



“Green Shoots and False Dawns”

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CBI Economic Luncheon

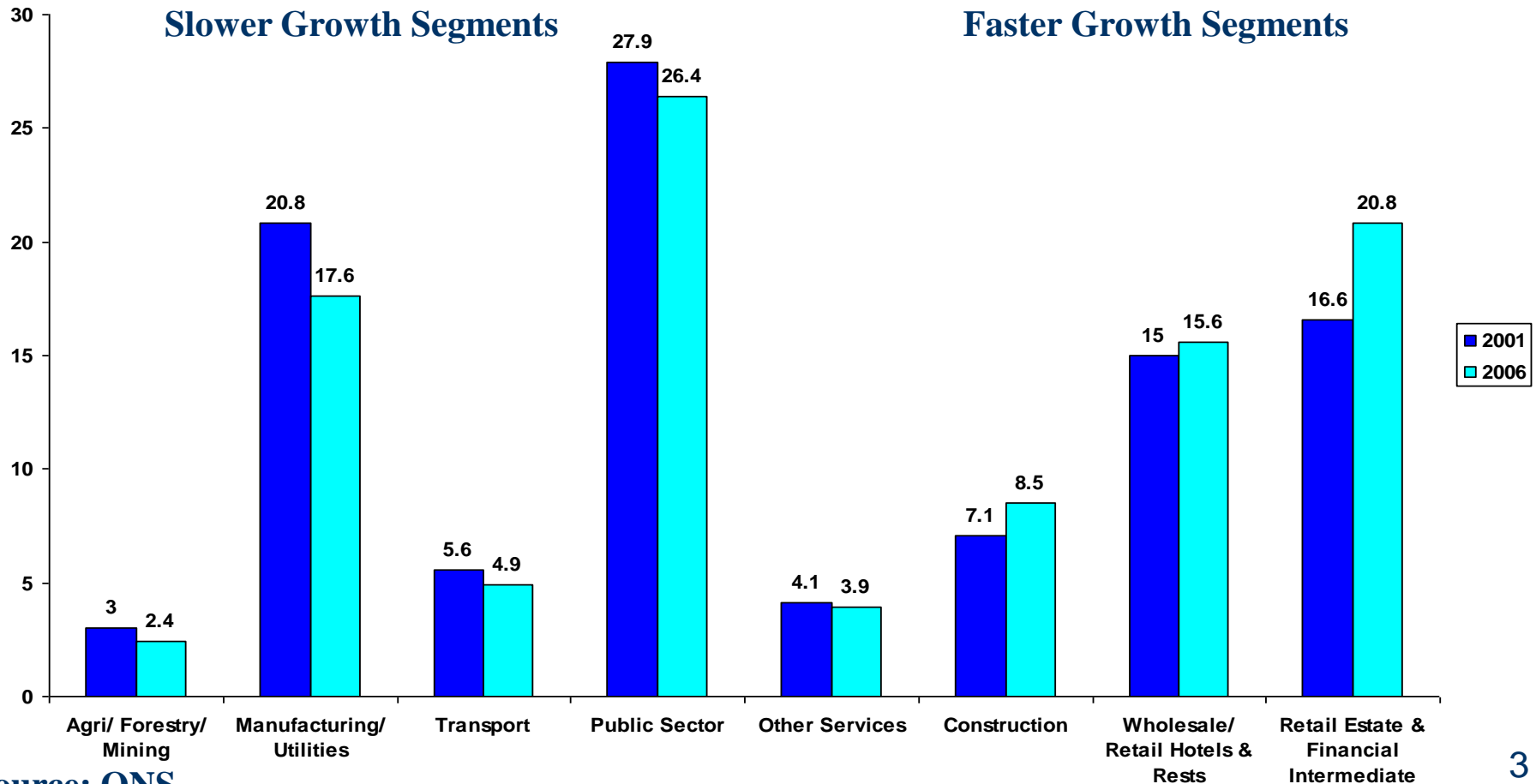
20th May 2009

The Recession

“made in Northern Ireland”

Where did the growth come from?

(Contribution to GVA by industry groups)

