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

March 2021

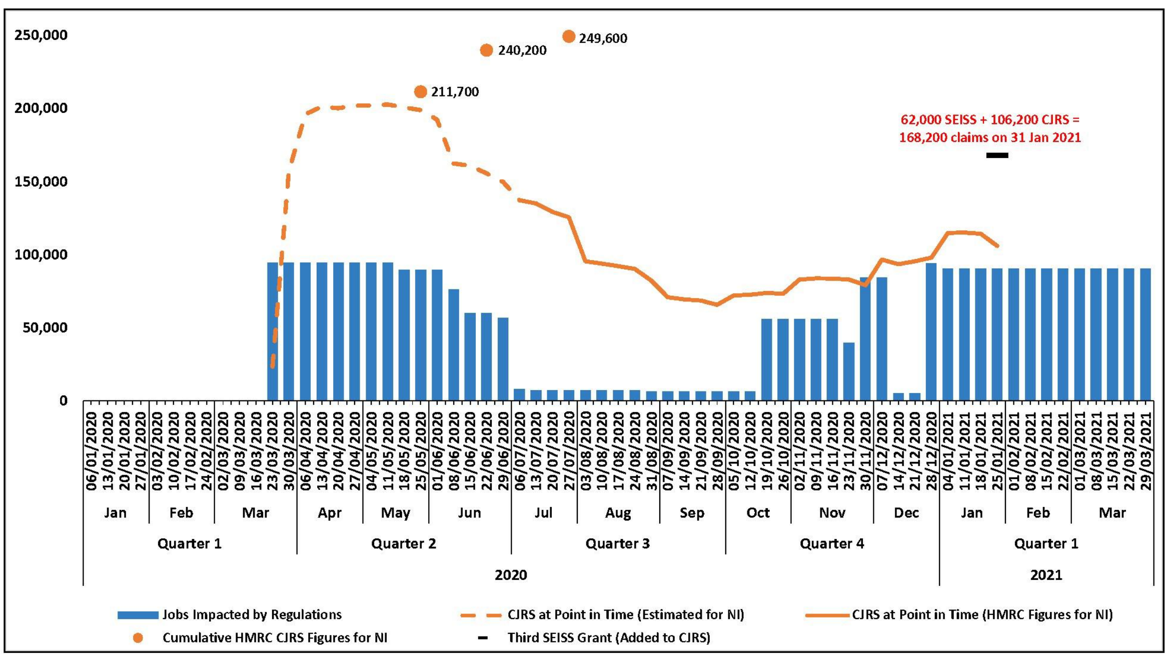
Short-Term Economic Impact

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

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

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

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



Notes: The dashed line has been calculated from UK-wide HMRC CJRS data and apportioned to Northern Ireland by DfE. The solid orange line has been created by using official HMRC CJRS data specifically relating to NI. HMRC's January 2020 data is provisional and subject to change. From 1 July 2020 firms could bring employees back to work on a part-time basis (flexible furlough).

The blue bars refer to estimates of 'Jobs (Directly) Impacted by Regulations' and are only intended to be indicative / illustrative, by using BRES data. It can be used as an indication of strictness of restrictions. Some sub-sectors may be omitted or erroneously included. Figures based on pre-pandemic data - some workers may have left the sub-sector in 2020, or been made redundant. Self-employed not included. In addition to sectors specifically identified in Regulations, spring 2020 lockdown had many manufacturing, construction and office workers that stayed at home *en masse*. Not all workers furloughed at the present time work in sectors / sub-sectors that are closed by Regulations. The NI Executive's pathway out of the restrictions will be slow and cautious.

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

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

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

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

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

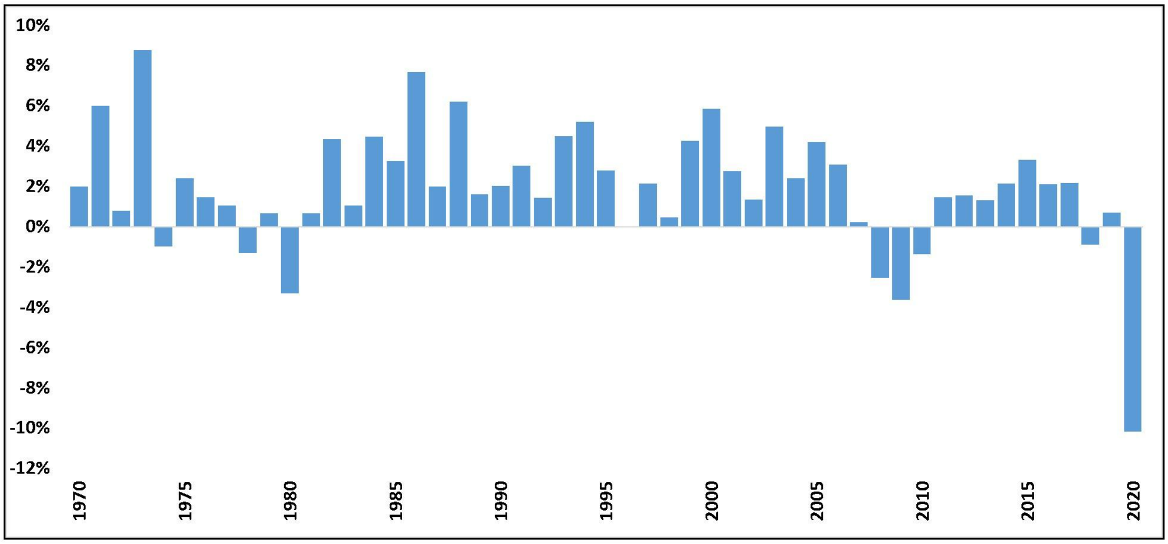
The Economic Statistics Centre of Excellence (ESCoE) has used their Regional Nowcasting Model to estimate how growth for the UK as a whole, as estimated by the ONS, is allocated across the regions and nations of the UK. With the model having been run with Q4 2020 estimates, ESCoE presents their results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

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

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

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

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



Source: ESCoE

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

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

To conclude, the authors at ESCoE state that:

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

Directly Impacted Sectors and Jobs

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

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

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

For example, according to the IDBR:

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

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

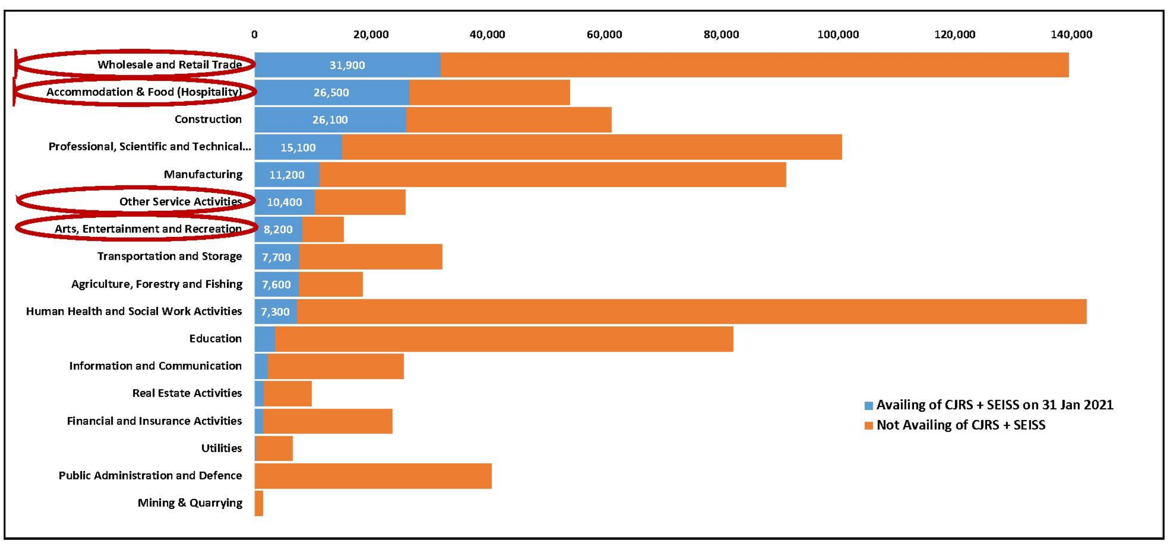
- Around 3,500 restaurants / cafes (IDBR figure 1,210 businesses);
- Approximately 1,000 pubs / bars that serve food (IDBR figure 945 businesses);
- Over 650 hotels / bed & breakfasts (IDBR figure 375 businesses). [x]

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

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

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

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



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

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

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

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

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

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

[1] Relative to a pre-pandemic baseline, unless otherwise stated.
[2] NIESR's central estimate is 6 per cent, of which around 2 percentage points is the impact of the TCA, therefore their implied estimate for virus related scarring is 4 percentage points.
[3] Source: Ufficio Parlamentare Di Bilancio, Stabilitätsrat, CPB Netherlands and Congressional Budget Office.

