

NI CHAMBER & BDO NI

QUARTERLY ECONOMIC SURVEY SUMMARY

4TH QUARTER 2021

SUMMARY Q4 2021

More firms are reporting increases in sales, employment, confidence around turnover growth and investment intentions than those reporting a fall.

OVERVIEW

The Q4 21 QES findings continue to demonstrate positive signs of recovery in the Northern Ireland economy with a majority of members expecting their business to grow in 2022 (70%). However, inflationary pressures from mounting business costs including high raw material costs and pressure to raise wages are causing significant concern, particularly for manufacturers. Expectations to raise prices are highest on record with a greater share of businesses in Northern Ireland expecting to raise prices in the next 3 months compared to all other UK regions.

NOTE: These findings precede the emergence of the Omicron variant in December 2021 and the introduction of new restrictions as a result.

After reaching record lows across all key indicators in Quarter 2 2020 with the onset of the COVID-19 pandemic, almost 2 years on all key indicators are positive meaning more firms are reporting increases in sales, employment, confidence around turnover growth and investment intentions than those reporting a fall. By comparison, just one year ago in Q4 2020, almost all key indicators were negative. The share of businesses operating at full capacity rose to 45% in Q4 21 (39% Q3 21) for manufacturing and 50% for services (47% Q3 21) although over half of businesses are still operating below

capacity. One in 3 firms however still remain negatively affected by the pandemic and 16% are just covering costs or are in difficulty. EU exit has also presented a new set of challenges in 2021 with largely negative trading consequences over the last year.

Despite this, more businesses are reporting increased UK sales (35%) in last 3 months compared to those reporting falling sales (18%). This is also the case with domestic order books for the next 3 months although the difference is less marked (31% report increased UK orders vs. 25% falling orders). Confidence is keeping up in spite of challenges, particularly around pressure to raise prices. Expectations to raise prices are highest on record (74% expect to raise prices in next 3 months) driven in large part by high raw material costs. Almost 2 in 3 (64%) members cite rising raw material costs as the main reason why they expect to raise prices.

Recruitment activity is continuing, however with that come challenges around getting staff as recruitment difficulties persist. Firms are increasingly under pressure to raise wages to retain and recruit staff, although investment in training has been picking up as a result.



SUMMARY Q4 2021

NI's regional position was much improved in Q4 21 with confidence around profitability the only indicator ranking Northern Ireland bottom of the regional rankings

MANUFACTURING

Manufacturing's recovery picked up in Q4 21 although inflationary pressures continued to escalate. Almost all key indicators improved over the quarter, particularly strongly in terms of employment expectations and confidence around turnover growth in the next 12 months. Investment intentions are at their strongest level in the last 6 years. NI's regional position was much improved in Q4 21 with confidence around profitability the only indicator ranking Northern Ireland bottom of the regional rankings. However, there is significant pressure on manufacturers to raise prices with 83% of manufacturers expecting to raise prices in the next 3 months with rising raw material costs the key driver. In addition, pressure from pay settlements (42%) remains highest across the UK regions (UK 29%).

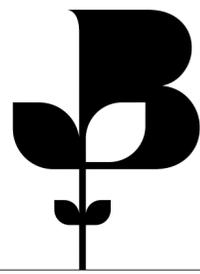
SUMMARY Q4 2021

SERVICES

The Q4 21 trading environment for services was more challenging after what had been the strongest trading performance from the service sector in Q3 21 since the onset of the pandemic. Most key indicators fell in Q4 21, particularly around domestic and export trade. Although all 11 key balances remain positive meaning more firms are expanding rather than contracting. This means that more members are reporting improvements in domestic sales/orders, export sales/orders and cashflow than those reporting any fall. Recruitment activity remains high and Northern Ireland is the strongest performing UK region in terms of investment in training. Pressure on prices is highest on record and inflation (76%) is a much greater concern compared to the UK average (66%).



Most key indicators fell in Q4 21, particularly around domestic and export trade.



SUMMARY Q4 2021

In Q4 21 80% of manufacturers and 66% of services are trying to recruit.

RECRUITMENT

In Q4 21 80% of manufacturers and 66% of services are trying to recruit. This had fallen to just 27% of manufacturers and 21% of services in Q2 20. Expectations around employment growth are currently highest on record for local manufacturers.

