
Northern Ireland Economic Overview

A Fiscally Challenging Economic Outlook

NI Assembly & Business Trust

December 14th 2010

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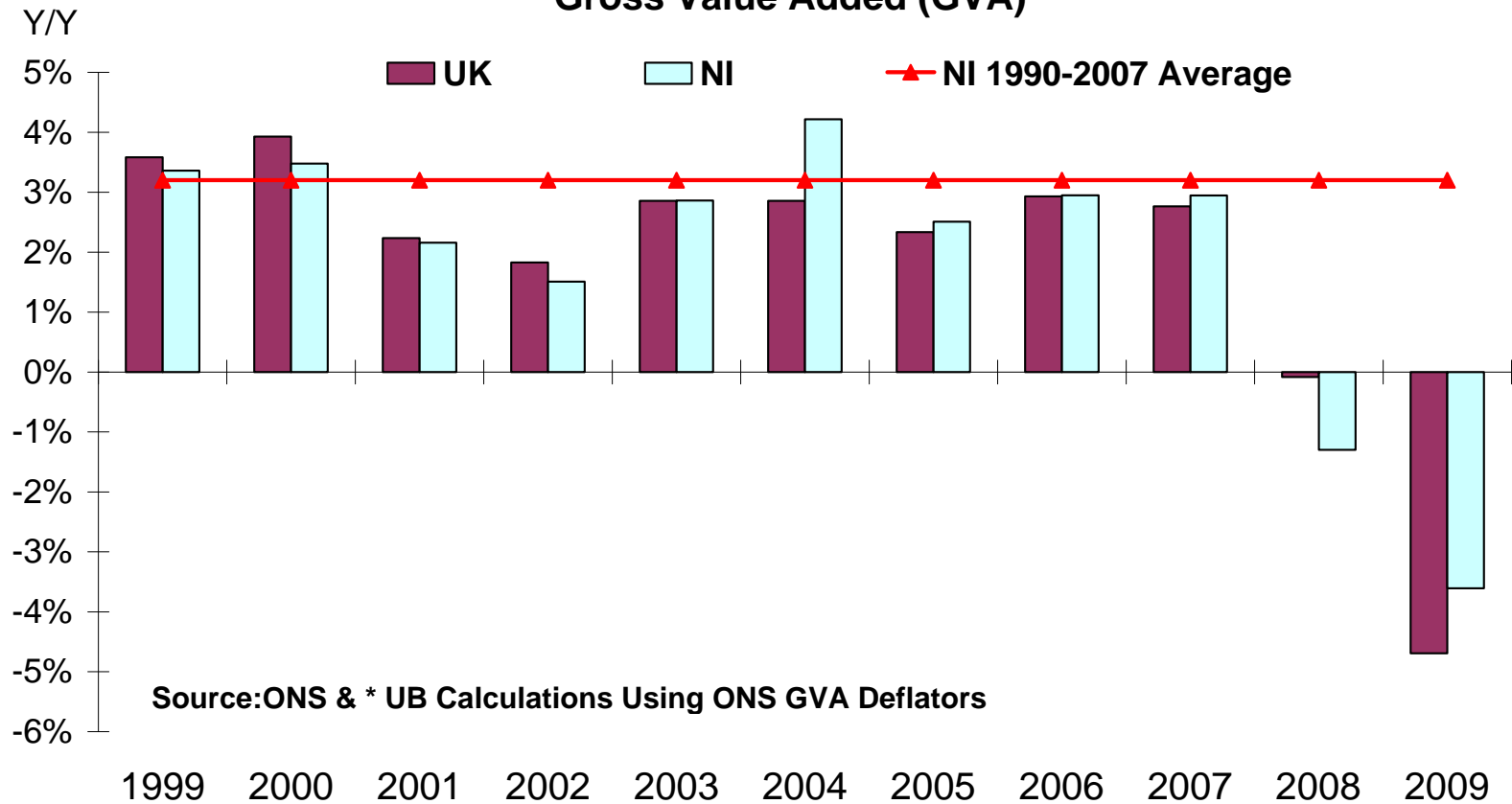
Current state of the NI Economy

Before March 2010, Emergency Budget June 2010, Comprehensive Spending Review & latest RoI budgetary measures take effect



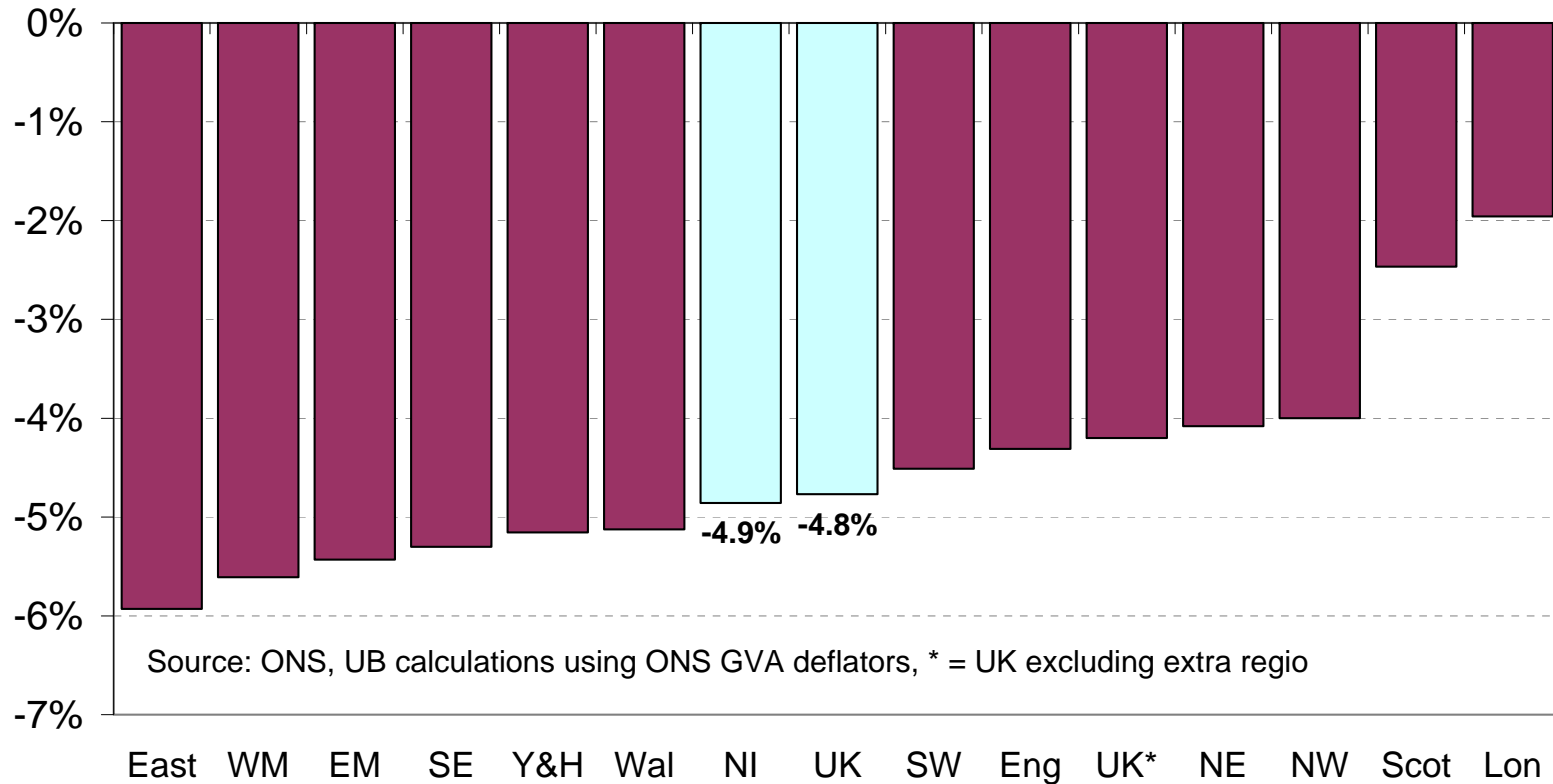
The myth that NI was recession proof has been dispelled

Real Economic Growth Gross Value Added (GVA)



How as NI fared in **Part 1** of the recession (*private sector*) so far?

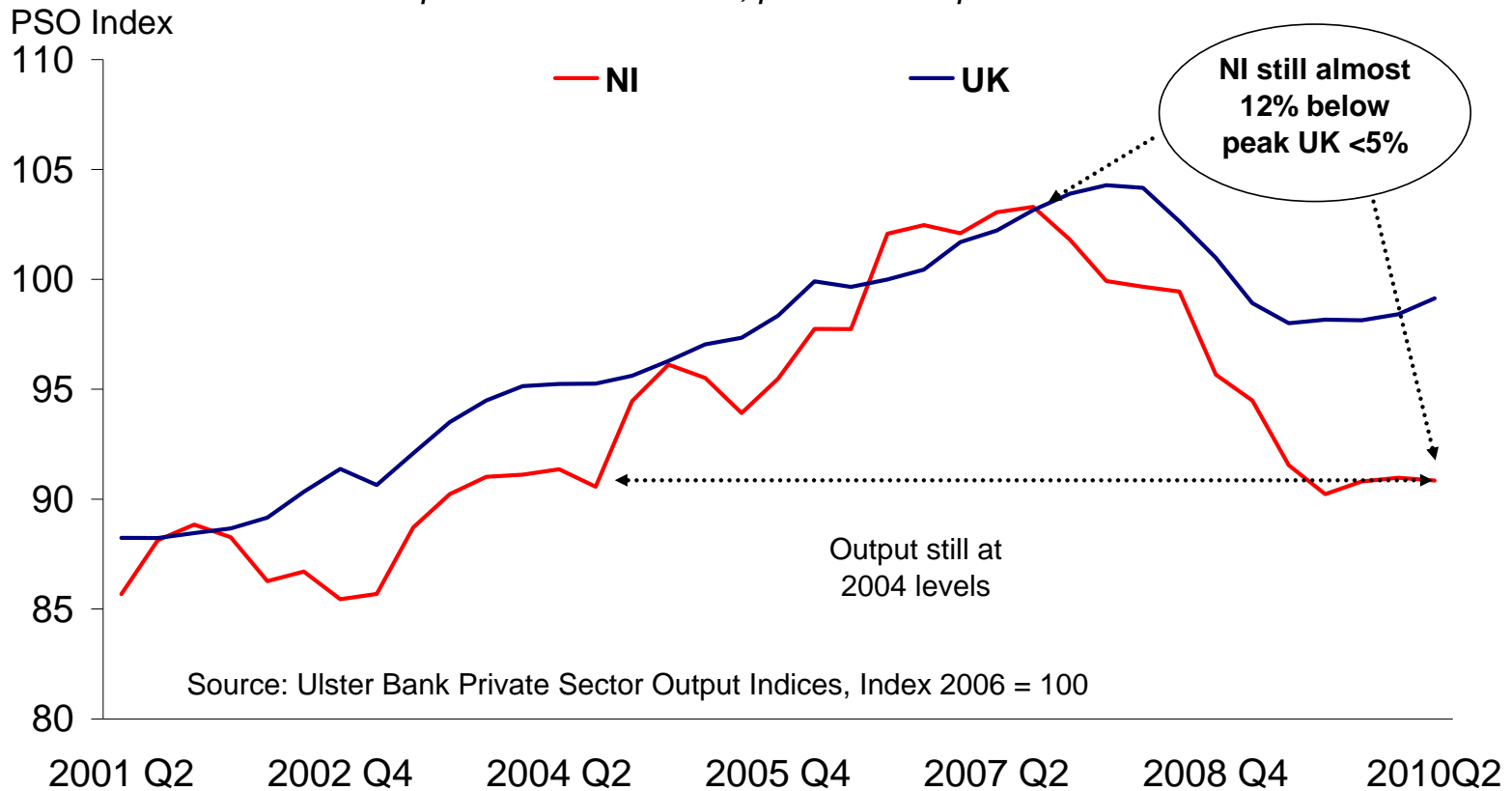
% Change in Economic Growth 2007-2009 in Real Terms Gross Value Added (GVA)



NI's economic recovery.....was that it?

