Recovery - but at what price?

Economic Eye

Spring 2021 forecast

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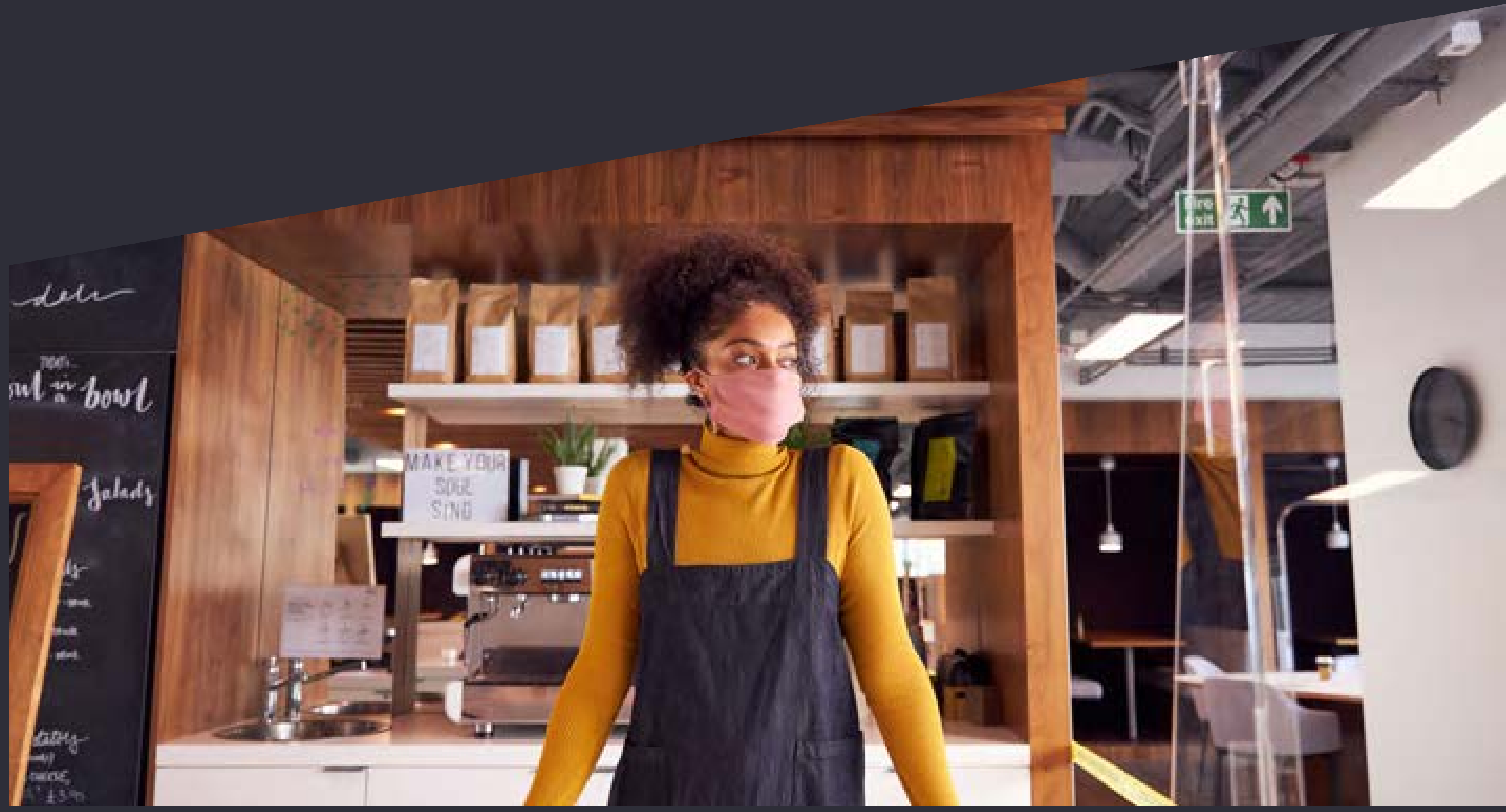
Recovery coming fast - but at a price



It has been an extraordinary year across the island of Ireland. Covid-19 and Brexit have brought levels of disruption and required policy responses that are unique in peacetime.

Over one-third of the workforce required government support during the year and both the Republic of Ireland (ROI) and the UK have experienced a sharp rise in their national debt, both of which are projected to rise further in the first half of 2021. Over the course of the last 12 months, close to 7,000 people have lost their lives to Covid-19 on the island and almost every business and household has been impacted. The complex health, economic and social impacts of the virus have presented unique challenges across the world and increased the focus on major societal questions relating to how we live, work and socialise.

It has not been an easy time for policymakers and reviews of the decisions made will inevitably follow in the coming years, with hindsight once again likely to best foresight. There is already a lively debate over the effectiveness and scale of interventions and the sensitive issue of the timing of reopenings. Arguably, even tougher decisions await later in 2021 and beyond. It is important that the improved levels of dialogue between business and government continue across the island to help guide the economic recovery and enable society to become more resilient and better prepared for future crises.

Sadly, regardless of the policy choices made, there will be an unavoidable economic cost of the pandemic on the island. Economic lockdowns have a steep economic and societal cost, regardless of whether governments can borrow or print money to offset the worst short-term effects.

Many of the effects are cumulative, making each day of disruption more damaging than the one before. The scarring effects on children's education and development, societal mental health and even the decision-making skills of business leaders are all mounting but are hard to measure.

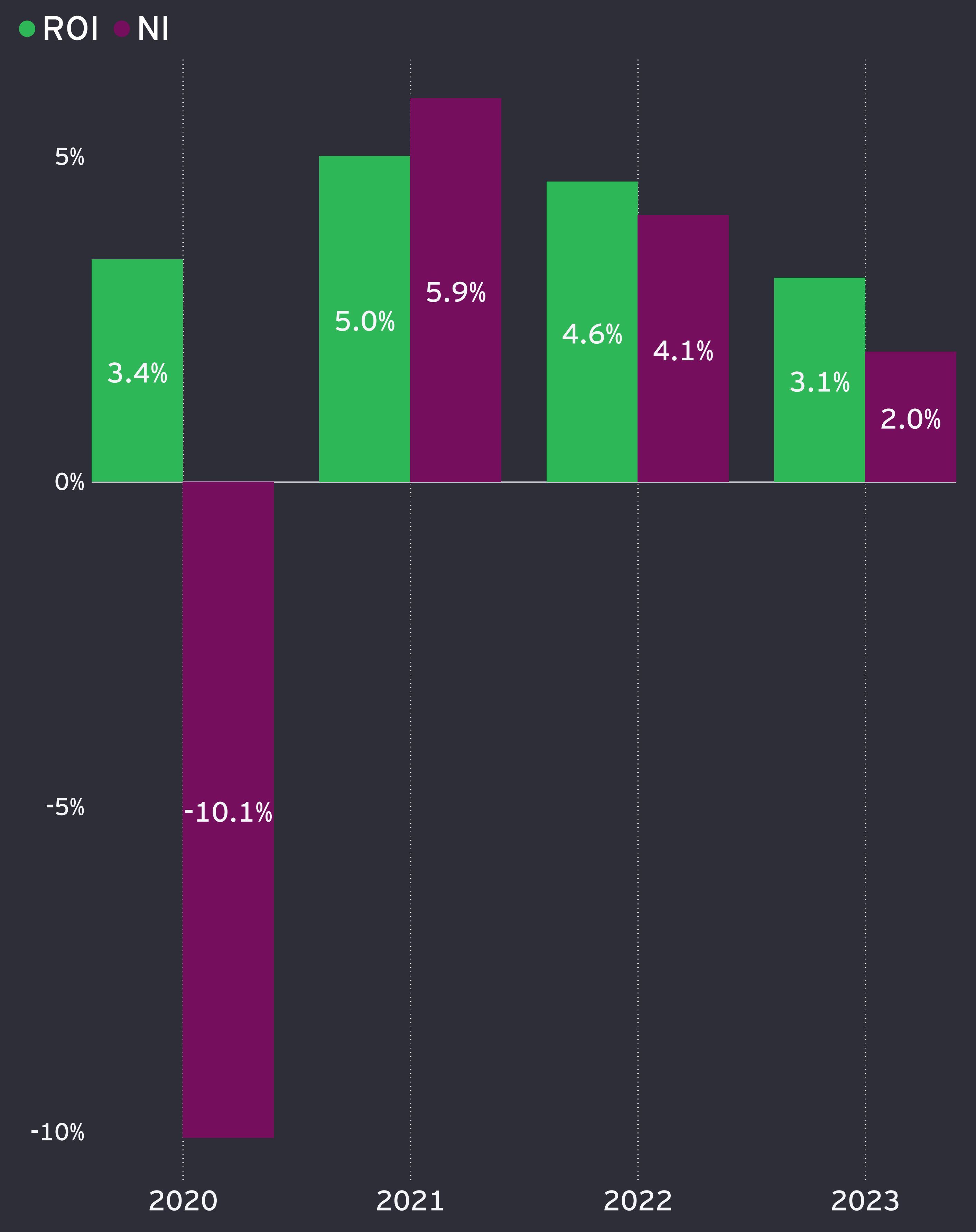
The economic damage will last long after the pandemic passes. Unemployment is projected to rise across the island as government supports come to an end and many sectors face the reality of a permanently reshaped demand profile.

Amidst all of the economic chaos have been remarkable examples of ingenuity, resilience and adaptability by firms, individuals and policymakers alike. This has been a demonstration of what can be achieved when the stakes are high enough. The role of research, the importance of public services and the potential of technology to drive progress have been made very clear over the last 12 months.

Importantly, trends that were gathering pace before the pandemic hit, such as a drive towards greater sustainability, do not appear to be stepping back in the face of economic pressure, as feared by many commentators. A future that is an amalgam of economic, social and environmental progress appears more certain than ever. In time, that will change the nature of forecast reports such as these.

For now, we focus on growth and jobs, but we are working towards presenting a more complete view of the all-island outlook to reflect an enhanced perception of what really matters.

EY growth forecasts



Source: EY Economic Eye

EY growth forecasts

	2020	2021	2022	2023
ROI	3.4%	5.0%	4.6%	3.1%
ROI MDD*	-5.4%	3.2%	6.0%	1.9%
NI	-10.1%	5.9%	4.1%	2.0%
UK	-9.8%	6.8%	5.0%	2.1%

Source: EY Economic Eye, UK ITEM Club
**Modified domestic demand removes the impacts of IP relocation and aircraft leasing, giving a more accurate picture of the domestic economy.*

The headline data appears to tell a story of two economies. ROI recorded a remarkable 3.4% growth in 2020 compared to an estimated contraction of 10.1% in Northern Ireland (NI), placing the two economies at either end of the global growth league table. ROI's strong performance reflects the strength of its export base, which is dominated by pharma, ICT and agri-food – all strong performers during the pandemic. Overall ROI tax receipts were down just 3.6% in 2020 and official unemployment rates did not reach the heights feared by forecasters, peaking at 7.1% in Q3 2020. This strong headline performance has helped to keep borrowing costs low for the Government and has allowed a more robust policy response than would otherwise have been the case. Modified domestic demand, which measures the internal economy, recorded a contraction of 5.4% which is still considerably less severe than the decline in the UK or NI.

In contrast, NI lacks the export base and is much more dependent upon government spending and consumers. Government spending has not provided the cushion that might have been expected in NI, as the method of measuring value added in public services is very different between the two economies *(see figure 1, page 14)*, amplifying the apparent divergence in fortunes.

Unpicking the data shows a much more nuanced position. The levels of domestic contraction are very similar, with labour market data highlighting just how disruptive the last 12 months have been. In January 2021, ROI had 481,000 people in receipt of the Pandemic Unemployment Payment (PUP), as well as a further 352,000 availing of the Employment Wage Subsidy Scheme (EWSS), equating to over one-third of the pre-pandemic employment number. The Covid-adjusted monthly unemployment rate, a figure unique to ROI, peaked at over 30% in April 2020 and remained at just over 24% in March 2021, indicating how disruptive the pandemic has been.