However, recruitment difficulties remain one of the most persistent and growing concerns among members. In Q4 21 86% of manufacturers and 80% of services are finding it difficult to get staff. This also represents the highest share of manufacturers experiencing recruitment difficulties on record.

SUMMARY Q4 2021



CONFIDENCE AND INVESTMENT INTENTIONS

Confidence around turnover prospects for businesses in the next 12 months has been improving after the striking collapse in confidence brought about by the pandemic. Q4 21 has seen a particularly strong resurgence in confidence among manufacturers with the balance of manufacturers confident that turnover will grow at its highest level in the last 4 years. The turnover confidence balance for manufacturing rose to +51% in Q4 21 (+24% Q3 21) and for services to +42% (+39% Q3 21). Confidence around profitability in the next 12 months remains a weaker indicator but is positive. The balance was +1% for manufacturers in Q4 21 (-3% Q3 21) meaning that a similar share of manufacturers are expecting profitability

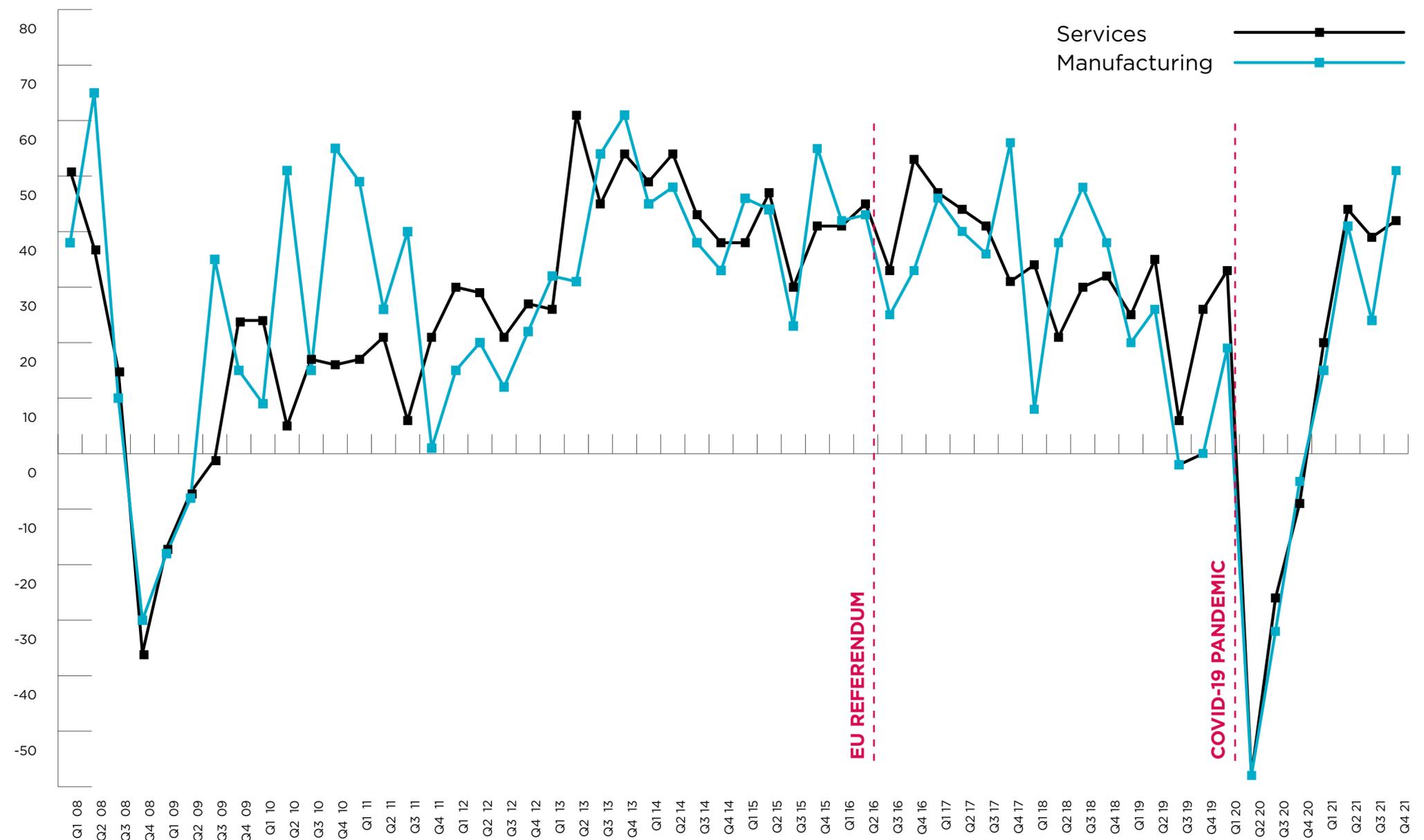
to rise as to fall in the next 12 months. The corresponding figure for services was more positive but low at +11%.

