

Northern Ireland Private Sector Output Q3 2011

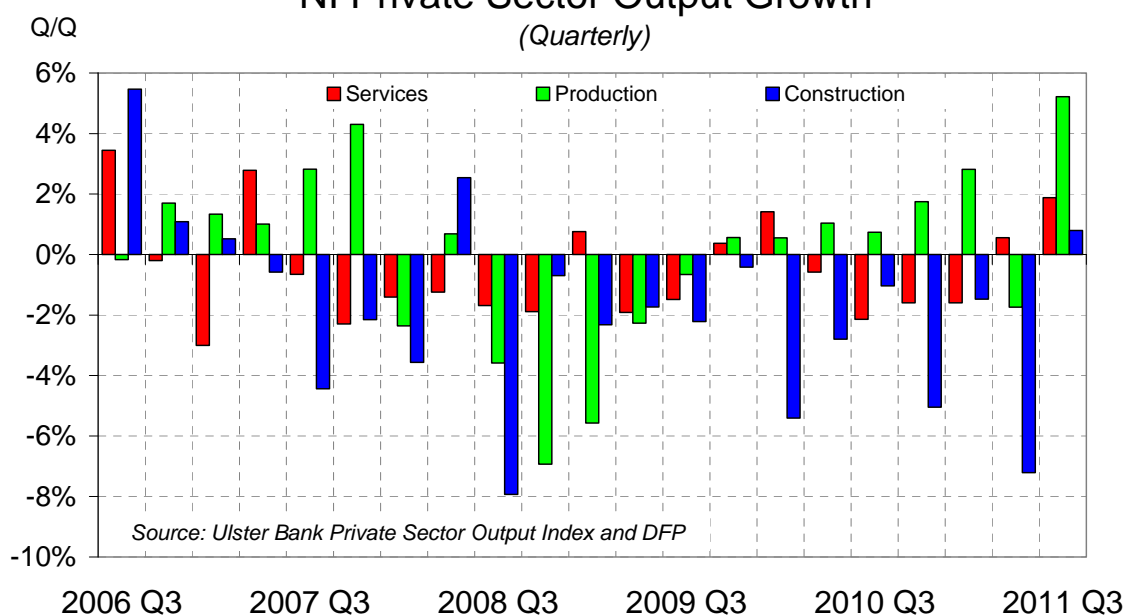
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Services, Production & Construction sectors all post growth in Q3 2011

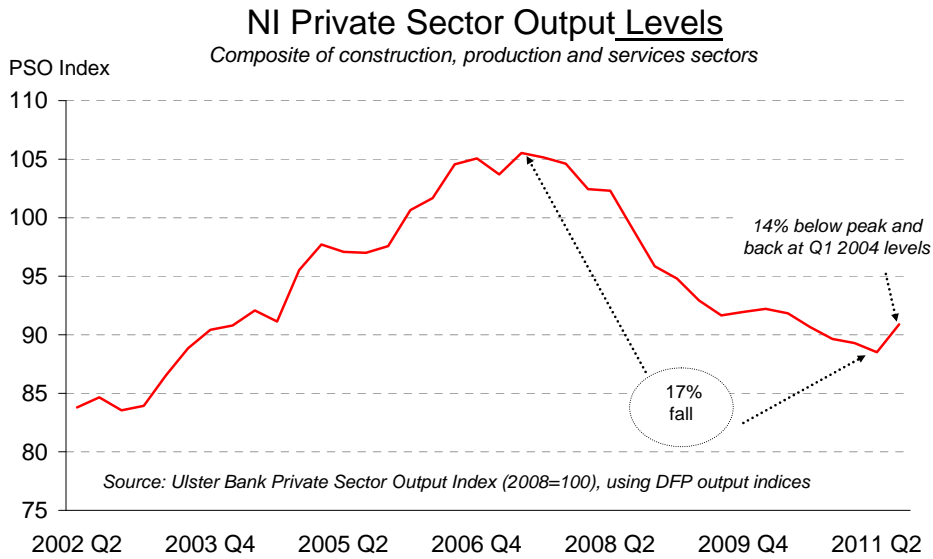
Last week saw the release of the latest official Northern Ireland output figures for private sector services, the construction and production (*mostly manufacturing*) industries for the third quarter (Q3) of 2011. These three separate surveys are produced by the Department of Finance & Personnel and are ultimately used in calculating Northern Ireland's overall annual economic output – Gross Value Added (GVA). The latest figures represented the first time since 2006 Q1 (22 quarters) that all three sectors recorded growth at the same time. Furthermore, all three sectors posted stronger rates of growth than the UK as a whole. Provisional results from the Index of Services signaled that output rose by 1.9% q/q in real terms in Q3 2011, which compared with a 0.7% rise for the UK. For Northern Ireland, the Q3 outturn marked the second quarterly rise in services output following four quarters of decline and represented the fastest rate of growth since Q2 2007. Meanwhile, industrial production output expanded at a record pace in Q3 2011, up 5.2% q/q as opposed to a 0.1% rise for the UK as a whole. Within industrial production, manufacturing output remained flat in Q3 for the UK whilst Northern Ireland manufacturers posted a 5.7% quarterly (*and record*) rise. Finally, Northern Ireland's construction sector posted its first rise in output in thirteen quarters in Q3 2011 with a 0.8% q/q increase. The latter compared with a 0.3% q/q rise in output for the UK construction output. However, these surveys are provisional and prone to significant revisions when a more complete data set becomes available. Both past experience, and comparison with other surveys such as the Northern Ireland Purchasing Managers' Index (PMI), suggests significant downward revisions can be expected in due course.

