Department for the
Economy
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Analytical Services

Economic Commentary

SUMMER 2024

Economic Commentary

Summer 2024

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Labour Market

Employment Rate

71.6%

Unemployment Rate

1.9%

Economic Inactivity Rate

27.1%

Apr-Jun 2024. Source: NISRA LMR

Pay and Prices

NI Employee Median Pay
+7.9%

UK Employee Median Pay
+5.6%

UK Inflation Rate (CPI)
+2.2%

Annual changes to Jul 2024. Sources: NISRA LMR & ONS CPI

Economic Growth

	Quarterly	Annual
NICEI	+1.4%	+1.1%
UK GDP	+0.7%	+0.3%

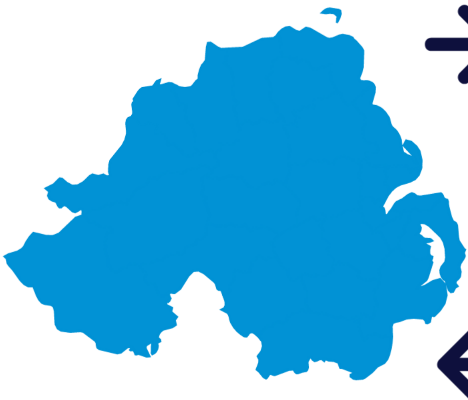
	Pre-Pandemic*	Annualised
NICEI	+7.6%	+1.4%
UK GDP	+1.8%	+0.1%

*Growth from Q4 2019

Q1 2024. Source: NISRA NICEI & ONS GDP Quarterly National Accounts

Exports and Imports of Goods

Year ending March 2024



Total Exports
£11.0 bn
Up 11.6%

Total Imports
£9.5 bn
Down 3.4%

Source: HMRC UK Regional Trade in Goods Statistics

Contents

The Economy

For the second time in the past three months, the Ulster Bank PMI reported that business activity in the North was the strongest across all the regions measured, with the local economy also leading the way in terms of employment growth at the start of the third quarter. In responding to the latest NI Chamber Quarterly Economic Survey, most members (83%) reported that they were trading well / reasonably. Business confidence remains robust, albeit slowing slightly from previous months and in August, the Monetary Policy Committee reduced interest rates for the first time since 2020 as inflation returned to near the Bank of England's target. There have also been slow but steady improvements in consumer confidence and discretionary income as inflationary pressures have eased and wages have increased.

+1.4%
Quarterly change in economic activity

+1.1%
Annual change in economic activity

+1.2%
Annual change in employee jobs

+3.1%
Annual UK inflation rate, CPIH

+1.4%
Economic growth forecast by UUEPC in 2024

Jobs by Sector

Services
673k

Manufacturing
89k

Construction
37k

Other
25k

Source: NISRA QES Q1 2024

Largest Annual Inflation Rates by Item, CPIH

Restaurants and hotels
4.9%

Communication
4.5%

Health
5.9%

Education
4.5%

Alcohol & tobacco
7.2%

Recreation & culture
3.8%

Source: ONS CPIH July 2024

Fastest Growing Sectors by Economic Activity, Rolling Four Quarters to Q1 2024

Repair & Maintenance
+10.4%

Business Services
+9.1%

Other Work
+7.6%

Infrastructure
+7.9%

Source: NISRA Quarterly Construction Bulletin, IoP & IoS Q1 2024

Rolling four quarter economic growth

NICEI
1.4%

Overall UK GDP
0.1%

Scotland GDP
0.1%

Ireland GDP*
-5.3%

* Some activities captured in Ireland's National Accounts may upwardly affect GDP in a manner that is out of proportion with actual activity in the real economy

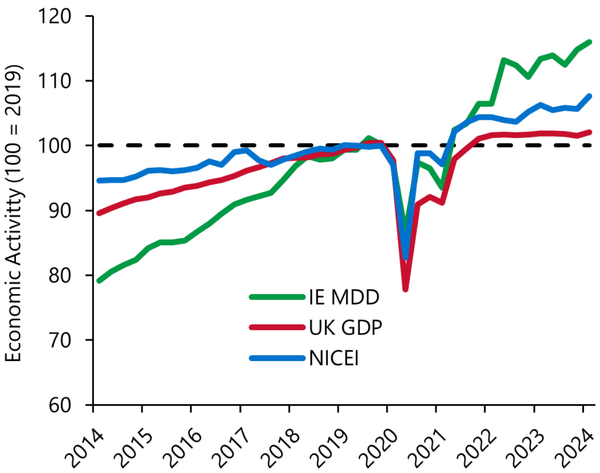
Source: NICEI Q1 2024

Economic Activity

The latest Northern Ireland Composite Economic Index (NICEI) indicated that local economic output increased by 1.4% over the quarter and by 1.1% over the year to Q1 2024. This quarterly expansion was largely driven by increased activity in the Services sector (+1.0 pps). All monitored sectors recorded quarterly increases except Production, which saw a 0.2 pps decrease.

Figure 1: Economic Growth

Economic output in NI (NICEI), Ireland (IE MDD) (note 1) and the UK overall (UK GDP) from Q1 2014 to Q1 2024, indexed to 2019 levels. Note: non-zero axis. Source: NISRA, ONS and CSO.



While not produced on a fully equivalent basis, UK GDP increased by 0.7% over the quarter and by 0.3% over the year to Q1 2024. Over the last 10 years, the UK has reported increases in GDP in 32 of the last 40 quarters, whereas the NICEI has reported increases in economic activity in 23 of the last 40 quarters.

Economic activity in NI is now 7.6% above the pre-pandemic level of Q4 2019, while UK GDP is estimated to be 1.8% above its pre-pandemic level of Q4 2019. Not only did output in NI and the UK increase over the quarter to Q1 2024, but increases in activity were also reported for both Scotland and the Republic of Ireland (ROI) (0.7% and 0.9% respectively).

During the pandemic, the NICEI reached a series low in Q2 2020, however economic activity post pandemic has recovered substantially to a level that is 30% above the pandemic trough, with Q1 2024 representing a new series high for the NICEI.

The Private Sector

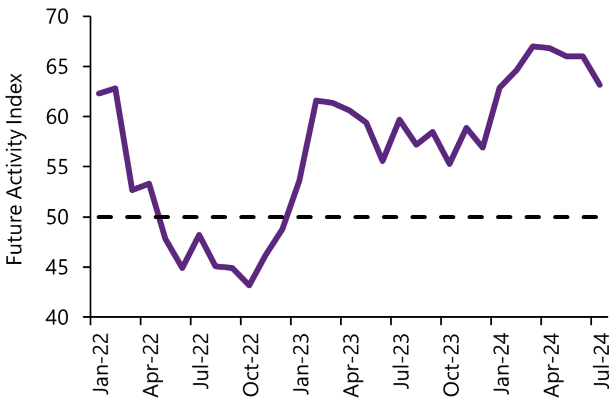
Private sector output, as measured by the NICEI, increased by 1.7% on a quarterly basis in Q1 2024. Local business intelligence also indicates strong performance in the North's private sector in 2024, with the Ulster Bank PMI's Business Activity Index posting 54.9 in July 2024, which, while slowing slighting from June's 55.8, still signals a continued and marked increase in local private sector output. This expansion in output was generally linked to higher levels of new orders and was the strongest of all the regions covered by the survey. Three of the four monitored sectors saw activity rise, the only exception being construction, where output contracted for the first time since February.

Employment activity increased to an almost 17-year high as companies took on staff in response to greater workloads. Notwithstanding these workforce increases however, outstanding business also expanded again in July, which could signal further robust employment and output activity in the months ahead to service growing order books.

Higher labour costs have been reported and input prices continued to rise sharply as the second half of the year got underway, although the pace of inflation eased to a five-month low and was softer than the series average. Output prices also increased at a softer pace in July increasing at the slowest pace since January 2024.

Figure 2: Future Activity Index

The Future Activity Index measures the level of business activity that private sector respondents expect over the next 12 months, with an index value of 50 representing an expectation of no change. Source: Ulster Bank PMI.



Employee Jobs

Following a decline in December 2023, the number of seasonally adjusted employee jobs in the local labour market rose once again to reach a series high of 824,300 in March 2024. This was an increase of +0.6% over the quarter and +1.2% over the year.

The number of public and private sector jobs both rebounded from contractions in December, increasing over the quarter by +0.2% and +0.5% respectively, with growth improving to +0.6% and +1.4% respectively in the year since March 2023. The North's public sector accounted for 27.3% of total employee jobs in March

2024 – it's lowest share in four years. The North has consistently had a higher proportion of public sector jobs per population than the UK. In December 2023, NI public sector jobs as a proportion of the population were 11.8%, which compares to 8.9% for the UK.

There were quarterly increases in the number of employee jobs within the construction (+810 jobs), services (+3,730 jobs) and other industry (+160 jobs) sectors. Employee jobs decreased over the quarter within the manufacturing sector (-120 jobs) however.

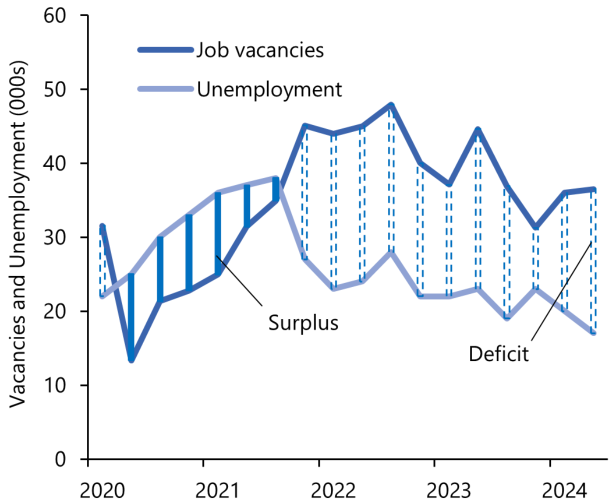
Part-time jobs currently account for 34.3% of all employee jobs, increasing by +1.2% (+3,420 jobs) since March 2023 but decreasing over the quarter by -0.5% (-1,440 jobs). Full-time jobs increased by +0.1% (+760 jobs) over the quarter and by +1.1% (+6,050 jobs) over the year.

