

## ANNEX B: Understanding the bounce back potential of the Northern Ireland economy after COVID-19

### 1) International review: How other economies performed following periods of lockdown

Each nation's COVID-19 experience has been influenced by many complex factors, which also applies to their potential to bounce back. It is not possible to make direct comparisons between countries or even cities. However, the economic recovery happening in places like Australia and New Zealand can guide policymakers in Northern Ireland (NI) regarding the possibility and magnitude of a bounce back and the factors which enable it.

The jobs-led recovery in Australia is a model that can be applied to NI, where there is evidence of accumulated savings. The job-led model increases avenues for consumers to spend their money, as well as contributing to the levels of household income necessary to fuel this.

#### Lessons learned from the trajectory of recovery in other countries.

The onset of COVID-19 in March 2020 brought with it a complex set of problems for policymakers, not least that of inexperience in navigating a pandemic. Whilst Asian countries such as China had prior experience with recent pandemics like SARS, the majority of OECD governments did not. We can now reflect on economic reopening post-lockdown, both at home and abroad.

The restrictiveness of nations' lockdowns has been assessed by researchers at the University of Oxford, through the Coronavirus Government Response Tracker.<sup>1</sup> There is a negative correlation between stringency (or COVID-related restrictions) and GDP growth in the year to Q3 2020, as would be expected when economic activity is restricted. Looking ahead to forecasted growth in the following four quarters shows a stronger, positive correlation between stringency and GDP growth. The scale of bounce back is strongly impacted by the scale of contraction, though in most cases GDP remains below the pre-pandemic level for the coming years. The patterns also show that there is a high degree of variability in economic recovery and each country is unique.

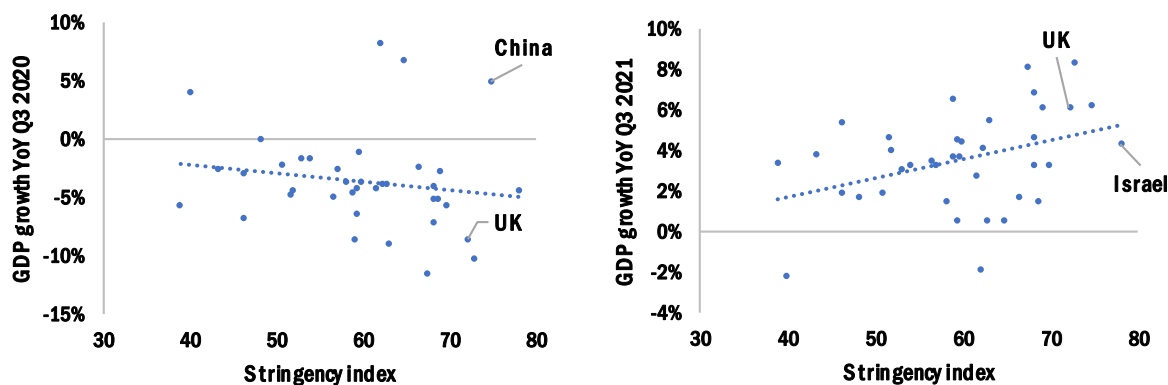
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<sup>1</sup> EY analysis based on publicly available data from: Blavatnik School of Government, University of Oxford (ongoing) *Coronavirus Government Response Tracker* [online]

Available at: [BSG - University Of Oxford - Covid-19 Government Response Tracker](#)

**Chart 1.1: GDP growth (% YoY) Q3 2020 & Q3 2021, and severity of restrictions 2020, OECD & China<sup>2</sup>**

Source: Oxford Economics, University of Oxford



Australia and New Zealand's individual experiences with COVID-19 and emerging economic recovery illustrate that a swift and rapid bounce back is possible, though it is notable that Australia and New Zealand have recorded fewer COVID-19 cases and deaths than most Western counterparts.

### Case study 1: consumer confidence translating to buoyant consumption growth in New Zealand

New Zealand illustrates the link between leveraging buoyant confidence measures and economic bounce back. In October 2020, Bloomberg found that New Zealand is the country that businesses would be most confident about investing in.<sup>3</sup> As in Australia, New Zealand's policy response and phased reopening has also incorporated the handling of isolated outbreaks of COVID-19 following successive periods of zero community transmission. Whilst restrictive measures in 2020 led to an almost 50 percent fall in consumer spending YoY, 2021 consumption levels are forecast to surpass pre-COVID-19 levels (see Chart 1.2 below).

New Zealand illustrates the potential for accumulated savings in an economy to lead to increased spending levels once restrictions are eased. For example, overall retail card sales in New Zealand now exceed pre-COVID levels, with a V-shaped recovery recorded in 2020.<sup>4</sup>

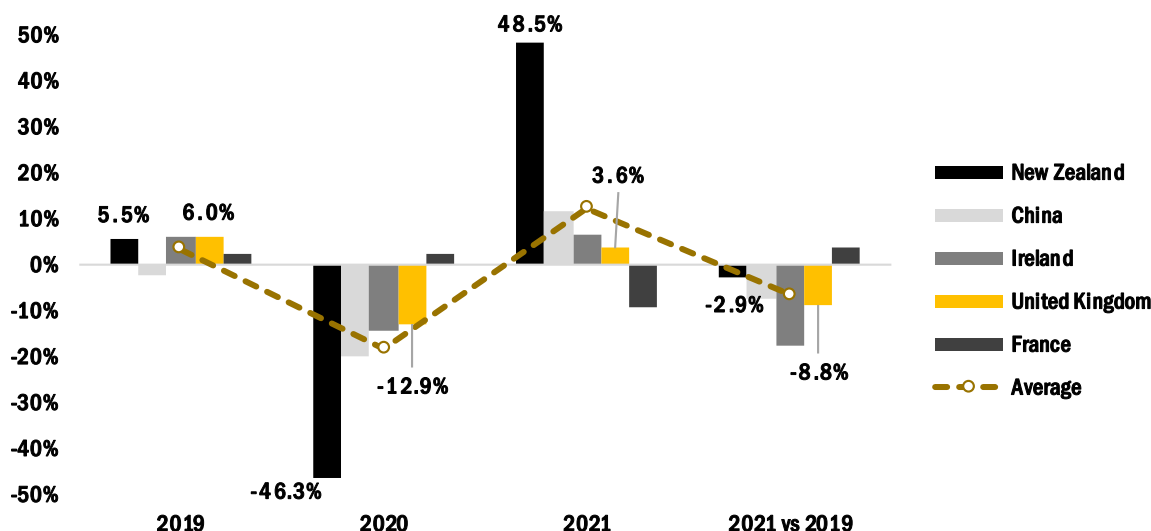
Though similar in population to the Republic of Ireland, only 26 COVID-19 deaths have been recorded in New Zealand (compared with 4,422 in the Republic of Ireland as at 8 March 2021). There may be a lower degree of fear or scarring that could potentially impact consumer trends.

