



Northern Ireland
Chamber of Commerce
and Industry

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NI CHAMBER & BDO NI

Quarterly Economic Survey Summary

Q1 2024

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Overview

The Q1 24 findings suggest that the trading environment is mixed, remaining challenging for Manufacturers against a relatively strong quarter for Services. Inflationary pressures, despite easing, continue to be a key concern along with rising labour costs. More businesses expect to raise prices this quarter after a period where this showed signs of easing. Almost 3 in 5 (57%) respondents are operating below capacity in Q1 24 (49% Q4 23).

Almost all key indicators are positive in Q1 24 suggesting some signs of growth but with some significant exceptions, particularly around the Manufacturing sector's domestic (UK) performance and weak investment by the Service sector.

Confidence that turnover will grow in the next 12 months is one of the strongest indicators but confidence is low (although positive) in terms of profitability growth. The cashflow balance is weak but remains positive although with a balance of just +1%.

Recruitment activity is relatively stable and positive with 62% of members recruiting in the last 3 months. There are definite signs that the significant difficulties faced in recruiting are beginning to ease but this remains high, affecting 7 in 10 of members who are recruiting.

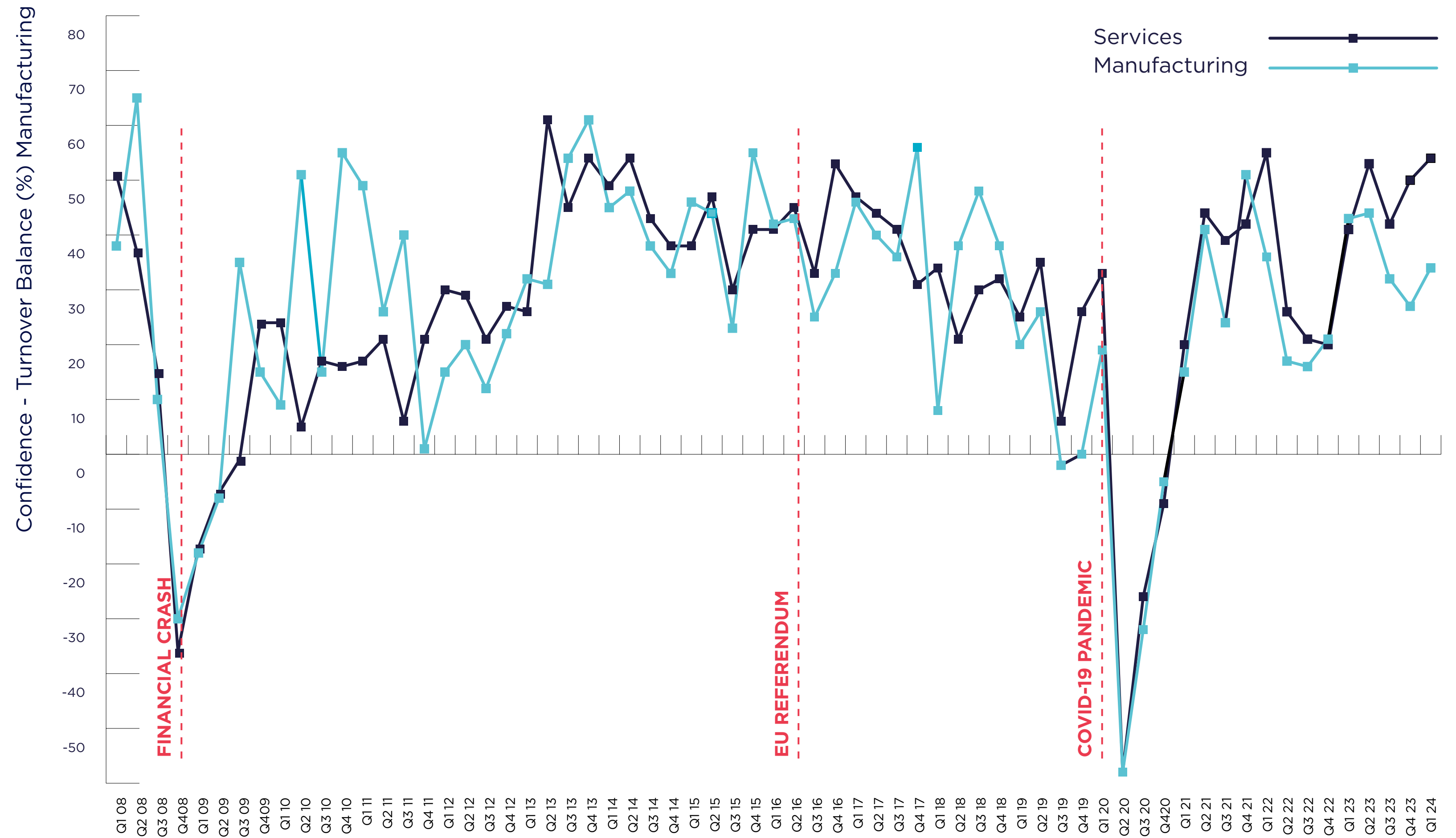
The balance of firms expecting to raise prices had been falling throughout 2023 but increased again in Q1 24. Most internal cost pressures continue to ease apart from labour costs. Inflation remains a top concern, although is much less of an issue than has been the case over the last couple of years.

