Economic Strategy

Rebuilding and Rebalancing the Economy: An Evidence Base

March 2012

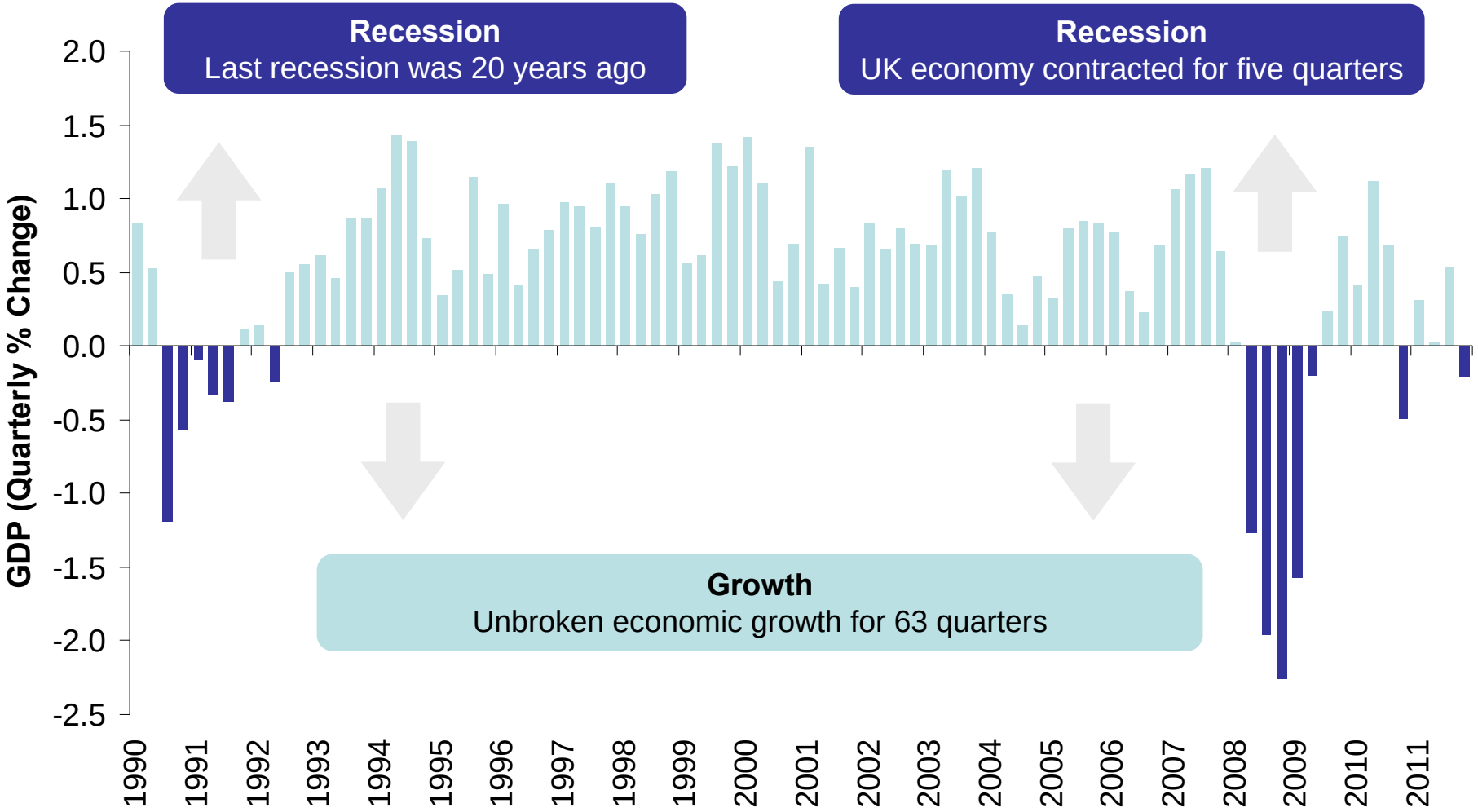
Northern Ireland Executive
www.northernireland.gov.uk

Contents

1

Rebuilding the Economy

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



Source: ONS Estimate of GDP

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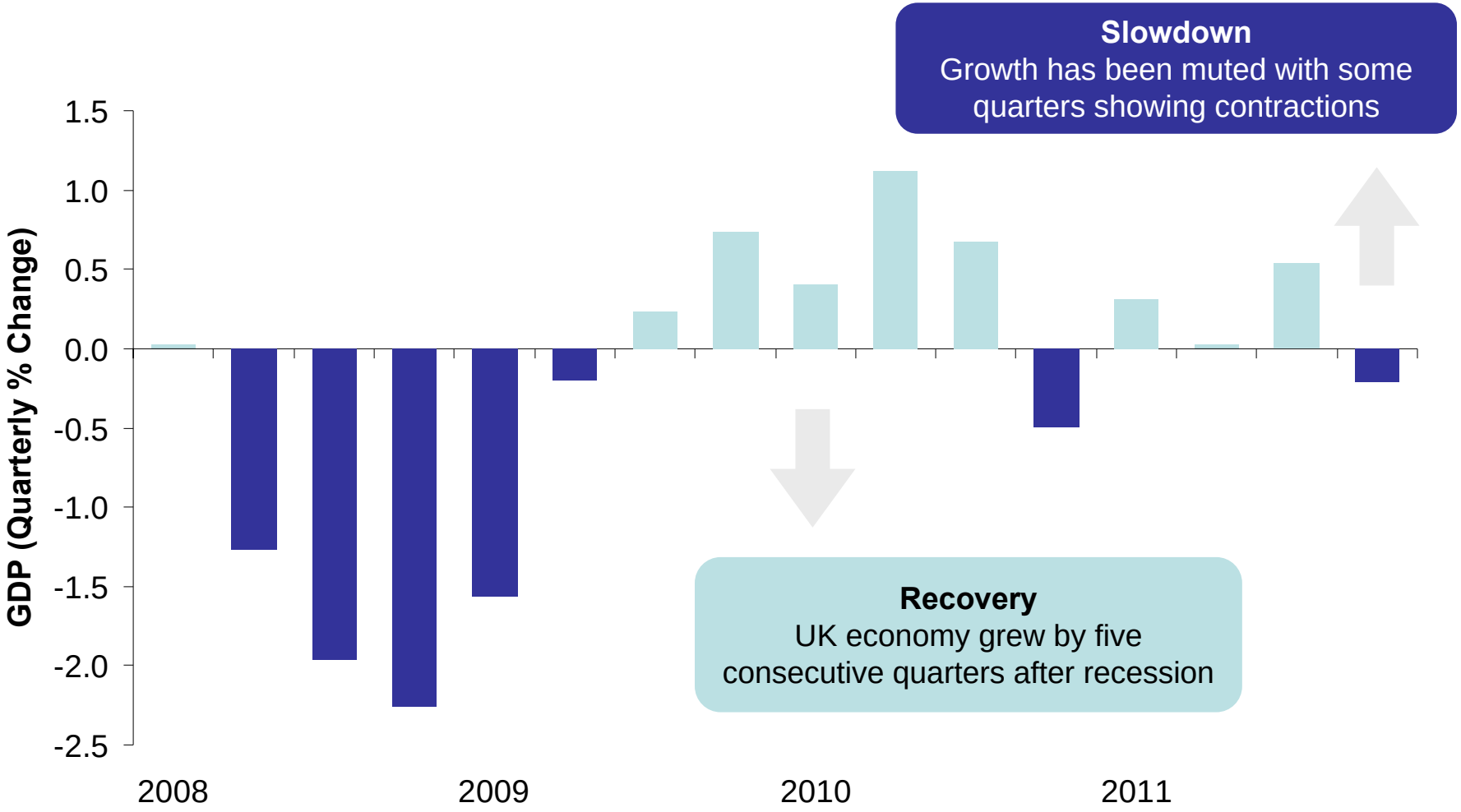
…but there has been a slow recovery…



Source: ONS Estimate of GDP

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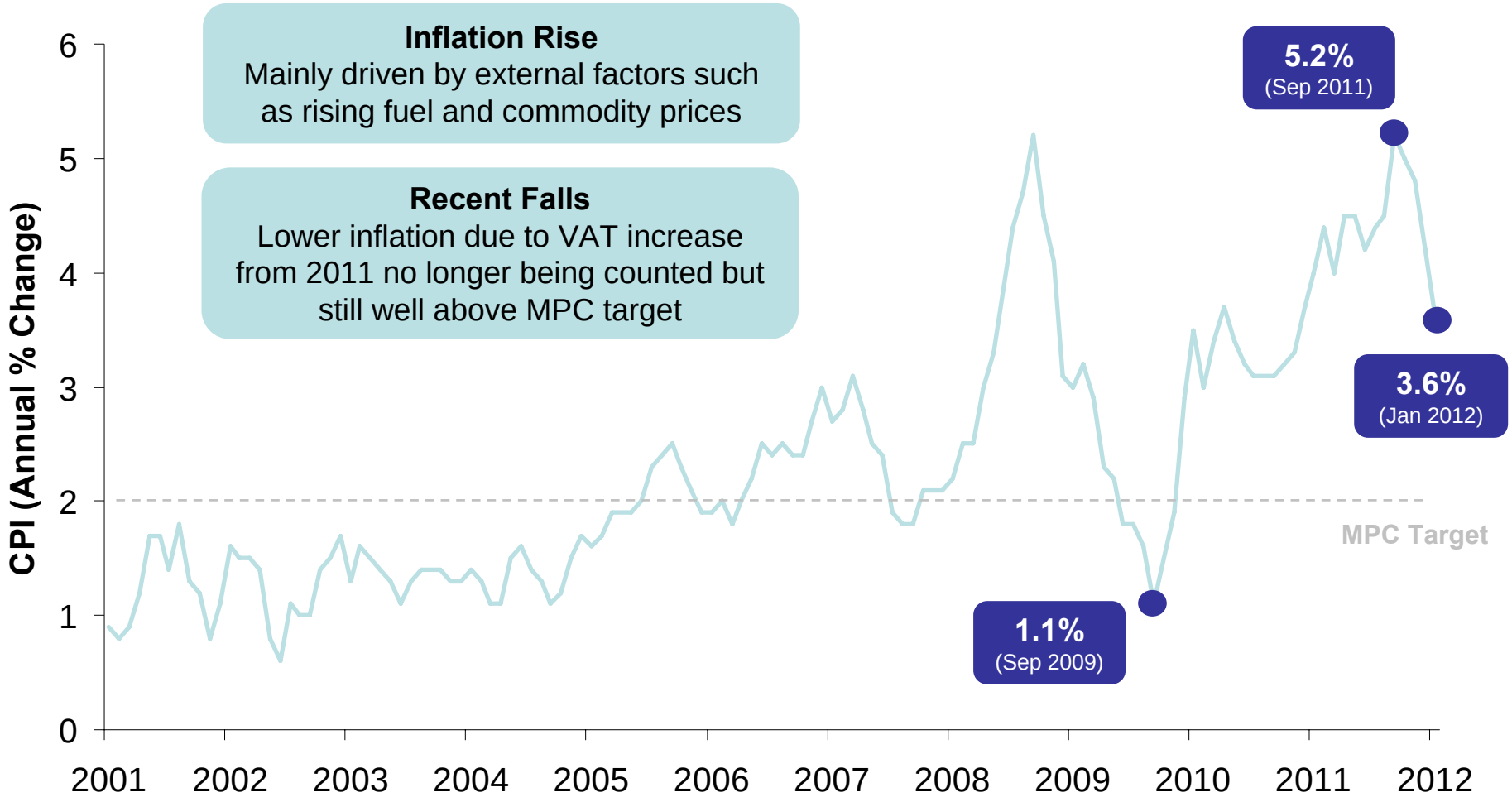
…with high inflation impacting on consumer spending



Source: ONS Consumer Price Indices

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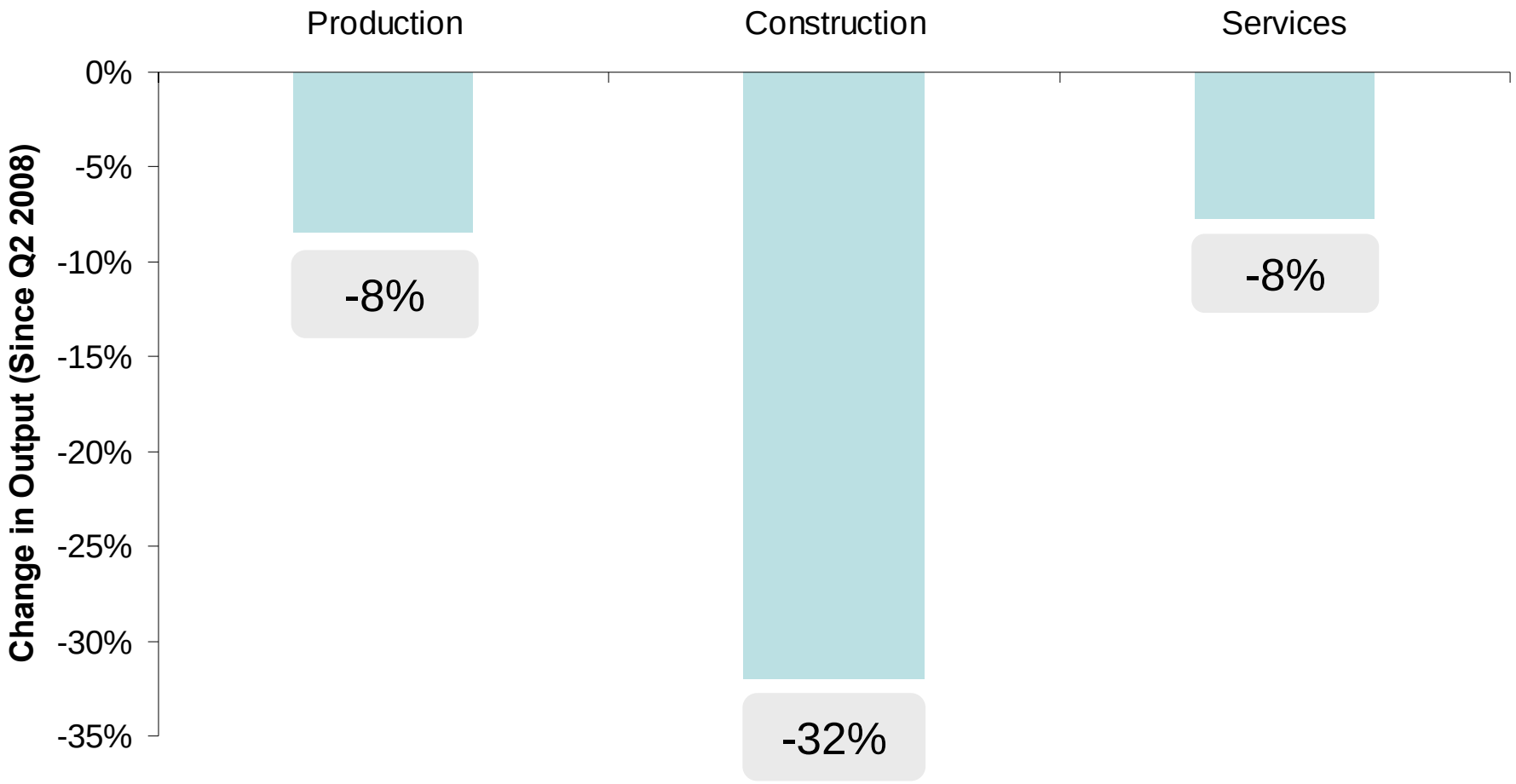
Output across the NI private sector has fallen during the economic downturn…



Source: NISRA IOP, IOS, Construction Bulletin

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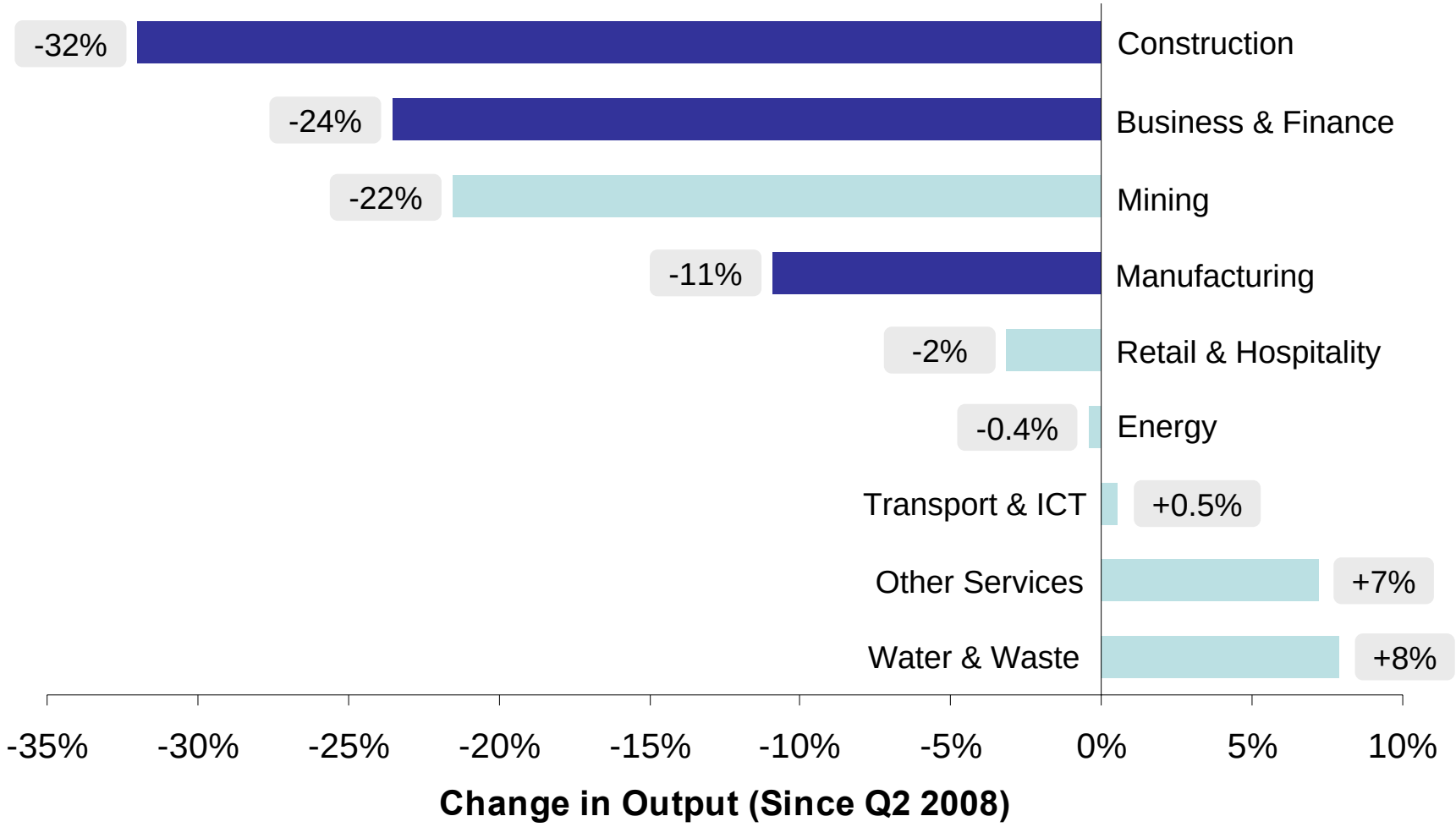
…with the key sectors of construction, business & finance and manufacturing all severely impacted…



Source: NISRA IOP, IOS, Construction Bulletin

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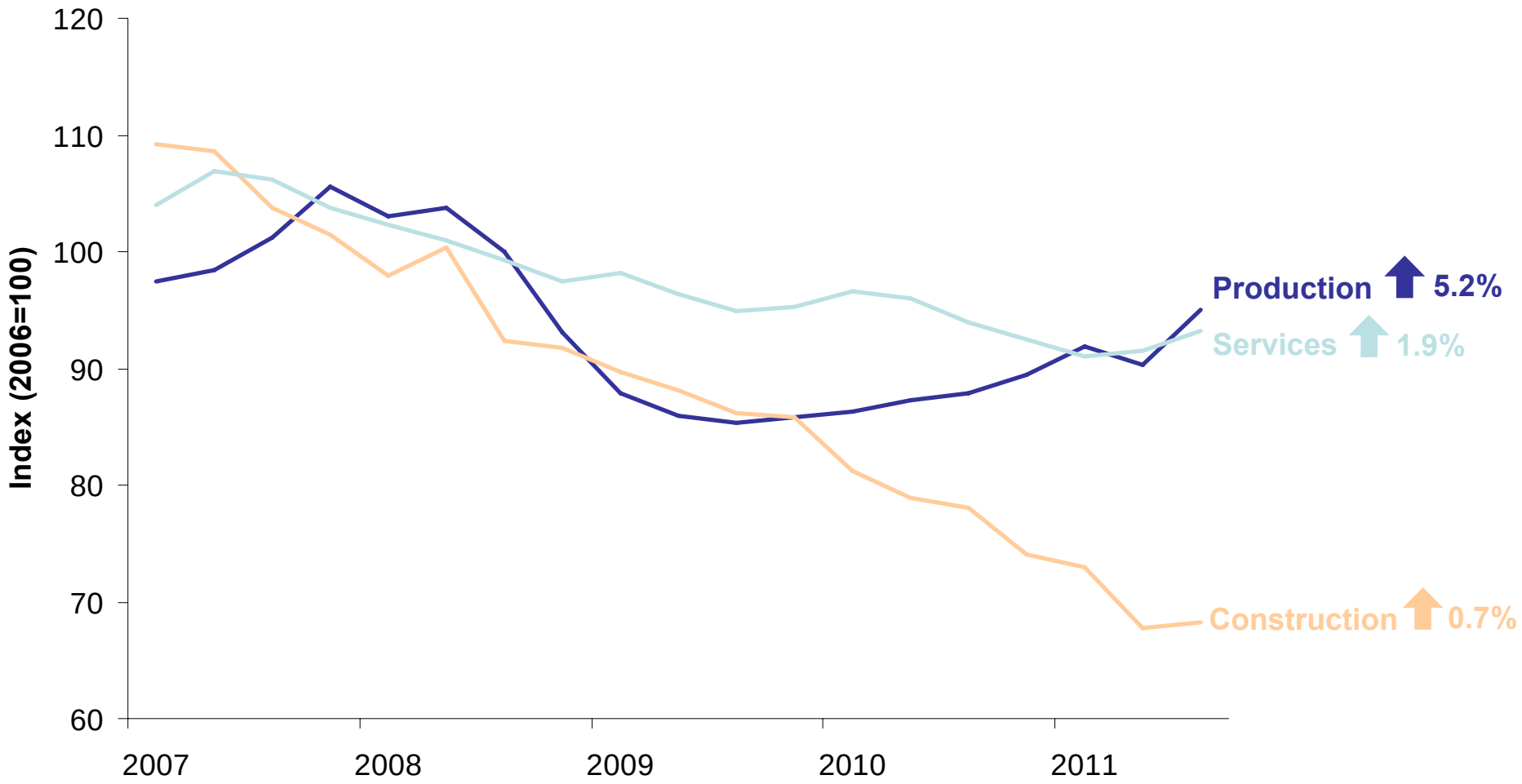
…although recent output performance has shown signs of improvement



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

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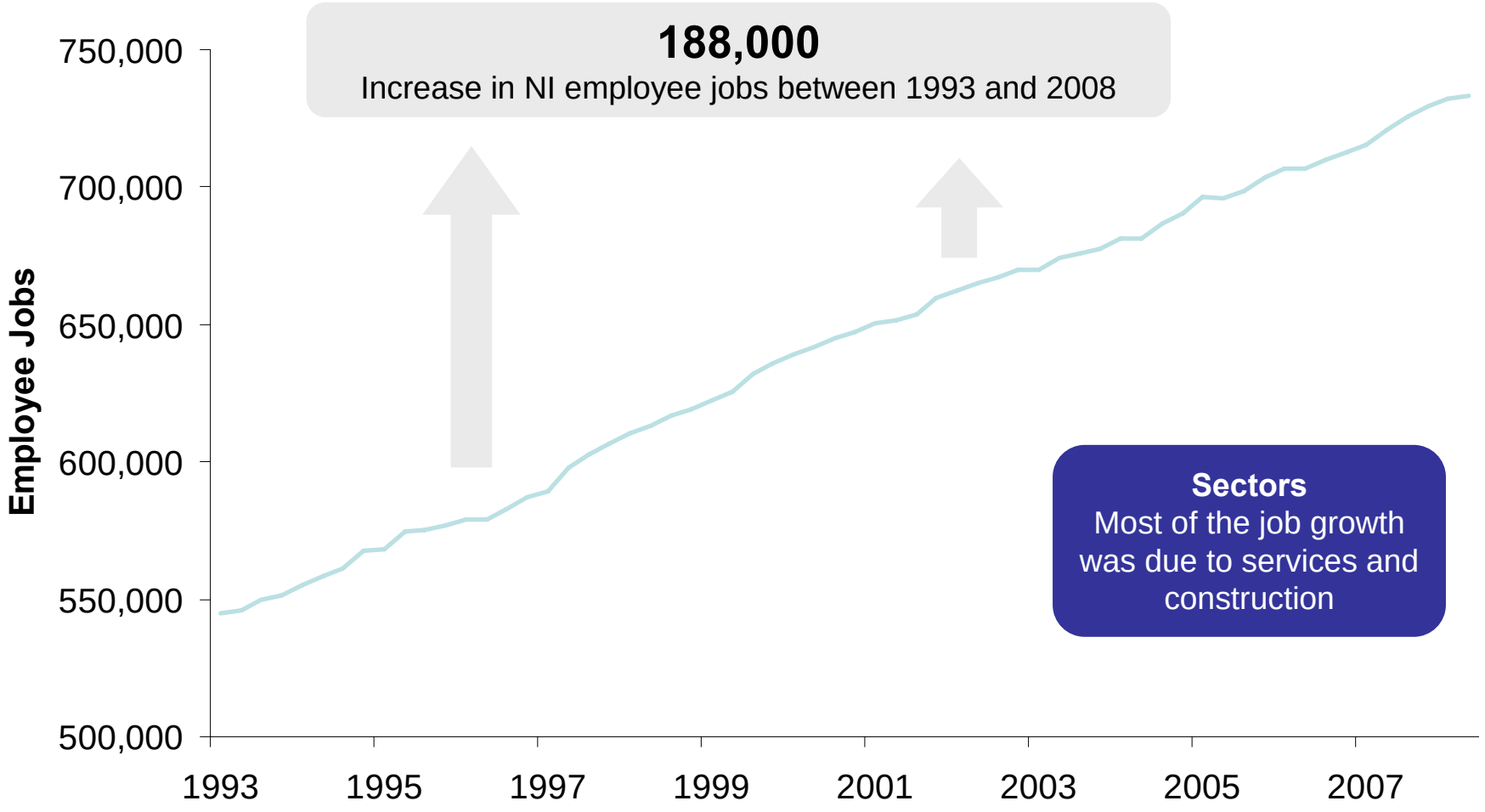
After many years of job growth in NI…



Source: NISRA Quarterly Employment Survey
Note: Seasonally adjusted

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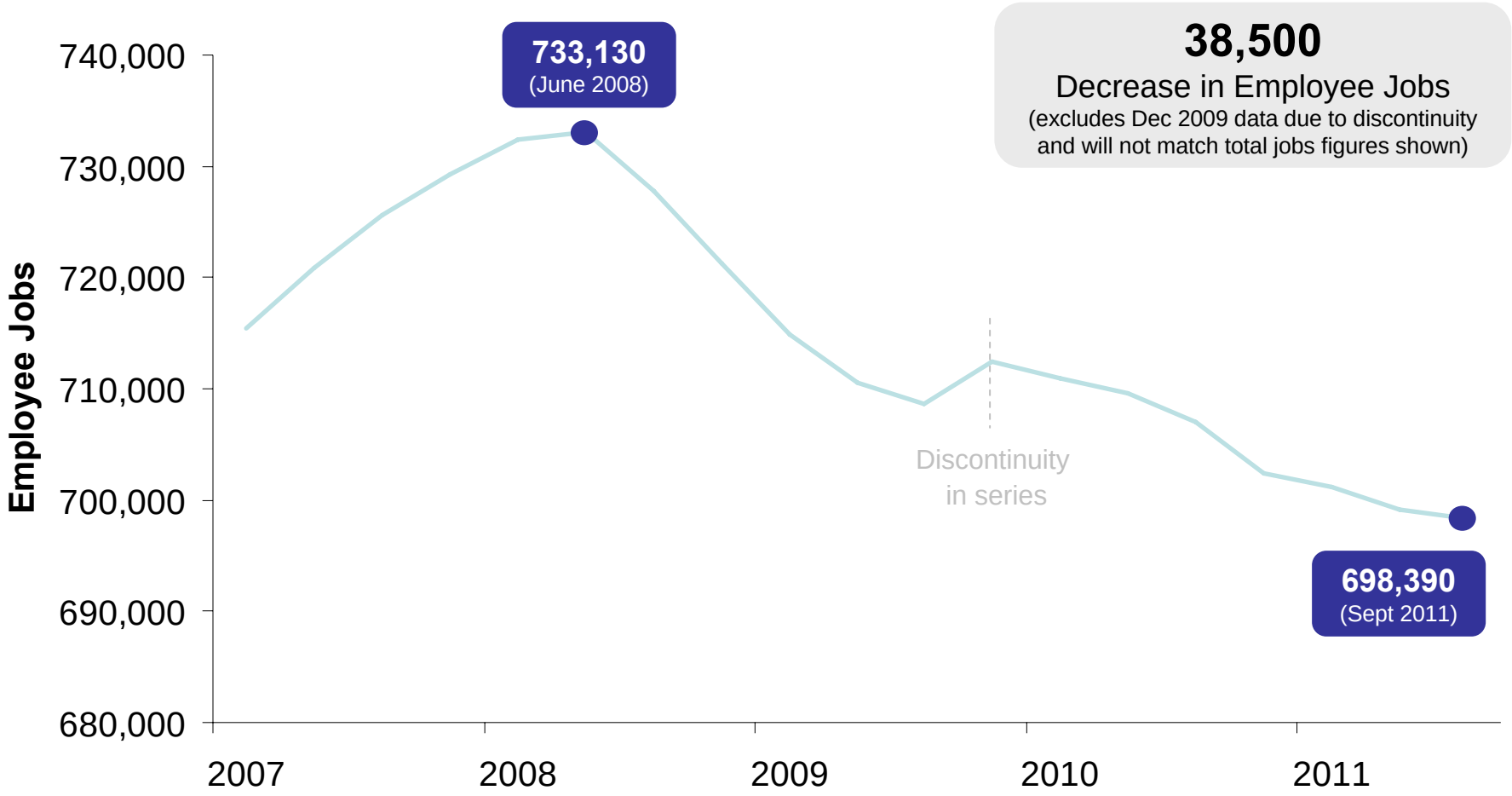
…the downturn has led to large scale job losses…



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

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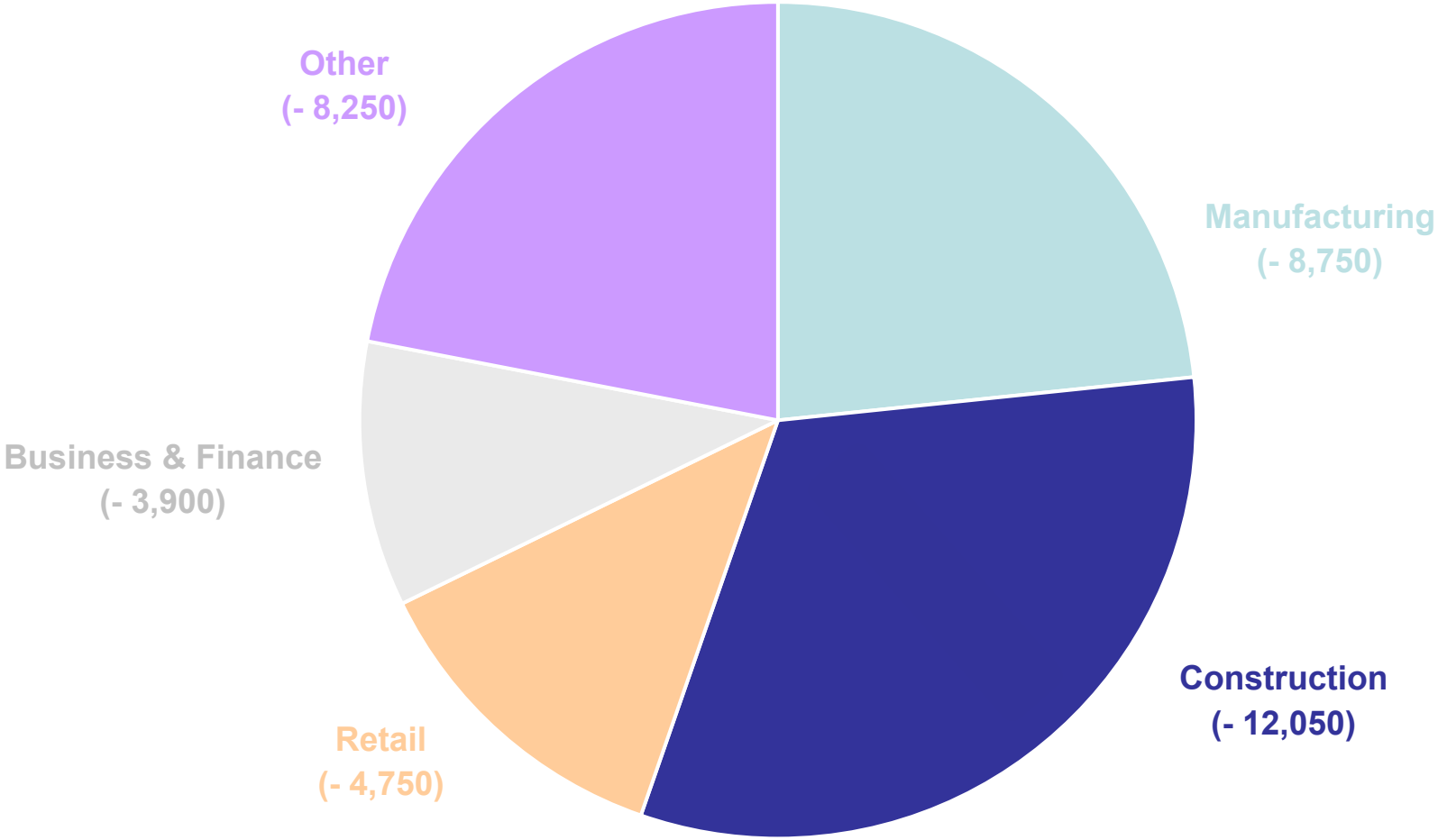
…particularly in manufacturing and construction



Source: NISRA Quarterly Employment Survey
Note: Not seasonally adjusted; will not sum to total job losses in previous slide

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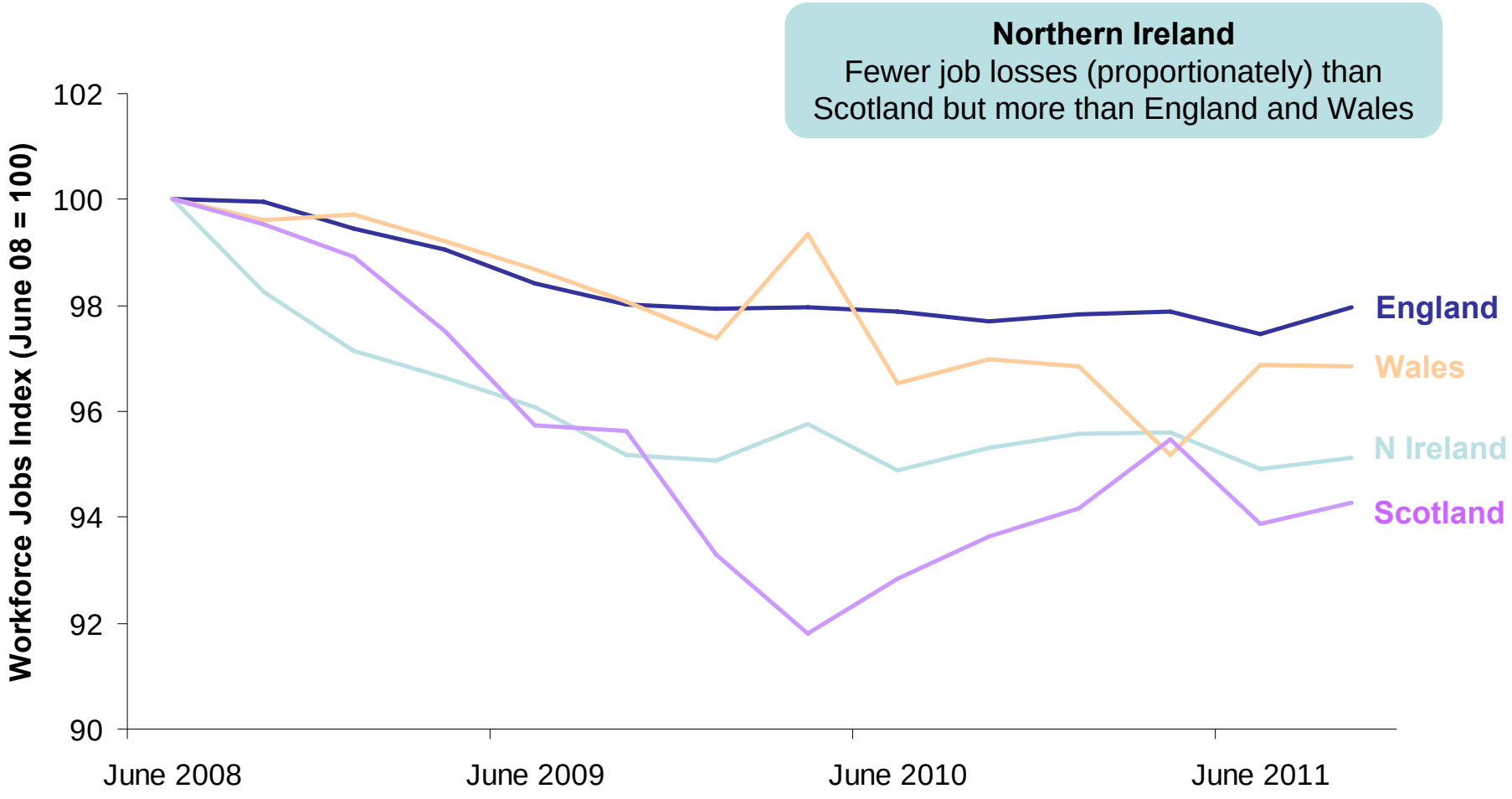
In comparison with other UK regions…



Source: NOMIS Workforce Jobs

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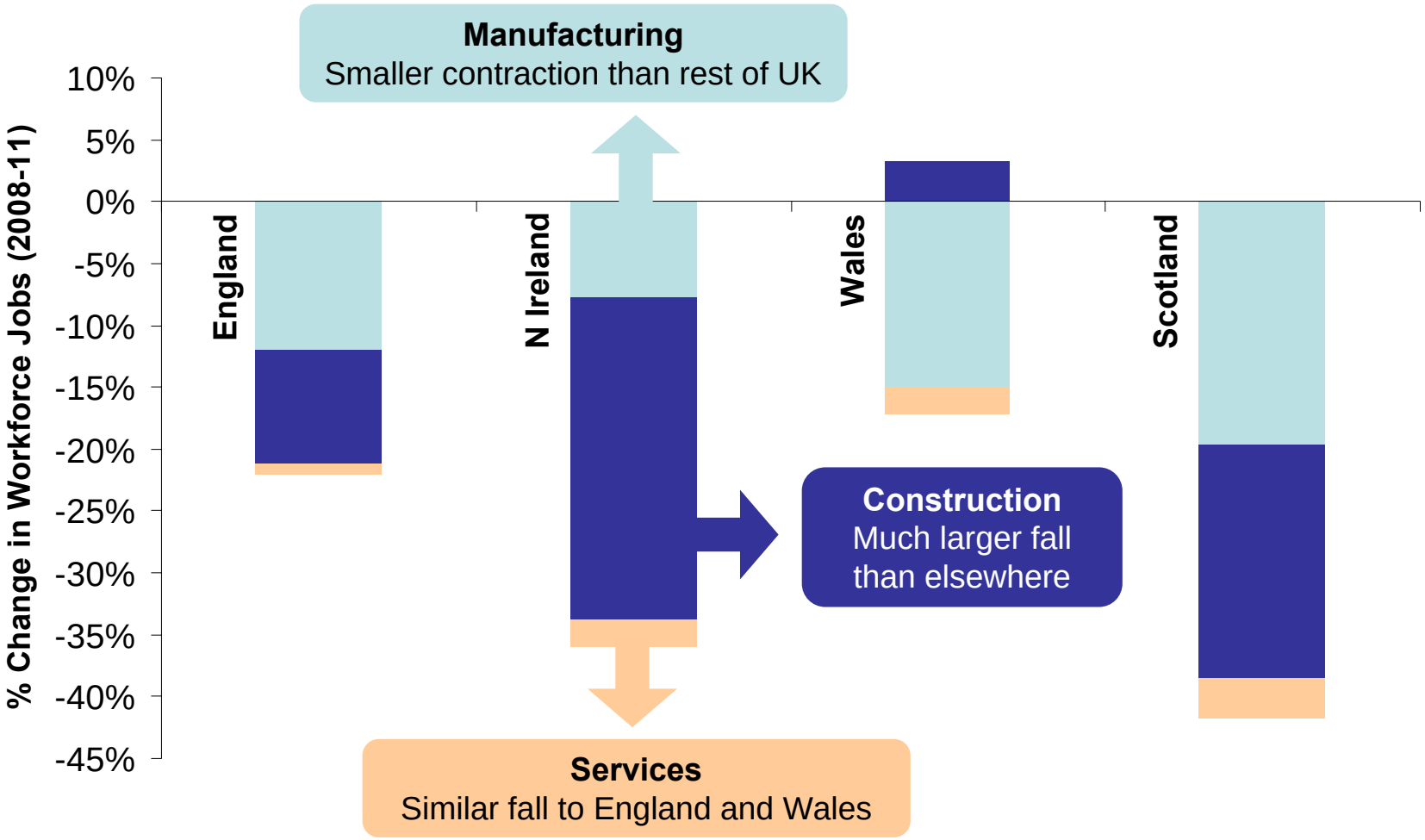
…construction has been much more severely impacted



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

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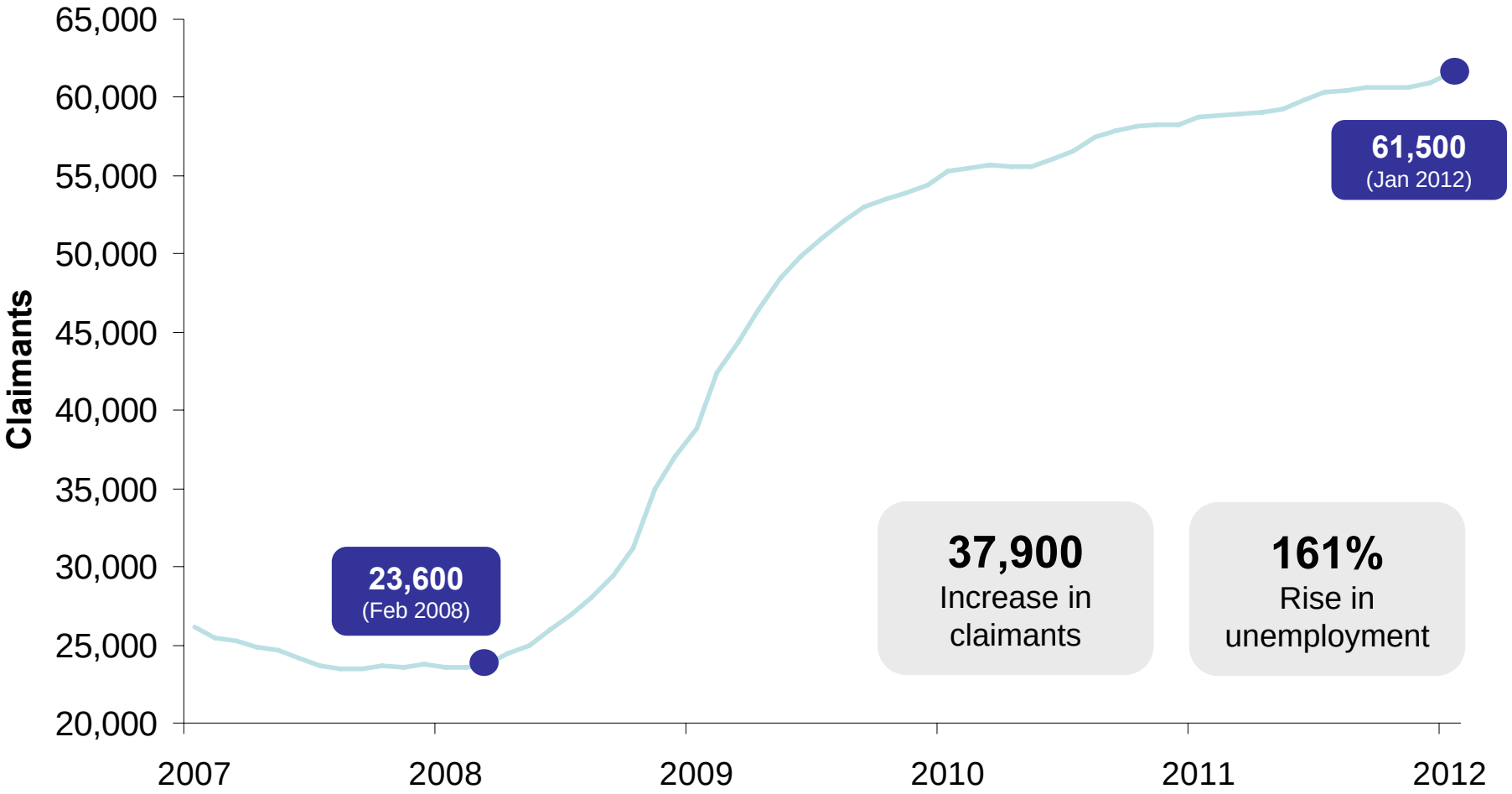
Job losses have led to a large increase in unemployment…



Source: NOMIS Claimant Count
Note: Seasonally adjusted

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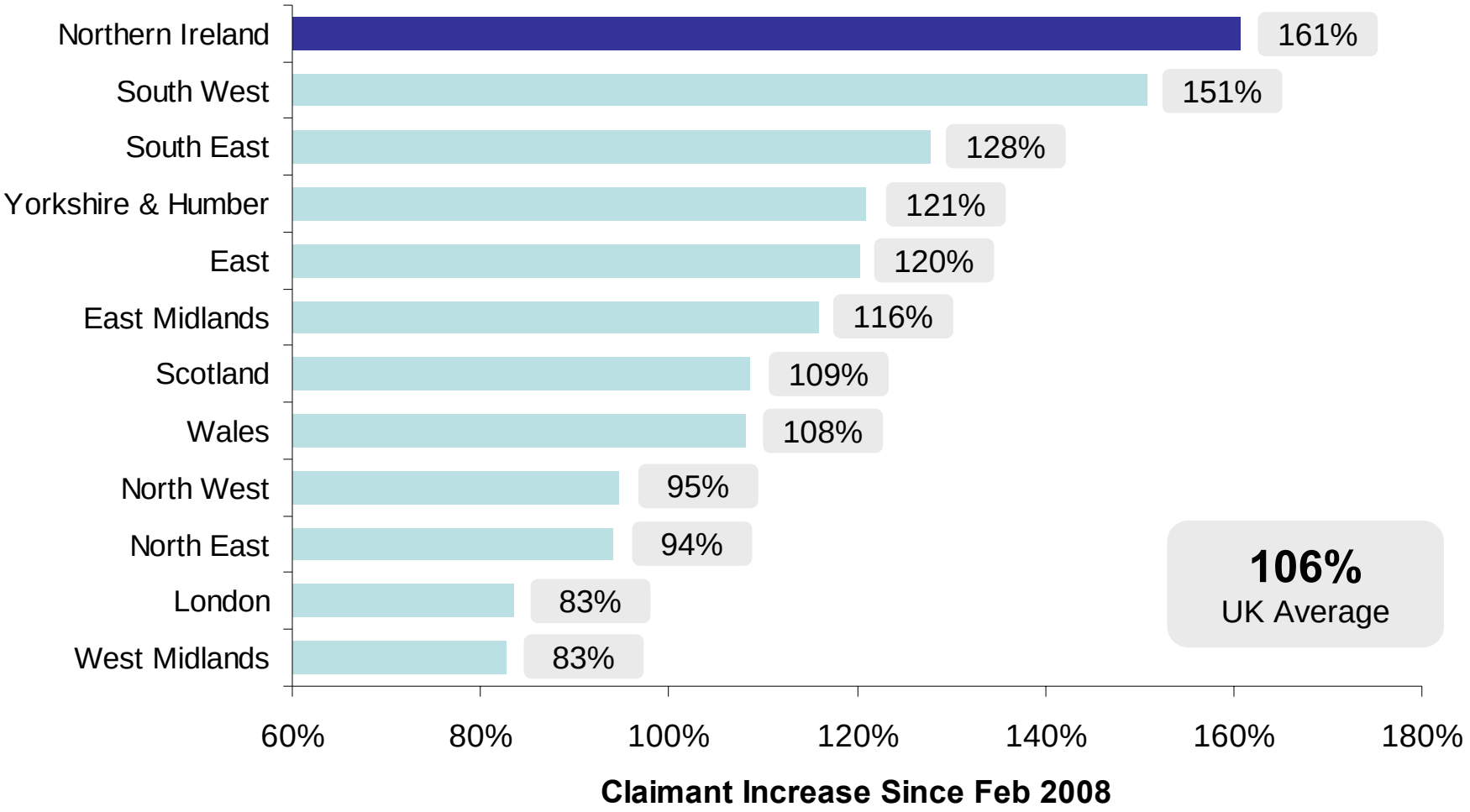
…more so than elsewhere in the UK…



Source: NOMIS Claimant Count

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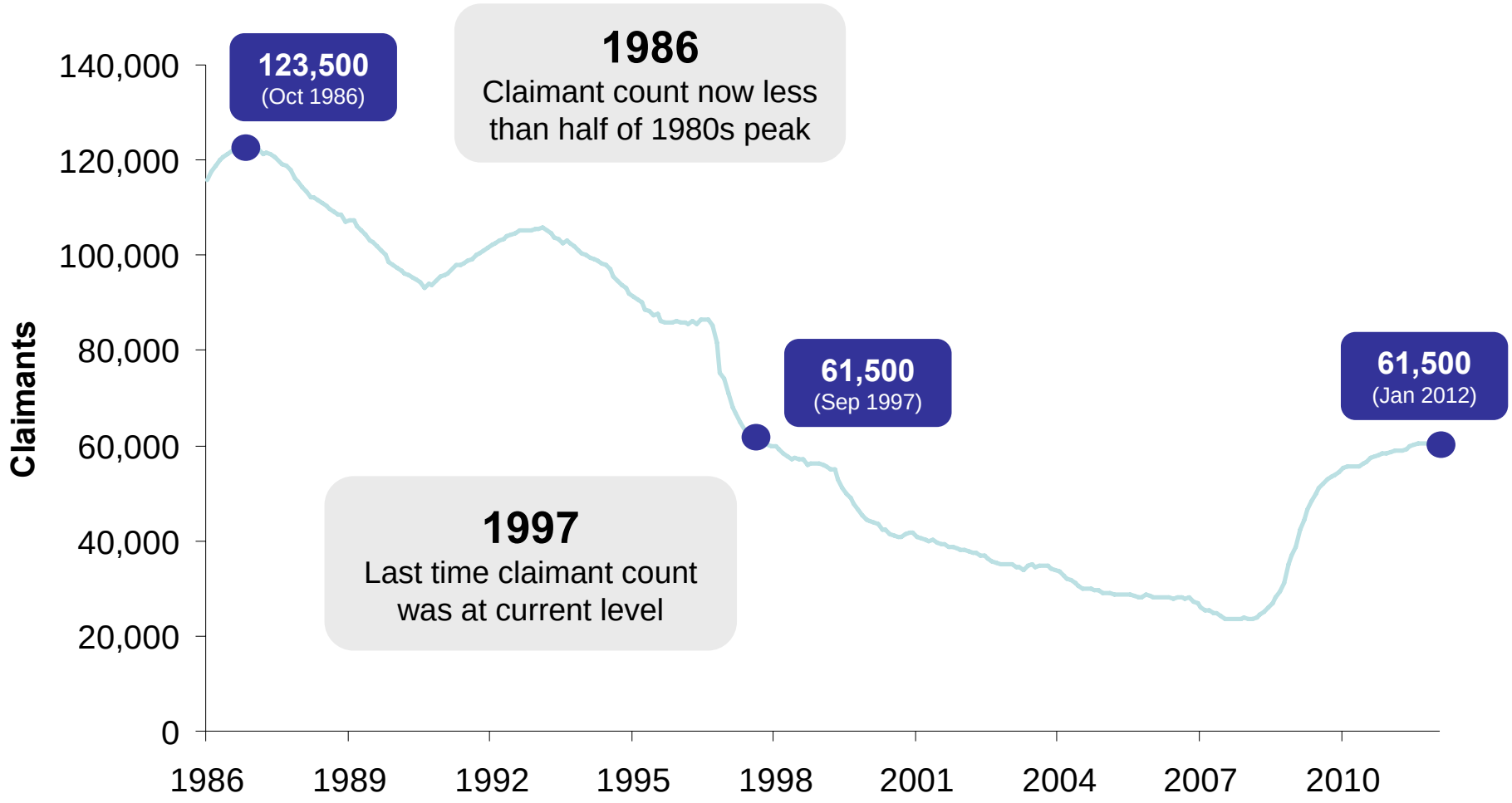
…although this remains low when compared historically



