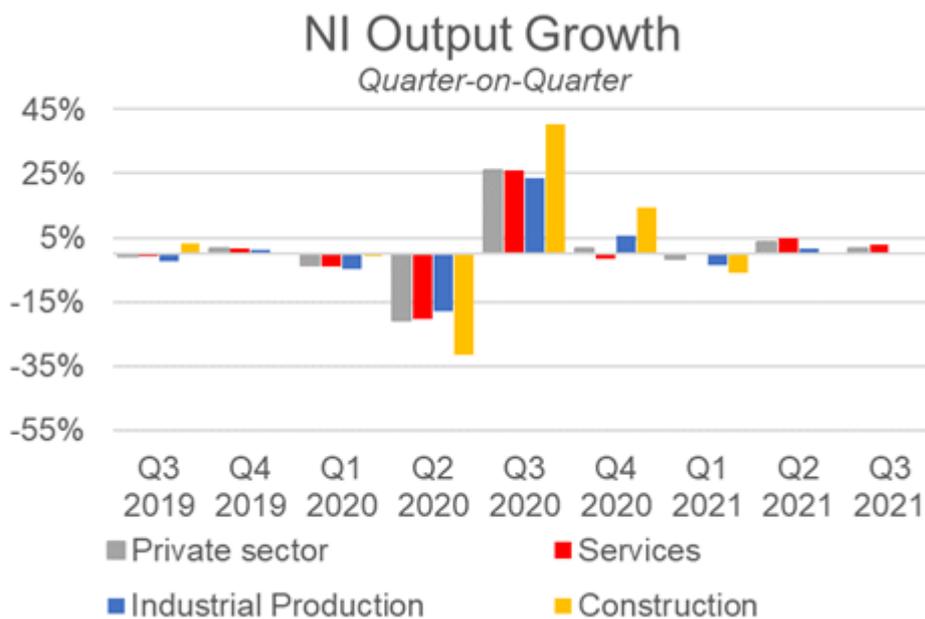
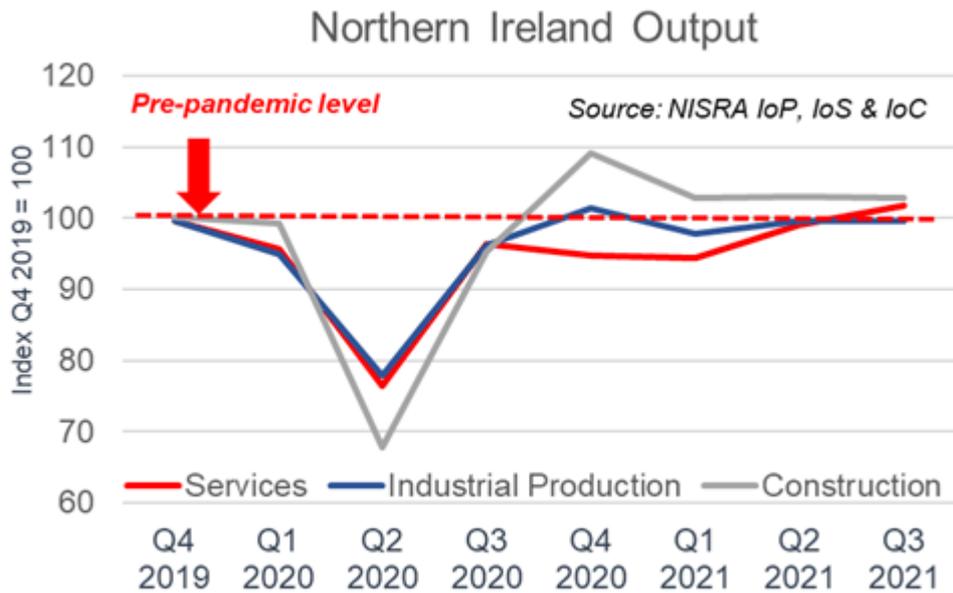


Back in December 2021, NISRA’s Index of Services and Industrial Production surveys for Q3 2021 revealed that economic output was closing in fast on pre-pandemic levels or indeed even exceeding them.

