

AN ANALYSIS OF THE NORTHERN IRELAND ECONOMY

Submitted by Jim Allister MEP to the EU Task Force

1.1 An Improving Situation?

Recognition needs to be given to the improvements in NI Economy over the past ten years, with financial input from the EU. Advances in the economy have taken place, in terms of GDP growth levels, manufacturing output (albeit sporadically) and employment levels.

1.2 Structural Difficulties

However this is not the complete picture. There remain structural difficulties and challenges to be overcome. These will not be changed by a continuation of existing strategies or a simple development of them. Underlying structural weaknesses must be tackled. These are:

- An underdeveloped private sector;
- over-dependence on the public sector;
- low levels of business formation and R&D spend;
- low levels of labour market participation; and
- high levels of long-term unemployment and uneven sub-regional growth.

Taking these in turn, they can be further developed:

1.2.1 An underdeveloped private sector

- Of Northern Ireland's 53,770 VAT-registered businesses, 31 per cent are agricultural and 89 per cent employ fewer than 10 people
- Only 200 businesses have more than 200 employees and a mere 65 employ more than 500 workers.
- The overwhelming number of large private-sector employers are overseas-owned
- Around two-thirds of all manufacturing workers are employed by overseas-owned companies
- NI has the lowest average private sector wages amongst the 12 UK regions at 83% of the UK average.

1.2.2 Over-dependence on public sector

- NI public sector equates to 61% of GDP, compared to UK's 42% and RoI's 27% while public sector wages are 103% of UK average
- Public sector, retail and hospitality account for 64% of all jobs, with the public sector employing 1 in 3 of all workers and 60% of all females in employment
- Per-capita employment in today's NI public sector is more than that of any Russian state at the break-up of the Soviet Union
- Government sponsored retail-based regeneration strategies create retail developments that depend on continued high public sector wages

1.2.3 Low R& D and business formation

- NI has second-lowest level of business formation of the 12 UK regions
- NI has the lowest level of business growth amongst the 12 UK regions
- Northern Ireland has the lowest R&D expenditure of the 12 UK regions with only 0.8% of GDP spent on it
- Furthermore, NI has amongst the world's lowest % of GDP invested in R&D
- Public investment in NI R&D is 41% of UK average
- Overseas-owned manufacturing firms account for 60% of NI R&D spend and 10 FDI firms account for 50% of exports
- Private sector wages are 83% of UK average and falling relative to the rest of the UK
- R&D expenditure in the business enterprise sector is again one of the lowest of all the 12 UK Regions with only 0.5% of GDP spent on this, compared to the UK average of 1.2% GDP
- Foreign Direct Investment is very high in Northern Ireland with employees in foreign firms making up over 13.19% of the workforce. While bringing much needed employment and money to NI, these foreign companies can have a tendency not to stay permanently in NI, so therefore it would be more beneficial if we had more local companies (who are more likely to stay in NI) taking up a even larger percentage of the workforce

