

**SSISI Public Policy Brief:  
Understanding the Covid19 Pandemic and its Consequences**

**Covid19 and the Northern Irish Economy: Initial Insights**

Conor Lambe

Danske Bank Chief Economist

(read before the Society, 21<sup>st</sup> May 2020)

**Keywords:** Consumers, Businesses, Forecasts, Policy

**JELs:** M2, E00

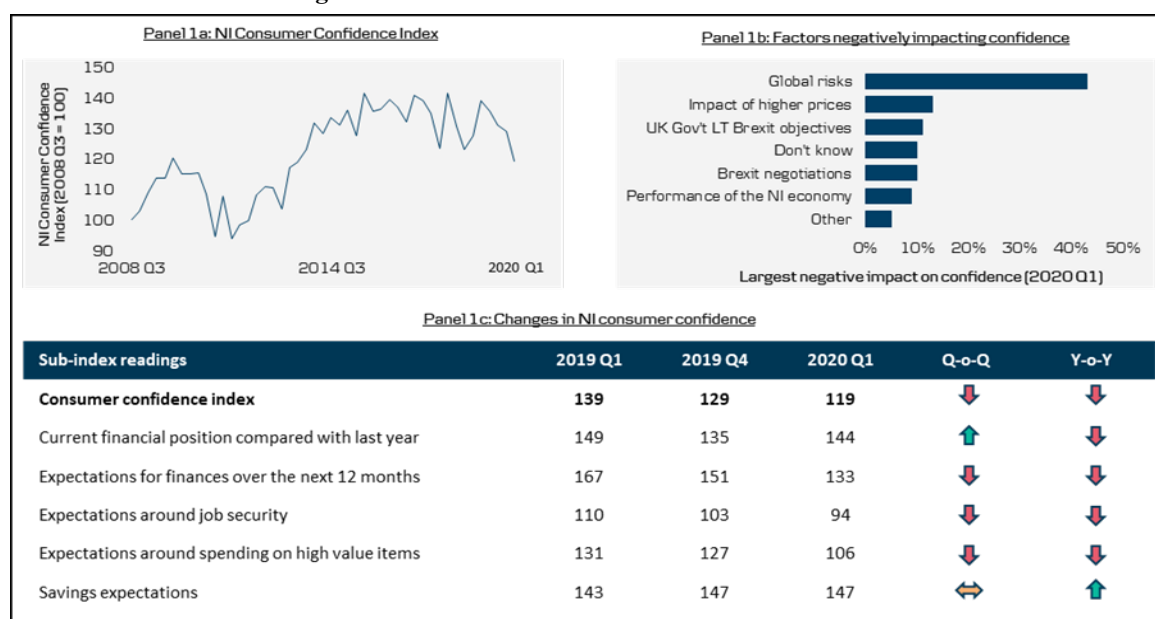
**1. INTRODUCTION**

During today’s symposium, I’m going to share some thoughts on the initial impacts that the COVID-19 pandemic is having on the Northern Ireland economy, focusing on three broad areas. I will start by highlighting some points from the initial economic data, including recent consumer and business surveys as well as the latest labour market figures. I’ll then discuss Danske Bank’s forecasts for the Northern Ireland economy, including the importance of policy decisions. And then, building further on the policy theme, I will comment on the impacts that the pandemic might have on other, longer-term policy issues in Northern Ireland.

**2. INITIAL FINDINGS FROM THE ECONOMIC DATA**

Starting with consumer surveys, earlier this week Danske Bank published its 2020 Q1 Northern Ireland Consumer Confidence Index. The survey showed that consumer confidence in Northern Ireland fell to its lowest level since 2013 at the start of 2020. Over 40% of people signalled that global risks, which can likely be interpreted as the COVID-19 pandemic, had the largest negative impact on sentiment. The survey was conducted during March 2020 and so will only partly capture the impacts of the lockdown, but it showed that confidence around people’s future finances, job security and expected spending on expensive items all fell.<sup>1</sup>

**Figure 1: Consumer Confidence in Northern Ireland**



Source: Danske Bank Northern Ireland Consumer Confidence Index 2020 Q1

<sup>1</sup> Danske Bank (2020a)

Looking at local business surveys, they have revealed some notable impacts due to the pandemic. A survey from the Northern Ireland Chamber of Commerce and BDO showed that around 60% of respondents have seen a significant reduction in income due to the impacts of COVID-19.<sup>2</sup> A separate survey from the Belfast, Causeway, Derry and Newry Chambers of Commerce also showed that 68% of firms believe they have less than three months' cash reserves on which to rely during this challenging time.<sup>3</sup> These statistics emphasise the scale of this crisis amongst businesses in Northern Ireland.

The labour market data for Northern Ireland recently showed a large spike in the claimant count measure of unemployment with the number of people on the measure rising by around 90% in April 2020 compared with the previous month and the claimant count unemployment rate rising from around 3% in March 2020 to around 6% in April 2020. However, what I would emphasise here is that in the absence of the UK Government's Coronavirus Job Retention (or Furlough) Scheme, the extent of the rise in April would have likely been quite a bit higher.

### 3. FORECASTS FOR THE NORTHERN IRELAND ECONOMY

Turning to the outlook for the economy, Danske Bank published its Northern Ireland Quarterly Sectoral Forecasts report in April 2020. Our expectation is that the Northern Ireland economy is likely to contract by around 7.5% in 2020 and then experience growth of around 5.0% in 2021. These forecasts are based on the assumption that the lockdown measures remain in place until between the end of May and middle of June, and then begin to be gradually lifted.

