The Importance of the Consumer to the Northern Ireland Economy

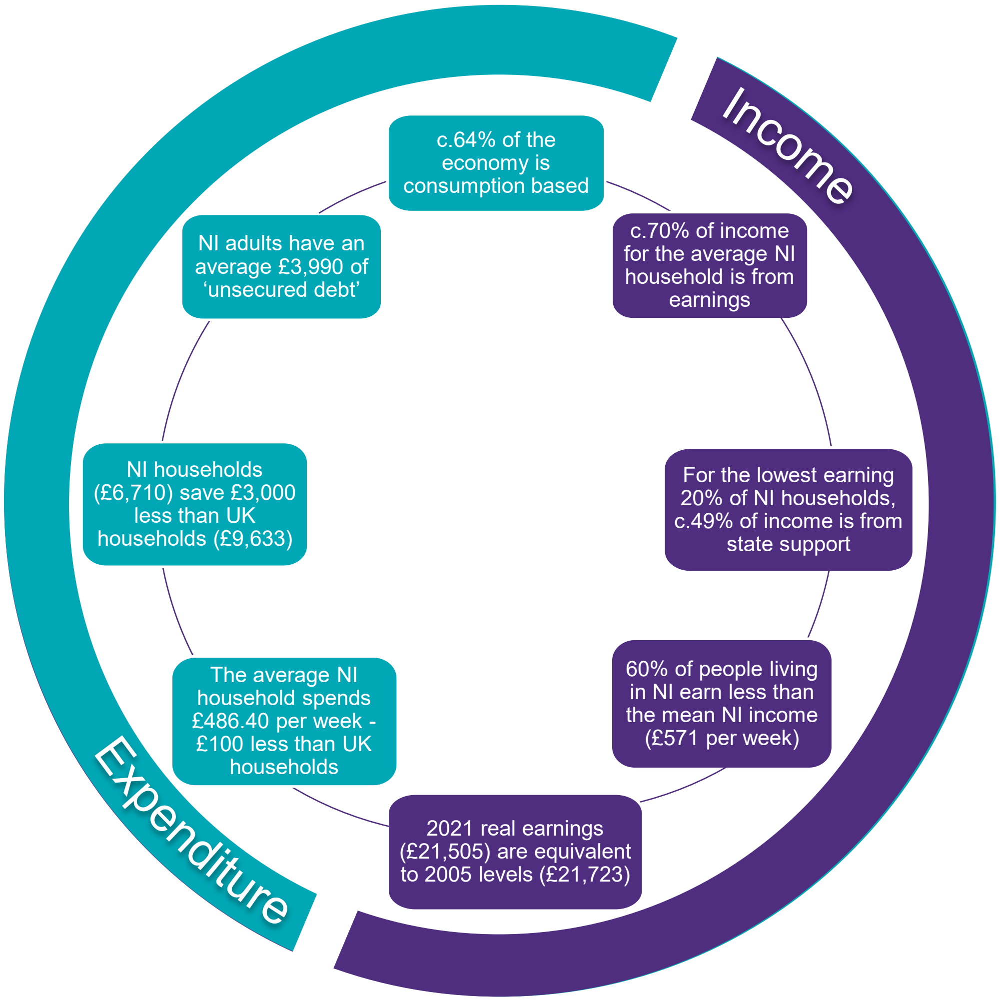
The Consumer Council for Northern Ireland (CCNI)

October 2022

Contents

The key findings

Interesting consumer facts you should know



11.1% **increase in inflation** from October 2021 to October 2022

11.1% of household expenditure in Northern Ireland (NI) is spent on **Housing & Utilities**

50% **higher weekly expenditure in NI in 2020** vs 2001 levels (£486.40 vs £323.52 in nominal values)

Nominal values = not adjusted for inflation

Sources:
Northern Ireland Statistics & Research Agency (NISRA), Department for Communities (DfC), Office for National Statistics (ONS), Raisin (a savings marketplace company), Financial Conduct Authority (FCA)

Northern Ireland households: A profile

Household income & savings in Northern Ireland (NI)

INCOME

- Average earnings in NI were £24,000 in 2021
- When adjusted for inflation, earnings in 2021 (£21,505) are only equal to 2005 levels (£21,723)

- In 2020, the average disposable income in NI was £29,457, the lowest of all United Kingdom (UK) regions
- This is 6.1% lower than 2008 disposable income levels

SAVINGS

- 44% of families in NI have 'no savings' compared to 16% of UK families

NI households by income band (low, average and high)

LOWEST EARNERS

- Disposable income for the lowest earning households in NI (lowest 25%) was £13,702
- This is only 0.3% more than 2009 levels
- These households have also seen an 18.5% fall in discretionary income between Q4 2021 and Q1 2022
- The lowest 20% of earners in NI spend 35.1% of their expenditure on housing, fuel costs and food

AVERAGE HOUSEHOLDS

- Average disposable income levels in NI are 6.1% lower than 2008 levels
- When adjusted for inflation, NI weekly expenditure is 9.8% lower than 2016 levels
- 11.1% of weekly expenditure in NI is on housing & fuel costs
- NI households spend more on 'non-essential' (eg clothing & footwear)

HIGHEST EARNERS

- Disposable income for the highest earning households in NI (highest 25%) was £50,401
- These levels were 11.5% lower than 2009 levels
- Expenditure is 4x higher than the lowest income households (£880.40 vs £231.20 per week)
- The highest 20% of earners in NI spend only 18.7% of their expenditure on housing, fuel costs and food (vs 35.1% for the lowest earners)

Sources:
Office for National Statistics (ONS), Department for Communities (DfC), Centre for Economics and Business Research (CEBR)

Discretionary income = Gross household income – Taxes – Spending on basics
Disposable income is the amount of money that households have available for spending and saving after direct taxes, such as Income Tax, National Insurance and Council Tax, have been accounted for.

What challenges face consumers?

The rising cost of living (% change)

- Inflation hit a **40-year high of 11.1%** in October 2022.
- A level not seen since early 1982.

- It's only likely to get worse as the Bank of England expects **inflation to reach 13% by the end of the year**.

- The **main drivers of inflation** are gas (95.6%), electricity (54.0%), transport (12.0%) and food (13.5%).

How will the 'cost of living' crisis affect households?

- Due to rising inflation, and the continued squeezing of income, the United Kingdom (UK) faces the largest fall in living standards since the 1950's
- On average, Northern Ireland (NI) households spend more on energy & fuel (£58.30 per week) than UK households (£46.20 per week)
- 12% of NI households' weekly expenditure is spent on energy & fuel, compared to only 7.9% of UK households - making NI households more exposed to rising energy prices than UK households
- Low-income households will suffer most as total energy expenditure accounts for 14% of weekly expenditure vs 9% for high-income households
- National Institute of Economic and Social Research (NIESR) estimate rising energy and food costs will lead to a 67% rise in destitution across NI - the highest of all UK regions
- NIESR also estimate 43,000 households - 6% of all NI households - will see their costs exceed their disposable income
- If energy prices rise by 50%, the Department of Communities expect that 52% of NI households will be in fuel poverty, up from current estimates of 22%

NI consumers have low capacity to cover rising costs

An already stretched income for NI households?

- 10% of NI adults have reported being in 'difficulty' (ie missing a bill)
- 38% of NI adults expect to face 'difficulty' making ends meet

A low savings society?

- 12% of NI adults have 'no savings' to fall back on
- 60% of NI adults have less than £10,000 of savings vs 49% in the UK

Sources:
Bank of England, Office for National Statistics (ONS), National Institute of Economic and Social Research (NIESR), Department for Communities (DfC), Office for Budget Responsibility (OBR), Financial Conduct Authority (FCA)

NIESR use the income component of the Joseph Rowntree Foundation's definition and consider a single person household as being destitute when their income falls below £70 per week, with any additional adult requiring another £30 per week and an additional child needing £20 per week.

1. Introduction & background

Introduction

Engagement overview & research aim

Introduction

The United Kingdom (UK), like many other major developed economies, is heavily reliant on consumers. Most recent estimates identify real consumption in the UK accounts for c.63% of the economy in Q4 2021. This level of consumption is high relative to other countries. For example, taking the European Union (EU) in 2020, Household Consumption accounted for c.52% of overall economic output. The UK's high level of dependency on consumption and the consumer raises questions around the vulnerability of the UK economy to consumer spending trends, inflationary pressures and low/no pay issues. This has become even more pertinent in the context of the current cost-of-living crisis, which is expected to deliver the sharpest decline in living standards since the 1950s.

The Consumer Council for Northern Ireland (CCNI) has commissioned Grant Thornton NI to provide an update on the Importance of the Consumer to the Northern Ireland Economy research conducted by the Ulster University Economic Policy Centre (UUEPC) in 2017. This updated research will provide a refresh of the data in light of current economic challenges, such as the recovery from the COVID-19 pandemic, rising inflationary pressures, EU Exit and the implementation of the NI Protocol.

This updated research will:

- Provide an overview into the impact/importance of consumer spend relative to Gross Domestic Product (GDP) across Northern Ireland (NI) relative to other countries;
- Identify the relative expenditure of NI consumers relative to other UK regions;
- Outline current levels of disposable income across NI and compared to other UK regions; and
- Consider the cost pressures on consumers from rising inflation levels.

Background

This research has become increasingly important in the past several years following the pandemic. The pandemic has amplified the potential exposure of not only the UK economy but the global economy to consumer impacts. In response to rising COVID-19 cases many governments closed non-essential retail and enforced a work from home policy. These measures had a profound impact on the wider economy, with International Monetary Fund (IMF) estimates putting the global contraction in 2020 at 3.1%. In the UK, the pandemic caused the economy to contract by 9.7% in 2020 compared to 2019 levels, with much of this contraction being consumer driven (-10.8%).

However, as economies began to reopen, and restrictions began to ease, consumerism began to resume and economies began to recover. In fact, in many cases recovery took place faster than many would have imagined in the UK as consumers began to reengage growth. Between Q4 2020 and Q4 2021 there has been a boom in consumption, with growth of 7.9%. This boom resulted in the economy being 6.6% bigger in Q4 2021 than in Q4 2020. While this shows a strong level of bounce back, the UK economy in Q4 2021 was only slightly larger than Q4 2019 levels. However, as demand returned this saw the level of inflation rise rapidly as demand exceeded supply. Alongside this, many faced disrupted supply chain issues as a result of the pandemic and the Russian invasion of Ukraine. This has in turn led to the fastest rate of inflation seen in 40 years and the current 'cost-of-living' crisis. A full breakdown of the current economic context can be seen in Section 2.

The analysis contained in this report was undertaken at a point in time, with all data and research in the report being conducted in the first half of 2022.

2. The economic context

The economic context

How has the economic environment evolved over recent years?

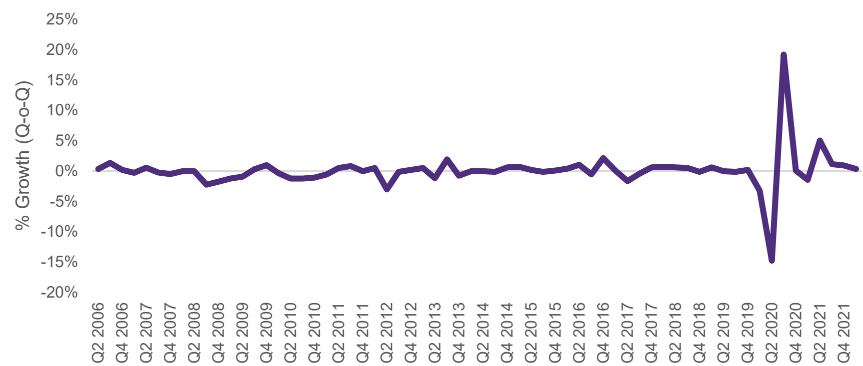
The consumer and the economic environment

The consumer is a key cog in the economy, and one which is influenced by the wider economic context. A strong interdependent, but rather complex relationship between the consumer and the economy exists, with any disruptions to one impacting the other and vice-versa. The Northern Ireland Statistics and Research Agency (NISRA) input-output tables show how sectors which have a strong consumer spending dependence, such as retail and restaurants & hotels, generated £1.70/£1.40 of Gross Value Added (GVA) for every £1 transacted through them due to multiplier effects. This "return" or "impact" is one of the largest across all sectors.

Consumer confidence is a key driver of consumer spending, and consumer confidence is influenced by the broader economic context. It is important therefore to articulate the general trends in local economic performance to 'set the scene' for this research study. Over the past few years, the economy has been through one of the of most disruptive and uncertain periods of all time. Firstly, the outworking's of EU Exit and the NI Protocol presented (and continue to present) significant challenges, with businesses having to cope with increased challenges in trying to import and export. Mixed in with this has been one of the greatest economic shocks facing the global economy – the COVID-19 pandemic. The outbreak of the pandemic saw many countries across the globe close their borders and enforce work from home regulations and travel restrictions. Taken together, this has produced an uncertain economic environment. As a result of the pandemic and the subsequent restrictions imposed, economic output across NI contracted by 14.8% between Q1 and Q2 2020, the single largest quarter-on-quarter fall in recorded economic output.

Since then, however, the economy has continued to show growth as restrictions eased. In fact, between Q2 2020 – the onset of the pandemic/restrictions – and Q1 2022, economic output is 26.8% larger. Furthermore, the economy is in fact 4.6% larger in Q1 2022 than it was pre-pandemic (Q4 2019), highlighting the strong recovery path the economy has undertook following the initial shock. Much of the recovery has in fact been led by the consumer, with consumer demand picking up significantly following the easing of restrictions.

Figure 2.1: Northern Ireland Composite Economic Index Growth (%), NI, Q2 2006-Q1 2022



Source: NISRA, Northern Ireland Composite Economic Index (NICEI)

This rebound in consumer demand has been much sharper than many predicted. The higher level of demand has, in fact, contributed to a spike in inflation. Adding to the inflation pressures have been supply chain challenges and increasing energy and transportation prices as a result of squeezed supply and increased demand. To demonstrate this over the past 12 months between August 2021 and August 2022, the price of transportation and electricity, gas and other fuels grew by 12.0% and 69.7% respectively.

The economic context

How has the economic environment evolved over recent years?

Inflation reached 10.1% in July 2022, the highest level seen in the past 40 years. When inflation concerns appeared at the end of pandemic restrictions, the consensus view was it would be transitory and would pass by summer 2022. However, the inflation issue has been exacerbated by the Russian invasion of Ukraine, which is causing further inflation and supply chain disruption, especially in fuel and energy.

The invasion will almost certainty cause inflation to rise further given the restrictions placed on energy exports from Russia and the loss of commodity exports from Ukraine. In fact, the invasion did cause the price of a barrel of Brent crude oil to peak at $133.18 per barrel on the 8th March 2022, a level not seen since 2008. As such, many economists are now predicting that the global economy will see inflation levels being “higher for longer”. The Bank of England – the UK’s central bank responsible for the supply of money and control of inflation rates – predict that we haven’t reached the end of rising inflation and predict that UK inflation could peak at 13% by the end of the year driven the continual squeeze on energy supplies. Equally, the Bank note that the level of inflation will depend on how long the Russian invasion of Ukraine lasts and the potential this has for the constraint of Russian gas supplies, which will place further pressure on energy bills and the utility price cap.

This higher level of inflation is the main economic headwind for the global, national and local economies and will act as a significant drag on economic growth. To reflect this, Danske Bank revised their expectations for economic growth for NI, while the Bank still expect NI to grow by 3.6% in 2022, they have revised down their outlook for 2023, with the economy only forecasted to grow by 1.0% compared to the previously forecasted 1.7%. The revision is based on their expectation of lower consumer expenditure as a result of higher costs. Similarly, Danske Bank also revised their estimates for inflation and now forecast inflation in 2022 will reach 8.5%, up from the previously forecasted 7.2% reflecting increasing cost pressures for both businesses and consumers. These revisions between the Q1 and Q2 2022 publications suggest that Danske Bank expect that higher levels of inflation will remain in the economy acting as a considerable drag on economic growth.

Table 2.1: Northern Ireland Economic Growth (%) and Inflation (%) forecasts, NI, 2021-2023

	Economic Growth Forecast	Inflation
2021	6.8%	2.6%
2022	3.6%	8.5%
2023	1.0%	4.5%

Source: Danske Bank (Q2 2022 Quarterly Sectoral Forecasts Report)

As rising costs continue, consumers are expected to review their expenditure accordingly, with shifts away from expenditure on desirable items to essential. This was noted in a recent survey undertaken by the Office for National Statistics (ONS) who found that 87% of people reported an increase in their cost-of-living. 23% noted they have found it increasingly difficult to pay their usual household bills compared to last year as a result of increasing costs. Similar sentiment was noted by Danske Bank in their Consumer Confidence Index (Q1 2022) which found that 43% of consumers expected their financial position to worsen over the next year. 38% of consumers in Danske’s Index noted that in order to cover rising other costs they are going to have to cut back on purchasing “expensive items”. This finding shows that consumers are already cutting back on their spending, which is concerning when considering that c.64% of the NI economy is dependent on consumer spending. Our analysis suggests that over the past 20 years c.89% of economic growth across the UK is attributable to consumers. The current economic environment suggests that the consumer will not be as able to support growth as in the past while inflation bites.

3. Consumption & economic output

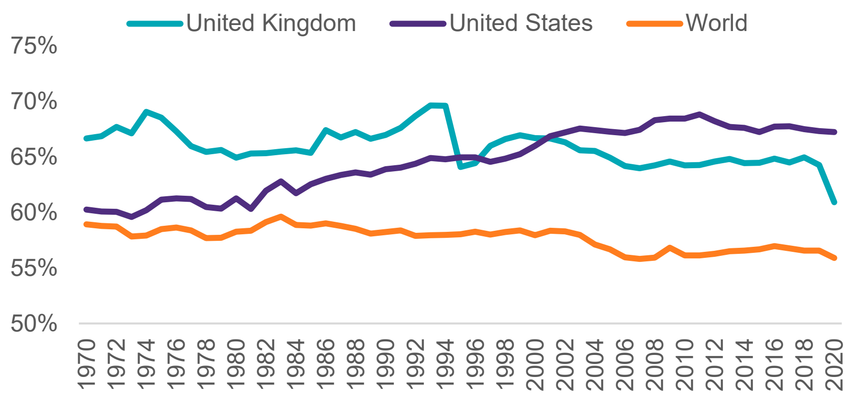
Consumption & economic output

How important is household consumption to economic output generation?

Household spending and national accounts

As noted in the introduction, many developed economies are consumer driven and rely heavily on consumption. While the UK is one such economy, the level of consumption as a proportion of Gross Domestic Product (GDP) has steadily decreased, with levels falling from its peak in 1960 of c.74% to c.64% in 2019. However, as the pandemic took hold, consumption levels in 2020 fell back further, with levels falling to c.61% as restrictions and lockdowns were introduced. Despite this roll back, as the recovery took hold the level of consumption has steadily recovered to pre-pandemic levels, with this being highlighted in Q4 2021, where consumption levels accounted for c.63% of Real GDP.

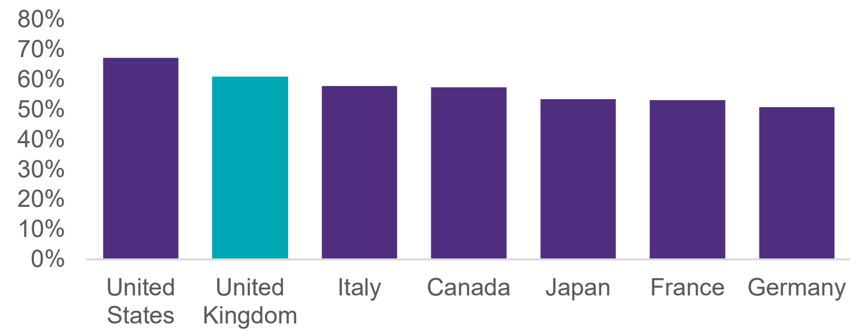
Figure 3.1: Household & NPISHs Final Expenditure as % of GDP, UK; US and World, 1970-2020



Source: World Bank

When compared to other countries, the UK has a significantly higher level of consumption as % of GDP (Figure 3.2). Furthermore, the UK ranks 7th out of the 38 OECD members for highest level of consumption as % of GDP.

