

**SSISI Public Policy Brief:
Understanding the Covid19 Pandemic and its Consequences**

Business in a Compressed Economy

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(read before the Society, 21st May 2020)

1. INTRODUCTION

COVID-19 has led to the sharpest compression of economic activity in living memory (OECD, 2020). The recent roadmap published by Government gives clarity on when sectors may expect to be allowed re-open again, but ‘normal’ conditions will not return for some time. In this policy brief, I set out some early evidence on both the immediate impact of the Covid crisis on Irish business and the way it has impacted their long-term investment plans. From this, I discuss some relevant questions for regional development policy.

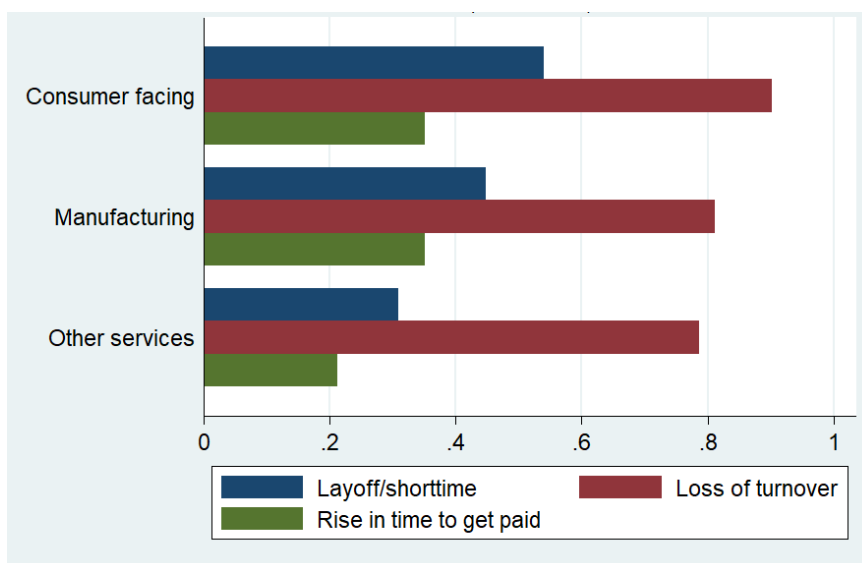
2. THE IBEC SURVEY

Early surveys have been a useful tool in trying to understand the economic impact of COVID-19 when official firm-level data be produced at a lag (see for example Bloom et al, 2020; Bartik et al, 2020; CSO, 2020). Most of the data which follows was the product of a survey of other 552 Irish CEO’s undertaken by the Ibec research unit in late April 2020. The survey responses covered 205 manufacturing firms and 347 services firms across Ibec’s 40 sectoral associations. The total sample of firms employed 161,000 employees. Over 53% of the respondents were small firms (with fewer than 50 employees) and 80% were SMEs (with fewer than 250 employees).

Overall, the survey results showed a significant impact across sectors (see figure 1). With the most significant impacts, unsurprisingly, in the consumer-facing services sector. 85% of firms in the sample have experienced a loss of turnover. Exports had fallen for 71% of exporters. 45% of firms had laid off some staff and one-in-ten had engaged in redundancies.

There were 51 variables in the dataset and further information can be found in the Ibec (2020) “Reboot and Reimagine” campaign document. In the sections which follow, I focus on a small number of those variables which give insight into questions of liquidity needs and long term investment plans.

Figure 1: Key results by sector (% of firms)

