



Northern Ireland
Chamber of Commerce
and Industry

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NI CHAMBER & BDO NI

Quarterly Economic Survey Summary

Q4 2023

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Overview

The Q4 23 findings suggest muted signs of growth in the NI economy. While most businesses are trading well/reasonably, the trading environment remains challenging, competition is growing and more firms suggest that demand is slowing. Access to staff and rising labour costs dominate concerns, while other cost pressures including utility and raw material costs have eased. Around half of businesses are operating below capacity (49% Q4, 58% Q3, 49% Q2).

Many key indicators are positive with more firms reporting increasing employment, confidence and investment intentions than those reporting a fall. The main exception is manufacturing's domestic and export orders for the next 3 months, which are negative in Q4 23. Both the domestic and export balances remain weak for both manufacturing and services, suggesting little growth in the last 3 months and limited prospects for the next 3 months.

Confidence that turnover will grow in the next 12 months remained largely unchanged from the previous quarter at +59%, although up significantly on the same quarter last year (57% Q3, 47% Q4 22) while firms appear more confident around profitability in Q4 (as some cost pressures ease).

Recruitment activity remains high with 70% trying to recruit (67% Q2, 72% Q1) although fewer businesses are growing

their employment base compared to the same period last year. Recruitment difficulties persist with 79% of those recruiting experiencing difficulties (82% Q2, 79% Q1 23). Rising labour costs is now the most significant pressure on firms to raise prices.

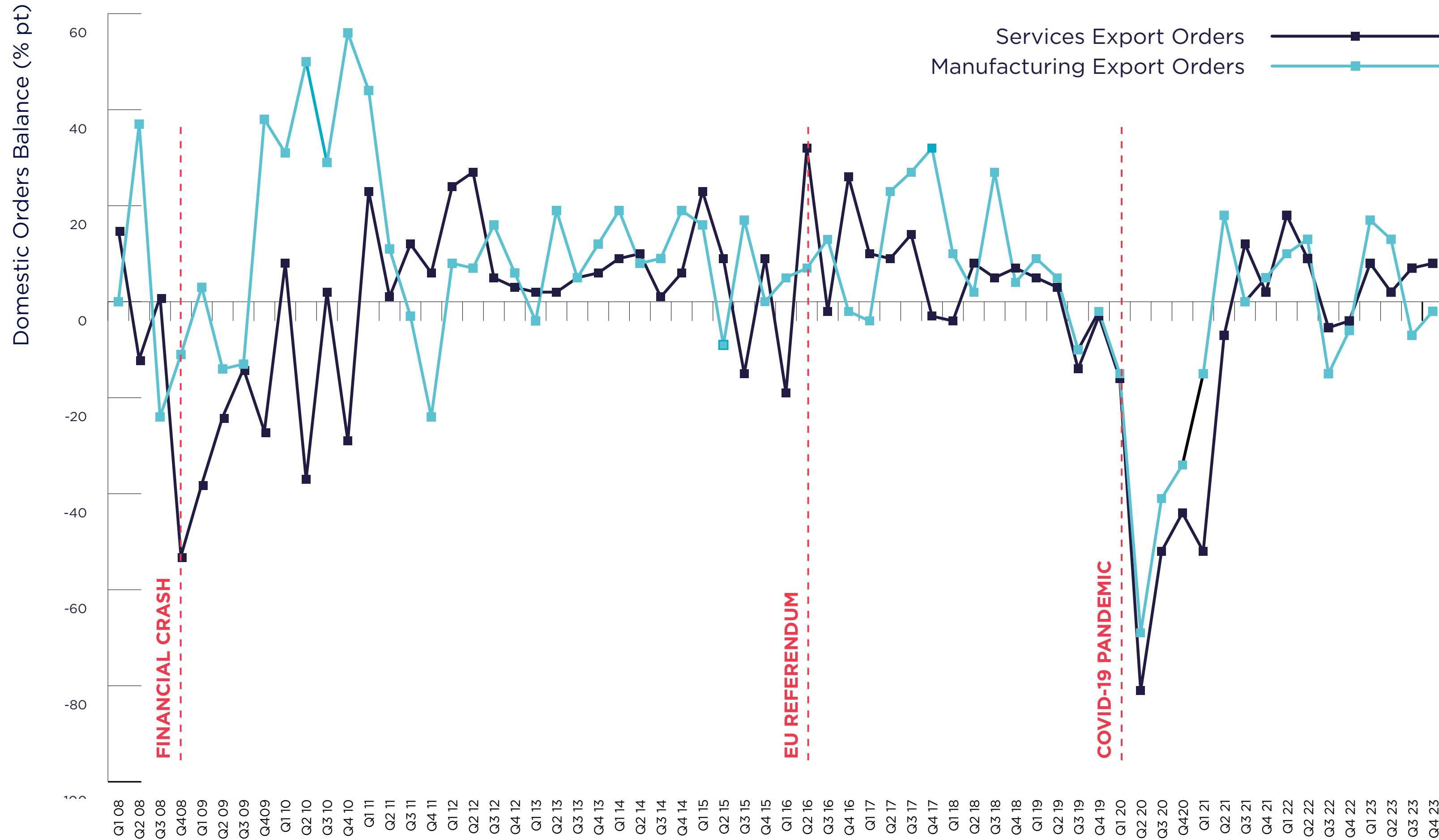
70% of businesses said that competitive remuneration packages were a priority area in relation to recruitment and retention when looking ahead to 2024. Two in five (40%) reported that they would prioritise workforce mental health and wellbeing programmes, while 36% mentioned settling hybrid working conditions as being a priority going into 2024. The top three priority areas of focus for businesses in relation to skills and training included developing a culture of lifelong learning (49%); digital skills (43%) and innovation support (39%).