Figure 3.2: Household & NPISHs Final Expenditure as % of GDP, G7, 2020



Source: World Bank

At a local level using data from the Economic Accounts Project from Northern Ireland Statistics and Research Agency (NISRA) for 2016 and 2017, we can see that like the UK, **64.3% of economic output generated in NI is consumption based**. It should be noted that the previous research conducted estimated that c.75% of the economic output was consumption. The previous figure was based on an initial 2012 Supply-Use analysis review conducted by the Department for the Economy & NISRA. The 2012 analysis has been significantly upgraded, providing an in-depth representation of the NI economy upon which this research is based.

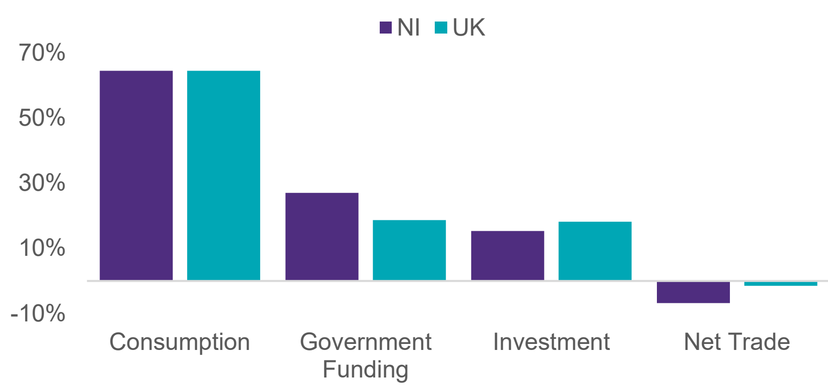
NPISH = Non-profit institutions serving households

Consumption & economic output

How important is household consumption to economic output generation?

When comparing the relative composition of GDP for NI to the UK, it can be seen that while they are equally reliant on consumption, the rest of the components vary considerably. For example, government investment/spending is much more important to the NI economy (27%) compared to the UK economy (19%). Similarly, the NI economy has a lower level of business investment, with Gross Capital Formation (GCF) accounting for a lower share of GDP (15%) compared to the UK (18%). NI is also much more import dependent than the UK. While both areas run a trade deficit, NI runs a much larger deficit, accounting for a larger share of GDP (6.9%) than the UK's (1.4%). These findings show that while NI and the UK have a similar level of consumer spending their economic structures vary significantly.

Figure 3.3: Components of GDP as % of GDP, UK & NI, 2017

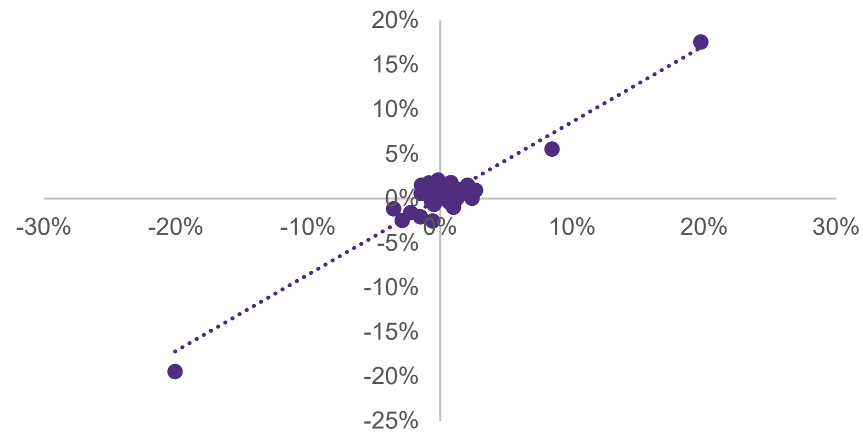


Source: NISRA (Economic Accounts Project)

The link between economic growth & consumerism

There has been a longstanding link between economic growth and consumption in the UK. To display this link, we calculated the correlation between Real GDP growth (%) across the UK relative to Real Consumption growth (%) between Q1 2000 and Q4 2021. Our analysis found that 89% of Real GDP growth can be attributed to Real Consumption growth (%) over the past two decades. This result indicates there is a significant and strong positive relationship between the level of Real GDP growth and Real Consumption growth across the UK. Highlighting that Real GDP and Real Consumption are strongly dependent on each other.

Figure 3.4: Scatter Graph of Real Consumptions Growth (%) vs. Real GDP Growth (%), UK, Q1 2000-Q4 2021



Source: Office for National Statistics (ONS), UK Economic Accounts

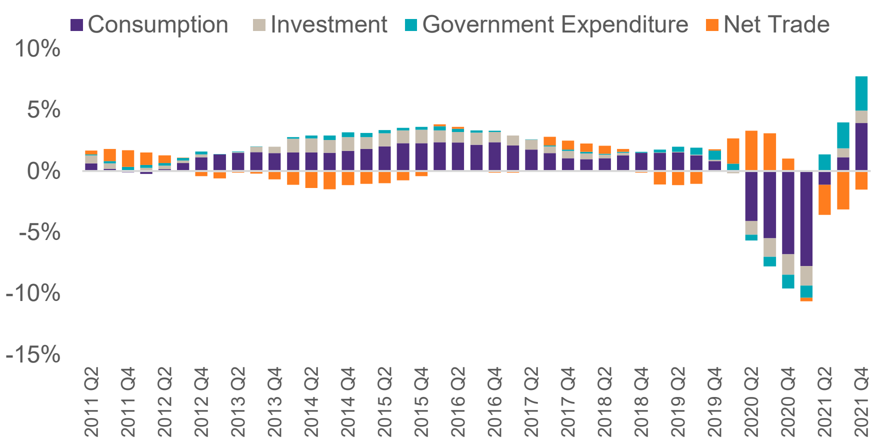
Real = inflation adjusted

Consumption & economic output

How important is household consumption to economic output generation?

This strong positive relationship between consumption and Real GDP growth is further evident through recent Real GDP growth. Prior to the pandemic, consumption in many quarters drove overall economic growth - between Q1 2019 and Q3 2019 c.82% of economic output was generated through consumption. Equally, since the pandemic began in Q2 2020, consumption contributed around c.77% of the effective Real GDP decline experienced. These findings note how important it is to reengage the consumer in order to drive and boost the recovery.

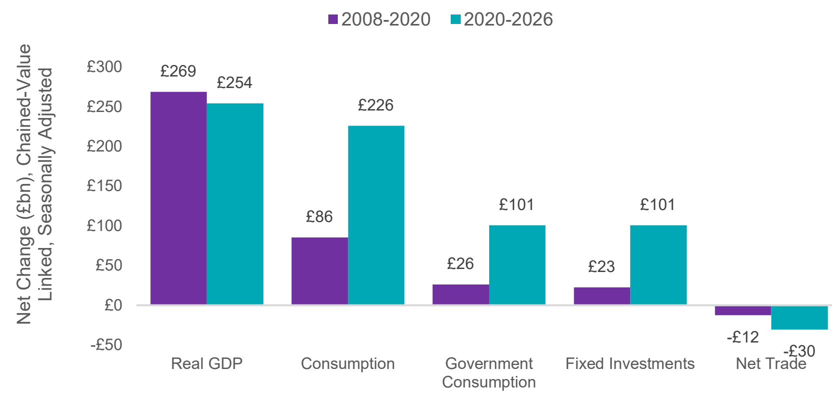
Figure 3.5: Contributions of selected GDP Components to Real GDP Growth (%), UK, Q1 2011-Q4 2021



Source: ONS (UK Economic Accounts)

Looking forward, the government's own economic forecaster, the Office for Budget Responsibility (OBR), have suggested that the recovery will be mainly consumption driven, placing consumers at the forefront of the recovery. This is highlighted in Figure 3.6 which shows that over the next 6 years private consumption across the UK will increase by £226bn, compared to increasing by only £86bn between 2008 and 2020. It should be noted much of this recovery will take the form of released demand built up over 2020 as a result of the pandemic.

Figure 3.6: Net Change in Real GDP Components, UK, 2008-2026



Source: OBR (Economic and Fiscal Outlook March 2022)

The OBR specifically note that in 2021 much of the rebound in growth was driven by consumers and their propensity to spend as restrictions eased. However, the OBR do expect that by 2023 quarterly consumer spending growth levels will have returned to historical levels. OBR do make allowance for the impact of inflation and how this is likely to dampen consumer spending and thus economic growth.

Consumption & economic output

How important is household consumption to economic output generation?

Table 3.1: Real Consumer Spending & GDP Growth (%), UK, 2021-2026

	GDP Growth	Consumer Spending
2021	7.5%	6.1%
2022	3.8%	5.4%
2023	1.8%	1.0%
2024	2.1%	1.5%
2025	1.8%	1.1%
2026	1.7%	1.2%

Source: OBR (Economic and Fiscal Outlook March 2022)

Locally, the Danske Bank Quarterly Sectoral Forecasts estimate that NI will grow by 3.6% in 2022 and by 1.0% in 2023. Danske Bank expect much of this recovery to be consumer led, with consumer spending forecasts being 4.0% in 2022 and 0.7% in 2023. However, they do forecast that inflation will have a significant bearing on consumer spend, with the rising inflation squeezing real income growth and thus consumer spending potential. Their forecasts suggest inflation could reach 8.5% in 2022, before dropping back to 4.5% in 2023. Danske Bank note higher inflation rates as potentially the biggest risk to economic growth for the region. They state rising inflation will put significant pressure on people's real income resulting in squeezed consumer spending meaning a potential erosion of potential economic growth.

Table 3.2: Consumer Spending, Economic Output Growth & Inflation (%), NI, 2021-2023

	Consumer Spending	Economic Output Growth	Inflation
2021	5.7%	6.8%	2.6%
2022	4.0%	3.6%	8.5%
2023	0.7%	1.0%	4.5%

Source: Danske Bank (Q2 2022 Quarterly Sectoral Forecasts Report)

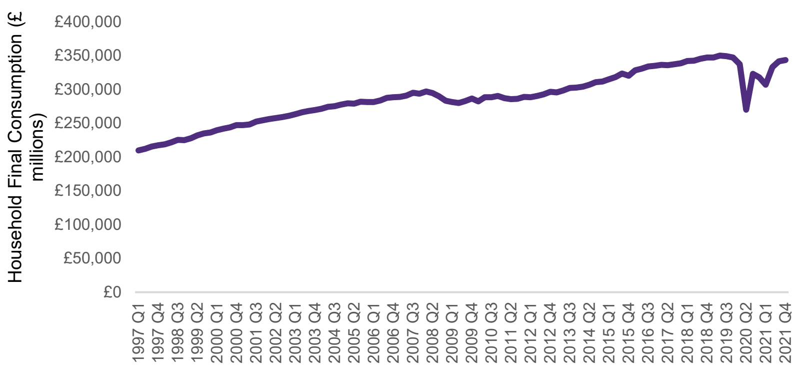
Consumption & economic output

How important is household consumption to economic output generation?

Given the dependence of the economy on consumers, it is important to understand what makes up consumption in economic accounts. Consumer expenditure prior to the pandemic was on a continuous upward trajectory. In 2019, consumption reached a peak level of £1.39 trillion, before falling back to £1.25 trillion in 2020 as the pandemic took hold. As the pandemic eased and restrictions were removed, consumption and demand recovered. This led to the level of consumption reaching almost pre-pandemic level.

Much of the drive in consumption has been led by the growth in wages. So, as people became richer, their level of consumption increased. For example, between 2002 and 2019, total nominal consumption levels grew by 34.8%, while nominal wage growth was 49.1%.

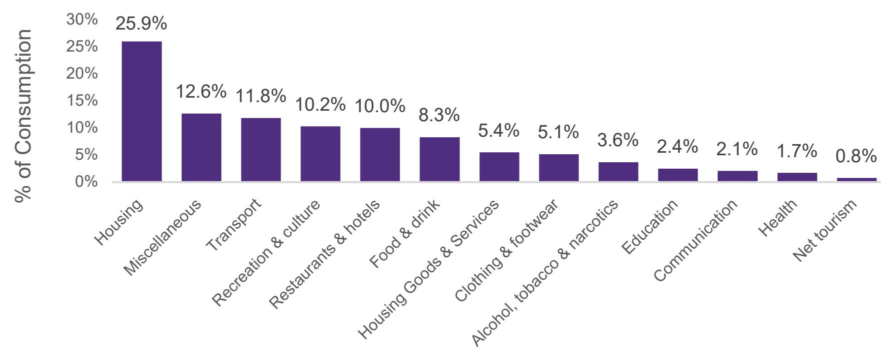
Figure 3.7: Real Consumer Expenditure (£ millions), UK, Q1 1997-Q4 2021



Note: Total annual level of expenditure is the sum of all four quarters

Generally, when looking at the level of UK consumption in Q4 2021 over one quarter (25.9%) of all consumption was generated through Housing costs. Figure 3.8 shows the breakdown of consumption by each expenditure group.

Figure 3.8: % of Consumption by COICOP Grouping Constant Price, UK, Q4 2021



Source: ONS (Consumer Trends: Economic Accounts)

The level of importance of these groups has changed over time. Figure 3.9 overleaf shows the trend in a selected group of commodities since 1997. Housing costs have generally accounted for the highest share of consumption, accounting for c.27% of all consumption since 1997.

More recently, as consumers couldn't visit restaurants/hotels or go on holidays due to the lockdowns, overall expenditure in these categories fell from 9.9% and 13.8% in 2019 to 6.3% and 10.7% respectively in 2020. Since then, as restrictions have eased, spending in these areas have picked up.

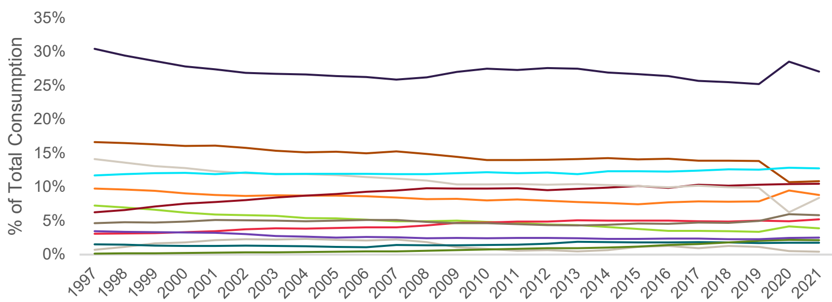
The Classification of Individual Consumption According to Purpose (COICOP) is the international reference classification of household expenditure.

Consumption & economic output

How important is household consumption to economic output generation?

This "unused" expenditure seems to have been diverted into other areas of expenditure such as Furnishings, which saw its share increase from 4.9% in 2019 to 5.8% in 2021. Consumers also increased their overall level of savings, with the savings ratio reaching 23.9% in Q2 2020 – the highest level on record.

Figure 3.9: % of Consumption by COICOP Grouping Constant Price, UK, 1997-2021

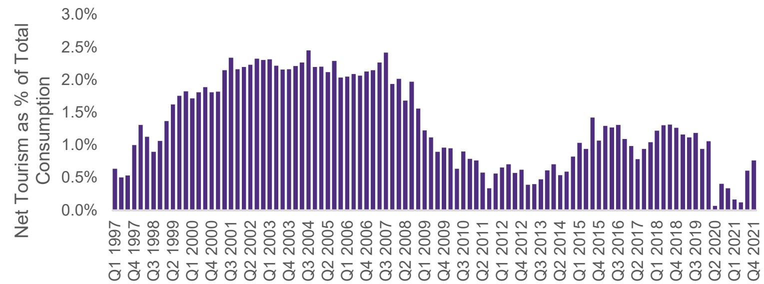


Source: ONS (Consumer Trends: Economic Accounts)

Tourism and consumption

Over time the level of net tourism has become an increasingly important component of UK consumption. Between 2016 and 2019, the share of net tourism averaged 1.1% of consumption, whereas previously from 2011 it only averaged 0.7% of consumption. As the pandemic took hold and countries began to introduce restrictions and close their borders, the level of net tourism fell back to 0.5% of consumption and has not yet recovered to pre-pandemic levels. Currently, net tourism accounts for 0.8% of consumption. This trend does highlight that in recent years, tourism into the UK has become an increasingly important area for economic growth. As such, the recovery of the tourism sector as a whole across the UK will be key in the overall recovery from the pandemic and its future growth potential. In fact, many strategies including the UK's Tourism Recovery Plan have noted tourism as an important sector to the economy and one which will be key to future economic development.

Figure 3.10: Net Tourism as % of Consumption, UK, Q1 1997-Q4 2021



Source: ONS (Consumer Trends: Economic Accounts)

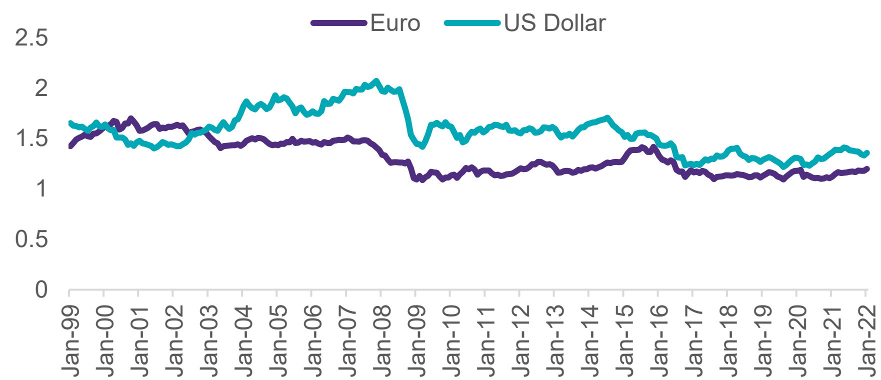
Despite its importance, the level of tourism expenditure can be affected by many things including fluctuations in the exchange rate between the destination and source countries. For example, when the value of the destination's currency falls relative to the source's currency this equates to higher levels of tourism spending/revenue in the destination country. Conversely, when the destination country experiences a currency appreciation relative to the source currency the destination country will see lower levels of tourism revenue due to it becoming more expensive. These fluctuations highlight that while tourism is important, it does depend on some external factors beyond the control of the individual.

Consumption & economic output

How important is household consumption to economic output generation?

To highlight these external influences following the UK's decision to leave the EU in 2016, the value of sterling fell relative to both the US Dollar and Euro. In fact, the £ to $/€ exchange rate levels fell to levels on par or below those at the beginning of the Great Financial Crisis (GFC). The uncertainty of EU Exit for a long time impacted the exchange rate, with sterling levels only starting to appreciate fully at the end of 2020 following the UK and EU Trade and Corporation agreement, which came into effect on the 1st January 2021. This agreement essentially helped to eradicate some of the business/market uncertainty around the UK's EU Exit and eased fears of a 'No-Deal' scenario. During this period of relatively low exchange rates, the UK experienced some of the highest levels of tourism spend since the heights of the GFC. So, while tourism has become an increasingly important sector in government strategies, the level of tourism expenditure is dependent, at least in part, to exchange rates.

