



Northern Ireland
Chamber of Commerce
and Industry



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NI CHAMBER & BDO NI

QUARTERLY ECONOMIC SURVEY SUMMARY 1ST QUARTER 2021

SUMMARY Q1 2021

The latest Quarterly Economic Survey (QES) for Q1 2021 suggests some signs of recovery in the Northern Ireland economy during the first quarter of 2021, particularly in manufacturing, but with still some way to go to recover all of the lost ground precipitated by the COVID-19 pandemic. After the severe collapse experienced in Quarter 2 2020 following the onset of the COVID-19 crisis and effective lock down of the Northern Ireland economy, almost all key indicators have continued to improve in Q1 2021. However, many key balances remain negative meaning that there are still more businesses reporting falls in domestic and export sales/orders, cashflow and investment than those reporting an increase. In total, 6 out of 11 key indicators in manufacturing and 8 out of 11 in services remain negative. The share of businesses operating at full capacity remains low and fell in both sectors in Q1 21.

The Northern Ireland economy was already in a fragile position entering the crisis according to previous QES findings. However, COVID-19 has caused the worst QES performance on record. The immediate impact of COVID-19 has been much greater than the aftermath of the financial crash in 2008/09.

In Q1 2021 44% of businesses (Q4 20 51%) experienced a fall in domestic (UK) sales over the last 3 months, UK sales remained constant for 36% of members (Q4 20 30%) while 20% saw an increase (Q4 20 19%). The damage to exports has been significant although manufacturers have experienced a stronger recovery in export trade in the most recent quarter. Employment indicators are better reflecting the role of the job retention (furlough) scheme intervention in supporting jobs. Confidence around turnover and profitability is up in Q1 2021 with positive balances in both manufacturing and services for the first time since Q1 2020.

MANUFACTURING

In manufacturing, all key indicators increased in Q1 2021 with the exception of the % of businesses operating at full capacity which has been falling, down from 27% in Q4 2020 to 25% in Q1 2021. Some key balances remain negative, particularly around trade and cashflow, although order books are beginning to improve. Indicators that are positive for the manufacturing sector in Q1 2021 include employment expectations and confidence around turnover growth in the next 12 months. A number of the performance indicators are back to Q1 2020 levels albeit that these were in negative territory going into the pandemic. Price pressures have become more acute in Q1 2021 for manufacturers as outlined below.

SERVICES

The challenges of the COVID-19 pandemic for the service sector remain pronounced in Q1 2021. While almost all key indicators in the services sector improved, with the exception of the export balances and the % working at full capacity, 8 of the 11 key services balances remain negative. This means that more members are reporting a deterioration in domestic and export trade, cashflow and investment intentions than those reporting any improvement. The British Chamber survey findings note that consumer-facing services business are particularly exposed. The services sector is showing much slower signs of recovery than manufacturing, particularly around exports and investment intentions. However, the sector is showing increasing signs of confidence around turnover growth and expectations to take on staff are rising.

SUMMARY Q1 2021

RECRUITMENT

Recruitment activity increased in Q1 2021 after a significant contraction in Q2 2020. In Q1 2021 47% of manufacturers were trying to recruit (27% in Q2 2020) and 38% of services (21% in Q2 2020). To put this in context, recruitment levels have averaged 50% to 60% over the last few years although some signs of slow down had begun to emerge towards the latter half of 2019 pre-COVID.

Recruitment difficulties was one of the most persistent and growing concerns among members pre-COVID. At the end of 2019 4 in 5 members were experiencing recruitment difficulties. This fell to around 1 in 2 members when the pandemic came to the fore. In Q1 2021 recruitment difficulties are beginning to re-emerge for manufacturers with 69% finding it difficult to get the right staff compared to 54% in services.

CONFIDENCE AND INVESTMENT INTENTIONS

Business confidence has continued to improve in Q1 2021 after the large collapse in confidence experienced by the business sector at the start of the pandemic. In fact, the business confidence indicators are positive in Q1 2021 meaning that more businesses believe that their business turnover and profitability will grow over the next 12 months compared to those that believe it will fall. In Q1 2021 the turnover confidence balance for manufacturing was +15% (-5% Q4 2020) and for services +20% (-9% Q4 2020).

Investment intentions are all improving in manufacturing although have tailed off for services. In Q1 2021 the investment intentions balance was -3% for manufacturing and -25% for services. In Q2 2020 the investment intentions balances reached a series low of -52% for manufacturing and -62% for services.

