

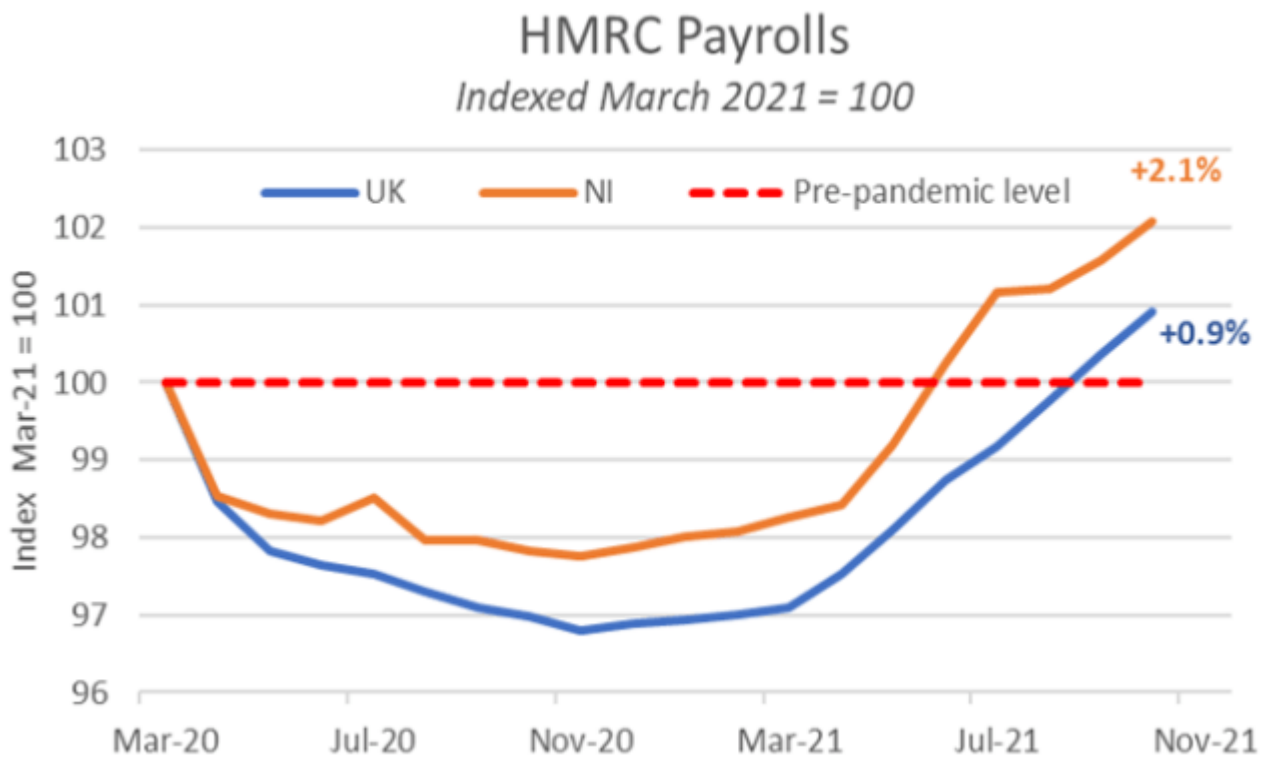