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

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

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

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

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

Unemployment

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

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

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

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

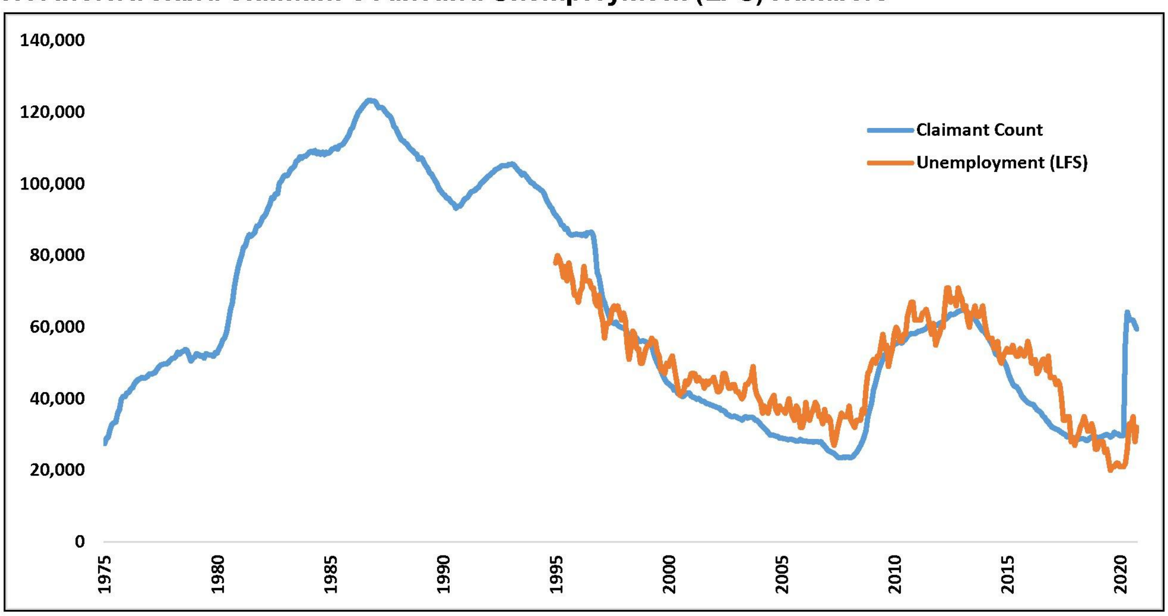
Comparison of 2020 Claimant Count[xvii], LFS Unemployment & Employment Levels [xviii]

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

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

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

Northern Ireland Claimant Count and Unemployment (LFS) Numbers



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

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

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

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

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

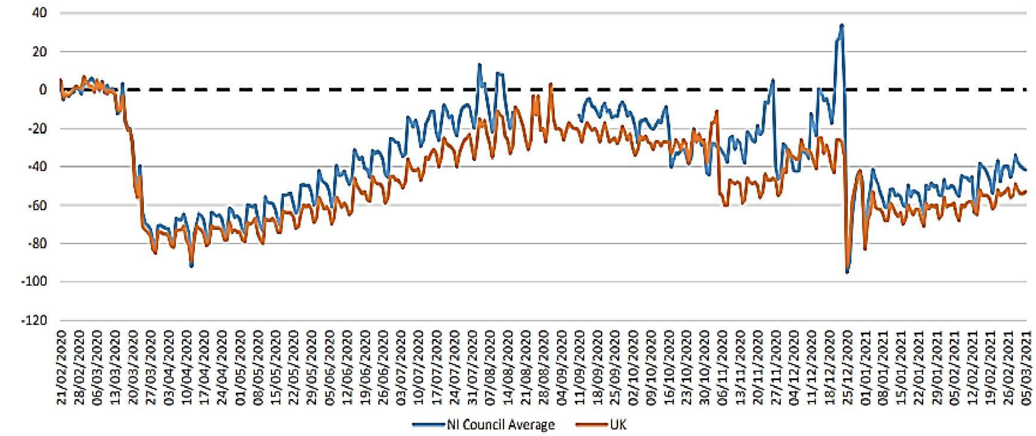
> *"The rapid rollout of effective vaccines offers hope of a swifter and more sustained economic recovery, albeit from a more challenging point than we forecast in November. The easing of public health restrictions in line with the Government's 22 February Roadmap should permit a rebound in consumption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

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

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

With ever-available outturn data, it has also been possible to track the recovery over the summer months of 2020 as businesses were able to trade more freely again and consumers felt more comfortable to visit establishments. This was facilitated by the NI Executive reopening the local economy. However, while the rebound during summer of 2020 was strong, the economy as a whole had not fully reverted back to pre-pandemic levels before rising infections meant new restrictions, beginning 16 October 2020.

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



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

Source: DoH Mobility Report

As would be expected, latest mobility data show how the latest batches of Regulations have, generally speaking (and with some volatility as restrictions varied), led to lower levels of people movements than was the case in the summer of 2020 and before March 2020.[xxiii] Modelling by the Fraser of Allander Institute for DfE suggests that while Northern Ireland may have had a more severe decline in output than the UK as a whole during Spring 2020, it may have experienced a stronger bounce-back during Quarter 3 of 2020.[xxiv] The NISRA Index of Production[xxv] and Index of Services[xxvi] also showed a similar picture.

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

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

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

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

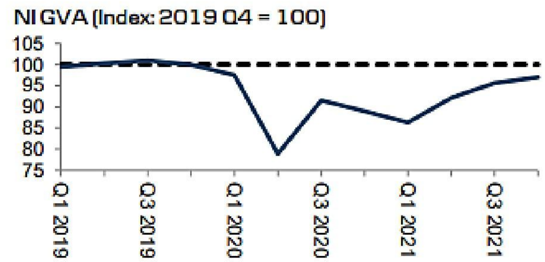
returns to its pre-coronavirus level and there is still a great deal of uncertainty and risk to the outlook. We estimate that the Northern Ireland economy contracted by around 11% in 2020 and have revised our forecasts for 2021 downwards and now believe that the local economy will only expand by about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

Danske Bank Northern Ireland Quarterly (2020 Q4) Sectoral Forecasts

Forecast summary (%)

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

Source: Oxford Economics, Danske Bank Analysis



Source: Oxford Economics, Danske Bank Analysis

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

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

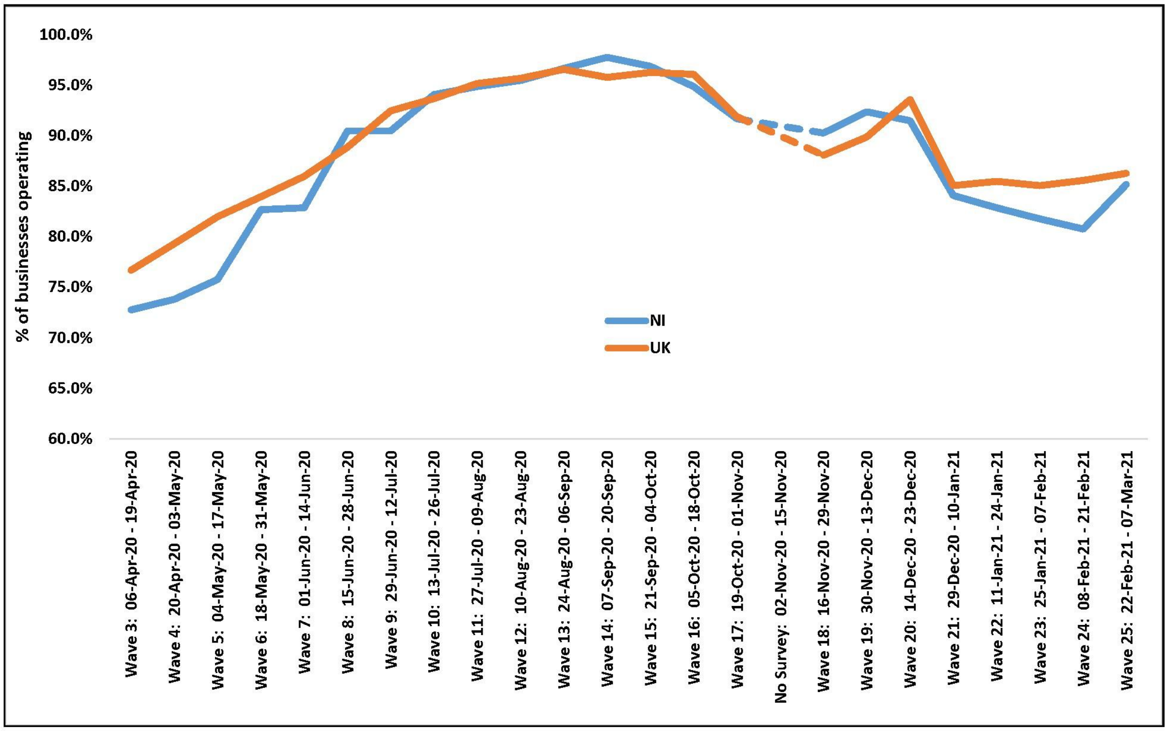
There are still significant risks if recovery of output and jobs is not swift and sustained. The roll-out of the vaccine, coupled with pent-up demand may stimulate a 'bounce back'. Nonetheless, it may take some time before economic activity fully returns to pre-pandemic levels and there is a risk of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