CASH FLOW

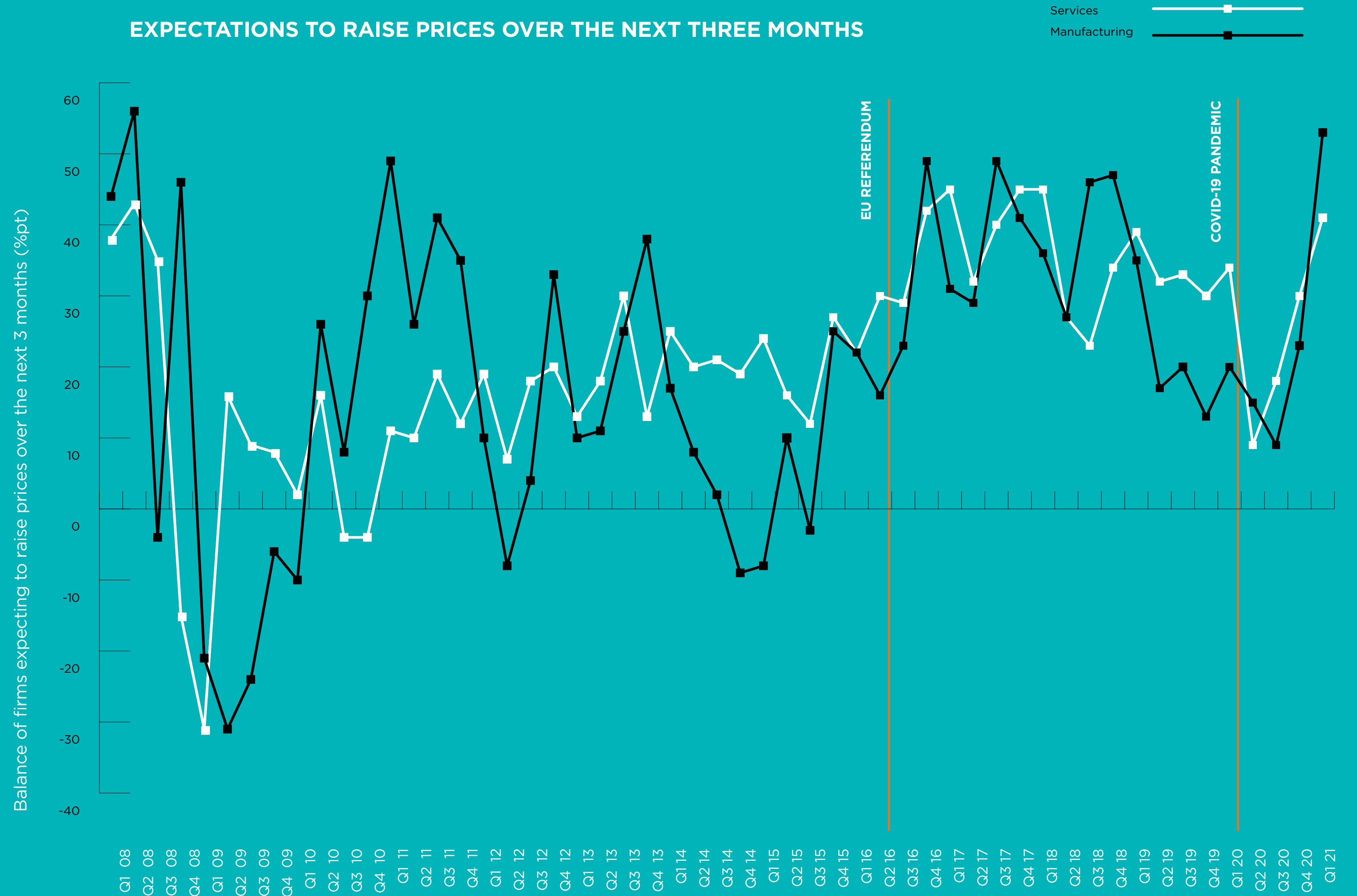
Cash flow, a key indicator of business health, is typically one of the weakest performing key indicators in the Northern Ireland QES. The balance of businesses reporting an improving cash flow position was already negative going into the COVID-19 crisis. The balances did fall significantly during Q2 2020 but have been improving since although remain negative. In Q1 2021 the manufacturing cashflow balance is -13% (-20% Q4 20) and -18% in services (-29% Q4 20).