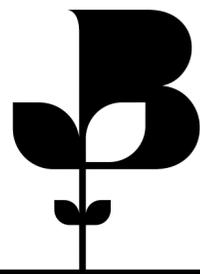
Investment intentions remain positive for both manufacturing and services in Q4 21. There was a particularly strong recovery in investment intentions among manufacturers with a balance of +30% intending to invest in plant and machinery (+15% Q3 21) compared to +9% (+19% Q3 21) for services. In Q2 2020 this had reached a series low of -52% for manufacturing and -62% for services. Intentions to invest in training are also positive at +24% for manufacturers and +26% for services.

SUMMARY Q4 2021



BALANCE OF FIRMS CONFIDENT THAT TURNOVER WILL GROW IN THE NEXT 12 MONTHS





SUMMARY Q4 2021

The cashflow balances fell significantly during Q2 2020 and while improving, remain low. Please also update this line in the main text, starting line 6

CASHFLOW

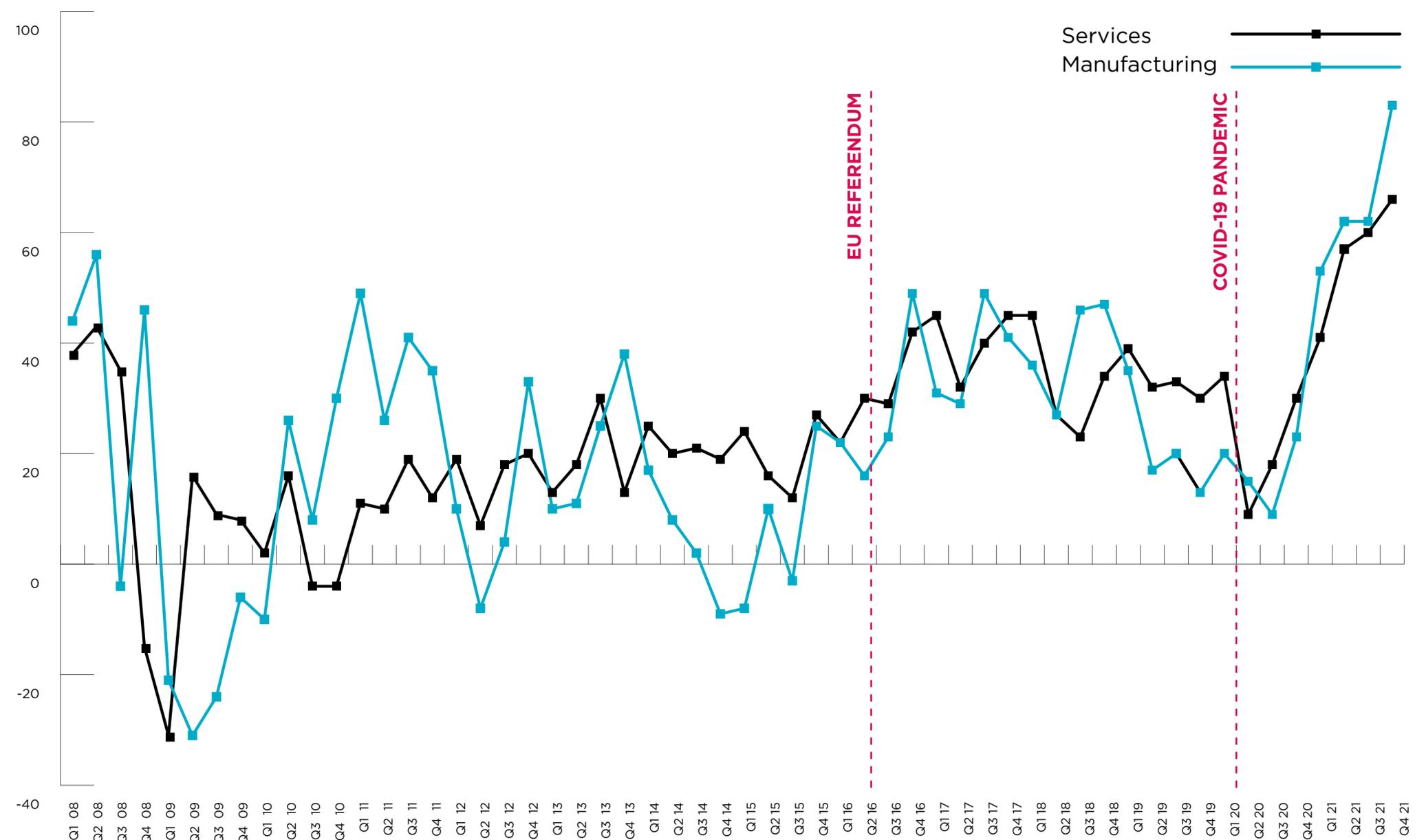
Cash flow, a key indicator of business health, is typically one of the weakest performing key indicators in the Northern Ireland QES. The balance of businesses reporting an improving cash flow position was already negative going into the COVID-19 crisis. The balances did fall significantly during Q2 2020 but have been improving. In Q4 21 the manufacturing cash flow balance became positive at +4% (-5% Q3 21) for the first time since Q3 2018 suggesting a better cash flow position for manufacturers in spite of COVID and EU exit. In services the balance remained positive at +2%, although down from +11% in Q3 21 (it has been negative for the previous 8 quarters).

