Quarterly Economic Observer

Spring 2013

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NERI Nevin Economic Research Institute

About NERI and this publication

The Nevin Economic Research Institute (NERI) has been established to provide information, analysis and economic policy alternatives. Named in honour of the late Dónal Nevin, scholar, trade unionist and socialist who gave a life of service to the common good, the Institute aims to undertake research that will be of relevance to the Trade Union movement and the general public across the island of Ireland.

This is the fifth Quarterly Economic Observer (QEO) of the Institute. The purpose of the QEO is to provide regular, accessible and timely commentary so as to equip trade unions and others in articulating and advancing a new economic paradigm where the old has failed. The QEO complements the NERI Spring 2013 Quarterly Economic Facts (QEF) which provides a set of statistical indicators to underpin our analysis. The data cited in this Observer are the latest available as of the end of April 2013. The final draft of this document was completed on 5th April 2013.

This report has been prepared by staff of the Institute. We are grateful to four external reviewers from the academic and research community who reviewed and commented on an earlier draft of this document. We also acknowledge the European Commission's HERMIN model which has been used as part of the macroeconomic assessments in this publication.

Further information about NERI may be obtained at our website
www.NERInstitute.net

The Nevin Economic Research Institute

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Executive Summary

In this edition of the Quarterly Economic Observer (QEO), the NERI outlines our expectations for Northern Ireland's economy in 2013 and for the Republic of Ireland over the next three years. Our projections for the Republic of Ireland remain downbeat, despite recent positive developments on debt and apparently encouraging figures for unemployment. For Northern Ireland we see a continuation of a UK-wide productivity paradox where employment may begin to stabilise despite the absence of growth.

In this quarterly we project that:

- In the Republic of Ireland GDP will increase by 1.0% in 2013, while unemployment will remain persistently high at 14.7%;
- In the Republic of Ireland the general government deficit will fall to 7.1% in 2013 while government debt is expected to peak at 121.1% of GDP; and
- In Northern Ireland output will fall by 1.0% in 2013, while employment is expected to rise by 0.4%.

In this Observer our main analytical and policy focus is on the youth unemployment in Northern Ireland. Young people have been adversely affected by the recession and youth unemployment continues to rise to dangerous levels. The number of young people not in employment, education or training also remains persistently high. Focused action is required to prevent long-term youth unemployment and to reconnect with young people who have become perilously detached from the labour market. We examine policy responses including a Youth Guarantee scheme that would:

- Provide **relevant** training, work experience or paid employment for every young person unable to find work;
- Provide employment opportunities that are **additional**, either to the person through 'on-the-job training' or to society through community employment; and
- Aim to reduce **structural youth unemployment** in the long term

International evidence estimates the cost of youth unemployment could be in the region of £300m in Northern Ireland. In addition to existing resources, significant resources from Europe could be available to Northern Ireland under the European Social Fund.

1 Introduction

Both economies on the island of Ireland continue to struggle to achieve economic recovery. In the Republic of Ireland, renegotiation of the promissory notes and better than expected government deficit figures have improved the outlook for the public finances. On the other hand, the outlook for the domestic economy remains poor, and continuing uncertainty in the Eurozone could negatively impact on export levels. In Northern Ireland the picture, though not as bleak, remains very challenging. According to the latest figures unemployment is as high in Northern Ireland as it was at the time of the Belfast Agreement in 1998. The continuing underperformance of the UK economy also weighs significantly on the Northern Ireland economy.

In this Observer we focus on the prospects for the economies of Northern Ireland and the Republic of Ireland. We also focus on the crisis of youth unemployment in Northern Ireland, the costs to society, the consequences for the individual and how policy responses should be shaped.

The QEO is structured as follows. Recent economic trends in both parts of Ireland are reviewed in Section 2. Section 3 provides an overview of recent macro-economic projections made by various agencies and includes the NERI's macroeconomic projections of some key economic outcomes out to 2015. In Section 4 we focus on youth unemployment in Northern Ireland. Section 5 concludes.

The Nevin Economic Research Institute offers this report as a contribution to public debate on policy making and formation on the island of Ireland. We welcome feedback, comment and suggestions. The precise data used and the specifics of any proposal/projections are subject to review as fresh information and data become available.

2 Overview of Recent Economic Trends

There are mixed signals in relation to the Republic of Ireland's economy. Positive signals include the following:

- Employment has been stabilising;
- Unemployment has marginally decreased as employment has stopped falling and as net outward migration remains high;
- There has been an increase of 25,600 in the numbers employed in 'higher' occupational status groups (since Q4 2011);
- Industrial production has marginally increased (+0.1% since February 2012) maintaining a recovery in this indicator since a steep decline in September 2012;
- The Government deficit this year is likely to be a little lower than previous Department of Finance projections;
- The potential for the short-term improvements in Government finances to stabilise has improved due to a renegotiation of the Promissory Notes; and
- The Republic of Ireland is back in the bond markets and there have been some significant reductions in the cost of borrowing on capital markets for the National Treasury Management Agency as well as commercial enterprises.

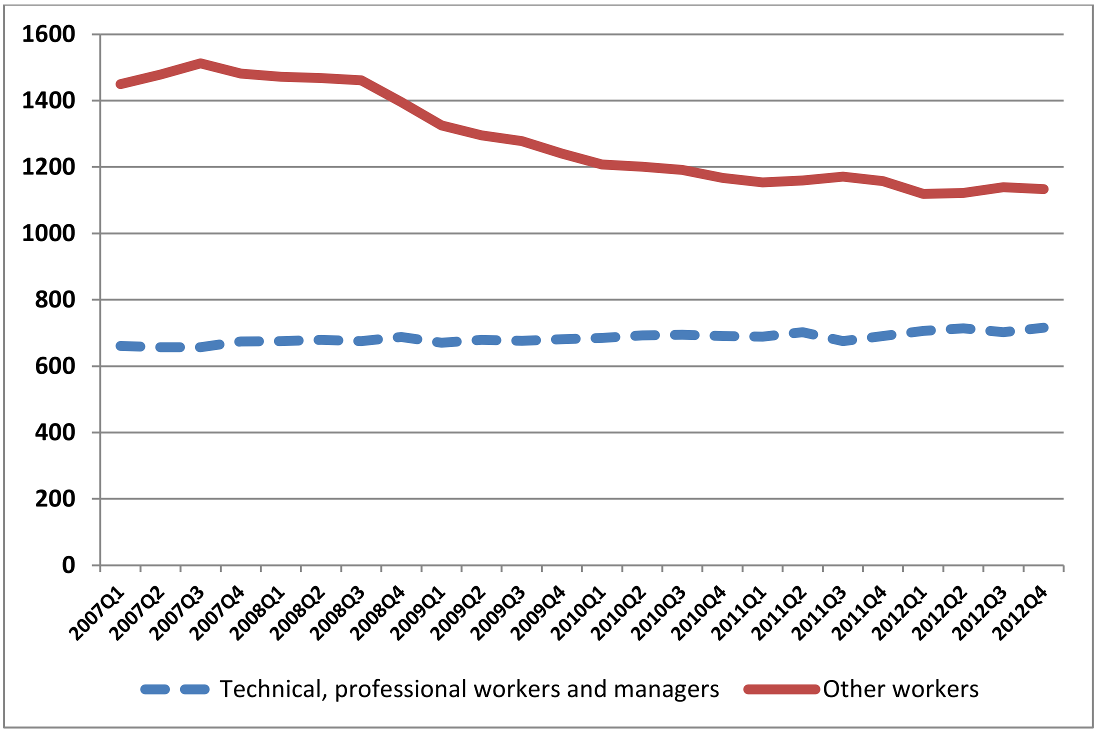
However, worrying economic signs are given by:

- There has been a fall of 23,300 in the numbers employed in 'lower' occupational status groups (since Q4 2011);
- Modest reductions in unemployment seem to be explained by continuing high outward migration – most likely among young people;
- There has been no sign of recovery in retail sales;
- No reduction in the bank related portion of the National Debt has been achieved;
- The level of mortgage arrears continues to worsen;
- Interest rates on new mortgages have increased (despite a fall in European Central Bank rates last year); and

– The Eurozone remains in recession and the UK economy contracted again in the last quarter of 2012.

Overall, the pattern is neither one of recovery, nor serious decline, but stagnation.

Chart 2.1 Trends in employment for Technical, Professional workers and Managers versus all other workers (Republic of Ireland) 2007-2012 ('000s)



Source: CSO: Quarterly National Household Survey.
Notes: Workers classified according to UK SOC2010. The broken line includes data for Managers, directors and senior officials; Professional occupations; and Associate professional and technical occupations.

The most recent data on the Republic of Ireland economy show the emergence of a new duality. This duality is the changing employment fortunes for those of a higher occupational status (who usually have a higher education) compared to the rest of the workforce. Previously dualities have been expressed in terms of the domestic sector versus the export sector, or the private sector versus the public sector.

More striking than the domestic/export split is the split according to occupation status (Chart 2.1). The top three groups (including managers, professionals and technical workers) showed a combined annual increase (comparing Q4 of 2012 with Q4 of 2011) of 25,600 jobs, while the bottom four categories (including caring and leisure workers, sales staff, process and elementary workers) showed a combined loss of 15,300 jobs and there were 9,900 also less administrative and secretarial workers. There appears to a shift in the demand for labour towards those with higher education.[1] This shift can be viewed in the context of a long term global trend (see for example Lemieux (2008) and Autor (2011) for the US; and Goos et al. (2009) and Oesch and Menés (2011) for Europe). These trends highlight the need for continuing investment in education and training/re-skilling so that labour supply will better match future labour demand.

