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Chamber of Commerce
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NI CHAMBER & BDO NI

Quarterly Economic Survey Summary

Q1 2023

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Overview

There have been continued signs of stabilisation, and in some areas marked improvement, in key indicators in the Q1 2023 Quarterly Economic Survey (QES) - with signs of confidence re-emerging both in turnover and profitability along with some easing of inflationary pressures.

Most key indicators are positive meaning more firms are reporting increasing export sales, employment, confidence and investment intentions than those reporting a fall. The only exceptions are in manufacturing's domestic (UK) performance and cash flow balance. The share of businesses operating below capacity has also improved (51% Q1 2023 vs. 55% in Q4 2022 and 62% in Q3 22). While the domestic performance is not particularly strong, the export performance has improved this quarter with export balances turning positive in Q1 2023 and almost twice as many members reporting expanding export orders over the next 3 months compared to those reporting a fall.

Confidence has improved significantly with 60% positive (47% Q4 22) that turnover will grow over the next 12 months compared to 18% who believe it will contract. This is back to where it was in Q1 22 after a challenging period during 2022. Confidence around profitability has also improved and more

members are now confident that profitability will improve in the next 12 months than those expecting any decline.

Recruitment activity is holding up strongly with 74% of members trying to recruit, similar to the last 6 months of 2022. Recruitment difficulties persist however with 87% currently finding it difficult to get staff. Rising labour costs have become a much more significant concern and for 3 in 4 members is feeding into expectations to raise prices. However, pressure to raise prices appears to be easing with a smaller share of members (60%) expecting to raise prices in Q1 2023 (75% in Q4 22 and 77% in Q3 22). Inflation continues to dominate as the key concern affecting members and rising interest rates are also a growing concern.

The weakness in recent business performance persisted in Q4 2022 but hasn't shown any further signs of deterioration. Q4 2022 QES findings suggest that signs of slowdown in demand evident in the last few quarters has continued with 2 in 3 members stating that demand for their goods and services is falling although for most only a little. 55% of members believe their business will grow in 2023 although a sizeable minority of 33% expect it to contract.



Signs of confidence re-emerging both in turnover and profitability along with some easing of inflationary pressures.

Manufacturing

It was a better start to 2023 for NI manufacturers with most key indicators now positive, confidence showing signs of improvement and Northern Ireland's regional position also improving. Only 3 key balances are negative in Q1 2023, domestic sales (last 3 months) and orders (next 3 months) along with cashflow.

With these exceptions, NI is performing above the UK average across all key indicators and is in the top tier of UK regions for all other indicators with a particularly good quarter in terms of export sales and orders. Confidence around turnover and profitability for the next 12 months is improving.

Fewer manufacturers are expecting to raise prices (54% Q1 2023 vs. 88% Q1 2022). Inflation continues to dominate with 79% of manufacturers reporting this as a concern but this is lower than the 92% in Q4 22. Labour and raw material costs still dominate as the two key pressures points for businesses to raise prices (86%). Interest rates have also become a more dominant concern affecting 43% of members.



Most key indicators
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signs of improvement.

Services

It has been a strong start to 2023 for the services sector with all key indicators positive and Northern Ireland a top performing region for 9 of the 11 key indicators. After a challenging end to 2022 where some key balances including domestic and export sales were negative, all key trading balances are positive in Q1 2023 with particularly strong indicators around employment and recruitment intentions. More businesses are confident around turnover prospects for the next 12 months and the profitability balance has also improved NI's service sector members have the strongest investment intentions across the UK regions.

However, the sector continues to be challenged by inflationary pressures and expectations to raise prices in the next 3 months remain highest across the UK regions, although this is down to 62% in Q1 2023 from 76% in Q4 2022. Three in four businesses (77%) are more concerned about inflation than they were 3 months ago (85% Q4 2022) and 35% are concerned about interest rates. Higher labour costs (80%) and utility costs (73%) are putting the greatest pressure on members to raise prices.



Particularly strong indicators around employment and recruitment intentions.

