Short and Long-Term Impact of Covid-19 on the Northern Ireland Economy

March 2021

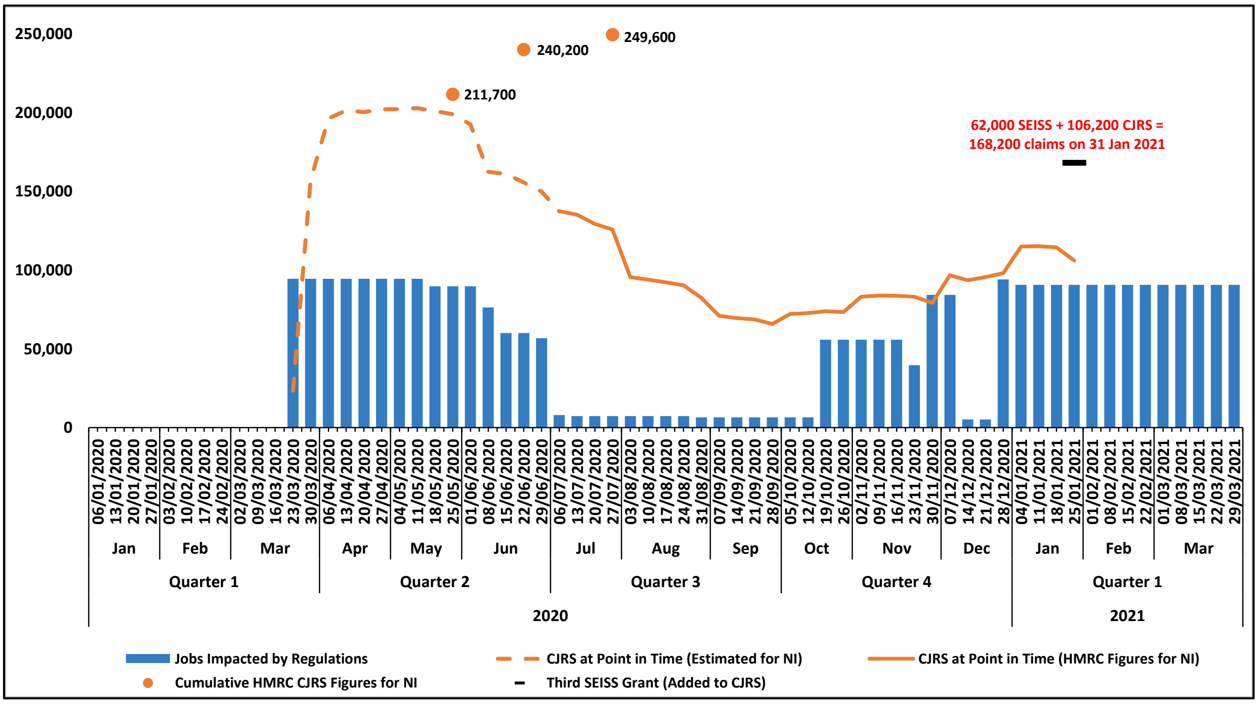
Short-Term Economic Impact

Spring 2020 saw output fall to around 25% below normal levels in Northern Ireland at the height of lockdown.[i] Around 250,000 employments availed of the HMRC Coronavirus Job Retention Scheme[ii] (CJRS) and 78,000 claimed the first Self-Employment Income Support Scheme[iii] (SEISS) grant.

The impact of the current restrictions appear less severe in terms of output per month foregone than spring 2020. Many businesses have adapted to new modes of working and many consumers have changed spending habits. Notwithstanding, indications are that output over the past few months are well below normal levels and likely within the realms of a severe economic downturn (in normal times). In addition, except for a short relaxation of restrictions before Christmas, the current cycle of restrictions (Mid-October 2020 onwards) are of total longer duration than before. The restrictions are now in place at a time of increased financial vulnerability / stress for firms, than was the case at the outset of the pandemic, due to the cumulative effect.

As of 31 January 2021, around 106,000 employments were furloughed under CJRS and 62,000 availed of SEISS in Northern Ireland, totalling around 168,000 employments / jobs.

Jobs Potentially Impacted by Regulations, compared with CJRS and SEISS Usage



Notes: The dashed line has been calculated from UK-wide HMRC CJRS data and apportioned to Northern Ireland by DfE. The solid orange line has been created by using official HMRC CJRS data specifically relating to NI. HMRC's January 2020 data is provisional and subject to change. 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, by using BRES data. It can be used as an indication of strictness of restrictions. Some sub-sectors may be omitted or erroneously included. Figures based on pre-pandemic data - some workers may have left the sub-sector in 2020, or been made redundant. Self-employed not included. In addition to sectors specifically identified in Regulations, spring 2020 lockdown had many manufacturing, construction and office workers that stayed at home *en masse*. Not all workers furloughed at the present time work in sectors / sub-sectors that are closed by Regulations. The NI Executive's pathway out of the restrictions will be slow and cautious.

Data from ONS suggests that only 85.2% of businesses were open / trading in Northern Ireland between 22 February 2021 and 7 March 2021.[iv] This is a substantially lower than proportions seen during September 2020 (see **Appendix 1**).

Latest data from NI Electricity Networks also convey a similar picture. Electricity consumption was lower in October and November 2020, compared to the same months last year. [1] The underlying data show this was driven by significant falls in non-domestic consumption, coinciding with the restrictions that were introduced. There appeared to be some partial offsetting of this decline however, with domestic electricity usage as people stayed at home.

