Ulster Bank

Economic Indicators at a glance – January 2015

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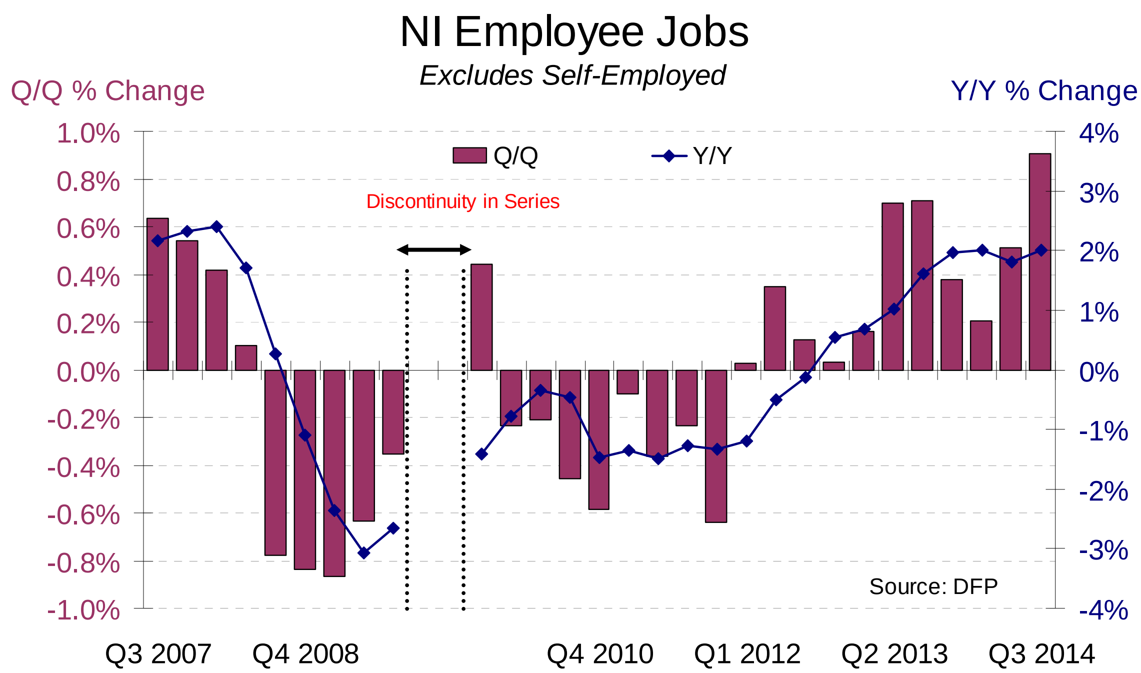
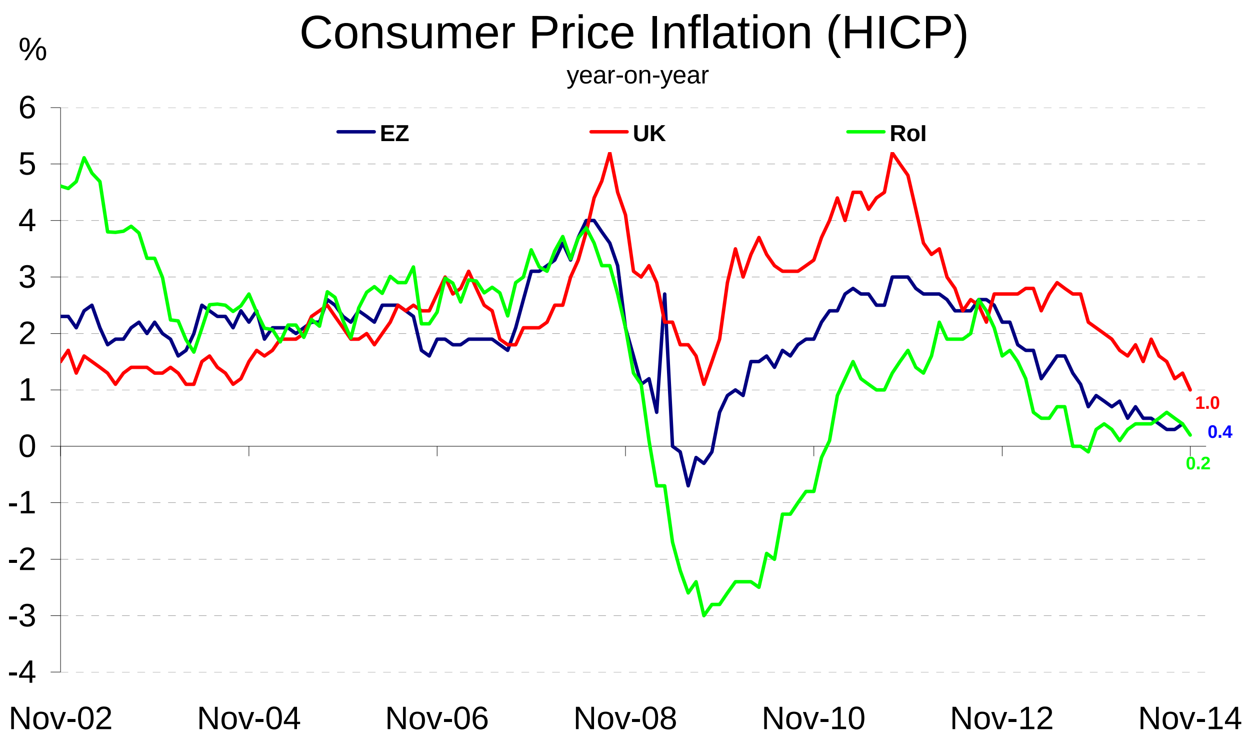
NI posts the largest quarterly increase in jobs since Q2 1997

