Quarterly Economic Observer

Winter 2015

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NERI Nevin Economic Research Institute

About NERI and this publication

The Nevin Economic Research Institute (NERI) was established to provide information, analysis and economic policy alternatives. Named in honour of 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 16th *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 Winter 2015 Quarterly Economic Facts* (QEF) which provides a set of statistical indicators to underpin our analysis. Unless otherwise stated, the data cited in this Observer are the latest available as of December 2015. The final draft of this document was completed on 4th December 2015.

This report has been prepared by staff of the Institute. The lead author is Paul Mac Flynn. We are grateful to four external reviewers from the academic and research community who reviewed and commented on an earlier draft of this document. The analyses and views expressed in this publication are those of the NERI and do not necessarily reflect those of others including the Irish Congress of Trade Unions or the unions supporting the work of the Institute.

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

The Nevin Economic Research Institute

Quarterly Economic Observer

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Executive Summary

This edition of the NERI's *Quarterly Economic Observer* (QEO) outlines our latest expectations for the economic outlook in the Republic of Ireland and Northern Ireland (Section 3). It also presents an analysis of the National Living Wage and Tax Credits in Northern Ireland (Section 4).

Economic Outlook

Our economic outlook presents a contrasting picture for both parts of the island of Ireland. Recent data suggest that in Northern Ireland economic recovery stalled halfway through 2015 while growth in the Republic of Ireland looks set to surpass its impressive 2014 performance. In Northern Ireland the announcement of a significant number of job losses in the second half of 2015 compounded the disappointing data for the first two quarters of the year. In the Republic of Ireland, a strong recovery in the domestic economy is now supplementing the robust performance of exports, leading to considerable output growth.

Unemployment remains significantly higher in the Republic of Ireland, but the pace of reduction in Northern Ireland has moderated substantially. Concerns remain over high rates of youth unemployment and structural issues in the Northern Ireland labour market such as increasing economic inactivity.

While increasing tax revenues have boosted the public finances in the Republic of Ireland, the UK government has outlined an additional four years of expenditure cuts and tax increases. This will have a disproportionate impact in Northern Ireland where the scale of recovery in the private sector has fallen significantly behind the UK average.

Overall Northern Ireland may struggle to sustain growth in the medium term while the Republic of Ireland looks set to consolidate its recent performance.

The National Living Wage in Northern Ireland

- The National Living Wage (NLW) will become the statutory minimum wage in the United Kingdom for all employees aged 25 and over in April 2016.

- The NLW will result in an automatic increase in hourly wages for 13 per cent of employees in Northern Ireland.
- The majority of these increases will be for female workers and workers aged 25-34.
- The majority of those automatically benefiting from the NLW will be in full-time work.
- The Wholesale and Retail sector will see just over a third of all NLW increases, with a quarter of all workers in that sector entitled to an increase.
- Almost one third of all Accommodation and Food workers and 27 per cent of all Residential Care workers will also see an increase.

Tax Credits and the National Living Wage in Northern Ireland

- Almost 160,000 families in Northern Ireland claim some form of Tax Credits, and some 120,000 would have been affected by the changes proposed to tax credits in the UK Summer Budget.
- The National Living Wage was presented by the UK government as a compensatory measure for this loss of income.
- Our analysis shows that nearly 77 per cent of working families who would have been affected by changes to Tax Credits would not have seen an increase in income due to the National Living Wage.
- 20 per cent of working families affected by changes to Tax Credits would be entitled to an increase in wages from the NLW, but only 3 per cent of families could plausibly have avoided a reduction in income.
- These figures correspond with similar analysis for the UK as a whole and may help to explain why the policy was dropped.
- However many of the same families that would have been affected by Tax Credit changes will be impacted by similar cuts to universal Credit when it is fully introduced in Northern Ireland.

- A strong wage floor is an important policy tool, but it is not a panacea for low pay and in-work poverty.

- The capacity of the NLW to compensate for Tax Credits is significantly limited and this need to be recognised in any future discussions of welfare reform.

1 Introduction

Our economic outlook for both parts of the island of Ireland shows a divergence in the pace and scale of recovery. In Northern Ireland, early indications of economic growth in 2015 are not positive and significant job losses announced in the latter half of this year could be a further constraint on growth in 2016. Political stability may have returned to Northern Ireland, but the prospect of a further four years of public spending cuts weighs negatively on the outlook for the region. The Republic's economy has consolidated the strong growth of 2014 and looks set to surpass that performance in 2015. Consumer spending is now playing a more active role in the recovery aided by lower than expected price inflation particularly in fuel and energy. The easing of austerity in Budget 2016 will give a further boost to the domestic economy and a growing current account surplus will contribute solid growth over the medium term. At a global level, the possibility of a pro-longed slowdown in China and an early increase in interest rates could alter the prospects for growth.

In this *Quarterly Economic Observer* (QEO) we update our economic expectations for the Irish economies North and South (Section 3). Complementing this, in Section 4 we look at the National Living Wage in Northern Ireland and the role it could have played in mitigating losses from reforms to Tax Credits announced in the Summer Budget.

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 out to 2016. In Section 4 we examine the wage floor and welfare in Northern Ireland. Section 5 concludes.[1]

The Nevin Economic Research Institute (NERI) 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.

[1] The analysis here complements a number of recent and forthcoming NERI research papers. These are cited throughout the report and can be accessed on the NERI website.

2 Overview of Recent Economic Trends

2.1 Introduction

The Northern Ireland (NI) economy has performed poorly since the end of 2013 with six consecutive years of declining Gross Value Added (GVA) over the period 2008 to 2013. Even so, Northern Ireland's 2014 employment rate of 68.1 per cent of the working-age population was the strongest annual reading since 2007. However, Northern Ireland (NI) has generally lagged that of the UK (71.9 per cent in 2014) in terms of employment performance by 2 to 5 percentage points since 2007. Northern Ireland's unemployment rate averaged 6.4 per cent in 2014, marginally worse than that of the UK (6.1 per cent), but at its best level since 2009 and substantially better than that of the Euro area average (11.6 per cent). The Harmonised Index of Consumer Prices has been on a downward trend in the UK since 2011 averaging just 1.5 per cent in 2014. The Republic of Ireland was the fastest growing economy in Europe in 2014.

Table 2.1 Key Economic Trends (2007-2014)

	2007	2008	2009	2010	2011	2012	2013	2014
Employment (% of working-age population)								
Rep. Ireland	69.2	67.4	61.9	59.6	58.9	58.8	60.5	61.7
N. Ireland	68.4	67.9	64.7	66.1	67.4	67.1	66.8	68.1
UK	71.5	71.5	69.9	69.4	69.3	69.9	70.5	71.9
Euro area	65.5	65.8	64.4	64.0	64.1	63.7	63.4	63.9
Unemployment (% of labour force)								
Rep. Ireland	4.7	6.4	12.0	13.9	14.7	14.7	13.1	11.3
N. Ireland	3.9	4.4	6.4	7.1	7.2	7.5	7.5	6.4
UK	5.3	5.6	7.6	7.8	8.1	7.9	7.6	6.1
Euro area	7.5	7.6	9.6	10.2	10.2	11.4	12.0	11.6
Gross Domestic Product (% volume change over previous year)*								
Rep. Ireland	5.5	-2.2	-5.6	0.4	2.6	0.2	1.4	5.2
N. Ireland	4.2	-3.1	-3.0	-1.1	-0.5	-0.1	-0.6	n/a
UK	2.6	-0.3	-4.3	1.9	1.6	0.7	1.7	3.0
Euro area	3.1	0.5	-4.5	2.0	1.6	-0.8	-0.4	0.8
Harmonised Index of Consumer Prices (% annual average rate of change)								
Rep. Ireland	2.9	3.1	-1.7	-1.6	1.2	1.9	0.5	0.3
UK	2.3	3.6	2.2	3.3	4.5	2.8	2.6	1.5
Euro area	2.2	3.3	0.3	1.6	2.7	2.5	1.3	0.4

Sources: Labour market data for Rep. Ireland, UK and the Euro area are from Eurostat (2015a) Labour Force Survey Database. Online reference codes lfsi_emp_a and une_rt_a. Labour market data for Northern Ireland (NI) is from NISRA (2015a). Real GDP growth rate data for Rep. Ireland, UK and the Euro area are from Eurostat (2015b) National Accounts database; Online reference code nama_10_gdp.. GVA data for NI are from the ONS Regional Trends Series (ONS, 2014). HICP data for Rep. Ireland, UK and the Euro area are from (Eurostat, 2015c) Prices database. Online reference code prc_hicp_aind.

Notes: *NI output refers to Gross Value Added (GVA). Euro area refers to the 19 members of the Euro area. Labour market data for 2007-2014 represent averages for the whole year. Total employment refers to all persons in employment (ILO definition) aged 15-64 as a proportion of all persons aged 15-64. Unemployment is measured on the ILO definition basis and refers to persons aged 15-74. n/a = not available

2.2 Recent trends in the World Economy[2]

The world economy grew by 3.3 per cent in 2014 (OECD, 2015), while the Euro area, the United States (US) and the United Kingdom (UK) grew by 0.9 per cent; 2.4 per cent and 2.9 per cent respectively. Conversely the Japanese economy declined by 0.1 per cent. The major emerging economies had a mixed performance, with China (7.3 per cent) and India (7.3 per cent) showing robust growth, and Russia (0.6 per cent) and Brazil (0.2 per cent) performing poorly. World trade rose by 3.4 per cent in volume terms in 2014 and 3.3 per cent in 2013. This represents a substantial slowdown from the 2003 to 2012 average annual growth rate of 5.6 per cent. Global growth has been close to 3 per cent so far in 2015. This is also well below the long-term average. Seasonally adjusted GDP growth in the Euro area was just 0.3 per cent in the third quarter following growth of 0.4 per cent in the first quarter (Eurostat, 2015d). Third quarter growth in the UK was 0.5 per cent following growth of 0.7 per cent in the second quarter.

Brent crude oil was trading around $47-48 in early November down from $82 the previous year. The fall in energy prices is supporting corporate profits and household's real disposable income, which is in turn helping stimulate the private investment and consumption of oil consumers. The volume of retail sales increased by 2.9 per cent in the Euro area in September 2015 compared with the previous year (Eurostat, 2015e) although it was down 0.1 per cent in September compared to the previous month. Industrial production increased by 1.7 per cent in the Euro area in September compared with the previous year (Eurostat, 2015f). There was a fall in the production of energy goods (minus 1.4 per cent) over the previous year.

The Euro area's unemployment rate was very high at 10.8 per cent in September 2015, a marginal improvement on the 10.9 per cent figure in August (Eurostat, 2015g). However, this was the lowest rate recorded since February 2012. The US had an unemployment rate of 5.1 per cent in September while the UK was at 5.3 per cent in July. Nominal hourly wages and salaries increased by 1.9 per cent in the Euro area in the second quarter of 2015 compared to the previous year, and by 2.6 per cent in the UK and 3.4 per cent in Germany (Eurostat, 2015h). Deflation concerns persist in the Euro area. Annual inflation (HICP) was 0.1 per cent in October 2015 up from minus 0.1

[2] The following section updates the analysis presented in the Autumn 2015 QEO

per cent in September (Eurostat, 2015i). The downward pressure reflects the fall in energy prices (minus 8.7 per cent year-on-year).

2.3 Recent trends in the Republic of Ireland Economy[3]

The Republic's economy grew very strongly in 2014 (CSO, 2015a). Real GDP (i.e. excluding price effects) expanded by 5.2 per cent while real GNP grew by an impressive 6.9 per cent. The economy expanded rapidly again in the first half of 2015 (CSO, 2015b). On an annual basis GDP growth was 7.2 per cent in the first quarter and 6.7 per cent in the second quarter while GNP grew by 8.1 per cent in the first quarter and 5.3 per cent in the second quarter. The second quarter GDP growth of 1.9 per cent was the fastest in the EU.

