

Have we reached peak happiness as economic challenges get set to bear their teeth?

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

Richard.ramsey@ulsterbankcm.com
www.ulstereconomix.com
Twitter @UB_Economics

Article appeared in the Irish News Business Insight 14th November 2017

It may come as a surprise to some to learn that Northern Ireland is the happiest place in the UK, according to the latest statistics on the issue, despite being the focal point of some of the UK's major economic challenges; namely Brexit and the border.

That's according to the 2016/17 Office for National Statistics (ONS) happiness index, which relates to the 12-months that followed the UK's vote to leave the EU.

Furthermore, the Newry, Mourne and Down Council area ranks as one of the happiest areas of Northern Ireland, and the UK as a whole, despite the proximity of this area to the border, which has been such a focus of concern in relation to what will happen post Brexit.

One explanation for this apparent anomaly might be the fact that we of course haven't actually left the EU yet, and indeed areas such as Newry have been benefiting significantly from the positive impact of the exchange rate on cross-border shopping over the past year or so.

However, when we look at anxiety levels - another thing surveyed by the ONS - there are perhaps some signs that concerns around Brexit are starting to have an effect on people. The Derry and Strabane area, which will also be impacted significantly by whatever happens to the border, ranks high on this scale relative to other parts of Northern Ireland and the UK.

Yes, Derry and Strabane is an area traditionally high in economic and social deprivation, but it has also been benefiting from the exchange rate, and the recent NI Jobs Report suggests that job opportunities have been rising.

But let's go back to happiness.

Happiness undoubtedly has a bearing on consumer confidence and consumer spending; and two-thirds of the economy is dependent on the latter. So, high levels of happiness would appear to be a good sign for the economy, if they translate through into what consumers do on the high street. The latest Ulster Bank NI PMI, which monitors business activity, indeed suggests that local retailers have had a very good past 12-18 months.

In this respect, it will be interesting to see what happens to happiness and anxiety levels over the year ahead, with the various challenges that consumers and the economy now face. We've already touched on Brexit and border, but consumers' pockets are also being hit by a number of important developments.

For one, inflation has been rising, particularly when it comes to things like food and fuel. The Bank of England has also recently moved interest rates upwards – albeit only very slightly so, and just to where they were before the referendum result. There is also a freeze on a range of social benefits

until 2020, and we know that Northern Ireland is more dependent on benefits than elsewhere in the UK – though it remains to be seen if the UK Chancellor is pressurised into thawing the benefits freeze in the Budget later this month. Then there is the issue of stagnant wages.

With respect to the later, the latest Annual Survey of Hours and Earnings tells us that wages aren't rising in real terms, unless you work part-time. Unemployment may be at an eight-and-a-half-year-low, but the wages of full time workers aren't going up at the same rate as inflation, therefore the spending power of many consumers is being squeezed. The average full-time Northern Ireland employee saw their annual earnings rise by just 0.1 percent. After adjusting for CPI inflation, this represented a fall in real term earnings of 2.6 percent. This is the biggest real-terms fall in earnings since 2010.

But the part-time dimension to the jobs market raises an interesting question. With more people working part-time, and their wages rising, is there a work-life balance element to our apparently high levels of happiness? The fact that equity markets are at record highs could also be boosting happiness levels for those with investments in stocks and shares.

Another interesting barometer of consumer confidence is data in relation to insolvencies. This shows that 2016 was a bit of a 'sweet spot', with the lowest number in six years. However, the latest figures demonstrate that this has turned, with a pick-up in insolvencies evident during 2017 to date. Indeed, in the third quarter of this year, insolvencies rose 25 percent year-on-year; a marked increase. This indicates that happiness levels are probably going down, at least for some.

It has been said that happiness is over-rated, but it has probably been under-rated as an economic indicator. And it will be very interesting to see what happens to happiness levels over the next 12 months. It remains to be seen if we are at peak happiness as major economic challenges begin to bear their teeth. Or maybe in this part of the world we'll just always look on the bright side of life.

Richard Ramsey
13th November 2017

www.ulstereconomix.com

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 in Northern Ireland. Registration Number R733 Registered Office: 11-16 Donegall Square East, Belfast BT1 5UB. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, and entered on the Financial Services Register (Registration Number 122315).



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