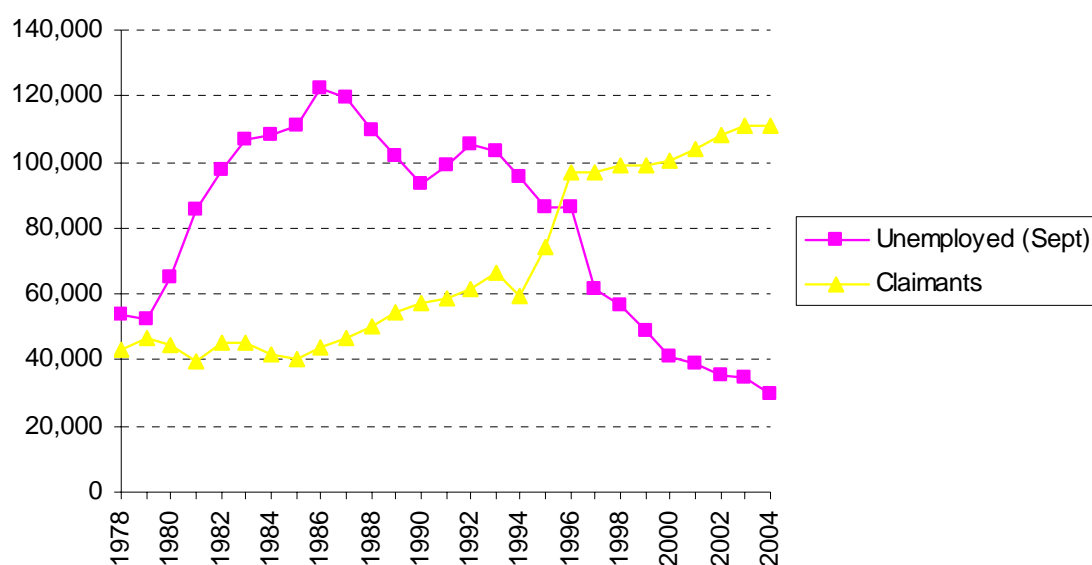
1.2.4 Low labour market participation

- Over 530,000 people (41% of working-age population) are not economically active
- The employment rate for people aged between 55 and 64 stands at only 48.2%, which is the second-lowest of the 12 UK regions and falls short of the 56.9% UK average
- There are worrying underlying trends: Since 1978:
 - Unemployment fell by 24,100 - 45%
 - Employees in employment rose by 171,690 - 33%
 - Incapacity benefit claimants rose by 67,753 - 156%
- The rise in incapacity claimants is almost three times the total fall in unemployment

1.2.5 High long term unemployed and uneven sub regional growth

- NI has the highest level of long-term and youth unemployment amongst the 12 UK regions
- Some wards in Belfast and Londonderry have amongst the highest levels of deprivation in Europe
- Falling unemployment masks alarming rise in benefit claimants (See Table 1 below)

Table 1: Unemployment and Incapacity claimants from 1978 – 2004 (September)



1.3 Further Issues of Concern

1.3.1 Demographic Considerations

- The working age population will increase by 40,400 this decade
- NI is one of the few EU member states with a growing population
- NI population growth percentage is greater than the UK average (0.5% compared to UK average of 0.3%)
- We need 4,400 net new jobs annually to stand still
- The current influx of migrant workers, while providing labour for the lower paid jobs, provides little benefit to the local economy in terms of the jobs supported or the money left behind locally.

1.3.2 Employed Profile

- 720,000 workers (excl 10,000 on training schemes), support a total population of 1.7m people
- Only 577,000 workers are full-time,
- 159,000 (22%) are part-time
- 116,000 (15%) are self-employed
- Of a working-age population (16+) of 1.312m, 536,000 (41%) are economically inactive, but only 36,000 (12%) are seeking employment.
- Such levels of inactivity lead to the conclusion that a culture of “worklessness” or “work shyness” has been created and sustained.

1.3.3 Job Creation Targets

- Participation level (the percentage of the working age population in employment) is at a record low
- To meet today’s average UK participation levels by 2015 means creating an additional 68,400 jobs

- We need 40,400 additional jobs for the growing population by 2015.
- Collectively, 108,800 jobs must be created by 2015 to raise the participation rate to the UK average and to accommodate growth in the working age population
- PLUS- anticipated decline in manufacturing (20,000), agri and other sectors (12,000) over the same period raises the target to 140,800 – a daunting task!

1.3.4 Additional Problems

- High education attainment levels in Northern Ireland stand at 26.5%, which is below the UK average of 29.6%
- The UK is well short of the EU 2020 target of renewables in energy consumption, and is also considerably less than the EU (27) average
- The UK overall does not make enough of its loan by the European Investment Bank (EIB)
- In 2004, the UK had a higher percentage of citizens at risk from poverty than the EU(25) average
- The number of hospital beds in Northern Ireland per 100,000 citizens is less than in Scotland, and is significantly less than the RoI. Northern Ireland also has fewer hospital beds per citizen than the EU(25) average.

1.3.5 Regional Comparisons UK

Strengths

Indicator	Regional rank (out of 12)
Employment growth (1995-2004)	1
Change in claimant unemployment (1999-2005)	1
Business survival rate (2003)	3
Percent of school leavers with qualifications (2000/01)	1

Weaknesses

Indicator	Regional rank (out of 12)
Percent of long-term unemployed, excluding youth (Apr 2005)	12
Business formation rate (2003)	11
Percent of working age with 2+ A-levels (2002)	11
GVA per head (2002)	11
Activity rates (Apr 05)	12
Share of private sector employment (2003)	12
Average earnings (2004)	12
Percent of short term unemployed (Apr 2005)	7

In summary, while the economic condition of Northern Ireland has improved, this has been substantially driven by expansion in the public sector. Northern Ireland's GDP per capita is still amongst the lowest in the UK, at under £11,000 per head of population. This is only comparable to Wales and the North East of England. (Source ONS)