



**Potential economic
consequences of COVID-
19 in Northern Ireland:
Revised estimates and a
Council-level view**

Discussion Paper 2

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Executive Summary

1. **The future scenario for the economy remains highly uncertain** as it depends upon the course of the COVID-19 pandemic, the public policy responses – both for social distancing and mitigation of impacts – and the existing local economic dynamics. However, expectations for the most positive scenario (a V-shaped recovery) have weakened in recent weeks with many forecasters not expecting economic output to recover to 2019 levels until 2022 at the earliest.
2. This paper offers revised estimates from the Ulster University Economic Policy Centre (UUEPC) of the economic impacts of COVID-19. It uses new evidence about the likely length of the lockdown and the measures being taken by businesses, which point to economic contraction extending into a second quarter. **The new UUEPC estimate is of a more significant contraction in economic output in 2020 (increasing from 9.6% to 12.7%).** The paper also offers a revised number of jobs potentially impacted by both furlough and layoffs¹ to reflect some of the survey data now available. This revises the numbers upwards from the earlier estimate of 235,000 jobs impacted to 249,000. The labour market estimates will be further revisited as more NI data becomes available, particularly in respect of lay-offs and unemployment.
3. The **estimate of 249,000 jobs impacted by both furloughs and/or lay-offs** is based on the current available data and is likely to see a further revision – with the risk of increase stronger – as we begin to see evidence of what happens when furloughing ends and returns to work take place. We have included an **estimate of 12% as the peak unemployment rate that might be reached in the autumn of 2020** before this begins to decrease as people find employment, perhaps in different sectors.
4. The paper also provides a first estimate of the potential impacts of COVID-19 on GVA and employment across local government districts. The early estimates, shown in Table 1 above, find that **all Council areas will be badly affected by the necessary shutdown of economies.** The estimates suggest that the impacts – particularly on economic output – could be worse than those felt at the height of the last recession.
5. **Four Council areas – Mid Ulster, Newry, Mourne & Down, Causeway Coast & Glens and Mid & East Antrim – are expected to see the greatest impacts proportionally** in their local economies in terms of both employment and GVA (see table overleaf). This reflects the sectoral concentrations of Construction, many parts of Manufacturing, Accommodation and/or Retail in these areas.

¹ We have focussed on the number of jobs furloughed or laid-off as these workplace measures have been the key ones taken by employers in this crisis. This is not to ignore the reduction of hours and wages – as they are significant measures which are also being taken – or those in self-employment (who are not included in workplace-based jobs numbers).

Table 1: Estimates of economic impacts, by Council area and NI

| | Total Furloughed & Laid Off Employees | % decline in GVA, 2020 |
|---|---------------------------------------|------------------------|
| Antrim and Newtownabbey | 21,200 | -11.5% |
| Ards and North Down | 12,400 | -10.6% |
| Armagh City, Banbridge and Craigavon | 25,200 | -10.6% |
| Belfast | 67,200 | -10.6% |
| Causeway Coast and Glens | 14,300 | -13.3% |
| Derry City and Strabane | 15,900 | -9.5% |
| Fermanagh and Omagh | 13,000 | -11.9% |
| Lisburn and Castlereagh | 19,600 | -9.3% |
| Mid and East Antrim | 15,800 | -15.2% |
| Mid Ulster | 22,900 | -16.3% |
| Newry, Mourne and Down | 22,000 | -12.0% |
| Northern Ireland | 249,500 | -12.7% |

Source: UUEPC analysis

6. **The position in Belfast and Derry City & Strabane may be different.** The economic impacts are very significant for the Council areas, but proportionally they are smaller than in other places. This is likely to be due to a diversity of sectors (particularly in Belfast), the proportion of jobs open to remote working and the proportion in sectors such as Health and Education.

7. The paper also includes a section which offers some ideas for how a recovery plan for the NI economy can recognise the fact that **not all places will be equally impacted in this crisis** and the role that local Councils can play in the recovery. The ideas include:
 - Ensuring that the economic development work of local government continues, in particular business engagement and a focus on City and Growth Deals.
 - Taking a sectorally-differentiated approach while avoiding being ‘locked-in’ by lobby groups.
 - Adapting the local tourism promotion and offering in the short term to changing visitor patterns.
 - Building on the existing partnership approach for local economic development to get local SMEs and start-ups fully aware of what enterprise supports are there for them.
 - Achieving a key role for local regeneration plans in any fast-tracking of infrastructure investment.
 - Making social distancing a part of town centre public realms, from offering advice to businesses to assisting repurposing of high streets.
 - Ensuring a full range of supports are made available to those local communities and households most vulnerable to the economic impacts.
 - Prioritising re-skilling during the period of furlough and temporary lay-offs through a full range of further education and employability supports.

1. Introduction

Introduction

1. The COVID-19 pandemic can be regarded as a true “Black Swan event”,² something completely random with enormous impacts and where, in this case, the economic fallout is likely to be completely unlike anything from recent experience. The uncertainty resulting from such an event is reflected in the lack of a clear policy framework for understanding the economic impacts and then responding to these. In addition, the speed at which events are moving present a significant challenge for those engaged in policy making and implementation about both central and local government levels.
2. The steps taken to date to restrict social interaction and the knock-on effects on economic activity will almost certainly keep deaths significantly lower than the worst of previous pandemics. However, from an economic perspective, the impacts of more than 80% of the world’s economies being affected, by early April, by government containment and public health measures are still being assessed.
3. The economic shock comes in a number of forms. The pandemic containment measures have meant that employees either work from home (where they can) or have been laid off or placed on furlough (with government paying much of their wages). As a result, unemployment numbers have been increasing rapidly and many businesses have been shuttered.
4. The discussion has now turned to exit strategies, road maps and measures to ‘unfreeze’ national, regional and local economies. However, with our current position on the ‘curve of the pandemic’, the emphasis remains on public health measures. In terms of economic activity, the evidence points to growing numbers of unemployed, employees working from home or supported by government wage subsidies in areas of the economy which are currently non-essential. There is also an understanding that the length of restrictions will influence the economic impact experienced as revenues continue to decline and expectations for the rest of 2020 lower. There are also emerging debates on the impact that loosening and then re-imposing controls may have on economic activity (the potential of a ‘second wave’ of the virus).
5. The NI Executive ‘roadmap’ begins to set out the “*the approach we will adopt in the regular reviews of the Coronavirus Regulations*” (12 May 2020).³ The document sets out a number of steps towards loosening regulations – albeit without timelines – and the gradual return to workplaces and reopening of businesses envisaged. It is very much a conditional approach, depending on the infection rate remaining as far below 1 as possible.

² Nassim Nicholas Taleb, *The Black Swan: The impact of the highly improbable* (2007).

³ NI Executive, *Coronavirus: Executive Approach to Decision-Making* (12 May 2020).