Vacancies

Information gathered using Lightcast reveals that there were just over 12,000 new job postings in July 2024 in the North. Compared to July 2023, the number of new job postings increased by 6%. However, comparing the year to date (to July 2024) and equivalent period last year, the number of new job postings decreased by 9%.

Figure 3: The Labour Supply Gap

The difference between the number of job vacancies (online job postings) and the estimated number of unemployed people in NI from Q1 2019 to Q1 2024. Sources: NISRA, Lightcast (2024).



Finance represented the top specialised skill mentioned in job postings in July, being cited in 7% of postings followed by Accounting which was mentioned in 6% of job postings. Project Management, Auditing (both 5%) and Invoicing (4%) were also skills in high demand.

Some of the most common occupations posted included sales occupations, programmers & software development professionals, book-keepers, payroll managers and wages clerks, chartered and certified accountants and care workers and home carers.

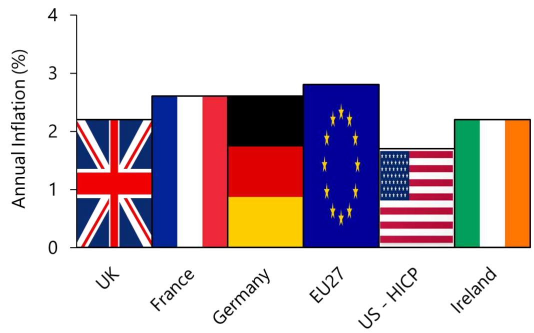
Recruitment activity remained strong in Q2 2024 according to the latest NI Chamber & BDO Quarterly Economic Survey (QES), with over 70% of respondents reporting that they had recruited in the previous three months. While there were signs that recruitment difficulties are easing, 3 in 4 members still reported challenges filling vacancies, with firms responding to the persistent difficulty in recruitment and skills challenges by increasing investment in training.

Prices and the Cost of Living

While inflation generally eased in the first half of this year, elevated prices continue to have an impact on local businesses and households. Inflation returned to the Bank of England's 2% target in May 2024, remaining there in June, before rising marginally in July 2024. As a result, at its most recent meeting in August, the Bank's Monetary Policy Committee reduced the Bank Rate for the first time in over four years taking it to 5% (a 0.25 percentage points (pps) reduction). The Bank expects inflation to rise again to around 2.75% in the second half of the year due to persisting domestic inflationary pressures but expects this to be temporary with inflation falling back again in 2025.

Figure 4: International Inflation

A comparison of selected G7 and EU annual inflation rates, July 2024. See notes 2-4.



The Consumer Prices Index (CPI) rose by 2.2% in the 12 months to July 2024, up from 2.0% in June but still considerably below the recent peak of 11.1% in October 2022 (the highest annual inflation rate since 1981 according to ONS). The rise in July was the first increase since December 2023 though for the fourth month running, the UK continues to experience a lower rate of inflation than a number of international comparators, with annual UK CPI in July below equivalent rates for France, Germany the US, the Eurozone and level with the South of Ireland.

Annual core CPI rose by 3.3% in the year to July 2024, falling from 3.5% in June and from a recent high of 7.1% in May 2023, which was the highest recorded since March 1992. The CPI all goods index rose from -1.4% to -0.6% in the year to July 2024, both considerably below the annual 2023 average of 7.8%. The CPI all services index, which has proven persistently and stubbornly high, rose by 5.2% in the year to July 2024, having fallen from 5.7% in July and from 7.4% in July 2023, which was the joint highest rate (with May 2023) since March 1992.

The largest upward contribution to the monthly change in the annual rate came from housing and household services, with gas and electricity prices falling less than they did last year. The latest NatWest Regional PMI indicated that input price inflation increased across all the monitored regions in July, with local firms here in the North seeing one of the steepest rises in costs, albeit this had eased to a 5-month low. This was broadly corroborated by the ONS Business Insights and Conditions Survey (BICS) for the month of June 2024, where 20% of NI businesses reported increases in costs compared to the previous month. This was higher than any other monitored region, with the UK average around 4pps lower by comparison.

The latest Irish CPI figures from CSO show that prices for consumer goods and services in the South in July 2024 rose by 2.2% on average when compared with July 2023, unchanged from the annual increase over the 12 months to June 2024.

Electricity and gas prices have fallen over the month and the year, however their prices remain elevated. For July to December 2023, domestic electricity prices in the North (32.9p/kWh) ranked above the EU median (22.7p/kWh), but below that of the South (33.3p/kWh) and the UK (36.1p/kWh). For July to December 2023, local domestic gas prices (11.0p/kWh) were above the EU median (10.5p/kWh) and the UK (7.7p/kWh) but below that of the South (14.4p/kWh).

Productivity

Productivity remains a long-standing challenge for the local economy and the Economy Minister has made raising productivity levels one of the key objectives of his Economic Mission.

According to ONS, overall UK output remained relatively stagnant while output per hour worked in the North fell by 2.9% in real terms between 2021 and 2022. This was the second largest decline in real productivity of any studied region although this should be viewed in the context of the significant (and distinctive) increase in the North's productivity seen between 2020 and 2021, which was largely a function of slower growth in labour inputs (hours worked and filled jobs) compared to GB.

As of 2022, NI ranked 10th amongst the UK regions in terms of output per hour worked (compared to 7th in 2021). The gap between NI productivity and the UK average has widened since 2021, increasing from 10.3% to 13.2% but remains smaller than in 2020 (16.9%) and 2019 (17.4%).

There was considerable regional variation in productivity growth between 2021 and 2022. Output per filled job in Derry City and Strabane increased by just over 3% in real terms while falling by 2.6% in Ards and North Down. Ards and North Down is the only LGD in the north where output per job remains significantly lower than in 2019.

NI Economic Outlook

With forecast GVA growth of 0.5% this year, Danske Bank expect local economic growth to remain relatively modest in 2024, with the rate of expansion picking up to 1.2% in 2025. The bank expects that cost of living pressures will ease, but that monetary policy will remain relatively tight and therefore weigh on output levels to some extent. Danske Bank project investment levels to be relatively subdued due to tight monetary policy, while economic uncertainty and geopolitical developments could weigh on business confidence and investment. The bank expects the labour market to soften but remain relatively resilient, and that this resilience will continue to support household spending.

PwC recently forecast that local economic growth will match that of London in 2024 (+1.2% GDP), and in doing so, outpace growth in any GB region , while KPMG expect that the Irish economy will grow by 2.5% in 2024 and 3.2% in 2025, driven by improvements in global trade, easing inflation and bolstered by a robust labour market.

The UUEPC forecast GVA growth for the local economy of 1.4% and 1.7% in 2024 and 2025 respectively, with the former recently revised upward from 0.8%. The centre's latest Economic Outlook also reported that "the only answer to a sustained period of higher economic growth is much stronger productivity growth", and that in the absence of a marked increase in productivity, it is expected that real wage growth will return to 0.6% per year. The UUEPC also reported that due to changing demographic trends, economic growth will depend upon utilising the spare capacity in the local labour market by maximising the potential of mothers, older workers, disabled talent, persons with health problems and those with lower-level qualifications. The 'Good Jobs' Employment Rights Bill, currently out for Public Consultation (closing 30 September at 5pm), proposes a range of policies aimed at enhancing workforce participation by making employment more accessible and flexible.

Businesses

The private sector element of the NICEI grew by 1.7% on a quarterly basis to Q1 2024, which was 1.2% above the level seen a year previously. The most recent results from the Ulster Bank PMI / Growth Tracker indicate that the North's private sector started the second half of 2024 as it ended the first half, with marked improvements in output and new orders. This expansion in new business was the strongest across all UK regions. While Inflation remains a concern for local businesses, these pressures are showing signs of easing with both input costs and selling prices rising at weaker rates and below the respective long-run series averages. Employment in the private sector has hit a 17-year high and output is expected to rise in the second half of 2024 on the back of easing inflationary pressures and a less restrictive monetary policy environment.

+2.9%
Annual change in services output in Q1 2024

-4.5%
Annual change in production output in Q1 2024

+1.5%
Annual change in construction output in Q1 2024

+0.4%
Annual change in UK producer input prices in July 2024

+0.8%
Annual change in UK factory gate prices in July 2024

Construction Output

Construction output growth over the year:
1.5%

of which:
New work
2.4%

Repair & maintenence
0.8%

Source: NISRA Construction Output Statisitics Q1 2024

Services - Annual Output Changes

Services Output 2.9%

Wholesale, Retail, Accommodation & Food
2.6%

Transport, Storage, Information & Communication
0.5%

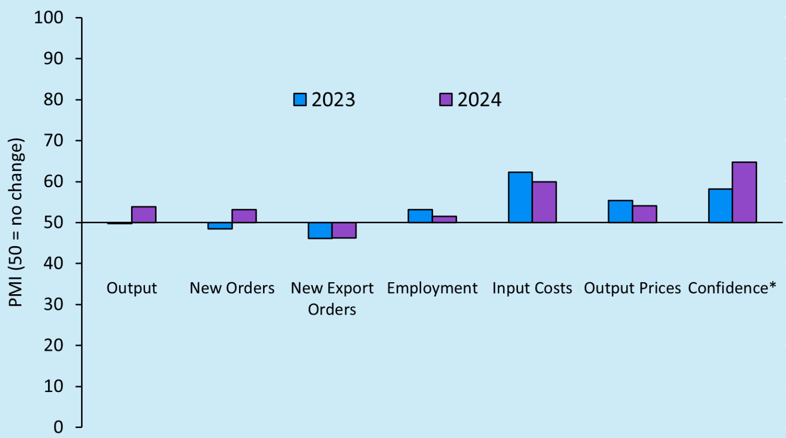
Business Services & Finance
6.7%

Other Services
0.1%

Source: NISRA IoS Q1 2024

Ulster Bank PMI

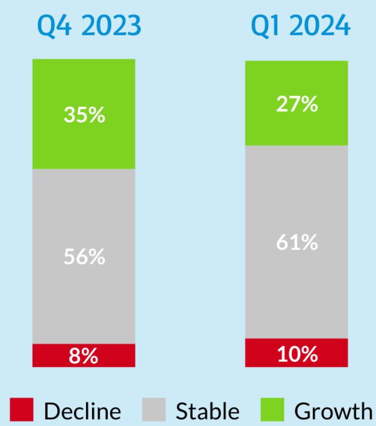
Average Monthly Change



Source: Ulster Bank PMI

InterTradeIreland

Business Position of NI firms



Source: InterTradeIreland All-Island Business Monitor

Business Environment

Although interest rates remain high and continue to weigh on business investment and consumer spending alike, the Ulster Bank PMI / Growth Tracker has indicated that business activity continued to grow in the second quarter of 2024, and that business confidence remains high despite a recent dip. In July 2024, there were signs that inflationary pressures were easing for both input costs and output prices.