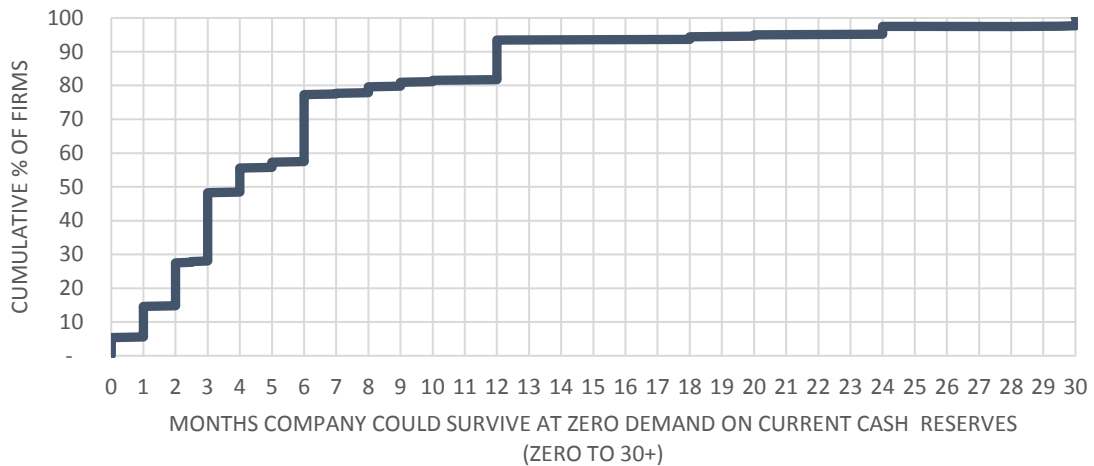


Source: IBEC Covid Survey, Authors’ calculations

3. THE LIQUIDITY GAP

Internal cash reserves entering the crisis will be key to firm survival during the slowdown (McGeever et al, 2020; Banerjee et al, 2020; Acharya & Steffen, 2020). Our survey shows a significant divergence between firms when it came to available cash reserves. The top 20% of firms have at least 9 months or more in cash reserves. On the other hand, the bottom 48% of firms have 3 months of cash reserves or less. At most risk is the bottom 15% of firms which on average had less than one month's cash reserves.

Figure 2: Months of cash reserves, cumulative %

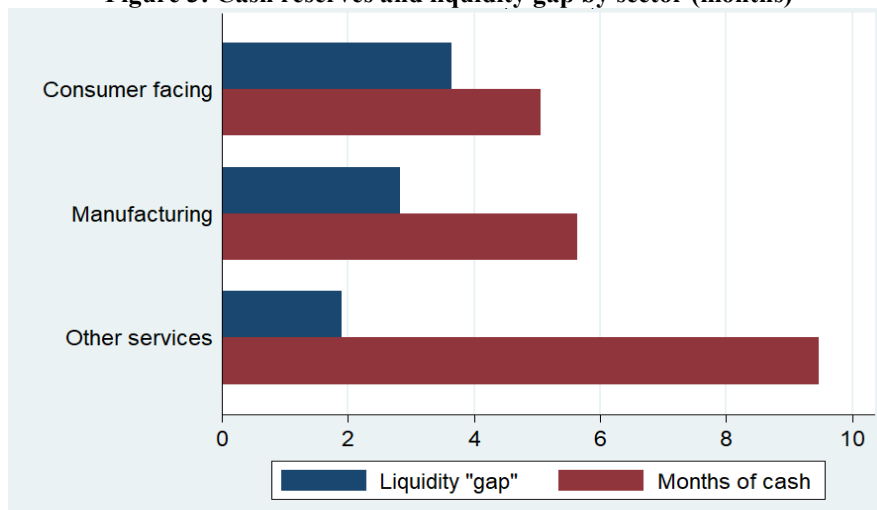


Source: IBEC Covid survey, Authors' calculations

In addition, the survey asked companies the timeframe in which they expected to return to normal demand after restrictions ended. This allows us to calculate the firms 'liquidity gap' or how many months a firm will need an abnormally high level of external funding for.¹ About 46% of firms expect it to take more than 6 months to return to normal demand after all restrictions end. For about 72% of companies, the minimum period in which they expect 'normal' demand to return is greater than their cash reserves. In other words, they have a 'liquidity gap' which will need to be bridged by external funding. For 30% of firms that gap is greater than 6 months.

That gap is largest amongst firms in consumer-facing services sectors and it is smallest amongst firms in high-tech services sectors. In table A1 (Appendix 1), we show that the scale of a company's liquidity gap is most closely related to both its sector and size, but also whether the firm has undergone lay-offs and had to reduce prices as a result of Covid.

