GOLDBLATT McGUIGAN

Value of Food & Drink Industry to Northern Ireland

October 2010

An economic analysis prepared by Goldblatt McGuigan for Northern Ireland Food & Drink Association

NORTHERN IRELAND FOOD & DRINK

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Northern Ireland rural economy directly benefits from £3.2bn annual turnover in the food & drink industry, including the additionality generated by £1.5bn of exports.

The food & drink industry is a progressive sector with increasing productivity and high levels of innovation.

UK trade deficit in food of over £18.4bn represents significant opportunity for growth in Northern Ireland food & drink industry.

40 to 60% growth of food & drink industry planned by nearest competitors in Scotland and the Republic of Ireland.

A 40% growth in the Northern Ireland food & drink industry to £4.5bn could generate up to 15,000 new jobs and more than £600m new exports per year.

About the Authors

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Summary

An estimated 20% of all Northern Ireland private sector employment is derived from the agri-food sector

The agri-food sector is a significant and important part of the Northern Ireland economy – sustaining up to 92,000 people in employment, representing approximately 20% of total private sector employment in Northern Ireland.

At the end of 2009, food & drink processors employed 19,200, which accounts for more than a quarter of all manufacturing jobs in Northern Ireland. The food & drink processors provide a crucial link in the food chain between primary producers and consumers, with an estimated 90% of farming output in Northern Ireland being sold to the food processing industry. When primary production is added to the processing sector, the combined agri-food sector accounts for some 49,200 direct jobs.

Furthermore, through its purchases of goods and services, the agri-food sector also has a wider supply chain role making significant contributions to the local transport, packaging and engineering industries. It is estimated that the direct employment of 49,200 potentially generates close to a further 43,000 indirect and induced jobs, which gives a combined employment impact of the agri-food industry of over 92,000 jobs.

Summary

Northern Ireland rural economy directly benefits from £3.2bn annual turnover in the food & drink industry, including the additionality generated by £1.5bn of exports.

Total turnover of the food & drink industry in 2009 amounted to just over £3.2bn, which despite the recession was a 3.3% increase on turnover in 2008.

This turnover generated directly £550m value added to the Northern Ireland economy; with the total value add of the combined agri-food sector amounting to over £800m.

The food & drink industry has always made an important contribution to the export trade of Northern Ireland, generating additional income for the local economy. In 2008 two thirds of the output of the industry was sold outside Northern Ireland, with over £1.2bn in sales to the Great Britain market, £516m to the Republic of Ireland and £360m to markets outside the UK and Ireland. This represents a significant positive net earnings contribution to the Northern Ireland economy.

A successful and growing food and drink industry will generate more employment and income for the rural economy, where it sources from and where many of its businesses are located. The industry is probably the single most important source of sustaining the rural population. When induced impacts of spending by those employed in the sector are added to the indirect effects in other industries, the overall contribution to the rural economy is very significant.

The food & drink industry is a progressive sector with increasing productivity and high levels of innovation.

The food & drink industry is a progressive sector, which is continually seeking to improve and develop. Growth in productivity in the industry over the period 1995 to 2005 was 13.8% in real terms or almost 1.3% per annum. This represents an important contribution to the improvement in performance of the Northern Ireland economy over that period.

The food & drink industry has also invested heavily in the development of new products and processes, reflecting high levels of innovation. According to the DETI Annual Survey of Innovation, 67% of businesses in the sector were likely to be "innovation active" (including 100% of all large food & drink companies) compared with the average of 57% for all businesses in Northern Ireland. It is estimated that in 2007, 15.6% of all business expenditure on R&D was carried out by the food & drink industry.

UK trade deficit in food of over £18.4bn represents significant opportunity for growth in Northern Ireland food & drink industry.

The Food 2030 Strategy published by DEFRA highlights UK food security as a key issue against a backdrop of climate change and a growing world population. The strategy sets out a challenge for the UK to ensure that it can feed itself in the years to come by growing enough food sustainably.