Source: NOMIS Claimant Count

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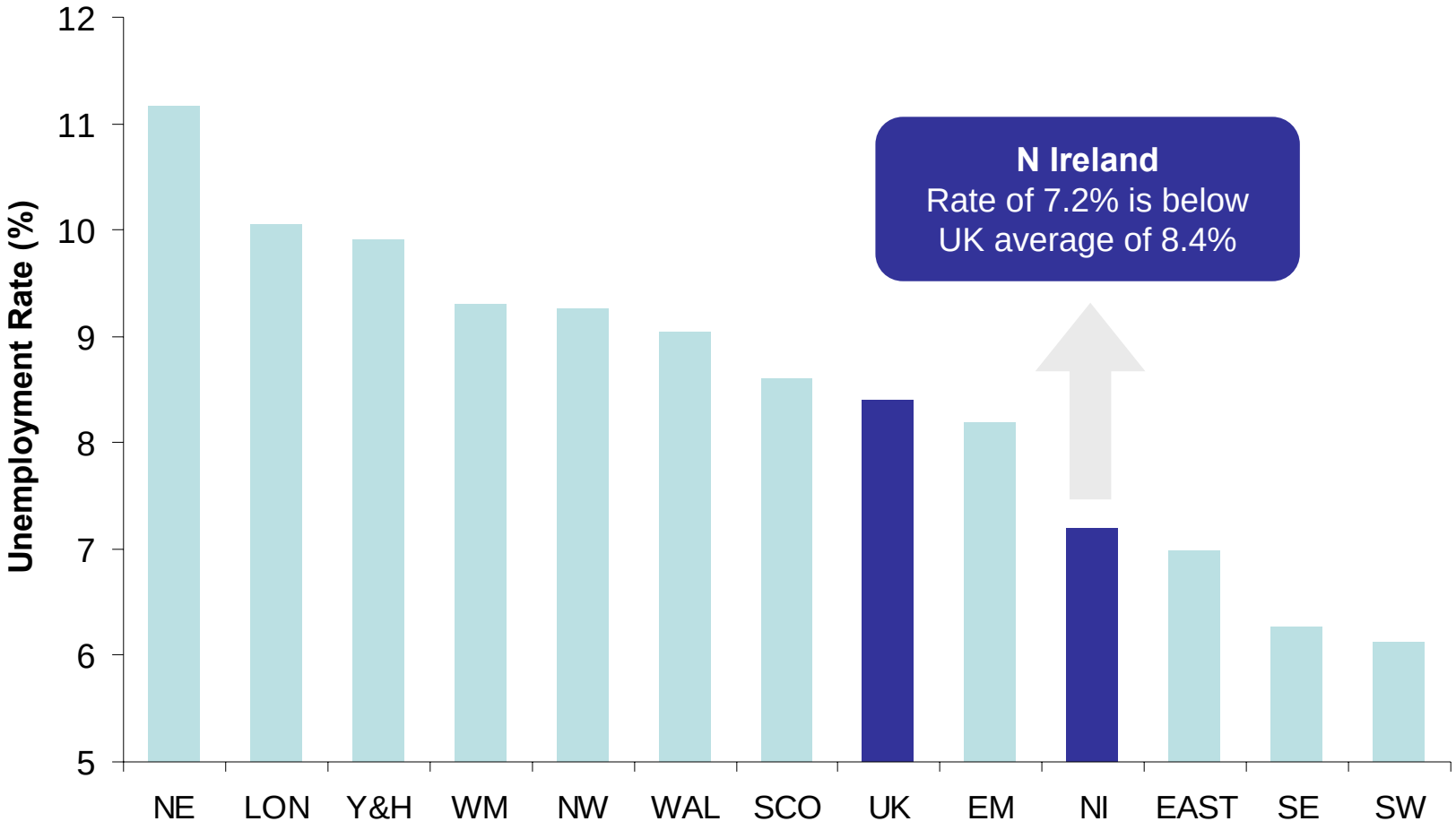
Despite the rise in claimants, the unemployment rate is similar to elsewhere in the UK…



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

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…and is not high by international standards

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

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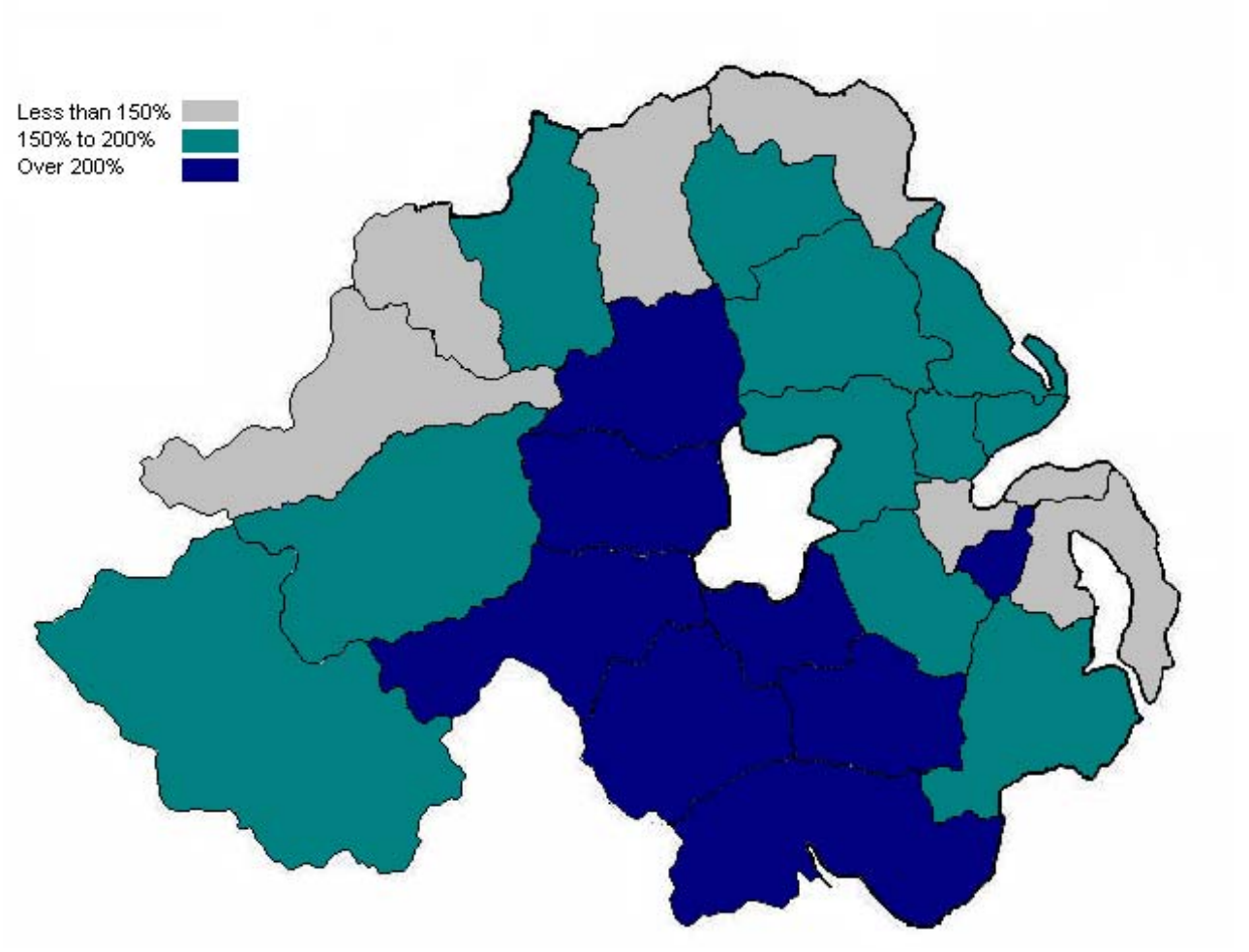
All parts of NI have experienced a large rise in claimants…



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

Source: NOMIS Claimant Count

Note: Increase in claimants during Jan 2008 to Jan 2012

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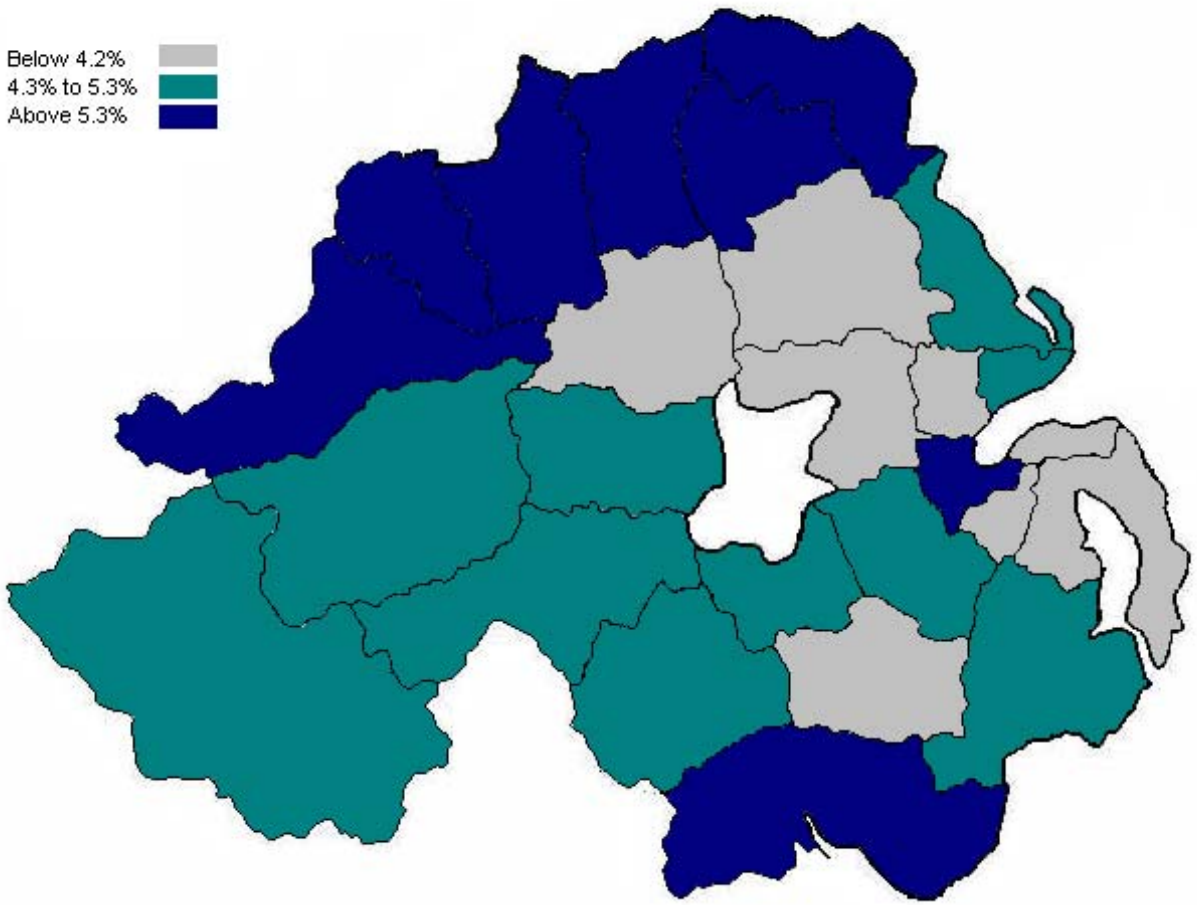
…although the highest rates remain in areas with historically high unemployment



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

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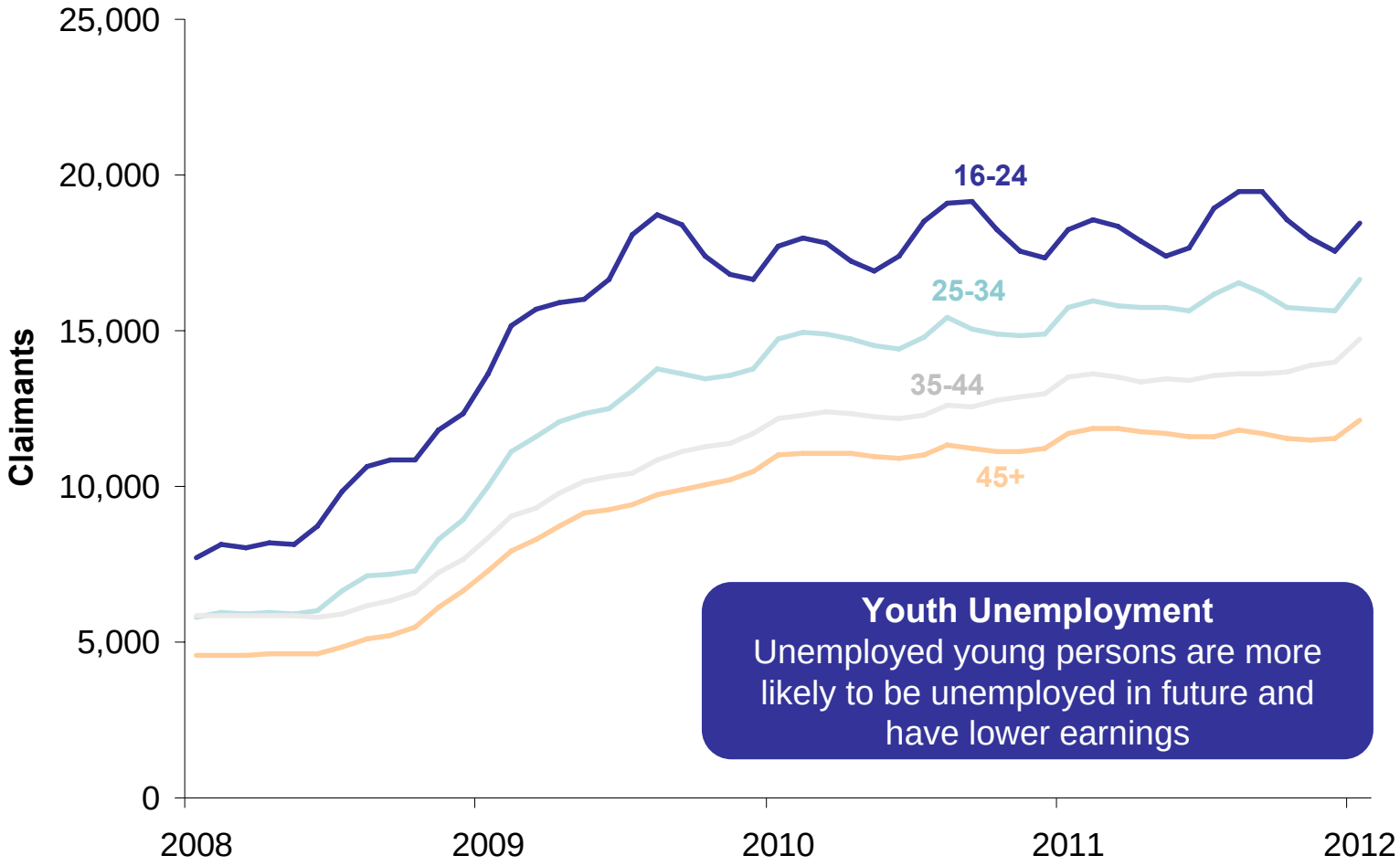
Young persons account for the largest number of claimants…



+139%
16-24

+186%
25-34

+165%
35-44

+152%
45+

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

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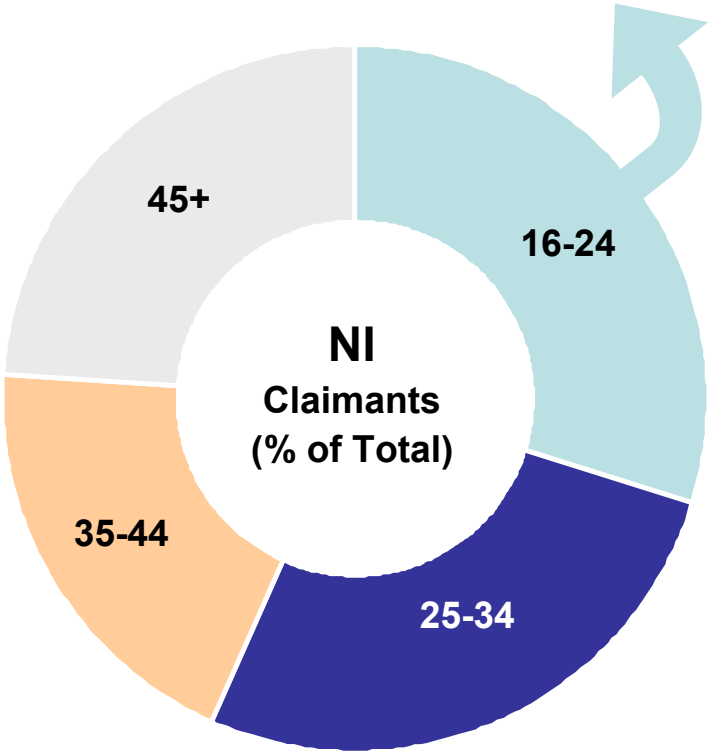
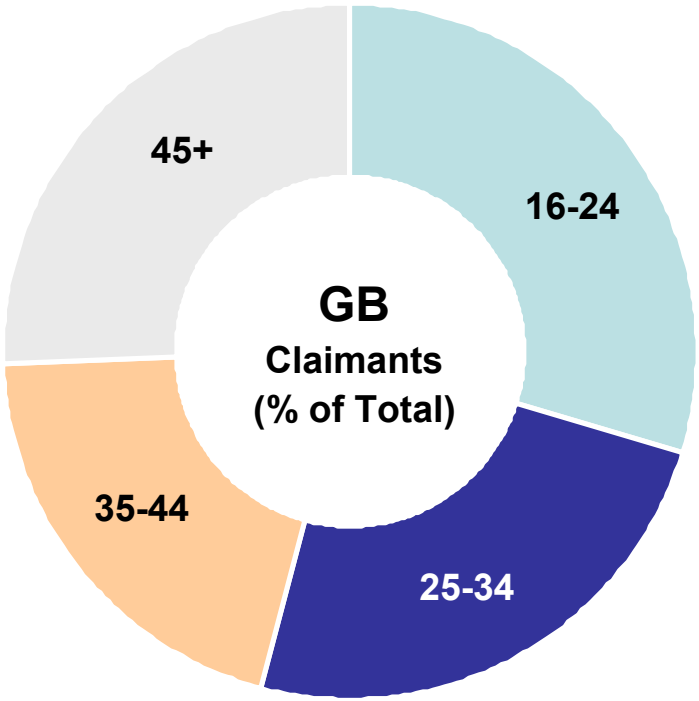
…although despite the large increase, youth claimants remains a similar proportion of total as Great Britain

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

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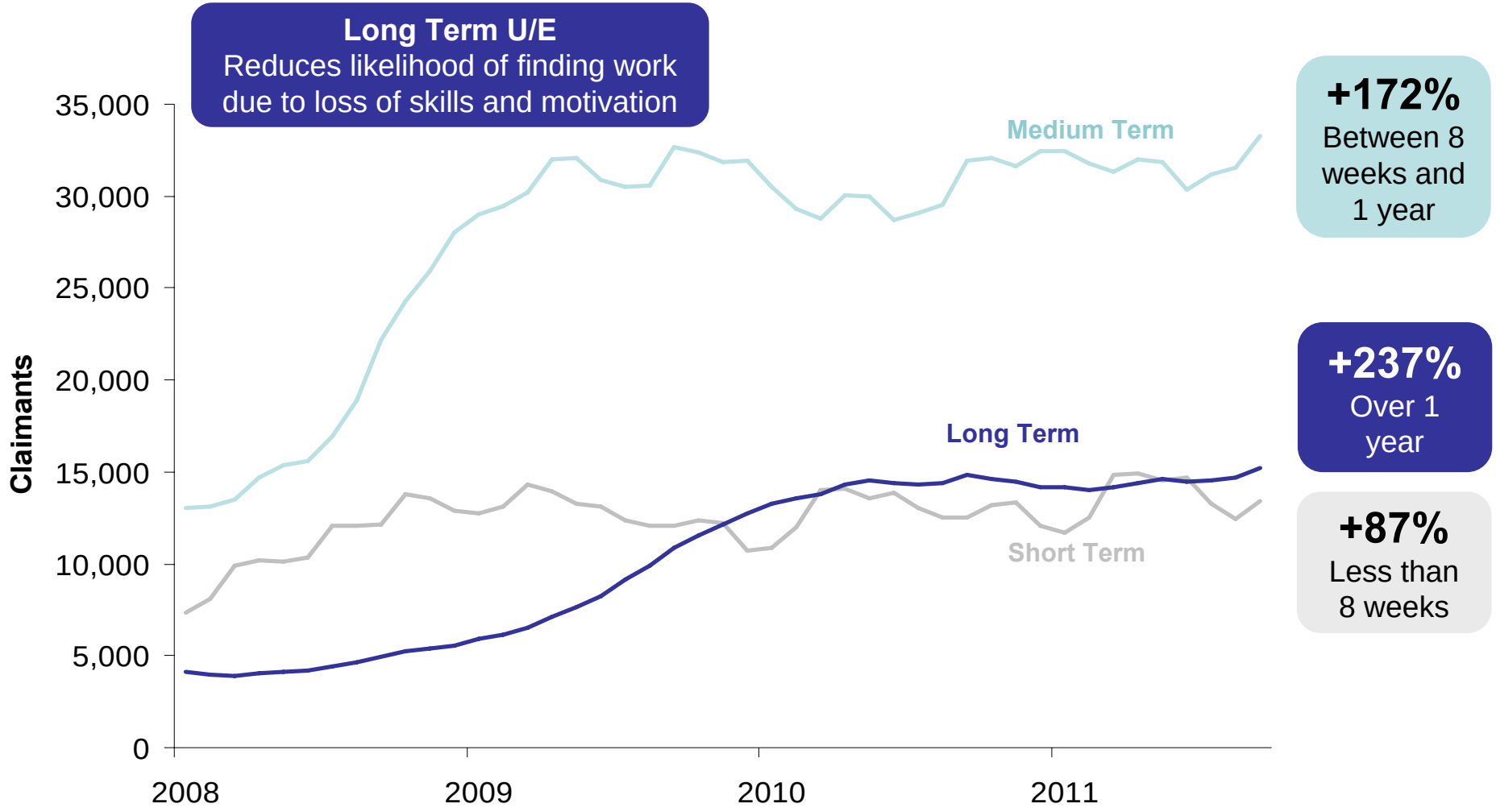
The growing number of long term unemployed is a key concern…



Source: NOMIS Claimant Count

Note: Increase in claimants during Jan 2008 to Jan 2012

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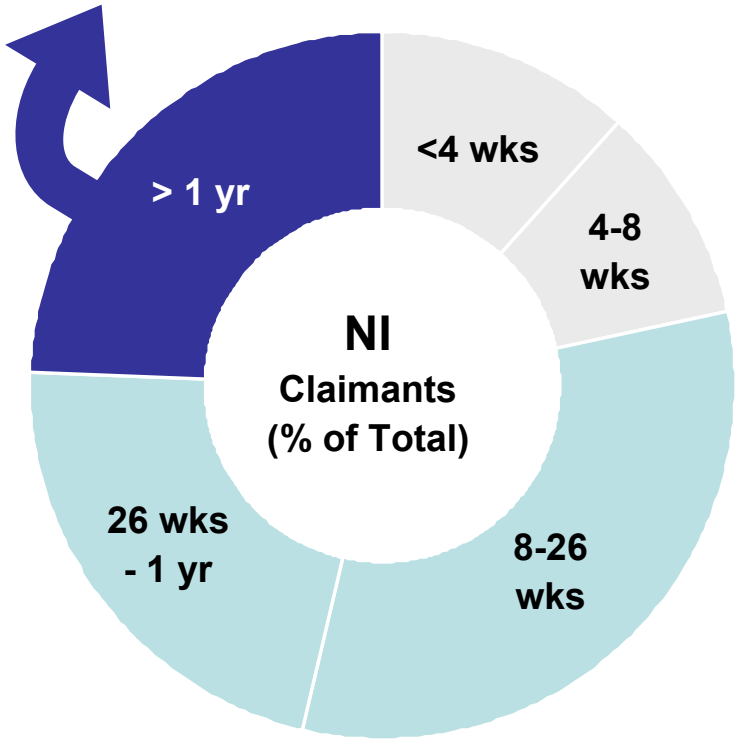
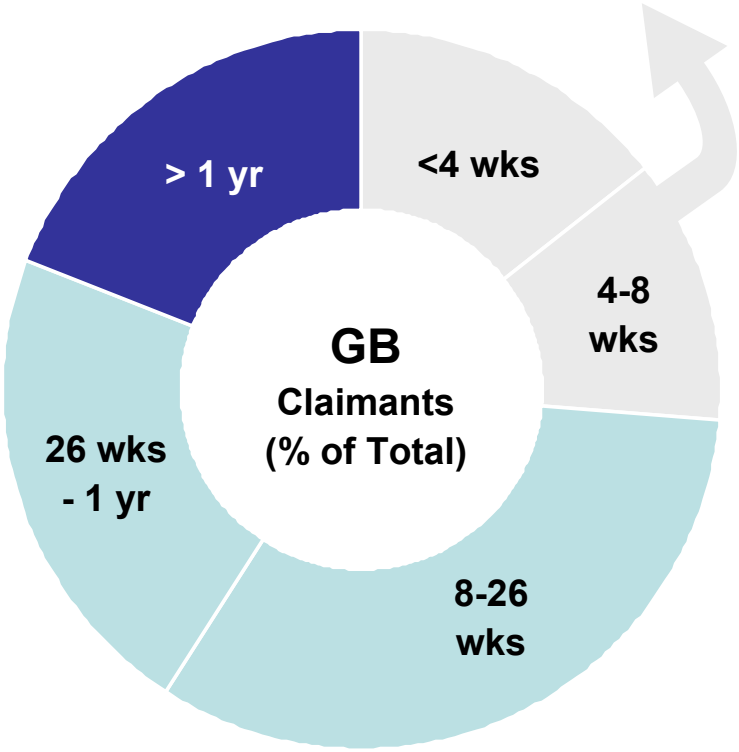
…and is significantly higher than elsewhere in the UK…

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

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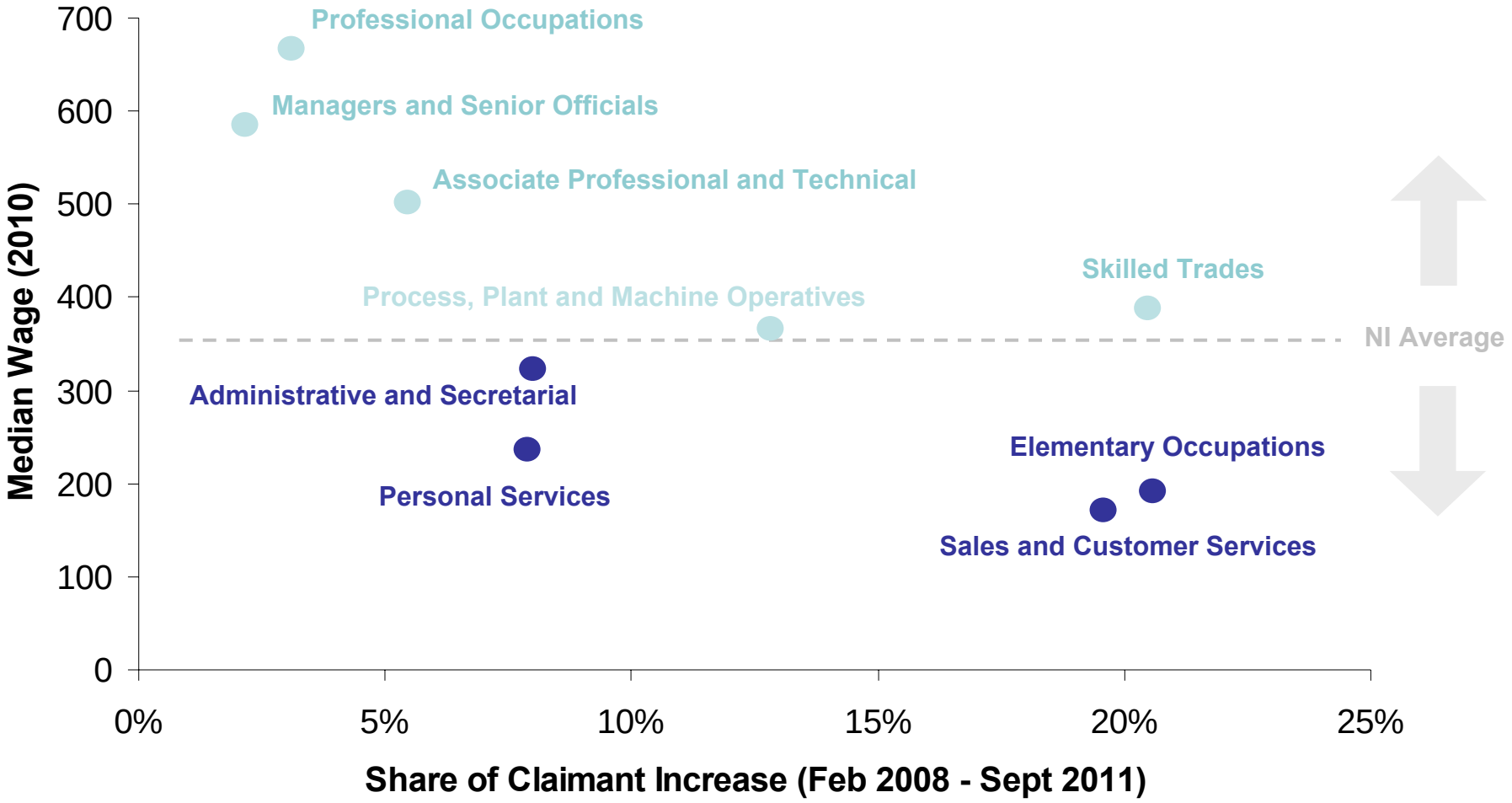
…with the majority of the increase in claimants from lower wage occupations



Source: NOMIS Claimant Count; NISRA ASHE

Note: Occupations further to the right account for more claimants

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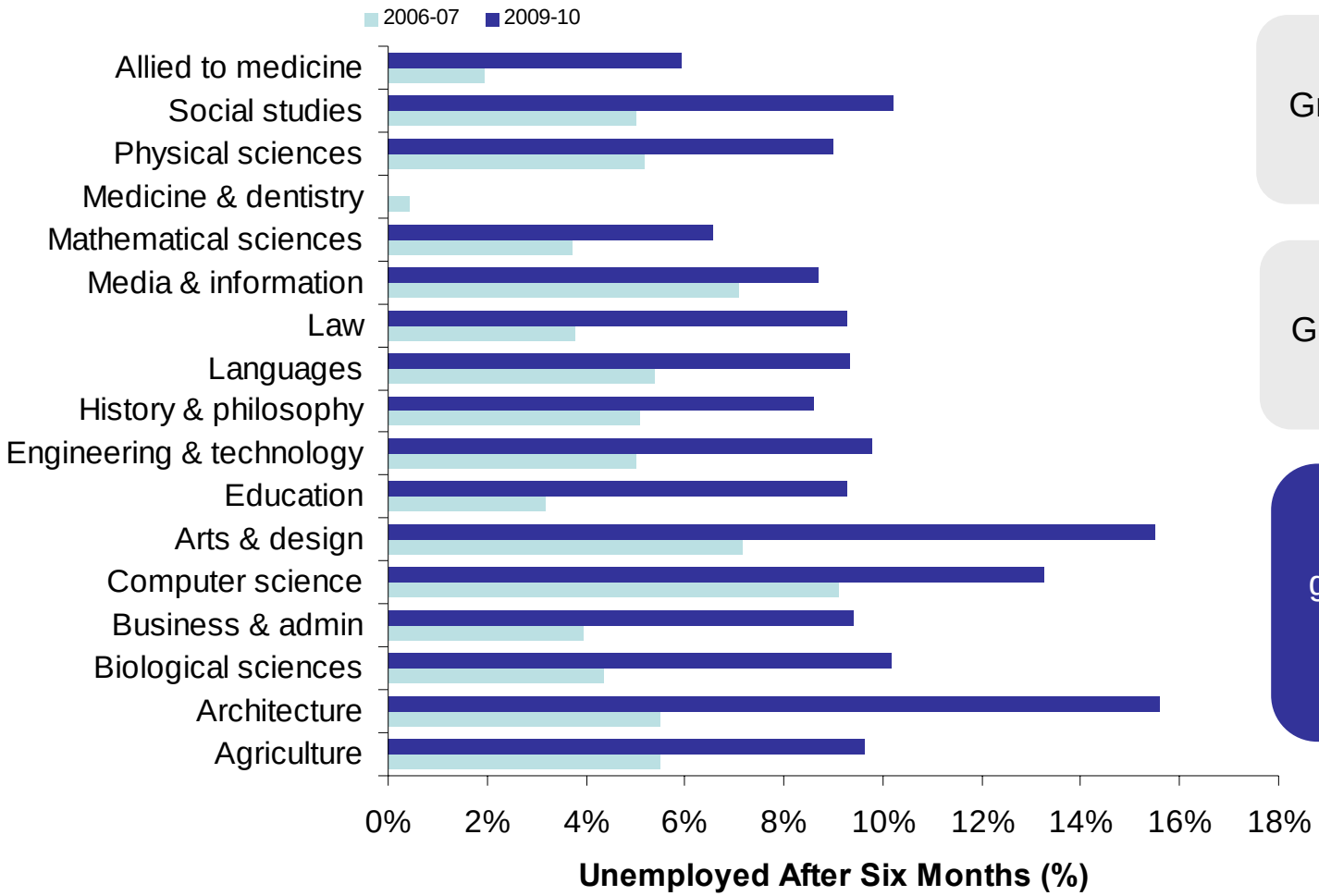
Graduates have been severely impacted by the recession…



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

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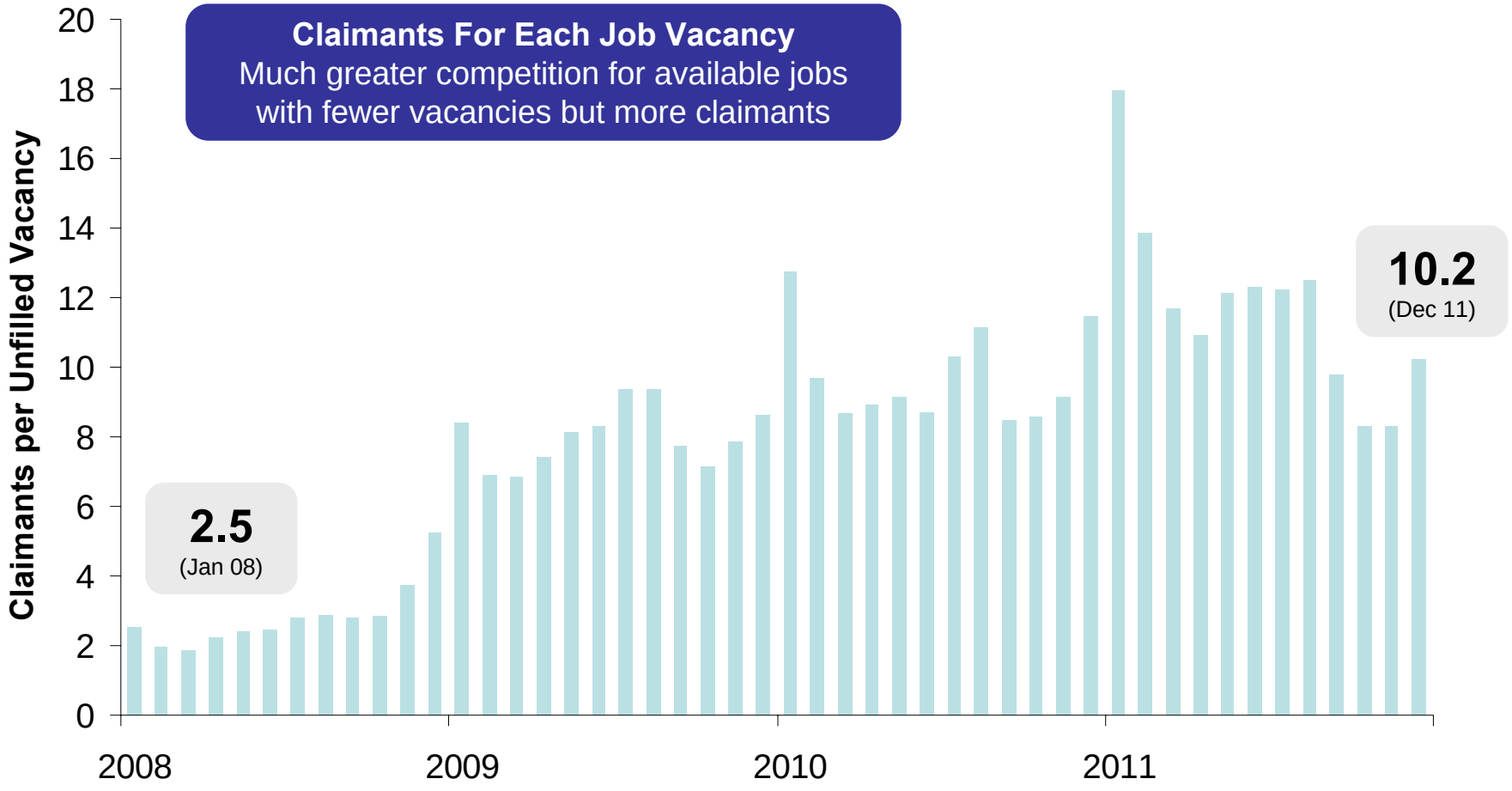
…with much greater competition for available vacancies



Source: DEL Vacancy Stats

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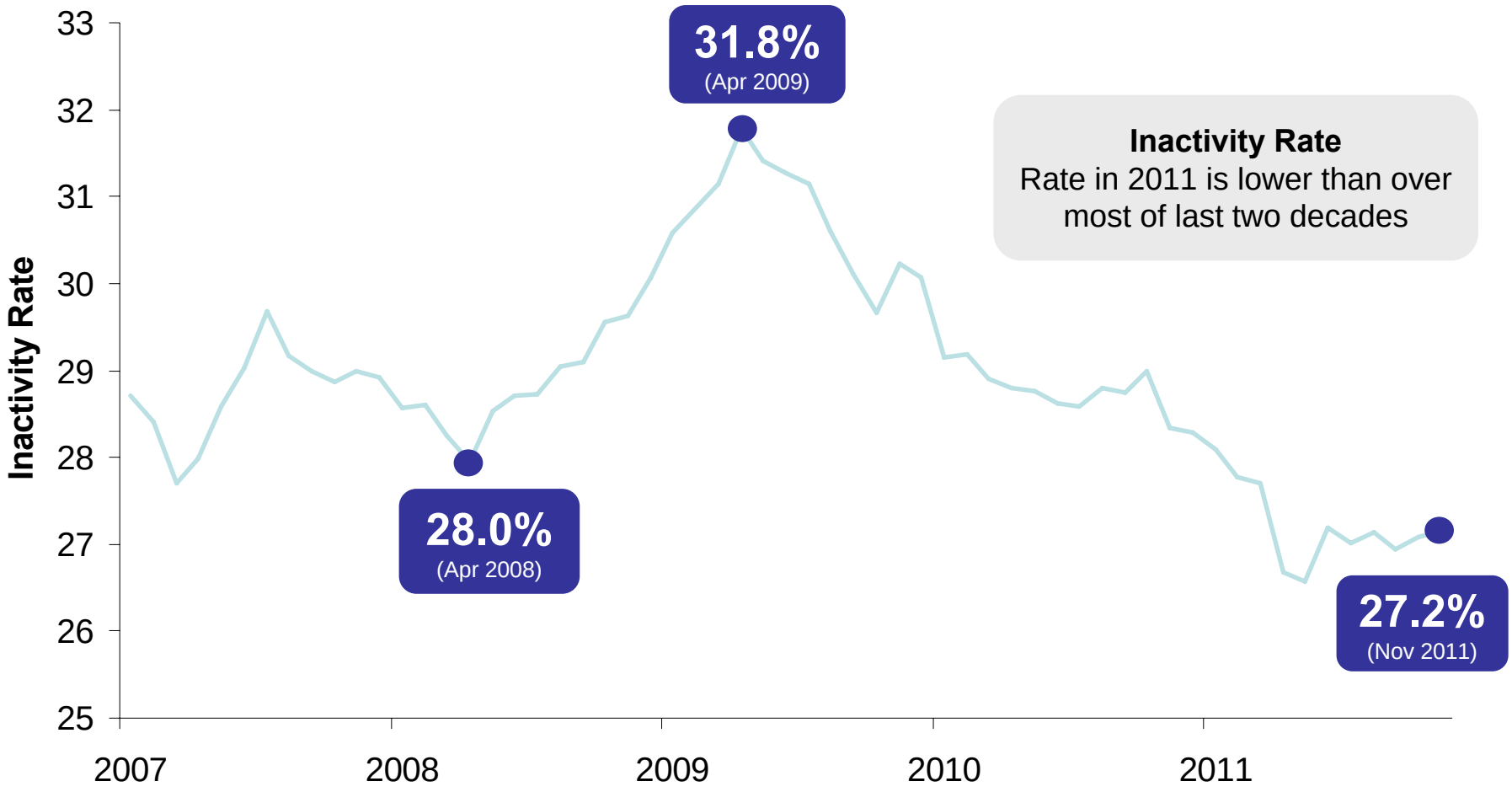
Economic inactivity has now begun to fall…



Source: ONS Labour Force Survey

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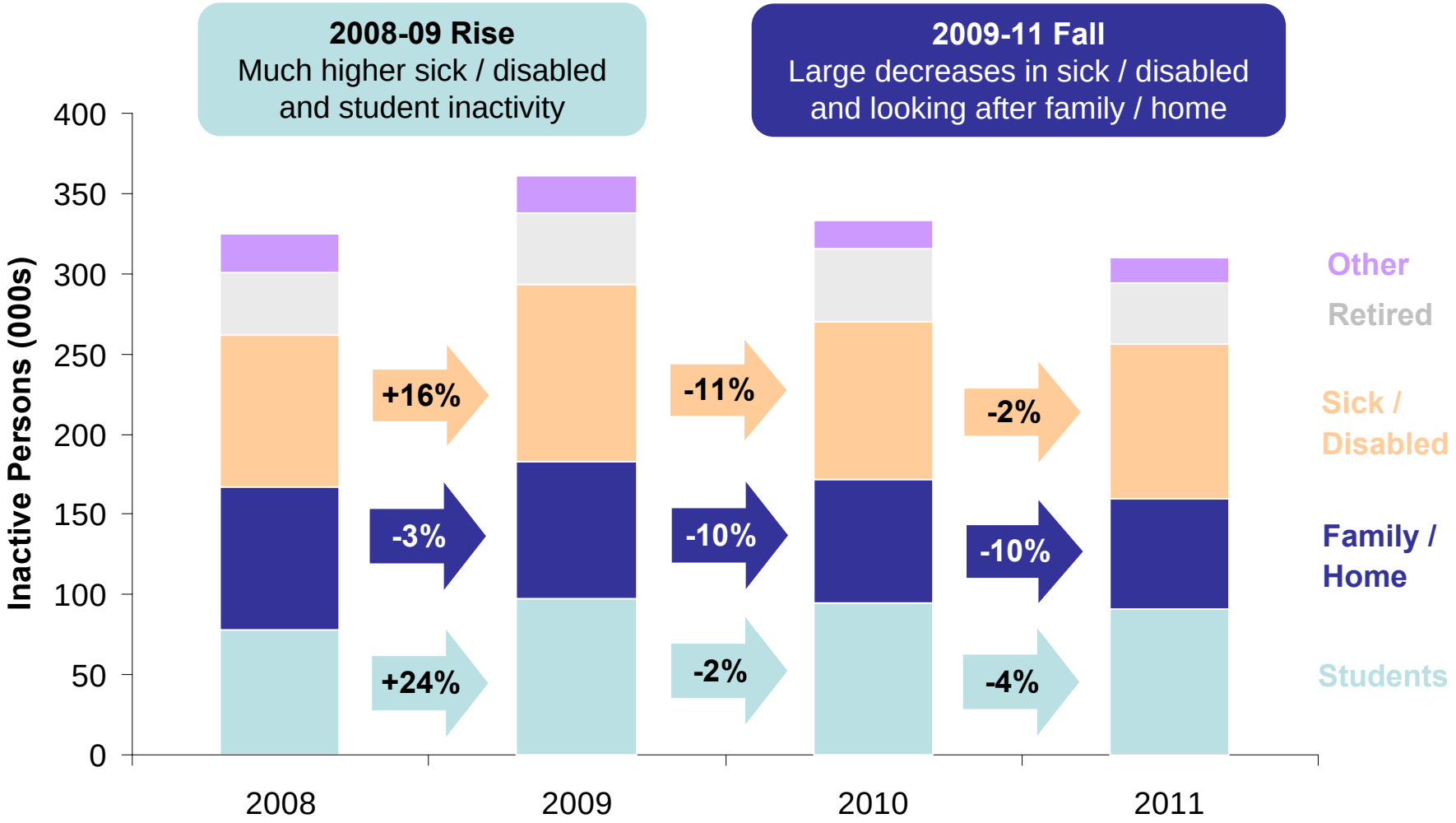
…although student inactivity remains high even with falls in those looking after family / home…



Source: NISRA Labour Force Survey

Note: Value reflects annual % change in number of inactive

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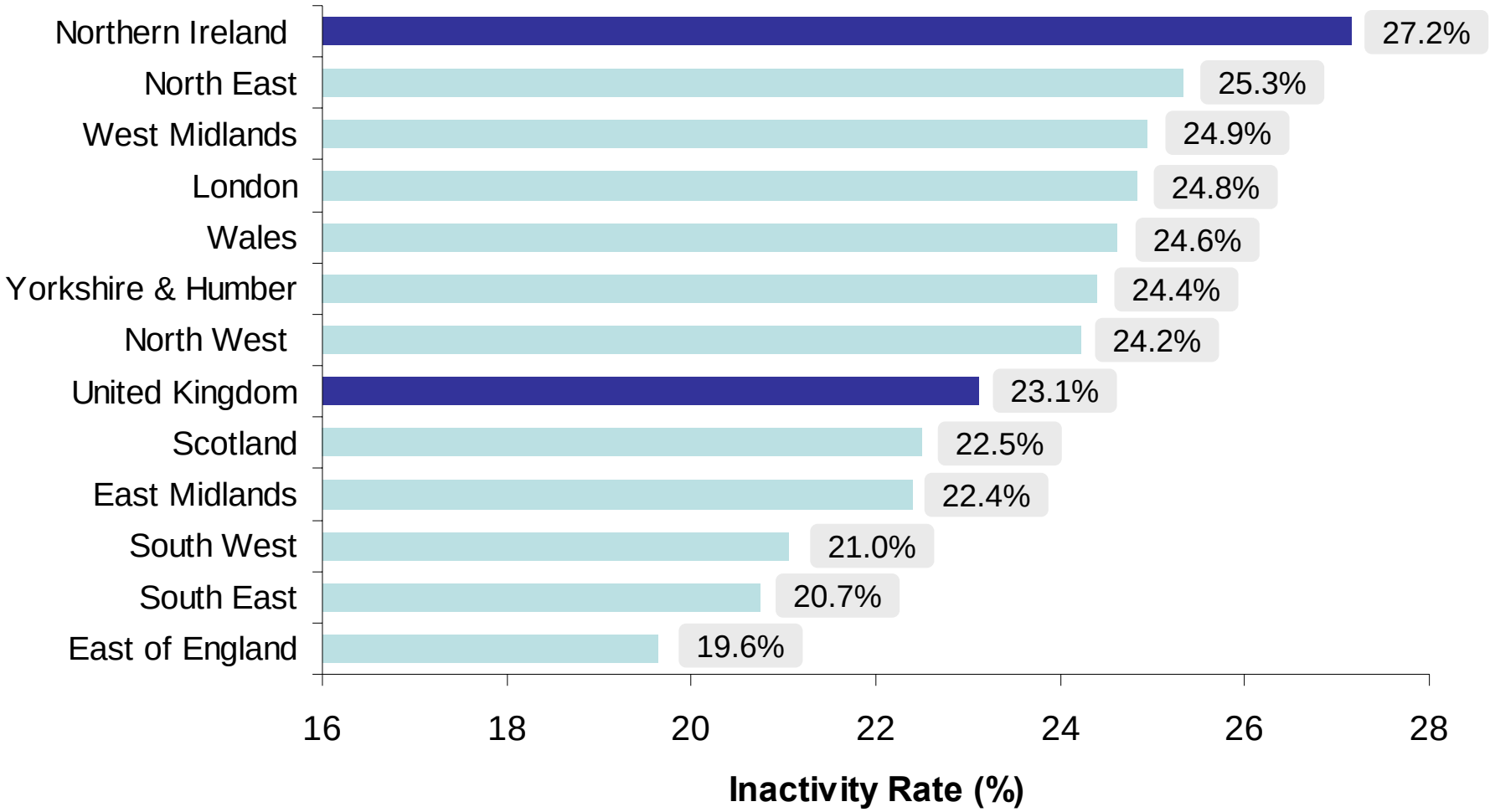
…and the inactivity rate remains above elsewhere in the UK…



