

NI CHAMBER & BDO NI

QUARTERLY ECONOMIC SURVEY SUMMARY

2ND QUARTER 2021

SUMMARY Q2 2021

Most key indicators around domestic sales, exports and jobs have continued to show signs of improvement.

OVERVIEW

Northern Ireland's economic recovery strengthened during Q2 2021 according to the latest Quarterly Economic Survey, with signs of confidence returning to both the manufacturing and services sectors. After reaching record lows across all key indicators in Quarter 2 2020, one year on since the pandemic struck, most key indicators around domestic sales, exports and jobs have continued to show signs of improvement. More key balances are now positive meaning that more businesses are reporting increases in, for example, employment and investment intentions than those reporting a decrease. The manufacturing recovery has been stronger in Northern Ireland than services. In total, only 1 out of 11 key indicators in manufacturing remains negative compared to 4 out of 11 in services. The share of businesses operating at full capacity rose to 44% (Q1 21 25%) for manufacturing and 43% (Q1 21 34%) for services in Q2 2021.

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 was much greater than the aftermath of the financial crash in 2008/09.

However, business recovery is on its way and that sense of recovery is reflected in the fact that overall more businesses are now reporting increased domestic sales compared to those reporting a fall, albeit that this is coming from a low base following the huge challenges faced by businesses in 2020. In Q2 2021 34% saw an increase in domestic (UK) sales (Q1 21 20%) over the last 3 months, UK sales remained constant for 42% of members (Q1 21 36%) while 24% of businesses experienced a fall in domestic (UK) sales (Q1 21 44%). Exports suffered particularly although manufacturers have experienced a stronger recovery in export trade in the last two quarters. Employment indicators have not been as badly impacted reflecting the role of the job retention (furlough) scheme intervention in buying up employee jobs.

SUMMARY Q2 2021

There has been a particularly strong improvement in domestic (UK) sales indicators.

MANUFACTURING

In manufacturing, all key indicators increased in Q2 2021. Cash flow is now the only key indicator that remains negative (although marginal at -1%). There has been a particularly strong improvement in domestic (UK) sales indicators. The domestic sales balance, reflecting sales over the last 3 months, is +43% in Q2 2021 compared to a figure of -13% in Q1 2021. Export sales and order books along with employment prospects have also continued to improve. Many key indicators are stronger than any time in the last couple of years although this is coming from the very low base set in Q2 2020. Price pressures have become particularly acute in Q2 2021 for manufacturers as outlined on page 9.

SUMMARY Q2 2021

SERVICES

The service sector continues to experience challenges in its COVID recovery journey with trading conditions remaining fragile in both domestic and export markets. While all key indicators in the services sector improved, 4 of the 11 key services balances remain negative (although this is down from 8 in Q1 2021). This means that more members are reporting deterioration in domestic sales, export sales/orders and cashflow than those reporting any improvement. The services sector is showing slower signs of recovery than manufacturing although improving confidence suggests that further progress can be made in its recovery.

The service sector continues to experience challenges in its COVID recovery journey.



SUMMARY Q2 2021

Recruitment activity has continued to improve in Q2 21, now surpassing pre-COVID levels.