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

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

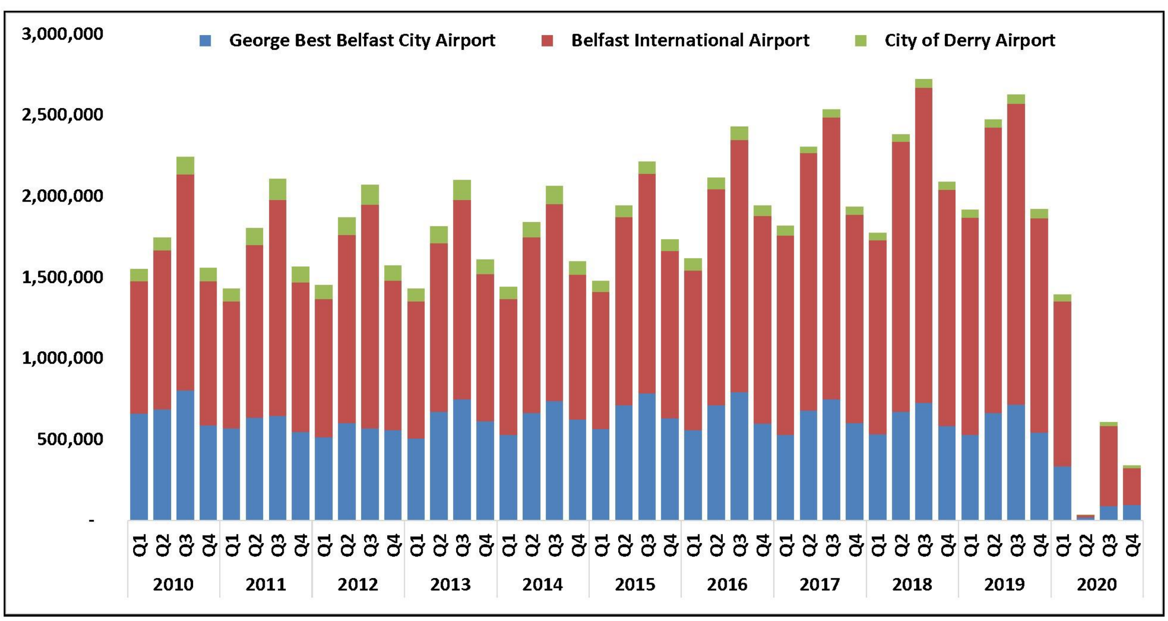
APPENDIX 1

Percentage of Businesses Operating / Trading [xxx]



Notes / Source: DfE presentation of ONS data.

Total Air Passenger Flows by Northern Ireland Airport [xxxi]



Notes / Source: DfE presentation of NISRA data.

SOURCES:

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

ANNEX A: Understanding the long-term impacts of COVID-19 on the Northern Ireland economy

Long-term impact #1: Mental health

Successive periods of lockdown are having a damaging impact on mental health. The impact of a deterioration in the mental health of a population could result in long-lasting impacts for individuals and the economy. NI could be particularly vulnerable given that prior to the pandemic, the mental health of the population was already at a very low base. It is estimated that if one-quarter of the NI population suffer from mental health issues one year after reopening the economy, the total cost to the economy could be in the region of £288m.

A. Research indicates that COVID-19 will have a dramatic and long-lasting impact on the mental health of the global population.

International literature suggests that declining mental health is leading to a fall in productivity levels.

- According to the World Economic Forum (WEF), approximately 30% of employed adults took a leave of absence as a result of COVID-19.
- A survey completed by Ipsos MORI on behalf of the WEF has suggested that in 2020, 32% of individuals found themselves working longer hours with 32% of individuals working fewer hours. This contradictory messaging is likely to disrupt productivity and output figures for 2020. Whilst short-term output may be increasing in certain sectors, longer-term output may suffer. This could come at a significant cost to society and the workforce as individuals face burn outs as a result of heightened stress from longer hours.
- This research also highlighted that 56% of respondents have experienced anxiety around job security, with close to half of respondents feeling lonely and isolated whilst working at home. This is clearly impacting output with over 40% of respondents reporting a decline in their productivity as a result of working from home during the pandemic.[1]
- A survey completed by Qualtrics found that at a global level, employees across all levels were finding that the pandemic was having negative impacts on their mental health, which was in turn reducing their productivity.
- 28% of respondents stated they had found increased difficulty concentrating as a result of declining mental health, with 20% stating that it was taking longer to complete tasks and 12% stated that they had been putting off challenging work [2]
- The overall mental health impacts could be even higher those not able to work from home as a result of the pandemic were also included (employees in the tourism, hospitality, retails, arts and entertainment sectors in particular).

UK data show that mental health has become an issue for one quarter of the population.

- Mental health in the UK has significantly deteriorated, by 8.1% on average, with young adults being the most significantly impacted since the start of the pandemic.[3]
- In April 2020, an additional 7.2m (14% of people aged 16+ in the UK) reported experiencing a mental health problem 'much more than usual'. It is likely that the groups of individuals experiencing the worst mental health as a result of the pandemic were already those with the poorest mental health before COVID-19.

[1] Ipos - Anxiety, stress and loneliness: COVID's toll on the lives of workers
[2] The Other COVID-19 Crisis: Mental Health / Qualtrics
[3] IFS - The mental health effects of the first two months of lockdown and social distancing during the Covid-19 pandemic in the UK

- In June 2020, it was reported that 69% of adults in the UK were feeling worries about the impact that COVID-19 was having on their life. The most common issues affecting wellbeing were: worry about the future (63%), feeling stressed or anxious (56%) and feeling bored (49%).[4]
- Research has suggested that parents and carers have been amongst the most vulnerable in regard to suffering from a deterioration in mental health. Research from the University of Oxford stated that the scale of depression, anxiety and stress amongst parents had increased between April and June 2020.[5]
- The ONS reported in January 2021 that personal well-being scores for life satisfaction and happiness reached their lowest levels since March 2020. It appears that individuals in Great Britain (GB) remain pessimistic about the future with one in four adults feeling that it will take over one year for life to return to normal.[6]

B. The socio-economic impact of mental health issues in NI could be even greater than in the rest of the UK.

The impact of COVID-19 on the mental health of the population of NI could be of particular concern given the fact that the mental health of the population started from a low base in 2020.

- It has been reported that 12.6% of children and young people in NI experience common mood disorders such as anxiety and depression, which is thought to be c.25% higher than in the rest of the UK.[7]
- A similar picture has been painted for mental health in adults. In 2018, NI had the highest age standardised suicide rate with 18.6 suicides per 100,000 of the population, with young men being the most vulnerable.[8]
- NI also had a higher share of vulnerable inactive people prior to the crisis, with an inactivity rate of 25.8% versus 20.5% in the UK.
- It is well established that a high inactivity rate creates long-term economic and social risks. There is a high opportunity cost associated with state funding of individuals who could instead assume a role in the workforce and contribute to output and productivity.

Mental health deterioration, resulting from successive periods of lockdown and restrictions will have a long-lasting impact (Post-Traumatic Stress Disorder (PTSD), social inequalities, public finances).

- Research has suggested that the costs of mental health problems in the UK workforce cost employers £34.9bn in 2017, meaning that mental health problems cost £1,300 for every employee in the UK economy. The research found that the major costs to employers is the reduction in productivity they face as a result of mental health driven absenteeism.[9]
- It is often the most disadvantaged that will suffer from mental health issues with many being discouraged to even look for a job, which could increase inactivity within the labour market.
- The evidence presented above would suggest that the COVID-19 pandemic could have long-lasting impacts on the mental health in NI. Evidence also shows that poor mental health comes at a cost to society and the economy which could have severe impacts for NI's pre-existing high inactivity rates.
- If we were to assume that 25% of the active population (886,000 people as of November 2020) will suffer from mental health issues over one year after restrictions are lifted, this could cost £288m to the NI economy.[10]

[4] Emerging evidence on COVID-19's impact on mental health and health inequalities | The Health Foundation
[5] Parental mental health worsens under new national COVID-19 restrictions | University of Oxford
[6] Coronavirus and the social impacts on Great Britain - Office for National Statistics (ons.gov.uk)
[7] Youth Wellbeing Prevalence Survey 2020 - HSCB (hscni.net)
[8] Northern Ireland Assembly - Suicide statistics and strategy in Northern Ireland
[9] Mental health problems at work cost UK economy £34.9bn last year, says Centre for Mental Health | Centre for Mental Health
[10] Calculated using current employment levels provided by NISRA.

Long-term impact #2: Education and skills

Education and training programmes increase skills and productivity within an economy. Continued lockdowns and a decline in the number of apprenticeships will have long-lasting impact on the young people and local businesses in NI.
It may generate a skills gap which could undermine recovery potential. It would also affect the most disadvantaged in our societies, increasing social inequalities whilst substantially reducing economic output.

A. COVID-19 could have a dramatic and long-lasting impact on education and skills.

International literature has suggested that school closures and distance learning has had a substantial impact on the quality of education for students and with increasing levels of absenteeism.

- The French Minister for Education suggested that during the first two weeks of school closures in 2020, between 5% and 8% of French students could not be reached by their teachers. In Los Angeles, the United States' second largest school district, 13% of high school students did not have any contact with teaching staff in the first three weeks following the first lockdown.[11]
- It is clear that schools were facing significant attendance challenges in the early stages of the pandemic which could lead to disengagement and increasing dropout levels, particularly in those areas of society with high levels of inequality.
- Socio-economic background is commonly linked to stresses within the school system. For example, students could struggle to maintain their learning at home as a result of inadequate resources such as access to IT equipment and broadband.

UK research has suggested that the continued closure of UK schools and educational facilities has had significant negative consequences for the educational development of pupils.

