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NORTHERN IRELAND ECONOMIC DOWNTURN

Research and Library Services

This paper examines the current economic downturn from a Northern Ireland perspective, drawing on the Ulster Bank PMI Report, and the First Trust Economic Outlook amongst other sources.

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EXECUTIVE SUMMARY

ULSTER BANK PMI REPORT

- A reduction in activity for an eighth consecutive month;
- Northern Ireland's decline is the steepest of the 12 UK regions surveyed;
- Construction and retailer sectors are the worst performers;
- The credit squeeze and housing market difficulties are having a negative impact on new business;
- Falling business activity is leading businesses to the conclusion that current labour force levels are inefficient;
- Staffing levels have declined for the fifth consecutive month, job shedding and forced redundancies are evident, as well as the non-replacement of leavers;
- Steep, broad based input cost rises, across the economy;
- Northern Ireland firms are charging higher prices, although the rate of inflation eased in comparison to a record high in May.

THE FIRST TRUST ECONOMIC OUTLOOK

- Postponement of business investment, as a result of future uncertainty rather than a belief that businesses are at risk;
- Slower public expenditure growth is expected over the next three years;
- Acceleration in general inflation;
- Continued pressure on the construction industry as the housing market continues to burst.
- Continued buoyancy in the labour market, albeit to a lesser extent and with future problems looming;
- Relatively, in comparison with the rest of the UK and the Republic of Ireland, Northern Ireland remains competitive;
- The existing Budget and Investment strategy should offset private sector weakness to a degree; and
- The first half of 2008 saw steady investment into ICT and financial services, a trend which looks set to continue.

NORTHERN IRELAND REDUNDANCY DATA

The number of redundancies in the first half of 2008 is down 29% on the equivalent period of 2007.

NORTHERN IRELAND LABOUR MARKET STRUCTURE

In May-July 2008 unemployment levels were up 4,000 on the previous quarter while Economic inactivity was up 8,000 on previous quarter.

Both Economic Activity and Numbers in Employment fell when compare to the previous quarter.

Unemployment was up 8,000 on the previous year while the number economically inactive was up 5,000. The region experienced growth in economic activity and numbers in employment, with economic activity up 9,000 and total employed up 1,000 despite declines in Q2 of 2008.

NORTHERN IRELAND UNEMPLOYMENT CLAIMANT DATA

The total number of claimants in Northern Ireland increased in August 2008 alongside the percentage change between July and August (6.6%) as well as the change over the year (17.5%). Mid-Ulster experienced the greatest monthly increase (July to August), as well as the greatest yearly increase, with Upper Bann and South Down also falling in among the highest increase bracket.

NORTHERN IRELAND COMPANY LIQUIDATIONS

Northern Ireland total company liquidations rose 50% in Q2 of 2008 compared to the same quarter of 2007. This represents a considerably larger increase than both Scotland and England and Wales.

NORTHERN IRELAND INDIVIDUAL BANKRUPTCIES

Northern Ireland experienced a 41.7% increase in individual bankruptcies between Q2 2007 and Q2 2008. Northern Ireland has the highest rate of overall insolvencies, but a much lower rate of bankruptcy orders than Scotland. In England and Wales the trend across all three measures is downward.

NORTHERN IRELAND CARS SALES

Northern Ireland saw a decrease in registrations of both new and used cars with the numbers of cars registered for the first time falling for both types; -9.1% for new cars; -5.3% for used cars.

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1 INTRODUCTION

This paper examines the current economic downturn from a Northern Ireland perspective, drawing on the Ulster Bank PMI Report and the First Trust Economic Outlook amongst other sources.

Based on the indicators outlined below and the accompany commentary there seems to be no denying Northern Ireland is experiencing a significant economic downturn. Questions concerning the extent and severity of the downturn, as well as how Northern Ireland compares in a UK and Global context, remain.

2 ULSTER BANK PMI REPORT FOR NORTHERN IRELAND

The Ulster Bank PMI Report for August 2008 carried the headline *“Downturn in Northern Ireland economy continued in August as demand slumped”*. The August report is the latest edition of 2008 to carry a pessimistic headline, reading 2008 reports side by side reveals nine months of negative headlines; continued decline and contraction (January to April 2008); survey record declines in output and employment (May 2008); survey record rates of input inflation (June 2008); and survey record falls in activity (July 2008).¹

The August report (which details survey responses for July 2008) identifies the following facets of Northern Ireland’s economy:

- A reduction in activity for an eighth consecutive month;
- Northern Ireland’s decline is the steepest of the 12 regions surveyed;
- Construction and retailer sectors are the worst performers;
- Credit squeeze and housing market difficulties are having a negative impact of new business;
- Falling business activity is leading businesses to the conclusion that current labour force levels are inefficient;
- Staffing levels have declined for the fifth consecutive month, job shedding and forced redundancies are evident, as well as non-replacement of leavers;
- Steep, broad based input cost rises, across the economy;
- Northern Ireland firms are charging higher prices, although the rate of inflation eased in comparison to a record high in May.