The Q2 2024 NI Chamber of Commerce and Industry's Quarterly Economic Survey (QES) indicated that performance was steady, with signs of growth and positivity around the current trading environment. The Manufacturing sector had a stronger performance in Q2, with indicators representing trading, confidence, recruitment expectations and investment intentions all robust. Chamber members reported that challenges remain however around recruitment & skills, and although cost pressures are largely easing, labour costs remain a particular concern for many businesses. The improved economic environment is helping to raise investment intentions.

On 01 August 2024, the Bank of England reduced its Bank Rate by 0.25 percentage points, to 5%. The Bank had held rates at a 16-year high of 5.25% since August 2023, in an attempt to address rising prices across the UK. Although inflation returned to target in May and has only risen marginally since, inflation is expected to increase to around 2.75% in the second half of this year, as declines in energy prices last year fall out of the annual comparison.

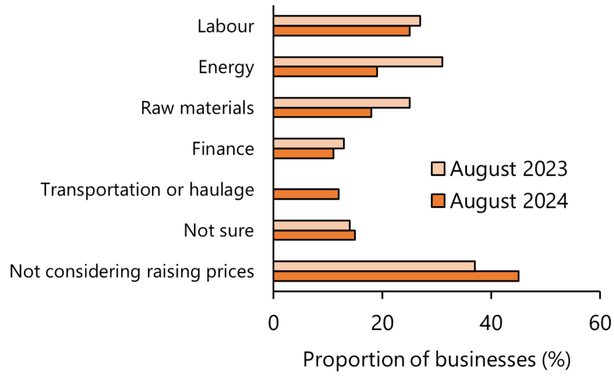
Recent survey results from ONS BICS suggested that overall, local businesses were less likely to consider raising prices in August 2024 compared to the same month a year previously. Of those considering raising prices in August 2024, Energy Prices saw the biggest percentage point fall from one year previously (Figure 5)

The most recent All-Island Business Monitor (AIBM) from Intertrade Ireland (Q1 2024) reported a relatively stable picture in terms of trading position, with around 58% of businesses across the island (60% in Q4 2023) reporting that their business position was "Stable" and around 30% (32% in Q4 2023) reporting that they were in "Growth". These proportions held broadly when split between the North and the South, though with a slightly lower proportion of firms in the North reporting growth in Q1 (27% vs 31%).

The Q1 2024 AIBM found that over one-quarter of surveyed businesses identified difficulties in recruiting staff with the appropriate skills needed to do the job, and that 64% of businesses were worried about the impact of rising energy costs. The report also noted that fewer larger SMEs (50+ employees) are now looking to increase their workforce in the next 6 months (28% in Q1 2024 vs 42% in Q4 2023).

Figure 5: The Costs Driving Inflation

Responses from NI businesses to the question 'Which of the following factors, if any, are causing your business to consider raising prices in August?' (Note 5). Source: ONS BICS.



Production

Local production output was 0.9% above pre-Pandemic levels in Q1 2024, having decreased by 1.5% over the quarter. The decline was driven by decreases in output in the Manufacturing and Mining and Quarrying industries, but was partially offset by an increase in Electricity, Gas, Steam and Air Conditioning Supply output. However, over the year, output from all four broad industry groups contracted.

Manufacturing

Manufacturing output in the North decreased by 0.4% over the quarter and 3.7% over the year to Q1 2024, according to the latest NISRA Index of Production.

The latest NI Chamber QES indicated a stronger manufacturing performance for its members in Q2 2024. The local Manufacturing sector's strongest position relative to other regions surveyed was for the investment indicators, ranking 2nd for both plant & machinery investment and training, and employment intentions. It was weakest on cashflow and domestic orders, ranking bottom when compared to GB regions. Even though only 28% of local manufacturers reported that they were operating at full capacity (compared to an overall average of 36%) the gap has been narrowing. There has also been a rebound in confidence around turnover and profitability, with the profitability balance at its strongest since 2017.

The July 2024 Ulster Bank Growth Tracker indicates that the sector's output continues to expand, with new orders and future activity surging. Input prices were still reported to be increasing but are showing signs of stabilising and businesses are now showing less of a tendency to pass increases on to customers.

Danske Bank forecast that manufacturing output will increase by around 0.4% in 2024, with growth expected to quicken to 0.8% in 2025. The Bank also forecast that the number of jobs in the sector will remain broadly unchanged in 2024, before increasing marginally in 2025, with a weak investment outlook and persisting skills shortages continuing to negatively impact the sector.

Construction

Construction output increased by 4.5% over the quarter to Q1 2024 and was 13.0% above its pre-pandemic level, with output now having increased in five of the last six quarters. The increase in overall output was driven by increases in both New Work (1.9%) and Repair and Maintenance (4.6%). The July 2024 Ulster Bank PMI / Growth Tracker indicated that the sector's output contracted slightly, and that future optimism was markedly lower than the other monitored sectors.

The less optimistic outlook for the construction sector noted by the July PMI / Growth Tracker is also shared somewhat by Danske Bank who predict that relatively weak investment levels will impact on output, which is projected to decline by around 0.4% this year, but rebound next year, growing by 1.6% in 2025.

Services

According to the latest NISRA Index of Services, local services output remains around 9.9% above pre-pandemic levels, having increased by 1.9% in the first quarter of 2024 (a series high), and by 2.9% over the year. In the UK, services output increased by 0.7% over the quarter and by 0.3% the year (also a series high).

The NI Chamber QES found that the sector's trading performance, which had been robust, stalled somewhat during the second quarter, with several indicators falling. However, NI's Service sector remains one of the stronger performing across the UK regions. Most businesses are still confident that they will experience turnover growth in the next 12 months, but more businesses have concerns over domestic and export orders and reported lower ratings around cashflow balance and confidence around profitability. Recruitment challenges remain highly elevated, with 75% of Service sector businesses encountering difficulties.

Retail and Hospitality

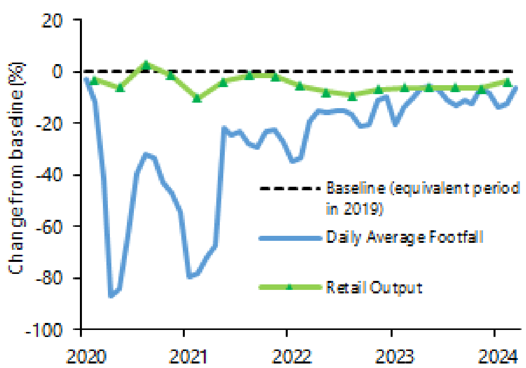
Overall output in the Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles; Accommodation and Food Services sector increased by 2.2% in Q1 2024 – with output now 3.6% above the pre-pandemic level of Quarter 4 2019 and only 1.3% below the series high of Q3 2021.

According to the Retail Sales Index (RSI), growth in NI retail output grew in Q1 2024 (+4.1%) and also over the year (+2.6%).

The July 2024 Ulster Bank PMI / Growth Tracker however indicates that business activity in the sector only increased marginally, and that it was the only sector not to see a rise in new orders. Although business confidence remained relatively high, the Retail sector displayed the weakest growth in employment and had the most notable price rises over the month (for both input costs and output prices).

Figure 6: Footfall and Retail Sales

Percentage changes in average daily footfall and the NI Retail Sales Index (RSI) from a baseline of equivalent periods in 2019. Sources: MRI OnLocation Footfall Analytics and NISRA IOS.



Business Services

In Q1 2024, output in the local Business Services & Finance sector reached its highest level since 2008, increasing by 0.7% over the quarter and by 6.7% over the year. Output in the Other Services sector, (including Education, Health & Social Work and Arts, Entertainment & Recreation) increased by 3.5% over Q1 2024, but is still 2.6% lower than the series high of Q2 2023.

In its Q2 Quarterly Sectoral Forecast, Danske Bank predicts that business services sectors will grow at a faster rate than the overall economy in 2024 and 2025, with output in the professional, scientific & technical services sector forecast to rise by around 1.1% in 2024 and 1.9% in 2025.

International Engagement

The global economy is expected to continue its recovery from the inflationary crisis, with growth of around 3.2%. forecast by the IMF in 2024, and similar growth forecast in 2025. Inflation is expected to remain higher, and recede more slowly, in emerging market and developing economies than in advanced economies. The OECD forecasts similar rates of growth to the IMF, with economic growth assisted by stronger real income growth and lower interest rates. However, continued restrictive monetary policies along with ongoing geopolitical tensions are expected to weigh down on economic growth. The North's export performance particularly stands out amongst neighbouring jurisdictions, being the only region (amongst the South of Ireland, England, Wales and Scotland) to exhibit positive export growth.

