



Northern Ireland  
Chamber of Commerce  
and Industry

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NI CHAMBER & BDO NI

# Quarterly Economic Survey Summary

Q3 2022

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## Overview

The Q3 2022 QES findings suggest cause for concern around Northern Ireland's economic performance driven in large part by escalating costs but also worryingly signs of slowdown in demand. The acute inflationary pressures are affecting almost all members and most aspects of doing business – rising utilities, labour and fuel costs and the persistent issue of high raw material costs particularly for manufacturers. This is placing significant pressure on firms to raise prices. One of the biggest emerging concerns this quarter is the negative consequences for business profitability with more members seeing profitability falling than rising in the next year. The manufacturing confidence balance is down at levels experienced during the Financial Crash. In addition, 3 in 5 members are seeing some slowdown in demand for their goods/services, reflecting challenging economic conditions nationally and internationally.

A number of key indicators turned negative in Q3 22, particularly for manufacturing, after what had been a good post COVID rebound. Order books for domestic and export sales showed signs of weakening in both sectors. More members are operating below capacity (61% vs. 47% Q2 22). Along with profitability, cashflow remains a key concern and the cashflow position of more businesses deteriorated in Q3 22. However, recruitment is still taking place in both sectors and with that the persistent challenge of finding staff, a factor influencing rising labour costs.



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## Manufacturing

NI's Manufacturing performance deteriorated considerably in Q3 22. Order books are weakening and firms face a perfect storm of cost challenges. Some key indicators turned negative this quarter meaning more manufacturers reporting falling domestic (UK) sales and exports than those reporting a rise. Confidence around profitability plummeted and cashflow remains a very weak indicator for the sector. Utility cost increases now dominate member concerns along with rising raw material, fuel and labour costs. NI manufacturers are more concerned about interest rate hikes than any other UK region (42% vs. UK 32%).



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## Services

Aspects of the Service sector's performance remain positive in Q3 22 but order books are weaker and profitability is a serious concern. Key balances around domestic and export orders turned negative this quarter and confidence in profitability took a significant downturn in the context of an already weak cashflow position. However, employment balances remain relatively strong and a high share of firms are recruiting although are still facing significant difficulties finding staff. Rising labour costs are a key pressure on prices affecting 80% of members (UK 61%) and rising utility costs (82%) are also adding considerable strain on the sector.



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## Recruitment

Expectations around employment growth in the next 3 months remains positive in Q3 22 for both sectors although took a considerable dip for manufacturing. 75% of manufacturers (73% Q2 22) and 68% of services (58% Q2 22) are trying to recruit. This had fallen to just 27% of manufacturers and 21% of services in Q2 20 reflecting that there has been a strong bounce back after the most difficult times during COVID.

Recruitment difficulties remain one of the most persistent and growing concerns among members. In Q3 22 93% of manufacturers and 84% of services are finding it difficult to get staff. This is the highest share of manufacturers experiencing recruitment difficulties on record (2011) despite all of the challenges that the sector is facing.



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## Confidence and Investment Intentions

Confidence that turnover will growth in the next 12 months remains positive in that more manufacturing and service sector companies believe turnover will grow than contract. However, that confidence has been falling since the start of the year with balances now similar to pre-COVID levels after what had been a strong COVID recovery. The turnover confidence balance was +16% for manufacturers in Q2 22 (+17% Q2 22) and +21% for services (+26% Q2 22).