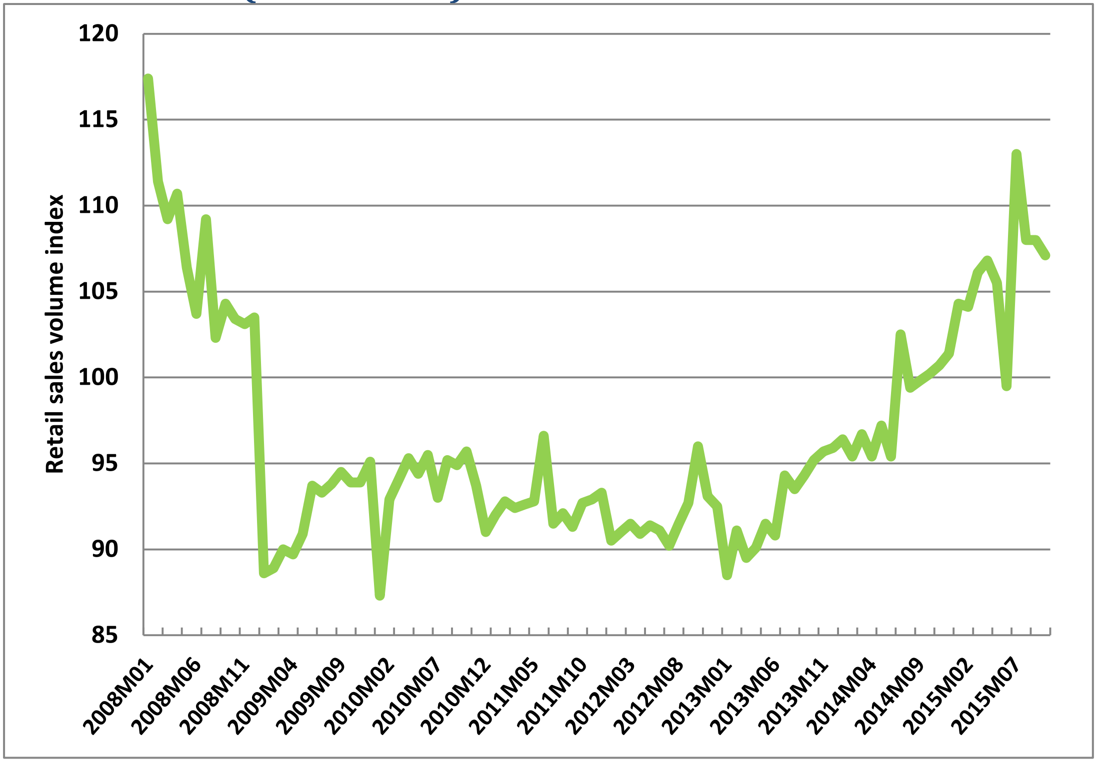
Chart 2.1 Value of domestic demand, quarterly trends, Rep. Ireland, 2008 to 2015, €m (constant 2013 prices)

Source: CSO Quarterly National Accounts (2015a).
Notes: Domestic Demand = Personal Consumption + Government Consumption + Investment. Domestic demand chiefly differs from GDP due to net exports = exports – imports, and changes in values of physical stocks. Values are adjusted for seasonal variation.

[3] The following section updates the analysis presented in the Autumn 2015 QEO

A recovery in consumer spending is now evident (CSO, 2015c) with the volume of retail sales increasing by 8.6 per cent in September 2015 compared with the previous year (4.9 per cent in value terms). The balance of payments current account had a surplus of €2.7 billion in the second quarter of 2015 equivalent to 5.2 per cent of quarterly GDP (CSO, 2015d).

Chart 2.2 Volume of retail sales, monthly trends, Rep. Ireland, 2008 to 2015 (2005 = 100)

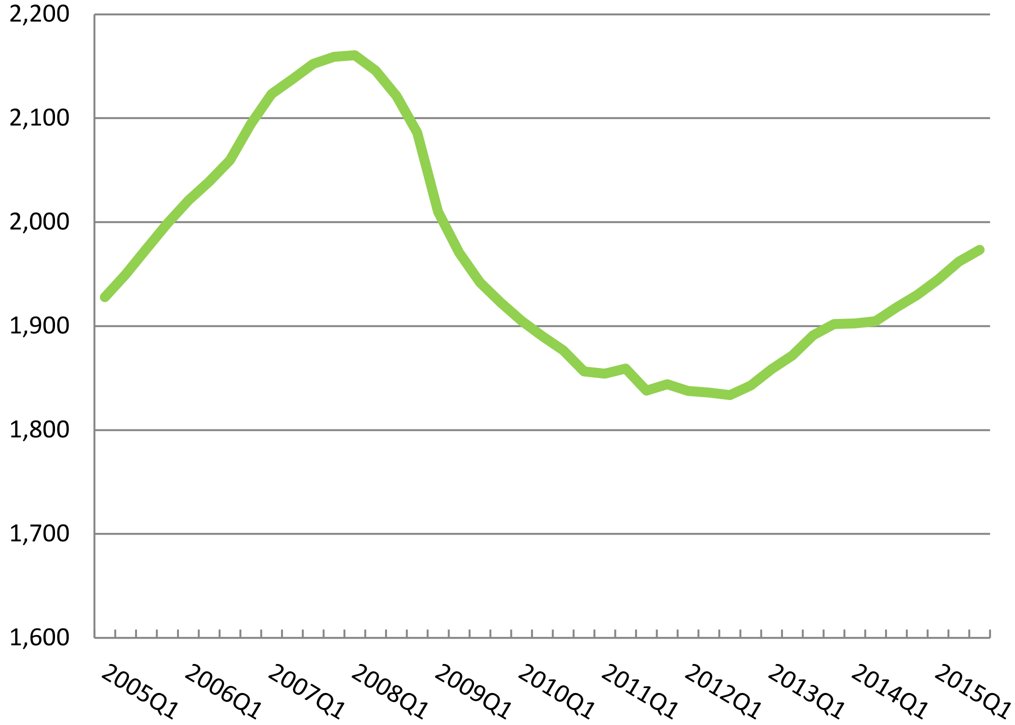


Source: CSO Retail Sales Index (2015c).
Notes: Volume of retail sales (seasonally adjusted). Index base is for 2005=100

There were 2,186,000 people in the labour force in the third quarter of 2015 (CSO, 2015e) representing an increase of 13,500 persons or 0.6 per cent over the previous year. Seasonally adjusted employment increased by 11,600 (0.6 per cent) over the previous quarter while total employment increased by 56,000 (2.9 per cent) over the previous year. Total employment is now 1,983,000. The employment rate was 63.8 per cent in the third quarter up from 62.2 per cent the previous year. Full-time employment increased by 59,400 while part-time employment decreased by 3,400. The unemployment rate was 9.3 per cent in the third quarter of 2015 down from 11.3 per cent the previous year. Seasonally adjusted unemployment was 9.1 per cent in the third quarter and the seasonally adjusted monthly unemployment was 8.9 per cent in

October with 192,400 persons unemployed. The estimate for October shows a decline in unemployment of 24,900 persons.

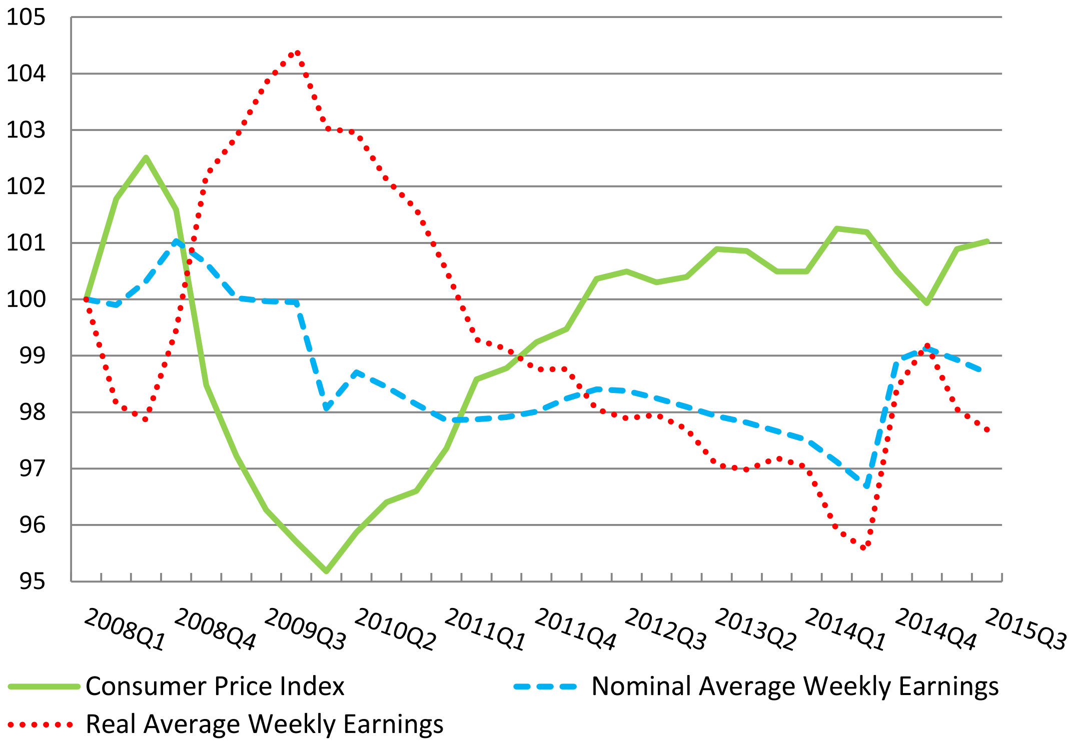
Chart 2.3 Total employment, quarterly trends, Rep. Ireland, ('000s), 2005 to 2015



Source: CSO Quarterly National Household Survey (2015e).
Note: Total employment seasonally adjusted

Average weekly earnings were €688.80 in the third quarter of 2015. Average weekly earnings increased by 2.7 per cent compared to the previous year but were down 1.3 per cent over the previous quarter (CSO, 2015f). Average weekly paid hours were 32.1 in the third quarter, marginally up on the previous year (31.9) and on the previous quarter (32.0). Average hourly earnings increased by 2.1 per cent over the year rising from €21.02 to €21.46. Real average earnings are benefiting from price stagnation. Prices in October were down over the previous year (CSO, 2015g) if measured by the CPI (minus 0.2 per cent) and unchanged if measured by the HICP (0 per cent). *Transport* (minus 0.75 per cent) made the largest downwards contribution to the CPI reflecting lower petrol and diesel prices and a fall in the price of motor cars. The annual rate of inflation for services was 2.8 per cent in the year to October, while goods inflation was minus 4 per cent. Services, excluding mortgage interest payments, increased by 3.7 per cent in the year to October.

Chart 2.4 Earnings, quarterly trend, Rep. Ireland, 2008 to 2015



Sources: Calculated from CSO Survey on Earnings Hours and Employment Costs (2015h) and Consumer Price Index (2015g).
Notes: Index values set to 100 for Q1 2008. Seasonally adjusted.

Irish residential property prices rose by 7.6 per cent in the year to October with prices increasing by 10.7 per cent outside of Dublin over the same period (CSO, 2015i). Residential property prices rose by 1.6 per cent nationwide over the previous month. The number of mortgage accounts for Principal Dwelling Houses in arrears is falling (CBI, 2015a) with 98,137 such accounts (13 per cent) in arrears during the second quarter. Household net worth increased by 0.6 per cent during the second quarter of 2015 and is now at its highest level since 2008 (CBI, 2015b). Household net worth was €600.1 billion or €129,454 per capita. Household debt fell by 0.9 per cent over the quarter to stand at €153.2 billion. Despite continuous improvement since 2011 household debt as a proportion of disposable income is the third highest in the EU.

The Euro has generally declined in value in 2015. The Euro was trading at between 1.07 and 1.12 US dollars in early November 2015 down from 1.25 US dollars in November 2014, and was trading at 0.71 UK Sterling down from 0.79 UK Sterling the previous year. Irish government 10-year bond yields have been below 2 per cent since August 2014 and reached a record low of 0.65 per cent in April 2015. The yield for 10-year bonds has been fluctuating around 1.2 per cent during November of this year.

The general government deficit was €7.3 billion or 3.9 per cent of GDP in 2014 (CSO, 2015j). Gross debt was €204.4 billion or 102 per cent of annualised GDP at the end of June 2015. Net debt was €166.6 billion or 86.1 per cent of annualised GDP. The first quarter deficit in 2015 was €2.3 billion amounting to 4.7 per cent of quarterly GDP while the second quarter deficit was €0.3 billion or 0.6 per cent of quarterly GDP. An Exchequer deficit of €2.2 billion was recorded up to the end of October 2015 (DOF, 2015a). Excluding one-off transactions this represents an improvement of €4.5 billion compared to the same period last year. The tax take is up €3.1 billion y-on-y. There has been a particularly strong performance to date from corporation tax receipts which are up 73.8 per cent on profile and 60.7 per cent y-on-y (€1.8 billion).

Box 2.1 Budget 2016

In its Spring Economic Statement the government announced that Budget 2016 would contain an expansionary budgetary package of close to €1.5 billion in new discretionary measures to be split 50/50 between expenditure increases and tax cuts. We pointed out in the Summer edition of the QEO that the government's proposed package would further harden the Republic's position as a low tax and spend economy by European standards (NERI, 2015a). We also questioned the wisdom of this approach and argued that long-run economic growth, employment and equity goals would best be achieved by prioritising use of the available fiscal space in 2016 to increase public capital investment levels as well as spending on education, childcare infrastructure, and Research and Development (R&D). In addition, we argued for a modest increase in social spending funded by a set of growth-friendly reforms to increase total government revenue. Over the long-run the growth of labour productivity and living standards are a function of growth in the stocks of human and fixed capital, as well as changes in the technological base and its diffusion (McDonnell, 2015).

Budget 2016 represented an opportunity to meaningfully address the housing crisis, the child poverty crisis, and the high cost of childcare provision (a major barrier to labour market entry for second earners). Unfortunately the issue of child poverty was barely addressed in the budget with only a small adjustment in Family Income Support and a €5 increase in child benefit. In addition, the allocation for gross voted capital expenditure was actually cut by €55 million. An additional capital expenditure allocation of €56 million for social housing is wholly inadequate given the scale of the current shortfall in new builds. More positively, Budget 2016 allocated €85 million in new funding for childcare including funding for the expansion of the free pre-school programme.

