Economic Strategy

Rebuilding and Rebalancing the Economy: An Evidence Base

March 2012
Contents

1 Rebuilding the Economy

2 Rebalancing the Economy
   A Innovation and R&D
   B Skills and Education
   C Business Growth
   D Competing in the Global Economy
   E Economic Infrastructure

3 Cross Cutting Themes
Rebuilding the Economy
The UK economy has emerged from its longest recession since records began…

GDP (Quarterly % Change)

-2.5  -2.0  -1.5  -1.0  -0.5  0.0  0.5  1.0  1.5  2.0

Recession
Last recession was 20 years ago

Recession
UK economy contracted for five quarters

Growth
Unbroken economic growth for 63 quarters

Source: ONS Estimate of GDP
...but there has been a slow recovery...

Recovery
UK economy grew by five consecutive quarters after recession

Slowdown
Growth has been muted with some quarters showing contractions

GDP (Quarterly % Change)

Source: ONS Estimate of GDP
...with high inflation impacting on consumer spending

Inflation Rise
Mainly driven by external factors such as rising fuel and commodity prices

Recent Falls
Lower inflation due to VAT increase from 2011 no longer being counted but still well above MPC target

CPI (Annual % Change)

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...

-32%  -24%  -22%  -11%  -2%  -0.4%  +0.5%  +7%  +8%

Construction  Business & Finance  Mining  Manufacturing  Retail & Hospitality  Energy  Transport & ICT  Other Services  Water & Waste

Change in Output (Since Q2 2008)

Source: NISRA IOP, IOS, Construction Bulletin
...although recent output performance has shown signs of improvement
After many years of job growth in NI…

188,000
Increase in NI employee jobs between 1993 and 2008

Most of the job growth was due to services and construction

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

Source: NISRA Quarterly Employment Survey
Note: Not seasonally adjusted; will not sum to total job losses in previous slide
In comparison with other UK regions...

Northern Ireland
Fewer job losses (proportionately) than Scotland but more than England and Wales

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...

- Claimants: 23,600 (Feb 2008)
- Claimants: 37,900 (Jan 2012)
- Increase in claimants: 161%

Source: NOMIS Claimant Count
Note: Seasonally adjusted
…more so than elsewhere in the UK…

<table>
<thead>
<tr>
<th>Region</th>
<th>Claimant Increase Since Feb 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Ireland</td>
<td>161%</td>
</tr>
<tr>
<td>South West</td>
<td>151%</td>
</tr>
<tr>
<td>South East</td>
<td>128%</td>
</tr>
<tr>
<td>Yorkshire &amp; Humber</td>
<td>121%</td>
</tr>
<tr>
<td>East</td>
<td>120%</td>
</tr>
<tr>
<td>East Midlands</td>
<td>116%</td>
</tr>
<tr>
<td>Scotland</td>
<td>109%</td>
</tr>
<tr>
<td>Wales</td>
<td>108%</td>
</tr>
<tr>
<td>North West</td>
<td>95%</td>
</tr>
<tr>
<td>North East</td>
<td>94%</td>
</tr>
<tr>
<td>London</td>
<td>83%</td>
</tr>
<tr>
<td>West Midlands</td>
<td>83%</td>
</tr>
<tr>
<td>UK Average</td>
<td>106%</td>
</tr>
</tbody>
</table>

Source: NOMIS Claimant Count
…although this remains low when compared historically

1986
Claimant count now less than half of 1980s peak

61,500 (Oct 1986)

1997
Last time claimant count was at current level

61,500 (Sep 1997)

61,500 (Jan 2012)

Source: NOMIS Claimant Count
Despite the rise in claimants, the unemployment rate is similar to elsewhere in the UK...

Unemployment Rate (%)

N Ireland
Rate of 7.2% is below UK average of 8.4%

Source: ONS Labour Force Survey
Note: Refers to October to December 2011
...and is not high by international standards

Spain
Greece
Rep of Ireland
Eurozone
France
United States
United Kingdom
Northern Ireland
Germany
Japan

Unemployment Rate (%)

0 5 10 15 20 25

Eurozone
Very high unemployment in Spain, Greece and ROI

N Ireland
NI well below Eurozone and US unemployment

Source: ONS Labour Force Survey
Note: Refers to October to December 2011
All parts of NI have experienced a large rise in claimants...