However there is a growing trade deficit for food in the UK, rising from £10.4bn in 1997–99 to £18.4bn in 2008 (at constant 2008 prices). The need for greater food security and the current UK deficit for food together represent an outstanding opportunity for the Northern Ireland agri-food sector to continue its growth and further increase exports to the Great Britain market.

40 to 60% growth of food & drink industry planned by nearest competitors in Scotland and the Republic of Ireland.

The Scottish Executive and the Irish Government have both demonstrated that they are very alive to the potential for growth in their agri-food sectors. The Scottish Executive has set a target for the Scottish food & drink industry to grow by over 60% to £12.5bn by 2017 and a vision to build Scotland's international reputation as 'A Land of Food and Drink', which it is supporting with new investment.

The UK was the main destination for the Republic of Ireland agri-food and drink exports in 2008 accounting for 45% (€3.3bn) of all exports. In its recently published strategy 'Food Harvest 2020', the Irish Government has set a target to grow its exports of food and beverages by over 40% to €12 billion by 2020, including more than an additional €1bn into the UK market.

A 40% growth in the Northern Ireland food & drink industry to £4.5bn could generate up to 15,000 new jobs and more than £600m new exports per year.

If the local food & drink industry can match the ambition of its neighbours on the island of Ireland and grow the annual turnover by at least 40% over the next decade to £4.5bn, it could generate up to 7,680 new direct jobs, which, taking consequential indirect and induced jobs into account, will potentially generate up to a total of 15,000 new jobs.

Such an increase in turnover is likely to create in excess of £600m per year in new exports, which represents a further positive net earnings contribution to the Northern Ireland economy – equivalent to half of the anticipated cut in public expenditure from London.

The industry also has the crucial capacity to create jobs at lower skill levels which helps to address the wider Northern Ireland problem of the mismatch between the skills and qualifications required by the new sectors of the economy and the available supply of large numbers of persons of working age without these skills and qualifications.

Attracting and supporting the investment required to generate this growth needs to be a priority for the Northern Ireland Executive. Although much of the existing investment by the agri-food sector in agricultural land and machinery, processing factories and associated infrastructure may not be particularly mobile, customers and future investment and jobs are most certainly mobile and could easily be lost to competitors such as Scotland and the Republic of Ireland.

Food & drink has performed well during the recession

The global economy is coming to the end of a deep and widespread recession which has impacted on businesses, households and individuals across most of the major western economies. In the UK, the economy contracted by just over 6% from peak to trough, while in Ireland the impact has been even more dramatic, at over 11%. This recession has had and will continue to have significant impacts on all aspects of our economic life.

In Northern Ireland, the construction and related sectors have been hardest hit as a result of the ending of the property bubble with the number of construction jobs contracting by just over 12,000, or 26%, between December 2007 and June 2010. Other parts of the private sector have suffered in the recession including the retail and hospitality sectors, as consumer spending has been squeezed and as the number of tourist visitors has decreased.

However, until now our large public sector in Northern Ireland has helped protect us from the worst effects of recession: by the end of June 2010 there were just over 223,000 jobs in the public sector, almost one third of total jobs in Northern Ireland. Thus while overall unemployment had risen to 6.8% by June 2010, this was still below the UK average of 7.8% and well below the rate of 13.3% in Ireland.

The industrial sector also experienced a sharp contraction during the recession as output fell by almost 15% over the 18 month period from mid 2008 to the end of 2009. However within this overall decline, the output of the food and drink industry remained largely stable as can be seen from the diagram at Table 1.

The strength of the food & drink sector has been an important source of stability for the local economy during the recession. After lagging behind the steady growth of manufacturing industry as a whole during the period 2006 to 2008, output of the food & drink industry has remained at just below its peak reached in the third quarter of 2008. While some of this growth can be attributed to a competitive exchange rate of sterling against the euro, this is a noticeably better performance than the UK food & drink industry, which declined steadily until the first quarter of 2010 when it saw a sharp recovery.