RECRUITMENT

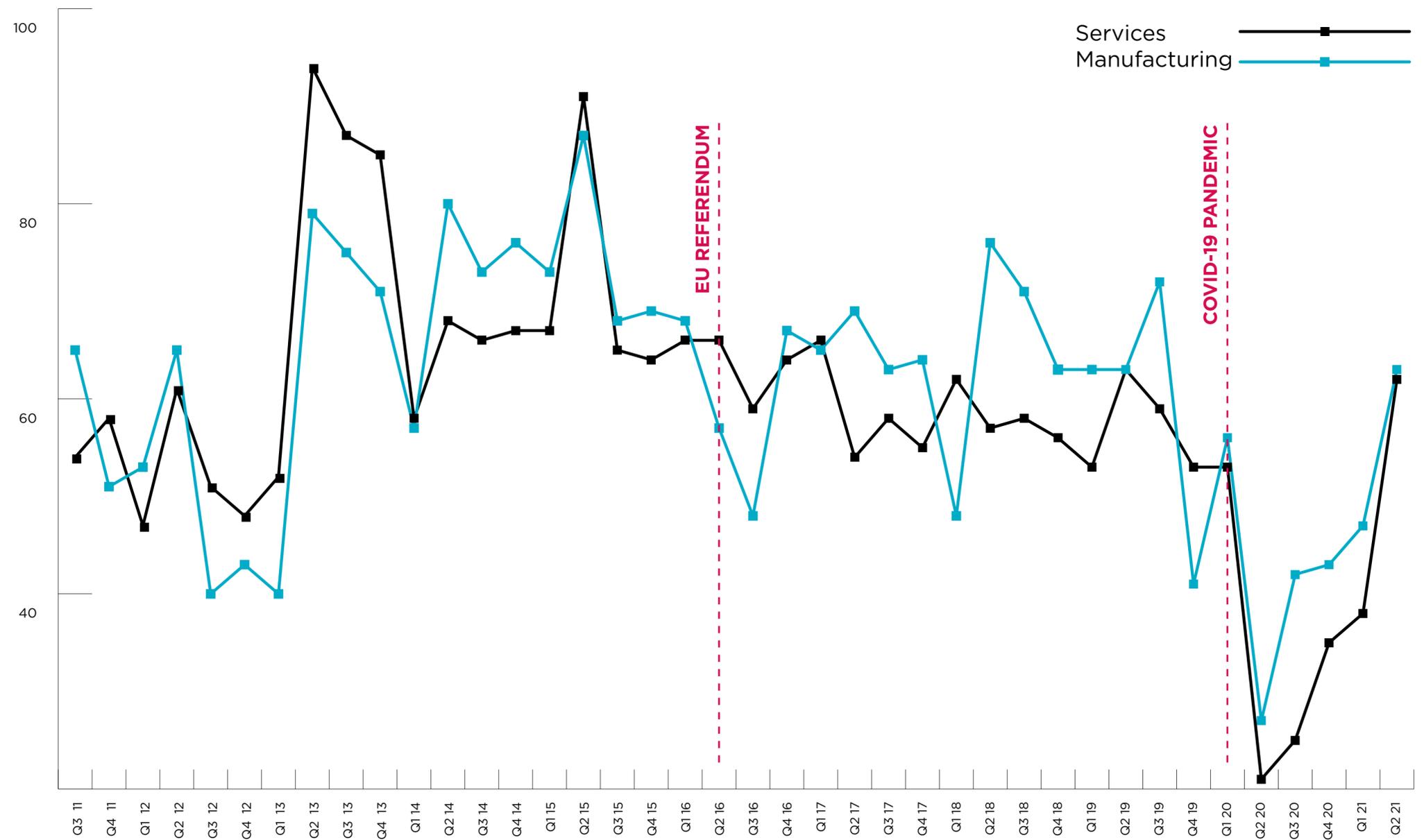
Recruitment activity has continued to improve in Q2 21, now surpassing pre-COVID levels. In Q2 21 62% of businesses in both manufacturers and services are trying to recruit. This had fallen to just 21% of services and 27% of manufacturers in Q2 20.

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 Q2 2021 recruitment difficulties have re-emerged as a significant concern with 79% of members finding it difficult to get staff.

SUMMARY Q2 2021



% TRYING TO RECRUIT



SUMMARY Q2 2021



Business confidence has improved strongly in Q2 2021 after the large collapse in confidence experienced by the business sector at the start of the pandemic.

CONFIDENCE AND INVESTMENT INTENTIONS

Business confidence has improved strongly in Q2 2021 after the large collapse in confidence experienced by the business sector at the start of the pandemic. In Q2 2021 the turnover confidence balance for manufacturing was +41% (+15% Q1 21) and for services +44% (+20% Q1 21). Confidence around profitability is however lower for manufacturers (+12%) compared to services (+29%).

More businesses are now making plans to invest, particularly manufacturers. In Q2 2021 the investment in plant and machinery balance was +16% for manufacturing and +6% for services. In Q2 2020 this had reached a series low of -52% for manufacturing and -62% for services. Intentions to invest in training have also improved with balances of +26% for manufacturing and +10% for services in Q2 2021.