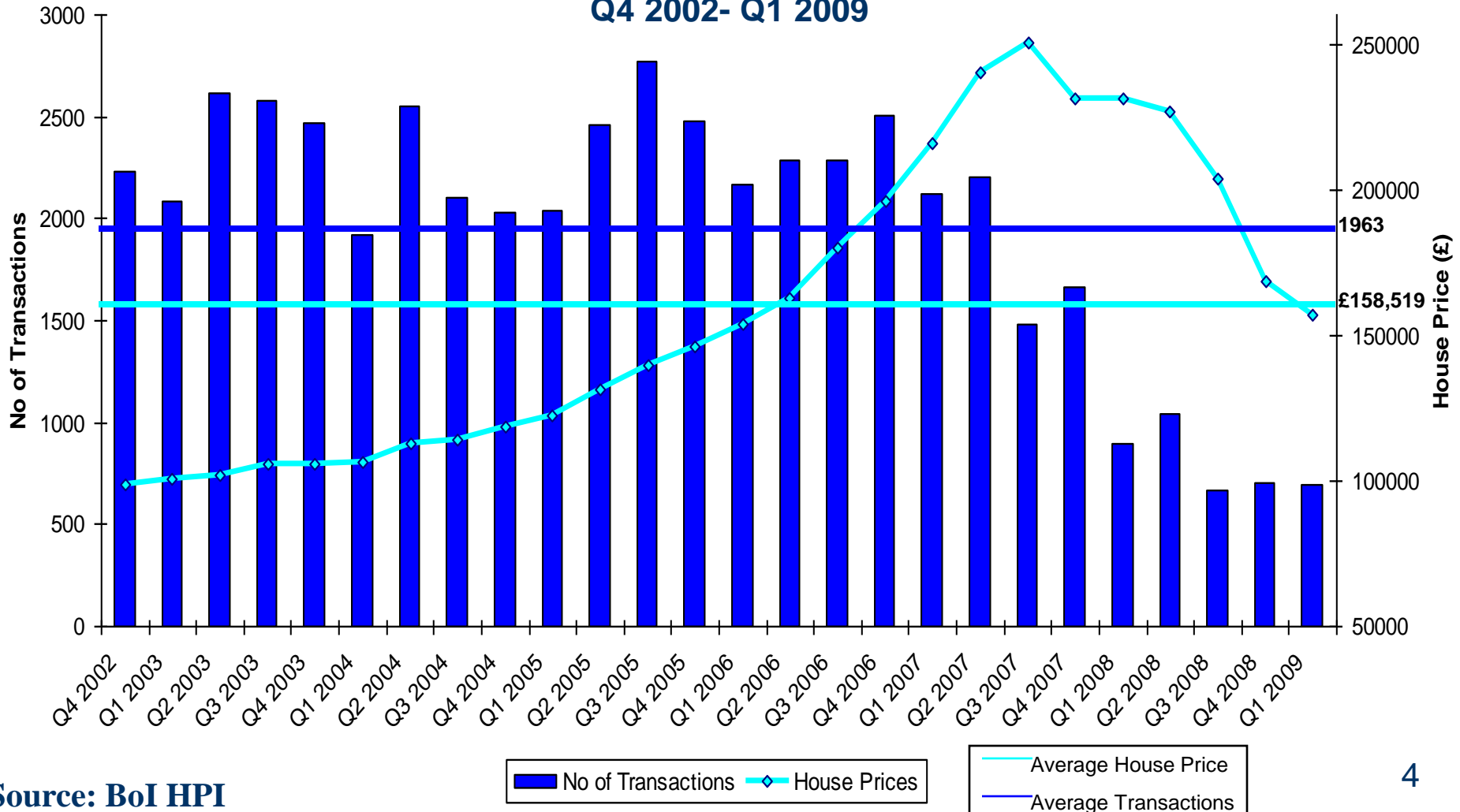




Contributed to our first real property cycle

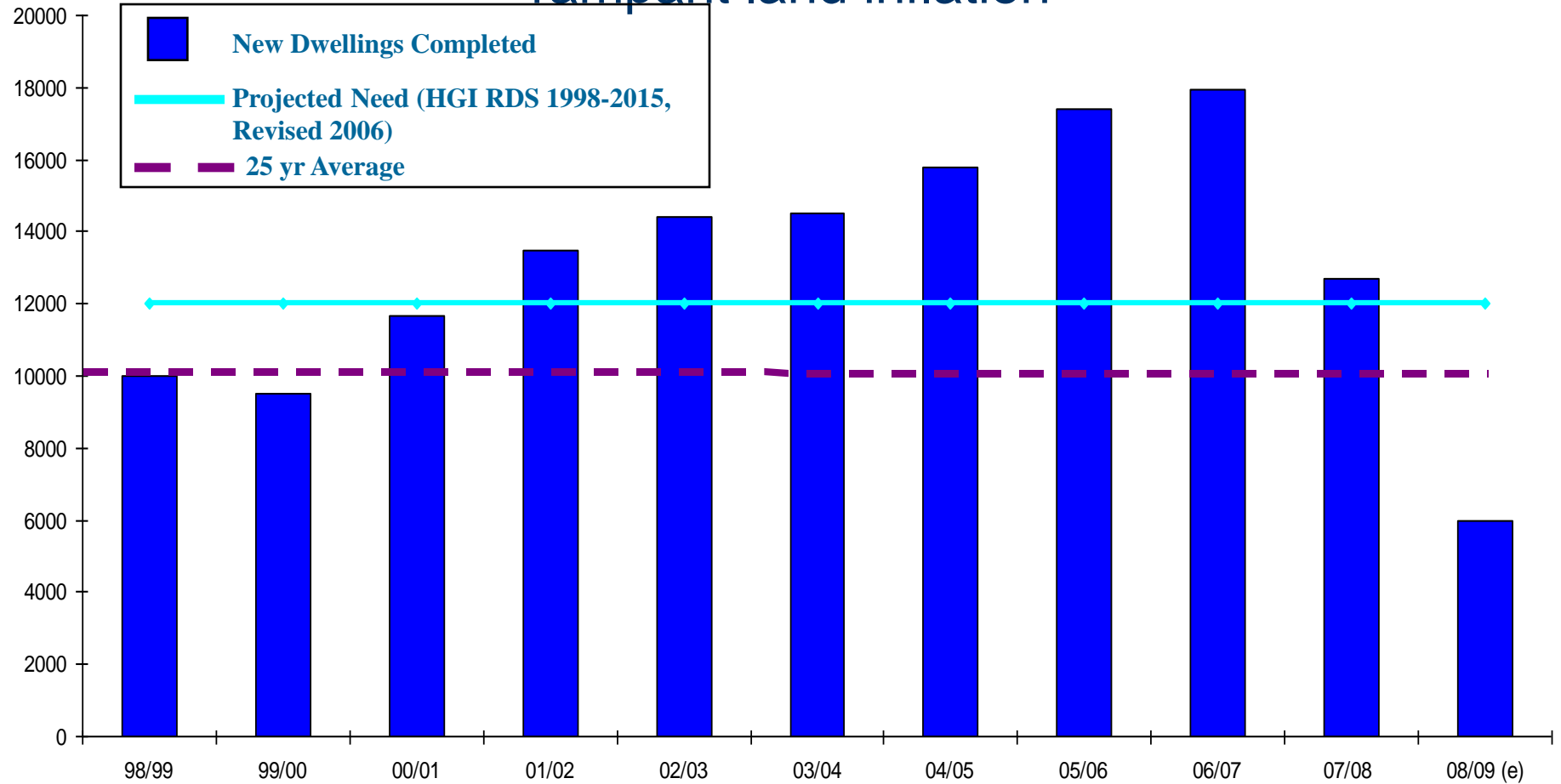
Transactions & House Prices

Q4 2002- Q1 2009



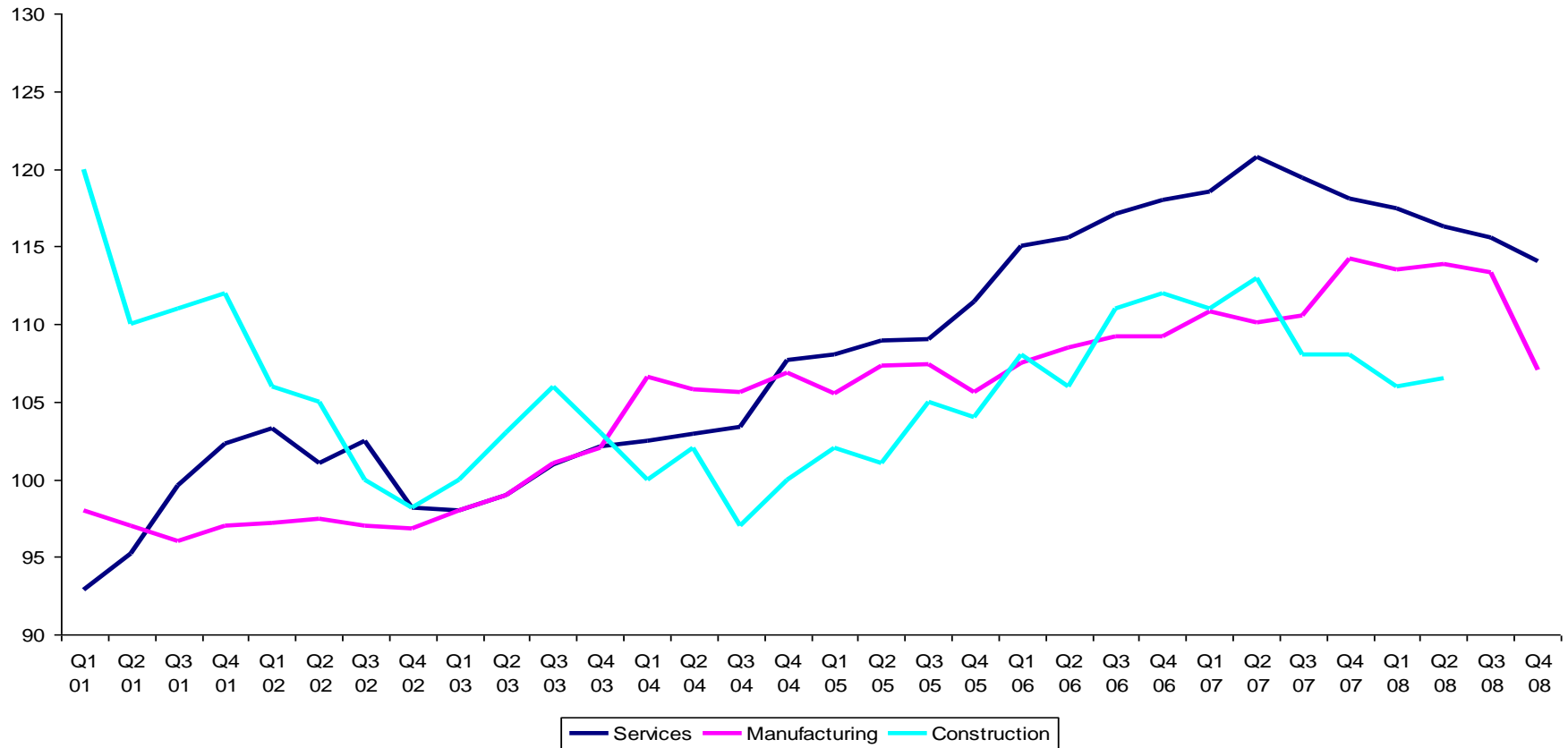
Source: BoI HPI

NI Housing – “Supply response” to spell of overdrive and rampant land inflation



Collateral damage to Business & Financial Services.....Manufacturing resilient until Q4 2008

Services, Manufacturing & Construction Output Q1 2001- Q4 2008

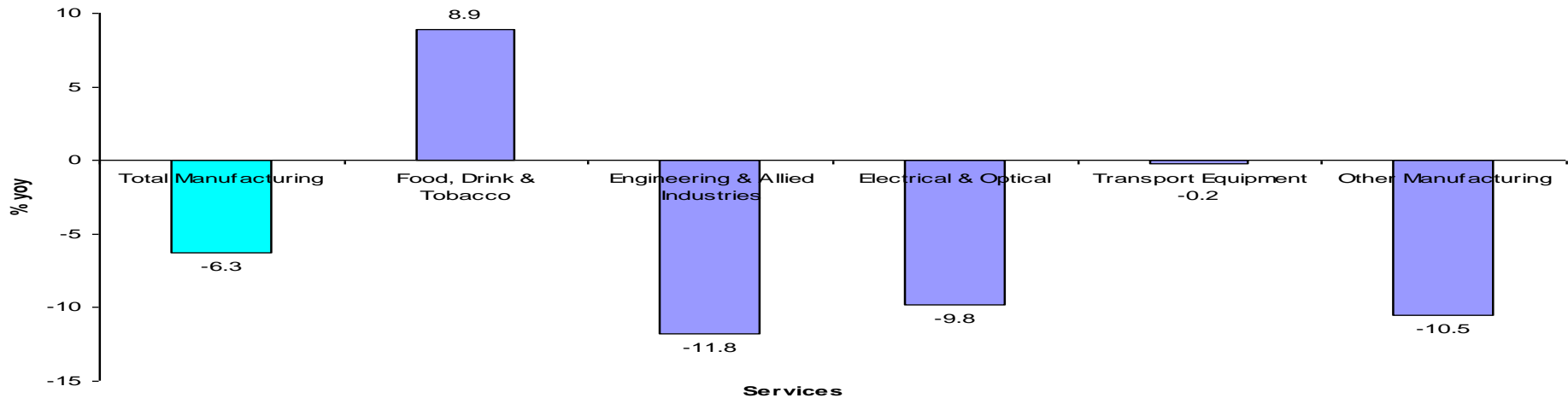




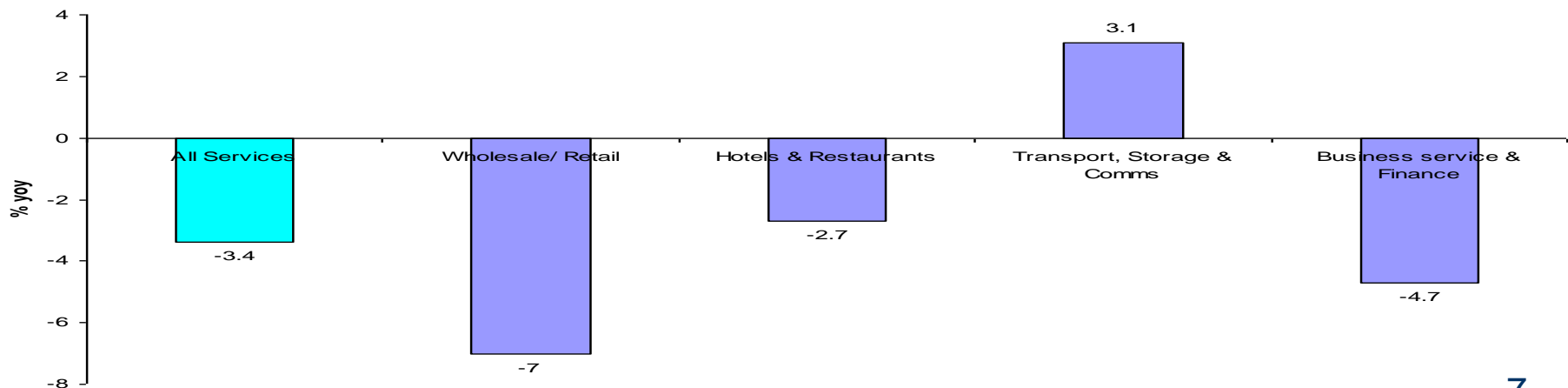
Not everything has moved down

Manufacturing & Services performance de-composed

Manufacturing Output (selected)