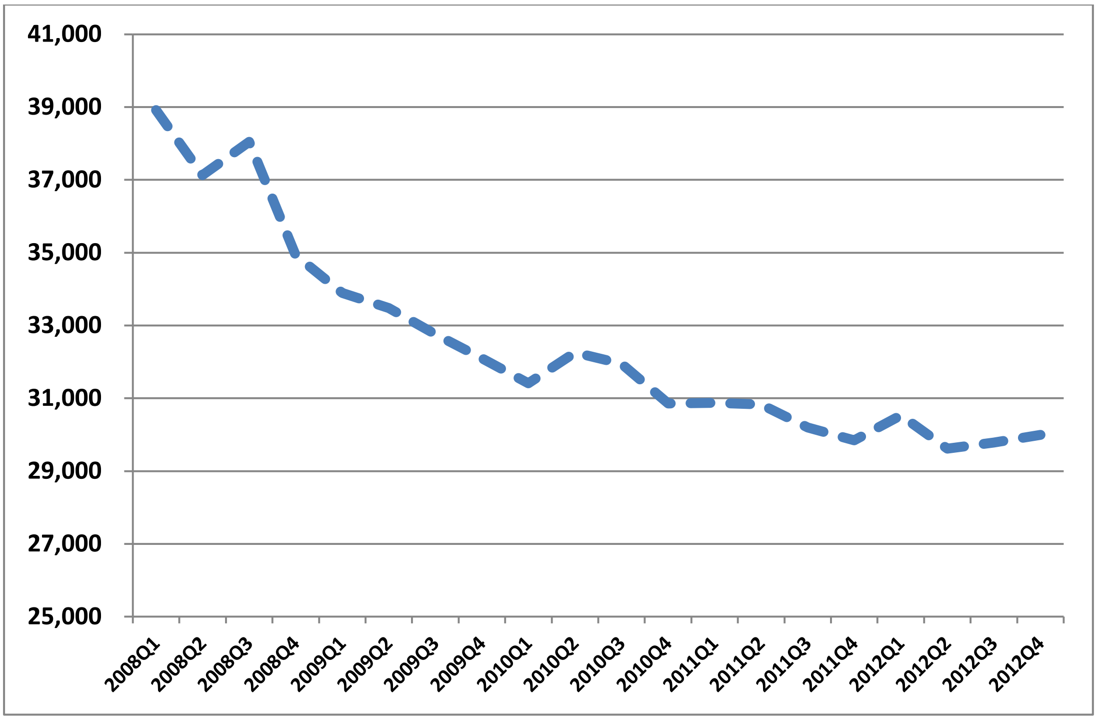
In the domestic economy, there are signs of stabilisation of employment in the economic sectors which focus on domestic activities. For example in the last quarter of 2012, the annual change in employment in wholesale and retail trade, education and health was a combined increase of approximately 6,500, though there were losses in public administration of almost the same number. In contrast, approximately 7,300 jobs were lost in industry (excluding construction which continues to show falls) which tends to be more export orientated (Central Statistics Office, 2013d). The continued decrease in domestic demand (Chart 2.2) can be directly linked to contractionary budgets taking money from the economy as well as continuing high levels of household indebtedness. Though the value of retail sales has been largely stable (with a slight decrease in December 2012 and January 2013) the small fall in the volume of retail sales has been more pronounced. At best retail sales show no sign of recovery. There has been a decrease in the sale of new cars in January 2013 compared to January 2012. This can possibly be explained by a change in the system of registration. The number of dwelling completions has fallen from an already low level.

Over the past few years one bright spot on the economic landscape has been the respectable performance of Irish exports. Unfortunately, international indications show our main trading partners continue to stagnate or slip back into recession. Data from Eurostat shows that (seasonally adjusted) output in the US showed zero growth in the last quarter of 2012, the UK economy contracted again (-0.3%) while the pace of contraction in the Eurozone accelerated to -0.6% in the last quarter of 2012. Despite this, the value of goods exports (and imports) has been largely stable in the last

[1] See Collins (2012: 5-7) who explores this point using data for Ireland from 2007-2012.

quarter of 2012. Manufacturing production has partially recovered from a large fall in September 2012. This fall was due to declines in the pharmaceutical sector, which has recovered some of the lost ground in the last quarter of 2012. The latest data (up to Q3 2012) shows that the Republic of Ireland has an increasingly large current account surplus (Central Statistics Office, 2013). This shows that, as a whole, the Irish economy is exporting more than enough to pay for our imports, service our international debts, and pay the profits of multinational firms. For the first three quarters of 2012 these were ahead of the same period in 2011.

Chart 2.2 Trends in the real value of domestic demand (Republic of Ireland) – seasonally adjusted quarterly data 2007-2012 (€m)



Source: CSO: Quarterly National Accounts.
Notes: Final Domestic Demand = Personal Consumption + Government Consumption + Investment. Domestic demand chiefly differs from Gross Domestic Product due to the size of net exports = exports – imports, and changes in values of physical stocks.

Recent data trends indicate some conflicting signals in the financial sector. Interest rates set by the European Central Bank were cut in July 2012, but have been stable since. However, since August 2012 there has been an increase in variable interest rate on new mortgages (increasing from 2.91% in August to 3.43% in December 2012). However, the interest rate on consumer and other loans has continued on a steady decrease since September 2011. Similarly, while the number of mortgages in arrears continues to increase, there has been a continued decline in loans outstanding to households and a moderate decrease in loans to businesses (up to December 2012). The process of deleveraging is continuing in the financial sector.

Weekly earnings in the last quarter of 2012 have also been largely in line with the same period of 2011. Up to January 2013 consumer price inflation has remained low (at an annualised rate of close to 1%), and has remained below the European average. Prices received by the agricultural sector have been steadily increasing to December 2012. This can be seen as positive, given that Ireland is an exporter of agricultural produce, and producers are price takers, the price increases reflect increased demand rather than uncompetitive profiteering. There has also been an increase since August 2012 in the prices received by producers in the manufacturing sector, though it is unclear if this is a reflection of changes in competitiveness, or an increase in the demand for Irish manufactures.

Table 2.1 Some key economic trends in Ireland and the UK (2007-2012)

		2007	2008	2009	2010	2011	2012
Total Employment	ROI	69.2	67.6	62.2	60.1	58.9	n/a
(% of Working Age Population)	NI	68.8	68.2	64.8	66.0	67.1	67.5
	UK	71.5	71.5	69.9	69.5	69.5	n/a
Unemployment	ROI	4.7	6.4	12.0	13.9	14.7	14.8
(% of labour force)	NI	4.1	4.6	6.3	6.9	7.3	6.8
	UK	5.3	5.6	7.6	7.8	8.0	7.9
GDP	ROI	5.4	-2.1	-5.5	-0. 8	1.4	0.9
(% volume change for each yr)	NI*	3.1	-2.0	-3.6	1.4	0.0	n/a
	UK	3.6	-1.0	-4.0	1.8	0.9	0.2

Sources: ROI and UK labour market data refer to the whole year and were taken from the Eurostat Labour Force Survey database (lfsi_emp_a and une_rt_a).
Northern Ireland labour market data is for the period January to March of each year from the Northern Ireland Labour Force Survey.
GDP data for ROI and UK are from Eurostat National Accounts database (nama_gdp_k).
Northern Ireland Gross Value Added data are taken from ONS Regional Trends Series.

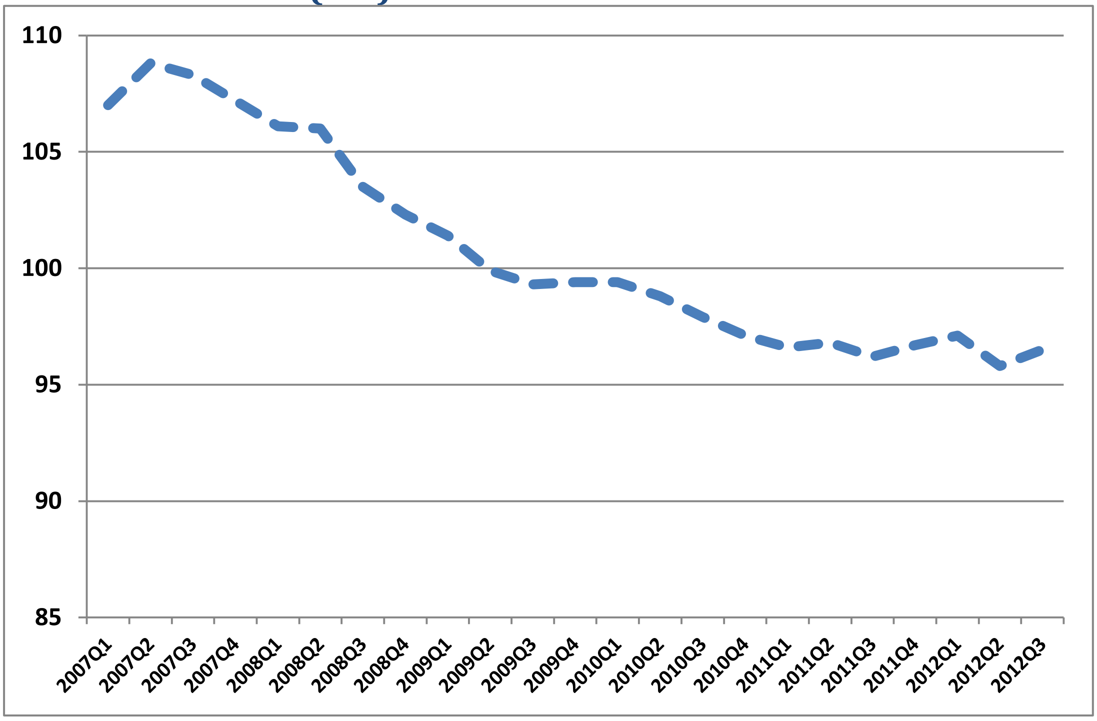
Notes: ROI = Republic of Ireland, NI = Northern Ireland and UK = United Kingdom.
* Northern Ireland output refers to Gross Value Added (GVA).
Total employment refers to all persons in employment (ILO definition) aged 15-64 as a proportion of all persons aged 15-64. Unemployment is calculated on an ILO definition basis and refers to persons aged 15-74. Employment and unemployment figures for the Republic of Ireland are subject to revision.
n/a = not available.

On a more positive note the Government deficit is likely to be better than Department of Finance's Budget 2013 estimate of -8.2% and close to the previous NERI forecast of -7.8%. The new financing arrangement for the Republic of Ireland's Promissory Notes may help bring about greater market confidence and thus assist in regards to Government's borrowing requirements. Given the recent agreement in principle to extend the maturity structure of current EFSF and EFSM loans, it remains to be seen whether any reduction in the bank related portion of the national debt can be achieved through negotiations with other EU Member States.

In Northern Ireland the economic outlook is similarly pessimistic; although Northern Ireland's economic contraction has not been as severe as that in the Republic. An overview of recent trends in output, employment and unemployment for both Ireland and the United Kingdom is provided in Table 2.1. The UK economy grew at the very low rate of 0.2% in 2012. Supplementary data may be found in the Annex of this Observer. An interesting development in Northern Ireland has been the creation of a new 'Composite Economic Index' by the Northern Ireland Statistics and Research Agency (NISRA, 2013). This index is a combination of seasonally adjusted public sector employment and deflated private sector output. Though not a comprehensive measure of Northern Ireland GDP, the index allows for more timely information than was previously available. As seen in Chart 2.3 the latest data for Quarter 3 2012 shows an annual change of 0.3%. In contrast, employment grew by 0.6% in the same period, evidence that Northern Ireland is showing the same productivity paradox as the UK where output and employment trends are not in tandem and productivity per worker is tending to fall.

Equally as troubling as the UK's productivity paradox is the reduction in real wages and living standards across the economy. According to the Office for National Statistics (ONS, 2012), persistently high inflation and limited or no growth in nominal wages has led to a 9% reduction in real wages since 2009. This, combined with fears over job security and further austerity, will have been a significant drag on the UK domestic economy and contributed to the loss of the UK's "triple A" credit rating. The budget delivered recently on the 20th of March represents an entrenchment of current UK fiscal policy and this analysis is reflected in the outlook for the Northern Ireland economy presented in the next section.

