

NORTHERN IRELAND ECONOMIC OVERVIEW AND OUTLOOK

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What you can expect this morning

The **'NICE'** decade:
where has the NI
economy come from?



Recession over &
recovery underway?



Challenges for NI include:

1. Public expenditure crunch
 2. Conclusions
- Next decade will **'HURT'**

The Great Recession:
NI's **'RUDE'** awakening!

1998-2007 A NICE Decade for the NI Economy

Non-Inflationary Continuous Expansion

- Unbroken employment & economic growth
- Unemployment rate hit record low in 2007
- Public Expenditure, Property & Celtic Tiger Booms
- Average house price up 260% (UK=160%)
- NI's brand image improved in the eyes of the world

But!!

In terms of productivity & economic inactivity, NI failed to fix the roof when the sun was shining

NI receives a RUDE awakening in 2008-09

Rising Unemployment & Declining Economic Activity

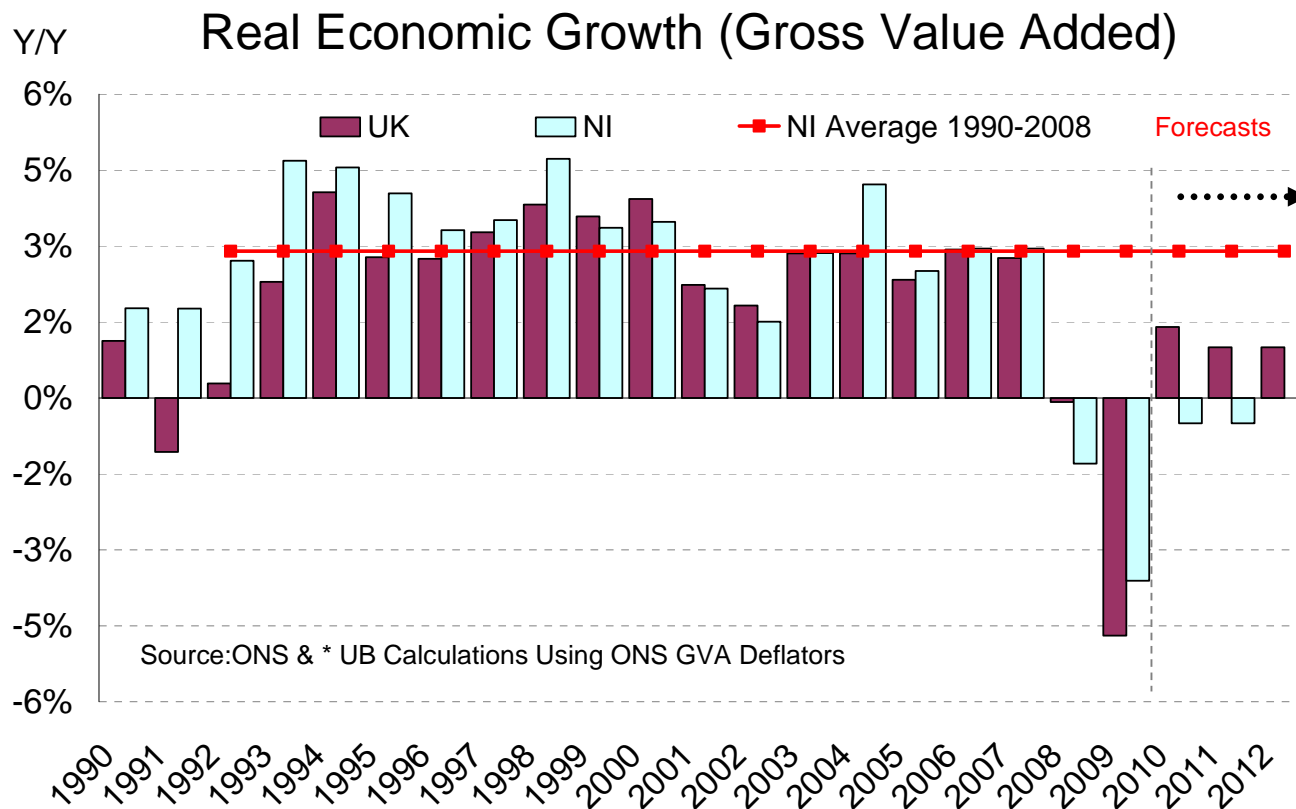
- Simultaneous slowdown on a range of fronts
 - Property market & wider private sector
 - Public expenditure growth
 - Rapid deterioration in RoI & UK economies
 - Collapse in global trade & external economic conditions

All occurring within a wider credit crunch



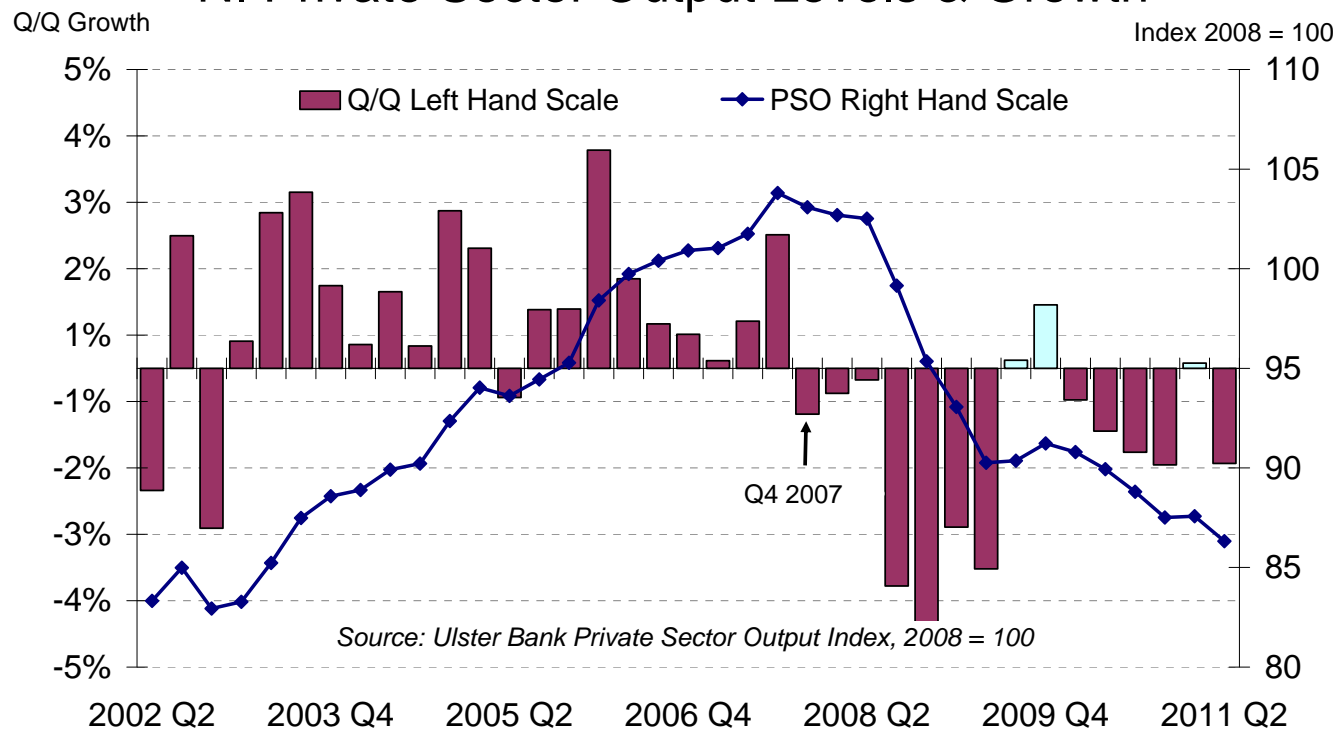
NI's first recession since the early 1980s

The myth that NI is recession proof has been dispelled

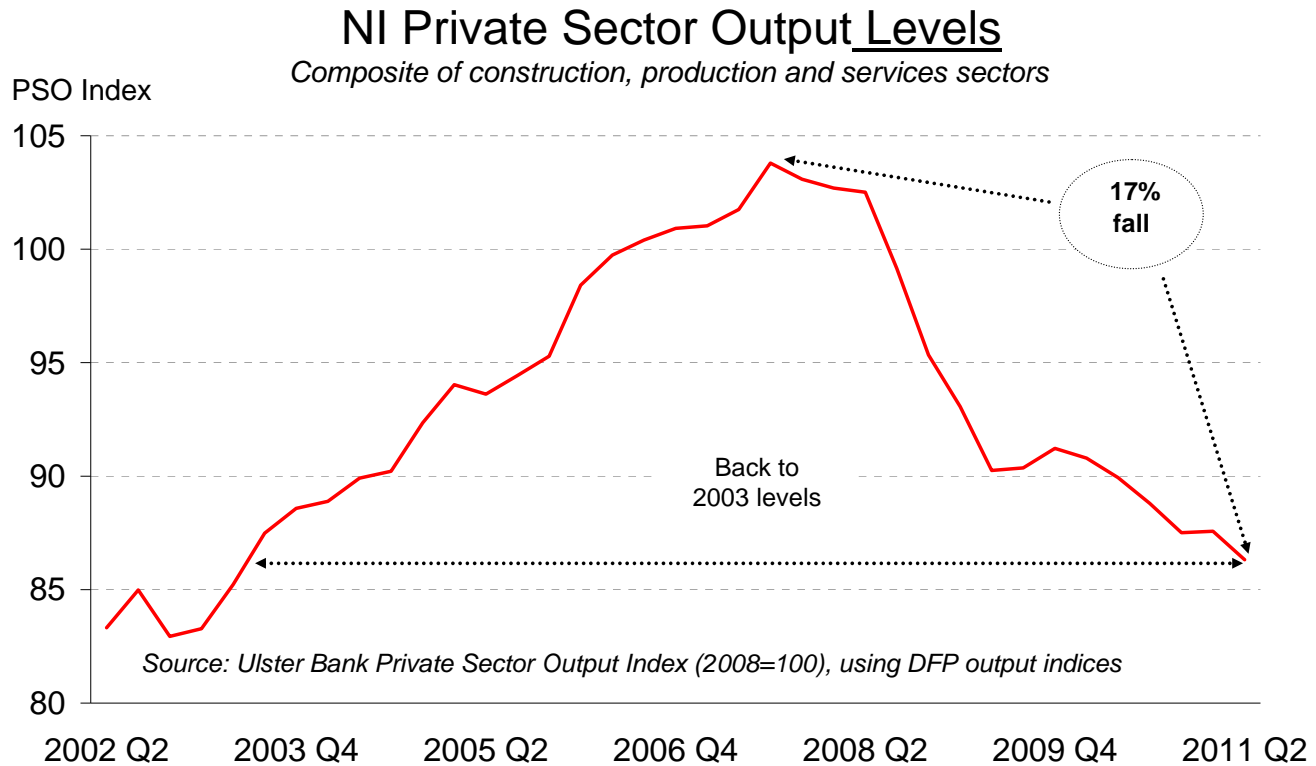


NI output has fallen in 12 of the last 15 quarters

NI Private Sector Output Levels & Growth



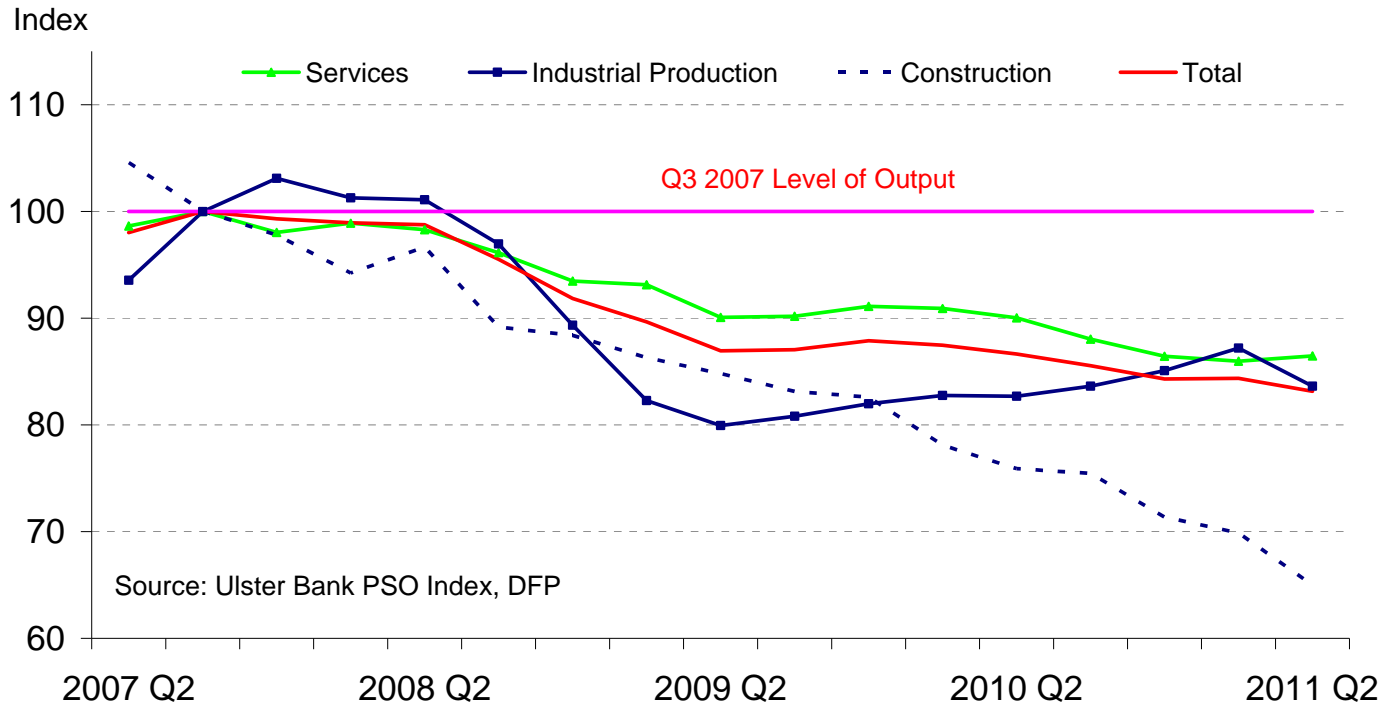
UK recovery weak but underway, NI's yet to begin....



