The impact of Covid-19 on the NI economy: modelled results for Q2 2020

August 2020

Background

The Fraser of Allander Institute is working on a project examining the potential impact of the current coronavirus pandemic on the Northern Ireland economy, on behalf of the Department for the Economy.

The figures contained in this analysis are modelled from (mainly) UK level sectoral detail. It does not replace the NISRA data for Q2 2020, which will be available when the NI Composite Economic Index (NICEI) is published in October 2020. The NICEI figures for Q1 are available at the NISRA website.

Therefore the analysis should only be used with appropriate caveats. Primarily it is based on UK GDP data. However, different countries and regions in UK have had slightly different lockdown experiences, with slightly different restrictions and differential timing of when these were relaxed.

Impacts on headline GDP

We have been provided with the detailed weights and sources used to build the short-term indicator for NI, and are also examining the methodology used for the new GDP measure.

Following the publication of UK GDP in August, we have produced a detailed set of quarterly results based on:

- The low level aggregates data which shows very detailed sectoral changes in Q1 & Q2 at the UK level;

- Monthly GDP data;

- The Business Impacts of Coronavirus Survey (BICS), up to wave 10; and

- BRES 2019 for NI, to calculate updated regional impacts.

Data from the BICS survey has shown over successive waves that there was a higher level of business closure in Northern Ireland than the UK average (Chart 1).

Whilst in broad terms, the experience of countries and regions in the UK tracks the UK pattern, some regional disparities are to be expected. The gap between the UK average and NI became apparent in the first publication of the country and regional breakdown in Wave 3 of the survey, and persisted through most of the severest lockdown period, easing slightly between the middle to the end of May. Both this regional disparity and the sectoral levels of closure apparent in the BICS have now been incorporated into our modelling to try to capture the differential impact on the NI economy.

Chart 1: Level of openness of businesses, early April to late July
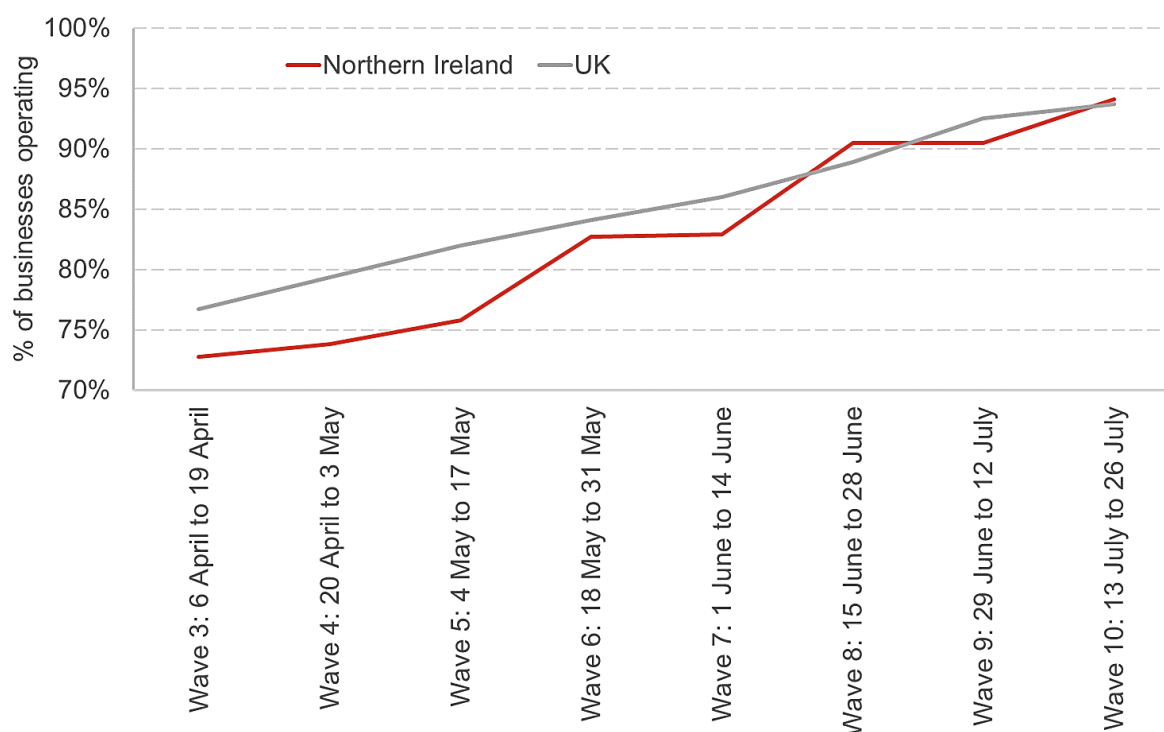
Source: ONS BICS Survey