<sup>2</sup> As proxied by the spotscores of the Stringency Index on 23rd March, June, September & December 2020 were averaged

<sup>3</sup> Bloomberg, October 2020, quoted in The Guardian 'New Zealand's COVID-19 response the best in the world, say global business leaders'

<sup>4</sup> Stats.govt.nz

**Chart 1.2: Consumer spending forecasts, % growth YoY, selected countries (2019-2020 & 2021 vs 2019)**



Source: Oxford Economics

### Case study 2: Australia's labour market recovering ahead of trajectory

Australia is illustrative of the potential for a bounce back in the labour market and a jobs-led recovery.<sup>5</sup> Despite the implementation of localised lockdowns where COVID-19 outbreaks have been identified, their recovery has been underway since May 2020. Monthly labour force statistics illustrate a V-shaped recovery, with 201,000 additional people employed month on month in June 2020, or an additional 842,000 between May and December 2020.<sup>6</sup> This marks the emergence of a 'jobs-led recovery', in which 9 out of every 10 pandemic job losses were recovered by December 2020.<sup>7</sup>

This model of recovery is based on a simple logic: an increase in the level of confidence post-lockdown, supported by clear, forward policy guidance from government and incentives, leads to more consumer spending.

Australia's 'JobKeeper' scheme is akin to furlough. It retains employees on firms' payrolls to best equip firms to recover quickly and boost confidence in workers in the same way that it has done in the UK and NI. However, labour force indicators are still performing well ahead of expectations. This is despite the JobKeeper payments having been reduced in September and December 2020, as well as a significantly reduced part-time worker rate being introduced. Rather than leading to permanent job losses, these changes led to 450,000 fewer businesses and two million fewer workers availing of government supports.<sup>8</sup> Commentators believe that Australia will have returned to pre-COVID levels of economic activity by March 2022.<sup>9</sup>

<sup>5</sup> ABS - Labour Force, Australia

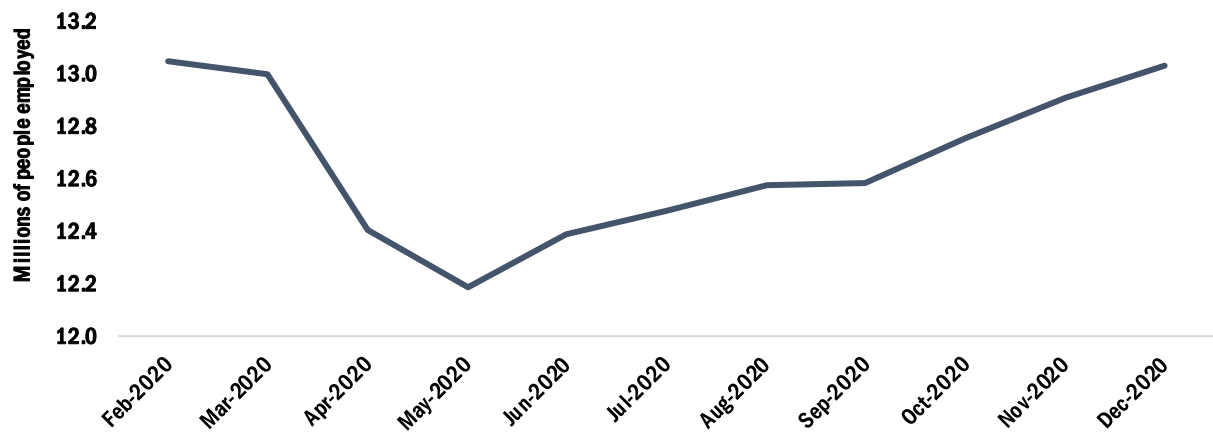
<sup>6</sup> Latest available statistics are December 2020. ABS - Labour Force, Australia, Detailed

<sup>7</sup> EY Australia Chief Economist Jo Masters, quoted in the Sydney Morning Herald

<sup>8</sup> Australian Financial Review, January 2021, Australian Financial Review - Morrison praises firms returning JobKeeper cash

<sup>9</sup> ABC.net, February 2021. 'Brisbane economy 'bouncing back' after coronavirus lockdown, council data reveals' [online] Available at: [ABC - Brisbane economy 'bouncing back' after coronavirus lockdown, council data reveals](#)

Chart 1.3: Employed persons, Australia, February 2020 – December 2020



Source: Australian Bureau of Statistics

## 2) How the UK economy performed following the first lockdown

The UK economic recovery gathered pace upon the easing of lockdown in June 2020. This was enabled by increasing levels of business and consumer confidence. These indicators all support the consensus that any recession experienced due to COVID-19 will be much more brief than fundamental financial recessions such as the one experienced in 2008.

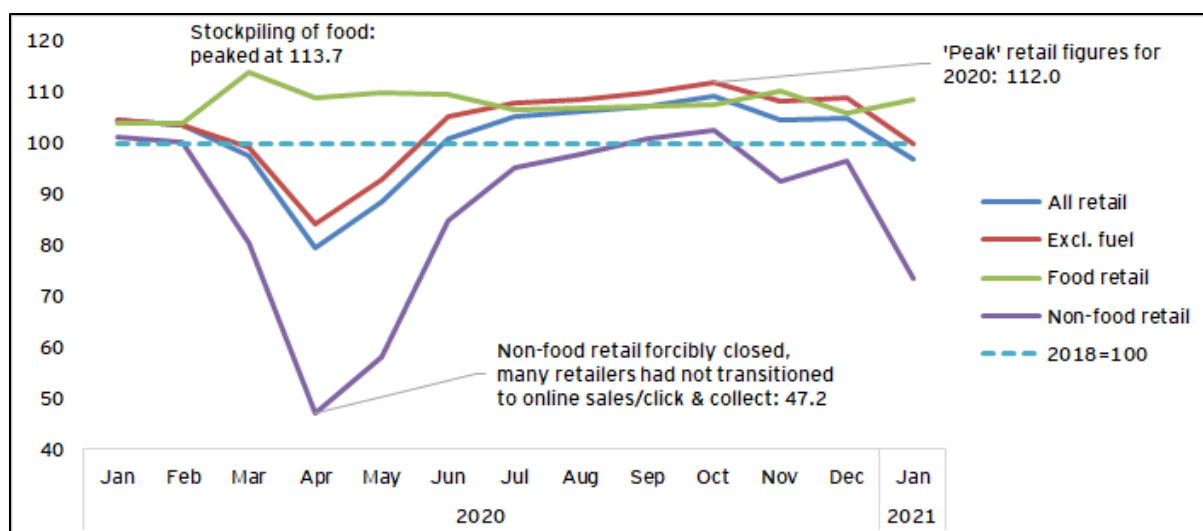
A strong bounce back is expected in many of the hardest hit sectors as a result of pent-up demand. Restaurants, personal services, sport and leisure fall into this category. It will be more challenging for sectors which have undergone a degree of structural change, such as foreign tourism, business travel or high street retail.

Looking at UK retail sales by month, there is evidence to suggest that there was a short-term bounce back in activity in Q3 2020.

Non-essential retail was permitted to reopen from mid-June 2020, with businesses gradually reopening from this date. The data from trading in Q3 (July to September) provides a snapshot of the bounce back potential of retailers.

