

# QUARTERLY ECONOMIC SURVEY

## SUMMARY Q4 2017

The Northern Ireland economy continued to show signs of growth in the last quarter of 2017. Both the manufacturing and services sectors recorded positive balances in sales and jobs with a particularly strong export orders book for local manufacturers. Trading conditions however remained challenging for

local service sector businesses. Northern Ireland remained one of the weakest performing UK regions.

Almost all key balances remained positive during Q4 with more businesses in manufacturing and services reporting increases in indicators such as sales and

employment than those reporting a fall. NI's regional position remains relatively weak, having weakened further during Q4 with only 2 of the 14 key balances in manufacturing above the UK average (5 in Q3) and 5 of the 14 in services (9 in Q3).

### Manufacturing

Manufacturers export orders book remained strong in Q4 2017. Northern Ireland had one of the strongest export orders balances across the 12 UK regions. Domestic (UK) sales and orders improved in Q4 although Northern Ireland's regional performance is one of the weakest for these balances. Employment expectations have been falling since the start of the year. NI is the only UK region with a negative cash flow balance meaning a greater share of manufacturers reporting a deteriorating cash flow position in Q4 than improving. Investment intentions are also weakest across the 12 UK regions among NI manufacturers.

### Services

The service sector continued its lacklustre performance in Q4. Almost all key balances are positive suggesting some growth. However, the domestic sales and orders balances continued the downward trend

experienced since Q4 2016. NI is the only UK region with negative export balances in Q4 meaning more businesses reporting a fall in export sales and orders than those recording an increase. Employment expectations are subdued and the sector's cash flow position is also very weak. Pressure to raise prices among NI's service sector is one of highest recorded across UK regions (45% vs. UK 36%).

### Confidence

Business confidence is significantly higher among manufacturers compared to services in Q4 2017. A balance of +56% of manufacturers compared to +31% of services expect turnover to improve over the next 12 months. Manufacturing confidence is at its highest recorded over the last 2 years while services is at its lowest recorded. Confidence around profitability, although positive, is typically weaker than turnover in both sectors.

Capital investment plans for manufacturers dipped considerably in Q4 2017 and records the lowest balance across the UK regions. It had been one of the highest in Q3. Investment intentions in the service sector had been weakening over the last few quarters but showed some improvement during Q4, particularly investment in training.

Exchange rates concerns persisted during Q4 2017. In Q4 55% of members said that exchange rates were more of a concern than 3 months ago (58% in Q2). This figure was just 19% two years ago. Northern Ireland's manufacturing and services sectors are more concerned about exchange rate pressures compared to any other UK region. Inflationary concerns increased during Q4 (28% vs. 22% Q3). Interest rates are also a growing concern for members (22% Q4 vs. 12% Q3).

### The NI Chamber Perspective

The continued weakness in the UK's productivity, and especially Northern Ireland's, remains a key concern and reflects the lack of progress in dealing with some of the deep-rooted structural problems in the economy, from skills gaps to creaking physical infrastructure.

However without an Executive in place at Stormont it is difficult to address these challenges, and the survey reveals the continued frustration of our members at the lack of a functioning Executive. We cannot face 2018 without a government where Northern Ireland Ministers take decisions on Northern Ireland matters.

### Additional Questions

Each quarter NI Chamber members are asked a number of additional topical questions. This quarter focuses on the impact of Brexit as well as views on prospects for member's own businesses/organisations and the wider Northern Ireland economy in 2018.

### Brexit Watch

Each quarter NI Chamber asks a series of questions through the QES aimed at understanding the impact of the UK's vote to leave the EU on Northern Ireland businesses and wider economy. This quarter 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 including business performance and confidence.

The sixth Brexit Watch findings suggest that there is a small core of businesses that have felt an impact from the UK's vote to leave the EU. Around 1 in 5 have stated that turnover has fallen because of the result. Almost half of businesses are experiencing an increase in costs particularly rising raw material costs for manufacturers. It has been a more mixed response for exporters with 7% seeing a boost to export while for 11% exports have fallen. The employment of non-nationals has fallen for 14% of members - this figure was just 5% in Q4 2016.

Almost 1 in 3 (31%) have scaled back/put on hold growth

and local investment plans because of Brexit while 11% have expanded growth plans. Around 1 in 5 (17%) have expanded investment plans outside NI in light of the vote, although 15% have scaled back/put on hold plans to expand outside NI.

Views around future business prospects in light of the UK's vote to leave the EU remain mixed with 23% of members viewing their own business prospects as good/very good in the next 3 to 5 years in light of Brexit compared to 27% who believe they are poor/very poor. In the medium to longer term (5 years +), 22% believe they are good/very good compared to 17% believing that they are poor/very poor. There has been some deterioration in sentiment around medium to long term prospects due to Brexit over the last year. In Q4 2016 34% of members believed their medium to longer term prospects to be good/very good as a result of Brexit. This has fallen to 22% in Q4 2017.

