

# **Northern Ireland Assembly & Business Trust**

**Can the private sector offset the cuts?**

**15<sup>th</sup> June 2015**

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# Agenda

- The wider picture - growth or cuts the theme?
- Northern Ireland: Following suit or a new direction?
- Cuts: Can we cope?
- Closing thoughts

# The wider picture: Growth or cuts the theme?

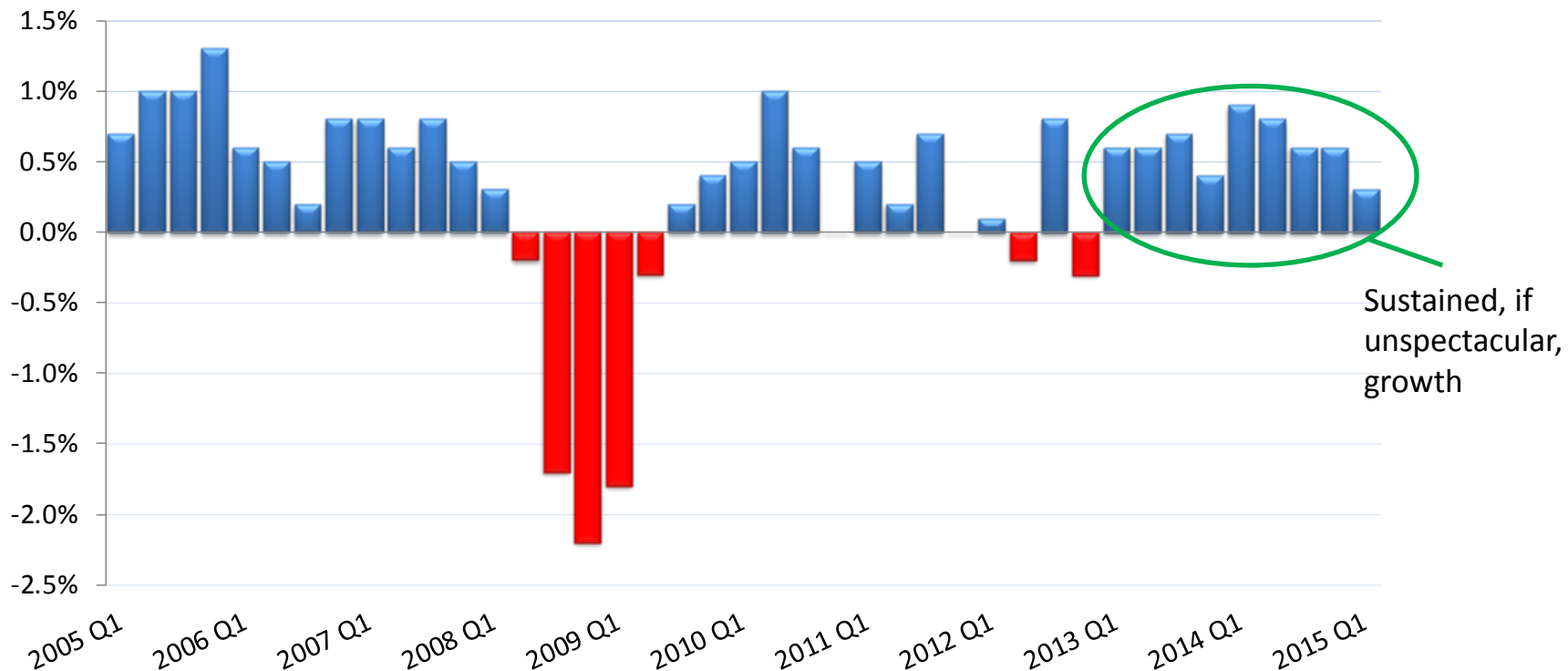
# UK recovery underway



	Change on quarter	Change on year
GDP	↑	↑
Employee Jobs	↑	↑
Self Employment		↑
Unemployment	↓	↓
Skills - NVQ 4+		↑
Economic Inactivity	↑	↓
House Prices	↑	↑
Exports		↓
Purchasing Managers Index	↑	↑

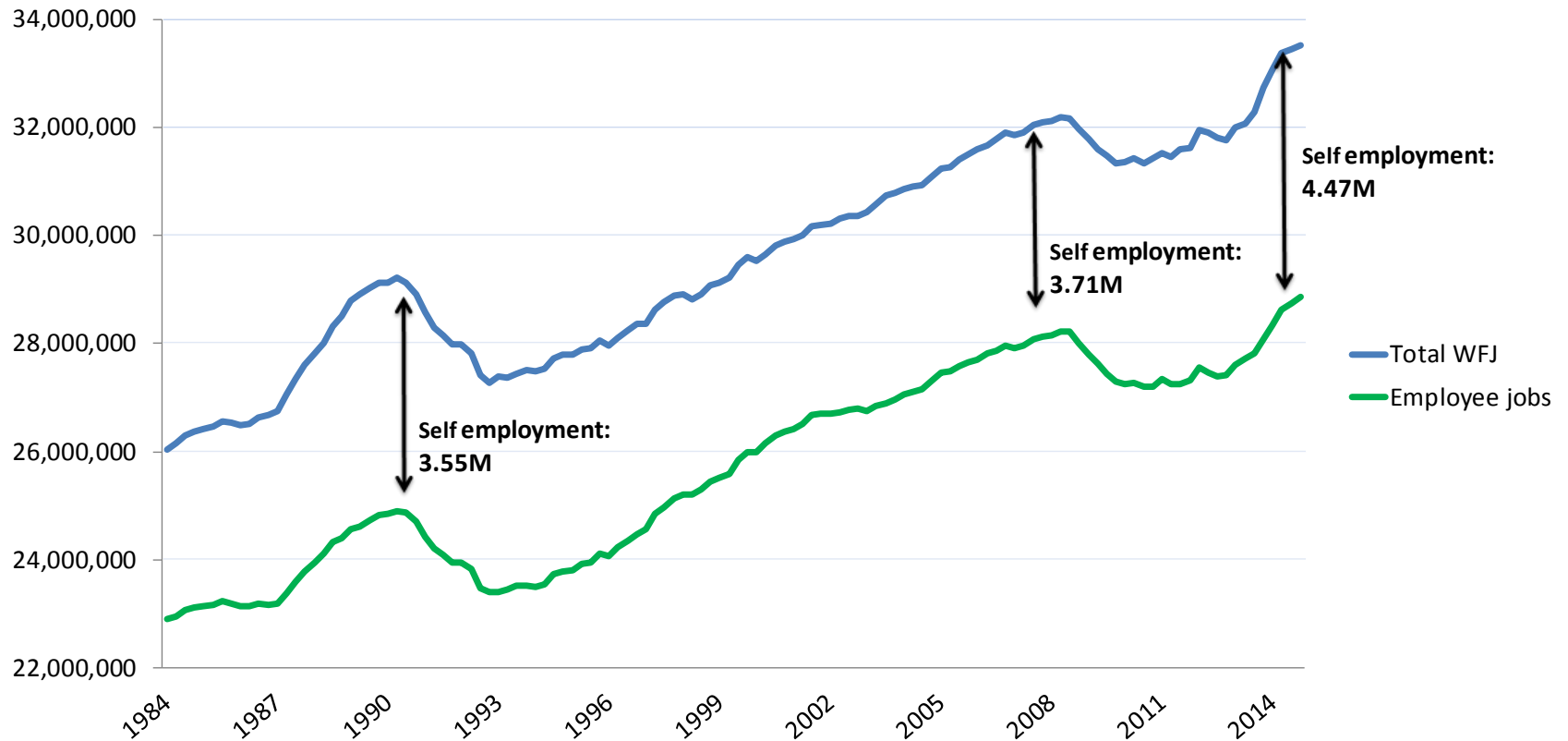
# UK quarterly GDP (real)

Real quarterly GDP change, UK, 2005-2015 (2011 prices)