For example, industrial production (*which is mostly manufacturing*) was just 0.1% below the pre-pandemic level of Q4 2019 while private sector services output was 2.2% above the same benchmark.

Today we got a more complete picture with the release of the [Northern Ireland Composite Economic Index \(NICEI\)](#) and the [Index of Construction](#) for the third quarter.





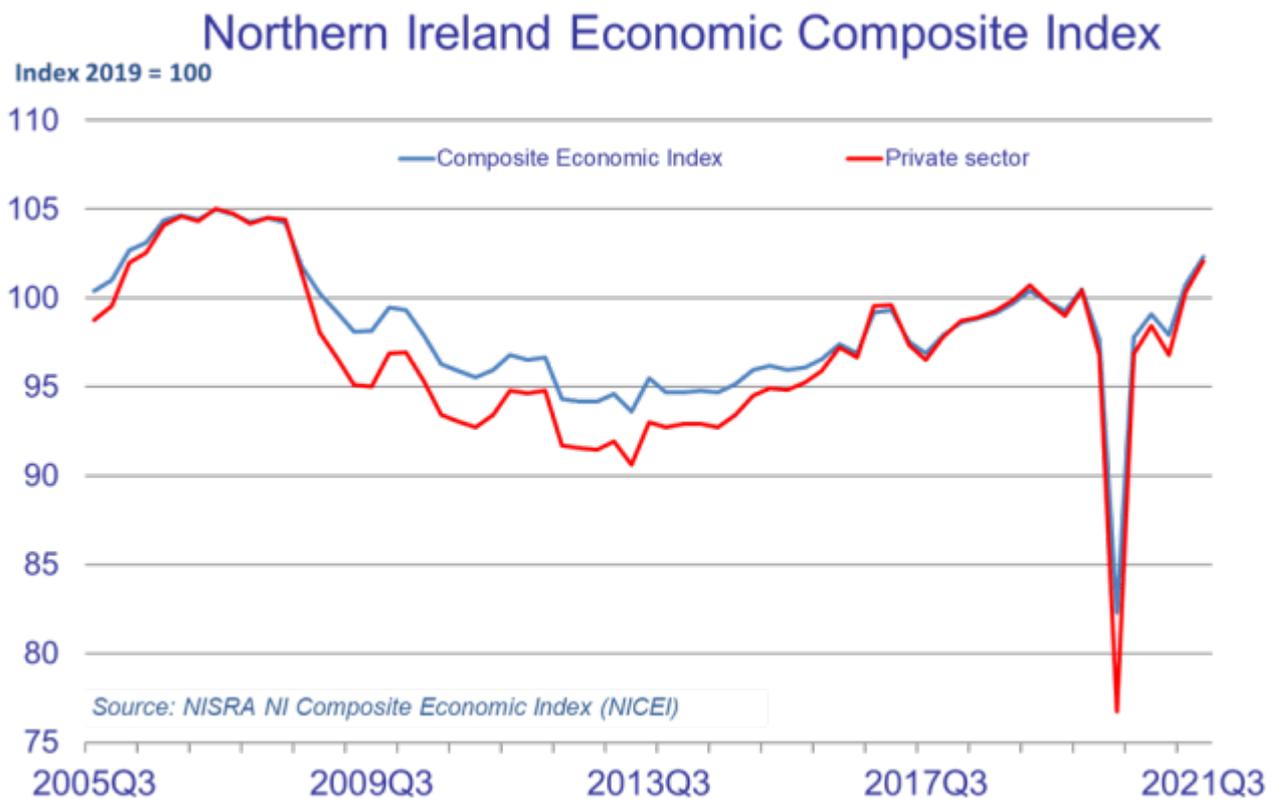
### Growth Rates by Index

The growth rates for NICEI and other key economic output indices over the quarter, year, biennial and rolling 4Q annual average to **Quarter 3 2021** are outlined below.