Recruitment

There has been a strong rebound in services firms expecting to take on employees in the next 3 months and continued expectation of expansion for manufacturers in Q1 2023. In Services the balance of firms expecting to grow their workforce has been falling since Q3 2021 but in Q1 2023 the balance is the highest on record at +47%. Manufacturer's expectations around taking on people also continued to improve with a balance of +33% of businesses expecting employment to grow in the next 3 months.



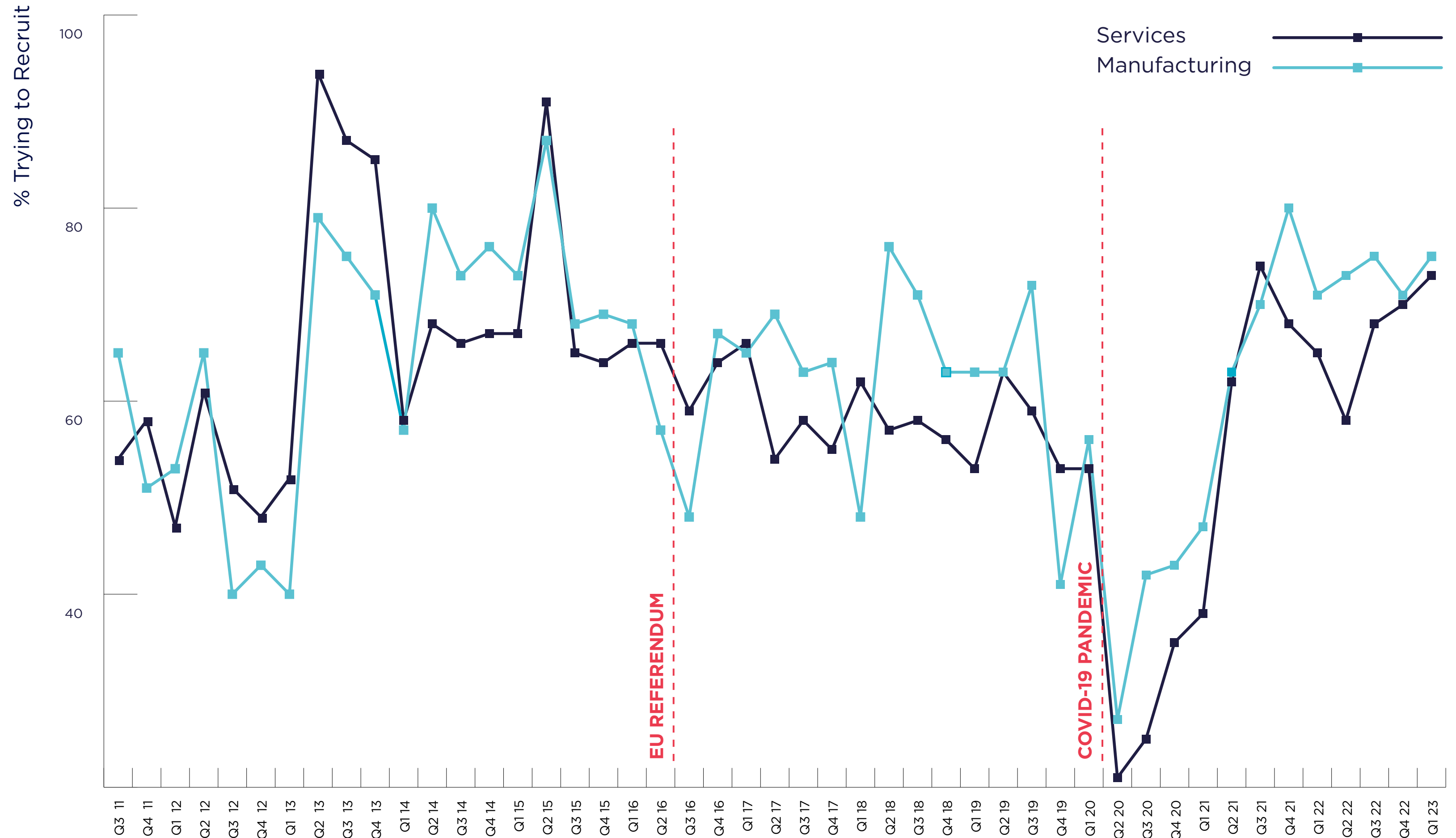
The balance of firms expecting to grow their workforce has been falling since Q3 2021 but in Q1 2023 the balance is the highest on record at +47%.