SUMMARY Q1 2021

PRICES

Price pressures on members have come to the fore during the first quarter of 2021 with stronger expectations to raise prices in the next 3 months, particularly among manufacturers. 53% of manufacturers are expecting to raise prices over the next quarter, the highest share recorded since Q2 2008 around the time of the Financial Crash. Twice as many manufacturers experiencing pressure to raise prices compared to the last quarter (53% in Q1 2021 compared to 23% in Q4 2020). 92% of manufacturers are experiencing pressures from rising raw materials costs.

EXPECTATIONS TO RAISE PRICES OVER THE NEXT THREE MONTHS



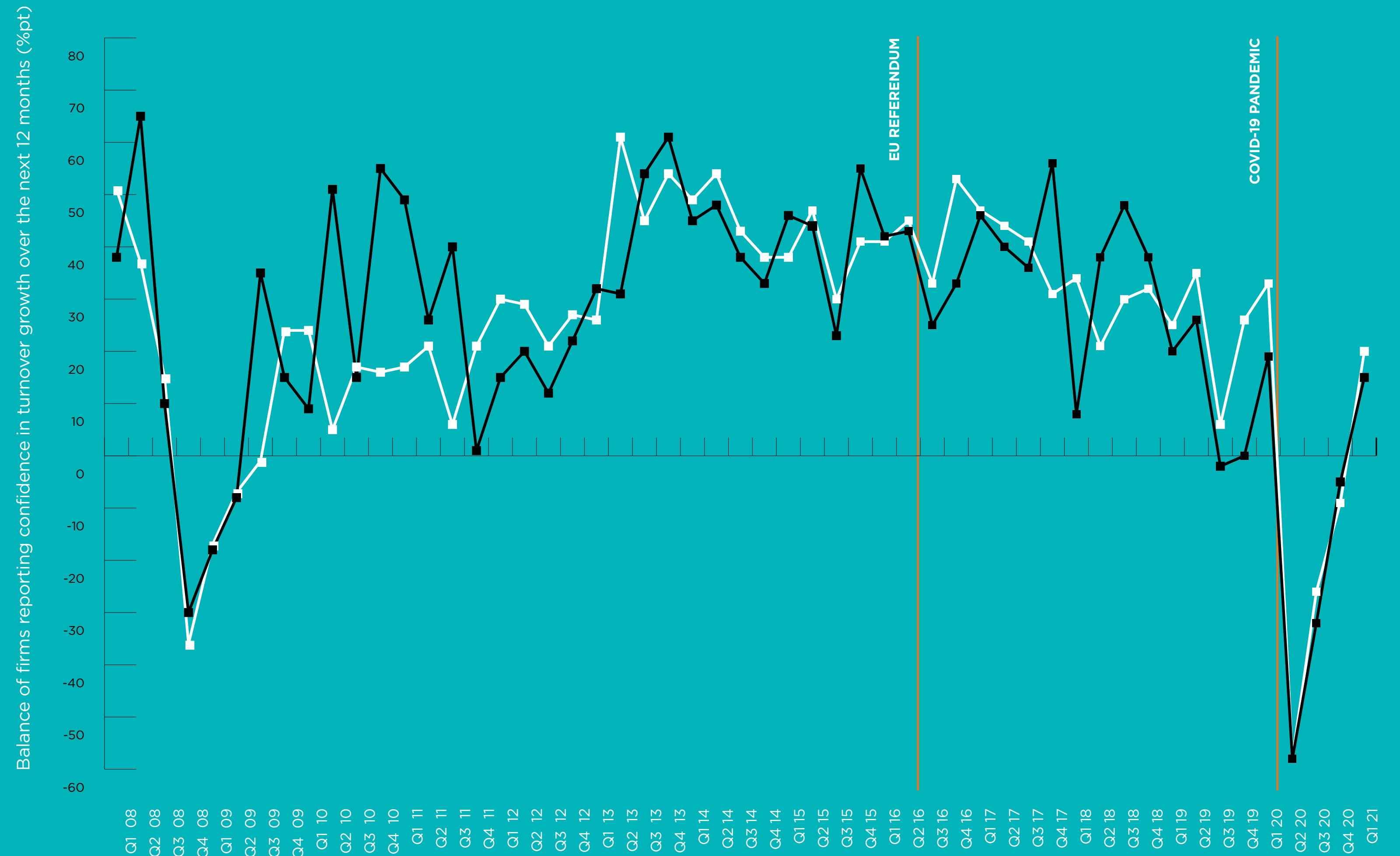
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REGIONAL POSITION

Northern Ireland suffered one of the largest collapses in key indicators across the 12 UK regions in Q2 2020. It remains one of the weaker performing regions in services while manufacturing's regional position has improved. In Q1 2021 Northern Ireland is in the bottom 3 performing UK regions for 4 of the 11 key indicators in manufacturing and 10 of the 11 in services.

