

NI CHAMBER & BDO

# QUARTERLY ECONOMIC SURVEY SUMMARY 2ND QUARTER 2020

# SUMMARY Q2 2020

The latest Quarterly Economic Survey (QES) highlights a severe collapse in business activity following the onset of the COVID-19 crisis and lock down for many parts of the local economy. 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 with the fastest and deepest collapse recorded for most key indicators and both manufacturing and services sectors deeply impacted. The survey suggests that the immediate impact of COVID-19 is much greater than the aftermath of the financial crash in 2008/09.

There have been dramatic falls in both 1) short term indicators around domestic sales, exports, jobs, cash flow and 2) longer term indicators around business confidence and investment intentions. While still negative, employment indicators are not just as severely impacted, arguably reflecting the role of the job retention (furlough) scheme in mitigating against a potentially large and immediate loss in jobs. Confidence has taken a major knock for most members. The already weak cash flow position has been decimated. Unsurprisingly there is very limited recruitment activity at present (but still some) although recruitment difficulties remain an issue for around 50% of those that are hiring.

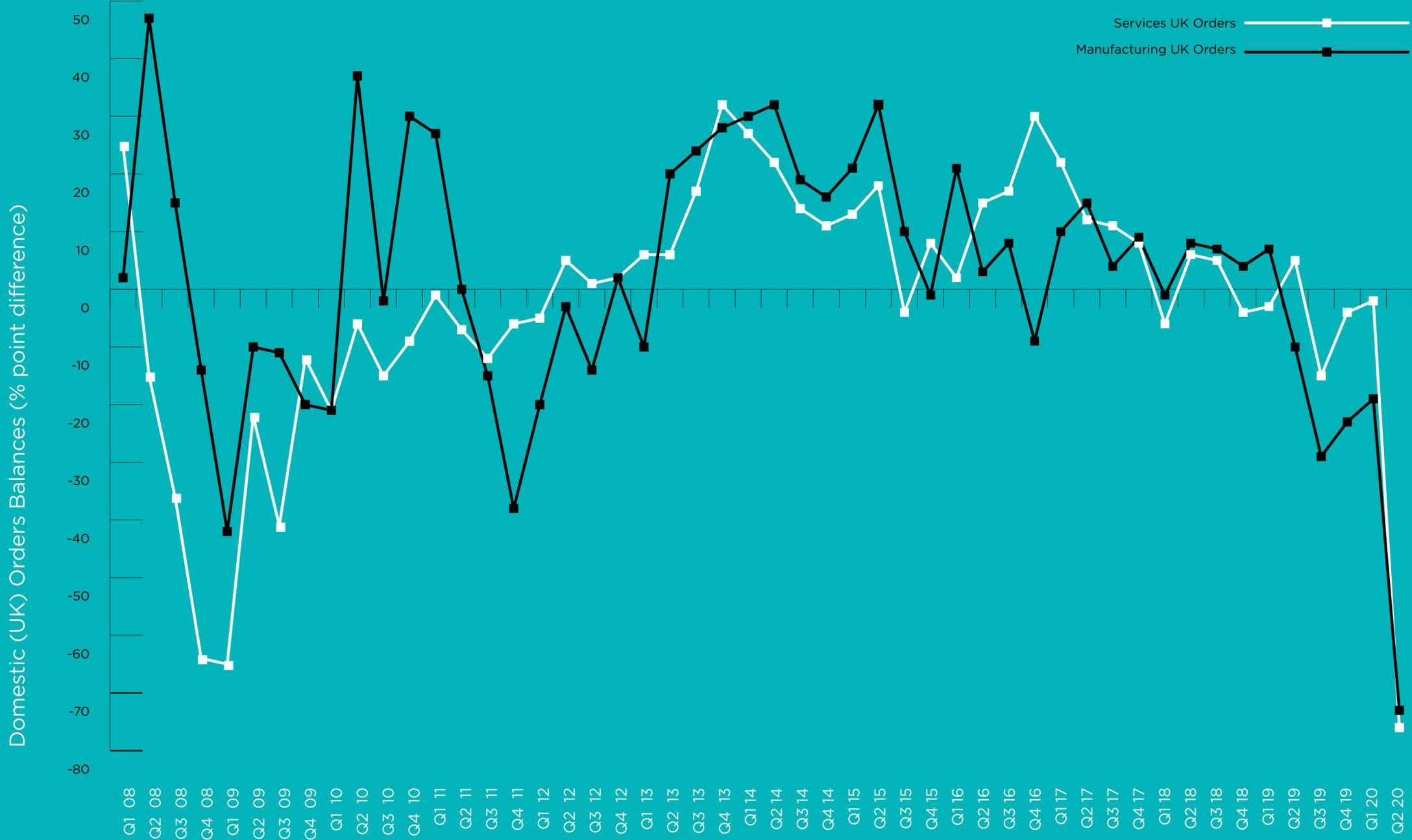
## MANUFACTURING

The manufacturing sector has suffered a significant collapse in most key indicators in Q2 20. Domestic sales and exports balances have fallen to historic lows. The employment balance, reflecting the balance of businesses taking on employees in the last 3 months, whilst negative did not fall as rapidly compared to the financial crash. Only 16% of manufacturers are operating at full capacity. This has been falling consistently and was 21% last quarter and 56% two years ago. Manufacturing investment intentions have been much more negatively impacted than during the financial crash.

## SERVICES

The findings suggest that the immediate fall out has been particularly severe for the services sector. This is endorsed by the wider UK survey findings that notes that consumer-facing firms are particularly exposed. Sales in the last 3 months and orders for the next 3 months are very weak. As with manufacturing, the employment balances in Q2 have not been as negatively impacted although fewer businesses are expecting to grow their workforce.

# SUMMARY Q2 2020



# SUMMARY

## Q2 2020

### RECRUITMENT

---

Recruitment activity more than halved over the quarter with 21% of services and 27% of manufacturers trying to recruit. To put this in context, recruitment levels have averaged 50% to 60% over the last few years although some signs of slow down had emerged over recent quarters.

Recruitment difficulties have been one of the most persistent and growing concerns for members. In Q2 2020, despite the significant drop off in the share of members recruiting, recruitment difficulties still persist for 50% of those trying to fill positions in their business.