Construction & service sector output still falling in Q2 2011

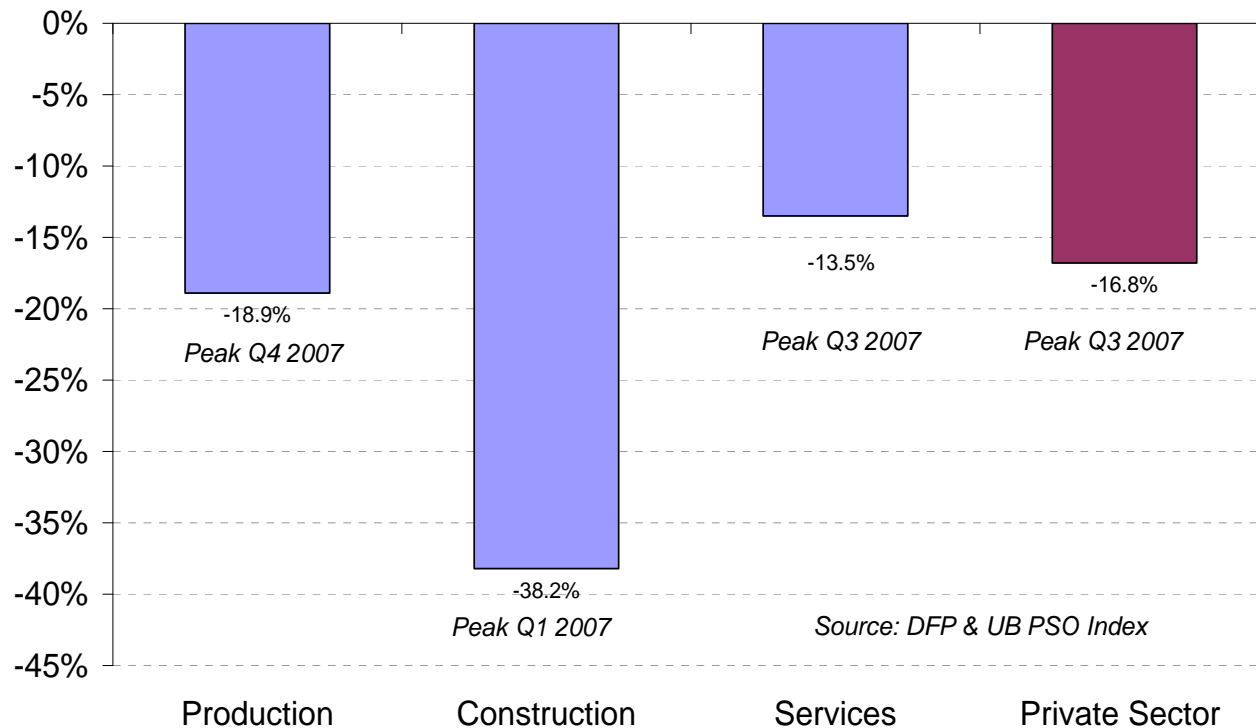
NI Private Sector Output Levels

Index Q3 2007 = 100



Construction has borne the brunt of NI downturn thus far

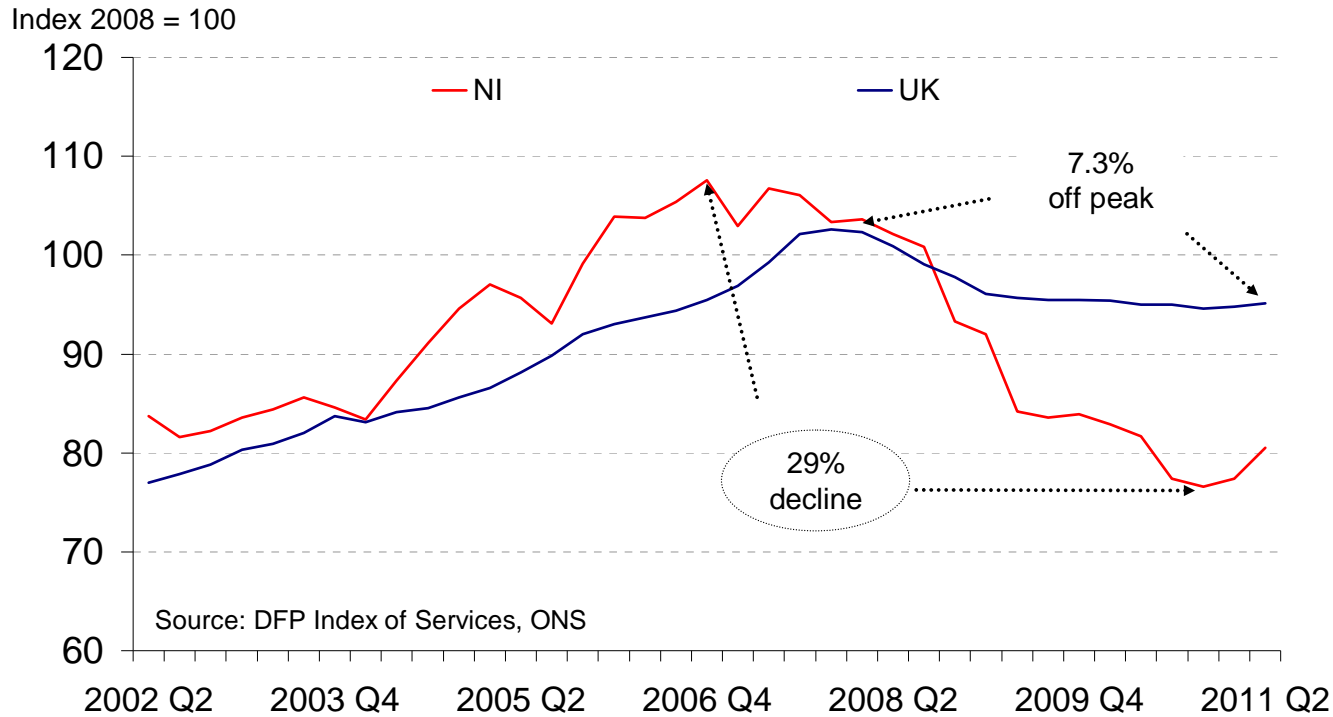
NI's output in Q2 2011 relative to recent peaks



Services downturn – A tale of two sub-sectors

(1) Property Intensive

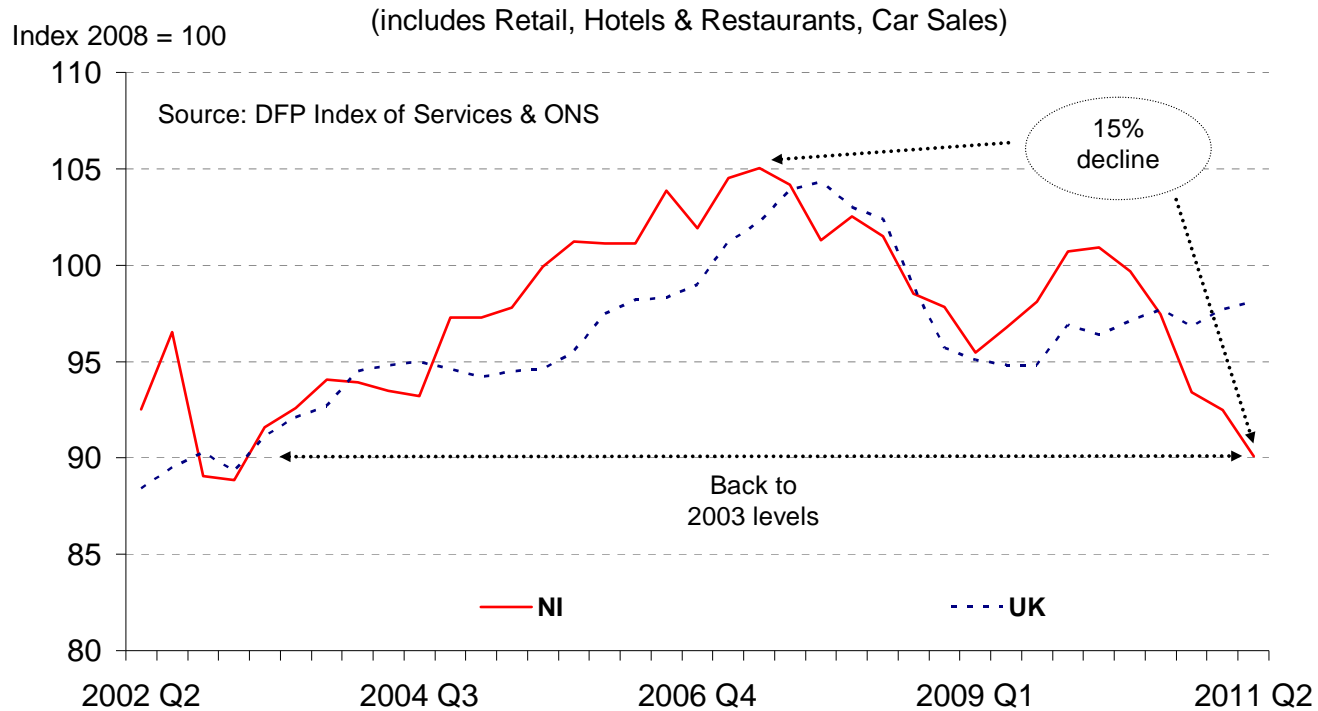
Business Services & Finance Output Levels



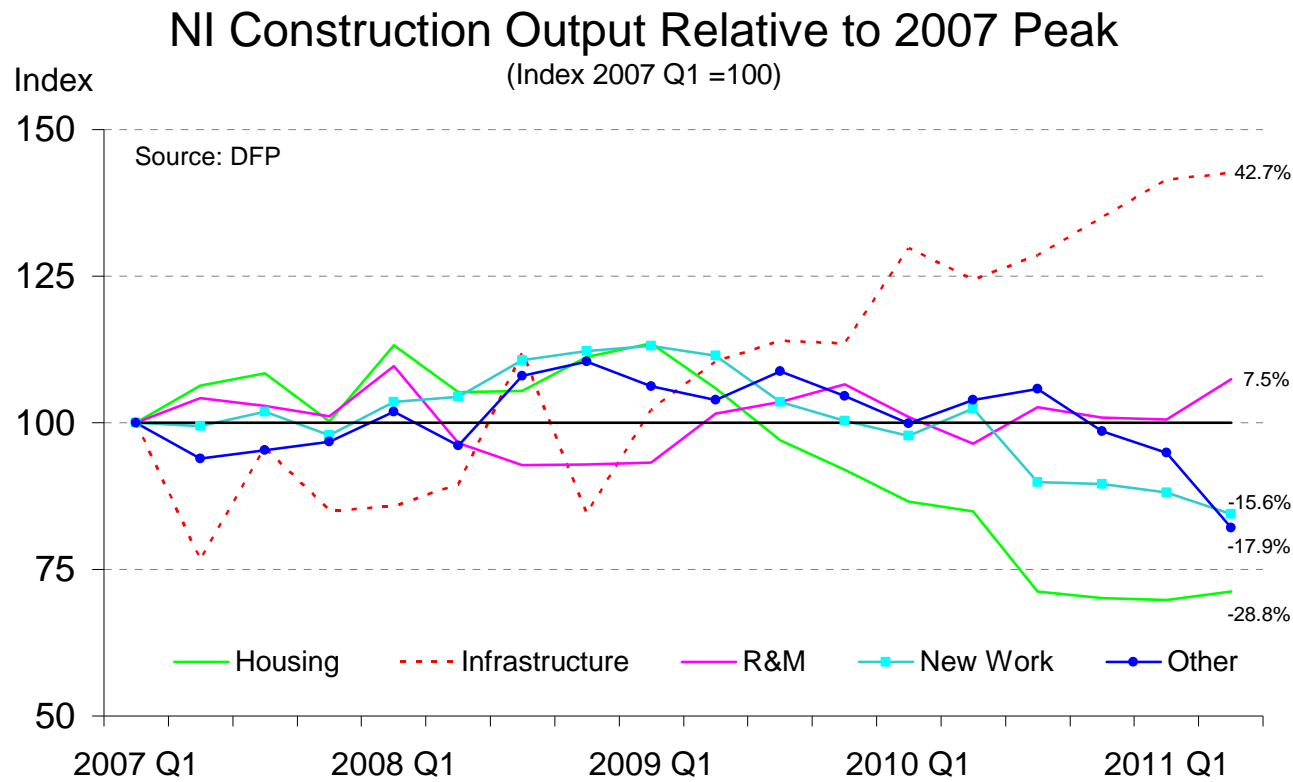
Services downturn – A tale of two sub-sectors

(2) Consumer Sensitive Sectors

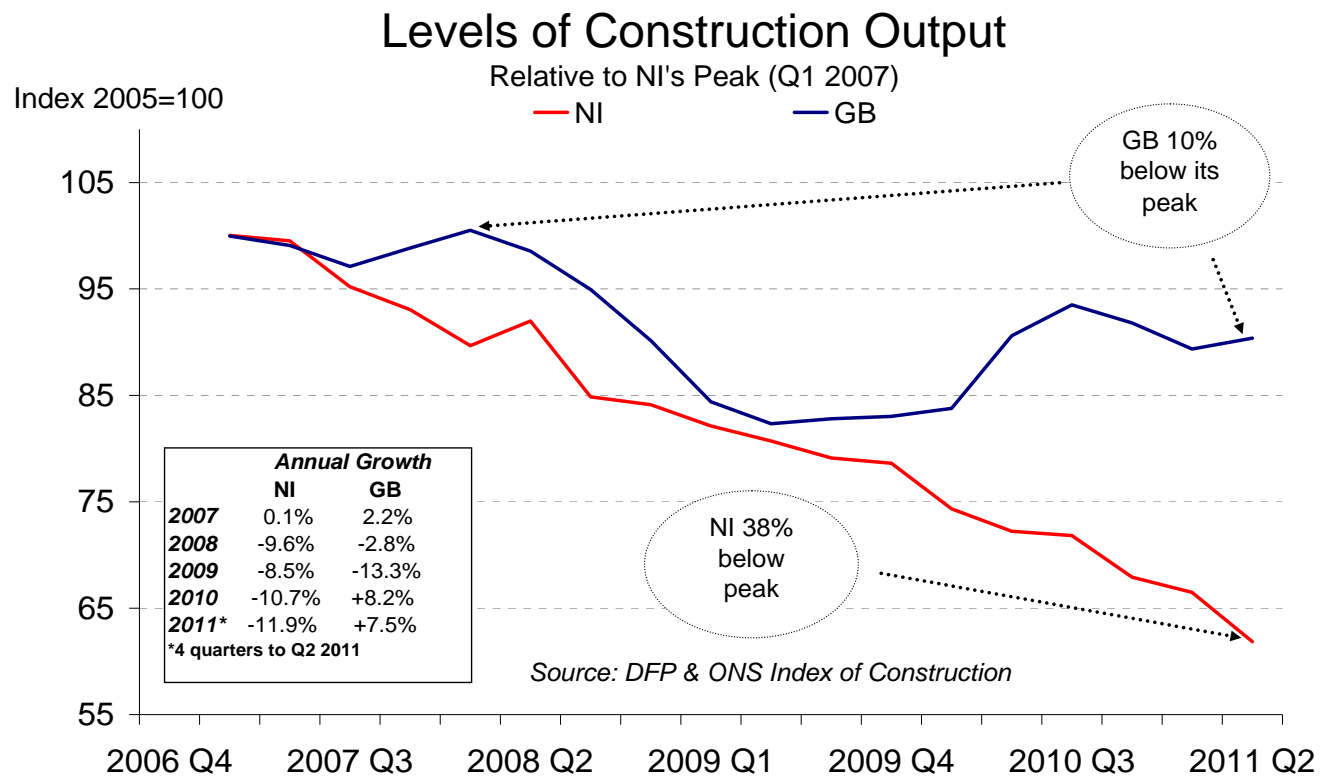
NI Distribution, Accommodation & Food Services Output



