

QUARTERLY ECONOMIC SURVEY

SUMMARY Q4 2019

The latest Quarterly Economic Survey (QES) suggests that weak growth in the local economy persists as 2019 draws to a close. There was some improvement in Q4 after a particularly challenging Q3 for both manufacturing and services sectors, driven largely by growing uncertainty around Brexit at that time and the potential for a 'No Deal' outcome. However, many key economic indicators still point to a lackluster performance in the local economy with few signs that this might improve over the short to medium term.

The survey findings suggest that there has been lost ground in NI's post recovery performance, particularly for local manufacturers. The region's overall trade performance is poor. Sales within the domestic market are weak and order balances are negative meaning that more businesses believe that domestic sales will fall in the next 3 months than those believing they will increase. Business investment has taken a particular hit over the last few years and that will have consequences for the growth and competitiveness of the Northern Ireland economy going forward. There are signs that both sectors are taking on less people, particularly manufacturing (recruitment difficulties also eased during Q4). Cash flow is an on-going concern with more businesses experiencing a deteriorating cash flow position over time. Northern Ireland continues to hold a relatively low position in the regional rankings for many key indicators.

Businesses are more positive around their own prospects for growth in 2020 compared to the wider economy. However, they are increasingly weighed down by Brexit uncertainty, the lack of a local Assembly and general trading conditions including business costs, the availability of people (particularly those with the relevant skills for their business) and general trading conditions.

Manufacturing

The QES findings highlight that trading conditions for local manufacturers remain very challenging. In total, 8 of 14 key manufacturing balances are negative in Q4 and Northern Ireland ranks in the bottom 3 UK regions for 12 of the 14 key balances. The sector's domestic performance is particularly weak with both sales and order balances negative for the last two quarters.

Investment intentions continue to deteriorate – fewer manufacturers are investing in capital and labour. The sector's cash flow position remains precarious. Northern Ireland manufacturer's cash flow balance is negative and lowest across UK regions.

However, some key balances did return to positive in Q4 e.g. export sales, employment expectations (although they remain very low). There did also appear to be some easing on price pressures on the sector from raw materials costs.

Services

The service sector recovered some ground in Q4 after a poor performance in Q3. The sector is still showing some signs of growth and confidence. Only 4 out of 14 key balances are negative in Q4 (compared to 8 in Q3). Employment indicators remain positive with more services businesses taking on people than not. More businesses believe that turnover and profits will grow than contract in the next 12 months.

However, most key indicators remain weak and at their lowest for several years. Expectations around short term growth are patchy with negative domestic and export order balances in Q4. The sector's cashflow position continues to be challenging.