The main policy change in Budget 2016 was the reduction in the USC at a full year cost of €772 million. The biggest beneficiaries from the changes to the USC are the top 20 per cent of households. Overall, a single private sector employee on €25,000 with no children will benefit to the tune of €4 per week from Budget 2016 while the same employee on €70,000 or higher will benefit by over four times as much (€17 per week). Early analysis of the budget by the ESRI (Irish Times, 2015) suggests that while the richest four quintiles would all benefit from Budget 2016 compared with a neutral budget,[4] the poorest decile would actually lose out. Taken as a whole Budget 2016 was regressive making it the fifth consecutive regressive budget. There were some positive aspects to the Budget, for example the introduction of tapering to employee PRSI will remove the step-effect that was disincentivising employment for low paid workers earning close to the minimum wage. On the other hand the impact of the cut in the Capital Acquisition Tax (inheritance and gift tax) is wholly negative from both a growth perspective and an equity perspective. The freezing of the property tax is economically unwise.

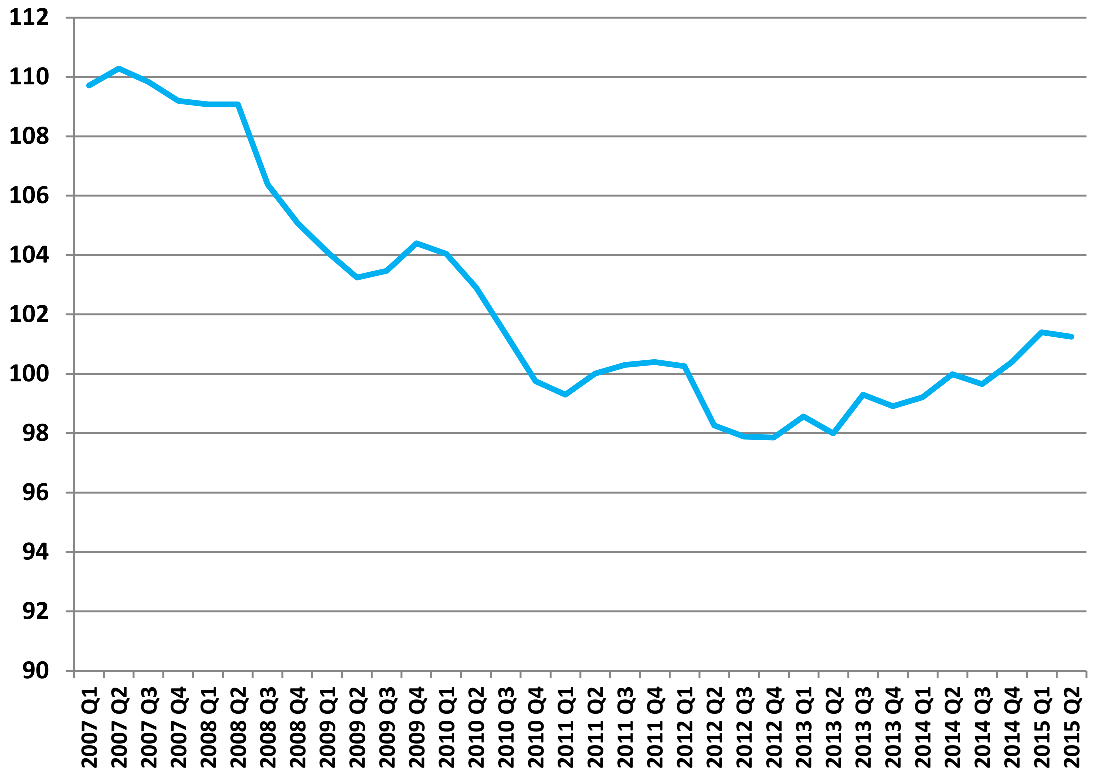
Budget 2016 represents a missed opportunity. The best way to sustain growth in productivity over the long-term would have been to invest in education and skills, in productivity enhancing infrastructure, and in the production, diffusion and use of new technologies. Fiscal policy in future years should pay more careful attention to the investment/GDP ratio, to the fraction of output allocated to public R&D, and to the fraction of output spent on education, particularly spending on disadvantaged groups and on early years learning. Insufficient investment in skills, infrastructure and innovation will constrain future economic growth.

2.3 Recent trends in the Northern Ireland Economy

The nascent economic recovery in Northern Ireland stalled somewhat in the second quarter of 2015. The latest figures for the Northern Ireland Composite Economic Index (NICEI) show that the Northern Ireland economy contracted by just over 0.1 per cent in the second quarter. A contraction of this size does not imply a sustained break in the trend of what has been fairly consistent growth since early 2013, but it could imply that the rate of growth is moderating somewhat. Having reached its lowest point since 2005 in the final quarter of 2012, the NICEI began on a growth path that has seen almost 3 per cent growth in the last two years (NISRA, 2015b). However unlike the UK and the Republic of Ireland, the recovery in Northern Ireland still has some way to go before reaching its pre-crisis peak (Chart 2.5). The pace of growth has been slower and more uneven in Northern Ireland and the most recent data represent a continuation of that trend.

[4] A neutral budget indexes tax credits and welfare payments in line with expected wage growth.

Chart 2.5 Trends in the Northern Ireland Composite Economic Index (NICEI), 2007-2015

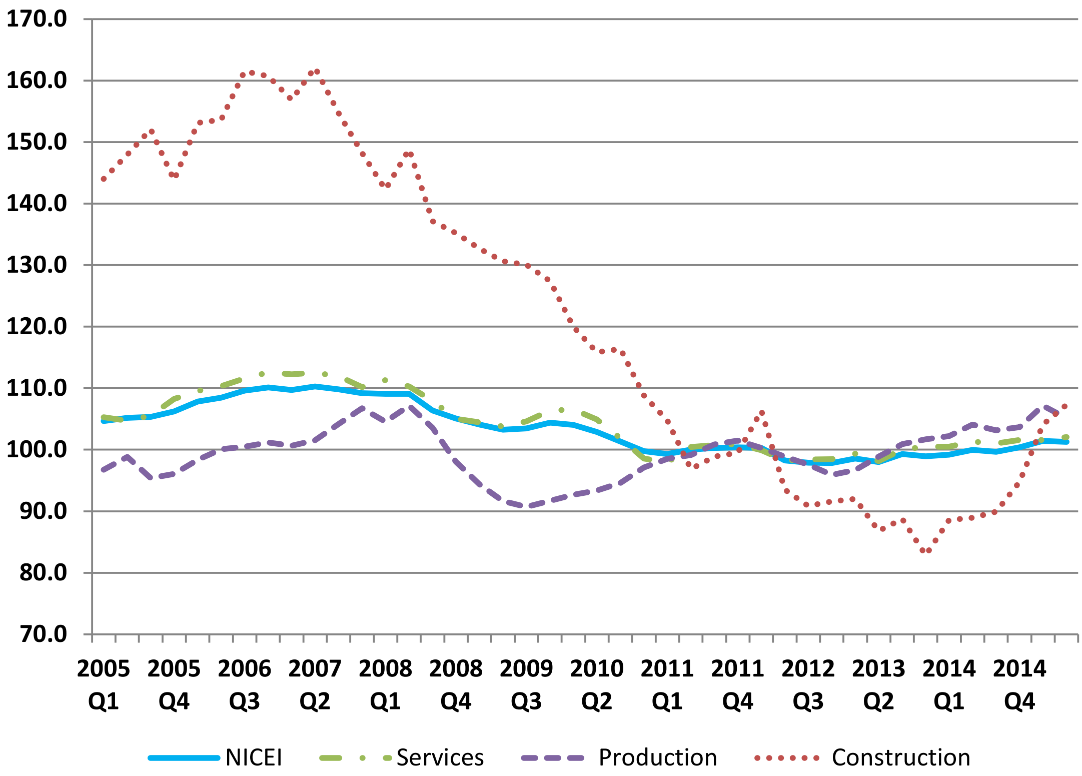


Source: NISRA (2015b) NI Composite Economic Index

The construction sector has been the strongest performing sector over the last year (Chart 2.6). It is unclear how much of this new activity is actually taking place within Northern Ireland and the extent to which Northern Ireland firms are benefiting from a building boom in the south and east of England. The Production sector declined in the second quarter of the year, falling by almost 2 per cent which, when combined with recent job losses announced in manufacturing sector, bodes ill for future growth prospects.

The services sector posted unimpressive quarterly growth of 0.5 per cent having tracked overall NICEI growth for much of the past 5 years. The one bright spot has been the more consistent turnaround in the construction sector, albeit from a very low base. It is questionable whether the construction sector could or should ever reach the level of output it recorded before the crash (as a percentage of overall activity). Yet the most recent data indicate that the other sectors of the economy are unlikely to grow strongly in the near future.

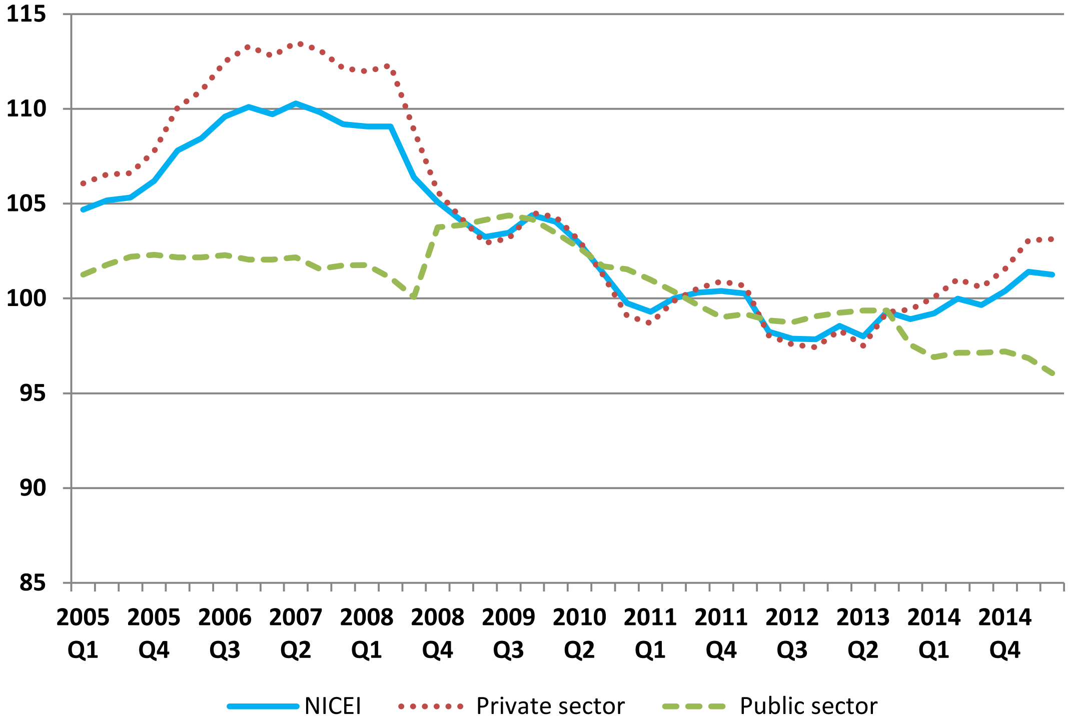
Chart 2.6 Sectoral changes in the Northern Ireland Composite Economic Index



Source: NISRA (2015b) NI Composite Economic Index

The public sector continued to contract in the second quarter of the year falling by almost 1 per cent on a quarterly basis. This has brought public sector activity to its lowest point in the NICEI series since 2005. Activity in the public sector is almost 9 per cent below where it was in the third quarter of 2009 when activity was at its highest level. On the face of it, this contraction is not that surprising given the scale of adjustments made to public expenditure in Northern Ireland by the UK government. It does however pose a very tough challenge for the private sector in Northern Ireland to make up that ground, and the figures to date provide very little evidence of the private sector doing that. Growth in the private sector was essentially negligible in the second quarter of the year growing by 0.08 per cent. Section 3 will examine the prospects for the Northern Ireland economy in light of a further four years of public expenditure reduction.

