



# Pathways to economic recovery after COVID-19 in Northern Ireland

*COVID-19 Discussion Paper 3*

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## Executive Summary

### Introduction

1. This is the third paper in a series of discussion papers from the Ulster University Economic Policy Centre (UUEPC) exploring the economic impact of COVID-19 on the Northern Ireland (NI) economy. The first paper (released in April 2020) provided an initial estimate of the impact on the NI economy for Q2 only.<sup>1</sup> The second paper (released in June 2020) offered revised estimates to include the impact in Q3 as well as sectoral and local government impacts in NI.<sup>2</sup>
2. **This third paper explores the journey to recovery for the NI economy and the likely timescale before we return to pre-Covid levels of economic activity.** A likely outcome is the potential for economic output (i.e GVA) to grow at a faster rate than employment and thus we could find an economy 'in recovery' but has not 'recovered'.
3. The continuing steps to restrict virus transmission, even as measures are eased, could mean that we will experience a "90% economy".<sup>3</sup> Therefore whilst we may technically be 'in recovery' it will be a significant period of time before the economy has 'recovered'.

### GDP and Employment impacts from previous recessions

4. There has been no consistent pattern to the previous three UK recessions. The post-financial crisis recession was predominantly a 'GDP recession' and the labour market was *relatively* unaffected, in contrast the recessions of the early 1980's and 1990's were predominantly 'unemployment recessions', where employment levels fell by a greater proportion than GDP.

**Table 1: GDP and employment impacts from previous UK recessions**

Year	Employment impact	GDP impact
Post 2008 financial crisis	2.8%	6%
Early 1990's	4.5%	3%
Early 1980's	6%	5%

Source: Paul Gregg, UCL

<sup>1</sup> UUEPC, *Economic consequences of COVID-19 in Northern Ireland* (9 April 2020).

<sup>2</sup> UUEPC, *Potential economic consequences of COVID-19 in Northern Ireland: Revised estimates and a Council-level view* (1 June 2020). Further UUEPC research on those most impacted can be found in M. Magill & M. McPeake, *Labour market implications of COVID-19: How have restrictions on work impacted different types of workers in Northern Ireland?* (UUEPC, 9 June 2020).

<sup>3</sup> "The 90% economy that lockdowns will leave behind", *The Economist* (30 April 2020).

5. The post-financial crisis recession created a similar pattern in NI, experiencing a larger fall in GVA (down 7.2%), compared to employment (down 4.6%).
6. The GDP/GVA and employment impact this time will be determined primarily by the sectors most effected by COVID-19, both in terms of the scale of shutdown and also the extent of ongoing restrictions. Those sectors most effected are Retail (particularly non-food), Accommodation (Hospitality) and Arts & Entertainment, which are all labour-intensive sectors. **This suggests the current recession is likely to have a significant impact on employment as well as GDP.**

**Table 2: NI Employment across most impacted sectors, 2019**

	Employment '000s	% of Total Employment
Retail	145	16%
Accommodation (Hospitality)	55	6%
Arts & Entertainment	20	2%
<b>TOTAL</b>	<b>220</b>	<b>24%</b>

Source: ONS

### The 2020 GDP/ GVA and employment impacts in NI

7. The decline in business activity began in the second half of March and the revised UK GDP figures for Q1 2020 (released 30 June 2020) show a fall of 2.2%, the largest quarterly decline since Q3 1979 (this was before the provisional 20.4% decline in April).<sup>4</sup> The speed and depth of the decline may be even more marked in NI, with an estimated Q1 2020 fall of 2.8%<sup>5</sup>, and an initial **Department for the Economy estimate of a potential 21.5% decline in April.**<sup>6</sup>
8. The **Job Retention Scheme** (JRS) figures showed that 212k employees had been furloughed by 31 May 2020, and by 15 July 2020 the total had increased to 240k.<sup>7</sup> Importantly, this represents the total number of employees placed on furlough since the scheme’s inception, it does NOT represent the number on furlough as at 15 July. **If NI is broadly consistent with the UK trend, it is likely that the number of employees currently on furlough is approximately half the total number placed on the scheme (i.e. 120k)**<sup>8</sup>. In addition, some employers will have taken advantage

<sup>4</sup> ONS, “Quarterly Economic Commentary, January – March 2020” (30 June 2020).

<sup>5</sup> NISRA, NI Composite Economic Index (NICEI), Q1 2020 (16 July 2020).

<sup>6</sup> Department for the Economy, “Covid-19 and the Northern Ireland Economy: Macroeconomic and Sectoral Assessment” (30 June 2020), p.6.

<sup>7</sup> Figures taken from ONS / HMRC figures (released 15 July 2020).

<sup>8</sup> Based on ONS BICS data between end of April, Wave 4 (peak) and the latest mid-July, Wave 9 release.

of the flexible nature of the scheme and will have returned some staff on reduced hours, whilst also remaining on the JRS on a part-time basis.

9. In addition, there had been **76k** claims made in NI to the **Self-Employed Income Support Scheme** (SEISS) by 30 June 2020, representing 79% of the eligible take-up rate (against a UK average of 75%).
10. By mid-June (the latest data released)<sup>9</sup> the claimant count was estimated at just over 63k, a level not seen since the height of the last recession. In the short term, the future of unemployment will be determined by the length of time the JRS continues either in its current form or is amended to provide a more targeted support. In the medium to longer term, one survey of UK SMEs suggests approximately 25% of those on furlough are at risk of redundancy.<sup>10</sup> If that is reflected in NI, **an additional 60k people could move into unemployment (increasing the rate to approximately 13%)**.

### The NI recovery period

11. This paper considers two recovery pathways (an 'Upper' and 'Lower' scenario) and while both assume that a second spike or wave in the Coronavirus pandemic could occur, a second full shutdown is considered less likely. This analysis is not intended to be a forecast but instead offers an indicative "band" between two plausible growth scenarios to reach Q4 2019 GVA and employment levels.

#### *The GVA recovery period – 4 to 5 years*

12. The NI economy took approximately seven years to recover the lost GVA following the previous recession. This was a particularly long period, real GVA fell for three consecutive years and the recovery stuttered from late 2010 with three years of very tepid growth (average of 0.9% per annum). The recovery only really took hold in 2014 when the economy grew by 2.2%.
13. The two largest sub-sectors (within the private sector) in the local economy in GVA terms are Manufacturing (15.2% in 2018) and Retail & Wholesale (13.8%). Manufacturing drove the recovery last time reaching its pre-recession peak in 2013 and retail had an even faster recovery in GVA terms, reaching 2007 levels by 2011. In contrast, Construction has yet to reach its pre-financial crisis peak.

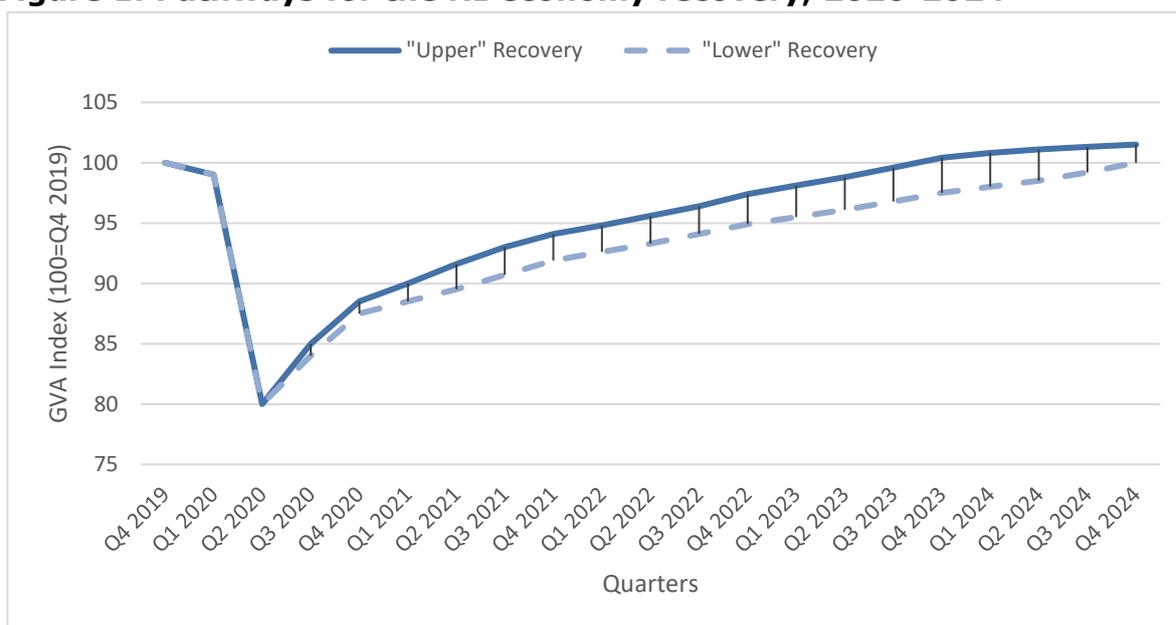
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<sup>9</sup> Claimant count figures released by NISRA on 16 July 2020.

<sup>10</sup> MarketFinance Ltd surveyed 2,000 UK SMEs between 17 and 20 June 2020; see [www.blog.marketfinance.com](http://www.blog.marketfinance.com).

