



Economic development – the challenge of the “new normal”



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24th November 2010

Overview

The “new normal” globally

The “new normal” in Northern Ireland

Inequalities and imbalances

“New normal” scare resources, but rising pressures

The challenge of building sustainable economies

The “new normal” globally

A global recession (but with different patterns)...

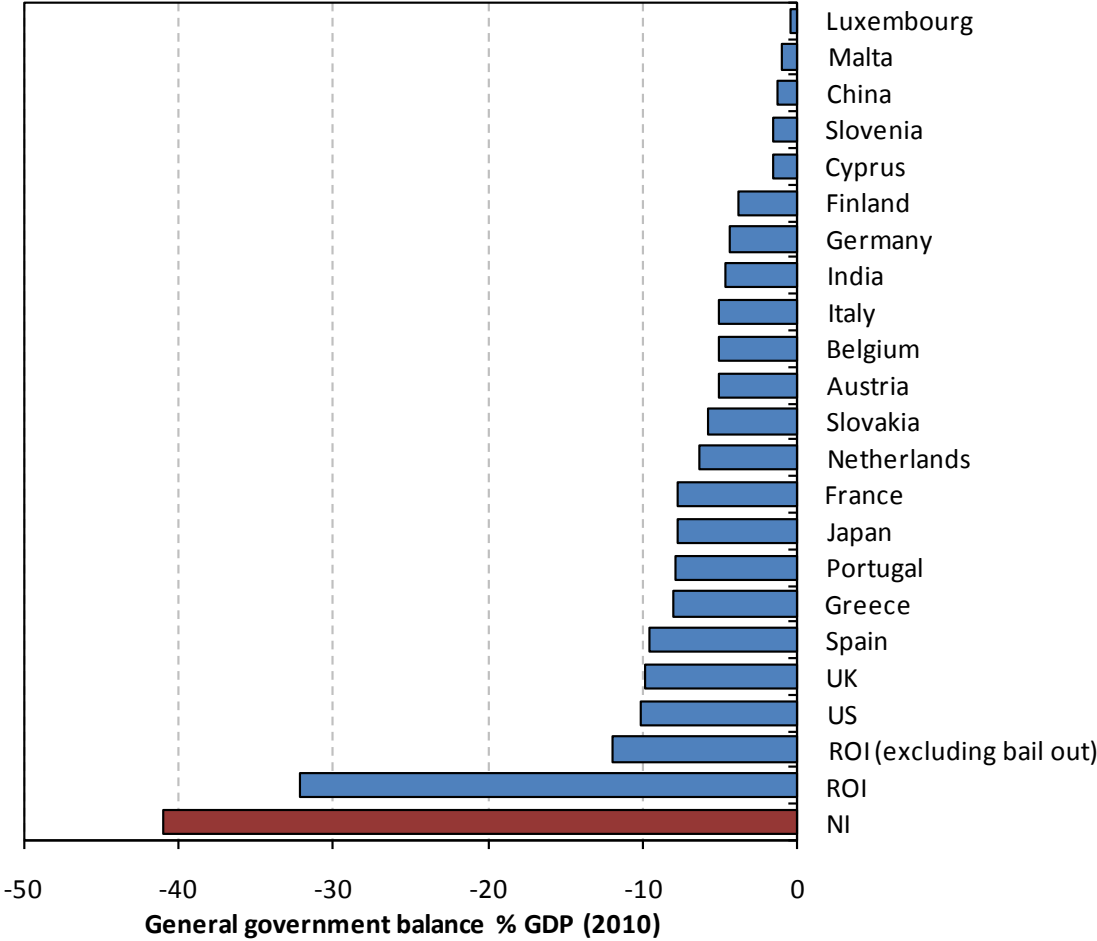
GDP and job losses by country, 2008-2012

	GDP growth year on year (%)					Employment change (000s)	Employment change (%)
	2008	2009	2010	2011	2012	2008-10	2008-10
United States	0.0	-2.6	2.7	2.5	3.5	-6260	-4.3
Japan	-1.2	-5.2	2.5	0.9	2.1	-1300	-2.0
China	9.6	9.1	10.1	9.2	9.1	10170	1.3
India	7.4	6.7	8.2	8.3	9.0	20	3.6
Eurozone	0.3	-4.0	1.7	1.5	1.7	-3500	-2.4
Germany	0.7	-4.7	3.4	2.2	1.7	180	0.5
France	0.1	-2.5	1.7	1.8	2.0	-340	-1.3
Italy	-1.3	-5.1	1.0	0.8	1.1	-470	-2.0
Spain	0.9	-3.7	-0.3	0.4	0.8	-1800	-2.9
UK	-0.1	-4.9	1.9	2.2	2.7	-910	-8.9
Ireland	-3.6	-7.6	-1.5	1.1	1.9	-250	-11.8
NI	-0.7	-4.8	1.0	1.6	2.1	-30	-3.4

Source: Oxford Economics

Debt is an issue (fortunately in NI it is not debt!)

General government balance as a % of GDP, 2010

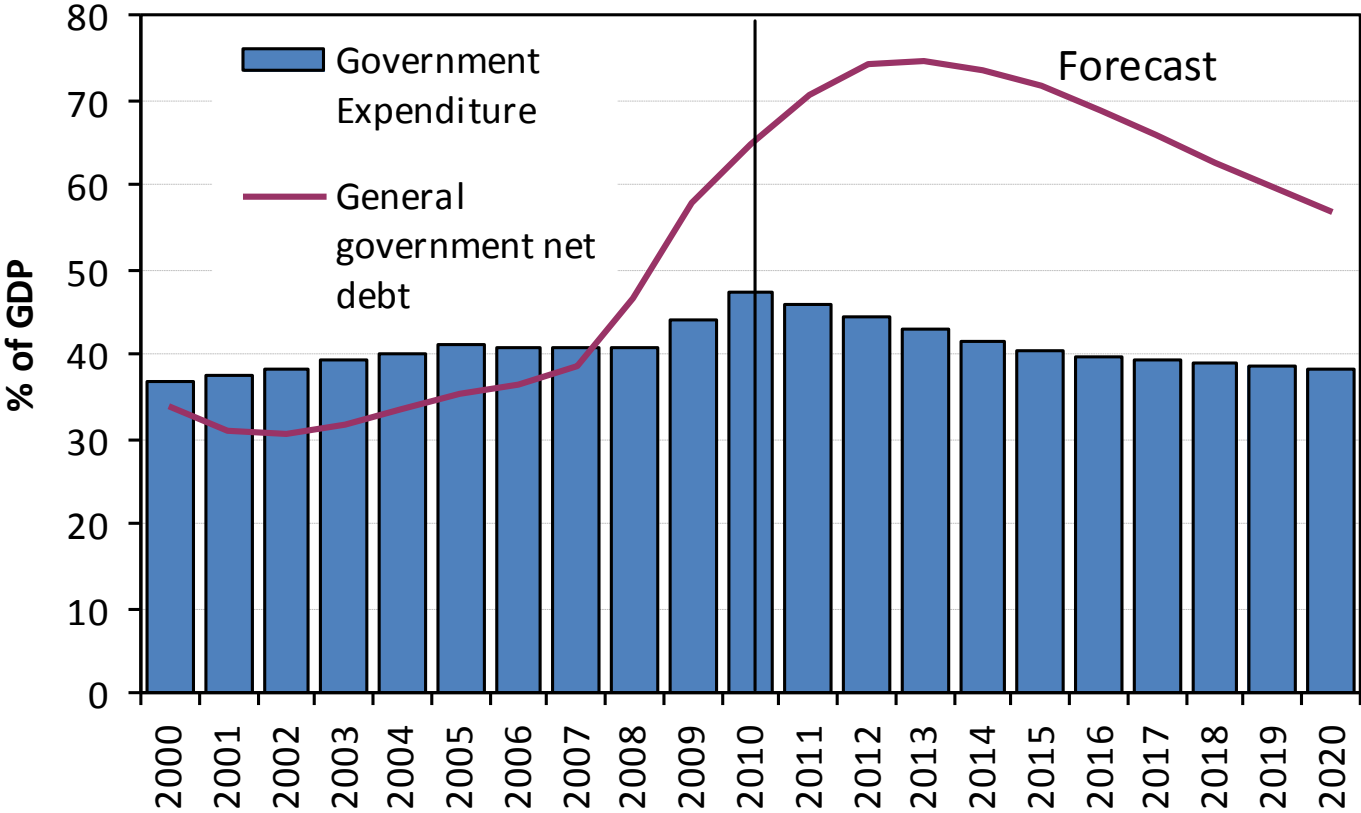


Source: Ernst & Young Economic Eye

Source: Oxford Economics

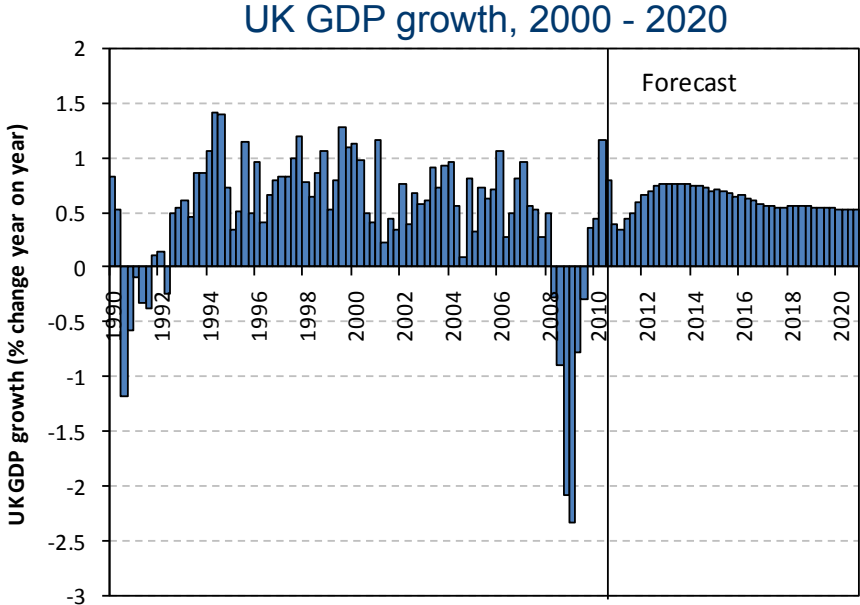
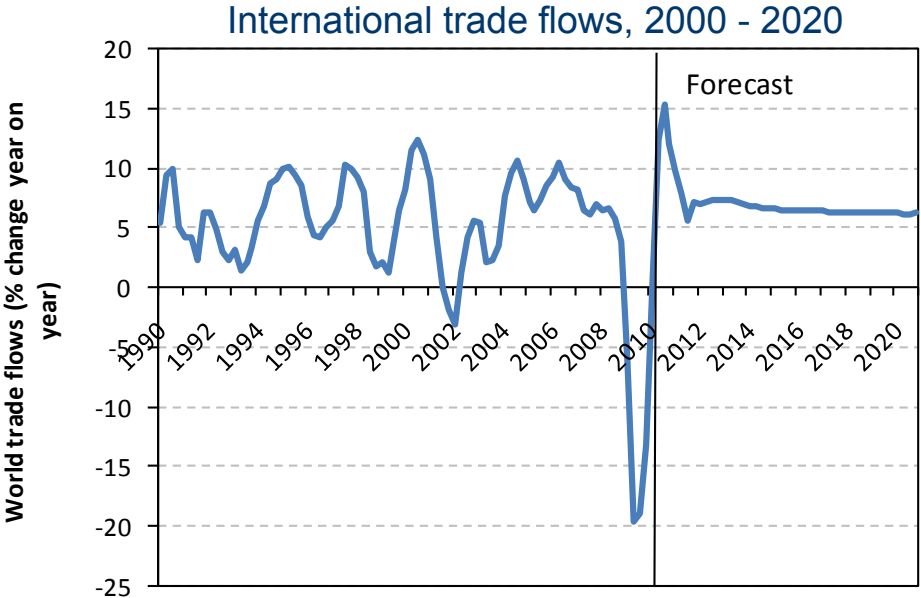
And re-balancing will have a long term impact...