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Confidence - Turnover Balance %



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Manufacturing

Manufacturing's overall performance is mixed in Q1 24 with a weak domestic trading performance and only marginally better in terms of its export performance. Inflationary pressures remain but have eased for the sector.

Almost all key Manufacturing balances are positive in Q1 24 with only 2 that are negative (2 in Q4 23) – domestic (UK) sales (last 3 months) and orders (next 3 months). Northern Ireland Manufacturer's domestic sales performance indicators are among the weakest across the UK regions.

NI's regional performance is generally mixed, strong on investment intentions and mid ranking on exports and jobs. NI is the lowest ranking UK region in terms of the share of Manufacturers operating at full capacity (19% vs. UK 35%).

Confidence around turnover growth in the next 12 months improved in Q1 24 but confidence around profitability dipped with the NI Manufacturing balance lowest across the UK regions.

Employment expectations remain positive, manufacturers are recruiting and while challenges recruiting persist with 3 in 4 finding it difficult to get staff, this continues to show signs of easing.

A balance of +38% of manufacturers expect to raise prices in the next 3 months, up on Q4 23 (+29%) but considerably lower than Q1 22 where it reached a record high of +88%. Rising labour costs is now the dominant pressure driving pressure to raise prices, affecting 86% of manufacturers in Q1 24. Inflation continues to affect around half of manufacturers (51%), but this is down from a significant 79% in the same quarter last year.

More than twice as many manufacturers are concerned about business rates in Q1 24 compared to a year ago (23% Q1 23 vs. 54% Q1 24) and corporation tax (15% Q1 23 vs. 32% Q1 24). Competition has also been a growing concern for the sector.

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Services

The Services sector trading performance remains relatively strong, and the sector is confident this will continue into 2024. However, recruitment intentions are easing and expectations around raising prices is on the increase again with labour costs a particular cost pressure for the sector.

All key balances are positive in Q1 24 apart from investment in plant & machinery. The weakest indicators are around employment expectations, investment intentions and confidence around profitability.

Most Service sector indicators remain above the UK average, with particularly strong indicators around trading performance and cashflow. The sector ranks 1st across the UK regions in terms of the share of businesses operating at full capacity.

Confidence around turnover growth in the next 12

months is strong for the Service sector, and while confidence around profitability is less strong it remains positive and is more positive relative to Northern Ireland Manufacturers.

Fewer Services firms are recruiting over recent quarters and fewer are facing recruitment difficulties although around 2 in every 3 Services firms are still finding it difficult to get staff.

Expectations to raise prices in the next 3 months increased significantly in Q1 24, with the balance standing at +61% (+51% Q4 23). Rising labour costs are a particular pressure. Inflation concerns have eased significantly but remain the sector's main concern, while competition and interest rates are growing concerns.

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Recruitment

The balance of firms expecting employment to grow in the next 3 months is positive for both sectors in Q1 24 meaning more firms are expecting employment to grow than contract. The balance of Manufacturers expecting employment to grow in the next 3 months increased slightly to +22% (+17% in Q4). For Services the balance increased to +35%, up from +22% in Q4 but lower than the +47% balance in Q1 23.

Just over 6 in 10 members are currently trying to recruit, down from 7 in 10 previously. This has been largely consistent for the Manufacturing

sector over the last year but has been falling over the last few quarters for Services.

