

THE POTENTIAL ECONOMIC & SECTORAL IMPACT OF THE 8 WEEKS OF AUTUMN RESTRICTIONS

Assessment of Potential Impact on Economic Output

Northern Ireland's pre-pandemic economic output was around £42bn in Gross Value Addedⁱ (GVA) terms and £49bn in Gross Domestic Productⁱⁱ (GDP) terms.

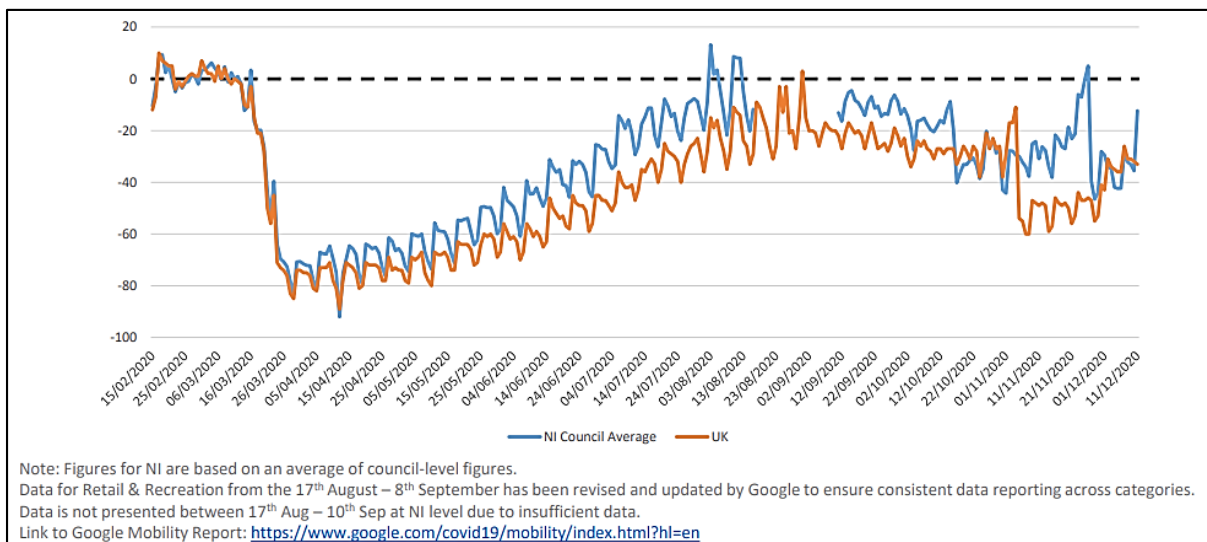
With ever-available outturn data, we are able to quantify the magnitude of the economic decline due to the spring lockdown beginning in late March 2020. At the height of spring lockdown, output in the economy was operating at around 25% below normal levels, with many sectors shutdown. Consequent losses are estimated to be around £4bn to £5bn in 2020 as a whole.

It has also been possible to track the recovery over the summer months as businesses were able to trade more freely again and consumers felt more comfortable to visit establishments. This was facilitated by the NI Executive reopening the local economy.

Modelling by the Fraser of Allander Institute for DfE suggests that while Northern Ireland may have had a more severe decline in output than the UK as a whole during Spring 2020, it may have experienced a stronger bounce-back during Quarter 3 of 2020.ⁱⁱⁱ This analysis was based on modelled GDP, as an early snapshot only, but the NISRA Index of Production^{iv} and Index of Services^v also show a similar picture.

However, while the rebound was strong, the economy as a whole had not fully reverted back to pre-pandemic levels before rising infections meant new restrictions, beginning **16 October 2020 and ending after 10 December 2020**. As would be expected, latest mobility data shows, generally speaking, lower levels of people movements than since the summer of 2020, with noticeable volatility however, as restrictions varied over time.

UK and NI Google Mobility Data – Retail & Recreation ^{vi}



Source: DoH Covid-19 Mobility Reports

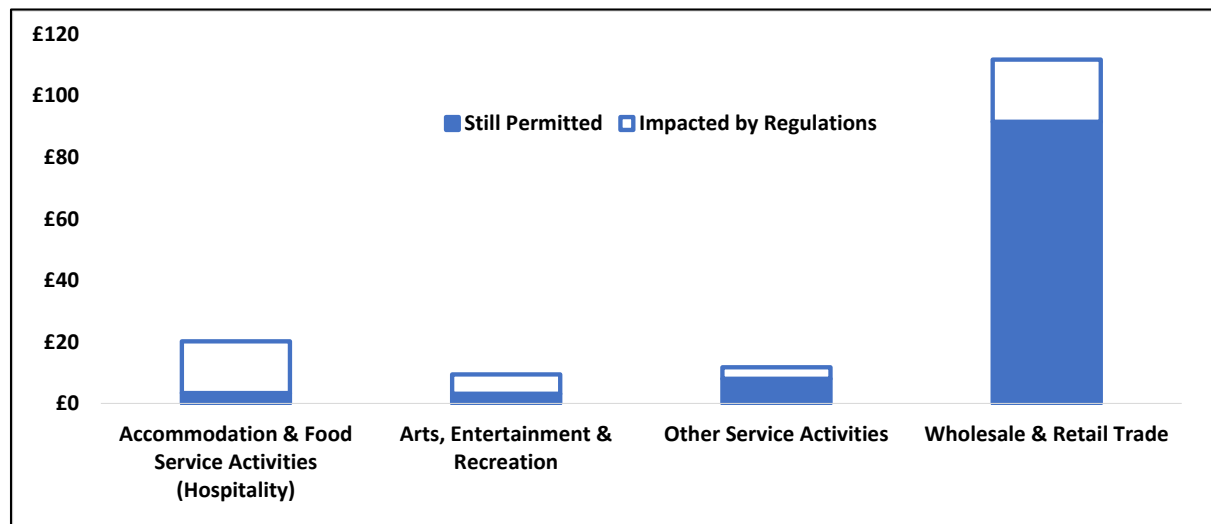
The direct impact of the 8-week restrictions falls on hospitality, sport, arts, entertainment and recreation as well as close contact services and retail.