¹ The Ulster Bank Survey has been conducted on a monthly basis since 2002. Archives can be found at

The evidence presented in the report is not without criticism, the author of the First Trust Economic Outlook and Business Review (outlined below) has commented that '*In the past the PMI Survey has tended to overstate output growth... It may be the case that it is similarly overstating the decline in activity*'. It is notable that the PMI does not allude to any of the positives highlighted by the First Trust report.

3 FIRST TRUST ECONOMIC OUTLOOK AND BUSINESS REVIEW 23.3

The First Trust Economic Outlook, compiled by University of Ulster Economist Michael Smyth, draws upon economic trends up to Quarter 2 (Q2) 2008 (where such information is available, for certain indicators only Q1 is available). The accompanying Business Review, conducted by market research firm Milward Brown, is based upon a sample of 500 businesses, across industry sectors, for the period April to June 2008. The findings of each report will be examined in turn.²

3.1 ECONOMIC OUTLOOK

The Economic Outlook report suggests that, whilst the current economic climate is one of considerable pressure and notable contraction, the overall picture is not one of impending disaster. Although the housing market is considered to be "bursting" and consumer confidence to be "battered" the report is critical of media doomsayers, quoting Mrs Thatcher's remark: "If you say it loud enough and often enough they will believe you".³

The general negative trends highlighted in the report are:

- Postponement of business investment, as a result of future uncertainty rather than a belief that businesses are at risk;
- Slower public expenditure growth over the next three years;
- Acceleration in general inflation;
- Continued pressure on the construction industry as the housing market continues to burst.⁴

These, however, should be considered in conjunction with:

- Continued buoyancy in the labour market, albeit to a lesser extent and with future problems looming;
- Relatively, in comparison with the rest of the UK and the Republic of Ireland, Northern Ireland remains competitive;

² First Trust Bank: Economic outlook and business review, vol. 23.3 Sept 2008, Part 1, p 12 and First Trust Bank: Economic outlook and business review, vol. 23.3 Sept 2008, Part 2, p 1

³ First Trust Bank: Economic outlook and business review, vol. 23.3 Sept 2008, Part 1, p 12

⁴ First Trust Bank: Economic outlook and business review, vol. 23.3 Sept 2008, Part 1, p 12

- The existing Budget and Investment strategy should offset private sector weakness to a degree; and
- The first half of 2008 saw a steady investment into ICT and financial services, a trend which looks set to continue.⁵

One overriding point of the paper, which will be of particular interest to the Committee, is its claim that *'there does not appear to be any additional policy levers to pull'*.

The paper examines a number of indicators, which confirm the statements above:

Industrial Output; *Manufacturing Output* was down 0.3% in Q1 2008, but up 3% on the same quarter 2007, the corresponding figures for the rest of the UK show a 0.3% increase in Q1 2008, but only a 0.9% on the same quarter of the previous year. *Industrial Output*, as a whole, was down 0.2% in Q1 2008, up 3.1% on the same quarter of the previous year. In Q1 2008, *Manufacturing Productivity* was down 0.6%, but up by 2.1% on the previous year. In addition, Northern Ireland was one of the few UK regions to experience increasing *Manufacturing Employment*. In the *Service Sector*, *output* increased by 0.3% in Q1 but was down by 0.1% on the previous year. This corresponds to a UK wide trend of 3.5% growth between Q1 2007 and Q1 2008.⁶

Consumer Demand; 2008 has been marked by declining consumer confidence; a trend particularly evident in the *Car* (see Section 4) and *Housing Market*. Average house prices have declined by 1.7%, contributing to an 8.6% annual fall, with continued declines expected well into the later part of 2009. The overall market correction could possibly be as high as 20%. *New Private sector housing projects* were down by 50.5% in Q1 2008 compared to the previous year. However, a trebling of social housing projects in the same quarter, as sites for development are freed, may, to an extent, cushion the construction industry.⁷