According to Ulster Bank's PMI Index, the headline seasonally adjusted Business Activity Index remained well below the 50.0 no-change mark in February, despite rising to 40.2 from 38.3 in January. Anecdotal evidence indicated that the Covid-19 lockdown was the principal cause of the latest decline in output, which was the most marked of all 12 UK regions. Each monitored sector saw activity fall, led by retail. Manufacturing posted the softest contraction.[v]

According to the ONS, from 14 December 2020 to 27 December 2020, 75% of single site businesses in the Accommodation & Food Services industry in Northern Ireland had no cash reserves, or less than three months of cash reserves, compared with 57% across the UK.[vi]

We await official data to confirm, but Northern Ireland is likely to have experienced a fall in economic activity similar to the UK level during 2020. Data fluctuated greatly month-on-month, but latest GDP data suggests the UK economy experienced annual growth of around -10% for the 2020 year as a whole (although further revisions are possible).

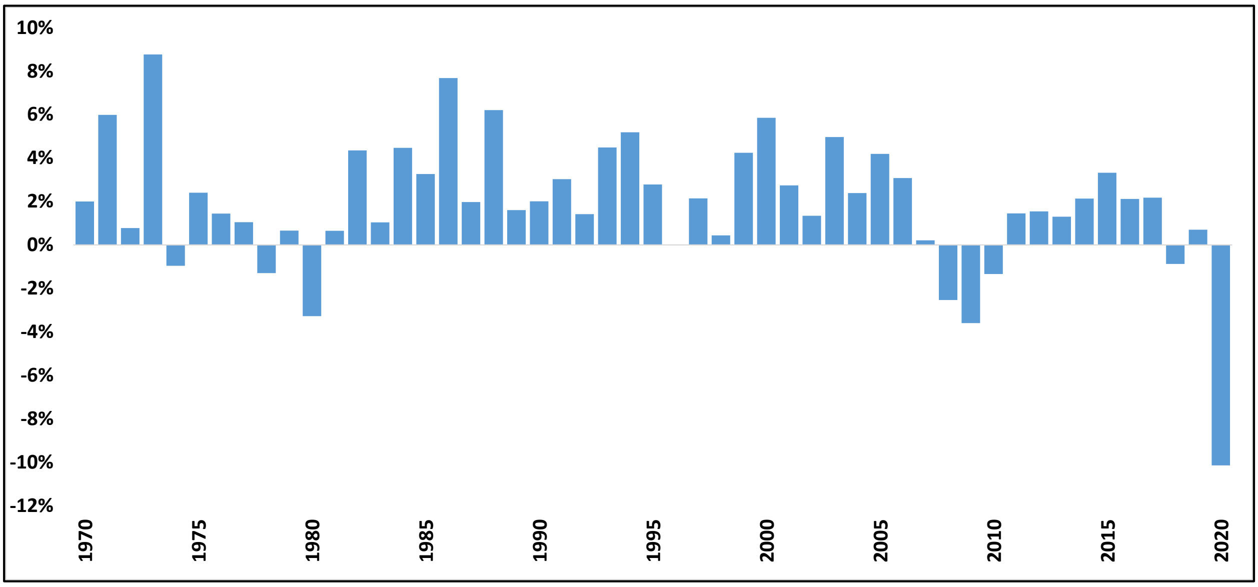
The Economic Statistics Centre of Excellence (ESCoE) has used their Regional Nowcasting Model to estimate how growth for the UK as a whole, as estimated by the ONS, is allocated across the regions and nations of the UK. With the model having been run with Q4 2020 estimates, ESCoE presents their results for 2020 as a whole.

We await the release of official data, but estimates from the Regional Nowcasting Model suggest that Northern Ireland had a contraction of growth -10.1%, greater than East Midlands (-8.9%), but less severe than London (-12.9%). When compared with growth rates over the last 50 years we can see that 2020 saw a very severe economic impact from Covid-19 and the associated restrictions for Northern Ireland.[2]

[1] Increases / decreases in consumption between 2019 and 2020 may be partly due to factors such as better/worse weather or closure/opening of sites.

[2] GVA / GDP quantify production of final goods & services and are not a measure of wider well-being.

Model Estimates of Northern Ireland GVA, Annual Real Growth Rates (%)



Source: ESCoE

Notes: Figures refer to annual growth at Q4 of each year, extracted by DfE from ESCoE model estimates of regional quarterly GVA. The estimates are from the model in Koop, G., McIntyre, S.G. and Mitchell, J., Poon, A., "Regional Output Growth in the United Kingdom: More Timely and Higher Frequency Estimates, 1970-2017" Journal of Applied Econometrics, Vol. 35, 2, pp. 176-197: Wiley Online Library - Regional output growth in the United Kingdom: More timely and higher frequency estimates from 1970

For Northern Ireland, the data only cover up to Q3 2020. Note that while the ONS/KMMP series (which comes from the ESCoE model) covers all four quarters of 2020, the NISRA series is based on only the first three quarters of 2020. Nevertheless, ESCoE suggest similar drops in activity in 2020 being suggested by both series.

To conclude, the authors at ESCoE state that:

> *"It is going to be essential that economic policy through the recovery recognises not just the differences in the scale of the shock, but also differences across regions in the conditions necessary to support economic growth."* [vii]

Directly Impacted Sectors and Jobs

The direct impact of the latest restrictions in Northern Ireland falls mainly on hospitality, sport, arts, entertainment and recreation, as well as close contact services and retail. While there may have been some substitution of spend as households consumed other goods and services not subject to restrictions, there is still expected to have been a negative impact on output overall (compared to a counterfactual of continued recovery).

