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# **Economic Strategy**

## **Rebuilding and Rebalancing the Economy: An Evidence Base**

**March 2012**

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**A** Innovation and R&D

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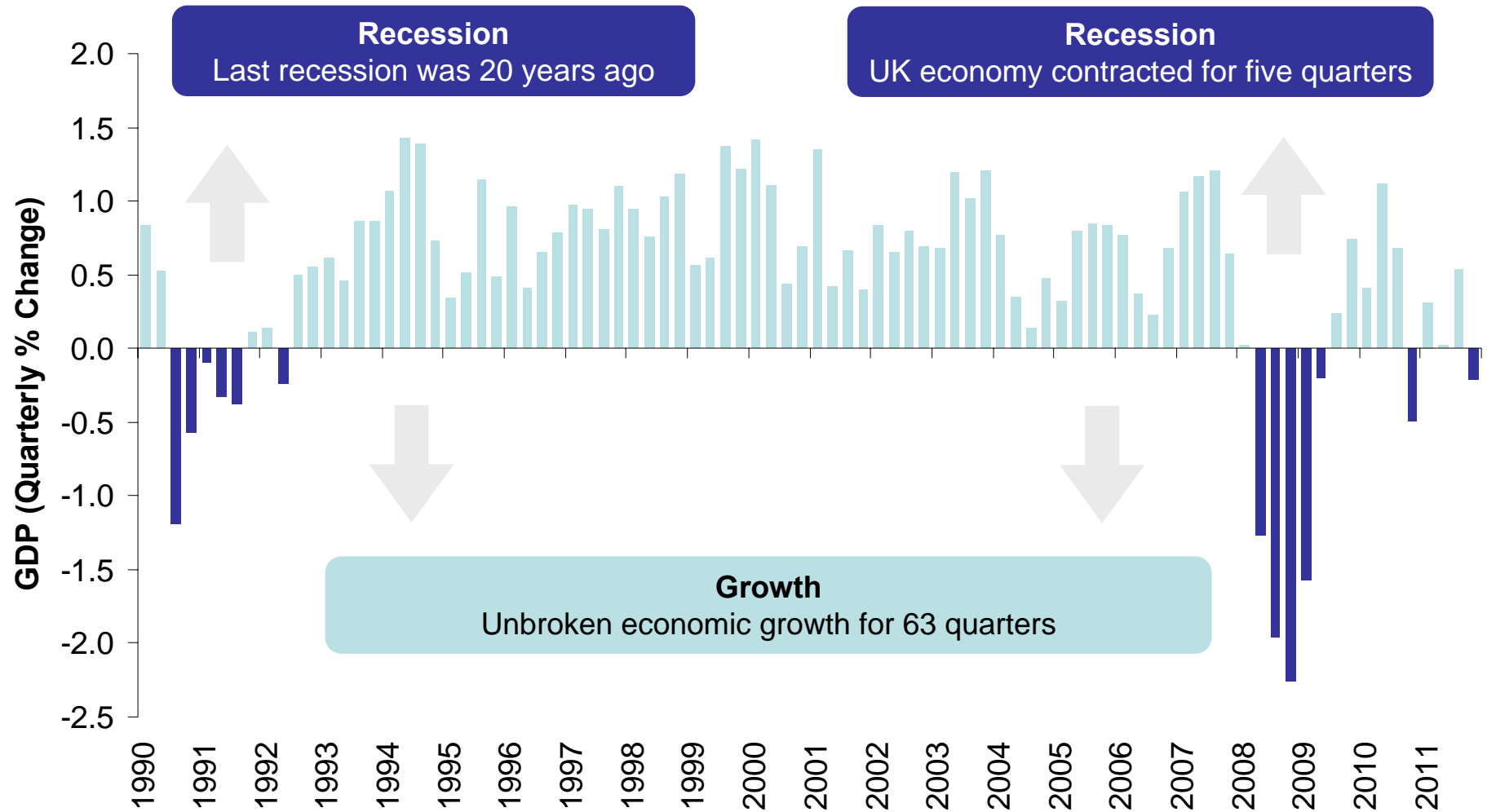
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**1**

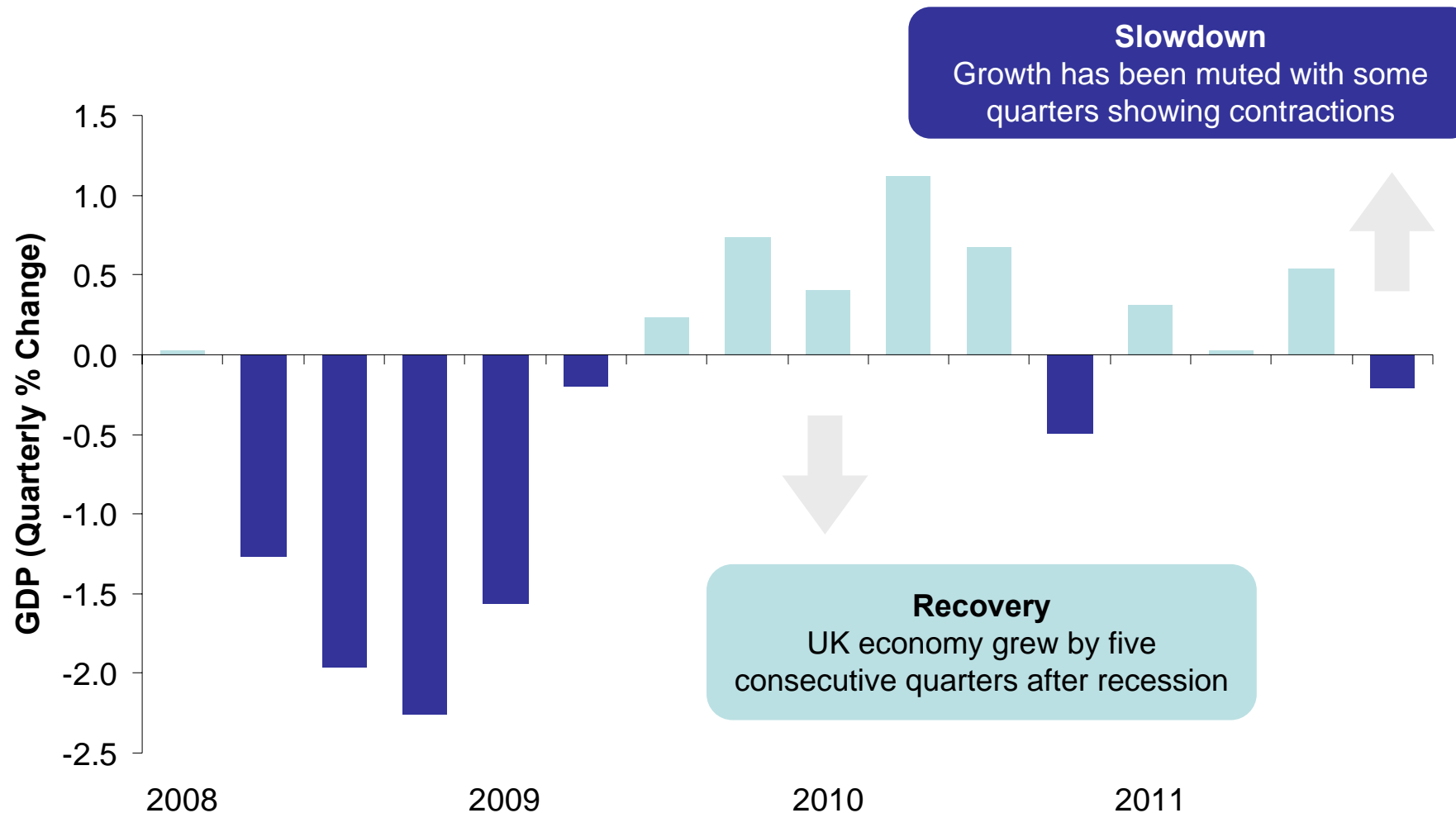
**Rebuilding the  
Economy**

# The UK economy has emerged from its longest recession since records began...



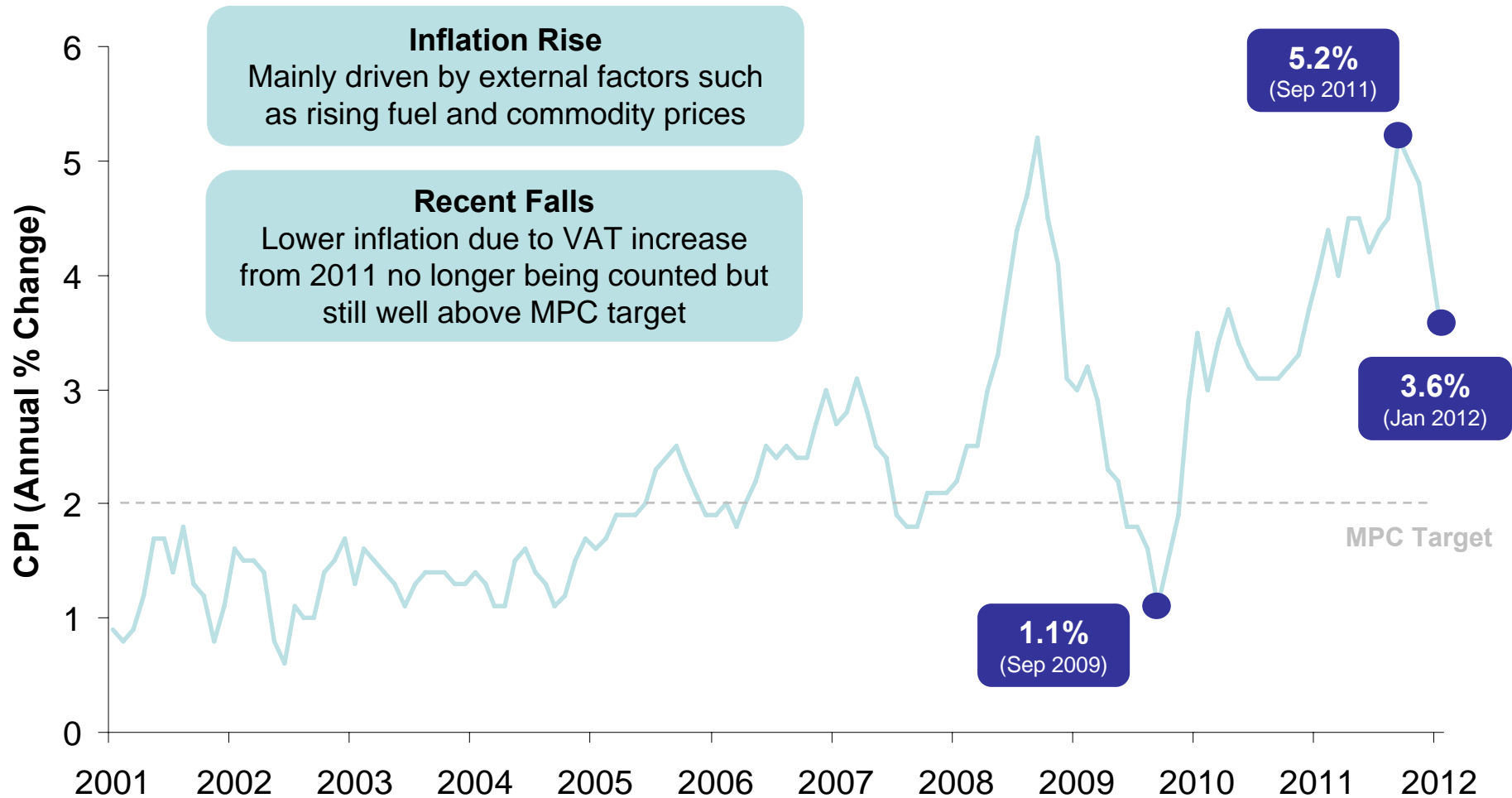
Source: ONS Estimate of GDP

## ...but there has been a slow recovery...



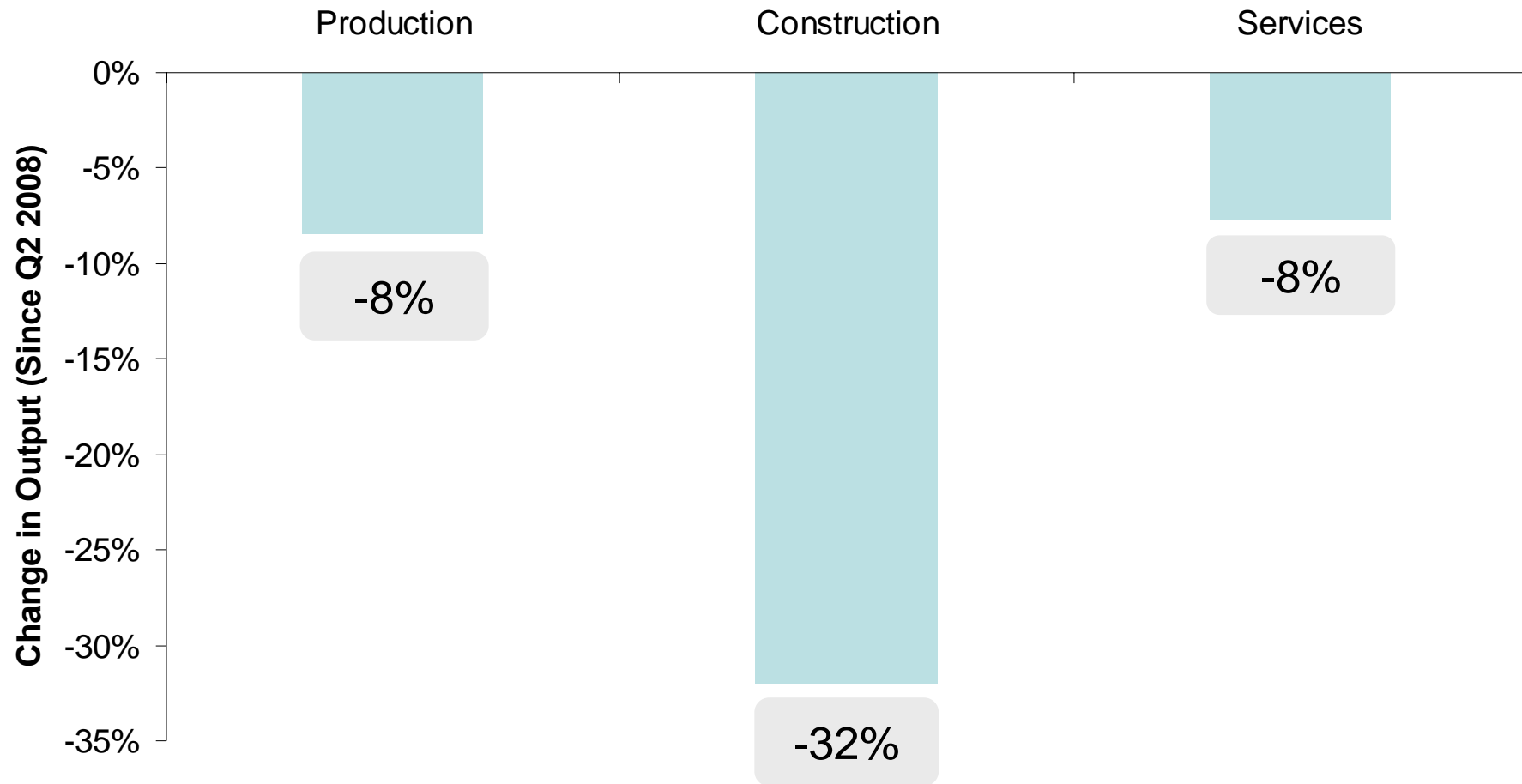
Source: ONS Estimate of GDP

## ...with high inflation impacting on consumer spending



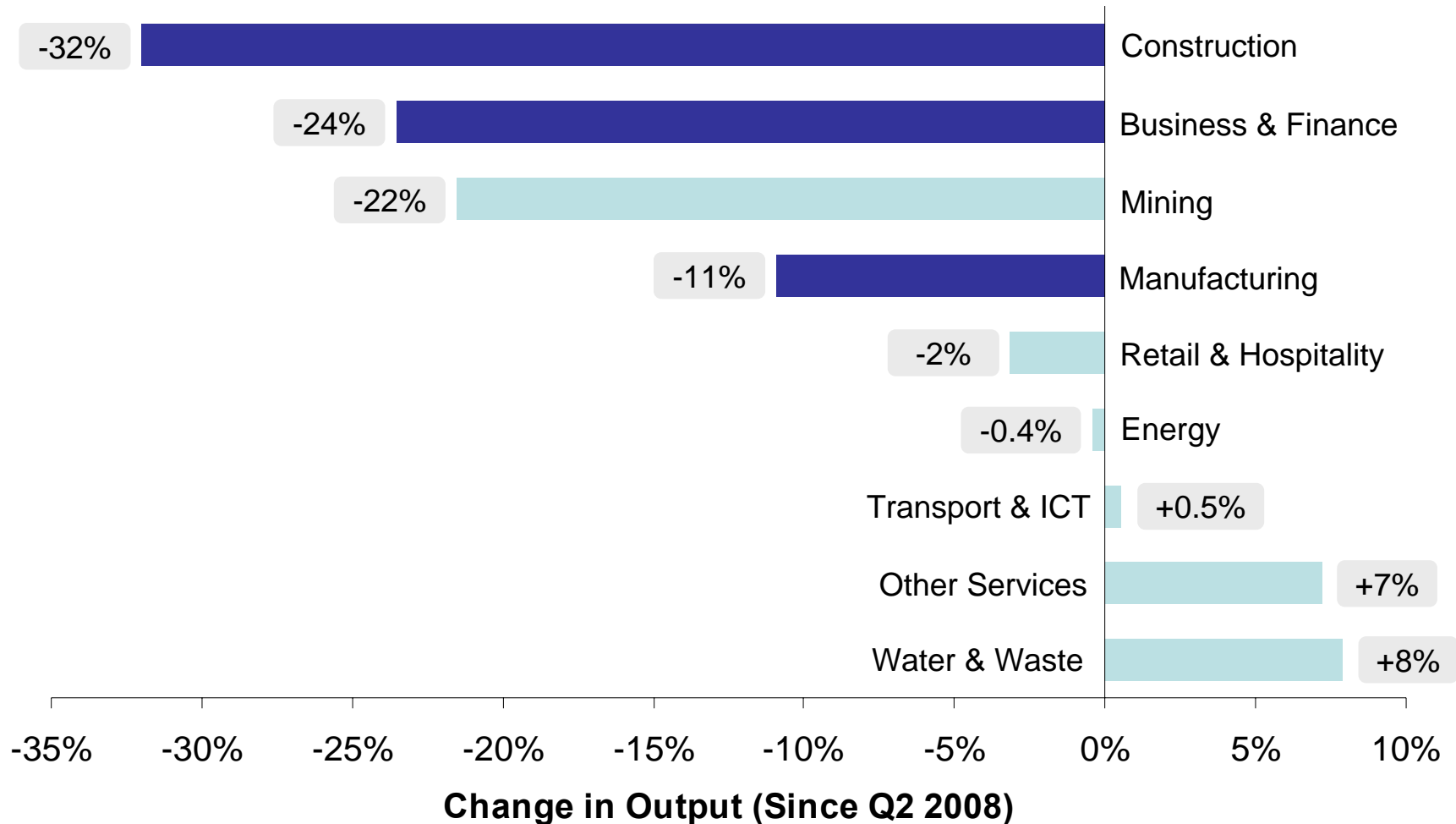
Source: ONS Consumer Price Indices

# Output across the NI private sector has fallen during the economic downturn...



Source: NISRA IOP, IOS, Construction Bulletin

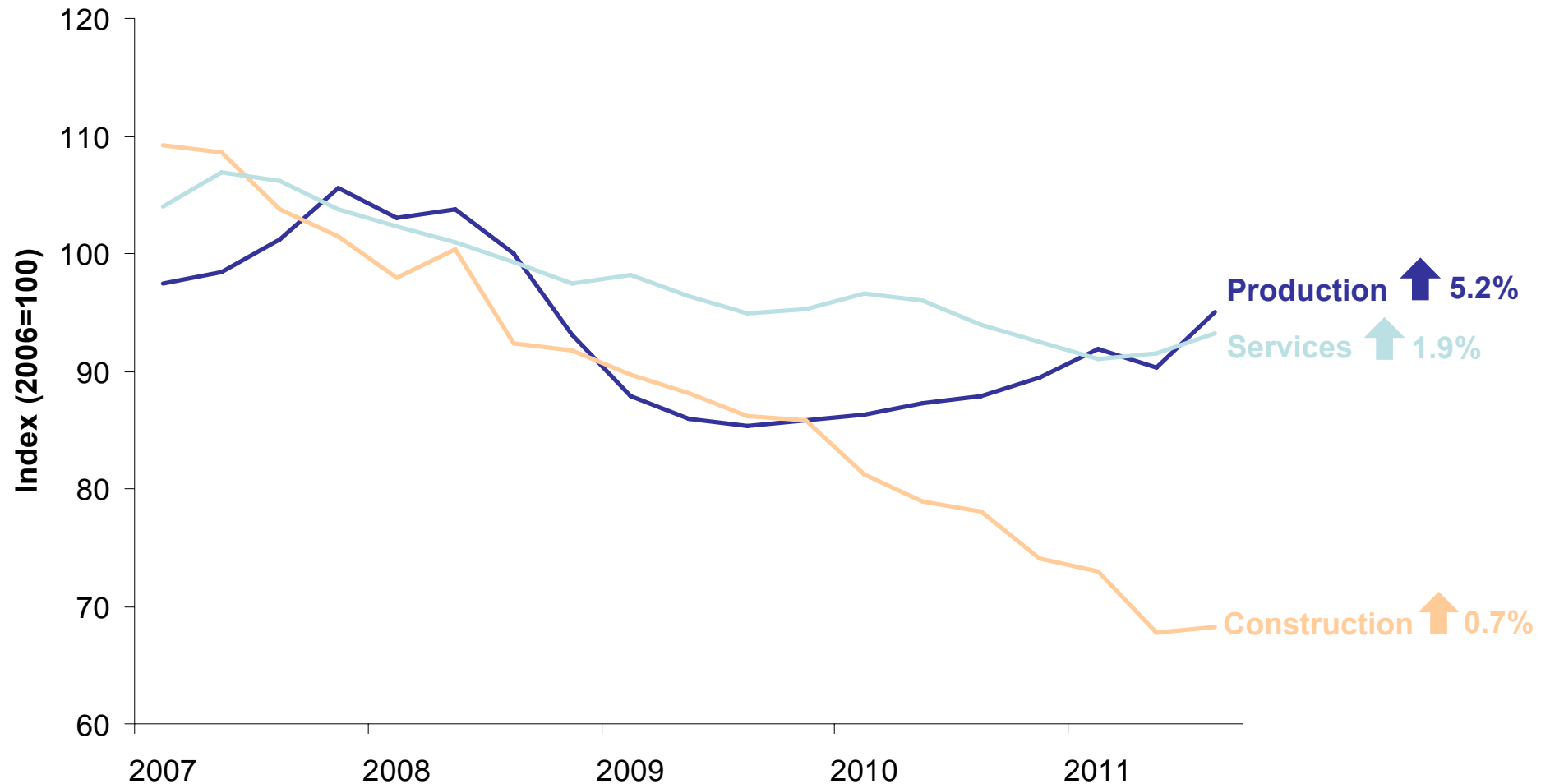
## ...with the key sectors of construction, business & finance and manufacturing all severely impacted...



Source: NISRA IOP, IOS, Construction Bulletin

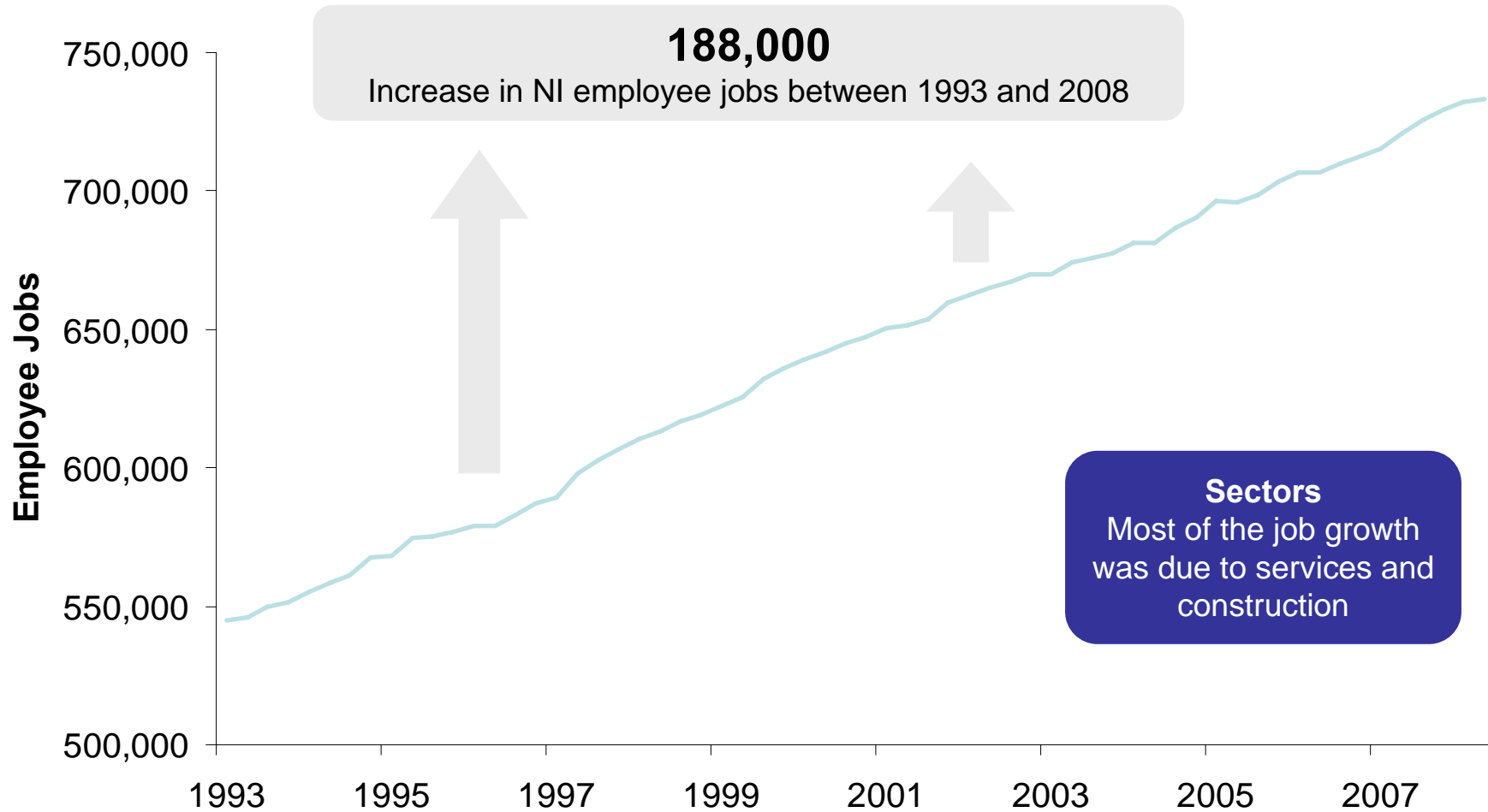


## ...although recent output performance has shown signs of improvement



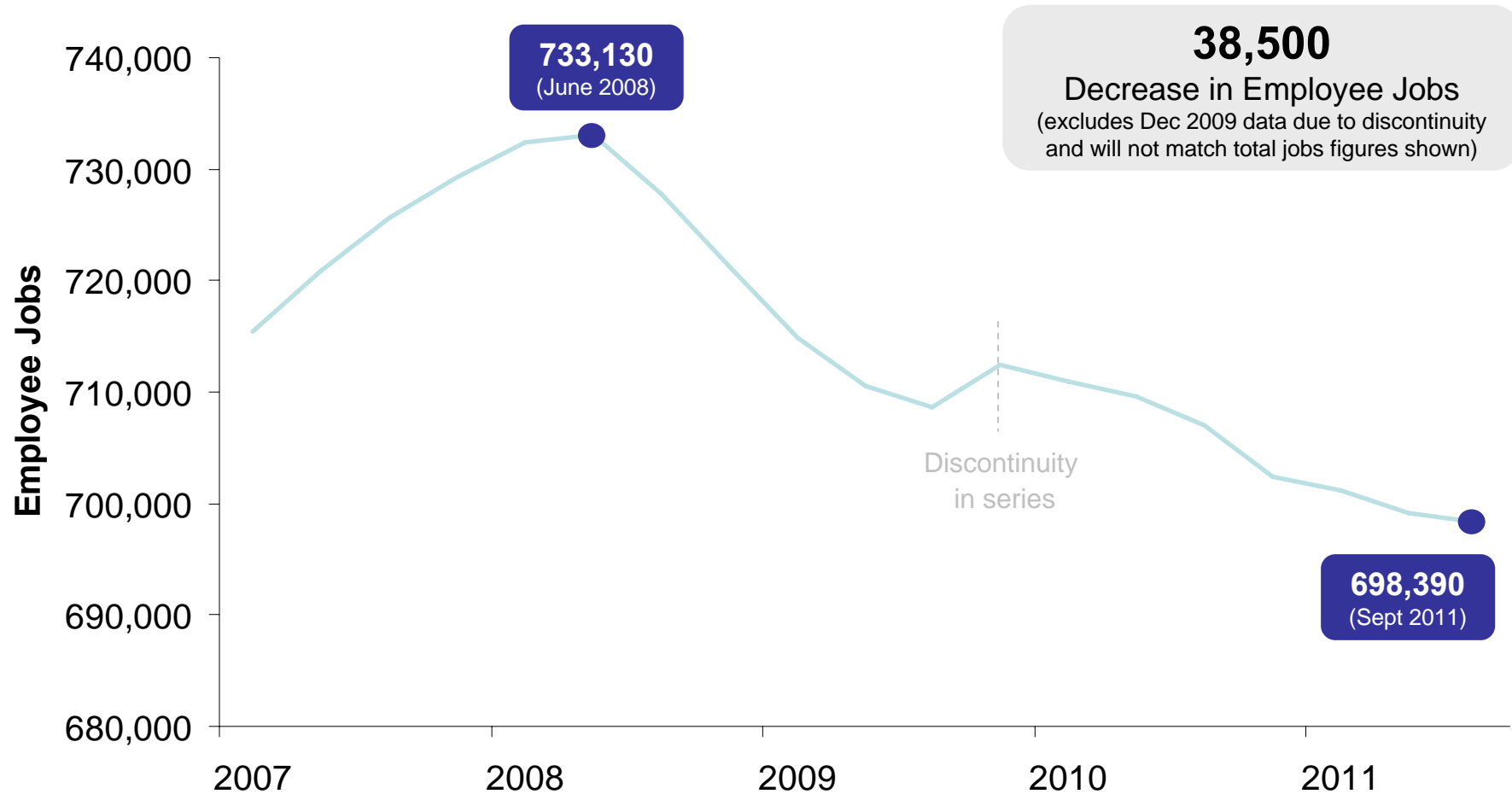
Source: NISRA IOP, IOS, Construction Bulletin  
Note: Change refers to quarterly growth (Q3 2011)

## After many years of job growth in NI...



Source: NISRA Quarterly Employment Survey  
Note: Seasonally adjusted

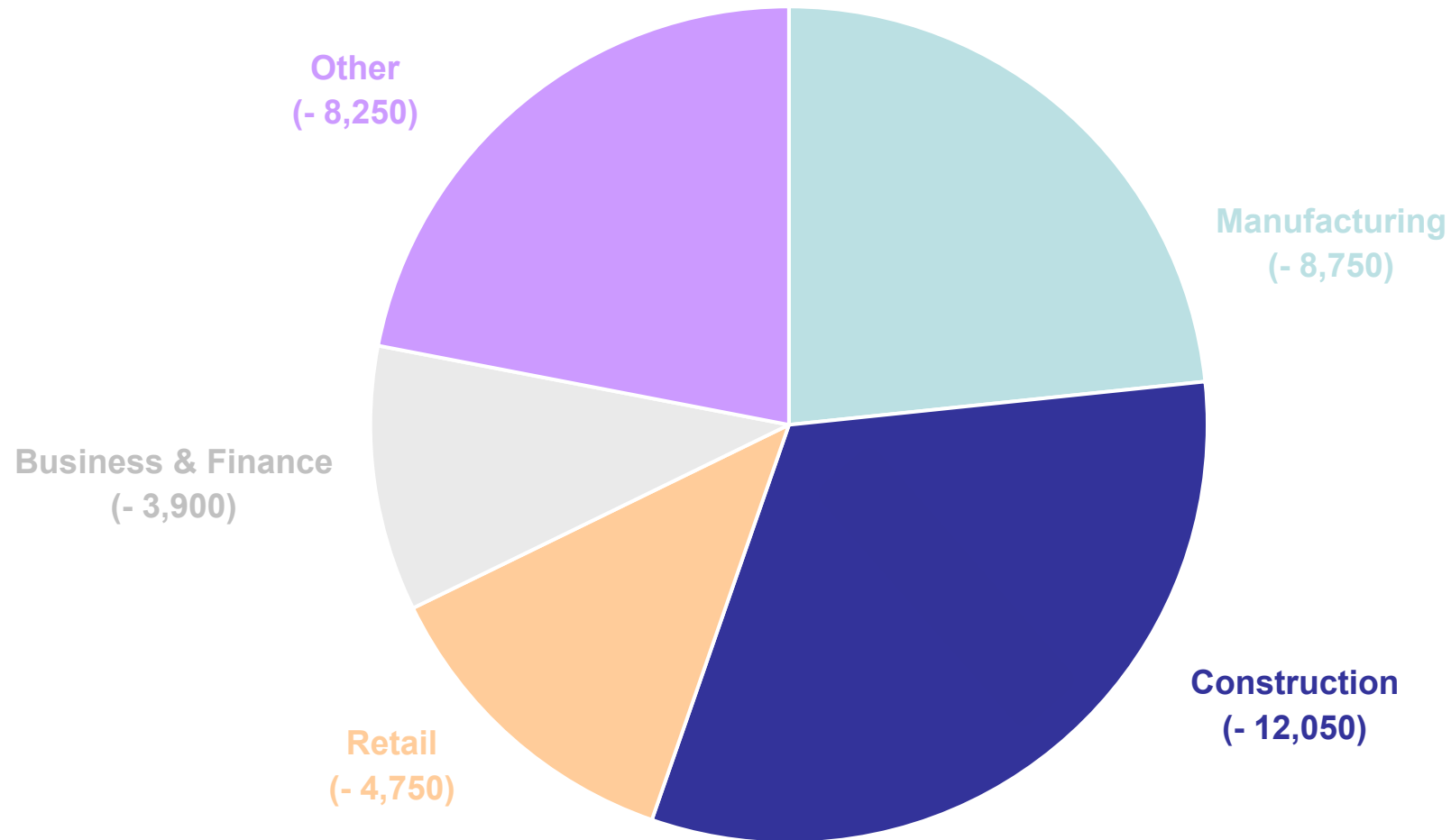
## ...the downturn has led to large scale job losses...



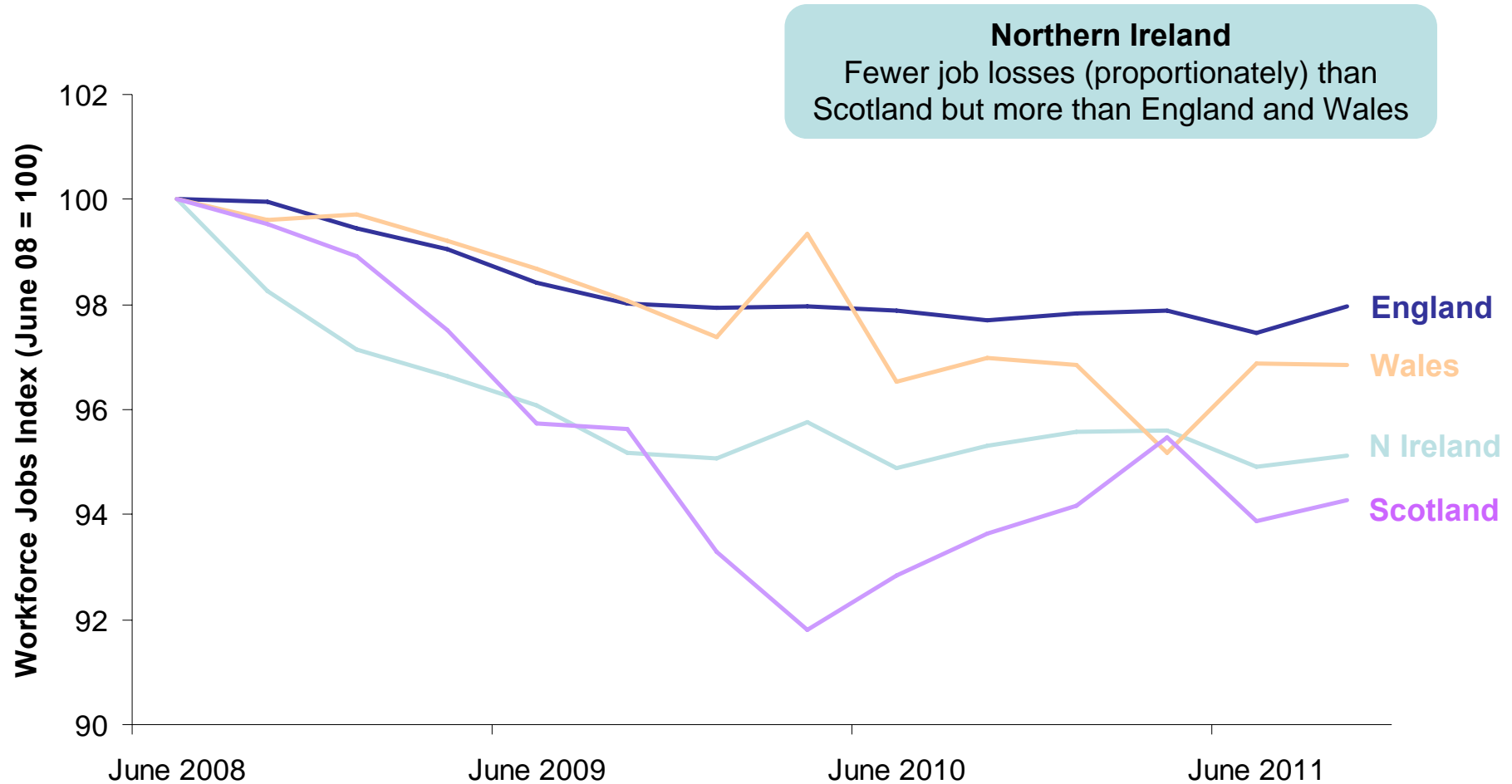
Source: NISRA Quarterly Employment Survey  
Note: Discontinuity in series caused by change in sample coverage

## ...particularly in manufacturing and construction

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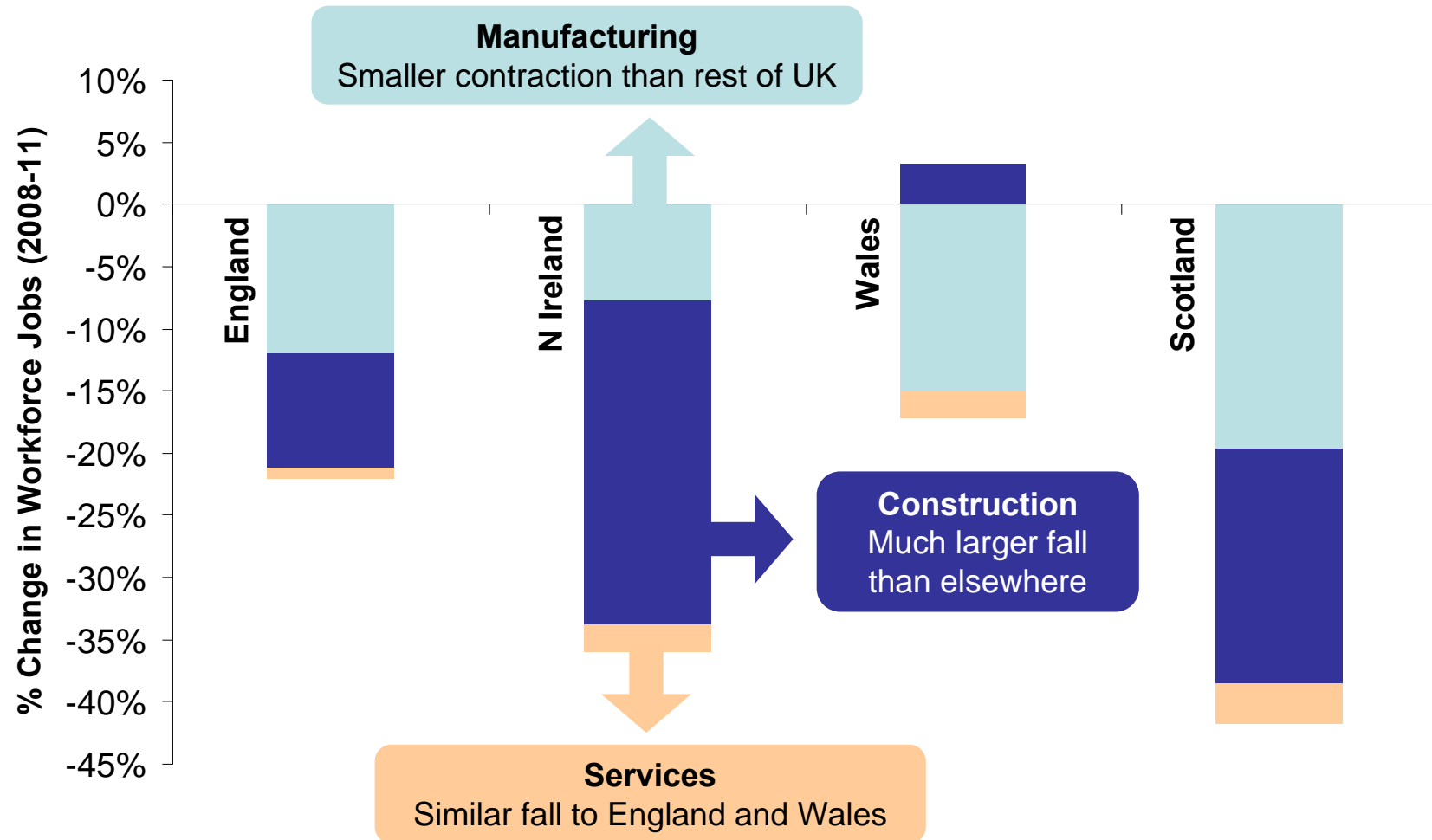


## In comparison with other UK regions...



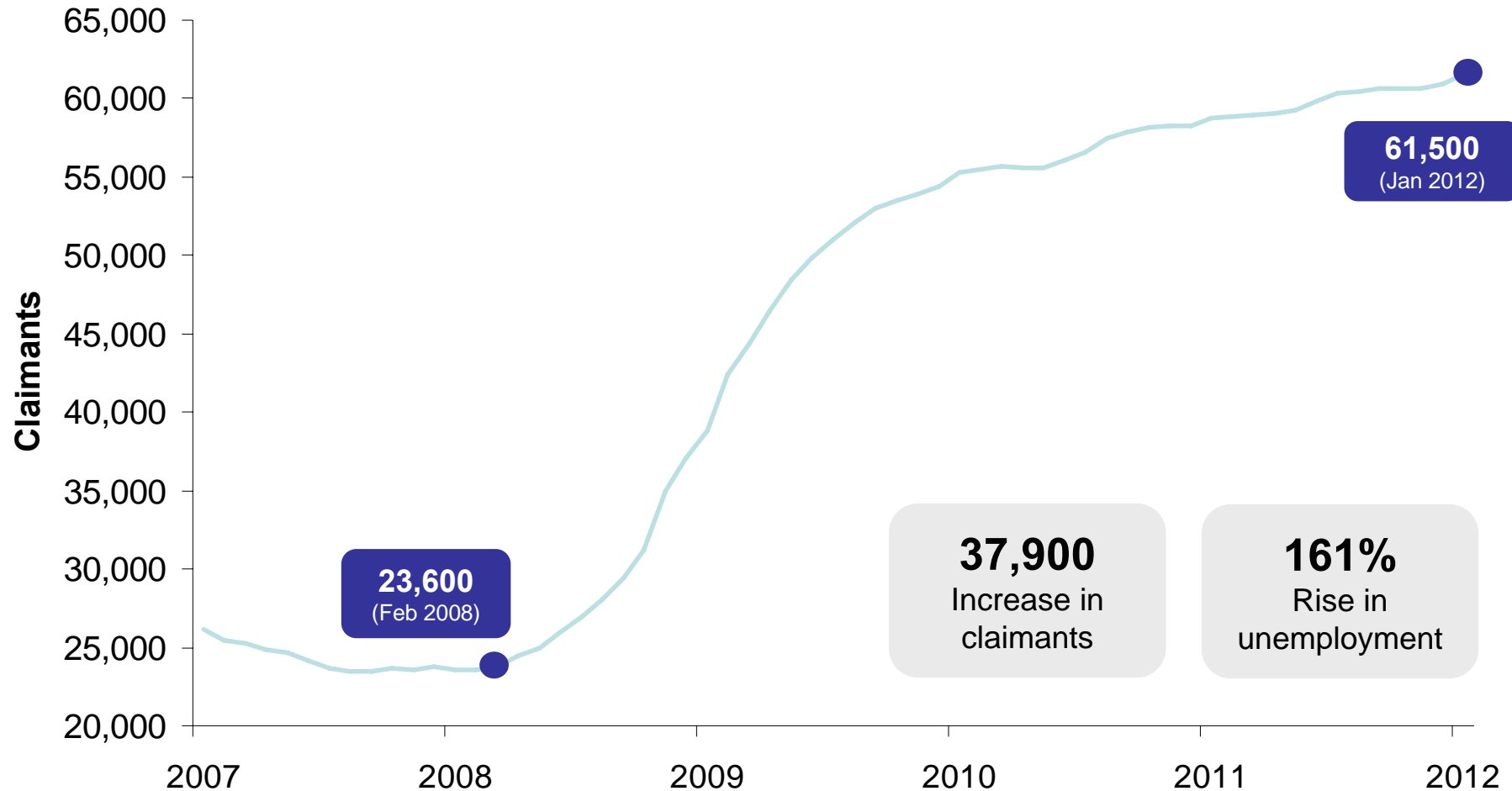
Source: NOMIS Workforce Jobs

## ...construction has been much more severely impacted



Source: NOMIS Workforce Jobs  
Note: Does not include 'other' sectors

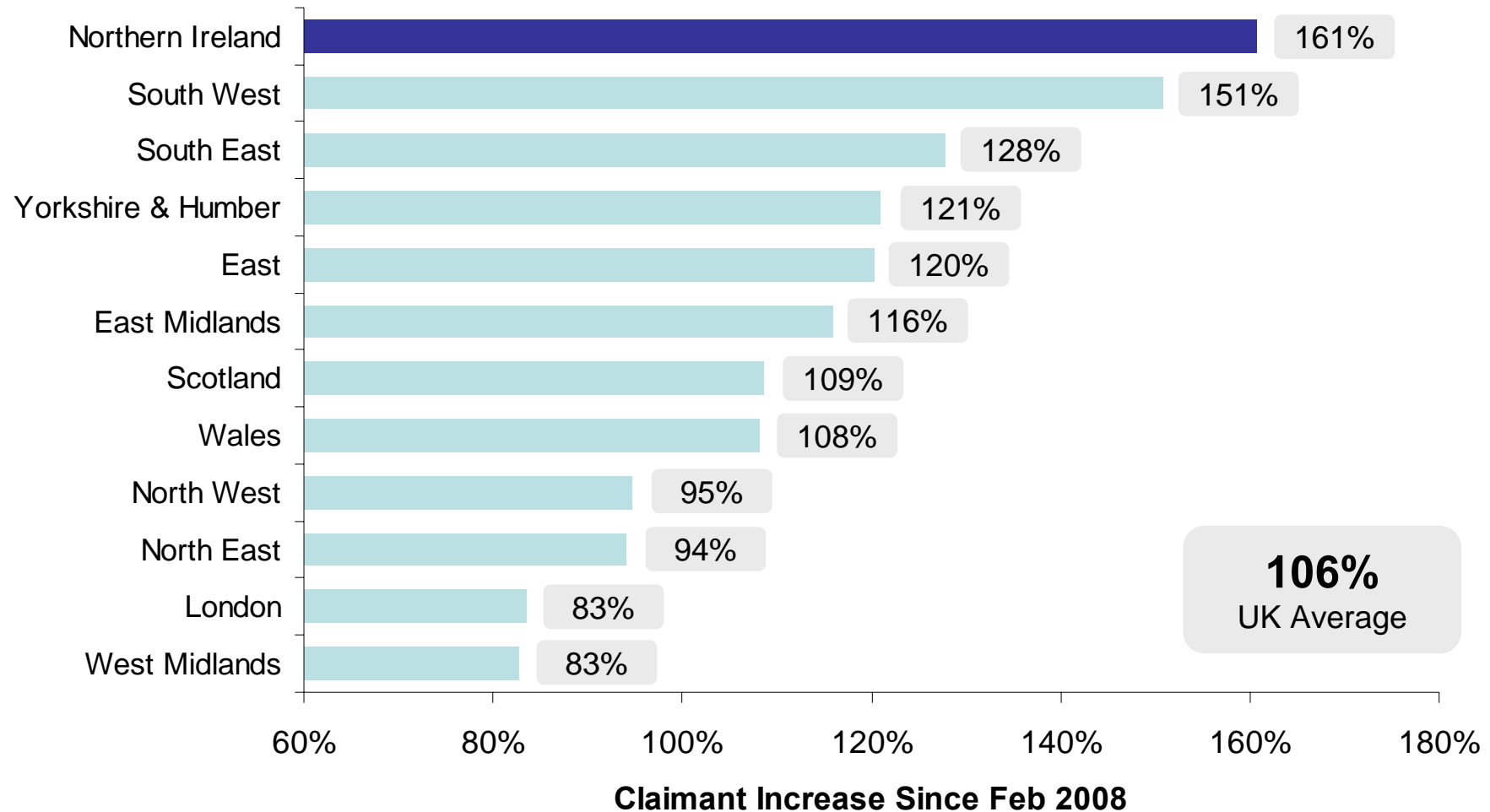
## Job losses have led to a large increase in unemployment...



Source: NOMIS Claimant Count

Note: Seasonally adjusted

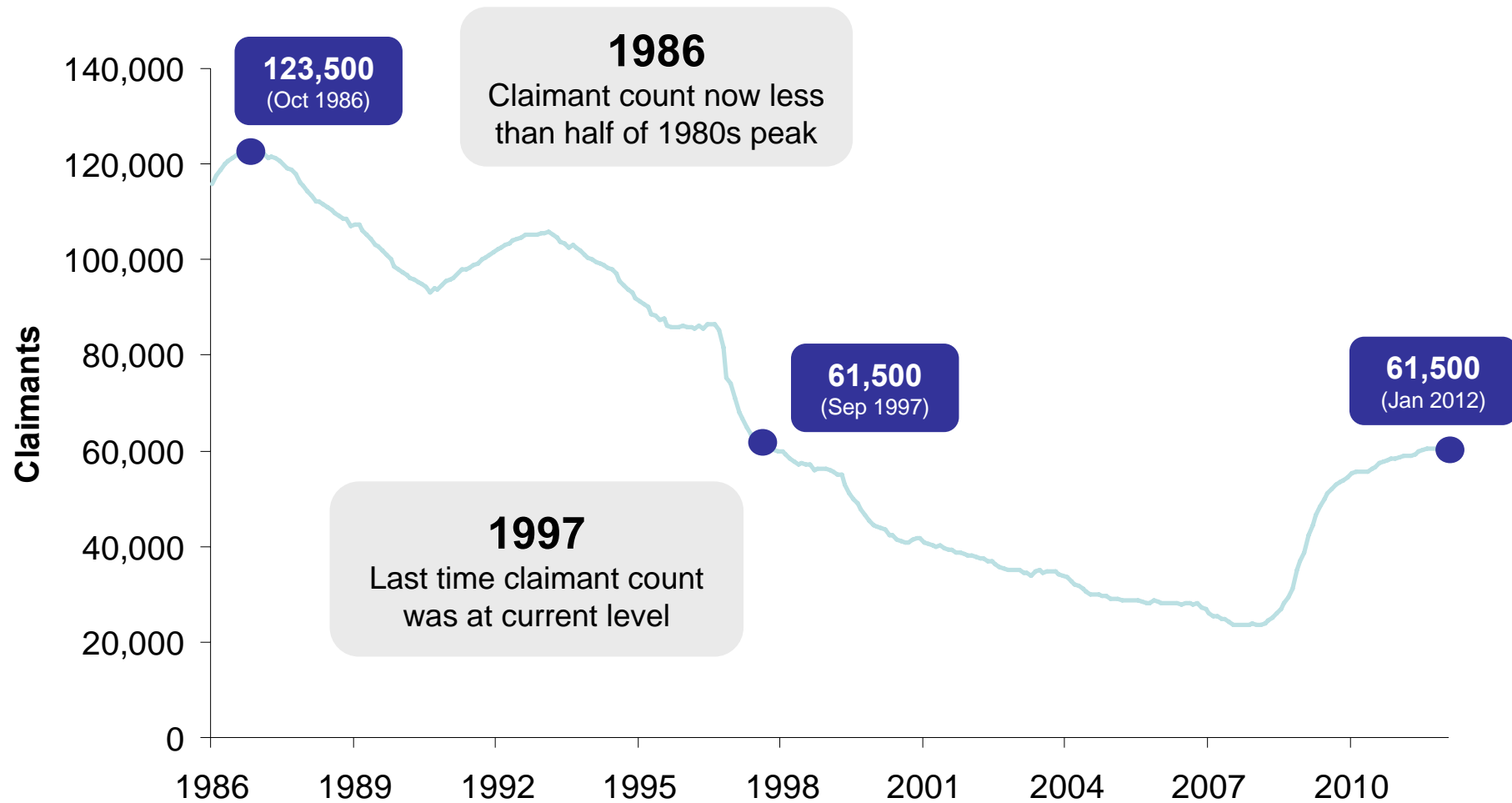
## ...more so than elsewhere in the UK...