Recruitment

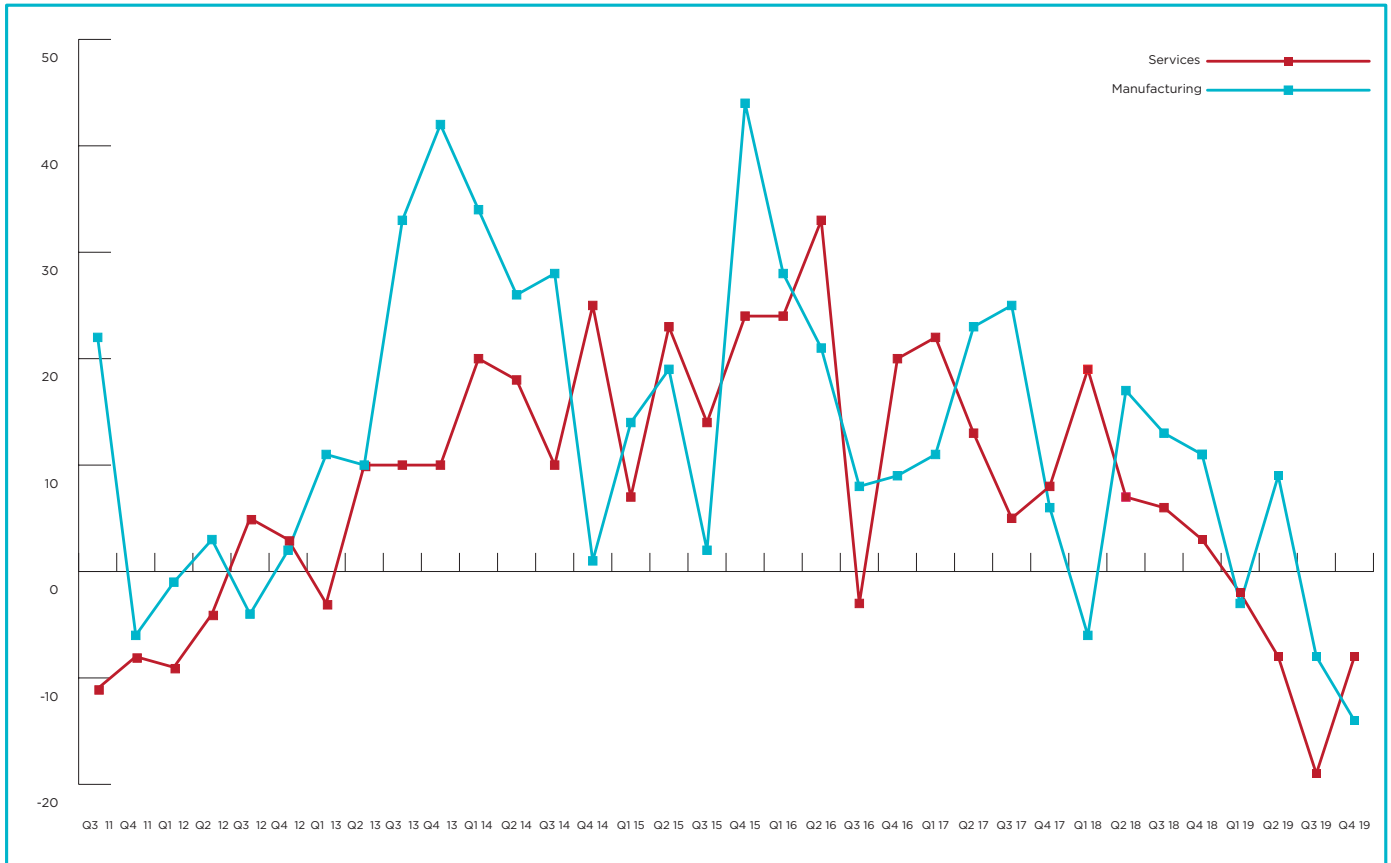
Fewer businesses were trying to recruit in Q4 2019, 46% compared to 60% in Q3. Manufacturers' recruitment intentions were down significantly over the quarter with 41% of manufacturers trying to recruit (Q3 72%), lowest across the UK regions. Some 53% of services were trying to recruit in Q4, slightly lower than Q3 (59%).

Recruitment difficulties have been a persistent and growing concern for members. However, in Q4 this did appear to ease significantly for local manufacturers with 58% finding it difficult to find the right people (Q3 82%). In services 65% of members had difficulty recruiting (Q3 78%).

Confidence

Business confidence among manufacturers remained particularly fragile in Q4 19. Services confidence did improve in Q4 after a significant dip in Q3. More services firms are positive about turnover and profitability over the next 12 months.

Balance of firms intending to invest in plant & machinery (%pt difference)



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 business and economy prospects for 2020.

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 quarterly Brexit Watch focused on the impact of Brexit on business performance and investment and growth plans.