Source: NOMIS Claimant Count
Note: Increase in claimants during Jan 2008 to Jan 2012
...although the highest rates remain in areas with historically high unemployment

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

Source: NOMIS Claimant Count
Note: Claimant rate in Jan 2012
Young persons account for the largest number of claimants…

**Youth Unemployment**

Unemployed young persons are more likely to be unemployed in future and have lower earnings.

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%

Source: NOMIS Claimant Count
Note: Breakdown for January 2012
The growing number of long term unemployed is a key concern...

- **Long Term U/E**: Reduces likelihood of finding work due to loss of skills and motivation
- **+172%**: Between 8 weeks and 1 year
- **+237%**: Over 1 year
- **+87%**: Less than 8 weeks

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

Source: NOMIS Claimant Count
Note: Breakdown for January 2012
...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...

<table>
<thead>
<tr>
<th>Subject</th>
<th>2006-07</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allied to medicine</td>
<td></td>
<td>9.7%</td>
</tr>
<tr>
<td>Social studies</td>
<td>4.4%</td>
<td></td>
</tr>
<tr>
<td>Physical sciences</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medicine &amp; dentistry</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mathematical sciences</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Media &amp; information</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Law</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Languages</td>
<td></td>
<td></td>
</tr>
<tr>
<td>History &amp; philosophy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engineering &amp; technology</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arts &amp; design</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Computer science</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business &amp; admin</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Biological sciences</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Architecture</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

27
...with much greater competition for available vacancies

Claimants For Each Job Vacancy
Much greater competition for available jobs with fewer vacancies but more claimants

Source: DEL Vacancy Stats
Economic inactivity has now begun to fall...

Inactivity Rate
Rate in 2011 is lower than over most of last two decades

Source: ONS Labour Force Survey
...although student inactivity remains high even with falls in those looking after family / home...

<table>
<thead>
<tr>
<th>Year</th>
<th>Inactive Persons (000s)</th>
<th>2008-09 Rise</th>
<th>2009-11 Fall</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>+16%</td>
<td>-11%</td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td>300</td>
<td>250</td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td>350</td>
<td>200</td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td>150</td>
<td>100</td>
</tr>
<tr>
<td>2011</td>
<td></td>
<td>100</td>
<td>50</td>
</tr>
</tbody>
</table>

**Source:** NISRA Labour Force Survey

**Note:** Value reflects annual % change in number of inactive
...and the inactivity rate remains above elsewhere in the UK...

<table>
<thead>
<tr>
<th>Region</th>
<th>Inactivity Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Ireland</td>
<td>27.2%</td>
</tr>
<tr>
<td>North East</td>
<td>25.3%</td>
</tr>
<tr>
<td>West Midlands</td>
<td>24.9%</td>
</tr>
<tr>
<td>London</td>
<td>24.8%</td>
</tr>
<tr>
<td>Wales</td>
<td>24.6%</td>
</tr>
<tr>
<td>Yorkshire &amp; Humber</td>
<td>24.4%</td>
</tr>
<tr>
<td>North West</td>
<td>24.4%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>23.1%</td>
</tr>
<tr>
<td>Scotland</td>
<td>22.5%</td>
</tr>
<tr>
<td>East Midlands</td>
<td>22.4%</td>
</tr>
<tr>
<td>South West</td>
<td>21.0%</td>
</tr>
<tr>
<td>South East</td>
<td>20.7%</td>
</tr>
<tr>
<td>East of England</td>
<td>19.6%</td>
</tr>
</tbody>
</table>

Source: ONS Labour Force Survey
Note: Data relate to October to December 2011
…with the employment rate also below much of the UK