Source: NOMIS Claimant Count

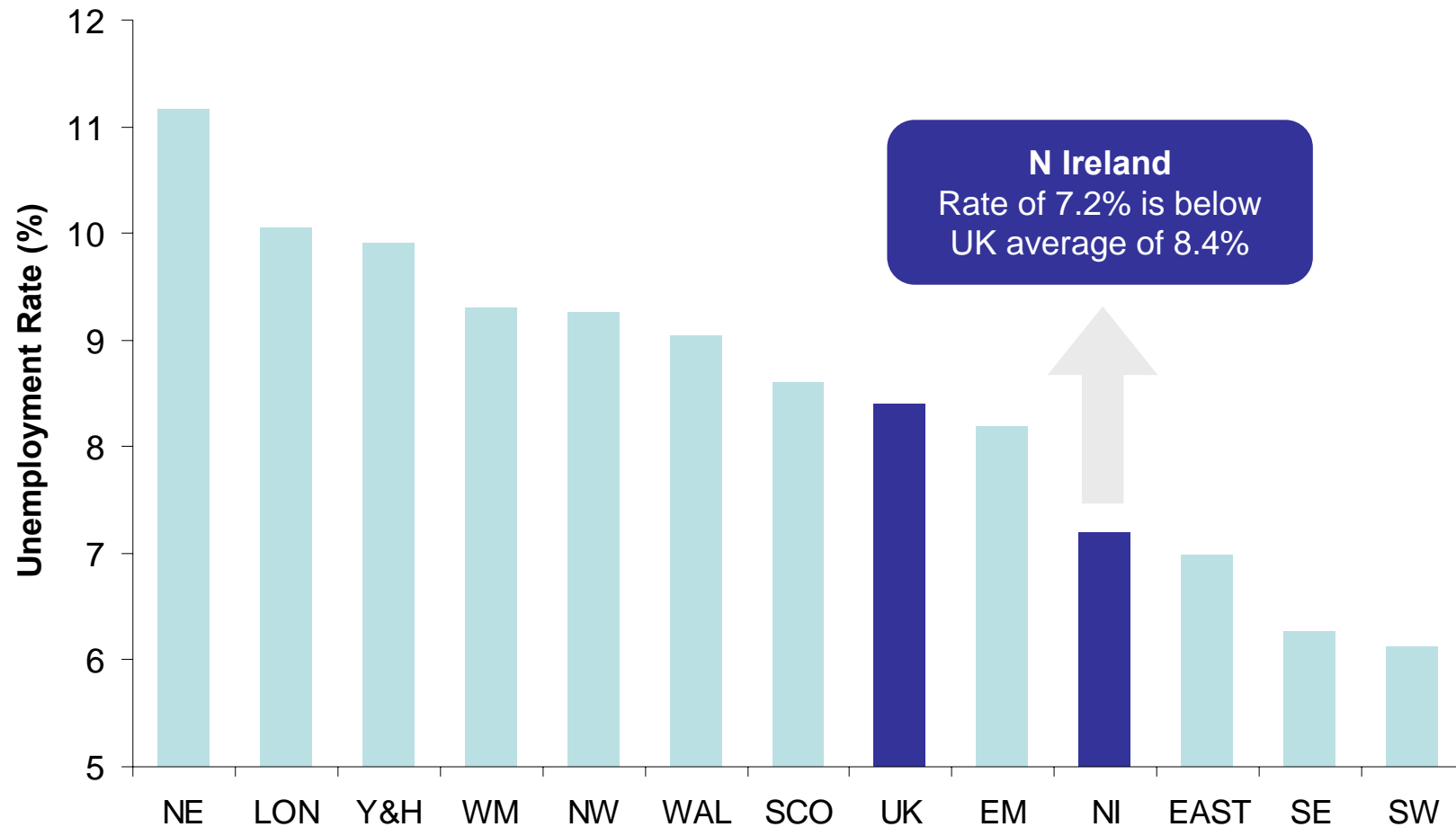


## ...although this remains low when compared historically



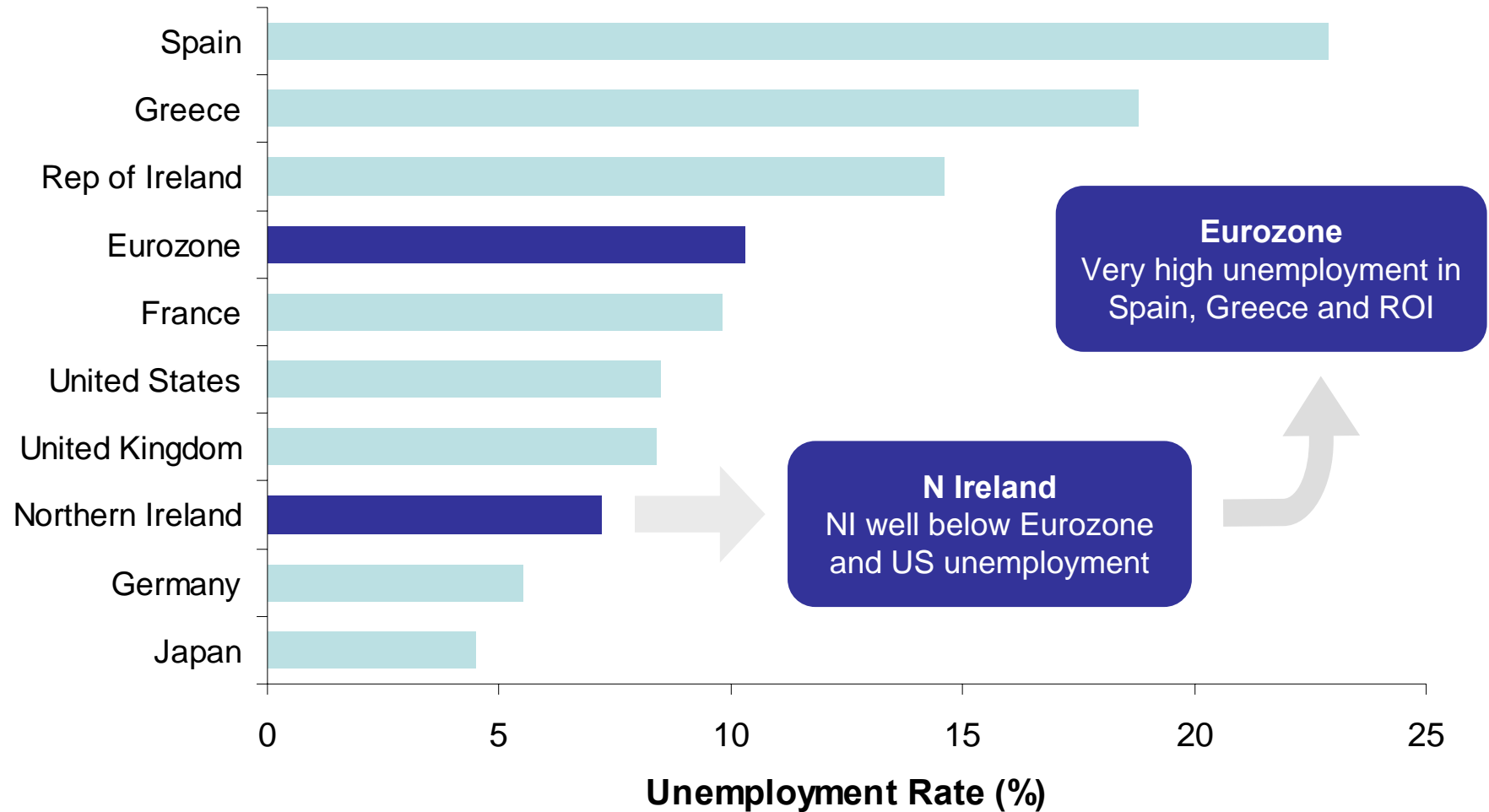
Source: NOMIS Claimant Count

# Despite the rise in claimants, the unemployment rate is similar to elsewhere in the UK...






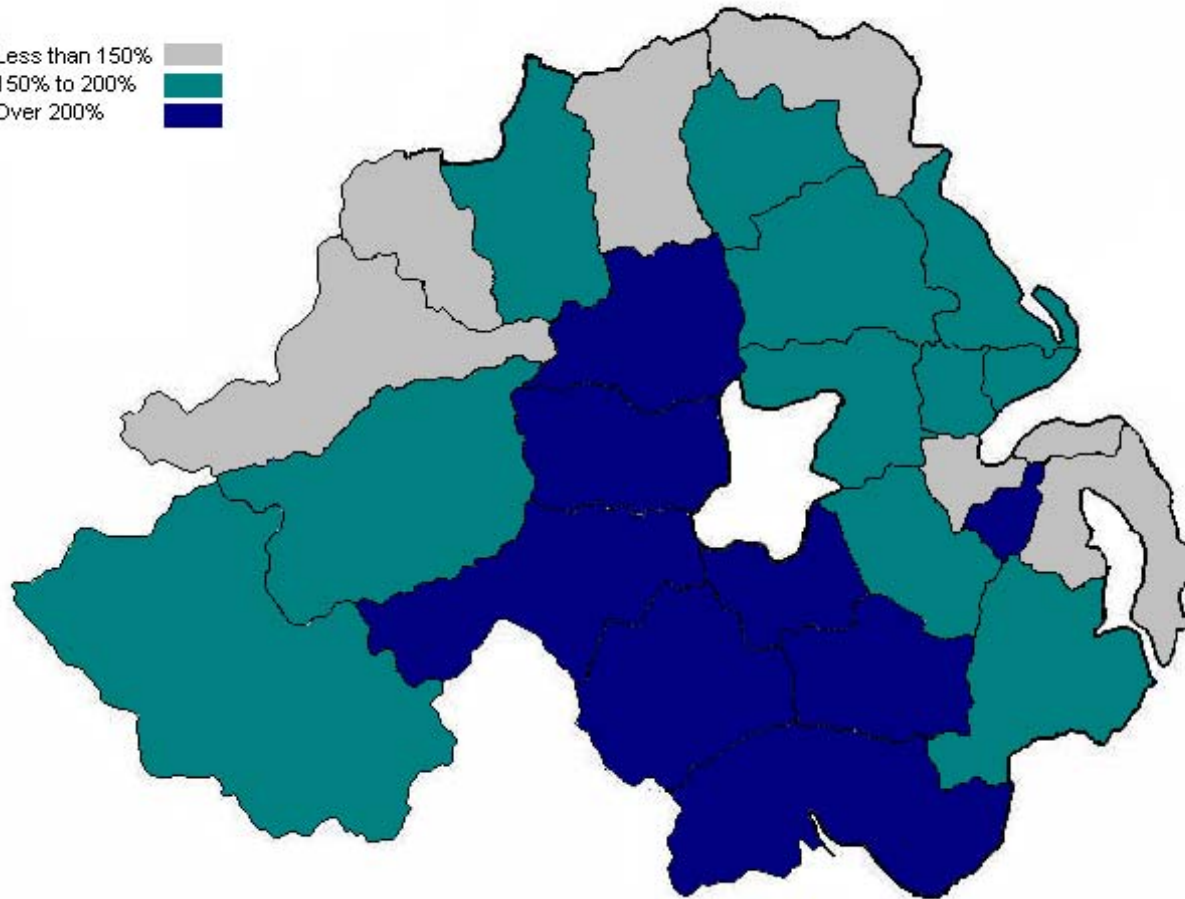
Source: ONS Labour Force Survey  
Note: Refers to October to December 2011

## ...and is not high by international standards



# All parts of NI have experienced a large rise in claimants...

Less than 150%   
150% to 200%   
Over 200% 



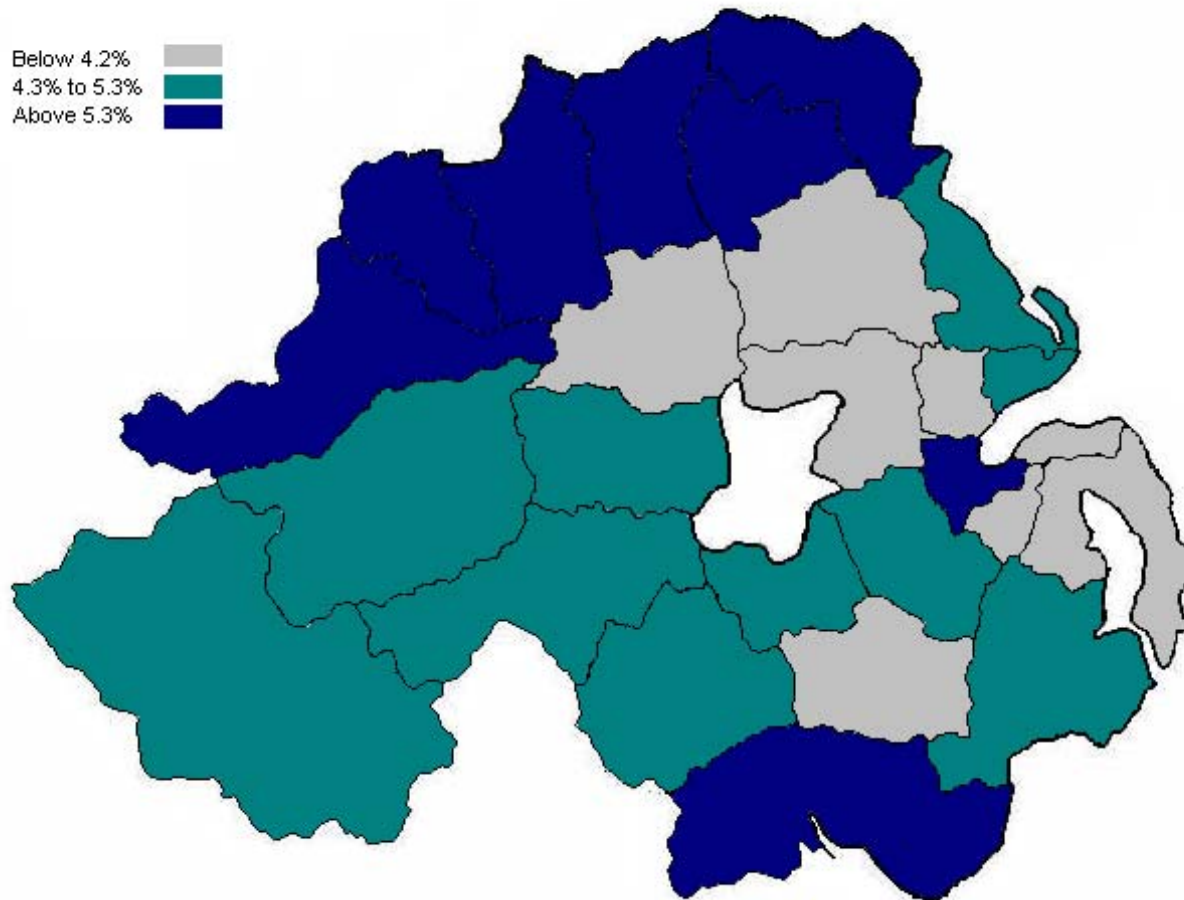
**Average Rise**  
Total NI increase in  
claimants was 158%  
(Unadjusted)

**Highest Rises**  
Magherafelt,  
Dungannon and  
Banbridge District  
Councils

**Lowest Rises**  
Strabane, Derry and  
Moyle District  
Councils

# ...although the highest rates remain in areas with historically high unemployment

Below 4.2%  
4.3% to 5.3%  
Above 5.3%

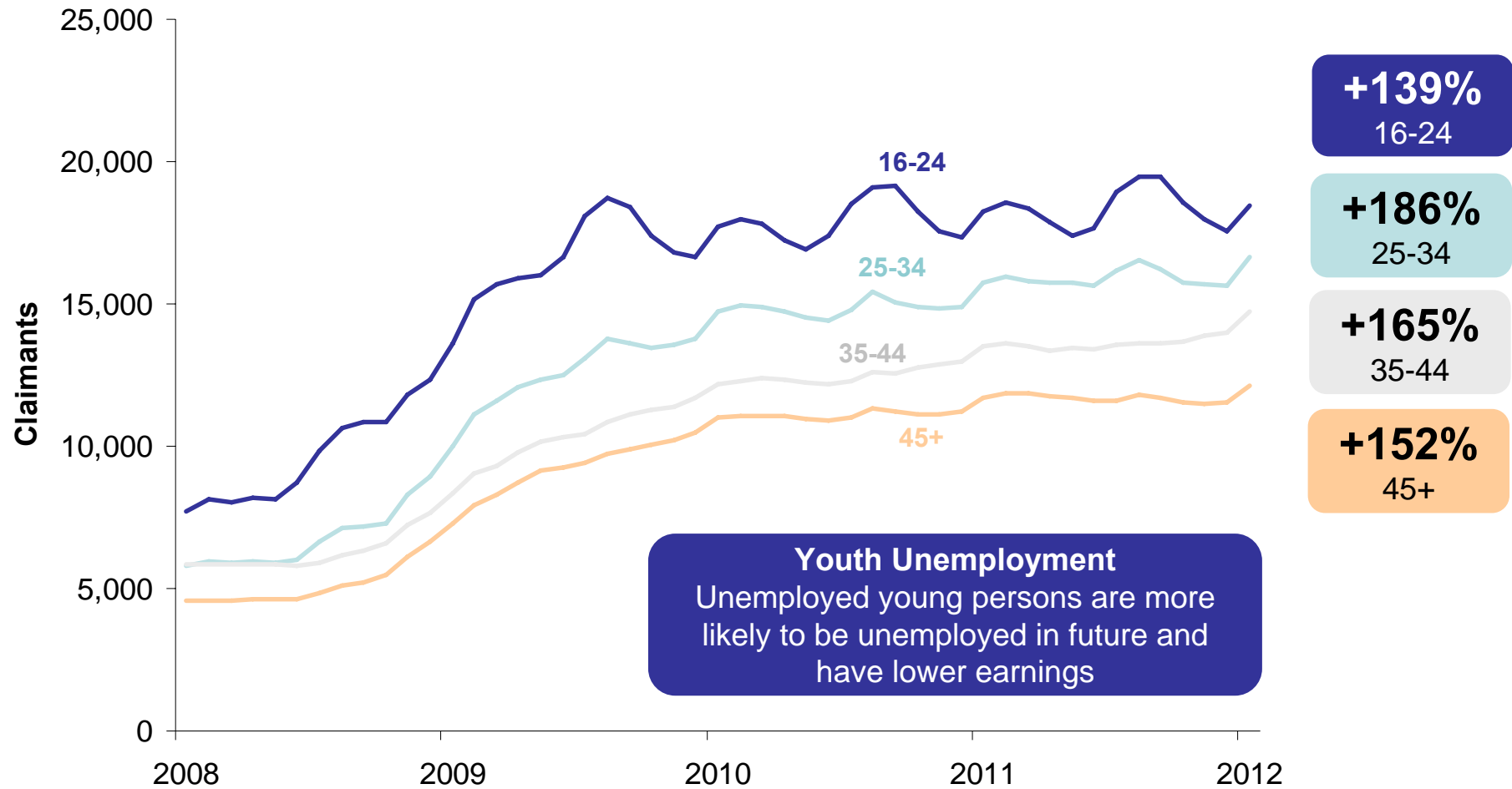


**Average Rate**  
Total NI claimant rate was 5.4%

**Highest Rates**  
Derry, Belfast, Limavady and Strabane District Councils

**Lowest Rates**  
Castlereagh, North Down and Antrim District Councils

# Young persons account for the largest number of claimants...



Source: NOMIS Claimant Count

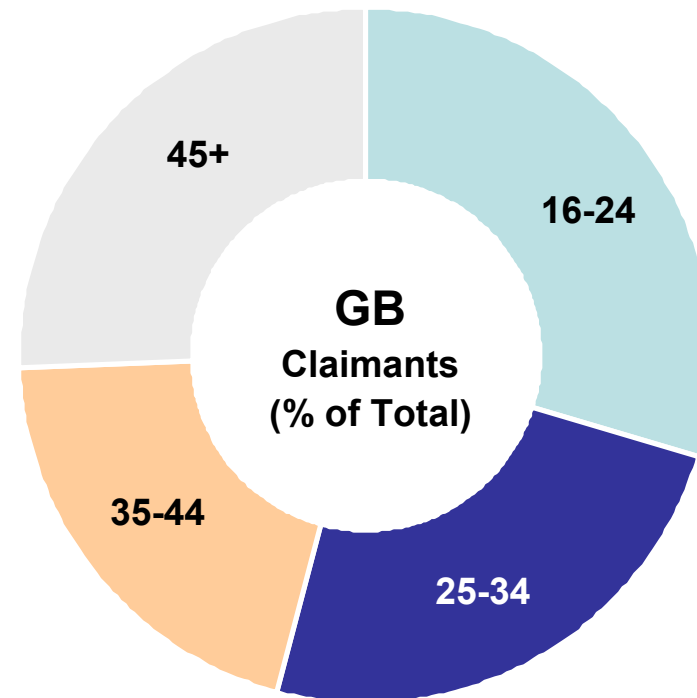
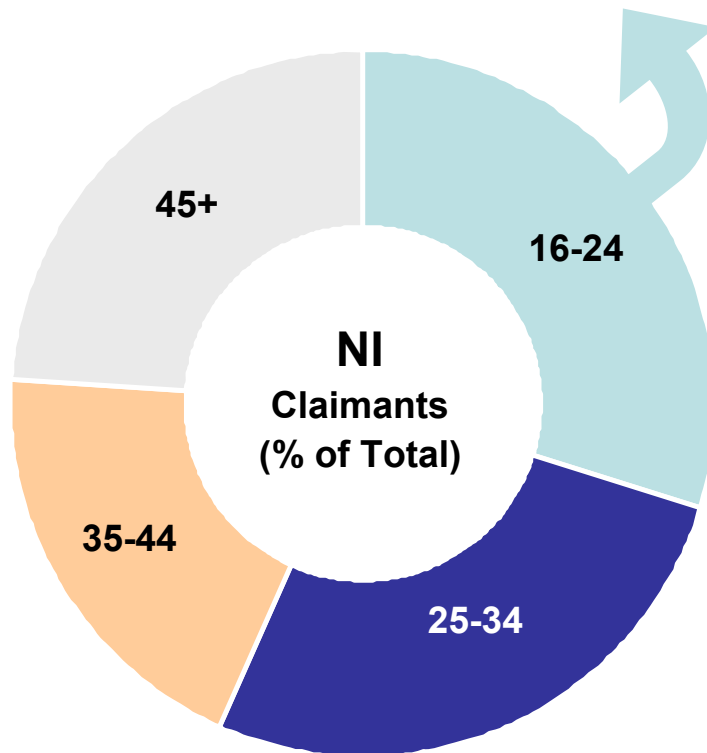
Note: Increase in claimants during Jan 2008 to Jan 2012

## ...although despite the large increase, youth claimants remains a similar proportion of total as Great Britain

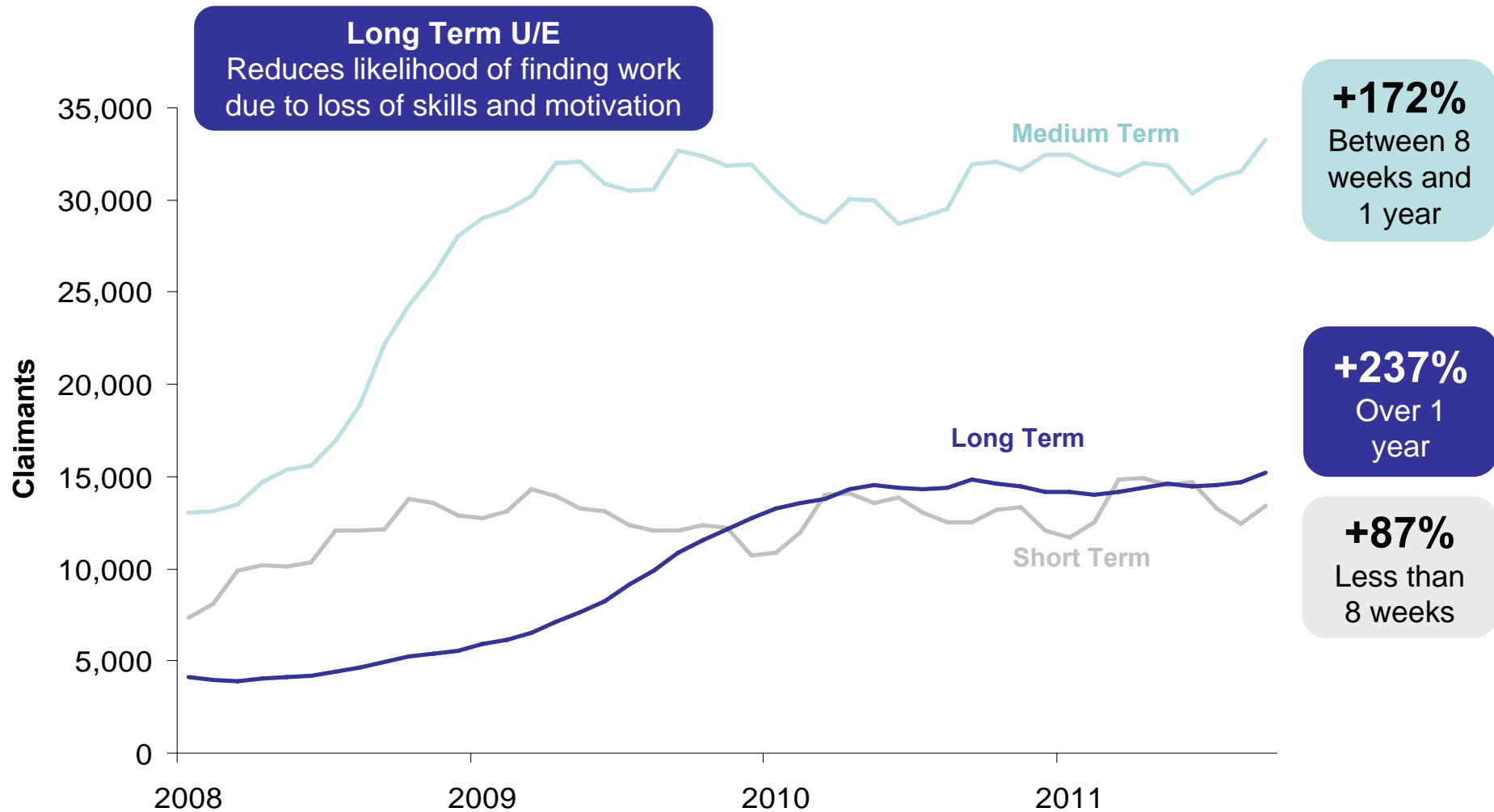
**Youth Unemployment**  
Just under one-third of claimants are aged 16-24 in both NI and GB



**Unemployment Increase**  
139% rise in young claimants in NI is much larger than GB increase of 91%



# The growing number of long term unemployed is a key concern...



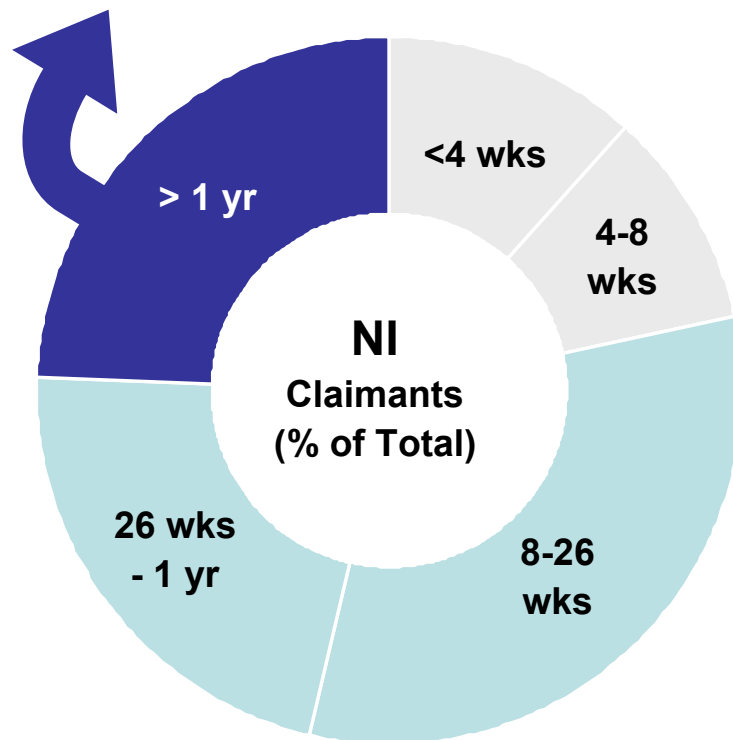
Source: NOMIS Claimant Count

Note: Increase in claimants during Jan 2008 to Jan 2012

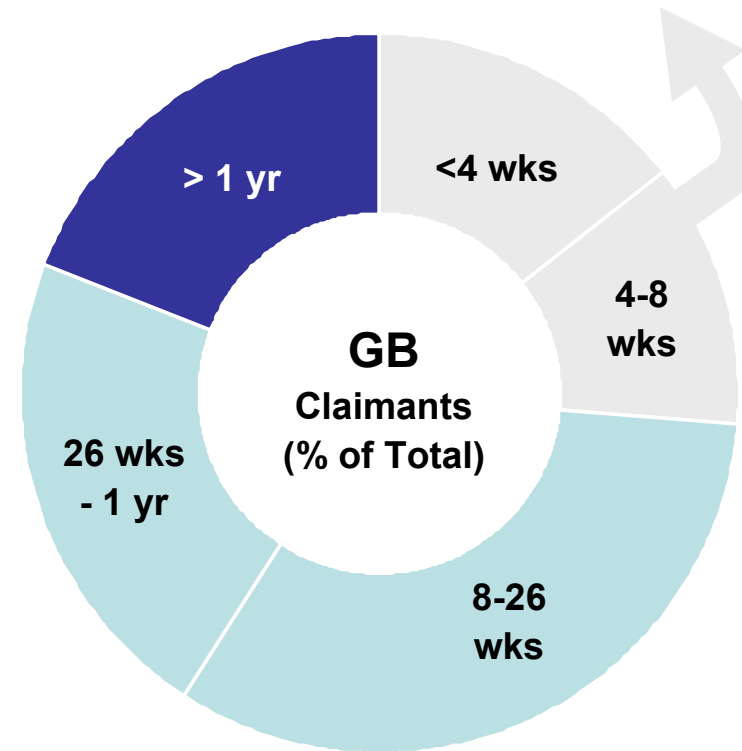


## ...and is significantly higher than elsewhere in the UK...

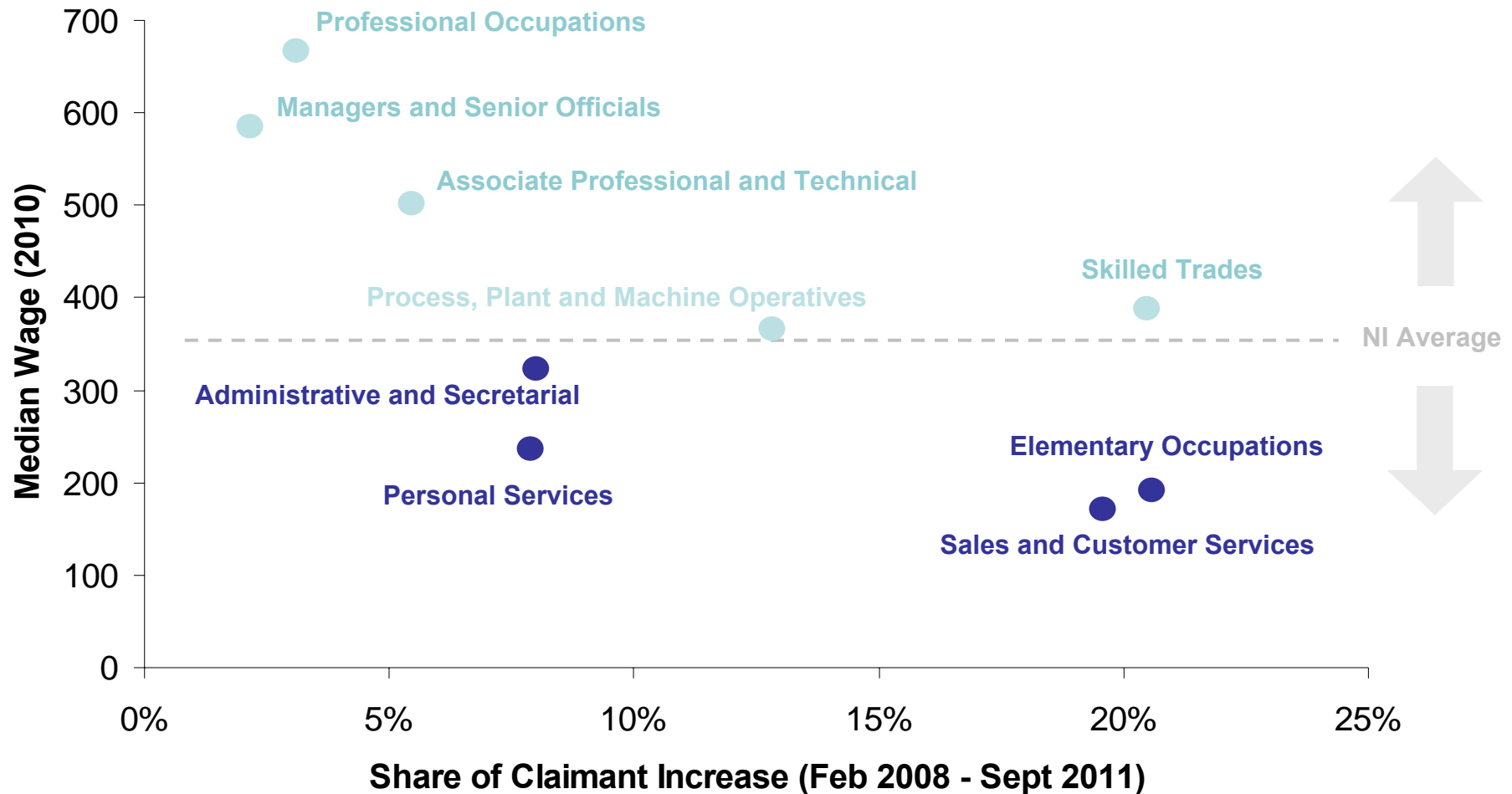
**Long Term**  
25% of NI claimants are long term u/e compared with 19% for Great Britain



**Short Term**  
26% of GB unemployed for 8 weeks to 1 year compared with 22% in NI



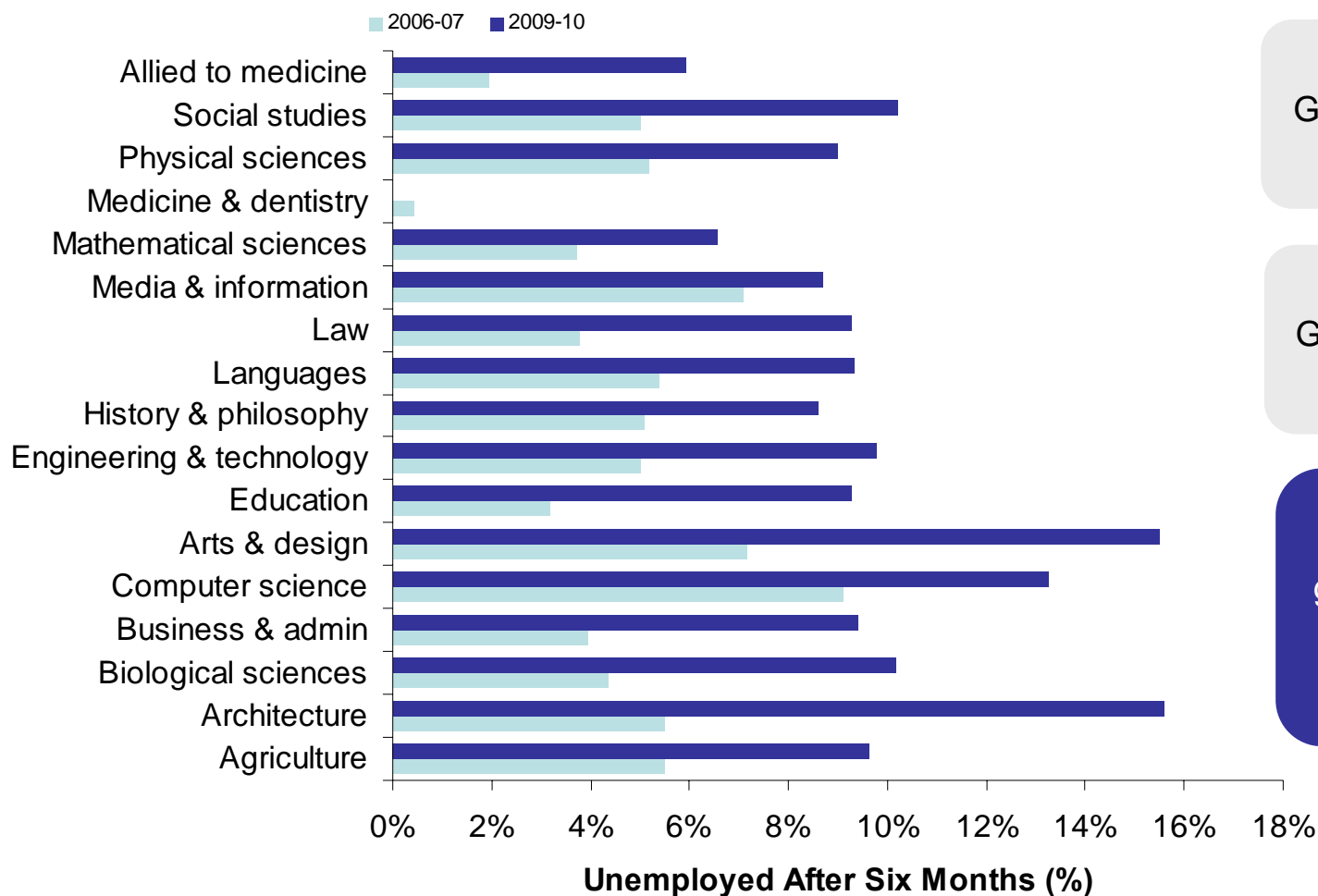
## ...with the majority of the increase in claimants from lower wage occupations



Source: NOMIS Claimant Count; NISRA ASHE

Note: Occupations further to the right account for more claimants

# Graduates have been severely impacted by the recession...



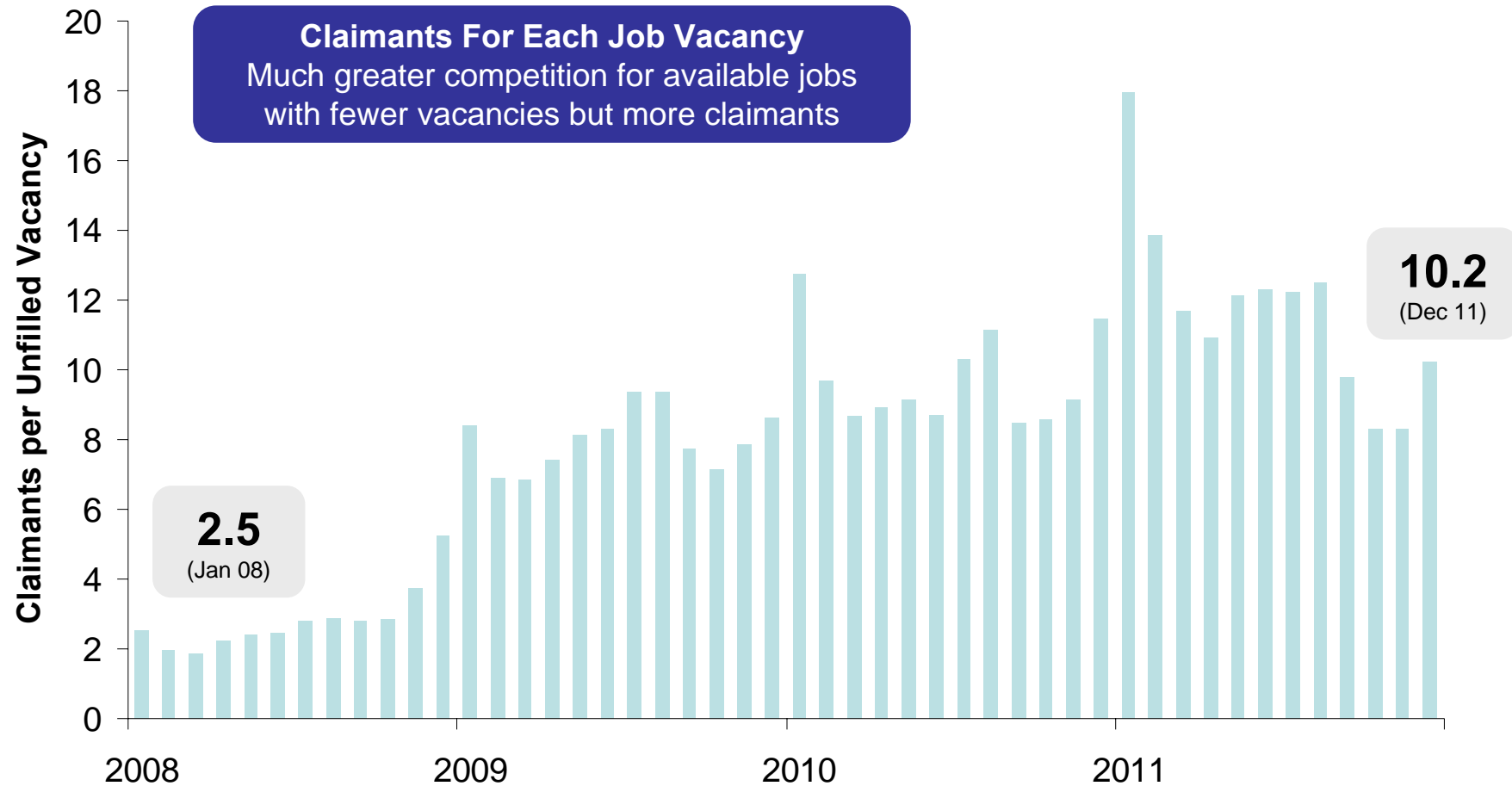
**4.4%**  
Graduates unemployed after six months (2006-07)

**9.7%**  
Graduates unemployed after six months (2009-10)

**Subjects**  
Most unemployed graduates from arts & design, computer science and architecture

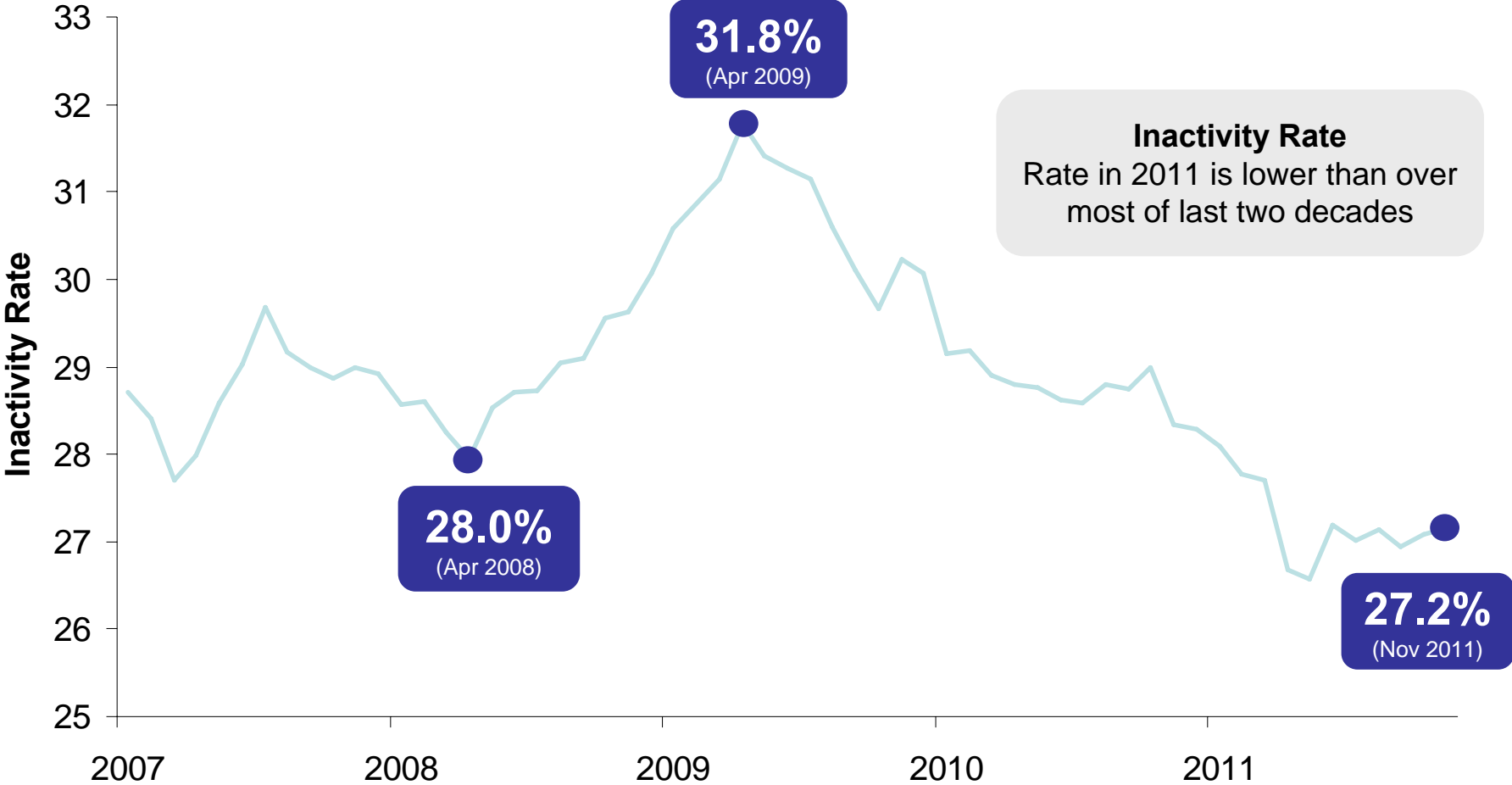
Source: DEL

## ...with much greater competition for available vacancies



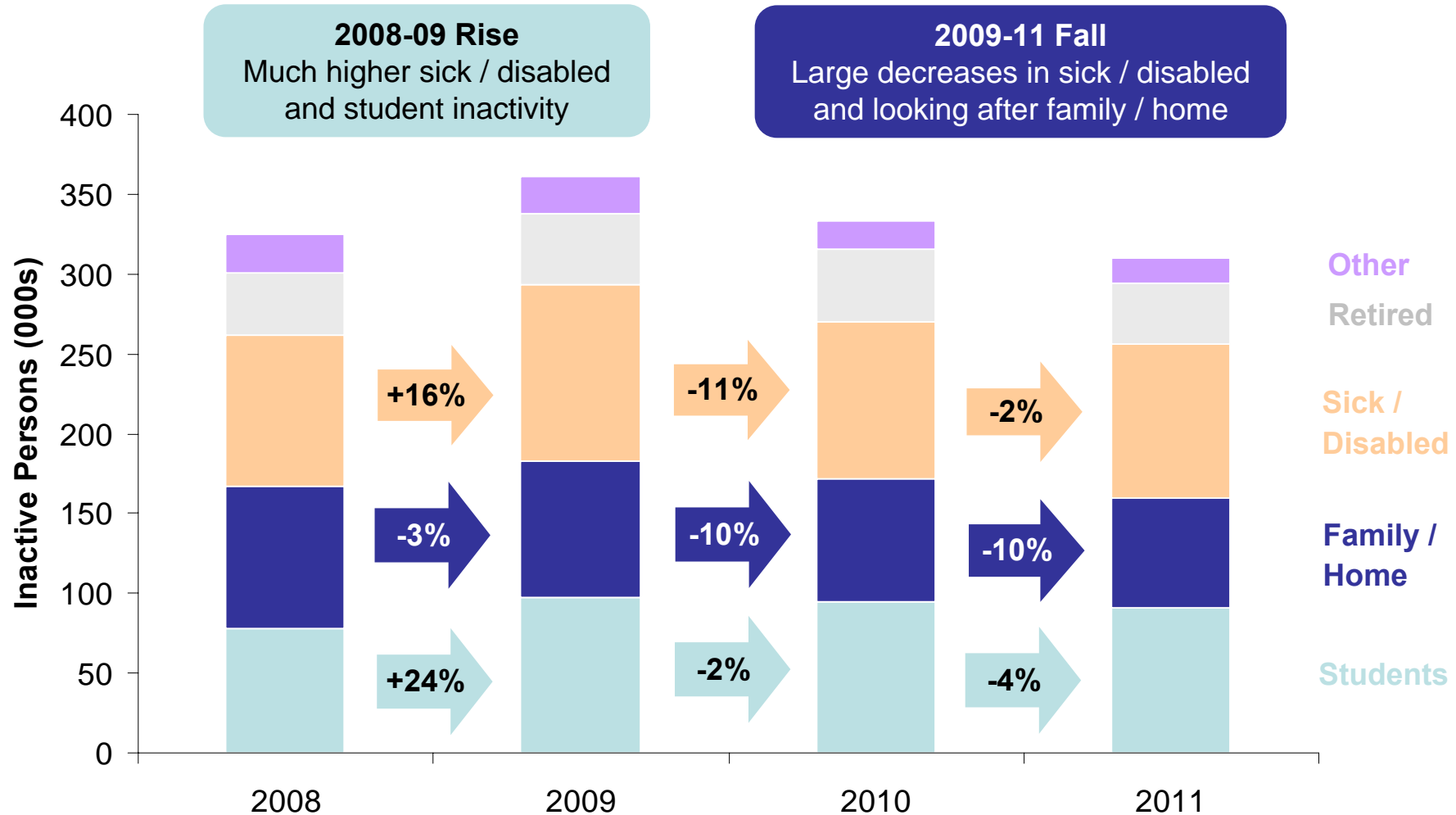
Source: DEL Vacancy Stats

# Economic inactivity has now begun to fall...



Source: ONS Labour Force Survey

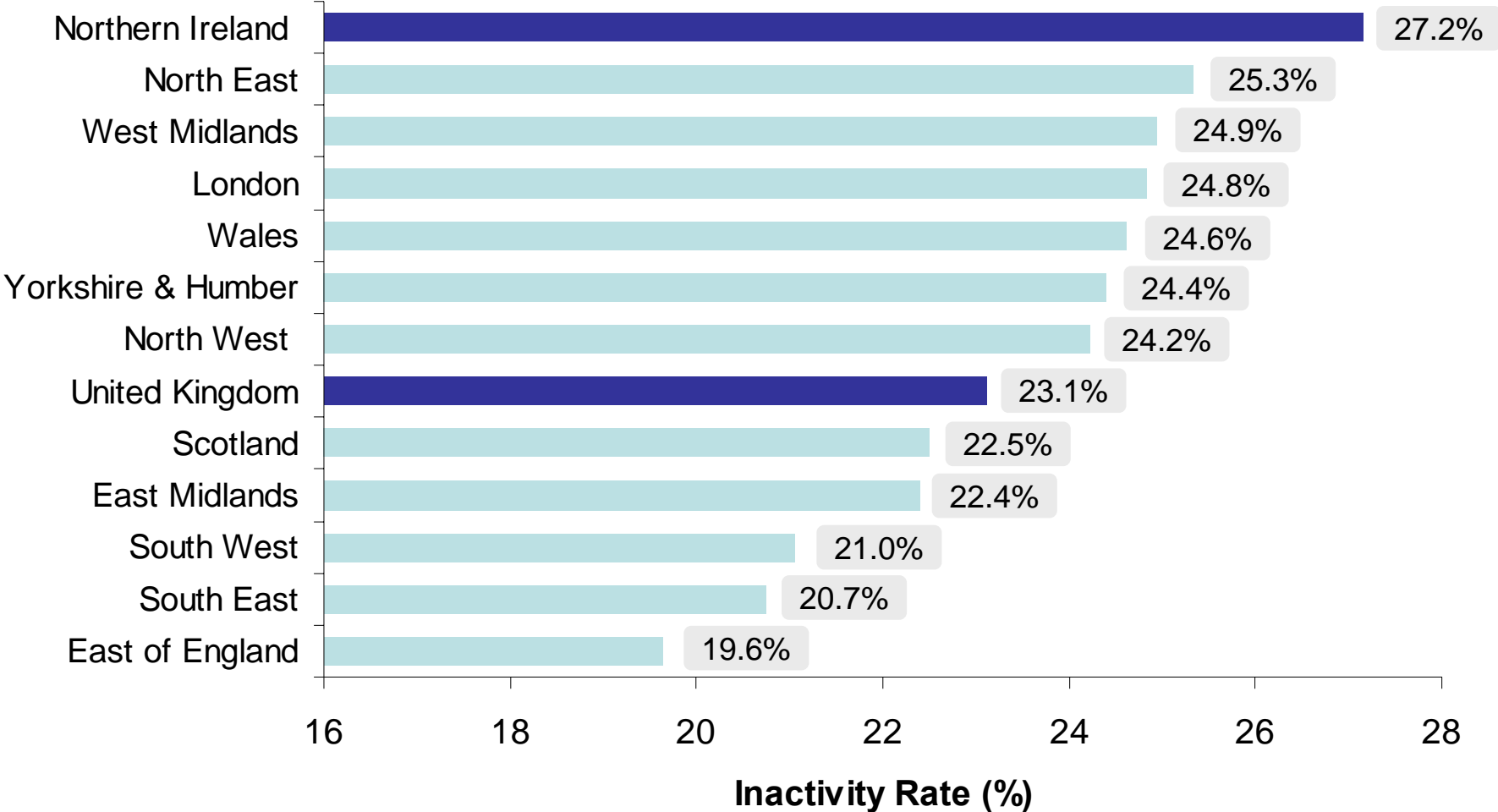
# ...although student inactivity remains high even with falls in those looking after family / home...