Pre-Covid-19 Annual GVA in Northern Ireland (Directly Affected Sectors Only)^{vii}

Directly Affected Sector	Annual GVA (£bn)	GVA per Week (£m) ¹	Number of Weeks Affected
Accommodation & Food Service Activities (Hospitality)	£1.05	£20.19	8
Arts, Entertainment & Recreation	£0.49	£9.42	8
Other Service Activities	£0.61	£11.73	7
Retail (Essential & Non-Essential)	£5.81	£111.73	2
Total for Selected Sectors	£7.96	£153.07	

If we assume that all Retail is shut for two weeks then that would mean a loss of £223m in GVA (£111.73m X 2 = £223m). However, it should be noted that Essential Retail is permitted under the Regulations, so this would be an overestimate of losses. Likewise, some economic activity will still be undertaken within all the sectors above which can be counted in GVA statistics.

Potential GVA per Week Directly Impacted by Regulations (£m) – Weeks 7&8



Therefore, we exclude those sub-sectors open (essential retail, takeaways in hospitality sector, etc.) and only add the weeks in which restrictions were imposed on each sector. In doing this, we suggest that the total **direct impact to Northern Ireland’s GVA over the eight weeks of restrictions is over £200m.**

This is a starting point, for the direct impact only. Once other considerations, including indirect and induced impacts are added to this, **a total loss of approximately £400m to £600m is possible², but is subject to uncertainty.**

¹ GVA per week is annual GVA divided by 52. This is a crude calculation, especially as many sectors such as Accommodation & Food and Non-Essential Retail can have seasonal peaks and troughs in business over the year.

² These estimates result from calculations when using the Northern Ireland Hypothetical Extraction Model, as developed by the Fraser of Allander Institute for DfE, along with other approaches.

The possible direct and wider loss from the restrictions is therefore equivalent to around 0.5% to 1.5% of Northern Ireland’s annual GVA.³ This is substantial, but yet is less severe (in immediate output terms) than the impact of the spring lockdown (where construction, manufacturing and office workers, etc. stayed at home *en masse*). It was estimated that in the spring lockdown, every one month of *full lockdown* lowered annual GDP growth by around 2-3 percentage points (i.e. two months of full lockdown may be 4-6pp).^{viii} There is potential for some scarring, hitting capacity longer-term, via a variety of channels (including both physical and human capital).⁴

The latest Ulster Bank PMI data for Northern Ireland provides an indication of economic activity amongst local firms. Commenting on the latest findings, Richard Ramsey, Chief Economist at Ulster Bank, stated:

“Not surprisingly, renewed containment measures in November saw local private sector output contract at a significant rate, albeit not on the scale witnessed between March and June..... The deterioration in business conditions was most marked within services and retail. Both sectors were particularly impacted by COVID-19 restrictions and recorded rapid rates of decline in output, orders and employment. Once again construction posted the fastest rate of output growth of all the sectors, marginally ahead of manufacturing. However, the rates of expansion were modest and represented a marked slowing from construction’s recent spurt of activity.” ix

EY’s previous estimate of -10.4% for Northern Ireland for 2020 has been recently downgraded to -10.9% as *“The resurgence of COVID-19 cases and the return of restrictions have sadly moved the forecasts into reverse.”* This estimate was made shortly before the extension of restrictions into December 2020. ^x

Recent Forecasts for UK and Northern Ireland Economic Output in 2020

	Organisation	2020 Annual Growth	Month Forecast Made
UK	Goldman Sachs	-10.5%	November 2020
	Bank of England	-11.0%	November 2020
	OECD	-11.2%	December 2020
	OBR	-11.3%	November 2020
	Morgan Stanley	-11.4%	December 2020
	UBS	-11.5%	December 2020
NI	KPMG	-9.0%	September 2020
	EY	-10.9%	November 2020
	Danske Bank	-11.0%	October 2020
	UUEPC	-11.6%	August 2020

Sources: HM Treasury Forecasts (Dec 2020), OBR Economic and Fiscal Outlook (Nov 2020), KPMG UK Economic Outlook (Sep 2020), EY Economic Eye (Nov 2020), Danske Bank Quarterly Sectoral Forecasts (Q3), UUEPC Pathways to Recovery: Paper 3 (Aug 2020).

Notes: All forecasts are in GDP terms, with the exceptions of UUEPC, Danske Bank and KPMG (GVA).

³ This is a modelled estimate, not a forecast. Continued growth in some unaffected sectors may mask / offset this loss to some degree in the eventual aggregate outturn data. A so-called ‘k-shaped’ profile may occur. Some household expenditure may be saved / deferred, or spent in other sectors etc. A number of firms stayed closed, even as restrictions lifted, while others experienced pent-up demand.

⁴ A list of the various channels of potential scarring is provided in OBR’s November 2020 Report.

