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III. THE ECONOMIES OF NORTHERN IRELAND AND THE BORDER COUNTIES OF THE REPUBLIC OF IRELAND

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THE ECONOMIES OF NORTHERN IRELAND AND THE BORDER COUNTIES OF THE REPUBLIC OF IRELAND: EXECUTIVE SUMMARY

Outperforming the overall UK economy in recent years, Northern Ireland's economy reflects an improved competitiveness, featuring restrained wage gains, productivity gains and lower unit labor costs. Economic growth forecasts of 2.5-3 percent may prove conservative.

Within the robust Irish economy, the six border counties currently exhibit individual strengths in several sectors including manufacturing, services, and agriculture. Buoyant domestic and foreign demand is expected to drive manufacturing output up 10 percent; service industries (over 50 percent of employment) are expected to grow by 8.5 percent.

THE ECONOMY OF NORTHERN IRELAND

The Economy in 1994

Recently released figures for 1994 demonstrate the new buoyancy of the economy in Northern Ireland. Inward investment reached record levels in 1993-94 and is forecast to rise even higher as the benefits of the ceasefire increase business confidence and interest. Northern Ireland's exports of manufactured goods and services increased more quickly than those of the UK as a whole. In the year ending March 1994, exports to the Republic of Ireland, the European Union, and the rest of the world were $3.5 billion, or 25 percent higher than the comparable 1991/92 period, while overall UK exports for the same period grew 18 percent.

These data, compiled before the ceasefire that took effect late last year, highlight the performance of Northern Ireland's industry, whose output growth has surpassed that of the UK since the third quarter of 1991, and is growing by 4 percent a year. Main export growth areas include chemicals, electrical and instrument engineering, and transportation equipment.

Size and Growth of the Economy

Northern Ireland covers 242,500 square kilometers, 5.8 percent of the land mass of the UK. Northern Ireland's population is 1.62 million people, or approximately 3 percent of the UK's total population of 58 million. By world standards, Northern Ireland is not a poor region, but it is among the lowest per-capita income parts of the UK. Household disposable income per capita was about 90 percent of the UK average, with consumers' expenditure per capita about 85.4 percent of the UK average, and GDP per capita of $10,887 or 82 percent of the UK average. The Northern Ireland unemployment rate in February 1995 was 12.1 percent compared with the UK rate of 8.4 percent.

Nominal GDP in 1992 was worth 11.6 billion British pounds sterling (about $17.5 billion) or 2.0 percent of the total UK GDP. As with the UK, manufacturing as a percent of GDP has shrunk over the past two decades and currently comprises about 23 percent of the total. Services generated 73 percent of GDP in 1992, with government services alone equivalent to over one-third of GDP. Agriculture contributed only about 4 percent of total GDP.

As a general rule, Northern Ireland's long-term economic growth approaches the UK as a whole. Between 1983-89, Northern Ireland GDP averaged 3.2 percent real growth, but rose more slowly between 1989-92 at an average of 0.7 percent. Northern Ireland's GDP did not fall during the recent recession as much as it did in other parts of the UK, because the British property boom in the late 1980's did not occur to the same degree in Northern Ireland. Also the large public sector, which constitutes about one-third of GDP, helped insulate the economies against what was largely a private sector recession.

Economic estimates put the real economic growth rate for Northern Ireland currently at 2.5 to 3.0 percent. This is subject to upward revision, however, due to the unexpectedly rapid growth of the overall UK economy in 1994, and also due to the general air of confidence stemming from the continued ceasefire. The confidence factor in Northern Ireland has benefitted retailers in particular, and consumer demand is now expected to have grown about 2.0 percent in 1994, picking up to 2.5 percent in 1995. (Anecdotal evidence indicates some of the boost in consumption derives from Republic of Ireland residents in the border counties crossing in greater numbers to take advantage of lower prices in Northern Ireland).