NI & UK Private Sector Output

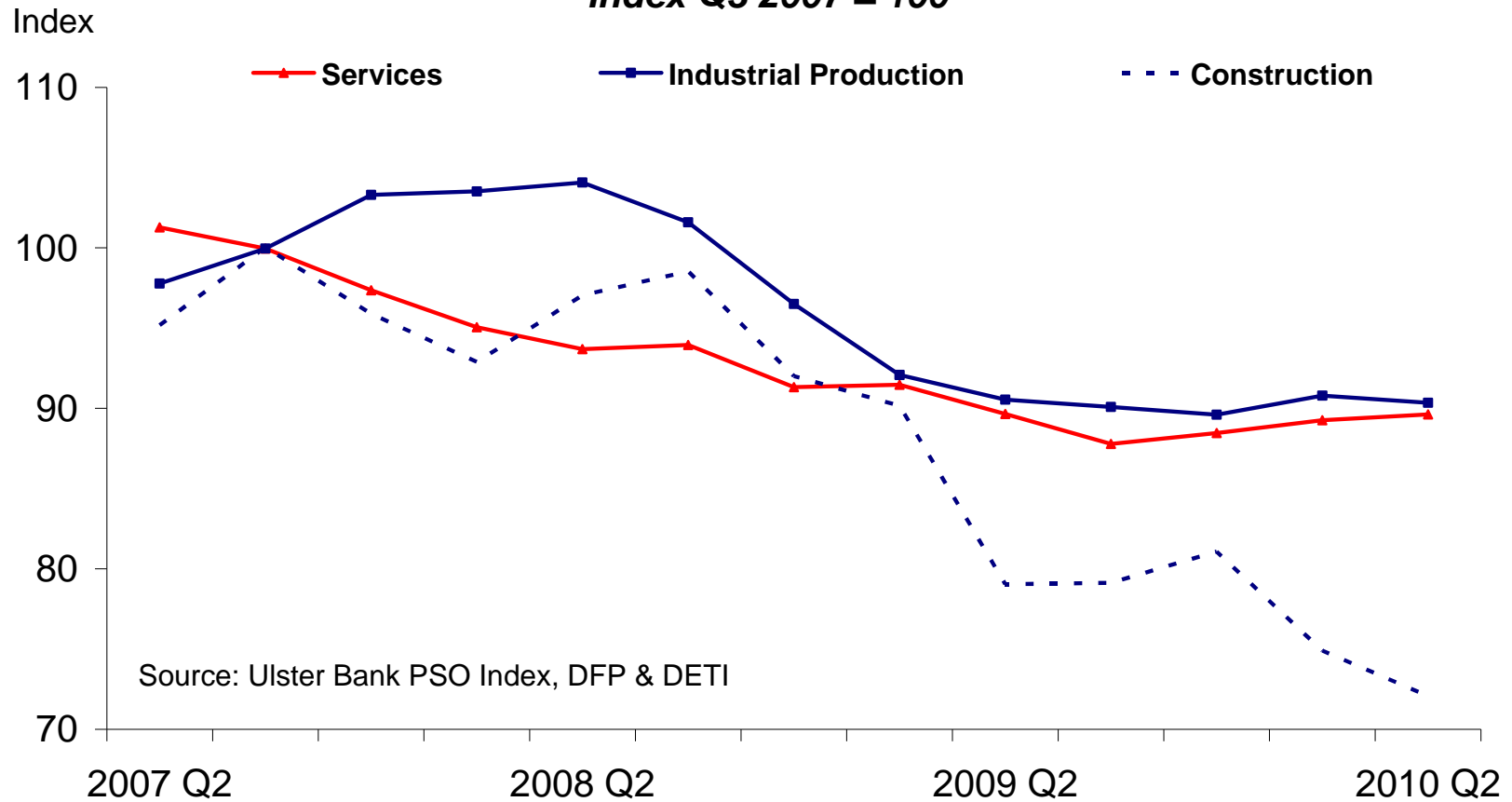
Composite of construction, production & private sector services



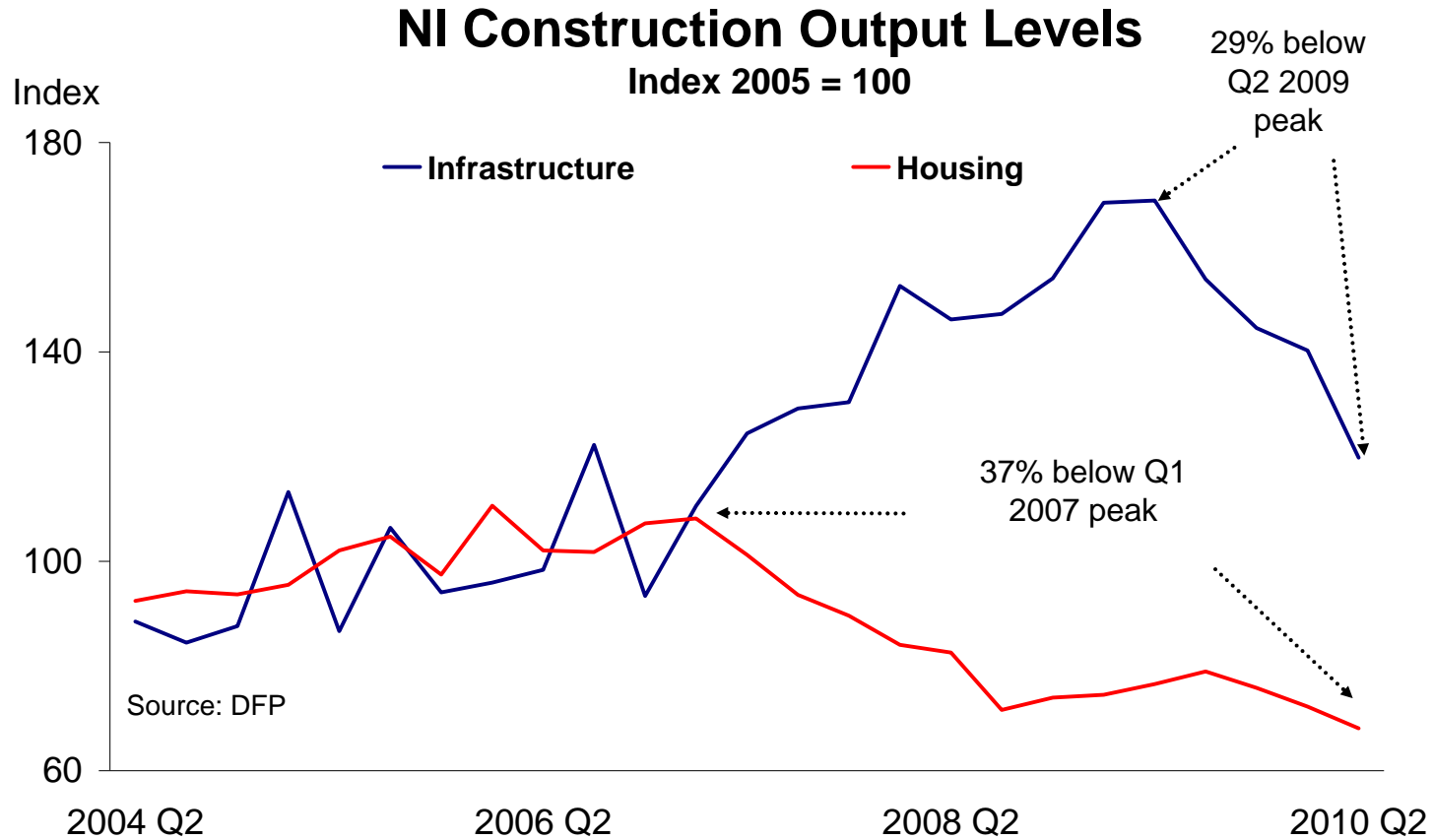
Biggest concern is with construction - output is still falling

NI Private Sector Output Levels

Index Q3 2007 = 100



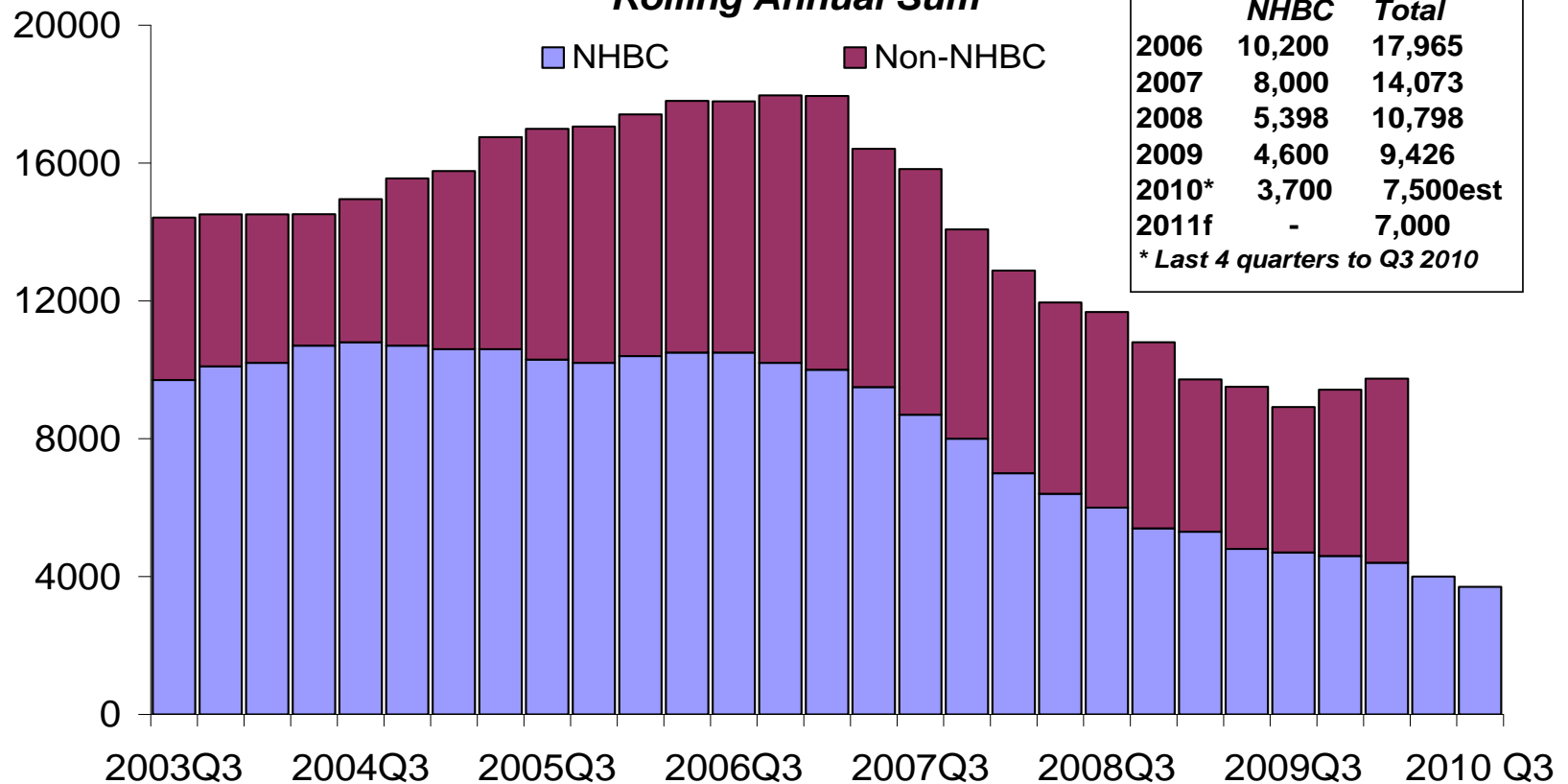
Driver of construction downturn switches to infrastructure