UK Government expenditure and debt stock, 2000 - 2020



Source: Oxford Economics

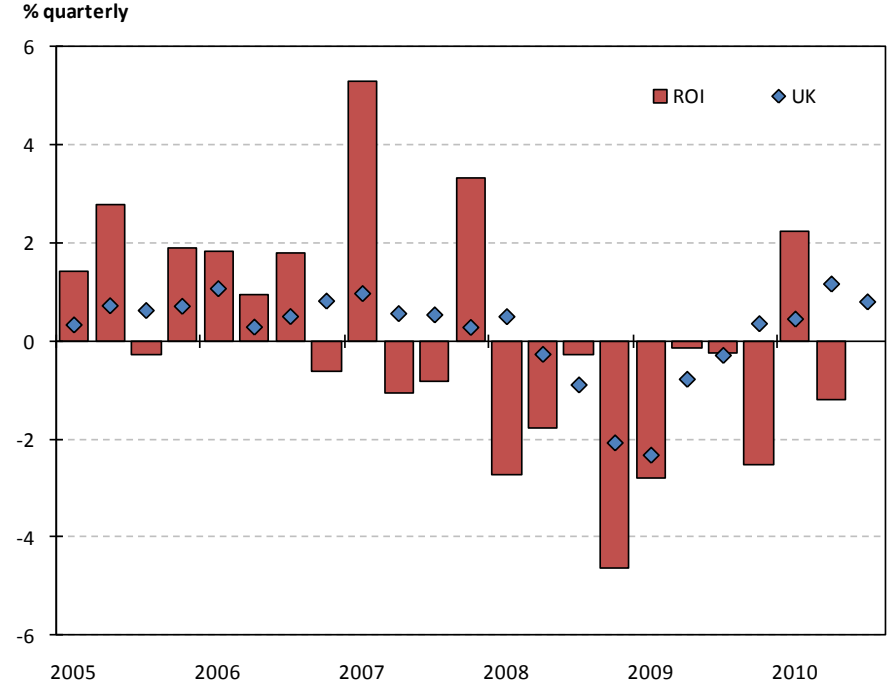
But recovery is underway...



Source: Oxford Economics

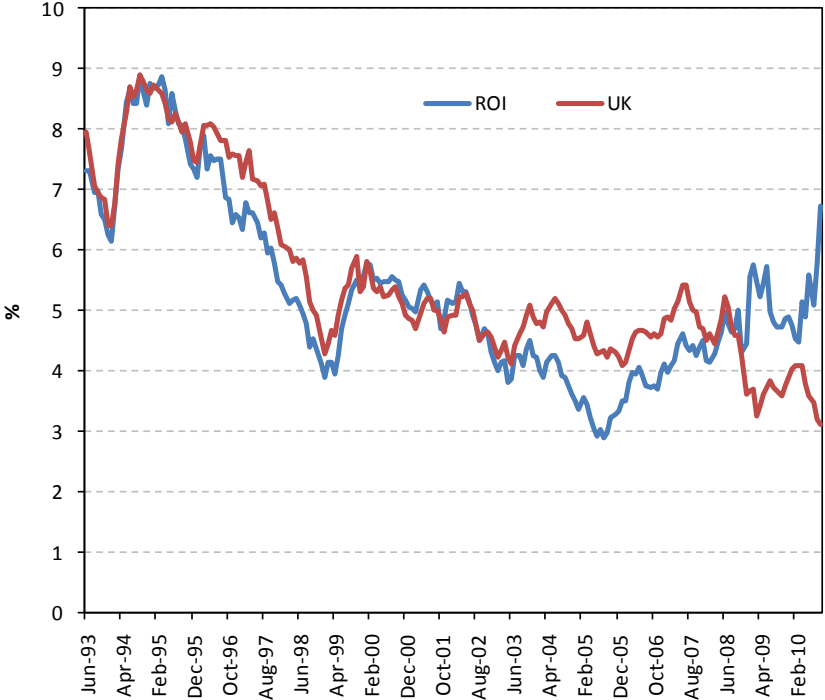
However Ireland could be falling back

Quarterly GDP % change, UK and ROI, 2005 - 2010



Source: CSO, ONS

10-year government borrowing interest rates, UK and ROI, 1993 - 2010



Source: Central Bank of Ireland, Bank of England

Ireland employment returns to Q4 2007 peak of 2,149,000 in Q3 2024

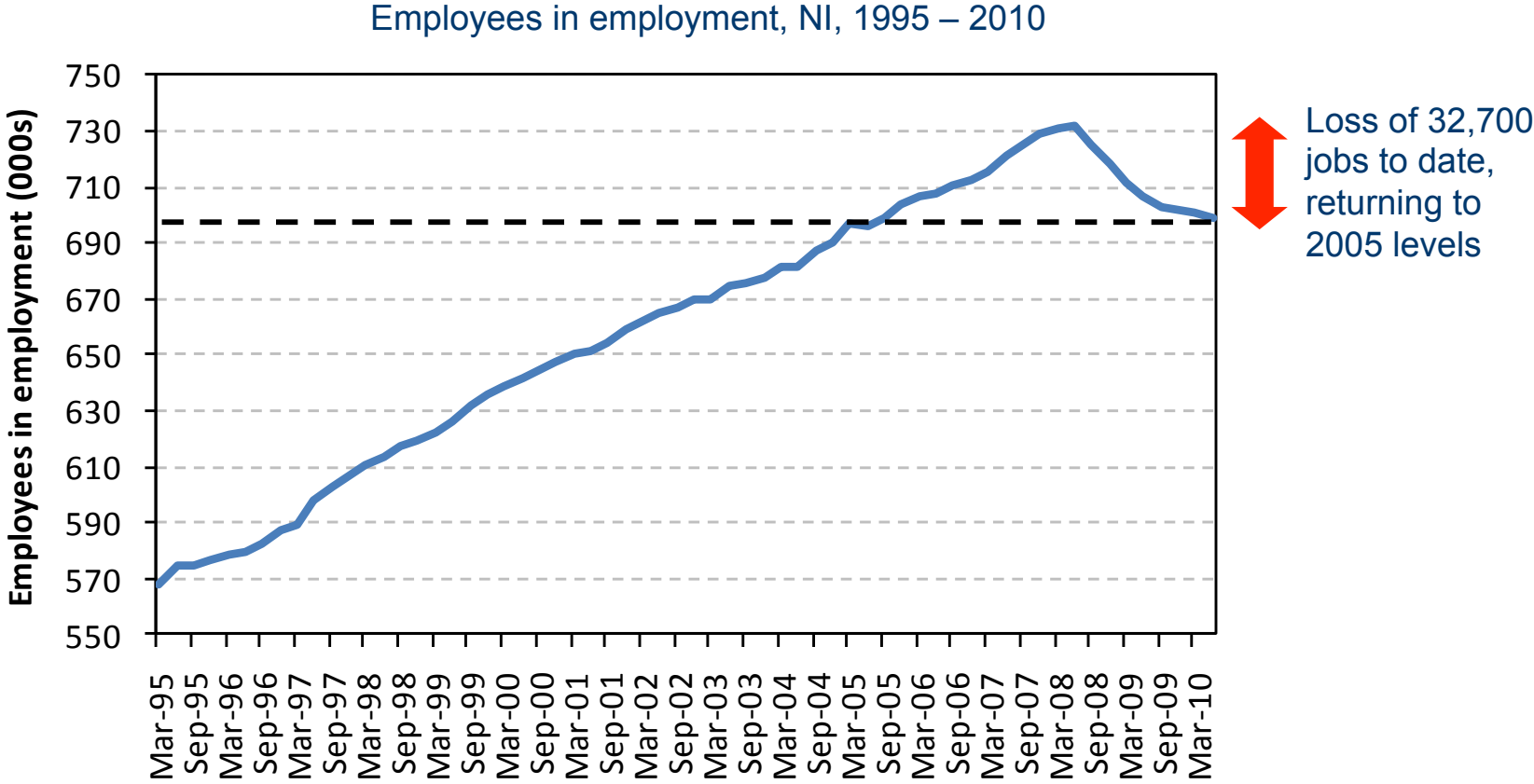
GDP returns to peak in Q2 2016

A new normal is emerging...

- Growth is less dependent on consumers and government in the west
- Meaning exports crucially important
- But the emerging nations do depend on western purchases
- So the position is fragile
- Re-balanced economies are emerging (trade, fiscal, components of growth)
- The uncertainties over banking in Ireland further highlight just how uncertain conditions and recovery are
- The problems in Ireland will potentially have a major impact on Northern Ireland

The “new normal” in Northern Ireland

The end of a golden era in the labour market...



Source: QES, seasonally adjusted

Little surprise as to the sectoral pattern...

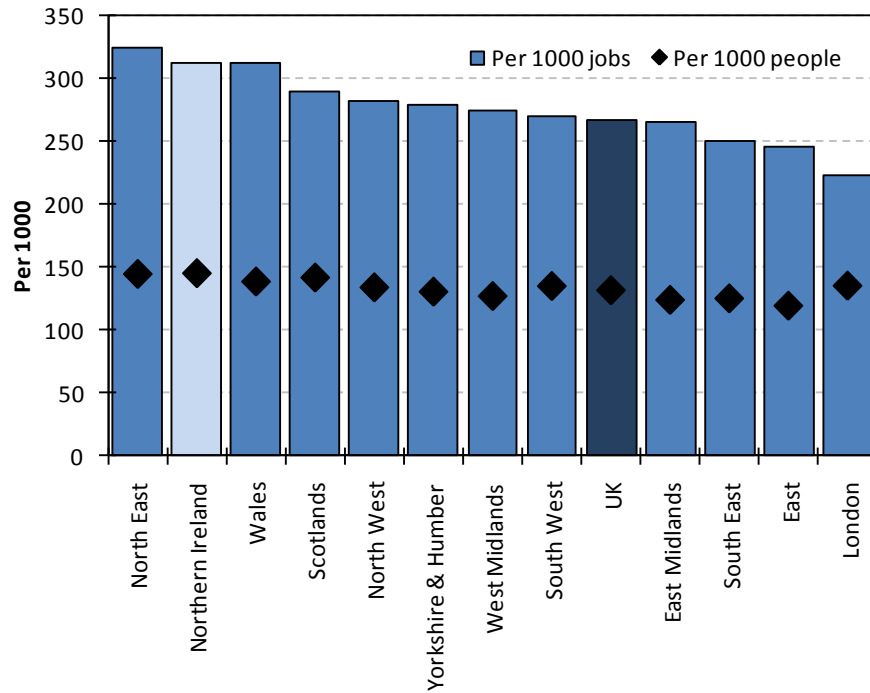
Employment change per sector, NI, 2008 - 2010

	2008-2010	
	000s	%
Agriculture	3.9	11.1
Extraction	-0.5	-20.9
Manufacturing	-9.4	-10.0
Utilities	-0.6	-24.5
Construction	-13.9	-18.1
Distribution & retail	-9.1	-6.1
Hotels & restaurants	2.9	6.3
Transport & communications	1.5	4.1
Financial services	-1.4	-6.8
Business services	-8.9	-9.3
Public admin.	0.1	0.1
Education	3.1	4.2
Health	1.5	1.3
Other personal services	0.9	2.1
Total	-29.8	-3.4

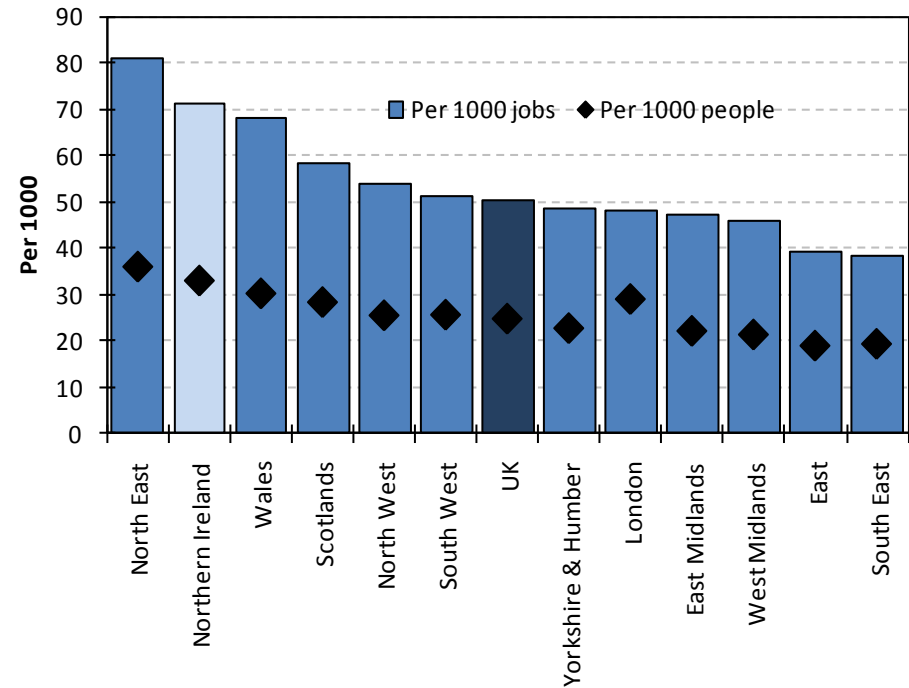
Source: Oxford Economics

Public sector concentration leaves NI exposed...

