

Octopus Investments

# NORTHERN IRELAND ECONOMIC PERFORMANCE & PROSPECTS

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Ulster Bank, Capital Markets

20<sup>th</sup> September 2011, *Fitzwilliam Hotel, Belfast*

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# What you can expect this afternoon

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



Recession over &  
recovery underway?



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

## Challenges for NI include:

1. Inflation profits / income squeeze
2. Public expenditure crunch
3. Returning to the 2007 economy
4. Conclusions:  
Next decade will **'HURT'**

## 1998-2007 A NICE Decade for the NI Economy

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### 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

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### 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

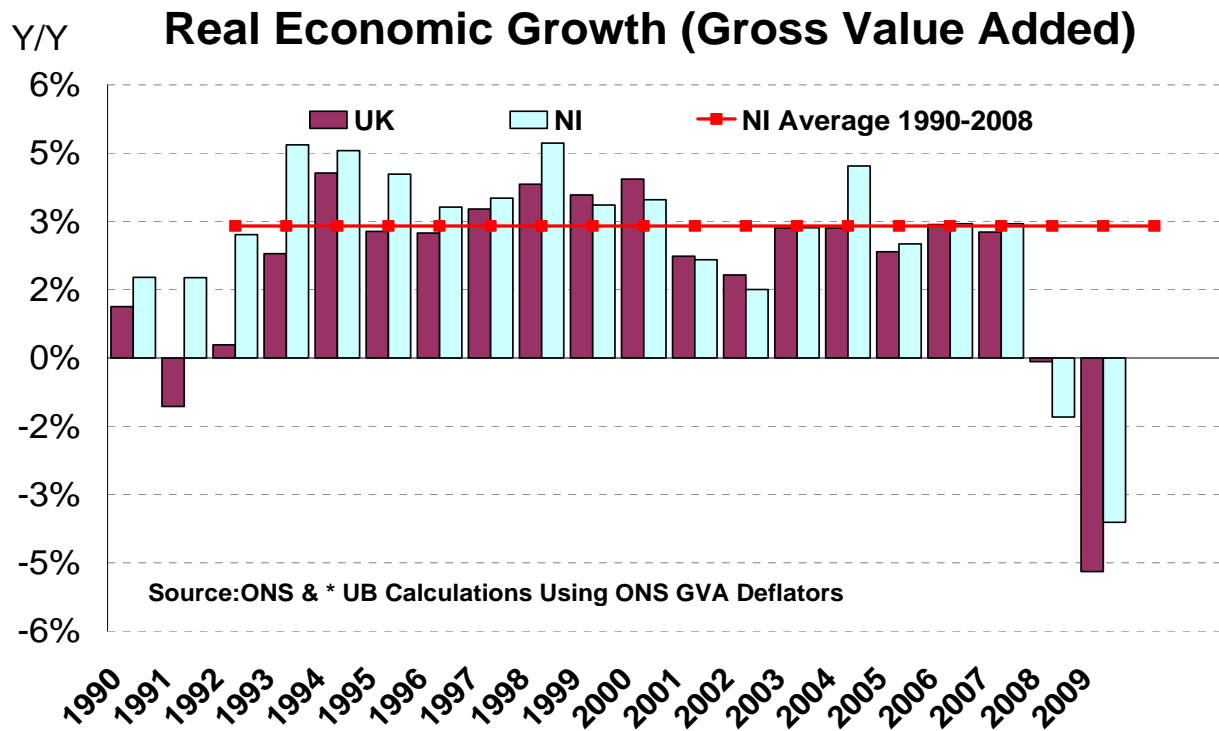
**All occurring within a wider credit crunch**



**NI's first recession since the early 1980s**

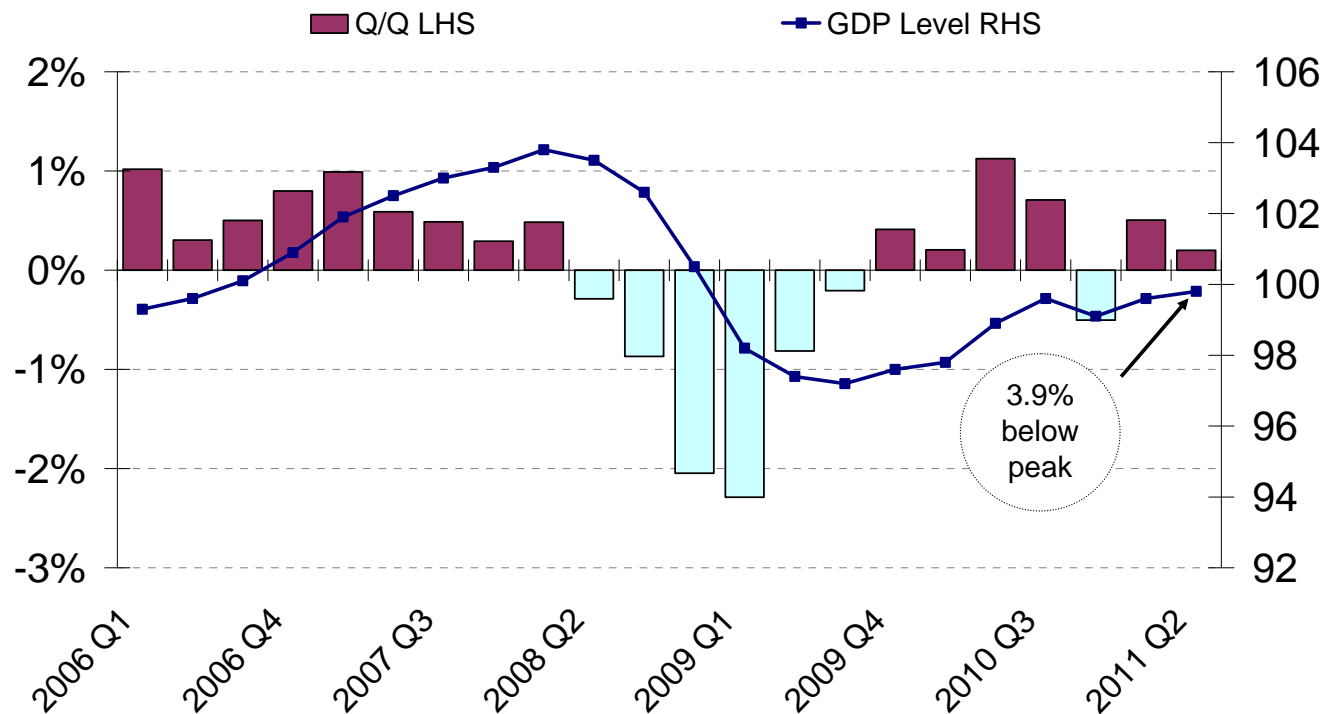
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# The myth that NI is recession proof has been dispelled



# UK economic recovery much weaker than expected

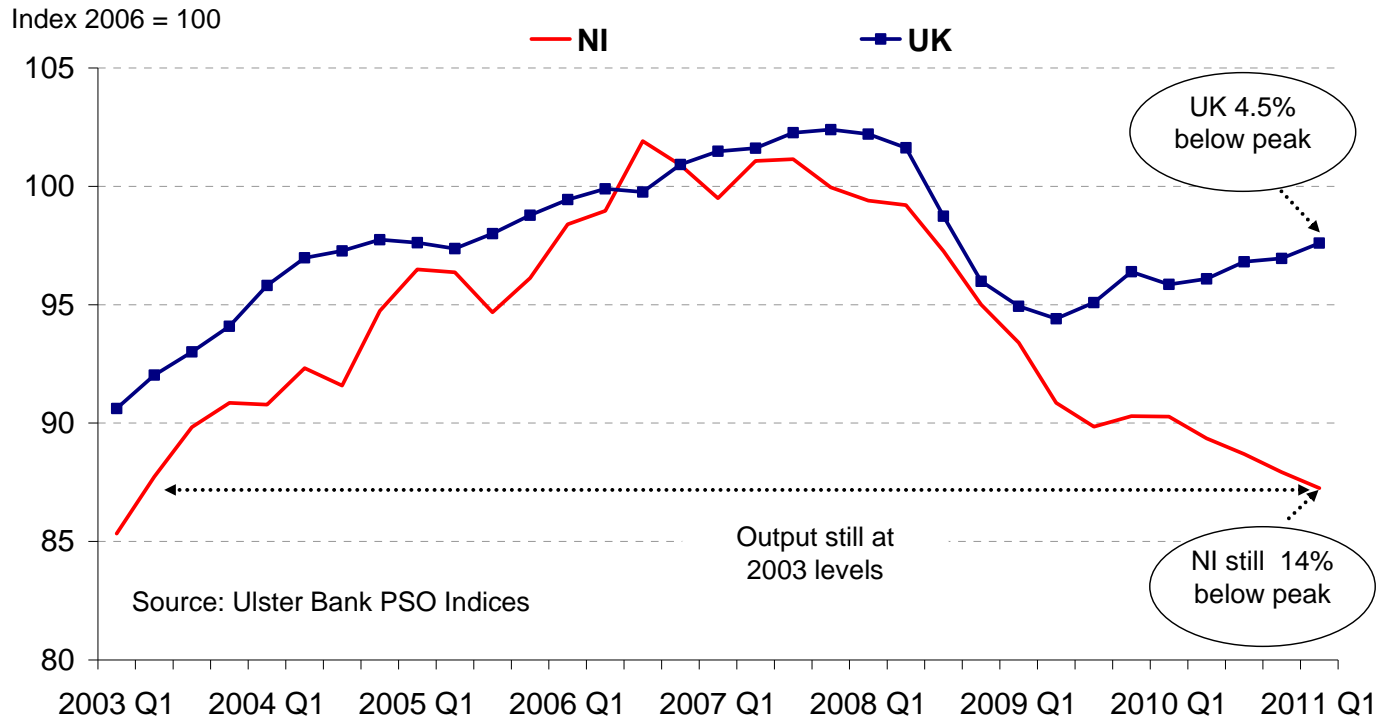
## UK GDP Level & Quarterly Growth



But at least UK recovery underway, NI's yet to begin....

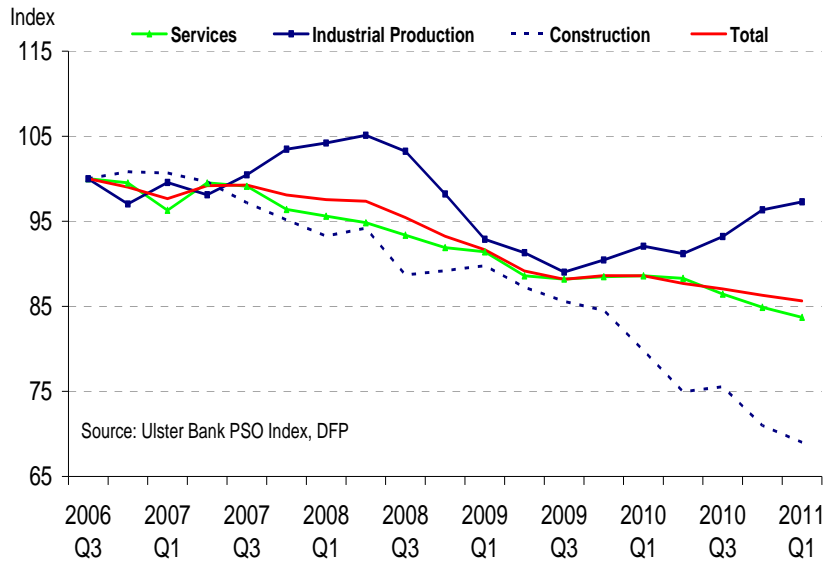
### NI & UK Levels of Private Sector Output

