

Research Bulletin 20/12 | The Impact of Covid-19 on Northern Ireland Business Activity

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Summary

The Covid-19 pandemic has disrupted economies around the world, inducing economic shocks at a scale never before seen. Uniquely, compared to previous recessions, the pandemic generated instant supply and demand shocks. Due to the threat to human health, business activity, social interactions, and consumption were all curtailed as firms were forced to temporarily shut down and employees and consumers made to stay at home. The combination of restrictions resulted in supply chain interruptions, with the lockdown further prompting changes in consumer behaviour, the immediate drop in demand for many products and services substantially affecting business operations and their viability.

Research by Ulster University's Economic Policy Centreⁱ (UUEPC) indicated that by the end of Quarter two (Q2) 2020, 3 months after the initial lockdown, business activity in Northern Ireland (NI) remained suppressed, with half of businesses still trading below normal expectations. At that stage a number of sectors were still largely shut down, with one in ten businesses remaining closed and an estimated 174,000 employees on furlough, the UK government covering their labour costs. The sectors most highly vulnerable in terms of impact, namely Accommodation and Food, and Arts and Entertainment, were those typically least financially resilient, operating on low margins and limited cash reserves.

Covid business support schemes were a welcome intervention providing cash injections and relief, to the value of £2.7bn to businesses in NI, at a time when trading income was severely diminished, and providing a cushion for businesses against their insolvency. The duration of the restrictions and pandemic-related changes to consumption remain a concern, with a recognition that additional and alternative support measures are required to aid any recovery.

Introduction

In response to the increasing coronavirus threat the UK government advised, mid-March 2020, that non-essential travel should be avoided and that employees should work from home where possibleⁱⁱ. These measures were subsequently strengthened, with a full lockdown enforced in NI on the 28th Marchⁱⁱⁱ. The regulations had an immediate impact on businesses, forcing some to close immediately with employees furloughed through the Coronavirus Job Retention Scheme (CJRS). Where businesses could remain open, the restrictions on freedom of movement meant that employees had to work from

home, with consumers also restricted in terms of social interactions. Combined, these measures had consequences on sales and income, as well as impacting on the supply and demand of goods and services.

In an unparalleled series of fiscal interventions the UK Government, and NI Executive, sought to support businesses through the crisis, including offering assistance towards key costs in an attempt to reduce immediate cashflow problems. The medium to long term viability of businesses remains a concern, however, as the pandemic endures.

This article summarises the effects, and vulnerabilities of firms, arising from Covid-19 in terms of the initial lockdown and as economic activity resumed over Q2. It examines the impact on business activity; assesses the level of uptake and value of the existing support measures; and highlights the key challenges faced by businesses.

