Economy Watch: NI Property Market

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Five years have passed since Northern Ireland's property boom peaked. A graph of the rise and subsequent fall mirrors the trajectory of an Evil Knievel stunt. Northern Ireland house prices doubled in just 2½ years and have subsequently fallen by 53%. All of the gains made during the boom have now gone.

But, what have the vagaries of the property market got to do with the economy today? In economic development circles, the general view has been 'not a lot' because the property market falls outside of productivity, exports and R&D, the key focus within economic development. Whilst many firms sought to boost long term competitiveness through these areas they also joined the foray into property for short-term gain. A significant number now find themselves with property assets / debt unrelated to their core business.

In reality, it has been a truly *'economy-wide'* issue and one of the biggest ever to hit the local economy. Indeed, the contagion from the property downturn is the most significant factor explaining why the recession in Northern Ireland has been longer and deeper than any other UK region. It also explains why Northern Ireland is still losing jobs whilst the UK is creating them.

Retail has been hit particularly hard. Equity withdrawal provided the means to fund a higher standard of living. New shopping centres arrived and the mix of retail followed the money. The only snag was that the economy and therefore retail was artificially, and temporarily, boosted by debt. There was a veneer of wealth and prosperity that belied economic fundamentals. With the party over, the retail sector is readjusting to reflect the new reality. The 75% fall in new Porsche car sales since 2007 is a case in point.

The property downturn has seen NI's annual subvention soar above the frequently cited Westminster figure. One of the reasons the recession has not felt as severe as the GDP figures suggest is because additional subventions are numbing the pain. Various financial institutions operating within Northern Ireland have received subventions, privately or government-backed, from their parent companies in GB, the Republic of Ireland or Denmark. The quid-pro-quo for this will be restructuring, reduced headcounts and significant cuts to the procurement of services within the wider economy.

For the economy, the collapse in activity has been more damaging than house price falls. The construction and services industries have borne the brunt but manufacturing has been adversely affected too. Our construction industry has lost one third of its workforce already. The house-building sector is expected to build 11,000 fewer houses in 2012 relative to 2006 *(a 60% drop)*. Despite a growing population, Northern Ireland is building fewer houses per capita than at any time since 1959. This factor, plus an ongoing shortage of social housing, will pose challenges in the future.

Any business experiencing a 90% drop in a key export market finds itself in difficulties. This is what has happened for many firms exporting into the Republic. RoI house completions have plummeted by 90% and not surprisingly local manufacturing sales *(outside of Food & Drink)* to the RoI have fallen by almost 60% in just 3 years.

A priority growth area, *Business Services & Finance (BSF),* has seen output halved in five years. This sector includes: banking, accountancy, solicitors, estate agents, quantity surveying, consultancy, financial advisers and advertising. When the property market sneezes, these sectors catch a cold. Unfortunately, the property market has caught pneumonia. Indeed, the level of BSF activity in Q4 2011 was some 25% below the levels recorded 10 years ago. Without Invest NI bringing new legal and software firms into the economy the situation would have been much worse.

Graduates hoping to gain employment in BSF and construction related occupations face the double whammy of fewer opportunities and greater competition from older, more experienced staff seeking work. One legacy of the property downturn is we now have the best qualified dole queue we have ever had. Self-employment may prove difficult too with the property legacy and debt overhang exerting a negative influence on entrepreneurial activity.

When a property market is not functioning properly, this affects labour market flexibility. For individuals who have lost their jobs, *'getting on their bikes'* Norman Tebbit style is tricky if you are in negative equity or you cannot sell your house. Last year witnessed the lowest number of home mover mortgages since 1974.

However, it's not all bad news. Lower house prices make selling Northern Ireland as an inward investment destination easier. In 2007, Northern Ireland had some of the highest and fastest rising house prices in the UK, which was potentially off-putting to companies needing to remunerate workers confronted with expensive housing costs.

The reality is that Northern Ireland's housing market boom and bust also could have been worse. It was telescoped into a much shorter timeframe than south of the border, where even more people & businesses were directly impacted, and potentially in a bigger way. Another positive is that we have all learnt a valuable lesson. We might even begin to see the considerable deficit in analysis of the property boom and bust being addressed and acknowledgment of its impact beginning to appear in official documents and presentations.