14. Figure 1 below shows the 'Upper' and 'Lower' scenarios, with the recovery in both beginning in Q3 2020. The 'Upper' scenario recovery continues steadily through 2021 (at a 5.6% growth rate) and then more slowly in 2022 (3.2%) and 2023 (3%) to reach the previous peak **by Q4 2023 (ie: 4 years later)**.
15. In the 'Lower' scenario, the recovery climbs more slowly with the previous peak being reached by **Q4 2024 (ie: 5 years later)**. This is based on more prudent consumer and business sentiment and thus demand remains more constrained. It assumes 4.4% growth in 2021, 3% in 2022 and just over 2% in 2023 and 2024.

**Figure 1: Pathways for the NI economy recovery, 2020-2024**



Source: UUEPC analysis

### *The labour market recovery period*

16. There will almost certainly be new jobs created in emerging sectors over the next decade, but analysis of the sectors which were the drivers of job creation after the last recession as well as the sectors most vulnerable to COVID, also provides an important insight.

**Table 3: NI sector job creation between 2012 and 2019**

	Employment Growth '000s	% of Total Employment Growth
<b>Main job creation sectors post-financial crisis</b>		
Manufacturing	18	17%
Administration Services	15	14%
Professional & Technical Services	11	11%
<b>TOTAL</b>	<b>44</b>	<b>42%</b>
<b>COVID-19 vulnerable sectors</b>		
Retail	7	7%
Accommodation (Hospitality)	10	9%
Arts & Entertainment	2	2%
<b>TOTAL</b>	<b>19</b>	<b>18%</b>

Source: ONS

17. On a positive note, over the 2012-2019 period across the private sector, Manufacturing, Administration Services and Professional & Scientific Services were the top three job creating sectors, accounting for 44% of the 104k jobs created. Furthermore, these sectors are under less immediate pressure from social distancing and in the case of Administration and Professional Services, there is an increased ability to work from home.
18. However, the sectors most vulnerable to COVID-19, such as Hospitality, Retail and the Arts, created 18% of the total jobs created in the last recovery, but are likely to find it very challenging to continue to create additional jobs in the short to medium term.
19. Previous research from the UUEPC has shown that those furloughed/laid off are disproportionately weighted towards younger, lower skilled and temporary workers and are more likely to be employed in the more vulnerable sectors.<sup>11</sup> This group are likely to experience greater difficulties finding employment again as employers recruit those with higher skills and more experience in the first instance.

<sup>11</sup> Magill & McPeake, *Labour Market Implications of COVID-19* (6 June 2020).

20. Following the last recession, UUEPC analysis has shown that the NI unemployment rate fell by an average 0.9 percentage points (p.p.) per annum, from its unemployment peak to its previous low. The average reductions in the UK unemployment rates in past recessions have ranged between 0.5p.p. per annum (2011-2019) and 0.8p.p. per annum (1984-1990).
21. **An 'Upper' scenario would see unemployment return to less than 4% by 2030** and assumes a reduction in the unemployment rate of 0.9p.p. per annum. **The 'Lower' scenario would take thirteen years (2033) before returning to pre-crisis unemployment levels** and assumes a 0.7p.p. per annum reduction in the unemployment rate.

### Developing a recovery plan

22. The Department for the Economy's (DfE) Rebuilding a stronger economy focuses on addressing the key structural challenges such as: too few higher wage jobs; a skills gap; and regional imbalance. NI's relatively low productivity is clearly identified along with a requirement to restructure the economy with a focus on high productivity sectors (including Digital and Clean Energy).
23. In addition, there is also a recognition of the importance of sectors such as Agri-Food, Tourism and those dependent on consumer spending. As noted above, these sectors were important in driving the jobs recovery last time and remain key to resolving any unemployment crisis. For example, manufacturing created significant numbers of jobs in the previous recovery and importantly offers employment opportunities across the full skills/ qualification spectrum.
24. The following 'recovery actions' have been identified and are likely to be crucial:
- **Keeping young people in education for longer** – typically 25,000 young people leave the education system each year to enter the labour market. In a recession, the demand for labour falls and therefore the opportunities for those leaving education is much lower. Therefore, it is important that young people stay in education for longer. Some specific programmes have already been put in place to increase skills in areas where opportunities still exist (such as digital skills), but it is important that greater provision for other programmes, that are known to be successful, such as apprenticeships, is made to absorb the additional numbers of young people who would have otherwise moved into work.
  - **Re-skilling during and after furlough** – significant sums of public money are being spent to protect household incomes via the JRS and SEISS (est. £62 billion across the UK in 2020-21).<sup>12</sup> There has already been a recognition of the need to re-skill workers with some actions already taken through online course provision (more than 2,000 free places on short courses delivered by the FE colleges and

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<sup>12</sup> OBR, *Fiscal Sustainability Report* (14 July 2020), p.11.

universities) and the publication of a “Skills Strategy”. The challenge of re-skilling those who have been in the labour market for many years should not be underestimated.

- **Accelerate government investment plans** – all forecasts suggest a reduction in private sector investment and spending, at least in the short term, and this creates a role for Government to take advantage of the spare capacity to undertake necessary public infrastructure investment. This could include fast-tracking current investment plans (and particularly smaller ones which can have greatest local impact) and providing an investment pipeline to provide certainty to the construction sector. The crisis has highlighted infrastructure weaknesses such as lack of digital connectivity in rural areas, which could be prioritised as an action, while there are also projects around energy efficiency in public buildings and homes which are critical for longer term sustainability.
- **Returning public sector staff to their town and city centre offices** – the public sector is a key employer across NI’s towns and city centres. Whilst coffee shops, sandwich bars and local restaurants have re-opened, many are still struggling due to lack of footfall because office workers remain at home. There is an opportunity for government to take the lead, by returning staff to their offices, where safe, and in turn start to bring life back to urban centres. This, alongside some key public realm changes necessary in light of COVID-19, can offer a critical boost for local businesses.
- **Adapting to changing tourism patterns** – DfE’s paper commits to a tourism recovery plan, reflecting the likelihood of a significant decrease in overseas visitors in 2020 and perhaps next year. In the short term, promoting ‘staycations’ and visitors from RoI and GB can support the sector at a time of significantly reduced international air travel. This can be encouraged by providing assurance of adherence to public health guidelines by the local hospitality sector. The tendency of ‘staycations’ being shorter trips could be addressed by regional promotion with local markets together to provide a broader offering.

Importantly, significant effort will be needed in the longer term, to maintain the momentum achieved prior to the crisis in terms of building international tourism numbers.

- **FDI opportunities from near-shoring** – as noted in previous UUEPC COVID papers, there has been significant commentary on longer term global supply chain implications caused by the crisis. If businesses choose to shorten and simplify their supply chains (i.e. more near-shoring), there may be an opportunity for Invest NI to re-position NI as a safer location for GB and European inward investment. It could also result in a re-balancing towards manufacturing.

- **The normal business of government must continue** – focusing on addressing the immediate issues at hand has taken up the entire bandwidth of government, but if the economy is to successfully recover in a reasonable time period, the next Programme for Government must include policies to raise, amongst many other things, skills, employability and the broader competitiveness of the NI economy.

## 1. Introduction

1. This paper is the third in a series of discussion papers from the Ulster University Economic Policy Centre (UUEPC) exploring the economic impact of COVID-19 on the Northern Ireland (NI) economy.
2. The first paper (released in April 2020) provided an initial estimate of the GVA and labour market impact of COVID-19 on the NI economy for Q2 only.<sup>13</sup> The second paper (released in June 2020) offered revised estimates of impacts to include lower economic activity in Q3 (and also included analysis across councils in NI).<sup>14</sup>
3. The initial estimate of the potential decline in economic output (Q2 only) was 9.6% and this increased to 12.7% in the second estimate (following the inclusion of Q3 impacts). Table 4 below sets out the estimated labour market impact in the first two papers in terms of the numbers of employee jobs furloughed or laid-off. The second estimate shows an upward revision in the impact, particularly in broad sectors such as Production & Manufacturing.

**Table 4: Estimates of staff numbers furloughed and laid-off (Papers 1 and 2)**

Sector	Initial Estimate (Paper 1)	Revised estimate (Paper 2)
Production & Manufacturing	33k	39k
Construction	15k	17k
Services	187k	193k
<b>TOTAL</b>	<b>235k</b>	<b>249k</b>

Source: UUEPC

Note: Self-employed are not included in these figures.

### In recovery does not mean recovered

4. **This third paper explores the journey to recovery for the NI economy.** There are several factors in this recovery, not least the magnitude (and speed) of the economic decline and the extent to which demand returns (or is stimulated) to drive a recovery. A further consideration is the potential for economic output (i.e GVA) to grow at a faster rate than employment and thus we could find an economy 'in recovery' but has not yet 'recovered'.

<sup>13</sup> UUEPC, *Economic consequences of COVID-19 in Northern Ireland* (9 April 2020).

<sup>14</sup> UUEPC, *Potential economic consequences of COVID-19 in Northern Ireland: Revised estimates and a Council-level view* (1 June 2020). Further research from the UUEPC on the types of jobs impacted can be found in M. Magill & M. McPeake, *Labour market implications of COVID-19: How have restrictions on work impacted different types of workers in Northern Ireland?* (UUEPC, June 2020).