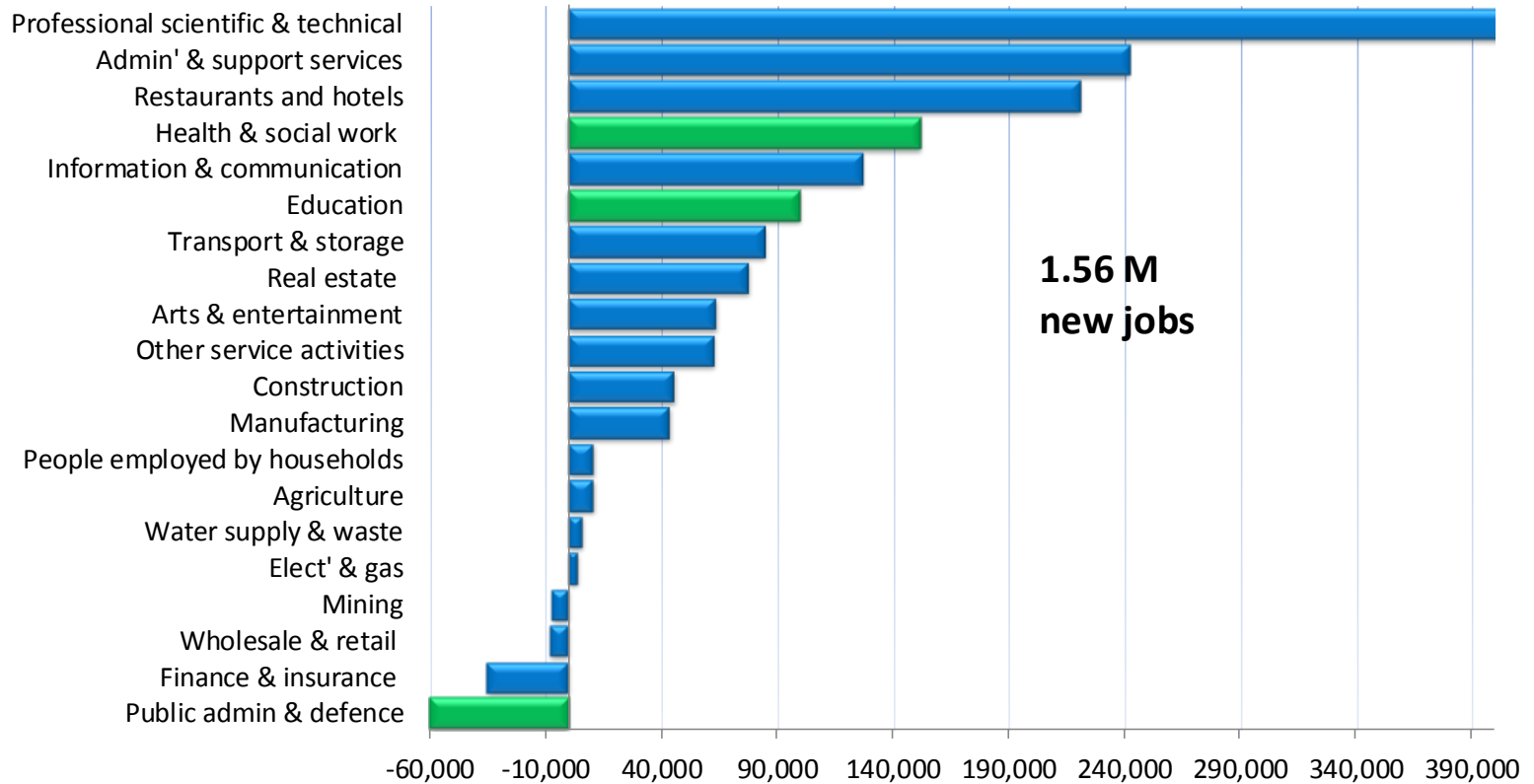
# Booming UK labour market

Workforce jobs, UK, 1984-2014

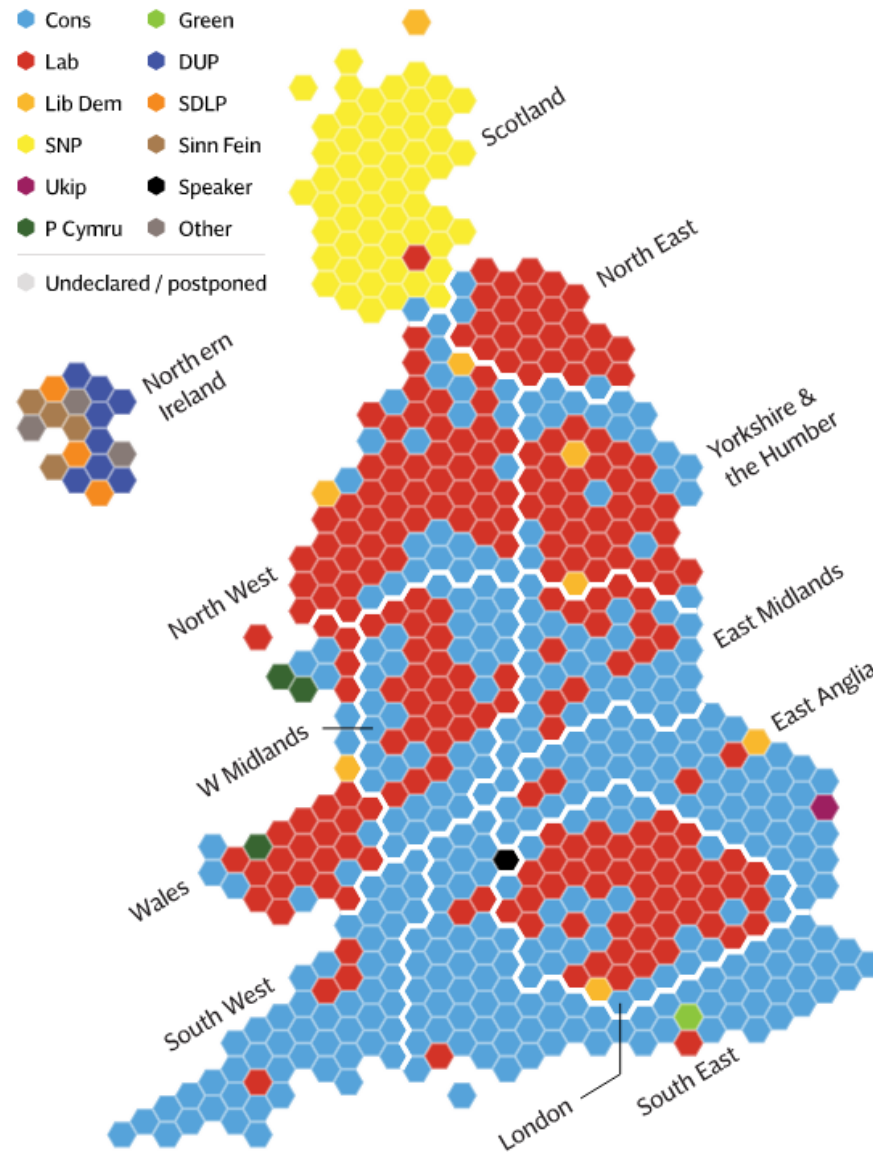


# With service sector dominating the jobs

Employment change by industry, UK, Q1 12- Q4 14



# Tory victory means cuts not taxes





# Principles of next parliament:

Economic principles of Conservative Government:

- Eliminate the deficit and be running a surplus by the end of the Parliament
- 2 million extra jobs
- Extra £8bn above inflation for the NHS by 2020
- Extend Right to Buy to housing association tenants in England
- Legislate to keep people working 30 hours on minimum wage out of tax
- 30 hours of free childcare per week for working parents of 3&4-year-olds
- Referendum on Britain's EU membership



# NI: Following suit or a new direction?

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# Who are we?



Total population (2013)	1.8 million
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Working age population (2013)	1.2 million
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Economically active	870,000
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In employment	820,000
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Unemployed	50,000
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Inactive	325,000
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Looking After Family/Home	78,000
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Student	89,000
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Temporary sick	5,000
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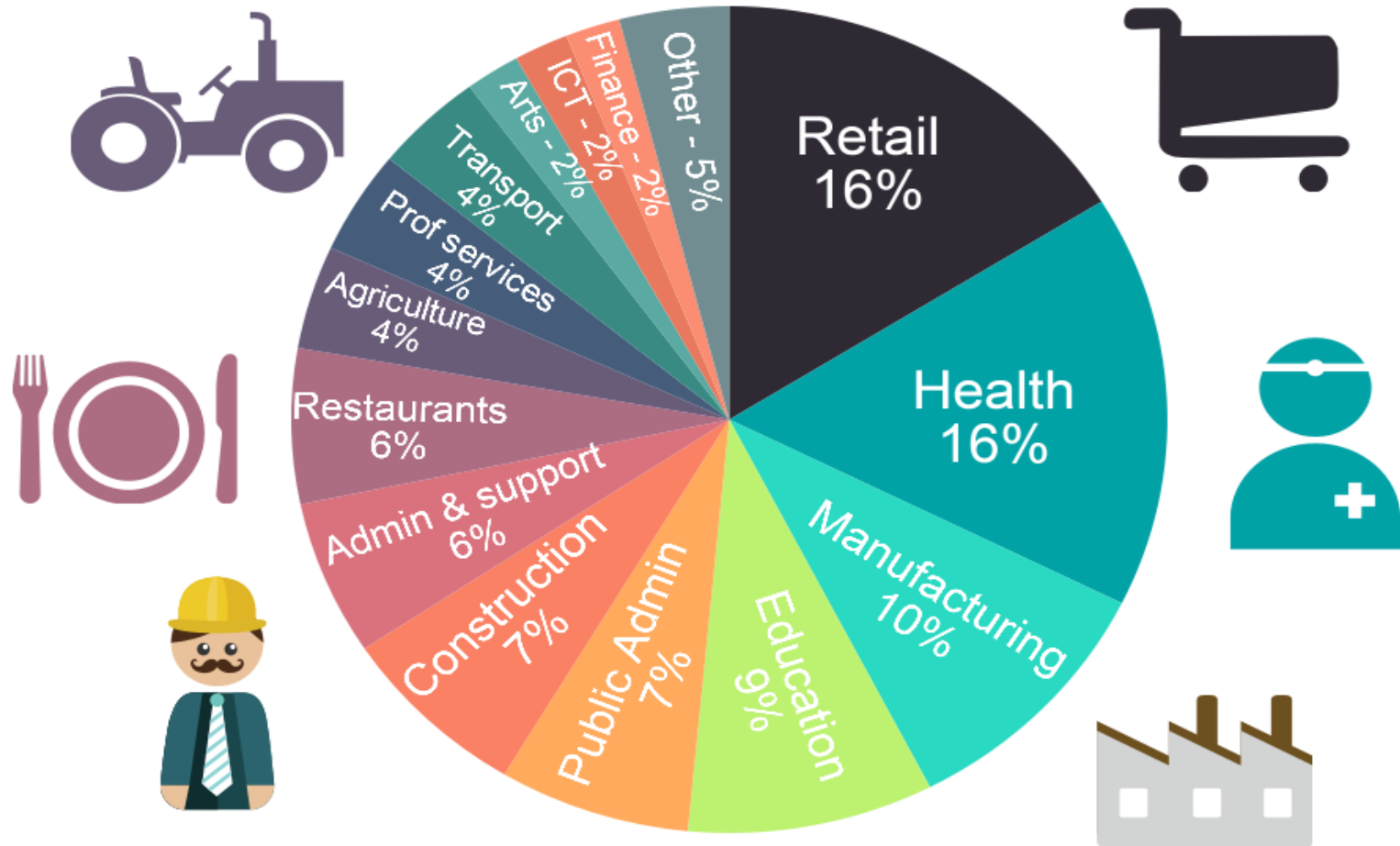
Long term sick	88,000
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Retired	39,000
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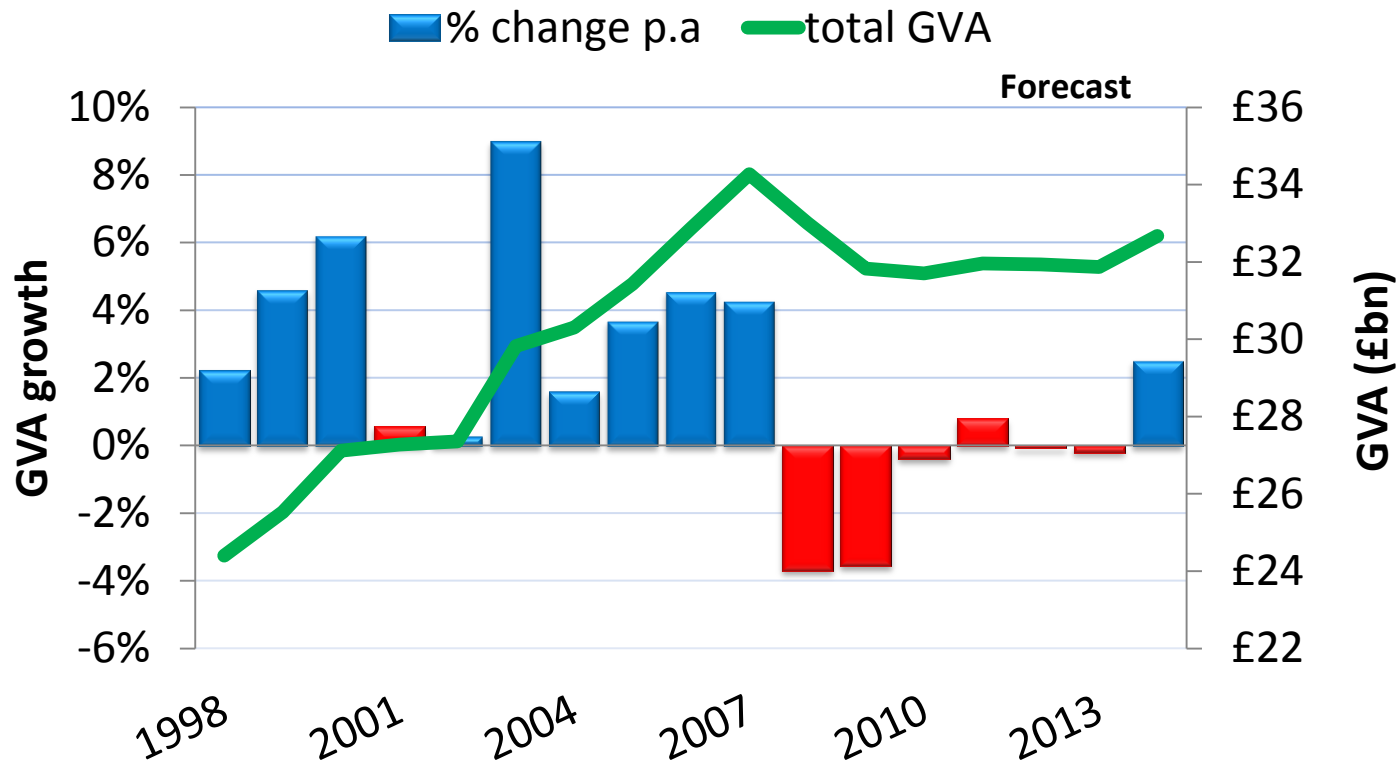
Other	31,000
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# Where does everybody work?



