



Northern Ireland
Chamber of Commerce
and Industry



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NI CHAMBER & BDO

QUARTERLY ECONOMIC SURVEY SUMMARY 3RD QUARTER 2020

SUMMARY Q3 2020

The latest Q3 2020 Quarterly Economic Survey (QES) highlights that there has been some recovery in business activity after the severe collapse experienced in Quarter 2 following the onset of the COVID-19 crisis and effective lock down of the Northern Ireland economy. However, all key business indicators remain negative in Q3 meaning that there are still more businesses in Northern Ireland reporting worsening business conditions than those reporting any improvement. Key business indicators remain significantly weaker than before the pandemic struck.

The Northern Ireland economy was already in a fragile position entering the crisis according to previous QES findings. However, COVID-19 has precipitated the worst QES performance on record. The immediate impact of COVID-19 has been much greater than the aftermath of the financial crash in 2008/09.

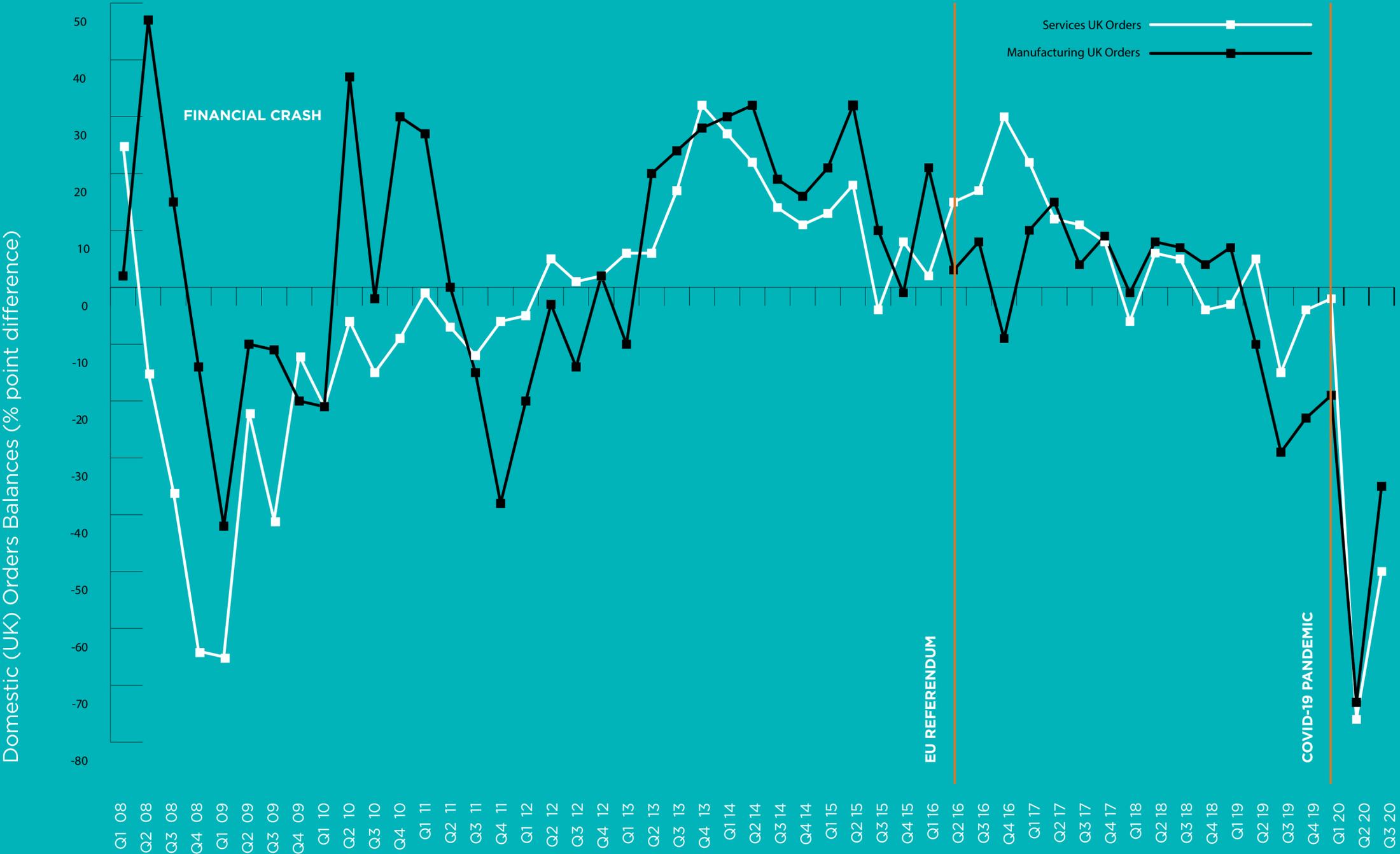
MANUFACTURING

All key indicators in the manufacturing sector improved in Q3 2020 after a particularly large collapse in sentiment in Q2, although all key indicators remain negative. Around half of the deterioration in manufacturing domestic (UK) sales and orders balances was recovered during Q3. The share of manufacturers operating at full capacity increased to 30% in Q3 2020 from just 16% in Q2 2020. However, the sector's order book remains weak, particularly in terms of export orders over the coming months.

SERVICES

The Q3 2020 QES findings suggest that the services sector remains most negatively impacted by the COVID-19 crisis. This is endorsed by the British Chamber survey findings that notes that consumer-facing firms are particularly exposed. There has been a smaller improvement in key services indicators in Q3 2020 compared to manufacturing. As with manufacturing, order books are very weak and again particularly in terms of export orders.

SUMMARY Q3 2020



SUMMARY

Q3 2020

RECRUITMENT

There has been some recovery in recruitment activity in Q3 2020 among manufacturers with 42% of manufacturers trying to recruit (27% in Q2). The services sector saw little recovery in recruitment activity in Q3 2020, up to 25% compared to 21% in Q2 2020. To put this in context, recruitment levels have averaged 50% to 60% over the last few years although some signs of slow down had begun to emerge over recent quarters pre-COVID.

