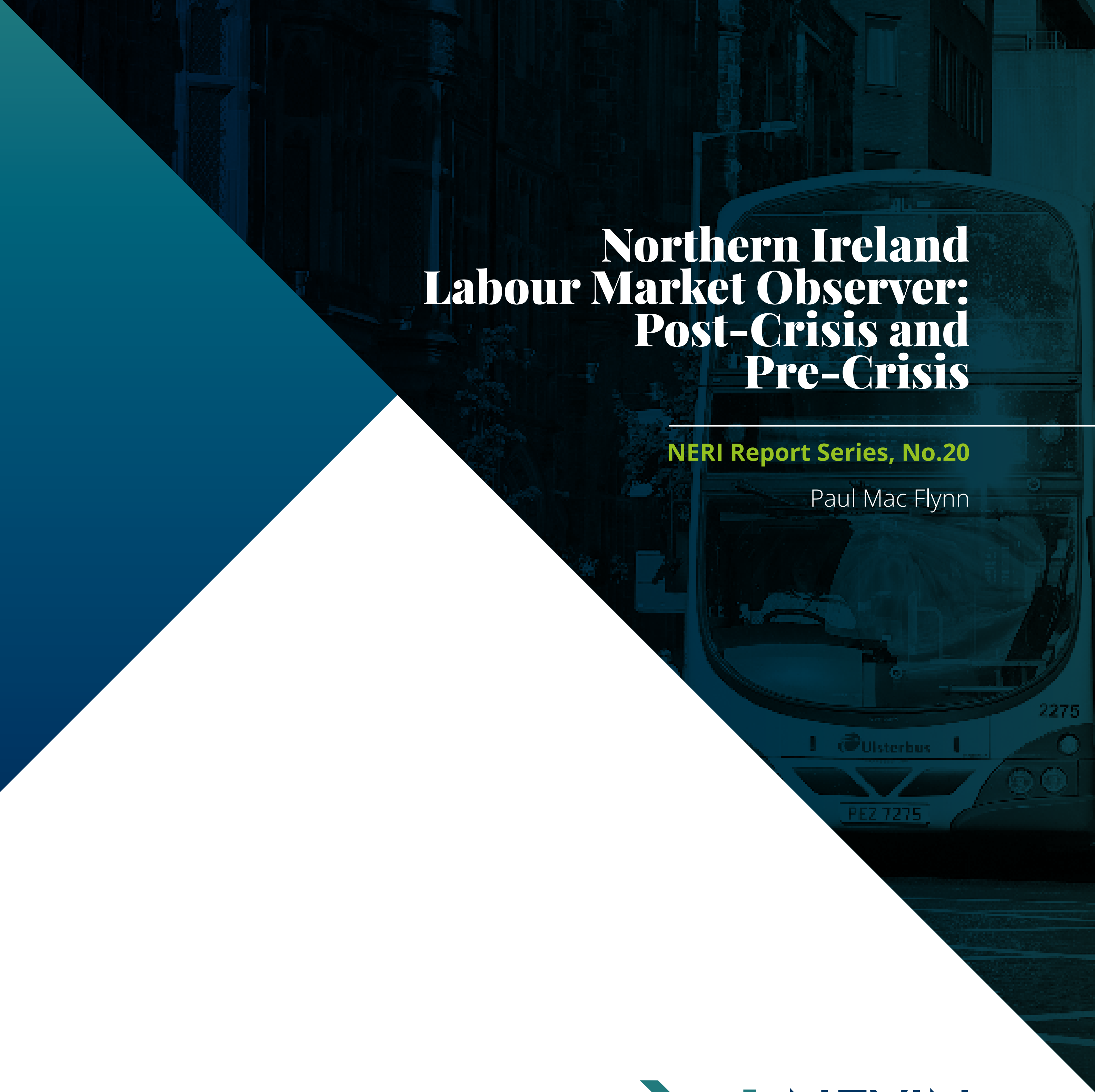

Northern Ireland Labour Market Observer: Post-Crisis and Pre-Crisis

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The reality now for most of Europe, is that the economy is sandwiched in between two distinct crises

Introduction

This year is proving to be one of the most economically disruptive years in recent memory. The disruption is noteworthy because it follows on from 2 years dominated by a global pandemic. Next year is unlikely to provide much respite from the economic turmoil.

In the decade that preceded 2020, the 2008 financial crash was often used as the benchmark for economic crisis. Figures such as productivity or earnings growth would be presented as, pre- or post-crisis. The reality now for most of Europe, is that the economy is sandwiched in between two distinct crises. Coming out of the covid-19 pandemic we are now facing the consequences of the war in Ukraine in the form of an energy crisis precipitating a cost of living crisis.

The 2008 financial crash saw a major and prolonged economic contraction in Northern Ireland with a significant impact on the labour market. Significant increases in unemployment were followed by stagnation in average wages. In contrast the covid-19 pandemic had a much milder impact on the labour market, despite the scale of the contraction in economic output. There were initial decreases in employment and wages, but both have since largely recovered. The swift recovery was a direct result of policies enacted at the time to support employment and incomes throughout the Covid crisis.

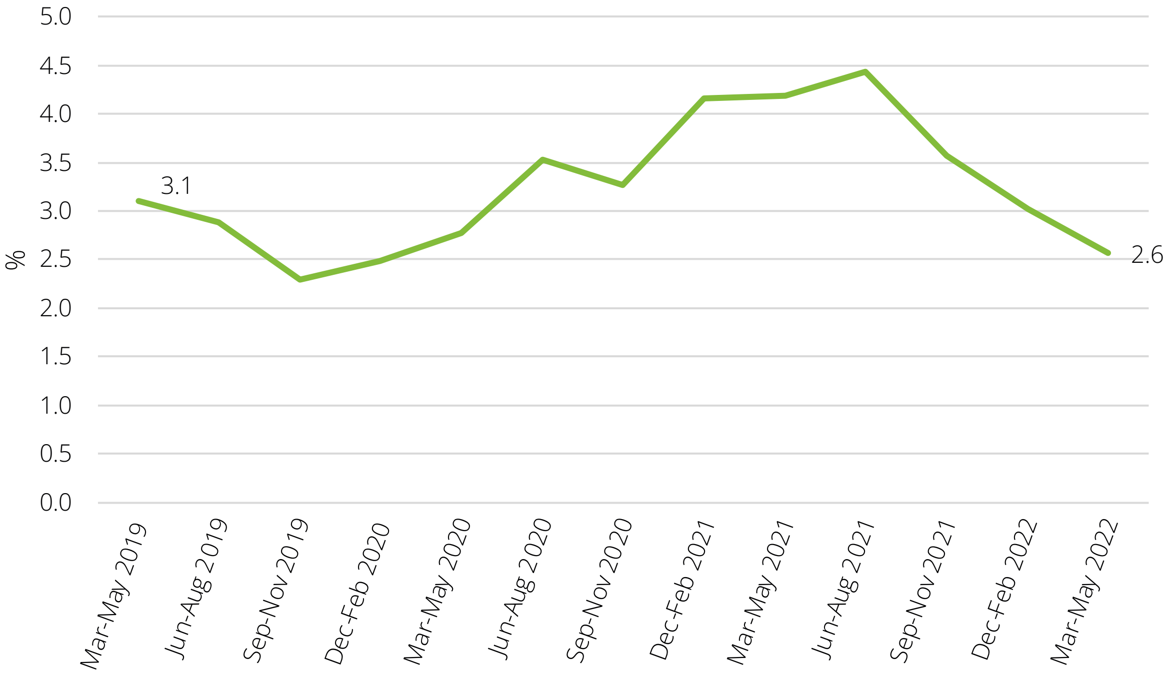
The crisis stemming from the war in Ukraine is different once again. An external shock in the supply of energy inputs in Europe has led to a dramatic and sudden increase in the overall price level and a decline in real incomes. At the halfway point in the year, it was clear that the impacts of inflation had not yet fed through to the labour market. This report will therefore examine a labour market that is both post-crisis and pre-crisis.

The charts and tables that follow will examine the condition of the labour market in the wake of the covid-19 pandemic and look at how the cost-of-living crisis will affect the labour market over the months and years that follow. In particular the report will examine the state of labour market participation given its perceived role in creating supply bottlenecks in the post-covid economy. The report will then look at the scale of inflation in the price level to date and how it might affect earnings. This will involve looking at the scale of nominal growth so far and how it compares to movements in the overall price level. The report will conclude by assessing the state of the labour market in between both crises.

Post-crisis

One of the most prominent features of the post-covid economy has been the recovery of employment levels alongside the contrasting experience of economic activity. Looking at measures of employment, we can see that the pandemic has left a scar on Northern Ireland's labour market. As Chart 1 shows, unemployment in Northern Ireland was at a lower rate in the March-to May period of 2022 than it was in the corresponding period of 2019. The rate has been lower toward the middle of 2019 reaching 2.3 per cent, but still, such a performance is nonetheless impressive.