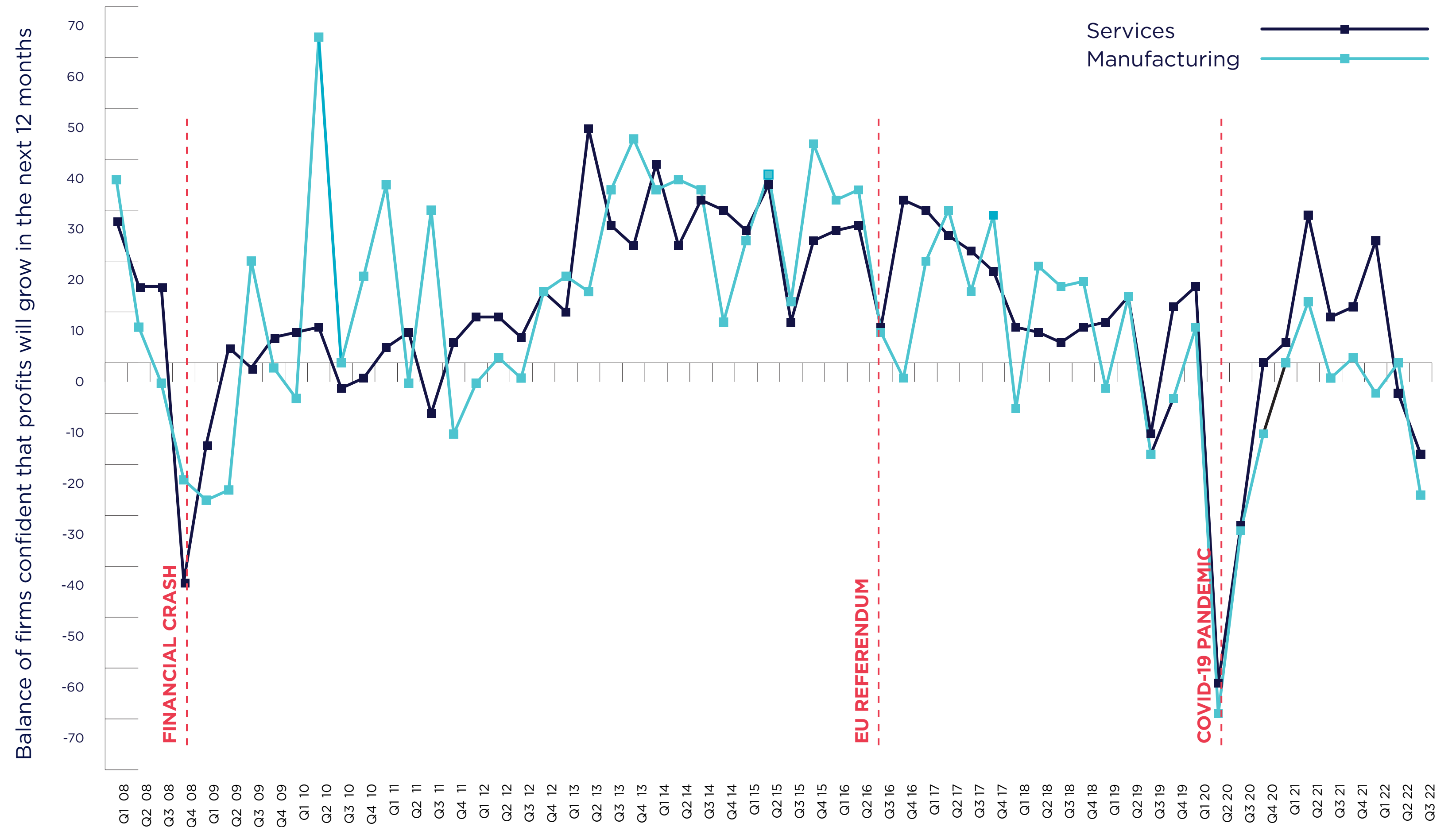
Members have expressed serious concerns around their business profitability in the next 12 months. Confidence around profitability plummeted for both sectors in Q3 22 with more businesses believing confidence will fall rather than rise. The manufacturing balance was -26% in Q3 22 (-6% Q2 22) and in services -18% (0% Q2 22). For manufacturers that is only slightly better than in Q3 20 in the middle of the pandemic and is similar to balances experienced after the Financial Crash in 2008/09.



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## Balance of firms confident that profits will grow in the next 12 months

Investment intentions are weaker in Q3 22. In terms of training, the Q3 22 balances remain positive but down over the quarter, at +17% (+22% Q2 22) for manufacturers and +16% for services (+18% Q2 22). Investment intentions around capital deteriorated for both sectors, with manufacturers down to +7% in Q2 22 (+13% Q2 22) and services at -3%, down from +11% in Q2 22.



## 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 COVID but had been improving. However, cash flow recovery has stalled in recent quarters. In Q3 22 the cashflow balance for manufacturers deteriorated again (-26% vs -17% Q2 22). In services the balance deteriorated significantly, falling to -21% from a relatively flat position in Q2 22 (+1%). This made Northern Ireland the worst performing UK region for this indicator in Q3 22.