The forecasts assume that economic output in Northern Ireland falls in the first half of 2020, driven by reduced consumer spending, lower business investment and a reduction in working hours. The economy then begins to recover from the second half of 2020 onwards, with policy measures supporting the recovery to take hold, but changes to consumer and business behaviours prevent a rapid bounce back in activity.

However, even given the relatively strong rate of growth that we are projecting for 2021, we don't expect to see the level of economic output in Northern Ireland returning to its pre-coronavirus level until either late in 2022 or into 2023.<sup>4</sup>

**Figure 2: Northern Ireland Economic Forecasts**

Forecast summary (%)		
	2020	2021
UK GDP growth	-7.0	5.0
NI GVA growth	-7.5	5.0
NI consumer spending growth	-8.0	5.5
NI employee jobs growth	-2.3	1.2
NI unemployment rate	5.0	4.5
UK CPI inflation rate	0.8	1.5

*Source: Danske Bank Northern Ireland Quarterly Sectoral Forecasts April 2020*

The economic policy measures introduced in response to the pandemic are likely to play an important role in the economic recovery that we expect to happen in the second half of this year and into next year. These support measures are currently focused on helping firms survive through the short-term disruption caused by the pandemic. However, I think another important aspect of these policy measures is how quickly they will enable firms to start operating again when the lockdown comes to an end. Assuming that unemployment rises as a result of the pandemic, if we consider the example of the Coronavirus Job Retention Scheme, will the rate at which unemployment returns to pre-crisis levels compare favourably to historical crises, where firms were not able to make use of government schemes to keep people in employment but instead had to initially reduce staff numbers before recruiting again once activity levels began to recover? I suspect that it will.

<sup>2</sup> Northern Ireland Chamber of Commerce and Industry and BDO (2020)

<sup>3</sup> Belfast Chamber, Causeway Chamber, Derry Chamber and Newry Chamber (2020)

<sup>4</sup> Danske Bank (2020b)

#### 4. THE IMPACTS OF THE PANDEMIC ON OTHER POLICY ISSUES

Finally, the COVID-19 pandemic may also have some direct and indirect impacts on other long-term economic policy challenges in Northern Ireland.

Northern Ireland faces a long standing challenge of having low productivity levels. Output per hour has historically been significantly lower in Northern Ireland than in the wider UK, which itself has been a relatively poor productivity performer compared to other advanced economies in recent years. The policy prescription often outlined to tackle low productivity involves a combination of four things:

1. Investing in skills and education;
2. Investing in infrastructure;
3. Encouraging and supporting firms to invest in research and development (R&D) activities; and
4. Increasing the exposure of local firms to the global economy e.g. by supporting export growth.

With regards to infrastructure investment, the pandemic has emphasised the need for this investment to strike the right balance between improving hard infrastructure, such as that related to transport, and digital infrastructure such as broadband connectivity in rural areas. However, it is important to emphasise that it is a balance that needs to be found, rather than prioritising one type of infrastructure over the other, as improving both physical and digital infrastructure will likely be needed to attempt to tackle Northern Ireland's long-term productivity challenges. It may also prove more challenging in the short-term to encourage firms to invest in R&D or new export strategies given the impacts of the pandemic on their financial positions.

Another of Northern Ireland's long-term challenges is a persistently high rate of economic inactivity, the highest of the twelve regions of the UK. With the COVID-19 pandemic expected to lead to job losses it's possible that inactivity could rise further in Northern Ireland, at least in the short term.

And then finally, there may also be impacts related to Brexit and global trade. The pandemic may have direct challenges in terms of the planned Brexit negotiations during this year. And businesses may begin to reassess their international supply chains, as well as the emphasis they place on costs and reliability in their supply chain. Looking forward, we may see a rise in the number of firms who want to diversify their supplier base and perhaps find more local suppliers.

#### 5. CONCLUSION

In conclusion, consumer and business surveys suggest that the COVID-19 pandemic is having a striking impact on the Northern Ireland economy, which is reflected in the latest Danske Bank forecasts for a sharp drop in economic output levels in 2020. Policy support is already playing an important role in supporting people and businesses through this period of disruption but it will also have a role to play in facilitating the economic recovery from the pandemic. The pandemic may also affect some of the wider, longer-term policy challenges facing Northern Ireland, with its impacts continuing to be felt for some time to come.

#### References

Belfast Chamber, Causeway Chamber, Derry Chamber and Newry Chamber (2020) *Impact of COVID-19 on businesses is deep and long lasting warn local Chamber of Commerce chiefs*, Available at: <https://belfastchamber.com/news/latest-news/impact-of-covid-19-on-businesses-is-deep-and-long-lasting-warn-local-chamber-of-commerce-chiefs/>

Danske Bank (2020a) *Danske Bank Northern Ireland Consumer Confidence Index 2020 Q1*, Available at: <https://danskebank.co.uk/business/economic-analysis/consumer-confidence-index/consumer-confidence-index-2020-q1>

Danske Bank (2020b) *Northern Ireland Quarterly Sectoral Forecasts April 2020*, Available at: <https://danskebank.co.uk/business/economic-analysis/quarterly-sectoral-forecasts/northern-ireland-quarterly-sectoral-forecasts-april-2020>

Northern Ireland Chamber of Commerce and Industry and BDO (2020) *NI Chamber & BDO survey: Cash flow crisis persists but business sees benefit from job furlough scheme*, Available at: <https://www.northernirelandchamber.com/2020/04/29/ni-chamber-bdo-survey-cash-flow-crisis-persists-business-sees-benefit-job-furlough-scheme/>