| Growth Rates           | NICEI  | Private Sector | Public Sector | Services | Production | Construction * |
|------------------------|--------|----------------|---------------|----------|------------|----------------|
| Q/Q                    | ↑ 1.5% | ↑ 1.7%         | ↑ 0.8%        | ↑ 2.8%   | ↑ 0.0%     | ↓ 0.5%         |
| Y/Y                    | ↑ 4.6% | ↑ 5.4%         | ↑ 2.0%        | ↑ 5.7%   | ↑ 3.6%     | ↑ 7.5%         |
| Biennial (2 Yr) Change | ↑ 3.0% | ↑ 3.1%         | ↑ 2.9%        | ↑ 3.9%   | ↑ 1.1%     | ↑ 2.3%         |
| Rolling 4Q Annual Ave  | ↑ 5.8% | ↑ 7.2%         | ↑ 1.2%        | ↑ 6.0%   | ↑ 8.1%     | ↑ 15.4%        |

**13-year high** - Given the strong performance of the services sector - which accounts for over half of NI's GVA - it was inevitable that we would see a corresponding strong increase in the NICEI - the nearest thing Northern Ireland has to quarterly GDP - and a rise back above pre-pandemic levels. So it proved, with the index that combines public sector employment and private sector output expanding by 1.5% q/q and by 4.6% y/y. This

propelled the NICEI to its highest reading in over 13 years. NI's growth performance compared favourably with the UK in terms of quarter-on-quarter GDP growth (UK = +1.1%) but was not as strong on the year-on-year basis (UK = +6.8%).



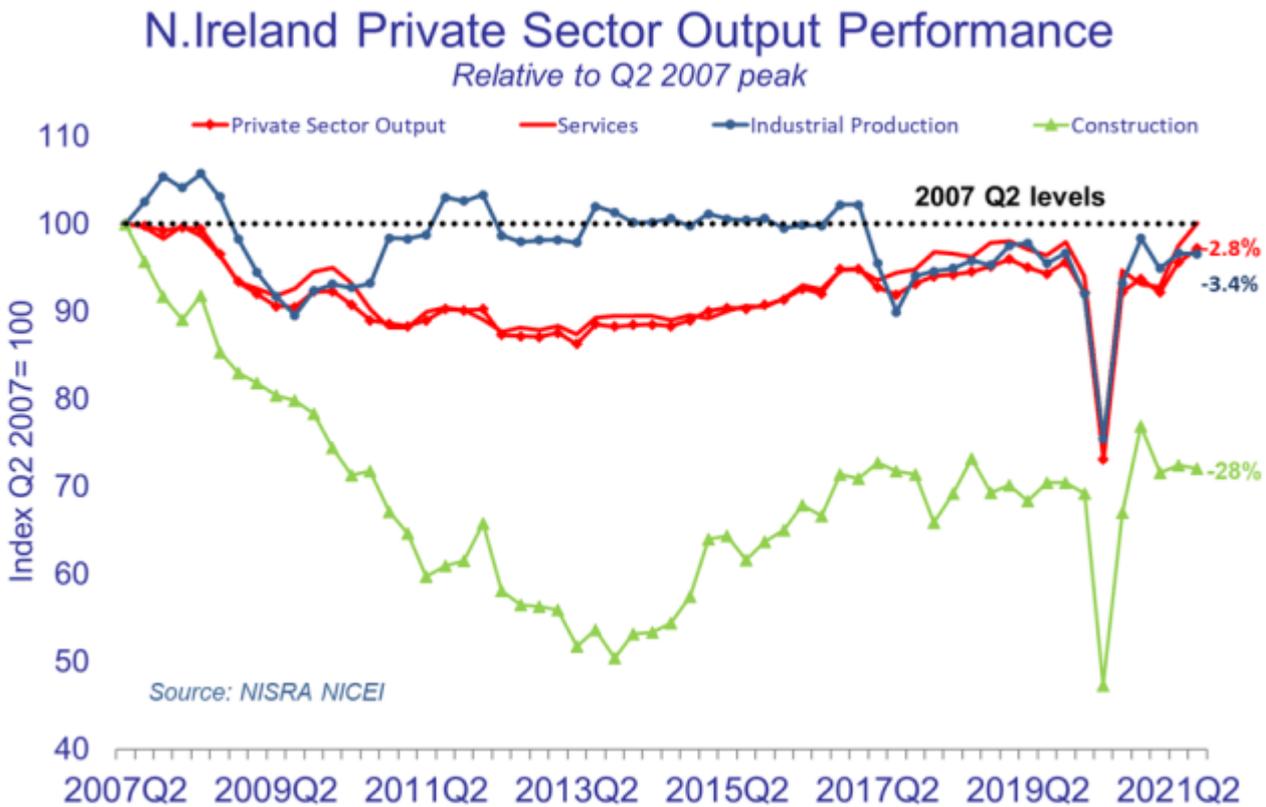
**Victory 'V'** - Upward revisions to the previous quarter's data highlight that both the NI Composite Economic Index and the Private Sector Output Index actually returned to pre-pandemic levels in Q2 2021. As a result of the further expansions in Q3, the NICEI and Private Sector output are now above Q4 2019 pre-pandemic levels by 1.8% and 1.7% respectively. But it should be remembered that the economy remains smaller than it would otherwise have been if the pandemic hadn't occurred and economic growth had continued uninterrupted.