Economic fallout and recovery

6. Estimating the economic impact of COVID-19 is very difficult, given the changing picture of the pandemic but there is a consensus that the impact will be greater than first estimated. HM Treasury’s May 2020 consensus of new independent economic forecasts⁴ found that forecasts for 2020 had changed from an early April average contraction of 5.8% to an early May average contraction of 8.7%.
7. A key reason for this change towards greater pessimism is that the early estimates were confined to a ‘lockdown’ impact on one quarter’s (Q2) growth only with an assumption of a relatively swift recovery in the second half of the year. This has now changed. For example, the Office for Budget Responsibility (OBR) proposes that the sharp impact in Q2 will be followed by a contraction of approximately half that scale in Q3 as restrictions are eased, with recovery emerging in the final quarter of 2020 and into 2021.⁵
8. Some of the more recent estimates of the potential economic impact caused by the COVID-19 pandemic are set out in the table below. The forecasts for an annual decline in GDP in 2020 currently range between 7% and 14%.

Table 2: COVID-19 Economic impact estimates

| Country | Equivalent annual decline in GDP % | Peak unemployment | Source | Month released |
|----------------|------------------------------------|-------------------|-------------------------|----------------|
| UK | 14% | 9.5% | Bank of England | May 2020 |
| | 12.8% | 10% | OBR | April 2020 |
| | 6.5%* | 9.6% | IMF | April 2020 |
| US | 6.5%* | 15% | Conference Board | April 2020 |
| Germany | 6.6% | 8.9% | IfO Institute | May 2020 |
| RoI | 12.0% | 24% | ESRI | May 2020 |
| | 10.5% | 24.7% | Department of Finance | April 2020 |
| | 8.3%* | 18% | Central Bank of Ireland | April 2020 |
| NI | 12.7% | 12.0% | UUEPC | May 2020 |
| | 7.5%* | 5.0% | Danske Bank / OE | April 2020 |

Note: * estimate with Q2 impacts only

9. The changing estimates emphasise that the length of the period of strict containment measures is critical.⁶ There is the immediate, if temporary, impact in terms of contraction in 2020 followed by an increased probability of permanent economic

⁴ HMT, “Forecasts for the UK economy: a comparison of independent forecasts” (20 May 2020).

⁵ OBR, “Commentary on the OBR Coronavirus reference scenario” (14 April 2020).

⁶ OECD suggest a loss in annual GDP of 2% for every month in lockdown. See OECD, Economic Outlook, *Interim Report* (20 March 2020).

damage if a longer 'lockdown' is required. Typically, there are four scenarios the economy could follow⁷:

- V-shaped recovery – the best-case scenario, the recession is relatively deep but is short-term in nature and is followed by a strong recovery in Q3 and Q4 and lost economic output is quickly made up with no permanent damage;
 - U-shaped recovery – the recession is deep and prolonged, growth slowly recovers to previous levels, but economic activity remains below the pre-recession trend;
 - 'W-shaped' recovery – the economy recovers quite quickly, but a second wave outbreak forces a re/imposition of containment measures and pushes the economy back into recession after a short recovery in Q3; and
 - L-shaped recovery – the most pernicious scenario, where the recession is deep, growth does not return to pre-recession levels and permanent damage is done.
10. The scenario which economies will follow remains highly uncertain and depends on underlying local economic characteristics, the public policy responses and the speed with which the threat of the virus is placed under control. It is fair to note that expectations for the most positive scenario (a V-shaped recovery) have weakened in recent weeks with many forecasters not expecting economic output to recover to 2019 levels until 2022 at the earliest.⁸

⁷ "Understanding the economic shock of Coronavirus", *Harvard Business Review* (27 March 2020). Another option may be the Z-shaped recovery – the most optimistic – where pent-up demand takes the economy back above trend for a period and therefore no lasting damage occurs; see Louise Sheiner & Kadija Villa, "The ABCs of the post-COVID recovery", Up Front Brookings blog (4 May 2020).

⁸ For example, although at the optimistic end, the April 2020 Danske Bank forecasts for the Northern Ireland economy in 2020 (-7.5%) and 2021 (+5%) reflect the belief that the loss in output may not be made up until 2022 at the earliest.

2. The potential impact in Northern Ireland

Initial estimates of the economic impact on NI

1. In April economists in Ulster University released a discussion paper with an initial estimate of the impact of COVID-19 in Northern Ireland using an analysis of the demand-side impacts as well as an estimate of the labour market implications.⁹ The analysis was not an economic forecast but rather an order of magnitude estimate of the impact of a lock-down for Q2 only. In that first discussion paper, the extent of either prolonged lower economic activity or compensatory additional economic activity in Q3 and beyond was not considered.¹⁰
2. The assumptions used in the initial UUEPC estimate were based on evidence wherever available and informed judgement and suggested a potential decline in economic output in 2020 of 9.6%. This estimate remains at the upper end of estimates provided by other economic forecasters and the paper concluded that it was likely that all estimates will change significantly as reliable data becomes available over time. However, **the research team noted then that estimates of the economic impact were tending to increase and this trend has continued since early April.**
3. An estimate of the numbers of employee jobs impacted by furlough or lay-off by early April was offered using best judgement based on the then available anecdotal information and business survey results. At that point the UUEPC offered a provisional figure of 235,000 staff being potentially laid off or furloughed on a temporary basis across broad sectors of the economy.

Revised labour market impacts on NI

4. Evidence for the impact on the NI labour market is now emerging and thus we are offering a revised estimate of the number of jobs impacted by lay-offs or furloughed. **We have focussed on the number of jobs furloughed or laid-off as these workplace measures have been the key ones taken by employers in this crisis.** This is not to ignore the reduction of hours and wages – as they are significant measures which are also being taken – but the data for this remains more patchy. More importantly, it is important to remember that **the situation is changing constantly and the peak for unemployment numbers and rates may not have been reached yet, as this will depend on the shape of the recovery.**
5. The first official data on unemployment are the claimant count figures released by NISRA on 19 May 2020.¹¹ These showed an increase of 26,500 to 56,200 for the period

⁹ UUEPC, *Economic consequences of COVID-19 in Northern Ireland* (9 April 2020).

¹⁰ There was one exception this this - a small compensatory increase in Investment spending in Q3.

¹¹ NISRA, *NI Labour Market Report May 2020* (19 May 2020).

up to 9 April 2020. By that early stage the unemployment rate had risen to 6.1%, an almost doubling of the rate in just over a month.