Figure 3: Cash reserves and liquidity gap by sector (months)



Source: IBEC Covid Survey, Authors' calculations

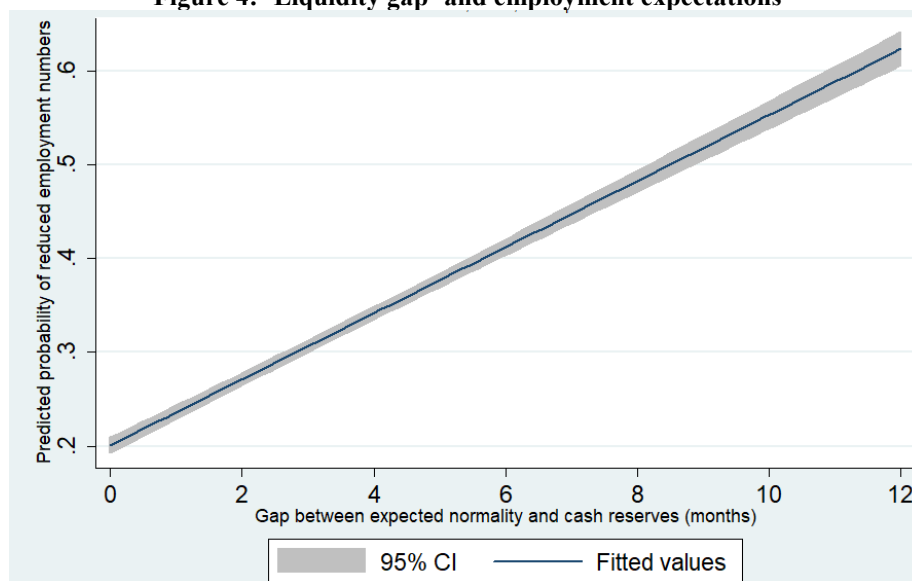
Finally, we try to assess both the drivers of this liquidity gap and the impact of it on future employment expectations. We ask firms whether they expect to have more, fewer, or the same employees in three years. Over

¹ Liquidity "gap" = Minimum expected return to normal demand (months) minus months of remaining cash reserves.

30% of sample expected lower employment because of Covid. Firms with larger gaps between their expected normality and their existing cash reserves had much greater expectations of falling employment numbers over the next three years.

After controlling for size, sector and export orientation, firms with zero or a positive liquidity gap position are about half as likely to have reduced employment expectations over the next three years by comparison to those with a six month liquidity gap. They are also one third as likely to have reduced employment expectations by comparison to firms with a twelve months gap. From a policy perspective significant ongoing State intervention is likely to be necessary as countries exit the lockdown period. Blanchard, Philippon, and Pisani-Ferry (2020) for example, suggest a flexible mix of amended wage subsidies, loan guarantees with potential to convert to equity, mezzanine, or hybrid instruments, along with appropriate debt forgiveness will all be required by firms over the coming months.

Figure 4: ‘Liquidity gap’ and employment expectations

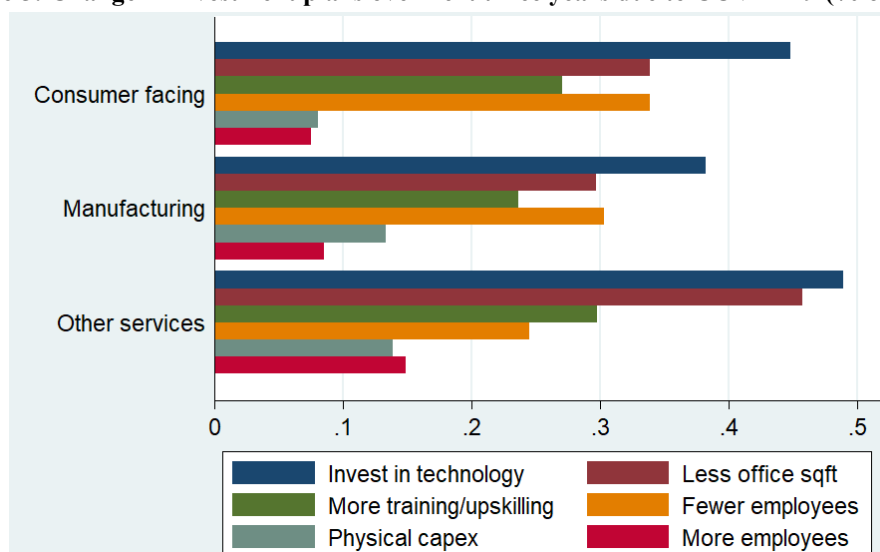


Source: IBEC Covid Survey, Authors’ calculations
 Note: Controlled for size, sector, and export orientation