Richard Ramsey,
28th June 2012

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Economic indicators at a glance – July 2012

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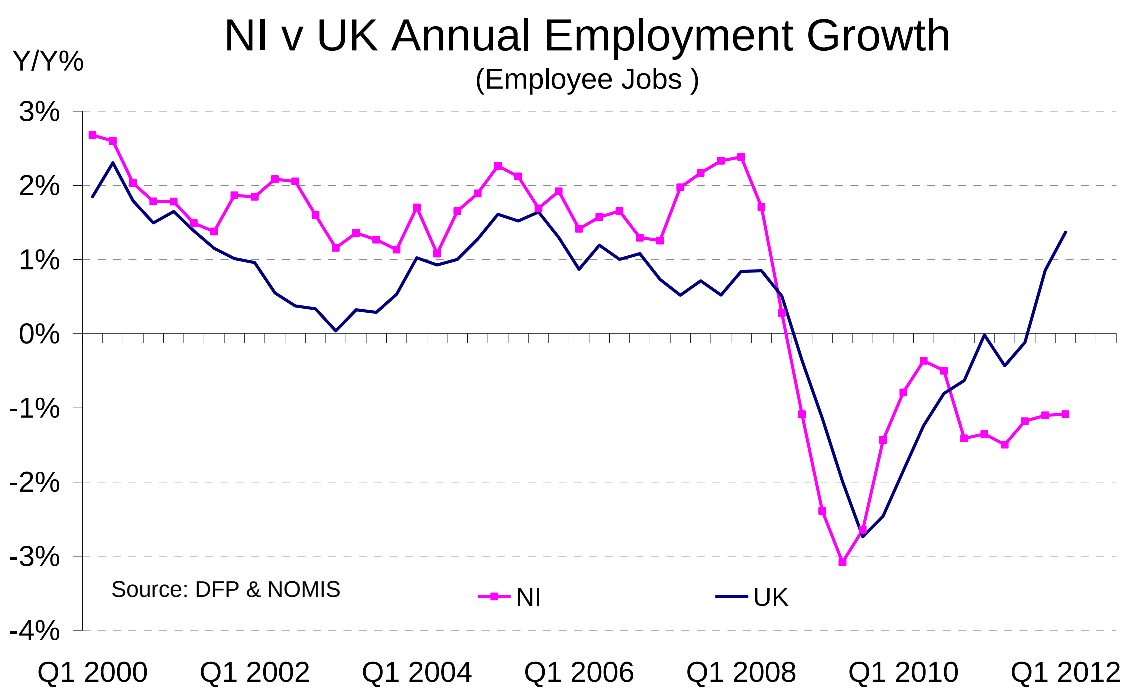
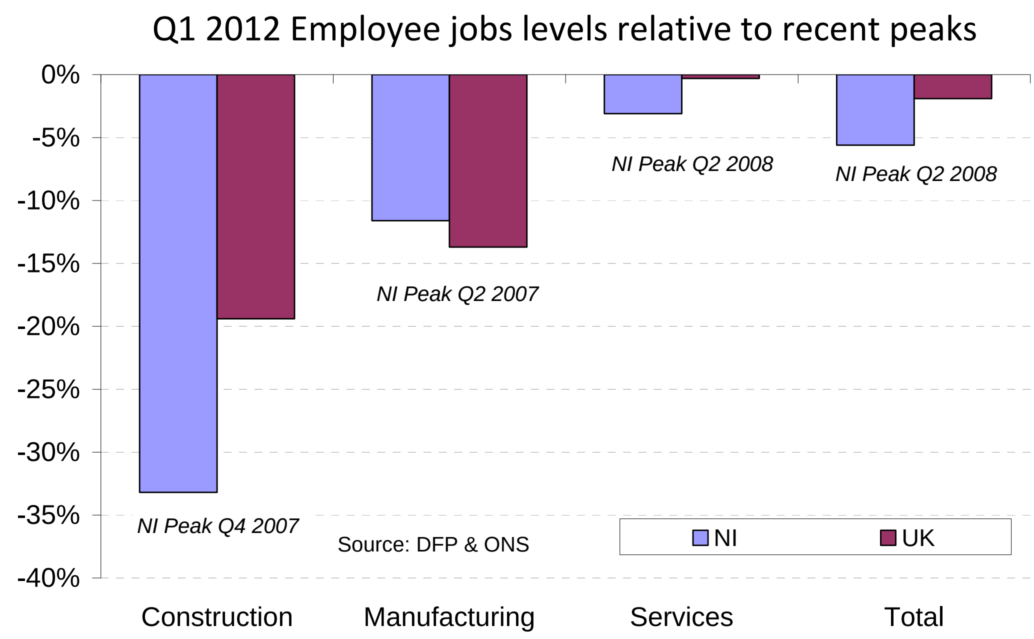
Chart of the Month – NI-UK divergence in employment growth performance