5. The Coronavirus remains a significant danger to public health. As some parts of the world were impacted earlier, countries are emerging from lockdown at different speeds and timelines. Even though public discussion and government action is now increasingly focused upon easing restrictions and re-opening national, regional and local economies, two issues remain clear:
  - physical distancing will remain a key part of the continuing public health response to COVID-19 until a vaccine (or highly effective and affordable treatment) is developed and rolled-out. This impacts how staff engage with each other and their customers. Sectors which require staff to work in close proximity both with each other and their customers will continue to be the most impacted.
  - international travel (for tourism, business or study) will continue to be subject to significant restrictions and/ or controls on entering countries for the foreseeable future.<sup>15</sup>
6. This third paper outlines plausible upper and lower bounds of economic recovery which **suggests a period of 4 to 5 years before the NI economy returns to pre-pandemic levels of output.**
7. The continuing steps to restrict virus transmission, even as measures are eased, could mean that we will experience a “90% economy”.<sup>16</sup> The length of time that this status continues or the extent to which we are able to innovatively create a new economy which incorporates physical distancing, will significantly influence the extent to which the economy seems ‘recovered’ in due course.

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<sup>15</sup> NI Executive, *Coronavirus: Executive Approach to Decision-Making* (12 May 2020).

<sup>16</sup> “The 90% economy that lockdowns will leave behind”, *The Economist* (30 April 2020).

## 2. Economic output and employment impacts

### Introduction

1. Recessions and recoveries are like unhappy families: no two are ever exactly alike.<sup>17</sup> As Prof. Paul Gregg noted, there is no consistent pattern in the previous three major UK recessions. The post-financial crisis recession was predominantly a 'GDP recession' and the labour market was *relatively* unaffected, in contrast the recessions of the early 1980's and 1990's were predominantly 'unemployment recessions', where employment levels fell by a greater proportion than GDP.

**Table 5: GDP and employment impacts from previous UK recessions**

Year	Employment impact	GDP impact
Post 2008 financial crisis	2.8%	6%
Early 1990's	4.5%	3%
Early 1980's	6%	5%

Source: Paul Gregg, UCL

2. The post-financial crisis recession created a similar pattern in NI, experiencing a larger fall in GVA (down 7.2%), compared to employment (down 4.6%).
3. The differing impacts in GVA and employment in previous recessions raises the question of the path that the current recession may follow. Even though the circumstances of a pandemic-related global recession are unique in the modern era, there are some early estimates and signs that may point towards a view of the impacts.

### GVA/ Economic output impacts

4. The decline in business activity is directly related to the government-ordered shutdowns for all non-essential activities that began in the second half of March. As other countries in Asia and Europe had gone into lockdown earlier, the economic slump started here before the shutdowns were ordered. The revised UK GDP figures for Q1 2020 (released 30 June 2020) show a significant 2.2% fall – the largest quarterly decline since Q3 1979 – even before a provisional 20.4% decline in April.<sup>18</sup>
5. The speed and depth of the decline may be even more marked in NI. Estimates for Q1 2020 are of a 2.8% fall in NI's output (compared to the UK's 2.2% drop in GDP)<sup>19</sup>, while

<sup>17</sup> The 'Anna Karenina' principle from Leo Tolstoy's novel of the same name.

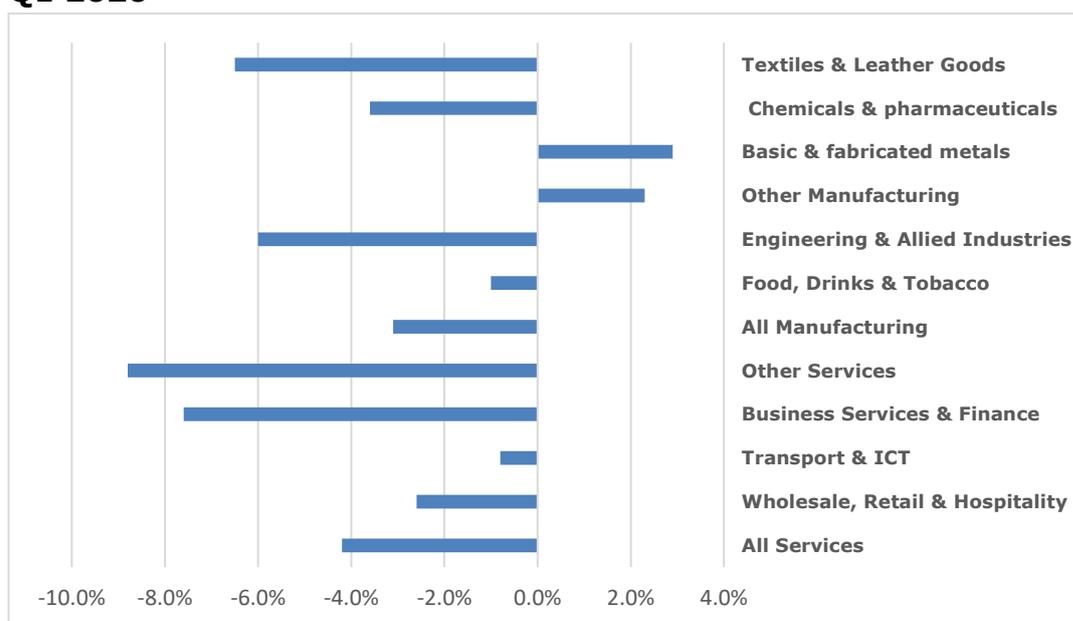
<sup>18</sup> ONS, "Quarterly Economic Commentary, January – March 2020" (30 June 2020).

<sup>19</sup> NISRA, NI Composite Economic Index (NICEI), Q1 2020 (16 July 2020).

initial results from Department for the Economy research suggests a decline in April of 21.5% (compared to 20.4% in the UK).<sup>20</sup>

- The Q1 2020 NICEI shows the scale of the fall in output in almost all Services and Manufacturing sub-sectors compared to the previous quarter. Similar to the PMI results, the Services impact was slightly greater than for Manufacturing, as shown in Figure 2.

**Figure 2: Percentage change in NI Indices of Production and Services, Q1 2020**

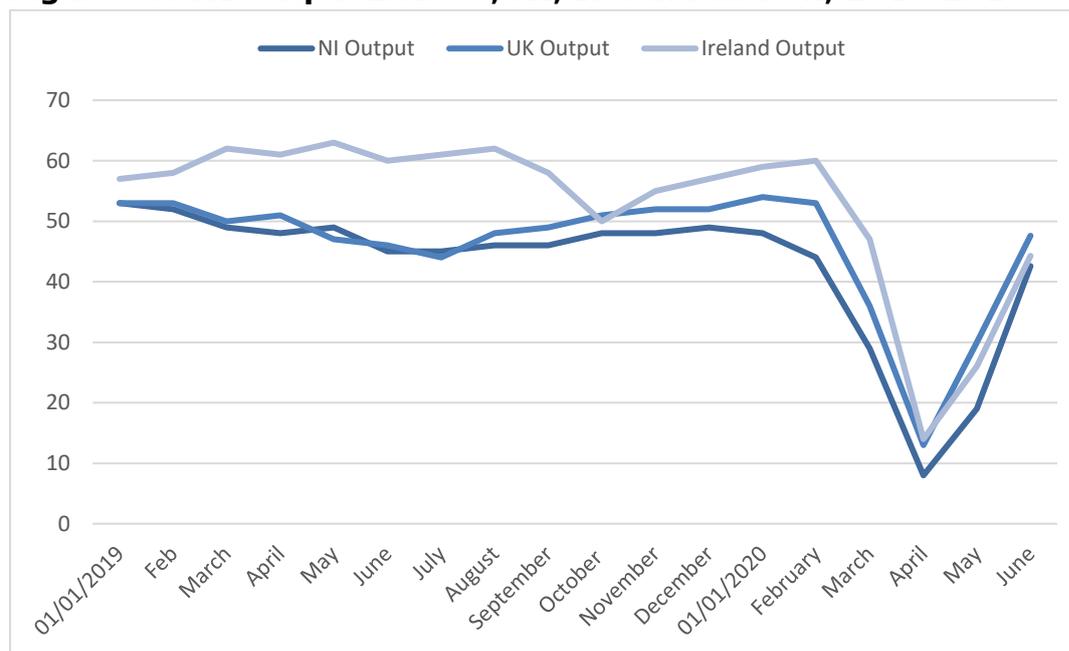


Source: NISRA

- The composite business activity and output figures from the UK, Ireland and NI PMIs, tell the same story of decline in February followed by record-breaking falls in March and April. All sectors were impacted by this decline, but the Services PMI has been worst hit. In the UK, the Manufacturing output reached a low of 32.6 in April, but this was much higher than the output figure for Services (13.3). Similar patterns can be seen in Ireland and to a lesser extent in NI, where Services recorded a Business Activity Index of 7.8 in April, compared to a 9.8 Output figure for Manufacturing.
- As Figure 3 below shows, the PMI business activity indices have rebounded in both May and June but all still remain below 50 (indicating contraction). This means that in May and June the decline in business activity continued but at a slower rate than in March and April (when all three economies were largely shut down). This suggests that the decline in economic output has continued into the first month of Q3 2020.