Manufacturing indicators are weakest relative to the UK around confidence in turnover and profitability growth and employment expectations. In services the export indicators are particularly weak vis-à-vis the UK.

BUSINESS CONFIDENCE IN TURNOVER GROWTH OVER NEXT 12 MONTHS



ADDITIONAL QUESTIONS /

Each quarter NI Chamber members are asked a number of additional topical questions. This quarter focuses on the impact of Brexit and the COVID-19 pandemic on their business/organisation.

BREXIT WATCH

Following the EU Referendum on 23rd June 2016, a series of questions has been asked every quarter through the QES aimed at understanding the impact of the UK's vote to leave the EU on Northern Ireland businesses and the wider economy. To date this has shown a largely negative impact on business performance, investment plans and confidence and the employment of EU workers in Northern Ireland. There have been significant concerns around Brexit preparation and many members (80%) had asked for a grace period to understand what Brexit means for their business and allow them more time to prepare. COVID-19 disrupted Brexit planning as businesses had to prioritise the COVID-19 fall out on their business over any preparations to deal with the UK's exit from the EU. The Northern Ireland/Great Britain trading relationship post transition had been an increasing concern for members more recently.

In Q4 2020 members had expressed significant concerns about how any new arrangements put in place were going to impact on them practically including customs processes in purchasing from Great Britain (59%) along with the potential disruption at ports delaying goods movements (51%). There were also concerns around customer attitudes towards Northern Ireland business with

51% of members concerned about Great Britain customer attitudes towards Northern Ireland and 48% about Irish customers attitudes towards Northern Ireland.

The context to the Q1 2021 Brexit findings is that the Trade and Cooperation Agreement, setting out the terms of agreement reached between the EU and UK on the UK's exit from the EU, was agreed on the 24th December 2020 and signed on the 30th December 2020. New arrangements came into place on 1 January 2021 including the Northern Ireland Protocol which gives Northern Ireland different status from the rest of the UK in that it remains part of the EU's single market for goods.

A number of questions were asked in the Q1 2021 QES about member experiences of the new arrangements. Two in 5 businesses (41%) reported difficulties in adapting to new trading arrangements for their business/supply chains with 14% findings them very difficult. 15% have found the new arrangements relatively easy to deal with while 18% believe it is too early to say.

