

NI CHAMBER & BDO NI

Quarterly Economic Survey Summary

Q2 2022

Overview

While still showing some signs of growth, the Q2 22 findings suggest that business growth in the Northern Ireland economy is slowing and confidence is waning. The inflationary pressures that business currently face are so acute that 9 in 10 members are affected. These cost pressures now cover not just raw material costs but also labour, utilities and fuel costs. This is inevitably placing pressure on businesses to put up prices but also making businesses consider how to make efficiency savings too.

Almost all key indicators are positive meaning more businesses are reporting increases in sales, exports, jobs and confidence around turnover growth than those reporting a fall. The weakest indicators this quarter are cash flow and confidence around profitability. While more businesses are reporting increased UK sales (+32%) in last 3 months compared to those reporting falling sales (+25%), the domestic market performance has weakened this quarter. Around 1 in 2 member businesses are operating below capacity (47% vs. 52% Q1 22). Northern Ireland's export balances are positive and rank highly relative to most other UK regions, many of which have negative export balances suggesting a deteriorating export position in those regions.

Businesses are generally positive about turnover growth in the next 12 months with 52% expecting turnover to grow, although this is notably down on previous quarters (60% Q1 22 and 70% in Q4 21). In part this could reflect the relatively strong recovery after the shock of COVID inevitably slowing down. Around 2 in 3 members are recruiting (64% vs. 67% Q1 22) continuing a softening in recruitment intentions in recent quarters. However, recruitment difficulties are extensive across the business community with 88% currently experiencing recruitment difficulties. This appears to be feeding into higher wages this quarter.

Inflationary pressures remain acute and 79% of members are expecting to raise prices in the next 3 months to deal with rising business costs. Raw material costs are a significant driver for manufacturers but in Q2 22 labour costs have emerged as a very strong driver for both the manufacturing and services sectors affecting twice as many members in Q2 22 compared to Q1 22. This is being driven in large part by challenges for many members in getting staff. Rising utility and energy costs are also key cost pressures.



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Manufacturing

The manufacturing sector is still showing signs of growth but that growth appears to be slowing against the unrelenting surge in business costs. Almost all key indicators remain positive suggesting there is still some growth in the sector. However, the domestic sales balance is just +1% in Q2 22 suggesting that almost the same share of businesses are experiencing a contraction in sales as those experiencing a rise. The export sales balance is positive (+8%) and back at 2019 levels. Cash flow is the only negative indicator while confidence around profitability is flat.



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Services

The Service sector recovery weakened in Q2 22 reflecting a poorer performance in the domestic economy. Almost all key indicators are positive, with the exception of confidence around profitability, suggesting that the sector is growing. However, most balances fell over the quarter with the exception of exports balances (which are low). The domestic sales balance fell from +26% in Q1 22 to +10% in Q2 22.



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Recruitment

While expectations around employment growth in the next 3 months remains positive, this indicator fell in Q2 22. 73% of manufacturers (74% Q1 22) and 58% of services (65% Q1 22) are trying to recruit. This had fallen to just 27% of manufacturers and 21% of services in Q2 20 reflecting that there had been a strong bounce back after very challenging times during COVID. What is notable however is that the share of service sector business trying to recruit has been falling since Q3 21.

Recruitment difficulties remain one of the most persistent and growing concerns among members. In Q2 22 89% of manufacturers and 87% of services are finding it difficult to get staff. This also represents the highest share of services companies experiencing recruitment difficulties on record (2011). This milestone was reached for manufacturers in Q1 22.



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Confidence and Investment Intentions

Confidence that turnover will grow in the next 12 months remains positive in that more manufacturing and service sector companies believe turnover will grow than contract but fell significantly for both sectors in Q2 22. Balances are now slightly lower than pre-COVID in Q1 20 after making a significant recovery towards the end of 2021. The turnover confidence balance halved for both sectors in Q2 22, falling to +17% in Q2 22 (+36% Q1 22) for manufacturers and to +26% (+55% Q1 22) for services.