Labour Market; *unemployment claims* have been rising since the fourth quarter of 2007 and continue to do so (see Section 4 for more details). However, in parallel *Employment Growth* continues, figures for Q1 2008 were up 1.5% on Q1 figures for 2007. As a result of this Northern Ireland is one of the *lowest jobless regions* in the UK and one of *lowest unemployment areas* in Europe. However, in Q1, vacancies were down 17.2% on the previous quarter and down 10% on the same quarter of 2007.⁸

Outlook; the report notes, that although the Northern Ireland economy is marked by housing market worries, rising energy prices, stagnation of the national economy, the credit crunch, uncertainty, and shrinking consumer confidence, there is little indication of widespread business **closures** and **redundancies** (issues which are examined further in Section 4) allowing the reports author to demarcate current circumstances from previous periods of recession. The report is able to draw a number of positives from our contemporary economic landscape, namely: *public expenditure*, although under pressure from inflation, should safeguard living standards and jobs; problems in the

⁵ First Trust Bank: Economic outlook and business review, vol. 23.3 Sept 2008, Part 1, p 13

⁶ First Trust Bank: Economic outlook and business review, vol. 23.3 Sept 2008, Part 1, p 13

⁷ First Trust Bank: Economic outlook and business review, vol. 23.3 Sept 2008, Part 1, p 14

⁸ First Trust Bank: Economic outlook and business review, vol. 23.3 Sept 2008, Part 1, p 16

construction industry could be potentially minimized on the back of increased *social housing* projects; and *high-value added investments in ICT and financial services* remain promising.⁹

3.2 BUSINESS SURVEY

Conducted by Millward Brown and consisting of 500 businesses across sectors, the First Trust Business Survey provides an insight into the mindset of Northern Ireland businesses, examining their current situation and confidence for the future. This is done across a number of areas (results correspond to the period April to June 2008);¹⁰

Business Turnover; Overall turnover is down and whilst 23% of businesses surveyed increased their turnover, this represents a considerable decrease on the previous year when 44% of business increased turnover. In conjunction with this businesses appear less optimistic about future turnover, with a third of all business predicting declining turnover in the next quarter. This pessimism appears to have penetrated the construction industry more severely as over half the businesses surveyed in that sector predicted declining turnover.¹¹

Profitability; the downward trend noted in business turnover is also evident in profitability, which is fallen sharply over the previous year (in July 2007 34% of business recorded an increase profits, July 2008 only 19%). Business recording profit increases were more likely to be found in the service sector. Pessimism also remains rife, with 22% of businesses expecting future profit growth as of July 2008, compared to 41% in July 2007. Optimism was highest within the service sector.¹²

Number of Employees; employee levels decreased between July 2007 and July 2008 by 23%. Only 7% of business predicted further decreased staffing levels in the second half of 2008.¹³

Expectations of Business Performance and the Northern Ireland Economy; overall *one quarter* of the businesses remained *optimistic* regarding future business and economic growth, *half* remained *fairly optimistic* and *a quarter* were *pessimistic*. Of those businesses with less optimistic outlooks the majority were within the *agriculture, forestry and fishing sectors*.¹⁴

4.0 OTHER SOURCES

4.1 NORTHERN IRELAND REDUNDANCY DATA

Table 1, which summarises redundancy data provided by DETI, enables a comparison of the number of redundancies in the first seven months of 2007 and 2008. The table shows that the first seven months of 2008 redundancy levels are down on the

⁹ First Trust Bank: Economic outlook and business review, vol. 23.3 Sept 2008, Part 1, p 18

¹⁰ First Trust Bank: Economic outlook and business review, vol. 23.3 Sept 2008, Part 2, p 1

¹¹ First Trust Bank: Economic outlook and business review, vol. 23.3 Sept 2008, Part 2, p 1

¹² First Trust Bank: Economic outlook and business review, vol. 23.3 Sept 2008, Part 2, p 1

¹³ First Trust Bank: Economic outlook and business review, vol. 23.3 Sept 2008, Part 2, p 1

¹⁴ First Trust Bank: Economic outlook and business review, vol. 23.3 Sept 2008, Part 2, p 2

corresponding period of the previous year (a decrease of 29%). However, in light of on going contraction (as highlighted by the PMI survey) and further increases in input costs (particularly Septembers energy increases), whether this decreased rate of redundancy will continue remains to be seen.