December's labour market report for Northern Ireland arguably contains the most impressive set of labour market statistics since the economic recovery began. Further improvements were made with employment on the rise and unemployment continues to fall. The preferred survey for measuring Northern Ireland employment is the Quarterly Employment Survey. This is an employer survey and measures the actual number of jobs rather than the number of people working in some shape or form. As such, it excludes the self-employed. The latest survey for September 2014 (Q3) represents the strongest set of job creation figures since the recovery began. In Q3 2014 the total number of employee jobs increased by 6,460 or +0.9% (+2.0% y/y) relative to the previous quarter. This represented the fastest quarterly rate of growth since Q1 2005. Furthermore, in numerical terms, the net gain in employment of 6,460 jobs represented the largest quarterly increase since Q2 1997. The latest quarterly rise in employment in Q3 2014 represented the 11th successive quarter of employment gains. During this period from Q4 2011 to Q3 2014 there has a net gain in employment of 28,880 jobs. This means almost 70% of the jobs lost during the downturn (41,780 jobs) have been recouped. There are now more people employed in the services industry (591,800) than there were at the pre-recession peak (584,500) in Q2 2008. Conversely, employment within the construction sector, although increasing by over 1,000 in Q3, remains some 36% below its pre-recession peak in Q4 2007. The surge in employment in the last quarter has been due to gains within the private sector (+6,090 jobs). Indeed, the last time the private sector posted gains of this magnitude was back in Q2 1997. Over the year to Q3 2014, private sector employment has increased by over 17,000 jobs. This represents an increase of 3.5%. However, part of this rise is due to Royal Mail jobs moving from the public sector to the private sector. This is estimated to account for around 2,500 - 3,000 jobs. Nevertheless, even if these jobs are ignored, private sector employment has increased by around 14,000 jobs or +2.9% y/y. This still represents the largest job gains and fastest rate of private sector employment growth since Q2 2008. The reclassification of Royal Mail from the public to the private sector appears to largely explain the 3,030 public sector job losses between Q3 2013 and Q3 2014.