**Services driven recovery** - The increase in Q3 was driven by the Services & Public Sectors as industrial production was flat and construction posted a decline (-0.5% q/q for the private

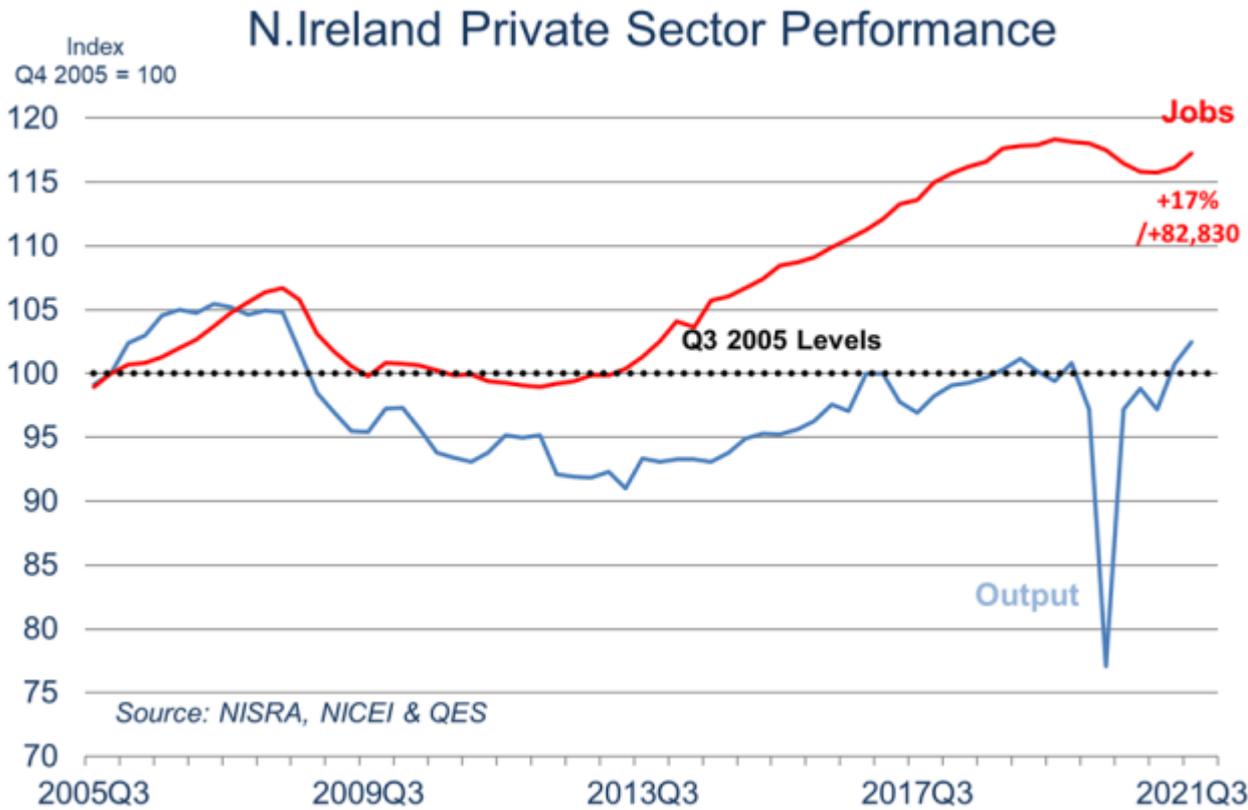
sector and -0.3% for the public & private combined). Services accounted for 1.4 percentage points of the 1.5% q/q increase in the NICEI. Services firms, particularly retail and the hospitality sectors benefited from the lifting of lockdown restrictions in Q3. Indeed, Northern Ireland's hospitality sector benefited from a surge in staycations with strong demand from the Republic of Ireland given their tighter Covid-19 restrictions. This set of circumstances helped propel activity within the *Wholesale and retail trade; accommodation and food sectors* to its third strongest quarter on record and its best reading in over 14 years.