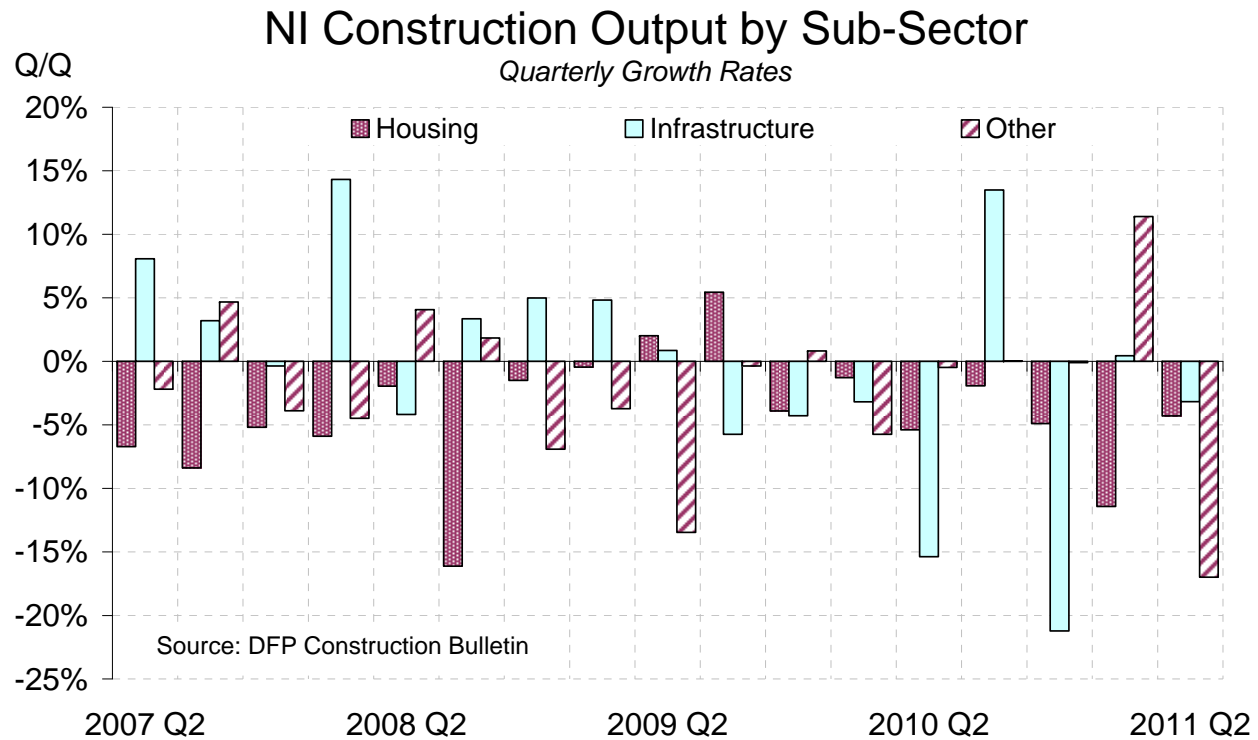
NI's construction downturn would have been worse without public spending (*Infrastructure and Repair & Maintenance*)



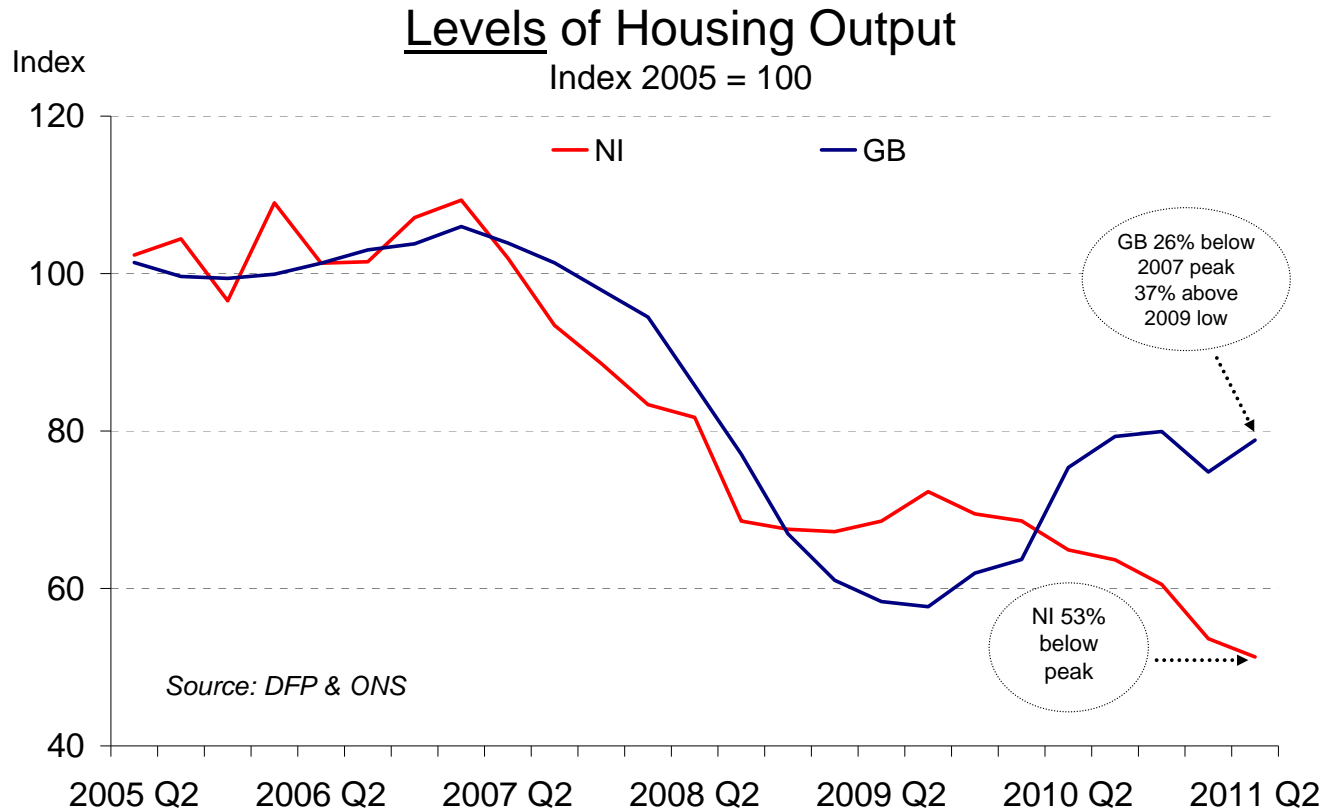
GB now 10% below peak whereas NI is 38% below its peak



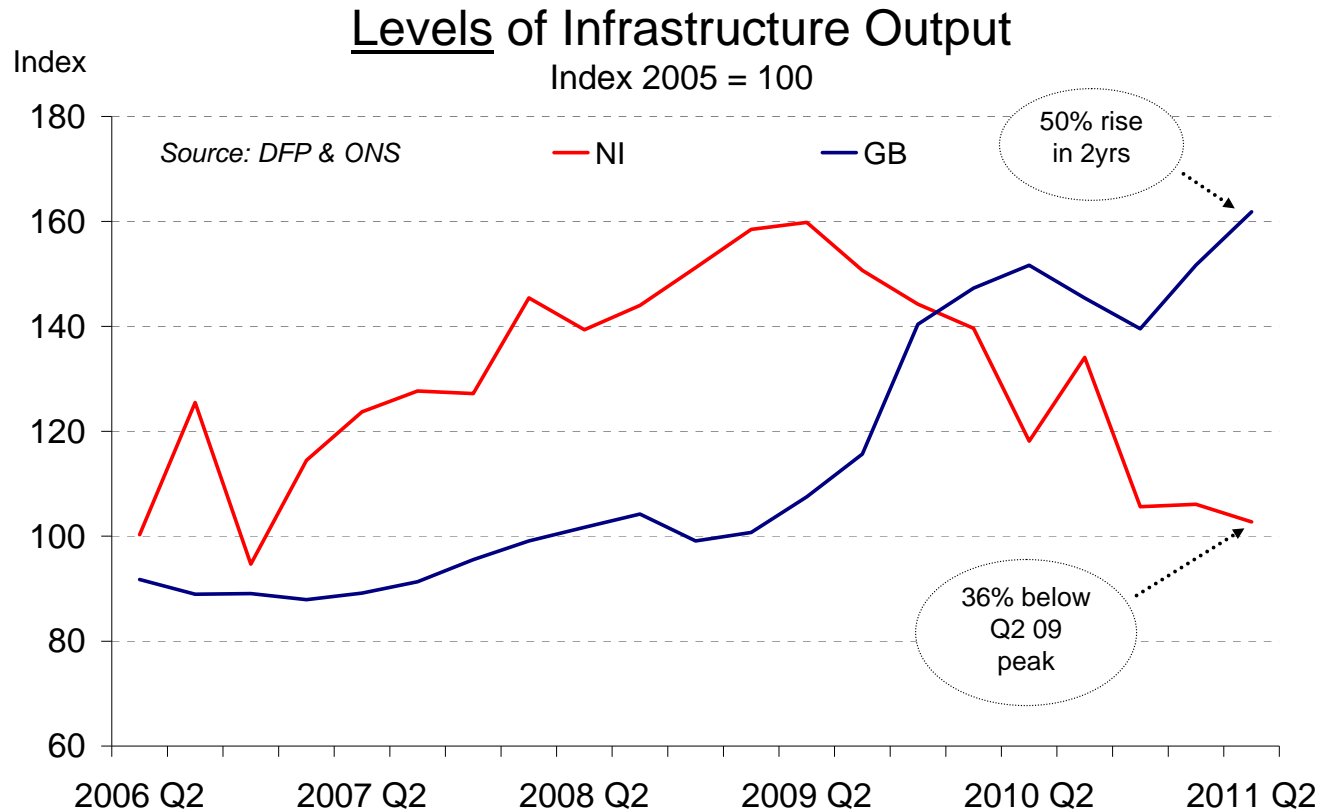
All areas of NI construction output fell in Q2 2011.....



