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6 years after our Wile E. Coyote moment, is the economy ready to hit the ground running

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Six years after our Wile E. Coyote moment, is the economy ready to hit the ground running?

Bears and bulls often feature in economic parlance – the former indicating a market that has experienced significant decline, the latter is a market on the rise. But the Wile E. Coyote is a lesser spotted economic creature who perhaps best symbolises Northern Ireland's experience over the last six years.

Northern Ireland experienced its Wile E. Coyote moment - when the *"super genius"* races off a cliff and for a fleeting moment appears to defy gravity before plunging to the hollow below - around mid-2007.

For Northern Ireland, this was the moment when the so-called 'NICE' decade *(to coin the phrase used by Sir Mervyn King - Non-Inflationary, Continuous Expansion)* came to an end with a 'RUDE' awakening *(Rising Unemployment and Declining Economic activity).*

Prior to that, our economy had enjoyed low inflation and sustained growth in employment, property prices and public expenditure, plus the positive overspill from the Celtic Tiger boom. Furthermore, the economy benefited from its new found political stability, stemming from the setting up of the Northern Ireland Executive.

In short, practically everything that could have been a positive driver for the economy was present in the NICE era. In economic terms, however, we ran over a precipice without realising that gravity would kick in, and practically everything that was positive during the NICE decade went into reverse. It quickly dawned on us that our economic indicators were set to fall from a great height.

In the six years that have followed, the fall has been taking place, and the most frequently asked question has been *'have we hit bottom yet'?* Or, 'is the Northern Ireland economy experiencing a recovery'?

When answering this question honestly, economists increasingly sound like Vicky Pollard of 'Little Britain' fame, with their *"Yeah, but, no but, yeah but…"* responses. Indeed, anyone flicking through the newspapers in recent weeks and months could be forgiven for being confused. Mixed messages have been the order of the day, with optimists and pessimists provided with a steady stream of information to strengthen their respective cases.

But there have been grounds for optimism on a number of fronts which indicate that the coyote may have hit bottom, survived and could soon be up and running again.

The number of corporate insolvencies has fallen in each of the last three quarters. Indeed, the Q1 2013 outturn represented the smallest number of corporate insolvencies since Q3 2009. Meanwhile, the newest edition to the suite of official economic indicators, the Northern Ireland Composite Economic Index (NICEI) rose in both the third and fourth quarters of last year. This follows a peak to trough decline of some 12%.

Last month, the number of individuals claiming unemployment benefit, more commonly known as the dole queue, fell for the fourth month in a row. This is a feat not achieved since before the credit crunch began in August 2007. For most of the last six years new car sales, a key barometer of consumer confidence, have been following a downward trajectory. Indeed, new car sales fell by almost a third between 2007 and 2012. Once again, however, new car sales have experienced some recovery by posting year-on-year increases in each of the last four months. As a result, new car sales over the last 12 months are just 29% off their 2007 high.

As far as recessions go, what has marked out Northern Ireland's current downturn has been the housing boom and bust. Indeed, the housing market has experienced the most pronounced Wile E. Coyote moment of all within the Northern Ireland economy. Therefore signs of a sustainable recovery within the housing market will be the most closely watched barometer of a wider economic recovery. After all, a recovery in the US housing market has been a key factor behind its wider economic upturn.

In this respect, it is encouraging to note that the local housing market too is starting to produce some mixed messages *(i.e. some good as well as bad)* which is a pleasant change from the overwhelmingly negative news flow over the last six years. Granted Northern Ireland house prices are 56% below their 2007 peak, the mortgage market is still experiencing its lowest level of home mover mortgage activity since 1974, and the level of remortgage activity in Northern Ireland is still over 80% below its pre-credit crunch levels. However, last week the latest DSD *(Department for Social Development)* housing bulletin confirmed that 2012 saw its first increase in house completions in six years. The 2012 outturn of 7,900 housing units is still very low by historical standards, but suggests that 2011 now marks the low in house completions. The rise in completions probably also reflects the completion of houses started years ago. This explains why the housing starts figure for 2012 is still marginally lower than the previous year. However, 2012 also looks to be the turning point for housing starts too. Following a lacklustre first half of the year, the second half of 2012 saw year on year rises in housing starts. 2013 is now expected to see a pick-up in house building activity.

In time, these forward looking indicators of economic activity *(housing starts)* will feed through into the lagging indicators of economic activity, most notably the labour market. Last week's Quarterly Employment Survey (QES) reminded us that whilst we may be debating whether a recovery has taken place or not, it has largely been a jobless one, particularly for the construction sector. The total number of jobs in Northern Ireland fell by 1,510 in Q1 2013. Whilst Northern Ireland has been successful in announcing a raft of job announcements in recent weeks and months; the scale of the challenge it faces is worth highlighting. According to the QES, Northern Ireland lost *(in net terms)* 41,480 jobs between Q2 2008 and Q1 2012. Since then only 4% (or 1,800) of those 41,480 jobs have been recouped. As a result, in Q1 2013 there were still 39,680 fewer jobs relative to Q2 2008. Making a significant dent in these figures will be a major long-term challenge.

It is also worth noting that some sectors, and indeed numerous firms, have not experienced any Wile E. Coyote style fall off a cliff. Their experience of the recession has been more akin to the gravity-defying Roadrunner. Two obvious examples within the manufacturing sector are the pharmaceuticals and agri-food sectors, which have not experienced a huge drop in demand whatsoever. Indeed, output from our pharmaceuticals sector, which includes flagship exporters such as Norbrook, Randox and Almac has never been higher. Similarly, there are sub-sectors and firms within the services sector that continue to thrive. The ICT and software sectors are obvious examples. Again firms within this sector don't suffer from a demand deficit. Instead a lack of supply of skilled graduates is their biggest limiting factor to further growth and expansion in the future.

Whilst the Northern Ireland economy currently looks like a rather dishevelled Coyote; we should take some comfort from the fact that Wile E. Coyote never gives up, never dies and is always up and at it again soon after, becoming more innovative by using whatever resources it can get its hands on. However, the trick is to break the cycle, learn from the mistakes and avoid any Wile E. Coyote moments in future.

Richard Ramsey,
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