In NI, 117,000 people were furloughed at the beginning of 2021, 13% of the pre-pandemic employment number. When supports for the self-employed are included, this figure increases to 20%. Therefore, the level of employment disruption does not tell the same story as the GDP data. As is often the case, the two economies have more in common than not.

Our central forecasts assume a successful vaccine rollout with most restrictions being lifted across the island by summertime. On this basis, GDP is forecast to grow by 5.0% in ROI and 5.9% in NI, with NI expected to take until 2023 to recover to 2019 GDP levels. In employment terms, the road back is projected to be longer, with jobs not regaining their Q4 2019 peak until late 2023 (ROI) and 2024 (NI). This reflects the structural change underway in several sectors that may prevent a sharp bounce back. However, there are also areas of rapid jobs growth and a potential limit on the mobility of employees may drive greater levels of retraining and an accelerated adoption of technology. The scale of the contraction in 2020 is the primary reason that the NI economy is projected to grow faster than ROI in 2021, coupled with the way in which Government GDP is measured in the UK *(see figure 1, page 14)*. However, the limited export base and lower level of investment dampen the NI recovery relative to the rest of the UK.

The pandemic and, to a lesser extent, Brexit, have left the island economy with several economic challenges: rising debt levels, increasing inequalities, economic and social scarring effects and the potential for sharp price rises. The path of inflation has been remarkably benign for over half a decade, to the point where low inflation is almost taken for granted by many. Most forecasters predict a modest rise in prices back to stable inflation levels and a very slow rise in interest rates thereafter. However, there is a credible risk that inflation will move much faster and, though an endemic wage price spiral is not the central forecast, it is important to be mindful of the warning signs. A perfect storm for price inflation could be on the way with commodity prices rising, consumer savings coming back into circulation, higher costs arising from social distancing and increased paperwork, coinciding with a desire among businesses to repair balance sheets.

“As we look with hope to a reopening economy across the island, the second half of 2021 should bring a domestic economic surge.

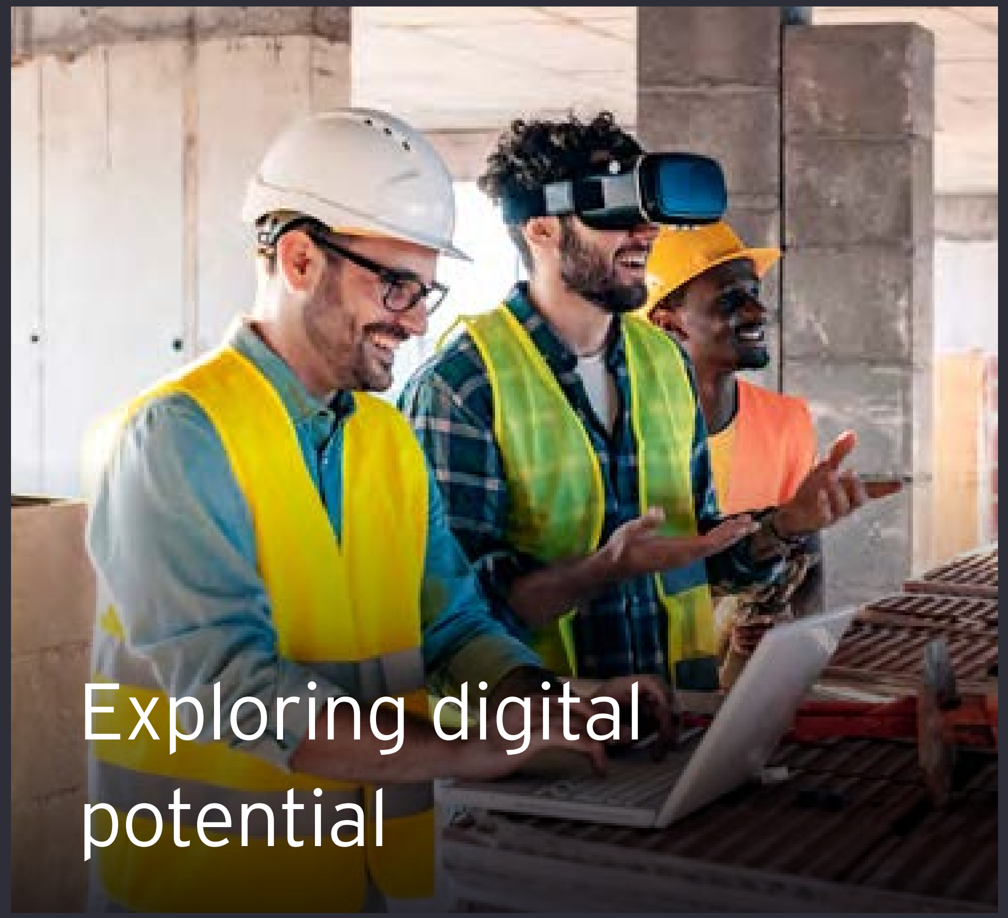
The response by public services, businesses and individuals has been truly inspiring over the last year, but there will be damage, not all of which will be repaired quickly.

Graham Reid
Head of Markets
EY Ireland

The outlook for late 2021 is positive, a consumer boom is coming, overall wealth levels have held up well and government policy has helped to soften the worst of the Covid-19 impact. However, to paraphrase the Chairman of the Federal Reserve back in 1955, policymakers need to take away the punch bowl just as the party is starting. This is undoubtedly the much more challenging part of the policy journey as prioritisation of supports becomes necessary to begin to repair public finances. The recovery will not move at the same pace for all and the scale of the challenge ahead differs greatly across sectors.

Restraint will be needed in order to avoid any unnecessary spending that may prove inflationary and lead to a damaging period of overheating. This is particularly difficult in the context of a coalition government with competing interests, as is the case in both ROI and NI. For businesses across the island, watching costs, exploring digital potential, adapting supply chains and planning for the potential shifts in government policy are all important areas of focus for 2021.

Business areas of focus for 2021



Economic outlook

Global outlook

The strong performance of stock and property markets across the world's major economies indicates a surprising level of global optimism, given the scale of economic contraction experienced in 2020.

This reflects partly the level of government intervention in most economies, along with a growing belief in the vaccine programme. The GDP growth of the ROI and Chinese economies stands out in 2020, with Spain being the only major economy worldwide to have contracted by more than 10% - a better outturn than most forecasters predicted six months ago. The scale of the projected bounce back in 2021 will be heavily influenced by the depth of the decline in 2020 and, as such, the growth league table should not be interpreted in the usual way. ROI will achieve a mid-table result this year, having been one of the few countries to enjoy economic growth last year. The extension of lockdowns and ongoing Covid-19 difficulties have delayed the domestic recovery until later in the year for many markets. As a result, 2022 outlooks are somewhat stronger than previously projected.

GDP forecasts, key markets

	2020	2021	2022
World	-3.3%	6.0%	4.4%
Euro area	-6.6%	4.4%	3.8%
China	2.3%	8.4%	5.6%
Australia	-2.4%	4.5%	2.8%
US	-3.5%	6.4%	3.5%
Brazil	-4.1%	3.7%	2.6%
Japan	-4.8%	3.3%	2.5%
Germany	-4.9%	3.6%	3.4%
Canada	-5.4%	5.0%	4.7%
India	-8.0%	12.5%	6.9%
France	-8.2%	5.8%	4.2%
Italy	-8.9%	4.2%	3.6%
Spain	-11.0%	6.4%	4.7%

Source: IMF World Economic Outlook, Real GDP growth, April 2021

There is little sign of an imminent effort to rebalance the public finances in most of the world's largest economies. Austerity is even more unpopular than usual with policymakers and the suggestion of easing back on healthcare funding is simply unelectable. The global impact of the pandemic, an ultra-low interest rate environment and the willingness of central banks to purchase government bonds means that very few countries throughout the world are struggling to finance their spending. The debate over the level of tax paid by businesses and individuals is, however, coming to the fore in many markets across the world.

Calls for a minimum corporate tax rate and a greater harmonisation of tax rates are growing. In addition, the argument for a need to maintain or increase capital spending (in both human and physical terms) has largely been won and economies such as the US, the UK and most of Europe are embarking on a period of increased public investment. Historically speaking, there has rarely been a case when finances are as imbalanced as they are today. However, China's ambitious infrastructure investment programme and the fragilities laid bare by the pandemic have shifted the global mood. A period of sustained global public investment appears likely which, inevitably, means that challenging conversations lie ahead for tax and spending policy.

Tax policy is not the only aspect of the geopolitical landscape that has the potential to profoundly alter the economic outlook. Firms are critically exploring their supply chains to identify single points of failure and associated levels of risk. Governments too are beginning to look carefully at where essential products are sourced from. Whether it be energy supply, computer chip manufacturing, or the production of food, fuel, vaccines and PPE equipment, there is a pushback against any one market becoming a dominant player.

Furthermore, extreme weather events (such as snowstorms in Texas and severe floods in Thailand), along with restrictions on flights due to Covid-19 and the unfortunate blockage of the Suez Canal, have all placed the globalised nature of supply chains under increased scrutiny as the environmental sustainability of long-distance shipping is questioned. These factors are driving a push to multi-site and multi-nodal location strategies. This presents a great opportunity for economies seeking to attract further investment, with the potential for a new era of FDI on the horizon.

M&A deals achieved a record US$1,359bn in Q1 2021, according to EY Global Markets, boosted by a surge in billion-dollar-plus deals. This is both a reflection of the disruption already underway and the scale of the capital available that is seeking out opportunity. The structural change within sectors such as transport, retail, energy and ICT has been profound, resulting in a surge of investment as firms look to re-orient their investment strategies to capitalise on a very different future.

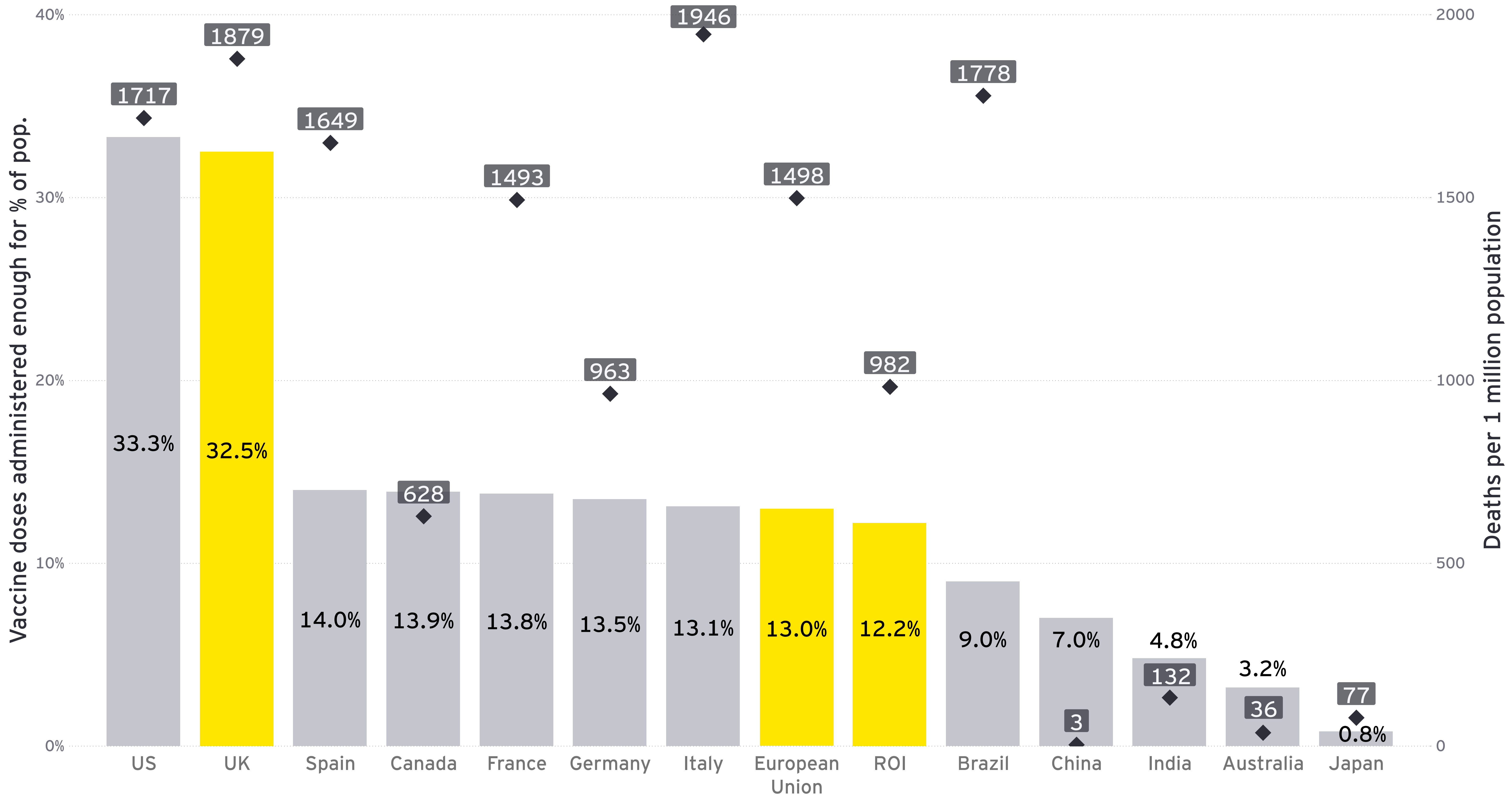
EY's Global CEO Imperative Study identifies two very distinct types of firms, categorised as 'Thrivers' and 'Survivors'. 'Thrivers' choose to move forward and embrace change, while 'Survivors' are much more reluctant to advance and take risks in such an uncertain environment. The evidence reports much greater returns amongst the brave, as 'Thrivers' are expected to record average annual revenue growth of 17% over the next three years, significantly higher than the corresponding figure of 2% among 'Survivors'.