+11.3%
Annual change in goods exported in FY 2023/24

-3.3%
Annual change in goods imported in FY 2023/24

+3.2%
OECD global economic growth forecast 2025

+1%
UK 2025 OECD growth forecast

+2.4%
UK Q3 2025 modal CPI forecast - Bank of England

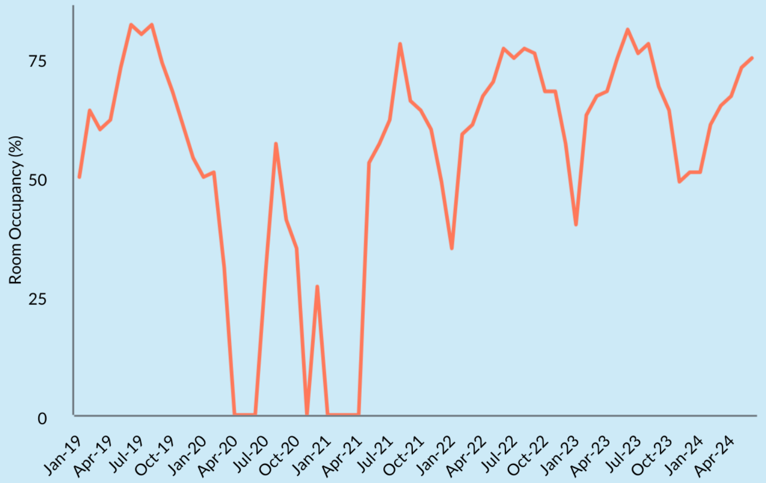
NI's Top 5 Exporting Commodities

1	Machinery & Transport equipment	33%
2	Food & live animals	17%
3	Chemicals & related products	15%
4	Miscellaneous manufactures	13%
5	Manufactured material goods	10%

Percentage of all exports. Year to Q1 2024. Source: HMRC RTS

NI Hotel Room Occupany Rates

January 2019 - February 2024



Source: NISRA NI Hotel Occupancy Statistics

NI's Top Trading Partners

as a proportion of total NI trade in goods

Exports		Imports	
Ireland	37%	Ireland	36%
USA	16%	China	9%
Canada	5%	USA	8%
Germany	4%	Germany	6%

Year to Q1 2024. Source: HMRC RTS

UK Economic Growth Projection

Rank:

3rd

(out of G7 Economies)

Up 3 positions from April's Projection

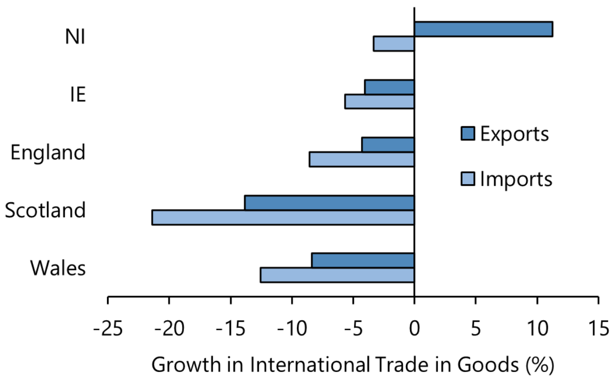
Source: IMF World Economic Outlook

International Trade

In recent years, the local economy has stood out among neighbouring regions for its growth in international trade in goods (Note 6). According to HMRC and CSO trade statistics, the North was the only region across the five jurisdictions of these islands that experienced growth in goods exports in 2023/24 (Figure 7). Furthermore, this growth was pronounced, with exports increasing 11.3% on the previous year. Imports fell by around 3.3%, though this was the lowest decrease of the five jurisdictions.

Figure 7: Growth in International Trade in Goods

The percentage change in international goods trade in Britain and Ireland in the financial year 2023/24 compared to the previous year. Sources: HMRC and CSO.



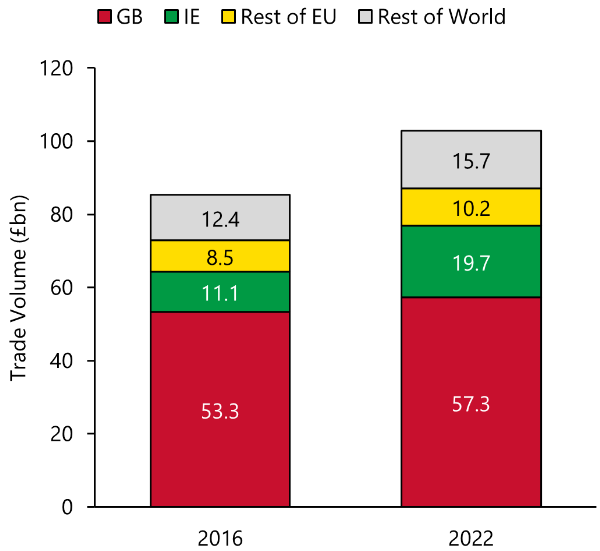
The increase in goods exports was driven mainly by trade with the United States, particularly in the form of medicinal & pharmaceutical products, while exports to Canada and Germany also increased sizeably. The decrease in imports was largely due to a fall in goods purchased from the South, particularly within the dairy & eggs categories. There was also a considerable decrease in imports from China.

According to the latest NIETS report, the North's international services trade was valued at an estimated £4.5bn in 2022, or around a fifth of total international trade volume. NIETS data also indicates that the North's trade with Britain, which constitutes most of our external trade value, increased less than trade with the South between 2016 and 2022 (Figure 8).

The Northern Ireland Export Climate Index (ECI), a sub-index of the Ulster Bank PMI / Growth Tracker covering the economic health of the region's export markets, suggests that there has been improvement in demand conditions in the local economy's export markets in 2024. However, this improvement has been driven mainly by the US, while our other main trading partners have seen growth slow. The latest tracker also indicates that as of July 2024, new export business had been in decline for 15 consecutive months, with firms reporting client uncertainty in export markets and the July figures showing the most marked reduction since February.

Figure 8: External Trade

The total value of goods and services bought and sold externally in the North of Ireland, broken down by broad trading partner in 2016 and 2022.



Global Outlook

With a pick-up in Asian exports (particularly in the technology sector), global activity and world trade strengthened in early 2024. As such, July's IMF World Economic Outlook projected global growth of 3.2% in 2024, in line with its April publication, with a marginal increase to 3.3% forecast for 2025.

As has been highlighted by the Bank of England, the IMF cite services inflation as a factor in the persistence of inflationary pressures, which in turn is delaying a return to less restrictive monetary policies. In advanced economies, the revised forecast is for the pace of disinflation to slow in 2024 and 2025 as services inflation persists and commodity prices remain elevated. With energy prices predicted to decline and labour markets cooling, headline inflation should return to target by the end of 2025. Inflation is expected to remain higher (and recede more slowly) in emerging market and developing economies than in advanced economies.

Growth among advanced economies is expected to converge in 2025 according to the IMF. Whilst projected growth in the US in 2024 (+2.6%) exceeds the Advanced Economies average (+1.7%), it is expected to fall back to +1.9% in 2025, narrowly exceeding the Advanced Economies average (+1.8%). In the UK, growth is forecast to be +0.7% and +1.5% respectively in 2024 and 2025, with the latter matching the growth forecast for the Euro Area.

Similarly, May's OECD Economic Outlook forecasts global economic growth of +3.1% in 2024 and +3.2% in 2025. This will be underpinned by stronger real income growth and lower policy interest rates, though the continuation of restrictive monetary policy, coupled with ongoing geopolitical tensions, will continue to pose downside risks.

Table 1: International Economic Growth Forecasts

The OECD and IMF's latest economic growth (in Real GDP) forecasts for selected countries in 2024 and 2025, in percentage terms.

	IMF		OECD	
Region	**2024**	**2025**	**2024**	**2025**
UK	0.7	1.5	0.4	1.0
Euro Area	0.9	1.5	0.7	1.5
US	2.6	1.9	2.6	1.8
China	5.0	4.5	4.9	4.5
World	3.2	3.3	3.1	3.2

Tourism

Despite continued economic and geopolitical challenges, global tourism continues to show resilience, with the latest UN World Tourism Barometer reporting that in Q1 2024, the number of international arrivals (overnight visitors) had, at 97% of 2019 performance, almost recovered to pre-pandemic levels. The number of tourists travelling internationally was reported at 285 million in Q1 2024 – an increase of 20% from the same period a year previously. Strong demand, the opening of Asian markets and enhanced air connectivity and visa facilitation were all cited as factors behind the increased international tourism. Within Europe, the number of tourist arrivals exceeded pre-pandemic levels for the first time in a quarter (+1% from Q1 2019).

As cited by Tourism NI in its May 360 Performance Update, OAG airline schedule data (April 2024) indicated that scheduled seat capacity was 2.8mn to NI during May-September 2024, representing a 9% increase on the same period in 2023.

Occupancy statistics from NISRA indicate that in the first six months of 2024 (H1 2024), room and bed occupancy in the North's hotels were estimated at 66% and 51% respectively, suggesting a sustained recovery from the lows of the Covid-19 Pandemic. During H1 2024, 1.089 mn hotel rooms were sold across the North, up 4.8% on the same period in 2023 and only marginally below the total sold for the same period in 2019.

Room sales in the North's small services accommodation (guesthouses, guest accommodations and B&B's) during H1 2024 totalled 278,000 – the most for any first half of the year on record. This represents an increase of 14.6% on the same period last year, and just under 40% in comparison to H1 2019.