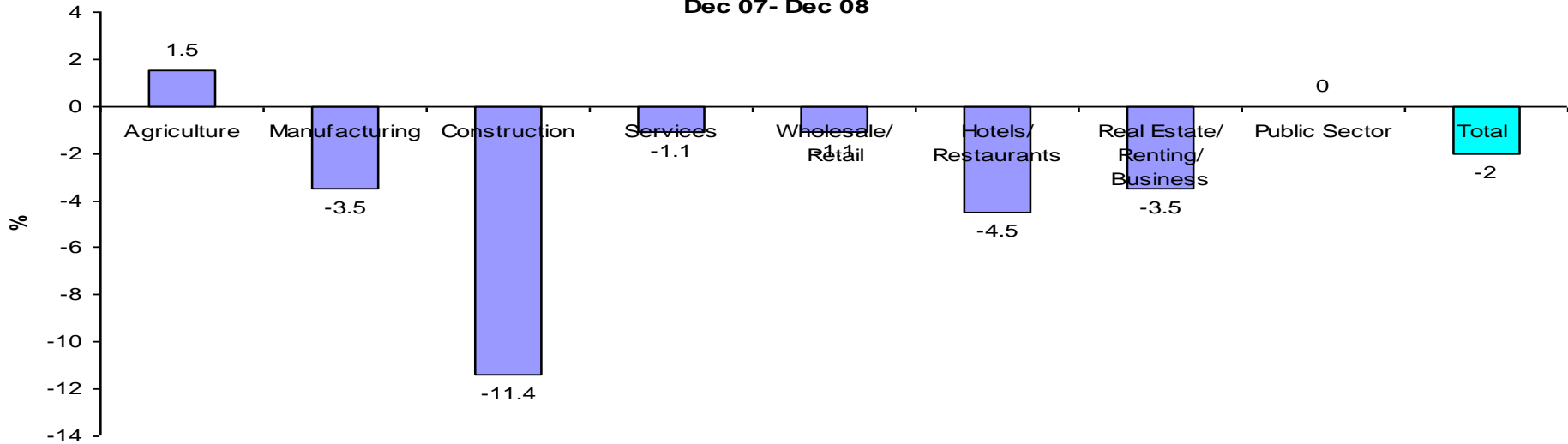
Services



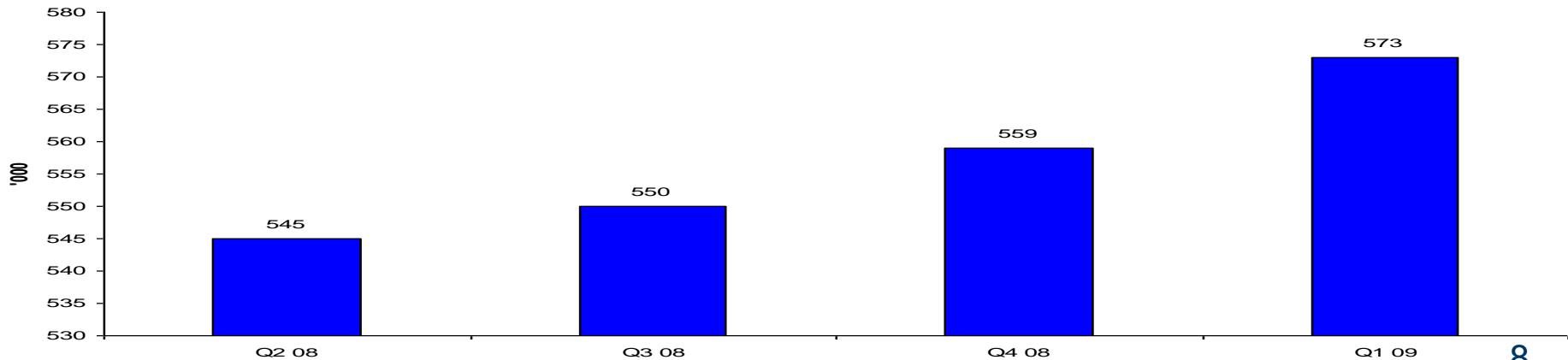


Falling employment & rising inactivity

Annual % Change in Employee Jobs (by selected sector)
Dec 07- Dec 08

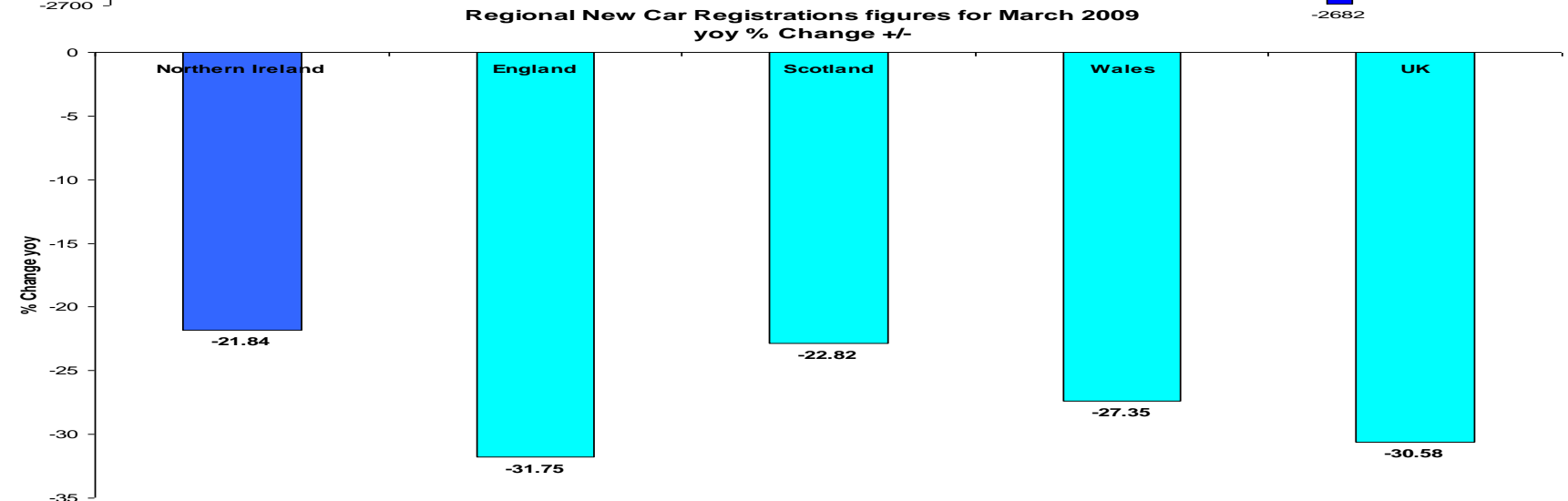
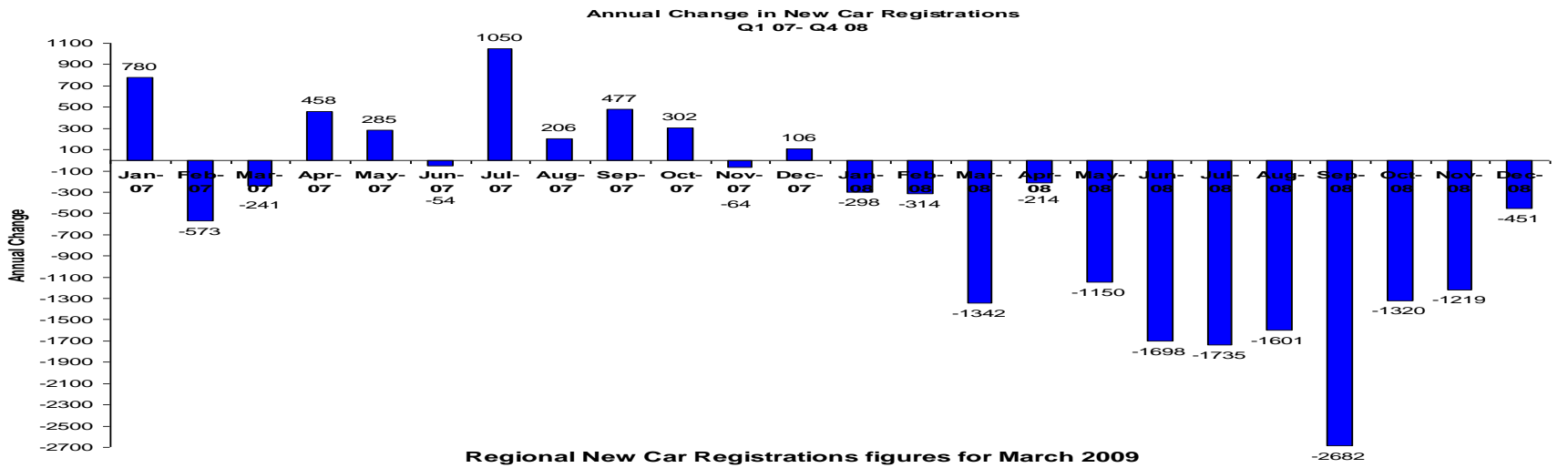


Economically Inactive





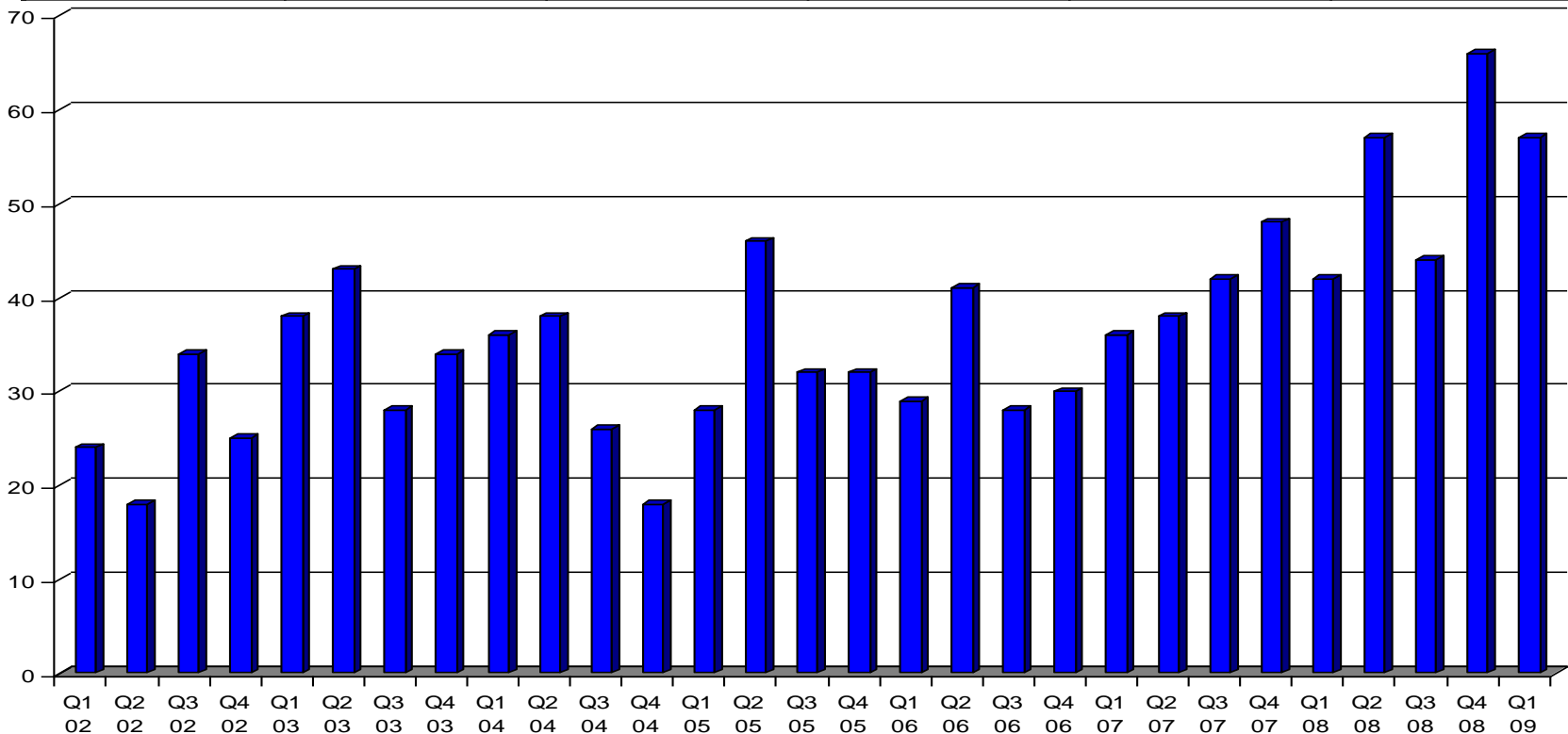
Registration of new cars in NI has fallen dramatically



NI Corporate Insolvencies rising yoy- the non-property/real economy bad debt cycle has some way to go

Annual Figures

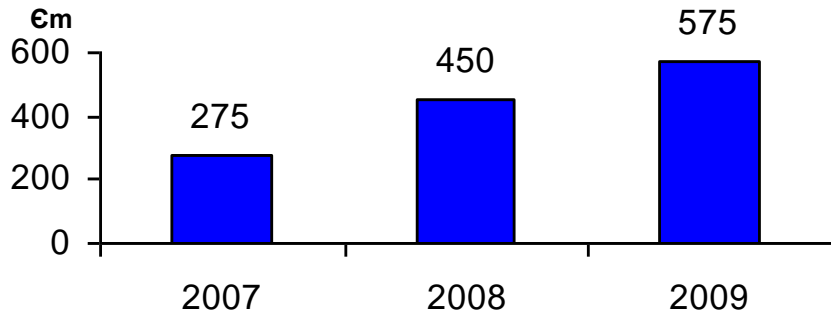
<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009(f)</u>
121	138	128	164	209	c300