Fourth quarter domestic demand strengthened for the UK as a whole, with GDP growth expected to slow but still exceed 3.0 percent in 1995. More than two-thirds of Northern Ireland's output goes to the home market plus the rest of Great Britain, which may help to counter the slowing of government spending, at least in the near term.

Government Spending -- While government spending declined slightly over the 1980's, it rose in 1991 and more sharply in 1992. The Northern Ireland Expenditure Cash Plans, which include the largest item of Social Security, showed expenditure of 6.5 billion pounds ($11.57 billion) in Fiscal 1991/92, a 3.3 percent increase over the previous year. Expenditure grew at 4.8 percent in 1992/93 and 4.5 percent in 1993/94. However, the UK budget projected zero real growth excluding cyclical social security for fiscal 1994/95 and the same for 1995/96.

Government spending was expected to come under pressure because of the need for the UK Government to reduce expenditure. The subvention (the excess of government spending over locally raised taxation) has grown from one billion pounds ($1.7 billion) in 1989 to over three billion pounds ($4.5 billion) currently. A political settlement in Northern Ireland will put even more pressure on the level of government spending. Government employment is expected to remain stable at 170,000 until 1996, and fall slowly after that. A recent study concluded that with political settlement, security related employment, currently about 20,000, might decline more rapidly. Most analysts believe that slowing government expenditure will be a drag on growth and expect GDP to rise on average less than 2.0 percent a year through the end of the decade.

Competitiveness -- In contrast with the Republic of Ireland, Northern Ireland has an overall trade deficit which has been estimated at 3 billion pounds sterling ($4.5 billion), more than 20 percent of GDP. This is generally attributed to the collapse of inward investment during the "troubles," when the private sector shrank and the public sector mushroomed. While over two-thirds of Northern

Ireland output is sold within the UK, output growth of the relatively small tradeables sector has outstripped the rest of the UK since the mid-1980's.

The competitiveness of Northern Ireland firms is also boosted by wages 10-15 percent lower than the UK average. One estimate shows that about 70 percent of Northern Ireland firms sell into EU markets, and another 20 percent into other European, North American, or Asian markets. A revival of inward investment would help Northern Ireland build on this base to become more outward looking, a development necessary to reduce its trade imbalance.

Foreign Investment -- Northern Ireland officials continue to lobby for more inward investment, and they have had success with U.S. companies. About 40 US companies are operating in Northern Ireland, accounting for investment worth $850 million over the past five years and creating about 9,000 jobs. Domestic capital formation fell from a peak of 1.33 billion pounds ($2.26 billion) in 1989 to 1.19 billion pounds ($2.1 billion) in 1992. It rose less than one percent in 1993, however, and may have exceeded 4.0 percent growth in 1994. This has helped manufacturing output to exceed overall UK performance. Substantial investment will be required to maintain the current level of output without creating production bottlenecks.

Cost of Living -- UK retail price inflation was reduced dramatically during the recent recession and remained below 2.0 percent for the entire calendar year of 1993. It averaged about 2.5 percent in 1994 and currently stands at 3.4 percent. The cost of living for most goods and services, except housing, tends to be higher in Northern Ireland, but the rate of increase in prices tends to be the same as in the rest of the UK.

When housing costs are taken into account, the cost of living in Northern Ireland in 1993 was about 17 percent lower than the UK average. As the price of housing increases in Northern Ireland, however, this difference is declining. As recently as 1990, the difference was 28.5 percent lower. In contrast with the UK as a whole, Northern Ireland's average house prices in 1994 rose more rapidly than the UK Retail Price Index (RPI). If this trend continues, the difference in the cost of living can be expected to narrow further.

Employment and Unemployment -- A problem projected for Northern Ireland through the end of the decade is a slow fall in employment despite some current tightening in the labor market. Well-informed projections indicate that, in the absence of further growth and investment, the decade will end with about 6,000 fewer jobs than the 1996 peak of 619,000. In addition to the decline in government services, the construction sector will lose jobs due to over-building in the 1980's and slow growth in the second half of the 1990's. Manufacturing is projected to grow faster than other sectors, but efficiency gains will hold down job growth unless the manufacturing sector expands more rapidly.

