UUEPC OUTLOOK

July 2025

Ulster University

Uncertainty Casts a Shadow Over Growth

Business confidence has declined in recent months in the face of considerable domestic and global pressures. Domestically, businesses have experienced rising labour costs, driven by increases in the Living Wage and National Insurance Contributions, alongside broader wage inflation. This has been exacerbated by US trade tariffs and associated trade policy uncertainty, alongside heightened geo-political tensions in Eastern Europe and the Middle East. Collectively, these national and global economic headwinds have local economic spillover effects. This is reflected in a weakening labour market, characterised by stalling employment growth.

Inflation also remains stubbornly above the Bank of England's 2% target, caused by a range of factors including higher energy prices. This has slowed the pace of interest rate reductions as reflected by the Bank's last interest rate decision, but further cuts are expected later in the year as we move towards a 'new normal' long term base rate of approximately 3.5%.

Against this backdrop, economic growth is forecast to remain low this year before picking up slowly in 2026 and beyond. Although much of the media focus has been on the economically damaging tax rises announced by the Chancellor in the Autumn Budget, the increase in spending, and in particular capital spending, should support economic growth at least into the medium term. After minimal productivity growth in the past two years, economic growth is also supported by an improvement in productivity, although the rate of improvement remains modest.

Key Forecasts

Northern Ireland (NI)	2025	2026	2027	2028	2029
GVA(1) Growth Rate	1.3%	1.6%	1.5%	1.4%	1.5%
Jobs Growth	0.7%	0.5%	0.4%	0.3%	0.4%
Productivity(2)	0.6%	1.1%	1.1%	1.1%	1.1%
Unemployment Rate(3)	1.8%	1.8%	1.7%	1.7%	1.7%
United Kingdom (UK)					
GVA(1) Growth Rate	1.0%	1.5%	1.4%	1.4%	1.6%
Jobs Growth	-0.1%	0.6%	0.3%	0.3%	0.5%
Macro-economic Variables					
Interest rates (end of year)	4.00%	3.75%	3.50%	3.50%	3.50%
Inflation(4) (end of year)	3.1%	1.9%	2.0%	2.0%	2.0%

Source: UUEPC, OBR

Note 1: Gross Value Added (GVA) is the preferred measure of economic inactivity. It is similar to Gross Domestic Product (GDP) but excludes the impact of taxes and subsidies (most notably VAT).
Notes 2: Productivity measured as GVA per worker
Note 3: ILO unemployment rate (16-64)
Note 4: OBR

Sectoral Forecasts

Manufacturing

Ulster Bank's latest PMI [1] (data for June 2025) shows a month-on-month decline in Manufacturing business activity and new business. However, future activity expectations remain strong, illustrating the sector's resilience to rising input prices. Despite Q1 2025 data showing a 1.6% reduction in the NI Index of Production (IOP), primarily driven by a 2.7% decline in NI's Manufacturing sector output, Manufacturing output was up 2.1% over the past year.

NI's Manufacturing employment has displayed relative buoyancy, further illustrating the local sector's strength. Average total workforce jobs remained largely unchanged between 2023 and 2024, compared to a reduction of 7,000 at the UK level. Despite this, NI manufacturers are facing the highest costs in the UK [2], with 76% of turnover being absorbed by good and materials purchases.

With NI manufacturers also exhibiting relatively low productivity levels, there is a pressing need for capital investment.

Construction

Long-term government strategies such as the Department for Communities' Housing Supply Strategy provide stability, raising expectations that the Construction sector's recent growth will continue.

At the UK level, the government's £39bn commitment to tackle the housing crisis represents a sizeable investment, driving demand upwards in the Construction sector, a sentiment similarly felt in NI. Growth in new work on housing, both public and private, exceeded 20% in the year to Q4 2024, providing hope that the Executive's target of delivering 5,850 new build social homes by 2027 will be met.

Construction, alongside Manufacturing and Services, posted an increase in month-on-month employment in Ulster Bank's June PMI. Additionally, the business activity index was higher for the second successive month, supporting the potential that progressive increases in Construction output across 2024 will continue.

Private Sector Services

New orders in the private sector are continuing to decline amidst a backdrop of economic uncertainty and rising prices. April's rise in the National Living Wage, the increase in employer National Insurance Contributions from 13.8% to 15.0% and the stubbornly high rate of inflation, which rose unexpectedly in June, are all factors which point to rising firm costs. Despite this, increased employment levels suggest that firms maintain a degree of optimism for the future.