The overall level of economic impact will be affected not only by the pace of the vaccine rollout, but also by the scale of destruction that the virus inflicts upon individual markets. This can affect the attitudes and behaviours of a country's inhabitants and impact the public's willingness to return to normality.

For example, the February 2021 EY Future Consumer Index shows a striking difference between those who would feel uncomfortable returning to certain activities in New Zealand/Australia and those in countries more severely affected by Covid-19. 26% of respondents in New Zealand and 38% in Australia would feel uncomfortable going to a concert, which is in stark contrast to corresponding figures in the US (64%), UK (72%), Spain (73%) and Brazil (76%).

The UK and US domestic recoveries are projected to be slightly ahead of those in other economies as a result of the remarkable pace of their vaccine rollouts. Although this economic benefit is likely to only be temporary, it is triggering a debate within other countries about their relative progress. This carries important political consequences that might be more impactful than the short-term economic impact of a more rapid rollout.

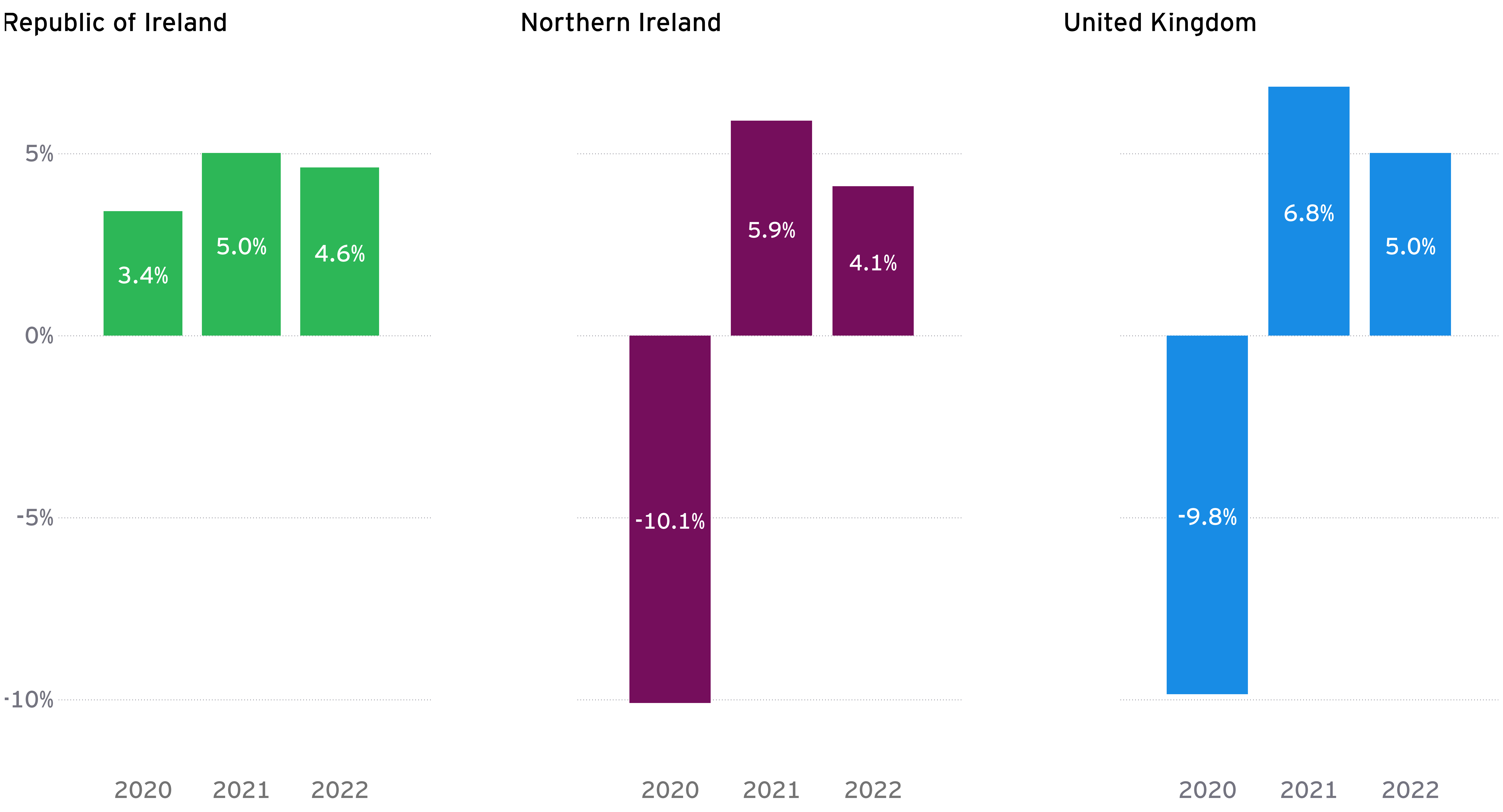
Vaccines administered and deaths per 1m population, key markets (as at 20 April)



Source: Bloomberg Vaccine Tracker, Our World in Data

Macro outlook

EY growth forecasts, ROI, NI and UK (2020 – 2022)



Source: EY Economic Eye, UK ITEM Club

Republic of Ireland

Headline growth in ROI beat market expectations with a 3.4% outturn in 2020, confounding fears of double-digit contraction that existed a year ago. This reflects the structure of the ROI economy, along with measurement quirks, and allows the country to claim the title as the world's fastest growing economy (subject to revisions). The labour market difficulties and huge demands on policymakers will prevent too much jubilation: in fact, such a growth rate raises the expectation that policymakers have the resources to answer any ask.

A lack of discipline over public spending is a risk in ROI that was not of concern a decade ago when restraint was the order of the day. Growth in 2021 will be more modest than, for example, the UK, due to the absence of a sharp contraction in 2020. Consumer spending will grow strongly in the latter half of the year and, arguably, the most critical indicator to track is overall employment levels – the number of workers currently on the PUP payment who return to their jobs or find new jobs later in the year.

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>
> ROI's macro outlook is remarkable and reflects its truly unique situation, but the damage to the domestic economy should not be underplayed.
>
> Thankfully, strong headline growth is helpful in generating resources to repair the damage and facilitate the high levels of borrowing required.

Professor Neil Gibson
Chief Economist
EY Ireland

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There are a number of opportunities arising in the post-Brexit environment for existing NI businesses and new investors alike. The unique position of the region with respect to market access and certification creates a relative advantage compared to other GB locations. This uniqueness will help the region to be shortlisted by prospective investors, at which point NI’s other advantages relating to skills, quality of life and cost can come into play. To realise these opportunities, the current difficulties with the operation of the NI Protocol need to be resolved.

Michael Hall
Managing Partner
EY Northern Ireland

Northern Ireland/UK

The UK’s headline contraction was one of the worst in the developed world in 2020 (-9.8%), albeit below the symbolically significant -10% predicted by many forecasters. The lockdown in the first half of 2021 has pushed back the consumer recovery until later in the year and consequently the outlook for 2022 is stronger as a result of the quarterly pattern. NI’s labour market data for 2020 raises the possibility that the contraction will be slightly less than in the UK, but due to the way government GDP is measured in the UK, this is not the central projection *(see figure 1, page 14)*.

The overall forecast for NI is for a very similar level of contraction in 2020 to the UK, at -10.1%, as both are heavily dependent on consumer spending for their overall growth. Recovery is projected to be slower for 2021 and 2022 than the UK as a whole – a reflection of the sectoral composition of the region. Brexit has undoubtedly created trade distortions which will impact overall NI growth. A degree of import substitution may boost domestic sales, but complications surrounding imports from Great Britain (GB) and potential price increases will adversely impact both the export and consumer sectors.

Consumers

2021 Consumption forecast

ROI
5.3%

UK
4.4%

The domestic contraction in ROI and NI was very similar in 2020. A strong bounce back in consumer spending is projected for later in 2021, with the timing of reopening critical in determining the quarterly profile. Consumer spending fell by 9.0% in ROI and 10.9% in the UK in real terms in 2020, with NI projected to have suffered an almost identical contraction to that of the UK. A strong and robust consumer recovery is projected, not least because share and house prices have held up, boosting overall wealth levels and confidence to spend. The NI recovery in consumer sectors may run ahead of ROI given the potential for divergence in reopening timetables linked to vaccine rollout, but the two should be similar in pace and magnitude later in the year. In ROI, as lockdowns lengthen, people may become more precautionary with their spending. The later the easing of restrictions, the more constrained the subsequent spending boom will be.

Confidence will play a significant role in determining how much of the built-up savings are spent when it is safe to do so, and the overall state of the labour market will be an important driver of the national mood. Not all savings will flow back immediately, and if the labour market looks uncertain or expectations are for future lockdowns, there may be a need to encourage spending through policy. VAT cuts or interest rate reductions are the usual approaches (only one of which is available to the ROI Government), but both may be too crude and contribute to a general rise in prices. A more targeted choice may be needed to direct spending to where it can have the maximum local economic impact.

Government

2021 Government Spending forecast

ROI **4.6%**

UK **9.9%**

In nominal terms, government spending rose strongly in ROI and the UK in 2020 and is expected to retain its elevated level in 2021, though there will be considerable pressure to increase spending even further. The measurement of real Government GDP differs between ROI and the UK *(see figure 1)* and this leads to the sharp contrast in this measure of overall GDP in 2020, despite the growth in nominal spending being very similar across the two economies. As a result of this difference, there will be a very strong recovery in UK Government GDP later in 2021, as output increases from previously closed public services such as education and non-Covid health. This will help to boost headline GDP across the UK in 2021 and will be especially beneficial to NI, where the Government sector makes up a larger share of overall GDP. Medium-term commitments to infrastructure spending will be put to the test in 2022 and beyond, as the reality of the imbalance of tax receipts and spending commitments becomes clear.

Looking beyond 2021, restraint in public spending will be required in ROI, even if real price cuts are not projected. The impact of rising prices in the economy and the knock-on impact on public sector wage discussions could drive this component of GDP higher, albeit at the cost of increased debt. The UK has signalled its intent to begin the journey of returning order to the finances by increasing corporation tax in 2023 to 25%. Cutting spending on services is simply unelectable at present and there will be considerable pressure for increased salaries across front line services. While stimulating rapid growth will be the number one priority and the central component of the plan to restore order to the public finances, further tax increases are likely. The UK may have been the first to signal this approach, but many other countries will eventually have to follow a similar route, making the relative competitiveness of the UK and NI impossible to predict.