Public sector employment per 1,000 jobs and 1,000 people, UK regions, 2010



Public admin and defence employment per 1,000 jobs and 1,000 people, UK regions, 2010

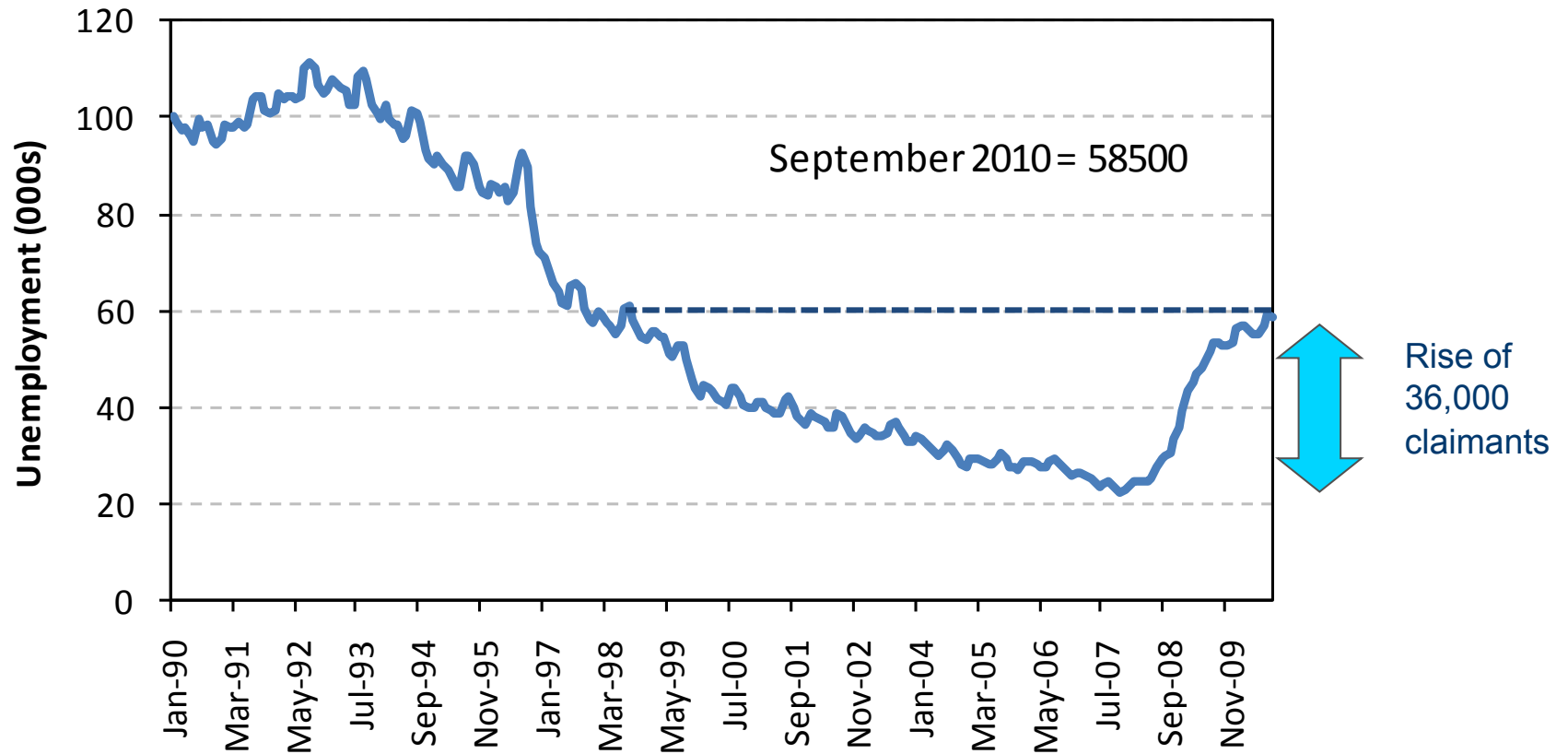


Note: Public sector is defined as public admin and defence, education and health sectors

Source: Oxford Economics

Unemployment – a major concern...

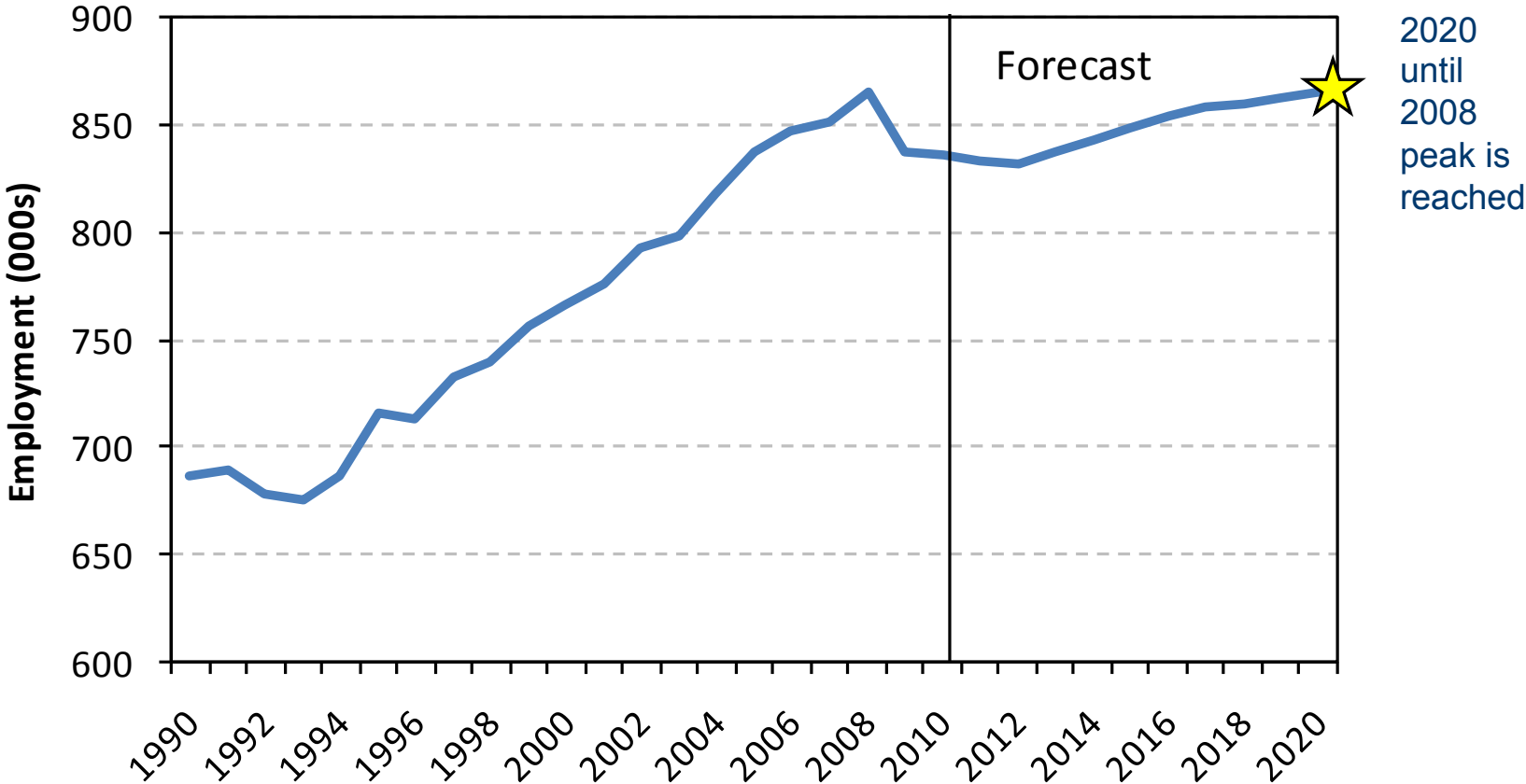
Claimant Count, (000's), NI, 1990-2010



Source: Claimant Count, NOMIS

At least 2020 before recovery to peak employment...

Total employment, NI, 1990 - 2020



Source: Oxford Economics

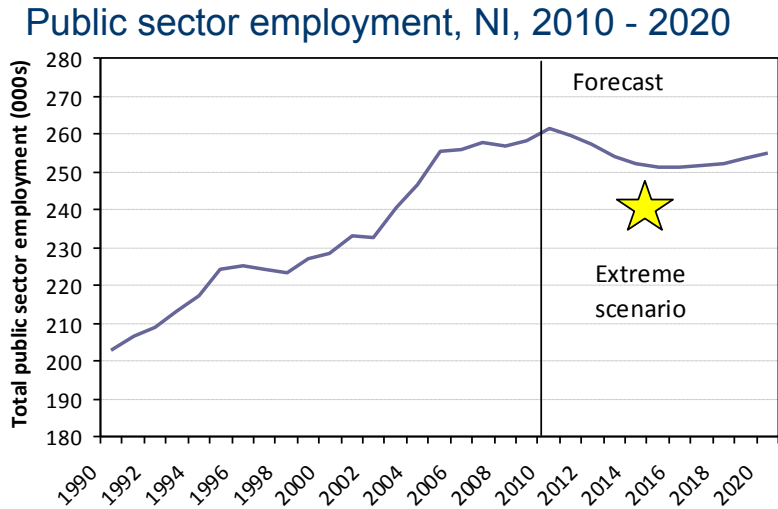
Business services key to the (jobs) recovery...

Total employment by sector, NI, 2010- 2020

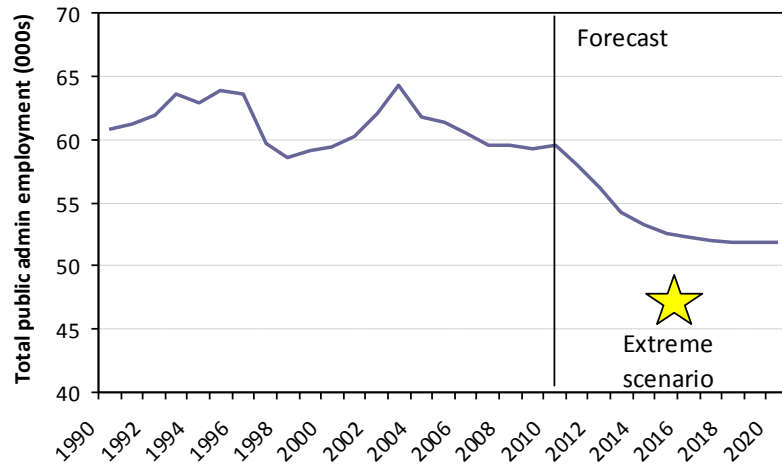
	Change 2010-2020 (000's)
Agriculture	-4.8
Extraction	-0.4
Manufacturing	-12.4
Electricity	-0.2
Construction	0.5
Wholesale and retail	10.4
Hotels and restaurants	6.7
Transport, storage and comm.	4.4
Finance	0.3
Business	23.2
Public admin	-7.7
Education	-2.8
Health	4.2
Other services	8.0
Total	29.3

Source: Oxford Economics

Public sector cuts will hurt (but not as much as some suggest)...