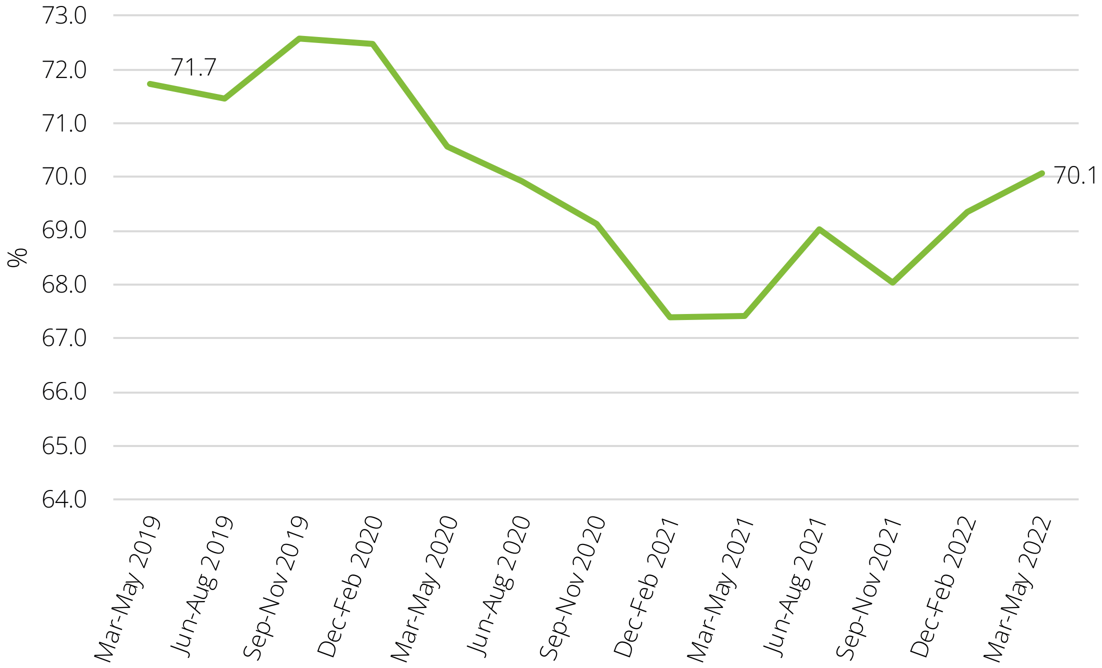
Chart 1: Unemployment Rate (16+) Northern Ireland 2019-22



Source: LFS (NISRA)

However, the same cannot be said for employment. As Chart 2 shows, the employment rate has dropped by 1.6 percentage points over the same period of time. While the performance of unemployment has certainly been a positive for the economy, it is clearly the case that the improvement has not transferred directly to greater employment. Instead, it reflects an increase in economic inactivity. The fact that a large number of people have left the labour market has posed problems with labour shortages reported in many sectors in the initial post-crisis period. In particular, much of the commentary in Great Britain has focused on the departure of older workers from the labour market. Increasing economic activity in the older age cohorts has been a feature of the UK labour market over the last number of years and therefore such a trend would constitute a reversal.

Chart 2: Employment Rate (16-64) Northern Ireland 2019-22

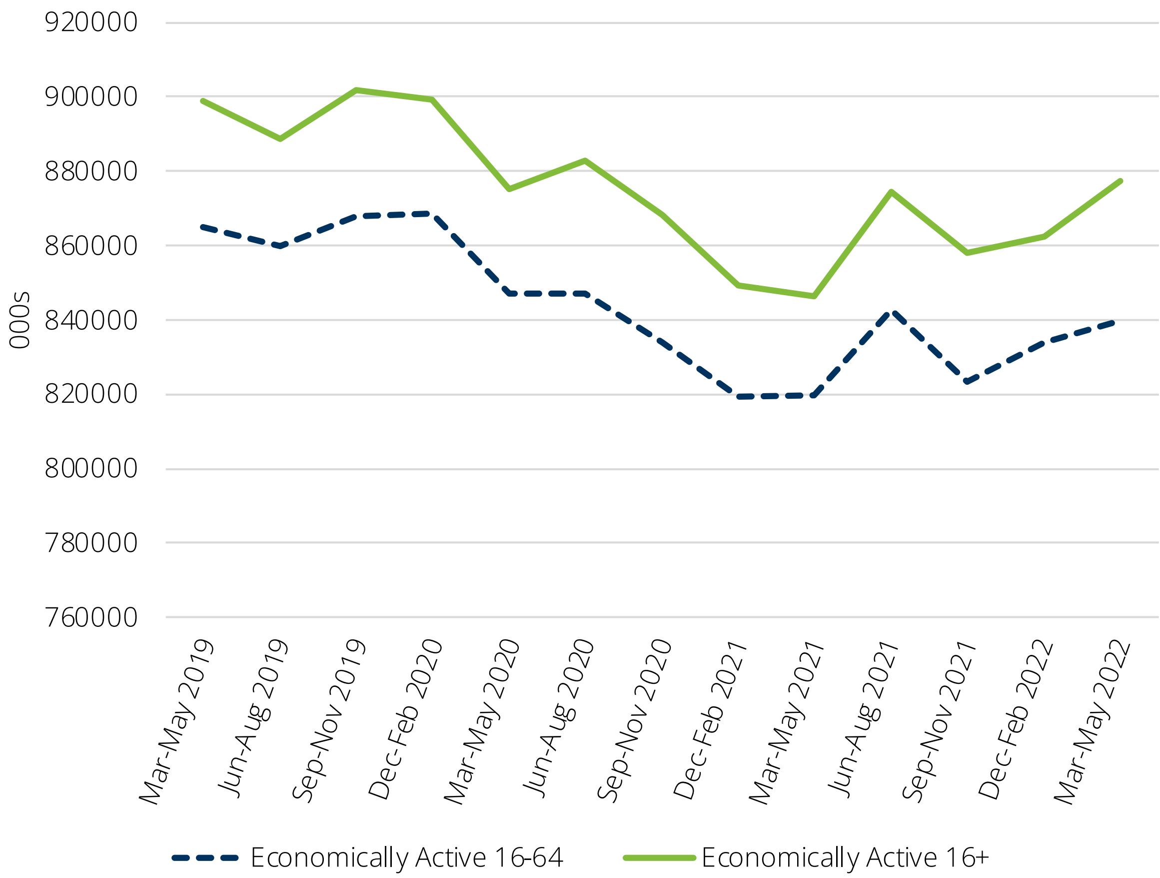


Source: LFS (NISRA)

Chart 3 shows total number of people aged 16 and over economically active from April 2019, approximately one year before the covid pandemic, up until April of 2022. What Chart 3 shows is that the number of people economically active fell by 21,601 between the pre- and post-crisis period. Such a drop off in economic activity can often-times be explained by a shift in the underlying population. That is, if there is a gradual increase in the proportion of the population in older age groups, the decrease could simply be explained by an increase in the number of people who have retired. Therefore Chart 3 also shows overleaf the equivalent figure for the working-age population, that is people aged 16-64. This shows that the drop in economic activity was larger for the working-age population (25,139) than it was for the population as a whole (21,601).

Such a drop off in economic activity can often-times be explained by a shift in the underlying population

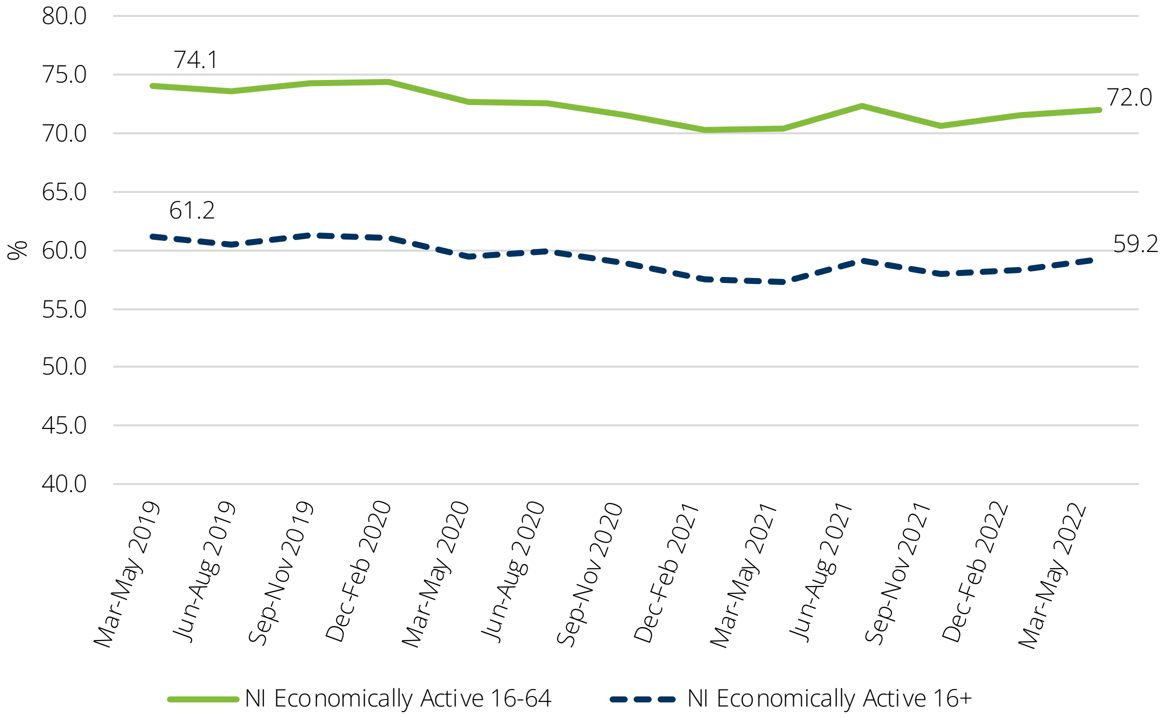
Chart 3: Economic Activity Northern Ireland 2019-22



Source: LFS (NISRA)

This would imply that the drop-off in both employment and economic activity was larger among the younger cohorts and that, on average, more people over the age of 64 either stayed in or returned to the workforce over this period to balance out the exits in the younger cohorts. Total numbers can give an imprecise picture of the labour market even when we adjust for working age. If the populations that underlie them have changed substantially, then the total numbers can be misleading. Looking at rates of economic activity and employment can therefore provide a more accurate indication of the economy's performance on those measures.

