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NI CHAMBER & BDO NI

Quarterly Economic Survey Summary

Q3 2023

PREPARED BY NI CHAMBER ON 27TH OCTOBER 2023

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Overview

The Q3 23 findings suggest that although the trading environment continues to be largely positive for members, there are signs of some challenges, particularly for manufacturers, after what had been a strong performance in Q2 23. More businesses are operating below capacity, confidence has taken a slight knock and less recruitment is taking place. Price pressures are easing but inflation remains a very significant concern with labour costs dominating pressures to raise prices.

Many key indicators are positive, meaning more firms are reporting increasing employment, confidence and investment intentions than those reporting a fall. The only exception is manufacturing's domestic and export trading balances, which are negative in terms of performance in the last 3 months and orders for the next 3 months.

The domestic performance deteriorated in Q3 23 with fewer businesses reporting increased domestic (UK) sales in the last 3 months (28% Q3 vs Q2 35% Q2) although this is higher than those reporting a fall (23% Q3 vs. 23% Q2). There are also marginally more firms reporting increased domestic orders for the next 3 months, 27% compared to 22% reporting a fall. The export performance is tougher this quarter with just 18% expecting export orders to grow in the next 3 months (Q2 33%) although fewer are expecting orders to fall (17% Q3 vs. Q2 26%).

13% of respondents are very positive about the Windsor Framework's impact on the economy and 36% positive. 8% are negative and 5% very negative about its impact on the economy.

More businesses are operating below capacity in Q3 23, increasing to 58% after falling to 49% in Q2 23 (51% Q1 23, 62% in Q3 22). Confidence that turnover will grow in the next 12 months fell to 57% (62% Q2, 60% Q1 and 47% Q4 22) but means there are still significantly more firms expecting turnover to grow than fall.

Recruitment activity has fallen slightly over the quarter with 67% of members trying to recruit (72% Q2, 74% Q1). Recruitment difficulties persist with 82% of those recruiting experiencing difficulties (79% Q2, 87% Q1 23). Rising labour costs have become a much more significant concern and for more than 4 in 5 members is feeding into expectations to raise prices, up on Q2 23.

Expectations to raise prices continue to ease although the pace is slowing with a balance of +44% of members reporting that they expect to raise prices in the next 3 months, down from 46% in Q2, 60% in Q1 and 75% in Q4 22. However, inflation continues to dominate as the key concern for members and rising interest rates and competition are also notable concerns.



Many key indicators are positive, meaning more firms are reporting increasing employment, confidence and investment intentions than those reporting a fall.

Manufacturing

Manufacturer's performance in Q3 23 was weaker across most key indicators with a more challenging trading performance evident this quarter.

Four key balances are negative in Q3 23 (1 in Q2), all around trading performance in domestic and export markets. Northern Ireland is one of seven of the 12 UK regions reporting a negative export order balance, albeit Northern Ireland's is marginally negative. Northern Ireland performed below the UK average for most key indicators in Q3 after what had been a strong performance in Q2.

One of the sector's strongest balances is cashflow which turned positive in Q2 for only the second time since 2018. The balance is +11% in Q3 meaning more manufacturers are reporting an improving cashflow position than a deteriorating one. Confidence around turnover and profitability took a dip in Q3 but both remain positive. Employment expectations also remain positive but fell in Q3 although around 70% of manufacturers are still recruiting.

A balance of +31% of manufacturers expect to raise prices in Q3, similar to Q2. This had been as high as +88% in Q1 22. Rising labour costs is now the dominant pressure driving price increases for the sector. Inflation continues to affect around 2 in 3 manufacturers but has shown signs of easing. Competition is a growing concern.



Manufacturer's performance in Q3 23 was weaker across most key indicators with a more challenging trading performance evident this quarter.

Services

There was a continued solid performance in Q3 23 with recruitment intentions and training investment strong. Some cost pressures have eased but concerns are growing around labour costs particularly as well as interest rates. Most service sector indicators remain above the UK average, although the performance had been much stronger in Q2.

All except one key balance remains positive in Q3 23 with strongest indicators around confidence in turnover growth and employment expectations for the next 3 months and weakest around investment intentions in plant and machinery. Confidence around turnover growth did dip slightly this quarter to +42% but is higher than the national average (+37%) ranking NI as one of the top performing regions on this metric. Confidence around profitability fell in Q3, with Northern Ireland performing particularly weakly relative to the UK average.

Fewer services members are taking on staff this quarter although 70% are still recruiting. A large majority of services firms continue to experience recruitment difficulties (84%).



All except one key
balance remains
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Recruitment

More services firms than manufacturers are expecting to take on people in Q3. However, the balance of firms expecting employment to grow in the next 3 months has fallen for both sectors, but particularly for manufacturers in Q3 23. The balance of manufacturers expecting employment to grow in the next 3 months fell from +25% in Q2 to +17% in Q3. For services that balance fell from +30% in Q2 to +26% in Q3.



