

Economic Scrutiny Workshop Series

Module 1:

Economic Performance – Why measure economic performance (overall economic output and growth) in Northern Ireland, and how is that done?

Research and Information Service
Finance and Economics Research Team

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Economic Scrutiny Workshop Series

Overall Aim:

To better equip Members of the Legislative Assembly (MLAs) and those who support them (staffers, political party researchers, Assembly officials and others) in Northern Ireland Assembly plenaries and committees

Related Objectives:

Through accessible explanation, reducing complexity and confusion, the themed modules seek to:

1. Increase knowledge and understanding of economics
2. Raise awareness of good practice in economic development
3. Nurture applied learning amongst MLAs and those who support them
4. Strengthen Northern Ireland Assembly scrutiny in plenaries and committees
5. Support delivery of efficient, transparent and accountable governance in Northern Ireland through informed scrutiny and oversight

Four themed modules:

1. **Economic Performance:**

Why measure economic performance (overall economic output and growth) in Northern Ireland, and how is that done?

2. **The Labour Market:**

Why be aware of Northern Ireland's labour market performance?

3. **Sectors and Productivity:**

What are key groups of institutions in the Northern Ireland economy and how is their economic activity categorised?

4. **Economic Impact:**

What are key impacts of individual economic events and how do those impacts subsequently affect the wider economy?

Themes for today:

- ❖ **What is economic performance? And why measure it?**
- ❖ **How is it measured?**
- ❖ **Key headline indicators of economic performance**
- ❖ **Alternative indicators**
- ❖ **Key takeaways**

❖ **What is economic performance? And why measure it?**

❖ **How is it measured?**

❖ **Key headline indicators of economic performance**

❖ **Alternative economic performance indicators**

❖ **Key takeaways**

What is economic performance?

- ❖ Economic performance is a broad concept used to communicate how a country performs in a number of areas – such as economic output, growth, jobs, exports, or public debt
- ❖ Most commonly, it is the measurement of overall economic output of the economy, using the following metrics:
 - At the **national** level:
 - Gross Domestic Product (GDP) and Gross National Income (GNI)
 - At the **devolved / regional** level:
 - Gross Value Added (GVA), Northern Ireland Composite Economic Index (NICEI), and GDP
- ❖ **KEY POINT:** The above metrics are the key published indicators of economic performance for the United Kingdom, Northern Ireland, Republic of Ireland, and international comparators

Why measure economic performance?

- ❖ In Northern Ireland, under the current institutional arrangements under current devolution, economic performance is relevant at central, devolved and local government levels:
 - United Kingdom central government – Macroeconomic growth
 - Northern Ireland devolved government - Economic development ([Northern Ireland Act 1998](#), as amended, Sections 4 and 6)
 - Local government – Economic well-being of a district ([Local Government Act \(Northern Ireland\) 2014](#), at Section 66)

❖ **KEY POINTS:** Understanding economic performance enables Northern Ireland devolved government to:

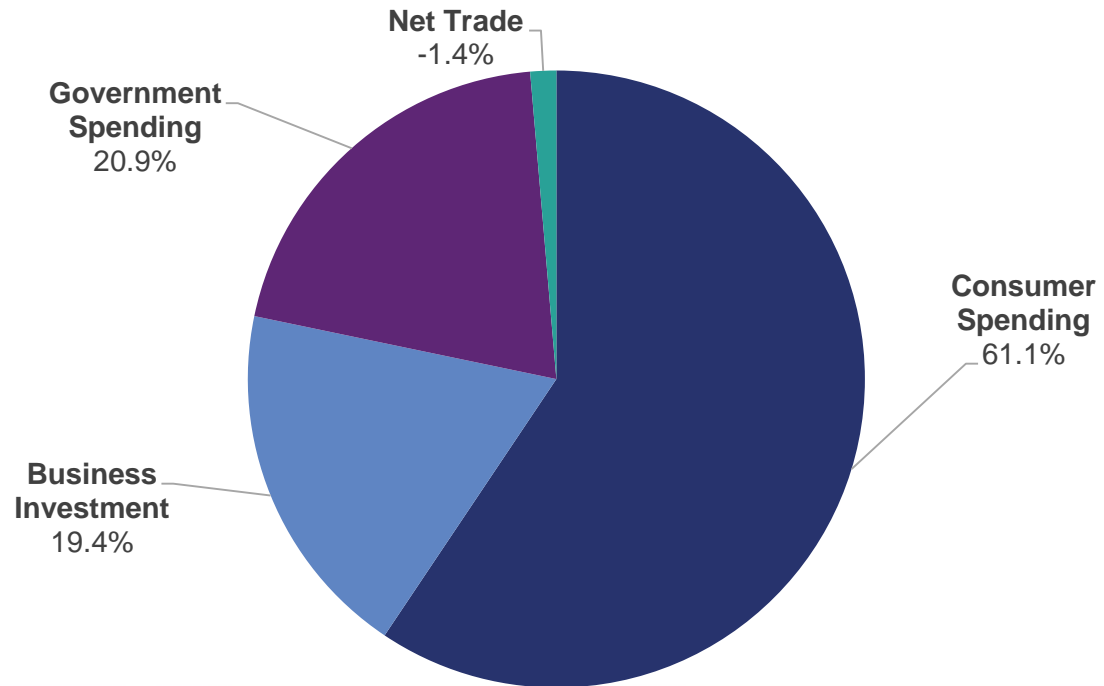
- Understand the reasons why the economy is growing or contracting (looking across Northern Ireland and within local areas)
- Identify Northern Ireland's economic strengths and weaknesses (overall and by area)
- Inform government's solutions to current economic and social problems (at both central and devolved levels, as well as at local level)
- Measure progress / inaction towards achieving targets – for example, economic growth, job creation, export growth (overall and by area)
- Compare against other countries' and regions' performance – as appropriate

- ❖ What is economic performance? And why measure it?
- ❖ How is it measured?
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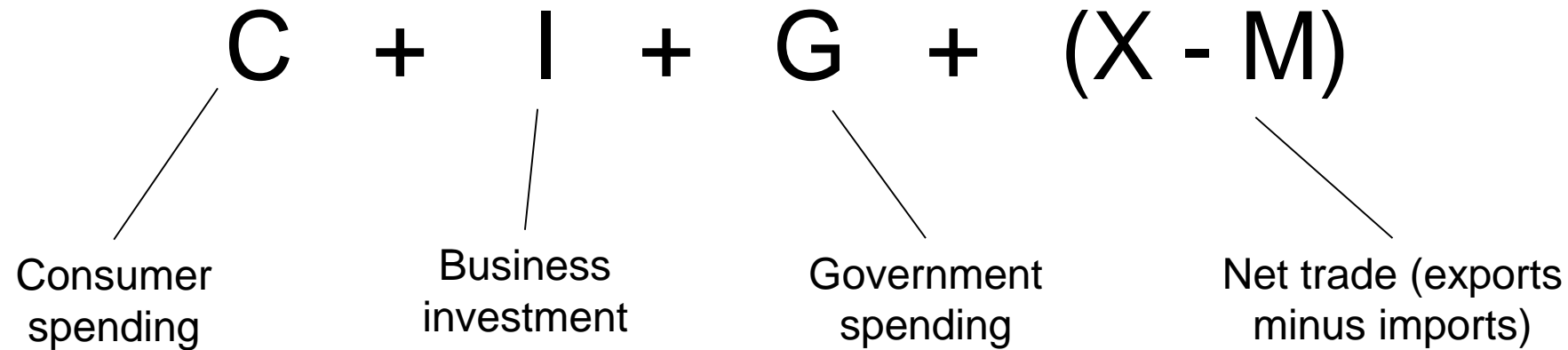
How is economic performance measured?

Using key components of the economy:

$$\begin{array}{ccccccc} \text{C} & + & \text{I} & + & \text{G} & + & (\text{X} - \text{M}) \\ \text{Consumer} & & \text{Business} & & \text{Government} & & \text{Net trade (exports} \\ \text{spending} & & \text{investment} & & \text{spending} & & \text{minus imports)} \end{array}$$



What drives changes in each of these components?