The non-food subsector of retail was the most severely impacted due to the high proportion of ‘non-essential sales’. Sales fell by more than half between February and April 2020. Logically, food retail performed strongly throughout 2020, given the closure of restaurants and cafes, prevalence of working from home and stockpiling of food in the early months of the pandemic. The rebound recorded between July and October before the introduction of restrictions, as illustrated in Chart 2.1, demonstrates the potential of non-food retail to recover.<sup>10</sup>

**Chart 2.1: Retail Sales Index (SA, 2018=100), UK, January 2020 – January 2021**



Source: ONS

<sup>10</sup> ONS

Analysing how retail businesses performed across the course of the pandemic shows differing impacts according to the size of business;

- For both large and small retailers, the peak decline in sales was in April 2020. Retail sales (excluding fuel but including food retail) fell by proportionately more for small retailers compared with larger ones (falls of 22.5% and 17.8%, respectively)
- The bounce back in sales once restrictions were eased was stronger for smaller retailers, which is reflective of consumers' pent up demand. By November 2020, retail sales were up 22.3% YoY for small firms, compared with 4.7% for larger ones.

**Consumer confidence data illustrates the temporary nature of the COVID-19 shock and potential for a speedier recovery.**

We can look to consumer confidence data as a leading indicator of current or future economic activity. The onset of COVID-19 in early 2020 unsurprisingly weakened UK consumer confidence. In May 2020, YouGov reported that nine in ten believed that UK unemployment would rise.<sup>11</sup>

**Consumer confidence improved for the third consecutive month in January 2021**, despite a renewed national lockdown, with no definitive end date announced.<sup>12</sup> This may be indicative of consumer realism and adjustment of expectations. Components of the index which improved in January included: prospects for household finances over the next 12 months, house value expectations and job security over the next 12 months. Consumers were more confident about the medium to longer term than the next 30 days, demonstrating the expectations for a sustainable, phased recovery period.

The fall of consumer confidence in March/April 2020 was significant, though so too was the return to positive figures later in the year. Consumer confidence fell to lows of 67.4 in the aftermath of the 2008 Financial Crisis. The shock to confidence caused by COVID-19 is far smaller and the potential for a faster recovery is much greater. Overall confidence does, however, remain low relative to pre-pandemic levels.

**Chart 2.2: Consumer Confidence January 2014 to present**



Source: YouGov/CEBR

<sup>11</sup> [YouGov website](#)

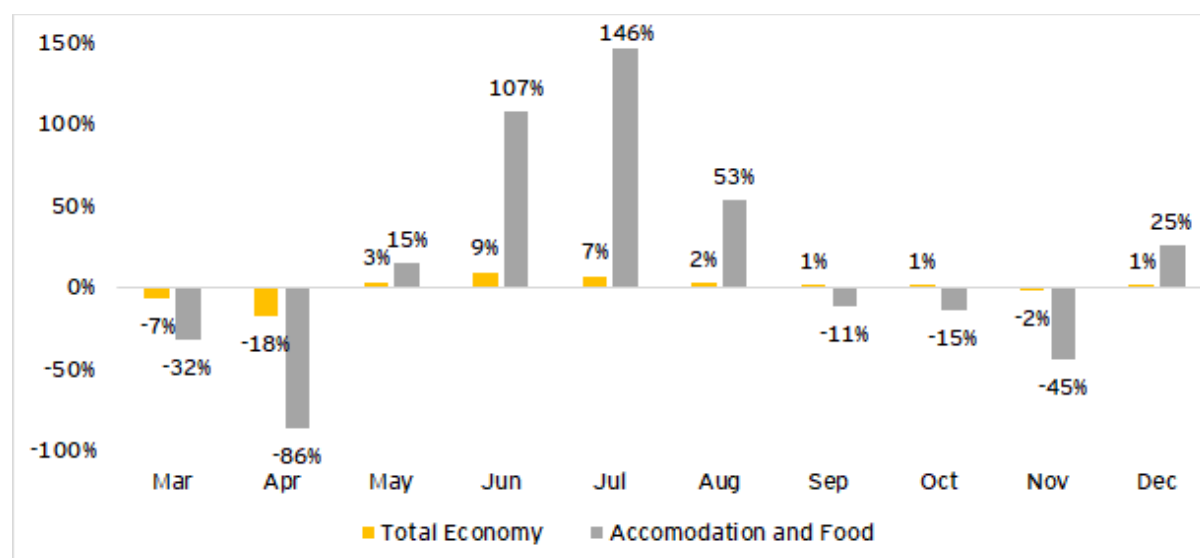
<sup>12</sup> [YouGov - Consumer confidence rises despite national lockdown](#)

## The impact of Q3 recovery efforts on economic output

The UK has undergone a start-stop recovery, as a result of the imposition and lifting of restrictions since the onset of COVID-19. The length of lockdown and potential scarring effects may alter the recovery trajectory somewhat from that seen in 2020, though there should be a number of similar patterns. The experience of reopening the economy between June and October/November 2020 can inform the next reopening.

Firstly, UK GDP did not enter a recessionary spiral: monthly GVA increased month on month for six consecutive months until the reintroduction of restrictions in November, as shown in Chart 2.3 below. Secondly, certain sectors, such as hospitality, benefited more from this temporary bounce back, given that they were the hardest hit. Pent up demand and consumer spend is not permanently lost to the economy, particularly if incomes are protected. It can be used to support a targeted bounce back, benefiting the most job-intensive sectors (accommodation and food in particular).

**Chart 2.3: UK GVA Index (SA, % change MoM), March – December 2020<sup>13</sup>**



Source: ONS

## The bounce back potential of an economy varies depending on the length of a lockdown .

The consensus from forecasters is that NI's GVA recorded a decline of between 9% and 11% in 2020. This figure accounts for the mix of the extended period of 'normal' activity in January and February, subsequent months of lockdown followed by recovery and partial closures.<sup>14</sup>

More importantly, the length of restrictions has long-term impacts that could damage the economic growth potential in the coming years (e.g. mental health, education, debt). To this extent, the cost of lockdown is not a finite measure, nor easily quantifiable by reference to economic performance during and immediately following lockdown. This is contrary to what might have been assumed at the start of this pandemic (see part 2) when little literature was available on these "scarring effects".

<sup>13</sup> ONS - GDP monthly estimate, UK: November 2020

<sup>14</sup> See section 5 for further detail and quarterly breakdowns of GDP and consumption performance

**The key enabler of economic recovery is a surge in demand driven by business and consumer confidence while at the same time avoiding rapid and sustained escalation in prices.**

A proportion of savings will not be spent once businesses reopen (for example spending on fuel for miles not driven will not be caught up). There may also be a desire to maintain a higher level of precautionary savings due to the psychological impact of the pandemic. In other areas, there is an opportunity to unlock the savings. For example, the breadth of holiday options available compared to 2019 has drastically reduced, but the prevailing eagerness to travel has arguably increased (along with the budget of many who have been unable to travel since the onset of COVID).

This could generate an inflation risk for some specific sectors when the bounce back happens, evident for some specific rural tourism offers last summer. This could limit the bounce and exclude some people from those leisure sectors that are essential to our well-being post-COVID.

Attitudinal changes may support a potential bounce back. For example, a sustained reopening can harness society's renewed urge to support local retailers and businesses. The contribution of the high street stores and small businesses to city centres indicates the economic benefits of retail in all its forms. However, many consumers switched to the habit of consuming online which might last post-COVID, reshape our cities and disrupt employment.



### 3) How the Northern Ireland economy performed following the first lockdown

The ability of an economy to recover to its pre-pandemic output level is dependent upon the absolute lockdown length and the scale of the lockdown, as well as the prevailing confidence that any reopening is safe and sustainable.

