# Covid-19 and the Dramatic Impact on Irish Business

by Jim Power

**In early October CPA Ireland commissioned an extensive business survey amongst its members in practice and in industry. It covered a wide range of issues such as the impact of COVID-19, Brexit, remote working, online trading, sustainability, government support for business, and business conditions in general. The survey results are very interesting, but heavily reflect what is happening out there in a very challenging economy at the moment.**

## Impact Of Covid-19

From a personal and business perspective, we are truly living in turbulent and troubling times. Coming into 2020, there was a justifiable level of optimism about Ireland's economic prospects, and there was also a clear understanding of the challenges that would face the new government that was due to be elected into office in the first half of the year. These challenges included housing, health and of course Brexit. All three needed to be taken on by the new administration, and there were many reasons for believing that they would form the basis of a programme for government, and the budget that would be presented later in the year.

In the early weeks of the year there were media reports about a virus in China, but these reports were largely ignored on this side of the world. However, everything changed utterly when the UN declared COVID-19 a global pandemic in the early days of March, and the subsequent eight months in Ireland and everywhere else have been truly dramatic.

Many parts of the Irish economy were forced to close in March and economic activity contracted sharply in those sectors. As the economy gradually re-opened over the summer months, activity in most sectors recovered, although customer-facing businesses were forced to implement costly and capacity-limiting health restrictions. Then as we moved into September, localised restrictions were introduced in a number of counties as the level of infection increased. Unfortunately, this culminated in the whole country moving into Level 5 restrictions from midnight 21st October for a six-week period. This will clearly have a devastating impact on large swathes of the business economy, entering into what is for many businesses the most important time of the year.

The economic impact of COVID-19 has been very mixed. The aggregate merchandise trade performance continues to be very strong. However, it is dominated by the Chemical & Pharmaceutical sector, which accounted for 65.9% of exports in the first 8 months of the year, and which recorded annual growth of 13.6%. For the remainder, the trade environment is challenging. The FDI sector generally, but the Chemical & Related Products sector in particular is providing a very solid anchor for the economy at the moment. For Cork, this is particularly important, but Dublin, Galway and Limerick are also strongly supported by the sector. FDI is providing a very solid anchor for the labour market and the public finances.

In the first three quarters of the year, overall tax revenues were running just 3% lower than the same period of 2019, but the VAT take was down by 19.9%. This reflects the pressure on consumer spending and the very challenging retail environment. Corporate tax revenues, mainly paid by a small number of large multi-nationals, saved the day, and in the first 9 months of the year were running almost 28% ahead of last year and accounted for a record high of almost 19% of total tax revenues.

The relatively strong performance of income tax (with a decline of just 2.1%) reflects the fact that lower paid workers who pay relatively little tax, continue to be the main labour force casualties of COVID-19. For workers in FDI companies, financial services, professional services, and the public sector (2% pay increase on 1st October), earnings and employment are being sustained. The very progressive nature of the Irish PAYE system ensures that it is these workers who pay the bulk of income tax.

The top 5% of income earners account for around 40% of total income tax revenues; and the top 23% account for around 77%. Hence, the devastation in some segments of the labour market has not fed through to income tax revenues in any significant way.

The labour market has experienced dramatic changes this year.  On 19th October, 244,153 people were in receipt of the Pandemic Unemployment Payment. Retail, and Accommodation & Food services accounted for 46% of this total. Of the total, 25% are under the age of 25. These numbers are set to rise dramatically as we move into Level 5. Full employment is no longer an issue of concern.

## Budget 2021

Budget 2021 is the most expansionary budgetary package introduced in the history of the state. In the face of the pandemic, fiscal policy is justifiably strongly expansionary and counter-cyclical. There is no other choice. The very limited tax measures, and the very significant increase in public expenditure contained in the budget are aimed at sustaining businesses and households that are in serious difficulty due to the evolving restrictive measures put in place to deal with the virus.

There is no option other than to increase spending significantly in the Department of Employment Affairs and Social Protection, and the Department of Health. There is no option other than to give as much support as possible to business through the tax system.

In an environment where long-term bond yields are close to zero as a result of the extensive bond buying programme of the ECB (Quantitative Easing), and the relaxation of the EU's fiscal and state aid rules, the Irish Government is correct in borrowing heavily to sustain the Irish economy and society for as long as it takes, and it will take a lot longer now that we have moved into Level 5. The Government strategy now appears to be a series of rolling lockdowns until a vaccine is delivered.


That could take some time, and meanwhile serious damage will be done to the economy.

