

COVID-19 AND THE NORTHERN IRELAND ECONOMY

MACROECONOMIC & SECTORAL SUMMARY (30 JUNE 2020)

It has been only a few months since the outbreak began in Northern Ireland, but it is apparent that the Covid-19 virus will have a devastating impact on economic activity here. All sectors have been affected by the efforts to contain Covid-19 via a nation-wide lockdown; although some industries continued to operate on a limited basis, by mobilising contingency plans and enabling working from home etc.

As a result of the good work in tackling the health implications of the virus, the NI Executive is currently relaxing some restrictions, but only after considering the most up-to-date scientific evidence, the ability of the health service to cope and the wider impacts on our health, society and the economy.

Impact on Economic Activity

The Department for the Economy continues to assess that the Northern Ireland economy had been running 25% to 30% below normal during lockdown. This has been supported by recent figures released for UK GDP, where the Office for National Statistics (ONS) estimate that in April 2020 the economy was around 25% smaller than in February 2020. April is likely to be the worst month for economic output, as the government began easing the lockdown in May.

Change in UK Monthly GDP (%)

	February to March 2020	March to April 2020	February to April 2020
Agriculture	-0.2	-5.5	-5.6
Production	-4.2	-20.3	-23.7
Construction	-5.9	-40.1	-43.6
Services	-6.2	-19.0	-24.0
Whole economy	-5.8	-20.4	-25.1

UK-wide Gross Value Added (GVA) figures from ONS for March and April show that nearly all sectors of the economy have been affected by the Social Distancing measures. Accommodation & Food Service activities was the most affected sector, with output reducing by almost 92%. Other Services (-51.6%), Arts, Entertainment & Recreation (-47.0%), Construction (-43.5%), Education (-43.2%), Transport & Storage (-38.3%) all experienced substantially lower levels of output when compared to the more normal levels in February.

The crisis has seen a monetary response from the Bank of England, a fiscal response from HM Treasury and a local response from the NI Executive. The Department for the Economy has been allocated £410m in totality (£225m in 2019/20:£185m in 2020/21) to assist, by way of grants, businesses in managing the immediate impact of Covid-19. Firms in Northern Ireland could access a number of schemes, with details available on the NI Business Info website. A number of these schemes have now closed.

Google mobility data illustrates the scale of the decrease of people movements in Northern Ireland, particularly in retail and recreation, which soon after lockdown was down around 80% on figures from early March 2020. However, mobility levels have experienced some recovery in May and June, albeit still down on baseline levels. Many workplaces have reopened.

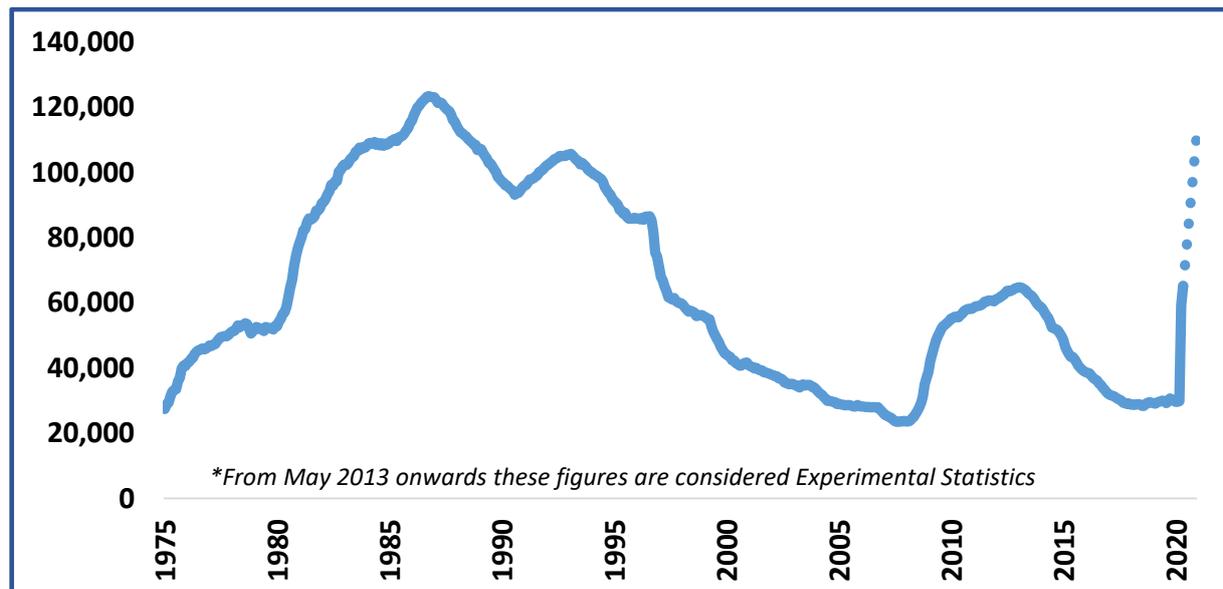
Impact on Northern Ireland Labour Market

Locally, around 212,000 workers have been furloughed under the HMRC Job Retention Scheme and almost 70,000 under the Self-Employed Income Support Scheme. The Claimant Count increased by over 35,000 people in just two months. This gives a total of around 317,000 – i.e. over one-third of the region’s workforce.

There are substantial labour market risks, and even a small or moderate proportion of those risks crystallising would be very damaging for the labour market. In assessing the risks to the tapering of the furlough schemes and the risks to businesses operating in various sectors, a gauge can be made of the possible future job losses still to come. Those employees and self-employed who were not furloughed are also susceptible, as demonstrated in the first wave of job losses, up to May 2020. In addition, a large number of leavers from education are about to enter a distressed labour market and add further to official unemployment. It is our assessment that the balance of the risk lies towards further significant permanent losses across the workforce (including employees and self-employed). The majority of these losses could be concentrated in the retail, accommodation and food, and construction sectors.

Given that the Claimant Count currently stands at 65,151 in Northern Ireland, this scenario of job losses, and upcoming outflow of education leavers, would mean that the Claimant Count could plausibly exceed 100,000 before the end of 2020 or shortly afterwards. By way of context, anything above 106,000 has not been witnessed since the 1980s.

Potential Claimant Count Levels in Northern Ireland for 2020



While an economic recovery appears to be underway in Northern Ireland, with many sectors and businesses being reopened, there are still significant risks; in particular, there is a risk of economic and societal ‘scarring’ if long-term damage is done - if recovery to output and jobs is not swift.

Scars from recessions can last for decades, as exemplified by former mining towns and villages in areas such as South Wales which still have poor economic indicators, a generation on from pit closures in the 1980s. There is a need to ensure that for this current generation, and those about to leave education and seek work, we do not repeat the period seen three decades ago.

A more detailed analysis of the Northern Ireland economy is available in the main report.