- According to OFSTED, the effectiveness of remote education has been extremely varied across households. Many children with special education needs and/or disabilities are not attending school and are struggling with remote learning.[12]
- Research has suggested that those from low-income households are expected to be most at risk of losing out on their education, with studies suggesting that the poorest children tend to already be 11 months behind their peers from more affluent backgrounds.[13]
- A survey completed by the Institute of Fiscal Studies suggested that children from better-off households are spending 30% more time each day on educational activities compared to children from the poorest households. The results suggested that the majority of parents are struggling with providing home learning, but a few have the means to provide some form of support through online resources or private tutoring.[14]
- The Institute of Fiscal Studies has suggested that UK pupils may lose on average £40,000 of lifetime earnings for every half year of education lost.[15]
- The Resolution Foundation have forecast that youth unemployment could rise by 600,000 to over 1m in the UK, with organisations such as Youth Employment UK fighting to address the long-lasting impact that this could have on the career opportunities for the 'Corona class of 2020'.[16]

---

[11] Education and COVID-19: Focusing on the long-term impact of school closures (oecd.org)
[12] COVID-19 isolation having detrimental impact on children's education and welfare, particularly the most vulnerable - GOV.UK (www.gov.uk)
[13] C. Cullinane & R. Montacute (2018) P
[14] IFS - Learning during the lockdown: real-time data on children's experiences during home learning
[15] 'The crisis in lost learning calls for a massive national policy response', Institute for Fiscal Studies (February 2021)
[16] Resolution Foundation - Corona crisis could increase youth unemployment by 600,000 this year – and scar young people's prospects for far longer

UK research has suggested that the COVID-19 pandemic is having severe impacts on those undertaking apprenticeships.

- The benefits of training schemes such as apprenticeships generate a significant return for the economy. The amount of return is between £26 and £28 for every £1 of government investment in apprenticeships at level 2 and level 3 respectively.[17]
- Evidence has shown that the apprenticeship sector is under stress with the number of apprenticeships in the UK between March and May 2020 falling by 50%, when compared to the same period in 2019.
- The sectors that have been most impacted to date have been: health and social care, administration, business management and child development.[18]
- Apprenticeships tend to be lower paid roles, primarily undertaken by those from disadvantaged backgrounds. Any reduction in the level of apprenticeships provided would increase the level of inequality in the UK.

B. The impact of remote learning and cancellation of apprenticeships in NI could be even greater than for the rest of the UK.

The impact of COVID-19 on the educational performance of young people in NI should be of particular concern due to the high levels of existing inequality within the region.

- The under-performance of school children from disadvantaged backgrounds in NI was already a concern prior to the pandemic.
- Less than half of school-leavers from disadvantaged backgrounds achieve at least five GCSEs at A*-C including English and Maths, while NI has a higher proportion of adults with no qualifications than England, Scotland or Wales.[19]
- Pupils from lower-income families and communities tend to be faced with lifelong achievement and education gaps between themselves and their more affluent peers.[20]
- Research has indicated that young people in NI could be some of the most vulnerable as demand for entry level positions has declined during the pandemic. In normal times, young people tend to begin their careers in the more vulnerable occupations and roles, and this may only be heightened in the next number of years as a result of the pandemic.[21]

The closure of educational facilities and businesses providing apprenticeship opportunities is having severe impact on the skills and education of young people in NI.

- Apprenticeships in NI are positive contributors to the local business community as well as for the individual themselves.
- The development of industry-specific and transferable skills and behaviours and achieving a recognised accreditation at the end of the apprenticeship. This means talented recruits are trained in areas that will ultimately be beneficial to the business.
- The Department for the Economy (DfE) reported that prior to the pandemic, there were 7,714 apprentices in NI. However, 4,500 of them have been furloughed in 2020.[22]

---

[17] HM Government - English Apprenticeships: Our 2020 Vision
[18] Apprenticeship starts halved due to impact of COVID-19 (fenews.co.uk)
[19] Scopeni - The impact of COVID-19 and educational attainment in NI
[20] The impact of COVID-19 and educational attainment in NI | ScopeNI (nicva.org)
[21] COVID-19-Worker-characteristics_08.06.2020.pdf (ulster.ac.uk)
[22] Department for the Economy

- If those apprenticeships who are currently furloughed do not return to work, the NI economy could lose up to £2,275 in assumed additional output per apprenticeship per year. Grossing this up could result in losses of up to £3.4m in additional output this year. [23]
- Apprentices and those who require on the job learning and/or a physical presence are at a severe disadvantage, as during successive periods of lockdown, they will be unable to improve and obtain the necessary skills to have a successful career in their chosen field.
- Apprentices and trainees could fall behind their peers and those who have more recently qualified in their sector. This could impact individuals' lifelong career and earnings potential.
- It could also impact the long-term growth of the NI economy with potential skill shortages in the future as businesses struggle to find domestically qualified individuals to fulfil roles in sectors such as; electrotechnical, engineering and food manufacturing. These sectors are some of the key priorities supported by DfE's Industrial Strategy. [24]

[23] This is based on the assumption that for every £1 invested in Apprenticeships in the UK, approximately £27 in return is generated. Estimated NI expenditure on apprenticeships in 2019 was £26m, which equals £3,370 per apprentice (based upon 7,714 apprentices). Based on the assumption that the 39% apprentices currently furloughed do not return to work (1,253) along with the 250 apprentices made redundant we have assumed that 1,503 apprentices will not return to the workforce. If we assume using UKG figures that for every £1 of government spend a return of £27 is generated, the lost return over a working life time per apprentice is £91,003 (£27 x £3,370) which we have divided by 40 working years to give an estimated lost return of £2,275 per apprentice which we have grossed up based on 1,503 apprentices not returning this year, to give a total annual loss of £3.4m.

[24] DfE - Economy 2030 - A consultation on an Industrial Strategy for Northern Ireland

Long-term impact #3: Corporate debt

The COVID-19 pandemic has resulted in the shutdown of entire sectors to limit the spread of the virus. As a result of mandatory lockdowns, Governments across the world have responded with rescue packages to maintain businesses throughout the pandemic.
UK small and medium-sized enterprises (SMEs) have significantly increased their borrowings in 2020. This reduces the potential resilience and sustainability of these enterprises in the future. As business may prioritise repayment, this could damage future investment opportunities or even force them to close. A second wave of job losses could be faced in the medium-term. Up to 20% of firms may be unable to repay public loans and investments postponed may not create the added-value needed in the years ahead to bounce back to pre-COVID activity levels and drive an innovation-led economy.

A. COVID-19 will have a dramatic and long-lasting impact on the corporate solvency of businesses.

Global corporate debt levels are soaring as businesses fight to survive in the short term, with repayments over the next number of years constraining recovery.

- According to the World Bank, global government debt is expected to reach 99% of GDP in 2020. This is a new record, as governments attempt to support their economies through lockdowns to prevent the spread of COVID-19.[25]
- Businesses across the globe have increased debt levels in order to survive the crisis. US companies currently owe more than $10 trillion, which is nearly half of the country's 2019 GDP. Taking other forms of business debt into consideration, including partnerships and small businesses, this figure stands at $17 trillion.
- As a result of increasing corporate debt levels, Governments have been forced to intervene.
- For example, the Federal Reserve announced a programme to support the US corporate debt market, which improved liquidity and helped indebted firms avoid bankruptcy.[26]
- However, while the intervention of Governments in extending loans has assisted businesses in the short-term, they have also added to the debt burden that businesses will have to repay over the next number of years, potentially constraining future growth.

UK businesses were given short-term financial relief with the assistance of Government-backed loans. However, as repayments begin in 2021, businesses potentially face a wave of debt should they not be able to operate at normal levels.

- UK corporate debt levels have been increasing over the past number of months with the Bank of England stating that net bank borrowing by SMEs reached a record £43.3bn in 2020 compared to £1.4bn in 2019. [27]
- UK businesses have raised concerns regarding their ability to survive. 15% of UK businesses surveyed by the Office for National Statistics (ONS) in December/ January stating that they had low/ no confidence in their ability to survive the next three months. [28]
- The increase in corporate debt levels could lead to the UK economy falling into a balance sheet recession, whereby businesses become overburdened with debt and are forced to concentrate on improving their balance sheets by reducing their debt levels.
- If a large proportion of businesses are paying down debt, they will not be focused on increasing investment and recruitment. If businesses and individuals are saving money or paying down debt, rather than spending, other businesses and individuals need to be spending or borrowing in order for the economy to recover.

---

[25] Financial News - World Bank warns global debt to reach new high at 99% of 2020 GDP
[26] Newsweek - A $10 Trillion Corporate Debt Bomb Is Waiting to Explode the U.S. Economy
[27] Bank of England - Money and Credit - December 2020
[28] LSE - A wave of COVID-related bankruptcies is coming to the UK. What can we do about it?

- If consumption does not increase following the reopening of the economy, the UK could be faced with a slow recovery period.
- Research has suggested that monetary policy levers during this type of recession tend to be unsuccessful, with fiscal stimulus being the key to helping the economy recover.

Long-term impact of rising corporate debt could leave NI businesses with cash flow and liquidity issues should economic activity not return to pre-lockdown levels. The long-term recovery position of the NI economy is at risk as businesses face debt repayments and plan to reduce capital investment.

- The COVID-19 pandemic continues to weigh heavily on the sentiment of NI businesses. The Chamber of Commerce reported that 69% of businesses surveyed believing that prospects for the NI economy will remain weak in 2021, with 38% of businesses believing that their own business prospects will remain weak. [29]
- To date, over 39,000 businesses in NI have received UK Government-backed support from either the Bounce Back Loan Scheme or the Coronavirus Business Interruption Loan Scheme. Total support received by NI businesses from the schemes reached over £1.5bn as of January 2021. Take-up accounted for approximately 32% of the business community in NI. [30]
- Lower levels of corporate insolvency suggest that the Government-backed loans are helping businesses survive in the short term. Only 24 company insolvencies were recorded in NI in Q3 2020 (70% lower than the same period in 2019).[31]
- At a UK level[32] the sectors receiving the most support (in relation to the size of the sector[33]) include; construction (17%), wholesale and retail (15%), professional services (11%), accommodation and food services (8%), and real estate (6%). Wholesale and retail and accommodation and food services are the sectors that will be most impacted should the shutdown of the local economy continue over the next number of months. They are also the sectors with the highest debt levels.
- Whilst the Government backed schemes have been welcomed and have been drawn upon by NI businesses, there remains a challenge in the year ahead as businesses begin repayments on these loans. This could have a negative impact on business cash flow and liquidity, and this may also restrict businesses ability to invest in R&D, skills and new employment.

