Outlining the research agenda

NICEP exists as a research centre to help Northern Ireland achieve its economic ambitions and therefore it is important that its research agenda is focused on the strategic economic priorities of the Northern Ireland economy. In developing a suitable research agenda, it is essential to listen to Government, business and consumer needs. However it is also important to ask the questions which may not be obvious in the prepared agenda, to design operational deadlines and immediate political imperatives.

It is against this backdrop, and as indicated previously in this edition, that the NICEP Core Model is being developed to provide the framework and empirical tool to explore policy options and measure impacts. These will align with on-going Government research activities including the development of Input Output tables for Northern Ireland. Such research will also be used to highlight impacts relevant to the NICEP support group as well as the wider Northern Ireland economy.

For example, a set of business metrics will be identified for the sectoral forecasts, including skills requirements, energy needs, land use and transport flows.

In addition, a strand of strategically relevant commercial consultancy will complete the research agenda.

First Steps to recovery

There is little doubt that economic recovery is underway in Northern Ireland. A range of supportive economic indicators point to a fall in unemployment, in retail sales and in house prices. However, some commentators argue that the recovery is fragile and short-term in nature, and that a return to long term growth can only be achieved with a significant degree of sustained government action.

The preliminary forecast from the NICEP Northern Ireland model suggests modest growth of 0.5% in 2013 and 1.5% in 2014. This equates to approximately 8,000 new jobs and just over £155bn of extra spending by the end of 2014. However, this is an optimistic view. The models suggest that ongoing austerity, which is set to increase in the early years of the current Parliament, is not sufficient to restore long term growth to sustainable levels. However, the future prospects of the Northern Ireland economy are also dependent on a number of factors that are not under the control of Government, such as the outcome of negotiations in the UK Parliament and the likelihood of a return to normal levels of consumer and business confidence.

About NICEP

NICEP is an independent economic research centre focused on producing evidence based research to inform policy development and implementation.

NICEP is committed to ensuring that all organisations that have an interest in enhancing the Northern Ireland economy. The Centre’s work is relevant to Government, business and the wider general public with the aim of engaging those who may previously have been disengaged from the economic debate. The NICEP Centre equips students with practical skills required in the workplace, which complements the existing provision of economic teaching at the University of Ulster.

NICEP is an independent research unit and the views expressed are solely its own.

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Key forecasts

United Kingdom

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</thead>
<tbody>
<tr>
<td>Key indicators</td>
<td>2013</td>
<td>2014</td>
<td>2015</td>
<td>2016-2017</td>
</tr>
<tr>
<td>House prices (2014=100)</td>
<td>123.0</td>
<td>124.5</td>
<td>126.0</td>
<td>127.5</td>
</tr>
<tr>
<td>Unemployment</td>
<td>1.6%</td>
<td>1.5%</td>
<td>1.4%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Inflation</td>
<td>-0.5%</td>
<td>-0.5%</td>
<td>-0.5%</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Base rates</td>
<td>0.5%</td>
<td>0.5%</td>
<td>0.5%</td>
<td>0.5%</td>
</tr>
<tr>
<td>World trade</td>
<td>1.6%</td>
<td>1.5%</td>
<td>1.4%</td>
<td>1.3%</td>
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Note 1: House prices in the table above are adjusted to account for the effects of inflation.

Note 2: The NICEP model suggests that ongoing austerity, which is set to increase in the early years of the current Parliament, is not sufficient to restore long term growth to sustainable levels. However, the future prospects of the Northern Ireland economy are also dependent on a number of factors that are not under the control of Government, such as the outcome of negotiations in the UK Parliament and the likelihood of a return to normal levels of consumer and business confidence.

Nurturing recovery but recognising risks

Focusing on the longer term, NICEP’s research indicates that a recovery failing to gather pace over the medium term is at odds with most published forecasts and this is discussed in greater detail later in this report.

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GDP/ GVA is the aggregate expenditure of 4 broad Domestic Product (GDP) and Gross Value Added (GVA).

Understanding growth

With the private sector expected to lead the economic recovery we look at the issues businesses are consistently raising and explore the extent to which policy could align with these needs. We also explain NICEP’s approach to determining its research agenda.

The macro forecast and sectoral outlook: Northern Ireland

The NICEP Core Model will be built using the new UK macro model to simulate economic variables such as ‘trend growth’ and also considers the financial structure, but this requires the capture and creation of a number of new data series.

Developing the NICEP Core Model

A full sector forecast model has not yet been fully developed at a regional level (i.e. for NI), largely because the required data is not yet available. A major component of the NICEP research agenda is to build a model in this structure, but this requires the capture and creation of a number of new data series.

The NICEP Core Model will be built using the new UK macro model being developed by the National Institute for Economic and Social Research (NIESR). This model is not subject to artificial constraints such as a balanced budget, and also allows the financial sector as a separate component within the economy. It also provides a better ‘baseline’ of key economic equations developed using economic data from different sectors, which would be used if there had already been accurate recovery. The 2008 - 2013 economic recession, conditional on limiting the paths of budget trade and mortgage lending to Northern Ireland. The resultant results from the model suggest it is capable of making such a conditional forecast. Further information will be made available over the next twelve months, but this will require a substantial policy debate in the community as part of the development process.

Aligning policy to business

It is generally accepted that policy within different economic contexts, the policy landscape in Northern Ireland remains largely unchanged, and this has been evident in its 30-year run. The only question outstanding therefore was, how can we explain this? The consensus view was that economic recovery would be led by a rapid increase in consumption, with relatively large corporate savings (i.e. significant levels of cash holdings). Clearly this has not happened because of the large macroeconomic pressure on both their domestic and export markets. Therefore it is likely to develop a longer term forecast of economic growth will be dependent upon the behaviour of each of the four components.

The forecasts suggest that relative productivity will begin to fall back as a less favourable sectoral composition of new jobs over the next few years. The current labour market position is difficult to ascertain. The Annual Population Survey suggests there has been improvement in the relative position of Northern Ireland with the region being only four percentage points behind the UK average. In stark contrast, NI unemployment is 1.9% higher than the UK average and the number of registered unemployed people is higher than the UK average. Northern Ireland is amongst the highest levels of unemployment and the numbers of long-term unemployed is well above the national average. The NICEP North report highlights that there is a high proportion of long-term unemployed graduates, which could have implications for future economic growth and sustainability.

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In simple terms, most economic ambitions are focused on increasing productivity and employment. Over the past decade or so, of these targets has been achieved. Focusing on productivity alone would not have generated enough growth and fiscal discipline currently planned in the early years of the medium term. Finally it is worth highlighting that our forecast points to lower interest rates, our forecast points to lower fiscal constraint currently planned in the early years of the medium term.