Group Economics

Ulster Bank

Not all sun, sea and sangria for NI's Club 18-34

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

richard.ramsey@ulsterbankcm.com

www.ulsterbank.com/economics

Article appears in the Belfast Telegraph's Business Month magazine – February Edition published 7 February 2011

The recession has impacted on certain age-groups more than others. Since the summer of 2007 it has certainly not been all sun, sea and sangria for the Club 18-34 age group. Almost 60% of the rise in unemployment during Northern Ireland's downturn has occurred within this age-group. Indeed, the number of individuals aged 18-34 claiming unemployment benefits is now 5% higher than in 1998, when the Good Friday Agreement (GFA) was signed.

Within Club 18-34 there are two distinct groups that are critical to the economy. First, there is the 18-24 category, or youth population, which contains the vast majority of the higher education student population. This group provides a vital source of skilled labour for the future and influences an economy's growth potential. Second, there is the household formation cohort of 25-34 yrs, with the average age of a first-time buyer (FTB) 29 years. The numbers and economic status within this group have a significant bearing on housing demand either within the rental or home-owner sectors. In turn, this drives or leads to stagnation within the wider housing market.

NI's youth unemployment rate of 21% (UK=18%) is now more than double the rate when the GFA was signed. Our youth population also has the lowest wages within the working-age population with the average full-time wage (£14,500) or just 55% of the NI average. But with lower wages there is a higher propensity to consume relative to those on the average wage. As a result youth unemployment has adversely affected the consumer sensitive sectors such as leisure, retail, gyms, pubs etc reliant on this group's expenditure.

Nevertheless, our youth unemployment rate still compares favourably with Spain (43%), Greece (33%) and Italy (29%). Spain's youth unemployment rate is the highest in the EU with Germany (9%) and the Netherlands (8%) the lowest. This has fuelled fears of a graduate youth exodus from the 'Club Med' economies. Similar concerns are emerging in NI with the supply of graduates increasingly out-numbering the demand for graduate positions. Invariably, the graduate response has been to enter employment at a level(s) below their qualifications or these qualifications are not utilised leading to 'skills fade'.

Looking ahead, a growing number of graduates face the stark choice of unemployment, under-employment or emigration. The 'gap year' will increasingly be a popular pursuit for graduates as an unemployment avoidance tactic rather than the rat-race deferral strategy it once was. For many, paying off student debt, and ultimately buying a house, will be deferred also. After all, the youth population of today quickly moves into the household formation category tomorrow.

Tuition fees have become a part of student debt since 1998. In the future, tuition fees will become even more significant with annual fees of up to £9,000 per year likely to make any prospective student think twice about the expected return from their investment. Moreover, they will move into the household formation category with greater levels of debt relative to their predecessors. This, in turn, will impact upon mortgage affordability and therefore put downward pressure on house prices.

Earnings rise with age with the 25-34 yrs cohort enjoying an average salary of £22,000 p.a. or 83% of the NI average. Like the youth cohort, this age-group has a higher than average propensity to consume its income rather than save. Both age-groups will be more adversely affected, relative to the NI average, as the rise in indirect taxes (e.g. VAT) alongside food and energy inflation will account for an increasing share of disposable incomes.

Arguably the biggest shock to the 25-34 yrs category was the housing boom and bust. Many purchased houses at levels that will take the best part of a decade to return to. Negative equity is a concept that has become all too familiar to many of those first-time buyers who bought properties not just at the 2007 peak but during 2006 as well. Many of the 'class of 2006/07' will be unable to trade up and face the prospect of raising a family in inappropriate accommodation.

The 25-34 yr cohort is also the category with the highest levels of entrepreneurial activity, and many applied their flair in property investment. Whilst many rue the day they purchased houses at what proved to be inflated prices, driven by the insatiable appetite of the 'entrepreneurial' buy-to-let investor, the rampant house price inflation was actually a godsend for an even greater number. Those who thought they had missed the boat have been spared a massive financial headache and negative equity trap. Not only has the boat returned, but the red carpet has been rolled out with prices down 50% from the peak.

Despite this reversal, rising unemployment, job insecurity and the lack of a large enough deposit are keeping FTB mortgage activity at levels 75% below the pre-credit crunch average. This in turn has led to stagnation in the wider market with total activity over 60% below normal levels all at a time when interest rates are at record lows and set to rise. The latter may trigger a surge in buy-to-let properties coming back onto the market in 2012 and beyond at prices that will be good news for the future first-time-buyer.

In short, a significant proportion of NI's Club 18-34 will no longer be able to afford the sun, sea and sangria in the way the age-group once did. Indeed the only SUN some might see for some time is **S**tudent debt, **U**nemployment / Underemployment and **N**egative equity.

Richard Ramsey
20 January 2011