TABLE 1: NUMBER OF CONFIRMED REDUNDANCIES FIRST HALF OF 2007 AND 2008¹⁵

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Total |
|-------------|------------|------------|------------|------------|------------|------------|------------|--------------|
| 2007 | 150 | 195 | 255 | 200 | 129 | 276 | 90 | 1295 |
| 2008 | 113 | 214 | 68 | 136 | 164 | 101 | 121 | 917 |

4.2 NORTHERN IRELAND LABOUR MARKET STRUCTURE

Table 2 presents the latest Labour market Structure data; published in September 2008 the figures detail labour trends up to the May-July 2008. It is evident from the table that Northern Ireland has experienced considerable increases in both unemployment levels (up 4,000 on previous the quarter) and economic inactivity (up 8,000 on previous quarter). Similarly, economic activity is down on the previous quarter and the total in employment is also down. Yearly results show a mixed trend. Unemployment is up 8,000 on the previous year while the number economically inactive is up 5,000. The general trend for economic activity and numbers in employment is one of growth, with economic activity up 9,000 and total employed up 1,000 despite declines in Q2 of 2008.¹⁶

¹⁵ DETINI Northern Ireland Redundancy Data 2003-2008

¹⁶ DETINI Monthly Labour Market Rport The Insolvency Service <http://www.detini.gov.uk/cgi-bin/downdoc?id=3910>

TABLE 2: NORTHERN IRELAND LABOUR MARKET STRUCTURE SEPTEMBER 2008¹⁷

| | Total aged 16 & Over (000s) | Total economically active (000s) | Total in employment (000s) | Unemployed (000s) | Economically inactive (000s) | Unemployment rate (%) |
|---------------------------------------|-----------------------------|----------------------------------|----------------------------|-------------------|------------------------------|-----------------------|
| May- Jul 2005 | 1319 | 794 | 754 | 40 | 525 | 5.1 |
| May- Jul 2006 | 1337 | 808 | 772 | 37 | 529 | 4.6 |
| May- Jul 2007 | 1357 | 814 | 785 | 28 | 544 | 3.5 |
| Aug - Oct 2007 | 1361 | 817 | 784 | 33 | 543 | 4.1 |
| Nov - Jan 2--8 | 1364 | 820 | 784 | 36 | 544 | 4.4 |
| Feb - Apr 2008 | 1368 | 827 | 795 | 33 | 540 | 3.9 |
| May - Jul 2008 | 1371 | 822 | 786 | 36 | 549 | 4.4 |
| Change over Quarter last two quarters | 3 | -5 | -8 | 4 | 8 | 0.5 |
| Change over year | 14 | 9 | 1 | 8 | 5 | 0.9 |

4.3 NORTHERN IRELAND UNEMPLOYMENT CLAIMANT DATA

Table 3 shows the total number of claimants in Northern Ireland for August 2008 alongside the percentage change between July and August (6.6%) as well as the change over the year (17.5%). The two diagrams that follow the table present the same information in a geographical context; the dark areas represent the highest incidents of claimants, the maps are divided by parliamentary constituency. It is evident from the diagram that the monthly increases in claimant count were highest in Mid-Ulster, the only area to fall into the highest bracket in this case. By contrast the year-on-year change places three regions; Mid-Ulster; Upper Bann; and South Down, in this higher bracket.¹⁸

¹⁷ DETINI Monthly Labour Market Rport The Insolvency Service <http://www.detini.gov.uk/cgi-bin/download?id=3910>

¹⁸ DETINI Monthly Labour Market Rport The Insolvency Service <http://www.detini.gov.uk/cgi-bin/download?id=3910>

TABLE 4: NORTHERN IRELAND COMPANY LIQUIDATIONS 2006 - 2008²¹

| Year | Quarter | Companies | | |
|--|---------|-----------|-------------------------|-----------------------------------|
| | | Total | Compulsory Liquidations | Creditors' Voluntary Liquidations |
| 2006 | Q1 | 29 | 19 | 10 |
| | Q2 | 41 | 24 | 17 |
| | Q3 | 28 | 15 | 13 |
| | Q4 | 30 | 20 | 10 |
| 2007 | Q1 | 36 | 29 | 7 |
| | Q2 | 38 | 29 | 9 |
| | Q3 | 42 | 28 | 14 |
| | Q4 | 48 | 36 | 12 |
| 2008 | Q1 | 42 | 37 | 5 |
| | Q2 | 57 | 42 | 15 |
| 2008 percentage change on same Q previous year | Q2 | 50.0% | 44.8% | 66.7% |