### CONFIDENCE

---

COVID-19 has crushed business confidence in both manufacturing and services sectors with the service sector taking a particularly big hit. In just one quarter the services turnover confidence balance fell from +7% (Q1 20) to -69% (Q2 20). In manufacturing it fell from +18% (Q1 20) to -58% (Q2 20). 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 Q2 2020 the balance of businesses intending to invest in plant and machinery fell to -52% in manufacturing and -42% in services.

### CASH FLOW

---

Cash flow, a key indicator of business health, has deteriorated rapidly over the quarter with two-thirds of members recording a worsening cash flow position. Northern Ireland's cash flow balances tend to be lowest across the UK regions so the starting position in relation to cash flow was already weak.

# SUMMARY

## Q2 2020

### REGIONAL POSITION

Northern Ireland has suffered one of the largest collapses in key indicators across the 12 UK regions. It is the worst performing region for 7 of the 12 key manufacturing indicators and 6 of the 12 in services. Export orders have been more negatively impacted than other UK regions. The manufacturing export orders balance fell to -69% (UK -51%) and services export orders balance to -81% (UK -58%) during Q2 2020. Business confidence has taken a greater hit in Northern Ireland, in manufacturing particularly. The manufacturing confidence turnover balance, reflecting confidence in turnover performance over the next 12 months, fell to -58% in Q2 compared to a UK figure of -31%.

NI RANK ACROSS 12 UK REGIONS	MANUFACTURING	SERVICES
Domestic Sales	12th	8th
Domestic Orders	Joint 11th	12th
Export Sales	12th	12th
Export Orders	12th	12th
Employment - last 3 months	9th	11th
Employment - next 3 months	Joint 10th	12th
% Tried to recruit	Joint 7th	Joint 4th
Cash flow	12th	12th
Investment - Plant & Machinery	12th	12th
Investment - Training	9th	Joint 11th
Confidence - Turnover	12th	11th
Confidence - Profit	12th	11th
% Full Capacity	Joint 5th	Joint 4th
% Expecting to Raise Prices	Joint 3rd	1st

# 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 immediate impact and potential consequences of the COVID-19 crisis on business.

## BREXIT WATCH

Following the Brexit vote, NI Chamber 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 wider economy. To date this has shown a largely negative impact on business performance, investment plans and confidence. Members have become increasingly concerned about the future trading relationship between Northern Ireland and Great Britain and around 40% believe that a 'No Deal' scenario is still possible after the transition period ends on the 31st December 2020.

This quarter NI Chamber's quarterly Brexit Watch asked members about preparations for Brexit and the impact that the COVID-19 crisis has had on those preparations. It also asked about the transition period and the time needed to adequately prepare for Brexit.