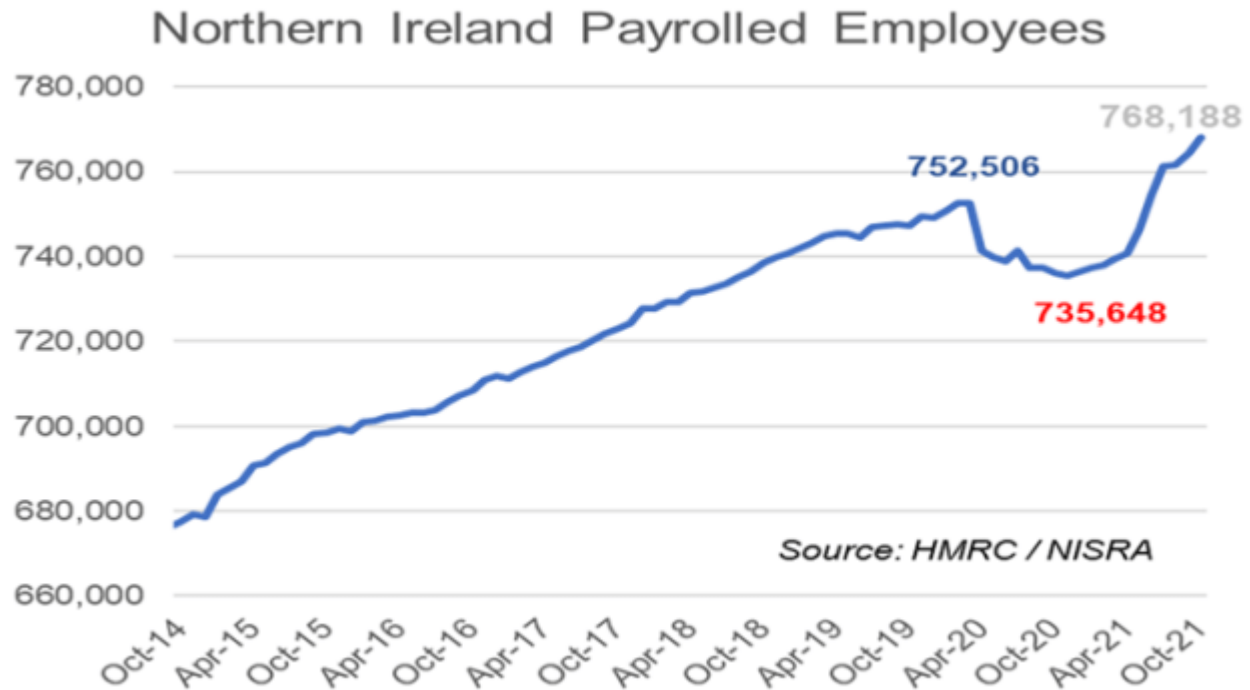