After a lockdown period of approximately three months, the NI economy reopened in Q3 2020 with a significant bounce back in activity. The increase in activity was primarily driven by Retail and Accommodation & Food, with the activity in these sectors increasing by 26.7% when compared to Q2 2020 according to the Index of Services.

Certain policy measures were made in order to boost the Q3 bounce back, including the Eat Out to Help Out Scheme, which encouraged spending in the accommodation and food sector. This scheme did boost footfall to hospitality businesses by c.5-6% at the time (Centre for Economic Performance, February 2021) and as such provides useful guidance about consumer behaviour. However, care is required that initiatives are appropriate for the public health situation at the time of implementation.

This demonstrates the bounce back potential of some elements of the NI economy after a period of lockdown, and the importance of policy choices to help boost activity.

**In order to determine the bounce back potential of the NI economy, we can first examine how it performed after the initial reopening of the economy at the end of Q3 2020.**

In April 2020 at the start of the lockdown, approximately one third of businesses in NI temporarily closed. The sectors that were most impacted were; Arts, Entertainment and Recreation, and Accommodation and Food. In June 2020, the majority of businesses started to reopen, with only 10% of businesses remaining closed by 28 June. However, over half of businesses in the most impacted sectors remained closed.<sup>15</sup>

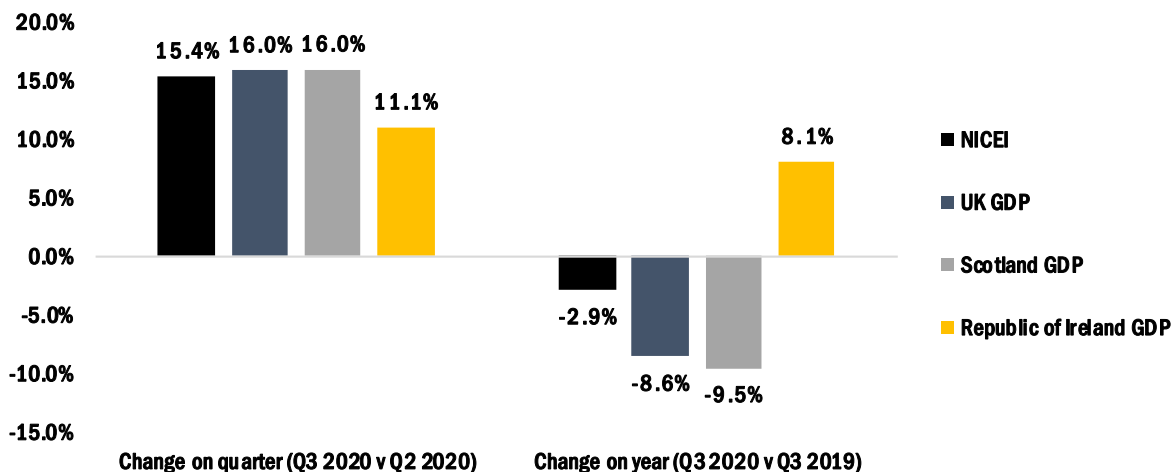
Upon the reopening of the local economy in Q3 2020, economic activity increased by 15.5% when compared to Q2 2020.<sup>16</sup> Whilst NI experienced slightly lower growth over the quarter compared to the UK and Scotland, NI did perform better over the year with activity remaining only 2.9% below Q3 2019 levels.<sup>17</sup>

<sup>15</sup> [UUEPC - The Impact of Covid-19 on Northern Ireland Business Activity](#)

<sup>16</sup> [NISRA - Northern Ireland Quarterly Index of Services - Quarter 3 2020](#)

<sup>17</sup> [NISRA - Economic Activity in Northern Ireland by quarterly NI Composite Economic Index \(NICEI\) - Quarter 3 2020](#)

**Chart 3.1: Quarterly and annual change in NICEI compared to GDP measures for UK, Scotland and the Republic of Ireland Q3 2020<sup>18</sup>**

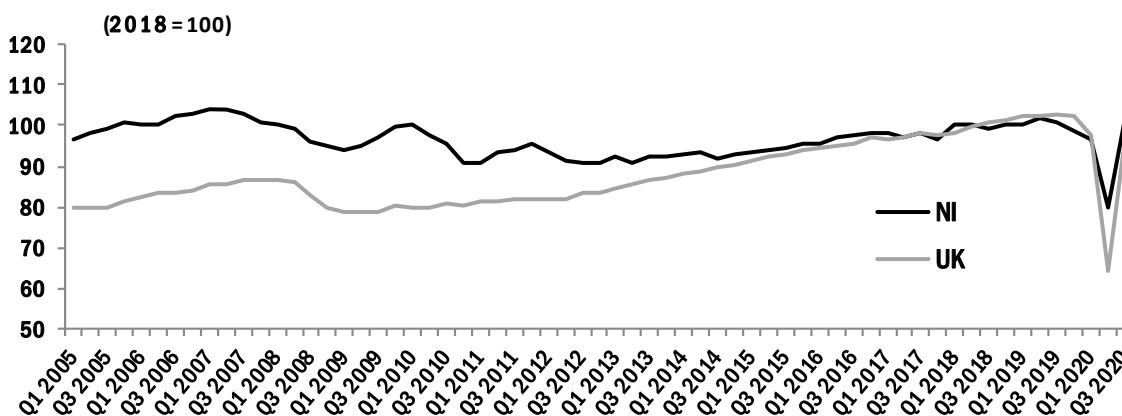


Source: NI Composite Economic Index, NISRA.

Note: The composite index is a proxy for growth, and though the best available measure it does have limitations and methodological differences from GDP, for example in how public services value added is measured. As such caution needs to be applied to drawing firm conclusions that cannot be corroborated from other sources. The Republic of Ireland’s apparently remarkable performance partly reflects its export orientation and sectoral make-up and a number of measurement and structural difference. Notably its labour market indicators appear much weaker than either the UK or NI.

The increase in economic growth after the lifting of the first lockdown restrictions was driven by growth in the services sector. In Q3 2020, there was indication of a recovery in Retail and Accommodation & Food Services, with output in these two sectors increasing by 26.7% compared to Q2 2020 according to the Index of Services<sup>19</sup>.

**Chart 3.2: NI and UK Output: Wholesale, retail, repair of motor vehicles and accommodation and food services Q3 2005-2020<sup>20</sup>**



Source: Index of Services, NISRA

<sup>18</sup> NISRA - Economic Activity in Northern Ireland by quarterly NI Composite Economic Index (NICEI) - Quarter 3 2020

<sup>19</sup> NISRA - Index of Services (IOS) Statistical Bulletin and Tables - Quarter 3 2020

<sup>20</sup> NISRA - Index of Services (IOS) Statistical Bulletin and Tables - Quarter 3 2020

#### 4) Assessing the bounce back potential of the NI economy

With the extension of lockdown and no indicative date for reopening of closed sectors of the economy such as hospitality, it is likely that a bounce back will happen more gradually than previously thought. At the time of writing (10 March 2021) it is more likely that Q3 will provide a better measure of the economy operating in domestic recovery mode. The bounce back quarter will refer to the subsequent quarter (three-month period) following the easing of restrictions as defined by the reopening of the majority of our economy, including hospitality and retail.

However, it is important to note that the strictness of the lockdown and constraint on economic activity in the lockdown quarter impacts the extent of the 'bounce' in the bounce back quarter. A slower easing of restrictions over time would lead to a smaller bounce back once fully reopened as there would have been a smaller decrease in activity in the preceding quarter.