4. CHANGES IN BUSINESS PLANNING AND INVESTMENT

When it comes to business planning data from our survey shows that 73% of CEOs identified increased use of remote working as a significant change in their business organisation over the coming three years. In addition, 56% of CEOs saw an increase in flexible working because of the crisis and 42% saw opportunities for investment in technology. On the other hand, 35% of CEOs expected a reduction in demand for office space, from their firm, over the next three years. Only 11% expected an increase in capital expenditure.

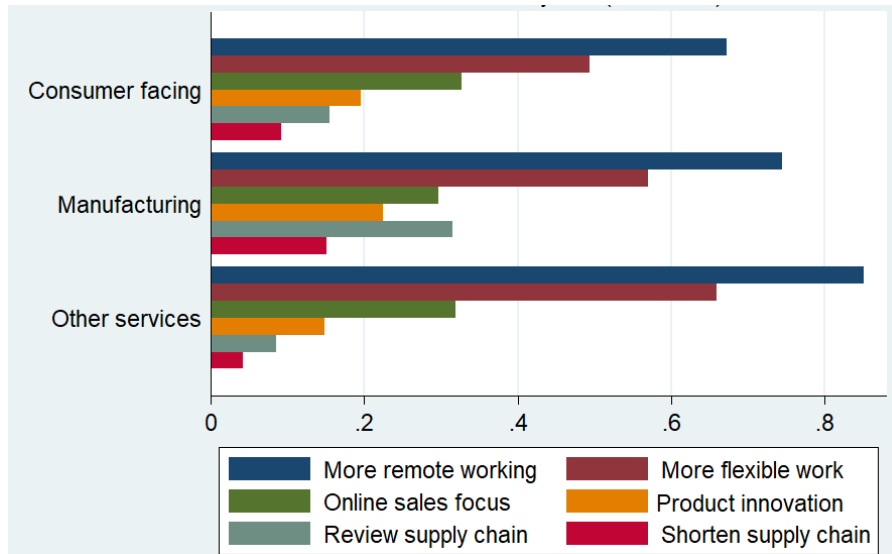
Figure 5: Change in investment plans over next three years due to COVID-19 (% of firms)



Source: IBEC Covid Survey, Authors calculations

This, if followed through, would represent an acceleration of long-term shifts from tangible to intangible investment (Haskell and Westlake, 2018). In the medium-term, this may have significant implications for the shape of Irish economic and social activity. For example, it may impact significantly on areas as diverse as productivity, transport planning, carbon emissions, the housing market, and the regional distribution of income.

Figure 6: Change in operations over next three years due to COVID-19 (% of firms)

