

# QUARTERLY ECONOMIC SURVEY

## SUMMARY Q1 2017

The latest Quarterly Economic Survey (QES) results showed signs of steady, albeit modest, growth among local businesses in Q1 2017 – however cost pressures mount.

Almost all key balances remained +ve during Q1 with more businesses in manufacturing and services reporting increases in indicators such as sales, employment and cash flow than those reporting a fall. Most key manufacturing balances either strengthened or remained unchanged during the first quarter of 2017. Ten of the 14 key services balances fell after what had been a strong Q4 2016 performance for this sector.

The manufacturing sector's domestic (UK) sales balance continued to improve and the orders balance

moved from negative to positive. More manufacturers have taken on staff in the last 3 months and are continuing to expand their workforce. Northern Ireland ranks in the top 3 UK regions in terms of employment balances. The sector has not had the same pick up in export sales as some other UK regions and its export order book remains weak. The negative balances for export orders in Q1 mean that more manufacturers have seen their order books fall over the last 3 months than those where it has increased. Pressure from rising raw materials costs persists with Northern Ireland ranking 2nd highest across the UK regions on this measure.

The service sector's performance for Q1 2017 was not as strong as

Q4 2016, but held steady. The domestic and export sales balances remain relatively strong on previous performances. Employment balances remain positive. There is however growing pressure in the services sector to raise prices (NI 2nd highest across the regions).

Recruitment intentions are still relatively strong for both sectors in Q1 2017 with around two-thirds of members in each sector trying to recruit new staff over the last 3 months. Jobs are more likely to full-time and permanent. However, both manufacturing and services are experiencing high levels of recruitment difficulties with 75% of manufacturers and 65% of services stating that they have had difficulties finding suitable staff.

### Confidence

Business confidence is holding up in both the manufacturing and services sectors. Confidence is particularly strong around turnover with a balance of +46% in manufacturing and +47% in services reporting that they expect their turnover to improve over the next 12 months. Confidence around profitability is not just as strong, particularly for manufacturers with a balance of +20% in the sector expecting profitability to improve over the next 12 months although this has improved considerably on Q4 2016 where it was negative (-3%).

Manufacturers investment intentions remain weak in the wake of Brexit. The balance of manufacturers expecting to invest in plant & machinery remained unchanged at +8% in Q1. The balance of manufacturers signalling intentions to invest in training fell to +7% in Q1 (from +22% in Q4 2016). The balance of service sector businesses expecting to invest in training also fell to +20% in Q1 from +27% in Q4.

Exchange rates continue to dominate member concerns although this has eased

somewhat in Q1 2017. In Q1 51% of members said that exchange rates were more of a concern than 3 months ago (62% in Q4). Exchange rates have been a growing concern over the last two years, impacting on significantly more members in Q1 2017 compared to Q1 2015 (19%).

Inflation is also a more pressing concern, with 31% of members in Q1 citing it as a key concern. In Q3 2016 this was just 13%.

### The BDO Perspective

The first quarter of 2017 has presented new challenges in the local economy, yet business growth has remained consistent and steady across the manufacturing and services sectors. The latest results show that companies are maintaining their positive momentum from last year and there is a healthy confidence particularly when it comes to recruitment and remuneration.

In the last three months, around two-thirds of businesses surveyed were actively recruiting – mainly for full-time and permanent roles – and more than 70% reported plans to award pay increases in the year ahead. While that is good news, some have encountered difficulty in finding suitable staff, pointing to skill shortages.

### Additional Questions

Each quarter NI Chamber members are asked a number of additional topical questions. This quarter focused on the impact of Brexit as well as questions around business costs. The survey also asked members what they consider to be the one key policy ask of any future NI Executive to support business and help the NI economy to grow.

### Brexit Watch!

The NI Chamber's quarterly Brexit Watch focuses on how the process of the UK leaving the EU is impacting on member businesses in key areas of confidence, investment and business growth.

The third Brexit Watch findings would suggest that a core of businesses continue to feel an immediate impact from the UK's vote to leave the EU. The most significant impact is around costs with almost 1 in 2 businesses experiencing an increase in costs this quarter due to sterling's devaluation, particularly rising raw material costs for manufacturers. Around 20% of businesses have stated that turnover has fallen because of the result although for 10% turnover has actually increased. It has been a more mixed response for

exports with 12% of businesses seeing a boost to exports due to Brexit while for 11% exports have fallen. The outcome of the EU referendum has had limited impact on jobs, both national and non-national, as yet.

