Group Economics

Ulster Bank

Survival of the fittest and the fittest are going global

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If you were a fund manager tasked with investing exclusively within the Northern Ireland economy, your portfolio would now likely be overweight in software, agri-food, pharmaceuticals and utilities and underweight in construction and financial stocks. You'd also probably be reducing your exposure to consumer sensitive sectors, particularly ahead of forthcoming public expenditure cuts. However, it is important to remember that even when sectors go into decline, not all firms within them do. Ultimately those that remain competitive and adapt to changing circumstances will prosper and those that do not will suffer. This explains the ongoing *'survival of the fittest strategies'* being adopted by pubs, restaurants and retailers as they aggressively compete for discretionary spending.

As far as the economic news of relevance to consumer spending is concerned, there simply isn't much that can be presented as positive. Personal insolvencies are at a record high, mortgage arrears are on the rise and 38,000 individuals have been added to the unemployment register over the last four years. Meanwhile, the legacy of Northern Ireland's consumer past and property boom and bust will have to be dealt with and this will be a long, slow process. Given that inflation, particularly food and energy price rises, has provided a sustained squeeze on disposable incomes, this will continue to depress discretionary consumer spending – including spending on leisure, retail, pubs and restaurants and of course the new car. In Northern Ireland over the last 12 months 21,500 fewer new cars were sold relative to the 2007 peak. This represents a fall of almost one third. With more of the public expenditure cuts ahead of us than behind us, and further tax rises still to come, the consumer in 2012 and 2013 will be more discerning relative to the halcyon days of 2007.

The likely response to this environment is increased saving despite negative real interest rates. Whilst this may be the right approach for an individual's or household's finances, it is bad news for consumer spending. This is all part of the economy rebalancing away from debt and towards savings.

The recent news flow from the high street makes for a depressing read. Whether it's the latest UK multiple closing its doors on the high street or the latest report from the British Retail Consortium highlighting that Northern Ireland's town centres have the highest vacancy rates within the UK. However, it should be remembered that it is not all one-way traffic. The local retail space has witnessed a number of new arrivals such as *Cath Kitson, White Stuff, Paperchase and Jack Wills.* Meanwhile, at the lower end of the value spectrum *Poundland* and *PoundWorld* are in expansion mode, responding to the increased demand in their markets.

One phenomenon that saw Northern Ireland's retailers buck the wider economic trend was the influx of cross-border shoppers. A favourable exchange rate alongside tax *(e.g. VAT)* and duty differentials and most important of all significant underlying price differentials all combined together to provide a perfect south to north tailwind for local retailers. This provided some offset, and even over-compensated, for the fall-off in domestic demand by effectively providing an external financial stimulus into the local economy. Now, given the current health of consumer demand and the lack of profitability amongst firms in the retail and hospitality sectors, they need another financial stimulus. With a sustained programme of fiscal austerity underway no stimulus is likely to be forthcoming in this month's Budget or any subsequent ones in the foreseeable future. Instead, any meaningful stimulus will have to be external.

On this front, however, there are grounds for some optimism. Whilst the local downturn continues at an economy level, the tourism industry is entering what might be termed its 'sweet spot'. The next 18 months will see some of the biggest tourism events ever to be staged in UK and Northern Ireland, which in turn will provide a salvo of much needed consumer spend from external sources. Next month's Titanic Centenary celebrations, the Irish Open in Portrush and the London Olympics provide the events for 2012. In 2013, the North West will receive a double helping of celebrations with the Derry-Londonderry UK City of Culture and All Ireland Fleadh set to attract tens of thousands of visitors. Meanwhile, Belfast plays host to the World Fire and Police Games, one of the largest multi-sport events in the world with upwards of 10,000 competitors. All of these events, alongside the continued efforts of our golfing ambassadors *(Clarke, McDowell & McIroy)* will build on Northern Ireland's brand image in the eyes of the world and will provide a giant leap towards realising our full tourism potential.

In addition, it is incumbent upon local retailers to become as outward looking for new markets as our exporters. Through online shopping, the pound of a Northern Ireland consumer can just as easily be spent on the other side of the world. The best way for retailers to survive is to create an online offering and reach out for retail revenues beyond these shores. An online presence makes it possible to grow a business despite the fact that the domestic market may be shrinking. Chain Reaction Cycles, based in Doagh, claims to be the world's largest online bike store. Golf Store Europe, based in Derry, is one of Europe's largest online golf equipment retailers. Cross-border retailing is no longer enough. The world must be the marketplace.

Richard Ramsey,
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