Ulster Bank

NI's recessionary journey continues – October 2012

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Last month marked the start of the new school year. For some, it represented the beginning of their primary or secondary school educational journeys. For others it represented another year of progression or improvement. Unfortunately, the same cannot be said for the economy. Overall, it was more of the same in September, and on balance the economic news provided more causes for concern than grounds for optimism.

According to the latest PMI survey of local private sector firms, business conditions deteriorated further; most evident within the manufacturing sector. Given the deterioration in global economic conditions in recent months, this is hardly surprising. Like the eurozone, all sectors within Northern Ireland's private sector saw output and new orders decrease in August. For many firms, it is the length of the current downturn that has been both the most surprising and the most concerning. Prior to the downturn, Northern Ireland's private sector firms enjoyed 56 consecutive months of expansion *(above the 50 threshold)* from April 2003 to November 2007. Since then the PMI survey has not signalled growth for 57 consecutive months.

September also provided more hard evidence of economic performance from official sources. According to HMRC regional trade statistics, the value of Northern Ireland exports fell by almost 2% in Q2 2012 to their lowest level since Q3 2010. On the employment front, it was encouraging to note the number of jobs in Q2 2012 increased by almost 2,000 over the quarter. With more than 2,700 private sector jobs, this more than offset the 600 plus job losses in the public sector. Overall, this represented the first quarterly rise since Q2 2008. Despite this latest rise, it is somewhat premature to view this as a turning point and the start of a sustainable employment recovery.

Indeed, just 24 hours after the latest labour market statistics were released; Northern Ireland received the news of 760 further job losses at Caterpillar/FG Wilson. This follows the 160 redundancies announced in June. Furthermore, with more of FG Wilson's production moving to China, there will be additional job losses next year and beyond.

The significance of this announcement cannot be understated as it represents the biggest single blow to the Northern Ireland economy since the downturn began. Up until now, FG Wilson had been one of the most embedded firms within the local economy with a mature and extensive supply chain of more than 200 local firms. Therefore the indirect impact from September's announcement will have a big negative multiplier feeding through into everything from consumer spending to the housing market.

Alongside unemployment, inflation has been *'public enemy number one'* amongst households. Last month, the annual rate of consumer price inflation (UK CPI) fell to 2.5%. Whilst this is presented as a positive, it should be remembered that prices are still rising at a faster rate than incomes. Furthermore, it is the cumulative impact of price rises over the last 5 years (17%) which continues to affect consumer spending power. On a positive note, however, September did bring some good news, with Airtricity announcing a 14% cut in electricity prices from October. This follows hot on the heels of a similar tariff reduction by Power NI in August.

Rising unemployment, the squeeze on household incomes and the overhang of consumer debt continue to sap consumer confidence. This reality is becoming increasingly evident in the high streets of our towns and cities, and the type of cars driving on our roads. Recent research by Lisney revealed that the percentage of vacant shops in Northern Ireland has jumped from 14.4% to 19%. This compares with a UK average of 11.4% which has remained broadly unchanged over the last 12 months. A decline in consumer demand remains just part of the problem. Another factor is the rates burden levied on businesses which has become decoupled from the commercial realities of rents. In time, this could result in some of our prime retail locations becoming 'no-go' areas.

Given the prevailing economic conditions, it is not surprising that new car sales in Northern Ireland continue to edge lower. There were 3,344 new cars registered down slightly on the corresponding figure last year. During the first 8 months of 2012, new car sales in Northern Ireland totalled 34,784. This represents a marginal decline on the same period last year and marks the fewest number of new car sales during the downturn year-to-date. Furthermore, the number of new car sales in Northern Ireland during the first 8 months of 2012 is one third lower than the corresponding period in 2007, when there were 51,866 new cars sold.

Whilst new car sales are a good barometer for consumer spending it is also revealing to look at the type of cars being purchased. In these challenging economic times, consumers are becoming less sensitive to brands and more focussed on fuel economy and value for money. The Kia Sportage and Hyundai IX35 were the 8th and 9th most popular new cars purchased last month. Neither of these brands or models featured in the top 10 new car registrations in England, Scotland or Wales. These brands, and smaller more economical models across all car manufacturers, are expected to account for an increasing share of new car sales in the months and years ahead.

So if you see more Skodas and fewer BMWs on the school run this year, don't be surprised.

Richard Ramsey,
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