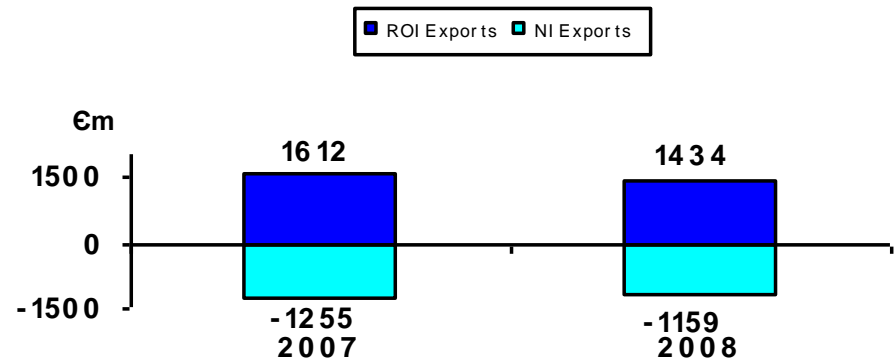
Recession impact on the island economy

Estimate of Cross-Border Shopping (mid-points)



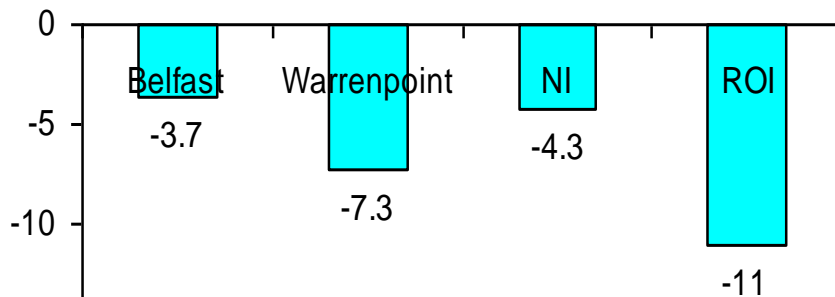
Source: CSO (Feb 2009)

Cross-Border Trade Gap



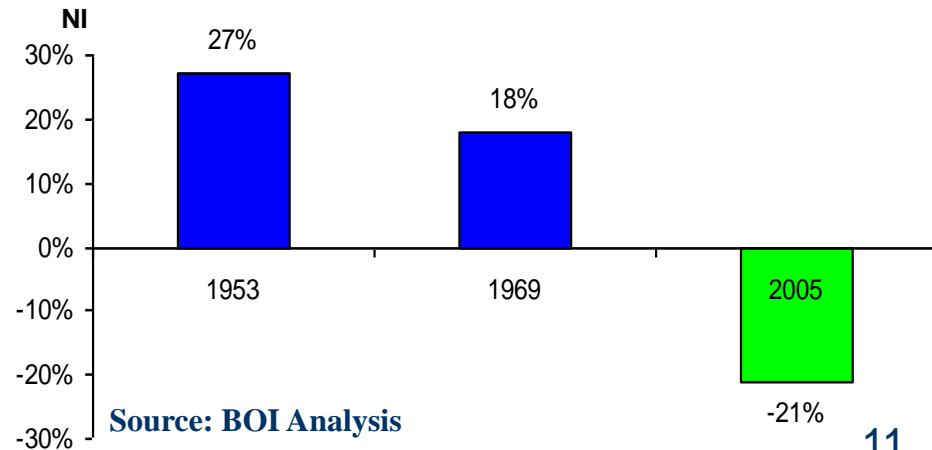
Source: CSO

Container Port Traffic 2007-2008



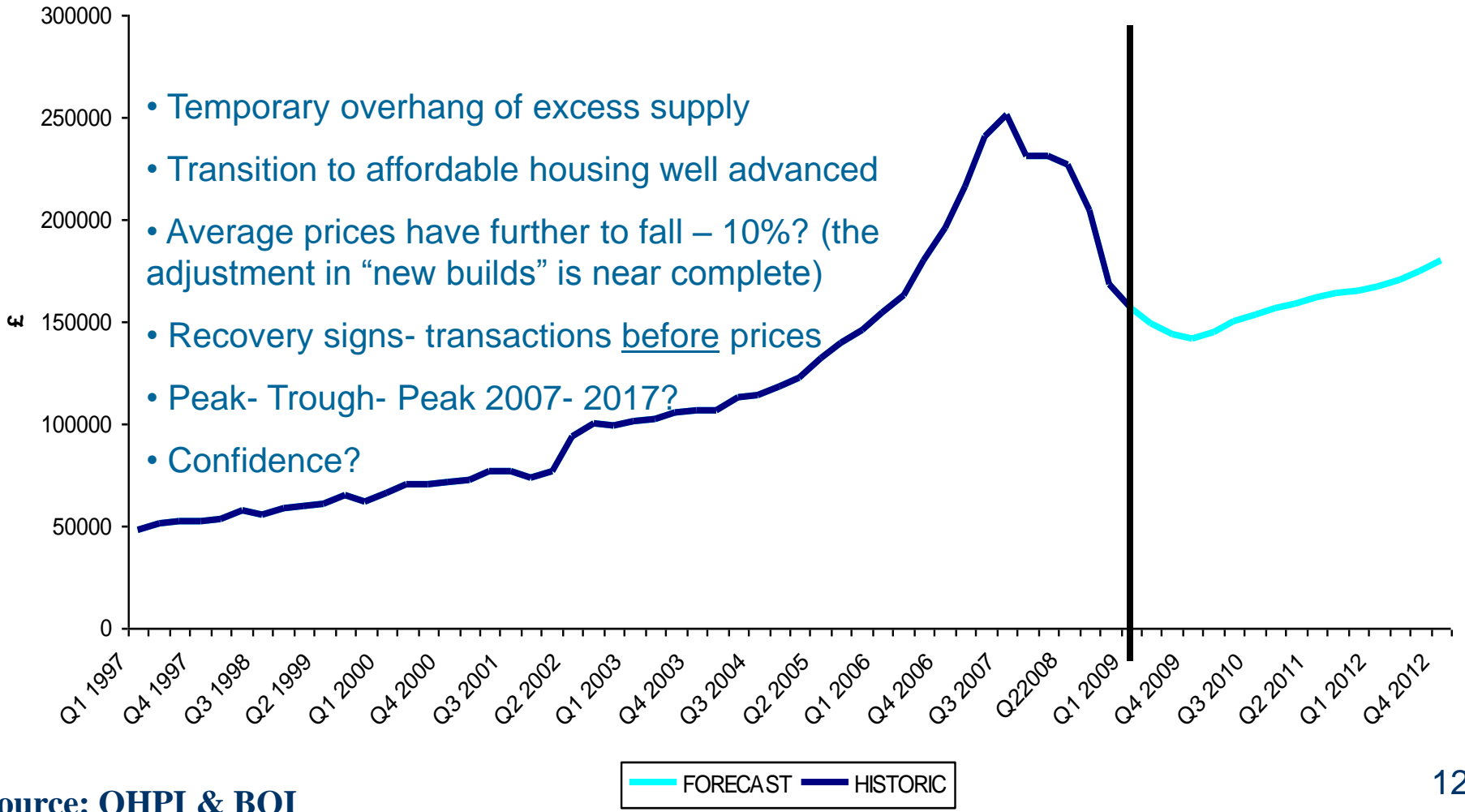
Source: IMDO

Average Income Per Capita



Source: BOI Analysis

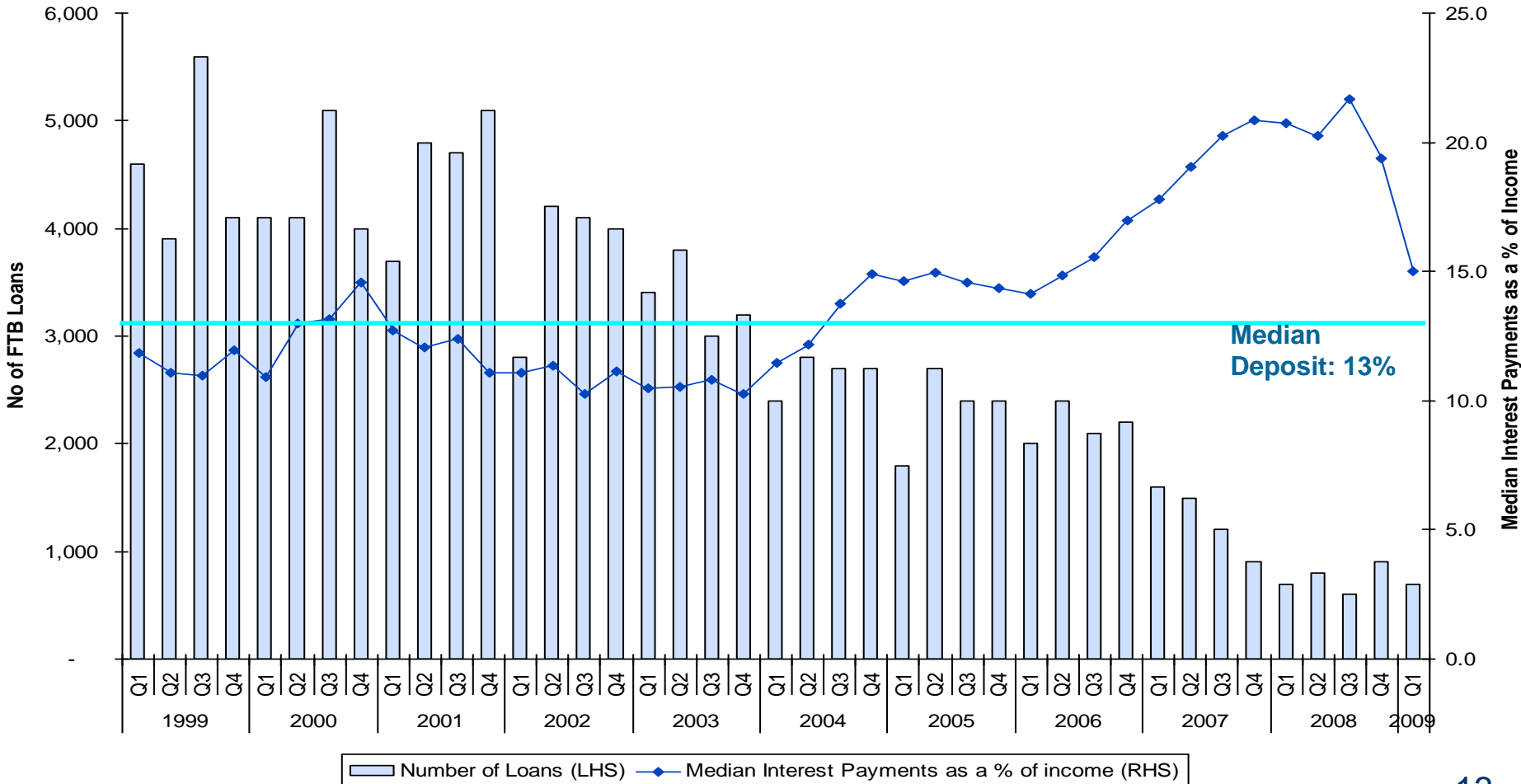
Residential property market adjustment well advanced but what will follow?