With less than 6 months left until the transition period ends and new trading rules come into place, just 2 in 5 members are currently making preparations for Brexit (44%) while 50% are making no preparations at all. COVID-19 has disrupted Brexit planning with 38% of members making fewer preparations to leave the EU while dealing from the fall out of the virus on their business.

The UK has formally rejected an extension to the transition period but 3 in 5 members (60%) believe that more time is needed and that the transition period should have been extended. This is higher for manufacturing, where 71% believe that the transition period should be extended, compared to services (56%).

## COVID-19 IMPACT

The fall out on staffing for members from COVID-19 in just one quarter has been seismic. Some 77% have furloughed employees and 12% have made staff redundant. In addition, 23% have reduced working hours for staff and a number of members mentioned salary reductions, either temporary or permanent.

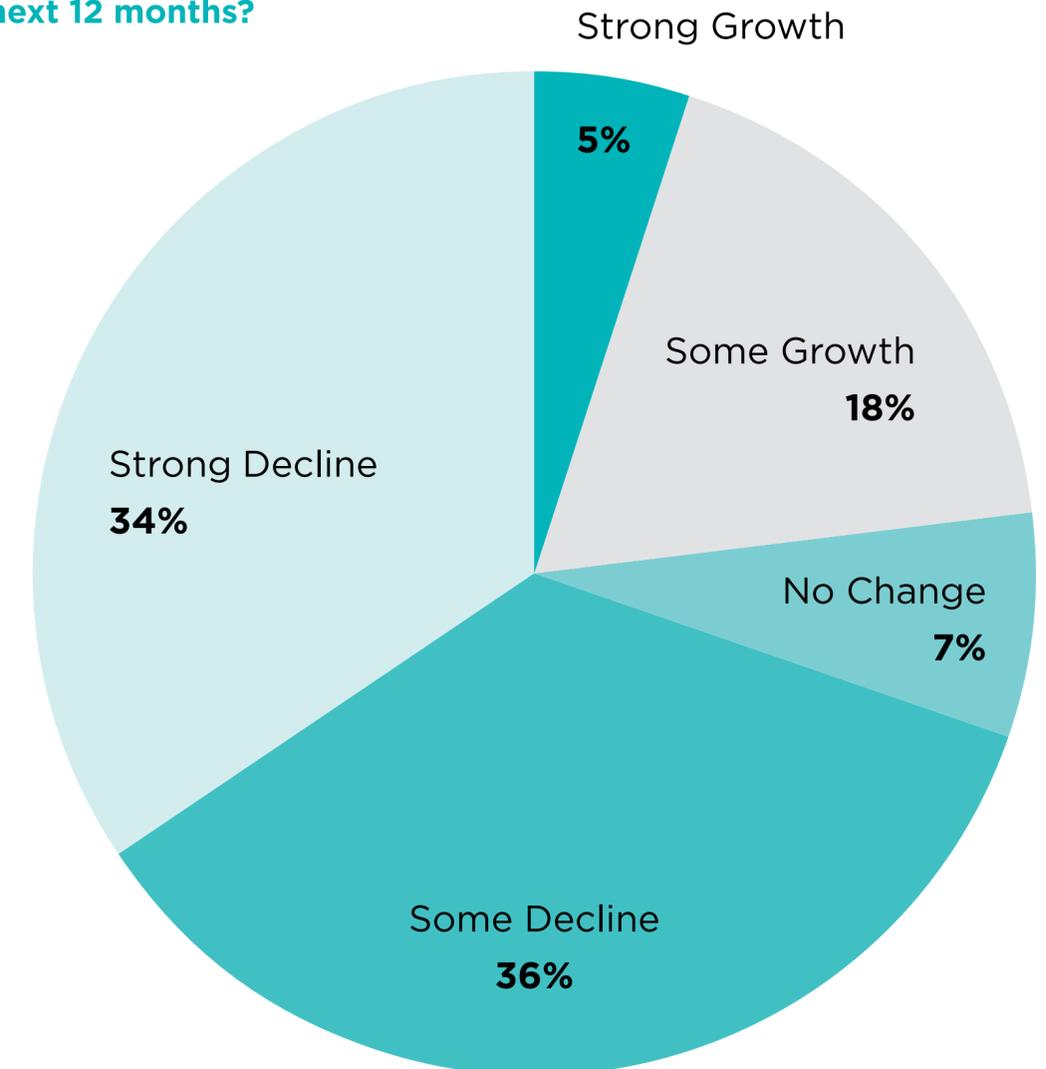
When asked about any changes that members might make to their business post COVID-19, 1 in 2 members (52%) highlighted their intention to reduce staff levels post COVID-19 and almost 1 in 5 (17%) imply that the business might not survive.

