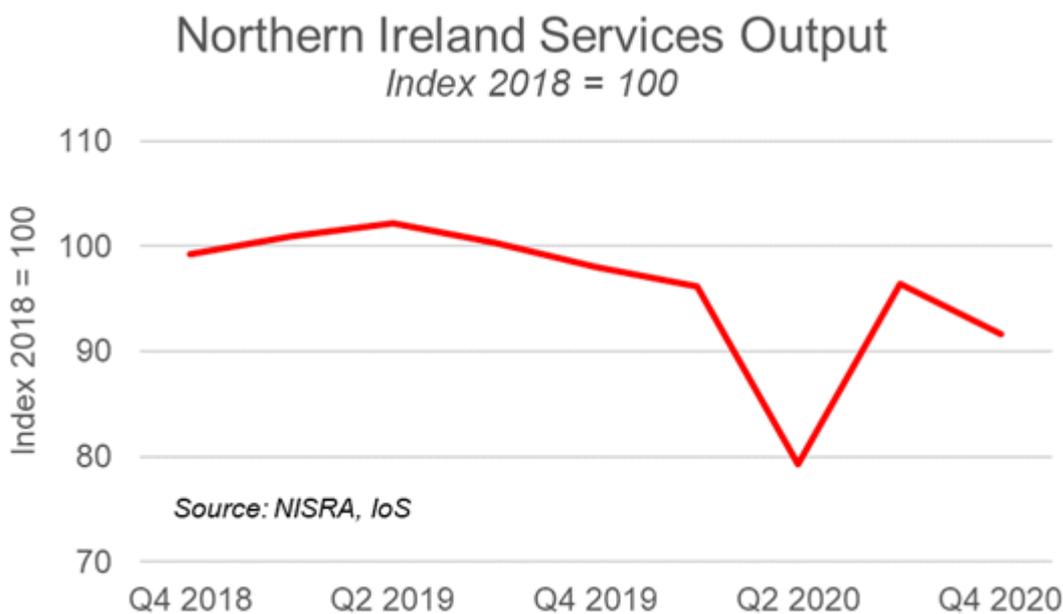
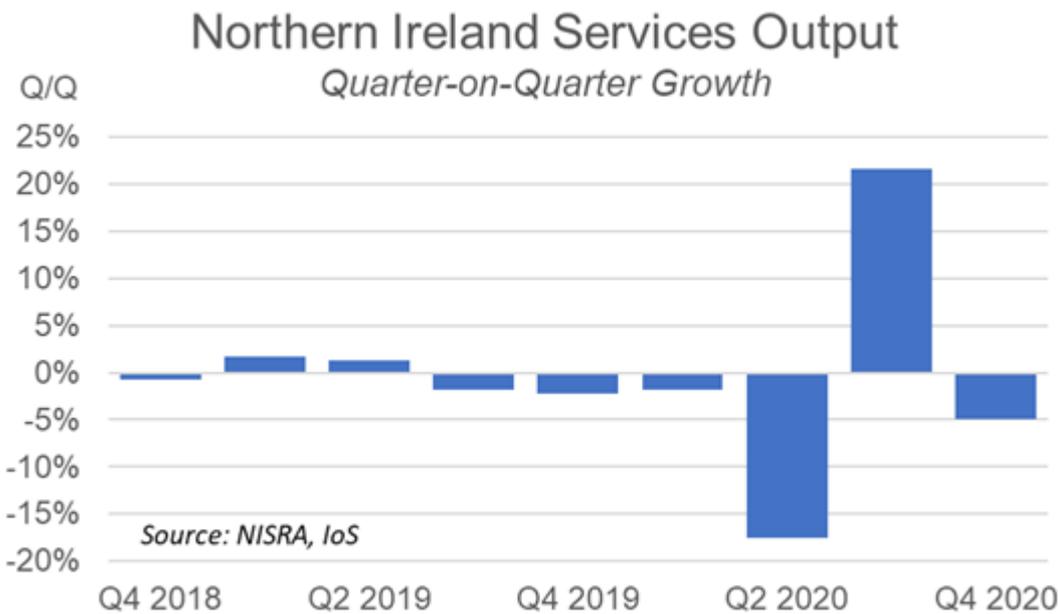