Foreign Direct Investment

In 2023/24, 15 companies chose to locate operations in the North for the first time. This included an investment from Vertiv, a global provider of critical digital infrastructure and continuity solutions, whose investment in a manufacturing facility in Campsie will create approximately 200 skilled jobs in the Northwest. New York fintech company, DailyPay's investment, its first ever outside of the US, brings with it 300 jobs to the North, over two-thirds of which are hybrid working posts.

Other recent investment announcements have included US insurance firm Riverstone (through UK subsidiary RS Progress) choosing NI for its £2.5mn research and development project to create a new and innovative re-insurance platform.

Elsewhere, Armagh based AIC Group Limited, a leading specialist in Thermal Treatment and Waste-To-Energy systems, secured its first North American contract (valued in excess of £2mn), in partnership with Ohio based importer Ecoverse Industries.

DailyPay, Riverstone and AIC Group Limited are all supported by Invest NI.

Households

The North's housing market continues to exhibit resilience in the face of restrictive monetary policy, with house prices rising by 6.4% over the year. A lack of supply is helping fuel the rise in prices, predominantly in private rents which remain particularly elevated. The local labour market remains tight which, along with continued inflationary pressures, is helping maintain upward wage pressure. While the local unemployment rate dropped below 2% for the first time ever recently, some longstanding and persistent challenges remain. Economic inactivity remains stubbornly high compared to the UK and the South of Ireland, whilst the number of self-employed people remains significantly below its pre-Pandemic level. Local consumer confidence in relation to household finances continues improve, albeit gradually. Despite expectations that inflation will marginally increase by the end of 2024, local consumer confidence is poised to improve further, with inflation expected to fall over the longer term, and expectations of less restrictive monetary policy.

+4,700
Annual change in claimant count (July 2024)

1.9%
Record low unemployment rate

+6.4%
Annual change in house prices

+22%
Annual change in number of self-employed

+19.1%
Annual change in NI discretionary income Q2 2024 (ASDA)

Pay - July 2024

Annual Change in Median Monthly Pay

NI: 7.9%

UK: 5.6%

Payrolled Employees

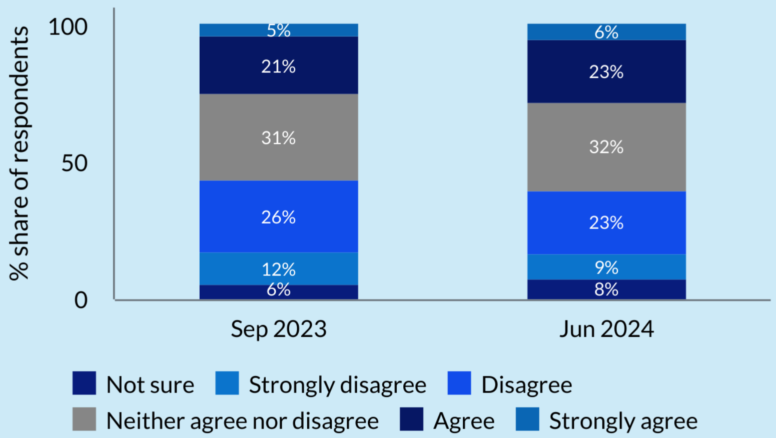
Annual Change in number of payrolled employees

NI: 2.3%

UK: 0.8%

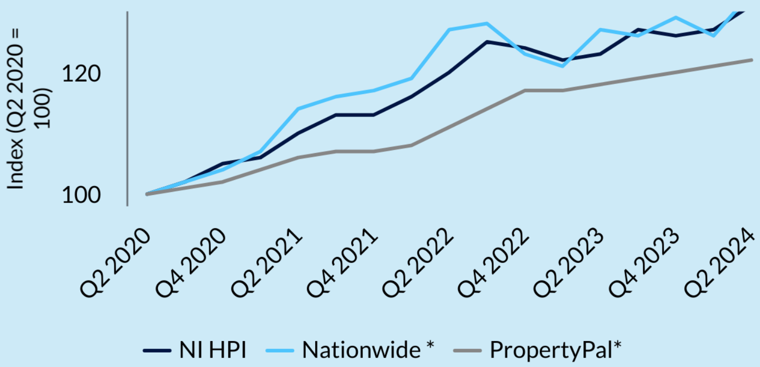
Consumer Sentiment

Expectations for improved household finances in the next 12 months



Source: Consumer Council Pulse Survey

NI House Prices



* a different methodology is used for these sources from the official government endorsed house price index for NI, which is produced by NISRA and LPS. PropertyPal excludes New Homes.

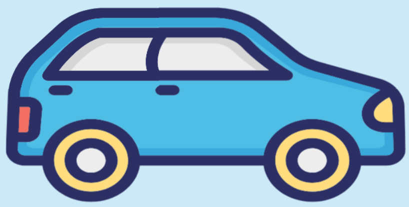
Source: NISRA HPI, Nationwide HPI, PropertyPal

New Car Sales - July 2024

Annual Increase in New Car Registrations

NI: +10.4%

IE: +2.2%



Source: SMMT, CSO

Home Energy Costs

At the end of July 2024, the Consumer Council's Home Energy Index (HEI) was 221.15 – this was an increase of 2.71 points compared to the previous month and marks first increase following six consecutive monthly decreases. With approximately 62.5% of households in the North reliant on Home Heating Oil (HHO), the index is particularly sensitive to changes in the price of HHO and the uptick in July was largely driven by HHO increases, while the costs of electricity and gas remained stable.

As of 22 August, the price of 500L of home heating oil cost just under £295 on average across the North – this represents a decrease of over £60 from around the same period in 2023. With recent increases in wholesale energy prices, the energy prices paid by consumers are forecast to rise again in the coming months, but will remain significantly below their 2022 peak.

Pay and Consumer Confidence

HMRC PAYE Real Time Information

Median monthly pay in NI was £2,249 in July 2024, a 3.5% decrease on the previous month. While this represented a 7.9% annual increase - the largest of any of the measured regions - the North had the second lowest earning region in the UK.

Since April 2020, there has been an upward trend in earnings, with notable increases since January 2024. The decrease in median earnings in the most recent month follows a similar increase in the previous month, which coincided with local pay awards.

New Car Sales

Motor vehicle purchases are used as an economic indicator as they provide a snapshot of consumer willingness to purchase large ticket items. In July, Northern Ireland had the largest growth in new car sales compared to any region in Britain. The Society of Motor Manufacturers and Traders (SMMT) reported that there were 3,770 new registrations in the North – an increase of 10.4% on the same month last year. In comparison, the equivalent growth rate for the UK was significantly lower (+2.53%).

Consumer Sentiment

June's Pulse Survey from the Consumer Council (published in August) indicated that a large proportion of consumers (44%), felt that their household was less well-off compared to a year previous. Although this was largely unchanged since February, it represents a lower proportion than December 2023 (53%) and September 2023 (57%). 28% of respondents felt that their household was better off than 12 months ago, continuing the general increase in respondents reporting that they felt that their household was better off since September 2023 (20%)

Among those who felt that their household was worse off, the most common reasons given were the increase in the cost of food and groceries (87%), the general increase in the cost of living (84%) and increases in energy bills (76%).

13% of respondents felt that their household couldn't keep up with bills and purchase essentials, while nearly two fifths of respondents (37%) stated that they have £150 or less remaining each month after their mortgage/rent and all essential bills have been paid, and 17% stating that they have less than £50.

Looking ahead, around a third of respondents (32%) felt that their household would be worse off in a year (up 5 pps from February 2024). A similar proportion (29%), felt that their household would be better off in 12 months' time.

Household Income and Inequality

Across the UK in Q2 2024, average household discretionary income amounted to £237 per week. This was a little over double that of the equivalent value for the North (£117 per week), despite the North posting the strongest annual growth of any monitored region (+19.1%). In comparison, despite annual growth lagging behind that of the North, average household discretionary incomes in both Wales and Scotland significantly exceeded that of the North (£195 and £238 respectively). The average household discretionary income in the North is 18.8% below it's pre-Cost of Living crisis peak.

With the Cost of Living crisis biting hard on household discretionary income, the 2022/23 Northern Ireland Poverty and Income Inequality Report unsurprisingly noted that the proportion of individuals in relative poverty before housing costs (BHC) increased from 16% in 2021/22 to 18% in 2022/23. Similarly, the percentage of individuals in absolute poverty (BHC) increased from 13% in 2021/22 to 14% in 2022/23. An individual is considered to be in relative poverty if they are living in a household with an equivalised income below 60% of UK median income in the year in question, and in absolute poverty if they are living in a household with an equivalised income below 60% of the inflation adjusted UK median income in 2010/11.

The former measures whether those in the lowest income households are keeping pace with the growth of incomes in the population as a whole, whilst the latter is a measure of whether those in the lowest income households are seeing their incomes rise in real terms.

The GINI Index, which measures the inequality between the households with the lowest and highest incomes and ranges from 0% (everyone has equal incomes) to 100% (one individual has all the income), indicated that NI income inequality increased in 2022/23. As those on lower incomes tend to spend a greater proportion of that income on energy, the recent energy-driven inflationary crisis has had a disproportionate and uneven impact on those cohorts compared to those on higher incomes.

Housing Market and Prices

House prices in the North continued to increase, with the NI House Price Index (HPI) reporting a quarterly increase of 3.6% to Q2 2024. Annually, prices rose by 6.4%, despite high interest rates leading to higher mortgage quotations. The standardised house price in the North was £185,025 with prices for all four property types (detached, semi-detached, terrace and apartment) increasing over the quarter and the year. A contributing factor to the resilient housing market is the lack of new supply. From 2014-2021, with the exception of 2020, the number of sales increased each year with almost 31,000 sales in 2021. Sales numbers have decreased since then and the number of sales in 2023 was around 21,000. Based on the sales figures for the first half of 2024, it appears likely that a similar annual sales volume will be recorded.