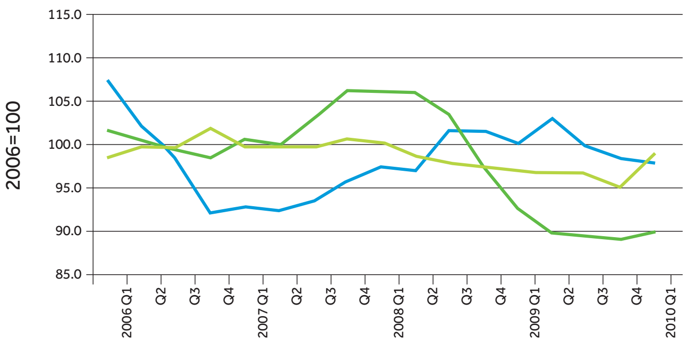
The stable performance of the food & drink industry is also reflected in the labour market. The number of jobs in manufacturing fell by over 10,000 from almost 84,000 at the end of December 2007 to just under 74,000 by the end of December 2009, a fall of 12% over the two year period (see chart at Table 2). Over the same period, the number of jobs in the food & drink industry remained broadly constant at around 19,000. By the end of 2009, the industry accounted for over one quarter of all manufacturing jobs in Northern Ireland.

The outlook for the local economy in Northern Ireland is dominated by the dire state of UK public finances. The announcement in May 2010 by the Chancellor of £6bn cuts in public spending heralds a period of much tighter constraints over the next three years at least and this was confirmed by the June 2010 Budget Statement.

This contrasts with steady growth in public expenditure of around 2% per annum in real terms over the last three years and even higher rates of growth in the previous period. With public spending in Northern Ireland equivalent to over 60% of GDP, reductions of this scale will affect all parts of the economy including business investment and consumer spending, resulting in low rates of projected economic growth over the next few years.

While some parts of the private sector are performing strongly, it is expected to be some years before the private sector becomes the main engine of growth for the local economy. Foreign direct investment which has been an important source of economic growth for the local economy over the last 20 years has slowed as a result of the global recession and is unlikely to pick up quickly. Independent forecasters expect economic growth of around 1% in the Northern Ireland economy this year, rising to 2% next year, still well below the rates of growth experienced in the 10 years before the current recession.

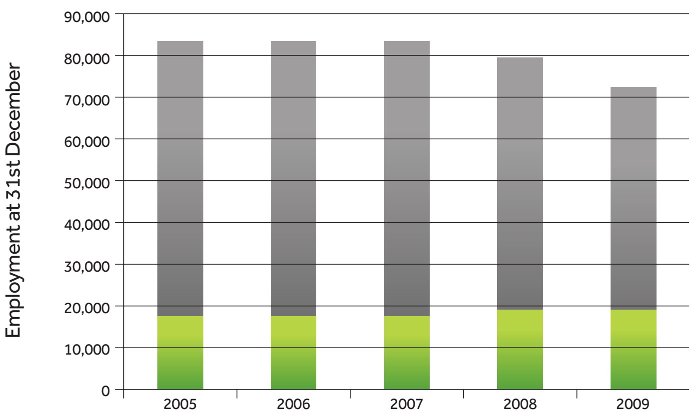
Table 1:
Output of the NI Food & Drink Industry 2006–2010



Food & Drink NI
Manufacturing NI
Food & Drink UK

(Source: DETI Index of Industrial Production)

