

DRAFT OF 3.10.01

THE IMPACT OF 11 SEPTEMBER 2001

Introduction

1. The attacks on New York and Washington on 11 September have had a significant global impact, on a number of levels. These include:-
 - (i) international politics, with the potential of significant military and political activity in the coming months;
 - (ii) global economics, leading to a more significant downturn in the world economy than was previously expected; and
 - (iii) public perceptions of security, with potential changes in the developed world about personal security.

2. At this early stage, the full ramifications are difficult to predict. The nature of military action and subsequent political developments could have a wide range of outcomes. This paper however seeks to set out: -
 - (i) the wider economic perspective;
 - (ii) evidence of local economic and social impact;
 - (iii) analysis of likely future pressures on the Northern Ireland Executive; and
 - (iv) contingency planning

The Wider Economic Impact

3. The impact on the world economy of the terrorist attacks is uncertain both in terms of severity and duration. It is likely to depend very much on the

nature of the political and security response, and how this plays out in relation for example to Middle Eastern security issues.

4. The immediate effects appear to be an unwillingness to travel, leading to reductions in airline/airport staff and also possibly on the aviation industry generally. The Gulf War experience shows however that these trends can be reversed relatively quickly though the recent attacks may not be analogous. However there may be some longer term adverse effects as a result of higher costs of insurance not only in the aviation industry but also more generally for business.
5. The likely impact on the wider global economy likewise remains uncertain. Latest IMF forecasts **made before 11th September** suggest a "significant likelihood" that the US will experience a recession. The same projections were already showing markdowns in activity in almost all regions of the world though the strong macroeconomic view from governments earlier this year suggested recovery towards the end of this year.
6. Further, comment from the IMF **post 11th September** suggests some further reduction in overall economic growth. They however emphasise the need not to overlook the economic fundamentals in many countries which have in many respects improved in recent years; from an economic perspective this leaves the world somewhat less vulnerable than it might otherwise be.
7. The IMF take the view that these improvements, together with aggressive response by central banks across the globe, should help reduce the risk of sustained reductions in consumer and business confidence, a key concern,

- in the months ahead.
8. The stabilisation of oil prices which has been already occurred along with OPEC's indication of a willingness not to profit from the situation tends to support the IMF view as does the relatively moderate movements in recent currencies. In any case the dependence of the major economies on oil is significantly less than during the oil price increases of the 1970's.
 9. Whilst share prices remain volatile and suffered an initial fall, experience suggests that financial markets can over-react to such shocks initially as shown by subsequent gains.
 10. Within the EU, however, while economic fundamentals appear relatively good, there are clear signs of slowing with Germany, accounting for a third of Eurozone GDP, facing stagnation and slowing down other Eurozone economies.
 11. Over the last year there has been a weakening of GDP growth in the UK, linked to the continued high exchange rate and the recent collapse in output in several high tech sectors. While the UK outlook is also coloured by concerns for global - especially US - performance, the UK is however one of the most robust of the advanced economies and most forecasters expect growth to remain close to the long-term trend of 2 - 2.5% per annum.
 12. On the other hand domestic demand remains the key driver of UK growth, and consumer spending and service sector investment have held up while investment in manufacturing has faltered.

13. The RoI economy was expected to grow at a slower pace in the coming years even without shock to the world economy, but the 11th September attacks has for example led the Economic and Social Research Institute (ESRI) to suggest a slowdown scenario, with slower growth over the next two years (3.6pp lower in 2002 and 0.2pp in 2003) than in a Benchmark forecast, but thereafter seeing higher growth rates. This is based on the assumption that the US economy does not return to a satisfactory growth rate until 2003, with a decline in foreign direct investment into the RoI which together with a fall in world trade would cause significant uncertainty in the RoI economy.

14. The ESRI sees a growth in unemployment, from its historically low level, and a fall of up to 25% in house prices. However, provided that prudent domestic policies are followed, ESRI suggest that the damage done by temporary slowdown should not be too serious, and any negative effects should be readily reversible.

15. The Economist argues that the RoI may be less affected by the US information and communications technology slowdown because, although a significant proportion of RoI technology firms are US owned, their main sales market is Europe.

The Northern Ireland Impact

16. As with the international situation the major initial impact has been in the aviation sector with the proposed redundancies in Shorts and the ending of the BA London-Belfast route.