# A painful, prolonged recession

## Real GVA, NI, 1998 - 2014

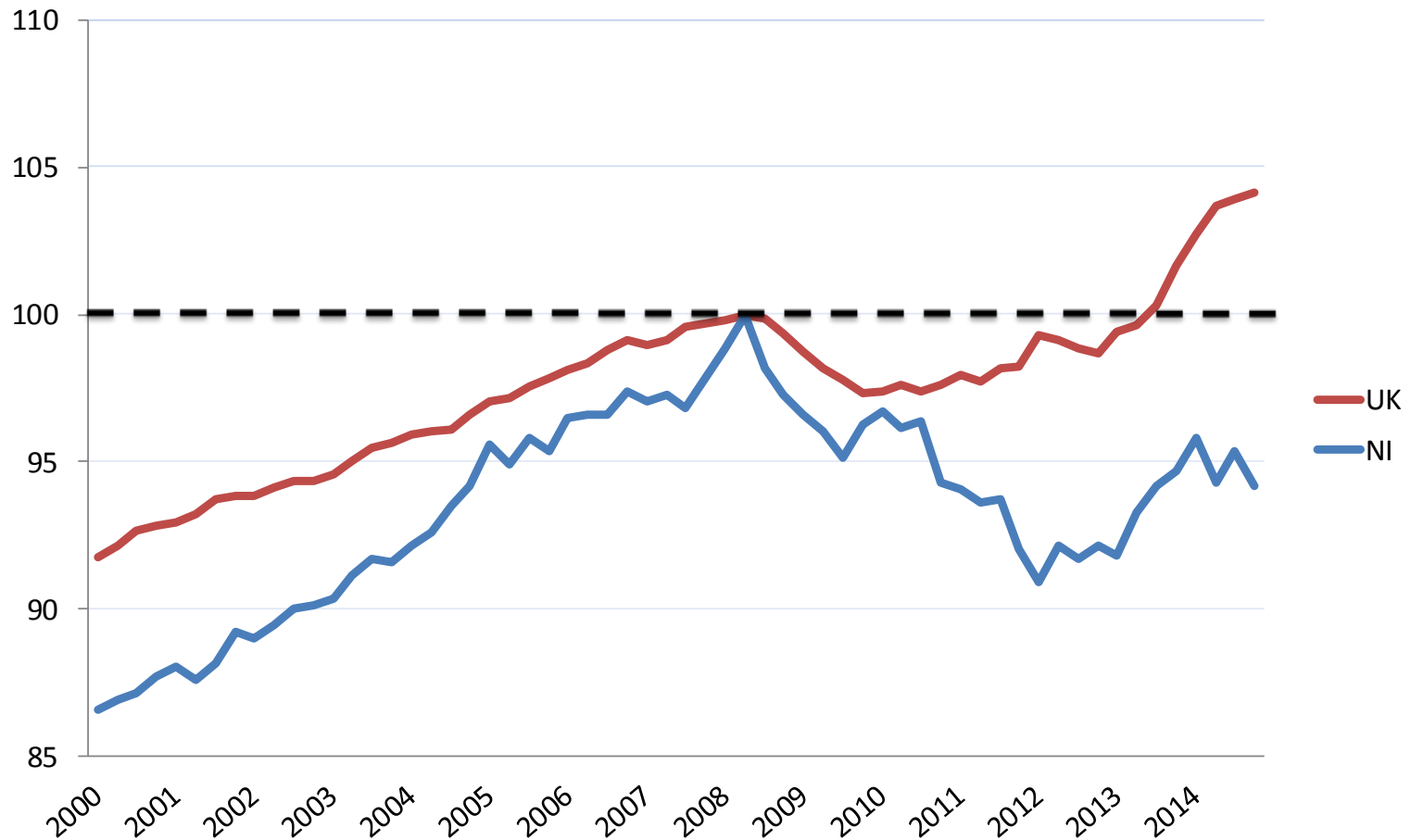


% change in GVA 02-03 (nominal) key sectors (note likely data errors):

Finance: 30%  
Construction: 18%  
ICT: 18%  
Prof' services: 15%  
Retail: 15%

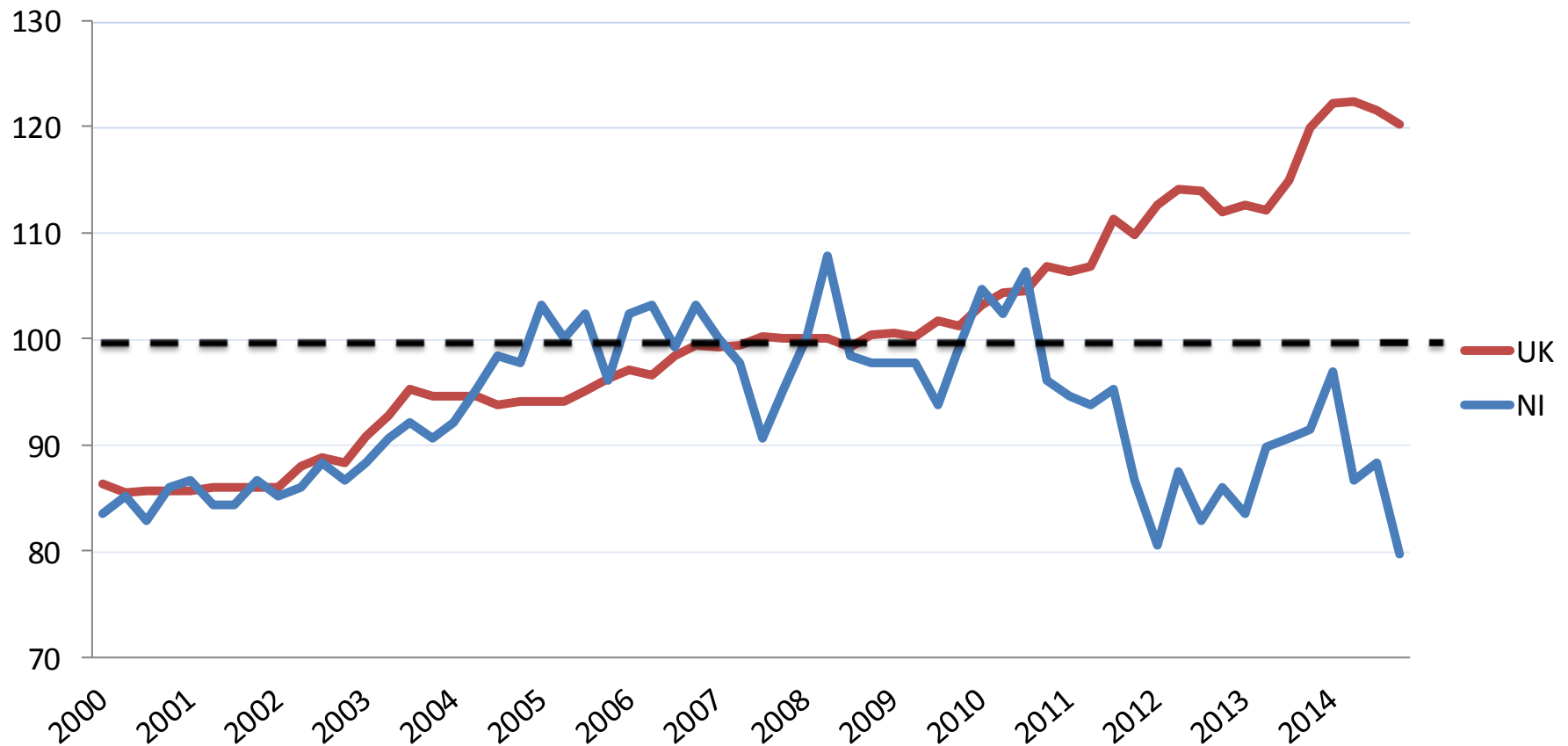
# Recent data suggests employment has been muted...

Workforce jobs index, NI & UK, 2000-2014 (2008=100)



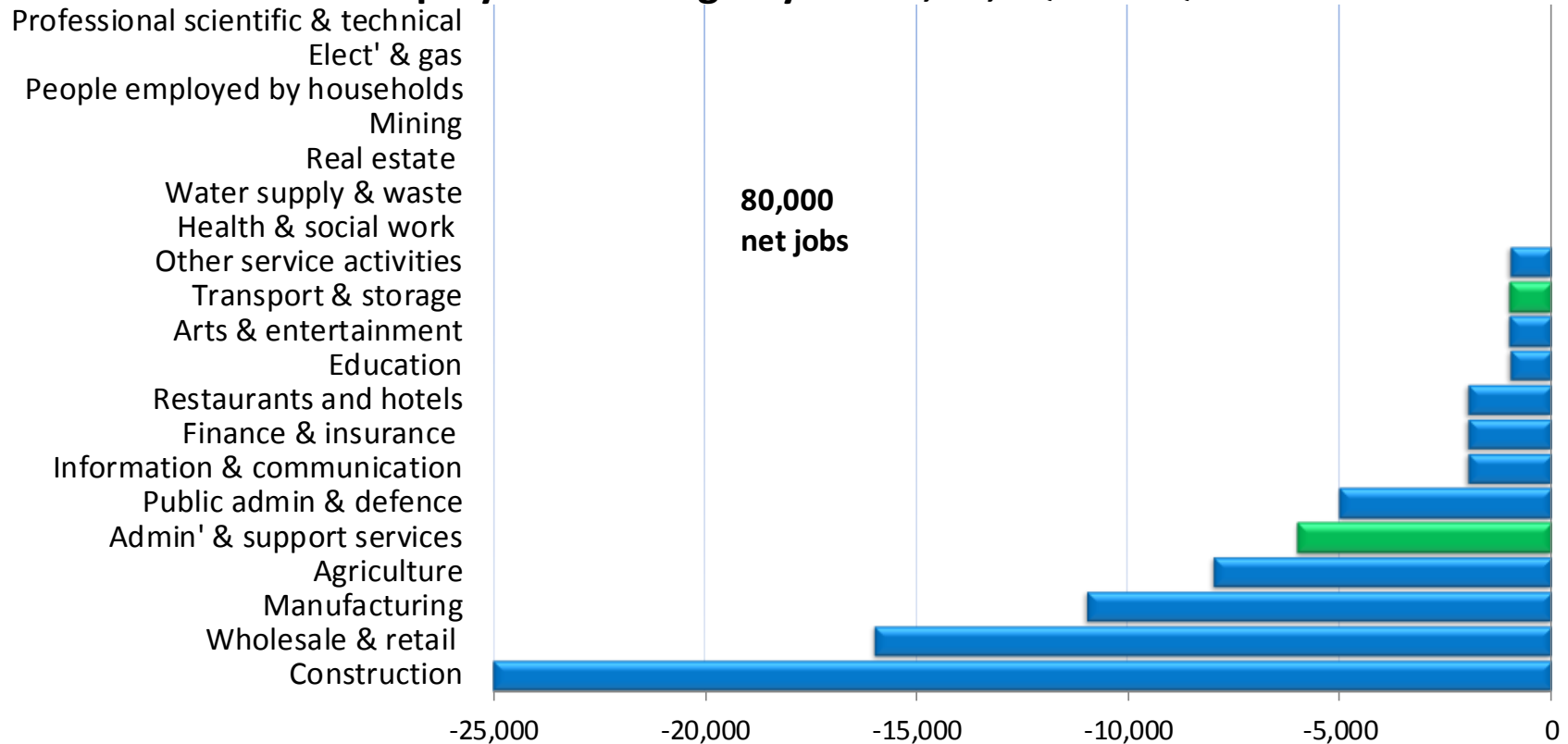
# ...mainly driven by the self employed – which seems odd