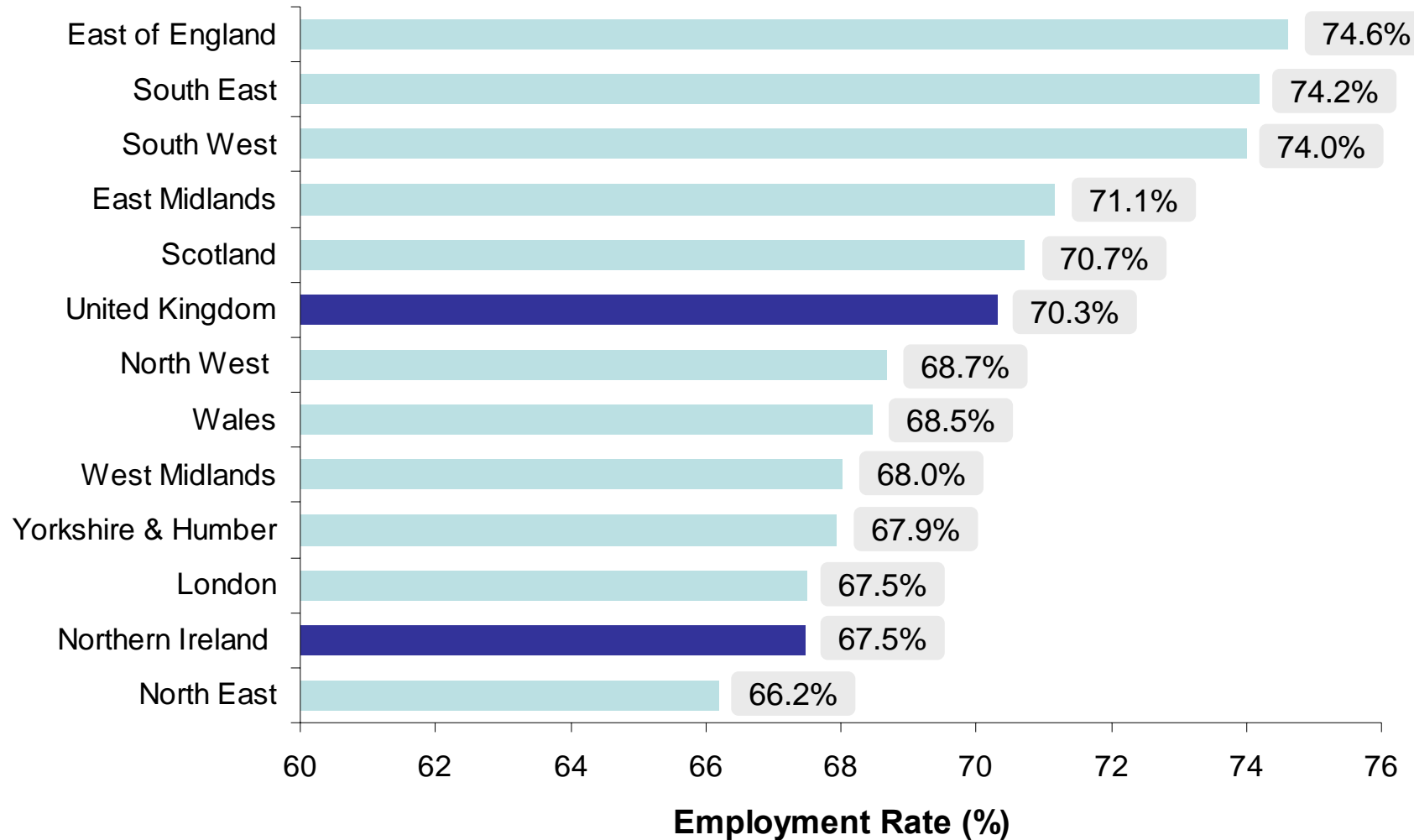
Source: NISRA Labour Force Survey

Note: Value reflects annual % change in number of inactive

# ...and the inactivity rate remains above elsewhere in the UK...



## ...with the employment rate also below much of the UK



Source: ONS Labour Force Survey  
Note: Data relate to October to December 2011



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**2**

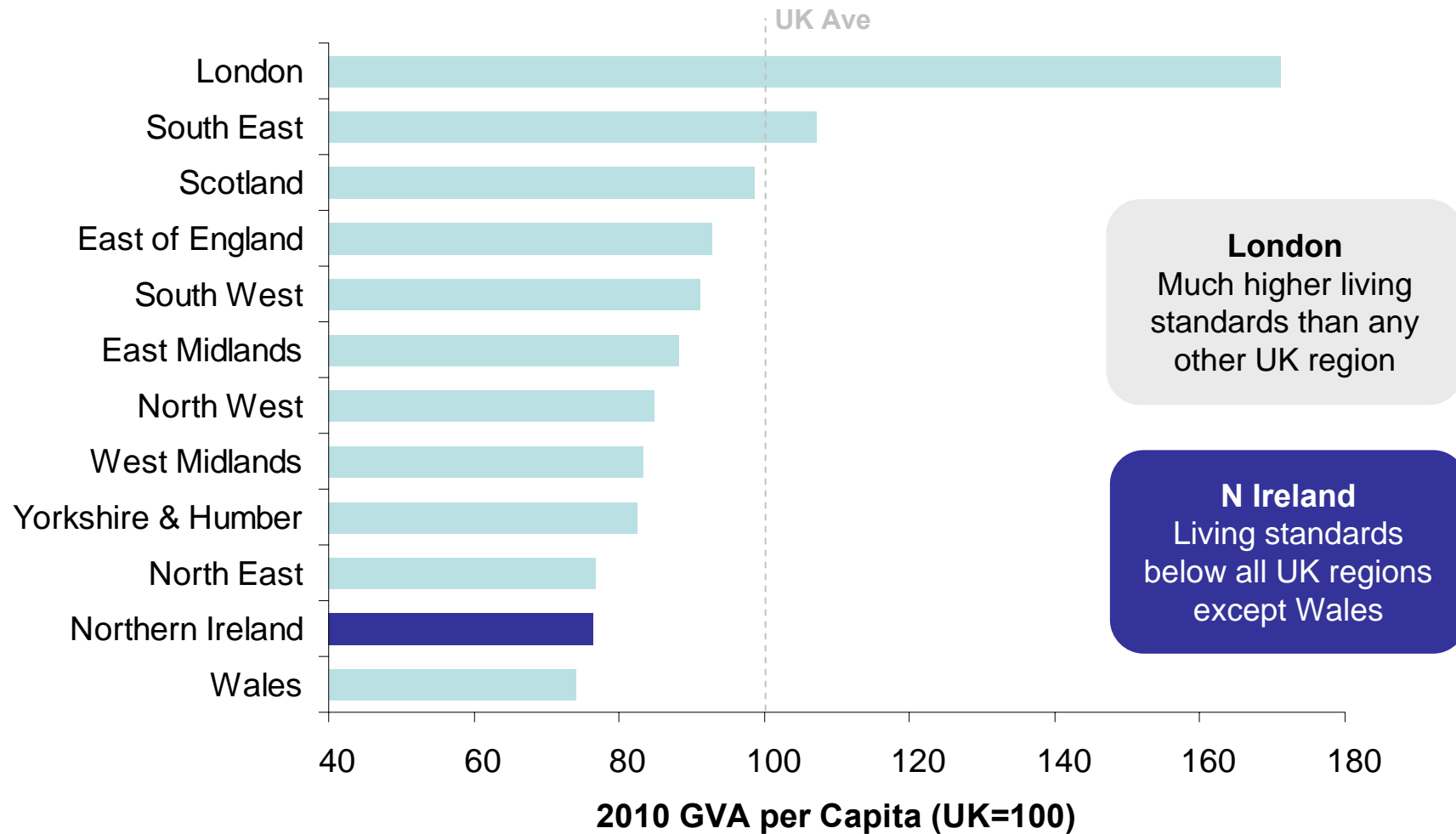
**Rebalancing the  
Economy**

# Low prosperity has been a long term problem in NI...



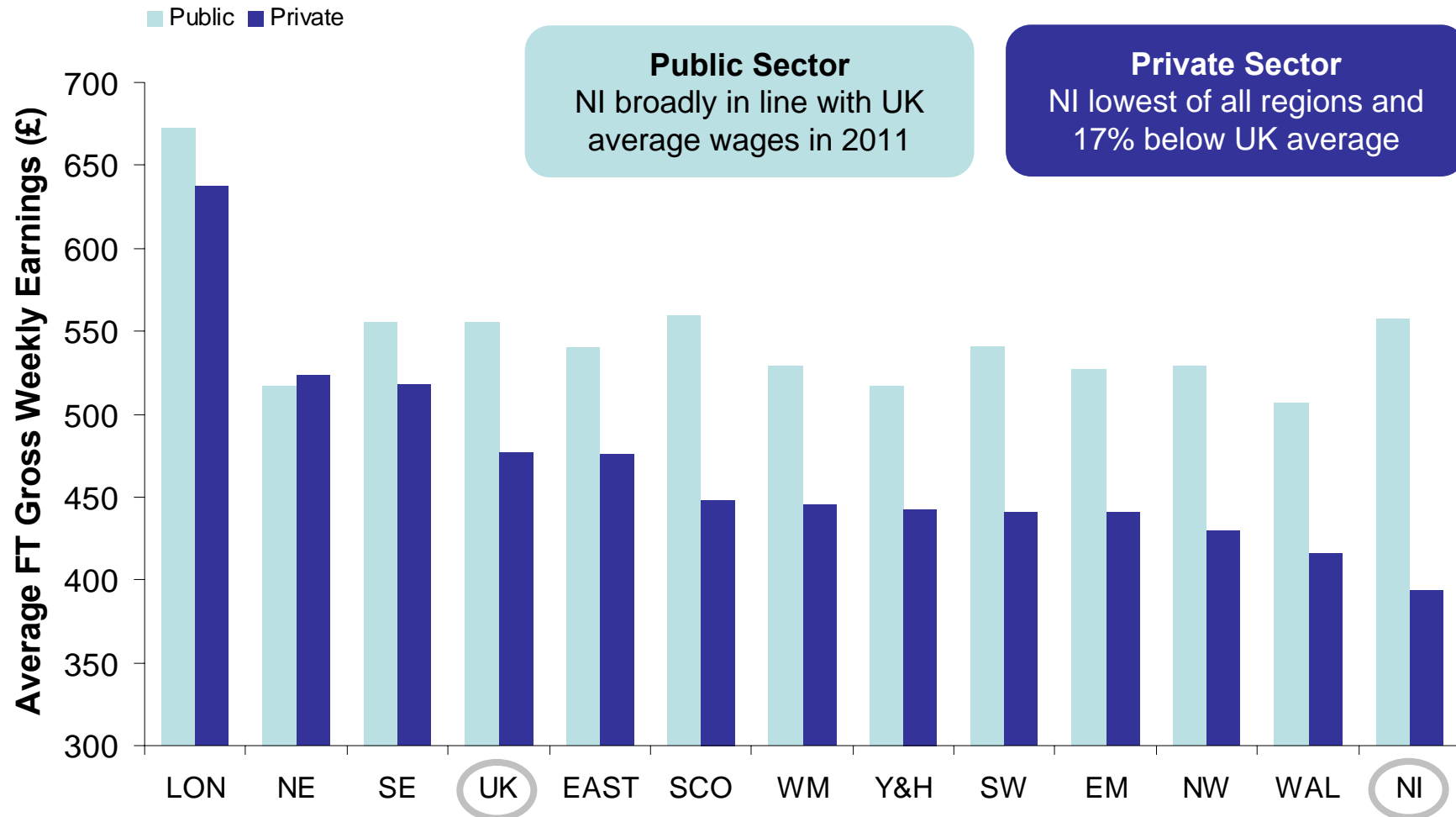
Source: ONS Regional GVA

## ...with GVA per capita below most of the UK regions...



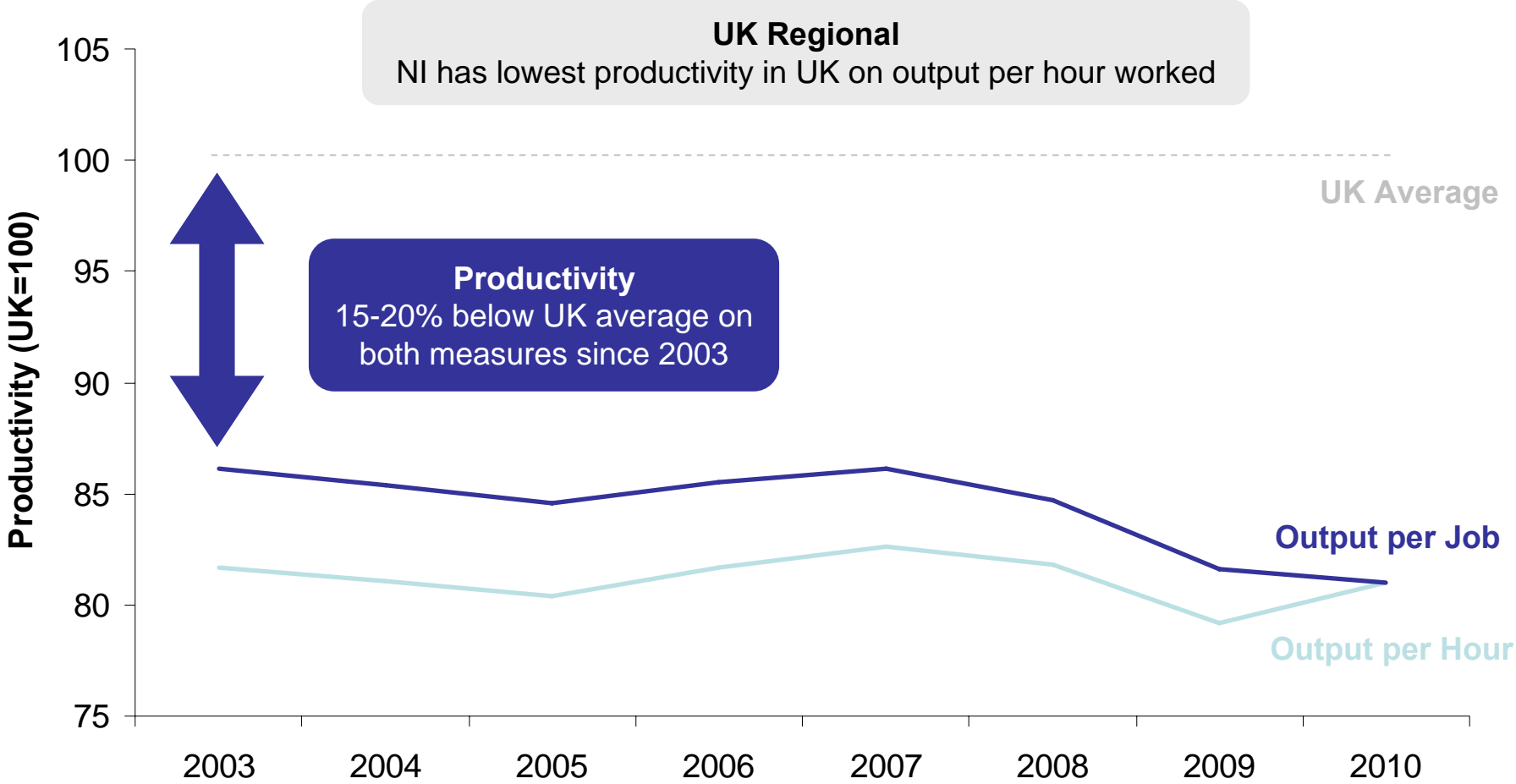
Source: ONS Regional GVA

## ...which has contributed to lower private sector wages



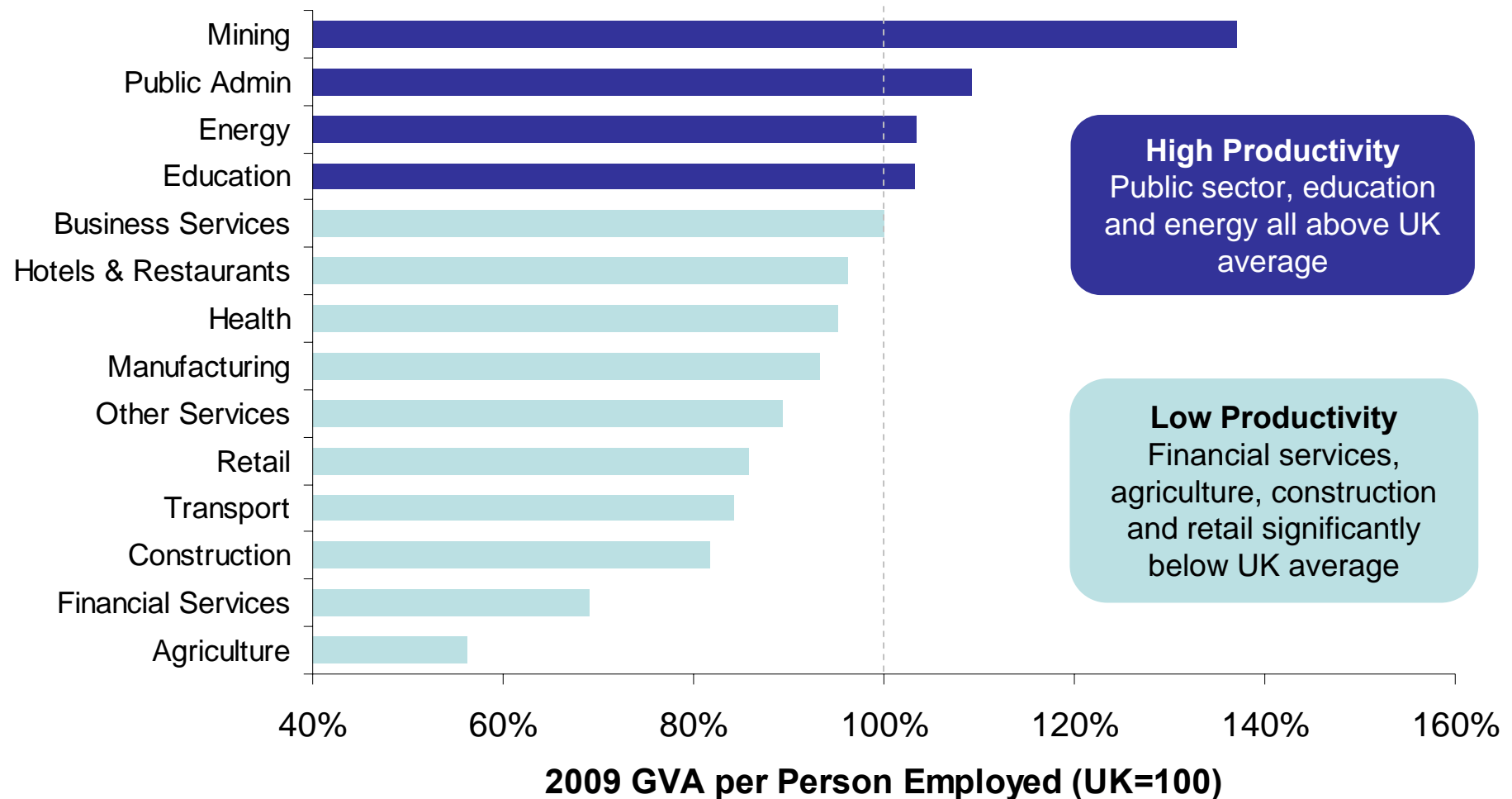
Source: ONS & NISRA ASHE 2011

# Labour productivity is below the rest of the UK...



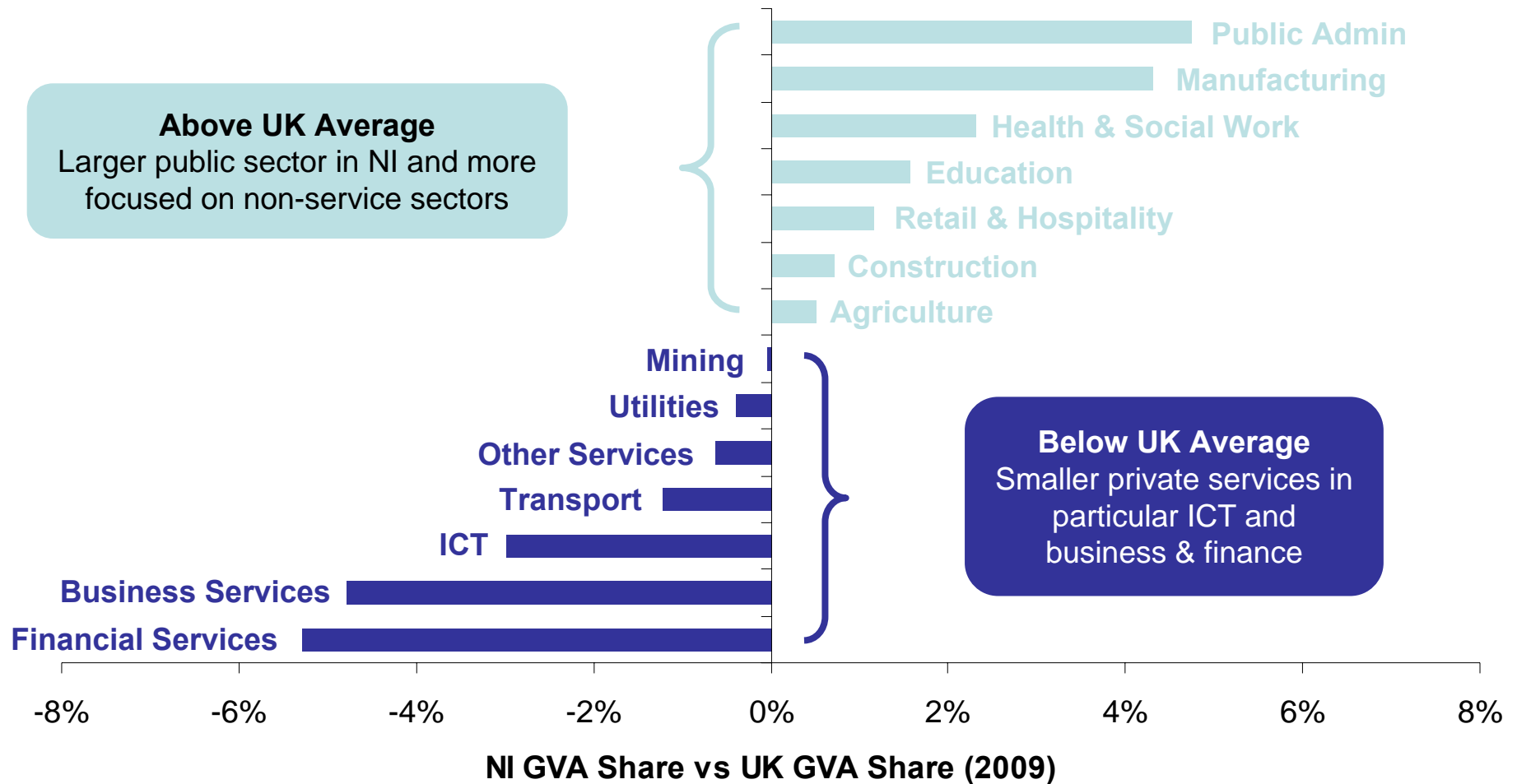
Source: ONS Labour Productivity

## ...which is caused by relatively low productivity in key sectors...



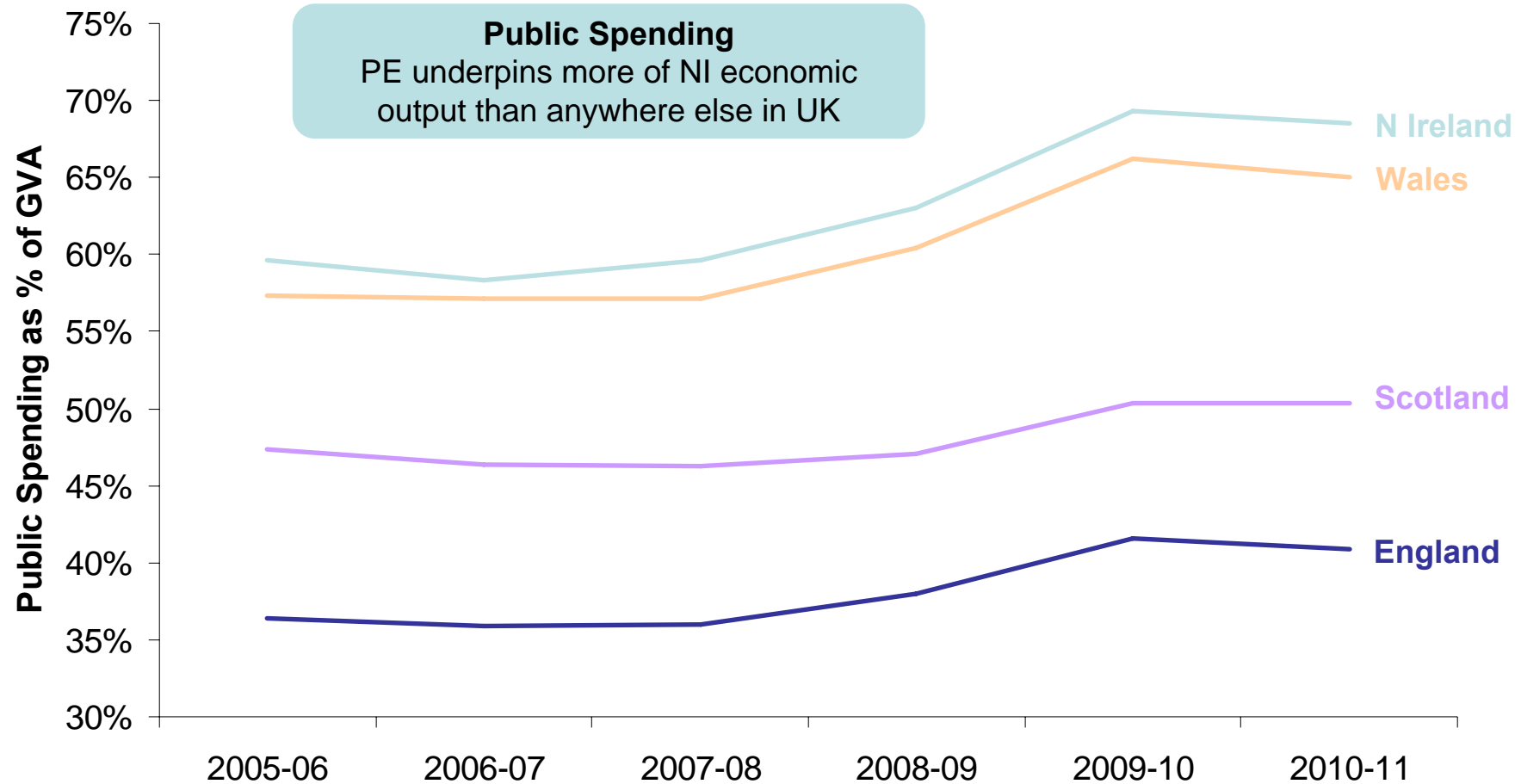
Source: Oxford Economics

# ...and an industrial structure which is less focused on higher value added activities



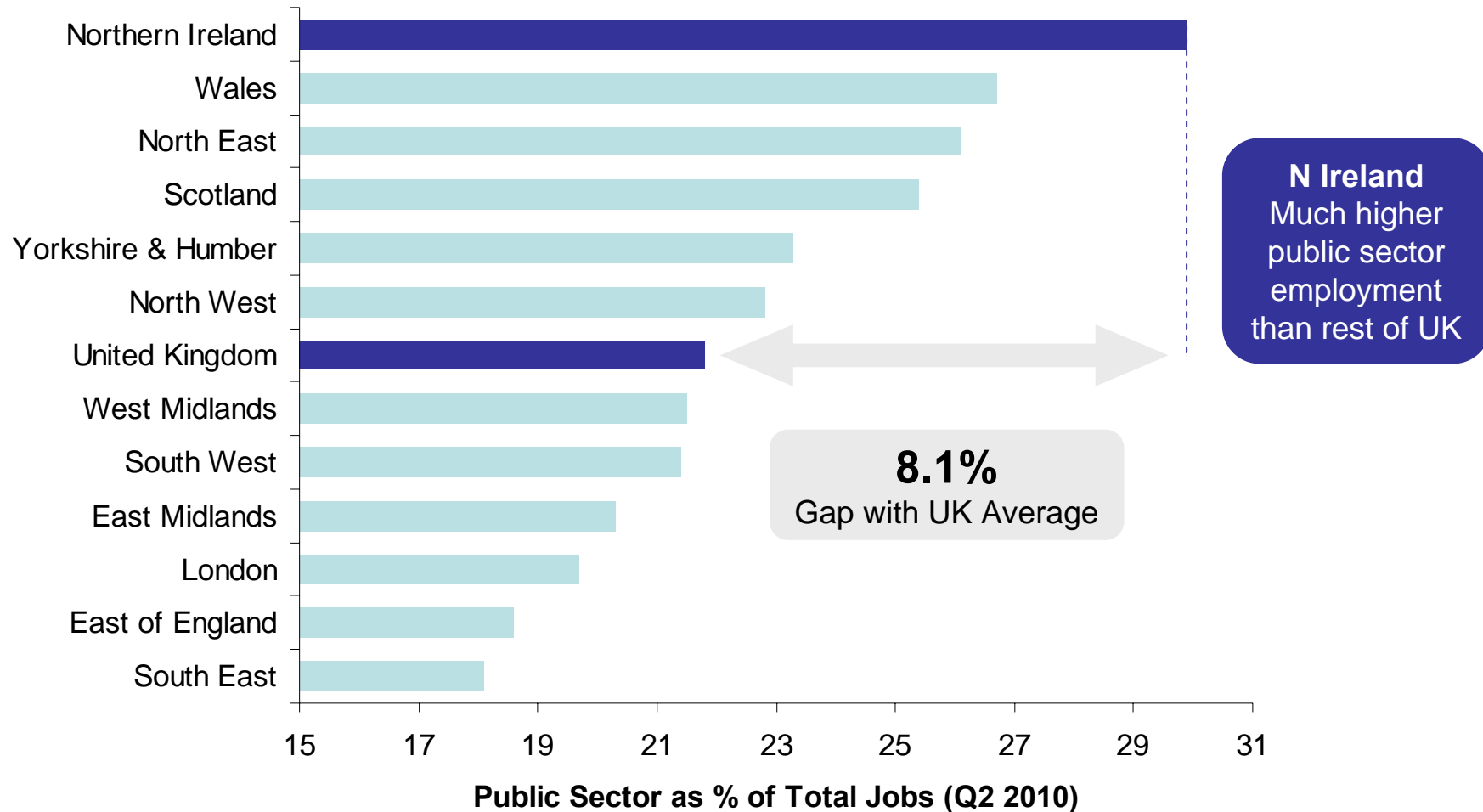
Source: ONS Regional GVA

## The public sector has been a key driver of output...





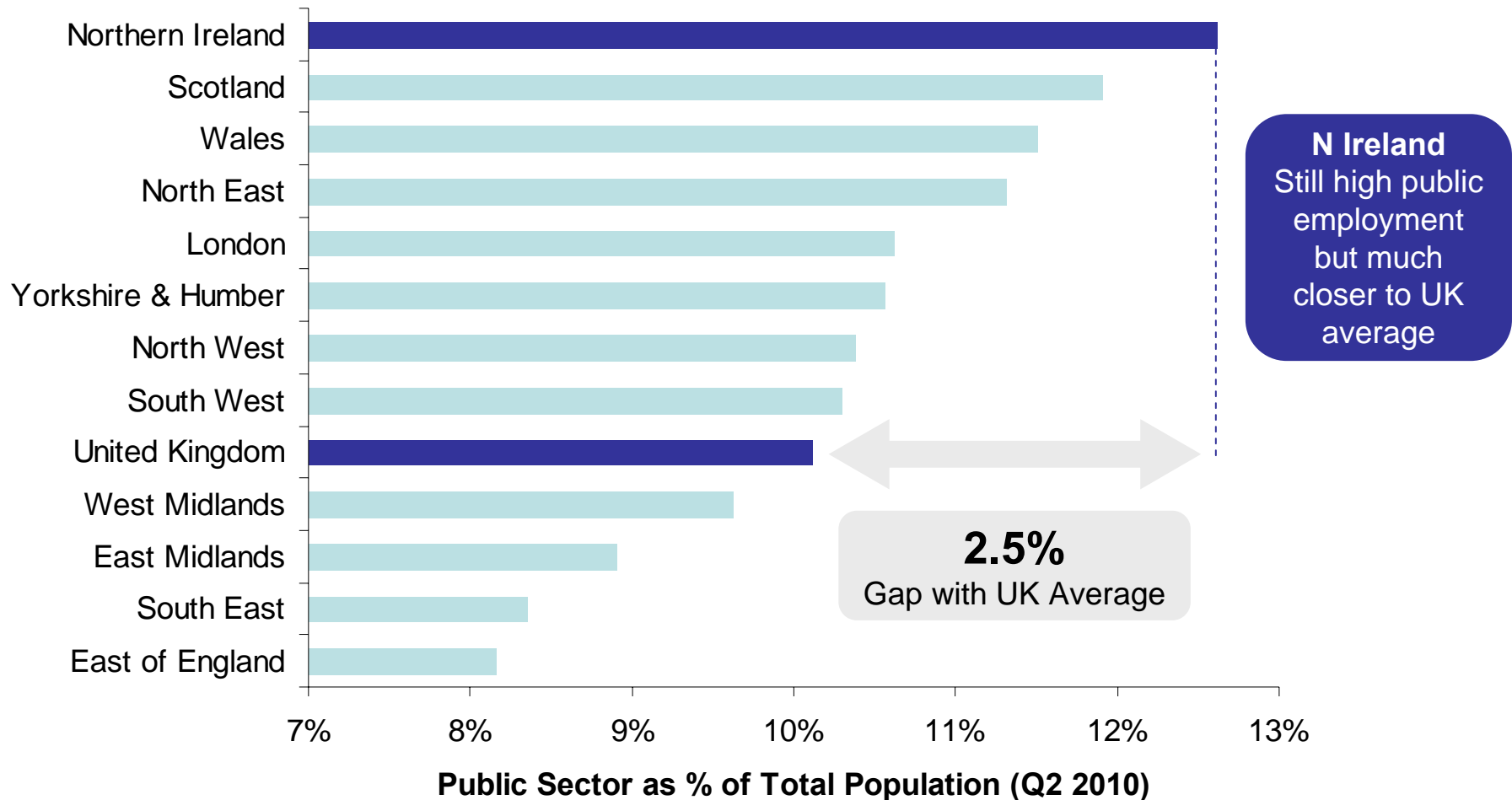
## ...and total jobs in the local economy...



Source: ONS Regional Public Sector Employment

Note: Gap is expressed as percentage points

## ...although this is less apparent when the public sector is considered relative to the overall population



Source: ONS Regional Public Sector Employment; ONS Population Estimates

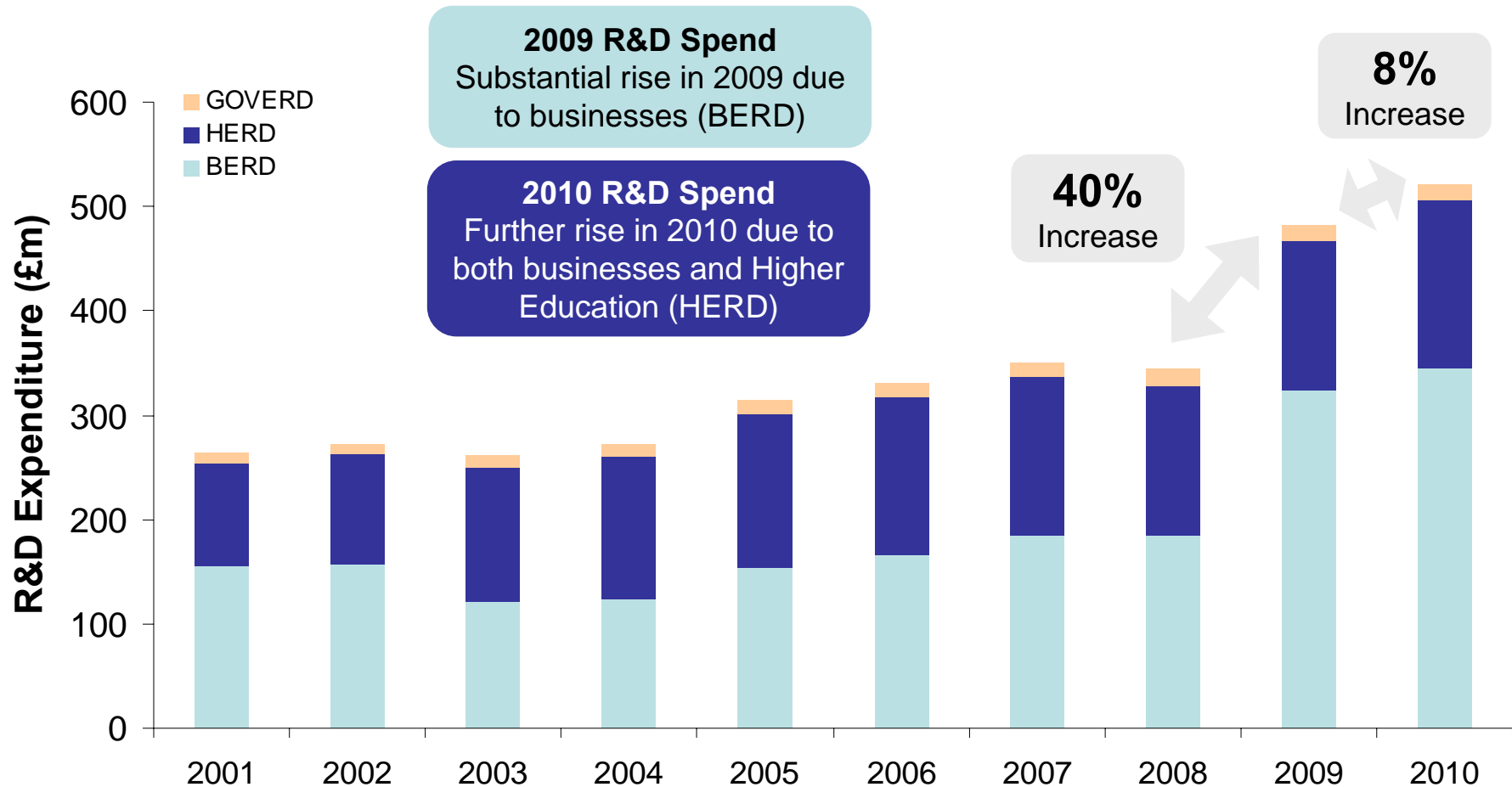
Note: Gap is expressed as percentage points

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**A**

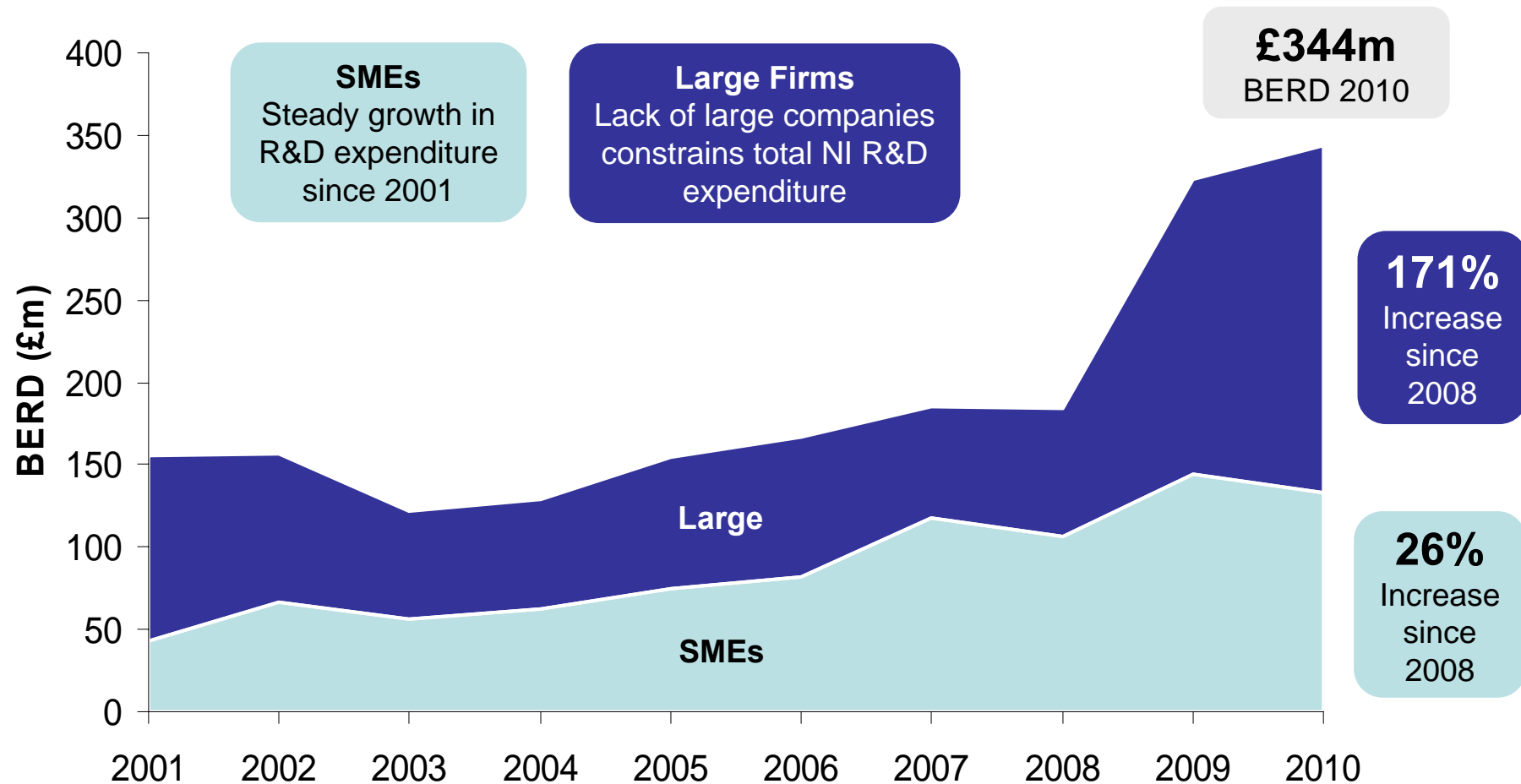
**Innovation and R&D**

# R&D expenditure has shown large increases since 2008



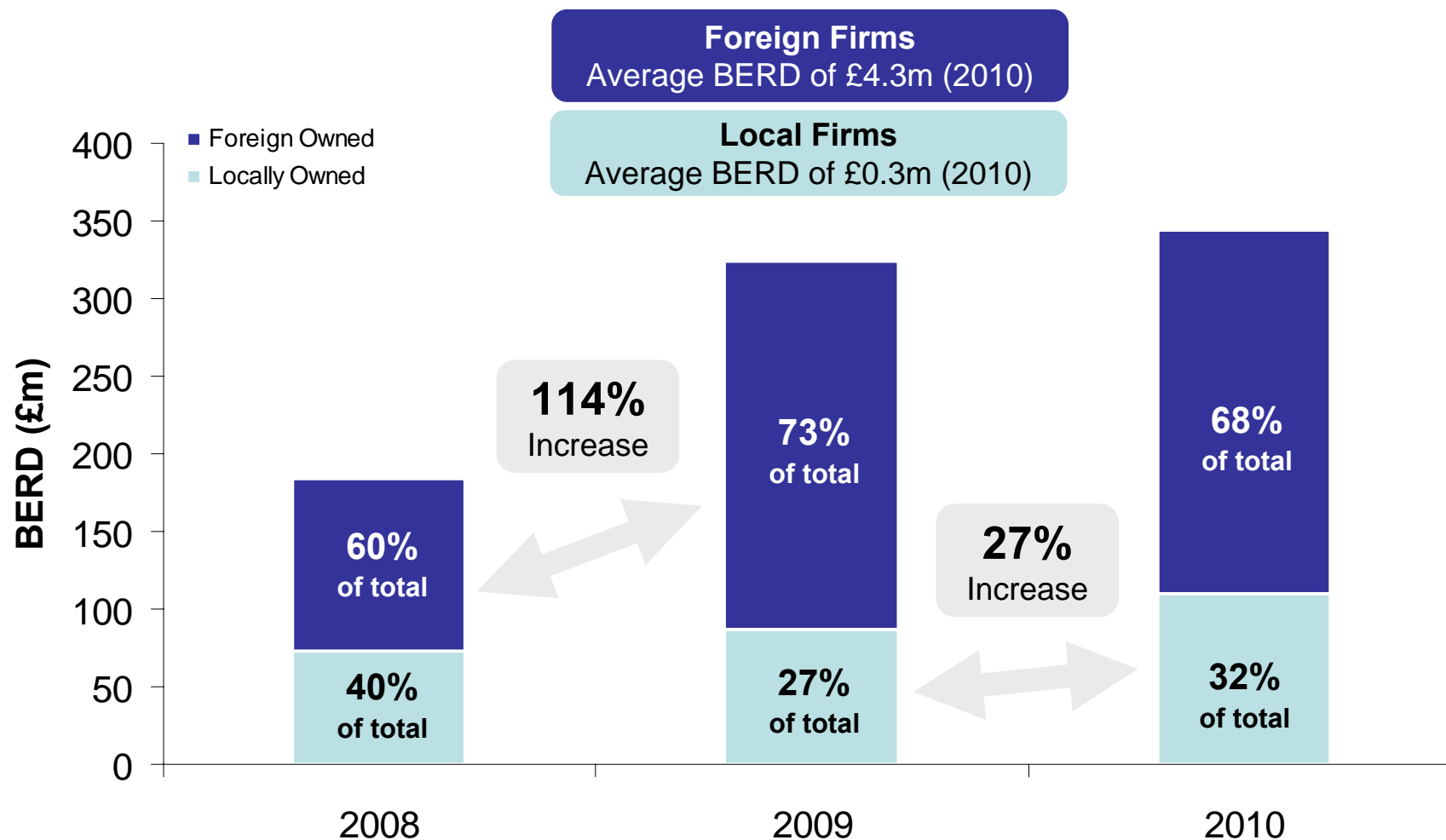
Source: NISRA R&D Survey

## The Business R&D (BERD) increase is mainly due to companies that are larger...



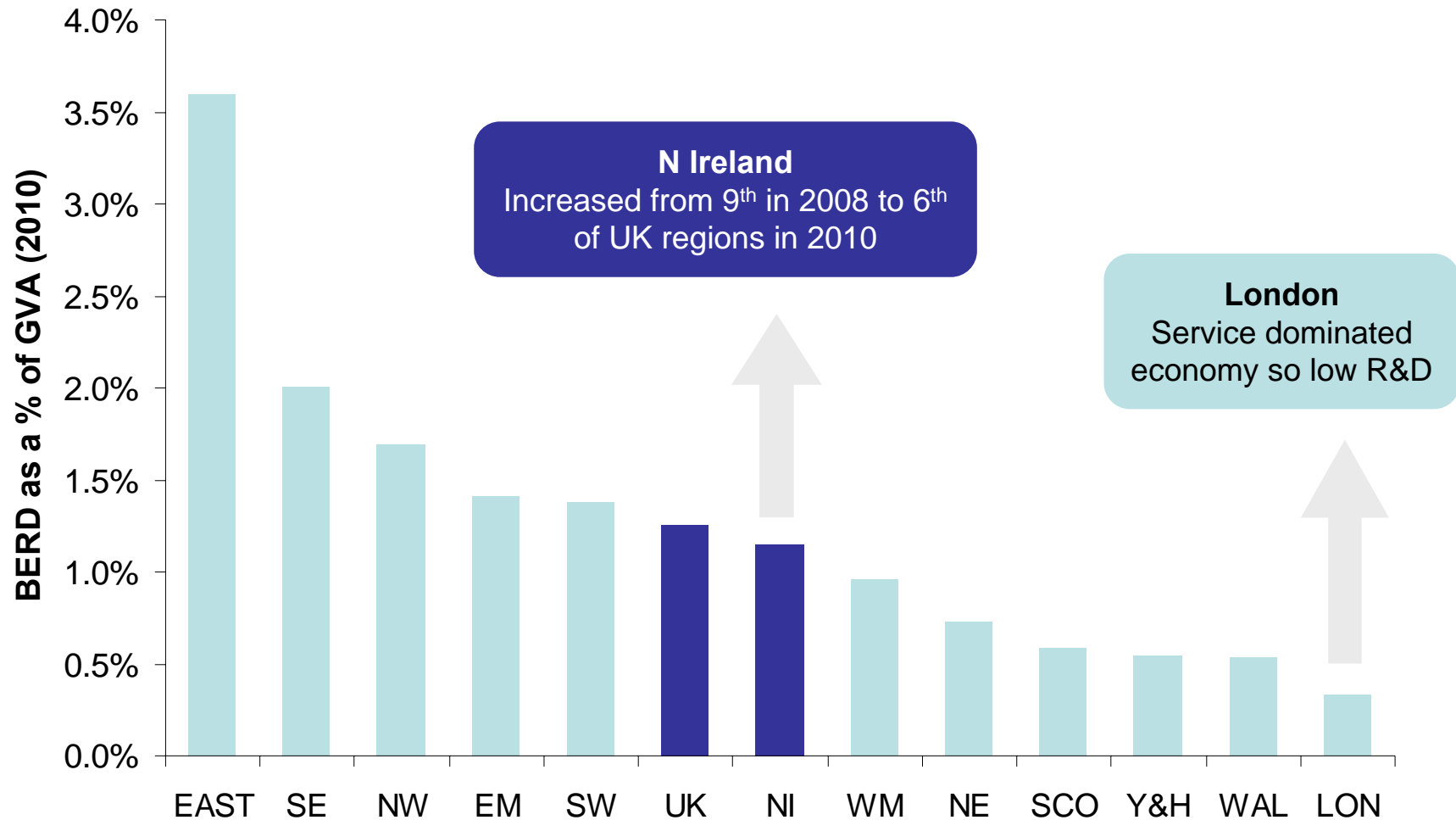
Source: NISRA R&D Survey

## ...with both local and foreign owned firms spending more



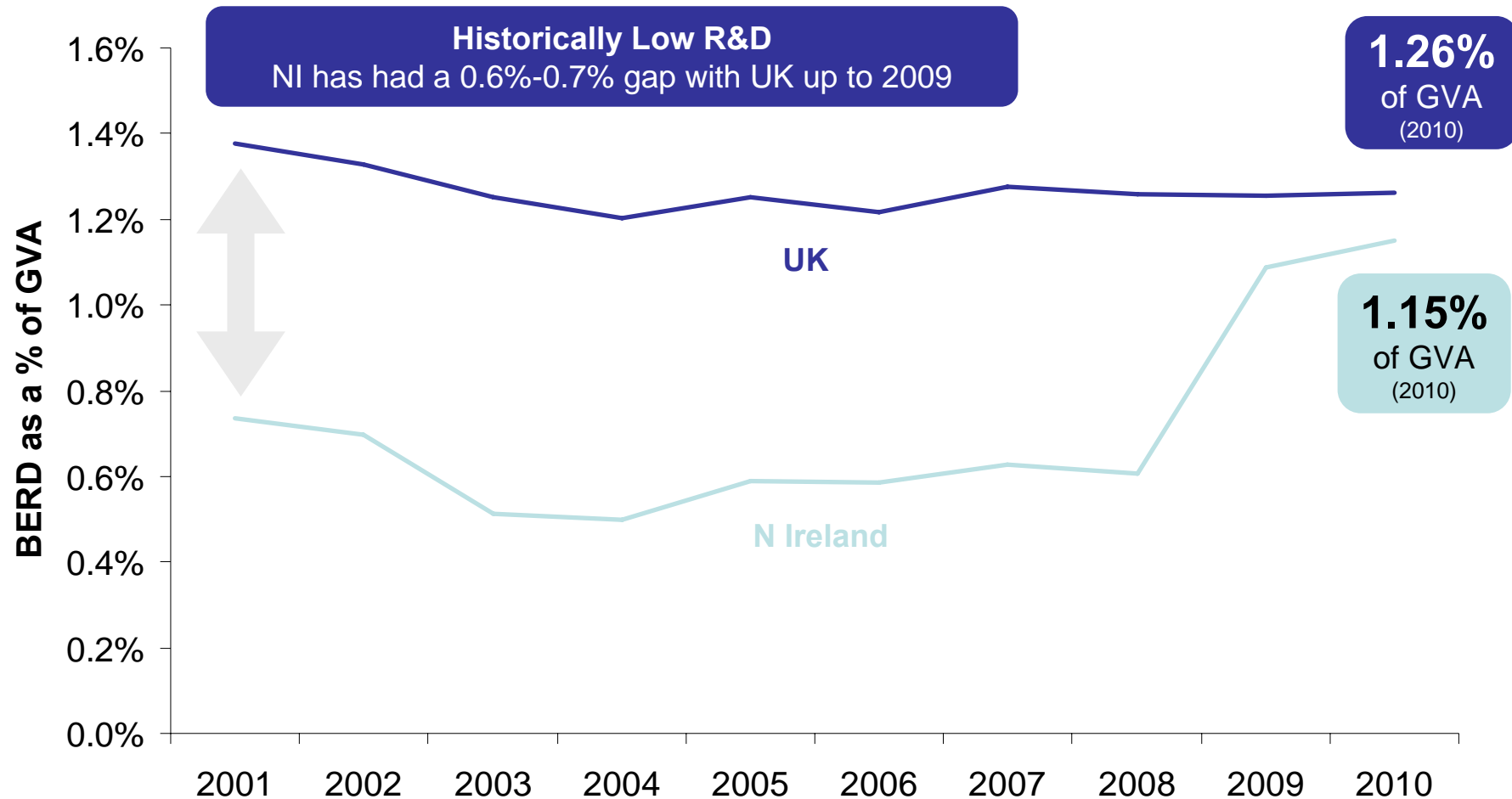
Source: NISRA R&D Survey

## NI BERD is now similar to the UK average...



Source: ONS Business Enterprise Research & Development; ONS Regional GVA

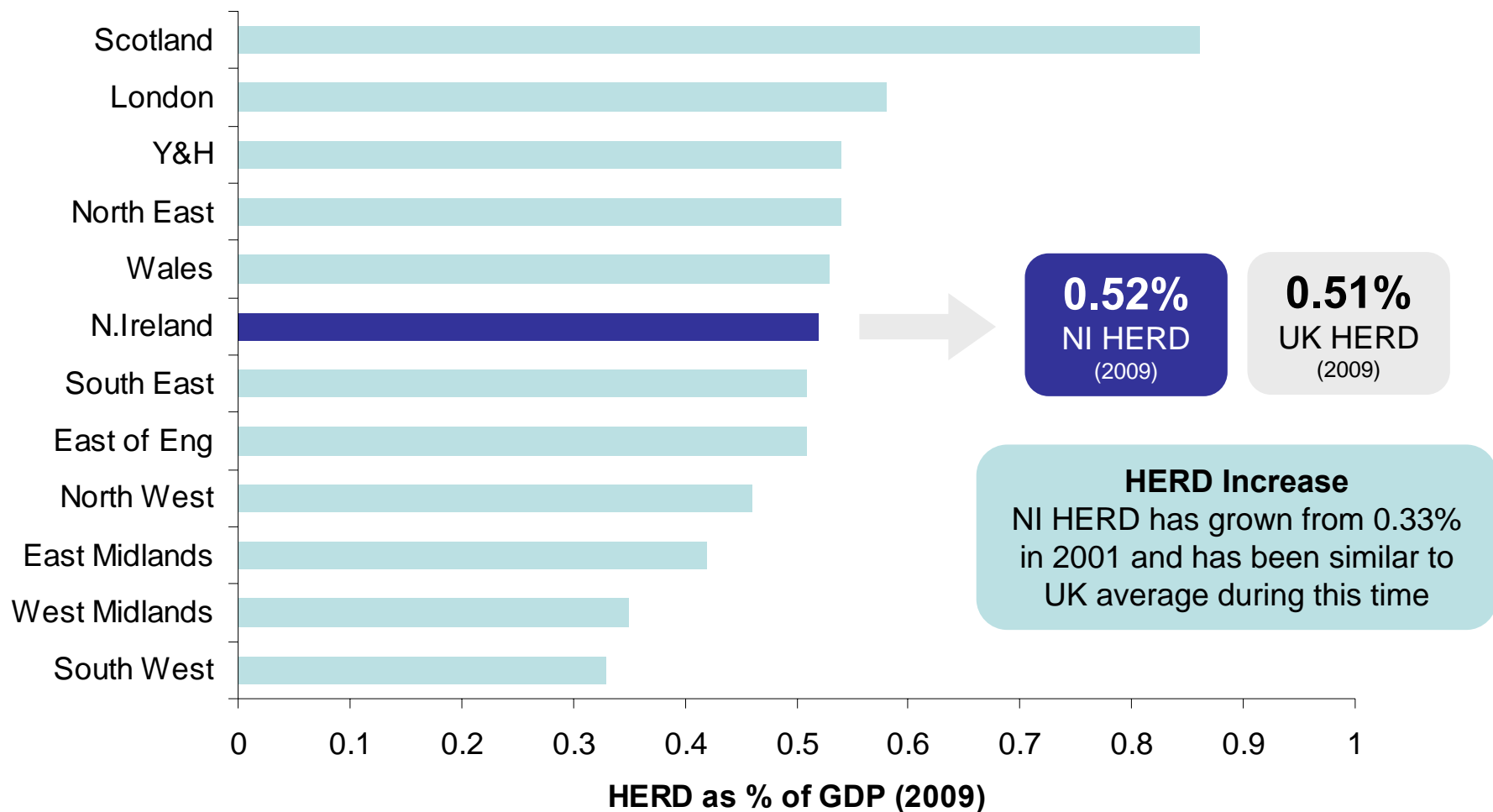
...although this is not indicative of historic performance