SUMMARY Q2 2021

In Q2 2021 the manufacturing cashflow balance is -1% (-13% Q1 21) and -6% in services (-18% iQ1 21).

CASHFLOW

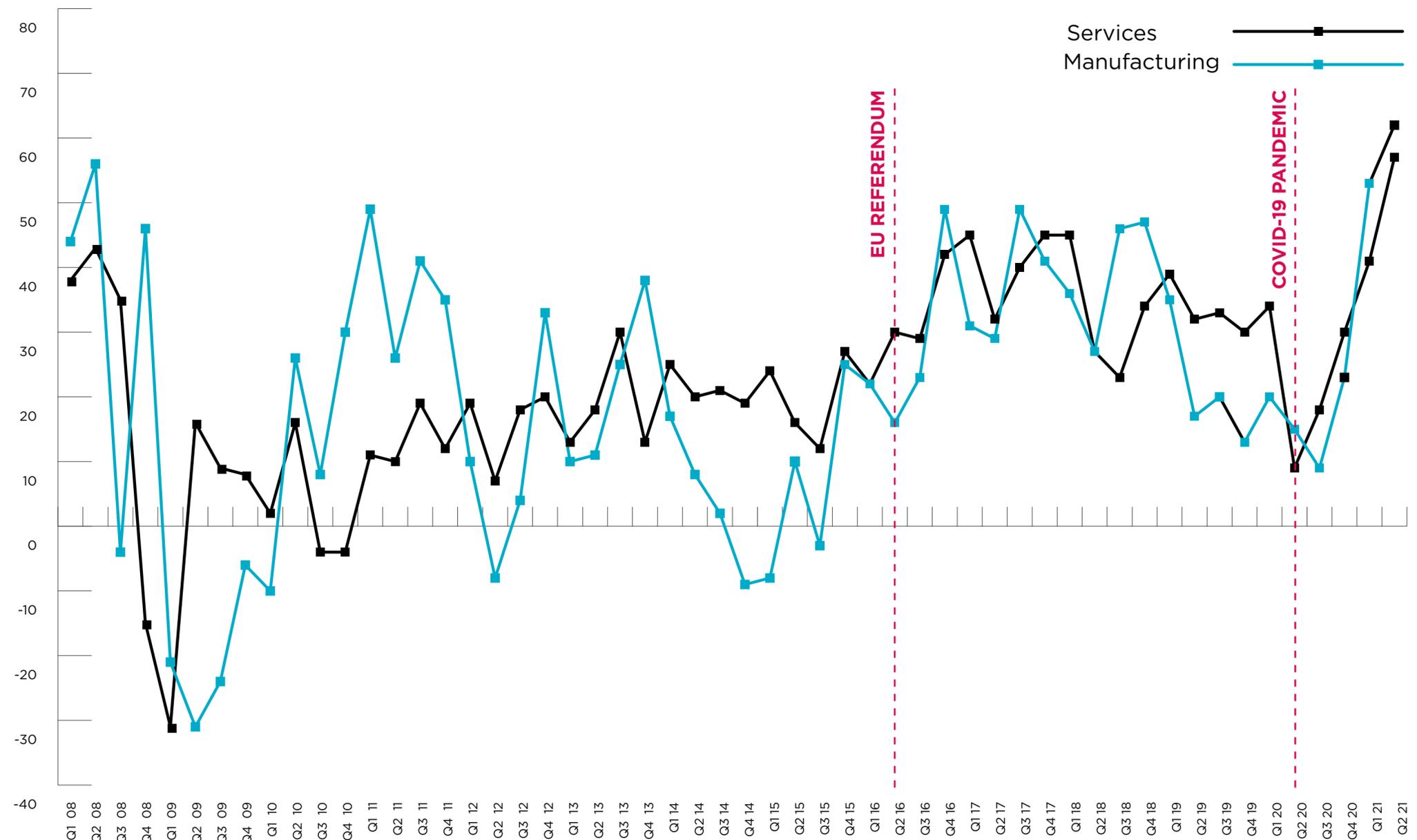
Cash flow, a key indicator of business health, is typically one of the weakest performing key indicators in the Northern Ireland QES. The balance of businesses reporting an improving cash flow position was already negative going into the COVID-19 crisis. The balances did fall significantly during Q2 2020 but have been improving since although still remain slightly negative and more fragile than most other indicators. In Q2 2021 the manufacturing cashflow balance is -1% (-13% Q1 21) and -6% in services (-18% Q1 21).