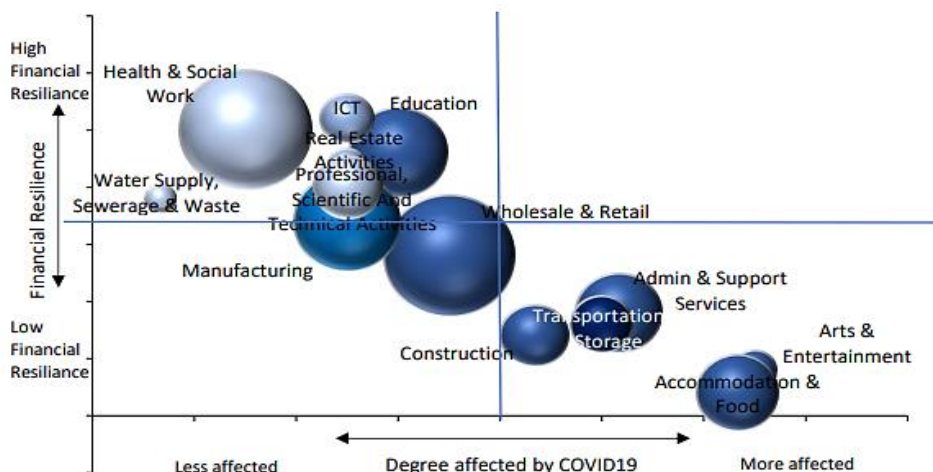
UK-wide, GDP is set to fall by around 11% this year – the largest drop in annual output since the Great Frost of 1709.^{xi} Many of the recent forecasts for UK GDP have worsened for the 2020 year, factoring in the deteriorating economic situation.⁵ The Bank of England has increased its estimate of a UK-wide GDP contraction for 2020 by a further 1.5 percentage points (from -9.5% to -11%)^{xii} following recent restrictions across the UK nations. In Northern Ireland, forecasts for output in 2020 vary; but most commentators expect a double-digit percentage fall over the year as a whole.

It should be noted that the economic and health situation is highly fluid and uncertain. For that reason, the figures presented above are intentionally not provided with precision attached, but merely to give a possible impact, based on the recent experience. The best that can be hoped for is an attempted quantification of the short-term hit to GVA⁶ as a result of imposing restrictions, amid a very uncertain counterfactual scenario. This analysis does not constitute a cost-benefit analysis of restrictions (in economic and human terms) and cannot be used to substitute for one.

While businesses in the early spring of 2020 were in reasonable financial health entering the first lockdown, the latest restrictions come at a time of financial stress. According to the ONS, 78% of single site businesses (16-29 November 2020) in the Accommodation & Food Services industry in Northern Ireland had no or less than three months of cash reserves, compared with 53% across the UK.^{xiii}

In September 2020, UUEPC published analysis on the Business Impact of Covid-19 on Northern Ireland.^{xiv} The report includes an assessment of the vulnerability of sectors to the effects of the pandemic. The figure below displays the sectoral exposure to the impacts of Covid-19 based on data from 15-28 June 2020.

Figure 2.10: Sectoral Vulnerability to Covid-19, Northern Ireland, 15th-28th June 2020



Source: UUEPC estimates based on BICS and ONS Workforce Jobs

⁵ Downgrades for UK GDP forecasts for 2020 may be for a variety of reasons and may not solely be related to recent restrictions. Upgrades to annual GDP may also be made, if outturn data from earlier in the year is better than was originally considered, for example. It is worth noting however that many economic forecasters are predicting a fall in output in Q4 for the UK.

⁶ GDP & GVA quantify production of final goods & services and are not a measure of wider well-being.

The size of the orb demonstrates the size of the sector in terms of employment in NI. Those in the upper left-hand quadrant are the most secure based on a high degree of financial resilience and less impacted by the pandemic. Those in the lower right quadrant are most threatened as they have a low financial resilience and have been most affected in terms of impacts on workforce, turnover and trading status.

Circumstances may have changed since this analysis was undertaken, but the indication is that, as of the end of June 2020, Accommodation & Food services, and Arts & Entertainment were the most threatened sectors. Other sectors with a low financial resilience and affected by the pandemic include Administration & Support, Transportation & Storage, and Construction.

Assessment of Directly Impacted Jobs

Some sub-sectors are likely to have been impacted somewhat differently by the Regulations. It is not always possible to exactly match economic data with legal definitions. Notwithstanding, using disaggregated data prior to Covid-19 from BRES 5-Digit SIC (which is publically available)^{xv}, we consider there may have been up to 85,000 jobs in total⁷ impacted by the Regulations, but the precise number would have varied as the Regulations changed. There may be thousands of self-employed on top of this number.

We recognise that a number of difficulties exist in matching economic data to the Regulations that requires some judgements to be made⁸, but we consider employment in the sectors directly impacted by the restrictions was approximately as follows:

- Restaurants / cafes / bars / hotels & similar accommodation (but not takeaways) – over 40,000 jobs / employments, plus some self-employed in addition.
- Around 1,000 jobs potentially impacted within the Information & Communication (I & C) sector as motion picture projection activities put on hold.
- Arts venues, theatres and other such venues – potentially impacted on around 10,000 jobs / employments.
- Close contact services potentially affected around 5,000 jobs / employments with further, significant, self-employed as well.
- Non-essential retail closures, introduced for a two-week period beginning on the 27 November 2020, may have impacted on around 25,000 employments.⁹

The charts below illustrate an estimate of the jobs possibly impacted by the restrictions over the eight weeks 16 October 2020 to 10 December 2020.¹⁰