Composite of construction, production & service sectors

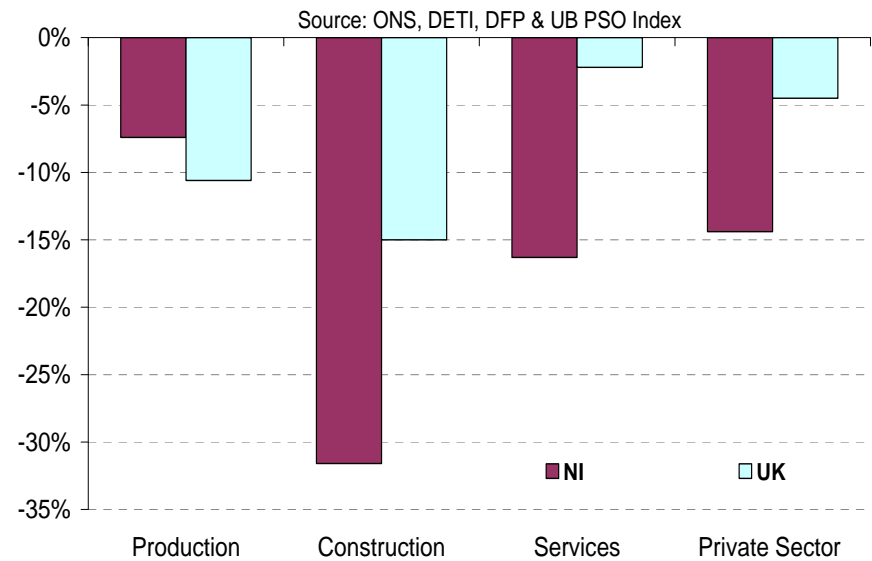


# Construction & service sector output still falling in Q1 2011

**NI Private Sector Output Levels**  
Index Q3 2006 = 100

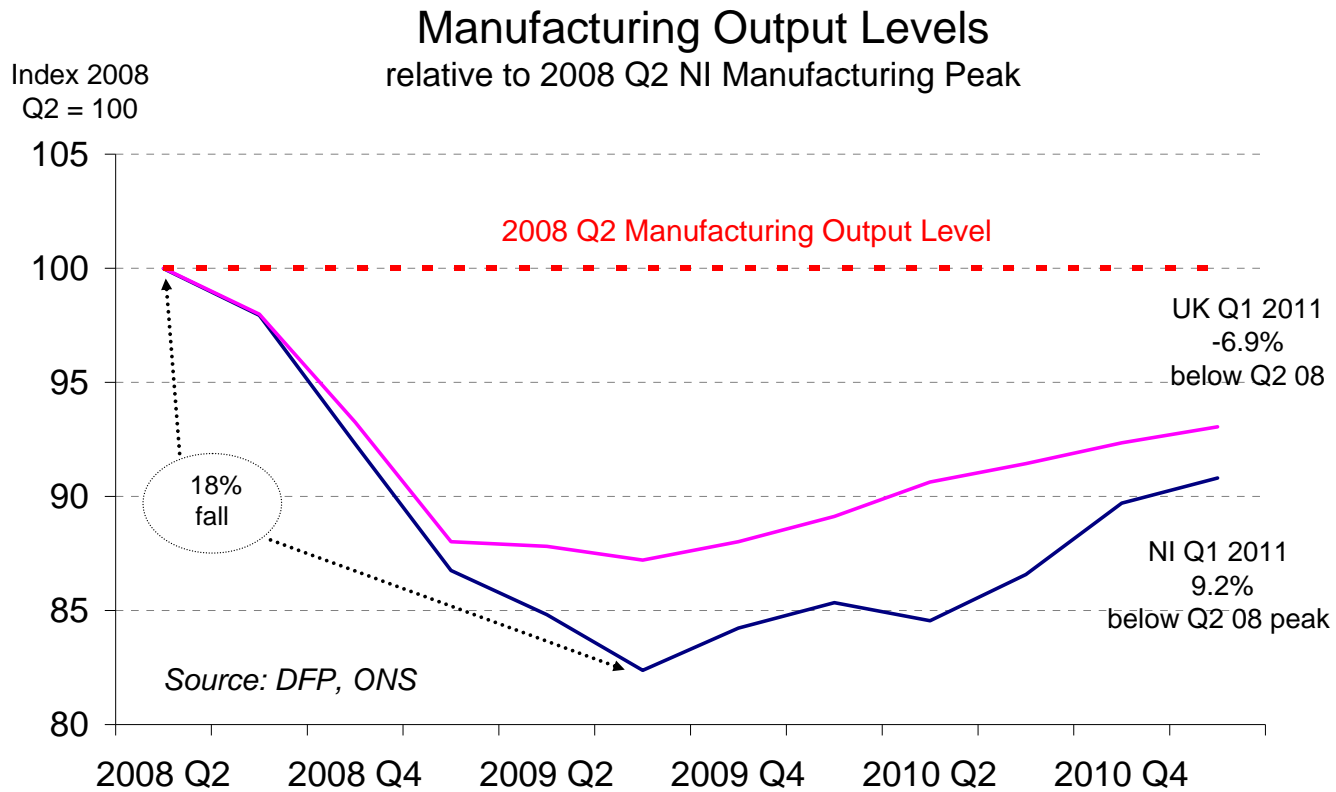


**Private Sector Output Q1 2011 relative to peak**





# NI manufacturing has recouped 50% of its lost output



# Some parts of the NI economy have prospered in downturn

## Change in NI Private Sector Output Q3 2006 - Q1 2011

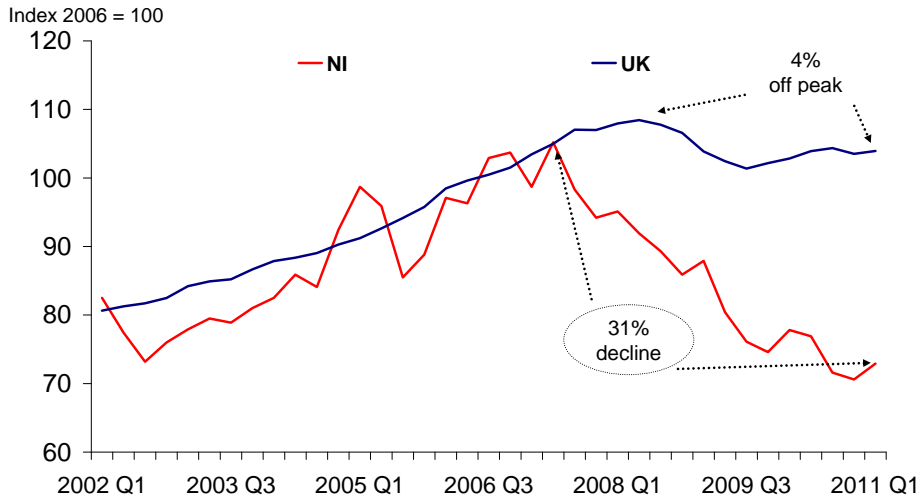
<i>Recession Winners</i>	↑↑↑
Agriculture ( <i>Gross Turnover, based on annual figures 2006-2010</i> )	27.7%
Chemicals & Chemical Products ( <i>pharmaceuticals</i> )	26.8%
Utilities ( <i>Electricity, Gas &amp; Water Supply</i> )	14.2%
Other Services	11.8%
Transport, Storage & Communications	9.2%
Basic Metals & Fabricated Metal Products	2.7%
Hotels & Restaurants	0.8%
Food, Drink & Tobacco	0.5%

<i>Recession Losers</i>	↓↓↓
All Production Industries	-2.7%
All Manufacturing	-4.7%
Engineering & Allied Industries	-7.4%
Total Other Manufacturing	-10.4%
Wholesale & Retail Distribution	-13.0%
Textiles & Textile Products	-14.0%
<b>Total Private Sector Output</b>	<b>-14.4%</b>
All Private Sector Services	-16.3%
Mining & Quarrying	-17.3%
Business Services & Finance	-29.2%
Construction	-31.6%

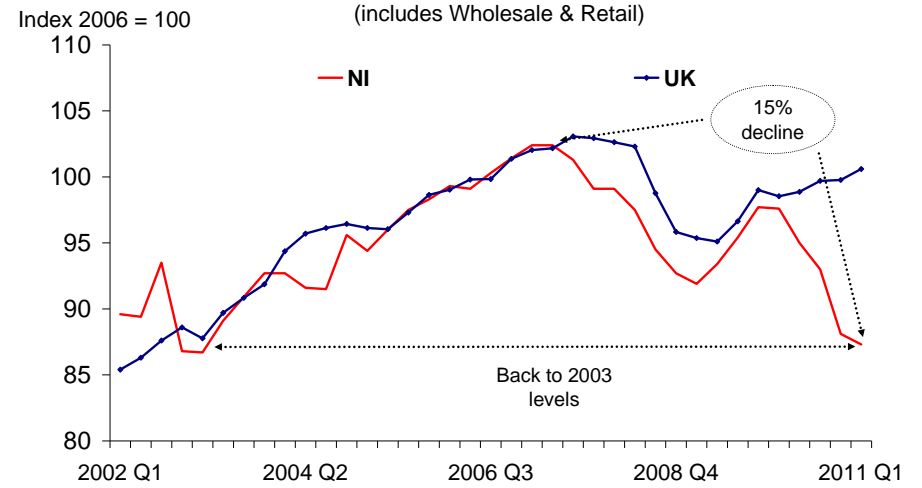
*Source: DFP Indices of Production, Services and Construction, DARD & Ulster Bank calculations*