6. Another guide to the labour market impacts has been the level of applications for Universal Credit (UC). Initial data from the UK Department of Work and Pensions (DWP) pointed to a tenfold increase in applications in the second half of March. In NI, the Department for Communities (DfC) began to release similar information which showed a similar scale of increase to that seen by DWP.
7. Management information released by DfC (6 May 2020) shows that for the period up to 26 April there was a surge of claims (more than 46,000 in three weeks in late March and early April), a huge increase on the normal level of 1,950 claims per week. The numbers of new claims began to level out after that though still well above average numbers per week. The Management Information statement referred to 65,700 claims in total since the pandemic began.¹²
8. It is not yet clear how many new UC claims have been made in the period since the 9 April 2020. The number of new applications between then and the end of April was 15,300 and we might expect the number of new claims has fallen since then, perhaps closer to 3,000 per week. By time of publication this could mean an additional 30,000 claimants since the last unemployment data was released. In 'normal' times approximately 40% of UC claimants are described as 'out of work' (ie: with job conditionality conditions attached to the payment). However, this share is probably now closer to 50% and if this rate is applied to the new UC applicants between 9 April and 28 May that would mean at least an additional 15,000 people unemployed. **In these circumstances the unemployment rate would be comfortably over 7% in the May claimant count figures (covering to 9 May 2020) and the rate would continue to rise during the summer, perhaps to a peak of 12%.**
9. The Office for National Statistics (ONS) data on steps being taken in UK workplaces based on four waves of business surveys suggests that firms have been proactive in reducing staff numbers (taken as a combination of furloughing and laying people off).¹³ For the period from 20 April to 3 May those firms who are continuing to trade (79% of the total respondents), saw 39% reduce staff numbers, 32% reduce working hours and/or 22% take 'other' measures. Interestingly, 17% of firms had either increased working hours or recruited staff pointing to some opportunities being taken or repurposing occurring.¹⁴

¹² For the statement see <https://www.communities-ni.gov.uk/news/minister-publishes-information-impact-covid-19-universal-credit-claims>

¹³ The ONS surveys are taken from a sample of private sector firms, excluding the Agriculture and Financial Services sectors and, within Health and Education, only the private providers; for more information see ONS, "Coronavirus and the latest indicators for the UK economy and society" (28 May 2020); ONS, "Furloughing of workers across UK businesses, 23 March 2020 to 5 April 2020" (23 April 2020).

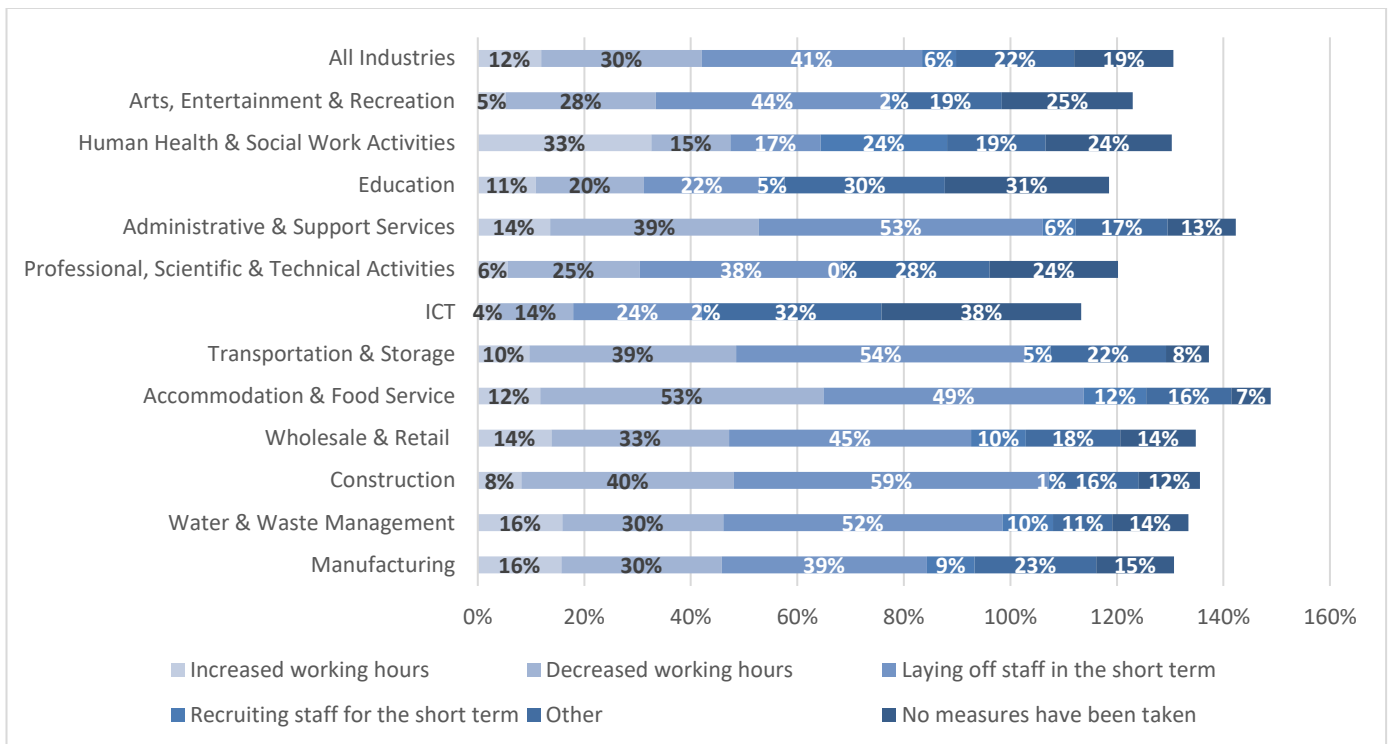
¹⁴ The percentages add up to more than 100% as firms could choose more than one option in replying.

10. The actions taken by businesses differ widely by sector, as can be seen in Figure 1 overleaf.

- 53% of hospitality firms and 40% of construction businesses have reduced working hours compared to just 14% of firms in ICT;
- More than half of all firms in the Construction (59%), Transport (54%), Administrative Services (53%) and Water & Waste Management (52%) sectors have laid off staff.
- There are also sectors where the trends are less clear-cut. For example, in Manufacturing 9% of firms have recruited staff, while 39% have let staff go. Similarly, in Retail where the respective percentages are 10% and 45%.

11. For businesses who are managing to continue trading there are many challenges but there are also those where new markets and new opportunities have arisen as a result of COVID-19.