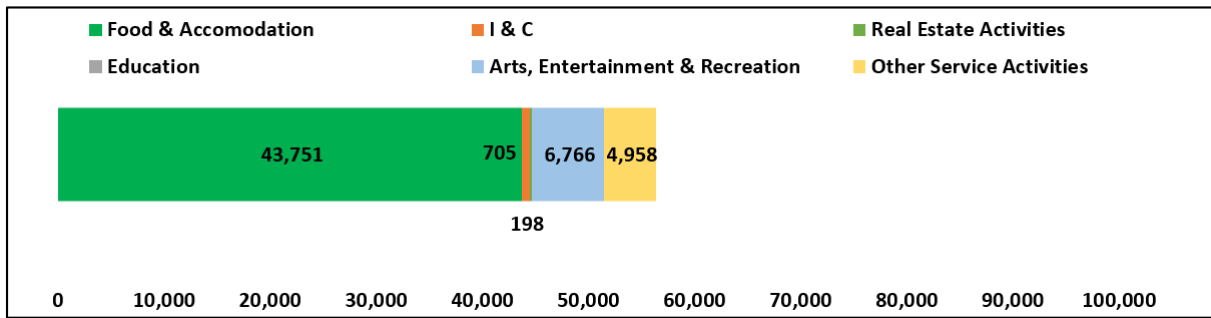
⁷ This calculation is focused on jobs directly impacted by the Regulations and does not include jobs within supply chains, transport firms, etc. that were indirectly impacted from resulting reduced activity. 85,000 jobs equivalent to over 10% of the (pre-pandemic) 785,870 total employee jobs (BRES 2019).

⁸ For example, garden centres and ornamental plant nurseries and Christmas tree sales were permitted, but not cafes or restaurants in such premises. In addition, a controlled "click and collect" retail service was permitted during the two-week period from 27 November 2020. Homeware stores were permitted.

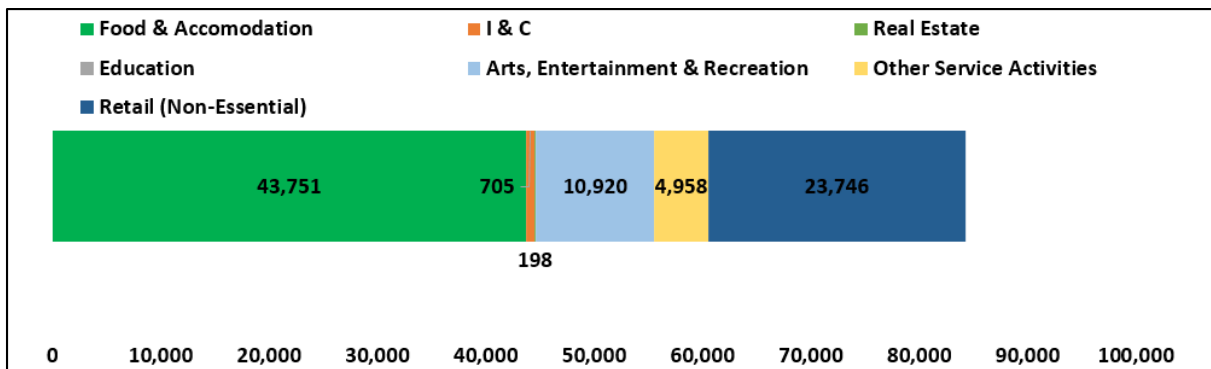
⁹ According to BRES 2019, Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles had 131,080 jobs in total (i.e. Essential + Non-Essential).

¹⁰ Week 6 not shown. A partial re-opening on 20 November 2020 saw cafes opening for a week, along with close contact services, like hairdressing. Driving lessons were also permitted.

Estimate of Jobs Possibly Impacted in Weeks 1-5, by Sector



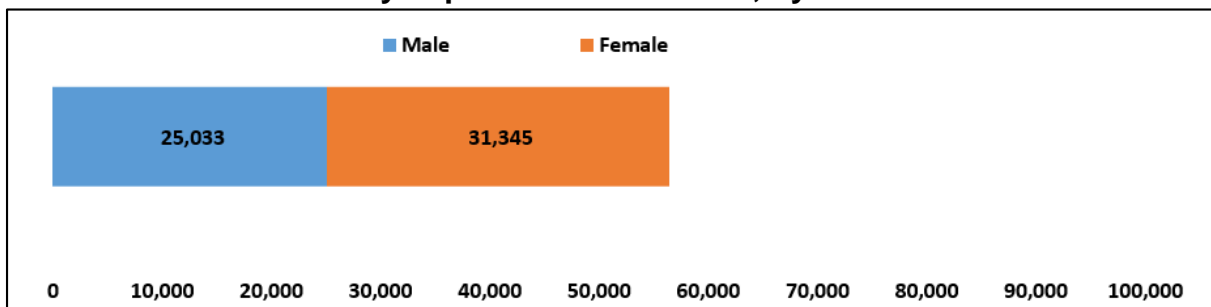
Estimate of Jobs Possibly Impacted in Weeks 7-8, by Sector



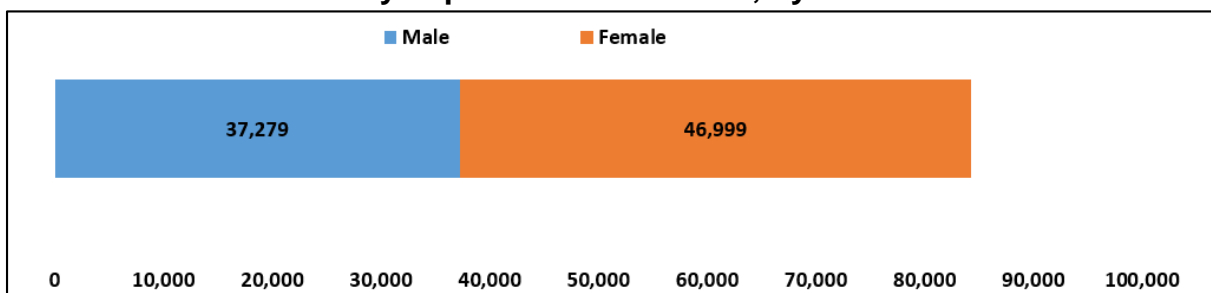
Impact on Females

There may be a gender imbalance in terms of jobs impacted by the restrictions. The indications are that around 5,000 more jobs were impacted for females than for males during the initial restrictions from 16 October 2020, rising to around 10,000 during the additional restrictions introduced from 27 November 2020.

