

Northern Ireland Downturn Still Under Construction

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The Northern Ireland economy was the first UK region to enter the economic downturn and it is likely to be the last region to secure a meaningful recovery. Northern Ireland's exposure to the construction industry and an unprecedented housing boom and bust has been a primary factor behind this. It is noted that Northern Ireland's construction industry accounts for a larger share of the economy than its equivalent sector in any other UK region. Furthermore, after agriculture, it accounts for the largest share of the business population with almost 1 in 6 firms falling under the construction category. In addition, Northern Ireland is unique in that it is the only part of the UK to share a land-border with the eurozone – the Republic of Ireland. The latter has experienced one of the sharpest contractions of any economy worldwide with the economy shrinking by over 20% - three times the contraction experienced in the UK. The Republic of Ireland's construction sector also experienced a record boom and bust. The local construction industry, and manufacturers of construction related products, clearly benefited from the upswing and conversely are now suffering in the downswing.

In light of the above, it is not surprising that a quick review of the official statistics reveals that Northern Ireland's construction industry has borne the brunt of the recession so far. Official figures reveal that construction output and employment have fallen by well over 30% (*38% for output*) and are still falling. The forward looking new orders index for the construction sector fell by almost 11% in the second quarter of 2011. As a result, new orders are now almost 50% below their 2007 peak. In addition, the rate of house building has more than halved and despite the fact that Northern Ireland has a growing population, we are currently building fewer houses than we did in the mid-1990s. As a result, construction employment is now back at 1999 levels. If all other sectors were experiencing the same economic conditions as the construction industry currently is, the economy would be experiencing a depression not a recession. It is acknowledged that without the infrastructure boom, funded largely by the Stormont executive's capital investment programme, during the last decade, the plight of the construction sector would be considerably worse. However, this source of support is disappearing at the very time when it is needed the most. Whilst public sector cuts are necessary, there should a greater focus on protecting budgets that will have the most beneficial impact on the economy.

After four full years of contraction, Northern Ireland faces the prospect of another 2/3 years of falling output and employment. As we enter phase two of the downturn – the public sector recession – it is clear that the construction industry will also bear the brunt of the cuts in public expenditure. Capital investment is set to fall by 37% in real terms, from its recent peak, by 2013/14. This compares with relatively modest single-digit declines in terms of current expenditure. A rebalancing of Northern Ireland's public expenditure cuts from current to capital is desperately needed. This is not just in the construction industry's interests but that of the wider economy. It is noted recently that President Obama's fiscal stimulus and Deputy Prime Minister, Nick Clegg, have focussed on infrastructure as the priority area to secure the economic recovery. The local executive needs to follow this approach. As far as the Northern Ireland economy is concerned, the cuts to capital investment are too deep and too fast. Conversely, the cuts in public expenditure elsewhere, particularly in reducing waste and inefficiency, are not sufficiently deep or fast enough. Rebuilding the construction industry needs to feature prominently in the forthcoming Programme for Government.

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