Actual house-building figures highlight a steeper fall

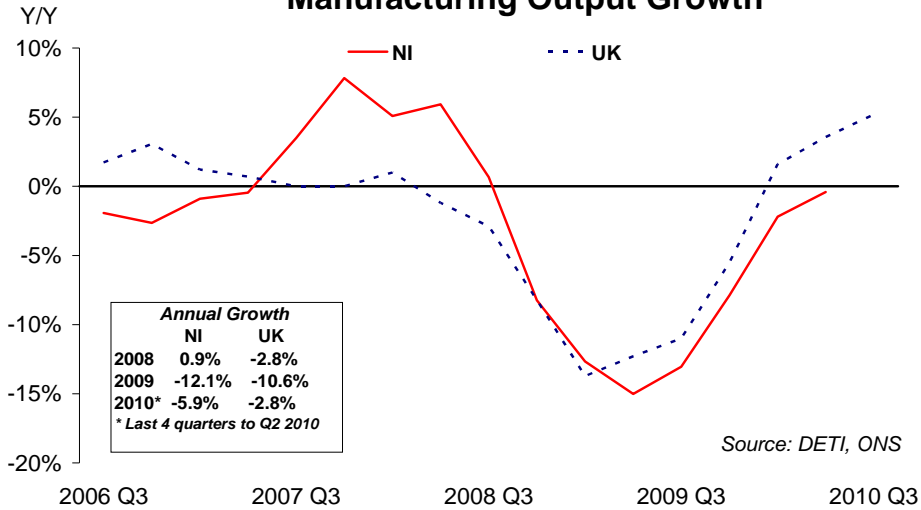
NI House Completions

Rolling Annual Sum

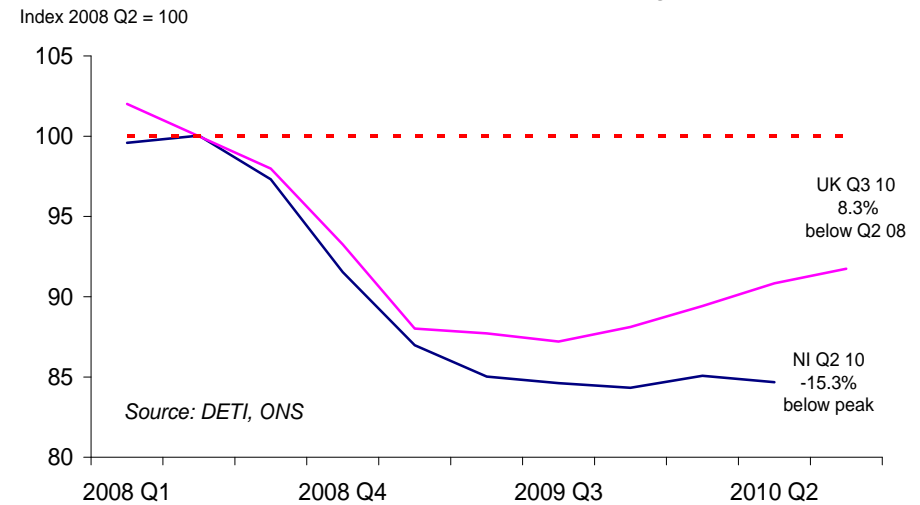


NI manufacturing recovery is lagging the UK

Manufacturing Output Growth

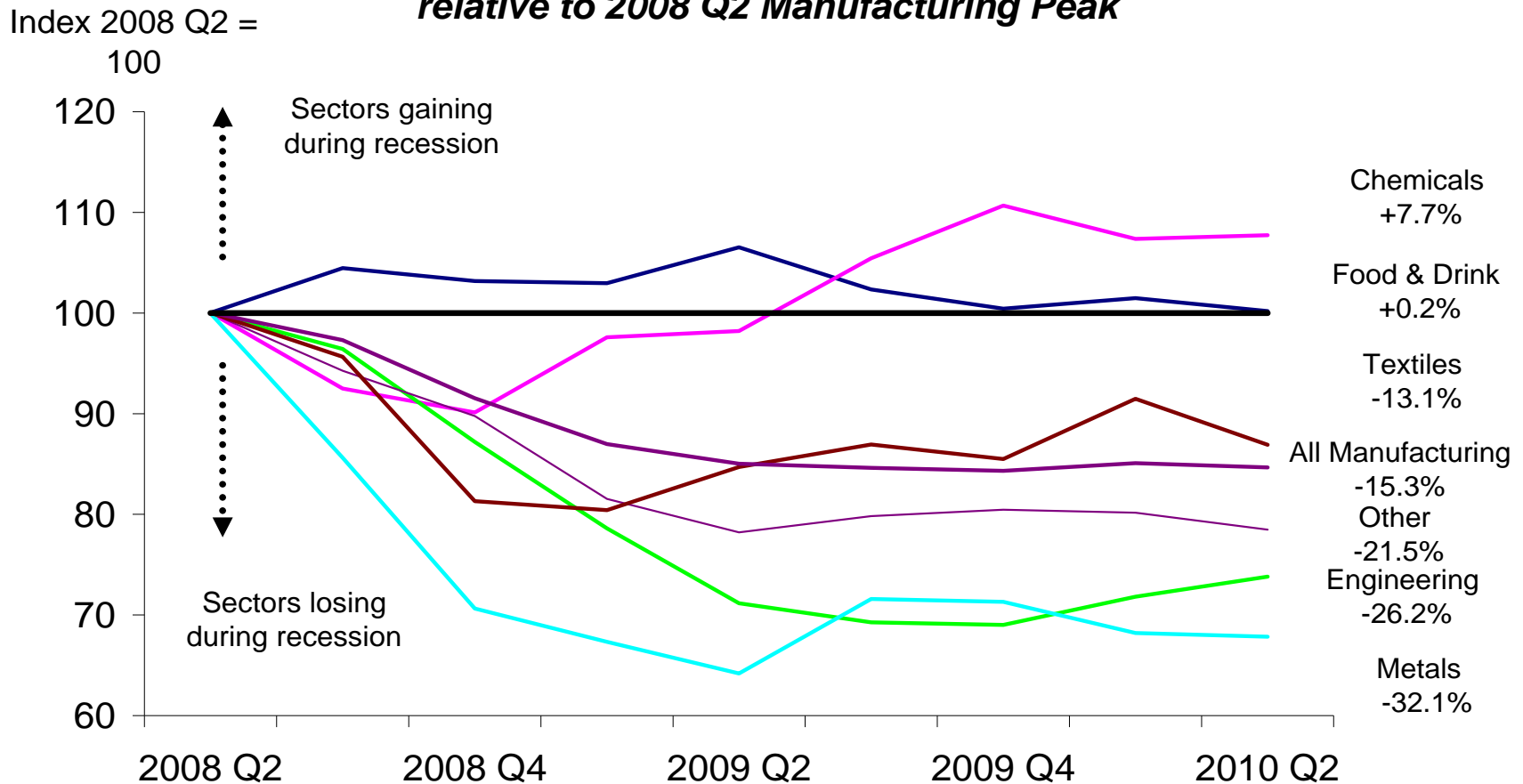


Manufacturing Output Levels relative to 2008 Q2 NI Manufacturing Peak



Ni's manufacturing performance has been rather mixed

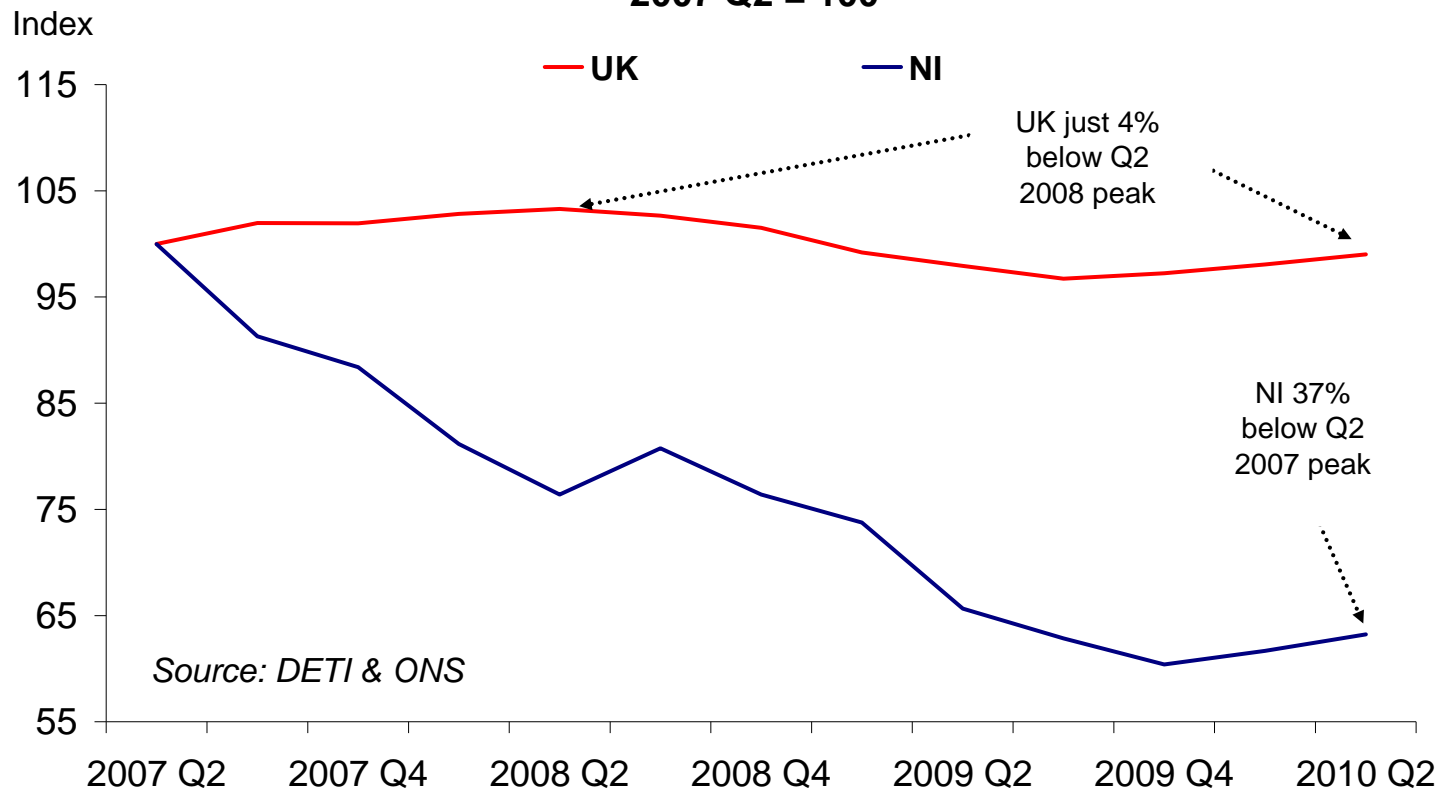
Northern Ireland Manufacturing Output Levels relative to 2008 Q2 Manufacturing Peak



In service sector the Executive's priority area almost 40% off its peak before PE cuts

Levels of Business Services & Finance Output

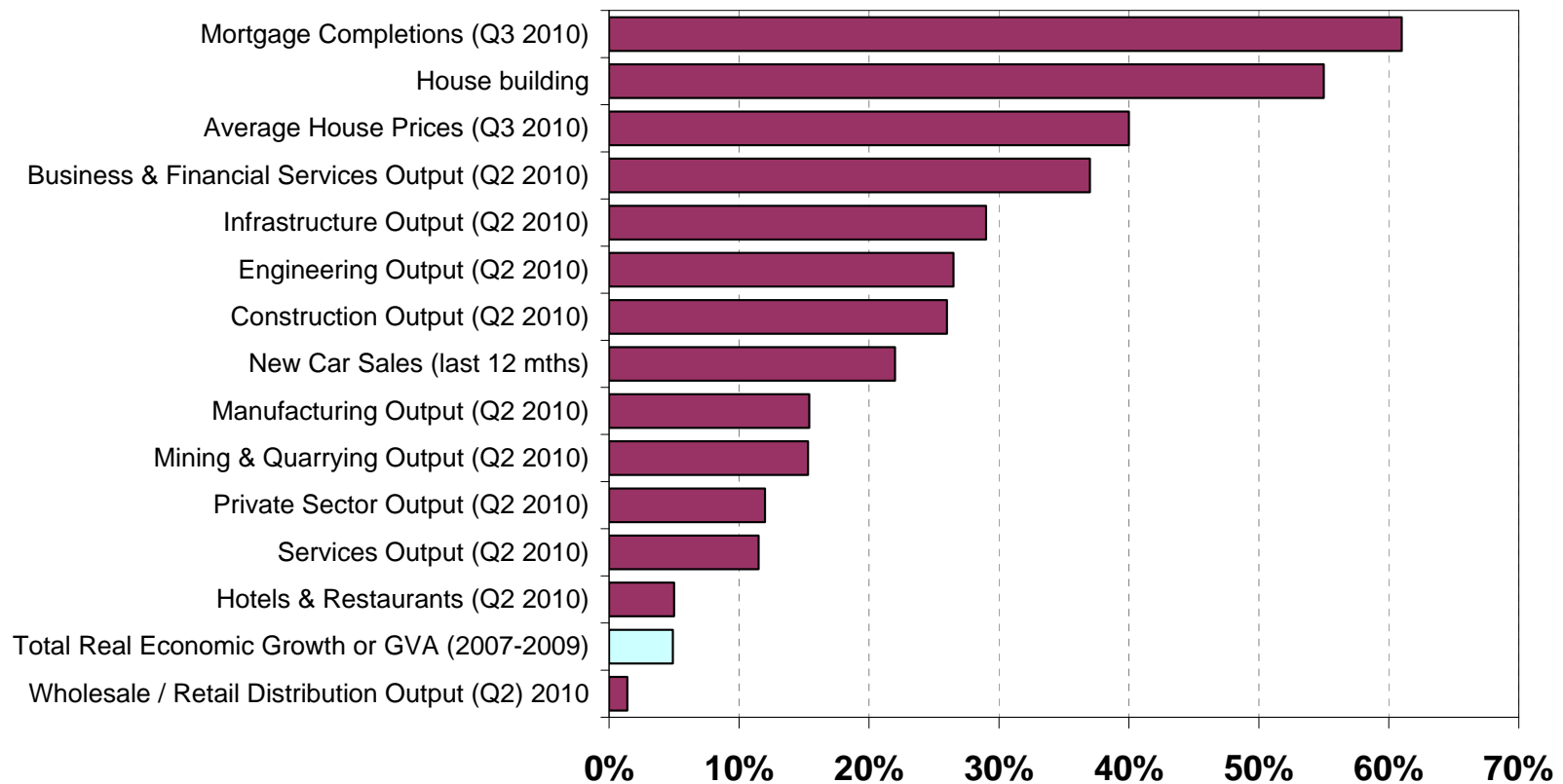
2007 Q2 = 100



Housing / Construction / Property have borne the brunt of output declines so far.....

Latest Northern Ireland Economic Indicators

% falls from Recent Peaks (from 2006 onwards)