The Budget extended the main support schemes, including furlough, SEISS grants and VAT deferrals. Furlough has now been extended by six months until the end of September 2021, but employer contributions will increase as this tapering off date approaches, to 20% in July and August<sup>21</sup>. The pace at which firms feel confident to cease claiming may well impact the pace of recovery.

The COVID-19 pandemic has had some devastating impacts on the most vulnerable in society, however many people have simultaneously built up cash reserves during successive periods of lockdown.

The NI economy has the potential for a solid bounce back, emerging from the pandemic to renewed economic activity in 2021, with those on furlough returning to work and a resurgence in consumer spending, once it is safe to do so. The bounce back will depend on a range of factors including levels of consumer confidence, the effectiveness and perception of policy supports available and the behaviour of firms with respect to hiring and investment.

Based on indicative estimates, the bounce back is expected to create:

1. **GDP** - £100-£120m additional GDP per week by the end of 2021, compared to the start of the year; a return to pre-COVID-19 economic activity levels by the end of 2022.
2. **Consumer spending** - £50-£80m additional consumer spending per week by the end of 2021, compared to the start of the year; a return to pre-COVID consumer spending levels by the end of 2022.
3. **Employment** - Between 63,100 and 93,000 employees and 53,400 and 59,300 self-employed persons phasing off furlough and SEISS support, respectively, and returning to the workforce on a permanent basis.

The bounce back will occur against a backdrop of other economic and social forces that will also have significant impacts. It will be difficult to determine the economic fallout, for example, disentangling the post-Brexit environment from the pandemic recovery. As such, all estimates need to be treated with a degree of caution.

<sup>21</sup> [NIBusinessInfo - Budget 2021](#)

**GDP should rebound strongly, contributing an extra £100-£120m per week by the end of 2021, compared to the start of the year.**

While many unknowns remain, there has been positive data from the UK and others that indicates that once lockdowns are lifted, there is a strong appetite for a return to economic activity.

Using available NI forecasts, the recovery in 2021 and 2022 is projected to be in the range of 5-6% per year, partly reflecting a general consensus of a contraction of 9-11% in 2020. However, the recently released OBR forecasts for the UK show that the slower pace of opening up hinders the speed of recovery, with UK growth of 4.0% expected in 2021 and 7.3% in 2022. Forecasters will likely revise NI projections to follow a similar pattern, which would be reflected in their next updates this Spring.

Employment forecasts from the three main organisations (UUEPC sectoral forecasts not available at time of writing) have several common points, such as the more severe impacts on the Accommodation and Food and Arts sectors, however, there are some differences such as the scale of job loss in the Other Services sector.

Using a range of forecasts allows for broad themes to be drawn out and important areas of divergent opinion highlighted, rather than relying on an exact forecast figures, which are difficult to accurately quantify given the ever-changing public health advice and restrictions.

**Table 4.1: NI GVA Forecasts 2020-2023**

	2020	2021	2022	2023
EY Economic Eye (Feb 2021 provisional)	-9.3%	4.8%	5.6%	1.6%
Oxford Economics (Feb 2021)	-9.4%	6.0%	5.5%	1.8%
Danske Bank (Feb 2021)	-11%	4%	-	-

There are differing views about the shape of the economic recovery in 2021, dependent on the expectation about the speed of the recovery and how consumers will react to both lockdowns and the subsequent easing of restrictions. To provide an indicative estimate of the path of recovery in NI, the EY ITEM Club and Oxford Economics UK forecasts have been used to produce a range of potential recovery trajectories. These estimates for the bounce back in NI activity have been modelled using projected UK quarterly GDP expenditure patterns for 2021 and applied to the NI structure. This allows for NI's higher dependence upon consumer spending to be accounted for, for example, but it does not model the sectoral differences that affect export and import trends. As a result, these estimates should only be considered illustrative.

EY ITEM Club forecasts a muted UK GDP decline in Q1, with a similarly subdued bounce back in Q2. Oxford Economics expects a more pronounced decline and fall in spending in Q1 followed by a stronger bounce back in Q2. The table below takes UK projections of quarterly GDP and applies the quarterly pattern to the NI structure. Neither forecast takes account of the recent UK Budget and the ITEM numbers were produced before the current lockdown timetable was available.

With the extension of lockdown and no indicative date for reopening of closed sectors of our economy such as hospitality, it is unlikely that a bounce back quarter would occur as early as Q2 2021. Both forecasts converge at a closer level of quarterly growth towards the end of 2021.

**Table 4.2: Illustrative quarterly NI GDP profiles based on projected UK GDP expenditure components**

	Q1	Q2	Q3	Q4
EY ITEM Club (January 2021)	-0.9%	4.1%	5.4%	1.6%
Oxford Economics (February 2021)	-3.6%	10.5%	1.8%	0.8%

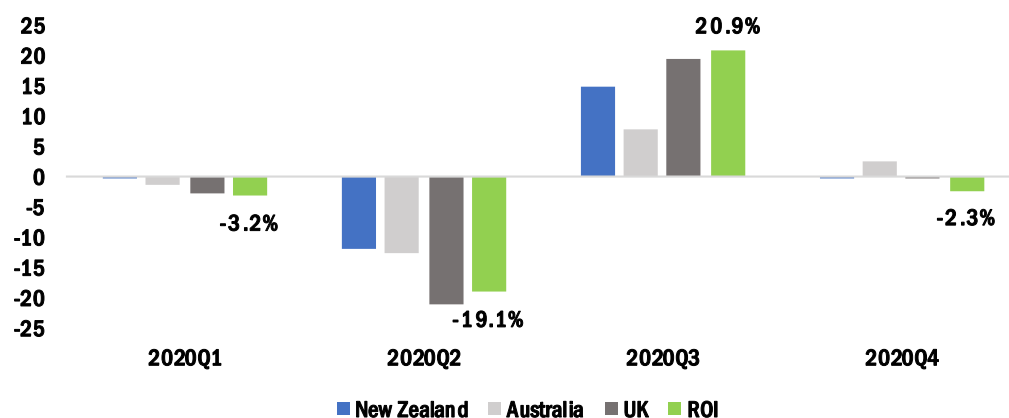
Source: EY analysis based on UK forecasts

Using these estimates, NI could see an extra GDP contribution of £100-£120m per week by the end of 2021 when compared with the beginning of the year. However, despite the bounce, by the end of 2021 GDP may still be lower than at the end of 2019.

It is important to note that this estimate is based on the official UK measure of GDP and so, for example, school classes returning and operations resuming will contribute to an increase in measured real GDP in public services compared to the beginning of the year.

### Increased consumer spending potential due to accrued savings.

The potential for a consumer spending recovery in NI can be assessed by looking at the recoveries seen in other countries when emerging from a period of lockdown. ROI's consumption fell by 19.1% in Q2, rebounding by 20.9% the following quarter<sup>22</sup>. Similarly, Australia and the UK recovered substantially once lockdowns were eased but did not rebound by as much as they declined.