The NI Index of Services (IOS) exhibited little change in the first quarter of 2025 (up 0.1%), in contrast to the stronger growth at the UK level (up 0.7%).

Output in the Retail sector rose by 1.5% in Q1 2025 and by 6.2% over the past 12 months [3]. Footfall in Belfast City Centre was 4.8% higher in Q1 2025 compared to the same quarter in 2024 [4], with high demand and low vacancy levels for retail warehouse space illustrating the sector's strong start to the year.

Public Sector Services

The June Spending Review raised the level of funding for NI from £18.4 billion in 2025-26 to £19.8 billion in 2028-29 under the Barnett formula, with larger real term increases in capital spending (annual growth rate up 0.7%) compared to day-to-day spending (annual growth rate up 0.4%). By providing greater clarity of funding, the Spending Review enables the NI Executive to take a longer-term strategic approach to funding public services. The Programme for Government published in March set out a range of immediate priorities, including improving the healthcare system and increasing the supply of social, affordable and sustainable housing.

NI is also set to benefit from a number of specific funding grants, allocated irrespective of the Barnett formula. Notably, £185m over 3 years is earmarked for public service transformation.

Sectoral Employment Actual and UUEPC Forecast (000's)

Industry	2014-2024	2024-34 (Baseline)	2024-34 (Upper)
Agriculture	8.5	0.2	0.3
Mining	0.5	0.0	0.0
Manufacturing	13.0	4.1	7.4
Utilities	1.1	0.7	1.2
Water & Waste	2.6	1.0	1.5
Construction	6.7	7.5	11.0
Retail	7.2	-1.8	-0.1
Transport & Storage	5.8	3.4	4.9
Hospitality	14.0	5.4	8.2
Info' & Communication	9.8	7.3	10.1
Financial Services	0.3	0.6	0.9
Real Estate	2.3	0.0	0.6
Professional & Scientific	19.7	7.4	9.9
Administration Services	4.3	2.1	2.9
Public Admin' & Defence	4.9	0.6	1.2
Education	12.9	0.3	1.4
Health & Social Work	19.3	10.5	13.0
Arts & Entertainment	0.2	0.6	1.5
Other Services	3.8	0.6	1.9
Total	**109.1**	**50.6**	**78.1**

Forecasting

UUEPC's inhouse economic forecasting model is used to produce two economic scenarios (Baseline and Upper) for the NI economy across a range of indicators.

Under the Baseline, the NI employment rate rises over the forecast period but remains below the current UK rate.

The Upper scenario forecasts a higher, more aspirational employment rate for Northern Ireland, which factors in policy success in achieving a substantially lower inactivity rate.

[1] Ulster Bank (2025): Ulster Bank Northern Ireland PMI
[2] Manufacturing NI (2025): Manufacturing and the Northern Ireland Economy
[3] Department for the Economy (2025): Northern Ireland Economic Output Statistics
[4] CBRE NI (2025): Quarterly Research Report Q1 2025

Capital Investment Focus

Weak capital investment leads to lower productivity

Capital investment is essential for economic growth and productivity. Decomposing labour productivity data into underlying components highlights the extent to which sustained subdued capital investment has hindered UK labour productivity growth. The contribution of capital deepening (i.e. the amount of capital per unit of labour) to productivity has deteriorated over time (Figure 1).

The Global Financial Crisis had an acute negative impact on capital investment due to weak demand and heightened uncertainty. Following a period of short-term cyclical effects, capital deepening made only a modest contribution to annual UK labour productivity growth over the course of the 2010s. While investment levels improved somewhat during the second half of the 2010s, robust job growth largely offset the productivity enhancing benefits of this investment; the rise in investment was insufficient to significantly raise capital per worker.

The decomposition of UK labour productivity also shows that the contribution of the Multi-Factor Productivity (MFP) component has declined. MFP is closely tied to the creation/integration of new technologies and more efficient business processes. The slowdown in the UK's MFP may be partly due to lower levels of capital investment, particularly assets linked to knowledge and learning, such as R&D and training and development. This could be holding back the dissemination of new ideas, the ability to integrate them into new or existing processes alongside the benefits of new technologies.