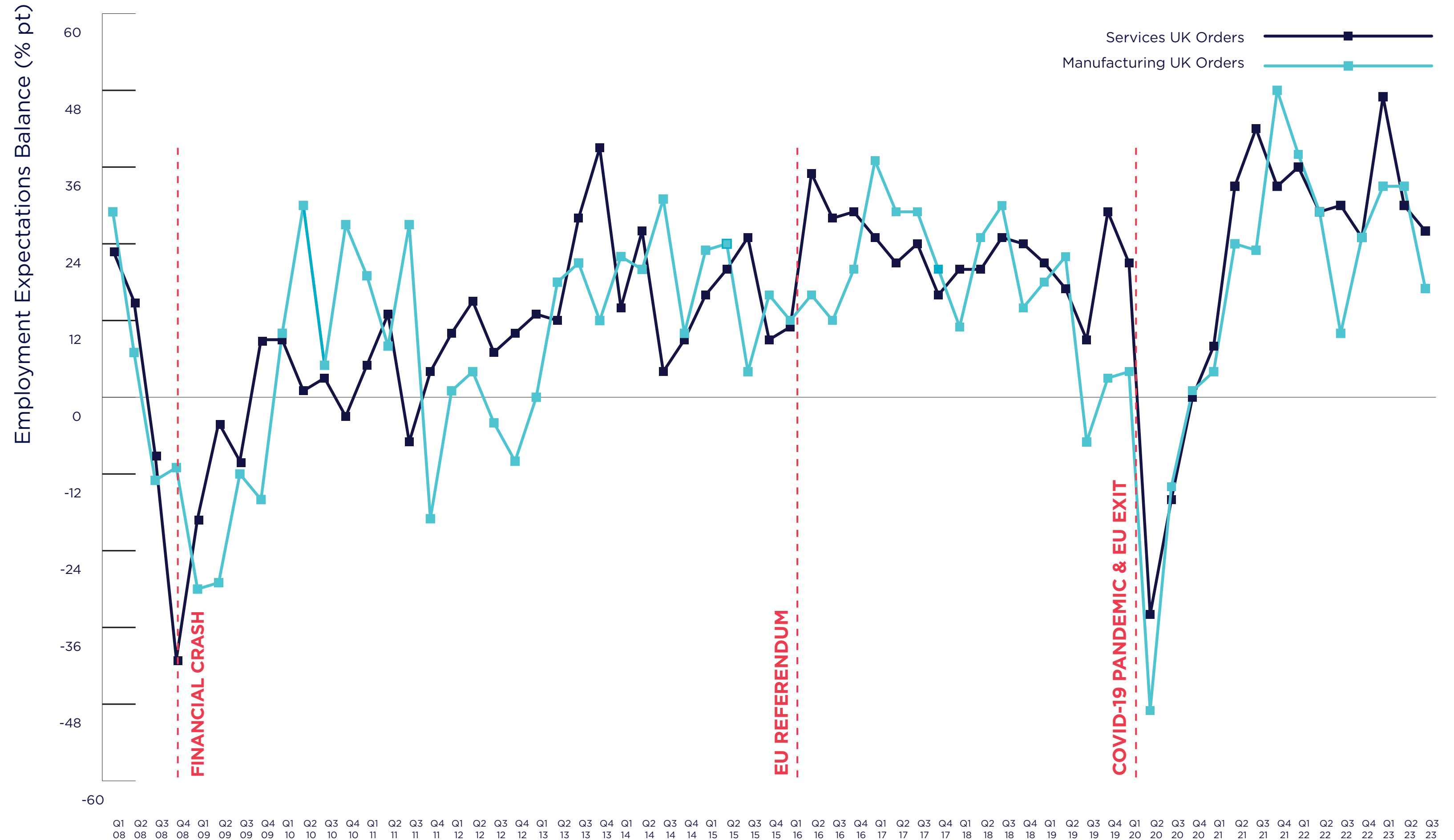
More services firms than manufacturers are expecting to take on people in Q3.

Recruitment

7 in 10 members are currently trying to recruit. That has been largely consistent across both the manufacturing and services sectors over the last year and remains high by historical standards.

Recruitment difficulties remain one of the most persistent concerns affecting most members. The share of both manufacturing (80%) and services (84%) members experiencing recruitment difficulties remains high in Q3 23 although manufacturing challenges continues to show signs of slight softening.

Balance of Firms Expecting Employment to Grow in Next 3 Months



Confidence and Investment Intentions

Business confidence has taken a dip for both manufacturing and services in Q3 23 after a period of recovery. 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 stabilized 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 +32% (+44% Q2) for manufacturers and +42% (+53% Q2) for services although while showing signs of deterioration is still above pre-COVID levels for both sectors.