The onset of the pandemic last year led economists to conservatively pencil in double-digit unemployment rates for the UK and Northern Ireland. What economists hadn't initially factored in was the Chancellor's Mario Draghi-style 'Whatever it takes' approach to protect jobs and prevent such an outcome from occurring. Rishi Sunak quickly unveiled the Job Retention Scheme (JRS) or furlough scheme. A policy designed to prevent mass unemployment by paying employers to keep jobs until the worst impacts of COVID-19 had passed. In time, economists progressively lowered their

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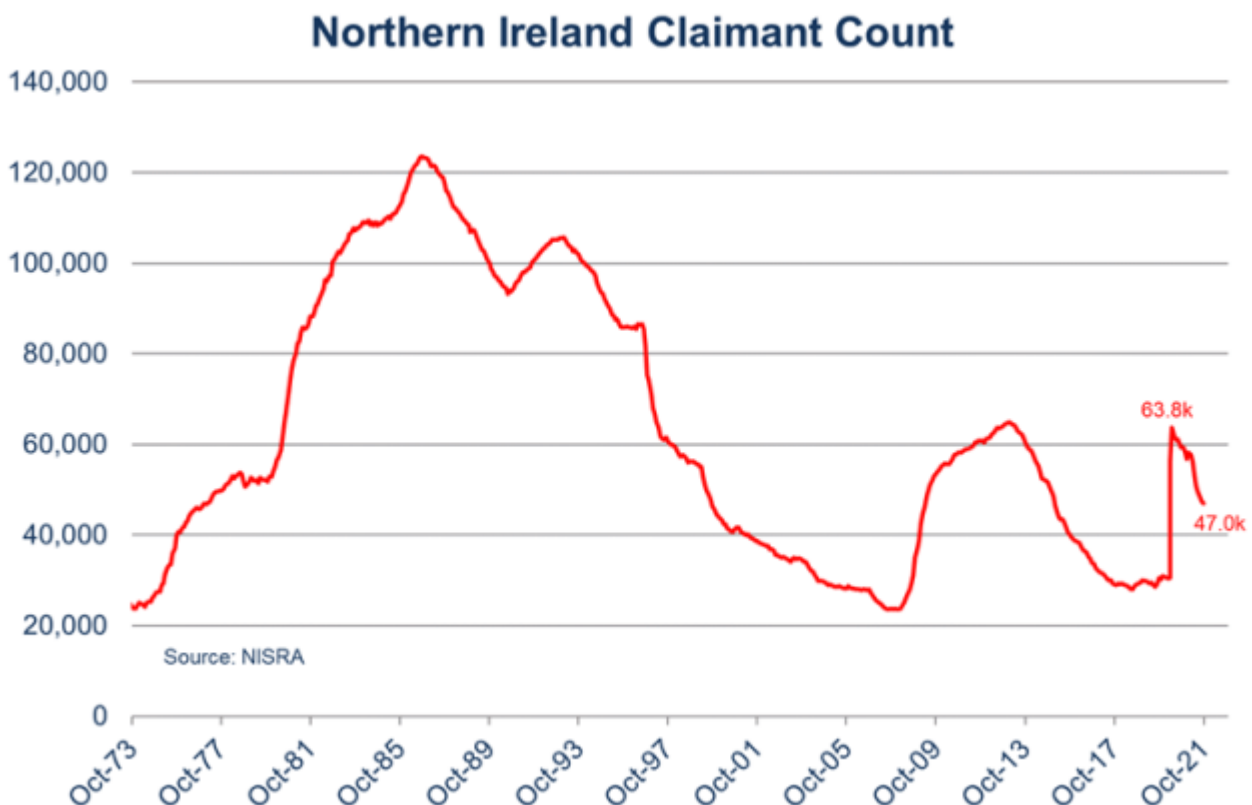
unemployment forecasts and revised down the anticipated surge in joblessness when the furlough scheme eventually ended. After several extensions, the Job Retention Scheme finally ended on the 30 September 2021.