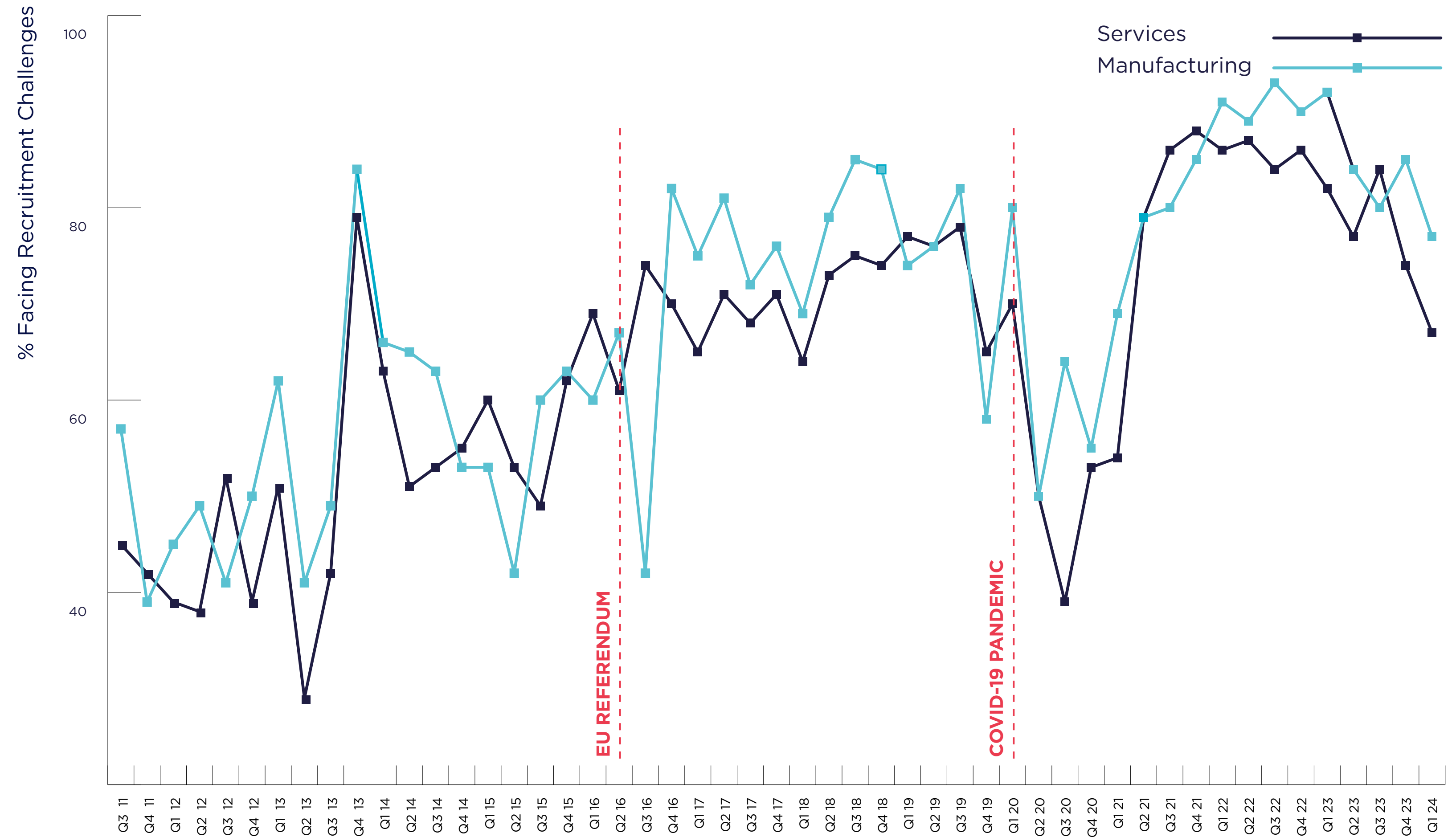
The share of businesses facing recruitment difficulties has been easing in the last couple of years and for both sectors this balance is at its lowest since Q1 22 although is still high, at 77% for Manufacturing (85% Q4) and 66% for Services (74% Q4).

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% facing recruitment difficulties



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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 stabilised 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.

Confidence has improved for both sectors in Q1 24 although there is a notable gap with a greater share of Services confident that turnover will grow in 2024 compared to Manufacturers. This quarter the balance is +34% (+27% Q4) for Manufacturers and +54% (+50% Q4) for Services.

