

Summary of NIESR Business Conditions Forum April 2021

The National Institute of Economic and Social Research (NIESR) hosted the Business Conditions Forum (BCF) on 14 April 2021. The aim of the BCF is to have informed and analytical discussions of data and surveys to better understand the current state of the UK economy. The discussions are held to the Chatham House Rule to encourage free and open discussion. NIESR is grateful to the ESRC and the Impact Accelerator Award (IAA) for funding the BCF.

Agenda

The discussion at this meeting was centred around trade and the latest economic developments. The discussion ended with a poll asking participants whether they thought restrictions would be lifted as per the government's plan and whether there might be any new wave(s) of Covid-19.

Main discussion points

Trade: disentangling the effects of COVID-19 and Brexit

UK firms engaged in international trade face the double challenge of the pandemic and Brexit. While Covid-19 has been on top of firms' concerns since last year because of the disruptions to the global supply chain, it is widely viewed as a temporary shock. The latest news of a strong pickup in international trade provides hope that supply chains have recovered and there is renewed optimism about a global recovery in 2021. Since the 1st of January, UK firms however face increased costs to trade with the EU because of leaving the EU single market: additional administrative costs and delays in shipments.

It is very difficult to disentangle the effects of two shocks when we only have trade data for the first two months of 2021, and this will undoubtedly be the subject of further research. In January, trade in goods between the UK and the EU fell sharply, then recovered partly in February and early indications are that trade may have stabilized in March. While the news of a recent recovery is reassuring, it is underwhelming compared to the strong growth in trade in the rest of the world, in particular in Germany.

Looking at the effects of Brexit on trade, it was highlighted that SMEs seems to have been worse affected than larger firms. Since 2017, the number of SME exporters has declined. Covid-19 triggered a further fall in the number of exporters, and the latest numbers suggest that despite a recovery in trade, the number of SME exporters is still well below the pre-Covid numbers. One of the reasons why larger exporters have been more resilient seems to be the fact that they have better access to trade finance, in particular during the pandemic.

As for the regional decomposition of trade, [Coriolis](#) data suggests that firms in Northern Ireland are doing worse than the rest of the UK, despite Northern Ireland effectively staying in the EU single market for goods.

In addition to the direct costs of Brexit, participants explained that it was also policy uncertainty that was causing disruptions to trade. For example, the lack of precise guidance by the government related to rules of origins was negatively affecting exporters. One participant noted that the fact that some aspects of UK-EU trade rules would be revisited periodically (for example in the fishing sector) was creating unnecessary uncertainty for firms.

Recent economic developments and short-term outlook

NIESR's latest GDP Tracker suggests that GDP declined by 1.5% in the first quarter and may grow strongly by 4.6% in the second quarter. The British Chambers of Commerce Quarterly Economic Survey for Q1 suggests cautious optimism by businesses for the beginning of the year. The proportion of firms that expect an increase in domestic sales increased from 26% in the last quarter of 2020 to 28% in the first quarter of this year, despite a more stringent national lockdown. The data suggests that UK firms have grown to be more resilient to lockdowns and other social restrictions. But, there is still a lot of heterogeneity across sectors, with hotels and catering being the most depressed sector according to the BCC survey.

There is a consensus that there will be a significant rebound in the second quarter driven by the progressive lifting of restrictions and improved confidence, but the question is how strong this rebound will be. One participant noted that the super deduction on investment was very well received by the business community, and there were already calls to extend both in time and in scope. PMIs were also very positive.

One area of concern for the recovery is the fact that prices may increase faster than forecast, because of a recovery in demand and additional trade costs related to Brexit.

Survey results

NIESR BCF Poll Results - 14 April 2021