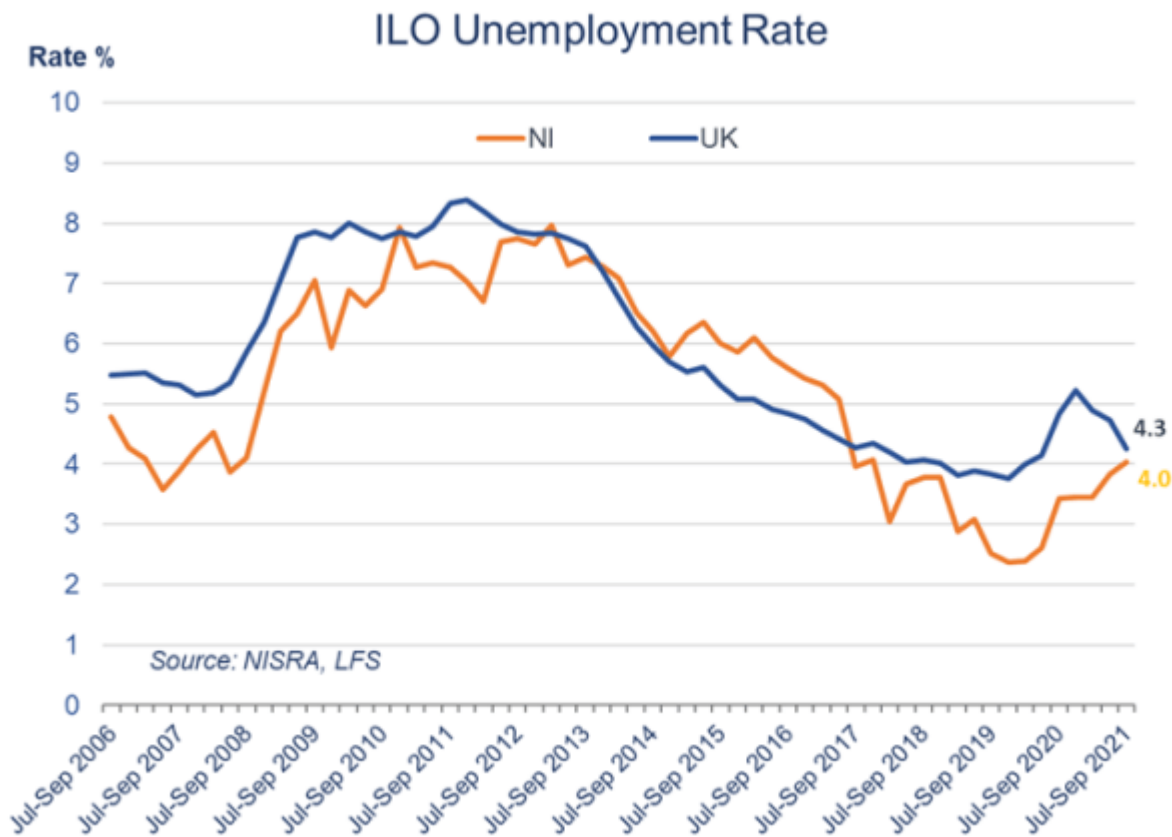
As of the 31 August, the latest data available, there were still 29,700 jobs on furlough with a 50:50 split between full and partial furlough. The latest statistics from NISRA suggest a relatively ‘soft landing’ for the labour market with the *reAs of the 31 August, the latest data available, there were still 29,700 jobs on furlough with a 50:50 split between full and partial furlough. The latest statistics from NISRA suggest a relatively ‘soft landing’ for the labour market with the removal of the Job Retention Scheme. Labour market data for October highlights that unemployment (claimant count) continued to fall and the number of employees on HMRC payrolls hit yet another record high. Meanwhile there were only 240 proposed redundancies between August and October. While there may be some unfavourable bumps in the incoming data in the coming months it is beyond doubt that the furlough scheme has probably been the best pandemic policy in the world. As far as protecting jobs and preventing mass unemployment, this policy has exceeded all expectations. Rather than a surge in job losses we have witnessed a surge in job vacancies with record levels of job opportunities.*



