
NRC Northern Regional College Acumen Business Leadership Event

Northern Ireland Economic Performance & Prospects

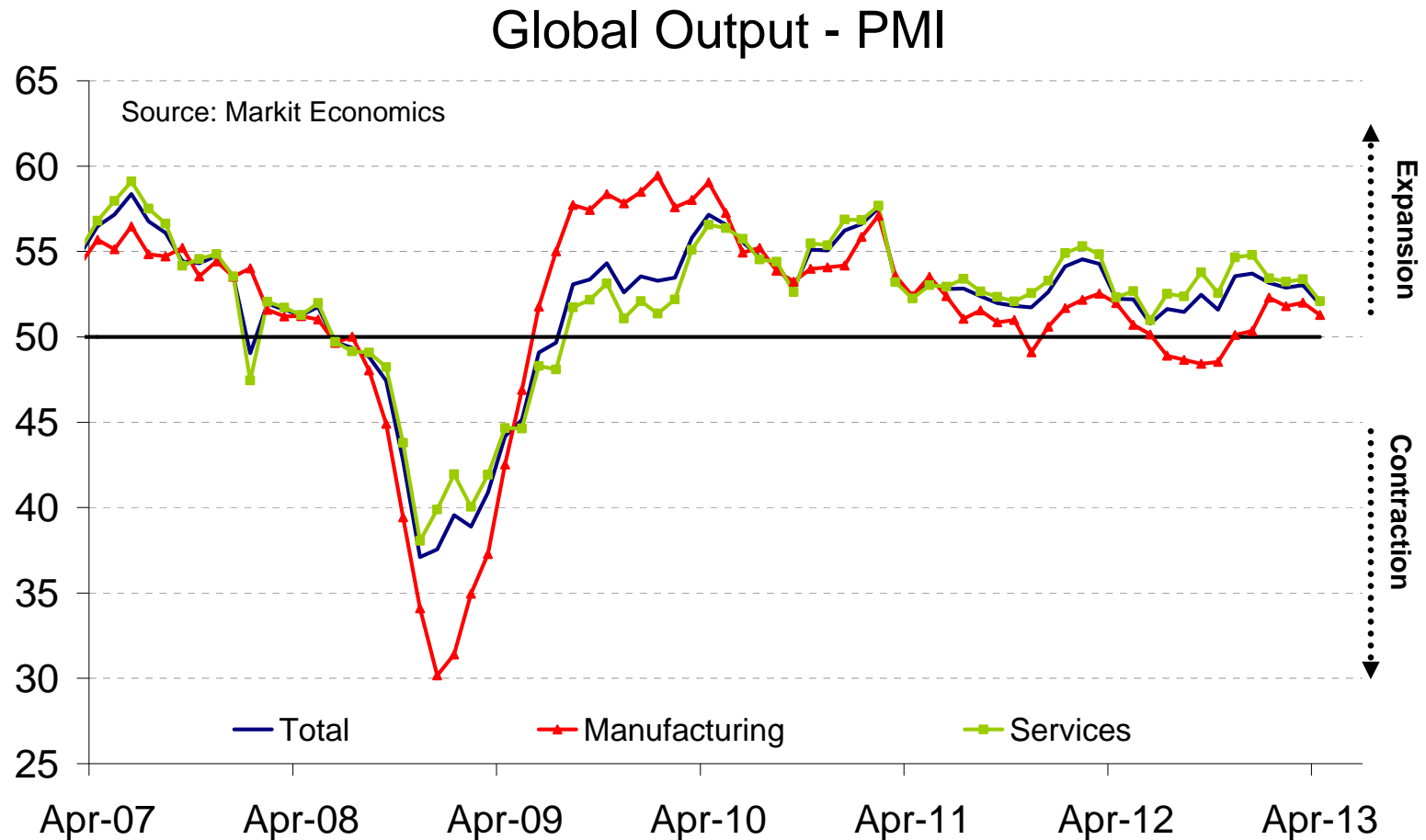
30th May 2013

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With the global economy still growing...



... & equities at or near record highs: is everything OK?



“Yeah, but, no but, yeah but...”

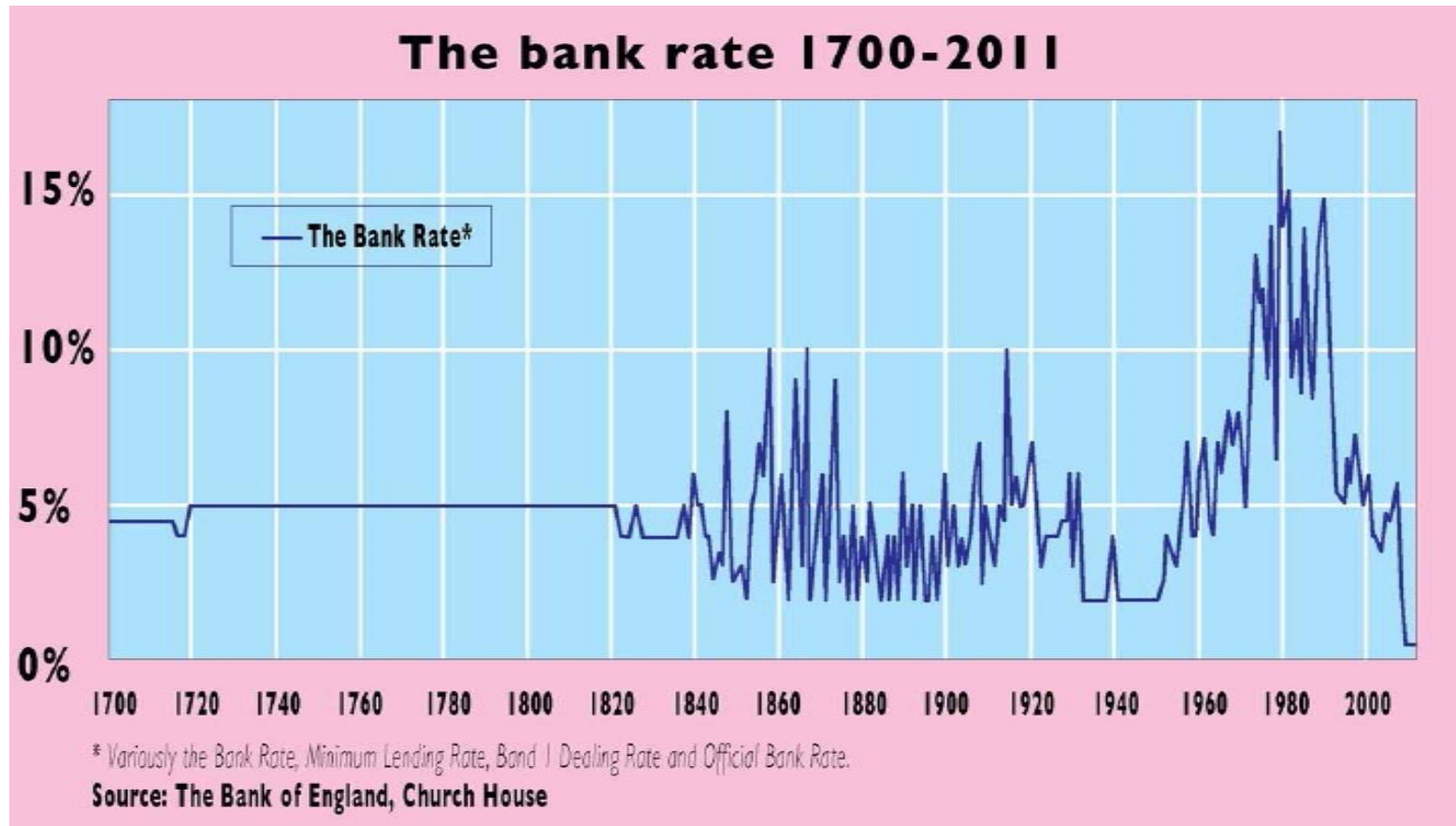
Economists sound like
Vicky Pollard

If there's doom & gloom... perhaps its time for a hypnotist



“Look into my eyes, the eyes, not around the eyes, look into my eyes, you’re under”

One chart should remind us where we are

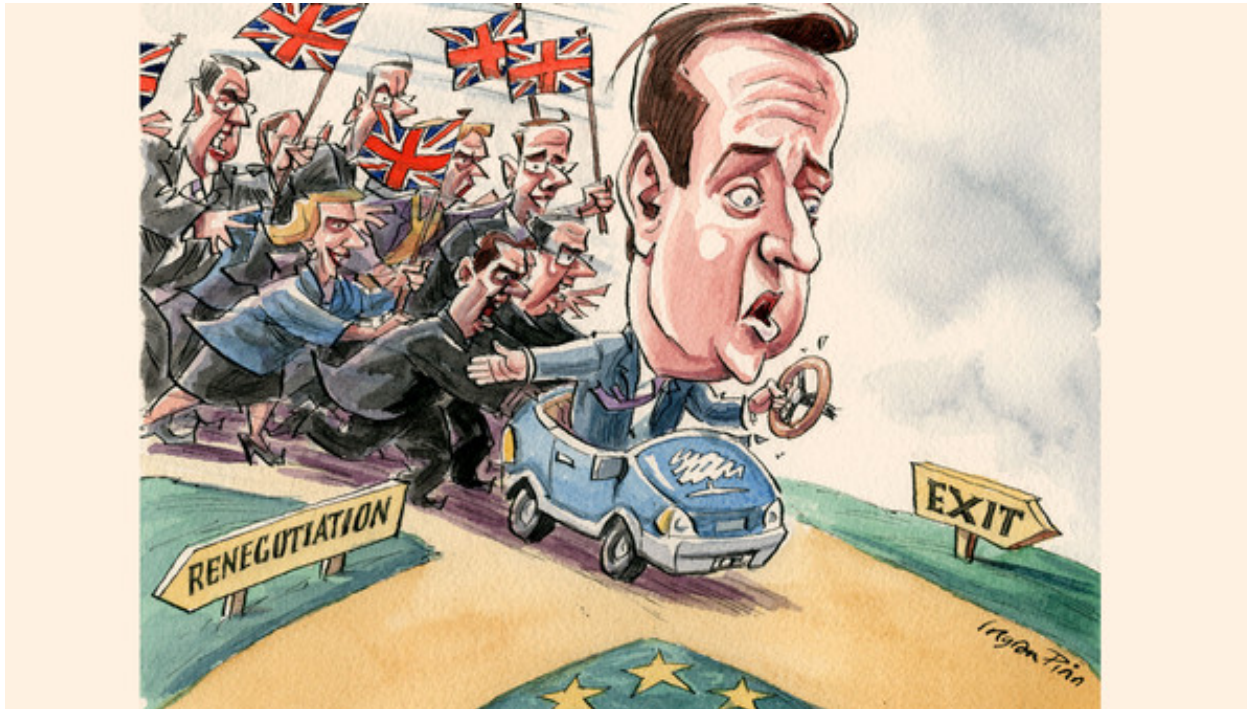


The UK economy is not in great shape



Source: Financial Times 12th March 2013

Europe has become a key issue in politics & economics



Financial Times 16 May 2013

The European issues of the last the last 3 years have not gone away...