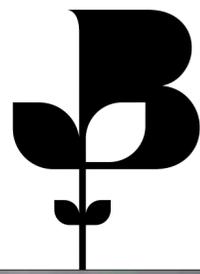
SUMMARY Q4 2021

PRICES

Expectations to raise prices remain the highest on record (2008), pre the Financial Crash and are particularly acute for manufacturers. 83% of manufacturers (60% in Q3 21) and 66% of services (60% Q3 21) expect to raise prices in the next 3 months. 93% of manufacturers are experiencing pressures from rising raw materials costs. There is also growing pressure on prices because of increased wage settlements for both manufacturers and services firms. The NI Manufacturing sector recorded higher pressures from wage settlements compared to all other UK regions in Q4 21. Inflation is a concern for 76% of members.

EXPECTATION TO RAISE PRICES





SUMMARY Q4 2021

Northern Ireland suffered one of the largest collapses in key indicators across the 12 UK regions in Q2 2020.

REGIONAL POSITION

Northern Ireland suffered one of the largest collapses in key indicators across the 12 UK regions in Q2 2020. Manufacturing has been recovering relatively well vis-à-vis the rest of the UK regions and the services position is improving. In Q4 2021 Northern Ireland is in the bottom 3 performing UK regions for only 1 of the 11 key indicators in manufacturing and 4 of the 11 in services.

Manufacturing indicators are weakest relative to the UK around confidence in profitability growth particularly but also domestic (UK) sales and orders. In services confidence around domestic sales and orders is also lower. The service sector's cash flow balance is also relatively low and confidence around profitability weak vis-à-vis the UK average.

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 along with an understanding of business and economy prospects for 2022.