# Services downturn – A tale of two sub-sectors

Business Services & Finance Output Levels

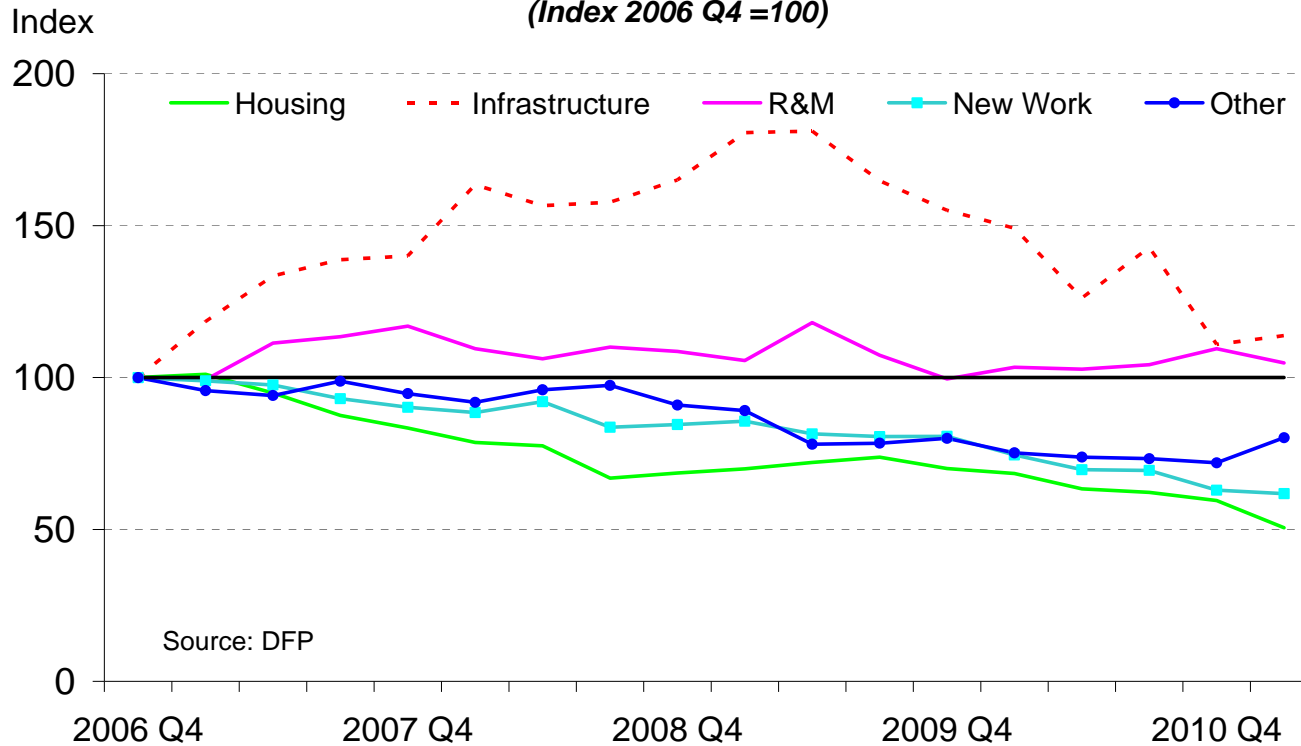


NI Distribution Sector Output Levels

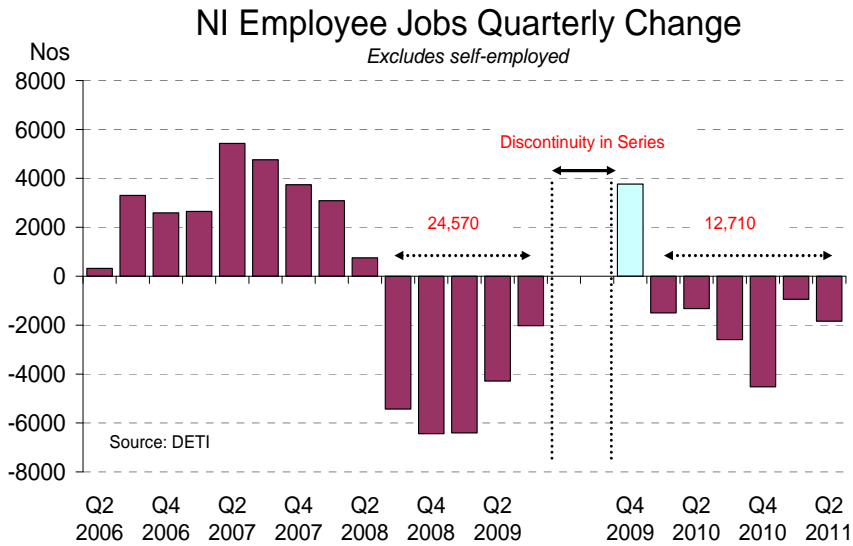


# Without infrastructure boom construction downturn would have been even more severe

### NI Construction Output Relative to 2006 Peak (Index 2006 Q4 =100)

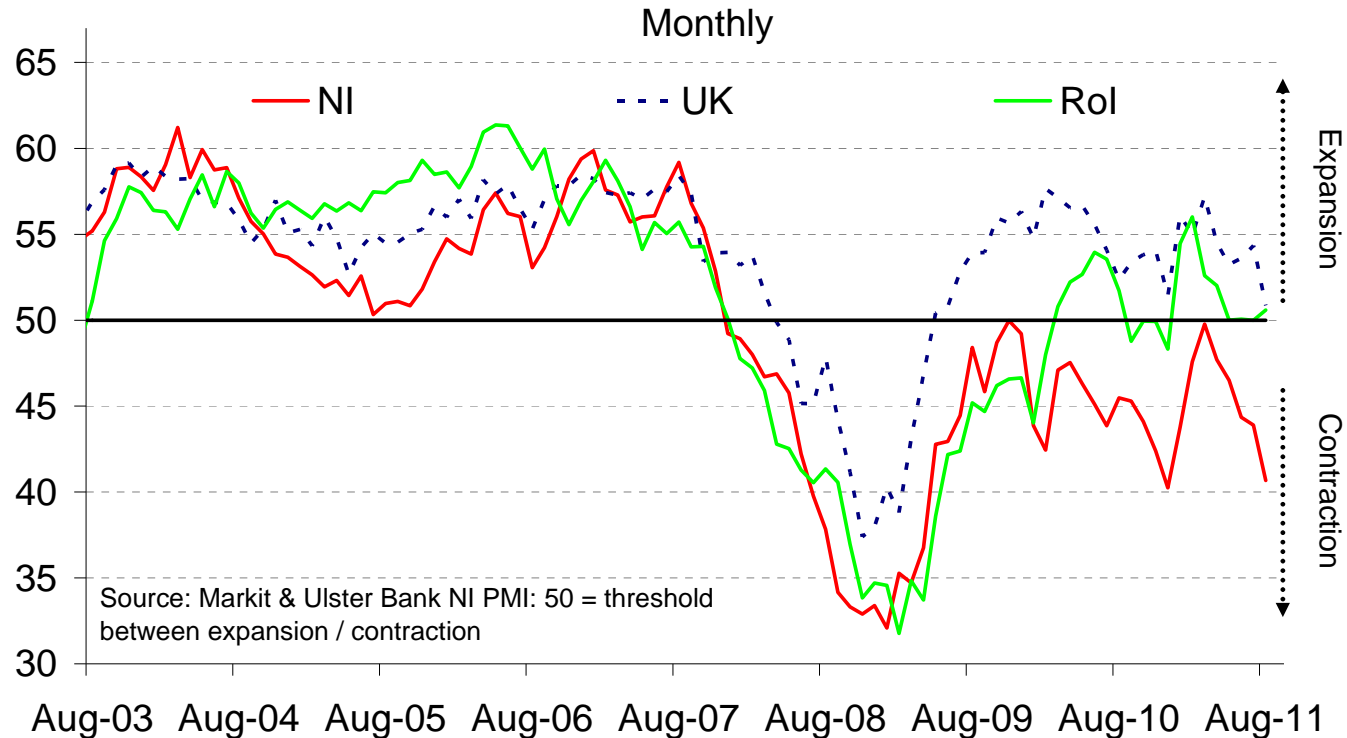


# The number of NI jobs is still falling across all sectors (*excl. manufacturing*)



## Other surveys show downturn accelerating in Q2 & Q3

### Private Sector Business Activity - PMIs



## 2 factors explain NI-UK divergence

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**Downturn Under  
Construction /  
Property**