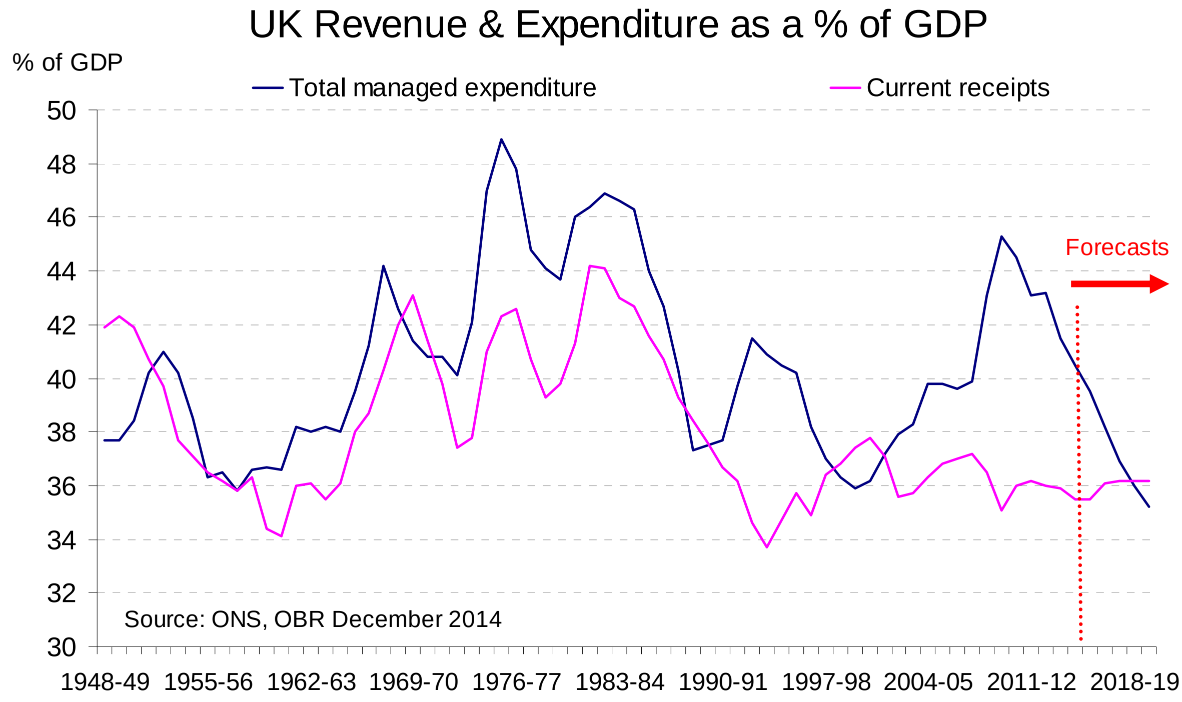
UK consumer price inflation eases to a 12-year low

UK consumer prices increased by just 1.0% year-on-year in November which was the lowest annual rate of inflation since September 2002. The plunge in the oil price is a key factor behind the weaker than expected rate of inflation. However, the lack of inflationary pressures is broad based. Meanwhile food prices fell last month at their fastest rate in twelve-and-a-half years and have fallen by almost 3% since February. It is noted that the overall level of UK food prices fell to a 2-year low in November. Given that the sharp falls in oil prices that have occurred this month have yet to feed into consumer prices, a further decline in the rate of inflation is anticipated in December. The price of a barrel of Brent crude oil averaged $70 per barrel in November and $64pb so far in December. Governor Mark Carney will start the New Year penning his first *'Dear Chancellor Letter'* explaining why the annual rate of CPI inflation has deviated more than one percentage point away from the Monetary Policy Committee's (MPC's) 2% target. Consumer price inflation is expected to average around 0.6% in 2015. This would represent the lowest annual rate of inflation since the CPI series began in 1989 and makes the prospect of a 1% pay rise for many in the public sector more palatable than otherwise would have been the case. Given this inflationary outlook the Bank of England is not expected to raise interest rates until 2016 at the earliest.



UK public expenditure as a share of GDP set to hit its lowest level since 1948

The UK has experienced a 'tax light recovery' and this trend is set to persist with the Office for Budget Responsibility (OBR) slashing its tax revenue forecasts going forward. UK growth forecasts beyond 2015 have been lowered too. As a result, the UK has continued to borrow heavily, with some £91 billion required for the current year alone. Whilst borrowing is set to fall, with a surplus between revenue and expenditure finally arriving in 2018/19, this is only possible due to even more public expenditure cuts. These public expenditure cuts, as yet unspecified, are on top of existing cuts yet to take effect. The OBR notes that we are now in the fifth year of a 10-year fiscal consolidation. Furthermore, 60% of the planned cuts in public expenditure are still to take place in the next Parliament. Delivering these cuts will be a tough challenge both politically and administratively. It is noted that total public spending as a share of UK GDP is set to fall to a level not seen since the data began in 1948! This raises question-marks over the fiscal credibility of the current Chancellor (if not his credibility for political presentation).



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29th December 2014

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