Figure 1: Workplace measures taken by firms by sector, UK, April 2020



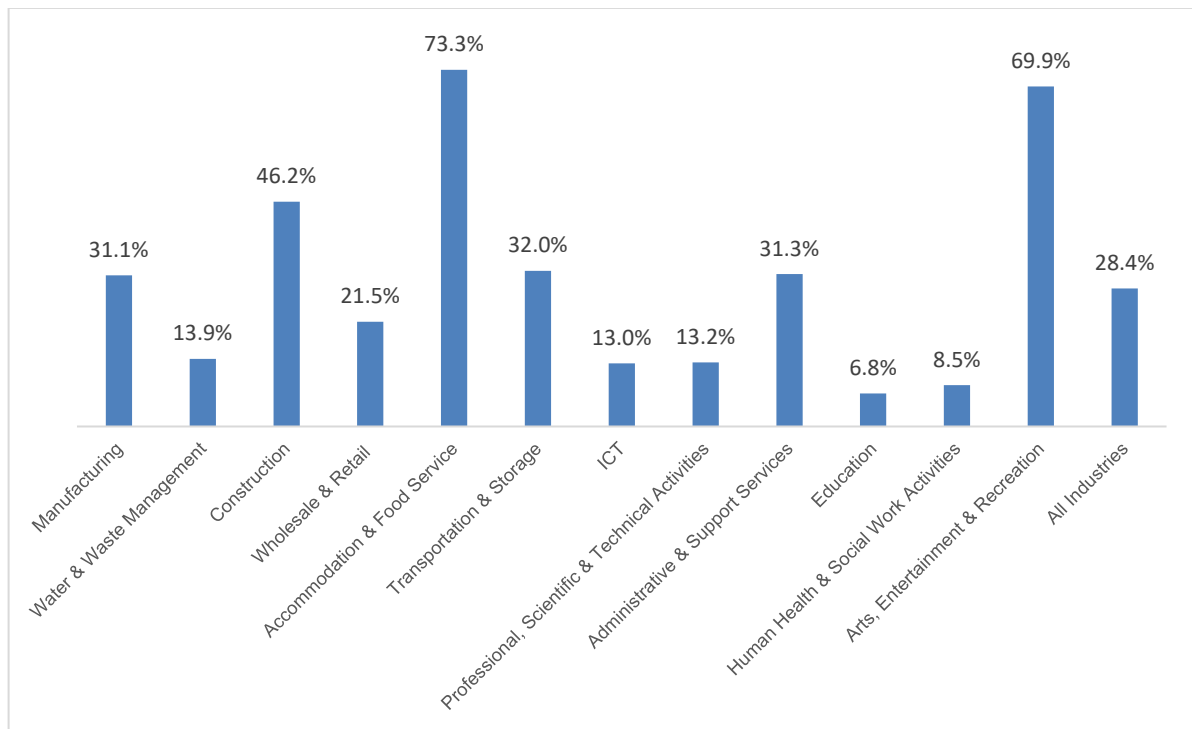
Source: ONS

12. Turning to furloughing of jobs, there is more available evidence now in terms of the uptake of the Job Retention Scheme. The HMRC have reported that 8.4 million jobs (more than 25% of total workplace jobs) across the UK were being covered by the

furlough scheme with more joining during May.¹⁵ Although these numbers are not broken out for devolved regions, Minister for the Economy, Diane Dodds, estimates that 200,000 jobs may have been furloughed in NI.¹⁶

13. The ONS survey data (from the period up to 5 April) addressed furloughing and this also varies across sectors.¹⁷ Figure 2 shows that Accommodation & Food Services (73% of staff furloughed) and Arts & Entertainment (70%) are both well above the All Industries average (28%). By contrast, in sectors where businesses have been able to continue trading through working remotely in large numbers, the furloughing shares are much smaller, including 13% in ICT and 13.2% in Professional & Technical Services. Retail firms surveyed report that only 21.5% of staff have been furloughed, raising questions about whether layoffs and reducing hours are the measures used more frequently in this sector.

Figure 2: Rates of furloughing by sector, UK, March/April 2020



Source: ONS, "Furloughing of workers across UK businesses"

14. In the Republic of Ireland, the Central Statistics Office (CSO) survey of businesses up to 3 May does not provide the same level of sectoral detail on furloughing.¹⁸ However,

¹⁵ Chris Giles & Jim Packard, "Rishi Sunak to end new applications to UK furlough scheme", *Financial Times* (26 May 2020). The last HMRC release of statistics for the UK covered up to 24 May 2020 and showed a 2.1 million increase in May.

¹⁶ Margaret Canning, "Majority of the 200,000 on furlough will return to a job", *Belfast Telegraph*, 23 May 2020.

¹⁷ The furloughing rates cover all firms, whether they have ceased trade or are continuing in business.

¹⁸ CSO, "Business Impact of COVID-19 Survey" (18 May 2020).

39% of responding businesses have reduced their workforce, which is similar to the 41.4% response in the ONS survey. Almost half (49%) of responding businesses are using the furlough (or wage subsidy) scheme and over 450,000 jobs have been furloughed.¹⁹

15. The initial UUEPC furloughing and lay-off estimate was based on data from the limited available sectoral and general surveys at the time to provide a basis for the figure of 235,000 workplace jobs impacted.²⁰ The revised estimate uses the same approach but with the more detailed and updated information now available from the ONS and NISRA. The revised rates also include sectoral impacts on Agriculture, Financial Services and Other Services (not detailed in the ONS data). In addition, greater impacts on the Retail sector and adjustments for Manufacturing sub-sectors reflect the importance of Agri-Food producers in the NI economy.
16. **The revised estimates give a combined figure of 249,500 workplace jobs impacted by BOTH furloughing and lay-offs.** This equates to almost 48% of all private sectors jobs in NI and marks an increase of 14,000 from the previous estimate.²¹
17. Table 3 shows the breakdown by broad sector. The increases have occurred across all three broad sectors but the largest is in Production & Manufacturing where furloughing and lay-offs, in particular, has bitten deeply across every sub-sector. The proportionate increase is smaller in Services, where there is some evidence of furloughing and layoffs taking place in sectors such as ICT and Professional, Scientific & Technical, but not to the same extent as in other parts of the economy.

Table 3: Estimates of staff numbers furloughed and laid-off

| Sector | Initial Estimate | Revised estimate |
|----------------------------|------------------|------------------|
| Production & Manufacturing | 33k | 39k |
| Construction | 15k | 17k |
| Services | 187k | 193k |
| TOTAL | 235k | 249k |

Source: UUEPC

18. These estimates are offered at a point in time, just as the restrictions are about to begin being slowly lifted and the economy moves into a 'living with Covid' phase. The UUEPC will look to provide fresh estimates at a time when the different phases of easing

¹⁹ Revenue Commissioners, *COVID-19 Temporary Wage Subsidy Scheme: Preliminary Statistics* (7 May 2020).

²⁰ An example of one survey is NI Chamber of Commerce & Industry, "Quarterly Economic Survey and COVID-19 Business Impact Tracker" (29 April 2020).

²¹ The Live Register figures for Ireland in April 2020 show 425,000 employees on the wage subsidy scheme and 602,000 in receipt of the special Pandemic Unemployment Payment. This may represent a 52% share of all private sector employees.

restrictions have been completed, people move back into work from furloughing and the shape of the recovery begins to become clearer.

19. In the meantime, the UUEPC is working on other research into the characteristics of the workers impacted and the differences across gender, age, ethnicity, occupation and skill levels. This follows research from McKinsey²² - using a 'jobs at risk' concept - as well as that from the Resolution Foundation²³ and the Central Bank of Ireland²⁴ to offer a more granular analysis of the potential impacts.
20. A final point to consider is that businesses will face further staffing decisions as restrictions begin to be eased and firms reopen whilst also implementing social distancing protocols for both staff and customers. The furloughing measure was conceived as a way to allow employers to retain their staff and facilitate a relatively seamless return to work. Although there is some evidence that this is beginning to happen in some businesses, the total UK furloughing numbers have been continuing to rise showing that, on balance, more jobs are being added to the scheme.
21. **Ultimately, the extent to which a return to work off furloughing will be a success depends on the level of demand which exists in the economy and the extent to which businesses can trade whilst still complying with any new public health protocols.**

Revised GVA impact on NI

22. We are also providing a revised estimate of the GVA impact by sector for this paper. This estimate takes account of **the impact of the restrictions in Q2 and also the impact of partial/ easing of restrictions in Q3**. This follows the recent approach used by the OBR, where they estimated that the effects of COVID-19 on economic output in Q3 (-18% from Q1 levels) might be half of the impact seen in Q2 (-35% from Q1 levels), with Q4 seeing a return to trend growth.²⁵
23. For the purposes of this estimate of GVA impacts, we applied the UK-wide OBR sectoral estimates to the NI economy to reflect our specific sectoral structure. The following comments are made in respect of a number of the OBR assumptions and estimates:
 - The halving of the size of the decline between Q2 and Q3 has the benefit of simplicity but may mask the relative speed at which sectors will re-open and thus

²² McKinsey, *Lives and Livelihoods: Assessing the near-term impact of COVID-19 on US workers* (2 April 2020); McKinsey, *Covid-19 in the UK: Assessing jobs at risk and the impacts on people and places* (11 May 2020).