Public admin employment, NI, 2010 - 2020



Source: Oxford Economics

Alternatives exist:

- Tax rises
- Wage control
- Procurement cost control
- Part-time working / job sharing
- Selling assets
- Out sourcing
- Other investment (esp. capital)

Public finances mean further subvention unlikely

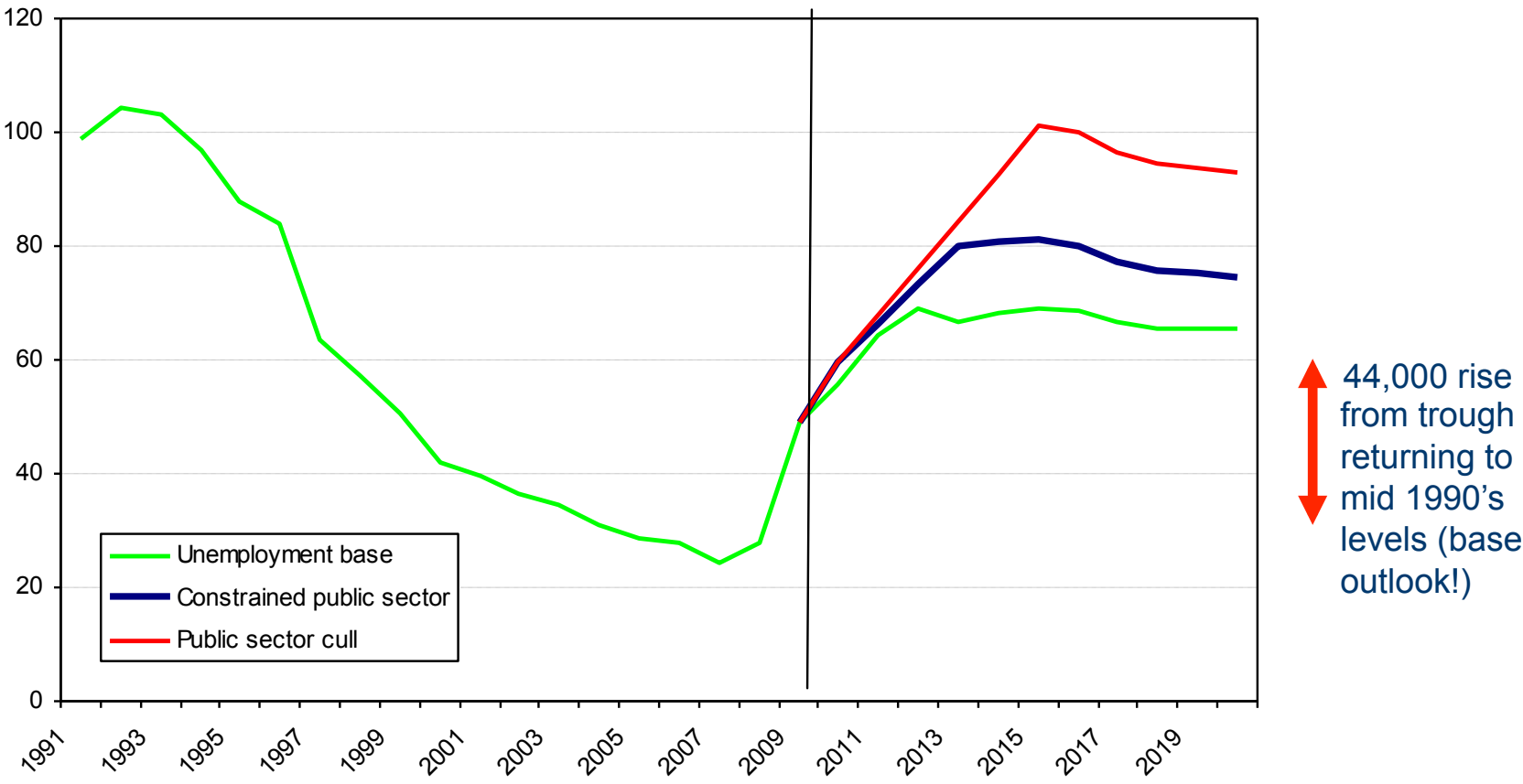
Fiscal deficits, 2009/10

	Net Balance (£bn)	% of GVA
North East	-13	-32
North West	-24	-21
Yorkshire & the Humber	-17	-20
East Midlands	-9	-12
West Midlands	-16	-18
Eastern	-5	-4
Greater London	-2	-1
South East	1	1
South West	-15	-16
Wales	-14	-34
Scotland	-14	-14
Northern Ireland	-11	-41
UK	-139	-12

Source: Treasury, Oxford Economics

Unemployment a long term concern (but how high?)...

Total unemployment, NI, 1990 - 2020



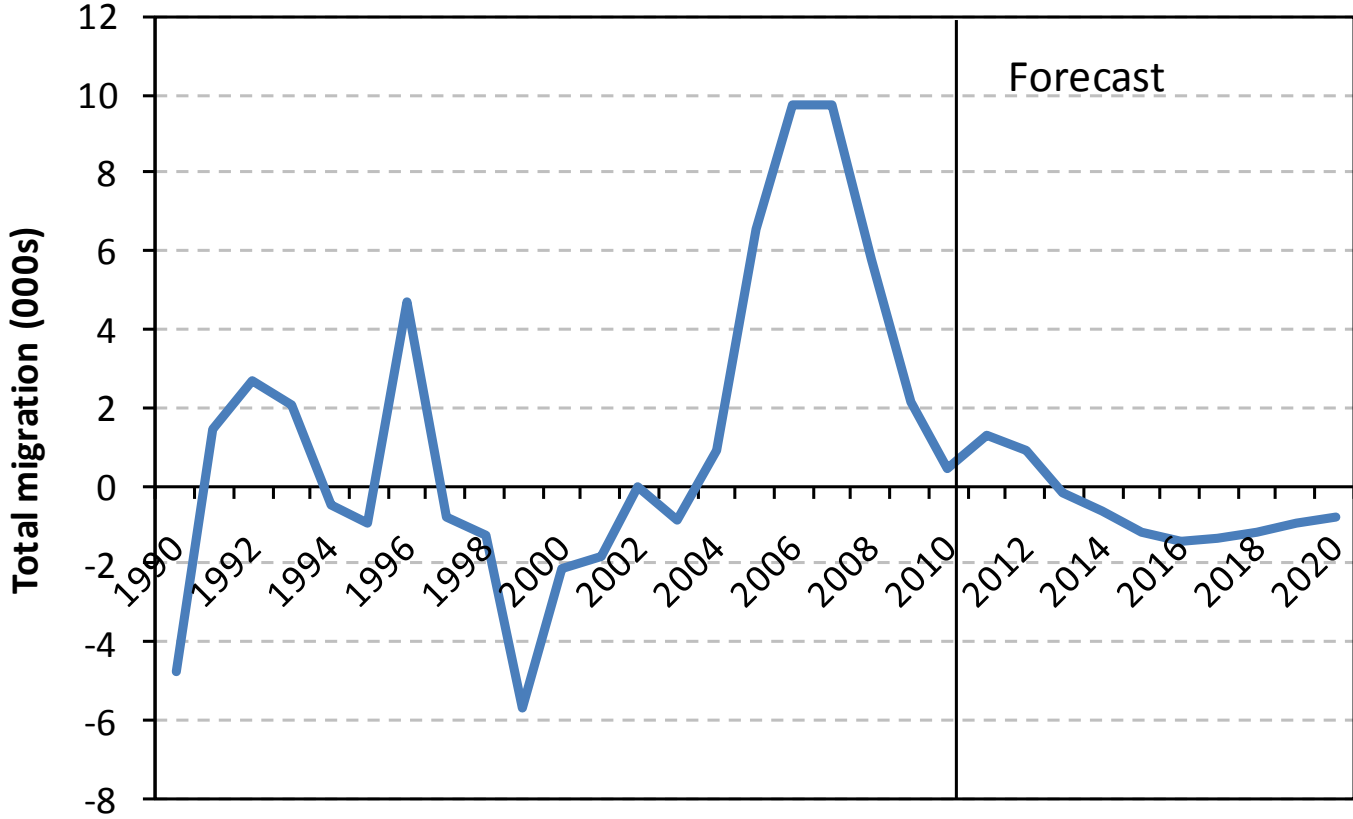
And what of welfare reform?

How might this impact?

Source: Oxford Economics

With migration a key unknown

Total migration, NI, 1990 - 2020



But opportunities abound...

- The world is expected to grow by 3.7% per annum over the next decade, .0001% of this per annum would be 5% growth in NI
- Export markets have been doing well and are likely to continue doing so as world grows
- Scarcity of resources brings opportunity – to agri, to renewable energy, even to ‘near shore’ manufacturing in certain cases
- Aging population means ‘silver dollar’ will be a huge market
- Pharma and activities related to health, cost of health and delivery of healthcare a major market
- Tourism also presents opportunities as a growing world and under pressure local consumers (though cost of travel and new markets lack of ‘Irish / UK connection’ a challenge)
- Professional services and finance, despite the press, likely to be mainstays of job creation and offer real potential (and could use civil service labour?). Will outsourcing revolution occur in public services as it has in industry before it?
- NI has scope to raise additional revenue as it is relatively modestly taxed (See domestic rates, business rates, ‘red diesel’, water, travel)
- But must be responsible for its actions and think of ways to pay for what it needs
- Additional money from the UK taxpayer is unlikely and, in our view, largely unjustifiable

Inequalities and imbalances

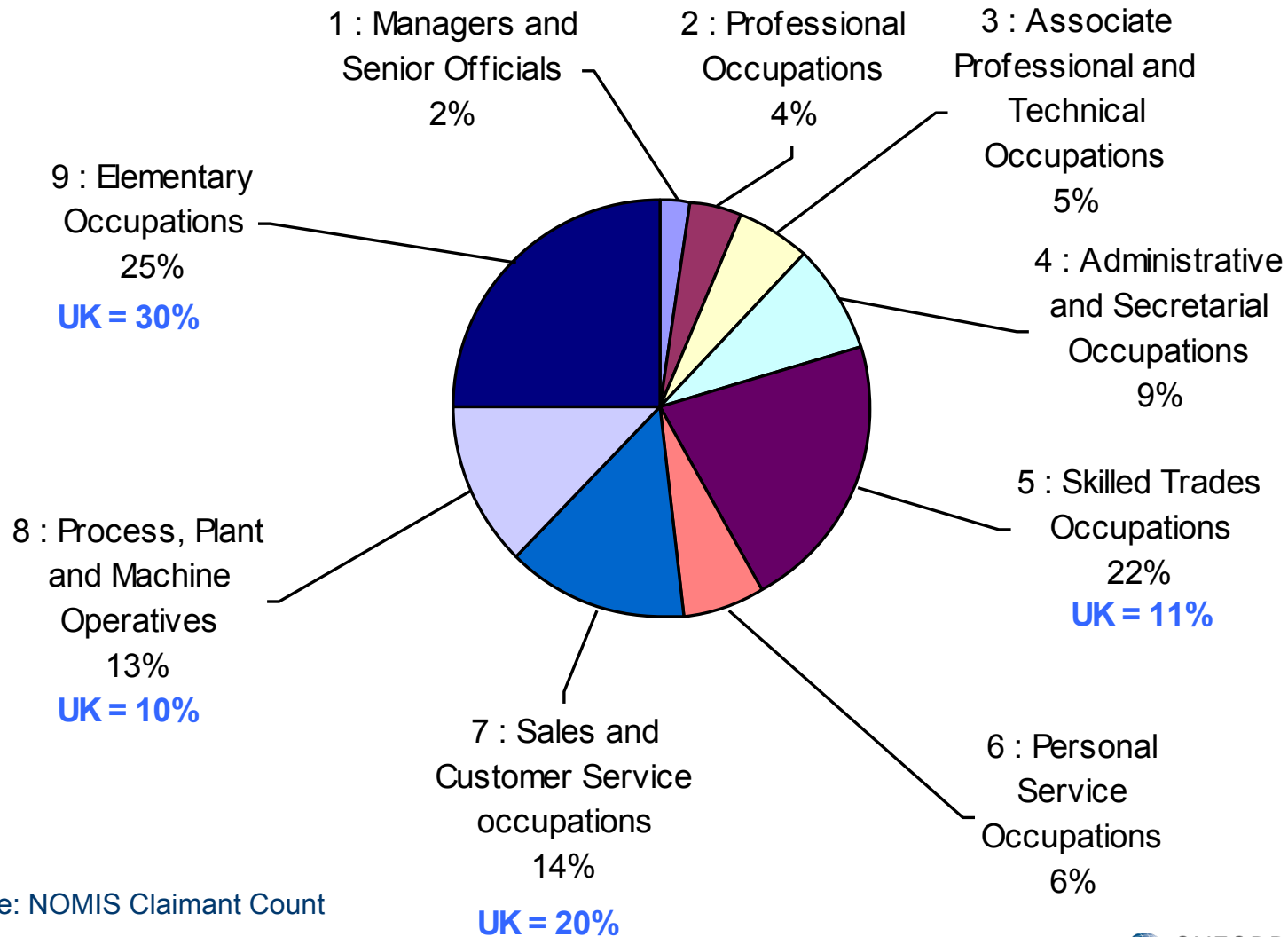
NI local areas amongst the most affected...