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

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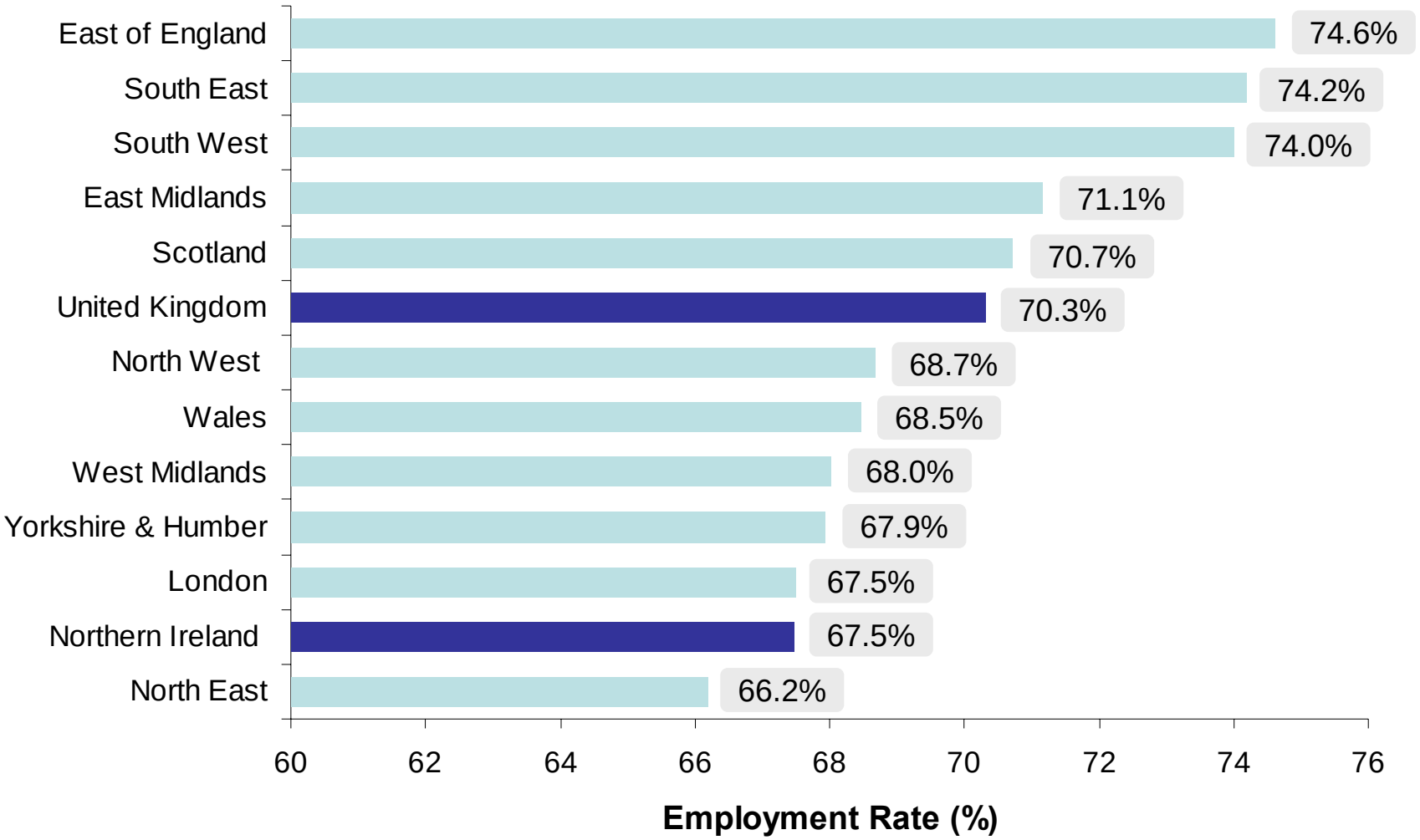
…with the employment rate also below much of the UK



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

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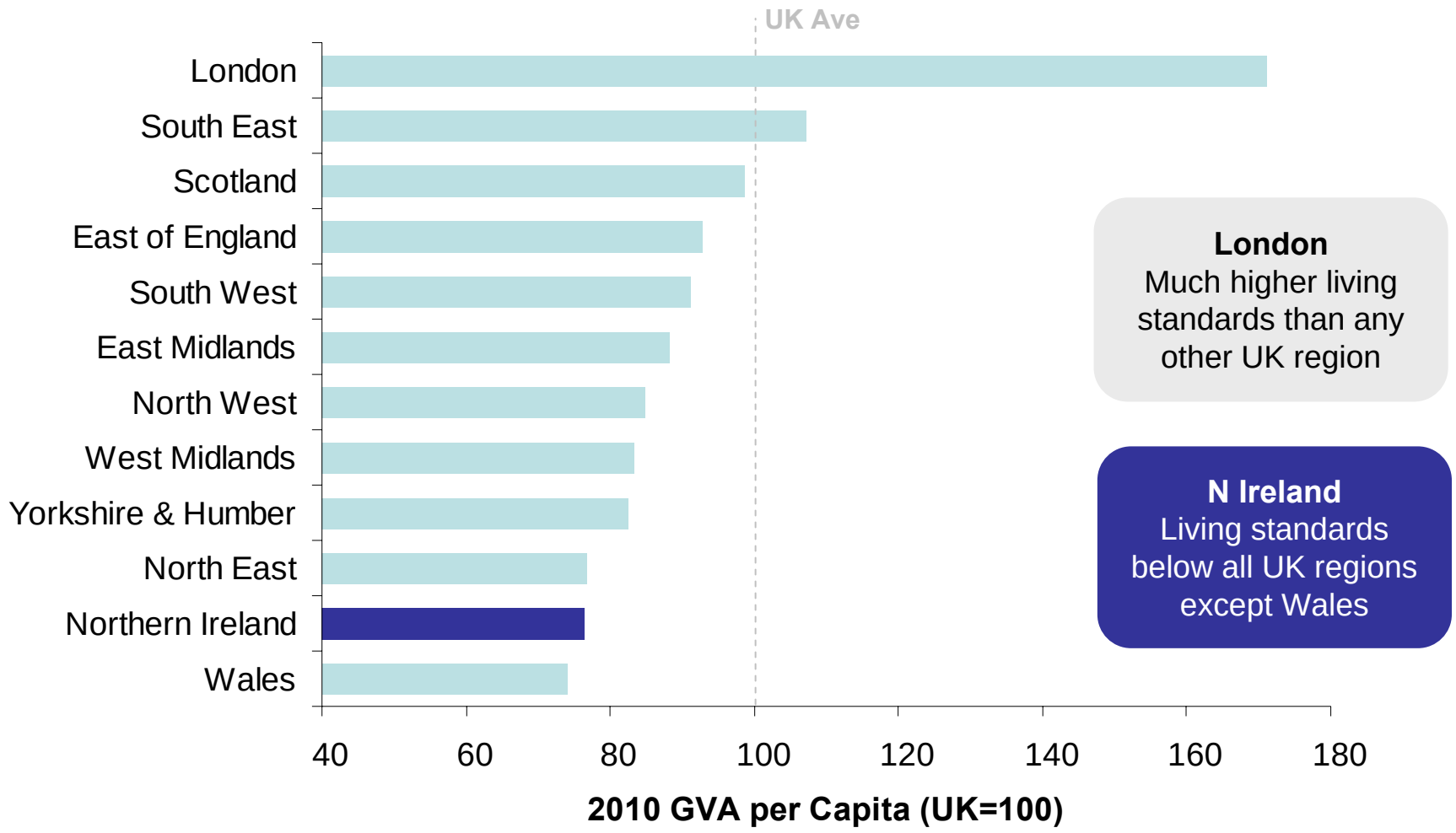
…with GVA per capita below most of the UK regions…



Source: ONS Regional GVA

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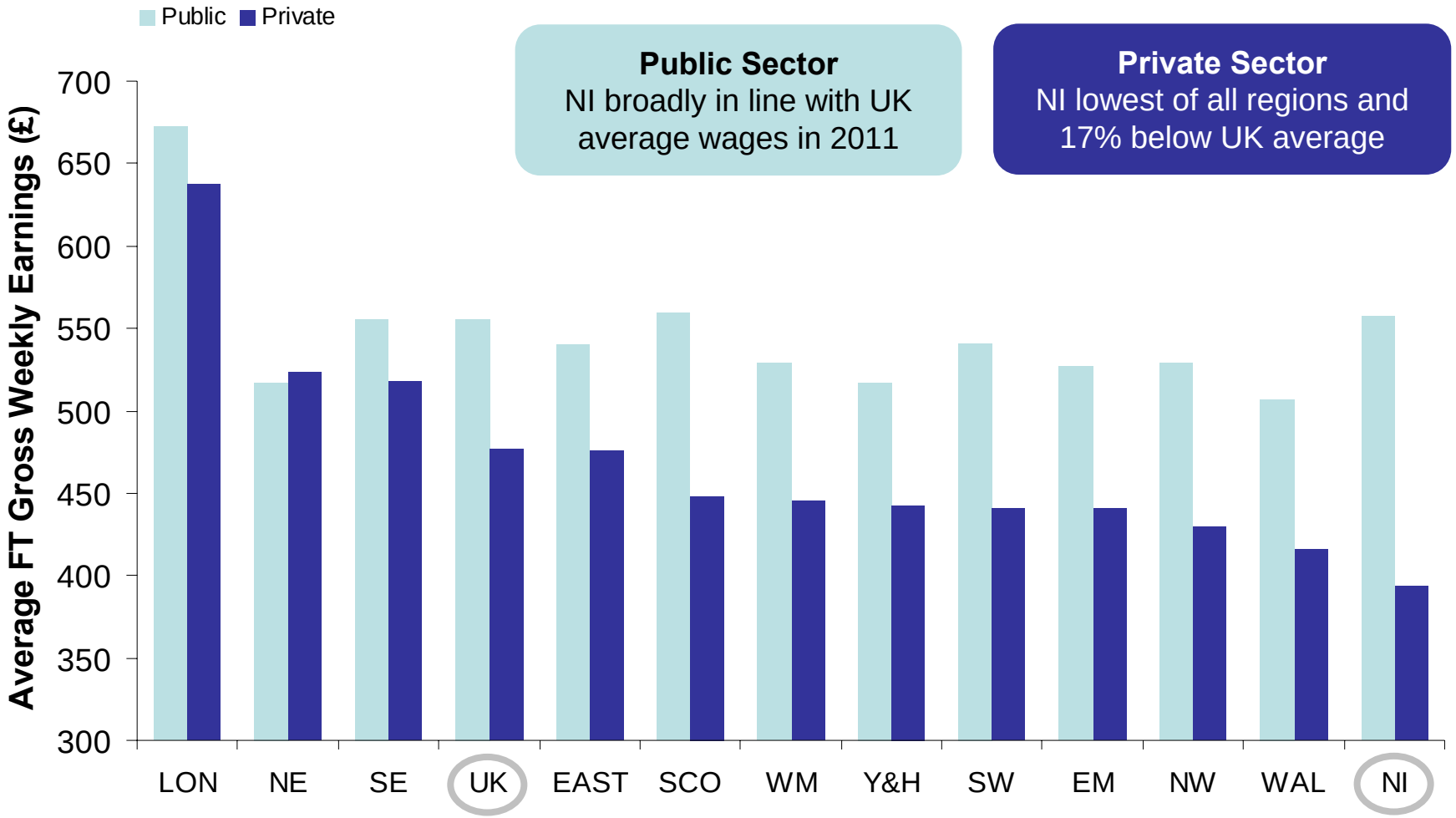
…which has contributed to lower private sector wages



Public Sector
NI broadly in line with UK average wages in 2011

Private Sector
NI lowest of all regions and 17% below UK average

Source: ONS & NISRA ASHE 2011

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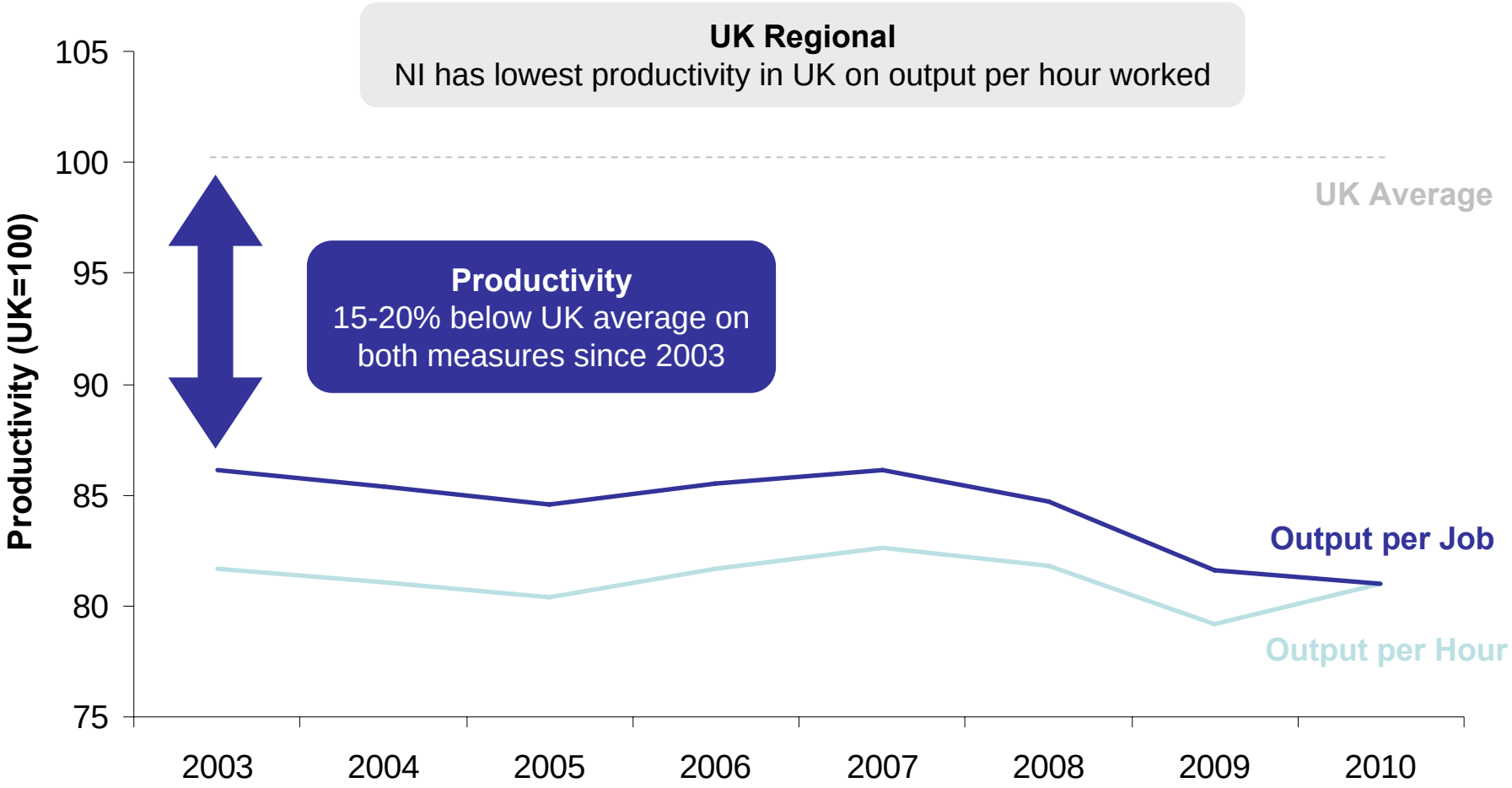
Labour productivity is below the rest of the UK…



Source: ONS Labour Productivity

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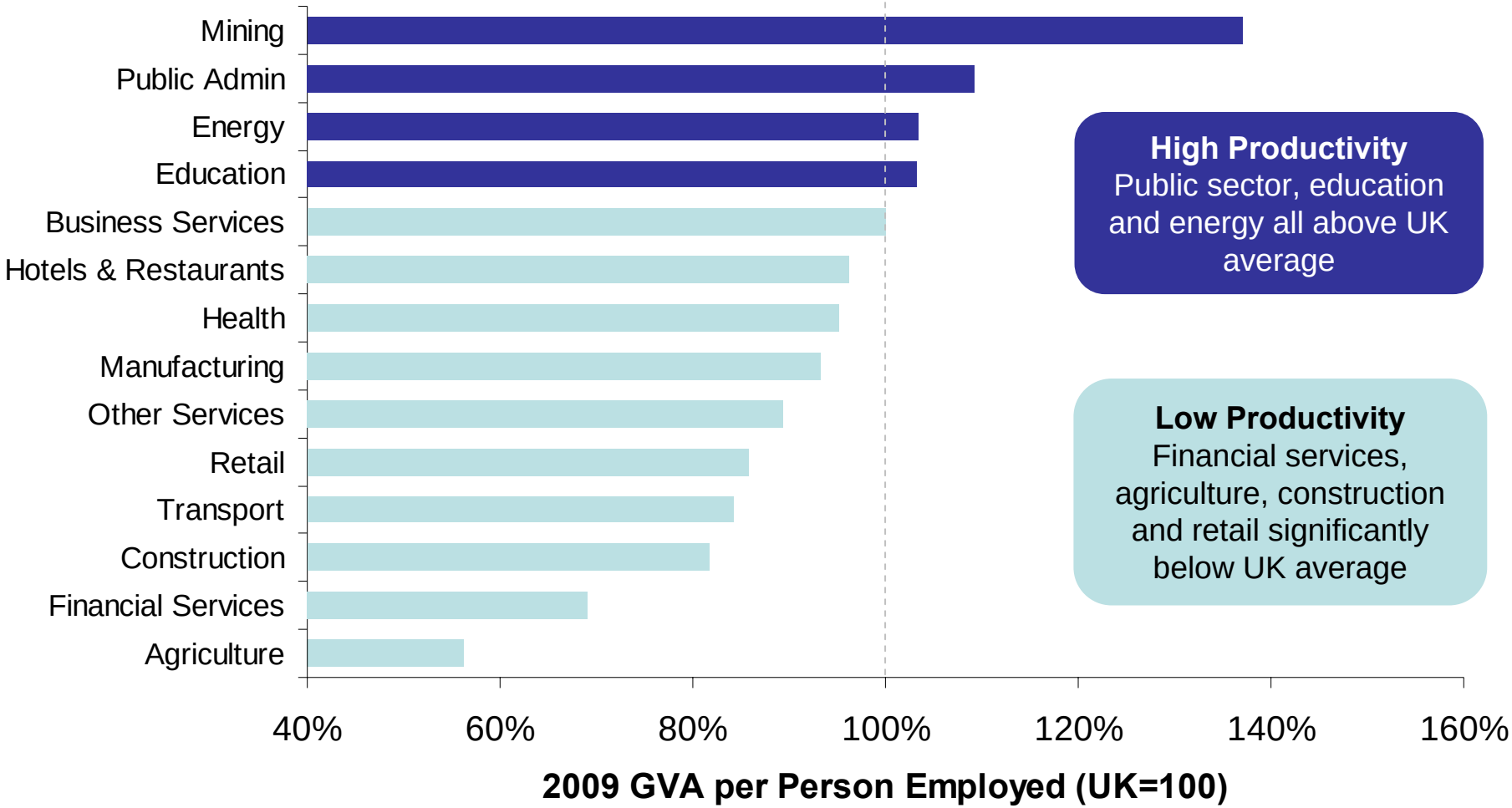
…which is caused by relatively low productivity in key sectors…



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

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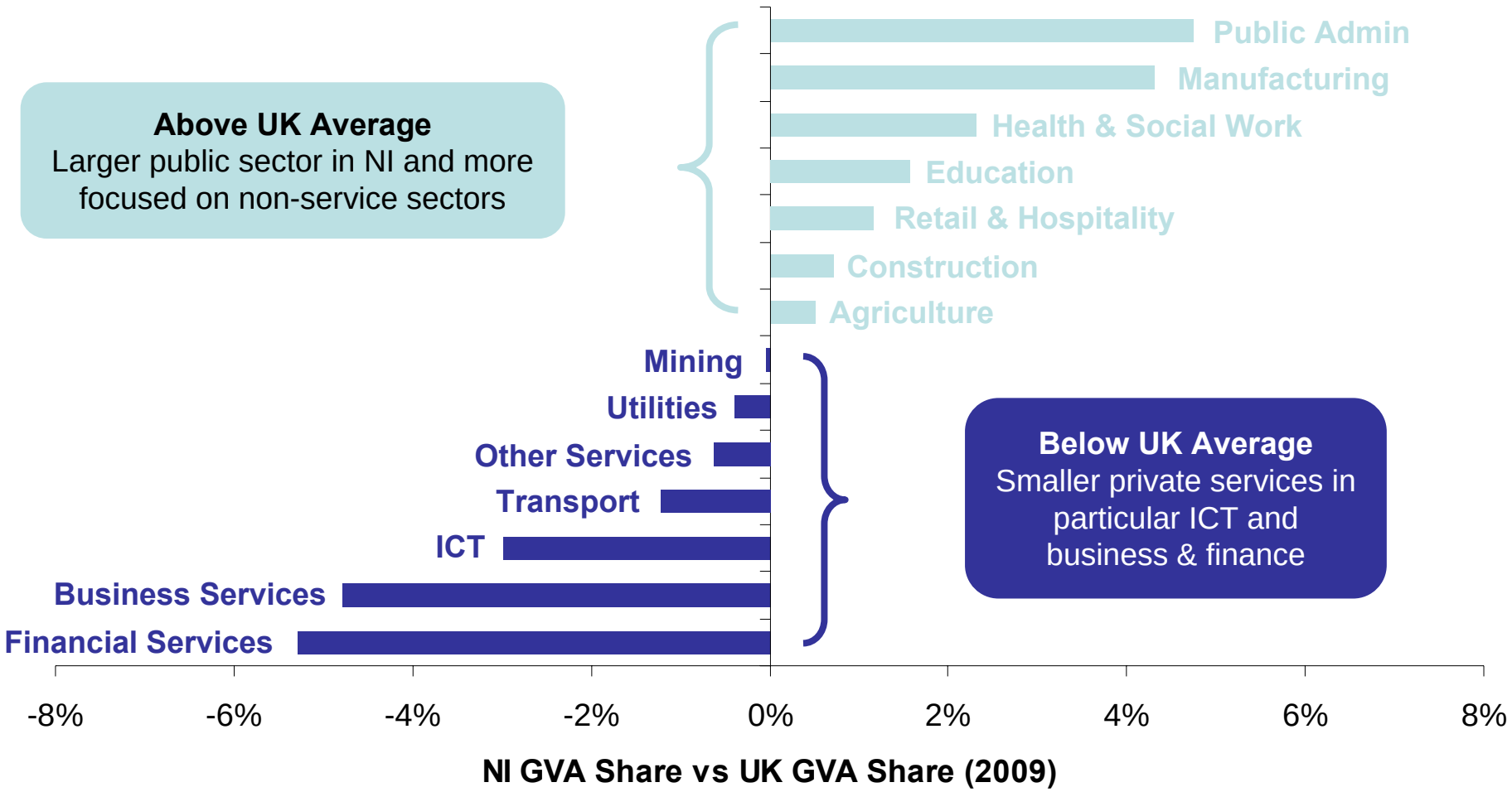
…and an industrial structure which is less focused on higher value added activities



Source: ONS Regional GVA

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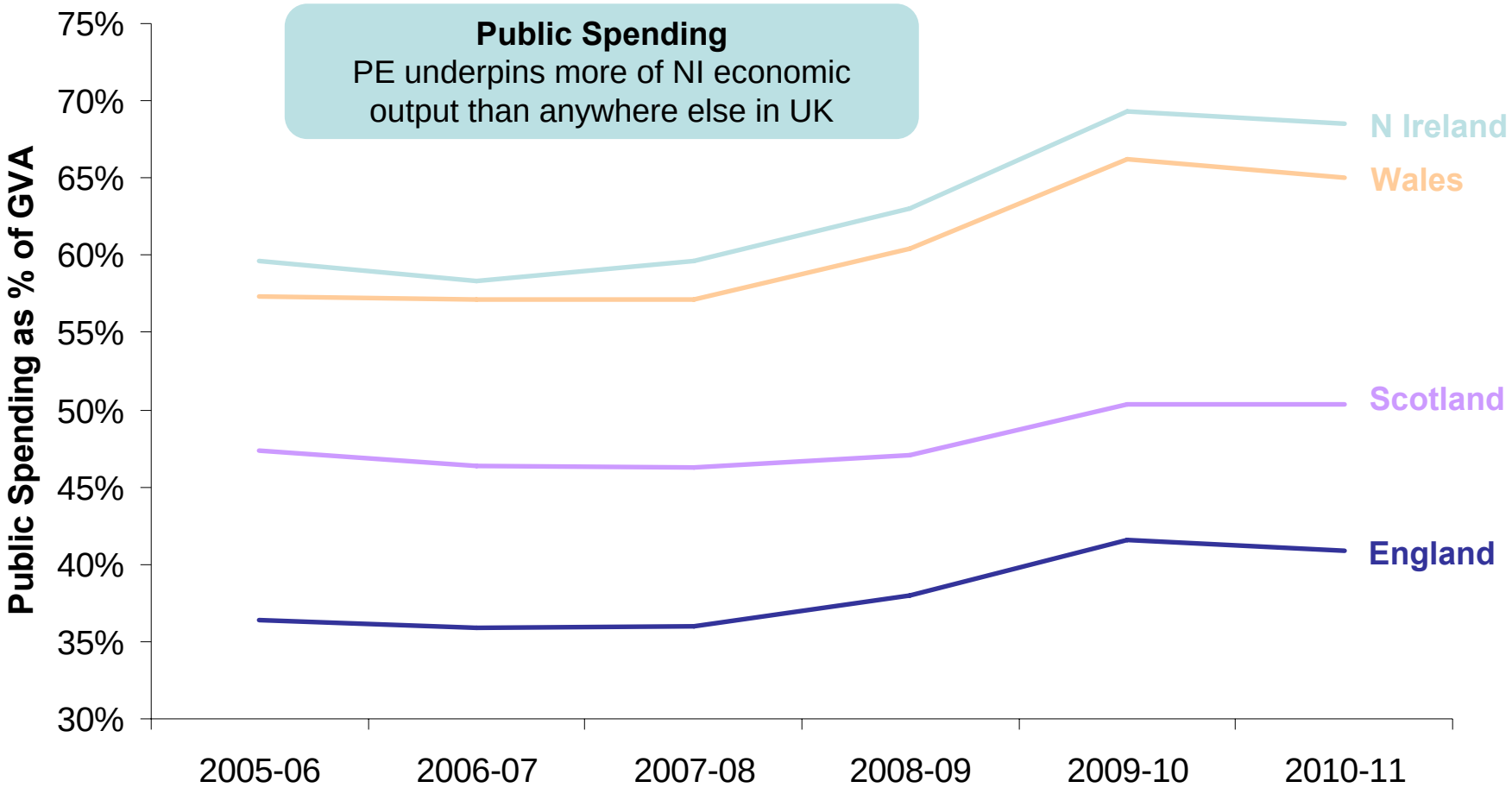
The public sector has been a key driver of output…



Source: HMT PESA Regional Analysis
Note: 2010-11 based on plans not outturn

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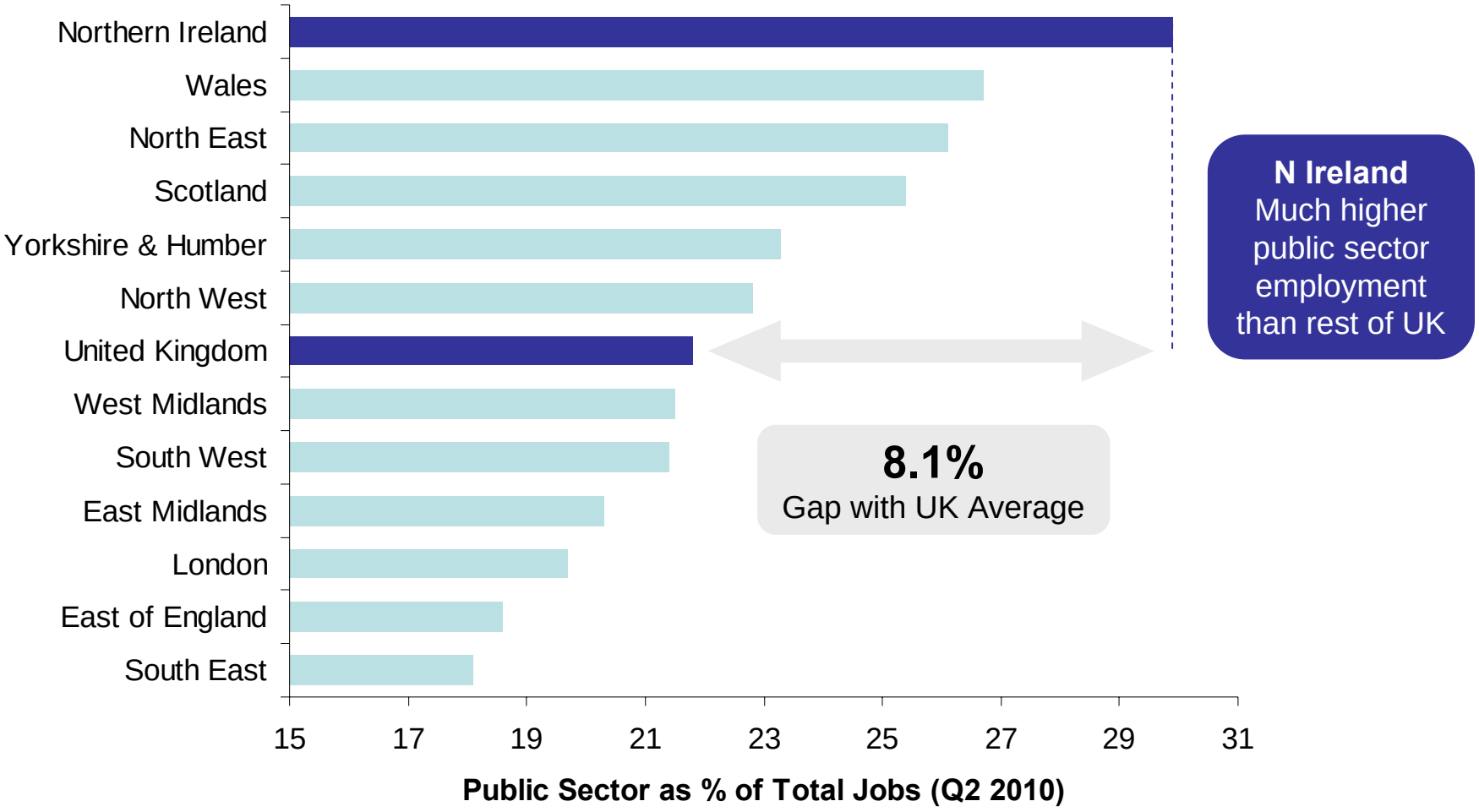
…and total jobs in the local economy…



Source: ONS Regional Public Sector Employment
Note: Gap is expressed as percentage points

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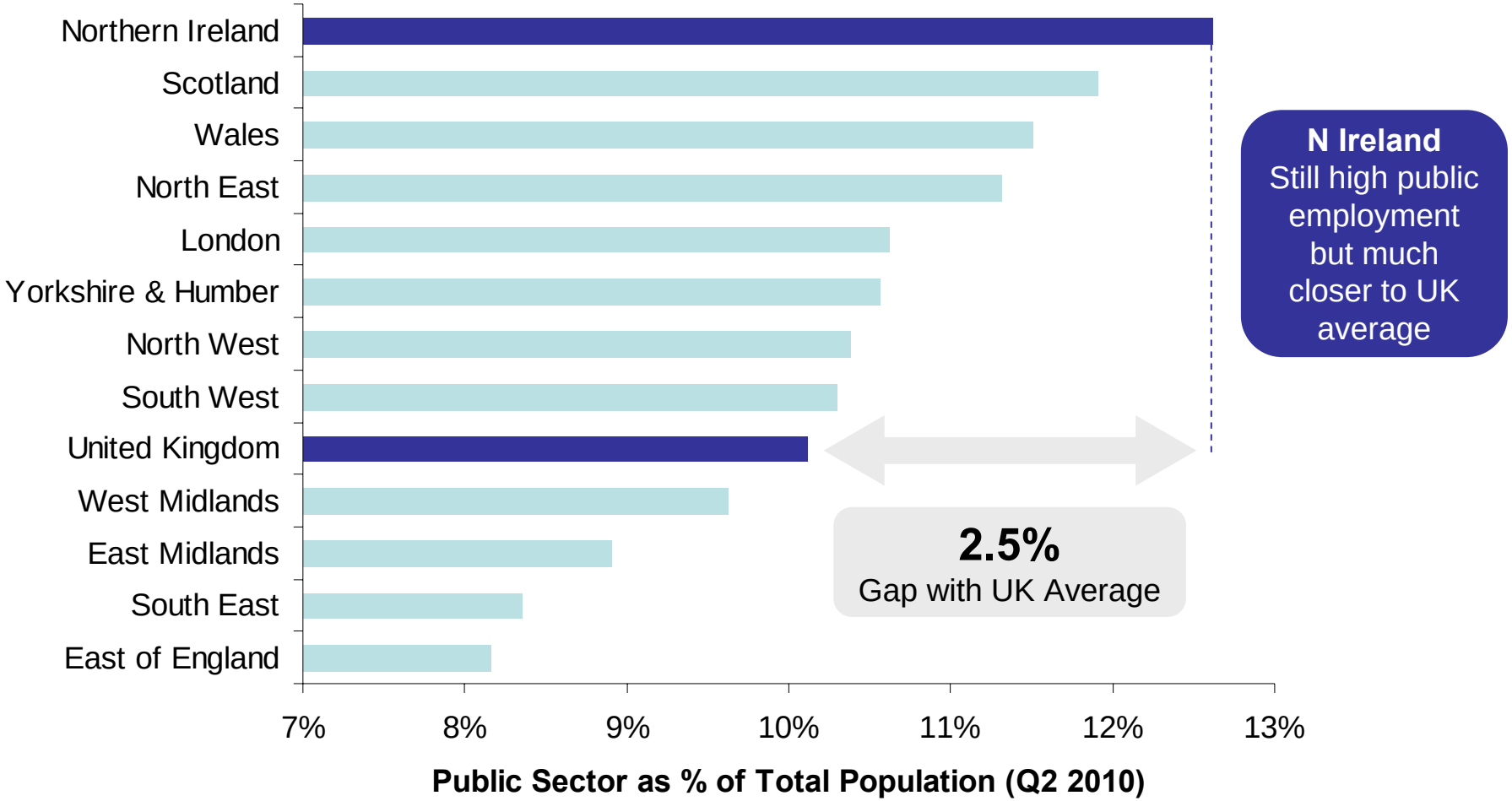
…although this is less apparent when the public sector is considered relative to the overall population



Source: ONS Regional Public Sector Employment; ONS Population Estimates
Note: Gap is expressed as percentage points

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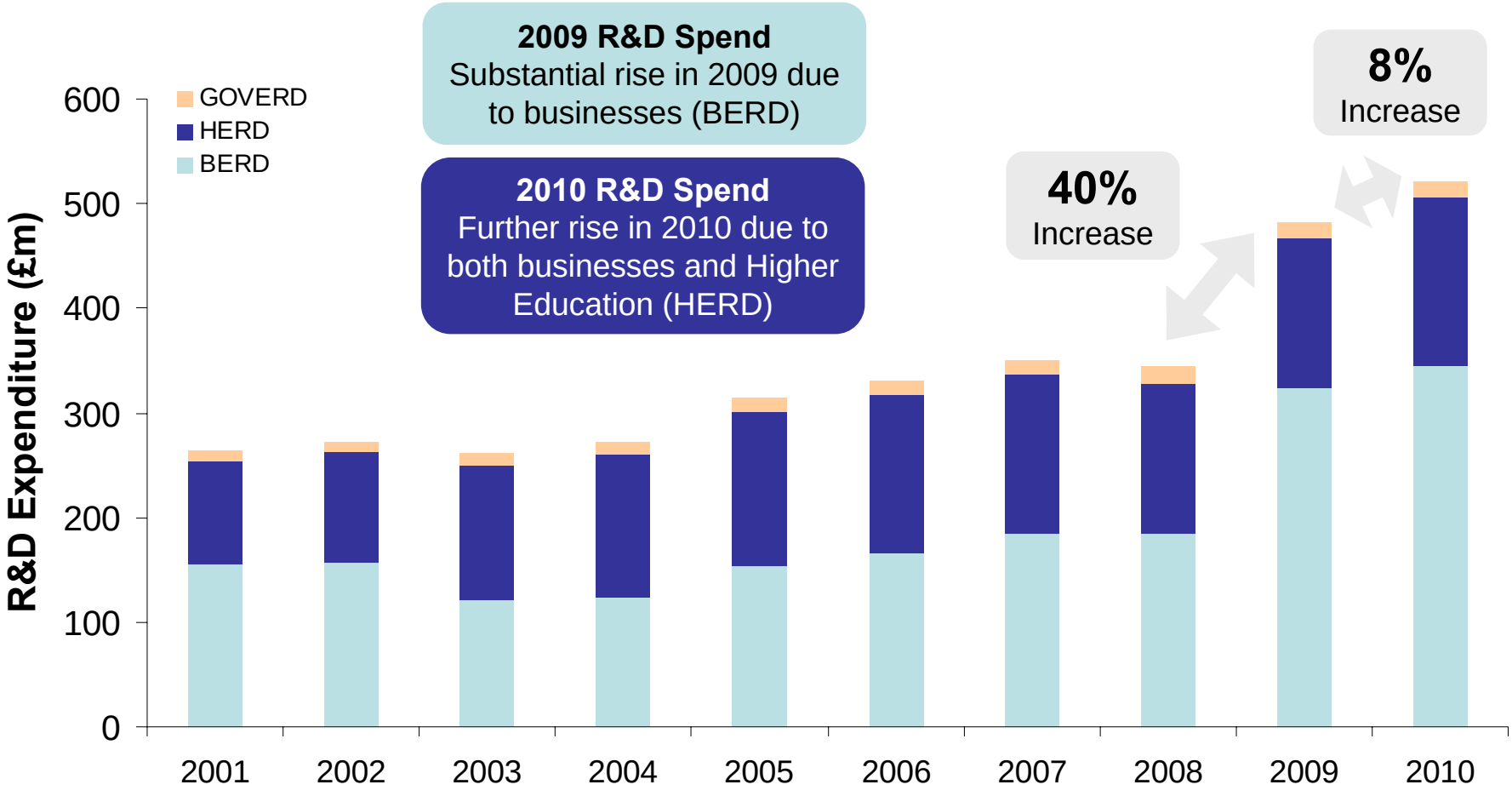
A Innovation and R&D

R&D expenditure has shown large increases since 2008



Source: NISRA R&D Survey

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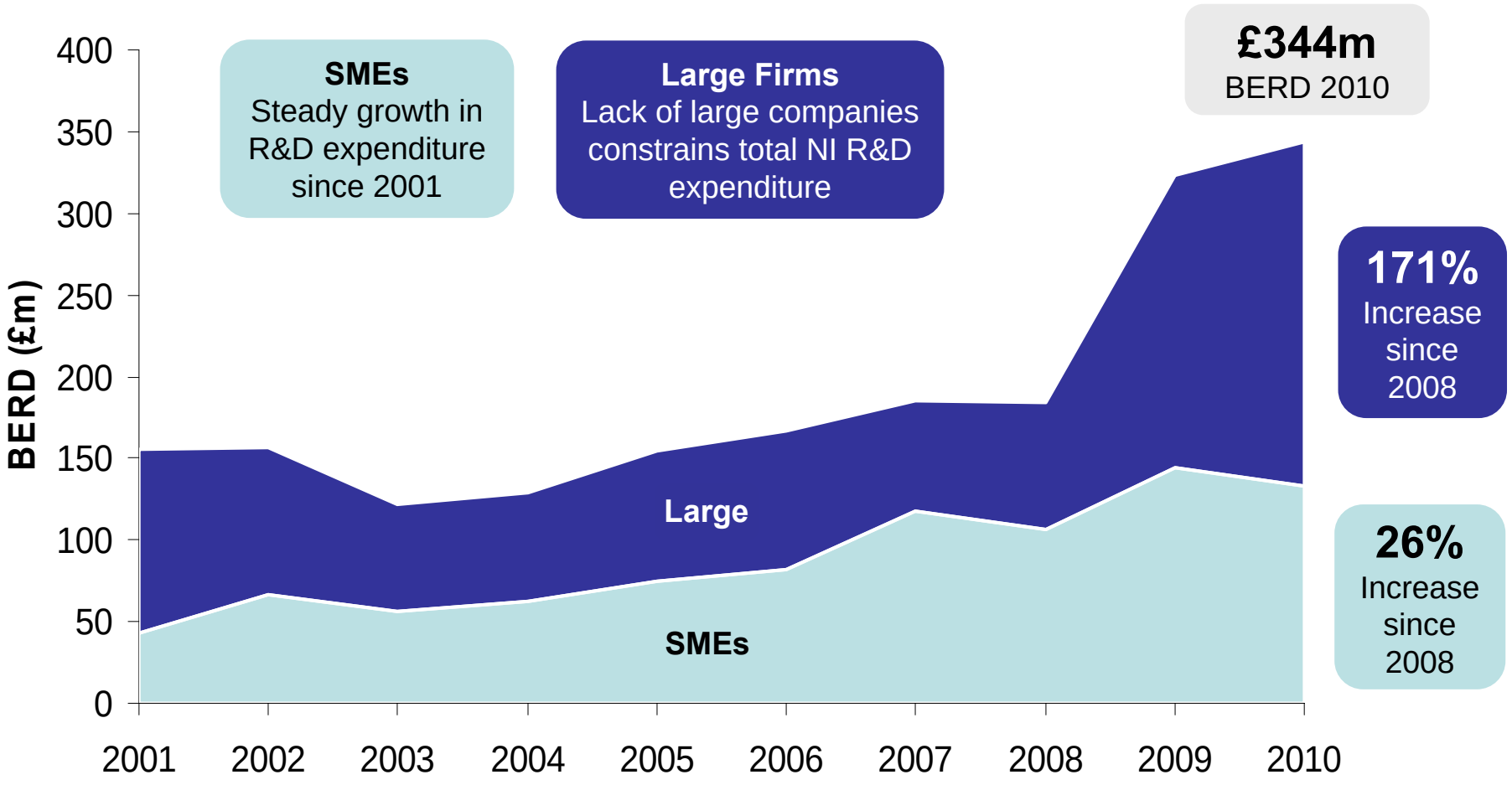
The Business R&D (BERD) increase is mainly due to companies that are larger…



Source: NISRA R&D Survey

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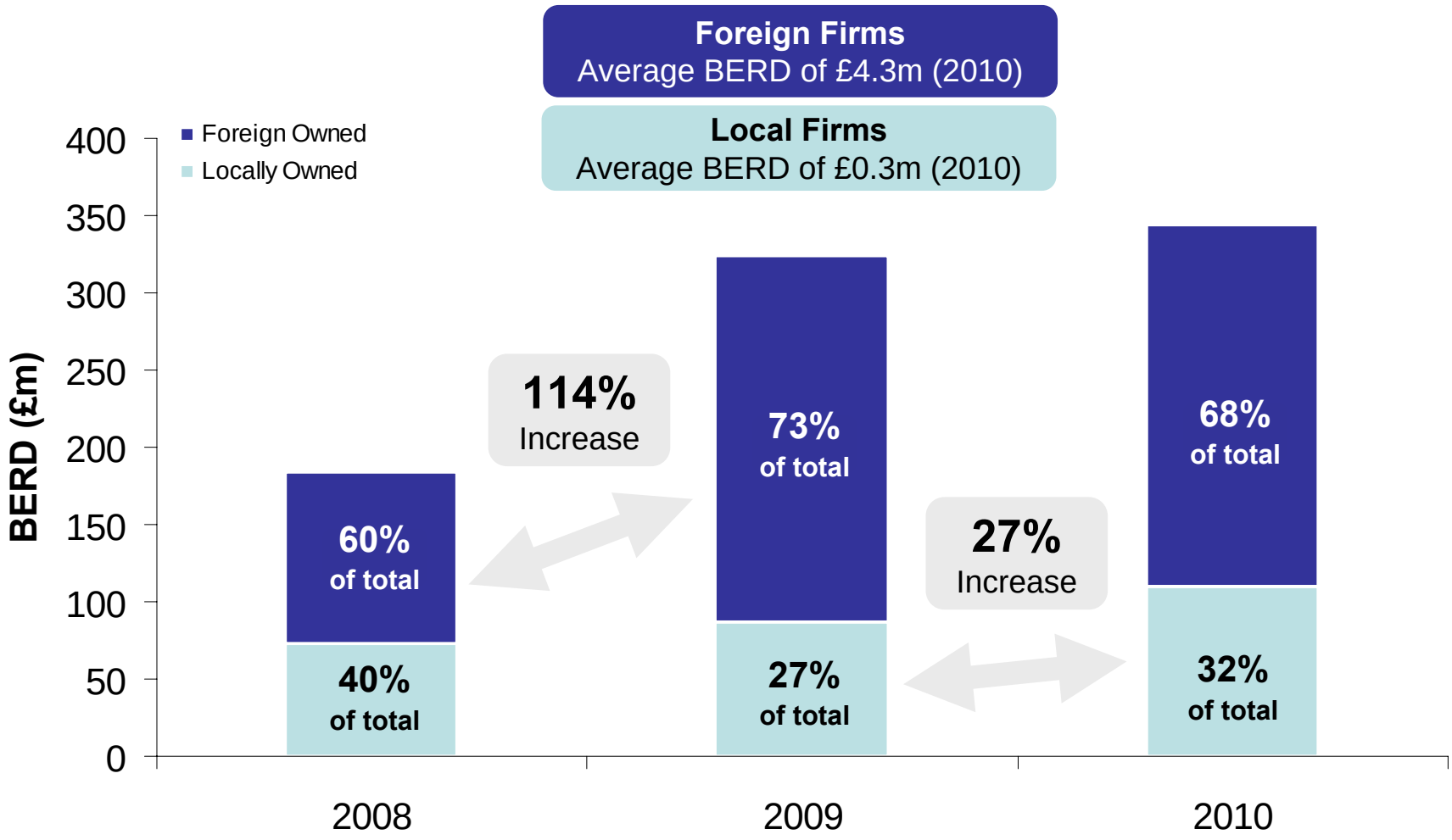
…with both local and foreign owned firms spending more



Source: NISRA R&D Survey

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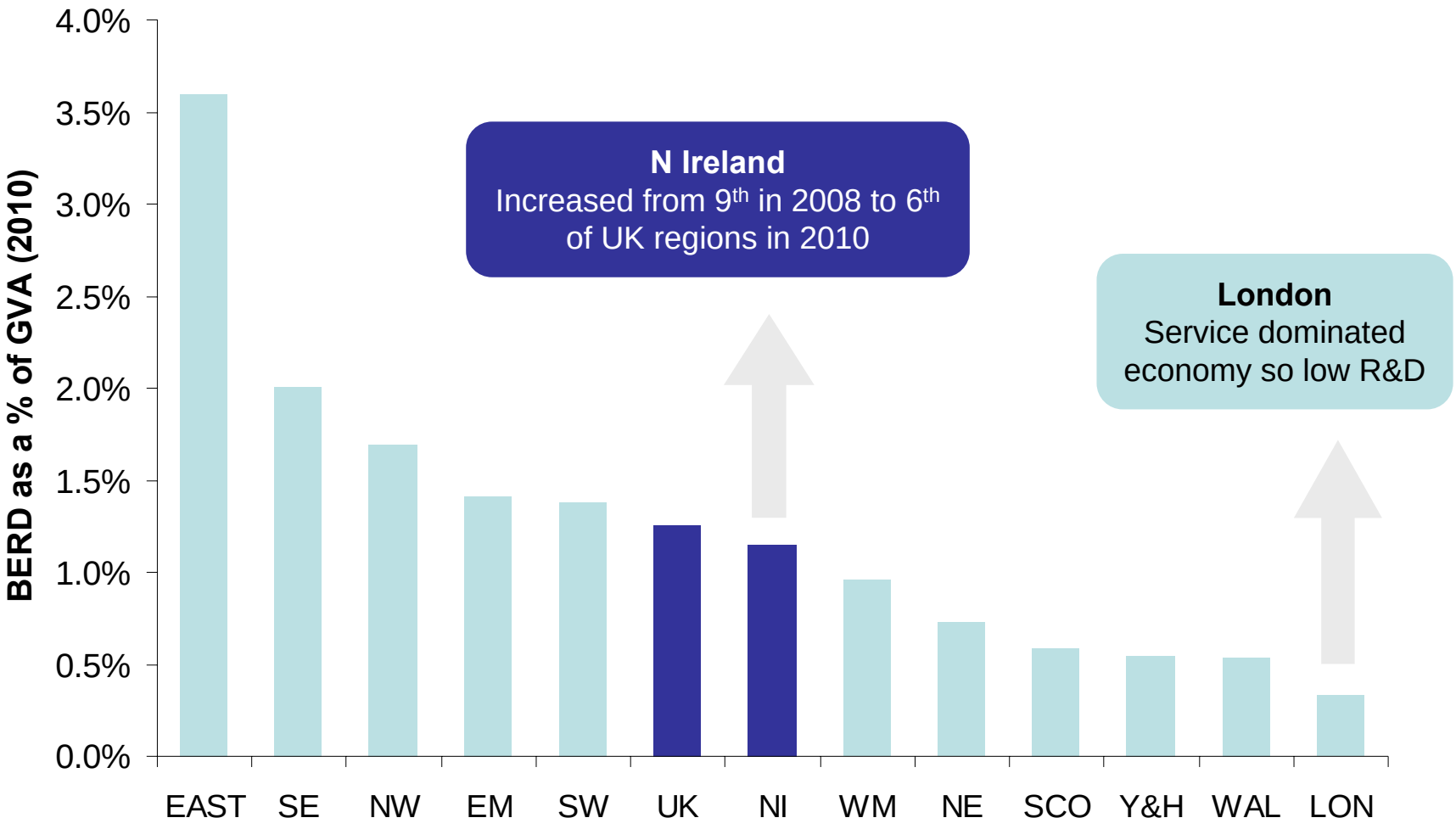
NI BERD is now similar to the UK average…



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

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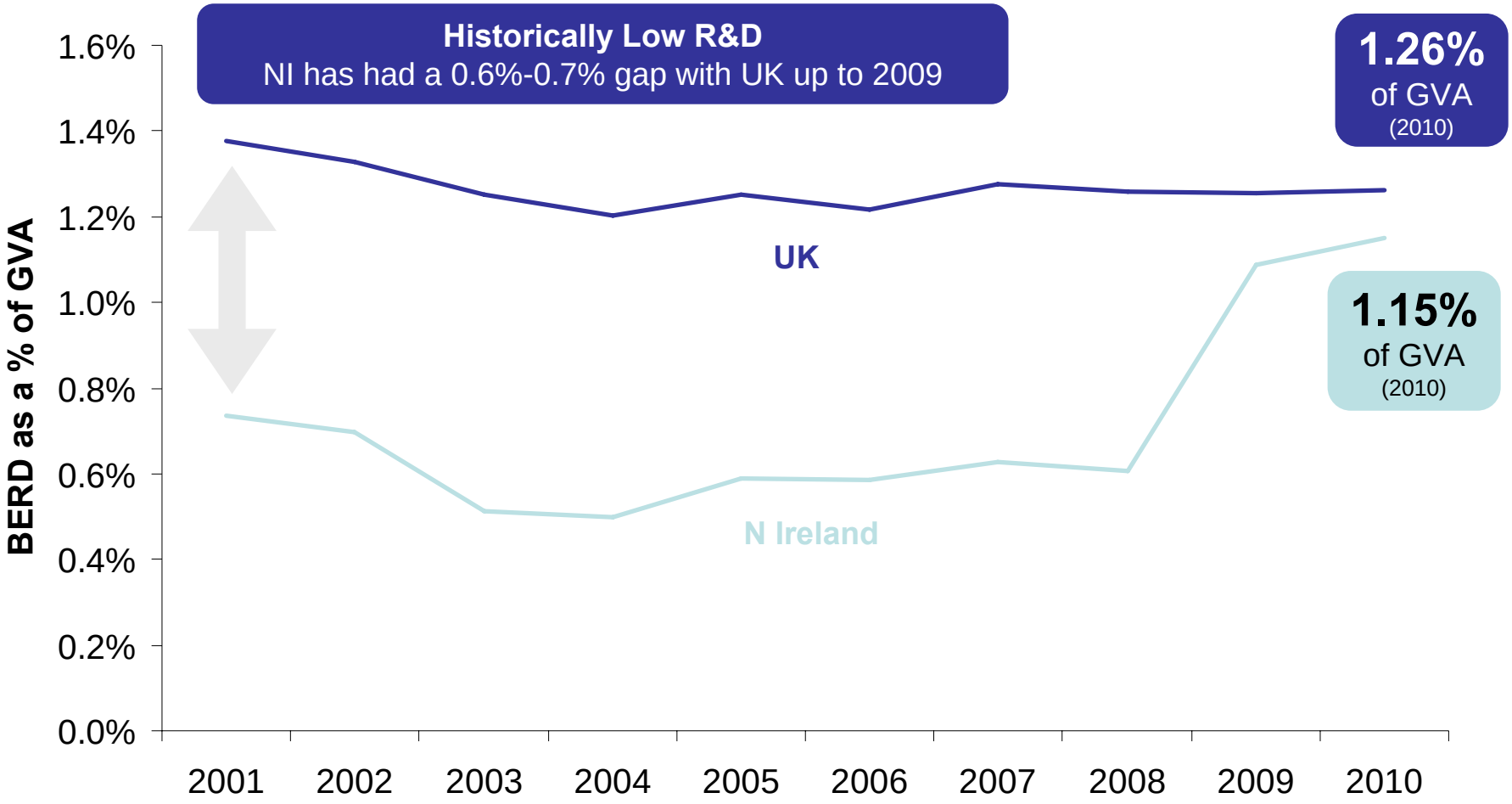
…although this is not indicative of historic performance