Figure 3.11: Monthly Average Exchange Rate Euro/US Dollar (€/$) vs. Sterling (£), Jan 1999-Jan 2022



Source: Bank of England (Daily Spot Exchange Rates)

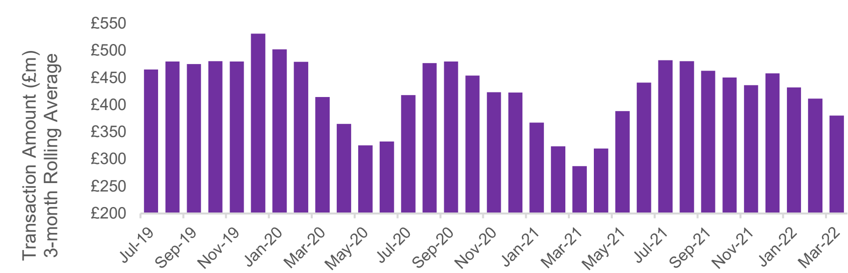
Note: Data in the above chart shows the exchange rate of £ in $/€

NI and tourism

While we cannot specifically identify the importance of tourism to the overall consumption component of GDP in NI due to data constraints. We can assume that, given NI's strong dependence on consumption for economic performance and the UK's overall increasing share of tourism on consumption, that tourism has become increasingly important to the NI economy. This assertion is supported by the recent 'Economic Recovery Action Plan' developed by the Department for the Economy, which notes travel and tourism as a 'key sector' in the recovery from the COVID-19 pandemic.

While data constraints do exist, we can use data from the Tourism NI Consumer Spending Report to show the change in spend over time. Prior to the pandemic, transactions across NI peaked at £615.5m (December 2019). The level of transactions have however fallen back to £241.5m (April 2020) as restrictions ramped up and lockdowns took hold. As restrictions eased, the level of transactions steadily increased again peaking at £507.4m in December 2021.

Figure 3.12: Total Transaction Activity (£m, 3-month Rolling Average), NI, Jul 2019-Mar 2022



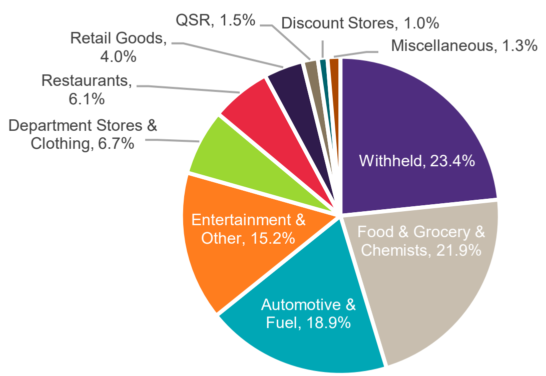
Source: Tourism NI (NI Consumer Spending Report)

Consumption & economic output

How important is household consumption to economic output generation?

Tourism NI calculate that since July 2018 around £19.26bn worth of transactions have taken place across NI. The majority of which were on Food, Groceries & Chemists (21.9%), while 18.9% of all spend since July 2018 has been made on Cars & Fuel potentially highlighting the relative exposure and price sensitivities those in NI have to price rises in this area. In comparison, around one-fifth of total spend was made on Entertainment (15.2%) and Restaurants (6.1%).

Figure 3.13: Spend by Component (% of Total), NI

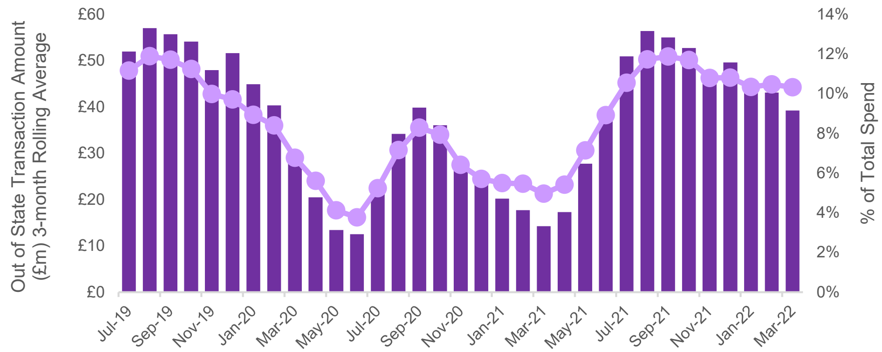


Source: Tourism NI (NI Consumer Spending Report)

The data from the Tourism NI Consumer Spending Report can also be used to identify the level of 'out of state' spend or 'tourist spend'. Potentially, helping us to identify how important tourism spend is to the NI economy. According to the report around £1.77bn of spending in NI was made by 'out of state' visitors since July 2018 making up around 9% of all spend in NI.

Prior to the pandemic, the level of 'out of state' visitors became increasingly important to the NI economy and overall consumption levels. More recently as the travel and tourism industry began to recover and sectors reopened, the level of 'out of state' spend has increased rapidly. But is not yet back at pre-pandemic levels highlighting that there is still 'work to be done'. The rapid recovery in the 'out of state' spend levels likely reiterates the importance of tourism to NI, and overall consumption. However, as inflation continues to ramp up this could impact people's decisions to travel and their propensity to spend, so a consistent and sustained tourism recovery is not guaranteed.

Figure 3.14: Out of State Spend Total (Level & % of Overall Spend), NI, Jul 19-Mar 22



Source: Tourism NI (NI Consumer Spending Report)

QSR = Quick Service Restaurants

Consumption & economic output

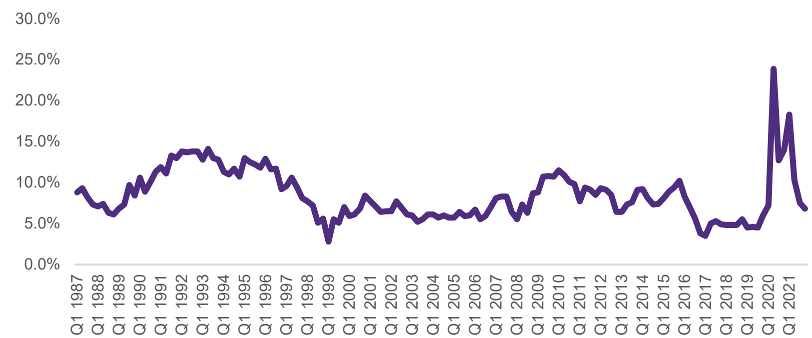
COVID-19 and the impact of savings?

The change since COVID-19: A savings boom?

The COVID-19 pandemic has had a severe and immediate impact on both the UK and NI economies. In order to stem the rate of infections, both the UK Government and NI Executive put in place the work from home regulation, promoting the 2-metre rule and closed non-essential retail in March 2020. While this had a significant impact in helping to reduce the level of infections and hospitalisations, it impacted economic growth. We noted earlier that much of the Real GDP decline up to Q1 2021 was consumer and consumption led, with c.77% of Real GDP decline being attributed to the decline in consumption.

The closing of non-essential retail during this period saw consumers moving their non-essential shopping online or increasing their savings. At the height of the pandemic (Q2 2020) the UK's households' savings ratio reached 23.9%, whereas previously the household savings ratio had averaged 7.1%. This led to an excessive level of savings and thus an increased level of pent-up demand within the economy. This pent-up demand was released when the economy restarted and non-essential retail reopened. As a result of this release, consumers began to reduce their level of savings and spend more using their 'accrued' wealth to help fund this expenditure, which has seen the savings ratio fall to below the historical average of 7.1% to 6.8% in Q4 2021.

Figure 3.15: Households' Savings Ratio Seasonally Adjusted (%), UK, Q1 1987-Q4 2021



Source: ONS (Economic Accounts)

While a similar indicator for household savings doesn't exist for NI, anecdotal evidence can be used to show the level of savings made during the pandemic. Danske Bank noted that in the 12 months up to the February 2021, they had seen their overall customer deposits increase by £2bn. Whether this level of savings continues long-term post pandemic is yet to be seen. However, a survey by Ulster Bank found that the pandemic has in fact changed how some people view savings. Their survey found that 65% of respondents noted an increased importance of savings compared to pre-pandemic. A reflection of the knowledge of needing to save for a 'rainy day' or to cover unexpected bills/events. Similar findings were found by the Consumer Council through their Consumer Insight Survey which found that 54% of respondents save money for a 'rainy day', while 57% said they keep money aside to cover 'emergencies'.

Consumption & economic output

COVID-19 and the impact of savings?

The findings on the level of savings are interesting. Especially, when you consider that across the whole of the UK, we have seen the lowest levels of interest rates on record, with the Bank of England Base Rate having only recently broken 1% for the first time since 2008.

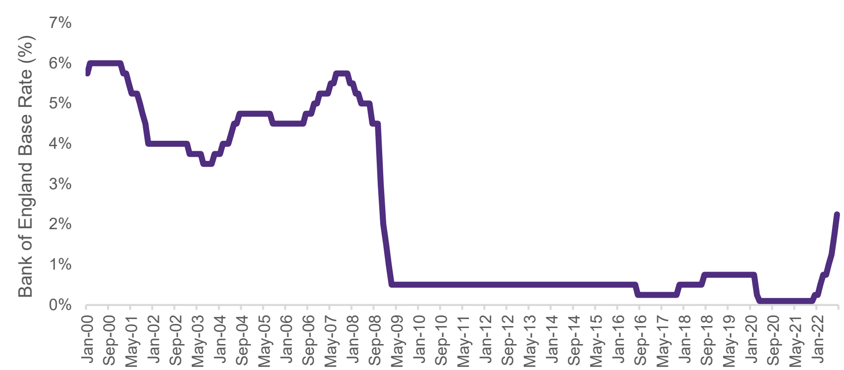
During the pandemic, the Bank of England moved the Base Rate to its lowest ever level of 0.1%, with this move used to encourage more consumption and keep the economy on an even keel. Since then, as the economy reopened and the pent-up demand was released, prices have increased rapidly, with the current inflation level standing at 9.9% one of the fastest 12-month price rise seen in the past 40 years. The Bank of England's Monetary Policy Committee felt compelled to increase the Base Rate to 2.25% in order to cool consumer demand and inflation. It's anticipated further interest rate rises will occur over the coming months in an attempt to dampen inflation and try to bring it in line with the 2% Bank of England target.

Controlling inflation is the major policy focus for the Bank of England. However, whilst raising interest rates will go some way to help 'control' inflation rates it is going to have wider impacts beyond inflation. Raising interest rates will impact mortgage holders, specifically those on tracker and variable-rate mortgages. If the Bank of England continues to raise interest rates the level of mortgage repayments will continue increasing. For example, according to UK Finance when the Bank raised levels from 0.75% to 1.0% it was estimated the average UK mortgage repayment for those on variable rate mortgages will increase by £16 and by £32 per month for those on tracker mortgages.

It's estimated in NI a total of around 85,000 households hold either variable or tracker mortgages accounting for 36% of all mortgages in NI. As such, it can be assumed these households are going to be more exposed to interest rate rises than those on fixed rate mortgages. Analysis by Ulster University found that after the most recent rise in interest rates, which saw levels increase from 1.0% to 1.25%, £18 per month or £226 per year was added to loan repayments. This estimate is based upon the assumption of a starting loan of £150,000 today compared to this time last year.

Rising mortgage repayments and the current cost-of-living crisis will in all likelihood see many adjust their spending further. In fact, a survey conducted by Royal London found that the interest rate rise is unlikely to have any 'beneficial impact on savings'. This is concerning given the purpose of interest rate rises is to encourage saving and reduce consumption in order to 'cool' inflation. Royal London's survey found that almost a third of people plan to reduce the amount they save, while a fifth will stop altogether. Respondents noted the need to reduce or stop saving in order to cover the additional costs they are facing through increased energy bills, mortgage repayments, etc. Overall, despite the intentions its expected that the interest rate rises will exert further financial pressure on c.85,000 households through increased mortgage repayments exacerbating the current cost-of-living crisis by reducing households' disposable income further.

Figure 3.16: Bank of England Base Rate (%), UK, Jan 2000-August 2022



Source: Bank of England (Official Base Rate)

4. Trends in income & expenditure

Trends in income & expenditure

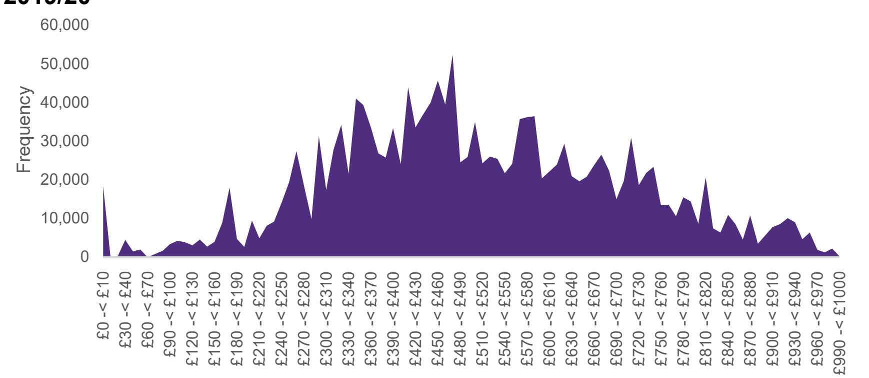
How has the level of income changed over time?

Household incomes in NI

Consumers' income, and how it changes over time, is probably the main determinant of consumers' propensity to spend. As such, this section will examine the trend in income levels in NI and compare these to the rest of the UK. Equally, we will also consider how income levels vary across income bands, in order to fully understand the types of households that are most affected by price changes and the overall 'cost-of-living' crisis.

To understand the distribution of income across NI, the Department for Communities (DfC) undertake an annual analysis called the 'Households Below Average Income Report'. This analysis shows the overall level of incomes by household across the region. DfC's analysis found that around three-fifths of individuals in NI earn less than the mean income of £571 per week. The survey also found that NI generally has higher levels of lower income individuals, with 71% of NI individuals earning less than the UK mean weekly income (£667).

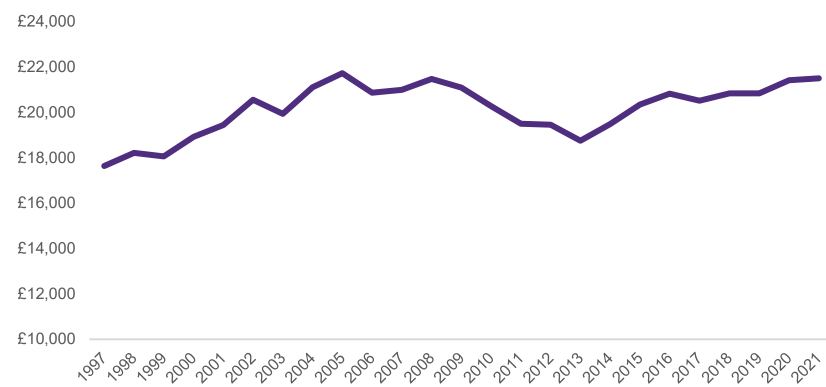
Figure 4.1: Income Distribution (Before Housing Costs), Total Population, NI, 2019/20



Source: Department for Communities (Households Below Average Income Report)

In 2021, gross median annual earnings in NI stood at £24,000, the highest level on record. However, when adjusting for inflation, real wage levels stand at £21,505, equivalent to 2005 levels (£21,723). So, while nominal wages have continued to grow, they have not kept pace with inflation.

Figure 4.2: Annual Real Earnings (£), NI, 1997-2021

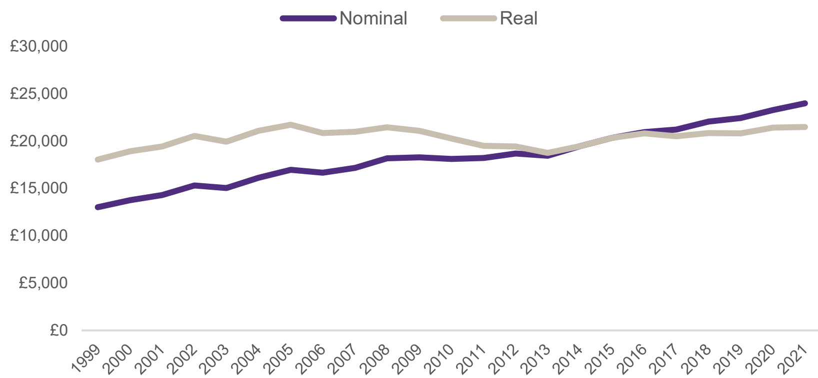


Source: Northern Ireland Statistics and Research Agency (NISRA), Annual Survey of Hours and earnings (ASHE)

Trends in income & expenditure

How has the level of income changed over time?

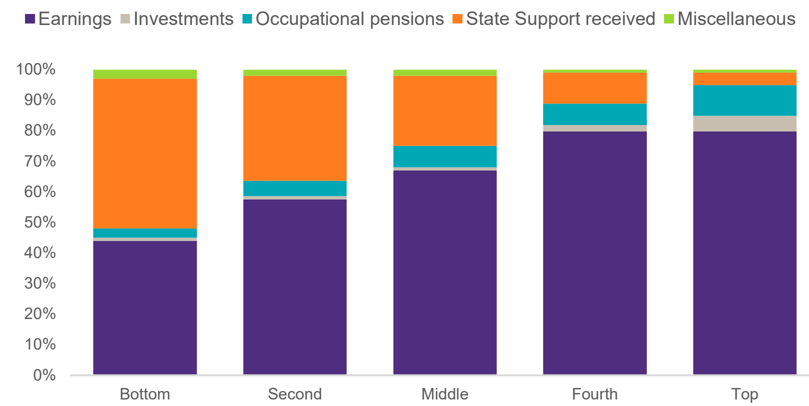
Figure 4.3: Nominal & Real Gross Annual Earnings (All Workers), NI, 1997-2021



Source: NISRA (Annual Survey for Hours and Earnings)

In addition to understanding how income compares to the overall level of price changes, it is equally important to consider from where this income has been sourced. Using data from DfC's Households Below Average Income Report we can see that in an average household around 70% of income is sourced through earnings, with the remainder being a combination of state support received (18%), occupational pensions (7%), investments (2%) and miscellaneous (2%). This breakdown however does vary when you examine income by quintile. Generally, those in the bottom quintile earn less from earnings (44%), while state support accounts for a larger proportion (49%) of income. As such, state support reviews such as the £20 cut to Universal Credit will likely have a significant impact on those at the lower end of the income distribution. This cut has likely meant that many in the lower quintiles have had to make decisions around spending in order to cover their essentials.

Figure 4.4: Income by Source by Quintile (before household costs), NI, 2019/20



Source: Department for Communities (Households Below Average Income)

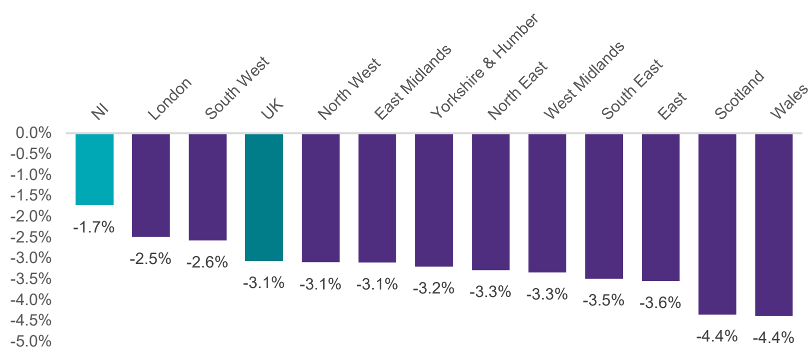
In terms of exposure, Figure 4.4 highlights the areas where outside factors could impact incomes. For example, those in the higher income band have a higher level of income from investments (5%) and so are more susceptible to shocks in the stock market. Equally, those who receive a substantial proportion of their income from earnings would have been more exposed to the impacts of furlough or potential job losses. To highlight, this exposure during the pandemic average weekly actual hours worked for a full-time worker fell from pre-pandemic levels of 36.9 (Q4 2019) to 30.6 (Q2 2020). This fall in hours adversely impacted earnings. At the height of the lockdown in May 2020, UK average real monthly median earnings were 2.5% lower than they were in March 2020.