In the 12 months to May 2024, private rents in the North increased by 10.0% according to ONS - marginally lower than February's record increase of 10.4%, but still above the equivalent figures recorded for Scotland (9.3%), England (8.6%) and Wales (8.5%). Supply is a key driver behind the surge in rents, with PropertyPal noting that enquiries on rental properties remain particularly elevated and commenting that "a considerable influx of new rental properties is required to bring typical rental growth closer to the pre-Covid 19 average of 3.0%".

PropertyPal's Q2 2024 Housing Market Update noted that the price of housing sold increased by 3% over the year, whilst rents increased by 10%, similar to the annual increase to May 2024 reported by ONS. 6,113 newly listed properties were available to purchase in Q2 2024, up 1% from the same period in 2023. Total inventory however decreased by 10% over the year. 2,899 newly listed properties were available to rent in Q2 2024 according to PropertyPal, down 6% over the year, with total inventory also declining by a marked 7%.

Unemployment and Inactivity

The North's unemployment rate (16+) reached a record-low of 1.9% during Quarter 2 2024, decreasing by 0.2 pps since Q1 2024 and 0.7 pps from the same period last year. Whilst neither of these changes were statistically significant, the North's unemployment rate has largely been on a downward trajectory since Q3 2021. NI's unemployment rate is over 2pps below the latest estimates for the UK (4.2%) and the South of Ireland (4.1%)

In July 2024, 4.2% of the North's workforce were recorded on the claimant count. This represented 41,000 claimants and an increase of 6.1% since June. Since April, the NI claimant count has steadily increased (from 3.7%) though this is largely attributable to the increase in the administrative earnings threshold for Universal Credit in May 2024.

Over the year, the North's claimant count increased by 12.9%. This was largely driven by a 22.1% increase in the female claimant count, while the increase recorded for males in the same period was 6.1%. July's claimant count was 37.4% higher than the pre-pandemic count in March 2020.

Over the year, there have been claimant count increases in all Local Government Districts, with the largest increases seen in Mid Ulster (+32.5%) and Fermanagh and Omagh (+31.2%).

The economic inactivity rate in the local economy for April to June 2024 increased over the quarter (0.5pps) but decreased over the year (0.7pps) to 27.1%. Neither change was statistically significant. Over the year, there were contrasting experiences by gender, with the male inactivity rate increasing by 0.2pps over the year to 23.7%, whilst the female inactivity rate decreased by 1.5pps over the year to 30.3%.

The North's inactivity rate was 4.9pps above the UK rate (22.2%), and 4.6pps above the most recent rate (Q1 2024) for the South of Ireland (22.5%).

Compared to the pre-pandemic figures in October-December 2019, there has been an increase in the number of persons inactive because of being 'Long-Term Sick' (+25,000) and 'Student' (+12,000), however the totals for 'Family and Home Care' (-18,000) and 'Retired' (-3,000) have decreased. In April-June 2024, the most common reason for economic inactivity among the local working age population was 'Long-Term Sick'. There were 129,000 'Long-Term Sick', accounting for 40.2% of the total economically inactive (aged 16 to 64), or 10.9% of the working age population.

The number of young people (aged 16-24) in the North who were not in employment, education, or training (NEET) during Q1 2024 was 14,000 – which equates to a NEET rate of 7.1%. The UK had a NEET rate of 12.0% for the same period.

Employment

The Q2 Quarterly Economic Survey from the NI Chamber of Commerce and Industry & BDO reported that more member firms expect their employment level to grow than to contract. Manufacturers were slightly more optimistic than services firms, though persistent recruitment difficulties were reported in both sectors. Firms also reported that they are investing in training for their staff (+32% of Manufacturers and +27% of Services).

Immigration restrictions were also reported to be exacerbating the tight local labour market, with 38% of respondents citing the change in the baseline salary for Skilled Worker Visas as a factor impacting upon labour mobility. 15% reported they had been affected by immigration restrictions on cross-border movements of workers (on the island of Ireland) of non-Irish and non-British citizenship.

According to the Ulster Bank NI PMI / Growth Tracker, local recruitment activity in July expanded at its sharpest rate since April 2023, fueled by a marked increase in new orders. Employment increased for the 19th successive month, and the rate of increase in staffing levels in the North was the fastest across all monitored regions. Higher wage costs were reported, likely a consequence of strong employment activity and a tight local labour market.

The number of people aged 16+ in employment for the period April to June 2024 was estimated at 878,000, representing a rise of 20,000 from the same quarter in 2023.

The overall NI employment rate (for 16–64 year-olds) was 71.6% - a marginal decrease of 0.3pps over the quarter but an increase of 1.2pps over the year. Both the male and female employment rates increased over the year, with the former increasing by 0.5pps while the latter increased by 1.9pps.

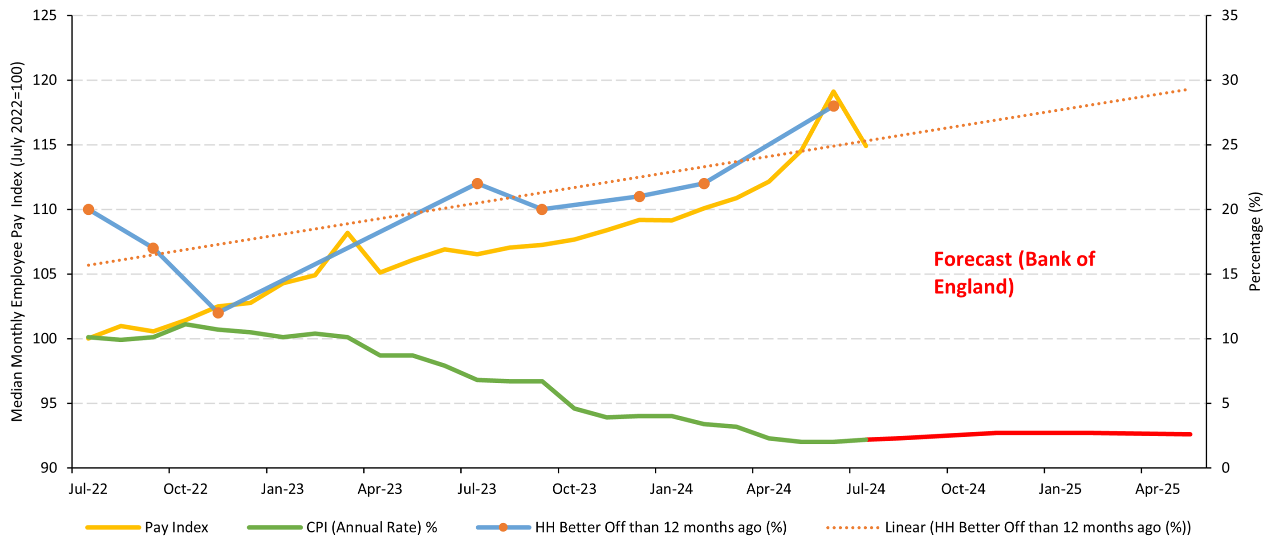
The number of payrolled employees in July 2024 was 807,700 according to PAYE data from Revenue & Customs. This equates to a monthly increase of 0.1% and an annual increase of 2.3%, larger than any region in GB.

In April-June 2024, there were 115,000 self-employed in the local labour market, an increase of 21,000 (+22%) on a year ago, though 19,000 lower (-13.9%) than the pre-pandemic figure in October-December 2019. The proportion who were self-employed (13.2%) remains below the pre-pandemic proportion of 15.3% recorded in October-December 2019.

The total weekly hours worked in the local economy in April-June 2024 was estimated at 29.0 million hours per week, a 2.7% increase on the same period last year. However, the total weekly hours worked remained below its pre-Pandemic level (Q4 2019) albeit by a marginal 0.6%.

Figure 9: Household Economic Conditions & Financial Confidence

The proportion of households (%) reporting their household was better off financially compared to 12 months ago, modelled alongside the rolling 12 month CPI inflation rate (%), forecast to Q2 2025 using Bank of England staff projections and the seasonally adjusted median monthly pay (£) (indexed to July 2022). Source: Consumer Council's Pulse Survey, ONS Consumer Price Inflation, Bank of England August 2024 Monetary Policy Report and HMRC PAYE RTI (via NISRA Labour Market Report).



Energy and Emissions

Despite significant progress being made over the last decade, the local economy remains dependent on fossil fuels and relatively greenhouse gas intensive. In support of its Energy Strategy, DfE has launched an Open Call for Energy Research which will produce high quality research that will inform and support the vision of an economy with good jobs, regional balance, high productivity, and with a reduction in carbon emissions.