January 2021 UK GDP was 9.0% below the pre-pandemic levels seen in February 2020, and lower than November and December 2020 levels.[viii]

DfE analysis indicates that, at a conservative estimate, there could be over 10,000 businesses in NI directly impacted by the latest restrictions and would therefore be able to open / trade freely if all restrictions were lifted.

For example, according to the IDBR:

- Around 2,000 businesses related to hairdressing & other personal service activities;
- Approximately 700 businesses related to sports and fitness activities;
- Over 400 businesses related to arts, leisure, museums and amusement activities;
- There were up to 4,000 wholesale and retail businesses in categories directly impacted by Regulations (i.e. non-essential), however, this estimate is subject to some uncertainty.[ix]

According to data held by the Food Standards Agency, there are the following number of premises in Northern Ireland:

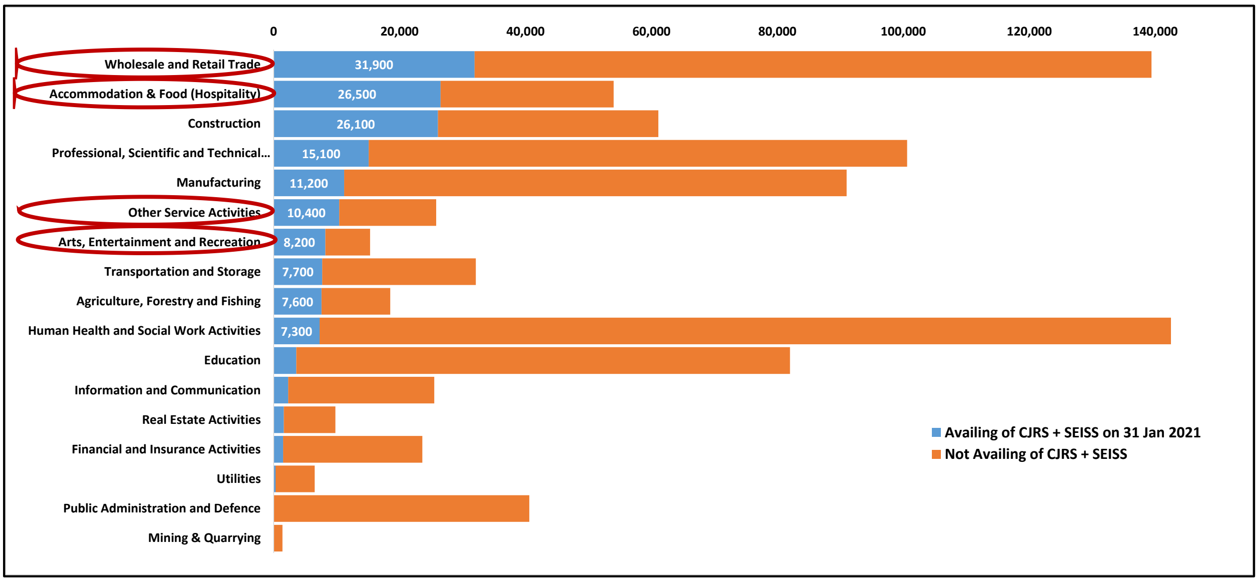
- Around 3,500 restaurants / cafes (IDBR figure 1,210 businesses);
- Approximately 1,000 pubs / bars that serve food (IDBR figure 945 businesses);
- Over 650 hotels / bed & breakfasts (IDBR figure 375 businesses). [x]

Unsurprisingly, those sectors which were subjected to restrictions made substantial use of HMRC's employment support schemes, amounting to around 77,000 employments / jobs availing of CJRS or SEISS (i.e. almost half of the 168,000 in total). A breakdown of the 31 January 2021 figures for those sectors most directly impacted is as follows:

- Retail: 27,000 CJRS + 4,900 SEISS = 31,900 employments / jobs.
- Accommodation & Food (Hospitality): 24,900 CJRS + 1,600 SEISS = 26,500
- Other Services Activities (Incl. Close Contact Services): 5,000 CJRS + 5,400 = 10,400
- Arts, Entertainment and Recreation: 6,800 CJRS + 1,400 SEISS = 8,200

It should be noted that these figures provided by HMRC are provisional and may be revised when new data gets released on 25 March 2021.

Employments Availing of CJRS or SEISS on 31 January 2021, by Sector



It is important to be mindful that the red circles in the graph above relate to those sectors that are most directly impacted by the restrictions. However, we need also be conscious that many sectors may be indirectly affected by business closures. Dr Lisa Wilson at the Nevin Economic Research Institute (NERI) reflected that there may be a number of those furloughed working within food production for example, that ordinarily provide goods for the hospitality sector, but could potentially be affected by much of the food and accommodation sector being closed.[xi]

Possible Long-Term Consequences of Covid-19 and Continued Restrictions

In July 2020, the Bank of England's chief economist, Andy Haldane stated that limiting the long-term economic scarring effect of the Covid-19 pandemic is a key objective of public policy. He stated that this is best done by measures which **shorten the duration**, and **limit the depth, of the downturn**. The two key channels through which scarring of the economy's longer-term potential might arise is through reduced business investment and dynamism, hitting the stock of physical capital, and through high unemployment depleting the skills of the workforce and shrinking the stock of human capital.[xii]