<table>
<thead>
<tr>
<th>Region</th>
<th>Employment Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>East of England</td>
<td>74.6%</td>
</tr>
<tr>
<td>South East</td>
<td>74.2%</td>
</tr>
<tr>
<td>South West</td>
<td>74.0%</td>
</tr>
<tr>
<td>East Midlands</td>
<td>71.1%</td>
</tr>
<tr>
<td>Scotland</td>
<td>70.7%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>70.3%</td>
</tr>
<tr>
<td>North West</td>
<td>68.7%</td>
</tr>
<tr>
<td>Wales</td>
<td>68.5%</td>
</tr>
<tr>
<td>West Midlands</td>
<td>68.0%</td>
</tr>
<tr>
<td>Yorkshire &amp; Humber</td>
<td>67.9%</td>
</tr>
<tr>
<td>London</td>
<td>67.5%</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>67.5%</td>
</tr>
<tr>
<td>North East</td>
<td>66.2%</td>
</tr>
</tbody>
</table>

Source: ONS Labour Force Survey
Note: Data relate to October to December 2011
Rebalancing the Economy
Low prosperity has been a long term problem in NI…

Prosperity Gap
NI living standards have been around 20% below UK average since 1990s and the gap has widened further in recent years

Source: ONS Regional GVA
…with GVA per capita below most of the UK regions…

London much higher living standards than any other UK region.

Northern Ireland living standards below all UK regions except Wales.

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…

NI has lowest productivity in UK on output per hour worked

Productivity 15-20% below UK average on both measures since 2003

Source: ONS Labour Productivity
...which is caused by relatively low productivity in key sectors...

2009 GVA per Person Employed (UK=100)

- Mining
- Public Admin
- Energy
- Education
- Business Services
- Hotels & Restaurants
- Health
- Manufacturing
- Other Services
- Retail
- Transport
- Construction
- Financial Services
- Agriculture

High Productivity
Public sector, education and energy all above UK average

Low Productivity
Financial services, agriculture, construction and retail significantly below UK average

Source: Oxford Economics
...and an industrial structure which is less focused on higher value added activities

Above UK Average
Larger public sector in NI and more focused on non-service sectors

Below UK Average
Smaller private services in particular ICT and business & finance

NI GVA Share vs UK GVA Share (2009)

Source: ONS Regional GVA
The public sector has been a key driver of output...

Source: HMT PESA Regional Analysis
Note: 2010-11 based on plans not outturn
...and total jobs in the local economy...

N Ireland
Much higher public sector employment than rest of UK

8.1%
Gap with UK Average

Public Sector as % of Total Jobs (Q2 2010)

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.

Public Sector as % of Total Population (Q2 2010)

Source: ONS Regional Public Sector Employment; ONS Population Estimates
Note: Gap is expressed as percentage points
Innovation and R&D
R&D expenditure has shown large increases since 2008

2009 R&D Spend
Substantial rise in 2009 due to businesses (BERD)

2010 R&D Spend
Further rise in 2010 due to both businesses and Higher Education (HERD)

Source: NISRA R&D Survey
The Business R&D (BERD) increase is mainly due to companies that are larger…

**SMEs**
Steady growth in R&D expenditure since 2001

**Large Firms**
Lack of large companies constrains total NI R&D expenditure

- **£344m**
BERD 2010
- **171%**
Increase since 2008
- **26%**
Increase since 2008

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...

N Ireland
Increased from 9th in 2008 to 6th of UK regions in 2010

London
Service dominated economy so low R&D

Source: ONS Business Enterprise Research & Development; ONS Regional GVA
Although this is not indicative of historic performance.

Historically Low R&D
NI has had a 0.6%-0.7% gap with UK up to 2009

BERD as a % of GVA

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...

Source: Scottish Government Gross Expenditure on R&D
Note: Regions GDP estimated using UK GVA to GDP ratio
...and compares favourably in terms of spin-off companies from Higher Education Institutions

NI HEI Spin-offs
Number of spin-offs (per HEI) are four times higher than UK average and well above elsewhere in UK

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.

<table>
<thead>
<tr>
<th>Country</th>
<th>GERD as % of GDP (2009)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>1.85%</td>
</tr>
<tr>
<td>Rep of Ireland</td>
<td>1.79%</td>
</tr>
<tr>
<td>Finland</td>
<td>3.96%</td>
</tr>
<tr>
<td>Sweden</td>
<td>3.62%</td>
</tr>
<tr>
<td>Japan</td>
<td>3.33%</td>
</tr>
<tr>
<td>United States</td>
<td>2.79%</td>
</tr>
<tr>
<td>Germany</td>
<td>2.77%</td>
</tr>
<tr>
<td>France</td>
<td>2.21%</td>
</tr>
<tr>
<td>Israel</td>
<td>4.28%</td>
</tr>
</tbody>
</table>

GERD as % of GDP (2009)

Source: OECD Factbook
Note: Relates to total R&D spend not just business
Overall innovation activity in NI is low...