SUMMARY Q2 2021

PRICES

Price pressures for members had come to the fore during the first quarter of 2021 and have been magnified during Q2 2021. Expectations to raise prices are the highest on record including pre the Financial Crash. 62% of manufacturers and 57% of services are feeling pressure to raise prices. 96% of manufacturers are experiencing pressures from rising raw materials costs.

% EXPERIENCING PRICE PRESSURES



SUMMARY Q2 2021

NI remains one of the weaker performing regions in services while manufacturing's has improved.

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 Q2 2021 Northern Ireland is in the bottom 3 performing UK regions for 3 of the 11 key indicators in manufacturing and 7 of the 11 in services.

Manufacturing indicators are weakest relative to the UK around cash flow and confidence in turnover and profitability growth. In services the domestic sales and exports, cash flow and confidence indicators are particularly weak vis-à-vis the UK.

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 as well as the impact of the current political environment on Northern Ireland's international reputation.



BREXIT WATCH

Following the EU Referendum on 23rd June 2016, a series of questions has been asked each 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 prior to the end of the transition period on the 31st December 2020.

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.

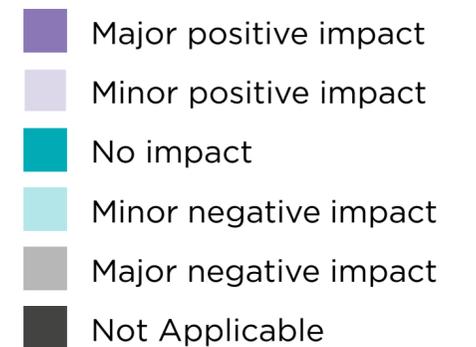
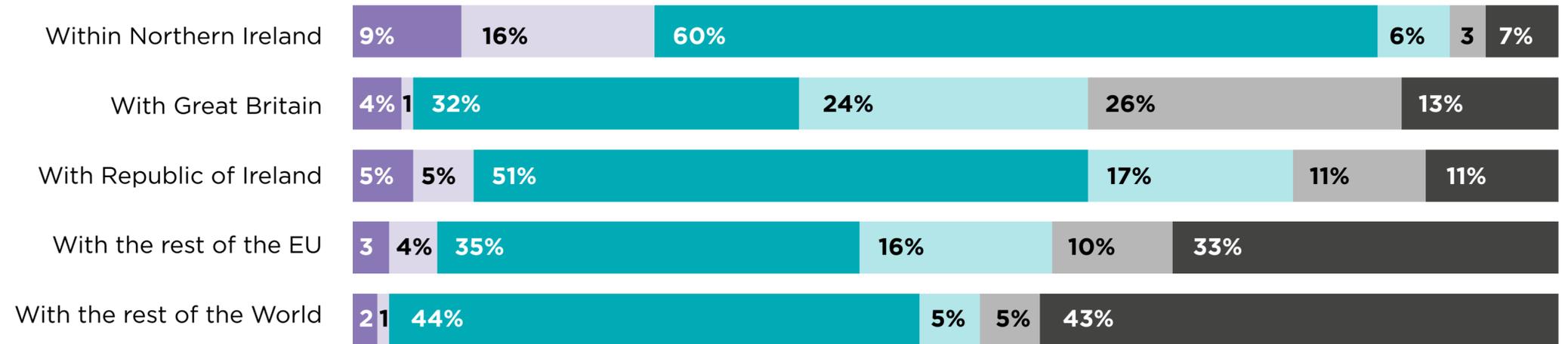
The context to the Q2 2021 Brexit findings is that the Trade and Cooperation Agreement, setting out the terms of agreement reached between the EU and UK on the UK's exit from the EU, was agreed on the 24 December 2020 and signed on the 30 December 2020. New arrangements came into place on the 1 January 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 have been asked over the last two quarters about member experiences of the new arrangements. Thus far, the new arrangements are having some negative impacts on business, although that does

BREXIT WATCH

appear to be improving. In Q2 21 29% of members state that their business has adapted well to new trading arrangements, up from 15% in Q1 21. Almost a third (32%) are finding new trading arrangements difficult compared to 41% in Q1 21. There is a core of around 15% of businesses that are finding the new trading arrangements very challenging.

