

Economic Scrutiny Workshop Series

Module 4:

Economic Impact – What are key impacts of individual economic events; and how do those impacts subsequently affect the wider economy?

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Economic Scrutiny Workshop Series

Overall Aim:

To better equip Members of the Legislative Assembly (MLAs) and those who support them (staffers, political party researchers, Assembly officials and others) in Northern Ireland Assembly plenaries and committees

Related Objectives:

Through accessible explanation, reducing complexity and confusion, the themed modules seek to:

1. Increase knowledge and understanding of economics
2. Raise awareness of good practice in economic development
3. Nurture applied learning amongst MLAs and those who support them
4. Strengthen Northern Ireland Assembly scrutiny in plenaries and committees
5. Support delivery of efficient, transparent and accountable governance in Northern Ireland through informed scrutiny and oversight

Four themed modules:

1. **Economic Performance:**

Why measure economic performance (overall economic output and growth) in Northern Ireland, and how is that done?

2. **The Labour Market:**

Why be aware of Northern Ireland's labour market performance?

3. **Sectors and Productivity:**

What are key groups of institutions in the Northern Ireland economy and how is their economic activity categorised?

4. **Economic Impact:**

What are key impacts of individual economic events; and how do those impacts subsequently affect the wider economy?

Themes for today:

- ❖ What is meant by “economic impact”?
- ❖ “Channels” of economic impact
- ❖ “Multiplier effect”
- ❖ Policy considerations
- ❖ Key takeaways

❖ **What is meant by “economic impact”?**

❖ **“Channels” of economic impact**

❖ **“Multiplier effect”**

❖ **Policy considerations**

❖ **Key takeaways**

What is meant by “economic impact”?

- ❖ Is the effect on the economy of:
 - A sector
 - Job creation / job losses
 - Government intervention
- ❖ Considers how an initial event can affect the wider economy - for example:
 - “new investment is worth £X million to the Northern Ireland economy”; or,
 - “the hospitality sector supports an estimated 60,000 jobs in Northern Ireland”
- ❖ Allows us to understand the contribution these activities make to economic growth, job creation and public finances
- ❖ Contributes to the evidence base when government makes spending and investment decisions

❖ What is meant by “economic impact”?

❖ “Channels” of economic impact

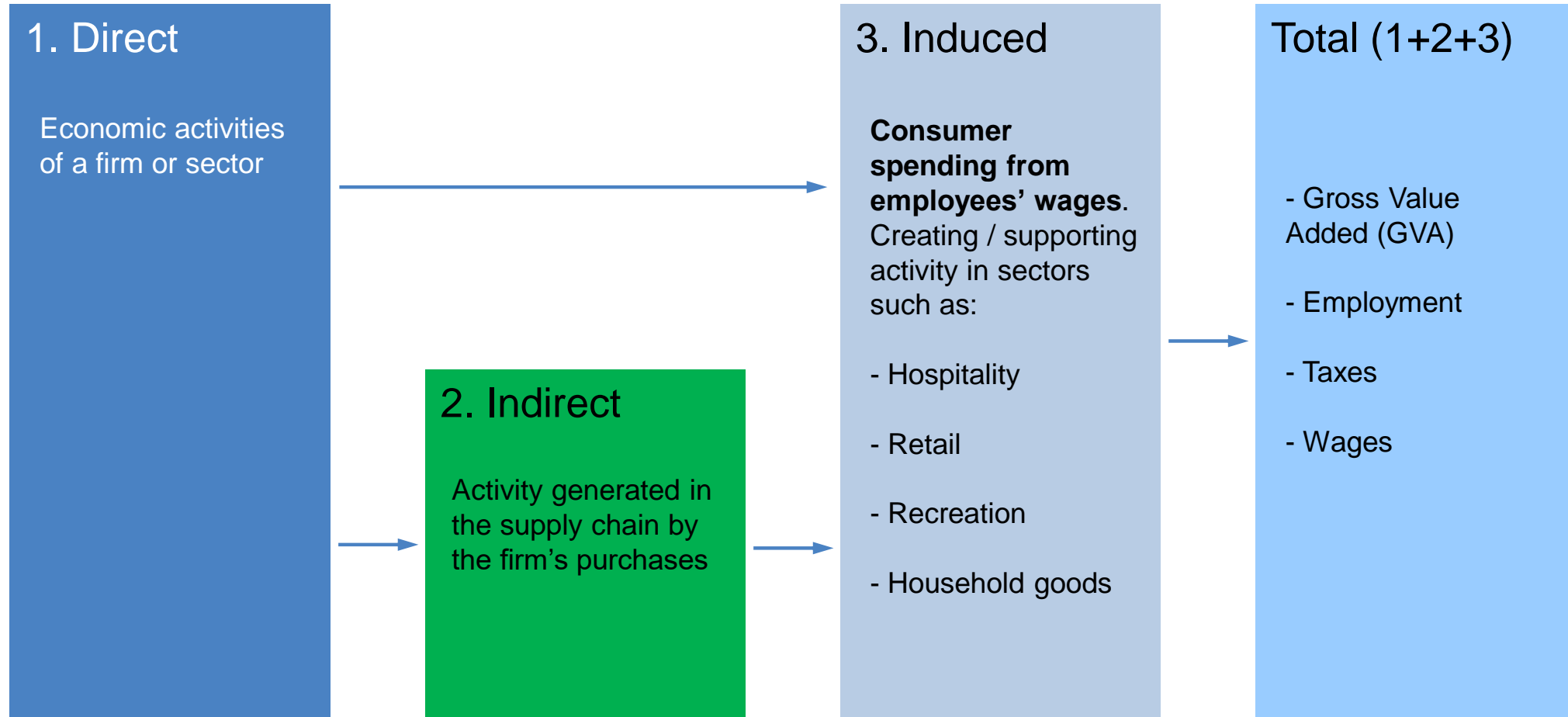
❖ “Multiplier effect”