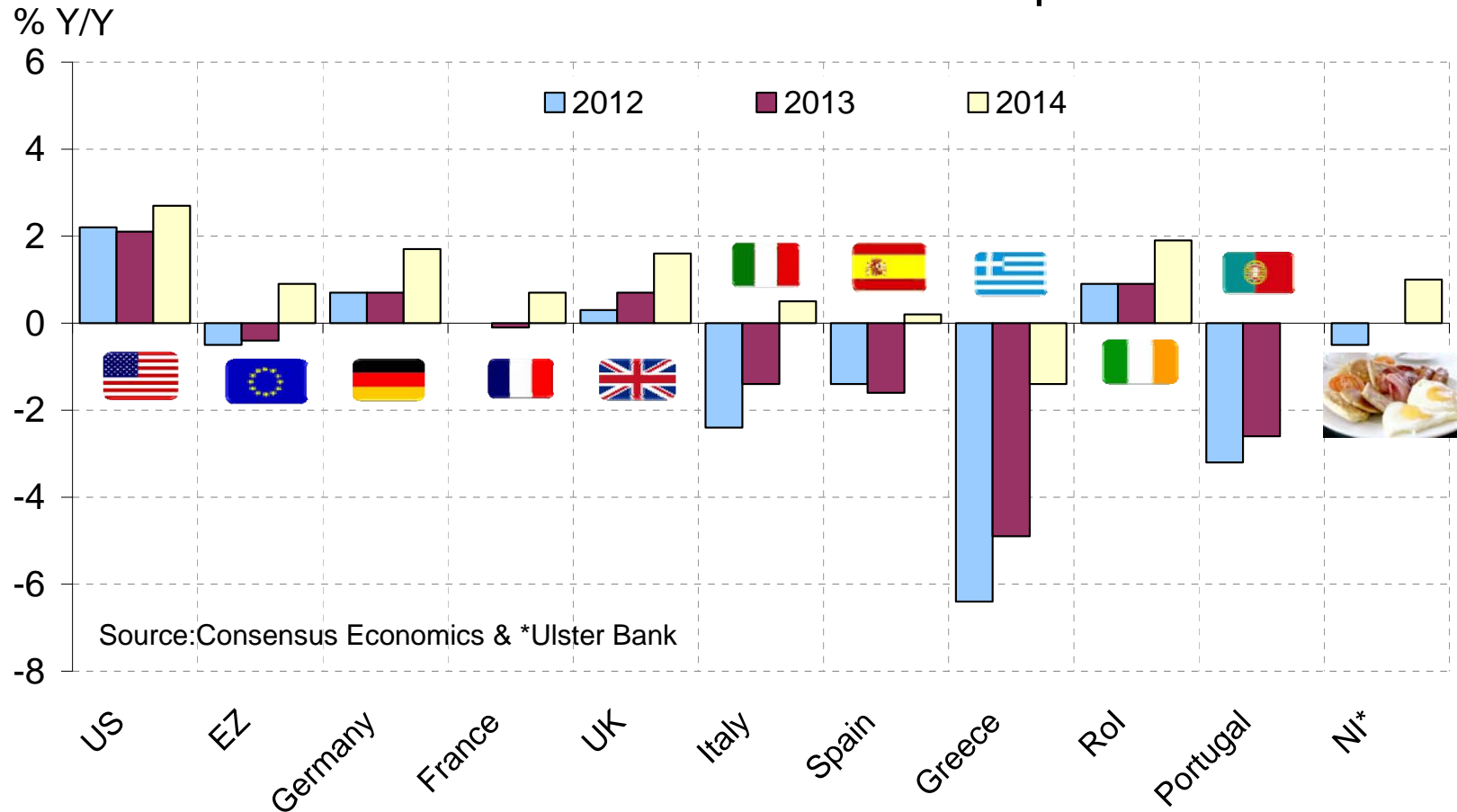


And we have had some new ones too!



Concern in Europe has shifted from financial to economic indicators... economic growth

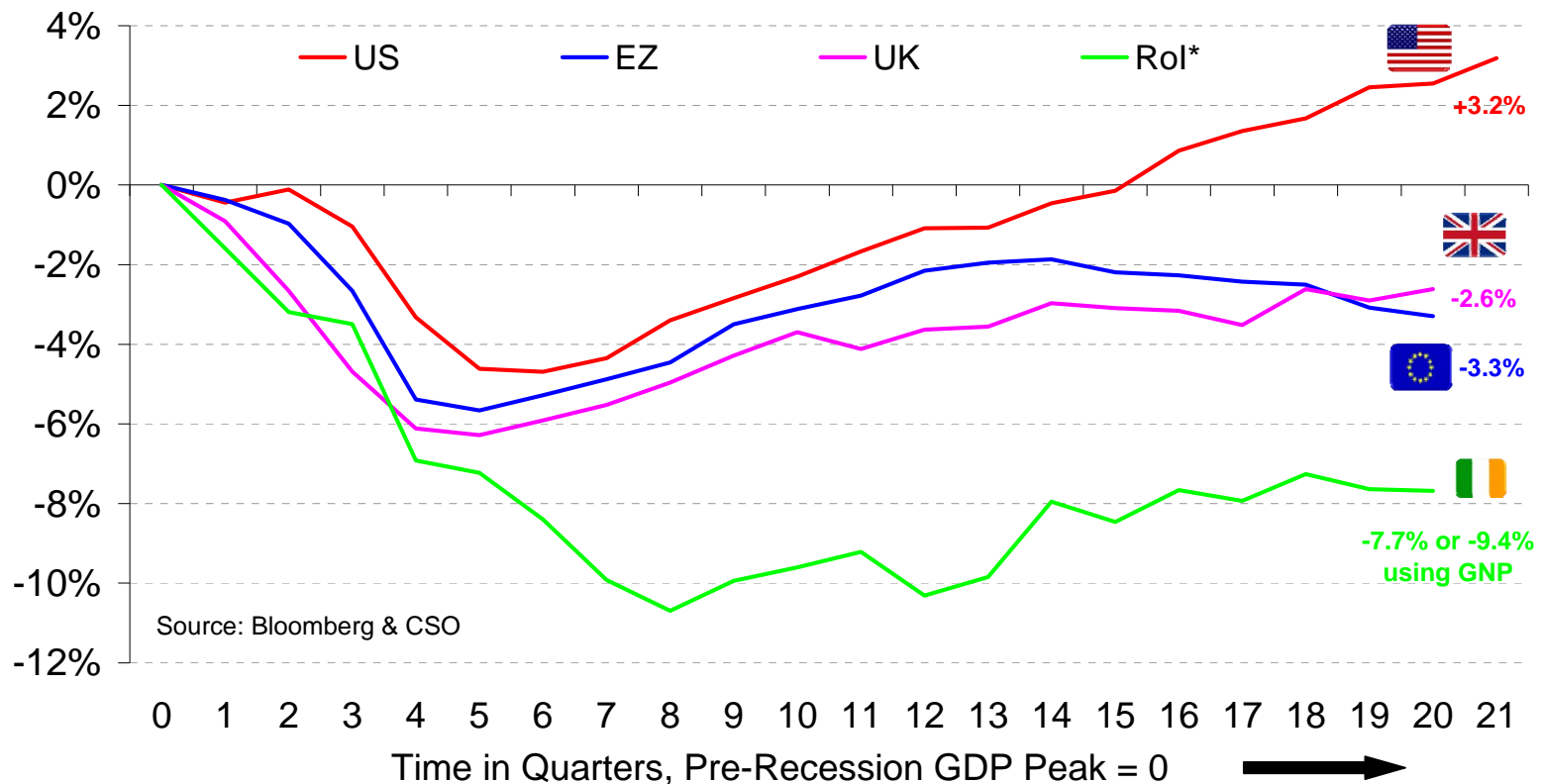
GDP Consensus Forecasts April 2013



Recovery well under way in some economies – focus on levels of GDP not just growth rates

Recession & Recoveries

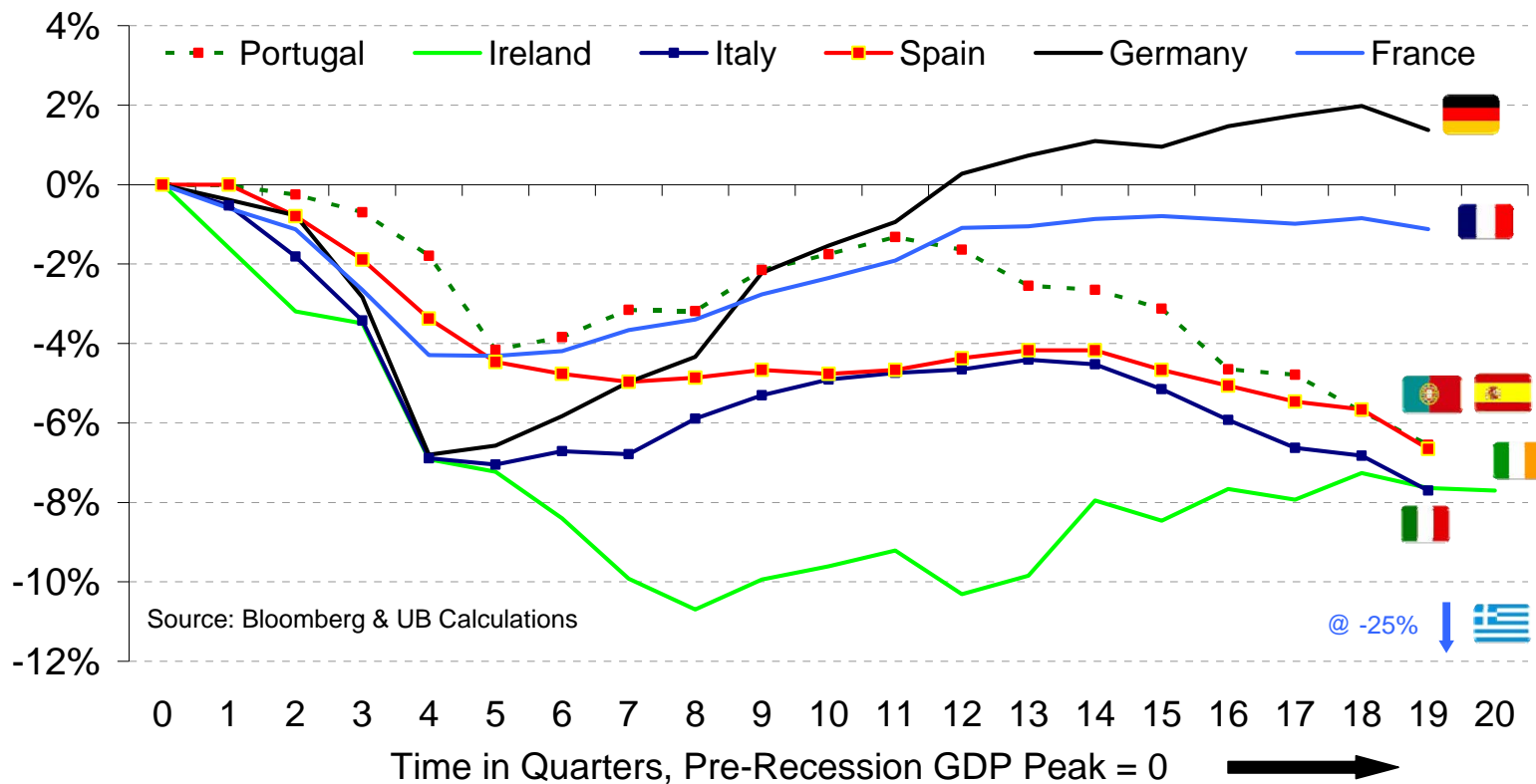
(% GDP Change Since Pre-Recession Peak as of Q1 2013, *is Q4 2012)



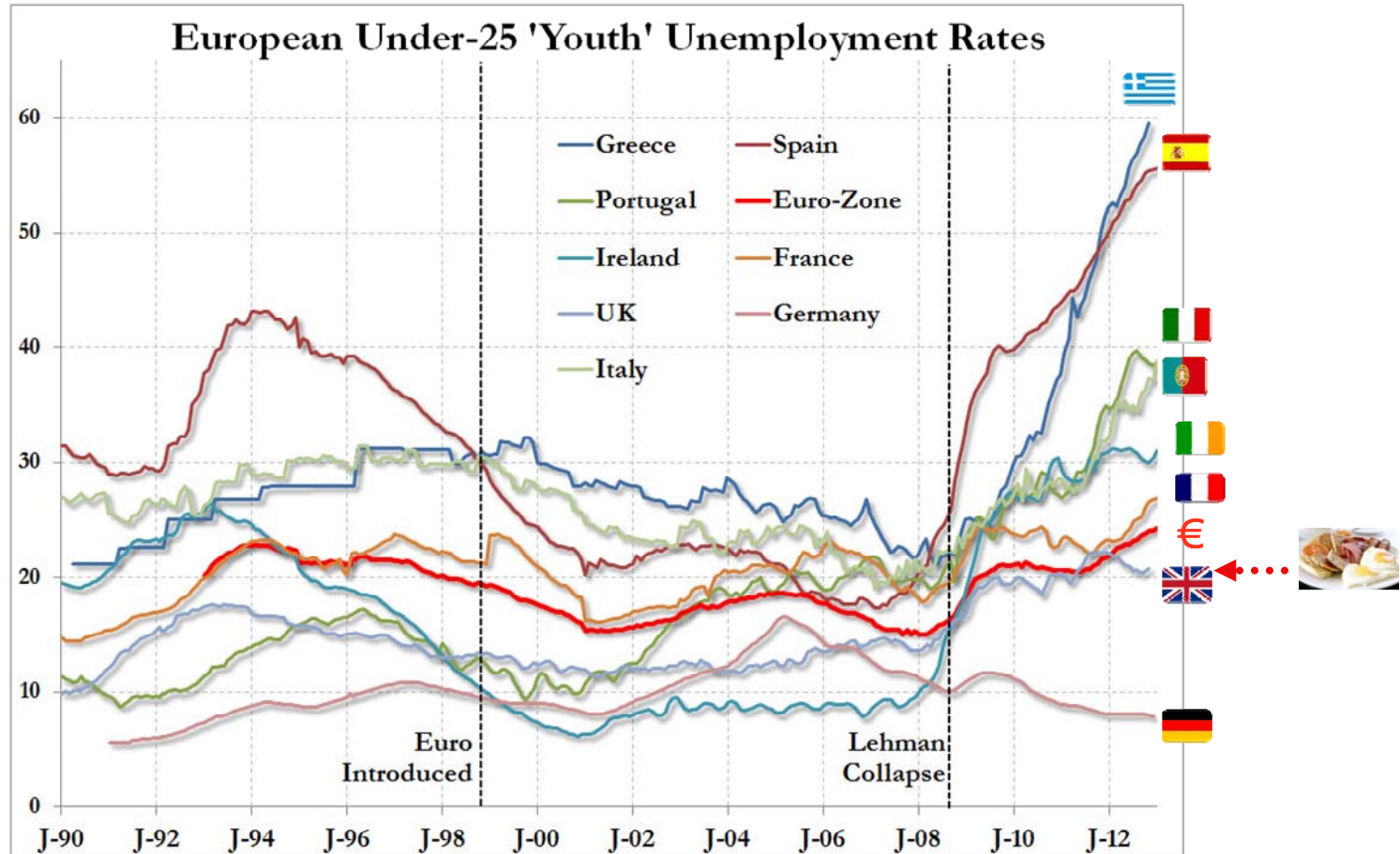
Spain, Portugal, Greece and Italy are still contracting!

