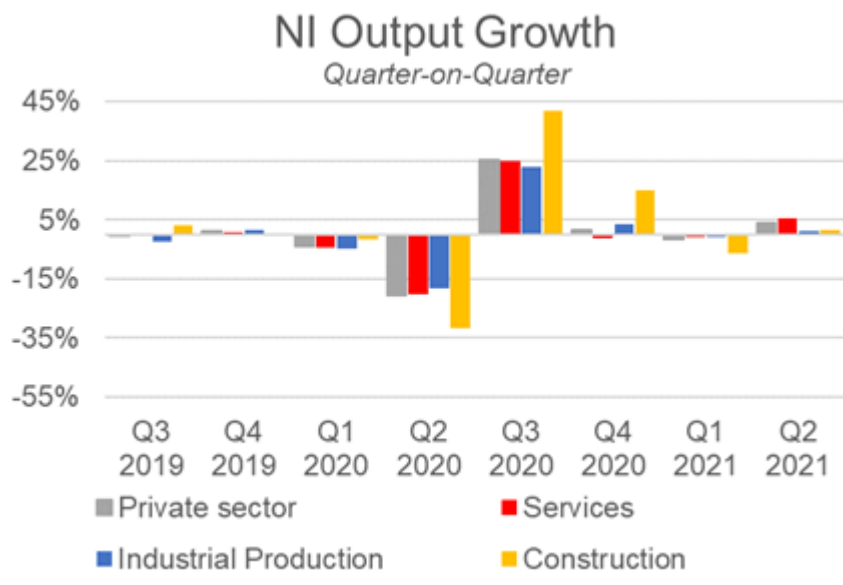
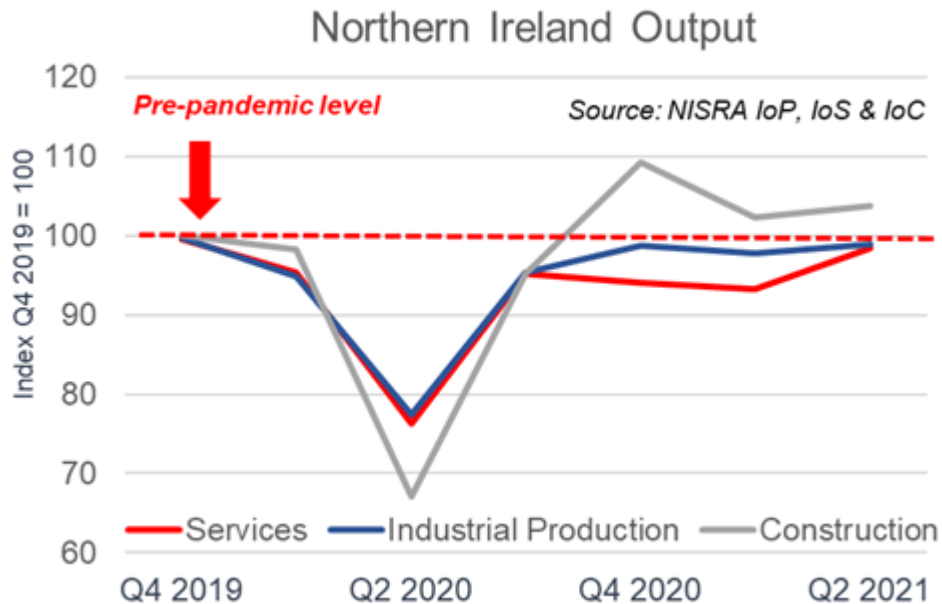