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 has fallen over the quarter for both sectors but is particularly weak for Manufacturing at just +1%, lowest across the UK regions.

Investment intentions are stronger for Manufacturing than Services this quarter. In terms of training, the balances stood at +35% (+21% Q4, +24% Q1 23) for Manufacturers and +15% for Services (+17% Q4, +24% Q1 23) in Q1 24. Investment intentions around plant & machinery improved significantly for Manufacturers in Q1 24, standing at +27% (+12% Q3, +23% Q1) but deteriorated for Services, becoming negative at -2% (+5% Q4, +18% Q1) this quarter.

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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 over the last few quarters.

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.

However, the balance is just +1% n Q1 24 so roughly similar shares of Manufacturers are reporting an improving cashflow position as those reporting a deteriorating one. However, It has been as low as -26% in Q3 22. In Services, the cashflow balance improved in Q1 24 and was the strongest balance across the UK regions but it remains one of its weakest performing indicators for the sector at +6%.

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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 Q1 24 the balance of Manufacturers expecting to raise prices is +38% (+29% Q4 23) and for Services (+61% vs.+51% Q4 23). This is down from a peak for +88% for Manufacturers in Q1 22 and for Services at +76% in Q4 22.

In terms of internal cost pressures, labour costs remain the biggest pressure for both sectors although this is down over the quarter and is similar to this quarter a year ago. In Q1 24 86% of Manufacturers (92% Q4 23) and 81% of Services (91% Q4 23) are reporting labour costs as a key pressure on the business. Raw material costs are a pressure for 71% of Manufacturers, down from

86% a year ago. Fewer firms are also reporting pressure from increasing utility and fuel costs. Over the last year the share of Manufacturers reporting utilities as a pressure has fallen from 79% to 60% and in Services from 73% to 51%.

In terms of external cost pressures, inflation remains one of the most pressing concerns for members but continues to show positive signs of easing for both sectors. In Q1 24 51% of Manufacturers reported inflation as a greater concern than 3 months ago, down from 57% in Q4 23 and 79% in Q1 23. For Services, 52% report inflation as a key concern in Q1 compared to 57% in Q4 23 and 77% a year earlier. Competition has been a growing concern for both sectors with 41% (33% Q1 23) of Manufacturers and 44% (28% Q1 23) of Services highlighting competition as a greater concern than 3 months ago. Business rates are a concern for 54% of Manufacturers, up from 23% for the same quarter in 2023.