Chart 4 Economic Activity Rates Northern Ireland 2019-22

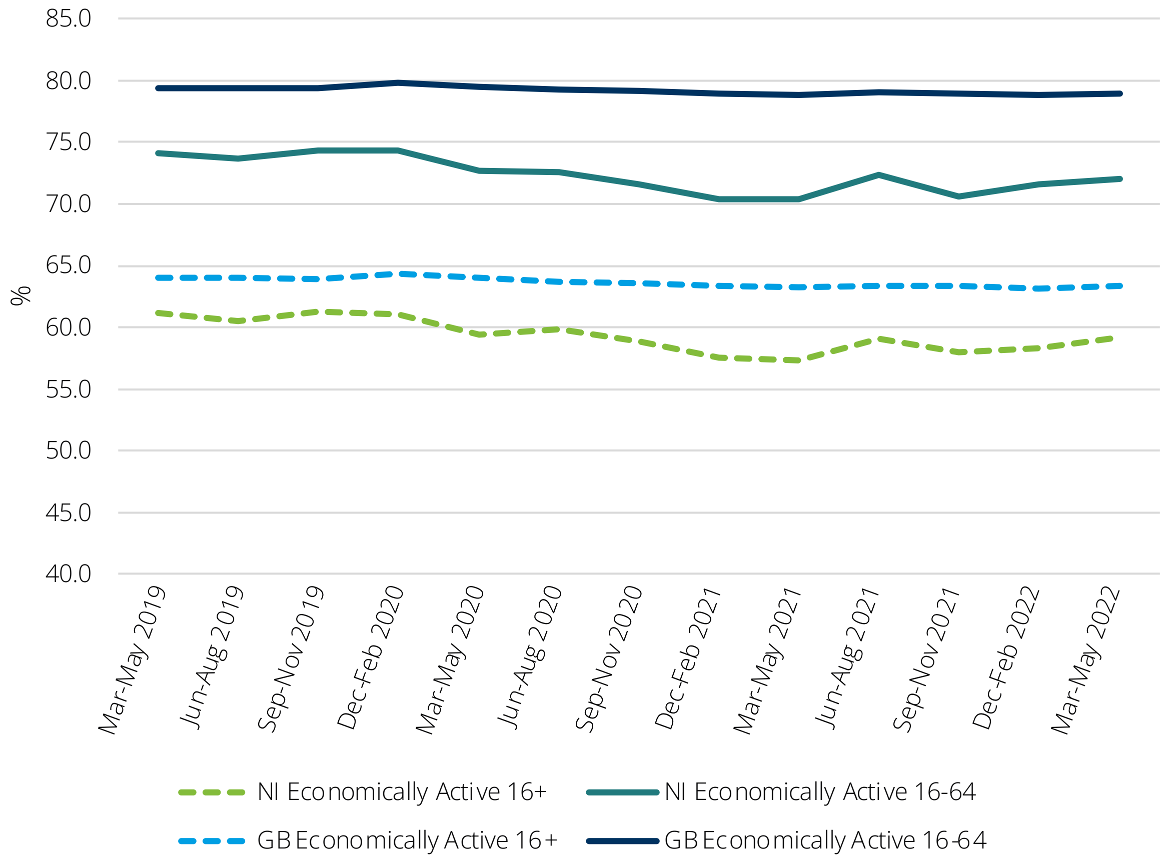


Source: LFS (NISRA)

Chart 4 shows economic activity in Northern Ireland expressed as a percentage of the population aged 16 and over, and also as a percentage of the working-age population. Once again, the drop in rates has been larger for the working age population compared with the adult population, 2.1 percentage points versus 2 percentage points. These results would seem to indicate that while there has been a drop off in economic activity, it has not been due to an increase in the proportion of people choosing to retire at the end of their working-age.

Chart 5 shows the rates of economic activity for both adult and working-age populations compared to Great Britain. Immediately we can see that the most obvious difference is the gap between economic activity rates in Great Britain and in Northern Ireland. This is a long-standing issue, but what is noteworthy is that the recent decreases in economic activity rates for both the adult and working-age populations are much larger in Northern Ireland than they have been in Great Britain.

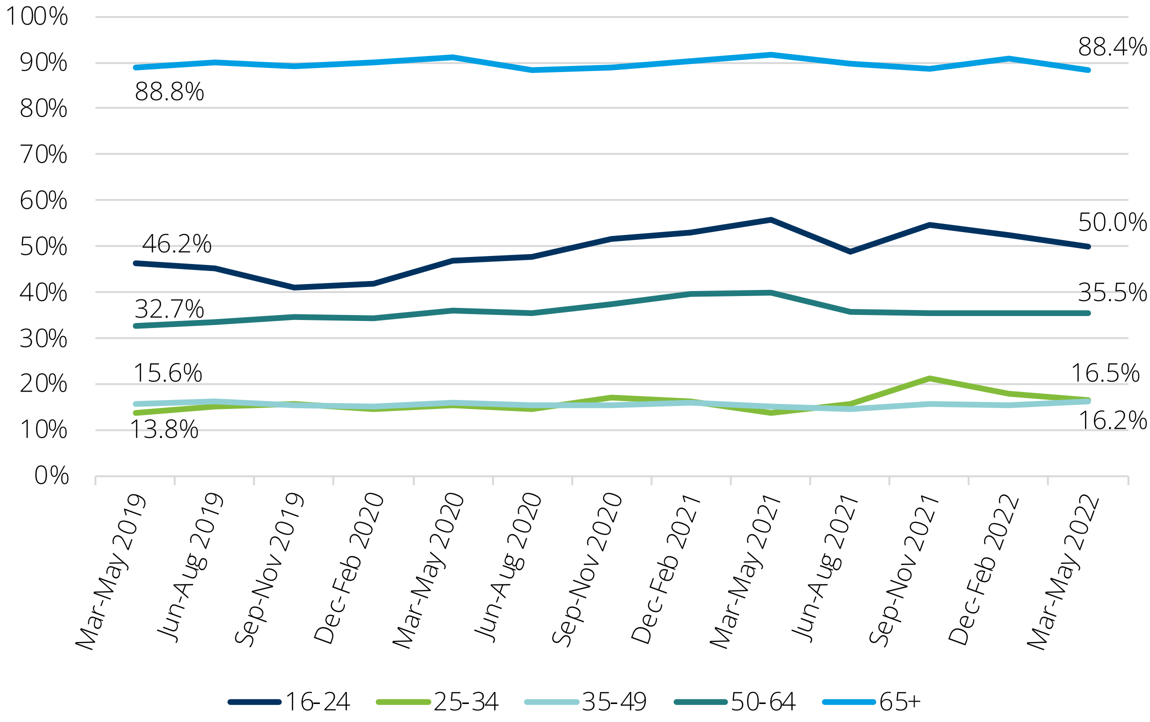
Chart 5 Economic Activity Rates Northern Ireland and Great Britain 2019-22



Source: LFS (NISRA & ONS)

In Great Britain, the economic activity rate for the adult population fell by 0.8 percentage points and by 0.5 percentage points for the working-age population. Firstly, this shows that in contrast to Northern Ireland, the drop-off in economic activity has not been as pronounced in the working-age population, suggesting that older cohorts may be responsible for a larger proportion of the overall change in the adult population. Secondly, the changes in rates are much smaller than those that have been reported in Northern Ireland. This would imply a much larger impact of the covid-19 pandemic on economic activity and the labour market in Northern Ireland than in the rest of the United Kingdom.