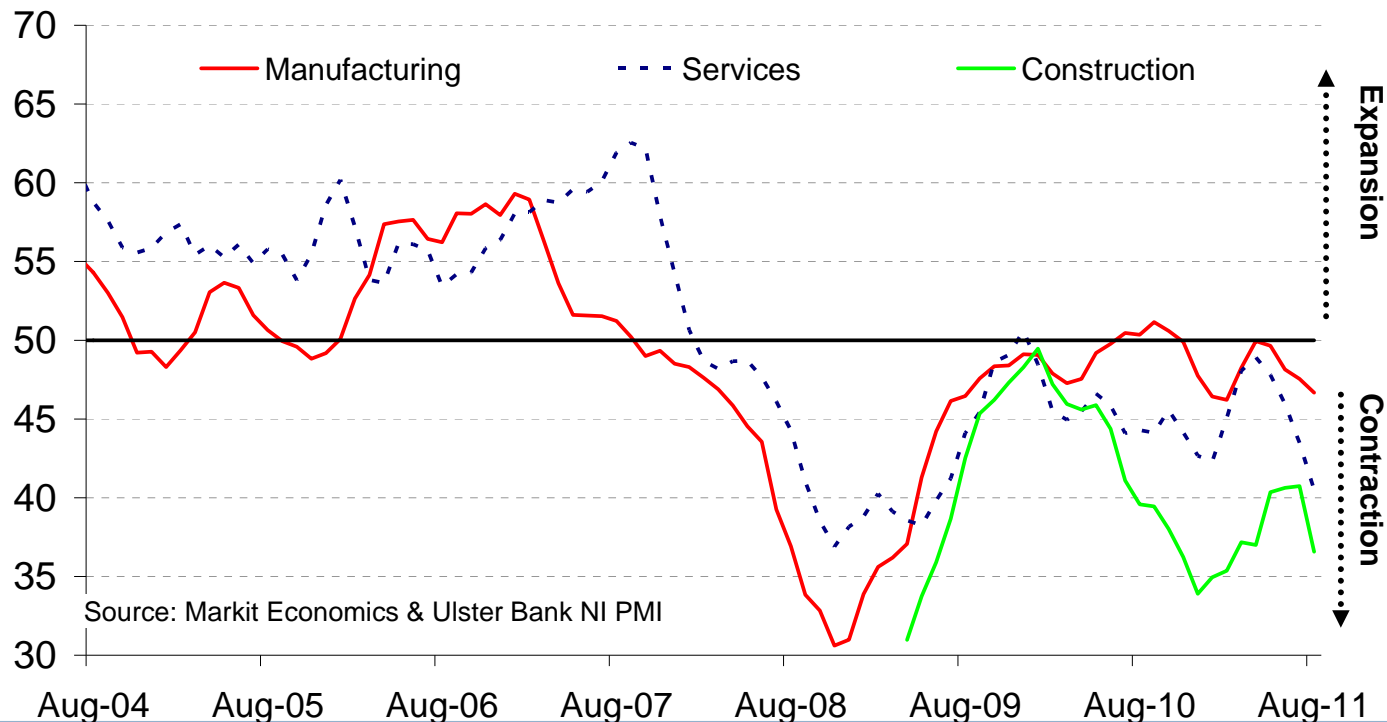
**Tourism**

**Trade**

**Investment**

# Pace of contraction accelerating within services & construction in Q3 2011

**NI Private Sector Output**  
3 month moving average

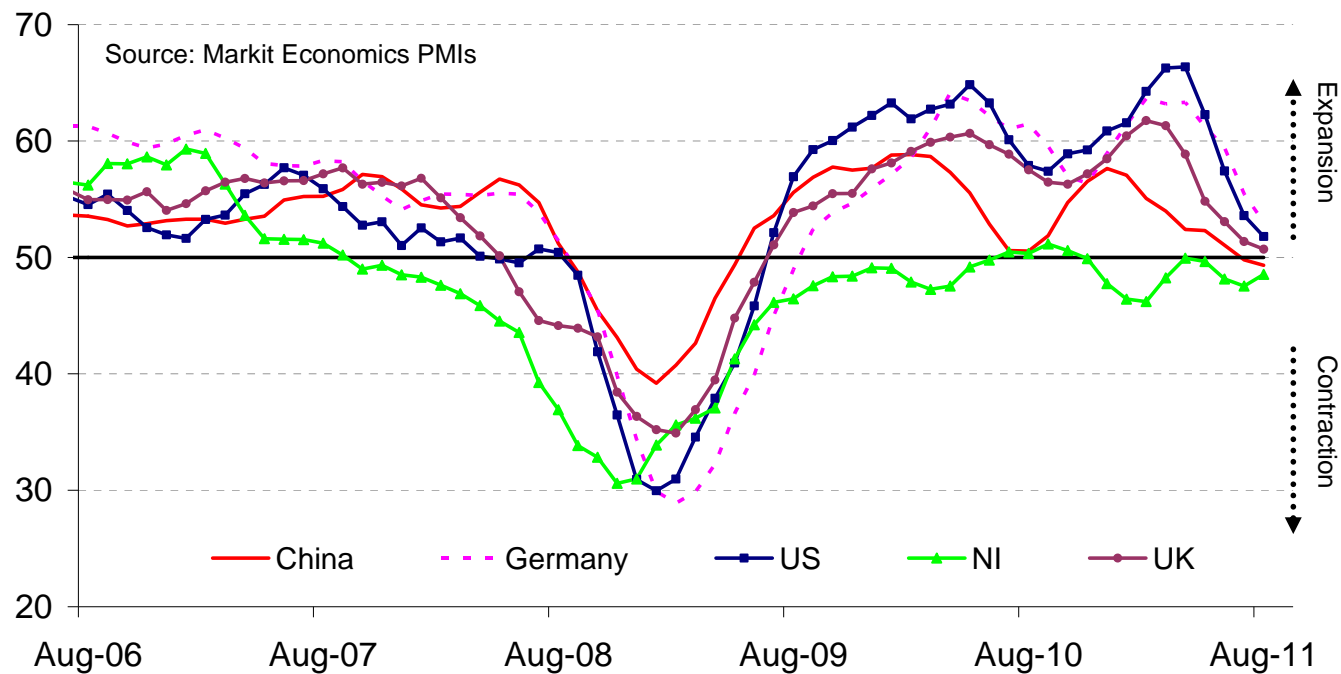




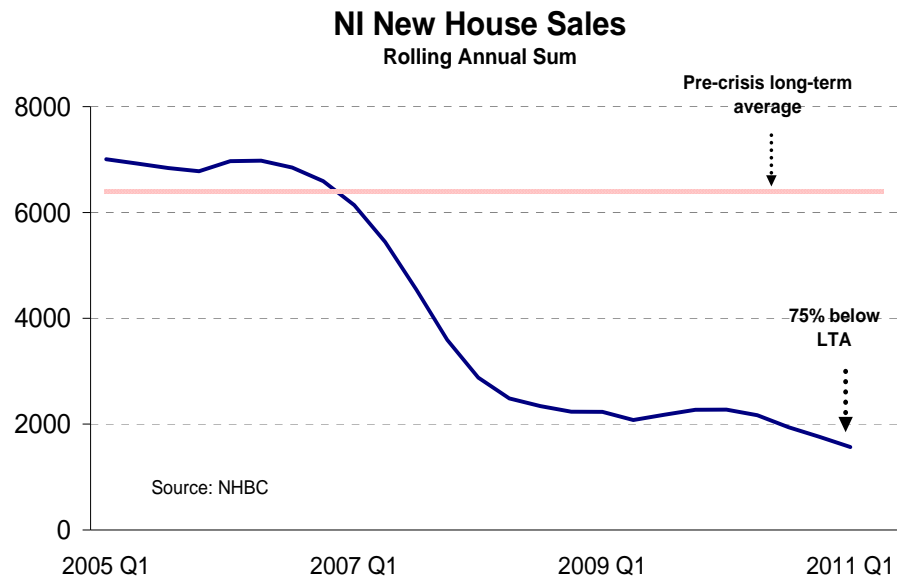
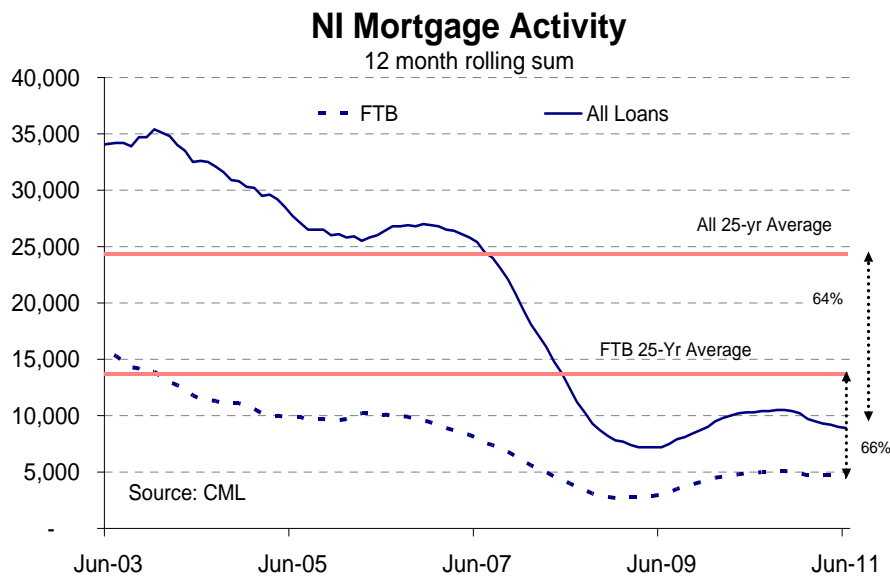
# Manufacturing is most exposed to global slowdown *(almost 60% of SME exports destined to RoI)*

## Manufacturing Output - PMI

3 month moving average

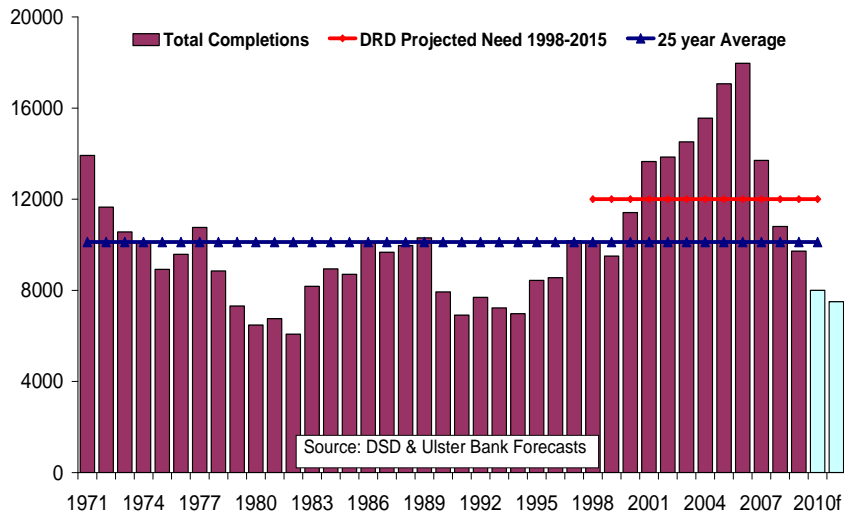


# Property downturn still a drag on services sector

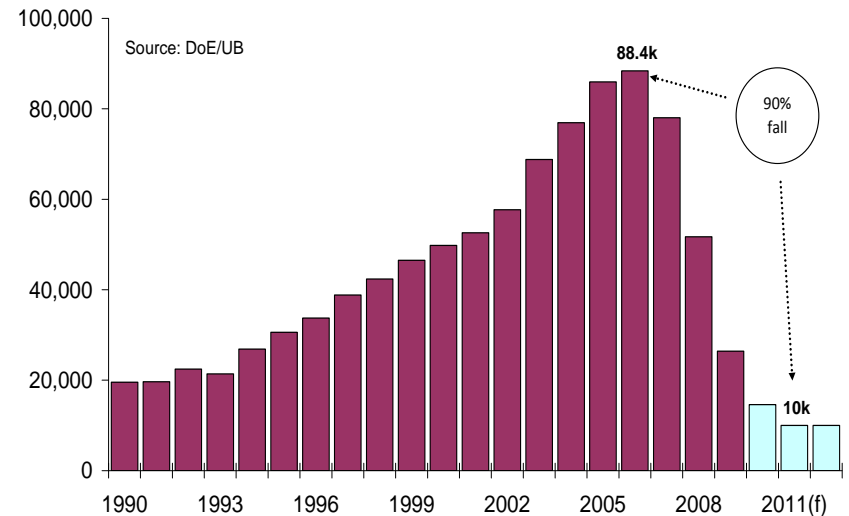


# NI building fewer houses now than we need but no real overhang problem unlike the RoI

### NI Housing Completions



### Republic of Ireland House Completions



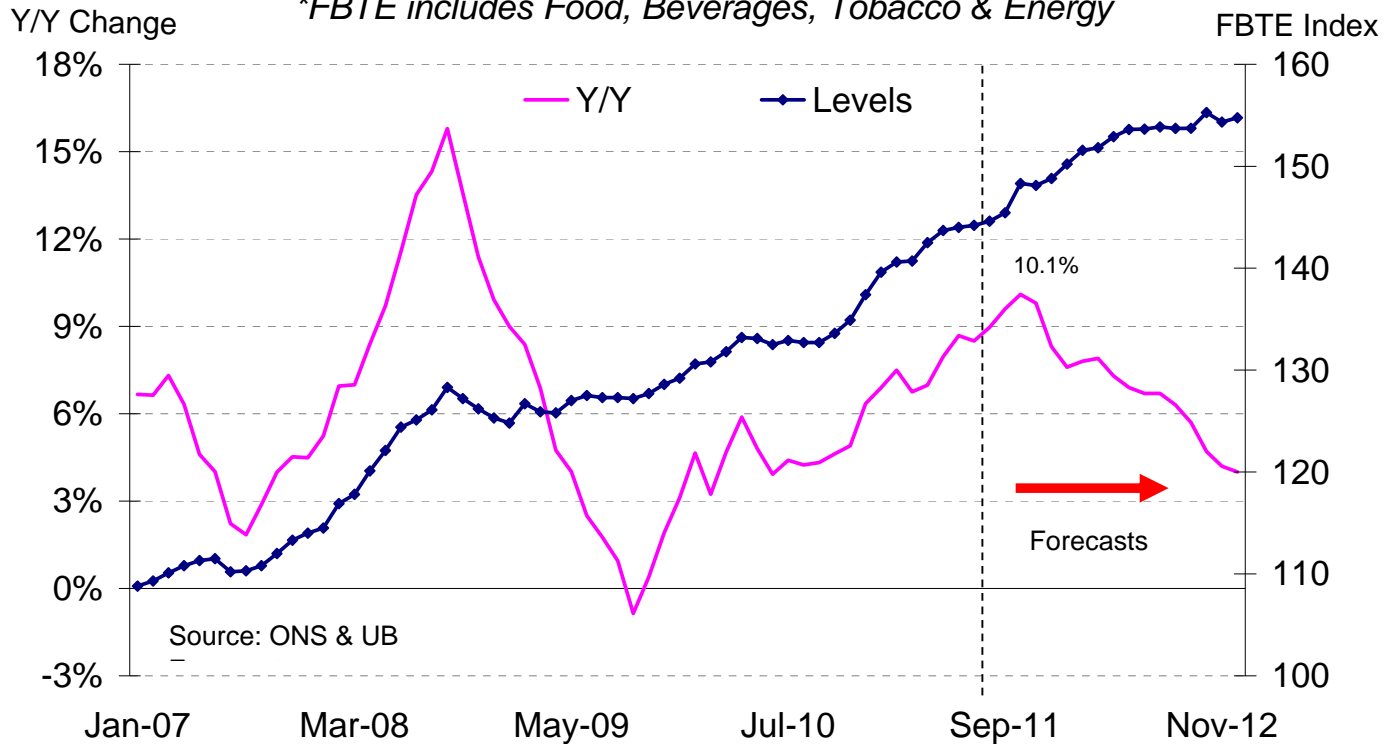
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*Inflationary  
Pressures  
Challenge 1*

# Eating, drinking, smoking & keeping warm are becoming expensive pastimes .....

## UK FBTE CPI Price Inflation / Levels

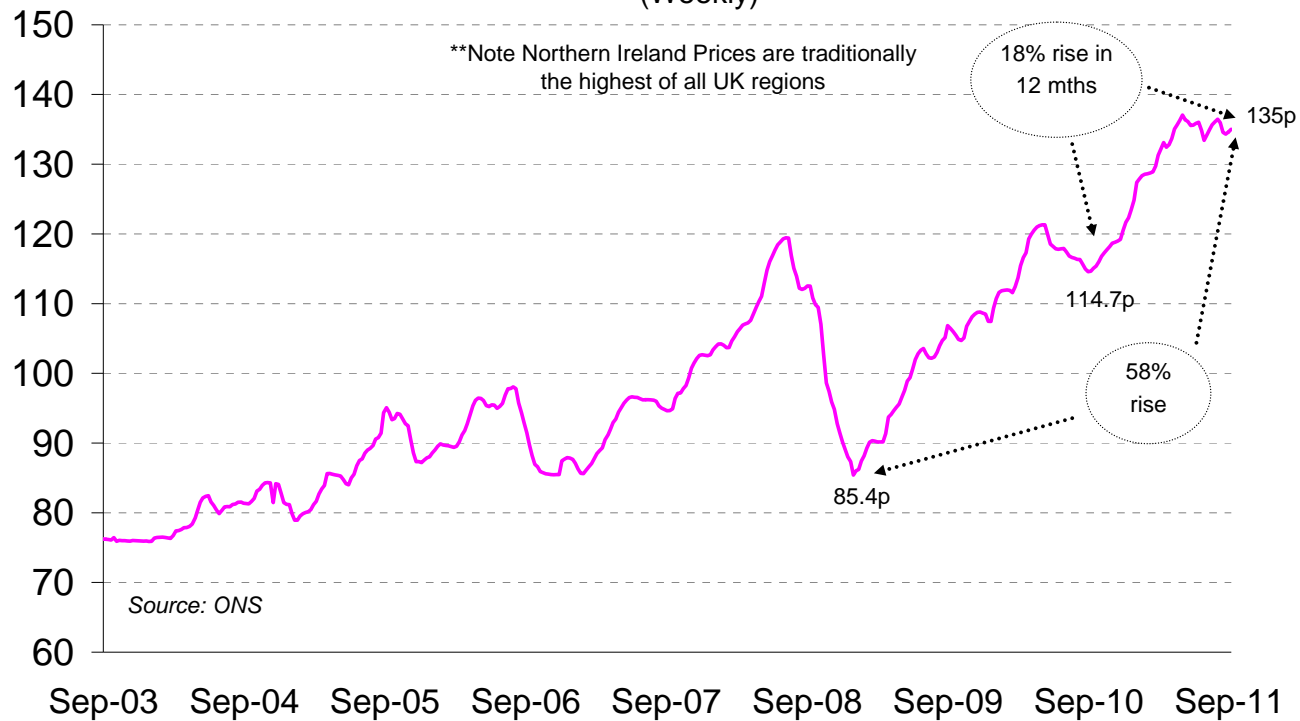
\*FBTE includes Food, Beverages, Tobacco & Energy