Recruitment difficulties had been one of the most persistent and growing concerns among members pre-COVID. There is still some recruitment pressure for manufacturers with 64% experiencing difficulty finding the right staff. The service sector is not experiencing the same level of difficulty with 39% of members finding it difficult to get the right people for jobs.

CONFIDENCE

The Q3 QES findings highlight that there are still more businesses that believe turnover and profitability will contract in the next 12 months than those believing they will grow. These key balances around confidence remain negative for both manufacturing and services sectors. There have however been some signs of improvement in confidence between Q2 and Q3 2020. In Q3 2020 the turnover confidence balance for both sectors was -26% compared to -58% in Q2 2020. To put that in context those balances reached a low of around -30% during the financial crash.

This collapse in confidence has fed into a significant contraction in the share of members intending to invest in their business. In Q3 2020 the balance of businesses intending to invest in plant and machinery was -32% in manufacturing and -45% in services, although these balances are up on Q2 2020.

CASH FLOW

Cash flow, a key indicator of business health, is typically one of the weakest key indicators in the Northern Ireland QES. The balance of businesses reporting an improving cash flow position was already negative going into the COVID-19 crisis. The balances did fall further during Q2 2020 when lock down came into play and many businesses had to close. In Q3 the cash flow balances for both manufacturing and services did improve but remain negative, -32% in manufacturing and -28% in services.

SUMMARY

Q3 2020

REGIONAL POSITION

Northern Ireland suffered one of the largest collapses in key indicators across the 12 UK regions in Q2 2020. It remains one of the poorest performing UK regions according to the Q3 2020 findings, although the manufacturing performance in Q3 was not just as bleak as in Q2. Northern Ireland is in the bottom 3 performing regions for 11 of the 12 key manufacturing and services indicators.

Investment intentions have been more negatively impacted than other UK regions. Forward-looking indicators around sales, exports and jobs are all lower compared to the UK average. Export orders remain particularly badly hit in Northern Ireland vis-à-vis the UK. The export orders balance for Q3 2020 in manufacturing is -41% (UK -25%) and -52% in services (UK -34%).