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



BREXIT WATCH

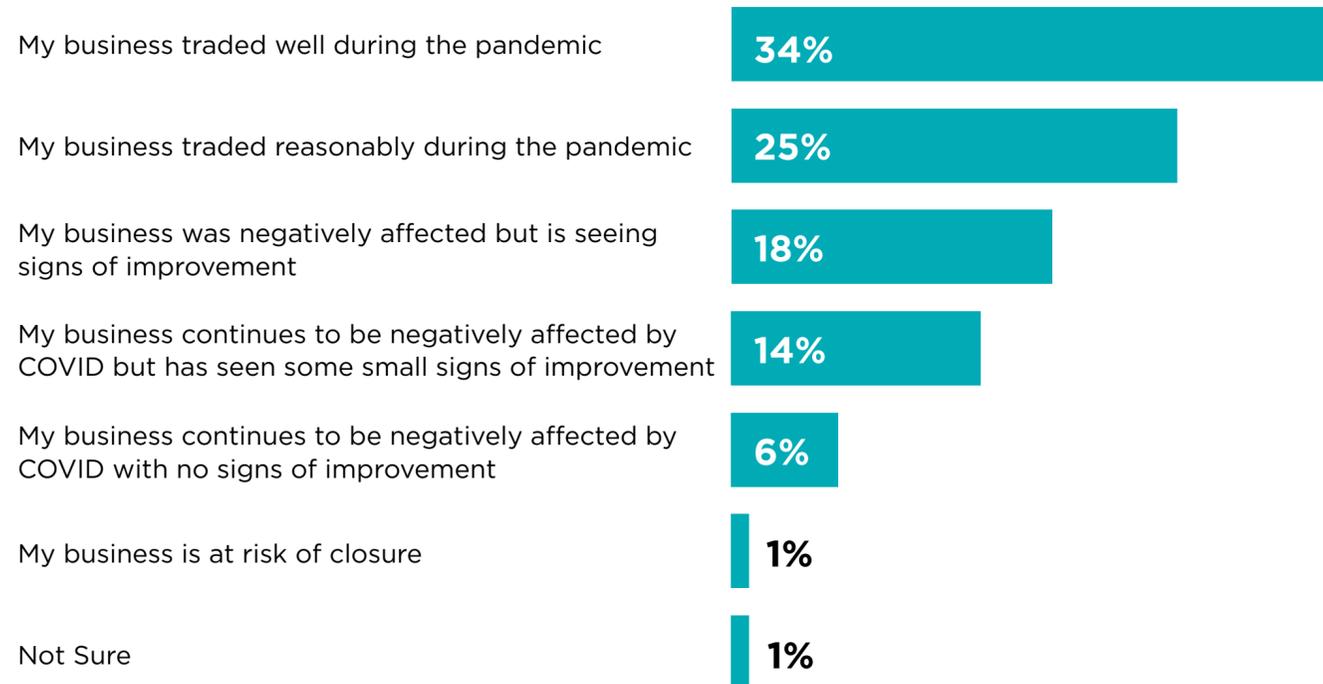
Trade has been negatively impacted, particularly in terms of trade with Great Britain with 50% experiencing some difficulty (52% in Q1 21). 24% of members stated that the new arrangements have had a major negative impact on their trade with Great Britain, up from 18% in Q1 21. In general, the impact on trade with other jurisdictions including the Republic of Ireland and Rest of the World have been more negative than positive although around 25% of members say that the new trading arrangements have positively impacted on trade within Northern Ireland. 56% of members state that the new trading arrangements have led to higher costs while around 1 in 5 have experienced a loss in sales and customers.

Two in 3 members (67%) 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. These figures reflect very similar views given in the Q1 21 survey.