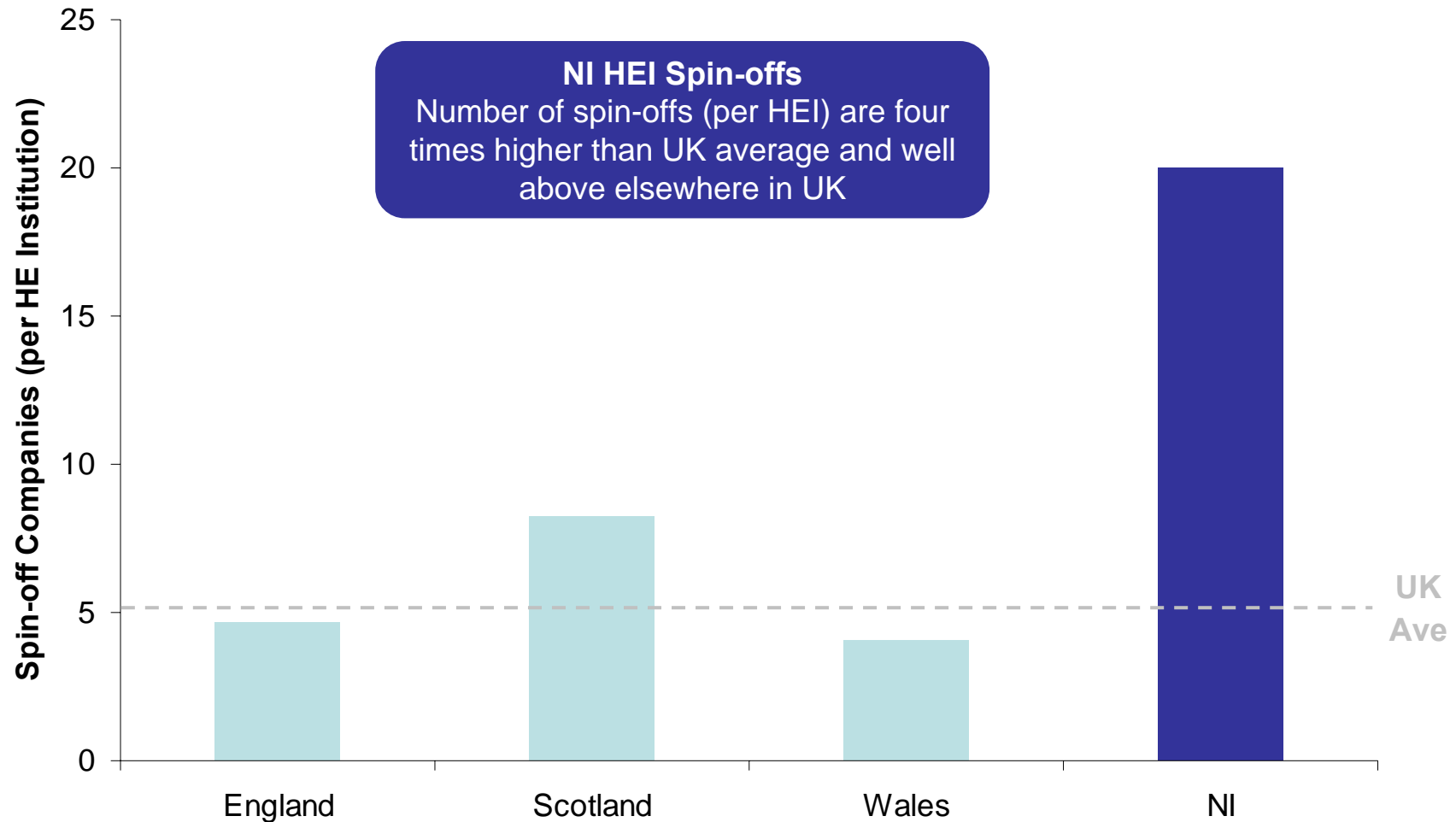
Source: ONS Business Enterprise Research & Development; ONS Regional GVA



## NI Higher Education R&D spend (HERD) is broadly on a par with the rest of the UK...



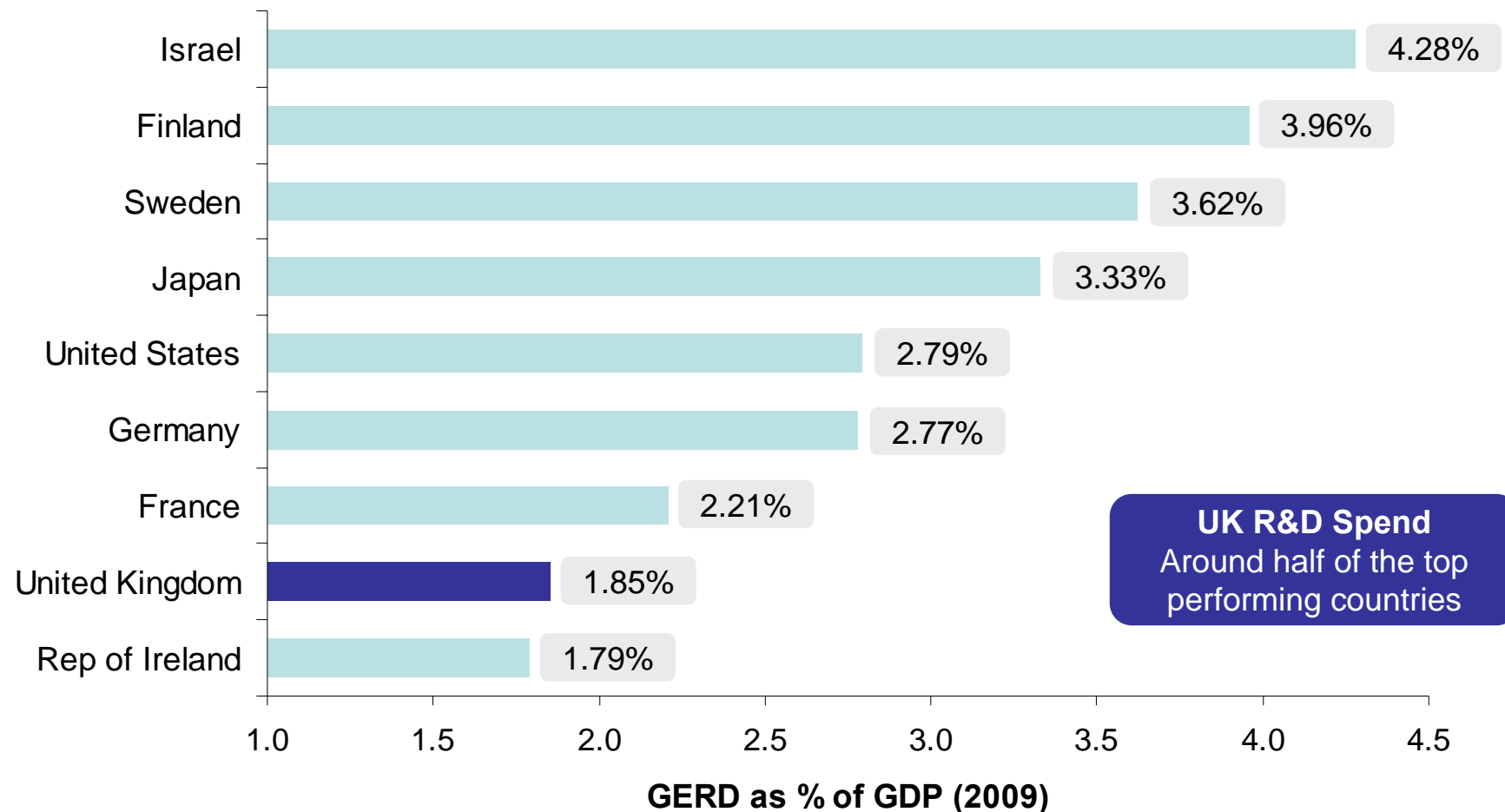
## ...and compares favourably in terms of spin-off companies from Higher Education Institutions



Source: UK Higher Education Business and Community Interaction Survey

Note: Includes all institutions that responded to HEBCI survey

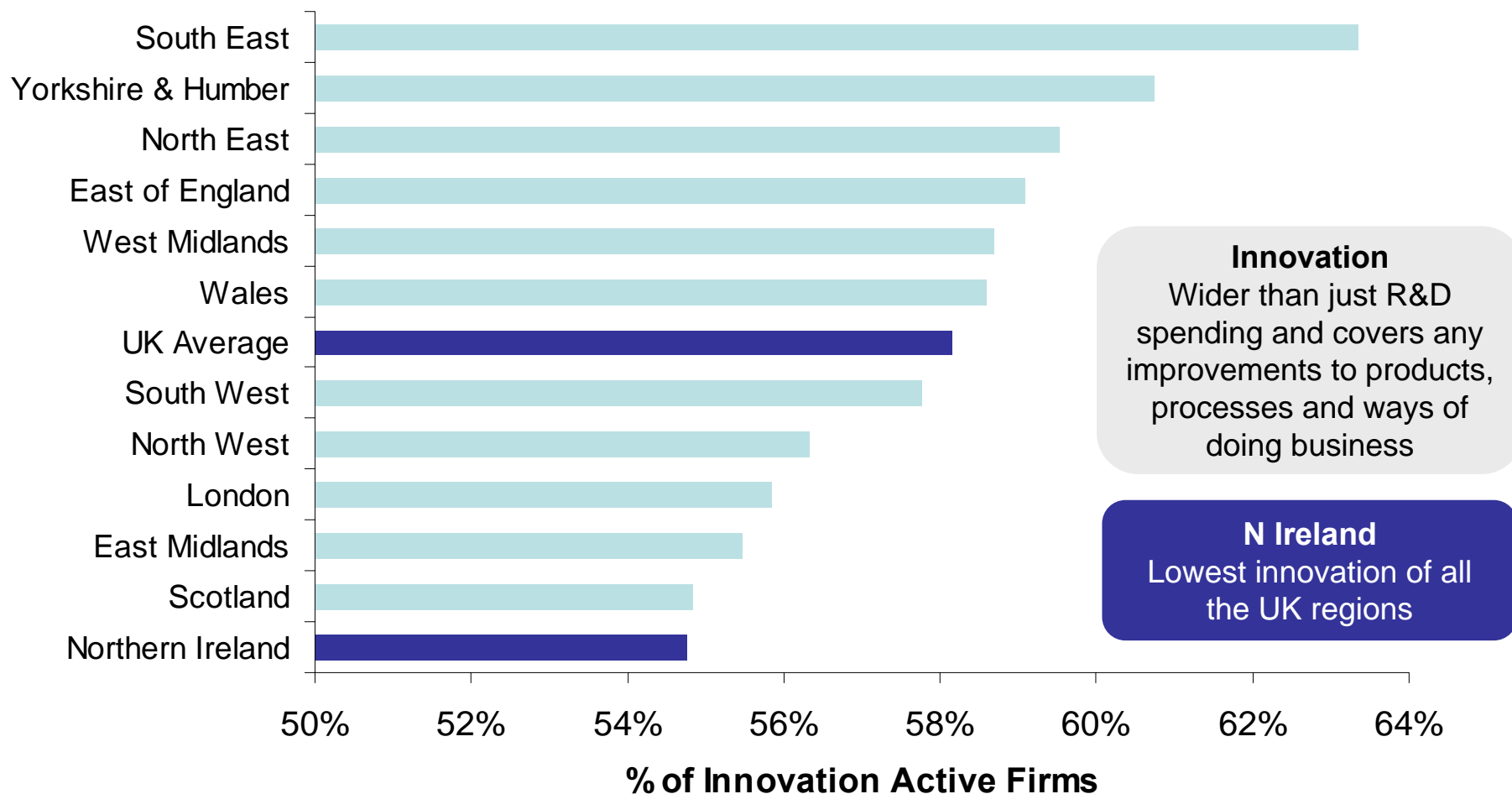
## While total R&D spend is now close to the UK average, this is not good benchmark internationally



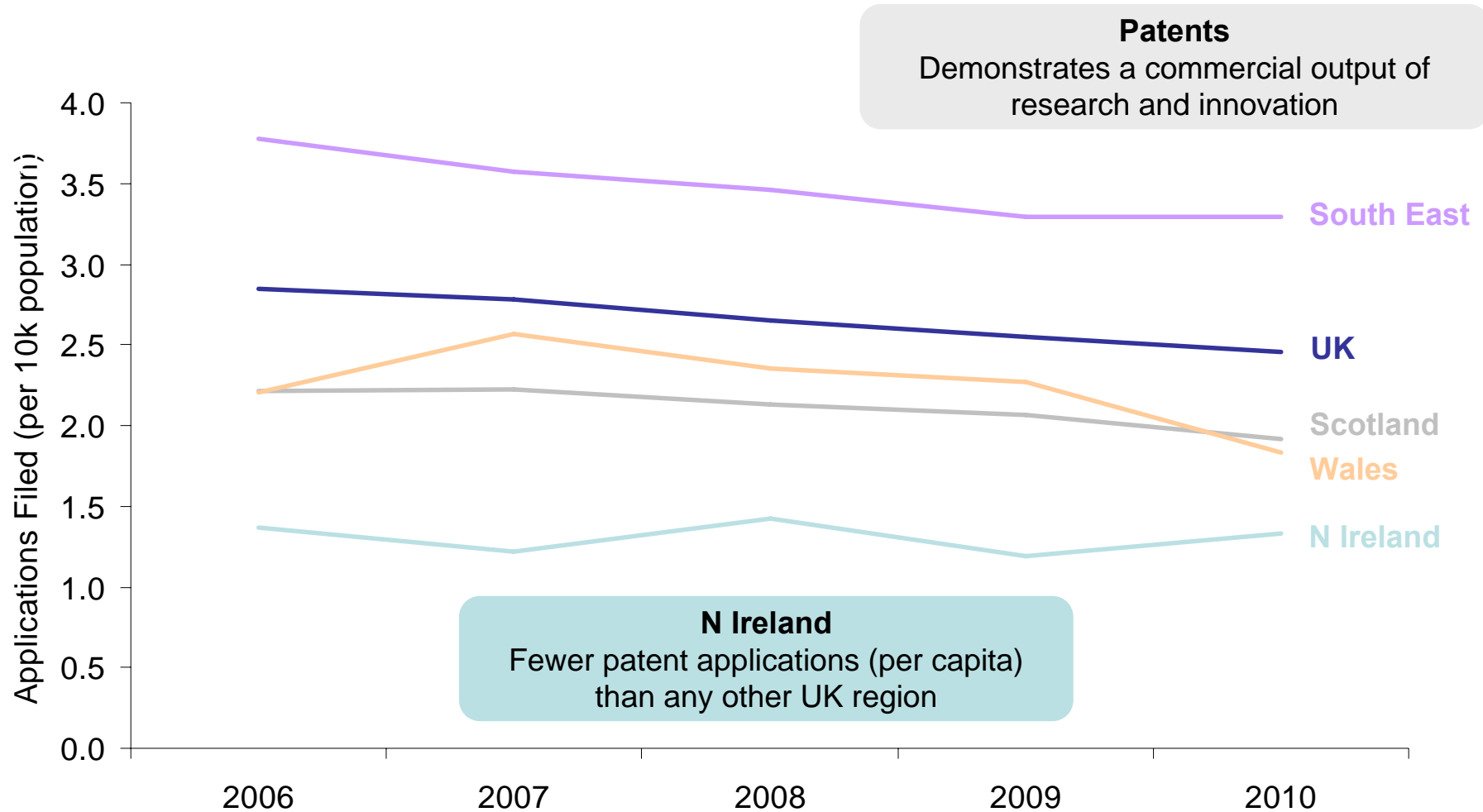
Source: OECD Factbook

Note: Relates to total R&D spend not just business

## Overall innovation activity in NI is low...

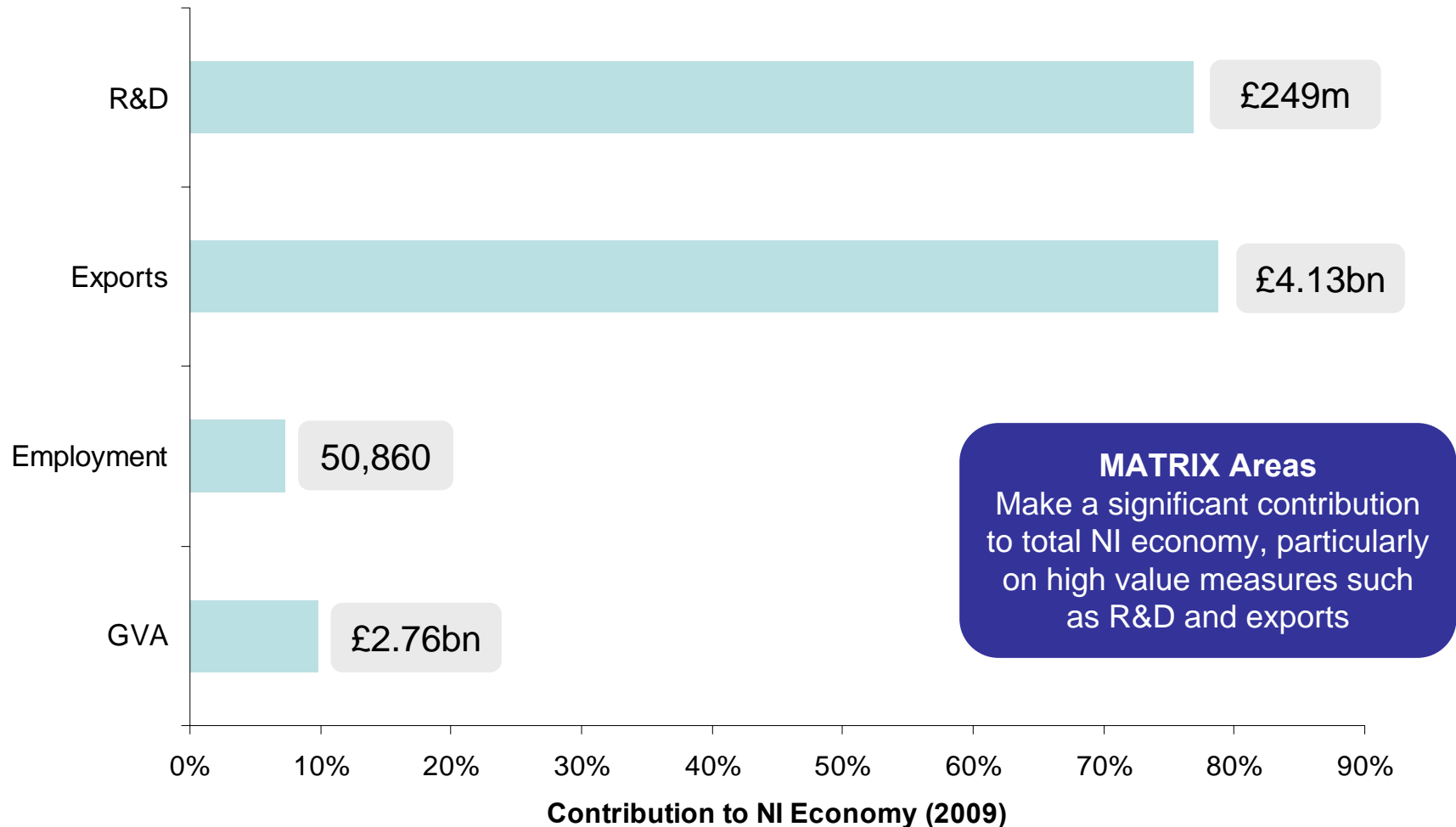


## ...as is the number of patent applications



Source: Intellectual Property Office

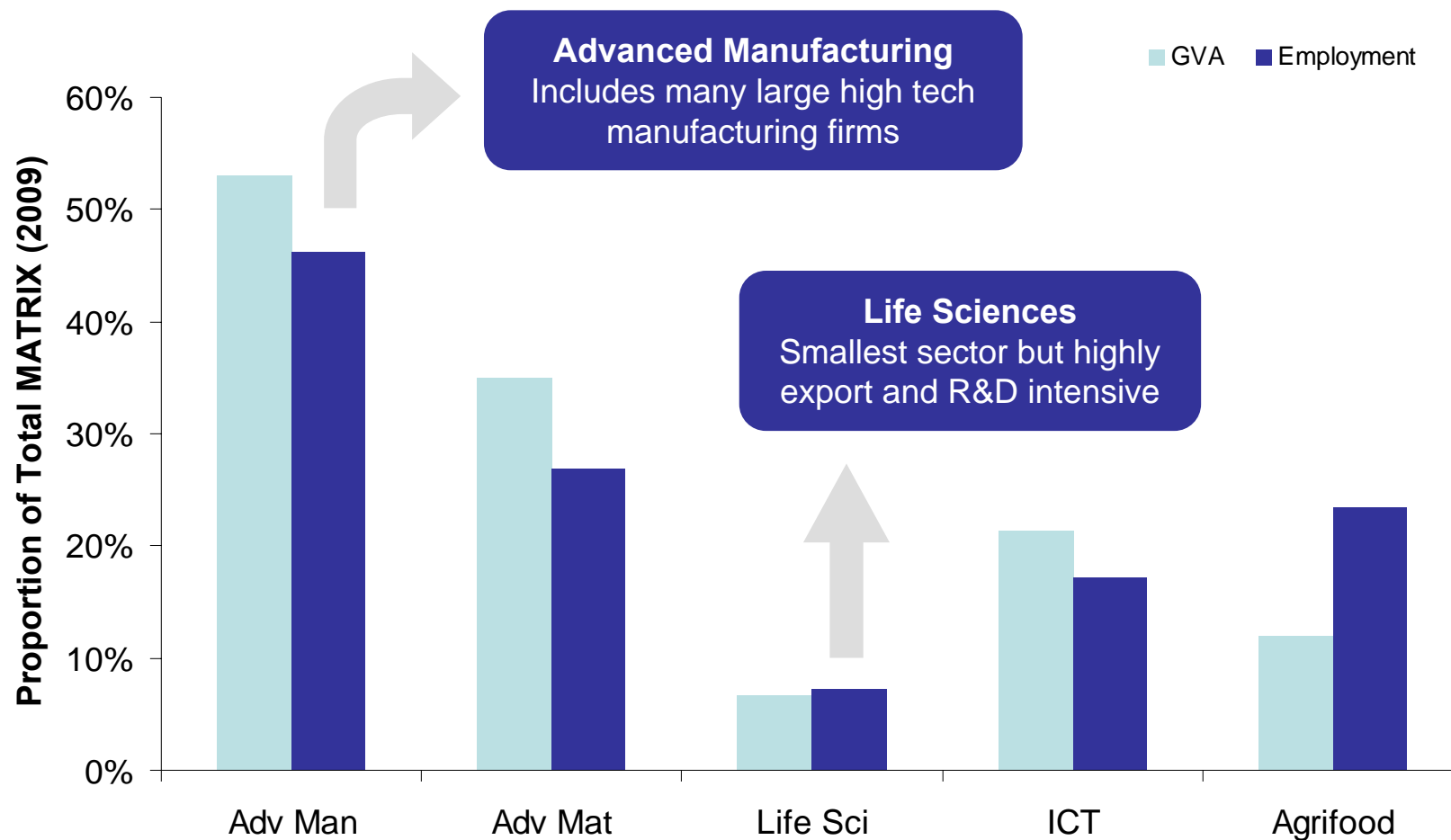
# The high technology niche market opportunities identified by MATRIX already contribute significantly to the economy...



Source: DETI Analysis

Note: Based on companies in the MATRIX technology capability study

## ...with advanced manufacturing representing the largest of the five technology areas



Source: DETI Analysis

Note: Sectors will not sum to 100% as some companies appear in multiple sectors

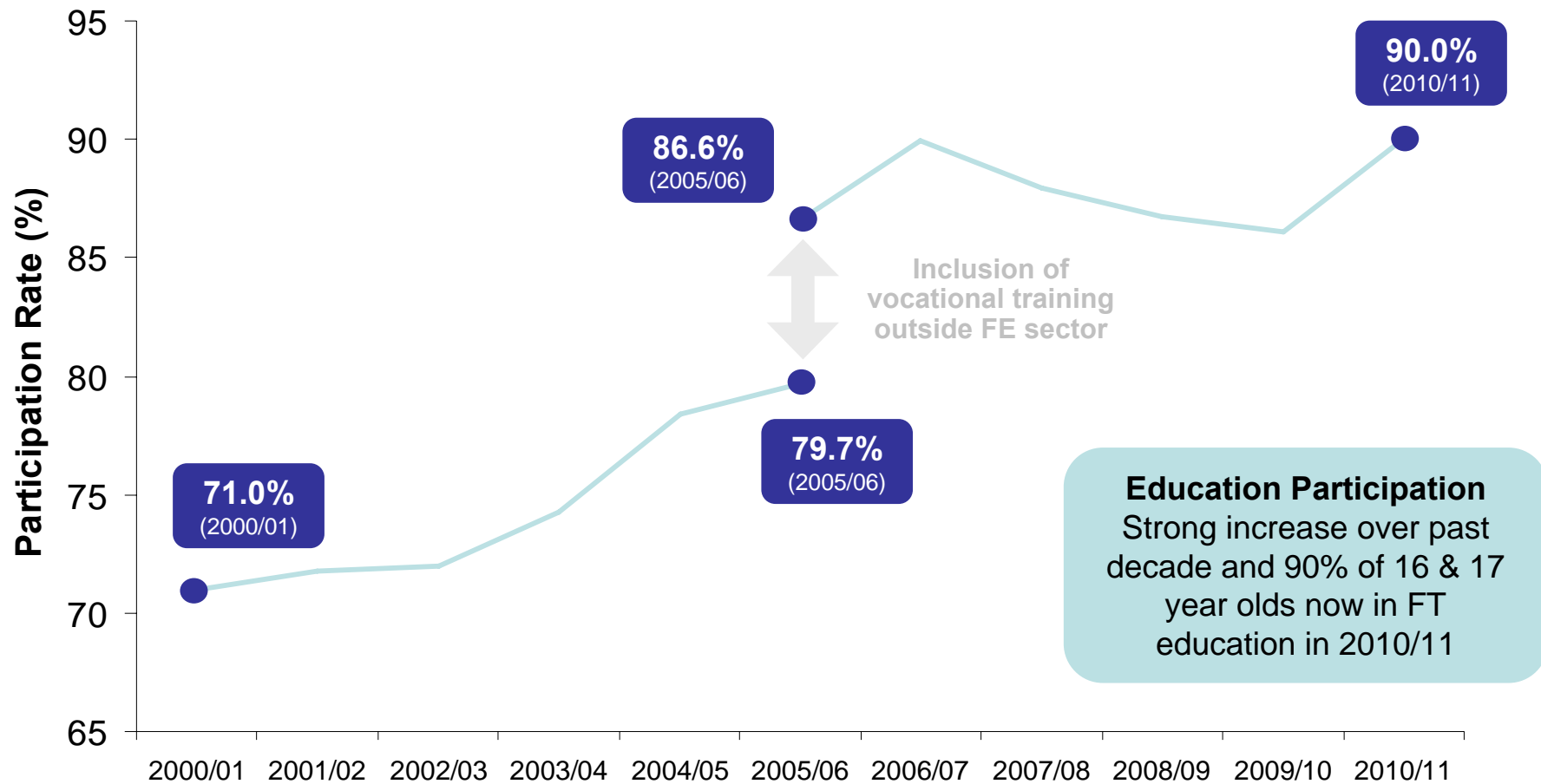
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**B**

## **Skills and Education**

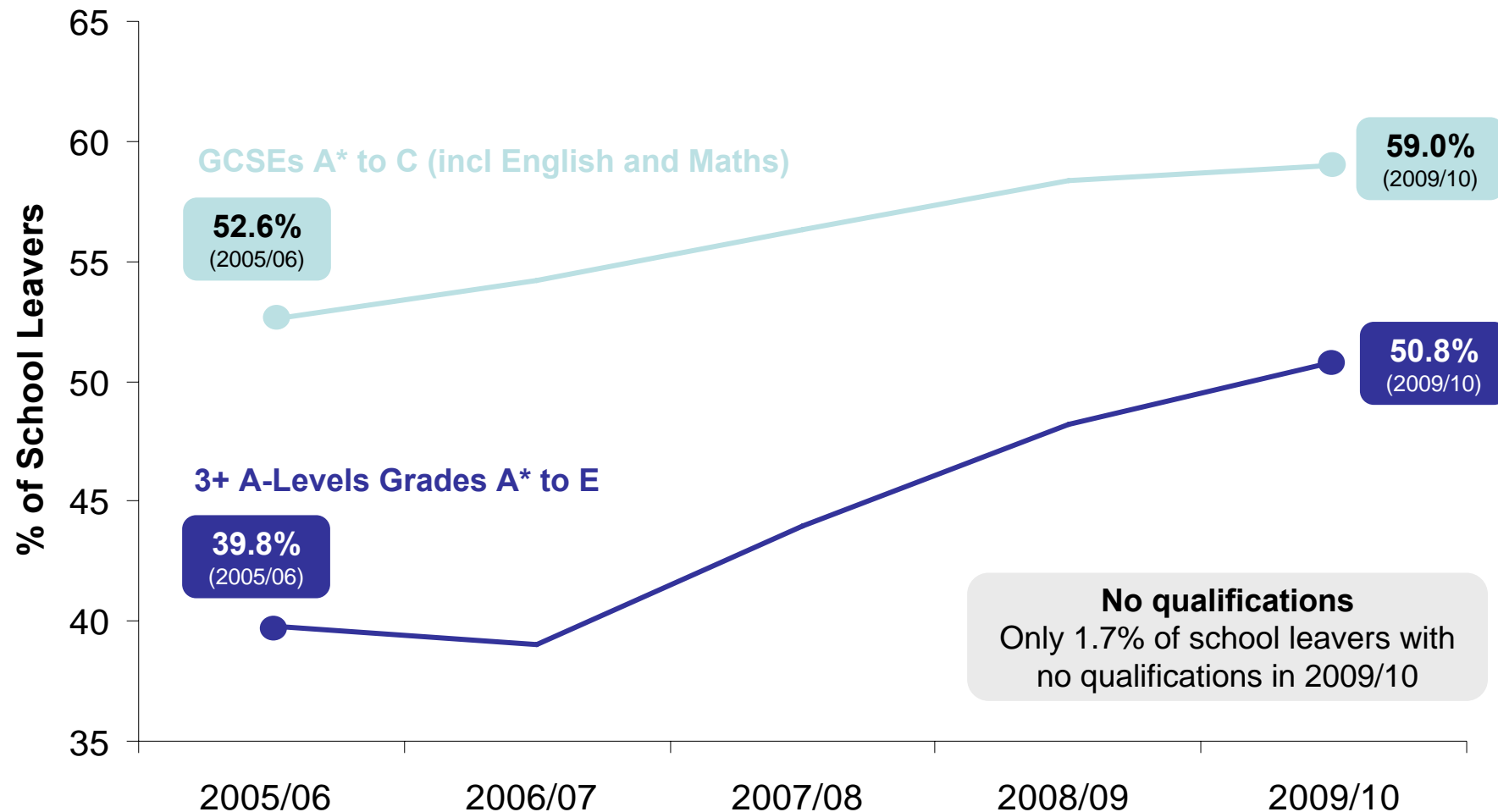


# More 16 and 17 year olds have been attending FT education...



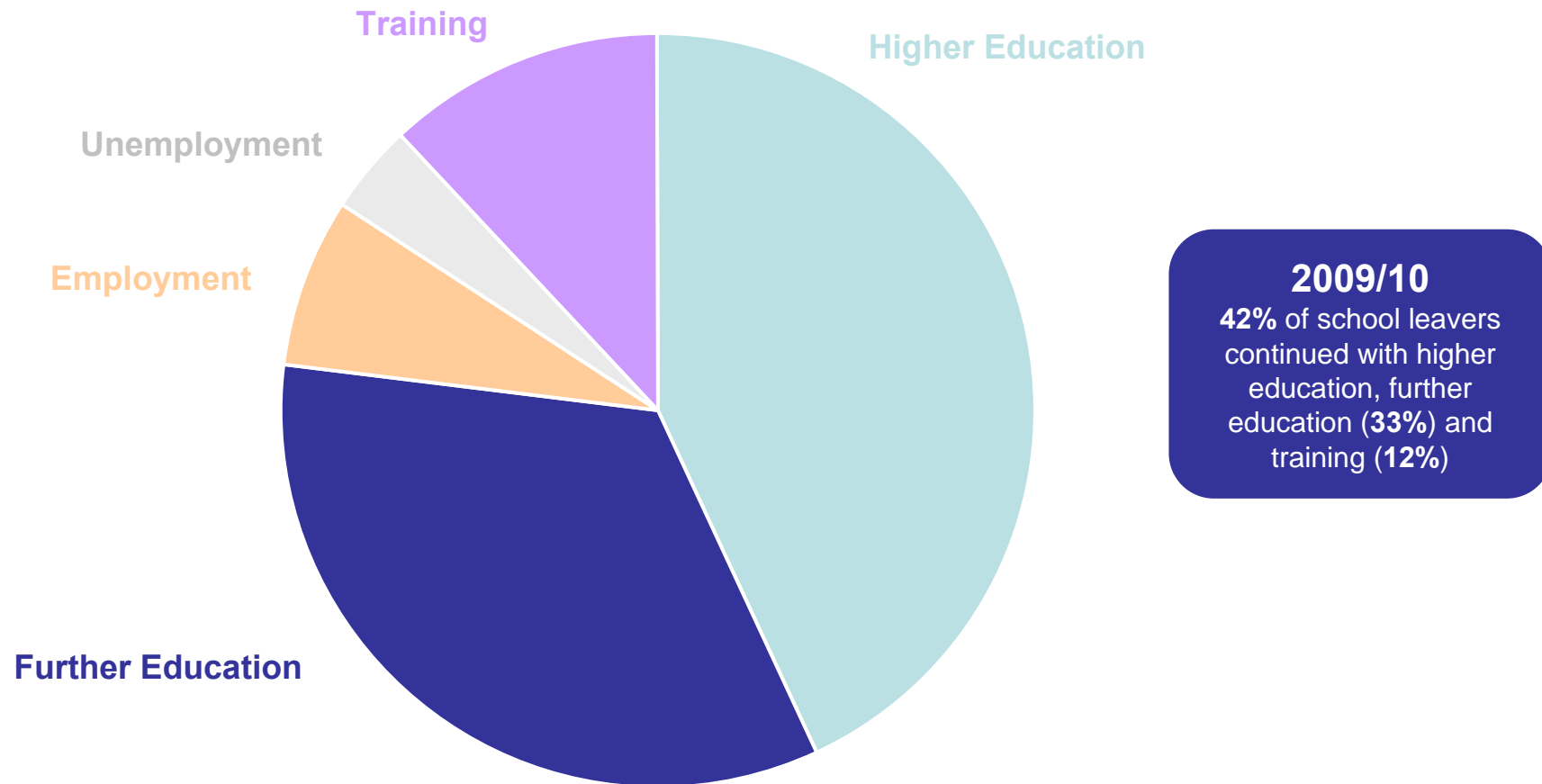
Source: DE Participation Statistics

## ...and increasing numbers of school leavers have been attaining GCSEs and A-Levels

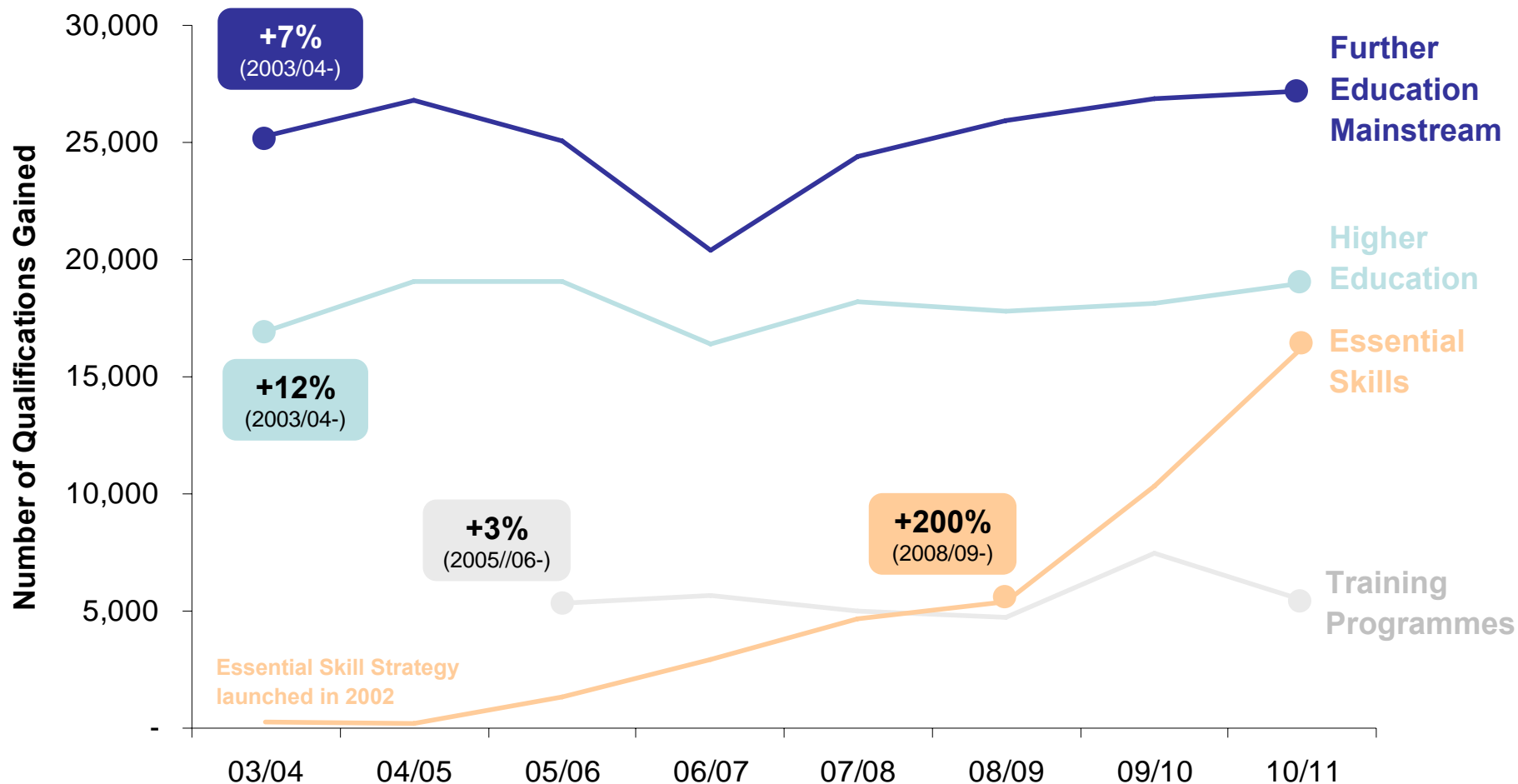


Source: DE Qualifications and Destinations of School Leavers  
Note: GCSE A\*-C rate increases to 71.9% (2009/10) if not specifying subjects to include both English and Maths

# The majority of pupils continue with education and training in some form when they leave school...

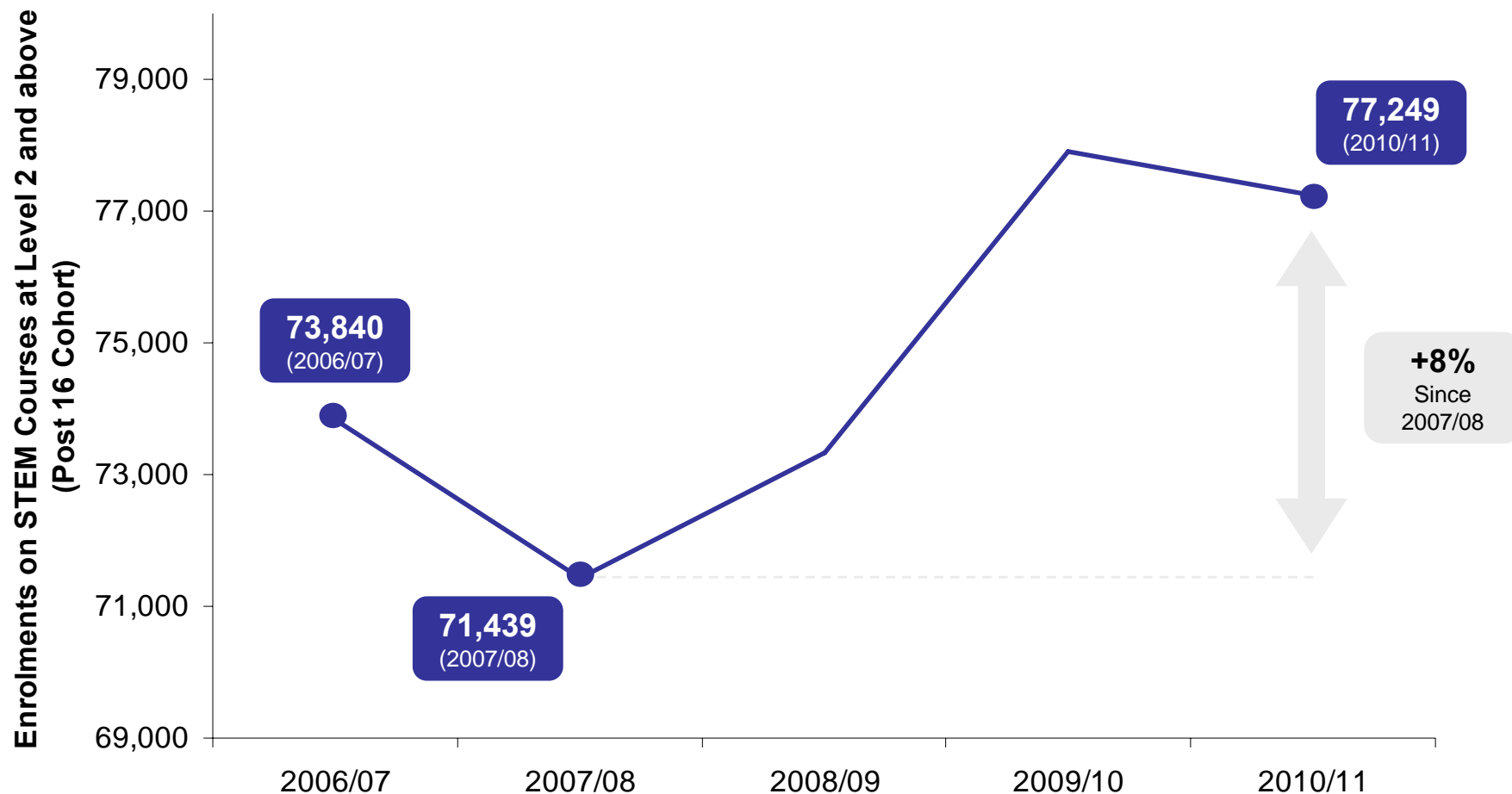


## ...and increasing numbers of qualifications are being gained through training, essential skills, FE and HE



Source: FELIS, HESA, DEL, Awarding Organisations  
 Note: FE data for 2006/07 is incomplete hence apparent fall

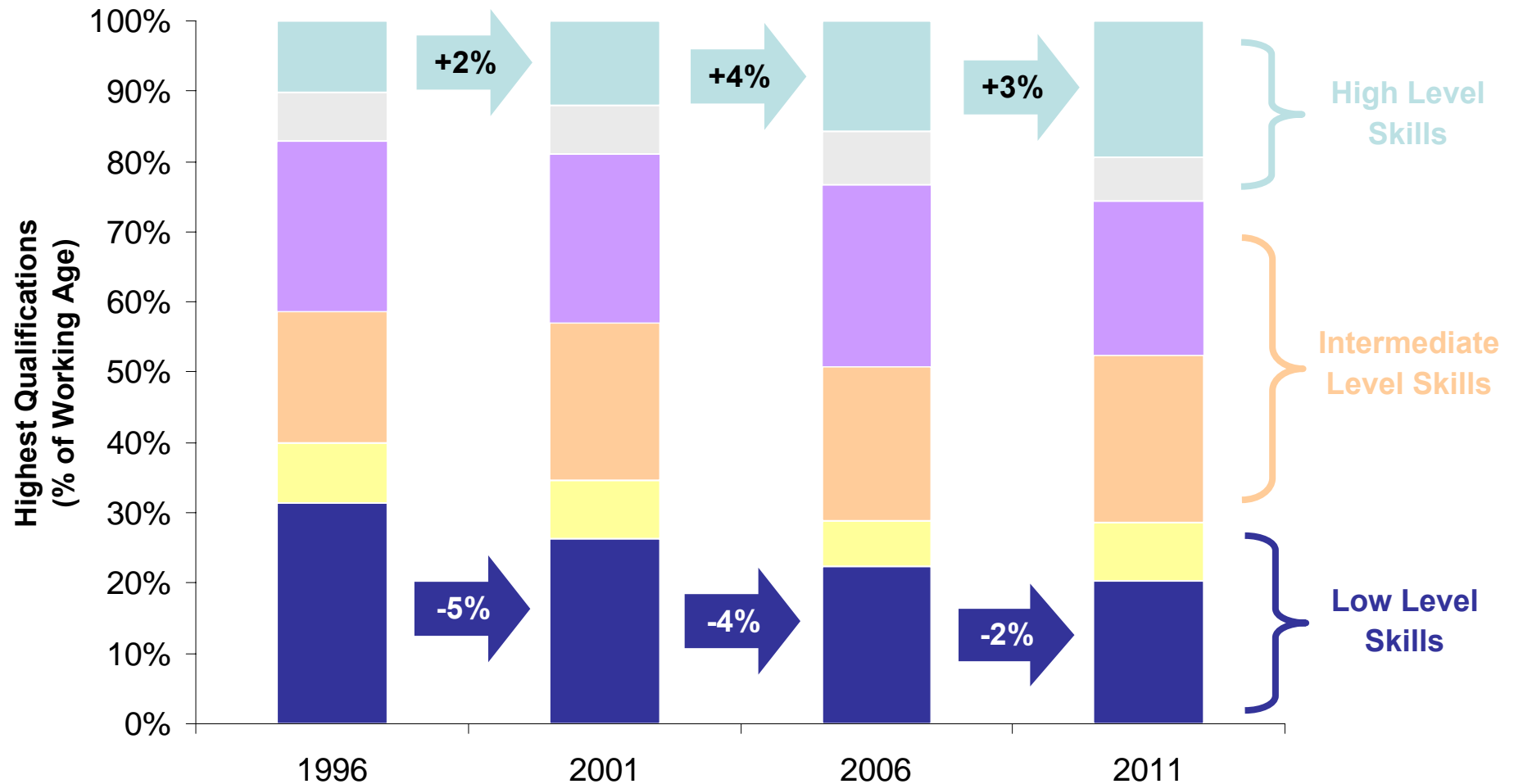
## The number of enrolments in STEM subjects has also been increasing after a period of decline



Source: DELNI (FESR, HESA, CMS) and DENI (Schools Examination Entries)

Note: Includes enrolments in schools, FE, HE and training programmes

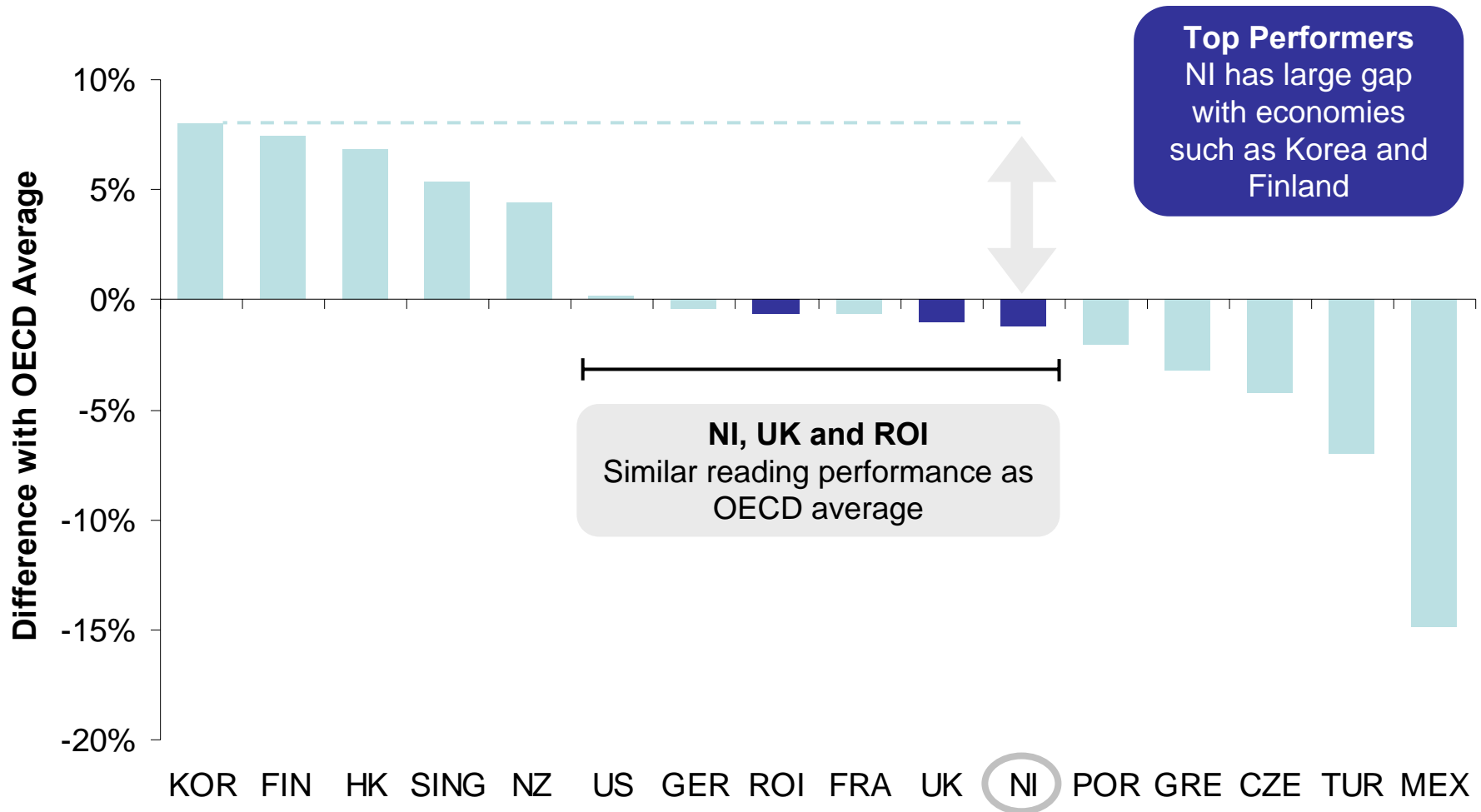
## The working age skills profile has been improving



Source: NISRA Labour Force Survey (April-June quarter)