Trends in income & expenditure

How has the level of income changed over time?

The pandemic has had a profound impact on earnings and therefore ability to consume. However, since the economy has reopened, hours worked have began to creep back up, reaching 36.2 per week in Q4 2021, but this still lags to pre-pandemic levels. This increase in hours worked has translated into a rise in the level of earnings, with current real earnings being higher than pre-pandemic levels (£1,730 per month). Much of this rise has coincided with higher demand in the economy due to the pent-up demand, with this much being alluded to in the Ulster Bank Purchasing Managers Index (PMI). Mixed into this has been rising inflation as a result of increased demand and constrained supply, which has translated into higher wages (albeit inflation is currently rising faster than wages). Despite nominal wages across the UK rising by 5.6% between April 2021 and April 2022, real median wages contracted by 3.1%. NI workers experienced the lowest fall in real median monthly earnings (1.7%), whereas workers in Scotland and Wales experienced a 4.4% fall in real median earnings.

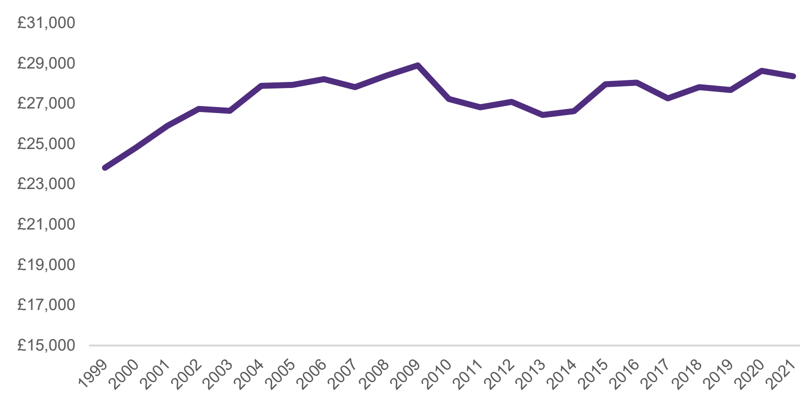
Figure 4.5: Real Median Income (% Growth), UK Countries, Apr 21-Apr 22



Source: HMRC (Earnings and employment from Pay As You Earn Real Time)

Looking at the level of real full-time earnings and how its changed, since 1997 the level of full-time earnings has increased by almost a fifth (19%). However, current levels are still below those seen in 2009. Our estimates suggest that on average since 2009, real full-time earnings in NI have contracted by on average 0.2% between 2009 and 2021. In real terms, the full-time workforce in NI haven't seen a real pay rise in 12 years.

Figure 4.6: Annual Real Full-Time Earnings (£), NI, 1999-2021



Source: NISRA (Annual Survey for Hours and Earnings)

Trends in income & expenditure

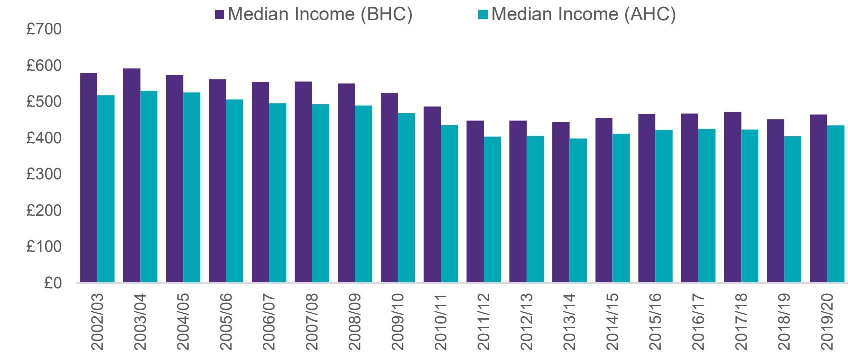
How has the level of income changed over time?

Between 2019 and 2020, real full-time earnings in NI grew by 3.5%. Since then, real full-time earnings have contracted by 0.9% between 2020 and 2021. As lockdowns and restrictions have eased, the level of income has steadily increased as demand and activity has returned to the economy. In fact, since December 2021 until March 2022, the level of median monthly pay in NI, according to the HMRC PAYE data, has increased by 0.1% in real terms. However, it should be noted this was slower than the growth in prices experienced over the same period (1.7%). As such, stimulating wage growth to outpace inflation or activating levers to slow the rate of price growth will be key to maintaining living standards for many over the next 18 months.

How has the level of disposable income changed over time?

Real disposable income (i.e. gross income net of tax) has increased since 2009/10. Overall, we estimate that real disposable income before housing costs increased by 7.9% and by 12.9% when housing costs have been accounted for. This increase has reflected the relative wage growth that has been experienced in NI between 2010 and 2020, where real wages grew by 0.6% per annum. It should also be considered that this increase will not be uniform across households. For example, over the past 10 years, several reviews of the welfare system have taken place, with these including the recent cut of £20 to Universal Credit recipients.

Figure 4.7: Weekly Net Income (Before & After Housing Costs), NI, 2002/03-2019/20



Source: Department for Communities (Households Below Average Income)
Note: Data in chart relates to 2019/2020 prices

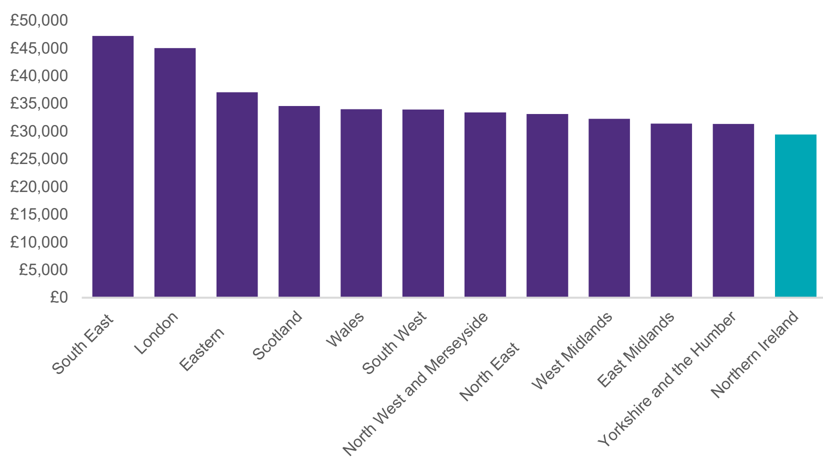
Using data from the Office for National Statistics (ONS) Effects of Taxes and Benefits on Household Income, we have been able to profile the change in household equivalised disposable incomes. It is important to consider the level of disposable income of households as this determines household spending power and thus overall living standards. Understanding this power is especially important given the current environment, with rapidly rising costs and stagnant wage growth. To ensure a good standard of living as well as a continual rise in standards of living, households real equivalised disposable income must grow faster than inflation. However, given the rapid rises in inflation, achieving levels of income that exceed inflation seems remote.

Trends in income & expenditure

How has the level of income changed over time?

Looking at the level of equivalised disposable income – the income which accounts for the differences across larger households and smaller households in order to achieve a similar level of living standards – NI households on average had a disposable income of £29,457. Compared to other UK regions, NI households generally have the lowest level of equivalised disposable income. In fact, the nearest region (Yorkshire & Humber) have on average c.£2,000 more in equivalised disposable income than NI households. This differential is potentially a reflection of the relatively cheaper costs of living in NI compared to the rest of the UK, but it is more than likely reflective of the lower wages earned in NI compared to the rest of the UK.

Figure 4.8: Real Equivalised Disposable Income (£), UK Regions, 2020



Source: ONS (Effects of Taxes and Benefits on Household Income)

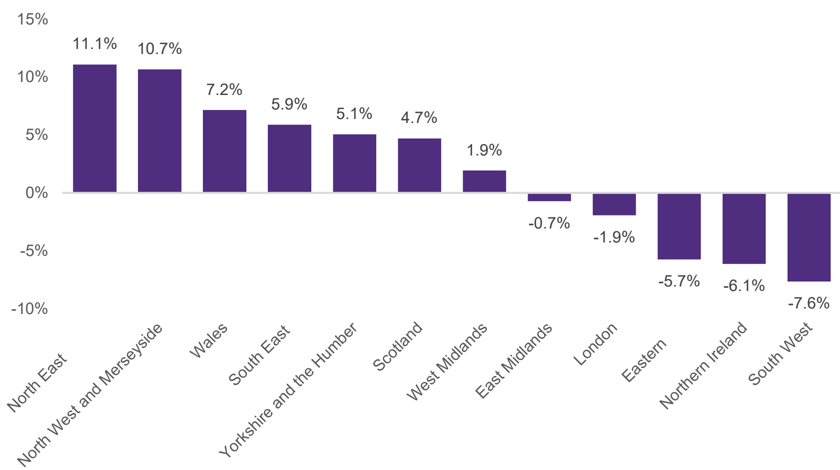
Despite the relatively lower level of income in monetary terms, NI households have generally seen a higher level of growth in equivalised disposable income since 2000. Since 2000, NI households equivalised disposable income has grown by 37.3%, making it the fourth fastest growing UK region. However, when compared to the overall inflation rate our analysis has found that between 2000 and 2020, the level of price inflation rose by 49.5% meaning that since 2000, NI households have seen a real-time fall in their disposable income and thus living standards.

Equivalised disposable incomes in NI peaked in 2008 and have fallen back ever since. Meaning that since 2008, NI households have had lower living standards relative to 2008. To highlight the fall in living standards, in real-terms 2020 equivalised disposable incomes in NI are 6.1% lower than 2008 levels. To show how hard NI households have been hit, NI is one of only five regions across the UK where equivalised disposable income has fallen. Whereas the other seven UK regions have seen a rise in their equivalised disposable income and living standards. This fall in real equivalised disposable income in NI could potentially be explained by the higher levels of employment growth in part-time workers compared to full-time workers. For example, in NI between 2009 and 2020 part-time employment grew by 7.7%, while full-time employment grew by 2.2%.

Trends in income & expenditure

How has the level of income changed over time?

Figure 4.9: % Growth in Real Equivalised Disposable Income, UK Regions, 2008-2020

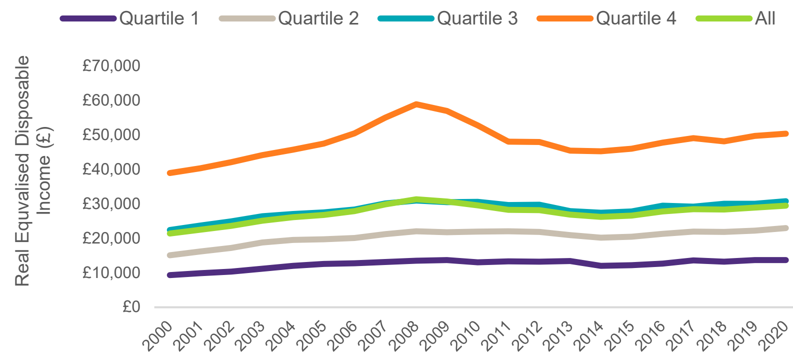


Source: ONS (Effects of Taxes and Benefits on Household Income)

It is important to consider that there is variation on disposable income across households. Understanding this difference will help to understand the exposure of certain households to price fluctuations and their overall resilience. As such, using equivalised disposable income data, which shows the average disposable income data accounting for the variation in household size, we present the differences in disposable income across each income quartile. Looking across the income quartiles, there is a wide variation in the level of equivalised disposable incomes for NI households.

Equivalised disposable income among those in the lowest 25% stood at £13,702, which is more than £36,699 less than the equivalised disposable income for those in the highest 25% (£50,401). Figure 4.10 shows the trend in equivalised disposable incomes across each quartile between 2000 and 2020.

Figure 4.10: Real Equivalised Disposable Income Level (£) by Quartile, NI, 2000-20



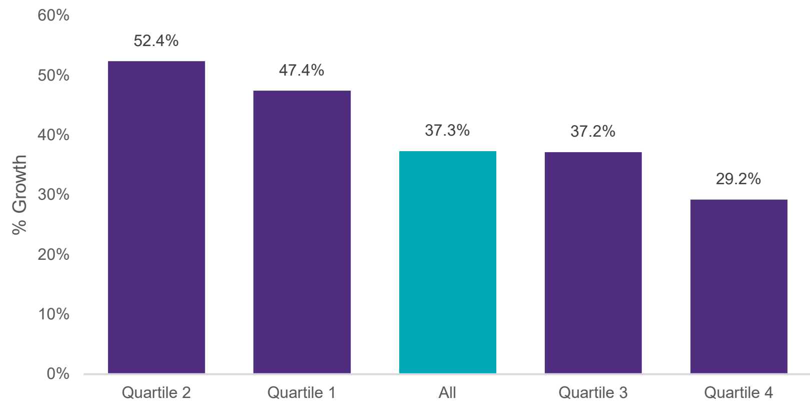
Source: ONS (Effects of Taxes and Benefits on Household Income)

Since 2000, all quartile groups have seen a real increase in equivalised disposable income, but to varying degrees. Figure 4.11 overleaf shows the growth in real equivalised disposable income growth since 2000. Those in the highest 25% saw the smallest real change (29.2%), while those in the lowest 25% (47.4%) and second lowest 25% (52.4%) saw the largest increases. However, when put in monetary terms, those in the highest 25% saw the largest increase in their equivalised disposable income by £11,390 compared to only £4,408 for those in the lowest 25%.

Trends in income & expenditure

How has the level of income changed over time?

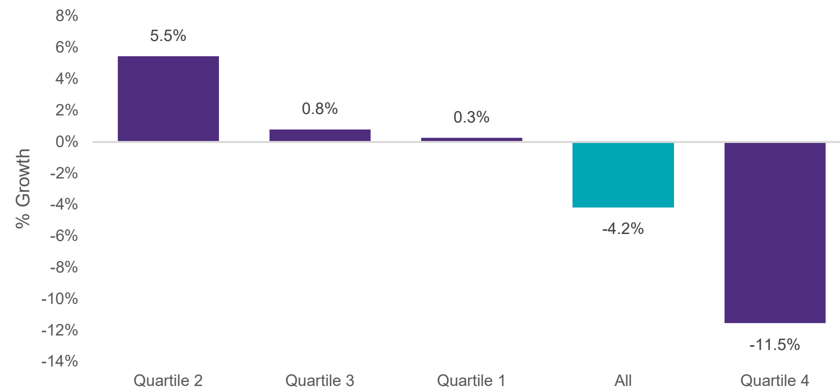
Figure 4.11: Real Equivalised Disposable Income Growth (%) by Quartile, NI, 2000-20



Source: ONS (Effects of Taxes and Benefits on Household Income)

When looking at the more recent trend of equivalised disposable incomes i.e. since the Global Financial Crash (GFC), those in the highest 25% saw the largest fall in real terms (11.5%). Whereas those in the lowest 25% saw their level of equivalised disposable income increase, but by only 0.3%. To highlight the differential in disposable income growth and inflation, prices over this period rose by 25.5%. Highlighting, that across all quartiles overall living standards have fallen substantially. As a result, households have become more aware of needing to manage budgets and expenditure as their disposable income continues to get squeezed as inflation and costs continue to rise. More worryingly this trend of 'counting the pennies' is only likely to worsen as inflation rises continue. Indeed, the current inflation spike is expected to deliver the largest decline in living standards since the 1950s.

Figure 4.12: Real Equivalised Disposable Income Growth (%) by Quartile, NI, 2009-20



Source: ONS (Effects of Taxes and Benefits on Household Income)

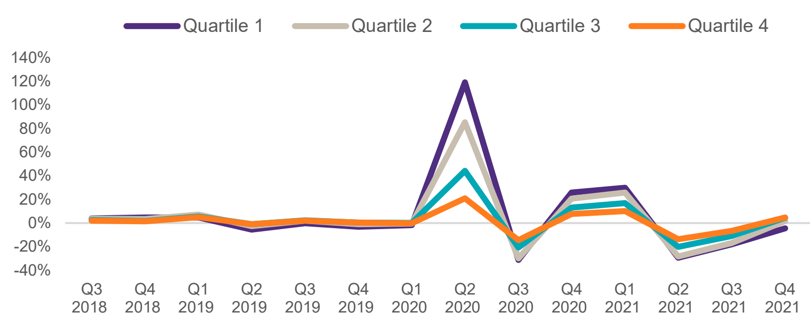
While the above analysis is useful in helping to present recent trends, it unfortunately doesn't capture the most recent rises in inflation and the 'cost-of-living' crisis and its impact on income. However, analysis from the Centre for Economics and Business Research (CEBR) shows how the level of discretionary income has changed in response to the recent price rises across the income quartiles. Their analysis found that the overall level of discretionary income fell in Q3 2021 relative to Q3 2020, with those in the lowest quartile seeing the largest fall in discretionary income (3.6%). Whereas, those in the top quartile saw their discretionary income fall by only 1.3%. More shockingly however, was the 17.1% fall in discretionary income between Q2 and Q3 2021 for those in the lowest income quartile, with energy and food costs cited as being the main cause.

Trends in income & expenditure

How has the level of income changed over time?

Ongoing cost pressures have exerted further financial stress on those in the lowest quartile, with their discretionary income falling by 4.3% between Q3 2021 and Q4 2021. With those in the lowest quartile being the only group to experience a fall in their discretionary income. In fact, CEBR noted across all quartiles discretionary income increased. Despite this, CEBR note that continued slowing in wage growth, higher taxes and the accelerating 'cost-of-living' crisis will exert downward pressure on discretionary incomes across NI and the wider UK. They do also note that the stronger labour market and the proposed uplifts to National Insurance thresholds will help those in the lower quartiles experience increased spending power and better wage growth. Packages announced such as the raising of the National Insurance threshold from £9,880 to £12,570, with the higher rate threshold remaining at £50,270 as part of the Spring Statement 2022 being introduced from July 2022 being key to helping those in the lowest quartile.

Figure 4.13: % Growth Discretionary Income by Income Quartile, NI, Q2 2018-Q4 2021



Source: CEBR (Impact of COVID-19 on household finances in Northern Ireland – Q4 2021)

Further insights, from the March 2022 ASDA income tracker, found that for the first quarter of 2022 the level of discretionary income across NI fell by 13.3% annually - the largest annual decrease in discretionary income experienced by any UK region. The research stated this decrease is a reflection of NI's current labour market composition and its dependence on the public sector. They also note the withdrawal of the Universal Credit uplift will disproportionately impact those in NI compared to other UK regions, due to NI having a higher portion of claimants relative to other UK regions. This fall in discretionary income translated into a weakening of NI households spending power, with discretionary income falling by £19.39 per week to £127 per week. This decrease, they note, makes NI households more at risk or exposed to the 'cost-of-living' crisis compared to other UK households.

Household saving in Northern Ireland

Data relating to savings is hard to find in NI. However, data from the Department of Communities (DfC) Family Resource Survey provides some indication into savings in NI. Their analysis found that over time the level of savings by NI adults has slowly increased. For example, between 2016/17 and 2019/20 the percentage of those with 'no savings' fell from 47% to 44%. While those with savings of more that £10,000 increased from 19% to 22%. This rise in the level of savings is encouraging given it means some form of 'security' in order to cover unexpected costs. However, when compared to the UK its noticeable that NI save considerably less. Only 16% of those in the UK have 'no savings', while 31% have savings of more than £10,000. NI's lower rate of 'savings' was also noted by Raisin* who found that on average savings in NI amounted to £6,710, the second lowest level of all UK regions with only the East Midlands (£6,438.48) having lower levels. More stark is NI savings amounted to being on average c.£3,000 less than average UK savings (£9,633.30). While this maybe a reflection of lower wages in NI, it still paints a stark picture where UK adults are better placed than NI adults to cover 'unexpected' cost rises and are more prepared for a 'rainy day'.