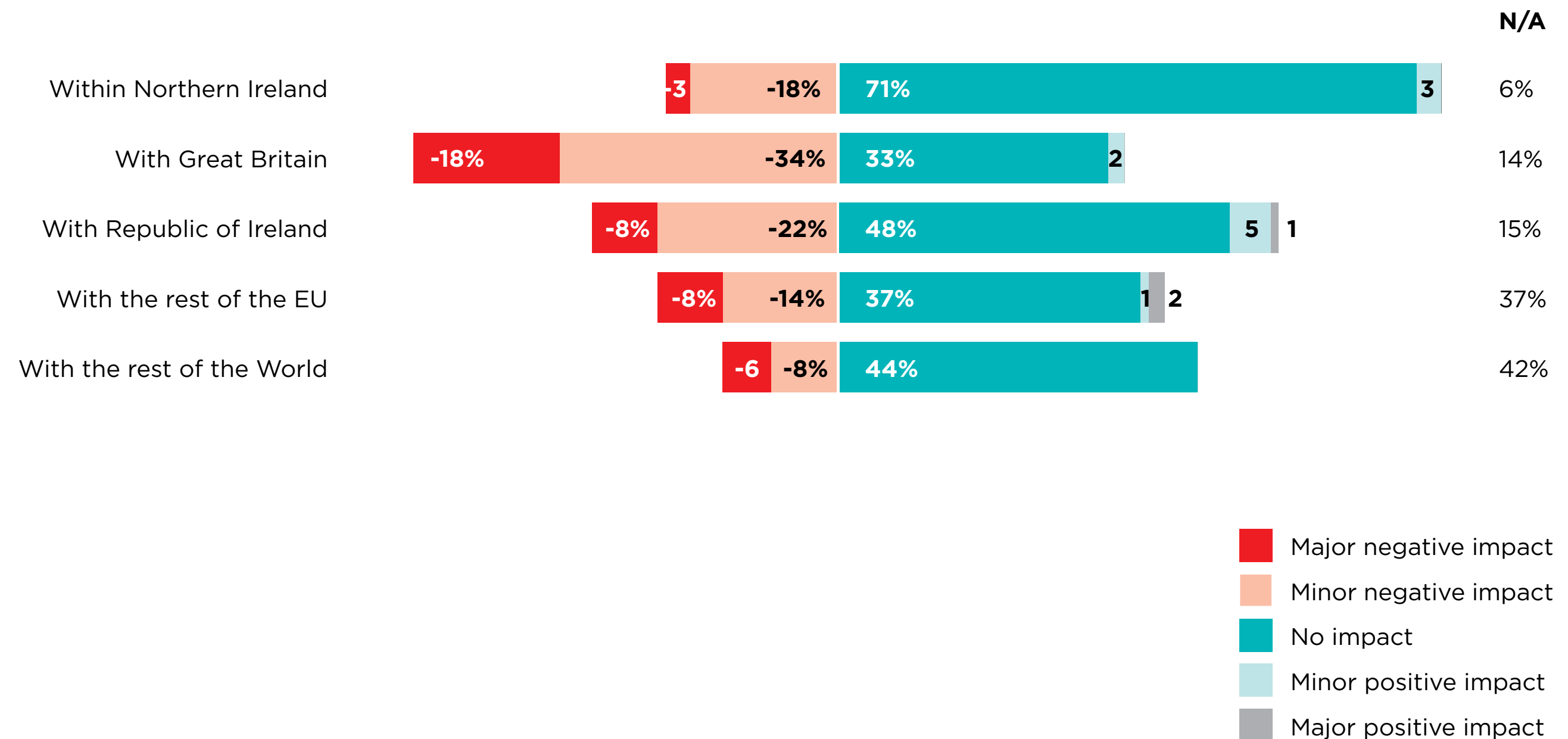
The new arrangements appear to be having a negative impact on trading relationships for some businesses, particularly in terms of trade with

BREXIT WATCH

Great Britain. 18% of members stated that the new arrangements have had a major negative impact on their trade with Great Britain and 34% have experienced a minor negative impact. Between 14% and 30% have experienced some negative impact on trade with other markets including the Republic of Ireland and the Rest of the EU. 53% of members believe that Northern Ireland’s trading relationship with Great Britain going forward will be negatively impacted by the new arrangements while 8% do see some positive benefits. Views are more mixed around trading relationships with export markets outside Great Britain with largely similar shares of members believing that impacts will be positive or negative.

Two in 3 members (68%) believe that Northern Ireland’s status post EU Exit presents opportunities for the region. 47% believe that Northern Ireland’s trading status will present opportunities for their business going forward.

TO WHAT EXTENT, IF ANY, HAVE THE NEW ARRANGEMENTS IMPACTED ON HOW YOUR BUSINESS TRADES?



COVID-19 IMPACT

The QES has been monitoring the impact of the COVID-19 pandemic on members since Q2 2020.