Business Investment in NI

While NI has seen above-average growth in investment over recent decades, relative to the UK, this has not translated into proportional productivity gains. Indeed, NI is still catching up in terms of investment, while the UK itself lags G7 peers, with business investment on a long-term downward trend as a share of GDP.

Recent UUEPC research[5] has shown that at the firm level, investment decisions are influenced by expected profits, economic conditions and financing availability. Recent economic shocks including Brexit and the Covid-19 pandemic have had a negative impact on investment. More recently, rising employment costs due to policy changes on National Insurance Contributions and the National Living Wage have also been identified as limiting the scale of investment while the continued uncertainty around global trading conditions is further inducing caution on investment decisions.

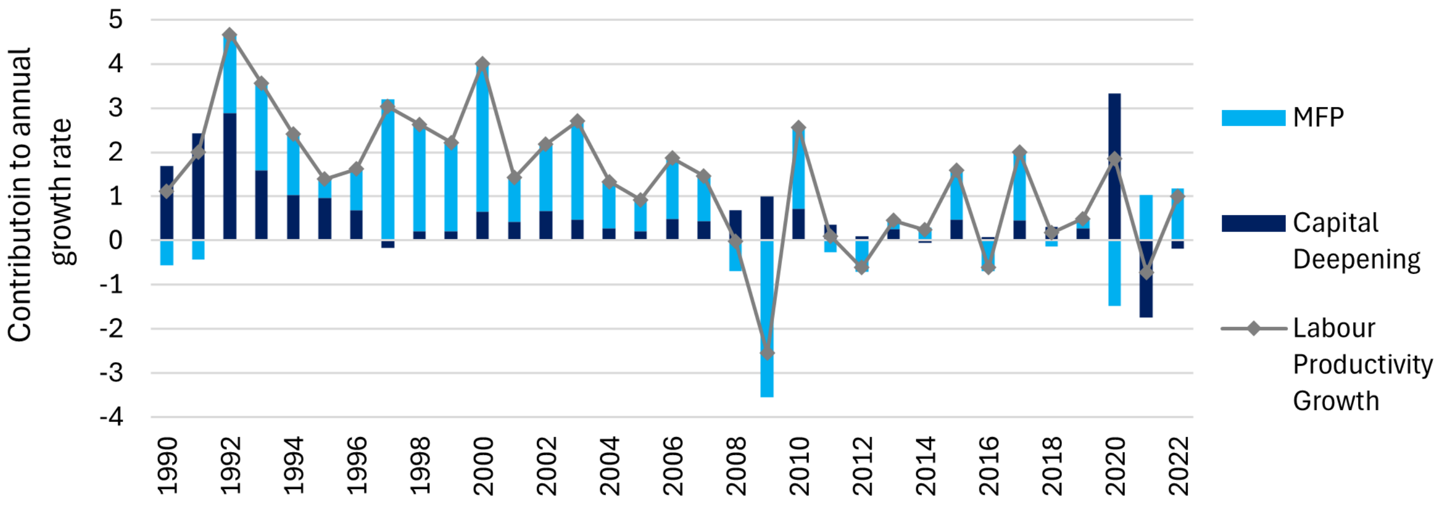
The preference of most business leaders to fund investment through internal sources rather than external borrowing is explained by information asymmetry and risk aversion. However, this preference can lead to underinvestment due to the inability to self-fund, or to self-fund at a constrained level, leading to missed growth opportunities. Survey evidence also shows that most SMEs in NI would accept a slower rate of growth rather than borrowing to grow faster. Furthermore, uptake of private equity and venture capital remains minimal and concentrated in specific sectors.

There are no significant differences in the financial health of NI firms relative to those elsewhere in the UK within the same sectors, therefore lower rates of investment in NI may reflect greater risk aversion and more limited awareness of finance options which is constraining firms' potential.

Where businesses have invested, it has been largely for replacement or efficiency reasons and more heavily focused on capital assets, with lower technology investment. However, the rapid pace of technology change and the higher cost of labour may prompt a shift to investment in digitalisation and automation in the coming years. Addressing financial literacy, access to finance, and ensuring access to innovation and productivity support are key to supporting this and unlocking further growth and competitiveness.