Self employment index, NI & UK, 2000-2014 (2008=100)



# There were 80,000 jobs lost

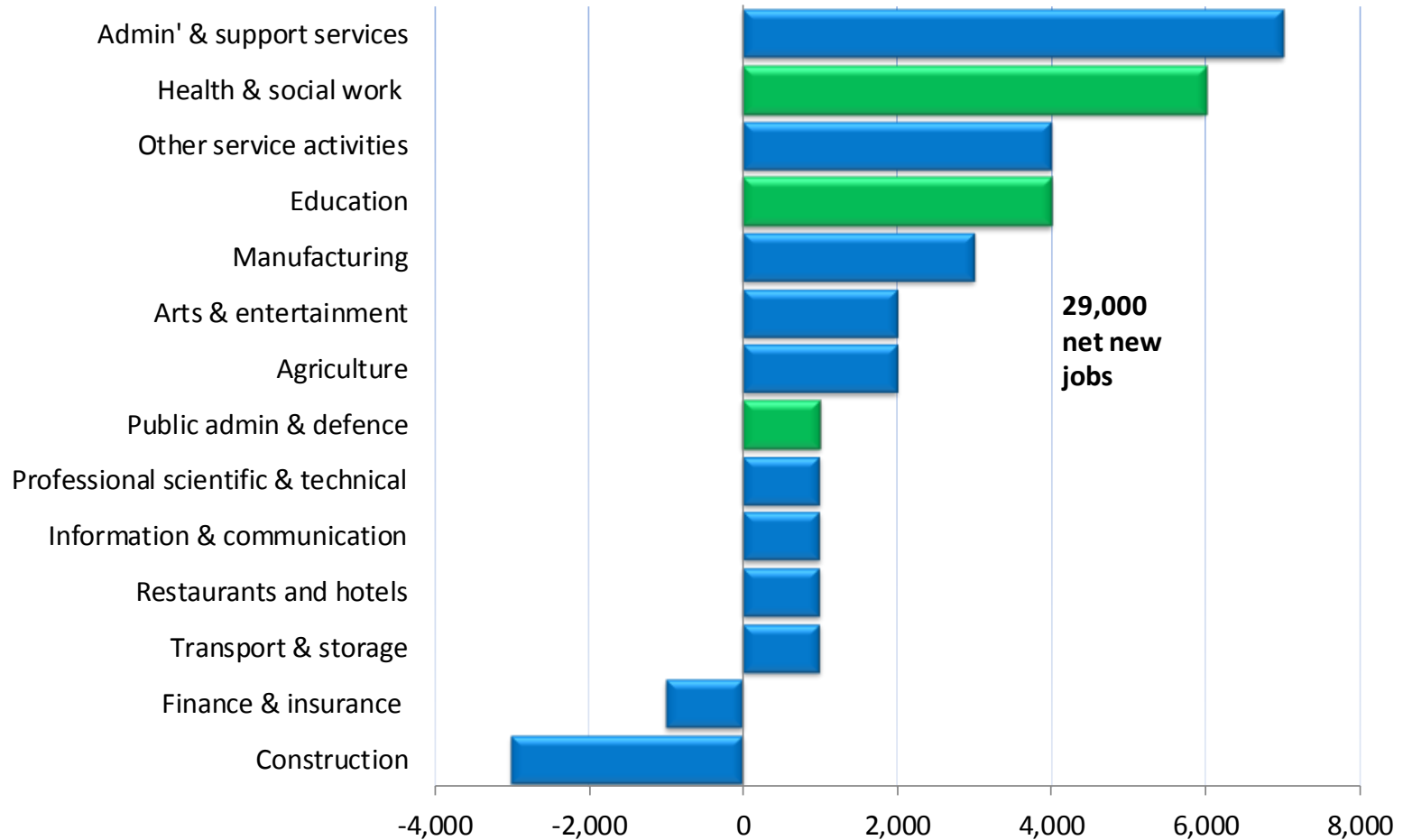
**Employment change by sector, NI, Q2 08- Q1-12**





# 29,000 jobs have been recovered

Job change by industry, NI, Q1 12-Q4 14

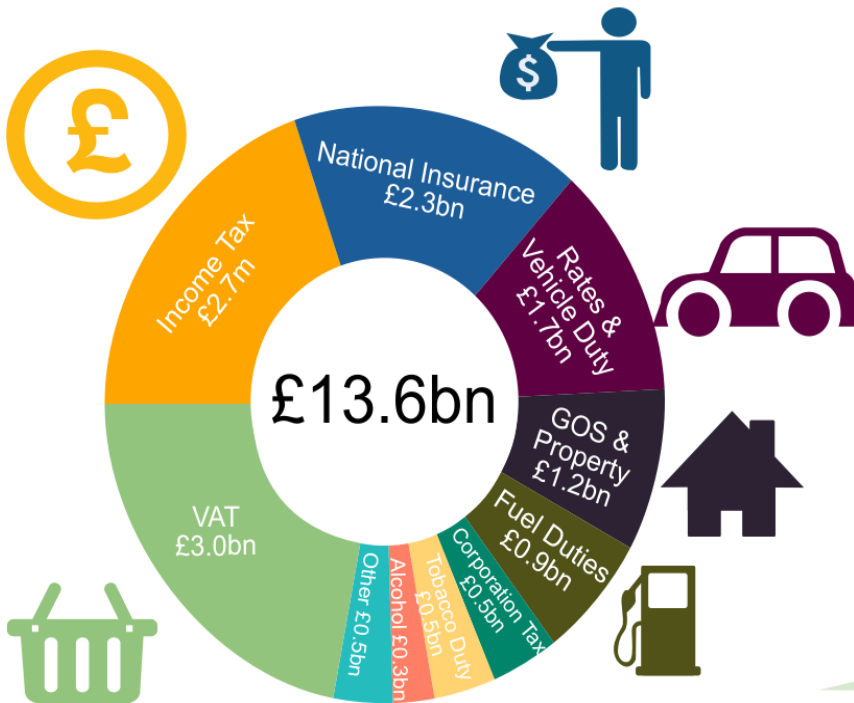


# Some truths

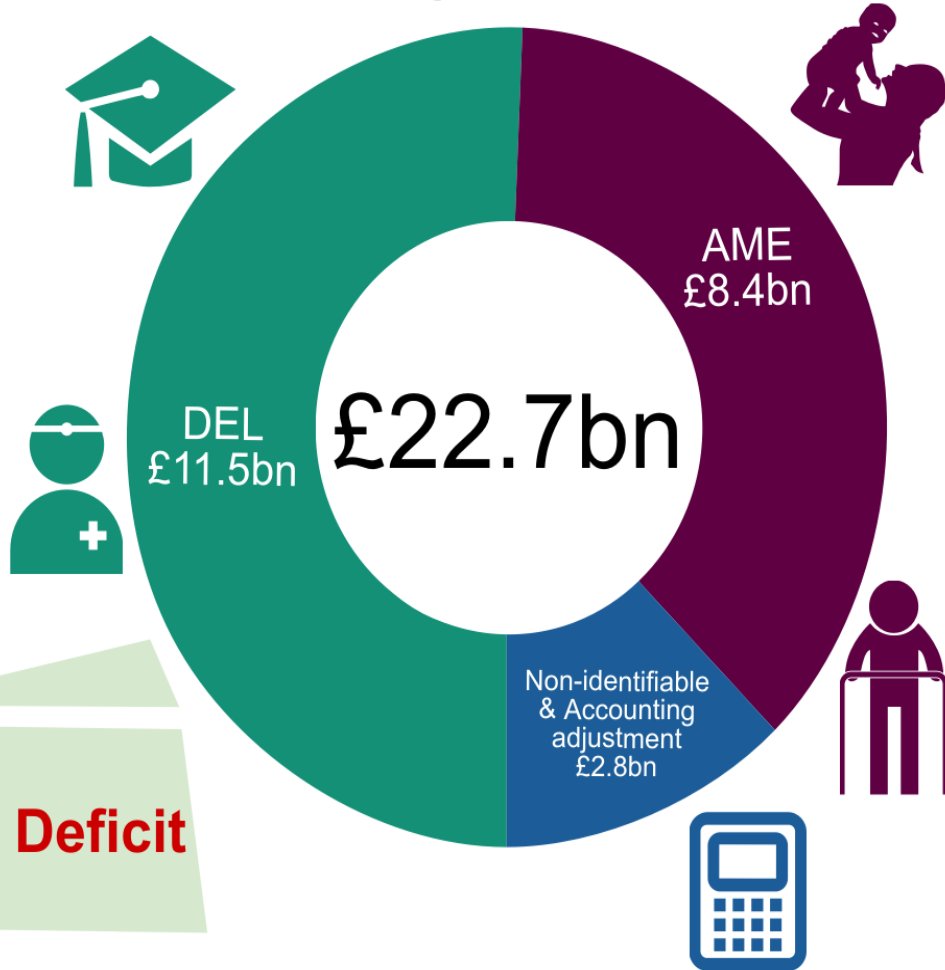
1. Not fiscally sustainable
2. Persistently trailing the UK
3. Private sector too small
4. Skills, a source of pride and disgrace
5. A good place to do business
6. Lower paid but lower taxed