Chart 2.3 Trends in the Northern Ireland Composite Economic Index 2007-2012 (£m)



Source: NISRA: Statistics Bulletin.

3 Macroeconomic Projections

For the second time this section of the Quarterly Economic Observer includes forecasts for the economy of the Republic of Ireland and for the first time projections for the Northern Ireland economy. The Northern Ireland projections are based on a recently released 'Composite Index' produced by the Northern Ireland Statistics and Research Agency (as described in Section 2). The Republic of Ireland projections update the forecasts which we presented in the January 2013 Quarterly Economic Observer. A further contraction of economic activity and a static labour market are projected for Northern Ireland in 2013. In the Republic, we expect a stagnant to slowly declining employment level and sluggish to moderate growth over the next three years.

Republic of Ireland

Since our last set of projections there have been several developments which lead us to publish a set of slightly less pessimistic forecasts for the economy.

The renegotiation of the Promissory Notes will have a direct impact on the reported expenditure of the Irish Government. Though it is not expected to have an impact in 2013, it is expected to reduce Government expenditure on debt interest by €1bn from 2014. The Government has yet to announce to what use this €1bn shall be put. Given the link between the banks and the Irish Government, greater market confidence with regard to Government finances may also spill over into greater confidence among agencies lending to Irish financial institutions. Potentially, this could lead to increased access to finance for Irish financial institutions, and increased lending. This would have a positive effect on investment in the Irish economy.

It is unclear what effect the proposed Public Service Agreement ('Croke Park II') will have on public finances and economic activity over and above continuing reductions in the public sector pay bill already accounted for under Croke Park I. The impact of cutting real wages for workers in the public sector as well as reducing staff numbers further is likely to be positive in net terms of the General Government Balance (or deficit). However, the impact is likely to be much less than the headline figure of €1 billion due to loss of revenue and the likelihood of lower domestic demand – other things being equal. In the absence of counter-balancing factors such as greater consumer or investor confidence the impact of a further cut in the public sector pay bill is likely to be moderately depressing in relation to economic activity and employment as household expenditure is reduced further and job opportunities in traditional areas of public sector recruitment are further tightened. This pressure on domestic demand will be magnified somewhat by increases in various public service charges, taxes and rising costs. It is also possible that the impacts of public sector pay cuts will be felt in the private sector not only through reduced demand for goods and services but pressure to cut wages in certain like-for-like occupations.

Since our last Quarterly Economic Observer there has been increased uncertainty in the international sphere most particularly among many of the Republic of Ireland's key trading partners. The German and UK economies shrank in the last quarter of 2012. This does not bode well for the Republic of Ireland's export prospects, the one bright light during the Republic of Ireland's recession. In the US the political situation remains uncertain, though the 'fiscal cliff' had been avoided at the time of the January Quarterly Economic Observer, it has reappeared with a new budgetary impasse. Finally, among countries using the Euro currency, there is greater political uncertainty in Italy with stalemate in electing a new prime minister. Also, Cyprus has become the fifth country to enter an agreement with the Troika, largely as a result of contagion due to Greece renegotiating its national debt.

On 29th November, 2012 the CSO revised some of its labour market estimates, a process completed with the publication of the latest Quarterly National Household Survey (CSO, 2013d). In contrast to previous claims by some commentators, Q4 2012 showed a statistically insignificant fall of 400 private sector jobs (year on year). Also (though not directly comparable) there appears to be a reduction in employment, but an increase in the number of self-employed. Therefore, some previously held views of a private sector recovery seem misplaced.[2] Table 3.1 outlines our current projections for 2013 to 2015. Compared to our previous forecasts (in January 2013) we anticipate a slightly improved economic outlook. However, we still project a period of low-growth and high-unemployment for the next three years. The forecasts include:

[2] Much has been made of the increase in employment by a statistically insignificant 0.1% in Q4 2012 compared to Q4 2011. It should be noted however that (as is standard practice) the figures in Table 3.1 reflect annual averages of employment rather than employment in a particular quarter. Overall average employment fell in 2012 compared to 2011.

- Low GDP growth of 1% and 1.2% over the next two years, increasing to 2% in 2015;
- a further shrinking of the numbers employed in 2013, by 0.6%, with employment levels remaining static in 2014 and 2015;
- unemployment remaining at 14.7% in 2013 and marginally increasing to 15% in 2014 and 2015 as net outward migration releases pressure on expanding labour supply due to rising youth cohorts;
- Ireland's gross debt peaking at 121.1% of GDP this year and reducing marginally in 2014 and 2015; and
- While we anticipate that Government will exceed its deficit (or General Government Balance, GGB) target in 2013, given our current economic outlook, we do not expect Government to reach the 3% Maastricht target by 2015.

Table 3.1 Projections of Output, Public Finances and Labour Market (Republic of Ireland) to 2015

	2011 values	2011	2012	2013	2014	2015
National Income		*Percentage change over previous year*				
Gross Domestic Product	€159.0bn	1.4	0.9	1.0	1.2	2.0
Government Finances		*Percentage of GDP*				
General Government Deficit		-13.4	-7.7	-7.1	-4.7	-3.8
Gross Debt	€169.2bn	106.0	117.2	121.1	121.0	119.4
Labour Force		*Percentage change over previous year*				
Employment	1,849,100	-1.8	-0.6	-0.6	0.0	+0.1
		Percentage of Labour Force				
Unemployment	316,700	14.6	14.7	14.7	15.1	15.0

Notes: 2011 and 2012 data from CSO Quarterly National Accounts, CSO Quarterly National Household Survey, Department of Finance Medium Term Fiscal Statement, and AMECO database; 2012-2015 data are NERI projections. For 2011 there is a slight divergence for Government Finances between the figures sourced from AMECO and the Department of Finance. Department of Finance data is used

Comparing our current labour market projections with those from January 2013, we now anticipate that approximately 11,000 jobs will be lost in 2013 (compared to the previous estimate of 22,000 jobs lost, and Department of Finance projections of an increase of 3,500 jobs). Over the next three years we expect a total reduction in employment numbers of approximately 9,000 (compared to the previous estimate of 54,000 losses and the Department of Finance expectation of a gain of 44,000 people in employment). With regard to unemployment, this has been revised downwards. In a time of stagnant employment, trends in the size of the labour market are a major determinant of the unemployment rate. The labour force is expected to contract by 13,000 in 2013, but rebound in 2014 leading to higher unemployment despite no change in employment.

Despite the contractionary impact of Budget 2013, GDP growth has been marginally revised upwards for 2013 to 2015. During 2012 a growth rate of 0.9% was achieved in a time of austerity, driven by exports. However 0.6% of jobs were lost, mainly due to losses in the labour intensive domestic sector. Our revisions to GDP are based on a sustained export performance, despite the aforementioned challenging economic climate, and some stabilisation in the level of domestic demand. These upward revisions are small with growth of 1% expected in 2013 (previous forecast was 0.6%), a further marginal increase in 2014 leading to the end of decreases in employment, and employment increasing again in 2015, though with a negligible effect on employment rates. We anticipate the 2015 projections can be explained by employers increasing working hours for existing staff, or increased productivity, which can occur at the initial stages of an upturn; though with a different process occurring in 2014.

Our forecasts of the government finances have also been revised in light of a renegotiation of the Promissory Notes (which should reduce the Government Deficit by €1bn per year from 2014 onwards) and higher than previously projected growth and employment. It is not yet clear what the Government's plans are with regard to the extra €1bn breathing space. If it were to be spent wisely (such as to improve infrastructure) it could boost growth and long term prospects for debt sustainability. The debt/GDP ratio (a measure of the Republic of Ireland's ability to carry its national debt) is expected to peak in 2013. These projected figures are marginally higher than those of the Department of Finance. However, the combined impact of low growth, static employment and unemployment at 15% of the labour force lead us to project that the Government is likely to miss its target of a 3% deficit by 2015.

Table 3.2 Overview of recent projections of change in real GDP (Republic of Ireland)

	2010	2011	2012	2013	2014	2015
Outcomes	**-0.8**	**1.4**	**0.9**			
Projections						
NERI	-	-	0.3	1.0	1.2	2.0
Department of Finance	-1.3	1.7	0.9	1.5	2.5	2.9
Central Bank	-2.3	2.4	0.5	1.2	2.5	-
EU Commission	-1.4	0.9	0.4	1.1	2.2	-
IMF	-2.5	2.3	0.4	1.1	2.2	2.7
OECD	-2.3	1.5	0.5	1.3	2.2	-
ESRI (QEC)	-0.8	1.4	1.3	1.3	2.3	-
Ernst and Young	-0.6	1.1	0.0	1.0	1.9	2.2
NCB	-0.3	1.0	0.3	1.2	2.0	2.2

Sources: Department of Finance Budget 2013 Economic and Fiscal Outlook (December 2012) (Department of Finance, 2012); Central Bank: Quarterly Bulletin (April 2013); European Commission European Economic Forecast: Winter 2013 (February 2013); International Monetary Fund: Ninth Review Under the Extended Arrangement (March, International Monetary Fund, 2013); OECD: Economic Outlook (December 2012); ESRI: Quarterly Economic Commentary (Winter 2012) (Duffy, Durkan, Timoney and Casey, 2012); Ernst and Young: Economic Eye, November (2012); NCB: Irish Economy Monitor (March 2013).

Notes: Data sources for Outcomes: Central Statistics Office and Eurostat.
Previous forecasts for 2010-2012: Forecasts made at the end of the previous year (2009 and 2010, respectively, for 2010, 2011and 2012)
Current forecasts for 2013-2015 as of March 2013 or the most recent period.

Table 3.2 and Table 3.3 compare the NERI projections with those of other agencies. Among agencies that previously projected GDP growth above 1% for 2013 there has been a small downward revision, while those that projected below 1% have revised upwards, showing a convergence. Though the NERI's 2014 projections are more pessimistic than the other agencies, the 2015 projections are broadly in line. With regard to unemployment (Table 3.3) NERI projections for 2013 are in line with other agencies, however the NERI is unique in projecting rising unemployment in 2014. Out to 2015 the NERI's projections are in line with those of Ernst and Young, though considerably more pessimistic than those of the Department of Finance and NCB.

