

Following on from the labour market data dump earlier in the week, today saw the release of two output surveys - the Index of Production (*mostly manufacturing*) and the Index of Services (*refers to private sector services only*). Both of these surveys posted healthy rates of growth rates in Q2 2018. Furthermore, there were upward revisions to the first quarter figures. The upshot of this is the Northern Ireland economy has had a strong start to the year and indeed stronger than previously thought. The Northern Ireland Composite Economic Index for Q2 2018 will be released on 11th October alongside the Index of Construction and is set to record a robust rate of growth in Q2.



Background

You may recall that Northern Ireland's Composite Economic Index (NICEI), which is viewed

as a proxy to GDP/GVA economic growth, posted a 0.3% quarterly decline in Q1 2018. The NICEI is made up of a private sector output index and a public sector employment index. Private sector output also fell by 0.3% q/q in Q1 2018 and was down 1.2% y/y. Quarterly declines in construction and industrial production contributed to this decline. A rebound in Q2 had been expected with the adverse weather conditions from the Beast from the East affecting Q1 activity.

10-year high

Northern Ireland's service sector activity saw its quarterly growth rate accelerate from 1.0% in Q1 to 1.3% in Q2 - the fastest rate of growth in six quarters. Service sector output was 3.4% above the corresponding quarter a year ago and is at a 10-year high. Northern Ireland's service sector growth rate was more than double the comparable UK rate on both a q/q and y/y basis. Despite this improvement, Northern Ireland's services output is still almost 3% below its Q4 2006 peak. Conversely, UK services activity has increased by 20% over the same period.

Star performer

The *Transport, Storage, Information & Communication* sector was the star performer amongst private sector services. Activity within the sector expanded by 5.7% q/q (UK +1.4%) and 11.9% y/y (UK +3.4%). These represent the fastest rates of growth that the sector has experienced and output has never been higher. This sector encompasses a wide range of activities and has benefited from the following: the tourism boom (air, sea & land passengers); the manufacturing export boom (e.g. haulage firms, ferries & port activity); the 'Amazon boom' (online deliveries & warehousing); film production (e.g. Game of Thrones); and the cyber security boom (computer programming / consultancy).

Consumer slowdown follows bumper Q1

More modest growth was recorded within the *Wholesale & Retail Trade; Accommodation and Food Service* sector. Following a record rate of growth in Q1 (+3.8% q/q), this sector saw the pace of expansion slow to 0.3% q/q (UK +1.1%). Nevertheless, this still represented an annual growth rate of 2.7% (UK +1.5%) and output (sales activity) is approaching an 11-year high. Despite a squeeze on consumer incomes, this sector has benefited from the tourism boom and a boost in cross-border trade due to the weak pound.

A lost decade

The laggard within Northern Ireland's services sector remains *Business Services & Finance*. This accounts for one-third of private service sector activity. Output fell by a hefty 1.2% q/q (UK +0.2%) and is up just 1.1% y/y (UK +1.7%). The sector remains a shadow of its former self with activity a whopping 30% below its property and credit-fuelled peak of almost 12 years ago.

Manufacturing strong growth

Northern Ireland notched up its third successive of quarter of growth in industrial production in Q2 2018. Output accelerated from 0.6% q/q in Q1 (revised up from a 0.2% fall) to 0.9% q/q in Q2. This growth only brings output marginally above the Q2 2017 figure. The closure of the JTI tobacco plant in Ballymena had a huge impact on industrial / manufacturing output. Manufacturing output accelerated from 0.1% q/q in Q1 to 1.3% q/q in Q2 and compares favourably with a decline in output in the UK (-0.9% q/q). Despite this rise, NI manufacturing output is down 0.8% y/y.

More record highs

There were more record highs in output within a couple of manufacturing sub-sectors. *Basic & Fabricated Metal Products* surged by 7.3% q/q and posted an annual rise of 12.5% y/y. Metals output has never been higher and has more than doubled (+115%) since Q3 2010's post-recession low. The 'Other Manufacturing' category also recorded a new high with output up by more than one-fifth y/y. Meanwhile *Food & Beverage* manufacturing posted a healthy growth rate of 5.9% q/q.

Falling output

Engineering activity has fallen back from its recent highs. Output within *Engineering & Allied Industries* (includes Transport Equipment) fell by 3.6% y/y. However, this conceals strong growth within the *Machinery & Equipment* sector. Output within the latter hit a 10-year high in Q2 2018 with local firms clearly benefitting from strong global demand. The manufacture of *Chemical & Pharmaceutical Products* reported a 1.8% q/q decline in Q2 with output down 6.1% y/y. However, these declines are coming off a record high in Q2 2017.

Overall, the latest figures on the Northern Ireland economy are very positive, at a headline level at least, with the latest labour market statistics showing a record number of jobs, and today's output surveys posting healthy rates of growth. But we shouldn't get carried away. The latest Ulster Bank NI PMI signalled a loss of momentum in the private sector in August. The old challenge of productivity also still remains. We should remember that Northern Ireland lags the rest of the UK in terms of productivity per worker and the UK lags the rest of Europe. Indeed, the average Northern Ireland worker takes five days to do what the average German worker does in not much more than three. Increasing Northern Ireland's productivity rate remains the Holy Grail.

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