

Economic Indicators at a glance – May 2014

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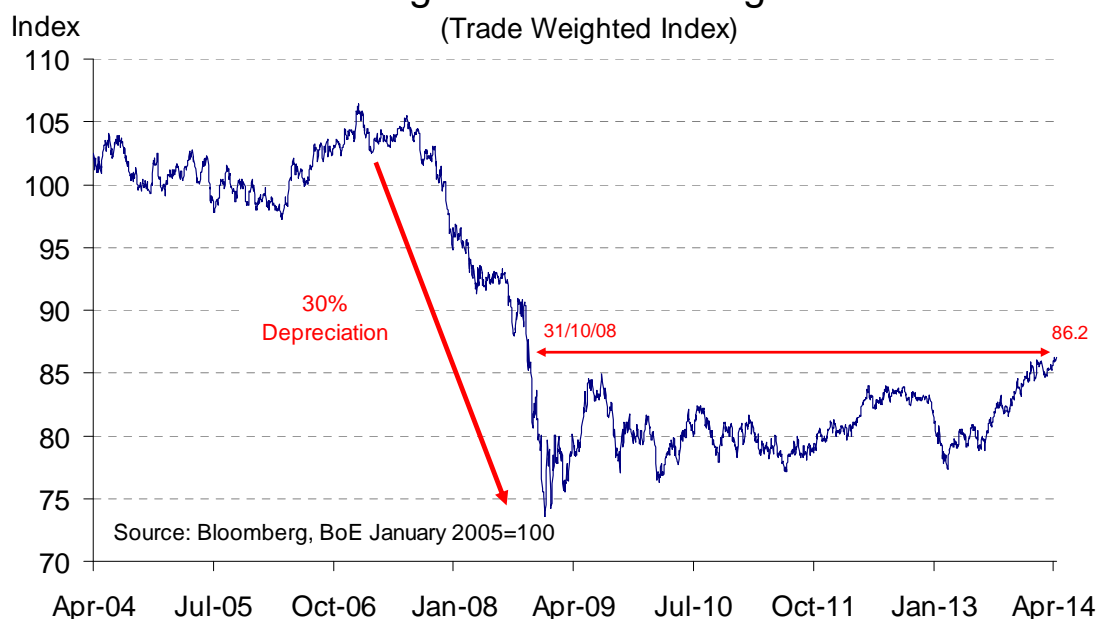
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Sterling's recovery continues

