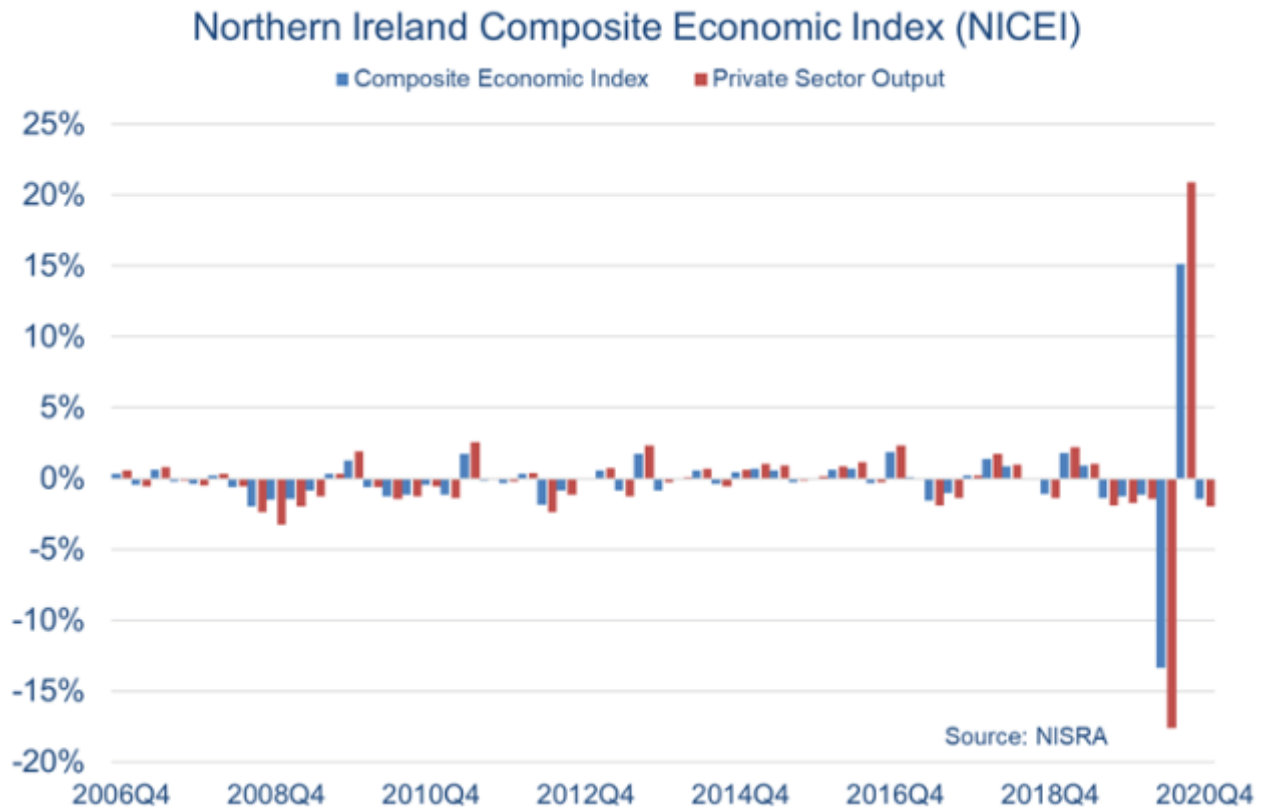




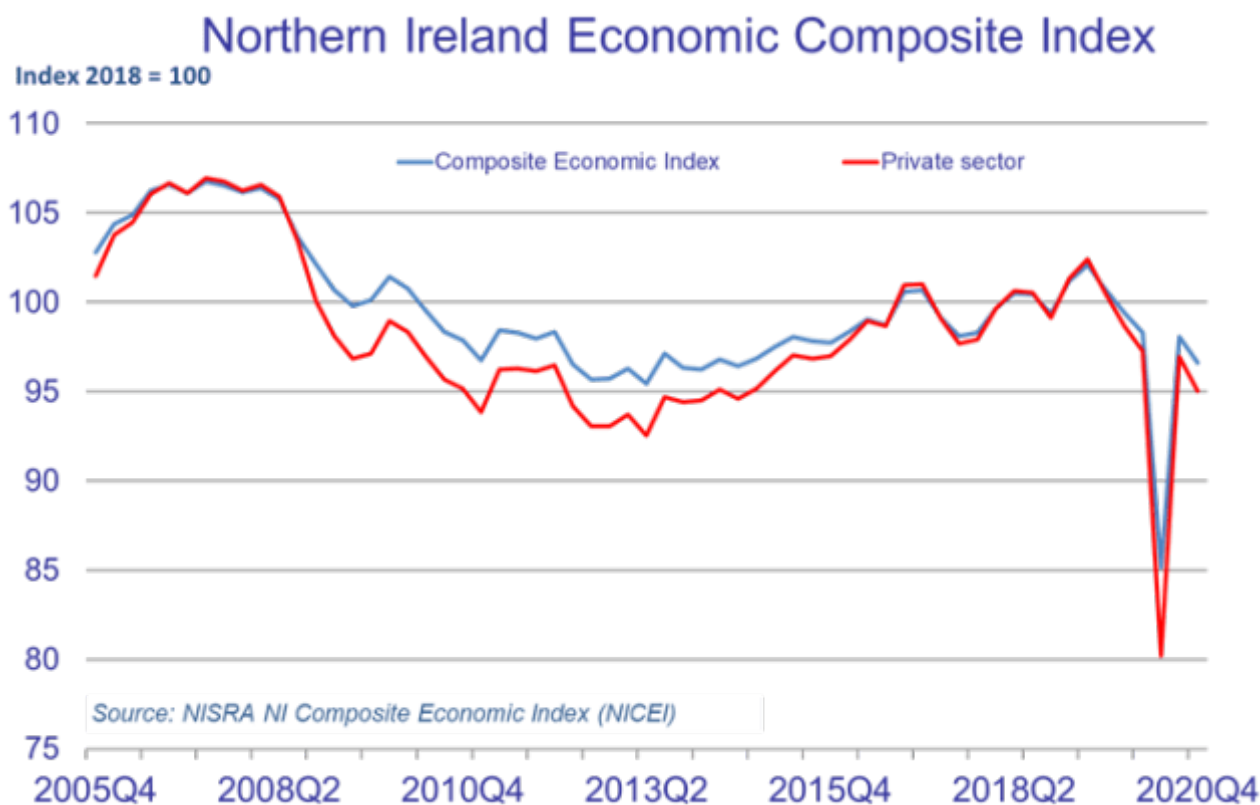
Living with lockdowns. Lockdown restrictions have had the effect of turning economic activity off and on. However, as the pandemic has progressed, subsequent lockdowns have been less severe on economic activity than the first. Many businesses have been able to adapt and function throughout lockdowns or pivot into new markets. The trajectory of economic output has largely followed a bungee jump. The initial fall (Q2) and rebound (Q3) will be the most extreme, but subsequent declines and rebounds will moderate.



Sinking feeling. Northern Ireland's economy dipped back into contraction territory in Q4 2020 following the record rate of expansion in Q3. That is according to NI's Composite Economic Index (NICEI) which is the closest statistic to GDP that we have. The latest decline (-1.4% q/q) was not unexpected, given