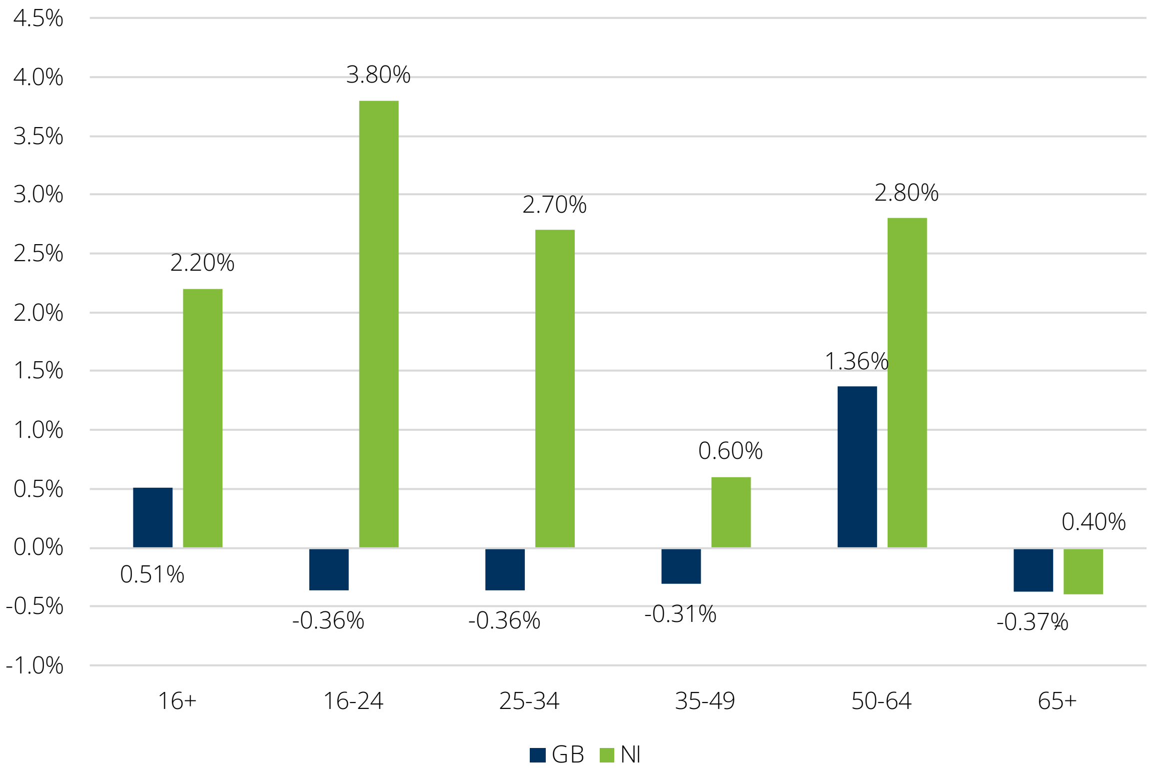
Chart 6: Economic Inactivity Rates by Age Northern Ireland 2019-22



Source: LFS (NISRA)

Looking more closely at age groups, Chart 6 shows how age group inactivity rates have changed over the pandemic period. The data confirm that inactivity within the cohort aged over 65 has actually decreased over the period, confirming the data in Charts 4 and 5. There has been a small 0.6 percentage points increase in the 35-49 age group, and all other age group inactivity rates have increased substantially. The 25-34 and the 50-64 age groups increased by 2.7 and 2.8 percentage points respectively, while by far the largest increase in inactivity rate was for the youngest age cohort, 16-24, which increased by 3.8 percentage points.

Chart 7: Economic Inactivity Rates by Age Northern Ireland and Great Britain 2019-22

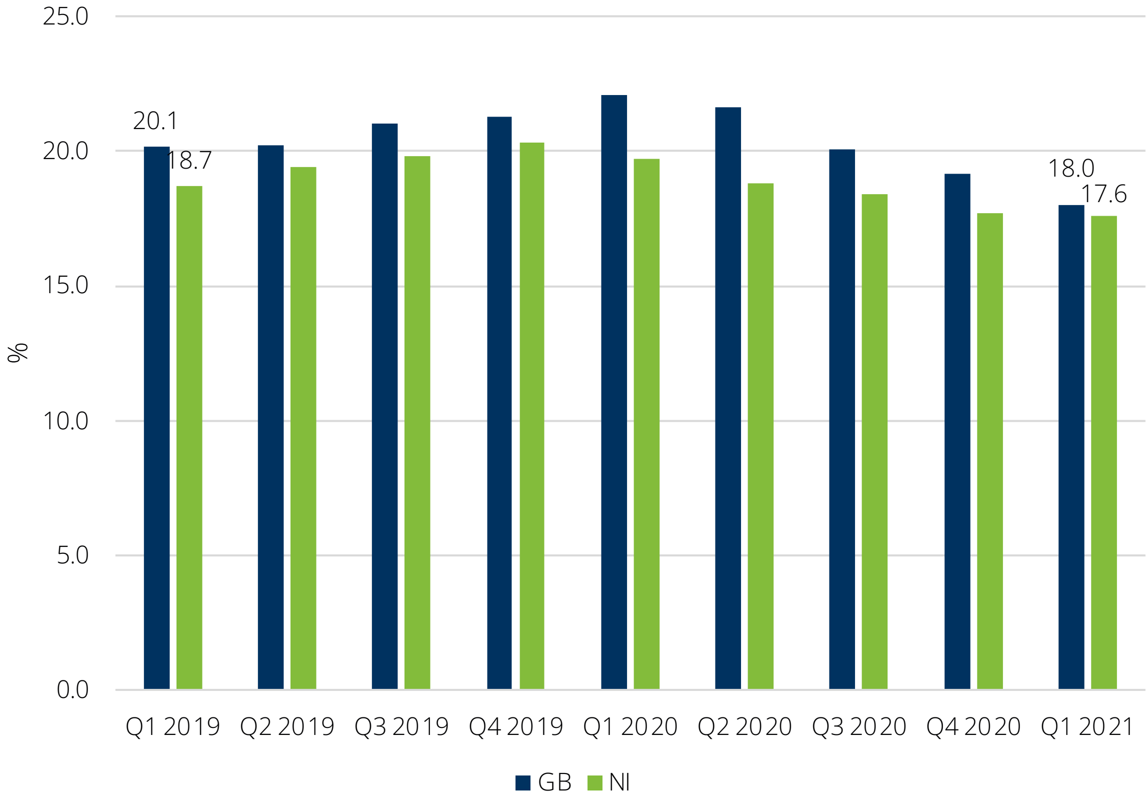


Source: LFS (NISRA & ONS)

Comparing this to the experience in Great Britain, we can see that the change in economic inactivity has been very different. The only similarity is that the reduction in the rate of inactivity for those above retirement age, all other age cohorts experience very different levels of change. For Great Britain, the only group to have increased economic inactivity over the period is the 50-64 age group and this is where the concerns about older workers stems from. While this group has seen an increase in Northern Ireland, the largest increase has been in the youngest group, those aged 16-24. What Chart 7 shows is that not only has the increase in the rate of economic inactivity been much more substantial in Northern Ireland, it has also been much more broad based.

The experience of economic activity in Northern Ireland is complex and it is wise not to make fast judgements on this metric. Looking more in depth at those who have left the labour market can provide further insight. Economic activity is further subdivided between people who want and job and those who do not. Measuring those who are not economically active but who wish to work is a way of understanding what barriers there might be that either prevent people from entering the labour market or force them out of it. The latest data show that the share of people who are not economically active but want a job has been in decline over the period of the pandemic and the recovery from it. Chart 8 shows that the proportion of economically inactive people who want a job has declined by 3.8 percentage points from 19.9 per cent to 16.1 per cent with a resultant increase in the numbers who do not want a job.

Chart 8: Economically Inactive (Wants a job) Northern Ireland and Great Britain 2019-22

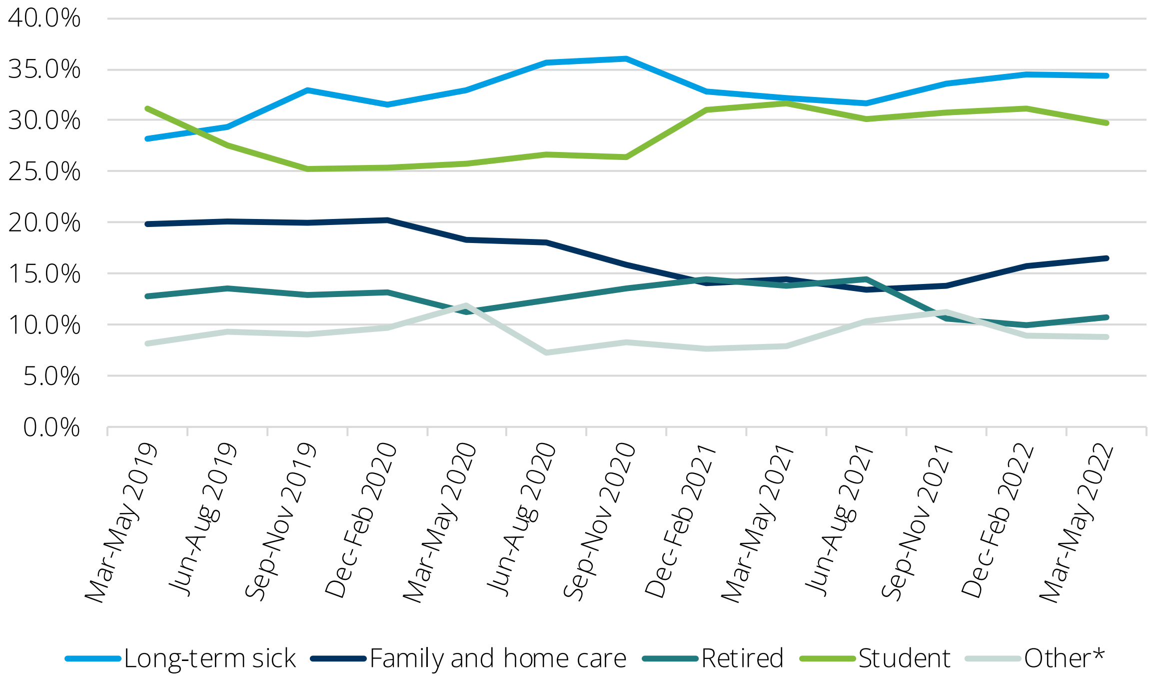


Source: LFS (NISRA & ONS)

Looking at Chart 8 we can see that the same trend has occurred in Great Britain, but that the change has not been of the same order. There, the decrease in those economically inactive and wanting a job has been more marked, dropping 2.2 percentage points from 20.6per cent to 18.4per cent. What these results show is that the increase in economic inactivity has been much larger in Northern Ireland and that in both cases it has been driven by people who do not want a job. The fact that the increase in that group has been much larger in Northern Ireland suggests that this group is driving the recent increase.