So what is the latest data telling us?

The number of people claiming unemployment related benefits fell for the eighth month running and stood at 47,000 in October. This is 26% below the recent peak in May 2020 but still 54% above the pre-pandemic count of almost 30,500 in March 2020. Alongside the falling claimant count is a rise in employment. Employees on Northern Ireland’s payrolls hit a record high of 768,188 marking the fifth consecutive monthly record high. This represented an increase of 4.4% y/y (UK = +4.0%) with the total number of employees on local payrolls +2.1% (+15,632) above pre-pandemic levels. That represents the strongest employment performance of any UK region and is more than double the increase for the UK as a whole (+0.9%).



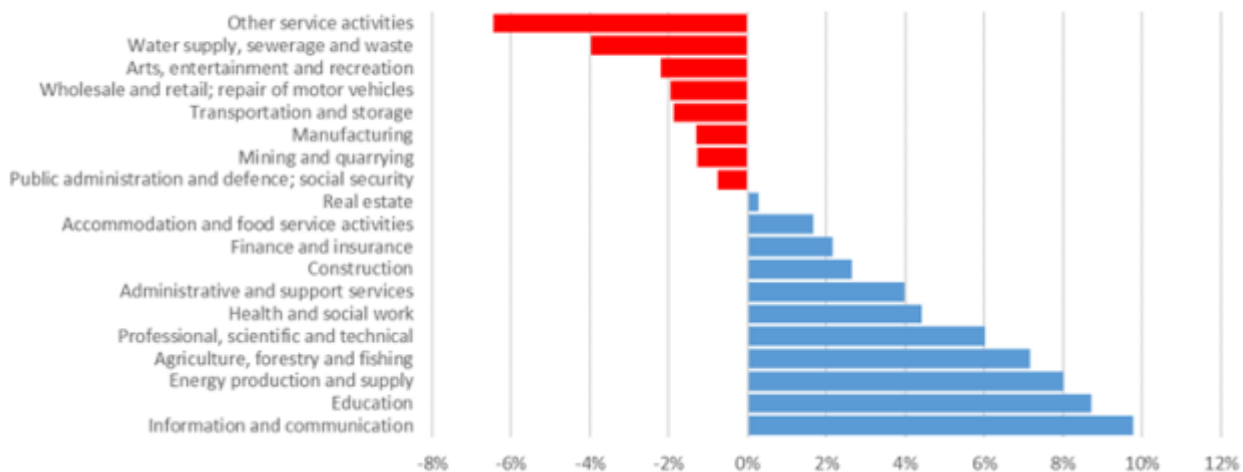


Up and down

While the total number of employees on Northern Ireland's payrolls is back above pre-pandemic levels it has been an unbalanced recovery. In numerical terms, recovery has been driven disproportionately by the public sector. Education (+6,111) and Health & social work (+5,621) account for three-quarters of the gain in jobs relative to March 2020's pre-pandemic level. Information & communication (including ICT) has increased its headcount by 10% (+2,433 jobs) between March 2020 and October 2021. Meanwhile the Professional, scientific and technical employment category has witnessed strong gains of +6.0% (+2,229 jobs). Sectors that have witnessed a reduction in their headcount include: Other service activities (-6.4%); Arts, entertainment & recreation (-2.2%); Wholesale & retail (-1.9%) and Manufacturing (-1.3% or -1,127 jobs). It is also worth noting that the recovery in employment has differed vastly by employment status. Employee levels may be back above

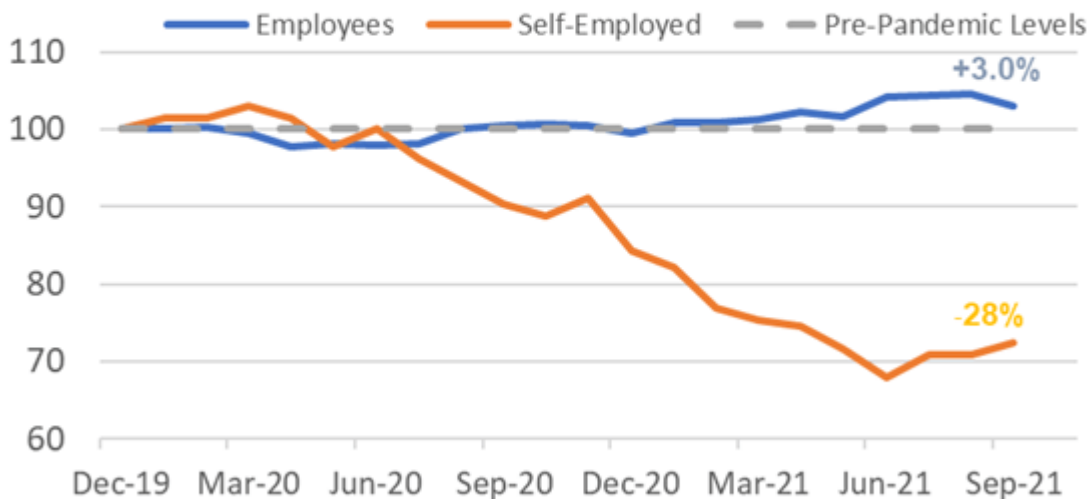
pre-pandemic levels. However, self-employment in Q3 2021 remains a hefty 28% below Q4 2019 levels.