<sup>20</sup> Department for the Economy, "Covid-19 and the Northern Ireland Economy: Macroeconomic and Sectoral Assessment" (30 June 2020), p.6.

**Figure 3: PMI Output Indices; NI, Ireland and UK, 2019-2020**



Source: Ulster Bank PMI (NI), AIB (Ireland) and IHS Markit (UK)

Note: Index results of <50 mark a decline in activity and output.

## Employment impacts

### Job Retention Scheme

9. The impacts of COVID-19 on the labour market are best seen in the staff numbers furloughed or made redundant since March. Official figures for NI from the government’s Job Retention Scheme (JRS) showed that 211,700 employees had been furloughed by 31 May 2020, by 15 July 2020 this had increased to 240,200.<sup>21</sup>
10. Importantly, this represents the total number of employees placed on furlough since the scheme’s inception, it does NOT represent the number on furlough as at 15 July. **If NI is broadly consistent with the UK trend, it is likely that the number of employees currently on furlough is approximately half the total number placed on the scheme (i.e. 120k)<sup>22</sup>.** In addition, some employers will have taken advantage of the flexible nature of the scheme and will have returned some staff on reduced hours, whilst also remaining on the JRS on a part-time basis.

<sup>21</sup> Figures taken from ONS / HMRC, ‘Coronavirus Job Retention Scheme statistics’ (15 July 2020).

<sup>22</sup> Based on ONS BICS data between end of April, Wave 4 (peak) and the latest mid-July, Wave 9 release.

### Self-employed

11. By the end of May there had been 69k claims made in NI to the Self-Employed Income Support Scheme (SEISS) which had increased to 76k by 30 June, representing 79% of the eligible take-up rate (against a UK average of 75%), though there have been complaints about how the scheme has treated both the newly self-employed and those declaring more than £50,000 per annum.
12. Based on the latest data, 316k jobs and self-employed received support from the JRS and SEISS, or 36% of those in employment.<sup>23</sup>

### Unemployed

13. In addition, there has been a significant increase in the number of people unemployed. There were 63,100 people on the experimental Claimant Count by 14 June (the latest data released)<sup>24</sup>, an increase of almost 120% in three months. A key short-term issue in this labour market recovery will be the length of time the JRS and SEISS continue in a full, tapered or sectorally targeted fashion.
14. As these draw to a close, the major uncertainty is the proportion who will return to full (or part time) employment. One survey of UK SMEs suggests less than half of those furloughed would return to work as restrictions eased, another quarter being kept on furlough and a final 25% at risk of redundancy.<sup>25</sup> If a similar pattern was repeated in NI, this could mean in the region of an additional 60k people moving into unemployment (increasing the unemployment to rate to approximately 13%).
15. The risks of economic inactivity increases given the nature of many of the jobs impacted by COVID-19 – typically low wage and low qualifications.<sup>26</sup> People with lower qualifications typically find it more difficult to find re-employment than others in the workforce and, given the length of time it can take to re-train for other opportunities, the duration of worklessness itself can lead to inactivity.
16. In contrast, the SEISS allowed the self-employed to continue working and as more than a third are in the Agriculture and Construction sectors they were able to do this and quickly return to work as restrictions eased.

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<sup>23</sup> Based on 868k in employment as at March 2020 in NISRA, *Labour Market Report* (June 2020).

<sup>24</sup> Claimant count figures released by NISRA on 16 July 2020.

<sup>25</sup> MarketFinance Ltd surveyed 2,000 UK SMEs between 17 and 20 June 2020; see [www.blog.marketfinance.com](http://www.blog.marketfinance.com).

<sup>26</sup> Magill & McPeake, *Labour market implications of COVID-19* (UUEPC, June 2020).

17. Two other issues should be noted in terms of employment impacts:

- **Youth unemployment** – estimates by the UUEPC for Q2 2020 suggests a sharp spike in numbers and there is scope for this to increase further as those leaving education enter the labour market and the furlough scheme begins to taper off.
- **Underemployment** – following the financial crisis, the numbers of unemployed increased but perhaps less than expected. One factor in this may have been a significant increase in under-employment – the number of employees who want to work more hours increased from 4% to 10% and never returned to pre-crisis levels. The reduction in incomes that follows can itself lead to a fall in demand and should be an indicator to be closely monitored.<sup>27</sup>

**Other estimates of the economic impact**

18. The recent economic indicators suggest that the current contraction may be less severe than initially expected, primarily because shutdowns started to unwind more quickly than first anticipated. This includes last month’s Bank of England Monetary Policy Committee (MPC) meeting which concluded that the weakening of the UK economy in Q2 2020 may not have been as bad as had been feared in May.<sup>28</sup> Table 6 shows the latest forecasts for different economies in 2020.

**Table 6: COVID-19 Economic impact estimates**

Country	Equivalent annual decline in GDP %	Peak unemployment %	Source	Month released
<b>UK</b>	12.4%	11.9%	OBR	July 2020
	11.5%	9.1%	OECD*	June 2020
	8.9%	8.2%	EY Item Club	June 2020
	8.5%	7.9%	PwC	June 2020
<b>US</b>	7.3%	11.3%	OECD*	June 2020
<b>Germany</b>	6.7%	9.1%	IfO Institute	July 2020
<b>RoI</b>	12.0%	22%**	ESRI	May 2020
	9.3%	23%**	Central Bank of Ireland	June 2020
<b>NI</b>	11.6%	13%	UUEPC	July 2020
	9%	10.2%	EY	May 2020

Notes: \* All OECD forecasts based on a ‘single hit’ from Coronavirus

\*\* Unemployment rates in Ireland are based on the CSO estimate of ‘normal’ and Pandemic Unemployed numbers.

<sup>27</sup> Magill & McPeake, *Spare capacity in Belfast City Council’s labour market* (UUEPC, Feb. 2019).

<sup>28</sup> Bank of England, “Monetary Policy Summary and minutes of the Monetary Policy Committee meeting on 17 June 2020” (18 June 2020), pp. 6-7.

19. The MPC conclusion was based on a small number of indicators – Bank of England agents’ reports and online spending – but the committee concluded that it is difficult to draw firm conclusions on the impact.<sup>29</sup> *The Economist* sums up the situation as “the hole is not as deep as ... feared, but climbing out of it may take longer than hoped”.<sup>30</sup>
20. Table 6 above also includes the latest UUEPC estimates of the decline in GVA and rise in unemployment in 2020 based on the emerging indicators. The estimate of peak unemployment (at 13%) is a small increase as we continue to expect the claimant count numbers to rise significantly in the autumn.
21. The impact on GVA has been revised downwards to 11.6% (from 12.7% in June) and is based on a reduction in output in Q1 2020, followed by a further sharp decline in Q2, but growth returning in Q3 and Q4 but from a very low base set in Q2.

### Dealing with a second rise in infections

22. Although uncertainty about future infections hangs over any economic forecast, the easing of restrictions and a prevailing view that any fresh rise in the numbers of Coronavirus cases will be dealt with through local lockdowns (based on an improved test, track and trace system) has prompted an improvement in economic sentiment.
23. However, this may prove fragile and the extent to which it applies to NI should be balanced against the negative sentiment of the recent NI Chamber of Commerce survey results.<sup>31</sup> The current signs all point to an unemployment crisis that has not been seen since the 1980s.

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<sup>29</sup> The consensus of early July forecasts for the UK economy in 2020 hardly changed much from June, the decline increasing to -9.2% from -9.1%; see HMT, “Forecasts for the UK economy: a comparison of independent forecasts” (15 July 2020).

<sup>30</sup> “Sunak’s Summer Statement”, *The Economist* (8 July 2020).

<sup>31</sup> NI Chamber of Commerce & BDO, *Quarterly Economic Survey, Q2 2020* (2 July 2020).

### 3. Perspectives on global economic recovery

#### Introduction

1. The causes of recessions, recoveries and the links between the two are much debated. A version of Milton Friedman's view that the sharper the recession, the quicker the recovery, has informed much of the thinking of economists. A contraction in aggregate demand followed by its expansion in a recovery sees unemployment rise sharply followed by a subsequent decline.<sup>32</sup>
2. The recent experience after the financial crisis of 2008/09 raised fresh questions about the role of economic policy in recoveries, as national and regional economies took much longer – more than four or five years in many cases – before the previous peak in output was reached.<sup>33</sup> This section sets out a range of views on whether this recovery will be relatively sharp or will take much longer.

