

# SUMMARY

## 1ST QUARTER 2016

The Q1 2016 results suggest that Northern Ireland's slow recovery is continuing. Most key balances remain positive suggesting some growth in the local economy. However many key balances weakened this quarter (9 of the 14 in manufacturing along with 7 of the 14 in services) highlighting that challenges to growth remain with no sign that any significant momentum to Northern Ireland's recovery is building.

There was some positivity in Q1 2016 with an improvement in domestic/UK sales in both the manufacturing and services sectors. The manufacturing sector domestic (UK) sales and orders balances both improved considerably and are more positive than UK balances. There was also a slight pick up in the export sales and order balances in manufacturing although both remain low.

However, fewer businesses in both sectors took on staff during Q1 2016. In manufacturing, balances around confidence, investment and employment expectations fell over the quarter. In services, the domestic sales order book is weak and export sales and order balances are negative. Northern Ireland's service sector performance vis-à-vis the UK regions is generally weak.

### Manufacturing

Q1 2016 suggests challenges ahead for NI manufacturing. Nine of the 14 key balances fell with particularly large falls in balances around jobs, investment and confidence. However, Northern Ireland's regional position is relatively good. The sector ranks in the 3 performing UK regions for 5 of the 14 key balances with no balances in the bottom 3 performing regions.

The balance of manufacturers taking on employees in the last 3 months fell to +25% (Q4 +37%) and the balance of those expecting to take on staff in the next 3 months fell to +12% (Q4 +16%). Investment intentions are also lower both in terms of plant & machinery and staff training. Fewer manufacturers are operating at full capacity (+36%) although the balance is similar to the UK.

Domestic sales (+15%) and orders (+21%) improved considerably and are more positive than UK balances. There was also a slight improvement in export sales (+5%) and orders (+5%) balances although both remain low. The cash flow balance, which turned positive in Q4 2014, continued to improve (+9%).

### Services

Northern Ireland's service sector performance remains relatively weak when compared across the UK regions. Only 5 of the 14 key balances improved this quarter while 7 of the 14 fell. The sector is in the bottom 3 performing UK regions for 10 of the 14 key balances.

Domestic sales increased by 10 points to +19% while orders fell by 6 points to +2%. The domestic balances remain low however compared to the UK average and the domestic order book looks particularly weak. Export sales (-4%) and orders (-19%) balances became negative again this quarter meaning that more business are reporting a fall in export sales and orders than those reporting any increase.

The employment balance, reflecting the balance of firms taking on staff in the last 3 months, fell by 4 points to 11% in Q1. Fewer businesses appear to be taking on part-time staff. The cash flow balance also deteriorated falling by 19 points to +4% in Q1.

### Confidence

Manufacturing confidence dipped in Q1 2016 while there was little change for services. In manufacturing confidence balances that turnover and profits would increase over the coming year fell to 42% (down 13 points) and 32% (down 11 points) respectively. Confidence around turnover and profitability were largely unchanged in services at 41% and 26%.

Investment intentions in manufacturing also deteriorated during Q1 2016. The balance reflecting investment intentions in plant & machinery fell over the quarter from +44% (Q4 2015) to +28%.

Competition (47%) and exchange rates (45%) are key concerns for members. Exchange rates are an increasing concern, impacting on more than twice as many members in Q1 2016 compared to Q1 2014 (19%).

### The NI Chamber Perspective

There are some signs of growth in the Northern Ireland economy this quarter and it is positive to see an improvement in sales and a slight pickup in export orders in manufacturing. However the sense of uncertainty is palpable. More key balances weakened than strengthened and fewer business in both manufacturing and services took on staff during the last 3 months. It is concerning to note that many of the forward looking indicators point to a dampening of employment expectations, investment intentions and confidence going forward.

### Additional Questions

Each quarter NI Chamber members are asked a number of additional topical questions. This quarter has focused on assessing members' views on the future of Northern Ireland's manufacturing sector in the context of some significant job loss announcements over recent months. It also asked In light of the forthcoming Assembly elections what member's view would be the most important government intervention that the NI Executive could introduce that would help support their business/the Northern Ireland economy to grow.

Most NI Chamber members believe that Northern Ireland's manufacturing sector has a future particularly in higher value manufacturing. The majority believe that the sector can adapt to become more responsive to changing global markets (72% of members agree) and will be given a major boost through the pending cut in NI's corporation tax rate to 12.5% (65%).

While members acknowledge that many of the difficulties facing the sector are due to global trends they still believe that government policy can make a difference. However they are strongly concerned about the lack of policy targeted towards the manufacturing sector in NI and lack of effective energy strategies to support the industry here. For example, around half do not believe that current NI Assembly policy is fully supportive of NI manufacturing industry and 52% do not believe that NI has effective energy strategies and policies in place to be competitive.