DO YOU THINK THERE ARE OPPORTUNITIES FOR NORTHERN IRELAND BECAUSE OF ITS DIFFERENT STATUS FROM THE REST OF THE UK?



BUSINESS TRADING DURING COVID-19



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.

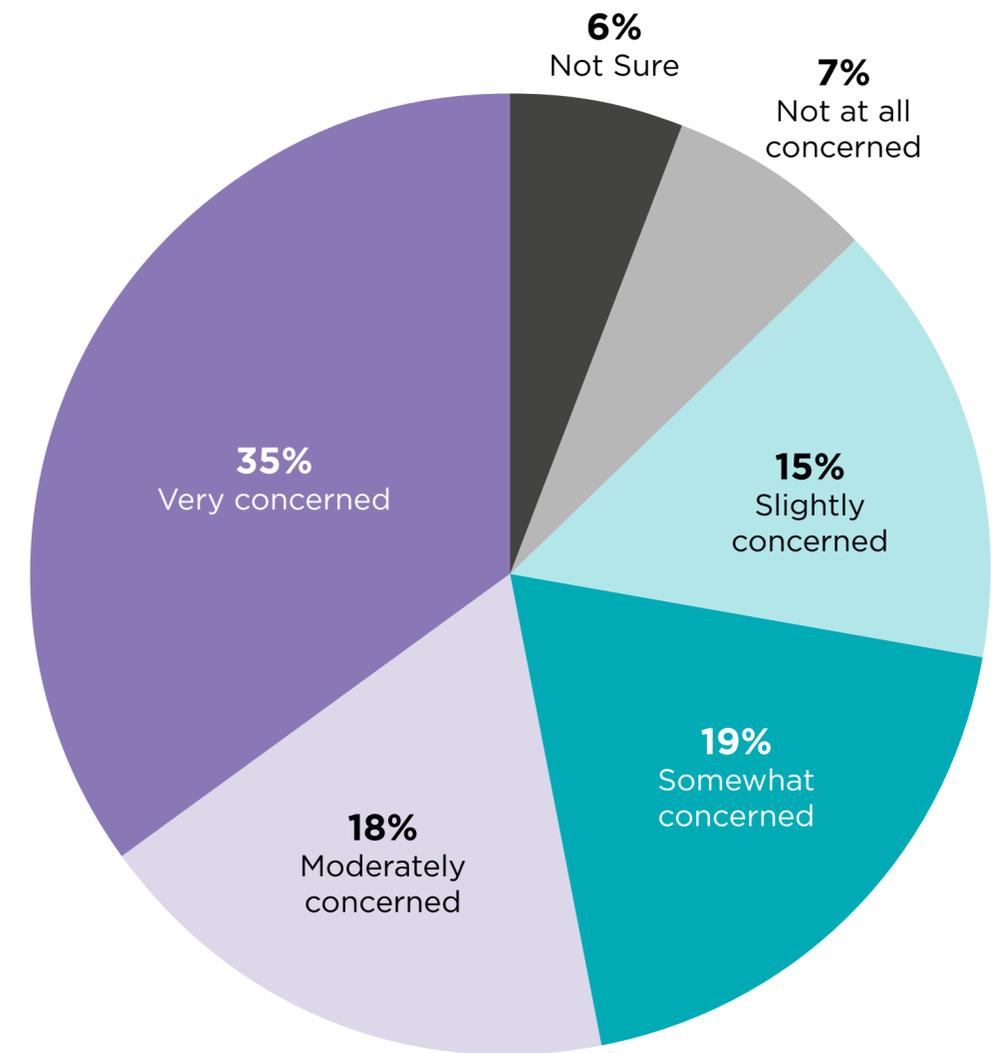
Over subsequent quarters the survey evidence has shown gradual signs of improvement in sentiment around the impact of the pandemic on business performance. In Q2 2021 59% of members stated that they have traded well/reasonably during the pandemic, up from 54% in Q1 21. There has been a marked improvement in the share of members whose business has seen little signs of improvement, down to 7% in Q2 21 compared to 15% in Q1 21.

COVID is a bigger issue than EU Exit for 38% of members while for 28% both are a concern in equal measure. EU Exit is more of a concern for 24% of members.