### Business and Economy Prospects 2018

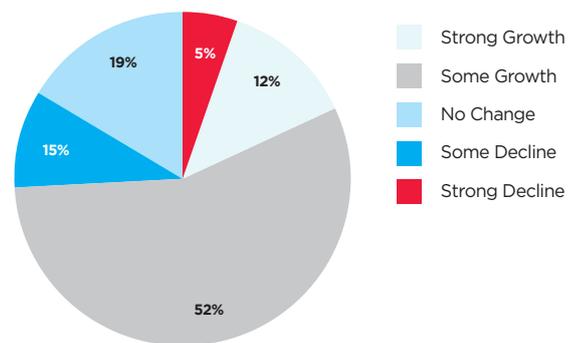
Members were asked how they would rate prospects for their business and the NI economy during 2018. Member sentiment around near term prospects for the NI economy were mixed. Some 33% expect the economy to grow (29% marginally) in 2018 while 46% expect it to contract (10% strongly). They are more positive about prospects for their own business/organisation with 64% expecting to grow during 2018 (12% strongly) while 20% expect their business to contract.

Members are generally less positive about growth prospects for the NI economy in 2018 compared to 2017 and sentiment has been falling over the last couple of years. The Q4 2015 survey highlighted that 17% of businesses expected the NI economy to contract slightly in 2016 - this has jumped to 46% in 2018.

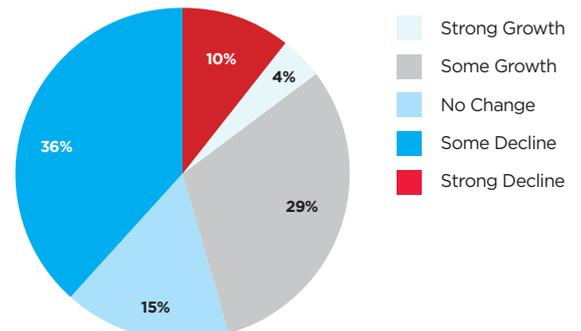
Brexit is the most pressing concern for members in 2018 leading to uncertainty which is impacting on buyer confidence and investment plans. Linked to this foreign exchange rates are impacting on costs and ultimately putting pressure on prices. Political instability is also a key concern with frustration at the lack of a functioning Executive at such a critical juncture in Brexit negotiations and when the NI economy needs local leadership and direction.

Workforce skills/availability will cause difficulty for some members in 2018. General cost pressures on business were raised as an issue, particularly staff costs including pension and pay increases.

### Business Prospects



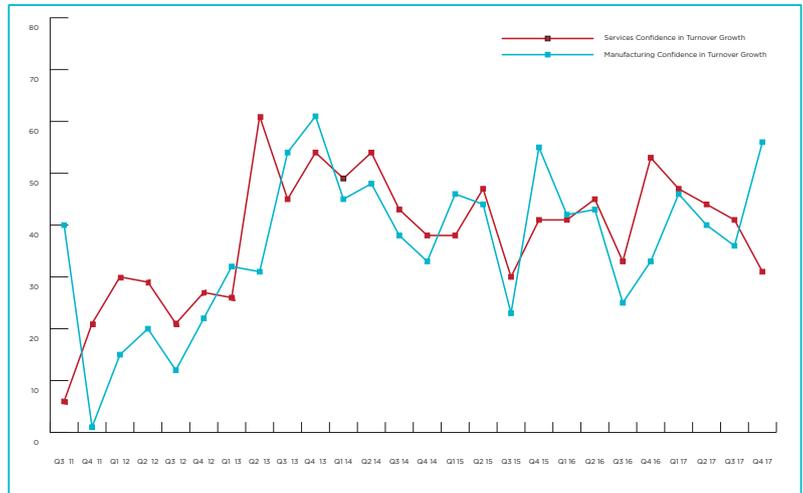
### Economy Prospects



Two-thirds of members expect their own business/organisation to grow during 2018 but only 1 in 3 expect the wider NI economy to grow over the year.

### Balance of Businesses Expecting Turnover to Increase over the next 12 months

In Q4 2017 a balance of +56% of manufacturers and +31% of services are expecting turnover to increase over the next 12 months.



### Quarter on Quarter Change (Q3 2017 to Q4 2017)

Nine of the 14 key manufacturing balances increased this quarter. However, the sector ranks above the UK average for just 2 of the 14 key balances in Q4 2017 (5 in Q3). In services, 9 of the 14 key services balances fell this quarter continuing a weakening trend since the start of 2017. The sector ranks above the UK average across 5 of the 14 balances.

- ▼ = fall in a key balance between Q3 2017 and Q4 2017
- ▲ = increase in a key balance between Q3 2017 and Q4 2017
- ▶ = No change in a key balance between Q3 2017 and Q4 2017

Quarter on Quarter Change (Q3 2017 to Q4 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 BDO Perspective

The continued growth of the manufacturing and services sector in Northern Ireland is reassuring and should give comfort to those who remain apprehensive about the future. That nearly two-thirds (64%) of local businesses expect their firms to expand over the coming year is both welcome and encouraging.

That is not to ignore the concerns that some may have. Without doubt, the challenges we in Northern Ireland face in respect of the uncertainty surrounding Brexit and the continued absence of a functioning Executive are many. However, this survey provides demonstrable proof that our local entrepreneurs are creative and resilient and are simply getting on with business.

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.

245 businesses responded to the NI Chamber of Commerce & Industry Quarterly Economic Survey, in partnership with BDO, for the 4th quarter of 2017. Together they account for over 18,000 jobs in Northern Ireland.