- ❖ **Consumer spending:** inflation, interest rates, consumer confidence, disposable incomes, tax rates
- ❖ **Business investment:** inflation, interest rates, tax rates, research & development (R&D), innovation
- ❖ **Government spending:** inflation, ageing population, government priorities
- ❖ **Net trade:** foreign demand for exports, exchange rates, domestic demand for imports

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Key headline indicators of economic performance

Gross Domestic Product (GDP) – what is it?

- ❖ The key indicator of the size and health of a country's economy over a period of time
- ❖ Based on the value of goods and services produced during a given period
- ❖ Published quarterly by the Office for National Statistics (ONS) at a National level – and more recently – at a [regional](#) level
- ❖ **GDP rising:**  higher incomes, job creation, more consumer / business spending
- ❖ **GDP falling:**  falling incomes, lower consumer / business spending
- ❖ Most recent annual estimates – 2021:
 - **United Kingdom:** £2.28 trillion (£33,400 per head)
 - **Northern Ireland:** £51.7 billion (£27,150 per head)
 - **Republic of Ireland:** GDP: £373 billion (£74,200 per head); GNI*: £200.6 billion (£39,900 per head)

GDP – why is it important?

- ❖ Is the primary way of keeping track of how the economy is doing in terms of its size and health
- ❖ Is the key headline indicator to use when comparing a country or region's economy against others

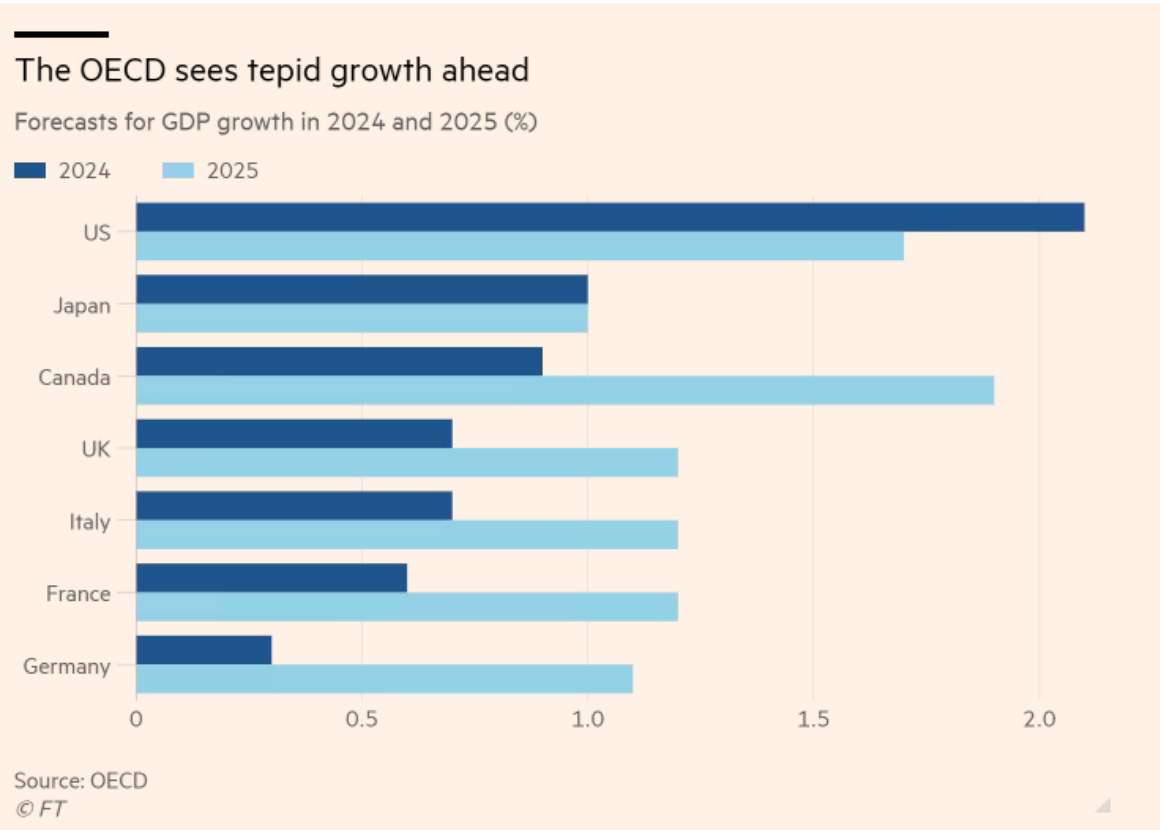
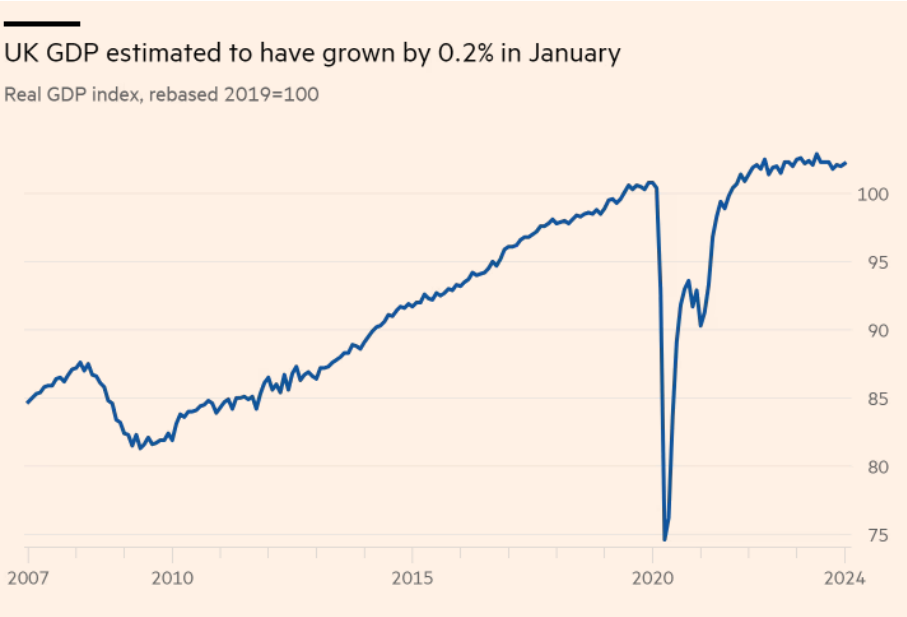
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GDP – how is it calculated?