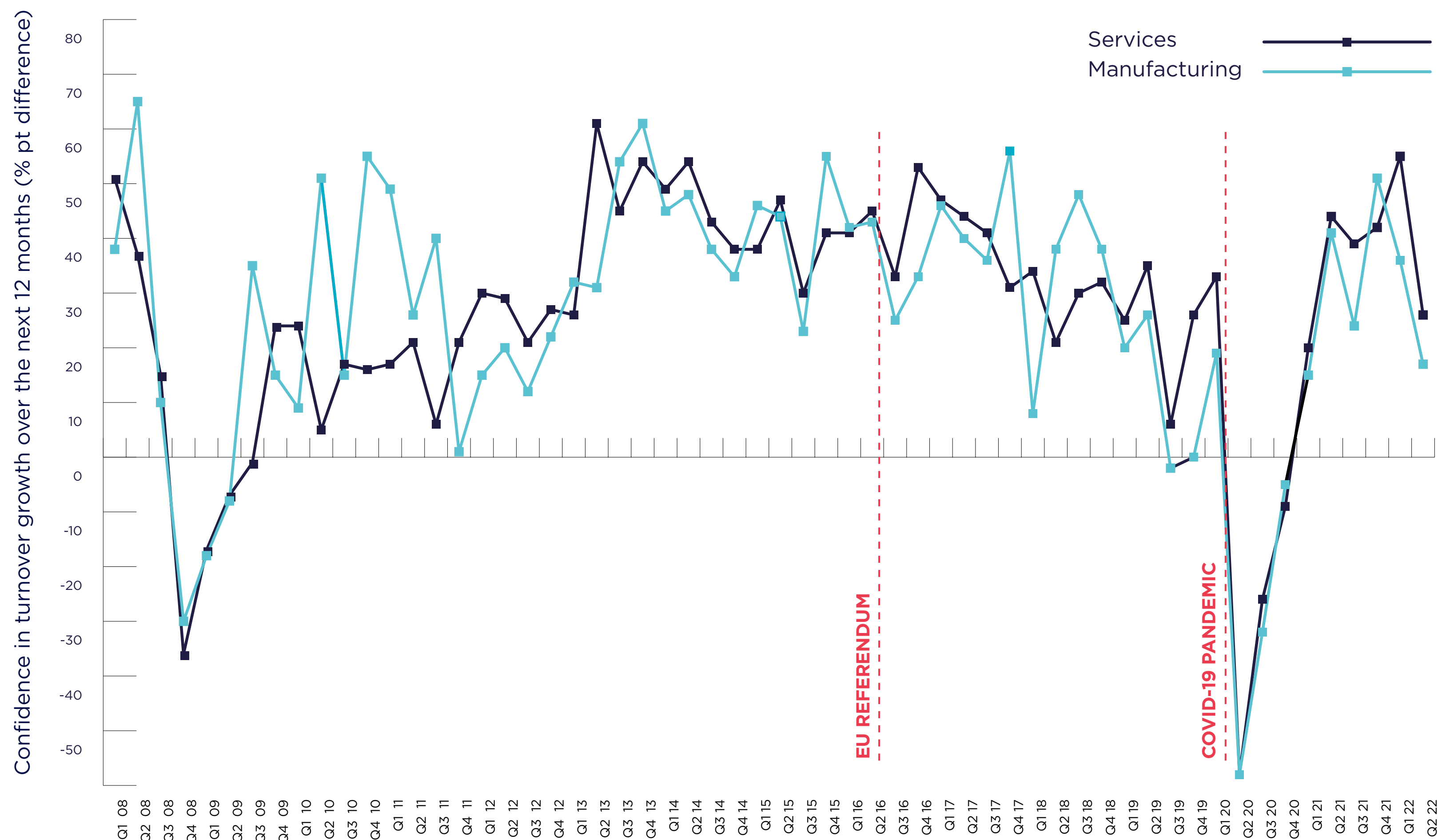
Confidence around profitability in the next 12 months remains a weak indicator for both sectors and in services weakened strongly in Q2 22 falling from a positive balance in Q1 22 (+24%) to a negative balance in Q2 22 (-6%). The manufacturing balance has been largely flat for the last few quarters (0% Q2 22).