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

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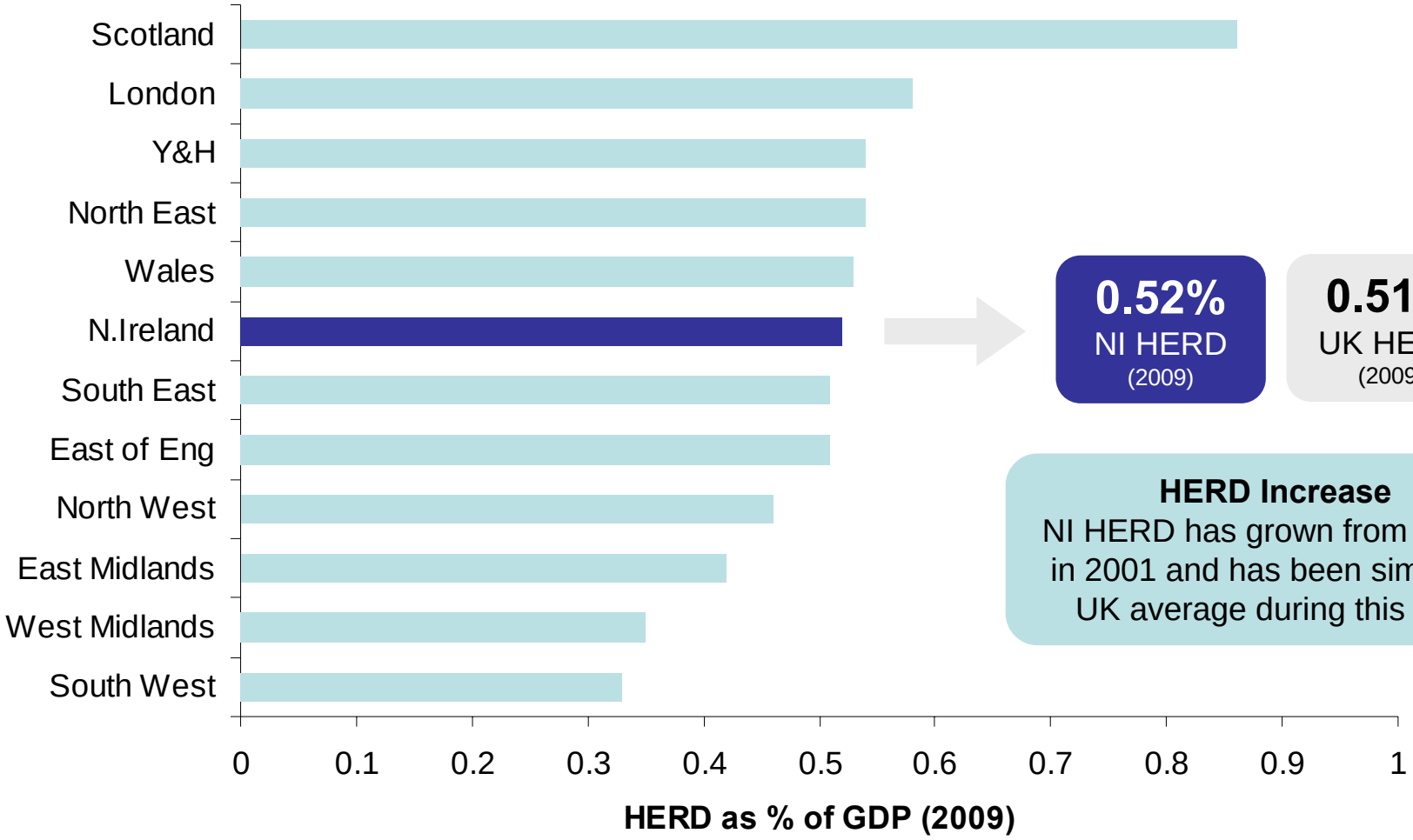
NI Higher Education R&D spend (HERD) is broadly on a par with the rest of the UK…



0.52%
NI HERD
(2009)

0.51%
UK HERD
(2009)

HERD Increase
NI HERD has grown from 0.33% in 2001 and has been similar to UK average during this time

Source: Scottish Government Gross Expenditure on R&D
Note: Regions GDP estimated using UK GVA to GDP ratio

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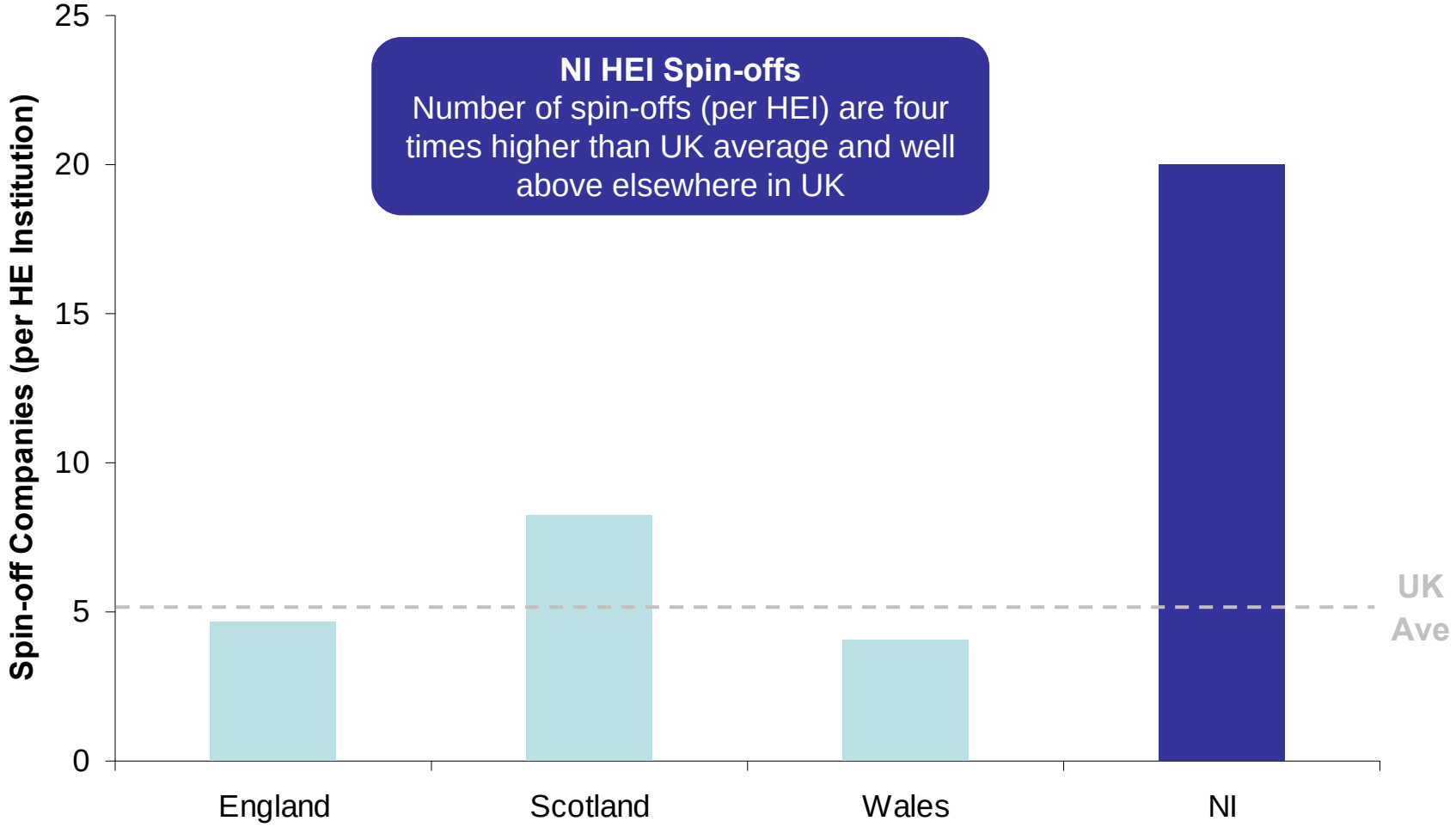
…and compares favourably in terms of spin-off companies from Higher Education Institutions



Source: UK Higher Education Business and Community Interaction Survey
Note: Includes all institutions that responded to HEBCI survey

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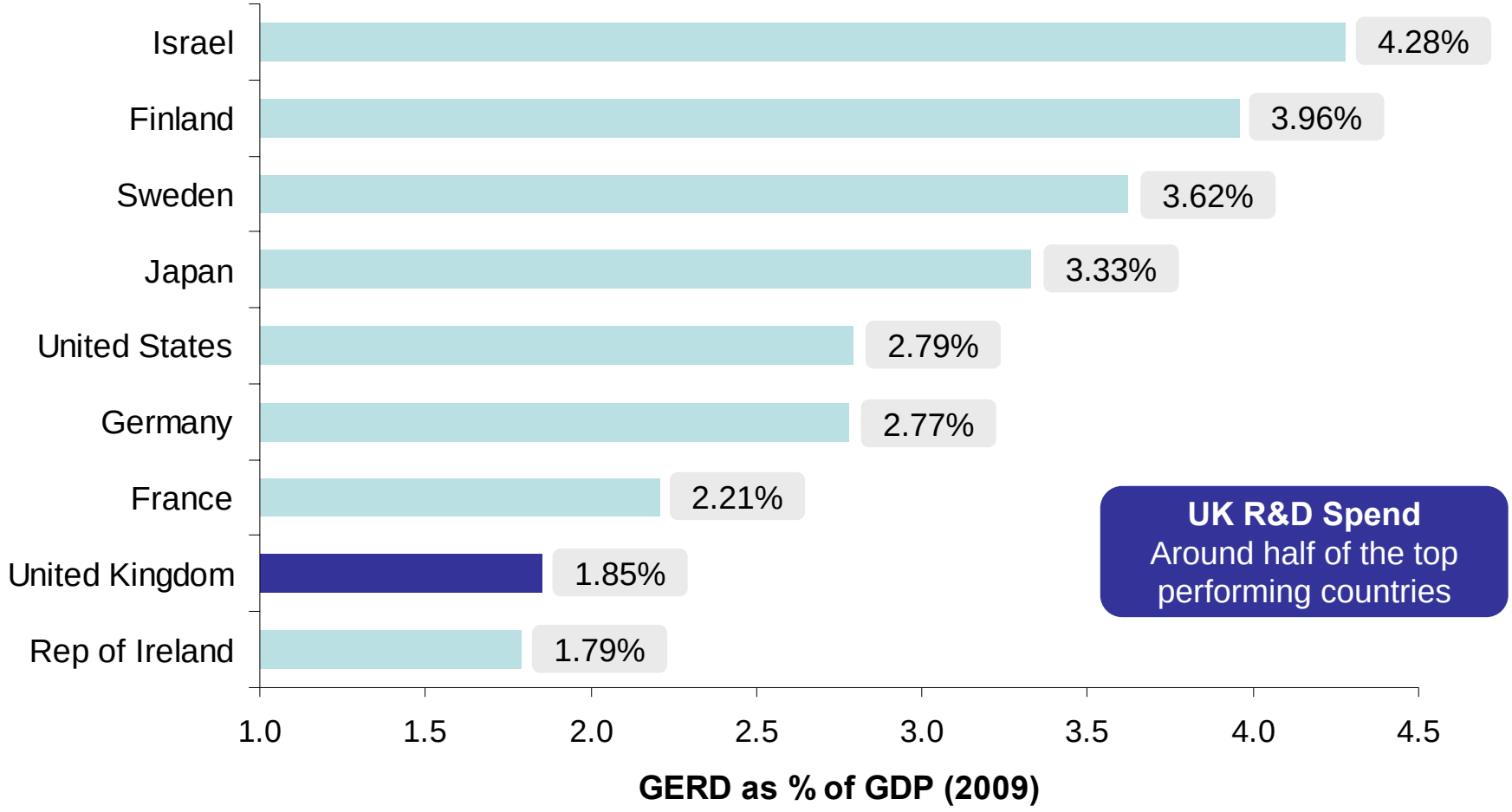
While total R&D spend is now close to the UK average, this is not good benchmark internationally



Source: OECD Factbook

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

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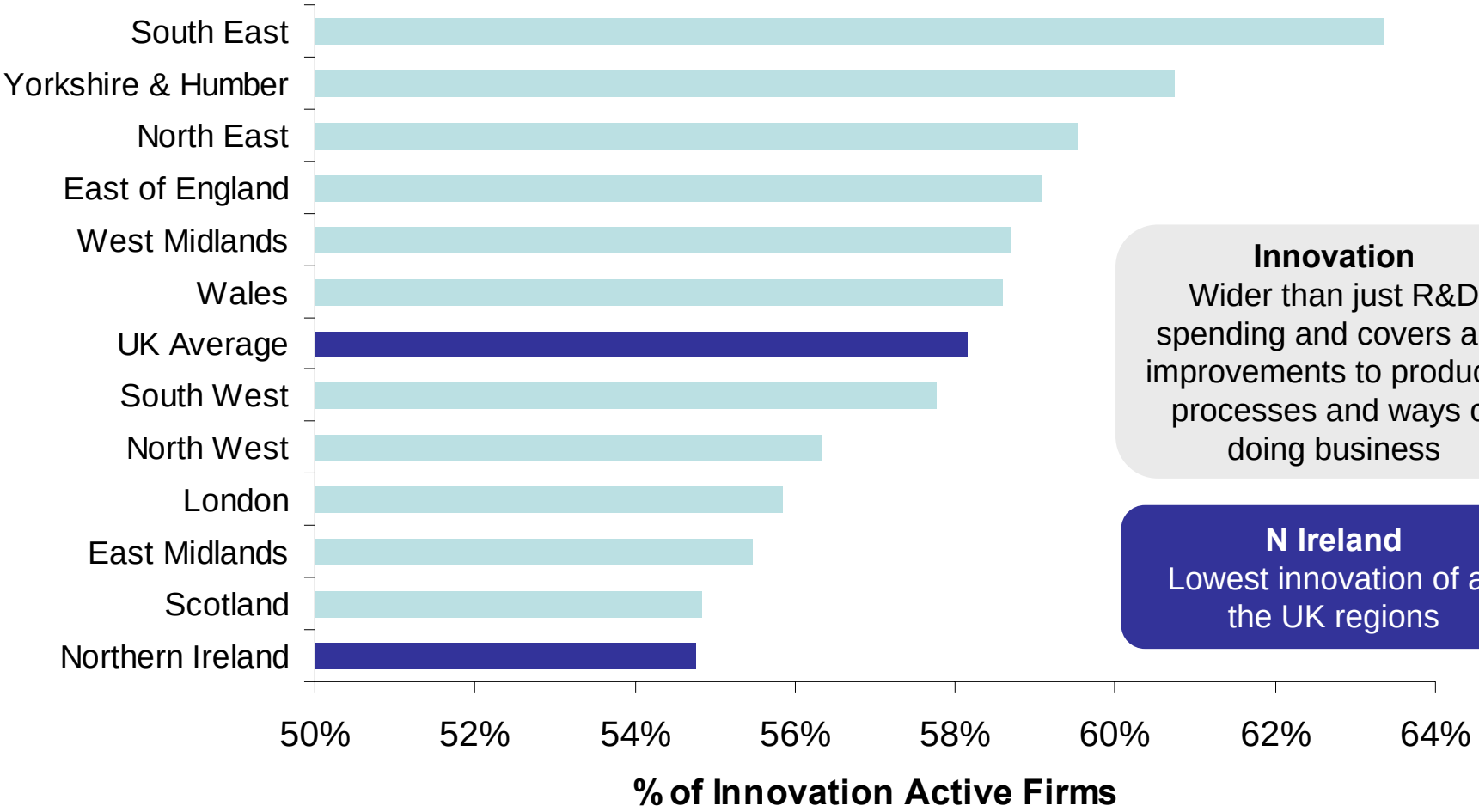
Overall innovation activity in NI is low…



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

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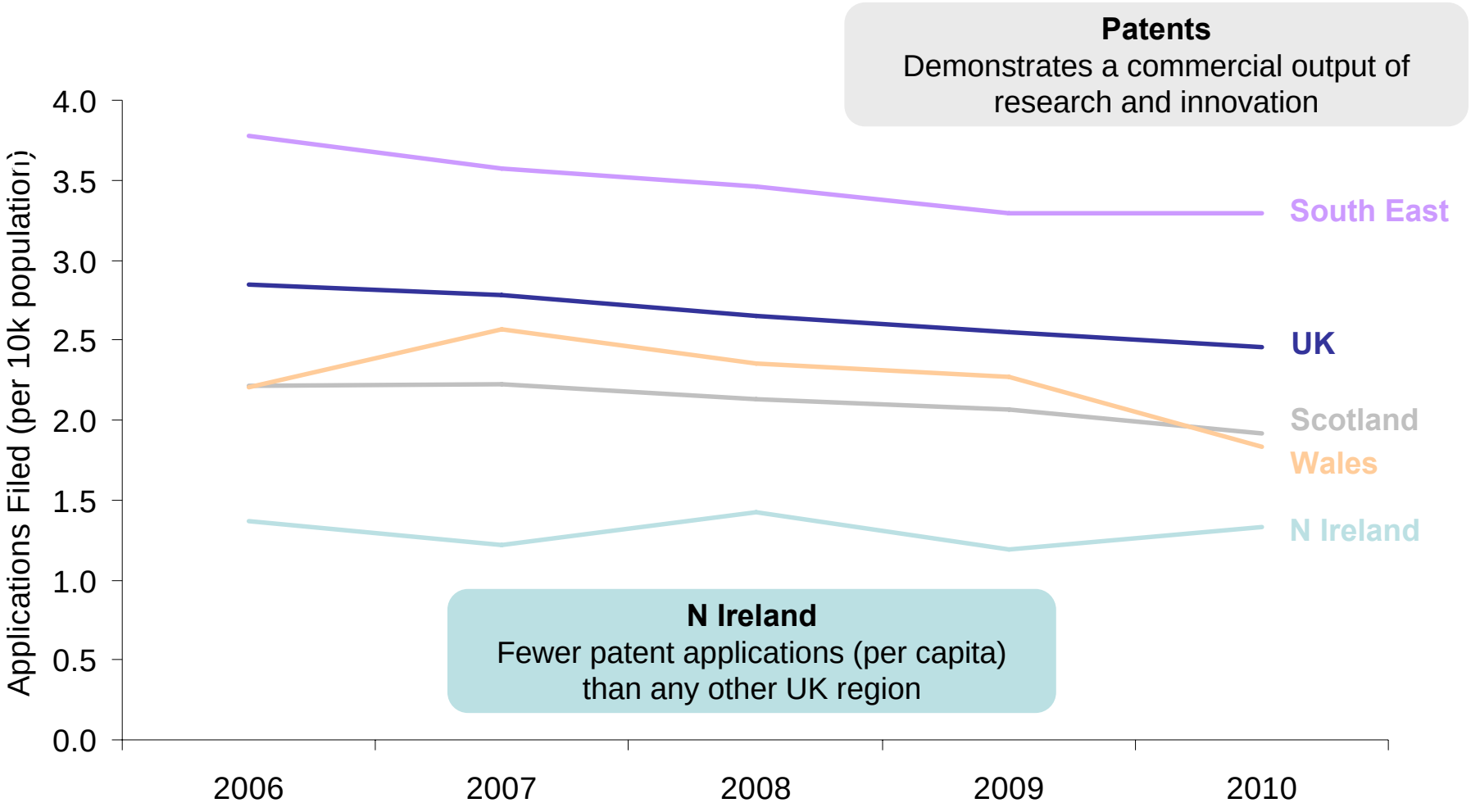
…as is the number of patent applications



Source: Intellectual Property Office

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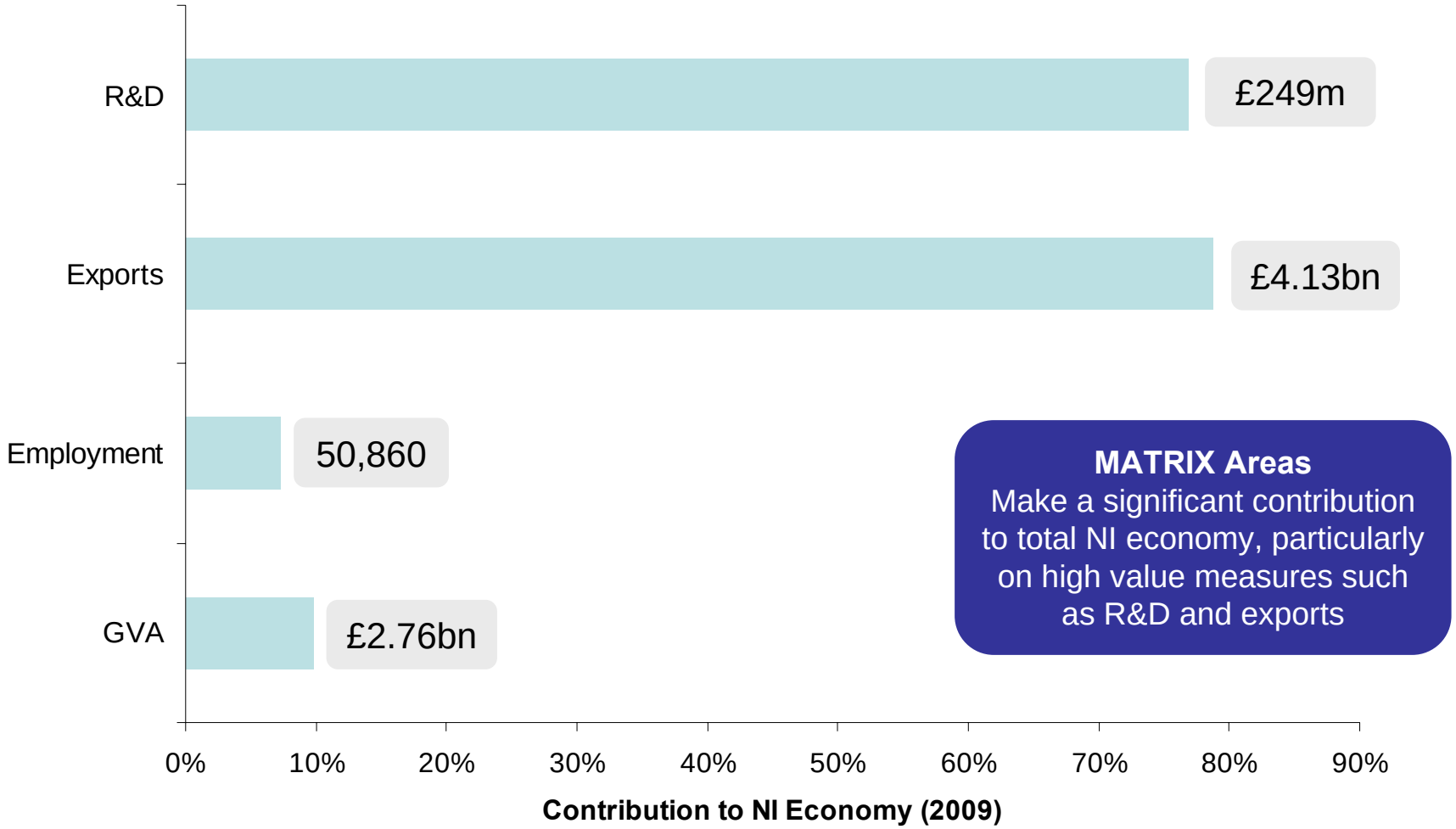
The high technology niche market opportunities identified by MATRIX already contribute significantly to the economy…



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

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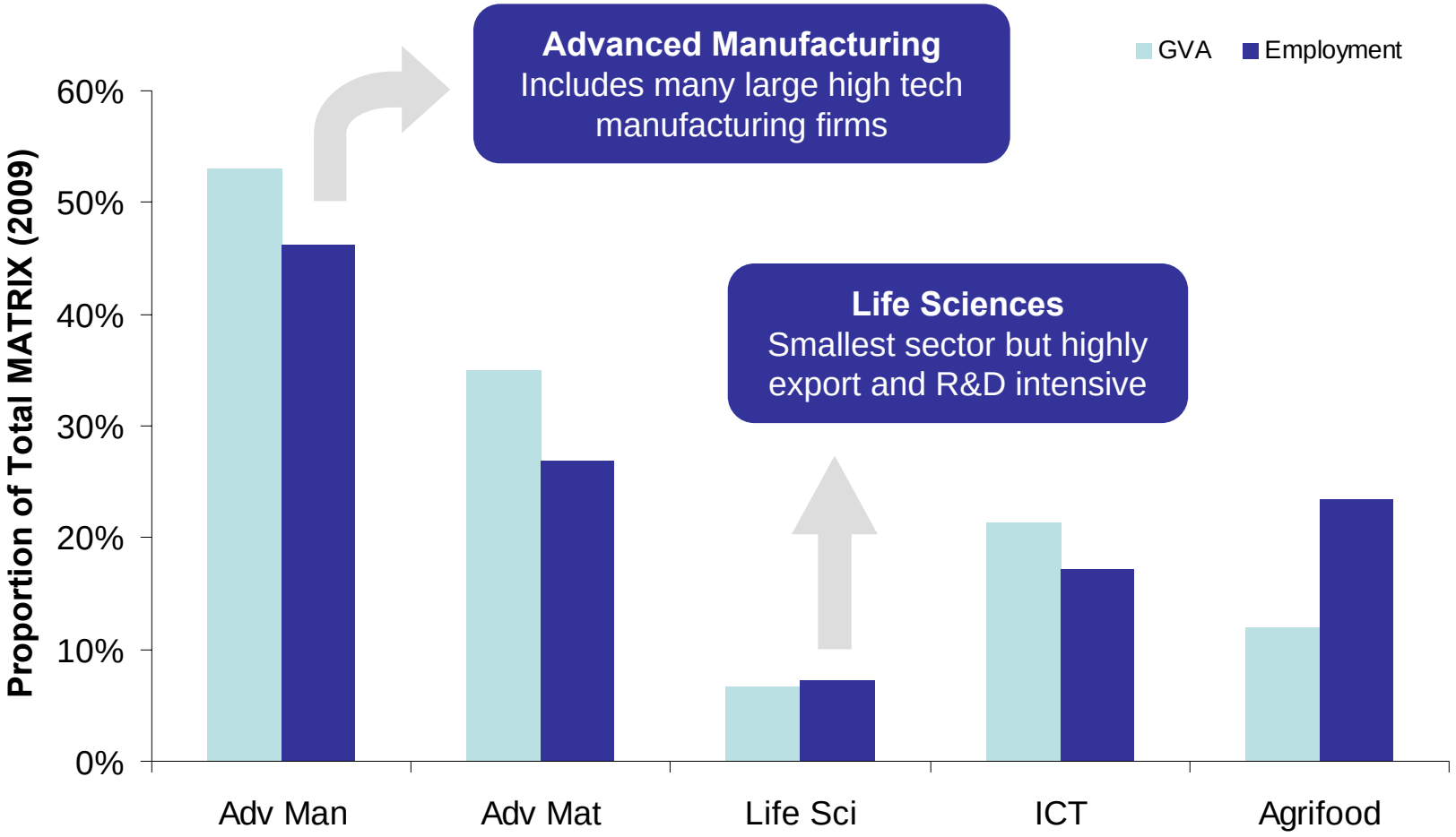
…with advanced manufacturing representing the largest of the five technology areas



Source: DETI Analysis

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

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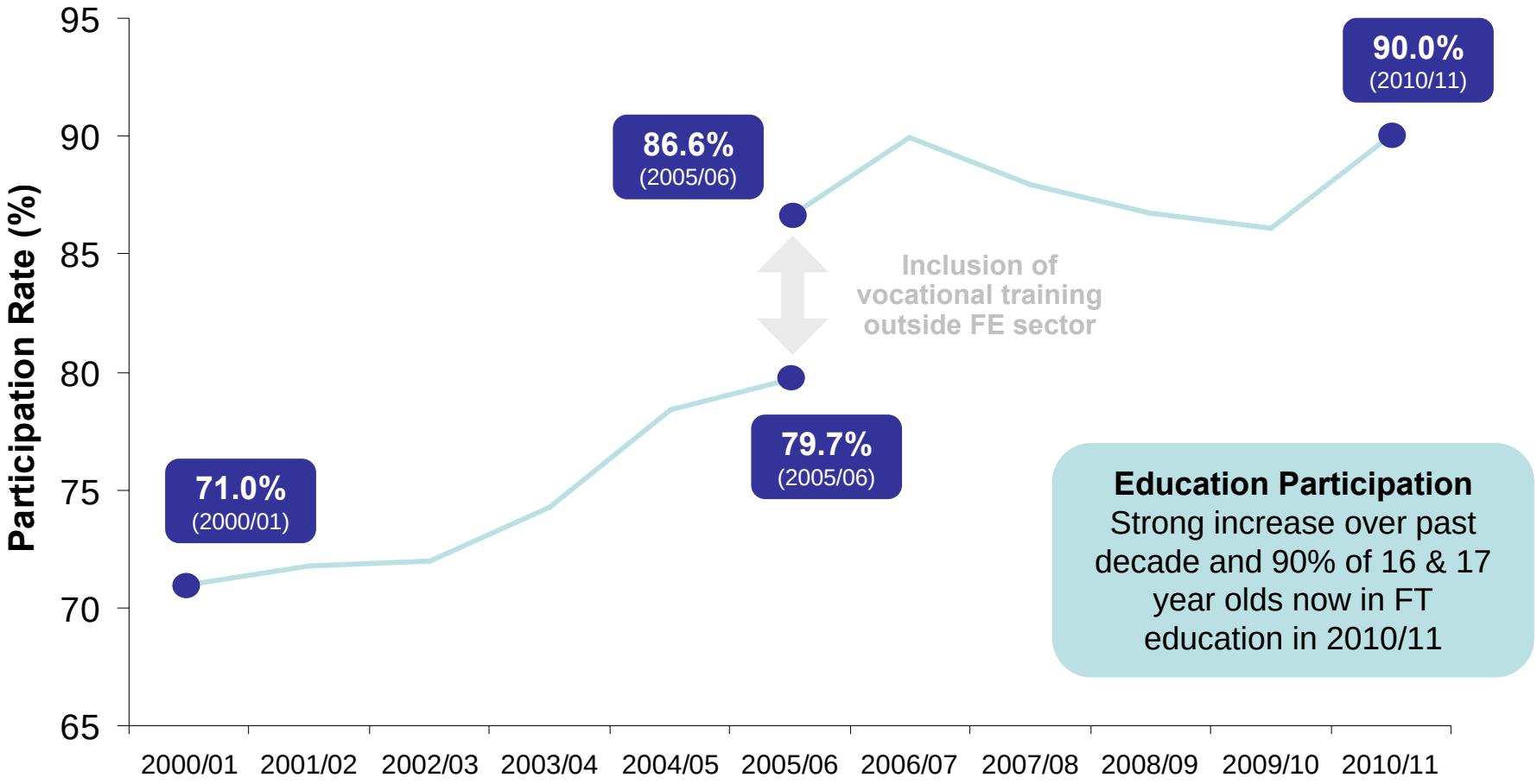
B Skills and Education

More 16 and 17 year olds have been attending FT education…



Source: DE Participation Statistics

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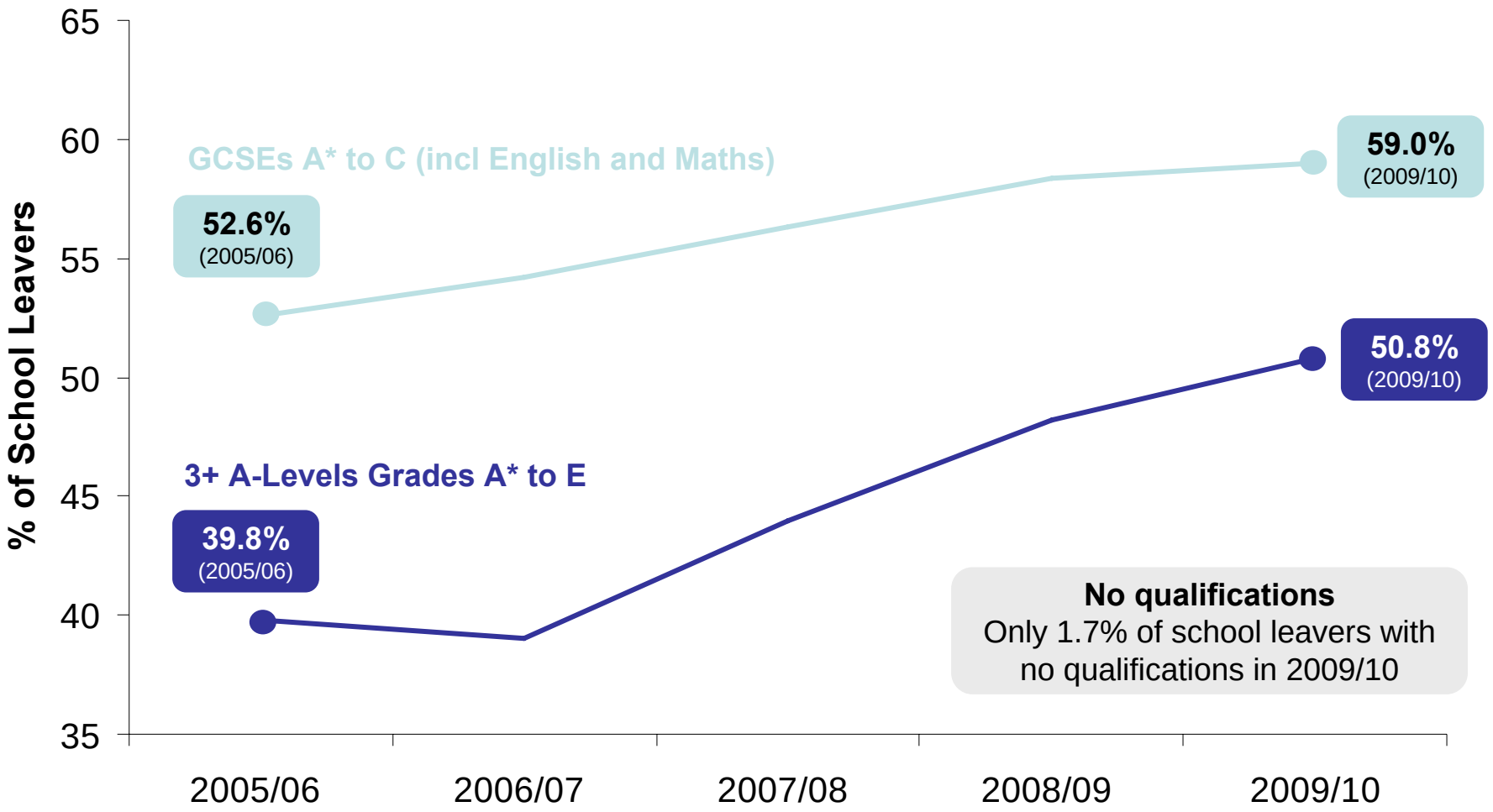
…and increasing numbers of school leavers have been attaining GCSEs and A-Levels



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

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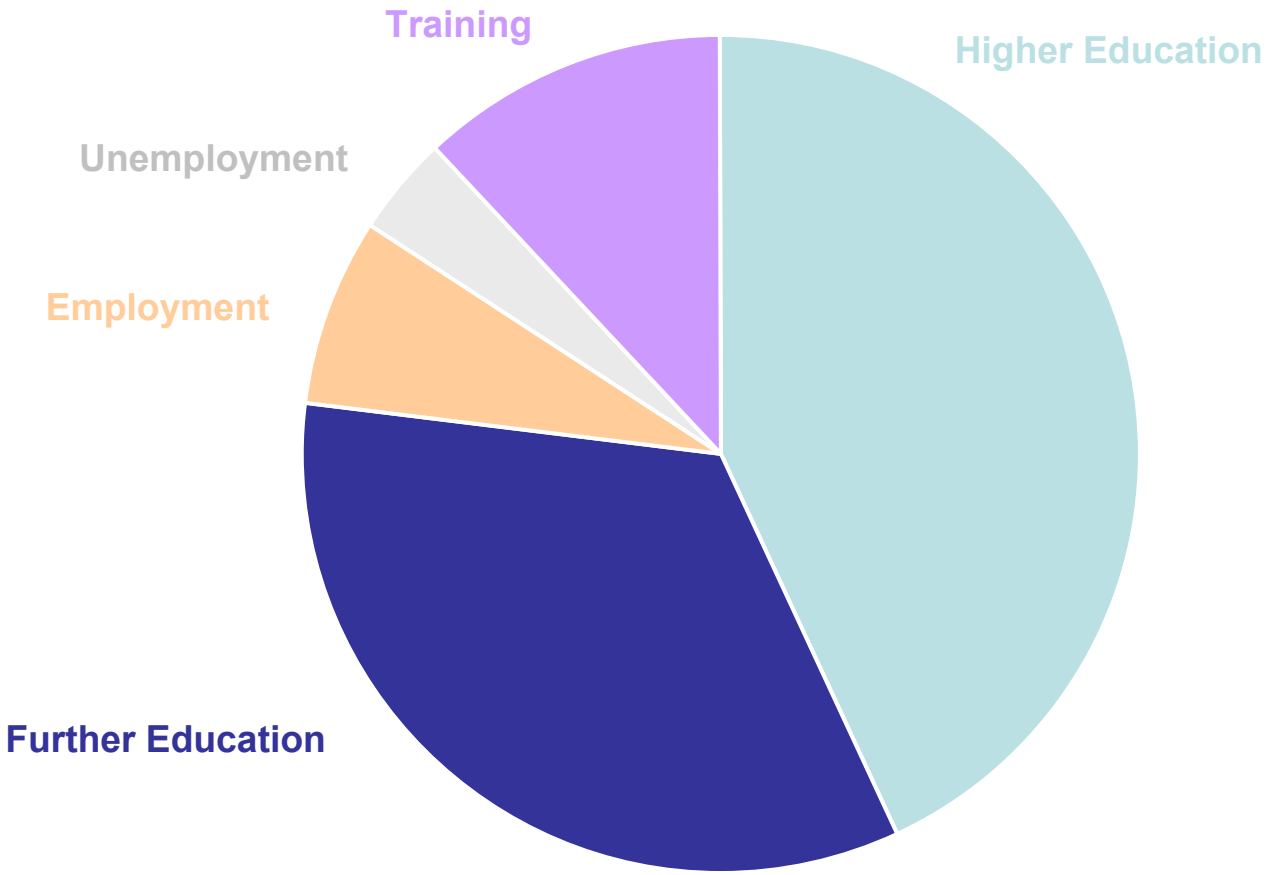
The majority of pupils continue with education and training in some form when they leave school…



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%

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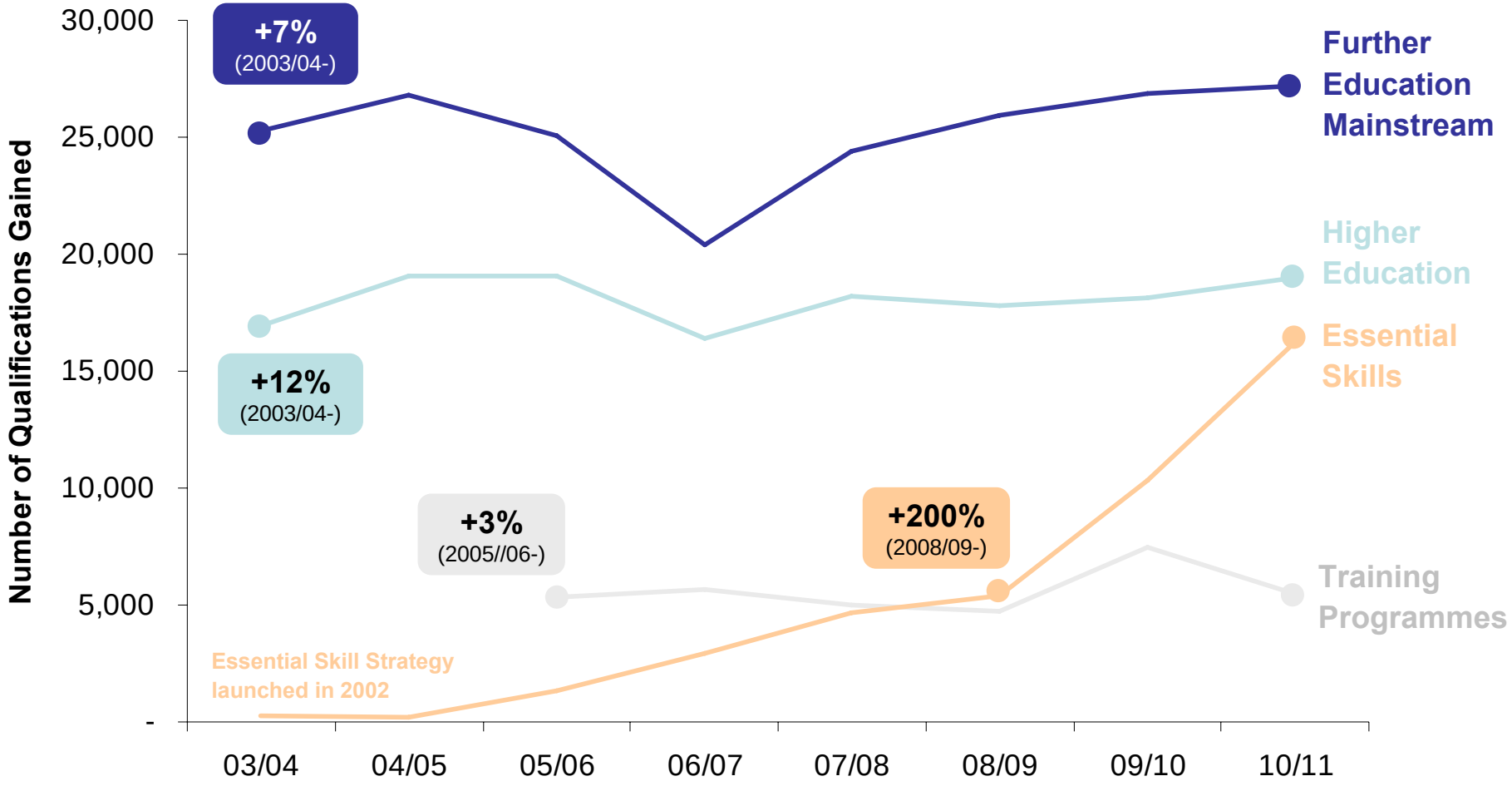
…and increasing numbers of qualifications are being gained through training, essential skills, FE and HE



Source: FELS, HESA, DEL, Awarding Organisations

Note: FE data for 2006/07 is incomplete hence apparent fall

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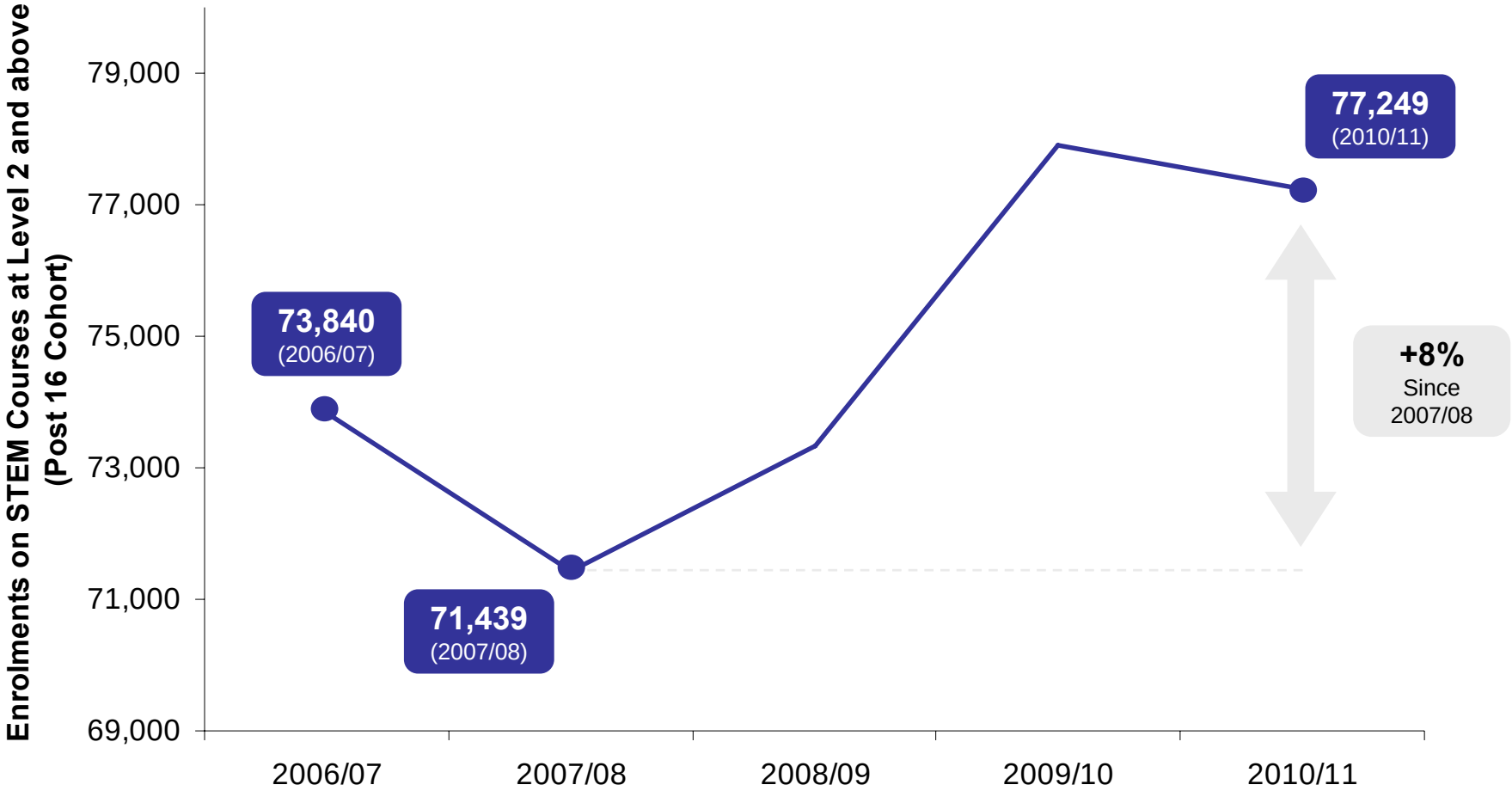
The number of enrolments in STEM subjects has also been increasing after a period of decline



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

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

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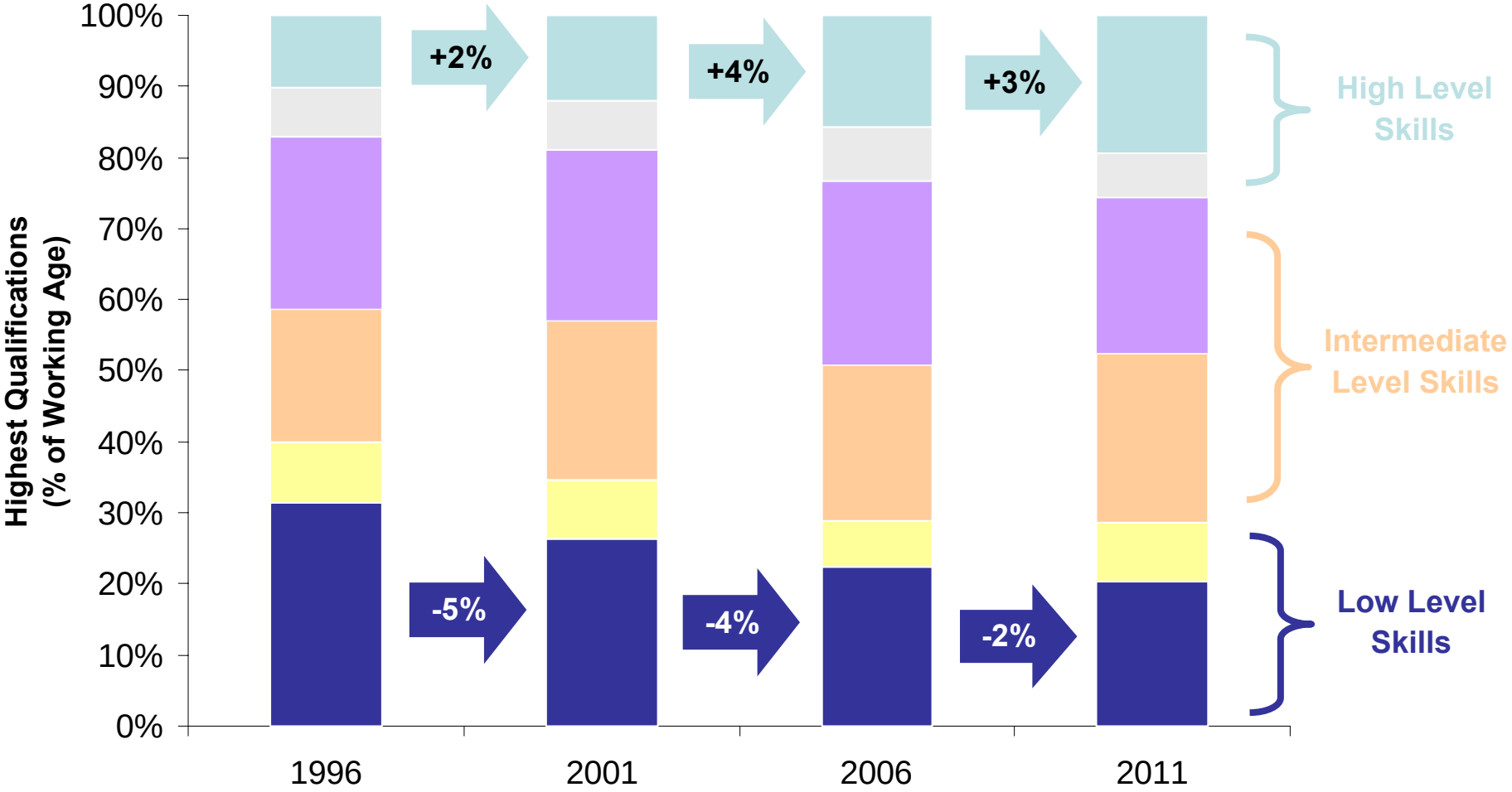
The working age skills profile has been improving



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)

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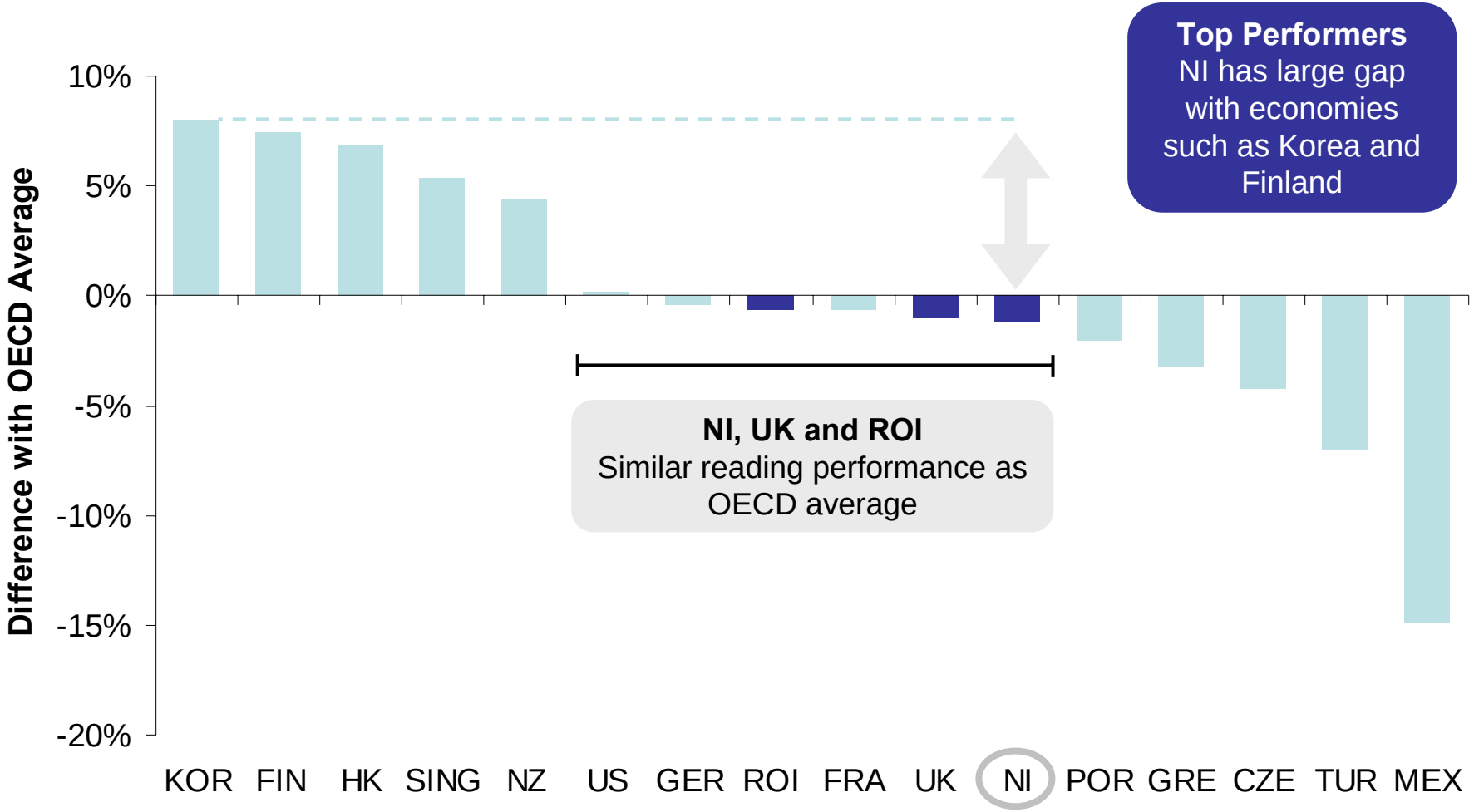
Comparing internationally, NI literacy levels of 15 year olds are similar to the OECD average in terms of reading…