The OBR, in their November 2020 Report acknowledge that the pandemic could generate some lasting positive economic effects. For example, they consider the accelerated adoption of new technologies could bring forward productivity gains, as could the more rapid shift from physical to online retailing and towards a cashless economy. But the OBR does state that it seems unlikely that such benign consequences will outweigh the adverse effects. In their March 2021 Report OBR have re-examined the potential scarring impact of Covid-19. In view of limited, though somewhat conflicting, news since November, they retained their overall assumption of 3 per cent scarring [3] for their March 2021 Report, though OBR continue to emphasise the uncertainty surrounding it. OBR will continue to monitor the evidence on scarring as it accrues.[xiii]

Selected Estimates of Medium-Term Scarring of Real GDP (OBR March 2021 Report)

Scarring estimates (per cent)[1]			
Estimates for the UK		International estimates[3]	
OBR	3	Italy	3
IMF Article IV	3 to 6	Germany	3
NIESR[2]	4	Netherlands	4
Bank of England	1.75	USA	3.4
Pujol	3.1		

[1] Relative to a pre-pandemic baseline, unless otherwise stated.

[2] NIESR's central estimate is 6 per cent, of which around 2 percentage points is the impact of the TCA, therefore their implied estimate for virus related scarring is 4 percentage points.

[3] Source: Ufficio Parlamentare Di Bilancio, Stabilitätsrat, CPB Netherlands and Congressional Budget Office.

The degree of scarring will be affected by how quickly the virus is brought under control, the pace of the recovery, and the effectiveness of policy in keeping workers attached to employers and viable firms in business. The pandemic is quite likely, however, to leave lasting 'scars' on supply capacity. These can arise through a variety of channels, including deferred or cancelled investment in physical capital and lower innovation as a result of the heightened uncertainty and increased levels of debt incurred during the pandemic. Other channels include the destruction of valuable firm-specific capital and knowledge arising from business failures and a loss of human capital due to sustained unemployment as the economy restructures away from contact-intensive sectors. Earlier retirement from the labour force prompted by the pandemic may also have a long-term impact. [xiv]

[3] OBR have a range of 0 to 6 per cent. 3 per cent scarring means GDP lower by this amount in the long term, compared to OBR's March 2020 forecast.

The Scottish Fiscal Commission have also considered that Covid-19 will have long-lasting effects on the economy of Scotland. They do not expect Scottish GDP to recover to its pre-Covid-19 level until the start of 2024. They expect productivity to be lower than originally thought, because of factors such as lower levels of capital investment, global trade and migration during the pandemic, and scarring effects from prolonged unemployment. The Scottish Fiscal Commission also expect lower labour force participation rates for those aged 16 to 24, in part because the long-term employability of younger people may be reduced by unemployment early in their working lives.[xv]

Additional research to determine the potential long-term impacts of the Covid-19 pandemic on the Northern Ireland economy is provided in **Annex A** to this paper. Six key pillars were examined and the research assessed the degree to which the Northern Ireland economy would be affected in the long-run. The six key pillars identified were:

- **Mental Health**
- **Education & Skills**
- **Corporate Debt**
- **Personal Debt**
- **Balanced Regional Development; and**
- **Innovation & Digitalisation**

Unemployment

As noted above, one of the most impactful channels of scarring from recessions is the impact on the labour market – particularly unemployment. Even though the furlough and self-employment schemes have both been instrumental in avoiding more widespread job losses, the unemployment rate, claimant count, proposed and confirmed redundancies still increased during 2020.

The latest NI seasonally adjusted unemployment rate (the proportion of economically active people aged 16+ who were unemployed) for the period October-December 2020 was estimated from the Labour Force Survey at 3.6%. The unemployment rate increased by 1.2pps over the year. The annual change was statistically significant.

The youth (16-24) unemployment rate was 12.1%. The NI economic inactivity rate (the proportion of people aged from 16 to 64 who were not working and not seeking or available to work) increased over the quarter (1.2pps) and the year (2.1pps) to 28.0%.[xvi]

While the various job support schemes have limited the levels of unemployment, they have not been able to save every job. The latest Claimant Count in Northern Ireland (i.e. those claiming Jobseeker's Allowance and the number of Universal Credit claimants placed in the 'Searching for Work' conditionality group) was 56,700 in January 2021, around double (+91%) the level of a year ago. Data from the latest Labour Force Survey indicate that the number of people in employment in Northern Ireland decreased by 35,000 over the year, driven by a 26,000 fall in the number of 16-24 year olds in employment.