More manufacturing and service sector companies believe turnover will grow than contract.

Confidence in profitability growth over next 12 months

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In Q2 22 there has been a slight improvement in the cash flow balance for manufacturers but it remains negative.

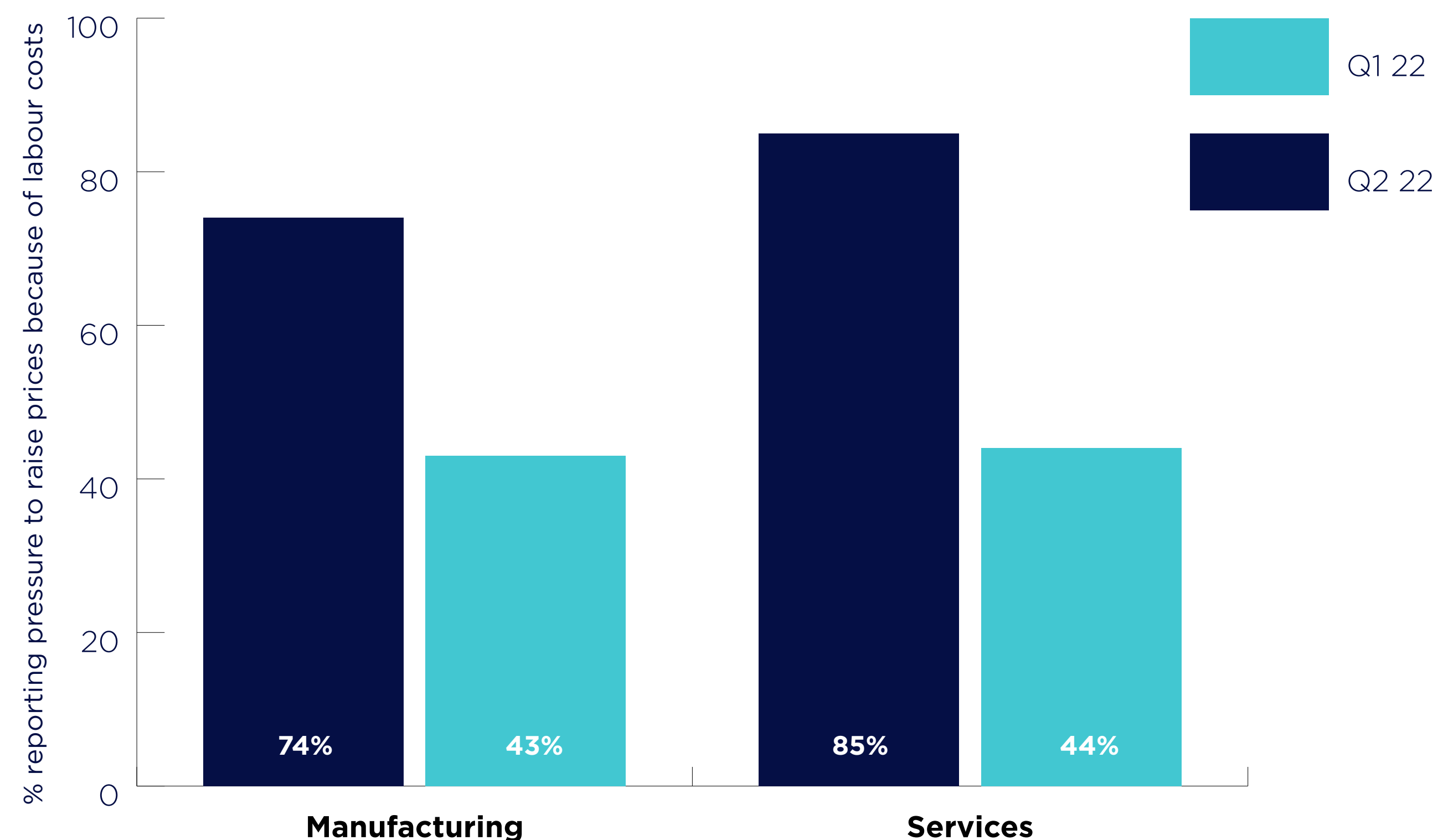
Cash flow

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. For manufacturers in Q2 22 there has been a slight improvement in the cash flow (-17%) balance after concerning dip in Q1 but it remains the case that more manufacturers are reporting a deteriorating cash flow position than those reporting any improvement. In services the balance remains flat at +1%.

Prices

Expectations to raise prices remain very high for both sectors with the upward trend continuing for services. 83% of manufacturers and 75% of services businesses are expecting to raise prices in the next 3 months. The inflationary pressures driving this are acute with 9 in 10 businesses impacted. For manufacturers, raw material costs remain a significant driver of price pressures but in Q2 22 labour costs have emerged as a very strong driver for both sectors along with utility and fuel costs. The share of businesses facing pressure to raise prices because of rising labour costs has almost doubled between Q1 22 and Q2 22, affecting both the manufacturing and services sectors.

Labour Costs



Regional Position

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

In Q2 22 the manufacturing sector's performance was mixed with Northern Ireland ranked in the bottom 3 performing UK regions for 5 of the 11 key indicators (6 in Q1 22). Northern Ireland had one of the weakest domestic sales balances contrasting against one of the strongest export balances (although still low). Expectations around taking on people in the next 3 months is low relative to almost all other UK regions and Northern Ireland ranks 11th out of the 12 regions in terms of confidence around turnover growth in the next 12 months.

In services Northern Ireland's regional position was also mixed and weakened over the quarter placing it in the bottom 3 performing regions for 4 of the 11 key indicators (1 in Q1 22). NI's regional performance had been quite positive but deteriorated for some key indicators including the domestic sale performance and business confidence around turnover and profitability growth. However, NI ranks 1st across the regions in terms of the export sales balances and the share of members operating at full capacity.

Additional Questions

Each quarter NI Chamber members are asked a number of additional topical questions. This quarter focuses on the impact of Brexit on their business/organisation along with a range of questions around cash flow and debt, business costs and labour availability, current business conditions and views on the risk of a UK recession.

Brexit Watch

Following the EU Referendum on 23rd 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.

