

NI CHAMBER & BDO

QUARTERLY ECONOMIC SURVEY SUMMARY 4TH QUARTER 2020

SUMMARY Q4 2020

The Q4 2020 Quarterly Economic Survey (QES) highlights that recovery in business activity in Northern Ireland has slowed during Quarter 4. 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 all key business indicators including those around trade, jobs and confidence improved in Quarter 3. However, Quarter 4 suggests only a marginal improvement on Quarter 3 and almost all key business indicators remaining negative meaning that there are still more businesses in Northern Ireland reporting worsening business conditions than those reporting any improvement. Most 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.

In Q4 2020 half of businesses (49% vs. Q3 58%) experienced a fall in domestic (UK) sales over the last 3 months while just 19% (Q3 17%) saw an increase. The damage to exports is significant, particularly compared to the financial crash. Employment indicators are marginally better reflecting the role of the job retention (furlough) scheme intervention in supporting jobs. Recovery in confidence, particularly around turnover growth, continued in Q4 but again indicators remain negative and significantly worse than they were pre COVID-19.

The Q4 fieldwork took place between the 5th and 24th November 2020 when some restrictions were in place including the closure of the hospitality sector and close contact services for most of that time. New restrictions came into force on the 27th November which closed more sectors including non-essential shops.

MANUFACTURING

In manufacturing, all key indicators continued to improve in Q4 2020, albeit it more slowly than in Q3. The one exception is a slight fall in the percentage of manufacturers operating at full capacity (Q4 27% vs. Q3 30%). However, almost all key indicators remain negative. The sector's order book is still weak, particularly in terms of export orders over the next 3 months. Northern Ireland's manufacturing sector has been one of the poorest performing across the UK regions.

SERVICES

Almost all key indicators in the services sector also improved in Q4 2020 but all balances remain negative with more members reporting a deterioration in trade, jobs, confidence and investment intentions than those reporting any improvement. The British Chamber survey findings note that consumer-facing services business are particularly exposed. The services sector is showing slower signs of recovery than manufacturing, particularly in terms of domestic sales and orders. The sector's cashflow position is weaker as is confidence around profitability over the next year.

SUMMARY Q4 2020

RECRUITMENT

Recruitment activity among manufacturers has remained largely unchanged in Q4 2020 compared to Q3 with 43% of manufacturers trying to recruit (27% in Q2). Recruitment activity in the services sector increased in Q4 2020 with 35% of services trying to recruit, up from 25% in Q3 (21% in Q2). 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 towards the latter half of 2019 pre-COVID.

Recruitment difficulties was one of the most persistent and growing concerns among members pre-COVID. At the end of 2019 4 in 5 members were experiencing recruitment difficulties. While the majority of manufacturers who are recruiting are still experiencing difficulty finding the right staff (71%), the share of services business experiencing recruitment difficulties has fallen to 39% in Q4 2020.

CONFIDENCE AND INVESTMENT INTENTIONS

Business confidence has been improving over the last two quarters after the large collapse in confidence experienced by the business sector at the start of the pandemic. In Q4 2020 the turnover confidence balance for manufacturing was -5% and for services -9% compared to -58% in both sectors in Q2 2020. However, the negative balances mean that there are still more businesses in both the manufacturing and services sectors that believe turnover and profitability will contract in the next 12 months than those believing they will grow.

This collapse in confidence has fed into a significant contraction in the share of members intending to invest in their business. In Q4 2020 the balance of businesses intending to invest in plant and machinery was -29% in manufacturing and -25% in services, although these balances are up on Q3 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 significantly during Q2 2020 but have been improving although remain negative. In Q4 2020 the manufacturing cashflow balance is -20% compared to -29% in services.