Recession & Recoveries

(% GDP Change Since Pre-Recession Peak as of Q4 2012)



The human recession is becoming politically unbearable



Source: www.zerohedge.com

No quick-fix – the ‘Juncker Conundrum’



“We all know what we need to do, we just don’t know how to get re-elected after doing it”

Jean-Claude Juncker – Former President of the Euro Group (*January 2005 – January 2013*) & current Luxembourg Prime Minister. Quote November 2012.

1998-2007 N.Ireland's 'NICE' decade

Non-Inflationary Continuous Expansion

- Unbroken employment & economic growth
- Unemployment rate hit record low in 2007
- Public Expenditure, Property & Celtic Tiger Booms
- Average house price up 260% (UK=160%)
- NI's brand image improved in the eyes of the world

NI receives a RUDE awakening in 2008-09...

Rising Unemployment & Declining Economic Activity

- Simultaneous slowdown on a range of fronts
 - Property market & wider private sector
 - Public expenditure growth
 - Rapid deterioration in RoI & UK economies
 - Collapse in global trade & external economic conditions

All occurring within a wider credit crunch



NI's first recession since the early 1980s

NI enjoyed Southern Comfort through the Celtic Tiger years



Eurozone's fastest growing economy was on NI's doorstep. But what went up



- ISEQ +101% & +231%
(5yr/10yr prior to Feb-2007 peak)
- House Completions +162%
(10yr prior to 2006 peak)
- 33% rise in employment *(Q3 1998 – Q3 2007)*
- Annual GDP growth 6.7%
(1998-2007; averaged 5% 2002-2007)
- House prices +269%
(10 years prior to Sep-2007 peak)
- NI manufacturing exports to RoI +81%
(6 years to 2007/08)



Southern Discomfort hangover continues



Peak to Trough Decline* / Latest Position

ISEQ	-81% / -62%
House Completions	-91% / -91%
Unemployment Rate* (*peak U% rate)	15.0% / 14.1%
Employment	-15.1% / -14.7%
GDP	-9.9% / -7.7%
House Prices	-50% / -50%
NI manufacturing exports to RoI	-34% / -32%
NI manufacturing excl. Food & Drink	-58% / -58%

N.Ireland downturn by numbers 10 Facts

1. **Unemployment (claimant count) up 41,500 (Mar 2012)**
 2. **Workforce jobs have fallen by almost 55,000 in 4 yrs to June 2012**
 3. **Personal insolvencies have doubled since 2007 & still rising**
 4. **Corporate insolvencies have doubled since 2007 & still rising**
 5. **House prices down 56% from peak (by Q4 2012)**
 6. **House completions down 66% from 2006 peak & still falling**
 7. **Mortgages for home movers at lowest level since 1974**
 8. **Almost 1 in 4 retail outlets are vacant in Belfast**
 9. **New car sales are 30% below 2007 levels**
 10. **Consumer prices (UK CPI) up 20% since August 2007**
-



It's the economy so it is!



What changes has “So it is” cabs seen over the last 5 years?



-31%
2008-2012



-32%
2007-2011



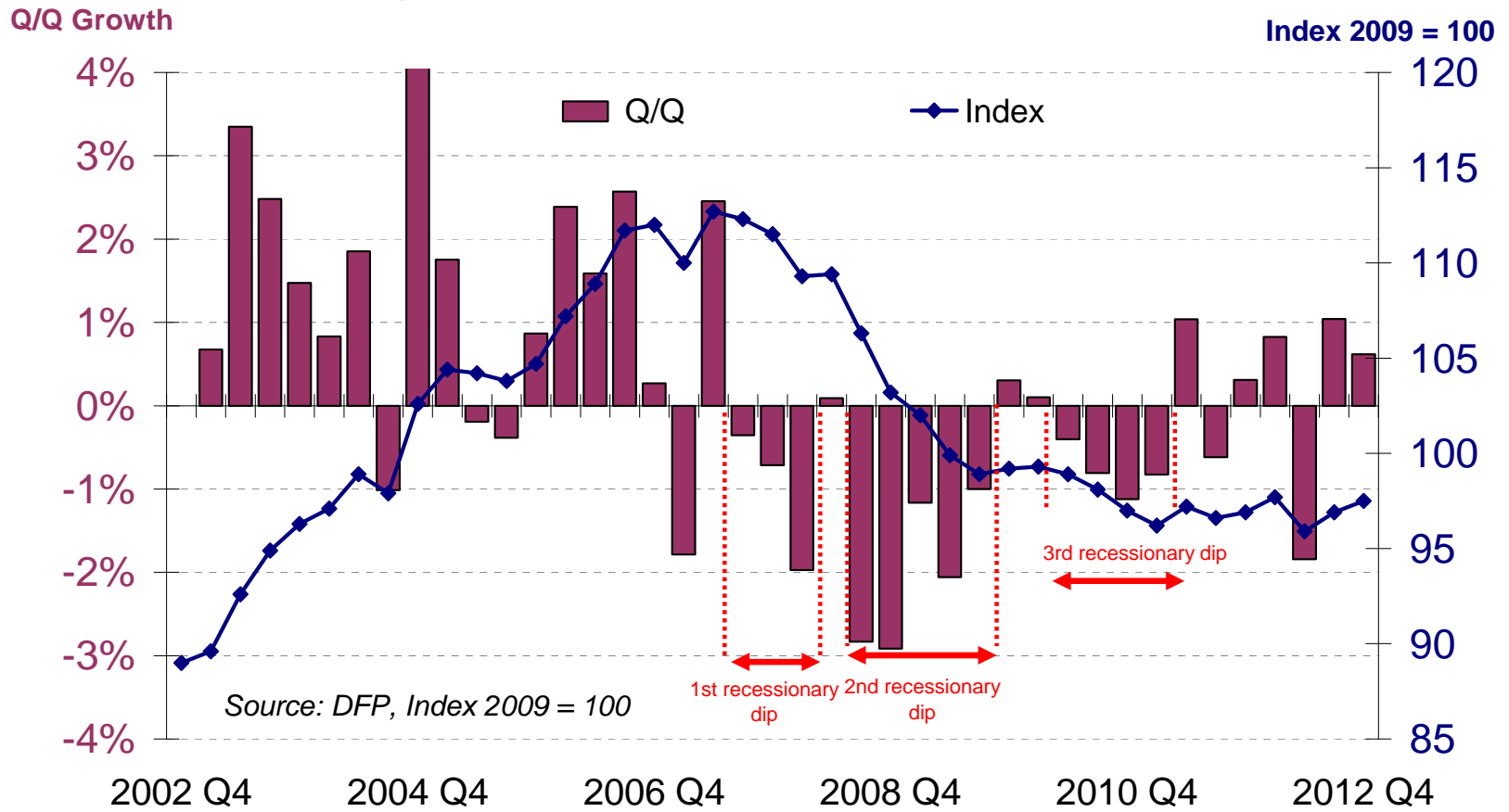
-21%
2007-2012



-83%
2007-2011

Private sector recovery underway? Look at levels of output!

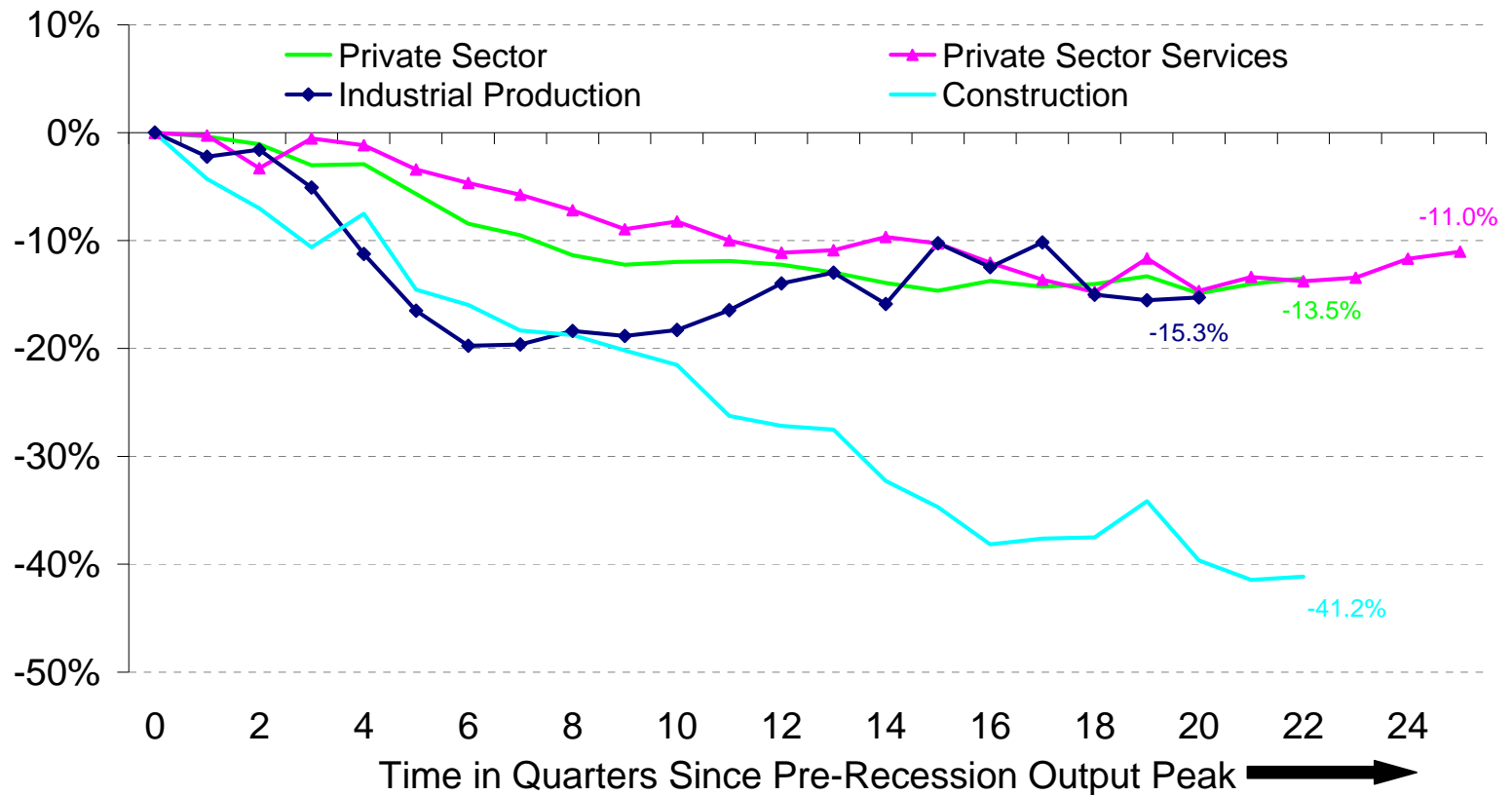
NI Composite Economic Index: Private Sector