Construction has also borne the brunt of job losses

Employment fall from recent peaks up to Q2 2010

Source: ONS & DETI Employee Jobs



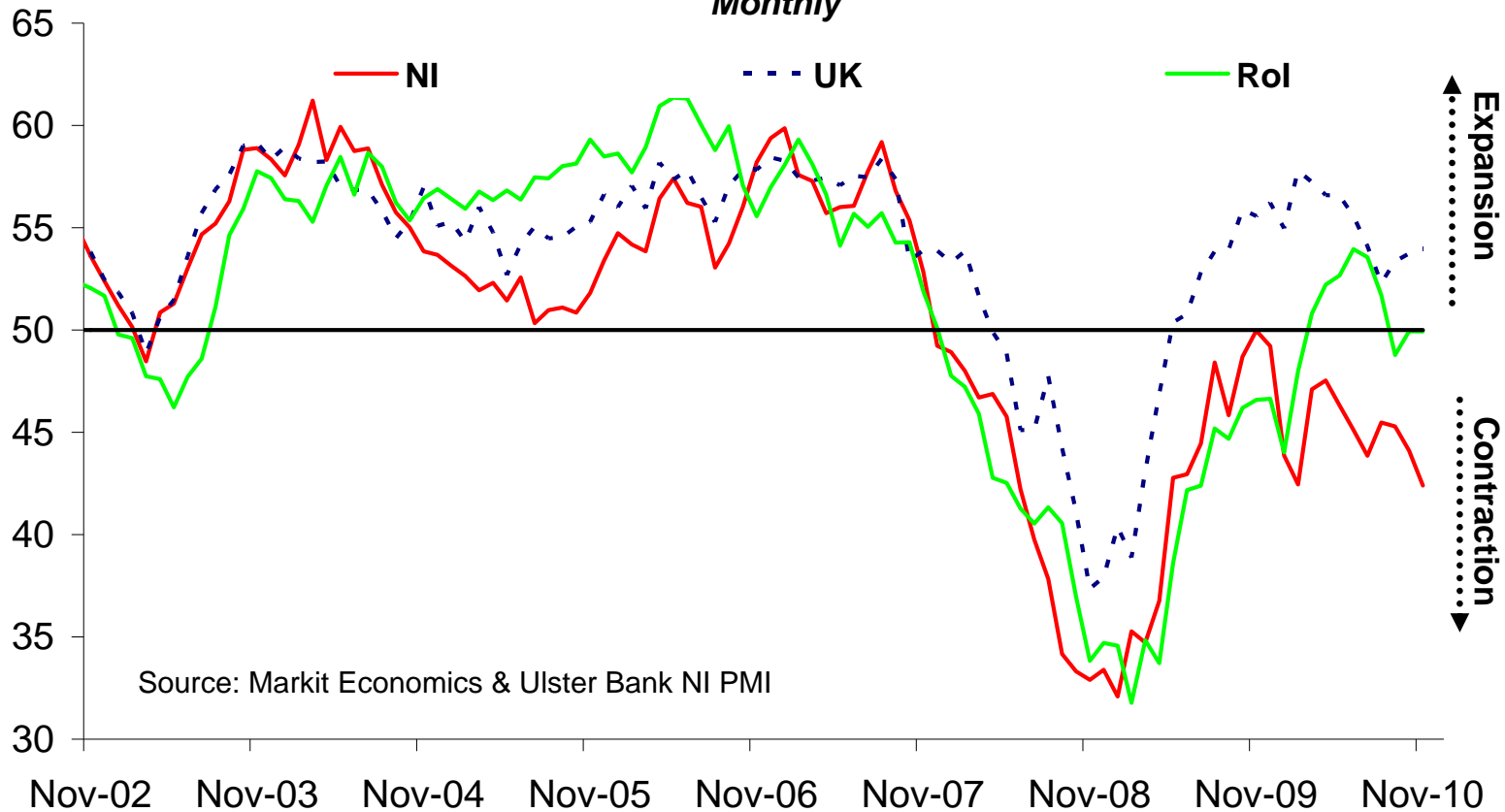
Watch Out For



NI has failed to record the recovery witnessed elsewhere

Private Sector Business Activity

Monthly



The only UK region not to experience a recovery

Output / Business Activity Last 12 months to November 2010

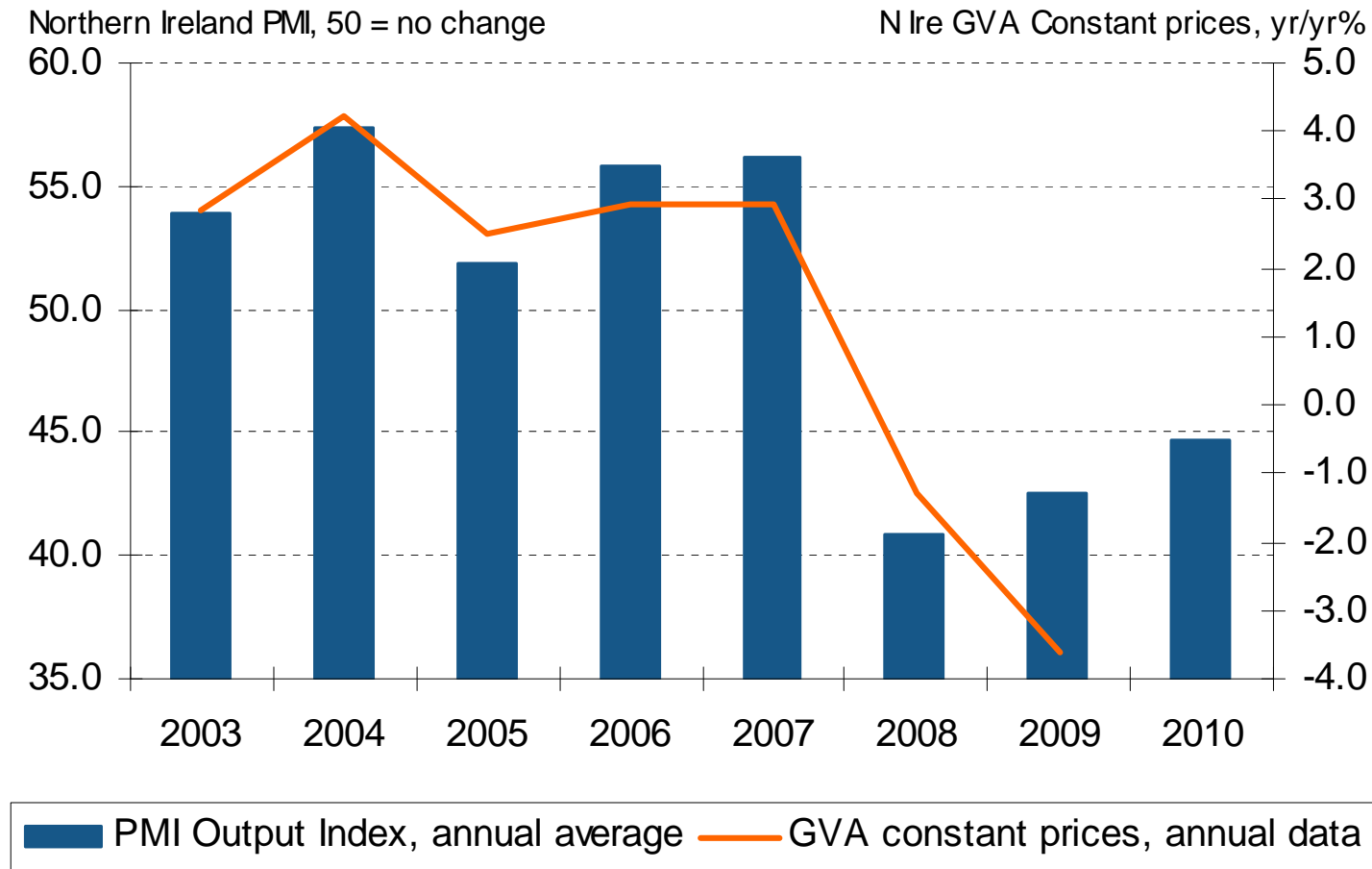


PMIs are used extensively around the world

This new report will provide a very useful source of information both for those in government as well as many local businesses, supplementing both official data and the various surveys that are already in existence. One of the great advantages of Ulster Bank's new report is its international comparability. It will make it easier to compare economic conditions in Northern Ireland with what is going on in the other UK regions, the Republic of Ireland as well as further afield."

Permanent Secretary of the Department of Enterprise Trade and Investment, Bruce Robinson when the Ulster Bank PMI survey was first published in 2003.

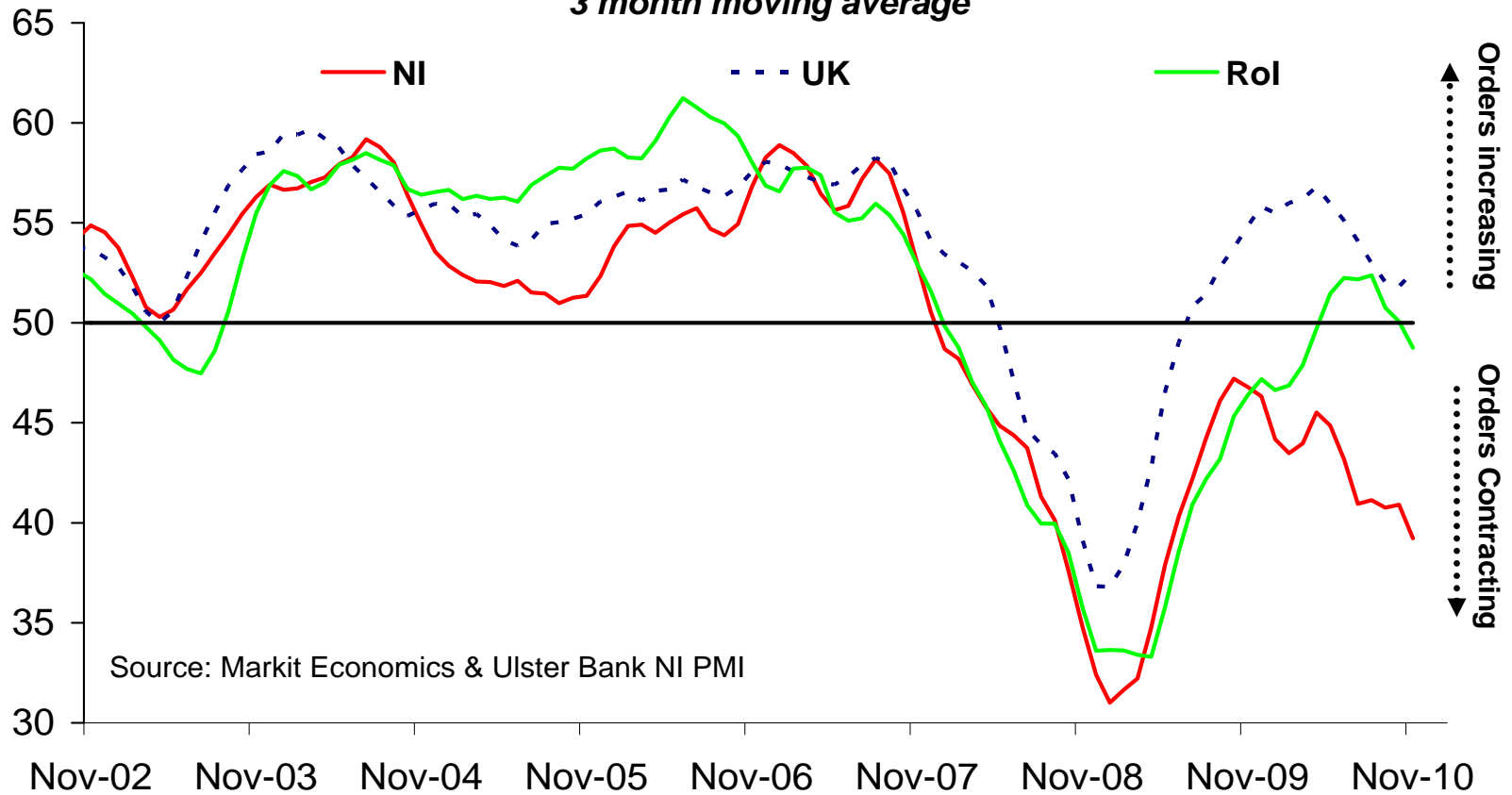
NI PMI has been closely correlated with growth in the past