Estimate of Jobs Possibly Impacted in Weeks 1-5, by Gender

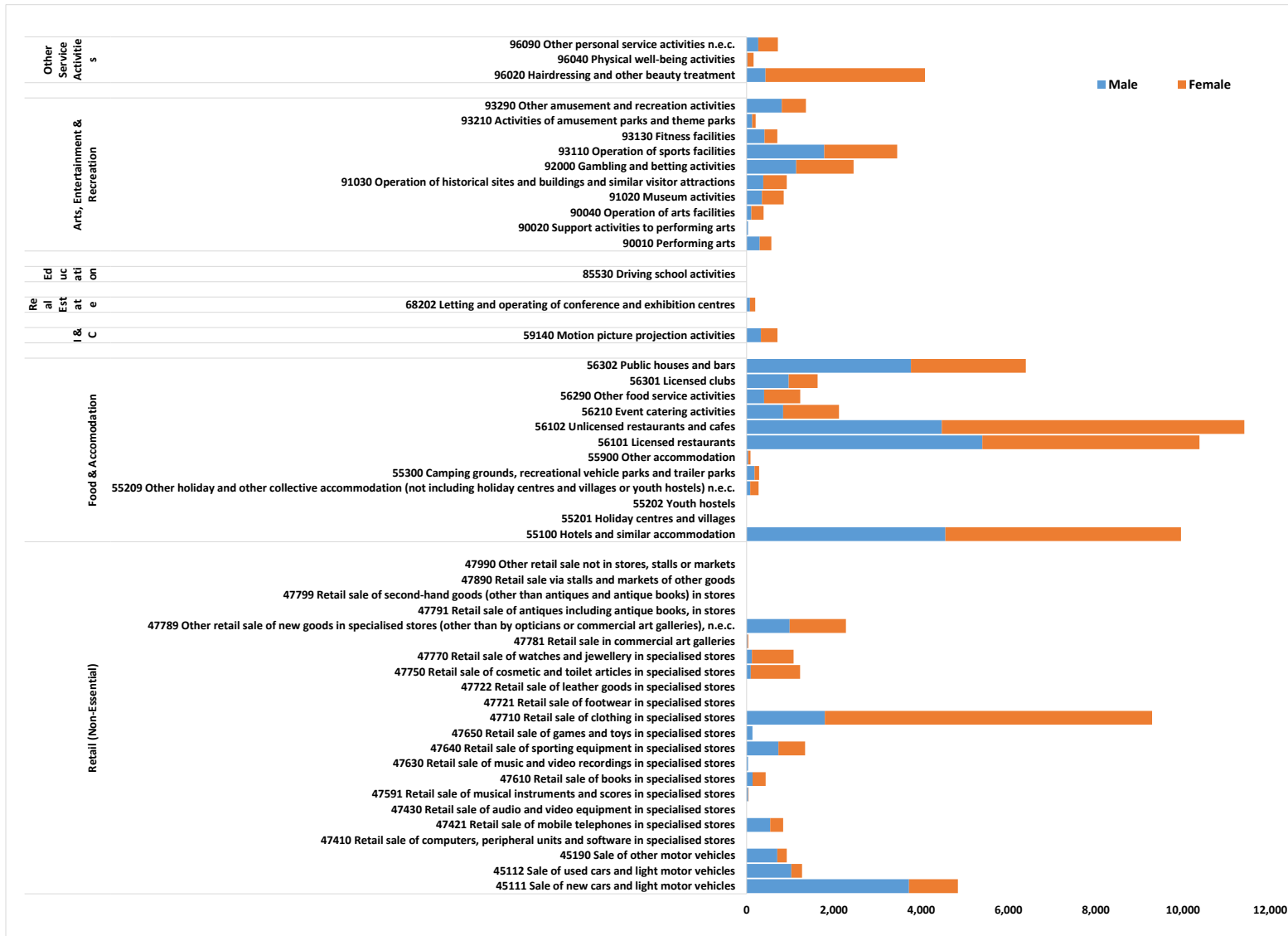


Estimate of Jobs Possibly Impacted in Weeks 7-8, by Gender



This is illustrated in the chart and table on the following pages, which breaks down those sub-sectors and activities likely to be impacted, by gender.

LIST OF 5-DIGIT SIC LEVEL JOBS POSSIBLY DIRECTLY AFFECTED BY RESTRICTIONS



Close contact services, such as hairdressers, beauticians, make-up and nails, tattoo and piercing parlours, tanning shops, sports and massage therapy not permitted.

Amusement arcades, skating rinks and funfairs are not permitted to open.
Gyms closed from 27th November
No indoor sports.
Bingo halls closed.
Indoor museums, galleries, visitor and other cultural attractions are not permitted to open.
Theatres and concert halls are permitted to open for rehearsals or a live recording without an audience.

Driving instructors not permitted to operate.

Cinemas not permitted to open.

Bars, restaurants, coffee shops to close.

56103 Take away food shops and mobile food stands not included

Hospitality venues can only remain open for takeaway and delivery of food and non-alcoholic drinks.
Campsites and services for touring caravans must close.

Hotels, guesthouses and bed and breakfast establishments will only be able to operate on a restricted basis.