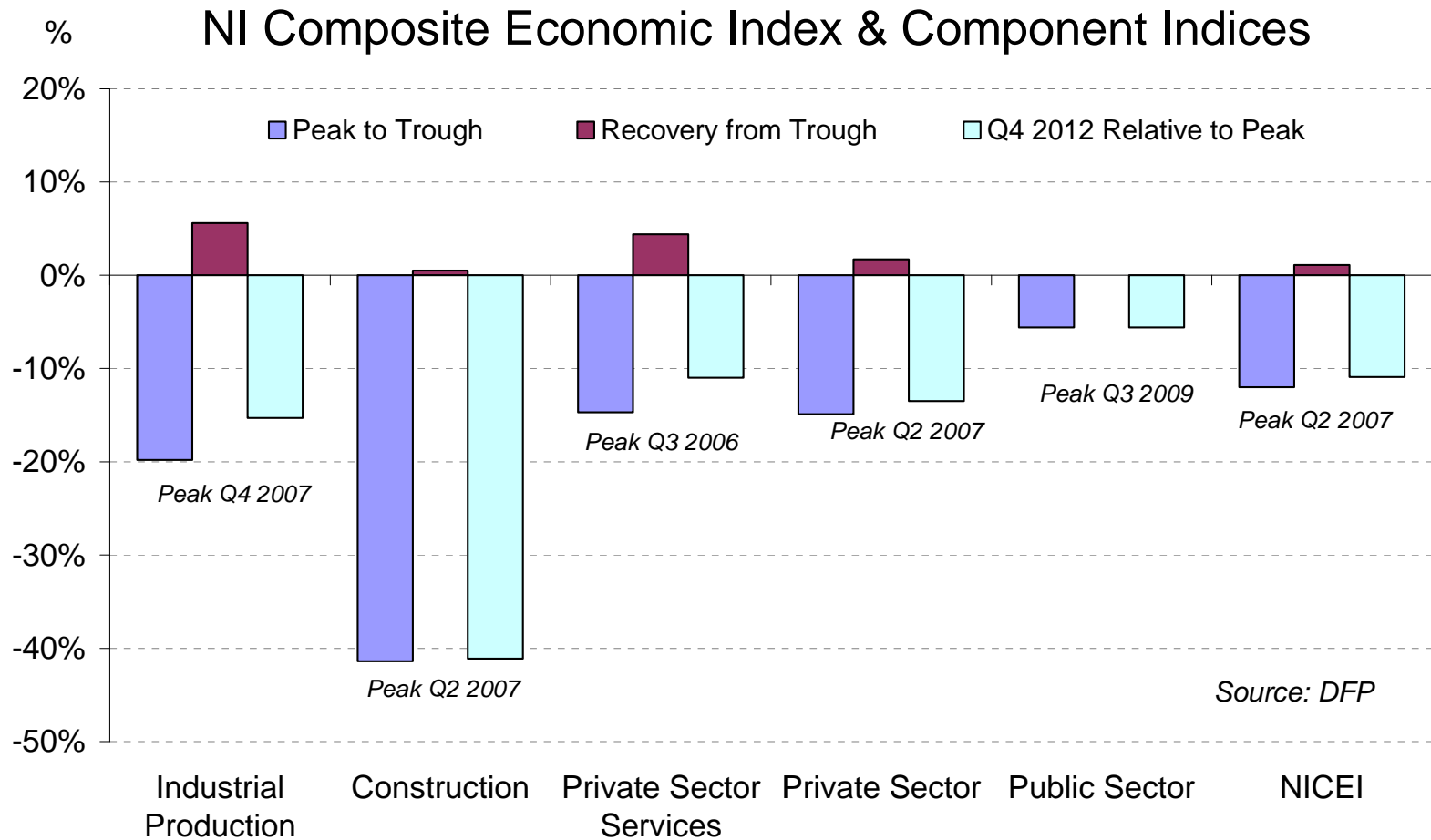
Construction output over 40% below peak

NICEI Private Sector Relative to Pre-Recession Peaks

As of Q4 2012 (Peak = 0)



NI's economic recovery has quite a bit to go!



‘Winners’ during the downturn...

Change in NI Private Sector Output Q2 2007 - Q4 2012

Industrial Group	% Change
<i>Recession Winners</i>	↑↑↑
Other Services	50.2%
Chemicals & Pharmaceutical Products	26.9%
Utilities (<i>Electricity & Gas</i>)	24.3%
Food, Drink & Tobacco	9.9%
Transport, Storage & Communications	5.5%
Wholesale & Retail Distribution, Accommodation & Food Service	1.4%
<i>Agriculture (Gross annual output in real terms 2007-12)</i>	<i>0.5%</i>

Source: DFP Indices of Production, Services and Construction, DARD & Ulster Bank calculations

....outnumbered by 'losers' & 'big losers'

Change in NI Private Sector Output
Q2 2007 - Q4 2012

Industrial Group	% Change
<i>Recession Losers</i>	↓↓↓
Utilities (Water Supply & Waste Management)	-4.2%
All Production Industries	-9.3%
Engineering & Allied Industries	-10.2%
All Private Sector Services	-10.6%
All Manufacturing	-14.4%
Total Private Sector Output (Construction + Production + Private Services)	-14.5%
<i>Recession Big Losers</i>	↓↓↓
Basic Metals & Fabricated Metal Products	-20.7%
Total Other Manufacturing	-29.3%
Textiles & Textile Products	-29.7%
Mining & Quarrying	-33.3%
Wood & Paper Products	-34.9%
Rubber, Plastics & non-metal Products	-39.5%
Construction	-44.8%
Business Services & Finance	-47.7%
Source: DFP Indices of Production, Services and Construction, DARD & Ulster Bank calculations	