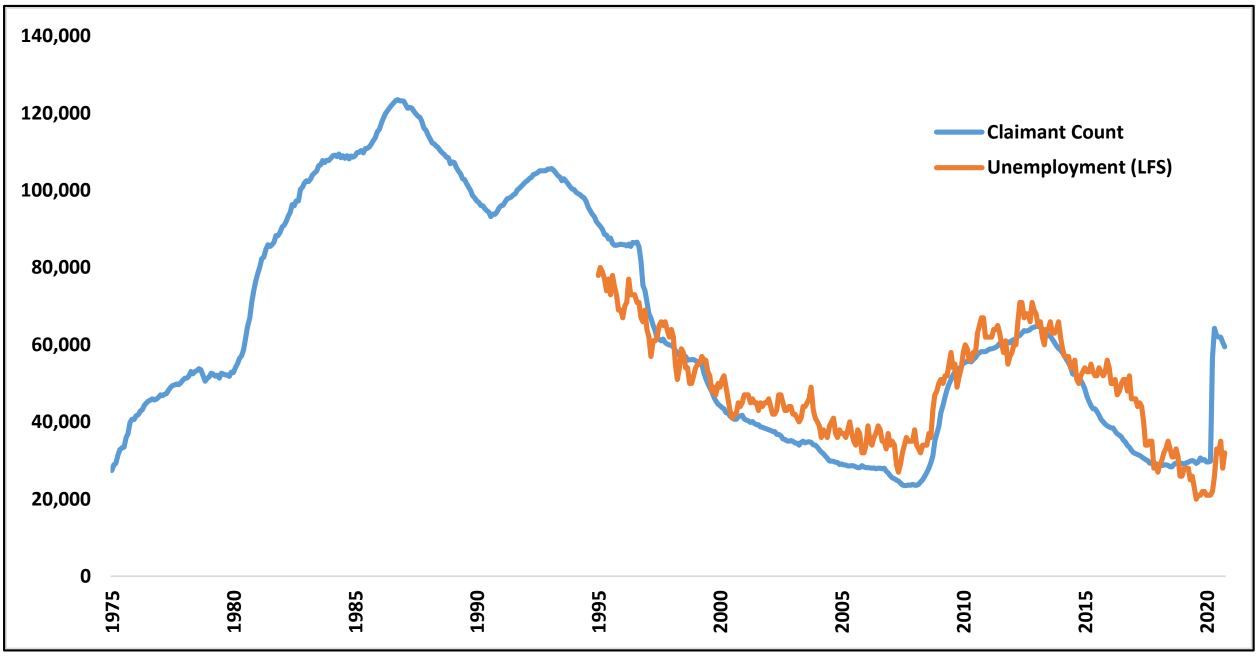
Comparison of 2020 Claimant Count[xvii], LFS Unemployment & Employment Levels [xviii]

CC Month	Claimant Count
January 2020	29,600
February 2020	29,600
March 2020	29,800
April 2020	56,600
May 2020	64,300
June 2020	62,300
July 2020	62,000
August 2020	62,000
September 2020	60,600
October 2020	59,500
November 2020	59,100
December 2020	57,700
January 2021	56,700

LFS Time Period	LFS Unemployment	LFS Unemployment Rate	Employment
Dec-Feb 2020	22,000	2.5%	877,000
Jan-Mar 2020	21,000	2.4%	871,000
Feb-Apr 2020	21,000	2.3%	862,000
Mar-May 2020	21,000	2.4%	856,000
Apr-Jun 2020	22,000	2.5%	860,000
May-Jul 2020	26,000	3.0%	855,000
Jun-Aug 2020	33,000	3.7%	857,000
Jul-Sep 2020	32,000	3.6%	856,000
Aug-Oct 2020	35,000	3.9%	857,000
Sep-Nov 2020	28,000	3.2%	858,000
Oct-Dec 2020	32,000	3.6%	841,000

In terms of sectors most affected, manufacturing, wholesale and retail trade, transportation & storage have experienced many job losses. This is evident in the latest proposed and confirmed redundancy figures. In addition, food & accommodation appears to have been adversely affected.[xix]

Northern Ireland Claimant Count and Unemployment (LFS) Numbers



Notes: Users should note that revisions are to be expected while the Claimant Count series is experimental and improvements are being made to the process. NISRA stated in July 2020 that although there is a large degree of overlap between Claimant Count and LFS unemployment, it is possible for a person to be within the definition of one measure but not the other. The Claimant Count does not meet the internationally agreed definition of unemployment specified by the International Labour Organisation (ILO). Some people recorded in the Claimant Count would not be counted as unemployed. For example, in certain circumstances people can claim Jobseeker's Allowance or Universal Credit while they have relatively low earnings from part-time work. [xx]

Any further rise in unemployment is not just dependent on the number of jobs lost, but also the number of jobs created. Where job losses are concentrated over a short timeframe, skills mismatches and friction in labour allocation can occur.

Despite the pandemic, jobs are still being advertised in Northern Ireland. The Department for the Economy produces a monthly factsheet that details monthly online job posting trends across Northern Ireland (drawing upon Burning Glass Labour Insights data). It includes an assessment of selected sectors, as well as skills in demand. There were around 9,000 online job postings in January 2021. Whilst the January 2021 figure is third highest figure since March 2020, it is 33% smaller than January 2020. Health and Social Care continues to be the biggest sector, accounting for an estimated one in every four online job postings in January 2021. In terms of occupation, Software Development Professionals were amongst the most advertised professions.[xxi]

In March 2021, after CJRS and SEISS was further extended by the UK Chancellor, the OBR released their view of where unemployment could go in 2021. They consider the extensions to the CJRS, SEISS and various business support measures will likely both delay and lower the rise in unemployment. For Northern Ireland we can see the importance of these schemes in limiting unemployment, with the recent increase in furlough usage here.

