

QUARTERLY ECONOMIC SURVEY

SUMMARY Q3 2019

The latest Quarterly Economic Survey (QES) suggests that Northern Ireland's economic health has deteriorated over the last three months. There are tangible warning signs about current economic conditions in the region with this quarter's performance being arguably the weakest in almost a decade. There still appears to be some recruitment activity among local businesses but the overall trade performance in both domestic and export markets appears weak. Confidence is falling and investment is being scaled back.

The survey provides evidence that much of the Northern Ireland economy's post recovery gain has been eroded following the Brexit vote. Many of the key QES indicators are negative and at an 8+ year low. Order books in both the manufacturing and services sectors are very weak both in terms of domestic (UK) sales and exports, with more firms in both sectors reporting a fall in orders over the next three months compared to those reporting a rise. Cash flow has been a persistent problem for both manufacturing and services and the cash flow position of both also deteriorated this quarter. Previous survey evidence highlighted that businesses have been trying to remain confident around business prospects. However, the Q3 findings would suggest that this confidence is being severely challenged with fewer members believing that turnover and/or profits in their business will grow in the next 12 months.

While Northern Ireland is typically one of the poorer performing UK regions, this quarter its poorer regional performance particularly stands out. The region was the bottom performing UK region for 8 of the 14 key manufacturing balances and 10 of the 14 key services balances in Q3 19.

Manufacturing

The QES findings highlight that there are significant and immediate concerns for local manufacturers in Q3 19. The majority of key balances are negative suggesting limited growth and potentially some contraction in the sector. Manufacturing's trade performance is the worst recorded by the QES in almost a decade with negative balances in terms of both domestic (-29%pts) and export (-10%pts) order books in the next 3 months. This means that more manufacturers are expecting orders to fall over the next 3 months than those expecting them to rise. Previously strong employment balances have weakened considerably and Northern Ireland is the poorest performing UK region on this measure. The sector's cash flow position remains precarious with a negative cash flow balance (-16%pts) in Q3, lowest across the 12 UK regions. Balances around confidence in growth and investment are negative.

Services

There has been a striking deterioration in the service sector's performance in Q3, particularly around trade. More key balances are negative this quarter (8 out of 14) and 12 of the 14 balances are down on Q2 19. Domestic sales and export balances are all negative with order books for the

next 3 months looking particularly weak.

Investment intentions have been weakening since the start of 2018 with the balance of firms investing in training now negative for first time since the last recession. Confidence around profitability over the next 12 months is very weak. More service sector businesses are experiencing a deteriorating cash flow position, with Northern Ireland the only UK region with a negative balance on this indicator in Q3 19.

However, employment indicators remain positive with more services businesses taking on people than those who are not. Around 3 in 5 service sector businesses were trying to recruit in Q3. There are still some signs of confidence in the sector, with more businesses believing that turnover will grow than contract in the next 12 months.

Recruitment

Around 2 in 3 businesses are still trying to recruit. Manufacturers' recruitment intentions were up in Q3 19 with 72% of manufacturers trying to recruit (Q2 63%). In services 59% were trying to recruit in Q3, slightly lower than in Q2 (63%).

Recruitment difficulties have been a persistent and growing issue for members. Around 82% of manufacturers and 78% of services are currently having difficulty recruiting the right staff, largely skilled manual and professional/managerial staff.