The survey does suggest that businesses will introduce new ways of working post COVID. The biggest change is in the proportion intending to introduce flexible working (62%) but also almost 1 in 4 (23%) intend to reduce office space. A significant minority of businesses believe that

they will change the products/services they supply (30%). Other changes including building up cash reserves (24%) and around 1 in 7 members said that they would consider greater use of locally based suppliers and investment in Artificial Intelligence (AI), particularly the largest firms.

Businesses are understandably more negative about future business prospects. Some 7 in 10 members (69%) believe that their business prospects will deteriorate over the next 12 months. This figure was just 25% when asked in the Q4 19 survey. On a more positive note, there is still a core of members, almost 1 in 4, who believe their business will grow over the coming year.

### How do you rate prospects for your business in the next 12 months?



# PERSPECTIVES /

## NI CHAMBER PERSPECTIVE

---

This survey reflects the fall out of arguably the worst economic and social crisis of our lifetime. In terms of the economy, the vast majority of indicators dropped to historic lows, with declines far exceeding those seen at the height of the global financial crisis.

The services sector suffered particularly badly, with consumer-facing firms most acutely exposed to economic headwinds from the pandemic. The manufacturing sector had a dismal three months, with collapsing demand and major disruption to supply chains weighing on the sector. The unprecedented slump in business cash flow is a key concern as it severely hampers business activity and staff retention.

Businesses were already concerned about the impact of Brexit on the economy before COVID-19 however the recent pandemic has placed this in an entirely different context – with companies facing a ‘double whammy’ of Brexit and the COVID-19 fallout, placing a huge challenge on the business community in Northern Ireland.

The collapse in forward looking indicators of activity suggests that unless action is taken, the prospect of a swift and sustained recovery may prove too optimistic. A cross party, cross departmental vision and road map from the NI Executive has never been more needed. This is an opportunity for real change – and the only way to re-kindle business and consumer confidence is to demonstrate an absolute and unshakeable focus on boosting the economy over the coming months.

**Ann McGregor, Chief Executive**

# PERSPECTIVES /

## BDO PERSPECTIVE

---

There can be no sugar coating that these findings are stark. Few individuals or businesses have escaped the impact of COVID-19 and the unprecedented lockdown that has been in place for over 3 months.

What we must do now is focus on how we adapt to the new way of life and grow the economy. The UK Government and NI Executive have moved quickly to help many businesses survive and be able to reopen. The furlough scheme, which 77% availed of, demonstrates that this quick action has helped save jobs that otherwise would have been lost. It is deeply concerning that 52% of businesses plan to reduce staffing levels, however, without the furlough scheme there is no doubt this number would have been significantly higher.

We need the NI Executive to support local businesses as they innovate, looking to develop new technologies or services to meet the emerging demands. We need Government to harness our world class digital businesses and tech sector and empower them to grow. The Executive must also move to support new training and reskilling programmes that would allow workforces and businesses to be adaptable and flexible to meet the demands of a post COVID-19 world.

Businesses also have their role to play, where possible they should support local firms to secure the supply chain and boost the local economy. 15% of respondents indicated they were planning to do so, as time passes we would expect this number to increase.

We don't yet know what the new reality will be, however, it is encouraging to see from the survey that despite the challenges, four out of five firms expect to remain in business. In order to survive and thrive they need to adapt to the new normal right now and not expect life to return to how it was only a few months ago. The world has changed. Business must meet this change.

**Brian Murphy, Managing Partner, BDO NI**

## QUARTERLY ECONOMIC SURVEY Q2 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%

296 members responded to the NI Chamber QES, in partnership with BDO, for the 2nd quarter of 2020. Together they account for 32,500 jobs in Northern Ireland.

Northern Ireland Chamber  
of Commerce and Industry  
40 Linenhall Street  
Belfast BT2 8BA

T +44 (0)28 9024 4113  
mail@northernirelandchamber.com  
www.northernirelandchamber.com  
 

## 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](http://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](http://www.bdoni.com) or its new COVID-19 hub at: <https://www.bdoni.com/en-gb/services/managing-the-impact-of-covid-19>