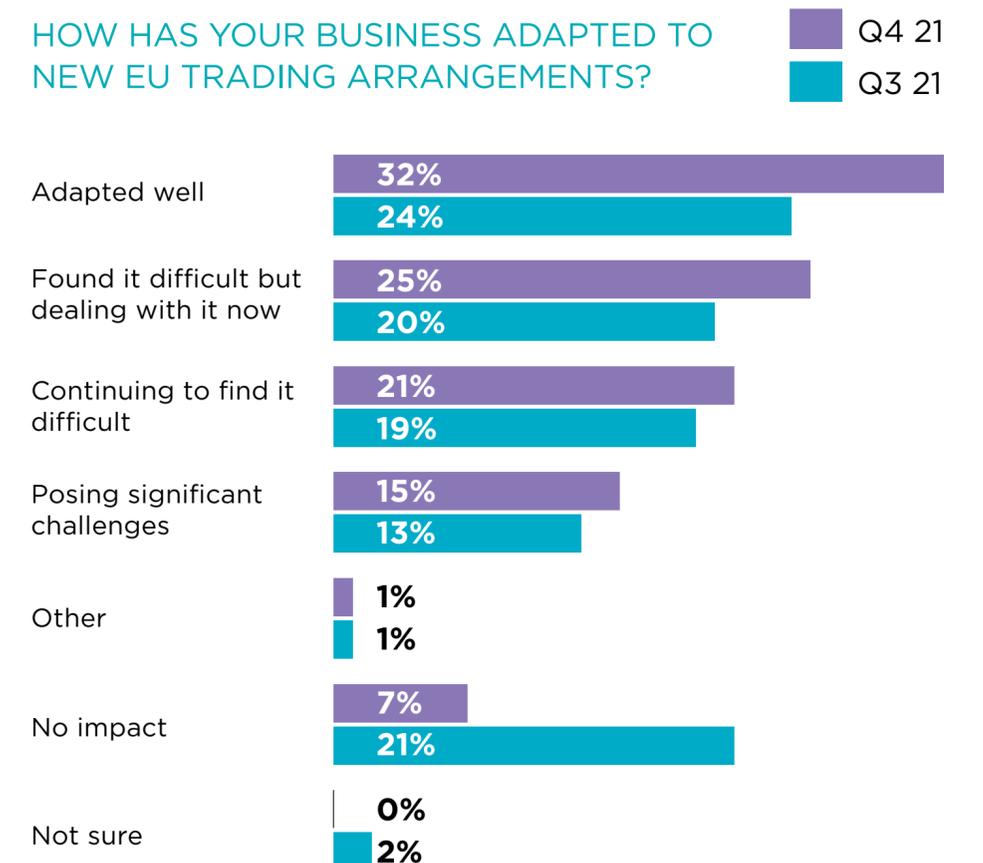
BREXIT WATCH

Following the EU Referendum on 23 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. This had shown a largely negative impact on business performance, investment plans and confidence and the employment of EU workers in Northern Ireland in the build up to EU exit. There had been significant concerns around Brexit preparation prior to EU exit because businesses did not know what they were preparing for and then how the practical outworkings of the new arrangements following the end of the transition period on 31st December 2021 would unfold. The COVID-19 pandemic set the business adjustment process back further as businesses had to prioritise the COVID-19 fall out on their business over any EU exit preparations. The Northern Ireland/Great Britain trading relationship post transition had been an increasing concern.

New arrangements came into place on 1 January 2021, including the Northern Ireland Protocol that 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 have been asked over each quarter of 2021 about member experiences of the new arrangements.

HOW HAS YOUR BUSINESS ADAPTED TO NEW EU TRADING ARRANGEMENTS?



Thus far, the adjustment to new trading arrangements have been challenging for many businesses trading externally, although that appears to be improving. In Q4 21 57% said that they had adapted to the new trading arrangements (45% Q3 21 and 15% in Q1 21). However, the share of businesses finding it more challenging has persisted. Around a third (36%) are still finding new trading arrangements difficult (32% Q3 21 and 41% in Q1 21). There is a core of around 15% of businesses that are finding the new trading arrangements extremely challenging (13% Q3 21).