❖ Policy considerations

❖ Key takeaways

Channels of economic impact

❖ Three main “channels” of economic impact:



Source: RaiSe (2024)

Direct impact

- ❖ The **direct economic impact** of any activity on the Northern Ireland economy can be quantified as:
 - The number of individuals directly employed by the activity
 - The wages and salaries those workers are paid and the profits generated
- ❖ For example, the **direct economic impact of the accommodation & food service sector** can be thought of as:
 - The number of people working in hotels, cafés, restaurants, bars etc. in Northern Ireland
 - The wages and salaries of those people, and the profits generated by those businesses
 - The taxes paid by those firms and their employees
- ❖ On its own, the direct impact captures only part of the overall economic impact of a given activity
- ❖ It excludes the linkages with other sectors of the economy; and those linkages are important because they support jobs, and wages in other sectors of the economy

Indirect impact

- ❖ **Indirect economic impacts** result from purchases made by a firm or sector in their supply chain
- ❖ These purchases support the activity of suppliers of goods and services to the firm – in terms of job, earnings and contributions to Gross Value Added (GVA) / Gross Domestic Product (GDP)
- ❖ Using our example, the **indirect economic impact of the accommodation & food service sector** in Northern Ireland can be thought of as:
 - The number of jobs supported in firms supplying the hospitality sector – accountants, cleaners, food and drink suppliers etc.
 - The wages and salaries of those jobs, the profits generated by those businesses, and contributions to GVA / GDP
 - Taxes paid by those firms and their employees

Induced impact

- ❖ **Induced economic impacts** result from the spending of incomes generated from direct and indirect activities
- ❖ Induced impacts occur as a firm's employees, and the employees of its suppliers spend their incomes
- ❖ This consumer spending supports further activity in the economy – generally in sectors such as retail, leisure, consumer goods etc.
- ❖ Using our example, the **induced economic impact of the accommodation & food service sector** in Northern Ireland can be thought of as:
 - The number of jobs supported by the consumer spending of employees of the hospitality sector, and employees of its suppliers
 - The wages and salaries of those jobs, the profits generated by those businesses, and contributions to GVA / GDP
 - Taxes paid by the businesses supported by this consumer spending

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❖ **“Multiplier effect”**

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What is productivity; and how do we measure it?

Type I multiplier = ratio of direct jobs to (direct + indirect) jobs

$$41,000 \times 1.15 = 47,150 \text{ jobs}$$

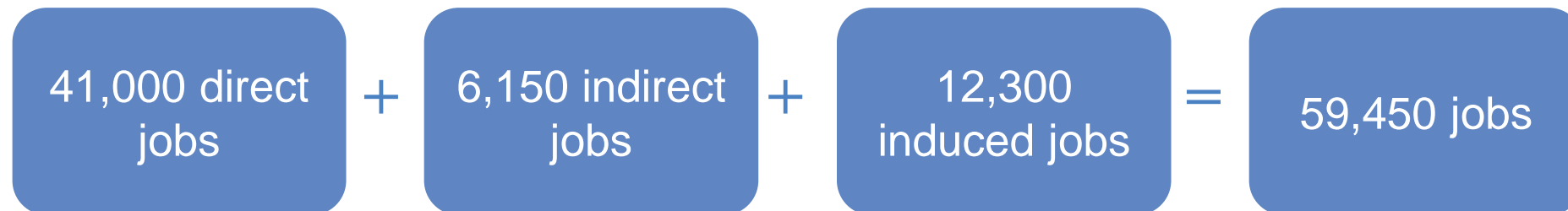
For every 1 direct job in the sector, **an additional 0.15 indirect jobs** are supported



Type II multiplier ratio of direct jobs to (direct + indirect + induced) jobs

$$41,000 \times 1.45 = \mathbf{59,450 \text{ jobs}}$$

For every 1 direct job in the sector, **an additional 0.45 indirect and induced jobs** are supported



❖ What is meant by “economic impact”?

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❖ “Multiplier effect”

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❖ Key takeaways

Policy considerations

❖ Impact at Northern Ireland level depends on how much of a sector's supply chain is within Northern Ireland

- **More of supply chain based within Northern Ireland**  higher multiplier effect and higher impact
- **More of supply chain based outside Northern Ireland**  expenditure “leakage” out of NI; lower multiplier and lower impact

❖ KEY POINTS:

- Targeting support for particular sectors – worth keeping in mind the linkages between different sectors
- Investing in one sector could generate a greater return (“multiplier effect”) than in another - “value for money” - worth keeping in mind when deciding where to target interventions or investment, especially given finite nature of budget and need to do more with less

- ❖ What is meant by “economic impact”?
- ❖ “Channels” of economic impact
- ❖ “Multiplier effect”
- ❖ Policy considerations
- ❖ **Key takeaways**

Key takeaways

❖ What is meant by economic impact?

- Considers how a sector or intervention can affect the wider economy
- Allows us to understand the contribution these activities make to economic growth, job creation and public finances

❖ “Channels” of economic impact: **direct**, **indirect** and **induced** impacts

❖ “**Multiplier effect**” is the ratio of the wider impacts to the direct impact

- Higher multiplier = greater impact per £1 of investment or per job created

❖ **Policy considerations** – keep in mind:

- The linkages between different sectors when targeting support
- Investment in some sectors generate greater economic impacts than in another

Any Questions