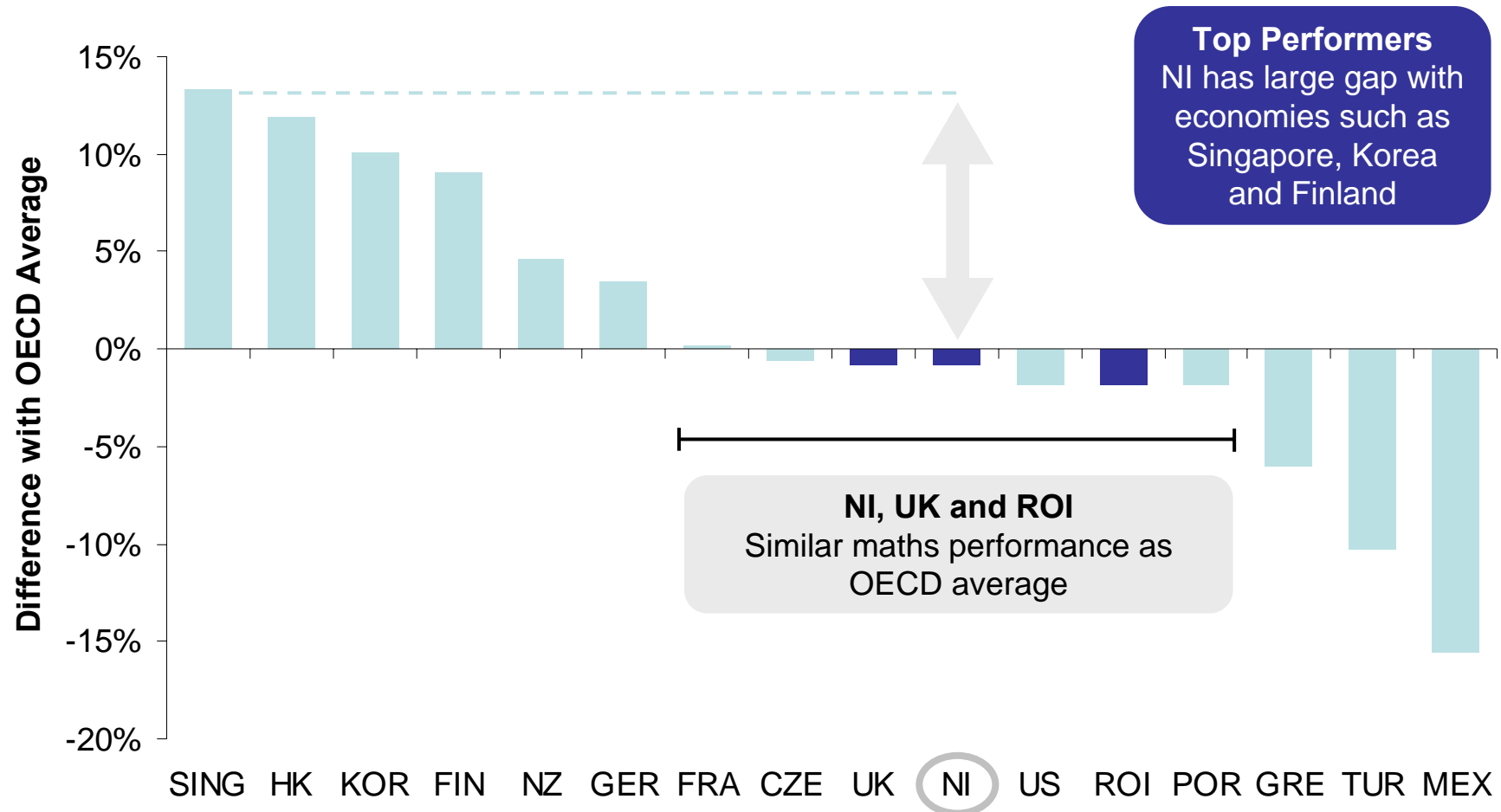
Note: High (Degree and equiv; Higher Education); Intermediate (A-Level and equiv; GCSE A-C or equiv); Low (Other qualifications; No qualifications)

# Comparing internationally, NI literacy levels of 15 year olds are similar to the OECD average in terms of reading...



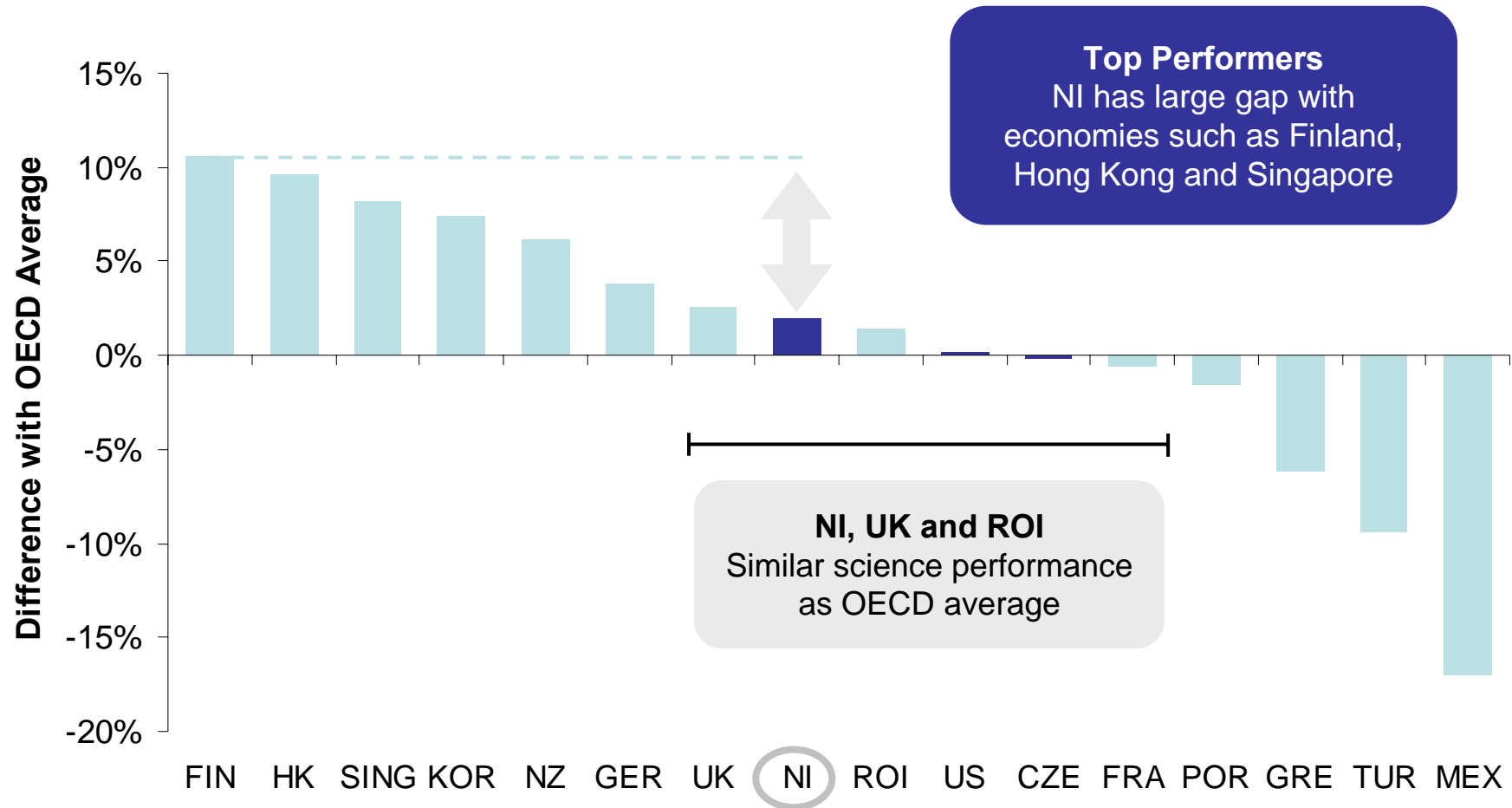
Source: OECD PISA Study 2009  
 Note: Measures literacy of 15 year olds

## ...mathematics...

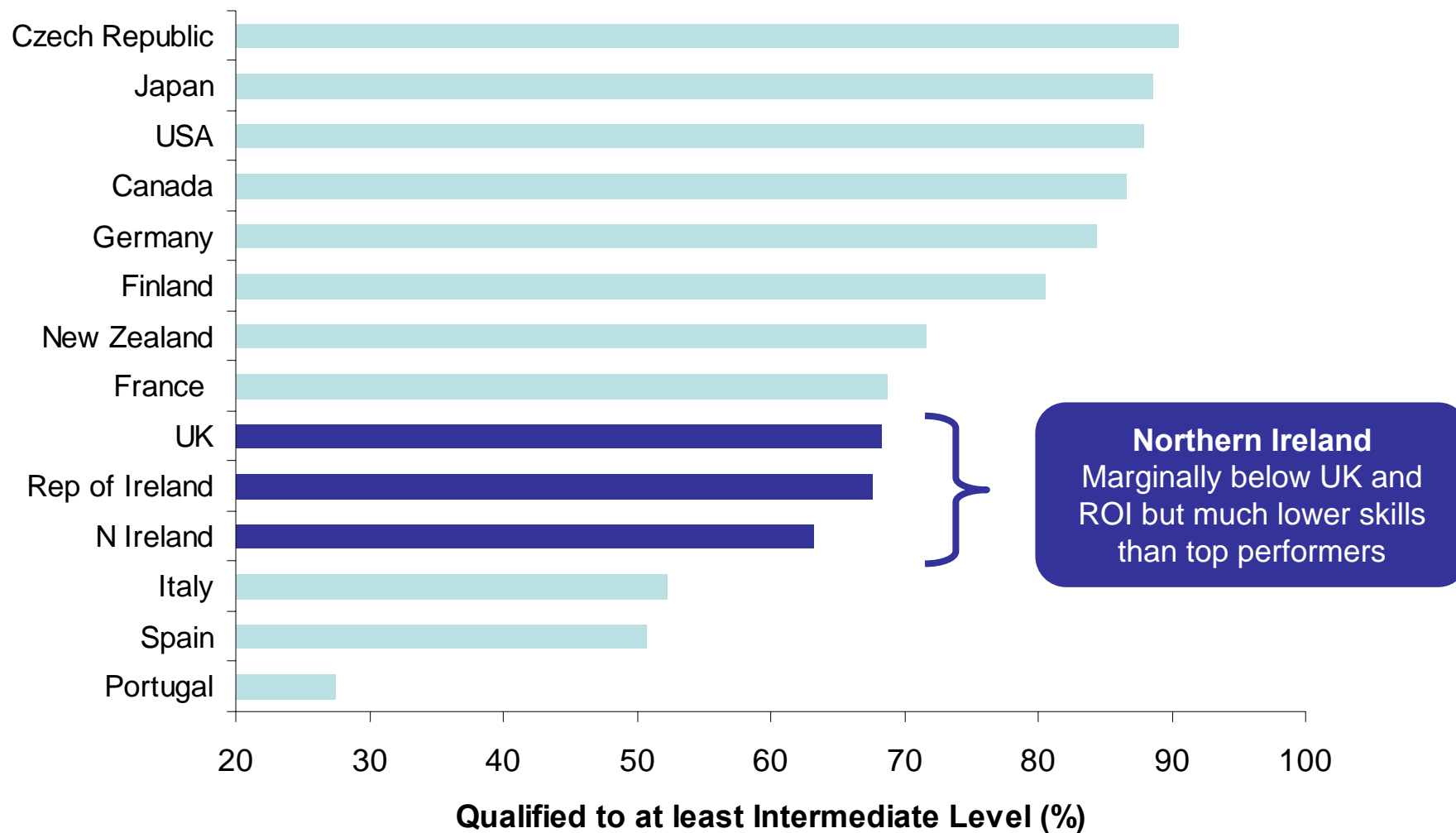




## ...and science...



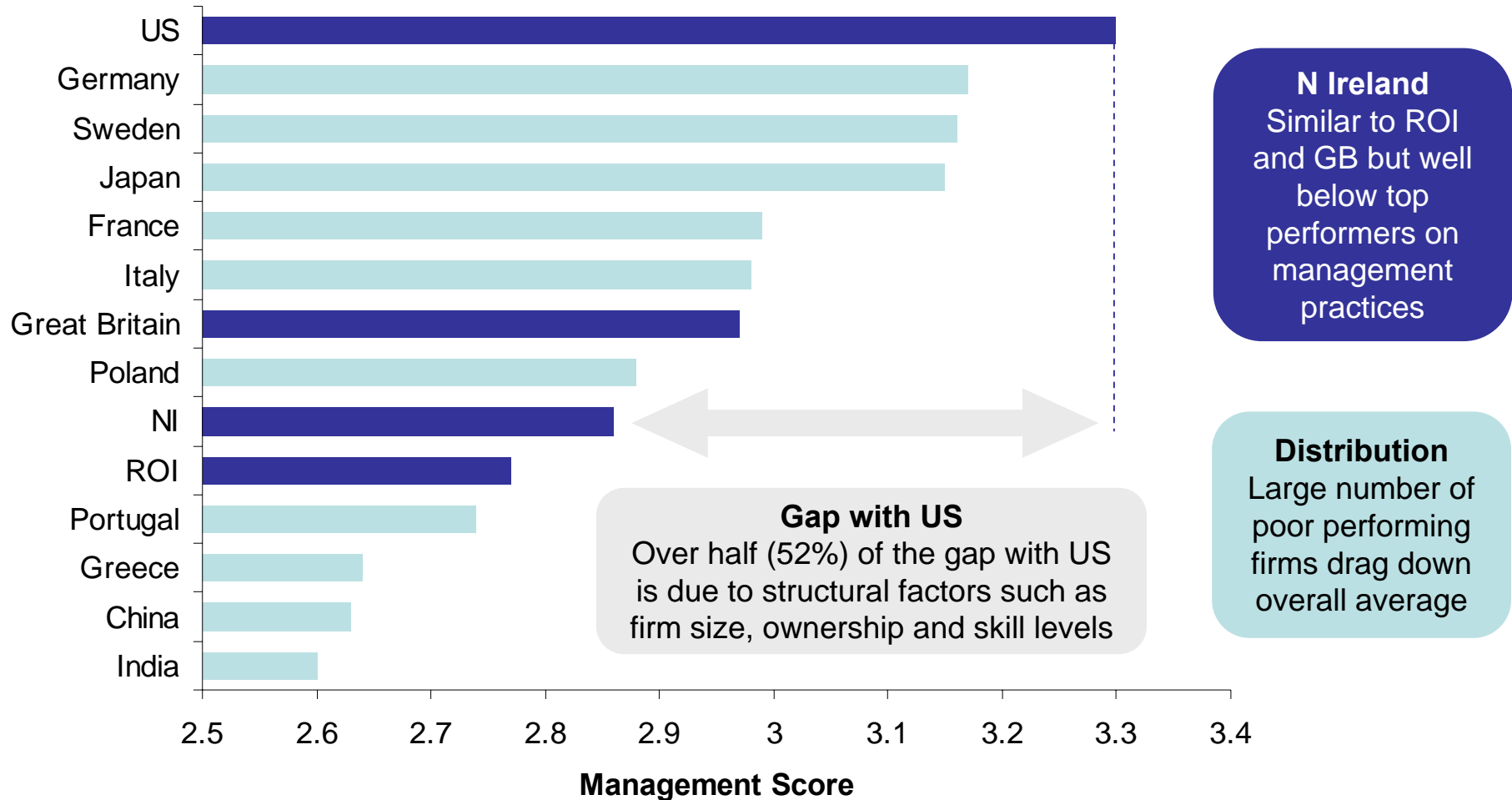
## ...although the overall skills profile of NI remains weak when compared internationally...



Source: UKCES Ambition 2020: World Class Skills and Jobs for the UK

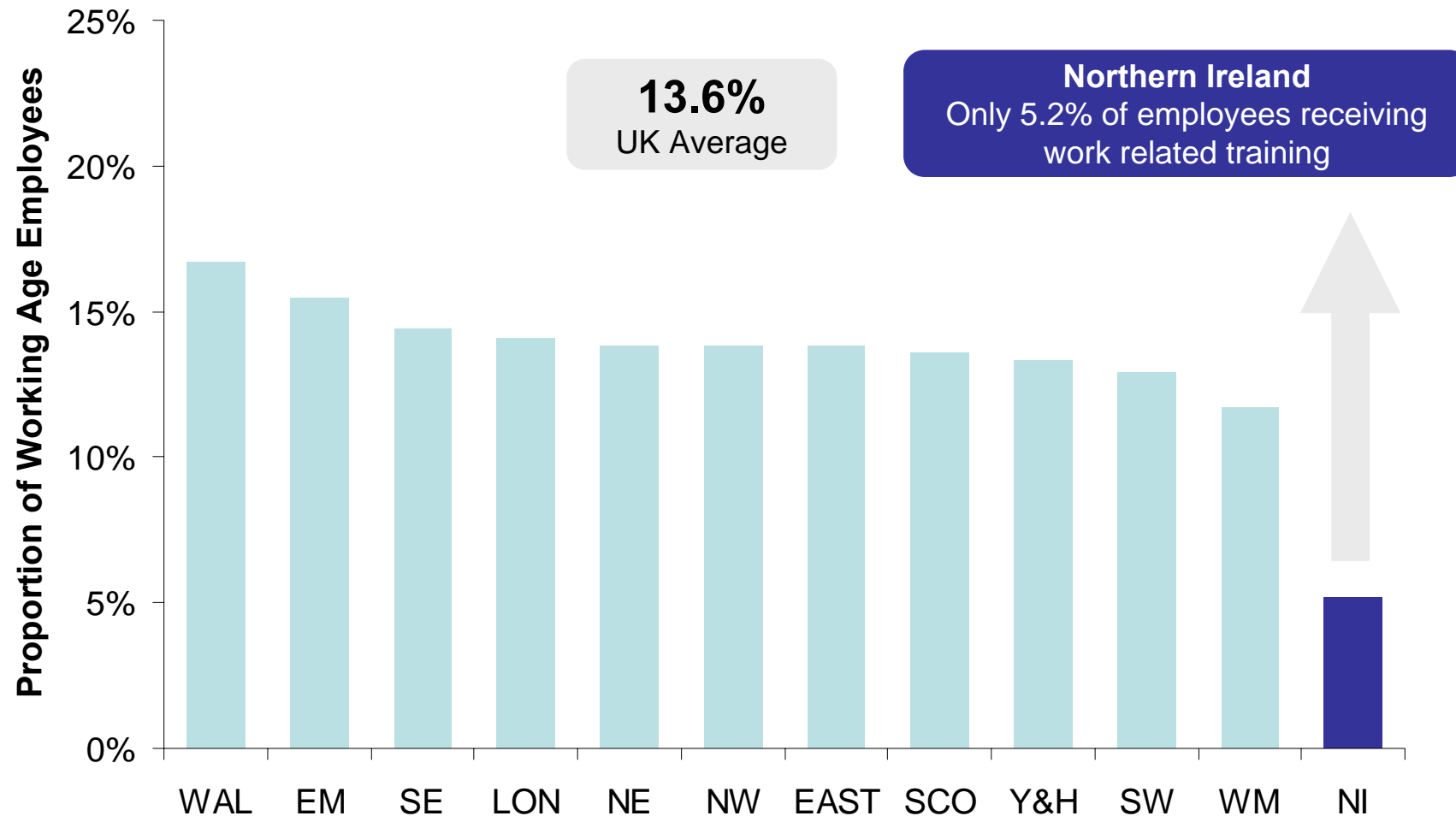
Note: Highest level of education attained by 25-64 year olds

## ...and management and leadership skills (which are important for competitiveness) are below top performing countries



Source: DETI Management Matters

## Relatively little job-related training is taking place in NI compared with UK regions



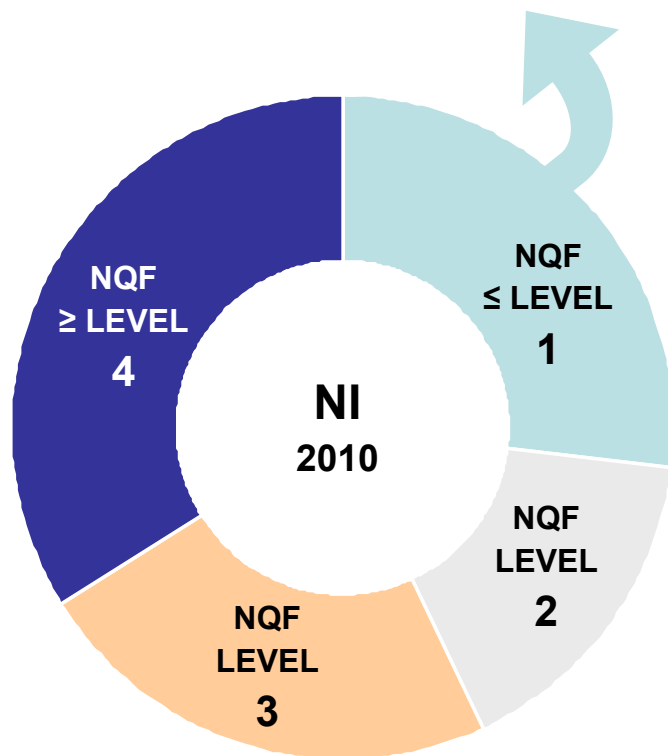
Source: NISRA Labour Force Survey

Note: April – June 2011

# Looking forward, the demand for higher level skills is expected to increase significantly

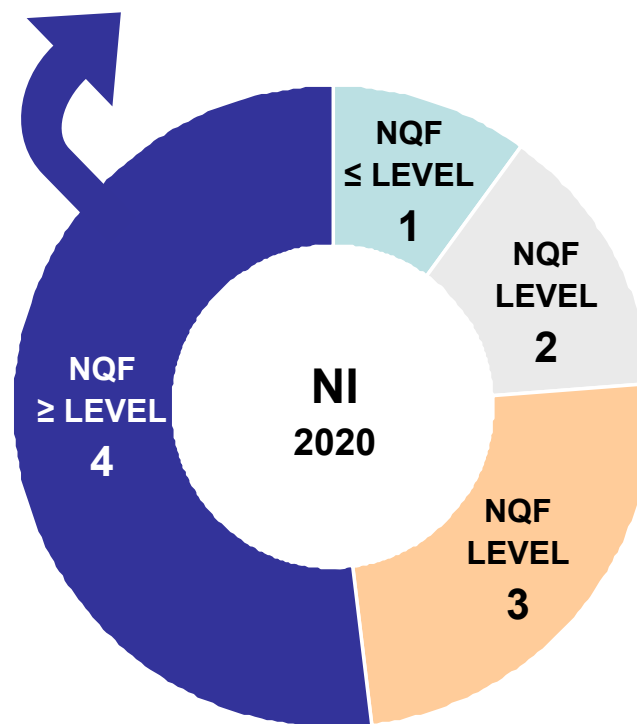
## Lower Level Skills

Large decrease forecast in number of people employed with low qualifications



## Higher Level Skills

Over half of persons employed expected to need skills above A-Levels



Source: Oxford Economics Forecasting Future Skills Needs in NI

Note: 2020 scenario where PfG productivity goal is met

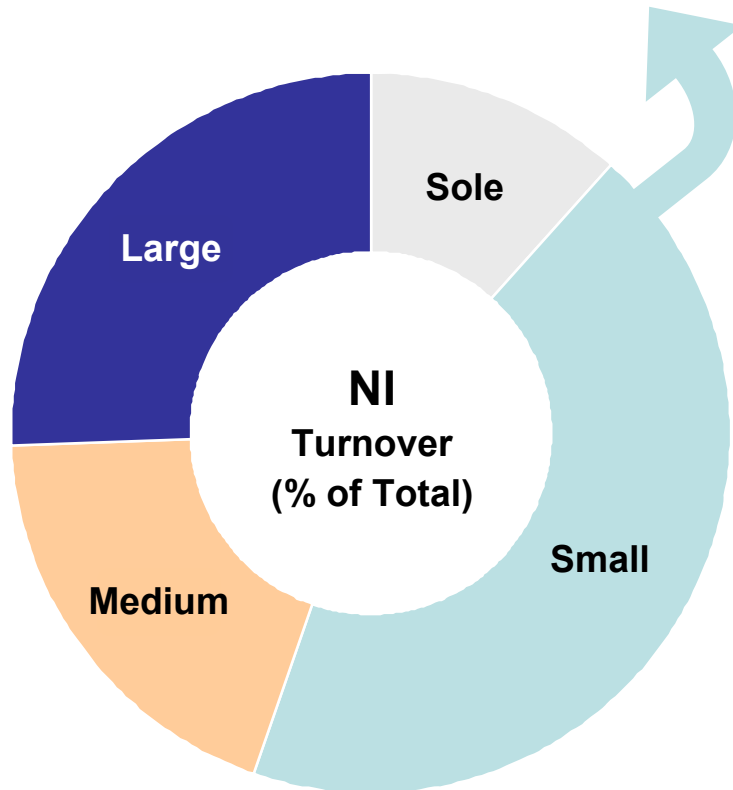
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**C**

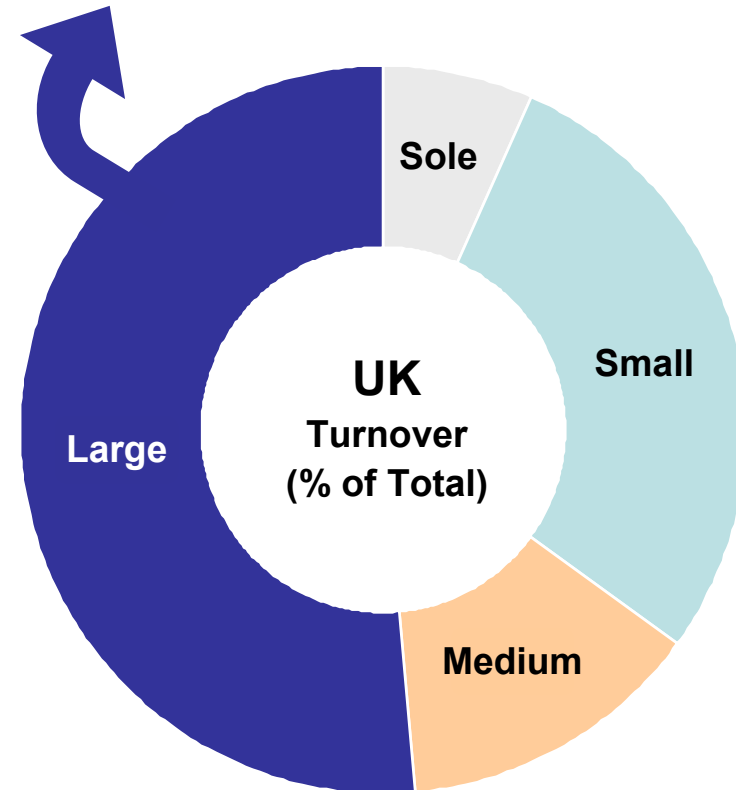
**Business Growth**

# NI is an SME dominated economy and lacks large firms...

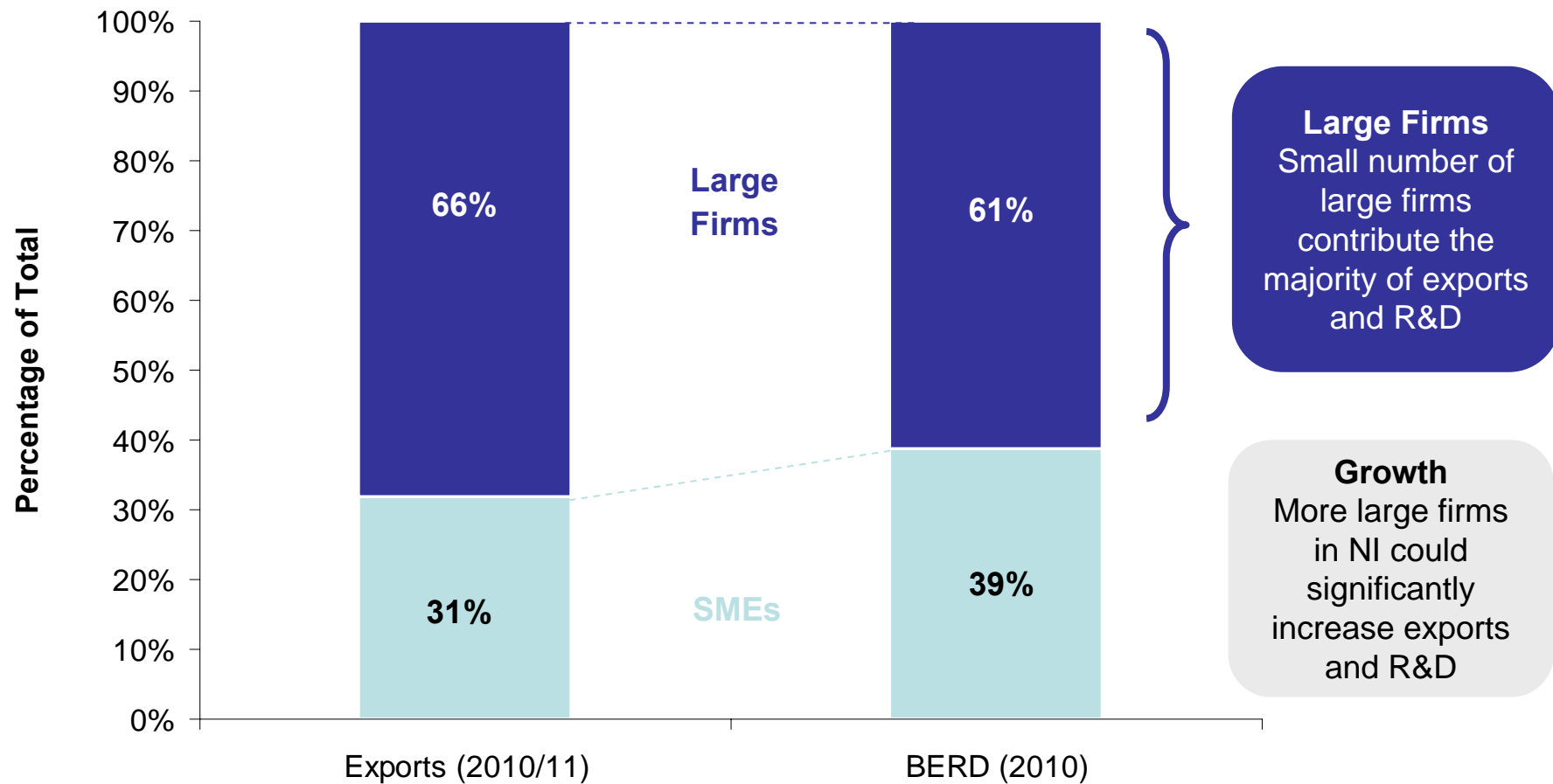
**Small Firms**  
SMEs are much more important in NI compared with the UK average



**Large Firms**  
Large firms contribute the majority of economic activity in UK



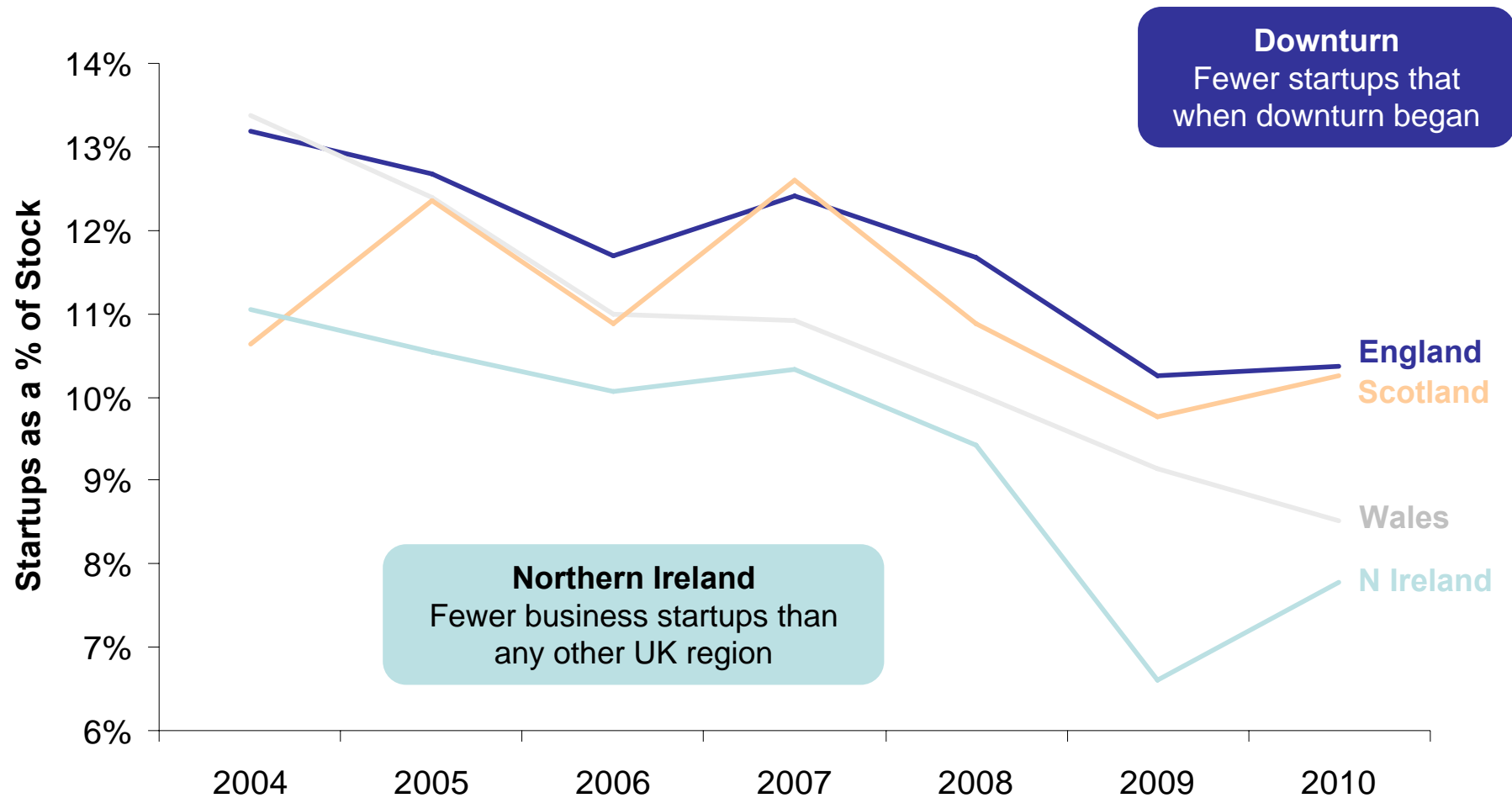
# ...which contribute the majority of high value activities such as exports and R&D



Sources: NISRA Manufacturing Sales and Exports, R&D Survey

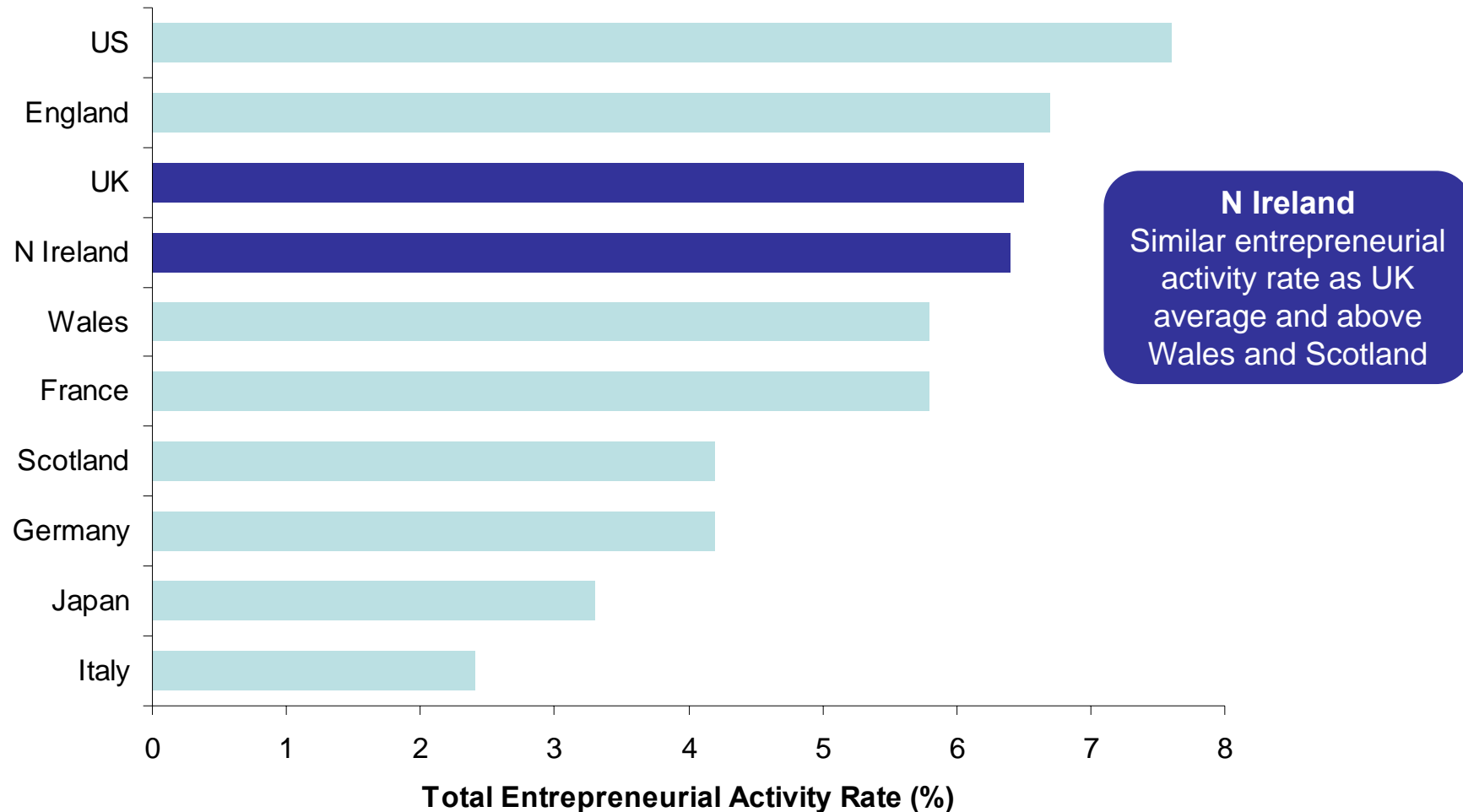


# NI has fewer business startups than elsewhere in the UK...



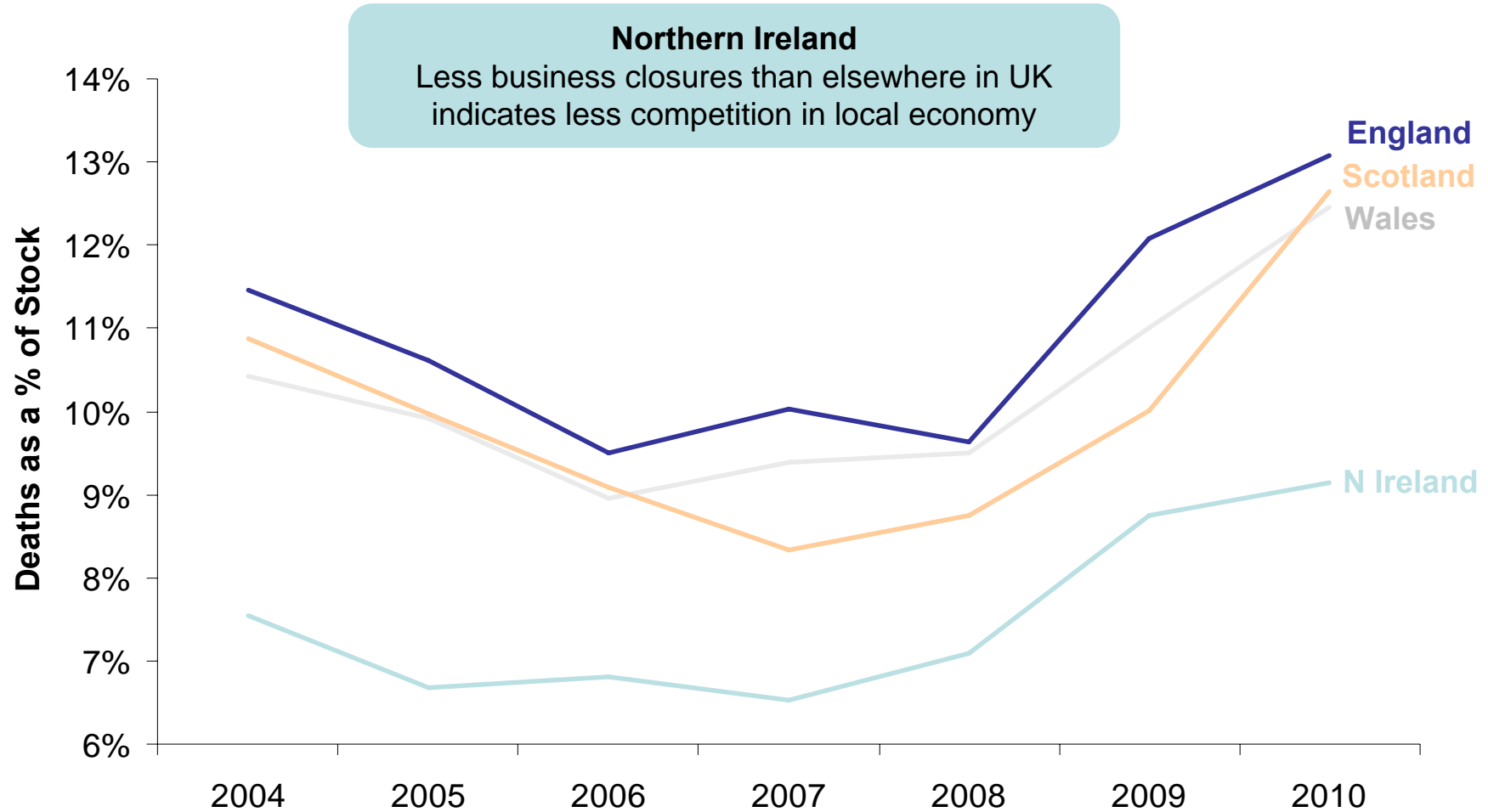
Source: ONS Business Demography

## ...although entrepreneurial activity is similar ...



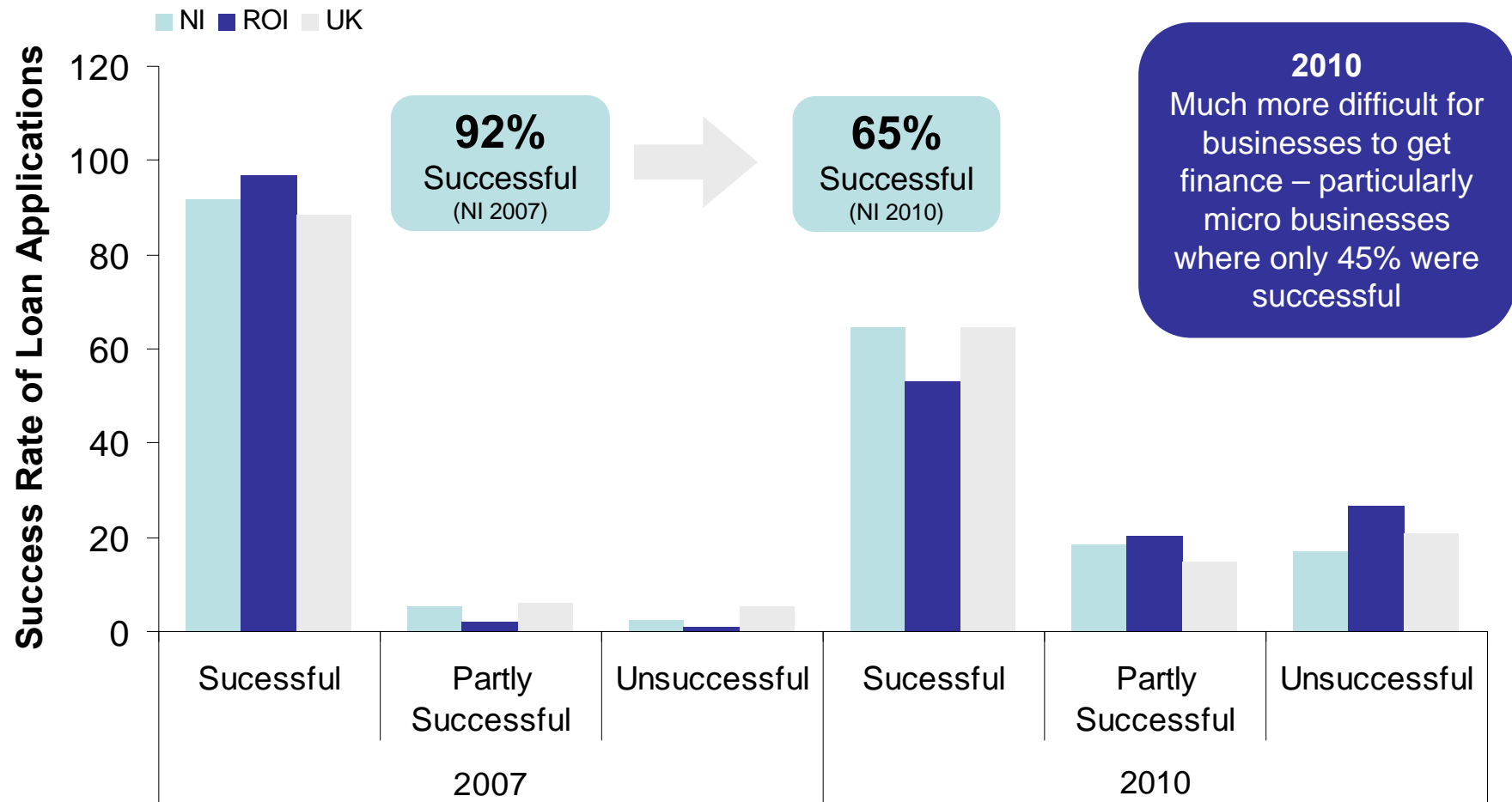
Source: Global Entrepreneurship Monitor 2010

## ...and there are fewer business closures



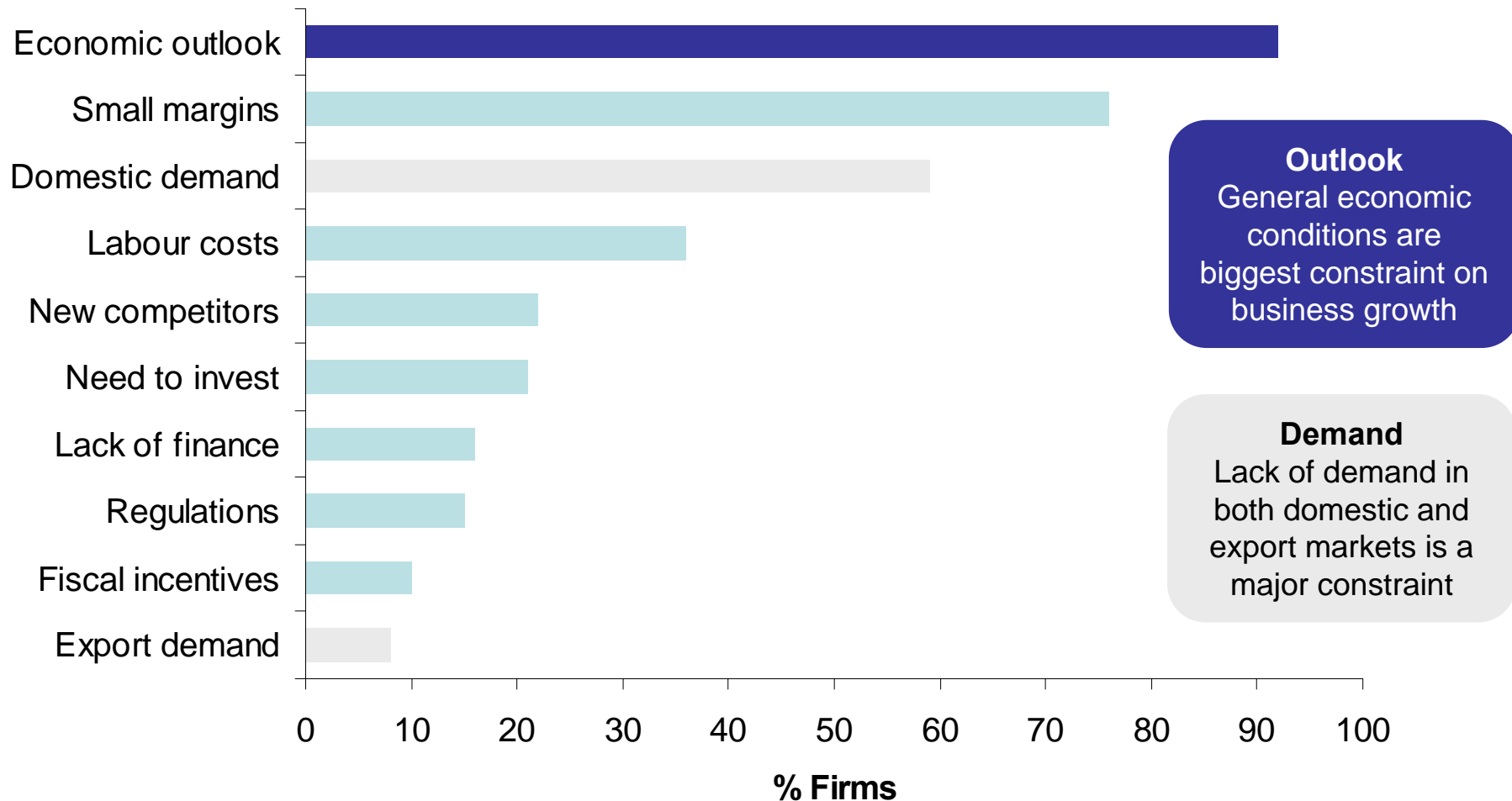
Source: ONS Business Demography

# Access to finance is a key constraint facing businesses...



Source: NISRA Access to Finance

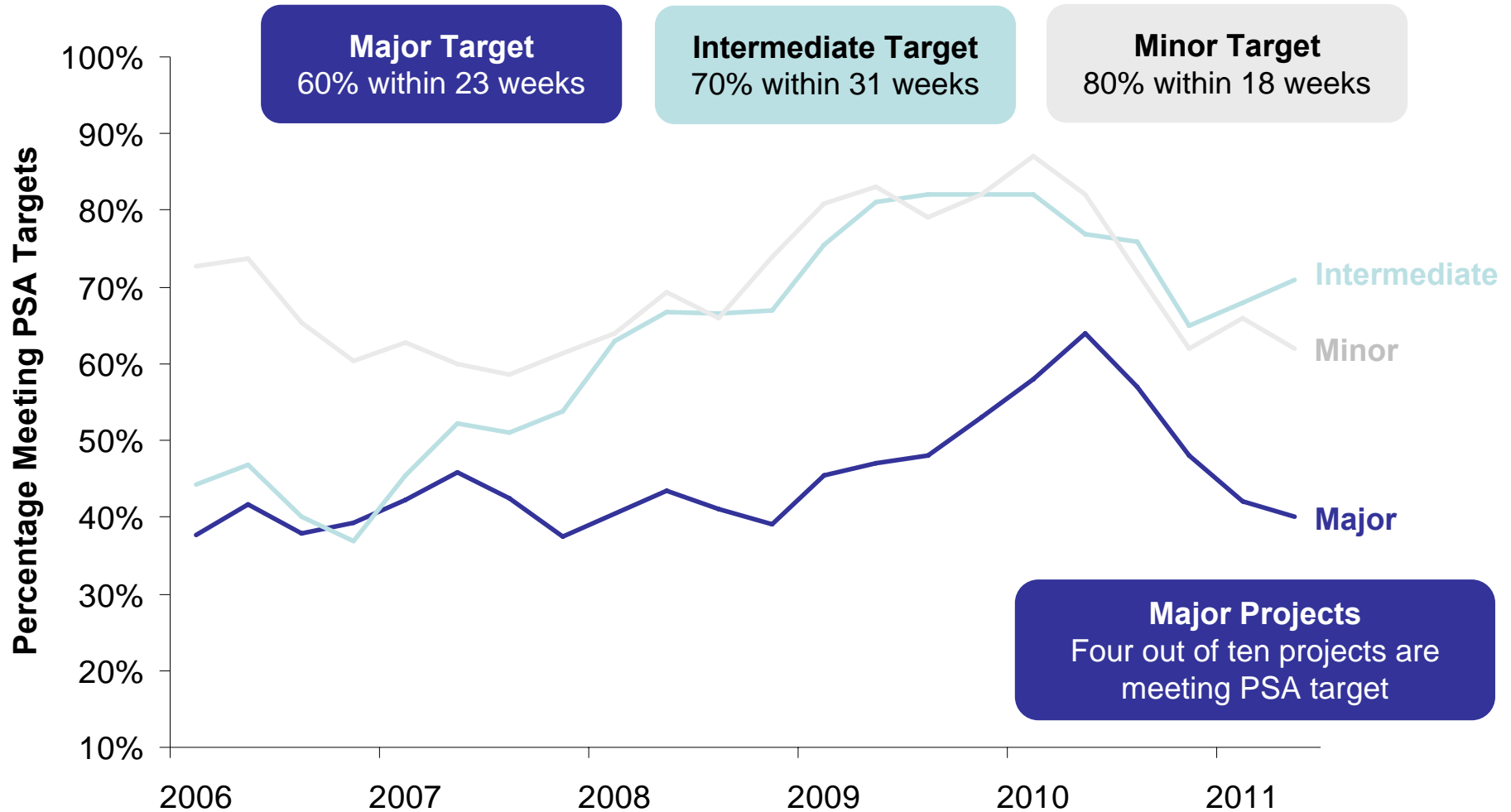
## ...although it is only one of many factors