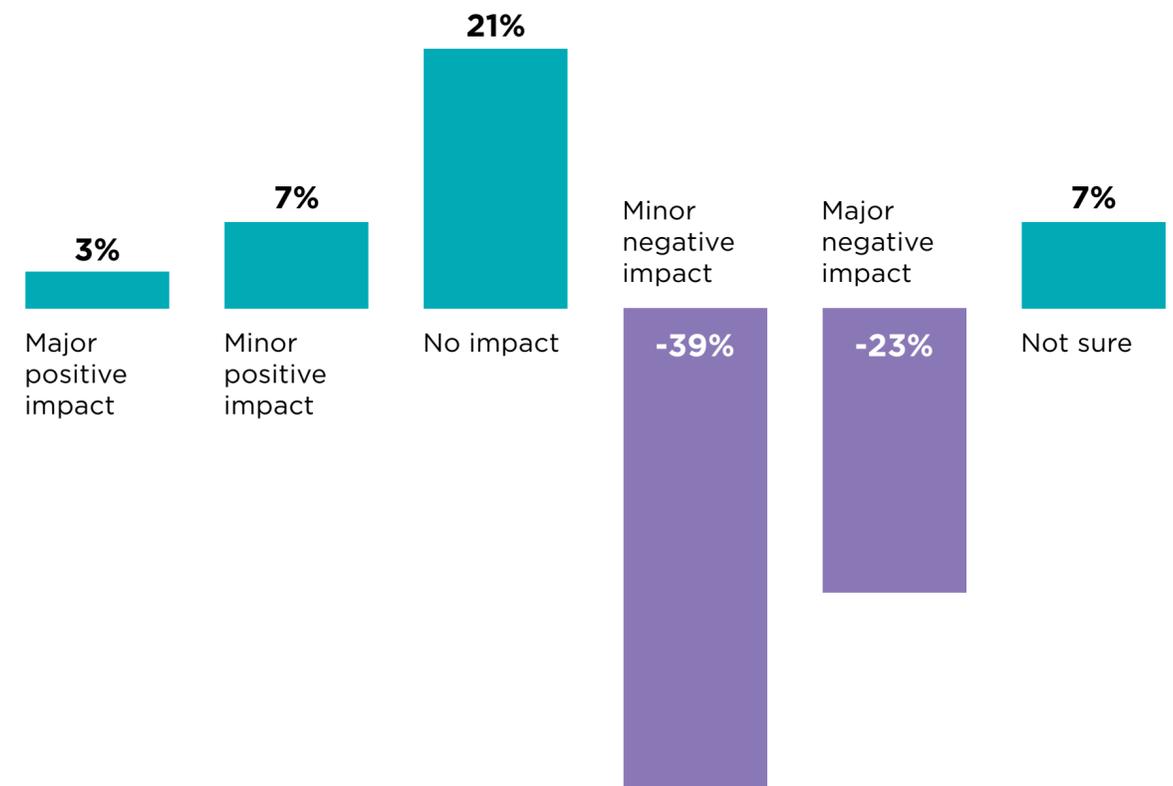
In the Q4 21 survey, firms were asked about the impact of EU exit on business performance over the last year. For 39% of members, it has had a minor negative impact, while for 23% the negative impact has been major. 1 in 10 state that EU exit has had a positive impact on their business, while for 21% there has been no impact to date.

Perceptions around trading outside the UK are generally more negative following EU exit with challenges particularly acute in recruiting EU

workers. Just over half of members (52%) state that EU exit has negatively changed perceptions around recruiting EU workers. Other challenges include gearing products/services towards EU markets and purchasing from the EU.

In terms of resolving issues that have emerged with the NI Protocol, 39% of members do believe that these issues can be resolved in the next year while 31% do not believe they can. Problems raised include a lack of confidence in the government and EU in resolving issues and the extent to which the Protocol has been 'politicised', confusion and lack of clarity around what has to be resolved and the ability to address the extent of red tape/administration needed around new arrangements. However, there is a view that the issues are not insurmountable and the Protocol presents a great opportunity for Northern Ireland. The benefits however do need to be more clearly articulated to maximise the advantages for businesses and the region.

REFLECTING BACK ON 2021 AND THE IMPACT OF EU EXIT ON YOUR BUSINESS PERFORMANCE, WOULD YOU SAY THAT EU EXIT HAS HAD A...



SUMMARY Q4 2021

COVID 19 WATCH

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.

Over subsequent quarters the survey evidence has shown gradual signs of improvement in sentiment around the impact of the pandemic on business performance. Most businesses are trading positively (82%) in Q4 21 although 15% are just covering costs/struggling and 1% are on the verge of closure. 1 in 3 still haven't recovered to pre COVID trading levels as yet which is similar to Q3 21 suggesting some persistence in terms of the significant impact of COVID on some businesses. In addition, these findings preceded the emergence of the Omicron variant of the virus in December 2021, which has brought with it the reintroduction of restrictions that will have further negative impacts on some sectors within the Northern Ireland economy.