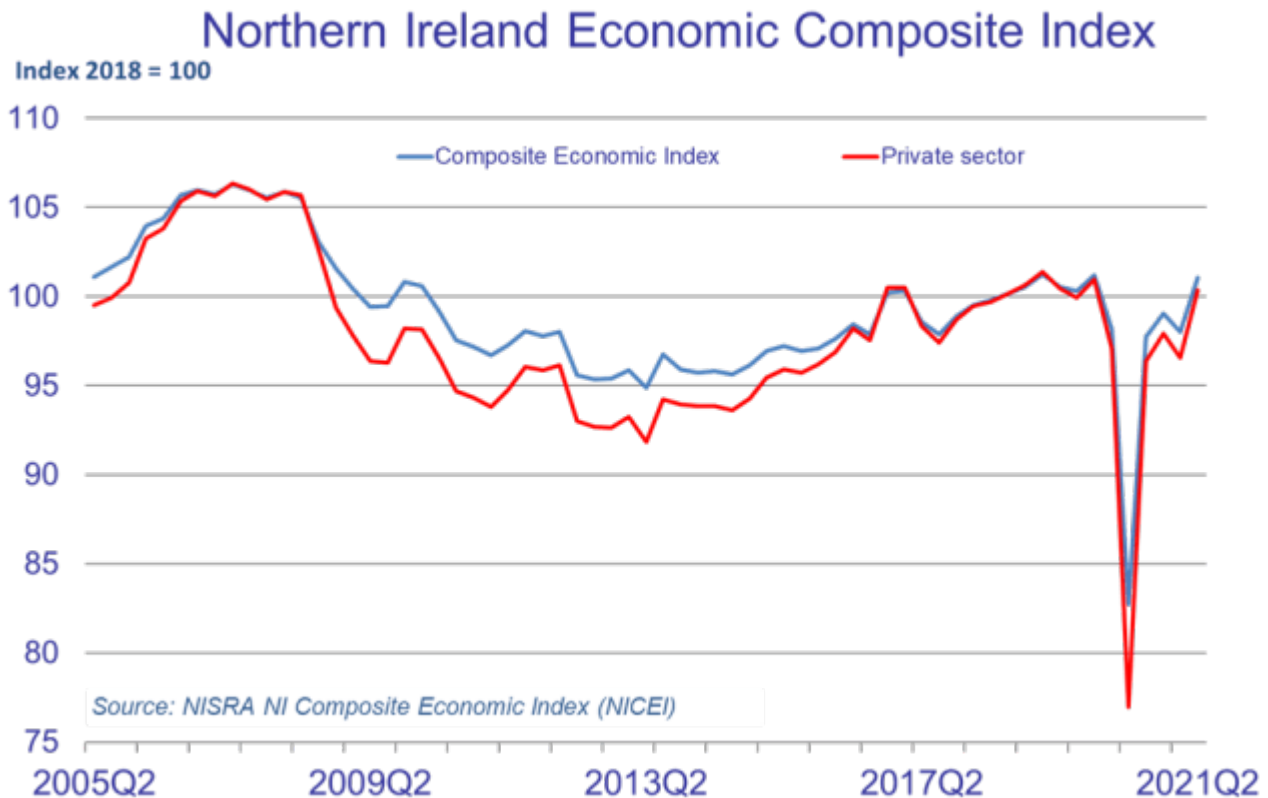