#### A quick "V-shaped" recovery

3. The recovery period is typically measured by the time taken to reach the previous peak in output. A "V-shaped" recovery reflects the relatively optimistic view that whilst the recession in 2020 will be very deep, the bounce back in the second half of 2020 and early 2021 will be swift.
4. Such a view can be (partially) seen in the recent speeches by Andy Haldane, chief economist at the Bank of England, although he remains more cautious on the labour market recovery.<sup>34</sup> It can be seen also in the scenarios – not forecasts – outlined by both the Bank of England and the 'Upside' scenario from the Office for Budget Responsibility (OBR). For example, the May 2020 illustrative scenario from the Bank of England hypothesised that UK GDP would decline by 14% during 2020, before growing by 15% in 2021. In this case, largely recovering to 2019 levels by the end of 2021.<sup>35</sup> The OBR did not explicitly provide a timeframe for a return to pre-COVID levels of output, but their scenario implied this happens relatively quickly.<sup>36</sup>
5. In a more recent *Fiscal Sustainability Report* the OBR outlines three scenarios – 'Upside', 'Central' and 'Downside'. The very optimistic 'Upside' scenario is closest to a V-shaped recovery, where the recovery begins in earnest in July 2020 and by the end of the year

<sup>32</sup> S. Dupraz, E Nakamura & J Steinsson, "A Plucking Model of Business Cycles", *NBER Working Papers* 26351 (February 2019); M.D. Bordo & J.G. Haubrich, "Deep recessions, fast recoveries and financial crises: The lesson from the US historical record", *NBER Working Papers*, 18194 (2012); G.B. Eggertsson, "Great expectations and the end of the Depression", *American Economic Review*, 94:8 (2008).

<sup>33</sup> K.H. O'Rourke & B. Eichengreen, "A tale of two depressions", *voxeu.org* blog (6 March 2012).

<sup>34</sup> A. Haldane, "The second quarter" (30 June 2020). However, see "How speedy will Britain's economy recover?", *The Economist*, 2 July 2020 for a contrary view.

<sup>35</sup> Bank of England, *Monetary Policy Report* (May 2020).

<sup>36</sup> OBR, *Coronavirus Reference Scenario* (14 April 2020).

output is just 2% below the pre-virus peak with little long term impact on the UK economy.<sup>37</sup>

### *The basis for a quick recovery*

6. Support for the idea of a “quick” recovery by the end of 2021 comes from some of the early retail sales data from countries where the shutdowns are being eased. The examples of China (which entered lockdown first in Hubei Province in January 2020) and South Korea have been pored over to see what these might tell us in terms of a pattern for other economies.
7. In its May and June reports, the Bank of England MPC have pointed to Chinese retail sales data (down 18% in May on a year ago but a smaller decline than in April) and the return of industrial output to its pre-crisis level in April as signs of a recovery well underway. Indicators such as road traffic and energy use were estimated to be near the previous peak by May. Despite regional shutdowns in parts of China and South Asia in June, the picture appears to be one of a recovery underway.
8. This pattern may be repeated across Europe and North America. The June ‘flash’ PMI results for the UK, US and Eurozone all show output at four-month highs of 47.6, 46.8 and 47.5. Retail sales in the UK are up 12% for May on April’s levels (but 14% lower on year before) and in Ireland up 29% on the month to May (but 30% down on year before). These point to a positive direction of travel as the shutdowns are eased but the year-on-year comparisons and the fact that all the PMI results remain below 50 and show the scale of the journey that remains ahead.
9. The optimistic view that pre-crisis output could be achieved in two years or less is supported by other research into the impacts of 20<sup>th</sup> and early 21<sup>st</sup> century pandemics.<sup>38</sup> However, in the earlier cases, unlike in the COVID-19 experience, there was no global shutdown with the subsequent impacts on world trade and travel. In addition, the SARS epidemic in 2003 and the flu epidemics in the 1950s and 1960s are useful examples but they are ones that should also be used cautiously.

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<sup>37</sup> OBR, *Fiscal Sustainability Report* (14 July 2020).

<sup>38</sup> L. Jonung & W. Roeger, “The macroeconomic effects of a pandemic in Europe- a model”, *European Economy*, 251, European Commission (2016); W. McKibben and A. Siderenko, “Global macroeconomic consequences of pandemic influenza”, *CAMA Working Paper*, Australian National University (2006). This view finds support in the “smooth exit” scenario in PwC’s economic outlook for the UK where GDP is 1.5% below peak by the end of 2021; PwC, *COVID-19 UK Economic Update* (23 June 2020).

### A prolonged “Nike swoosh” shaped recovery

10. The argument that the recovery is likely to be more prolonged, centres on the damage that the recession will do, particularly in employment terms, and the extent to which it becomes permanent. As noted in previous UUEPC papers, the length (and recurrence) of the shutdown may be pivotal. Recent research suggests that the longer the shutdown, the slower the recovery and if the shutdown been eased in May the recovery could take a year, but if it extends beyond one quarter then recovery could take two years.<sup>39</sup> This idea of the scale of permanent scarring increasing over time is intuitively correct but not yet proven.
11. The research also points to the scarring effects lasting through a recovery and beyond.<sup>40</sup> This is normally related to the risk that those who become unemployed during the recession feel the effects of this long after the recovery in terms of their future job prospects and incomes. In addition, scarring can also have a psychological effect, impacting confidence and in turn changing the spending and investment decisions of households and firms.<sup>41</sup> If this is severe and if changes in behaviours, such as an accelerating shift to online retail spending, the effects in terms of bankruptcies could also impact on the nature of the recovery.
12. Finally, COVID-19 may have impacts that depress growth in GDP and productivity during the recovery itself.<sup>42</sup> The impacts include physical and human capital lost during the crisis, intangible assets disrupted (B2C and B2B relations), increased cross-border barriers to mobility and credit market constraints leading to less investment. There are also some (relatively minor) positive impacts from the pandemic, not least the spur to R&D and new drug design, new ways of organising private sector activity, delivery of public services, and increased IT-related innovation.
13. Some of this thinking has influenced the OECD’s Summer 2020 *Economic Outlook*, which takes a more cautious view of recovery. Most countries globally (except China, India and South Korea) are expected to be 3% or more below their Q4 2019 level by the end of 2021.<sup>43</sup> For example, the OECD projects a GDP decline in the UK of 11.5% in 2020, assuming just one “hit” (or wave) of COVID-19, with this rising to a 14% decline if a

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<sup>39</sup> R. Layard, A. Clark, J-E Neve, C. Krekel, D. Fancourt, N. Hey & G. O’Donnell, “When to release the lockdown: A wellbeing framework for analysing costs and benefits”, *LSE Centre for Economic Performance Occasional Paper*, 49 (April 2020).

<sup>40</sup> For key research on this see J. Portes, “The lasting scars of the COVID-19 crisis: Channels and impacts”, VOXEU.org blog (1 June 2020) and D Bell & D. Blanchflower, “Young people and the Great Recession”, *Oxford Review of Economic Policy*, 27:2 (2011), 241-267. See also Esmond Birnie & Graham Brownlow, “Covid-19 and the Northern Ireland economy” (1 June 2020).

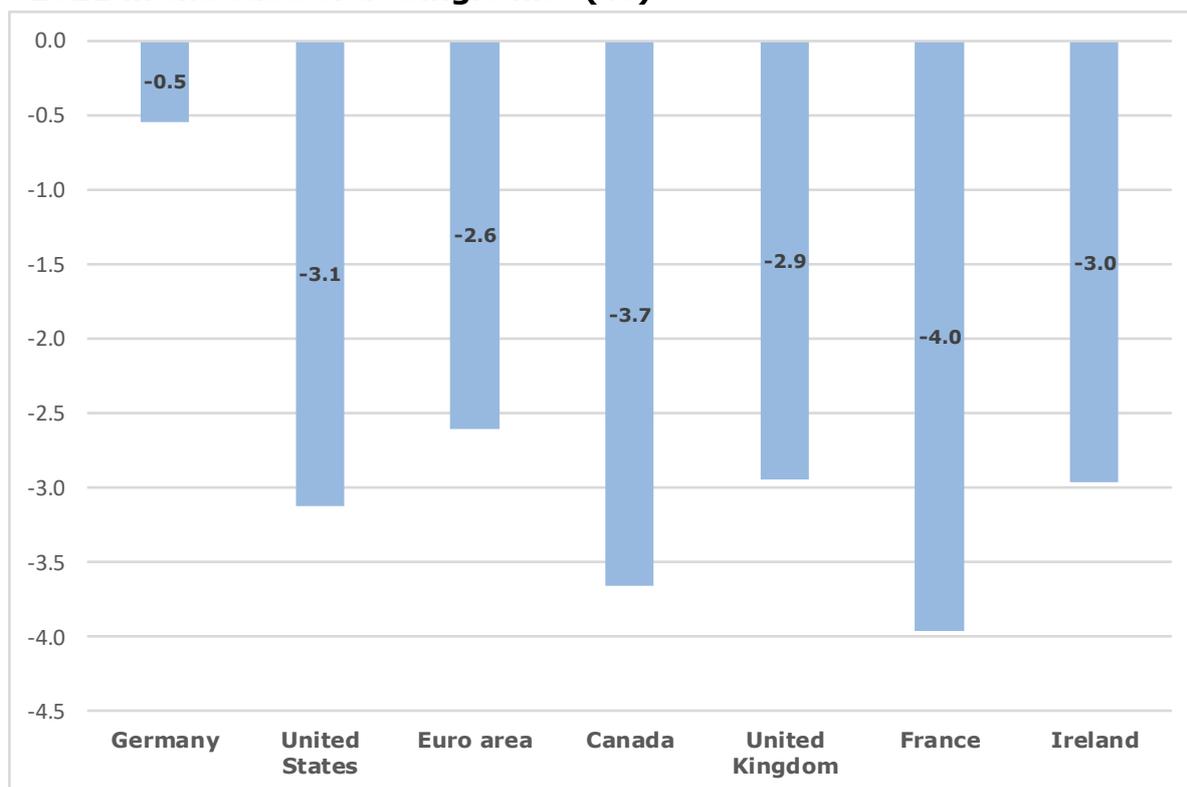
<sup>41</sup> J. Kozlowski, L. Veldkamp & V. Venkateswaran, “Scarring body and mind: The long-term belief-scarring effects of COVID-19”, *Federal Reserve Bank of St. Louis Working Paper* (April 2020).