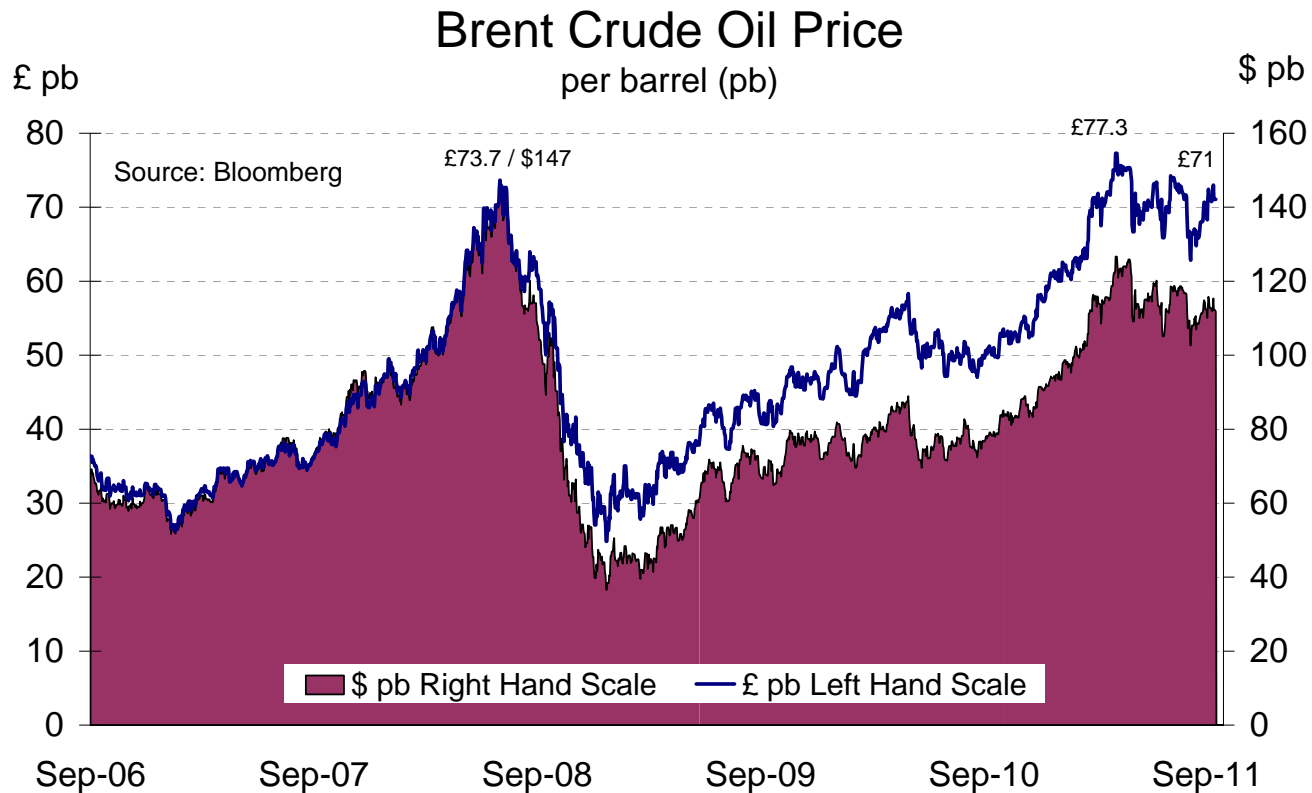
Source: ONS & UB

.....so too is driving

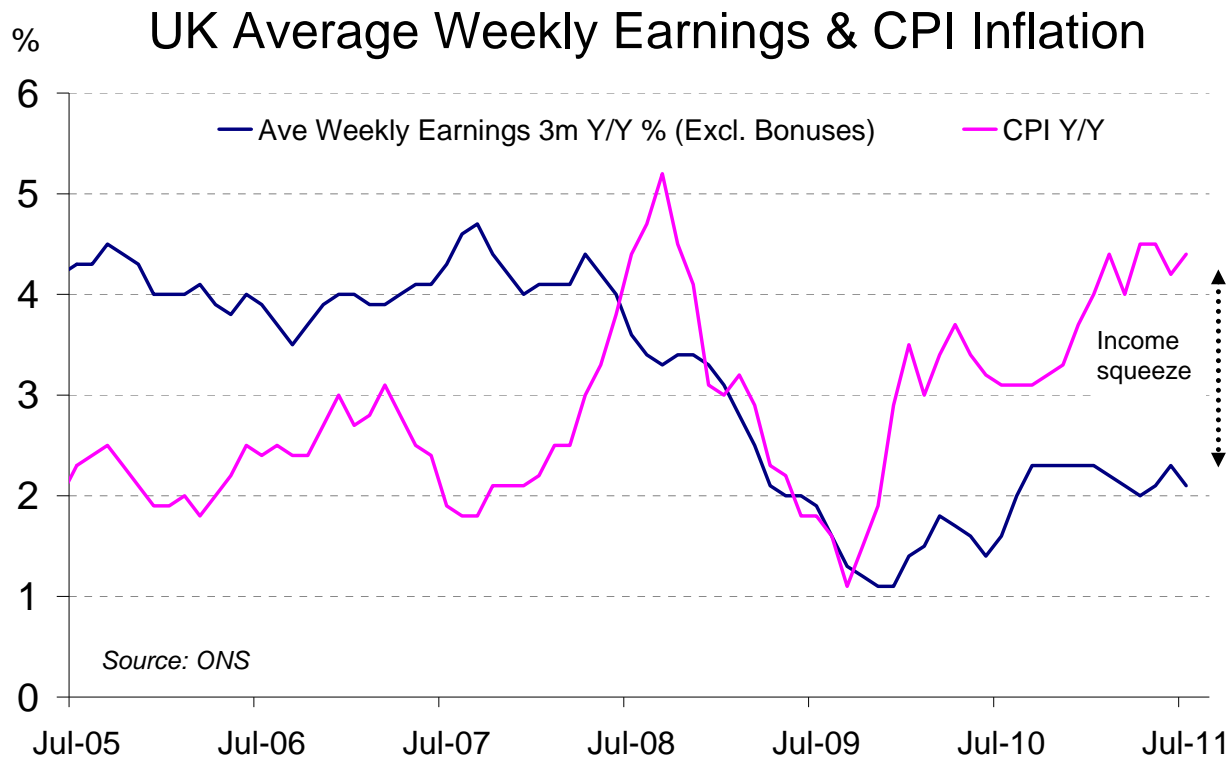
### UK Petrol Prices - Pence per litre (Weekly)



Despite slowdown oil price remains high – look at £pb not \$pb!



# Inflation rising faster than wages = Income squeeze





## Consumer cost pressures are severe

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### Pay, Tax & Benefits

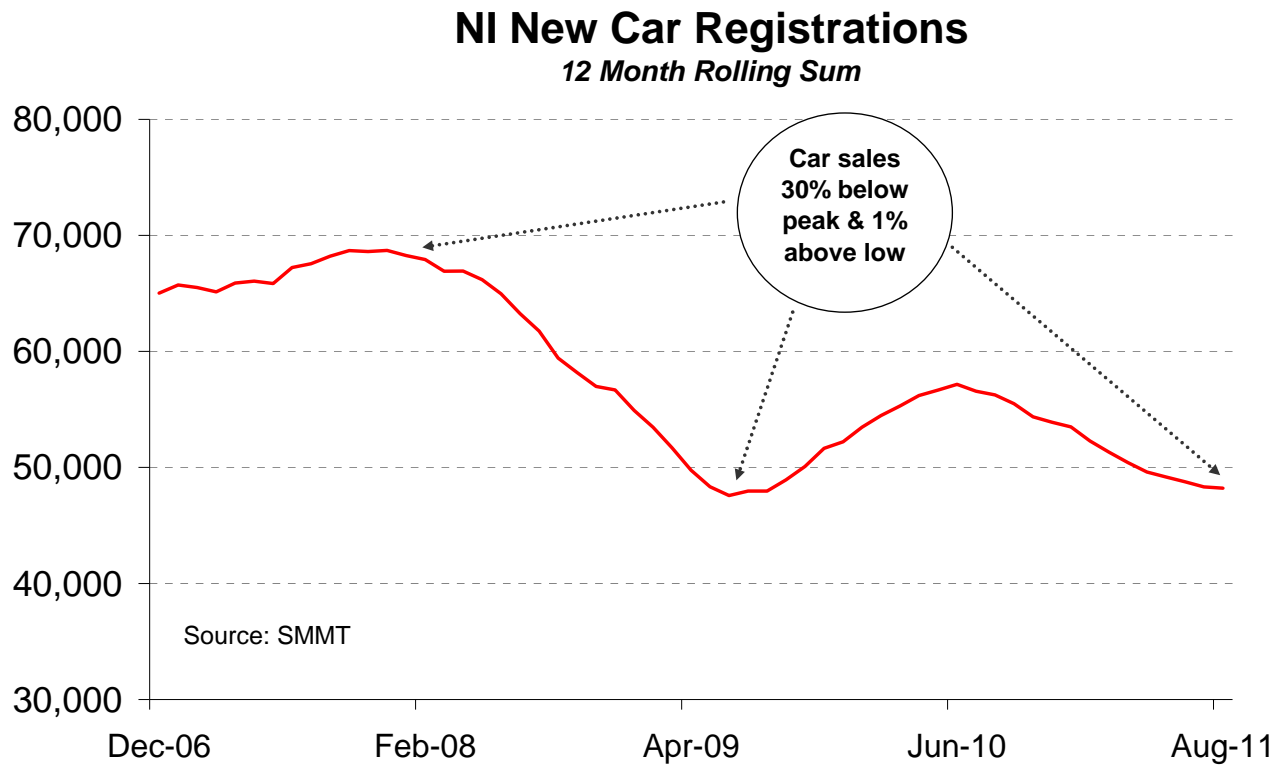
- Pay freezes / cuts widespread
- Benefit & pensions changes
- Recent VAT & NIC rises
- Domestic rate rises
- NI energy price rises to feed through