Brexit has had a largely negative effect on business growth and local investment plans. Almost 1 in 3 members have scaled back/put on hold business growth plans. Twenty-seven per cent have scaled back/put on hold investment and recruitment plans within Northern Ireland. However, some businesses are planning to boost business growth plans (12%) as a result of the EU vote and 15% are planning to expand investment outside Northern Ireland.

### Business Costs

Members were asked what pressure, if any, did they expect a range of costs to have on their business over the next 12 months? Costs included imports, raw materials, energy, property and employment related costs.

Businesses are feeling strongest pressure from rising import and raw materials costs, particularly manufacturers. This is impacting on around 60% of businesses with half of those feeling the pressure strongly. The wider business population are more likely to expect some pressure from rising energy and property costs over the next 12 months.

Auto enrolment pension costs are the main employment related cost concern with 46% of businesses expecting some pressure and 18% expecting strong pressure from this cost over the next 12 months.

Some 70% of businesses are expecting to award pay increases in 2017. 35% expect average gross wages in their business to rise by 2% or more in the next year (up from 24% in 2016).



### Three key asks of the NI Executive to support businesses and help the economy to grow

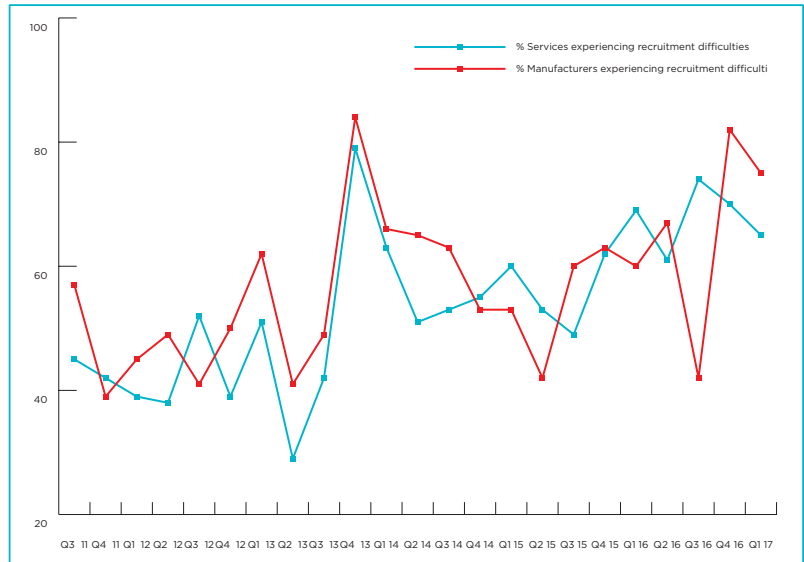
The three main priorities that businesses consider key in order to grow their business/the NI economy are:

- A fully functioning Executive
- No hard border with the Republic of Ireland as a result of Brexit
- A lower corporation tax rate in Northern Ireland

Other important actions include a freeze/reduction in business rates, greater investment in infrastructure, addressing issues around government procurement, tackling rising energy costs and better support for exporters.

## Did you experience any difficulties finding suitable staff?

Around two-thirds of businesses in both sectors are taking on staff but a significant share of these are experiencing recruitment difficulties. In Q1 2017 75% of manufacturers and 65% of services businesses had difficulty finding suitable staff. This includes professional/managerial staff and skilled trades.



## Quarter on Quarter Change (Q4 2016 to Q1 2017)

Eight of the 14 key manufacturing balances increased this quarter. However, the sector still ranks below the UK average for most key balances in Q1 2017 (9 of the 14). Ten of the 14 key services balances fell this quarter after what had been a strong Q4 2016 performance. The sector still ranks above the UK average across all key balances.

- ▼ = fall in a key balance between Q4 2016 and Q1 2017
- ▲ = increase in a key balance between Q4 2016 and Q1 2017
- ▶ = No change in a key balance between Q4 2016 and Q1 2017