When commenting on the economy UK-wide, OBR have stated:

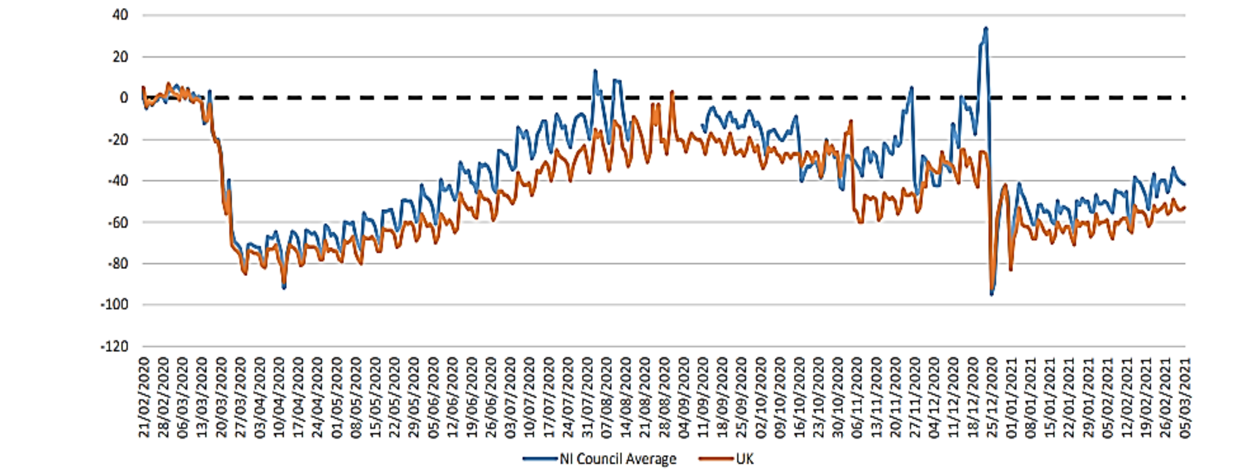
> *"The rapid rollout of effective vaccines offers hope of a swifter and more sustained economic recovery, albeit from a more challenging point than we forecast in November. The easing of public health restrictions in line with the Government's 22 February Roadmap should permit a rebound in consumption and output through this year, partially supported by the release of extra savings built up by households during the pandemic. GDP is expected to grow by 4 per cent in 2021 and to regain its pre-pandemic level in the second quarter of 2022, six months earlier than we forecast in November. Unemployment still rises by a further 500,000 to a peak of 6.5 per cent at the end of 2021, but the peak is around 340,000 less than the 7.5 per cent assumed in our November forecast, thanks partly to the latest extension of the furlough scheme. The pandemic is nevertheless still expected to lower the supply capacity of the economy in the medium term by around 3 per cent relative to pre-virus expectations."*

Annex B provides further information on sectoral return to work potential. With around 168,000 employments / jobs availing of CJRS or SEISS at the end of January 2021 in Northern Ireland, a safe reopening will need to be implemented across all sectors to ensure a return to work and therefore as small a number as possible are made unemployed.

Experience from 2020 Re-Opening and Scope for another 'Bounce-Back'

With ever-available outturn data, it has also been possible to track the recovery over the summer months of 2020 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. However, while the rebound during summer of 2020 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.

UK and NI Google Mobility Data – Retail & Recreation [xxii]



Note: Figures for NI are based on an average of council-level figures.
Data for Retail & Recreation from the 17th August – 8th September has been revised and updated by Google to ensure consistent data reporting across categories.
Data is not presented between 17th Aug – 10th Sep at NI level due to insufficient data.
Link to Google Mobility Report: https://www.google.com/covid19/mobility/index.html?hl=en

Source: DoH Mobility Report

As would be expected, latest mobility data show how the latest batches of Regulations have, generally speaking (and with some volatility as restrictions varied), led to lower levels of people movements than was the case in the summer of 2020 and before March 2020.[xxiii] 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.[xxiv] The NISRA Index of Production[xxv] and Index of Services[xxvi] also showed a similar picture.

It is fair to say that a fair proportion of the dampening of activity at the present time is related to the restrictions and guidance. As the restrictions get slowly lifted during 2021 pent-up demand should ensure that economic activity returns to much less depressed levels, while acknowledging that full recovery may not be immediate. As was the case in summer 2020, stimulus measures may be required, and could make bounce-back more swift.

As those closed businesses return to trading, they should require less workers availing of the HMRC employment support schemes. After the reopening of much of the Northern Ireland economy in May / June 2020, many workers were ‘unfurloughed’ over the following months. While many workers were then subsequently ‘re-furloughed’ in late 2020 as sectors were forced to close, presumably many should be able to resume their roles in 2021 as the economy gradually returns to normal (and assuming no gap in employment support from HMRC).

In Danske Bank’s latest Quarterly Sectoral Forecasts publication, they consider how a recovery could begin during 2021:

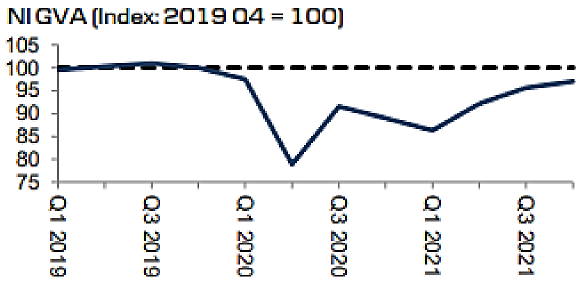
> *“The Northern Ireland economy continues to be heavily influenced by the coronavirus pandemic, with the tighter restrictions in both the final quarter of 2020 and the first quarter of 2021 stalling the recovery that had begun over the summer and the early autumn. The rollout of the vaccine programme will hopefully see the gradual economic recovery restart in the second quarter of 2021, however it is likely to be a number of years before output*