Top 20 unemployment rate increases, UK region LADs, Jan 08 – Sep 10

	Region	PP change Jan 08 - Sep 10
Limavady	N. Ireland	4.5
Newry and Mourne	N. Ireland	4.3
Derry	N. Ireland	3.8
Dungannon	N. Ireland	3.6
Armagh	N. Ireland	3.4
Belfast	N. Ireland	3.4
Omagh	N. Ireland	3.4
Craigavon	N. Ireland	3.2
Magherafelt	N. Ireland	3.2
Cookstown	N. Ireland	3.1
Ballymoney	N. Ireland	3
Strabane	N. Ireland	3
North Lanarkshire	Scotland	2.8
Down	N. Ireland	2.8
Kingston upon Hull, City of	Yorks & Humber	2.7
Glasgow City	Scotland	2.7
Carrickfergus	N. Ireland	2.7
Hartlepool	North East	2.6
Sandwell	West Midlands	2.6
Clackmannanshire	Scotland	2.6

Low skills bare the brunt...

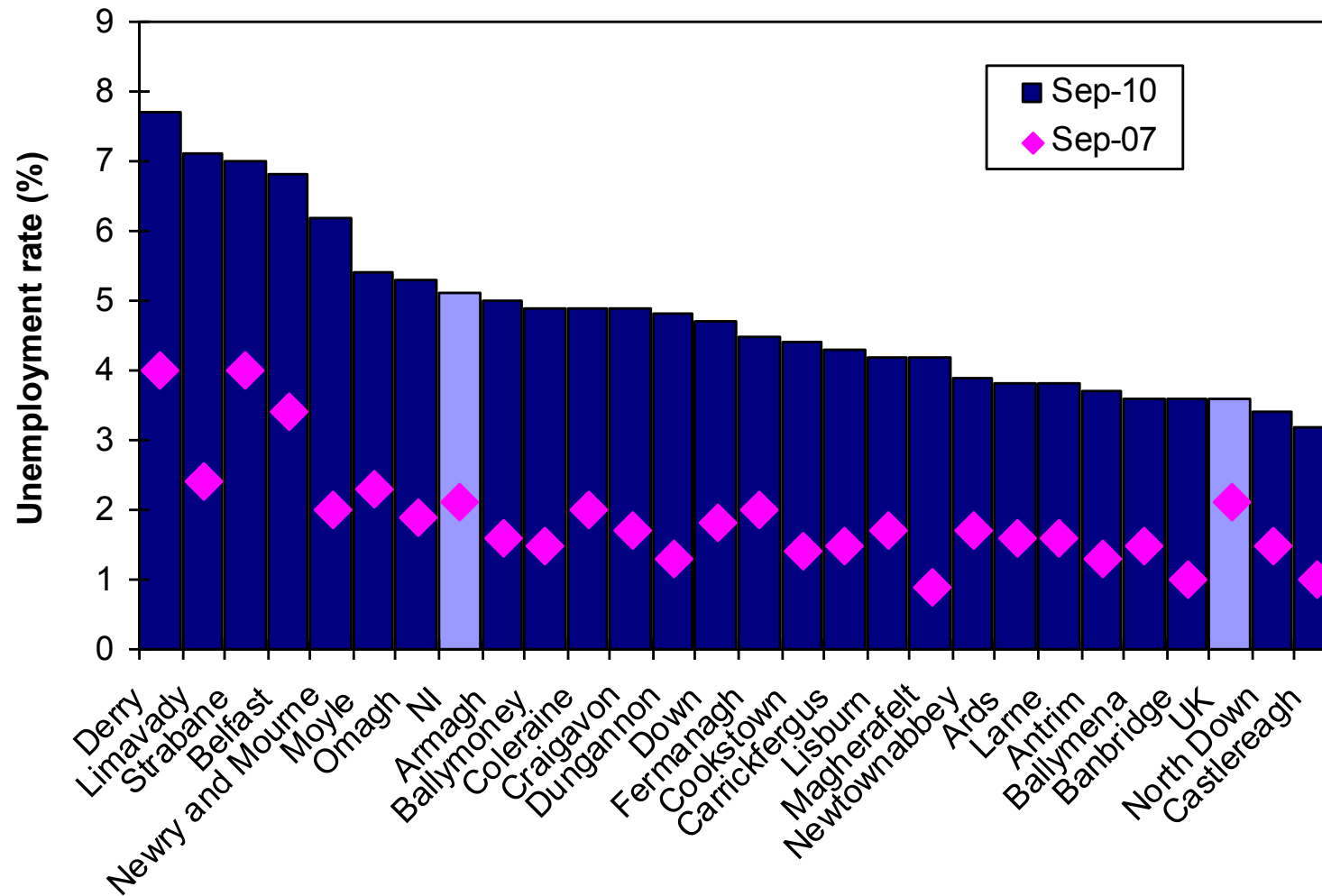
Unemployment by occupation, NI, September 2010



Source: NOMIS Claimant Count

With many areas suffering badly...

Unemployment rate, Sep07 – Sep10



Source: NOMIS Claimant Count, Oxford Economics

Low employment rate adds further complexity...

Resident employment rate and scenario, NI DCs, 2010

	Resident employment rate	Jobs required to achieve 75% rate	Jobs required as % of working age population
Antrim	73	0.7	2
Ards	71	2.0	4
Armagh	67	2.9	8
Ballymena	71	1.4	4
Ballymoney	73	0.4	2
Banbridge	73	0.5	2
Belfast	63	20.9	12
Carrickfergus	73	0.4	2
Castlereagh	81	0.0	0
Coleraine	74	0.3	1
Cookstown	57	4.2	18
Craigavon	72	1.6	3
Derry	57	12.7	18
Down	69	2.7	6
Dungannon	65	3.6	10
Fermanagh	61	5.4	14
Larne	71	0.7	4
Limavady	51	5.2	24
Lisburn	72	2.1	3
Magherafelt	63	3.4	12
Moyle	68	0.7	7
Newry and Mourne	63	7.6	12
Newtownabbey	71	1.9	4
North Down	71	2.1	4
Omagh	67	2.7	8
Strabane	61	3.4	14
Northern Ireland	67	87.3	8

Wide disparities forecast to continue...

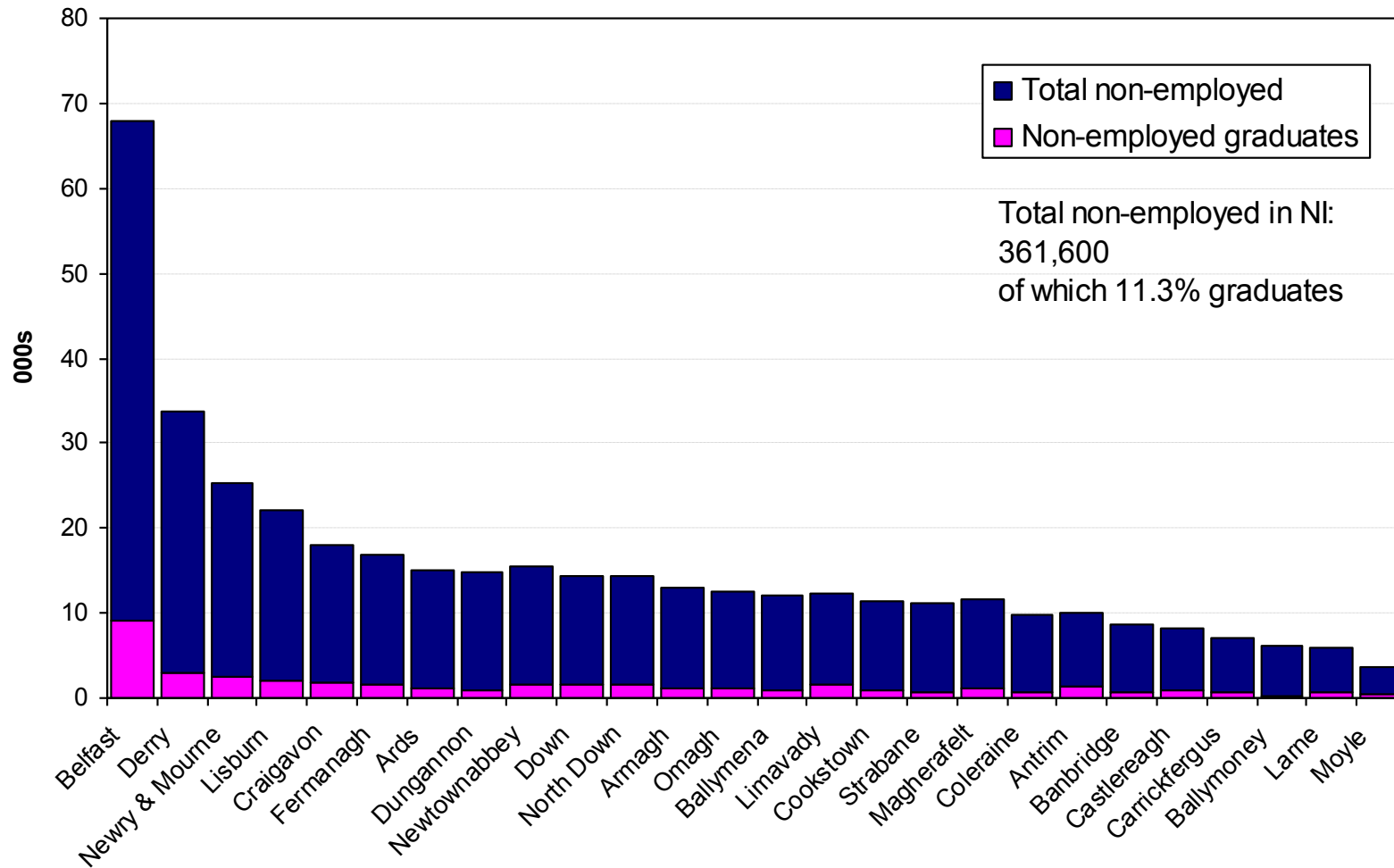
Employment job growth, NI District councils, 2010 - 2020

	Job change 2010 - 2020	Return to peak
Antrim	2.6	2013
Ards	0.1	>2025
Armagh	0.2	>2025
Ballymena	0.2	>2025
Ballymoney	0.4	2020
Banbridge	0.7	2016
Belfast	12.1	2018
Carrickfergus	-0.3	>2025
Castlereagh	1.8	2015
Coleraine	-0.5	>2025
Cookstown	0.1	>2025
Craigavon	2.8	2015
Derry	2.3	2020
Down	-0.6	>2025
Dungannon	1.2	>2025
Fermanagh	-0.4	>2025
Larne	-0.1	>2025
Limavady	-0.7	>2025
Lisburn	3.1	2016
Magherafelt	-0.5	>2025
Moyle	-0.1	2010
Newry and Mourne	3.1	2015
Newtownabbey	1.0	>2025
North Down	1.3	2015
Omagh	-0.4	>2025
Strabane	0.0	>2025
NI	29.3	2020

Source: Oxford Economics

Who is available for high value added jobs?