Aerospace

17. The former may only be a precautionary response and will depend on how the situation develops, but could impact on 1600 employees together with 500 sub contract workers who will have their contracts terminated. In addition it is estimated that there could be a further 800-1200 job losses to the economy because of the downward multiplier effects. A number of these are located in areas of high unemployment. With Shorts accounting for around 4% of manufacturing output the impact could therefore be significant. The loss of 90-100 jobs in B/E Aerospace in Kilkeel is a further sign of the problems facing aerospace as a sector.

Airlines

18. In explaining its decision to abandon the Heathrow-Aldergrove route, British Airways argued that it had incurred significant losses over the past four years, and noted the high level of provision on the route to London. There are in short wider reasons than 11 September behind this decision.

19. The immediate adverse impact has been reflected in the significant reduction in the share price of TBI, the owner of Belfast International Airport, and clearly the decision has major implications for the nature of the Aldergrove operation. On the wider economic front, there is the question of whether the withdrawal of a major international carrier on this route will impact on international perceptions about the peripherality of Northern Ireland, and whether this will do longer term damage to our economy and to our attractiveness as an investment location.

20. These issues are being addressed by DRD, DETI and OFMDFM, to consider what further response there can be to the companies and authorities involved.

Manufacturing and trade

21. These economic developments need to be put beside the downturn in the ICT and telecoms sectors earlier this year, before 11 September, which has for example seen significant job losses in Nortel Networks. These sectors have underpinned manufacturing output growth in recent years and a significant reduction in manufacturing output in the second half of this year is expected in any event. This is part of a national trend in which ICT and telecomms output doubled during 1999 and 2000, but has fallen back during 2001 to the level of early 1999.
22. IDB had already noted a downturn in inward investment prospects prior to September. Since then has seen the postponement of planned visits, with a severe decline in business confidence and acceptance that the recovery in the technology sector – from which much of our inward investment has come – will be slowed down.
23. The harsher economic climate – prior to September, but worsening after it – is also damaging exporters, with the USA being our largest export market - £916m – after Great Britain. 37% of our manufacturing goes to Great Britain, and its weathering of the economic downturn will be a key determinant of our future economy. Investment appears to be being postponed at present by some businesses, but as stated earlier it is impossible to estimate how long this will last.
24. The adverse effect on these sectors as well as the manufacturing and tradable services more generally will also clearly depend on the degree to which the slowdown in the world economy is prolonged as a result of the

11th September. As noted above, provided there are not substantial political/security developments and that the fiscal and monetary response of government is supportive, the events of the 11th September may not have a response over and above that already anticipated.

Tourism

25. A reluctance to fly is also likely to impact adversely on the Tourism sector which is only beginning to recover from the recent foot and mouth outbreak.

26. This reluctance is likely to be particularly significant for American tourists (which account for around 15% of the Northern Ireland holiday visitor market.) The publicly quoted estimate of reduction in airline traffic for 2002 on transatlantic routes is 20% which would result in a drop of 30,000 North American visitors, of which 11,000 would be Holiday Visitors, whose choices we can influence. This would result in a 1.79% reduction in our overall tourist numbers, with a loss of £9m. On the other hand we could counter-balance this by an increase in GB visitors, perhaps choosing not to travel so far. This however will be influenced by whether we can avoid sending images of street violence throughout the world. The continuing weakness of our small but growing tourism industry arises because of self-inflicted wounds, not international developments.

27. The longer-term impact on tourism however will very much depend on the unfolding military and political situation and the degree to which consumers are assured by any proposals to improve airline security.

having to reorganise some training courses, such as the closing of 12 apprenticeship training in the hospitality sector in the USA.

Overall employment

27. In the medium term there may need to be a re-adjustment in programme

28. The relative importance of the public sector in NI is likely to cushion any further downturn in the tradable sector, and help to hold up employment. Furthermore the relative buoyancy of the labour market in recent times should enable the economy to absorb some further contraction. DEL notes that there are still large numbers of job vacancies across a range of sectors. It is this possible that redundancies at Shorts may relieve shortages of skilled labour in other companies.

29. To some degree we may be affected by how well the economies of Great

Britain and the Republic of Ireland fare, and whether they still provide a draw on local labour.

30. In conclusion, the global slowdown will directly impact Northern Ireland in

terms of the flow of new foreign and UK investment, reduced exports and trade to Great Britain. On the other hand, our proportionately large public sector and the lagged effect of recent foreign investment should cushion some of the recessionary effects. Growth in GDP may thus be only slightly below the long-term trend of around 2.5% - some commentators suggesting suggesting 2%.