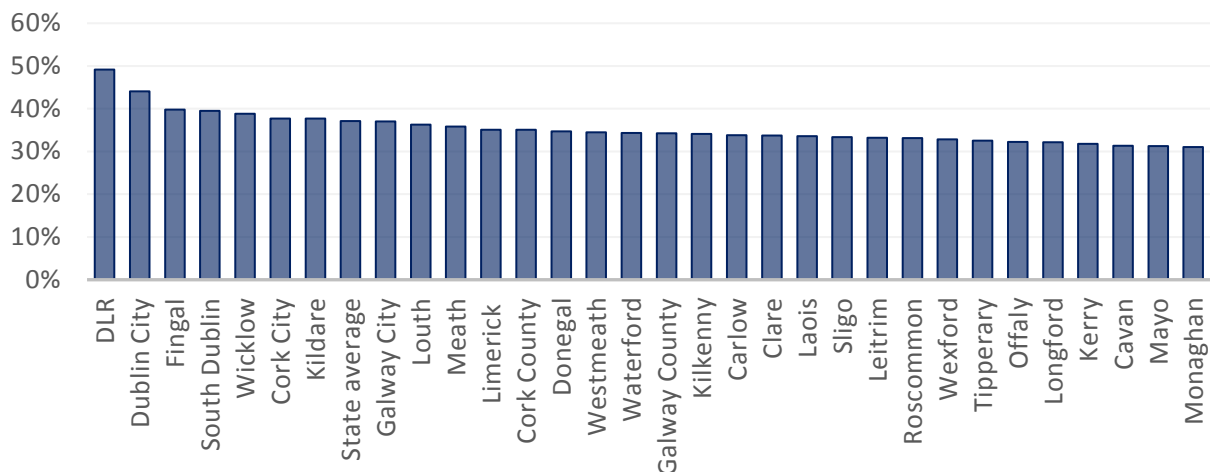


Source: IBEC Covid Survey, Authors' calculations

To understand how these trends might impact on Ireland's economic geography we undertook some further analysis based on the work of Dingel & Neiman (2020). Those authors have produced estimates on how many jobs could be plausibly done from home at an industry level using O*Net data. Their classification is based on the presence of physical activities (e.g. manual handling) in an occupation and lack of interaction with ICT. In the same manner, as Gottlieb et al (2020) we combine those estimates with existing labour market data (employee place of residence based on Census 2016). In our case, we use this to produce a regional view on which counties and towns those workers who could telework live in.

This analysis suggests that around 37% of Irish workers could potentially work from home regularly. For comparison, Table A2 (Appendix 2) displays the current share of persons working from home in the EU with Sweden at the top at 37.8% of all workers doing some remote work. In Ireland, that share is 20.3% currently, with only 12.8% of workers working remotely as their usual place of work. There is, however, a stark regional divide in the potential for remote work, with almost half of all workers in parts of Dublin having the potential to telework versus only one-third of workers in most rural counties.

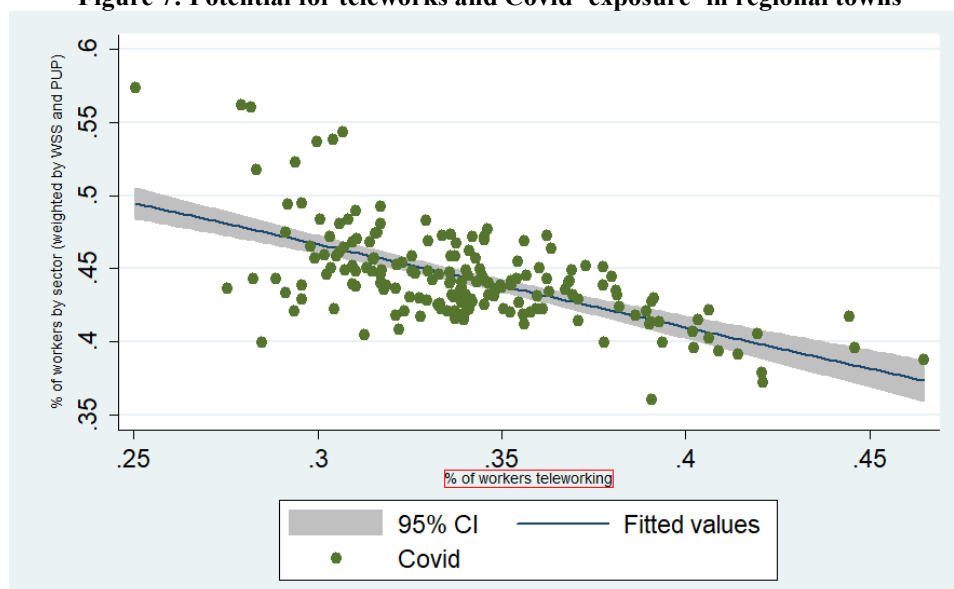
Figure 7: Percentage of working residents with the potential to work from home (%)



Source: Authors calculations using Dingel & Neiman (2020) and Census 2016

We applied the same methodology to 177 regional towns. In general, existing commuter towns had the most significant share of workers who could potentially work from home. On the other hand, rural towns with highest employment share in sectors exposed to COVID-19² are also those least likely to benefit from remote working in the short-term. In terms of the econometric predictors of the town's potential for teleworking education levels are the single most significant variable. These findings echo those of Crowley and Doran (2020) who use a different method but arrive at similar conclusions.