Figure 1: Government Spending

Differences In Measurement (2020 data)

	ROI	UK
Nominal government spending	+13.5%	+13.9%
Real government spending	+9.8%	-6.5%

The measurement of GDP from the government sector is very different between the UK and ROI. UK real government spending is related to the activity carried out, as opposed to the income earned. This can make comparisons difficult in real terms. The data indicates that nominal (cash) spending levels rose by very similar levels in 2020 across both economies.

Investment

2021 Investment forecast

ROI	UK
5.5%	10.3%

Investment will be adversely impacted by the restrictions in the construction sector in ROI. Modified capital investment, which strips out distortionary elements from the overall investment figure, recorded a fall of 8.5% in 2020 and is expected to fall by a further 3.9% in 2021. The medium-term outlook for both ROI and the UK, however, remains strong. The ROI government remains committed to a significant capital investment programme and private investment will react to housing demand and price growth, coupled with a need to re-specify and re-design workplaces.

UK investment has been running at a below trend level for a protracted period. UK commitments to public investment and incentives to encourage private sector investment should boost growth levels in 2021 and 2022. Corporation tax rises from 2023 and the large temporary increases in capital allowances in 2022/23 mean that business investment will likely be brought forward rather than increased overall in the UK. NI, like the rest of the UK, has had depressed investment levels for some time and the work of the Infrastructure Commission established in 2020 has been attempting to address the difficult questions of prioritisation and funding. There is mounting evidence that infrastructure capacity and quality is beginning to hold back economic development and this realisation should help to protect public investment levels over the medium term. However, the lower level of investment spending in NI is a factor in the more modest overall growth projected relative to the rest of the UK.

Across the island, there will be a new emphasis on connectivity and remote working and the associated investment needed. Infrastructure investment is not only about helping people to move around, increasingly it is about facilitating less, or greener mobility. Broadband investment, decarbonising transport networks and making homes more sustainable are all drivers of the positive forecast for investment levels.

Though there is an expectation that office demand will slow down due to the adoption of hybrid and remote working alternatives, the demise of the office market is highly unlikely. There will still be a need for a modern post-pandemic office footprint and in places such as Dublin and London, where home working conditions for the young are often far from ideal, the demand will be particularly strong. Google mobility data suggests that although time spent in workplaces remained more than 35% below baseline levels in both ROI and the UK in mid-April 2021, recent increases suggest a desire to return to the office among many.

Trade

2021 Exports forecast

ROI: 6.6%

UK: 4.9%

ROI's sectoral mix was uniquely favourable leading into a pandemic. Pharma and agri-food made up approximately three-quarters of total goods exports by value in 2020. This strength is set to continue, although the complexities of Brexit have hit sales to the GB market. Combining January and February trade data, exports to GB fell 12% while imports fell 57% compared to the same period last year. Exports to NI increased by 28% and imports rose by 52% over this period. The strength of the global outlook for later in 2021 should drive strong demand for ROI exports, with pharma demand expected to remain robust. The threats to a strong outlook in the medium term will come more from a potential loss of competitiveness due to rising prices or any potential tax harmonisation. ROI imports continue to be driven by the level of exports and consumer spending and should grow strongly in the second half of 2021, with a small element of import substitution due to Brexit unlikely to materially affect the overall numbers.

UK goods exports to the EU bounced back in February 2021 from the record lows recorded the month before, though they remain 29% lower than the previous year when combining January and February data. It is difficult to decouple the Brexit and pandemic impacts, but this decline is larger than the fall in exports to non-EU destinations over the same period (-15%). Goods imports, however, show a more distinct pattern with imports from the EU down 18% on the previous year for January and February combined, whilst imports from the rest of the world are up nearly 13% over the same period.

Trade

2021 Imports forecast

ROI	UK
7.1%	7.6%

The impact of the pandemic has made unpicking the impact of Brexit on NI trade very difficult. A complicated political environment and the extensions of trading grace periods make it challenging to decipher the limited information available. Trade is flowing North-South and West-East, but it has been GB to NI that has caused the greatest concern.

The island of Ireland offers a unique opportunity for global firms seeking to access the UK and EU markets with a dual footprint in NI and ROI. The freedoms to move between the two will be potentially attractive for investors. There is the possibility that this could offer NI some unique trading advantages post-Brexit and suggests a more positive export outlook is possible. A lack of clarity and certainty over those advantages make it hard to be certain of the scale of this advantage. Re-orientation of supply chains will create economic activity and the data is likely to be very volatile for a period. A potential appreciation in Sterling during 2021 due to the pace of vaccine rollouts will also potentially hamper UK trade performance by making exports relatively more expensive.

Labour market outlook

Traditionally, economic conditions can be accurately reflected using labour market data. The data generally does not suffer the confusing distortions that compromise the value of headline GDP. This reliability, sadly, is another casualty of the pandemic.

Employment and unemployment data are now heavily distorted by the impact of various government support schemes and the measurement approaches used in several data sources. Headline Labour Force Survey (LFS) unemployment rates remain very low with people remaining on employment support schemes (correctly) reporting that they remain in work or realistically expect to return to it *(see figure 2)*.

The headline unemployment figures for Q4 2020 are therefore only mildly informative. NI recorded the lowest rate at 3.6%, followed by the UK at 5.1% and ROI at 5.7%. The ROI Central Statistics Office (CSO) produces an alternate employment measure, the Covid-19 adjusted unemployment rate, which was a worrying 24.2% in March 2021. This, however, is expected to be an overestimation as it includes everyone on the PUP payment, which is likely to be temporary for many.

Figure 2: Labour Force Survey Measurement

Standardised Labour Force Survey questions might not fully capture the Covid-19 disruption and support schemes as the definitions below suggest:

Employment (persons in employment)

Employed persons comprise persons aged 15 years and more who were in one of the following categories:

- persons who during the reference week worked for at least one hour for pay or profit or family gain
- persons who were not at work during the reference week but had a job or business from which they were temporarily absent

Unemployment

Unemployed persons comprise persons aged 15 to 74 years who were:

- not employed according to the definition of employment above
- currently available for work, i.e. were available for paid employment or self-employment before the end of the two weeks following the reference week
- actively seeking work, i.e. had taken specific steps in the four week period ending with the reference week to seek paid employment or self-employment or who found a job to start later, i.e. within a period of at most three months from the end of the reference week

Source: Eurostat

ROI and NI labour market disruption

Republic of Ireland	Northern Ireland
443,000 Pandemic Unemployment Payment (March 2021)	74,800 Full-Time Furlough (28 February 2021)
309,000 Employee Wage Subsidy Scheme (March 2021)	31,700 Part-Time Furlough (28 February 2021)
	62,000 Self-Employed Support (Recipients of third grant to 31 Jan 2021)
Equating to 32% of pre-pandemic employment levels	Equating to 19% of pre-pandemic employment levels

Source: CSO, HMRC, EY analysis using latest available data
Note: Share of disruption is a percentage of Q4 2019 LFS employment

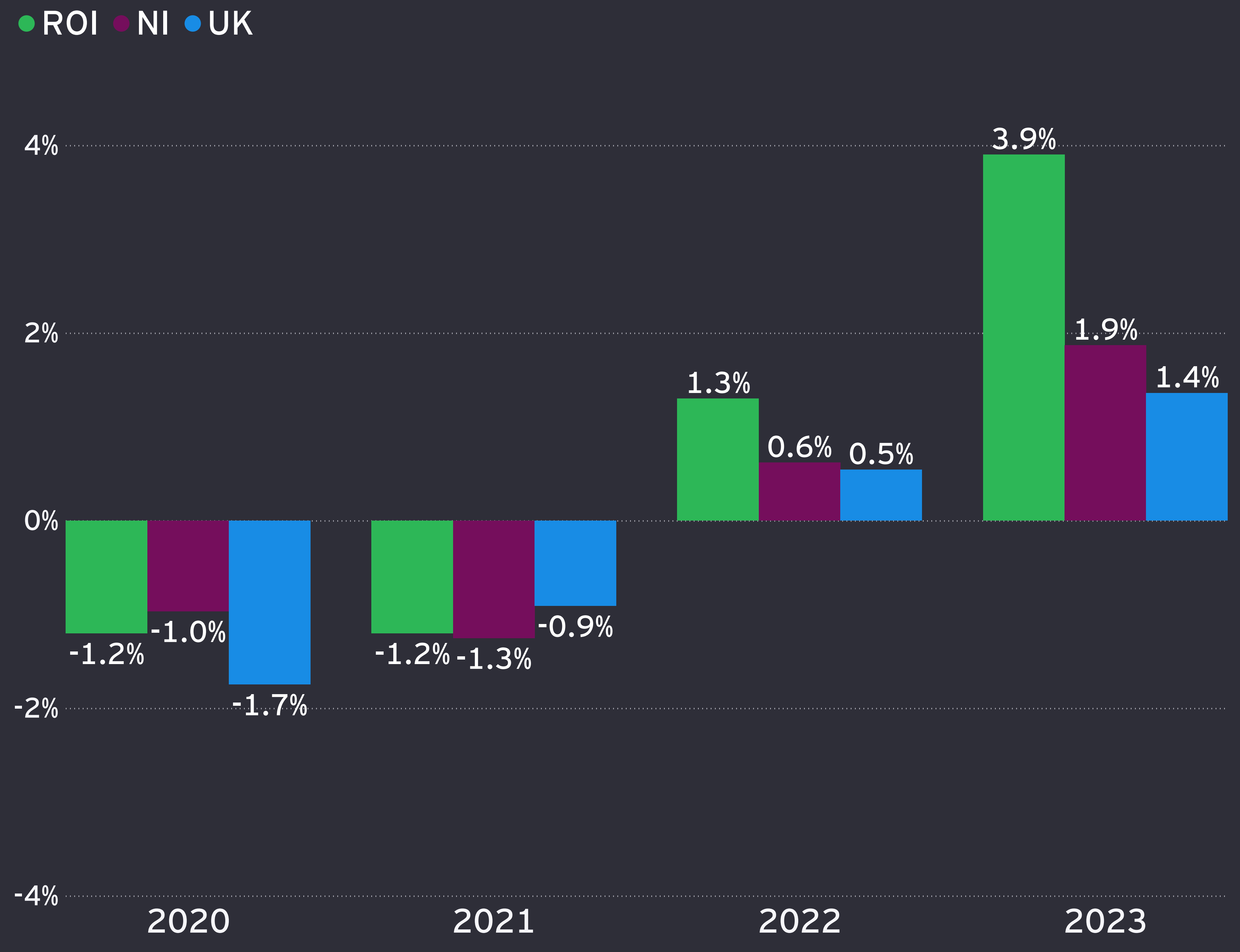
The level of government support has been remarkable, with roughly three out of ten of the working age population across the island estimated to be working in a sector outside of public administration, health or education and not receiving any pandemic-related support as at January 2021.

The key unknown in the forecast is how many of the people on the government support schemes will find their way back into work when the supports are removed later in the year. If, for example, 10% of those on full-time furlough in NI and on PUP in ROI became unemployed, this would be equivalent to an increase of roughly one percentage point in the official unemployment rate in NI and nearly two percentage points in ROI. With structural reviews underway within many major employers and continued uncertainty over the type of retail and tourist sectors that will emerge in the future, it is possible to generate a much more adverse outlook for the path of unemployment.

However, encouragement can be found in the level of job creation in other parts of the economy, along with the evidence from lockdowns ending elsewhere (and on the island last year). This evidence suggests that a very rapid bounce back is likely across elements of the retail, accommodation and entertainment sectors. NI job postings online have exceeded pre-pandemic levels and there are still reports of firms struggling to find the talent they need. The fears of double-digit unemployment rates may prove unfounded, although the EY forecasts do suggest a rise in unemployment as supports are removed.

