Group Economics

Ulster Bank

Are Northern Ireland's consumers on the road to recovery?

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There have been increasing signs in recent months that the Northern Ireland's economic recovery, as far as businesses are concerned, is gaining momentum. Indeed, yesterday's Ulster Bank PMI report signalled the eighth successive month that firms have reported an increase in business activity and employment. But how is the consumer faring? Are there any signs that a consumer is accelerating along the road to recovery? On this front, a quick look at the economic data throws up some mixed messages.
February represented the thirteenth consecutive month that Northern Ireland new car sales have posted year-on-year increases. Last month Northern Ireland car dealers sold over 10% more cars than they did in February 2013. Meanwhile retailers responding to the monthly Ulster Bank PMI survey reported that sales and new orders in February expanded at their fastest rate since the series began in January 2003. Both of these indicators point to rising consumer confidence in Northern Ireland. But do they?

Increasingly, it should be noted that with the growth of the internet, local retailers' sales and performance has become more sensitive to consumer sentiment in Great Britain, the Republic of Ireland and further beyond. Indeed, some of our online retailers have posted year-on-year growth throughout the downturn when consumer confidence was clearly falling. The reality is that retailing, or at least increasing parts of it, has become about exporting as much as selling to the domestic market. Therefore increasing retail sales figures in Northern Ireland can partly be explained by improved consumer sentiment in the RoI and GB.

The rise in the headline number of new car sales conceals differing performance across brands, and changed consumer behaviours. Remember that despite last year's rise in new car sales, the number of cars sold was still more than one-fifth below that of 2007. However, some brands have fared better than others, with some prospering whilst others have floundered. 2013 was a record year for new car sales by Audi, Kia, Skoda and Hyundai. The strong performance by Audi highlights that some premium brands have experienced practically no recession whatsoever. Conversely, last year BMW, another premium brand, posted its worst year of new car sales figures since the downturn began. In 2013 the number of BMWs sold was 35% below the figure for 2007. Japanese brands have also had a torrid time over the last 5 or 6 years.

And it's not just premium brands. There has been a noticeable 'squeezed middle' evident in the new car sales figures. For instance, back in 2007, local car dealers sold ten times more new Renault cars than Kias. Meanwhile Peugeot outsold Hyundai by two-and-a-half-times. Fast forward to 2013, however, and both these South Korean brands outsold their French counterparts. During recession, there are winners and losers and during recovery there will still be winners and losers too within different markets and sub-markets. Consumers have become more sensitive to value-for-money, practicality, and fuel efficiency. Therefore it's not just the brands that have changed but the models being sold within these brands. Smaller, more fuel efficient cars are accounting for a larger share of new car sales, such as Audi A1, BMW 1 Series, and the Fiat 500. It is noted that back in 2008 BMW sold more of its 5 Series than it did of its smallest model, the 1 series. Now this trend has been reversed. Other makes have experienced the same trend with large engine-sized cars losing out.

Whilst consumer confidence appears to be on the rise, other indicators suggest that consumer stress is on the rise too. Last month saw the release of Northern Ireland's latest quarter of insolvency data. For corporate insolvencies, 2012 represented the peak, with a fall of more than a quarter last year in 2013. Conversely, personal insolvencies rose by another 6% to a new record high of 3,373. This represented the sixth consecutive year that personal insolvencies increased. Furthermore, the Q4 2013 figure represented the highest quarterly figure on record. Clearly, insolvencies are a lagging indicator of consumer conditions and reflect the legacy of household debt that was built up during the boom years.

Consumers, to a greater or lesser degree, may have noticed that inflationary pressures are easing too. The annual rate of UK consumer price inflation recently fell below 2% for the first time since November 2009. It is now expected to broadly stay at or below the Monetary Policy Committee's target of 2% over the next two years or so. At the same time, an increasing number of individuals are now experiencing pay rises at or slightly above this headline rate of inflation. Clearly, the return of pay rises, after years of pay cuts / freezes, will be a key requirement for a tangible consumer recovery. The latter requires annual pay increases to be above the annual rate of inflation for disposable incomes to start rising again in real terms *(after adjusting for inflation)*.

The headline inflation rate may have little relevance to those consumers who spend most of their income on food and energy. However, the news on this front is improving too. The annual rate of food price inflation has eased from 5% in April 2013 to just over 2% in January 2014. Fuel prices have also been falling with petrol prices 10p a litre below what they were last March. Meanwhile the price of a barrel of oil, using the Brent Crude benchmark, has fallen from £74 per barrel this time last year to around £64.5 today. Northern Ireland households have also benefited from the relatively mild winter which has kept heating bills lower than they otherwise would have been.

There are a number of challenges for consumers that lie ahead though. Last week saw the Bank of England base rate celebrate its 5th anniversary at its record low of 0.5%, but interest rates will begin to rise, probably sometime next year. There are still a number of welfare reforms yet to take place which will erode the purchasing power of many welfare benefit recipients. Next week will be the penultimate Budget before the 2015 General Election, and as always the public spending announcements and whatever tax changes are unveiled will affect households and the consumer recovery too.

So, whilst there are signs of improving consumer sentiment within Northern Ireland, the recovery will remain something of a mixed bag. Different households will be affected in different ways and as always there will be winners and losers too. Keeping an eye on the numbers, brands and models of cars on the road will give a good indication of how the consumer continues to recover, change and adapt.

Richard Ramsey,
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