Confidence

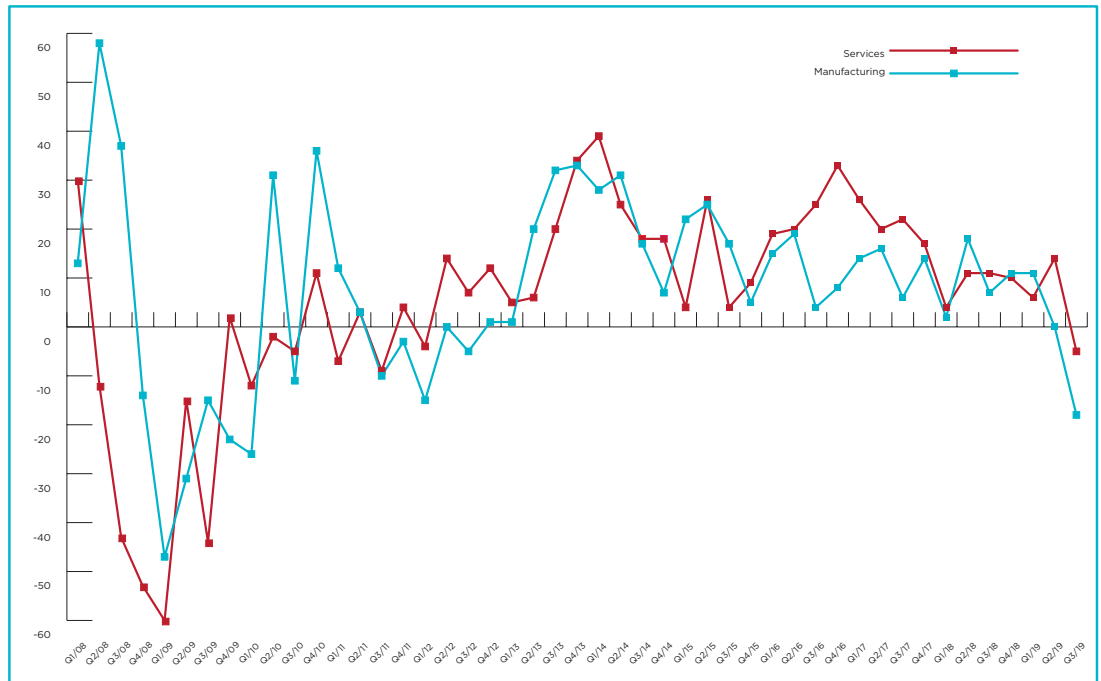
Business confidence has taken a definite knock in Q3 19 in both the manufacturing and services sectors. In manufacturing, the balances of firms believing turnover and profits will grow in the next 12 months were both negative meaning that more firms believe turnover and profits will fall than those believing they will rise. In services, there was a big dip in confidence this quarter, particularly around profitability where the balance was also negative.

Key Pressures

Exchange rate pressures stepped up in Q3 19 with 58% of members expressing this as more of a concern than 3 months ago (42% Q2). This is three times higher than the 19% of members expressing concern before the Brexit vote took place. Competition pressures eased slightly over the quarter (36% compared to 42% in Q2). Inflation was an increasing concern for 25% of members (20% Q2).

Balance of Firms Reporting Improved Domestic (UK) Sales

Balance of firms reporting increased domestic sales over last 3 months (%pt difference)



Northern Ireland's Regional Position

Northern Ireland is the bottom performing UK region for 8 of the 14 key manufacturing balances and 10 of the 14 key services balances.

NI Rank across 12 UK regions	Manufacturing	Services
Domestic Sales	12th	12th
Domestic Orders	Joint 11th	12th
Export Sales	11th	12th
Export Orders	12th	12th
Employment - last 3 months	12th	10th
Employment - next 3 months	12th	12th
% Tried to Recruit	1st	Joint 2nd
Cash flow	12th	12th
Investment - Plant & Machinery	Joint 11th	12th
Investment - Training	12th	12th
Confidence - Turnover	12th	12th
Confidence - Profit	12th	12th
% Full Capacity	Joint 8th	2nd
Expecting to Raise Prices	11th	Joint 5th

The NI Chamber Perspective

This survey is clear evidence that the impact of ongoing Brexit uncertainty is being felt more harshly in Northern Ireland than anywhere else. The lack of a functioning Executive visibly adds to this uncertainty and combined with Brexit, creates an environment where key strategic business decisions are being abandoned or delayed. The Northern Ireland economy cannot flourish without investment by our local businesses and they need the support of government to create an environment which is conducive to this.

This is not scaremongering – it is a stark reality check for business leaders, employers, politicians and anyone with a vested interest in the Northern Ireland economy. Behind each and every one of these statistics sit thousands of real, local businesses who are feeling the harsh impacts of Brexit uncertainty and the political vacuum at Stormont.

Brexit Watch

Following the Brexit vote, NI Chamber has asked 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 Brexit Watch focuses on the impact of Brexit on business performance and investment and growth plans.