<sup>42</sup> F. Di Mauro & C. Syverson, “The COVID crisis and productivity growth”, VOXEU.org blog (16 April 2020).

<sup>43</sup> Most national forecasters in Europe would support this view. The IfO Institute in Germany in its 1 July 2020 outlook forecasts a 6.7% fall in 2020 followed by growth of 6.6% in 2021, which is about the closest seen to a two-year return to peak in the EU.

second “hit” occurs. By the end of 2021, the last forecast point for the OECD given the level of uncertainty around forecasts, UK output is projected to be between 3% and 7% below its previous peak, based on one or two waves of the virus respectively. The OECD forecasts for Ireland are 3% and 9%, as shown in Figure 4 alongside some of NI’s other key export markets.

**Figure 4: Projections of the differences in GDP from Q4 2019 by the end of 2021 in the case of a “single hit” (%)**



Source: OECD

14. The OECD is not alone in its view of a longer recovery (in the region of three years) being more likely. The ‘Central’ OBR scenario indicates a return to the pre-virus peak in Q4 2022 (3 years) and their ‘Downside’ scenario indicates this may not happen until Q3 2024 (almost 5 years).<sup>44</sup>
15. KPMG have forecast a UK GDP decline of 7.2% in 2020 followed by growth of 2.8% in 2021 and reaching the 2019 peak in 2023.<sup>45</sup> (This assumes a vaccine is available in July 2021 and a long-term trading relationship with the EU is in place in January 2021). This is similar to the EY Item Club forecast which sees the previous peak being reached in the UK in Q1 2023 (and they have similar assumptions in respect of a UK-EU trade deal).

<sup>44</sup> OBR, *Fiscal Sustainability Report* (14 July 2020).

<sup>45</sup> KPMG, *UK Economic Outlook* (10 June 2020); EY / Item Club, *Interim UK Forecast* (June 2020).

16. Given the continuing uncertainty with the COVID-19 virus itself (and any potential second waves or “hits”), all forecasts on the period of recovery are very provisional. **However, there is an emerging view that GDP in the UK and other major economies could reach their previous Q4 2019 peak in the first half of 2022 (in a best case scenario) and in 2023 (in a more realistic scenario).**

### **This recovery will be different from previous recessions**

17. The recovery phase of this recession will be different from last time for a range of reasons:
- **The causes of this recession are quite different**– previously a financial crisis resulted in governments, households and businesses simultaneously entering a round of reducing deficits and repairing balance sheets which led to a collapse in aggregate demand. However, whilst the recession was caused by a global shutdown this time, many economies were on the verge of recession pre-Covid. This creates a negative backdrop to any recovery.
  - **The fiscal response is different and seems likely to continue** – the income subsidy schemes, supports for businesses and the additional health and public sector funding to deal with the pandemic has resulted in UK public debt reaching levels not seen since World War Two. In addition, governments globally are announcing huge stimulus packages (mixes of direct payments to households, reductions on consumption taxes and investment packages) all intended to drive a recovery and to mitigate the worst effects of the recession. This is a significant positive development in terms of short-term recovery.
  - **The pace of recovery will be determined by the ability of people to work in a COVID world and the development of a vaccine and not economic factors** – research during the crisis has shown that, while those on higher incomes and able to work from home have been largely unaffected financially, this has not been the experience of most. If social distancing restrictions continue to inhibit businesses ability to operate at a viable scale, then the phasing out of schemes such as the JRS and SEISS will result in much higher unemployment and impact consumer expectations and demand.

## 4. Economic recovery in Northern Ireland

### Introduction

1. The current UUEPC estimate of the potential impacts of COVID-19 on the NI economy is of a 11.6% decline in 2020 GVA, revised slightly downwards from the 12.7% decline estimate in May. This was based on applying sectoral-level impacts, through their share of total GVA, to the aggregate NI economy and suggests a greater impact than most estimates for the UK and Ireland.
2. The following factors will have an impact on the length of time before the economy has recovered to pre-COVID levels of activity:
  - The recovery phase has already started;
  - High concentration of vulnerable sectors;
  - Business preparation for post-COVID recovery.
3. These are discussed in turn followed by potential recovery pathways for NI.

### The recovery phase has already started

4. If this economic recovery were to follow the pattern of the last recovery, the prospects for the NI economy would be very modest. Similar to the post-financial crisis period, a very severe recession has been experienced, NI GDP declined by 7.2% based on GVA data and took just over seven years to regain its pre-crisis peak.
5. However, last time the bottom of the recession came three to four years after the start of the recession. This time around the decline has been much sharper and we have reached the trough much more quickly (most likely at the end of Q2), which will most likely reduce the overall length of time taken to return to the peak. Indeed, as the economy reopens and people return to work from the furlough scheme in Q3 2020, the recovery may have already started.

### High concentration of vulnerable sectors

6. A sectoral approach provides a greater level of insight into a NI economic recovery. The sectors most vulnerable to a slower recovery are those impacted most by social distancing restrictions and include Accommodation and Food Services (i.e. Tourism and Hospitality), Air Transport (aviation), Manufacture of Other Transport Equipment (mainly aerospace) and Retail. Table 7 shows that overall, these vulnerable sectors have a higher concentration in NI relative to the UK and therefore the local economy faces greater challenges to recover to the pre-virus peak.

**Table 7: Vulnerable sector concentrations, NI and UK**

	NI GVA in 2018 (£m)	% of total NI GVA	UK GVA in 2018 (£m)	% of total UK GVA
Accommodation & food services	£1,021	2.5%	£52,001	2.8%
Air transport	£97	0.2%	£5,565	0.3%
Manufacture of other transport equipment	£347	0.9%	£10,406	0.6%
Retail	£3,460	8.6%	£97,958	5.4%
<b>Total</b>	<b>£4,925</b>	<b>12.3%</b>	<b>£165,930</b>	<b>9.1%</b>

Source: UUEPC analysis

### Business preparation for post-COVID recovery

7. It is not clear if NI businesses are taking the appropriate steps to prepare themselves to grow after the crisis. Research from McKinsey on German SMEs found that 79% were optimistic about post-COVID prospects.<sup>46</sup> This optimism is based upon the businesses making strong efforts to engage with customers and to shift further towards e-commerce. The extent to which any of this is paralleled in NI and therefore how far it may act as a barrier to growth is unknown.
8. In addition, there is likely to be a premium on competitiveness, high productivity and the agility of businesses and employees to respond to the changes brought by the pandemic. Research from the UUEPC and others has shown that NI businesses tend to lag counterparts in GB or internationally on these measures. This will impact the ability of companies to re-enter existing markets and develop new export markets and in turn the speed of recovery.

### Potential recovery pathways in Northern Ireland

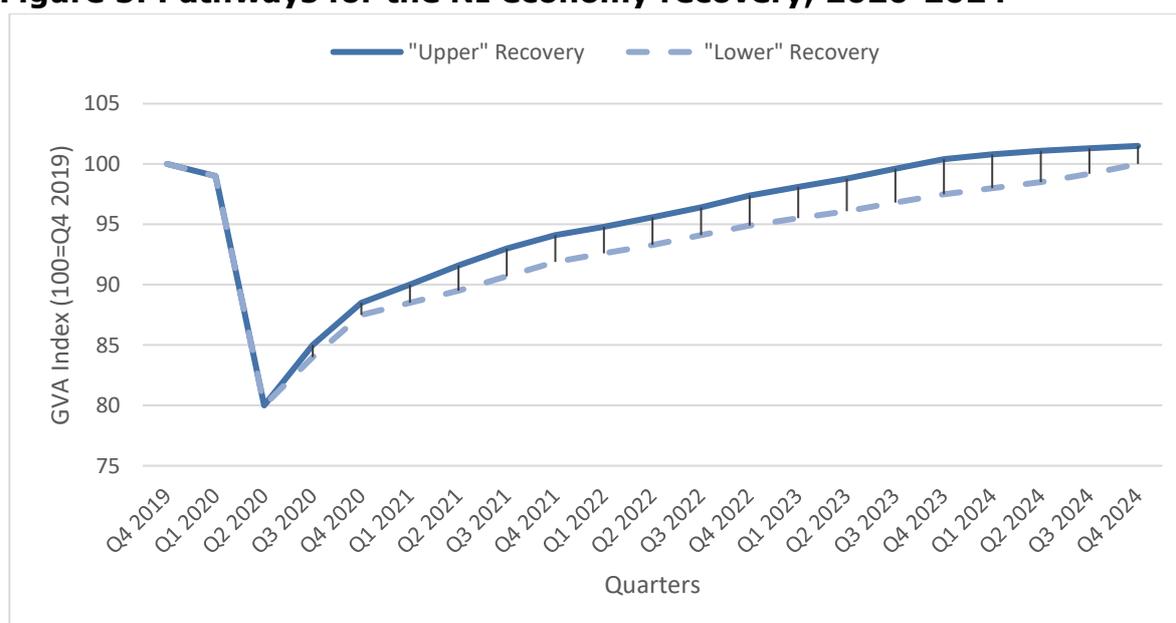
9. This paper considers two recovery pathways (an 'Upper' and 'Lower' scenario) and while both assume that a second spike or wave in the Coronavirus pandemic could occur, a second full shutdown is less likely. Rather, actions may be taken in certain sectors (eg: education) or more localised shutdowns could be put in place (as in Leicester). Furthermore, it is anticipated that better testing, tracking and tracing should ensure that a full shutdown is unnecessary.
10. The analysis of potential recovery pathways is not intended to be a forecast for the recovery but instead offers an indicative "band" between two plausible growth scenarios before Q4 2019 levels are reached.