# 1) What we spend and how do we get it?

## Income



## Expenditure

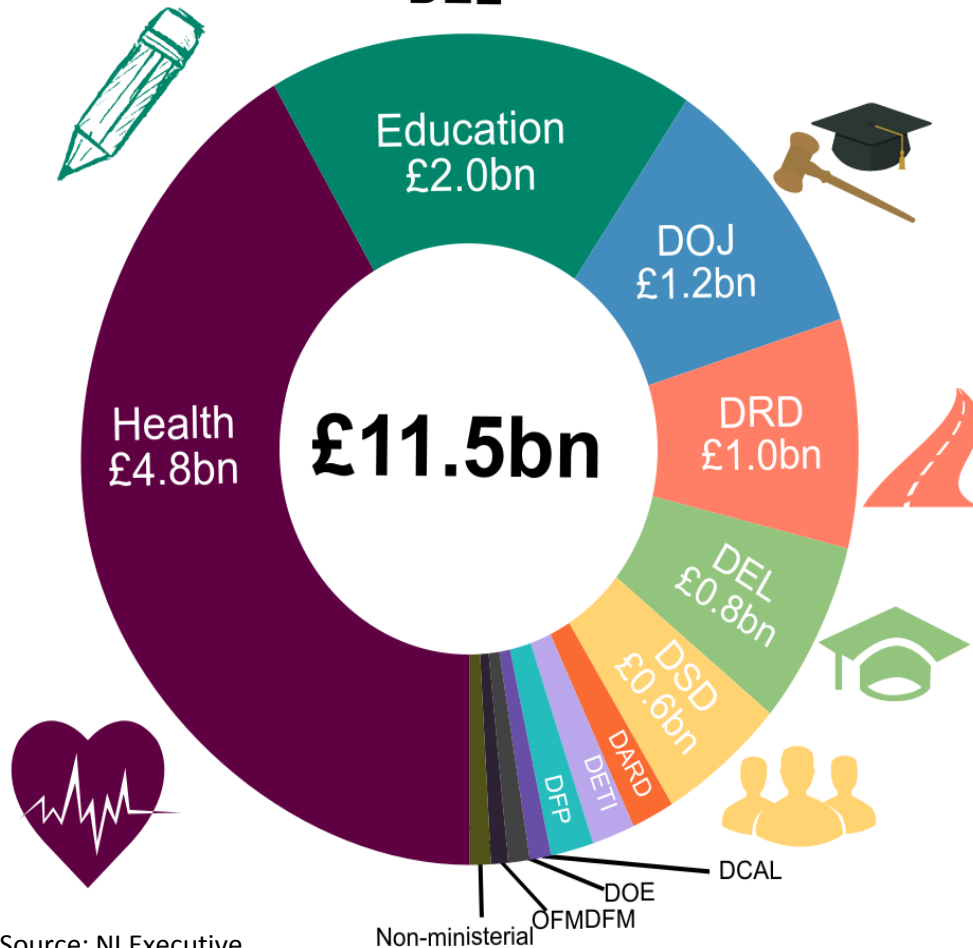


**2013/14  
Effective Fiscal Deficit  
£9.1bn**

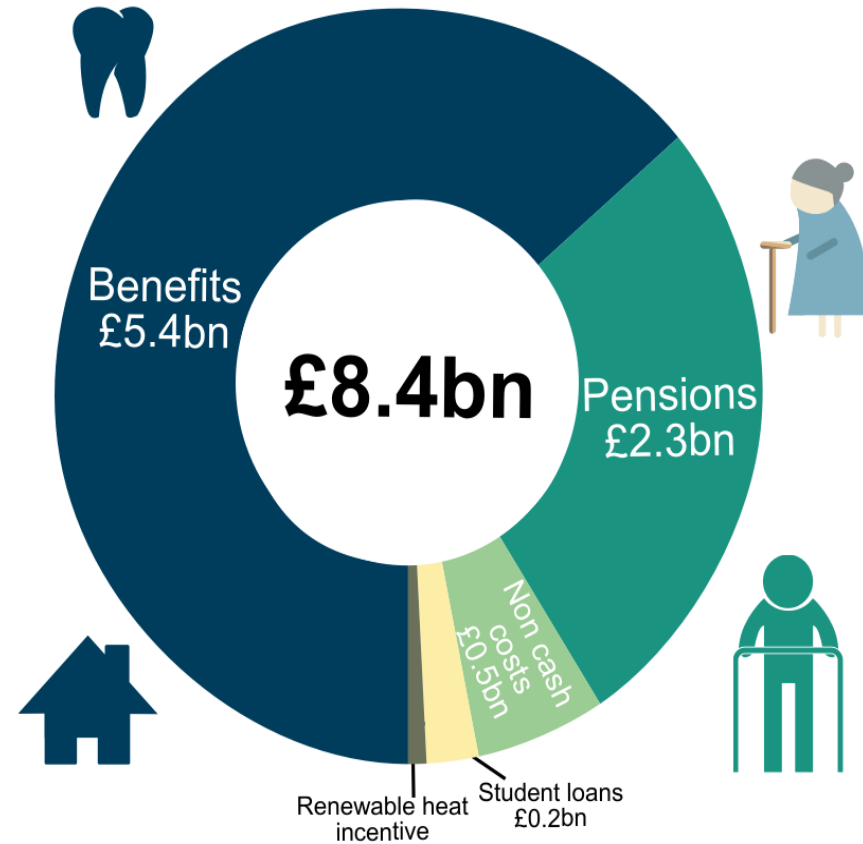
Source: HMRC, NI Executive, PESA

# 1) How we spend it

DEL

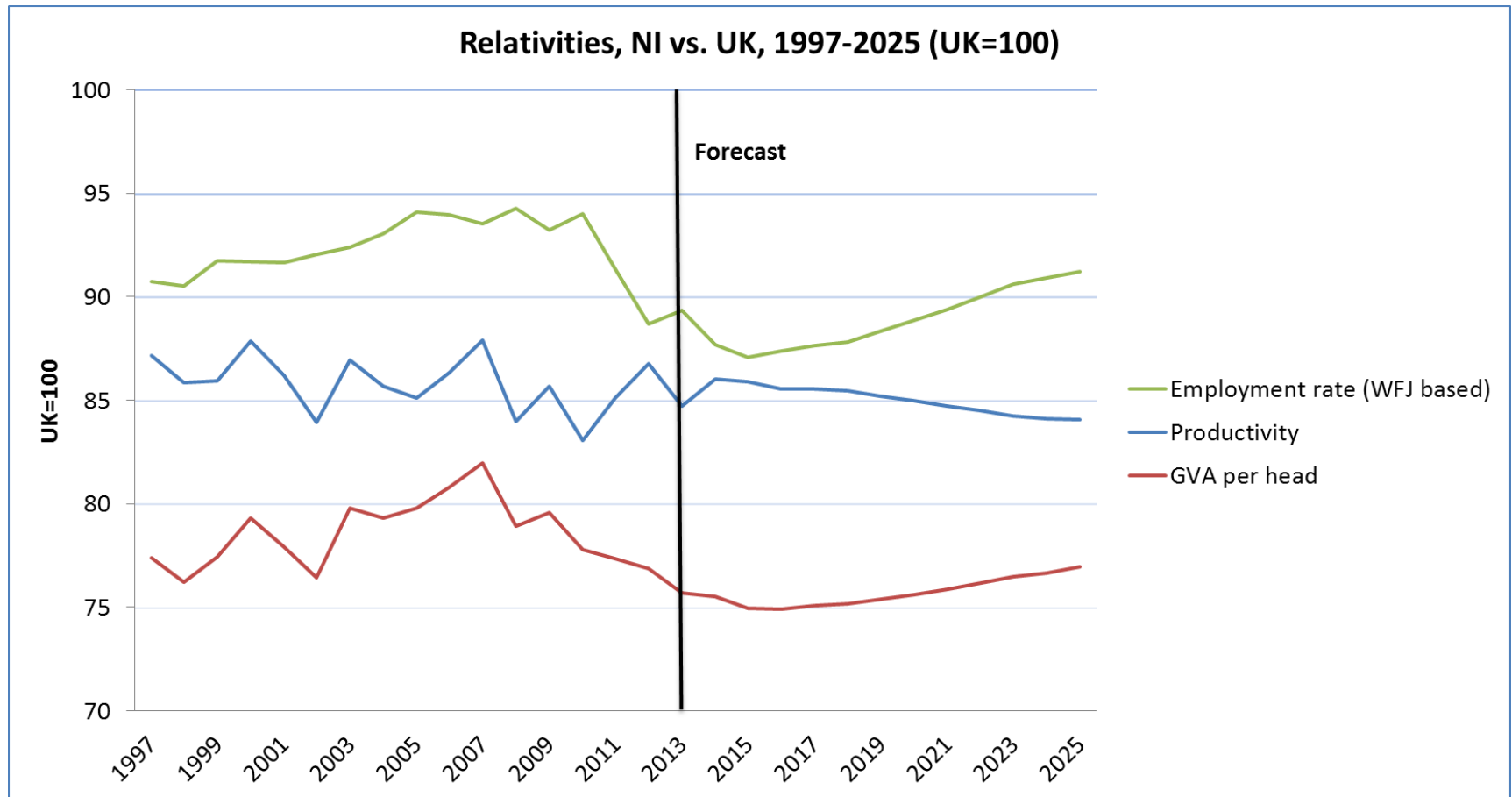


AME



Source: NI Executive

## 2) Persistent economic differentials

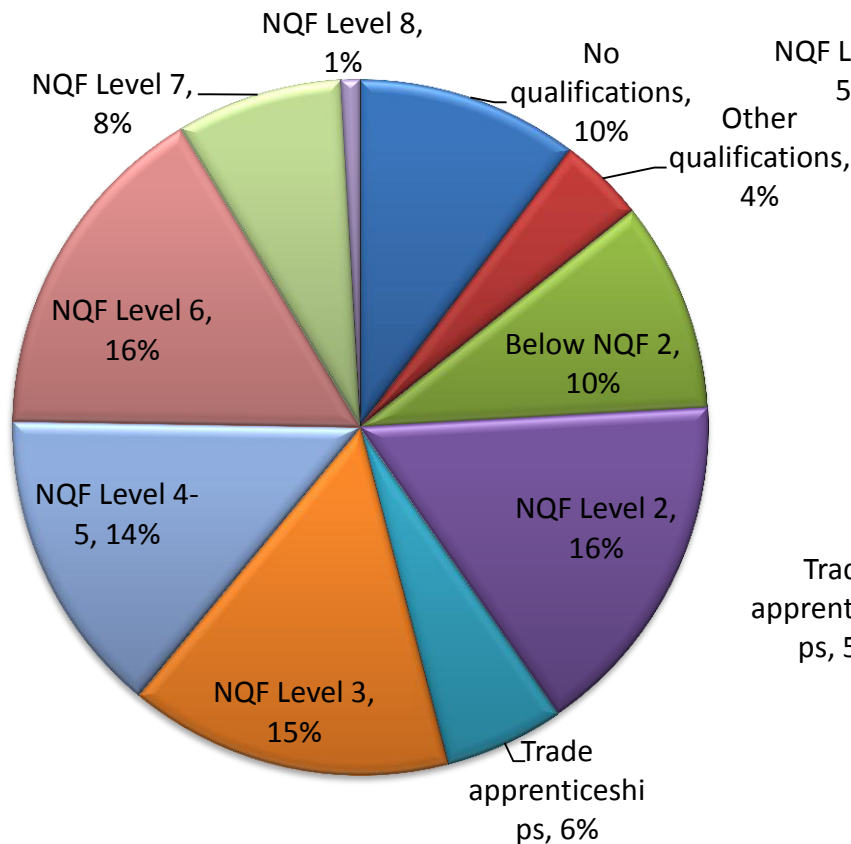


### 3) Private sector too small

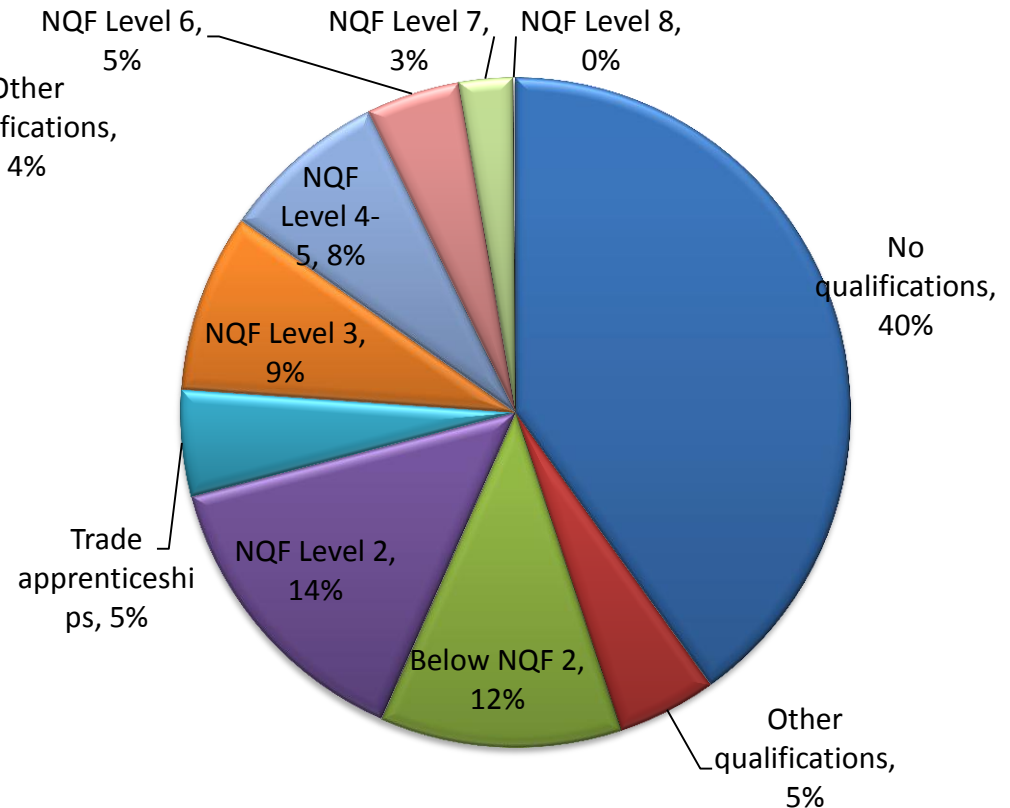
Employment per 1000 working age people by sector			
Sector	NI	UK	Dif (no.)
Agriculture	30	11	-23
Mining	1	2	0
Manufacturing	72	63	-10
Elect' & gas	1	3	3
Water supply & waste	4	5	0
Construction	47	51	5
Wholesale & retail	114	118	5
Transport & storage	26	38	15
Restaurants and hotels	39	54	17
Information & communication	17	33	18
Finance & insurance	16	27	13
Real estate	7	14	8
Professional scientific & technical	30	70	48
Admin' & support services	43	67	29
Public admin & defence	49	36	-15
Education	64	70	7
Health & social work	114	103	-13
Arts & entertainment	17	23	7
Other service activities	18	21	4
People employed by households	1	2	2
TOTAL	711	811	119

# 4) Skills pride: Skills disgrace

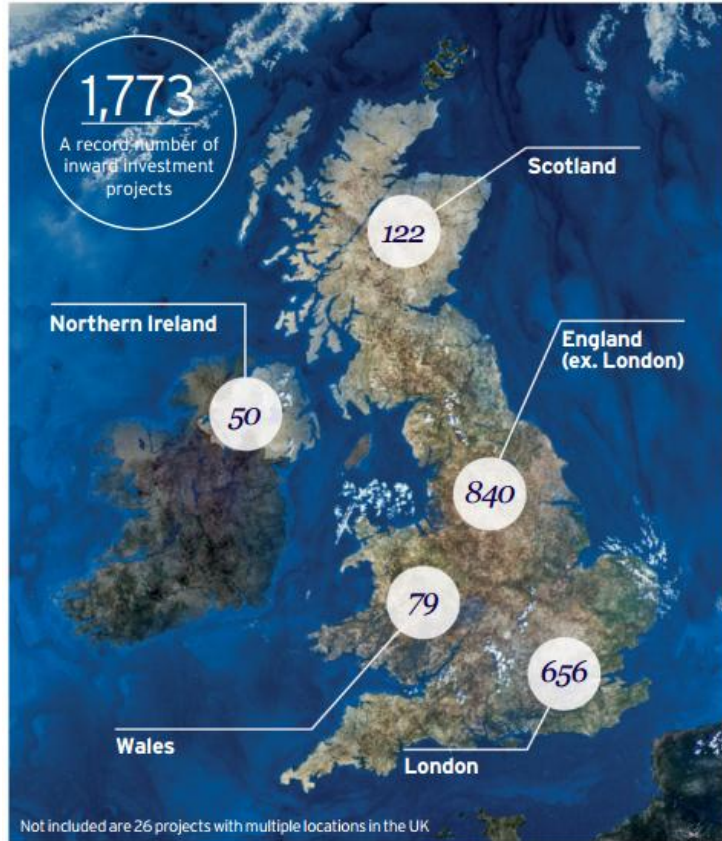
Employed



Inactive excluding students



# 5) A good place to do business



“Invest Northern Ireland has exceeded four of the five targets set for it in 2011. The promotion of 37,000 new jobs for Northern Ireland has far exceeded everyone’s expectations and is a real testament to the commitment and hard work of the agency to support businesses to deliver the best for Northern Ireland.

“Combined with delivery of £2.6billion of investment into the local economy against a target of £1billion and securing £500million of investment in R&D against a target of £300million, we can feel encouraged by our local companies’ continued commitment to innovation and growth; and by our success at attracting globally mobile investment.

Minister Bell.



## 6) Lower paid but lower taxed

Northern Ireland, 2014		Mean salary		
Sector of employment	All	Male	Female	Rel to UK
Elect' & gas	£43,000	£51,000	£25,000	105%
Finance & insurance	£33,000	£44,000	£25,000	54%
Information & communication	£32,000	£37,000	£24,000	80%
Public admin & defence	£26,000	£30,000	£22,000	88%
Manufacturing	£26,000	£28,000	£19,000	84%
Water supply & waste	£25,000	£25,000	£26,000	80%
Education	£25,000	£31,000	£22,000	103%