45.4% Electricity from renewable sources in year to March 2023

-26.4% Change in net emissions from 1990 to 2022

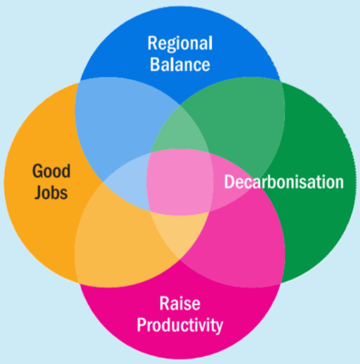
-3.0% Change in net emissions from in 2022

5,000 FTE employment in Green Jobs in 2022

£1.6bn LCREE turnover in 2022

Open Call for Energy Research

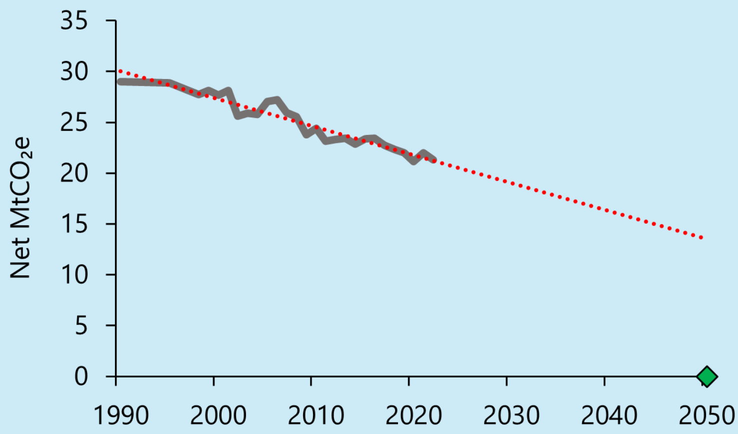
£400k of funding available



Deadline for submission: 30 August 2024

Net Emissions

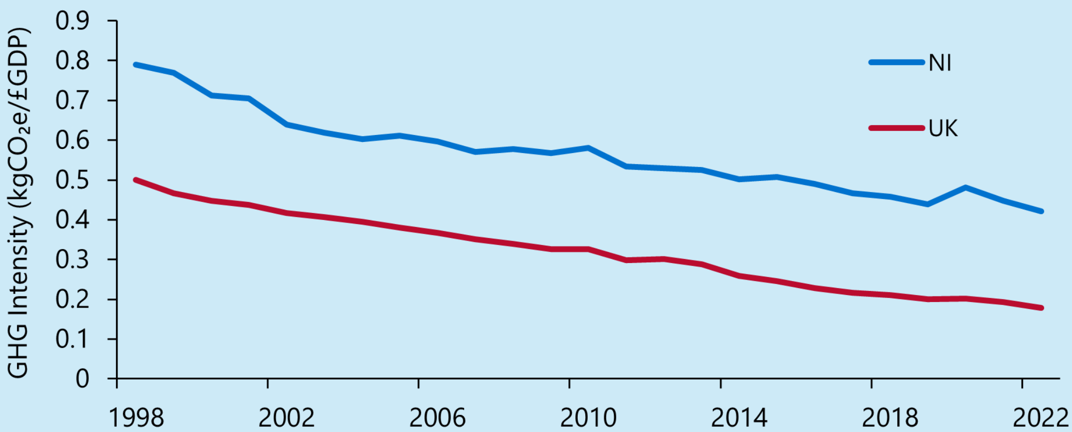
Million tonnes of CO2 equivalent



Source: DAERA GHG Inventory

Greenhouse Gas Intensity

Greenhouse Gas Emissions per £GDP, 2019 prices



Sources: DAERA GHG Inventory, ONS Regional GDP

Emissions

The local economy is relatively greenhouse gas (GHG) intensive. In 2022, around 0.4kg of carbon dioxide equivalent (CO_2e) was emitted for every £1 of economic output, or around 11.2 tonnes per person. By both measures, this indicates that the local economy is roughly twice as GHG intensive as the UK overall. Per capita, emissions in the North are similar to those of the South, which is one of the highest emitters in the EU. Both the North and the South's higher per capita emissions may be attributable to the proportionally larger agriculture sectors in their respective economies compared to the UK.

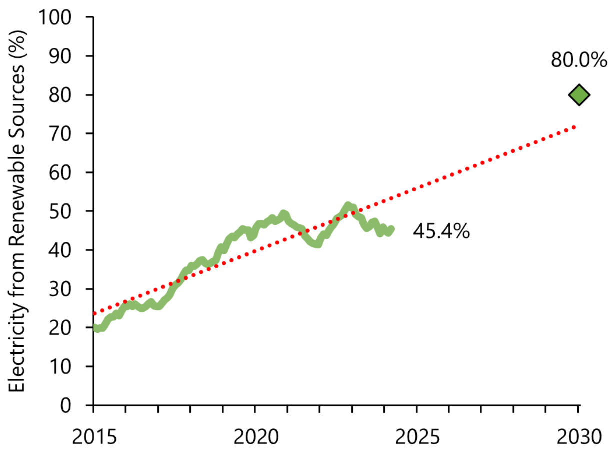
Local GHG emissions decreased by 3% in 2022, with one of the main contributing factors being a decrease in residential fuel combustion. Other factors include reduced agricultural emissions due to less favourable growing conditions for crops, and increased renewable electricity generation.

A long-term decrease in local emissions has been driven by industrial change, fuel-switching from oil and coal-fired power-stations, residential fuel-switching towards less carbon-intensive methods and a fall in emissions from landfill. However, emissions in the North of Ireland have decreased by only 26.4% since 1990, compared to 50.2% in the UK overall. In the South, emissions have risen by 7.2% in the same timeframe.

Renewable Energy

Figure 10: Renewable Electricity Consumption

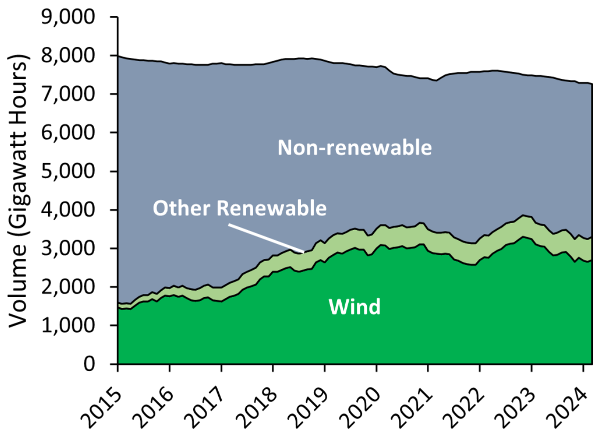
The rolling 12 month average of indigenous renewable electricity generation as a percentage of electricity consumption up to March 2024, and the future trajectory based on historic trend.



The local economy is still dependent on fossil fuels such as natural gas for electricity. From 2014 to 2020, the proportion of electricity consumption that was renewably generated grew from 19.0% to 49.2% as electricity consumption slowly declined and wind generation increased. However, this growth has dipped slightly in recent years, with the latest statistics indicating that only 45.4% of electricity consumption was from renewable sources in the year ending March 2024.

Figure 11: Electricity Generation by Source

The rolling 12 month average volume of electricity consumption by broad source to March 2024.



Section 15 of the NI Climate Change Act states that DfE must ensure that 80% of electricity consumption is from renewable sources by 2030. Figure 10 shows the progress towards this statutory obligation, as well as the trajectory of travel based on the historic trend. A Renewable Electricity Support Scheme, which would support investment and be a driver to increase wealth, prosperity and living standards across Northern Ireland, is currently under development by the Department.

Wind generation provided around 37% of the electricity consumed in the year to March 2024, or around 82% of all renewably generated electricity. The remaining share of local renewable generation is sourced mainly from biofuels and solar energy. As shown in Figure 11, the volume of non-wind renewable generation has remained relatively stable in recent years.

To stimulate innovative and novel research ideas that will feed into key research themes and objectives under the Department's new research programme, and to directly contribute to the evidence base in support of policy making associated with the Energy Strategy, DfE has launched an Open Call for Energy Research, with £400k of research funding available. The deadline for submissions is 3pm on 30 August 2024.

FOCUS: Enhancing Economic Policy Impact through Monitoring and Evaluation

Dr Ana Manzano, Analytical Services Division

This Focus Piece examines the role & importance of the monitoring & evaluation processes in the public sector and how the Department for the Economy's (DfE) approach to improving existing processes can enhance the impact from economic policy.

Why are Monitoring and Evaluation so important?

Monitoring and Evaluation (M&E) allows policymakers, programme managers and other stakeholders to assess the effectiveness of public policies, programmes and interventions. It enables accountability, evidence-based decision-making, learning and improvement, transparency, communication, and effective resource allocation. By investing in M&E, public sector organisations can ensure that their programmes and policies are effective, efficient and responsive to the needs of the communities they serve.

M&E are essential to the effective delivery of the DfE vision set out by the Economy Minister Conor Murphy. This vision includes four key priorities: creating good jobs; promoting regional balance; raising productivity; and reducing carbon emissions. In this context, M&E is a complex process as DfE has a wide remit, including responsibility for wider economic policy (energy, tourism and telecoms), a range of employment and skills programmes, oversight and funding of the further and higher education sectors and various aspects of employment law.

What are Monitoring and Evaluation?

Good evaluations rely on good monitoring but although monitoring and evaluation are related, they serve distinct purposes and involve different processes.

Term	Definition	Who	When	Examples
Monitoring	Routine collection of policy, programme and administration data that can help to track outcomes	Collated by people internal to the policy, programme & project.	During the implementation of the policy, programme & project.	Performance Indicators Milestones Progress Outcome Metrics and Measures (e.g., Metrics for the Economic Mission)
Evaluation	Examination of the worth of a policy, programme, or project by measuring its efforts against its goals, capturing strengths, challenges, and exploring how and why outcomes were achieved or not, for how long, and any unintended outcomes.	Externally commissioned or conducted internally but carried out by people external to those running the policy, programme, project.	Before, during and after implementation.	Review Impact Analysis Social Impact Analysis Cost-Benefit Assessment Needs Analysis Outcome and Impact Evaluation Value for Money Evaluations

Distinctions: Policy, Programme, Project

Differentiating between a policy, programme, and project helps tailor the evaluation processes to their specific scope and scale; helping to identify clearer lessons learned and actionable recommendations for future policy design. Definitions vary across organisations. For this workstream's purpose, we are using the following definitions:

- **Policy** is a high-level plan of action incorporating general goals. It is decided at the highest level, by NI Ministers or the Executive. An example of a policy is the new Economic Mission.
- **Programme** is a body of procedures and projects designed to implement policies and achieve their aims. Programme details may be decided at a slightly lower level than policy, for example via collaboration between a Minister and their Senior Officials. An example of a programme is the Assured Skills Programme.

- **Project** is a separate component within a programme, for example a proposal to build a primary school to serve the needs of a specific local school population. Projects are decided at the lowest level. They may be generated by officials, or (particularly where the programme involves financial assistance to non-government bodies) they may represent proposals from the private, voluntary or community sectors. An example of a project is Project Stratum.