**Graph 4.3: Quarterly consumption (% , QoQ), UK, Republic of Ireland<sup>23</sup> and Australia**

Source: Oxford Economics, CSO, March 2021

There is strong evidence in the UK to suggest that household savings have increased substantially in lockdown. The Bank of England has estimated that in 2020, households in the UK accumulated an additional £125bn in savings since the beginning of the pandemic<sup>24</sup>. Whilst the Bank of England does not provide a regional breakdown of savings accumulated, applying NI population (2.8%) or consumer

<sup>22</sup> CSO - Quarterly National Accounts Quarter 4 2020

<sup>23</sup> CSO Quarterly National Accounts private consumption of goods and services

<sup>24</sup> Bank of England - Monetary Policy Report - February 2021

spending shares (2.5%)<sup>25</sup> it is estimated that NI consumers may have accumulated up to an additional £2-£3bn in savings in 2020.<sup>26</sup>

**Based on published projected UK quarterly patterns by EY ITEM Club and Oxford Economics, consumer spending in NI could be £50-£80m higher per week by the end of the year than the start of the year. However, consumer spending is expected to remain roughly 2-4% lower at the end of 2021 compared with the end of 2019.**

The additional spending in a bounce back quarter would predominantly come from current spending (with less propensity to save in a reopening period) and potentially some of the built-up savings accrued while services have been closed or expenditure such as holidays are foregone. EY forecasts indicate that is likely to take until the end of 2022 before consumer spending levels in NI return to their pre-pandemic levels. It is important to note that this estimate is based on the National Accounts definition of Consumer Spending which includes elements such as the spending of Non-Profit Institutions Serving Households, imputed rent and other items. It should not be interpreted as equivalent to spending solely in domestic businesses.

Using household expenditure patterns for 2019 and adjusting changes in spending behaviour for 2020 restriction levels (full and partial lockdowns, 'normal' period up to March 2020), it is possible to see illustratively where the household savings would have accrued from. The NI-specific data in the Family Expenditure Survey<sup>27</sup> for 2019 was adjusted to estimate spending levels in 2020 on the main categories of expenditure. Categories like groceries and fuel were assumed to rise, due to people spending more time in the home, while categories like holidays or transport were estimated to have reduced considerably.

This illustrative example using adjusted spending patterns in 2020, estimates that NI households could have saved a potential £2.6bn, or 13% of 2019 spending. These are savings that would have occurred even when accounting for the categories that experienced spending rises (namely food and drink consumed at home), as well as autonomous consumption levels (a certain level of spending for basic necessities is necessary regardless of lockdown measures).

This savings level is in the mid-range of the BoE savings estimates and can be used as an illustrative example of how these savings might have built up. Certain categories of spending will have the potential to re-gain lost spending e.g. clothing or increased holiday spending the following year. However, it is important to note that some of this spending will not be regained – e.g. petrol or hairdressing appointments foregone, which will not result in twice as much spending on these categories when the economy opens. Instead they will be diverted elsewhere or accrued into savings. This offers considerable potential for policy to encourage spending by a range of time-bound incentives if necessary. This could be encouraging spending to support businesses that have struggled, or to make lifestyle changes that fit broader long-term policy goals, such as improving home energy efficiency or transport choices.

<sup>25</sup> National Statistics, Oxford Economics Regional Accounts, Oxford Economics

<sup>26</sup> Calculated on a pro rata basis, assuming that 2-3% of these savings are from NI consumers. This is supported by the recent announcement by Danske Bank, that their NI deposit rates had increased by over £1bn in 2020 [Danske Bank - Full year financial results 2020](#)

<sup>27</sup> [ONS - Family spending workbook 3: expenditure by region](#)

**Table 4.4: Spending levels, NI households, 2019 actual vs 2020 illustrative estimate**

	<b>2019 weekly spend per household (£)</b>	<b>2020 spend, relative to 2019 (2019 = 100%)</b>
Food & non-alcoholic drinks	64	152%
Alcohol & tobacco	15	125%
Clothing & footwear	31	75%
Fuel & power	54	104%
Household goods & services	31	88%
Health	8	100%
Transport	75	49%
Communication	17	89%
Recreation & culture	52	74%
Education	6	100%
Restaurants & hotels	44	52%
Miscellaneous	38	85%
Housing: mortgage interest payments, council tax	27	93%
Licences & fines	4	100%
Holiday spending	12	33%
Money transfers & credit	12	83%
<b>Total</b>	<b>488</b>	<b>87%</b>

Source: EY analysis, ONS components of household expenditure, 2019; figures may not sum due to rounding  
 Note: Items below the dotted line are not considered part of consumer spending but are part of household expenditure. This analysis is after tax and pension payments (which may have increased during the pandemic). The Family Expenditure Survey excludes several elements of final consumption expenditure per the National Accounts definition. For example, items such as imputed rent and benefits in kind are not included in household spending.

The Bank of England has estimated that at least 5% of these accumulated savings will be spent once restrictions ease but has indicated that this is a conservative estimate of the bounce back potential and is not region-specific. In the Bank's February 2021 Monetary Policy Report, it indicates that households could exceed this propensity to spend for several reasons, including pent-up demand, the higher proportion of savings held as liquid deposits and the unprecedented nature of the COVID-19 crisis compared with past recessions. Using a range of between 5%-20% of savings being spent in a bounce back, this would see NI consumers spend an additional £130-£500m.<sup>28</sup> This spending of reserves would be additional to the regular spending from earned income.

There will be a strong effort by the insurance and savings industry to encourage an increase in these reserves to protect against future periods of disruption. Recognising and supporting this desire to build up savings whilst encouraging spending to boost the local economy will present a challenge for policy makers. In many instances, there may be savers that have not been in a position to do so before the pandemic. Encouraging spending in NI will be important to generate a bounce back. Doing this effectively may push the consumer spending to the upper estimates of c.£80m additional spending per week by the end of 2021 compared to the beginning.

<sup>28</sup> [Bank of England - Monetary Policy Report - February 2021](#)

**A strong bounce back may see up to 93,000 employees returning to the workforce.**

There is no comparable data to estimate the impact of an end to Government support in the labour market, as the furlough scheme and SEISS grants continued throughout 2020 even in the periods when the economy was open. In 2020 Pandemic Unemployment Payments (PUP) in the Republic of Ireland fell by almost two-thirds between peaking in May and by September, following the easing of restrictions throughout the summer months.<sup>29</sup> However, this is not necessarily an indication of job viability as the individuals may have moved onto other Government support or into a job supported through the wage subsidy scheme that was also in place. Nevertheless, it is an indicator of the speed of economic recovery possible as it is likely that the majority of the fall was accounted for by people returning to employment.

Latest data released in February 2021 shows that 62,000 availed of the third SEISS grant in NI by 31 January 2021 and 106,200 employees availed of furlough support. This represented an additional 10,000 individuals in NI claiming the third SEISS grant in January 2021 and an additional 11,500 individuals furloughed, compared with the previous month.

Indicative estimates of furloughed employees returning to the workforce are estimated at between 93,000 in an optimistic scenario and 63,100 in a more pessimistic scenario. This means that there could be an additional 29,900 employee jobs secured if a strong bounce back occurs, compared with a weaker scenario. Similarly, in a strong bounce back scenario, 59,300 self-employed individuals who availed of the grant could remain in work, while in a weaker outlook, this could see 5,900 fewer (53,400) remain.