> *returns to its pre-coronavirus level and there is still a great deal of uncertainty and risk to the outlook. We estimate that the Northern Ireland economy contracted by around 11% in 2020 and have revised our forecasts for 2021 downwards and now believe that the local economy will only expand by about 4% in 2021."*[xxvii]

Danske Bank Northern Ireland Quarterly (2020 Q4) Sectoral Forecasts

Forecast summary (%)	2020	2021
UK GDP growth	-10.7	4.2
NI GVA growth	-11.0	4.0
NI consumer spending growth	-14.0	4.5
NI employee jobs growth	-0.3	-3.0
NI unemployment rate	3.5	6.7
UK CPI inflation rate	0.9	1.4

Source: Oxford Economics, Danske Bank Analysis



Source: Oxford Economics, Danske Bank Analysis

Additional information on the potential short-term bounce-back impact when Northern Ireland reopens the economy is provided in **Annex B** to this paper.

While business conditions now are challenging, according to the latest Ulster Bank NI PMI data, Northern Ireland businesses are more optimistic about business activity in 12 months' time than they have been since the pandemic began.

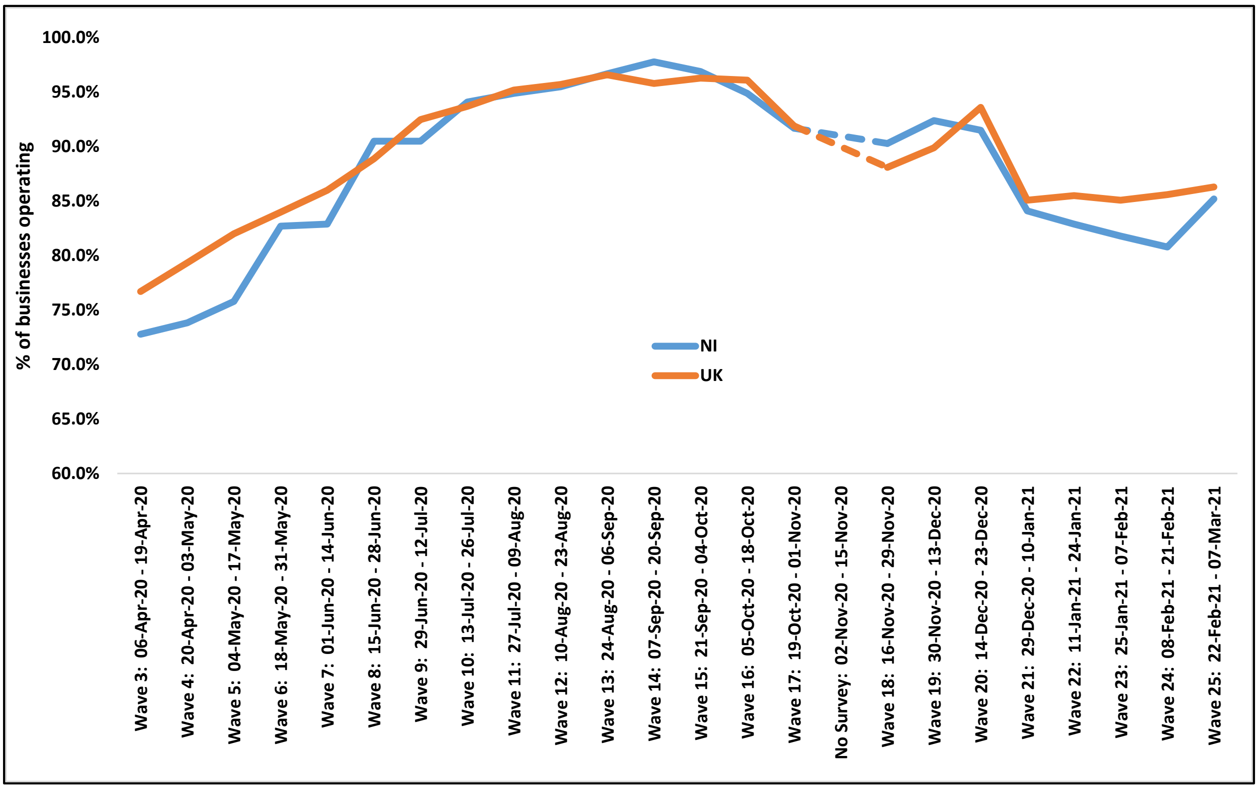
There are still significant risks if recovery of output and jobs is not swift and sustained. The roll-out of the vaccine, coupled with pent-up demand may stimulate a 'bounce back'. Nonetheless, it may take some time before economic activity fully returns to pre-pandemic levels and there is a risk of some economic 'scarring'.

Northern Ireland's pre-pandemic GDP was around £48.9bn per annum[xxviii], or £940m per week. We await official data to confirm, but indications are that Northern Ireland's aggregate GDP may be running at somewhere in the region of up to £100m per week below normal levels. The Bank of England considers that UK GDP could be 12% below normal at the end of March 2021, but the extension of Government support would help mitigate some of the worst effects of 'scarring'.[xxix] Indications are that a substantial easing of restrictions in Northern Ireland during 2021 could mean a considerable increase in GDP from current depressed levels and would inject some much needed confidence into the local economy. However, a full recovery may take some time.

A strong bounce back is in store, but one that will need attention and nurturing to minimise the scarring effects that are deepening every week. People want to spend; firms want and need to invest, and the Government is continuing to intervene with a range of supports. This will be a strong platform for recovery later in 2021 and 2022.