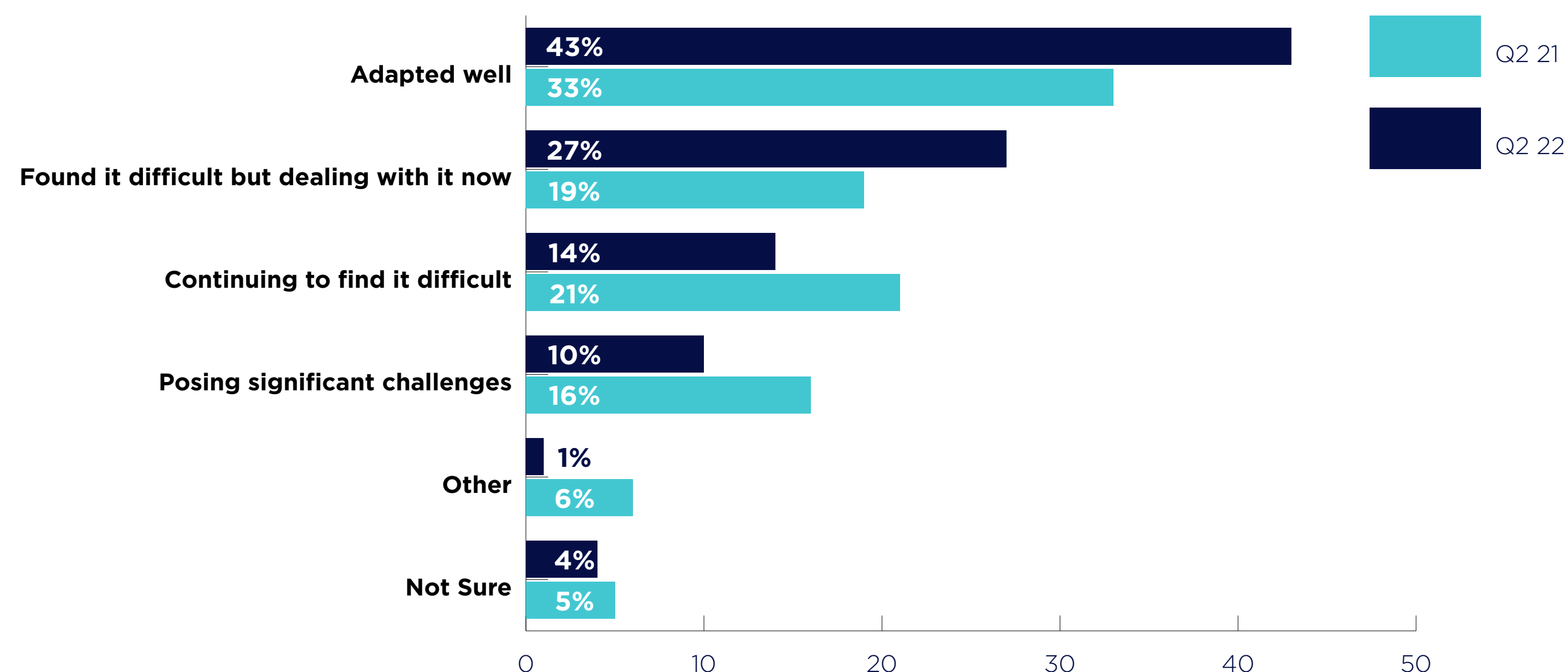
New arrangements came into place on the 1st January 2021 including the Northern Ireland Protocol that gives Northern Ireland different status from the rest of the UK in that it remains part of the EU's single market for goods. A number of questions have been asked since about member experiences of the new arrangements.

This includes the extent to which businesses are dealing with the new arrangements post EU exit. What the Q2 22 findings suggest is that more businesses affected by the new trading arrangements (3 in 4) are continuing to adapt to changes. In Q2 22 70% of those impacted are

not having any difficulties, up from 52% for the same quarter in 2022 suggesting a considerable improvement. However, 1 in 4 members do continue to find the new arrangements challenging.

EU Exit has come at a cost and created disruption for many businesses with 66% stating that it has negatively affected business costs and for 54% the ease of doing business. 28% have stated that it has negatively impacted on overall sales performance while for 19% it has been positive for sales. The impact on exports has been less pronounced with 26% of members reporting a negative impact against 22% reporting a positive change. 44% state that EU Exit has negatively impacted on their business in terms of access to skilled staff.

How has your business adapted to new trading arrangements post EU Exit?



Cash flow & Debt

Cash flow tends to be one of the weakest indicators in the Quarterly Economic Survey. In Q2 22 the majority of members, 72%, have some concerns about their current cash flow position with 1 in 10 extremely concerned. 1 in 4 have no concerns at all about the businesses cash flow position.

Just over 2 in 5 members (43%) have some form of business loan and 25% have COVID loans highlighting the extent of their uptake during the pandemic. Most members have few concerns about paying back the debt although 16% are moderately/extremely concerned about the ability to repay. 15% are currently considering taking on more debt.

Business Costs & Labour Availability

The majority of members (72%) are facing significant challenges in terms of rising business costs with only 9% stating that this is a limited/no issue. The main responses by business to address growing cost pressures include reviewing/making efficiency savings (72%) and/or putting up prices (68%). In addition 43% of members have responded by changing suppliers. There appears to be only a small impact in terms of staff hiring (13%) with just 5% considering laying off people.