First Time Buyers hold the key

FTB & Affordability

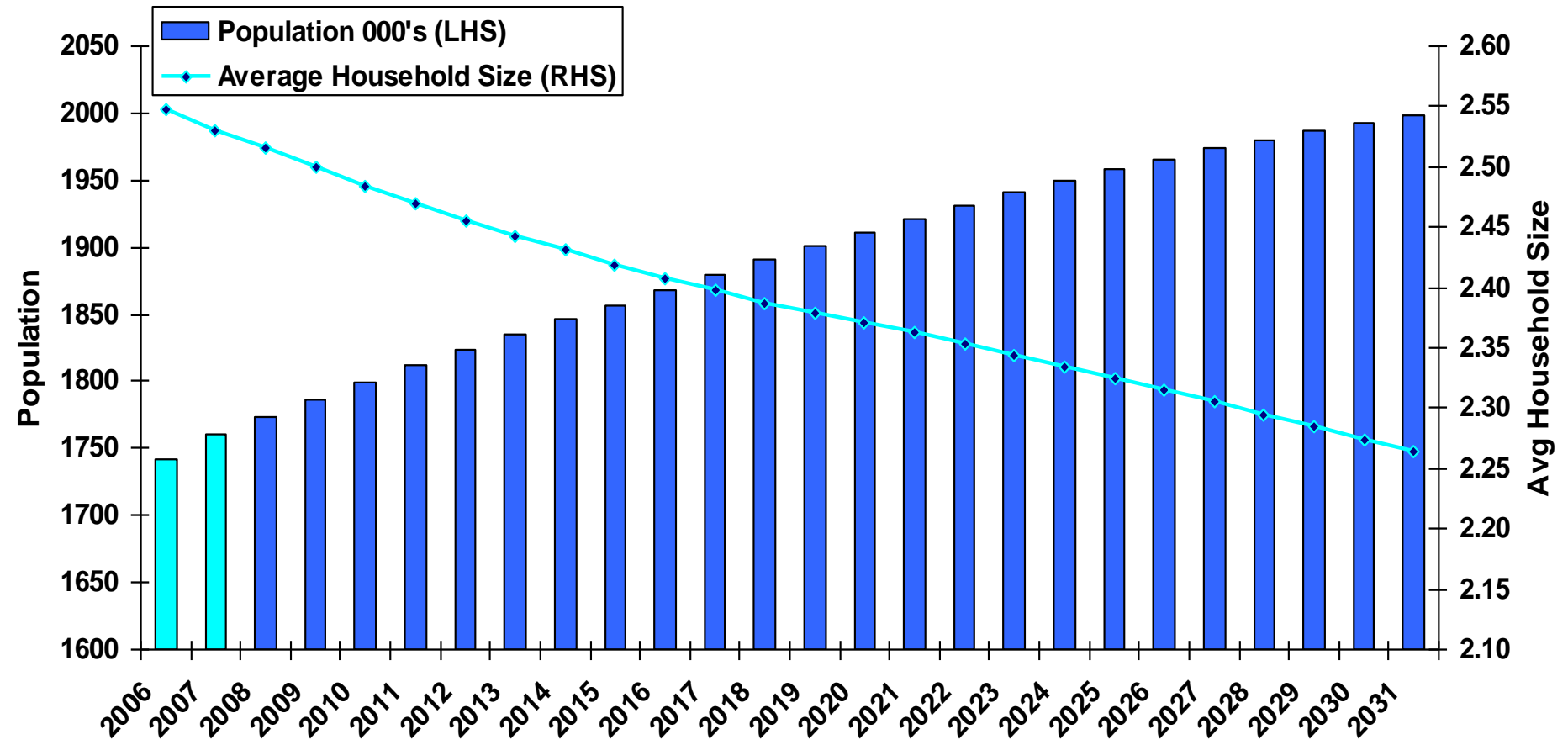


Number of Loans (LHS) Median Interest Payments as a % of income (RHS)



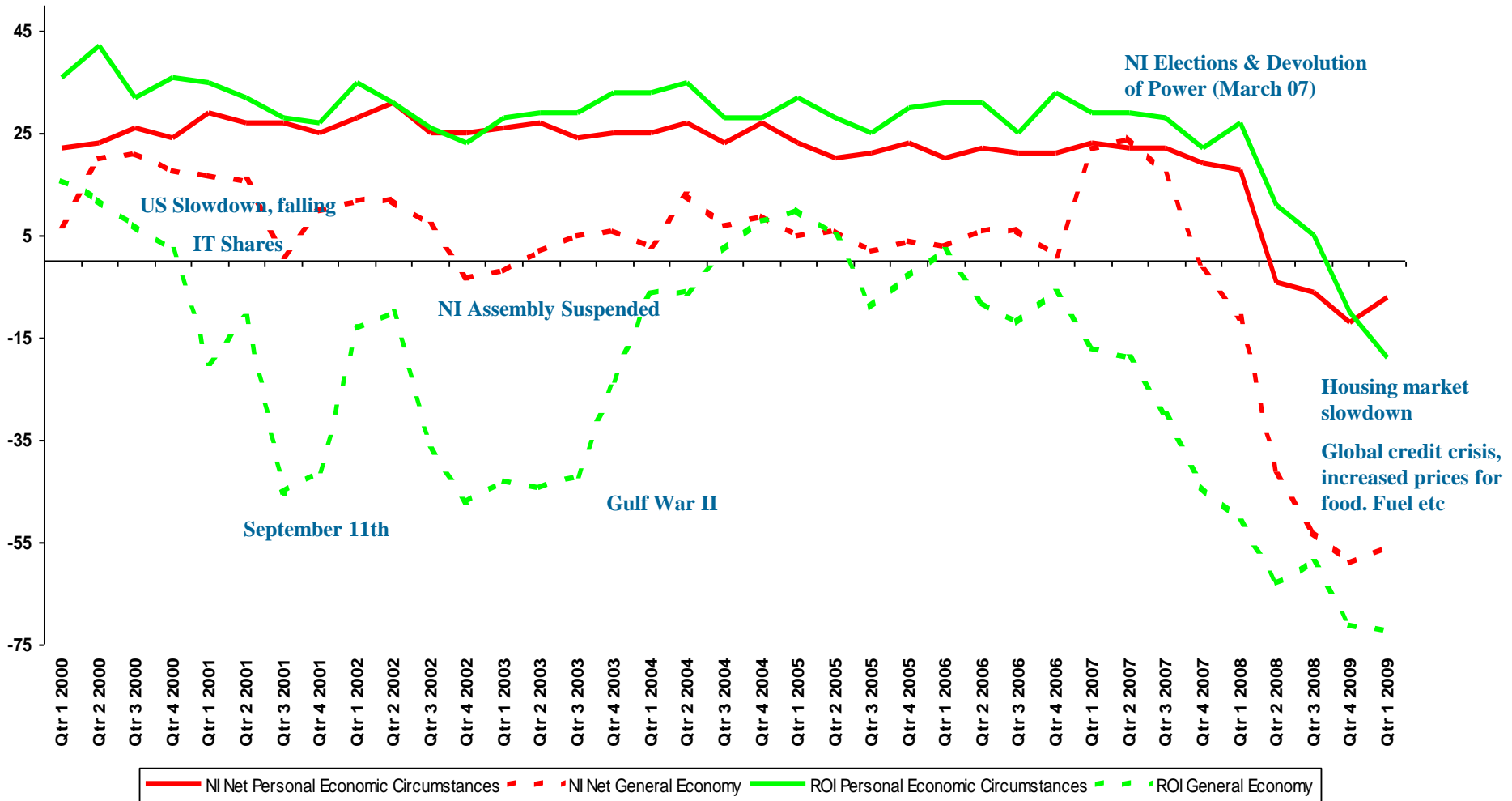
House builders- comfort for the medium term?

Population & household projections



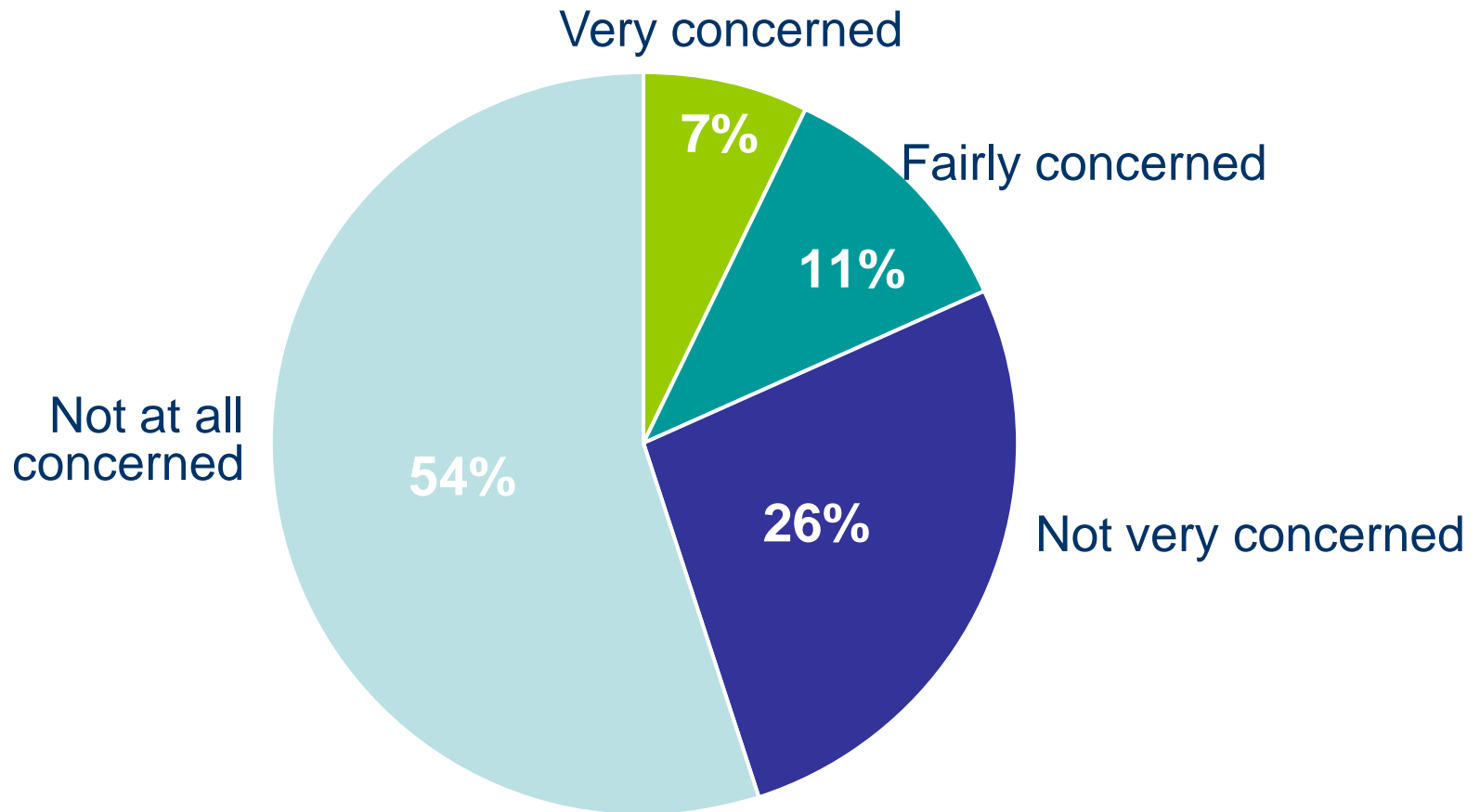


Confidence levels in NI stabilising?