[5] Bonner et al. (2025): Business Investment in NI

Figure 1: Contribution of Capital Deepening and MFP to UK Labour Productivity Growth



Source: OECD Productivity Indicators

Implications of Rising Protectionism

Over the last 80 years there has been a concerted global effort to reduce barriers to trade, with the US playing a fundamental role in promoting open trade. The first Trump administration reversed the trend towards more liberalised trade through increasing tariffs on a limited number of goods (solar panels, washing machines, steel and aluminum) in 2018, along with a wider range of goods from China. With the exception of European steel, these tariffs remained largely in place under the Biden administration.

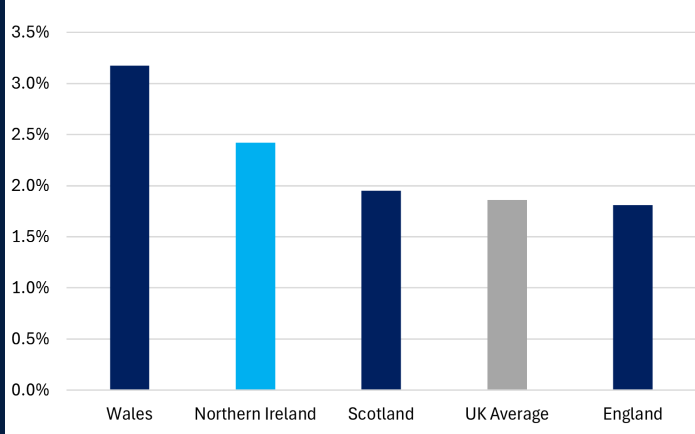
President Trump's second administration has significantly escalated the degree of tariff protectionism with a succession of announcements of wide ranging tariffs on most trading partners. The stated level of protection is ever-changing. At the time of writing, a baseline tariff of 10% applies to most goods sent to the US and a higher tax is imposed on some specific goods, including a 25% tax on cars/car parts and a 50% tariff on steel and aluminum. In addition, higher baseline tariffs are levied on imports from some countries, including 30% baseline tariffs applied to imports from China. An initial baseline tariff of 20% was proposed on imports from the EU, later reduced to 10% to allow time for trade negotiations, though was followed by a warning that rates could rise to 30% if talks failed to make sufficient progress. The 10% baseline tariff applies to most UK imports, but the UK has agreed a trade framework with lower tariffs compared to other trading countries for cars, steel and aluminum.

NI exposure to higher US tariffs

As part of the UK customs territory, exports from NI to the US are subject to the same 10% baseline tariff as the rest of the UK. The imposition of tariffs directly increases the costs of NI goods exported to the US, part or all of which may be passed on to US customers, reducing the competitiveness of NI exports compared to goods domestically produced in the US. However, NI's competitiveness relative to other trading partners may be enhanced if other countries are subject to higher US tariffs. The overall impact on NI export demand partly depends on US supply capacities in specific sectors and the impact of higher prices on US consumer demand.

The US is a key export destination, accounting for 16% of total NI goods exports in 2024. The relative contribution of the US market to the local economy is assessed through comparing regional exports to the US as a proportion of regional GDP across the UK. As shown in Figure 2, NI goods exports to the US accounted for 2.4% of GDP in 2023 [6], exceeding the UK average of 1.9%.