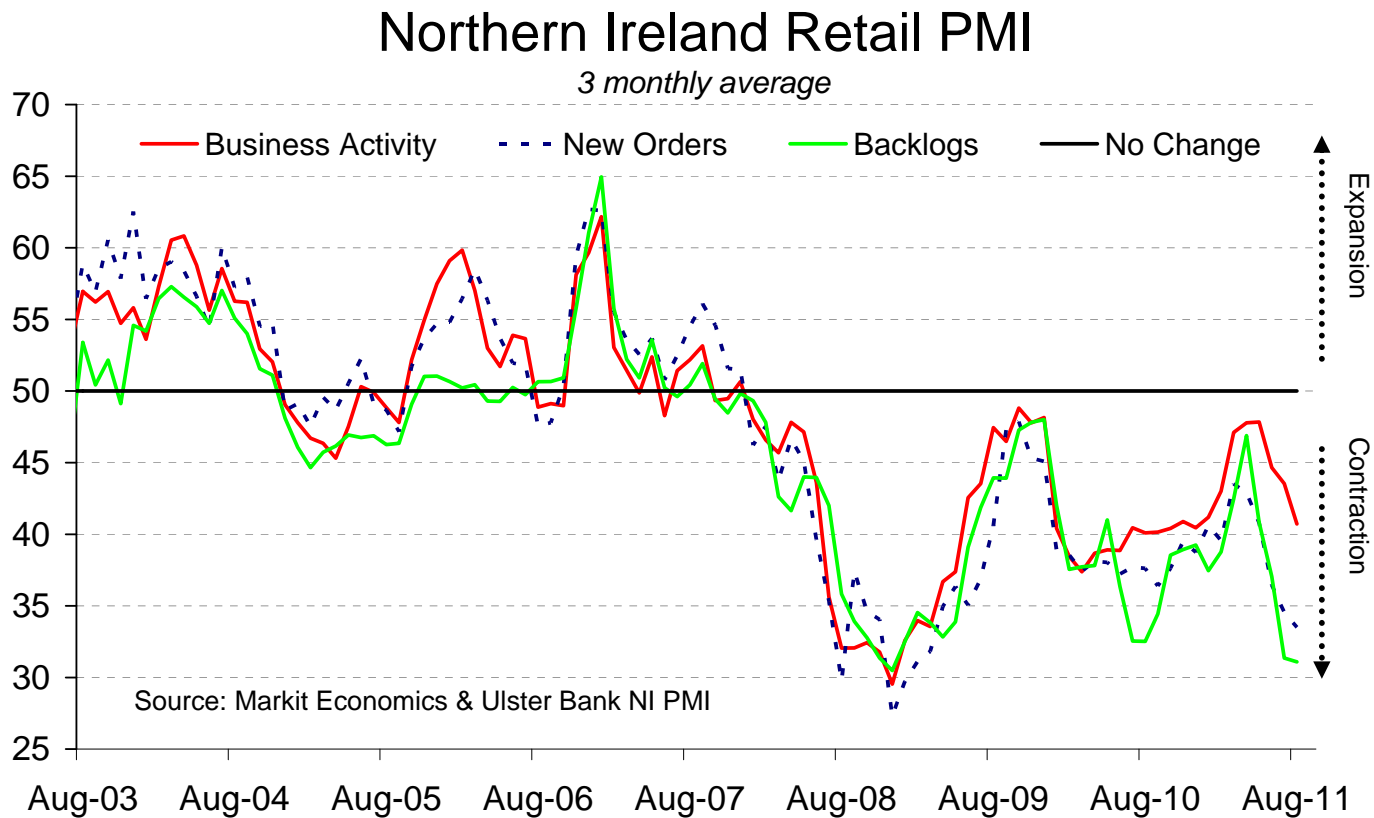
“...in 2011 real wages are likely to be no higher than they were in 2005. One has to go back to the 1920s to find a time when real wages fell over a period of six years.”

*Mervyn King, Speech on Jan 25<sup>th</sup> 2011*

# Not surprisingly consumer demand is falling....



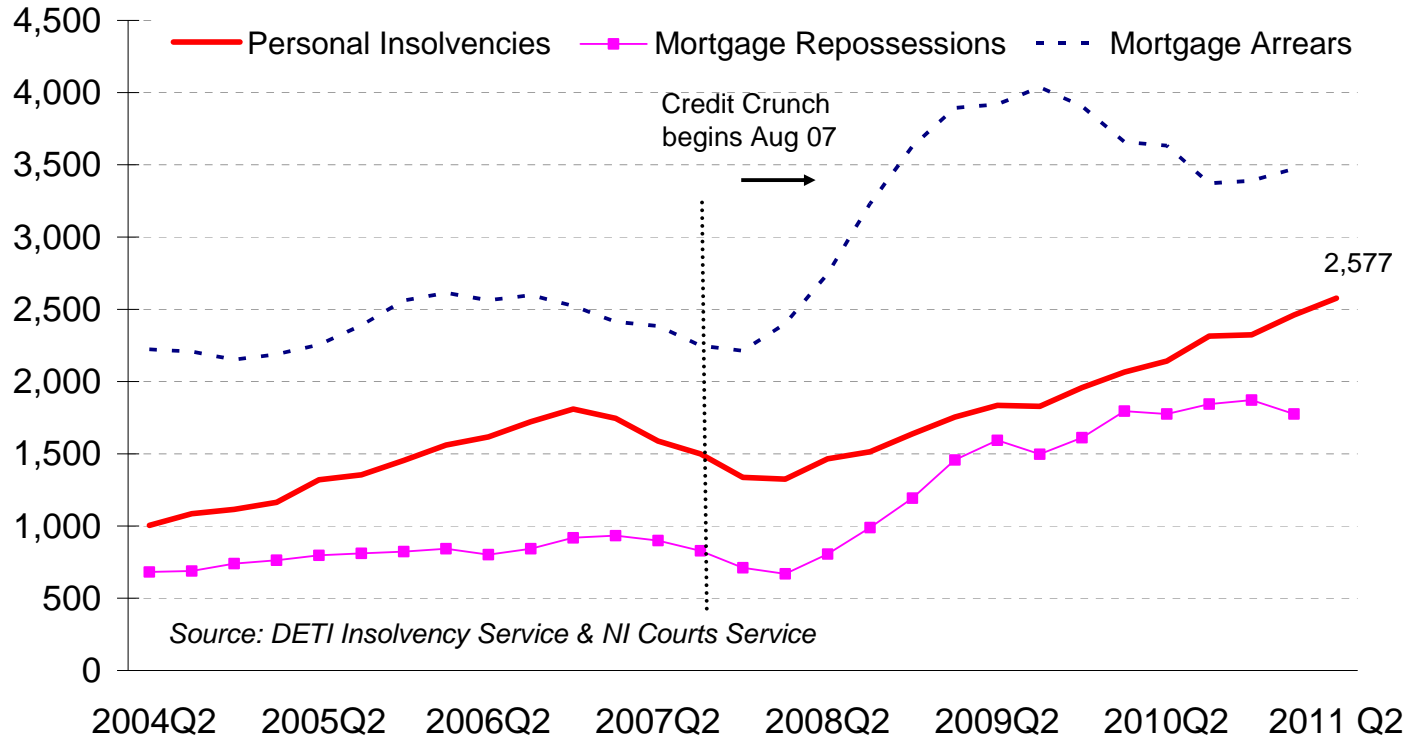
Discretionary spending such as retail, pubs & restaurants are vulnerable....