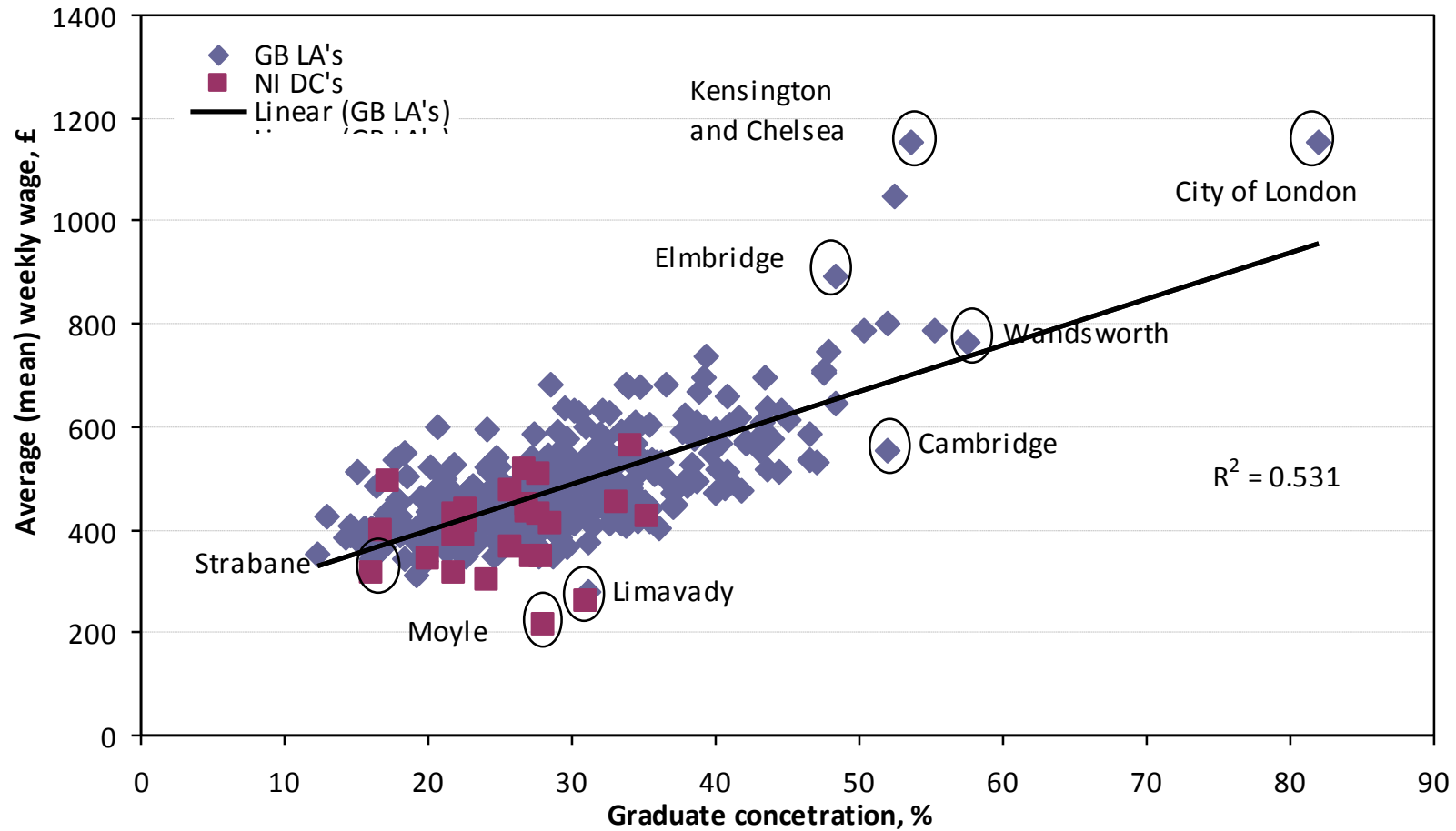
Number and skills profile of non-employed, NI DCs, 2010



Source: Labour Force Survey, Oxford Economics

Why skills matter

Scatter plot of wages vs. graduates, 2009



Source: ASHE, APS, Oxford Economics

Skills levels a concern...

Skill levels of working age population, NI DC's,
2007-2009

	% with degree or above	% no quals
Antrim	35.3	23.1
Ards	20.0	19.9
Armagh	22.6	23.6
Ballymena	22.5	23.2
Ballymoney	16.7	31.0
Banbridge	22.6	20.3
Belfast	33.1	21.7
Carrickfergus	25.7	16.8
Castlereagh	34.1	16.7
Coleraine	21.9	21.4
Cookstown	21.7	35.0
Craigavon	27.3	24.3
Derry	21.7	29.3
Down	27.9	18.9
Dungannon	17.1	33.2
Fermanagh	25.7	27.9
Larne	27.7	17.4
Limavady	31.0	39.7
Lisburn	26.9	21.4
Magherafelt	26.9	27.6
Moyle	28.1	25.9
Newry	24.1	23.9
Newtownabbey	27.7	15.8
North Down	28.6	12.8
Omagh	26.7	30.7
Strabane	16.0	33.8
Northern Ireland	25.4	22.3

- Economy to become increasingly skills hungry
- Future growth in high value added jobs
- Areas that have suffered the most may continue to suffer

Once deprived, always deprived?

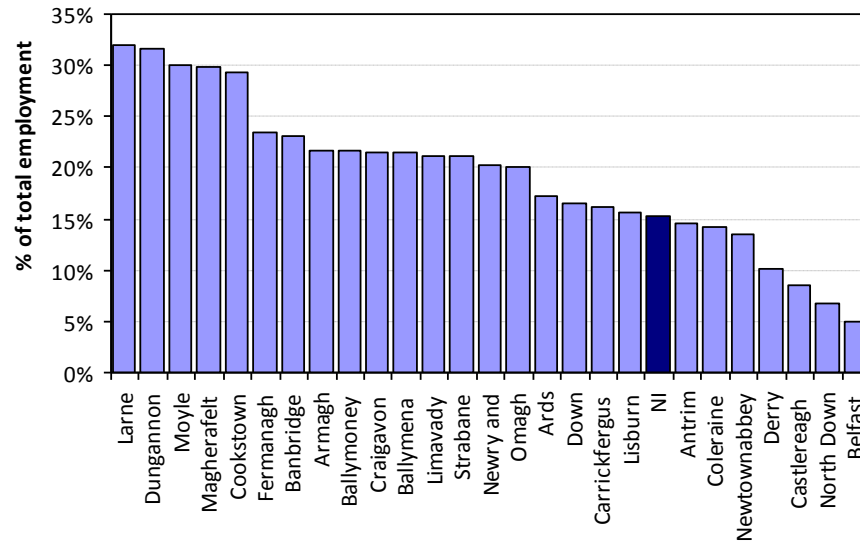
Deprivation Index ranking, NI DCs, 2001, 2005 and 2010

	2001	2005	2010
Antrim	22	15	21
Ards	24	23	24
Armagh	14	13	19
Ballymena	19	20	20
Ballymoney	12	14	15
Banbridge	23	24	22
Belfast	2	2	2
Carrickfergus	18	21	17
Castlereagh	25	25	25
Coleraine	17	17	12
Cookstown	7	9	8
Craigavon	9	7	7
Derry	1	3	3
Down	16	16	13
Dungannon	10	10	11
Fermanagh	11	11	16
Larne	15	12	10
Limavady	8	6	4
Lisburn	20	19	14
Magherafelt	13	22	23
Moyle	5	5	6
Newry	4	4	5
Newtownabbey	21	18	18
North Down	26	26	26
Omagh	6	8	9
Strabane	3	1	1

Note: Pink shading = 3 most deprived
Yellow shading = 3 least deprived

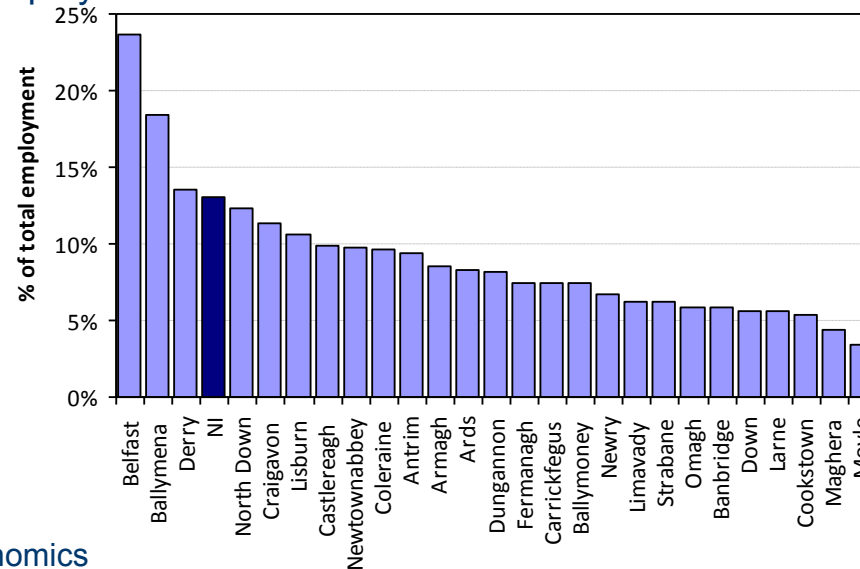
Industrial areas expected to suffer in jobs terms

% employment in production sectors, NI DCs, 2010



Note: Production sectors = agriculture, extraction, utilities and construction

% employment in financial and business services sectors, NI DCs, 2010



Economic pressures weigh heavily on inequalities

- Economic direction of travel is towards higher value added skills, potentially widening economic inequalities (agri and enviro tech and tourism do act as a partial break on this trend)
- The recession has left many people outside of the labour market who may well reside there for a very long time
- The global market is such that any opportunities for employment will be taken by someone – there may not be enough ‘time’ for local labour to engage
- The financial world is extremely challenging, with twin pressures of spending cuts and consumer pressures likely to weight heavy on households
- Moreover capital and spending programmes will be under extreme pressure
- Welfare reform will also potential have a sever impact (though do not assume this will be negative)
- More than ever it is Northern Ireland’s choice – what do we want to spend on and to prioritise?