²³ Resolution Foundation, "The effects of the coronavirus on workers" (16 May 2020).

²⁴ See Coates, Byrne et al, "The Initial Impact of the COVID-19 Pandemic on Ireland's Labour Market", Department of Employment Affairs and Social Protection / Central Bank of Ireland Working Paper (6 May 2020).

²⁵ OBR, "Commentary on the OBR Coronavirus reference scenario" (14 April 2020).

economic output will tend to recover. It also assumes a resumption of pre-COVID-19 levels of economic activity in Q4 2020;

- Applying the OBR estimates to sectors in NI fails to take account of differing economic performance (e.g. as measured by productivity levels) of some sectors in the NI economy when compared to UK averages; and
- The size of the decline in Education (and to a lesser extent in Public Administration) obscures the extent to which they continue to operate on-line within the containment measures.

24. Allowing for these caveats, Table 4 shows the estimates of decline by sector in Q2 and Q£ coming off Q1 as a baseline level. **The overall impact of these sectoral output declines in Q2 and Q3 output would be a 12.7% fall in GVA in NI in 2020.**²⁶ Using the Nominal GVA figure for 2018 (the last year’s full GVA figures available) this would equate to a £5.4 billion fall in GVA in one year, a figure well in excess of the previous largest annual fall (£3.3 billion between 2008 and 2009).²⁷

Table 4: Estimates of economic output losses by sector, Q2 & Q3 2020

| Sector | Assumed decline in Q2 by sector (%) | Assumed decline in Q3 by sector (%) |
|--|-------------------------------------|-------------------------------------|
| Agriculture | 15% | 7.5% |
| Mining, Energy & Water Supply | 15% | 7.5% |
| Manufacturing | 55% | 27.5% |
| Construction | 70% | 35% |
| Retail | 50% | 25% |
| Transport | 35% | 17.5% |
| Accommodation & Hospitality | 85% | 42.5% |
| ICT | 45% | 22.5% |
| Financial services | 5% | 2.5% |
| Real Estate | 20% | 10% |
| Professional, scientific & technical services | 40% | 20% |
| Administrative & support services | 40% | 20% |
| Arts, entertainment & recreation | 90% | 45% |
| Public Administration | 20% | 10% |
| Health | +50% | +25% |
| Education | 90% | 45% |
| Other Services | 60% | 30% |

Source: OBR.

²⁶ In reality, the quarters may not match exactly with their normal months, given that the ‘restrictive’ Q2 is more like mid-March to mid-June and the ‘less restrictive’ Q3 being potentially mid-June to mid-September.

²⁷ Office of National Statistics, *Regional GVA (balanced) by industry* (19 December 2019).

Conclusions

25. Based upon new evidence about the likely length of the lockdown and the measures being taken by businesses, this paper offers a revised set of estimates to that provided by the UUEPC last month. In sum, the new estimate shows a more significant contraction in economic output in 2020 (increasing from 9.6% to 12.7%) but this reflects the inclusion of economic contraction extending into Q3. We have also revised upwards to 249,000 the number of jobs potentially impacted by **both** furlough and layoffs to reflect some of the survey data now available. These figures can be expected to alter again as more NI data becomes available, particularly in respect of lay-offs.
26. One final point to make is that these estimates and outlooks remain very dependent not only on the trends of the pandemic but also the responses taken by government, which remains in the mitigation stage of the immediate impacts on businesses and jobs. Easing the restrictive measures to enable the economy to reopen safely and responding to the longer-term challenges posed by social distancing and new ways of work may prove just as difficult.

3. The potential impact in Local Government Districts

Introduction

1. The potential impact at the Council or Local Government District (LGD) level is based upon the latest UUEPC estimates of the economic impact of COVID-19 on the NI economy level. The LGD estimates will also be revisited as further evidence for labour market impacts becomes available and we begin to model the possible effects of lessening the current restrictions and the timeframe for this easing (with reference to sectoral variations).
2. However, we can already say that the economic impacts of COVID-19 will not be felt equally across NI.²⁸ First, this will be because there is a variety of sectoral structures and concentrations across Council areas. The relevance of this to estimating impacts from COVID-19 is that some sectors have a higher risk of pandemic-related recession than others.²⁹ Estimates from the International Labour Office (ILO) use the physical distancing rules necessary to prevent transmission of the virus **and** the demand shocks resulting from any fall in consumption and investment to assign sectors as follows³⁰:
 - High risk – Accommodation & Hospitality, Retail (at least non-food segments), Manufacturing and Real Estate
 - Medium/high risk – Arts & Recreation and Transport
 - Medium risk – Construction, Financial Services, Mining & Quarrying
 - Low/medium risk – Agriculture
 - Low Risk – Healthcare, Education, Utilities and Public Administration.
3. Table 5 shows the workplace employment shares across NI by sector and then Councils with the highest and lowest shares. The dominance of Belfast in some of the services sectors is clear, as is the concentration of Manufacturing and Construction in Mid Ulster, and Accommodation in Causeway Coast & Glens.

²⁸ Henry Overman, "How the UK Government should respond to the unequal local impacts of COVID-19", Voxeu.org blog (22 April 2020).

²⁹ Mark Muro, Robert Maxim and Jacob Whiston, "The places a COVID-19 recession will likely hit hardest", Brookings Institute blog (17 March 2020).

³⁰ ILO, "COVID-19 and the World of Work. Third Edition" (29 April 2020). There are some differences between this assessment and that of McKinsey's research. The latter address the risks associated with physical distancing while ILO also include possible demand shocks. For example, Manufacturing moves from high to medium risk in McKinsey and Construction would be higher risk in McKinsey than in the ILO work.