Chart 2.7 Public and private sector performance in the Northern Ireland Composite Economic Index



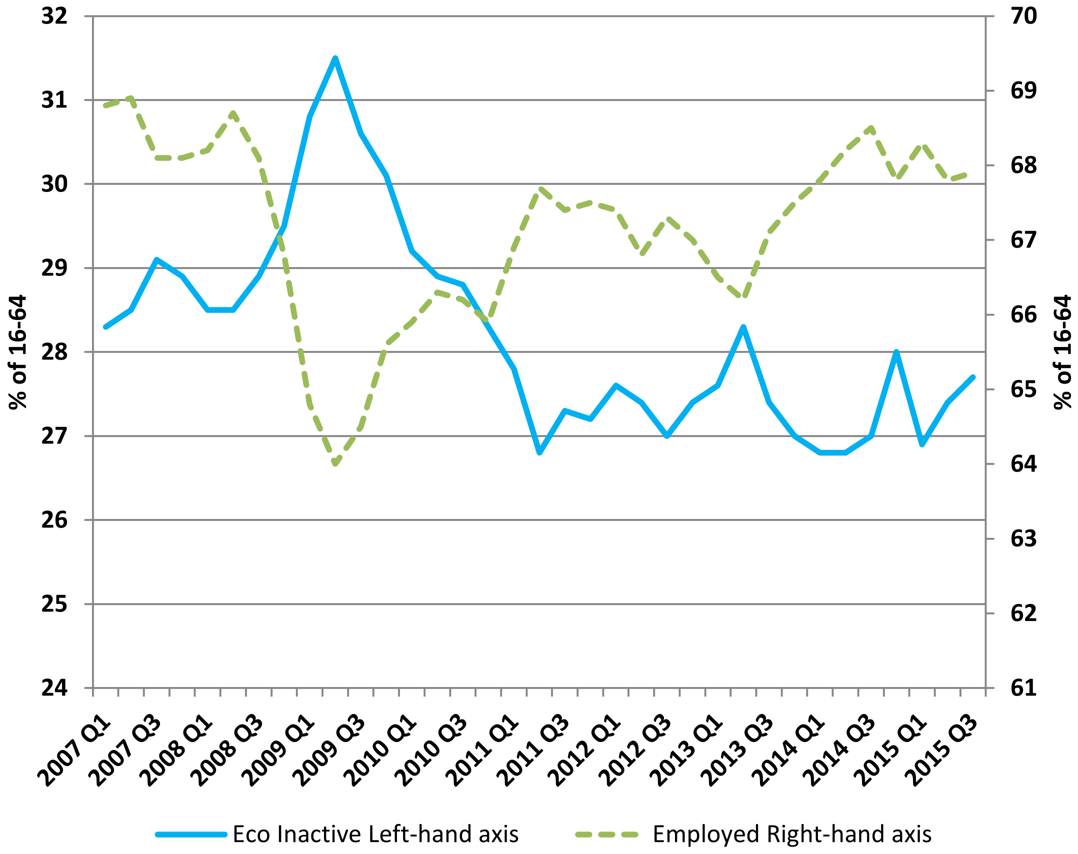
Source: NISRA (2015b) NI Composite Economic Index

The most up to date information we have on economic activity is survey data from the Purchasing Managers Index (PMI) for Northern Ireland. The PMI survey reports expectations and intentions of firms in various industries and sectors. The latest data for Northern Ireland, in October, showed continuing growth, but also a marked slowdown in the pace of growth (Ulster Bank, 2015). The survey highlighted significant employment growth particularly in the retail and wider services sector. This trend may well be interrupted by the introduction of the National Living Wage in April 2016 which is discussed in greater detail in Section 4. However the index did show increasing activity across the construction sector both in terms of new business and employment which would seem to chime with the indications from the NICEI.

The labour market in Northern Ireland continues to emit a range of mixed signals. The unemployment rate fell by 0.6 per cent to 5.9 per cent in the third quarter of 2015 and the total number unemployed fell by 5,000. However the total number employed increased by only 2,000. The number of people classified as economically inactive increased by 4,000. High levels of economic activity have been a feature of the Northern Ireland labour market for some time. Figures from the Labour Force Survey indicate that the gap in economic inactivity rates between Northern Ireland and the UK is largely due to long-term illness. This has now become a significant structural issue and further research is required to ascertain why the gap between Northern Ireland and the UK persists.

Looking at economic inactivity by age groups, in Q3 of 2015 the number of people economically inactive over the age of 50 actually declined by 3,000, while it increased by 3,000 for those aged 25-49. This continues a trend of rising economic inactivity in this group which increased by 10,000 over the year. Similarly with unemployment rates, there was a decrease of 1.4 per cent for the 18-24 age group, while there was a 0.2 per cent increase for the 25-49 age group. Rates of youth unemployment remain stubbornly high at just over 18 per cent. Many of those who were classified as 'young unemployed' during the recession may well now be in their mid to late 20s and so reductions in the headline rate of youth unemployment may be due in part to the same people simply moving from one age group to the next. Rates of long-term unemployment have remained steady over the year, and they will be in important indicator of any hysteresis effect in the future from the current high rates youth unemployment.

Chart 2.8 Economic Inactivity and Employment rates in Northern Ireland 2007-15



Source: NISRA (2015a) Labour Force Survey

The 2015 Annual Survey of Hours and Earnings set out the performance of wages in Northern Ireland over the past year. There was a welcome lift in median weekly wages of 5.4 per cent with growth of 1.6 per cent in the public sector and strong growth of 6.7 per cent in the private sector. Strong wage growth was driven by the Professional & Scientific sector, but also within Manufacturing and Construction. While the Construction sector increases follow a similar trend to output in that sector, the growth in wage in Manufacturing is harder to interpret. The 2015 results follow very disappointing results for wages in 2014 at a time when there was a general pick-up at UK level. Northern Ireland has made up some of the ground. The large gaps between NI and the UK remain almost exclusively within the private sector.

The jobs market in Northern Ireland was dealt some heavy setbacks in the final part of 2015. The proposed closure of the Michelin tyre plant in Ballymena and the subsequent loss of 900 jobs is a significant blow for both the manufacturing sector and the North East region as a whole coming so soon after the announced closure of the JTI factory earlier this year. Caterpillar the American engineering group is set to shed 100 jobs from its workforce in Northern Ireland as part of a plan to cut some 5,000 jobs globally by the end of 2016. Other job loss announcements were made by Schrader electronics, textiles firm Invista in Derry/Londonderry, 3M in Bangor while Bombardier announced a plan for a two year wage freeze at its Belfast plant. All of these announcements paint a bleak picture for the manufacturing sector in Northern Ireland. Many of the firms cited fixed cost issues such as energy prices and global demand slumps as the reason for plant closures. Too often these concerns are met with optimistic forecasts of the job creation that could be unleashed through corporation tax reduction. However, there are significant misgivings[5] about the capacity of a corporation tax reduction to deliver such growth, but it is clear that any proposed reduction played no role in enticing these firms to stay in Northern Ireland. The folly of focusing on one ‘silver bullet’ policy for economic growth has possibly distracted policy makers from the more immediate concerns of businesses already operating in Northern Ireland.

Overall, the private sector in Northern Ireland looks vulnerable as 2015 comes to a close and the consolidation of local HMRC offices across Northern Ireland shows that there will be no let-up in public sector retrenchment in the near future. The key concern for Northern Ireland will be the capacity of the economy to withstand both of these pressures a topic discussed in further detail in Section 3.

[5] See murphy (2010)

3 Economic Outlook

3.1 Macroeconomic Assumptions for the Global Economy

Domestic growth prospects are dependent on the economic performance of the wider global economy as well as future trade and competitiveness patterns. This is particularly the case for small open economies. The IMF (2015) projects world trade volume will grow by 3.2 per cent in 2016 and 4.1 per cent in 2017.

Lower energy prices (boosting real incomes), supportive monetary conditions, less drag from fiscal consolidation and improving financial sector conditions are all providing supportive conditions for growth in 2015. The OECD (2015) forecast that global real GDP growth will be 2.9 per cent in 2015 before strengthening to 3.3 per cent in 2016 and 3.6 per cent in 2017. They caution that these forecasts are predicated on a smooth rebalancing of activity in China and more robust investment in advanced economies. Tightening monetary policy in the United States (US) will add to the existing financial vulnerabilities of many emerging economies though it is as yet unclear whether rates will start to rise in December or sometime in 2016.

The Republic's main trading partners are the US, the Euro area and the United Kingdom (UK). The majority of forecasters project real GDP growth of 2.5 to 3 per cent in the US and between 2 and 2.5 per cent in the UK in 2016 and 2017. Forecasters are generally less optimistic for the Euro area, despite the weakness of the Euro and loose monetary policy, with most real GDP growth projections hovering just below 2 per cent in both years. The European Commission (2015) forecasts real GDP growth of 1.8 per cent in 2016 and 1.9 per cent in 2017. Low investment rates, high unemployment and hysteresis scars will remain problems in many countries with downside implications for medium-term growth.

The Commission expects the Euro area unemployment rate to remain in double digits beyond 2017. Spare capacity in the economy will keep wages in the Euro area subdued in the near term. Annual inflation (HICP) is likely to remain below the 2 per cent target for some time despite the quantitative easing programme and the depreciation of the Euro but should start to rise from the end of 2015 on account of base effects associated with the late 2014 fall in oil prices. Most forecasts project 2016 inflation of close to 1 per cent in the Euro area, close to 1.5 per cent in the UK and close to 2 per cent in the

US. The UK's unemployment rate is expected to stabilise around 5.5 per cent while unemployment in the US should fall below 5 per cent in 2016.

3.2 Macroeconomic Projections for the Republic of Ireland[2]

Based on the data available by mid-September and our medium-term forecasts the NERI (2015b) projected real GDP will grow by close to 6 per cent in 2015 (see Table 3.1). Given 7 per cent growth in the first half of the year this implies growth of close to 5 per cent in the second half. Growth in the first half was driven primarily by investment and exports with consumption also playing a role.

Table 3.1 Autumn Projections for Output, Earnings, the Public Finances and the Labour Market, (Rep. Ireland)

	2014	2014	2015	2016	2017
Real Output		*Percentage real change over previous year*			
Gross Domestic Product	€189.0bn	5.2	5.9	4.1	3.3
Personal Consumption	€89.0bn	2.0	2.7	2.3	2.2
Government Consumption	€27.2bn	4.6	2.4	1.6	1.2
Investment	€36.5bn	14.3	17.4	10.0	7.5
Exports	€215.0bn	12.1	12.2	5.8	4.7
Imports	€180.3bn	14.7	14.6	6.2	5.1
Earnings		*Percentage nominal change over previous year*			
Average Hourly Earnings	€21.68	-0.6	1.2	1.7	2.0
Government Finances		*Percentage of GDP*			
General Government Balance	-€7.5bn	-4.0	-1.7	-1.1	-0.4
Gross Debt	€203.3bn	107.6	101.2	95.4	91.3
Labour Force		*Percentage change over previous year*			
Employment	1,913,900	1.7	2.7	2.0	1.6
		Percentage of Labour Force			
Unemployment	242,817	11.3	9.5	8.6	8.3

Notes: Projections for GDP and its components refer to real economic activity; Investment refers to Gross Domestic Fixed Capital Formation; Employment, unemployment and average hourly earnings all represent the average value over the four quarters.

Sources: NERI Autumn QEO (2015b); NERI estimates for 2015-2017; 2014 data is from CSO National Accounts (2015a), CSO Earnings and Labour Costs Survey (2015g), Government Finance Statistics (CSO, 2015j) & CSO Quarterly National Household Survey (2015e).

[2] All projections were made prior to Budget 2016; The NERI's next full set of projections will appear in the Spring 2016 edition of the QEO.

The solid growth in employment is boosting real disposable incomes and consumption. Our projection was for above trend growth in 2016 (4.1 per cent), with growth then decelerating to 3.3 per cent in 2017 as actual output closes in on potential output. However, Budget 2016 was more expansionary than expected and this should translate into higher GDP growth and domestic demand in 2016 than we had projected in the Autumn QEO. The main survey indicators of economic performance are suggestive of strong growth for the rest of the year and there is a broad consensus amongst forecasters that the Republic will be among the fastest growing economies in the EU in 2016 and again in 2017 (Table 3.2). Such strong growth reflects pent up demand, improving confidence and the closing of the output gap as unemployment continues to fall. The weak Euro is particularly beneficial for a small open economy like the Republic.

Table 3.2 Range of Projections for Annual Change in Real GDP, (Republic of Ireland)

	2015	2016	2017	2018	2019	2020
NERI (September)	5.9	4.1	3.3	-	-	-
Department of Finance (October)	6.2	4.3	3.5	3.2	3.1	3.0
Central Bank of Ireland (October)	5.8	4.7	-	-	-	-
European Commission (November)	6.0	4.5	3.5	-	-	-
IMF (October)	4.8	3.8	-	-	-	2.5
OECD (November)	5.6	4.1	3.5	-	-	-
ESRI (September)	6.0	4.5	-	-	-	-

Sources: DOF: Budget 2016 (DOF 2015b); CBI: Quarterly Bulletin 04 2015, (CBI 2015c); European Commission: European Economic Forecast Autumn 2015, (EC, 2015); IMF: World Economic Outlook October 2015 (IMF 2015); OECD: Economic Outlook, (OECD 2015); ESRI: Quarterly Economic Commentary, Autumn 2015 (ESRI, 2015)

We are projecting employment growth of 2.7 per cent in 2015, declining to a still robust 2 per cent in 2016 and to 1.6 per cent in 2017. The employment growth will mainly be driven by the anticipated improvements in domestic demand. Total employment will exceed 2,000,000 sometime around the middle of 2016. Table 3.3 shows a range of forecasts for the unemployment rate. Unemployment should fall below 200,000 sometime in early 2016. However, the scarring effect of the recession and the high-rate of long-term unemployment suggest that the equilibrium structural rate of unemployment is higher now than it was before the recession.