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

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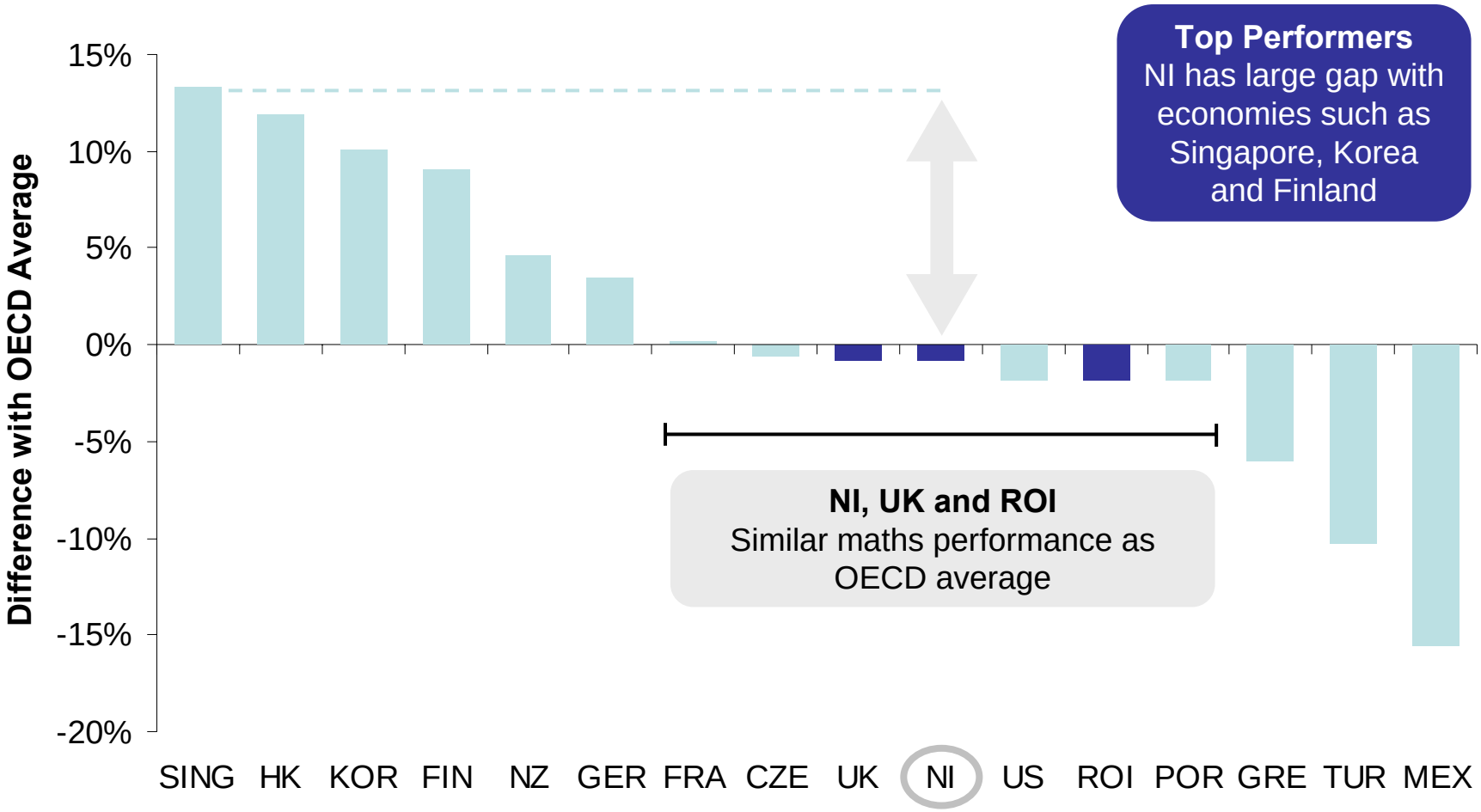
…mathematics…



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

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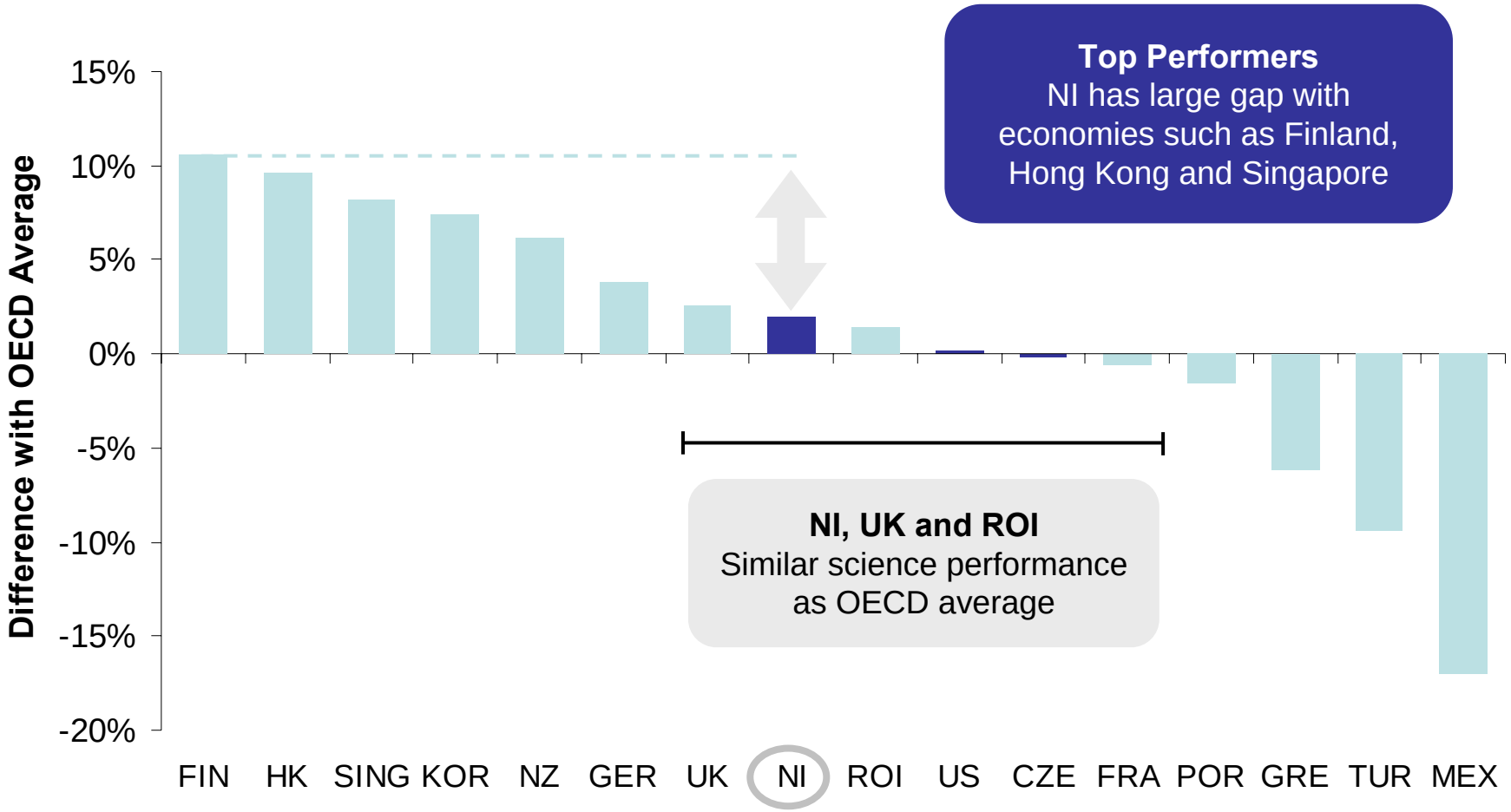
…and science…



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

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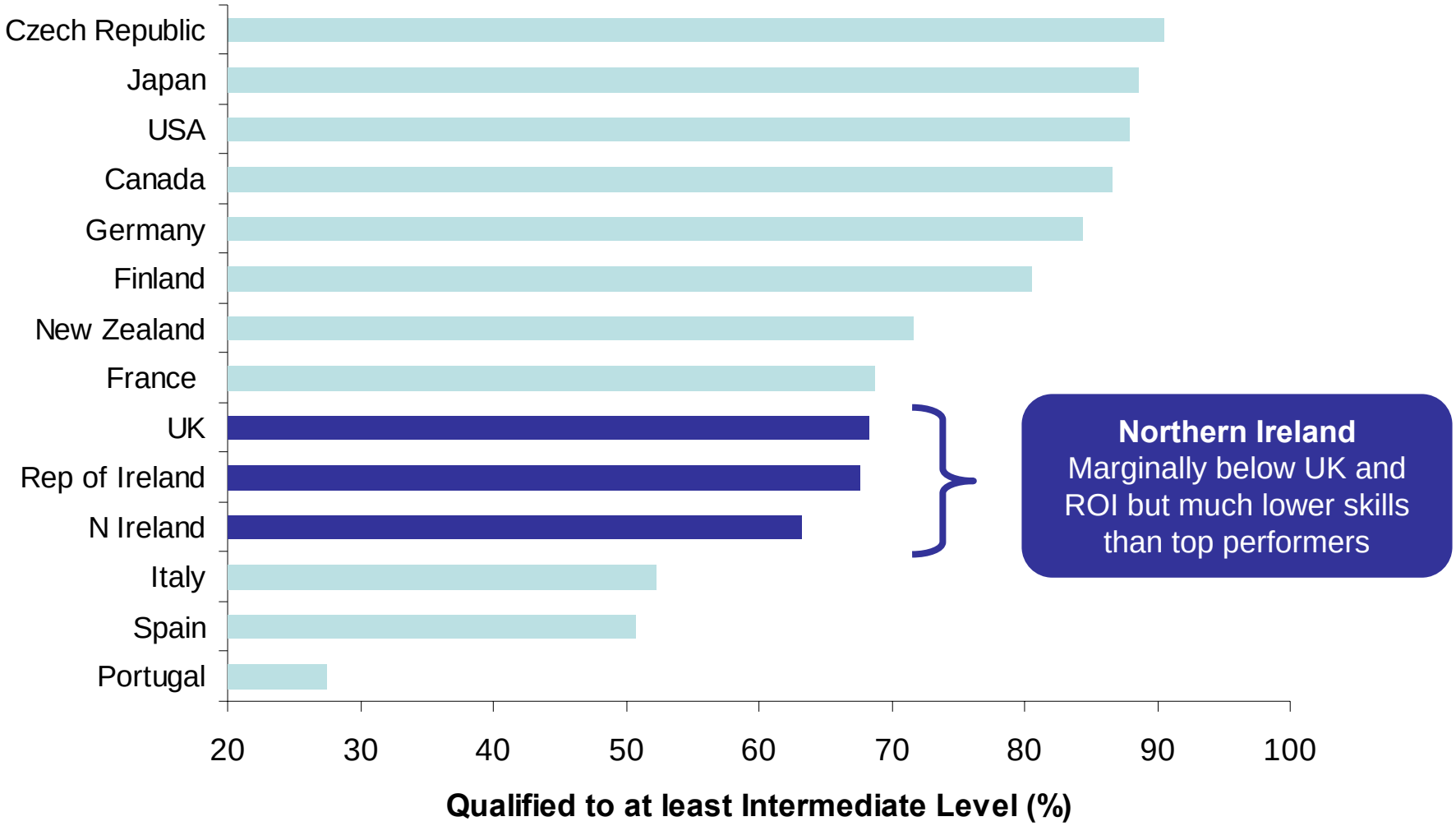
…although the overall skills profile of NI remains weak when compared internationally…



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

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

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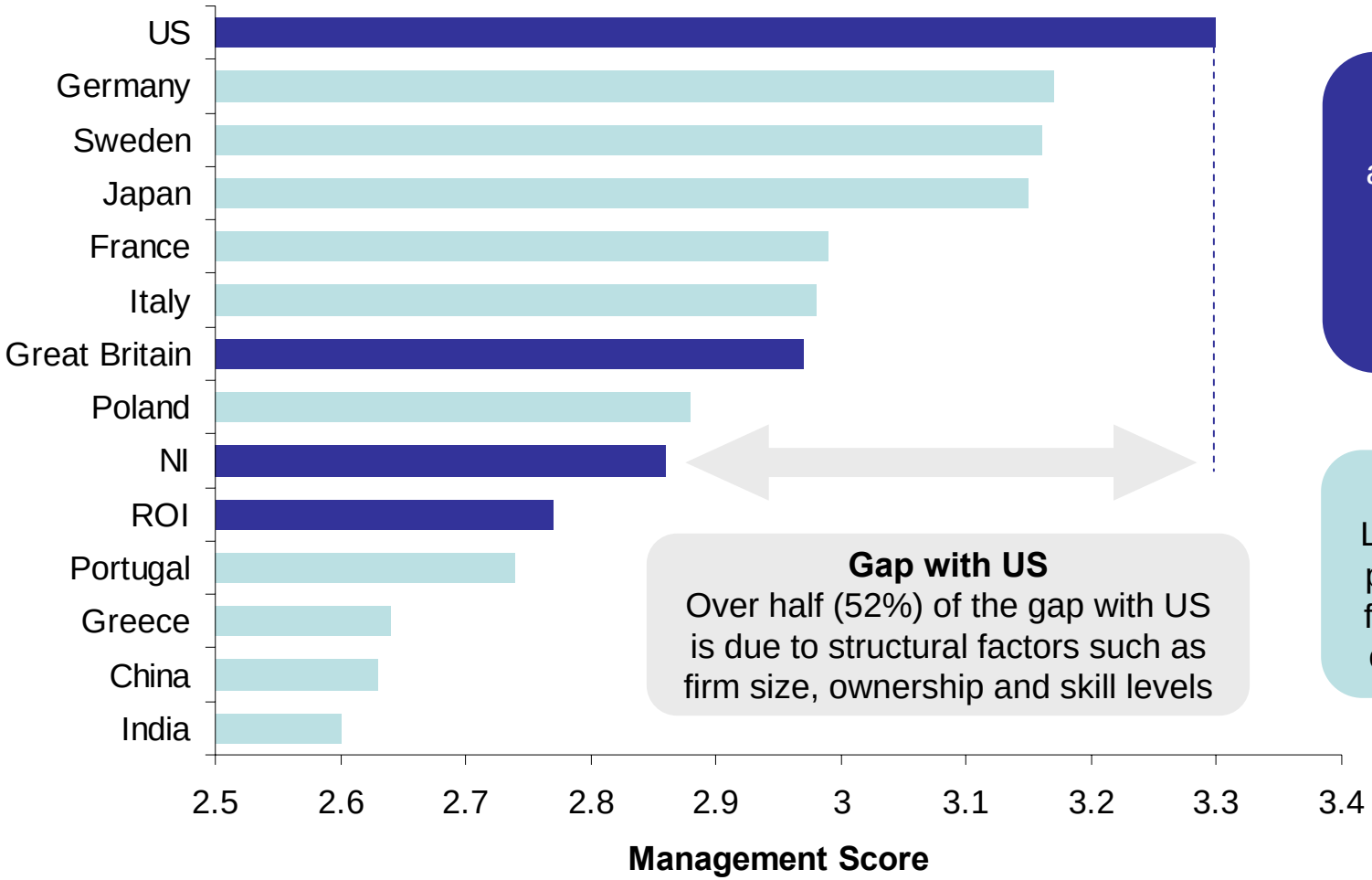
…and management and leadership skills (which are important for competitiveness) are below top performing countries



N Ireland
Similar to ROI and GB but well below top performers on management practices

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

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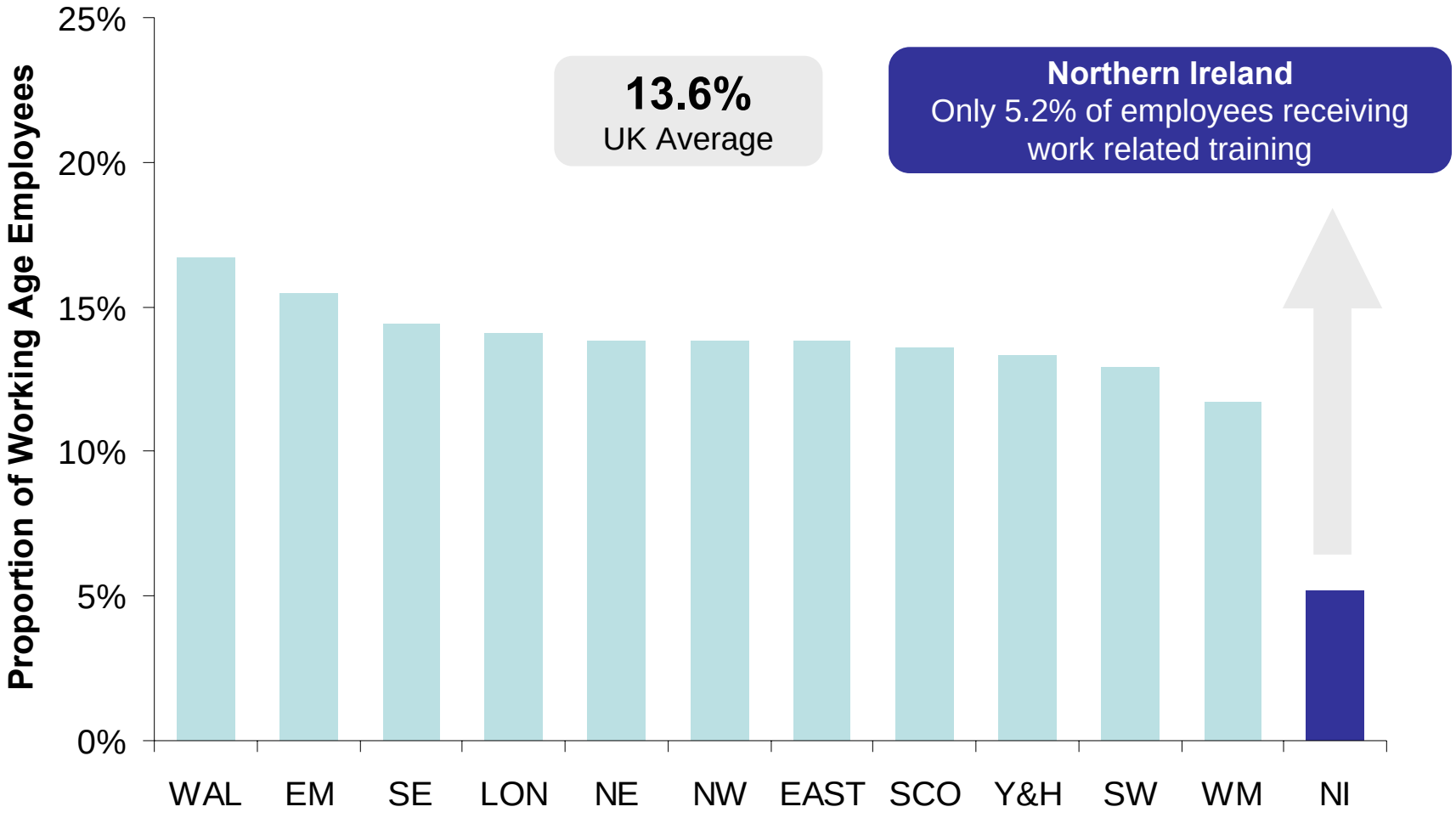
Relatively little job-related training is taking place in NI compared with UK regions



Source: NISRA Labour Force Survey

Note: April – June 2011

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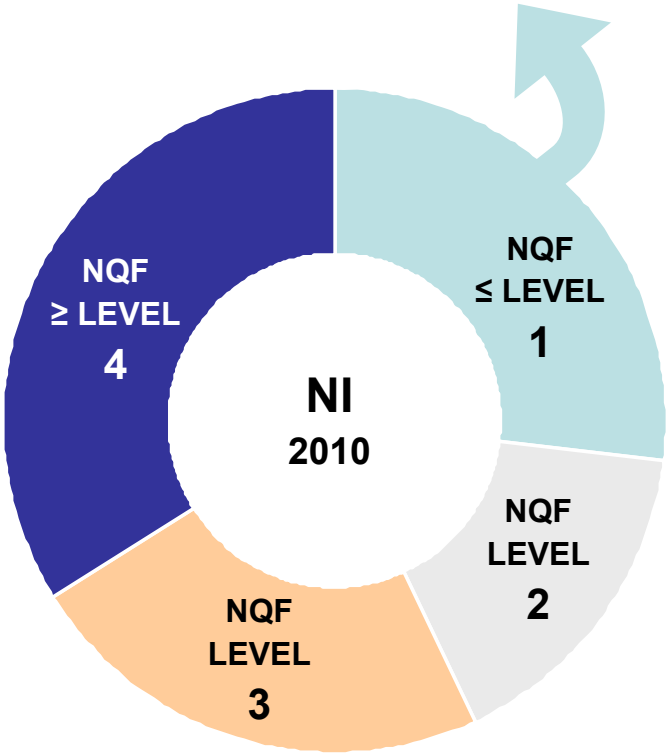
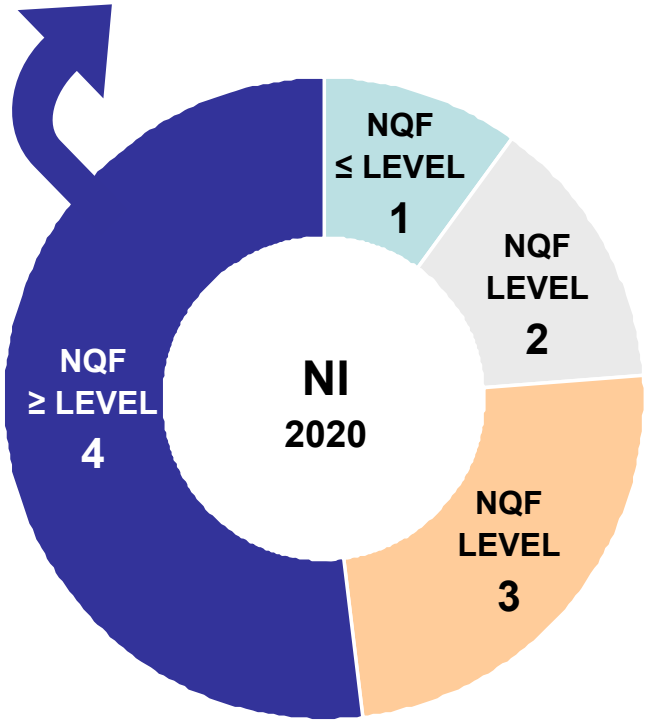
Looking forward, the demand for higher level skills is expected to increase significantly

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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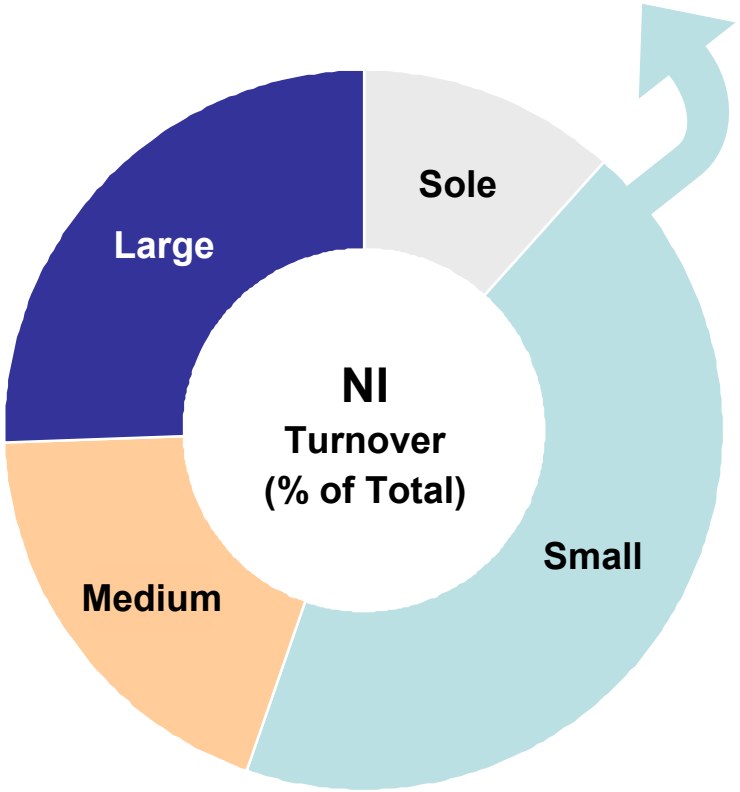
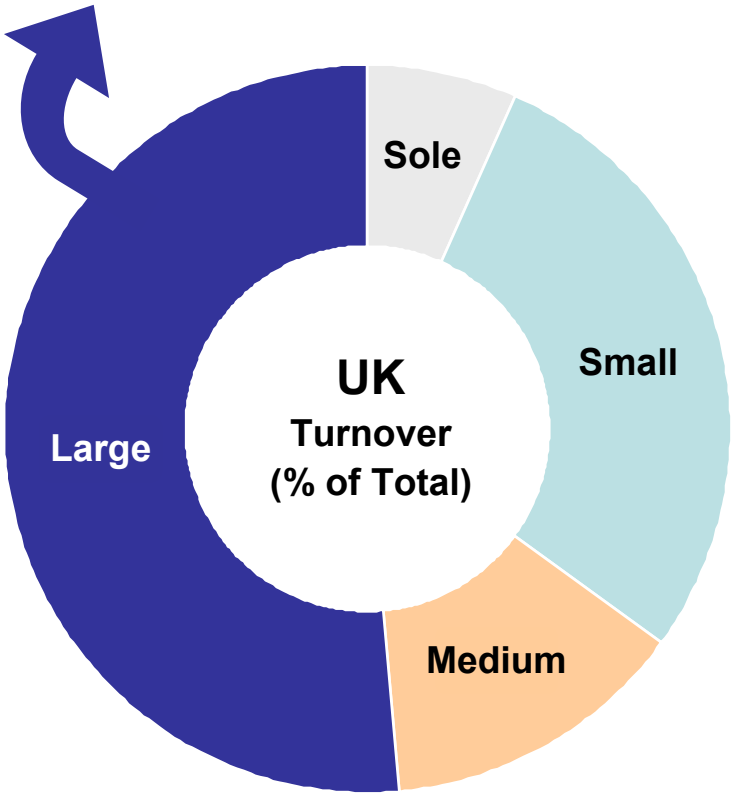
C Business Growth

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





Source: BIS Business Population Estimates 2011

Note: Sole (0 employees), Small (1-49), Medium (50-249), Large (250+)

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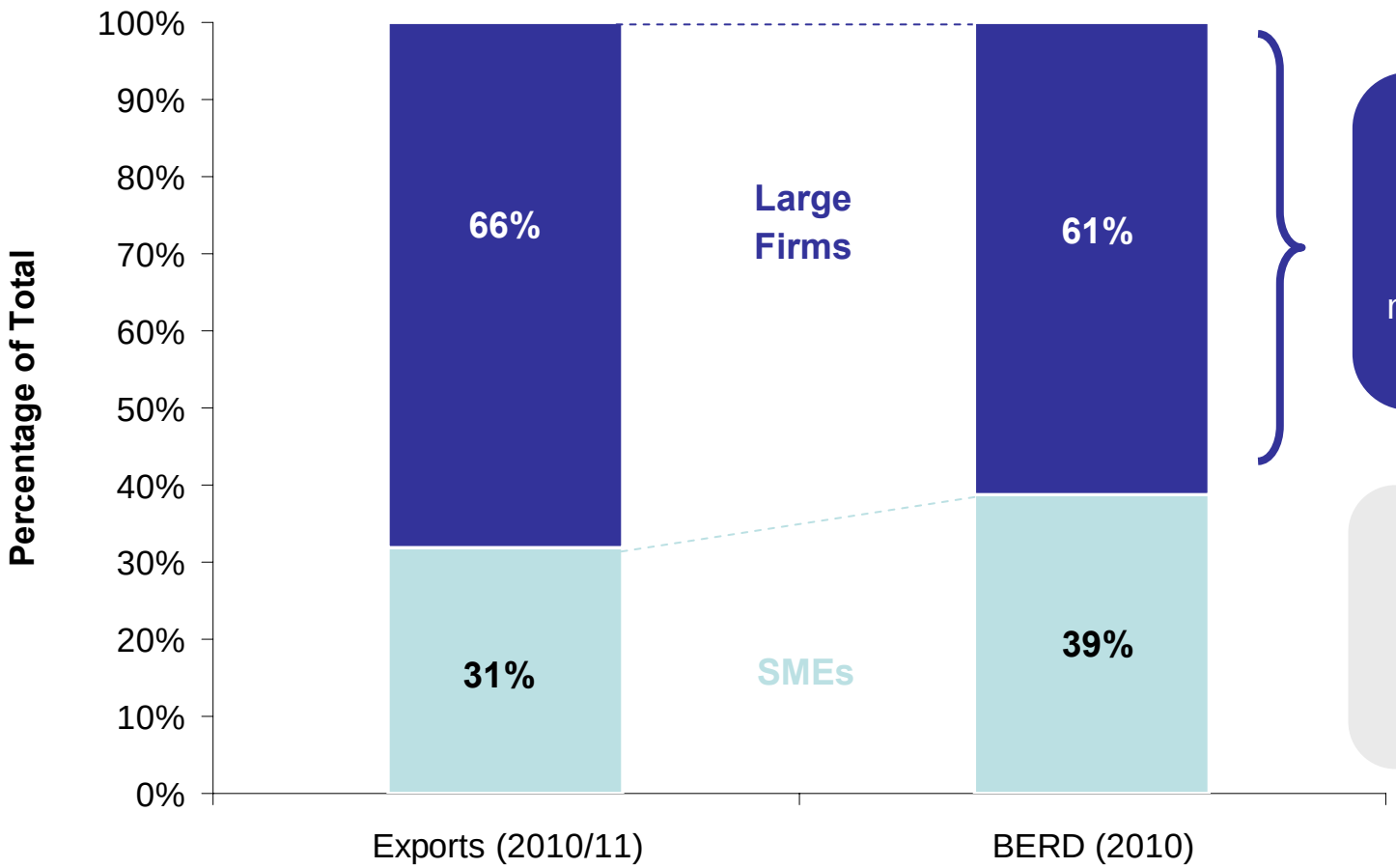
…which contribute the majority of high value activities such as exports and R&D



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

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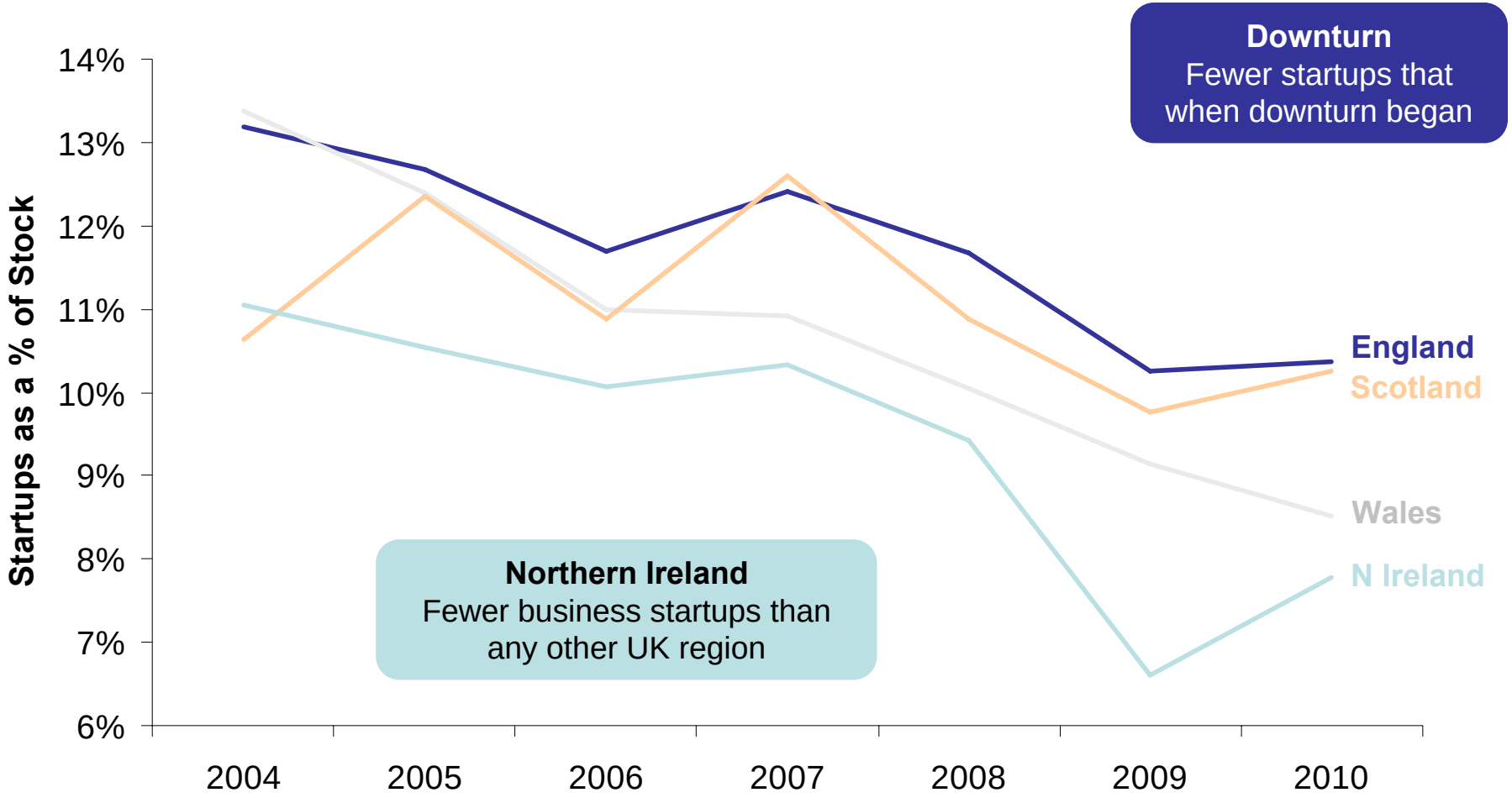
NI has fewer business startups than elsewhere in the UK…



Source: ONS Business Demography

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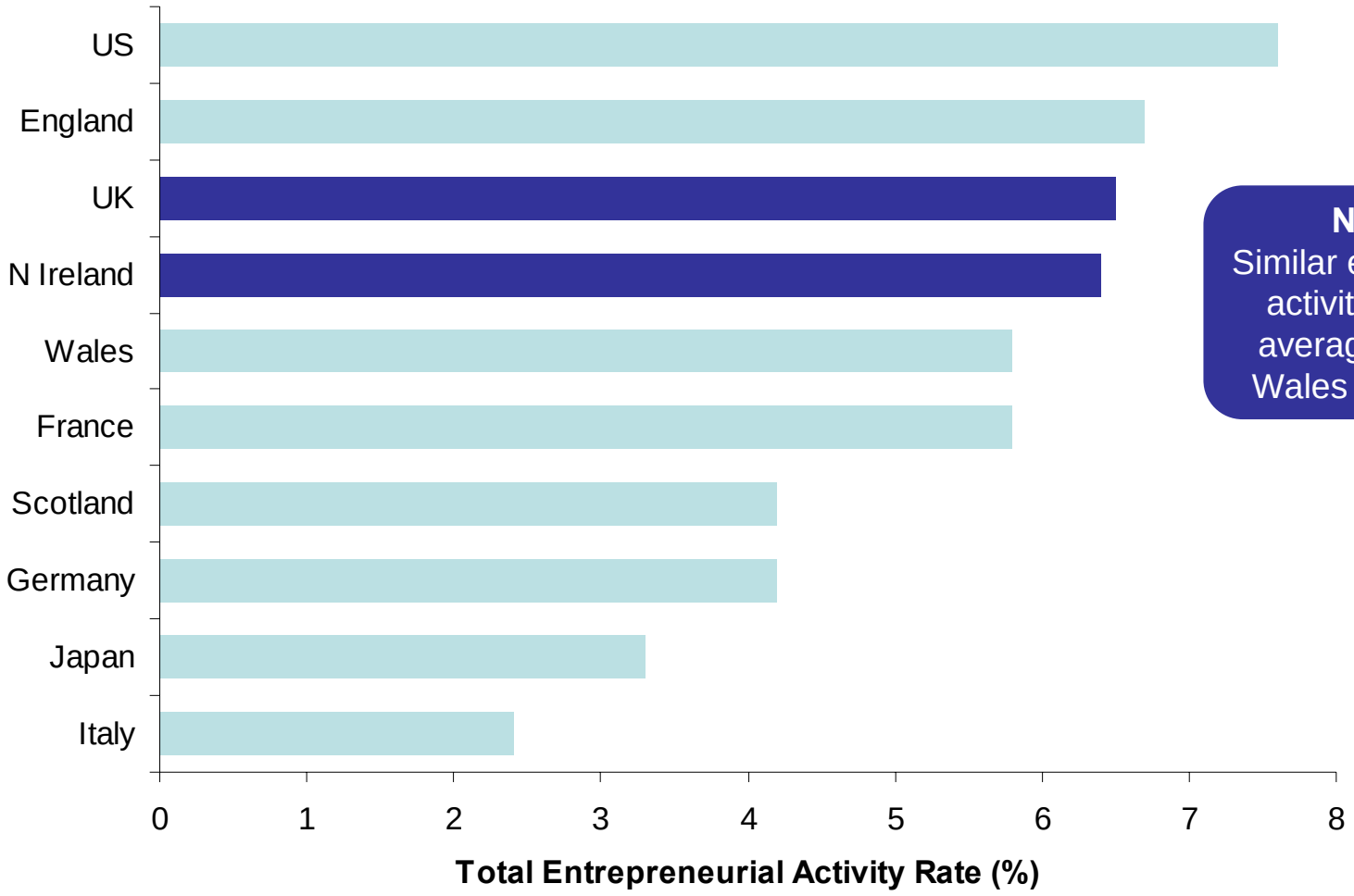
…although entrepreneurial activity is similar …



N Ireland
Similar entrepreneurial activity rate as UK average and above Wales and Scotland

Source: Global Entrepreneurship Monitor 2010

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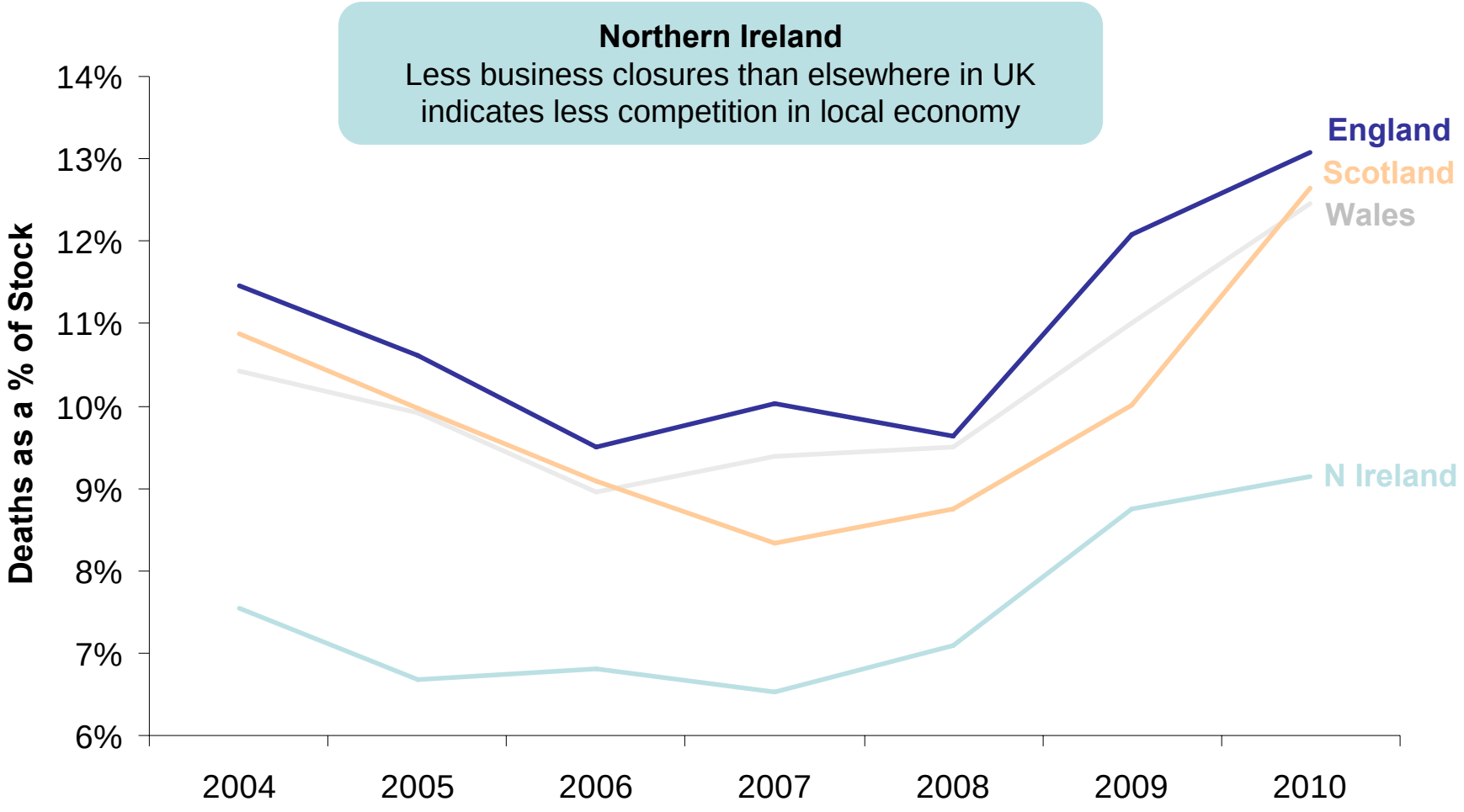
…and there are fewer business closures



Source: ONS Business Demography

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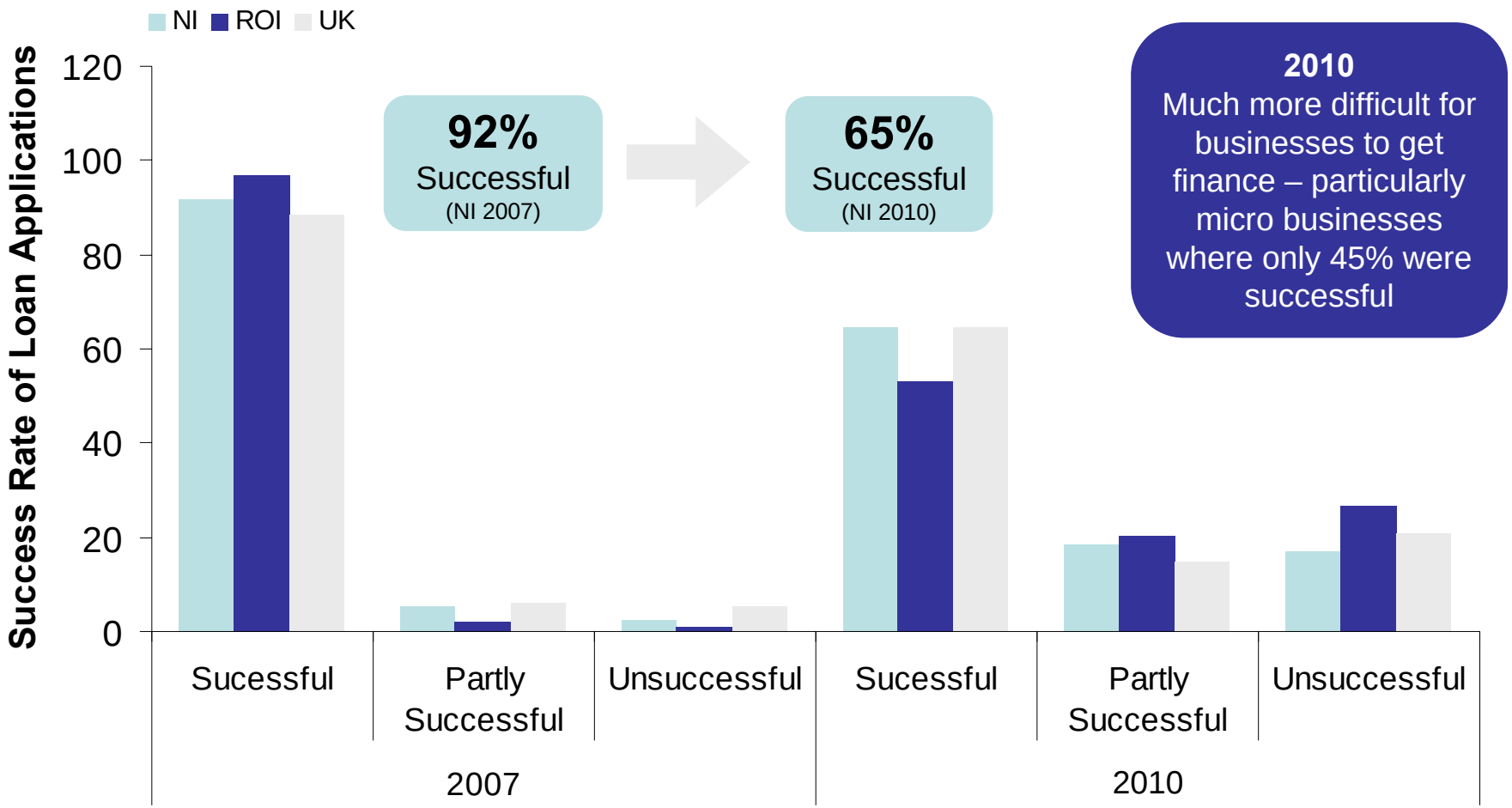
Access to finance is a key constraint facing businesses…



Source: NISRA Access to Finance

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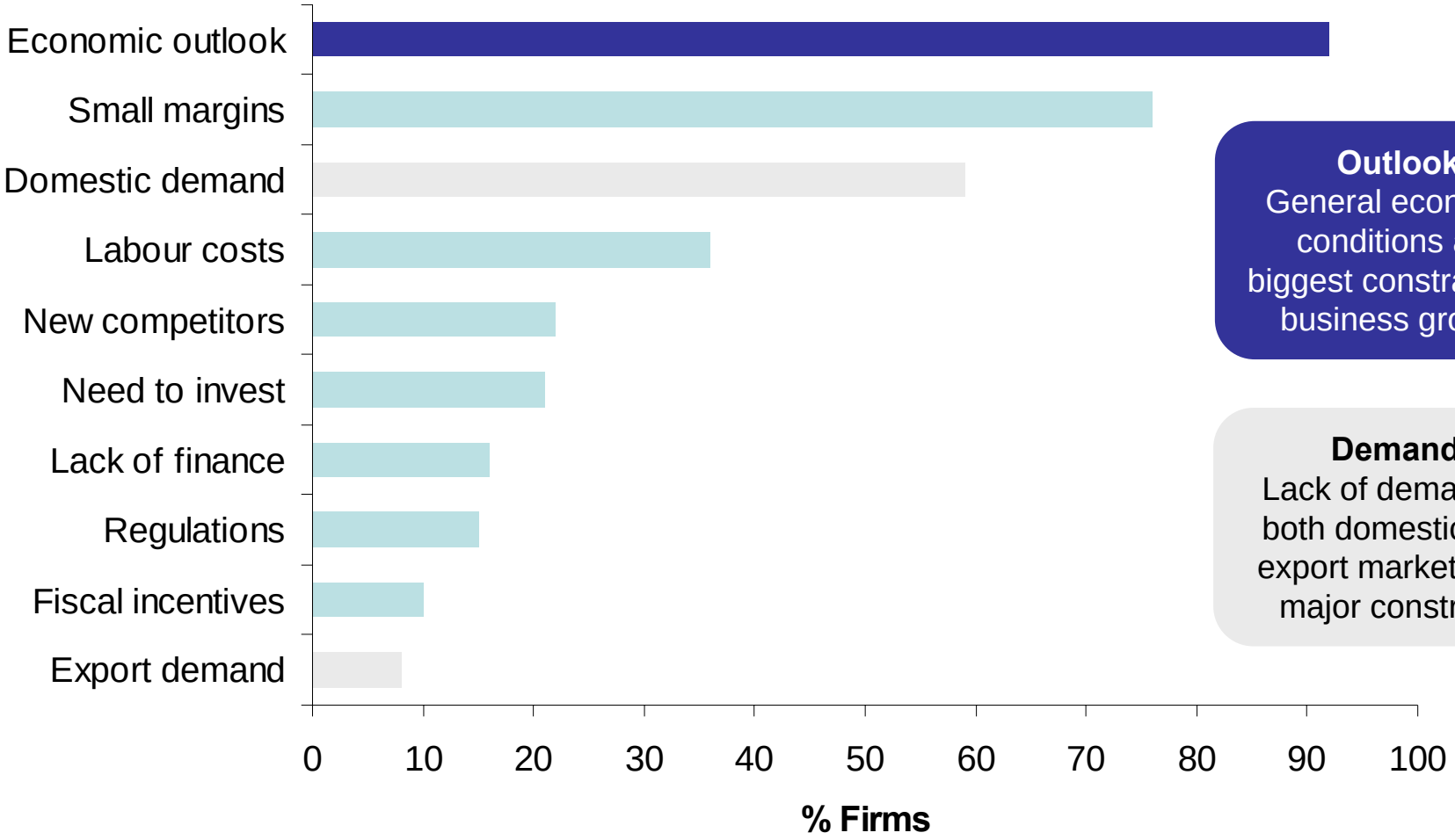
…although it is only one of many factors