Contraction in new orders suggests output to fall further

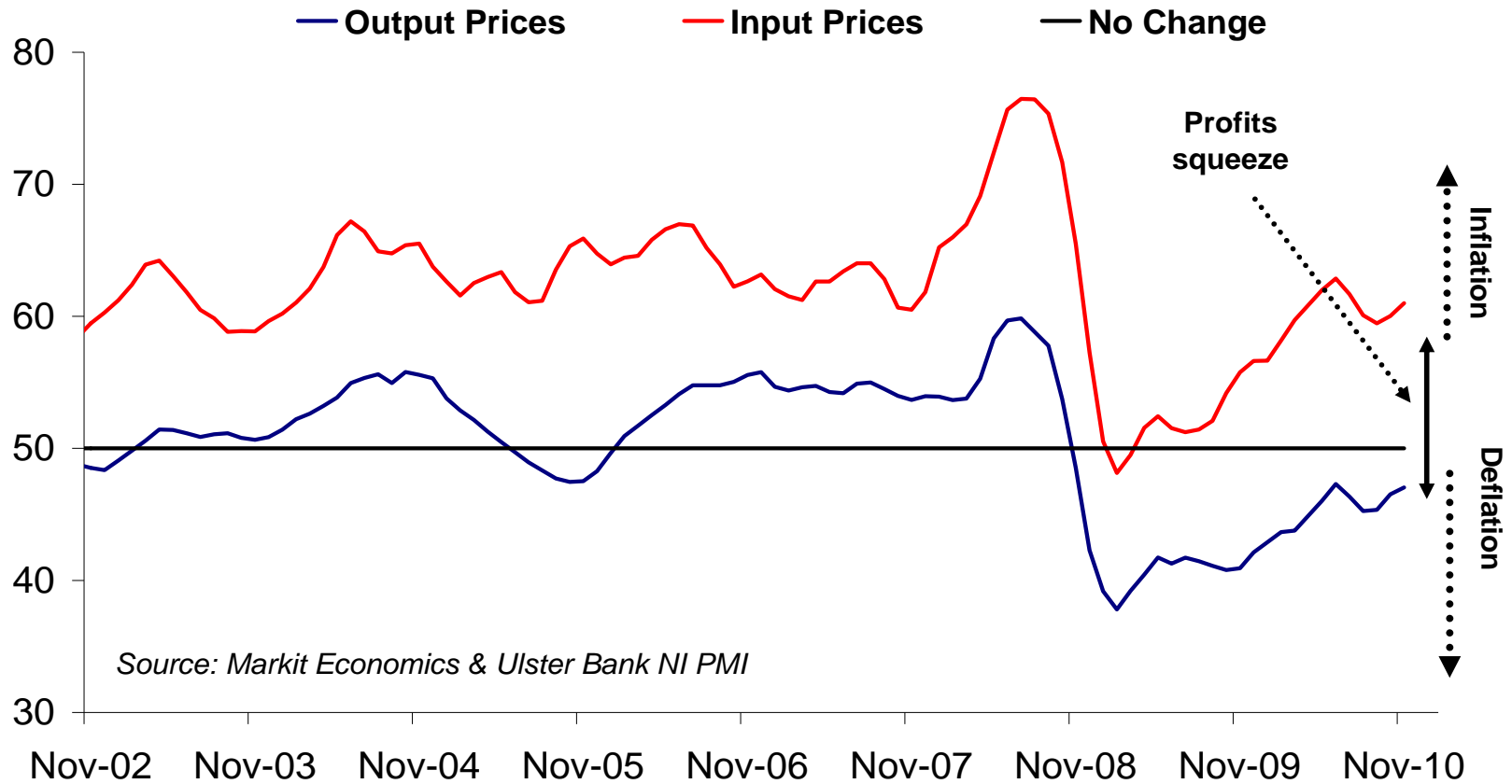
Private Sector New Orders

3 month moving average



It is not just output but profits that matter

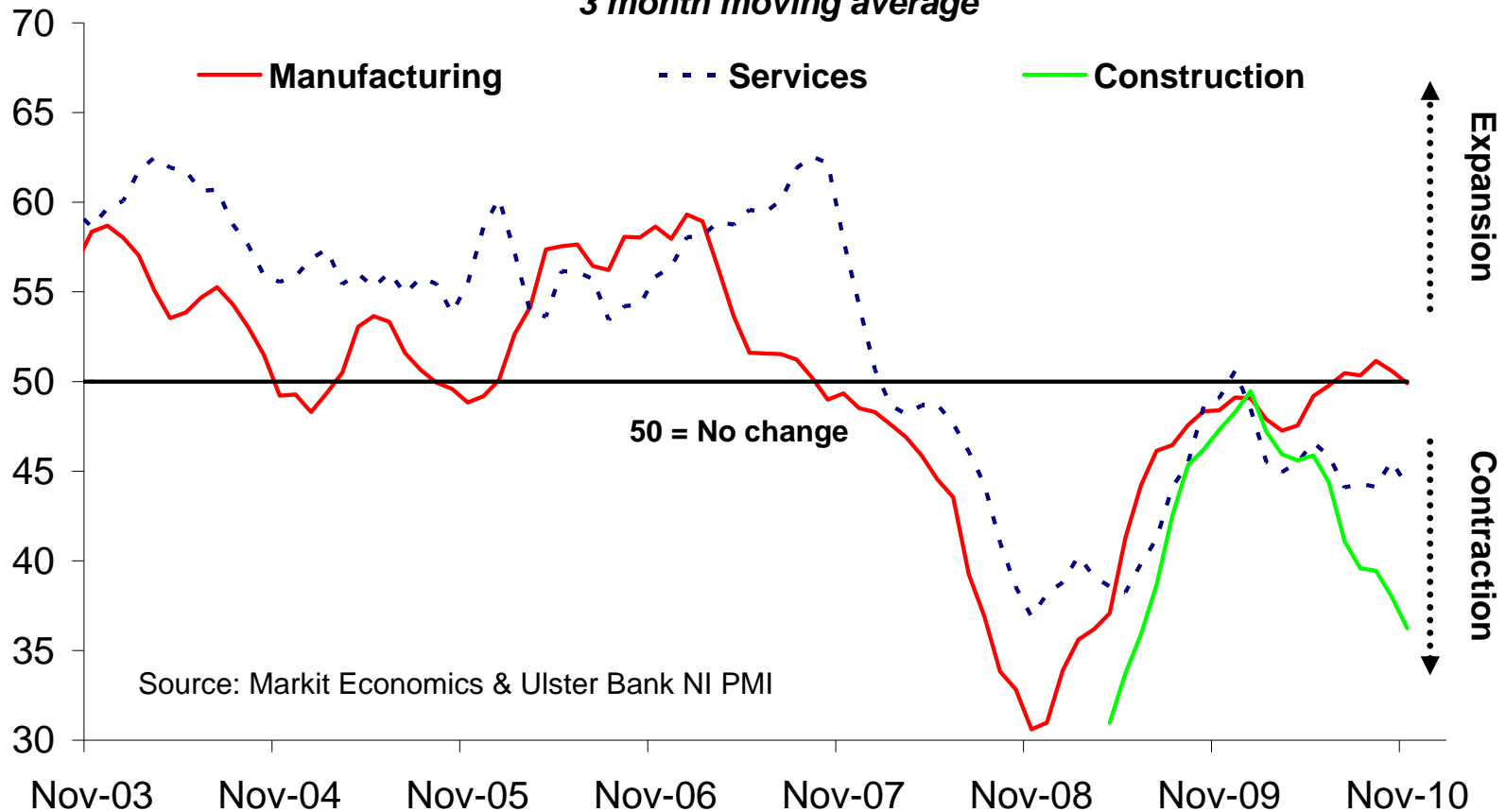
NI PMI - Input Costs & Charges



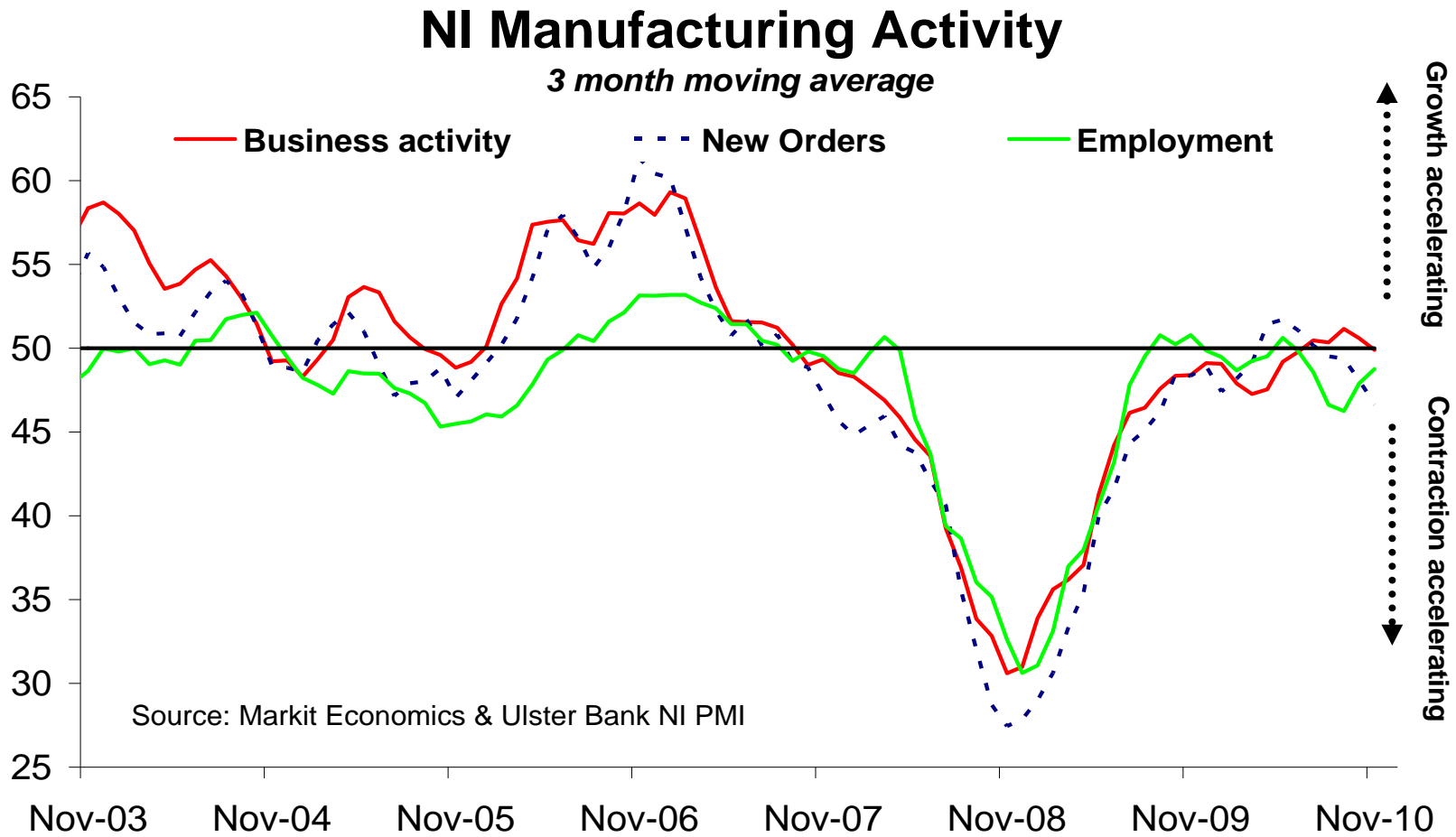
Manufacturing was the only sector experiencing a recovery