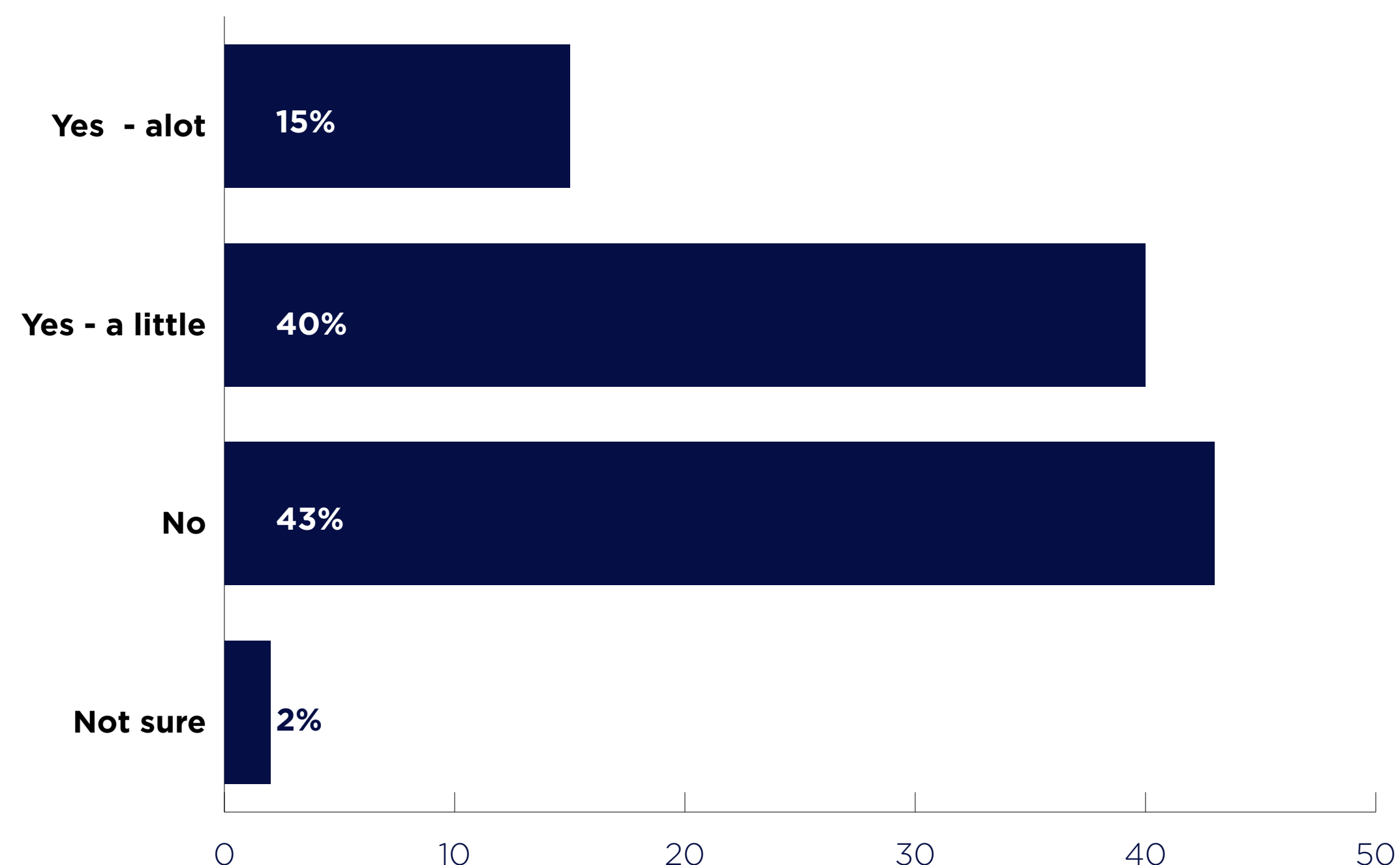
Just over 3 in 5 members (62%) are finding labour availability a significant challenge at present.

