

Economic indicators at a glance – January 2012

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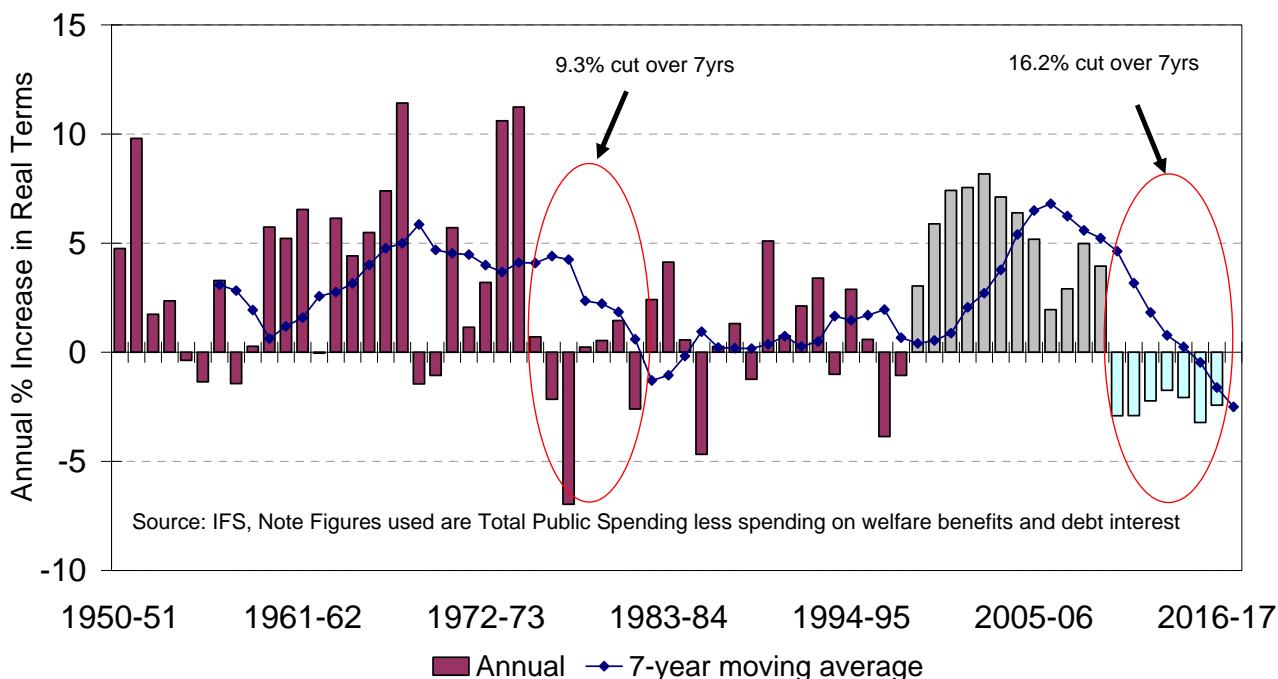
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Chart of the Month – Public spending squeeze to follow economic squeeze

On 29 November the UK Chancellor unveiled a sombre Autumn Budget Statement (ABS). The main focus of the Statement was not on the Chancellor but on the dire set of forecasts supplied by the Office for Budget Responsibility. The UK economy is now expected to grow by 0.9% in 2011 and just 0.7% in 2012 with slower growth in 2013 & 2014. Given Northern Ireland’s reliance on the UK economy this will lead to an even weaker economic recovery in Northern Ireland. In addition, the huge, as yet unspecified, public spending cuts in 2015/16 & 2016/17 highlight that even in five years’ time, the public sector will remain a significant drag on the economy. Indeed, revised forecasts show UK public sector employment shrinking by 12% (710,000) over the course of austerity (by 2017). With tax receipts plummeting, further efforts to rein in public spending were announced in the ABS. Overall almost three-quarters of the fiscal adjustment by 2014/15 will be through spending cuts as opposed to tax rises. Total public spending is now set for its tightest squeeze since the end of World War II. Following the unprecedented 12-year boom in public expenditure growth, the UK now faces an unprecedented squeeze on public spending. Excluding debt interest and welfare payments, public spending is set to fall by 16% over the 7-year period to 2016/17 according to the Institute for Fiscal Studies. This extends austerity 2-years into the next parliament. It is noted that spending cuts of £8bn and £15bn have been identified in 2015/16 and 2016/17 respectively. The Spring 2012 Budget will reveal what these cuts are. Against this context, Northern Ireland faces the unenviable position of being the UK region that has experienced the deepest recession so far and is also the region most exposed to public expenditure.