Later in 2021, there will be the unusual incidence of a fast-growing economy occurring against a backdrop of rising unemployment. Policymakers will be hoping that the level of unemployment is not sufficiently high to materially impact confidence and spending levels. The timing of withdrawing labour market supports will be one of the most difficult decisions facing policymakers in recent times. If support is reduced too soon, firms may fail but, too late and the cost will be unnecessarily high, with the economic and social scarring effects rising rapidly.

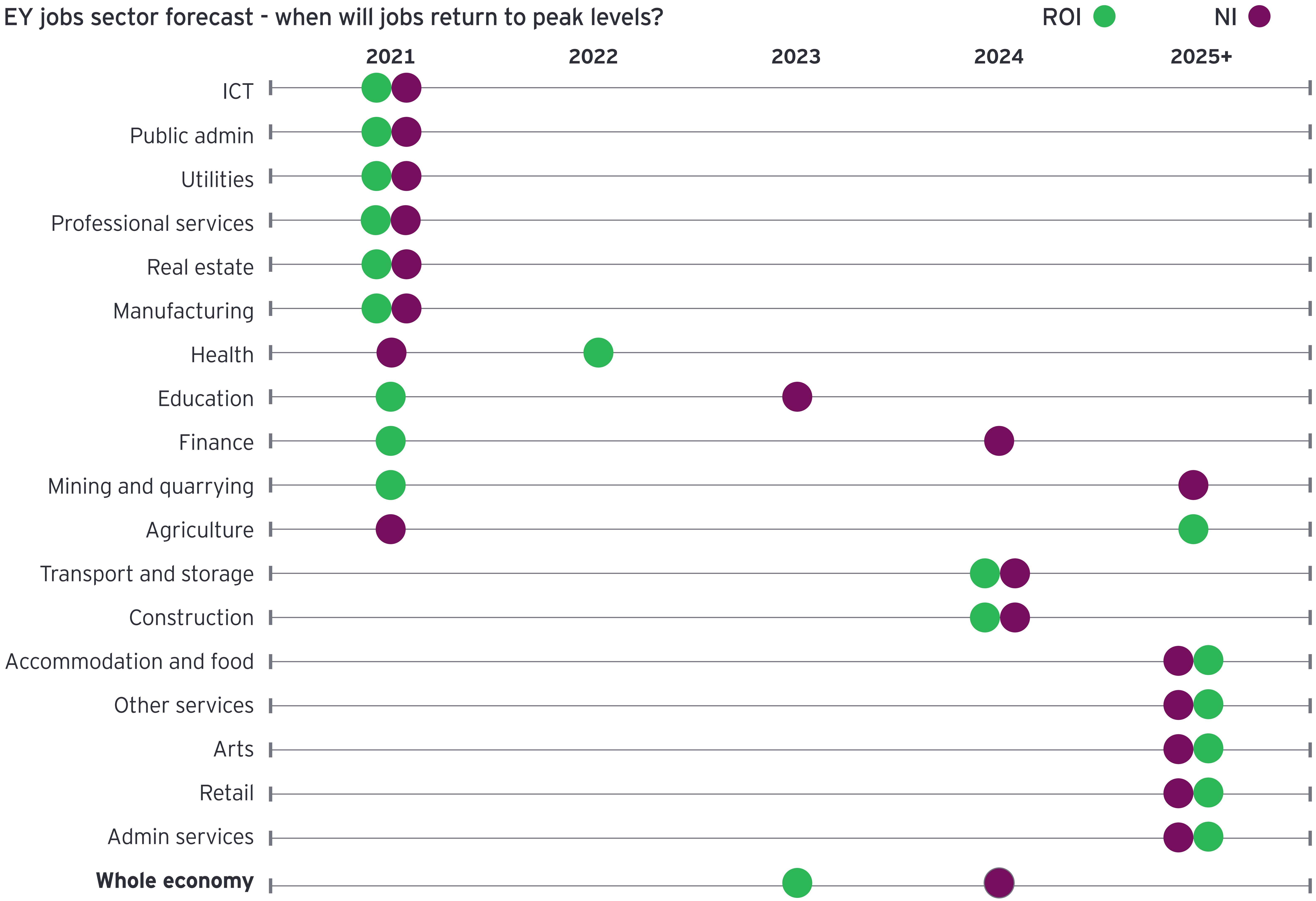
EY job forecasts



Source: EY Economic Eye, UK ITEM Club

The long-term Economic Eye forecasts project that several sectors will struggle to regain their 2019 level of employment at any point in the future, such has been the level of structural change that has taken place. For other sectors, employment has already surpassed 2019 levels. The central forecast is for the labour market to regain its Q4 2019 peak by late 2023 in ROI and 2024 in NI. Four sectors enjoyed job growth of more than 4% in ROI - Industry, ICT, Finance and Public Admin in the year to Q4 2020, according to the LFS. In NI, only ICT recorded a similar rate of job growth over this period. This trend is a factor in the longer recovery time projected for the NI labour market. A faster recovery in the NI labour market is possible if it can capitalise on its unique post-Brexit position. A competitive advantage exists for NI due to its favourable EU market access coupled with higher quality of life, lower costs and skills strengths relative to other UK regions. A large and growing public sector also presents an upside to the NI employment forecasts.

EY jobs sector forecast - when will jobs return to peak levels?

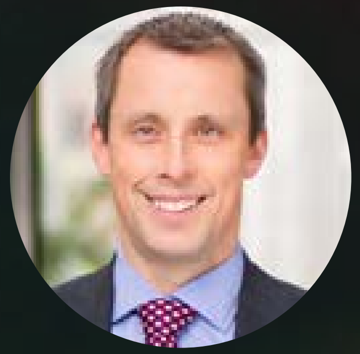


Source: EY Economic Eye *Note: Peak job levels relate to Q4 2019*

Feature

Brexit

Many businesses let out a sigh of relief at the end of 2020 as a no-deal situation was avoided, but that was far from the end of the Brexit journey.



Simon MacAllister
Partner and Brexit Lead
EY Ireland

Brexit still a factor

Many businesses let out a sigh of relief at the end of 2020 as a no-deal situation was avoided, but that was far from the end of the Brexit journey. Although direct tariffs have been avoided, the trade flows between the island of Ireland and GB/mainland Europe continue to experience additional issues and frictions. The extension of the grace periods for goods moving from GB to NI and the interpretation of the hastily agreed deal make it unsurprising that disruption remains. Though a significant focus of attention has been on the flow of goods from GB to NI and the implementation of the Protocol, these are not the only issues that firms are dealing with.

Exports: January and February year on year change (unadjusted)

ROI

28%
to NI

-12%
to GB

-13%
to rest of EU

5%
to rest of world
(excluding UK)

-3%
total

UK

-28%
to ROI

-29%
to rest of EU

-15%
to rest of world

-22%
total

Source: CSO, ONS, unadjusted exports

There was ample evidence of significant disruption to certain sectors and businesses in the early part of January. Our experience was that many companies had either prepared sufficiently or were able to react quickly to make the necessary changes. Some of the difficulties which remain open include issues such as centralised UK distribution, where reliefs were lost based on the level of processing undertaken in the UK, prior to export to ROI. The impact was clear in the UK trade numbers for January which showed dramatic reductions year-on-year; however, the February numbers have shown a recovery, albeit still below the equivalent value for 2020.

UK exports to non-EU markets of £25bn for the first two months of 2021 showed a 15% reduction from the same period in 2020, but EU exports showed a larger 29% reduction from £27bn to £19bn. The damage was more striking in certain sectors, with food and live animals down 42%, organic chemicals down 56% and clothing down 57%. It continues to be too early to identify what level of structural change has resulted from the Trade and Cooperation Agreement (TCA). The scale of disruption caused by the pandemic has led to the issues sharing, rather than dominating, the front page, hopefully allowing political progress to be made towards ironing out the practical difficulties. The pandemic has also made it more difficult to ascertain the economic impact of Brexit across the island.

> “The UK may have left the EU, but Brexit isn’t over, with ongoing impacts on service companies and those trading certain goods. The next 12 months will see further changes, including for UK financial services firms.

Simon MacAllister
Partner and Brexit Lead
EY Ireland

The full impact of Brexit will continue to emerge over the course of 2021. We will be looking at developments in the following key areas:

Politics

The politics of the NI Protocol has again emerged as a contentious issue which is leading to uncertainty for businesses trading under the Protocol. Over the course of 2019 and 2020, what we heard most from clients was the need for clarity. That clarity came late in 2020, was worked through in early 2021 and businesses are now focused on making the best of the current situation. Talk of repudiation of, or changes to, the Protocol undermine the certainty and clarity that businesses have now achieved.

Services

The TCA did not address services sectors, which make up 80% of the UK economy. Having made choices regarding the mobility of people into and out of the UK, the impact of this has not been seen, due to the pandemic and the absence of business travel. As economies reopen to a greater degree, we expect to see new issues emerge for UK services businesses in servicing their EU clients. ROI businesses employing UK citizens should be working to understand any limitations that may now apply to those employees' ability to travel and work in the EU.

Financial services

Despite expectations that an equivalence decision on financial services would be granted in 2020, it remains an ongoing process. The draft Memorandum of Understanding gives some ideas on the direction of travel, but it is likely that UK financial services firms will face new limits on access to EU markets.

Opportunities

With change and disruption come threats, but also opportunities. We have seen clients move to take advantage of the opportunity posed by the difficulties being experienced by competitors. The potential also exists for NI - absent a change to the legal form or application of the NI Protocol - to benefit from its unique position relative to other UK regions and there is a real opportunity for NI to capitalise on these advantages. As the new arrangements are bedded in, companies should continue to monitor for new and emerging areas where they may have an advantage which did not exist before.

Feature

Could the low-price era be nearing its end?

Will inflation return?

The unprecedented levels of government support have come at an unsurprisingly high cost.

Due to ROI's unique sectoral mix, export performance has led to a much softer hit on the income side than has been the case in the UK. Nevertheless, both economies have experienced a sharp rise in their national debt. In ROI, the government deficit for 2020 is estimated at €18.4bn, while the UK figure is estimated at £256bn (€288bn), roughly 16 times larger. Both are projected to rise further in the first half of 2021, with UK estimates for the financial year 2020/2021 of £355bn according to the Office of Budget Responsibility (OBR).

The increase in the deficit in both economies is a function of increased spending commitments and decreased tax intakes. In particular, the increase in health spending has been understandably significant and, though some of this spending will be temporary, it brings a fundamental issue that was already top of the policy agenda into sharper focus. In ROI in 2021, the health spend is projected to be almost equal to the 2019 (pre-pandemic) total income tax and Universal Social Charge (USC) take. In the UK, 2021/22 health spending is projected to be nearly 20% higher than the pre-pandemic total income tax take.

ROI	
2019 Income tax + USC	€22.9 bn
2021 Forecast health spend	€21.7 bn

UK	
2019/20 Income tax	£193 bn
2021/22 Forecast health spend	£230 bn

Source: Department of Finance, ONS, HM Treasury
Note: ROI calendar year compared to the UK financial year which runs from 6 April one year to 5 April the next year

There is a lively debate ongoing about what this means for future policy and prices. The scale of money being printed would traditionally be expected to drive up prices by reducing the value of money, but until very recently there was little evidence of this happening. Economists are debating 'new monetary theory' concepts that suggest that money can be printed as required to fund deficits until such times as inflation really begins to appear, and supply constraints exert an impact. This is controversial and less applicable to a country (or region) that cannot print its own money, as is the case across the island.

Nevertheless, though there is talk of rebalancing the books, there is little urgency or eagerness to apply austerity or immediate tax rises. No repeat of the approach to the Great Recession of a decade ago is likely in ROI, not least because the cost of government borrowing remains very low and will remain low given its table-topping GDP performance. It is not only the cost of borrowing that differentiates this crisis: house and stock prices have shown remarkable resilience, demonstrating that the financial mechanics of this crisis are very different to the last.

Could prices begin to rise more sharply?

Are we potentially complacent after years of non-existent inflation?