- Innovation wider than just R&D spending and covers any improvements to products, processes and ways of doing business.
- N Ireland: Lowest innovation of all the UK regions.

Source: UK Innovation Survey
Note: Data relate to 2006-08
…as is the number of patent applications

**Applications Filed (per 10k population)**

- **South East**: Demonstrates a commercial output of research and innovation
- **UK**: Fewer patent applications (per capita) than any other UK region
- **Scotland**
- **Wales**
- **N Ireland:**

Source: Intellectual Property Office
The high technology niche market opportunities identified by MATRIX already contribute significantly to the economy...

MATRIX Areas
Make a significant contribution to total NI economy, particularly on high value measures such as R&D and exports

Source: DETI Analysis
Note: Based on companies in the MATRIX technology capability study
…with advanced manufacturing representing the largest of the five technology areas

Advanced Manufacturing
Includes many large high tech manufacturing firms

Life Sciences
Smallest sector but highly export and R&D intensive

Proportion of Total MATRIX (2009)

Source: DETI Analysis
Note: Sectors will not sum to 100% as some companies appear in multiple sectors
Skills and Education
More 16 and 17 year olds have been attending FT education...

Inclusion of vocational training outside FE sector

Education Participation
Strong increase over past decade and 90% of 16 & 17 year olds now in FT education in 2010/11

Source: DE Participation Statistics
...and increasing numbers of school leavers have been attaining GCSEs and A-Levels

![Graph showing percentage of school leavers attaining various qualifications from 2005/06 to 2009/10.]

- **GCSEs A* to C (incl English and Maths)**
  - 2005/06: 52.6% (2005/06)
  - 2009/10: 50.8% (2009/10)
  - Note: GCSE A*-C rate increases to 71.9% (2009/10) if not specifying subjects to include both English and Maths

- **3+ A-Levels Grades A* to E**
  - 2005/06: 39.8% (2005/06)
  - 2009/10: 50.8% (2009/10)

- **No qualifications**
  - Only 1.7% of school leavers with no qualifications in 2009/10

**Source:** DE Qualifications and Destinations of School Leavers
The majority of pupils continue with education and training in some form when they leave school...

2009/10
42% of school leavers continued with higher education, further education (33%) and training (12%)

Source: DE Qualifications and Destinations of School Leavers
Note: Does not include ‘unknown’ destinations so will not sum to 100%
...and increasing numbers of qualifications are being gained through training, essential skills, FE and HE

Source: FELS, 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.

<table>
<thead>
<tr>
<th>Year</th>
<th>Enrolments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006/07</td>
<td>73,840</td>
</tr>
<tr>
<td>2007/08</td>
<td>71,439</td>
</tr>
<tr>
<td>2008/09</td>
<td>73,840</td>
</tr>
<tr>
<td>2009/10</td>
<td>77,249</td>
</tr>
<tr>
<td>2010/11</td>
<td>77,249</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Country</th>
<th>Difference with OECD Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>KOR</td>
<td>10%</td>
</tr>
<tr>
<td>FIN</td>
<td>5%</td>
</tr>
<tr>
<td>HK</td>
<td>0%</td>
</tr>
<tr>
<td>SING</td>
<td>-5%</td>
</tr>
<tr>
<td>NZ</td>
<td>-10%</td>
</tr>
<tr>
<td>US</td>
<td>-15%</td>
</tr>
<tr>
<td>GER</td>
<td>-20%</td>
</tr>
<tr>
<td>ROI</td>
<td>NI, UK and ROI</td>
</tr>
<tr>
<td>FRA</td>
<td>NI, UK and ROI</td>
</tr>
<tr>
<td>UK</td>
<td>NI, UK and ROI</td>
</tr>
<tr>
<td>NI</td>
<td>NI, UK and ROI</td>
</tr>
<tr>
<td>POR</td>
<td>NI, UK and ROI</td>
</tr>
<tr>
<td>GRE</td>
<td>NI, UK and ROI</td>
</tr>
<tr>
<td>CZE</td>
<td>NI, UK and ROI</td>
</tr>
<tr>
<td>TUR</td>
<td>NI, UK and ROI</td>
</tr>
<tr>
<td>MEX</td>
<td>NI, UK and ROI</td>
</tr>
</tbody>
</table>