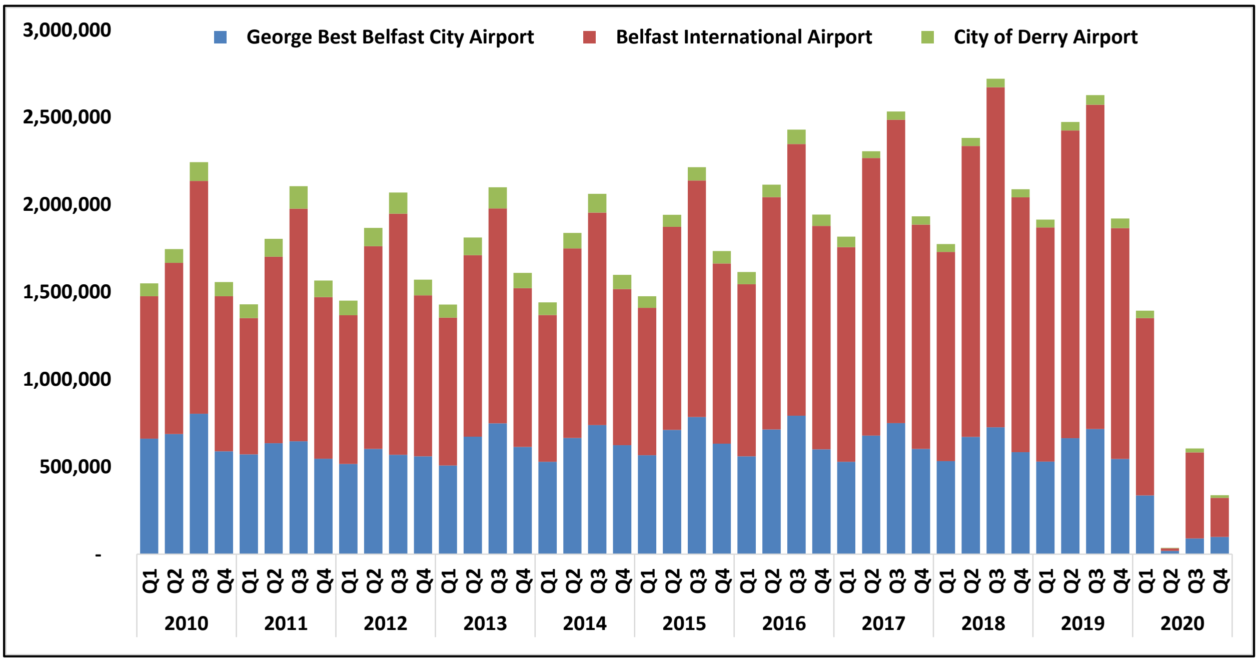
APPENDIX 1

Percentage of Businesses Operating / Trading [xxx]



Notes / Source: DfE presentation of ONS data.

Total Air Passenger Flows by Northern Ireland Airport [xxxi]



Notes / Source: DfE presentation of NISRA data.

SOURCES:

[i] DfE - The impact of Covid-19 on the NI economy: modelled results for Q3 2020
[ii] Gov.uk - Coronavirus Job Retention Scheme statistics: August 2020
[iii] Gov.uk - Self-Employment Income Support Scheme statistics: August 2020
[iv] ONS - Business insights and impact on the UK economy
[v] Ulster Bank - Ulster Bank Northern Ireland PMI
[vi] ONS - Understanding the business impacts of local and national restrictions: February 2021
[vii] ESCOE - Regional impact of the pandemic – new estimates of regional output in 2020
[viii] ONS - GDP monthly estimate, UK: January 2021
[ix] NISRA - Current publication and IDBR tables
[x] Food Standards Agency - NI Search Results
[xi] NERI - Who's furloughed? Analysis of new furlough statistics for Northern Ireland
[xii] UK Parliament - Coronavirus: Economic impact
[xiii] OBR - Economic and fiscal outlook – March 2021
[xiv] OBR - Economic and fiscal outlook - November 2020
[xv] Scottish Fiscal Commission - Scotland's Economic and Fiscal Forecasts - January 2021
[xvi] NISRA - Northern Ireland Labour Market Report - February 2021
[xvii] NISRA - Claimant Count Tables
[xviii] NISRA - Labour Force Survey
[xix] NISRA - Northern Ireland Labour Market Report - February 2021
[xx] NISRA - LFS unemployment and experimental claimant count measure in Northern Ireland - July 2020
[xxi] DfE - Fact Sheet - Online Job Posting Trends - January 2021
[xxii] DoH - COVID-19 mobility reports
[xxiii] BBC - Lifting NI restrictions will 'need 70-80% vaccinated'
[xxiv] DfE - The impact of Covid-19 on the NI economy: modelled results for Q3 2020
[xxv] NISRA - Index of Production
[xxvi] NISRA - Index of Services
[xxvii] Danske Bank - Northern Ireland Quarterly Sectoral Forecasts - Quarter 4 2020
[xxviii] Regional economic activity by gross domestic product, UK - Office for National Statistics (ons.gov.uk)
[xxix] Belfast Telegraph - Economic scars could be fewer than in past recessions – Bank of England chief
[xxx] ONS - Business insights and impact on the UK economy
[xxxi] NISRA - Northern Ireland Air Passenger Flow Publications