# And aspects of consumer stress have been rising....

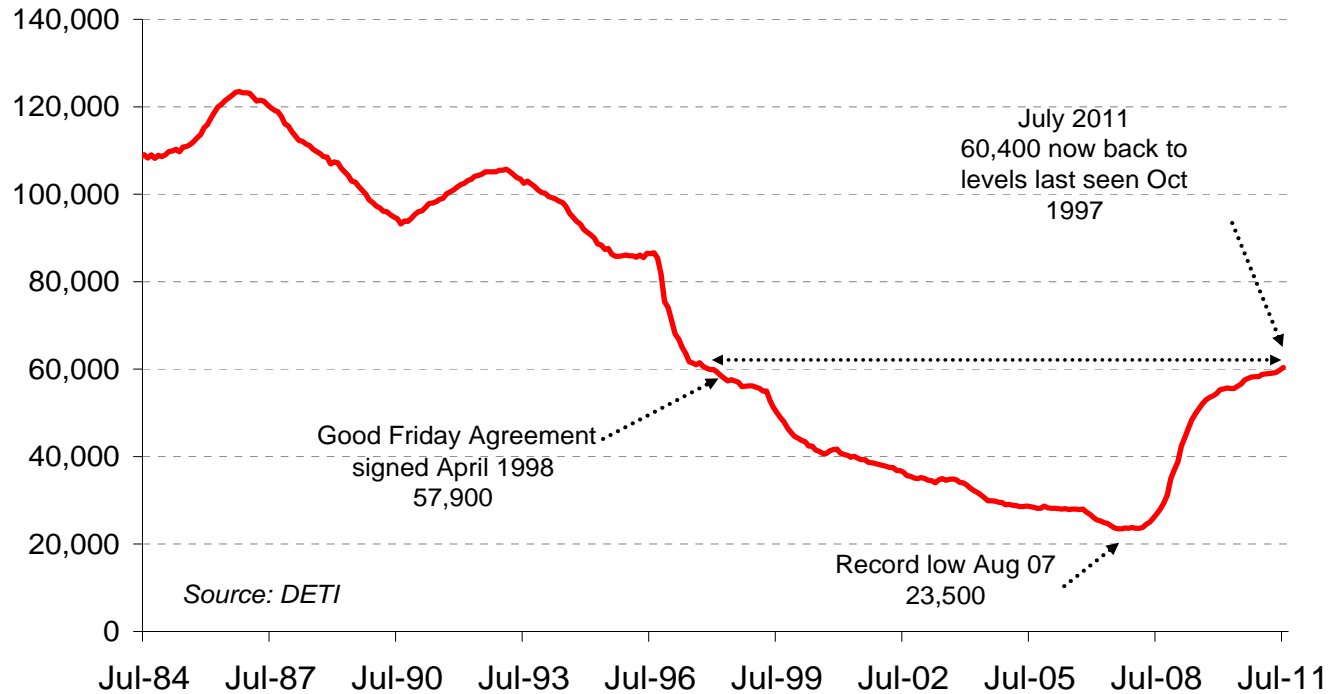
## NI Consumer Stress

Rolling 4 Quarter Total



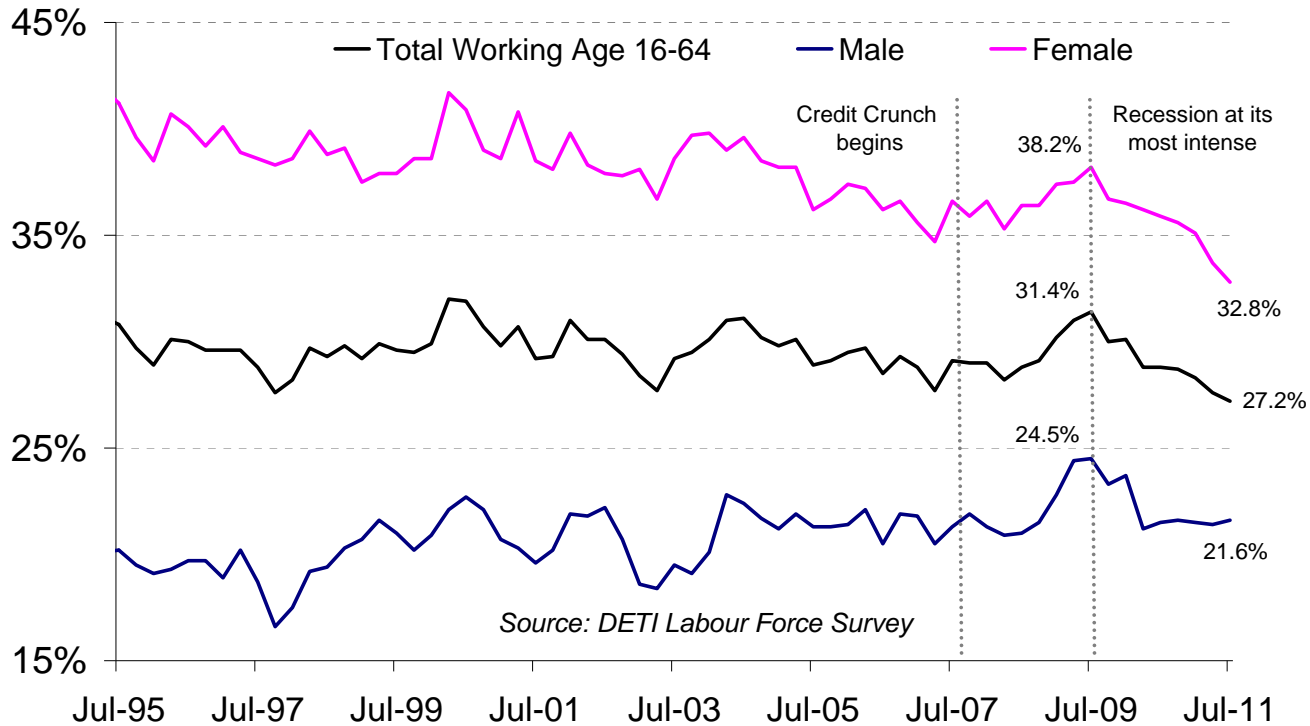
....following the rise in unemployment

NI Unemployment Claimant Count Levels



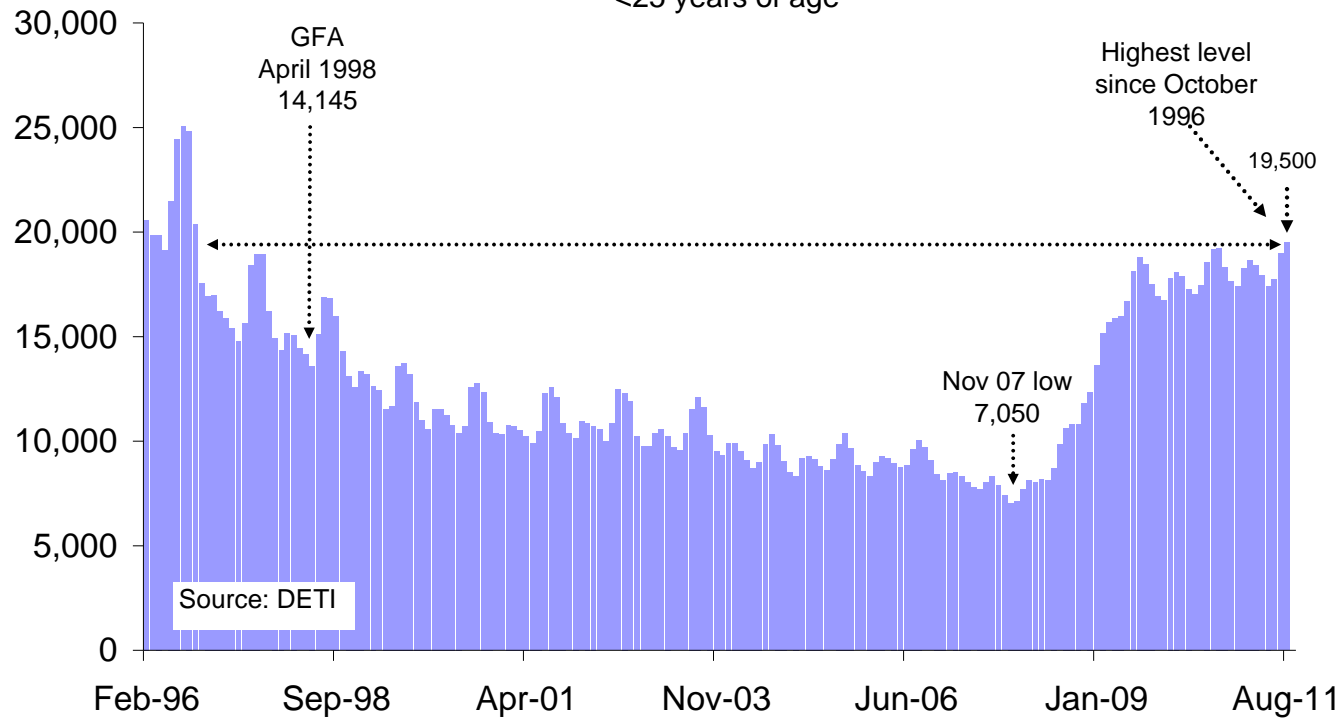
# But recession achieved what policy failed to deliver – Falling Inactivity Rates

## NI Economic Inactivity Rates



# Falling inactivity is great news for NI but not for those <25yrs

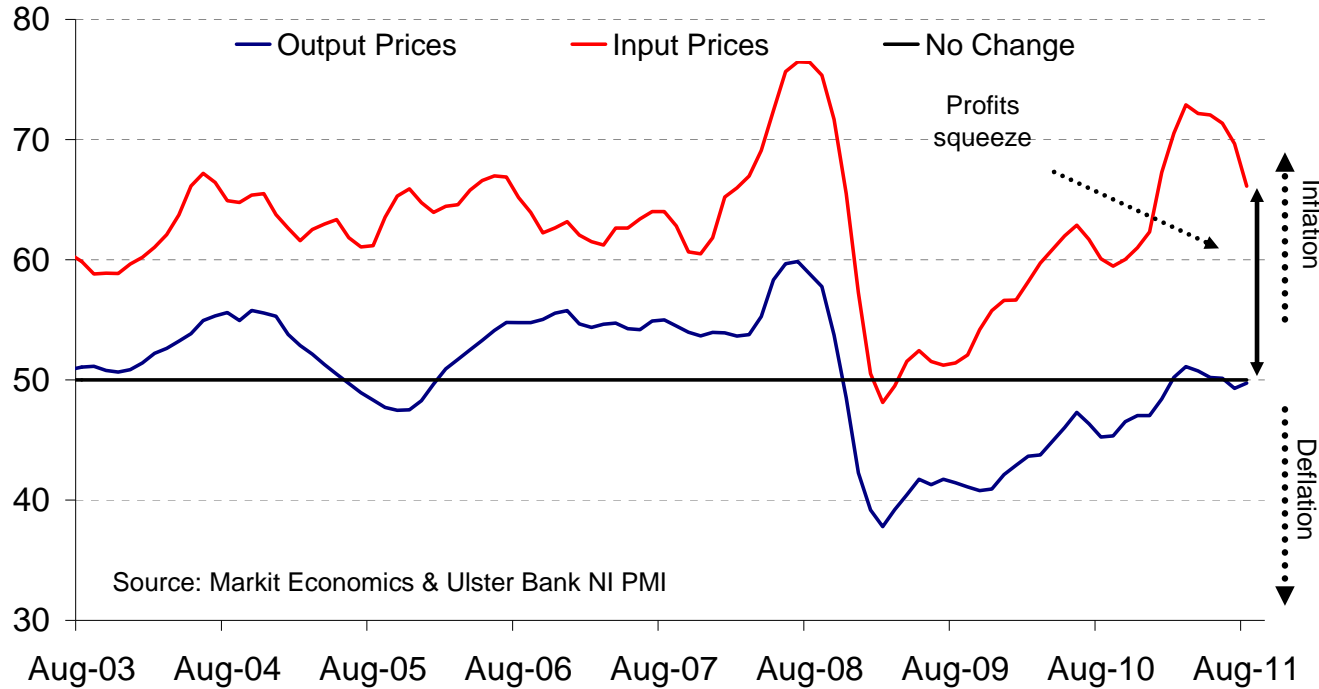
## NI Youth Claimant Count Levels <25 years of age



# Like consumers, businesses experiencing inflationary pressures and profits squeeze

## NI Private Sector Profit Squeeze

3 Month Moving Average



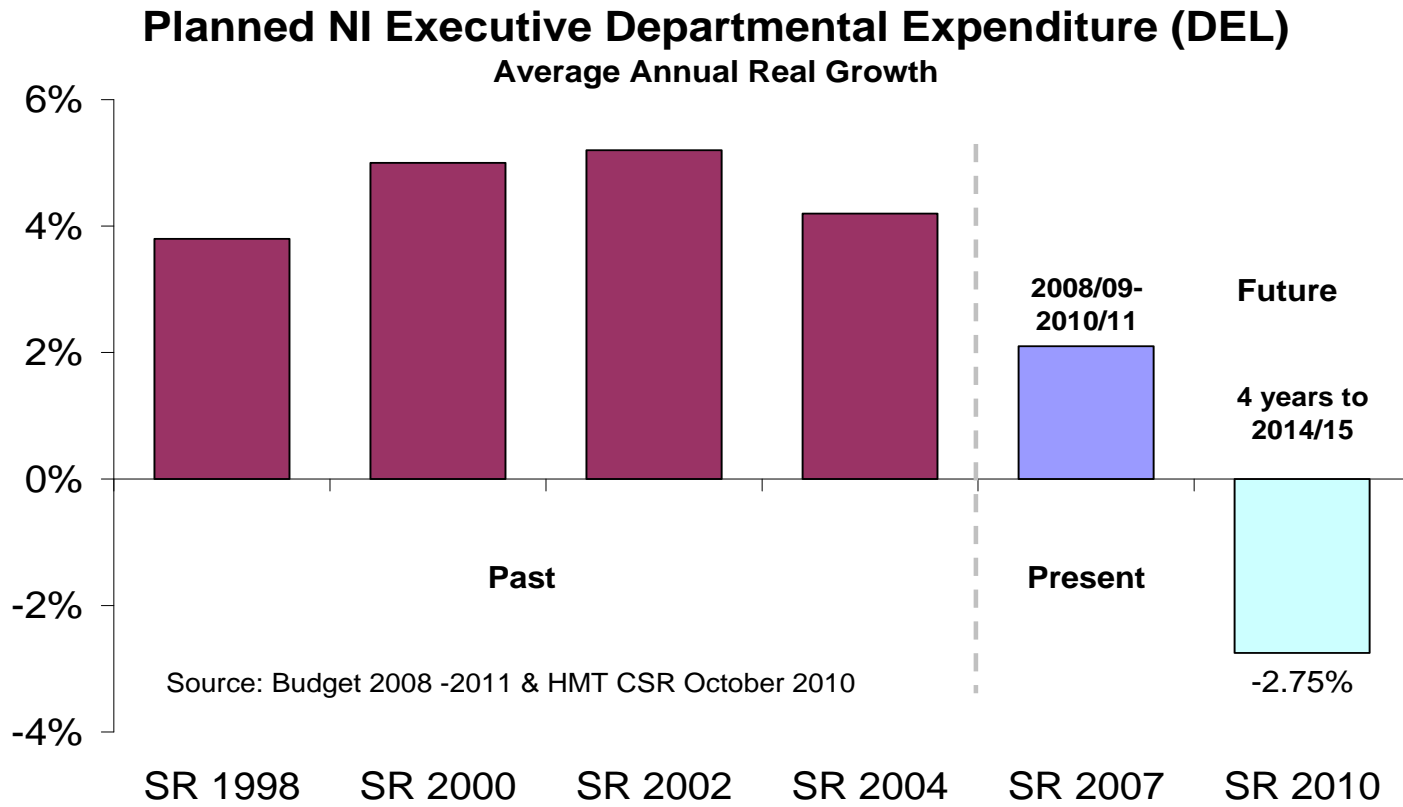
Source: Markit Economics & Ulster Bank NI PMI



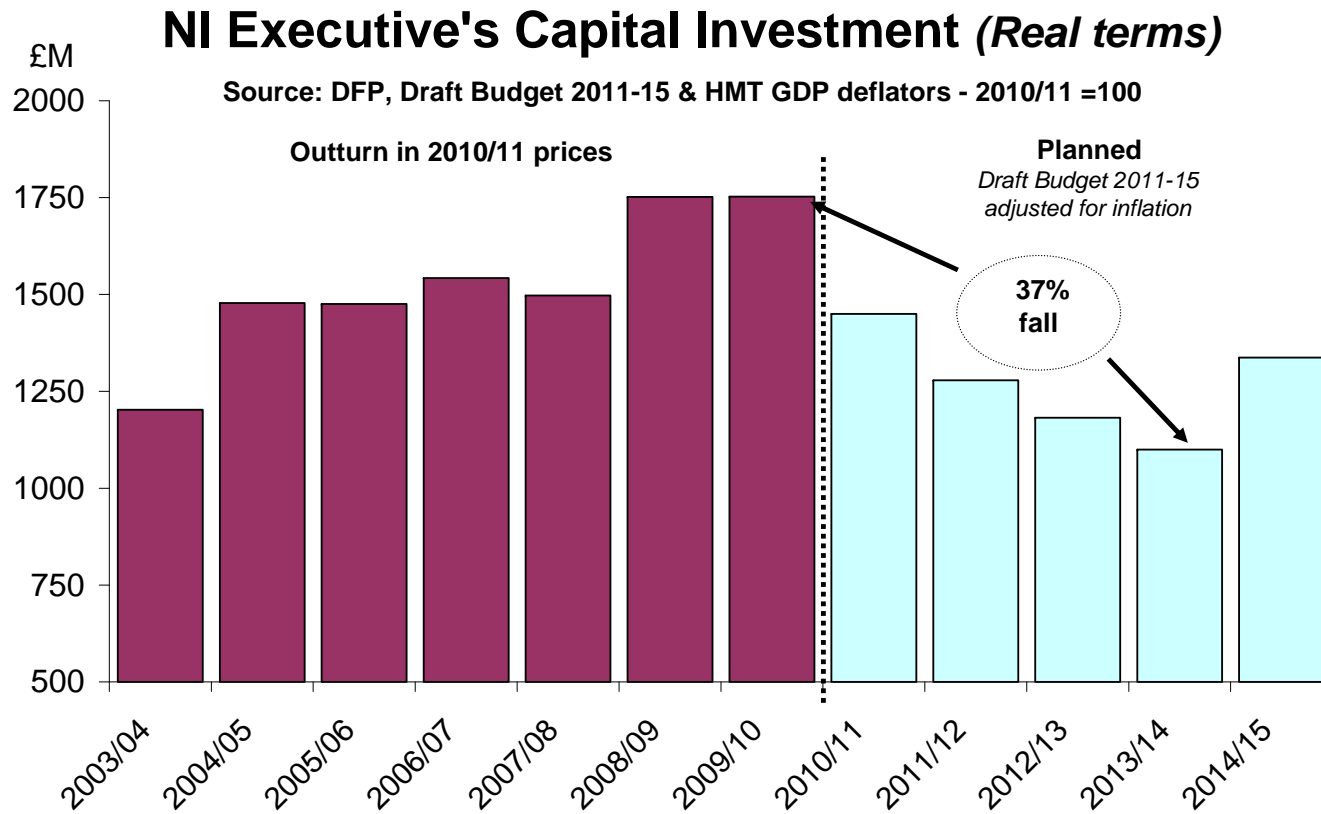
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*Public  
Expenditure  
Crunch  
Challenge 2*