Construction /
property
related

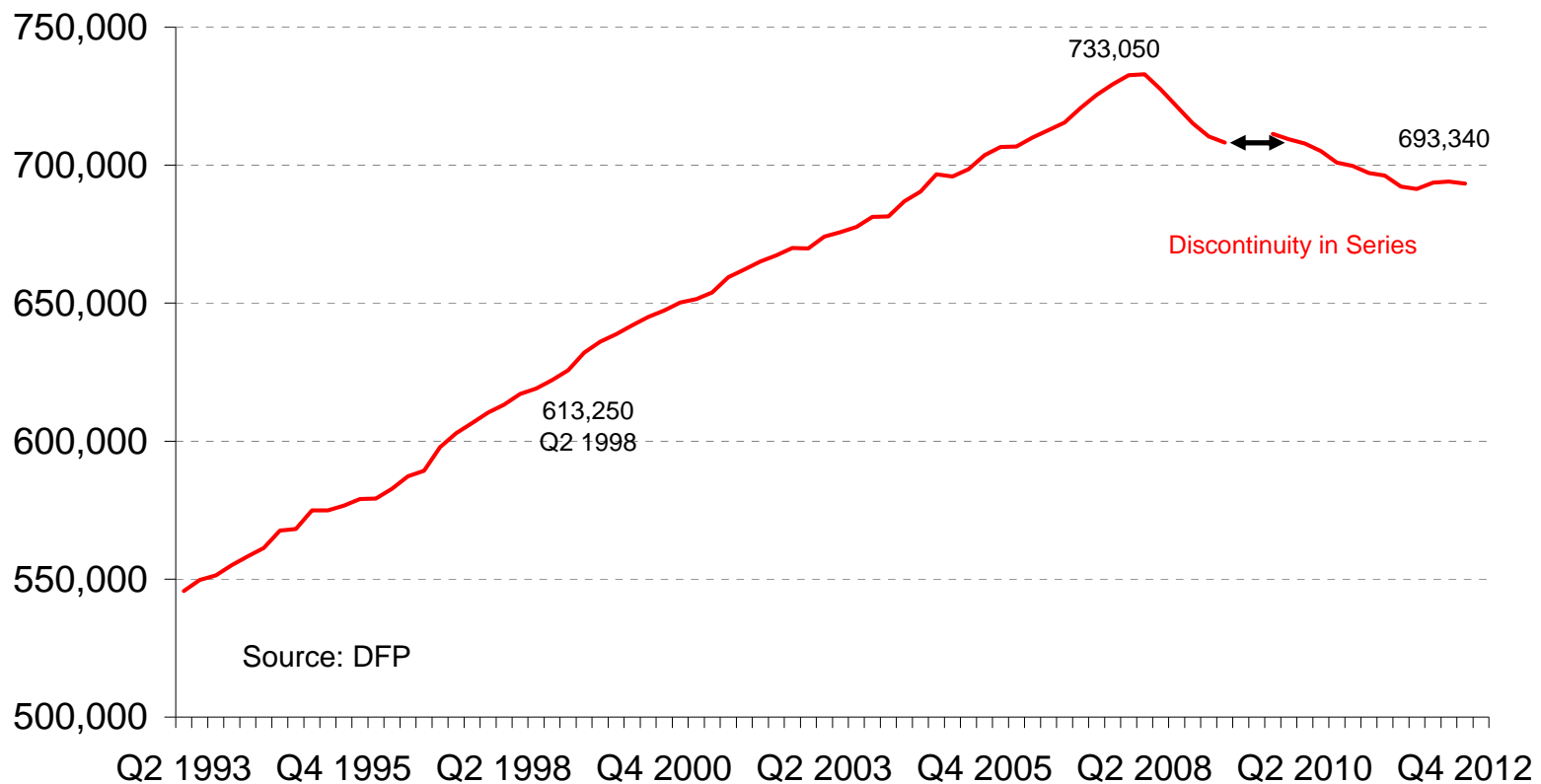


Construction /
property
related



Decreases in output leads to declines in employment

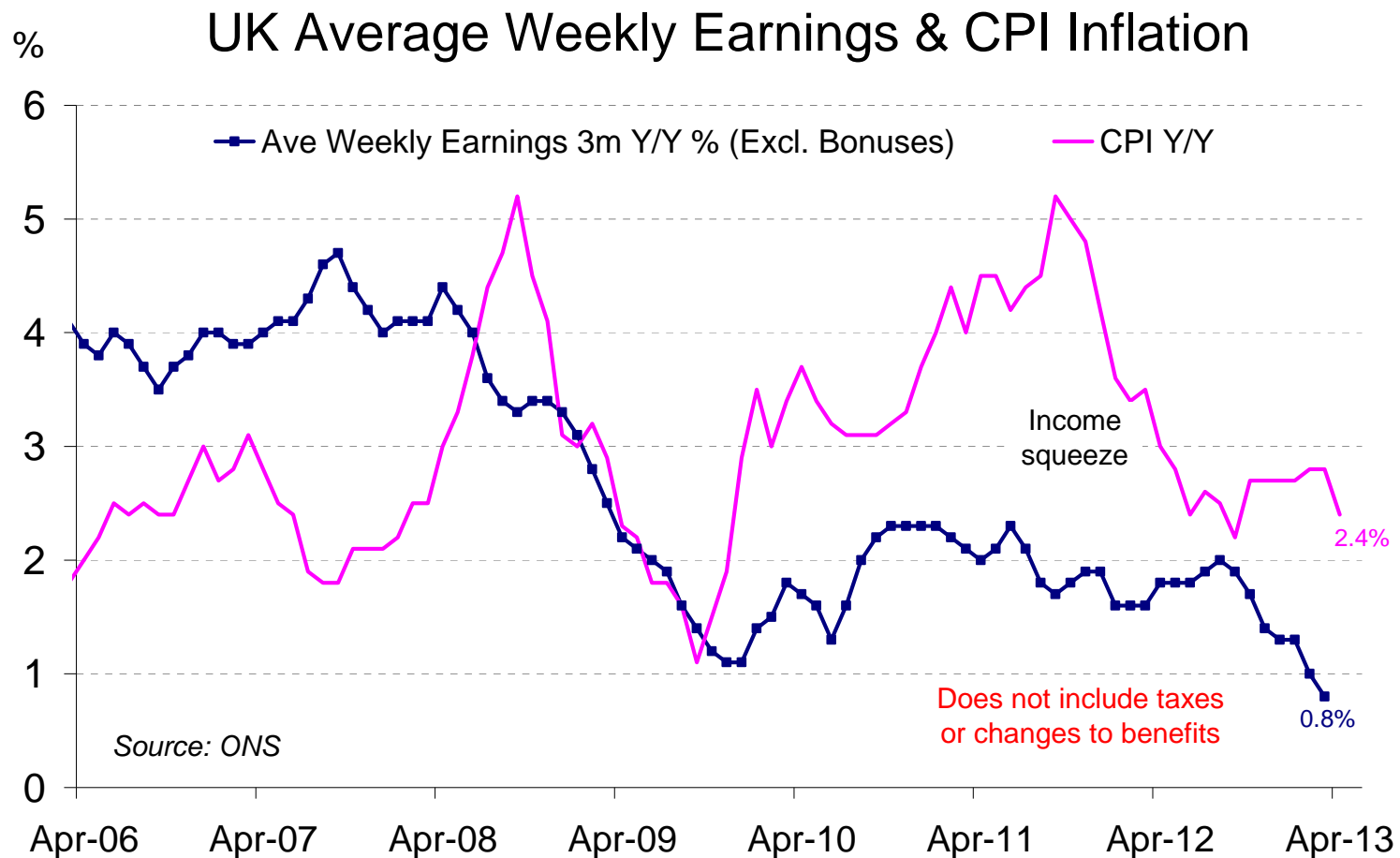
Northern Ireland Employee Jobs



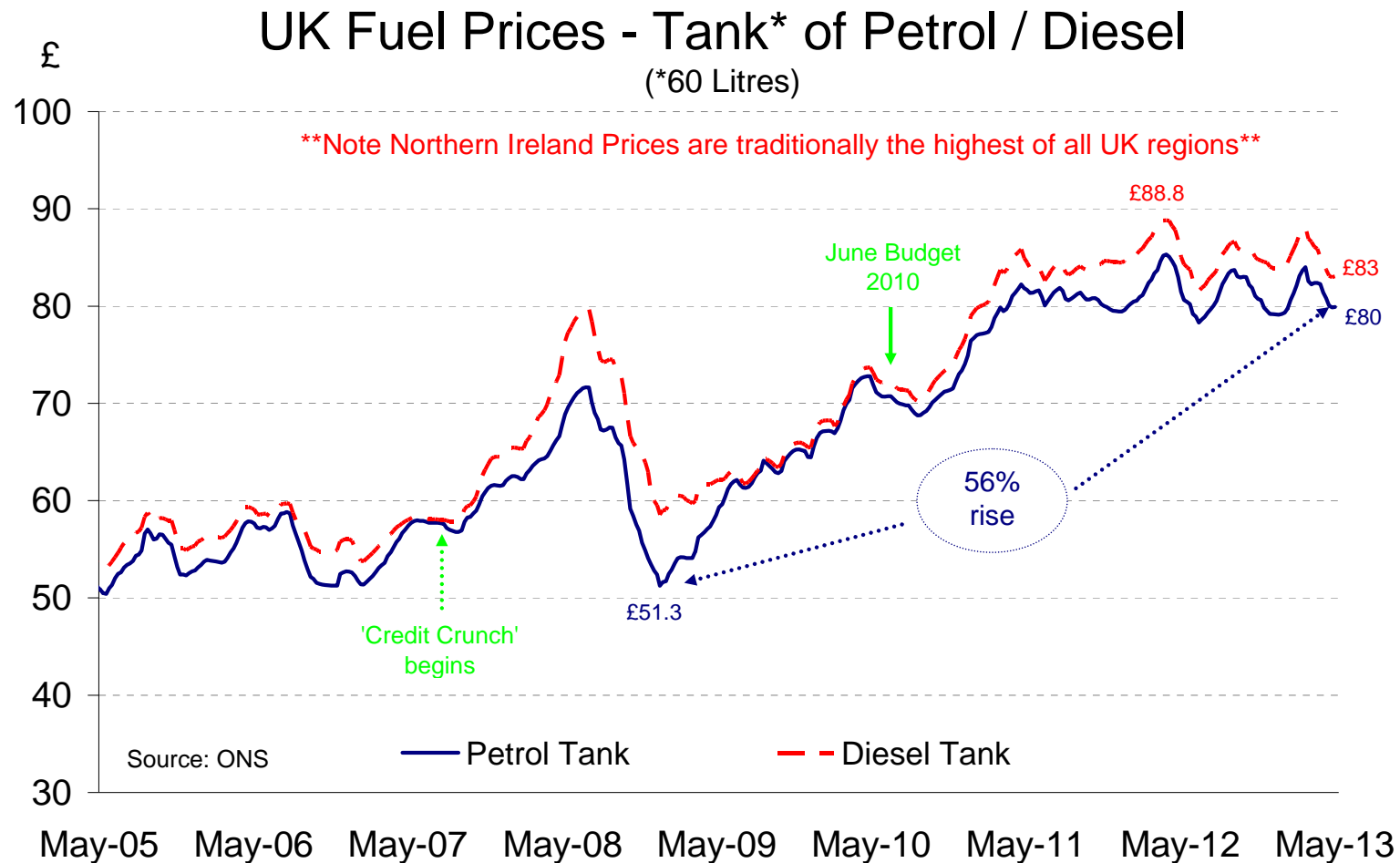
Declining Disposable Incomes / Profitability

Challenge 1

Household incomes recovery remains a long way off



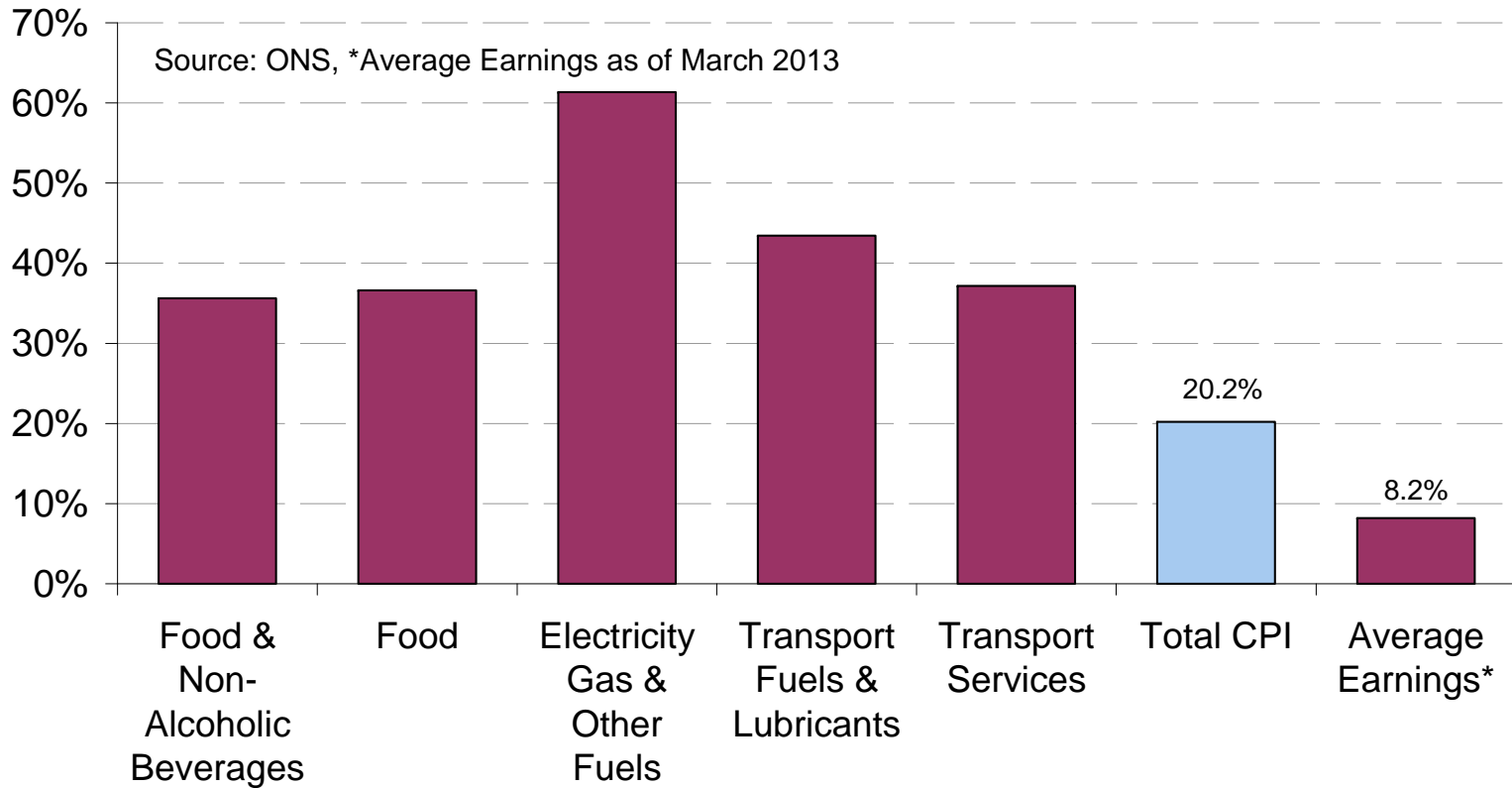
Fuel is eating up more of our disposable incomes...



So is food...

Cumulative % Change in UK Consumer Prices

since 'Credit Crunch' began (Aug 07 to Apr 13)



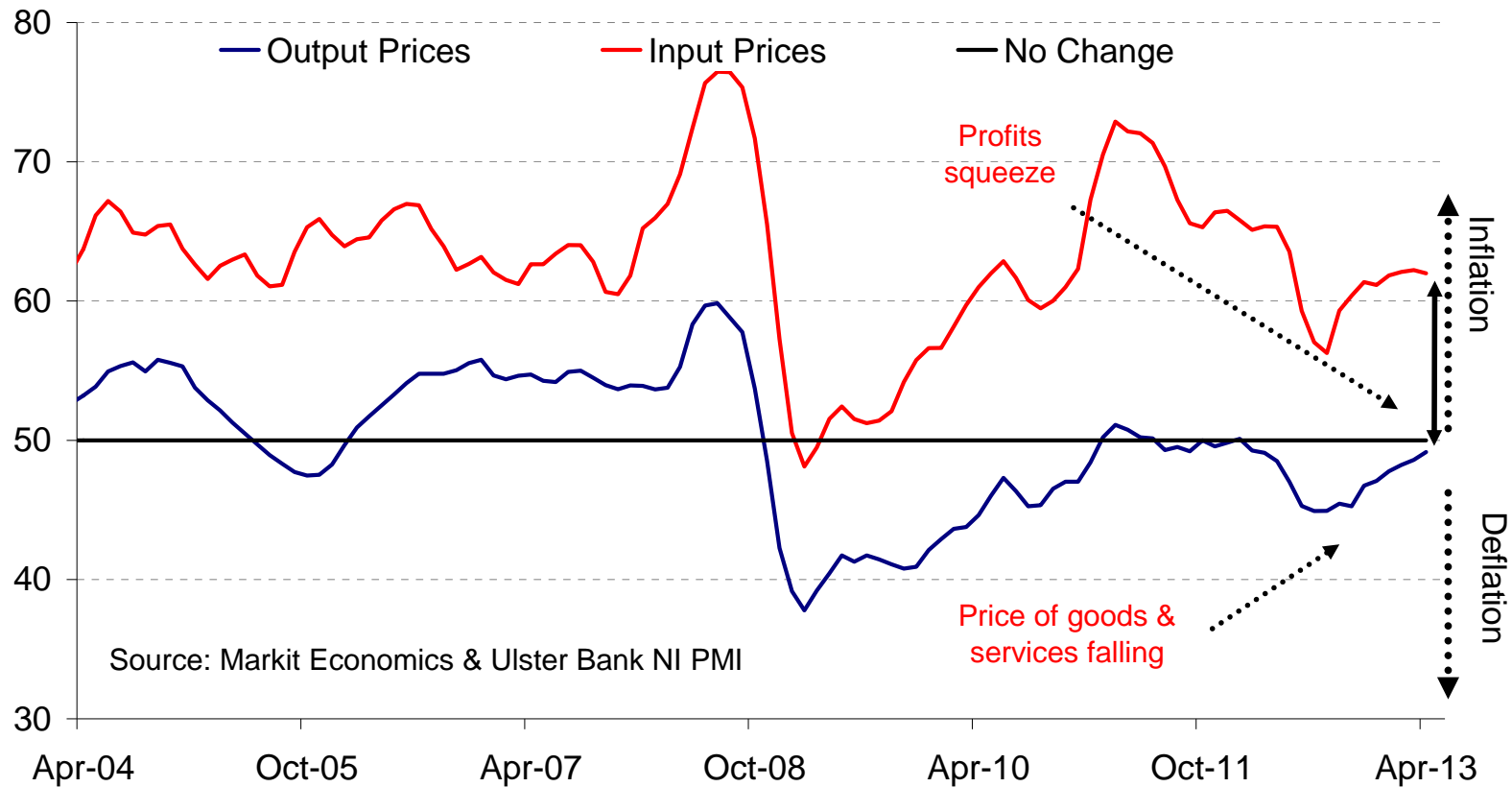
Some well known casualties from the downturn