Expectations to raise prices had been easing in recent quarters but remain largely unchanged in Q4 23. Fewer firms are citing internal cost pressures such as utilities and raw material cost as price pressures. However, inflation remains the key concern for members while concern around greater competition is growing.



Access to staff and rising labour costs dominate concerns, while other cost pressures including utility and raw material costs have eased.

Balance of firms reporting improved export orders (next 3 months)



Manufacturing

The Manufacturing sector continues to face challenges with weak domestic and export balances and confidence around growth against an increasingly testing competitive environment.

Most key balances are positive in Q4 23 with only 2 negative (4 in Q3), order books for both domestic and export markets in the next 3 months. Export order balances remain weak across most UK regions with a national balance of -2 (NI -2). Northern Ireland's regional performance is mixed, with the weakest indicator relative to the UK average around employment expectations for the next 3 months and strongest around export growth and investment in training.

Confidence around turnover growth in the next 12 months dipped again in Q4 although remains positive while expectations around profitability showed some improvement.

Employment expectations remain positive; manufacturers are recruiting and while challenges recruiting persist there is some sign of this easing over the year.

A balance of +29% of manufacturers expect to raise prices, largely unchanged over the last few quarters. This had been as high as +88% in Q1 22 so has fallen significantly over the last couple of years. Rising labour costs is now the dominant pressure driving pressure to raise prices, affecting 92% of manufacturers in Q4 23.

Inflation continues to affect around 3 in 5 manufacturers (57%), down from a significant 92% in the same quarter last year. More than twice as many manufacturers are concerned about competition in Q4 23 compared to a year ago (42% Q4 23 vs. 20% Q4 22)



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Services

Services confidence remains high and the sector continues to outperform Manufacturing across all key indicators apart from investment intentions and the share of businesses trying to recruit.

All key balances are positive in Q4 23 (1 negative in Q3) with the strongest indicators around confidence in turnover growth, profitability and employment and weakest around cashflow and investment intentions in plant & machinery. Most Service sector indicators remain above the UK average apart from the domestic economy performance balances and employment expectations for the next 3 months.

Confidence around turnover and profitability both rose in Q4 23 for Services with a particularly strong end to the year around expectations that profits will grow in 2024, up from +13% in Q3 to +26% in Q4 23.

Over the last year fewer Services members are taking on staff and fewer are trying to recruit and this has continued in Q4 23. The share of Services facing recruitment difficulties has also been falling but remains high at 74%.

Expectations to raise prices in the next 3 months rose in Q4 23 (51%) after falling steadily over the last year. The main pressure to raise prices is coming from rising labour costs with 91% of Services firms stating this is a key factor. Utility costs remain a pressure for 1 in 2 firms (51%) but is a significant improvement on a year ago when it had been 88%.

While inflation is the main concern for Services despite easing significant, competition is also a growing cause for concern. In Q4 23, 57% of Services suggest inflation is more of a concern for their business than 3 months ago. Competition is more of a concern for 44% of Services, up from 16% a year ago.



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Recruitment

The balance of firms expecting employment to grow in the next 3 months is positive for both sectors but has fallen quite significantly for Services over the last year after a series peak in Q1 23. The balance of Manufacturers expecting employment to grow in the next 3 months remained unchanged at +17% in Q4. For Services the balance continued to fall to +22% in Q4 from +26% in Q3 and +47% in Q1 23.



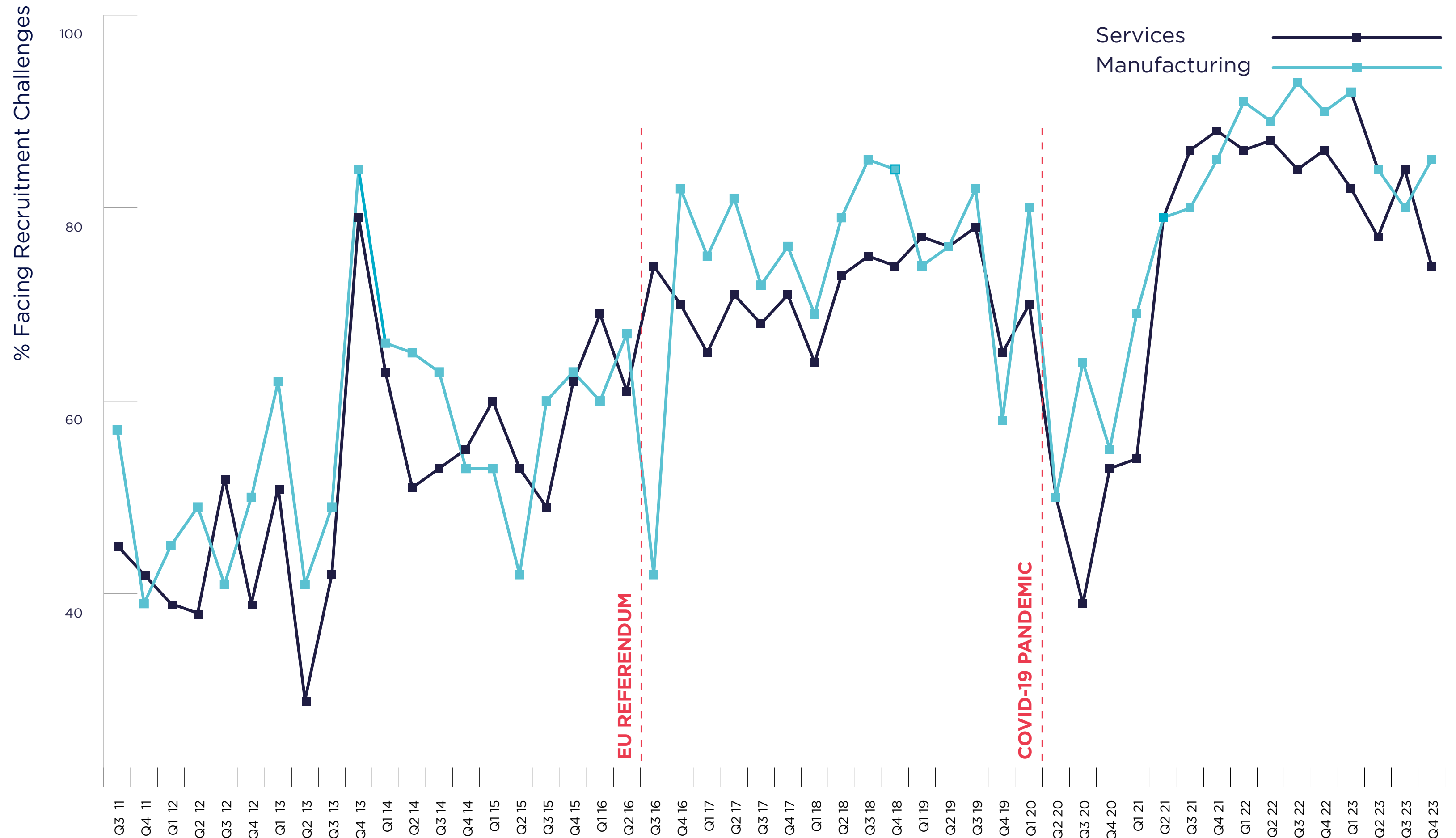
The balance of firms expecting employment to grow in the next 3 months is positive for both sectors but has fallen quite significantly for Services