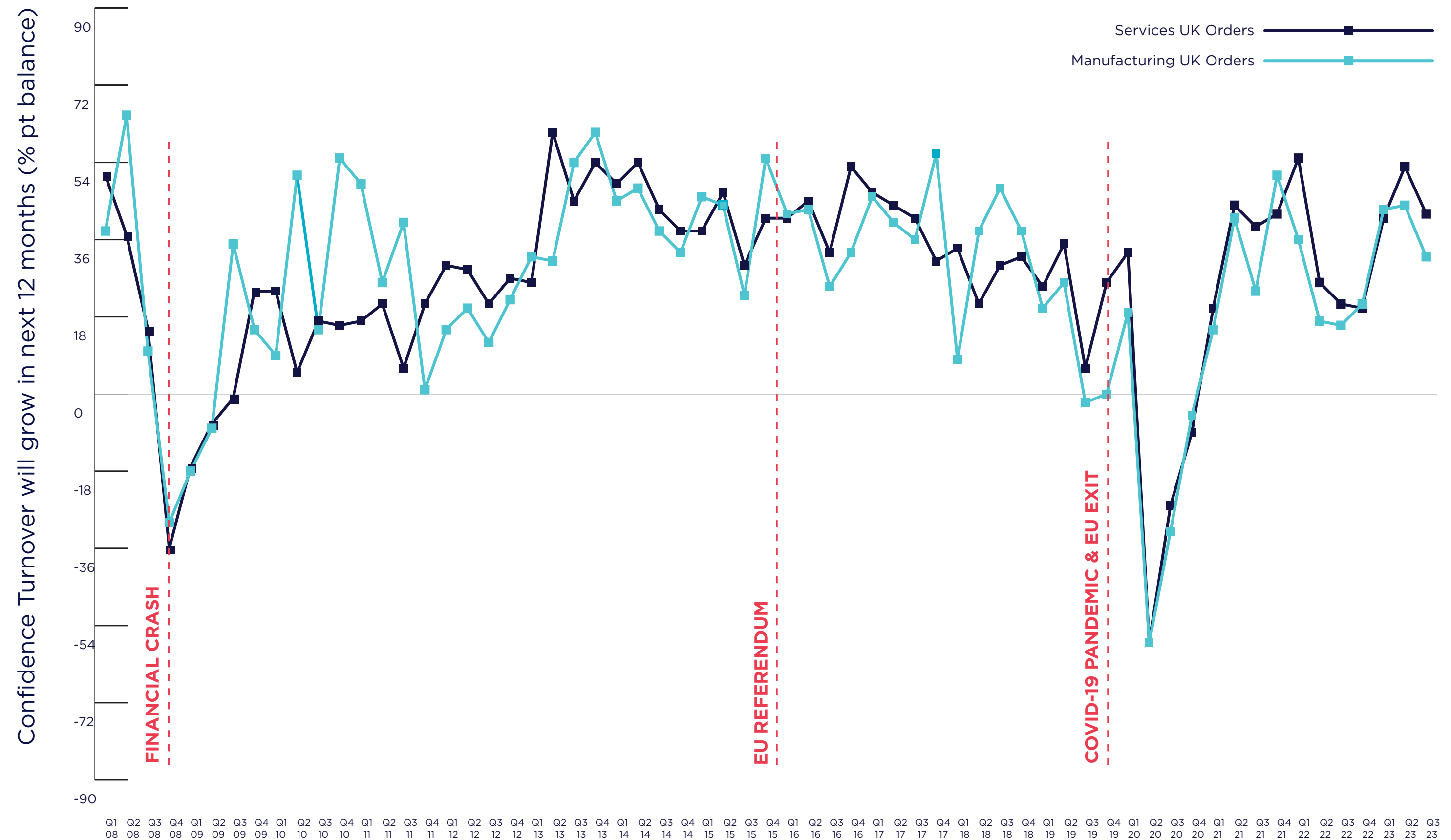


Business confidence
has taken a dip for
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Confidence around profitability tends to be weaker than turnover and it remains the case that members are less certain around profitability growth for the next 12 months. This indicator also dipped for both sectors in Q3 23. In Q3 23 both balances are positive with a balance of +4% Manufacturers and +13% Services expecting profitability to grow in the next 12 months. This had however been +24% for both in Q2 23, a considerable drop particularly for Manufacturers.

Investment intentions had improved at the start of 2023 but has also weakened considerably in Q3. In terms of training, the balances stood at +16% (+16% Q2 23, +24% Q1 23) for Manufacturers and +13% for Services (+27% Q2, +24% Q1 23) suggesting a significant fall off in the share of Services firms investing in training. Investment intentions around plant & machinery had improved at the start of 2023 but in Q3 23 stands at just +1% for manufacturers (+20% Q2 23, +23% Q1 23) and for Services at -1% (+9% Q2 23, +18% Q1 23).