Table 3.3 Projections for Unemployment as a Per Cent of the Labour Force, (Rep. Ireland)

	2015	2016	2017	2018	2019
NERI (September)	9.5	8.6	8.3	-	-
Department of Finance (October)	9.5	8.3	7.7	7.2	6.8
Central Bank of Ireland (October)	9.5	8.5	-	-	-
European Commission (November)	9.5	8.7	7.9	-	-
IMF (October)	9.6	8.5	7.7	7.2	6.9
OECD (November)	9.4	8.3	7.5	-	-
ESRI (September)	9.5	8.4	-	-	-

Sources: See Table 3.2.

The still high rate of unemployment combined with the absence of significant inflationary pressures will dampen growth in average hourly earnings across the economy as a whole. However, these effects will become less significant as we move further out into the forecast horizon. Earnings growth will vary from sector to sector reflecting sectoral differences in the tightness of labour supply but will begin to rise across the economy from 2016 onwards provided the unemployment rate continues to fall. Our Autumn forecast in September suggested that average hourly earnings will increase by close to 1.7 per cent in 2016 and 2 per cent in 2017.

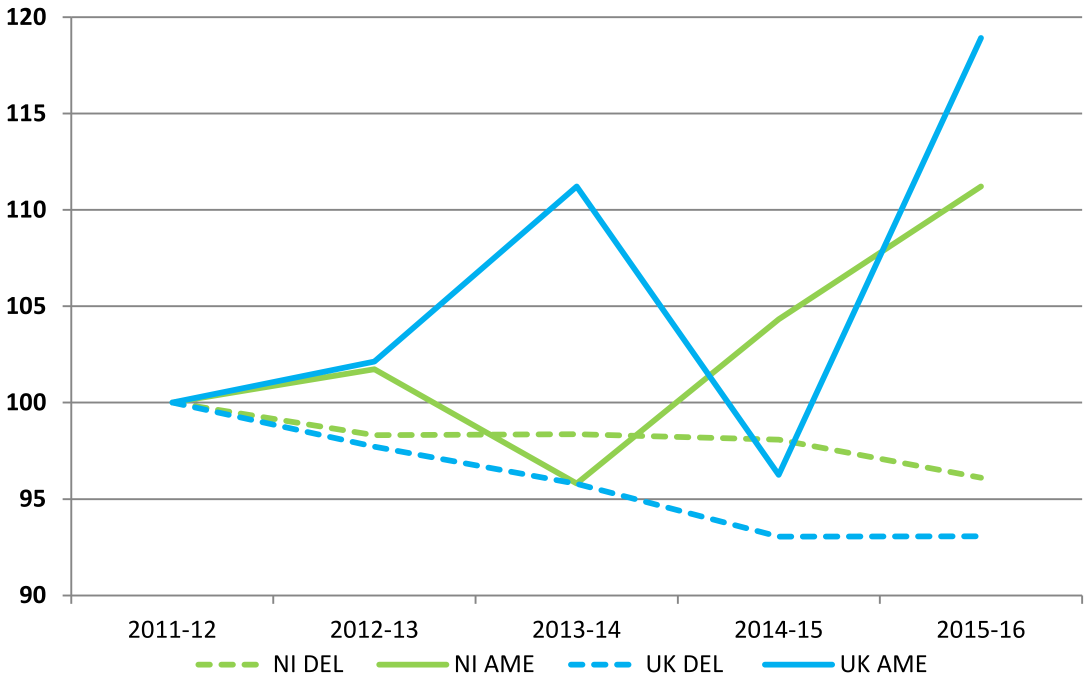
The government deficit continues to decline with much stronger government revenues than expected, particularly corporation tax receipts. However, the rate of decline forecast in the Autumn QEO will not now materialise given the announcement of additional spending in the fourth quarter of 2015. The government deficit should finish close to 2.2 per cent of GDP in 2015 and around 1.3 per cent of GDP in 2016. The debt-to-GDP ratio is likely to fall just below 100 per cent in 2015 and should be close to 90 per cent by end-2017. This is still a high level and the Republic will remain vulnerable to an adverse interest rate shock.

There is a wide range of risks to our baseline projection including: A) A decline in the Chinese economy would slow down world trade; B) A tightening of monetary policy in the US would increase financial vulnerability in emerging markets and slow global growth and trade; C) Rising interest rates would damage consumption and investment. The Republic would be hit particularly hard due to the high private and public sector debt overhangs; D) A stronger Euro, particularly against Sterling, would damage exports; E) Falling energy prices are generating financial instability in many energy exporters. However, rising energy prices would reduce real household disposable income in the Republic with negative consequences for consumption and investment; F) Brexit including the uncertainty surrounding Brexit may delay investment decisions. Brexit would do long lasting damage to exports and may affect the movement of labour between the Republic and the UK; G) Deflation and stagnation in the Euro area would damage exports as would austerity and a slowdown in the UK economy; and H) The outcome of the Common Consolidated Corporate Tax Base project could negatively affect multinational investment in the Republic and reduce corporation tax receipts.

3.3 Macroeconomic Outlook for Northern Ireland

Section 2 identified a key medium-term macroeconomic concern for Northern Ireland, as whether private sector activity can meet the challenge of a shrinking public sector. Chart 3.1 shows how public expenditure in Northern Ireland has fared over the last four years and compares this performance to the experience of the UK as a whole.

Chart 3.1 Trends in Public Expenditure in Northern Ireland and the United Kingdom 2011-16



Source: HMT (2015) Public Expenditure Statistical Analyses
Notes: DEL = Departmental Expenditure Limits AME = Annually Managed Expenditure
Inflation adjusted figures are re-based so 2011/12 =100

Departmental Expenditure in Northern Ireland, or the block grant as it is more commonly known, has declined by 3.8 per cent in real terms since 2011 compared to 6.9 per cent decline at UK level. Some of this represents the workings of the Barnett Formula that apportions public spending to the constituent countries of the UK, but the majority of it is explained by deeper cuts in areas of expenditure that are not devolved to Northern Ireland. This refers public spending carried out for Northern Ireland but not in Northern Ireland. Chart 3.1 also shows trends in Annually Managed Expenditure (AME). It covers areas such as public sector pay and pensions, welfare payments and other social transfers. AME is paid to Northern Ireland based on the number of people entitled to claim particular payments, rather than an agreed annual amount. In stark contrast to DEL, AME has increased in real terms over the last five years both for Northern Ireland and the UK as a whole.

The name 'Annually Managed' Expenditure is actually quite misleading as this is the stream of government expenditure that is hardest to control. The Northern Ireland Executive, whilst it exercises control over policy on most AME spending, is bound by the 'parity principle' for most payments covered by AME. For example the Northern Ireland Executive could double the state pension and this would significantly increase AME spending in Northern Ireland. However the UK government would then deduct the estimated cost of that policy from the block grant, allowing no net gain. This was the root of the recent impasse that arose over Welfare Reform (discussed further in box 3.1).

The path of public spending outlined by the Chancellor George Osborne in the Autumn Statement and Comprehensive Spending Review would imply cuts to Northern Ireland's block grant of over 2 per cent per year. The average cut over the last five years in Northern Ireland has been just under 2 per cent. While this may seem manageable, it must be emphasised that as these cuts compound year-after-year, the opportunities to reduce expenditure without jeopardising certain public services become fewer and fewer.

The UK government as part of its overall deficit reduction plan is looking to significantly reduce AME through reforms to working-age welfare benefits, such as tax credits and housing benefit. The scale of expenditure reduction proposed by the UK government in this area is substantial. Out of £34bn in expenditure reductions £12bn is expected to be saved from working-age benefits. While the Autumn Statement delayed the planned reductions to tax credits outlined in the Summer Budget, the government still aims to save £12bn. Initially more cuts are expected from areas such as housing benefit, but in the longer term the cuts to tax credits will be realised in the shift toward Universal Credit.

The pace of reduction in public expenditure poses a significant threat to the economic outlook for Northern Ireland and unless there is a substantial uplift in private sector activity, the overall outlook remains negative.

Box 3.1 The Stormont Agreement and Implementation Plan

On the 17th of November the two main political parties in Northern Ireland reached an Agreement with the British and Irish governments to secure the future of the devolved institutions. There were many issues discussed and agreed, but the main elements of the agreement relating to the economy covered corporation tax, welfare reform and public expenditure.

On corporation tax (CT) the parties agreed to reduce the Northern Ireland rate to 12.5 per cent by April 2018. The arguments for and against this policy are well rehearsed at this stage but there were some important developments in this latest agreement. Firstly the British government agreed that for the first four years Northern Ireland would not be liable for the impact of the behavioural effects of a reduced CT rate, i.e. they would not be liable for the loss of revenue experienced by the Treasury if a GB based firm moved to Northern Ireland and filed a tax return here. The more important development though was the proviso that Stormont could only reduce its CT rate once its finances were on a 'sustainable footing'. This clause may be activated in the future as the NI Executive struggles with reductions in public expenditure over the next four years.

On welfare reform the parties agreed to allow the 2012 Welfare Reform Bill which has been stalled for over 3 years to be passed. It was legislated for by Westminster and the Northern Ireland parties have agreed to set aside departmental funding in order to cover some of the shortfall in welfare payments. They further agreed to boost the welfare reform mitigation package to cover those who would have lost out from tax credit changes bringing the cost of the total package to £568m over four years. It is unclear at this stage where funds earmarked for tax credit mitigation will now be spent.

On public expenditure the agreement saw a commitment of funding from the UK government to tackle issues specific to Northern Ireland including security, paramilitaries and community relations. It also contained a commitment by the UK government to fund a programme to tackle welfare fraud. Northern Ireland would be entitled to keep 50 per cent of the total amount saved by this, but no projections of this were provided in the agreement.

Table 3.4 outlines the expectations of forecasters in Northern Ireland on the outlook for the labour market and economic output. Overall most forecasts expect average growth of 2 per cent in 2015, moderating somewhat in 2016. The NICEI recorded annual growth on 1.3 per cent in the second quarter and so a significant upswing in performance would be needed in the final two quarters for these forecasts to be realised. All forecasters expect moderate employment growth up to 2016 but these projections will not have been impacted by recent job announcements. The forecast for output in Northern Ireland contrasts with the rates of growth presented for the Republic of Ireland and the UK at the beginning of this section.

Table 3.4 Overview of recent projections of Economic Activity and employment/unemployment (Northern Ireland)

	2014 (Outturn)	2015	2016
Economic Activity	**n/a**		
Ernst & Young (GVA)	-	2.0	-
PWC (GVA)	-	1.8	1.7
Danske Bank (GVA)	-	2.0	2.2
UUEPC	-	1.9	1.1
Employment	**0.3**		
Danske Bank		0.5	0.5
Ernst & Young	-	0.8	-
UUEPC	-	0.7	0.6
Unemployment % Labour Force	**6.4**		
Danske Bank		6.2	6.1

Sources: Ernst and Young: Economic Eye, Summer 2015; PWC: Northern Ireland Economic Outlook August (2015); Danske Bank Quarterly Economic Overview Q3 2015 (August 2015) & Quarterly Sectoral Forecast Q3 2015(september 2015) NICEP Spring Outlook (May 2015)

Note: Gross Value Added differs from GDP by the difference between taxes and government subsidies.

Box 3.2 UK Autumn Statement – Considerations for Northern Ireland

The Autumn Statement delivered on the 25th of November by the Chancellor George Osborne saw a significant shift on changes to welfare and a significant improvement in the underlying public finances. The changes to tax credits are covered in greater detail in Section 4, but at UK level, the policy U-turn opened a £4.4bn hole in the government's deficit reduction target. The majority of this is to be made up by better that expected tax receipts and a large portion of that improvement is also down to changes in the way the Office for Budget Responsibility calculates future revenues.

There are significant forecast increases in revenue for both National Insurance and Value Added Tax that are due in the most part to 'modelling effects'. The public finances also benefited from significantly lower than forecast interest payments on the National Debt. The Chancellor has utilised this breathing space to ease the pace of some spending cuts, however should the forecast savings and increased receipts not appear, the government's plans for deficit reduction could be blown off course. There were also significant revenue raising measures such as the Apprenticeships Levy on businesses and an increase in stamp duty on second homes and buy-to-let properties.

For Northern Ireland the abandonment of changes to tax credits provides welcome relief in the short but the squeeze on departmental spending is still quite significant. Over the next four years, Resource Departmental Expenditure Limit (DEL) is set to fall by 1.3 per cent per year in real terms leading to a cumulative cut of over 5 per cent by the end of this parliament. On Capital Spending the Chancellor announced £600m in funding, and the OBR estimates show Capital DEL increasing to £1.2bn by 2020. However in cash terms this only brings capital spending back to levels that were last seen in 2009/10. The real terms reduction over this period is likely to be significant.

4 The National Living Wage and Tax Credits in Northern Ireland

4.1 Introduction

In the Spring 2014 edition of this publication we outlined the scale and extent of low pay in Northern Ireland and explored policies that might respond to that situation. The UK government in the Summer Budget of July of this year outlined a plan for a National Living Wage to be implemented on a statutory basis in order to boost earnings among the low paid. In the same budget speech the Chancellor of the Exchequer George Osborne outlined an ambition to reduce spending on tax credits by some £4.5bn over the lifetime of the current parliament. Tax credits, a form of social transfer to people in low paid work, have become a significant component of government expenditure in recent years. As part of a wider deficit reduction plan, the UK government had sought to dramatically reduce spending on tax credits and boost wages to compensate for the subsequent loss of income.