Source: NISRA Access to Finance

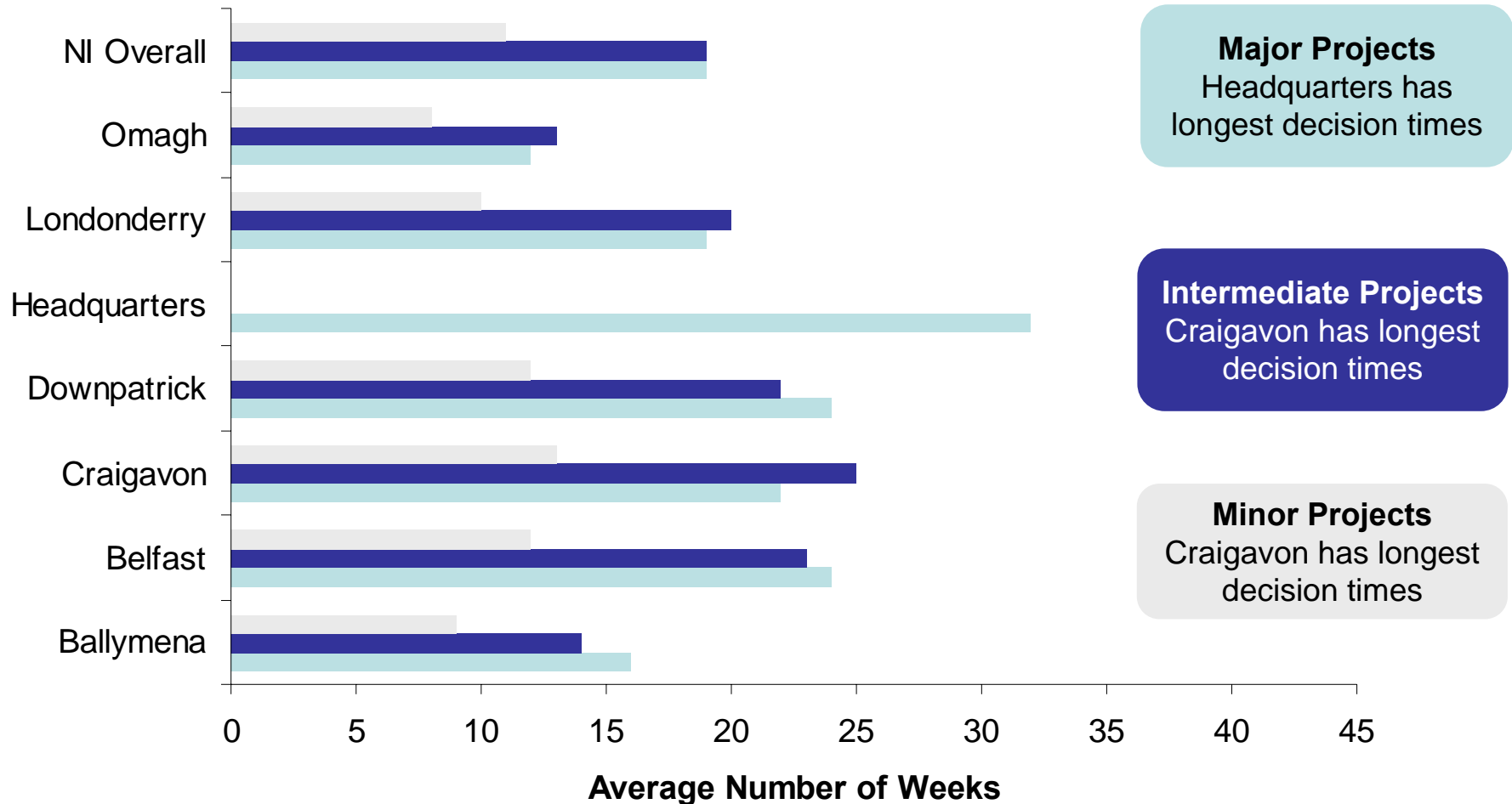
Note: Data relate to 2010

# Planning regulations can also constrain growth...



Source: Planning Service Quarterly Statistics

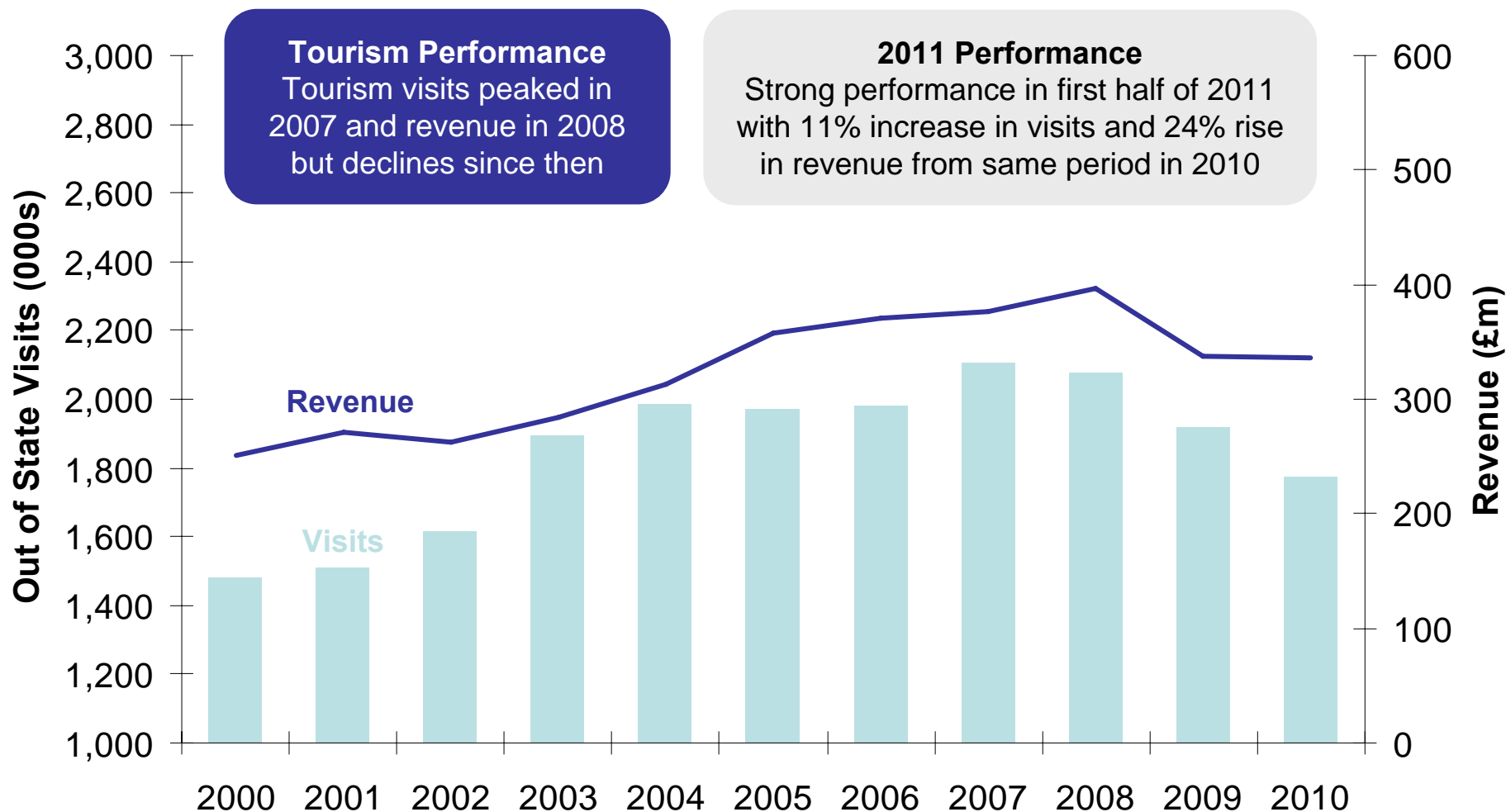
## ...where there is significant variation across NI



Source: Planning Service Development Management Statistics

Note: Data relate to 2010/11; no further data for HQ

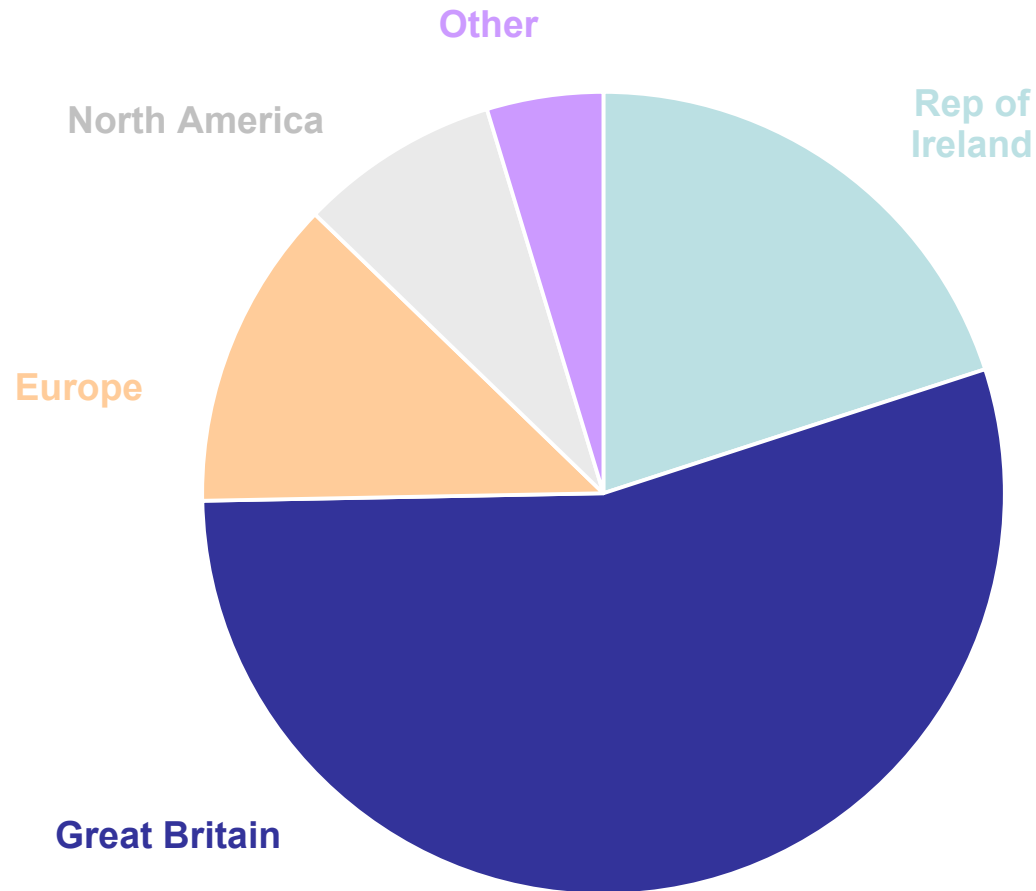
## Tourism numbers have stalled in recent years...



Source: NITB Tourism Estimates



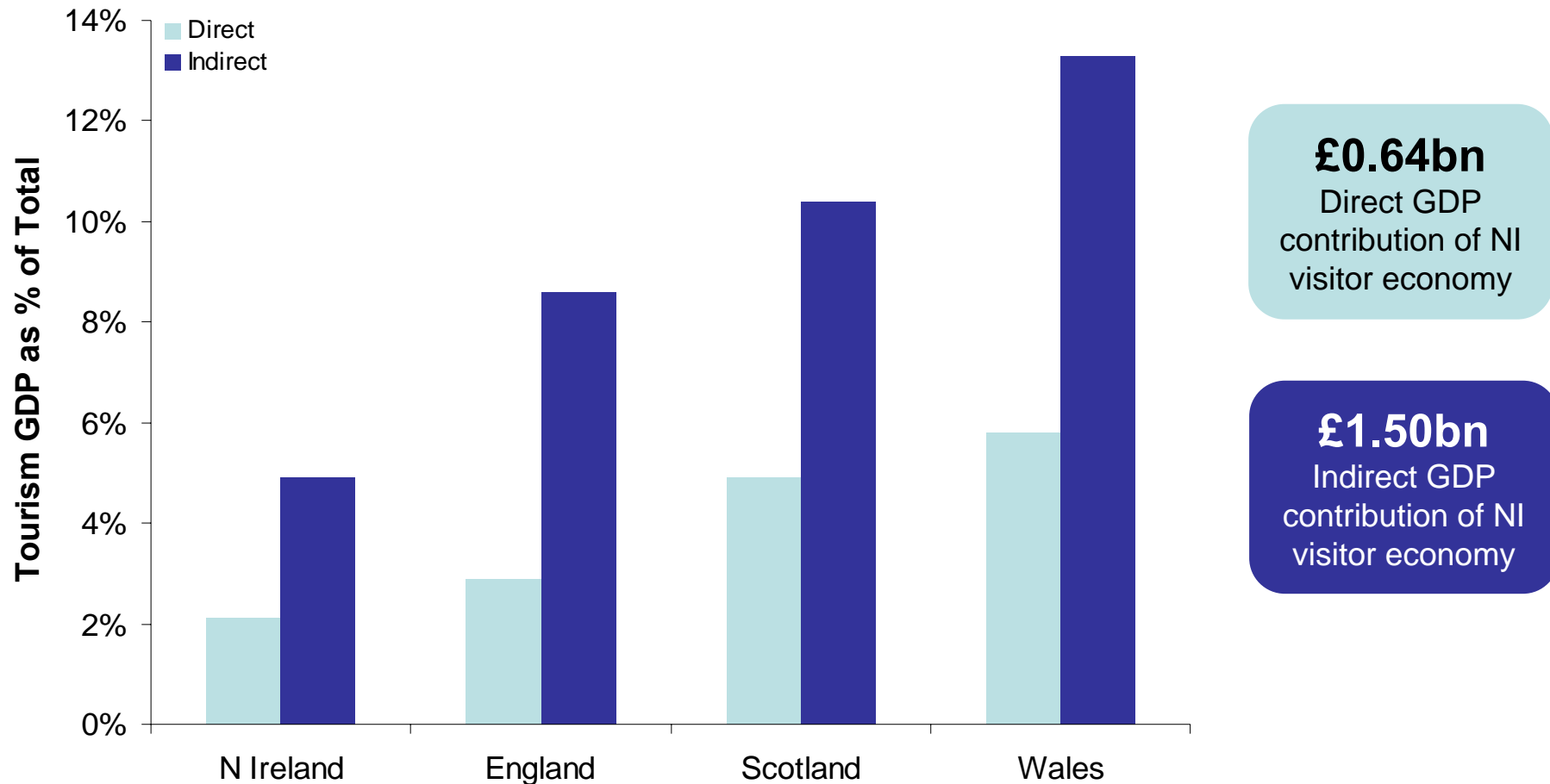
## ...with most visitors to NI coming from GB and ROI



**Republic of Ireland**  
Accounts for 20% of tourism visits to NI but experienced a decrease of 25% in 2010

**Great Britain**  
Accounts for 55% of tourism visits to NI and experienced a 5% decrease in 2010

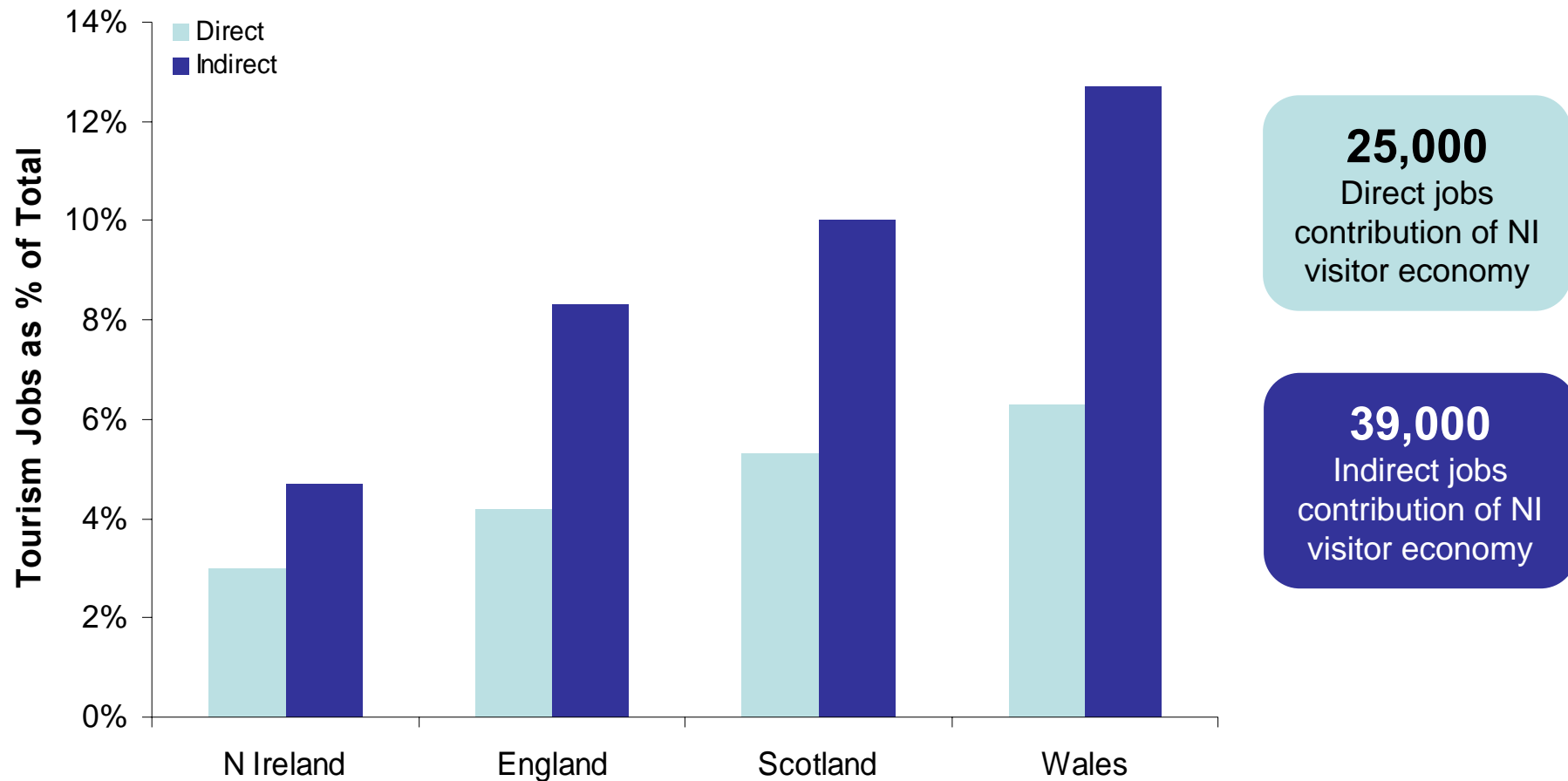
## The tourism sector makes a lower contribution to GDP...



Source: NITB Estimating the Impact of the Visitor Economy

Note: Data relate to 2009

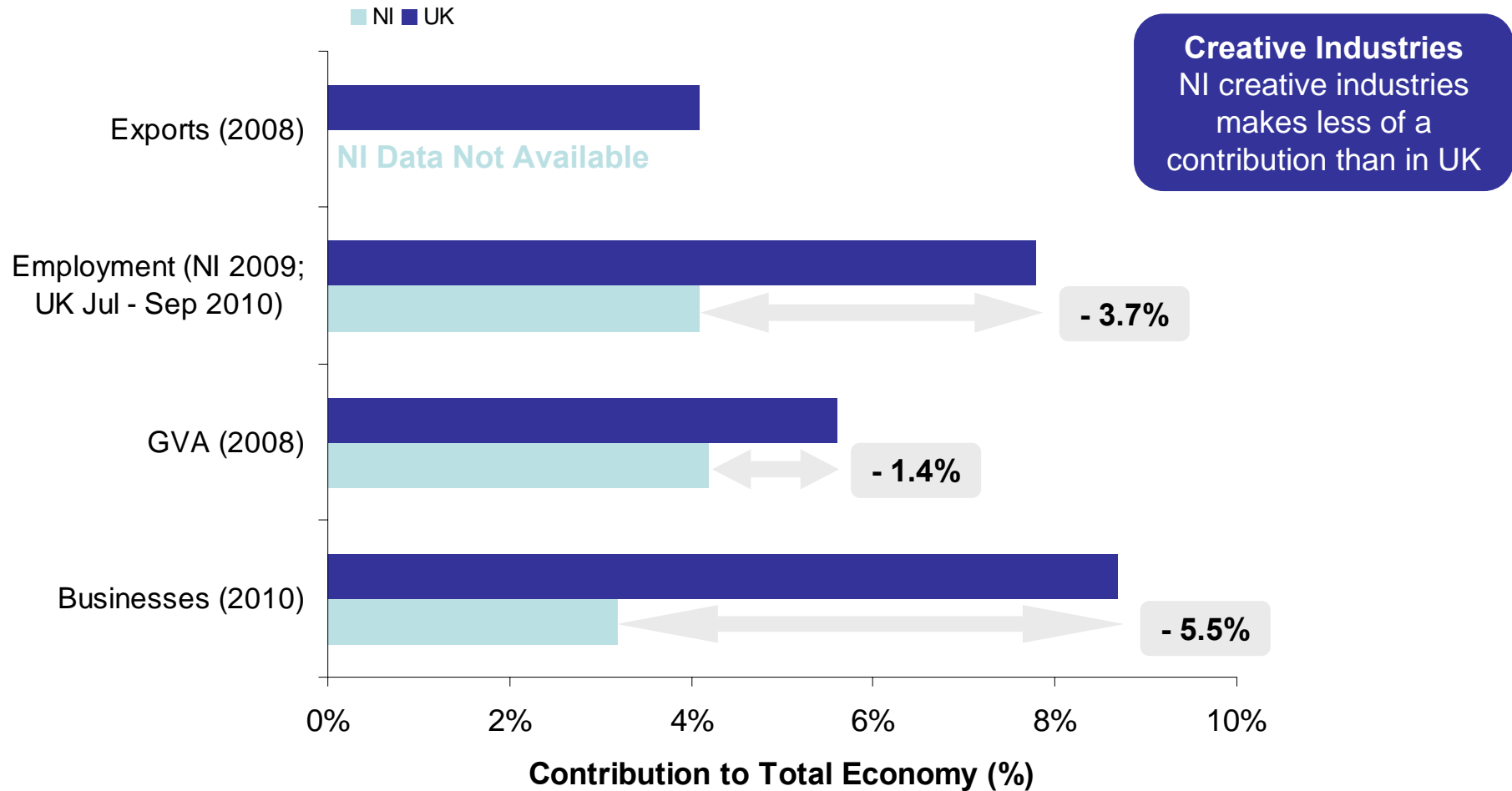
## ...and employment in the NI economy than the rest of the UK



Source: NITB Estimating the Impact of the Visitor Economy

Note: Data relate to 2009

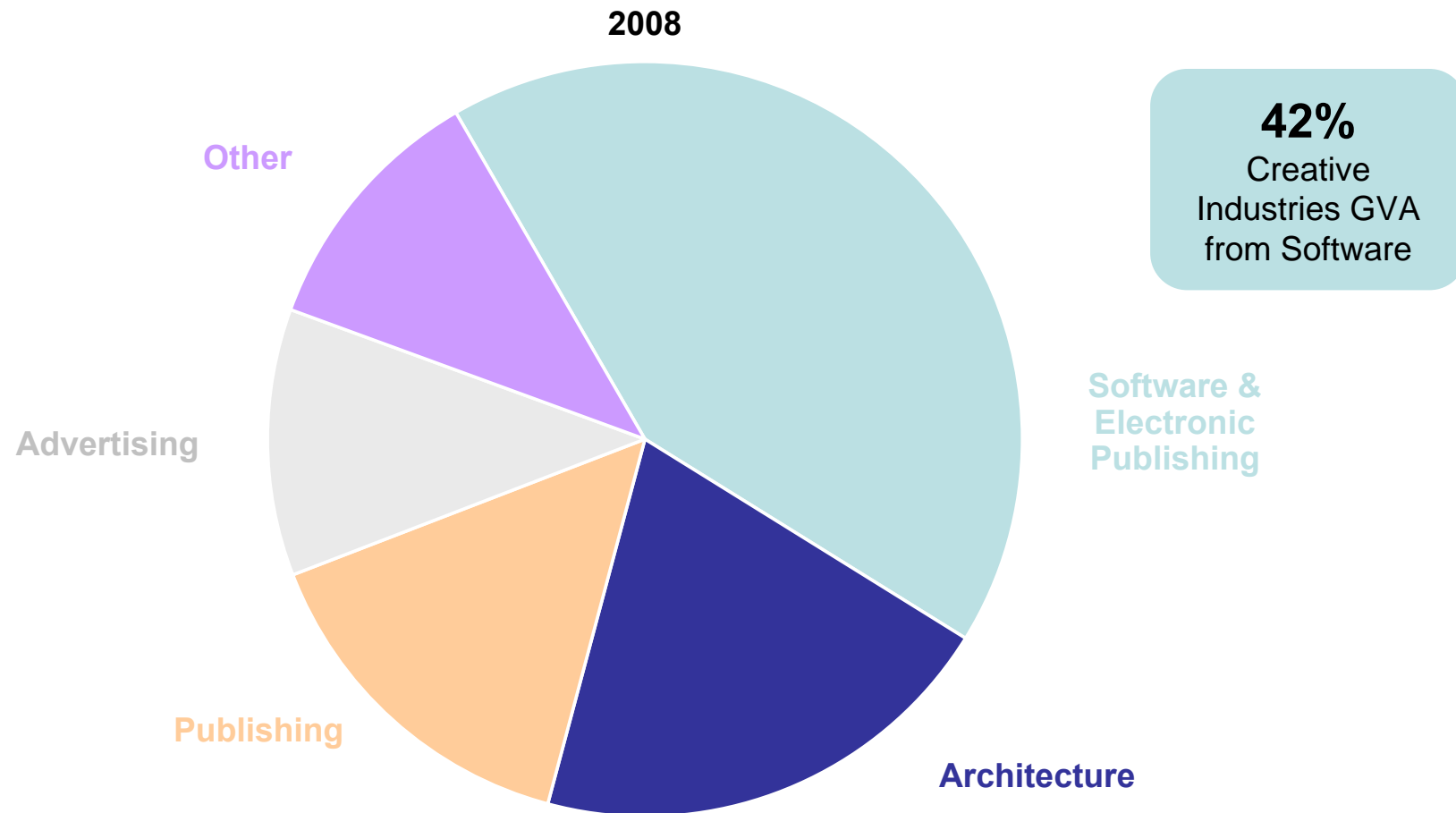
# Creative industries has potential to increase its contribution to the local economy...



Source: DCAL & DCMS Creative Industries Economic Estimates

Note: Difference is expressed in percentage points

## ...with software being a key driver of the sector



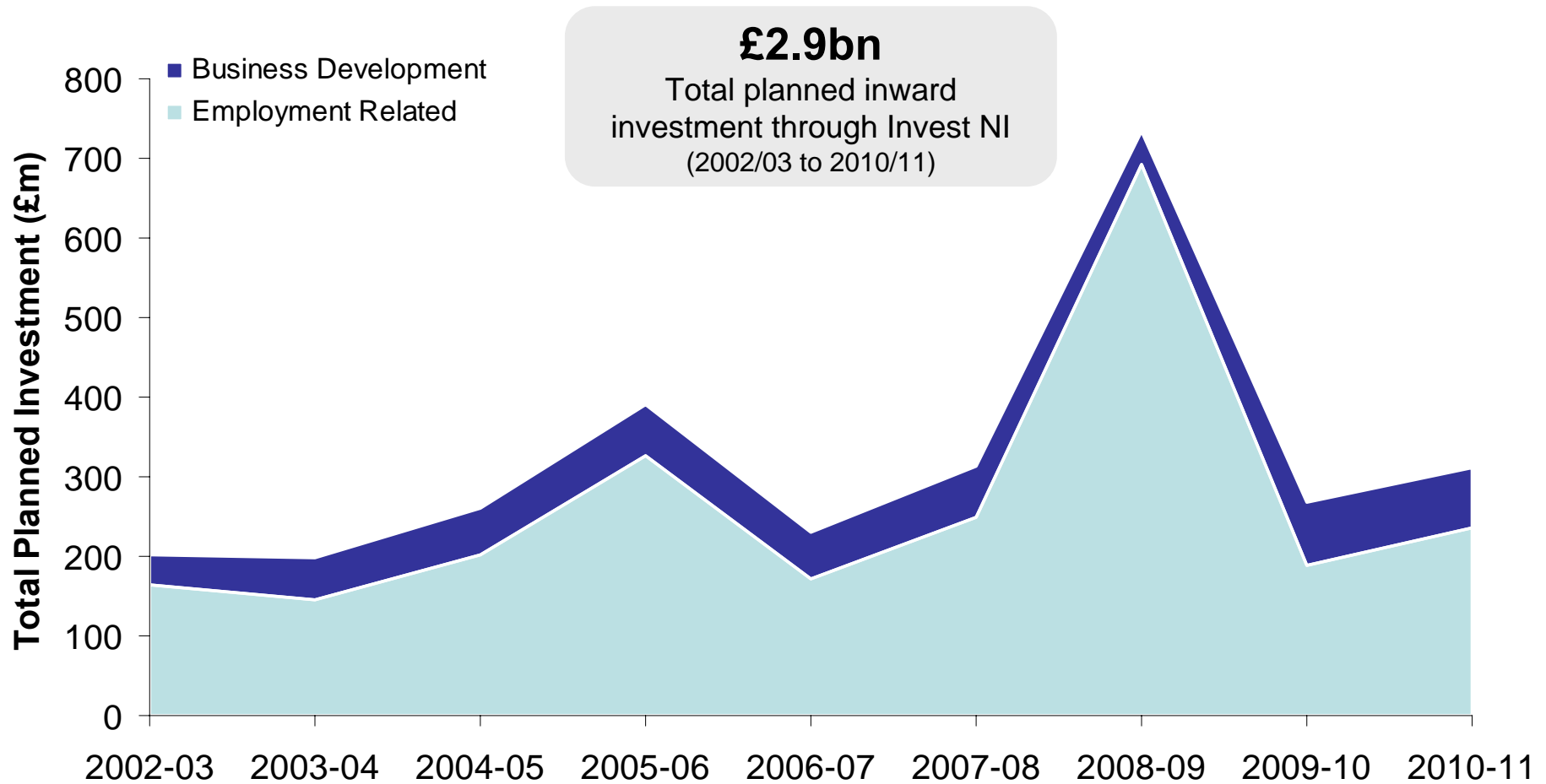
Source: DCAL Creative Industries Economic Estimates

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**D**

## **Competing in the Global Economy**

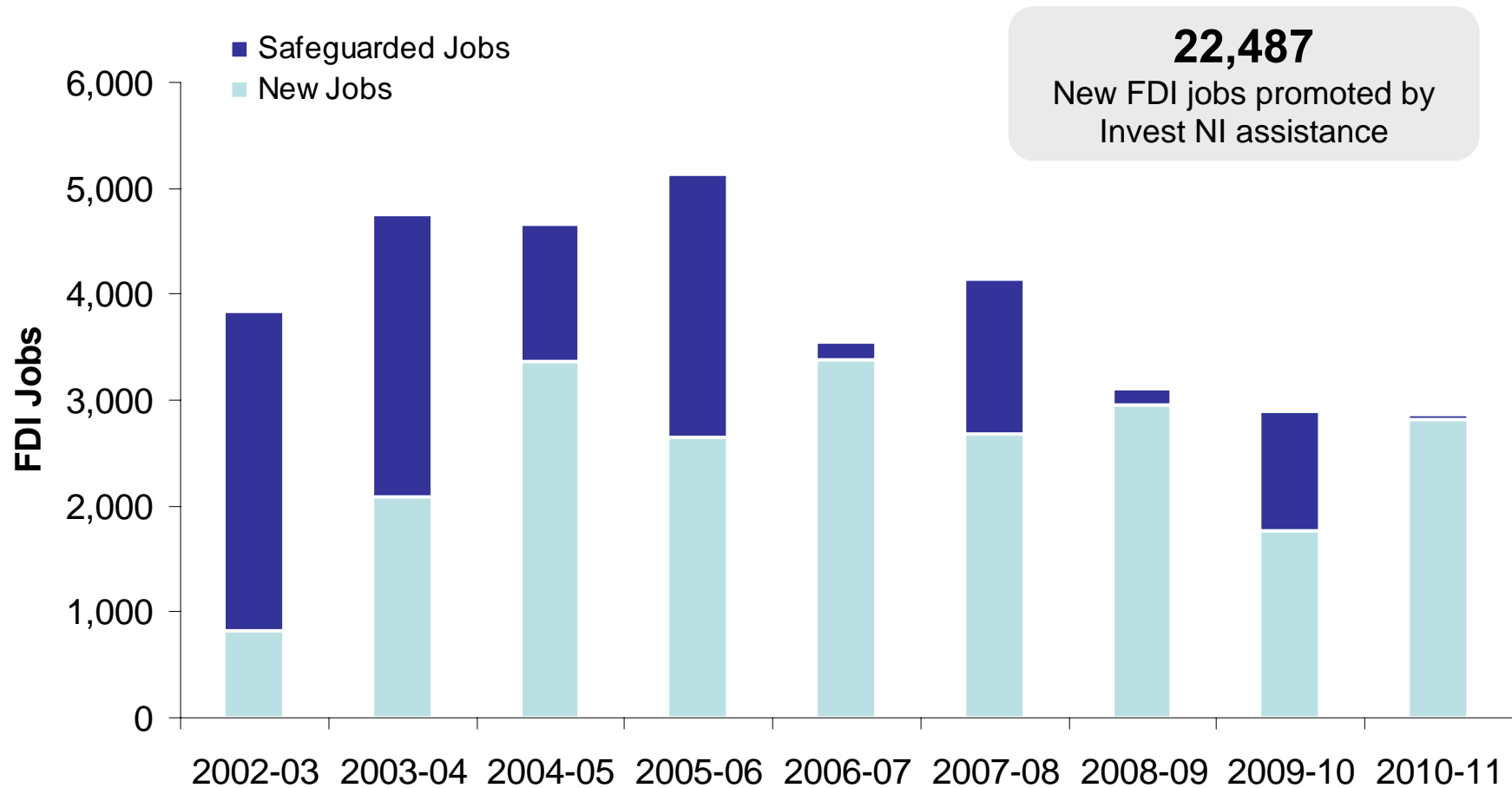
## Invest NI has attracted significant FDI to NI...



Source: Invest NI

Note: 2008-09 increase partly due to Bombardier C-Series project

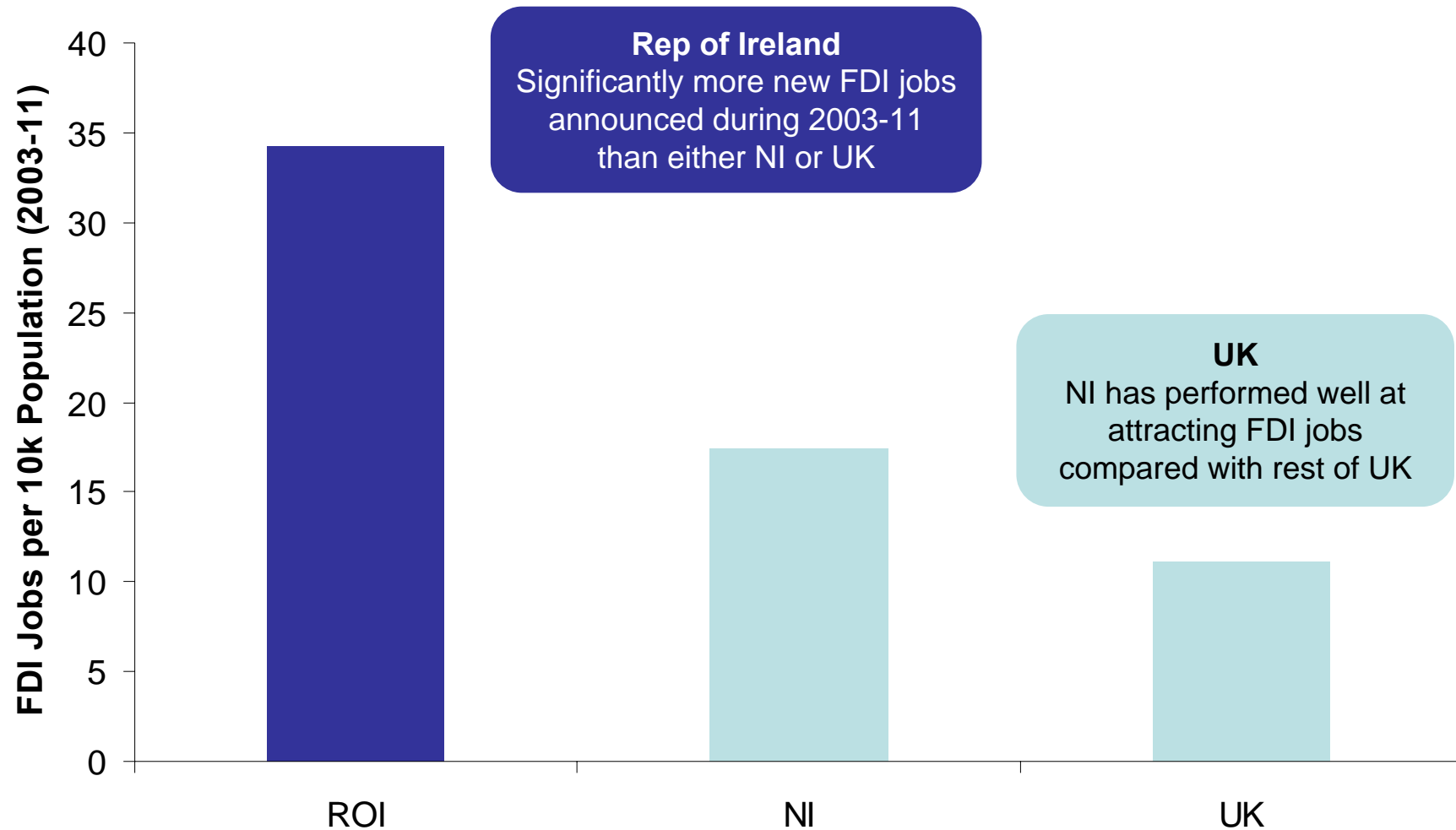
## ...and promoted large numbers of FDI jobs...



Source: Invest NI



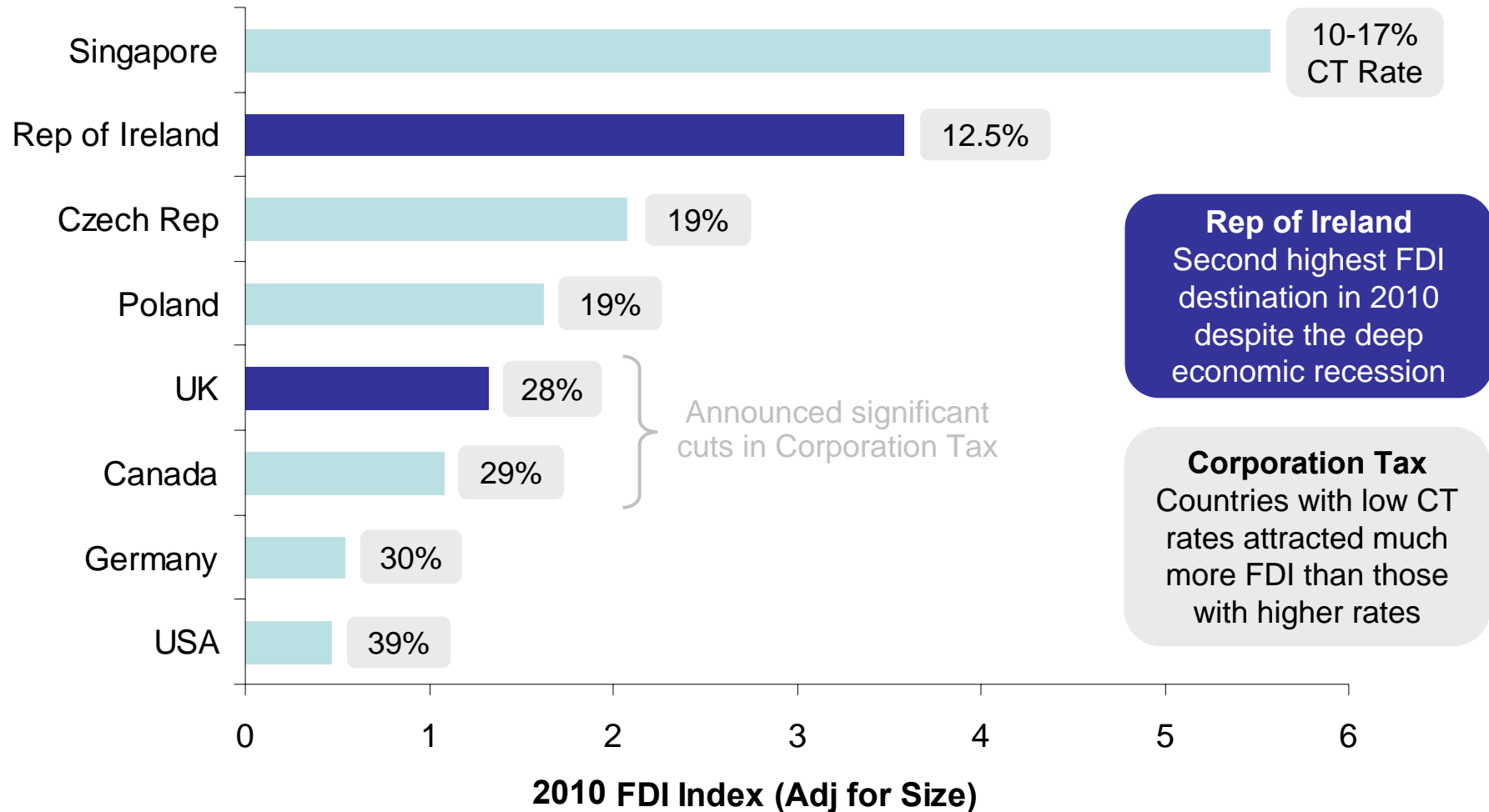
...although this is much lower than the ROI...



Source: fDi Intelligence

Note: Includes some projects announced in January 2012

## ...where low Corporation Tax attracts significant FDI...



Source: National Irish Bank Inward Investment Monitor; OECD Tax Database

Note: Based on FDI projects, investment and jobs divided by GDP size; CT rates are the combined central and sub-central rates to more accurately reflect total CT rate

## ...and will become even more important for NI to compete on if Regional Aid limits reduce further

Type of Firm	Regional Aid Intensity Ceilings (% of Total Project Costs)		
	2007 - 2010	2011 - 2013	2014-
<b>Belfast</b>			
Large	30	10	*
Medium	40	20	*
Small	50	30	*
<b>Rest of NI</b>			
Large	30	15	*
Medium	40	25	*
Small	50	35	*

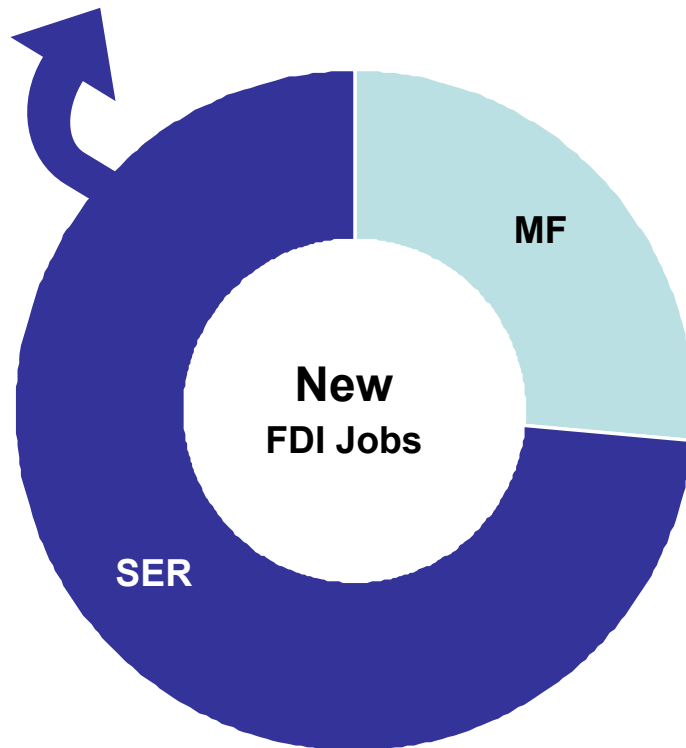
**Post 2013**  
Potential for regional aid ceilings to reduce further after 2013

### Reduction in Regional Aid

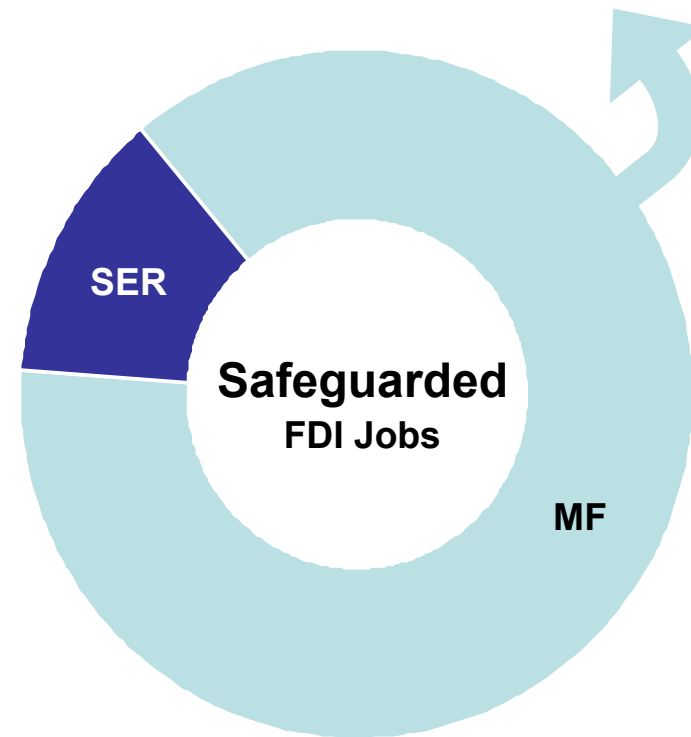
Regional aid limits reduced in Jan 2011 meaning Invest NI have less scope to offer assistance and leverage investment and jobs

## Most new FDI jobs have been in the services sector...

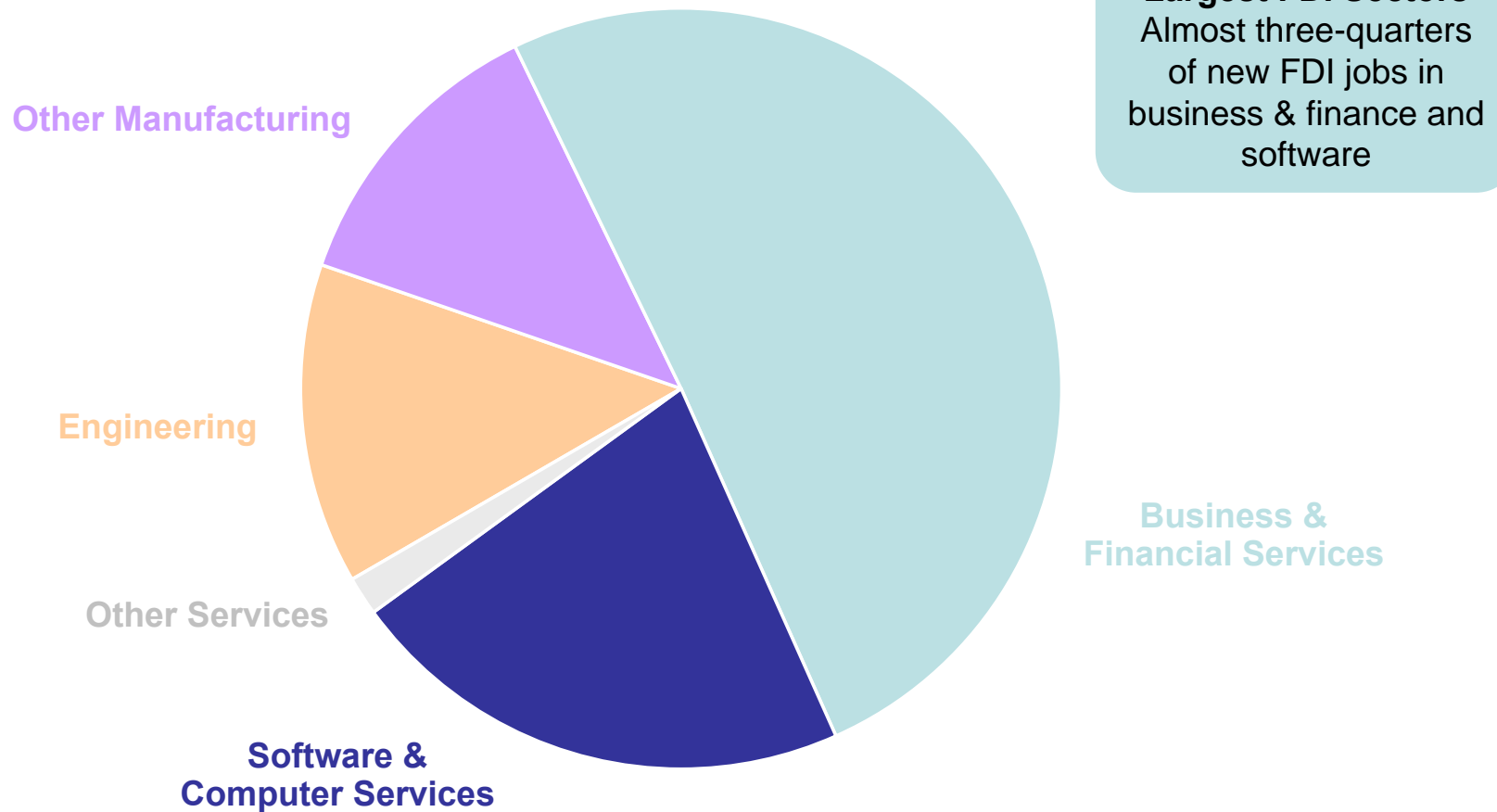
**New FDI Jobs**  
Large majority of new FDI jobs (74%)  
were in services



**Safeguarded FDI Jobs**  
Almost all safeguarded FDI jobs (87%)  
were in manufacturing



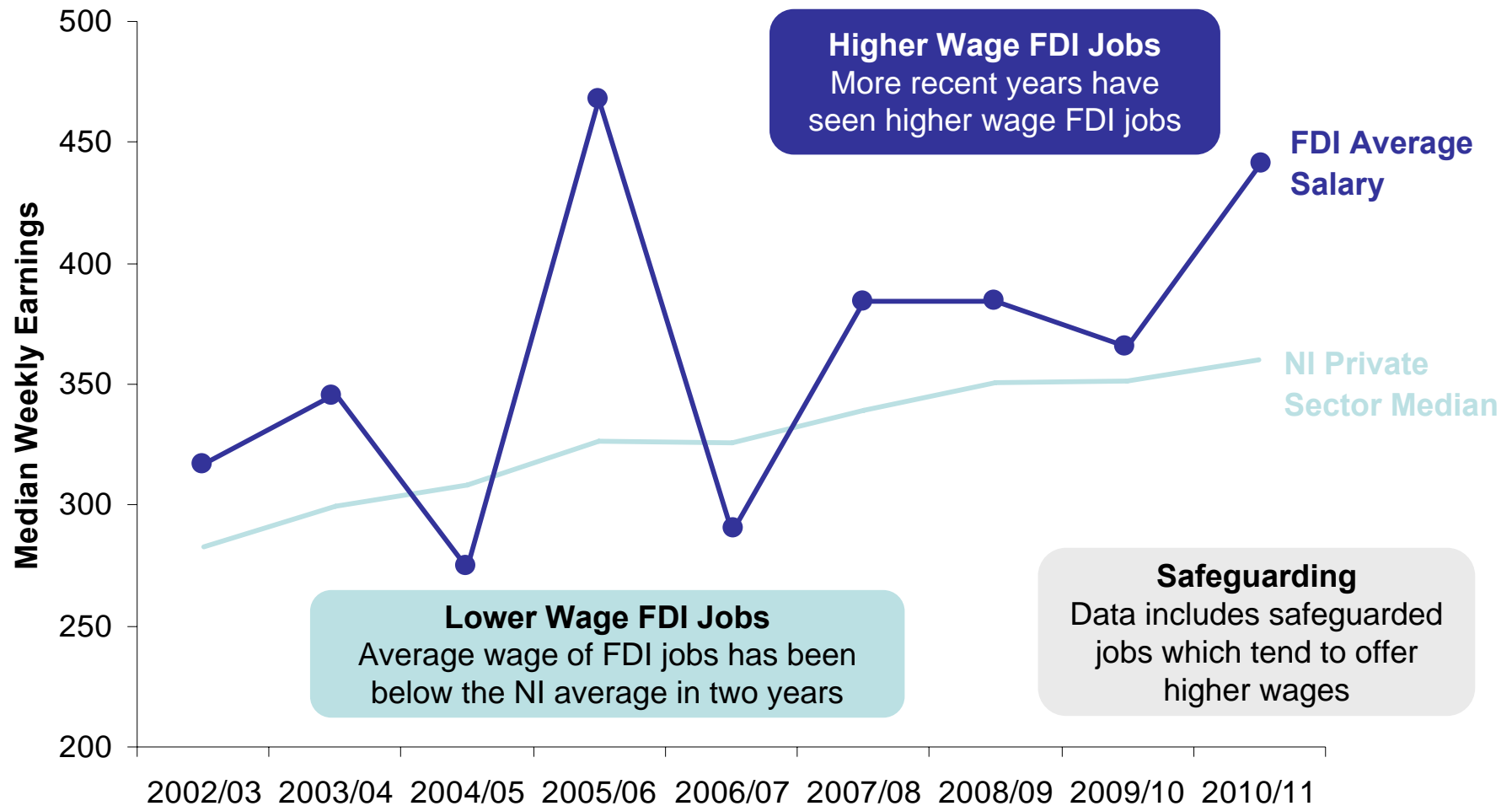
## ...mainly in the business & finance and software sectors...