The increase in both Great Britain and Northern Ireland is therefore people exiting the labour force who do not want a job. In order to gain a greater insight into this group we can look at changes in the reasons for these people either exiting or remaining outside the labour force. Chart 9 shows the reasons for economic inactivity among those who do not want a job. What can be seen is that over the period of the pandemic the share of retirees in this group (early retired) has actually fallen substantially over the period. The proportion of students in the group fell and then increased over the period and is now just below its pre-crisis level. Family and home care declined markedly. The only reason for economic inactivity to increase was a significant increase in long-term sickness. While it would be easy to link this increase to the outcome of a global pandemic, a closer look at Chart 9 shows that the majority of the increase in long term sickness occurred in the run up to the pandemic. The rate of long term sickness increased by 3.5 percentage points in the year preceding the pandemic, and the pandemic has only added a further 1.5 percentage points increase to that rate.

Chart 9 Economic Inactivity Rates by reason Northern Ireland 2019-22

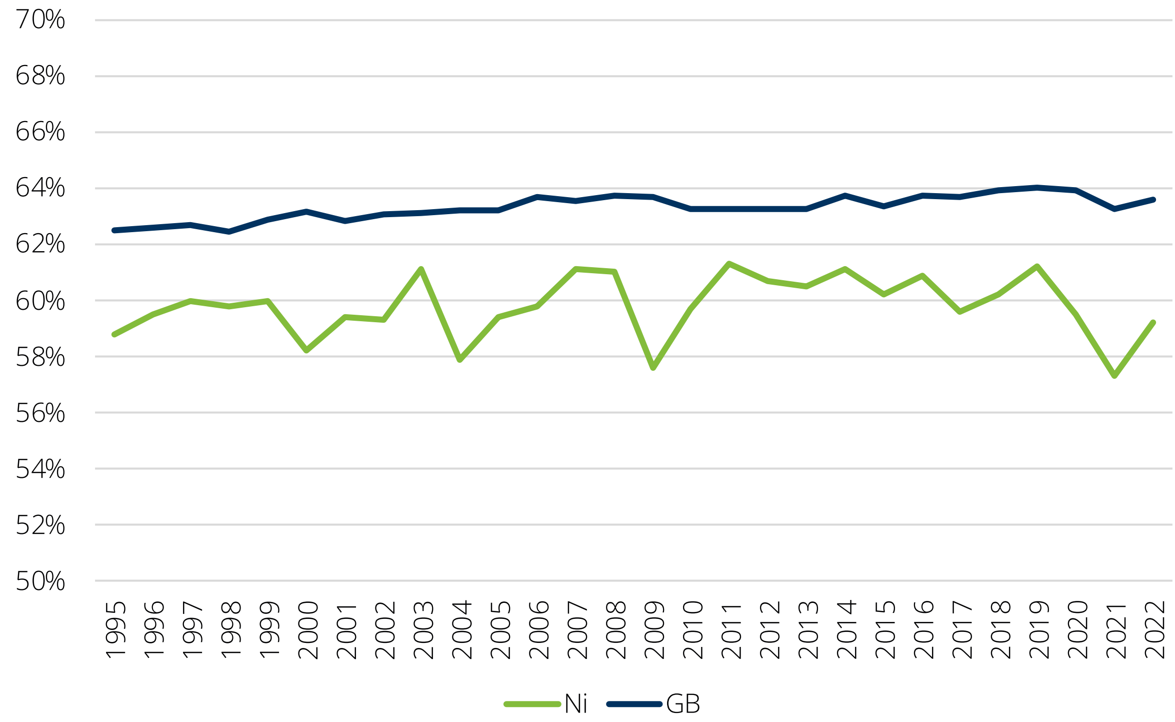


Source: LFS Source: LFS (NISRA)

In reality, while Great Britain may be experiencing a pandemic induced increase in economic inactivity, it does not appear that the pandemic has been the principal driver of that trend in Northern Ireland. The movements in Northern Ireland would appear to be more connected with structural causes of economic inactivity which have been a feature of Northern Ireland's labour market for many years.

The movements in Northern Ireland would appear to be more connected with structural causes of economic inactivity

Chart 10: Economic Inactivity Rates (16+) Northern Ireland and Great Britain 1995-2022



Source: Source: LFS (NISRA & ONS)

Looking at Chart 10 we can see that economic activity in Northern Ireland has always been significantly below that of Great Britain, but also importantly that economic activity has been much more volatile over the last 25 years or more. There are unique circumstances that have shaped the path of economic activity in Northern Ireland over these years and the scale of divergence that we are currently seeing between NI and Great Britain is more likely to be a continuance of that trend. It is possible that covid has impacted some of those existing structural factors, but from the data that is currently available, there does not appear to be an obvious change that can be linked to the pandemic.

economic activity in Northern Ireland has always been significantly below that of Great Britain

Pre-Crisis

Just as the effects of the pandemic began to ease, the economy was faced with another crisis of completely different origins. The price level in most European economies had begun to increase gradually as the economy began to reopen following public health restrictions. This can be traced to a resurgence of demand as households were able to spend money on a range of goods and services which were either prohibited or unnecessary during the pandemic. Secondly, the supply of many consumer goods became more difficult as global supply chains attempted to deal with different levels of restrictions across the world and the effect on the production of components and final goods.

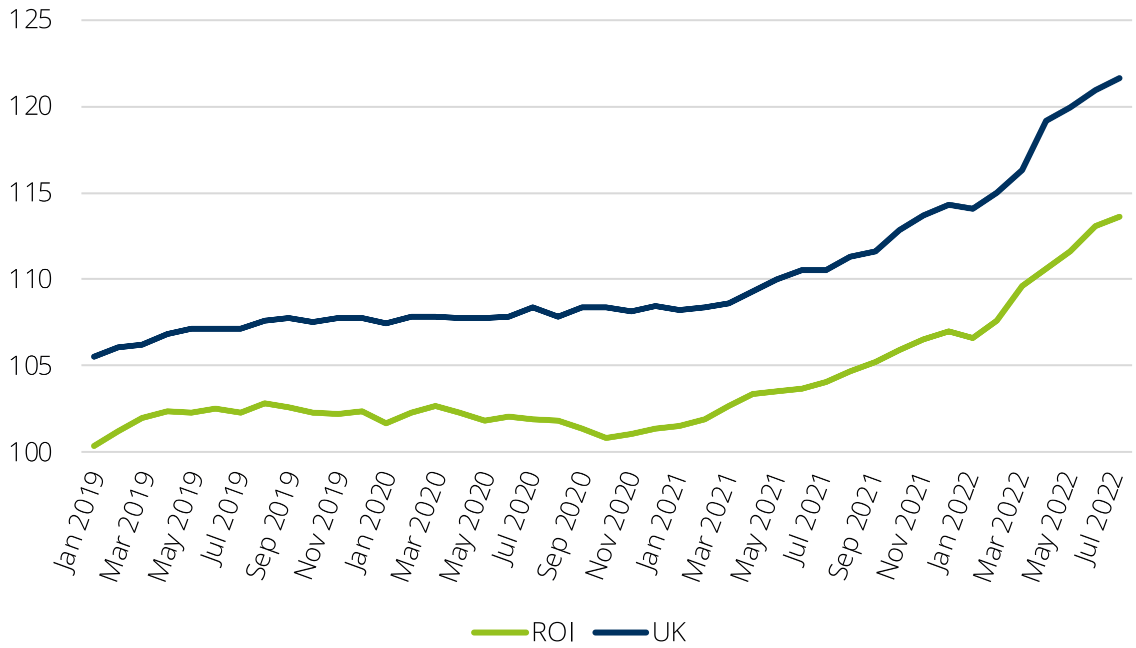
Such a dynamic was bound to lead to an increase in the rate of inflation and the price level. However, these effects were soon dwarfed by the impact of the sudden increase in the price of oil and gas which stemmed from Russia's invasion of Ukraine. While the inputs to energy and home heating had been on the increase throughout the later months of 2021, much of this was a reversal of the decreases seen in the early months of the pandemic and a result of the general increase in prices post-pandemic. The scale of the increases in 2022 has been of a different order. The energy price increases have led to substantial increases in the rate of inflation and are also beginning to seep into the price dynamic of goods across the economy.