Top Performers
NI has large gap with economies such as Korea and Finland

NI, UK and ROI
Similar reading performance as OECD average

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

NI, UK and ROI
Similar maths performance as OECD average

Top Performers
NI has large gap with economies such as Singapore, Korea and Finland

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

Top Performers
NI has large gap with economies such as Finland, Hong Kong and Singapore

NI, UK and ROI
Similar science performance as OECD average

Source: OECD PISA Study 2009
Note: Measures literacy of 15 year olds
…although the overall skills profile of NI remains weak when compared internationally…

Czech Republic
Japan
USA
Canada
Germany
Finland
New Zealand
France
UK
Rep of Ireland
N Ireland
Italy
Spain
Portugal

Qualified to at least Intermediate Level (%)

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

<table>
<thead>
<tr>
<th>Country</th>
<th>Management Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>3.4</td>
</tr>
<tr>
<td>Germany</td>
<td>3</td>
</tr>
<tr>
<td>Sweden</td>
<td>3.1</td>
</tr>
<tr>
<td>Japan</td>
<td>3</td>
</tr>
<tr>
<td>France</td>
<td>3</td>
</tr>
<tr>
<td>Italy</td>
<td>3</td>
</tr>
<tr>
<td>Great Britain</td>
<td>3.1</td>
</tr>
<tr>
<td>Poland</td>
<td>2.9</td>
</tr>
<tr>
<td>NI</td>
<td>2.8</td>
</tr>
<tr>
<td>ROI</td>
<td>2.7</td>
</tr>
<tr>
<td>Portugal</td>
<td>2.6</td>
</tr>
<tr>
<td>Greece</td>
<td>2.5</td>
</tr>
<tr>
<td>China</td>
<td>2.5</td>
</tr>
<tr>
<td>India</td>
<td>2.5</td>
</tr>
</tbody>
</table>

Gap with US: Over half (52%) of the gap with US is due to structural factors such as firm size, ownership and skill levels.

Distribution: Large number of poor performing firms drag down overall average.

Source: DETI Management Matters
Relatively little job-related training is taking place in NI compared with UK regions

Proportion of Working Age Employees

- **Northern Ireland** Only 5.2% of employees receiving work related training
- **UK Average** 13.6%

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
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

<table>
<thead>
<tr>
<th>NI Turnover (% of Total)</th>
<th>UK Turnover (% of Total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large</td>
<td>Large</td>
</tr>
<tr>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Small</td>
<td>Small</td>
</tr>
</tbody>
</table>

Source: BIS Business Population Estimates 2011
Note: Sole (0 employees), Small (1-49), Medium (50-249), Large (250+)
which contribute the majority of high value activities such as exports and R&D.

- **Large Firms**: Small number of large firms contribute the majority of exports and R&D.

- **Growth**: More large firms in NI could significantly increase exports and R&D.

Sources: NISRA Manufacturing Sales and Exports, R&D Survey
NI has fewer business startups than elsewhere in the UK...

Fewer business startups than any other UK region

Downturn
Fewer startups that when downturn began

Source: ONS Business Demography
...although entrepreneurial activity is similar ...

![Entrepreneurial Activity Rate Chart](chart.png)

- **US**: Similar entrepreneurial activity rate as UK average and above Wales and Scotland.

Source: Global Entrepreneurship Monitor 2010
...and there are fewer business closures

Northern Ireland
Less business closures than elsewhere in UK
indicates less competition in local economy

Source: ONS Business Demography
Access to finance is a key constraint facing businesses...