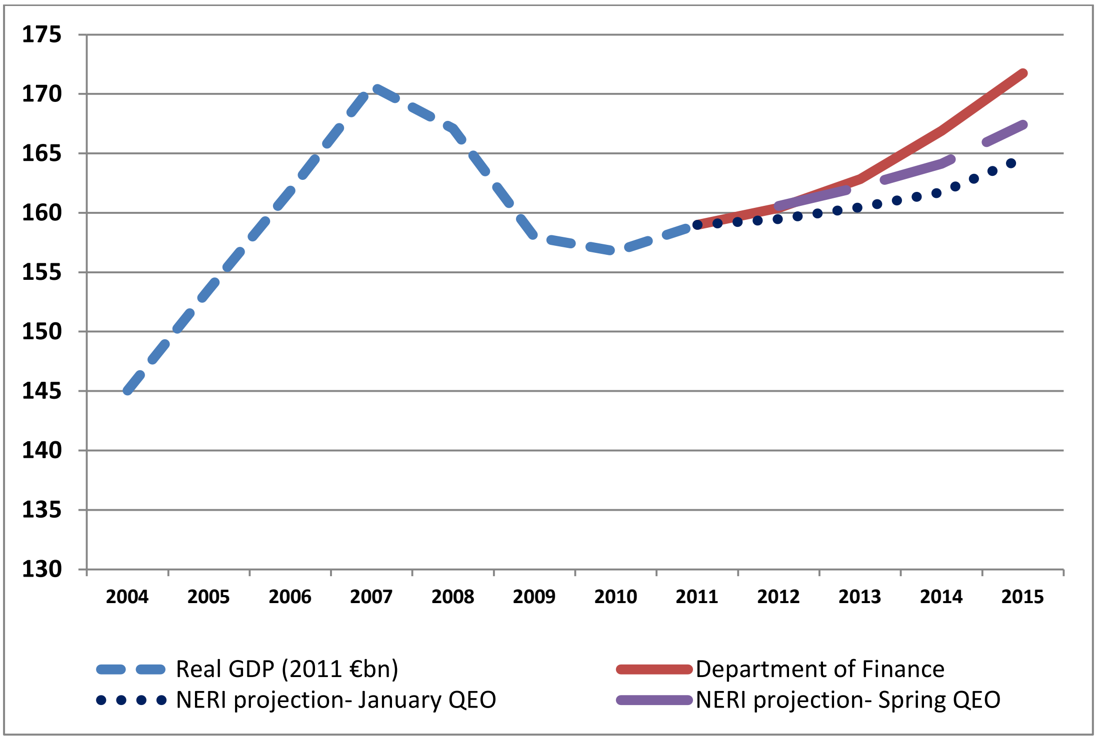
The consensus amongst the forecasters appears to be one envisaging slow to moderate GDP growth out to 2015 and continuing high unemployment.

Table 3.3 Overview of recent projections of unemployment as % labour force (Republic of Ireland)

	2010	2011	2012	2013	2014	2015
Outcomes	**13.9**	**14.7**	**14.8**			
Projections						
NERI	-	-	14.9	14.7	15.1	15.0
Department of Finance	13.2	13.2	14.9	14.6	14.1	13.1
Central Bank	14.0	13.3	14.8	14.5	13.9	
EU Commission	14.0	13.5	14.8	14.6	14.1	
IMF	15.5	13.0	14.8	14.7		
OECD	14.0	13.6	14.8	14.7	14.6	-
ESRI (QEC)	13.75	13.5	14.8	14.6	-	-
Ernst and Young	13.2	12.7	14.9	15.3	15.1	14.8
NCB	13.0	13.0	14.2	14.4	13.3	11.4

Sources: See table 3.2.
Notes: See table 3.2.

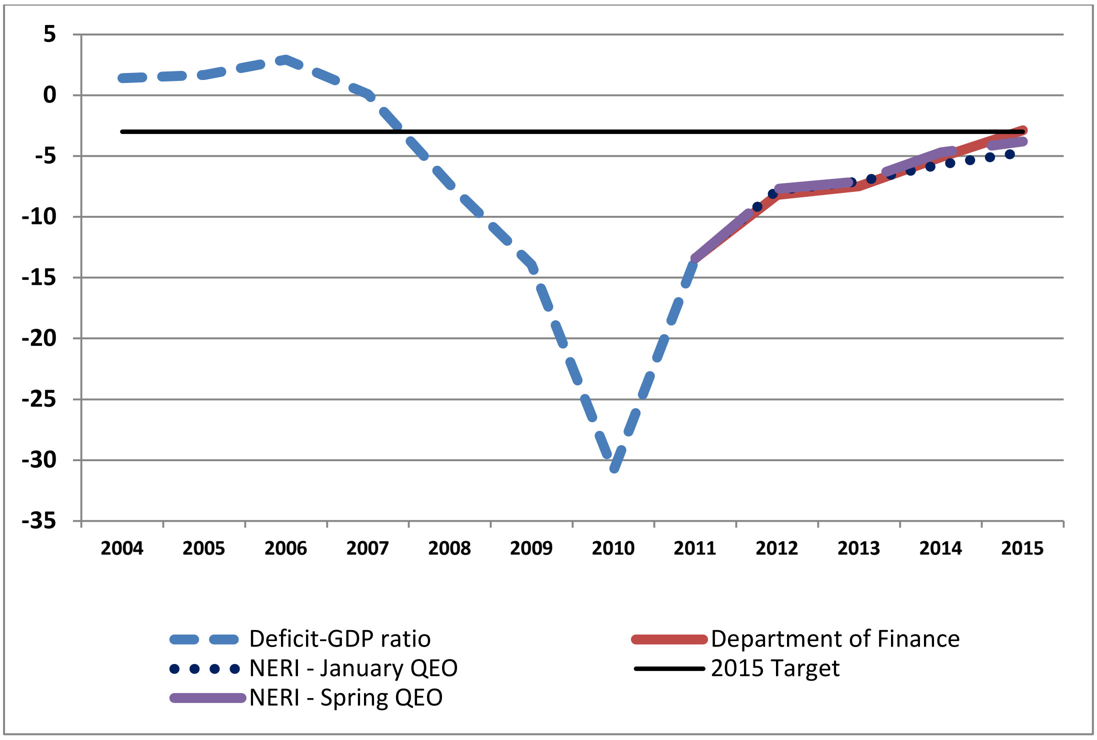
Chart 3.1 Real GDP in 2011 prices – Republic of Ireland



Source: AMECO, Department of Finance (2012astat), and NERI calculations

As can be seen in Chart 3.1, the Department of Finance expects the economy to return to 2007 levels of real output by 2015. The NERI's projections are less optimistic. The negative effect of fiscal consolidation on the domestic economy is expected to be a major drag on economic growth.

Chart 3.2 Projections of Deficit/GDP ratio – Republic of Ireland



Source: AMECO, Department of Finance (2012b), and NERI calculations

NERI also projects a gradual fall in the General Government deficit from 7.7% of GDP in 2012 to 3.8% in 2015 – see Chart 3.2. The projected 2015 outcome would still be above the 'Maastricht' target level of 3% which has been incorporated into the Memorandum of Understanding under the five-year fiscal adjustment plan agreed with the Troika in 2010.

Risks to the Republic of Ireland forecast

Economic forecasting is always beset by the uncertainties of future trends in the behaviour of various economic agents. The biggest uncertainty in regard to future economic activity is the emerging trends in major trading partner countries as well as the stability of the Eurozone and the Euro currency. Still further uncertainty surrounds future energy prices and sudden disruptions in supply, or negative movements in the Euro-Sterling exchange. The NERI is not in a position to assess the probability of such events coming to fruition except to point out that a fall in exports from Ireland would significantly turn a modest growth in GDP into a fall.

Any projection of government debt is sensitive as to whether or not an agreement can be reached with European Commission with regard to the remaining bank related element of our national debt. Though the restructuring of the promissory notes allows the Government to ease the programme of fiscal adjustment in the short-term, and allow for an expansion in domestic demand, this has yet to be announced. Such an agreement would represent a moderate positive shock. Alternatively the Government may decide to use the extra space to reduce the overall level of debt and not for stimulatory fiscal measures. Another source of uncertainty could relate to the possibility of social unrest arising from continuing pressure on incomes and high levels of debt.

Another possible source of uncertainty is that the Government's programme of fiscal adjustment may differ from that already announced. In creating these projections it is assumed that the government will implement its pre-announced plan. An alternative approach to consolidation could be based on tax increases and greater public investment (see Healy and O'Farrell, 2012). If such a policy change were to be pursued it would lead to an upward revision in projections of GDP and employment.

Northern Ireland

In this edition of the Quarterly Economic Observer, we introduce for the first time our projections for the Northern Ireland economy. Table 3.4 outlines our expectations for economic activity and employment. The NERI forecasts make use of the 'Northern Ireland Composite Economic Index' which was recently launched by NISRA (and outlined in Section 2). This index is a combination of seasonally adjusted public sector employment and deflated private sector output. Given that the Composite Index is relatively new, these projections should be treated with extra caution. The projections were generated using a VAR model which gives forecasts based on recent trends. [3]

Predicting the future is extremely difficult. The NI projections are based on historical averages of employment and the Composite Index combined with recent changes in these variables. The aim is to separate the underlying trends and patterns in employment and the Composite Index, from random irregular changes. Of course, the

[3] The model makes use of logged (levels) data for employment and the composite index, with a structural break in Q1 2010, 3 lags, and a trend (with no structural break).

random changes cannot be predicted. This is what underlies the Vector Autoregression (VAR) methodology which largely informs the NERI forecasts for Northern Ireland. Complementing these NERI projections, table 3.5 provides an overview of this and other recent economic forecasts for the Northern Ireland economy.

Table 3.4 NERI projections of Composite Economic Index and unemployment for Northern Ireland in 2013

Composite Economic Index	Employment
-1.0%	+0.4%

Table 3.5 Overview of recent projections of Economic Activity and employment/unemployment (Northern Ireland)

	2011	2012	2013	2014	2015
Outcome	0.0	-	-	-	-
Economic Activity					
NERI (NICEI)	-	-	-1.0	-	-
Ernst & Young (GVA)	0.5	-1.0	0.5	2.0	2.1
PWC (GVA)	0.3	-0.3	04	-	-
Oxford Economics (GVA)	-	-0.8	0.4	1.7	-
Employment *(year on year change)*					
NERI	-	-	+0.4	-	-
Ernst & Young	-	-1.1	0.1	0.4	0.6
Unemployment *(% Labour Force)*					
Oxford Economics	7.3	7.6	7.8	-	-
Ernst & Young	7.4	7.8	8.5	8.2	7.9

Sources: Ernst and Young: Economic Eye, November (2012); PWC: Economic Outlook March (2013); Danske Bank/Oxford Economics (2013, 2012)

Notes: NICEI = Northern Ireland Composite Economic Index
GVA = Gross Value Added
GVA differs from GDP by the difference between taxes and government subsidies.

Historically a positive level of economic growth might be expected to bring about growth in employment. However, both the UK as a whole and Northern Ireland are showing an 'employment paradox', where employment is growing despite weak or declining GDP growth. Projections of unexplained phenomena are exceptionally difficult. It is unclear whether the paradox represents a fundamental shift in the structure of the UK economy (e.g. towards more labour intensive but lower value added sectors) or whether it represents an unsustainable imbalance in the economy (e.g. labour hoarding). Either way the employment paradox may be viewed as temporary. If the paradox is due to an unsustainable imbalance one might expect an increase in unemployment. However, if it is due to a move to more labour intensive sectors, once this restructuring is complete a more normal relationship between employment and Gross Value Added (GVA) can resume, without losses to employment.