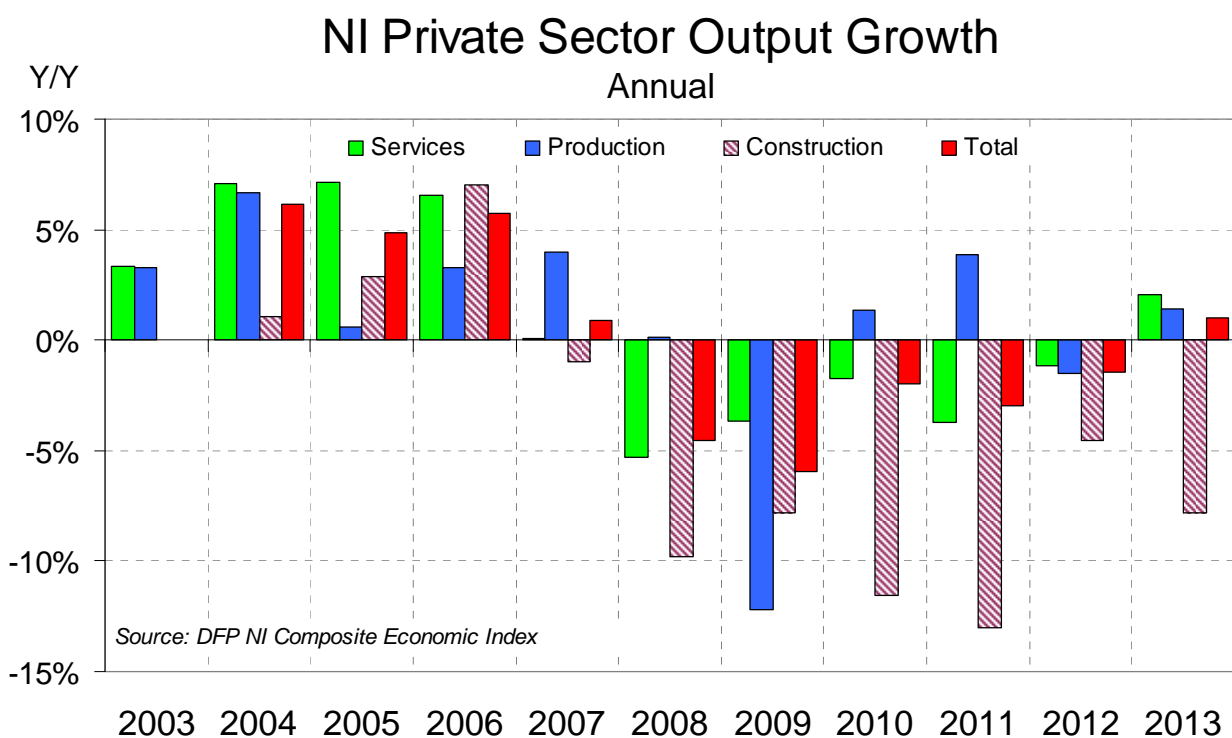
Sterling weakness was a key theme throughout the downturn, with the Bank of England's aggressive monetary policy stance facilitating a marked depreciation in the UK's currency. Sterling's effective exchange rate, which is a weighted average of the pound's individual exchange rates against a basket of currencies (*including the euro, US dollar & Japanese Yen*), plummeted by 30% following the credit crunch in the summer of 2007. This has been a mixed blessing for businesses and households. On the one hand, sterling's weakness boosted export price competitiveness. Meanwhile on the other hand, sterling's depreciation exacerbated food and energy price inflation and squeezed household incomes in the process. The weakness of sterling over a prolonged period has been a key contributor to the UK's '*cost of living crisis*'. More recently, however, as the UK's economic recovery has continued to gather momentum a recovery in the value of sterling has also been apparent. This has been particularly evident since last summer with sterling's effective exchange rate appreciating by over 9% since the end of July 2013. As a result, sterling's effective exchange rate is now at its highest level since the end of October 2008. Sterling's appreciation has been linked to the UK's improving economy and expectations that the Bank of England will begin raising interest rates ahead of its counterparts in the European Central Bank (ECB) and the Federal Reserve. Of these three central banks, the Eurozone's ECB is the one central bank which will potentially provide additional monetary policy stimulus. In terms of the latter, policy options could include a further cut in the ECB's benchmark interest rate and potentially an asset purchase programme of some form or another. Financial markets' expectations surrounding potential ECB policy action have weighed on euro sentiment of late, particularly against sterling. The euro / sterling exchange rate has fallen from 87.4p (£ = 1.143) at the end of July 2013 to around 82p (£ = 1.217) at the end of April 2014. Meanwhile sterling has also hit a five-year high (\$1.69) against the dollar. Sterling's strength will be good news for UK holidaymakers heading abroad this summer. However, UK exporters will experience an erosion in their price competitiveness.

Sterling Effective Exchange Rate (Trade Weighted Index)



NI's private sector output posts first annual rise in 6 years

According to the Northern Ireland Composite Economic Index (NICEI), the economy expanded by 0.6% q/q in Q4 2013 with private sector output also increasing by 0.6% q/q. This represented the third successive quarter of growth for both measures. On an annual basis, both private sector output and private sector services output posted their first increase in 6 years. Putting the recovery into perspective, however, NI's private sector has clawed back less than 20% of the output lost during the recession with output in Q4 2013 still 14.4% below the Q2 2007 peak. Private sector services output increased by 1.6% q/q in Q4 following a rise of 2.3% q/q in Q3. Services output remains 12.6% below the Q3 2006 peak. Meanwhile, the construction sector posted a 5.4% q/q decline in Q4 2013 and output remains 48.4% below its Q2 2007 peak. Following a whopping 4.9% q/q rise in Q3 2013, manufacturing output fell by 0.4% q/q in Q4 2013. To date, NI manufacturing has recouped 44% of the output lost during the recession. Although some sectors, notably *Chemicals & Pharmaceutical Products* and *Transport Equipment*, are experiencing, or have recently hit, record highs in output.