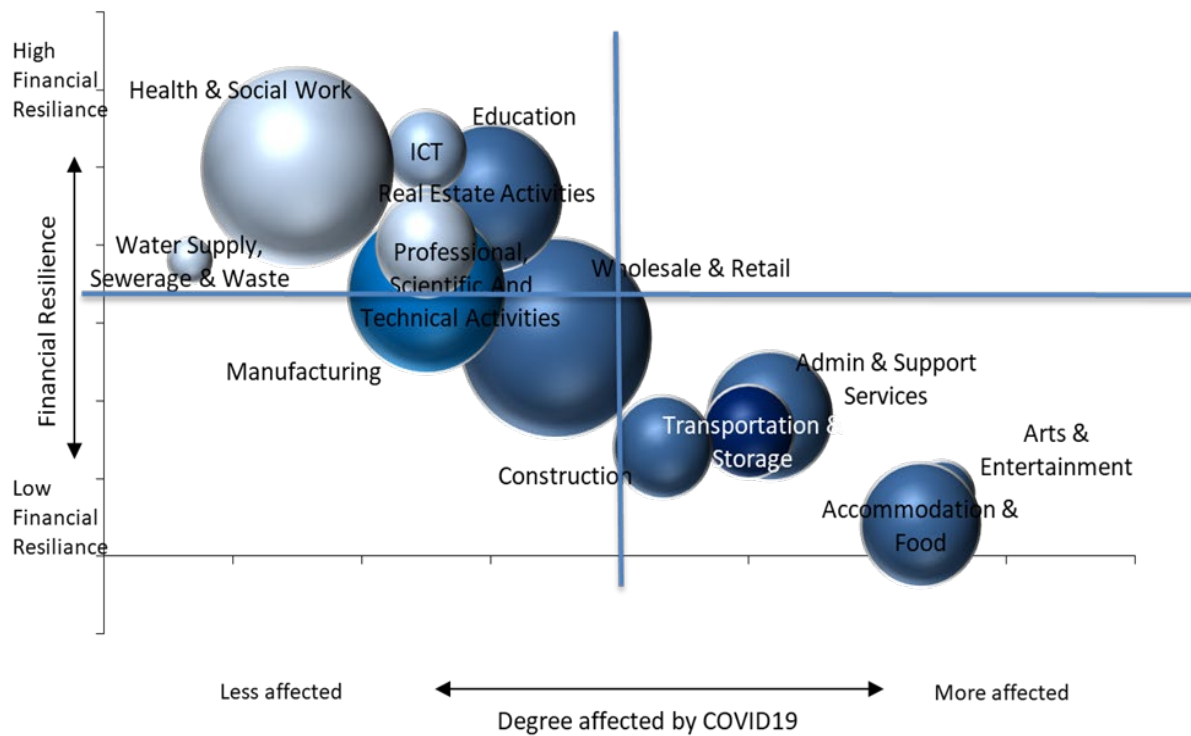
Business Impacts

In early April, during the initial lockdown, one in three businesses in Northern Ireland were temporarily closed. By the end of June, exactly three months after lockdown was introduced, this had reduced to one in ten businesses. Although most sectors had largely re-opened at that point, the Accommodation & Food; and Arts, Entertainment & Recreation sectors were clear exceptions.

Of those businesses that could continue to trade during lockdown, more than half experienced an immediate decrease in turnover. Unsurprisingly, it was the highly consumer-facing sectors that experienced the largest turnover reductions, with sales down between 50 – 80% across Q2 compared to an average decrease of 20%. The resulting impact on cash reserves was stark - by the end of April around one in ten businesses in Northern Ireland had either no, or less than one month's, cash reserves, the share increasing only marginally by the end of June. Sectorally, those most heavily impacted in terms of turnover loss were also those with lowest level of cash reserves.

Combining measures of financial resilience with estimates of the impacts of COVID-19 on workforce numbers, turnover and trading status, provided an indication of sectoral vulnerability to the pandemic. By the end of June the Arts, Entertainment & Recreation, and Accommodation & Food sectors remained most vulnerable (Figure 1). The sectors proving most resilient financially were those least impacted in terms of business activity interruptions, which included the public sector, ICT and Professional Services. In total, around 25,000 firms (around one third of all firms) fell within those sectors most affected and least financially resilient. They are predominantly micro-firms, accounting for 200,000 jobs (around one quarter of the total) and generating £7bn in GVA (17% of total).

Figure 1: Sectoral Vulnerability to Covid-19, NI, 15-28 June 2020



Source: UUEPC estimates based on BICS and ONS Workforce Jobs

Although the impact on business activity was immediate, government business support interventions, particularly the CJRS scheme, reduced the knock-on impact on employees. By the end of Q2 an estimated 174,000 employees were on furlough, with this reducing to around 80,000 by end of August, in part due to the re-opening of thus-far restricted sectors.

As a result, the number of redundancies confirmed from January to July 2020 was lower than for the same period the previous year. Negative signals were emerging, however, with half of those made redundant occurring in July alone. Indeed, there was evidence of the support schemes acting as a deferral mechanism, with proposed (rather than confirmed) redundancies to August the highest on record.

The support schemes had a similar impact on business closure as, perhaps contrary to expectations, the number of company dissolutions was down 56% on the same 3-month period in 2019. A similar pattern has been observed in the UK and elsewhere^{iv}, linked to the support schemes, postponement of HMRC payments and the extension of Companies House account filing requirements^v.

Business Supports

In response to the crisis and to avoid widespread redundancy and business closure, the UK Government put in place a wide range of fiscal interventions to support businesses, including loan, equity and grant funding supports, as well as tax deferral measures. The devolved administrations added to these

measures with their own supports, tailored to the needs of their economies, funded through the 'Barnett consequentials'. Table 1 shows the value of the main existing supports in NI, including rate relief. These supports were worth £2.7bn to businesses (equivalent to 6% of GVA).

Table 1: Uptake and Value of Main Covid-19 Business Support Measures (to 2 Aug 2020)

Scheme	No. of Jobs/ People/ Firms	% Uptake	Total Value (£)	Average Value
CJRS	249,600	32%	£890m	£3,565
SEISS[†]	78,000	81%	£223m	£2,900
CBILS	836		£238m	£284k
BBLs	25,491		£809m	£31,738
£10k Grant	23,909		£239m	
£25k Grant	2,943		£72m	
Micro-Business Hardship Fund			£22m	
Bus. Rates Relief			£213m	
TOTAL			£2,706m	

Sources: HMRC CJRS & SEISS, British Business Bank, Department for the Economy, Department of Finance

[†]SEISS relates to the phase one grant only

As in the UK, the Bounce Back Loan Scheme (BBLs) and CJRS were the two largest schemes in NI, accounting for an estimated £900m and £800m respectively. Cumulatively, the CJRS supported around 250k 'employments' equating to 32% of the total eligible. The Accommodation & Food sector was most reliant on the scheme with 81% of all jobs in the sector furloughed.