# NI economy not in great shape ahead of **Part 2** of the recession



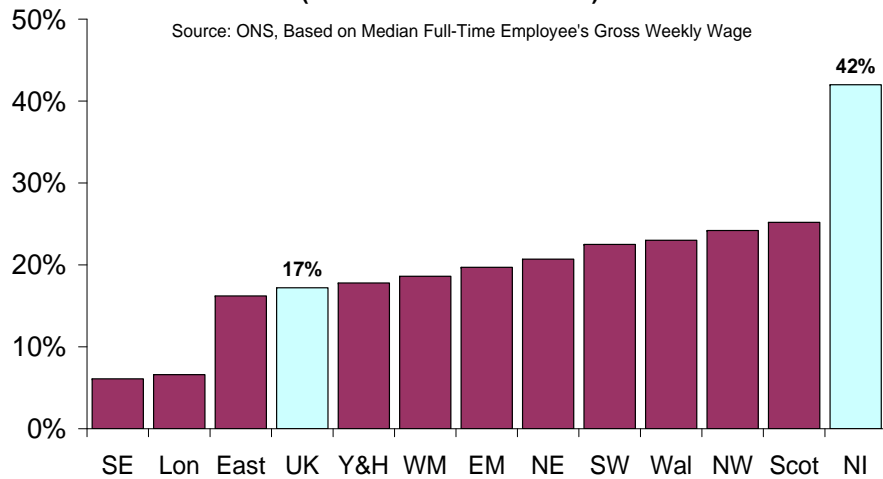
# With construction sector bearing the brunt of PE cuts



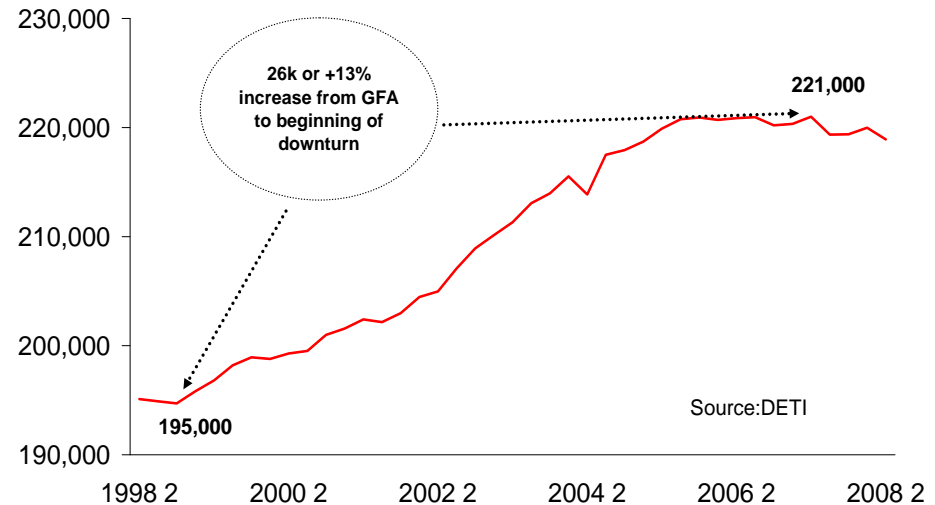
# Public sector pay & employment are also worth watching!

**Public Sector Wage Premium 2010**  
(i.e. % above Private Sector)

Source: ONS, Based on Median Full-Time Employee's Gross Weekly Wage



**NI Public Sector Employment Boom**

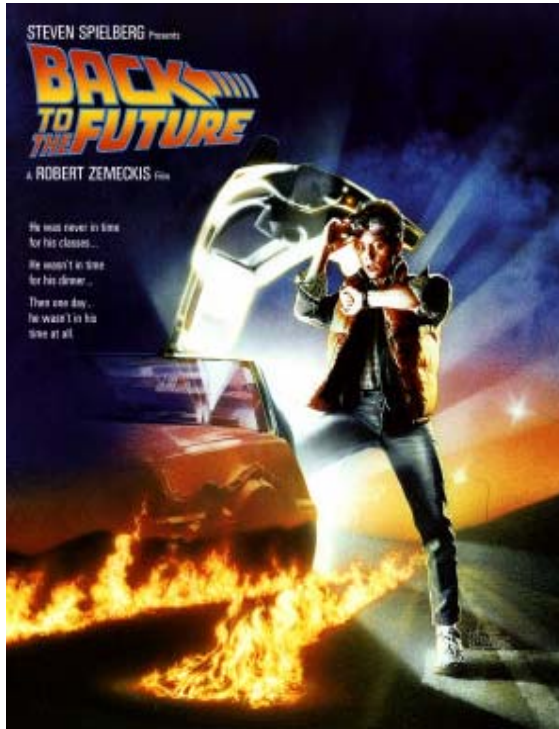


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*Returning to the  
2006/07 economy*

*Challenge 3*

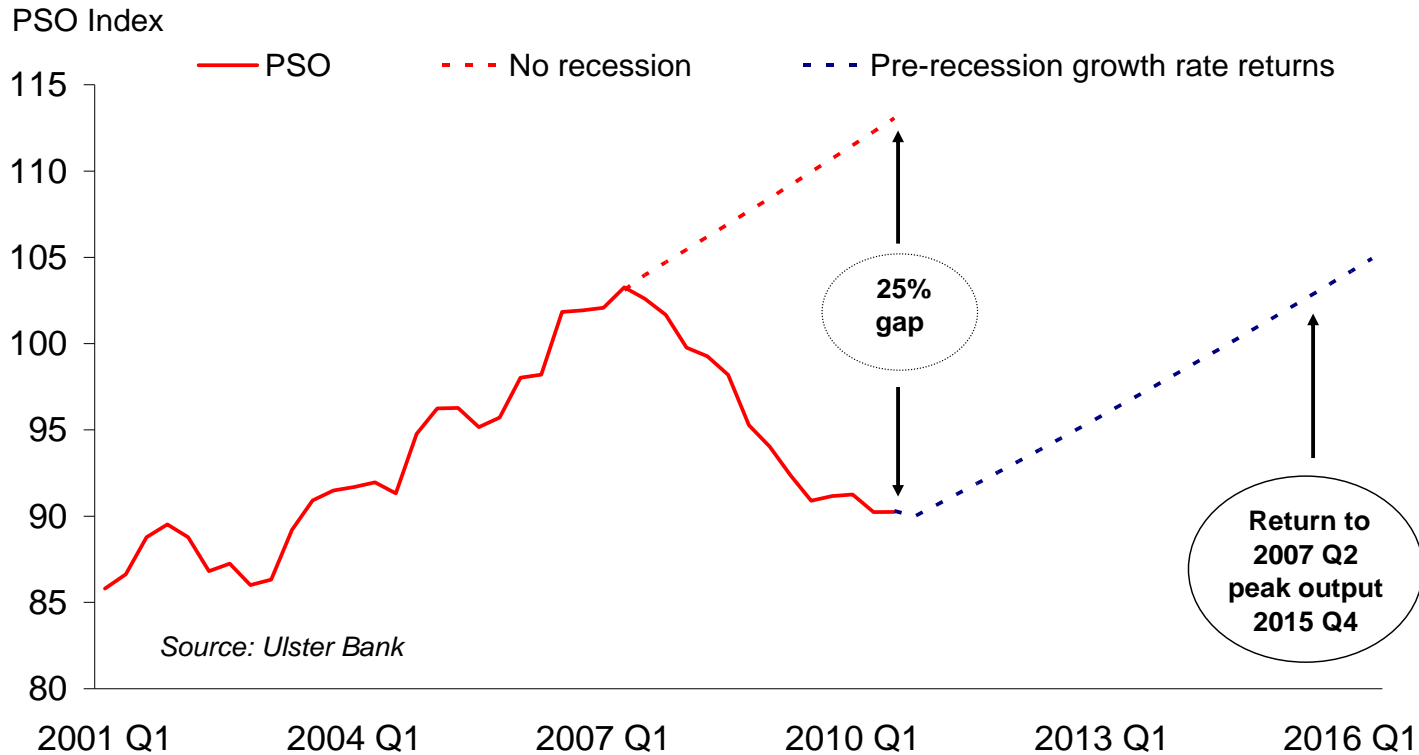
# NI economy has gone ‘*Back to the Future*’



	Economy back at what level?
Personal Insolvencies 12 mths to Q2 2011	Record High
Housing Completions 2010	1994
Youth Unemployment Levels Aug 2011	Oct 1996
Unemployment levels Aug 2011	Oct 1997
Unemployment rate Aug 2011	Apr 1999
Construction Employment Q2 2011	1999 Q2
Services Output Q1 2011	Record low
Private Sector Output Q1 2011	2003 Q2
Employment Q2 2011	2005 Q3
House Prices DCLG - Q2 2011	2005

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

### NI Private Sector Output Levels



## Decade ahead will **HURT**

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- Private sector recovery hasn't taken hold ahead of record public expenditure cuts
  - Growth of -0.5% to +0.5% in 2011 (UK=1.1%, RoI =+0.3%) and < 1% in 2012 (UK=+1.8%, RoI = +1.5%)
  - Risks to NI growth to the downside (*EZ crisis & Credit Crunch 2*) with an impaired banking system
  - Unemployment likely to stay higher for longer & a decade to get back to 2008 peak employment levels
  - Households face severe income squeeze / devaluation in S.O.L
  - Factors present in 'NICE' era have gone into reverse - Next decade ahead will **HURT**  
– **H**igher **U**nemployment **R**ising **T**axes / Tariffs
  - Lower corporation tax a 'must have' not an optional extra
  - Fiscal austerity in NI - **B.O.G.O.F** - Watch out for U-turns on water charges, NHS prescriptions etc
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## Plenty of reasons to be fearful but also several to be cheerful!

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- Far-off fields (e.g. BRICs & Germany) are greener .....so export there
- Global demand for food & pharmaceuticals is set to rise well into the future
- Housing affordability has improved remarkably & fixed rate mortgages at record lows
- Individuals on variable trackers continue to benefit from boost to disposable incomes
- NI's public expenditure cuts are do-able..... but spare a thought for the South
- Recent FDI into Titanic Quarter (e.g. Citi) perhaps just the tip of the iceberg?
- 'Enterprise Zone' status and possibility of a lower corp tax rate?
- MTV Awards 2011, Titanic Centenary / London Olympics 2012, City of Culture 2013
- An opportunity to radically change the economy for the better.... but will it be grasped?

**NI requires a relentless focus on cost – the level of public expenditure, how it is spent & where. A forensic analysis of current public expenditure & public service delivery is urgently required**

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## Views on crises from an economist and a politician

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“We will plant the seeds of an even more destructive crisis if we squander the opportunity this crisis has presented us to implement necessary reforms. That opportunity would be a terrible – indeed, a tragic – thing to waste”

Nouriel Roubini – Economist who predicted the credit crunch  
*2009 Crisis Economics – A Crash Course in the Future of Finance*



“...for too long we postponed facing up to fundamental choices and fundamental changes in our society and our economy...”

Prime Minister James Callaghan addressing the Labour Party conference looking back at the UK’s 1976 sterling / IMF crisis

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## Website

[www.ulsterbankcapitalmarkets.com](http://www.ulsterbankcapitalmarkets.com)

**Contact me (to be added to distribution lists)**

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