In the Autumn Statement, delivered less than five months after the Summer Budget and following a government defeat in the House of Lords, most of the proposed changes to tax credits were dropped. Over those five months two significant questions arose over the capacity of a new statutory wage floor to compensate for the loss of tax credit income. Firstly, was there any evidence that the tax credit claimants who would see their incomes reduced would be the same cohort as the earners who would gain from the National Living Wage? Secondly, would the expected wage boost from the National Living Wage be of the same order as the expected cut in tax credit income? This section of the QEO seeks to answer these questions and provide some insight into why such a significant policy change was reversed.

The next section will outline the data and methodology used to identify those affected by both policies. The subsequent sections will then examine the makeup of those two groups, before identifying the interaction between them. The policy section will then analyse these findings and discuss the broader implications for wage growth and social transfers at large.

4.2 Data and Methodology

In the past when measuring low pay in Northern Ireland (NERI, 2014 & Mac Flynn, 2014) the Annual Survey of Hours and Earnings (ASHE) has been used as the main data source. ASHE is a survey carried out by the Office for National Statistics (ONS) which makes use of employer National Insurance returns in order to ascertain data on wages, hours of work, other employment arrangements and conditions. ASHE has a very large sample and the fact that data on wages is provided by employers rather than self-reported by employees gives more weight to the accuracy of the data[1]. However ASHE does have limitations. As an employer survey ASHE does not capture earnings of the self-employed, but more importantly from the perspective of this investigation it only has a limited number of personal characteristics attached to each observation. An alternative data source is the Family Resources Survey (FRS) for Northern Ireland which provides a range of questions from earnings to benefits payments, taking in key socio economic characteristics as well[2].

Table 4.1 ASHE and FRS (adjusted) Hourly Wage Deciles

Percentile	2013(ASHE)	2013/14 (FRS)	2014(ASHE)
10	*6.25*	**6.28**	*6.32*
20	*7.03*	**7.00**	*7.00*
25	*7.50*	**7.51**	*7.49*
30	*8.00*	**8.00**	*7.93*
40	*9.10*	**9.00**	*8.96*
50	*10.25*	**10.27**	*10.12*
60	*11.74*	**11.79**	*11.78*
70	*14.13*	**13.45**	*14.13*
75	*15.72*	**14.60**	*15.70*
80	*17.64*	**16.23**	*17.54*
90	*22.37*	**19.83**	*22.37*

Source: Annual Survey of Hours and Earnings 2013 & 2014, Family Resources Survey 2013/14
Notes: FRS data is adjusted for Employees, not absent from work in previous 3 days, and for those earning below the NMW

As a survey of self-reported income the FRS suffers from under-reporting of income due to respondents being unaware of exactly how much they earn (Gardiner, 2014). However, minor adjustments to the data produce a distribution of hourly earnings that

[1] The Average Weekly Earnings Survey is another Employer based Earnings Survey, but to date the sample does not cover Northern Ireland
[2] The Labour Force Survey also has a large sample size in Northern Ireland, however the sample size for questions on earnings is significantly smaller and thus less accurate (see Gardiner, 2014)

is quite similar to that produced by ASHE. Comparing the 2013-14 FRS to ASHE data for 2013 and 2014, Table 4.1 shows that particularly in the lower half of the distribution hourly pay rates are quite similar.

The FRS allows earnings from employment to be placed in the broader context of total gross income. That gross income also includes income from benefits such as tax credits which the FRS also captures. Once again self-reporting tends to underestimate tax credit income in the FRS (IFS, 2015) along with other means tested benefits. According to the FRS 17 per cent of households claim some form of tax credit income, but caseload figures reported by the Social Security Agency (SSA) imply that this figure is as high as 21 per cent. The SSA figures are based on a sample of actual tax credit awards and therefore offer much greater accuracy.

Data from the ASHE and SSA provide the best estimates of the overall impacts of policy changes for wages and welfare respectively. Therefore the FRS data reported here will speak to percentages and proportions rather than figures for the population as a whole. This analysis can then sit alongside more robust estimations of overall effects from the more authoritative data sources. Importantly however, the FRS data can calculate whether an individual will benefit from the NLW and then place that individual in a family or benefit unit (unit by which tax credits are assessed) in order to calculate whether or not they would have been affected by changes to tax credits. Mindful of the shortcomings of FRS data we can begin to assess how these policies will affect Northern Ireland and to what extent they interact.

4.3 The National Living Wage

In previous editions of this publication we examined low pay under three measures, the Minimum Wage, ⅔ of the median wage and the Living Wage. Some 16 years on from the introduction of the National Minimum Wage (NMW) in 1999 there are concerns that its role has become more that of a starter wage than a wage floor. Many workers living on the minimum wage struggled to provide for themselves which led to the concept of a Living Wage. The Living Wage is loosely defined as an hourly rate of pay, which along with regular hours of work and full take-up of benefits, provides for a basic standard of living. The Living Wage is calculated by the Greater London Authority and the University of Loughborough, set separately for London and the rest of the UK and presented as a guide to employers who may wish to offer it to staff on a voluntary basis.

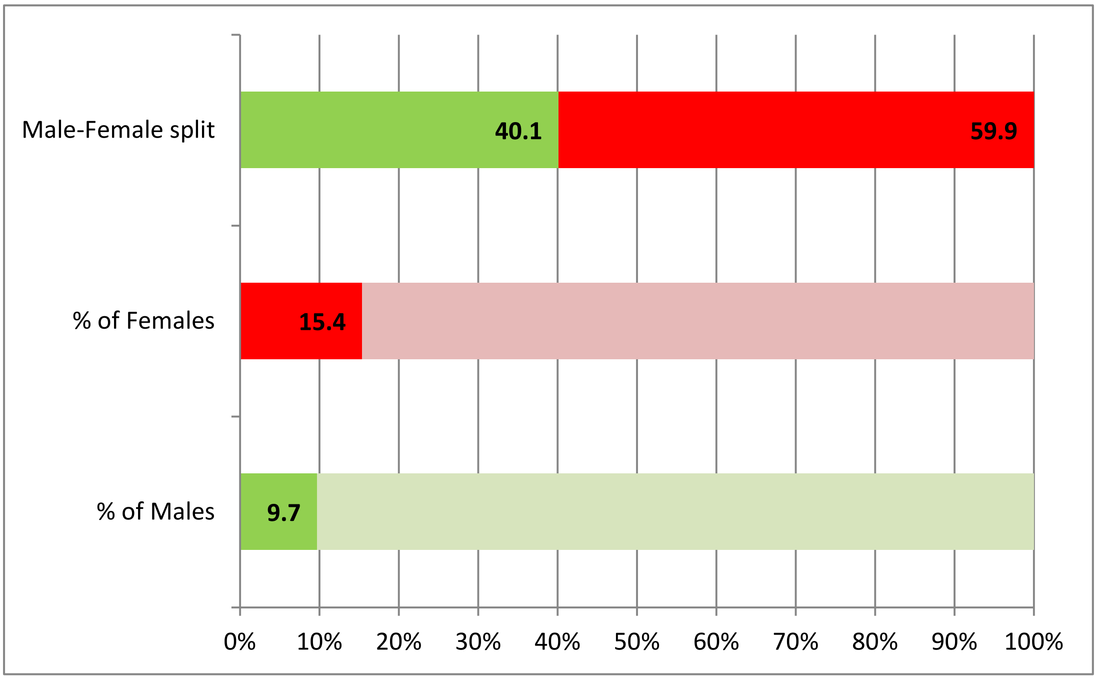
The National Living Wage (NLW) that was announced in the July 2015 Budget differs from the 'Living Wage' in a number of important ways. It brings the official measure of low pay, ⅔ of the median wage, into the calculation of the NMW. Like the NMW, it is statutory, and must be paid to employees over the age of 24. However it is not calculated on the basis of affordability for employees, it is calculated so that, with annual increases, it will equal 60 per cent of the median wage for those aged 25 and over by 2020. The intention is that by 2020 workers on the NLW will be approximate to the low-paid threshold of ⅔ of the overall median wage. While this does represent a significant boost, it is in effect a higher minimum wage with annual adjustments tied to growth in the median wage. In the past the Low Pay Commission was tasked with issuing guidance for increases in the NMW based on its assessment of employment impacts. It is unclear what role LPC guidance will have with regard to increases in the NLW.

The National Living Wage will be introduced from April 2016 and will apply across all areas of the United Kingdom. As Northern Ireland is one of the lowest paid regions of the UK, the introduction of the NLW is likely to affect proportionately more workers here. As previous NERI research has shown however low pay does not impact the labour market equally and some workers and industries will necessarily be more impacted than others.

The Family Resources Survey data presented here is the latest available for 2013/14 and the National Living Wage will not come into effect until April 2016. The NLW rate that will come into effect in April next year will be equal to 55 per cent of the median wage for those aged 25 and over. In order to analyse how many workers this would affect in the FRS, we calculate the proportion of workers paid under this level in 2013/14 and classify this as the NLW. 18 per cent of all employees in Northern Ireland earned under this NLW which is the same percentage as 2014 headline ASHE figures. When those under the age of 25 are excluded the proportion earning below NLW in FRS falls to 13 per cent in 2013/14. The lower age limit of 25 excludes approximately 50,000 workers from the uplift in wages. As mentioned in the data section, the FRS statistics used here are intended to provide an estimation of relationships and interactions between individuals and groups affected by these policies rather than definitive estimates of the total population.

Based on the 2013/14 FRS data, 15.4 per cent of female workers fall under the threshold compared to 9.7 per cent of male workers. The gender makeup of the total number affected by the NLW is 60 per cent female and 40 per cent male.

Chart 4.1 National Living Wage Beneficiaries by Gender



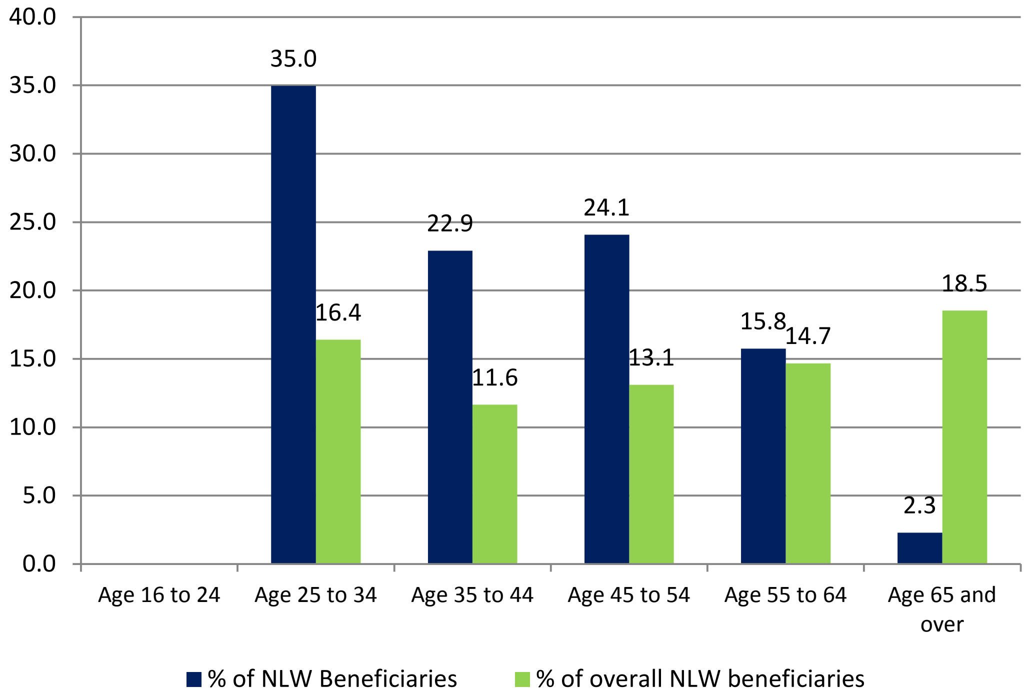
Source: Family Resources Survey 2013/14

Among the age groups obviously no workers under the age of 25 are entitled to the new rate but some employers may choose to offer the NLW rate to younger employees[3]. 16 per cent of those in the 25-35 age group will benefit from the NLW, and this group accounts for 35 per cent of all those likely to benefit from the NLW. Surprisingly the 65+ age group has the highest proportion of employees (18 per cent) likely to see a pay rise with the NLW. As there are very few employees in this age bracket the 65 and over age group only accounts for 2.3 per cent of all NLW

[3] See Sainsburys http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/11826288/Sainsburys-trumps-Governments-living-wage-with-4pc-pay-rise.html

beneficiaries. However as noted in the Spring 2014 QEO, low pay diminishes with age up until the age of 65 when it tends to increase slightly again (NERI, 2014).