Chart 11: CPI Inflation Rate Ireland and United Kingdom Jan 2019- Jul 2022

Source: CPI (ONS &CSO)

Chart 11 shows how the rate of inflation has increased in both the Republic of Ireland and the United Kingdom since the beginning of 2019. The effects of the pandemic can be seen in the lower rates of inflation, and deflation in the case of ROI, in the later months of 2020. Inflation rates increase from the latter half of 2021 and began to ease in early 2022. There was then resurgence in the rate of inflation following March 2022 that continues upwards up to the end of our time period in July.

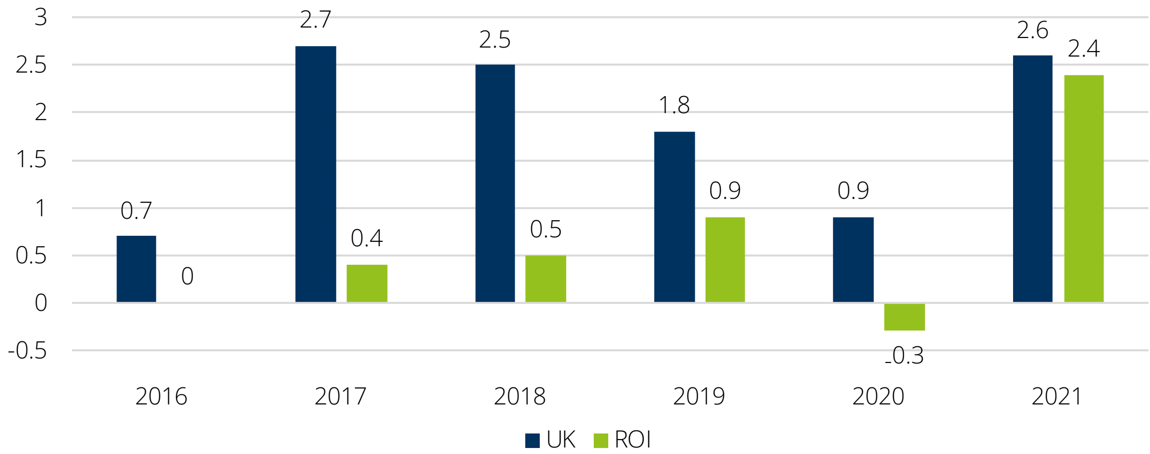
Chart 12: CPI Price level Ireland and United Kingdom Jan 2019- Jul 2022



Source: CPI (ONS &CSO)

Chart 12 shows a similar pattern with the overall price level in both ROI and UK. The price level remains largely static throughout 2020 in the UK and falls in ROI, both rates pick up in late 2021, and the subsequent resurgence after March 2022 is also evident. It is also noticeable that the price level in the UK was already considerably higher in the UK than in ROI in 2019 largely due to much higher inflation in the UK after the fall in the value of Sterling in the latter half of 2016 as seen in Chart 13.

Chart 13: CPI Inflation Rate Ireland and United Kingdom 2016-21

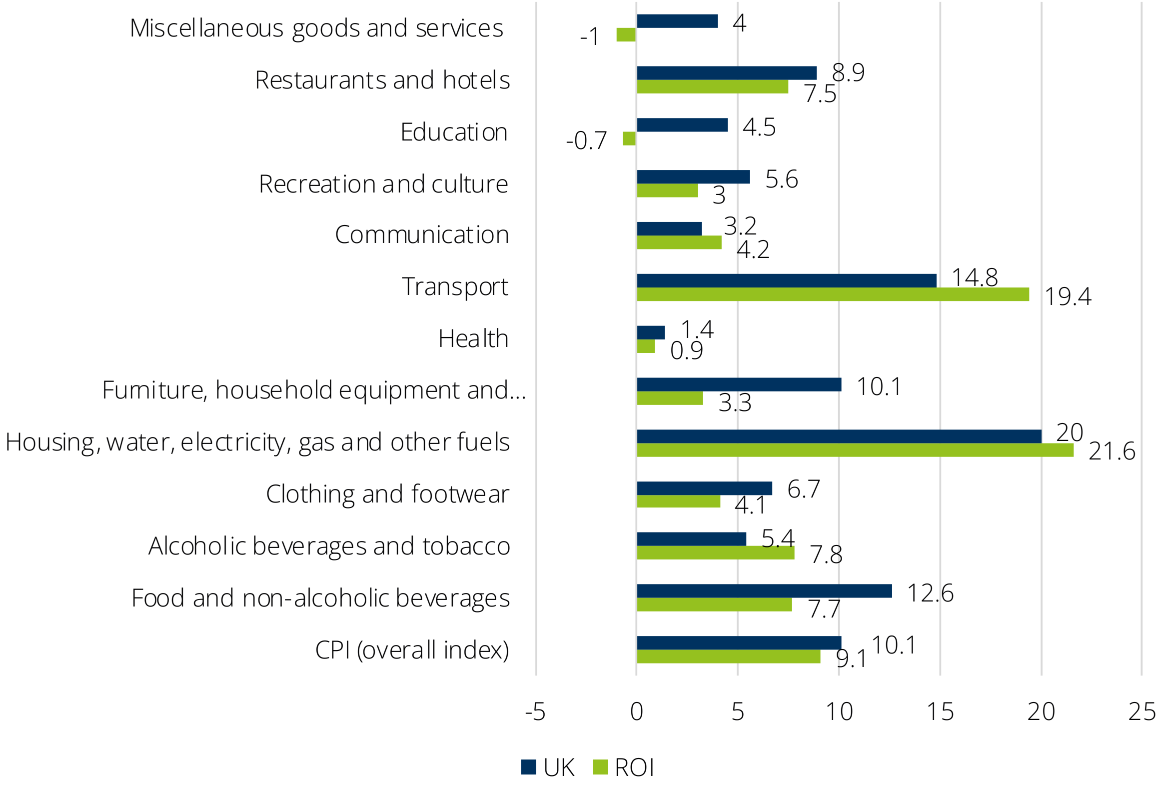


Source: CPI (ONS &CSO)

Chart 14 shows the impact of energy price increases in driving the overall rate of inflation in both UK and ROI. The impact can also be seen in transport as fuels for motor vehicles also increased substantially over the period. One significant divergence between the UK and ROI is the rate of increase in the price of food. This has been a more longstanding issue for the UK which predates the pressures associated with the war in Ukraine. The post-Brexit trading relationship has posed significant issues for food supply and this has had a lasting impact.

One significant divergence between the UK and ROI is the rate of increase in the price of food

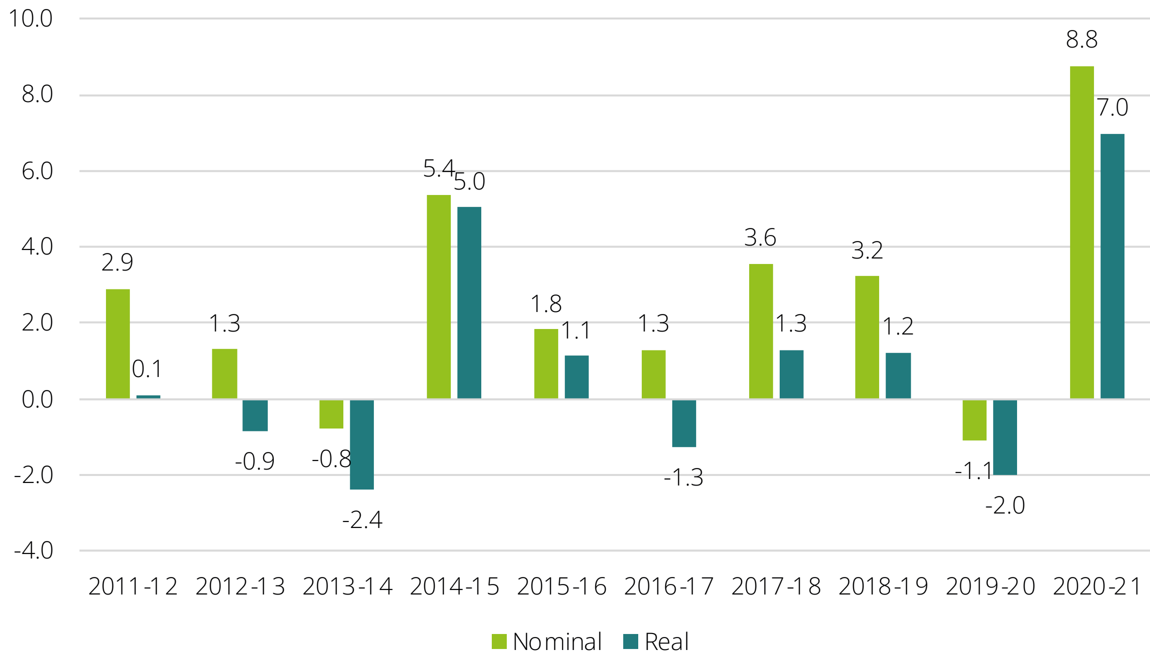
Chart 14: CPI Inflation Rate by commodity group Ireland and United Kingdom July 2022



Source: CPI (ONS &CSO)

The sudden resurgence in inflation poses significant risks to the macroeconomy and the sustainability of a sizeable amount of economic activity. However, in the short term, its impact will be felt in the labour market as increases in the price level begin to erode wages. The fact that increases in the price level are outpacing prices is not a new dynamic, but the scale of it for at least the next year is likely to be notably large. As Chart 15 shows, average (median) weekly earnings in Northern Ireland have fallen behind inflation 4 times in the last 10 years. Nominal earnings (wages in cash terms) fell on two occasions meaning that unless there was a drop in the price level in those years (deflation), a drop in real wages was inevitable. On the other two occasions, nominal wage growth was not sufficient to outpace the rate of increase in the price level.