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 although has been falling slightly for Services.

The share of businesses facing recruitment difficulties remains high but has shown signs of easing over the year for both sectors. The share of Manufacturers experiencing recruitment difficulties in Q4 23 is 85% in Q4 23 and is 74% for Services. For Services, this is the lowest percentage facing recruitment difficulties over the last 2 years.

% facing recruitment difficulties



Confidence and Investment Intentions

Business confidence 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 but took a dip for both Manufacturing and Services in Q3 23.

In Q4, Manufacturers end 2023 less confident that turnover will grow in the next 12 months while Services are more optimistic, particularly compared to the same quarter last year. The balance is +27% (+32% Q3) for Manufacturers and +50% (+42% Q3) for Services this quarter.

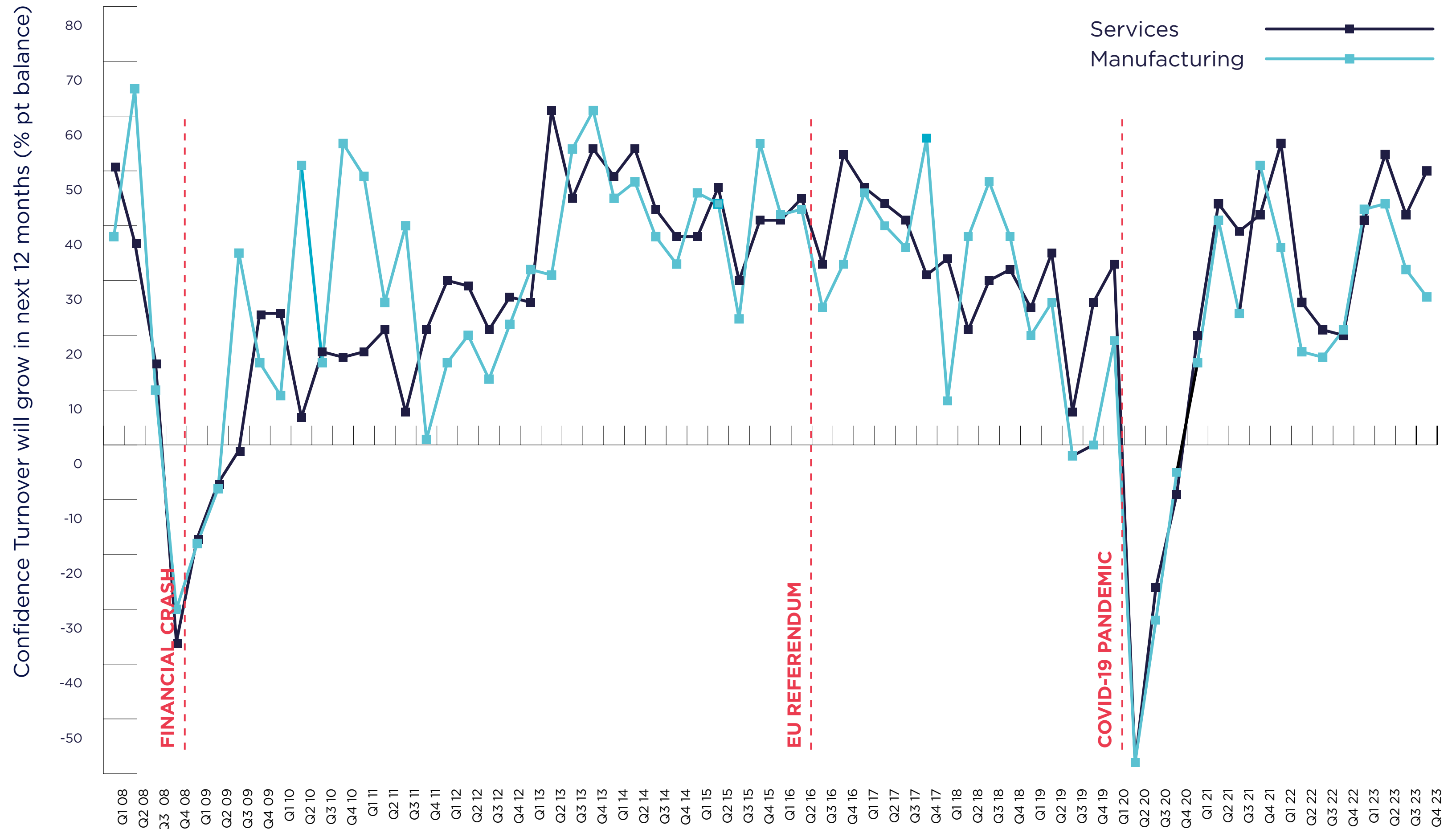
Confidence around profitability always tends to be weaker than turnover and it remains the case that members are less certain around profitability growth for the next 12 months. This indicator also dipped for both sectors in Q3 23 but has improved in Q4 23 with a balance of +14% Manufacturers and +26% Services expecting profitability to grow in the next 12 months.