Construction	£24,000	£25,000	£16,000	78%
Professional scientific & technical	£23,000	£26,000	£20,000	63%
Transport & storage	£22,000	£23,000	£19,000	73%
Real estate	£20,000	£24,000	£17,000	72%
Health & social work	£19,000	£27,000	£18,000	82%
Admin' & support services	£18,000	£21,000	£13,000	83%
Other service activities	£17,000	£23,000	£12,000	79%
Arts & entertainment	£16,000	£19,000	£13,000	79%
Wholesale & retail	£16,000	£19,000	£12,000	76%
Agriculture	£15,000	£17,000	£10,000	76%
Restaurants and hotels	£10,000	£12,000	£9,000	72%
<b>TOTAL</b>	<b>£22,000</b>	<b>£26,000</b>	<b>£18,000</b>	<b>81%</b>

Lower taxes:

Income effects, domestic rates, prescriptions, stamp duty (via lower prices), private education / health (take up reasons).

## 6) All regions feeling “income squeezes”

Change in wages (07-14). Median, full time workers, UK regions		
Region	Real	Nominal
London	-10.9%	9.9%
North West	-10.1%	10.8%
West Midlands	-10.0%	10.9%
Yorkshire and The Humber	-9.4%	11.7%
South East	-9.0%	12.1%
East	-8.7%	12.6%
East Midlands	-8.4%	13.0%
South West	-8.0%	13.4%
Wales	-6.9%	14.8%
<b>Northern Ireland</b>	<b>-6.7%</b>	<b>15.0%</b>
Scotland	-5.0%	17.1%
North East	-4.2%	18.1%

# Cuts: Can we cope?

# What does the OBR say?

## Economic outlook (Mar 15)

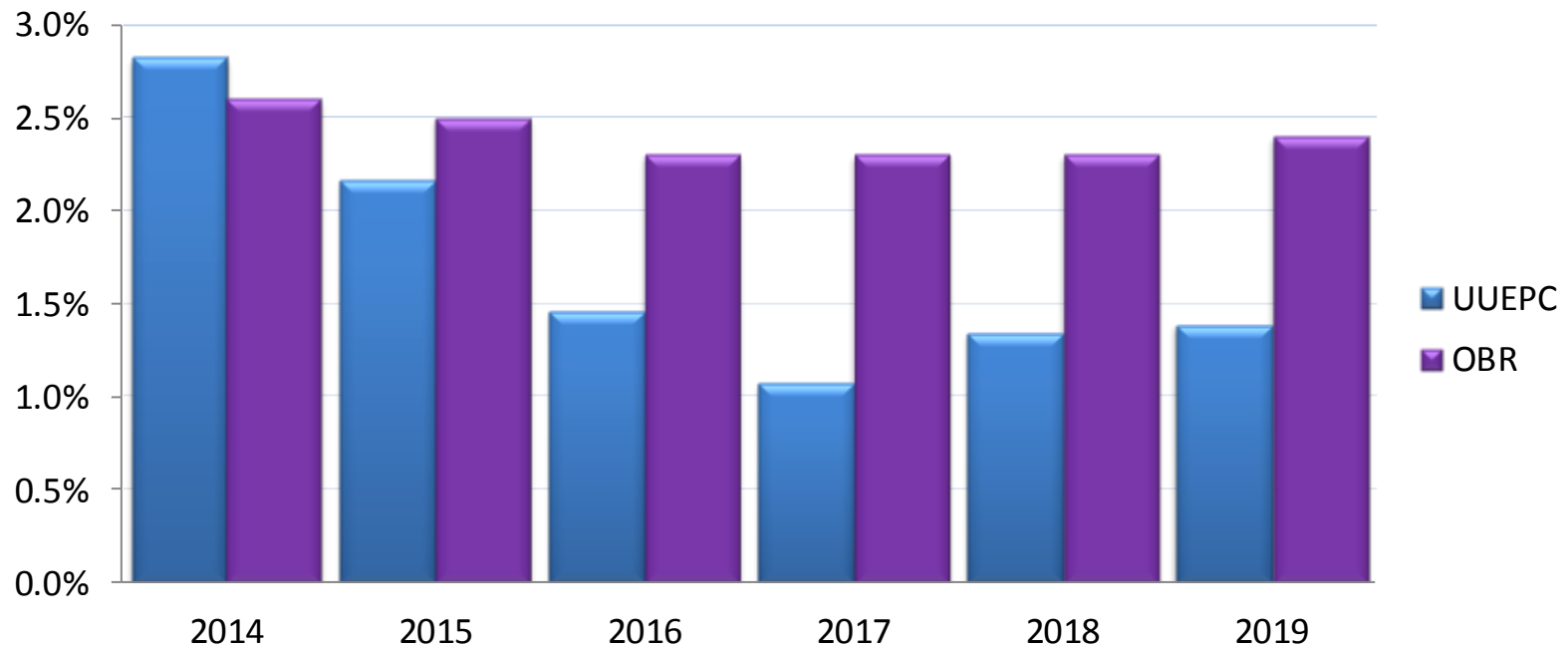
	Percentage change on a year earlier, unless otherwise stated						
	Outturn 2013	Forecast					
	2013	2014	2015	2016	2017	2018	2019
Output at constant market prices							
Gross domestic product (GDP)	<b>1.7</b>	<b>2.6</b>	<b>2.5</b>	<b>2.3</b>	<b>2.3</b>	<b>2.3</b>	<b>2.4</b>
GDP levels (2013=100)	100.0	102.6	105.1	107.6	110.1	112.7	115.3
Output gap	-2.2	-1.0	-0.4	-0.2	-0.1	0.0	0.0
Expenditure components of GDP							
Household consumption	1.7	2.0	2.6	2.7	2.5	2.3	2.2
General government consumption	-0.3	1.5	0.8	-0.7	-0.9	-0.2	1.5
Business investment	5.3	6.8	5.1	7.5	6.5	6.4	4.4
General government investment	-8.1	7.3	2.3	1.9	1.6	1.5	2.8
Net trade <sup>1</sup>	0.0	-0.5	-0.1	-0.4	-0.2	-0.2	-0.2
Inflation							
CPI	<b>2.6</b>	<b>1.5</b>	<b>0.2</b>	<b>1.2</b>	<b>1.7</b>	<b>1.9</b>	<b>2.0</b>
Labour market							
Employment (millions)	30.0	30.7	31.1	31.4	31.5	31.7	31.9
Average earnings	1.6	2.2	2.3	3.1	3.7	4.0	4.4
LFS unemployment (% rate)	<b>7.6</b>	<b>6.2</b>	<b>5.3</b>	<b>5.2</b>	<b>5.3</b>	<b>5.3</b>	<b>5.3</b>
Claimant count (millions)	1.42	1.04	0.77	0.74	0.76	0.77	0.77

Cuts have no effect?