NI Private Sector Output

3 month moving average

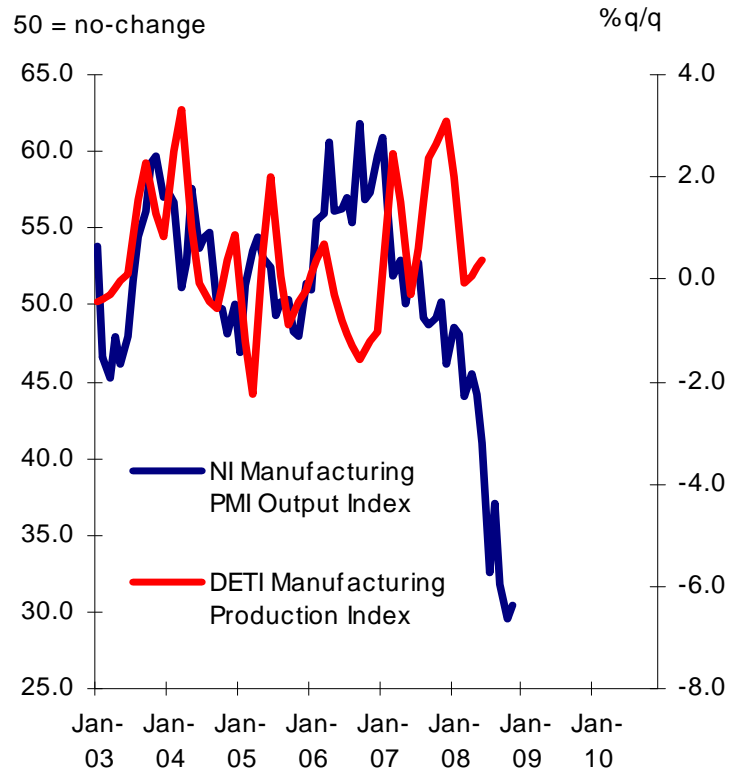


But manufacturing recovery has started to fade

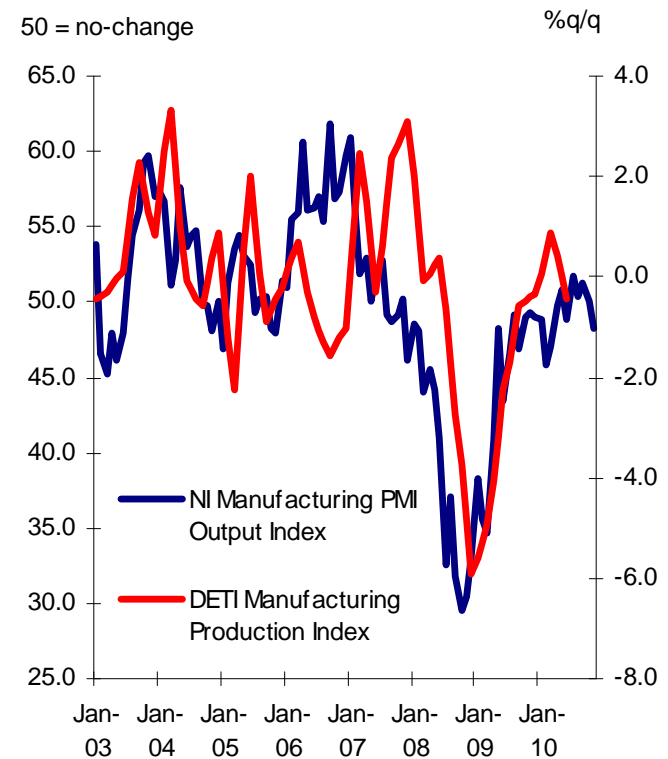


The PMI has been a reliable indicator in the past

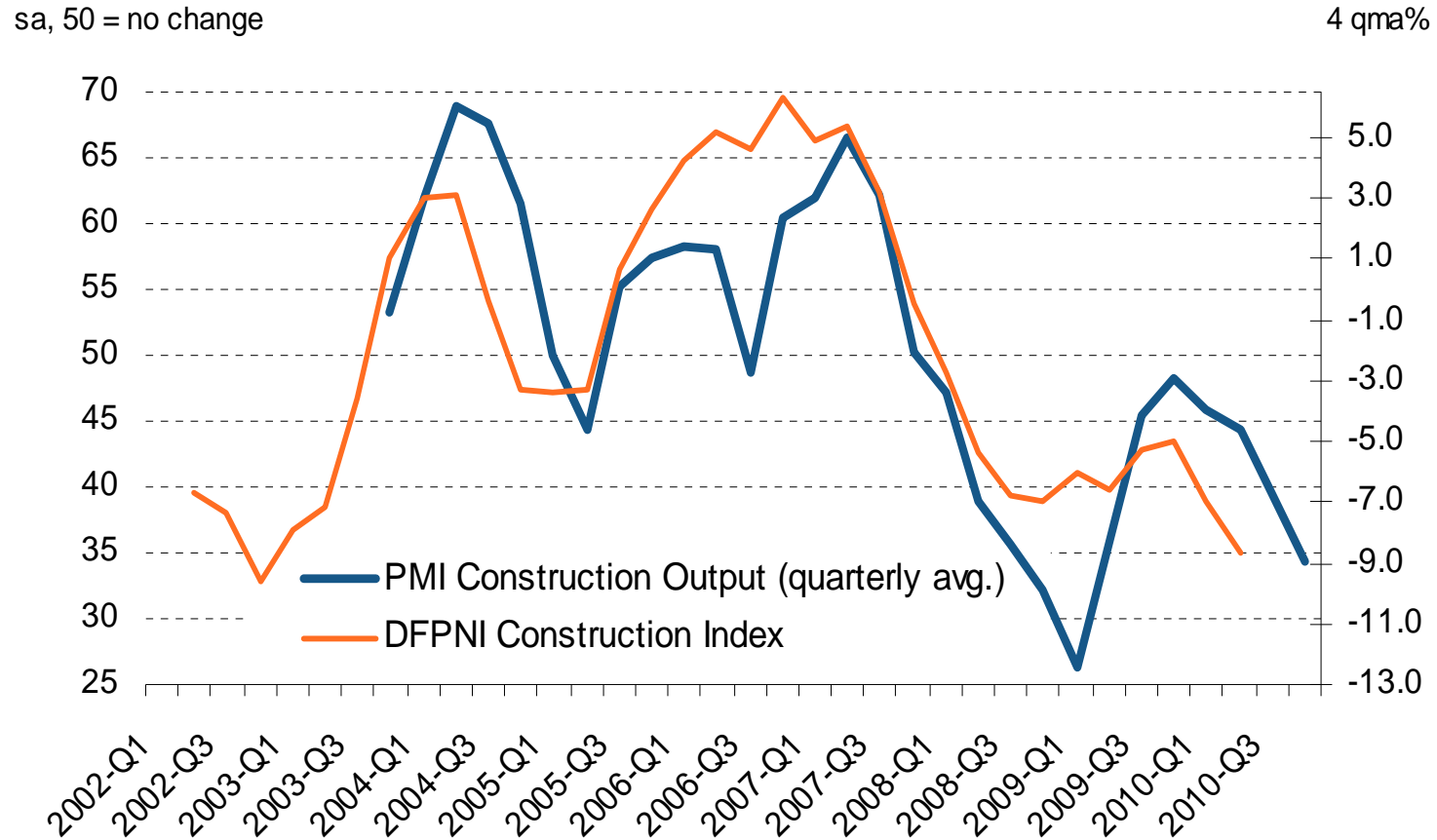
8th December 2008



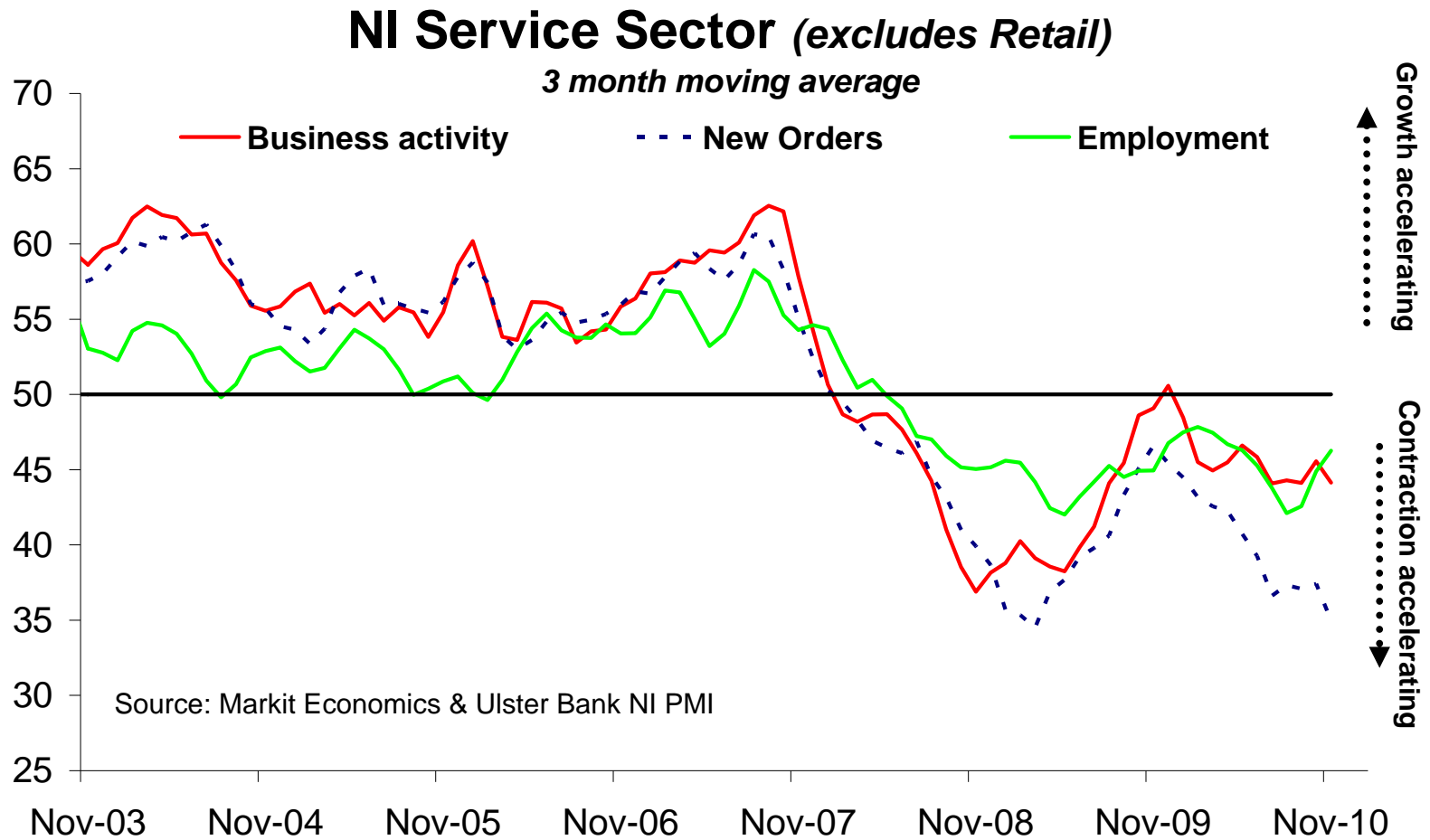
13th December 2010



NI construction PMI signals further falls in construction



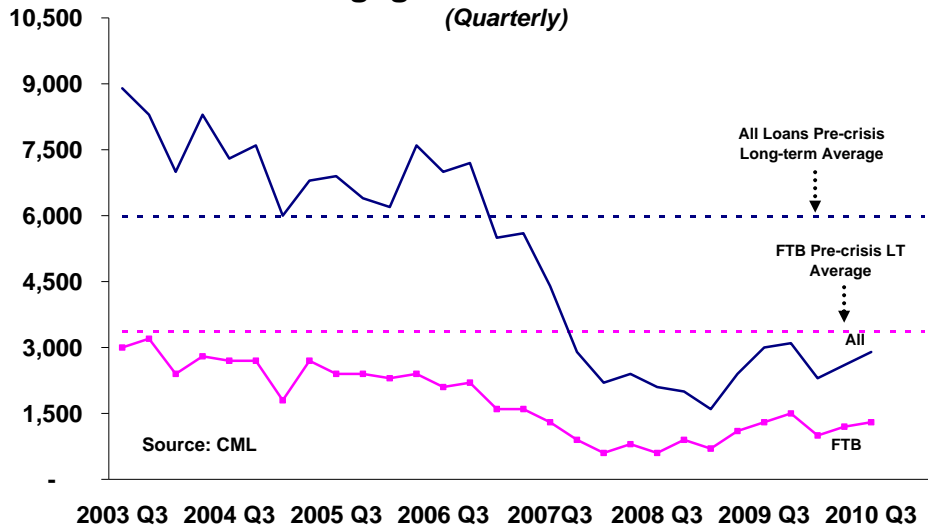
The biggest concern is within the service sector



Warning! – House prices still falling according to surveys



NI Mortgages for House Purchase (Quarterly)



UK Regional House Prices - % Fall from Peak Q3 2010

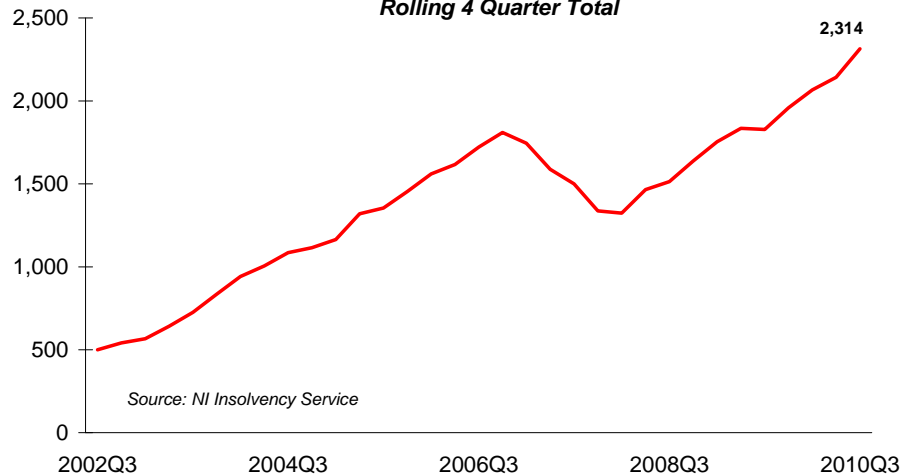


- House price crash sets NI apart from UK
- Price correction of 45% so far before cuts
- Numerous headwinds lie ahead
- House building @55% of peak levels

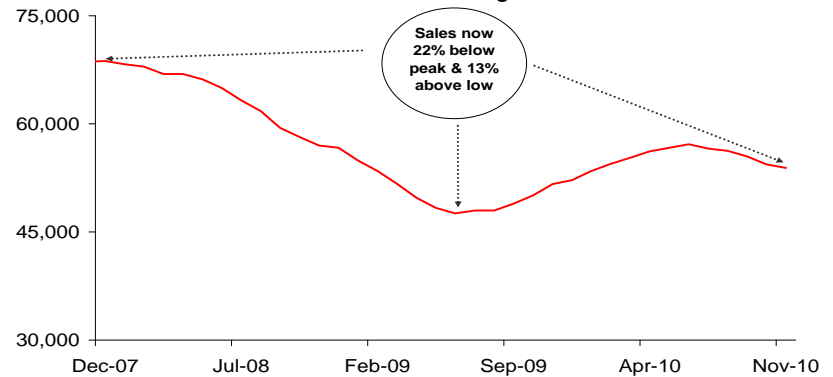
Consumer outlook was already challenging Pre-CSR



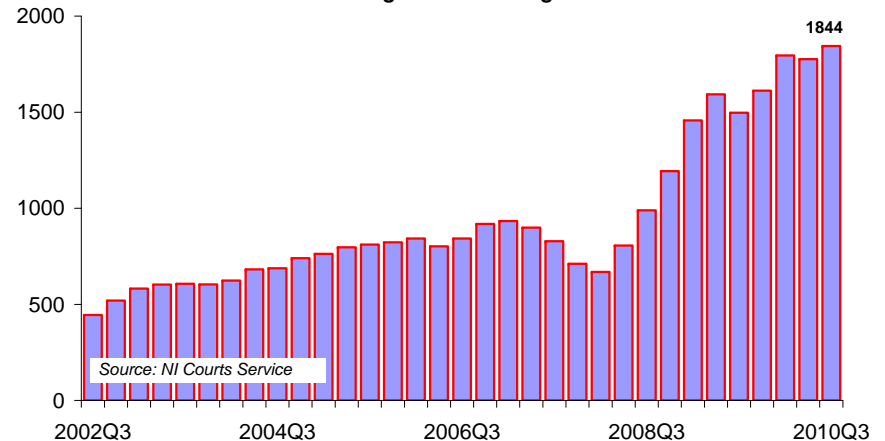
NI Personal Insolvencies
Rolling 4 Quarter Total