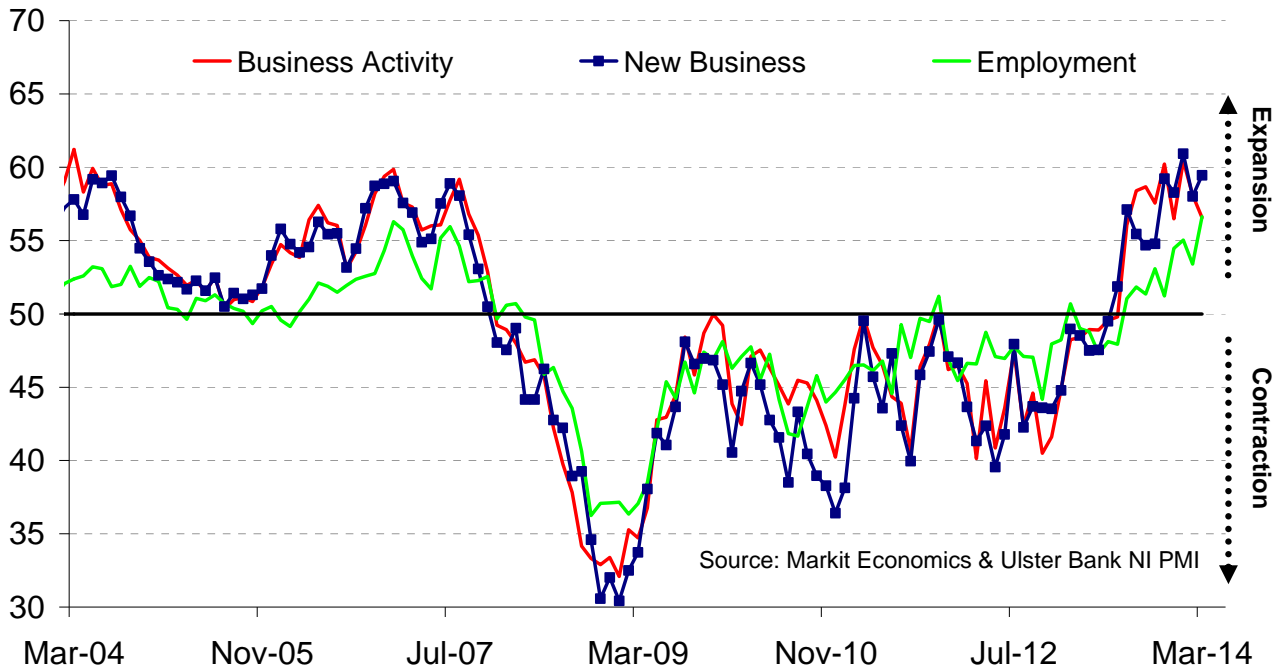


NI's private sector recovery continues in Q1 2014

According to the Ulster Bank PMI, Northern Ireland's private sector recovery is still firing on all cylinders at the end of Q1 2014. Local firms have now posted three successive quarters of strong growth. The pace of business expansion eased in March but the corresponding acceleration in new orders growth suggests strong rates in this area should continue for some time yet. Northern Ireland's private sector firms have now reported growth in new orders for 10 consecutive months. The most encouraging aspect of the latest survey concerns employment. The sustained period of business growth is feeding through into job creation with renewed vigour. In March, firms saw their staffing levels increase at the fastest rate since the PMI survey began in August 2002. Indeed, Northern Ireland firms reported the fastest rate of employment growth of all the UK regions. On a quarterly basis, the first quarter of 2014 saw Northern Ireland's private sector employment expand at its fastest rate in seven years.

NI Private Sector Activity

Monthly



Richard Ramsey,
30th April 2014

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