7-Year Public Spending Squeeze

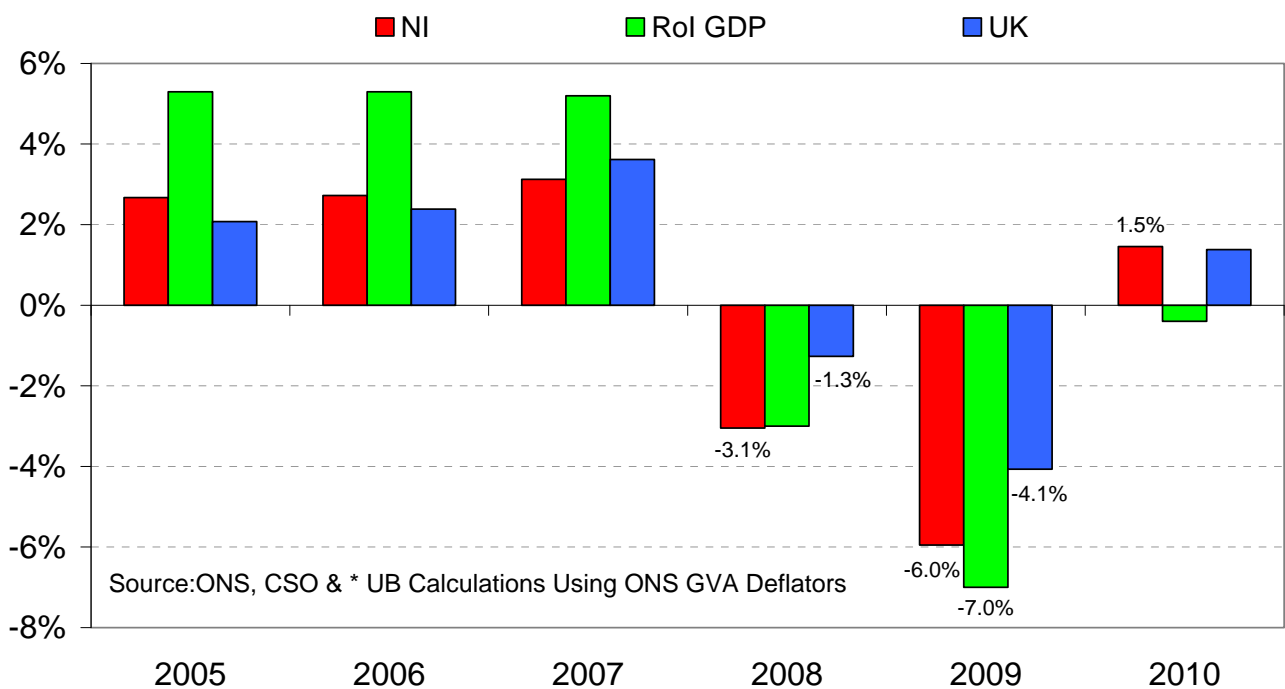
% Change in Real Terms



Northern Ireland has followed the growth trajectory of the RoI

Looking at the rear view mirror, regarding economic data, reveals that Northern Ireland's recession was much deeper than previously estimated. No quarterly GDP figures exist for Northern Ireland. Instead, economists and commentators must content themselves with the annual estimates for regional Gross Value Added or GVA. The latter are subject to considerable delay with 2010's figures released last month. Following growth of 3.1% (real terms) in 2007 the NI economy contracted by 3.1% in 2008 and by a hefty 6% in 2009. The previous official estimates were -1.3% and -3.6% respectively. During this recession, the Northern Ireland economy has more closely followed the RoI economic growth trajectory as opposed to the general economic growth profile. In 2010, NI posted a 1.5% real terms increase in economic growth. However, we expect this to be revised down into negative territory in due course (-0.5% estimate).