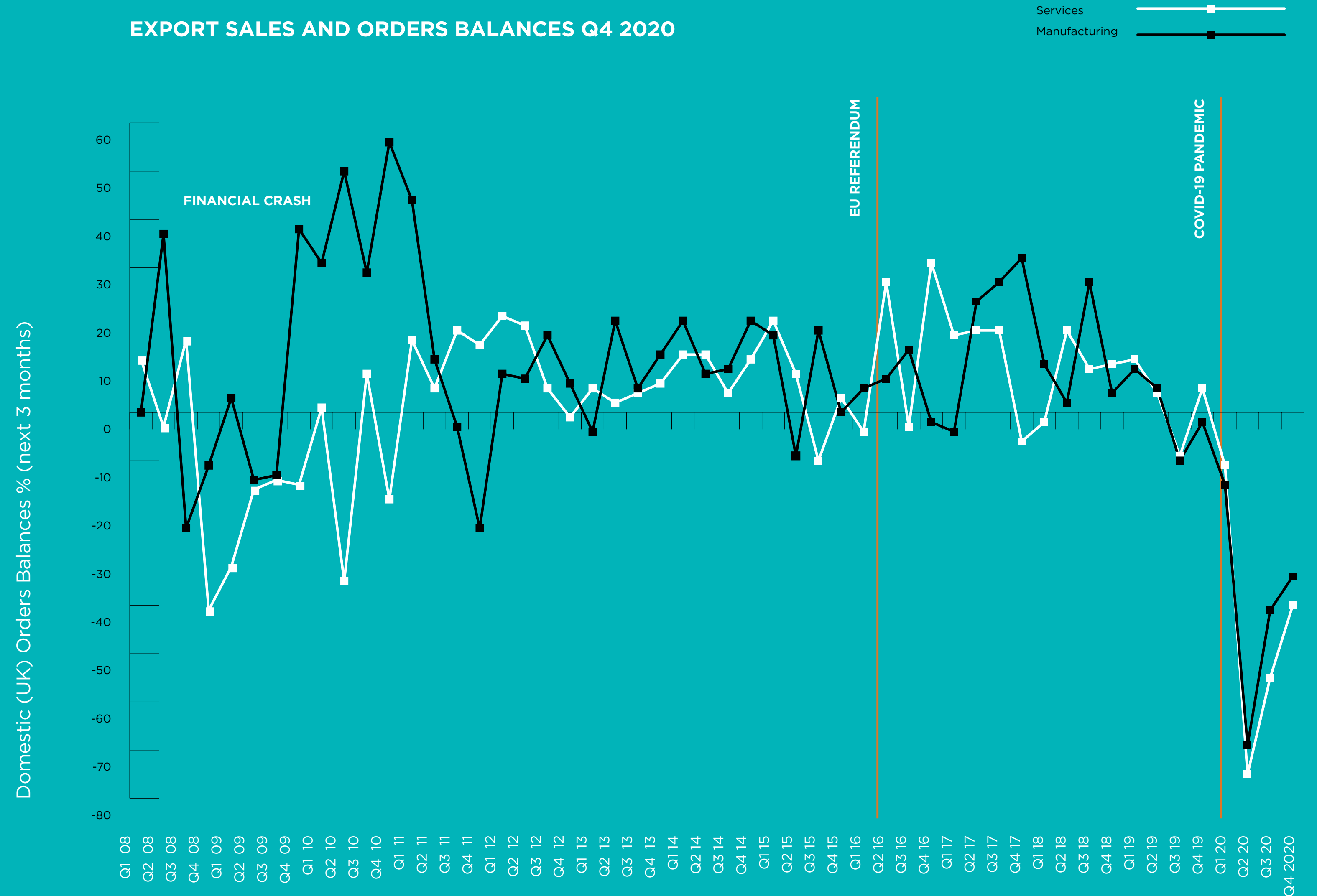
SUMMARY Q4 2020

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 weaker performing regions across a number of key indicators but the pandemic's negative influence on business has filtered through to all UK regions including the South East which is typically one of the strongest performing. In Q4 2020 Northern Ireland is in the bottom 3 performing UK regions for 8 of the 11 key indicators in manufacturing and 6 of the 11 in services.

Key indicators are particularly weak vis-à-vis the rest of the UK in terms of forward looking indicators around domestic and export sales in the next 3 months as well as recruitment intentions. Export balances in Northern Ireland are particularly weak relative to most UK regions. In manufacturing the export orders balance in Q4 2020 is -34% (UK -8%) and in services -44% (UK -28%).