Source: Invest NI

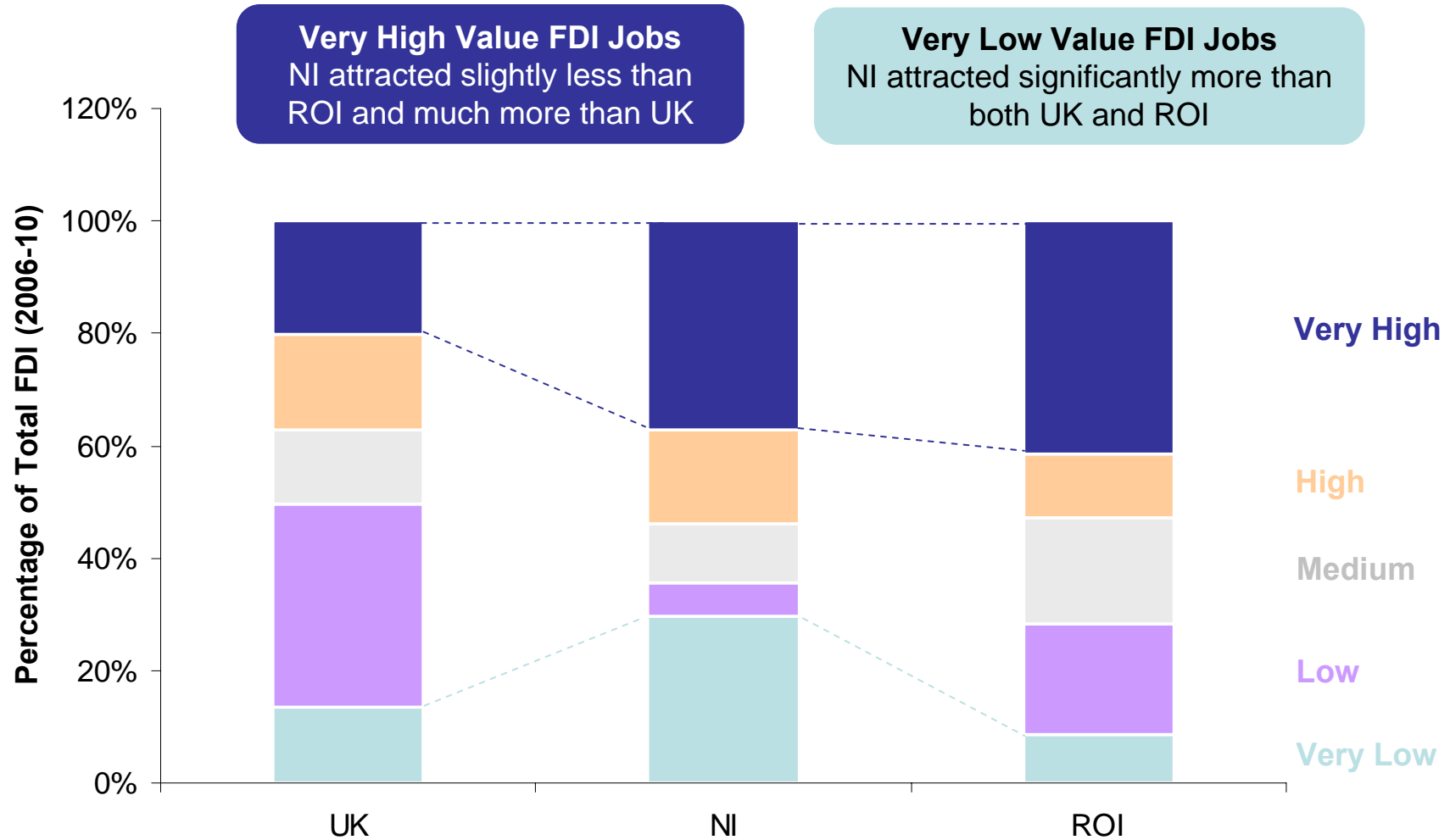
Note: Relates to the period 2002-03 to 2008-09

...although the wages of these FDI jobs has been mixed...



Source: Invest NI

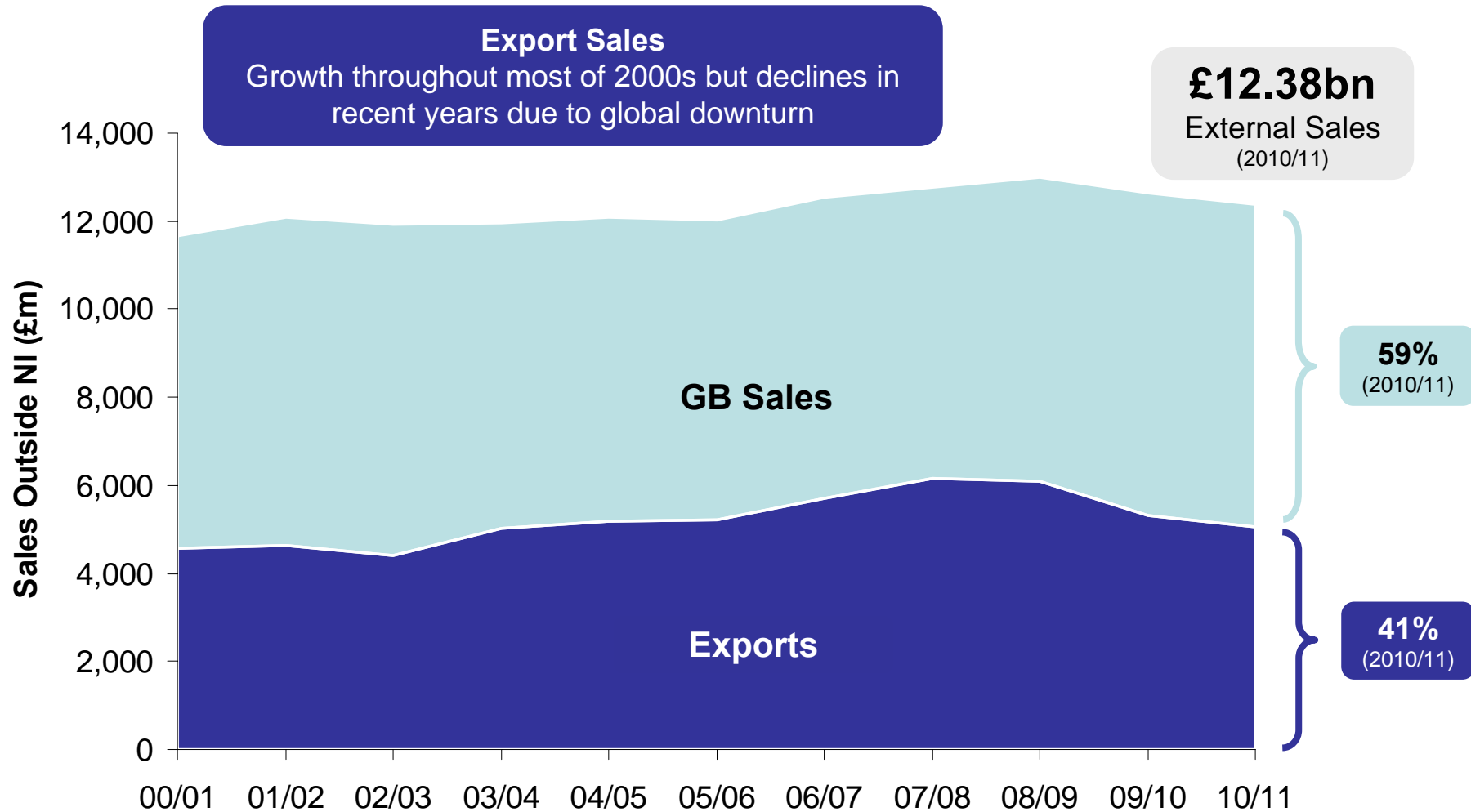
## ...and there is a large variation in their value added



Source: DETI FDI Research (Draft)

Note: Based on a measure of salaries, productivity, exports and R&D

# Local companies have become more outward looking...



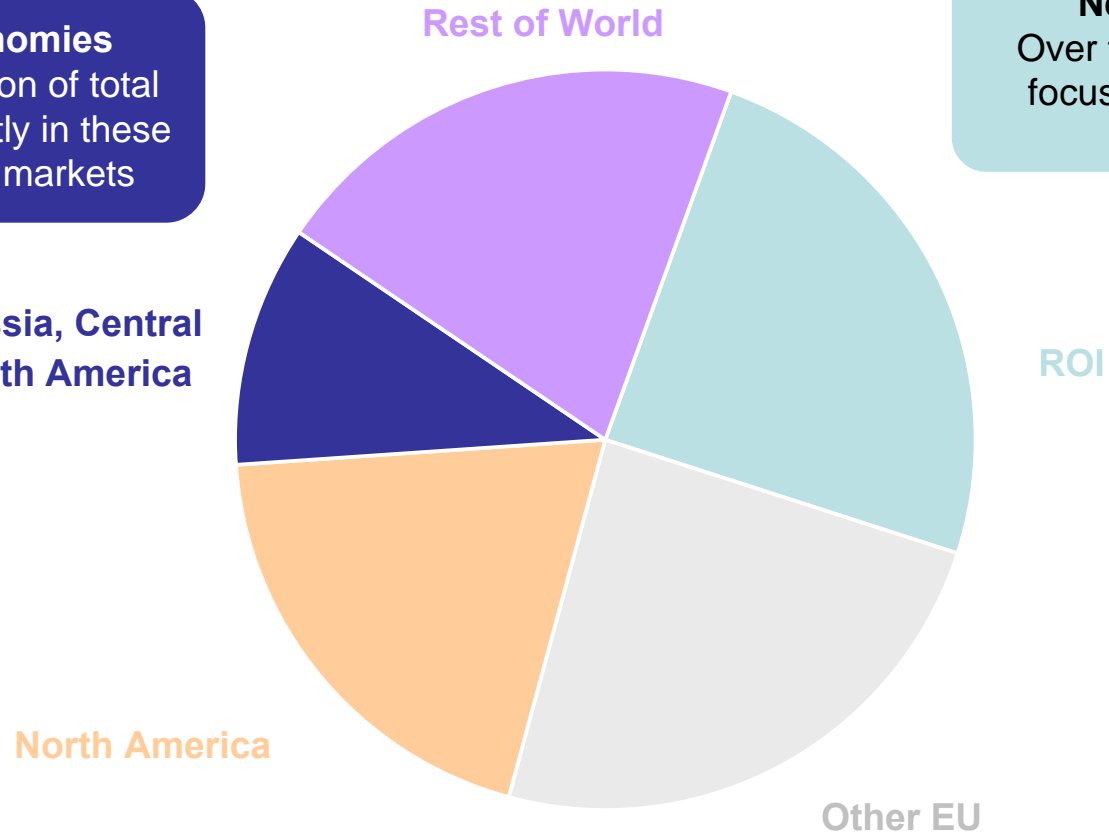
Source: NISRA Manufacturing Sales and Exports  
Note: Figs in constant prices; Discontinuity in 2008/09



# ...although exports are focused on a small number of markets

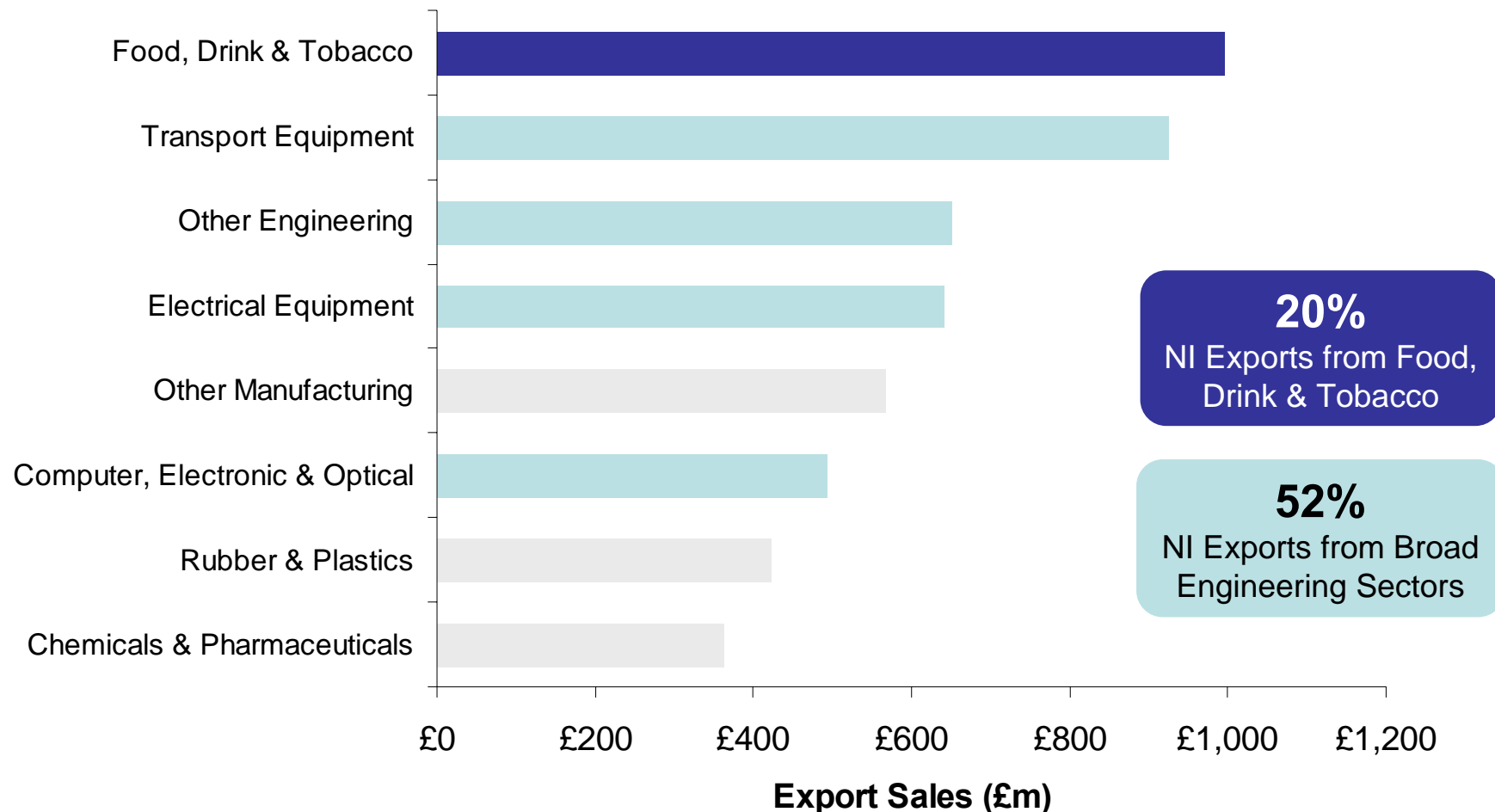
**BRIC Economies**  
Small proportion of total exports currently in these fast growing markets

**Asia, Russia, Central and South America**

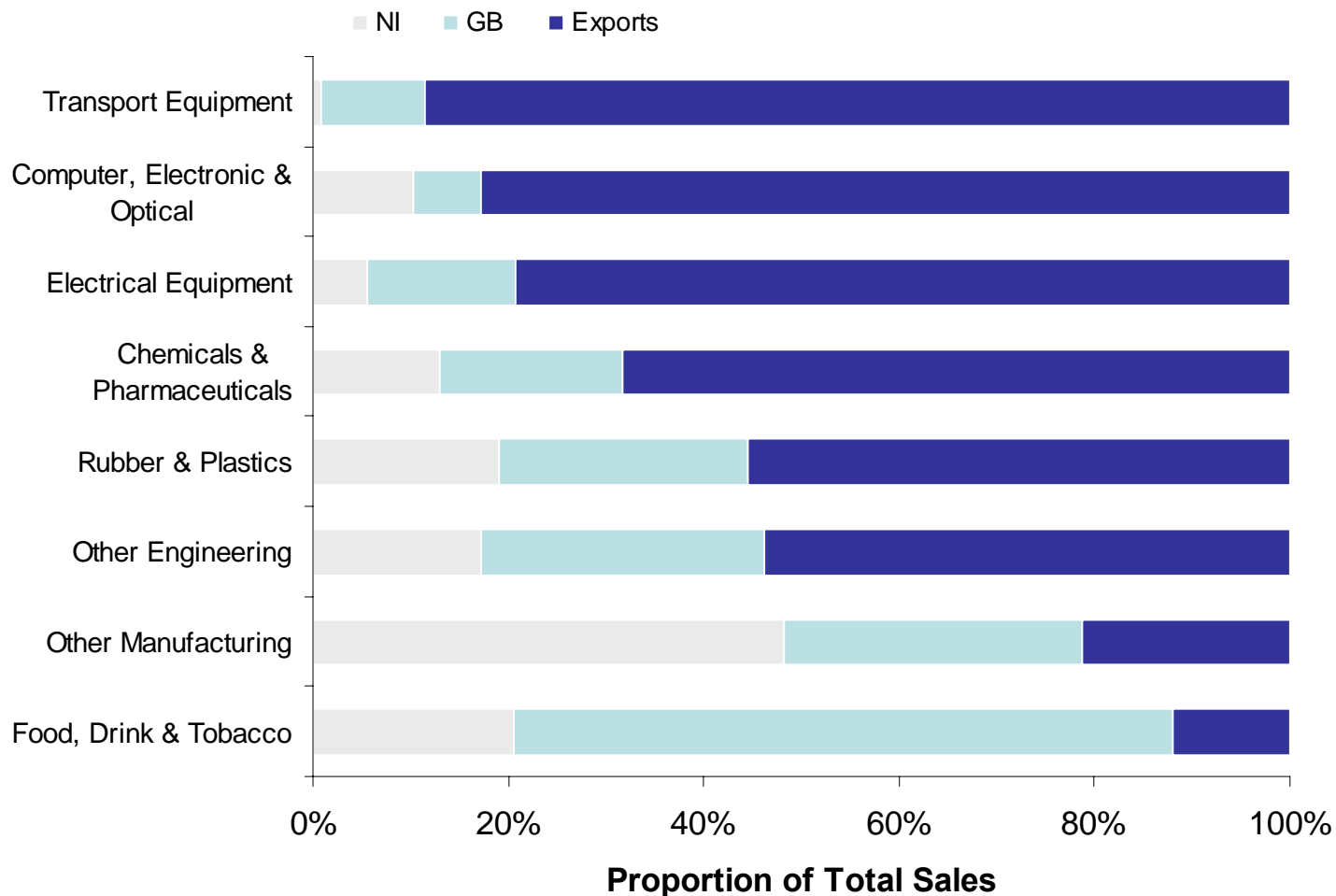


**Need to Diversify**  
Over two-thirds of exports focused on ROI, EU and North America

## The engineering and food & drink sectors are key drivers of total NI exports...



# ...although most of food & drink sales are actually to GB and NI markets...



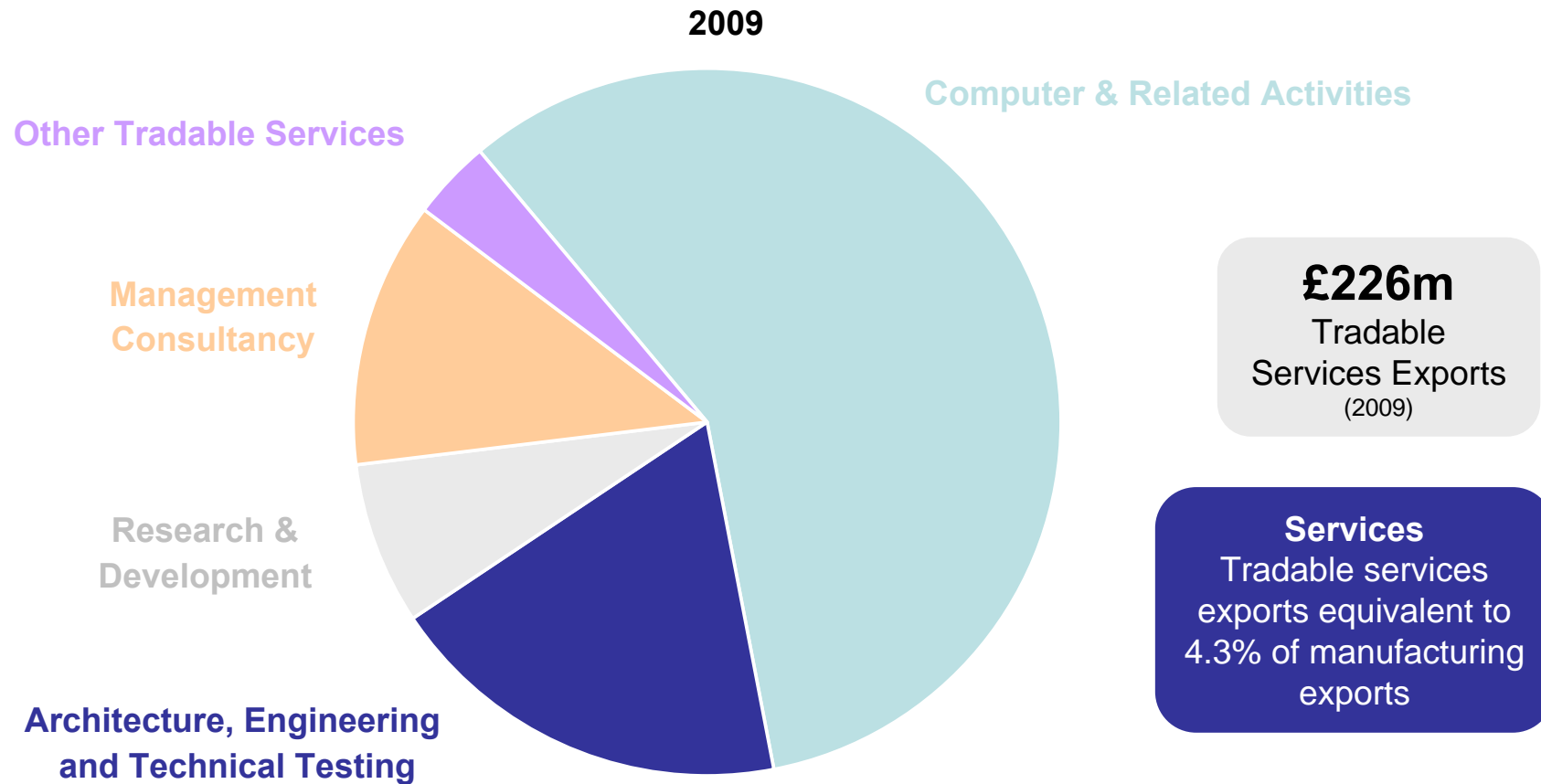
**Exports**  
Engineering sectors heavily focused on markets outside the UK

**GB Sales**  
Food & drink mainly focused on GB markets despite large exports

Source: NISRA Manufacturing Sales and Exports

Note: Data relate to 2010/11

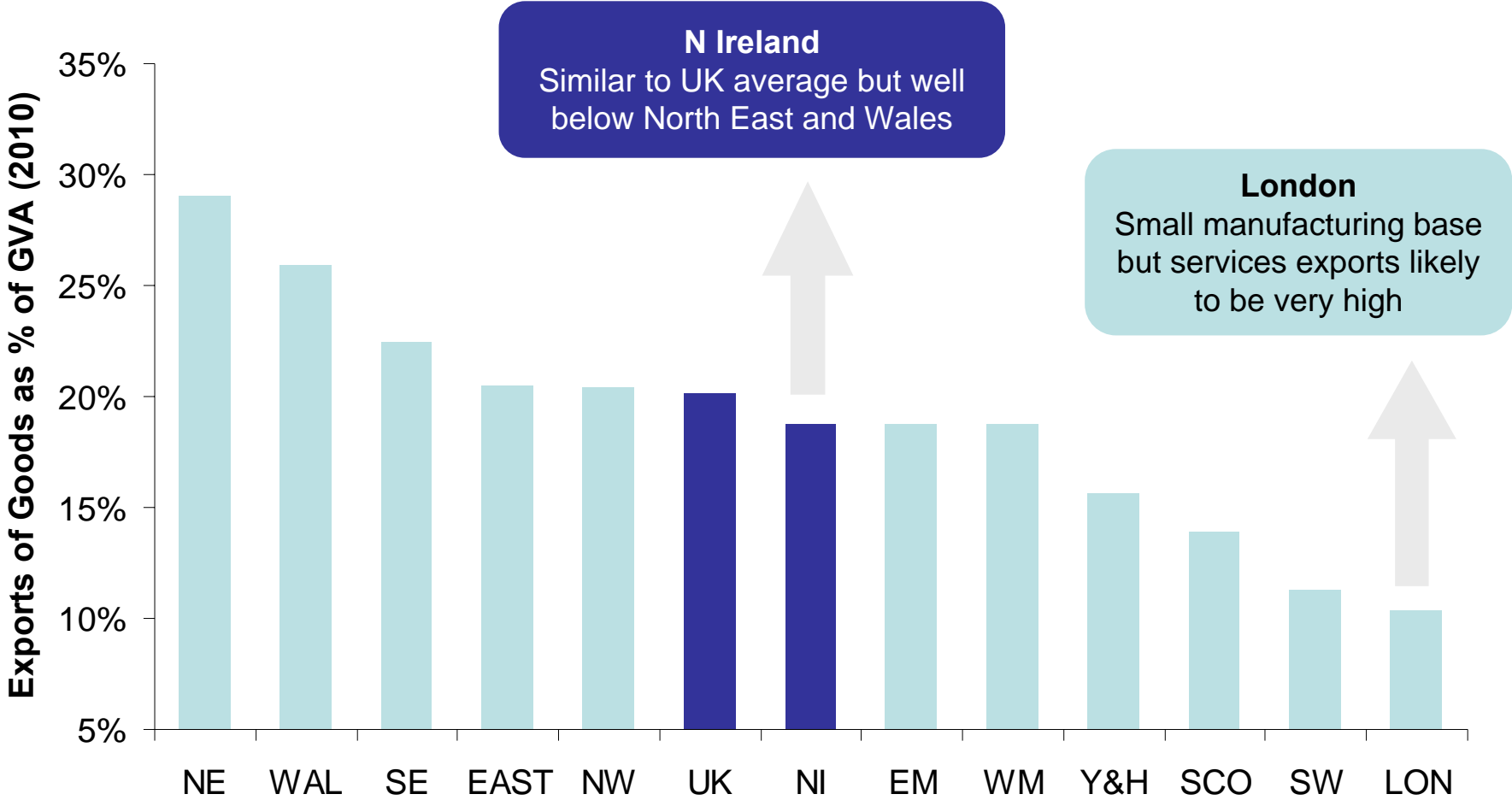
# ...and tradable services makes a relatively small contribution



Source: NISRA Exporting NI Services

Note: Comprehensive data on services exports is not available

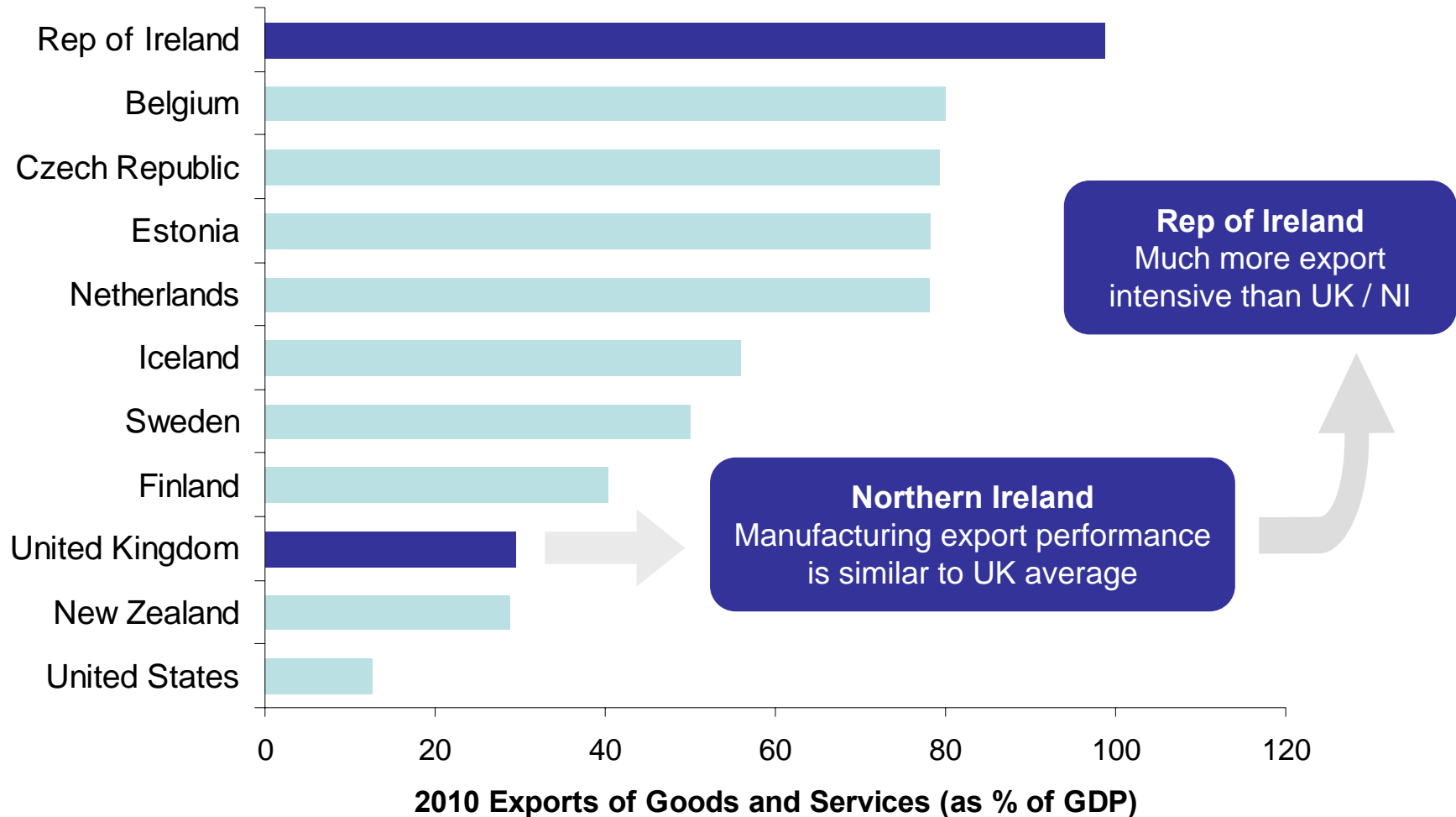
# Export performance is comparable to elsewhere in the UK...



Source: UKTI Regional Trade Statistics

Note: Does not include services exports due to lack of data

## ...but is significantly below successful small economies elsewhere



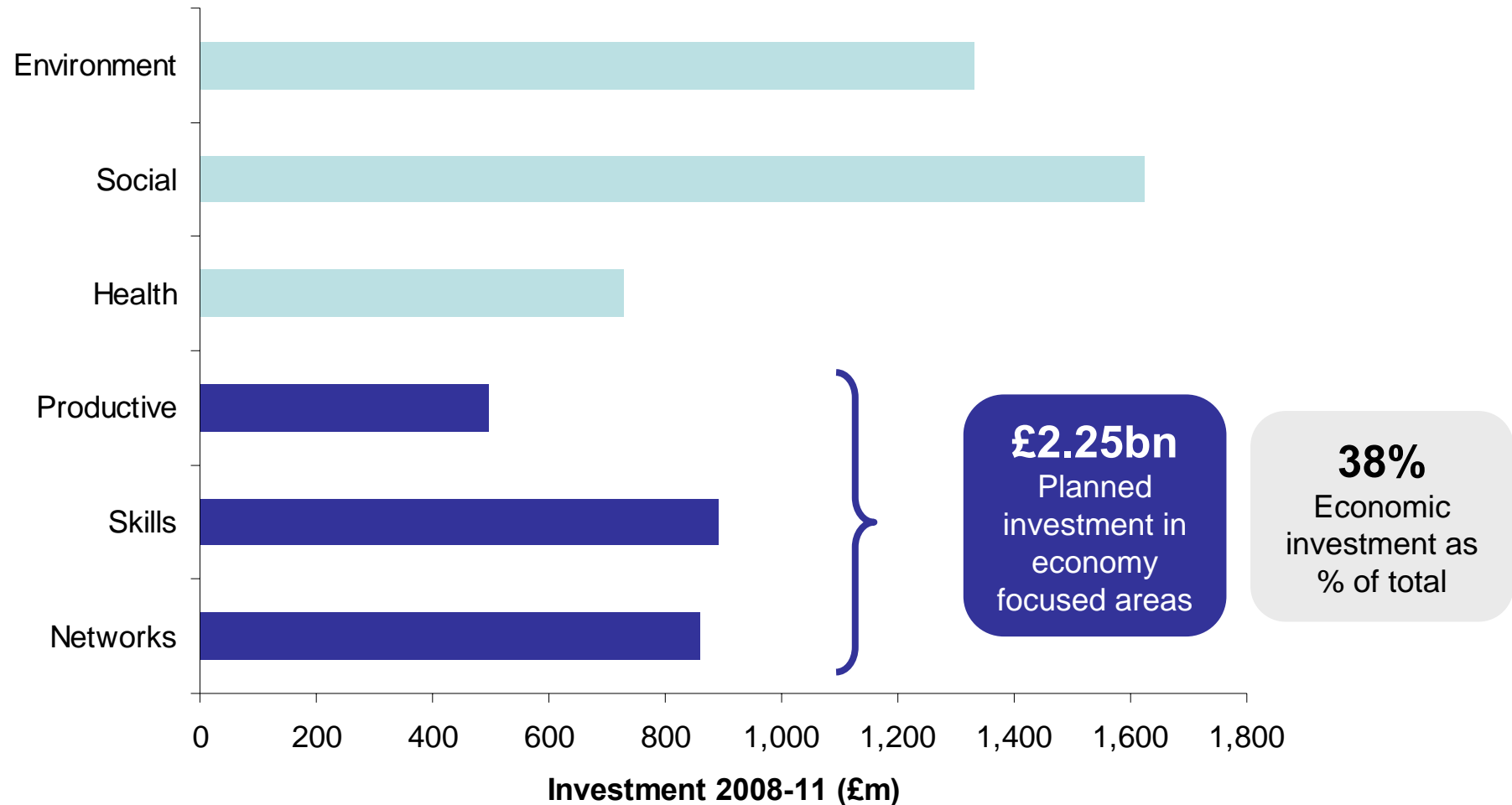
Source: World Bank Databank

Note: Comparable data does not exist for NI



# Economic Infrastructure

# Significant investment has been made in economic infrastructure...

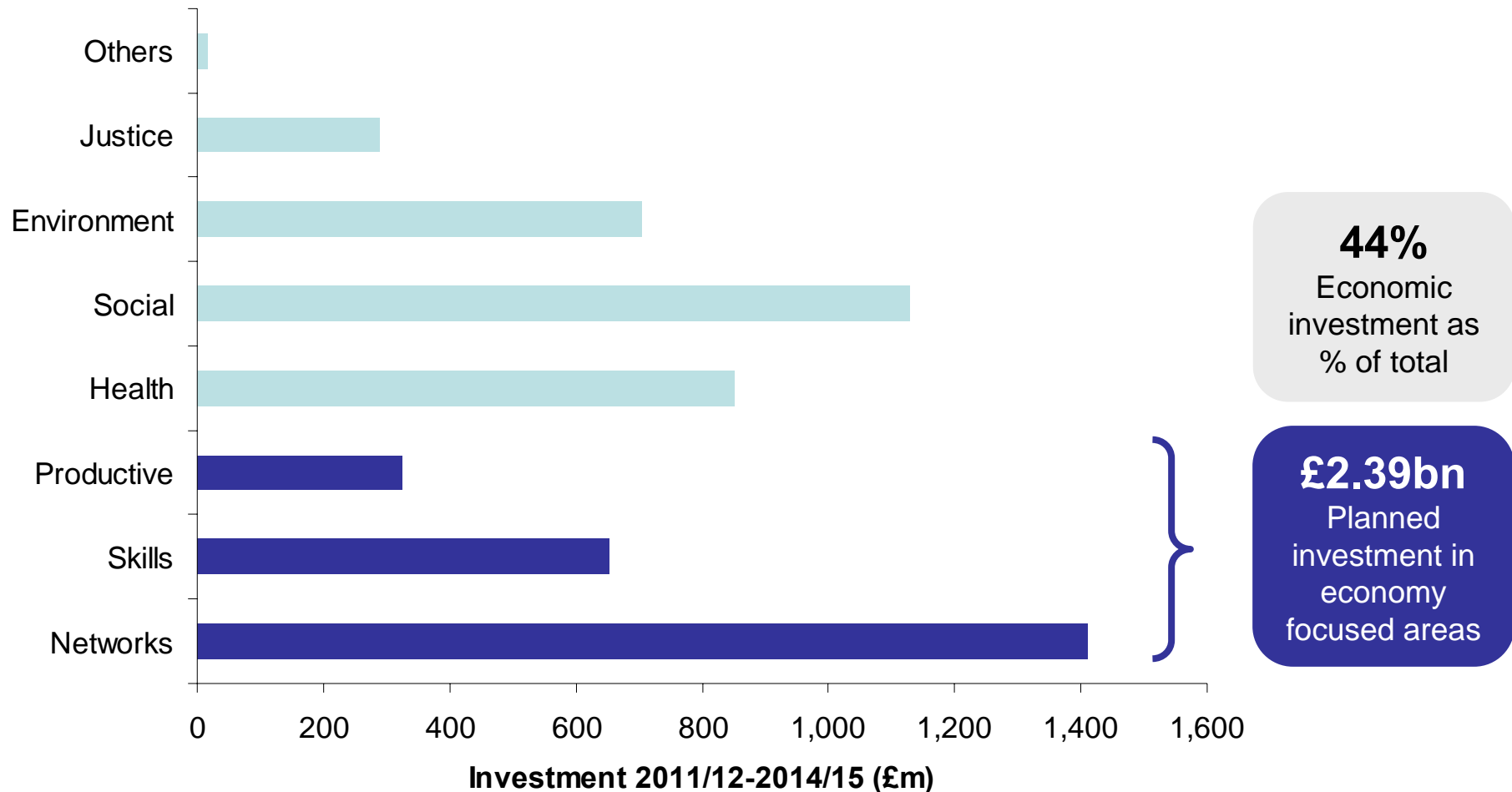


Source: ISNI 2008-18

Note: Planned investment may not reflect actual investment



## ...and this investment will continue going forward...



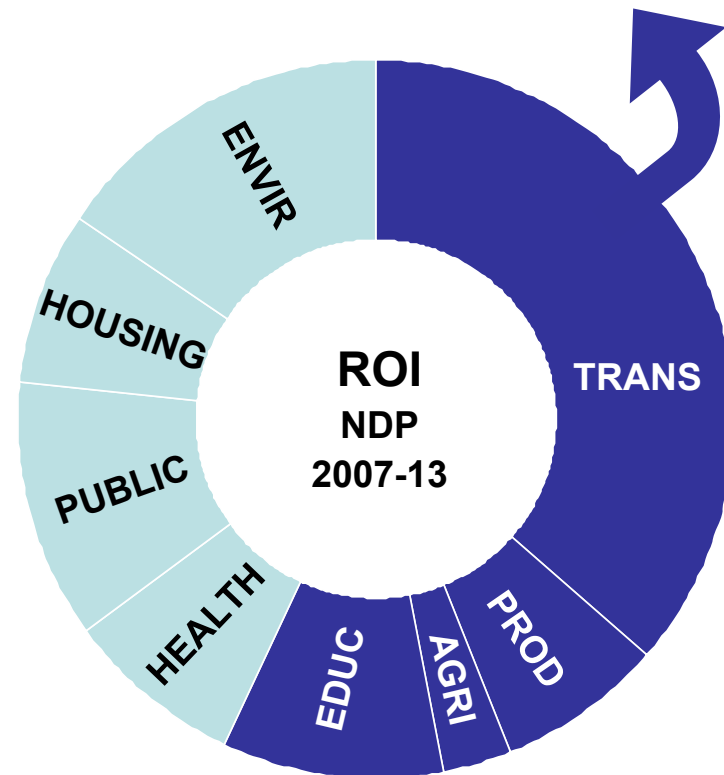
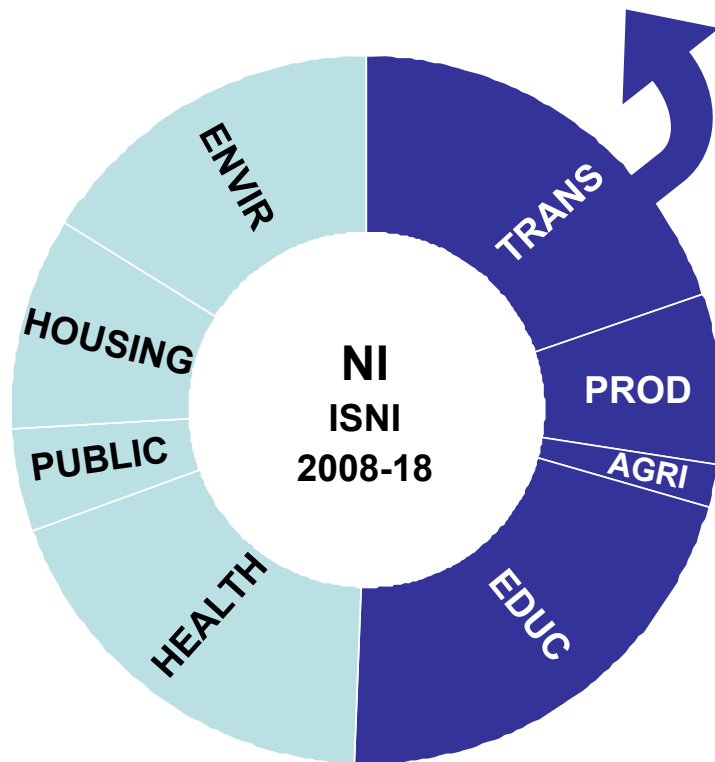
Source: Draft ISNI 2011-21

Note: Planned investment may not reflect actual investment

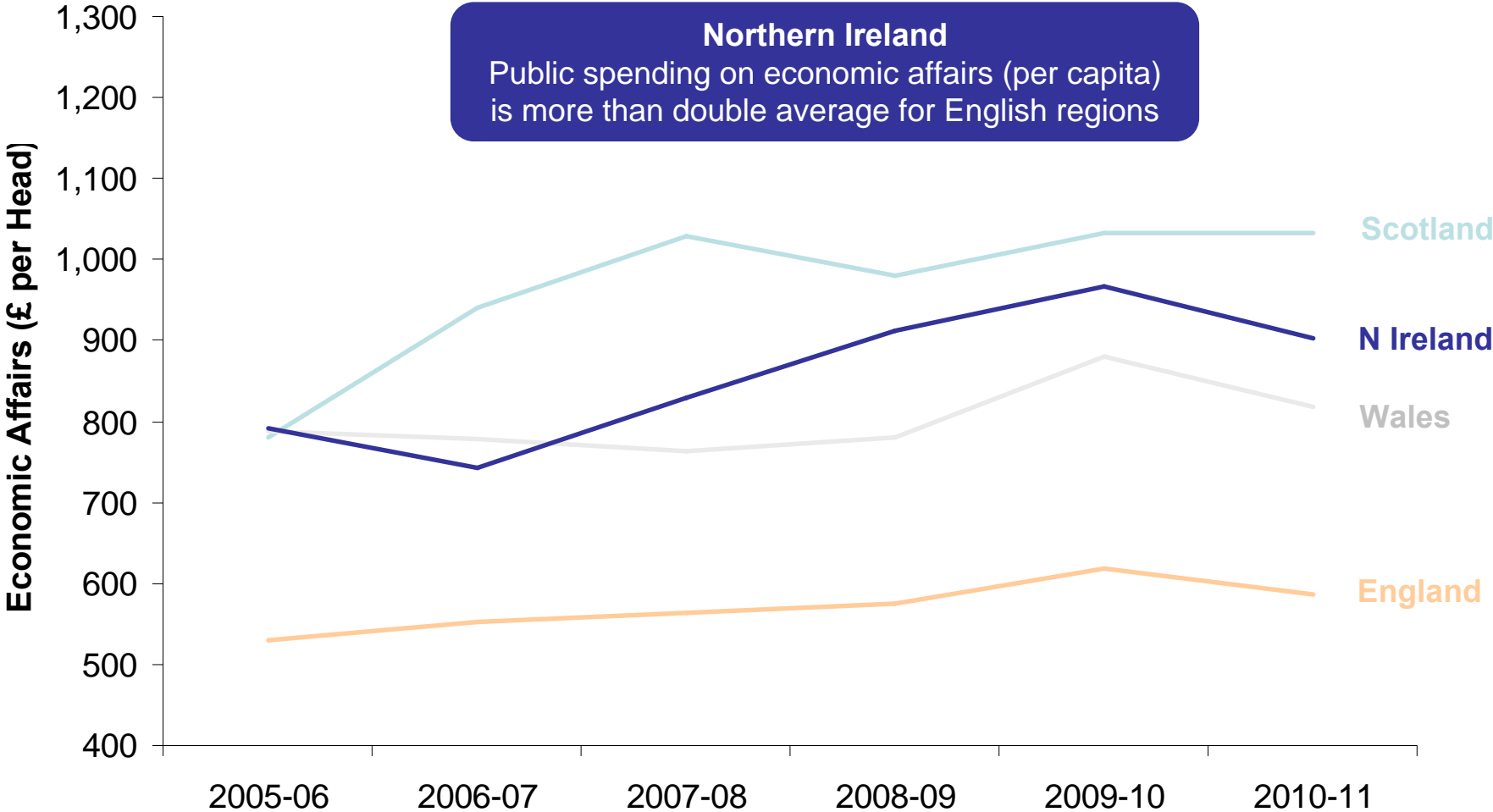
# ...although investment has been less focused on the economy than in the ROI

**Economic Infrastructure**  
57% of ROI investment in economic areas compared with 51% in NI (which is more socially focused)

**Transport Investment**  
ROI investment almost twice that of NI on transport projects (as % of total)

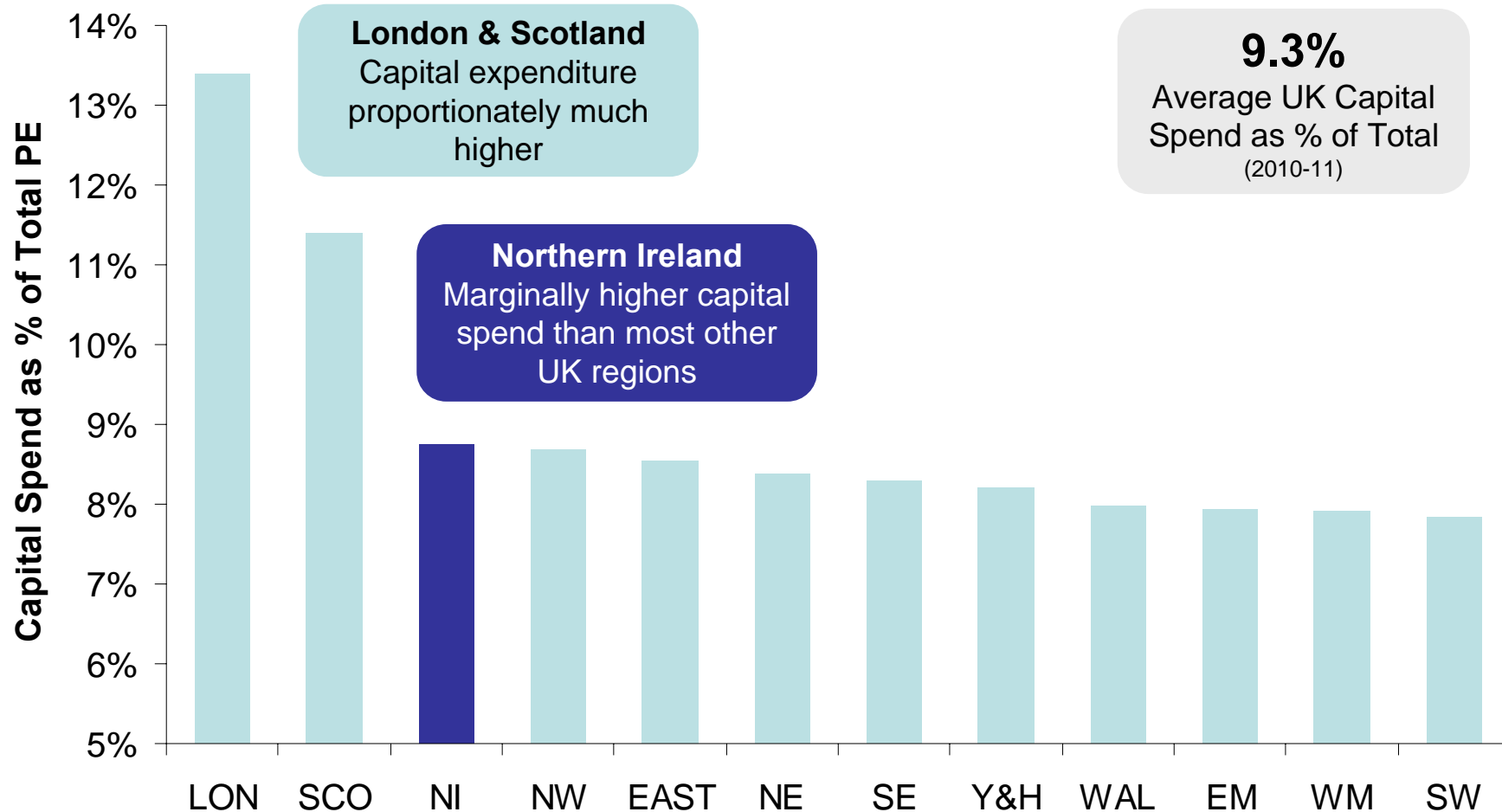


# NI has higher public expenditure than many other parts of the UK



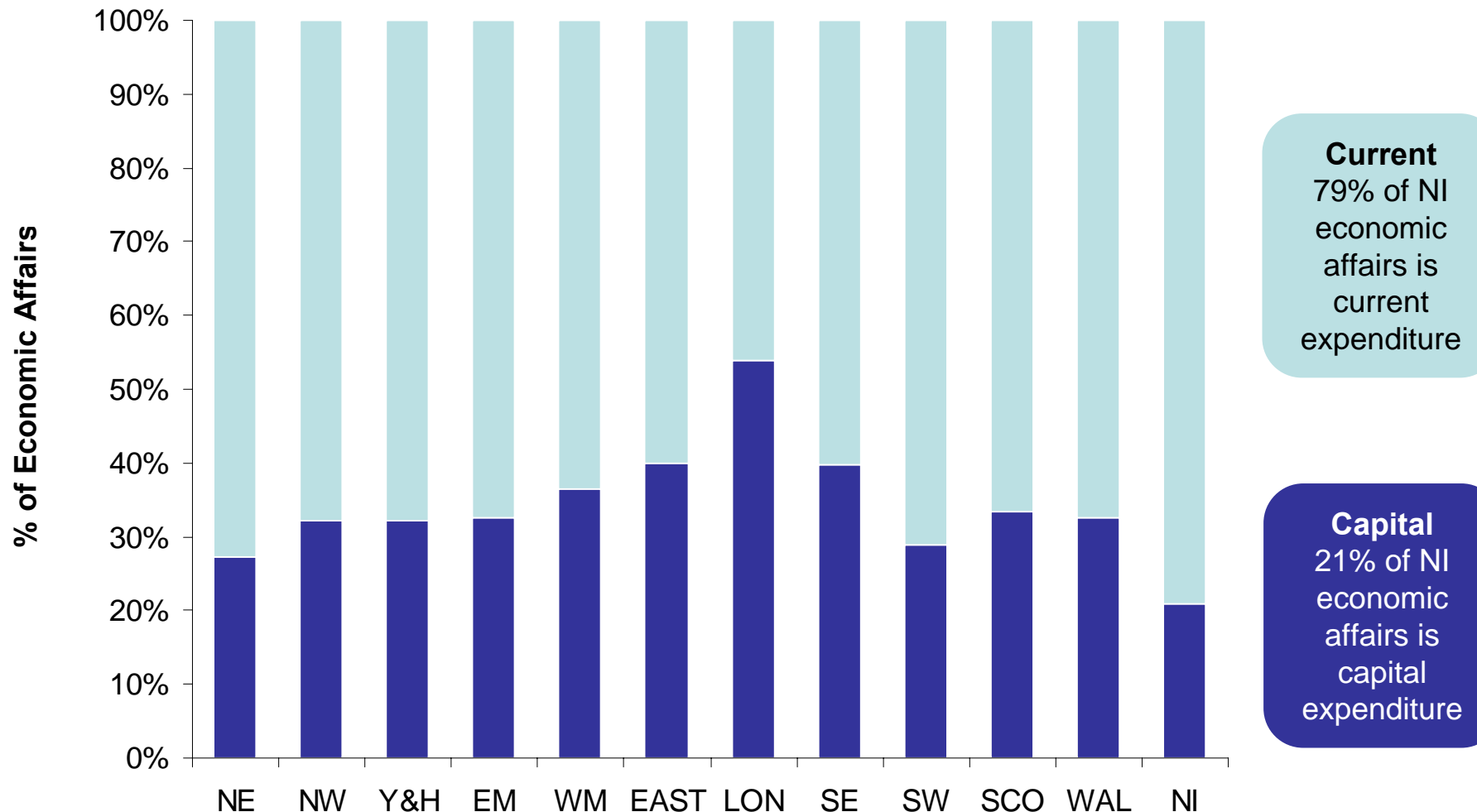
Source: PESA Regional Analysis

## ...with capital expenditure broadly similar to elsewhere in the UK...



Source: PESA Regional Analysis

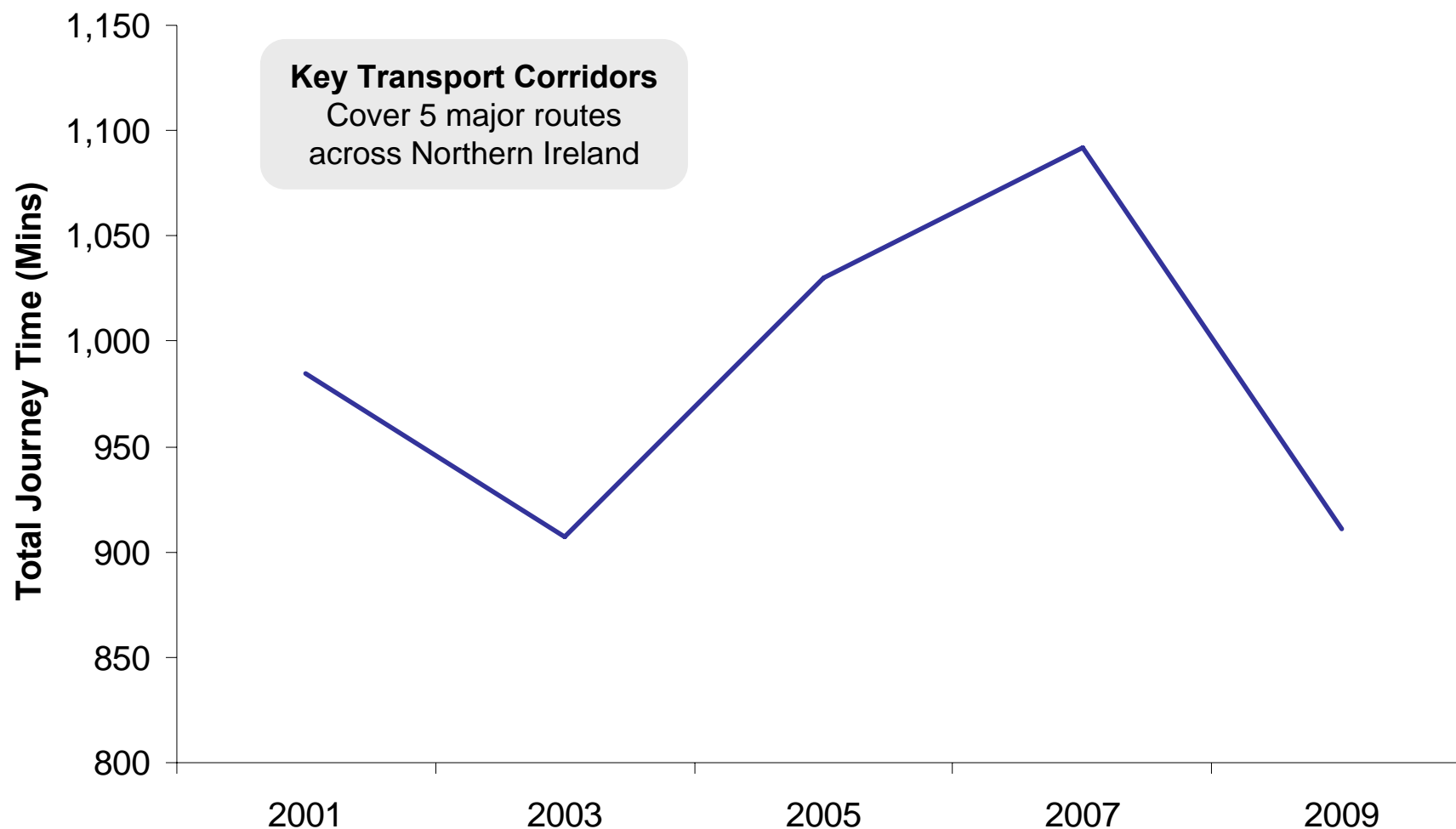
## ...although capital spend is relatively low on economic affairs



Source: PESA Regional Analysis

Note: Relates to 2010-11 although trend is the same for other years

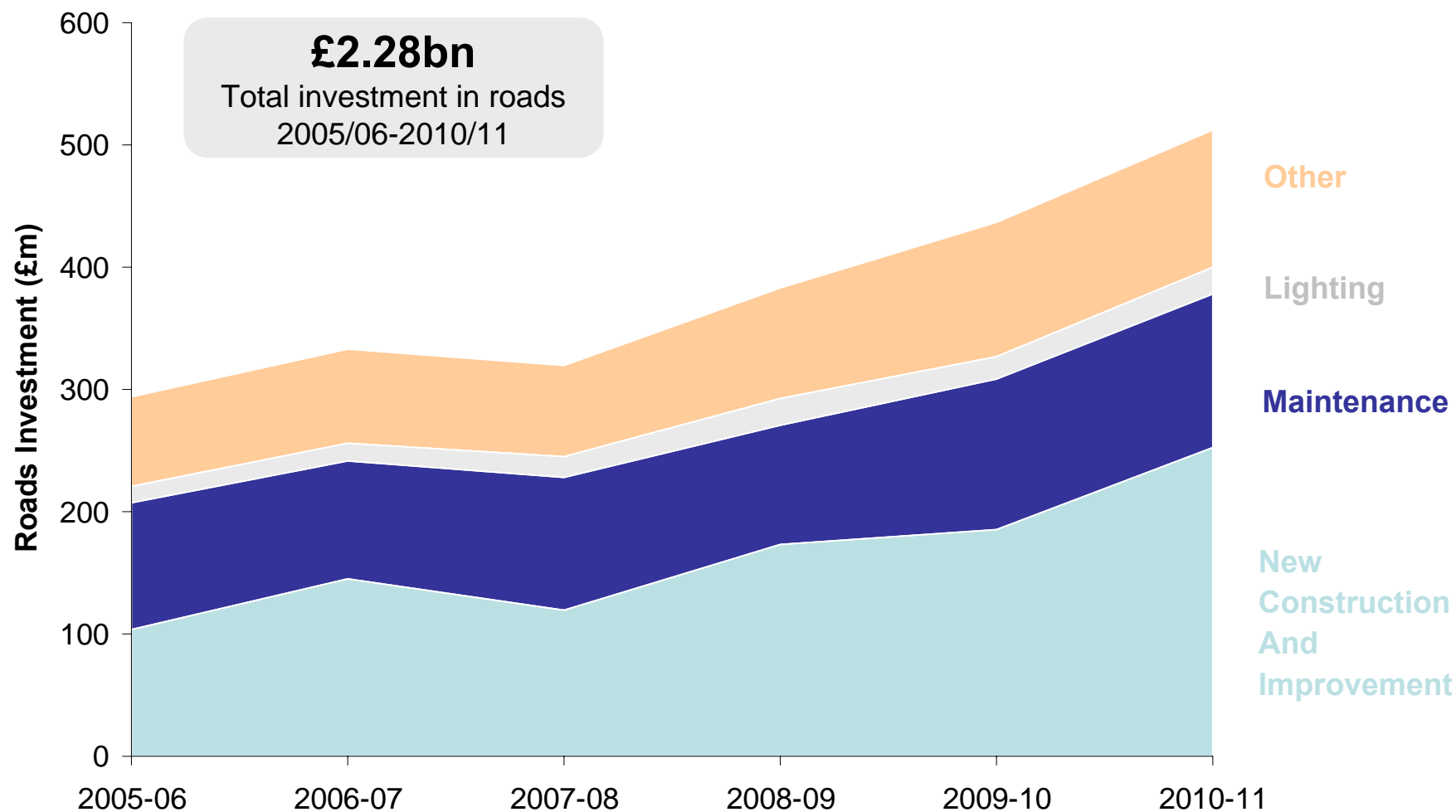
## Journey times on key transport corridors are broadly comparable to the level in 2003...