It is worth saying that the latest waves of the survey suggest that the disparity in the level of shutdown has diminished in recent waves, and businesses that plan to reopen throughout late July and into early August has a slightly higher rate in NI than the UK average. This is likely to impact upon the Q3 estimates when they are produced: and indeed, is already seeming to manifest itself in the June modelled results (see below).

Code	Section	Northern Ireland			UK		
		Weight	Q1	Q2	Weight	Q1	Q2
A	Agriculture, Forestry & Fishing	1.8%	-0.2%	-5.7%	0.7%	-0.1%	-4.8%
B-E	Production	18.3%	-1.8%	-18.1%	13.6%	-1.5%	-16.9%
C	of which, Manufacturing	15.2%	-1.7%	-20.1%	10.2%	-1.1%	-20.2%
F	Construction	6.7%	-2.2%	-36.5%	6.1%	-1.7%	-35.0%
G	Wholesale, Retail etc	13.8%	-3.3%	-19.6%	10.5%	-3.1%	-20.0%
H	Transportation & storage	3.9%	-5.5%	-37.7%	4.2%	-4.1%	-30.0%
I	Accommodation & Food	2.5%	-12.3%	-93.3%	2.8%	-10.4%	-86.7%
J	Information & Communication	3.5%	0.5%	-9.1%	6.6%	-2.1%	-11.8%
K	Financial Services	4.0%	0.5%	-3.8%	7.2%	0.4%	-3.7%
L	Real Estate	11.4%	0.3%	-1.1%	14.0%	0.3%	-3.2%
M	Professional & Scientific	4.0%	0.0%	-18.8%	7.6%	-0.4%	-20.4%
N	Administrative Support Services	3.1%	-1.2%	-27.2%	5.1%	-3.0%	-30.2%
O-Q	Government, Health, Education	24.4%	-3.1%	-19.0%	18.2%	-3.6%	-21.7%
R-T	Other Services	2.8%	-4.9%	-43.1%	3.5%	-3.9%	-45.4%
	Total GDP		**-2.5%**	**-20.8%**		**-2.2%**	**-20.4%**

Source: FAI Analysis

The table above shows the results of our analysis. The overall results suggest, as before, that we are likely to see a more severe impact on the NI economy than the UK average, albeit by a fairly small margin. However, this masks larger differences at a sectoral level given the detailed weighting of the NI economy.