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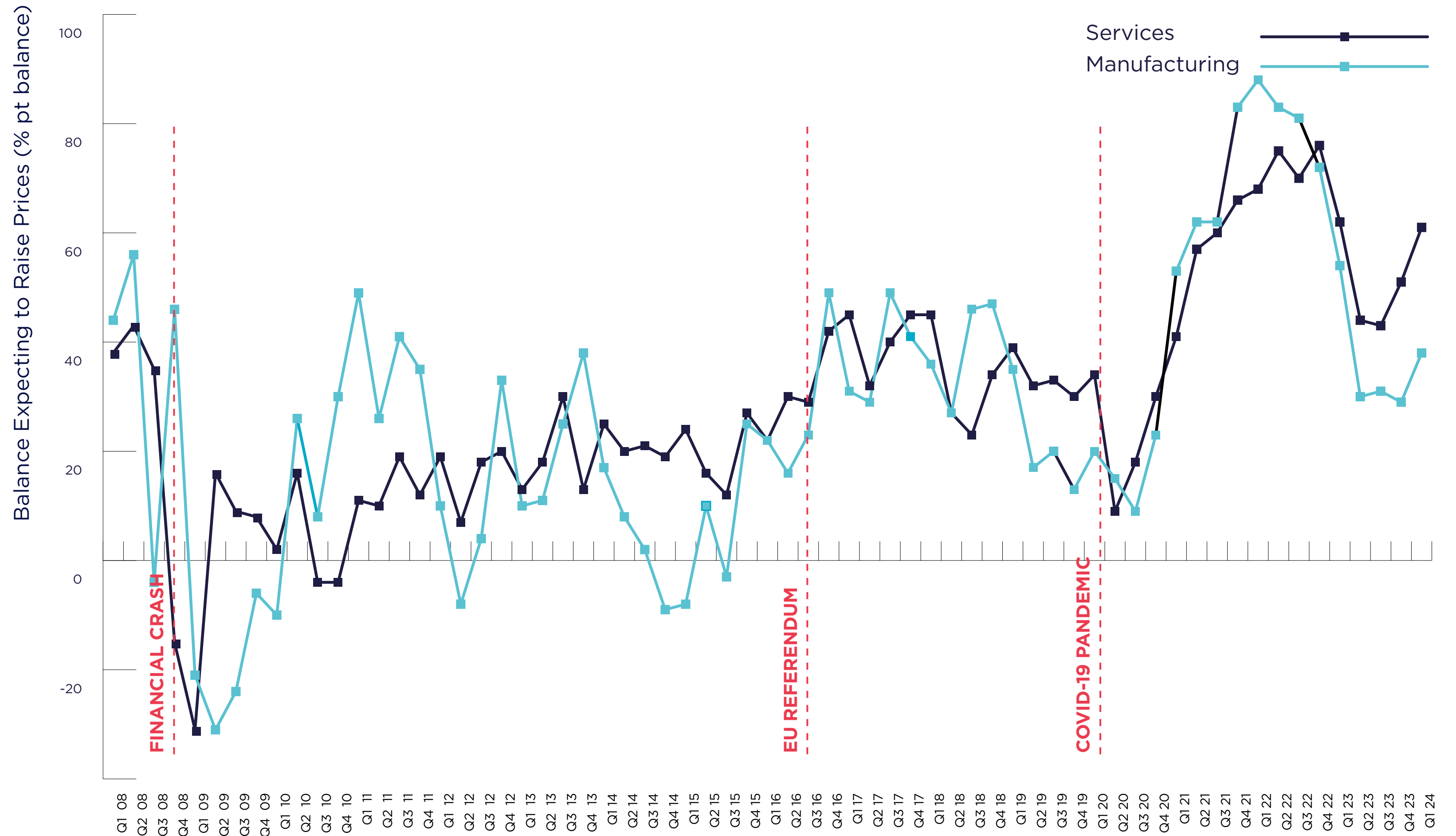
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% balance expecting to raise prices over the next 3 months

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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 just 2 of the 11 indicators in Q1 24. The Manufacturing sector's strongest regional position is with the investment indicators, ranking 1st for both plant & machinery investment and training. It is weakest on the domestic sales (last 3 months) and confidence in profitability indicators, ranking bottom out of the 12 UK regions for both.

In Services Northern Ireland ranks in the top 4 UK regions for 6 of the 11 indicators. The Services sector's strongest regional position in Q1 is with the export indicators and expectations to increase employment (next 3 months), ranking 1st on these indicators across the regions. It is weakest on investment intentions around plant & machinery, ranking 11th across the 12 UK regions.

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Additional Questions

Each quarter NI Chamber members are asked a number of additional topical questions. This quarter focuses on current business conditions, energy costs, priorities for the NI Executive and Westminster along with views on potential revenue raising measures by the NI Executive.

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Current Business Conditions

Most businesses are currently trading well or reasonably (77%) although this has fallen slightly since Q4 23 (78%) and is down from 80% at the start of 2023. Around 1 in 4 (23%) are just covering costs or struggling. The share of businesses trading well/reasonably has been falling since the post COVID bounce back.

Just over half (56%) of members are seeing some slowdown in demand, although for most only a little (49%). Some 7% are seeing a significant slowdown in demand which is down significantly from 13% at the end of 2023.

Key business concerns include:

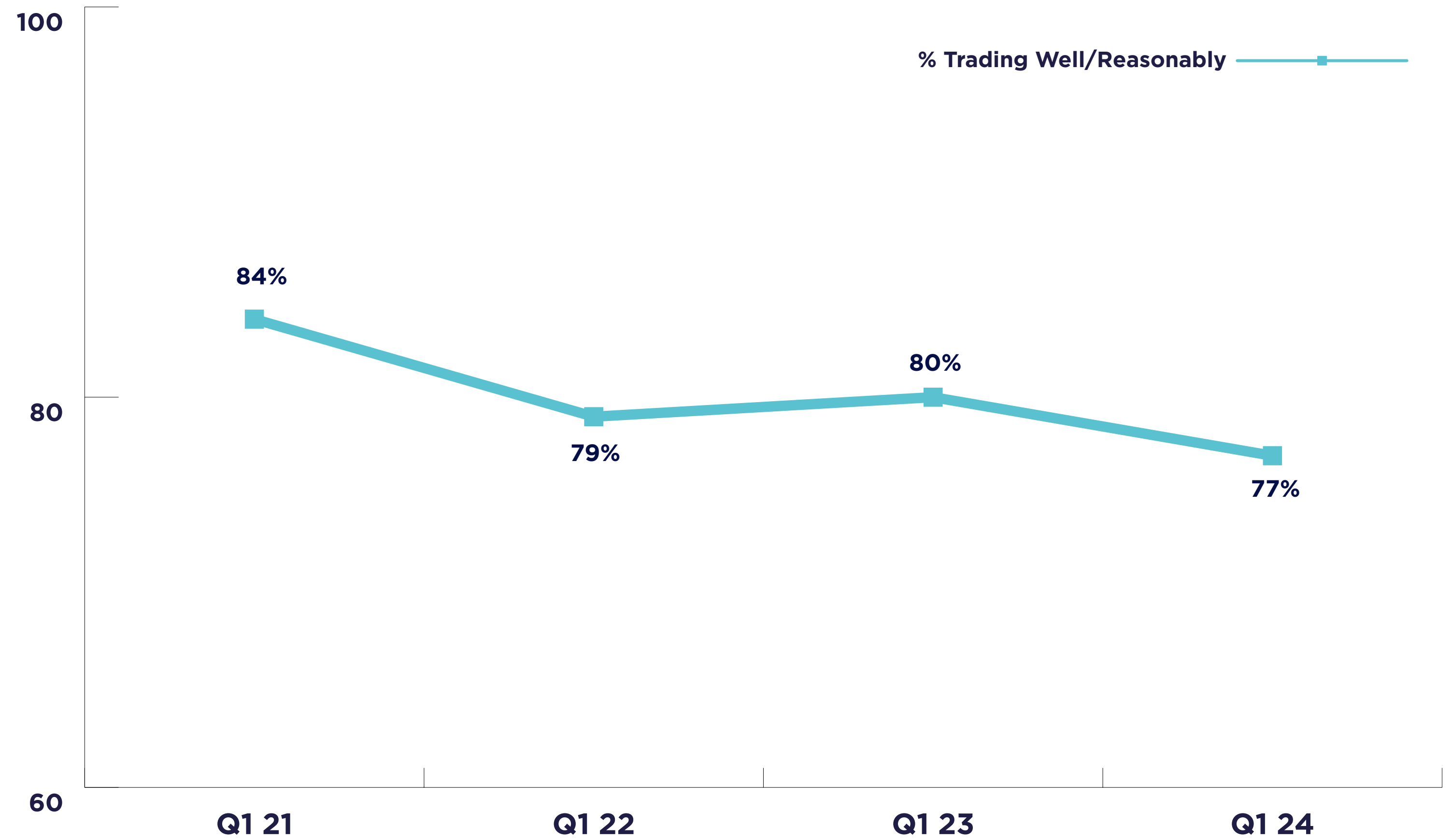
- Weak demand
- Business costs - particularly business rates, energy costs & the increasing minimum wage
- Slow payments
- Challenging supply chains - both access and cost

% trading well/ reasonably

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Energy Costs

Energy cost inflation continues to slow but 69% of members are still dealing with increased energy costs over the last quarter (71% Q4 23). This is down from a high of 96% in Q4 22. Most are seeing an increase of up to 30% (52%) while 17% have seen an increase of 30% plus. For 24% energy costs are unchanged while for just 4% they have fallen.

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NI Executive & Westminster Priorities

According to survey respondents the top three NI Executive priorities should be:

- A new Economic Strategy
- A long-term Infrastructure Plan
- An independent review of Public Spending.