Non-essential retail closed from 27th November

Comparing Jobs Currently Impacted, with Spring Lockdown

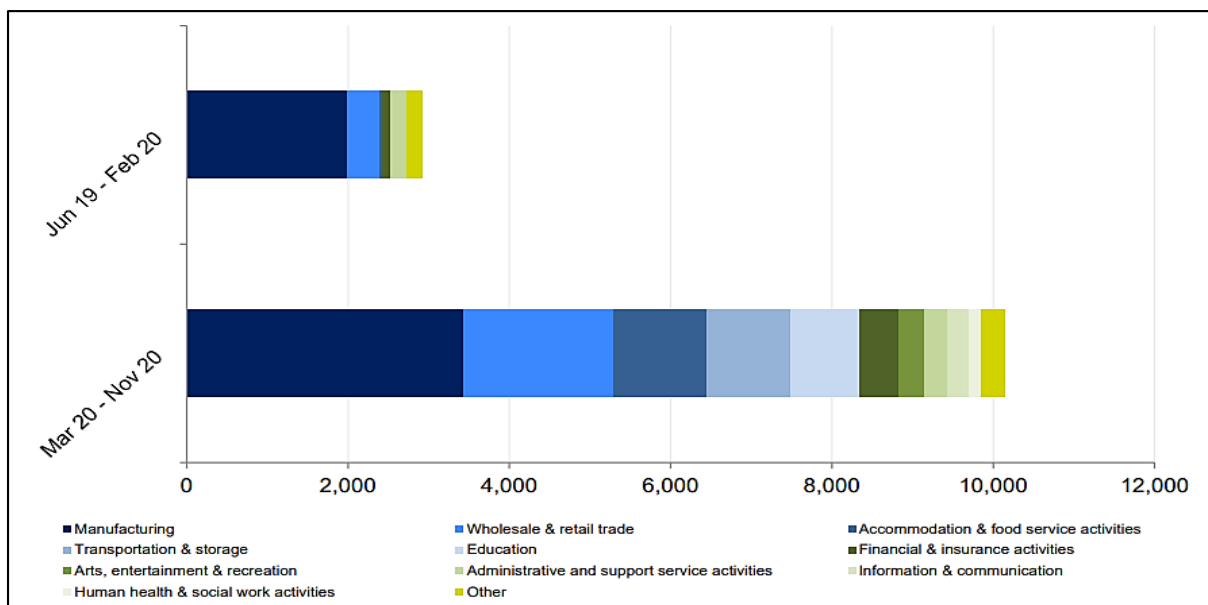
HMRC’s Coronavirus Job Retention Scheme (CJRS) and Self-Employment Income Support Scheme (SEISS) have both been instrumental in avoiding widespread job losses. Over 9 million have used the CJRS UK-wide, while over 2 million have claimed from SEISS.^{xvi}

In Northern Ireland, a total of 249,600 employments were furloughed on CJRS as a result of the spring lockdown.^{xvii} While these are cumulative figures, estimates from the latest HMRC release show that while many employments were ‘unfurloughed’ over the summer, some 68,000 employments were still furloughed as at 31 October 2020, using CJRS. Northern Ireland had 28,100 staff flexibly furloughed, around 40% of furloughed employments.^{xviii} In addition to this, around 78,000 self-employed individuals in Northern Ireland had claimed the first SEISS grant, and around 70,000 had claimed the second SEISS grant up to 31 October 2020.^{xix} **CJRS has been extended to April 2021**, with the government contributing 80% towards wages.^{xx}

Although the CJRS and SEISS schemes helped avoid more widespread job losses, the Claimant Count in Northern Ireland still doubled from its pre-pandemic level of around 30,000 to around 60,000 during 2020.^{xxi} The latest Labour Force Survey (LFS) estimates indicate that the Northern Ireland unemployment rate (16+) increased over the quarter (0.9pps) and the year (1.6pps) to 3.9% in August-October 2020.

There were 1,370 proposed redundancies in November 2020 and a further 340 proposed between 1st and 11th December 2020. Over 10,000 collective redundancies have been proposed in Northern Ireland¹¹ since the beginning of March, with approximately half being proposed in the Manufacturing, and Wholesale & Retail Sectors.^{xxii}

Industry Breakdown of Proposed Redundancies (Jul19-Feb20 & Mar-Nov20)^{xxiii}



¹¹ Companies who propose less than 20 redundancies are not required to notify, therefore the figures provided are likely to be an underestimate of total job losses.