“New normal” scare resources, but rising pressures

Twin pressures on governments and consumers

GDP and its components (average % growth), UK

	Pre-recession (1997-07)	Recession (2008-10)	Post recession (2011-20)
Consumer spending	3.4	-0.5	2.2
Investment	5.0	-5.9	4.5
Govt consumption	2.2	1.4	-0.6
Exports	4.7	-1.8	5.7
Imports	6.4	-1.9	4.1
GDP	2.9	1.1	2.5

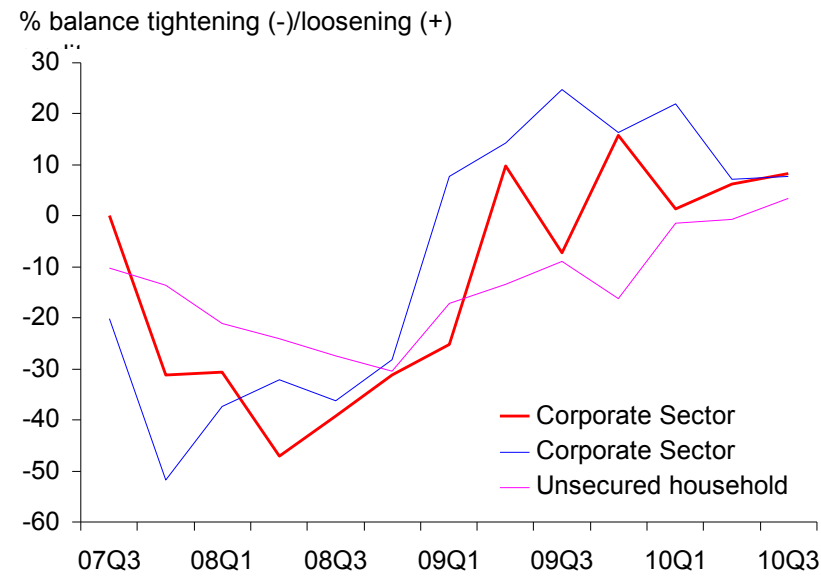
Reduction in government consumption

A more sustainable current account balance

Source: Oxford Economics

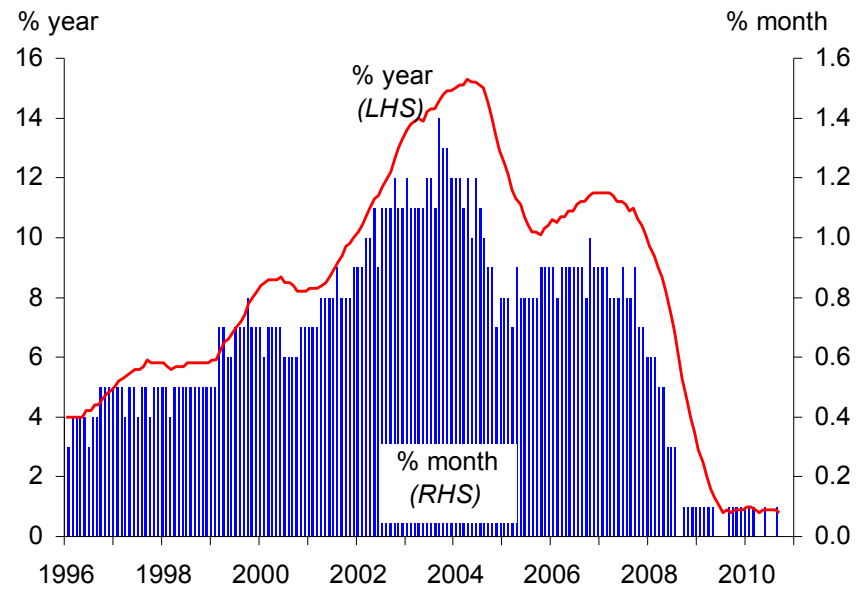
Credit limits strict (too strict?)...

UK: Credit availability survey



Source : Oxford Economics/Haver Analytics

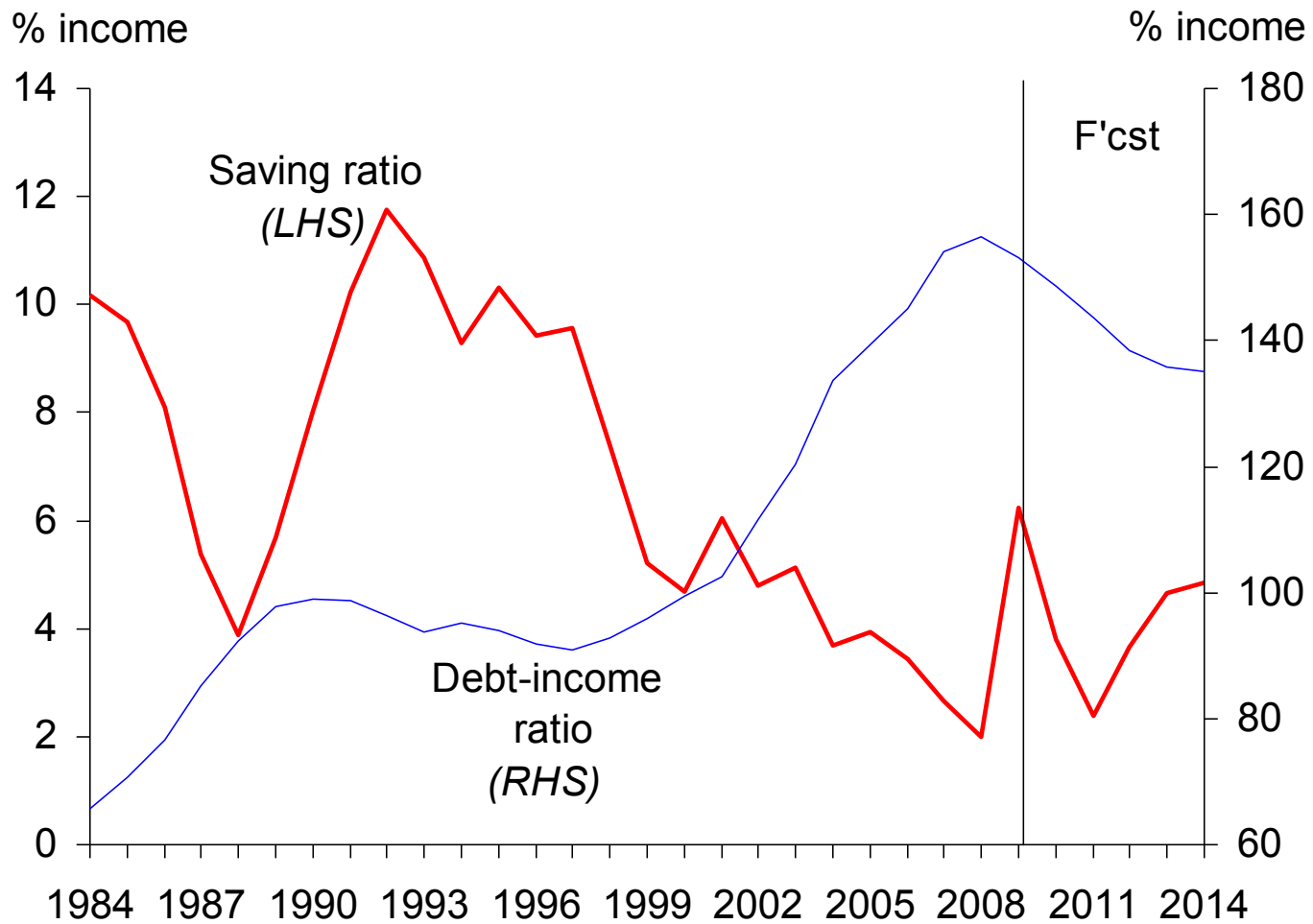
UK: Secured borrowing



Source: Haver Analytics

Consumers to reduce debt...

UK: Personal debt and saving ratio



Source: Oxford Economics

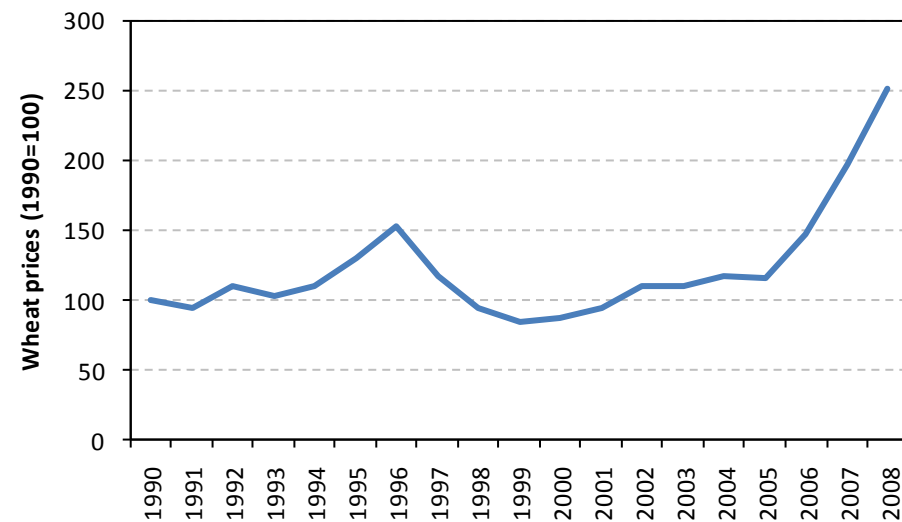
Wider pressures

Household expenditure, UK, 2009

UK household expenditure as a percentage of total (%)			
	Lowest 10%	Highest 10%	All households
Food & non-alcoholic drinks	17	7	11
Alcoholic drinks, tobacco & narcotics	4	2	2
Clothing & footwear	5	4	5
Housing, fuel & power	21	8	11
Household goods & services	6	6	6
Health	1	1	1
Transport	9	14	14
Communication	4	2	3
Recreation & culture	11	13	13
Education	1	3	1
Restaurants & hotels	7	9	8
Miscellaneous goods & services	6	7	8
Other expenditure items	9	24	18
Total	100	100	100