EXPORT SALES AND ORDERS BALANCES Q4 2020



ADDITIONAL QUESTIONS /

Each quarter NI Chamber members are asked a number of additional topical questions. This quarter focuses on the impact of Brexit and the COVID-19 pandemic on their business/organisation along with member views on prospects for the Northern Ireland economy and their business/organisation in 2021.

BREXIT WATCH

Following the EU Referendum on 23rd June 2016, a series of questions has been asked 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. There have been significant concerns around Brexit preparation and many members had asked for a grace period to understand what Brexit means for their business and allow them more time to prepare. COVID-19 has disrupted Brexit planning as businesses have had to prioritise the COVID-19 fall out on their business over any preparations to deal with the UK's exit from the EU. The Northern Ireland/Great Britain trading relationship post transition has been an increasing concern for members.

In Q4 2020 members were asked about key concerns in operating their business from 1st January 2021. The main concerns centre on how customs processes in purchasing from Great Britain will work (59%) along with the potential disruption at ports delaying goods movements (51%). Changes in the VAT regime are also an issue (49%).

External customer attitudes towards Northern Ireland businesses going forward are also a key concern for members. Half of members (51%) are concerned about Great Britain customer attitudes towards Northern Ireland businesses and 46% about Irish customer attitudes towards doing business in the region. Just over 1 in 10 members are concerned about accessing workers through the new UK Immigration Policy and the implication of the ending of freedom of movement to the UK/NI for workers from EU26 countries.

In terms of preparations to transition out of the EU, 1 in 3 members (32%) believe their business is ready to transition out of the EU. Only 3% of members believe that the Northern Ireland government is ready to transition out of the EU.

There is a significant information gap on the practical implications of EU exit for businesses with 57% of members stating that there is a lack of information on what their business needs to do going forward to deal with Brexit. In addition, 28% of members do not have the resources to make the changes needed, reflecting the challenges for the smallest businesses in moving forward.

BREXIT WATCH

COVID-19 has taken its toll on Brexit preparations. The Q4 2020 findings highlight that 60% of members believe that COVID-19 pressures are detracting from making preparations to transition out of the EU.

IN RELATION TO LEAVING THE EU WHAT, IF ANYTHING, ARE YOUR BIGGEST CONCERNS IN OPERATING YOUR BUSINESS FROM 1ST JANUARY 2021?



COVID-19 WATCH

The QES is now regularly monitoring the impact of the COVID-19 pandemic on members.