Current Business Conditions

Most businesses are trading positively (82%) in Q2 22 with 1 in 3 (33%) trading well, although this is down from 39% in Q1 22. 5% of members are struggling/at risk of closure. More businesses are recovering from the fall out of the pandemic although 1 in 4 (25%) are yet to return to their pre-COVID trading position. This figure is down from 29% in Q1 22.

More than half of members (55%) have seen some slow down in demand for products and/or services, similar for both manufacturers and services. For 15% they say the slow down has been significant.

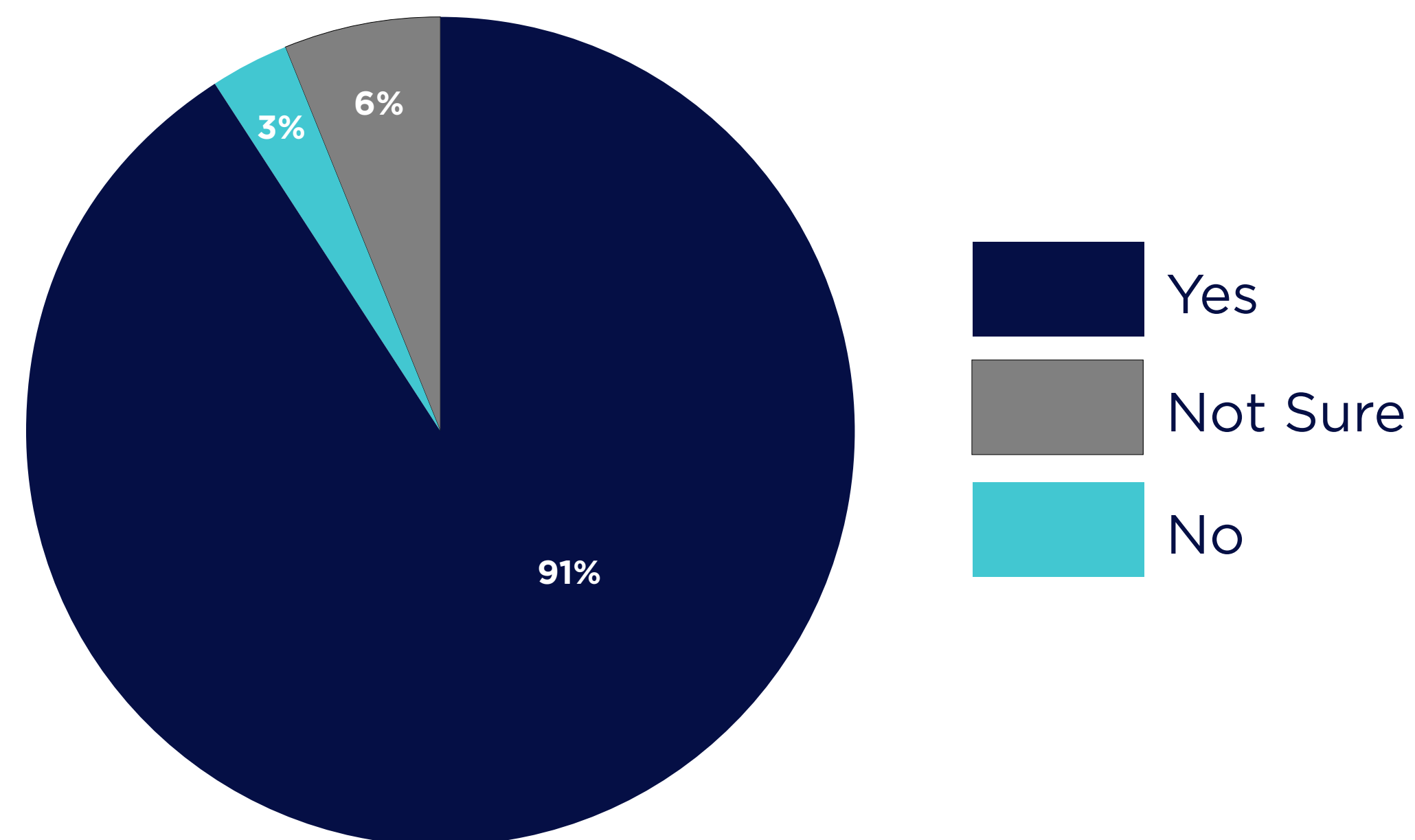
Do you see any signs of slow down currently in demand for your products and/or services?