Outlook
General economic conditions are biggest constraint on business growth

Demand
Lack of demand in both domestic and export markets is a major constraint

Source: NISRA Access to Finance

Note: Data relate to 2010

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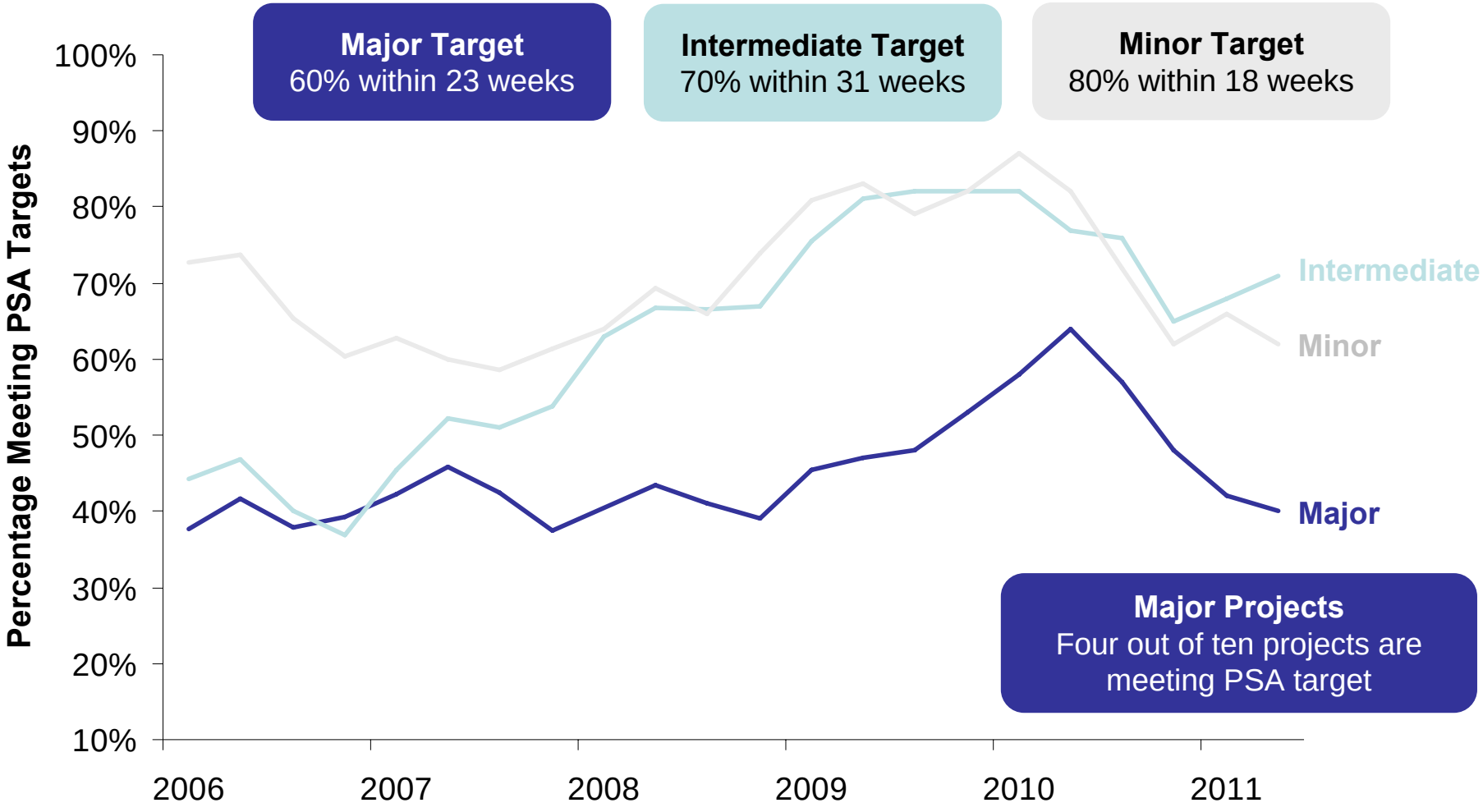
Planning regulations can also constrain growth…



Source: Planning Service Quarterly Statistics

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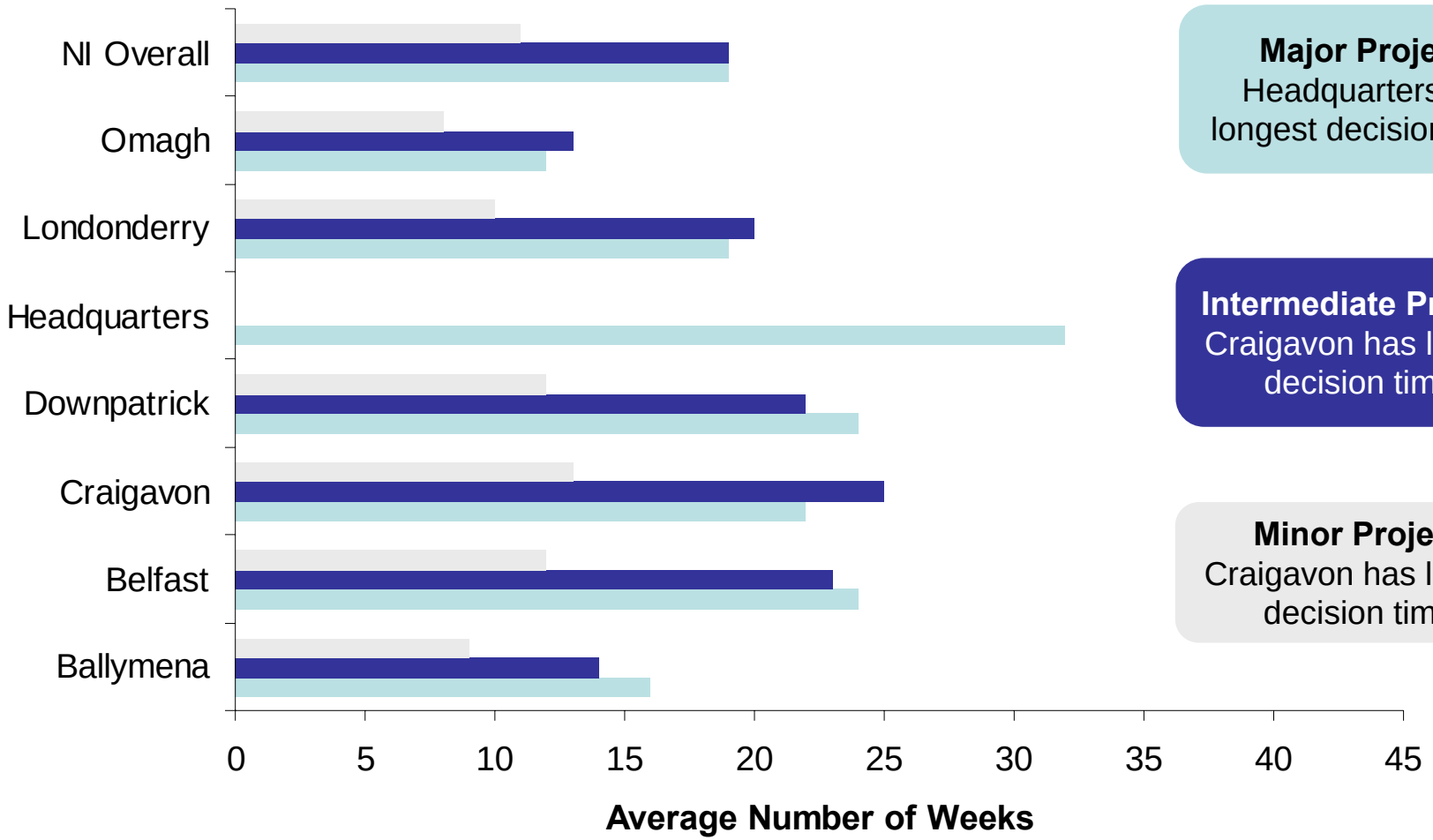
…where there is significant variation across NI



Major Projects
Headquarters has longest decision times

Intermediate Projects
Craigavon has longest decision times

Minor Projects
Craigavon has longest decision times

Source: Planning Service Development Management Statistics

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

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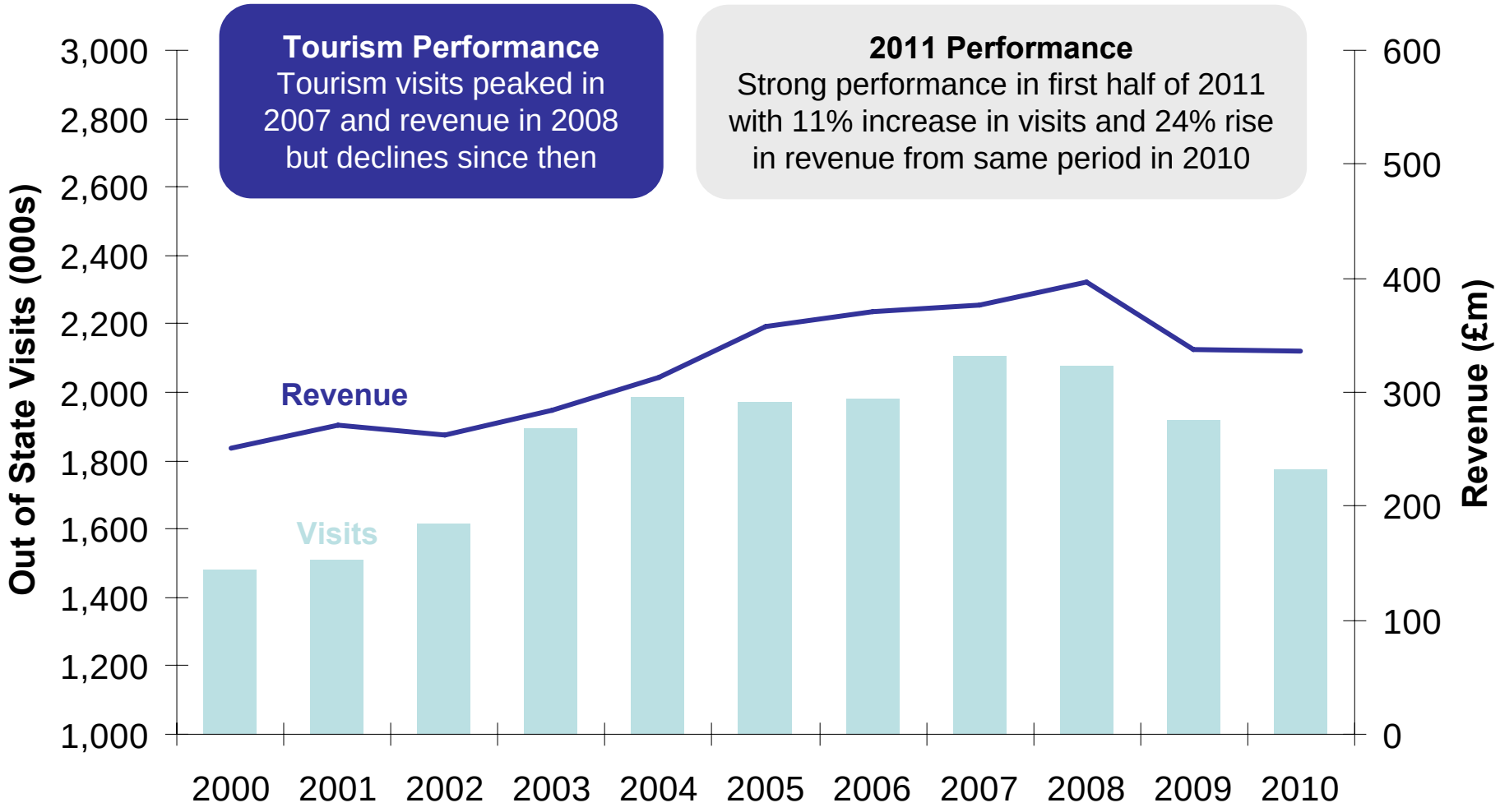
Tourism numbers have stalled in recent years…



Source: NITB Tourism Estimates

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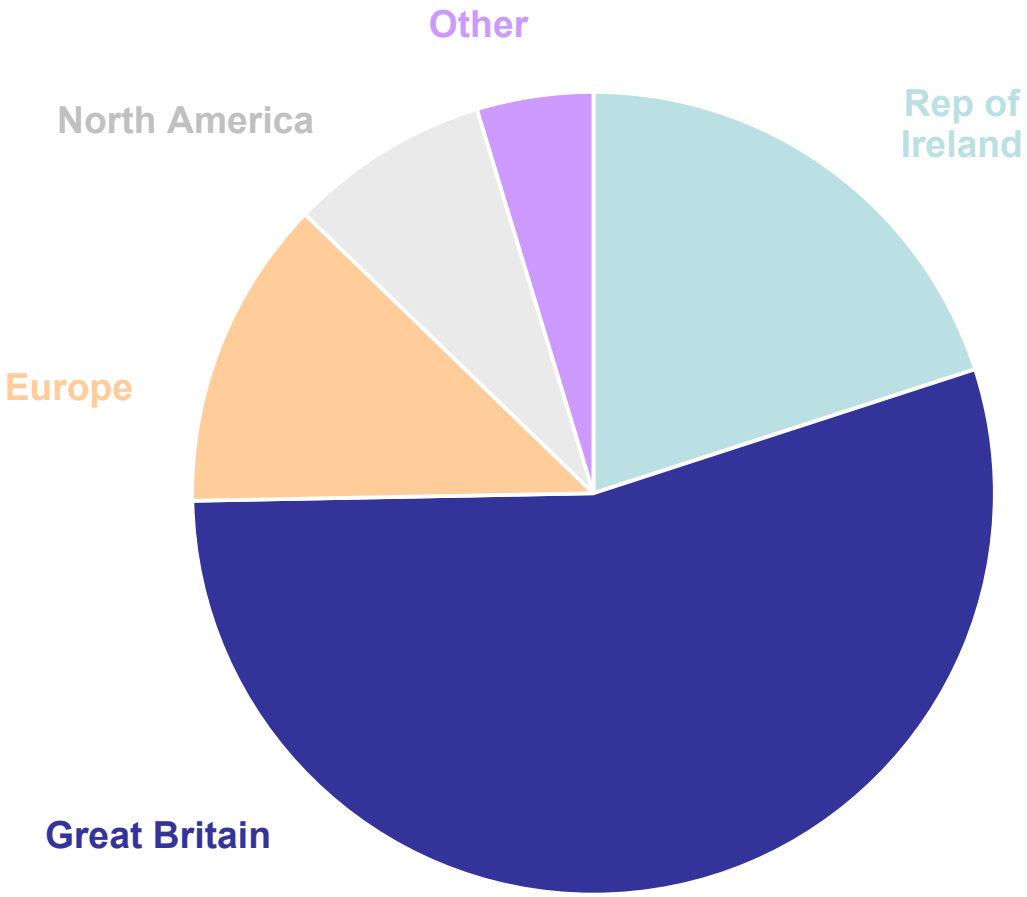
…with most visitors to NI coming from GB and ROI



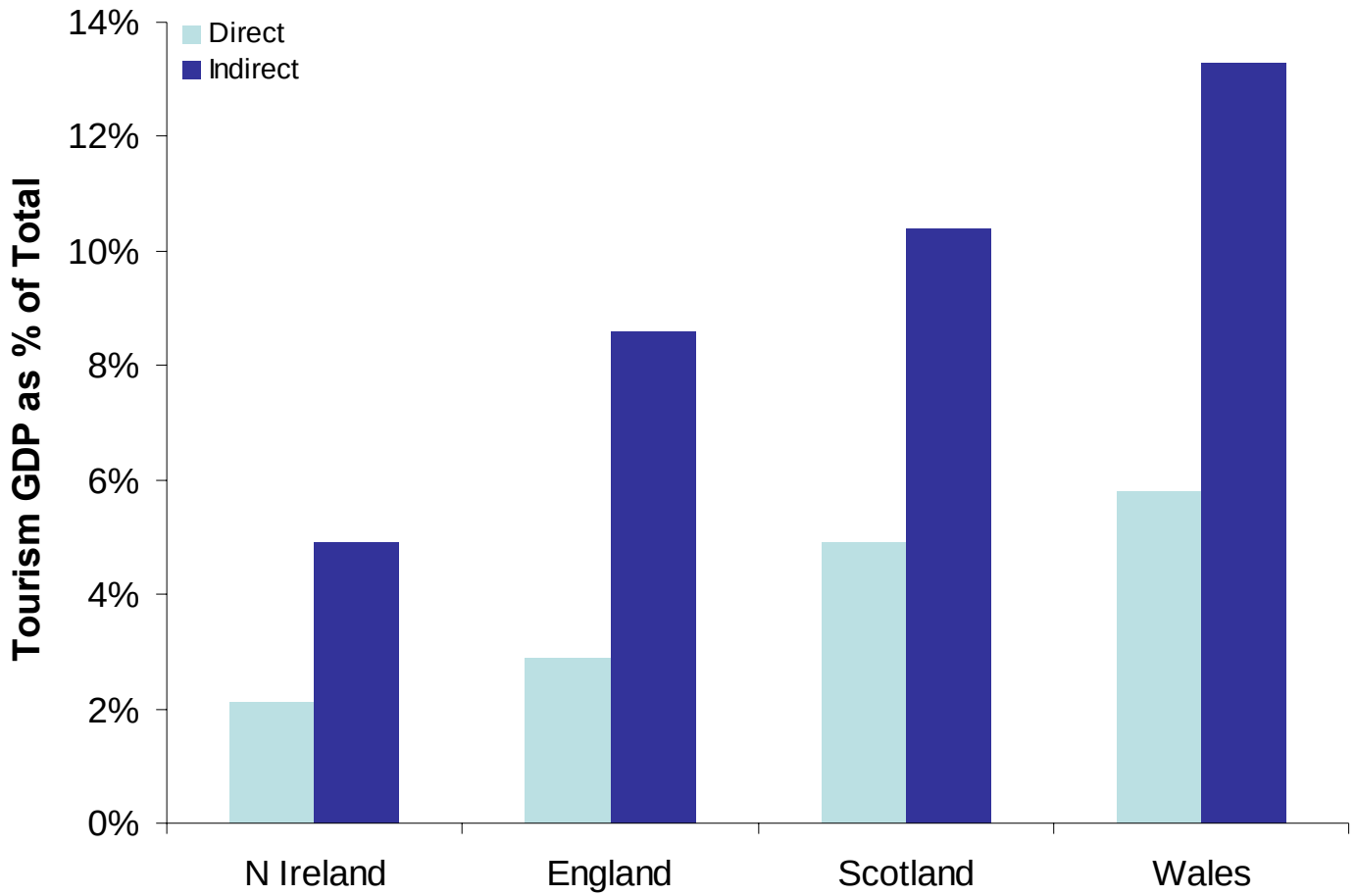
Republic of Ireland
Accounts for 20% of tourism visits to NI but experienced a decrease of 25% in 2010

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

Source: NITB Tourism Estimates

Note: Data refer to 2010

The tourism sector makes a lower contribution to GDP…



£0.64bn
Direct GDP contribution of NI visitor economy

£1.50bn
Indirect GDP contribution of NI visitor economy

Source: NITB Estimating the Impact of the Visitor Economy

Note: Data relate to 2009

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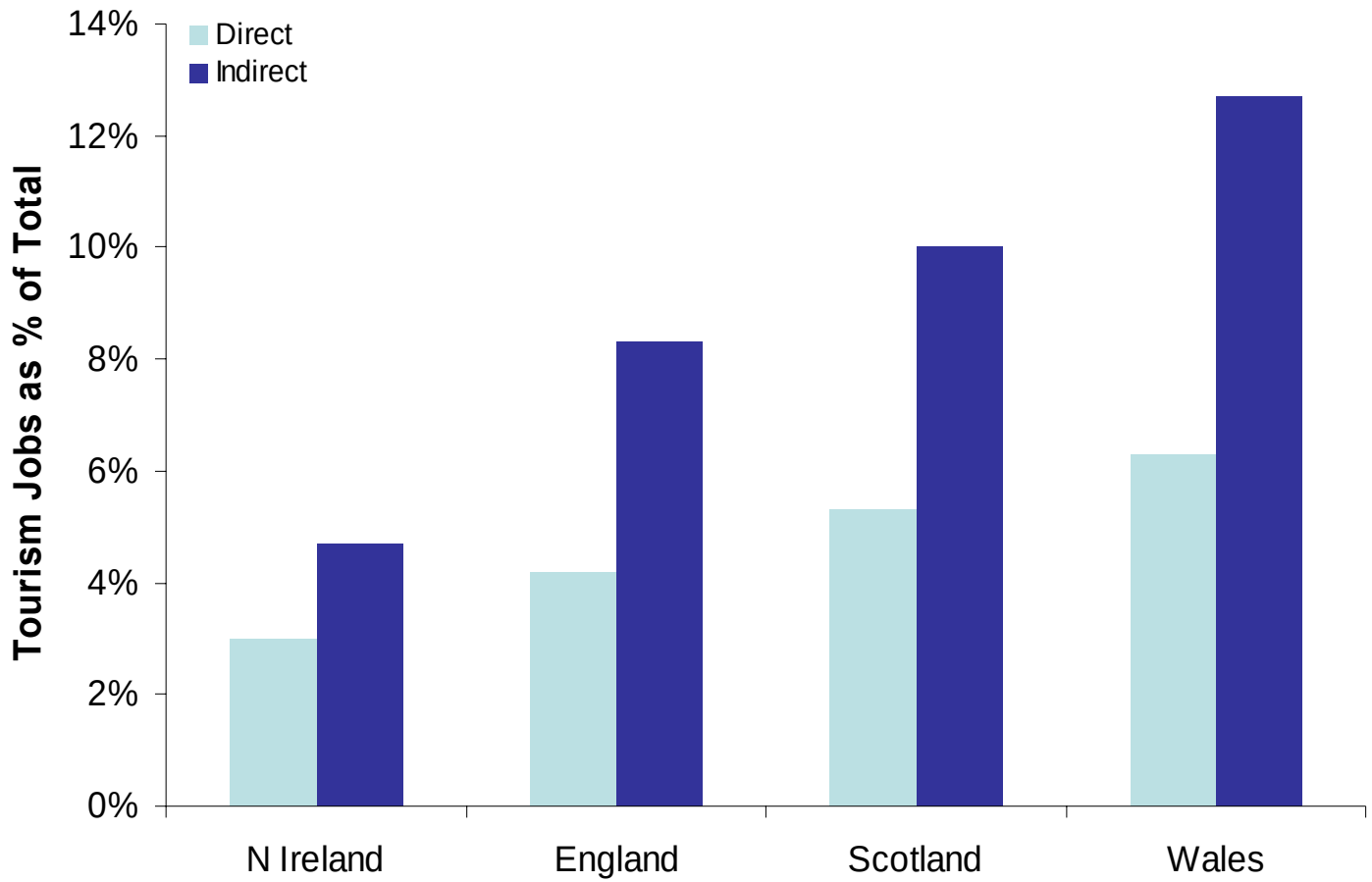
…and employment in the NI economy than the rest of the UK



25,000
Direct jobs contribution of NI visitor economy

39,000
Indirect jobs contribution of NI visitor economy

Source: NITB Estimating the Impact of the Visitor Economy

Note: Data relate to 2009

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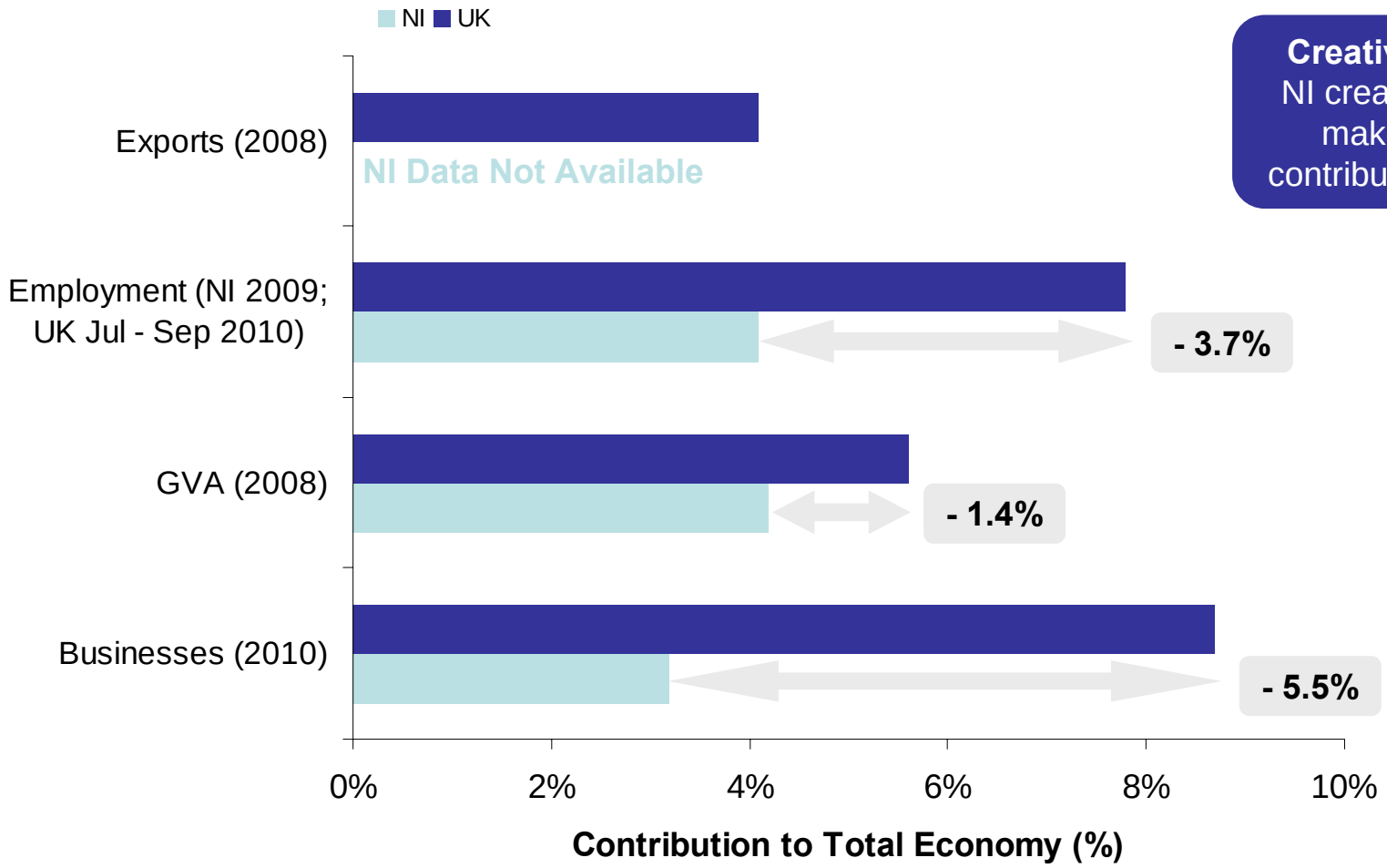
Creative industries has potential to increase its contribution to the local economy…



Creative Industries
NI creative industries makes less of a contribution than in UK

Source: DCAL & DCMS Creative Industries Economic Estimates

Note: Difference is expressed in percentage points

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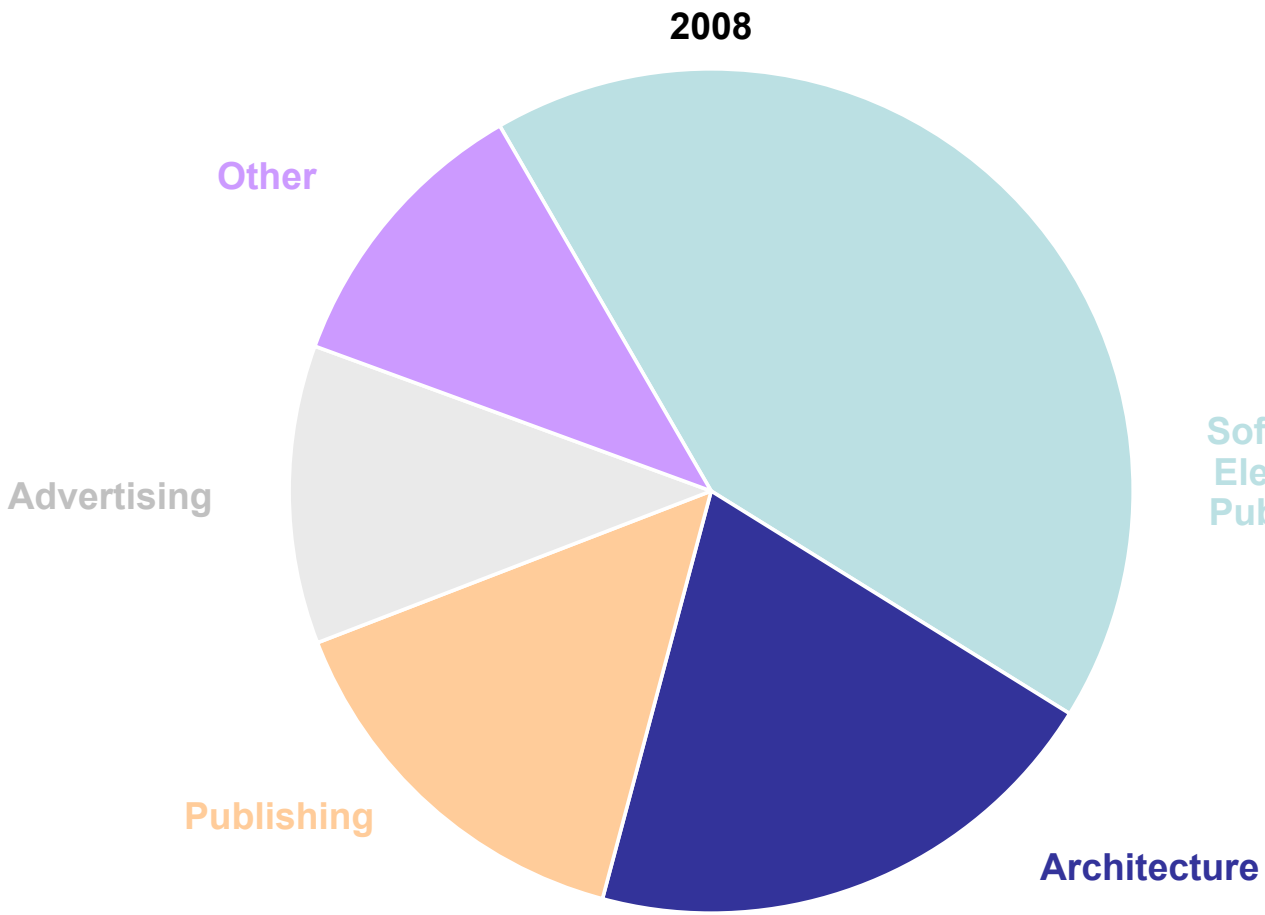
…with software being a key driver of the sector



42%
Creative Industries GVA from Software

Source: DCAL Creative Industries Economic Estimates

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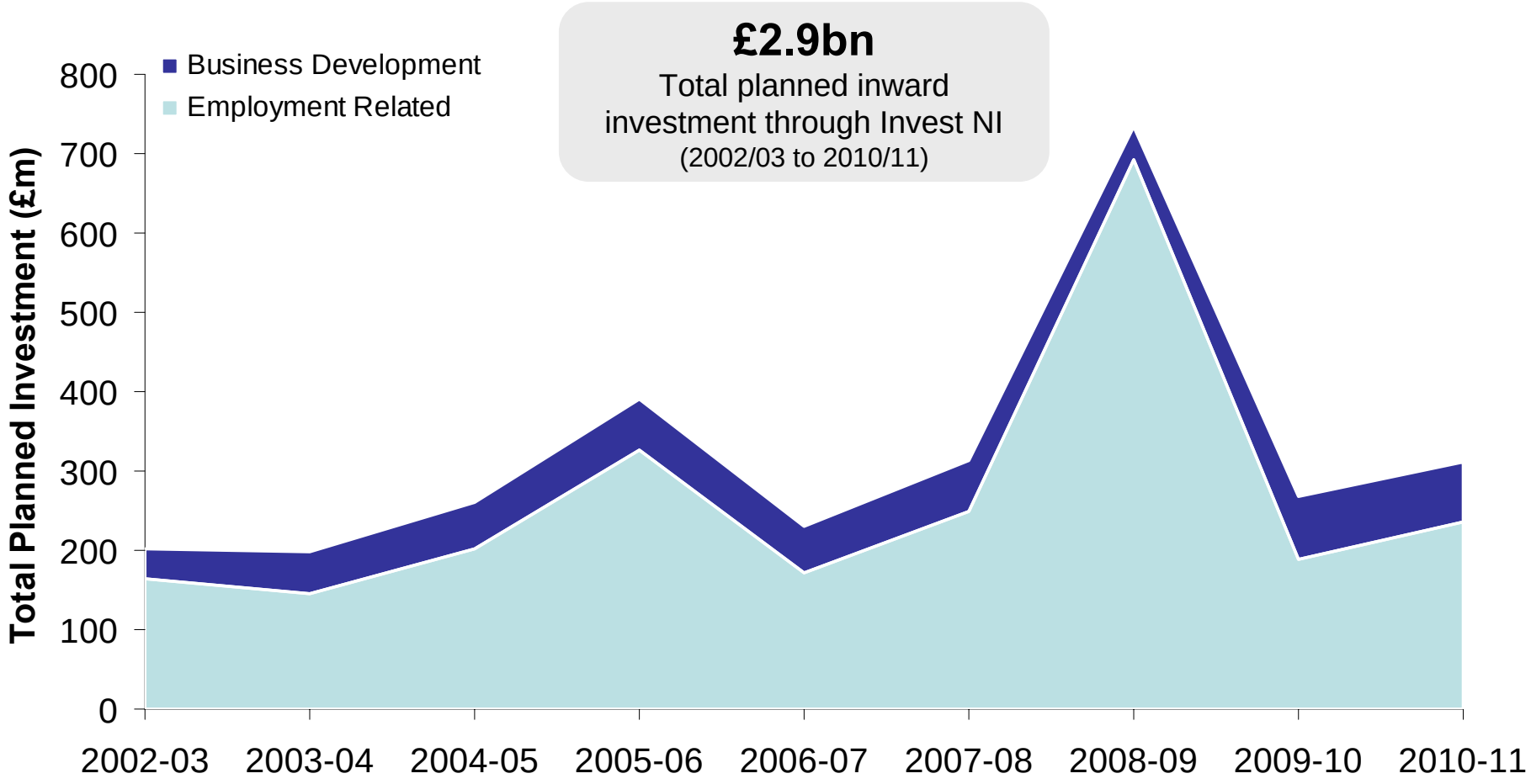
D

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

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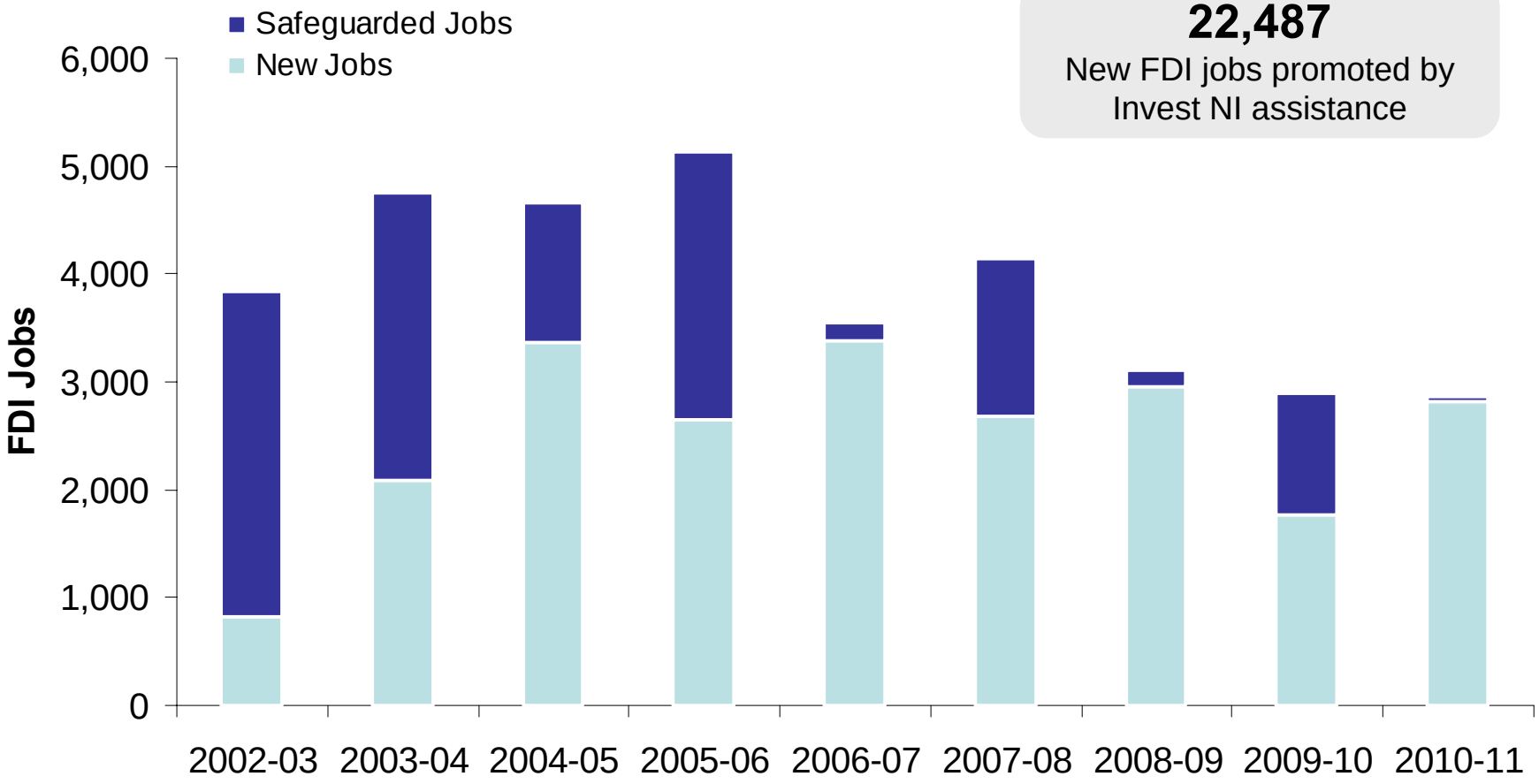
…and promoted large numbers of FDI jobs…



22,487
New FDI jobs promoted by Invest NI assistance

Source: Invest NI

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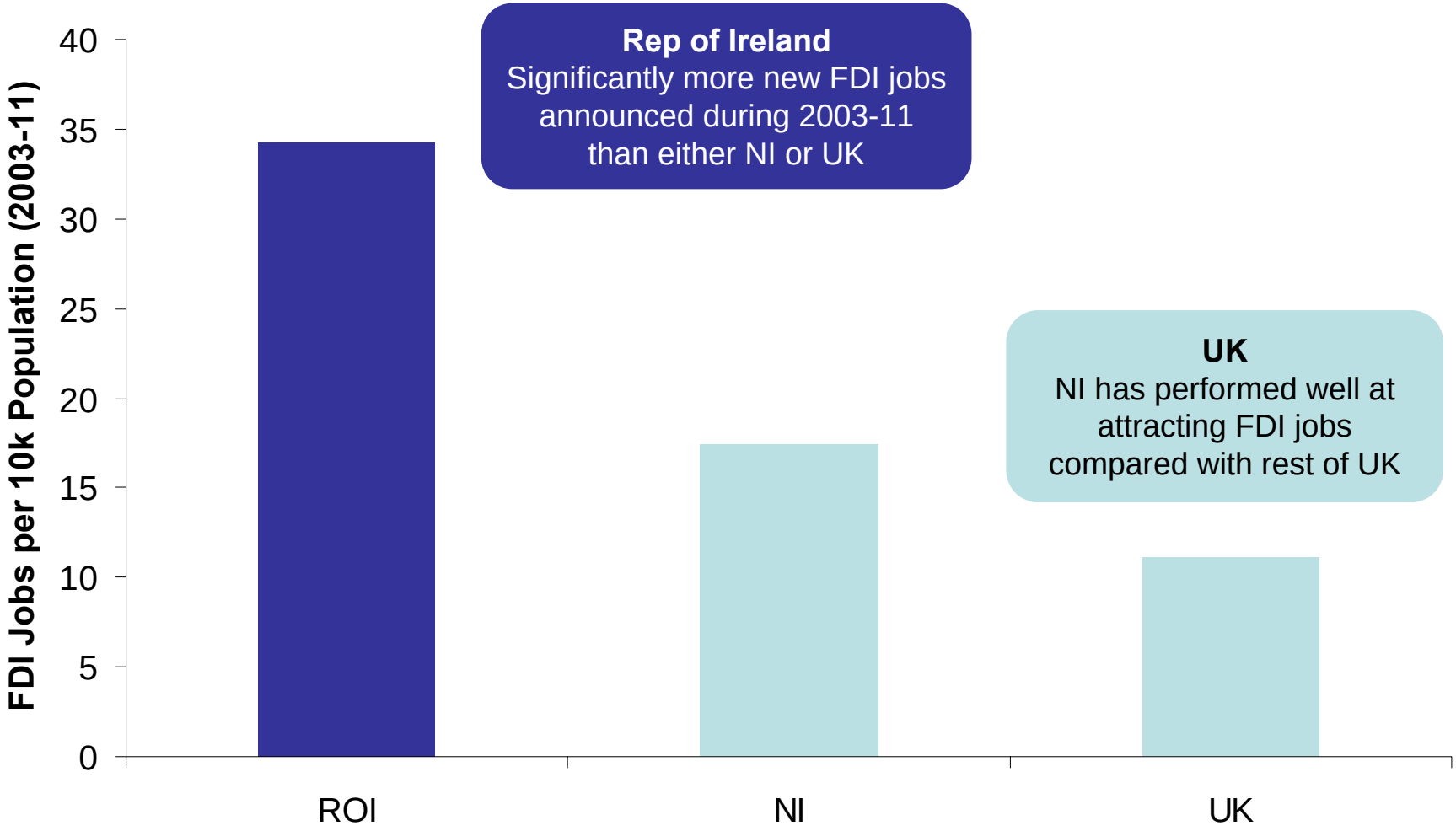
…although this is much lower than the ROI…



Source: fDi Intelligence

Note: Includes some projects announced in January 2012

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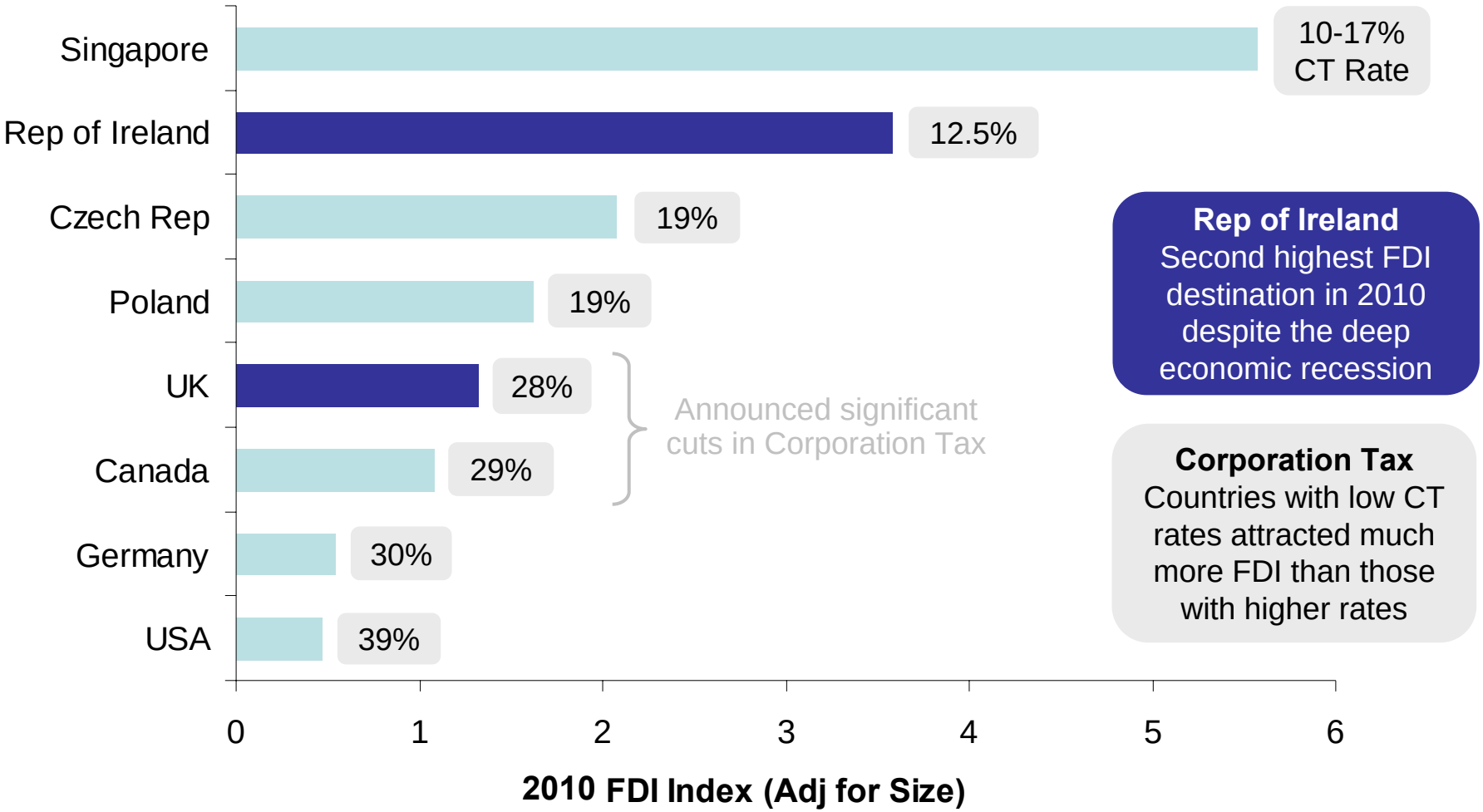
…where low Corporation Tax attracts significant FDI…



Rep of Ireland
Second highest FDI destination in 2010 despite the deep economic recession

Corporation Tax
Countries with low CT rates attracted much more FDI than those with higher rates

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

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…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-
Belfast			
Large	30	10	*
Medium	40	20	*
Small	50	30	*
Rest of NI			
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

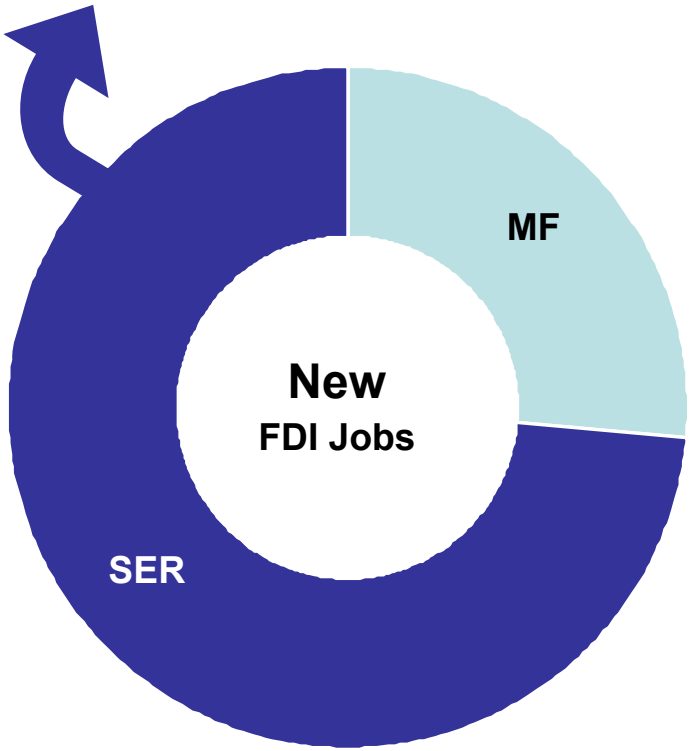
Source: Independent Review of Economic Policy

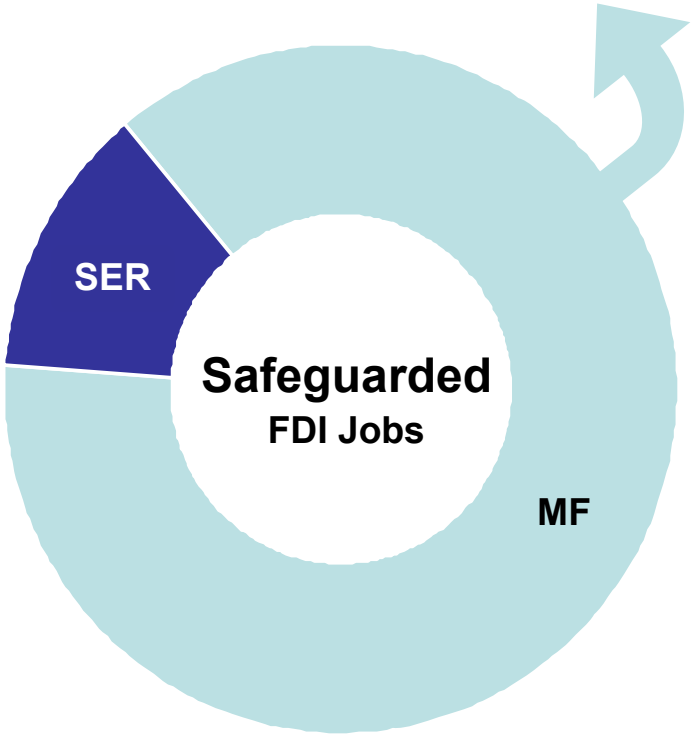
Note: * Rates for 2014 onwards have yet to be determined at EU / UK level

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

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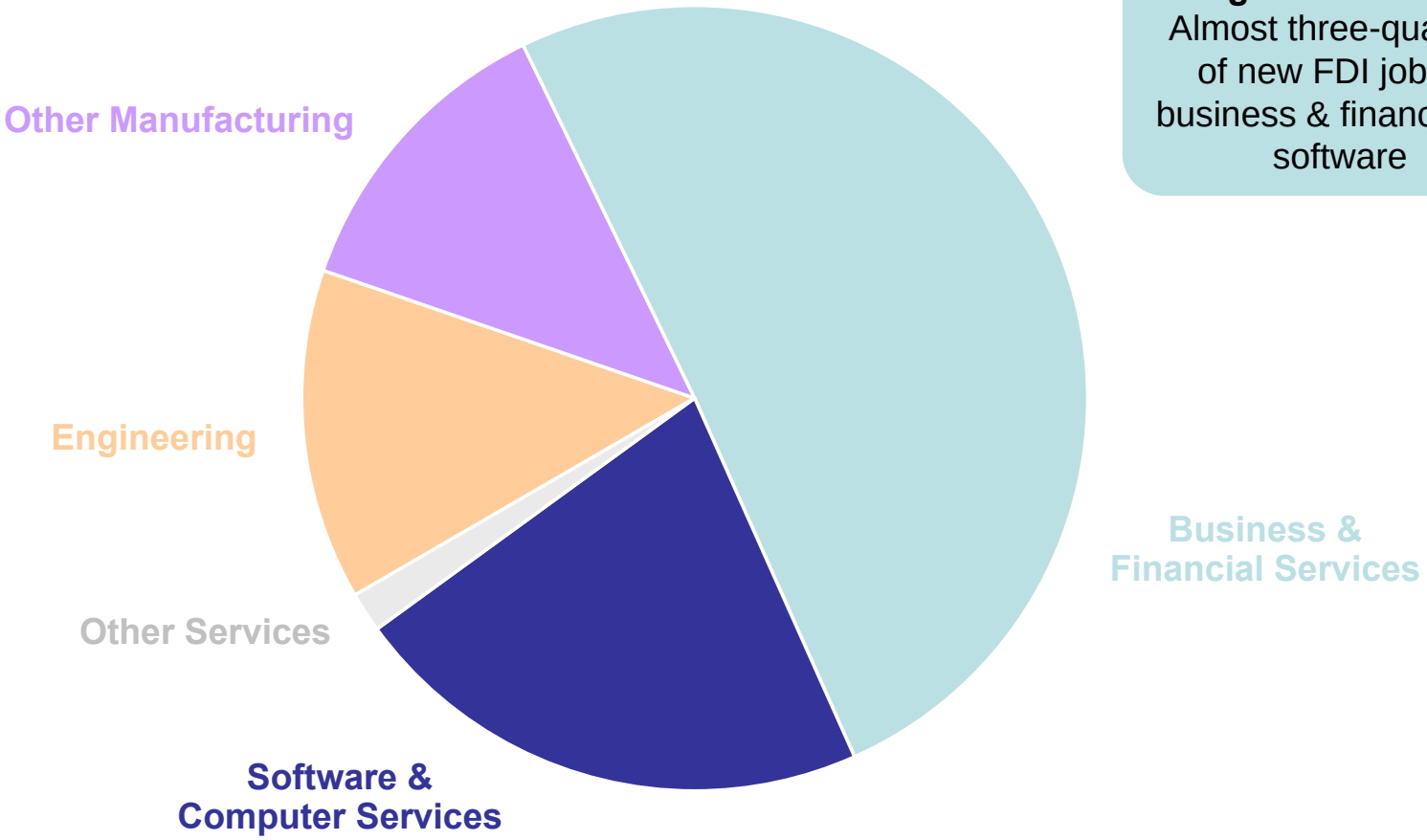
…mainly in the business & finance and software sectors…