It highlights that Brexit has impacted negatively on sales for almost half of members (46%), costs have gone up (47% of members) and EU nationals are harder to retain/recruit (32%). In fact, two thirds of members have experienced a negative impact from Brexit in terms of sales, costs and/or the ability to recruit. The share of members stating that Brexit has negatively impacted on turnover has increased from 35% to 46% in the last three quarters alone. This figure has also more than doubled since members were first asked about Brexit's

impact on turnover in Q4 16 (22% negative impact).

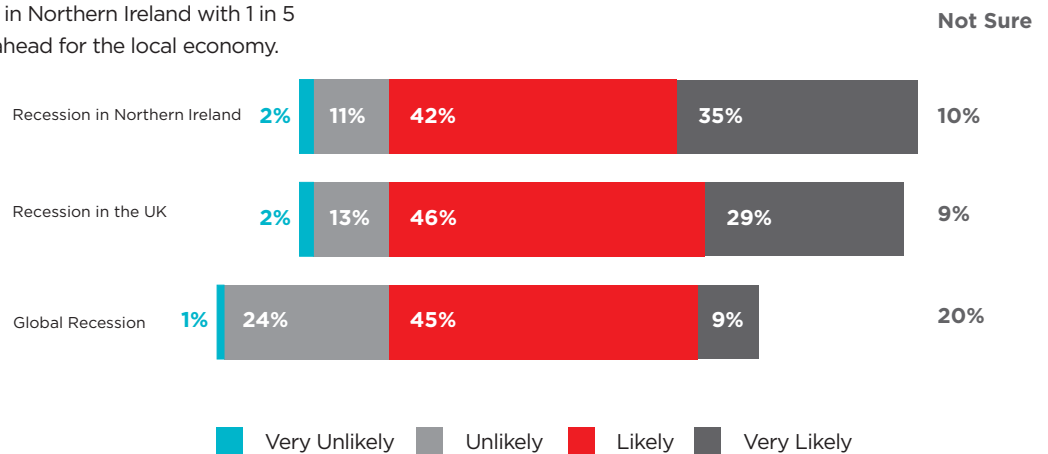
Around half of members have scaled back or put on hold investment and growth plans on the back of the UK's vote to leave the EU. The vote's outcome has also negatively impacted on recruitment plans, particularly in Northern Ireland, with 14% scaling down recruitment within NI and 27% putting recruitment plans on hold. One in 5 members (21%) have expanded investment plans outside Northern Ireland. The negative impact of Brexit on growth and investment plans has been building since the vote took place. In Q3 19 48% of members state that they are scaling down/putting on hold investment plans in NI because of Brexit, up from 24% in Q4 16. In Q3 19 21% are expanding investment plans outside NI compared to 15% in Q4 16.

Economic and Political Stability

There are serious concerns over economic and particularly political stability in Northern Ireland and the UK among local business leaders. Two thirds are very/extremely concerned about political stability in Northern Ireland with similar concerns for the UK as a whole. Almost half of members (49%) are very/extremely concerned about economic stability in Northern Ireland with 1 in 5 extremely concerned about what's ahead for the local economy.

Some 77% of members, almost 4 in 5, believe a recession in Northern Ireland is likely in the next 6 to 12 months. A third of members believe a local recession is extremely likely. 75% believe a recession in the UK is also likely while 54% believe a global recession is imminent.

In the next 6 to 12 months, how likely or unlikely do you think that there will be a....



The BDO Perspective

We have seen the confidence of our businesses challenged over the last three months, with talk of uncertainty around a range of key issues continuing to test the resolve of our manufacturing and services sectors.

For many businesses, particularly within manufacturing, investment plans have been on hold since the EU referendum in 2016, with the hope that clarity around issues such as tariffs, the border and customs would be provided. This approach has meant many businesses have been limited in their capacity for growth, which would have in turn had a positive impact on our local economy, employment and product offering. As we approach October 31st, it is hoped that clarity is finally provided on the big issues that are impacting the growth of the NI business community.

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.

211 members responded to the NI Chamber of Commerce and Industry Quarterly Economic Survey (QES), in partnership with BDO, for the 3rd quarter of 2019. Together they account for around 25,000 jobs in Northern Ireland.