Nevertheless, the NERI modelling suggests that this paradox may continue, with a decline in NICEI (-1.0%) and employment growth (0.4%)[4]. These projections are in contrast with other forecasters of the NI economy. Ernst & Young forecast a small increase in employment (0.1%) and also a rise in output (0.5%). It should be noted that their projections pre-date the availability of the new Composite Index, so the projections are not directly comparable. Looking out to 2015, Ernst & Young expect slight growth in employment and that unemployment will dip below 8% in 2015. They also expect GVA growth of 2.1% by 2015, suggesting an end to the employment paradox.

Risks to the Northern Ireland forecast

As with the Republic of Ireland the main risks to forecasts of future economic activity in Northern Ireland are likely to arise from external events which are difficult to assess in terms of likelihood.

As mentioned earlier the Northern Ireland Composite Economic Index is a new series published recently and still subject to revision. The main advantage of the NICEI is that it provides much more up to date data for output. Gross Value Added is the closest proxy to GDP for Northern Ireland and is available for 2011 as an annualised figure only. This is the index used by other forecasters and this should be borne in mind before any direct comparisons are made.

[4] This will be discussed further in forthcoming NERI *Research In-brief* document on the Productivity Paradox

4 Youth Unemployment in Northern Ireland

4.1 Introduction

The rate of unemployment and under-employment has grown sharply in Northern Ireland as in the rest of the United Kingdom and on the island of Ireland. Young people have been particularly badly hit by the recession as new jobs fail to materialise especially in some of the more traditional destinations for school leavers and higher education graduates. Whatever work young people find, it is often of a transitory, precarious and poor quality in terms of experience, training and pay. The lack of effective measures to counter the growth in unemployment and especially youth unemployment is leaving a generation behind.

Rates of youth unemployment remain perilously high and that situation poses many risks to Northern Ireland economically and otherwise. In Northern Ireland

- 24,000 young people aged 18-24 are unemployed – this is equivalent to 23.8% of the labour force in this age group[5]
- 34,000 or almost 20% of 18-24 year olds are 'not in employment, education, or training' [6]
- the number of young persons between the ages of 18 and 24 claiming welfare benefit in January 2013 was over 18,000 [7]

Youth unemployment has far-reaching personal, community and societal consequences. It is far from certain whether a recovery in the economy will be sufficient to reverse it.

The pursuit of fiscal austerity by the UK government has compounded the problems of stagnant demand as consumer confidence and purchasing power has been hit since the onset of the current crisis. Any strategy to address unemployment whether at UK-wide level or Northern Ireland must, in the first place, address the root causes of economic recession. Even though the recession was precipitated by a financial crisis and credit

[5] Labour Force Survey, Unemployment by Age (NISRA, 2013)
[6] Eurostat code EDAT_LFSE_22 - Young people aged 18-24 not in employment and not in any education and training, by sex and NUTS 1 regions (NERI, 2013)
[7] ONS Claimant Count by Age. JSA claimant count records the number of people claiming Jobseekers Allowance (JSA) and National Insurance credits at Jobcentre Plus local offices. (ONS, 2013)

squeeze in some of the major world economies the problem of stagnation and high levels of unemployment have been compounded by the pursuit of 'co-ordinated' fiscal austerity across many European Member States. No amount of supply-side measures or youth employment targeted initiatives can resolve the crisis in youth unemployment without a plan to rebuild European economies including regional economies such as Northern Ireland (Mac Flynn, 2013). This task – which is as much international, European and UK-wide as it is local and regional – needs to be undertaken and pursued in the appropriate political and democratic fora.

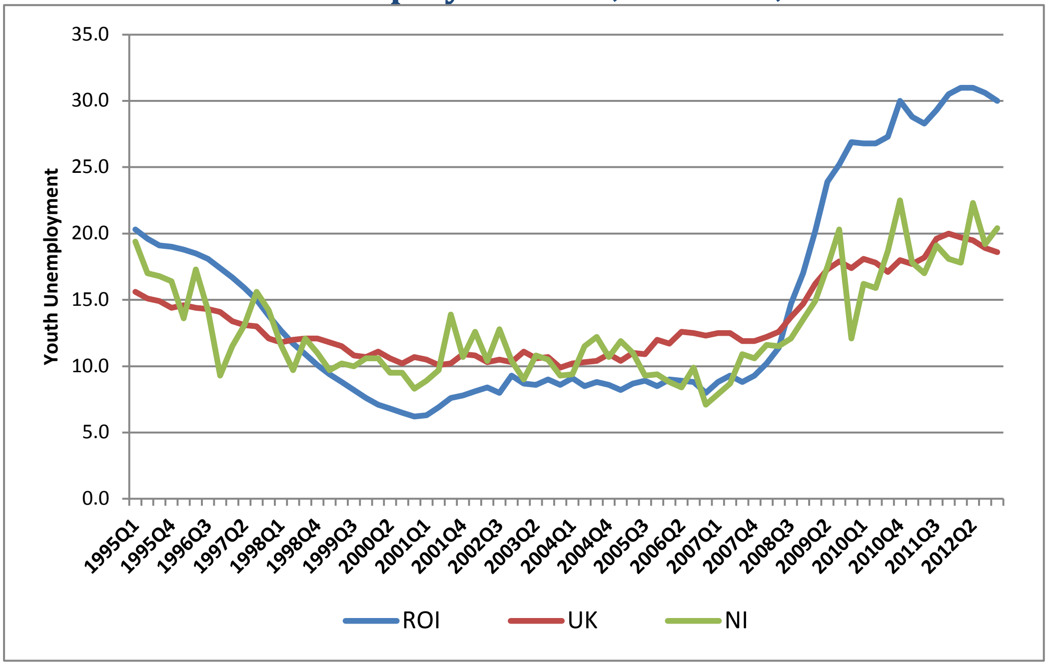
This section of the Observer focuses on the extent and make-up of youth unemployment in Northern Ireland and possible policy responses – especially in the context of devolved government actions. Sections 4.2 outlines the background to the increase in youth unemployment as well as the different types of youth unemployment (e.g. structural and cyclical) while section 4.3 highlights some risks and consequences likely to flow from high levels of long-term youth unemployment. Finally, section 4.4 sketches out a number of initial policy approaches that could help address some of the problem posed by long-term unemployment[8].

4.2 Youth Unemployment

Youth unemployment has increased dramatically across Europe. In the Republic of Ireland the rate is 30% (NERI, 2013). The rate in the UK and Northern Ireland is somewhat lower, although the consequences of youth unemployment can be more acutely felt in a post conflict society such as Northern Ireland. As can be seen in chart 4.1 youth unemployment levels began rising as early as 2005 in the UK and increased in line with overall unemployment during the recession. Some point out that a large component of youth unemployment may not be explained by cyclical downturns, and thus require specific attention (Pertongolo & Van Reenen, 2011, ACEVO, 2012 and House of Commons, 2012).

[8] This work draws on a forthcoming NERI Research in Brief

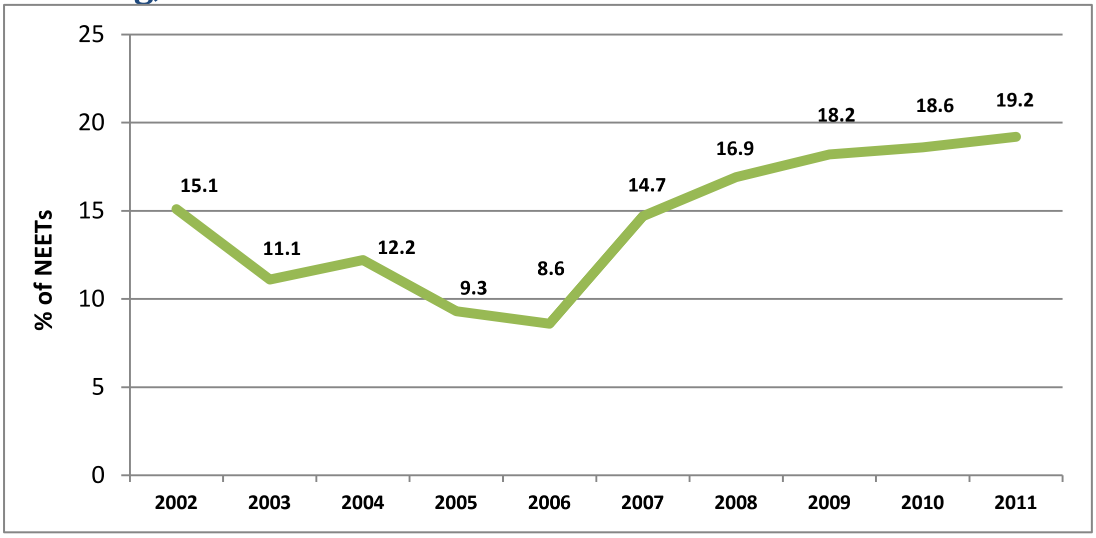
Chart 4.1: Youth Unemployment UK, ROI & NI, 1995-2012



Source: Eurostat, ONS & NISRA
Note: Youth Unemployment - UK & NI – all those 18-24 unemployed. ROI all those under 25 unemployed

Another way of measuring youth unemployment or exclusion from the labour market is to refer to the rate of young people who are 'not in employment, education or training' (NEET). This group includes unemployed but also other vulnerable young people who are neither 'economically active' or currently in education or training. In the NERI's Quarterly Economic Facts (NERI, 2013), indicator 2.7 shows the rate of NEET's in Northern Ireland up to 2011 when it reached 19.2%. Using recent census of population statistics, we estimate that there are currently in the region of 34,000 young persons between the ages of 18 and 24 who are not in paid work and are not undergoing education or training. In Northern Ireland the problem of NEETs has increased during the recent crisis, but as Chart 4.2 shows the increase predates the onset of recession.