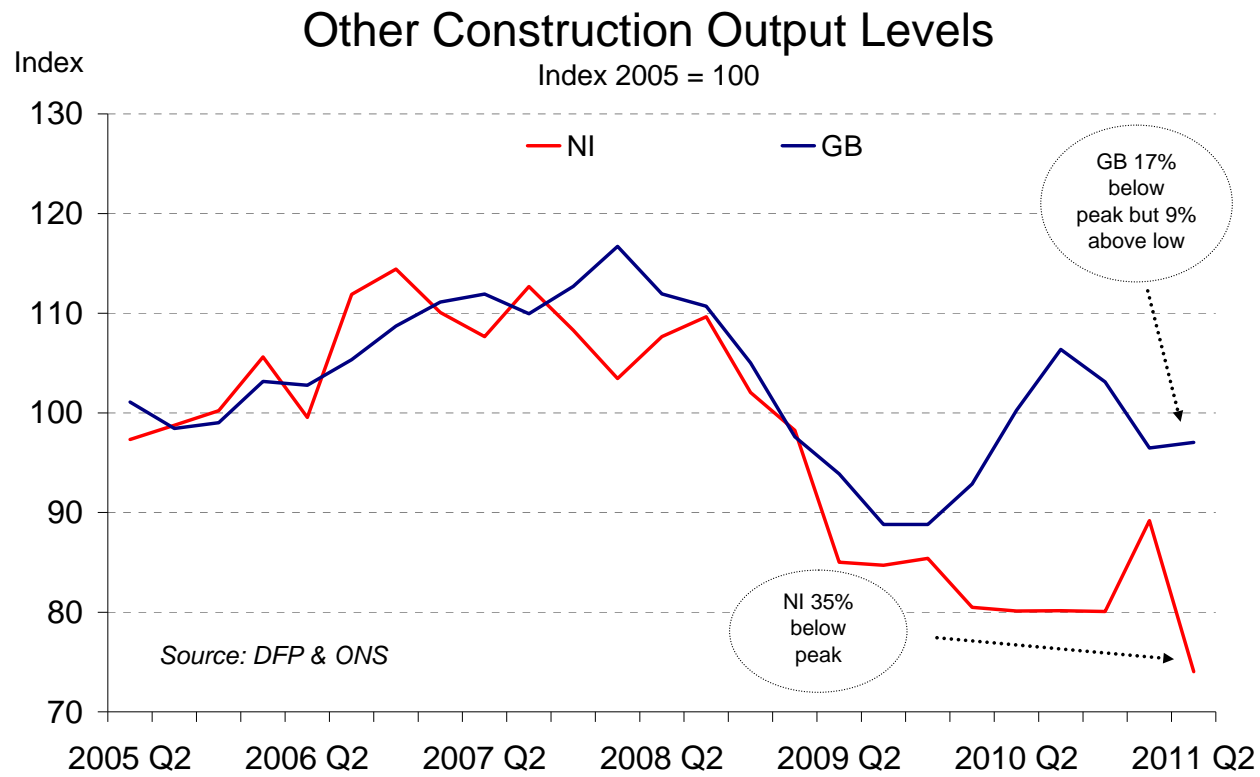
NI-GB divergence evident within housing



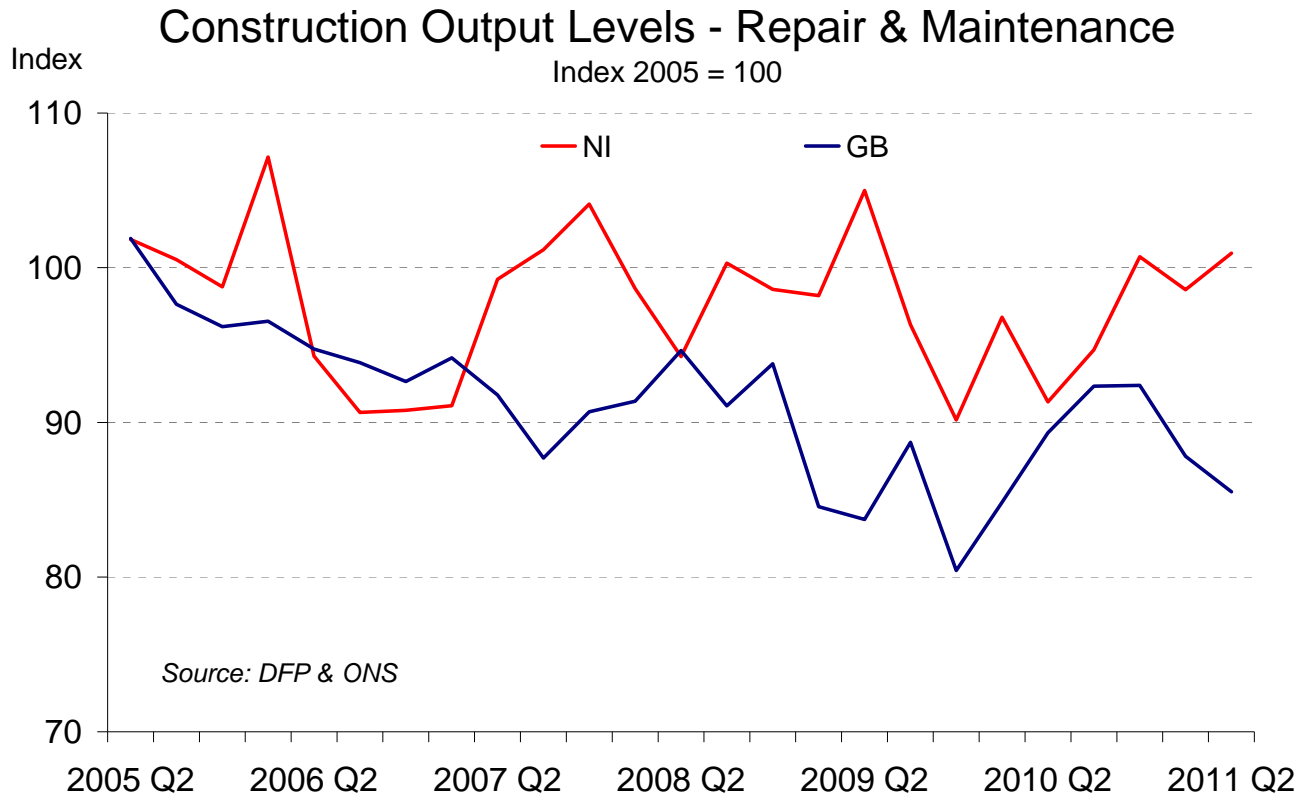
...but also with infrastructure



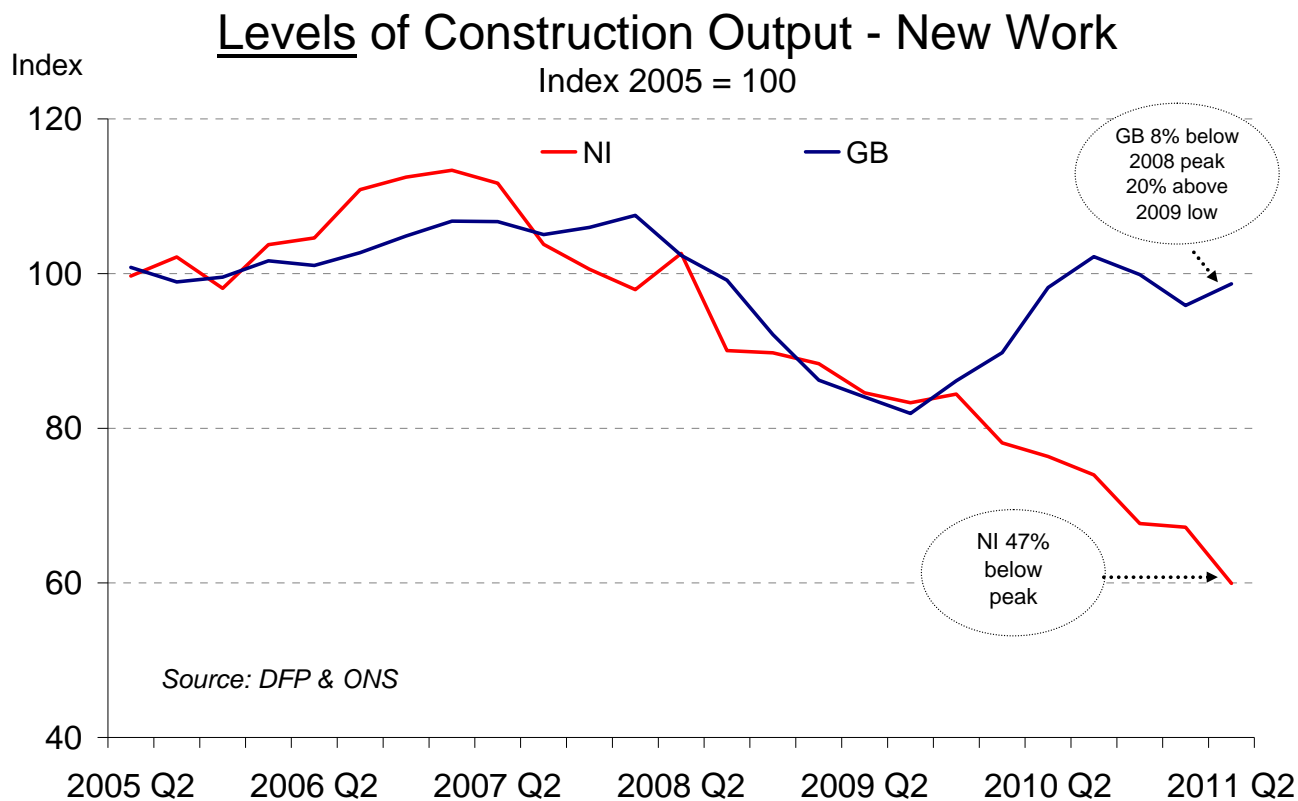
....and also with 'Other' (commercial etc)



Repair & Maintenance on the rise in NI



Forward looking indicators suggests no construction revival is imminent – GB offers potential for local firms



Summary Table of Latest Construction Output Data

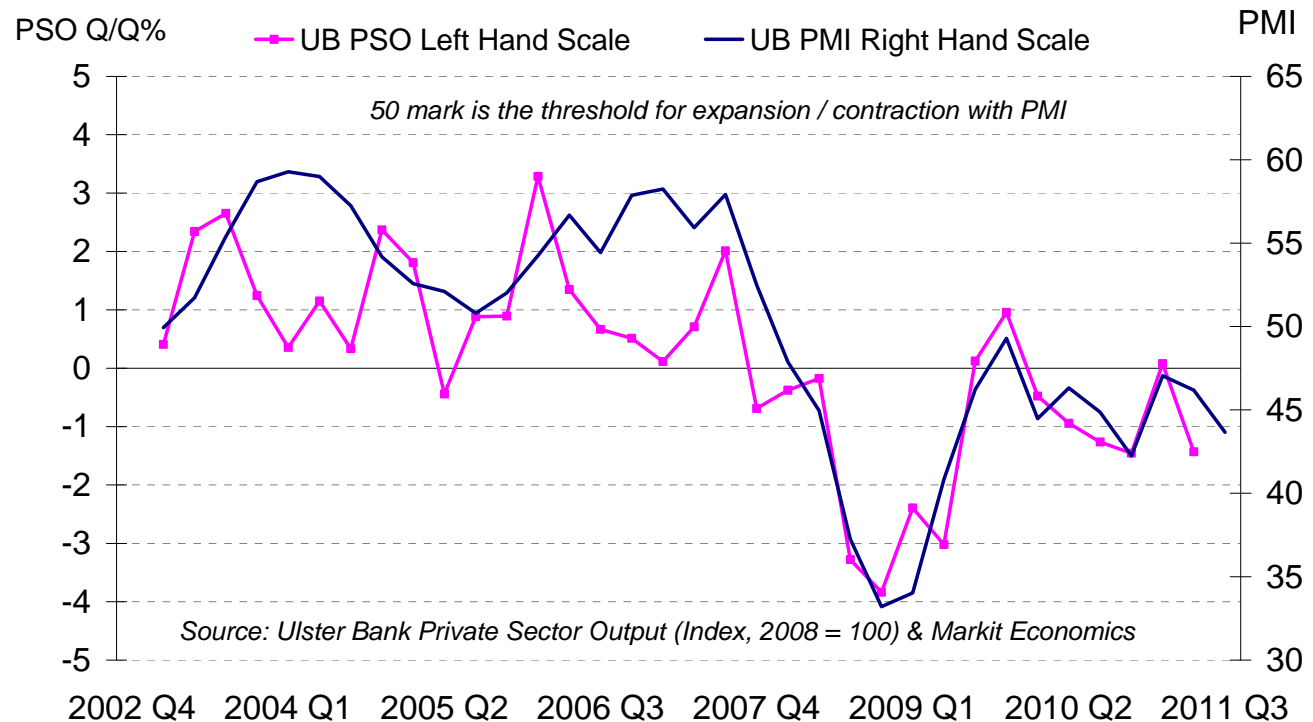
NI & GB Construction Output

Construction Sub-Sector Category	Quarterly Change Q2 2011		Year-on-Year Change Q2 2011		Change since NI construction peak Q1 2007 - Q2 2011	
	NI	GB	NI	GB	NI	GB
Housing	-4.3%	5.4%	-20.9%	4.6%	-53.1%	-25.6%
Infrastructure	-3.2%	6.7%	-13.0%	6.7%	-10.2%	84.1%
Repair & Maintenance	2.4%	-2.6%	10.5%	-4.3%	10.8%	-9.2%
Other (e.g. commercial & industrial)	-17.0%	0.6%	-7.6%	-3.2%	-32.7%	-12.7%
New Work	-10.8%	2.8%	-21.5%	0.5%	-47.1%	-7.6%
Total Construction	-7.0%	1.1%	-14.4%	-0.3%	-38.2%	-9.6%

Source: DFP Construction Bulletin & ONS

The PMI has been a reliable indicator of private sector output – the PSO (0% growth has been aligned with the PMI reading of 47.5)

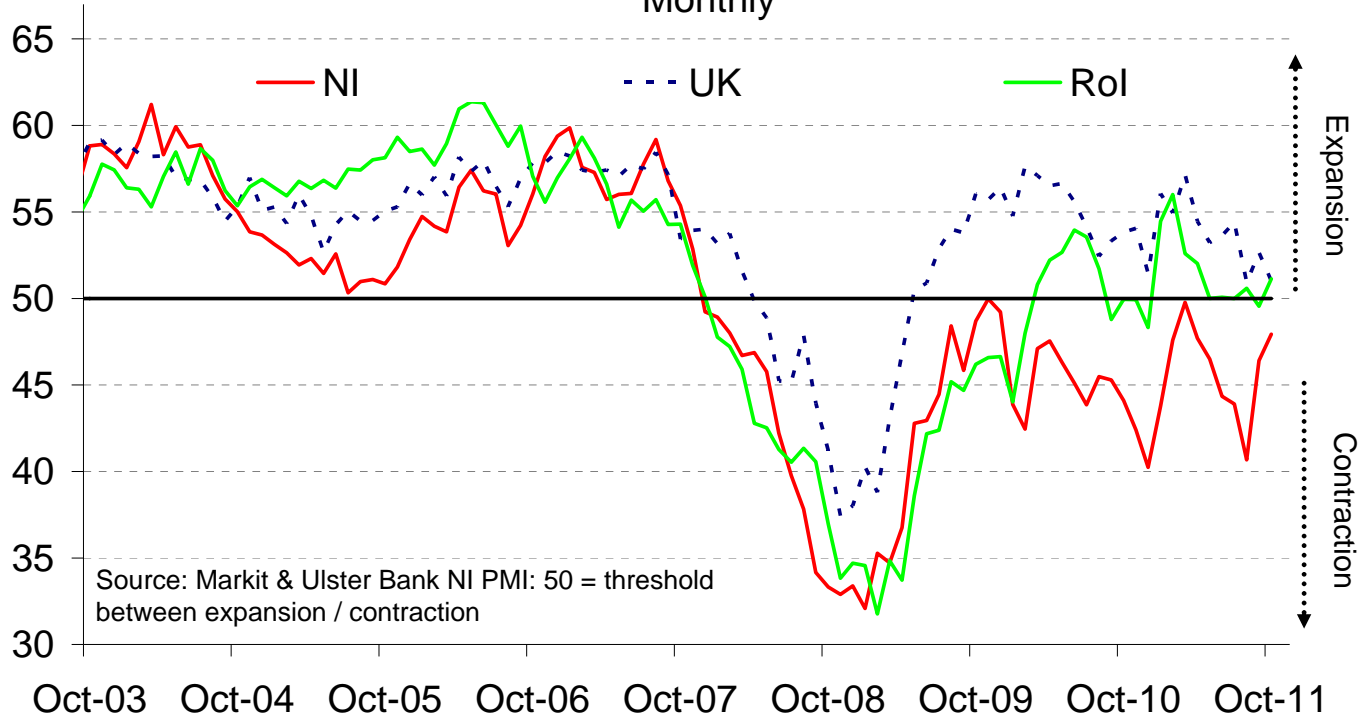
NI Private Sector Output Index Versus NI PMI