THE CURRENT POLITICAL ENVIRONMENT

There is significant concern around Northern Ireland the current political environment’s impact on external perceptions of Northern Ireland as a region to visit and do business with. 87% of members have concerns about the damage that this will cause for Northern Ireland’s international reputation. Over 1 in 3 members are very concerned about the negative impact of politics on the economy.

CONCERN AROUND CURRENT POLITICAL ENVIRONMENT’S IMPACT ON NORTHERN IRELAND’S INTERNATIONAL REPUTATION IN TERMS OF TRADE, INVESTMENT AND TOURISM



PERSPECTIVES



NI CHAMBER

“Our survey findings confirm that Northern Ireland’s economic recovery is gaining momentum and while it is good to see, we must be mindful that it is coming from a very low base. Businesses are also facing significant pressure to raise prices for a variety of reasons including raw material cost increases, bottlenecks in supply chains caused by COVID-19, as well as cost and administrative burdens arising from new trading arrangements. There is a danger of persistent inflation, which is bad for businesses and consumers. However, we hope these price pressures will be a largely temporary phenomenon as some sense of normality returns after the extreme challenges of the last year and a half.

“Any cause for optimism we do have is thanks in no small part to the resilience, pragmatism and innovation of the business community. To build on that progress, what they need now is the absolute focus and support of policy makers in Stormont and Westminster. The report illustrates a significant level of concern around the impact of the current political environment on external perceptions of Northern Ireland as a region to visit and do business

with. In fact, more than 1 in 3 members are very concerned about the negative impact of politics on the economy and 87% expressed concerns about the damage it will cause to the region’s international reputation. Addressing this with political stability will be key to attracting foreign direct investment and supporting our indigenous business community to do business with the rest of the world.

“EU exit has been challenging for a number of firms but the outlook appears to be improving, with more companies reporting that they are adapting. Any change of trading arrangements of this magnitude will inevitably present issues during transition however, this survey shows that ultimately, businesses see the benefits of Northern Ireland’s unique position. They now need the support of a stable government to capitalise on the opportunities we now have to trade with other countries, which should be central to our growth strategy.”

Ann McGregor, Chief Executive

PERSPECTIVES



BDO

“After over 16 months of learning to live and work in a pandemic, I am delighted to see that this quarter’s Economic Survey is showing real signs of positivity and confidence in our economic future. There’s no doubt that there are still concerns within the business community, but for the first time in many months, they are being outweighed by the building momentum of the recovery.

We must always remember that what we have experienced over the last year has not been a ‘market failure’, it has been driven by a most dreadful pandemic. As the restrictions have eased the economy has been able to restart and, in many cases, this restart has been on a better footing than before.

More businesses now reporting increased UK sales (34%) in last 3 months compared to those where sales are falling (24%). Confidence is returning and even investment prospects indicators, which had been particularly badly hit, are now positive. The share of businesses operating at full capacity has almost doubled to 44% for manufacturing and service industry has increased by circa 25%. These results are all hugely encouraging.

It is concerning of course that many businesses still do fear the risk of closure, however it is encouraging that these numbers are reducing as more businesses begin to find their feet.

“Brexit and the Protocol remains an issue of concern, although it is positive that 67% of businesses feel that Northern Ireland’s special status provides us with opportunities. Furthermore, around half believe it will positively impact their business. That said, 89% of respondents are concerned about the impact of the Protocol on NI’s trading reputation with GB, and 87% internationally.

“With the building levels of confidence and optimism that we are seeing in this quarter’s results, it is now more important than ever that we communicate to the wider world what has been achieved here and why international businesses should invest in NI. We have an amazing product to offer and we need to share the story of our achievements with the rest of the world.

Brian Murphy, Managing Partner

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, 218 members responded to the NI Chamber Quarterly Economic Survey (QES), in partnership with BDO, for the 2nd quarter of 2021. Together they account for almost 23,000 jobs in Northern Ireland.

The fieldwork for the Quarter 2 survey took place between 20 May and 7 June 2021, over one year into the COVID crisis during a period when almost all COVID restrictions were lifted. This was also 19 weeks into the beginning of new trading arrangements coming into place on the 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>.