TABLE 5: REGIONAL COMPARISON: YEARLY PERCENTAGE CHANGE IN COMPANY LIQUIDATIONS²²

| Region | Quarter | Companies | | |
|-------------------|---------|-----------|-------------------------|-----------------------------------|
| | | Total | Compulsory Liquidations | Creditors' Voluntary Liquidations |
| England and Wales | Q2 | 15.6% | 0.8% | 27.2% |
| Scotland | Q2 | -20.0% | -15.3% | -38.2% |
| Northern Ireland | Q2 | 50.0% | 44.8% | 66.7% |

4.5 NORTHERN IRELAND INDIVIDUAL BANKRUPTCIES

Data for individual bankruptcy levels shows that Northern Ireland experienced a 41.7% increase in the total number of individual bankruptcy between Q2 2007 and the same quarter in 2008, with Bankruptcy orders showing the biggest overall increase.

²¹ The Insolvency Service <http://www.insolvency.gov.uk/otherinformation/statistics/200808/table6.htm>

²² The Insolvency Service <http://www.insolvency.gov.uk/otherinformation/statistics/200808/table6.htm>

Compared to the rest of the UK, Northern Ireland has the highest rate of overall insolvencies, but a much lower rate of bankruptcy orders than Scotland. In England and Wales the trend across all three measures is downward.²³

TABLE 6: NORTHERN IRELAND INDIVIDUAL BANKRUPTCY LEVELS 2006 - 2008²⁴

| Year | Quarter | Individuals | | |
|--|---------|-------------|-------------------|-----------------------------------|
| | | Total | Bankruptcy Orders | Individual Voluntary Arrangements |
| 2006 | Q1 | 408 | 245 | 163 |
| | Q2 | 494 | 285 | 209 |
| | Q3 | 425 | 241 | 184 |
| | Q4 | 482 | 24 | 218 |
| 2007 | Q1 | 343 | 218 | 125 |
| | Q2 | 338 | 228 | 110 |
| | Q3 | 338 | 227 | 11 |
| | Q4 | 319 | 25 | 94 |
| 2008 | Q1 | 330 | 226 | 104 |
| | Q2 | 479 | 331 | 148 |
| 2008 percentage change on same Q previous year | Q2 | 41.7% | 45.2% | 34.5% |

TABLE 7: REGIONAL COMPARISON: YEARLY PERCENTAGE CHANGE IN INDIVIDUAL BANKRUPTCY LEVELS²⁵

| Region | Quarter | Individuals | | |
|-------------------|---------|-------------|-------------------|-----------------------------------|
| | | Total | Bankruptcy Orders | Individual Voluntary Arrangements |
| England and Wales | Q2 | -5.7% | -0.7% | -13.2% |
| Scotland | Q2 | 35.6% | 78.3% | -0.5% |
| Northern Ireland | Q2 | 41.7% | 45.2% | 34.5% |

²³ The Insolvency Service <http://www.insolvency.gov.uk/otherinformation/statistics/200808/table6.htm>

²⁴ The Insolvency Service <http://www.insolvency.gov.uk/otherinformation/statistics/200808/table6.htm>

²⁵ The Insolvency Service <http://www.insolvency.gov.uk/otherinformation/statistics/200808/table6.htm>

4.6 NORTHERN IRELAND CAR REGISTRATIONS

Table 6 indicates a decrease in registrations of both new and used cars with the numbers of cars registered for the first time falling for both types; -9.1% for new cars; -5.3% for used cars.²⁶

A Motor Industry New Car Registration Report for August, covering the whole of the UK, puts car registrations at 18.6% lower than the same month of the previous year, with over all year-on-year sales down 3.25%. August sales of SMART cars were up over 700% on the previous year and over all year-on-year sales up 105% perhaps reflecting environmental incentives and increased fuel costs.²⁷

TABLE 8: NORTHERN IRELAND CAR REGISTRATIONS Q1 2007 AND 2008²⁸

| | Q1 2007 | Q1 2008 | % Change |
|------------------|------------|------------|-------------|
| New Cars | 21409 | 19455 | -9.1 |
| Used Cars | 9217 | 8726 | -5.3 |

²⁶ NI Road and Rail statistics January – March 2008 http://www.drdni.gov.uk/road_and_rail_bulletin_jan-mar_08-2.pdf

²⁷ Motor Industry New Car Registrations Report, August 2008
<http://www.smmmt.co.uk/articles/article.cfm?articleid=17990>

²⁸ NI Road and Rail statistics January – March 2008 http://www.drdni.gov.uk/road_and_rail_bulletin_jan-mar_08-2.pdf