The modelling used is approximate but focuses on the emerging data and how forecasters envisage the job growth trajectory in each sector. A set of scenarios was developed, to enable a range of potential bounce back impacts to be considered. For example, in a best-case scenario, sectors deemed to be of high bounce back potential would regain 85% of currently furloughed jobs (furlough figures as at 31 Jan 2021), while those of lower potential would regain 50% of jobs from furlough. Self-employed scheme recipients were assumed to see half of the impacts of those on furlough across the three scenarios, reflecting the higher probability of this cohort returning to employment.

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<sup>29</sup> The COVID-19 Pandemic Unemployment Payment is available to employees and the self-employed in the Republic of Ireland who have lost their job on or after 13 March 2020 due to the COVID-19 pandemic.



**Table 4.5: Sectoral return to work potential when COVID-19 support ends**

Sector	% of total jobs (NI, 2019) <sup>30</sup>	Return to employment potential
Agriculture	3.3%	H
Mining & quarrying	0.2%	L
Manufacturing	10.5%	M
Utilities	1.0%	H
Construction	6.5%	H
Retail	15.9%	L
Transport & storage	4.0%	M
Accommodation & food	5.9%	L
ICT	2.8%	H
Finance	2.2%	H
Real estate	1.2%	H
Professional services	4.9%	M
Admin services	6.7%	L
Public admin	5.8%	H
Education	8.5%	H
Health	15.1%	H
Arts	2.2%	L
Other services	3.2%	L

Source: EY analysis

<sup>30</sup> Seasonally adjusted Workforce Jobs, average of 2019 Q1 - Q4 figures

**Table 4.6: Projected proportion of people returning to work after COVID-19 support ends**

		% furlough or self-employed jobs returning		
		Best case	Medium case	Worst case
Furloughed sector potential	H	95%	92%	85%
	M	90%	85%	70%
	L	85%	70%	50%
Self-employed sector potential	H	98%	96%	93%
	M	95%	93%	85%
	L	93%	85%	75%

Source: EY analysis

The sector classifications and scenarios give a range of what a bounce back would signify for the NI labour market, or the corresponding cost to society of what the losses might be in a less favourable outcome. In a bounce back, there could be between 116,500 and 152,900 people transitioning off COVID-19 support schemes and back into the labour market permanently. A bounce back could therefore signify the permanent retention of up to an additional 35,800 people in the NI labour market, compared with the worst-case scenario.

Note this approach does not consider whether the jobs return at the same number of hours as they did previously or at the same level of earnings. It also abstracts from the possibility of people retraining and finding work elsewhere or the possibility of job loss from workers not currently in receipt of support. It is also important to consider is the length of time people are out of the workforce may impact their ability to return to work, even if jobs were available. Further supports may be required (e.g. training, upskilling) in order to help furloughed employees back into the workforce.

**Table 4.7: Scenario values assigned to NI labour sectors**

	SEISS	Furlough	Total returning to workforce	Total jobs lost	Total jobs saved (vs worst case)
<i>(as of 31/01/21)</i>	<i>(62,000)</i>	<i>(106,300)</i>			
<b>Best case</b>	59,300	93,000	152,300	15,900	35,800
<b>Medium</b>	57,400	81,100	138,500	29,700	22,000
<b>Worst case</b>	53,400	63,100	116,500	51,700	

Source: EY analysis, ONS estimates as at 31 January 2021

### Long-term outlook dependent on behavioural and policy choices

The extent of scarring effects, the effectiveness of policy and unpredictable behavioural responses will determine the scale of the bounce back in the NI economy. The longer-term recovery is more complex, difficult to unpick from other factors such as Brexit and future unforeseen shocks. Reviewing available sectoral forecasts shows that there is some divergence in opinion as to what sectors will bounce back and when.

Several sectors are projected to face a challenging route back to 2019 levels of employment, while NI GVA is unlikely to return to pre-pandemic levels until 2022 (EY and Oxford Economics forecasts). Policy choices under consideration will shape the extent of the longer-term recovery, while uncertainties will remain until such time as vaccines are administered to the required levels and the economy and society are safe to reopen.

**Table 4.8: Sectoral return to pre-COVID-19 employment levels in NI**

Sector	Labour: year of return to pre-COVID-19 level	
	EY	OE <sup>31</sup>
Agriculture	2020	2025+
Mining & quarrying	2025+	2025+
Manufacturing	2025	2025+
Utilities	2023	2020
Construction	2020	2020
Retail	2025+	2023
Transport & storage	2024	2025+
Accommodation & food	2024	2025+
ICT	2020	2020
Finance	2020	2020
Real estate	2020	2020
Professional services	2021	2020
Admin services	2025+	2025
Public admin	2025+	2020
Education	2020	2020
Health	2020	2020
Arts	2025+	2022
Other services	2025+	2024
<b>Total</b>	<b>2025</b>	<b>2022</b>

Source: EY Economic Eye, Oxford Economics

Note: Shaded sectors either did not experience material job losses in 2020 or are expected to return to pre-pandemic levels in 2021

<sup>31</sup> Oxford Economics Global Data Workstation, downloaded 15 February 2021

## 5) Assessing what is at stake for the NI economy

Whilst it has been established that there is the potential for the NI economy to bounce back upon the reopening of the economy, there remains a great deal of risk if the economy is not reopened in a timely manner.

Tourism and leisure sectors generate social interactions and could suffer in the medium-term until the sanitary situation significantly improves and international travel restarts.

### The cost of not bouncing back is not the same for each sector

The Budget announcement on 3 March 2021 extended the furlough scheme until September 2021. This represents a six-month extension to government support of the most vulnerable sectors. This will preserve employment in the short-term. Regardless of the end date, when the Job Retention Scheme ends, the sectors in Northern Ireland that will be most vulnerable post-withdrawal of supports remain Accommodation & Food, Arts, Entertainment & Recreation, and Retail. 4,300 additional retail employees in NI moved onto furlough in January 2021 compared with the previous month, highlighting the vulnerability of certain sectors. This movement does not capture the compounding effect of redundancies, such as those announced by the closing of some Arcadia Group stores<sup>32</sup>. These individuals will no longer be claiming furlough and may have become unemployed if they did not find alternative employment.

It is noteworthy that in order for policy measures designed to stimulate consumer spending to succeed (for example domestic tourism campaigns or local retail vouchers), the continuation of these businesses' trade is necessary. Citizens will not be able to visit hotels, high street shops or local cafes and restaurants if they are no longer trading.

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<sup>32</sup> The Arcadia Group encompasses brands such as Topshop and Miss Selfridge. It owns 34 stores in Northern Ireland and had employed c. 1,000 staff. All Topshop stores will be permanently closed, including the flagship Victoria Square shop.

**Table 5.1: NI's most vulnerable sectors**

Sector	Number of employments furloughed <sup>33</sup>	Furlough as a percentage of employees <sup>34</sup>
Accommodation and food services	24,900	50%
Administrative and support services	5,500	11%
Arts, entertainment and recreation	6,800	45%
Construction	6,100	17%
Education	1,700	2%
Financial and insurance	1,000	5%
Health and social work	4,600	4%
Information and communication	1,900	8%
Manufacturing	9,300	11%
Other service activities <sup>35</sup>	8,300	9%
Professional and scientific and technical	4,600	13%
Real estate	1,400	15%
Transportation and storage	3,100	11%
Wholesale & retail; repair of vehicles	27,000	21%

Source: HMRC, NISRA, NOMIS and EY analysis

### Consumer-driven sectors faced issues that pre-dated COVID-19

It could be argued that the onset of COVID-19 accelerated certain trends already apparent before March 2020, rather than starting new ones.