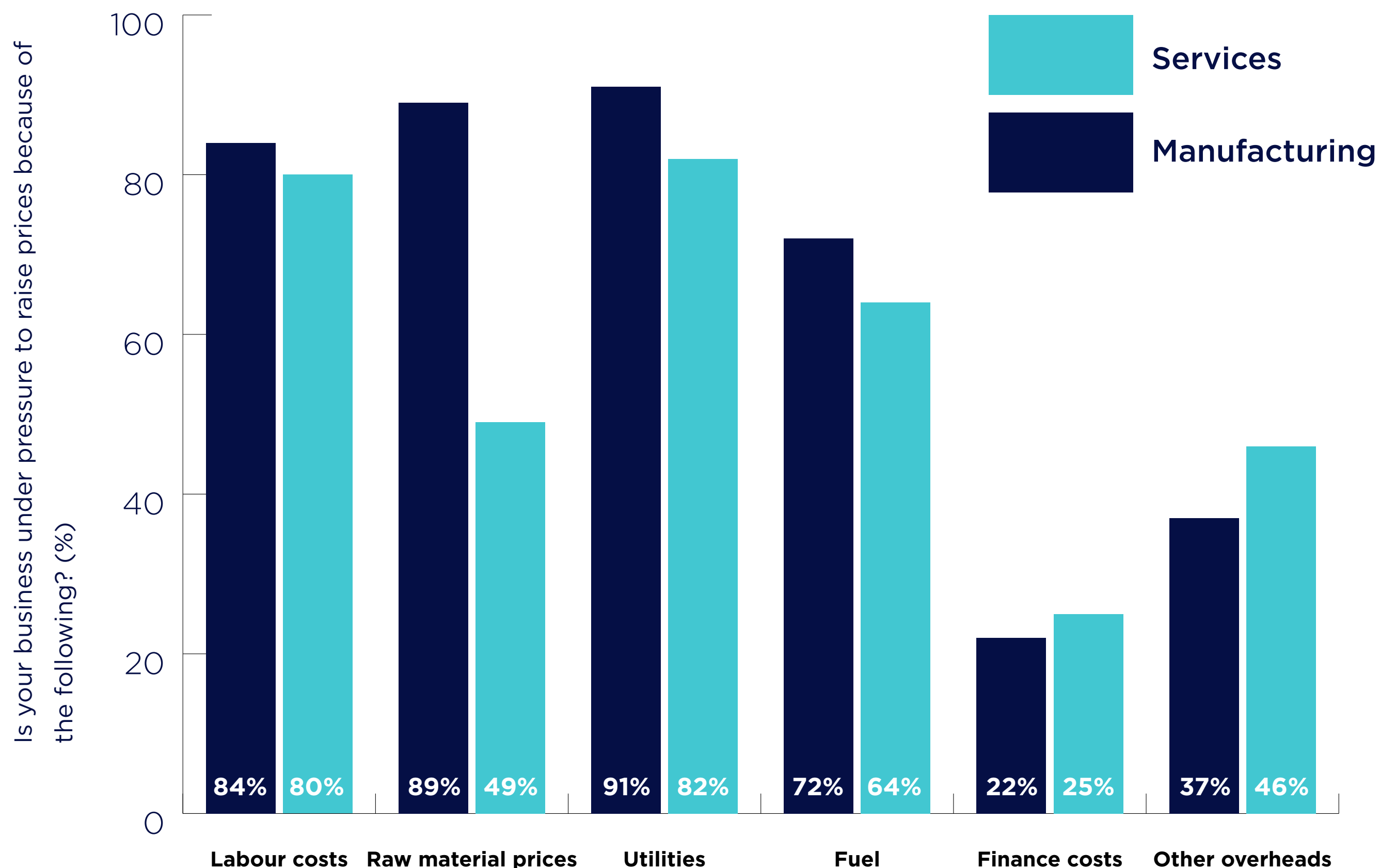
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# Prices & Costs

Expectations to raise prices remain very high for both sectors. 81% (83% Q2 22) of manufacturers and 70% (75% Q2 22) of service businesses are expecting to raise prices in the next 3 months. The inflationary pressures driving this are acute with 9 in 10 businesses impacted. Businesses are facing significant cost pressures in terms of utilities, fuel, labour costs and particularly for manufacturers raw material costs. The extent to which businesses are dealing with pressure from utility costs is clear and twice as many firms are dealing with pressure from rising labour costs (78%) compared to the start of the year (38% Q1 22).