In Q4, Manufacturers end 2023 less confident that turnover will grow in the next 12 months while Services are more optimistic

Investment intentions had improved at the start of 2023 but end the year weaker. In terms of training, the balances stood at +21% (+16% Q3, +24% Q1) for Manufacturers and +17% for Services (+13% Q3, +24% Q1) in Q4 23. Investment intentions around plant & machinery are also down over the year standing at +12% for Manufacturers (+1% Q3, +23% Q1) and +5% for Services (-1% Q3, +18% Q1) in Q4 23.

Confidence Turnover will grow in next 12 months (% pt balance)





In Services, the cashflow balance remains one of its weakest performing indicators at +3% but it is positive.

Cash flow

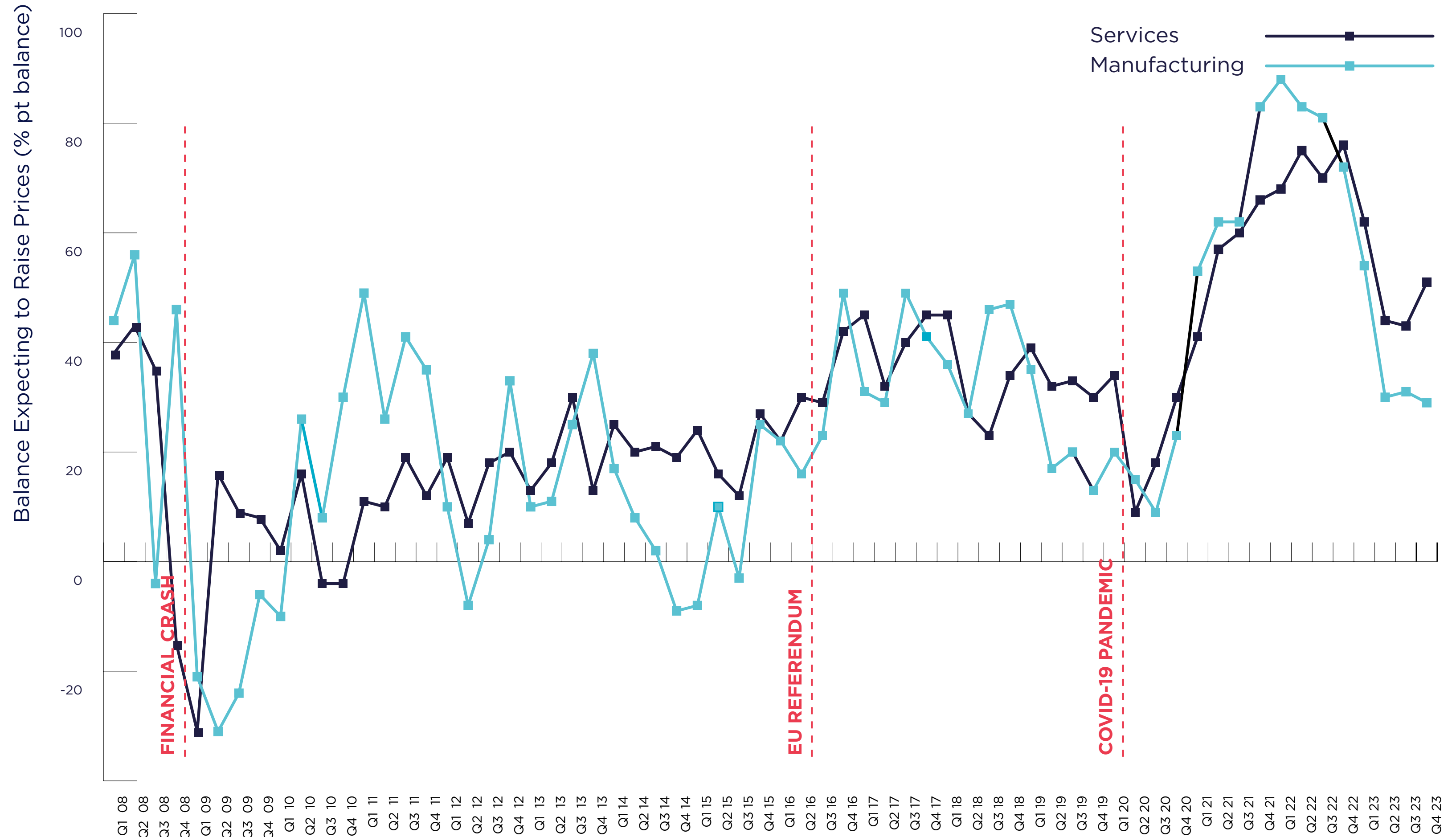
Cash flow, a key indicator of business health, is typically one of the weakest performing key indicators in the Northern Ireland QES. The balance of businesses reporting an improving cash flow position was already negative going into the COVID-19 crisis. The balance did fall significantly during Q2 2020 but had been improving although this had stalled.