NI's pace of contraction eases in October

Private Sector Business Activity - PMIs

Monthly



2 factors explain NI-UK divergence



**Downturn Under
Construction**



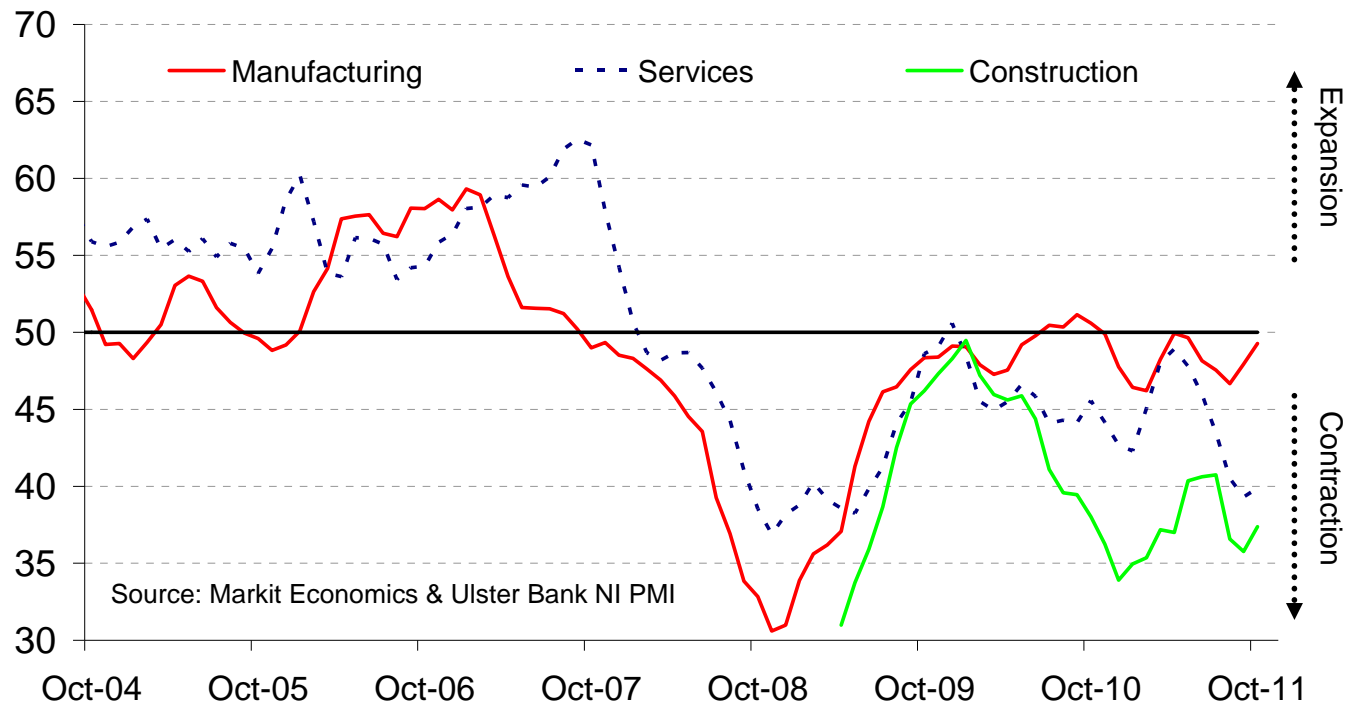
Tourism

Trade

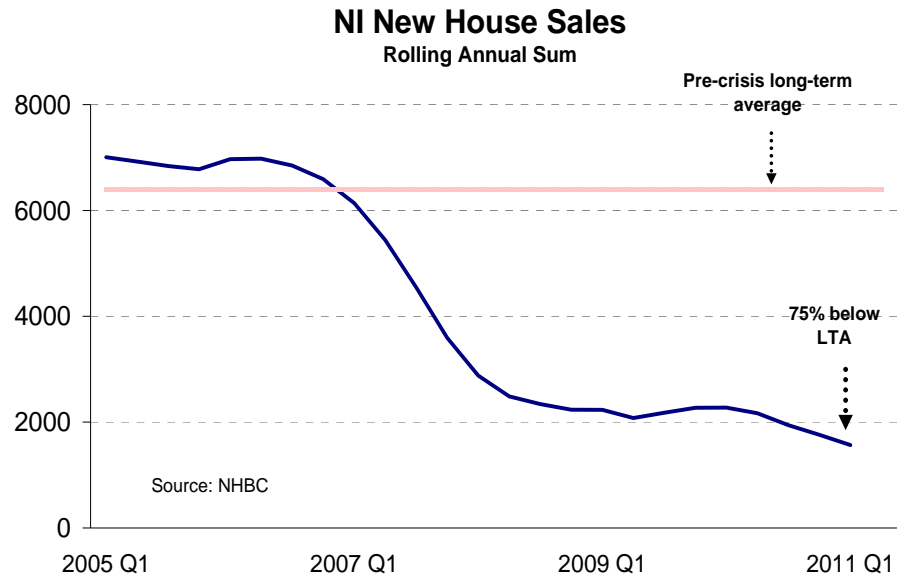
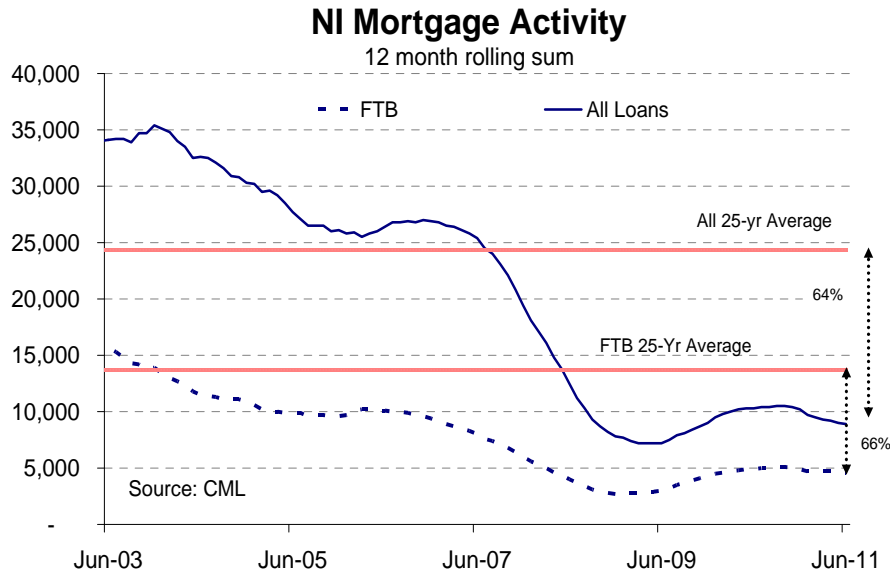
Investment

Pace of contraction in construction and services remains severe over the last 3 months