## Labour Costs



## 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.

In Q3 22 manufacturing's regional performance deteriorated significantly with Northern Ireland ranking in the bottom 3 performing UK regions for 10 of the 11 key indicators (5 in Q2 22). Northern Ireland had the weakest domestic sales and exports balances during the quarter and expectations around taking on people in the next 3 months was also lowest across the UK regions. Confidence around profitability ranked lowest and had a particularly negative balance of -26% meaning significantly more businesses expecting profitability to fall over the next 12 months than those expecting profits to rise.

In services Northern Ireland's regional position was more mixed placing it in the bottom 3 performing regions for just 2 of the 11 key indicators (4 in Q2 22). NI's regional performance continues to remain positive on employment indicators and despite challenges is a middle ranking region on investment indicators although the capital investment balance is negative. However, the sector's weakest indicators are cashflow which is lowest across the regions and confidence around profitability where NI is the second lowest ranking region.

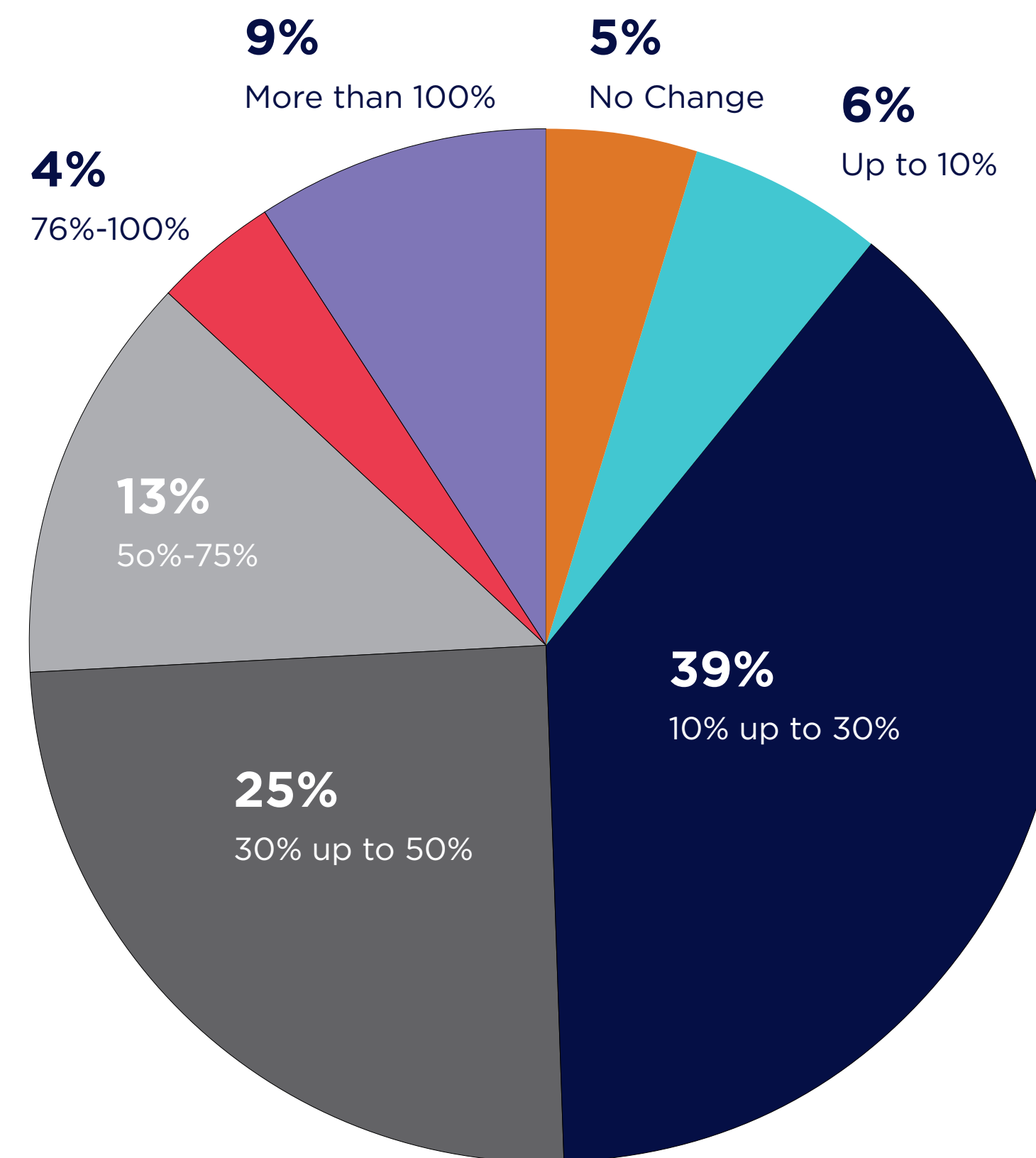
# Additional Questions

Each quarter NI Chamber members are asked a series of additional questions. This quarter focuses on energy costs, trading performance and demand, wages costs and rewards along with Brexit impacts.

## Energy Costs

1 in 4 businesses have seen energy costs rise by 50% or more over the last quarter alone. 1 in 10 have seen costs more than double.

**How much, if at all, have your energy costs increased by in the last quarter?**



## 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 over the first year.

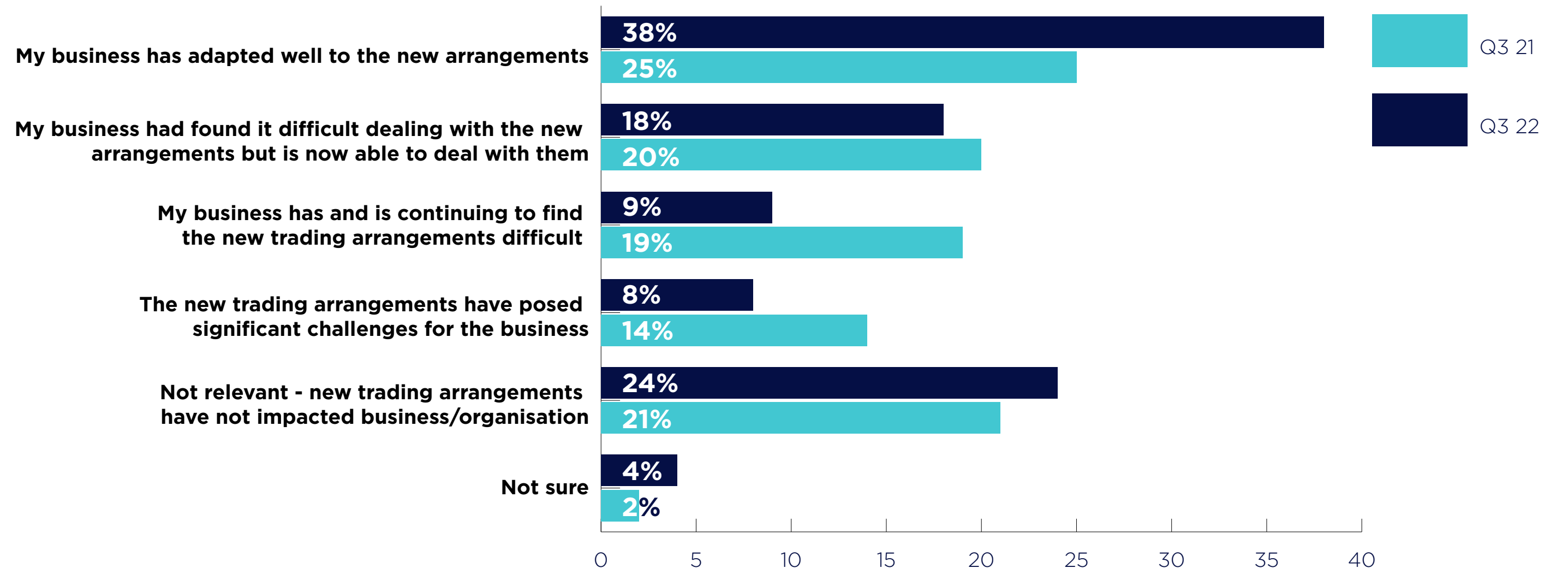
In the last year significantly more businesses have adapted to the new trading arrangements post EU exit compared to the same quarter



a year ago. 38% are dealing well with new arrangements (25% Q3 21) and 18% had found them difficult but are now dealing with them (20% Q3 21). However, around 1 in 6 are still finding the new EU Exit arrangements challenging.