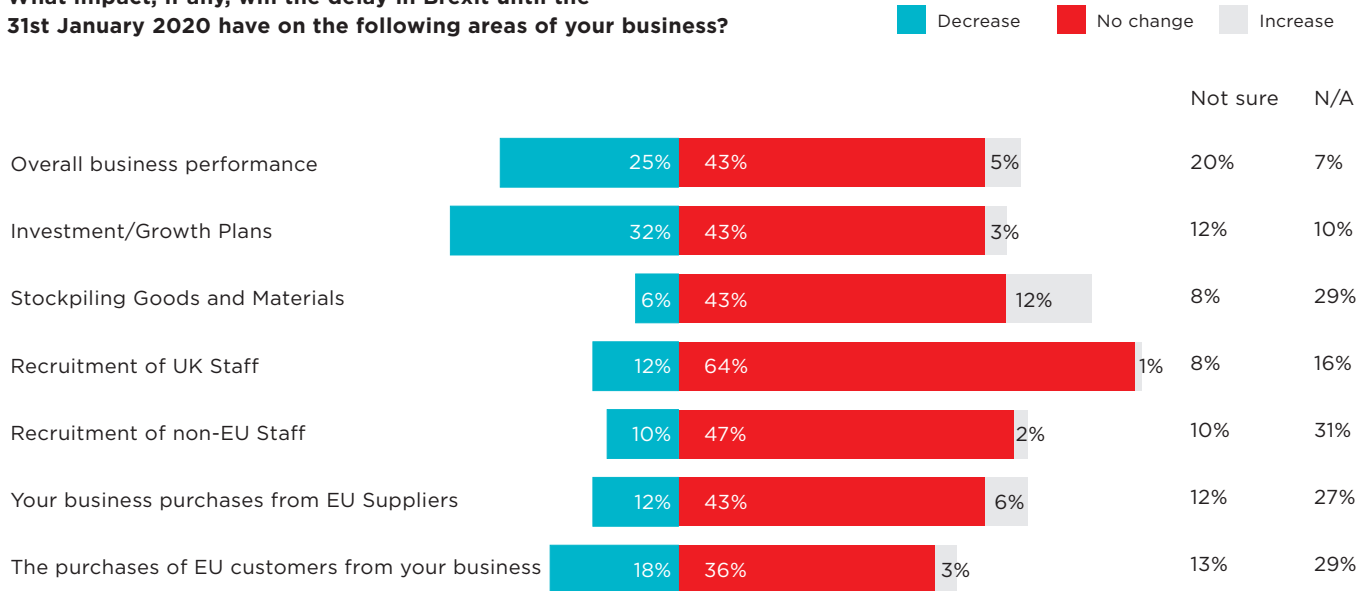
The fourteenth Brexit Watch highlights that the further Brexit delay until 31 January 2020 has had immediate and largely negative knock on effects on performance and planning for local businesses. Around a third (32%) believe that the delay will negatively impact on investment/growth plans while 25% believe it will have negative consequences on business performance. Around 12% believe that this will lead to increases in stockpiling. This has been a notable impact for some businesses/sectors as they try to prepare

for Brexit.

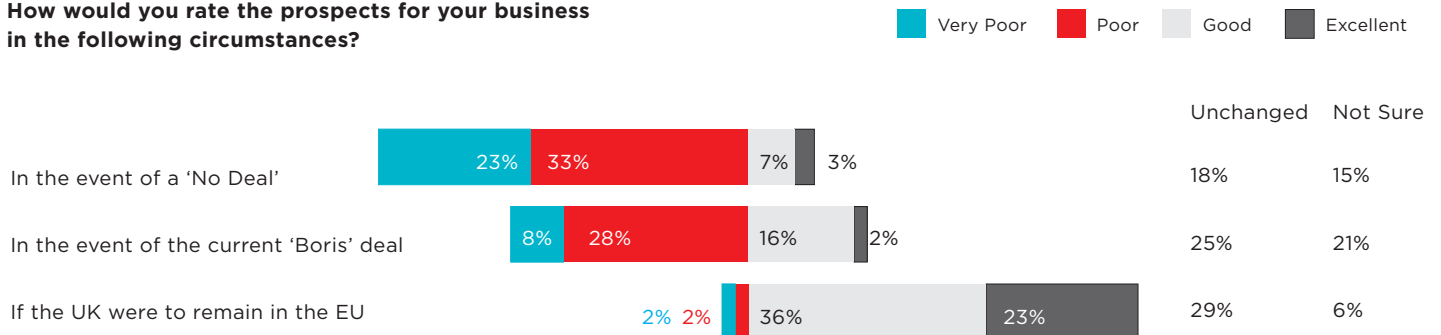
Business view their own prospects as very much dependent on the type of outcome reached in any further Brexit negotiations. Members are most positive around their own business prospects if the UK remains part of the EU (59% view this as good/very good for their business). They are much more negative around their prospects in the event of a 'No Deal' with 56% believing this will have damaging consequences. Around 36% view the current 'Boris' deal as detrimental to business prospects, twice the share of those that believe that this deal will boost business prospects (18%).

Impact of Brexit Delay

What impact, if any, will the delay in Brexit until the 31st January 2020 have on the following areas of your business?