Chart 4.2 National Living Wage by Age Group



Source: Family Resources Survey 2013/14

Looking towards the labour market itself, the spread of the NLW follows a familiar trend. The Wholesale & Retail sector will absorb just over a third of all wage increases arising from the NLW. Once again these figures are not that surprising considering that the retail sector has the largest number of low paid workers across Northern Ireland. 25 per cent of all Wholesale & Retail workers will be automatically entitled to a NLW pay rise and this rises to 29 per cent for the retail trade sector alone.

Accommodation and Food, which has the highest proportion of low paid workers, will absorb 10 per cent of increases. Health & Social Care will contain just over 15 per cent of wage increases with the vast majority of these increases coming from the residential care and social work elements of this sector. 27 per cent of all Residential Care workers will be entitled to a NLW pay increase. Many of the jobs in those areas will be either in the public sector or in outsourced public services, showing that the NLW will have implications for the public finances beyond welfare policy. There has been a growth of low pay and casualisation in the care sector across the UK in recent years which has led to investigations by the Low Pay Commission (Gardiner, 2015).

Manufacturing will see 9 per cent of all increases highlighting the significant number of low paid jobs across that sector in Northern Ireland. The majority of these increases will be in the food manufacturing section of the industry with a significant number also in the manufacturing of plastics and rubber. As there are large companies that operate within these sectors in Northern Ireland, it would not be difficult to hypothesise the impact of NLW on individual companies.

Table 4.2 National Living Wage Beneficiaries by Economic Sector

Sector	% of Total	% of Sector
Agriculture, Forestry and Fishing	3.0	39.0
Mining and Quarrying	0.0	0.0
Manufacturing	8.7	9.9
Electricity & Gas	0.0	0.0
Water supply, sewerage & waste	0.0	0.0
Construction	3.7	8.4
Wholesale and retail trade	31.5	25.1
Transportation and storage	3.1	8.0
Accommodation and food service activities	10.0	33.6
Information and communication	0.9	5.0
Financial and insurance activities	0.8	3.2
Real estate activities	0.0	0.0
Professional, scientific and technical activities	1.7	5.9
Administrative and support service activities	8.9	27.3
Public administration	2.1	2.5
Education	4.8	6.0
Human health and social work activities	15.1	12.0
Arts, entertainment and recreation	0.9	6.6
Other service activities	3.5	15.1
Undefined	1.3	8.4

Source: Family Resources Survey 2013/14

Finally, one of the most important characteristics of workers affected by the NLW is whether they are part-time or full-time. This is important because it directly impacts on the estimated weekly wage increase for NLW recipients. 25 per cent of part-time workers will see a boost from NLW compared to 9 per cent of full-time workers.

Overall, 45 per cent of those who will directly benefit from the NLW will be part-time workers.

This research only looks at those who will automatically be impacted by the NLW. Many more workers above the NLW rate at present could see an increase in wages. These issues will be discussed in more detail in the policy section later.

4.4 Tax Credit reforms in Northern Ireland

The UK Summer Budget outlined key changes to the current system of tax credits. Tax credits are a means tested benefit paid in two parts:

- Working tax credits: in-work support for people on low incomes, with or without children (HMRC, 2015)
- Child tax credits: income related support for children and young people paid to the main carer whether they are in or out of work

Working tax credits are paid to claimants who work a minimum number of hours per week (this can vary depending on age or the number of children), but still have a very low income. The total payment received depends on a number of factors including number of children, hours of work and whether the claimant has a disability. The maximum income a claimant can receive also depends on these circumstances, but tax credits begin a gradual withdrawal or taper when income reaches a threshold, currently £6,420. The maximum income a claimant can have is also subject to their particular circumstances.

A report published by the Northern Ireland Statistical Research Agency for the Social Security Agency and the Department for Social Development (NISRA, 2015c) outlined the changes to tax credits proposed in the Summer Budget:

- A reduction in the Tax Credit Income Threshold from £6,420 per annum to £3,850 per annum from April 2016
- An increase in the Tax Credit Taper Rate from 41 per cent to 48 per cent from April 2016
- The removal of the Family Element of Child Tax Credit for new births from April 2017

- Limiting of the Per Child Element of Child Tax Credit to two children for births after April 2017
- A reduction of the in-year income rise disregard from £5,000 to £2,500 from April 2016.

Subsequently in the Autumn Statement in November the first, second and last of these changes to tax credits were dropped. The changes to the threshold and the taper rate would have had the largest impact on families in Northern Ireland. The report estimated that the change to the threshold alone would have affected over 121,000 families and would have resulted in an average annual reduction of £918 per family in 2016-17. The proposal to increase the taper rate of tax credits from 41 per cent to 48 per cent would have affected 110,000 of the 121,000[4] families affected by the threshold reductions. The estimated average loss to families would have been £13.60 per week or £712 annually with families on higher income losing more.

The cuts to tax credits will not now take place in April 2016, but will take place when these families move to Universal Credit which will combine tax credits with other means tested benefits into a single payment. This may be some time off in Northern Ireland, but it will eventually affect all families.

4.5 The National Living Wage and Tax Credit reform in Northern Ireland

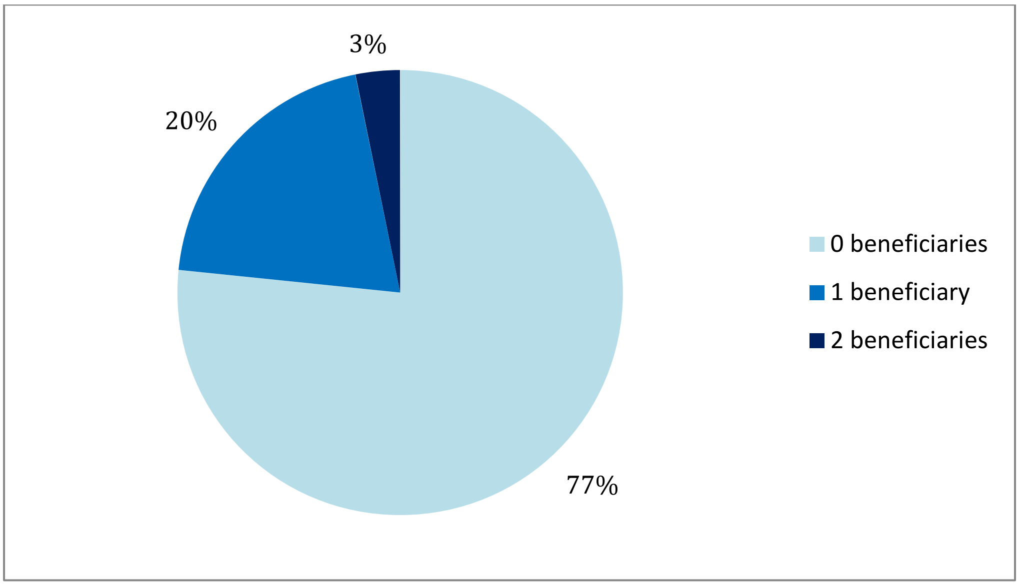
At the time of the Summer Budget, the tax credit changes were justified on the basis that other policy announcements would compensate for the loss of income and chief among these was the introduction of the National Living Wage. To illustrate the difficulty of this proposition we need to look at two key figures.

First, of the families who would have been negatively impacted by the changes to tax credit thresholds, how many contain a worker who will benefit from the National Living Wage? Second, the average gain from the NLW needs to be viewed at family level as well. This is distinct from the average benefit for an individual employee, because a family may contain more than one NLW recipient and therefore the average

[4] For some families, changes to the threshold will leave them with zero tax credits; hence the taper will not affect them.

wage increase for the family could be higher. Two thirds of tax credit recipients are 'in-work' families, and as such only these families could automatically benefit from the NLW. Looking at the FRS data for 2013-14, Chart 4.3 shows the families who would have seen tax credit cuts by the number of NLW beneficiaries contained within it.

Chart 4.3 Tax Credit cut families by number of NLW beneficiaries



Source: Family Resources Survey 2013-14

Of the families that would have been affected by the reduction in the income threshold for tax credits, nearly 77 per cent would not have received any uplift as the family does not contain a worker who will automatically benefit from the NLW. 20 per cent contain one worker who will see an automatic increase whilst only 3 per cent of these families have two earners eligible for an increase.

Calculating the increase from the NLW and comparing it to the estimated decrease from tax credits is more problematic. A new National Minimum Wage rate of £6.70 for all aged 21 and over took effect in October 2015 and this will be the minimum level from which all employees over 24 will increase from. Therefore the maximum mandatory or automatic increase that any NLW beneficiary would receive would be £0.50 per hour. Wage increases that take place up to March 2016 will also reduce the average hourly increase from the NLW, so no definitive hourly wage increase is presented here. A 50p hourly rate increase therefore represents the largest likely mandatory increase.

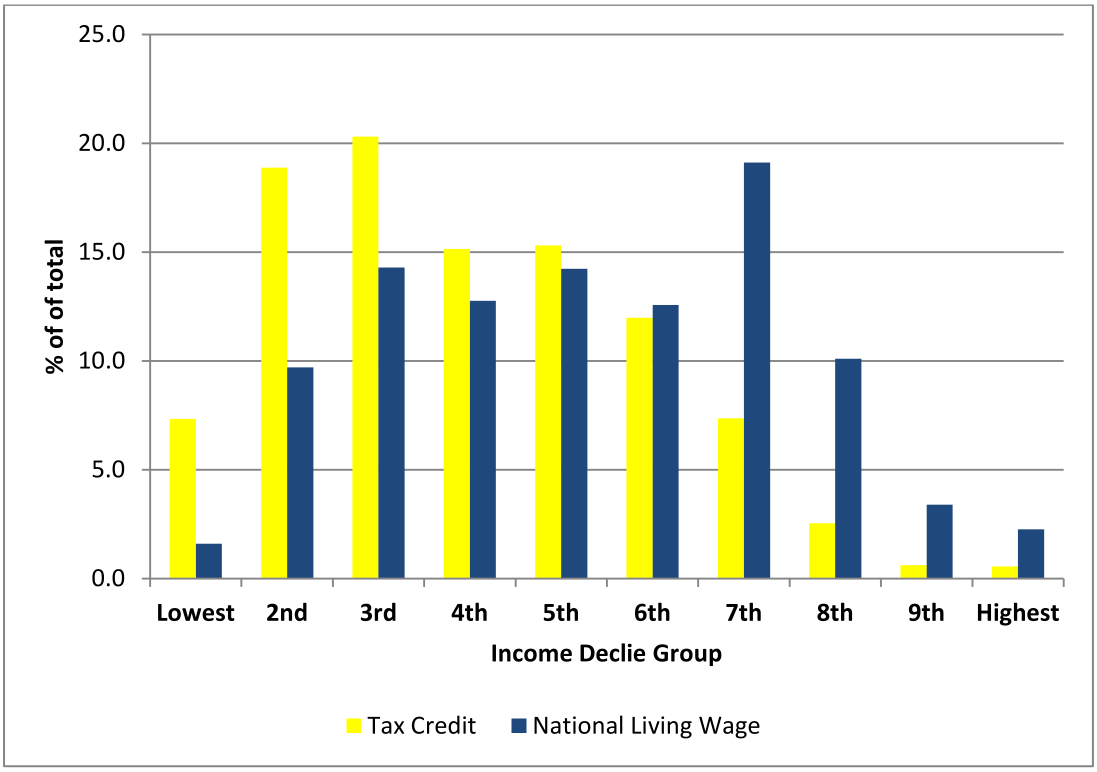
In 2013-14 the average number of hours worked among NLW beneficiaries was 30. This would result in a possible individual weekly increase in earnings of £15 per week based on 50p per hour increase. This increase would then be up to £30 per week for a family with two NLW beneficiaries.

It must be emphasised that these figures are estimates of possible increases. The actual overall boost in wages that will arise from the NLW is likely to reach beyond those entitled to automatic increases, and research from the Resolution Foundation (D'Arcy et al, 2015) has estimated that three workers will benefit indirectly for every two workers directly impacted by the NLW. These spill-over effects are discussed in the next section.

What can be said is that if the changes to tax credits had proceeded as planned, 97 per cent of those in work who would have been impacted would not have been compensated in full through the NLW. 77 per cent would have received no compensation at all and 20 per cent could only have been partially compensated. 3 per cent of families might have seen a neutral impact based on two family members benefiting from the NLW, but this would be a best case scenario. Many of the same families would likely have been impacted by other changes to the family and per-child element of tax credits, and these changes will come into in effect in April 2016.

Returning to the two questions posed at the beginning of this section, the analysis suggests that in Northern Ireland the NLW could not have covered all of those impacted by cuts to tax credits, and for those it does cover only 13 per cent could plausibly have avoided a reduction in income.

Chart 4.4 Where Tax Credit recipients and NLW beneficiaries sit in the Distribution of Family Income



Source: Family Resources Survey 2013-14

The mismatch between those receiving tax credits and NLW beneficiaries becomes clearer when both are plotted on the income distribution of Northern Ireland. As Chart 4.4 shows the NLW benefits significantly more people in the middle of the distribution and the 7th decile in particular. Tax credits are of more benefit to people in the lower and middle of the income distribution. The distribution of families who would have been affected by tax credit cuts among the income deciles is almost identical, save for the 1st decile where minimal tax credit cuts would have taken place.