Pay critical

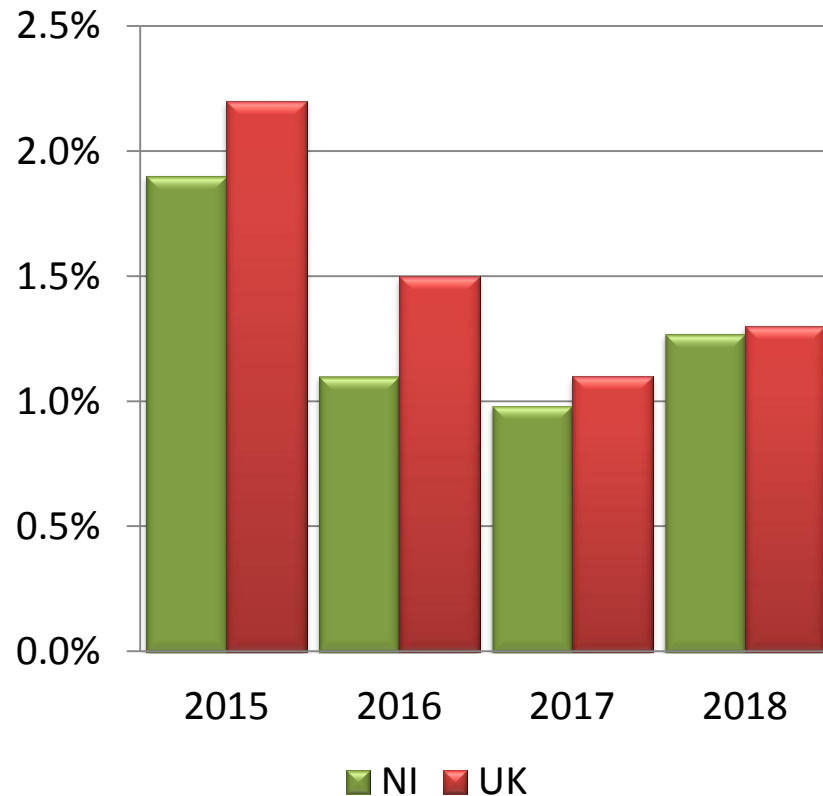
# UUEPC vs. OBR GDP outlook

OBR & UUEPC GDP growth, UK, 2014-2019

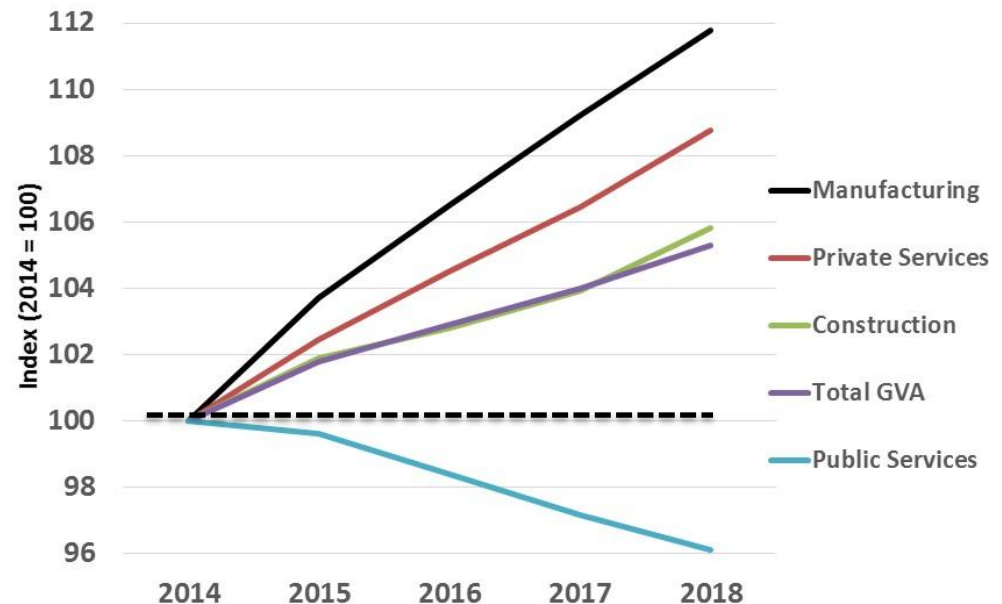


# UUEPC: Growth will start to slow

## Real GVA Growth, NI & UK, 2015-18

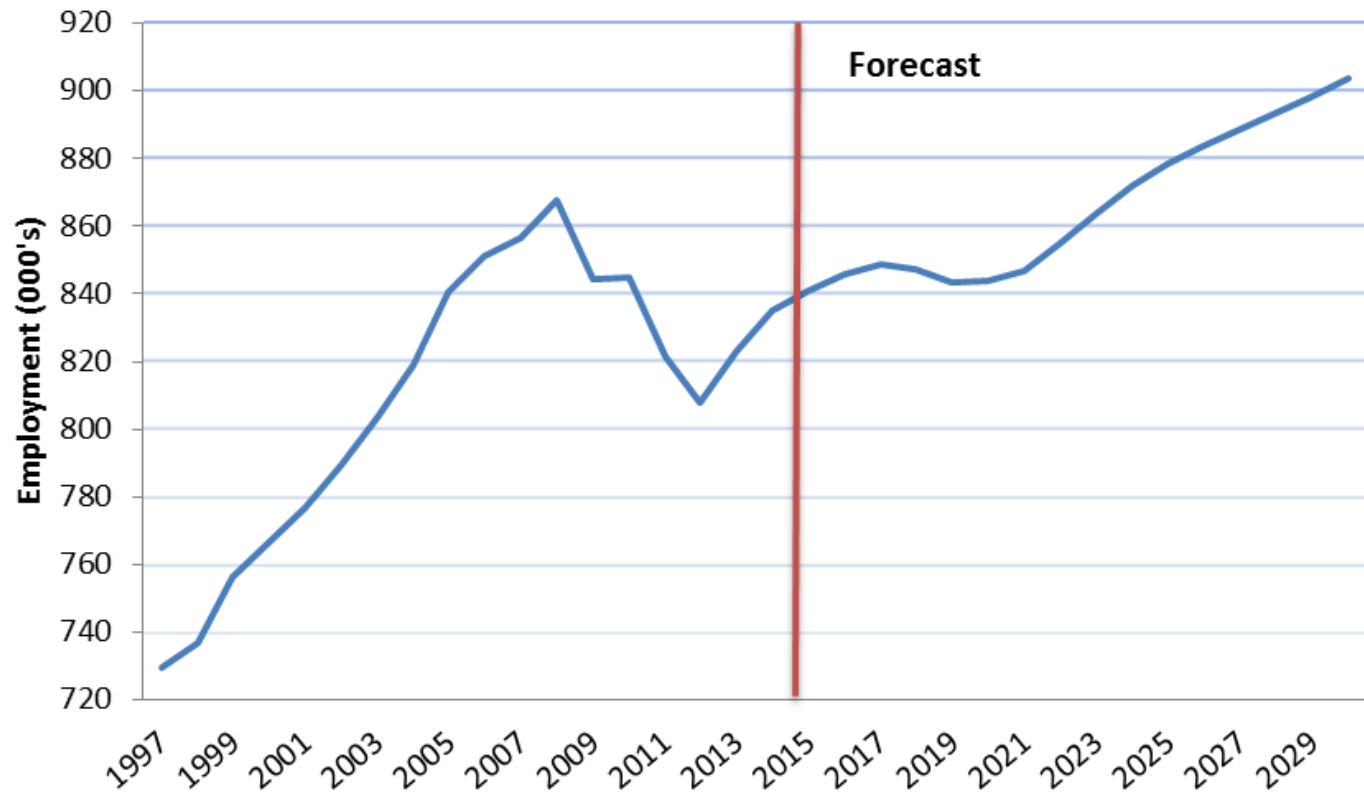


## Sectoral breakdown of NI growth



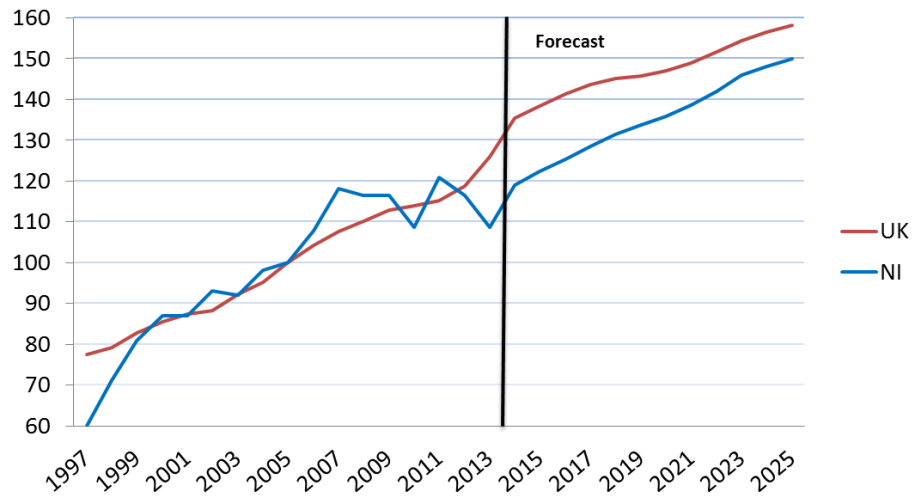
# Sector: Total employment

**Total employment, NI, 1997-2030**

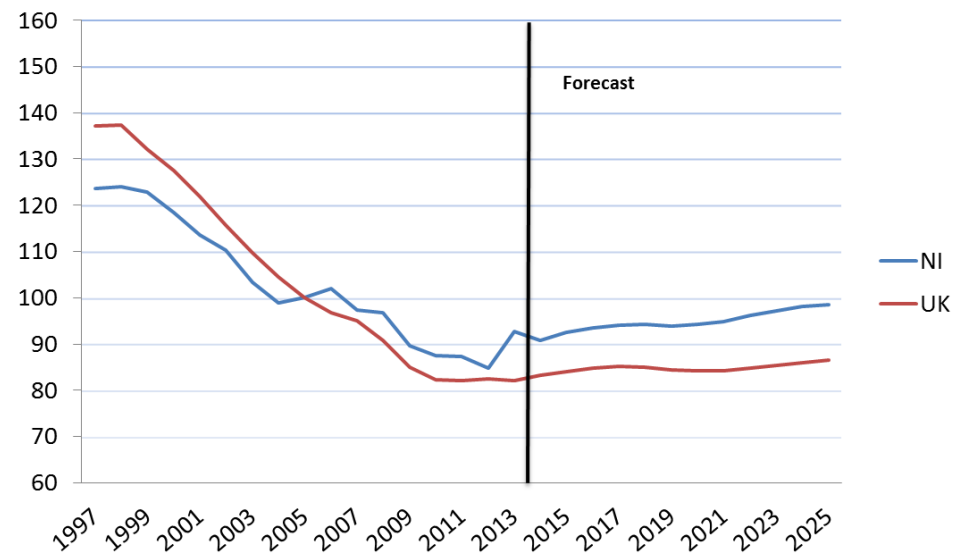


# Are the jobs coming?

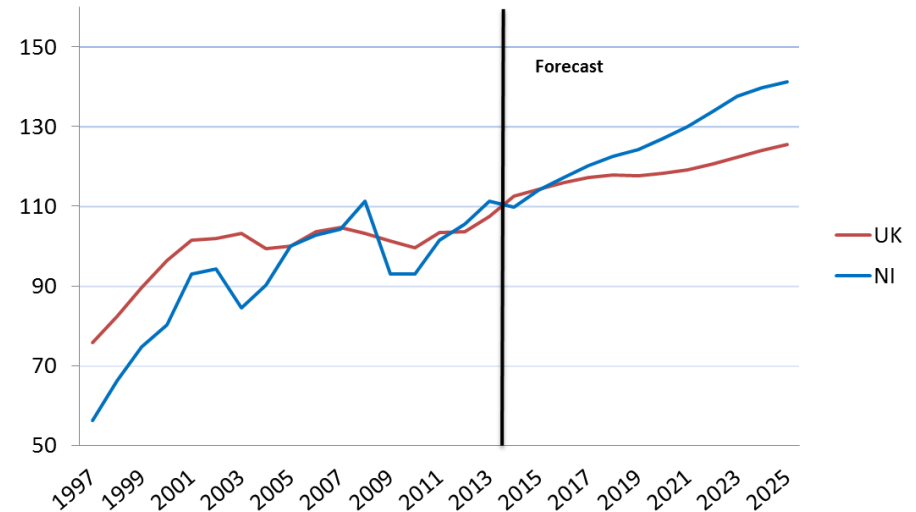
Professional services index (2005=100), UK vs. NI, 1997-2025



Manufacturing index (2005=100), UK vs. NI, 1997-2025



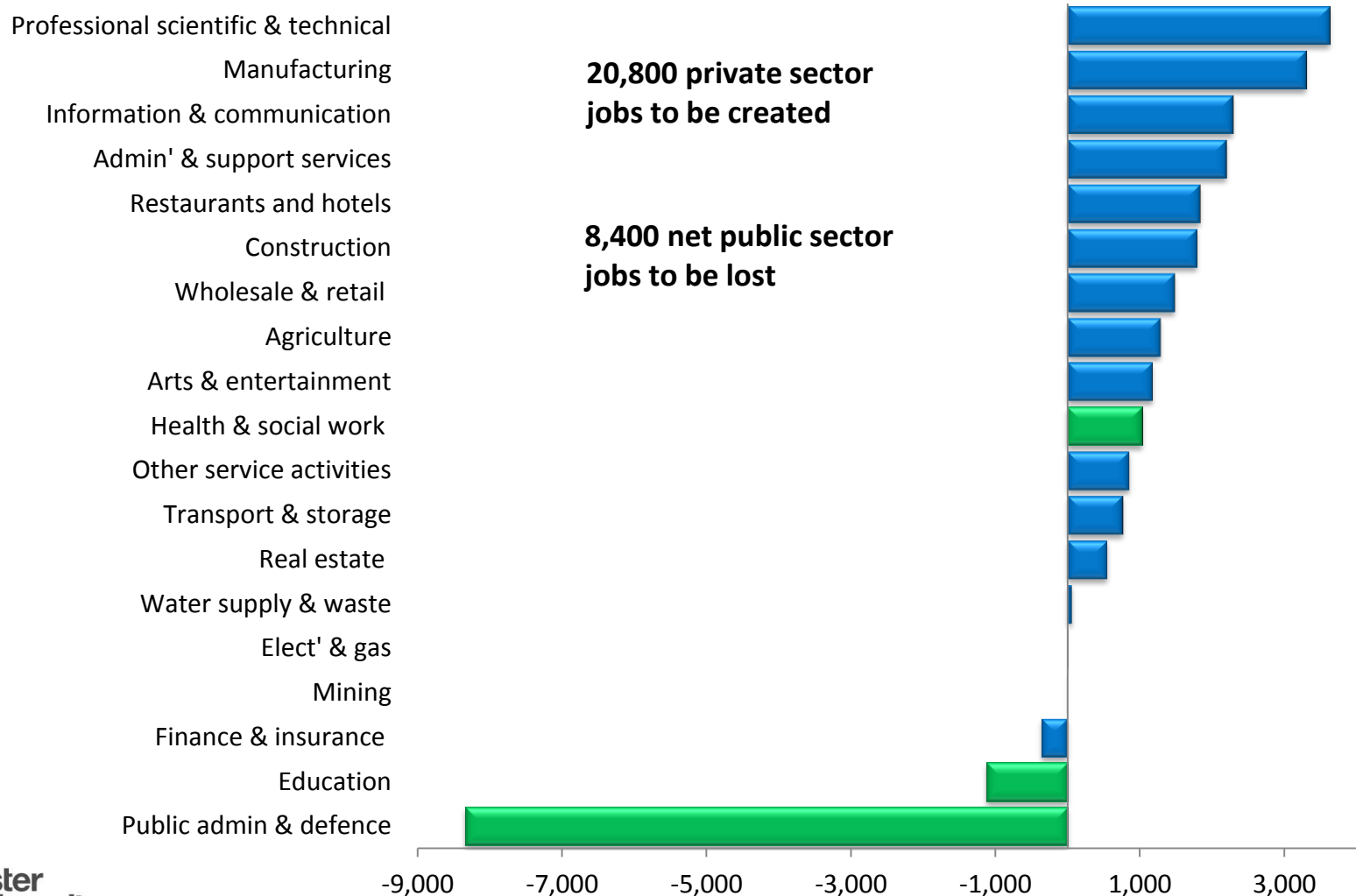
ICT index (2005=100), UK vs. NI, 1997-2025





# Medium term employment forecast

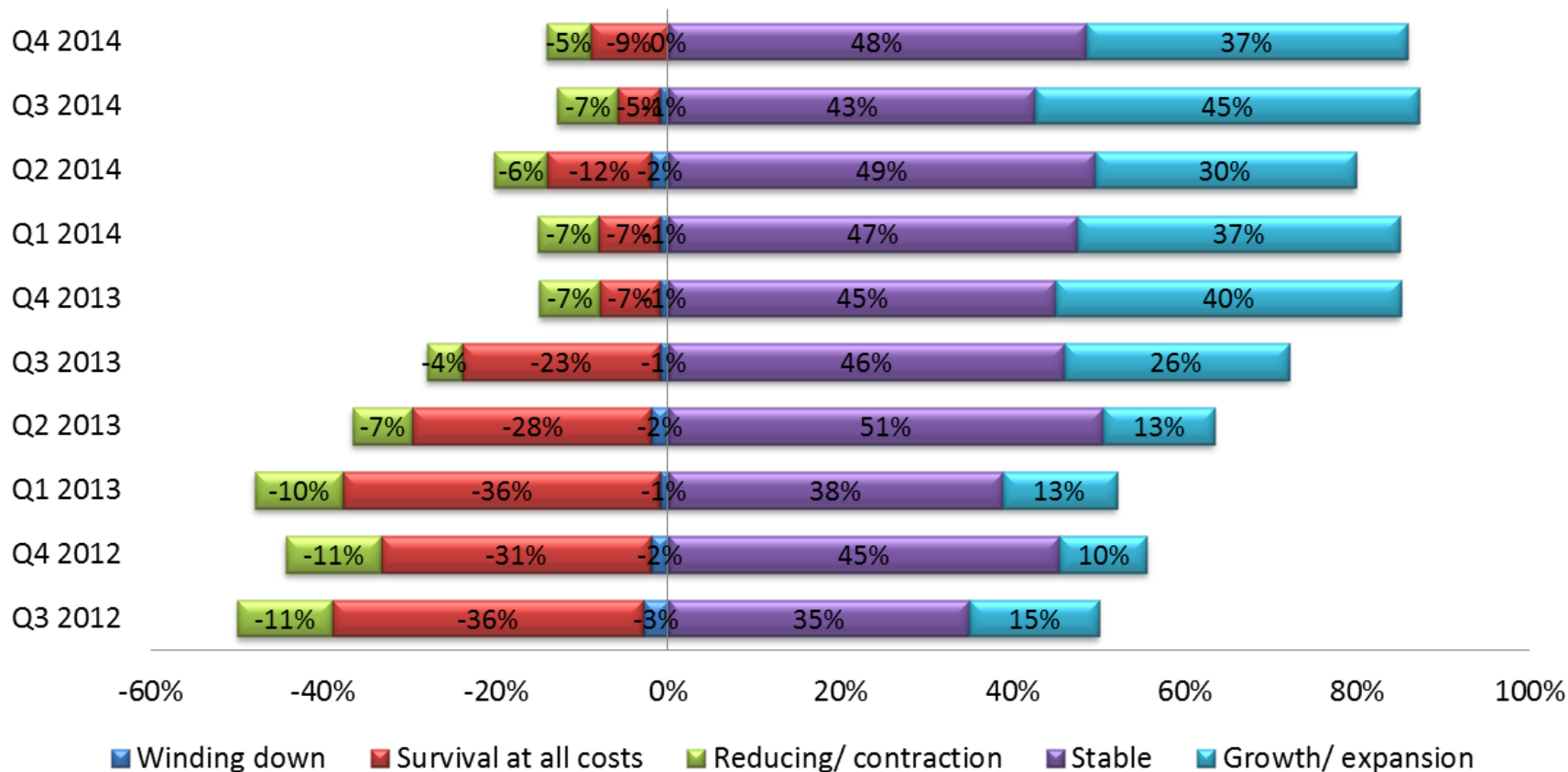
## Forecast change in employment, 2014-2018



# Making a more positive case

- Private sector is buoyant, ready to cope with cuts (indeed will absorb the additional skilled labour)
- InvestNI data suggests a bounty of jobs should be on their way
- Evidence of pay rises in the data
- Consumers are very confident and interest rates are set to stay low
- Public services have some 'fat in the system' and will not be devastated by cuts

# Private sector firms suggest optimism



# And everyone else thinks things will be fine!

UK GDP forecasts	2015	2016	2017	2018
UUEPC/Cambridge	2.2%	1.5%	1.1%	1.3%
OBR	2.5%	2.3%	2.3%	2.3%
IMF	2.7%	2.3%	2.2%	2.2%
BoE	2.5%	2.6%	2.4%	2.4%
Oxford Economics	2.6%	2.8%	2.7%	2.5%
EY	2.8%	3.0%	2.7%	2.7%
Average (excl UUEPC)	2.6%	2.6%	2.5%	2.4%



# Closing thoughts

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# Time for choices to be made

- UK has made an electoral choice, spending cuts not tax rises
- Scotland wants to head in a slightly different direction – do we?
- Is NI going to be a place of more progressive tax and a protection of the current welfare state?
- We can raise money (and cut incentives) but it will not be popular.
- Do the electorate concur – this is not as clear cut as people think
- Corporation Tax – does this fit with our strategic direction? If so who funds?
- Cuts will be difficult for NI to absorb, and there will be hardship – how radical are we in developing solutions?
- What is public sector reform? Have we looked at pay cuts, or just service reduction? Methods of delivery?

**Thank you**

# Contact details

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