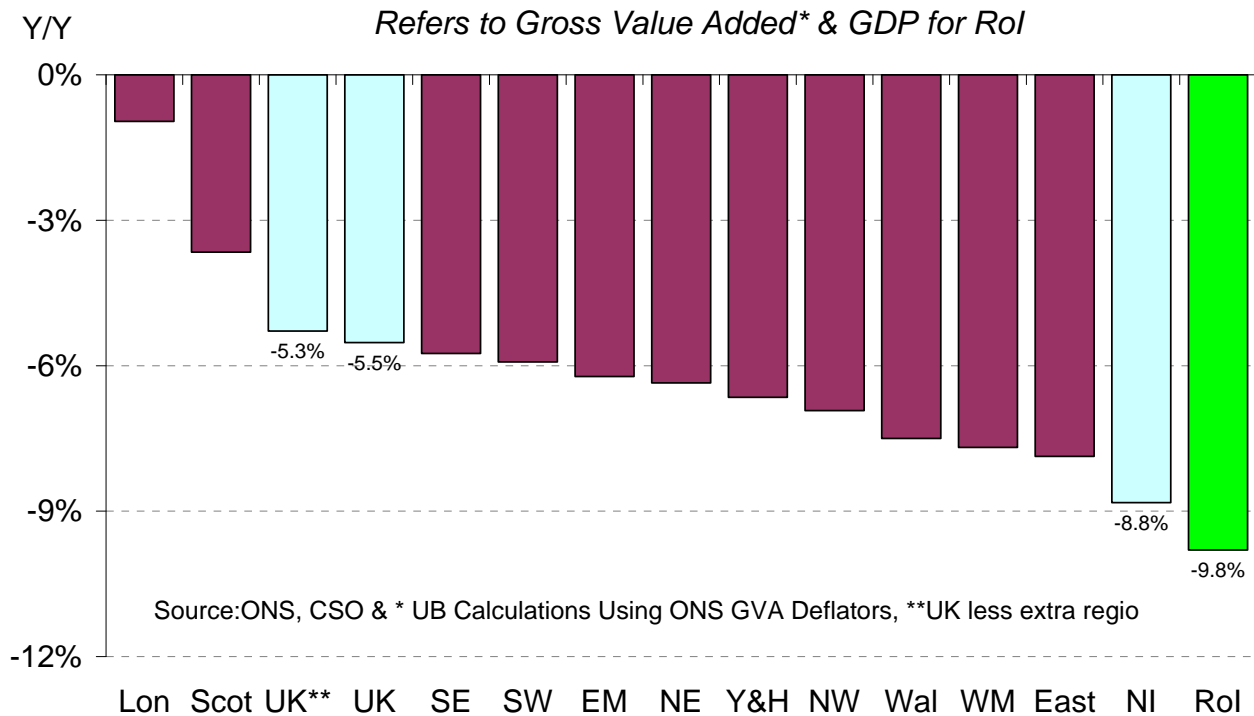
Annual Economic Growth in Real Terms - GVA



Northern Ireland's recession deeper than all other UK regions

The most timely surveys of economic activity are the Purchasing Managers Indexes (PMIs). It is noted that during the most intense phase of the recession, 2008 & 2009, the PMIs consistently signalled that within all the UK regions the recession was deepest within Northern Ireland. Last month's official GVA figures have also confirmed this. Northern Ireland's cumulative contraction in 2008 & 2009 is now 8.8% and not 4.9% as previously estimated. This was the steepest decline of all the UK regions and compared with a fall of 5.3% for the UK and 9.8% for the Republic of Ireland (GDP). In monetary terms, this peak to trough fall for Northern Ireland represented a decline of £2.6bn in real terms. Meanwhile, Northern Ireland's economic prosperity gap (*GVA per head*) with the UK continues to widen. GVA per head was 76% of the UK average in 2010 which compares with 81% back in 1997.

Annual Economic Growth in Real Terms 2007-2009



Richard Ramsey,
9th January 2012

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