NI HMRC Payrolls October 2021 versus March 2020



Northern Ireland Labour Force Survey

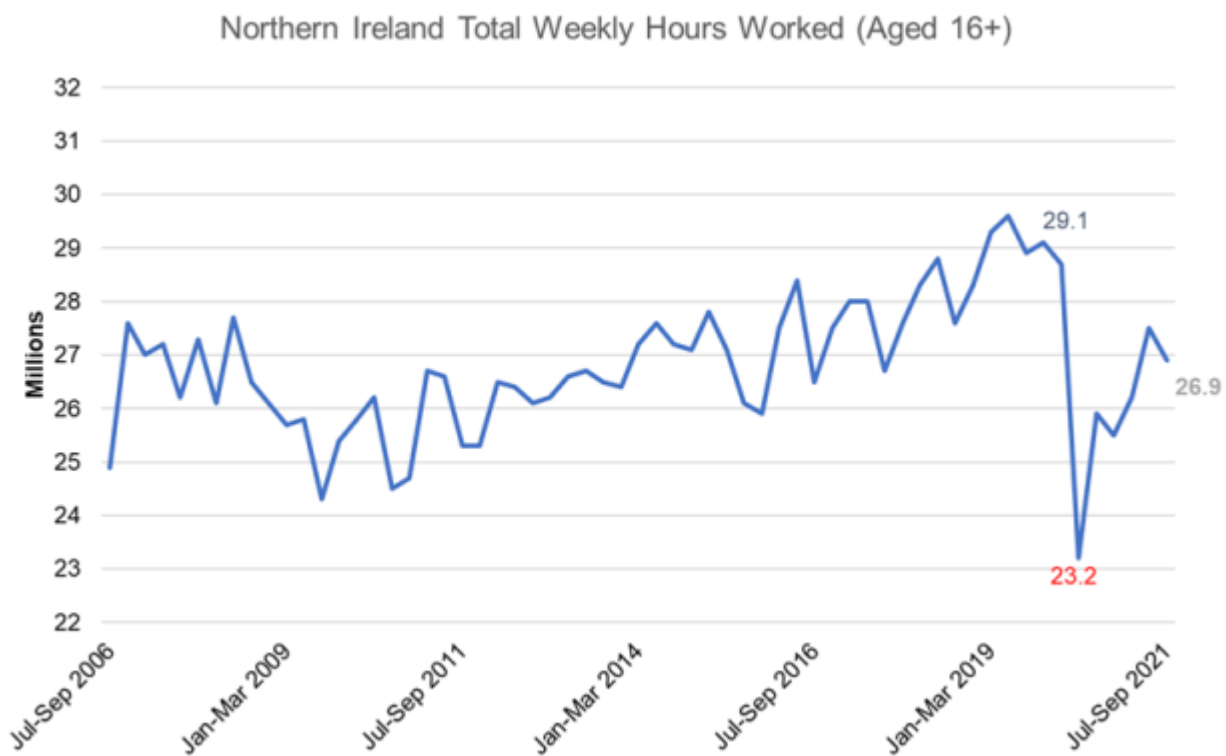
Index Q4 2019 = 100



Fewer hours worked

The slump in self-employment largely explains the fact that total hours worked in Northern Ireland is 9.4% below the pre-pandemic high of 26.9 million hours in April – June 2019.

Furthermore, the recovery in hours worked has appeared to stall in the latest quarter (Q3-21), falling by 2.4% relative to Q2. Ultimately for a full labour market recovery to be declared the total number of hours worked will need to return to pre-pandemic levels.



Outlook

The local labour market has successfully avoided mass unemployment but it remains exposed to the evolving cost of living crisis. In turn, the cost of living crisis and squeeze on household incomes will impact on those businesses and jobs reliant on consumer spending. The cost of living crisis is also a cost of doing business crisis particularly for firms with significant energy requirements. Firms recovering from the pandemic will have to pass these additional costs onto their customers.

Inflation (UK CPI) looks set to hit 5% in the coming months. While skills shortages in some

sectors (e.g. HGV drivers) are experiencing inflation busting pay rises that is not the norm. The HMRC payrolls data puts the median pay rise in Northern Ireland at 4.2% y/y in October matching UK CPI for the same month. Although this figure has been distorted (increased) by the furlough scheme. Average pay packets are likely to rise by just 2-3% over the next 12 months or so which is below the rate of inflation. As a result, real incomes and the purchasing power of the pound in your pocket will fall.

As in the last cost of living crisis that started a decade ago, Northern Ireland will be more exposed than other UK regions due to its higher concentration of low paid jobs. Higher inflation is not the only headwind facing households and local businesses. Next April will see the planned hike in National Insurance Contributions come into effect. The combined inflationary and tax squeeze will impact consumer spending and those sectors reliant on it.

Recessions in the 1970s and 1980s focussed on the unemployment rate as the key metric determining how painful economic conditions were. Simply having a job invariably provided a guarantee against poverty. But as we saw in the last cost of living crisis, having a job doesn't necessarily protect a household from poverty. The furlough scheme has been the major policy success of this pandemic. Mass unemployment has been avoided but having a job won't fully protect households against the cost of living crisis. Rates of pay and inflation will be the most closely watched statistics over the next 6 months with the unemployment rate unlikely to make any headlines. With record job vacancies and an unemployment rate of just 4.0% it is clear Northern Ireland doesn't have an employment problem. The challenge is to increase incomes by raising productivity, a persistently neglected policy objective. Ultimately increasing our productivity performance is our only sure fire route to raising our living standards in the long-term.

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