Source: DRD Journey Times Report (Draft)

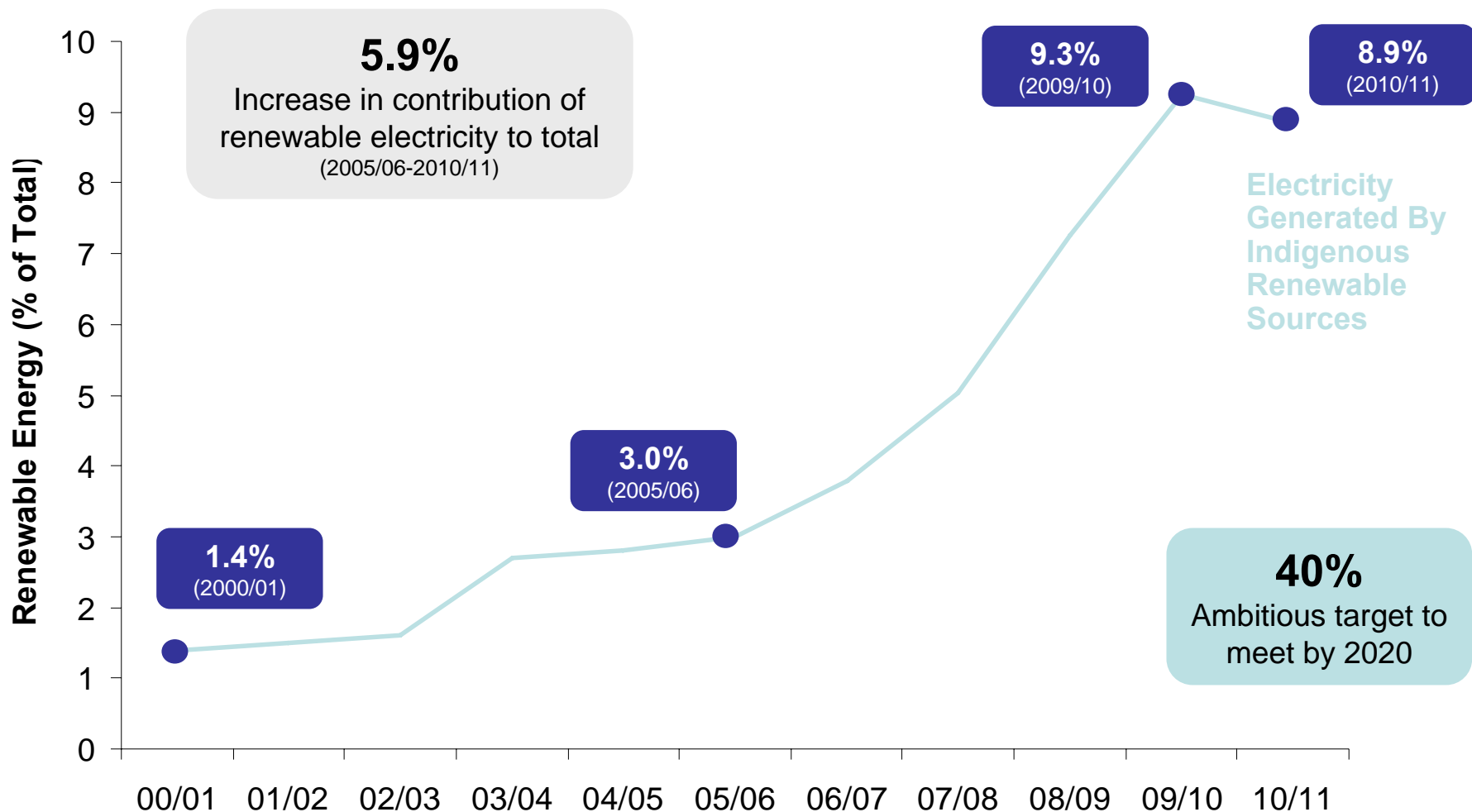
Note: Figures may be subject to change; Nature of the survey means that caution should be exercised when drawing conclusions from these data

## ...and there has been significant investment in road infrastructure in recent years



Source: DRD Transport Statistics

# More electricity in NI is being generated by indigenous renewable sources...

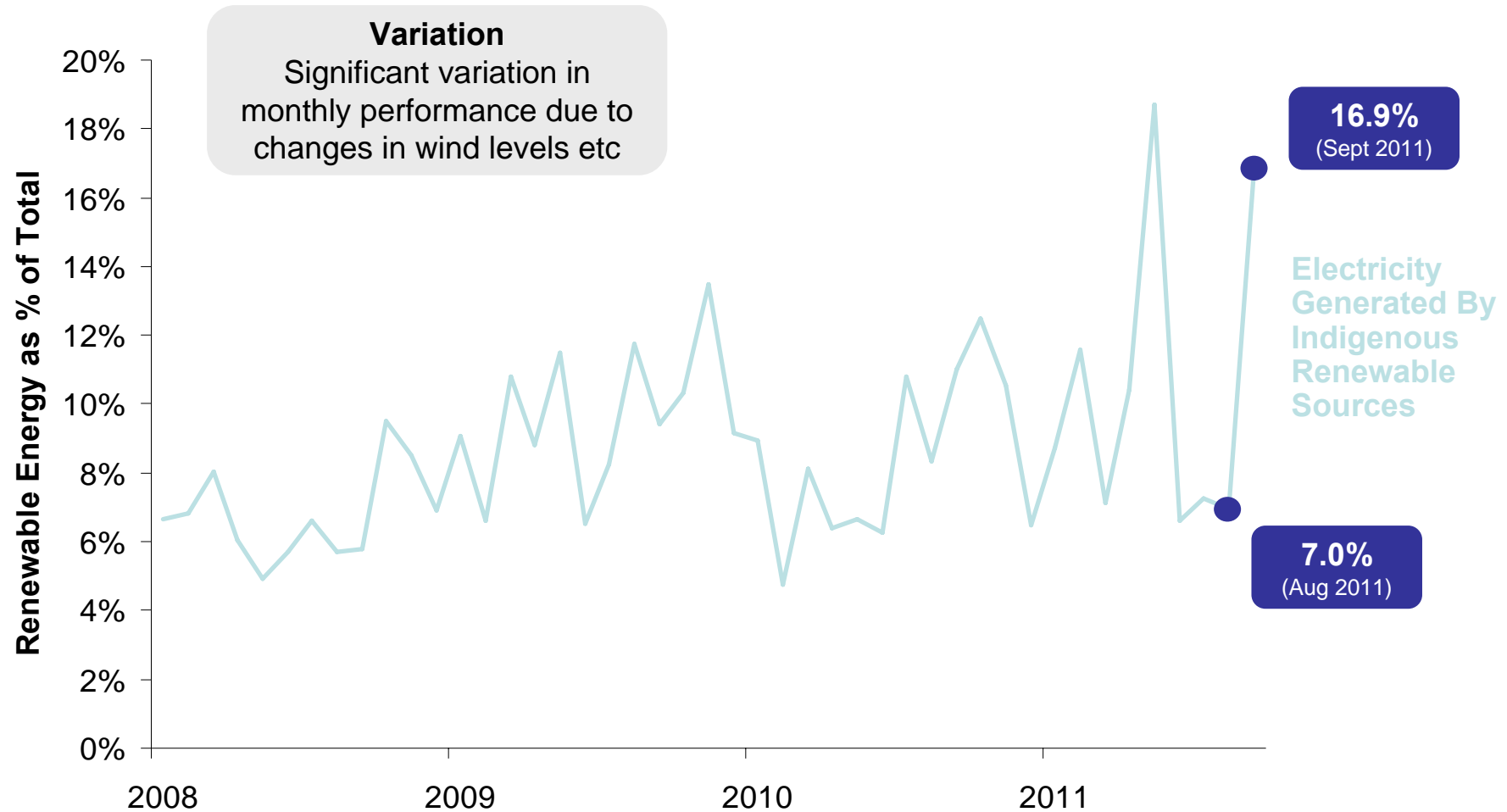


Source: NIE Data

Note: Change is expressed as percentage points

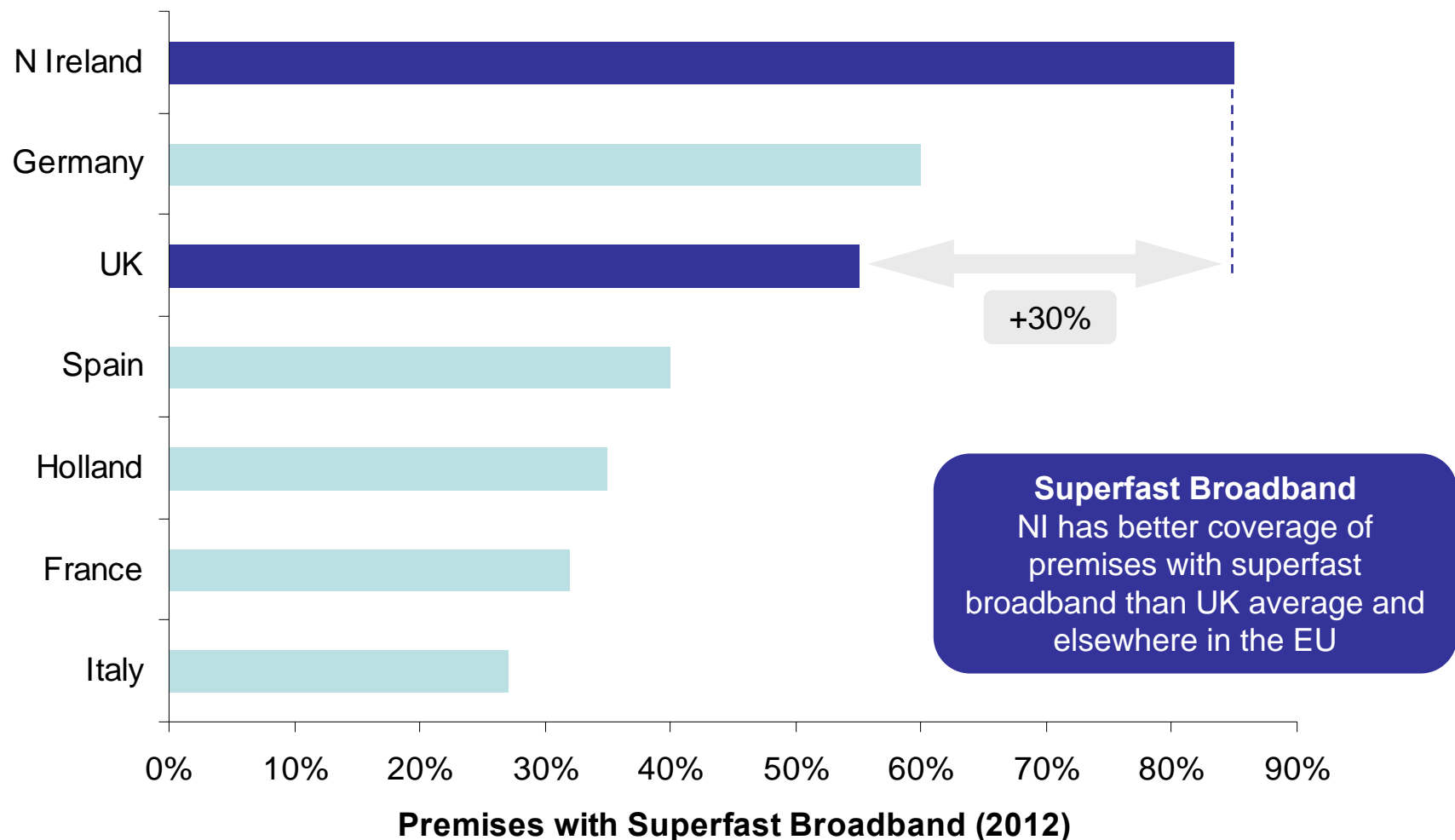


## ...although performance is reliant on external factors



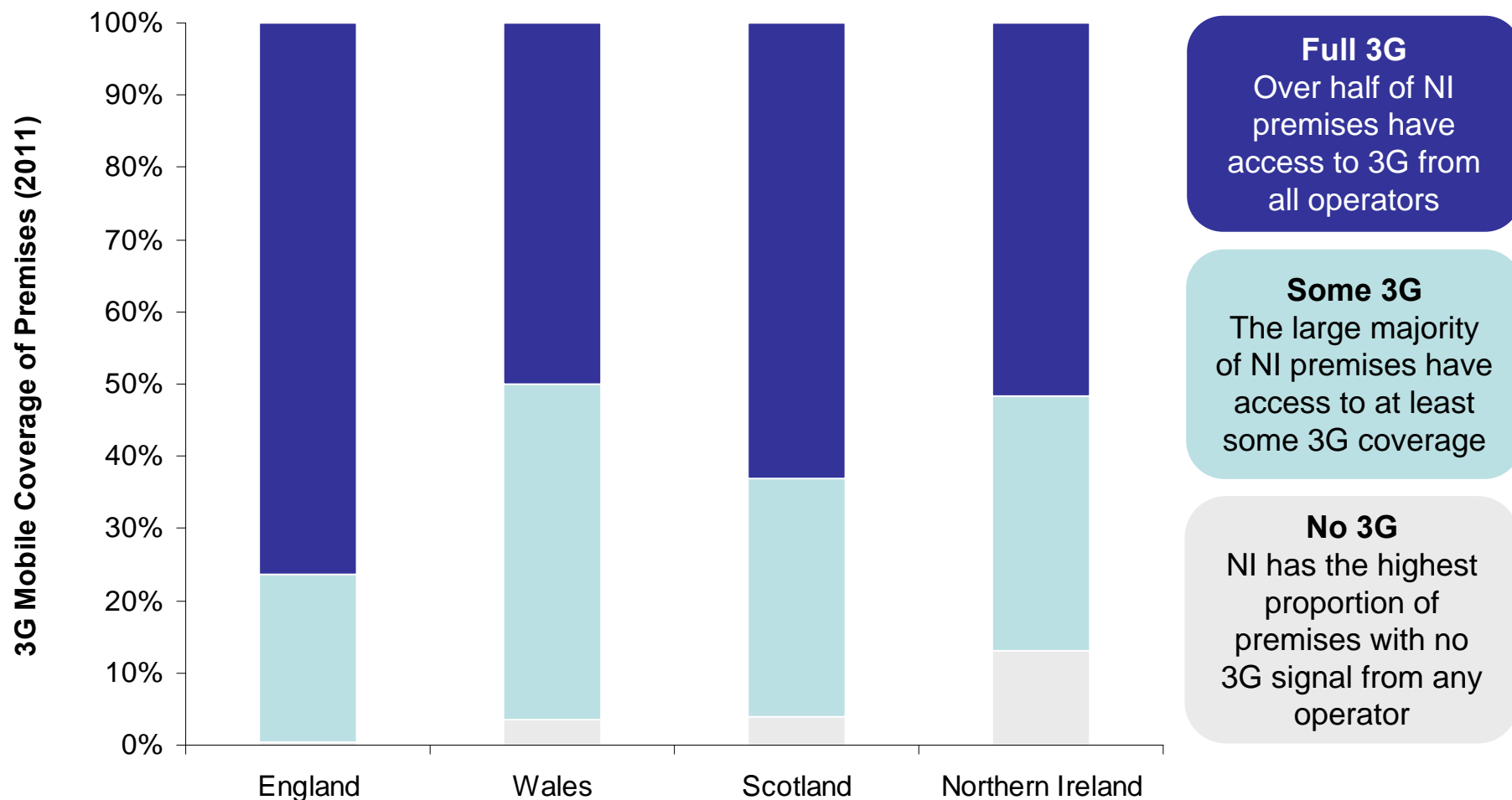
Source: NIE Data

## NI has a strong telecoms infrastructure in place...



Source: OFCOM International Communications Market Report

## ...although some areas have potential to improve further



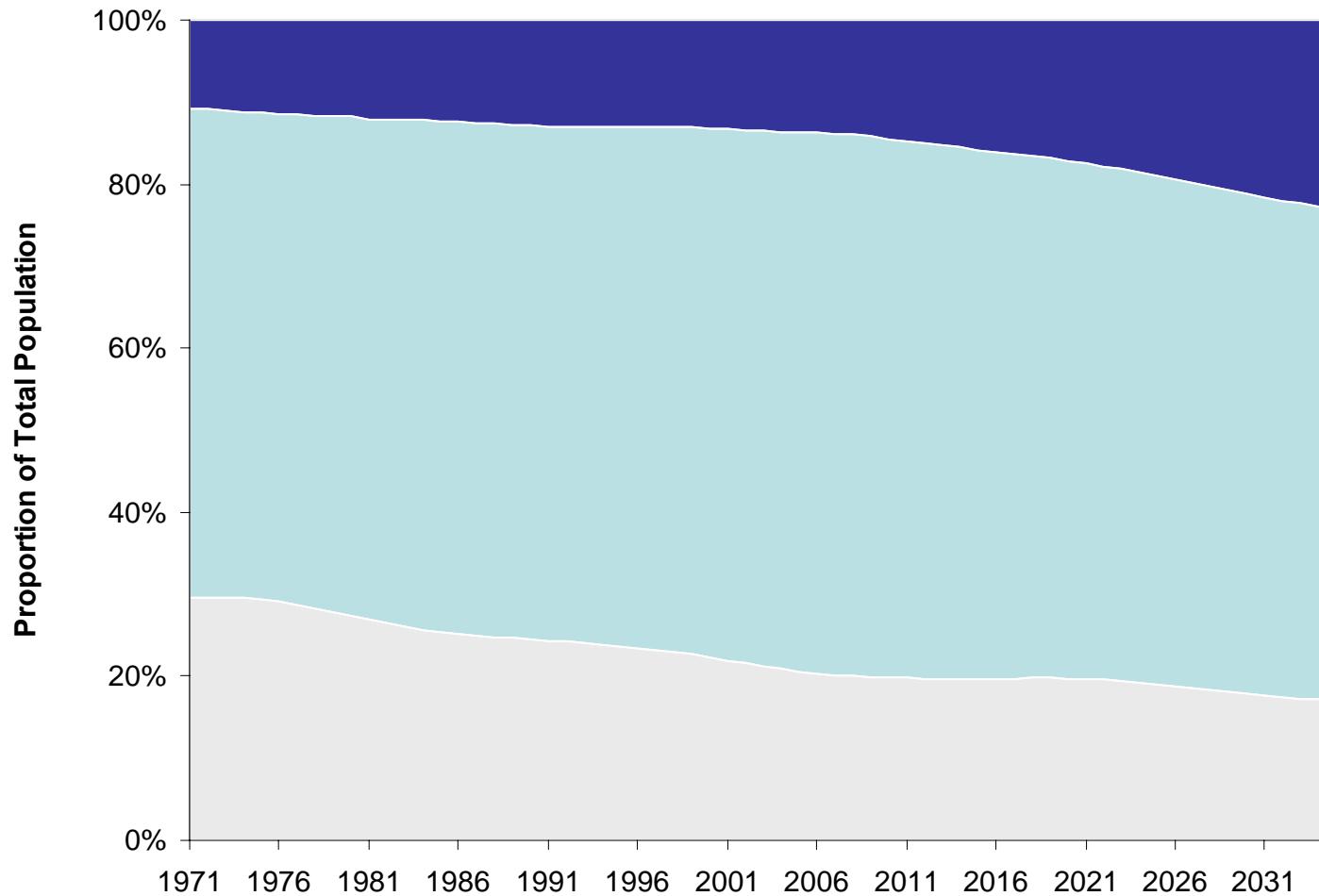
Source: OFCOM Communications Infrastructure Report

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**3**

## **Cross Cutting Themes**

# The NI population is getting older...



**+78%**

Change in 65  
and older  
population  
(2010-2035)

**+2%**

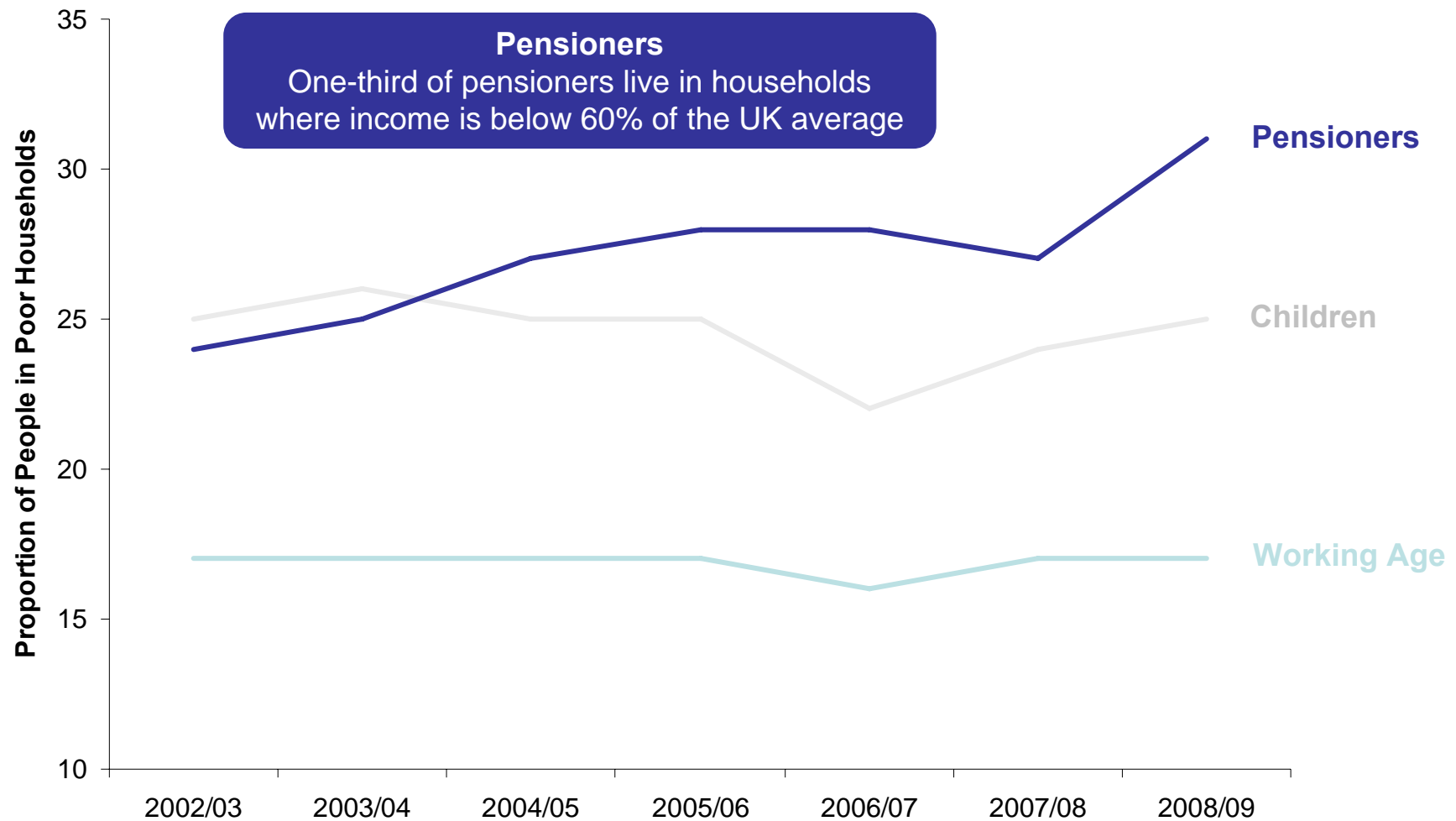
Change in 15  
to 64 year old  
population  
(2010-2035)

**-5%**

Change in  
under 15  
population  
(2010-2035)

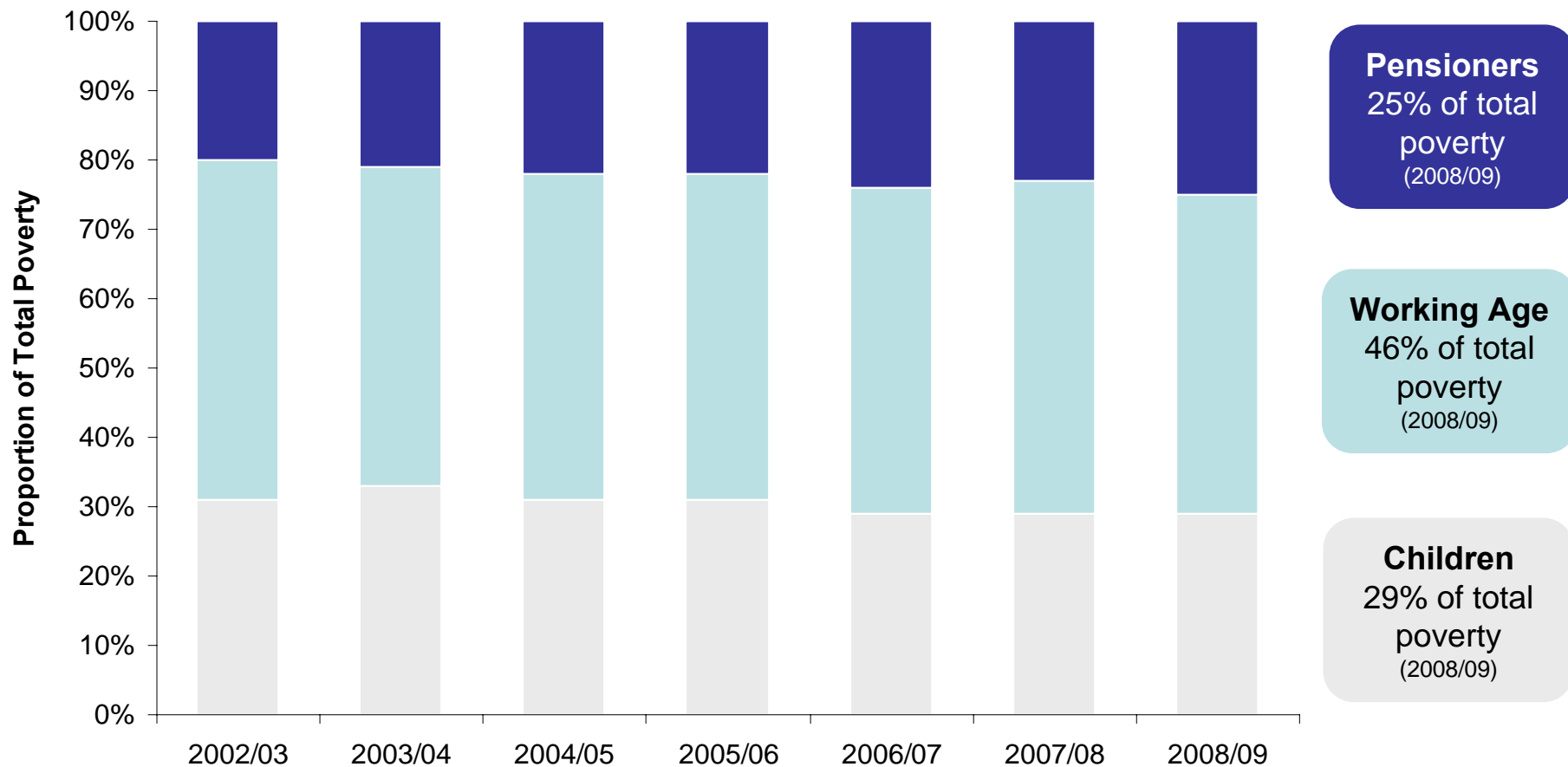
Source: NISRA Population Estimates; Population Projections

## ...but more pensioners are living in poverty...



Source: OFMDFM; DSD

## ...and they account for a relatively large proportion of those living in poverty

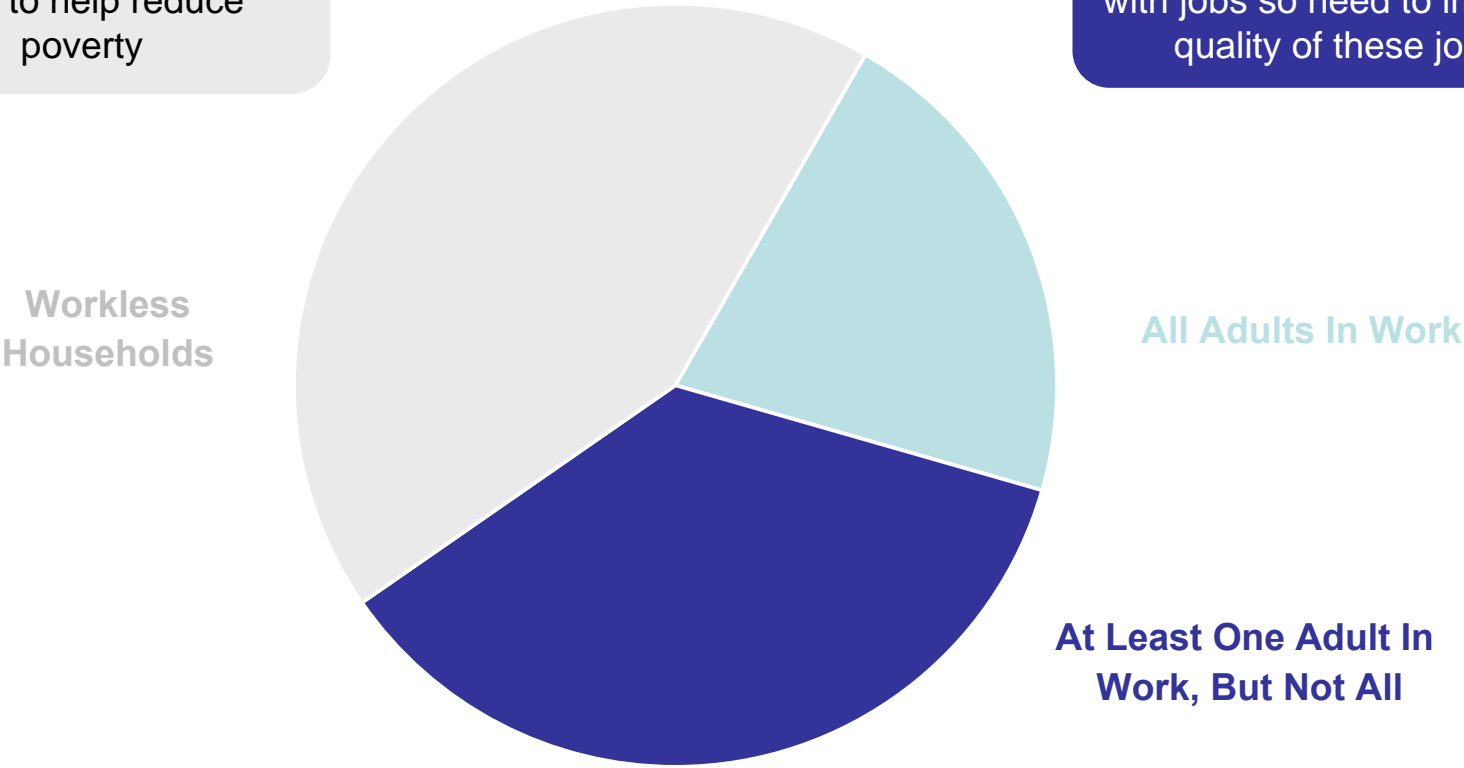


Source: OFMDFM; DSD

# Reducing poverty requires creating jobs and making sure they are well paid...

**Joblessness**  
Need to get people into work to help reduce poverty

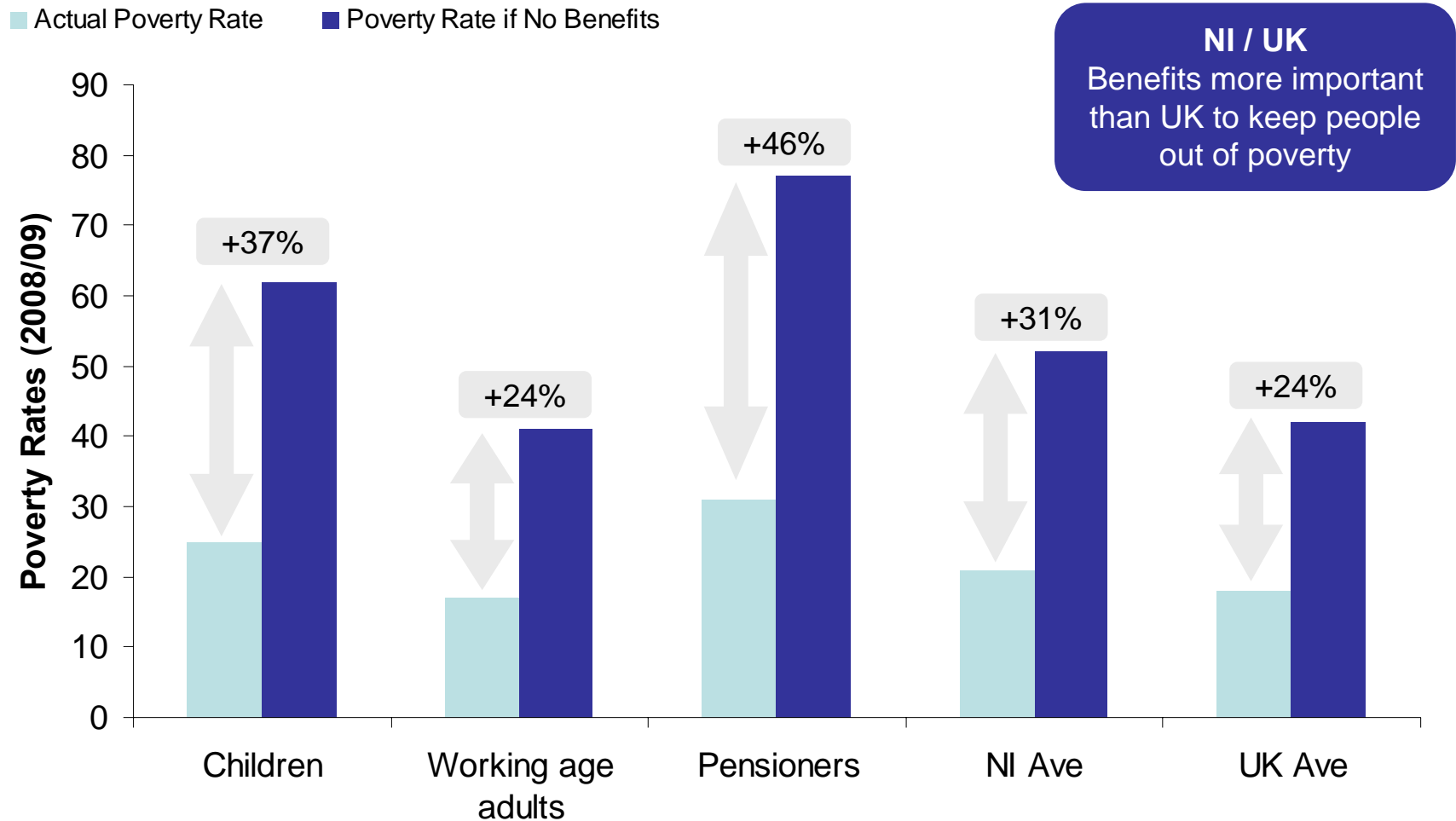
**Job Quality**  
People still live in poverty with jobs so need to improve quality of these jobs



Source: OFMDFM; DSD

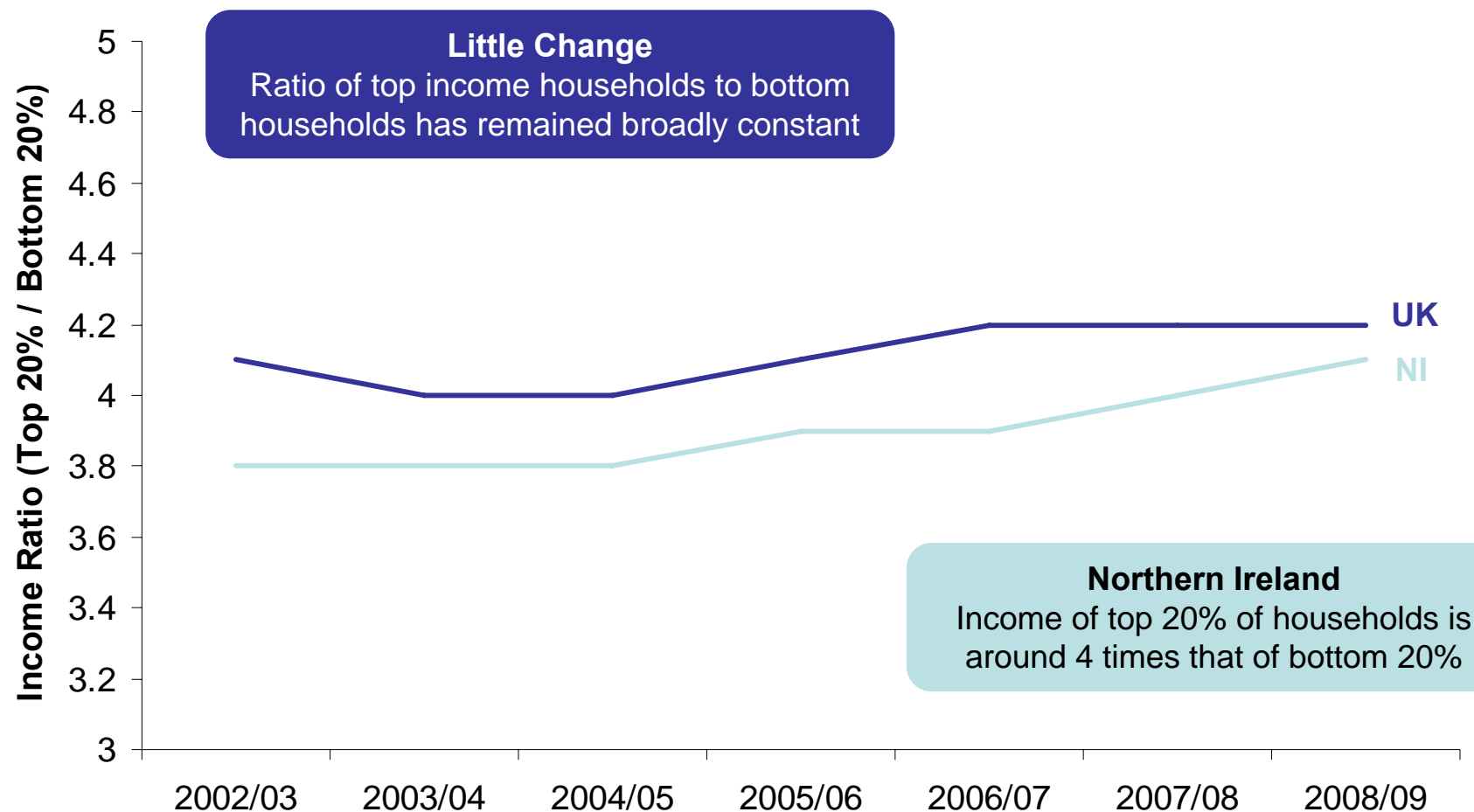


# ...and many more people would be in poverty if not for social benefits



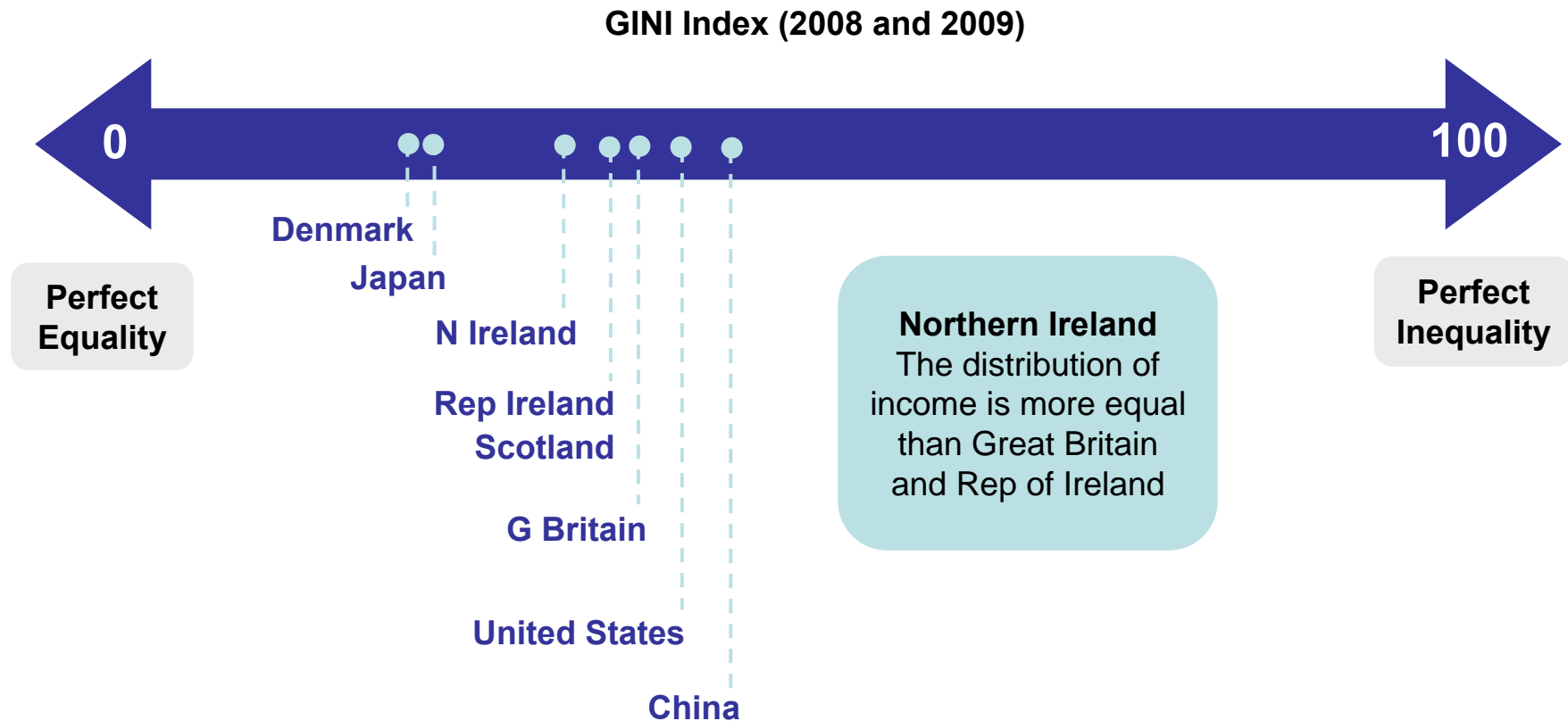
Source: OFMDFM; DSD

# There is a significant gap between the richest and poorest households in society



Source: OFMDFM; DSD

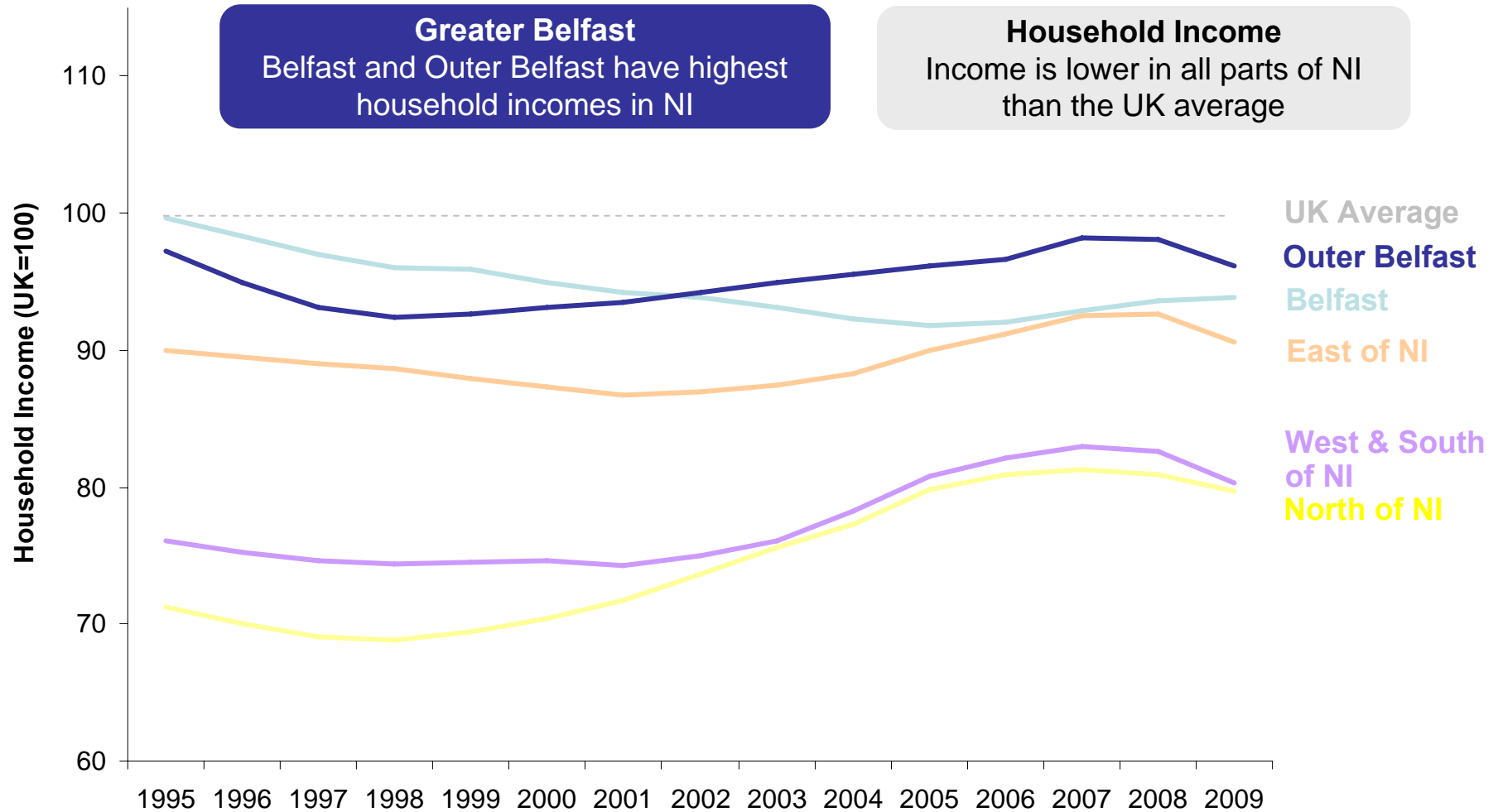
# ...although there is less income inequality in NI than in other countries



Source: OFMDFM; DSD; UN Development Report

Note: GINI Index is the GINI coefficient expressed as a percentage

# While Belfast has the highest household incomes in NI...



Source: ONS Gross Domestic Household Income

...it also has the majority of the most deprived parts of NI

MULTIPLE DEPRIVATION MEASURES			
RANK	WARD	RANK	WARD
1	Whiterock, Belfast	11	Upper Springfield, Belfast
2	Falls, Belfast	12	The Diamond, Derry
3	New Lodge, Belfast	13	Colin Glen, Lisburn
4	Shankill, Belfast	14	Duncairn, Belfast
5	East, Strabane	15	Greystone, Limavady
6	Crumlin, Belfast	16	Water Works, Belfast
7	Clonard, Belfast	17	Creggan South, Derry
8	Creggan Central, Derry	18	Ballymacarrett, Belfast
9	Ardoyne, Belfast	19	Woodvale, Belfast
10	Twinbrook, Lisburn	20	Brandywell, Derry

**Belfast DC**  
12 of 20 most deprived wards in NI are located in Belfast

**Derry DC**  
4 of 20 most deprived wards in NI are located in Derry

**Multiple Deprivation Measure**  
Takes into income, employment, health, education, proximity to services, environment and crime

Source: NISRA Multiple Deprivation Measures