**Raisin is a savings marketplace which offers access to multiple savings products and banks*

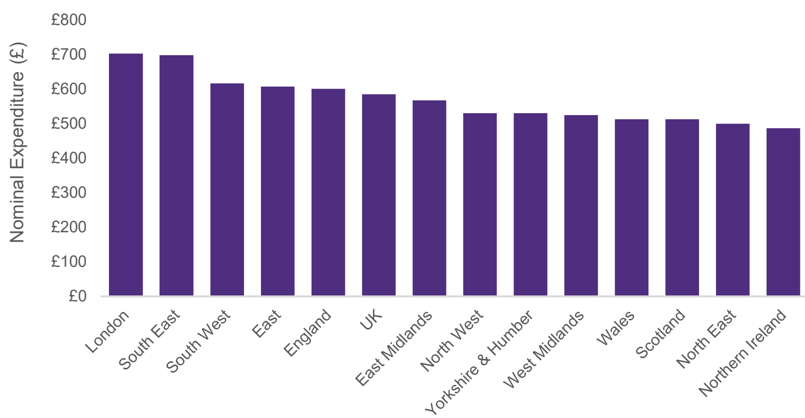
Trends in income & expenditure

Where do NI consumers spend their money?

Household expenditure trends across UK regions

The profile of household spending varies across the UK. Data from the Office for National Statistics (ONS) Family Spending Survey provides data on the typical expenditure for NI households versus their UK counterparts. Analysis of this source reveals that on average households in NI spend £486.40 a week on goods and services whereas an average UK household spends on average £585.20 per week. NI spending is the lowest spending region of the UK, However, this may reflect the lower 'cost-of-living' in NI compared to the rest of the UK.

Figure 4.14: Nominal Household Expenditure (£) per week, UK Regions, 2018-2020

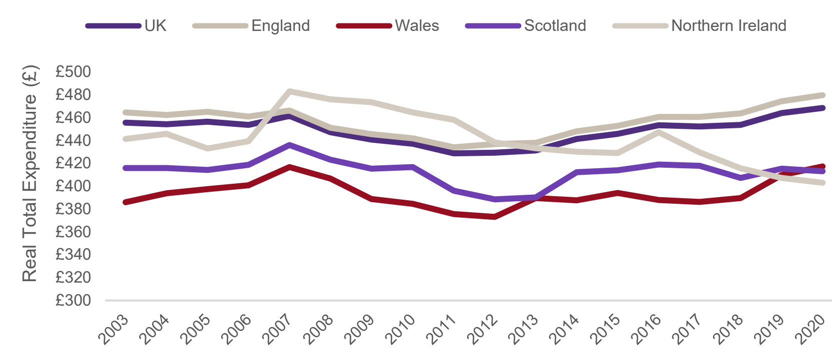


Source: ONS (Family Spending Survey)

Since 2001, the overall level of expenditure by NI households in nominal terms has increased by 50%, from £323.52 in 2001 to £486.40 per week in 2020. Since the Global Financial Crisis (GFC) and the subsequent recession, growth in NI has averaged 1.1% in nominal terms compared to 21.4% across the UK. Much of this slow growth can be attributed to slowing wage growth, EU Exit uncertainty and the tightening of belts through the pandemic.

In real terms, NI household expenditure is 9.8% lower in 2020 compared to 2016. In contrast, over the same period, the UK's 2020 level of real expenditure was 3.3% larger than in 2016. Much of this decline has been associated with a lower level of spending clothing & footwear, which saw a fall in expenditure of 21.3% in real terms. Recreation & culture (-19.5%), restaurants & hotels (-14.6%) and alcoholic drinks, etc (-13.3%) also experienced large real terms declines.

Figure 4.15: Real Household Expenditure (£) per week, UK Countries, 2001-2020



Source: ONS (Family Spending Survey)

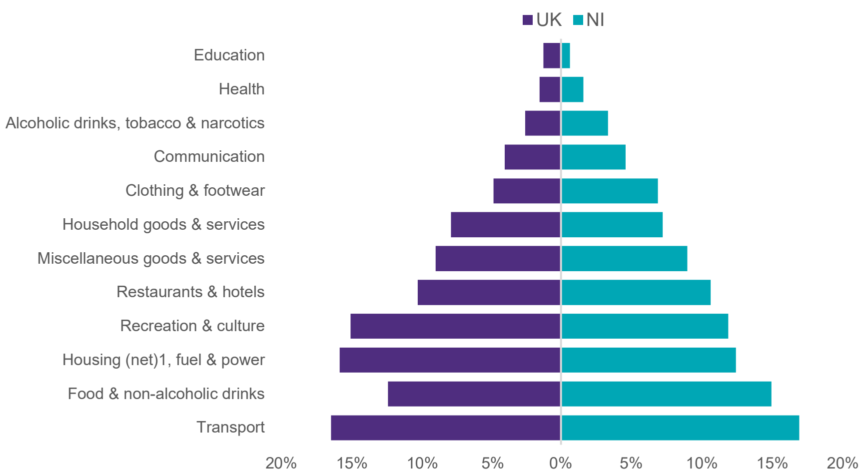
Trends in income & expenditure

Where do NI consumers spend their money?

It is equally important to not only consider the change in the level of expenditure of households, but to also consider the areas in which households spend. This analysis is important as it allows us to consider the areas where NI consumers could potentially be most exposed to price rises/impacts.

NI households spend more on Food & non-alcoholic drinks, Clothing & footwear, Transport, Alcoholic drinks, Tobacco & narcotics, Communication and Restaurants & hotels relative to an average UK household. In comparison, NI households generally spend less on Housing (net), fuel & power and Recreation & culture compared to UK households.

Figure 4.16: % point difference NI vs. UK Nominal Household Expenditure (£) per week by good/service, UK and NI, 2018-2020



Source: ONS (Family Spending Survey)

When comparing the level of expenditure across each of the UK Regions, NI spends significantly more on Food & non-alcoholic drinks, Alcoholic drinks, Tobacco & narcotics, Clothing & footwear & Communication, ranking 1st for all these categories. Whereas, for Housing (net), fuel & power, Household goods & services and Recreation & culture, NI households rank last or near bottom in terms of expenditure relative to other UK Regions.

Table 4.1: Regional Ranking relative to Expenditure Category (Highest/Lowest), UK Regions, 2020

	Lowest Weekly Expenditure (% of total)	Highest Weekly Expenditure (% of total)	NI Rank
Food & non-alcoholic drinks	South East	Northern Ireland	1
Alcoholic drinks, tobacco & narcotics	London	Northern Ireland	1
Clothing & footwear	South West	Northern Ireland	1
Housing (net), fuel & power	Northern Ireland	London	12
Household goods & services	London	North East	11
Health	North West	West Midlands	4
Transport	London	Wales	3
Communication	London	Northern Ireland	1
Recreation & culture	London	South East	11
Education	North East	London	9
Restaurants & hotels	West Midlands	London	2
Miscellaneous goods & services	North East	North West	3
Other expenditure items	Northern Ireland	London	12

Source: ONS (Family Spending Survey)

Trends in income & expenditure

Where do NI consumers spend their money?

Diving more deeply into expenditure, NI households spend more on Petrol, Diesel & Other motor oils compared to the rest of the UK. This is a potential reflection of NI's higher level of car dependency relative to the UK, with car ownership in NI being 82% in 2019 compared to 68% across the UK. Equally, NI households show a tendency to spend more on Cigarettes compared to UK households, with this being due to NI having a higher proportion of its adult population smoke (15.6%) compared to that of the UK (14.1%). NI households typically spend more per week on Electricity payments than their UK counterparts. In total, 2.6% of weekly expenditure is made on Electricity payments compared to 2.1% across the UK, a concerning exposure given recent trends in energy/electricity prices. The below table shows the breakdown of detailed category expenditure for NI households relative to UK households.

Table 4.2: Detailed Category Expenditure UK vs. NI (% of Total) Top 10, UK & NI, 2018-2020

UK (Top 10)		NI (Top 10)	
Gross rent	8.7%	Gross rent	7.0%
Net rent	6.5%	Petrol, diesel and other motor oils	6.2%
Package holidays - abroad	4.5%	Net rent	4.3%
Petrol, diesel and other motor oils	3.8%	Restaurant and café meals	3.7%
Restaurant and café meals	3.3%	Package holidays - abroad	3.5%
Furniture and furnishings	3.1%	Purchase of second hand cars or vans	3.1%
Purchase of second-hand cars or vans	3.0%	Furniture and furnishings	3.0%
Other travel and transport	2.4%	Electricity	2.6%
Electricity	2.1%	Other fuels	2.4%
Vehicle insurance including boat insurance	1.9%	Other travel and transport	2.4%

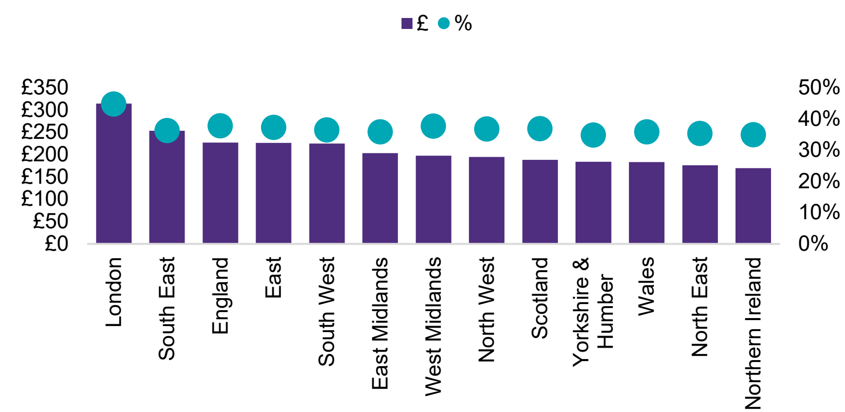
Source: ONS (Family Spending Survey)

Essential spending

NI households generally spend less on essential items compared to other UK regions. Essential spending is defined as expenditure on:

- Food & non-alcoholic drinks;
- Housing (net);
- Fuel & power;
- Other expenditure Items, which includes mortgage interest payments, council tax, etc; and
- Income tax and National Insurance Contributions (NIC) made.

Figure 4.17: Essential Expenditure (£ & % of Total), UK Regions, 2018-2020



Source: ONS (Family Spending Survey)
Note: Total Expenditure includes the Income Tax & National Insurance Contribution (NIC) payments

Trends in income & expenditure

Where do NI consumers spend their money?

Housing spend

Housing (net), fuel & power costs for NI households represent a smaller proportion of overall weekly expenditure compared to the UK. Only 11.1% of household expenditure in NI is on Housing (net), fuel & power compared to 13.6% across the UK according to the most recent Family Spending Survey (2018-20).

However, these figures don't include mortgage interest payments, council tax, etc. Including these costs takes overall level of housing expenditure for NI households to 16.5% - the lowest proportion of all UK Regions and well below the UK average (21.8%). Housing expenditure amounts to £80.10 per week in NI compared to £127.60 per week in the UK.

Historically the level of housing expenditure in NI households has averaged £28.80 per week less than the UK in nominal terms (or by £31.10 per week in real terms). Despite NI having a generally lower level of housing expenditure than other UK Regions, the prominence of housing expenditure has increased steadily over the past 20 years, increasing from 14.6% in 2001 to 16.5% in 2020. When compared to other UK Regions this is a very modest increase. For example, London has seen an increase of 6.3%, with housing expenditure now accounting for 27.8% of total weekly expenditure.

Table 4.3: Total Housing Expenditure per week (£ & % of Total), UK Regions, 2018-2020

	£	% of Total
London	£195.60	27.8%
South East	£145.40	20.8%
East	£136.40	22.4%
England	£132.80	22.1%
South West	£131.20	21.3%
UK	£127.60	21.8%
West Midlands	£115.50	22.0%
East Midlands	£113.60	20.0%
North West	£111.30	21.0%
Scotland	£106.20	20.7%
Yorks & Humber	£104.40	19.7%
Wales	£104.40	20.4%
North East	£95.90	19.2%
Northern Ireland	£80.10	16.5%

Source: ONS (Family Spending Survey)

Trends in income & expenditure

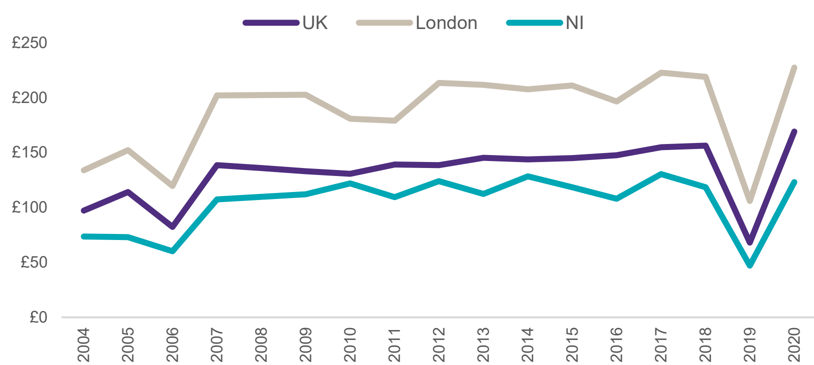
Where do NI consumers spend their money?

Mortgage/rental payments

The preceding analysis includes **ALL** associated housing costs including insurance, maintenance, etc. However, some of these expenditures, such as maintenance, DIY etc. are on an ***as and when basis*** and may not therefore be incurred, it is perhaps more insightful to strip these expenditures out and to give more consideration to the main area of housing expenditure; mortgage and rental payments.

An average mortgage holder in NI spends around £123.20 per week on their mortgage payments compared to £169.20 for UK households (or £154.60 per week excl. London). This finding points to the lower property prices in NI relative to the rest of the UK. To highlight this point, the average house price in NI was 58.3% the value of the average house price across the UK in May 2022.

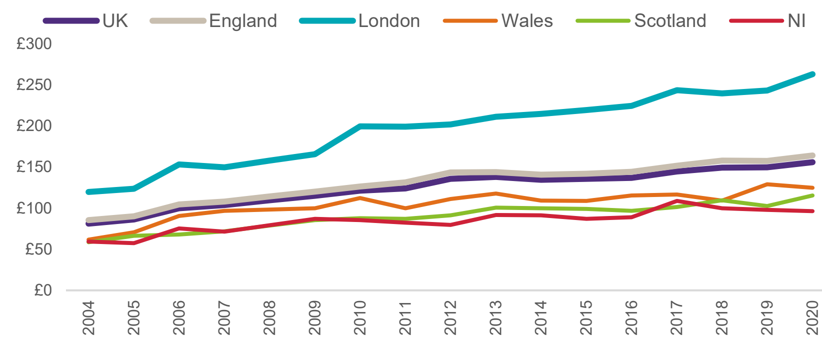
Figure 4.18: Mortgage Payments by Mortgage Holders (Nominal £), UK; London & NI, 2009-2020



Source: ONS (Family Spending Survey)

Similarly, the average renter in NI pays around 61.9% of the equivalent renter across the UK. In total, rental payments per week cost the average NI rental household £96.50 compared to £156 per week across the UK (or £136 per week exl. London & NI).

Figure 4.19: Rent by Renters (Nominal £), UK; London; England; Scotland; Wales & NI, 2004-2020



Source: ONS (Family Spending Survey)

Trends in income & expenditure

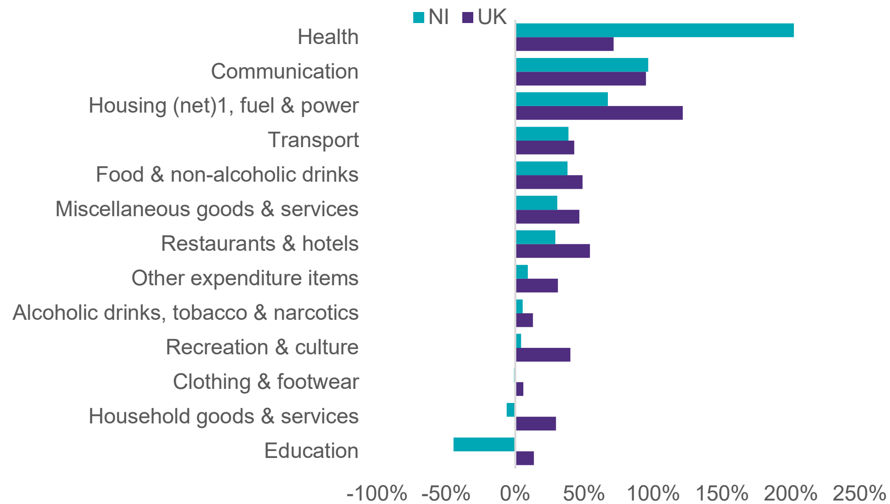
Where do NI consumers spend their money?

How has the level of expenditure changed over time?

Figure 4.20 shows the level of change in expenditure across each of the expenditure groups since 2002. The largest increases in expenditure were seen in Housing (net), fuel & power and Food costs, with these costs growing by 67.2% and 38.0%. The growth levels in these areas compare favorably to the UK average, with these components growing by 121.5% and 48.9% across the UK. The only expenditure components that grew faster in NI than the UK were; Health and Communications.

Significantly higher levels of change in expenditure for a household in the UK compared to NI were seen in Recreation & culture, with the UK's level of expenditure increasing by almost 40% (39.8%) compared to only 4.1% for NI households. A similar trend was visible through Restaurants & hotels, with UK expenditure increasing by 54.2% compared to 29.1% for NI households. These findings suggest either prices has risen significantly faster in the UK compared to NI or the preference for these activities is substantially lower in NI. Our analysis suggests that demand for these goods is lower in NI compared to the UK. For example, in 2020, 12.9% of UK total weekly expenditure was spent on Recreation & culture compared to only 10.6% in NI households.

Figure 4.20: % Change on Expenditure by Component (Nominal £), UK & NI, 2001-2020



Source: ONS (Family Spending Survey)

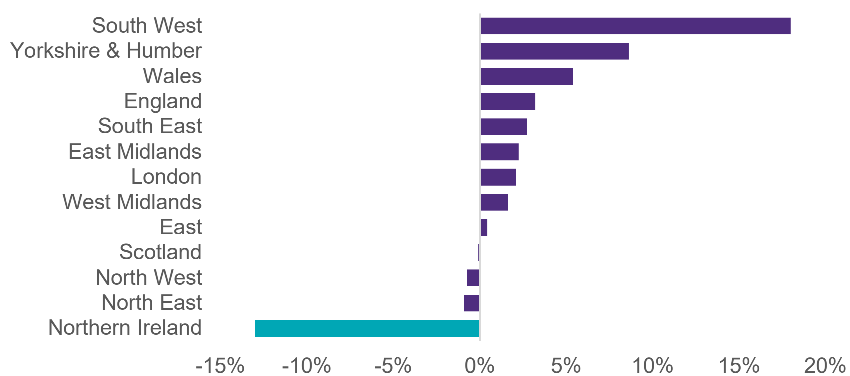
Trends in income & expenditure

Where do NI consumers spend their money?

While the previous analysis is useful in highlighting how expenditure has changed by region, as well as helping to identify areas of price pressures/sensitivities. The analysis is presented in nominal terms meaning some of the change or increases could have been caused by changes in inflation. Therefore, to understand the true price pressures as a result of changes in input prices, consumer income, etc, we have analysed the change in expenditure of goods/services in real terms i.e. 2015 prices. Each expenditure group has been deflated by its own inflation rate, i.e. Food expenditure has been deflated by the Food CPI Base Index (2015=100).

Our analysis has found that over the past 19 years, the real level of expenditure across NI fell by 12.4%. This compares to the real level of expenditure across the UK growing by 2.1%, this real fall of 12.4% is the largest fall in expenditure seen by any UK's Region.