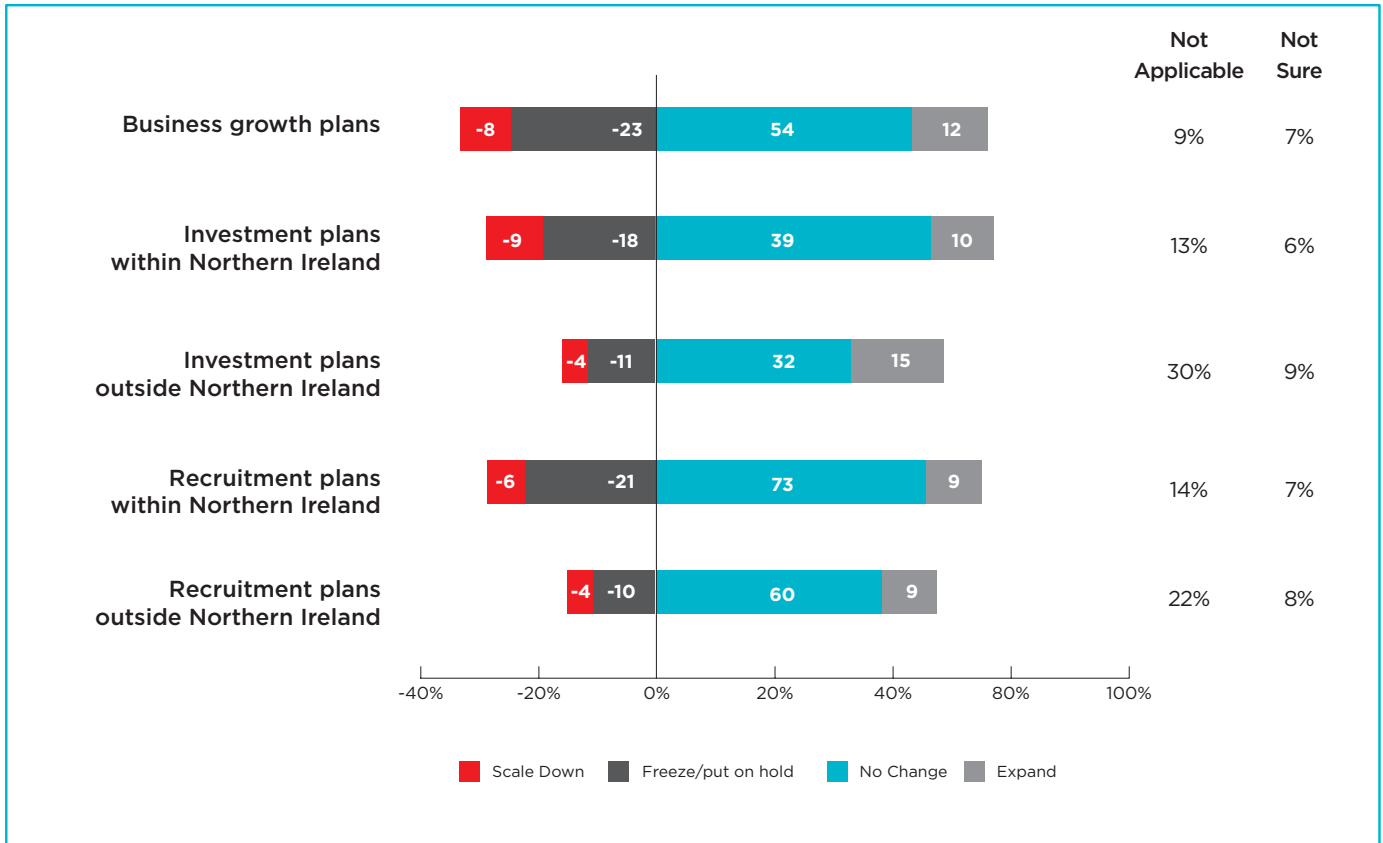
| Quarter on Quarter Change (Q4 2016 to Q1 2017) |               |          |
|--|---------------|----------|
| Key Balances                                   | Manufacturing | Services |
| Domestic Sales                                 | ▲             | ▼        |
| Domestic Orders                                | ▲             | ▼        |
| 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 NI Chamber Perspective

Overall, the survey demonstrates the fact that there are longstanding structural issues here at home that we need to tackle to sustain success in the future. The competitiveness of firms depends on a fully functioning NI Executive, with a bold domestic economic policy, and a good Brexit deal.

The myriad of upfront costs imposed by government - including business rates, Apprenticeship Levy, National Living Wage and Auto enrolment - are all adding to the overhead costs of firms and the pressure on prices.

**In what way, if any, has the UK's vote to leave the EU made you change or adapt any of the following?**



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.

250 businesses responded to the NI Chamber of Commerce & Industry Quarterly Employment Survey, in partnership with BDO, for the 1st quarter of 2017. Together they account for 20,000 jobs in Northern Ireland.