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

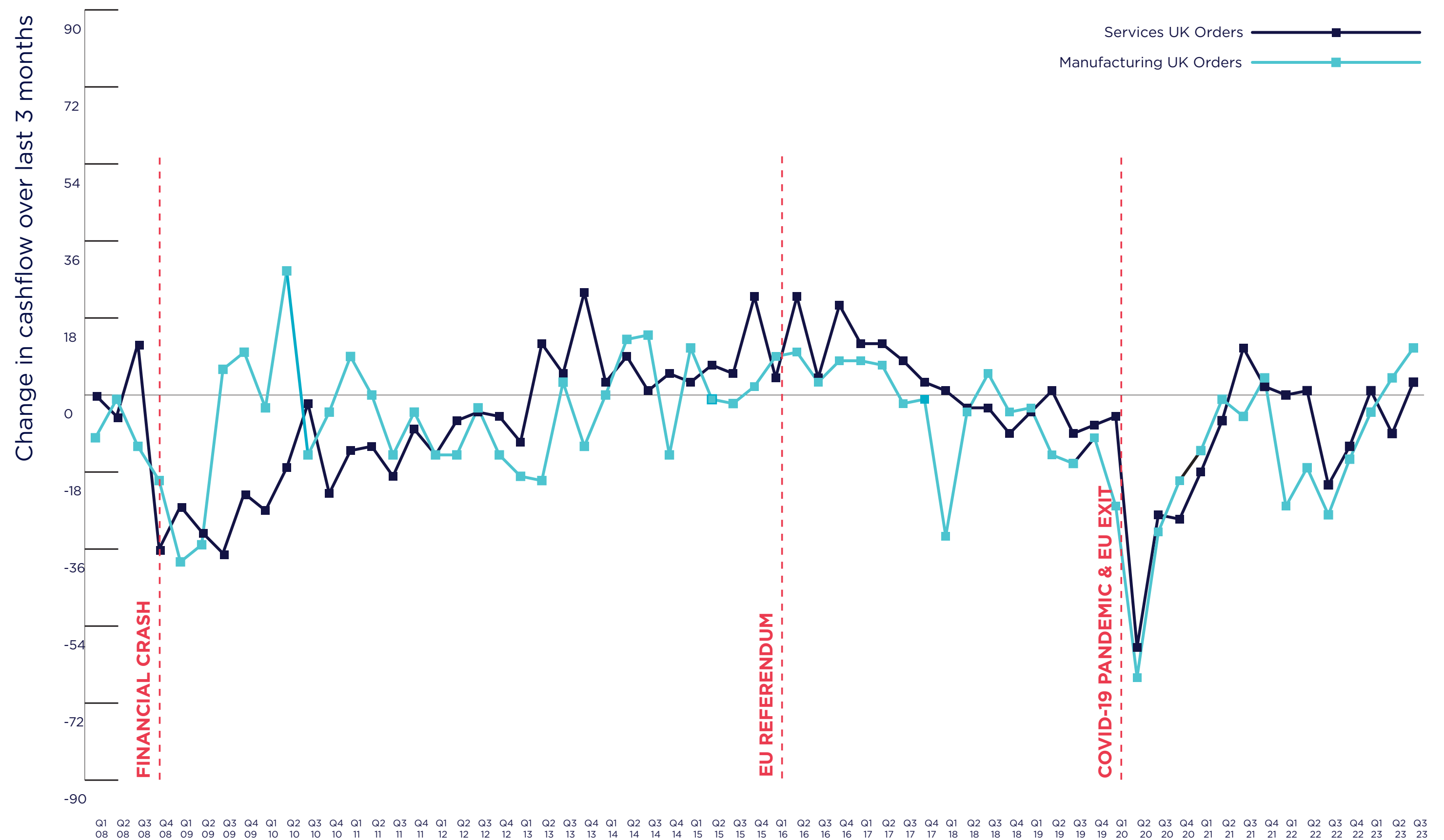


Cash flow

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 had stalled.

The manufacturing cashflow balance turned positive in Q2 23 and has remained positive in Q3 23. In fact, the cashflow balance is now positive for only the second period since 2018. This means more manufacturers are reporting an improving cashflow position than a deteriorating one and the indicator has continued to strengthen. The balance is currently +11%. It was as low as -26% a year ago in Q3 22. In services, the cashflow balance remains one of its weakest performing indicators at +3% but it is positive.

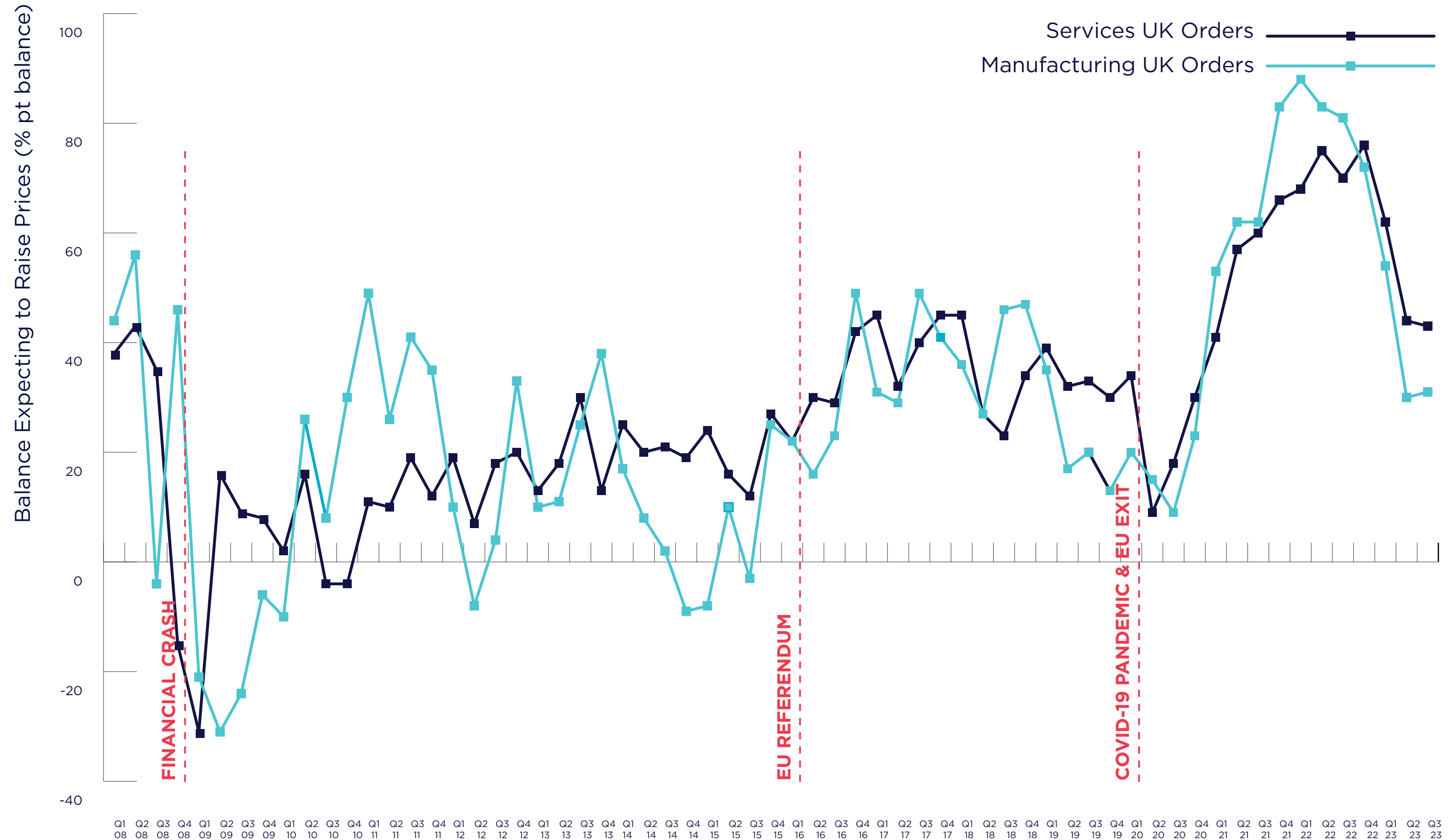
Balance of Firms With Improved Cashflow Poaition in Last 3 Months



Prices & Costs

Expectations to raise prices stabilised in Q3 after easing for a few quarters. Expectations to raise prices are higher in services than manufacturing. In Q2 23 the balance of manufacturers expecting to raise prices is +31% and for services +43%. 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 continues to be the most pressing concern for members but shows positive signs of easing for manufacturing although less so for services. In Q3 23 63% of manufacturers reported inflation as a greater concern than 3 months ago, down from 76% in Q2 23 and 91% in Q3 22. For services, 75% reporting inflation as a key concern, compared to 74% in Q2 23 and 91% a year earlier. Interest rates are a concern to just over 2 in 5 members. Competition is a growing concern for both sectors with 31% of manufacturers and 41% of services highlighting interest rates as a greater concern than 3 months ago.

Labour costs remain the biggest price pressure for both sectors but particularly services. Other cost pressures appear to be easing. In Q3 23 83% (85% Q2) of manufacturers and 84% (76% Q2) of services firms are reporting labour costs as a key pressure on them to raise prices. Raw material costs are still a significant concern for manufacturers affecting 76% of firms. Fewer firms are also reporting pressure from utility costs and fuel. Over the last year the share of manufacturers reporting utilities as a pressure to raise prices has fallen from 91% to 64% and in services from 82% to 64%.



Inflation continues to be the most pressing concern for members but shows positive signs of easing

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. However, in Q3 23 Northern Ireland's regional performance has not been as strong, particularly for manufacturing.

After ranking in top 4 UK regions for 9 of the 11 key indicators for manufacturing in Q2, Northern Ireland ranks in the top 4 for only 1 of the 11, the cashflow balance ranking although it does rank highest across the regions here. It has moved to a more 'middle ranking' region for most other indicators and features in the bottom 3 UK regions for 3 of the 11 indicators (0 in Q2 23, 2 in Q1 23, 5 in Q4 22). Manufacturing's weakest position regionally is 10th out of the 12 UK regions on the domestic sales and employment indicators.

In services Northern Ireland's regional position was more mixed in Q3 23. As with Q2, it ranks in the top 4 regions for 4 of the 11 indicators. The service sector's strongest regional position in Q3 is with cashflow (2nd) and weakest with domestic sales (10th).

Additional Questions

Each quarter NI Chamber members are asked a number of additional topical questions. This quarter focuses on current business conditions, the Windsor Framework, the impact of wage pressures, innovation and key business concerns.

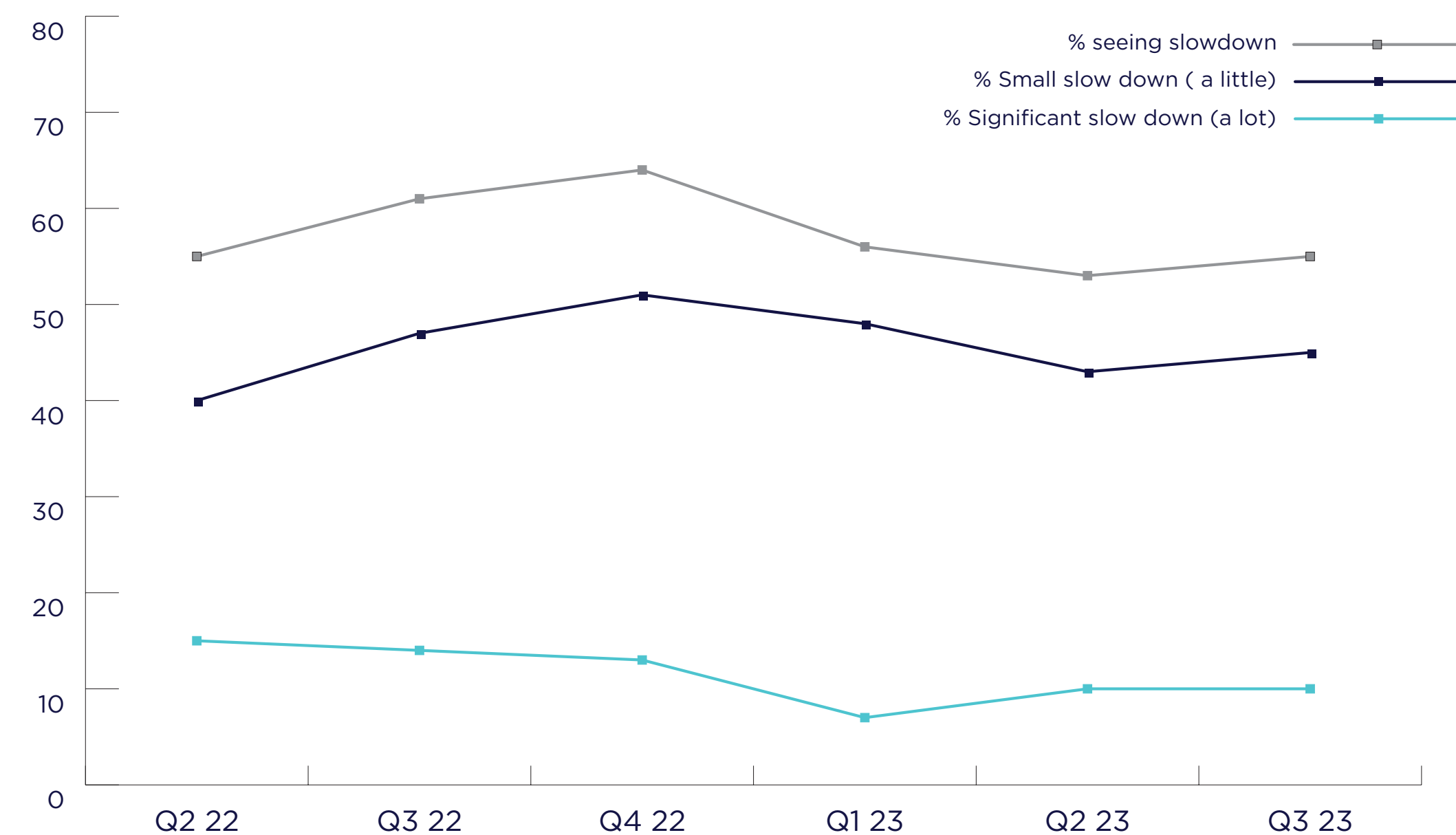
Current Business Conditions

The trading environment continues to be largely positive for members although with some signs of pressure in Q3.

The share of businesses performing well/reasonably remains high at 77% but is down from 83% in Q2. 34% are trading well and 43% reasonably. Just over 1 in 5 (21%) are just covering costs/struggling, up from 17% in Q2.

Just over 1 in 2 (55%) members are seeing some slowdown in demand, although for most only a little (43%). Around 1 in 10 experiencing a significant slowdown in demand in Q3, similar to Q2 23.

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



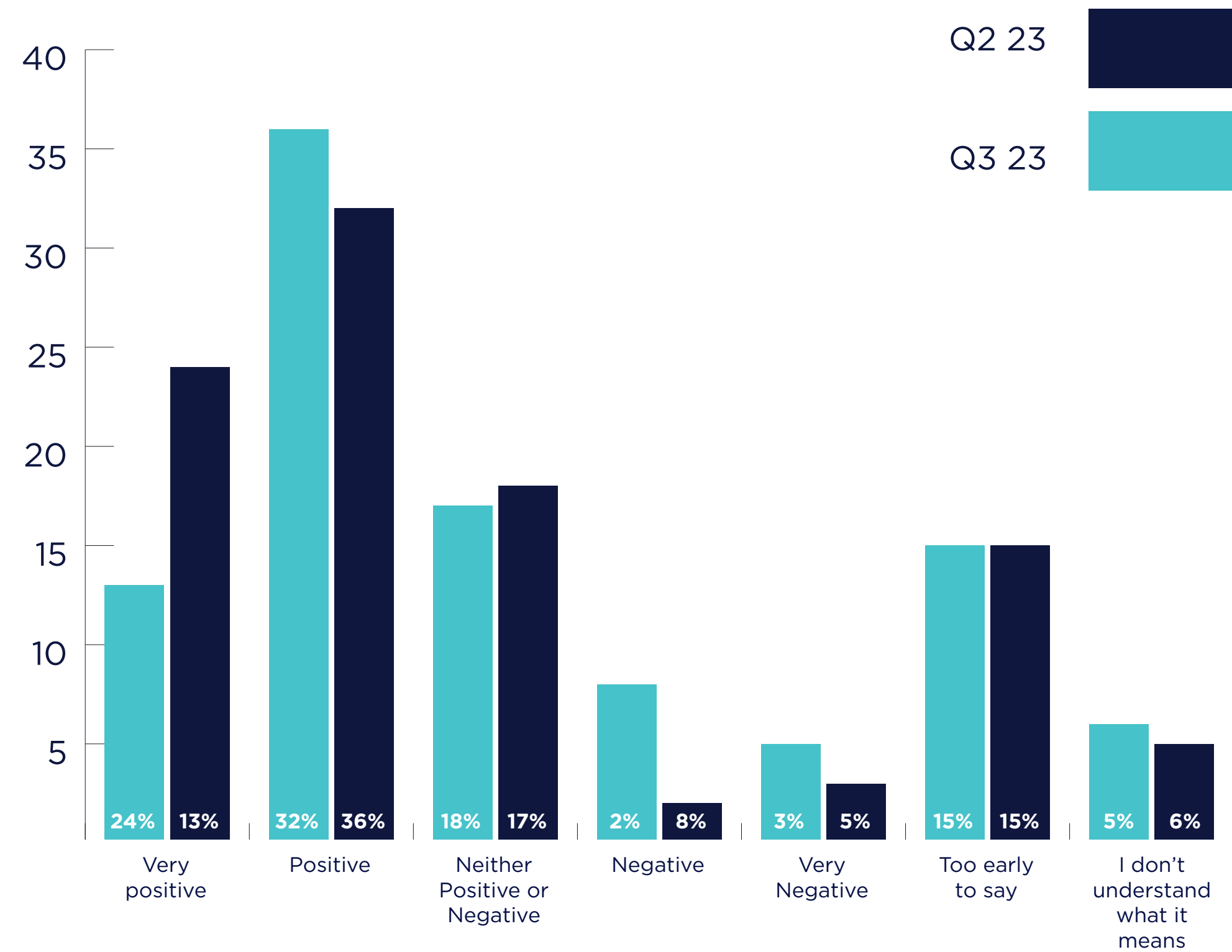
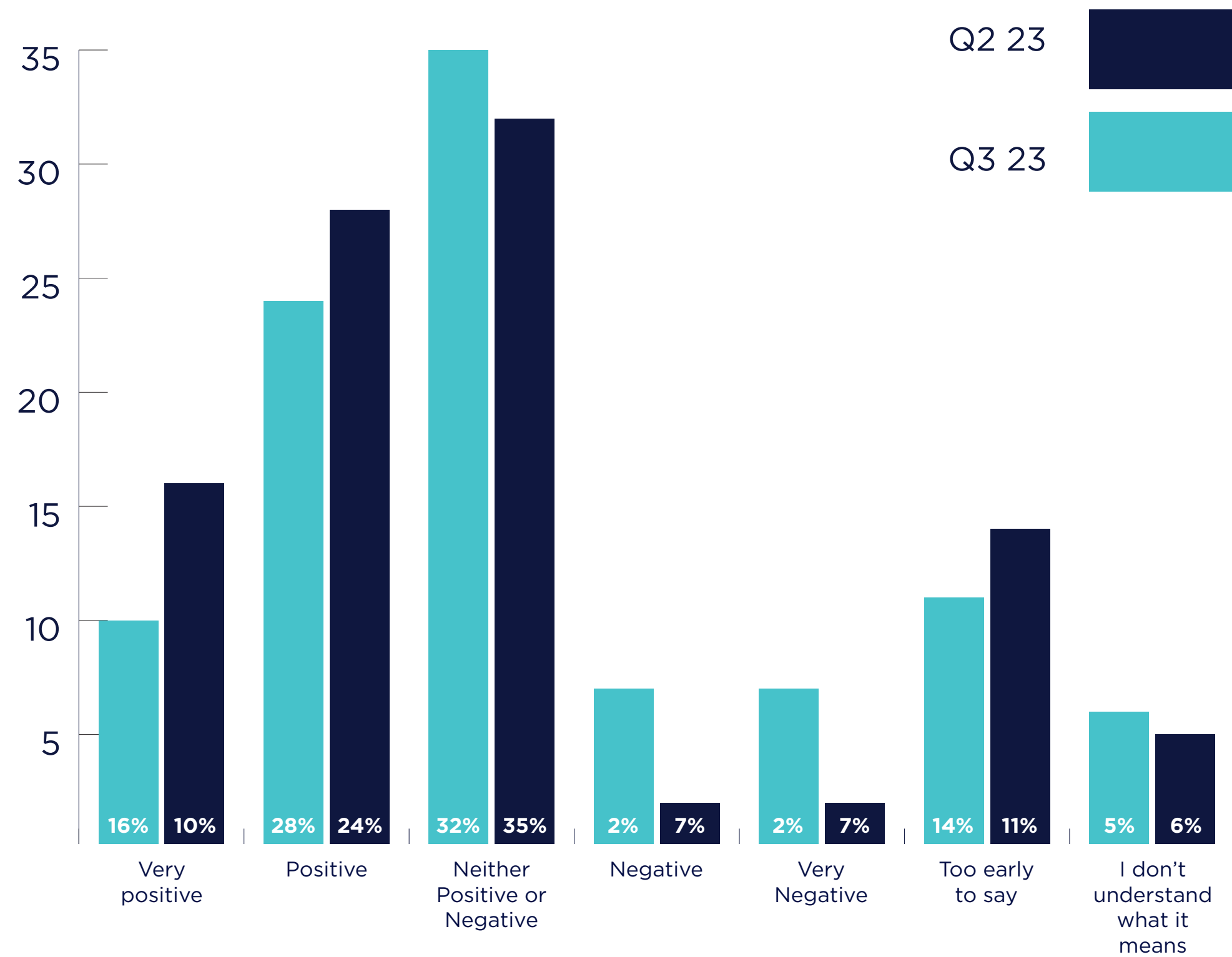
Brexit Watch – Windsor Framework

The Windsor Framework was announced on 27 February 2023 and adopted on the 24 March 2023 with implementation in phases up to 2025 to provide businesses with time to adapt.

