guaranteed. At the moment, the primary support for economic growth is coming from low interest rates and solid global demand."

The report indicates that strong global demand continues to support Northern Ireland's local manufacturers with growth of over 4.3 per cent expected this year for this sector, on top of the 3 per cent growth that was reached last year. Agriculture is also benefiting from strong demand and despite the fact that this sector is facing high input prices, overall growth is expected to be 3.9 per cent in 2011. Other sectors showing healthy annual growth rates include Personal Services which should see growth of 2.6 percent and Transport and Communications which is set to grow by 2.0 percent. In addition, the Hospitality sector will continue to offer good value for money for tourists, both foreign and local, and is expected to grow at 1.9 per cent.

Ms McGowan added: "Manufacturing remains Northern Ireland's shining star when it comes to comparisons of sectoral performance. The success of many local manufacturing companies in this tough economic climate reflects the importance of diversity in our economy's overall portfolio and reinforces the need to orientate ourselves towards external trade. What is disappointing in our economy's performance is the lack of growth in service exports over the last year. Despite the fact that global demand for many types of business services rebounded during late 2009 and throughout 2010, the majority of Northern Ireland's service companies remain focused on the local market."

The latest Northern Bank report indicates that the construction sector has hit a new low when it comes to output and earlier hopes that it may benefit this year from initiatives such as the Green New Deal are fading. The Construction sector has been forecast to remain the worst performing sector, contracting by a further 2.9 per cent this year. The tightening in public spending will mean that some other sectors are also expected to shrink this year. They include Public Administration at -1.4 per cent and Education at -1.2 percent.

Ms McGowan said: "Economic growth will be sluggish in 2011 and the challenges of reduced public monies and elevated inflation will take their toll. Nonetheless, opportunities remain in the form of high levels of global demand and the weak pound, the latter making our exports more attractive abroad. The new Executive will now have to focus on a range of measures which will encourage the private sector to invest, create jobs and build upon our export base. Supporting self-employment and the formation of new businesses will significantly help to grow the local private sector."

- Northern Bank's sectoral analysis is published on a quarterly basis providing a continuous assessment of the performance of key sectors in the Northern Ireland economy. A copy of the full report is available at [www.northernbank.co.uk/economy](http://www.northernbank.co.uk/economy)
- 1.1 per cent GVA Growth is the year on year four quarter average.
- The report highlights that GVA growth rates reflect changes in economic activity rather than economic levels.
- The 'Quarterly Sectoral Forecasts' report is published by Northern Bank in association with Oxford Economics. The respected Oxford Economics UK macro model is linked to the wide suite of world models and is consistent with global trends in demand / commodity prices / exchange rates etc. The UK macro model feeds down into the UK industry model which disaggregates employment and output into broad sectors. This is then a parent to the UK regional model. The sub-regional models (LAD model), sits within this regional framework.
- The sectors analysed are: Agriculture & Fishing, Extraction, Manufacturing, Electricity, Gas & Water, Construction, Distribution & Retailing, Hotels & Catering, Transport & Communications, Financial Intermediation, Business Services, Public Administration & Defence, Education, Health & Social Work and Other Personal Services.
- 'Business Services' includes rental services, management and consultancy activities, accounting and legal services, market research, secretarial and translation activities.
- 'Other Personal Services' includes activities of religious and political organisations, museum activities, entertainment facilities, hair and beauty treatments and washing and dry cleaning services.
- Economic activity or output is measured by Gross Value Added (GVA).

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