NI Private Sector Output 3 month moving average

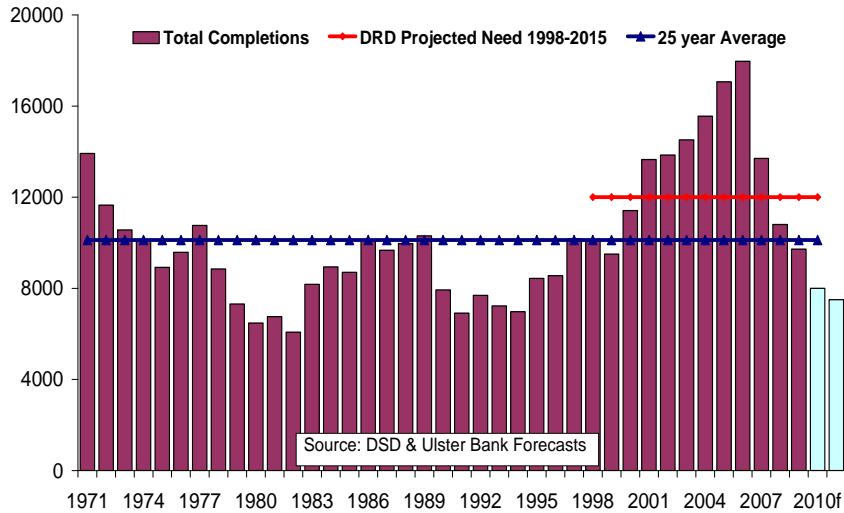


Property downturn still a drag on services sector

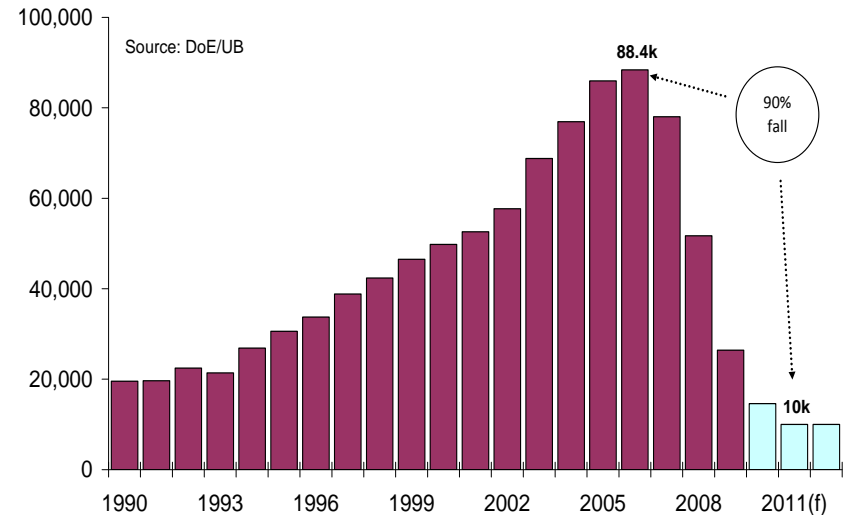


NI now building fewer houses now than we need but no real overhang problem

NI Housing Completions

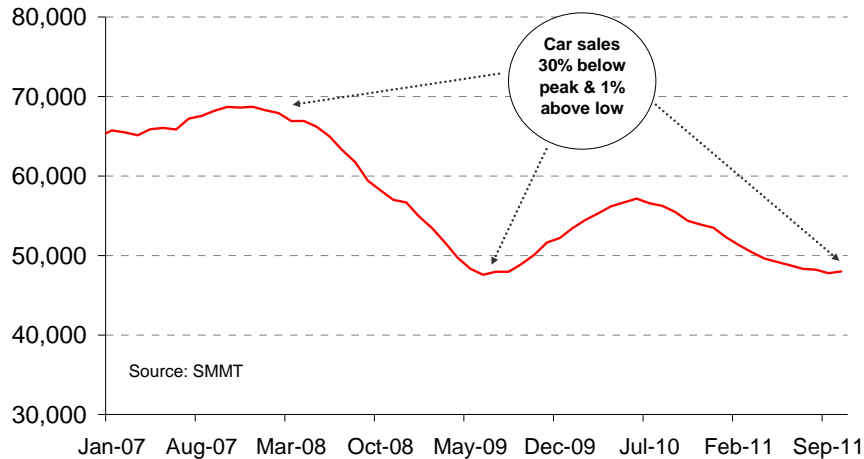


Republic of Ireland House Completions

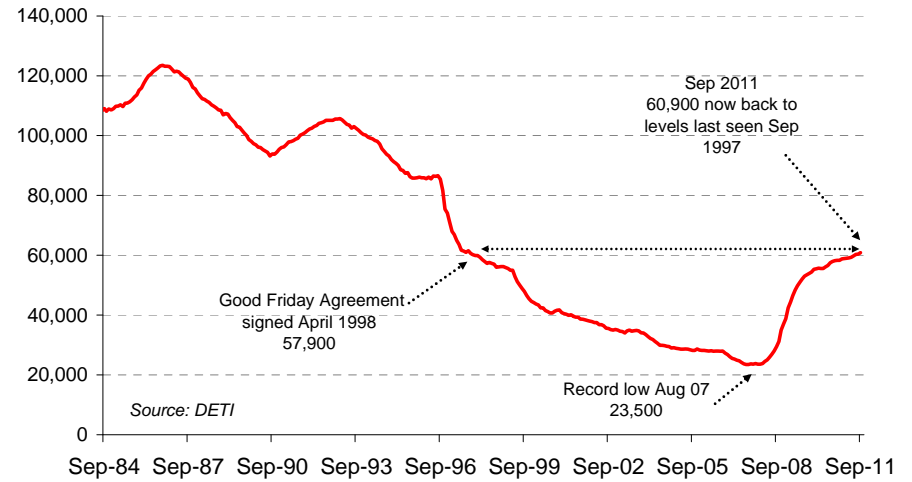


Consumer Outlook remains challenging

NI New Car Registrations 12 Month Rolling Sum

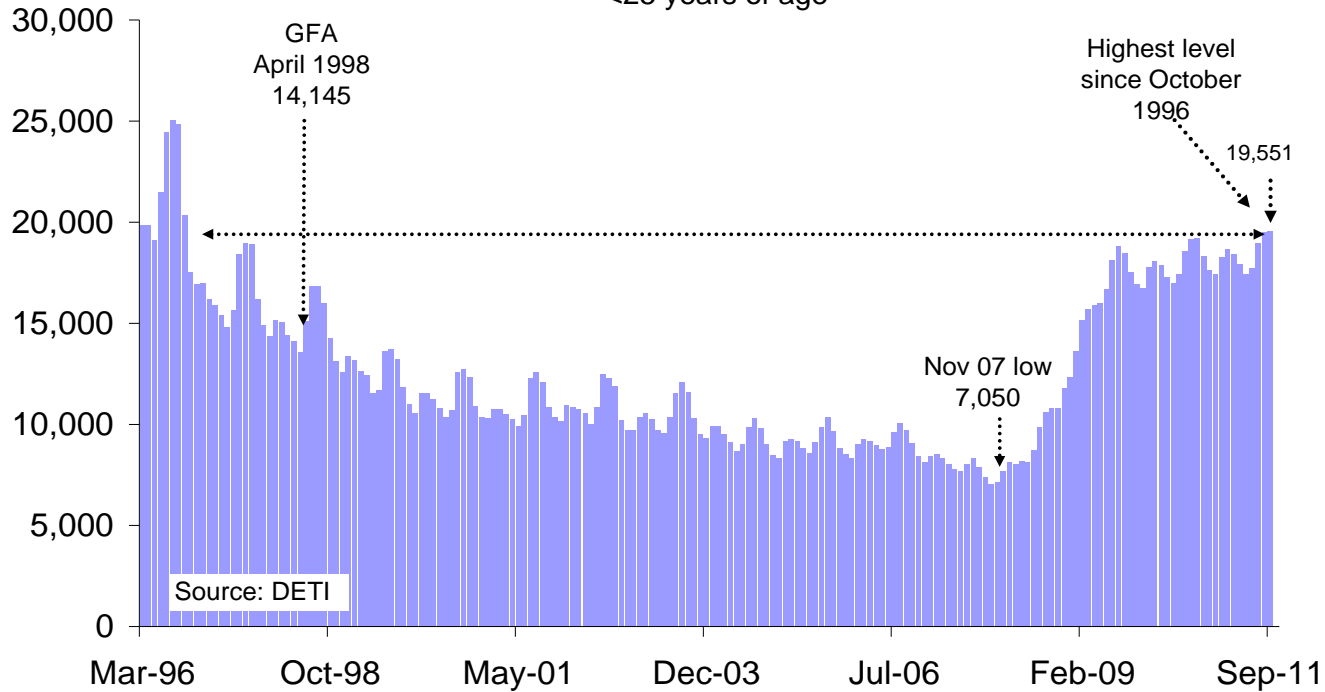


NI Unemployment Claimant Count Levels

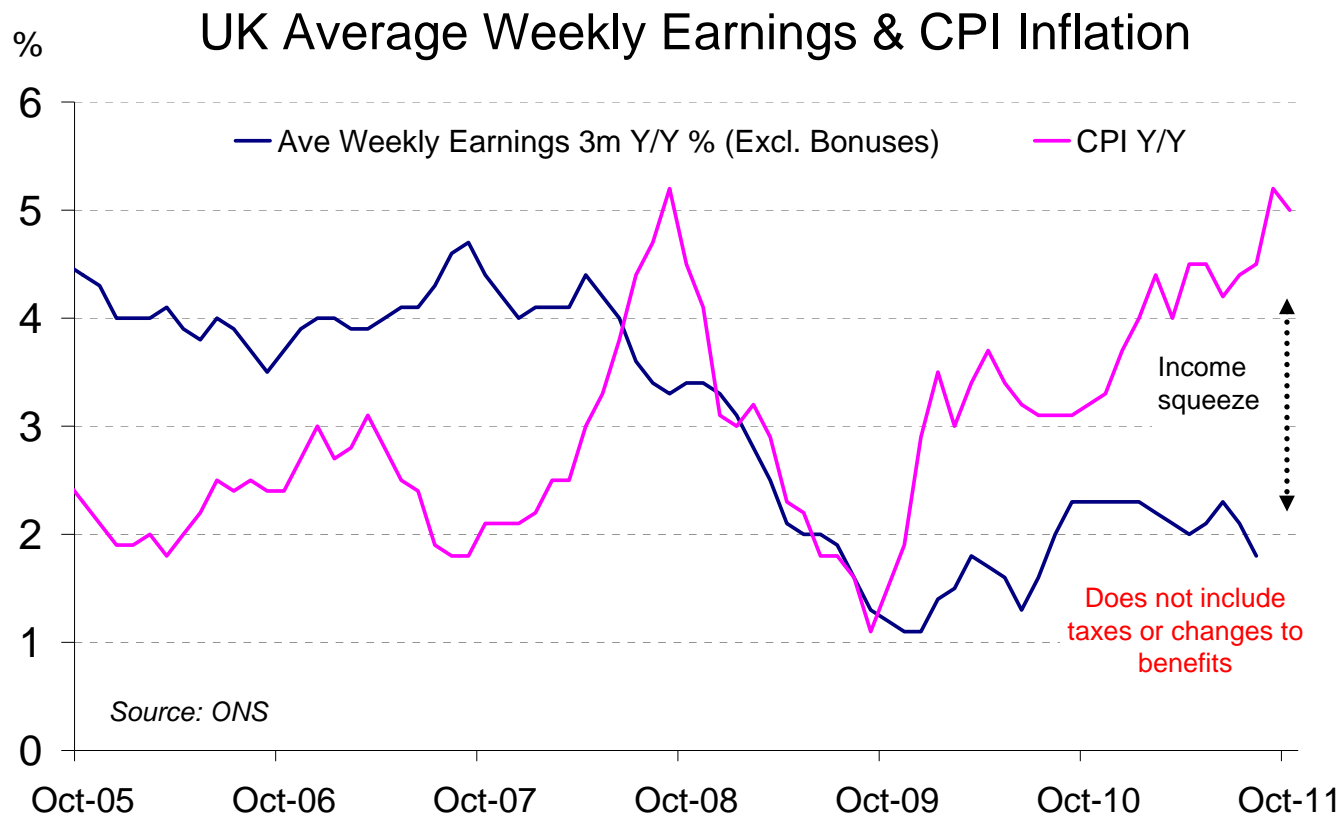


Particularly for the younger generation

NI Youth Claimant Count Levels <25 years of age

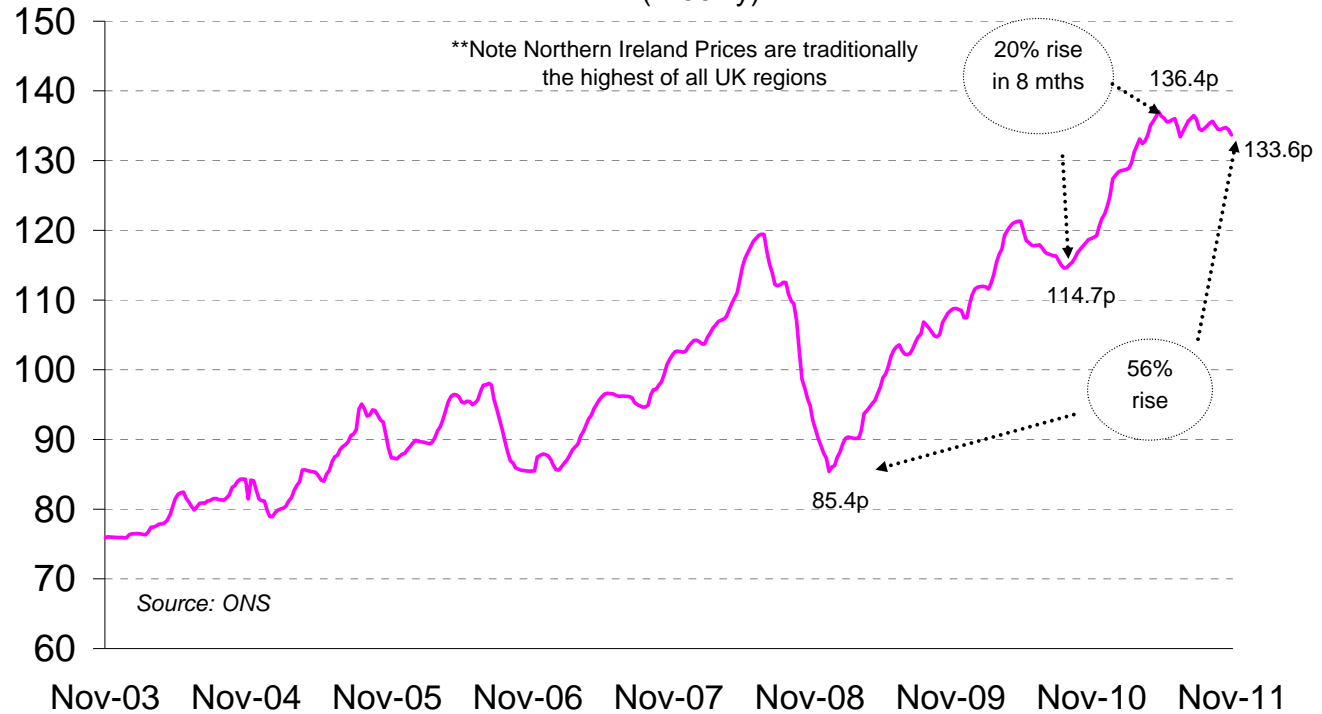


Squeeze on household incomes continues



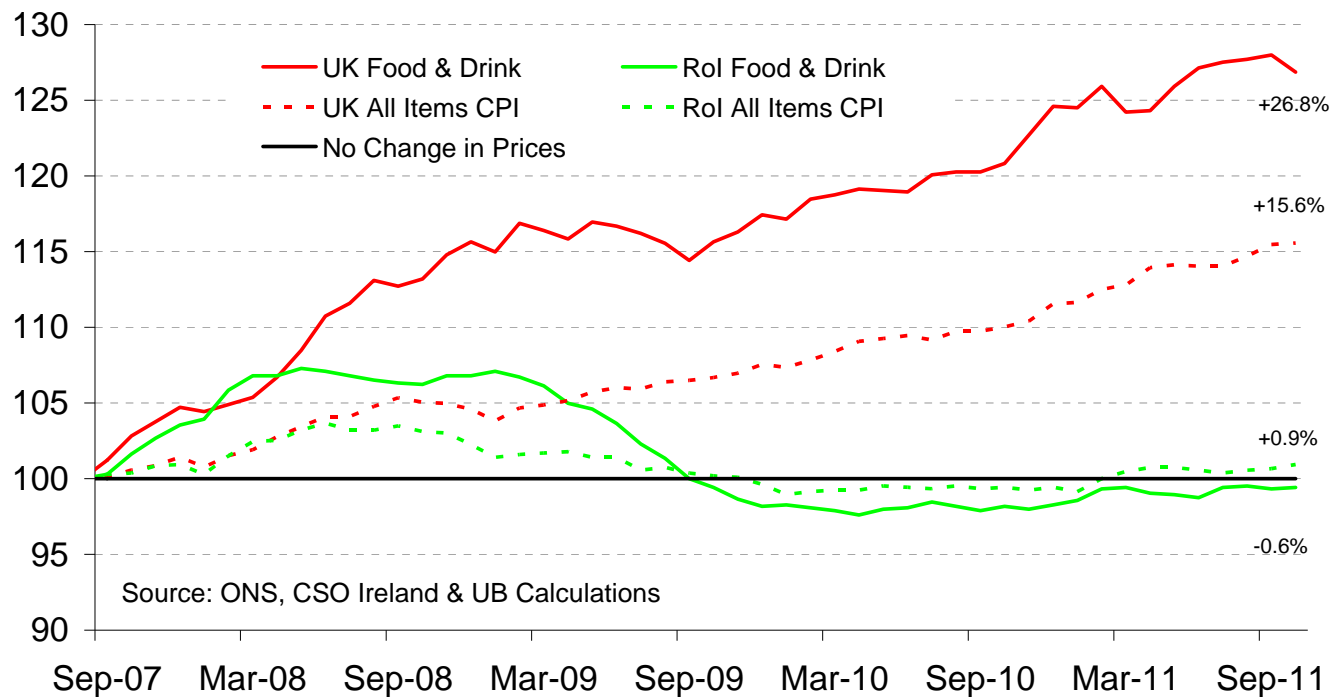
As price of essentials on the rise

UK Petrol Prices - Pence per litre (Weekly)



As price of essentials on the rise

UK (NI) & RoI CPI Inflation Levels (HICP)
(August 2007 = 100)



