

# 2013: The Year of the 'Spreadsheet Recovery' – Computer Says Yes but Consumer Says No.

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

According to the Chinese zodiac, 2012 was the year of the dragon, however, there were few economies breathing fire. The US economy saw economic growth accelerate relative to 2011, but it proved to be the exception rather than the rule, with most economies, and the global economy as a whole, experiencing a significant slowdown.

2013 is the year of the snake, which seems appropriate from a UK perspective, as a low-level undulating crawl and a zig-zagging GDP profile look likely. The 'double-dip' was a well-worn headline last year and some are preparing for a 'triple-dip' sequel this year. Even if the UK avoids a third technical recession (*defined as two successive quarters of negative GDP growth*) it is expected to see growth of just 1% at best.

The Republic of Ireland is expected to post growth of 1.5%, which is an improvement relative to 2012 but still well below the robust growth rates characteristic of the Celtic Tiger years. Meanwhile, the Eurozone is expected to post a second successive year of contraction. The latter is not ideal for local firms hoping to boost trade with Northern Ireland's largest export market.

Whilst the UK's and the Republic of Ireland's GDP performances in 2013 are expected to pick up, these will really only represent technical improvements for economic anoraks. 2013 will be largely more of the same for households and many corporates. There will be a lag before the 'spreadsheet recovery' translates into a sustainable increase in consumer spending and wider consumer confidence.

Dealing with the legacy of debt will be the main growth inhibitor for Northern Ireland's two most important economies for the rest of the decade and indeed for Northern Ireland itself. The process of de-leveraging and debt-recovery will be measured in years, not months.

Last year the Northern Ireland economy is estimated to have contracted by close to 1%. This represented a fourth year of below zero growth in five. The housing market and construction industry have experienced an even more prolonged downturn. Average house prices have fallen in each of the last five years. 2013 would take this to a sixth year.

Meanwhile this year will cap seven years of a metaphorical economic 'famine' for the local house-building sector. Following the property downturn, the construction sector has received more than its fair share of the so-called fiscal austerity. The sector, which has already lost one third of its workforce, will bear the brunt of the public expenditure (*capital investment*) cuts. Last month's Autumn Statement and November's package of economic measures from Northern Ireland's policy-makers offered welcome support to the sector on this front.

In 2013, the prospect of the Northern Ireland economy escaping recession in its technical sense is probably 50:50. Any growth or further contraction is expected to be marginal, within the range -0.5% to +0.5%. The economy will continue 'to bump along the bottom' during the year, neither getting significantly better or worse.

In terms of the human recession, 2013 is expected to be the 6<sup>th</sup> successive year of rising unemployment. Northern Ireland's volatile unemployment rate, which recently touched 8.2%, is expected to peak at around 10% either late-2013 or by mid-2014. Most of this increase, however, will result from changes in welfare benefits rather than job losses.

The human recession is not confined to the unemployed. Those in employment will continue to experience a decline in their standard of living. Inflation (CPI) is expected to remain above the Bank of England Monetary Policy Committee's 2% target throughout 2013. With average earnings rising by even less, the squeeze on household incomes will continue.

The main challenges facing the local economy, like economies elsewhere, are external and fiscal. Growth in the world's largest economy, the US, is set to slow. The scale of this slowdown will be dependent upon how steep its '*fiscal cliff*' is (*the rise in taxes and fall in public expenditure*). Politics will come to the fore in mitigating against adverse economic outcomes in both the US and in the Eurozone. The Italian and German elections will be key events that will either help or hinder efforts at further Eurozone fiscal integration. Before then, we anticipate another round of financial market stress, with Spain set to join Ireland, Greece and Portugal in requesting a full bailout. This will spur the ECB into action, with Mario Draghi set to become the most prominent central banker or policy-maker in 2013. Sir Mervyn King, on the other hand will exit stage left mid-year.

But just like Northern Ireland's main challenges are external, so too is one of its main opportunities, in the form of overseas tourists. With major events like the City of Culture celebrations and the World Police and Fire Games, 2013 will see an influx of visitors that will help provide a boost to the economy and particularly the hospitality and retail sectors.

Beyond this year, 2014 is the year of the horse. Those at the reins of the global economy will have a difficult task that year too, but assuming they aren't flogging a dead horse, they should be able to get the economy off the ground and aim for a canter, if not a gallop. But there are plenty of fences to jump before we get there.

*Richard Ramsey,  
17<sup>th</sup> December 2012*

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