Larry Summers and Paul Krugman, prominent US economists, have disagreed when considering the impact of the enormous $1.9tn US aid package. Krugman suggests there is no need to worry and increases will be one-off and temporary with little impact on wages. Larry Summers is beginning to become concerned, suggesting that we are becoming complacent due to recency bias and urges a much more cautious spending path. The ROI and UK plans are more modest by comparison, but it is not only government spending that might drive up prices.

> “Inflationary pressures of a kind we have not seen in a generation… I’m much more worried that we’ll have either inflation or a pretty dramatic fiscal-monetary collision.
>
> **Larry Summers**
> US economist

> “So what’s going to happen in the months ahead? We’ll probably see a number of transitory price increases… The question will be whether these price increases are a 2010-2011-type blip or something more dangerous… Are businesses actually starting to set prices and wages based on the expectation of high future inflation? If they aren’t — and my bet is that they won’t be — then the lesson of 2010-2011 will remain: Don’t panic.
>
> **Paul Krugman**
> US economist

UK and ROI policymakers had been relatively sanguine about the likely increase in prices, as were most independent forecasts. However, over recent months, there have been increasing concerns about rising inflation and businesses should be scenario planning for what that might mean. There are more upside risks than downside when considering the drivers of inflation.

Factors driving up inflation

- Pent up demand expected to surge later in the year
- Demand and supply imbalances in key areas such as housing and holidays
- Increased business costs to deal with Covid-19 guidelines, restrictions and sustainability objectives
- Many domestic services firms need to repair damaged balance sheets, faced with a strong demand profile and a fixed supply
- Upward wage pressure from sectors such as frontline public services that have faced a very challenging year
- Constrained migration flows adding to key skills shortages
- Flow of public money to support firms and individuals
- Rising house prices
- Increased paperwork costs relating to Brexit (for a certain set of goods)
- Commodity price increases as world demand grows, notably for oil

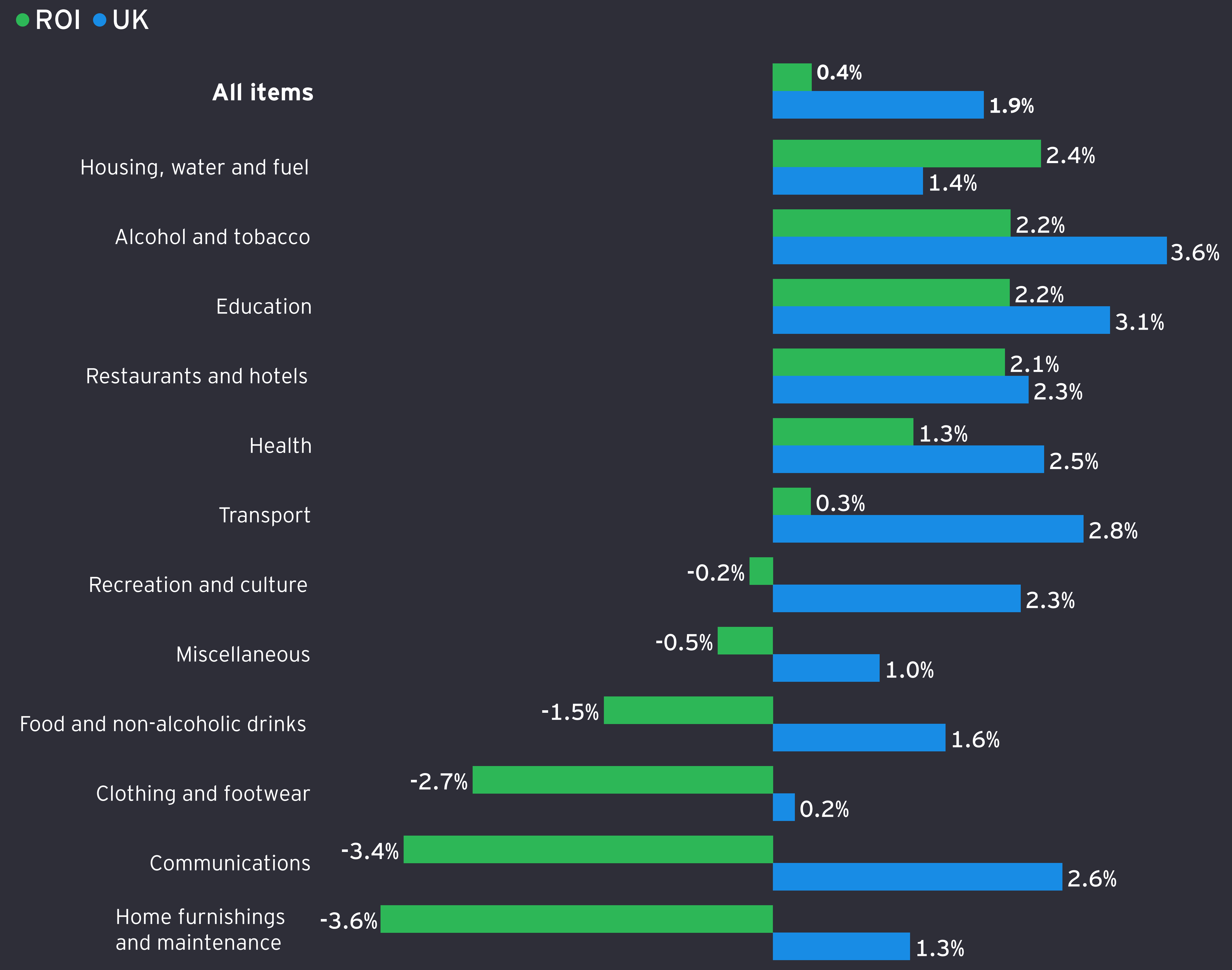
Factors holding back inflation

- Fear of job loss and economic fragility limiting salary negotiations
- Global competition
- Lower cost of entry to an increasingly broad range of sectors and markets
- Sectors facing structural change (business travel, high street retail) will keep prices down as firms battle over a smaller pool of demand
- Income squeezes still to come when government support eases, keeping affordability an issue amongst consumers
- Excess stock in certain sectors leading to discounting (e.g. clothing)
- Low expectations of price increases
- Uncertain confidence levels may lead to more cautionary saving and less spending
- Companies focused on cost reduction

ROI has experienced extremely muted inflation levels for several years, with prices rising just at 0.4% per year on average from 2016-2020, compared to 1.9% in the UK. When examining the various categories of inflation, there are some stark differences between the two economies. Every category of spending rose each year on average in the UK, compared to just half in ROI – housing, water and fuel being the standout growth category at 2.4% per year over this period. A weak Sterling has played a part in the contrasting inflation trajectories by importing inflation into the UK and making UK imports into ROI relatively cheaper. The adjustments in trade flows as a result of Brexit will have a material impact on prices which will become evident as 2021 monthly data is published.

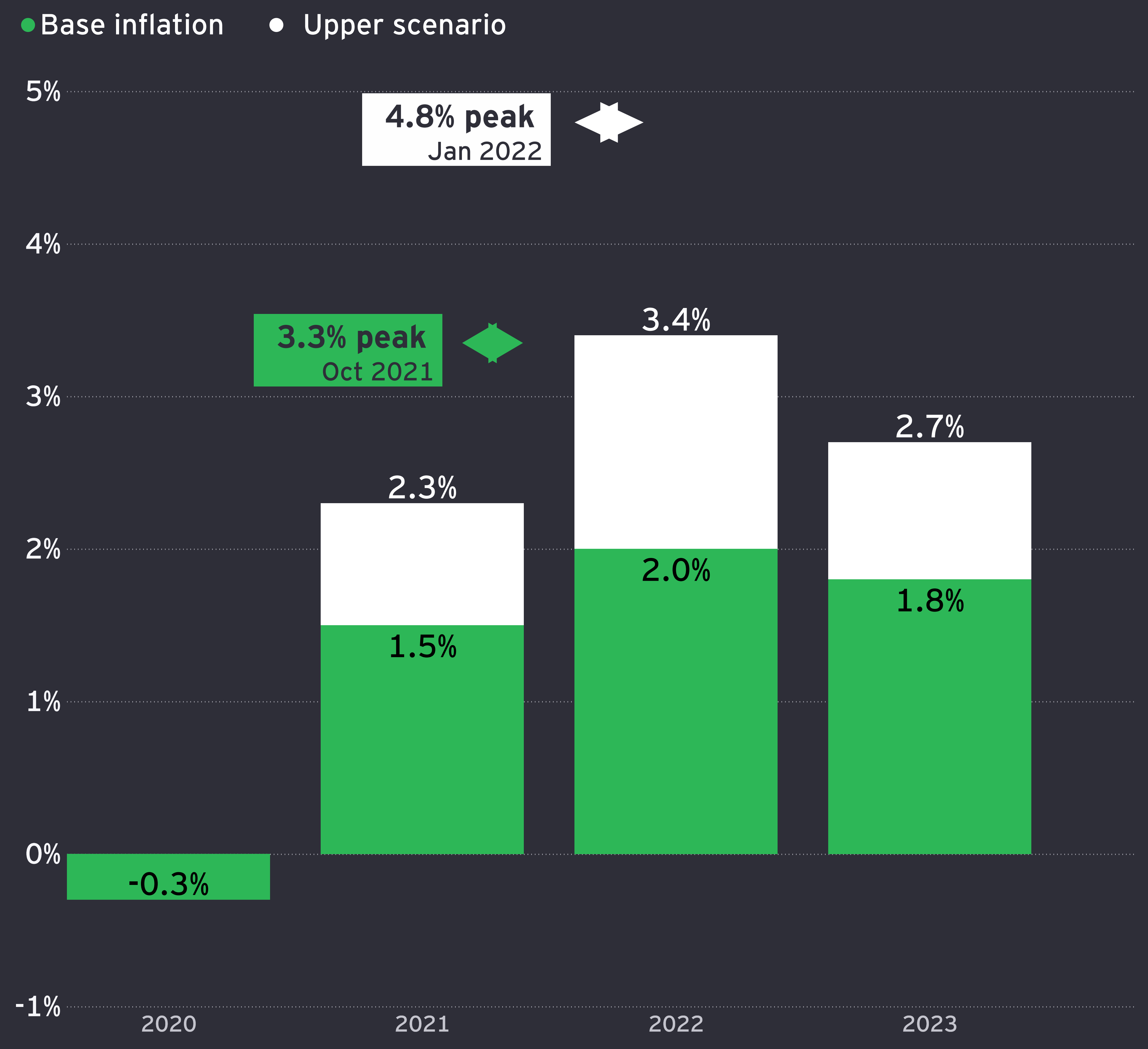
The data suggests little sign of inflation in the UK or ROI. There is also a concern over inflation measurement in such a period of change – what we purchase and in what volume has been severely disrupted. A higher inflation scenario is possible, though few commentators predict any risk of it becoming endemic and leading to a damaging wage price spiral.