The level of uptake of the BBLs loan scheme in NI was in line with its share of the UK business population, at 2%, although the average loan size in NI was higher than the respective UK average. The same pattern was observed for the larger Coronavirus Business Interruption Loan Scheme (CBILs).

The other notable national intervention was the Self-employed Income Support Scheme (SEISS). In NI 81% of those eligible accessed the scheme, claiming over £200m. The highest levels of uptake were in the Construction and Agriculture sectors, reflecting the high levels of self-employment within these industries.

Across NI, the level of uptake and use of the support schemes varied, but not enough to suggest that some areas fell behind when accessing assistance. Although some sub-regions were more reliant on particular schemes, for example, CJRS uptake was highest in Mid Ulster, the variability is best explained by the sectoral concentrations within local areas.

Business Challenges

Consultations with business representative bodies highlighted the challenges for local businesses in terms of re-opening, and for the longer term. The costs of re-opening were not insignificant, with businesses required to spend on alterations to their premises to meet social distancing requirements and purchase PPE. For consumer-facing businesses, these costs were higher as businesses also had to consider the additional requirements of meeting public health obligations for customers, as well as staff.

Covid also had a significant impact in pushing businesses increasingly down a technology-led route as they were compelled to access customers through digital rather than physical channels. It is likely that this has hastened already established trends in areas such as the retail sector, but the transition online is not possible for all sectors. For example, it is very difficult to monetise and/or provide the same level of service online in the Hospitality industry and many parts of the Arts & Entertainment sector as it is face-to-face.

Consultees, across all sectors indicated that demand has been suppressed and that the business supports, although welcome, would not cover the income lost. Indeed, it was recognised that social distancing requirements would continue to impact demand and constrain supply as long as the public health crisis remains. This was recognised as particularly pertinent for those with locations reliant on high levels of footfall and congregation of people (such as city centres).

After an initial burst of re-opening activity, very few businesses were anticipating a sharp or 'V-shaped' recovery in 2020-21, primarily due to concerns over demand. There were also concerns about the ending of the much-used furlough scheme, initially scheduled to end on October 31st. Some sectors (such as Childcare, Arts & Entertainment and parts of Manufacturing) expressed concerns about skills being permanently lost as employees are laid off, impacting longer term recovery. Given the costs incurred for re-opening and the continued suppressed demand, it is also likely that business investment levels will be negatively impacted in the medium-term, which further impacts economic growth.

Conclusion

Covid-19 had an immediate and deep impact on NI businesses, with turnover reductions and the drop in demand forcing businesses to dig into cash reserves for survival. For some sectors, already operating on low profit margins and limited reserves, their vulnerability was exposed – these sectors typically highly-consumer facing and thus most restricted by social distancing requirements. The Covid-specific business supports assisted the ailing cashflow position of businesses, but the prolonged lockdown over Q2 and the investments required to safely re-open meant that the financial interventions were insufficient to cover lost trading income.

By end of Q2 there was a recognition that although re-opening had given rise to a burst of activity, due to pent up consumer demand, challenges lay ahead. A sharp v-shaped recovery was not anticipated, indeed proposed redundancies moving into Autumn were progressing towards record highs. There was an understanding that further support for the economy would be needed, with tailored interventions

required for those sectors hardest hit. Indeed, the recent localised restrictions, which have been effected since the study, have increased the need for such targeted interventions, as well as the requirement for a longer term strategic response plan.

One of the enduring impacts Covid-19 has highlighted is the need for resilient firms. Thus far, the impact of the pandemic within businesses has been focused largely on employees and the need to reskill those whose jobs are lost in the crisis. However, business owners also need to have the ability to respond to challenges as quickly as possible, emphasising the need to re-skill both staff *and* business leaders. Equipping leaders with the skills to innovate, adapt and recognise opportunities would help businesses respond to change and re-purpose activity to future developing areas, supporting local business survival and growth post-Covid and in the longer term.

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- ⁱ [Bonner, K., Magennis, E. and Desmond, A. \(2020\) The Impact of Covid-19 on Northern Ireland Business Activity, UUEPC September 2020](#)
- ⁱⁱ [Coronavirus: PM says everyone should avoid office, pubs and travelling - BBC News](#)
- ⁱⁱⁱ [Coronavirus: New regulations come into force - BBC News](#)
- ^{iv} [Business demography, quarterly experimental statistics, UK - Office for National Statistics \(ons.gov.uk\)](#)
- ^v [Companies to receive 3-month extension period to file accounts during COVID-19 - GOV.UK \(www.gov.uk\)](#)