Whilst the focus is normally on the monthly unemployment figures, the spotlight shifted last month to the first quarterly employee jobs survey *(QES)* for 2012. This measures the number of jobs *(excluding self-employment)* as opposed to the number of individuals working. The divergence in Northern Ireland's economic performance relative to the UK has been evident within a range of surveys *(e.g. PMIs)*. The latest QES surveys for Q1 2011 reveal a similar disparity with Northern Ireland continuing its run of job losses whereas the UK is in job creation mode. The latest figures signalled the ninth consecutive decline in the number of jobs in Northern Ireland. In Q1 2012, the number of employee jobs decreased by 1,250 q/q (-0.2%), which is half the rate of decline recorded in the previous quarter. Furthermore, the number of jobs in Q1 2012 was 7,590 (-1.1%) below the corresponding quarter in Q1 2011. The equivalent UK figures posted a 1.1% q/q increase in Q1 2012 and were 1.4% higher y/y. It is noted that Northern Ireland has experienced 14 quarterly declines during the last 15 quarters *(this uses two data sets which are not directly comparable but are used for indicative purposes).* During the decade prior to the downturn, the Northern Ireland economy consistently outperformed the UK in terms of employment growth. Since the recession, however, the UK is now significantly outperforming Northern Ireland.



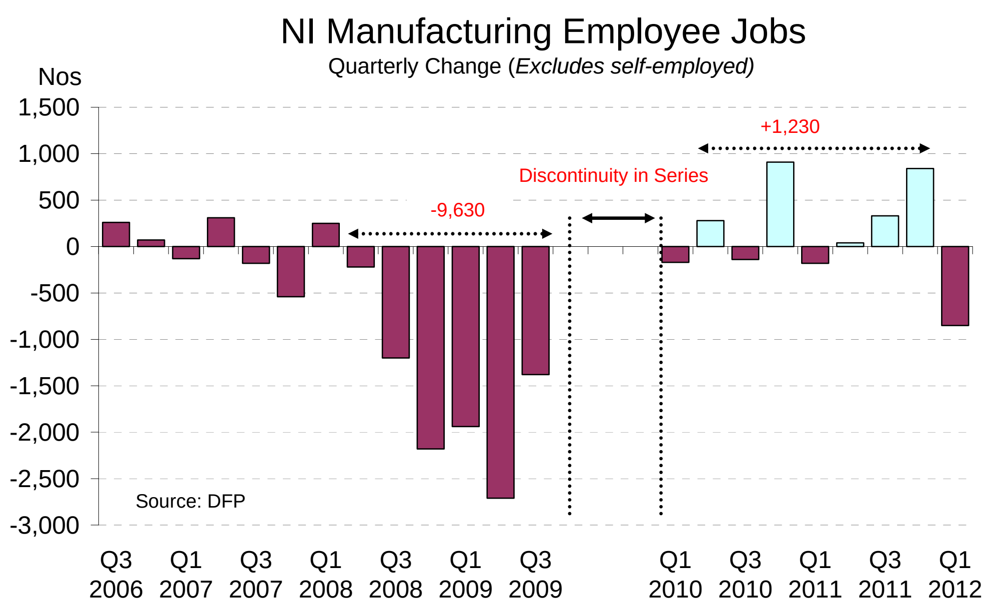
Biggest divergence is within the services and construction industries

The number of employee jobs in Northern Ireland peaked at 733,090 in Q2 2008. Since then, employment has fallen by 40,930 jobs (-5.6%) to 692,160 in Q1 2012. This broadly takes the number of jobs back to late-2004 levels. By comparison, the UK has recouped half of the jobs it lost during the recession over the five quarters to Q1 2012. As a result, total employment is just 1.9% below its peak. The UK recovery has been most evident within services with employment just a fraction (-0.3%) below the peak. Meanwhile Northern Ireland's service sector employment is 3.1% below its pre-downturn high. However, the biggest disparity remains with the construction industry. The local construction sector has lost one third of its workforce whereas its equivalent in the UK has lost less than one fifth. The one sector that Northern Ireland has outperformed the UK through the downturn is within manufacturing.



Manufacturing sector posts its first fall in jobs in 4 quarters

At a sector level, NI's local manufacturing firms had been bucking the wider trend over the last two years. Indeed, prior to today's Q1 2012 survey, manufacturing employment had increased in five of the previous eight quarters. This purple patch has come to an end with local manufacturing losing 850 jobs (-1.1%) in Q1 2012. This marked the steepest decline in jobs since Q3 2009. In contrast, UK manufacturing posted a robust 1.8% q/q rise in employment in Q1 2012. The healthy state of the automotive industry is one key difference explaining the divergence between NI/UK manufacturing. The latest figures for Q1 2012 indicated that there were 74,420 jobs within the local manufacturing sector. Despite the recent gains in employment over the last 2 years, manufacturing employment remains almost 12% *(9,720 jobs)* below its recent 2007 peak (UK= -13.5%).



Richard Ramsey,
22nd June 2012

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