Table 2:
Employment in the NI Food & Drink Industry 2005–2009

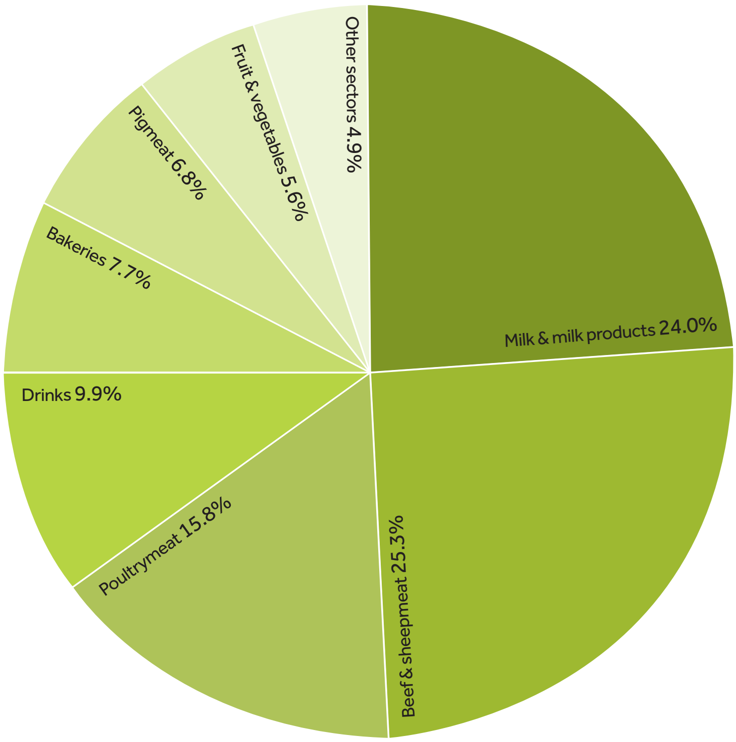


Food & Drink NI
Other Manufacturing NI

(Source: DETI Quarterly Employment Survey)

Table 3:
Sub Sectors of the Food & Drink Industry by Turnover, 2009

Turnover (%)



(Source: DARD 'Size & Performance of the NI Food & Drinks Processing Sector, 2008')

Twelve food & drink processing firms featured in the Belfast Telegraph Top 100 Companies in Northern Ireland and five of these were in the top 50.

The food & drink industry is an important contributor to turnover and employment in the Northern Ireland economy

The food & drink industry is an important player in the Northern Ireland economy. Total turnover of the industry in 2009 amounted to just over £3.2bn, which was a 3.3% increase on turnover in 2008, and accounted for almost 20% of total sales by manufacturing industry in Northern Ireland. The industry comprises a number of sub-sectors, the most important of which are milk and milk products, red meat and the poultrymeat sector, which between them account for almost two thirds of total production (see chart at Table 3).

At the end of 2008, the industry consisted of 272 businesses with annual turnover in excess of £250,000 and of these 18 had a turnover of over £50m and accounted for 63% of total turnover. The ten largest businesses accounted for 47% of total gross turnover on the sector. Twelve food & drink processing firms featured in the Belfast Telegraph Top 100 Companies in Northern Ireland and five of these were in the top 50.

In employment terms, the poultrymeat sector is the largest employing over 4,700, followed by meat processing and bakeries with just over 3,300 each and dairy products with 2,300 employees.

These four sectors together account for 72% of total employment in the industry, which in 2009 stood at 19,200.

In addition to these quantifiable contributions to the local economy, the food & drink industry can claim to be more embedded in the local economy than other industrial sectors because it is a key link in the Northern Ireland food chain between farmers and consumers. Without the processing sector, primary producers would be faced with exporting their output without adding any value.

It is estimated by industry sources that about 90% of farming output in Northern Ireland is sold to the food processing industry and just over one third of the output of the industry is sold to food retailers in Northern Ireland. When primary production is added to the processing sector, the total value added of the combined 'agri-food' sector amounts to over £800m, or 3% of total GVA for Northern Ireland, and accounts for over 49,000 direct jobs.

[1]The statistical information used in this report comes largely from the DARD publication 'Size & Performance of the Northern Ireland Food &Drinks Processing Sector, 2008' , July 2010, except where otherwise stated.