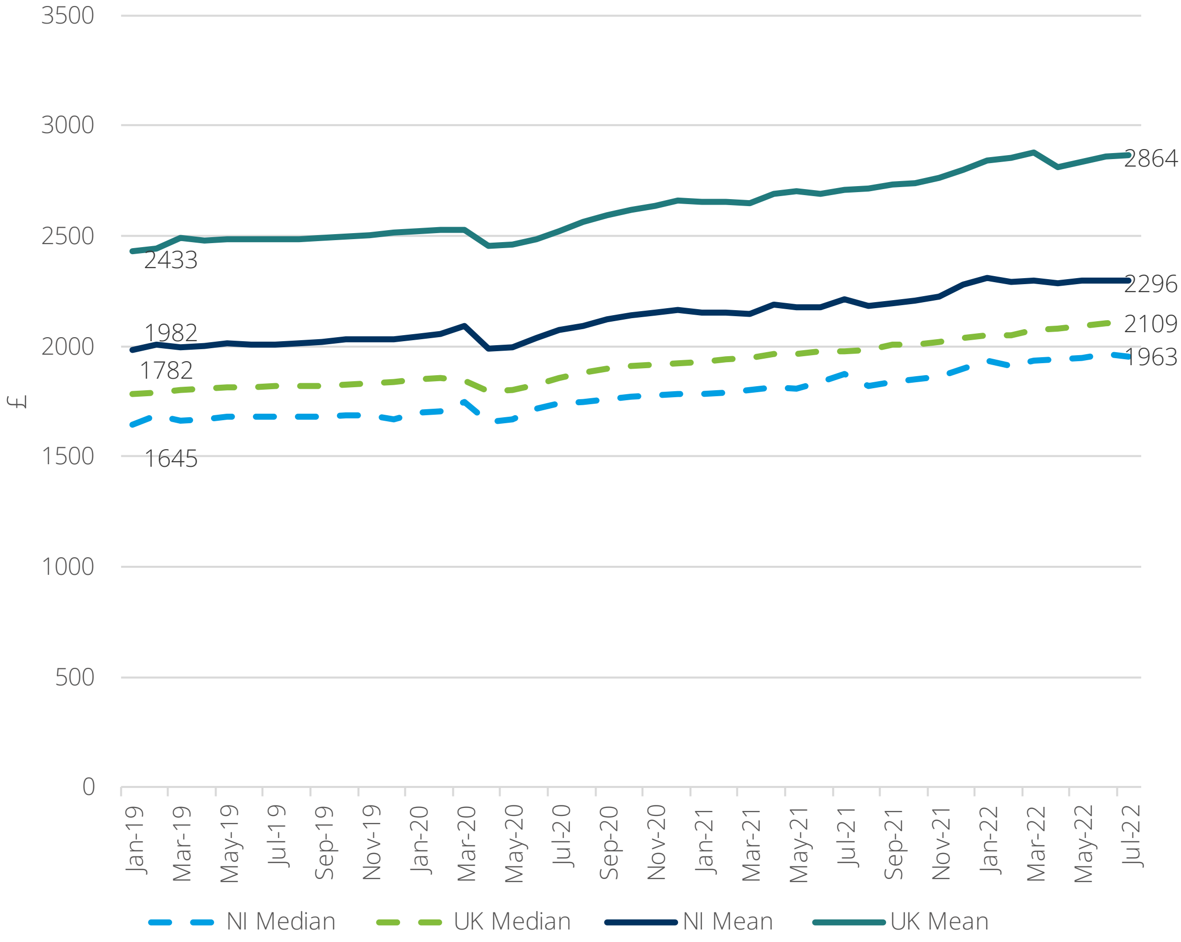
Chart 15 Percentage change in Real and Nominal Median Weekly Earnings (excluding overtime) Northern Ireland 2011/12–2021/22



Source: Annual Survey of Hours and Earnings (NISRA)

Looking towards the situation in the middle of 2022 we have up to date data on the path of employee wage and how they have grown over the last number of months. There was a sizeable drop in both mean and median wages as the pandemic lockdown began in 2020, this then reversed throughout the rest of the year. The most notable result is that recent nominal wage growth has been strong for both median and mean wages. This is somewhat unsurprising given that 12 months previously, many workers were still availing of furlough and other pandemic-based work supports. The recovery continued throughout 2021, but there has been a noticeable slowdown in earnings growth in the first half of 2022.

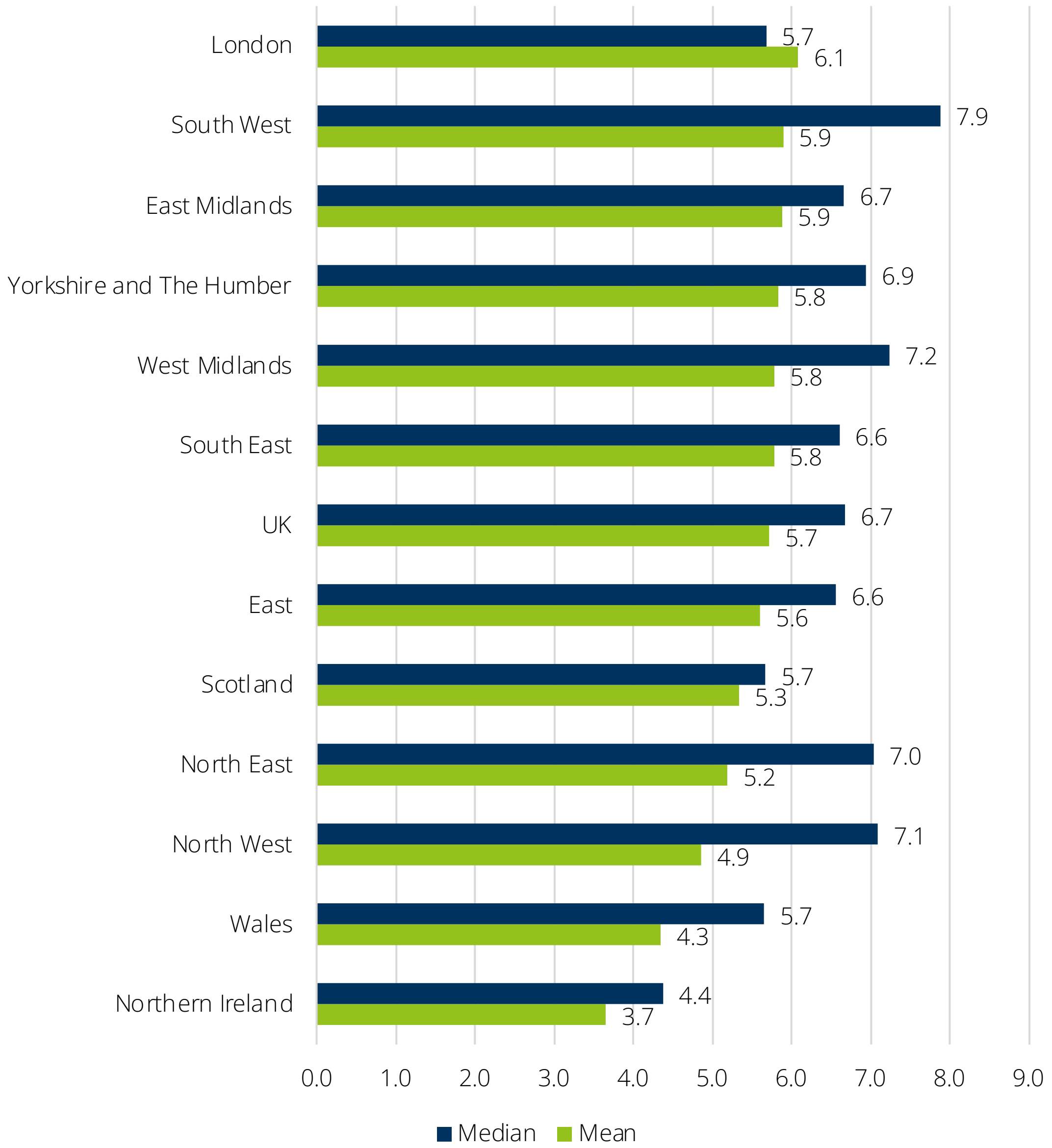
Chart 16: Median and Mean Monthly PAYE earnings Northern Ireland and United Kingdom Jan 2019- Jul 2022



Source: PAYE RTI Earnings (ONS)

It is also notable that, on both measures, nominal wages in Northern Ireland saw the lowest growth of any region of the UK. Median wage growth was higher than mean wage growth and this would imply that growth was stronger in the lower end of the distribution of wages or at least not concentrated at the top of the earnings distribution. This was the case for all UK regions with the exception of London.