Two weeks ago NISRA’s Index of Services and Industrial Production surveys for Q2 2021 revealed that economic output was closing in fast on its pre-pandemic level. For example, manufacturing output was less than 1% below the pre-pandemic level of Q4 2019 while private sector services was just over 1% below the same benchmark. Today we got a more complete picture with the release of the Northern Ireland Composite Economic Index (NICEI) and the Index of Construction for the second quarter.





Given the 5.5% q/q rise in service sector activity, the largest sector of the economy, it was inevitable that we would see a strong increase in the NICEI – the nearest thing Northern Ireland has to quarterly GDP. So it proved with the index that combines public sector employment and private sector output expanding at its second fastest pace on record (+3.1% q/q). Meanwhile the rebound relative to last year’s (Q2 2020) lockdown low was a record breaking 22.2%. As a result, the index is just marginally (-0.1%) below its pre-pandemic level of Q4 2019. That means the ‘V-shaped’ recovery is almost complete and cue headlines that Northern Ireland has recovered its pandemic-induced slump in output.



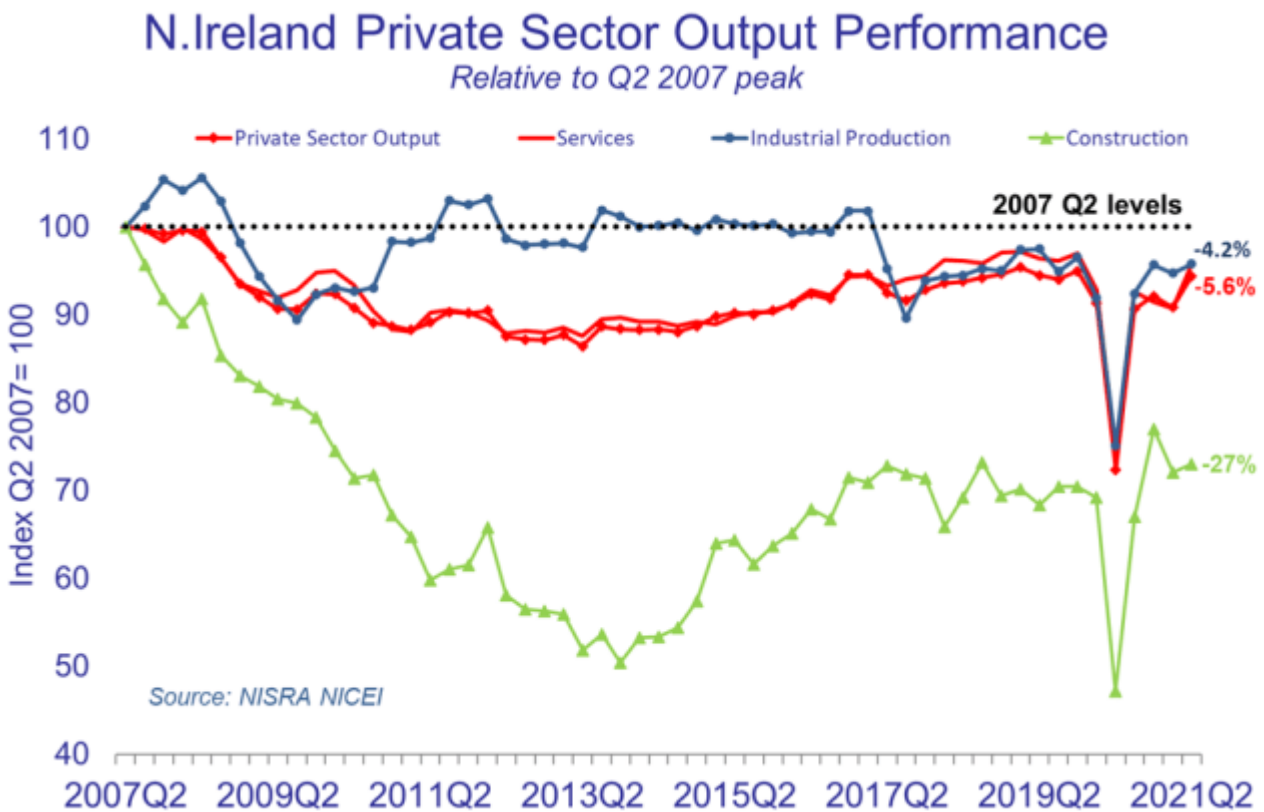
While this improvement is to be welcomed the recovery is not quite as complete when you look at private sector output. Despite posting its second largest quarterly rise in output to date (+3.9% q/q) and a record breaking 30.4% y/y surge, private sector output remains 0.6% below Q4 2019 levels and is 1% below Q1 2019's pre-pandemic high. The recovery in the private sector output measure is a more meaningful indicator of the overall recovery in output given that the public sector measure used is employment.

So over 97% of the fall in private sector output following COVID-19 has been recovered to date. But securing the last 3% of the recovery in terms of lost pandemic output will be more difficult. Q2 2021 activity was boosted by consumer sensitive sectors following the reopening of the hospitality sector. Furthermore, Northern Ireland benefited from RoI consumers who were subjected to tighter lockdown restrictions. Notwithstanding a forthcoming boost from the High Street Voucher scheme, I expect we will see activity fall back from Q2's high watermark in Q3 / Q4. Consumer spending faces considerable

headwinds such as the evolving energy and cost of living crises coupled with the removal of the £20 per week temporary uplift for 134,000 Universal Credit claimants in Northern Ireland. Meanwhile the ongoing supply chain disruption will act as a brake on the wider economic recovery. After that tax rises await households and businesses in the spring.