Business confidence indicators in Northern Ireland around turnover and profitability in the next 12 months remain negative compared to small but positive indicators for the UK. The Q3 balance of businesses expecting turnover to improve over the next 12 months is -26% for manufacturers (+7% UK) and --26% for services (+1% UK).

NI RANK ACROSS 12 UK REGIONS	MANUFACTURING	SERVICES
Domestic Sales	10th	12th
Domestic Orders	10th	12th
Export Sales	10th	12th
Export Orders	12th	11th
Employment - last 3 months	11th	Joint 11th
Employment - next 3 months	10th	12th
% Tried to recruit	5th	12th
Cash flow	Joint 10th	10th
Investment - Plant & Machinery	12th	12th
Investment - Training	11th	12th
Confidence - Turnover	11th	9th
Confidence - Profit	11th	12th
% Full Capacity	9th	6th
% Expecting to Raise Prices	5th	Joint 2nd

ADDITIONAL QUESTIONS /

Each quarter NI Chamber members are asked a number of additional topical questions. This quarter focuses on the impact of Brexit as well as the impact and potential consequences of the COVID-19 pandemic on business.

BREXIT WATCH

Following the EU Referendum on 23 June 2016, Brexit Watch has asked a series of questions every quarter through the QES aimed at understanding the impact of the UK's vote to leave the EU on Northern Ireland businesses and the wider economy. To date this has shown a largely negative impact on business performance, investment plans and confidence and the employment of EU workers in Northern Ireland.

The Q3 2020 Brexit Watch highlights that with 3 months left until the transition period ends and new trading rules come into place, just 2 in 5 members (39%) are currently making preparations for Brexit. COVID-19 has negatively impacted on Brexit preparations. In Q1 2020 60% of members were preparing for the end of the transition period.

Understanding among members about what happens next with trading arrangements

is very limited. There is particular confusion around the Northern Ireland/Great Britain trading relationship going forward. Only 7% believe they understand what will happen with trading arrangements to/from Great Britain post after the transition. Only 18% believe they understand what will happen with trading arrangements to/from locations outside the UK post Brexit.

The Q3 2020 QES suggests that the majority of members (80%) believe that a 'grace period' of 12 months or more is needed after transition in order to allow for preparation and modification of processes before any changes take legal effect in terms of the NI Protocol. The UK formally rejected an extension to the transition period in June 2020. At this point around 3 in 5 members (60%) believed that more time was needed and that the transition period should have been extended (Q2 2020).

There is a very tangible and growing concern among members that there will be 'No Deal' with the EU. Some 73% are concerned that there will be 'No Deal'. This is up significantly on Q1 2020 when the figure was 40%.

The Trader Support Service (TSS) has been introduced by the UK government as a free-to-use service to support businesses with the changes to Northern Ireland trade that will take effect on the 1st January 2021. It will provide guidance and training, a digital service to support declarations and support from customs experts. The Q3 2020 survey found that 71% of members believe they meet guidance to access the Trader Support Service. However, only 1 in 3 (31%) have heard of the TSS and 12% have signed up to it.

IMPACT OF COVID-19

The QES has also started to regularly monitor the impact of the COVID-19 pandemic on members.

Members' initial reaction to the COVID-19 crisis was very stark in the Q2 2020 QES survey. Some 77% of members had furloughed staff and 1 in 2 members intended to reduce staff. At that point almost 1 in 5 suggested that their business might not survive.

The Q3 2020 survey suggests that while some businesses traded well/reasonably during the pandemic (37%), the majority (62%) have been negatively affected by the fall out of the pandemic. In fact, many members are seeing little to no signs of improvement (43%) in their business although the share of businesses believing they are at immediate risk of closure is low at 3%.