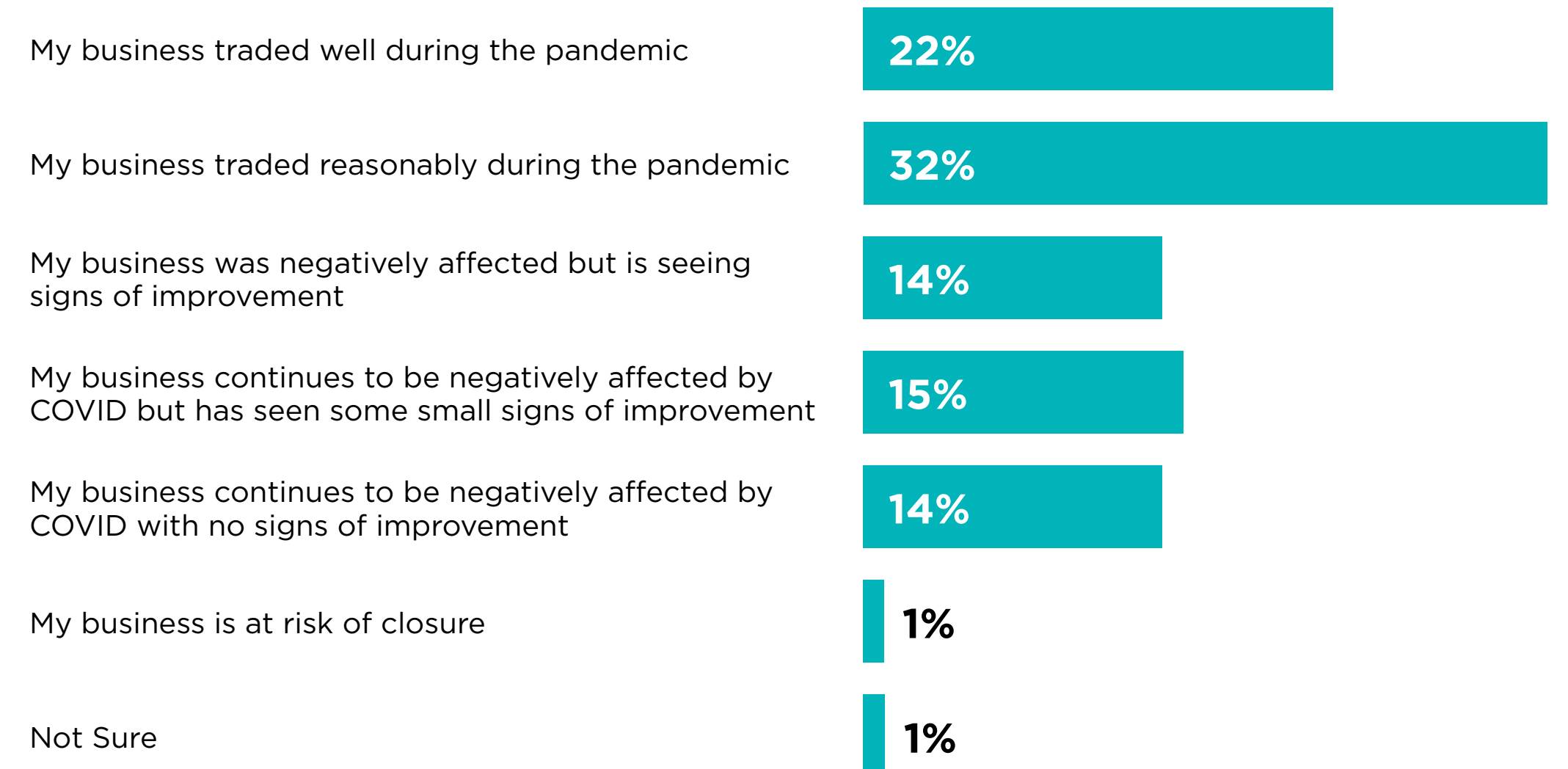
Members' initial reaction to the COVID-19 crisis was very stark emphasising the complete unknown in what lay ahead for business as the pandemic's impact unfolded. The Q2 2020 findings highlighted that at that early stage in the pandemic 77% of members had furloughed staff and 1 in 2 members intended to reduce staff. At that point almost 1 in 5 suggested that their business might not survive the fall out of the pandemic.

The scale of impact was reinforced in the Q3 2020 findings which found that while 37% of businesses traded well/reasonably during the pandemic, the majority had been negatively affected by its fall out (62%). There were signs of improvement in Q4 2020 and this has been reinforced

in Q1 2021 with 54% of members stating that they traded well/reasonably during the quarter although conditions remain very challenging for a sizeable minority of around 1 in 3 members with 15% seeing no signs of improvement at all.

Businesses are beginning to make more positive changes in aspects of their business including exploring new markets, increasing marketing/communications and staffing in Q1 2021. 38% are planning to explore new markets, 37% plan to increase their marketing and communications activity and 29% plan to take on new staff (while 12% plan to reduce staff numbers). 23% proposed to reduce capital investment against 21% expecting to increase investment. That % of members expecting to reduce capital investment had been 34% in Q4 2020. 61% of members plan to reduce staff travel going forward.

BUSINESS TRADING DURING COVID-19



PERSPECTIVES /

NI CHAMBER PERSPECTIVE

“Price pressures are emerging as a significant concern from Q1, particularly in the manufacturing sector. Hikes in the price of raw materials are a significant factor, but we also know that there are multiple other escalating costs contributing, including higher logistics costs and significant additional costs associated with trading during COVID-19. Over the course of the next quarter, we can expect to see a sizable portion of these price rises passed on to the consumer, as firms simply cannot afford to absorb them.