Figure 2: Goods Exports to the US as a share of GDP



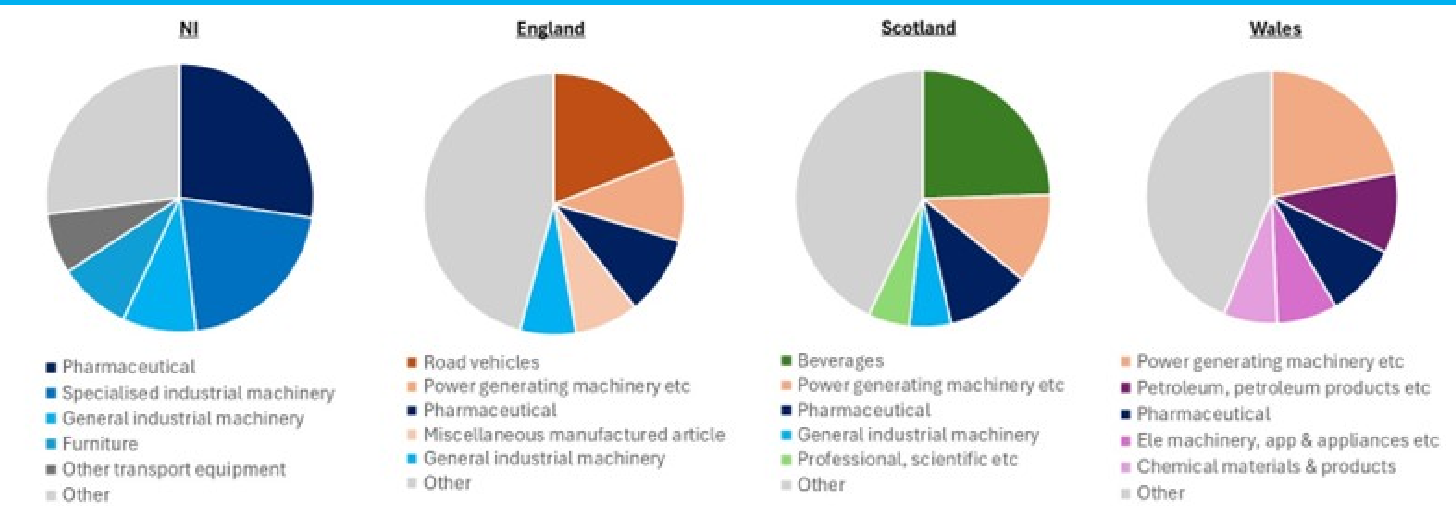
Source: HMRC and ONS

The importance of the US market varies across sectors (Figure 3). Pharmaceutical Products, Specialised Machinery and General Industrial Machinery account for a large proportion of NI exports, contributing 57% of total exports to the US in 2024.

Exports to the US are more evenly spread across the economy in England, Wales and Scotland, with the top three sectors respectively accounting for 39%, 42% and 46% of the region's total exports to the US. The Beverages sector is the most valuable sector in Scotland, partly reflecting the strong international brand reputation of Scottish whiskey. Exports of Road Vehicles and Power Generating Machinery make the largest contributions in England and Wales respectively.

[6] 2023 is the latest year for which regional GDP data is available

Figure 3: Regional exports of goods to the US by sub-sector



Source: HMRC

The exposure of the NI Pharmaceutical and Machinery sectors to the imposition of US tariffs is further highlighted by recent modelling analysis undertaken by the Department for Economy of the direct impacts of US tariffs, which showed that these sectors suffered the largest fall in output in response to a blanket 10% tariff across all sectors [7]. The overall modelled impact of a blanket 10% tariff on the NI economy is relatively modest, estimated at a 0.2% decline in GDP.

Wider spillover effects

In addition to the above direct effects, the demand for NI goods may be influenced by spillover effects due to slower national and global economic growth arising from the negative impact of US tariffs on trading partners. The open nature of the UK economy means that it is particularly susceptible to global slowdown effects. US demand for imports may also be adversely affected by lower household disposable income arising from increased import costs.

The uncertainty created by the disorderly nature of the tariff announcements is also likely to exacerbate the negative impact on economic growth delaying planning and investment decisions. Further secondary effects may also emerge due to the knock-on impact of tariffs on oil prices, exchange rates, inflation and by extension interest rates.

Using outputs from a range of modelling systems, the Office of Budget Responsibility (OBR) illustrated the possible impact of these wider effects on the UK economy through multiple scenarios that capture the impact of increasing levels of tariff protection [8].

OBR Tariff Scenarios

Scenario 1: US increases tariffs on imports from China, Canada and Mexico by 20%, with these countries retaliating with equivalent tariffs.

Scenario 2: US increases tariffs on all trading partners by 20%. Only China, Canada and Mexico retaliate with equivalent tariffs.

