Keep an eye on the economic weather forecast at home and abroad

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In this part of the world we are obsessed with the weather. Almost 70% of people within the UK check the weather forecast at least once a day. Our interest in the weather is generally local and confined to what will happen within a short time-horizon. We are rarely concerned with weather conditions in the US, Greece, Spain or China unless we are actually there. Most of us have even less interest in broader climate change trends, such as global warming, which could potentially have far reaching impacts around the world for the next generation. For example, the polar ice caps are now melting at a faster rate than previously thought. Meanwhile, the glaciers in Norway & Alaska have shrunk to half their size in fifty years. In turn, this will lead to rising sea levels which will impact in the decades ahead.

The credit crunch was a truly global event and this week marked its 4th anniversary. Since it began, meteorological analogies have been used to describe some of the most dramatic events with references made to a *'financial hurricane'* or a *'perfect storm'*. The chaotic events of the last week brought another flurry of headlines such as *'financial market meltdown'* and *'double-dip recession looms'*. Part of the concern is that government deficits in the euro zone are not shrinking fast enough. Or, indeed, debt levels in the US are still rising. Billions of pounds have recently been wiped off global stock markets which will affect anyone with a private sector pension. Those just approaching retirement have arguably the most to lose as they won't have the time to wait for a recovery. During periods of extreme fear or uncertainty it is not simply a case of *'any port in a storm'*. Gold is the ultimate safe haven and its price has surged by 20% over the last 6 weeks. As a result, the earrings in your ear, watch on your wrist or gold filling in your mouth is becoming more valuable by the day. On the other hand those individuals waiting to pop the question will find the cost of that engagement ring is also rising.

Whilst most of us check out the weather forecast, how many of us regularly examine the economic forecast? Or, indeed, are we actually aware of what the economic conditions are today let alone what they will be like in one, five or ten year's time? Arguably the economic outlook can be prone to even more uncertainty than predicting the weather but it is likely to have a greater impact on our lives. Whilst the shipping forecast may be a turn off for most of us, I suspect even fewer people tuned into the Bank of England's press conference on Wednesday or read the Federal Reserve's statement on the US economic outlook the night before.

Both events were significant not least as they signalled a slowdown in economic growth and a faltering recovery. This is bad news for local business given that Great Britain is Northern Ireland's most important trading partner. However, slower growth has some positives with oil prices down by 10% over the last few weeks, petrol prices should follow. Furthermore, inflation is projected to be lower than expected. Therefore interest rates will stay lower for longer which is good news for those on tracker mortgages and those looking for fixed-rate products. Low interest rates, however, are bad news for savers.

Sir Mervyn King noted that the headwinds to global and domestic economic growth are becoming stronger by the day with the greatest risk stemming from the euro area. Northern Ireland is unique in that it is the only part of the UK to share a land border with the euro zone – the Republic of Ireland. Furthermore, the latter is the second most important economy - as far as trade, tourism & investment are concerned – for the local economy. Therefore while the weather conditions in the Republic of Ireland have no bearing on us here, the economic conditions do.

Fears of a *'double-dip'* recession for Northern Ireland are misplaced as unlike the UK, Northern Ireland has not yet experienced a meaningful recovery. This week saw that the weather vane for private sector activity, the Purchasing Managers Index PMI, still points directly at recession. This year the local economy is as likely to see a contraction of 0.5% as it is growth of 0.5%. The latter is around one fifth of our normal growth rate. In any event the difference between entering and avoiding recession is marginal and the public will not notice the difference. It would be like trying to distinguish an 80 m.p.h wind from an 85 m.p.h gale. What they will notice, however, is the continuing human recession for years to come. We got further evidence of that this week with statistics highlighting the higher incidence of negative equity in Northern Ireland than elsewhere and signs of consumer stress intensifying. Almost 2,600 individuals became insolvent over the last year and almost 7,700 since the credit crunch began. Meanwhile, new car sales, a key barometer of consumer spending, fell again last month with over 20,000 fewer sales *(30% fall)* over the last year relative to 2007.

Prior to 2007 the Celtic Tiger provided a crucial tailwind that sustained strong economic growth here. Since then the downturn in the RoI has sent a Celtic chill through our economy. In the same way we experienced freak weather conditions last winter, the local economy experienced freak economic conditions on the run up to 2007. These included simultaneous booms on a number of fronts – property, Celtic Tiger, public expenditure, employment and inward migration. All of these tailwinds have now turned into headwinds and the local economy is currently in the eye of a storm as it awaits the public sector recession and the melting of the public expenditure ice caps over the next decade.

This is proof, if it were needed, that the great economic storm which as been raging around the Mediterranean and the US has parked itself well and truly over Northern Ireland's own unique weather system. If this was a weather forecast we'd be advising an umbrella and a heavy coat. Furthermore, best keep an eye on the global forecast and not just the local one.

Richard Ramsey, 11 August 2011