EU Exit has come at a cost to many businesses. While 24% state that there has been no change in costs and 26% state that they can't say, for the remaining 49% of members there have been some additional costs as a result. 1 in 10 said costs have increased by 10% or more with EU Exit.

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

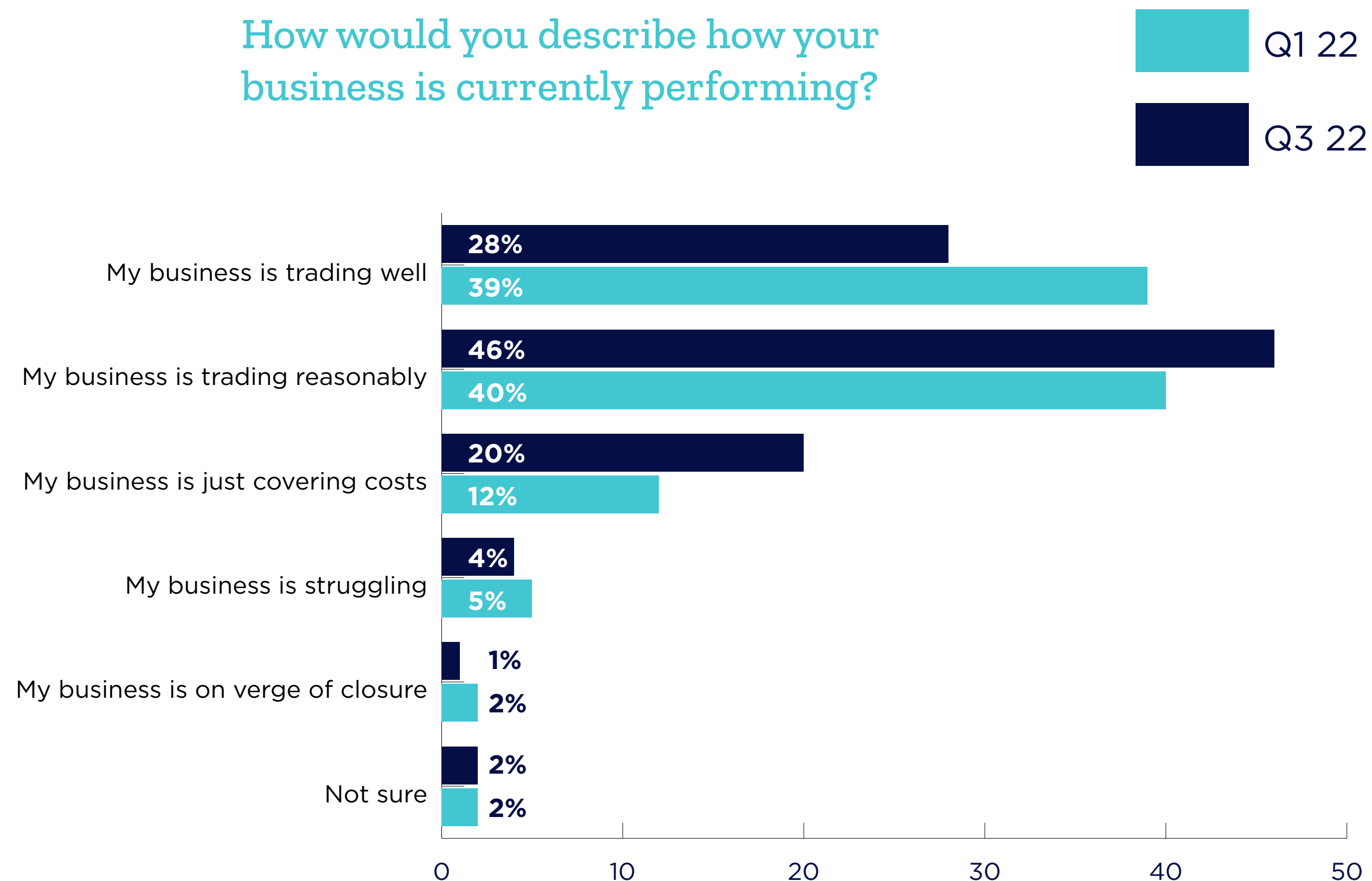


# Trade & Demand

While most businesses are trading reasonably (46%), there has been a significant drop in the share of businesses trading well in Q3 22, down from 39% in Q1 22 to 28% in Q3 22, while the share of businesses just covering costs has risen to 20% this quarter (12% Q1 22). Five per cent of businesses are really struggling in Q3 22.

3 in 5 (61%) of members have seen some slowdown in demand this quarter, up from 55% in Q2 22. 34% have seen no change in the demand for their products/services.

How would you describe how your business is currently performing?

