2020 has been the year of the unprecedented rate of decline. New car sales, property transactions, housebuilding, manufacturing output, services activity or tourist numbers have all plunged on a scale that we have never seen before. Lockdown restrictions have been responsible for this ‘switching off’ of economic activity and this was most pronounced in the second quarter. When swathes of the economy are shutdown, the inevitable consequence of the subsequent lifting of restrictions means output / activity can go only one way – UP!

**Reopen for business.** The reopening of the economy was always going to see a rebound in the third quarter.  We have already seen this in a range of economic indicators such as property transactions. Today NISRA has revealed the anticipated record rates of expansion in both services output (private sector) and industrial production for the third quarter. Whilst marvelling in record rates of growth, it is important to contextualise that level of growth both historically and relative to pre-pandemic levels.

**Services with a smile.** Northern Ireland's services sector (private sector only) posted a record quarterly rate of expansion of 22.5% in Q3. This ended four successive quarters of contraction including Q2's record decline of 18% q/q. The rebound is perhaps stronger than expected with services recouping over 90% of output lost since Q4 2019 (pre-pandemic level). However, it is anticipated that we will see further downward revisions to the Q2 data in due course. These should reveal a Q2 contraction in excess of 20% q/q. It is also worth contextualising that Q3 services output matches the level of turnover that occurred in Q1 2005!

**Every loser wins.** The sub-sector within services that has been impacted the most during the pandemic has been the *Other Services* category. This includes arts, entertainment, recreation, beauty salons, hairdressers, gyms, dentists etc. These areas have been adversely affected by the lockdown restrictions and social distancing requirements. Following a record 39% q/q fall in Q2, which followed an 8% q/q decline in Q1, *Other Services* rebounded by a whopping 50.4% q/q in Q3. Nevertheless, activity is still down almost one-fifth relative to a year ago and is the second lowest (Q2 being the weakest) since the index began. This sector will be the most exposed to further lockdown restrictions in Q4 and Q1 2021.

**Retail therapy.** The *Wholesale and Retail Trade; Repair of motor vehicles; Accommodation and Food* sub-sector ('Retail & hospitality') saw turnover slump by 17.5% q/q in Q2, following a 3.5% q/q decline in Q1. However, a record rebound of 26.7% q/q in the third quarter has recouped all of the pandemic-related lost turnover. Turnover is up marginally (0.3% y/y) relative to the corresponding quarter a year ago. Q3 was characterised by the unleashing of some pent-up demand and included the Eat Out to Help Out scheme that boosted revenues for the hospitality sector. Q3 is likely to mark the high-water mark for the next few quarters with lockdown restrictions in Q4 and more anticipated in Q1 2021 set to crimp demand.

**Shielded…to a degree.** The *Business Services & Finance* sector, which accounts for one-third of private sector services activity, has been the least affected of all the services sectors. That is linked to sector's ability to operate on a working from home (WFH) basis. Nevertheless, *Business Services & Finance* has still seen chunky rates of decline. The sector's heyday coincided with the property boom some 13 years ago. Even before the pandemic struck, turnover within this sector was just three-quarters of what it was in 2007/08. Following two successive quarterly declines of around 8% in Q1 and Q2 2020, activity rebounded by 10% in Q3. Despite this robust growth rate, activity is still down 9% y/y. Given the sector's ability to operate on a WFH basis, it is likely to be the least affected during periods of further lockdown restrictions i.e. Q4 and Q1 2020.

**Keep those wheels turning.** The *Transport, Storage, Information and Communications* sector encompasses the passenger and freight industries, postal & courier services alongside information technology services. As such it includes activities that cannot be undertaken on a WFH basis and those that cannot. Some 70% of the decline in turnover between Q4 2019 and Q2 2020 has been recovered in Q3. The record 17.3% q/q rise in turnover in Q3 still leaves activity 6.6% below the level in Q3 2019.

NISRA's Index of Production also revealed record rates of expansion in Q3 across a variety of industries and manufacturing sub-sectors. More significantly there were some manufacturing sub-sectors reported their highest levels of output on record.

**Keep digging!** Northern Ireland's industrial production rose by 16.2% q/q in Q3 from a series low in Q2 which saw a 14% q/q decline. As a result, over 85% of the output lost during the pandemic (Q1 & Q2) has been recovered. But industrial production is still almost 7% below Q2 2019 levels. Mining & quarrying rebounded from Q2's 15-year low with a huge 50% q/q rise in Q3 taking output to a 3½-year high.

**Manufacturing a rebound.** Northern Ireland's manufacturing firmsrecouped all of the output they lost in Q2 with a 18% q/q rise in Q3. However, manufacturing output is still 2.3% lower than a year ago. That doesn't sound too bad but output was relatively weak last year and turnover is still 10% lower than the average recorded between 2010 and 2017.

**COVID-19 winners**. All 10 manufacturing sub-sectors posted quarterly growth in Q3 ranging from 3.4% for *Chemical and Pharmaceutical Products* to +51.3% for *Transport Equipment*. But only three sub-sectors managed to secure higher levels of output relative to a year ago. These were: *Chemical & Pharmaceutical Products* +42% y/y (series high); *Textiles and Textile Products* +31.5% y/y (series high); and *Rubber, plastics and non-metallic mineral products +11.1% y/y*. These three areas all benefited from COVID-19 either though testing / medication (pharma) or the manufacturing of PPE and social distancing related equipment (*e.g. signage, plastic screens etc*). The pharma industry has also benefited from stockpiling ahead of the end of the Brexit transition period.

**Manufacturing laggards.** The majority of manufacturing sub-sectors (7 of the 10) are nursing year-on-year declines in output. While the *food and beverage* sector's 0.1% decline is marginal, other subsectors are experiencing more substantial falls. Five of which are double-digit declines. The *Transport Equipment* sector posted the largest quarterly rise of any sub-sector but turnover remains almost 25% below where it was a year ago. Meanwhile output within some of the other engineering sub-sectors is down 14% y/y.

**Levels speak louder than growth rates.** Today's output surveys have broadly revealed what was expected. Namely, Northern Ireland's record rates of decline in Q2 have inevitably been followed by record rates of expansion in Q3. Sub-sectors within manufacturing and surveys have seen quarterly growth rates at or in excess of 50%. But it is important not to get carried away by impressive growth rates. It is the level of activity that is important and in that regard many sub-sectors remain well below their pre-pandemic or historical long-term averages. We also know from more timely indicators, for example the NI PMI, that the local economy has stumbled in Q4. Lockdown restrictions have been a feature of the economy in Q4 and are anticipated to be applied more robustly in Q1.  From that perspective the economic recovery will feel like driving with the handbrake on. Only when the vaccine has been rolled out …..