<sup>46</sup> J. Meffert, N. Mohr and G. Richter 20 May 2020, "How the German *Mittelstand* is mastering the COVID-19 crisis", *McKinsey Digital*

### The GVA recovery

11. As noted above, NI took approximately seven years to recover the lost GVA following the previous recession. This was a particularly long period with Real GVA falling for three consecutive years. The recovery stuttered from late 2010 with three years of very tepid growth (average of 0.9% per annum) and only really took hold in 2014 when the economy grew by 2.2%.
12. The two largest sectors in the local economy in GVA terms are Manufacturing (15.2% in 2018) and Retail & Wholesale (13.8%). Manufacturing drove the recovery last time reaching its pre-recession peak in 2013 and retail had an even faster recovery in GVA terms, reaching 2007 levels by 2011. In contrast, Construction has yet to reach its pre-recession peak.
13. Figure 5 below shows the 'Upper' and 'Lower' scenarios, with the recovery in both beginning in Q3 2020. The 'Upper' scenario recovery continues steadily through 2021 (at a 5.6% growth rate) and then more slowly in 2022 (3.2%) and 2023 (3%) to reach the previous peak **by Q4 2023 (ie: 4 years later)**. This scenario assumes businesses recover quickly to meet a steady growth in domestic and export demand with few "scarring" effects on consumer confidence or business investment in productivity-enhancing measures.
14. In the 'Lower' scenario, the recovery climbs more slowly with the previous peak being reached by **Q4 2024 (ie: 5 years)**. This assumes the recovery fails to make up the lost ground at the same pace as in the 'Upper' scenario (4.4% growth in 2021, 3% in 2022 and just over 2% in 2023 and 2024). This is based on more prudent consumer and business sentiment and thus demand remains more constrained.

**Figure 5: Pathways for the NI economy recovery, 2020-2024**



Source: UUEPC analysis

15. The 'Upper' and 'Lower' scenarios both suggest a shorter period from start of contraction through to recovery to the previous peak in GVA than the post-financial crisis recession (which took seven years). This primarily reflects the much shorter economic contraction phase this time around.

***The labour market recovery***

16. New jobs will be created in emerging sectors over the next decade, but analysis of the sectors which were the drivers of job creation after the last recession as well as the sectors most vulnerable to COVID, also provides an important insight.

**Table 8: Sector job creation between 2012 and 2019**

	Employment Growth '000s	% of Total Employment Growth
<b>Main job creation sectors post-financial crisis</b>		
Manufacturing	18	17%
Administration Services	15	14%
Professional & Technical Services	11	11%
<b>TOTAL</b>	<b>44</b>	<b>42%</b>
<b>COVID-19 vulnerable sectors</b>		
Retail	7	7%
Accommodation (Hospitality)	10	9%
Arts & Entertainment	2	2%
<b>TOTAL</b>	<b>19</b>	<b>18%</b>

Source: ONS

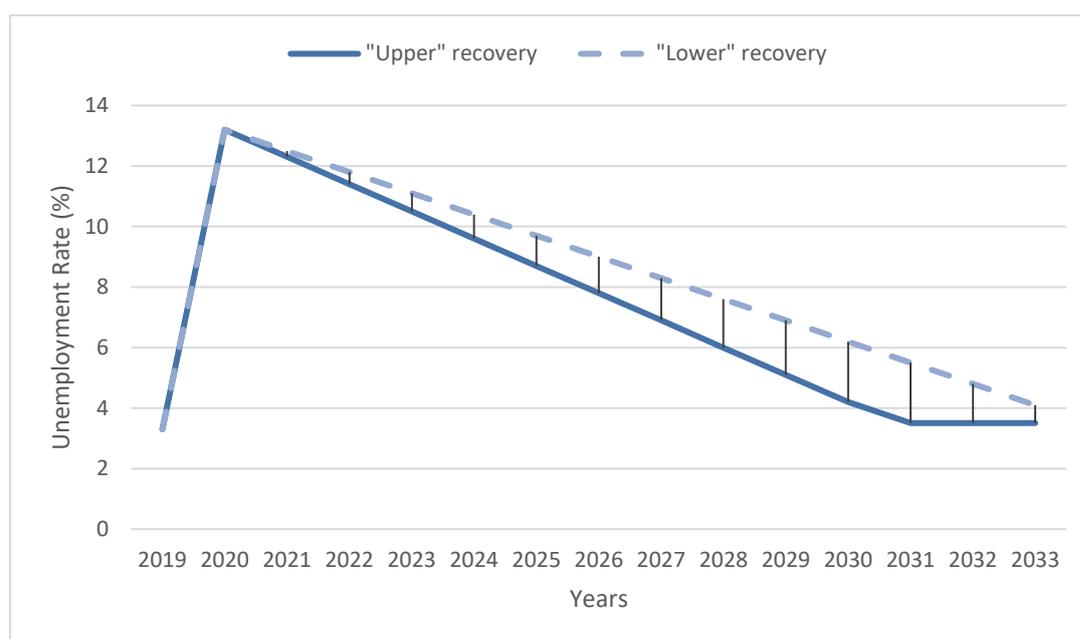
17. On a positive note, over the 2012-2019 period across the private sector, Manufacturing, Administration Services and Professional & Scientific Services were the top three job creating sectors, accounting for 44% of the 104k jobs created. Furthermore, these sectors are under less immediate pressure from social distancing and in the case of Administration and Professional Services, there is an increased ability to work from home.
18. However, the sectors most vulnerable to COVID-19, such as Hospitality, Retail and the Arts, created 18% of the total jobs created in the last recovery, but are likely to find it very challenging to continue to create additional jobs in the short to medium term.
19. Previous research from the UUEPC has shown that those furloughed/laid off are disproportionately weighted towards younger, lower skilled and temporary workers.<sup>47</sup>

<sup>47</sup> Magill & McPeake, *Labour Market Implications of COVID-19* (6 June 2020).

This group are likely to experience greater difficulties finding employment again as employers recruit those with higher skills and more experience in the first instance.

20. UUEPC analysis has shown it took 5 years for the local labour market to recover from its **unemployment** peak to its pre-financial crisis low (a reduction in the unemployment rate of approximately 0.9% per year). The average reductions in the UK unemployment rates in the past three major recessions have ranged between 0.5% p.a. (2011-2019) and 0.8% p.a. (1984-1990). The responsiveness of the US labour market has resulted in an average 0.85% p.a. reduction in unemployment based on all recessions over the past 70 years, although this has fallen closer to 0.6% since 1992.<sup>48</sup>
21. Figure 6 shows the 'Upper' and 'Lower' recovery scenarios in the NI labour market from a peak unemployment rate in late 2020 of just over 13%. The 'Upper' scenario assumes a reduction in the unemployment rate of 0.9% p.a., which would see unemployment return to around 4% by 2030 (more than ten years after the rate had peaked). The 'Lower' scenario a 0.7% p.a. reduction in the unemployment rate, taking thirteen years (2033) before returning to previous unemployment levels.

**Figure 6: Pathways for the NI labour market recovery, 2021-2032**



Source: UUEPC analysis

<sup>48</sup> For this research see Resolution Foundation, *The Full Monty: Facing up to the labour challenge of the Coronavirus crisis* (June 2020), Figure 22; R. Hall & M. Kudlyak, "What do recoveries from past US recessions tell us about the recovery from the pandemic recession", VOXEU.org blog (24 June 2020).