Strong input cost inflation coupled with output price deflation means the profitability squeeze continues

NI Private Sector Profit Squeeze

3 Month Moving Average



Sterling weakness has hit consumer & businesses



Ben Bernanke (US Fed)



Mark Carney (BoE)



Mario Draghi (ECB)

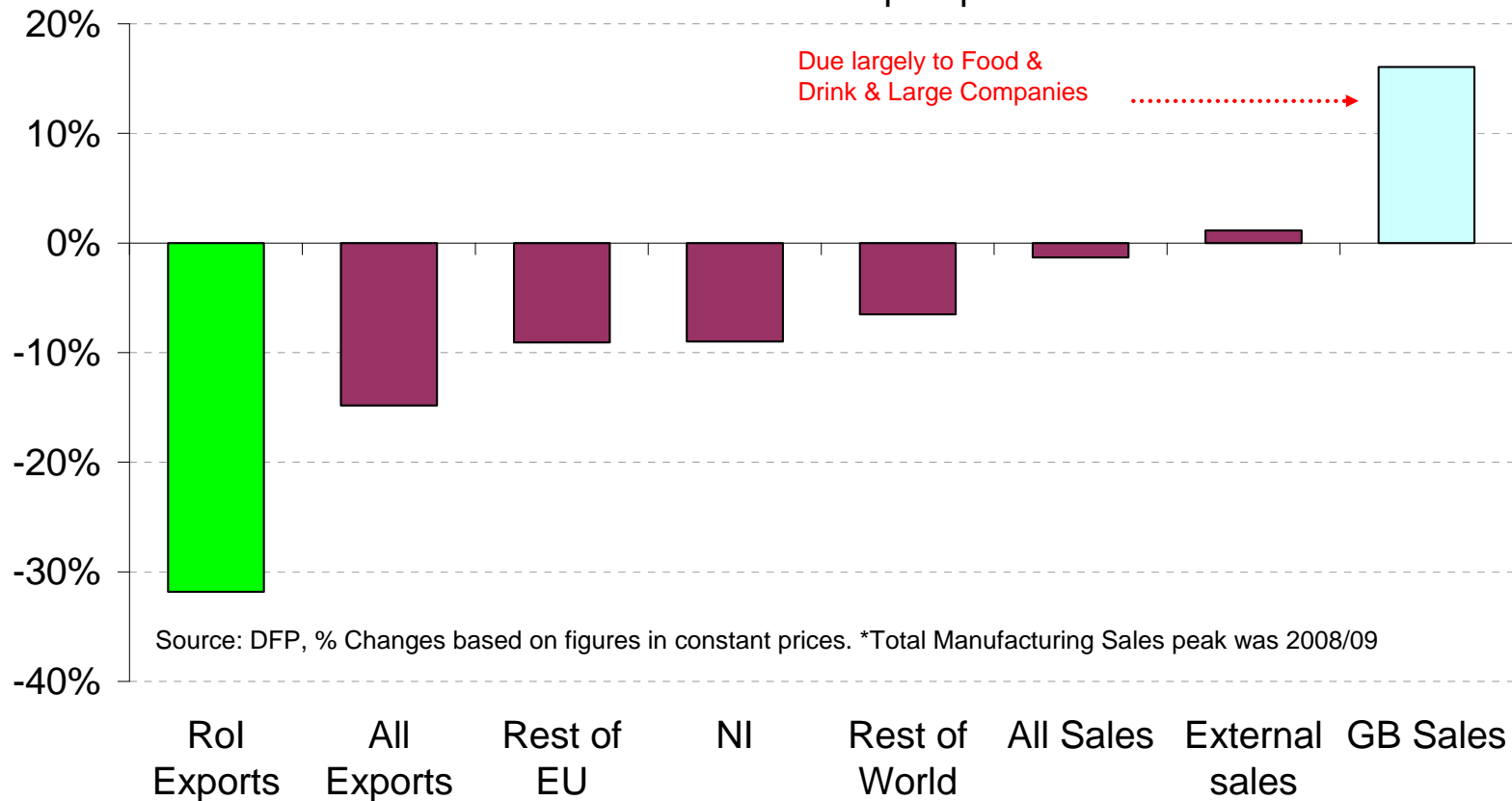


Haruhiko Kuroda (BoJ)

'Currency Wars' partly explains NI's sales & export performance...

NI Sales & Exports 2011/12

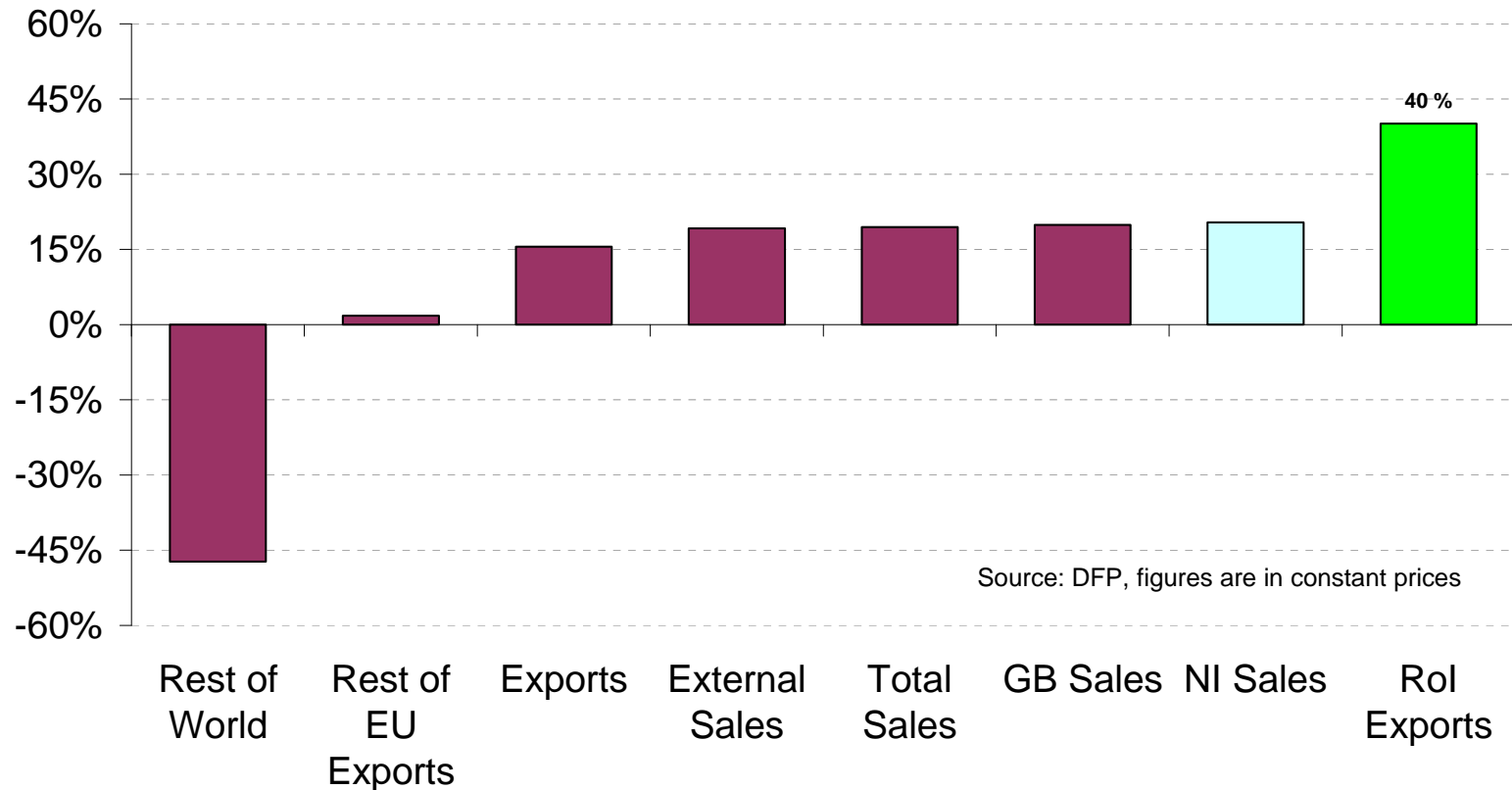
relative to 2007/08 export peak*



Overall exports to the RoI down 30% but FDT up 40%?

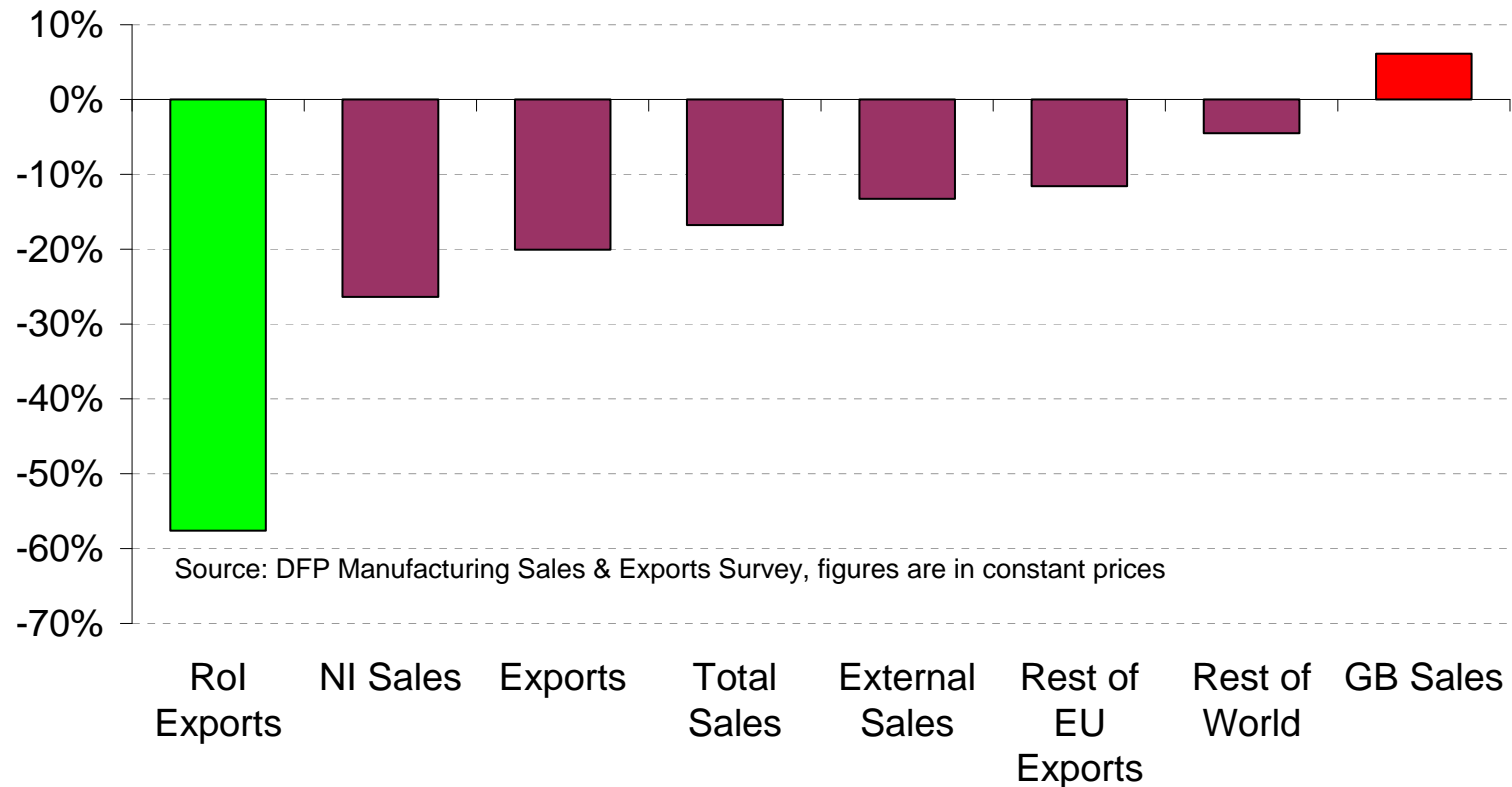
NI Food, Drink & Tobacco Sales & Exports 2011/12

