Danske cuts Northern Ireland growth outlook on persistent inflationary cloud

Growing inflationary pressures and a “less supportive” economic policy environment has prompted Danske Bank to slash its growth outlook for the Northern Ireland economy next year.

It said the increasing cost of living and the diminishing impact of the post pandemic rebound will see economic growth of just 1% in 2023 compared to its previous prediction of 1.7%.

The bank said there is little sign of cost pressures easing any time soon and pegged the UK inflation level at 8.5% for 2022 before falling to 4.5% for 2023.

All sectors are expected to ease back next year with wholesale and retail trade growing by just 0.2% in 2023 compared to 3.2% this year, Conor Lambe, Danske Bank’s Chief Economist, said.

“The Northern Ireland economy is estimated to have grown again in the first quarter of 2022 but we expect the pace of growth from quarter two onwards to be slower as the squeeze on household incomes intensifies given the high rate of inflation. These inflationary pressures are likely to weigh on growth throughout the remainder of 2022 and into 2023.”

He said that the accommodation and food services sector will grow by 16.1% in 2022 and the arts, entertainment and recreation sector by 10.3% – the two fastest growing of this year – but both will slow next year.

Manufacturing will rise this year by 3.1% and construction by 3.8%, although supply chain issues will continue to weigh.

The information & communication (5.4%) and professional, scientific & technical services (4.8%) sectors are expected to grow faster than the overall economy in 2022, with output growth in 2023 forecast at 2.1% and 2.3% respectively.

“Inflation in the UK is at a multi-decade high and we expect it to rise even further before the end of this year,” Conor Lambe said. “If inflation runs higher than forecast and remains at more elevated levels for a longer period of time, it has the potential to constrain economic growth even further.

“This could occur if fuel and energy prices remain higher for longer, supply chains take longer to normalise or if the current tightness of the labour market begins to result in more domestically driven inflation, with a wage-price spiral keeping the rate of price rises above its target rate.

“Higher and more prolonged inflation could also mean that Bank Rate would be increased at a faster pace to contain the rate of price rises and that could further dampen economic activity. Persistent supply chain disruption could also adversely impact activity levels in goods-based businesses if they are unable to source the products they sell or use as inputs.”