14,800 fewer new car sales relative to 2007 peak
12 Month Rolling Sum

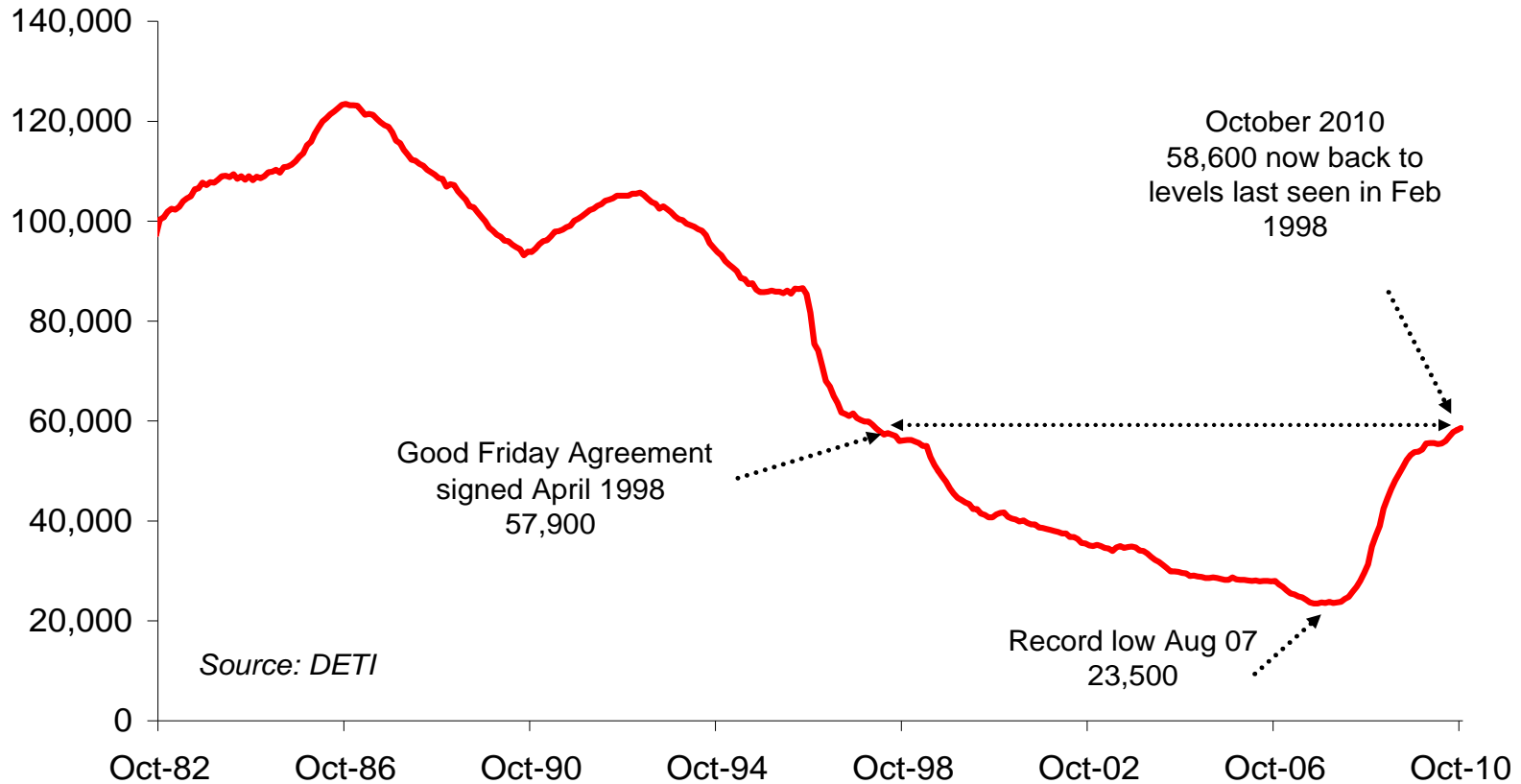


NI Orders for Mortgage Possession
Rolling Annual Average



Dole queue longer than at Good Friday Agreement Levels

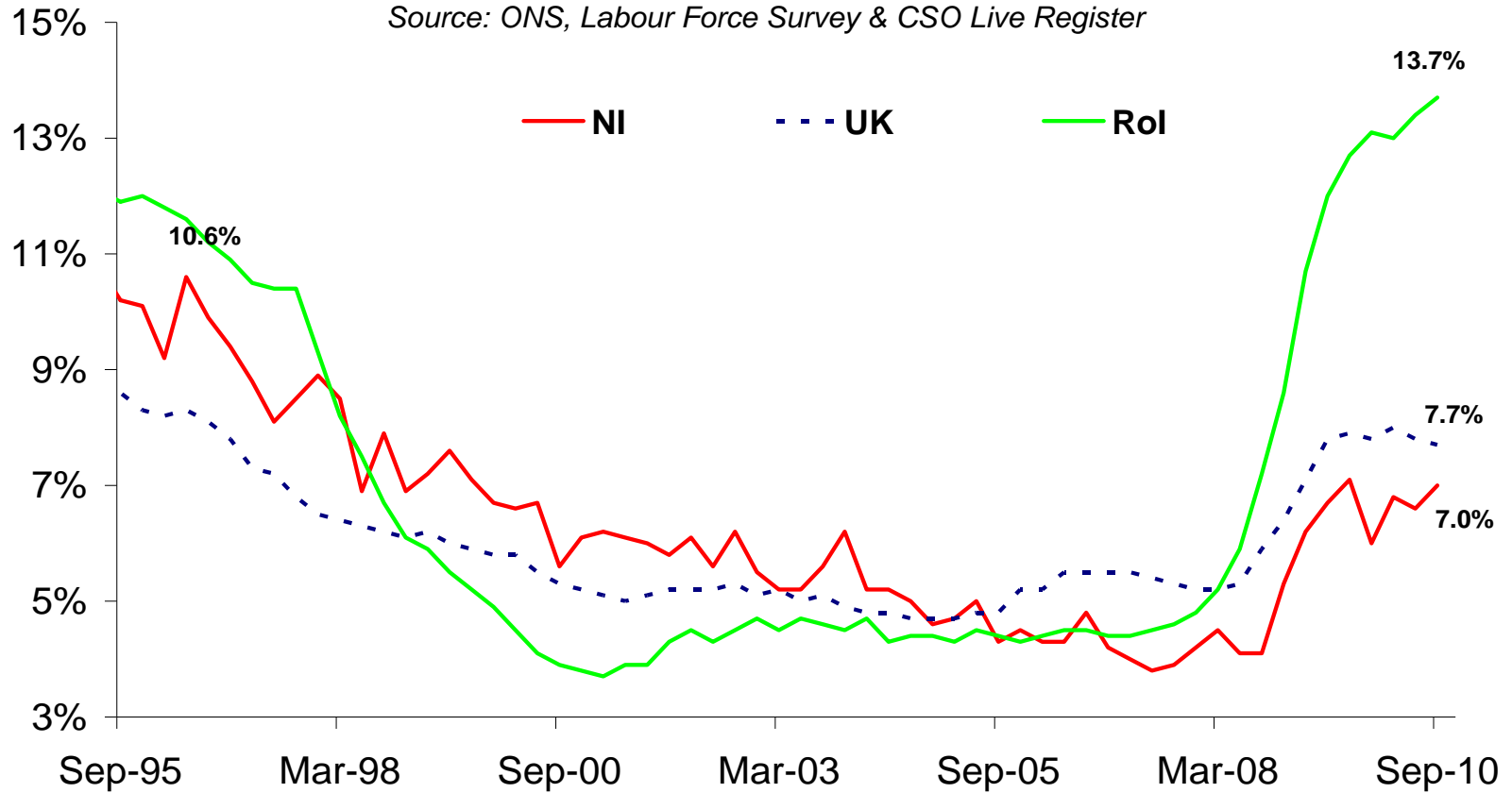
NI Unemployment Claimant Count Levels



....and NI/UK have fared much better than the RoI

UK, NI & RoI Unemployment Rates

Source: ONS, Labour Force Survey & CSO Live Register

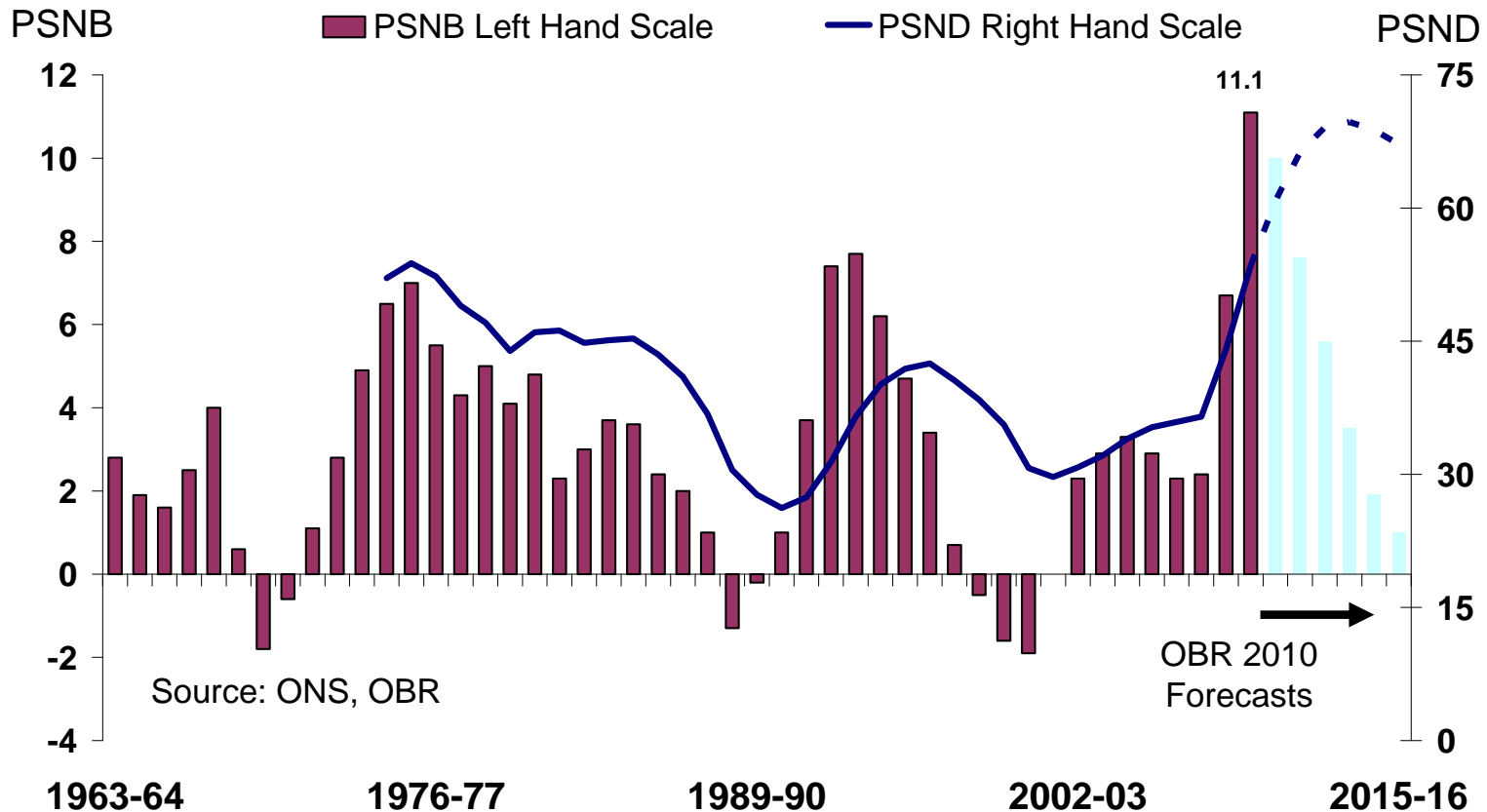


The challenge is returning to the 2007 economy

	NI Economy back at what level?
Personal Insolvencies 2009	Record High
Mortgage Arrears & Repossessions 2009	Record High
Business & Finance Services Output Q2 2010	Coming off record lows
Housing Completions 2009	1999
Engineering Output Q2 2010	1995 Q4
Unemployment levels Oct 2010	Feb 1998
Unemployment rate Oct 2010	May 1999
Construction Employment Q2 2010	1999 Q4
Manufacturing Output Q2 2010	1999 Q3
Services Output Q2 2010	2004 Q4
Private Sector Output Q2 2010	2003 Q2
Employment Q2 2010	2005 Q3
House Prices DCLG - Q3 2010	2006 Q2

But the UK has to fix its public finances first.....

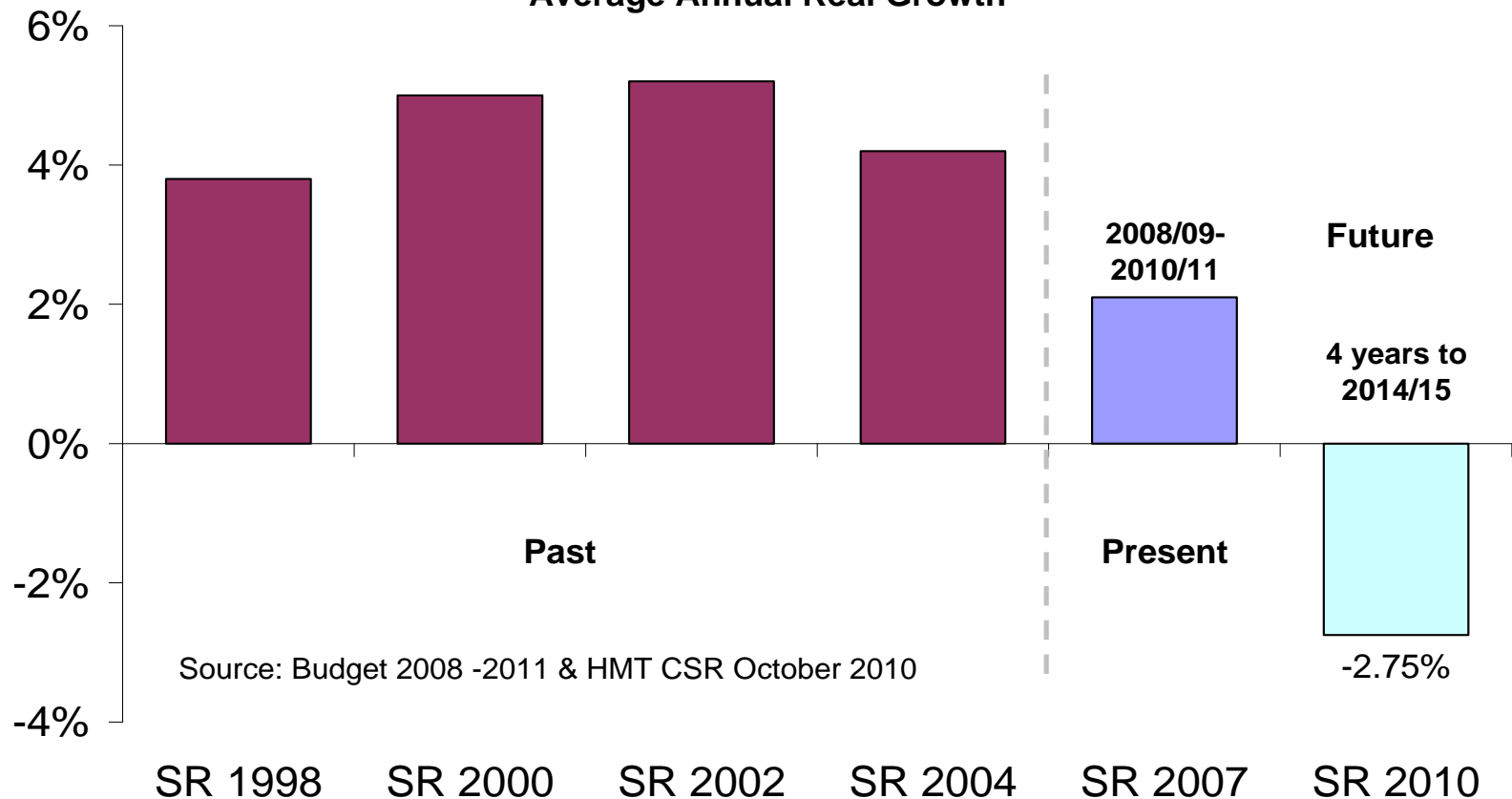
Public Sector Net Borrowing / Public Sector Net Debt as % of GDP



Public expenditure cuts are the biggest threat to the economy & represent **Part 2** of the recession

Planned NI Executive Departmental Expenditure (DEL)