Recruitment

Most businesses are still engaged in some level of recruitment, 75% of manufacturers (71% Q4 2022) and 73% of services (70% Q4 2022). This had fallen to just 27% of manufacturers and 21% of services in Q2 2020 during COVID.

Recruitment difficulties remain one of the most persistent concerns affecting most members. In Q1 2023 92% of manufacturers and 82% of services are finding it difficult to get staff.

%Trying to Recruit



Confidence and Investment Intentions

There are definite signs of improving confidence around turnover prospects for the next 12 months in the Q1 2023 findings. 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 2022 and in Q1 2023 has improved significantly for both manufacturing and services. The turnover confidence balance is +43% for manufacturers in Q1 2023 (+21% Q4 2022) and +41% for services (+20% Q2 2022).

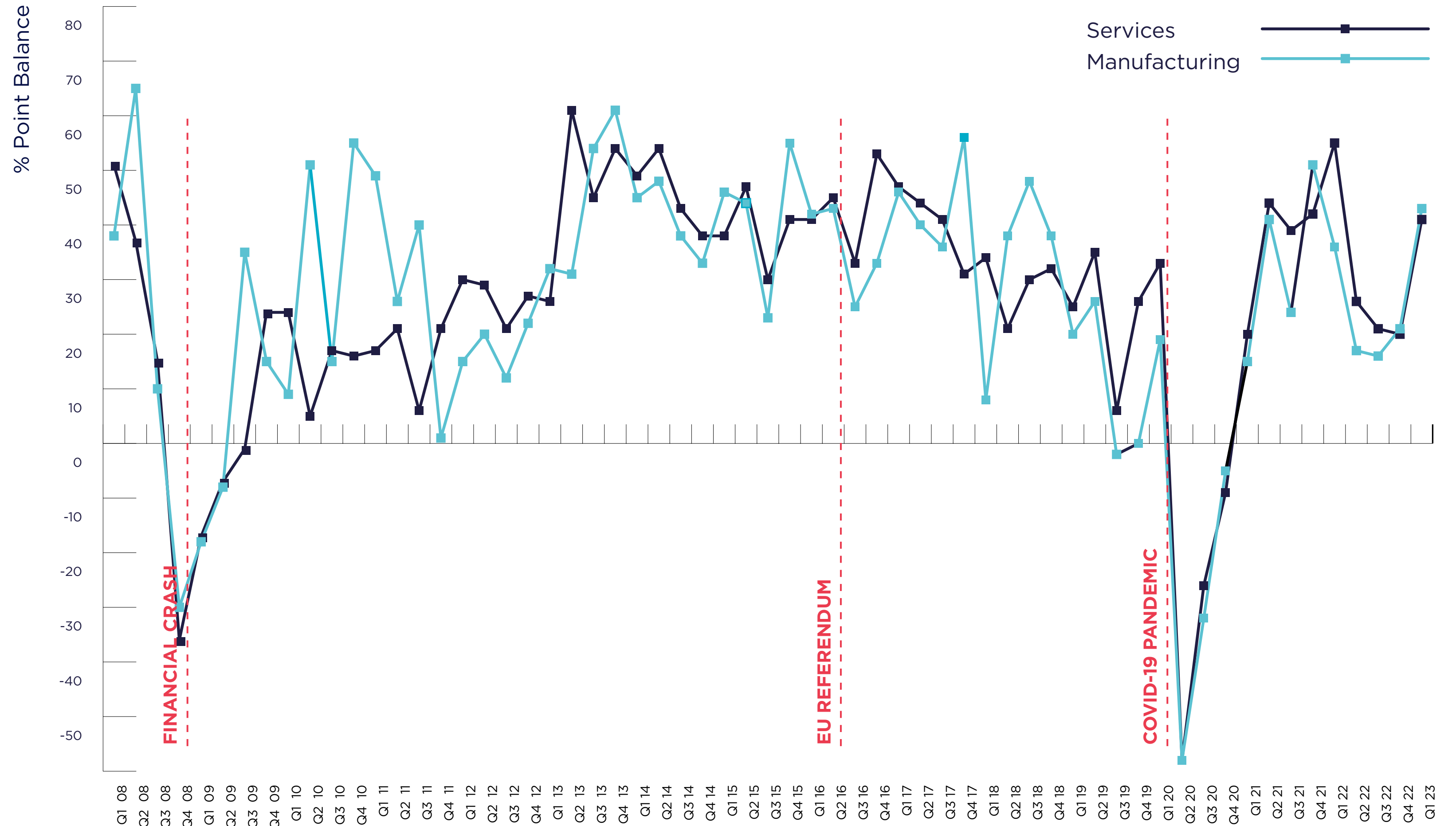
Confidence around profitability always tends to be weaker than turnover and it remains the case that members are less certain around profitability growth. However, this indicator is also stronger for both sectors in Q1 2023. Confidence around profitability plummeted for both in Q3 2022 with more businesses believing profits would fall rather than rise and this remained negative in Q4 2022. However, in Q1 2023 both balances are positive with a balance of +18% of manufacturers and +16% of services firms believing profitability will grow in 2023.



