

The release of the latest [Northern Ireland's Composite Economic Index](#) confirmed what we already knew last month. Namely, that the contraction in services sector output (-0.5% q/q) and industrial production (-1.8% q/q) pulled the private sector output index (-0.9% q/q) lower for the first time in four quarters. The overall composite economic index (public & private sector) also decreased by the same margin (-0.9%). Last month's Quarterly Employment Survey confirmed that the public sector index (based on employment rather than output) posted its seventh consecutive quarterly decline. Public sector employment is almost 11% below its Q3 2009 peak and at its lowest level in over 14 years.

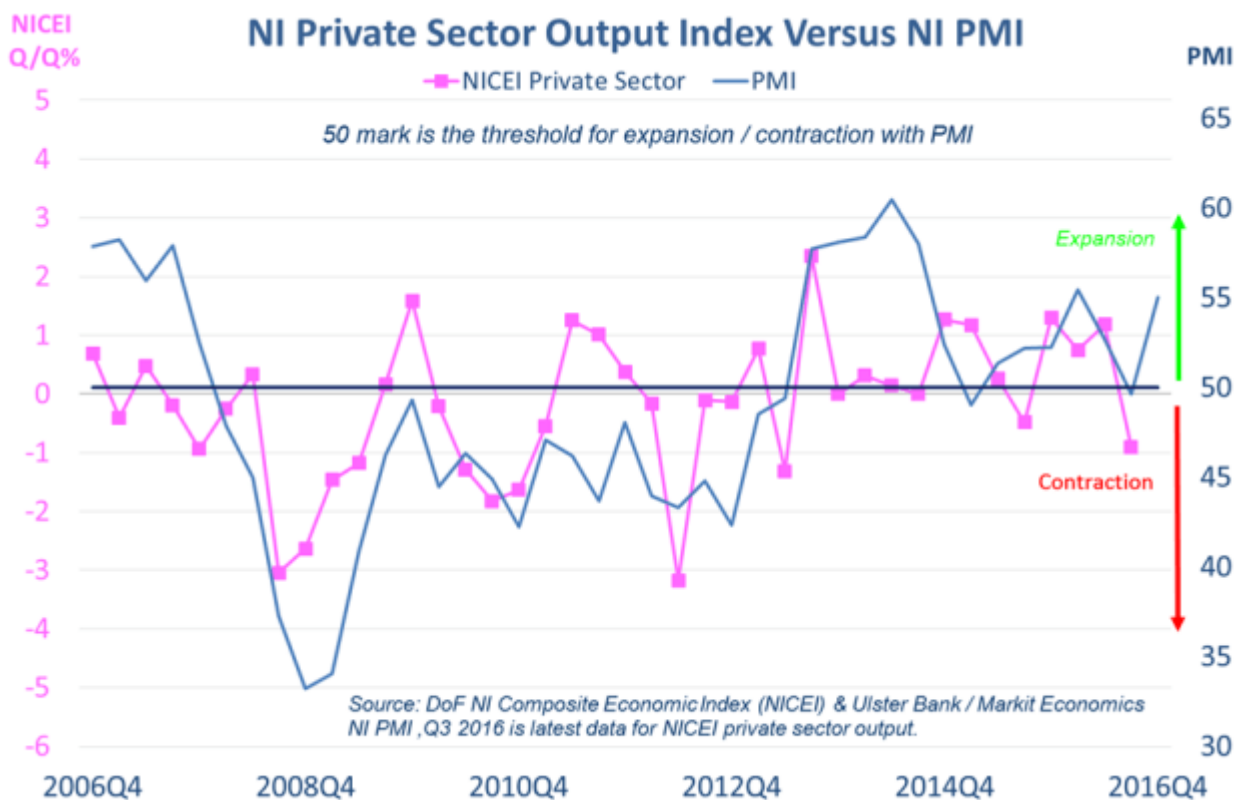
Construction sector performance

What we did learn today was how the construction sector performed in Q3 2016. Northern Ireland's construction sector completed the clean sweep of output / employment indices

signalling declines in the third quarter. Northern Ireland construction output fell by 1.9% q/q in Q3 but the level of activity was still almost 9% above the corresponding quarter in 2015. New work slumped by 5.6% q/q in Q3 which was the sharpest decline since Q4 2013. Encouragingly, housing output notched up its fourth consecutive quarterly gain (+1% q/q) with housing activity approaching a 5-year high.