Food & drink is the bedrock of Northern Ireland industry

The capital employed in the industry in 2008 was valued at just over £1.15bn, an increase of 4% on the previous year. The rate of return on this investment was estimated at 6.9%. Although statistical information on ownership is not available, it is likely that local ownership of the industry is higher than a number of other manufacturing sectors, which means that it is less mobile and subject to less decisions made outside Northern Ireland.

Value added is a key indicator of the contribution by the sector to the Northern Ireland economy and in 2008 the total value added by the food and drink industry amounted to just over £550m which was a 4.6% rise on the previous year. This total represented 15% of value added by all manufacturing industry in that year and 2% of the Northern Ireland total Gross Value Added.

Productivity in the industry, as measured by average value added per employee, was estimated at £29,000 in 2008. This is low relative to the average for manufacturing industry in Northern Ireland (£33,200) but this reflects the nature of the industry rather than any inherent weakness. It is more important to look at the growth in productivity in the industry over time and this shows that over the period 1995 to 2005 average value added per head in the industry grew by 13.8% in real terms or almost 1.3% per annum. This represents an important contribution to the improvement in performance of the Northern Ireland economy over that period.

The structure of employment in the industry is also reflected in below average earnings for the industry as a whole: according to the Annual Survey of Hours and Earnings (ASHE), at April 2009 the average full time weekly pay in food & drink manufacturing was £388.1, 20% below the average of £475.8 per week in manufacturing industry as a whole, and 24% below the average full time weekly pay for all types of employment.

However, the average wage in the food & drink industry is skewed downwards because the sector tends to have relatively high components of manual labour. A closer analysis of average pay & skill level (see Table 4) shows that average pay in the food & drink industry at the lowest skill level of elementary trades and occupations is very comparable with other sectors of the economy, while average pay at Skill Level 4 (professional and managerial occupations) actually exceeds averages in most other sectors.

The structure of the industry in having a larger proportion of jobs at well paid Skill Level 1 is an important factor in considering future economic strategy for Northern Ireland. This strategy is based on creating a high value added economy with the anticipated growth of sectors linked to the knowledge economy. However these sectors also tend to require higher skills levels and one of the problems facing the economy is that we have a mismatch between the skills required to meet the demands of these new sectors and the skills currently available in the population. The NI Skills Strategy is designed to address this issue but in the meantime if we are to reduce economic inactivity and raise employment rates the economy also needs to provide significant numbers of jobs at lower skill levels. The food & drink industry is ideally placed to provide these jobs and at a higher level of remuneration than some other sectors.

Table 4:
Average Gross Weekly Pay for Full Time Employees (April 2009, £)

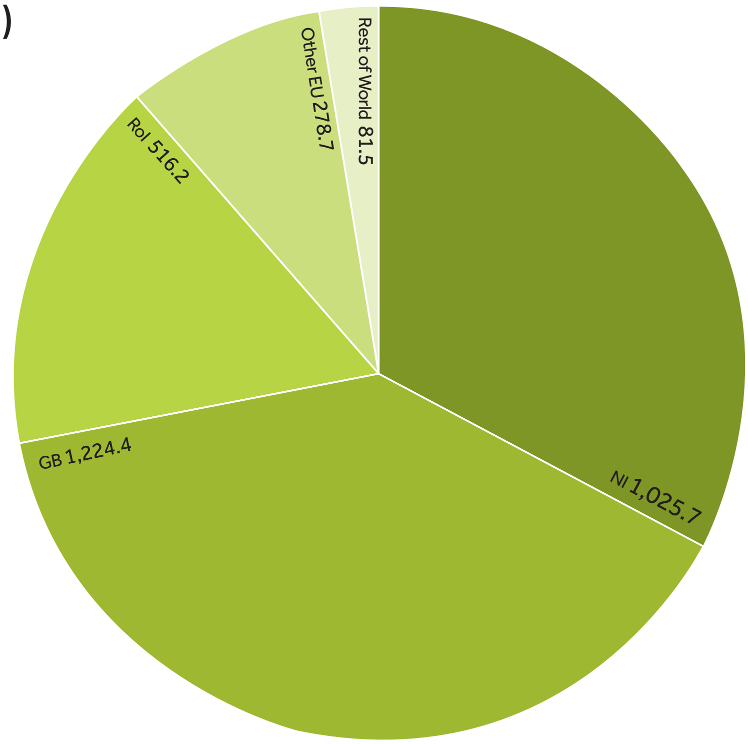
Skill Level	Food & Drink Manufacturing	Manufacturing	Overall
1. Elementary occupations	335.5	343.4	324.9
2. Operatives and customer services	312.3	365.2	358.7
3. Skilled trades & technical occupations	403.2	497.9	540.9
4. Managers and professionals	783.3	714.0	708.0
Overall	388.1	475.8	511.2