In Q3 23 members were asked about the potential impact of the Windsor Framework on their business and the economy. From a business impact perspective, 34% are positive about the potential impact of the Windsor Framework on their business while 14% are negative. 35% are neutral and 11% believe it is too early to say. The % of members positive about the Framework's impact on their business is down from 44% in Q2 to 34% in Q3.

From an economy perspective, 13% are very positive about the Windsor Framework's impact on the economy and 36% positive. 8% are negative and 5% very negative about its impact on the economy. As with the business impact, members are less positive about the impact on the economy in Q3 (49%) than Q2 (56%).

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





Energy Costs

The pace of energy cost inflation has continued to slow. Costs are still rising for most members with 3 in 4 members still experiencing increases, but those increases are smaller, mostly up to 30%. 7% of members have seen a reduction in energy costs this quarter (11% Q2) and 18% no change (11% Q2).



Wage Pressure Impacts

Members were asked to what extent, if any, are wage pressures/ labour costs impacting on their business/organisation. Wage pressures are having some negative impact for most firms on growth plans, recruitment and investment plans. The largest negative impact is on recruitment intentions, with 71% of members saying they are negatively impacted and for 26% of members this is having a large impact. Training plans are least affected by wage pressures with 42% of members reporting that they are not impacting on training plans.



Most believe that their business is innovative with 28% of businesses believing they are highly innovative and 53% moderately innovative.

Innovation

Members were asked how innovative they thought their business/organisation is, leaving the business to interpret what innovation means to them. Most believe that their business is innovative with 28% of businesses believing they are highly innovative and 53% moderately innovative. However, almost 1 in 5 (14%) believe they have limited innovativeness and 3% not very innovative.

Manufacturers and large firms (250+ employees) are more likely to rate themselves as highly innovative. Two in 5 manufacturers believe they are highly innovative compared to 25% Services. 43% of large firms believe they are highly innovative compared to 24% of those medium (11-40 employees) and small (50-249 employees) firms and 30% of micro enterprises (less than 10 employees). Almost 1 in 3 (31%) medium size firms believe they are limitedly innovative/not very innovative.



Main areas of concern for business

Main areas of concern to businesses in Q3 23 focus on two key issues 1) Lack of an NI Executive and 2) Inflation.

This is followed by issues including planning, supply chains, the Windsor Framework, skills, confidence and uncertainty.

NI Chamber Perspective

We are encouraged to see that a majority of businesses in Northern Ireland continue to perform well. However, this report confirms that there are challenges in the background including inflation, recruitment difficulties and labour costs, all of which have the potential to impact business growth.

“More than any other issue, members identified the absence of an Executive as a key concern and we can see the impact of that played out in indicators like business confidence, where there has been a loss of the positive momentum gained in the first two quarters of this year. In such a difficult trading environment, particularly for manufacturers, NI Chamber has repeatedly stressed the urgent need for the Executive to return. The issues are stacked up and while we know that having Ministers in place won’t solve all the problems overnight, the absence of a functioning executive exacerbates the challenges and inhibits our ability to maximize opportunities.

“At NI Chamber, we’ve been closely monitoring the impact of new trading arrangements since they were first announced and as we have indicated previously, sentiment around the implementation of the Windsor Framework should be expected to fluctuate as we move through the various stages of implementation. Whilst the largest category of respondents is positive about its impact on the economy, this Quarter’s findings serve as a reminder to the UK Government about continuing to work with businesses in a timely fashion, and the need to drive efficiency in new processes through the next implementation phases.

Suzanne Wylie
Chief Executive, NI Chamber



BDO Perspective

There is much to welcome in the latest QES results, notably that 77% of responding businesses are performing well, with positive balances also recorded for expected growth in turnover and profitability. One area where NI is leading the way is cashflow – the life blood of all businesses. Local firms are now reporting stronger cash reserves than at any point since Q1 2015 and crucially it is the first time since 2018 that we have been able to report positive cashflow balances for two consecutive quarters.

“Although local businesses are still facing the threat of inflation, greater energy costs and increasing labour costs, it is important to reflect on how far we have come over the last three years. That local businesses are performing as well as they are, is a testament not only to their resilience but also to their willingness and ability to adapt. With 81% of local firms identifying as being innovative, there is no doubt that this will be one of the main reasons why business performance in Northern Ireland has been so strong. This is encouraging and again only illustrates that by managing its cashflow and embracing innovation, local businesses know how to manage uncertainty and to plan positively for the future.

Brian Murphy,
Managing Partner, BDO NI





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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, 188 members responded to NI Chamber's Quarterly Economic Survey (QES), in partnership with BDO, for the 3rd quarter of 2023. Together they account for 31,000 employees in Northern Ireland.

The fieldwork for the Quarter 3 23 survey took place between 30 August and 12 September 2023.

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>.

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