Chart 2: Specialisation in the NI Economy
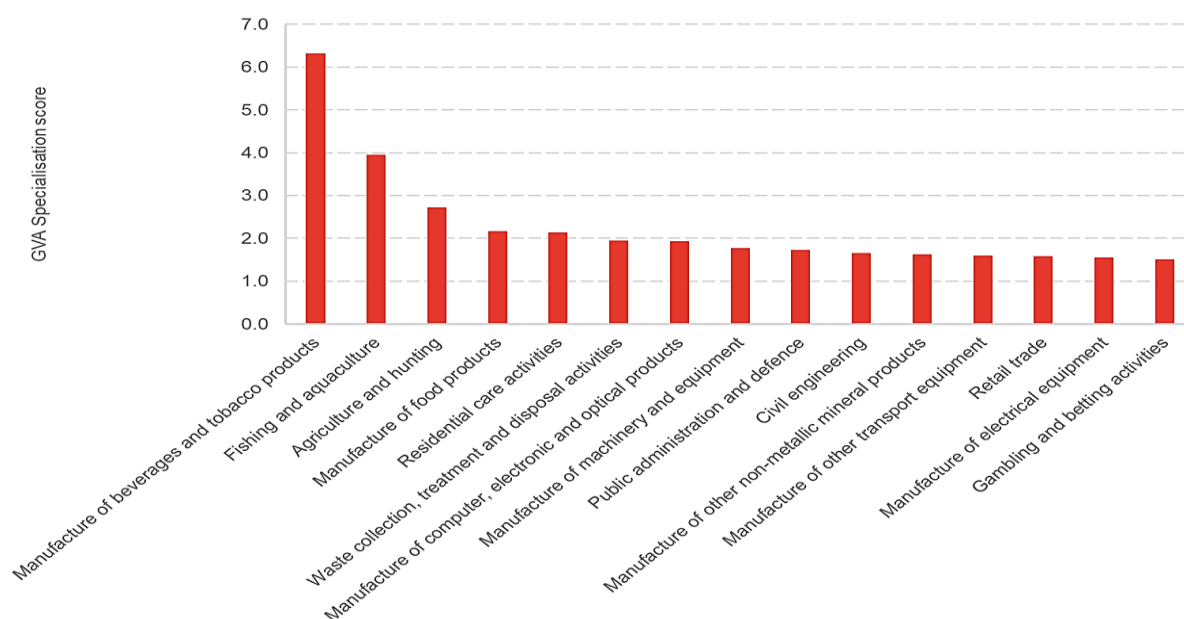
Source: FAI Analysis

Chart 2 above shows the areas where the NI economy has a specialisation compared to the UK average, in the basis of the GVA weights. For example, the modelled larger fall in agriculture, forestry and fishing in NI compared to the UK is because of the relative size of the Fishing and aquaculture industry in NI, which has been hit harder than agriculture or forestry.

Again, we need to remember that this may not be how the results manifest themselves in the published Northern Ireland Composite Economic Index for Q2 2020. Obviously, this will have actual outturn data from businesses in NI to draw on for most of the economy. In addition, the measurement of the public sector in the index is currently based on employment, so will not show the falls that we would see in a GDP measure, which captures output (mainly through cost-weighted activity indices). We show, for completeness, our modelled GDP estimate from Q1 2019 to Q2 2020 compared to the NICEI. In addition, we have estimated the likely impact we may see on the NICEI given the approach to measuring the public sector. We estimate that instead of the modelled GDP fall of 20.8% in Q2, we may see a fall in the region of 12-13%.

Chart 3: Modelled fall in NI GDP / CEI based on UK sectoral falls (Q1 2019=100)
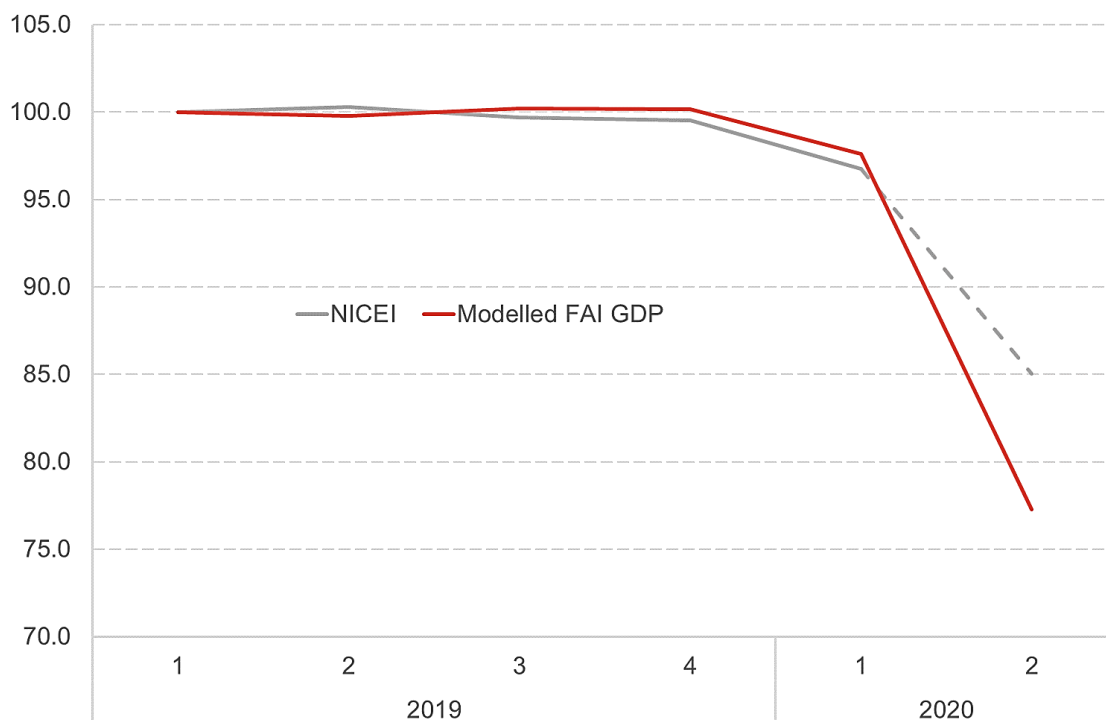
The quarterly data mask somewhat the path of the lockdown (during March and April) followed by the easing of restrictions (during May and June). Whilst the monthly data is not as detailed as the quarterly data, we have also modelled the pathway of monthly GDP based on the UK sectoral pathways, benchmarked to the quarterly growth rates we have modelled above.