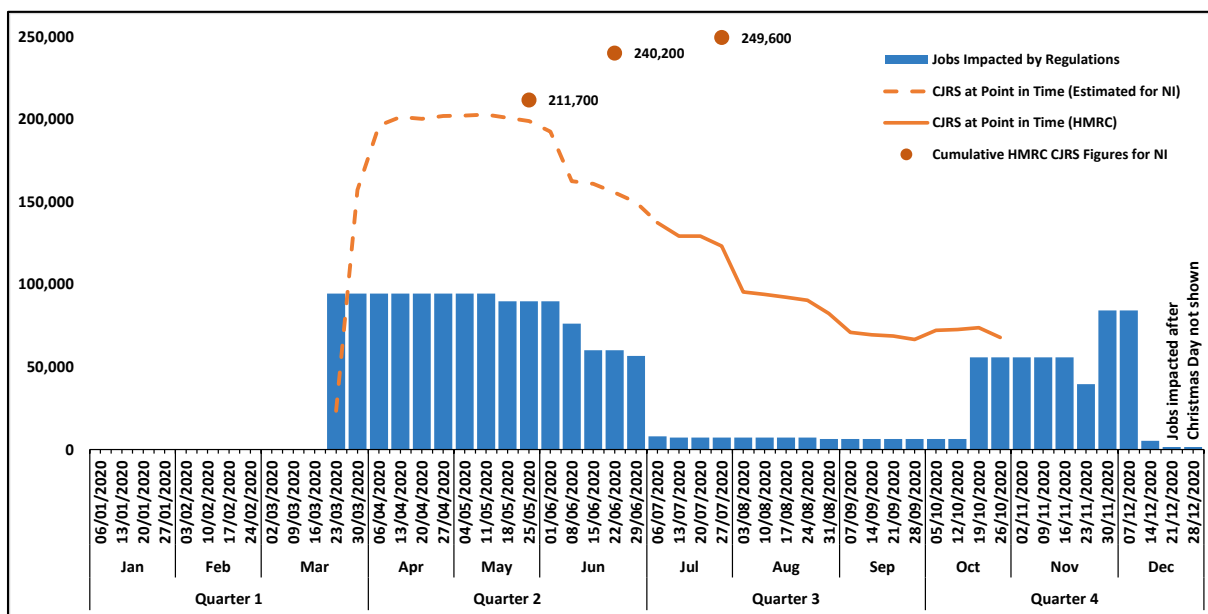
UUEPC Director Gareth Hetherington has suggested that continued restrictions puts jobs at risk in Northern Ireland.^{xxiv} Mr Hetherington commented that:

“The claimant count doubled to 60,000 following the first lockdown, but with the prospect of this continued cycle of restrictions an increase to over 100,000 next year is not a worst-case scenario.”

UK-wide unemployment forecasts have been provided by OBR. The recently announced extensions to the CJRS, SEISS and various business support measures both delay and attenuate / dampen the rise in unemployment in their view. Under OBR’s central forecast, unemployment peaks at 7.5% UK-wide in the second quarter of 2021, but they also include a more pessimistic scenario where it peaks at 11%.^{xxv}

The graph below illustrates how recent restrictions compare to those seen during the spring lockdown.

NI Employment in Sub-Sectors ‘Officially Closed’ during 2020, by Week



Sources: HMRC CJRS data; DfE calculations using HMRC data; DfE estimates using BRES 2019.

Notes:

The dashed line has been calculated from UK-wide HMRC CJRS data and apportioned to Northern Ireland by DfE. The solid line has been created by using official HMRC CJRS data specifically relating to Northern Ireland. The daily time series of employments supported by the CJRS include analysis of the use of CJRS as at 31 October 2020 and revised figures for the period from July to September 2020.

Use of the CJRS scheme may have potentially increased within the Retail sector in late November / early December due to the widening of restrictions in Northern Ireland, to include Non-Essential Retail.

From 1 July 2020 firms could bring employees back to work on a part-time basis (flexible furlough).

The blue bars refer to estimates of ‘Jobs (Directly) Impacted by Regulations’ and are only intended to be indicative / illustrative - some sub-sectors may be omitted or erroneously included. Self-employed not included. Regulations first made in Northern Ireland on 28 March 2020, so shown as starting from week beginning 23 March 2020 in above graph. In addition to sectors specifically identified in Regulations, spring lockdown had many manufacturing, construction and office workers that stayed at home. Possible further restrictions for after Christmas Day have not been shown.

Impact on Younger Workers

Research from UUEPC published after the first lockdown points to the fact that over one-third (36%) of people employed in the Accommodation & Food sector are under 25 years old. ^{xxvi}

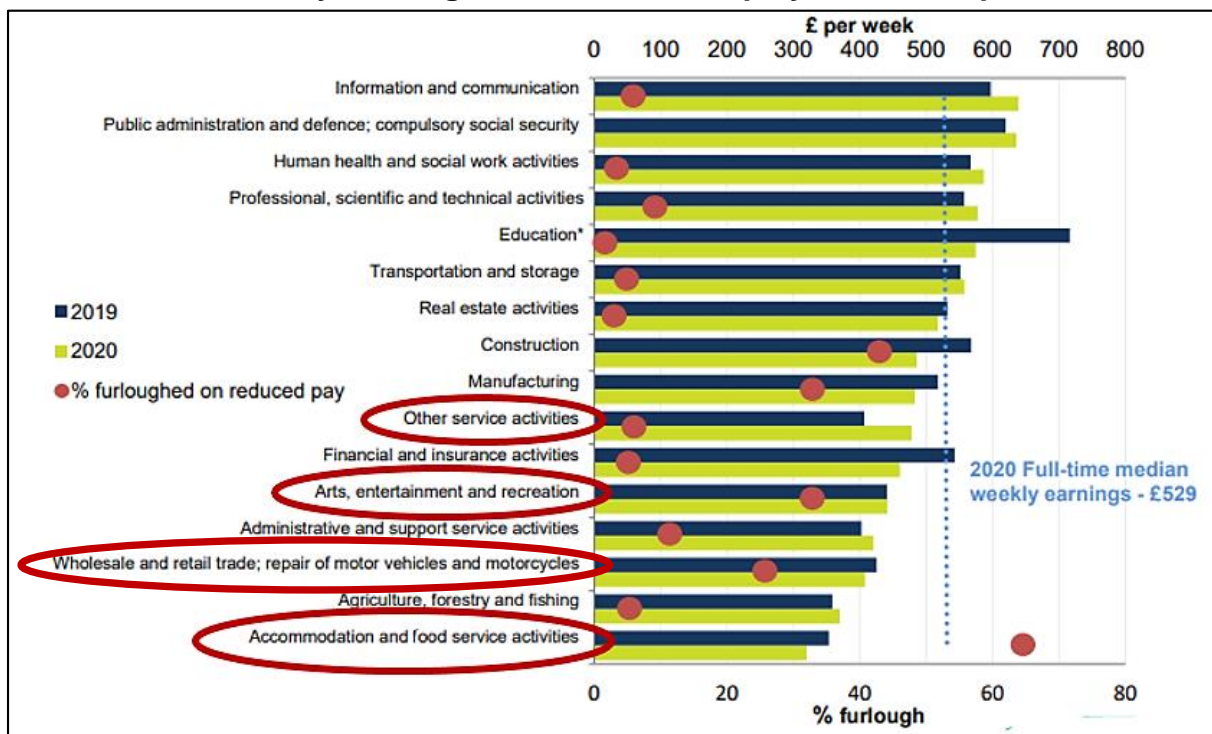
Seasonally adjusted LFS estimates for Northern Ireland for the period August-October 2020 showed that over the year the unemployment rate increased by 1.6pps to 3.9%. The youth (16-24) unemployment rate was 11.7%.^{xxvii}

