

# Computer says yes but consumer says no!

Contact: Richard Ramsey  
Chief Economist, Northern Ireland  
02890 276354 or 07881 930955

[Richard.ramsey@ulsterbankcm.com](mailto:Richard.ramsey@ulsterbankcm.com)  
[www.ulsterbank.com/economics](http://www.ulsterbank.com/economics)  
Twitter @UB\_Economics

***Appears in Belfast Telegraph Business Month published 7<sup>th</sup> October 2013***

At the start of the year I highlighted that 2013 was likely to be the year of the *'spreadsheet recovery'*. The latter describes a situation whereby economic anoraks notice technical improvements in the economy, such as a pick-up in GDP growth, but outside of that, 2013 would be more of the same for households and many corporates. Some nine months on, however, the recovery within the corporate sector has been somewhat stronger than I anticipated with business activity, new orders and investment intentions all on the rise. As a result, for many firms and sectors, the economic recovery has become more tangible than the spreadsheet variety alluded to earlier. Furthermore, the increase in demand has resulted in an increase in staffing levels too. It is also worth noting that some sectors of the economy, notably the pharmaceuticals and software sectors, completely avoided the recession. For them, they have struggled with skills shortages as opposed to a lack of demand.

Whilst the ongoing improvements in business conditions are encouraging, the fact that that *'recovery'* seems as far away as ever for households is concerning. For them, the idea that an economic recovery is underway is a case of *'computer says yes but consumer says no'*.

Speaking at last week's Conservative party conference, former Chancellor Ken Clarke said that the Tories are in a difficult political position because the ordinary person is not feeling much economic benefit from the recovery. Recently, the lack of a household recovery, or the *'cost of living recession'* within the UK has become the centrepiece in the changing political narrative. Indeed the battleground for the next UK election has shifted from a debate about whether the economy is growing or not to one about the cost of living. At the Labour Party Conference in Brighton, the party's Leader, Ed Miliband promised the electorate that gas and electricity bills would be frozen for all households and businesses for 20 months if Labour wins power in 2015 and he said that they would push through reforms to increase competition in the energy sector to help bring down prices.

Not to be out-done, the Chancellor, George Osborne at the subsequent Tory Party Conference in Manchester announced that he plans to freeze fuel duty until May 2015 to help motorists with the cost of living. And though only partly attributed to the cost of living, the Lib Dem Leader Nick Clegg was the first to get in on the act with his announcement of funding free school meals for all infants a few weeks ago. We can expect a ramping up of the cost of living rhetoric and policy announcements between now and the next general election.

And when we look at the data, it's not a surprise that the politicians are so keen to be seen to be responding to the issue. A recent report has laid bare the real cost of the financial crisis on the UK household finances and those of Northern Ireland in particular. Five years ago Asda launched its Income Tracker report with the Centre of Economics and Business Research (CEBR). The report looks at the monthly spending habits and discretionary incomes of households across the UK after taking after tax income and cost of living into account. The Income Tracker monitors discretionary family spending power which means the money that is left over after essential items (*food, utilities, housing costs, clothing etc*) are taken into account. This includes spending for eating out and entertainment.

According to Asda's Income Tracker Special Report (*An In-Depth Look at the Real Cost of the Financial Crisis: 2008-2018*) the average UK household now spends £2,808 a year more (*or £54 per week*) on essential items than they did in 2008. This is despite the fact that the Bank of England lowered its interest rate, and therefore mortgage costs, to a record low in March 2009.

In Northern Ireland households have seen their spending power hit much harder than any other UK region, according to The Asda / CEBR analysis. This was due to the fact that Northern Ireland

households experienced the steepest rise in the cost of living over the last five years (+16.6%) and the lowest increase in incomes (+12%) of all the UK regions. As a result, Northern Ireland was the only region within the UK to witness a fall in discretionary incomes since 2008.

According to the Income Tracker, Northern Ireland households now spend £24,100 a year on essential items (*includes energy, food, housing costs etc*). This represents £3,500 more, or £67 per week, than local families spent in 2008. It is noted that only three UK regions (*London, the South East and East of England*) experience a higher cost of living than Northern Ireland. The scale of Northern Ireland's cost of living disadvantage is perhaps surprising and unfortunately the report doesn't provide a detailed breakdown of the significance of the individual components of essential household expenditure that explain this difference.

With the report predicting a further decline in household spending power in Northern Ireland in the five years ahead, the issue is clearly significant from an economic perspective, particularly when the Bank of England begins to move interest rates upwards off their current lows.

As far as a meaningful sustainable recovery is concerned, it looks like it will be quite some time until both the computer and consumer say yes.

*Richard Ramsey,  
2<sup>nd</sup> October 2013*

This document is issued for information purposes only for clients of Ulster Bank Group who are eligible counterparties or professional customers, and does not constitute an offer or invitation to purchase or sell any instrument or to provide any service in any jurisdiction where the required authorisation is not held. Ulster Bank and/or its associates and/or its employees may have a position or engage in transactions in any of the instruments mentioned.

The information including any opinions expressed and the pricing given, is indicative, and constitute our judgement at time of publication and are subject to change without notice. The information contained herein should not be construed as advice, and is not intended to be construed as such. This publication provides only a brief review of the complex issues discussed and readers should not rely on information contained here without seeking specific advice on matters that concern them. Ulster Bank make no representations or warranties with respect to the information and disclaim all liability for use the recipient or their advisors make of the information. Over-the-counter (OTC) derivatives can involve a number of significant and complex risks which are dependent on the terms of the particular transaction and your circumstances. In the event the market has moved against the transaction you have undertaken, you may incur substantial costs if you wish to close out your position.

Ulster Bank Limited Registered Number R733 Northern Ireland. Registered Office 11-16 Donegall Square East, Belfast, BT1 5UB. Authorised and regulated by the Financial Services Authority. Member of The Royal Bank of Scotland Group.

Ulster Bank Ireland Limited . A private company limited by shares , trading as Ulster Bank , Ulster Bank Group and Bank Uladh. Registered in Republic of Ireland. Registered No. 25766. Registered Office: Ulster Bank Group Centre, George's Quay, Dublin 2. Member of the Royal Bank of Scotland Group. Ulster Bank Ireland Limited is regulated by the Central Bank of Ireland.

Calls may be recorded.



**Ulster Bank Limited accepts no liability for the outcome of any actions taken arising from the use of this article**