Figure 4.21: Real % Change (£) in Total Expenditure, UK Regions, 2002-2020



Source: ONS (Family Spending Survey)

Much of the real fall in expenditure has been driven by housing costs, which have fallen by 9.6% in real terms since 2002. This is heavily influenced by the depth of the Global Financial Crisis (GFC), and its impact on the local housing market. Between 2002 and 2007 real expenditure on housing costs, etc. increased by 4.9%. However, since then, the level of expenditure has fallen by 13.9%. This correlates with the average house price in NI being 29.2% below peak 2008 levels.

Housing cost declines have been further supported by a fall in maintenance/repair costs, with these falling by 58.6% in real terms between 2002 and 2020. In addition, between 2002 and 2020, NI households saw their real level of expenditure on electricity, gas and other fuels decrease by 43.0% compared to 26.5% across the UK, with this linked to increased supply/competition.

While this has been a driving force in reducing real time expenditure, recent trends in energy prices will undoubtedly reverse this. Similarly, the expenditure made by households on personal vehicles (which includes fuel), will inevitably see increases given how prices have increased. According to the Consumer Council between July 2021 and July 2022, the average price of a litre of petrol and diesel increased by 42.6% and 45.0% respectively in NI.

These rapid increases will likely see the reversal of the trend experienced up to 2020, which saw the level of expenditure on the 'operation of a personal vehicle' fall by 8.7% in real terms. These price rises will also have a more profound impact on NI drivers given that NI households have a higher car ownership rate (82%) than the UK (68%), which probably explains why NI has seen a smaller fall in real expenditure compared to UK households (18.6%). Potentially due to UK households having easier access to a variety of public transport compared to NI households, meaning they can substitute for a car better than NI households can. This is highlighted by UK households spending 1.0% of their weekly expenditure on bus and rail fares compared to only 0.5% for NI households.

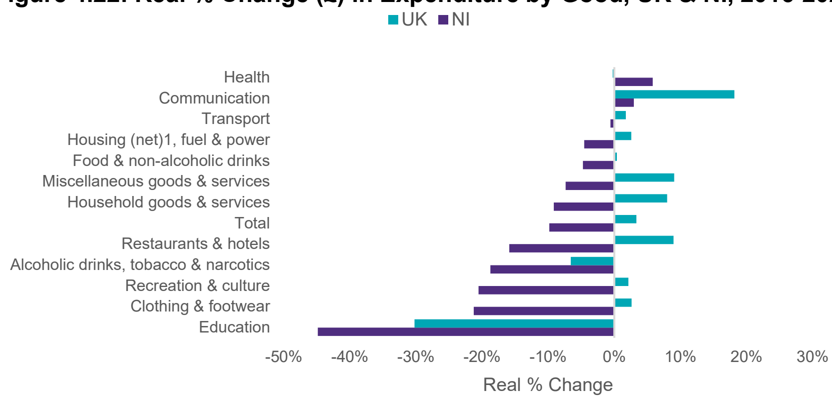
Trends in income & expenditure

Where do NI consumers spend their money?

How has the expenditure on goods/services changed since 2016?

As this report is an update of previous research undertaken by the Ulster University Economic Policy Centre (UUEPC) in 2017, it is important to consider changes since then. Our analysis has found that since 2016, the level of real expenditure per week has fallen by 9.8% in NI, whereas the overall level of real expenditure across the UK has increased by 3.3%. The largest declines in spending in NI have come in Education (-45%), Clothing & footwear (-21.3%) and Recreation (-21%).

Figure 4.22: Real % Change (£) in Expenditure by Good, UK & NI, 2016-2020

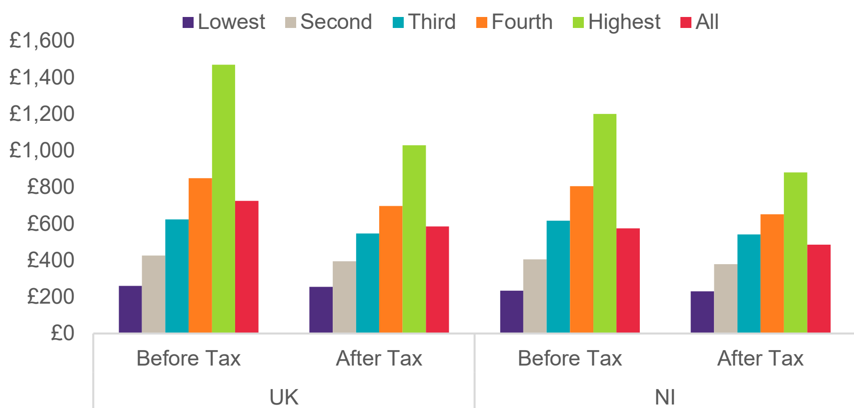


Source: ONS (Family Spending Survey)

Does the trend vary by income band?

There is a stark variation in expenditure across income quintiles. For example, those in the highest 20% spend on average £880.40 per week, which is almost four times what those in the lowest 20% spend per week (£231.20). However, when the level of taxes have been accounted for, the average weekly expenditure by those in the highest 20% is over five times that of those in the lowest 20%.

Figure 4.23: Total Expenditure (Before & After Tax) by Income Quintile, NI, 2018-2020



Source: ONS (Family Spending Survey)

Trends in income & expenditure

Where do NI consumers spend their money?

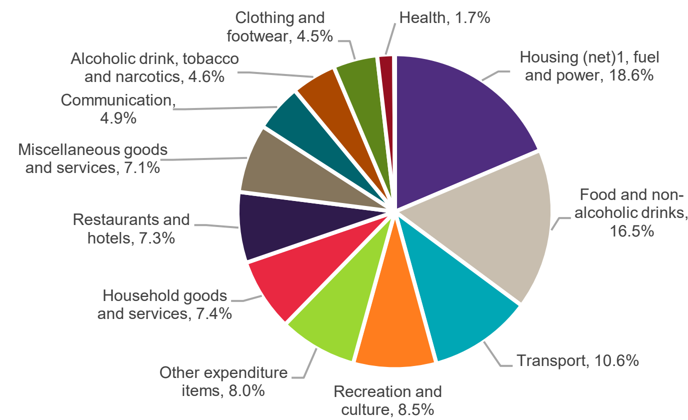
The areas in which households spend their income is of equal importance as this provides an indication into where they are likely to be impacted by price rises. Figure 4.24 shows the composition of weekly expenditure across the lowest 20%, highest 20% and an average household.

In terms of the proportion of spending devoted to essential spending, those in the lowest 20% expend 35.1% of expenditure on housing and food costs. In comparison, those in the highest 20% spend 18.7% of their weekly expenditure on housing and food costs. This finding highlights that recent housing/energy costs and food price rises are going to hit those in the lowest 20% harder than most. Which will mean they will be faced with difficult expenditure decisions in order to cover essential spending i.e. the debate currently facing many is to 'heat or eat'. The rising costs in areas such as energy, over the past year energy costs have grown by 24.7%, while transportation costs have grown by 13.5%.

In comparison to the lowest 20%, those in the highest 20% spend a higher proportion of their weekly expenditure on transport (17.7%). Whereas, transport only accounts for 10.6% of weekly expenditure for those in the lowest 20%. This difference more than likely reflects the higher propensity for car ownership in the higher income quintiles and its associated costs compared to those in the lower income quintiles.

Figure 4.24: Total Expenditure by Component by Income Quintile (Lowest, All and Highest), NI, 2018-2020

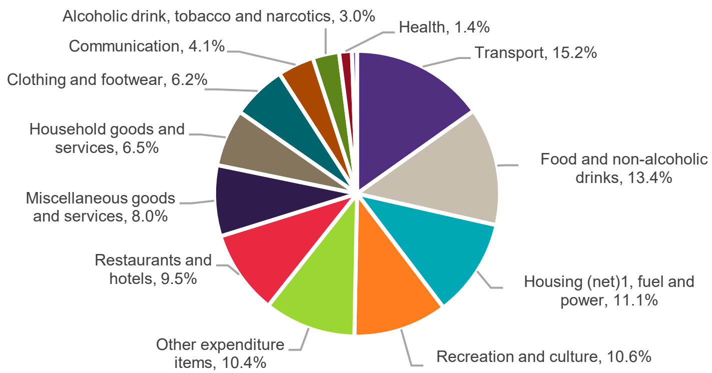
Lowest (20%)



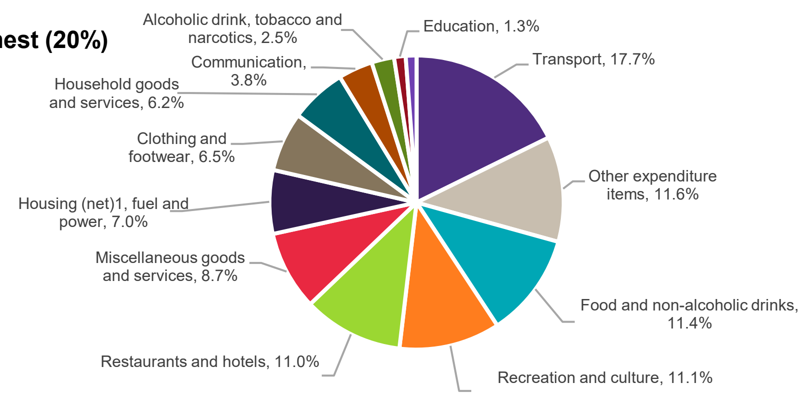
Trends in income & expenditure

Where do NI consumers spend their money?

All



Highest (20%)



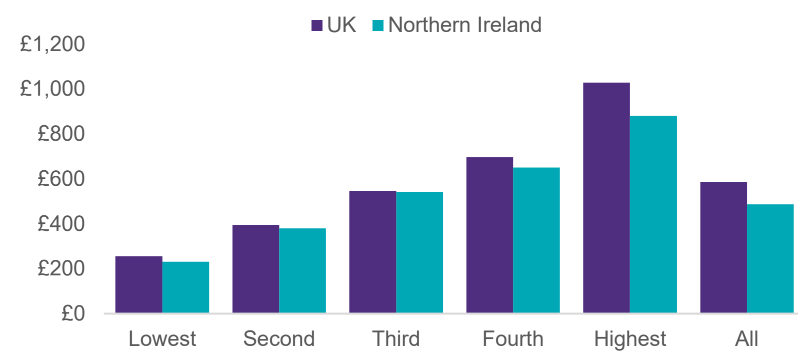
Source: ONS (Family Spending Survey)

How does this compare to the UK?

Comparing the level of expenditure by NI households to their UK counterparts, it is noticeable UK households spend more per week across all quintiles. An average household in NI spends £98.80 per week less than the equivalent UK household. This difference varies across income band, with those in the lowest 20% spending on average £25.20 less per week, while those in the highest 20% spend on average £149.40 per week less than equivalent UK households.

This is a likely reflection of the relatively lower wages of NI compared to the UK. For example, a full-time worker in the UK in 2021 earned £610.70 per week, while the equivalent worker in NI earned £575 per week, some £35.70 per week less. This isn't only limited to a specific income band as, across all income deciles, NI full-time workers earn on average 92.5% of the equivalent UK full-time worker.

Figure 4.25: Total Expenditure by Income Quintile, UK & NI, 2018-2020



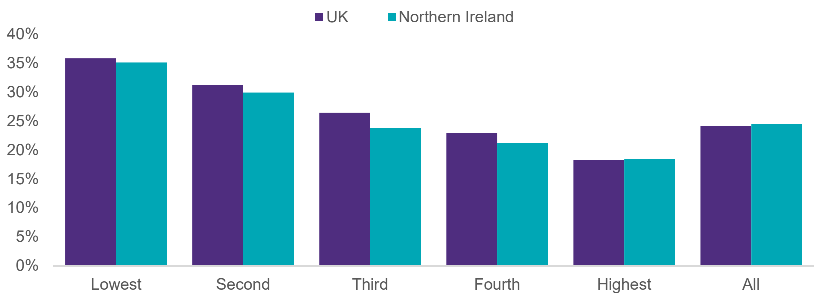
Source: ONS (Family Spending Survey)

Trends in income & expenditure

Where do NI consumers spend their money?

In terms of spend by component across the UK compared to NI, there are broad similarities across income quintiles. NI households do appear to spend marginally less on essential spending than UK households. For example, UK households in the lower 20% spend 36% of their weekly expenditure on food and housing costs compared to 35% for NI households in the lowest 20%.

Figure 4.26: Total Expenditure on Essential Spending (% of Total) Income Quintile, UK & NI, 2018-2020

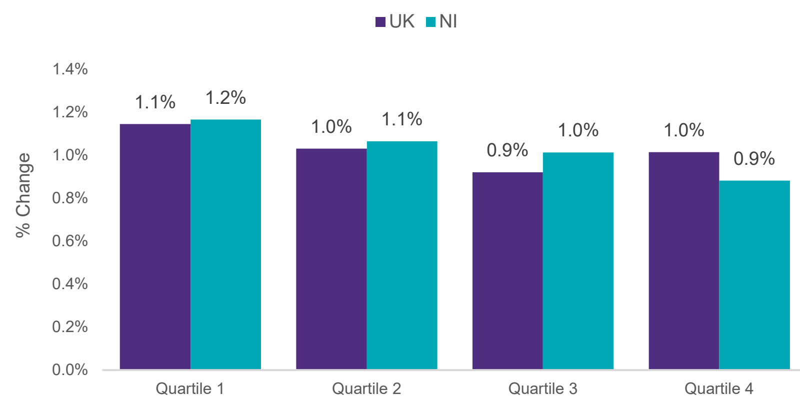


Source: ONS (Family Spending Survey)

Research by Centre for Economics and Business Research (CEBR) relating to the relative spending profile for households in Q4 2021 found that between Q4 2020 and Q4 2021 across the UK basic spending increased by 13.7%, with this being as a result of a combination of fewer restrictions and inflationary pressures. In comparison, total spending in NI increased by 13.2%.

In terms of basic spending, NI households saw an average increase of 1.0% between Q3 2021 and Q4 2021, with this being driven mainly by inflation. The scale of this rise varied across the income quartiles, with those in the lowest 25% seeing their basic spending increase by 1.2%, while those in the highest 25% saw theirs increase by only 0.9%. CEBR note those in the lowest 25% saw their basic spending rise as a result of energy costs due to “housing and household bills” accounting for a large proportion of their weekly expenditure. In comparison, those in the highest 25% saw much of their inflation impact coming via transport costs, given their higher propensity to own/run a vehicle compared to those in the lower income quartiles. The CEBR report echoes the view that NI households on average spend less on the “basics” than their UK counterparts.

Figure 4.27: % Change on Basic Expenditure Income Quartile, UK & NI, Q3 2021-Q4 2021



Source: CEBR (Impact of COVID-19 on household finances in Northern Ireland – Q4 2021)

5. What future pressures will impact consumers?

What future pressures will impact consumers?

Consumer sentiment reflects an uncertain economy

The consumer outlook

Consumer trends will be crucial to how the economy progresses. The consumer is in a very precarious position due to rising prices, weaker wage growth and lingering COVID-19 risks. All of which are impacting on consumers' propensity and willingness to spend. Mixed into this has been the uncertainty brought on by Russia's invasion of Ukraine and how this is likely to impact prices and economic growth through disrupted supply chains and energy supplies.

Consumer confidence across the UK has been declining since November 2021. The joint YouGov/CEBR consumer confidence index reflects how consumers feel in the current environment and how this is impacting their overall confidence. The most recent survey found that UK consumer confidence fell for the 5th consecutive month, with the cost of living being seen as the main contributor. They found the recent 'cost-of-living' crisis "dealt a significant blow to consumer confidence". In fact, the 'cost-of-living' crisis has had a record-breaking impact on consumer confidence, with the index falling by 2.7 points, the largest month-on-month fall ever recorded in March and a further fall of 1 point occurring in April. Respondents were asked how 'their financial situation changed', Britons categorically stated their finances had worsened, with respondents suggesting their current position and future expectations for their household finances have significantly worsened. The recent energy price cap rise on April 1st was noted as the main squeeze on finances. Analysts noted that the continued 'cost-of-living' crisis and the Russian invasion of Ukraine have significantly impacted consumer expectations around current and future household finances. These expectations hit an all-time low and are the worst on record. This is despite the most recent fall being smaller than the rapid dips experienced in February and March – a 10.3 and 19.3 point fall respectively in expectations.

Similar sentiment was highlighted by the Danske Bank Consumer Confidence Index (Q1 2022), which showed that overall consumer confidence declined to 117 compared to 134 in Q4 2021, with inflation weighting heavily on sentiment. When consumers were asked if their finances had improved over the last 12 months, 42% actually believed their financial position deteriorated compared to 21% who felt they had improved. Looking forward, 43% of consumers felt their finances would deteriorate, compared to 18% who felt they would improve.

When asked about what they see as the largest contributor to falling confidence levels, rising prices was noted as being the largest contributor (36%) to falling consumer confidence.

Figure 5.1: Danske Bank Consumer Confidence Index

Source: Danske Bank (Consumer Confidence Index Q1 2022)

What future pressures will impact consumers?

Inflation moves from transitory to 'higher for longer'

Cost of living on the rise

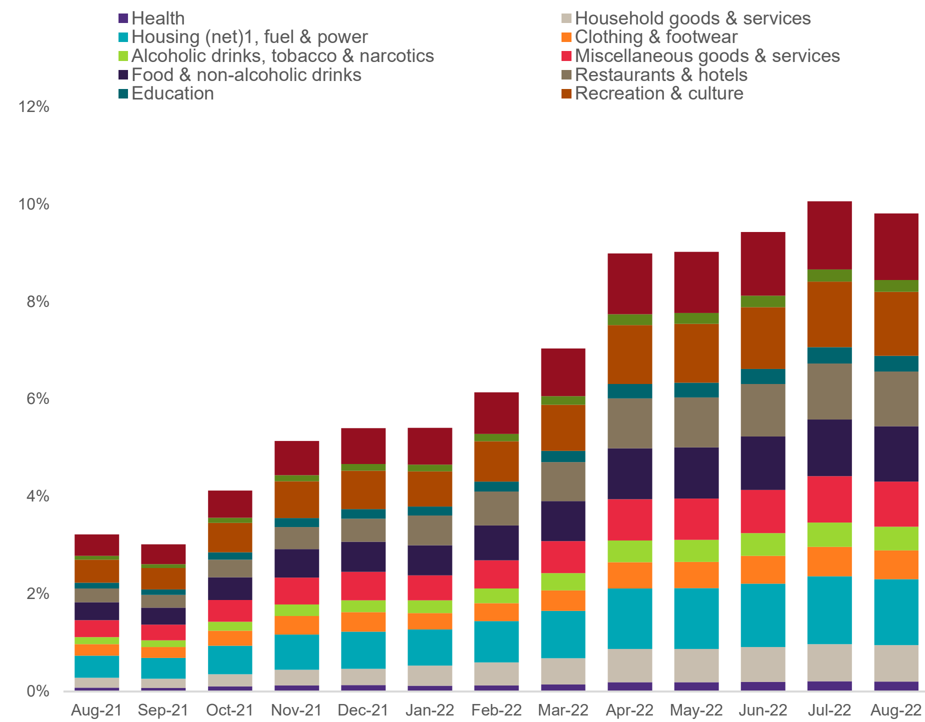
The sharp rise in inflation provides the backdrop to this analysis. As the economy emerged from the pandemic, supply chain pressures and a splurge in demand caused what many assumed would be an inflationary 'blip'. Over the course of 2022, and particularly since the Russian invasion of Ukraine, the sentiment on inflation has shifted to one which now sees it remaining significantly in excess of the UK target of 2% well into 2023.