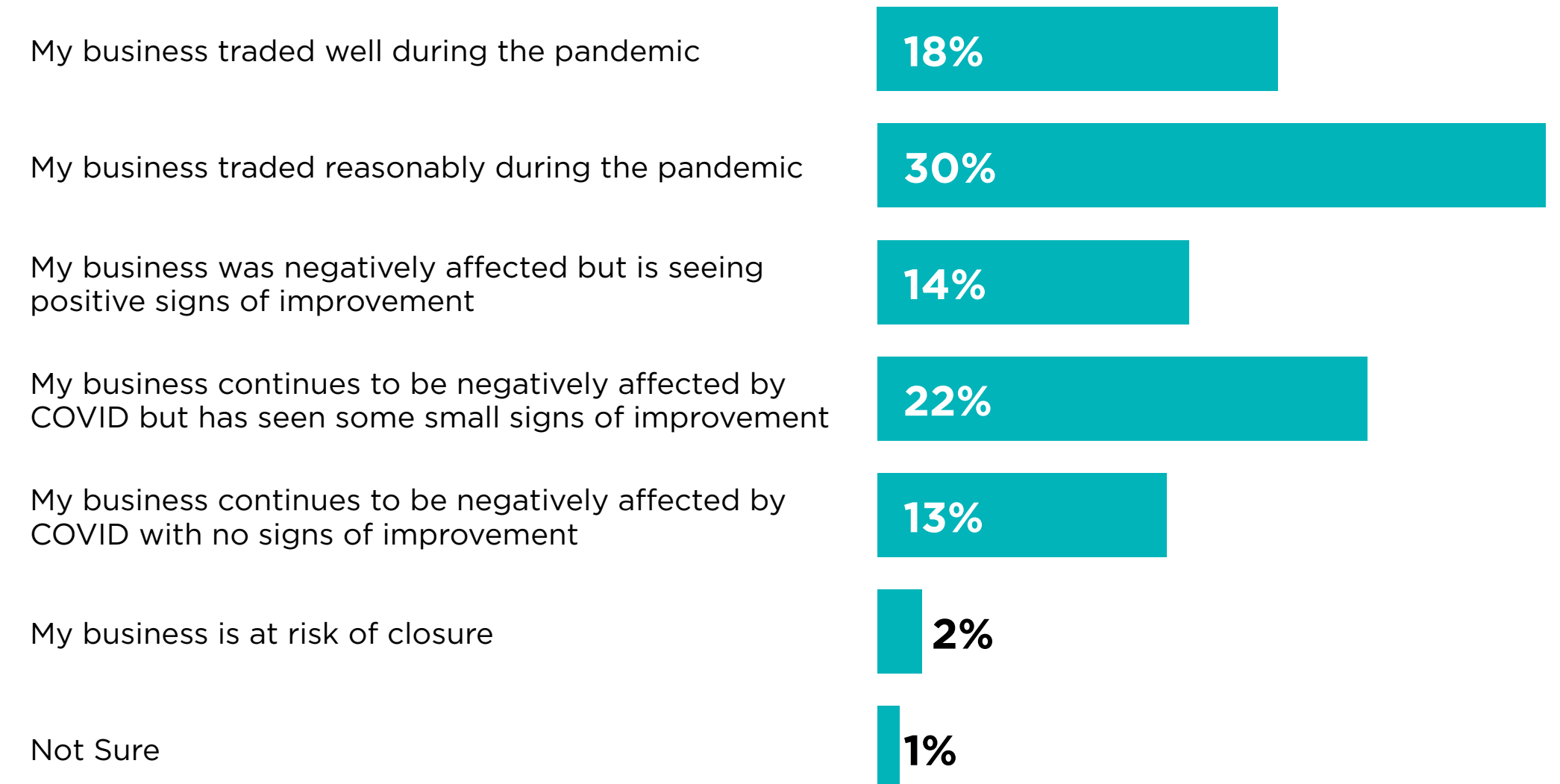
Members' initial reaction to the COVID-19 crisis was very stark. The Q2 2020 findings highlighted that 77% of members had furloughed staff and 1 in 2 members intended to reduce staff. At that point almost 1 in 5 suggested that their business might not survive the fall out of the pandemic.

The scale of impact was reinforced in the Q3 2020 findings which found that while 37% of businesses traded well/reasonably during the pandemic, the majority had been negatively affected by its fall out (62%). The Q4 2020 findings suggest that trading conditions remain very challenging with 37% of members still seeing little to no signs of improvement

in their business performance since the pandemic (Q3 43%). Around 1 in 5 members state that their business cannot survive continual changes in the government's COVID-19 policy responses.

Businesses are making changes to respond to the pandemic's impact. Around 1 in 5 are making positive plans around staff including taking on new staff, increasing wages and investing more in training. However, 15% are planning to reduce staff numbers over the next year and 18% are planning to reduce staff working hours. Around 2 in 3 members (68%) plan to reduce staff travel while 35% plan to reduce capital investment. One in 5 plan to reduce office/work space in 2021.