NI Private Sector Output Growth (Quarterly)


Northern Ireland Private Sector Output increased by 2.7% in Q3 2011

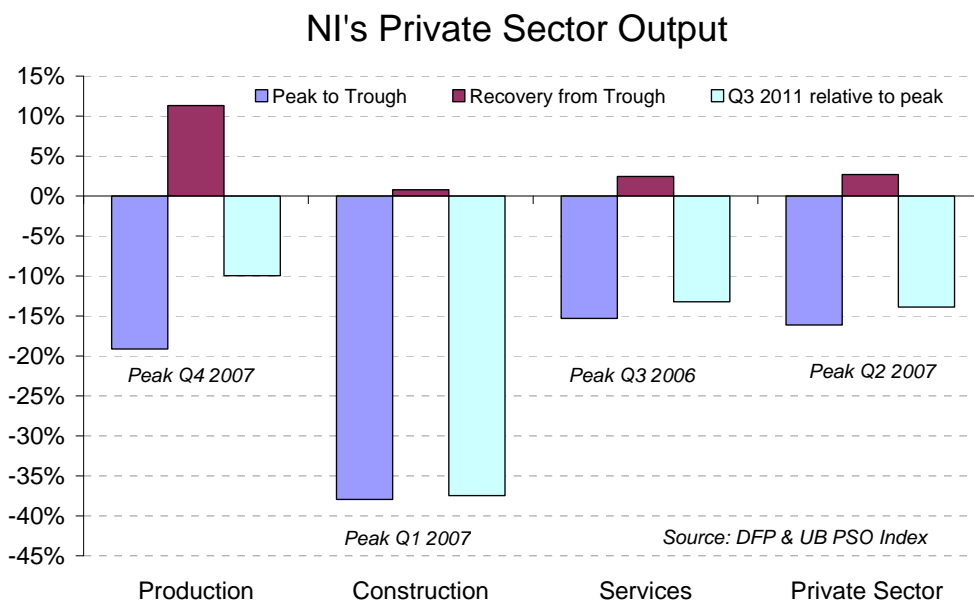
In the absence of quarterly GDP figures, which are not available for Northern Ireland, the three aforementioned surveys can be compiled into a single composite index to provide a useful estimate for local private sector output. This Ulster Bank composite index excludes agriculture and the public sector. An official composite index, compiled by the Department of Finance and Personnel, is expected to be released later this year, incorporating all sectors (*public & private*) within the local economy. According to the latest estimates, Northern Ireland's private sector output increased by 2.7% in Q3 2011 and represents only the third quarterly rise in output since Q2 2007 (17 quarters). In addition, the Q3 outturn represents the fastest rate of growth since Q3 2006. Irrespective of whether these growth rates are revised down in due course (*as we expect*) it is

important to consider the level of output as opposed to growth. Private sector output remains almost 14% below its Q2 2007 peak and is back at Q1 2004 levels.



Manufacturing rebound evident, but services and construction seeing no meaningful recovery

Both the scale of the recession and subsequent recovery have been sector specific. For example, industrial production output fell 19% from its pre-downturn peak (Q4 2007) to a trough in Q3 2009. Since then, however, industrial production has risen in seven of the last eight quarters. Cumulatively output has increased by 11% with the sector recouping almost half of the output it lost during the recession. Meanwhile, the construction and services sectors remain even further adrift from their pre-downturn peaks with no meaningful recovery yet taking hold. Private sector services output decreased by over 15% between Q3 2006 and Q1 2011. Subsequently, services output has rebounded by just 2.4%. As a result less than 1/7th of the output lost during the recession has been recovered. The peak to trough declines in output, and lack of a recovery, is even more stark within the construction sector. Northern Ireland’s construction output remains almost 38% below its Q1 2007 peak.



Richard Ramsey,
24th January 2012

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