The Manufacturing cashflow balance turned positive in Q2 23 and has remained positive since then. 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. However, the balance is only marginally positive at +3% in Q4, down from +11% last quarter. It was as low as -26% just over a year ago in Q3 22. In Services, the cashflow balance remains one of its weakest performing indicators at +3% but it is positive.

Prices & Costs

Expectations to raise prices started to climb towards the end of 2020 as the impact of the COVID pandemic on production and supply chains started to impact. They peaked during 2022 and started to fall during 2023. Both sectors have largely followed the same path but in the last 6 months that has started to diverge with more Services firms expecting to raise prices than Manufacturers. In Q4 23 the balance of Manufacturers expecting to raise prices is +29% and for Services +51%. This is down considerably from a peak for +88% for Manufacturers in Q1 22 and for Services at +76% in Q4 22.

% balance expecting to raise prices over the next 3 months



Prices & Costs

In terms of internal pressures, labour costs remain the biggest price pressure for both sectors and this is the only cost area where pressure has grown over the year. In Q4 23 92% of Manufacturers and 91% of Services firms are reporting labour costs as a key pressure on them to raise prices. Raw material costs are a pressure for 62% of Manufacturers, down from 84% a year ago. 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 80% to 60% and in Services from 88% to 49%.

In terms of external pressures, inflation remains the most pressing concern for members but continues to show positive signs of easing for both sectors. In Q4 23 57% of Manufacturers reported inflation as a greater concern than 3 months ago, down from 65% in Q3 23 and 92% in Q4 22. For Services, 57% report inflation as a key concern in Q4 compared to 75% in Q3 23 and 85% a year earlier. Competition is a growing concern for both sectors with 43% (31% Q3) of Manufacturers and 44% (41% Q3) of Services highlighting competition as a greater concern than 3 months ago. Just under 2 in 5 firms are concerned about interest rates.



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Regional Position

Northern Ireland suffered one of the largest collapses in key indicators across the 12 UK regions in Q2 2020 following the onset of the pandemic. It has typically been one of the weakest performing regions across most key indicators, typically ranking in the bottom 3 regions. However, its regional performance appears to have improved in recent quarters, particularly for Services.

In Manufacturing Northern Ireland ranks in the top 4 UK regions for 3 of the 11 indicators in Q4 23. The Manufacturing sector's strongest regional position is with investment in training (1st) and weakest with employment expectations for the next 3 months along with confidence around turnover and profitability growth in the next year (10th).

In Services Northern Ireland ranks in the top 4 UK regions for 7 of the 11 indicators. The Services sector's strongest regional position in Q4 is with employment growth over the last 3 months (1st) and weakest with domestic (UK) sales over the last 3 months (10th).

Additional Questions

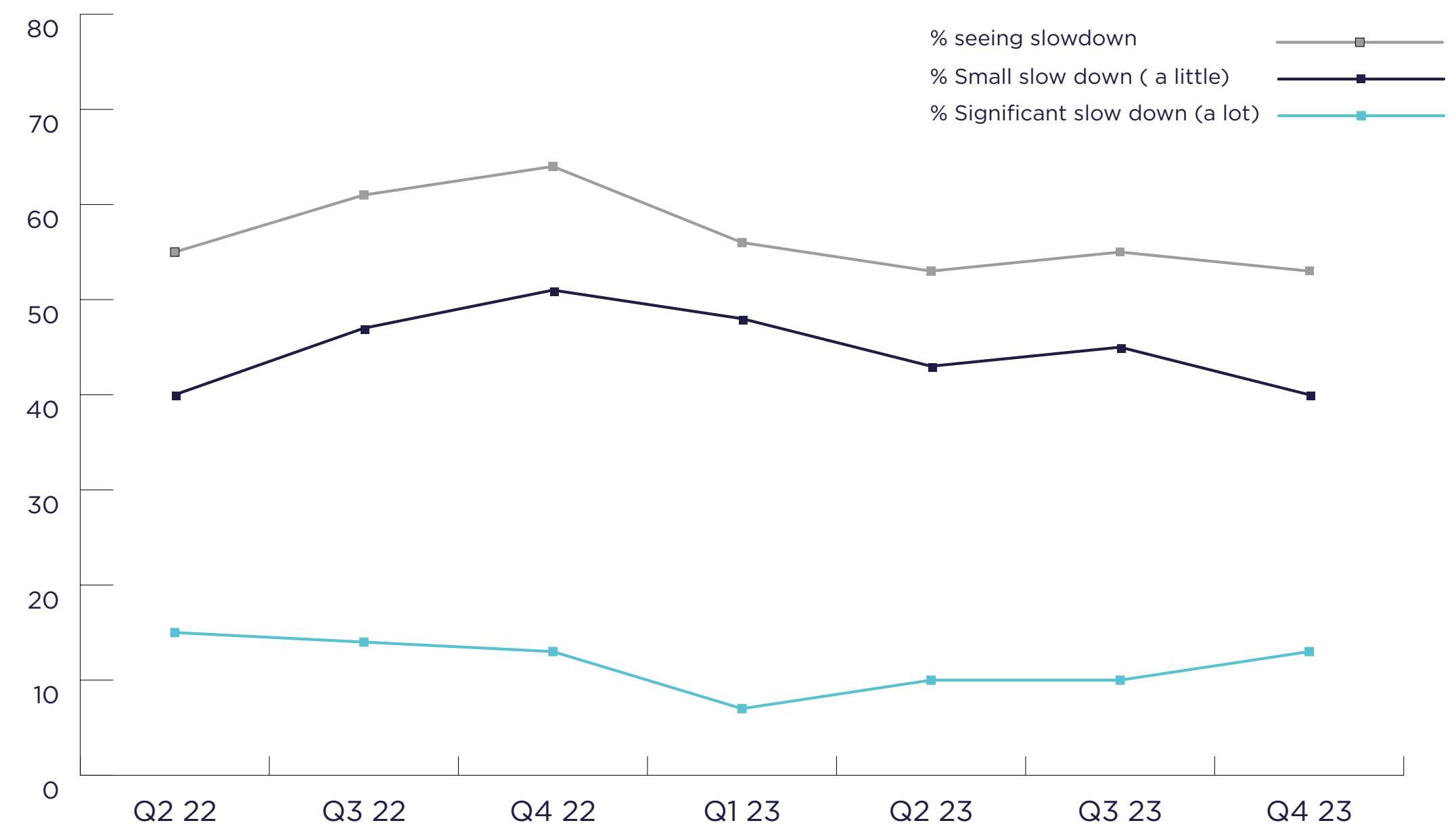
Each quarter NI Chamber members are asked a number of additional topical questions. This quarter focuses on current business conditions, business priorities around staff recruitment/retention and skills/training along with business prospects for 2024 and challenges and support priorities this year.