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

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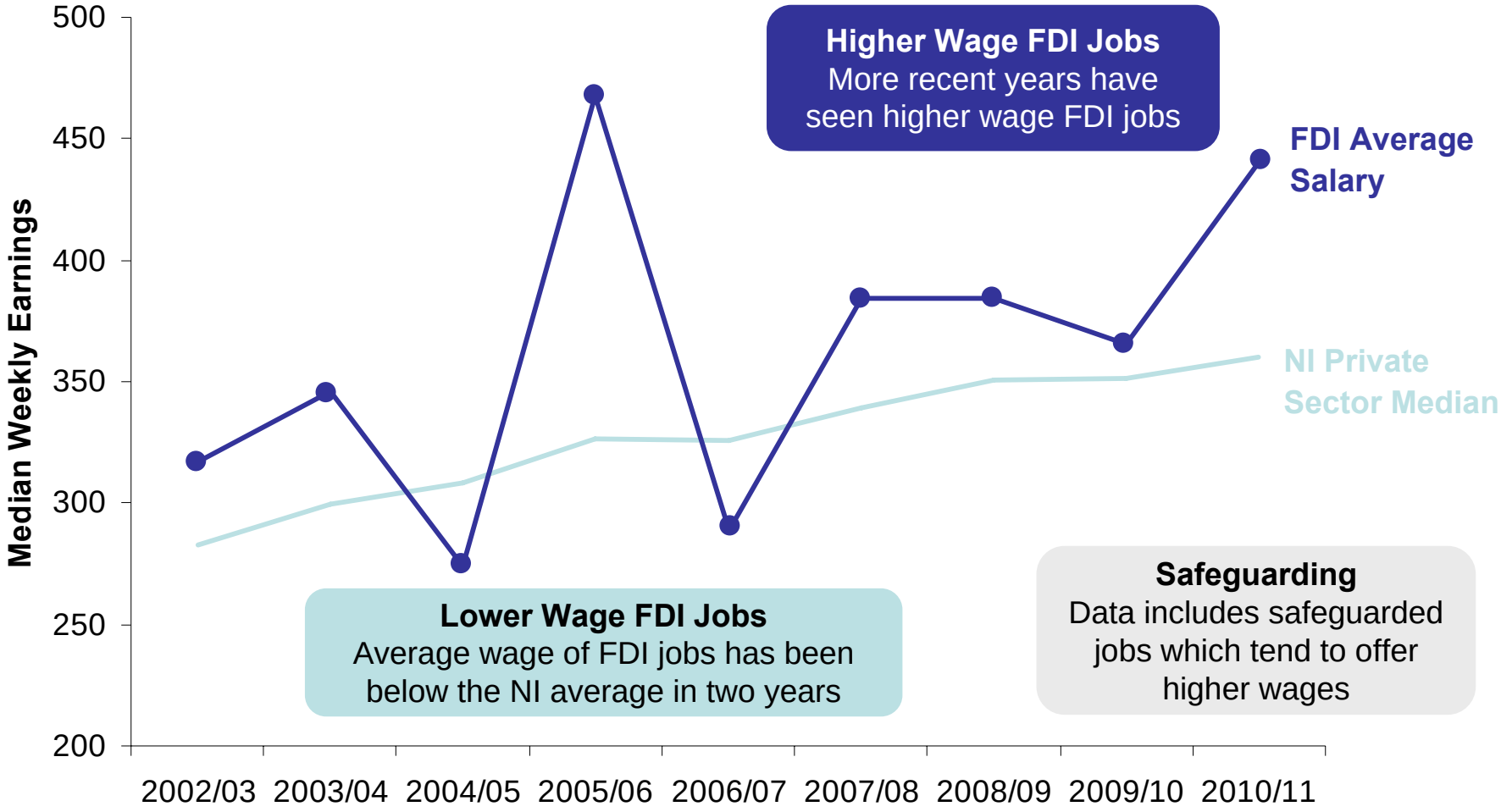
…although the wages of these FDI jobs has been mixed…



Source: Invest NI

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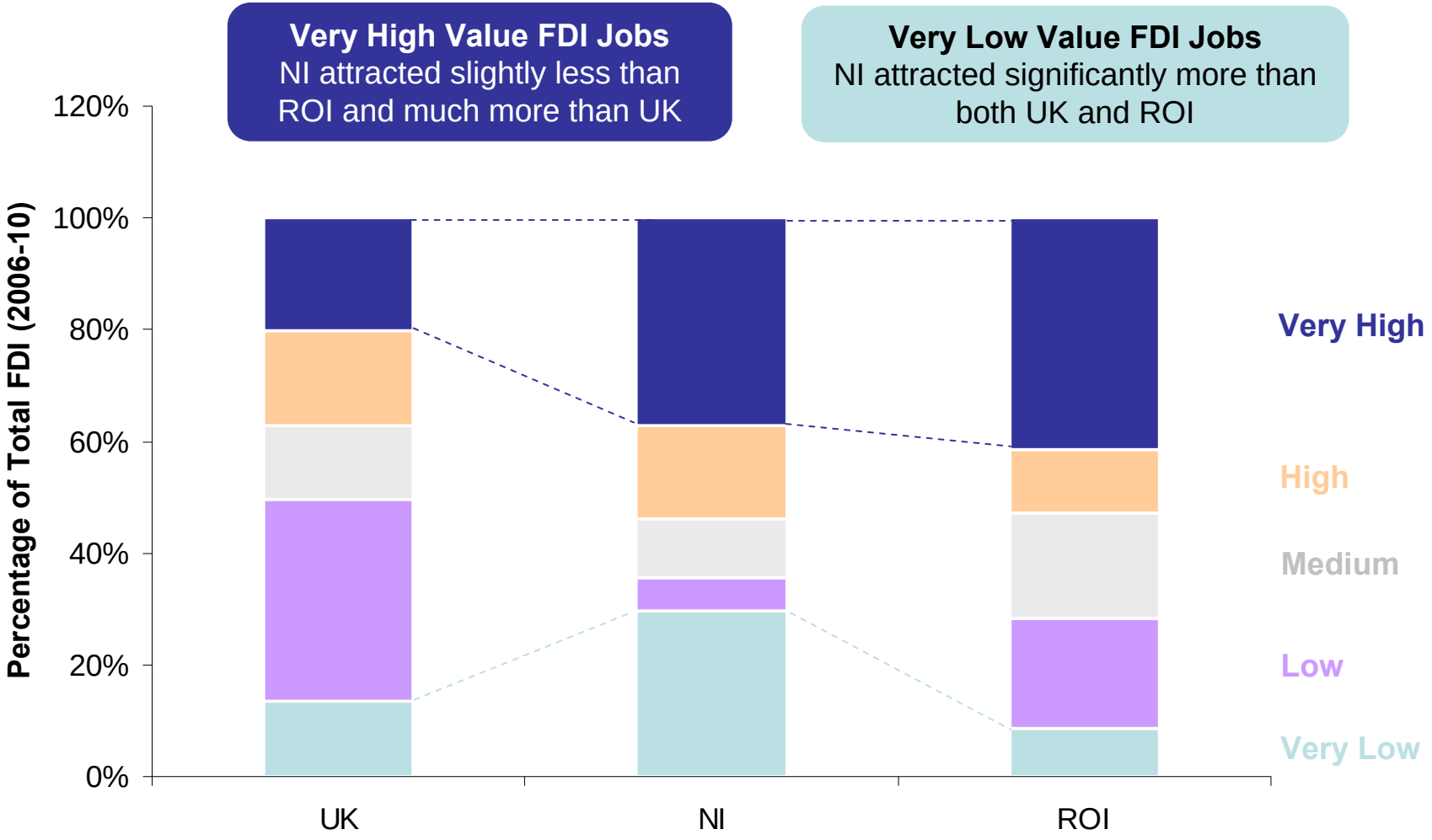
…and there is a large variation in their value added



Source: DETI FDI Research (Draft)

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

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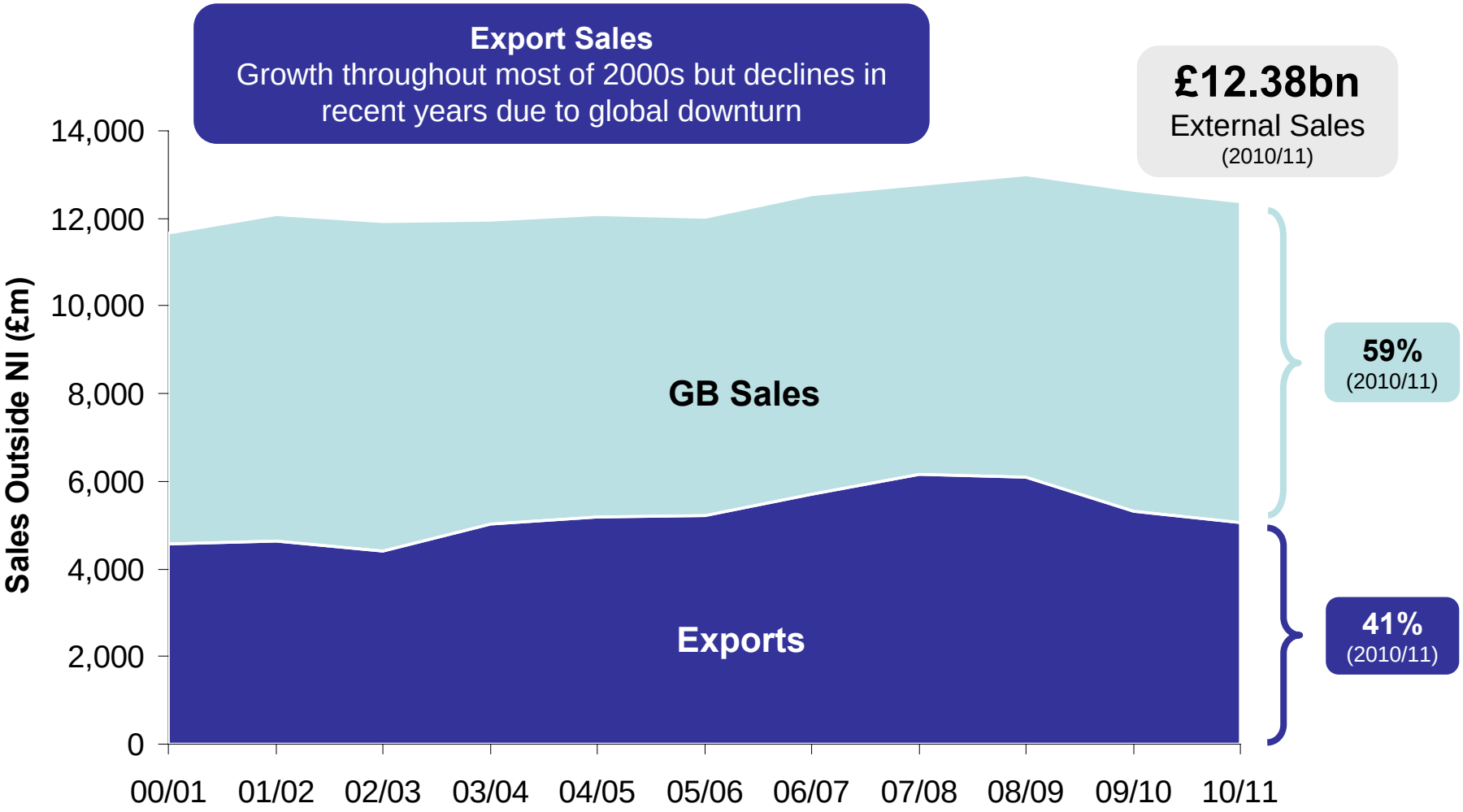
Local companies have become more outward looking…



Source: NISRA Manufacturing Sales and Exports

Note: Figs in constant prices; Discontinuity in 2008/09

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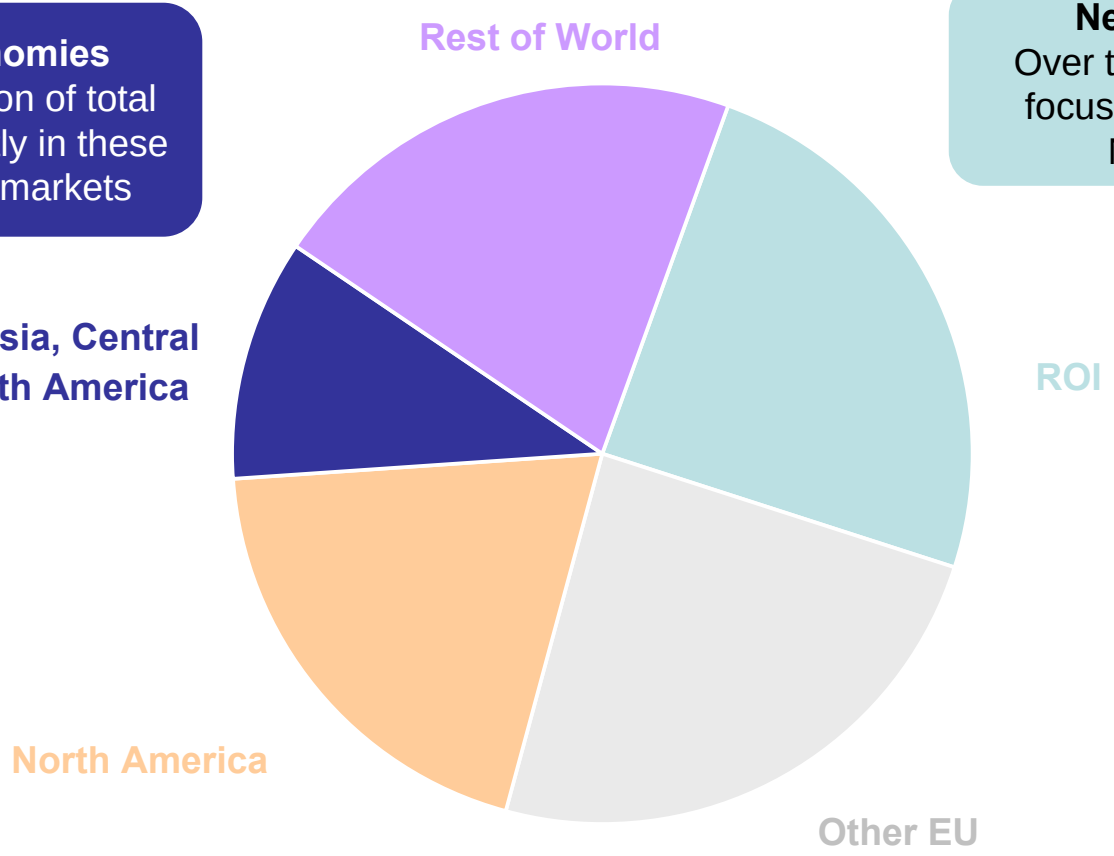
…although exports are focused on a small number of markets

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

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



Source: NISRA Manufacturing Sales and Exports
Note: Data relate to 2010/11

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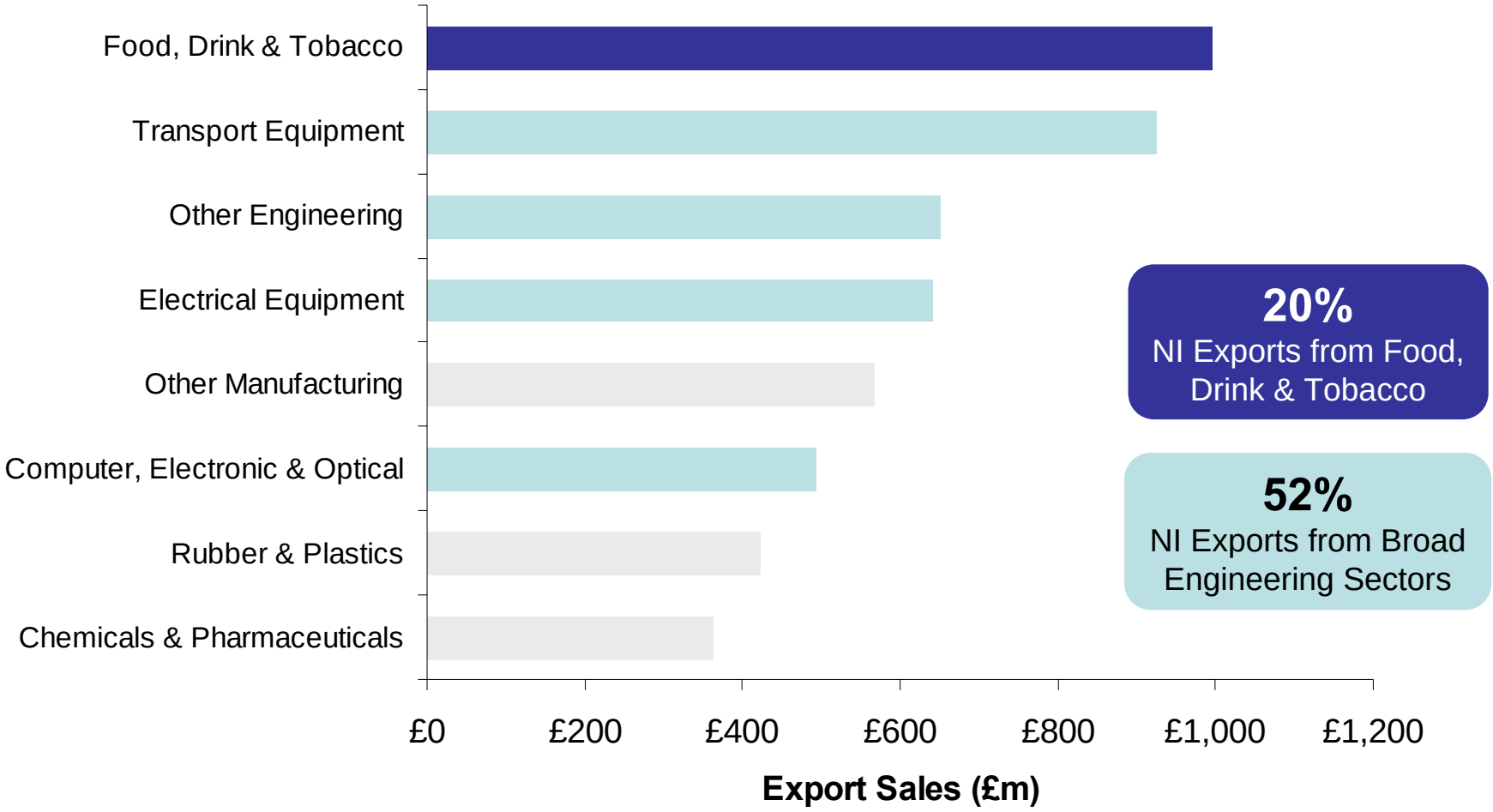
The engineering and food & drink sectors are key drivers of total NI exports…



Source: NISRA Manufacturing Sales and Exports
Note: Data relate to 2010/11; do not include GB sales

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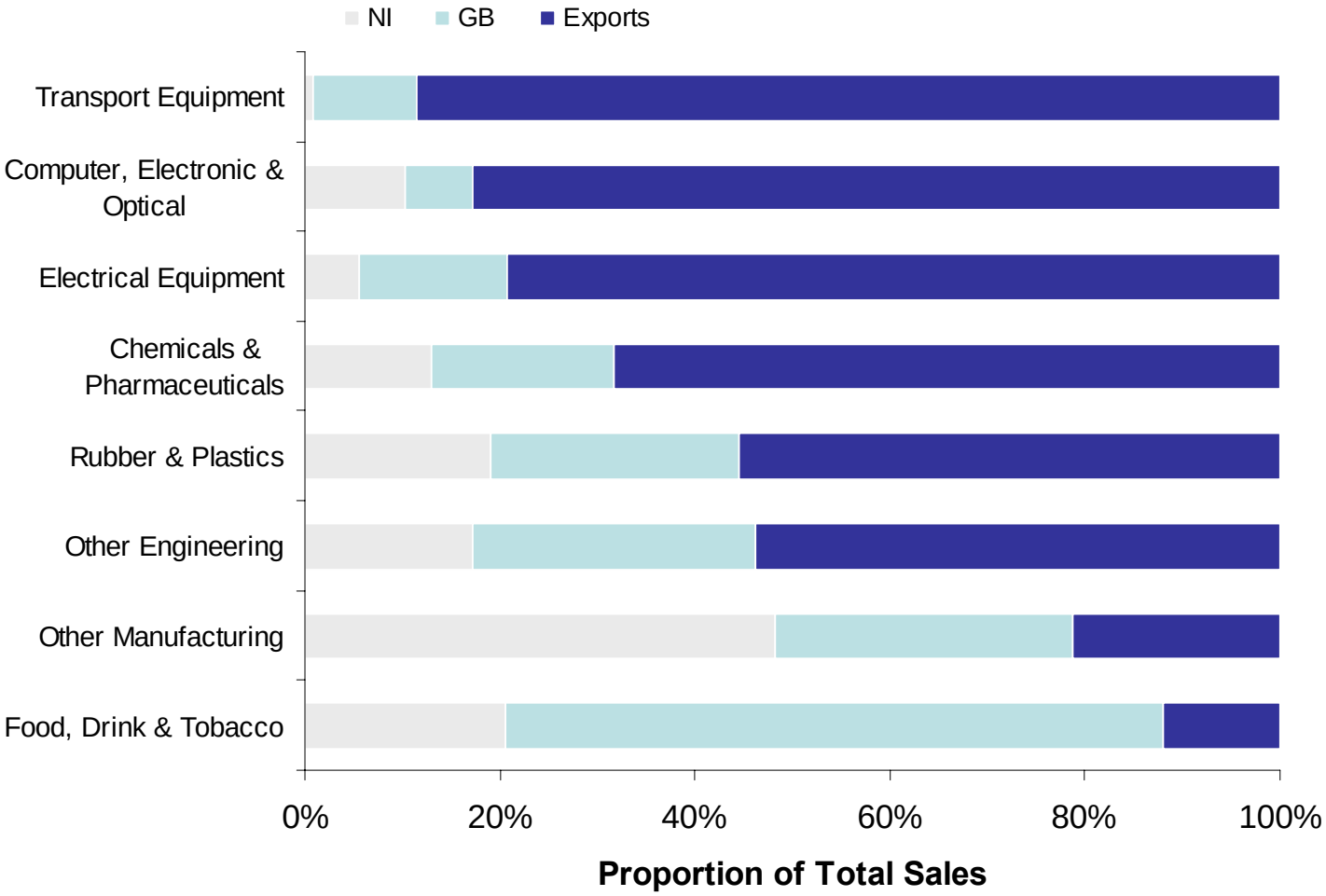
...although most of food & drink sales are actually to GB and NI markets…



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

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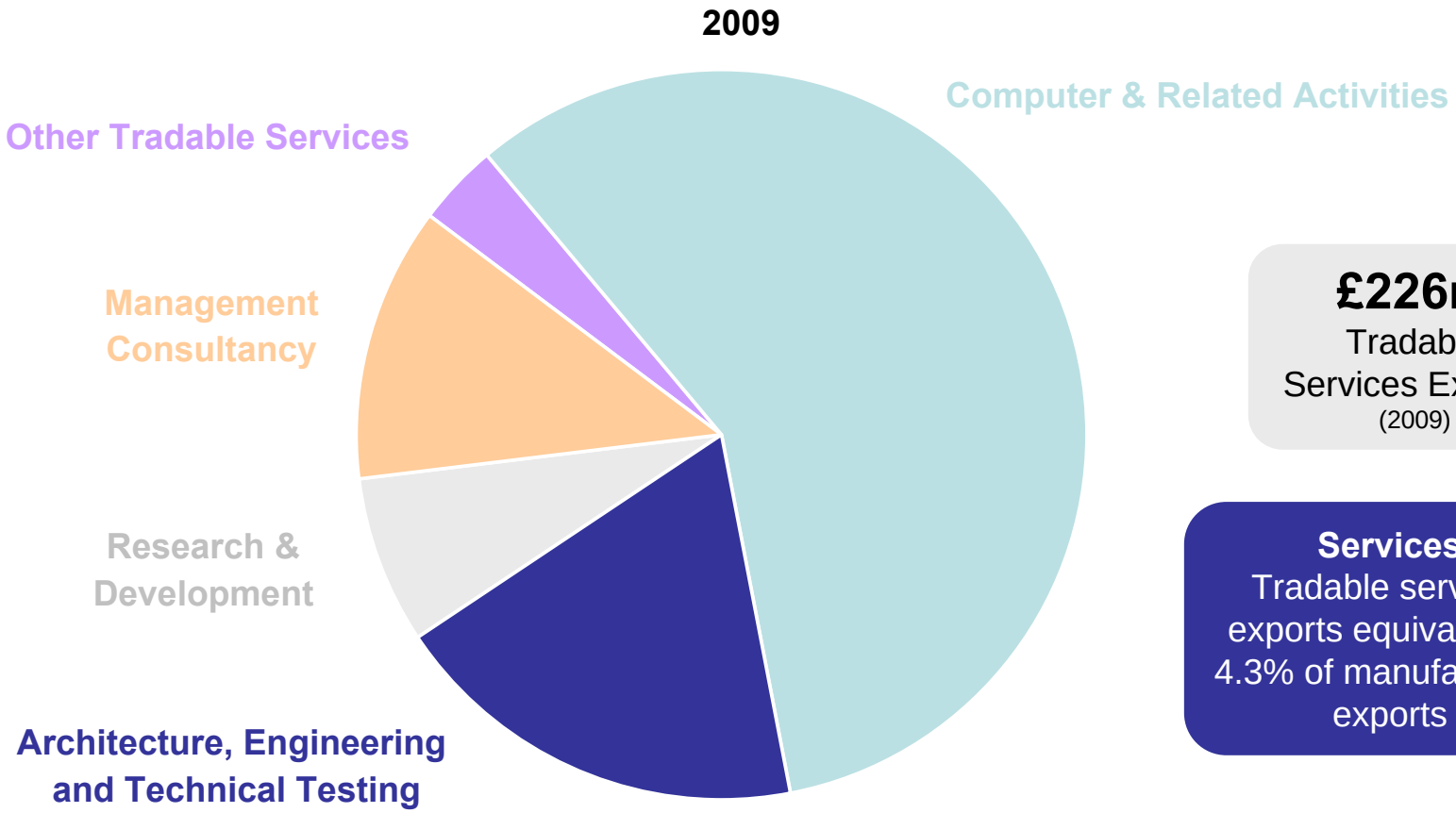
…and tradable services makes a relatively small contribution



£226m
Tradable Services Exports
(2009)

Services
Tradable services exports equivalent to 4.3% of manufacturing exports

Source: NISRA Exporting NI Services

Note: Comprehensive data on services exports is not available

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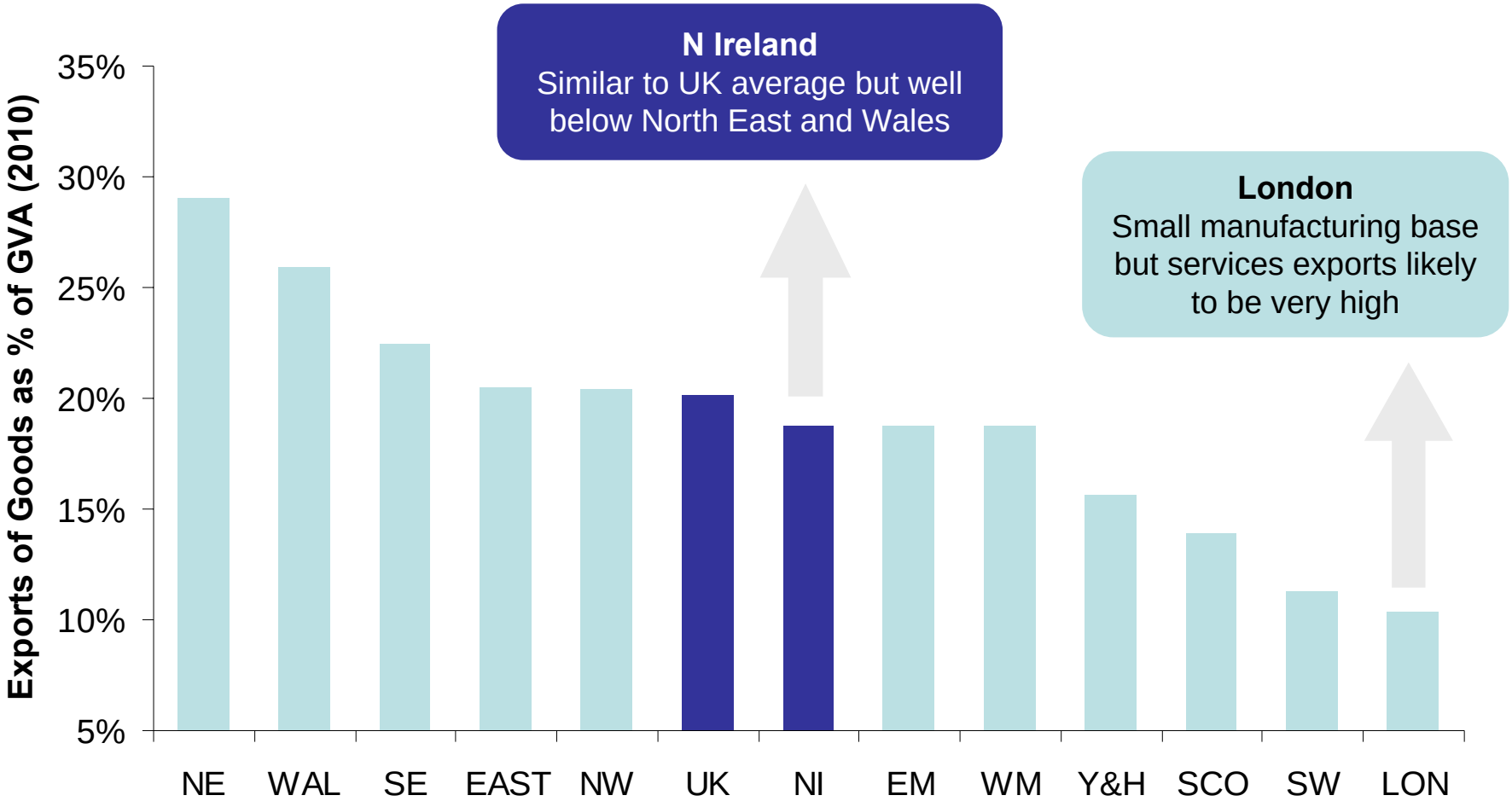
Export performance is comparable to elsewhere in the UK…



Source: UKTI Regional Trade Statistics

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

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…but is significantly below successful small economies elsewhere

Source: World Bank Databank

Note: Comparable data does not exist for NI

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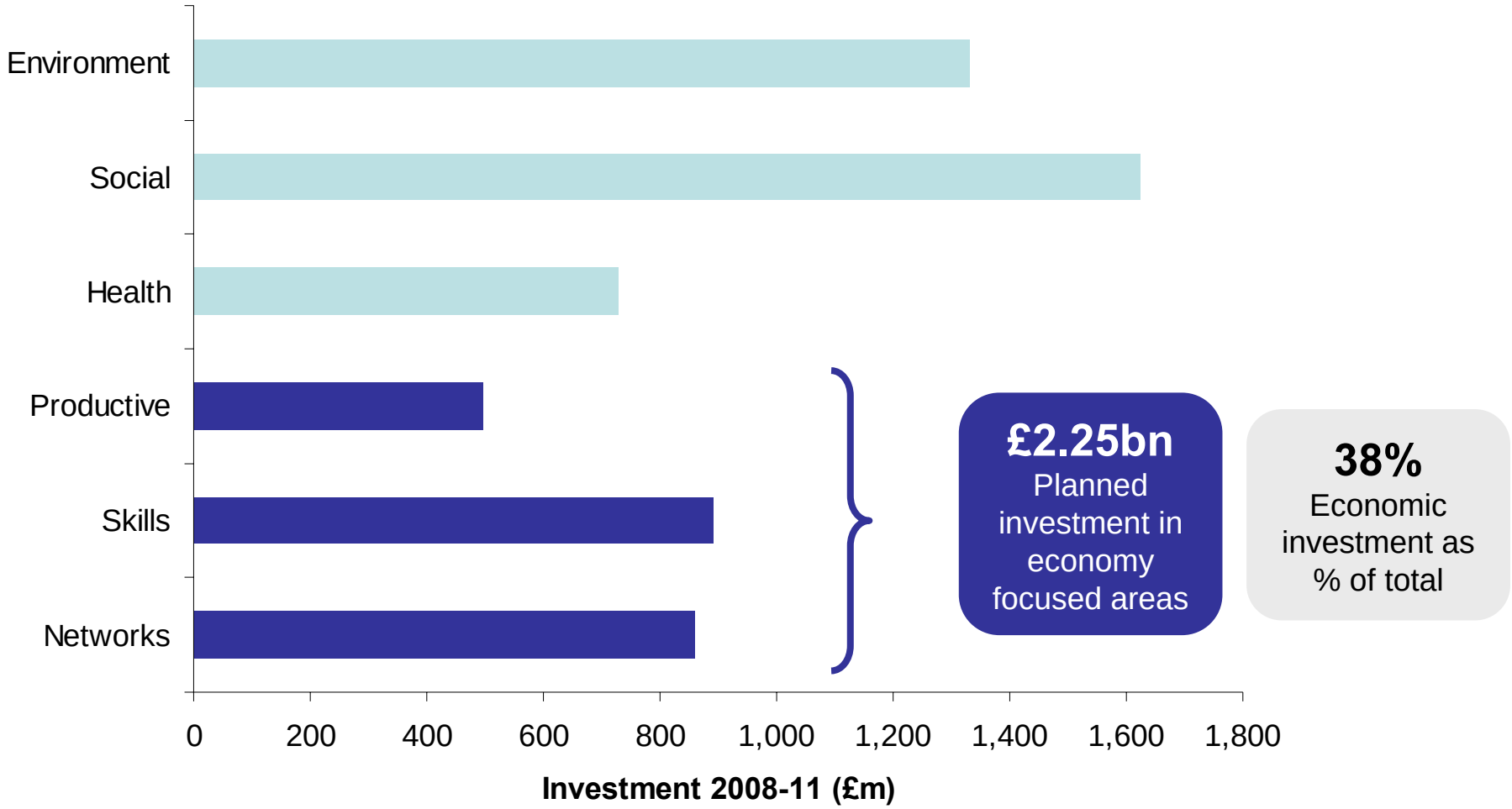
E

Economic Infrastructure

Significant investment has been made in economic infrastructure…



Source: ISNI 2008-18

Note: Planned investment may not reflect actual investment

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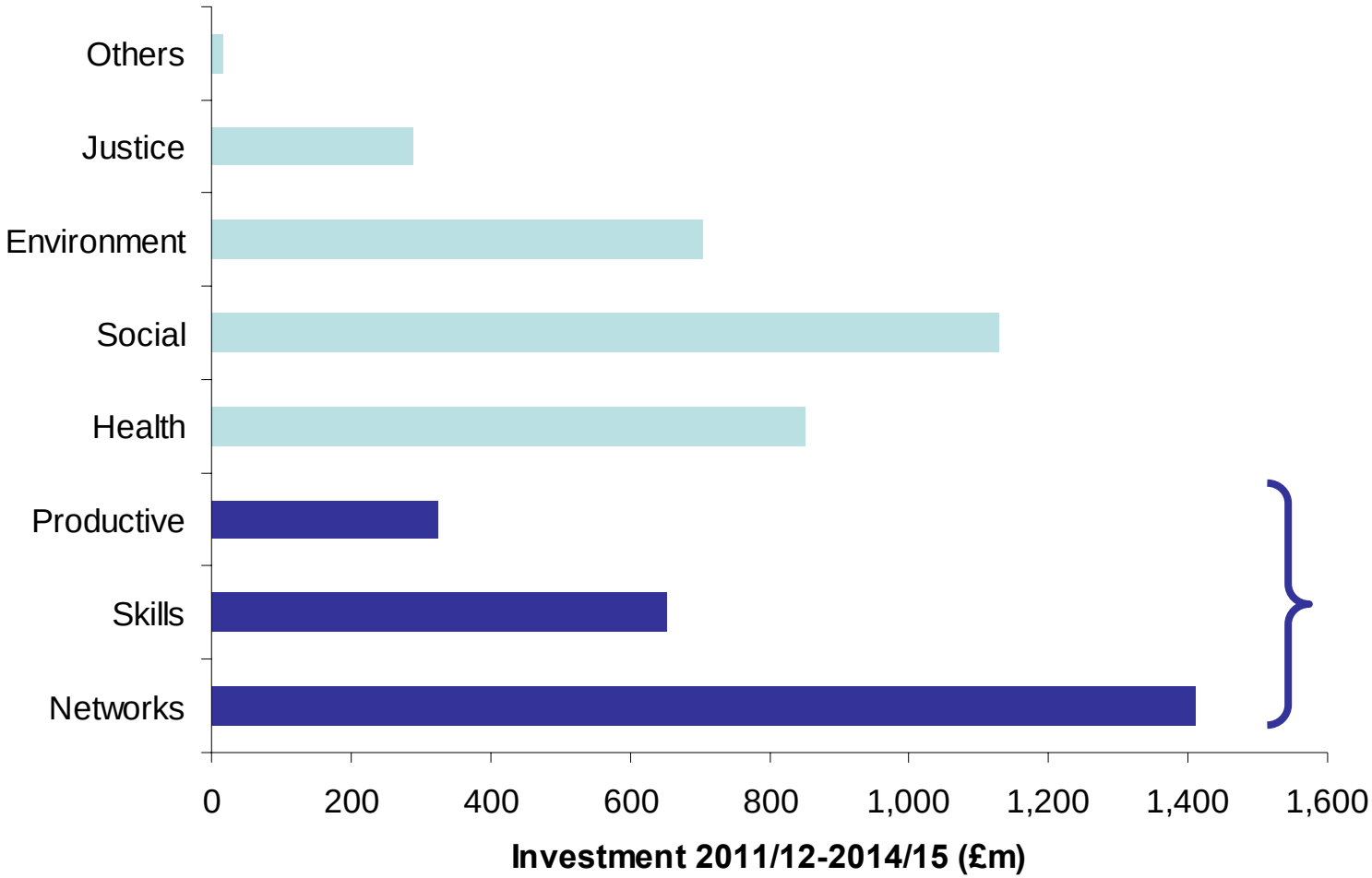
…and this investment will continue going forward…



44%
Economic investment as % of total

£2.39bn
Planned investment in economy focused areas

Source: Draft ISNI 2011-21

Note: Planned investment may not reflect actual investment

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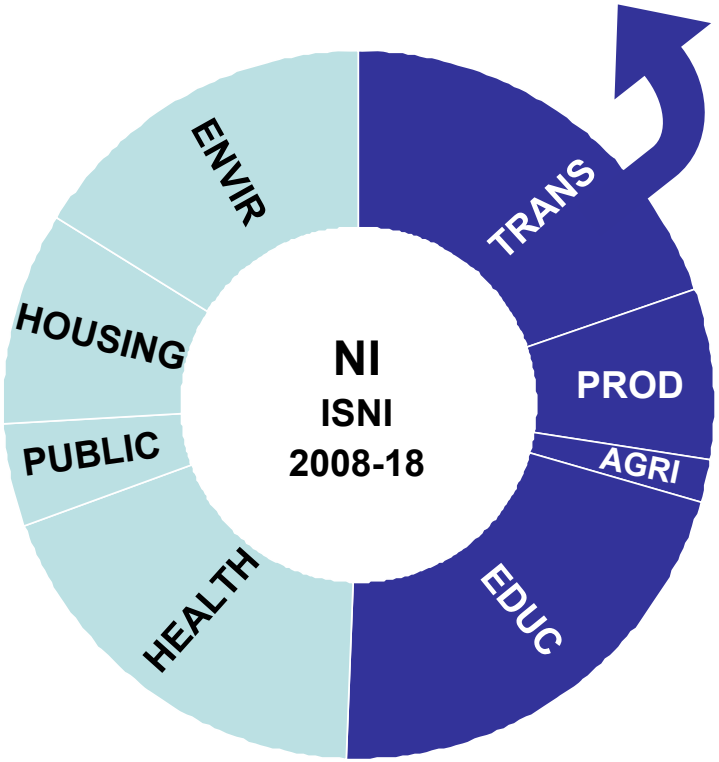
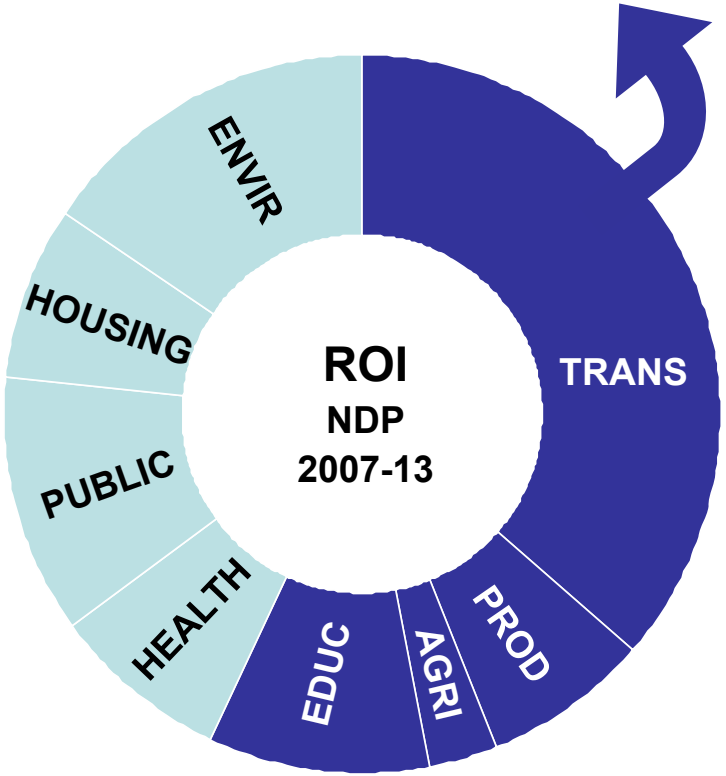
…although investment has been less focused on the economy than in the ROI

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

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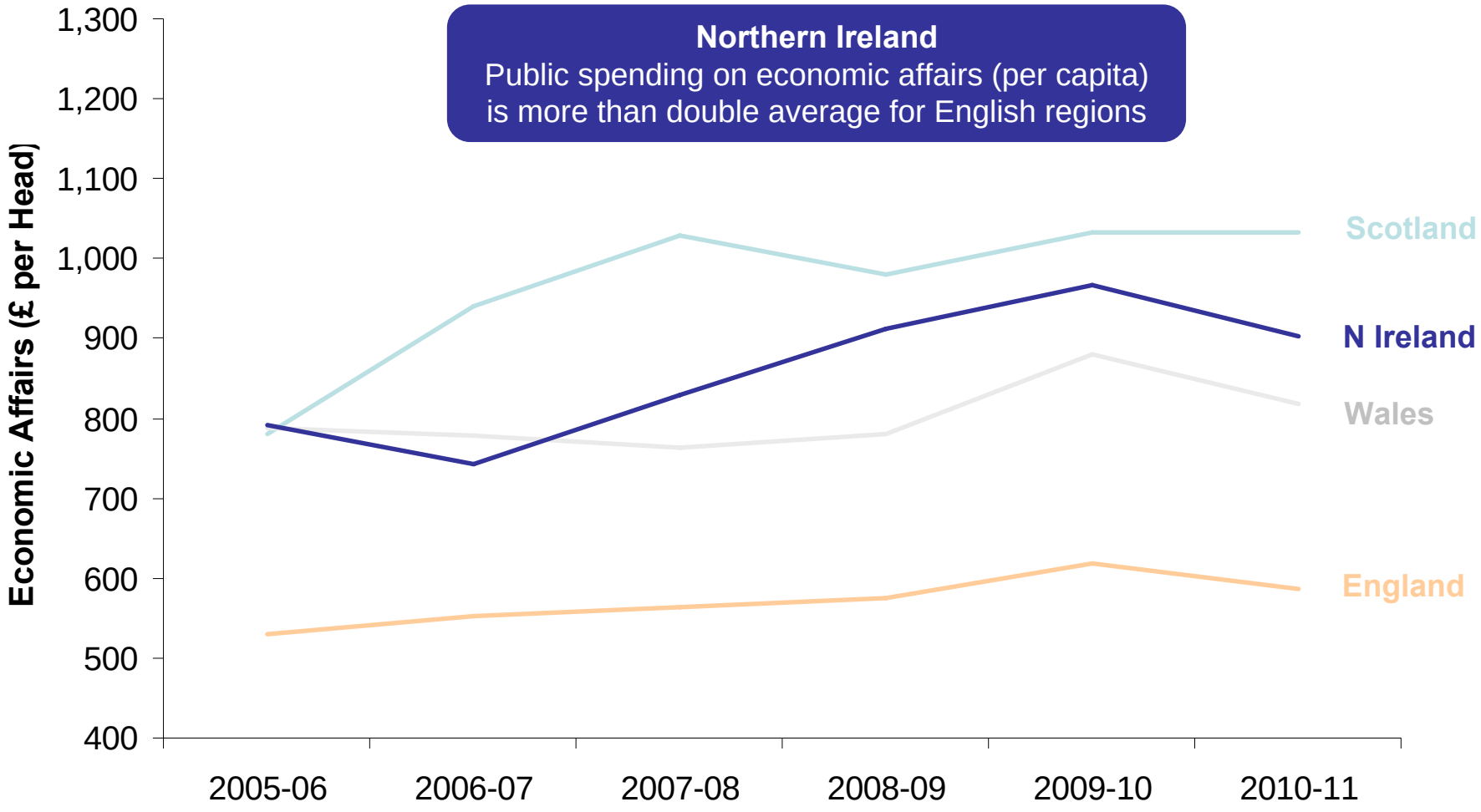
NI has higher public expenditure than many other parts of the UK



Source: PESA Regional Analysis

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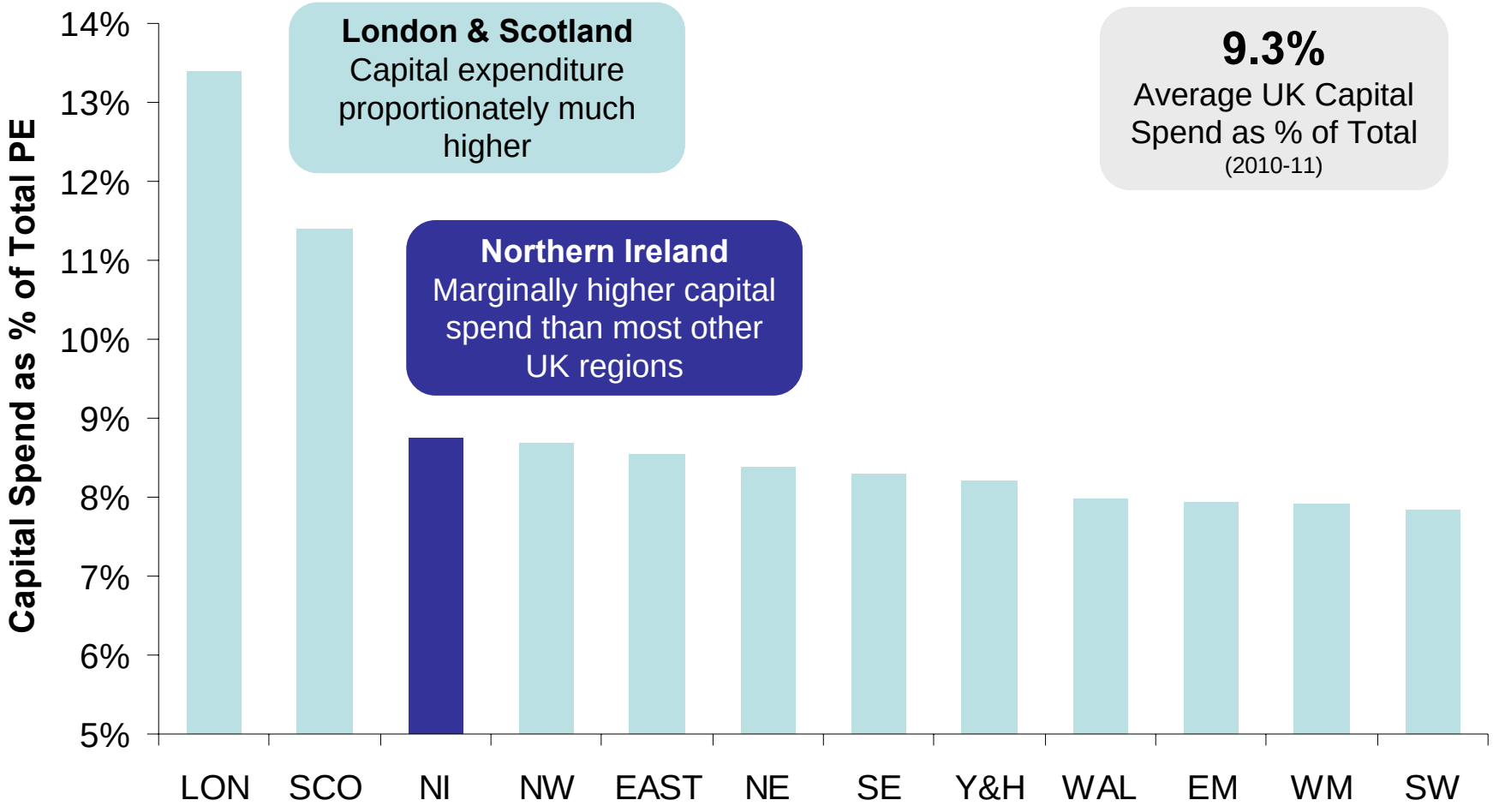
…with capital expenditure broadly similar to elsewhere in the UK…



Source: PESA Regional Analysis

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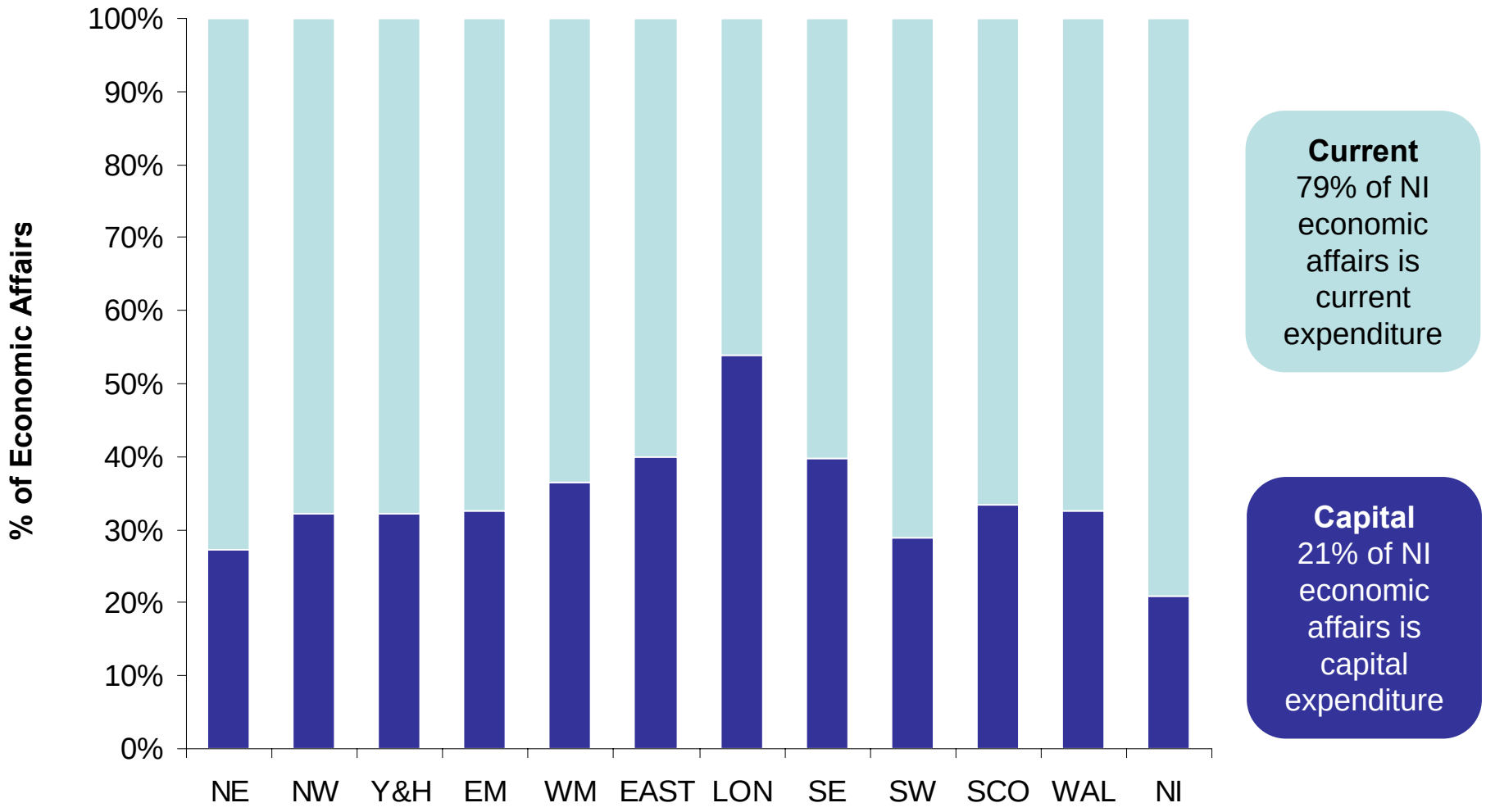
…although capital spend is relatively low on economic affairs