that we already knew that private sector services had posted its second largest quarterly decline of all-time (-5.0% q/q) in Q4 and industrial production (which is mostly manufacturing) posted a modest decline (-0.3% q/q) too. The latest quarterly decline was the eighth largest decline in the NICEI series and matched the 1.4% q/q contraction in Q3 2019 which heralded the start of Northern Ireland's recession.

2014 levels. Q4 2020's contraction means the NICEI is 2.8% below its pre-pandemic level (Q4 2020) and 5.4% below the pre-recession high (Q2 2019). As a result, NI's Composite Index has recouped just over two-thirds of its decline that occurred between Q3 2019 and Q2 2020. For perspective, while the composite & private sector output indices remain well

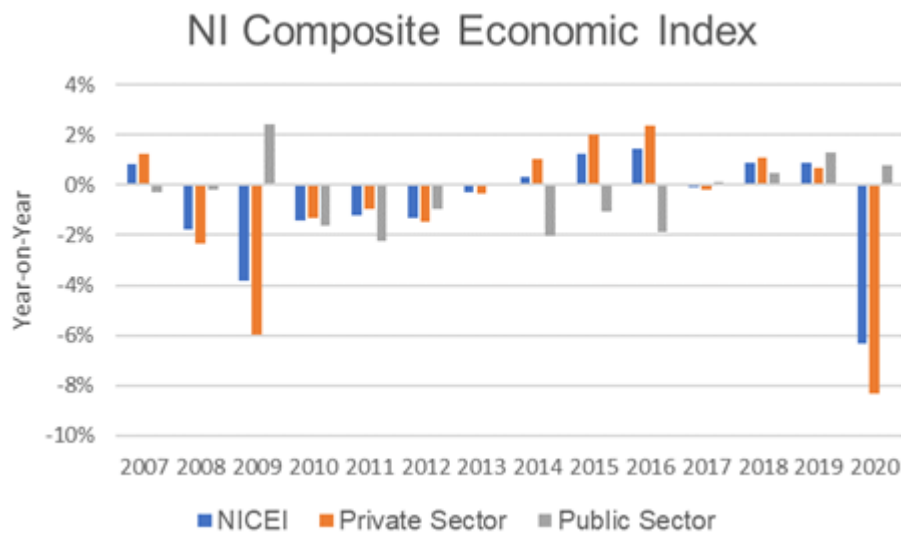
above their record lows of Q2 last year, they are broadly in line with 2014 levels.