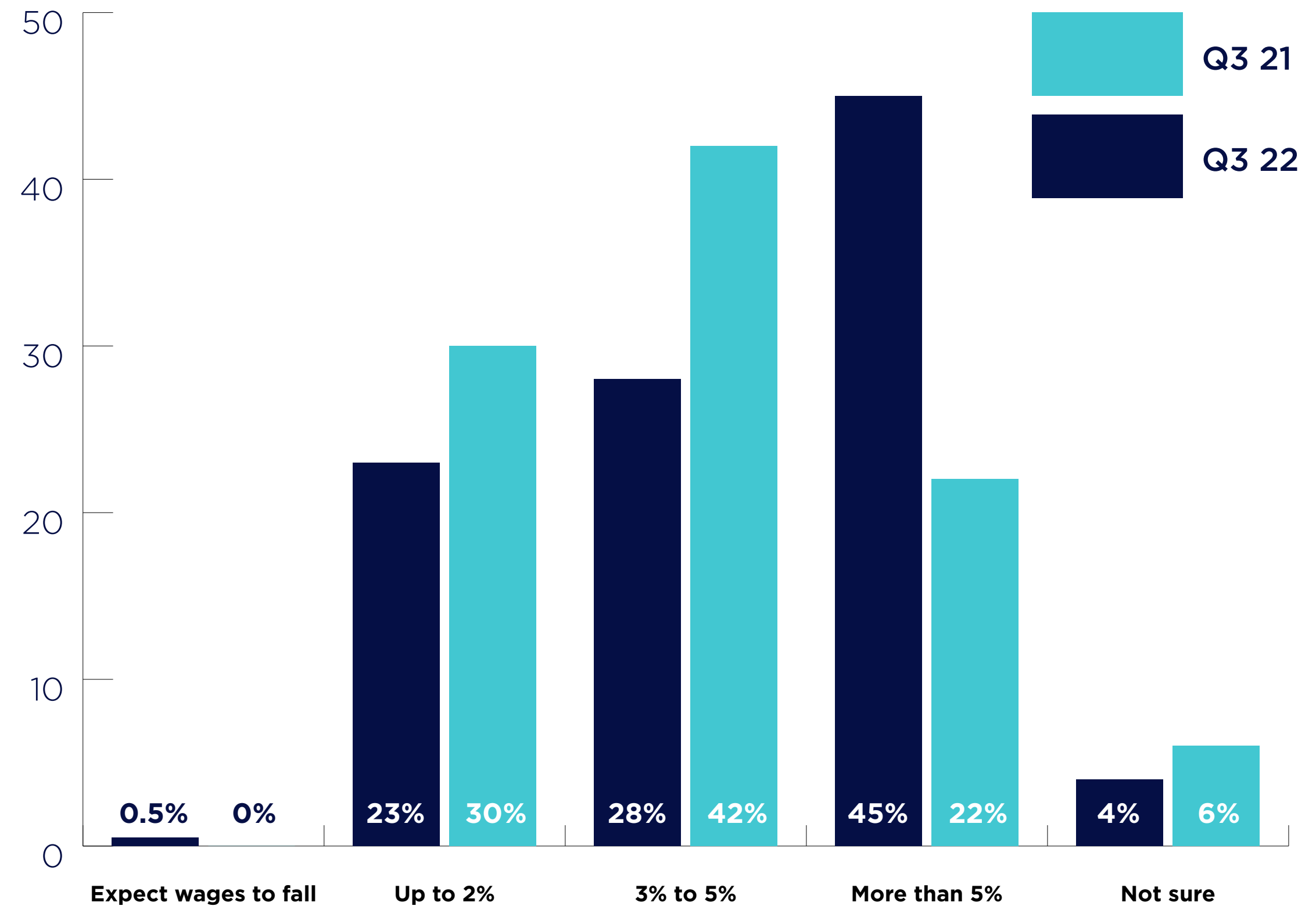


# Wage Costs & Rewards

The share of employers offering pay rises over 5% has doubled in the last year to 45% (22% Q3 21). 23% have given wage increases up to 2% and 28% between 3% and 5%.

Around half of members offer flexible working and 1 in 4 provide performance related bonuses. Few members offer extra leave or non-performance related bonuses. Other employee supports and rewards noted by members include cost of living payments, health insurance, increased pension contributions and additional holidays.

## How much, if at all, do you expect average wages in your business/organisation to increase by?



## NI Chamber Perspective

“While Q3 2022 QES findings show a majority of businesses are trading well or at least reasonably, the weakening of key indicators suggest cause for concern around Northern Ireland’s economic performance, driven in large part by escalating costs and signs of a slowdown in demand.

“In this challenging context the need for the restoration of an Executive is clear. While a functioning Executive will not solve the cost of doing business crisis, the in-tray of overdue reforms and resultant crises continues to grow.

“It is our firm belief that with political will, a range of devolved policy levers could be used to help ease pressures on our businesses; from unlocking green growth through planning reform, to investing in people through health transformation, up-skilling the workforce and tackling the cost of childcare. Today’s survey findings are proof that the business case is now too compelling to tolerate further delay.

“For as long as we remain without an Executive, an Energy Taskforce should be established immediately between policymakers and relevant stakeholders, to address Northern Ireland’s unique circumstances and secure the best outcomes in tackling the energy crisis, protecting security of supply and driving the low carbon transition.”

“On Brexit, it is encouraging to see more firms getting to grips with the new trading arrangements, but we still lack the certainty and simplicity needed on the Northern Ireland Protocol to build confidence and drive investment. For some time we have been advocating for a solution that protects both the consumer’s access to the GB market and the producer’s dual market access. That will require more ambition and compromise from both the EU and the UK, but both sides have a responsibility to deliver it with urgency.”