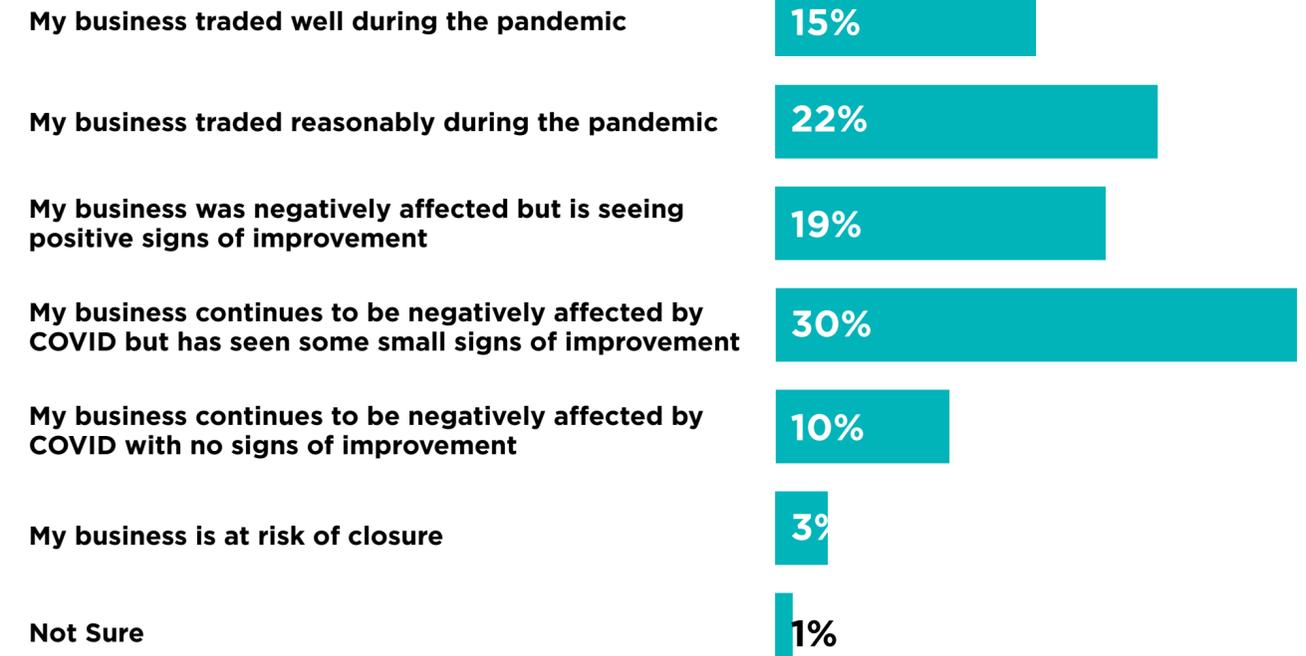
1 in 2 members already have or plan to reduce staff, in keeping with the Q2 findings. Around one third already have

or plan to reduce working hours while 16% have/plan to reduce average pay. Cost cutting is also focused on a reduction in marketing/advertising spend (42% have/plan to reduce spend) and training (31% have/plan to reduce spend).

Most businesses have accessed some form of government COVID-19 support through Job Retention/Furlough Scheme, grants and loans (83%). The Job Retention/Furlough Scheme has been a major support to local businesses, accessed by 3 in 4 members. In addition, 29% have accessed a loan scheme, 25% have accessed a cash grant while 7% have sought business advice.

In terms of COVID-19 loans accessed, such as the Bounce Back Loan and CBILS, 51% of members are very confident they can pay the loan back and 29% are fairly confident. However, 1 in 5 members would have concerns about their ability to pay back the COVID-19 loans going forward.

BUSINESS TRADING DURING COVID-19



PERSPECTIVES /

NI CHAMBER PERSPECTIVE

“Previous QES findings told us that Northern Ireland’s economy entered the COVID-19 crisis in an already fragile state. While many indicators have improved when compared to Q2, they remain negative, which tells us that business conditions among many local businesses continue to worsen.

“Sectoral analysis of the survey findings suggests that manufacturing performance is showing some signs of improvement however, the sector’s order book remains weak, particularly in terms of export orders. Businesses in the service sector remain most negatively impacted, with consumer-facing firms particularly exposed.