[29] Northern Ireland Chamber of Commerce and Industry - Tough trading conditions hit confidence and investment hard
[30] Coronavirus loan schemes continue to support businesses evenly across the UK, new analysis shows - British Business Bank (british-business-bank.co.uk)
[31] The Insolvency Service - Quarterly Company Insolvency Statistics, Q3 July to September 2020
[32] Please note that a breakdown by sector at a NI level is unavailable.
[33] Breakdown by BBLS

Long-term impact #4: Personal debt

The COVID-19 pandemic has increased inequality levels within society, as those who have kept their jobs and have the ability to work from home have increased their savings rate, but those who have been made redundant or had their hours reduced are potentially increase debt levels. The most job-intensive and lower paid sectors of the economy have been hit the hardest by the pandemic as they are the ones that tend to interact most with the public and therefore have the highest disease transmission risk.
Consumption is essential to NI economic activity. Those with the lowest incomes are the ones that are spending a higher proportion of their income. If their purchasing power was significantly affected this could have a negative impact on NI long-term development.

A. COVID-19 may have a dramatic and long-lasting impact on personal debt levels.

While it is true that many have accumulated savings since the onset of COVID-19, so too have others needed to use existing savings or, eventually, borrowed funds to substitute lost income. Whilst 24% of citizens had saved more money during the pandemic, 25% had either borrowed more money or had used existing savings[34]. As such, increasing levels of personal debt across the globe as a result of the pandemic are likely to be recorded in 2021.

- The Institute for International Finance (IIF) has stated that the pandemic has pushed global debt levels to a new record high of $255 trillion. With debt levels now topping 322% of GDP, global debt is 40 percentage points higher than in 2007
- There has been a significant increase in household debt worldwide. Household debt has now reached $48 trillion, up from $35 trillion in 2007.
- Switzerland, Denmark, Norway and China have the world's most indebted household sectors relative to GDP. The build-up in household debt has been sharpest in China (up 35%pts) and Norway (up 30%pts) since 2007.[35]

Inequality is rising throughout the UK, with individuals with the lowest incomes in society facing increasing levels of debt.

- UK households in higher income brackets have financially benefited from COVID-19. Many higher-income households have spent less during the pandemic whilst working from home, resulting in an increased pot of savings and even paying down existing debt. Bank of England data shows that over £12bn of consumer credit was repaid, mainly by higher-income households, in the second quarter of 2020.
- In contrast to this, a report by Legatum Institute shows that more than 15m people – 23% of the UK population – are now in poverty. The report also calculates that the pandemic has pushed nearly 700,000 additional people in the UK into poverty, with 9.6m people's household incomes 25% or more below the official definition of poverty.
- Prior to the pandemic, the Money Advice Service estimated that 8.3m people in the UK were over-indebted, and that 22% of UK adults had less than £100 in savings – making them highly vulnerable to a financial shock such as job loss or large unexpected bills. This type of financial shock is exactly what the pandemic has created: by May 2020, 4.6m people in the UK had accumulated over £6bn in debt and arrears.
- Citizens' Advice's data shows that roughly 6m adults have fallen behind on at least one household bill during the pandemic.[36]

[34] Respondents from Great Britain, 'How has the pandemic changed borrowing behaviours?' from YouGov's Global Banking and Finance Report 2021
[35] IIF - Global Debt Monitor - COVID-19 Lights a Fuse
[36] The Guardian - Covid has exacerbated soaring problem debt levels in the UK

- According to the Resolution Foundation, 54% of adults in families from the lowest income brackets increased their borrowing levels during the first lockdown (March-June 2020) to cover every day essential costs such as food and housing. Groups such as; renters, those from minority ethnic groups, carers, disabled people and young people have been the most impacted. [37]
- As a result of the ongoing economic uncertainty surrounding the pandemic, many people are looking at consolidating their debt, whether through secured loans, balance transfer credit cards or re-mortgaging – and lowering the interest they are paying.

B. The COVID-19 crisis has increased income inequalities which could weaken a consumption-driven economy in NI in the medium term.

A majority of NI households were in a weak financial position prior to the pandemic, which has only heightened financial stress.

- Prior to the pandemic, NI household debt levels were some of the highest in the UK. The Financial Conduct Authority estimate that on average, NI individuals owed £3,990 in unsecured debt (£670 above the national average). 12% of NI individuals have no cash savings at all and 60% of individuals have less than £10,000 in savings. [38]
- Whilst data is unavailable regarding NI households' current financial positions, UK Finance estimates that in 2020, one in six mortgages in the UK were subject to a payment deferral. [39]
- This is concerning for NI, which is a consumption-driven economy, with c.20% of tax revenue generated in NI from VAT, whereas the likes of Scotland, South, West and East England along with London, predominately raise tax revenue via the collection of Income Tax.[40]
- The most job-intensive and low-paid sectors have been those hit the hardest. Employees in these sectors are being penalised twice with immediate earnings reductions in the short term followed by uncertain and prolonged recovery for these sectors over the longer term.
- A higher proportion of households are facing increasing debt levels, however some are seeing an increase in savings.
- The question remains, will those households who have managed to build up savings during the pandemic, spend that money once the economy reopens or is there likely to be leakage as they choose to travel or add money to their pensions?
- There is a risk that household expenditure taken out of the economy in 2020 and early 2021 will not be fully recovered for some time. Incentive mechanisms from governments will be key in this regard to increase consumption in NI and support medium-term recovery.

---

[37] Coronavirus: Impact on household savings and debt - House of Commons Library (parliament.uk)
[38] BBC - Personal debt levels in Northern Ireland 'highest in UK'.
[39] Lenders grant 1.9 million payment deferrals to mortgage holders in three months | UK Finance
[40] ONS

Long-term opportunity #5: Balanced regional development

Evidence suggests that successive lockdown periods have changed preferences regarding city life versus life in smaller towns or rural areas. This particularly relates to concerns around health, work-life balance and housing prices. It is enabled by transport and broadband infrastructure that will need further public investment over the coming years. This "invisible circulation of wealth" based on people rather than firms can support balanced regional development in NI and could represent a positive legacy from the pandemic. Additional public investments in transport and broadband infrastructure will be key to maximise this positive impact.

A. Metropolitan areas may not drive economic growth forever, with the need to adapt to the expectations of new and existing talent.

International surveys suggest that we could be at the start of a de-urbanisation trend.

- The Harris Poll Survey conducted in August 2020 across the major cities in the US found that 40% of 'urbanites' considered moving from cities to less-crowded environments.
- Nearly half of all US adults said that they would prefer to live in a small town or rural area in 2020, which is a nine percentage-point increase from 2018, when just 39% responded this way. Those between the ages of 18-34 had a 10 percentage-point increase over the last two years, with 39% preferring rural/small-town life.[41]

Rebalancing: a possible positive consequence for regional development.

In the UK, estate agents have found a sharp increase in interest from city residents wanting to relocate to the countryside.

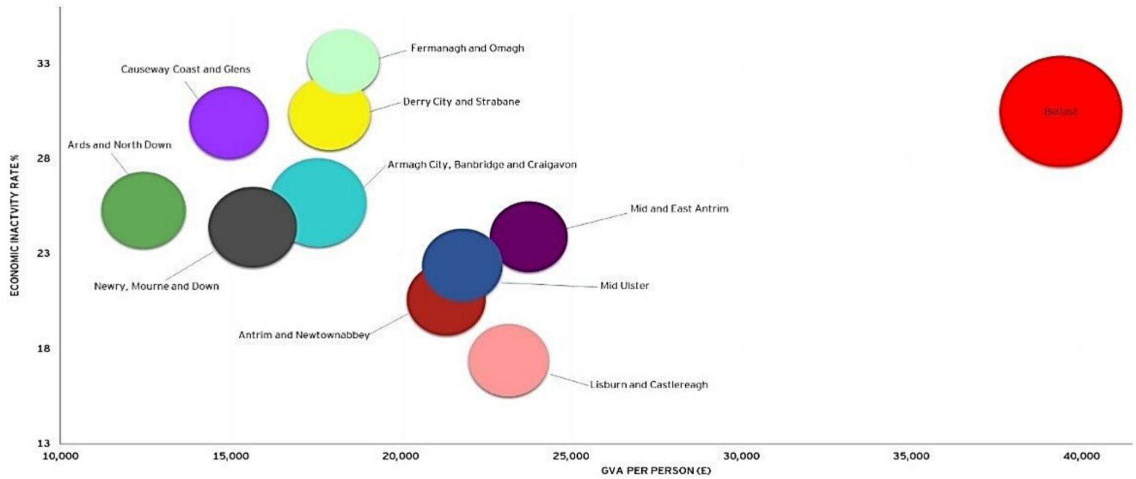
- The population of London is expected to decline by over 300,000 in 2021 from 9m in 2020. This would be the first time that the population of the capital has fallen in over 30 years.[42]
- According to Rightmove, enquiries about buying a home in a village jumped by 126% in June and July 2020 compared to the same period in 2019, with the uplift in village enquiries most notable among people living in Liverpool, Edinburgh, Birmingham and London.[43]
- The number of enquiries from Liverpool residents looking for a village lifestyle has almost tripled (275%) compared with a year earlier, while there has been a 63% increase in inquiries about towns. The city is followed by Edinburgh, where village enquiries are up 205%, Birmingham (up 186%) and London (up 144%).[44]

B. COVID-19 could lead to more balanced regional development in NI.

- NI had a particularly sharp inequality index prior to COVID-19, while Belfast was the outlier that saw the majority of economic growth and investment and had a very large population of skilled workers (see graph below). With the surge of remote working due to the pandemic, this highlights the need for regional development and investment across all of Northern Ireland.