Figure 7: Potential for teleworks and Covid 'exposure' in regional towns



Source: Authors' calculations using Dingel & Neiman (2020) and Census 2016

Note: Proxy for Covid exposure at town level: (% of workers in sector A on WSS or PUP x number of workers in sector A in town) / Number of workers in town

From a policy point of view, the impact of both COVID-19 and Brexit may accentuate a growing difficulty in generating regional employment in structurally important sectors (Brady, 2019). This may have implications for political developments in the long-run if left unaided (Dijkstra et al, 2020, McCann, 2020; Barca et al 2012). One way to help overcome this may be to introduce crisis supports which are more 'spatially aware'. For example, Austin, Glaeser, & Summers (2018) suggest spatially targeted employment credits may be more effective than geographically 'blind' ones. In an Irish context, IBEC (2020) have suggested one way to do this in an Irish context would be to target hiring subsidies (such as the JobsPlus scheme) towards specific regions hardest hit by the current crisis.

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² Proxy for Covid exposure at town level: (% of workers in sector A on WSS or PUP x number of workers in sector A in town) / Number of workers in town

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Appendix 1: Regression results from survey data

Table A1: Regression results

VARIABLES	Cash, months (OLS)	Liquidity gap, months (OLS)	Lower employment (Probit)	Remote working (Probit)
Exporter	0.30	0.07	-0.42**	0.08
Sector: Manufacturing	0.11	-0.47	0.21	0.28
Sector: Other services	3.85***	-1.00**	-0.06	0.52***
Total employees	0.02**	-0.01***	0.00	0.00
Liquidity “gap”	0.13**	.
Staff on lay-off	-2.16***	1.69***	0.68***	-0.22
Staff re-deployed	-0.90	-0.02	0.14	0.29
Reduction in prices	-1.04	1.41***	0.34**	.
Slower payments received	-	-0.11	-0.01	.
Changes to physical workspace	-	-	0.29**	0.55***
Increase in tech investment	-	-	-0.05	0.32**
Increase in Capex	-	-	-0.07	-0.56**
When do you think your organisation will return to pre-covid19 demand levels?				
Over 1 year after restrictions end	-	-	0.27***	
Within 3 months	-	-	-0.02	.
Within 3-6 months	-	-	0.01	.
6 months to 1 year	-	-	0.10	.
Reduction in demand for office space	-	-	.	1.10***
Increase in investment in training	-	-	.	0.27
Constant	6.36***	2.74***	0.12***	0.53***
Observations	433	433	433	433
R-squared	0.10	0.16	0.20	0.20

Appendix 2: Home-working in Europe

Table A2: Share of persons working from home in Europe, % of total persons employed, 2019

	Sometimes	Usually	Total
<i>Sweden</i>	31.2	6.6	37.8
<i>Switzerland</i>	27.7	4.7	32.4
<i>Iceland</i>	23.8	5.9	29.7
<i>Netherlands</i>	22.7	14.5	37.2
<i>Luxembourg</i>	21.6	11.8	33.4
<i>United Kingdom</i>	21.6	5.2	26.8
<i>Denmark</i>	20.6	8.2	28.8
<i>Belgium</i>	17.8	7.2	25
<i>Finland</i>	17.6	14.5	32.1
<i>France</i>	15.7	7.4	23.1
<i>Estonia</i>	13.1	7	20.1
<i>Ireland</i>	12.8	7.5	20.3
<i>Austria</i>	12.2	10.3	22.5
<i>Slovenia</i>	10.9	6.9	17.8
<i>Poland</i>	9.8	4.7	14.5
<i>Portugal</i>	8.9	6.7	15.6
<i>Germany</i>	7.3	5.5	12.8
<i>Slovakia</i>	5.9	3.8	9.7
<i>Czechia</i>	5.5	4.9	10.4
<i>Malta</i>	5.4	6.2	11.6
<i>Norway</i>	5.4	5.1	10.5
<i>Croatia</i>	5.1	2	7.1
<i>Spain</i>	3.5	4.9	8.4
<i>Hungary</i>	3.4	1.2	4.6
<i>Greece</i>	3.3	1.9	5.2
<i>Lithuania</i>	2.2	2.5	4.7
<i>Latvia</i>	1.8	3	4.8
<i>Cyprus</i>	1.3	1.3	2.6
<i>Italy</i>	1.1	3.7	4.8