ROI and UK CPI inflation annual average % change (2016 - 2020)



Source: CSO, ONS

ROI inflation forecast



Source: EY Economic Eye

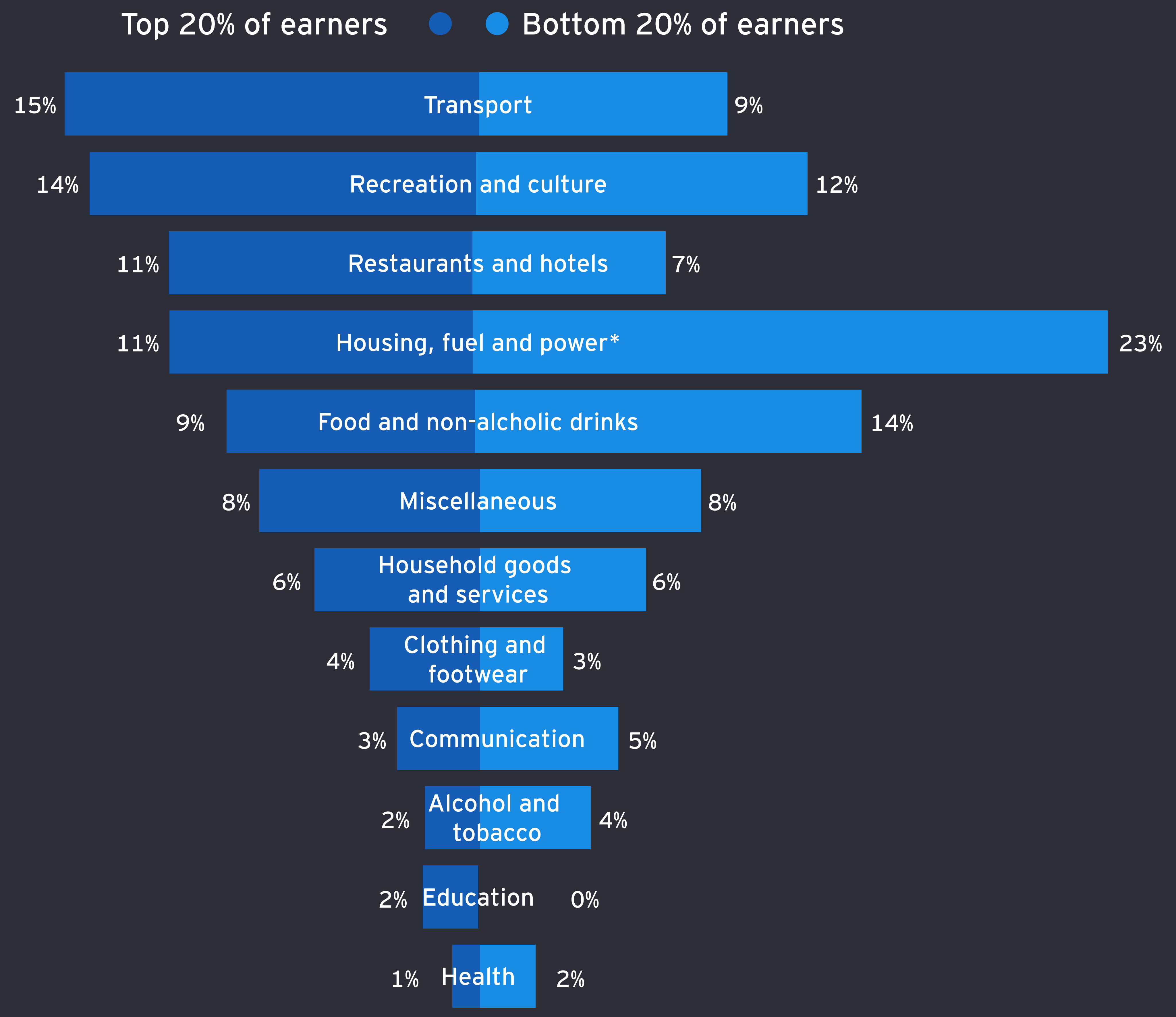
EY estimates suggest that ROI inflation will rise by 1.5% in 2021 in the base case, following a fall of 0.3% in 2020, rising to 2.0% in 2022. Despite the relatively muted price increase in 2021 overall, inflation is expected to peak at 3.3% in the base case in October 2021. The higher inflation in late 2021 and 2022 is expected as a result of increasing business costs relating to Covid-19, as well as businesses trying to recoup some of the lost sales of the pandemic. In a scenario in which prices rise more acutely in the short run due to pandemic reasons and stay high due to the impact of increased costs on production and transportation, inflation could reach 3.4% in 2021 and 2.7% in 2022, with a peak of close to 5.0% at the beginning of 2022.

Would a period of inflation necessarily be a bad thing? If it does not become endemic, it would help to reduce the 'cost' of debt at personal, corporate and national levels. As an indicator of strength in demand, it can trigger additional business start-ups and improve profitability for lenders, particularly if it resulted in an increase in interest rates.

Interest rate rises would be the normal response to rising costs but are not guaranteed, even in the upper inflation scenario. There would need to be similar price increases across the EU to trigger a move and there is a belief that policymakers would tolerate higher prices for longer if they perceive them to be a one-off rise rather than a new trend. The US has been clear about this, suggesting a period of faster price growth would 'catch-up' the prolonged period of slower price growth. Very high levels of Government debt are also weighing on the minds of central banks which means that the path of interest rates may decouple from prices for a short time. However, it does make moves towards further interest rate cuts to stimulate spending less likely.

Inflation may be viewed as 'affordable' in a fast-growing economy, but even short periods of price rises bring inequality risks as there will be people for whom prices rise faster than incomes, especially if the increases are in staples such as food and fuel. Across the island, this is an area of great political and societal concern. Before Covid-19 in the UK, those on the lowest incomes spent 37% of their incomes on food, housing and fuel compared to just 20% of spending on these categories by the wealthiest cohorts, according to the Family Expenditure Survey (FES).

UK spending by income decile (April 2019 to March 2020)



Source: ONS FES Survey, March 2021
**Excluding mortgage interest payments, council tax and NI rates*

The potential spending surge

An acceleration in consumer spending levels would be a potential trigger for price increases. The level of domestic spending will be a critical determinant of the pace of the recovery and is very much impacted by the speed of reopening and the related levels of confidence. Reflecting on the reopening experience in 2020 suggests that the rebound will be very strong and banking data suggests there are significant savings ready to be deployed.

However, it is worth considering whether people's attitudes will be the same one year on. Will they feel motivated or confident enough to spend as they did before? There may be greater anxiety over future income, fear of further lockdowns or a recalibration of spending to a new level as people reprioritise. With the divergence in the pace of vaccinations, there may well be a different timetable for reopening and the crucial late spring/summer period may play out differently across the island.

EY estimates that approximately €11bn will have been accumulated in excess household banking deposits over the course of the pandemic to the middle of 2021 in ROI, over and above what may have been expected in the absence of any Covid-19 disruption. The equivalent figure in NI is projected to be £3.8bn, based on the OBR's estimates that UK household deposits will be £180bn more than would have been expected by June 2021.

When determining how much of these additional bank deposits are available for businesses to 'compete for', it is useful to understand what spending was forgone over the last year and whether this spending might be caught up in the year ahead. There is spending that is effectively lost forever and will not incur any catch-up – for example, sporting events, haircuts and fuel for a car. Other spending might be 'caught-up' to an extent, when it is safe to do so. That might include spending on holidays, weddings or car purchases; spending that has been postponed but not cancelled.

Clearly, hairdressers, gyms, restaurants and many personal services will see a surge in demand, but it is unlikely that they will recoup the lost sales of last year. Looking at these deferred or cancelled spending amounts is instructive when thinking about what spending patterns may emerge during the reopening and beyond. The figures offer encouragement for the businesses that have struggled throughout the pandemic and, for individuals, the gains from reconnecting, recharging and being entertained will be beneficial to them and to their productivity levels.

Illustrative example: More or less – how did our spending change? (March '20 – June '21)

	ROI €m	NI £m
What we spent more on		
Food and drink consumed at home (including takeaways)	+2,700	+700
Fuel and light	+900	+200
TV and internet costs	+800	+200
What we spent less on		
Eating and drinking out	-3,700	-900
Holidays and air travel	-3,700	-700
Sports and leisure subscriptions	-1,900	-300
Motor fuel, insurance, tax and fines	-1,500	-400
Clothing and footwear	-1,300	-400
Bus, rail and taxi	-800	-600
Hairdressing and personal grooming	-600	-200

Source: EY Economic Eye

Pay and reward

The response of wage levels to elevated prices is critical to the future path of prices. The conventional wisdom has been that in a weak labour market and in an increasingly global economy, there will be very little upward pressure on wages during the recovery. The very different experiences across sectors perhaps suggest that this will not uniformly be the case. The data on wages is somewhat compromised as the typical measure of average or median wages cannot be used to infer pay inflation if the composition of the sector is changing over time. For many workers, this year will have been a very challenging one and one of the busiest they have ever experienced. Many will be pushing hard for above-inflation pay rises which could lead to a ramping up of costs.

The potential brake on this is the impact of technology, with many firms reporting that digital progress has been accelerated by as much as a decade. This could lead to an increased substitution of labour by technology which, in turn, would act as a headwind on overall wage inflation. With a quarter of the workforce in the consumer services, entertainment and tourism sectors, overall wage inflation may be relatively muted across the island, but significant spikes in the cost of critical skills and functions are very likely.

Implications for business

There is a widespread feeling of optimism for the second half of 2021. Reopening the domestic economy and a surge of pent-up demand should lead to a feel-good phase for the economy and businesses.

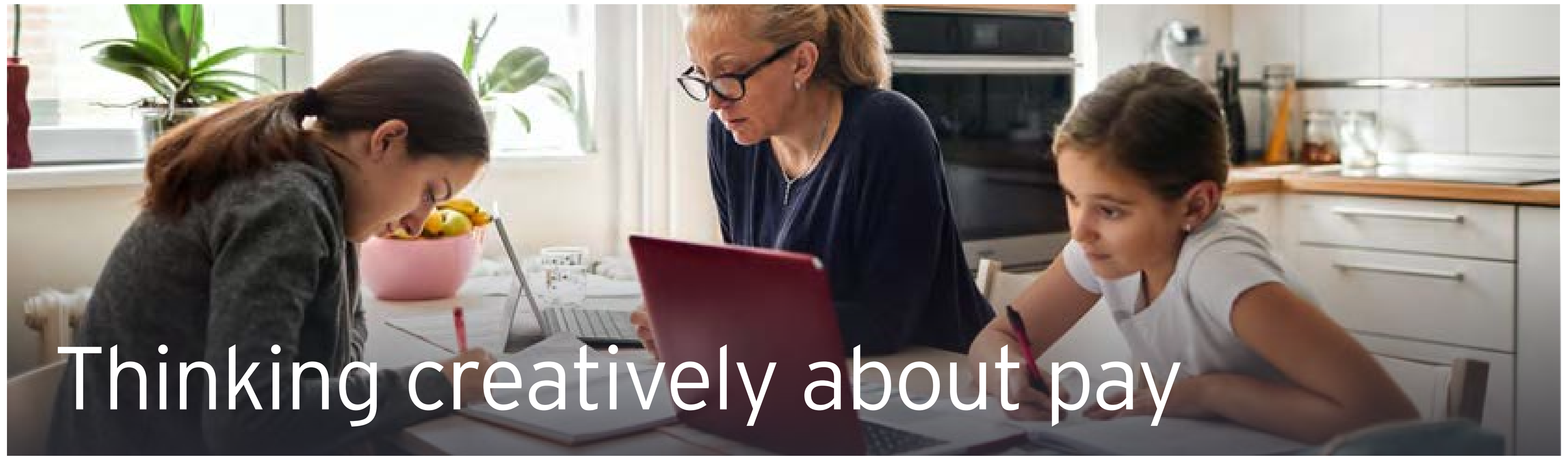
Tougher policy decisions lie ahead but, barring a significant health setback, a very strong growth phase is on the horizon. This will not be the case for all, however, with the end of government supports and the impacts of structural changes in a number of sectors leading to increased unemployment. This contrast, often referred to as a 'k shaped' recovery, will likely be a major source of policy debate. The bubbling up of confidence, indicated by stock prices and levels of M&A activity across the world, suggests that the disruption of our lives may be coming near its end, but the disruption of our economy is only just getting started.

In a year in which understanding the economic data has become more complex than ever and more data points are needed to fully unpick the apparently contrasting fortunes across the island, there are several takeaways for business to consider.

The average price of a barrel of Brent crude oil in March 2020 was $32 USD and has risen to an average of $65 USD per barrel in March 2021.

Federal Reserve Bank of St Louis, April 2021

The risk of accelerating inflation, fluctuating currencies linked to Brexit and the pace of vaccine rollouts, amongst other things, means that businesses should be very aware of their exposure to inflationary pressures and what mitigations could reasonably be taken. The good work that many firms have done across the island to understand their supply chains due to Brexit should prove beneficial in this regard.