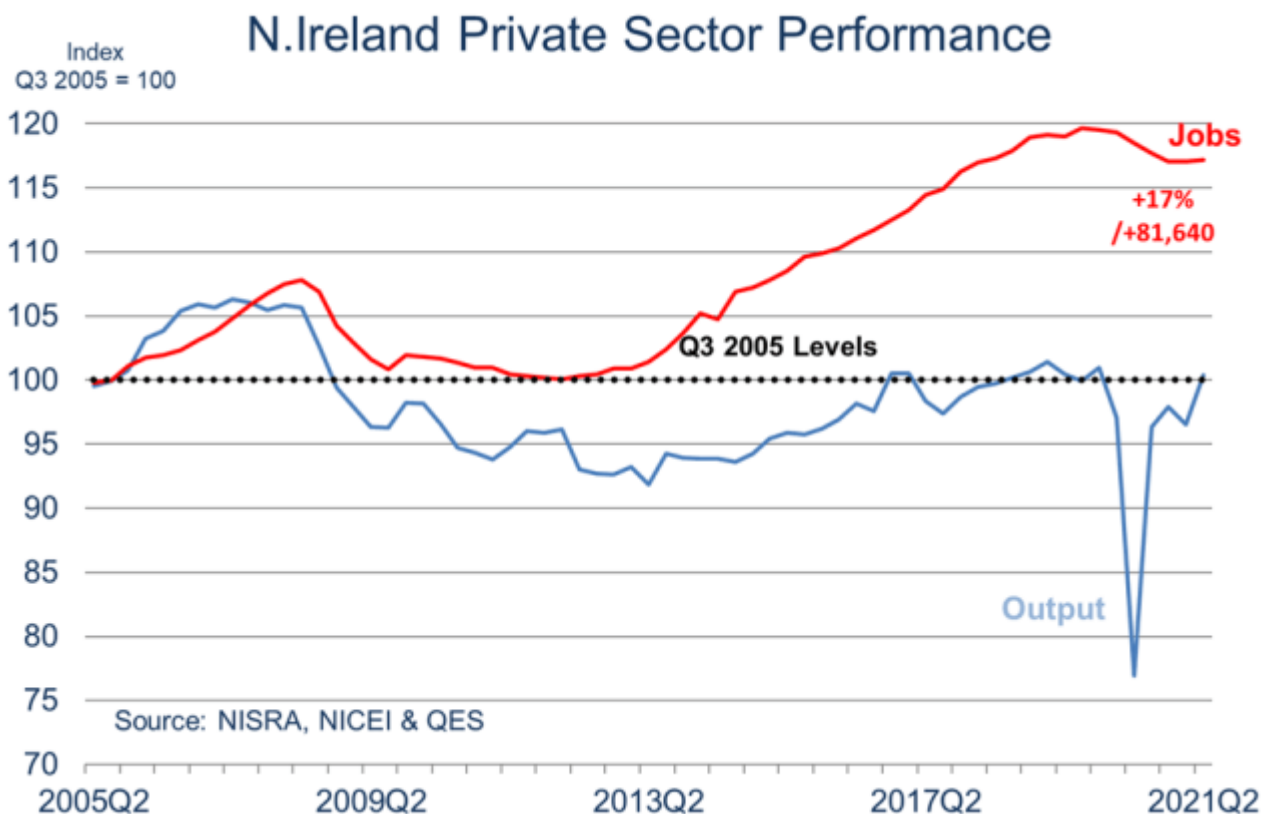
It is also important to remember that the Northern Ireland economy wasn't experiencing strong growth in 2019. Private sector output expanded by just 0.7% y/y in 2019. That rate of growth is consistent with a recession.

So returning to 2019 levels isn't returning to a particularly great place. And it is also worth reminding ourselves that the local economy still hasn't recovered from the previous recession that began in 2008. NI's composite index remains 4.9% below its Q2 2007 peak with private sector output 5.6% adrift of the same high.



Recovering lost output from the pandemic is an important milestone. But for private sector activity this is probably going to come in 2022 as opposed to this year. A recovery in overall output conceals the unbalanced recovery that we have seen at a sub-sector level. For example, some manufacturing sub-sectors such as Textiles (think PPE), pharmaceuticals and rubber & plastics all have output in Q2 2021 between 16-27% above pre-pandemic levels. Yet Other Services (-20%) and manufacturers of Transport Equipment (-44%) remain well below Q4 2019 levels of output.

Other milestones will take even longer to achieve. These include returning to pre-pandemic levels of debt and profitability.



After that, the economy needs to redouble its efforts in tackling its persistent underperformance in productivity. From today's figures and the recent Quarterly Employment Survey, some insight can be gleaned into what has been happening or not

happening on the productivity front locally. To contextualise, Northern Ireland is producing the same value of private sector output in Q2 2021 as it did almost 16 years ago. But almost 82,000 (+17%) additional private sector employees have been added to produce that same value of output. Creating jobs hasn't been a challenge for Northern Ireland. Creating high value jobs in sufficient quantity has.

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