22. In both 'Upper' and 'Lower' scenarios, the period taken to reach the pre-COVID-19 rate of unemployment is much longer than in the 2008/09 recession. This reflects the scale of the challenge ahead to return to previous record lows. As noted above, this economic crisis will be felt as an 'unemployment recession', in terms of the significant challenge in creating new employment opportunities in different sectors.
23. The following factors should be considered when assessing the future labour market:
- **The drivers of redundancy** – in the first instance, firms typically take steps short of making staff redundant, (such as recruitment freezes, reduced working hours and non-renewal of temporary contracts) because they are reluctant to let experienced and knowledgeable staff go.<sup>49</sup> Mass redundancies come at the point when a firm's survival is at stake and is based on the level of financial distress prior to and during the recession and a forecast of when normal demand might return.<sup>50</sup> In the current crisis, given the weakening economic outlook even prior to the crisis and the uncertainty of prospects and revenues in a "90% economy", job cuts are likely. The pace of reversing this trend depends on the speed at which demand returns, along with the ability to operate at full capacity.
  - **The reallocation of workers** – when unemployment increases significantly, there is an increased risk that many of the jobs lost are gone forever. Research from the US suggests that in earlier recessions as many as 42% of lay-offs became permanent and thus creating the challenge of finding jobs for those workers.<sup>51</sup> This 'reallocation' of workers is a difficult process and requires policies to encourage new business start-ups, prevent barriers to entry and increased provision of re-skilling programmes.
  - **Increased levels of migrant labour** – the local labour market has a higher proportion of migrants than in previous recessions. This has an impact on the unemployment rate because migrants could behave differently after losing their jobs. It is highly likely that a NI-national would move onto unemployment benefits following redundancy, however, migrants would have a wider range of options such as moving elsewhere to find employment or moving home. This is an area of further research, but if significant numbers of migrants left NI, the levels of unemployment may be less severe.

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<sup>49</sup> The negative effects of losing such workers can be seen in R. Bhagai et al, "Talent in distressed firms: The evidence from Swedish bankruptcies, 2003-2011", VOXEU.org blog (18 May 2020).

<sup>50</sup> P. Gregg, "Unemployment: The coming storm", UCL blog (17 June 2020).

<sup>51</sup> J.M. Barrero, N. Bloom & S.J. Davis, "COVID-19 is also a reallocation shock", NBER working papers 27137 (May 2020).

## 5. Developing a recovery plan

### Introduction

1. Significant measures have already been put in place by governments around the world, to mitigate the worst impacts of this crisis, but as the restrictions ease, policy makers are now seeking to identify ways of restarting their economies and the types of stimulus packages needed to deal with both capacity effects and any fall in demand.
2. The economic recovery discussion has taken a greater prominence in recent weeks in the UK, with the Summer Economic Update on 8 July (A Plan for Jobs 2020) and the release of the Department for the Economy's *Rebuilding a stronger economy: The medium term recovery* on 18 June 2020. The UK summer statement is more focused on the short-term actions to prevent permanent 'scarring' (i.e. preventing jobs furloughed becoming jobs lost due to a collapse in demand). The DfE paper in contrast, is more focused on the medium-term rebuilding necessary for a more competitive, greener and inclusive economy: "This will require a step change in our economic policy response, as simply trying to keep the pre-pandemic economy alive will not bring about economic recovery" (p.1).

### UK Priorities in the short term

3. The UK Chancellor's short-term priorities of *protecting, supporting and creating jobs* resulted in a £30 billion stimulus package, some of which falls within the policy remit of the devolved administrations (such as skills development).
4. The "protecting" element is strongly focussed on the hospitality and leisure industries with a six-month cut in VAT (to 5%) for food, non-alcoholic drinks, accommodation and attractions, and the "Eat out to help out" scheme designed to offer up to £10 per person discounts on meals. Both will extend to NI and while the first is likely to be largely absorbed within businesses<sup>52</sup>, the second may prompt some additional demand on days (Monday-Wednesday) when capacity constraints are less likely to hurt business.
5. The flagship of the "supporting" element is the Job Retention Bonus (JRB) of £1,000 for every furloughed job that is kept past January. This could cost up to £9.4 billion (or £270 million in NI) but would require every individual on furlough to return to work. This policy raises significant deadweight issues and the risk of under-employment, therefore perhaps a more targeted approach for support could have put in place.
6. Other elements of the Summer Statement are specific to GB only and include the Kickstart Scheme offering six-month placements for 16-24 year olds (100% costs covered), grants to employers for taking on trainees, and payments for each new apprentice recruited. The first is based on well-proven and successful schemes in the

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<sup>52</sup> Department of Finance (Ireland), *Review of the 9% VAT Rate* (July 2018).

past, though the payments to employers for the latter two raise the need for scrutiny and additionality issues.

7. A further element of the “supporting” strand is the resourcing of Job Centres to deal with the additional new claimants that they will have to support.<sup>53</sup> There is also a smaller fund for those on Level 2 and 3 qualifications to keep people in education and training as the immediate crisis passes. However, significant further support will be required to assist the reallocation of labour.
8. The final element of “Creating” jobs is aimed at stimulating construction through cuts in Stamp Duty (though unlikely to assist much in NI given thresholds), a Green Homes Grant for energy efficiency measures and £5.6 billion in accelerated infrastructure investment. There are also other spending promises to try and spark innovation and job creation in environmental technologies and management. All is to be welcomed, assuming the actions (and procurement) can be implemented quickly.
9. The challenge for the NI Executive now is to implement those devolved areas at pace, especially labour market activation measures. The model of working through the public health crisis on a ‘whole of government’ basis could continue as the basis of quickly responding to the short-term priorities between now and the end of 2020.

### NI Priorities for medium and longer term

10. Turning to the medium and longer term, the Department for the Economy’s *Rebuilding a stronger economy* focuses on addressing the key structural challenges such as: too few higher wage jobs; a skills gap; and regional imbalance. NI’s relatively low productivity is clearly identified along with a requirement to restructure the economy with a focus on high productivity sectors (including Digital and Clean Energy).
11. In addition, there is also a recognition of the importance of sectors such as Agri-Food, Tourism and those dependent on consumer spending. As noted above, these sectors were critical in driving the jobs recovery last time and remain key to resolving any unemployment crisis. For example, manufacturing created significant numbers of jobs in the previous recovery and importantly offers employment opportunities across the full skills/ qualification spectrum.
25. The following ‘recovery actions’ have been identified and are likely to be crucial:
  - **Keeping young people in education for longer** – typically 25,000 young people leave the education system each year to enter the labour market. In a recession, the demand for labour falls and therefore the opportunities for those leaving education is much lower. Therefore, it is important that young people stay in

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<sup>53</sup> An additional 13,500 mentors have been announced and some important pointers for prioritising supports to prevent long term unemployment can be found in Seamus McGuinness & Elish Kelly, ‘Managing mass unemployment flows during the COVID-19 pandemic’, ESRI Report Series 95 (July 2020).

education for longer. Some specific programmes have already been put in place to increase skills in areas where opportunities still exist (such as digital skills), but it is important that greater provision for other programmes, that are known to be successful, such as apprenticeships, is made to absorb the additional numbers of young people who would have otherwise moved into work.

- **Re-skilling during and after furlough** – significant sums of public money are being spent to protect household incomes via the JRS and SEISS (est. £62 billion across the UK in 2020-21).<sup>54</sup> There has already been a recognition of the need to re-skill workers with some actions already taken through online course provision (more than 2,000 free places on short courses delivered by the FE colleges and universities) and the publication of the OECD Skills Strategy for NI. The challenge of re-skilling those who have been in the labour market for many years should not be under-estimated.
- **Accelerate government investment plans** – all forecasts suggest a reduction in private sector investment and spending, at least in the short term, and this creates a role for Government to take advantage of the spare capacity to undertake necessary public infrastructure investment. This could include fast-tracking current investment plans (and particularly smaller ones which can have greatest local impact) and providing an investment pipeline to provide certainty to the construction sector. The crisis has highlighted infrastructure weaknesses such as lack of digital connectivity in rural areas, which could be prioritised as an action, while there are also projects around energy efficiency in public buildings and homes which are critical for longer term sustainability.
- **Returning public sector staff to their town and city centre offices** – the public sector is a key employer across NI's towns and city centres. Whilst coffee shops, sandwich bars and local restaurants have re-opened, many are still struggling due to lack of footfall because office workers remain at home. There is an opportunity for government to take the lead, by returning staff to their offices, where safe, and in turn start to bring life back to urban centres. This, alongside some key public realm changes necessary in light of COVID-19, can offer a critical boost for local businesses.
- **Adapting to changing tourism patterns** – DfE's paper commits to a tourism recovery plan, reflecting the likelihood of a significant decrease in overseas visitors in 2020 and perhaps next year. In the short term, promoting 'staycations' and visitors from RoI and GB can support the sector at a time of significantly reduced international air travel. This can be encouraged by providing assurance of adherence to public health guidelines by the local hospitality sector. The tendency of

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<sup>54</sup> OBR, *Fiscal Sustainability Report* (14 July 2020), p.11.

'staycations' being shorter trips could be addressed by regional promotion with local markets together to provide a broader offering.

Importantly, significant effort will be needed in the longer term, to maintain the momentum achieved prior to the crisis in terms of building international tourism numbers.

- **FDI opportunities from near-shoring** – as noted in previous UUEPC COVID papers, there has been significant commentary on longer term global supply chain implications caused by the crisis. If businesses choose to shorten and simplify their supply chains (i.e. more near-shoring), there may be an opportunity for Invest NI to re-position NI as a safer location for GB and European inward investment. It could also result in a re-balancing towards manufacturing.
- **The normal business of government must continue** – focusing on addressing the immediate issues at hand has taken up the entire bandwidth of government, but if the economy is to successfully recover in a reasonable time period, the next Programme for Government must include policies to raise, amongst many other things, skills, employability and the broader competitiveness of the NI economy.