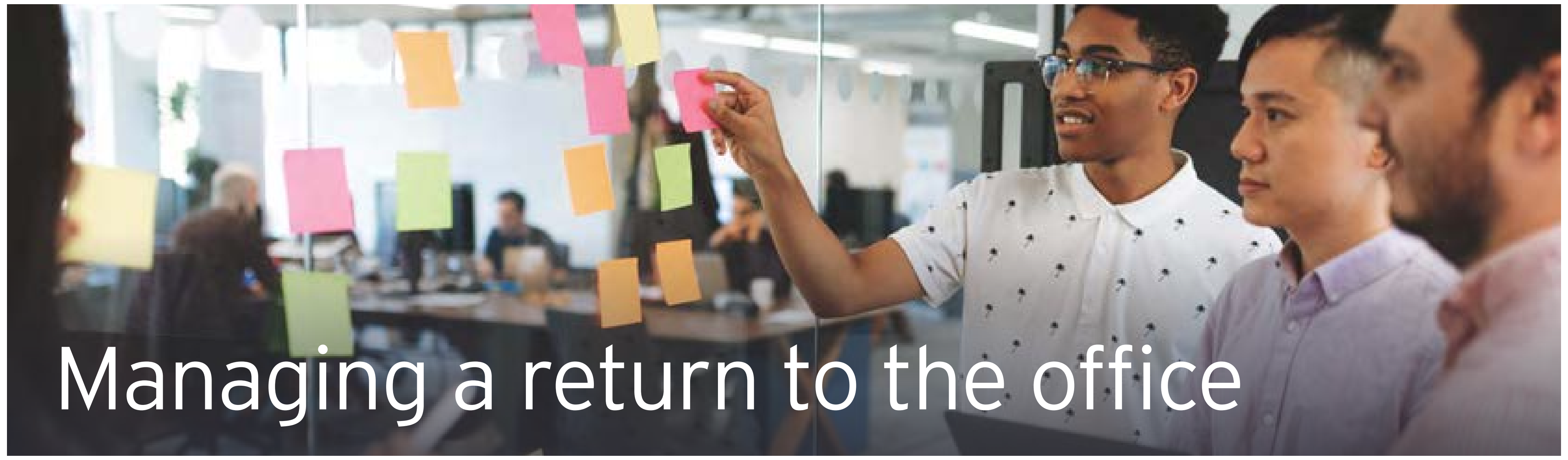


77%

of employers believe there will be extensive/moderate change to workforce costs

EY 2021 Work Reimagined Employee Survey, June 2020

Salary pressures are likely to be significant in the areas that have experienced a very busy and challenging year. Reward will be sought for the efforts and disruption caused, particularly for those employees who have been on the front line of the pandemic. The relative measures of variable versus regular pay, increased flexibility and improved working conditions need to be considered to ensure pay costs are kept under control where possible, whilst recognising the step-up made by many workers in the most testing of years.



Managing a return to the office

53%

of business leaders say that managing a hybrid 'home and office' work model is the biggest challenge they foresee for their organisations in the post-Covid world

EY CFO Forum survey, April 2021

With lockdowns still in place at the time of writing, it feels premature to worry about the risks that come from a surge in demand and a return to more normal working conditions for office staff, but it is important to prepare. Expectations that a return to the office will enhance productivity may prove wide of the mark as people readjust to being back with colleagues. This re-energising and recharging phase will be important but may have some impacts on performance. Evolving into a flexible working environment and ensuring it works for all will present a series of management challenges though, ultimately, should result in higher performing teams if it is done correctly.

Understanding and supporting mental health

57%

of Irish adults believe their mental health has been negatively impacted by the Covid-19 pandemic

CSO Social Impact of Covid-19 Survey, February 2021

Emerging from a very challenging period economically and personally can impact on individuals' decision-making abilities. The full impact on workers' mental health of new working conditions or of a period under government support remains unclear. For some, it will be overwork that is causing strain and the mental health implications for both young and old will cast a long shadow. Businesses need to ensure that the wide range of mental health impacts are understood and handled sympathetically to look after the well-being of their staff, as well as to support day-to-day business performance and strategic decision-making.

Accelerating the sustainability agenda

52%

of consumers will pay more attention to the environmental impact of their consumption

EY Future Consumer Index, February 2021

There is no sign that the sustainability journey will be paused in the face of economic hardship. Policy appears to be forging ahead with a ‘build back greener’ agenda and the Environmental Social and Corporate Governance (ESG) reporting journey is accelerating and widening. The impact of the pandemic on many aspects of sustainability has been profound. Commuting, business travel and office use have all been brought into sharper focus. The global trend to break up supply chains and move to a multi-nodal business model also has implications for the environmental cost of product or service production. Locking in these benefits and using the disruption as a catalyst for change can be a way of turning a crisis into an opportunity.

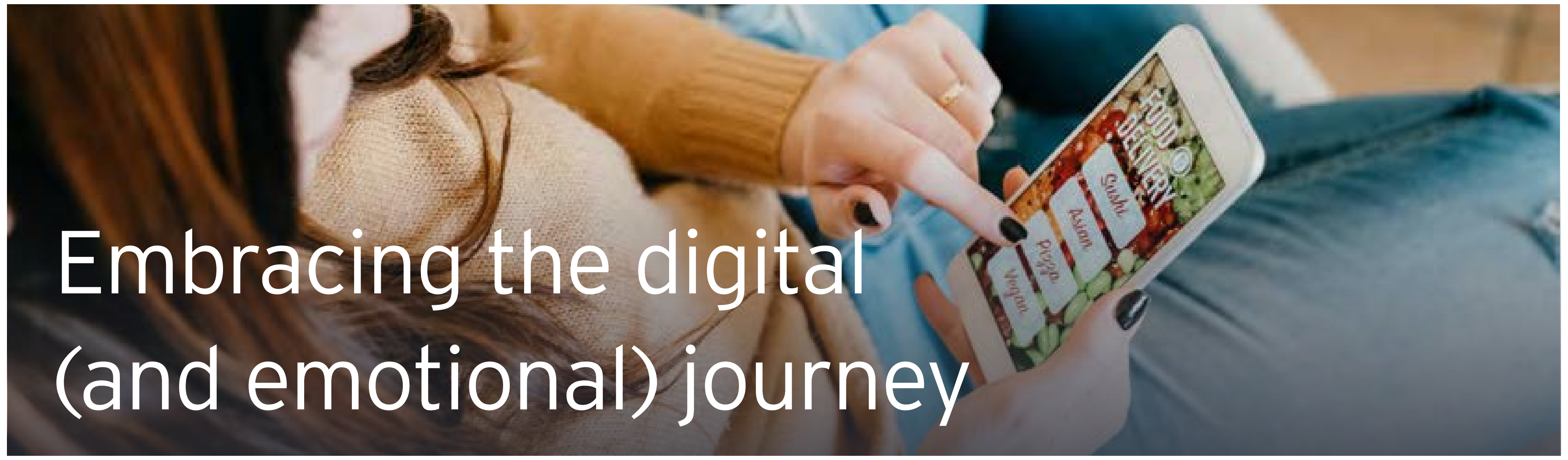
Refocusing on societal impact

47%

of people in ROI feel that community spirit has increased during the Covid-19 outbreak

IE Digital Town Awards, January 2021

The ‘E’ in the ESG agenda has garnered most attention but care should be taken not to ignore the ‘S’. The importance of community has been brought to the fore over the last 12 months, especially the critical role that firms play in their local labour market. This comes from the wages and taxes they pay, the support they provide to their workers, the purchases they make and their direct contribution through Corporate Social Responsibility (CSR) efforts, which are more critical than ever. The survival of many arts and entertainment businesses may depend on corporate support. An important component of economic and social recovery will be to ensure that social benefits are maximised.



Embracing the digital (and emotional) journey

68%

of CEOs plan a major investment in data and technology

EY Global CEO Imperative Study, March 2021

32%

of those surveyed globally think technology will make people feel less connected to their community

EY Connected Citizens, February 2021

Digital progress has been brought forward in almost every sector and the potential benefits of better use of technology are much clearer. The progress in digital adoption amongst government departments and the acceleration and sophistication of online sales platforms by retailers have progressed at a pace unimaginable prior to the pandemic. It has also been a time to recognise the role of emotional as well as artificial intelligence. Key to maximising the benefit of technology is recognising what it can do better and what it cannot.

Seizing opportunity

79%

of thriving companies are spending more on transformation, compared to 37% of surviving companies

Note: 'thriving' companies are those whose revenue grew in FY20, while 'surviving' companies are those whose revenue fell

EY Global CEO Imperative Study, March 2021

Every period of disruption presents opportunity. The misfortune or unpreparedness of others can allow firms to acquire or to capture market share from rivals. Brexit, Covid-19 and the evolution of digital and flexible working all offer considerable windows of opportunity for firms across the island. Maintaining a 'front foot' attitude, perhaps against a rather patchy economic backdrop and increased concern over costs, will be critical.

Key takeaways

1

Two economies at either end of the growth charts in 2020

ROI was the fastest growing economy in the world last year, despite its domestic contraction, while NI was one of the weakest.
This pattern of divergence is not shared across all economic indicators.

2

Similar labour market disruption

Labour market disruption was more severe in ROI based on official data. However, NI will take longer to recover to peak employment levels.

3

A spending surge is coming

There has been a sharp increase in savings built up across the island. How and when these will be spent will factor into the recovery for many businesses which have been effectively closed for a prolonged period.

4

The sustained period of low-price inflation may be over

There are a number of factors that could drive up inflation from its historically low levels.

5

Tough times ahead for policymakers

Deciding on the timing of reopening and the reduction or removal of pandemic-related supports presents a significant political challenge.

6

A new era of investment is on the horizon

Firms and governments increasingly want multi-location strategies and public investment is set to remain high.
The island of Ireland is well placed to benefit from both of these trends.

Summary forecast

Republic of Ireland, United Kingdom and Northern Ireland

Republic of Ireland

	2019	2020	2021	2022	2023	2024
Consumption	3.2%	-9.0%	5.3%	7.2%	2.1%	1.9%
Government spending	6.3%	9.8%	4.6%	1.1%	-0.9%	0.2%
Investment	74.8%	-32.3%	5.5%	7.0%	5.0%	4.1%
Exports	10.5%	6.2%	6.6%	6.3%	5.5%	5.4%
Imports	32.4%	-11.3%	7.1%	7.3%	6.1%	5.9%
GDP	5.6%	3.4%	5.0%	4.6%	3.1%	3.3%
Modified domestic demand	3.3%	-5.4%	3.2%	6.0%	1.9%	1.8%
Jobs	2.9%	-1.2%	-1.2%	1.3%	3.9%	2.5%

Note: GDP and the components of GDP refer to seasonally adjusted figures for the UK and unadjusted figures in ROI, in keeping with convention in the two economies. Employment refers to workforce jobs in NI and the UK, and Labour Force Survey employment in ROI (non-Covid adjusted).

United Kingdom

	2019	2020	2021	2022	2023	2024
Consumption	1.1%	-10.9%	4.4%	5.7%	2.2%	1.9%
Government spending	4.0%	-6.5%	9.9%	1.7%	1.2%	1.4%
Investment	1.5%	-8.8%	10.3%	10.0%	3.7%	2.0%
Exports	2.7%	-15.8%	4.9%	8.0%	3.2%	3.4%
Imports	2.7%	-17.8%	7.6%	11.3%	3.8%	3.7%
GDP	1.4%	-9.8%	6.8%	5.0%	2.1%	1.7%
Jobs	1.5%	-1.7%	-0.9%	0.5%	1.4%	1.1%

Note: GDP and the components of GDP refer to seasonally adjusted figures for the UK and unadjusted figures in ROI, in keeping with convention in the two economies. Employment refers to workforce jobs in NI and the UK, and Labour Force Survey employment in ROI (non-Covid adjusted).

Northern Ireland

	2019	2020	2021	2022	2023	2024
GVA	1.8%	-10.1%	5.9%	4.1%	2.0%	1.5%
Jobs	2.7%	-1.0%	-1.3%	0.6%	1.9%	1.0%

Note: GDP and the components of GDP refer to seasonally adjusted figures for the UK and unadjusted figures in ROI, in keeping with convention in the two economies. Employment refers to workforce jobs in NI and the UK, and Labour Force Survey employment in ROI (non-Covid adjusted).

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Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

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