Current Business Conditions

The share of businesses who state they are performing well/reasonably remains high at 78% in Q4 with little change over 2024. 36% are trading well, up from 31% in Q4 22. Just over 1 in 5 (22%) however are just covering costs or are struggling.

Around half (53%) of members are seeing some slowdown in demand, although for most only a little (40%). However, over 1 in 10 (13%) are experiencing a significant slowdown in demand currently, almost doubling from 7% in the first quarter to 2023.

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





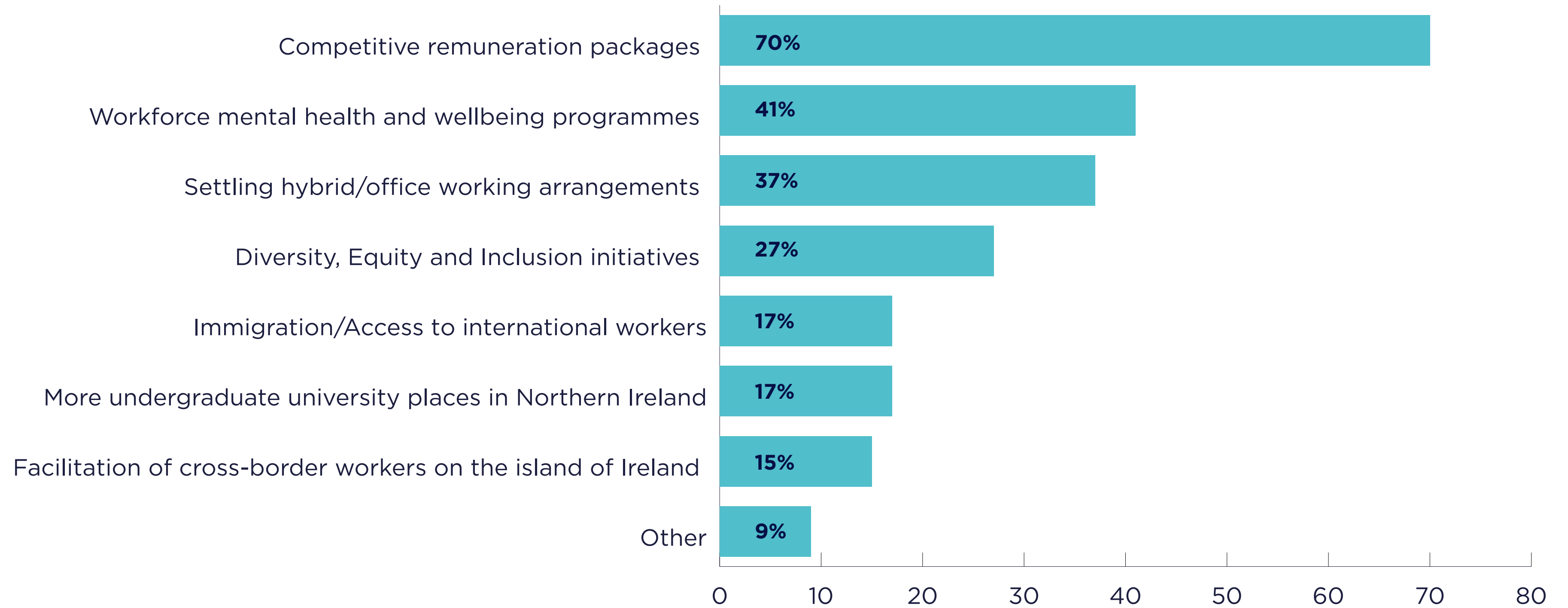
Energy Costs

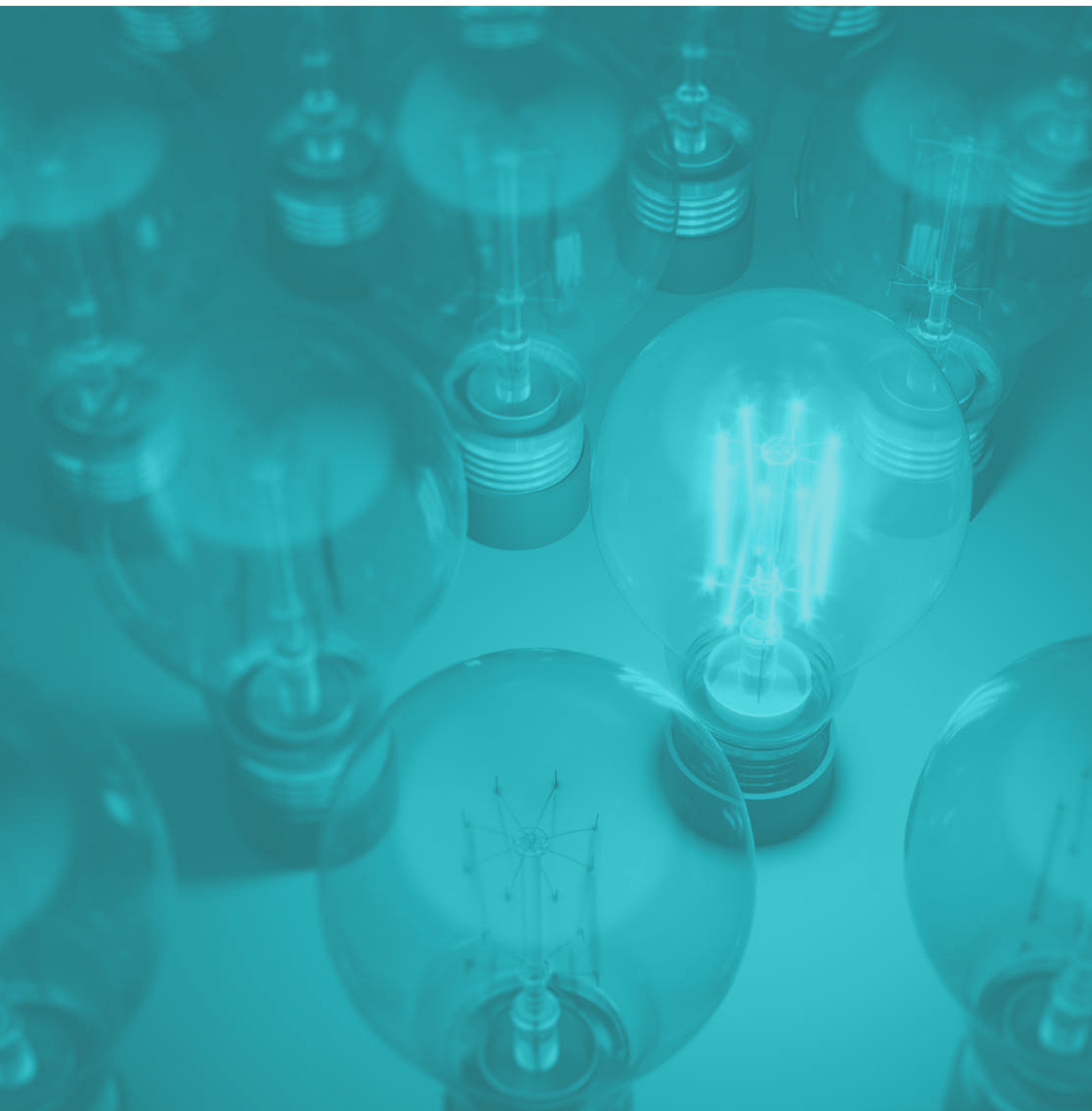
Energy cost inflation continues to slow but 71% of members are still dealing with increased energy costs over the last quarter. Most are seeing an increase of up to 30% (57%) while 14% have seen an increase of 30% plus. This is down from a substantial 79% last year in Q4 22.

Recruitment & Retention

7 in 10 members (70%) believe offering a competitive remuneration package is a top priority in recruiting and retaining staff. Other key priorities include offering workforce mental health/well-being programmes (41%) and settling hybrid/office working arrangements (37%). 17% are focused on access to international workers as a priority and 15% on cross border workers.

Looking ahead to 2024, what are the top priority areas of focus for your business in relation to recruitment and retention?





Skills & Training

The top business priority areas of focus in relation to skills and training for 2024 include developing a culture of lifelong learning (50%), digital skills (43%) and innovation support (40%). One in 3 members (35%) want further development of Apprenticeships in Northern Ireland. One in 5 (20%) believe that AI specific skills and green skills are a training/skills development priority for their business in 2024.