- ❖ Three methods are used to determine a country's GDP (official figure is a combination of all these):
 1. **Output measure:** Total value of goods produced by all sectors
 2. **Expenditure measure:** Total value of goods and services bought; investment; government spending, trade ($C + I + G + X - M$)
 3. **Income measure:** Total value of income generated in terms of profits and wages
- ❖ Each method is based on estimates from thousands of businesses – but there is a **time lag**:
 - **First estimate:** Based on about 60% of the available data. 3-4 weeks after end of the quarter. Output approach only
 - **Second estimate:** Combined all 3 above approaches. 8 weeks after end of quarter
 - **Third / final estimate:** Produced 12 weeks after end of quarter. Becomes part of the Official National Accounts

Gross Value Added (GVA) – what is it?

- ❖ Measures the increase in the value of the economy from the production of goods and services
- ❖ Used to make comparisons across United Kingdom sectors and regions (GDP not produced at sectoral level for regions – and headline GDP only recently started being published at regional level)
- ❖ Produced by the [ONS](#) at national, regional and sub-regional levels
- ❖ Most recent annual estimates – 2021:

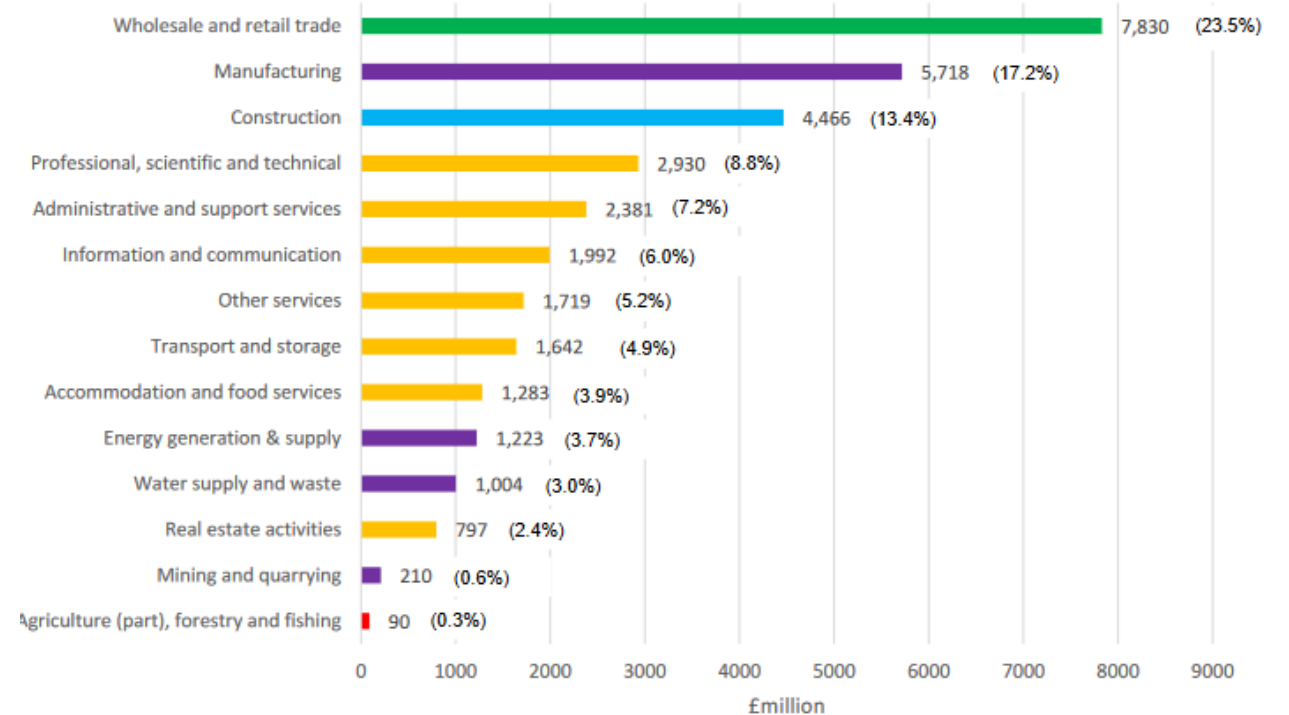
- **United Kingdom:** £2.04 trillion
- **Northern Ireland:** £45.7 billion
- **Republic of Ireland:** £352 billion



GVA – why is it important?

- ❖ Is (historically speaking) the key metric of economic performance for the Northern Ireland – a regional economy
- ❖ Is the primary way to compare Northern Ireland with other United Kingdom regions and to enable sector comparisons
- ❖ Is a key metric for Northern Ireland Statistics and Research Agency (NISRA) statistical publications – such as the Annual Business Inquiry (shown below)

Figure 4: aGVA by Industrial Section (£'million), 2022 (NI NFBE)



Source: [NISRA](#) (January 2024)

GVA – how is it calculated?

❖ Three approaches are used to calculate GVA, using administrative and survey data:

1. **Income approach:** Total of all income earned by residents or businesses in the production of goods & services (meaning profits and wages)
2. **Production approach:** Total of all output minus the cost of raw materials and production costs (meaning intermediate consumption)
3. **Balanced approach:** Experimental combination of the two measures above

❖ Calculation is made:

- Based on administrative and survey data
- Uses a “top down” approach – the national (United Kingdom) total is allocated to the regions based on a range of indicators (for example, industry mix)