Risk of Recession

The Bank of England has recently flagged a potential risk of recession in the UK because higher energy prices could push inflation above 10%. 91% of members believe that the UK economy could enter recession if current economic conditions persist.

Do you believe that the UK economy could go into recession if current economic conditions persist?



NI Chamber Perspective

While it is encouraging that a majority of our members traded positively in Q2, behind this, the results of the latest QES survey indicate a crystallization of the many challenges that they are currently facing. The reported slow-down in demand is a concerning indicator and while we might expect that there would be some slow down after the relatively strong rebound for many after COVID, businesses are now facing an entirely different set of challenges which have been largely unanticipated.

Inflationary pressures are acute, impacting on profitability not only in energy intensive companies, but also among service businesses too. That is inevitably leading to pressure to increase prices.

While 1 in 4 businesses continue to find current post-EU exit trading arrangements challenging, 70% are adjusting to the changes, up from 52% in the previous quarter. This suggests a considerable improvement under the arrangements in their current form. Northern Ireland's export balances under these current arrangements are also positive in contrast to some other UK regions where balances suggest a deteriorating export position.

Ann McGregor, Chief Executive



BDO Perspective

Despite the uncertainties created in recent years by Covid and Brexit, 82% of last quarter's respondents have reported that they are trading positively, post pandemic, with 70% having also adapted to the post EU trading procedures. Considering the scale of the challenges, this is an incredible result and certainly tells me that businesses in Northern Ireland have been making the most of the good days.

Unfortunately, the positive momentum that has been building in the economy will be very much needed to mitigate the cost of living and the cost of doing business that are taking their toll on many, with 72% of firms expressing concerns about cashflow and the impact of rising costs on the bottom line and 79% of those businesses expecting to have to raise prices as a result.

Businesses in NI have already demonstrated their flexibility and innovative approaches in recent years, but there is only so much that they can do on their own. If we are to endure a storm, we need to work in partnership with all of our stakeholders to help

shape the conditions that can support and protect local jobs and local companies. The pandemic has shown us that we can all work together to achieve great things, despite the magnitude of the challenges. The challenges ahead have the potential of being even more impactful on our economy than what we have dealt with in recent years, plus there may be no quick fix and we may have a long road ahead of us.

As well as businesses, employees, suppliers and the banks, our Executive has an important role to play in continuing to use its influence in Westminster to make the right calls on taxation, regulation, investment and if needed, financial intervention. Businesses can prepare for rainy days; they can adapt to a changing climate, but they still need everyone to work together to help weather a storm.

Brian Murphy, Managing Partner





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WITH



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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, 264 members responded to the NI Chamber of Commerce & Industry Quarterly Economic Survey (QES), in partnership with BDO, for the 2nd quarter of 2022. Together they account for over 22,000 employees in Northern Ireland.

The fieldwork for the Quarter 2 2022 survey took place between 19 May – 7 June 2022. All COVID restrictions in Northern Ireland were lifted during this quarter. The war in Ukraine was officially confirmed on the 24 February 2022.

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About NI Chamber

Helping businesses grow locally and internationally

Northern Ireland Chamber of Commerce and Industry (NI Chamber) is an award winning, quality assured business support organisation with over 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>.