Table 5: Shares of workplace employment by sectoral risk, NI, with high and low concentrations in LGDs

| Risk Rating | Sector | NI share | Highest Council share | Lowest Council share |
|---------------------|--|----------|------------------------|-----------------------|
| High | Real Estate | 1.2% | Belfast | Mid Ulster |
| | Accommodation & Food Service Activities | 6.0% | Causeway Coast & Glens | Antrim & Newtownabbey |
| | Manufacturing | 10.8% | Mid Ulster | Belfast |
| | Wholesale & Retail Trade | 15.8% | Antrim & Newtownabbey | Belfast |
| High/Medium | Arts, Entertainment & Recreation | 2.3% | Belfast | Mid Ulster |
| | Transportation & Storage | 3.5% | North Down & Ards | Lisburn & Castlereagh |
| Medium | Construction | 6.4% | Mid Ulster | Belfast |
| | Mining & Quarrying | 0.2% | Mid Ulster | Belfast |
| | Financial & Insurance | 2.3% | Belfast | Antrim & Newtownabbey |
| Low/Medium | Agriculture | 3.3% | Fermanagh & Omagh | Belfast |
| Low | Electricity, Gas, Steam & Air Conditioning Supply | 0.3% | Mid & East Antrim | Newry, Mourne & Down |
| | Water Supply, etc. | 0.8% | Newry, Mourne & Down | Mid Ulster |
| | Public Administration | 6.0% | Belfast | Mid Ulster |
| | Education | 8.4% | Derry City & Strabane | Lisburn & Castlereagh |
| | Human Health & Social Work | 15.2% | Lisburn & Castlereagh | Mid Ulster |
| Unclassified | Other Service | 2.9% | North Down & Ards | Fermanagh & Omagh |
| | Information & Communication | 2.5% | Belfast | Mid & East Antrim |
| | Professional, Scientific & Technical | 5.1% | Belfast | Mid & East Antrim |
| | Administrative & Support Service | 6.9% | Belfast | Fermanagh & Omagh |

Source: UUEPC analysis using 2019 Workplace Jobs data

4. It is also important to consider the nature of jobs (rather than just the sectoral structure of local economies). For example:
- The proportion of people who can work from home – in GB those proportions tend to be more highly concentrated in the South East of England;³¹
 - The issue of self-employment – in particular the proportion of self-employed who rely entirely on this activity for their income (with less of a cushion from a salary elsewhere). These concentrations are much more prevalent in the Midlands and North of England than elsewhere in Britain.

³¹ Elena Magrini, “How will coronavirus affect jobs in different parts of the country?”, Centre for Cities blog (17 March 2020), <https://www.centreforcities.org/blog/how-will-coronavirus-affect-jobs-in-different-parts-of-the-country/> .

- the consequence of COVID-19 for different groups of workers, structured by age, gender and skills levels;
 - the precarious nature of some employment and the proportion of school leavers who rely on employment as an option rather than continuing their education.
5. These factors point to the importance of understanding the nature of local enterprises and labour markets. Therefore factors such as the precarious nature of some jobs and labour market variables, including sub-regional patterns, will be explored in further research from the UUEPC. For now, this section offers a provisional estimate of the economic impacts of COVID-19 at Council level, based on their sectoral concentrations.

The potential impact on labour markets

6. As noted above, the UUEPC is now estimating that 249,500 workplace jobs may have been impacted by furloughing or lay-offs in the COVID-19 crisis – perhaps as many as 48% of all private sector employees. In this section the analysis is applied at Council level using analysis based upon 2-digit SIC data from the most recent Business Register Employment Survey (released June 2019).
7. Table 6 shows how the jobs potentially impacted may be spread across Council areas. Unsurprisingly those LGDs with higher proportions of jobs in the Accommodation, (non-food) Manufacturing, (non-food) Retail and Construction sectors are most likely to be impacted by lay-offs and furloughs at the current time. The difference in the least and most impacted areas – just over 10 p.p. – reflects their different economic structures.

Table 6: Estimates of jobs impacted by furlough and lay-offs, by LGD and NI

| | Total Employees Q4 2019 (Estimates) | Total Furloughed & Laid Off Employees (Estimates) | % Change |
|---|-------------------------------------|---|---------------|
| Mid Ulster | 59,500 | 22,900 | -38.5% |
| Newry, Mourne and Down | 63,800 | 22,000 | -34.5% |
| Mid and East Antrim | 46,500 | 15,800 | -34.0% |
| Causeway Coast and Glens | 42,100 | 14,300 | -34.0% |
| Ards and North Down | 38,300 | 12,400 | -32.4% |
| Antrim and Newtownabbey | 65,900 | 21,200 | -32.2% |
| Lisburn and Castlereagh | 61,000 | 19,600 | -32.1% |
| Armagh City, Banbridge and Craigavon | 79,400 | 25,200 | -31.7% |
| Northern Ireland | 788,600 | 249,500 | -31.6% |
| Fermanagh and Omagh | 42,200 | 13,000 | -30.8% |
| Belfast | 232,800 | 67,200 | -28.9% |
| Derry City and Strabane | 57,100 | 15,900 | -27.8% |

Source: UUEPC analysis using 2018 BRES data.

8. The percentage change in Mid Ulster (38.5%) makes this Council area the most impacted by job furloughs and layoffs, although its total number of jobs potentially effected is ranked 3rd out of 11 councils. The largest scale impacts – in terms of numbers of workplace jobs – are in Belfast (which is the location for 27% of all jobs potentially effected) and Armagh City, Banbridge & Craigavon (10%).
9. The experience in the Belfast City Council area is important, given its role as a regional driver. The council is the location for the largest workplace employment numbers, however, in percentage terms it is the second least impacted. This reflects the prevalence of ICT and Professional, Scientific & Technical Services to its sectoral structure. Although these firms have furloughed staff, more of them have been able to continue trading through remote working, than in other sectors and overall fewer staff have been put onto the scheme in these sectors.³² The city may therefore be better placed for recovery.
10. These estimates show a similar pattern to the claimant count numbers for April 2020 by Council area, albeit the claimant count is resident-based rather than workplace jobs-based. Belfast had the largest numerical increase (+6,645) in unemployed residents, an increase of 89% over the previous month. While Mid Ulster (+1,845) and Newry, Mourne & Down (+3,015) saw smaller increases, in percentage terms (117% and 122% respectively) these two Councils had the largest proportional rises.³³
11. The UUEPC estimates also appear to mirror the emerging picture from Invest NI client companies, which suggests that Advanced Engineering & Manufacturing, Construction and Leisure & Tourism are the most-impacted sectors. These three sectors accounted for around 84% of jobs made redundant or furloughed (and reported to Invest NI) by client companies between 16 March and 15 May 2020. For the same period Invest NI client companies in Belfast, Mid Ulster and Newry, Mourne & Down have almost half of the lay-offs and furloughs reported to the organisation.³⁴
12. The level of resident employment in Council areas, also raises the issue of a reduced commuting effect during the shutdown. Councils with high proportions of outflowing commuters – in particular those within the Belfast City region – could see some spending revert to the 'resident' Council area. This depends on whether the employee is able to work from home, has been furloughed or laid off and the extent to which they are able to consume goods and services locally.

³² ONS, "Coronavirus and the economic impacts on the UK" (23 April 2020); ONS, "Furloughing of workers across UK businesses, 23 March 2020 to 5 April 2020" (23 April 2020); Revenue Commissioners, "COVID-19 Temporary Wage Subsidy Scheme in Ireland: Preliminary Statistics" (24 April 2020) show that these sectors account for just over 7% of almost 350,000 employees on the scheme.

³³ NISRA, *NI Labour Market Report May 2020* (19 May 2020).