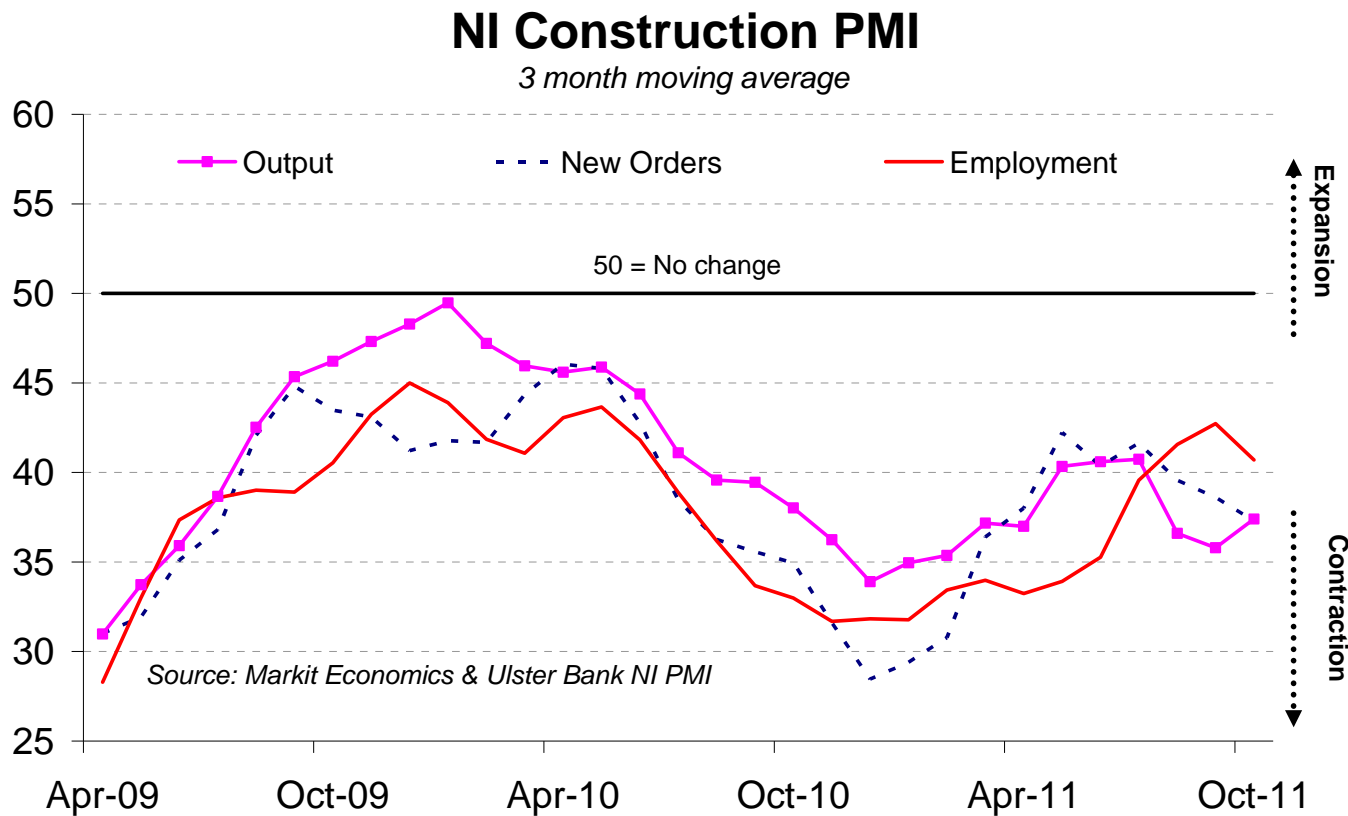
As price of essentials on the rise

UK CPI Inflation by Sub-Category

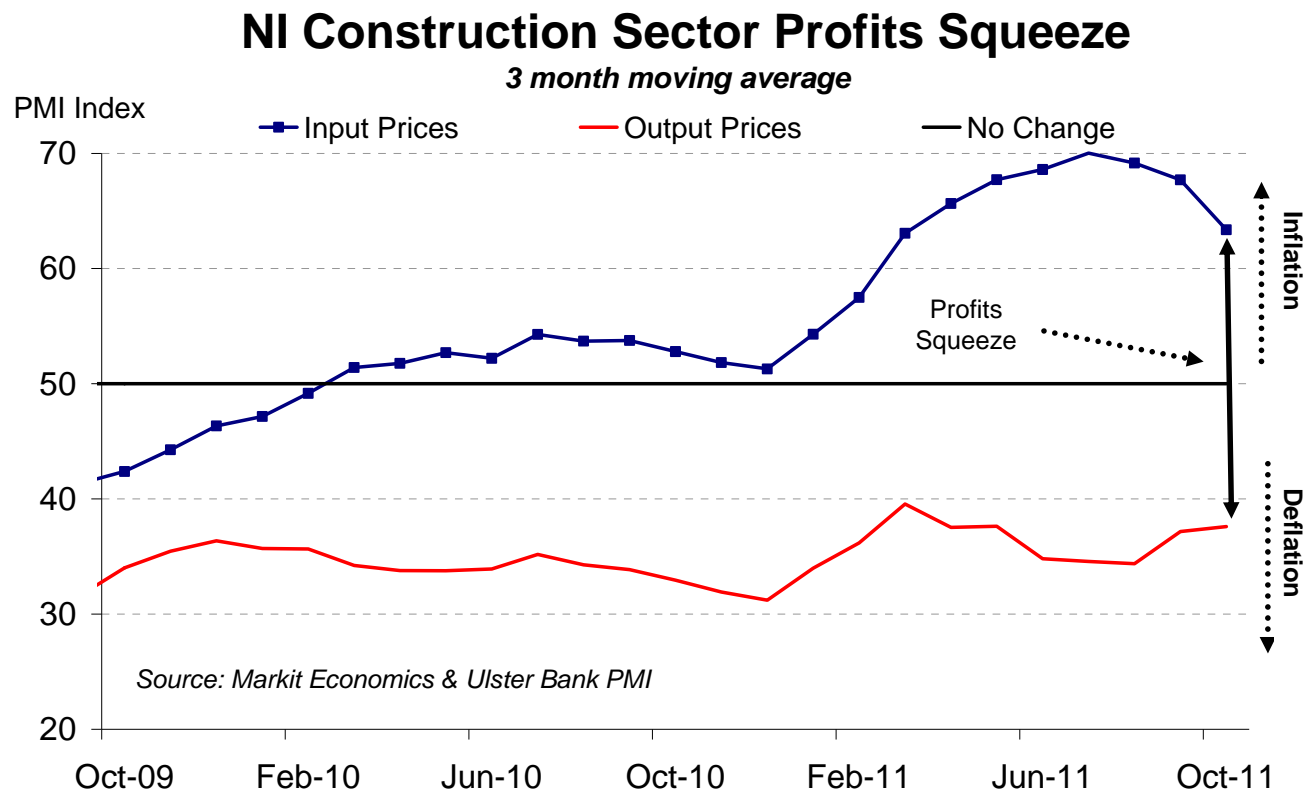
CPI by main categories	September 2011 % Y/Y	October 2011 % M/M	October 2011 % Y/Y	% Change Since August 2007
Food & non-alcoholic beverages	6.4	-0.9	5.0	26.9
Alcohol & Tobacco	10.0	0.0	9.1	25.9
Clothing & Footwear	2.1	0.8	3.6	-7.9
Housing & household services <i>(includes water & fuel)</i>	8.6	0.6	9.1	24.8
Furniture & Household Equipment	5.3	-0.6	5.7	16.3
Health	3.6	0.1	3.0	13.2
Transport	8.9	-0.7	7.7	20.8
Communication	5.9	-0.1	4.8	8.1
Recreation & Culture	-0.6	0.7	-0.5	3.0
Education	4.6	2.7	5.1	42.9
Restaurants & Hotels	4.7	0.0	4.5	14.7
Miscellaneous Goods & Services	2.4	0.4	2.8	11.4
Overall CPI	5.2	0.1	5.0	15.6

Source: ONS

NI construction sector continues to weaken



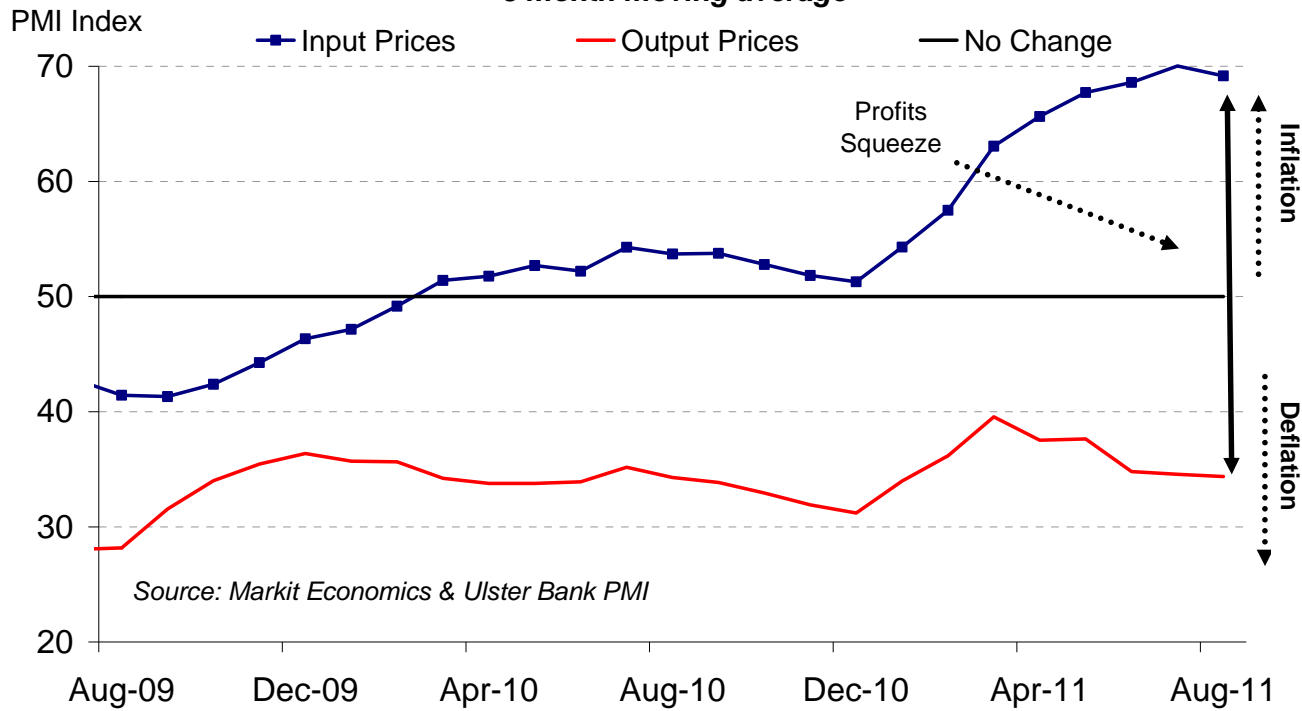
.....with profits squeeze easing but still severe