Combined, these impacts have seen the level of inflation (Consumer Price Index), hit 9.9% in August 2022, one of the fastest rates experienced in the past 40 years. Much of the 9.9% rise in inflation has been driven by Food (13.5%), Transport (12.0%) and Housing/utility costs (20.0%). In particular, the cost of Electricity (54.0%), Gas (95.6%) and Liquid fuels (86.3%) have been the main drivers of the rapid price rises over the past 12 months.

Without income increases, the rise in the inflation level will exert significant pressure on living standards. Indeed, the largest decline in living standards since the 1950s is expected, particularly among lowest income groups. This was noted by National Institute of Economic and Social Research (NIESR) who estimate that across the UK, the impact of inflation of energy and food will lead to a 31% rise in destitution, bringing total destitution to 1 million homes across the UK. Updated analysis from NIESR estimate that as households face higher energy and food costs, 43,000 households will see costs exceed their disposable incomes. This equates to 6% of all NI households. Further analysis by the Joseph Roundtree Foundation estimated that as a result of rising housing bills, 3.8m households in the bottom 40% of income are in arrears, with these arrears totaling £5.2bn.

At a regional level, NIESR note that all regions are to experience 'upwards of a 10% increase in destitution', with the largest increase expected to be in NI where a rise of 67% is projected. Their analysis projects that as a result of food and energy price rises around 25,000 households will be destitute in NI.

Figure 5.2: Inflation Rate (CPI) & Components of Change, UK, Aug 21- Aug 2022



Source: ONS, Consumer Price Inflation (CPI)

NIESR use the income component of the Joseph Rowntree Foundation's definition and consider a single person household as being destitute when their income falls below £70 per week, with any additional adult requiring another £30 per week and an additional child needing £20 per week.

What future pressures will impact consumers?

The 'cost-of-living' crisis

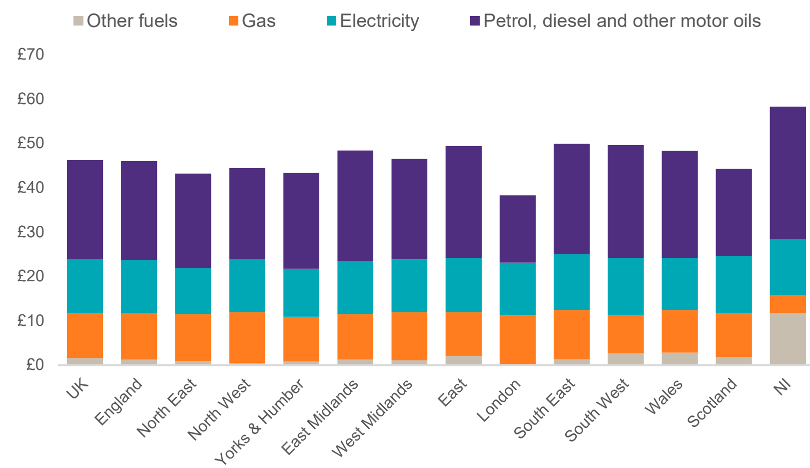
NI households' exposure to rising energy prices

NI households generally spend more on 'discretionary' spending compared to the equivalent UK household. However, the current inflation pressures, and their concentration in essential items will change this. Take energy costs for example. Currently, the world is experiencing one of the fastest periods of rising energy costs. According to the Consumer Council (CCNI) databases, the price of 300 litres of home heating oil increased by 100.4% between July 2021 and July 2022. Equally, in terms of fuel prices, CCNI note the price of an average litre of petrol and diesel increased by 42.6% and 45.0% respectively between July 2021 and July 2022. Gas prices are also rising rapidly. SSE announced a 33% rise in gas prices effective on the 1st June 2022. This follows a 39% price rise which took effect on the 1st April 2022. The CCNI estimate the customers on a standard tariff credit meter will see their costs rise by £248 to just over £1,000 per year.

An average NI household spends £58.30 per week on electricity, gas, fuels, etc. This compares to around £46.20 per week for an average UK household. As a proportion of overall weekly expenditure, NI households spend 12% of their weekly expenditure on fuels/energy compared to only 7.9% of UK households. The average NI household spends, on average, £12.34 per week more on fuels and energy that any other UK region.

To highlight the challenge the Institute for Fiscal Studies (IFS) estimates that the sharp rise in prices will consequently see the lowest-income decile households face around 1.5 percentage points more inflation than the highest-income decile. The Resolution Foundation (RF) predict that the proportion of their total expenditure spent on energy bills will rise from 8.5% to 12%, three times the amount that households in the top 10% will experience.

Figure 5.3: Weekly Expenditure on Fuels, Electricity, Gas & Petrol, Diesel & Motor Oils, UK Regions, 2018-2020



Source: ONS (Family Spending Survey)

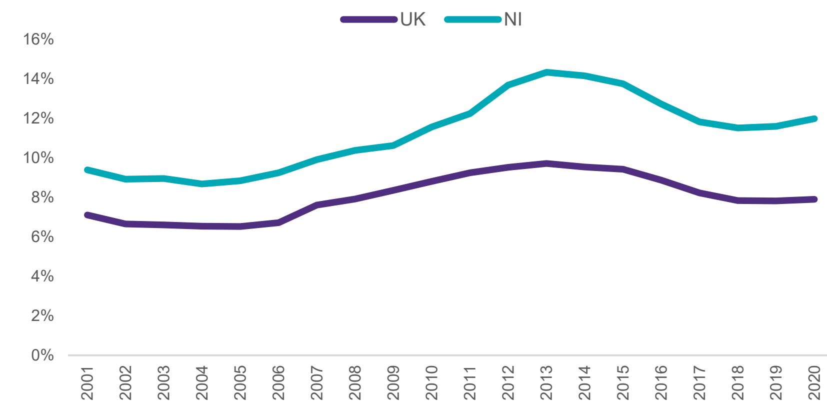
What future pressures will impact consumers?

The 'cost-of-living' crisis

From the Family Spending Survey, it is noted that NI has a higher dependence on home heating oil compared to gas, with gas only accounting for 0.4% of weekly expenditure compared to 2.4% for home heating oil (other fuels). This is a likely reflection of gas only 'just' becoming more widespread. This contrasts with the UK where gas has been longer established and 1.7% of weekly expenditure is made on gas compared to 0.3% for home heating oil. When comparing the level of electricity expenditure, NI households spend (2.6%) more compared to UK households (2.1%). In addition, NI households spend a significantly higher proportion of their weekly expenditure on petrol, diesel & other motor oils (6.2%) compared to the UK average (3.8%), a reflection of the higher level of car dependence/ownership rates for those in NI compared to the UK. In fact, NI spends the lowest levels on bus and rail transport of all UK regions (0.5%), with this pointing towards a higher preference for private car ownership compared to public transport usage. As well as the potential reflection of the relatively wider choice and easier access to public transport for many in the UK compared to NI.

Interestingly, when looking over the longer term on fuel/energy expenditure we note that historically NI has spent on average more than other UK regions. For example, in 2001 NI households spent 9.4% of their weekly expenditure on energy and fuel compared to 7.1% for UK households. Figure 5.5 on the right shows the trend in fuel/energy expenditure since 2001. Despite the recent rises in fuel prices, current levels of expenditure are still below the peak of 2013, when fuel/energy expenditure accounted for 14.3% of expenditure. However, what is noticeable from the trend is that in recent years the level of expenditure on fuel/energy while having fallen back is slowly creeping back up. It should be noted that these figures don't account for the recent surges in energy prices, etc. as such it can be considered the trend will in all likelihood continue to rise as increasing cost inputs in the base production costs are passed onto consumers.

Figure 5.4: % of Weekly Expenditure on Fuel/Energy, UK & NI, 2001-2020



What future pressures will impact consumers?

The 'cost-of-living' crisis

Given that NI households spend a larger proportion on fuel/energy they are likely to be more sensitive to price changes in fuel/energy prices compared to their UK equivalent.

Analysis by the Department for Communities (DfC) highlighted how the recent price changes are likely to impact households. Their analysis found that as a result of energy price rises the level of households in fuel poverty will increase. For example, 22% of NI households are currently in fuel poverty i.e. >10% of income is spend on heating & electricity. If energy prices increases of up to 50% occur, DfC estimate that around 52% of households will move into fuel poverty. As such, this 'ready reckoner' notes that a sizable proportion of NI households are at risk of moving into fuel poverty.

Does the exposure vary by income band?

We have noted that an 'average' household in NI is quite exposed to the price rises in energy/fuel compared to their UK counterparts given the proportion of expenditure energy/fuel accounts for. However, we need to consider if specific households are more exposed compared to others. Analysis by the Department for the Economy (DfE) found those in the lowest income quartile are most likely to be exposed to fuel/energy price rises. They found those in the lowest income quartile households spend £37.80 each week on fuel/energy, with this representing 14% of their total expenditure. This compares to fuel/energy accounting for only 9% of the highest income quartile households weekly expenditure. Those in the second and third quartile spend around 13% and 11% of their weekly expenditure on fuel/energy.

In terms of the breakdown of energy expenditure, DfE note that those in the lowest income quartile spend around 68% of their weekly fuel/energy expenditure on heat and power compared to only 44% for those in the highest income quartile. The analysis showed that those in the lowest income quartile spend a lower proportion of their weekly fuel/energy expenditure on motor fuels (petrol/diesel) or motor oils. In total, fuel expenditure for lower income quartile households account for 32% of their weekly expenditure compared to 56% for those in the highest income quartile.

This finding highlights that lower income households will be more exposed to the recent energy price rises compared to others as a result of their relative inability to accommodate price rises compared to higher income households who can cut back on 'non-discretionary' expenditure. To illustrate this point, DfE conducted some scenario analysis to illustrate the impact of raising fuel/energy prices by 25/50%. Their analysis found that fuel/energy expenditure in the lowest quartile would see the largest increase. They estimate that if fuel/energy expenditure rose by 25/50% the share of total expenditure for those in the lowest income quartile would increase to 17/21% from 14%.

The concern for the exposure of those at the lower-end of the income scale has prompted DfC to introduce the 'Energy Payment Support'. This support is aimed at helping those people struggling to meet rising energy and fuel prices. It is expected to support around 280,000 eligible people (i.e. those in receipt of Pension Credits, UC, Income-related Employment & Support Allowance, Income-based Jobs Seekers Allowance or Income Support) through a 'one-off' payment of £200 directly into people's bank accounts. As well as this, the UK Government introduced the 'Cost of Living Payment' where those on low income (£650)/disability (£150)/supports and pensions (£300) will receive a lump sum to help cover energy costs. Furthermore, the Northern Ireland Executive have the option to use a pot of £330m to help fight the 'cost-of-living' crisis. Additionally, as part of the Energy Bill Support Scheme household across NI and the UK will receive £400 across six installments to help cover the expected rising energy costs/usage during the autumn/winter. It's expected that households will see a £66 discount to energy bills in October and November, with further deductions of £67 per month expected between December 2022 and March 2023. Roll-out in NI is still to be considered, with the Treasury and NI Executive currently in discussions given NI's separately regulated and shared energy market. However, it's expected that deductions will depend on 'how you pay your bill'. For example, for those on a 'smart meter' an automatic top-up will be applied, while those on 'non-smart' devices will receive a 'energy discount voucher'.

What future pressures will impact consumers?

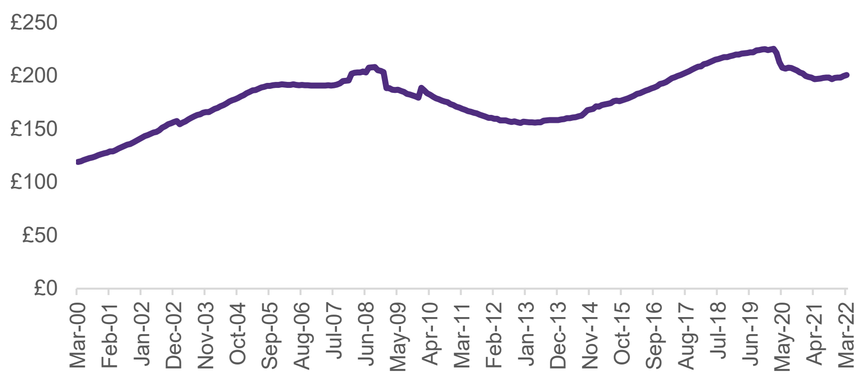
The potential for debt to be used to address cost increases

The link between consumption and debt

As noted earlier, consumer spending is strongly linked to the level of GDP. In fact, consumer spending explains 89% of growth in UK Real GDP between Q1 2000 and Q4 2021. Increased household expenditure has coincided with a significant boom in the level of unsecured debt. According to the Bank of England, the level of consumer credit, which includes personal loans, credit card debt and overdrafts, rose by 107.5% between the 31st January 2000 and 28th February 2022. In February 2022, total outstanding consumer credit across the UK stood at £199.5bn.

As can be seen from Figure 5.5, UK consumers had been reducing debt during the pandemic, reversing a long period of debt growth. However, debt levels are increasing again, which could present a concern as interest rates increase. UK consumers may be turning to debt to cover increasing costs. In fact, consumer credit on credit cards across the UK grew by 9.4% annually between February 2021 and February 2022, the largest annual change on record.

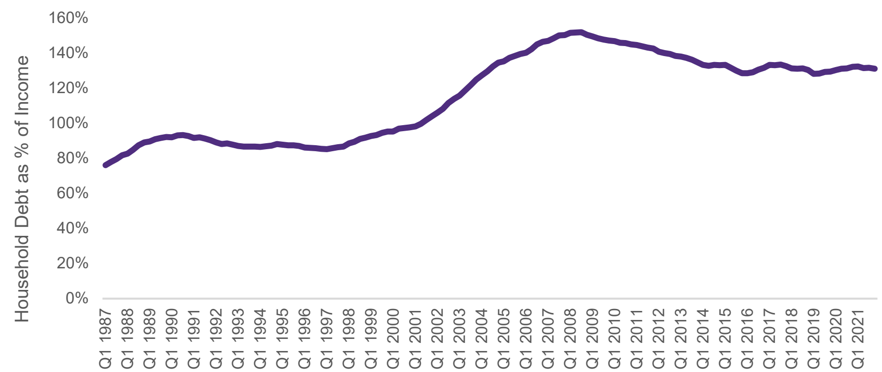
Figure 5.5: Unsecured Consumer Credit (Outstanding lending to individuals, £bn), UK, March 2000- March 2022



Source: Bank of England (Money and Lending)

According to the ONS, household debt as a % of income currently stands at 131.0%. While this is lower than the peak of 152% seen during the height of the Global Financial Crisis (GFC), it has been slowly ticking up, from 129.4% in Q4 2019 to 131.0% in Q4 2021, suggesting rising prices and the pandemic/furlough scheme have seen many turn to debt in order to cover their spending.

Figure 5.6: Household Income-to-Debt Ratio (%), UK, Q1 1987-Q4 2021



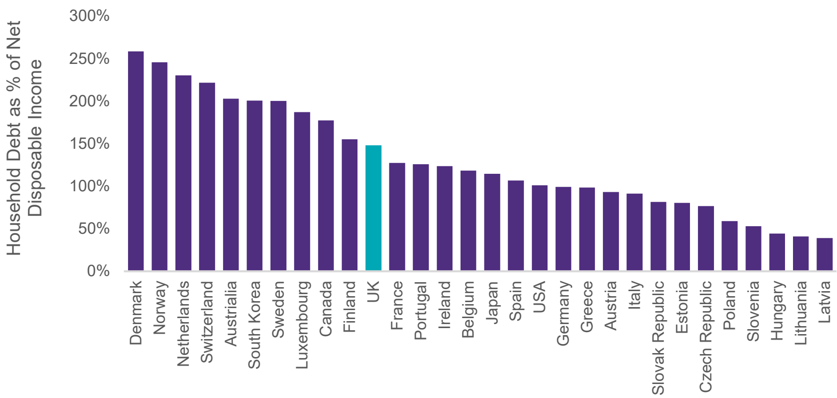
Source: ONS (UK Economic Accounts)

What future pressures will impact consumers?

Debt preference

When compared to other OECD countries, the level of debt in the UK is much lower than some of its counterparts. In 2020, households in the UK carried debt equivalent to 147.7% of net disposable income compared to 258.6% in Danish households. However, when compared to countries such as Ireland, USA or France, UK households have a higher level of debt.

Figure 5.7: Household Debt as a % of Net Disposable Income, OECD Countries, 2020

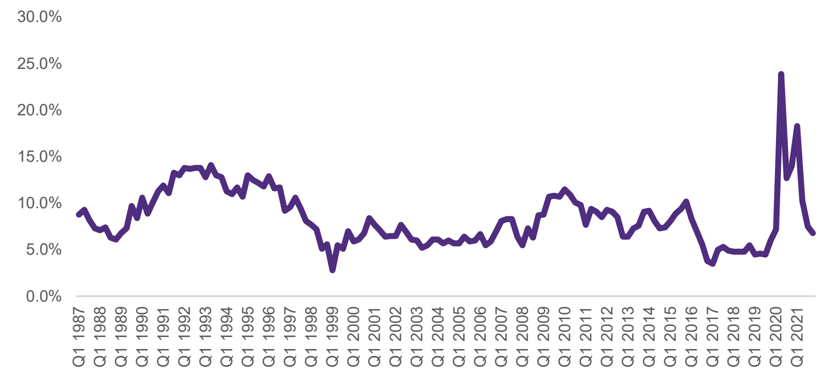


Source: Organisation for Economic Co-operation and Development (OECD), Household Debt

COVID-19 and debt preference

Interestingly, as a result of an inability to spend during the pandemic, the level of debt within the economy has reduced. The higher propensity to save during the pandemic saw the saving ratio across the UK reach unprecedented levels of 23.9% in Q2 2020.

Figure 5.8: Household Savings Ratio (%), UK, Q1 1987-Q4 2021



Source: ONS (UK Economic Accounts)

However, increasing savings was not possible for all. Research by the Bank of England found that, in general, households at the lower end of the income scale were less able to save compared to those middle/higher income households as a higher proportion of those incomes are needed for ‘essentials’. Which, meant any reduction in discretionary spend was relatively low and so their saving potential was low. The Bank of England also found that those households who are more reliant on unsecured debt are lower income households and so haven’t been able to ‘pay down’ their debts. As such household debt remains similar or higher due to needing to take on more debt to cover spending commitments as their income fell, with this being driven by workers being placed on furlough, job losses, etc.

What future pressures will impact consumers?

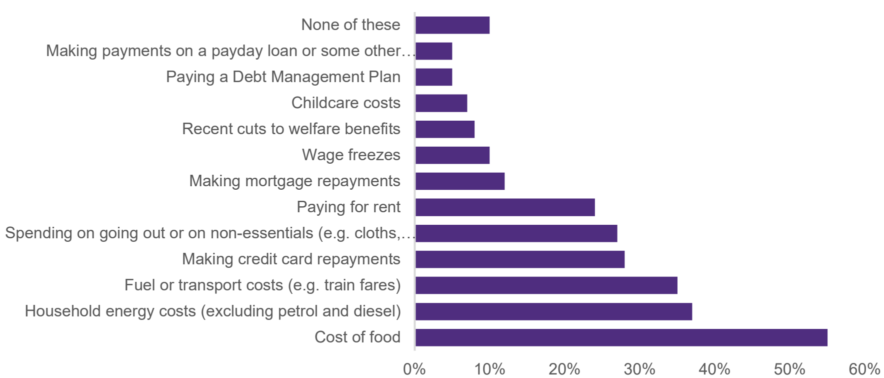
Debt preference

Despite the change in some household's ability to pay down their debts, the recent bounce back in 'unsecured consumer credit' suggests that overall levels of debt preference remain similar to pre-pandemic levels. The rising levels of debt since the pandemic restrictions ended is potentially more reflective of households using credit to help fill in the 'gaps' of their income as prices increase. In fact, as we noted earlier the annual consumer credit on credit cards increased by 9.4% between February 2021 and February 2022.