Source: Eurostat, Labour Force Survey

SYMPOSIUM DISCUSSION

Sean Barrett: Dr Comiskey's paper illustrates the dilemma faced by policy makers when a viral epidemic struck without warning and threw health and economic planning into disarray. Many of the decisions taken in an emergency are now appreciated as correct but other decisions might not be repeated in future epidemics. Crowded sports stadiums, large outdoor concert venues, parades, crowded buses and trains, public houses, and crowded theatres and cinemas are now correctly seen as health hazards. It was somewhat of a mystery to see garden centres and hardware shops deemed as health hazards but those designations have been changed as part of a learning experience. The evidence that primary schools should shut and the Leaving Certificate examinations cancelled remains unconvincing.

The Covid 19 policy to shut down large sections of the economy was taken at speed has to achieve medical benefits but at an economic cost. The costs have been massive and largely unexpected. We have an extra 400,000 unemployed and a €30 billion government borrowing increase mainly to provide income support for the increase in unemployment as a result of the virus, plus extra health spending.

In welfare economics applying cost-benefit analysis to safety programmes it is argued that the term “lives saved” should be replaced by “deaths delayed”. Death is a certainty for us all and actuarial tables tell us when to expect it. In early May 2020 the median age of death from Covid in Ireland was 84 for females and 82 for males. These correspond to Irish life expectancy figures. Up to May 22, 2020 there were 1,583 Covid deaths. There are some 28,000 deaths in Ireland per year. It is a normal daily event in the health sector.

Irwin Stelzer wrote last Sunday that “unlike doctors, economists are certain of nothing.” Doctors have used their dominant power in this instance to impose huge costs on the remainder of the economy. They have neglected issues within the health sector such as low flu vaccination rates among medical staff of only 37.9%, single occupancy rooms comprising only 6% of bed supply in Irish hospitals, and the high level of clinical claims against the sector paid out by the NTMA. Covid deaths in hospitals and nursing homes should have been addressed earlier in a programme of health service reform. The lessons from this crisis for future epidemics now appear to be to concentrate on the age groups, health status, location, and occupations, such as meat processing, where the epidemics actually occur. Mass unemployment should be avoided as a solution to medical problems.

Robert Barry: I have a question for Catherine, regarding the assumptions underpinning the calculation of R. I ask for more detail on, among other factors, the duration of infectiousness, the number of infections at all, the testing rate, the time lag, and the duration of immunity. For example, using deaths would mean being 3-4 weeks behind what's happening.

Paul Walsh: I ask a question to Catherine, in relation to how the disease spreads, from the perspective of a social scientist. Is anyone working on how our behaviour in social settings can affect the spread of the disease? I also have a question for Jean Acheson, in relation to how the public sector will finance the significant extra spending undertaken by the state – given that austerity could prolong economic damage.

Reamonn Lydon: I have two questions for Gerard Brady, in relation to the survey undertaken by IBEC. The first is in relation to the labour market and asks Mr Brady whether he has any insights on the likely strength of labour demand. The second is about the extent of liquidity problems faced by firms, and the potential for credit and/or grants.

Chris Sibley: I compliment the findings and underlying data presented by Reamonn Lydon, the high-frequency nature of which means we are entering this economic crisis with a much improved data infrastructure than the last recession. My question is what did Dr Lydon expect with regard to household saving, this time around?

Aidan O'Connor: Aidan O'Connor have a question for the Honorary Secretary, Dr Lyons, on the construction sector, in particular the office space, in the context of labour costs rising and the potential for an asset bubble. (Dr Lyons responded that he believed any shift in the commercial real estate market underway would reflect a change in preferences, rather than a change in credit conditions, the usual indicator of the end of a bubble.)