³⁴ Internal information from Invest NI. Sectors such as Wholesale & Retail and Accommodation & Hospitality which are at high risk of economic impacts from COVID-19 are rarely Invest NI client companies due to the agency's emphasis on working with exporting businesses.

13. One area not addressed in these estimates is **the impact on the self-employed and new/potential entrepreneurs in local labour markets**. These groups are vital to local enterprise and job creation and will not feature in the workplace jobs data. The anecdotal evidence suggests that large percentages of the self-employed – especially those engaged in trades – are restricted in their work practices at present. This implies that Council areas with the highest percentages of self-employed and entrepreneurial intentions – notably Mid Ulster, Fermanagh & Omagh and Newry, Mourne & Down – will find themselves most impacted by this COVID-19 related effect.³⁵

The potential impact on economic output at Council level

14. The GVA impact analysis uses a combination of the OBR sectoral estimates of decline (for both Q2 and Q3) but also recognises that the economic impact will not be constant across sectors in each Council area. This approach reflects previous UUEPC research³⁶ which found that in the same way the NI economy has a different sectoral structure (and productivity performance) to other UK and Irish regions, sub-regional differences in areas such as employment rates and GVA growth rates also existed.
15. To reflect this difference the UUEPC analysis includes the use of growth relativities at the sector and sub-sector level based on recent (2017-2018) GVA growth rates at a 2 digit SIC level for NI and comparing these to the UK. This, alongside the differing sectoral structures at Council level, is intended to ensure that any Council-level decline in GVA will reflect the structure of the local economy. The results are shown in Table 7.

Table 7: Estimates of decline in GVA, Q2 and full 2020, by Council area and NI

| | Q2 % decline in GVA | Full year % decline in GVA | CPP estimates/ranks for Q2 decline |
|---|---------------------|----------------------------|------------------------------------|
| Mid Ulster | -38.2% | -16.3% | -45.4% (1) |
| Mid and East Antrim | -38.0% | -15.2% | -39.7% (2) |
| Causeway Coast and Glens | -32.2% | -13.3% | -38.3% (3) |
| Newry, Mourne and Down | -30.2% | -12.0% | -38.1% (4) |
| Fermanagh and Omagh | -30.4% | -11.9% | -36.6% (5) |
| Antrim and Newtownabbey | -27.6% | -11.5% | -35.0% (6) |
| Belfast | -26.4% | -10.6% | -30.0% (10) |
| Ards and North Down | -26.3% | -10.6% | -30.9% (9) |
| Armagh City, Banbridge and Craigavon | -25.9% | -10.6% | -34.3% (7) |
| Derry City and Strabane | -23.6% | -9.5% | -29.6% (11) |
| Lisburn and Castlereagh | -21.4% | -9.3% | -31.3% (8) |

Source: UUEPC analysis; CPP

³⁵ Karen Bonner, Mark Hart, Jonathan Levie & Neha Prashar, *Global Entrepreneurship Monitor Northern Ireland Report 2018* (December 2019). Further research by Karen Bonner is planned in this area.

³⁶ UUEPC, "Understanding productivity in NI" (May 2019).

16. Table 7 shows the estimated decline in economic output by Council area for Q2 and 2020 in full (assuming the Q3 impact is half that in Q2). The results of this analysis reveal a wide range of declines in GVA in Q2 between Lisburn & Castlereagh (-21%) and Mid Ulster (-38%). Based on current recovery assumptions and reversion to the baseline trends by Q4, the annual decline in GVA would have a 7 p.p. range from -16% in Mid Ulster to -9% in Lisburn & Castlereagh.
17. Much of the difference between Council areas can be explained by the extent to which there is a reliance on three sectors in particular: Construction, Manufacturing (non-food) and Accommodation. For example, 40% of Mid Ulster's GVA and 20% of NM&D's GVA in 2018 came from the Manufacturing and Construction sectors, both of which have experienced a sharp fall. Manufacturing accounted for 40% of GVA in Mid & East Antrim in 2018 and, even allowing for earlier shocks in this sector, COVID-19 can be expected to cause an impact greater than the NI-average. Although Derry City & Strabane and Lisburn & Castlereagh might expect to see smaller declines in GVA – due to a greater relative concentration of Health and Education – their output falls of nearly 10% are also very significant.
18. The UUEPC analysis differs somewhat from the estimates offered by the Centre for Progressive Policy (CPP) last month which are also shown in Table 7.³⁷ The CPP used the same OBR UK sectoral estimates for Q2 and applied these on a constant basis to LGDs across Great Britain and NI. The method used in the UUEPC analysis results in smaller declines in Q2 (e.g Mid Ulster has a 38% decline instead of 45% estimated in the CPP analysis). There is less impact on the ranking with the ranks of the highest six Councils remaining the same.

Conclusions

19. The paper provides an estimate of the potential impacts of COVID-19 on GVA and employment across Councils. It reflects the overall outlook for NI and the variation that should be expected due to the differing make-up of local economies across the region. Overall, the new estimate is marginally more pessimistic and as noted above we would expect the estimates to be revised as more NI data becomes available on the scale and depth of the impact and also as conditions change and the process of lifting restrictions commences.

³⁷ Centre for Progressive Policy, "Which local authorities face the biggest immediate economic hit?" (16 April 2020); <https://www.progressive-policy.net/publications/which-local-authorities-face-biggest-immediate-economic-hit>

20. The early estimates show that **all Councils will be badly affected by the necessary shutdown of economies**. To put these huge falls in GVA across all Council areas into some context, Table 8 shows how they far exceed those seen in every Council area at the height of the last recession in 2008-09. At that stage only Mid Ulster saw a fall in GVA at the height of the financial crash that was higher than the estimated average impact in NI in 2020.

Table 8: Decline in GVA, 2008-09 recession and 2020 estimates, by Council area and NI

| | Full year % decline, 2020 est. | % decline in GVA, 2008-09 |
|---|--------------------------------|---------------------------|
| Mid Ulster | -16.3% | -15.6% (1) |
| Mid and East Antrim | -15.2% | -3.9% (11) |
| Causeway Coast and Glens | -13.3% | -10.5% (2) |
| Newry, Mourne and Down | -12.0% | -8.6% (6) |
| Fermanagh and Omagh | -11.9% | -7.6% (7) |
| Northern Ireland | -11.6% | -7.2% |
| Antrim and Newtownabbey | -11.5% | -10.3% (3) |
| Belfast | -10.6% | -5.8% (8) |
| Ards and North Down | -10.6% | -10.1% (4) |
| Armagh City, Banbridge and Craigavon | -10.6% | -9.4% (5) |
| Derry City and Strabane | -9.5% | -4.5% (10) |
| Lisburn and Castlereagh | -9.3% | -5.6% (9) |

Source: UUEPC analysis; CPP

21. However, four Council areas – Mid Ulster, Newry, Mourne & Down, Causeway Coast & Glens and Mid & East Antrim – are expected to see the greatest impacts proportionally in their local economies in terms of both employment and GVA (see tables 4 and 5). This reflects the sectoral concentrations of Construction, many parts of Manufacturing, Accommodation and Retail in these areas.
22. The position in Belfast and Derry City & Strabane is somewhat different. The impacts are large – 73,000 jobs potentially furloughed or laid-off and approximately 10% of local GVA lost – but proportionally these falls are smaller than in other places. This is likely to be due to a number of factors, not least a diversity of sectors (particularly in Belfast), the number of jobs which can be undertaken remotely and the presence of crucial large healthcare facilities.
23. Finally, it is important to emphasise that these estimates and outlooks have a higher degree of uncertainty than would be typical in ‘normal’ times and are conditional on the course of the pandemic itself and the policy responses adopted by governments across the world. The next section looks at what might be done by local Councils in particular, and in partnership with other statutory agencies and stakeholders within local communities.