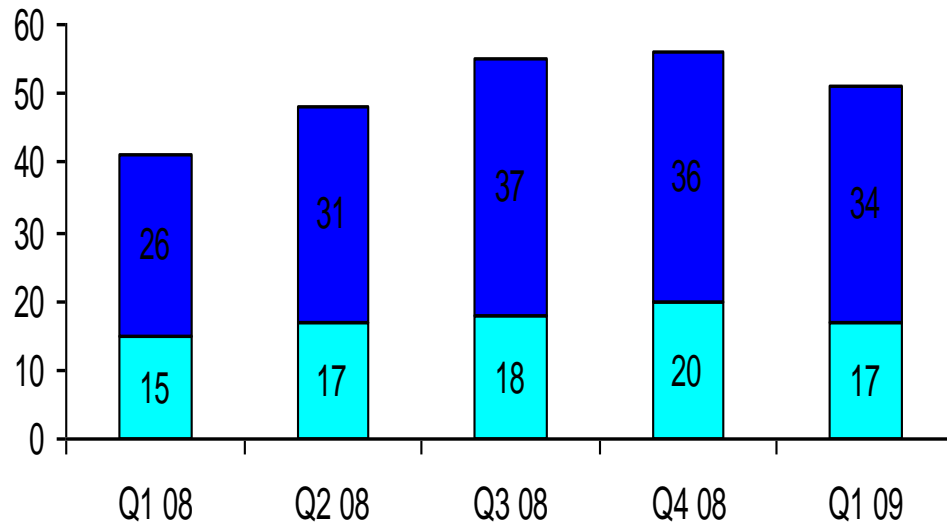
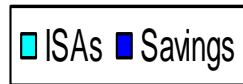
Redundancy fears much lower in NI than in ROI & GB

Fear of redundancy in NI



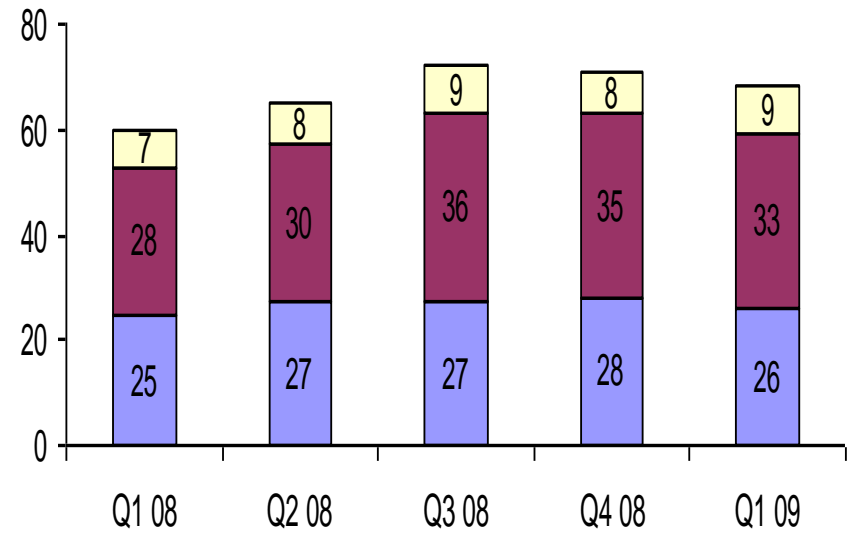
Tentative evidence of beginning of some regional household B/S adjustment

Assets



Savings & ISAs

Liabilities



Consumer Credit- Secured & Unsecured

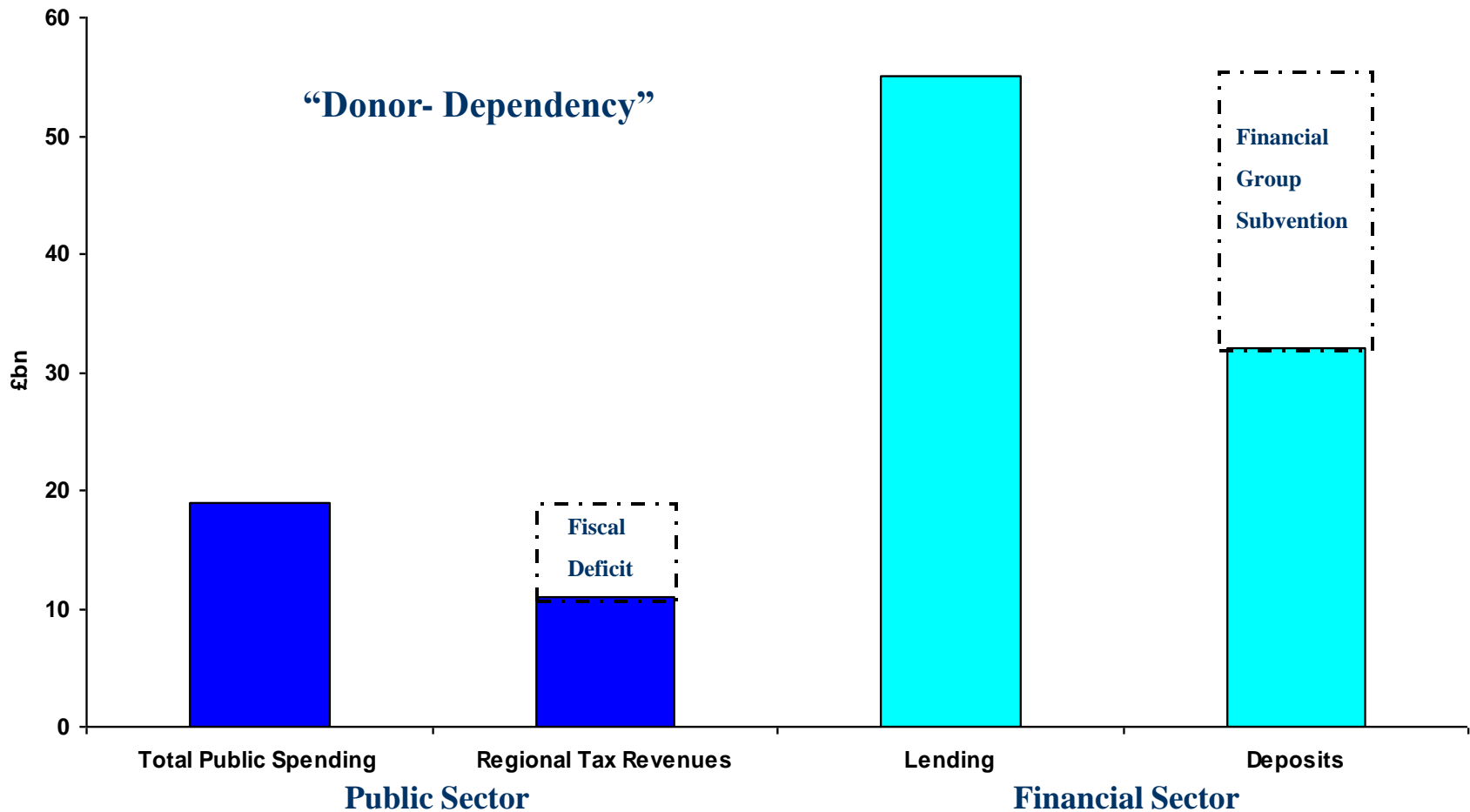


Key indicators- Planning assumptions

	<u>2008 (y/e)</u>	<u>2009 (y/e)</u>	<u>2010 (y/e)</u>
<u>NI</u>			
GVA Growth % yoy	0.25	-2.50	0.00
Claimant Unemployment	36k	57k	61k
Average House Prices	168k	140k	145k
<u>Financial Variables (y/e)</u>			
UK Base Rate	2.0	0.5	1.5
Euro Repo	2.5	1.0	1.0
US Fed Funds	0-0.25	0-0.25	0.75
Euro/ GBP	94p	85p	80p
GBP/ USD	1.49	1.47	1.58

Facing New Realities

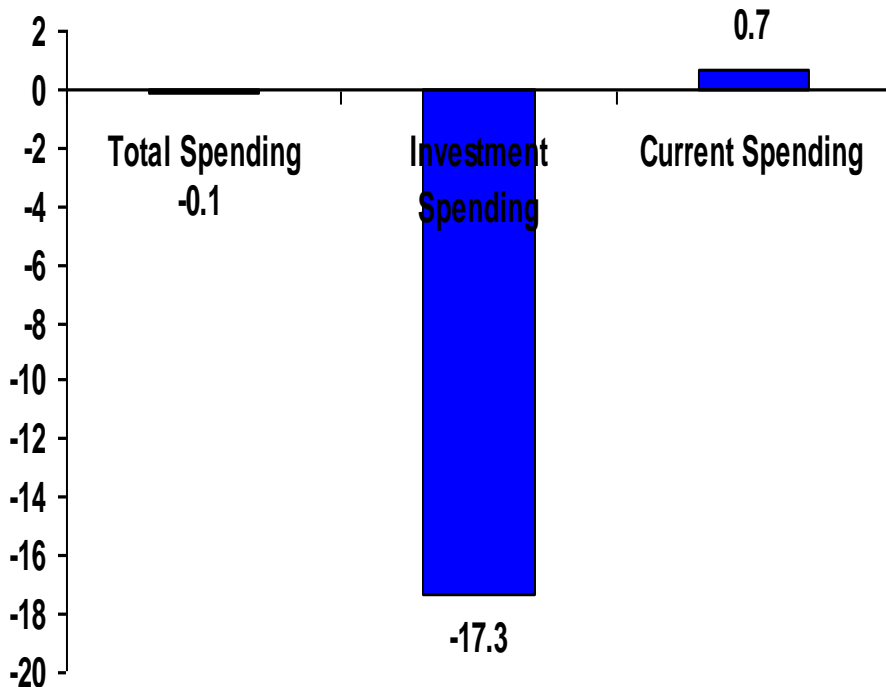
Challenge- An already stretched regional balance sheet in an era of de-leveraging