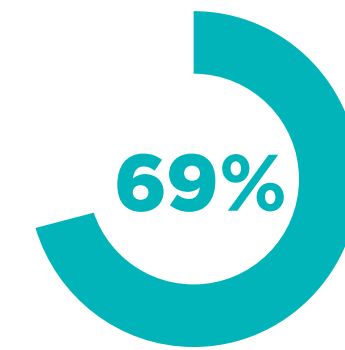
BUSINESS TRADING DURING COVID-19



2021 ECONOMY & BUSINESS PROSPECTS

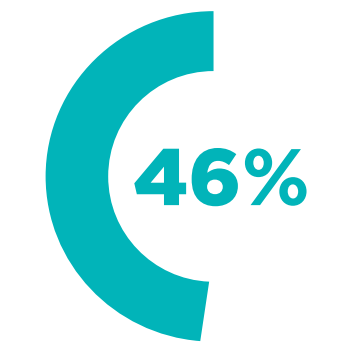
Unsurprisingly businesses are much less optimistic around prospects for 2021, particularly for the Northern Ireland economy. Around 7 in 10 members (69%) believe that prospects for the Northern Ireland economy are poor and that the economy will contract in 2021. Just 20% believe that the Northern Ireland economy will grow this year.

Members are more positive about their own business prospects. Almost 1 in 2 believe that their business will grow in 2021 although a sizeable minority of 38% believe their business will contract. Member views on prospects for both the Northern Ireland economy and their own business had already been weakening over the last few years pre COVID-19.



ECONOMY

7 in 10 members believe that **prospects for the Northern Ireland economy are poor** and that the economy will contract in 2021.



BUSINESS GROWTH

Almost **1 in 2** believe that **their business will grow** in 2021 although a sizeable minority of 38% believe their business will contract.

PERSPECTIVES /

NI CHAMBER PERSPECTIVE

Quarter 4 was another difficult period for businesses in Northern Ireland, who continue to face challenges on an unprecedented scale. If these results are the foundations for trade in 2021, then they are confirmation of another tough year ahead for many. The tighter coronavirus restrictions many businesses are currently coping with will weigh even more heavily on the key drivers of growth and indeed survival, in the months ahead.

Given these conditions and the sentiments expressed, it is clear that business needs to see a clear support package from government for the whole of 2021, not just another incremental intervention. The current drip-feed approach to business support measures is too short term. The UK government must provide long term plans which allow businesses of all shapes and sizes to plan ahead.

In terms of Brexit, we also need consistent, timely and practical advice on a 'real' time basis to make sure that trade is uninterrupted as far as possible and where there are issues and concerns, that they can be raised and dealt with urgently.

Ann McGregor, Chief Executive

PERSPECTIVES /

BDO PERSPECTIVE

Whilst most key indicators have improved in Q4 (albeit at a slower pace than Q3) - they remain negative, meaning more businesses continue to report worsening business conditions than those reporting improvements. It is concerning that recovery slowed in Q4, with 49% of businesses experiencing a fall in domestic (UK) sales in the previous three months while only 19% saw an increase.

Given the environment that businesses have been operating in, specifically over the last twelve months, it is unfortunately not a surprise that we continue to operate in the negative column. However, it is vital that we continue the momentum that has been building slowly and support companies across NI as we navigate yet another lockdown and the early stages of the new GB - NI trade arrangements.

As we continue to see the services industry recruit, or at least try to recruit, several factors are impacting on the long-term success of this recruitment plan, including of course the pandemic and access to the talent pool, due to changes in UK immigration policy and freedom of movement.

As expected, there have been significant problems since the Brexit transition period ended only a week ago, particularly around imports and exports from NI. The key Brexit related concerns raised by local businesses, including; customs processes in purchasing from Great Britain; disruption at ports; and VAT regime changes, have now materialised in reality. It is critical that companies be well informed of ongoing changes to operations, regulations and policy to allow for the transition to the new processes.

Brian Murphy, Managing Partner

QUARTERLY ECONOMIC SURVEY Q4 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%

Almost 200 members responded to the NI Chamber of Commerce & Industry Quarterly Economic Survey (QES), in partnership with BDO, for the 4th quarter of 2020. Together they account for over 13,000 jobs in Northern Ireland.

The fieldwork for the Quarter 4 survey took place between 5th and 26th November 2020, around 8 months into the COVID crisis and just before new restrictions came in to force that closed parts of the business sector including hospitality and non-essential retail for 2 weeks.

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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>.