

# QUARTERLY ECONOMIC SURVEY

## SUMMARY Q1 2018

It has been a poor start to 2018 for the Northern Ireland economy with growth for Q1 continuing to slow. Most key balances for the quarter are positive - with more businesses in manufacturing and services reporting increases in indicators such as sales and jobs than those reporting a fall - however, 12 of the

14 key manufacturing balances and 7 of the 14 key services balances fell highlighting significant challenges for many firms in both sectors. Sales and order books are weak, particularly in the domestic (UK) market. The domestic sales balances are at their lowest recorded since 2013.

NI's regional position is very weak, ranking lowest across the UK regions for most key balances. Only 1 of the 14 key balances in manufacturing ranks above the UK average (5 in Q1 17) and in services 5 of the 14 (14 in Q1 17). Northern Ireland ranks as the bottom performing UK region for most key manufacturing balances.

### Manufacturing

Growth in the manufacturing sector showed definite signs of slowdown during Q1 2018. Sales in the domestic (UK) economy slowed considerably with more manufacturers expecting UK sales to fall than rise over the next 3 months. Export balances weakened from a strong regional position in Q4 17. Employment expectations have been falling since the start of 2017 and fewer manufacturers are trying to recruit (48% vs. 64% Q4 17). The sector's cashflow position is extremely weak in Q1 with the lowest balance on record (-33% points). Raw material cost pressures are easing but remain high. More local manufacturers are operating at full capacity (56% vs. UK 37%).

### Services

The service sector also showed signs of sluggish growth. Almost all key balances are positive suggesting some growth but turnover and employment balances have

been falling. The domestic sales and orders balances continued the downward trend experienced since Q4 2016. NI remains the only UK region with negative export balances (export sales -2% vs. +20% UK). Employment expectations are subdued and the sector's cashflow position is also very weak. Pressure to raise prices in NI is highest across UK regions. Investment intentions however continue to improve.

### Confidence

Businesses are less confident around turnover and profitability growth over the next 12 months. Manufacturing confidence has taken a particular hit during Q1 2018 with a balance of +8% expecting turnover growth during 2018 compared to +46% for the same quarter last year. A balance of -9% of manufacturers and +7% of services expect profitability to improve over the next 12 months. This means that more manufacturers are expecting profitability to fall than rise.

Exchange rates concerns eased during Q1 2018. Some 37% of members stated that exchange rates are more of a concern to their business than 3 months ago, down from 55% in Q4 17. Exchange rates are however more of a concern to Northern Ireland's Service sector compared to all other UK regions. Inflation and interest rates are growing concerns for members. One in 3 members (34%) are more concerned about inflation than 3 months ago. The share of members citing interest rates as a concern increased to 28% in Q1 2018 (13% in Q1 17).

### The NI Chamber Perspective

It has been a poor start to 2018 for the local economy. There are still some signs of growth but overall this has slowed and there are concerns for both manufacturing and services sectors. Northern Ireland is the weakest performing UK region across many of our key economic indicators, particularly manufacturing.

We are seeing a growing sense of frustration among our members at the lack of progress on major issues including Brexit and the lack of Executive which are impacting on businesses' bottom line.

### 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 wage growth prospects for 2018.

### Brexit Watch

Each quarter the NI Chamber is asking 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 the NI Chamber's quarterly Brexit Watch focuses on any changes made by the business/organisation in light of the vote's outcome. It also asks what one key question or concern members would put to the UK government in their negotiations around Brexit.

Findings to date from the 7th Brexit Watch suggest that a number of businesses have already felt the impact of 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. The employment of non-nationals has fallen for 14% of members. Almost 1 in 3 (31%) have scaled back/put on hold growth and local investment plans.

The survey also suggests that 1 in 4 businesses have made changes to their business model as a result of Brexit with an increase in those establishing a presence outside the UK. In Q1 2018 28% had established/considered establishing a presence outside Northern Ireland. This figure was just 7% in Q2 2017. Almost 1 in 10 (8%) have already established a

presence outside Northern Ireland and 20% are considering it. A further 4% have relocated outside Northern Ireland with 12% considering it. Businesses are most likely to have changed/considered changing their target markets (28%).

When asked to provide one question or concern to put to the UK government in its negotiations with the EU on Brexit, concerns largely focused on cross-border trade issues between NI and the RoI, particularly the border, along with issues around governance, the impact on free movement of labour and trade tariffs. Questions/comments made by members include:

- 'If we are outside the Customers Union, what is the max tariff or duty we can expect to pay for imports & exports?'
- 'Please consider NI in its special context properly to maximise benefits!'
- 'How we can maintain an open border without a customs union?'
- 'If you were managing your own business in the UK what would you do now in the negotiations to maintain or improve your profitability post Brexit?'