**Reality check** – It is also important to remember that the Northern Ireland economy wasn't experiencing strong growth in 2019. Private sector output expanded by just 0.8% y/y in 2019. That rate of growth is consistent with a recession.

So returning to 2019 levels isn't returning to a particularly great place. And it is also worth reminding ourselves that the local economy still hasn't recovered from the previous recession that began in 2008. NI's composite index remains 2.5% below its Q2 2007 peak with private sector output is 2.8% adrift of the same high. Meanwhile output within the local construction sector is 28% below where it was 14 years ago. Recovering lost output from the pandemic is an important milestone. But a recovery in overall output conceals the unbalanced recovery that we have seen at a sub-sector level. For example, some manufacturing sub-sectors such as *Textiles* (think PPE), *pharmaceuticals* and *rubber & plastics* all have output in Q3 2021 between 13-30% above pre-pandemic levels. Yet *Other Services* (-5%) and manufacturers of *Transport Equipment* (-40%) remain well below Q4 2019 levels of output. Other milestones will take even longer to achieve. These include returning to pre-pandemic levels of debt and profitability.



**Slower growth ahead** - More recent surveys, such as the Ulster Bank Northern Ireland PMI, have signalled slower growth in Q4. Indeed, December saw private sector output growth almost grind to a halt. The resurgence of COVID-19 infections, linked to the new Omicron variant, have impacted significantly on the hospitality sector. According to the PMIs undertaken by IHS Markit, Northern Ireland recorded the steepest month-on-month decline in service sector activity in December. Consumer spending faces considerable headwinds such as the evolving energy and cost-of-living crises coupled with the removal of the £20 per week temporary uplift for 134,000 Universal Credit claimants in Northern Ireland last autumn. Meanwhile the ongoing supply chain disruption and adapting to the new EU exit trading arrangements will act as a brake on the wider economic recovery. After that, the biggest tax rises in a generation await households and businesses in the spring alongside further interest rate rises. Overall, the Northern Ireland economy is expected to see economic growth of 6% in 2021, slowing to 3.5% in 2022 and around 1.5% in 2023.



**Productivity klaxon!** It may be a case of ‘Mission Accomplished’ as far as returning to pre-pandemic levels of output and employment are concerned. But the economy needs to redouble its efforts in tackling its persistent underperformance in productivity. From today’s figures and the recent Quarterly Employment Survey, some insight can be gleaned into what has been happening or not happening on the productivity front locally. To contextualise, Northern Ireland is producing the same value of private sector output in Q3 2021 as it did almost 16 years ago. That is despite an additional 83,000 (+17%) private sector employees to produce that same value of output. Creating jobs hasn’t been a challenge for Northern Ireland. Creating high value jobs in sufficient numbers has.

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