Confidence around profitability always tends to be weaker than turnover and it remains the case that members are less certain around profitability growth.

Confidence in Turnover Growth over next 12 months

Investment intentions are also improving in Q1 2023. In terms of training, the Q1 2023 training balances remain positive particularly for services. Balances stood at +24% (+22% Q4 2022) for manufacturers and +24% for services (+11% Q4 2022). Investment intentions around capital also improved for manufacturers, at +23% in Q1 2023 (+12% Q4 2022) and turned positive for services at +18% (-1% Q4 2022).



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.

In Q1 2023 the cashflow position in manufacturing and services is improving although remains weak. The cashflow balance turned positive, albeit marginally at +1%, for the services sector after two quarters of negative balances. While the manufacturing balances remains negative at -4%, this is up significantly on previous quarters when it was as low as -26% in Q3 2022.

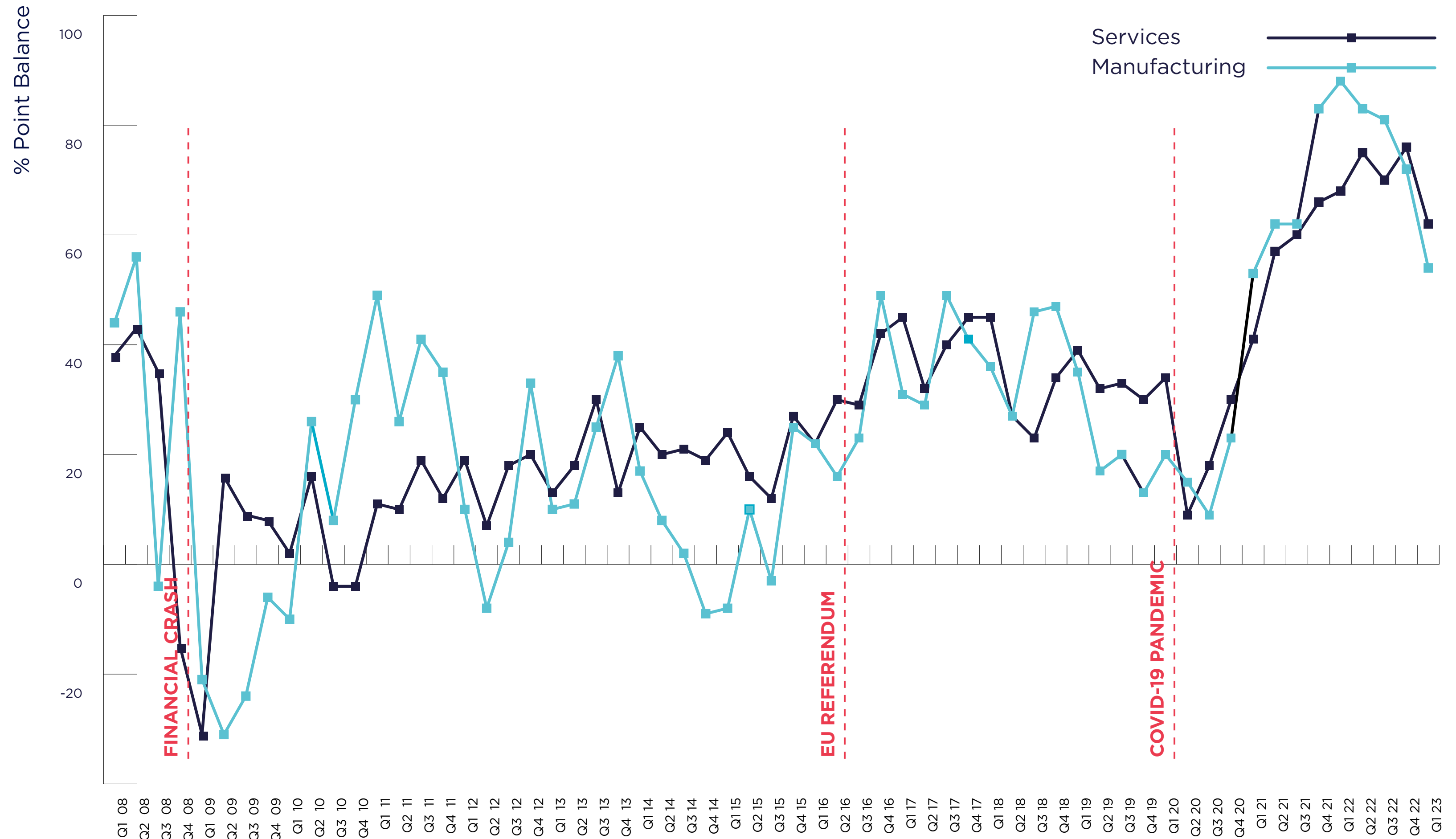


One of the weakest performing key indicators in the Northern Ireland QES.

Prices & Costs

Expectations to raise prices continues to soften for manufacturing and in Q1 2023 for services also although both remain high by historical standards. This indicator has risen significantly since the middle of 2020 peaking for manufacturers at +88% in Q1 2022 and for services at +76% in Q4 2022.

% Expecting to Raise Prices



Prices & Costs

Fewer members are reporting inflationary pressures as a key concern although remains high and is still having a large negative impact on business. In Q1 2023 79% of manufacturers reported inflation as a greater concern than 3 months ago, down from 88% in Q1 2022. For services, 77% reporting inflation as a key concern, down from 85% a year earlier.