As far as economic output is concerned, 2020 has been a year of extremes. Record rates of decline in Q2 followed by record rates of expansion in Q3. Lockdown restrictions have had the effect of turning economic activity off and on. However, as the pandemic has progressed, subsequent lockdowns have been less severe on economic activity than the first. Many businesses have been able to adapt and function throughout lockdowns or pivot into new markets. The trajectory of economic output has largely followed a bungee jump. The initial fall and rebound will be the most extreme, but subsequent declines and rebounds will moderate. Not surprisingly, the latest Industrial Production and Index of Services (*private sector only*) from NISRA revealed further declines in output in Q4 2020. These two indices account for the vast majority of Northern Ireland's Composite Economic Index. Given the scale of the declines revealed today, it is inevitable that the Composite Economic Index (*a proxy for GDP*), when published next month, will post a sizeable contraction.

This time is different. During *Lockdown 1.0*, practically all the industrial production, manufacturing and services sub-sectors posted significant (*if not record*) rates of decline in Q2 2020. Two notable exceptions were the *Manufacture of chemicals and pharmaceutical products* and *Textiles, leather and related products*. Both of these sectors have posted record levels of output as a result of COVID-19. During the latest lockdown however, output growth in Q4 2020 has been more prevalent across manufacturing and services sub-sectors. Furthermore, the scale of the declines in output across sub-sectors are all significantly smaller than occurred back in Q2 2020.

Services slump. Following the record rates of decline and expansion in Q2 (-17.6%) and Q3 (+21.5%) Northern Ireland's private services sector saw output fall by 5% q/q in Q4 2020. ***That represented the second steepest quarterly decline on record***, after Q2 2020's plunge and compared with a 3.3% rise within the UK's services sector. As a result of activity falling back, NI's services sector has recouped just two-thirds of the decrease in output following the pandemic. Services activity is 6.6% below Q4 2019 levels (pre-

pandemic) but is 10.4% below the peak in services output in Q2 2019. Northern Ireland’s services sector was already in a ‘technical recession’, defined as two consecutive quarters of decline, before COVID-19 struck and has now contracted in five of the last six quarters.