Source: PESA Regional Analysis

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

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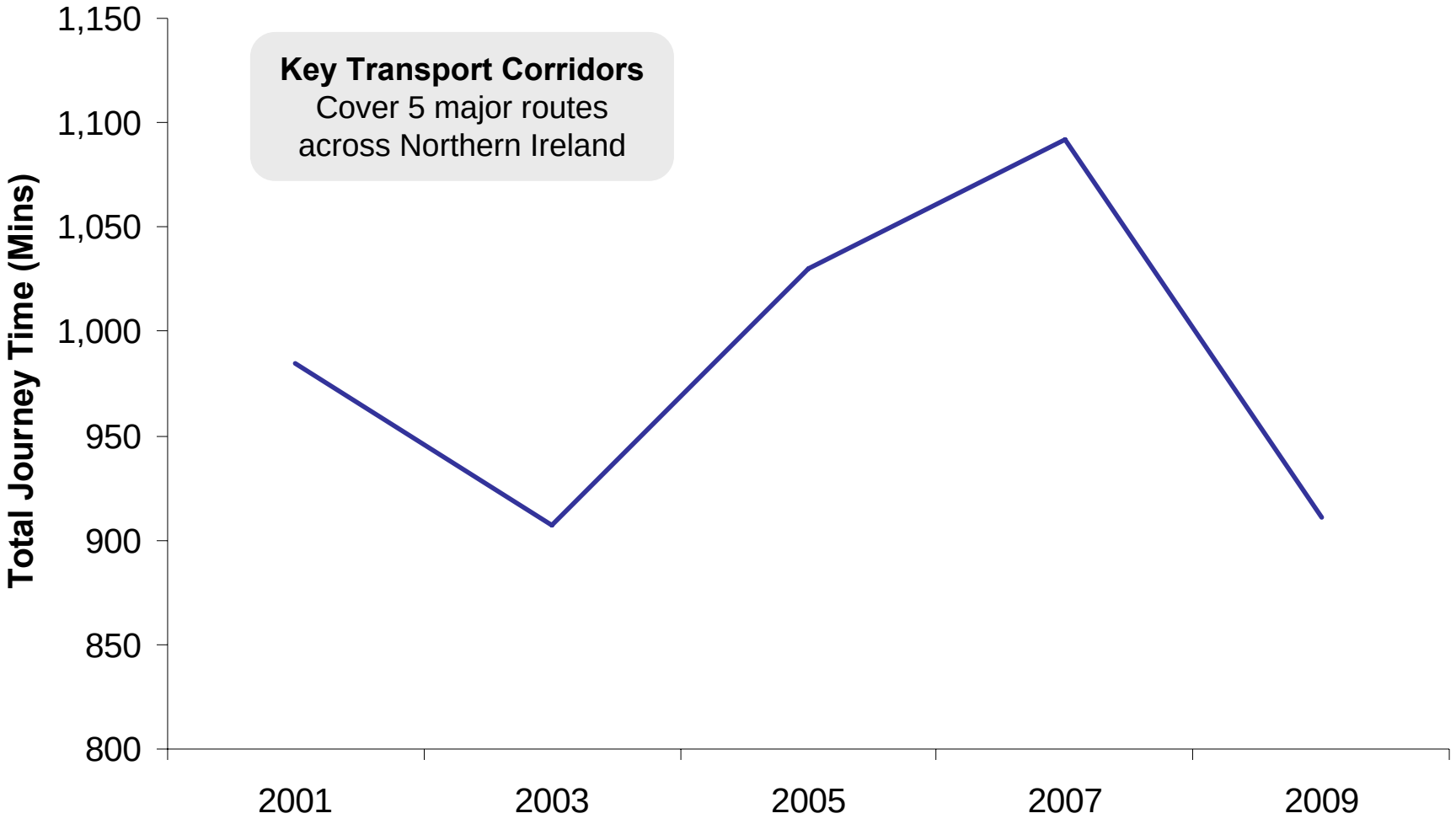
Journey times on key transport corridors are broadly comparable to the level in 2003…



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

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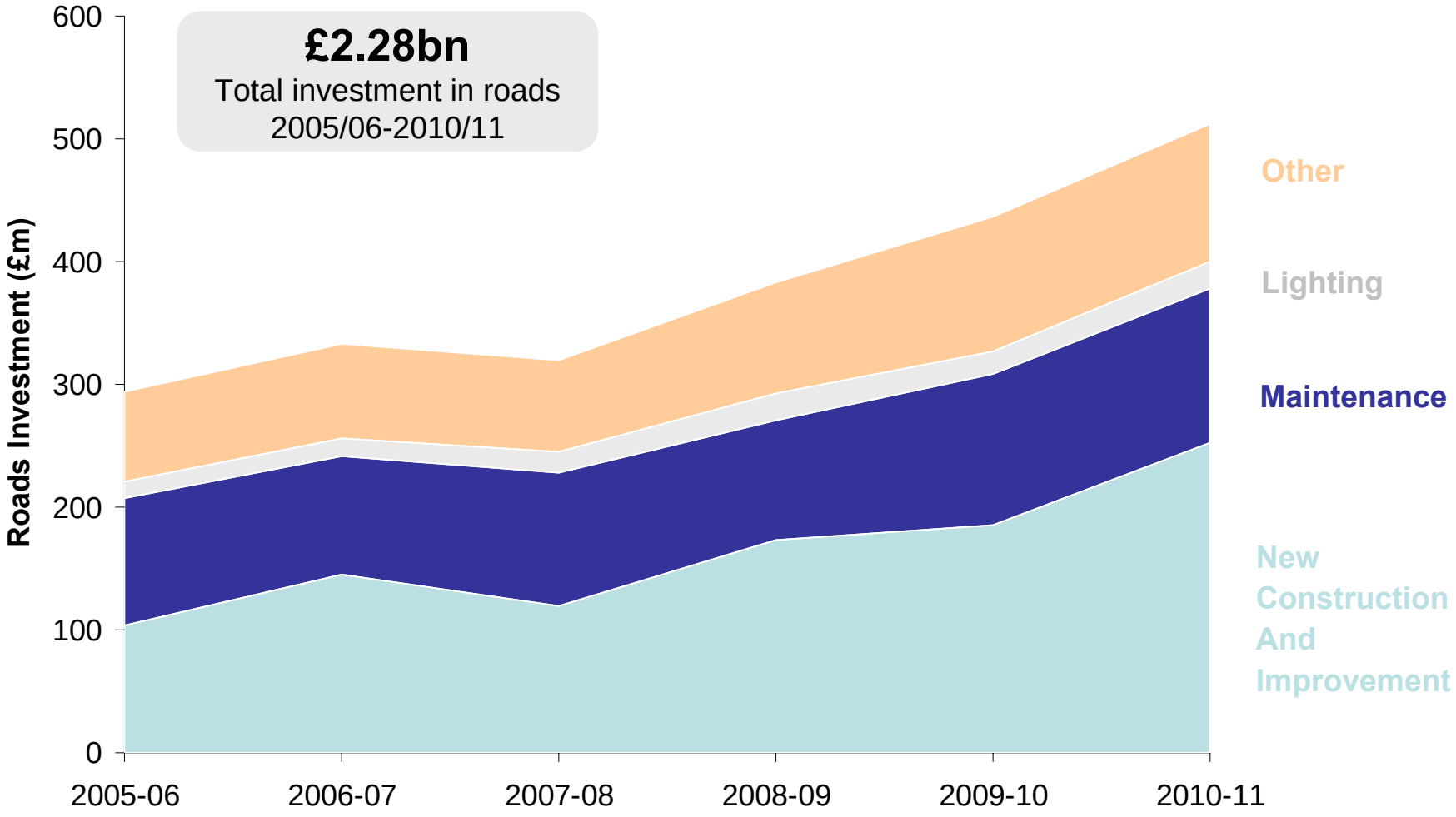
…and there has been significant investment in road infrastructure in recent years



Source: DRD Transport Statistics

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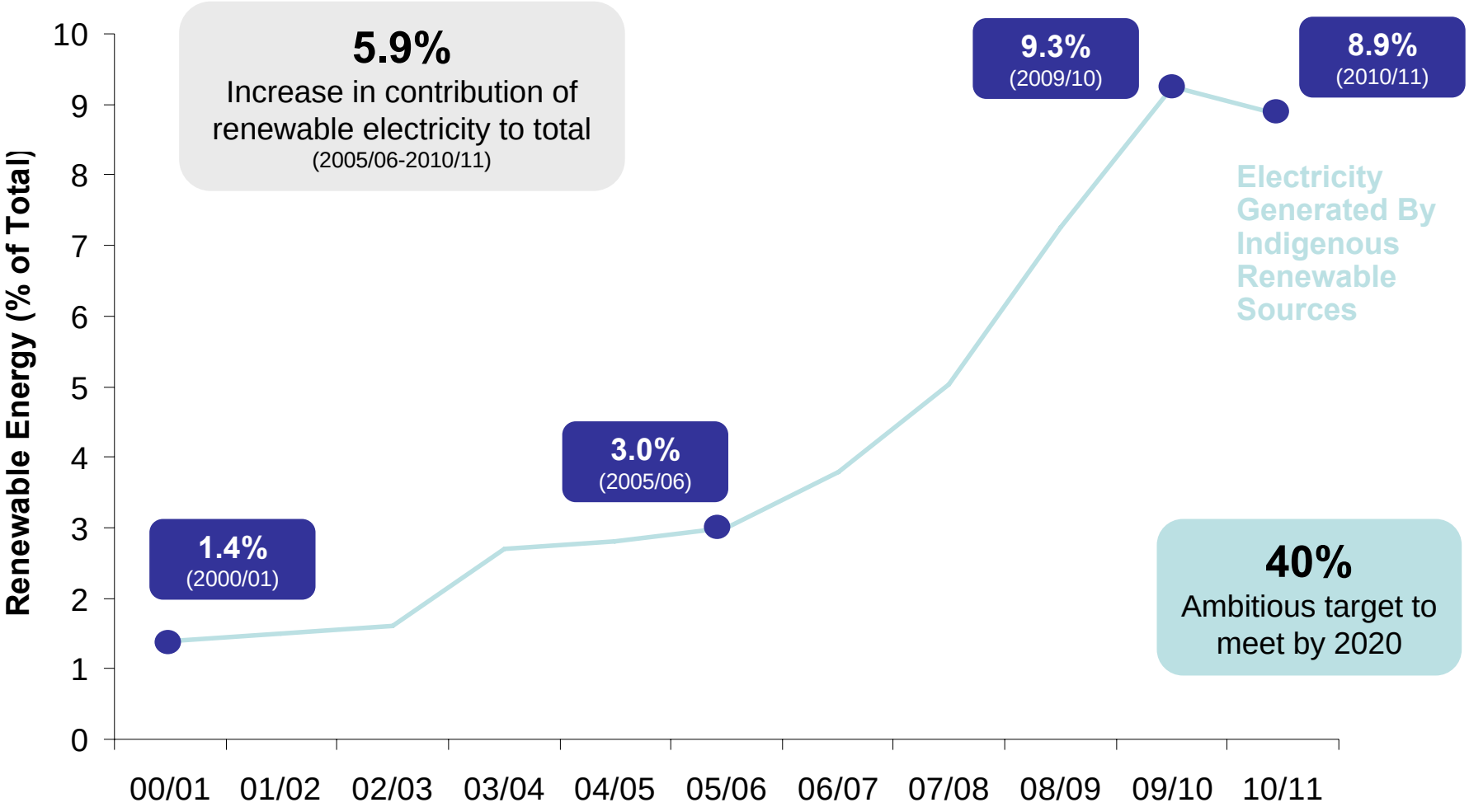
More electricity in NI is being generated by indigenous renewable sources…



Source: NIE Data

Note: Change is expressed as percentage points

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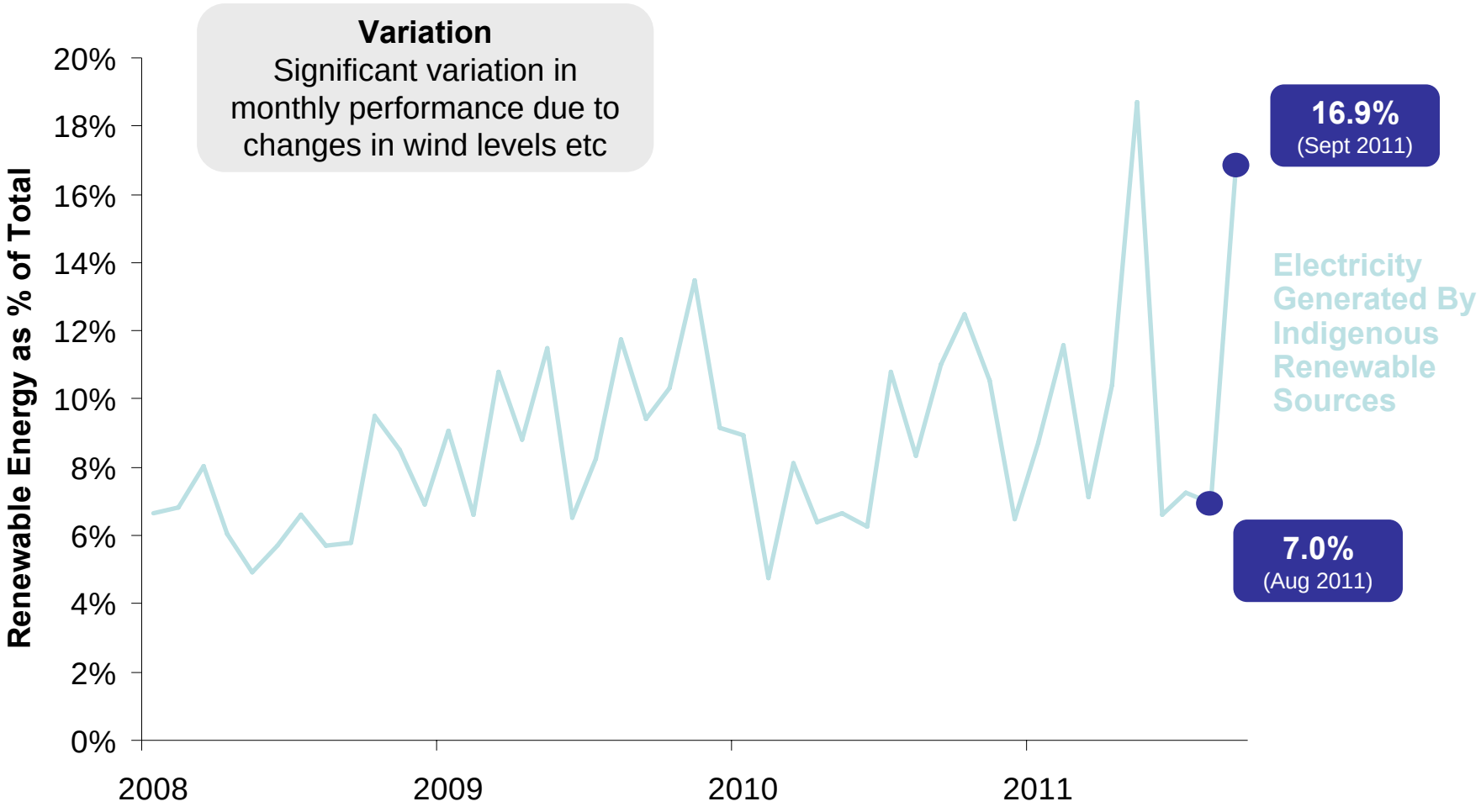
…although performance is reliant on external factors



Source: NIE Data

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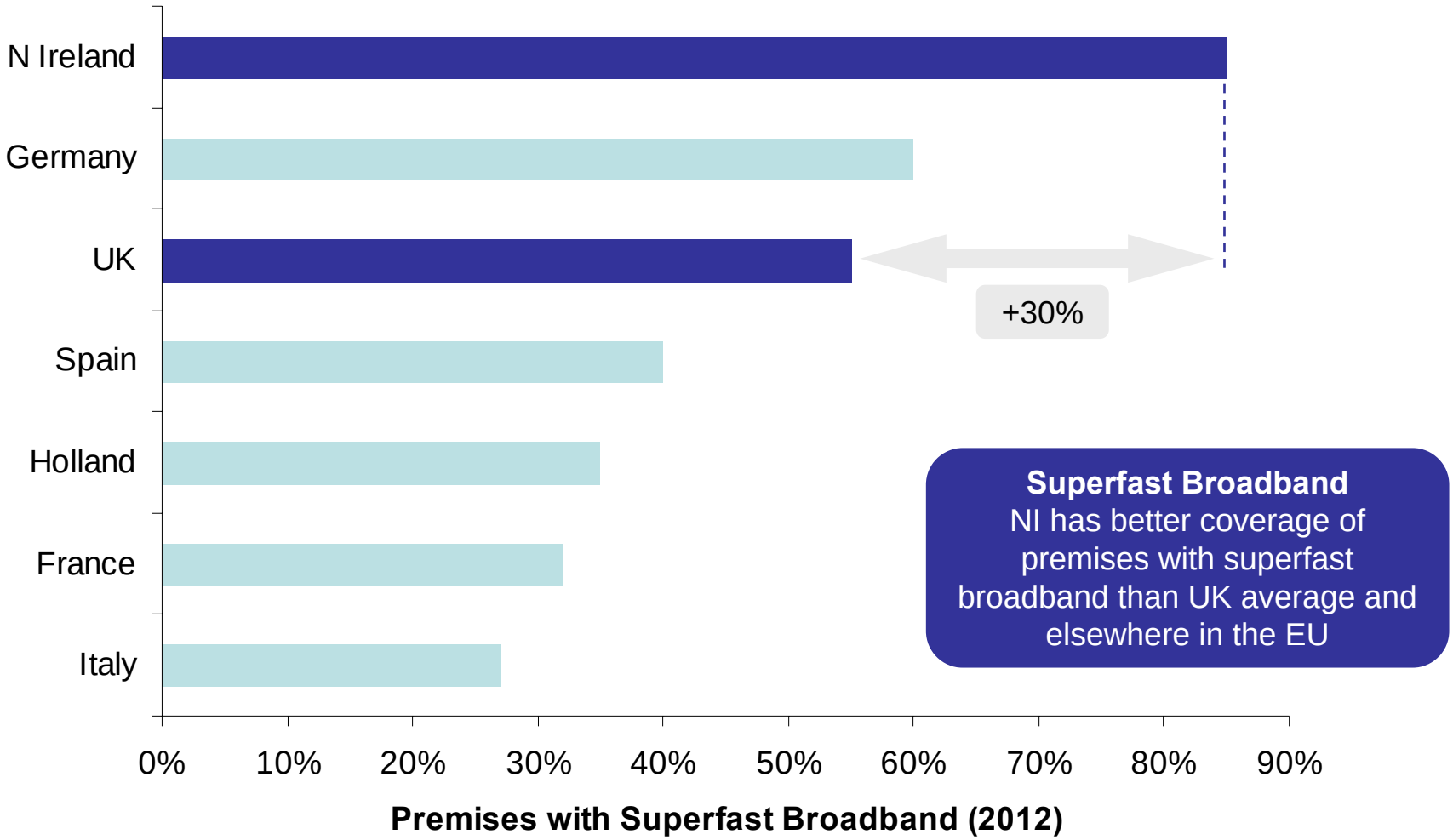
NI has a strong telecoms infrastructure in place…



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

Source: OFCOM International Communications Market Report

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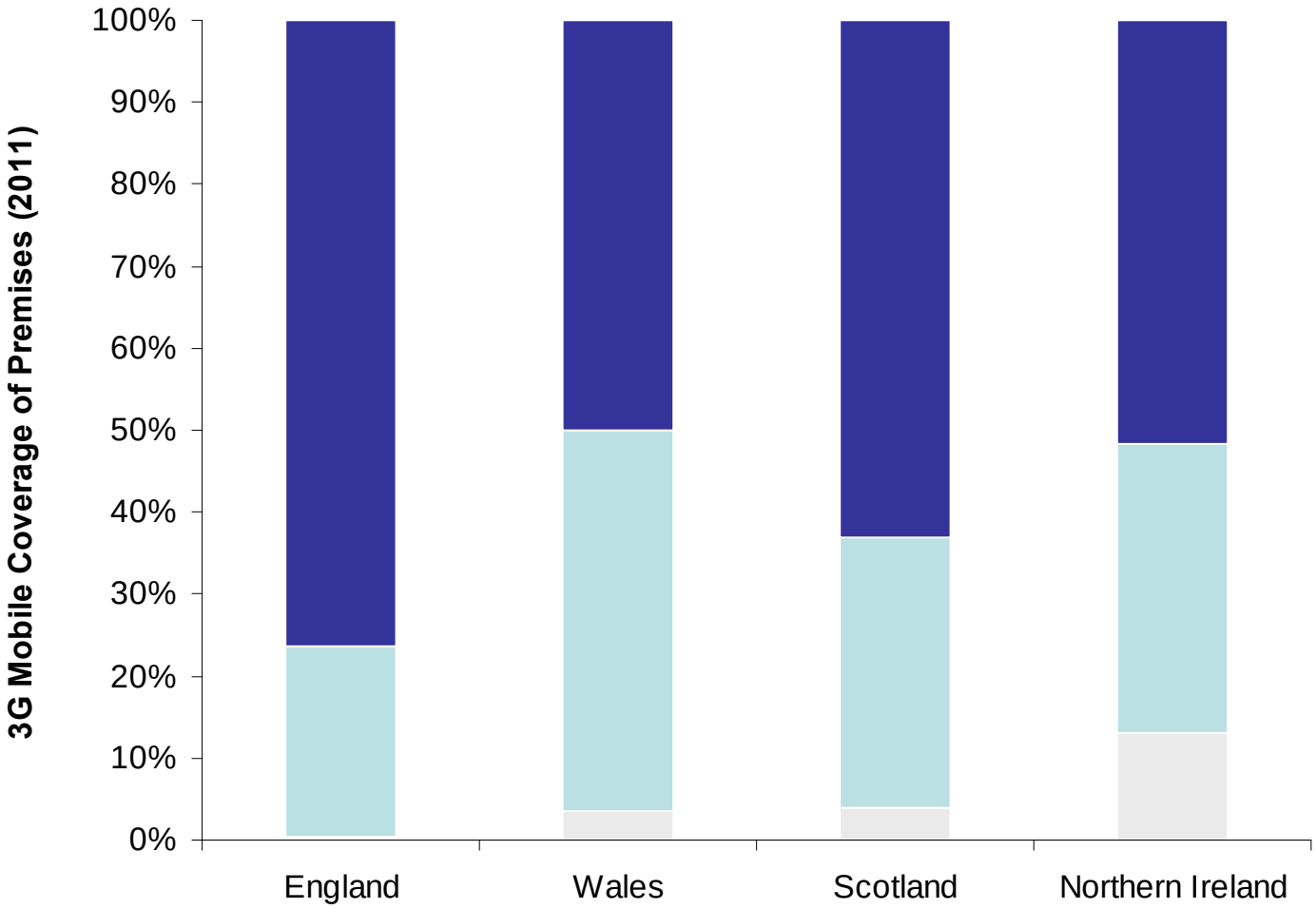
…although some areas have potential to improve further



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

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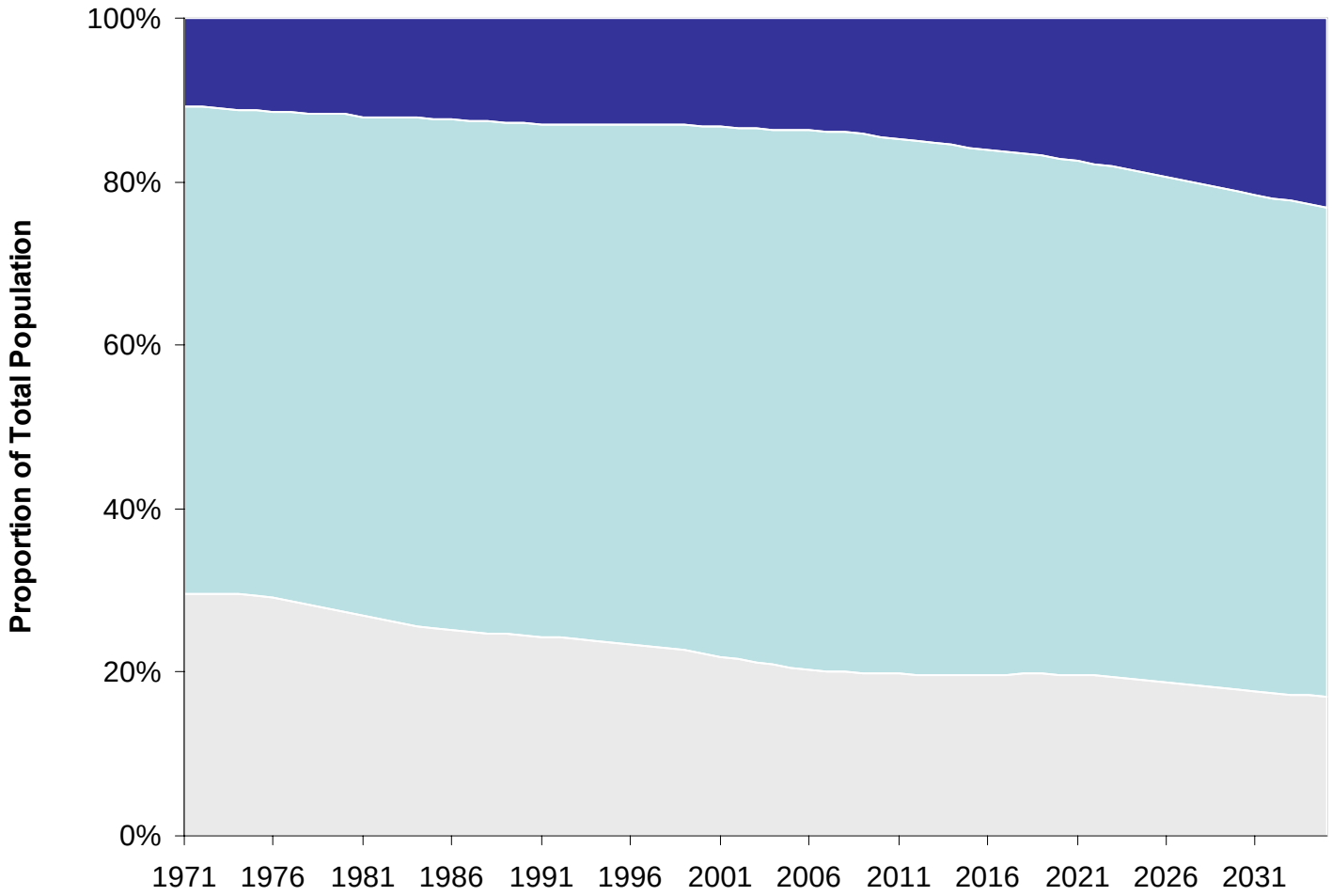
3 Cross Cutting Themes

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

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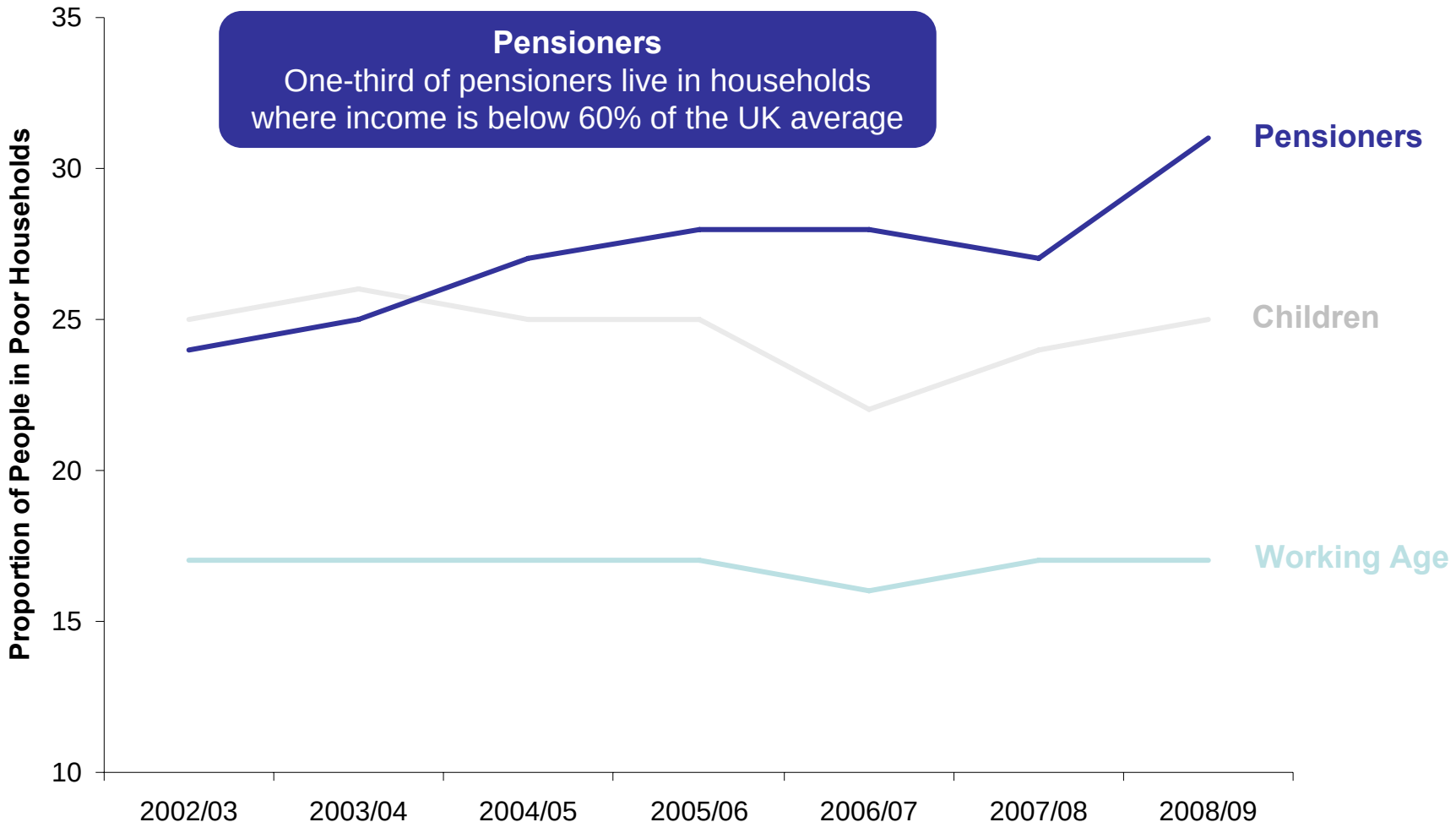
…but more pensioners are living in poverty…



Source: OFMDFM; DSD

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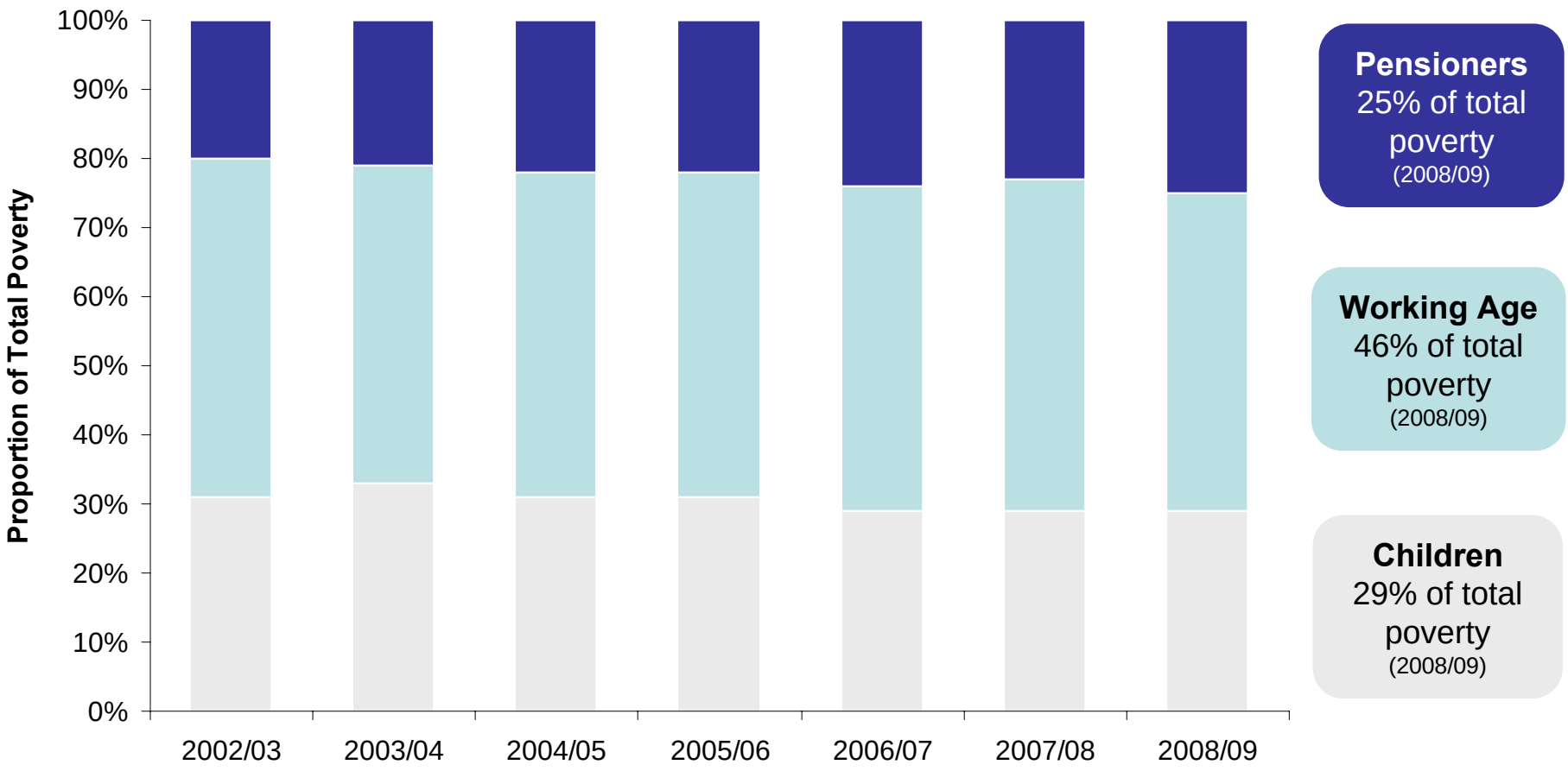
…and they account for a relatively large proportion of those living in poverty



Source: OFMDFM; DSD

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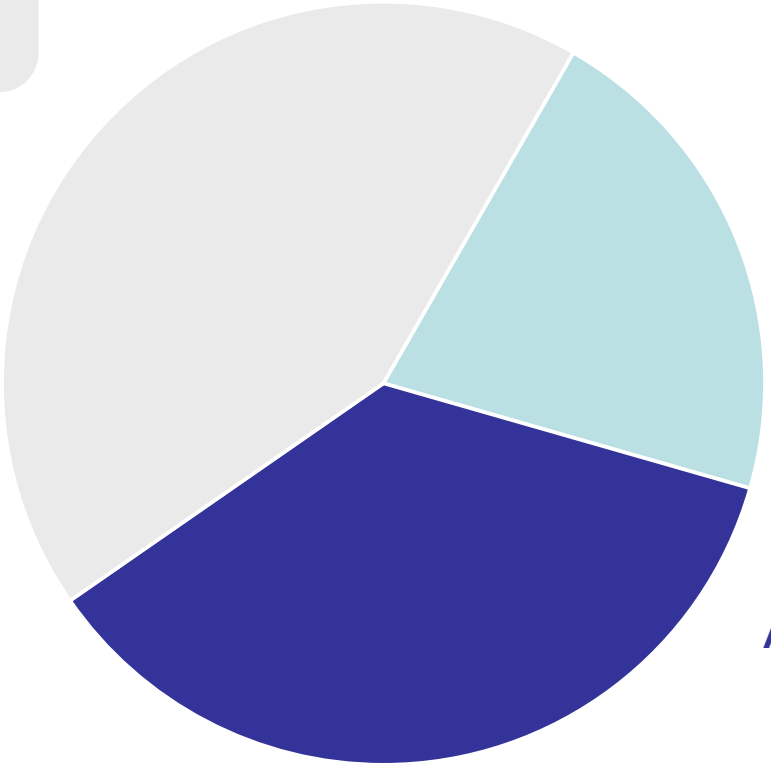
Reducing poverty requires creating jobs and making sure they are well paid…

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

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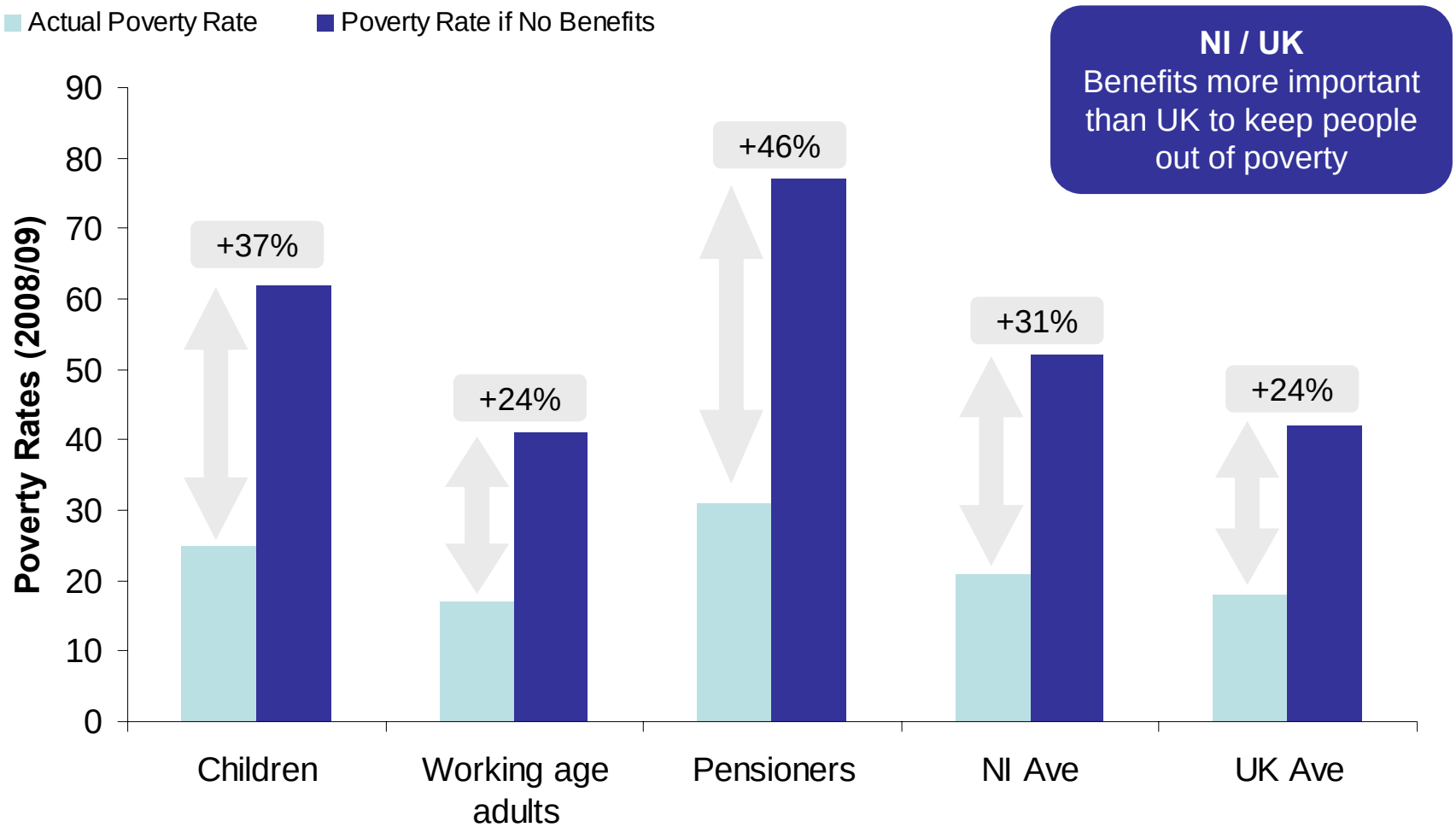
…and many more people would be in poverty if not for social benefits



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

Source: OFMDFM; DSD

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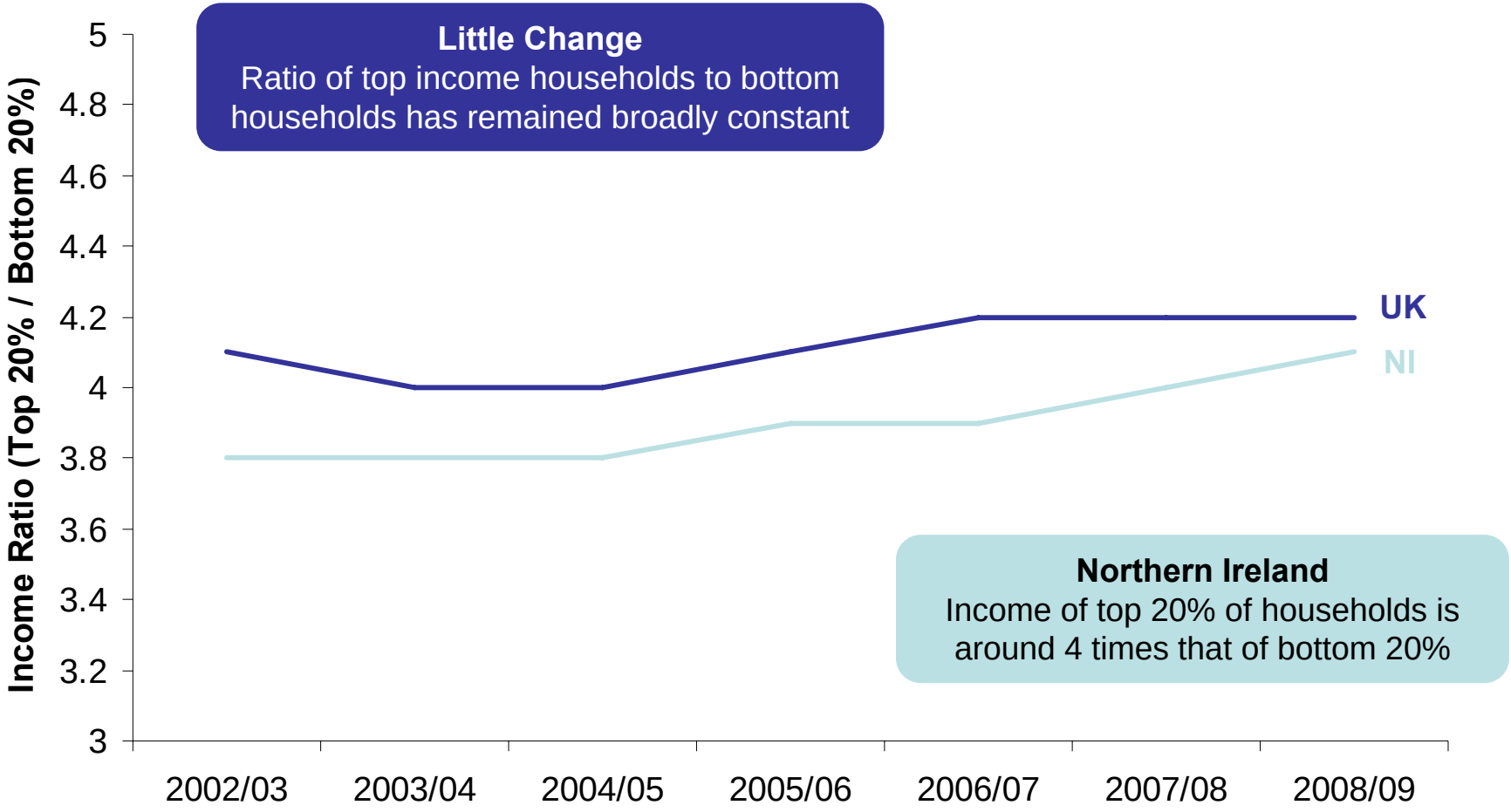
There is a significant gap between the richest and poorest households in society



Source: OFMDFM; DSD

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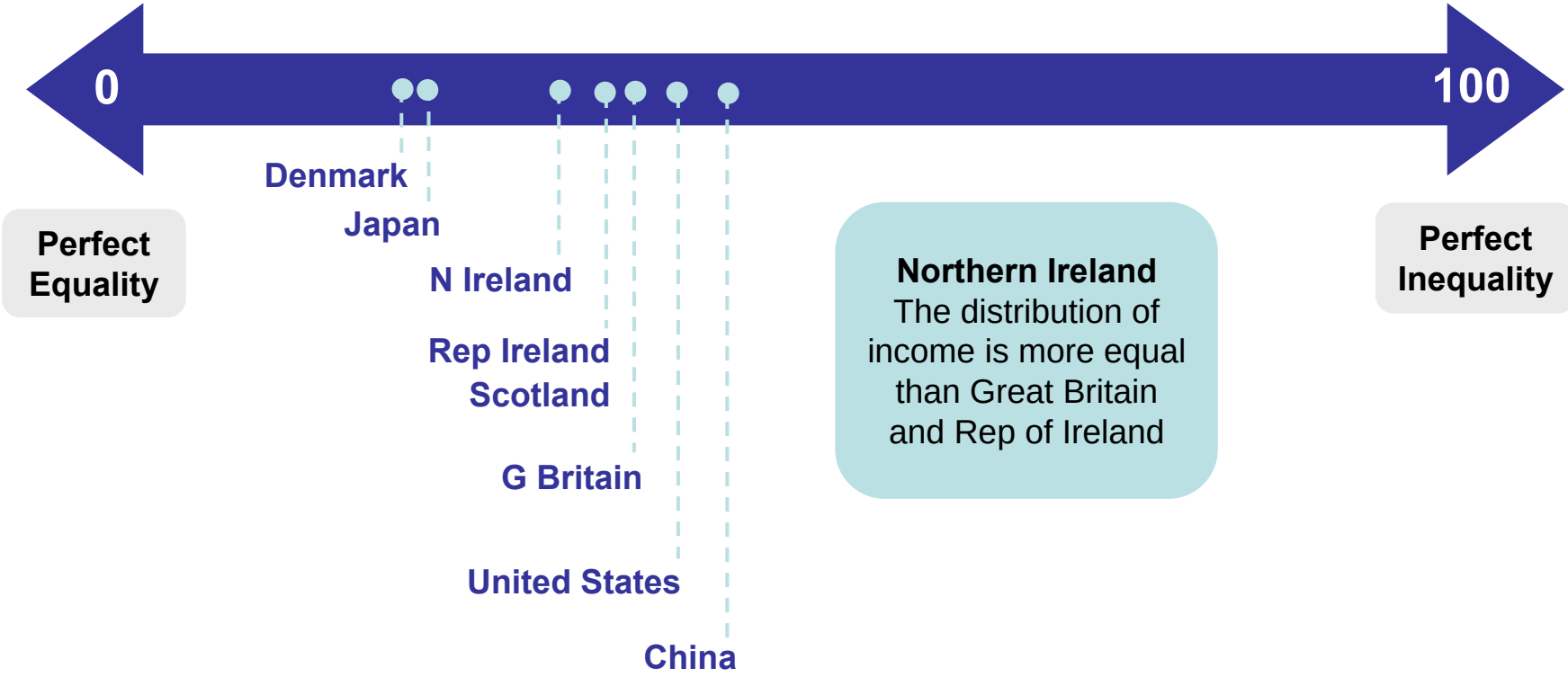
…although there is less income inequality in NI than in other countries

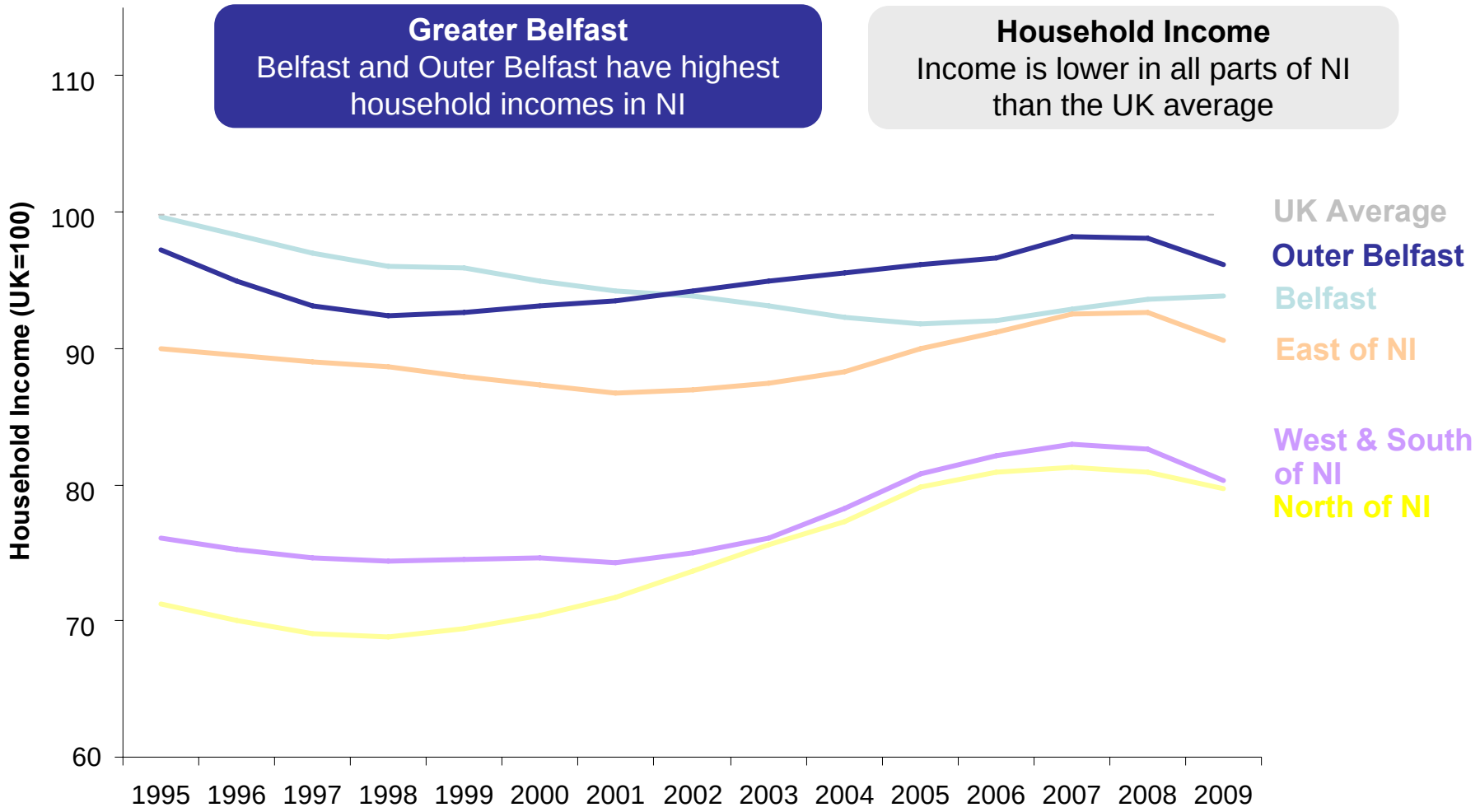
GINI Index (2008 and 2009)



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…



Source: ONS Gross Domestic Household Income

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…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