In construction, inflation & deflation are a problem

NI Construction Sector Profits Squeeze

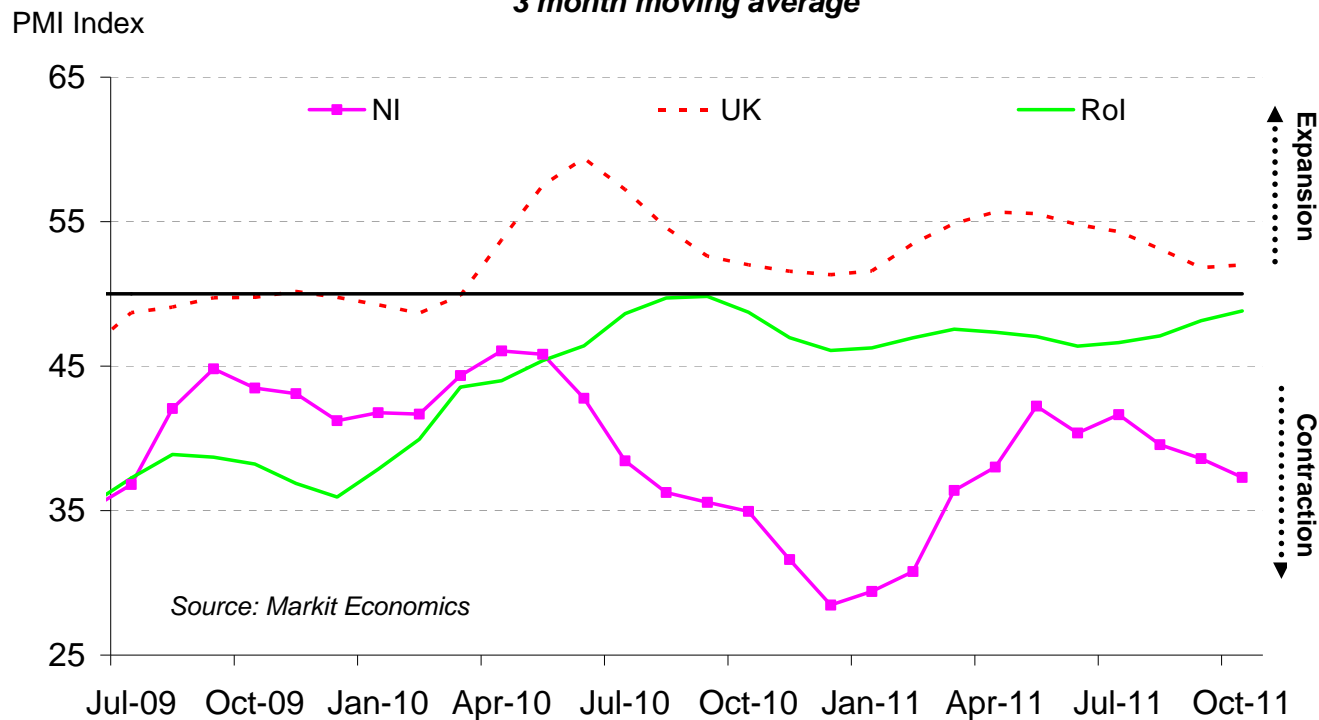
3 month moving average



NI-UK divergence marked in terms of new orders

Construction Sector New Orders - PMI

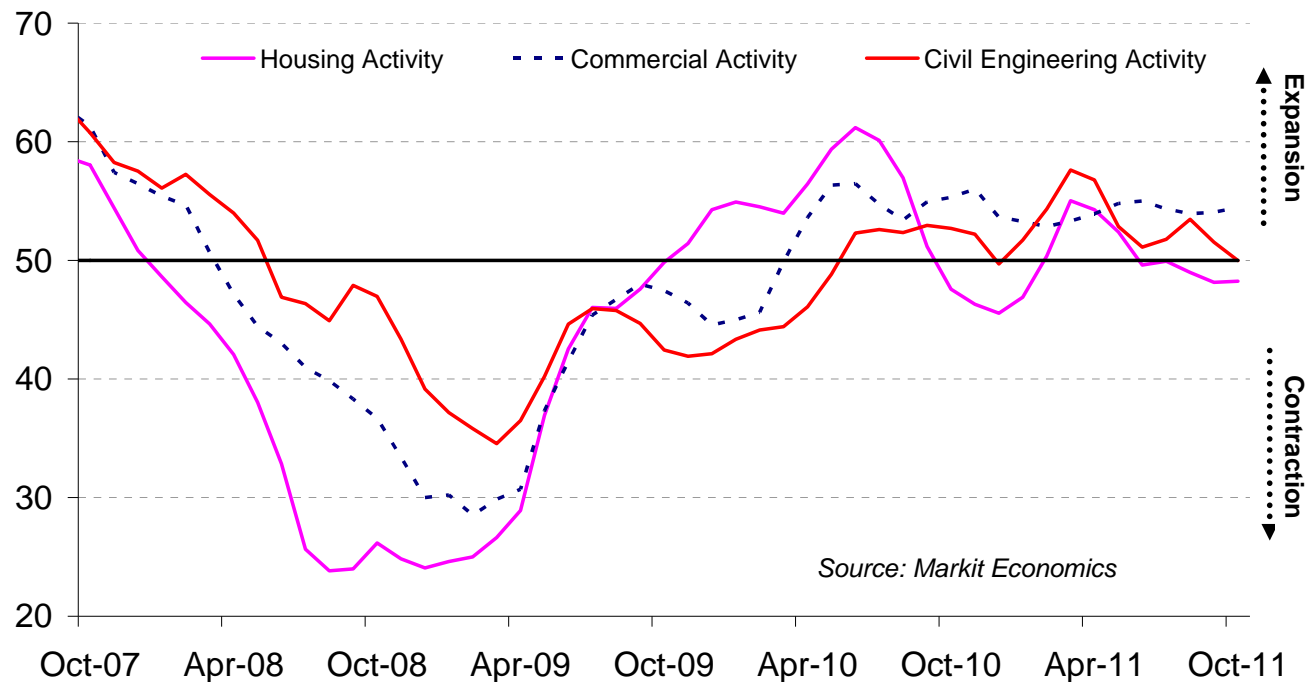
3 month moving average



Continued growth in GB offers opportunities for NI firms

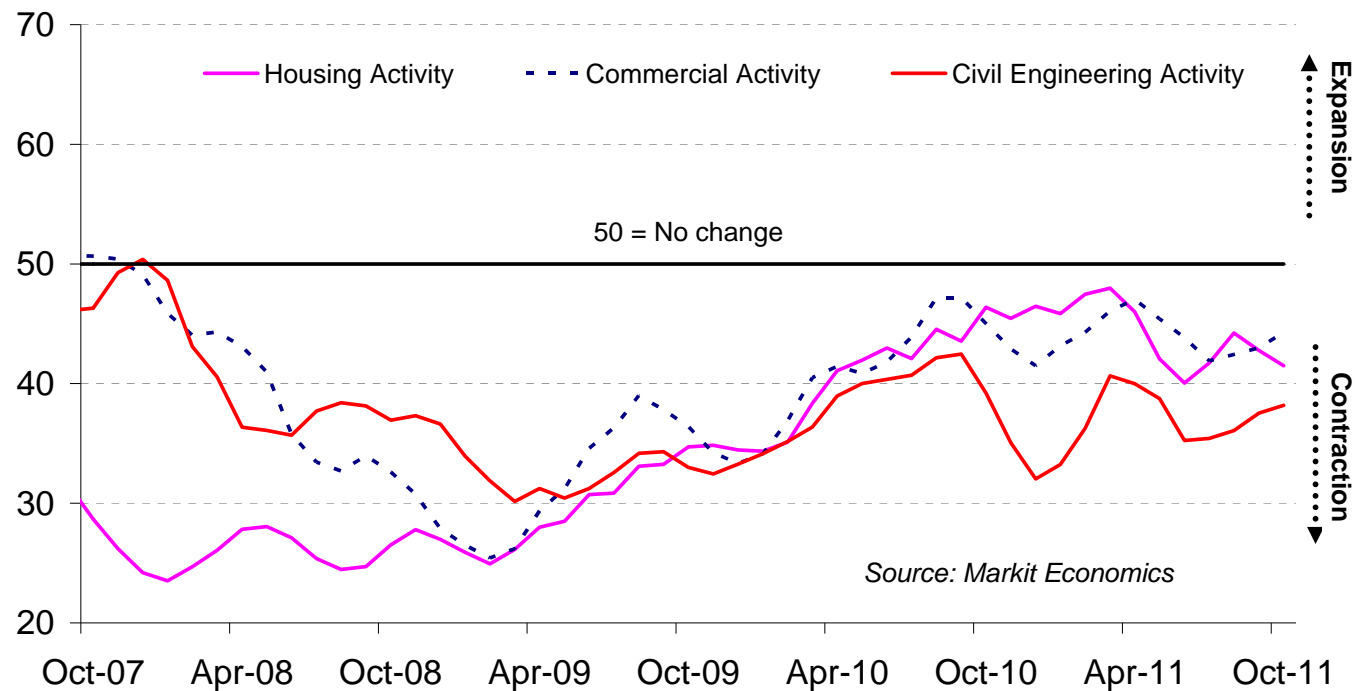
UK Construction Activity - PMIs

3 month moving average

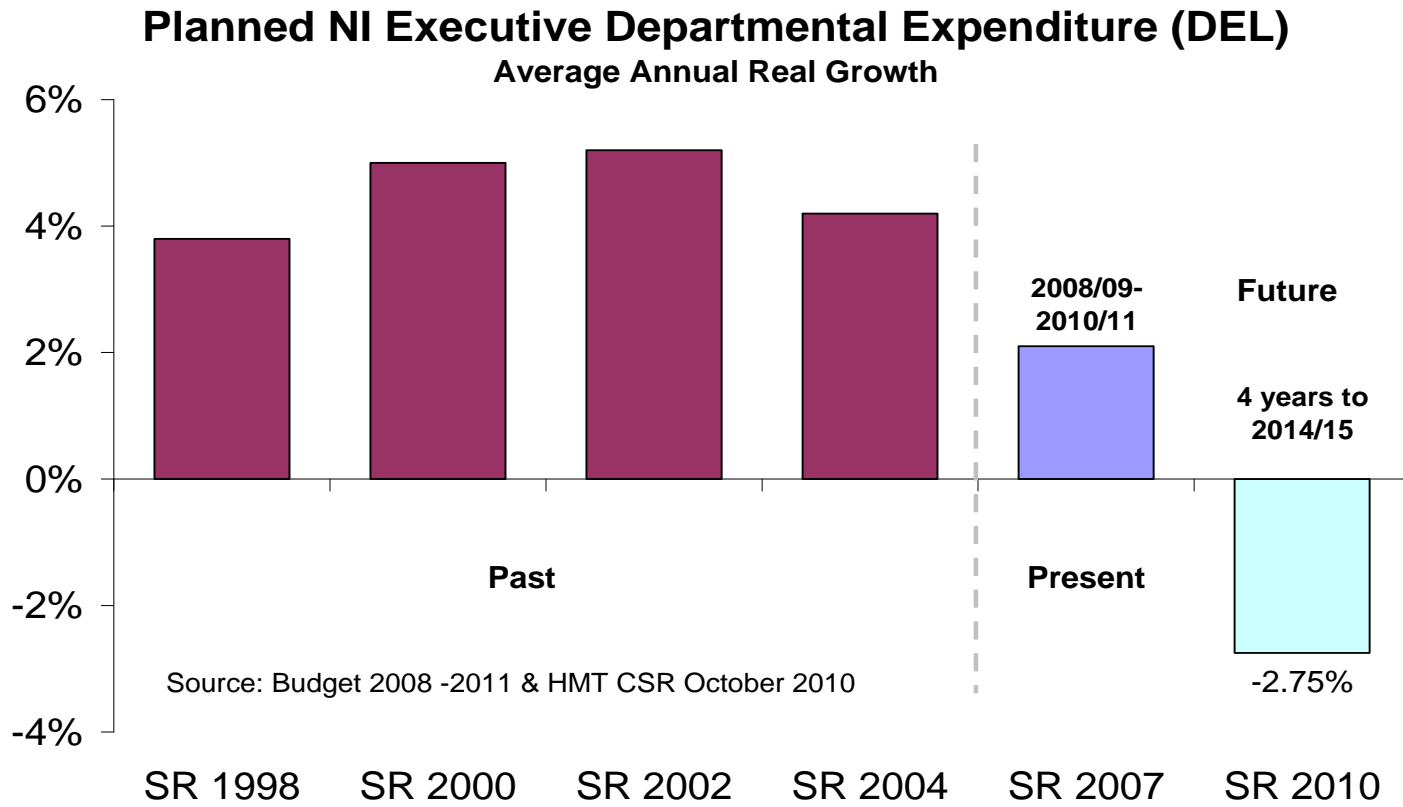


.....particularly with continued weakness in the RoI

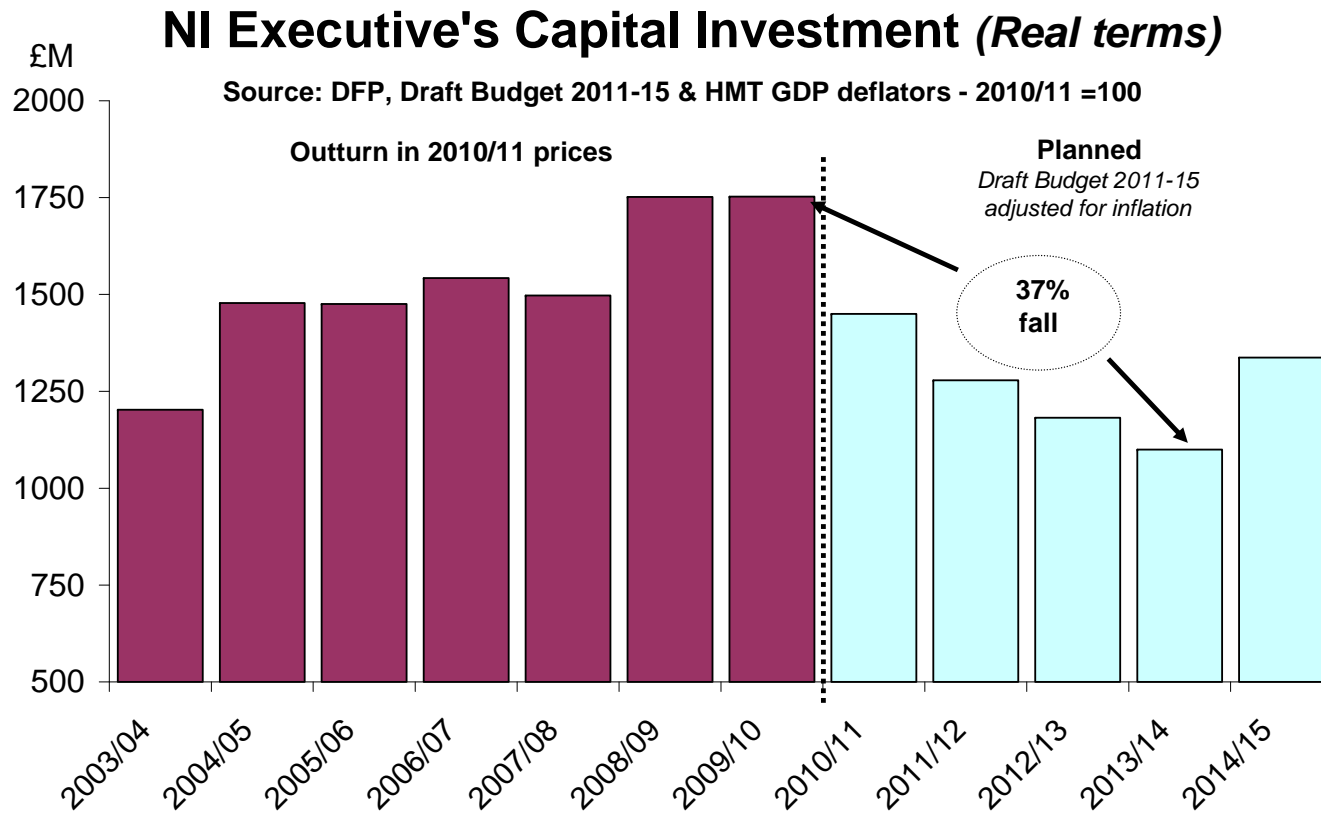
Republic of Ireland Construction Activity - PMI 3 month moving average



NI economy not in great shape ahead of public expenditure cuts

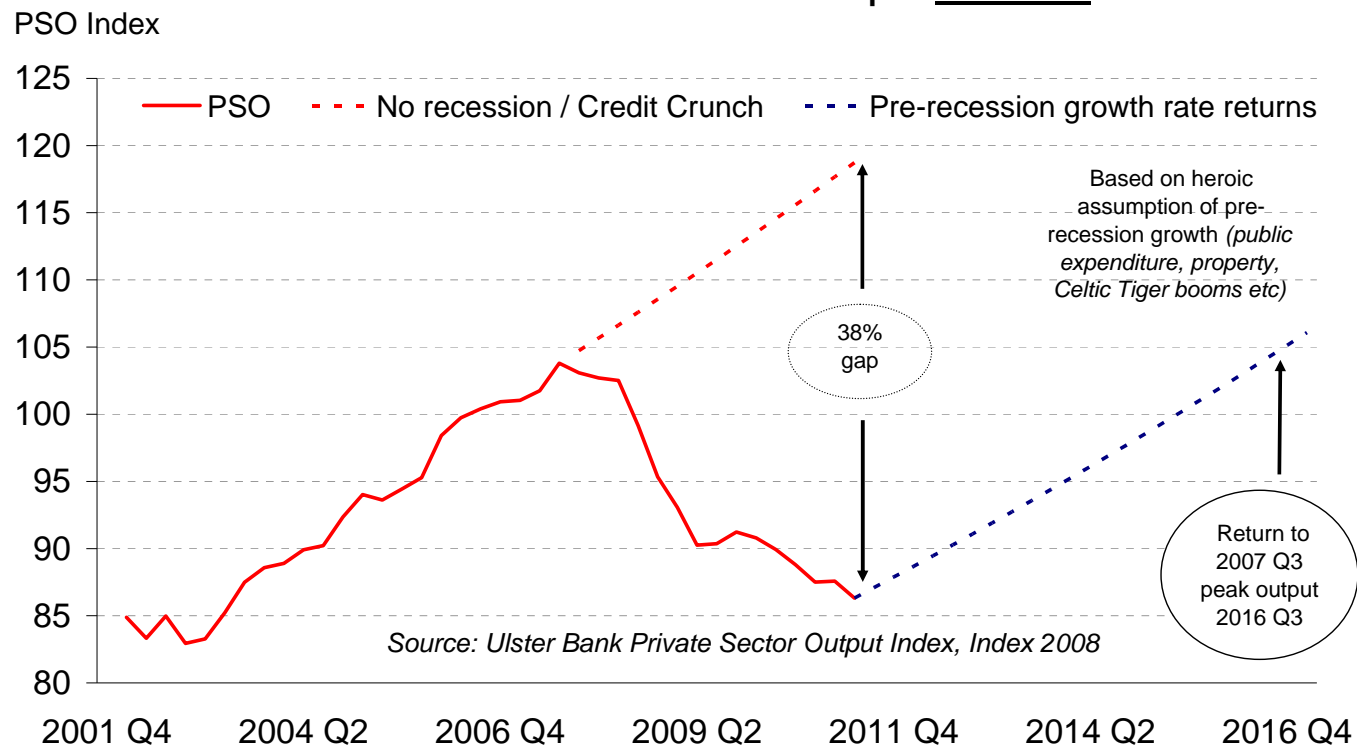


With construction sector bearing the brunt of PE cuts



Returning to the 2007 economy will take time.....

NI Private Sector Output Levels



Decade ahead will **HURT**

- NI recovery hasn't really taken hold ahead of record public expenditure cuts
 - Growth of -0.5% in 2011 (UK=1.0%, RoI =+0.3%) and 0% in 2012 (UK=+1.0%, RoI = +1.5%)
 - Unemployment likely to stay higher for longer and a decade to get back to 2008 peak employment levels
 - Households face severe income squeeze
 - Public expenditure cuts rebalancing between current & capital investment
 - 'NICE' era has gone decade ahead will **HURT** – **H**igher **U**nemployment **R**ising **T**axes
 - Turning crisis into an opportunity for economy
 - Construction challenges include: profitability, capital investment cuts
 - Opportunities –spend from redundancy packages, PE underspend directed to housing / construction etc
-

Out of every crisis springs opportunity



“A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty”. Winston Churchill

But will we grasp it?



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