This is illustrated for example by the shift to online shopping; the EY Future Consumer Index found that 37% of UK consumers think the way they shop will change in the long-term.<sup>36</sup> Recently, a number of high profile brands have fallen into administration and have closed their NI bases including Topshop and Debenhams. Furthermore, the demand for commercial property units in NI has fallen for the sixth consecutive quarter with increases in shop and office vacancy rates across the region.<sup>37</sup>

<sup>33</sup> HMRC February 2021 [Gov.uk - HMRC coronavirus \(COVID-19\) statistics](https://www.gov.uk/government/statistics/hmrc-coronavirus-covid-19-statistics)

<sup>34</sup> NOMIS Workforce Jobs, employees, Q3 2020 Northern Ireland

<sup>35</sup> Agriculture, forestry and fishing, Mining and quarrying, Energy production and supply, Public administration and defence; social security and Households sectors have been group into the other category to maintain disclosure. Water supply and sewage has been grouped into this category.

<sup>36</sup> EY - Future Consumer Index: Why retailers must act now to capture the UK's 'considered Christmas'

<sup>37</sup> RICS, 2021

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### How dependent is the NI economy on job-intensive consumer driven sectors?

- c. 212,000 people were either employed in Wholesale & Retail, Accommodation & Food and Arts & Entertainment in Q3 2020 or worked in a self-employed capacity in these sectors<sup>38</sup>
  - This is 24% of NI's total workforce
  - The most vulnerable sectors are employment intensive ones. At present, 30% of the employees in these sectors are supported by the UK Government via the CJRS<sup>39</sup>. More than one in every two furloughed individuals in NI is within these sectors.<sup>40</sup>
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### Propensity to consume is not equal for every citizen.

Those from the lowest income brackets (bottom 20%) are spending 117% of their income (using overdrafts etc.) whilst the wealthiest in society (top 20%) are spending only 68% of their income (data from 2016-2018).<sup>41</sup> This means that the recovery of job-intensive sectors will not only impact employment levels in those sectors, it will also determine the capacity to consume.

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<sup>38</sup> NOMIS Workforce Jobs, total workforce jobs, Q3 2020 Northern Ireland

<sup>39</sup> Furlough statistics up to 31 January 2021. This figure is calculated as a share of the applicable sectors employee numbers as per NOMIS Workforce Jobs, total employees, Q3 2020 Northern Ireland.

<sup>40</sup> 55% of all employments furloughed in NI as of 31 January 2021 belong to Accommodation & Food, Arts & Entertainment or Wholesale & Retail.

<sup>41</sup> [Household income, spending and wealth, Great Britain - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk)

## 6) Concluding that the bounce back potential of the NI economy is time-bound

**Research and analysis suggests that the reopening of the NI economy has potential for a bounce back period, however this is dependent upon a number of factors.**

Both businesses and consumers have been impacted or 'scarred' by their experience of the pandemic thus far. Consumer behaviours have been impacted by the 'safety' messaging of staying at home and limiting non-essential journeys and contact with others. Businesses have been impacted by the repeated reopening and associated sunk costs, as well as the sudden closures.

In order for the NI economy to recover, increased consumer confidence through adequate safety and hygiene measures is necessary, coupled with increased business confidence through transparent engagement with firms and their industry representatives. Forward guidance using a transparent, evidence-based approach is key to minimise business uncertainty regarding reopening. Encouraging spending - particularly that with a high domestic component - should be a policy priority, whilst remaining sensitive to the desire to increase precautionary savings. Supporting incomes of the most vulnerable will also be essential, given their higher propensity to consume.

Whilst demand is expected to increase once the economy reopens, there remains a question whether or not supply will be able to respond. Businesses will need to replenish stock levels and increase staffing levels. As previously discussed, a number of businesses reported having difficulties re-establishing supply chains following the lifting of the first lockdown. There is a corresponding risk of inflation, coupled with rising commodity prices, a need to recoup losses and customers with money a catalyst for rapid price increases. This brings with it implications for inequality.

Should Northern Ireland's vaccine rollout continue at its current pace, NI could face increasing levels of consumer demand in the Spring/Summer of 2021 once the reopening of the economy is safely underway.

In order to encourage private consumers to purchase goods and services, public health measures might still be needed in the medium-term while reducing capacity in shops and other public-facing businesses. This is even more challenging given the behavioural changes which have been encouraged throughout the pandemic, i.e. the 'stay at home' mantra.

Research into what prevented businesses from recovering quickly following the first lockdown established a number of key factors that businesses reported as limiting their bounce back potential<sup>42</sup>:

- Increase in costs (spend on social distancing measures and PPE)
- Reduced capacity due to social distancing
- Some businesses remained closed out of fear of a second lockdown as they did not want to be faced with high reopening costs
- Reduced customer demand and
- Issues re-establishing supply chains

Addressing these potential restrictions could help boost the bounce back of the NI economy.

In order for the best-case scenario to be realised, consumers will need to increase their spending of accumulated savings in the NI economy in order for the full benefits of increased consumption to be felt.

<sup>42</sup> [https://www.ulster.ac.uk/\\_data/assets/pdf\\_file/0009/659574/UUEPC-Covid-Business-Impacts\\_Summary-Report\\_Final\\_25092020.pdf](https://www.ulster.ac.uk/_data/assets/pdf_file/0009/659574/UUEPC-Covid-Business-Impacts_Summary-Report_Final_25092020.pdf) based upon consultation of businesses.

They need to feel confident enough to do this; for example, if they fear that their jobs are not secure, they will have a much lower propensity to spend.

In addition to consumer spending, business investment will also play an important part. For businesses in or supplying the domestic economy, the behaviour of consumers will be the prime driver of their willingness to spend. Access to finance and understanding creditors will also play a part.

The income of those that have the least should keep being supported for an economic reason: their propensity to consume is a lot stronger. Those from the lowest income brackets spend more than their incomes, whilst the wealthiest in society spend considerably less than their incomes (data from 2016-2018)<sup>43</sup>.

The data suggests a strong bounce back lies ahead even if the timing remains unclear. A desire and willingness to spend, be entertained and to deploy built up savings and social energy will provide a boost to the NI economy. The absence of large falls in wealth such as house prices, equities and incomes support the expectation of a strong bounce. Firms will need to adapt to new conditions, spurred on by both COVID-19 and other structural changes.

The digital journey, adapting to new flexible and adaptable working conditions are just two of the trends that will drive business investment in online technologies and digital platforms forward from what was a historically low level even prior to the pandemic. A flow of demand and spending will create new challenges, potentially rising prices, increased inequalities and pressures on supply chains.

For policy makers, there will be a role to play in helping adapt to the new economy and society that emerges. There is a need to determine what firms should be supported and how best to do this. There will be a need to focus efforts in areas of highest potential for jobs and demand, but also a recognition of the important role many of the most disrupted sectors play in the local economy. Helping the retail, tourism and creative sectors to recover and adapt will be challenging. Policy support has helped soften the impacts of the pandemic, but the greatest difficulties arguably lie ahead. Blanket supports will end and the acceptance that not every job can be saved will be a testing period.

**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.**

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<sup>43</sup> [Household income, spending and wealth, Great Britain - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk)