Northern Ireland Chamber of Commerce and Industry
CELEBRATING 240 YEARS

IN PARTNERSHIP WITH

BDO
IDEAS | PEOPLE | TRUST

NI CHAMBER & BDO NI

Quarterly Economic Survey Summary

Q2 2023

WWW.NORTHERNIRELANDCHAMBER.COM

Overview

Recovery is continuing, confidence is improving and there are definite signs that, while inflation is still the most pressing concern, some cost pressures are easing. Labour costs are now the most pressing pressure on prices. However, around half of members are seeing some slowdown in demand, albeit only a little for most.

Most key indicators are positive meaning more firms are reporting increasing export sales, employment growth, confidence around turnover and profits and investment intentions than those reporting a fall. The only exceptions are manufacturing's domestic performance and services cash flow balance. The share of businesses operating below capacity continues to fall, at 49% in Q2 23 (51% Q1 23, 55% Q4 22, 62% in Q3 22).

The overall domestic performance has improved with more businesses reporting increased domestic (UK) sales in the last 3 months (35%) compared to those reporting a fall (23%). This is also marginally higher for domestic orders for the next 3 months, with 28% reporting increased orders compared to 24% reporting a fall. The export performance also continues to improve with 33% reporting improving order books for the next 3 months compared to 26% reporting a fall. Confidence is growing, with 62% positive that turnover will grow in the next 12 months (60% Q1 and 47% Q4 22).

Recruitment activity is holding up well, with 72% trying to recruit (74% Q1). Recruitment difficulties persist although the percentage of members experiencing recruitment difficulties has fallen to 79% from 87% in Q1 23. Rising labour costs have become a much more significant concern and for 3 in 4 members is feeding into expectations to raise prices.

Expectations to raise prices continue to ease, with 46% of members reporting that they expect to raise prices, down from 60% in Q1 23 and 75% in Q4 22. However, inflation continues to dominate as the key concern for members and rising interest rates particularly are growing in importance and to a lesser extent corporation tax and competition.

There are challenges. A persistent half of members have seen some slowdown in demand and while for most that is only a little, there are 10% of members where demand has slowed down significantly. Around 13% of businesses are just covering costs and 4% state that their business is struggling.

Recovery is continuing, confidence is improving and there are definite signs that, while inflation is still the most pressing concern, some cost pressures are easing.

Manufacturing

Manufacturing's recovery continues and confidence improves against a less pressurised cost environment, although inflation continues to dominate concerns. Only one key balance is negative in Q2 23 (3 in Q123), domestic (UK) orders for the next three months. With this exception, NI performs above the UK average across all key indicators and is in the top tier of UK regions for all other indicators with a particularly good quarter in terms of trade, employment expectations, cashflow and investment intentions. In fact, the cashflow balance is positive for only the second time since 2018. This means more manufacturers are reporting an improving cashflow position than a deteriorating one.

Confidence around turnover and profitability for the next 12 months is still improving and is above pre-COVID levels. Employment expectations remain positive; recruitment intentions are high although they have stopped climbing and most manufacturers still face recruitment challenges.

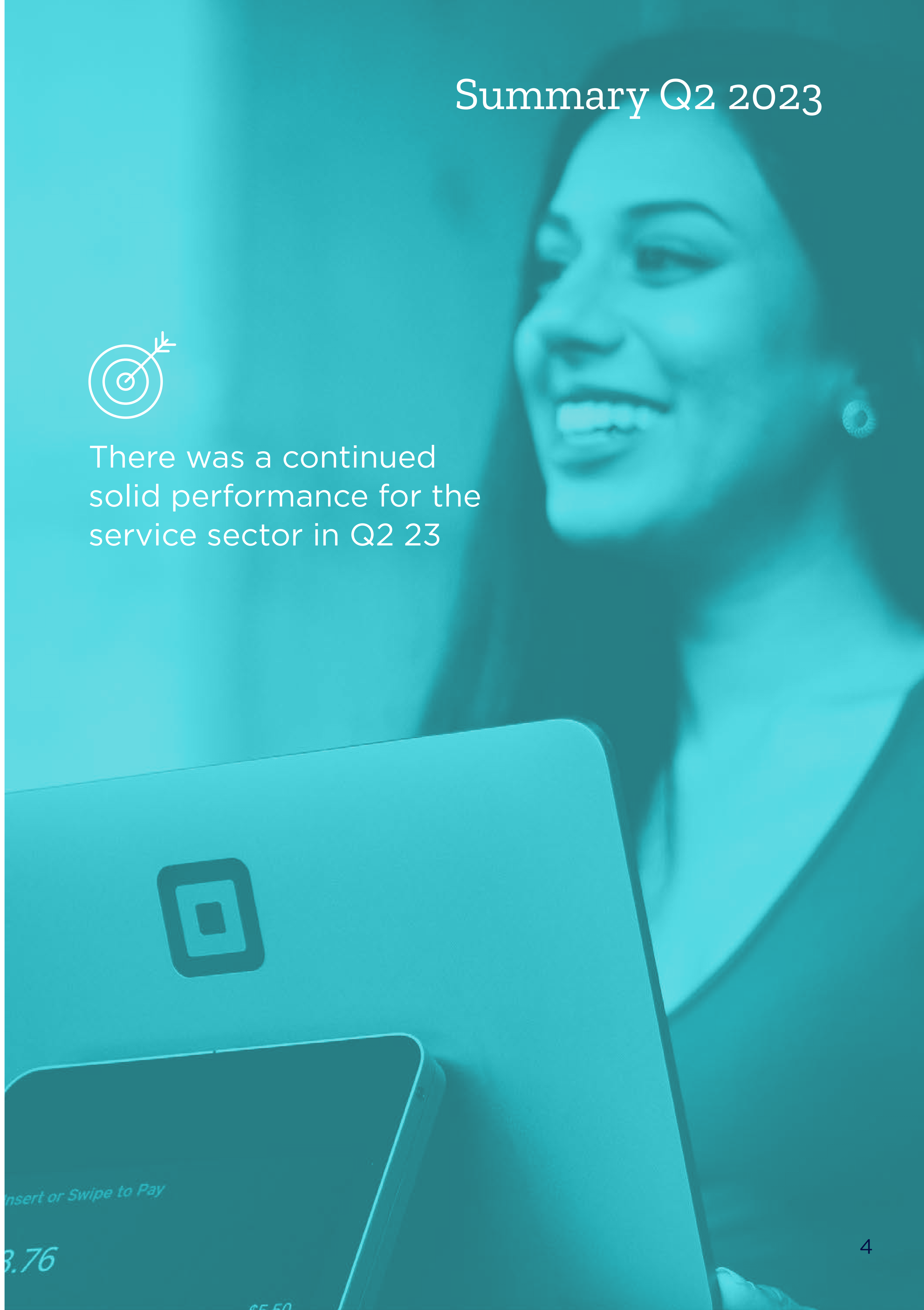
Fewer manufacturers are expecting to raise prices (down to 30% in Q2 23). However, rising labour costs are now the dominant pressure driving price increases. Inflation continues to dominate, with 76% of manufacturers reporting this as a concern, down slightly from 79% in Q1 23 and considerably lower than the 90% in Q2 22. This is followed by interest rates at 40%, down from 43% in Q1 23.

NI performs above the UK average across all key indicators and is in the top tier of UK regions

Services

There was a continued solid performance for the service sector in Q2 23 with recruitment and training strong. Some cost pressures ease but concerns grow around labour costs particularly, as well as interest rates. All except one key balance is positive with particularly strong indicators around turnover growth, employment and recruitment intentions, along with training investment.

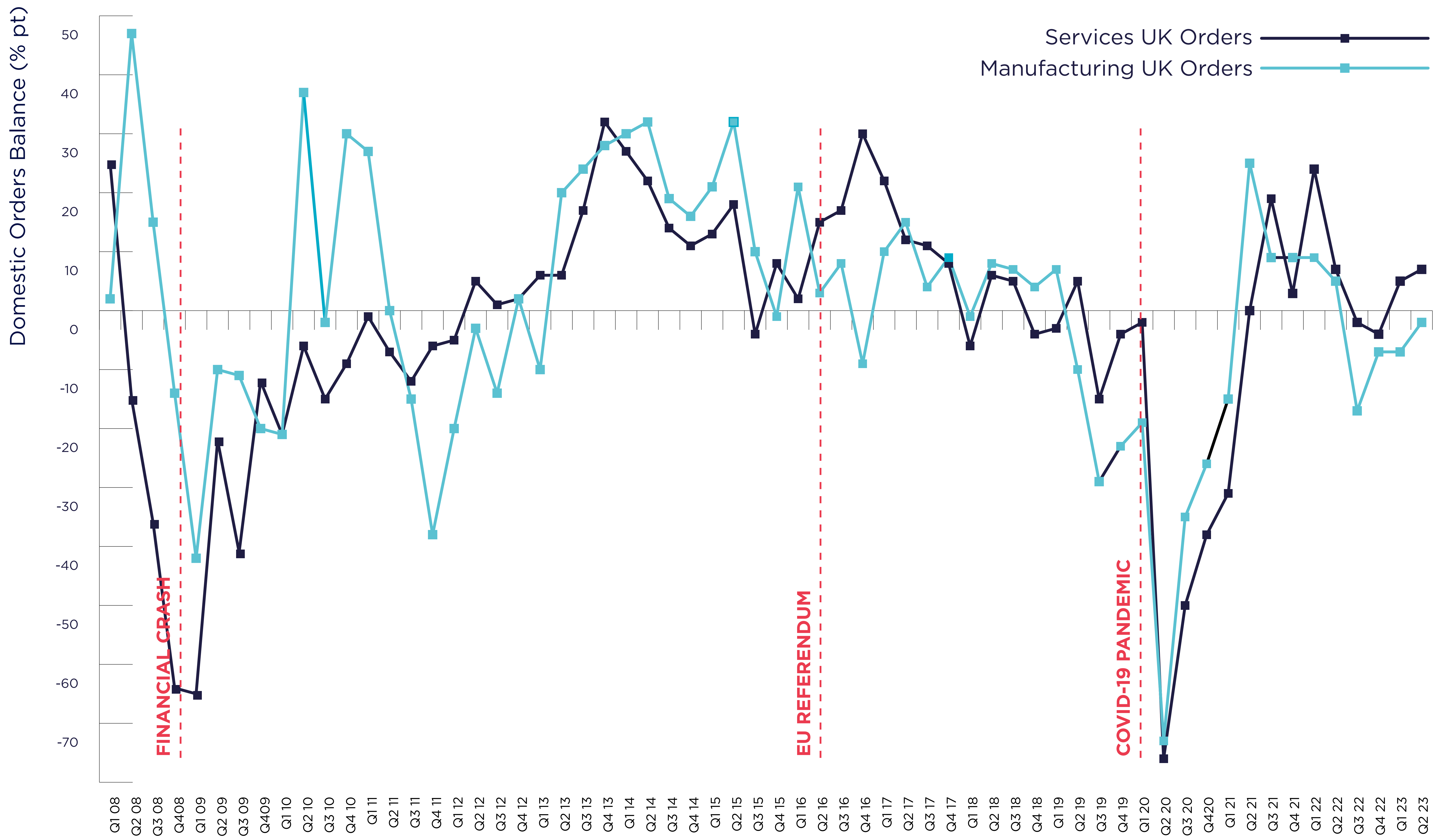
The service sector is particularly confident around turnover growth in the next 12 months with a balance of +53% expecting turnover growth, highest since 2016 (with the exception of the post COVID bounce back), ranking NI highest across the UK regions. NI's service sector also ranks first across the regions in terms of member investment intentions around training and plant and machinery (although this is a weak indicator generally). Recruitment remains one of the strongest indicators but expectations to take on employees did fall in Q2 23 and there has been some levelling off in recruitment intentions and challenges in getting the right staff (although this remains high).



There was a continued solid performance for the service sector in Q2 23

The only negative indicator is cashflow, ranking NI lowest across the UK regions on this indicator. Expectations to raise prices in the next three months fell again in Q2 23, with the balance now at its lowest since Q1 21. Labour and utility costs are placing the biggest pressure on services firms to raise prices, although fewer are reporting these as a pressure compared to the same quarter last year. The share reporting fuel as a pressure on prices has fallen to 37% (66% Q2 22). Fewer firms are concerned about inflation than three months ago, although this remains high at 74% (89% Q2 22) while a growing share are concerned about interest rates, at 48% up from 26% in Q1 23. There is also growing concern about corporation tax (38% vs. 24% Q1 23).

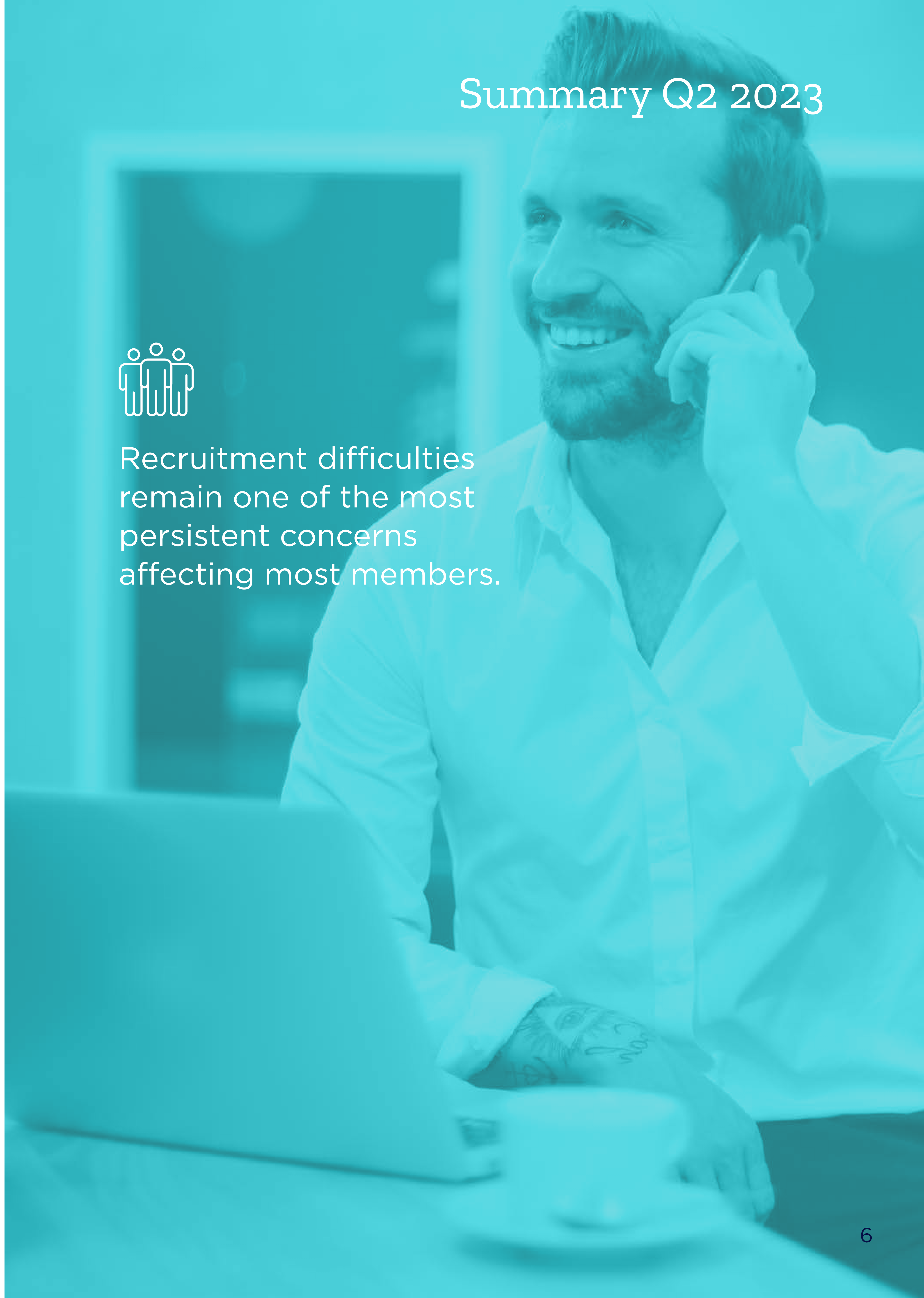
Balance of firms reporting improved domestic (UK) orders (next 3 months)



Northern Ireland Chamber of Commerce and Industry
CELEBRATING 240 YEARS

IN PARTNERSHIP WITH

BDO
IDEAS | PEOPLE | TRUST



Recruitment difficulties remain one of the most persistent concerns affecting most members.

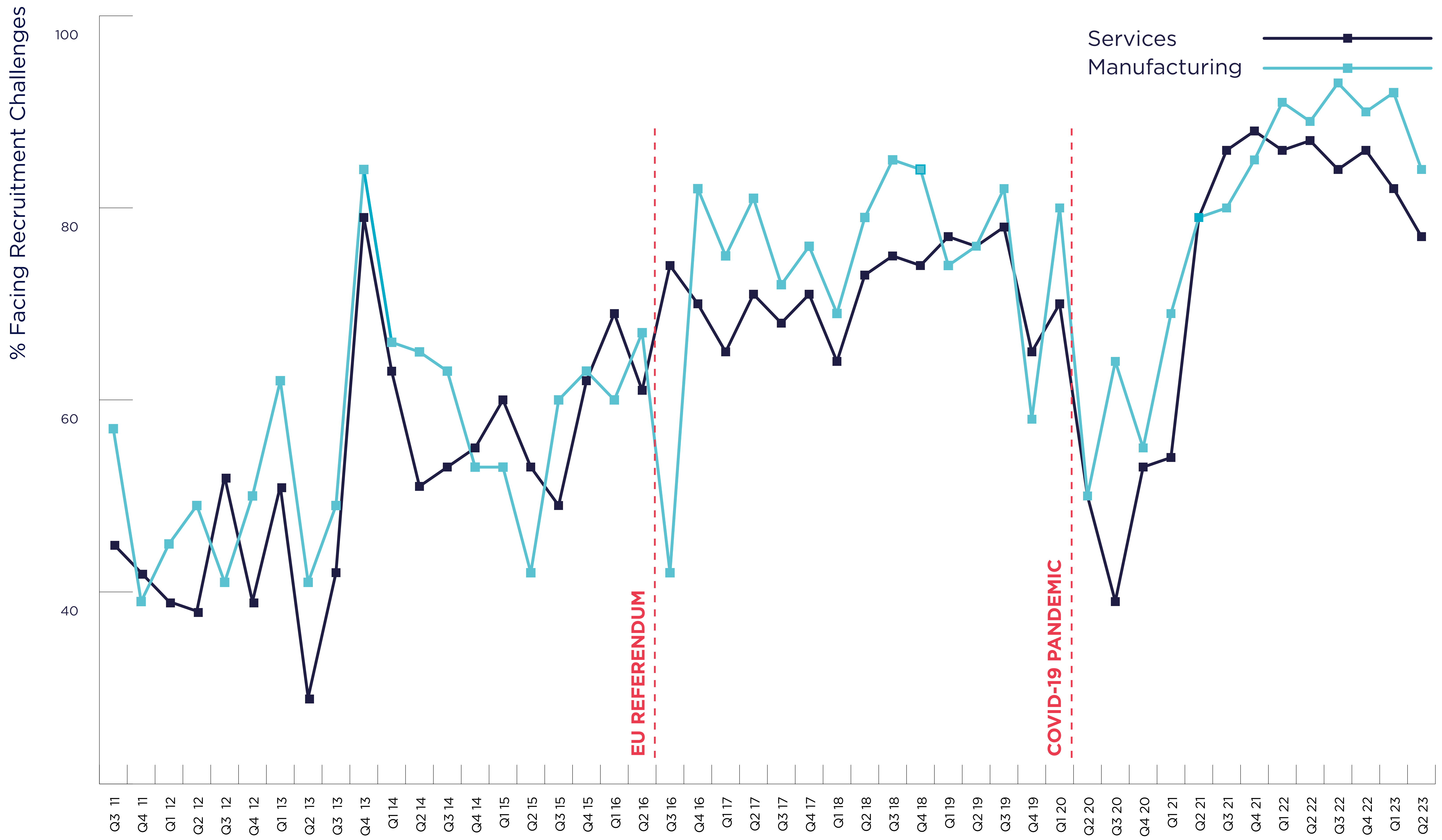
Recruitment

Recruitment activity remains positive in Q2 23 although there is a sense of stabilisation in recent quarters. After a strong Q1 23 performance for services, the balance fell to +30% from +47% in Q1 23 which was highest on record. Manufacturer's expectations around taking on people remained unchanged compared to Q1 23 +33%. Most businesses are still engaged in some level of recruitment - 71% of manufacturers (75% Q1 23) and 71% of services (73% Q1 23). This had fallen to just 27% of manufacturers and 21% of services in Q2 20 during COVID.

Recruitment

Recruitment difficulties remain one of the most persistent concerns affecting most members. In Q2 23 84% of manufacturers and 77% of services are finding it difficult to get staff. This has fallen over the last couple of quarters though. It was as high as 93% in Q3 22 for manufacturers and 88% in Q4 21 for services.

% facing recruitment difficulties

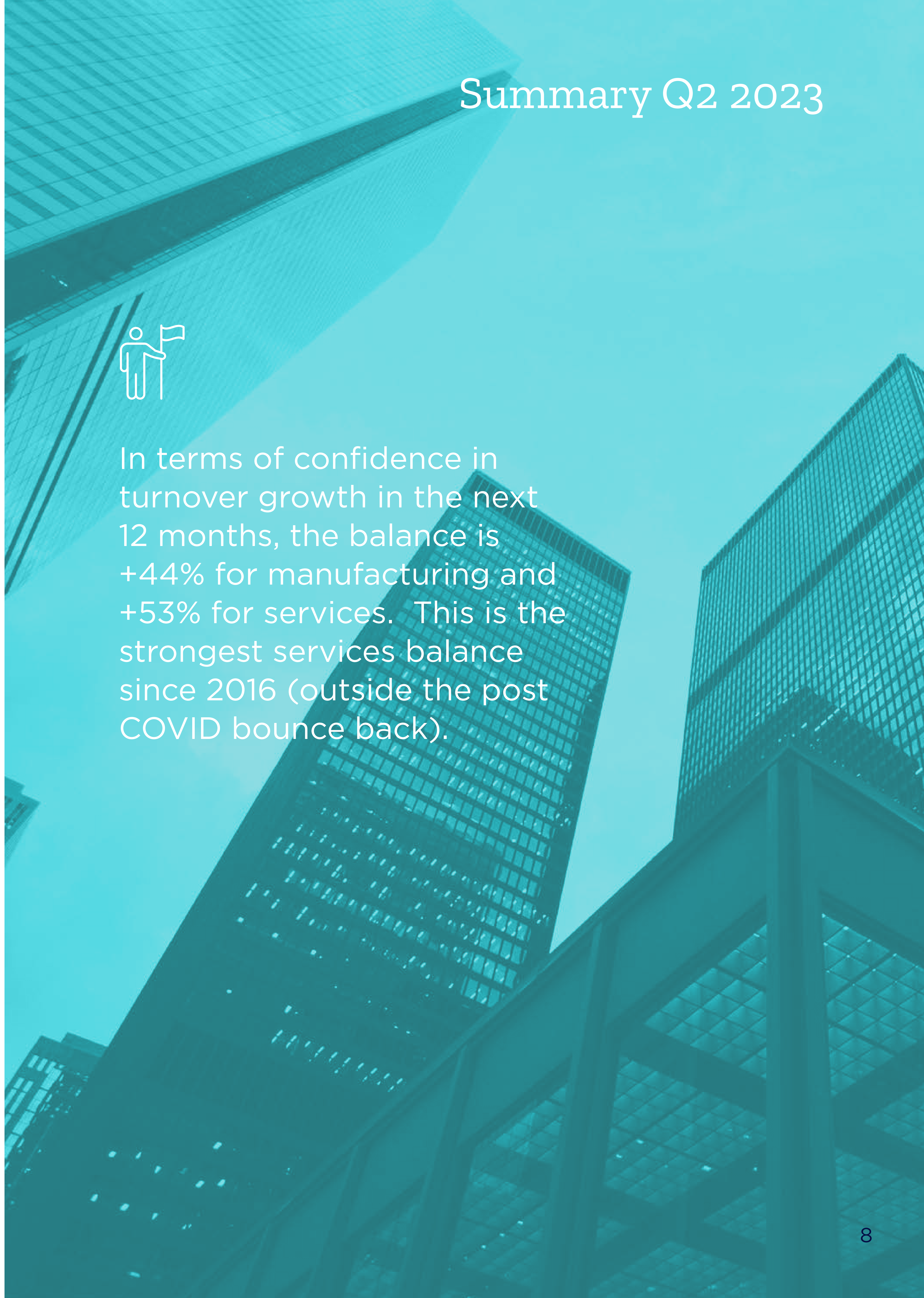


Confidence and Investment Intentions

Business confidence appears to be growing again. It had been falling since the start of 2022 with balances similar to pre-COVID levels after what had been a strong COVID recovery. This had stabilised in Q4 22 and in Q1 23 was showing strong improvement for both manufacturing and services.

In terms of confidence in turnover growth in the next 12 months, the balance is +44% for manufacturing and +53% for services. This is the strongest services balance since 2016 (outside the post COVID bounce back).

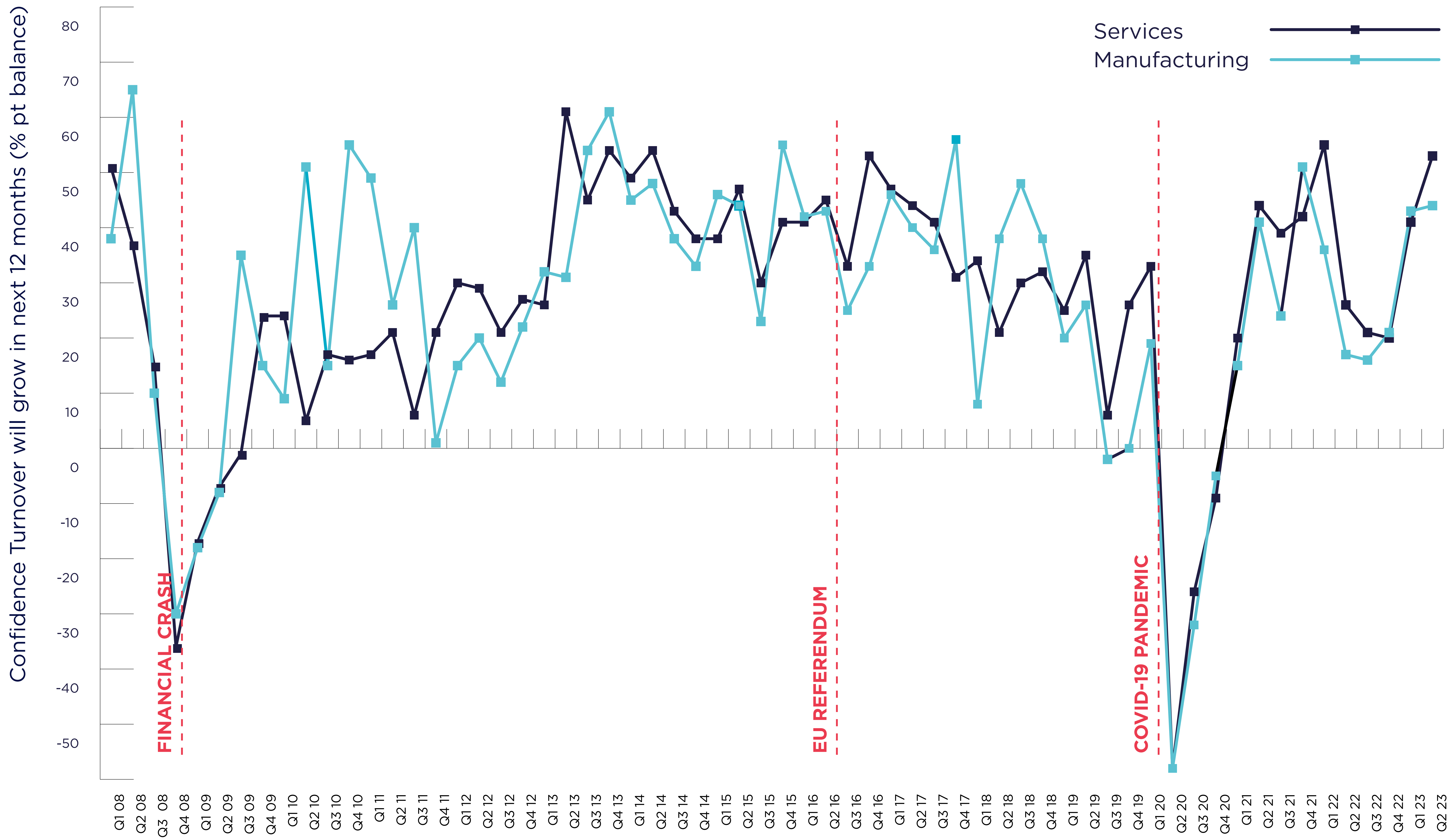
Confidence around profitability always tends to be weaker than turnover and it remains the case that members are less certain around profitability growth for the next 12 months. However, this indicator is also stronger for both sectors in Q2 23 and showing continued signs of improvement. Confidence around profitability plummeted for both in Q3 22 with more businesses believing profits would fall rather than rise and this remained negative in Q4 22. In Q2 23 both balances are positive with a balance of +24% for both, compared to +18% of manufacturers and +16% of services firms in Q1 23).



In terms of confidence in turnover growth in the next 12 months, the balance is +44% for manufacturing and +53% for services. This is the strongest services balance since 2016 (outside the post COVID bounce back).

Investment intentions had improved at the start of 2023 and remain positive. In terms of training, the balances stood at +16% (+24% Q1 23, +22% Q4 22) for manufacturers and +27% for services (+24% Q1 23, +11% Q4 22). The services balance continues to improve, and NI had the highest training balance across the UK regions in Q2 23. Investment intentions around plant & machinery had improved at the start of 2023. In Q2 23 this indicator stood at +20% in Q1 23 (+23% Q1 23, +12% Q4 22) and for services at +9% (+18% Q1 23, -1% Q4 22).

Balance of firms confident that turnover will grow in next 12 months



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 balance did fall significantly during Q2 2020 but had been improving although this has stalled in recent quarters.

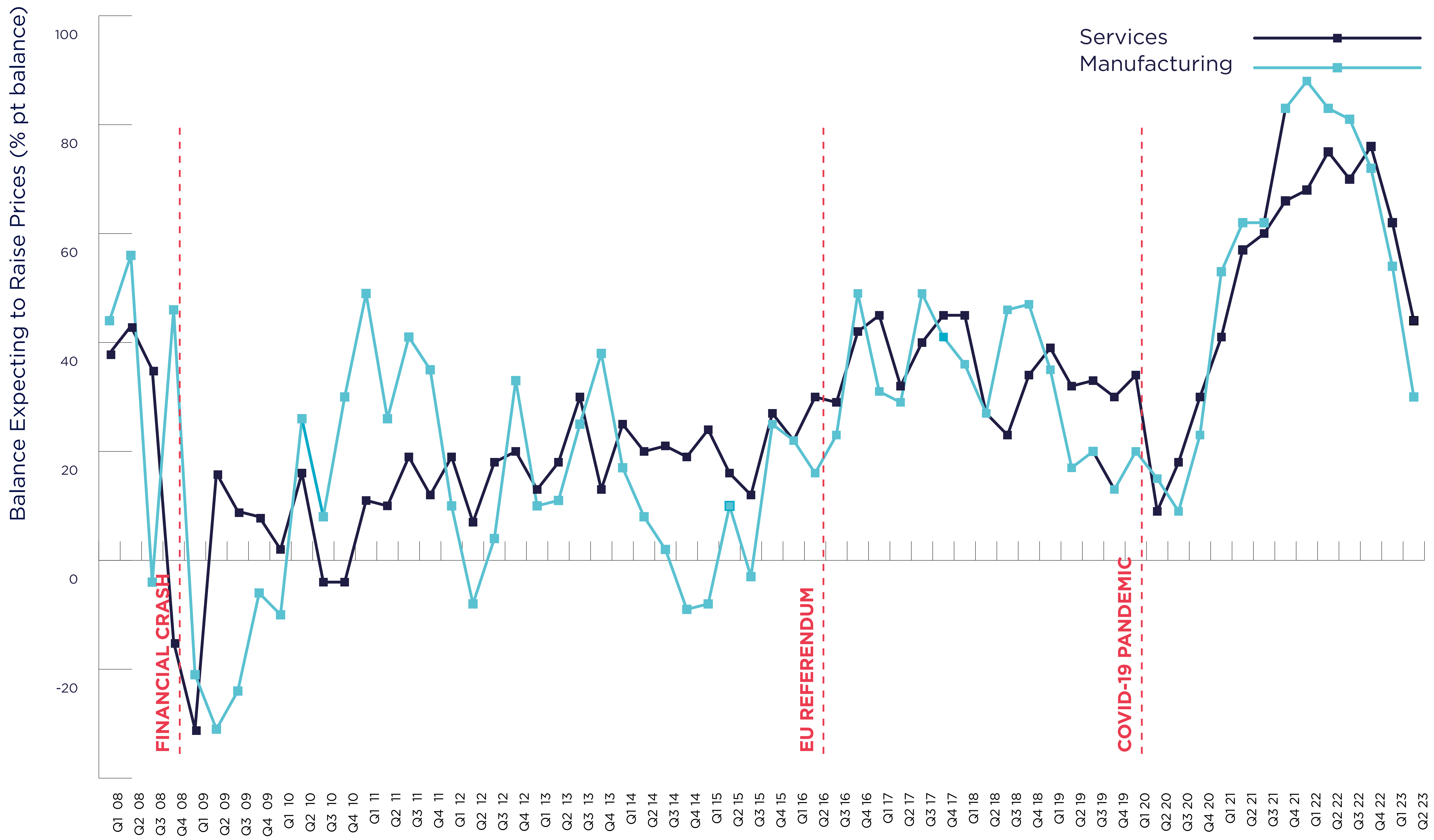
The manufacturing cashflow balance turned positive in Q2 23. In fact, the cashflow balance is positive for only the second time since 2018. This means more manufacturers are reporting an improving cashflow position than a deteriorating one although the indicator is weak at +4%. It was as low as -26% in Q3 22. In services, the cashflow balance was its weakest performing indictors in Q2 23 at -9% meaning more firms are reporting a deteriorating cashflow picture than an improving one.

The balance did fall significantly during Q2 2020 but had been improving although this has stalled in recent quarters.

Prices & Costs

Expectations to raise prices continues to fall for manufacturing and services. In Q2 23 the balance of manufacturers expecting to raise prices is +30% and for services +44%. This is down considerably from a peak for +88% for manufacturers in Q1 22 and for services at +76% in Q4 22. In manufacturing the prices balance is back to pre 2021 levels.

% balance expecting to raise prices over the next 3 months



Prices & Costs

Inflation remains the most pressing concern for businesses although this is affecting fewer firms. In Q2 23 76% of manufacturers reported inflation as a greater concern than 3 months ago, down from 79% in Q1 23 and 90% in Q2 22. For services, 74% reporting inflation as a key concern, down from 77% in Q1 23 and 89% a year earlier.

Labour costs is now the most dominant cost pressure facing firms. In Q2 23 85% of manufacturers and 76% of services firms are reporting labour costs as a key pressure on them to raise prices. Raw material costs, while remaining significant for manufacturers, have fallen from being a pressure on 92% of manufacturers in Q2 22 to 73% in Q2 23. Fewer firms are also reporting pressure from utility costs, particularly manufacturers where 64% are reporting pressure from utility costs, down from 91% in Q2 22. Fuel cost pressures have reduced considerably. There has been a general softening in cost pressures in the last couple of quarters for both sectors.

Interest rates are a growing concern in both sectors, with 40% of manufacturers and 48% of services reporting it as more of a concern than 3 months ago. This means that half of services firms are concerned about rising interest rates, up significantly from 35% in Q1 23. Other growing concerns are corporation tax and competition.

Inflation remains the most pressing concern for businesses although this is affecting fewer firms.

Regional Position

Northern Ireland suffered one of the largest collapses in key indicators across the 12 UK regions in Q2 2020 following the onset of the pandemic. Manufacturing had been recovering relatively well vis-à-vis the rest of the UK regions and the services position had also been improving.

Performance had taken a dip in recent quarters with many key indicators deteriorating and negatively impacting on NI's regional rankings. However, in Q4 22 there were some signs of improvement, particularly for manufacturing. This has continued into the first six months of 2023 for both sectors.

Typically, Northern Ireland has ranked among the bottom performing UK regions across most of the QES key indicators in the past. In recent quarters this has not been the case and Northern Ireland's regional ranking has generally been more positive.

In Q2 23, Northern Ireland ranks in top 4 UK regions for 9 of the 11 key indicators for manufacturing. Its highest regional ranking is 2nd relating to investment intentions around plant and machinery. It does not feature in the bottom 3 performing UK regions for any of key indicators this quarter (2 in Q1 23, 5 in Q4 22). Manufacturing's weakest regional position is with domestic orders where it ranks 8th out of the 12 UK regions with a negative balance of -2% meaning slightly more businesses reporting falling domestic (UK) sales than those reporting a rise.

In services Northern Ireland's regional position continues to be relatively strong with just one indicator in the bottom 3 UK regions, cashflow with a negative balance of -9%. Northern Ireland ranks as the Top region for 4 of the 11 indicators including employment activity in the last 3 months, investment intentions in both training and plant/machinery and confidence in turnover growth in the next 12 months. In Q2 23 the balance of firms investing in training was +27% for Northern Ireland's services companies compared to +13% for the UK.

Additional Questions

Each quarter NI Chamber members are asked a number of additional topical questions. This quarter focuses on the Windsor Framework along with a range of questions around trading conditions, energy costs, public spending cuts, government revenue generation ideas and investment opportunities for Northern Ireland.

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 out workings 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. Latest findings (Q1 23) suggest that most businesses have adapted to new trading arrangements post EU Exit, but it is still having a negative impact on some businesses, with 1 in 6 still finding trading arrangements difficult and 7% stating that they are posing significant challenges for their business.

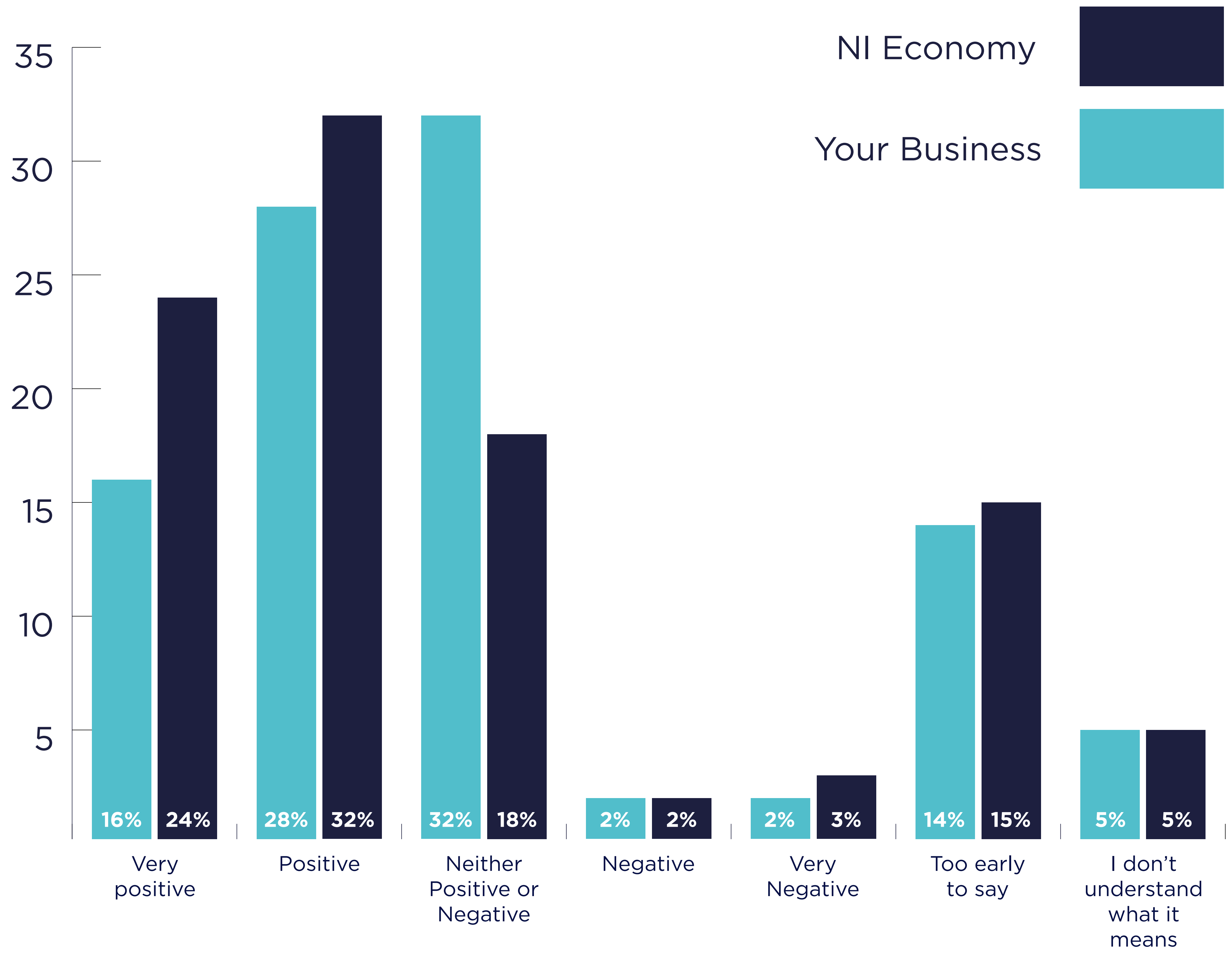
The Windsor Framework was announced on the

27 February 2023. It is a post-Brexit legal agreement between the UK and EU to change the way the Northern Ireland Protocol operates.

In Q2 23 members were asked about the potential impact of the Windsor Framework on their business and the economy. The fieldwork was undertaken prior to the release of more detailed guidance on its implementation and operation in June 2023. The findings highlight that 44% of members are positive about the Windsor Framework's potential impact on their business while 56% are positive for the economy. Only 4% are negative about the impact on their business. However, 1 in 5 are less sure in that a) 15% think it's too early to say and b) 5% do not understand what the Windsor Framework means.

NOTE: The implementation of the Framework will happen in stages into 2025, to provide businesses with time to adapt to new arrangements.

What, on balance, is your assessment of the Windsor Framework in terms of its potential impact on your business and the Northern Ireland economy?

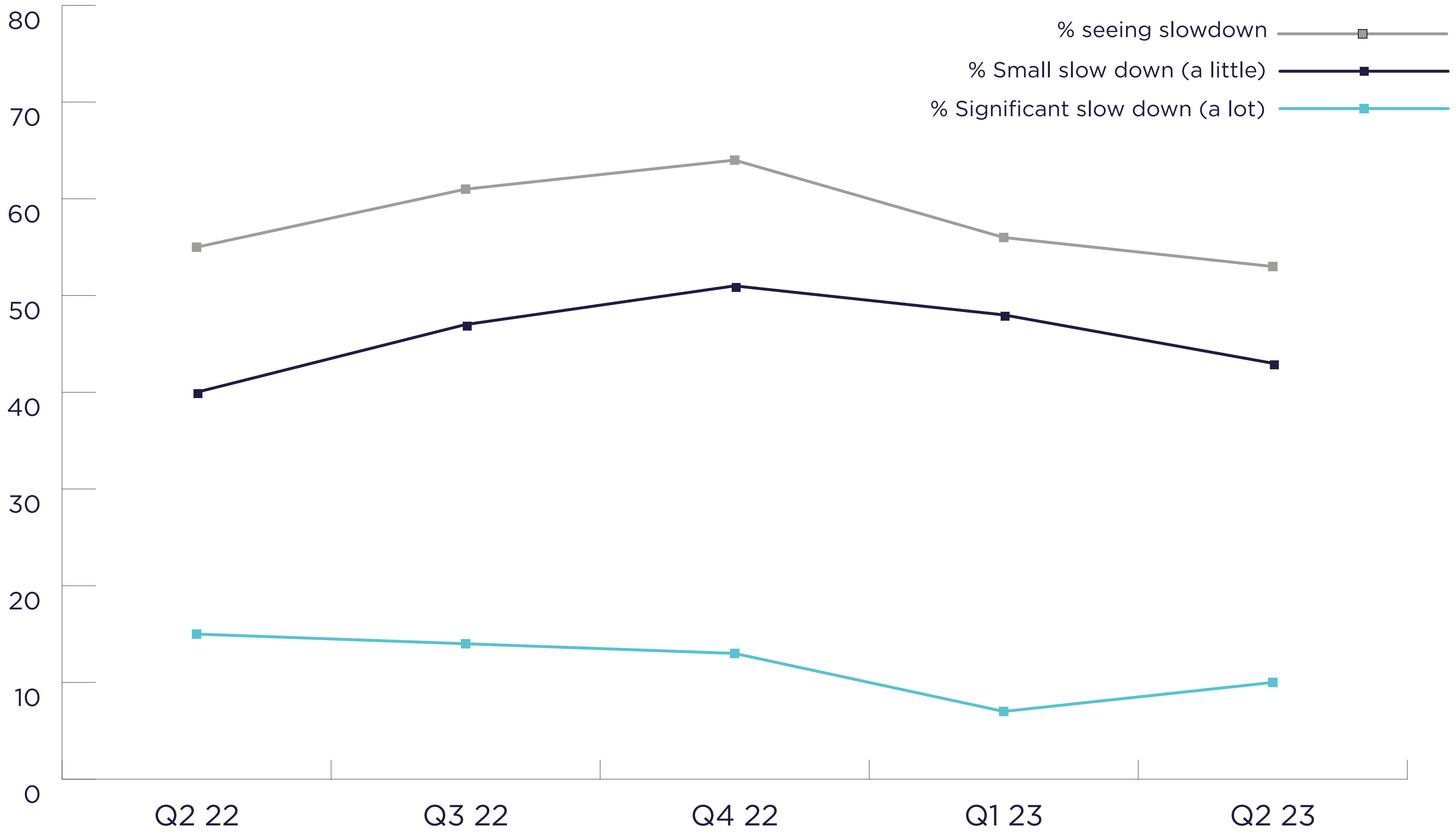


Current Business Conditions

Members suggest a largely positive trading performance for businesses in Q2 23. 4 in 5 (81%) say they are still trading well or reasonably with 1 in 5 just covering costs or struggling. This is a slightly better performance on Q1 23 when 78% were performing well/reasonably. 13% of businesses are just covering costs and 4% state that they are struggling.

More than half of members are seeing a slowdown in demand (53%) although this has eased from Q4 2022 when it rose to 64%. Most have seen only a little slowdown (43%) while 10% have seen demand for their products/ services slow down significantly.

Do you see any signs of slow down currently in demand for your products and/or services?



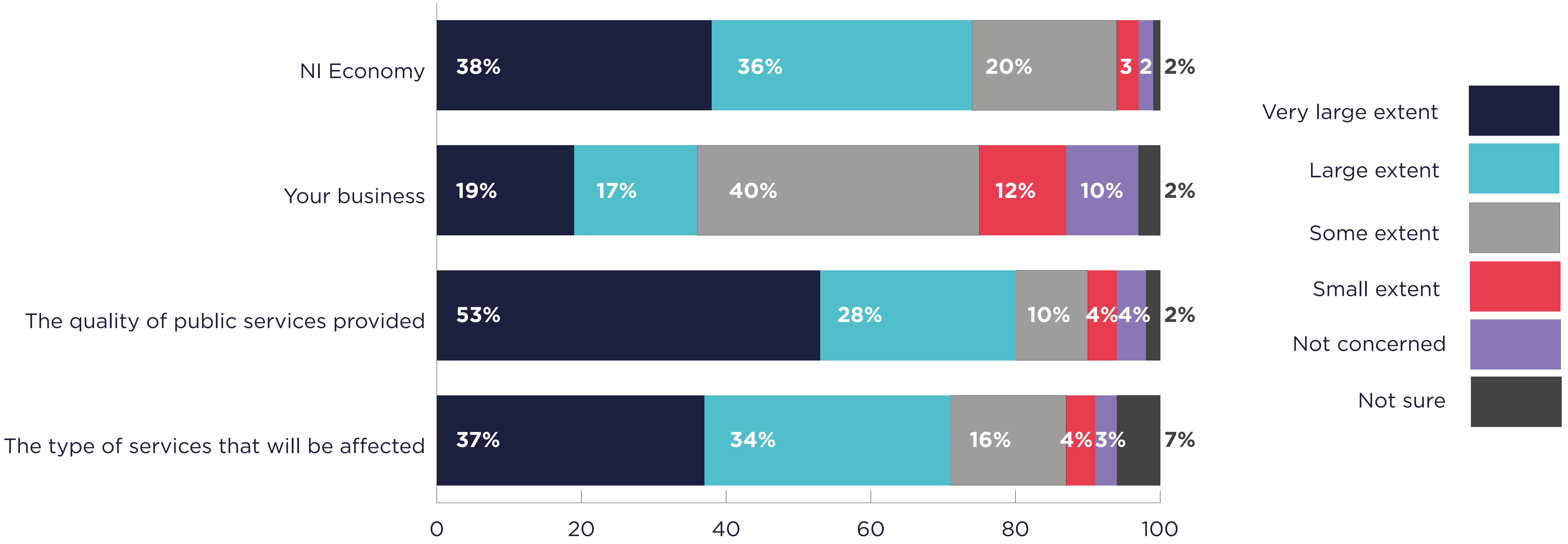
Energy Costs

The pace of energy cost inflation appears to be slowing although costs are still rising for most. In Q2 23, 80% of members said energy costs had risen, down from 90% in Q1 23. Cost increases are not as high, 19% saw energy costs increased by more than 30% in Q2 23 compared to 52% last quarter. The majority (61%) saw increases of up to 30%. 11% of members have seen a reduction in energy costs this quarter and 10% no change.

Public Spending Cuts

Members were asked to what extent they were concerned about the impact of public spending cuts. Members expressed the greatest concern about the impact of public spending cuts on the quality of public services provided in NI, 81% of respondents. 74% are also very concerned about the impact of cuts on the Northern Ireland economy. A significant 1 in 3 are particularly concerned about the impact of public spending cuts on their business.

To what extent, if at all, are you concerned about the impact of public spending cuts on the following?



Revenue Generation

Members were asked an open ended question about measures which could be introduced to support public spending locally. The Top 5 potential contributions mentioned by members include the introduction of water charges, greater public sector efficiency, a reduced corporation tax rate, a functioning Executive and a greater focus on selling NI's unique trading position post EU Exit. Other interventions include, for example, simplified planning and a single use plastic levy.

Northern Ireland Chamber of Commerce and Industry
CELEBRATING 240 YEARS

IN PARTNERSHIP WITH

BDO
IDEAS | PEOPLE | TRUST

Investment Opportunities

In the President of the United States, Joe Biden's recent visit he noted the significant opportunities for US investment in Northern Ireland and in appointing Joe Kennedy as Special Envoy for Northern Ireland has demonstrated a commitment to supporting investment and job creation here. Members were asked what they believe to be the most important opportunities for Northern Ireland in making this commitment.

79% of members believe there are significant opportunities to boost economic growth in Northern Ireland with potential opportunities for US investment following Biden's visit to NI. Other important impacts are boosting job creation (59%), driving new sectors/cluster development (52%) and driving productivity (47%). Members are less likely to believe that any investment opportunities would result in knowledge transfer, boost wages, support local supply chains and spread investment across Northern Ireland.

NI Chamber Perspective

"The findings clearly demonstrate the resilience of business through a protracted period of challenges. It is encouraging to see the stabilisation of business confidence in the first half of 2023, with a strong performance across so many indicators relative to other UK regions.

"However, the most alarming aspect of the findings this quarter is the perceived impact of Stormont's fiscal problems on the economy and individual firms. It serves as a timely reminder that a sustainably funded, functioning Executive is the missing piece in unlocking Northern Ireland's potential and driving confidence and growth."

Suzanne Wylie
Chief Executive, NI Chamber

BDO Perspective

“Positive momentum and consistency are the order of the day and businesses across Northern Ireland are clearly demonstrating both. Considering the difficult conditions many organisations are operating in, achieving any degree of positive momentum really is remarkable and it shows that the business community is continuing to strive for sustainable economic growth.

“Confidence continues to grow, with 62% of companies positive that turnover will grow in the next 12 months, this is up 2% from Q1 2023 and more significantly up 15% on the last quarter of 2022, demonstrating real time progress.

“This is not to say that businesses are not under pressure, nor does it imply the challenges around recruitment, skills and costs have dissipated. What it does demonstrate is that businesses are learning to operate and grow whilst simultaneously dealing with a range of challenges.

“The local business community certainly does not rest on its laurels. Across the board, businesses have adapted and transformed their offering to meet the changing needs and demands of their market, identifying opportunities for investment and collaboration as they go.”

Brian Murphy,
Managing Partner, BDO NI

Northern Ireland Chamber of Commerce and Industry

CELEBRATING 240 YEARS

IN PARTNERSHIP WITH

BDO

IDEAS | PEOPLE | TRUST

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, 188 members responded to the NI Chamber of Commerce & Industry Quarterly Economic Survey (QES), in partnership with BDO, for the 2nd quarter of 2023. Together they account for 21,400 employees in Northern Ireland.

The fieldwork for the Quarter 2 23 survey took place between 23 May and 9 June 2023. This is just over one year after the war in Ukraine began. The Windsor Framework was announced on 27 February 2023. The Chancellor's Spring Statement took place on 15 March 2023.

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 240 years commitment to the Northern Ireland economy. It is a well-known network for business with a membership of 1,000 businesses representing over 100,000 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.**