Source: NISRA Access to Finance

2010
Much more difficult for businesses to get finance – particularly micro businesses where only 45% were successful
...although it is only one of many factors

- Economic outlook
- Small margins
- Domestic demand
- Labour costs
- New competitors
- Need to invest
- Lack of finance
- Regulations
- Fiscal incentives
- Export demand

Source: NISRA Access to Finance
Note: Data relate to 2010
Planning regulations can also constrain growth…

<table>
<thead>
<tr>
<th>PSA Target</th>
<th>Percentage Meeting</th>
<th>Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major</td>
<td>60% within 23 weeks</td>
<td>2006 - 2011</td>
</tr>
<tr>
<td>Intermediate</td>
<td>70% within 31 weeks</td>
<td>2006 - 2011</td>
</tr>
<tr>
<td>Minor</td>
<td>80% within 18 weeks</td>
<td>2006 - 2011</td>
</tr>
</tbody>
</table>

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…

Tourism Performance
Tourism visits peaked in 2007 and revenue in 2008 but declines since then

2011 Performance
Strong performance in first half of 2011 with 11% increase in visits and 24% rise in revenue from same period in 2010

Source: NITB Tourism Estimates
…with most visitors to NI coming from GB and ROI

- **Great Britain**: Accounts for 55% of tourism visits to NI and experienced a 5% decrease in 2010.
- **Republic of Ireland**: Accounts for 20% of tourism visits to NI but experienced a decrease of 25% in 2010.
- **Europe**:
- **North America**
- **Other**

Source: NITB Tourism Estimates
Note: Data refer to 2010
The tourism sector makes a lower contribution to GDP...

Direct GDP contribution of NI visitor economy: £0.64bn
Indirect GDP contribution of NI visitor economy: £1.50bn

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

Tourism Jobs as % of Total

<table>
<thead>
<tr>
<th>Country</th>
<th>Direct Jobs</th>
<th>Indirect Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>N Ireland</td>
<td>25,000</td>
<td></td>
</tr>
<tr>
<td>England</td>
<td></td>
<td>39,000</td>
</tr>
<tr>
<td>Scotland</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wales</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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
Competing in the Global Economy
Invest NI has attracted significant FDI to NI…

£2.9bn
Total planned inward investment through Invest NI (2002/03 to 2010/11)

Source: Invest NI
Note: 2008-09 increase partly due to Bombardier C-Series project
...and promoted large numbers of FDI jobs...

![Bar chart showing FDI jobs by year](chart.png)

Source: Invest NI

22,487
New FDI jobs promoted by Invest NI assistance
…although this is much lower than the ROI…

Rep of Ireland
Significantly more new FDI jobs announced during 2003-11 than either NI or UK

NI has performed well at attracting FDI jobs compared with rest of UK

Source: fDi Intelligence
Note: Includes some projects announced in January 2012
…where low Corporation Tax attracts significant FDI…

<table>
<thead>
<tr>
<th>Country</th>
<th>Corporation Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>10-17%</td>
</tr>
<tr>
<td>Rep of Ireland</td>
<td>12.5%</td>
</tr>
<tr>
<td>Czech Rep</td>
<td>19%</td>
</tr>
<tr>
<td>Poland</td>
<td>19%</td>
</tr>
<tr>
<td>UK</td>
<td>28%</td>
</tr>
<tr>
<td>Canada</td>
<td>29%</td>
</tr>
<tr>
<td>Germany</td>
<td>30%</td>
</tr>
<tr>
<td>USA</td>
<td>39%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Type of Firm</th>
<th>Regional Aid Intensity Ceilings (% of Total Project Costs)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007 - 2010</td>
</tr>
<tr>
<td>Belfast</td>
<td></td>
</tr>
<tr>
<td>Large</td>
<td>30</td>
</tr>
<tr>
<td>Medium</td>
<td>40</td>
</tr>
<tr>
<td>Small</td>
<td>50</td>
</tr>
<tr>
<td>Rest of NI</td>
<td></td>
</tr>
<tr>
<td>Large</td>
<td>30</td>
</tr>
<tr>
<td>Medium</td>
<td>40</td>
</tr>
<tr>
<td>Small</td>
<td>50</td>
</tr>
</tbody>
</table>

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

Source: Independent Review of Economic Policy
Note: * Rates for 2014 onwards have yet to be determined at EU / UK level
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

Source: Invest NI
Note: Relates to the period 2002-03 to 2010-11
…mainly in the business & finance and software sectors…

Largest FDI Sectors
Almost three-quarters of new FDI jobs in business & finance and software

Source: Invest NI
Note: Relates to the period 2002-03 to 2008-09
...although the wages of these FDI jobs has been mixed...