Challenge - The new Fiscal Dispensation post April 11-one scenario

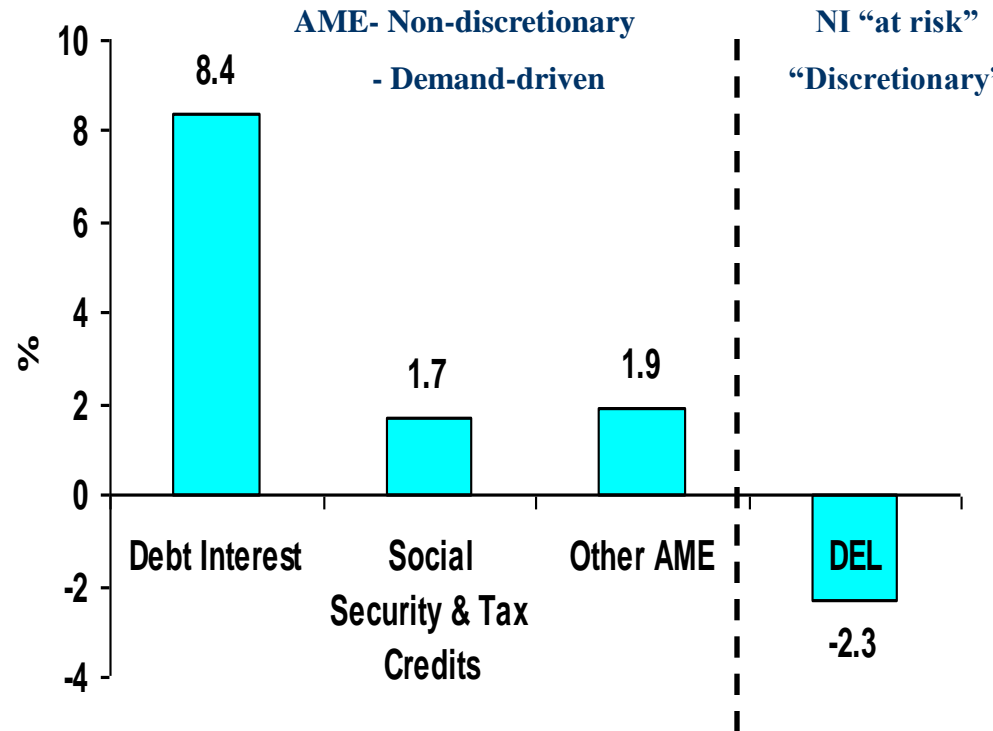
UK Plans

Average Annual % real increase



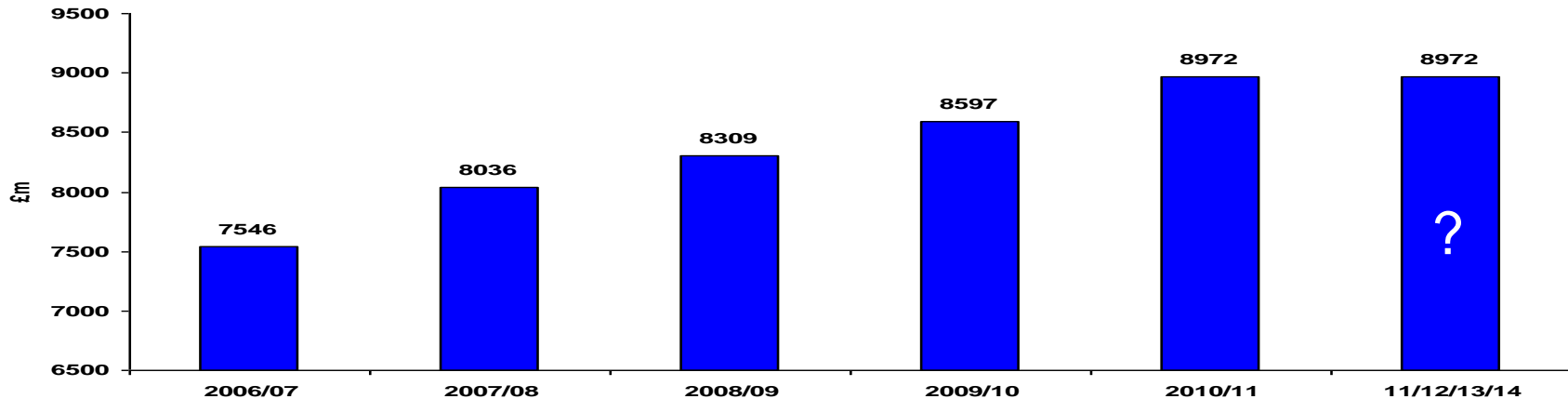
Potential Regional Impact

Average Annual % Real increase

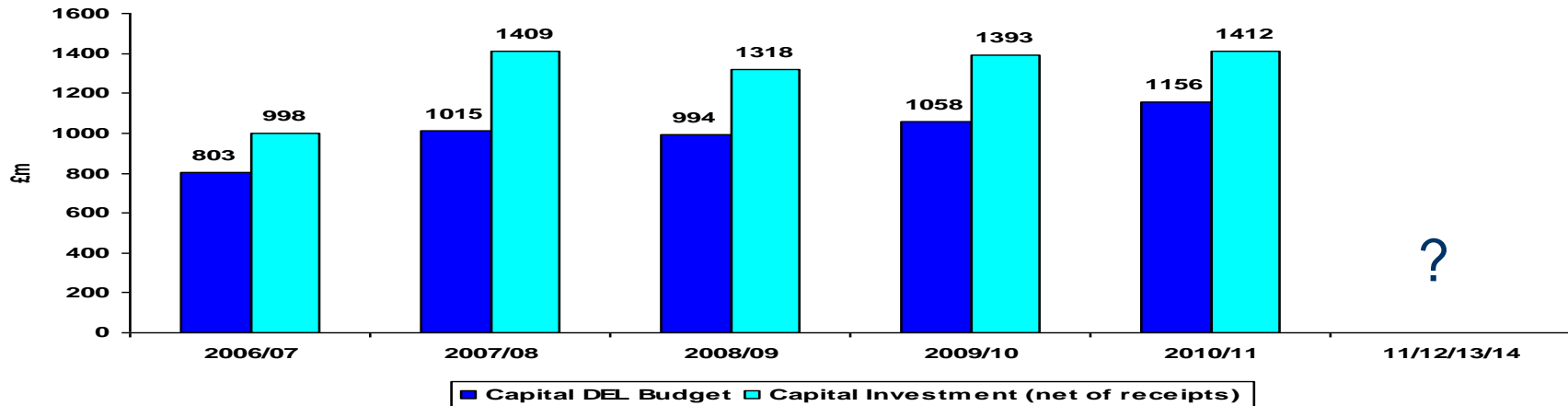


The changing profile of public expenditure (outturn & plans)

Current Expenditure

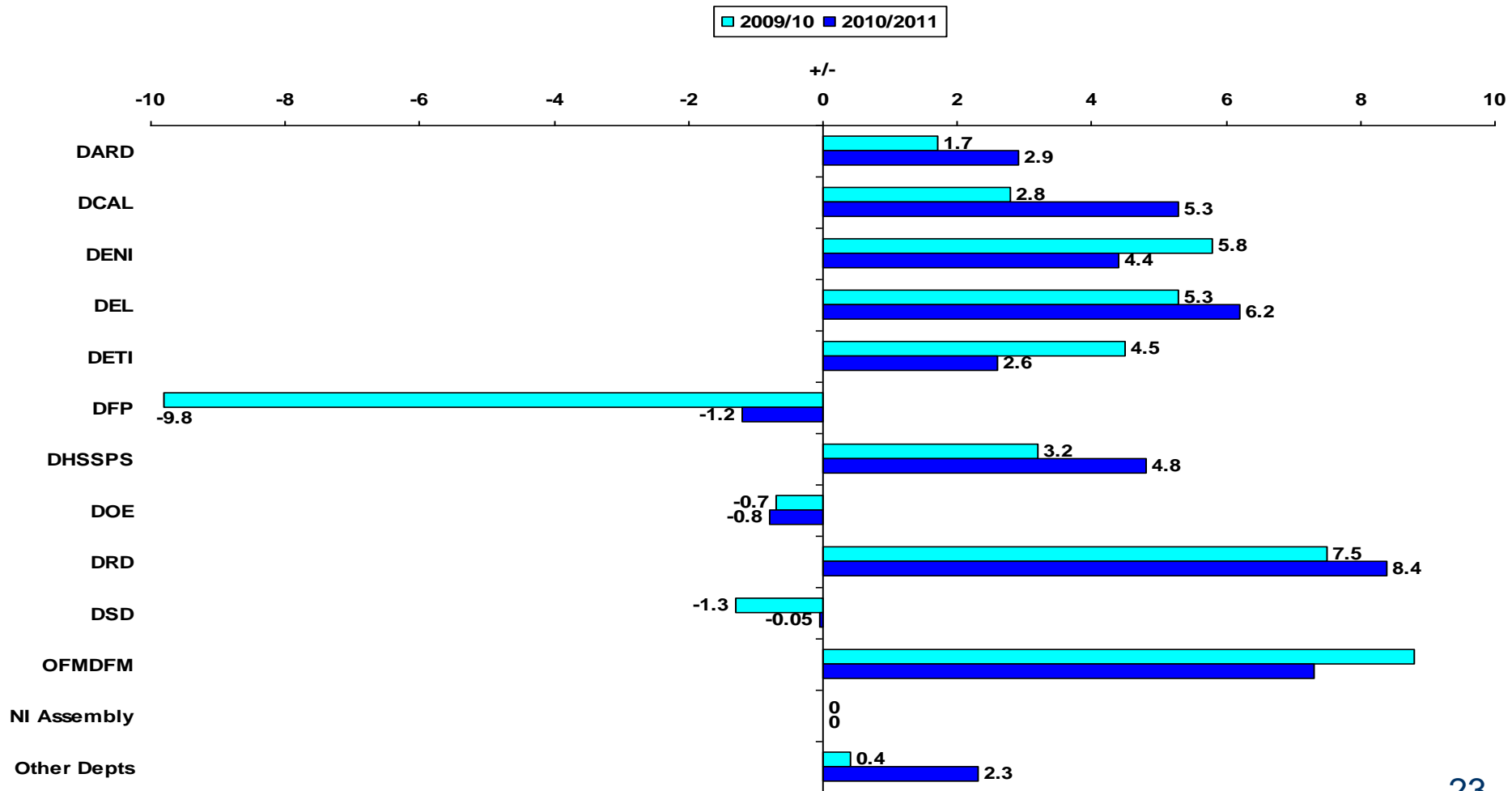


Capital Expenditure



■ Capital DEL Budget ■ Capital Investment (net of receipts)