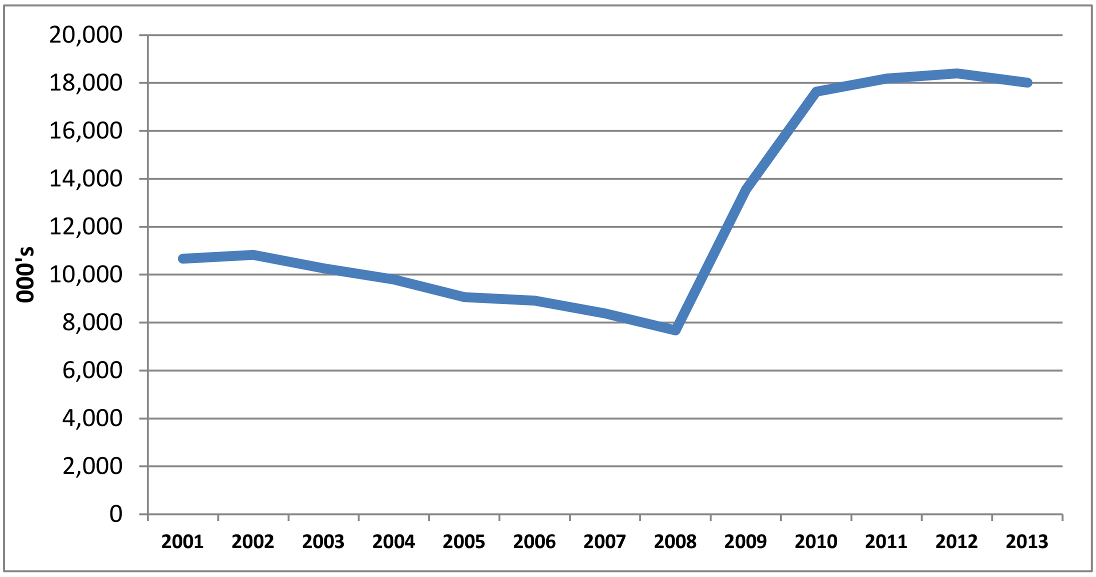
Chart 4.2: Young people Not in Employment, Education or Training, Northern Ireland 2002-2011



Source: Eurostat
Note: Young people aged 18-24 not in employment and not in any education and training

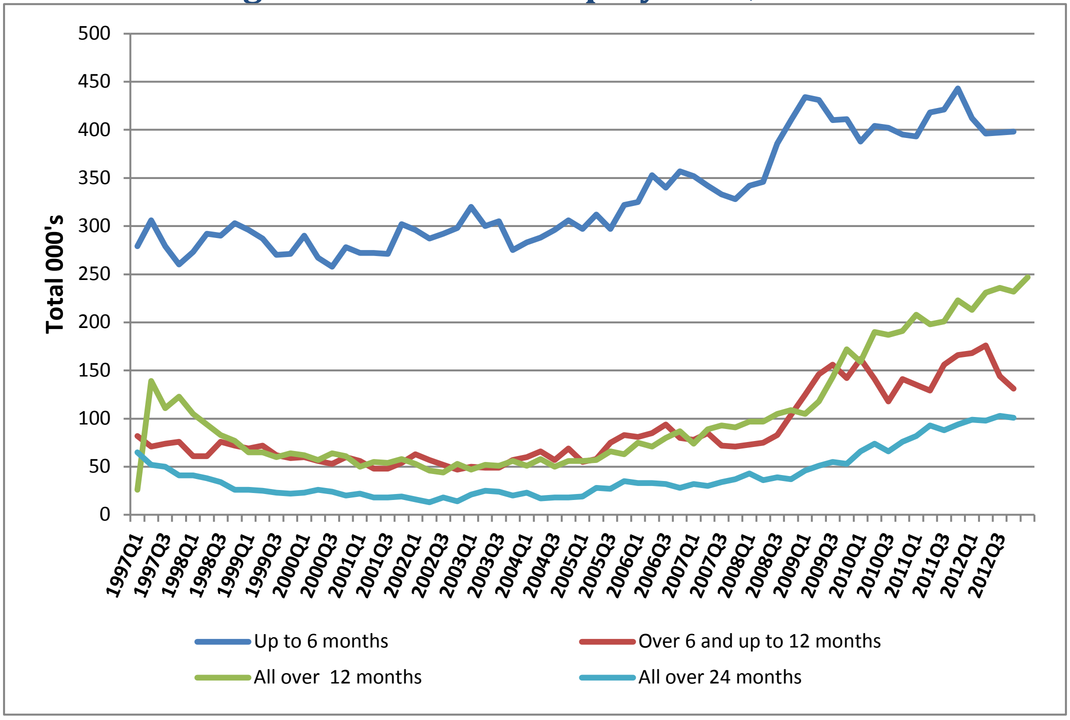
The Claimant Count is another measure of youth unemployment which shows the number of young people claiming Job Seekers Allowance. This figure is usually lower than overall unemployment as not all those who are unemployed claim benefits straight away, but it is easier to identify trends in these figures, such as duration of claims. The numbers claiming have doubled since 2008.

Chart 4.3: Youth Claimant Count (aged 18-24), Northern Ireland 2001-2013



Source: ONS
Note: Young people aged 18-24 unemployed and claiming Job Seekers Allowance

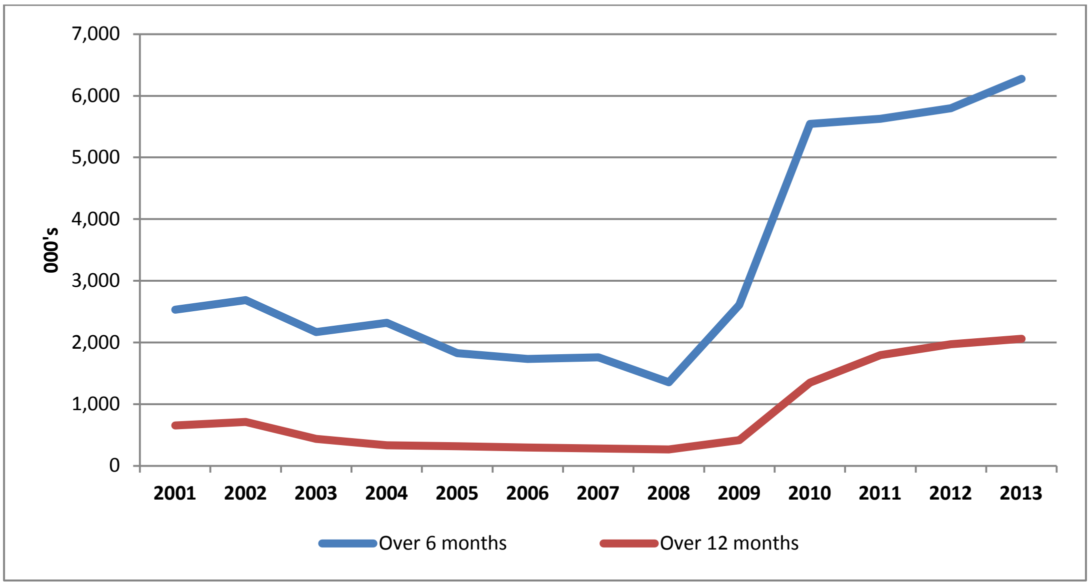
Chart 4.4: Long Term Youth Unemployment, UK 1997-2012



Source: ONS
Note: Youth Unemployment is those in the 18-24 age group unemployed

As many other reports have also highlighted long-term youth unemployment poses the greatest risk to potential future earnings and employment. Figures for the UK shown in chart 4.4 show that unemployment over 12 months and 24 months have increased very significantly. In Northern Ireland, the increase in long term youth unemployment can be seen in the figures for those claiming job seekers allowance for over 12 months. These figures are quite worrying; the increase between 2007 and 2012 was 235% for claimants over 12 months and 635% for those claiming over 6 months.

Chart 4.5: Long Term Youth Claimants, Northern Ireland 2001-2003



Source: ONS

Note: Long term youth Claimant Count for NI is measured is those under 25 age group unemployed and claiming Job Seekers Allowance

This is most concerning as it confirms a shift towards persistent unemployment among certain young people and the significant risk of a hysteresis effect. This is where people become detached from the labour market for so long that it becomes harder and harder to regain employment, opening up the possibility that they may never return.

Some part of the unemployment is directly related to the impact of the recent recession while other parts are part of what economists refer to as structural or cyclical unemployment. Frictional unemployment refers to unemployment among those who are between jobs. Cyclical unemployment relates to the unemployment that occurs in tandem with fluctuations of the business cycle. It rises and falls as economic activity changes over the business cycle. Structural unemployment is difficult to estimate precisely and is hard to eliminate as it refers to deeper structural shifts in the economy. An example of such shifts is when automation occurs in a manufacturing setting with the effect of displacing workers. Economic recovery will only impact on cyclical unemployment. Unemployment deemed to be structural requires a different approach to that of cyclical unemployment. Concentrated and focused attention on skills needs and bottlenecks in demand for particular types of labour is required (Mankiw, 2002 and Gartner, 2006).

While an economic recovery should deliver employment back to those who lost jobs, the outcome for those who entered the labour market and were unemployed during the recession is much less clear. This cohort will lack experience of employment when seeking jobs, and will be competing with those who were previously employed. The period when a person first enters the labour market is critical stage of a career and the period of greatest vulnerability. As a result, while economic recovery may bring increased employment opportunities, the employability and economic potential of a young unemployed person may have become permanently damaged (Cockx & Picchio, 2011 and Arulampalam, Gregg & Gregory 2001). Policy must be focused on securing some kind of employment useful experience or training so that their future career is not blighted by an unlucky period in which they entered the labour market

Structural unemployment impacts on young people who may have trained for work in construction related occupations or who entered employment for a period in the construction industry. Young people who left formal education for apprenticeships or further training now find themselves lacking employment opportunities even if the economy were to recover. Many others in this cohort would find that traditional routes to employment no longer exist and nothing has been created in their place. The experience can be identified among young male workers in post-industrial cities in the UK. In Belfast this kind of change was evident in the demise of employment in the shipyards and related industries in the past. While new industries may replace these, the infrastructure to connect the local labour market to emerging new industries remains a key structural problem. Recent studies have remarked how recent structural changes in the economy, including the disappearance of entry-level jobs in many sectors will have adversely affected young people (Balaram, Cominetti, Jones, Lee & Sissons, 2012). When these entry-level positions do exist, low-skilled young people often find themselves competing with graduates for jobs. While some industries have declined others have emerged to partly replace them. Clear pathways into employment in high-skilled knowledge economy sectors do not exist currently (Keep, 2012).

If a higher education level qualification no longer guarantees employment as it did in the past, outcomes and opportunities for those who do not go on to higher education have become even more precarious. Recent studies have highlighted the deteriorating connections between education and unemployment, particularly for those lower skill levels. In Northern Ireland, the pre-existing high rate of NEETs is linked to this disconnection between employment and education and how graduates are now competing for low-skilled jobs (PWC 2012 & DEL 2010). Research for the Association of Chief Executives of Voluntary Organisations, identifies a lack of consistency and coordination in the vocational training, where high quality training courses are not being valued by employers because of a tainted brand (ACEVO 2012). However, research by the UK Commission for Employment and Skills points to the lack of experience as one of the main reasons employers will not take on a young person. The lack of experience seems to be an acute problem for NEETs with 48% of this cohort in the UK attempting to enter the labour market with no work experience (UKCES, 2012). It is clear that while the recession may have done further damage to these connections the problem predates the current crisis.

4.3 Consequences of Youth Unemployment

All unemployment is wasteful and unnecessary. The cost of youth unemployment may have particularly severe longer-term costs. These costs come at an individual level through reduced well-being and poorer career outcomes, but also to the economy as a whole through persistently higher welfare spending and lost potential output.