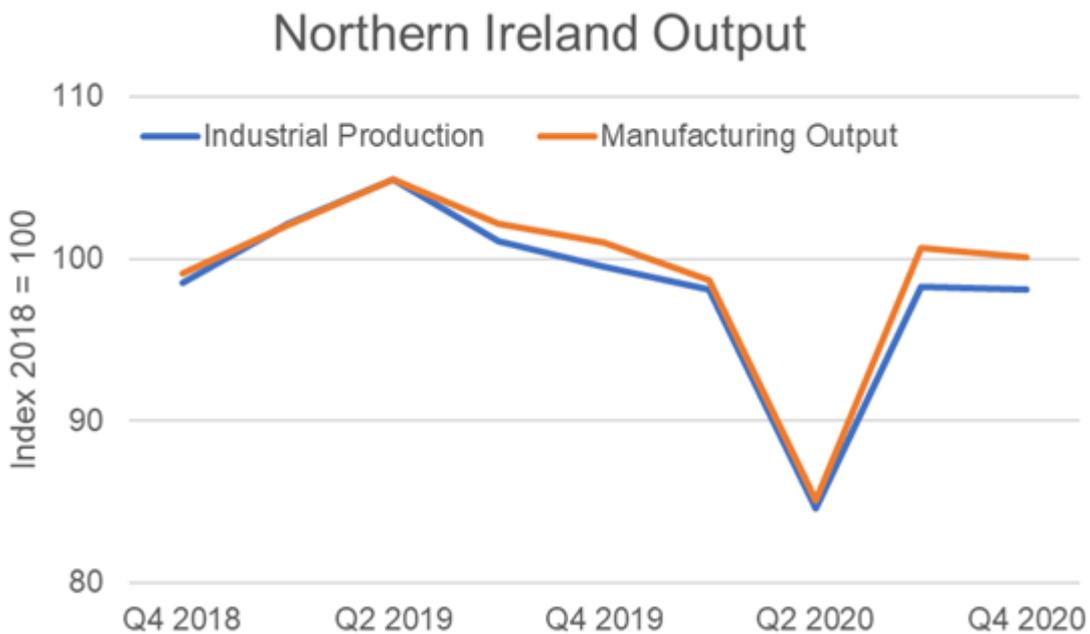
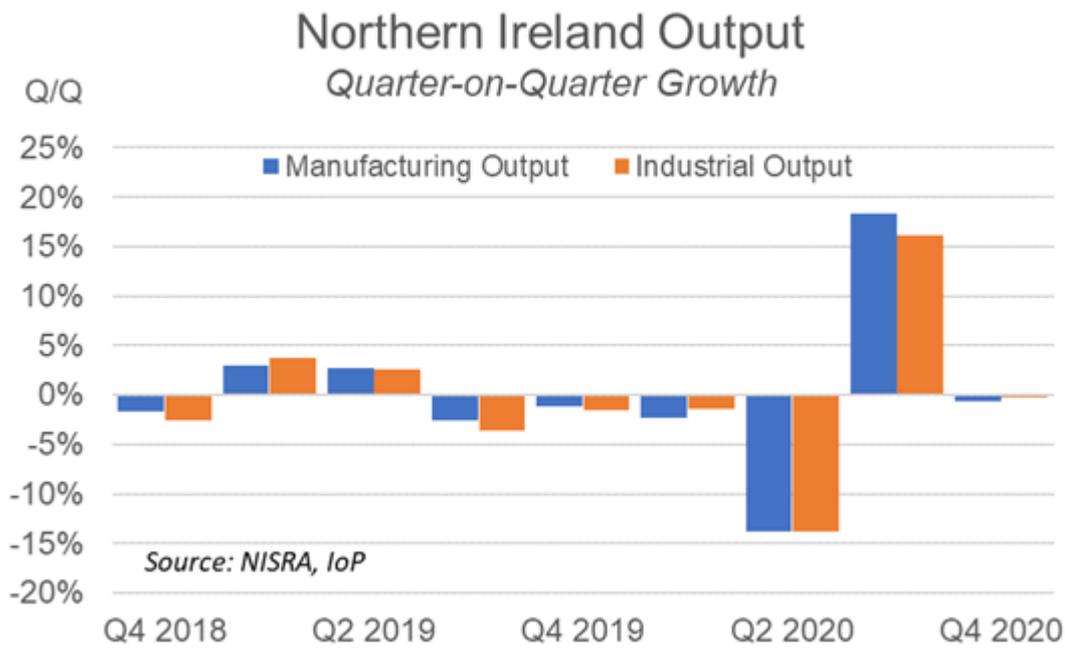
Services with a smile. During *Lockdown 1.0*, all of the services sub-sectors saw output fall in Q2. However, this time around, both *Business Services & Finance* (+1.3% q/q)

and *Transport, Storage, Information and Communication* (+3.1%) posted their second successive quarters of growth in Q4 2020. *Business Services and Finance* can largely operate via working from home (WFH). Similarly, ICT has been largely unaffected by the pandemic and logistics benefited from online sales and the build-up of stockpiles ahead of the UK leaving the EU at the end of December 2020.

Services without a smile. Once again those services sectors most exposed to social distancing and the lockdown restrictions have been the most adversely affected. With the hospitality and non-essential retail sectors closed, it is not surprising to see output (*i.e. sales*) within *Wholesale & retail trade, food and accommodation* down 7.9% q/q. ***That represents the second largest quarterly decline on record*** (-17.6% Q2 2020) and follows the record rate of expansion in Q3 (+26.9% q/q). Sales activity remains 5.4% lower than the pre-pandemic level (Q4 2019) and 8.3% below the Q2 2019 pre-pandemic high. Meanwhile 'Other Services' - which includes arts, entertainment, recreation, beauty salons, hairdressers, gyms, dentists etc - saw output fall by 5.2% q/q following Q3's record breaking +41.8% q/q surge. Activity within *Other Services* in Q4 2020 was almost 21% below its pre-pandemic level one year earlier.

Modest in comparison. Northern Ireland's industrial sectors fared much better than their service counterparts. The quarterly declines in industrial production (-0.3% q/q) and manufacturing output (-0.6% q/q) were relatively modest and followed the record rates of decline and expansion in Q2 and Q3 2020 respectively. ***It should be remembered that Northern Ireland manufacturers recouped almost all of their post-pandemic slump in output in a single quarter (Q3).*** As with services, the decline in industrial production and manufacturing output compared with increases of 1.7% q/q and 3.3% q/q respectively within the UK. Northern Ireland's industrial production output in Q4 2020 was just 1.4% below its pre-pandemic level of Q4 2019. However, as with services, industrial production was contracting ahead of the pandemic with Q2 2019 marking a pre-pandemic high.