The top 3 Westminster priorities for Northern Ireland should be:

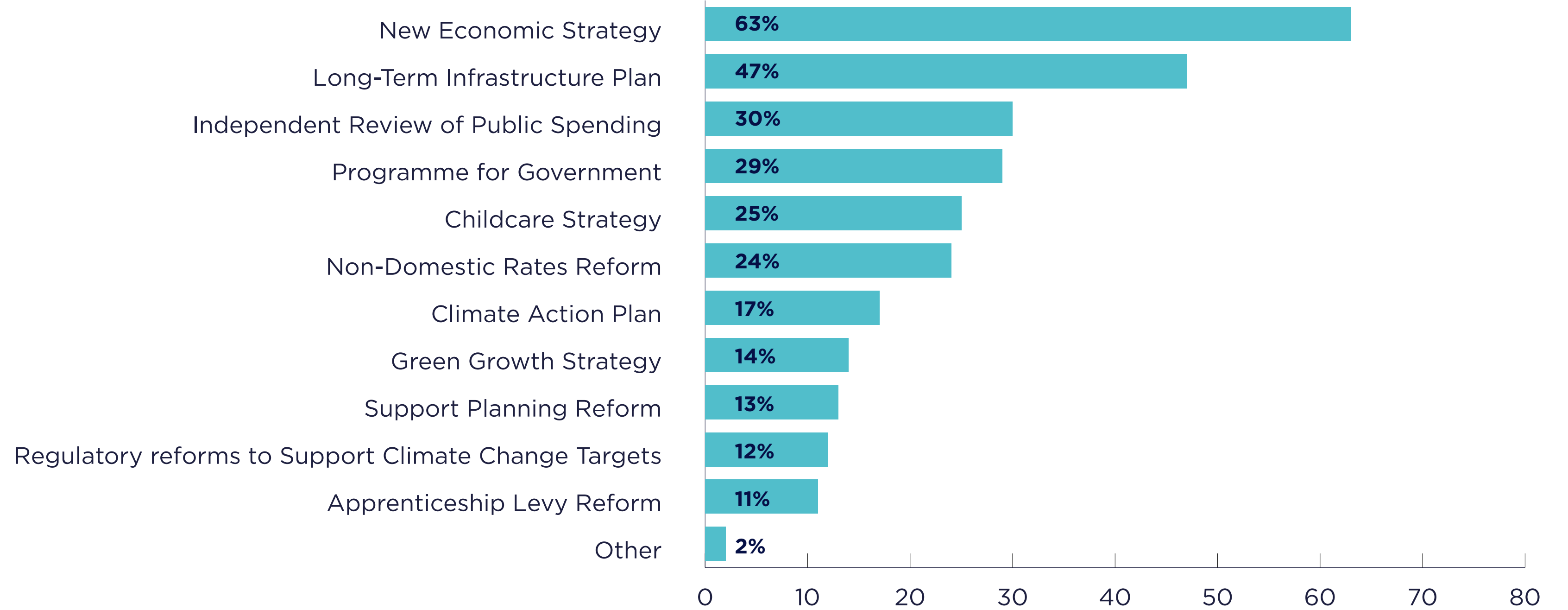
- A new Fiscal Framework for funding Northern Ireland public services
- Competitive business taxes
- Access to international labour and skills and investment in innovation support (joint 3rd).