The distribution and hotels sector is expected to be the primary source of new jobs, about 14,000 by the year 2000, but this will depend on such variables as the rate of economic growth and a possible boost in tourism following a political settlement. The wage level in this sector is projected to fall to about 80 percent of the UK average by the end of the decade, and most of the new jobs will be part time and taken by women.

Given the weak prospects for job creation, the outlook for unemployment remains a concern. In January 1993, unemployment stood at 14.3 percent (the separate rate for men was closer to 17 percent) and long-term unemployment accounted for more than half of the total jobless workers. Since then, unemployment has fallen sharply all over the UK, but the Northern Ireland rate of 12.1 percent represents over 90,000 jobless, 78 percent of whom are men.

The situation is even more critical in the so-called "black spots." The 1991 census showed male unemployment levels in 107 of 566 wards exceeded 30 percent. In public housing areas, the average male unemployment rate was 43 percent, rising to 50 percent in Belfast public housing. Some families have not had a male member permanently employed for three generations. Expert opinion suggests a natural increase in population, combined with slowly growing employment, will continue to produce a chronic labor surplus in Northern Ireland. It has been calculated that the working age population will increase by 1.0 percent each year in the next five years. A fall in the birth rate between 1986 and 1990 will not ease the situation until the middle of the next decade.

THE ECONOMY OF THE BORDER COUNTIES AND IRELAND

The Irish Economy

The Irish economy is now growing strongly. The past three years have witnessed real economic growth of 3-5 percent per annum. In 1994, the Irish economy achieved real GDP growth of about 5.5 percent. Because of the country's size, economic indicators are aggregated at national level. Only employment and unemployment data are available at regional and local level.

Ireland has a small open economy that is very dependent on trade. In 1994, export volume growth was around 14 percent, while import volume growth reached about 9.5 percent. Export growth was particularly strong in the high-technology sectors due to improved demand in continental European economies, while import growth reflected the strong growth in domestic demand. In 1994, Ireland continued to have a positive trade balance; almost $8 billion (about 17 percent of GNP). The United States has traditionally had a trade surplus with Ireland, due primarily to the purchases of U.S-origin raw materials and intermediate goods by U.S. subsidiaries in Ireland and substantial trade in agricultural products.

Consumer confidence strengthened during 1994 as interest rates declined to historically low levels and remained stable. The stability of interest rates and the improvement in labor market conditions acted as a spur to domestic demand. Overall, consumer spending increased by about 5.25 percent in 1994. The rate of investment also experienced a recovery in 1994 with both the construction and equipment sectors experiencing real growth of 7 percent. Inflation averaged about 2.4 percent during 1994.

The economic outlook for the Irish economy in 1995 remains very positive. GDP is forecast to grow by about 5.5 percent, which compares favorably with projected growth of around 2-3 percent for Ireland's main trading partners. Export volume growth is forecast at 9.25 percent, while import volume growth of 9.5 percent is anticipated. This favorable trading environment should ensure that Ireland's positive trade balance remains relatively stable in 1995. Inflation, meanwhile, is expected to remain low at the 2.5 percent level.

Unemployment, currently at about 15 percent, remains a serious problem for the Irish economy. Reduction of unemployment, which is expected to remain high for the rest of the decade, is a major priority for the Irish Government.

The Economy of the Border Counties

With a population of 402,600, the six border counties (Cavan, Donegal, Leitrim, Louth, Monaghan, and Sligo) represent about 11 percent of the total population of the Republic of Ireland. The total labor force in the region is about 149,700, of which 123,400 (82 percent) are employed. The number of unemployed is 26,300, which equates to almost 18 percent of the labor force. Thus, unemployment in the border counties is higher than the national average. According to the 1993 labor force survey, the breakdown of employment by sector is:

	All Ireland	Border Counties
Agriculture	142,800 (13 percent)	21,900 (18 percent)
Industry	311,400 (27 percent)	37,200 (30 percent)
Services	692,000 (60 percent)	64,200 (52 percent)
Totals	1,146,200	123,400

Services - Building and construction sector output is estimated to have grown by about 7 percent in 1994 and a rise of 8.5 percent is forecast for 1995. In the services sector, it is estimated that private market services output will continue to experience favorable growth as a result of the sustained strength of domestic demand, while public sector output is forecast to increase concurrently with a 2 percent increase in the numbers employed.