Pressures on the Northern Ireland Executive

31. The Shorts and B/E Aerospace redundancies will be dealt with by DETI,

DEL and DSD in a co-ordinated way, while the IDB and LEDU will adjust their programmes to assist individual firms where practical. They are also having to adjust some trade missions and other initiatives while DEL is

having to reorganise some training courses, such as the placing of 12 management trainees in the hospitality sector in the USA.

32. In the medium term there may need to be a readjustment in programme expenditure if unemployment starts to rise, pressing against the current budgetary provision for schemes such as New Deal and Jobskills. The take from Rates may also slow, reducing slightly the resources available. If however the depth of the downturn increases it may be that the Executive would need to consider the prioritisation of programmes such as urban regeneration and community development, although in the coming years projects under PEACE II will start to impact. The impact of major construction programmes such as the gas pipelines and Coolkeeragh will be relevant in the coming years, although clearly not in the short term.

33. On Tourism, consideration will be needed in relation to marketing plans for 2002. The Review of Tourism policy, to be completed by next March, should be able to give the Executive a view on the development of the sector in the light of our prognosis. The issue of lobbying concerning air routes will be a more immediate issue.

34. A related pressure on the Executive will be the issue of negotiations on the NI Block. The assumption that this paper is based on is that costs on national government in relation to defence are not such as to require reductions in the NI Block. Even without military and other costs, but in the light of the economic slowdown, the tightness of the new Spending Round has been voiced for some time. This issue will need to be fully addressed by the Executive in the coming months when it reviews its stance on Barnett.

A more radical economic perspective

35. The above paper has been developed on the basis that the significant feeling of instability produced by the 11 September, coming at a time of economic downturn, can be successfully stabilised and solutions found. It is however possible that the events of 11 September could lead to some very significant changes in perception and organisation in modern society.
36. It is possible for example that even without a deterioration in security, we will see a significant down-turn in travel, and a greater introversion in American business. As has been argued in a recent article in the Financial Times, borders – the role of which has diminished with globalisation – may become more prominent in economic terms, as security is sought. International travel may reduce significantly, although telecommunications will compensate for this in many respects. Resources could also be diverted to defence purposes, crowding out private sector investment.
37. There may be trends to greater diversity in the supply of energy and raw materials to avoid the dangers of political instability in producer regions. The role of government may change, with a stronger emphasis on its duty to protect the population. Within the UK for example the debate about ID cards appears to be re-opening.
38. The nature and timing of any of these possibilities is impossible to predict at this stage, as is their potential impact on Northern Ireland.

Contingency planning

39. Since the events of 11 September the Central Emergency Planning Unit (CEPU) of the Office of the First Minister and Deputy First Minister has been monitoring the developing situation with regard to the risks and the need to have plans in place. CEPU has asked Departments and infrastructure providers in Northern Ireland to look again at their emergency planning arrangements, including those relating to their IT systems and processes, to ensure that they are robust, up-to-date and cater for the widest range of possibilities. Particular emphasis has been placed on ensuring that services could be delivered as normal should the need arise.
40. NI Departments and infrastructure providers already have in place emergency plans to deal with a wide range of emergencies. Although the responsibility for ensuring that these plans are in place and are tested rests with the Departments themselves CEPU will nevertheless continue to review their adequacy.
41. CEPU has liaised closely, and will continue to do so, with colleagues in GB to ensure that any actions taken in Northern Ireland mirror those being taken in the rest of the UK. At the same time NI Departmental officials have been maintaining contact with their counterparts in GB.
42. The events of 11 September have heightened the need to have plans in place to deal with a possible chemical/biological threat. CEPU has already been looking at this area with the help of colleagues from the Civil Contingencies Secretariat of the Cabinet Office and has worked directly

with relevant organizations in Northern Ireland eg DHSSPS and DARD to ensure that all necessary planning arrangements are up-to-date.

Conclusions

43. The Executive is asked: -

- (i) to note the economic analysis set out above;
- (ii) to note that DETI, DEL and DSD will ensure effective co-ordination of the response to any further major redundancies, calling on other Departments for assistance where appropriate;
- (iii) to note that further work will be undertaken by DRD, DETI and OFMDFM to lobby concern air routes;
- (iv) to agree that the Permanent Secretaries Group should monitor these issues on a weekly basis, ensuring effective co-ordination of services;

In addition each Minister should ensure that priority is given to contingency planning in their Departments and that resources are prioritised.