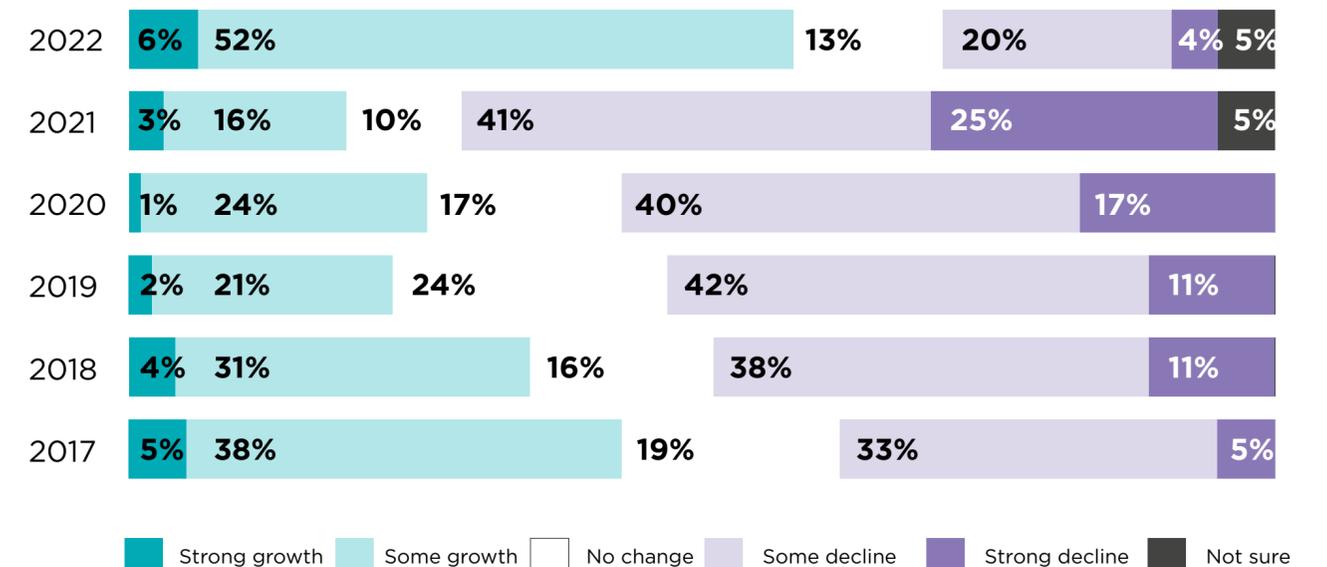
SUMMARY Q4 2021



BUSINESS & NI ECONOMY PROSPECTS 2022

The outlook for business and the economy for 2022 is much more positive among members than has been the case in recent years. 58% of members believe the Northern Ireland economy will grow in 2022, up from just 19% for 2021. However, there is still quite a sizeable minority, 1 in 4 (24%), who believe that the Northern Ireland economy will contract in 2022.