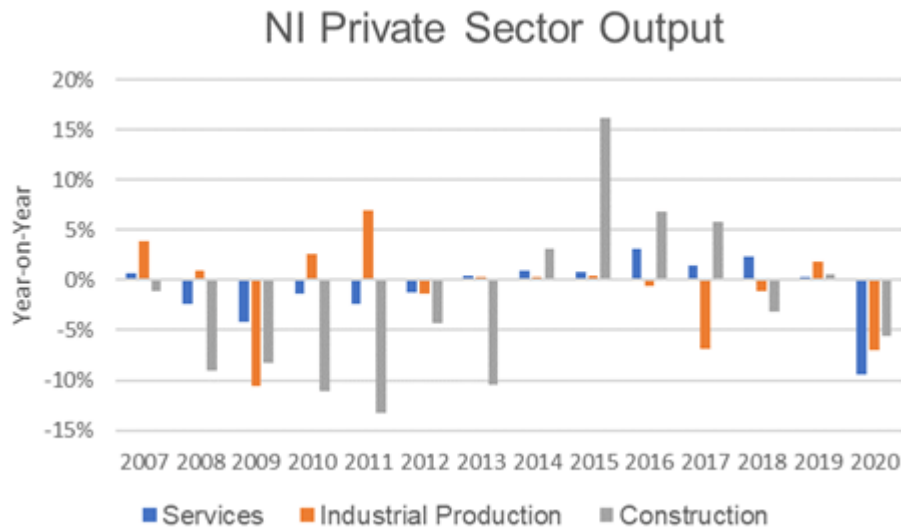


Divergence. Looking beneath the headline NICEI reveals significant divergence in performance across a range of sectors. The public sector and construction indices recorded growth on both a quarter-on-quarter and a year-on-year basis. The public sector index, which is a measure of jobs as opposed to output, increased by 0.3% q/q and by the same amount y/y. Following Q3's record rate of expansion, construction output rose by 14.9% q/q in Q4 and by over 10% y/y. These gains were more than offset by declines in industrial production (-0.3% q/q) and private sector services (-5% q/q). (For further analysis on these two sectors see the link [here](#).) The declines in both services and industrial production contributed to a 2% q/q fall in Q4 private sector output. That decline was less than one-ninth of the contraction that occurred during the first lockdown (Q2 2020).

2020 vision. Looking at last year overall, it is clear that 2020 may have seen record rates of

decline for the economy as a whole and some sectors. However, not all sectors suffered to the same degree. The composite index* (-6.3% y/y), private sector output (-8.3% y/y) and private sector services (-9.4% y/y) all posted their steepest annual declines on record. But industrial production (-7.0% y/y) and construction (-5.6% y/y) did not. Industrial production shrank by 10.5% in 2009 while construction saw steeper rates of decline in 2008, 2009, 2010, 2011 and 2013 than it recorded in 2020. Meanwhile the public sector index rose by 0.8% y/y in 2020, marking its fourth successive annual rise and taking the index to a six-year-high. [* Note that the overall decline in annual GVA / GDP is expected to be around 12/13%. That is double the fall in the composite index. The primary reason for this is the NICEI focuses on output and doesn't cover the significant falls in incomes and profits that have occurred. For example, many furloughed staff have seen their income cut by up to 20%*]





Recovery under construction. As in Q3, construction was the stand-out performer and the only sector to record two consecutive quarters of growth in Q3 and Q4. The 14.9% q/q rise in Q4 – and the cumulative 57.9% rise in H2 2020 – took construction output to a 10-year high. Despite this recent surge in activity, construction output remains 22% below its pre-property downturn peak of Q4 2006. An increase in housing activity (+21.1% q/q) and infrastructure work (+13.9% q/q) is driving the construction industry’s recovery. There has also been a notable pick-up in repair & maintenance activity (+15.6% q/q) in Q4 2020. ‘Other Work’ – which is commercial and industrial activity – was the only aspect of the construction industry not to record growth in Q4 (-3.4% q/q).

Catapult ready. Today’s survey has revealed what was expected and flagged a few weeks ago. 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, it looks like it will be Q2

before the economy records growth again. Output is expected to be catapulted higher – led by private sector services – with a strong second half as lockdown restrictions are relaxed and the vaccine rollout nears completion. Record rates of input cost inflation are currently afflicting all sectors but potentially pose the biggest risk for the construction industry. Nevertheless, barring new lockdown restrictions in late 2021/2022, the Northern Ireland economy is expected to record growth of around 5% and 6% for 2021 and 2022 respectively.

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