PMI shows strong rebound

The Ulster Bank PMI for Northern Ireland reveals

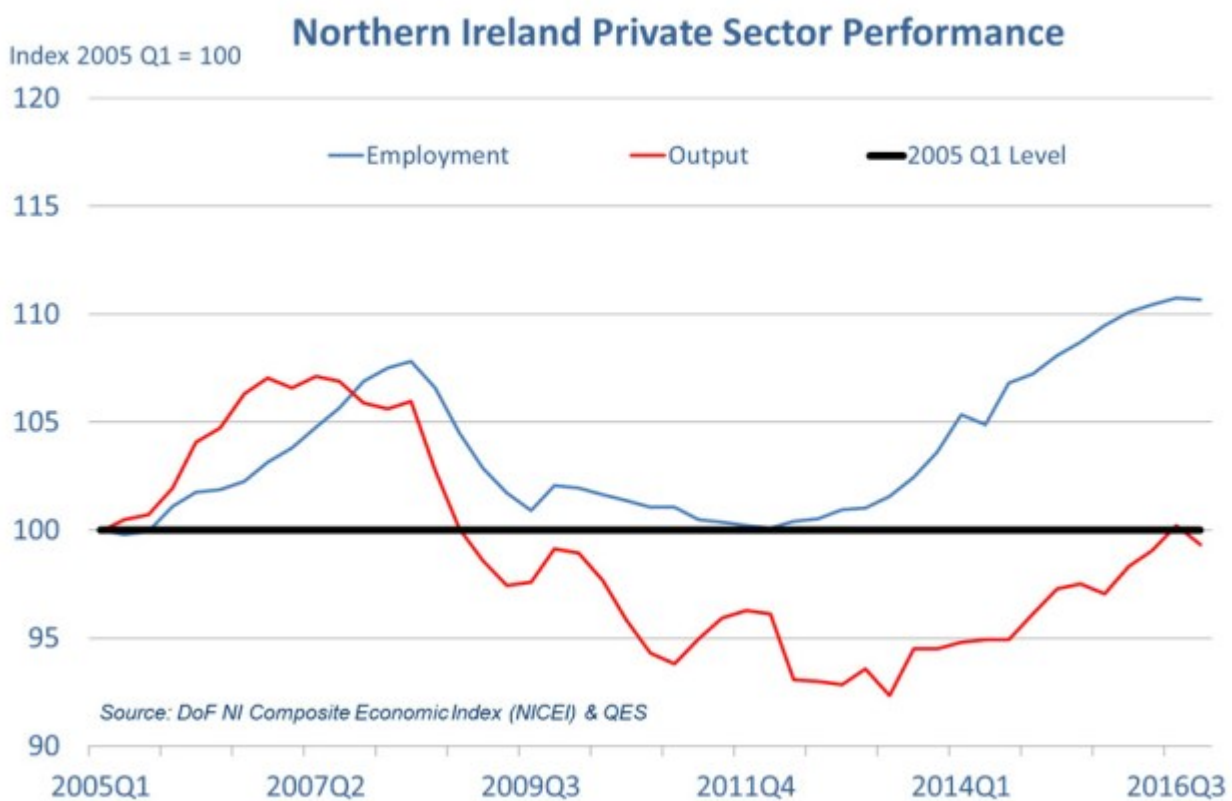


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strong rebound in private sector activity in Q4. This was evident within manufacturing, services and retail. We can therefore expect the Northern Ireland Composite Economic Index and the private sector output index to show similar gains in due course.

Productivity needs addressed

In recent month's we have heard about the UK's and Northern Ireland's poor and deteriorating productivity performance. To put this into perspective, it is noted that our private sector output in Q3 2016 is slightly below where it was 11½ years ago (Q1 2005). But, the big difference is that the number of private sector jobs has increased by 51,000 (or almost 11%) over the same period. This illustrates a lost decade in productivity performance that needs to be addressed. Last year, Northern Ireland's employment rate and levels hit record highs. However, with productivity moving in the opposite direction, job quality and the competitiveness of Northern Ireland's economy in general need to be addressed sooner rather than later.



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