### Wage Growth Prospects 2018

Members were asked about wage pressures and prospects for pay rises during 2018. Most members are experiencing pressure to raise wages in their business/organisation with over half (52%) facing some pressure and one quarter (24%) significant pressure.

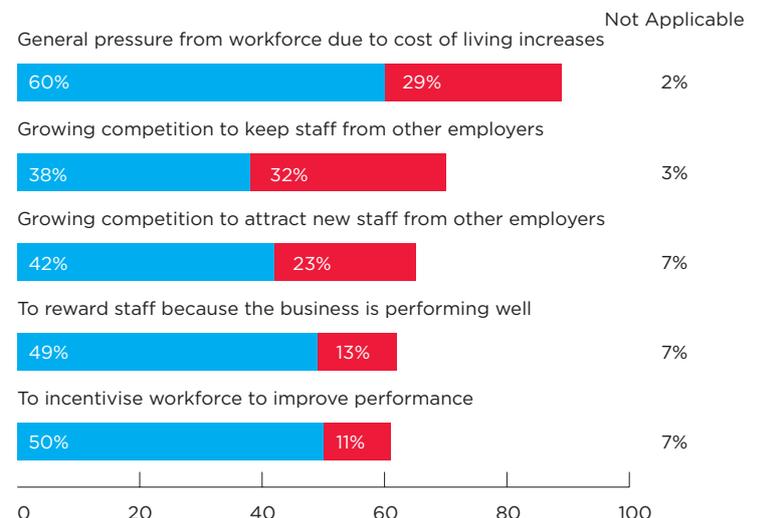
Key issues include competition to retain existing and attract new staff along with workforce pressures due to cost of living increases. One in 3 members (34%) state that they are facing growing competition from other employers to keep staff.

Wage pressures are greatest in recruiting and retaining skilled workers with 41% of members experiencing significant pressure to offer higher wages to this group. This falls to 20% for semi-skilled workers and 15% for un-skilled workers.

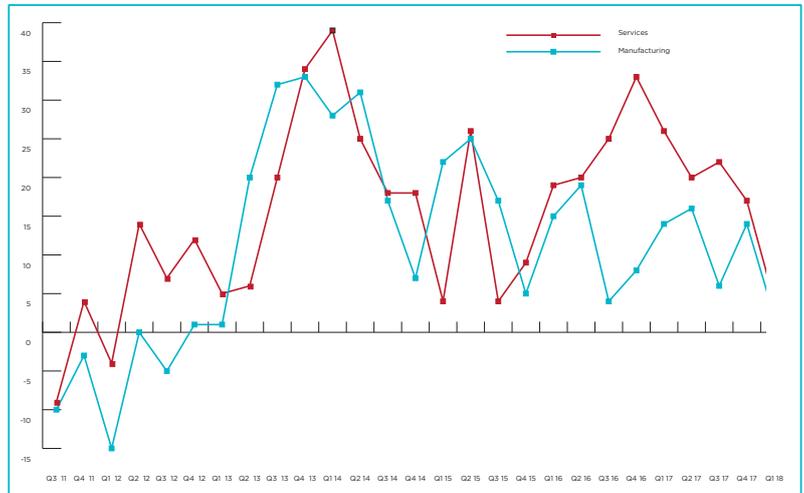
Around two-thirds of members are expecting to award some form of pay rise in 2018 with 34% expect to award pay rises of 2% plus. However, 7% of members expect wages to fall over the next 12 months.

### Key issues driving wage pressures

In Q1 2018 3 in 4 members (74%) felt under pressure to raise wages. Competition to keep existing staff/hire new staff along with general pressures from the workforce due to cost of living increases were the main issues.



## Balance of Firms reporting an increase in domestic sales over the last 3 months



## Quarter on Quarter Change (Q4 2017 to Q1 2018)

Twelve of the 14 key manufacturing balances fell this quarter. The sector ranks above the UK average for just 1 of the 14 key balances in Q1 2018 (5 in Q1 17). In services, 7 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 (14 in Q1 17).

- ▼ = fall in a key balance between Q4 2017 to Q1 2018
- ▲ = increase in a key balance between Q4 2017 to Q1 2018
- ▶ = No change in a key balance between Q4 2017 to Q1 2018

Quarter on Quarter Change (Q4 2017 to Q1 2018)		
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

Unemployment in Northern Ireland is currently at its lowest rate in a decade, and this coupled with the findings of this report, that local businesses are still recruiting, is a demonstrable indication of the confidence of local businesses to continue to grow despite the challenges that exist.

The report also shows there is an increase in investment intentions by local businesses. This is a welcome sign that despite the current uncertainty at a government level, businesses in Northern Ireland will persevere and plan for future success.

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.

Almost 270 businesses responded to the NI Chamber of Commerce & Industry Quarterly Economic Survey, in partnership with BDO, for the 1st quarter of 2018. Together they account for over 19,000 jobs in Northern Ireland.