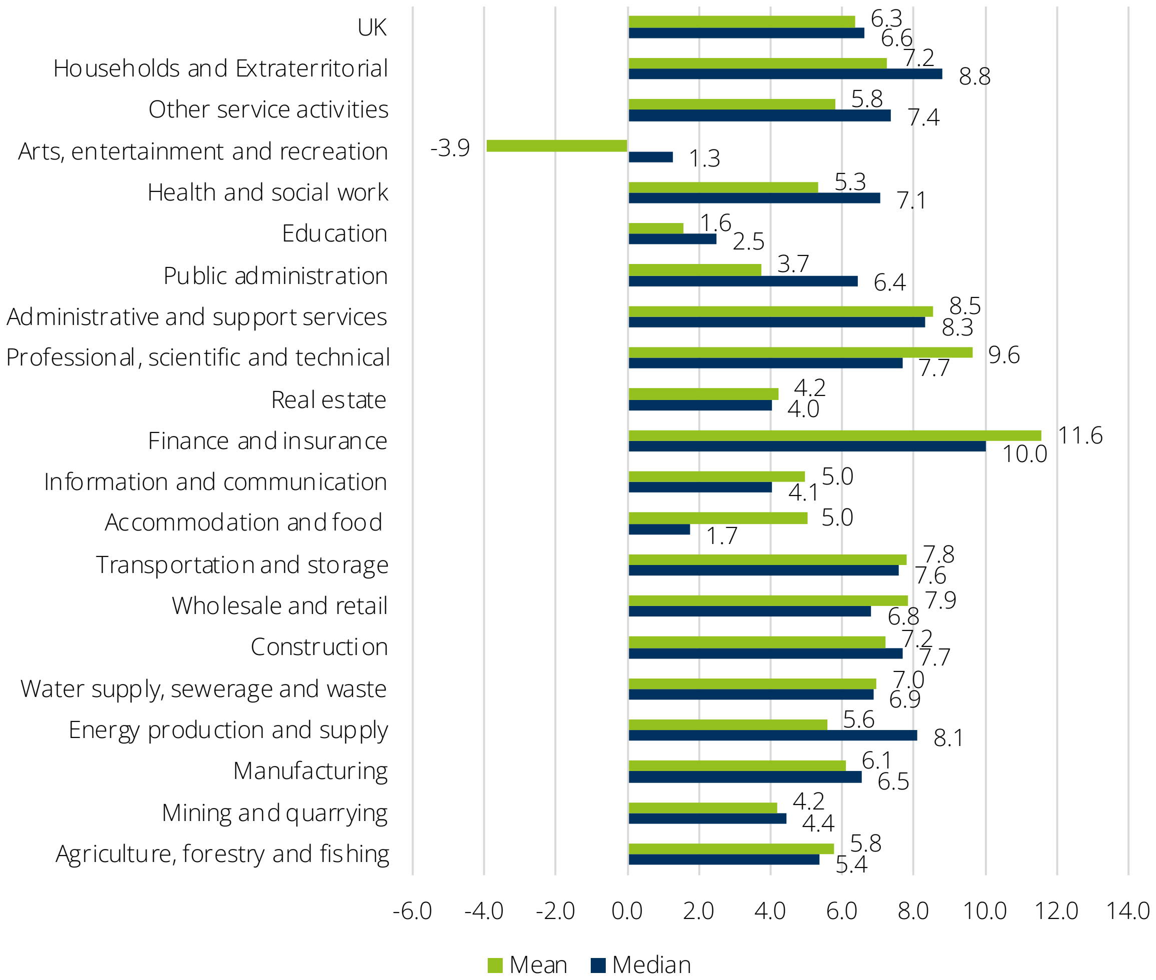
Chart 17: Median and Mean Monthly PAYE earnings percentage growth by UK region, July 2021- July 2022



Source: PAYE RTI Earnings (ONS)

Looking at industry Chart 18 shows that all industries recorded positive nominal wage growth in the 12 months to the end of June 2022 with the exception of mean pay in the Arts sector. Median growth was stronger in almost all sectors, including those most closely associated with the provision of public services. *Finance and Insurance*, *Professional, Scientific and Technical* along with *Information and Communication* all showed stronger mean wage growth, implying a larger impact at the upper end of the distribution.

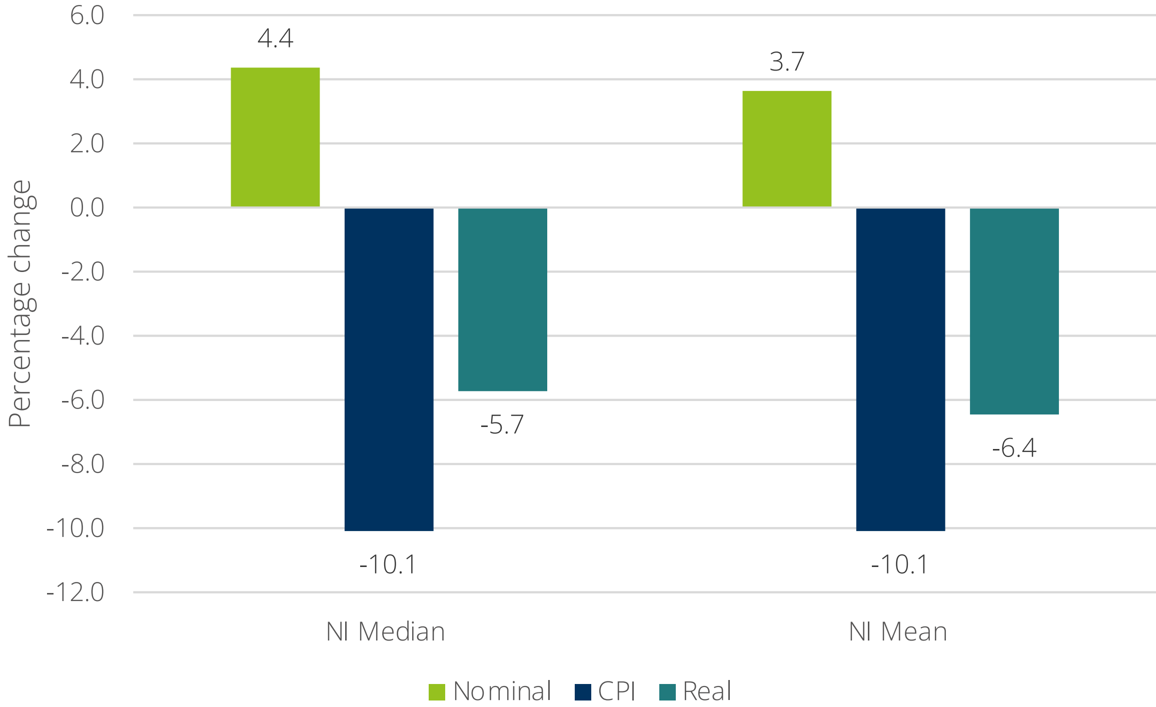
Chart 18: Median and Mean Monthly PAYE earnings growth, by Sector Northern Ireland, July 2021- July 2022



Source: PAYE RTI Earnings (ONS)

Looking to the impact of inflation on wages, Chart 19 shows the inflation rate and the nominal wage growth for July 2022. This shows that in July the spending power of mean and median wages in Northern Ireland was falling at a rate of 6.4per cent and 5.7 per cent respectively. This represents a significant drop on both measures and is considerably higher than the 2.4 per cent drop in median wages in 2013/14. It should be noted that the rate of inflation is usually calculated over the calendar year and the rate may ease in the second half of the year. It is also possible that there will be an increase in the growth of nominal pay over the second half of the year which would improve the final real wage growth figures.

Chart 19: Percentage change in Real and Nominal Median and Mean Monthly PAYE earnings by Sector Northern Ireland Jul 2021- Jul 2022



Source: PAYE RTI Earnings and CPI (ONS)

Conclusion

The labour market in Northern Ireland in 2022 finds itself sandwiched between two crises. The pandemic had the potential to lead to significant losses in employment and income, but government measures largely protected against the worst impacts. While there has been a reduction in the active labour force, this can be seen as a part of a long run trend in NI and not a pandemic induced shift as may be the case in Great Britain. The many structural factors which have produced that long term trend are too numerous and complex to discuss here. The crisis that will confront the economy in the latter half of 2022 and the months that follow is of a different nature. It represents a significant threat to the wages and the living standards that they can obtain.

The Northern Ireland labour market emerged from the Covid-19 crisis in a much healthier position that it did from the 2008 financial crisis. This was a significant achievement but also one that risks being undermined by the onset of a cost of living crisis. If the price level remains elevated and nominal earnings growth does not rise to close the gap, there is a significant danger of a dramatic contraction of consumption in the economy. The outworking of such a disruption for Northern Ireland's labour market would likely bear a greater resemblance to the crisis of 2008 than to the crisis of 2020/21.

The pandemic had the potential to lead to significant losses in employment and income, but government measures largely protected against the worst impacts


GAME of THRONES
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