Source: Family expenditure survey

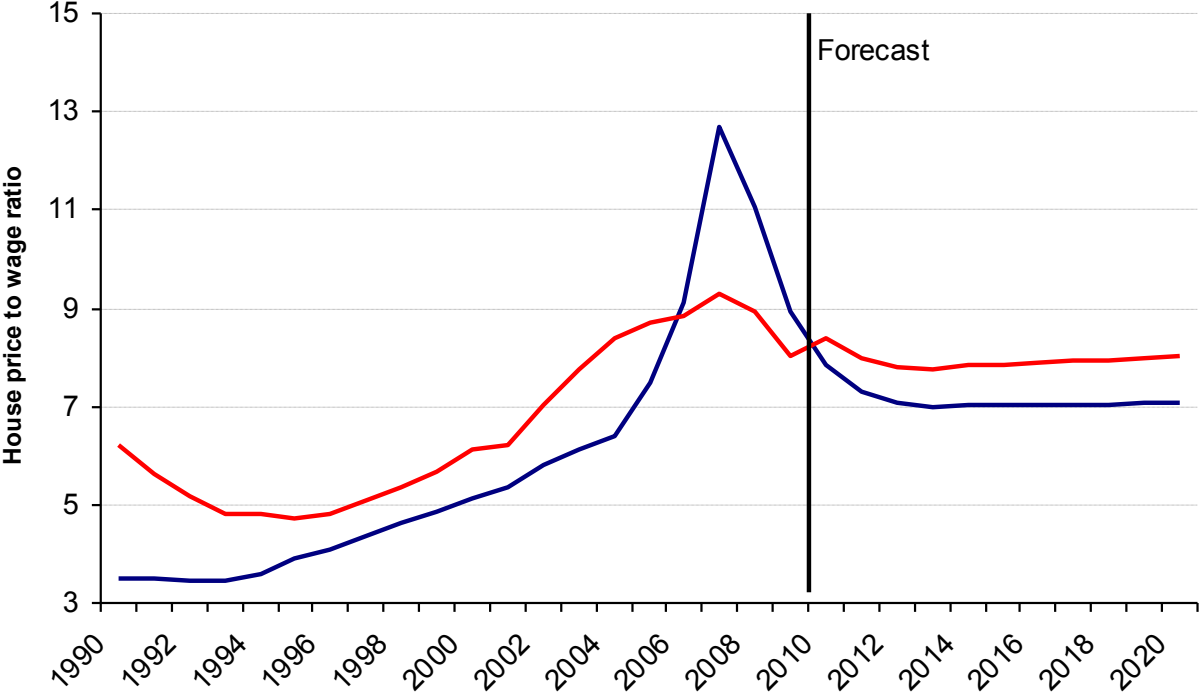
Wheat prices, world, 1990 - 2009



Source: UNCTAD, UNCTADstat

House price correction to continue

House price to wage ratio, NI and UK, 1990 - 2020



The average HP/wage ratio in NI pre boom (1993-03) was 4.8

At peak, the HP/wage ratio was 12.7 in NI

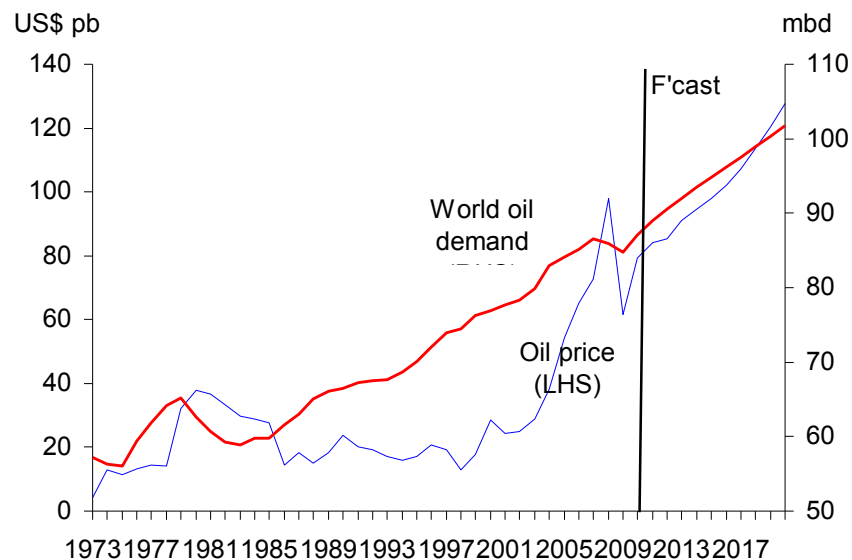
The 2010 HP/wage ratio is 7.9

Implications for confidence and spending

Source: Oxford Economics

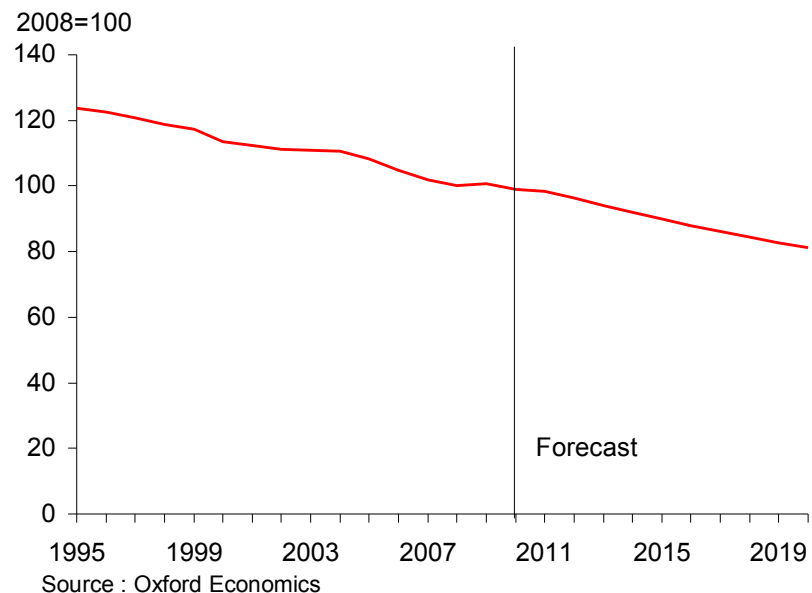
Oil demand to continue (and prices will rise)...

Global: Oil demand and price



Source: Oxford Economics

Global oil intensity



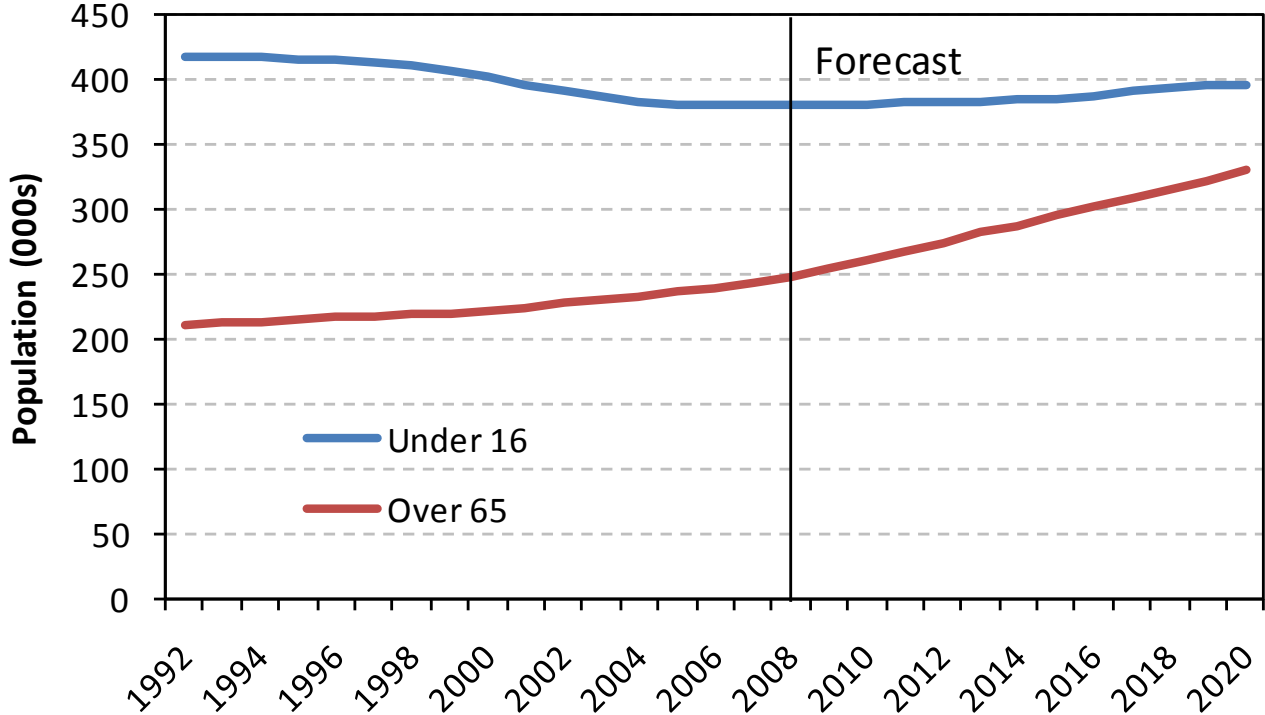
Source : Oxford Economics

Global oil demand will continue to rise, as will prices.

Global oil intensity suggests that despite the rising demand, world GDP will become less dependent on oil over time, as alternatives are sought and found.

Increase in older population...

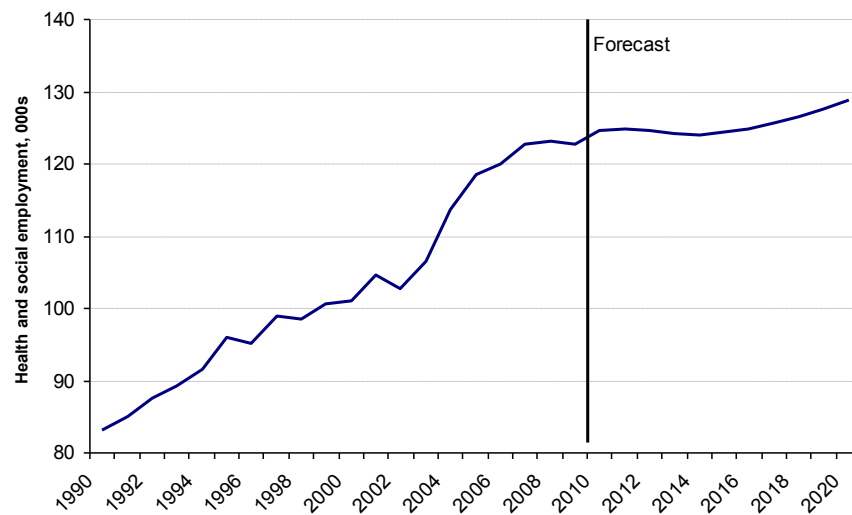
Official population projections under 16s and over 65s, NI, 1992 - 2020



Source: ONS

Care of the elderly to present opportunities (and problems!)

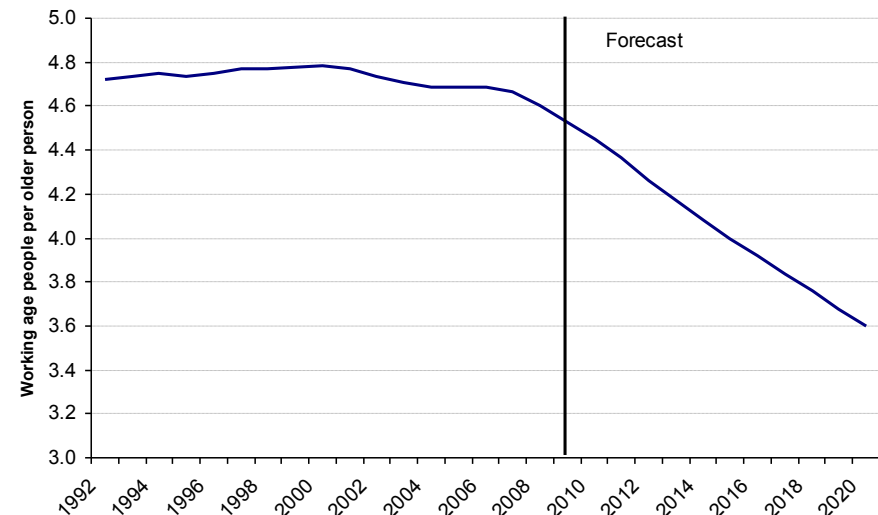
Employment in health and social care, NI,
1990 - 2020



Employment in health and social care sector forecast to grow by almost 4,500 jobs by 2020

Source: Oxford Economics

Working age people per older person, NI,
1990 - 2020



There are currently 4.5 working people per older person (where an older person is defined as 65+)...this is forecast to drop to 3.6 by 2020

Source: ONS / Oxford Economics

“Challenges”

- Private sector to drive growth
- Export performance is key
- Economic inequalities will exist and potentially widen
- Government spending limited to address them
- So we face choices of how to best use scarce public spending:
 - Local regeneration?
 - Community services?
 - Education and training?
 - Infrastructure?
 - Front line (Doctors, nurses, teachers etc)?
 - Support private sector growth?

The challenge of building sustainable economies

An economic crossroads...

- The economy is at a crucial stage in its development
- The debt led conditions of 2007/08 are not likely to return and the pressures of spending cuts are on their way
- Time to re-orientate the economy in a way long aspired to, never implemented
- But economic policy has been focussed on the preservation of the 'block grant' this is both dangerous and unambitious
- Structure is a key problem – and means talking to existing stock of businesses is necessarily flawed (structure goes a long way to explaining deficiencies in, amongst other things enterprise, BERD, productivity gap)
- Education improvement (and not just a graduate policy!) is the best evidenced route to improvement – but a long run investment
- The base case outlook is one that should not be considered acceptable – the biggest policy challenge in generations

However growth will not eradicate inequalities

- Inequalities at local level are evident and could widen!
- Some local authority areas in NI face considerable challenges in relation to employment creation - their skills profile and economic structure do not favour sectors likely to drive growth
- Future growth is expected to be in high value added activities, which tend to favour urban areas with large pools of skilled labour
- General economic growth will not address social problems at local level
- So Central and Local Government face difficult choices :
 - Cuts of any kind (internal or external) will bring pain – but how can that pain be minimised?
 - At regional level is there anything that can be done (corporation tax, public sector reform, transfer of more power, tax rises, etc) to position the region on a faster growth path?
 - Should we invest in skills and training, or infrastructure, or regeneration?
- It is a time for responsibility in NI – we have not tackled inequalities with a significant pot of public money. Time to think carefully about priorities and direct local resource into local problems (and build on local success).
- The gravy train is leaving and unfortunately despite its long stay it leaves behind many problems

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