Lower Wage FDI Jobs
Average wage of FDI jobs has been below the NI average in two years

Higher Wage FDI Jobs
More recent years have seen higher wage FDI jobs

Safeguarding
Data includes safeguarded jobs which tend to offer higher wages

Source: Invest NI
...and there is a large variation in their value added

Very High Value FDI Jobs
NI attracted slightly less than ROI and much more than UK

Very Low Value FDI Jobs
NI attracted significantly more than both UK and ROI

Source: DETI FDI Research (Draft)
Note: Based on a measure of salaries, productivity, exports and R&D
Local companies have become more outward looking…

Export Sales
Growth throughout most of 2000s but declines in recent years due to global downturn

£12.38bn
External Sales
(2010/11)

59%
(2010/11)

41%
(2010/11)

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

- Over two-thirds of exports focused on ROI, EU and North America
- Small proportion of total exports currently in fast growing markets
- Need to Diversify: BRIC Economies

Source: NISRA Manufacturing Sales and Exports
Note: Data relate to 2010/11
The engineering and food & drink sectors are key drivers of total NI exports…

Food, Drink & Tobacco: 20%
Transport Equipment: 52%
Other Engineering: 9%
Electrical Equipment: 6%
Other Manufacturing: 5%
Computer, Electronic & Optical: 4%
Rubber & Plastics: 4%
Chemicals & Pharmaceuticals: 3%

Source: NISRA Manufacturing Sales and Exports
Note: Data relate to 2010/11; do not include GB sales
...although most of food & drink sales are actually to GB and NI markets...

Source: NISRA Manufacturing Sales and Exports
Note: Data relate to 2010/11
...and tradable services makes a relatively small contribution

![Pie chart showing tradable services exports]

- **Architecture, Engineering and Technical Testing**: £226m
- **Management Consultancy**: [percentage or value]
- **Research & Development**: [percentage or value]
- **Other Tradable Services**: [percentage or value]
- **Computer & Related Activities**: [percentage or value]

Source: NISRA Exporting NI Services

Note: Comprehensive data on services exports is not available
Export performance is comparable to elsewhere in the UK...

- **N Ireland**: Similar to UK average but well below North East and Wales.
- **London**: Small manufacturing base, but services exports likely to be very high.

Source: UKTI Regional Trade Statistics

Note: Does not include services exports due to lack of data.
...but is significantly below successful small economies elsewhere

![Bar chart showing 2010 Exports of Goods and Services (as % of GDP) for various countries.]

- **United States**: Significantly lower than most listed countries.
- **United Kingdom**: Manufacturing export performance is similar to UK average.
- **Northern Ireland**: Much more export intensive than UK / NI.
- **Rep of Ireland**: Much more export intensive than UK / NI.

Source: World Bank Databank

Note: Comparable data does not exist for NI
Economic Infrastructure
Significant investment has been made in economic infrastructure…

- Environment
- Social
- Health
- Productive
- Skills
- Networks

£2.25bn Planned investment in economy focused areas

38% Economic investment as % of total

Investment 2008-11 (£m)

Source: ISNI 2008-18
Note: Planned investment may not reflect actual investment
...and this investment will continue going forward...

![Bar chart](chart.png)

**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)

Source: Independent Review of Economic Policy
Note: Planned investment may not reflect actual investment
NI has higher public expenditure than many other parts of the UK

Northern Ireland
Public spending on economic affairs (per capita) is more than double average for English regions

Source: PESA Regional Analysis
...with capital expenditure broadly similar to elsewhere in the UK...