A commission on youth unemployment has conservatively estimated that the net present value of the cost of youth unemployment to the HM Treasury will be £28bn over the next decade (ACEVO, 2012). The costs to Governments are in lost tax revenues and increased spending but there are non-monetized costs to be considered as well. Unemployment can do lasting damage to individual well-being and happiness (Clark and Oswald 1994) and is found to be a major source of unhappiness (Oswald, 1997). Levels of unhappiness have been found to be greatest among the recently unemployed (Ahn, Garcia & Jimeno, 2004).

The cost of youth unemployment does not disappear once a young person finds a job. The effects of this remain with them throughout their career. Research at the University of Bristol (Gregg & Tominey, 2004), found that youth unemployment is associated with persistent unemployment over a long period of time as well as lower wages when in employment. It found that those who were aged 18-24 in the initial year of the study experienced close to 15% lower wages after 20 years. Wage scar is calculated by tracking employment and wage outcomes for people who have been affected by unemployment in their youth and those who have not. When individual factors are excluded, the wage on average is 12-15% lower for those who were unemployed in their youth compared to those were not. Other empirical evidence indicates that spells of youth unemployment are associated with a higher probability of being unemployed at the age of 50 (Blanchflower & Bell, 2010).

Just as there are significant labour market consequences for young people, the personal and non-monetary effects of unemployment can be both initially devastating and potentially long lasting. Longitudinal surveys have found persistent high correlation between youth unemployment and adverse health effects. These included alcoholism and smoking as well as psychological and somatic symptoms particularly in males. Most worrying are the studies that have found a strong relationship between youth unemployment and mortality up to 24 years after initial registration (Hammarström & Janlert, 2002). Historical research has found that while suicide rates are associated with the overall level of unemployment, the relationship is strongest in young males, and there is evidence of this in the previous recession in the 1930's (Morell, Page and Taylor, 2001). Evidence from the most recent recession has shown that English regions with the biggest increases in unemployment have seen the largest increases in suicide (Barr, McKee, Scott-Samuelson & Stuckler, 2012). It has also been highlighted that incidence of mental health problems are significantly higher among those from disadvantaged backgrounds in Northern Ireland, who are also most likely to become NEETs (Conlon, Gray, & Horgan 2010). These statistics are particularly concerning on the island of Ireland where there has been a significant increase in suicide rates, particularly among young males.

Outward migration of young people has often been a type of 'natural escape valve' to relieve pressure on labour markets in both parts of Ireland. This option, while present for some, is highly constrained by the lack of job opportunities in many of the traditional migration destinations for previous generations. Moreover, the loss of 'human capital' to families, communities and enterprises exacts a heavy cost both in the short- and long-term. While migration may be viewed as a lesser evil than unemployment it is not an acceptable solution whether by default or by implicit policy facilitation.

For Northern Ireland as a post-conflict society, a situation where large numbers of young people are detached both from the labour market and from training or education should be a major concern for policy makers. Civil disturbances have the capacity to escalate to more serious conflicts if a cohort of young people feel socially excluded and marginalised in society.

4.4 Policy Responses

There have been significant increases in long-term youth unemployment and the policy responses internationally have been diverse and success rates have been varied (ILO, 2012 and Nelson & O'Donnell 2012).

Currently Northern Ireland operates the 'Steps to Work' programme which is a general labour activation programme, and its 'First Start' subdivision is designed specifically to help those who unemployed between the ages of 18-24. The scheme is available for those who have been unemployed and receiving job seekers allowance for more than 6 months. The scheme offers incentives to employers to offer young people permanent jobs. The 'Steps to Work' scheme was recently revamped under the new title of 'Steps to Success', which has yet to be launched in full but aims to refocus current programmes and improve the evaluation of outcomes. The 'Youth Employment Scheme' or YES is another programme which offers work experience and placements to applicants with the emphasis on workplace-based training. It also offers a subsidy to employers willing to hire a young person if they provide adequate training over the defined period. Northern Ireland also operates the Programme-led Apprenticeship for 16-18 year olds which allows them to collect non-means tested educational maintenance allowance. This programme took over some functions from the Training for Success scheme which provided pre-apprenticeship qualifications for 16-18 year olds. The Apprenticeship NI programme caters for those aged 16 and over. The Department for Employment and Learning has announced a major review of all apprenticeship schemes with a view to significant expansion (NI Assembly, 2012).

The Department for Employment and Learning have also launched a NEET strategy "Pathways to Success" in conjunction with other measures. For those 18-24 unemployed the strategy provides work experience placements and training placements in addition to employment subsidies. Significantly, the employment subsidies will be conditional on workplace based training being provided which is a welcome policy innovation. For NEETs the strategy focuses on plans for the community and voluntary sector to engage disaffected young people and more help for those in the most disadvantaged families to connect with the labour market. Money is also allocated to an innovation fund that will propose new policies to re-engage NEETs in the workforce. Funding for these programmes is being provided through the European Social Fund. Similar efforts on the issue of NEETs have been made in conjunction with the Princes' Trust in recent years.

The policy response of the Department for Employment and Learning to the crisis of youth unemployment has improved greatly in the last number of years as evidenced by the range of schemes mentioned. The schemes have also become more focused taking into account different degrees of detachment from the labour market and the need for tailored individual solutions. We propose to build on this existing work, but go further to implement a youth guarantee.

A guarantee for young people would involve:

- Guaranteed training places in school, further education or higher education.
- Employment or on-the job training appropriate to the skills and potential of the individual
- Strong emphasis on and provision of, literacy, numeracy and ICT skills for trainees.
- Coordination of employment and training services, including cooperation with local based social economy projects and the community and voluntary sectors

It is vital that it would avoid the following:

- Provision of low-quality work experience which adds little by way of skills and useful experience to individuals
- Replacement or displacement of older workers by young trainees at lower wages
- Use of compulsion to force young people off benefits if they do not accept a job offer or training place

While many of the objectives listed above are contained in existing schemes, the guarantee seeks to move policy to a more proactive approach. Instead of designing schemes to mitigate the worst outcomes of youth unemployment, policy would focus on ameliorating problems before they become imbedded. A youth guarantee offers a kind of vaccine to some of the worst outcomes rather than treating them as they arise. As with all vaccines, cost may be greater in the short-term but significantly better outcomes in the long-term can stem contagion and reduce on-going costs. The guarantee would also improve existing policies in important ways.

Current programmes wait too long to make an intervention.

When dealing with youth unemployment, international evidence shows that early intervention is the key to ensuring better outcomes. While most existing programmes stipulate that a young person must be unemployed or must be claiming unemployment benefit for of period time, many of the most successful schemes have dropped this requirement. Recent studies have examined the situation in Denmark where activation measures begin immediately for 18 and 19 year olds (Cominetti, Crowley, Guilford & Jones, 2013). Research on youth guarantee schemes in Sweden and Finland also highlights the need for early if not immediate intervention (Mascherini, 2012). The guarantee schemes there are similar, but both provide individually developed action plans followed by the guarantee of a job or training. In Finland the scheme required young people to claim benefits for three months before applying. Following an assessment of the scheme, this waiting period has been all but eliminated. In Finland in 2011 nearly 84% of all young unemployed people received a successful intervention within three months of registering as unemployed. In Sweden the number of young people taking part in the programme increased fivefold over two years. In Finland a young person now becomes entitled to help from the moment they register as unemployed and there are also plans to eliminate waiting times in Sweden.

The First Start scheme in Northern Ireland requires 6 months unemployment, while the "Work Programme" in the UK requires 9 months. Clearly the rationale for these waiting periods is that a young person should be given the opportunity to help themselves before receiving assistance. Indeed one of the UK government's main objections to adopting the EU Youth Guarantee Programme (EC, 2012) is that it stipulates intervention too early. They argue that the majority of 18-24 claimants move off benefits within 3-6 months, and that they only need to target intervention for those most at risk (DWP, 2011). However this approach takes no account of the fact that young people may move off unemployment benefit into inappropriate or precarious employment before becoming a claimant again. This revolving door between benefits and low paid work is a situation not covered by current policy intervention, and so people in this situation are more likely to slip through the net entirely (Davies, Howe, Peck & Ravenhall, 2008 and ACEVO, 2012).

Moreover there is no barrier to state help complementing the efforts of a young person to find employment on their own initiative. Too often in the past, employment or training courses have come with deterrence mechanisms to punish any participants not fully engaged in their programme. This usually includes loss of unemployment benefits for a period of time. This may also prevent young people continuing their own job searches, sometimes referred to as a "lock-in effect" (Gregg, 2009 and OECD, 2005). These studies found evidence that job outcomes for people on training and placement programmes were inferior to those not enrolled in any programme. The solution is a mix of both search and placement to avoid eliminating individual effort. This may imply that part-time placements are better for some than others. This illustrates the need for individually customised interventions and supports.

Employment opportunities beyond subsidies

While training schemes are a vital intervention for young unemployed persons, they are not of themselves sufficient. In some circumstances young people enter onto a several courses and training schemes but have no paid employment experience to make use of it. If a young person has received several training courses but no offer of employment, government should guarantee this person a paid job if for no other reason than to safeguard the investment the state has already made. A guarantee of employment would avoid the situation where claimants go through training and placements only to return to benefits directly afterward.

The UK government introduced the 'Future Jobs Fund' (FJF) youth guarantee programme in early 2010. Its aim was to create jobs that were both genuinely additional as well as beneficial to the community (DWP, 2012). This programme was replaced by the "Youth Contract" in 2011. It subsidises employers to hire young people. The Youth Contract relies more on the private and voluntary sectors for job creation. ACEVO (2012) reported how some young people felt that work under the Youth Contract provided little or no training and were used by employers as a type of "free labour". Outcomes under the Future Jobs Fund were significantly positive because employment opportunities were created for those who could not be catered for in the private sector. Most criticisms focused on the cost of creating employment rather than subsidising it but this analysis excludes the added benefit to the community of these employment places and the forgone cost that arises from significantly better outcomes.

While a guarantee scheme would endeavour to find paid work for young people, it should not create more problems by displacing existing workers. If the private sector can provide a position, there should be a requirement that they invest in the young person by providing on the job, value added training as in exchange for subsidised labour. If no appropriate employment opportunities arise the FJF shows that creating additional positions can have real impact for both the young unemployed person and their community (Bivand, P, L Gardiner, D Whitehurst & T Wilson 2011).

Youth Guarantee as a stepping stone to structural reform

Much of the international evidence on youth unemployment programs suggest that even the most successful programmes succeed in mostly reaching those recently unemployed (Cominetti, Crowley, Guilford & Jones, 2013). While this is necessary, it will not be sufficient to make real inroads into youth unemployment and more importantly NEETs. To achieve this structural problems outlined earlier must be addressed. These include the disruption or weakening of pathways to employment, the lack of a sufficiently broad range of vocational training courses and the absence of entry-level positions.

