Group Economics

Ulster Bank

'Black Friday' for N.Ireland households remains some way off

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The festive season is fast approaching with many of us bracing ourselves to hit the high street, both real and virtual. Indeed, for some, that day or days may thankfully already be behind us. After all, last week was *'Cyber Monday',* which is traditionally one of the busiest online shopping days of the year. The term *'Cyber Monday,* originated in the United States and follows the annual Thanksgiving holiday and of course *'Black Friday'.* The latter fires the starting pistol for the Christmas shopping season and represents the point at which retailers begin to make a profit, or start recording black ink as opposed to red. Similarly, for Northern Ireland retailers, the Christmas season will be *'make or break'* for many businesses.

'Black Friday' and *'Cyber Monday'* are American traditions that have crossed the Atlantic to Europe and the UK. Indeed, you may have already noticed that online retailers have been filling up your email inbox with promotions and discounts. Online shopping has grown in popularity in Northern Ireland and this trend is set to continue. You only have to go to Belfast's Tomb Street Post Office on a Saturday to witness the queues for parcel collections. Last month it is estimated that Northern Ireland consumers spent £50 million on online sales, an 11% increase on the November 2011 figure. Most of this £50 million will be going into tills beyond these shores.

Notwithstanding the opportunities that ecommerce offers local retailers to grow their markets outside Northern Ireland, the internet is a major and growing threat for local retailers. When it comes to cost and convenience the internet wins hands down. The computer screen provides the ultimate shop window for the frugal consumer with no car parking or public transport fares required.

Arguably a bigger concern for consumer sensitive sectors, however, is the deteriorating state of Northern Ireland's household finances. Christmas is an expensive time of the year at the best of times. However, the cumulative impact of unemployment, inflation and pay cuts / freezes is taking its toll on households. For example, last week a survey revealed that 63% of Northern Ireland families struggle to meet their childcare costs either throughout the year or at some point during it.

As a child, I can remember receiving a £10 gift voucher from my aunt and uncle each Christmas. Initially I was amazed at how many toys and sports goods this voucher could buy. As the years went by, and the £10 vouchers kept coming, it became increasingly apparent that the £10 bought fewer and fewer goods. In effect, my annual one-off income was static but the cost of toys and sports goods continued to rise. Clearly an inflation-linked gift voucher would have been the solution to this problem.

In a similar vein, this is what has happened to households since the downturn. For many households their gift vouchers *(annual earnings)* have been frozen for 4 years while the cost of goods and services has risen. Meanwhile others have seen the value of their gift vouchers reduced and the costs of goods rise. Finally, some individuals have seen their gift vouchers increase in value but not as much as the price increases in goods and services. Only the lucky few have seen annual earnings outpace inflation.

Last month's Annual Survey of Hours & Earnings (ASHE) for 2012 alongside the official UK inflation figures put some numbers on these earlier scenarios. Since the UK recession officially began in Q2 2008, pay cuts and wage freezes have been commonplace within the private sector in Northern Ireland. Meanwhile UK consumer prices have increased by over 14% cumulatively between April 2008 and April 2012 *(and even more since).* This compares with a cumulative rise in median earnings *(for all employees part-time & full-time)* of less than 3%. This represents a cut in real terms of 11%.

The overall figures conceal significant differences between the private and public sectors. Indeed, the median private sector wage in April 2012 was almost 3% lower that the corresponding level in 2008 before inflation is taken into account. After inflation, Northern Ireland's private sector posted a real terms cut of almost 17%. One contributory factor behind this fall is the shift from full-time to part-time employment.

Full-time employees *(all sectors)* have fared rather better over the four years to April 2012. Indeed, the median public sector full-time employee wage managed to outpace inflation with a cumulative rise of over 17%. This made for a real terms increase of just over 3%. Meanwhile, the private sector median posted a real terms cut of over 10% in the four years to April 2012.

The squeeze on household incomes from unemployment, inflation and tax rises has poured red ink over the finances of many households in Northern Ireland. This has hit consumer spending and largely explains why one in five retail units are now vacant. With inflationary pressures expected to persist and further tax rises in the pipeline, it will be some time yet before households experience their own *'Black Friday'.* That is, when disposable incomes start to rise at a faster rate than costs.

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