What causes consumers' budgets to stretch?

ComRes in 2020 conducted a survey amongst UK consumers to understand what areas cause the greatest financial difficulty in the run up to payday. Their analysis found that 55% noted cost of food as the main area they struggle to cover in the run up to payday. Followed by energy costs (37%) and fuel/transport costs (35%).

Figure 5.9: Cost Areas Respondents Struggle to Cover in the Run up to Payday, 2020



Source: ComRes (Personal Debt Tracking Survey)

were areas of financial concern among consumers. Recent price rises will only exacerbate these issues.

Debt and the Northern Ireland consumer

While there is no specific data on the level of debt within NI, research by the Financial Conduct Authority (FCA) through their 2017 Financial Lives Survey showed that people across NI have the highest level of over-indebtedness. They estimate that, on average, adults in NI owe around £3,990 in 'unsecured debt, compared to £3,320 for the UK as a whole. Equally, the FCA found that on average adults with debts in NI owe around £10,730, nearly £1,000 more than the average debt for adults across the UK (£9,570).

The FCA's research also found that around 10% of people in NI are in 'difficulty' – those that have missed domestic bills or credit commitments in 3 or more of the last 6 months – and around 56% of adults in NI have characteristics of being 'potentially vulnerable' i.e. those who may have low financial resilience/capability or have a health condition, with this figure being higher than the UK average (50%).

The FCA also found that adults in NI on average save a lot less than their UK counterparts, their research found that 12% of adults in NI have no savings/investments and 60% have savings/investments of less than £10,000, compared to 49% of UK adults.

An updated version of the 2017 Financial Lives Survey from the FCA was conducted in 2020. This survey focused on the impact of COVID-19 and the pandemic on finances. The FCA found that adults in NI were most affected by the pandemic, with around 43% of adults noting they had been affected negatively. In fact, the FCA found that of the 10 most affected areas across the UK two of these were NI - Armagh City, Banbridge & Craigavon Borough Council (59%) and Newry, Mourne & Down District Council (56%).

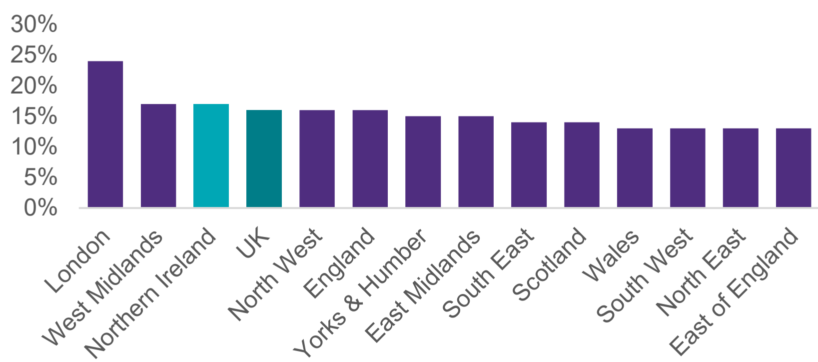
What future pressures will impact consumers?

Debt preference

The survey also noted a change in consumers outlook, with around 38% of respondents noting they expected difficulty in ‘making ends meet’, ‘not being able to pay domestic bills’ or ‘seeing an overall increase in their debt levels’. NI respondents were particularly concerned about not making ends meet or being able to pay bills, with 42% noting these concerns which was higher than the UK average (38%).

These sentiments are particularly concerning in the context of over-indebtedness in NI. The FCA Financial Lives Survey found that 17% of NI respondents were ‘over-indebted’ compared to 16% of UK respondents. This additional debt puts extra pressure on consumers and translates to potential issues regarding overall economic growth.

Figure 5.10: % who reported they were ‘over-indebted’, UK Regions, 2020

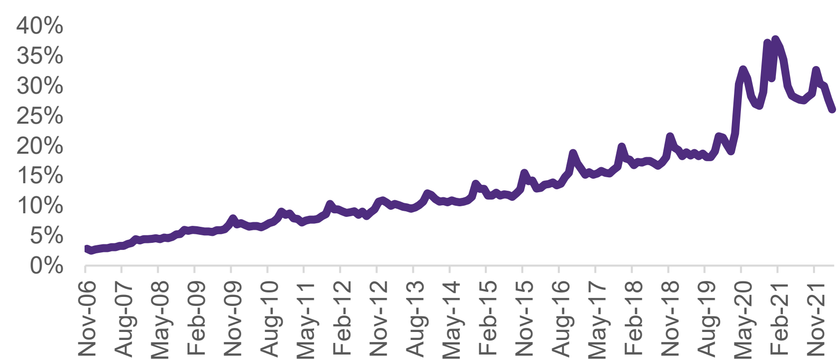


Source: FCA (Financial Lives Survey 2020)

Has COVID-19 changed consumers?

The COVID-19 pandemic not only had significant impacts on consumerism in terms of spend, savings and debt, it also had wider implications in terms of purchasing preferences. At its peak during the pandemic, internet sales reached 37.8% (Jan 2021) of total retail sales due to non-essential retail closure. However, despite the reopening, when examining the most recent data for March 2022, 26.1% of all retail sales were made online, which is significantly higher than pre-pandemic levels for March 2019 (18.8%). This suggests that while the economy has reopened and restrictions have eased, many still hold reservations of conducting in-person shopping. Equally, the finding shows a potential shift in consumer preference away from in-store shopping to more online retail, given its ease and convenience.

Figure 5.11: Internet Sales as a % of Total Retail Sales, UK, November 2006-March 2022



Source: ONS (Retail Sales Index)

What future pressures will impact consumers?

Consumer preference

Consumers and card usage

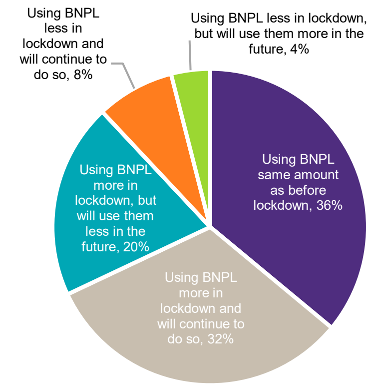
Consumers have also shown an increasing preference to use credit/debit cards to pay for goods rather than cash since the pandemic. This change in preference is a likely refection of consumers reticence to exchange cash for fear of transmission/infection. According to UK Finance, there were a total of 1.7bn debit and credit card transactions in January 2022, 37% higher than January 2021 and 15.5% higher than January 2020 levels i.e. pre-pandemic. UK Finance estimate these 1.7bn transactions across the UK amounted to a total spend of £57.4bn, 14.8% higher than January 2021 levels. These statistics show that while the use of card was recommended as an interim measure to reduce infections, etc. it seems to have remained as a main method of payment for consumers. In fact, forecasts on debit/credit card penetration suggest that by 2025 eight out of ten of the UK population will use or own a credit/debit card.

What this means for cash is still to be seen. The Bank of England note that the future confidence in cash payments will depend on a range of criteria including consumer risk, economic outlook and interest rates. However, they do note that around one fifth (21%) of people in the UK are still dependent on cash as their 'first-preference' method of payment, with this only slightly down on pre-pandemic levels (23%). Although, the outlook surrounding cash-payments remains uncertain, what is certain is that cash will still remain a key component of the UK economy. The move towards card transactions renews addressing the scale of 'unbanked', who typically are low/no earners.

The rise of 'Buy Now, Pay Later'

An area that has seen rapid expansion during the pandemic is the use of Buy Now, Pay Later (BNPL). During the pandemic there was a rapid uptake in the level of BNPL across the UK. Analysis by the statistics house STATISTA found that around 52% of people are currently using BNPL as a result of the lockdown and will continue to do so after the lockdown and easing of restrictions.

Figure 5.12: Impact of Coronavirus on Buy Now, Pay Later, 2020



Source: OnePoll

According to the Woolard Review undertaken by the Financial Conduct Authority (FCA), BNPL transactions had more than tripled and reached a peak in 2020, when £2.7bn worth of transactions took place. To put this in perspective, the FCA noted that this represented 1% of the total credit market. However, they note while this is a small share, the sector has grown rapidly to reach this point, with further growth expected. Much of this rapid expansion occurred during the pandemic, with the FCA finding that around 11% of consumers had used a BNPL product since the COVID-19 outbreak.

What future pressures will impact consumers?

Consumer preference

Typically, consumers used BNPL products to buy casual wear (33%) or eat out (31.4%). Generally, much of the BNPL usage was used to facilitate spending on what could be classified as ‘non-essential’ spending, with the majority of BNPL being used on clothing.

The Woolard Review noted that generally consumers used BNPL to supplement their incomes and help manage their finances which had been impacted by the pandemic. As a result of this increased level of BNPL across the UK, the level of debt among users has steadily increased. In fact, between 2020 and 2021 the average level of debt on BNPL platforms increased from £232.29 to £244.37. While many see BNPL as another option to use to aid their expenditure, there is a wider worry that in fact as the debt increases it will become harder for consumers to repay their ‘debts’.

Such is the concern around the level of BNPL rise and its unregulated status, the FCA opened an investigation into terms and conditions. The result saw four BNPL firms agree to change their contract terms and conditions. This review was aimed at protecting consumers as well as bringing these products in line with other FCA regulated products, with these aiming to alleviate potential consumer financial distress.

Summary findings

Summary findings

This research has focused on the importance of the consumer to the NI economy and explores how current economic trends, such as the 'cost-of-living' crisis, EU Exit, etc. are impacting consumers. Consumers are a 'key cog' across the NI economy and this analysis highlights that approximately two-thirds of economic output comes via consumption. This leaves the NI economy more exposed to consumer behaviour, particularly in the context of the current climate of the 'cost-of-living' crisis. These events will likely have a defining effect on consumers' decisions, potentially impacting wider economic development for the region over the next year to 18 months. This briefing note identifies the key research findings across each of the three areas of investigation.

Consumption & economic growth

- c.64% of all economic output in NI in 2017 was generated as a result consumption, with this being on par with UK levels.
- The pandemic had a devastating impact on the UK economy. Between 2019 and 2020, the UK economy contracted by 9.7%, with much of this driven by consumption declines (-10.8%). Between Q2 2019 and Q2 2020, c.77% of the decline in Real GDP across the UK could be attributed to the fall in real consumption levels as people were unable to engage in 'normal' economic activity.
- Since the initial impact of the pandemic, consumer spending has recovered well. Approximately 53% of the economic growth rate (7.4%) recorded in Q4 2021 was attributable to consumer activity. It should be considered that this pick-up is a likely reflection of seasonal impacts, but more than likely reflects increased confidence from consumers as restrictions lifted.
- The Office for Budget Responsibility (OBR) further associate the recovery from the pandemic with consumerism. Their latest forecasts, from March 2022, suggest real consumption levels will increase by £226bn between 2020-2026. For context, real consumption levels grew by £86bn between 2008 and 2020.
- Total consumption – as measured by the UK Economic Accounts – amounted to £1.32bn in 2021, only slightly below pre-pandemic levels of £1.39bn in 2019. Much of the level of consumption undertaken by UK consumers relate to housing costs, with c.26% of consumer spend being on housing costs.
- Tourism consumption has become an increasingly important component of UK consumption, with 1.1% of total consumption being tourism related pre-pandemic. This has subsequently fallen back to 0.5% as restrictions were introduced, but levels have slowly climbed back to 0.8% in Q4 2021 as restrictions and travel restrictions eased.
- Similarly, the level of 'out of state' spend in NI has become an important component of consumer spending, with in total £1.61bn worth of 'out of state' spending occurring in NI since July 2018. Current proportions of 'out of state' spending (11.9%) in the NI economy have returned to pre-pandemic levels.
- The pandemic slowdown in consumption facilitated an increase in savings. At the peak of the pandemic, the household savings ratio reached 23.9% – a level previously unseen. In comparison, historically the household saving ratio averaged c.7%. This increase in savings has seen consumers accumulate wealth, resulting in a 'splurge' when restrictions eased. This releasing of 'demand' has been reflected in the fall in the saving ratio, with current levels standing at 6.8% – lower than historical levels.

Summary findings

Trends in income & expenditure

- The largest determinant of consumer spending is the level of income available, largely determining the balance between essential and discretionary income. According to the Department for Communities analysis, typical individuals in NI have an income of between £400 to £500 per week. Around 3/5ths of individuals have an income of below the mean NI income of £571 per week. Therefore, despite some high income individuals, the majority of NI individuals have low levels of income.
- In terms of real wage growth, NI full-time annual earnings in 2021 stood at £21,505, equivalent to 2005 levels (£21,723). Overall however, the level of real *full-time* wages has increased by around a fifth (19%) since 1997. *Total r*eal wages do however remain behind those in 2009, and in fact total real wages have contracted by on average 0.2% over the past 12 years.
- When looking at equivalised disposable income levels, NI has the lowest level of all UK regions at £29,457. To highlight the difference, NI households have on average c.£2,000 per annum less in terms of equivalised disposable income compared to Yorkshire & Humber, the second lowest region for equivalised disposable income.
- The equivalised disposable income levels across NI grew by 37.3% since 2000, the fastest level of all UK regions. However, when comparing this to the level of price inflation since 2000, the price level across the UK grew by 49.5%, highlighting that despite this rise in real terms the standard of living of NI households has decreased.
- Similarly, when comparing the current level of equivalised disposable income to 2008 levels its noticeable that currently equivalised disposable incomes are 6.1% lower than in 2008. Making NI one of only five regions to see their level of equivalised disposable income fall since 2008.
- The level of equivalised disposable income varies largely across the income quartile, with those in the lowest 25% (£13,702) for income having more than £36,000 less than those in the highest 25% (£50,401) for equivalised disposable income.
- In terms of real change since 2009, those in the highest 25% saw the largest fall in their equivalised disposable income of 11.5%, whereas those in the lowest 25% saw their equivalised disposable income increase by 0.3%. In comparison, prices increased over this time by 25.5%.
- As well as the having the lowest levels of equivalised disposable incomes, NI has one of the lowest levels of savings. According to Raisin, NI households (£6,710) hold on average c.£3,000 less in savings compared to UK households (£9,633.30), with only the East Midlands (£6,438.48) having a lower level than NI. Equally, a higher proportion of NI family groupings have ‘no savings’ that the UK, with 44% of family groupings in 2019/20 reporting having ‘no savings’ compared to only 16% across the UK.

- The equivalised disposable income is the total income of a household, after tax and other deductions, that is available for spending or saving, divided by the number of household members converted into equivalised adults.
- Family groupings is defined as ‘a single adult or couple living as married and any dependent children’.

Summary findings

- The recent cost rises have seen discretionary income fall, with those in the lowest quartile experiencing a 17.1% decline between Q2 2021 and Q3 2021 as a result of the rising fuel, energy and transport costs.
- An average NI household spends £486.40 per week on goods and services, around £100 less than the equivalent UK household (£585.20). Since 2001, the level of spend in NI has increased by 50%.
- When factoring in the level of price inflation, we note that there has been a real fall in the level of expenditure across NI, with average weekly spending being 9.8% lower in 2020 compared to 2016 levels. Across the UK, real levels of expenditure increased by 3.3%.
- NI households spend less on average on housing costs relative to their UK counterparts, with housing (net), fuel and power accounting for 11.1% of all expenditure (incl. other expenditure items) per week compared to 13.6% for UK households. Interestingly, NI households spend less on “essential” goods i.e. on food & housing compared to other UK regions and in fact spend more on “non-essential” items including clothing & footwear, alcoholic drinks, etc.
- In light of recent energy price rises, our analysis found that on average NI households (2.6%) spend more on electricity bills than the UK average (2.1%). This is potentially an area of risk exposure for NI households given the rapid rise in electricity and general energy costs over the past couple of months.
- The level of expenditure varies significantly across each of the quintiles, with those in the highest 20% (£880.40) spending almost four times more per week than those in the lowest 20% (£231.20).
- Unsurprisingly, those in the lowest 20% spend more on housing costs, fuel and power (18.6%) compared to those in the highest 20% (7.0%). This suggests that those in the lowest 20% are particularly exposed to energy price rises and thus are most likely to be affected by the current ‘cost-of-living’ crisis. Our analysis has found that over the past year energy prices have on average grew by 24.7%.
- Overall, those in the lowest 20% see a larger proportion of expenditure being made on “essentials” such as housing and food, with 35.1% of their weekly spending being in this area. Conversely, those in the highest 20% spend 18.7% per week on the “essentials”.
- Analysis by Centre for Economics and Business Research (CEBR) focused on the change of spending between Q3 2021 and Q4 2021 capturing the current cost price shifts. Their analysis found that between Q3 2021 and Q4 2021 basic spending across NI rose by 1.0%, with much of this driven by inflation. However, they did note this average rate of growth was not uniform across the income quartiles. In fact, they note those in the lowest quartile saw a rise of 1.2% in basic spending compared to 0.9% for those in the highest quartile. More than likely a reflection of the higher proportion of spending made by those in the lower quartile being on “essential” spending.

Summary findings

What future pressures will impact consumers?

- According to the recent YouGov/CEBR consumer confidence index, the current ‘cost-of-living’ crisis has dealt a significant blow to consumer confidence, with the survey recording the largest month-on-month fall in consumer confidence of 2.7 points in March and a further fall of 1 point in April. Similarly, the Danske Bank NI Consumer Confidence Survey captured a 3 point fall between Q3 2021 and Q4 2021, with consumers noting inflation weighing heavy on their confidence and the recent energy cap rise on April 1st suggesting a further squeeze on incomes.
- Inflation is expected to be the biggest headwind facing the global, national and local economies. Between August 2021 and August 2022, the level of inflation rose by 9.9%, with much of this rise being driven by Transport (12.0%) and Housing/utility costs (20.0%). In particular, the cost of Electricity (54.0%), Gas (95.6%) and Liquid fuels (86.3%) have been the main drivers of price rises over the past 12 months.
- It is expected that the inflation rises will continue into the future with the Bank of England forecasting that inflation will peak at 13% by the end of the year. Energy prices are expected to be the main driver of inflation, with research conducted by Cornwall Insight forecasting energy prices in 2022 will increase by as much as 30%. Rising energy prices could lead to a 31% rise in destitution, with 1 million homes falling into destitution according to National Institute of Economic and Social Research (NIESR). At a regional level, NIESR estimate that destitution could increase by upwards of 10%. Specifically, in NI, NIESR estimate the level of destitution to increase by 67%, bringing 25,000 homes into destitution as a result of rising energy costs, etc.
- The exposure of NI households to energy prices varies by income quartile, with those in the lowest quartile spending a higher share on energy costs than those in the highest quartile (14% vs. 9%). The recent and proposed increases in energy costs will therefore have a greater impact on these consumers.
- Across the UK, there has been a return to increasing personal debt levels to fund spending. For example, since the 31st of January 2000, the level of outstanding consumer credit i.e. personal loans, credit cards, etc. increased by 107.5%, suggesting that consumers have become more “neutral” to the accumulation of debt in recent years. Household debt as a proportion of income has also increased steadily from 76.0% in Q1 1987 to 131.0% in Q4 2021.
- In an NI context, NI households on average have a higher level of debt compared to the UK. The Financial Conduct Authority (FCA) estimate that on average NI adults have £3,990 worth of ‘unsecured debt’, while an average adult in the UK has £3,320 worth of ‘unsecured’ debt. These findings suggest that on average NI adults are more debt neutral than their UK counterparts potentially as a result of the need to use credit to cover elements of their expenditure.
- Equally, the FCA also found that on average NI adults save less than UK adults, with 60% of adults having savings/investments <£10,000, while only 49% of UK adults have savings/investments of less than £10,000.

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