UK-wide, current furlough take-up rates for those aged under 25 are higher than those aged 25 to 64. Those aged 65+ also have relatively high furlough take-up rates. ^{xxviii}

Impact on Lower Paid

Recent data from the Northern Ireland Annual Survey of Hours and Earnings (ASHE) shows that weekly earnings for full-time employees at April 2020 were highest in 'Information and communication' (£639) and lowest in 'Accommodation and food service activities' (£320). ^{xxix} As shown in the graph below, the four sectors most directly affected by the latest restrictions were earning below the Northern Ireland median in 2019 and 2020.¹²

Median Gross Weekly Earnings for Full-Time Employees in NI, April 2020



Source: ASHE 2020 (NISRA)

According to the FT, more than 2 million UK employees earned less than the statutory minimum wage in April, because the lowest paid were the most likely to be furloughed.^{xxx} Furloughed workers receive a proportion (80%) of normal income.^{xxxi}

¹² Note that the sectors highlighted in the graph are results attributed to the sector as a whole, which will include restricted and non-restricted business activities within it.

SOURCES

- ⁱ [ONS - Regional gross value added \(balanced\) per head and income components](#)
- ⁱⁱ [ONS - Regional economic activity by gross domestic product, UK: 1998 to 2018](#)
- ⁱⁱⁱ [The Impact of Covid-19 on the NI Economy: Modelled Results for Q3 2020 | Department for the Economy \(economy-ni.gov.uk\)](#)
- ^{iv} [Index of Production | Northern Ireland Statistics and Research Agency \(nisra.gov.uk\)](#)
- ^v [Index of Services | Northern Ireland Statistics and Research Agency \(nisra.gov.uk\)](#)
- ^{vi} [Covid-19 Mobility Report - 11 December 2020 \(health-ni.gov.uk\)](#)
- ^{vii} [Regional gross value added \(balanced\) per head and income components - Office for National Statistics \(ons.gov.uk\)](#)
- ^{viii} [CRU - Month of lockdown lowers annual GDP by 2-3%](#)
- ^{ix} [Output falls at faster pace amid COVID-19 restrictions \(ulstereconomix.com\)](#)
- ^x [Economic Eye Report Winter 2020 - Bouncing back or stepping forward | EY Ireland](#)
- ^{xi} [OBR - Economic and Fiscal Outlook November 2020](#)
- ^{xii} [Bank of England Monetary Policy Report November 2020](#)
- ^{xiii} [Business insights and impact on the UK and sub-national economy - Office for National Statistics \(ons.gov.uk\)](#)
- ^{xiv} [UUEPC - The Impact of Covid-19 on Northern Ireland Business Activity](#)
- ^{xv} [NISRA - BRES Publications and Tables 2019](#)
- ^{xvi} [HMRC coronavirus \(COVID-19\) statistics](#)
- ^{xvii} [Coronavirus Job Retention Scheme statistics: August 2020 - GOV.UK \(www.gov.uk\)](#)
- ^{xviii} [Coronavirus Job Retention Scheme statistics: December 2020 - GOV.UK \(www.gov.uk\)](#)
- ^{xix} [Self-Employment Income Support Scheme statistics: November 2020 - GOV.UK \(www.gov.uk\)](#)
- ^{xx} [Chancellor extends furlough and loan schemes - GOV.UK \(www.gov.uk\)](#)
- ^{xxi} [Claimant Count Tables | Northern Ireland Statistics and Research Agency \(nisra.gov.uk\)](#)
- ^{xxii} [Labour Market Report – December 2020 | Northern Ireland Statistics and Research Agency \(nisra.gov.uk\)](#)
- ^{xxiii} [Labour Market Report December 2020 \(nisra.gov.uk\)](#)
- ^{xxiv} [40,000 jobs put at risk by Covid-19 lockdown in Northern Ireland, warns economist - BelfastTelegraph.co.uk](#)
- ^{xxv} [Economic and fiscal outlook - November 2020 \(obr.uk\)](#)
- ^{xxvi} [UUEPC - Labour market implications of Covid-19](#)
- ^{xxvii} [Labour Market Report December 2020 \(nisra.gov.uk\)](#)
- ^{xxviii} [Coronavirus Job Retention Scheme statistics: December 2020 - GOV.UK \(www.gov.uk\)](#)
- ^{xxix} [NISRA - Northern Ireland Annual Survey of Hours and Earnings](#)
- ^{xxx} [FT - Furlough leaves 2m UK employees earning less than minimum wage](#)
- ^{xxxi} [Furlough Scheme Extended and Further Economic Support announced - GOV.UK \(www.gov.uk\)](#)