The survey does show that some of the lost ground experienced in the economy since the start of the pandemic has been recovered and confidence is starting to return, particularly in manufacturing. However, we must temper this with the reality that large parts of the economy are still shut down, there remains significant spare capacity and many key balances remain negative, meaning that there are still more businesses in Northern Ireland reporting falls in domestic and export sales/orders, cash flow and investment than those reporting an increase.”

Ann McGregor, Chief Executive

PERSPECTIVES /

BDO PERSPECTIVE

“Brexit and Covid continue to be the major factors impacting business performance. However, the survey shows that some local firms are now quietly confident about their growth prospects over the next twelve months.

All progress must be welcomed and whilst the survey indicates signs of recovery, there is still a way to go to recover the lost ground brought on by the pandemic.

The degree of confidence varies between sectors, with manufacturing showing progress in areas including future employment and turnover. A key obstacle for future growth within that sector will be balancing the pressures of rising costs of raw materials with the need to raise prices.

Trade and cashflow also remain significant challenges for businesses. As we progress through 2021 it is likely that the Government funded Covid-19 relief packages will be phased out and businesses will need to keep a watching brief on cash outflows as they try to build resilience.

As the first survey since the end of the Brexit transition, it has shown that around half of firms are finding the new arrangements difficult to work with and are impacting on trading relationships between NI and Great Britain.

Although companies will continue to navigate the complexities of the new arrangements, many are working to identify potential opportunities that are available to them because of Northern Ireland’s new and unique position. Exploring new markets and adapting their offering is the type of strategic and innovative thinking we have seen from the business community and is just what we need to ensure future prosperity.”

Brian Murphy, Managing Partner

QUARTERLY ECONOMIC SURVEY Q1 2021

NOTE

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 e.g. if 15% report a rise in sales and 50% report a fall in sales then the balance is -35%

In total, 211 members responded to the NI Chamber of Commerce and Industry Quarterly Economic Survey (QES), in partnership with BDO, for the 1st quarter of 2021. Together they account for 26,000 jobs in Northern Ireland.

The fieldwork for the Quarter 1 survey took place between 18th February and 8th March 2021, around 11 months into the COVID crisis during a period when COVID restrictions were still in place in Northern Ireland for sectors including non-essential retail, hospitality and personal services. This was also 6 weeks into the beginning of new trading arrangements coming into place on the 1st January 2021 following the end of the transition period post-Brexit.

Northern Ireland Chamber
of Commerce and Industry
40 Linenhall Street
Belfast BT2 8BA

T +44 (0)28 9024 4113
mail@northernirelandchamber.com
www.northernirelandchamber.com



ABOUT NI CHAMBER

Helping businesses grow locally and internationally

Northern Ireland Chamber of Commerce and Industry (NI Chamber) is an award winning, quality assured business support organisation with over 235 years commitment to the Northern Ireland economy. It is a well-known network for business with a membership of 1,200 businesses representing over 105,000 employees.

The organisation's membership spans corporates, SMEs and micro businesses across all sectors, from manufacturing to agri-foods, to ICT and the professions.

NI Chamber supports businesses through networking and events; growth initiatives and export support; articulating the views of business to Government; sharing best practice and knowledge; and providing a number of promotional opportunities for business via the NI Chamber website and Ambition magazine.

Accredited by British Chambers of Commerce, NI Chamber is also part of a global network of Chambers, enabling it to directly support export development. NI Chamber also works on an all-island basis with the Chamber network in the Republic of Ireland to develop all-island trade.

Visit the NI Chamber website at
www.northernirelandchamber.com

ABOUT BDO NORTHERN IRELAND

Based in Belfast city centre, BDO Northern Ireland has been in operation for 30 years.

Whilst part of the BDO international network, BDO Northern Ireland is an independently owned partnership who specialises in helping businesses, whether start-ups or multinationals, to grow.

As a member of the BDO network, BDO NI is part of the largest European led Audit, Tax and Advisory practice.

Visit the BDO NI website at www.bdoni.com and for BDO's Rethink framework visit <https://www.bdoni.com/en-gb/microsites/bdo-northern-ireland-rethink/rethink-navigating-the-new-reality>.