It is perhaps surprising to see so many NLW beneficiaries in the upper portion of the income distribution. Raising the minimum wage does increase earnings for many low-income families, but there are also many minimum wage earners in high income families. This is usually a two-income household where a spouse or partner has a job paying at or just above the NMW. A majority of tax credit recipients can be found between the 2nd and 5th deciles. The fact is increases in the wage floor could not, on the basis of these figures, compensate for the reduction in tax credits. The question that needs to be asked is could wage increases ever be expected to replace such a significant social transfer?

4.6 Policy Implications

While the policy of a National Living Wage may not have been as contentious as the proposed cuts to tax credits, it is still quite controversial in its own right. From the standpoint of an employer the NLW is nothing more than a higher minimum wage, an extra cost on labour with no perceived pay off in productivity. As it is presently constructed the NLW should, by 2020 lift most workers aged 25 and over close to '⅔ of the median wage', however there is little evidence that it will significantly reduce 'low pay' (Corlett & Gardiner, 2015). While a statutory NLW will certainly boost the incomes of many low-paid workers, it will not reach all low-paid workers. More broadly, if the Minimum Wage did not solve the problem of low pay in 1999, why would the NLW, a slightly higher minimum wage, be radically more successful today?

As mentioned previously, the Living Wage as defined by the Living Wage Foundation is conceptually distinct from the NLW. The Living Wage is proposed as a voluntary rate for companies that can afford to pay it. The Living Wage posited the idea that employers would look beyond cost minimisation when deciding wage rates, and that this might in turn promote wider pay progression. One of the main criticisms made by the Bain report (2014) was that the minimum wage was expected to have a ripple effect all the way up through the economy, this did not happen. Instead the minimum wage became the acceptable rate of pay, rather than the minimum acceptable rate.

As previously mentioned, research from the Resolution Foundation estimated the number of workers that will indirectly benefit from the NLW. While there are expected to be spill-over effects for workers above the NLW, there is uncertainty over the numbers who stand to gain and how large that gain would actually be. The research highlights that for many the increase could be in the region of 2-3p per hour. Taking into account these spill-over effects it is still hard to imagine how the NLW would lead to broader pay progression across the labour market when the NMW has failed to do so.

If the NLW is not an antidote to the lack of pay progression, perhaps it can aid in reducing the social transfers paid from the state to low income families to avoid poverty. Based on the findings presented here for Northern Ireland, it cannot. There is no evidence to date either that tax credits have actively lowered wages across the economy (Gregg el al, 2012) but the theory that higher wages more generally could significantly reduce social transfer spending across the board bears further examination.

State expenditure on tax credits alone has increased by 48 per cent in real terms in the last 10 years (DWP, 2015) and the government now argues that the burden of providing incomes for workers should rest more with employers. Initial estimates indicate that the NLW could reduce tax credit and housing benefit expenditure by £500m per year by 2018/19 (OBR 2015). Given that the current spend on Tax Credits alone at UK level is just under £30bn, this seems quite a small impact.

If wages were to be expected fill the gap in family incomes vacated by state support how high would they need to be and where would that leave the competitiveness of wages in the UK economy? Whilst the Office for Budget Responsibility and the Bank of England estimate that the employment impacts of the NLW will be small, if wages were expected to form the vast majority of gross income, the resulting wage levels could create diseconomies of scale for small businesses and could motivate internationally mobile firms to locate elsewhere.

This does not take away from the fact the tax credits are still a large and increasing component of state expenditure. In Northern Ireland, tax credits account for 16 per cent of total welfare spending compared to 14 per cent in Great Britain (DWP, 2015). If welfare spending by the state sustains some forms of low-paid employment for the benefit of the economy as a whole, then perhaps that cost should be recouped from those who have gained most from it. Corporation tax would seem that natural vehicle from which to recoup this expenditure in recognition that profits generated within the UK economy benefit from competitive wages only made possible by social transfers.

The reversal of changes to tax credits will shield many families in Northern Ireland from what would have been a dramatic loss in income. The National Living Wage will provide a significant earnings boost for many families, however it is not and never will be a replacement for tax credits.

4.7 Conclusion

The National Living Wage could lead to increased earnings for 13 per cent of the Northern Ireland workforce. Changes to the Tax Credit threshold and taper rate would have resulted in a significant reduction in the incomes of a large number of families across Northern Ireland. There are very few cases where these policies overlapped and even fewer where they might have cancelled each other out. The data for Northern Ireland suggests that it would be misguided to try and lift the burden of income from the state to employers via a higher wage floor. This has important implications for Northern Ireland as families move from Tax Credits to Universal Credit.

In reality the lack of pay progression is due to a number of external factors largely beyond the control of government. While the establishment of a minimum wage was successful in creating a threshold of decency, policies such as access to collective bargaining and greater human capital investment may ultimately prove more fruitful in lifting wages across the economy and for pay progression more generally.

The current level of tax credit expenditure has many disparate causes beyond low pay. Broader pay progression may lift many workers out of dependency on tax credits, and this may reduce some of the expenditure that has been necessary over the last number of years. The reality is that there will always be a need for some level of provision to sustain low-skilled employment and tackle issues like child poverty. Government policies would be better aimed at broadening pay progression throughout the economy and providing a tax system that adequately funds necessary social transfers.

5 Conclusion

The pace and depth of growth in the Republic of Ireland contrasts sharply with the experience in Northern Ireland in 2015. Despite very high levels of government and personal debt the domestic economy in the Republic is contributing positively to a sustained recovery. In Northern Ireland, substantial job losses in the private sector have created uncertainty and this is compounded by the prospect of further contraction in the public sector. While the Republic of Ireland saw the first expansionary Budget in over eight years, Northern Ireland is facing the prospect of a further four years of public expenditure reduction. Welfare changes that were delayed in the Autumn Statement are likely to take effect in Northern Ireland at the end of those four years.

Our research shows that a new wage floor in Northern Ireland could not possibly negate the substantial cuts in Tax Credits proposed by the UK government in July this year. The National Living Wage will provide a boost to incomes for a large group of low paid workers and the current system of tax credits provides support for families on low incomes, but the overlap between these groups is not as large as many think. Furthermore the prospective wage increase is not of the same magnitude as the reduction in income from tax credits that was originally proposed. In light of this, the delaying of these cuts is a positive development for families in Northern Ireland. However the cuts to Universal Credit will eventually affect all of these families and it remains to be seen whether increases in the National Living Wage over the next four years can significantly alter the current situation.

The future prospects of both economies are as divergent as their current status. For Northern Ireland, the return of political stability provides a short-term boost. In the longer term, without a plan to boost productivity and overall output, NI will find it difficult to withstand the pace of reductions in public sector activity or the prospect of a British exit from the European Union. The Republic of Ireland outlook is more positive, but also very sensitive to disruptions in the global economy.

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7 Appendix

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

	2010	2011	2012	2013	2014
Total Expenditure					
Consumption €m	83,666	84,617	84,579	85,724	88,959
Investment: private and public €m	29,584	29,921	33,450	31,677	36,511
Government current spending €m	26,455	26,155	25,955	26,110	27,236
Exports €m	171,332	176,112	187,427	191,434	214,961
Imports €m	-144,748	-144,811	-157,399	-156,765	-180,287
Domestic Demand €m	139,136	141,473	144,281	144,283	154,611
Total Income					
GDP €m	166,157	173,940	174,845	179,448	189,046
GNP €m	139,732	141,813	143,331	152,042	162,877
Income from Agriculture €m	2,545	3,282	3,099	3,190	3,393
Income non-Agriculture: Wages €m	67,775	67,800	67,328	67,672	70,027
Income non-Agriculture: Other €m	56,022	63,847	62,608	64,363	67,856
Employment					
Labour Force	2,196,700	2,173,700	2,165,800	2,182,100	2,172,400
Labour Force Participation Rate %	61.0%	60.4%	60.2%	60.7%	60.4%
Employment	1,886,100	1,845,600	1,841,300	1,899,300	1,926,900
Employment full-time	1,459,700	1,411,300	1,395,000	1,448,600	1,474,700
Employment part-time	426,400	434,300	446,300	450,700	452,200
Underemployment	112,500	140,800	147,600	139,300	124,300
Unemployment	310,600	328,100	324,500	282,900	245,500
Unemployment %	14.1%	15.1%	15.0%	13.0%	11.3%
Long-term Unemployment	152,600	191,700	193,000	165,100	139,200
Long-term Unemployment %	6.9%	8.8%	8.9%	7.6%	6.4%
Migration					
Immigration	41,800	53,300	52,700	55,900	60,600
Emigration	69,200	80,600	87,100	89,000	81,900
Net Migration	-27,500	-27,400	-34,400	-33,100	-21,400

	2010	2011	2012	2013	2014
Public Finances					
Total General Gov. spending €m	103,544	76,550	69,844	70,371	n/a
Total General Gov. revenue €m	55,149	55,331	56,623	58,866	n/a
General Gov. Balance €bn	-48.40	-21.22	-13.22	-11.50	n/a
General Gov. Gross Debt €bn	144.2	190.1	210.2	215.3	203.2
General Gov. Gross Debt % GDP	86.8%	109.3%	120.2%	120.0%	107.5%
Earnings and Prices					
Average earnings € per week	693.70	687.67	691.93	677.13	670.53
Average earnings % change	-0.8%	-0.9%	0.6%	-2.1%	-1.0%
Private sector av. earn. % change	-0.8%	0.7%	1.2%	-1.2%	-0.6%
Public sector av. earn. % change	-2.4%	-2.5%	1.0%	-1.3%	-1.1%
Inflation CPI %	-1.0%	2.6%	1.7%	0.5%	0.2%
Inflation HICP %	-1.6%	1.1%	2.0%	0.5%	0.4%
Inequality and Poverty					
Gini coefficient	31.4	31.1	31.2	31.3	31.8
Quintile ratio	4.8	4.9	5.0	4.8	5.0
Relative poverty %	14.7%	16.0%	16.5%	15.2%	16.3%
Consistent poverty %	6.3%	6.9%	7.7%	8.2%	8.0%
Deprivation rate %	22.6%	24.5%	26.9%	30.5%	29.0%

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.
Public Finance indicators from Eurostat.

Appendix 7.2 Overview of recent economic trends– Northern Ireland

	2010	2011	2012	2013	2014
Total Expenditure					
Personal consumption £m	-	-	-	-	-
Investment: private and public €m*	8,782	7,675	9,220	-	-
Government consumption £m	-	-	-	-	-
Exports £m	5,438	5,910	5,627	5,985	5,924
Imports £m	5,417	5,774	5,690	5,821	5,955
Domestic Demand £m	-	-	-	-	-
Total Income					
GVA £m	31,444	31,961	32,444	32,841	-
GNP £m	-	-	-	-	-
Income from Agriculture £m	373	374	385	-	-
Income non-Agriculture: Wages £m	17,420	17,890	18,287	-	-
Income non-Agriculture: Other £m	13,651	13,697	13,772	-	-
Employment					
Labour Force	841,000	862,000	865,000	865,000	873,000
Labour Force Participation Rate	59.8%	61.0%	60.8%	60.5%	60.7%
Employment	765,500	781,500	780,000	776,500	795,000
Employment full-time	598,000	611,000	597,000	594,000	618,000
Employment part-time	177,250	185,000	194,000	199,000	194,000
Underemployment	27,000	32,000	41,500	43,000	34,000
Unemployment	60,000	62,500	65,000	65,000	56,000
Unemployment rate %	7.1%	7.2%	7.5%	7.5%	6.4%
Long-term Unemployment	26,000	27,500	33,000	34,500	30,000
Long-term as % of Unemployed	42.9%	44.1%	50.7%	53%	53.5%
Migration					
Immigration	24,544	23,724	23,255	23,100	24,381
Emigration	23,394	25,218	24,570	25,438	22,810
Net Migration	1,150	-1,494	-1,315	-2,338	1,571

	2010	2011	2012	2013	2014
Public Finances					
Total General Gov. spending £m	18,889	19,133	19,364	19,802	20,055
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	354.4	354.6	360.1	365.2	359.6
Average earnings % change	-0.1%	0.1%	1.6%	1.4%	-1.5%
Private sector av. earn. % change	0.6%	0.1%	-2.3%	2.5%	0.4%
Public sector av. earn. % change	6.5%	1.9%	5.4%	-1.7%	2.3%
Inflation CPI %	-	-	-	-	
Inflation HCPI %	-	-	-	-	
Inequality and Poverty					
Gini coefficient	31	31	30	28	30
Quintile ratio	3.9	3.7	3.7	3.7	3.6
Relative poverty %	22%	20%	21%	19%	21%
Consistent poverty %	20%	20%	23%	20%	23%
Deprivation rate %	-	-	-	-	-

Sources: HMT Public Expenditure Analysis 2014; HMRC RTS; ONS Gross Value Added (Income Approach); NISRA Labour Force Survey; NISRA Northern Ireland Migration Flows; NISRA Annual Survey of Hours and Earnings; Department of Social Development Poverty Bulletin

Notes: Where cells are blank the data are unavailable.
*Investment as Gross Fixed Capital Formation (estimated)

Notes

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