4. Concluding comments – developing a local response

In the short term: Public health responses and economic mitigation

1. The difficult political decisions are likely to continue to arise in the weeks and months ahead. The next phase raises questions about when and how to lift restrictions on people's movements and businesses ability to trade. The NI Executive has released a document which is an outline of how decisions will be taken based on the best scientific advice available. The aim is to minimise the human cost of this crisis by prioritising public health needs and the high levels of compliance with the restrictions in place shows an implicit public support for that approach.
2. However, it is also recognised that the restrictions have meant an effective shutdown of large parts of the economy. Therefore, measures have been taken across all advanced economies to help mitigate the worst impacts of the restrictions on both employers and employees, such as wage subsidies, enhanced welfare payments, business rate holidays, grant schemes and tax deferral options.
3. The next phase of decisions will inevitably shift to focus on economic recovery to prevent the short-term impacts becoming permanent, such as jobs furloughed becoming jobs lost as firms close due to a collapse in demand. Any responses should endeavour to take into account sub-regional patterns and needs, as well reflecting where some of the interventions are best implemented at a local level.

In the longer term: Approaches towards a place-based 'recovery'

4. The analysis above shows that **all** places will be impacted by COVID-19, but that **not all places will be equally impacted in this crisis**. Differing sectoral structures, openness to trade and tourism, and economies with high numbers of workers in non-standard employment help to explain the range in impact across different places.
5. The focus in this section is the longer term question of what role 'place-based' policies might play in a 'recovery' phase and, in turn, the role local government might play in supporting such a recovery.
6. **Ensuring the business of local government continues** – the immediate crisis has already had a significant impact on local government finances through a loss of revenue. To address this, the Department of Finance has announced a £20.3 million assistance package to be delivered through the Department for Communities. In addition, the cost of the business rates holiday is being funded by the NI Executive. This financial assistance will ensure that essential services continue.
7. More broadly, the economic development work of the Councils will continue, in terms of supporting local skills, employability and entrepreneurship schemes, and the

development of the City and Growth Deals propositions across NI. The current crisis presents a particular issue in terms of business engagement at the current time and this will need to be addressed to ensure that the City and Growth Deals strike a balance between the short-term challenges and the need for longer-term transformative actions in places.

8. Finally, Councils are key local employers – in particular offering graduate-level employment outside Belfast and Derry. Any staff resource decisions can have a major effect on areas where private sector demand may be flat in the period to come.
9. **Taking a sectoral approach** – the differing levels of impact of the pandemic on various sectors has been outlined above. In addition, sectors such as tourism, hospitality, leisure, transport, retail, manufacturing and construction are likely to see the greatest impact from the ongoing need for social distancing. This could dictate a sectorally-differentiated approach in the short term (as is the case with the targeted rates holiday). However, the longer-term picture is more fluid and as a result uncertain, therefore the Executive and councils should avoid being locked-in to long-term local commitments.
10. **Adapting to changing tourism patterns** – in the short and medium term it looks like a reduced tendency towards international travel will create significant challenges for the local tourism sector. Significant promotional effort has been employed in recent years to attract more international and overnight visitors. Successful events and attractions have seen some Council areas, including Belfast, Causeway Coast & Glens, Derry City & Strabane and Fermanagh & Omagh, become successful in this area.
11. To maintain the momentum achieved prior to the crisis, the promotional efforts may need to be re-purposed to other opportunity areas, such as a preference towards family 'staycations' and outdoor pursuits (using Greenways, etc), and to nearby cross-border and GB markets where restriction on air travel is less of an issue. In Sicily, where the tourism economy is crucial, there are schemes from local government to offer people staying a week the cost of one night's stay in a hotel. At the same time as promotional efforts, the plans to develop both new attractions and upgraded accommodation/food service may need to increase in pace.
12. **Building on the partnership approach for local economic development** – prior to the COVID-19 crisis, local government had been working closely with agencies such as Invest NI and InterTradeIreland, as well as local Chambers and other business bodies. Efforts to ensure lost economic output and jobs are quickly reversed will mean this engagement needs to be intensified. If demand in local markets is slow to pick up, support may be needed to enter and compete in export markets (and these will also be very challenging). Local government will be well-placed to assist in this expansion of the types of businesses supported, through the provision of advice to SMEs and assistance in identifying who might best benefit from such exporting and other supports.

13. **Key role for regeneration plans** – if private sector investment falls below the pre-crisis levels of spending, there is a potential role for Councils to fast-track regeneration plans and capital investment projects to utilise the spare capacity in the economy. For example, the crisis has highlighted infrastructure weaknesses such as lack of digital connectivity in rural areas, which could be prioritised moving forward. The role of City Deals may be crucial here.
14. **Making social distancing a part of town centre public realms** – another area of regeneration is the shorter-term repurposing of public realm to address the issue of social distancing and its impact on retail and hospitality in local towns and cities. In the immediate future, the different use of pavements and parking spaces for hospitality businesses and to allow safe access to retail premises will be pressing on local Councils as the first point of contact.
15. **Supports for local communities** – there is also a need for local approaches to support those individual households and communities most vulnerable to the economic impacts of COVID-19. Assistance is needed for those who are unable to work remotely and also those younger people entering the labour market for the first time during a recession. Additional funding support for local public services – such as Further Education, hiring supports for apprenticeships and assistance to rural and social enterprises – will be crucial as these services are often best-placed to reach those most vulnerable. In addition, these supports will need to become more tailored over time as the impacts become clearer.
16. **Prioritising re-skilling during “furlough” and temporary lay-offs** – it is likely that the COVID-19 pandemic may accelerate some trends already occurring in the world of work, such as the drive for automation and the increasing need for higher skills levels. The immediate impacts of furloughing and lay-offs may also prove an opportunity for businesses to see their staff re-skill and for people to change direction towards skills that are increasingly in demand. The Department for the Economy has recently (6 May 2020) announced two moves in this direction, using the FE colleges delivery of “Sure Skills” and a short post-graduate IT course.³⁸ This should be the start of a process whereby the UAEPC’s Skills Barometer research (which identifies the future skills demand at the NI and sub-regional levels) could be used to inform the focus of reskilling and employability resources at a local level.

³⁸ For more see <https://www.economy-ni.gov.uk/news/dodds-announces-two-skills-initiatives-response-pandemic>

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