<table>
<thead>
<tr>
<th>Region</th>
<th>Capital Spend as % of Total PE</th>
</tr>
</thead>
<tbody>
<tr>
<td>LON</td>
<td>13%</td>
</tr>
<tr>
<td>SCO</td>
<td>12%</td>
</tr>
<tr>
<td>NI</td>
<td>11%</td>
</tr>
<tr>
<td>NW</td>
<td>10%</td>
</tr>
<tr>
<td>EAST</td>
<td>9%</td>
</tr>
<tr>
<td>NE</td>
<td>8%</td>
</tr>
<tr>
<td>SE</td>
<td>7%</td>
</tr>
<tr>
<td>Y&amp;H</td>
<td>6%</td>
</tr>
<tr>
<td>WAL</td>
<td>5%</td>
</tr>
<tr>
<td>EM</td>
<td>5%</td>
</tr>
<tr>
<td>WM</td>
<td>5%</td>
</tr>
<tr>
<td>SW</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: PESA Regional Analysis
...although capital spend is relatively low on economic affairs

Current 79% of NI economic affairs is current expenditure

Capital 21% of NI economic affairs is capital expenditure

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...

Key Transport Corridors
Cover 5 major routes across Northern Ireland

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.

**£2.28bn**
Total investment in roads 2005/06-2010/11

Source: DRD Transport Statistics
More electricity in NI is being generated by indigenous renewable sources...

- **5.9%**
  - Increase in contribution of renewable electricity to total (2005/06-2010/11)

- **9.3%** (2009/10)
- **8.9%** (2010/11)

- **1.4%** (2000/01)
- **3.0%** (2005/06)

Electricity Generated By Indigenous Renewable Sources

Source: NIE Data

Note: Change is expressed as percentage points
…although performance is reliant on external factors

Variation
Significant variation in monthly performance due to changes in wind levels etc

Electricity Generated By Indigenous Renewable Sources

2011
2010
2009
2008

Renewable Energy as % of Total

Source: NIE Data
NI has a strong telecoms infrastructure in place…

NI has better coverage of premises with superfast broadband than UK average and elsewhere in the EU.

Source: OFCOM International Communications Market Report
…although some areas have potential to improve further

Full 3G
Over half of NI premises have access to 3G from all operators

Some 3G
The large majority of NI premises have access to at least some 3G coverage

No 3G
NI has the highest proportion of premises with no 3G signal from any operator

Source: OFCOM Communications Infrastructure Report
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…

Pensioners
One-third of pensioners live in households where income is below 60% of the UK average

Proportion of People in Poor Households

Source: OFMDFM; DSD
...and they account for a relatively large proportion of those living in poverty

Pensioners 25% of total poverty (2008/09)

Working Age 46% of total poverty (2008/09)

Children 29% of total poverty (2008/09)

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
- **All Adults In Work**
- **At Least One Adult In Work, But Not All**

Source: OFMDFM; DSD
...and many more people would be in poverty if not for social benefits

NI / UK
Benefits more important than UK to keep people out of poverty

<table>
<thead>
<tr>
<th></th>
<th>Actual Poverty Rate</th>
<th>Poverty Rate if No Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children</td>
<td>+37%</td>
<td></td>
</tr>
<tr>
<td>Working age adults</td>
<td></td>
<td>+24%</td>
</tr>
<tr>
<td>Pensioners</td>
<td>+46%</td>
<td></td>
</tr>
<tr>
<td>NI Ave</td>
<td>+31%</td>
<td></td>
</tr>
<tr>
<td>UK Ave</td>
<td>+24%</td>
<td></td>
</tr>
</tbody>
</table>

Source: OFMDFM; DSD
There is a significant gap between the richest and poorest households in society.

**Little Change**
Ratio of top income households to bottom households has remained broadly constant.

**Northern Ireland**
Income of top 20% of households is around 4 times that of bottom 20%.

Source: OFMDFM; DSD
...although there is less income inequality in NI than in other countries

GINI Index (2008 and 2009)

Northern Ireland
The distribution of income is more equal than Great Britain and Rep of Ireland

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…

Greater Belfast
Belfast and Outer Belfast have highest household incomes in NI

Household Income
Income is lower in all parts of NI than the UK average

Source: ONS Gross Domestic Household Income
...it also has the majority of the most deprived parts of NI

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

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

Source: NISRA Multiple Deprivation Measures