Methodological Challenges of Monitoring and Evaluation in DfE

Monitoring and Evaluation in a department with such a wide range of policy areas, groups, divisions and services poses key **methodological challenges**. These include:

- **Diverse** objectives and performance monitoring metrics;
- **Complex data collection,** data management and integration (different data sources - public/private, formats, and quality);
- **Measuring long-term impact** in areas where interventions take years to demonstrate impact (e.g., economic growth, skills development, and decarbonisation) with many confounding factors;
- **Integrating** cost-benefit analysis, quantitative, qualitative and mixed-methods research and evaluation approaches;
- **Policy and programme interdependency** overlaps and gaps, work from one group impacting others, difficult to isolate and evaluate outcomes; and
- **Complex engagement** (partners, businesses, institutions, government bodies, non-governmental organisations, the public), with varied interests and expectations.

Strategic Thinking

A Task & Finish Group (TFG) led by the Analytical Services Division was established in December 2023 to help identify potential approaches to policy and programme evaluation in DfE. The group sought to develop a framework to help DfE think more strategically about its evaluation approach, to in turn enable policy makers to be more informed about previous policies and programmes and assist them to effectively develop future policies and programmes. Given the return of the NI Executive and the Minister's new Economic Mission, the work refocused to consider how evaluations might deliver on these aims. Five key pieces of work were undertaken:

Current DfE plans for evaluation	Current evaluation mechanisms and guidance	External review	Engagement	Identification
High-level baseline review of departmental policies / programmes and the plans that are in place regarding their evaluation	High-level review of the landscape of existing mechanisms and guidance to support policy / programme evaluation, to identify gaps and opportunities for improvement	Light-touch review of approaches used by other organisations	Engagement with DfE colleagues on their experience of policy / programme evaluation	Identification of potential approaches to policy / programme evaluation.

This work was supported by Dr Ana Manzano via a UKRI funded policy fellowship grant, which partners academics with government to take forward specific policy research. Dr Manzano is an Associate Professor in Public Policy at the University of Leeds, expert in policy and programme evaluation and she is supporting DfE to drive a step change in the evaluation of its policies and programmes. The findings of the TFG revealed that there is a substantial amount of evaluation activity occurring throughout DfE. However, an absence of structure and standardised processes presents challenges to identify consistent evaluation procedures. The key takeaway is the need for a more uniform evaluation process to ensure consistent progression, monitoring, and reporting, in turn capitalising on existing evaluation efforts.

Following on from this research, two co-production workshops were conducted with DfE stakeholders in March 2024. Four key areas of improvement were identified, as shown in the infographic on the following page.

Evaluation in Action

This infographic explores the Department's evaluation practices, highlighting areas for improvement and showcasing the potential for a more effective and impactful approach.

1 Timing Matters

Evaluation can be an afterthought, hindering the understanding of policy/programme effectiveness and efficiency. Incorporating evaluation from the outset is crucial for optimal outcomes.

2 Knowledge Gap

Although guidance exists, it's often too generic and not user friendly. New staff need access to tailored and up-to-date knowledge resources to effectively conduct evaluations.

3 Lessons Unlearned

Evaluation findings often get lost, failing to inform future policies and initiatives. Sharing lessons learned is vital for continuous improvement.

4 Cultural Shift

Moving beyond blame, a culture of learning and improvement is essential. Fostering a mindset of continuous feedback and reflection is key to impactful evaluations.

Evaluation for Impact

By implementing a standardized and structured evaluation approach, the Department can unlock the full potential of evaluation to drive progress and achieve its goals.

Theory of Change

Work has already begun to enhance M&E within DfE, aiming to improve the evaluation of its policies and programs. The main objectives of this work are:

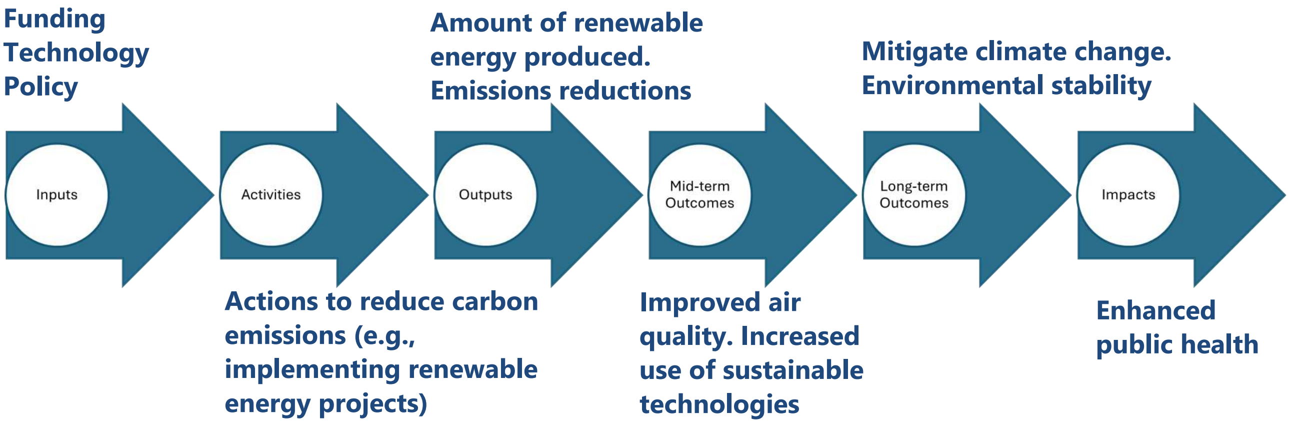
- To develop a tailored M&E Strategy for DfE that considers the departmental vision, diverse goals, and challenges across different regions and sectors in the North;
- To integrate co-production methodologies, engaging relevant stakeholders in the strategy development process.

To establish the evidence-base for the M&E Strategy, initial Theory of Change workshops were facilitated in June 2024, involving all policy groups within DfE. Staff members collaborated to co-produce Theory of Change elements tailored to their respective policy areas. A Theory of Change outlines the hypothesised pathway through which a department will achieve its desired outcomes by spelling out inputs, activities, outputs, short-term/mid-term/long-term outcomes and impacts.

A good Theory of Change is instrumental in laying the foundation for evaluation because it helps:

- Develop better evaluation questions;
- Identify key indicators for monitoring;
- Identify gaps in available data and prioritise necessary data collection;
- Provide a structure for data analysis and reporting; and
- Support the evidence of whether a department successfully achieved its intended outcomes and long-term impact.

There are many ways to represent a Theory of Change. The simplest versions are presented as results chains:



The workshops used the new economic vision outlined by the Economy Minister as a framework. This collaborative process ensures that the final M&E Strategy reflects a broad range of perspectives and expertise. Three key contextual challenges of drafting a M&E Strategy for the DfE were identified:

- **Tailor-made**: Each UK Government department varies significantly in size and policy areas, requiring comprehensive and specific evaluation strategies pertinent to their work. DfE is organized into four policy groups, each focusing on different aspects of economic development. An M&E Strategy supporting such a heterogeneous range of activities must consider:
    - ***Adaptability***: The Strategy must be adaptable to changing economic conditions, political environments, funding cycles, and emerging challenges; and
    - ***Capacity and Evaluation Expertise***: Staff across all divisions and grades need the necessary skills to utilise the M&E Strategy effectively.
- **Devolved**: Departments in devolved governments face additional complexity in their evaluation strategies due to their unique political and administrative landscapes. Flexible and adaptable evaluation strategies are needed to address regional priorities while maintaining coherence with UK standards. Annual budgets set by the UK Government hinder long-term planning for service delivery and evaluation.
- **Northern Ireland**: The NI Executive is uniquely shaped by its historical and socio-political context. Sharing a border with the Republic of Ireland adds complexity, requiring evaluations within broader geopolitical dynamics, including UK-RoI and NI-RoI relations and European Union regulations. Evaluation strategies must account for cross-border economic, social cohesion, and environmental initiatives, making the process multifaceted and sensitive to both historical and contemporary contexts.

Next Steps

Taking into consideration the changes that DfE aims to achieve, upcoming co-production workshops in September 2024 will focus on building consensus around DfE's Monitoring and Evaluation vision and the objectives necessary to accomplish this vision.

Following the workshops, an analysis of the content will be conducted to develop a preliminary M&E Strategy. A Delphi Consultation study (a structured method for gathering and refining expert opinions through multiple rounds of questionnaires) will then be initiated to iteratively refine the M&E Strategy, incorporating sections, content, and examples based on expert input and consensus-building. This will ensure a user-friendly format and consensus among stakeholders, thereby enhancing the strategy's validity and usability.

In addition to these activities, a final report will be produced and disseminated in 2025. The report will provide a comprehensive overview of the developed M&E Strategy and plans for implementation, serving as a valuable resource for DfE’s ongoing commitment to evidence-based policy making.

Notes, Sources and Contact

Notes

1. Modified Domestic Demand (MDD) removes the distorting effects of globalisation on GDP.
2. There are some differences in the definition of the US HICP that may limit comparison; more information is available at Comparing US and European inflation: the CPI and HICP (US Bureau of Labor Statistics).
3. The latest Euro area inflation estimates can be found at Harmonised Indices of Consumer Prices (Eurostat).
4. The international data in this figure are sometimes revised.
5. In August 2023, respondents did not have the option of selecting *transportation or haulage costs*.
6. HMRC Regional Trade in Goods statistics do not account for inflation, meaning that reported growth or decline in trade value will be respectively greater or less than the 'real' change.

Sources

Second Page Infographics

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Energy Research Open Call 2024 (DfE).

Focus Piece: Enhancing Economic Policy Impact through Monitoring and Evaluation

What is Theory of Change? - Center for Theory of Change;
Delphi study - Better Evaluation.

Contact

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