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NI Executive Priorities

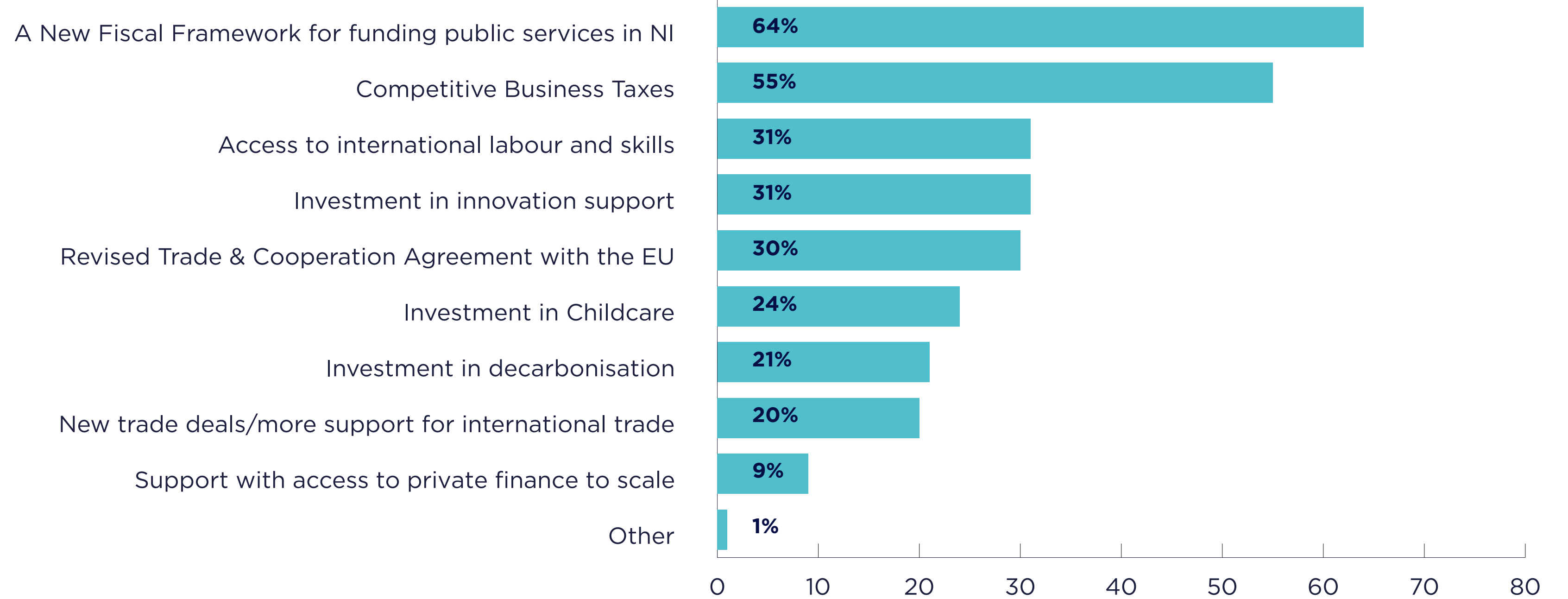


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Westminster Priorities



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Revenue Raising

There were mixed views on potential revenue raising measures by the NI Executive. The most frequently referenced are the introduction of water charges, free/means tested prescription charges, ending free/means testing travel for 60- to 65-year-olds. Some members believed that the focus in the first instance should be on more efficient and effective public spending and delivery of services, including a reduction in the size of the public sector in NI.

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NI Chamber Perspective

“Businesses have made it clear that they need and expect strategic decision making from the NI Executive to counter low growth and increasing costs. Through this survey, they have articulated the business need for the roll-out of a new economic strategy and a long-term infrastructure plan, whilst also indicating strong support for a review of public spending as a pre-requisite to revenue raising. With a General Election anticipated later this year, our member businesses are also looking to Westminster, with a new ambitious Fiscal Framework a top priority along with a competitive business tax environment, as well as access to international labour and investment in innovation support.

“These findings correlate strongly with the experiences and challenges our members across all sectors report on a daily basis and provide a very strong evidence base for our engagement with both the restored Executive and UK Government Ministers.”

Suzanne Wylie
Chief Executive, NI Chamber

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The logo for BDO, consisting of the letters 'BDO' in a bold, white, sans-serif font, with a horizontal line underneath the letters.

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BDO Perspective

“Local businesses now have a once in a generation opportunity with clarity about our trading relationships – unrestricted access to both the EU and GB markets, and a new Executive that provides stability.

“The partnership between local firms and our Ministers took centre stage recently in the US, gaining international recognition and support. The message was clear and welcomed with great enthusiasm: if you want access to the UK and EU markets, look no further than NI as the most exciting region on these islands to invest, work and live.

“To help achieve this potential we need our new Ministers to act. Nearly two thirds (63%) of local businesses want a new economic strategy for Northern Ireland, recognising our unique positioning and opportunities, with

64% backing calls for the UK Government to introduce a new fiscal framework for how we manage, support and fund public services in Northern Ireland. We need a fresh approach to deliver a system that reflects the realities of today and supports the planning for tomorrow.

“Businesses issues and asks may be well rehearsed, but our opportunities are unlimited. Momentum has been built and we cannot let it stall. Ministers need to make the decisions to support investment and job creation by delivering structures that will facilitate and incubate growth, thereby building a better, more productive, and more prosperous Northern Ireland for all.”

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, 216 members responded to the NI Chamber of Commerce & Industry Quarterly Economic Survey (QES), in partnership with BDO, for the 1st quarter of 2024. Together they account for just over 37,000 employees in Northern Ireland.

The fieldwork for the Quarter 1 24 survey took place between 15 February and 8 March 2024.

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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>.