relative to 2007/08 peak



Outside of Food & Drink, NI faces a lack of demand

NI Manufacturing **(Non-FDT)** Sales & Exports
2011/12 relative to 2007/08 peak

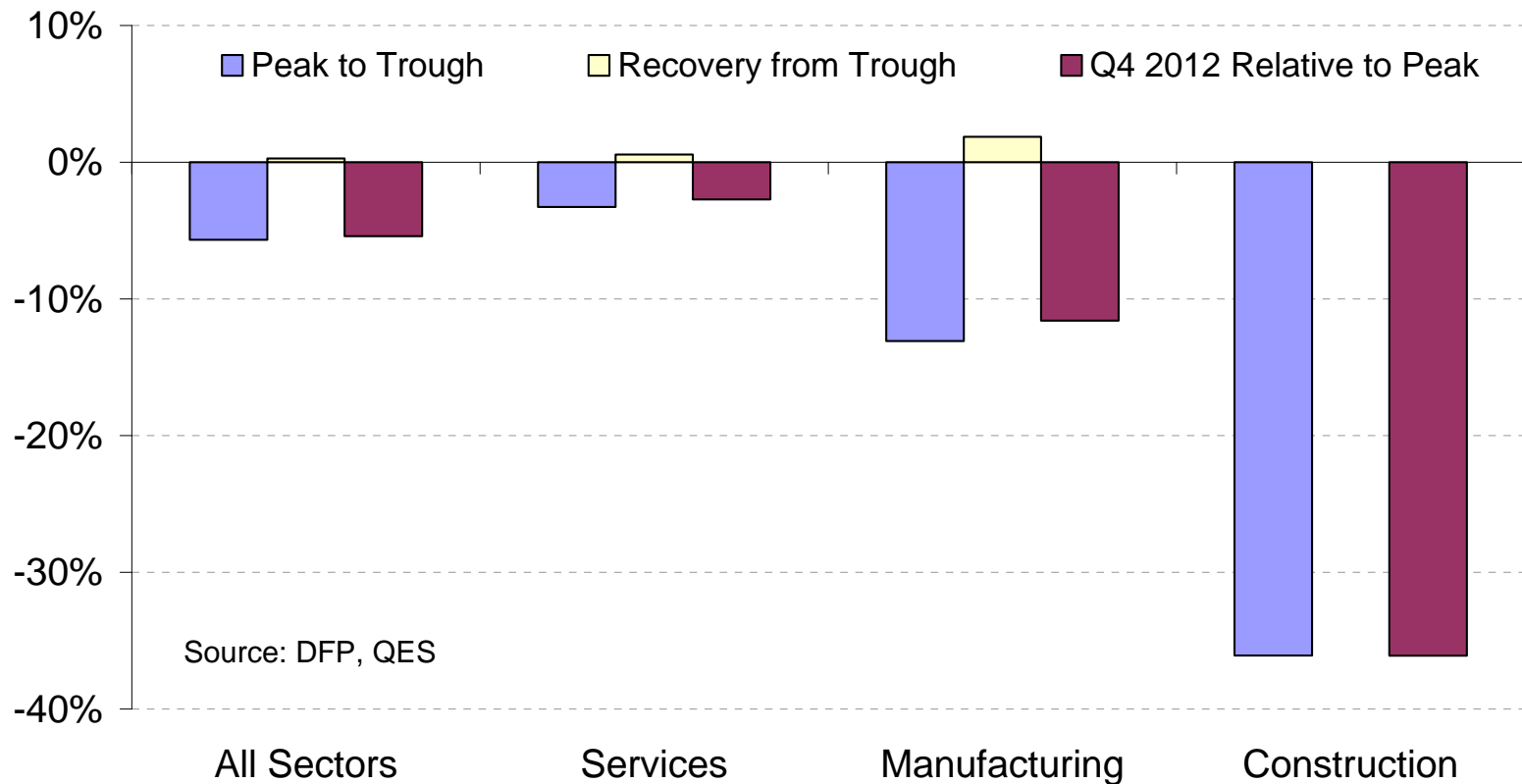


Labour Market

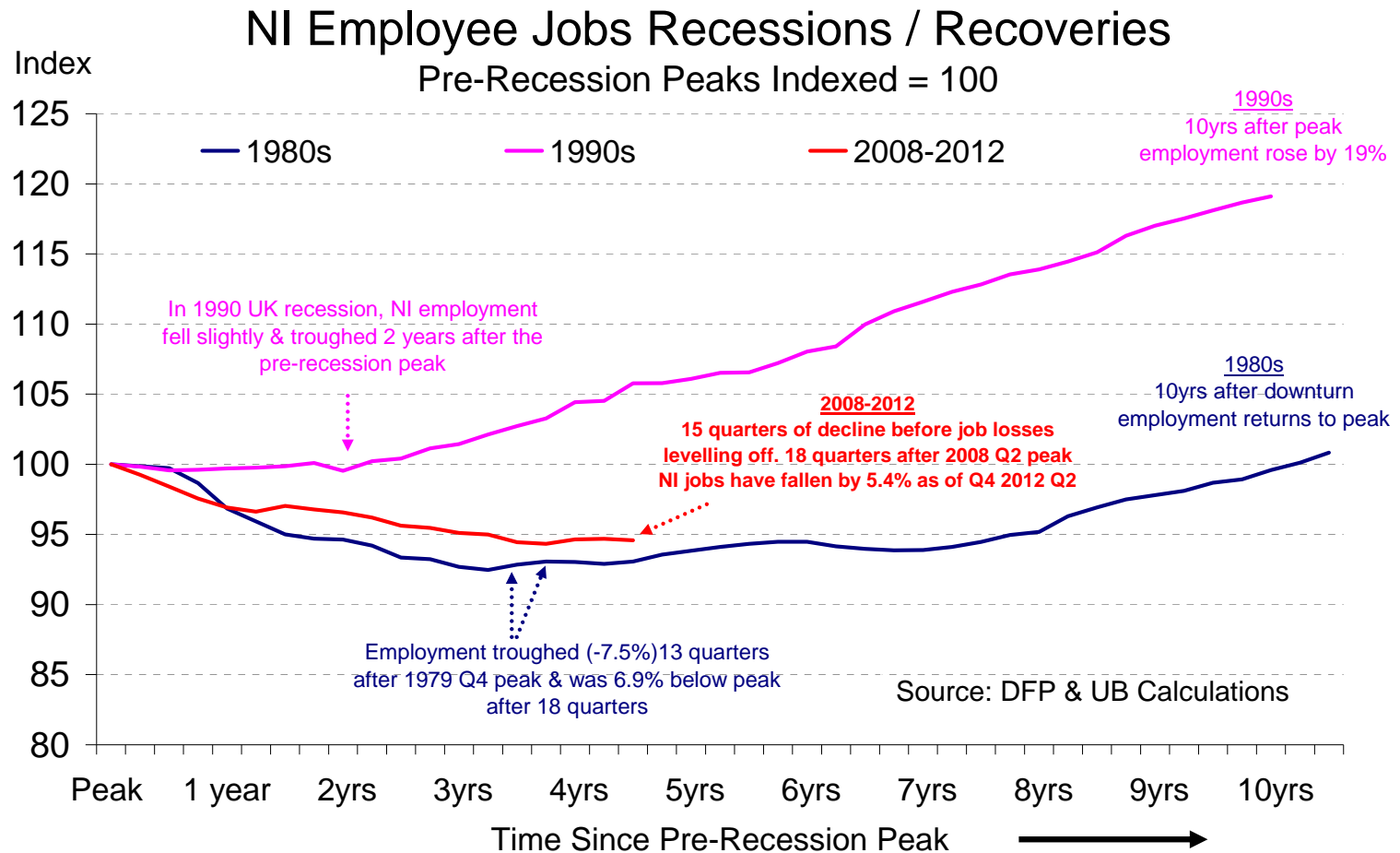
Challenge 2

No recovery in construction sector so far

Northern Ireland Employment (Employee Jobs)



