

*Official statistics out earlier this week reported new record highs in the number of jobs. The labour market is a lagging indicator of economic activity with changes in output not impacting on staffing levels for a few quarters. Meanwhile a trio of output surveys covering private sector services, industrial production and retail sales revealed a loss of momentum in the second quarter of 2022. However, the various surveys revealed that some aspects of the economy are clearly faring better than others. Private sector services saw activity ease (-0.3% q/q) from its' recent peak, with a more substantial fall occurring within the consumer sensitive retail sector. Manufacturing industry continued to expand in Q2 albeit the pace of growth halved relative to the previous quarter. The cost-of-living crisis, the legacy of Covid-19 and the impact of the NI Protocol are very much evident in the latest figures.*



### ***Not hitting the high street***

*Northern Ireland's new Retail Sales Index posted a hefty 2.4% quarter-on-quarter decline in Q2 2022. This compared with a 1.4% quarterly decline in Great Britain (GB). This fall in retail sales is perhaps not surprising given the evolving cost-of-living crisis. Retail sales in the second quarter were 3% below pre-pandemic levels (Q4 2019) and the latest figures represented the lowest sales, outside of lockdown restrictions, since Q1 2014. This downward trend is expected to continue in the months ahead as the cost-of-living crisis intensifies. Indeed, Ulster Bank's Northern Ireland PMI signalled a marked contraction in retail sales activity in Q3.*

### ***Manufacturing a slowdown***

*Industrial production, which is mostly manufacturing, posted its fifth consecutive quarterly rise in output. Q2's 0.5% q/q increase took output to a 10-year high and 6.5% above pre-pandemic levels (Q4-19). That compares favourably with the UK which posted a 1.2% decline over the same period. Manufacturing output also notched up its fifth successive quarterly rise in output. However, the 0.6% q/q increase in Q2 was just half the growth rate recorded in the previous quarter. Local manufacturing output in Q2 2022 was 5.5% above pre-pandemic levels whereas UK output was marginally below (-0.1%) below the corresponding level.*

### ***Protocol provides food for thought***

*Within manufacturing, one of the strongest performing sub-sectors is Food products, beverages and tobacco (since the closure of the JTI cigarette factory there is no local producer within this tobacco element). Output within the sector increased by 6.2% q/q in Q2 which was almost 8 times the increase within the equivalent sub-sector in the UK.*

*Meanwhile the year-on-year growth in local manufacturing food and beverages output was 13.9%, which outside of the pandemic (skewed by lockdown restrictions), was the largest annual increase in the sector since the series began. Northern Ireland's food producers have benefited from the NI Protocol which came into force at the start of January 2021. Local firms have experienced increased sales to the Republic of Ireland (EU) at the expense of GB producers. Since the NI Protocol came into effect, food and beverages output amongst NI manufacturers has increased by 18.3% which is 2.5 times the comparable growth rate amongst UK firms.*

### ***Covid-19's legacy still evident***

*Most of Northern Ireland's manufacturing sub-sectors had higher levels of output in Q2 2022 relative to pre-pandemic levels (Q4 2019). Textiles, leather & related products has been the top performer with output at a new series high and over 37% above pre-pandemic levels. Covid-19 led to a surge in demand for PPE clothing and provided new opportunities that local firms have clearly exploited. Manufacturers of chemical and pharmaceutical products also performed strongly during the early part of the pandemic. However, output within this sub-sector has fallen back by 31% relative to its Q4 2020 peak. Meanwhile the local manufacturing sub-sector nursing the biggest decline in output relative to pre-pandemic levels is Transport Equipment. This sector includes aerospace and output in Q2 2022 was 39% below Q4 2019 levels.*

### ***Nearly but not quite?***

*Northern Ireland's Composite Economic Index, the nearest statistic NI has to quarterly GDP, recovered its post-pandemic lost output in Q2 2021. The latest figures for Q1 2022 revealed that NI had almost returned to the pre-financial crisis / housing crash peak of Q2 2007. Until today's figures, it had looked that Northern Ireland's Composite Economic Index*

*and private sector output would finally return to the Q2 2007 peak some fifteen years later in Q2 2022. However, with NI's largest sector (private sector services) posting a decline of 0.3% q/q in Q2 2022 it now looks like the Q2 Composite Economic Index could be marginally negative too. Given the deteriorating economic conditions and outlook since then, Q2 2022 could well mark the first of a series of quarterly contractions as Northern Ireland enters recession and battles with cost-of-living and cost of doing business crises. It looks like the quest to return to Q2 2007 levels of output will continue into 2023.*

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