The experience of some European States such as Austria, Germany and the Netherlands in regard to dual training which combines apprenticeship training, on-the-job experience and off-the-job classes is worth exploring. While such approaches may not be readily adaptable in other countries they do offer a combination of training and work experience which has been effective in keeping youth unemployment much lower than elsewhere.

A youth guarantee scheme should be the first step toward developing a new infrastructure for those transitioning from education to employment. If economic recovery emerges, many of those young unemployed will have been assisted by the youth guarantee to re-enter the labour market without fear of stigma or reduced opportunity. The legacy of this scheme however should be to eliminate structural youth unemployment, and move toward a model like that in Germany where a proper infrastructure between education and employment prevents young people from falling off the radar. This also complements the need for up-skilling across the economy (Resolution Foundation, 2012).

How much?

Estimates made by the European Foundation for the Improvement of Living and Working Conditions (2012) in respect of young people who are classified as NEETs ('Not in Employment, Education or Training') indicates a total annual cost in 2008, including public finance costs and forgone earnings, of around 1% of GDP in most EU States. The estimate was 1.75% for the Republic of Ireland and 0.75% for the UK. Both of these figures are likely to be somewhat higher in 2013. Given the higher rate of NEETs in the overall youth population and total population compared to the rest of the UK in the case of Northern Ireland the cost is likely to be very approximately in the region of £300 million or 1% of Gross Value Added in Northern Ireland. Previous research calculated the cost of youth unemployment in Northern Ireland in 2009 was £250m, given the increases over the last four years particularly long-term rates, £300m cost today seems a conservative estimate (NI Assembly, 2009). The recent package of measure announced under pathways to success amounted to £25m with the total NI youth unemployment spending coming to £42m[9] over the next three years.

A number of steps may be considered:

- Funds allocated for young unemployed people over the next number of years should be frontloaded to give a stimulus to the jobs market. Money should be spent now when the labour market is at its weakest, not in later years when the labour market would be expected to improve.
- Funds assigned to other social problems that affect young people could be diverted toward a guarantee. Efficiencies could be gained by combining all schemes that offer apprenticeships, training courses or work placements
- The Northern Ireland Executive should co-ordinate with other regions of the UK experiencing high levels of youth unemployment to leverage funding from the European Social Fund (ESF). The ESF will be allowed to access up to €30bn

[9] http://www.northernireland.gov.uk/index/media-centre/news-departments/news-del/news-del-october-2012/news-del-251012-new-initiatives-will.htm

in unallocated funds to tackle youth unemployment[10]. The Youth Employment Initiative announced by the European Commission will have a budget of €6bn which is aimed mostly but not specifically at member states with youth unemployment over 25%. The rate currently is 23.8% but as a post conflict society Northern Ireland could be considered a priority under this scheme[11].

A youth guarantee would cost additional money. However, some of the initial cost will be recouped in lower social costs in the medium-term. The cost of inaction is also immense. The executive will have to meet the cost of this crisis at some point. We argue that money is better spent making investment in young people now, rather than face potentially larger costs in the future.

[10] http://ec.europa.eu/social/main.jsp?catId=1006
[11] http://europa.eu/rapid/press-release_IP-13-217_en.htm

5 Conclusion

Both economies on the island of Ireland face a difficult and uncertain future. Two contrasting trends have emerged. In the Republic of Ireland the outlook for growth in GDP and employment appears very uncertain and troubling. Assuming no major new external shocks, recovery is likely to be slow and very limited. Conversely in Northern Ireland the labour market is set to preform somewhat better, while output growth remains heavily constrained. Jobless growth in the Republic and the productivity paradox in Northern Ireland pose great challenges to real and sustainable economic recovery.

In this document, we have also highlighted the real crisis of youth unemployment in Northern Ireland. The consequences of youth unemployment for the individual and society are immense. At the individual level, unemployment leaves scars both mentally and economically. For society the cost is wasted potential and loss of social cohesion. The latter cost could be greatest for Northern Ireland. Policy responses need to recognize how young people have been adversely affected by the recession and how many of them were ignored long before it. We see the youth guarantee model as the best way of avoiding both the short-term and long-term costs of this crisis.

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7 Appendix

Appendix 7.1. Overview of key economic trends – Republic of Ireland

	2008	2009	2010	2011	2012
Total Expenditure					
Consumption €m	94,153	83,155	82,060	81,308	81,984
Investment: private and public €m	39,324	25,601	18,745	16,112	16,463
Government current spending €m	30,482	29,213	26,170	25,410	24,679
Exports €m	150,181	146,369	157,810	166,791	177,134
Imports €m	133,877	120,352	128,326	131,875	163,595
Domestic Demand €m	163,628	136,479	126,422	123,056	123,047
Total Income					
GDP €m	178,882	161,275	156,487	158,993	163,595
GNP €m	153,565	132,911	130,202	127,016	133,403
Income from Agriculture €m	2,705	2,064	2,555	3,248	n/a
Income non-Agriculture: Wages €m	80,960	73,452	68,696	67,765	n/a
Income non-Agriculture: Other €m	56,000	50,768	54,443	58,056	n/a
Employment					
Labour Force	2,300,100	2,242,400	2,196,700	2,173,700	2,165,800
Labour Force Participation Rate %	64.2	62.3	61.0	60.4	60.2
Employment	2,136,400	1,953,600	1,886,100	1,845,600	1,841,300
Employment full-time	1,735,300	1,530,800	1,459,700	1,411,300	1,395,000
Employment part-time	401,100	422,700	426,400	434,300	446,300
Underemployment	95,200	112,900	112,500	140,800	147,600
Unemployment	163,700	288,900	310,600	328,100	324,500
Unemployment %	7.1	12.9	14.1	15.1	15.0
Long-term Unemployment	42,000	80,600	152,600	191,700	193,000
Long-term Unemployment %	1.8	3.6	6.9	8.8	8.9
Migration					
Immigration	113,500	73,700	41,800	53,300	52,700
Emigration	49,200	72,000	69,200	80,600	87,100
Net Migration	64,300	1,600	-27,500	-2,7400	-34,400

	2008	2009	2010	2011	2012
Public Finances					
Total General Gov. spending €m	77,009	78,500	103,427	76,536	n/a
Total General Gov. revenue €m	63,853	56,020	55,120	55,415	n/a
General Gov. Balance €bn	-13.2	-22.5	-48.3	-21.1	n/a
General Gov. Gross Debt €bn	79.6	104.6	144.2	169.2	n/a
General Gov. Gross Debt % GDP	44.5	64.9	92.2	106.4	n/a
Earnings and Prices					
Average earnings € per week	696.72	699.1	693.7	687.67	691.93
Average earnings % change	n/a	0.3	-0.8	-0.9	0.6
Private sector av. earn. % change	n/a	3.6	-2.4	-2.5	1.0
Public sector av. earn. % change	n/a	-2.4	-0.8	0.7	1.2
Inflation CPI %	4.1	-4.5	-1.0	2.6	1.7
Inflation HCPI %	3.1	-1.7	-1.6	1.1	2.0
Inequality and Poverty					
Gini coefficient	30.7	29.3	31.6	31.1	n/a
Quintile ratio	4.6	4.3	4.9	4.9	n/a
Relative poverty %	14.4	14.1	14.7	16	n/a
Consistent poverty %	4.2	5.5	6.3	6.9	n/a
Deprivation rate %	13.8	17.1	22.6	24.5	n/a

Sources: CSO Quarterly National Accounts; CSO National Income and Expenditure; CSO Quarterly National Household Survey; CSO Population and Migration Estimates; CSO Earnings and Labour Costs; CSO Consumer Price Index; CSO SILC Reports; and Eurostat online database.

Notes: Earnings and labour market data are for Q3 in all years.
Domestic Demand is Total Domestic Demand.
National accounts data reported at current market prices.
Underemployment calculation - new series from 2008.
Total Expenditure and Total Income data for 2012 are preliminary figures.

Appendix 7.2 Overview of key economic trends since the onset of the current economic crisis – Northern Ireland

	2008	2009	2010	2011	2012
Total Expenditure					
Personal consumption £m	-	-	-	-	-
Investment: private and public £m	-	-	-	-	-
Government consumption £m	-	-	-	-	-
Exports £m	6,199	5,143	5,299	5,733	-
Imports £m	5,570	5,028	5,210	5,532	-
Domestic Demand £m	-	-	-	-	-
Total Income					
Gross Value Added £m	28,607	27,969	29,155	29,870	-
GNP £m	-	-	-	-	-
Income from Agriculture £m	306	323	330	-	-
Income non-Agriculture: Wages £m	-	-	-	-	-
Income non-Agriculture: Other £m	-	-	-	-	-
Employment					
Labour Force	821,000	810,000	835,000	862,000	871,000
Labour Force Participation Rate	59.9%	58.5%	59.9%	61.2%	61.4%
Employment	786,000	752,000	777,000	799,000	804,000
Employment full-time	610,000	575,000	597,000	609,000	596,000
Employment part-time	170,000	177,000	174,000	189,000	196,000
Underemployment	18,000	27,000	25,000	33,000	42,000
Unemployment	34,000	58,000	58,000	62,000	67,000
Unemployment rate %	4.2%	7.1%	7.0%	7.2%	7.6%
Long-term Unemployment	14,000	19,000	27,000	26,000	36,000
Long-term as % of Unemployed	41.2%	32.8%	46.6%	41.9%	53.7%
Migration					
Immigration	15,350	12,690	11,854	11,414	-
Emigration	11,039	11,229	11,262	13,824	-
Net Migration	4,311	1,461	592	-2,410	-

	2008	2009	2010	2011	2012
Public Finances					
Total General Gov. spending £m	19,054	19,871	19,654	-	-
Total General Gov. revenue £m	-	-	-	-	-
General Gov. Balance £m	-	-	-	-	-
General Gov. Debt nominal £m	-	-	-	-	-
General Gov. Debt % GDP	-	-	-	-	-
Nominal earnings and Prices					
Average earnings £ per week	345.0	354.6	354.7	354.2	360.2
Average earnings % change	4.4	2.7	0.0	-0.1	1.7
Average earnings % change – private sector	-	-	-	-	0.2
Average earnings % change - public sector	-	-	-	-	3.8
Inflation CPI %	-	-	-	-	-
Inflation HCPI %	-	-	-	-	-
Inequality and Poverty					
Gini coefficient	-	-	-	-	-
Quintile ratio	-	-	-	-	-
Relative poverty %	-	-	-	-	-
Consistent poverty %	-	-	-	-	-
Deprivation rate %	-	-	-	-	-

Sources: HMT Public Expenditure Analysis 2012; HMRC RTS; ONS Gross Value Added (Income Approach); LFS Quarterly Supplement; NISRA Northern Ireland Migration Flows; NISRA Annual Survey of Hours and Earnings.

Note: Where cells are blank the data are unavailable.

Notes

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