Current expenditure allocations by department 09/10 & 10/11

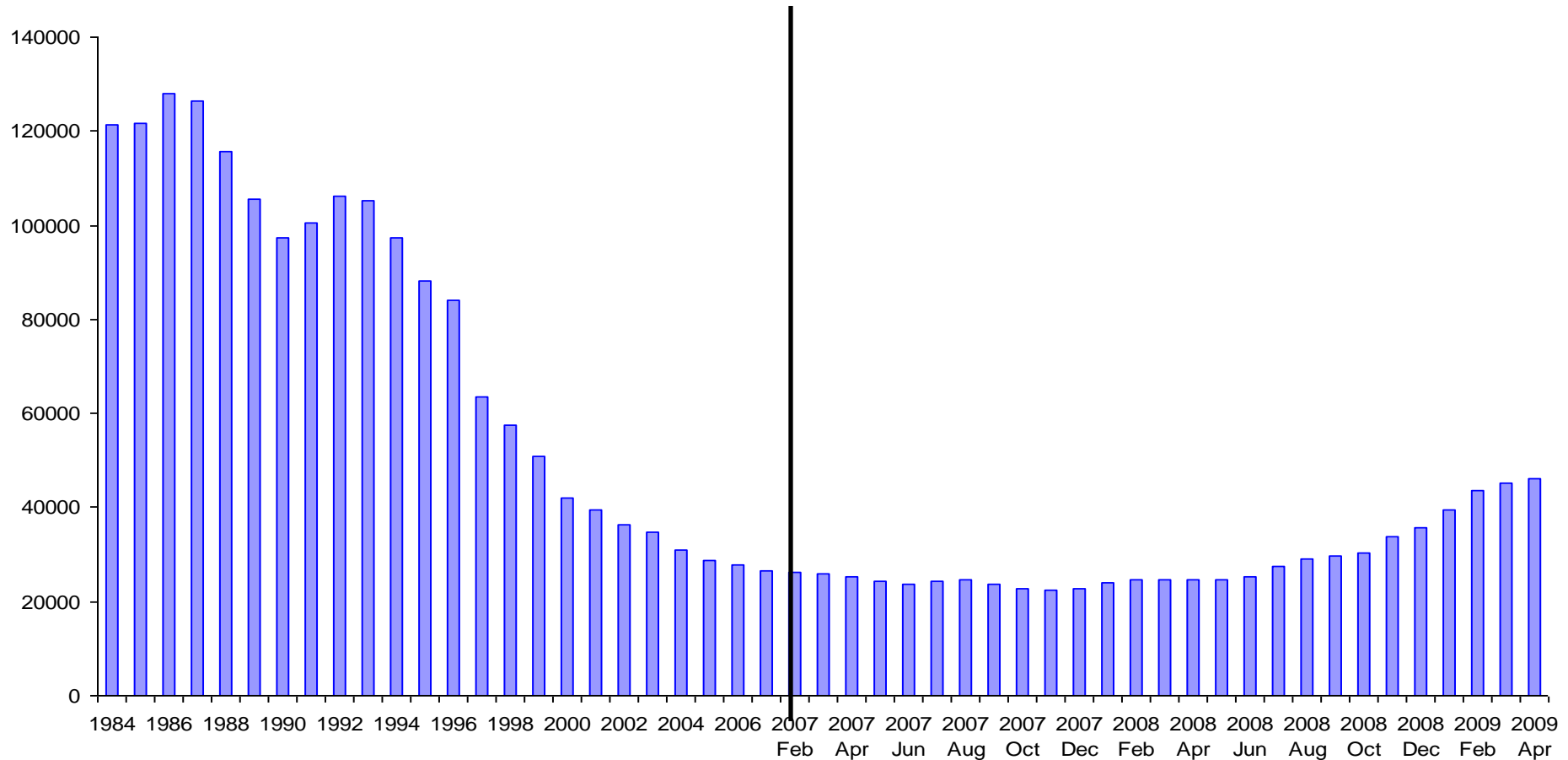




Claimant unemployment returns to 10 year peaks

Structural vs cyclical?

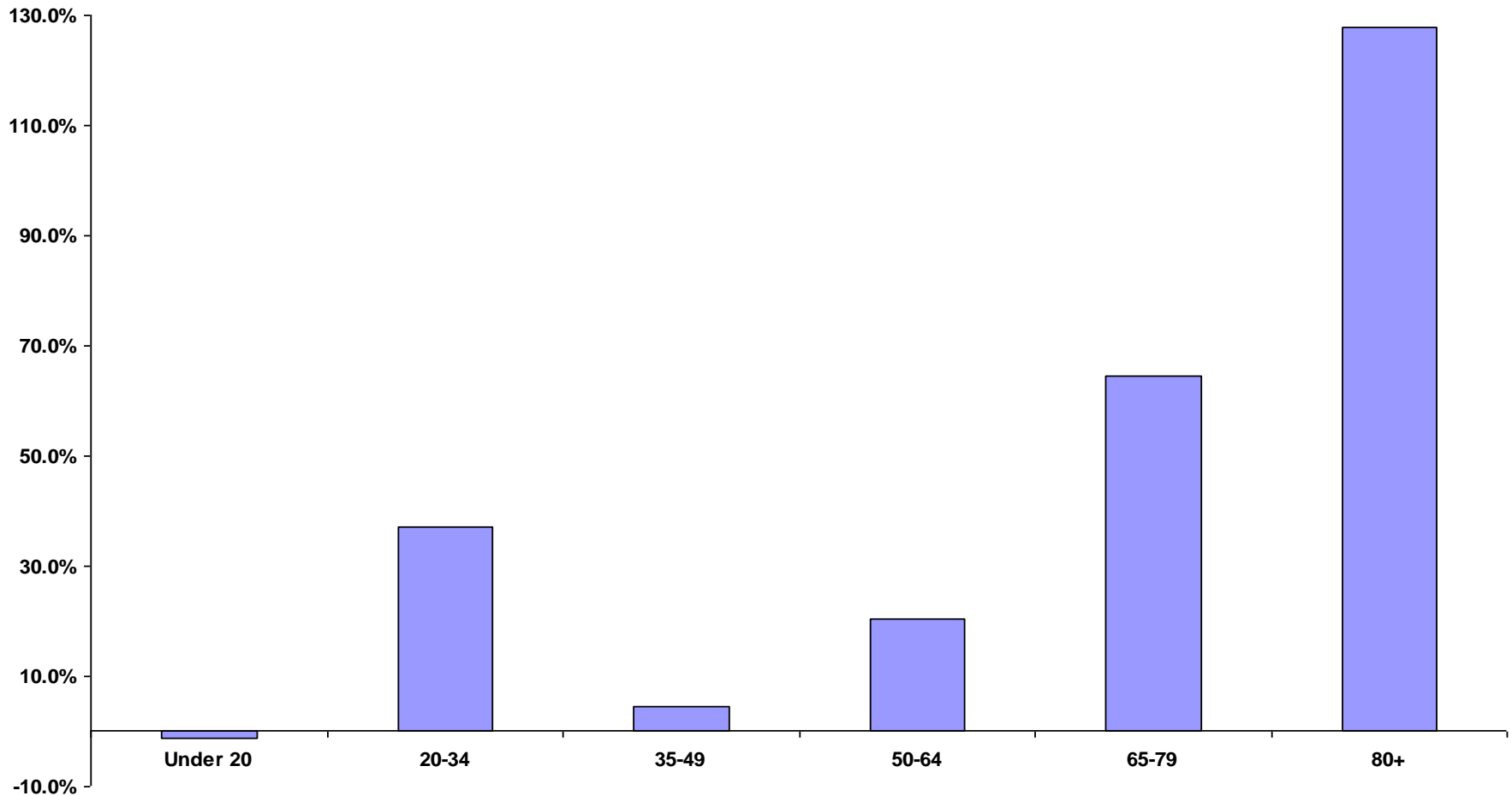
Claimant Unemployment in NI, 1984- March 2008 - quarterly from 2007





Our changing demographics

Projected % Change in age cohorts in NI, 2006- 2031



Opportunities – as the storms subside

- **Sterling has lost c 25% of its value on a trade-weighted basis – UK post-ERM experience 1993 -**
- More balanced growth – $C+I+G+(X-M)$?
- Manufacturing – a mini-revival ?
- Service exports – a very low base (tourism)
- Import substitution
- **Greater role in Public Service provision** – health, education, transport
- **Exploiting potential growth segments**
- Environment / Renewables / Online distribution / Regulatory and Legal agenda, Healthcare
- **Construction** – a gradual pick-up in house building from 2010/11
 - key infrastructure projects
- **Enterprise** – a higher rate of business formation?



Challenges

- Job retention
- Legacy of “credit crunch” and “asset price bubble” – capital constraints – new financing models / funding mix?
- “Scars” of recession – repairing confidence
- “Long Squeeze” on UK public finances
- Pains of Transition
 - weaning off PE / greater self-financing / capacity of tax base ?

Does NI need a new “Social Contract” or “Big Conversation” ?

For businesses ...

- Positioning for the upturn
- Leaner & Fitter – sustaining “cost efficiencies” post-recession
- Profit – from maximise to optimise?
- Strategy – more tortoise and less hare?

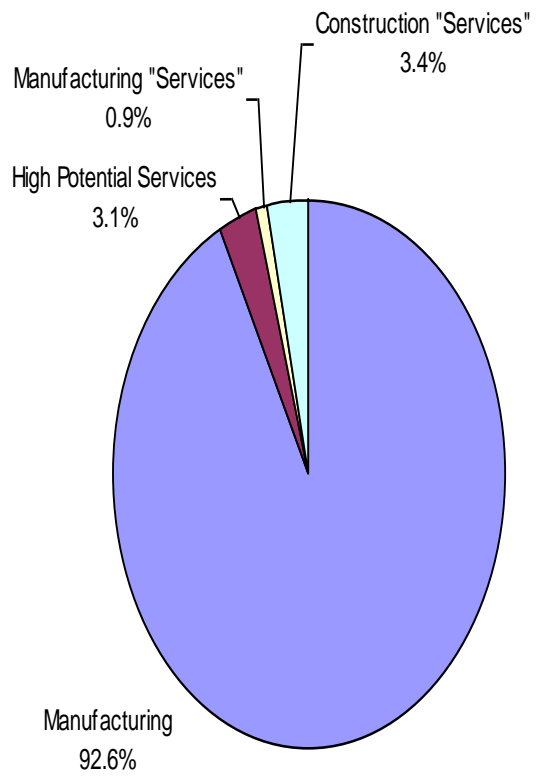


Concluding Thoughts (and Questions !)

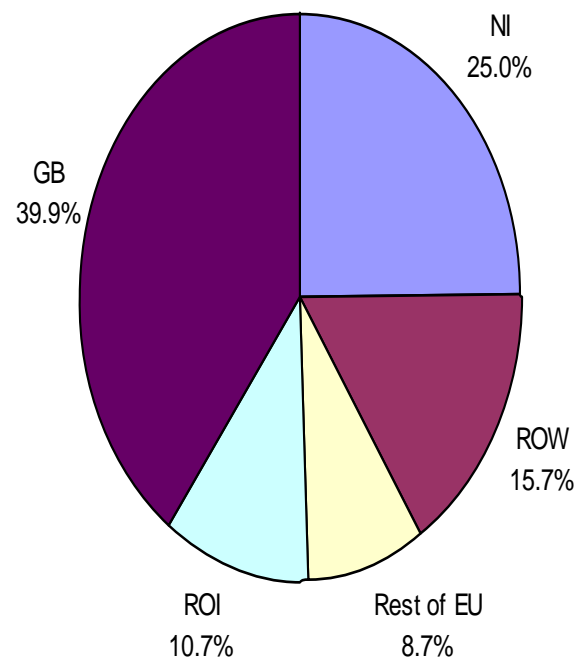
- A growth challenge – short & medium term. Resumption in 2010 but of the sober variety – risks of a “jobless recovery”
- Swollen ranks of unemployed and inactive (18-30 yrs old) – training, re-skill, up-skill – identifying future needs for global recovery
- Policy priorities – tension between “jobs” and “productivity” goals?
- Spending priorities – tension between “current” and “capital”?
- Future engagement with our Donors (HMT,EU) – “more fish” or “ a fishing rod” ?
- Where does our comparative advantage lie – lower wage and property costs and available labour pool?
- PfG and the economy – what type? Wedded to a “social/welfare economy” model ? “Too few producers”
- L-T competitiveness and prosperity still rests on our ability to trade.

Manufacturing still matters!

Share of Total Exports 2007/ 09 (£5.9bn)



Destination of Manufacturing Sales 07/08 (p)



Source: NI Manufacturing Sales & Exports Survey 07/08



“Pessimism is a luxury that (we) can never allow ourselves”

Golda Meir

PM Israel 1969-74



Thank You.

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