“Some businesses have performed well/reasonably during the pandemic (37%) but the majority have been negatively impacted (62%), with many seeing little to no signs of improvement in trading conditions. This emphasises the need for continued targeted intervention by government to support the many great businesses in Northern Ireland to survive this unnatural crisis in our economy.

“Our members are expressing growing concern about the looming prospect of a no-deal Brexit. It is clear that there is an urgent need to dramatically improve understanding of future trading arrangements with rest of the UK and increase uptake of the Trader Support Service. Any business in Northern Ireland which currently moves goods between Great Britain and Northern Ireland, or brings goods into Northern Ireland from outside the UK should sign-up for the TSS service without delay.”

Ann McGregor, Chief Executive

PERSPECTIVES /

BDO PERSPECTIVE

“We cannot avoid the fact that every economic indicator is down from last year, with COVID-19 impacting many sectors in a way we have never seen before. While we are in the midst of this ongoing crisis, it is important to remember that it is not driven by market failure, instead it is driven by the pandemic. The business community has shown its resilience to the challenges it is facing, and it is now encouraging to see that these Q3 results have shown a clear move towards recovery.

“However, with the majority of businesses (62%) demonstrating an ongoing negative impact to operations and 2 in 5 seeing little to no signs of improvement, there is a long road ahead for many.

“As the furlough scheme ends, even with the new support scheme announced by the UK Government, many jobs are still at risk. It is vital that the NI Executive recognises the gaps in support mechanisms for some and addresses these urgently.

“Although Brexit has taken a back seat, it is still very much a critical consideration. Concerns of a ‘No Deal’ exit as well as the uncertainty with regards to trading arrangements is still very much a concern.

“As we enter this new phase it is so important that businesses are afforded both flexibility and support to allow them to plan for their long-term sustainability. Businesses in turn, recognise the need for adaptability, rethinking their current position to ensure they are best placed to maximise opportunities in what will be changing markets, trading circumstances and demands”.

Brian Murphy, Managing Partner

QUARTERLY ECONOMIC SURVEY Q3 2020

NOTE

The QES survey focuses on “key balances” around a number of business indicators including local sales, exports, employment and confidence. The balance is determined by taking the percentage of firms reporting increases in a key balance and subtracting the percentage of firms reporting decreases e.g. if 15% report a rise in sales and 50% report a fall in sales then the balance is -35%.

Fieldwork took place from 27 August to 14 September 2020. 250 members responded to survey during the 3rd quarter of 2020, accounting for over 20,000 jobs.

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ABOUT NI CHAMBER

Helping businesses grow locally and internationally

Northern Ireland Chamber of Commerce and Industry (NI Chamber) is an award winning, quality assured business support organisation with over 235 years commitment to the Northern Ireland economy. It is a well-known network for business with a membership of 1,200 businesses representing over 105,000 employees.

The organisation’s membership spans corporates, SMEs and micro businesses across all sectors, from manufacturing to agri-foods, to ICT and the professions.

NI Chamber supports businesses through networking and events; growth initiatives and export support; articulating the views of business to Government; sharing best practice and knowledge; and providing a number of promotional opportunities for business via the NI Chamber website and Ambition magazine.

Accredited by British Chambers of Commerce, NI Chamber is also part of a global network of Chambers, enabling it to directly support export development. NI Chamber also works on an all-island basis with the Chamber network in the Republic of Ireland to develop all-island trade.

Visit the NI Chamber website at
www.northernirelandchamber.com

ABOUT BDO NORTHERN IRELAND

Based in Belfast city centre, BDO Northern Ireland has been in operation for 30 years.

Whilst part of the BDO international network, BDO Northern Ireland is an independently owned partnership who specialises in helping businesses, whether start-ups or multinationals, to grow.

As a member of the BDO network, BDO NI is part of the largest European led Audit, Tax and Advisory practice.

Visit the BDO NI website at www.bdoni.com and for BDO’s Rethink framework visit <https://www.bdoni.com/en-gb/microsites/bdo-northern-ireland-rethink/rethink-navigating-the-new-reality>.