How would you rate the prospects for your business in the following circumstances?



The NI Chamber Perspective

These results are confirmation of the starkly negative impact three years of paralysis at Stormont and the continuing Brexit uncertainty has had on companies across the Northern Ireland.

Following the long-awaited return to devolution, the NI Executive must move fast to start reversing the damage and restore the confidence of businesses, consumers and investors.

Northern Ireland's regional economy cannot get left behind. There needs to be immediate, substantial action to reinvigorate our stagnant economy, build new infrastructure, boost skills and lower the cost of doing business in 2020.

Prospects for 2020

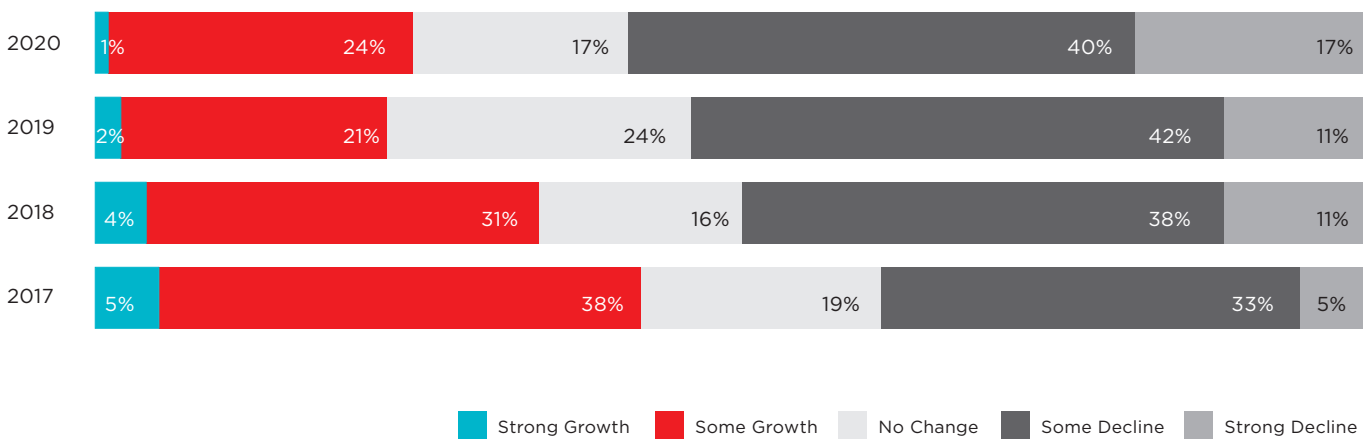
Almost 3 in 5 members (57%) believe that the Northern Ireland economy will contract in 2020. Just 1 in 4 (25%) believe that the economy will see any growth over the next year with the prospect for strong growth negligible. Members were much more optimistic about prospects a few years ago. In fact, when surveyed at the end of 2016 some 43% of members believed the economy would grow in 2017.

Members are more optimistic about their own business prospects. Around 3 in 5 (57%) believe their business will grow in 2020 and

1 in 10 expect their business to grow strongly. There is still a core of businesses however, around 25%, who are less optimistic about prospects for 2020 and 1 in 20 believe their business will contract sharply over the next year.

Members believe that government's key priorities over the next year should include sorting Brexit (52%), getting the Executive up and running (37%), reducing business costs (27%), driving forward infrastructure investment (18%) and addressing skills gaps (13%).

Growth prospects for NI Economy



The BDO Perspective

Although ongoing scepticism for the economy as a whole continues, results show a modest confidence within both the services and manufacturing sectors for their individual business growth prospects for 2020. Around 3 in 5 (57%) believe their business will grow and 1 in 10 expect their business to grow strongly.

In order for businesses to achieve aspirations similar to what they were in 2016, a number of long-standing issues need to be addressed; low levels of confidence fuelled by uncertainty, rising business costs and the skills gap, along with Brexit topping yet another Survey wish list.

With a new NI Executive in place we now have local Ministers making decisions on these key issues for the first time in three years, as well as guiding us through the complexities of the next stages of Brexit.

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.

173 members responded to the NI Chamber of Commerce & Industry Quarterly Economic Survey (QES), in partnership with BDO, for the 4th quarter of 2019. Together they account for 16,500 jobs in Northern Ireland.