Before any changes to taxation or expenditure in Budget 2021, the Department was projecting a general government deficit of €21.2 billion in 2020, equivalent to 6.1% of GDP; and €14 billion in 2021, equivalent to 4% of GDP. Following the changes announced in the budget, a deficit of €21.5 is now forecast for 2020 (6.2% of GDP) and €20.5 billion (5.7% of GDP) in 2021.

The budget package is worth €17.7 billion, that includes €3.5 billion in core current expenditure; €1.5 billion in capital expenditure, which at €10.1 billion is the largest ever capital programme; €3.5 billion is being set aside for a Recovery Fund; and there is a tax package of €270 million net.

Overall tax revenues are forecast to increase by 6.5% in 2021 to reach a record high of €60.4 billion.

Budget 2021 is a recognition that Ireland will have to spend and borrow heavily to get the economy and society through this crisis. Unfortunately, the move to Level 5 will further undermine growth and the public finances. Growth will inevitably be lower and deficits higher as long as Ireland pursues the current strategy in relation to the virus. It is an incredibly challenging environment, and this is certainly reflected in the CPA Ireland survey.

## CPA Business Survey

In early October, CPA Ireland conducted an extensive business survey of members in practice and in industry. The results provide a very strong picture of the challenges facing accountancy practices themselves, and their clients.

The results are also consistent with official statistics, and what we can observe anecdotally, in the sense that some sectors of the economy are doing well through the

Pandemic, while others such as retail, construction, Hotels and Restaurants, and real estate, are finding life much more challenging.

For members in industry, 50% report declining business volumes in 2020; 37.5% are experiencing growing business volumes; and 12.5% are experiencing stagnant business conditions. For members in practice, the decline in turnover is estimated at 14% on average.

Since the restrictions were introduced in March, online trading has become a very significant feature of the economic landscape, and now that we have moved to Level 5 again, online trading will have to become an even more important feature of business survival in many sectors. 47% of industry respondents have adopted online trading, and for those who have not, just 3.7% say they intend to adopt in 2021. This reflects the fact that although online capability is held out as the panacea for business survival, for many small businesses it just does not work for a variety of reasons.

Covid-19 is impacting businesses in a significant way. In terms of business issues since March for those in industry, 50% cite loss of business; 41.18% cite weaker economic demand; 50% cite cashflow issues; 32.35% cite challenges in leading remote teams; 35.29% cite difficulties getting paid; 25% cite technology issues with remote working; and 17.65% cite supply chain issues.

Looking ahead, businesses are concerned about the coming weeks and months. 61.76% cite Brexit, but 58.82% cite a poor economy and a reduction in customer numbers as the two main concerns. 52.9% are worried about localised lockdowns; and just 52.9% are worried about a national lockdown. Up until very recently there was a general belief that another national lockdown could not and would not be contemplated, but the recent move to Level 5 has disproved that theory in a dramatic fashion.

In summary, the Industry survey results clearly demonstrate the massive impact that Covid-19 is having on business and how uncertain the future is due to Covid-19 and Brexit. The survey also shows just how resilient business owners are, but also that the role played by Government has been and will continue to be incredibly important.

Hence, the further measures introduced by Government in Budget 2021 are positive and much needed, but importantly Government will have to continue to play a key role in supporting business through what are clearly very challenging times.

For members in practice, 88.5% of respondents report that Covid-19 has had an adverse impact on their practice since March. It is telling and significant that 50% suggest that the situation has improved in recent weeks (the survey was conducted before new level 5 restrictions were announced), with just 15% saying the situation has deteriorated. This reflects the re-opening of the economy, but clearly the national restrictions introduced over the past week will damage this positivity.

In relation to issues experienced since March, 69% of members are being forced to spend more time with clients; 54% are having issues with payment for services; 36% report technology difficulties with working from home; and 31% are experiencing difficulties with leading remote teams, and 27% report a loss of business. Worryingly, 21% report cashflow difficulties.

CPA practices are clearly very concerned about the future of their businesses and the future of the clients that they serve. This is why it is crucial that Government continues to support business as happened in the budget, but Government will need to remain focused for some time to come. Covid-19 and Brexit represent fundamental business and economic challenges, and Government must be very pro-active in providing ongoing and strong support in dealing with these issues.

**Jim Power,**

Jim Power is one of Ireland's leading and best-known economic analysts. Jim has a wealth of experience in delivering insightful economic analysis, forecasts and commentary to both Irish and international audiences. He writes regularly for national newspapers and is a regular contributor to radio and TV debates and discussions.