(Source: DETI 'Annual Survey of Hours & Earnings, April 2009' July 2010)

[2] 'Value added' of the industry is calculated by deducting from gross turnover all the inputs that are the outputs of other industries. It is equal to the sum of the wages and salaries bill, depreciation, net profit and interest paid by the industry.

Table 5:
Destination of sales by NI food & drink industry, 2008

Sales (£3,126.4m)



(Source: DARD 'Size & Performance of the NI Food & Drinks Processing Sector, 2008')

The food & drink industry has invested heavily in the development of new products and processes and reflect high levels of innovation.

The industry is progressive in its contribution to exporting and innovation

The food & drink industry has always made an important contribution to the export trade of Northern Ireland. In 2008 two thirds of the output of the industry was sold outside Northern Ireland (see diagram at Table 5). This includes over £1.2bn (40% of the total) in sales to the Great Britain market, £516m (16.5%) to the Republic of Ireland and £360m (11.5%) to markets outside the UK and Ireland. This represents a significant positive net earnings contribution to the Northern Ireland economy. The GB market continues to be the most important market for Northern Ireland producers and processors. The Food 2030 Strategy published by DEFRA highlights UK food security as a key issue against a backdrop of climate change and a growing world population.

The strategy sets out a challenge for the UK to ensure that it can feed itself in the years to come by growing enough food sustainably. However, there is a growing trade deficit (i.e. the value of imports exceeds the value of exports) for food & drinks in the UK, which by 2008 had reached £18.4bn, compared with an average figure for the 1997–99 period 10 years earlier of £10.4bn (at 2008 prices). Much of this deficit reflects the imports of food products such as fruits and other products which cannot be grown in the UK. Nevertheless, this deficit represents a major opportunity for the local industry to grow its share of the GB market which will help to address the trade deficit and will also address concerns over environmental emissions from food transportation.

The Scottish Executive has set a target for the Scottish food & drink industry to grow by over 60% to £12.5bn by 2017 and a vision to build Scotland's international reputation as 'A Land of Food and Drink', which it is supporting with new investment. The UK was the main destination for the Republic of Ireland agri-food and drink exports in 2008 accounting for 45% (€3.3bn) of all exports.

The main competitor for the NI food & drink industry in the rapidly growing GB market is the Irish industry and the Irish government has recognised the opportunity that this market presents and is proposing to invest significant resources in supporting the marketing of Irish food & drink products in the British market. In its recently published strategy 'Food Harvest 2020', the Irish Government has set a target to grow its exports of food and beverages by over 40% to €12bn by 2020, including more than an additional €1bn into the UK market.

Investment in research and development is a key area for the development of the Northern Ireland economy as it leads to productivity growth and more competitive businesses. The food & drink industry has invested heavily in the development of new products and processes and reflect high levels of innovation. It is estimated that in 2007, 15.6% of all business expenditure on R&D was carried out by the food & drink sector. According to the DETI Annual Survey of Innovation, 67% of businesses in the sector were likely to be "innovation active" (including 100% of all large food & drink firms) compared with the average of 57% for all businesses in Northern Ireland.