NI can expect a 1980s-style employment recovery

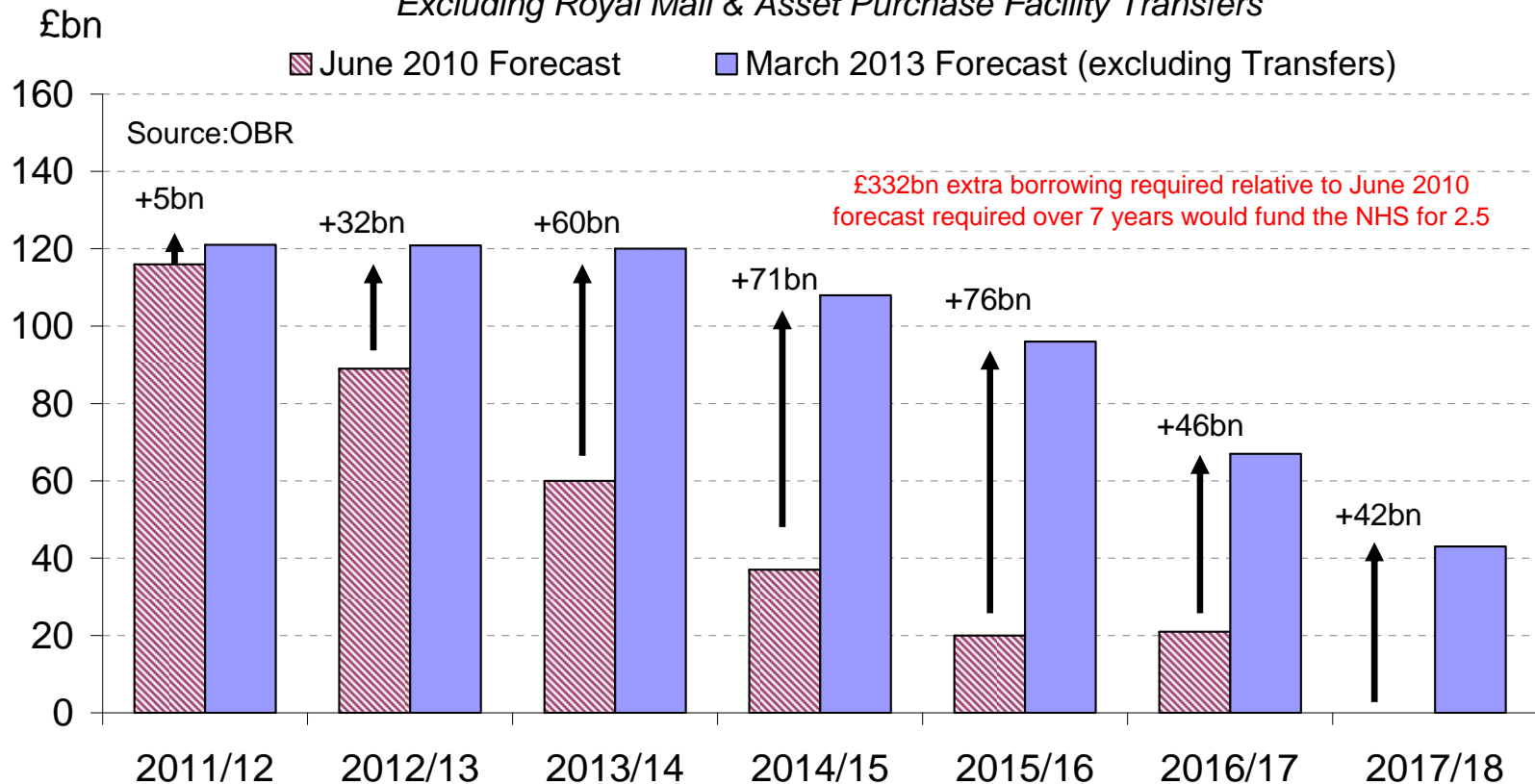


*Fiscal
Challenge
Challenge 3*

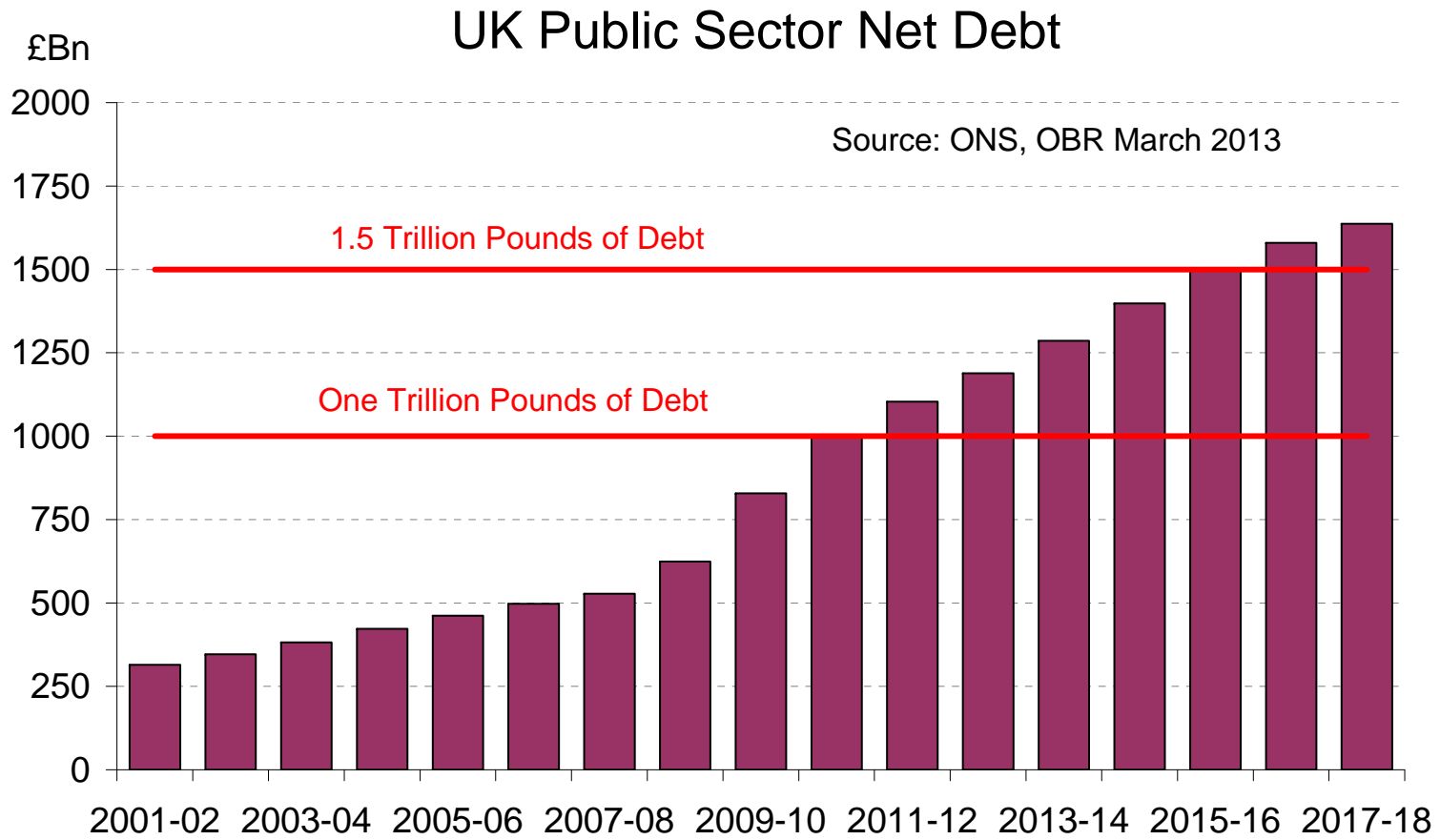
‘The deficit is coming down’??????

UK Public Sector Net Borrowing (PSNB)

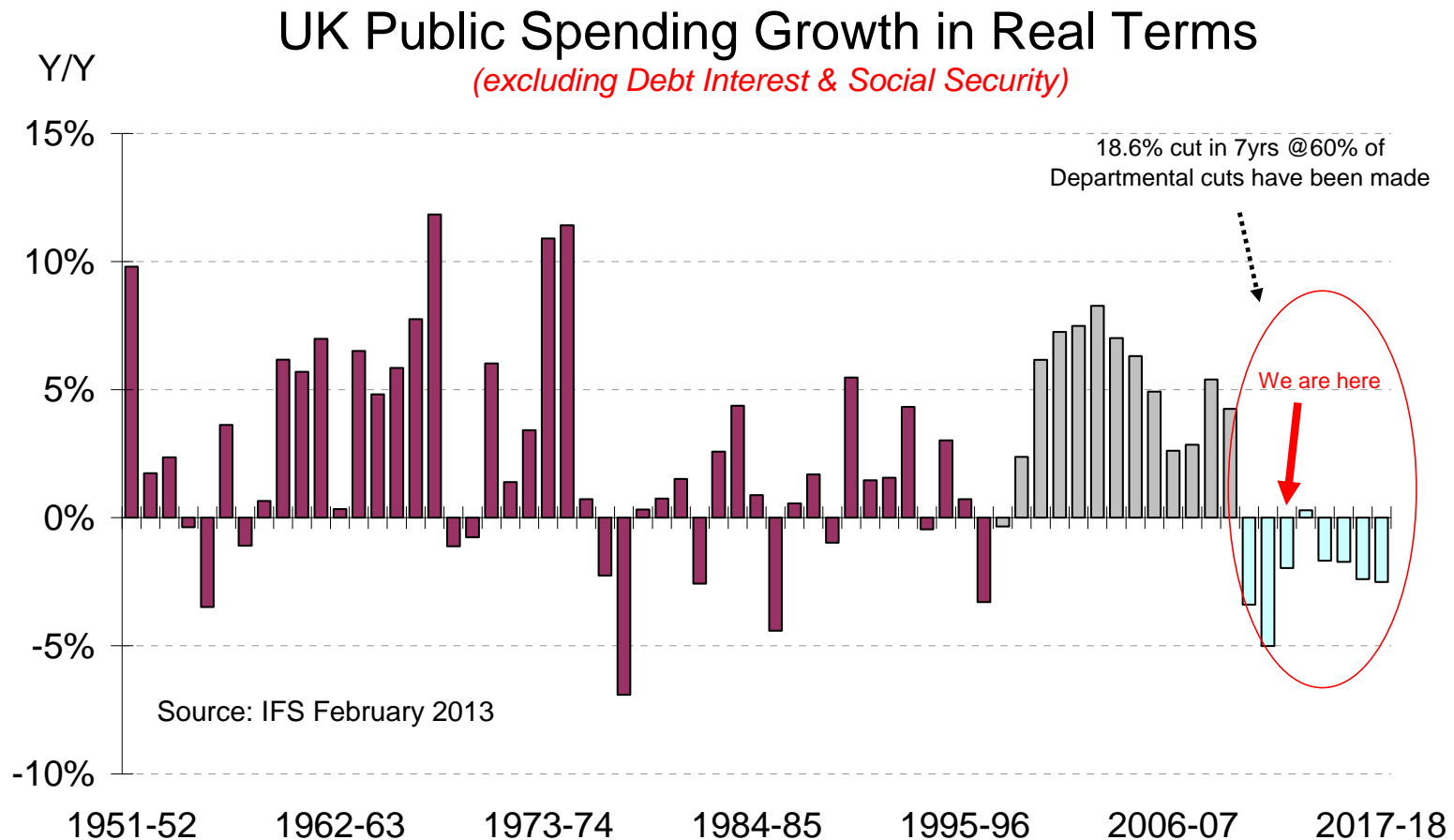
Excluding Royal Mail & Asset Purchase Facility Transfers



Paying off debt mountain = higher taxes & spending cuts



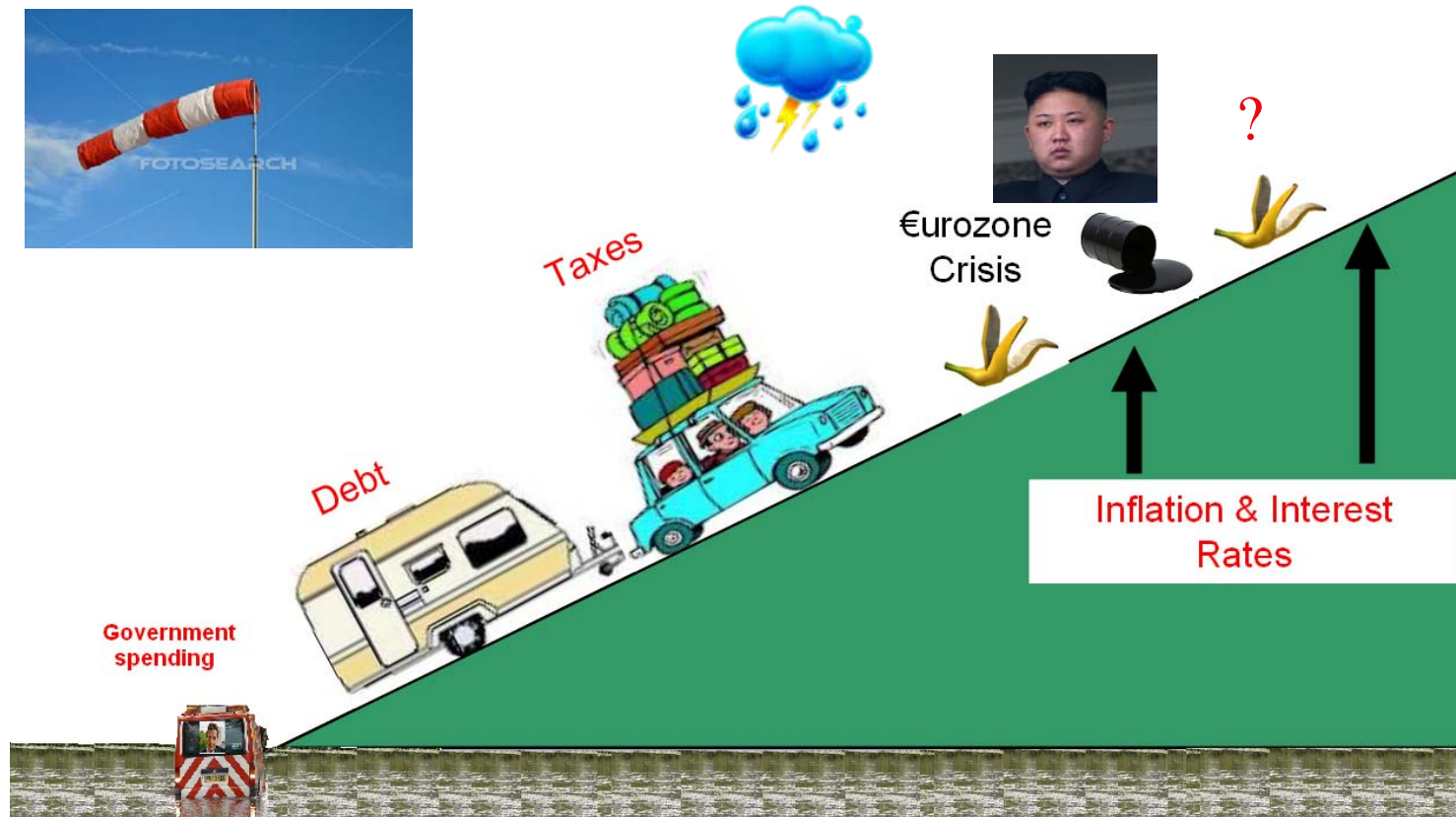
12-yr public spending feast followed by 7-year famine



Decade ahead will HURT

- **Downside risks** to NI growth (*EZ crisis & Credit Crunch 2*)
- Unemployment to stay higher for longer.... a **lost decade** for the under 25's?
- Households face **devaluation** in S.O.L, **debt de-leverage**
- Factors present in 'NICE' era have gone into reverse - Next decade ahead will **HURT**
 - **Higher Unemployment Rising Taxes / Tariffs**
- Fiscal austerity in NI – To be continued....

Economic Growth will be an uphill challenge...



...with a 'spreadsheet recovery'



Computer says Yes. But consumer says No!

LITTLE
BRITAIN

KENNY
CRAIG



“Three, two, one...You’re back in the room”

Reasons to be cheerful!

- Far-off fields (e.g. *BRICs & Emerging markets*) are greenerso **diversify** export base
- NI's private sector employee jobs increased by 2,000 in 2012
- NI's Pharmaceuticals output is currently at a record high
- Global demand for food & pharmaceuticals to rise well into the future
- NI's public expenditure cuts are **do-able**..... spare a thought for the South
- Recent FDI into NI & expansion of indigenous firms: e.g. Allstate, Wrightbus
- 2012 was a record year for the tourism industry
- City of Culture / World Fire & Police Games 2013, G-8, All-Ireland Fleadh
- ICT / software sector is booming
- Opportunity to radically change the economy for the better.... but will it be grasped?

NI requires a relentless focus on cost – the level of public expenditure, how it is spent & where. A forensic analysis of current public expenditure & public service delivery is urgently required

Not all decades have been lost! Look at Liganside!



Liganside 1994

Source: Invest NI

Laganside today



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