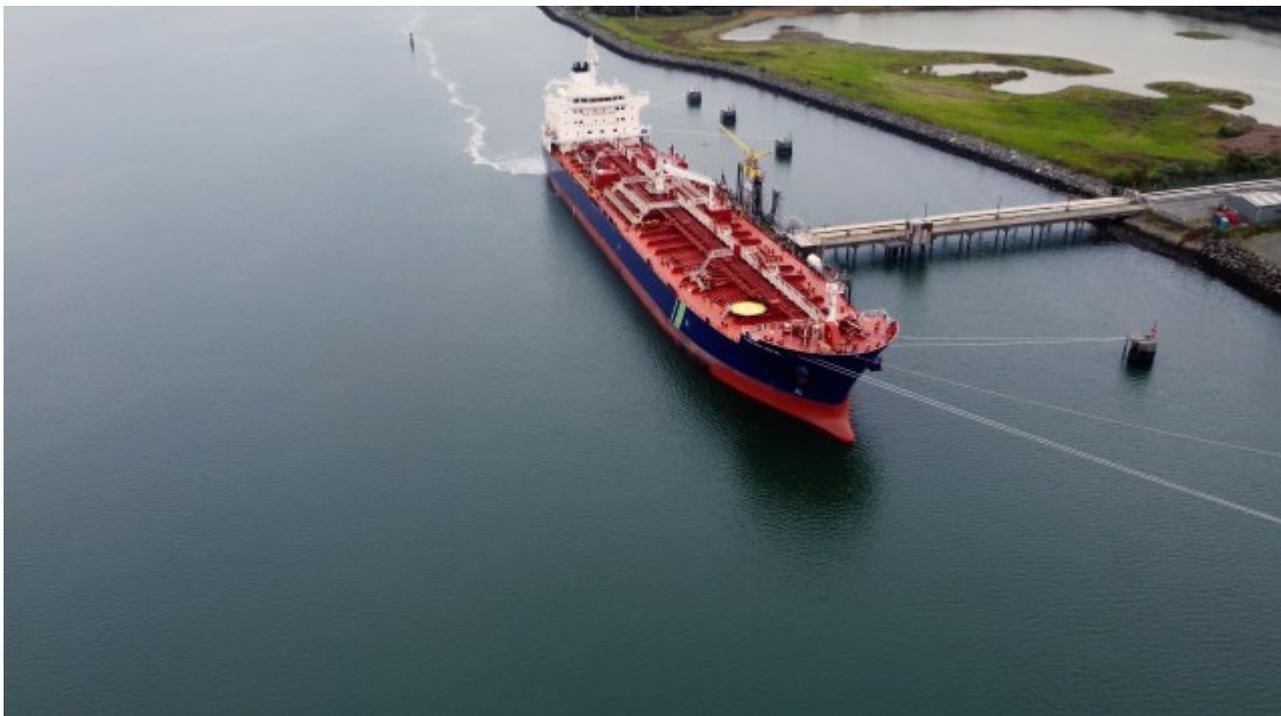


We saw further evidence last week in the form of the output figures for manufacturing and services that Northern Ireland's economy has been outperforming the rest of the UK. This follows recent experimental data from ONS which showed Northern Ireland's relative recovery from the pandemic has been second only to London. We also know that Northern Ireland has the lowest level of unemployment in the UK. So, is Northern Ireland experiencing some kind of Protocol-fueled economic miracle? The reality is, 'it's complicated'.



HAFNIA SOYA unloading oil at Belfast Harbour Northern Ireland

It's complicated

We are in danger of seeing everything that is going on through the prism of the Protocol. Many will jump on negative things happening in the economy and say: 'it's the Protocol', whilst those who support the current arrangements will be too quick to pin all of the positives in the economy on it too.

But we must remember that the Northern Ireland economy went into the pandemic in a weaker state than other parts of the UK. It is therefore coming back from a lower base, so was always likely to experience a relatively stronger recovery.

It's worth remembering that the NI economy in terms of its composite economic output index still hasn't recovered from the global financial crisis which began in 2007. Although it is expected that this milestone will finally be crossed next month with the July release of the Q1 figures.

Northern Ireland also always does well whenever there are high levels of public expenditure, given that the share of the economy made up of public sector expenditure is higher here than in any other region. And during the pandemic, levels of public expenditure soared. Indeed, public sector employment is now approaching an 11-year high.

When it comes to the Protocol, its impact on the local economy is neither as bad nor as good as many people would have you believe. Yes, some businesses and sectors are currently doing very well as a result of it, but we need to remember that it hasn't been fully implemented yet.

Food and drink is the stand-out sector

When we look beneath the surface of the latest output figures, we see the areas where the Protocol has been playing a positive role. Food and drink is the one stand-out sector that has benefited, where the re-alignment of supply chains to an all-island basis has been a real positive for food and drink manufacturers. Output in the food and drink sector is almost 12% higher than it was in Q4 2019, a growth rate that is over four-times as high as the UK as a whole. This is at least in some part due to NI companies displacing operators from GB as suppliers to the Irish market. In the case of the pharmaceutical sector, robust growth would

perhaps have been experienced anyway but there is also a tailwind provided by the clear advantages offered by the Protocol.

Other sectors like textiles have seen very strong growth - indeed it has seen the strongest growth (+28.5% since Q4 2019) of any manufacturing sub sector. This is in part due to the realignment of supply chains due to Brexit and sustainability, but it is likely to be more to do with a surge in demand for textile products such as PPE during the pandemic. And clearly this demand will wane.

Less choice and more bureaucracy equal higher cost

Many people are extolling the virtues of the Protocol but how many will still be singing its praises if and when customs declarations are introduced on parcels from GB to NI? This would significantly disrupt the online shopping habits of local consumers and would prove extremely unpopular in the midst of a cost-of-living crisis. Less choice and more bureaucracy equal higher cost. Surfing the web on sites that say 'mainland UK only' would become increasingly common. Indeed, it's such a major issue that some doubt whether the UK government can ever square this circle with the EU.

Those who argue that the Protocol is a major drag on the NI economy, should perhaps note that transport equipment is the one sector whose output has been hit most since Q4 2019, and this has almost nothing to do with the Protocol. Notwithstanding the robust growth that has been happening in the bus-building sector, the slump in the global aerospace industry has meant that output with transport equipment is close to half of what it was pre-pandemic. This will recover regardless of the Protocol. The biggest factor in this will be a normalisation in global air travel.

Is the NI economy well placed for the months ahead?

So, whilst it is encouraging that Northern Ireland's economy has performed as well as it has, as this was not anticipated, it isn't experiencing an economic miracle, nor is it particularly well placed for the months and years ahead. It has benefited disproportionately from the two Ps of higher public sector expenditure and the positives of the Protocol. But the cost-of-living crisis is going to be the biggest determinant of economic performance in the near to medium-term. And in this respect, Northern Ireland is more exposed than elsewhere in the UK due to having a higher proportion of public sector employees who will experience the lowest increases in pay and therefore the biggest real-term cuts.

Even in the private sector, we have the highest proportion of low paid jobs and the highest proportion of household income spent on energy. We also need to remember that if the Protocol's grace periods are not continued, this will be an additional significant burden. Negotiation may minimise this, but the burden won't disappear. And this comes in an environment where the latest PMI report shows the economy is already on the turn.

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