**Ann McGregor, Chief Executive**





## BDO Perspective

“It’s impressive that despite the challenges in the marketplace, this quarter’s results show most businesses are trading either reasonably, or even well. In addition, recruitment activity is still at a high level.

“Although the data was recorded before the impact of the mini budget, it shows a hard-earned momentum that has built up within local businesses. It’s encouraging that with everything that is going on, businesses have continued to stay the course.

“However, the results we announce today also show an economy and a market that are in flux. But despite this flux, we have not yet been plunged into a potential recession and with careful intervention, there may still be time to avert this from happening.

“There is no doubt that some of the results are concerning, with; inflationary pressures, weakening of order books, a worsening cashflow position and labour availability all contributing to the challenges that businesses will face in the weeks and months ahead.

“The economy is persevering and has continued to avoid a free-fall. Going forward, we all need time to assess the full impact of the Government’s support measures and the practical help this will bring, that will hopefully be evident in the next quarter. Above all, it is critical that inflationary pressures are addressed and we avoid a protracted and potentially harmful period of rising costs”.

**Brian Murphy, Managing Partner**





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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, 184 members responded to the NI Chamber of Commerce & Industry Quarterly Economic Survey (QES), in partnership with BDO, for the 3rd quarter of 2022. Together they account for over 33,000 employees in Northern Ireland.

The fieldwork for the Quarter 3 22 survey took place between 25 August – 12 September 2022. The war in Ukraine was officially confirmed on the 24th of February 2022. The UK’s mini budget took place after the QES fieldwork on 23rd September 2022 so any impact is not reflected in these results.

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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](http://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](http://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>.