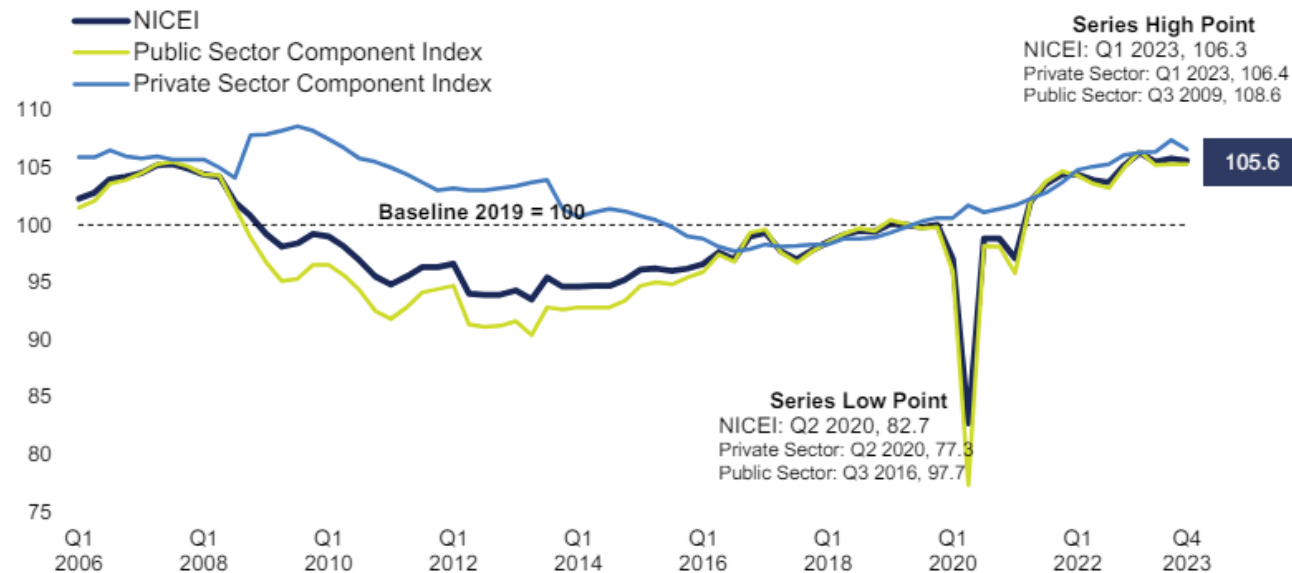
Northern Ireland Composite Economic Index (NICEI) – what is it and why important?

- ❖ Is a quarterly “bottom up” measure of the performance of the Northern Ireland economy, based on official statistics
 - **Note:** GDP and GVA are “top down” measures
- ❖ Produced by NISRA – and is broadly equivalent to the output measure of GDP produced by the ONS
- ❖ Is used by a broad range of users, such as the ONS, economists in the public and private sector, academics, media and the general public
- ❖ Will be reduced to headline results only in future, following the findings of a 2023 NISRA [consultation](#) exercise, with some of the more detailed analysis and economic commentary removed; reducing the NICEI NISRA publication from 19 pages, to around 5 pages

❖ Calculation is made:

- Using estimates based on a range of administrative and survey data sources, including (but are not limited to):
 - Index of Production (IOP)
 - Index of Services (IOS)
 - Labour Force Survey (LFS)
 - Quarterly Employment Survey (QES)
 - Quarterly Construction Enquiry (QCE)

Chart 3: Northern Ireland Composite Economic Index (NICEI), Q1 2006 – Q4 2023³



Source: [NISRA](#) (March 2024)

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Alternative economic performance indicators

❖ What are alternative indicators?

- Other economic and societal “wellbeing” indicators exist, such as GDP per capita, disposable income per head, households’ perceptions of their financial situation, happiness and health

❖ Why are they needed?

- Headline metrics – such as GDP, GVA, NICEI – do not tell the whole story
- Each is only one way to think of a country’s development – for example, just because GDP is increasing, it does not mean that living standards are as well
- Collectively, they can indicate the size and growth of the economy, but can mask how wealth is split up - for example, only a handful better off relative to the majority
- Headline indicators like GDP, GVA, NICEI can be combined with labour market and other key indicators to increase understanding of the economy.
 - That can strengthen evidence bases when advising/scrutinising Executive/departmental policy decisions

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Key takeaways

❖ Economic performance – **what** is it?

- Measurement of headline economic output and good indicator of general “health” of the economy

❖ Simple way to think of the economy:

- **C + I + G + (X-M)**
- Consumer spending + Business Investment + Government spending + Trade

❖ Measuring economic performance

- **Why?**
 - Helps to understand strengths and weakness in the economy
 - Develops evidence-based solutions to economic and social problems
 - Provides ability to follow progress towards strategic goals – at national, regional and local levels
- **How?**
 - National level: Gross Domestic Product (GDP)
 - Devolved/regional level: Gross Value Added (GVA), NI Composite Index (NICEI) – and more recently, GDP

Any Questions