---

[41] Harris Poll Survey, August 2020
[42] CNBC - London's population could decline in 2021 for the first time this century. Here's why people are leaving
[43] The London Economic - Escape to the country: Surge in city dwellers inquiring about homes in villages
[44] The London Economic - Escape to the country: Surge in city dwellers inquiring about homes in villages



Source: Economic inactivity rates and GVA per person in Northern Ireland, NISRA 2018, EY Analysis

- The NI government has identified the need for investment in regional areas, under the Regeneration and Neighbourhood Renewal Project undertaken by the Department for Communities (DfC) in NI, resulting in a draft allocation of £824.8m to the DfC in 2021.[45]
- The various public investments in broadband and the digital transformation of businesses are an opportunity to attract NI workers located in key cities such as London. Their spending locally would have a positive indirect effect on local towns and cities.
- Project Stratum, the NI national broadband plan worth £165m in 2021 has a rollout timeline that requires more than 76,000 extra premises across some of the hardest to reach areas in NI (e.g. rural) by the end of 2025.[46]
- The Draft NI Programme for Government (PfG) 2021 has also stated that a key priority area will be to tackle the issues that result in inequality and disadvantage in both urban and rural communities. [47]
- The Draft NI PfG also includes the aim of growing the economy to attract and stimulate investment across NI and to encourage business start-ups and development through City and Growth Deals whilst supporting sustainable development of rural industries, including increased digital access.[48]

[45] Department for Communities
[46] Department for the Economy
[47] Northern Ireland Executive - Consultation on the Programme for Government draft Outcomes Framework
[48] Northern Ireland Executive - Consultation on the Programme for Government draft Outcomes Framework

Long-term opportunity #6: Innovation and digitalisation could drive economic growth

Evidence suggests that increased innovation investment has long-term benefits for an economy. Prior to the pandemic, NI had seen a decrease in the level of innovation amongst local businesses. However, the pandemic appears to have pushed a number of firms towards increased innovation efforts in order to remain competitive in an ever-changing market. Should this increased level of innovation continue, the economy could benefit from increased productivity, efficiency and export activity in the long term.

A. Increased innovation witnessed in businesses across world as a response to the pandemic.

International research suggests that businesses have accelerated their innovation plans in order to remain competitive during the crisis.

- A survey by McKinsey Global has suggested that as a result of the COVID-19 pandemic, firms have been forced to react by innovating. The survey results suggested that businesses have accelerated the digitisation of supply chain interactions and internal operations by three to four years. [49]
- The majority of respondents stated that their companies had put in place temporary solutions to meet the changing demands of customers at a quicker pace than they had ever expected.

UK firms step up innovation plans in response to the pandemic which could have long-lasting impacts on productivity.

- Innovation is a key policy area for UK Government as economic growth and innovation are linked closely together.
- The unique nature of the COVID-19 crisis appears to have encouraged many firms to rapidly change their ways of working and adopt new digital technologies or management practices to enhance productivity.
- A joint survey by the London School of Economics and the Confederation of Business Industry suggested the majority of firms that responded, have adopted productivity-enhancing technologies and practices and/or introduced new products/services in response to the pandemic.[50]
- Over 60% of respondents have adopted digital technologies and new management practices, and 38% adopted new digital capabilities. 90% of those firms that have adopted new ways of working state they intend to continue with these innovations. [51]
- Should this level of innovation continue, it could have a significant, long-lasting impact on productivity and businesses performance in the long term.

B. The impact of COVID-19 has resulted in increased levels of innovation which could benefit the NI economy in the long term.

Northern Ireland businesses increased innovation during the pandemic which could result in stronger productivity and business growth.

- Prior to the pandemic, the volume of innovation-active businesses in NI had continued to decline, with 32% engaging in innovation in 2016-2018 (compared with 39% in 2014-2016, and 45% in 2012-2014).[52]

[49] McKinsey and Company - How COVID-19 has pushed companies over the technology tipping point—and transformed business forever
[50] LSE - COVID has forced many firms to innovate, with possible lasting impacts
[51] LSE - COVID has forced many firms to innovate, with possible lasting impacts
[52] DfE - A third of Northern Ireland businesses are engaging in innovation

- However, the rapidly changing business environment caused by COVID-19 has resulted in NI businesses seeking to innovate in order to remain competitive
- Invest NI have seen an increase in the volume of innovation voucher applications. Over 170 innovation vouchers have been awarded as of the end of 2020, which is over double the volume from the same period in 2019.[53]
- Research has suggested the impact of public funding for innovation on private funding for innovation results in no deadweight/crowding out. For every £1 of public funding for innovation, this also generates and additional 30p in private funding. [54]
- Should these levels of innovation continue, there could be significant long-term benefits for the NI economy including: increased productivity, higher propensity to export, increased efficiency (e.g. reduced use of energy), increased crowding in effects (increased business investment in innovation following public investment) and increased cluster effects/collaboration between public, private and academia.[55]

[53] InvestNI - Innovation in the face of COVID-19
[54] Department for Business Innovation and Skills - Estimating the effect of UK direct public support for innovation
[55] Qub - How Will Innovation Drive Our Future Economy?

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

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

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

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

Lessons learned from the trajectory of recovery in other countries.

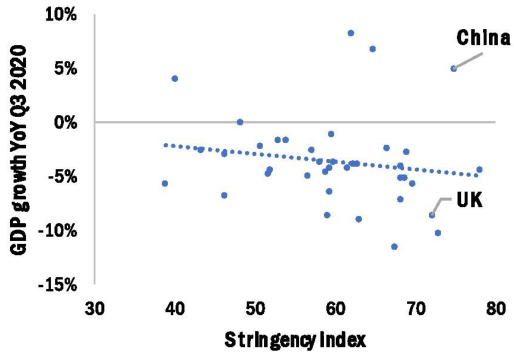
The onset of COVID-19 in March 2020 brought with it a complex set of problems for policymakers, not least that of inexperience in navigating a pandemic. Whilst Asian countries such as China had prior experience with recent pandemics like SARS, the majority of OECD governments did not. We can now reflect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

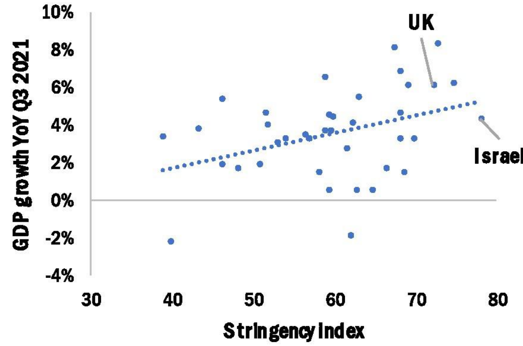
The restrictiveness of nations' lockdowns has been assessed by researchers at the University of Oxford, through the Coronavirus Government Response Tracker.[1] There is a negative correlation between stringency (or COVID-related restrictions) and GDP growth in the year to Q3 2020, as would be expected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

[1] EY analysis based on publicly available data from: Blavatnik School of Government, University of Oxford (ongoing) *'Coronavirus Government Response Tracker'* [online]
Available at: BSG - University Of Oxford - Covid-19 Government Response Tracker

Chart 1.1: GDP growth (%, YoY) Q3 2020 & Q3 2021, and severity of restrictions 2020, OECD & China [2]

Source: Oxford Economics, University of Oxford





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

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

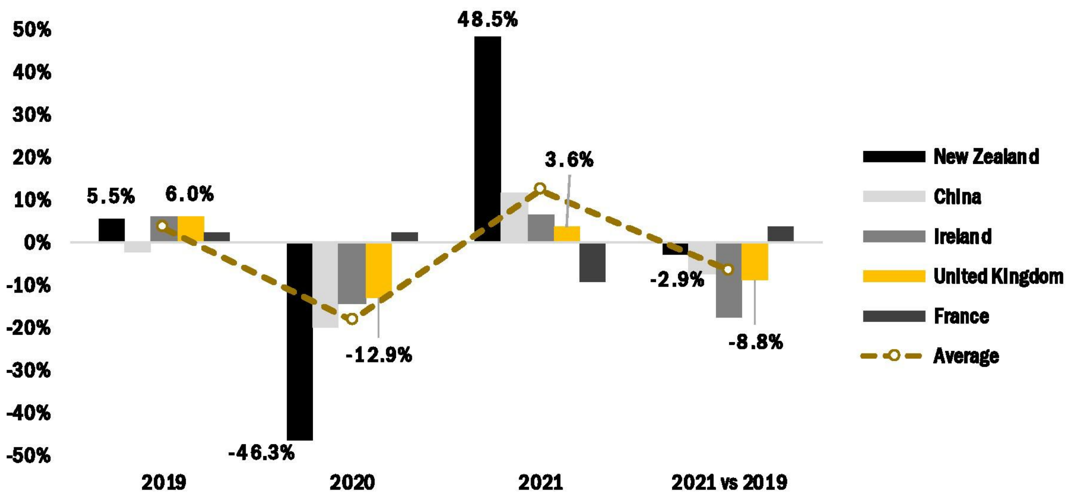
New Zealand illustrates the link between leveraging buoyant confidence measures and economic bounce back. In October 2020, Bloomberg found that New Zealand is the country that businesses would be most confident about investing in.[3] As in Australia, New Zealand's policy response and phased reopening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