Industrial output is 6.5% below Q2 2020 levels. Local manufacturing output in Q4 2020 was just 0.9% below the level one year earlier but 4.6% lower than Q2 2019's pre-pandemic peak.

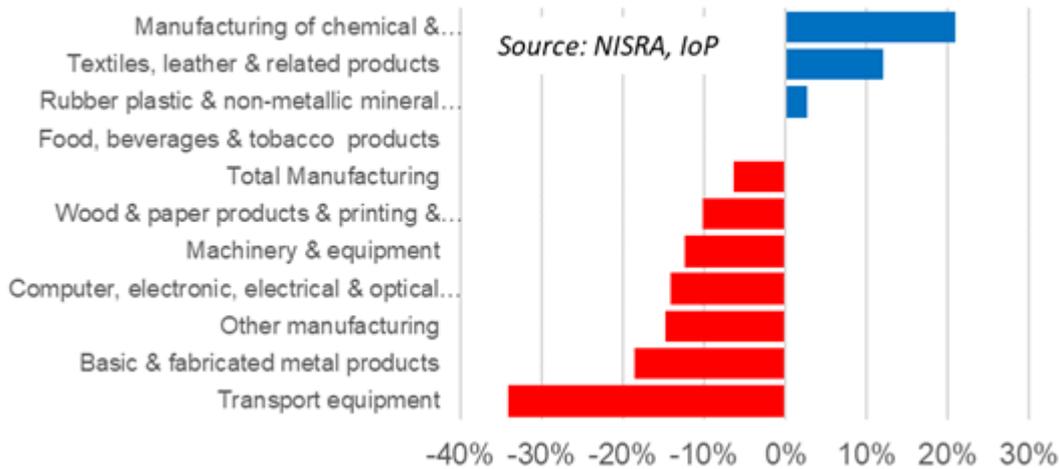


Broad-based growth. Six of Northern Ireland's ten manufacturing sub-sectors posted quarterly growth in Q4 2020. These included: *Computer, electronic, electrical & optical products* +6.3%, (e.g. Seagate); *Other manufacturing* +6.0%; *Rubber plastic & non-metallic mineral products* +2.5%; *Food, beverages & tobacco products* +1.9%; *Manufacture of chemical and pharmaceutical products* +0.9%; and *Wood & paper products & printing & reproduction of recorded media* +0.1%. Two of the four remaining sectors posted sizeable quarterly declines in turnover. *Transport equipment* fell by 22.4% q/q with output down over 40% y/y. *Textiles, leather*

& related products (think PPE) saw output fall by 10.1% q/q from Q3's record high. Despite this decline, the level of output was the second largest since the series began and is almost one-quarter higher than a year ago.

2020 not all bad! While last year was a year to forget for many sectors, some fared better than others. *Chemical and pharmaceutical products* output hit a record high in Q4 2020 having increased by almost one-third since the pandemic. Taking the year 2020 as a whole, only four sub-sectors managed to secure higher levels of output relative to 2019. These were: *Chemical & Pharmaceutical Products* +20.8% y/y (*series high*); *Textiles and Textile Products* +12.1% y/y (*series high*); *Rubber, plastics and non-metallic mineral products* +2.7% y/y; and *Food, beverages & tobacco products* +0.1%. The first three areas all benefited from COVID-19 either through testing / medication (pharma) or the manufacturing of PPE and social distancing related equipment (*e.g. signage, plastic screens etc*). The pharma industry has also benefited from stockpiling ahead of the end of the Brexit transition period.

NI Manufacturing Sub-sectors Annual Growth 2020



Catapult ready. Today’s output surveys have broadly revealed what was expected. Namely, the reintroduction of lockdown restrictions in Q4 turned off some areas of economic activity and reduced the flow into other areas. However, the scale of the declines in Q4 was much lower than in Q2. We also know from more timely indicators, for example the NI PMI, that the local economy appears to have contracted in January and February 2021. Both Brexit and COVID-19 are at play and it will be difficult to disentangle these effects in 2021. With lockdowns still in place throughout Q1 2021, the first half of the year is expected to see little in the way of growth. But output is expected to be catapulted higher with a strong second half as lockdown restrictions are relaxed and the vaccine rollout nears completion. In the meantime the NI economy remains attached to the bungee chord and won’t be unclipped for sometime yet.

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