The social and economic impact of the industry is much wider than the industry itself

Through its purchases of goods and services, the industry also has a wider supply chain role making significant contributions to the local transport, packaging and engineering industries. These indirect impacts are not easily quantified in the absence of input/output tables for Northern Ireland. However in Scotland employment multipliers for meat processing and dairy products are 1.65 and 2.0 respectively, i.e. for every increase of 100 jobs in the Scottish meat processing industry, another 65 jobs will be created in other sectors of the economy and for every 100 additional jobs in the dairy industry, another 100 again will be created in other industries. These are in the top 20% of multipliers for all industries in Scotland and the industry in Northern Ireland might expect to have similar multipliers.

If Scottish employment multipliers were applied to the various sectors of the Northern Ireland industry, this would mean that just over 11,000 jobs are created indirectly in supply industries to the food processing industry. Furthermore the induced multiplier effects arising from direct employment in the sector generate a further 6,400 jobs in other sectors. In other words if the Northern Ireland industry enjoyed the same multipliers as the Scottish industry, the direct employment of 19,200 potentially generates a further 17,400 indirect and induced jobs, giving a total employment effect on the Northern Ireland economy of 36,600 jobs.

Applying the Scottish indirect and induced multiplier of 1.85 to Northern Ireland agricultural employment of 30,000 gives a total employment impact of 55,500. This means that the combined employment impact of the agri-food industry in Northern Ireland amounts to over 92,000 jobs.

The location of these effects is also significant. The industry is an important contributor to the rural economy of Northern Ireland with many of the businesses being located in district towns and rural areas. A successful and growing food and drink industry is also likely to generate additional employment and income for the rural economy, where it sources from and as such is probably the single most important source of sustaining the rural population. When induced impacts of spending by those employed in the sector are added to the indirect effects in other industries, the overall contribution to the rural economy is likely to be very significant.

In addition, the industry contributes to addressing obesity and other health concerns by developing new healthy food products. The industry also fulfils an important role in contributing to targets for reduction in carbon emissions.

Strategically the industry has a key role to play in the future transformation of the local economy.

The Northern Ireland economy faces major challenges over the next decade if it is to become a private sector led economy. The food & drink industry has a key role to play in this transformation, as illustrated in the following table:

Challenge for the Northern Ireland Economy	Role of the food and drink industry
Growing the private sector	There is a major market opportunity in the rapidly growing UK food market, an opportunity which has already been recognised and targeted by the Irish and Scottish governments. A comparable target of 40% growth in turnover for the Northern Ireland industry could contribute up to 7,680 new direct jobs and a further 7,500 indirect and induced jobs in the wider economy.
Generating additional export earnings	Exports of goods and services generate additional net earnings to the local economy and therefore contribute directly to economic growth. The food & drink industry is already one of our major exporters and a target of 40% growth in turnover has the potential to generate an additional £600m in export earnings for the local economy.
Raising levels of innovation	The food & drink industry already has among the highest levels of expenditure on industrial research & development. A commitment to grow the industry will provide a stimulus to introduce further innovation in products and processes.
Raising employment rates	Current economic strategy for Northern Ireland is based on growth of high value added sectors of the economy, many of which require high skill levels. This does not address the problem of getting more people with lower skill levels back into work. The strategy of the food & drink industry is to grow the high value added elements of production but it also has a critical role to play in providing jobs at lower skill levels of which Northern Ireland has an over supply.
Creating balanced economic growth	In growing the private sector it will be important to ensure that growth is balanced across all sub regions and not just concentrated in the cities and large urban areas. The food & drink industry is primarily a rural based industry and therefore has an important role to play in sustaining employment and income in rural areas of Northern Ireland.

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