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

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

[2] As proxied by the spot scores of the Stringency Index on 23rd March, June, September & December 2020 were averaged
[3] Bloomberg, October 2020, quoted in The Guardian *'New Zealand's COVID-19 response the best in the world, say global business leaders'*
[4] Stats.govt.nz

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



Source: Oxford Economics

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

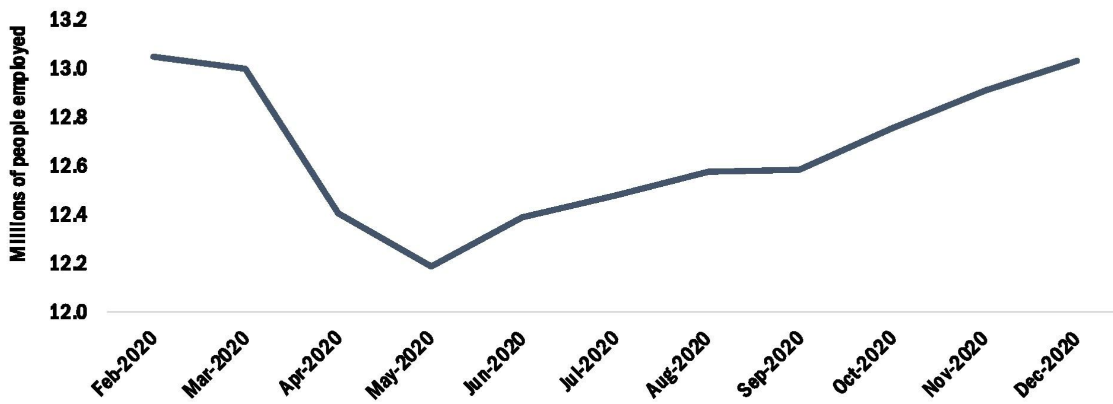
Australia is illustrative of the potential for a bounce back in the labour market and a jobs-led recovery.[5] Despite the implementation of localised lockdowns where COVID-19 outbreaks have been identified, their recovery has been underway since May 2020. Monthly labour force statistics illustrate a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

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

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

[5] ABS - Labour Force, Australia
[6] Latest available statistics are December 2020. ABS - Labour Force, Australia, Detailed
[7] EY Australia Chief Economist Jo Masters, quoted in the Sydney Morning Herald
[8] Australian Financial Review, January 2021, Australian Financial Review - Morrison praises firms returning JobKeeper cash
[9] ABC.net, February 2021. *'Brisbane economy 'bouncing back' after coronavirus lockdown, council data reveals'* [online] Available at: ABC - Brisbane economy 'bouncing back' after coronavirus lockdown, council data reveals

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



Source: Australian Bureau of Statistics

2) How the UK economy performed following the first lockdown

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

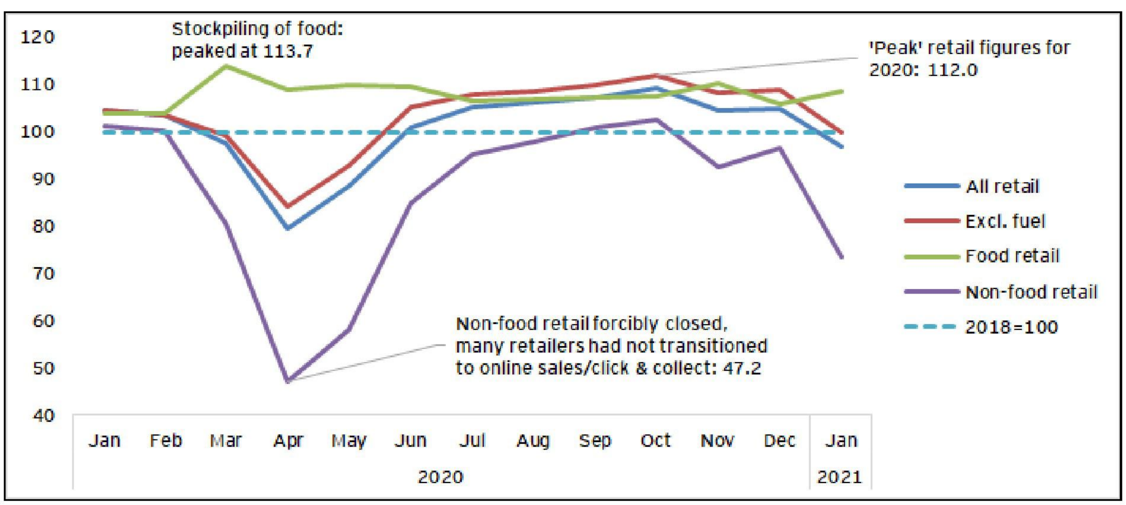
A strong bounce back is expected in many of the hardest hit sectors as a result of pent-up demand. Restaurants, personal services, sport and leisure fall into this category. It will be more challenging for sectors which have undergone a degree of structural change, such as foreign tourism, business travel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

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

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

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

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



Source: ONS

[10] ONS

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

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

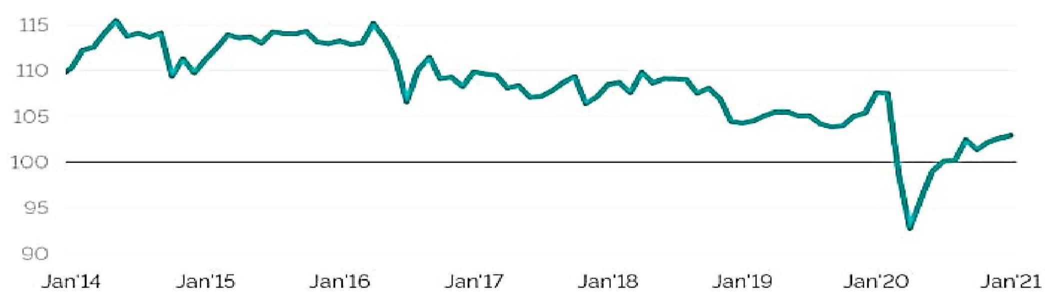
Consumer confidence data illustrates the temporary nature of the COVID-19 shock and potential for a speedier recovery.

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

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

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

Chart 2.2: Consumer Confidence January 2014 to present



Source: YouGov/CEBR

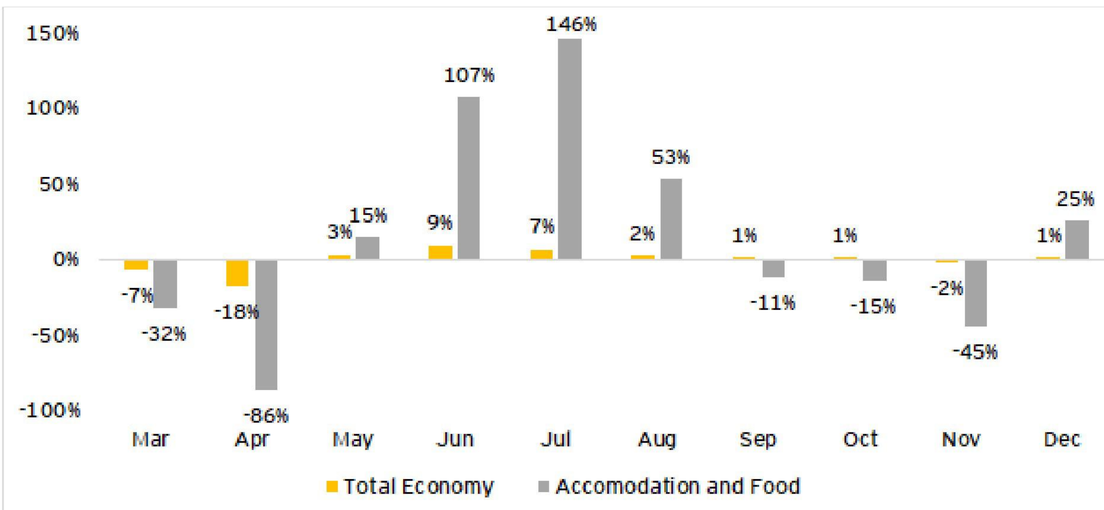
[11] YouGov website
[12] YouGov - Consumer confidence rises despite national lockdown

The impact of Q3 recovery efforts on economic output

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

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

Chart 2.3: UK GVA Index (SA, % change MoM), March – December 2020[13]



Source: ONS

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

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

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

[13] ONS - GDP monthly estimate, UK: November 2020
[14] See section 5 for further detail and quarterly breakdowns of GDP and consumption performance

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

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

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

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

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

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

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

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

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

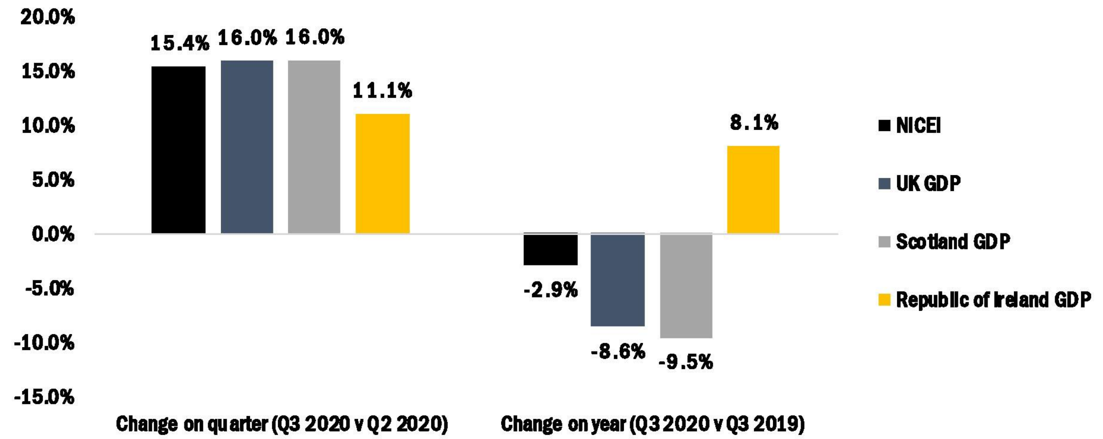
In order to determine the bounce back potential of the NI economy, we can first examine how it performed after the initial reopening of the economy at the end of Q3 2020.