Employment in the service sector in the border counties is below the national average of 60 percent and is largely concentrated in the retail sector. At present, only one internationally traded services project (National Pen) has been established in the border counties.

Manufacturing - At a national level, gross output in manufacturing increased by around 11.5 percent in 1994. The predominantly foreign-owned high-technology sectors of electrical engineering, pharmaceuticals, and foods were the main contributors to this growth. However, some indigenous sectors such as the mechanical engineering and animal feed milling sectors also exhibited significant rates of growth, thus making growth more broadly based than in previous years. The outlook for 1995 remains positive with manufacturing output forecast to increase by over 10 percent as both the foreign-owned "high-tech" sectors and the more traditional indigenous sectors benefit from buoyant domestic and international demand.

While the border counties have more industrial employees (30 percent) than the national average (28 percent), the majority are employed in traditional indigenous industries such as clothing, textiles, wood and lumber, and metals engineering.

International investment has been lower in these counties than in the rest of Ireland. Of the 400 U.S. firms located in Ireland, there are 33 investments by U.S. firms in the six border counties.

Agriculture - About 21 percent of all employment in the border region is in agriculture, forestry or fishing. Preliminary estimates indicate that the volume of gross agricultural output in Ireland fell by 1.25 percent in 1994. Lower cattle, sheep, and cereals output were the principal reasons for this decline, in spite of increased hog, milk and root crop production.

Allowing for an increased input volume, stable output prices, slightly higher input prices, a marginally reduced terms-of-trade, and significant subsidies, nominal agricultural incomes are estimated to have increased by about 6.5 percent (4 percent in real terms) in 1994. The outlook for 1995 remains positive with output forecast to grow by 0.75 percent and nominal income growth anticipated to reach 4.75 percent (2.25 percent in real terms).

The agricultural situation in the border counties varies considerably based on land quality. Farms in Louth are larger with mixed enterprises; in Monaghan and Cavan they provide adequate incomes, especially in dairying; while farms in Sligo, Leitrim and Donegal are small and depend on cattle and sheep.

Seventeen percent of Irish milk production comes from the border county region but dairy farms are small with almost 70 percent of producers having milk quotas of less than 90,000 liters. Most of the milk production is sold to the 14 dairy cooperatives operating in the region with some being sold out of the region. Only five of the cooperatives are engaged in manufacturing, and these produce a range of dairy products including casein (a milk protein extract which forms the basis for making cheese) for export to the United States.

A substantial proportion of the Irish poultry and egg industry, both at grower and processing levels, is concentrated in the border region. Hog production is also important to the region where just more than one quarter of the national herd is situated. Animal feed mills, producing feedstuffs for the poultry and hog industries, are also prominent. The potato industry has been historically, and continues to be, important, especially in Donegal.

Farm profitability throughout the region is much lower than the national average except in Louth where the better land helps bring profitability to just above the national average. The age profile of the landowners shows that more than half of the farmers in Leitrim and Donegal are over 55 years old. Off-farm income is especially important in Donegal, where 57 percent have another form of occupation (compared to the national average of 26 percent).

Tourism - Many of the areas of Ireland most frequently visited by tourists lie in economically disadvantaged regions where opportunities for non-agriculture employment are few. Studies completed in the early 1990s suggest that tourism was responsible for over 10 percent of employment in the border counties. A recent study by the Irish Tourist Industry Confederation suggests that, in terms of tourist revenue per capita of local population, the border counties outperformed three of the other six regions of Ireland, including the Dublin region. The border counties benefit more than any other region from revenue expended by Northern Ireland visitors.