Average Annual Real Growth



Key CSR take-away - more doom & gloom under construction



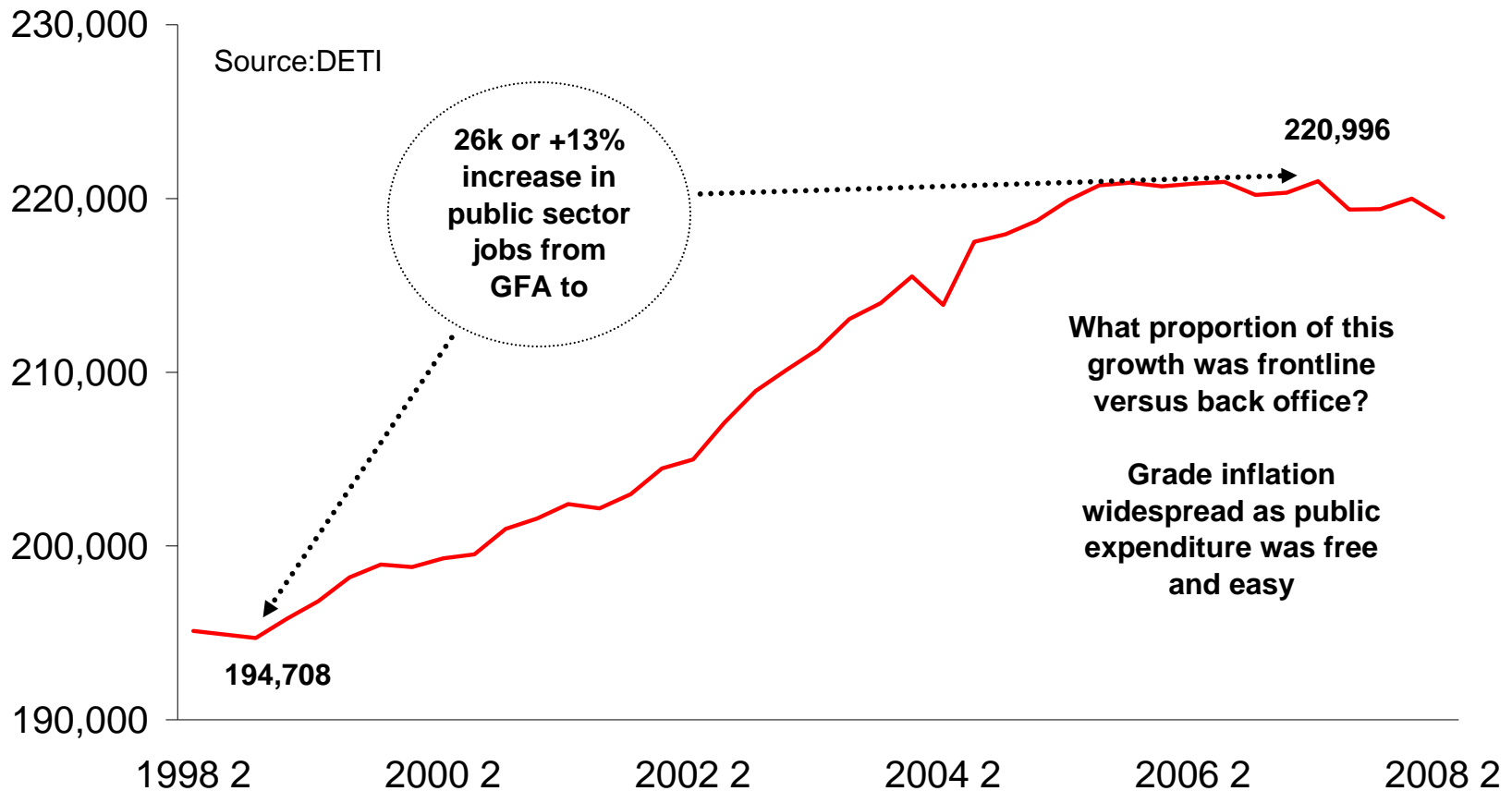
As Executive's capital investment budget is slashed

Northern Ireland Departmental Expenditure Limits

	2010/11	2011/12	2012/13	2013/14	2014/15	
<u>Cash Terms £bn</u>						
Resource DEL	9.3	9.4	9.5	9.5	9.5	
Capital DEL	1.2	0.9	0.9	0.8	0.8	
Total DEL	10.5	10.3	10.3	10.3	10.3	
						4 year % Change
<u>Real Terms £bn</u>						
Resource DEL	9.3	9.22	9.01	8.87	8.63	-7.2%
Capital DEL	1.2	0.88	0.86	0.75	0.73	-39.5%
Total DEL	10.5	10.10	9.87	9.62	9.35	-11.0%
<i>Source: HMT CSR October 2010 and Ulster Bank Calculations using GDP deflators</i>						

A town the size of Newry (of public sector workers) was created between GFA and the downturn!

NI Public Sector Employment Boom



Executive Budget cuts are just half the story don't forget AME!

Key Facts & Issues

- Over the last 10 years the UK witnessed a 45% real terms increase in welfare benefits
- 1 in 4 households in receipt of incapacity / invalidity benefits in NI
- Actions so far include:
 - **Indexation** of public sector pensions & benefits to CPI not RPI
 - Scaling back of **tax credits** threshold from £50k to £40k
 - **Child benefit** to be restricted to lower rate tax payers from 2013
 - Forthcoming crackdown on sickness benefits
 - Scaling back **housing benefit**
- Public sector pensions – Lord Hutton Review
 - Higher contribution rates etc.

Threats to the economy

- Welfare reforms will suck hundreds of £m out of economy p.a. indefinitely
- Benefits crackdown will lead to claimants moving onto less generous unemployment benefits
- All measures negative for consumer spending & consumer sensitive sectors be vulnerable
- A deterioration in household finances expected and reducing affordability for mortgages, car loans etc. Mortgage / credit card arrears to rise
- Scaling back in housing benefit will lower yields on rental property implications for landlords

What lies ahead?



Challenges & opportunities for the corporate sector

Risks / threats

- Output price deflation & profit squeeze
- VAT to rise to 20% January 2011
- NI business rates to rise
- Various reliefs (*e.g. manufacturing derating*) likely to be put under spotlight
- Selective financial assistance (state aids) to be scaled back significantly from January 2011
- Vulnerable sectors – construction & consumer sensitive sectors (*e.g. retail, pubs, restaurants etc*)
- Property / debt hangover – NAMA impact?

Opportunities

- Potential 12.5% corporation tax rate and NI to become an ‘Enterprise Zone’?
 - Opportunities for exporters
 - Public sector cuts not all bad - Some firms will benefit from public sector’s need for private sector solutions
 - Certain sectors prospering – food, agriculture, pharma, ICT
-

Challenges & opportunities for the consumer sector

Risks / threats

- Water charges will be introduced at some stage
- Above inflation rises in domestic rates expected
- VAT rise to 20% January 2011, NIC rise April 2011
- Potential for NI specific levies ('Ulster Fry taxes')
- Interest rates will start to rise potentially 2011
- Squeeze on incomes from – benefit cuts, pay cuts / freezes, food price inflation
- Job insecurity and job losses
- Debt hangover / Negative equity

Opportunities

- Affordable housing
- Buyers market for houses / cars etc.

NI Executive has arrived at a crossroads



- March 2010 Budget, Emergency Budget and CSR
- Executive to agree a budget (January 2011?) – will it be for 4 years or just 1 year?
- But NI economy will be affected by budgets south of the border. Particularly when the IMF is in town. £13bn fiscal adjustment in 4yrs.



- Watch out for U-turns on water charges, prescriptions, free transport for >60yrs
- Will politics trump the economy as the number one priority?

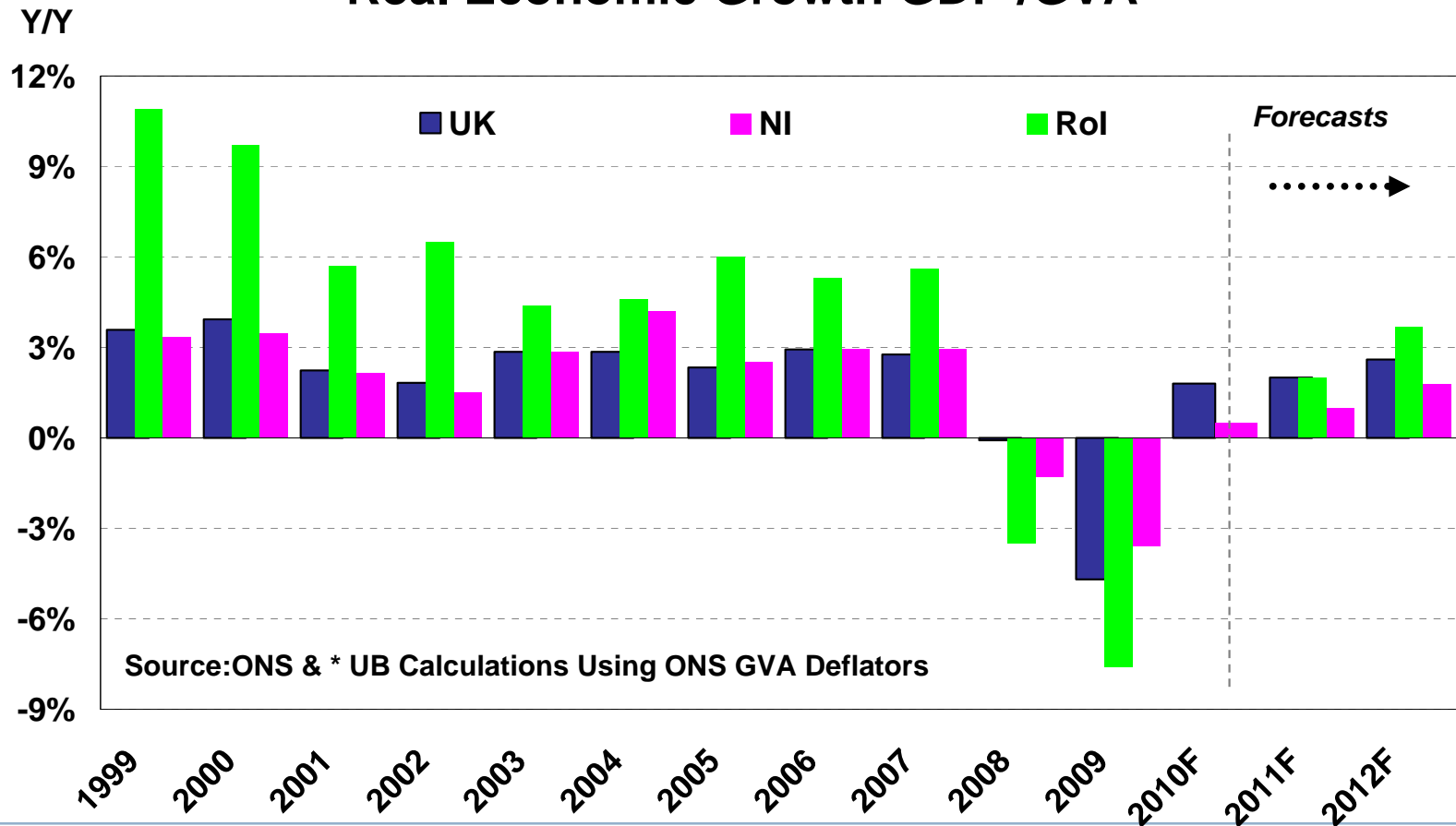
UK's IMF Crisis of 1974 and 1976.....Any parallels in 2008/09?

“Some Ministers seemed unconscious of the economic crisis that had struck the country. Their attitude resembled that of the characters in Jane Austen’s novels who carried on their lives undisturbed by the Napoleonic Wars”.

Edmund Dell describing the Labour Cabinet in 1974 in his book ‘The Chancellors: A History of Chancellors of the Exchequer 1945-90’

Next decade will HURT and need strategies to numb the pain

Real Economic Growth GDP /GVA



Plenty of reasons to be fearful but also several to be cheerful!

- Cross-border capital investment – safe (for now?)
- Far-off fields (e.g. *BRICs & Germany*) are greenerso export there
- Global demand for food & pharmaceuticals is set to rise well into the future
- Housing affordability has improved remarkably
- 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
- An opportunity to radically change the economy for the better
- Recent FDI into Titanic Quarter (e.g. *Citi*) perhaps just the tip of the iceberg?
- RoI's 12.5% tax rate will keep Island of Ireland on the global FDI map – the world is still watching
- '*Enterprise Zone*' status and possibility of a lower corp tax rate?
- Titanic Centenary / London Olympics 2012, Derry – Londonderry City of Culture 2013

New Year's resolutions for the NI economy in 2011

- NI needs to adopt a **'tell it like it is'** strategy on economy and Re: finances (**'FDAD'**)
 - DFP to have a **Tier 1 objective** to rebalance the economy & economy proof activities
 - Commission an **independent review into public sector pay** levels (public v private & frontline v non-frontline – £22k p.a. for basic admin support with no qualifications?)
 - Pay progression linked to responsibilities / productivity – abolish **automatic** 1 step rise
 - Cut junior NICS grade structure from 7/8 grades to 4/5 – **lower admin support ratios**
 - Greater cuts on current expenditure side to **divert funds to capital investment**
 - NI to **raise the same revenue per head** as comparable regions (e.g. NE & Wales)
 - A list of public sector functions to be **privatised / outsourced** drawn up
 - **Re-negotiate existing procurement contracts** to cut costs and achieve greater VfM
 - Need an **'Incentives R Us'** economy not **'Subsidies R Us'** – **swap PE for incentives**
 - Public sector / economic **reform experts** parachuted in for 5 years – Junior Ministers?
 - A Scottish style **council of economic advisers** (local & international experts)
-

Every cloud has a silver lining according to Dr Doom



“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 aka Dr Doom

2009 Crisis Economics – A Crash Course in the Future of Finance

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Questions & Answers

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