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

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

[15] UUEPC - The Impact of Covid-19 on Northern Ireland Business Activity
[16] NISRA - Northern Ireland Quarterly Index of Services - Quarter 3 2020
[17] NISRA - Economic Activity in Northern Ireland by quarterly NI Composite Economic Index (NICEI) - Quarter 3 2020

Chart 3.1: Quarterly and annual change in NICEI compared to GDP measures for UK, Scotland and the Republic of Ireland Q3 2020[18]

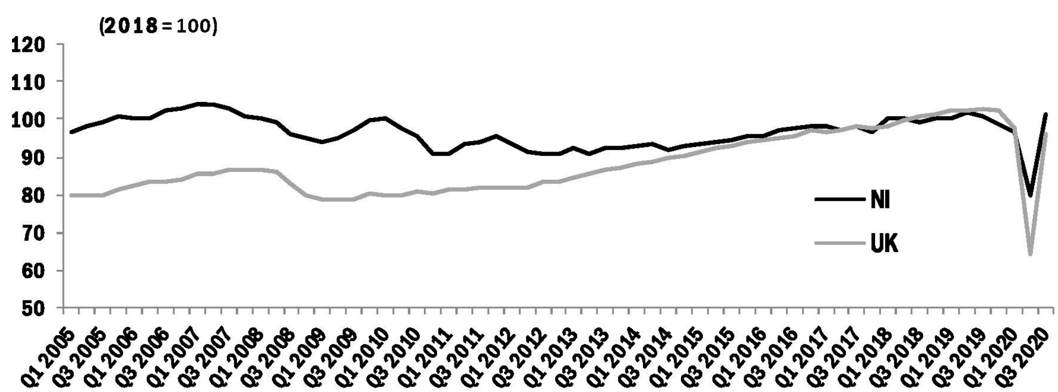


Source: NI Composite Economic Index, NISRA.

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

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

Chart 3.2: NI and UK Output: Wholesale, retail, repair of motor vehicles and accommodation and food services Q3 2005-2020 [20]



Source: Index of Services, NISRA

[18] NISRA - Economic Activity in Northern Ireland by quarterly NI Composite Economic Index (NICEI) - Quarter 3 2020
[19] NISRA - Index of Services (IOS) Statistical Bulletin and Tables - Quarter 3 2020
[20] NISRA - Index of Services (IOS) Statistical Bulletin and Tables - Quarter 3 2020

4) Assessing the bounce back potential of the NI economy

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

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

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

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

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

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

1. GDP - £100-£120m additional GDP per week by the end of 2021, compared to the start of the year; a return to pre-COVID-19 economic activity levels by the end of 2022.

2. Consumer spending - £50-£80m additional consumer spending per week by the end of 2021, compared to the start of the year; a return to pre-COVID consumer spending levels by the end of 2022.

3. Employment - Between 63,100 and 93,000 employees and 53,400 and 59,300 self-employed persons phasing off furlough and SEISS support, respectively, and returning to the workforce on a permanent basis.

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

[21] NIBusinessInfo - Budget 2021

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

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

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

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

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

Table 4.1: NI GVA Forecasts 2020-2023

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

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

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

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

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

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

Source: EY analysis based on UK forecasts

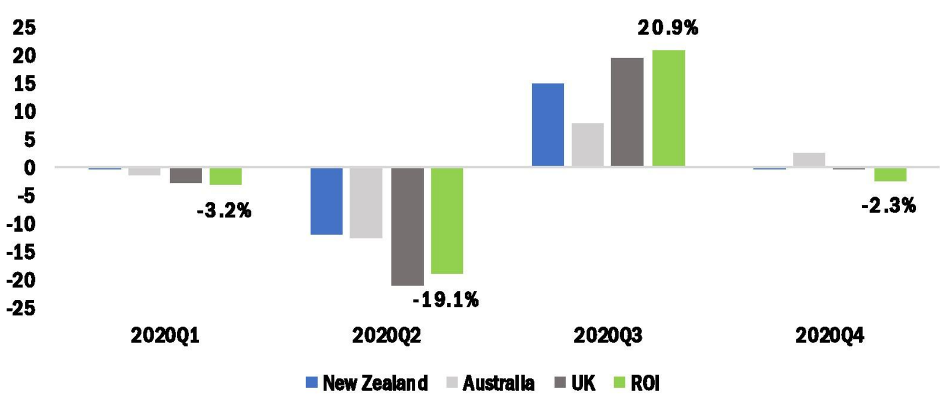
Using these estimates, NI could see an extra GDP contribution of £100-£120m per week by the end of 2021 when compared with the beginning of the year. However, despite the bounce, by the end of 2021 GDP may still be lower than at the end of 2019.

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

Increased consumer spending potential due to accrued savings.

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

Graph 4.3: Quarterly consumption (%, QoQ), UK, Republic of Ireland[23] and Australia



Source: Oxford Economics, CSO, March 2021

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

[22] CSO - Quarterly National Accounts Quarter 4 2020
[23] CSO Quarterly National Accounts private consumption of goods and services
[24] Bank of England - Monetary Policy Report - February 2021

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

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

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

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

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

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

---

[25] National Statistics, Oxford Economics Regional Accounts, Oxford Economics
[26] Calculated on a pro rata basis, assuming that 2-3% of these savings are from NI consumers. This is supported by the recent announcement by Danske Bank, that their NI deposit rates had increased by over £1bn in 2020 Danske Bank - Full year financial results 2020
[27] ONS - Family spending workbook 3: expenditure by region

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

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

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

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

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

[28] Bank of England - Monetary Policy Report - February 2021

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

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

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

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

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

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

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

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

Source: EY analysis

[30] Seasonally adjusted Workforce Jobs, average of 2019 Q1 – Q4 figures

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

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

Source: EY analysis

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

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

Table 4.7: Scenario values assigned to NI labour sectors

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

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

Long-term outlook dependent on behavioural and policy choices

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

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

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

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

Source: EY Economic Eye, Oxford Economics

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

[31] Oxford Economics Global Data Workstation, downloaded 15 February 2021

5) Assessing what is at stake for the NI economy

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

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

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

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

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

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

Table 5.1: NI's most vulnerable sectors

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

Source: HMRC, NISRA, NOMIS and EY analysis

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

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

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

---

[33] HMRC February 2021 Gov.uk - HMRC coronavirus (COVID-19) statistics

[34] NOMIS Workforce Jobs, employees, Q3 2020 Northern Ireland

[35] Agriculture, forestry and fishing, Mining and quarrying, Energy production and supply, Public administration and defence; social security and Households sectors have been group into the other category to maintain disclosure. Water supply and sewage has been grouped into this category.
[36] EY - Future Consumer Index: Why retailers must act now to capture the UK's 'considered Christmas'
[37] RICS, 2021

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

- **c. 212,000 people were either employed in Wholesale & Retail, Accommodation & Food and Arts & Entertainment in Q3 2020 or worked in a self-employed capacity in these sectors[38]**
- **This is 24% of NI's total workforce**
- **The most vulnerable sectors are employment intensive ones. At present, 30% of the employees in these sectors are supported by the UK Government via the CJRS[39]. More than one in every two furloughed individuals in NI is within these sectors.[40]**

Propensity to consume is not equal for every citizen.

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

[38] NOMIS Workforce Jobs, total workforce jobs, Q3 2020 Northern Ireland
[39] Furlough statistics up to 31 January 2021. This figure is calculated as a share of the applicable sectors employee numbers as per NOMIS Workforce Jobs, total employees, Q3 2020 Northern Ireland.
[40] 55% of all employments furloughed in NI as of 31 January 2021 belong to Accommodation & Food, Arts & Entertainment or Wholesale & Retail.
[41] Household income, spending and wealth, Great Britain - Office for National Statistics (ons.gov.uk)

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

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

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

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

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

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

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

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

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

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

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

[42] https://www.ulster.ac.uk/__data/assets/pdf_file/0009/659574/UUEPC-Covid-Business-Impacts_Summary-Report_Final_25092020.pdf based upon consultation of businesses.

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

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

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

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

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

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

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

[43] Household income, spending and wealth, Great Britain - Office for National Statistics (ons.gov.uk)