One of the suggestions made by members is that the NI Assembly should establish a "taskforce" from the private sector charged with creating a positive plan for the manufacturing sector which will encourage competitiveness. Other suggestions of initiatives to help the sector include educational programmes, which support young people in pursuing a career in skills suitable to the manufacturing sector and identifying factors which are most crucial to creating a more vibrant manufacturing base such as delivering on lower energy costs.

Overall, members believe the most important government intervention that the NI Executive can introduce to help support their business and help the Northern Ireland economy grow is to reduce corporation tax (24%). Some members asked for its early introduction while others expressed concern that it might not be implemented.

Other important interventions include the abolition/reduction of business rates (13%) and remaining within the EU (13%). Concern was also expressed over growing payroll costs, particularly for small employers, in light of the introduction of policies including the National Living Wage and auto enrolment pensions.

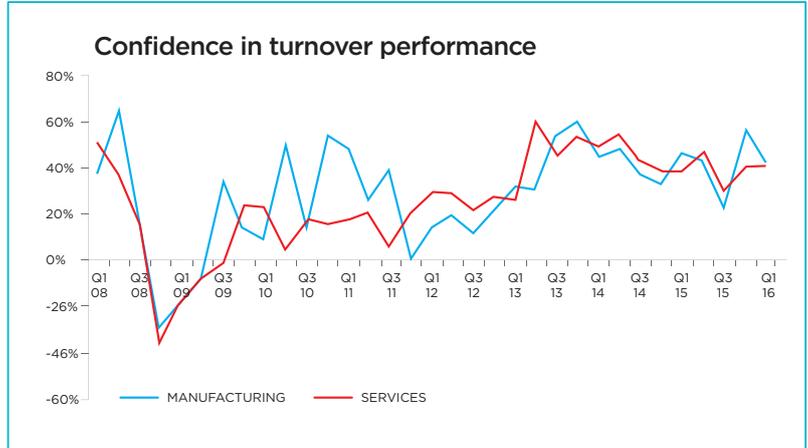
### In light of the forthcoming Assembly elections what do you believe would be the most important government intervention that the NI Executive could introduce that would help support their business/the Northern Ireland economy to grow?

One in 4 members believe that the reduced corporation tax rate is the most important intervention that the Executive can introduce to help support their business/the NI economy to grow.



### Do you believe that over the next 12 months turnover will: Improve/Remain the same/Worsen?

The balance of firms expressing confidence that turnover will improve over the next 12 months fell in Q1 2016 for manufacturing (down to +42% Q1 16 from +55% Q4 15) and was unchanged for services (+41%) meaning that both sectors now have similar views on turnover prospects over the next 12 months. Over the last two years the two sectors have largely mirrored each other in terms of the trend in turnover expectations.



### Quarter on Quarter Change (Q4 2015 to Q1 2016)

Nine of the 14 key manufacturing balances fell this quarter although Northern Ireland's relative position vis-à-vis the UK regions remained positive. In fact, almost all manufacturing indicators rank among the top half of the 12 UK regions. Only 5 of the 14 key service balances increased this quarter and the sector's poor regional position persisted with Northern Ireland ranking in the bottom 3 performing UK regions for 10 of the 14 key services balances.

▼ = fall in a key balance between Q4 2015 and Q1 2016

▲ = increase in a key balance between Q4 2015 and Q1 2016

The QES survey focuses on "key balances" around a number of business indicators including local sales, exports, employment and confidence. The balance is determined by taking the percentage of firms reporting increases in a key balance and subtracting the percentage of firms reporting decreases.

Quarter on Quarter Change (Q4 2015 to Q1 2016)		
Key Balances	Manufacturing	Services
Domestic Sales	▲	▲
Domestic Orders	▲	▼
Export Sales	▲	▼
Export Orders	▲	▼
Employment - last 3 months	▼	▼
Employment - next 3 months	▼	▲
% Tried to Recruit	▼	▲
Cash flow	▲	▼
Investment - Plant & Machinery	▼	▶
Investment - Training	▼	▲
Confidence - Turnover	▼	▶
Confidence - Profitability	▼	▲
% Full Capacity	▼	▼
Prices	▼	▼

### The BDO Perspective

The Northern Ireland Assembly must also take more aggressive steps to address issues around competitiveness and energy costs. As the region readies itself for the introduction of lower corporation tax, members of NI Chamber clearly want to see a greater sense of urgency and resolve from Stormont. The demand for an industry task force should be a clear wake up call to our politicians. Only by working together in partnership will we ensure that Northern Ireland's appeal to investors is as compelling and comprehensive as we believe and know it can be.