Prospects for 2024

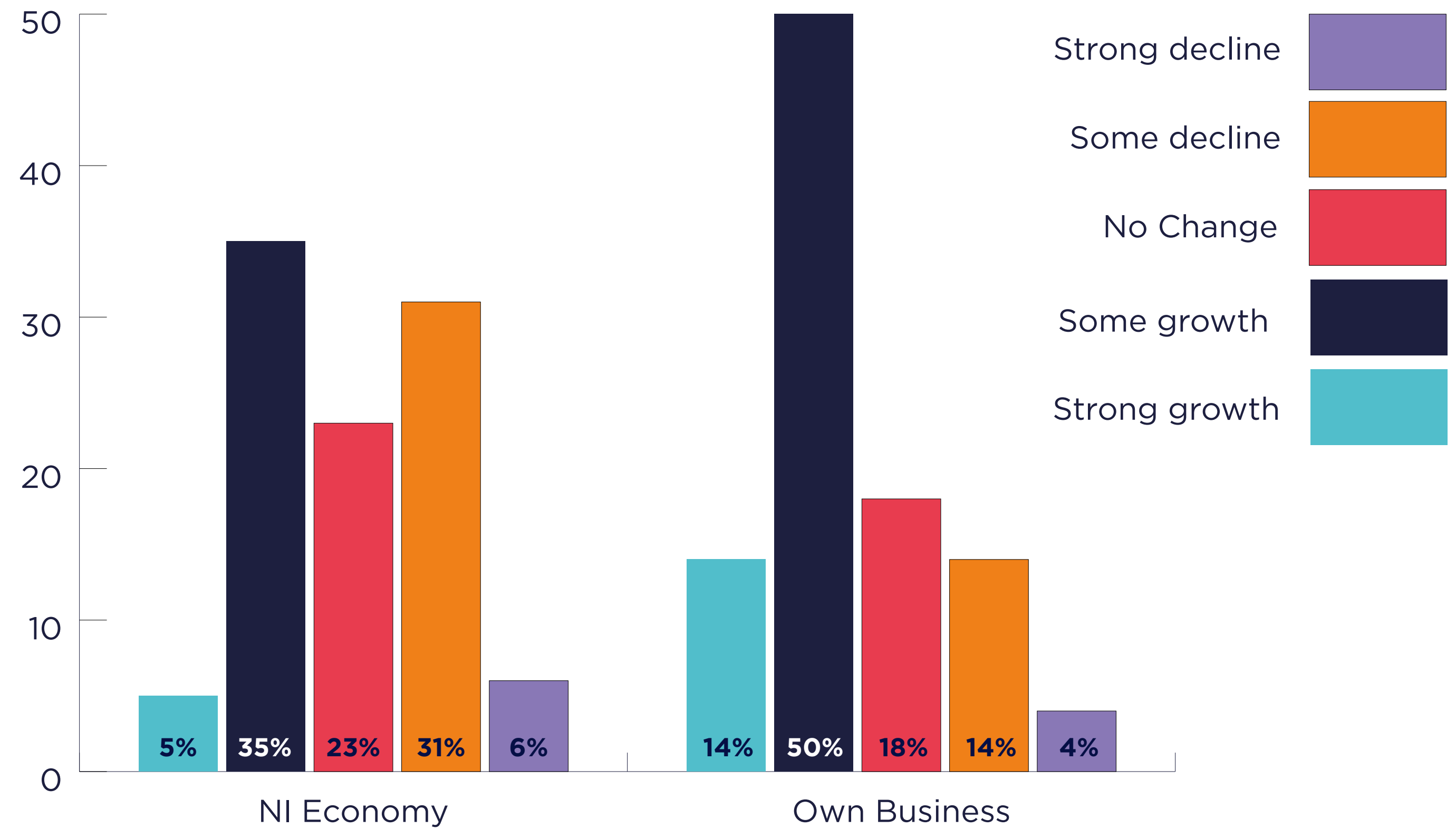
Two in 5 members (40%) believe the NI economy will grow in 2024 while a similar share (39%) believes the economy will contract. Members are however more optimistic than last year about the NI economy growth prospects when only 17% thought the economy would grow in 2023. Almost two thirds (64%) of members believe their business will grow in 2024, up from 55% last year.

Top business concerns for 2024 include rising costs, recruitment/retention/costs of staffing, the lack of an NI Executive and its repercussions for Northern Ireland’s business community along with economy concerns including slowing demand and increased competition.

Key business asks for 2024 include:

- Reduction in business rates/taxes (corporation tax, VAT)
- Return of NI Executive
- Recruitment/staffing support
- Cash flow/finance support
- Reduced in energy costs/better energy security

How do you view prospects for 2024?



NI Chamber Perspective

“We are encouraged to report that a majority of our members are starting this new calendar year with an optimistic outlook and at NI Chamber, we certainly share their clear desire to focus on maximising the opportunities which 2024 presents.

“However, it is also clear that to realise their growth potential, businesses have a very clear and urgent set of asks, which need to be delivered by both a Westminster government and a restored Executive.

“2024 must be a year when the issue of spiraling business costs and taxes is tackled in a way that unlocks sustainable growth. With the Spring Fiscal Statement soon upon us and the possibility of a restored Executive ongoing, if we get it right, the beginning of 2024 can be a springboard for growth. And as businesspeople we must work with policymakers to ensure it is delivered.”

Suzanne Wylie
Chief Executive, NI Chamber



BDO Perspective

“The new year brings renewed hope of economic growth for Northern Ireland as these latest results clearly show a positive outlook for local businesses. With 78% performing well and two thirds of local firms expecting their businesses to grow in 2024, there is cause for optimism after an uncertain and challenging period for many. This confidence in business performance marks a significant increase from last year and, if delivered, will undoubtedly lead to growth for the entire region.

“Concerningly though, challenges still remain around recruitment with nearly eight out of ten reporting difficulties in finding the right candidates, resulting in 49% of local companies currently operating below capacity. However, we can take heart from the fact that 70% of participating businesses in Northern Ireland reported plans to create and fill jobs in 2024, based on both existing need and greater confidence. This is positive news for those seeking to join the workforce or looking for a new role.

“That we are able to report such positivity today is a testament to the fortitude, resolve and vision of our local business community, our entrepreneurs, innovators, and workforce who have fought the challenges and delivered success. The outlook for 2024 is optimistic, but to really capitalise on this momentum what we need now is for the restoration of local Government to in turn take decisions on the issues businesses need addressed.”

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, 168 members responded to the NI Chamber of Commerce & Industry Quarterly Economic Survey (QES), in partnership with BDO, for the 4th quarter of 2023. Together they account for 21,300 employees in Northern Ireland.

The fieldwork for the Quarter 4 23 survey took place between 16 November and 30 November 2023.

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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 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>.