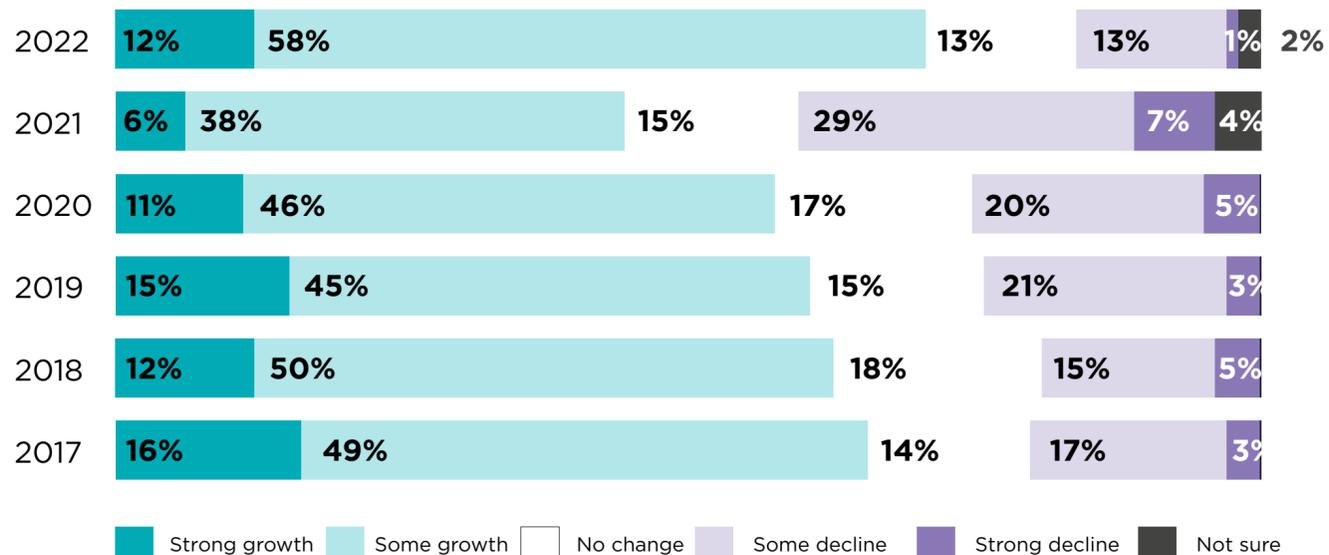
NI ECONOMY PROSPECTS



BUSINESS & NI ECONOMY PROSPECTS 2022

70% of businesses believe they will grow in 2022 while just 14% believe they will contract. The most worrying concern for 2022 for businesses is rising costs, both in terms of raw material/input costs but increasingly also wage pressures caused by significant challenges in retaining and recruiting people. COVID disruption and EU Exit are both playing their part in placing cost pressures on businesses but also in causing supply chain problems. Political uncertainty around the NI Protocol is also viewed as impediment to business and economy prospects in Northern Ireland going forward.

BUSINESS PROSPECTS



PERSPECTIVES



NI CHAMBER

“It is encouraging to see that confidence is keeping up in spite of challenges, particularly around pressure to raise prices. These quarterly economic survey results indicate that there is much to be optimistic about at the beginning of this New Year. However, while there are many positives, we must also be realistic about the fact that multiple, serious challenges persist.

“We know from members that inflationary pressures are very acute at the moment. Rising raw material costs are significant, particularly for manufacturers, driven by factors including COVID-19, supply chain disruption and EU exit. There also appears to be growing pressure on businesses to raise wages.

“At some point, firms have to pass on these cost increases and what we are now seeing is that expectations to raise prices are the highest on record among our members. A bigger share of

businesses in Northern Ireland are expecting to raise prices in the next three months compared to all other UK regions, which could damage our regional competitiveness over time.

“It is clear that adapting to new trading arrangements has been a challenge for many and that outstanding issues with the NI Protocol need to be resolved. Despite this, survey responses in Q3 21 indicated that almost 70% of our members believed that the unique trading position as a result of the NI Protocol presents opportunities for the region.

“As the UK and EU negotiators resume their discussions, we urge them to come to a timely and clear agreement to give businesses the clarity and certainty they need and that they build in transition periods to avoid further cliff edge deadlines.”

Ann McGregor, Chief Executive

PERSPECTIVES



BDO

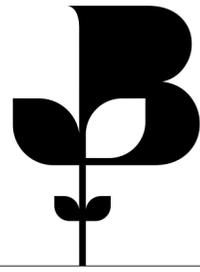
“What a difference a year makes. It’s encouraging to see that many businesses have reported an increase in sales, employment, and investment confidence in Q4, this is the strongest foundation for recovery that we have seen since the start of the pandemic. Considering the scale of the challenges that have been faced in the last two years, to be in this position of strength is a real testament to the resilience, commitment and adaptability of the NI business community.

“If we compare this to Q4 of 2020, when almost all key indicators were negative, this is a reassuringly positive sign for the local economy. Particularly as we move towards a new phase of living and working with the pandemic, rather than in spite of it.

“Businesses throughout 2021 had been dealing with increased pressures on a range of costs, which are unfortunately expected to continue. With rising energy costs, pressures on outlays for raw materials and increased wage demands, it is no surprise that companies are under pressure to raise their own prices.

“A reminder, not that any of us need it, that all of these challenges are on top of the evolving Covid-19 situation. How companies balance these demands will dictate how they can transform this growing confidence into actual sustainable growth.”

Brian Murphy, Managing Partner



**Northern Ireland
Chamber of Commerce
and Industry**

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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, 215 members responded to the NI Chamber of Commerce & Industry Quarterly Economic Survey (QES), in partnership with BDO, for the 4th quarter of 2021. Together they account for over 26,000 employees in Northern Ireland.

The fieldwork for the Quarter 4 survey took place between 4 and 19 November 2021, twenty months into the COVID crisis during a period when almost all COVID restrictions were lifted (although this preceded the emergence of the Omicron variant of the virus in December 2021 which brought with it renewed uncertainty for the economy). This was also ten months into the beginning of new trading arrangements coming into place on 1 January 2021 following the end of the transition period post-Brexit.

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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.**