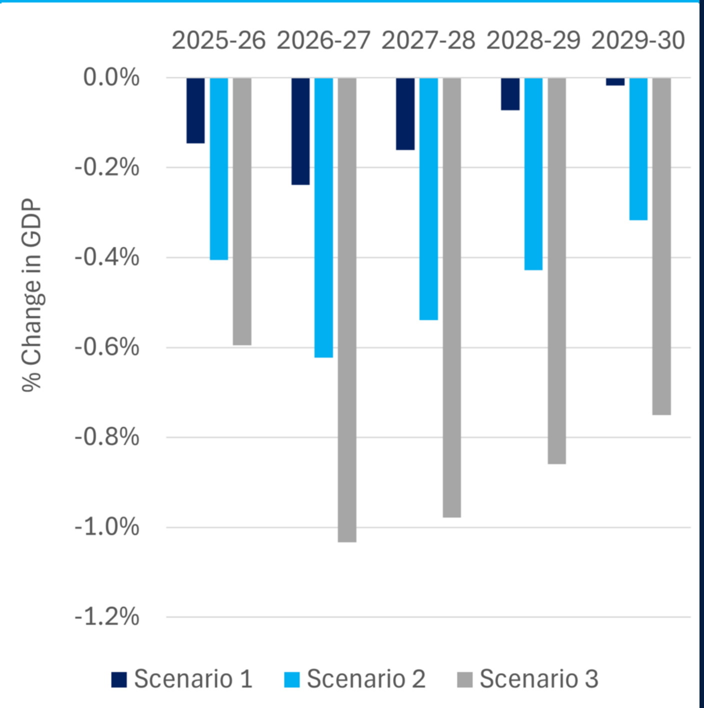
Scenario 3: US increases tariffs on all trading partners, including the UK, by 20%. All countries retaliate by imposing equivalent tariffs on US imports.

The analysis highlights that the imposition of tariffs on a select number of countries under Scenario 1 has a modest knock on impact on the UK economy in the short term (Figure 4). The impact dissipates over time, partly in response to an improvement in the relative competitiveness of UK exports compared to the countries subjected to higher tariffs. The application of sweeping tariffs on all trading partners, including the UK, under Scenario 2 has larger and longer term effects due to reduced US demand for UK exports and a slowdown in the global economy. The most pronounced negative impact arises in 2026-27, with UK GDP being 0.6% lower than would otherwise be the case.

The escalation of protectionism under Scenario 3 leads to a substantial global slowdown, with knock-on impacts on the UK economy. The impact is most marked in the short term but continues to have a large negative impact on UK GDP (down 0.75%) in the medium term.

[7] Department for the Economy NI (2025). The Direct Economic Impact of the New USA Tariff Regime on the Local Economy
[8] Office for Budget Responsibility (2025). Economic and fiscal outlook. OBR

Figure 4: Impact of different levels of tariff protection on UK GDP



Source: OBR
* Scenarios successively capture total impacts, i.e. Scenario 2 incorporates tariff changes under Scenario 1, while Scenario 3 incorporates tariff changes under Scenario 2.

The evaluated adverse impact of changes in US tariff policy on economic growth is also evident from forecasts provided by other institutions. As part of its June Outlook [9,10], the OECD lowered projected UK GDP growth by 0.4% for 2025 and 0.3% for 2026 compared to December projections based on tariff policies in place in mid-May. Similarly, recent IMF forecasts downgraded UK GDP growth by 0.3% in 2026 to account for the impacts of changes in trade barriers [11].

Challenging and uncertain environment

Amid growing geo political uncertainty, one certainty remains - tariff policies are poised to change further. Temporary pauses have been established on the high tariffs that were originally announced to create space for trade negotiations. While these talks could result in further tariff reductions, the US administration has warned it may raise tariffs again if progress stalls. Meanwhile, there is also the risk that trading partners may retaliate with their own tariffs, leading to an escalation in global trade barriers. Even if the UK chooses not to retaliate, escalation elsewhere could still impact the NI economy through spillover effects.

In the context of continued global trade uncertainty, the recently agreed UK-US trade framework offers a measure of reassurance regarding the stability of future trade relations between the two nations. Notably, the UK-US framework includes an outline of a commitment to negotiate preferential terms should the US introduce new tariffs on pharmaceutical imports. Given the strategic importance of pharmaceutical exports from Northern Ireland to the US market, it is imperative that trade barriers in this sector are minimised to safeguard continued market access.

[9] OECD (2025). OECD Economic Outlook. OECD report, published June 2025
[10] Takes into account tariff rates in place mid May, including the UK agreement with the US
[11] IMF (2025). United Kingdom: Staff Concluding Statement of the 2025 Article IV Mission. IMF Mission Concluding Statement, published May 2025

About UUEPC

UUEPC is an independent economic research centre focused on producing evidence-based research to inform policy development and implementation. It engages with all organisations that have an interest in enhancing the Northern Ireland economy. The UUEPC's work is relevant to government, business and the wider public with the aim of engaging those who may previously have been disengaged from economic debate.

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