Time period	NI (modelled)	UK
March	-8.3%	-6.9%
April	-21.2%	-20.0%
May	4.1%	2.4%
June	11.4%	8.7%
Peak to trough (fall from Feb to April)	-27.8%	-25.6%
Current position vs February	-16.3%	-17.3%

Source: FAI Analysis

This shows the larger fall in NI during March and April, with an overall larger "peak to trough" fall of 27.8% compared to 25.6% across the UK. However, the modelled results suggest that the recovery has been a little more rapid for this lower base in NI, with higher growth than the UK average in May and June. This chimes with the BICS data, which shows a higher degree of "opening up" of the NI economy compared to the UK average.
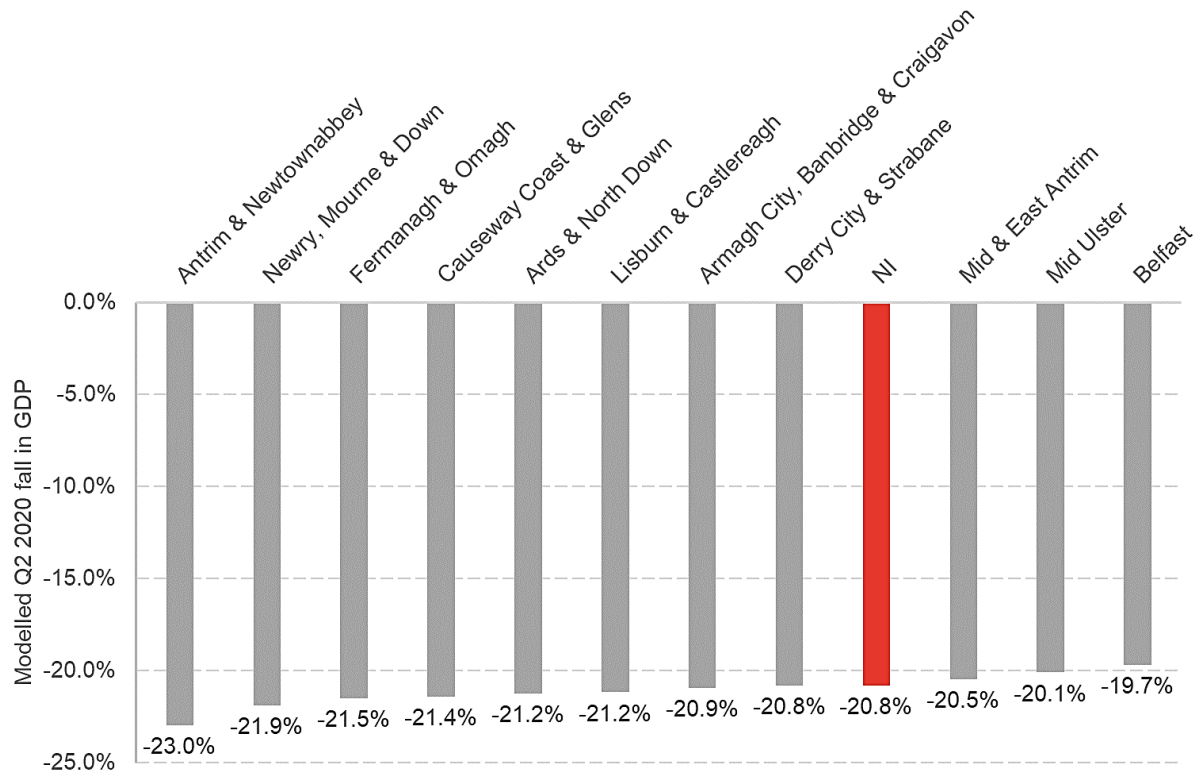
Chart 4: UK and NI (modelled) monthly GDP (June 2019 =100)
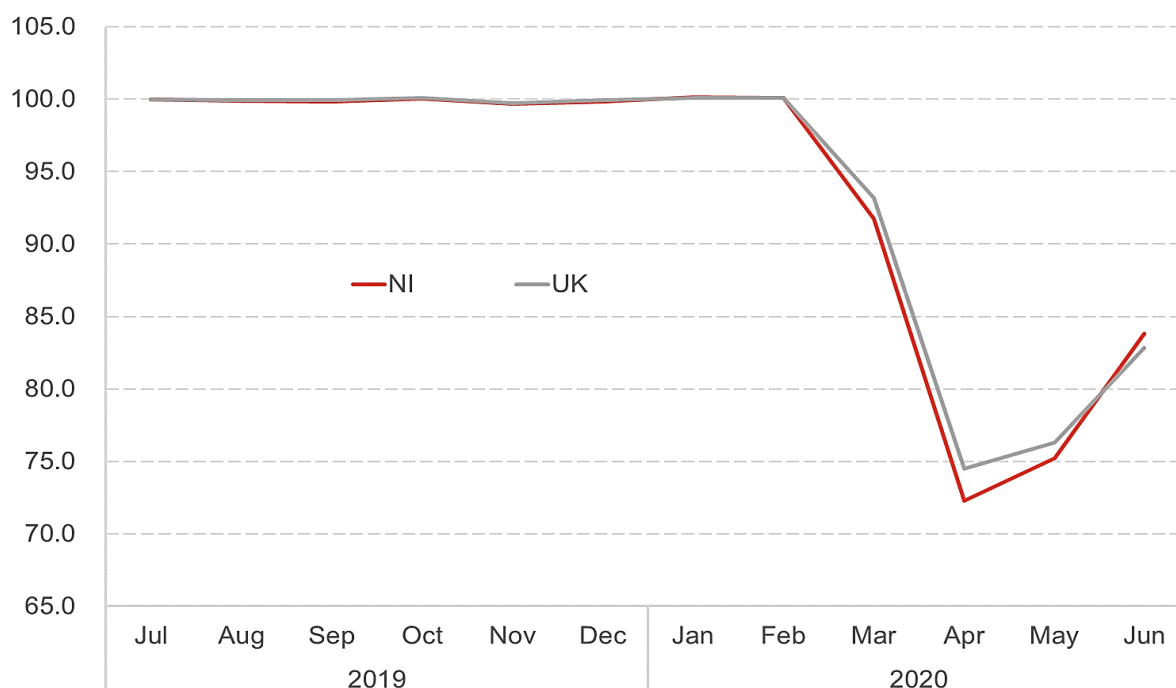
Source: FAI Analysis

Chart 5 shows the regional impacts by District Council Area, based on employment shares of different industries. This shows that all regions have been negatively impacted, but that some are modelled to have been more severely impacted than others.

Chart 5: Modelled regional fall in Q2

In general, the most impacted regions are those who have a specialisation in Transport and Storage, Accommodation and Food Services and/or Construction: particularly if there are fewer service sector jobs in professional and business services and the public sector to balance these falls out. Unsurprisingly, with the high level of specialisation in Information and Communication and Financial Services, Belfast is most insulated from the impact of GDP falls.

Fraser of Allander Institute

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