Labour costs now one of most dominant cost pressures facing firms. In Q1 2023 86% of manufacturers and 80% of services firms are reporting labour costs as one of the key pressures on them to raise prices. Raw material costs remain significant for manufacturers (86%) and utilities for both sectors (79% manufacturers and 73% services). The myriad of cost pressures continues to put pressure on businesses to raise prices.

Interest rates are a growing concern in both sectors with 43% of manufacturers and 35% of services reporting it as more of a concern than 3 months ago.



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 2022 there were some signs of improvement, particularly for manufacturing. This has continued into Q1 2023 for both sectors.

In manufacturing Northern Ireland ranks in the bottom 3 performing UK regions for 2 of the 11 key indicators (5 in Q4 2022). Manufacturing's weakest regional position is with domestic sales where it ranks bottom out of the 12 UK regions with a negative balance of -5% meaning more businesses reporting falling domestic (UK) sales than those reporting a rise.

In services Northern Ireland's regional position continued to be relatively strong with no indicators in the bottom 3 UK regions (2 in Q4 2022). In fact, Northern Ireland ranks as the strongest region for 6 of the 11 key indicators and is particularly strong on employment indicators. In Q1 2023 the employment expectations balance is +47% against a UK average of +26%, so almost double. This highlights much higher expectations in Northern Ireland's service sector to take on staff in the next 3 months compared to the UK average.

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 trading conditions, energy costs, debt and repayment and key policy ask to unlock growth in Northern Ireland.

Brexit Watch

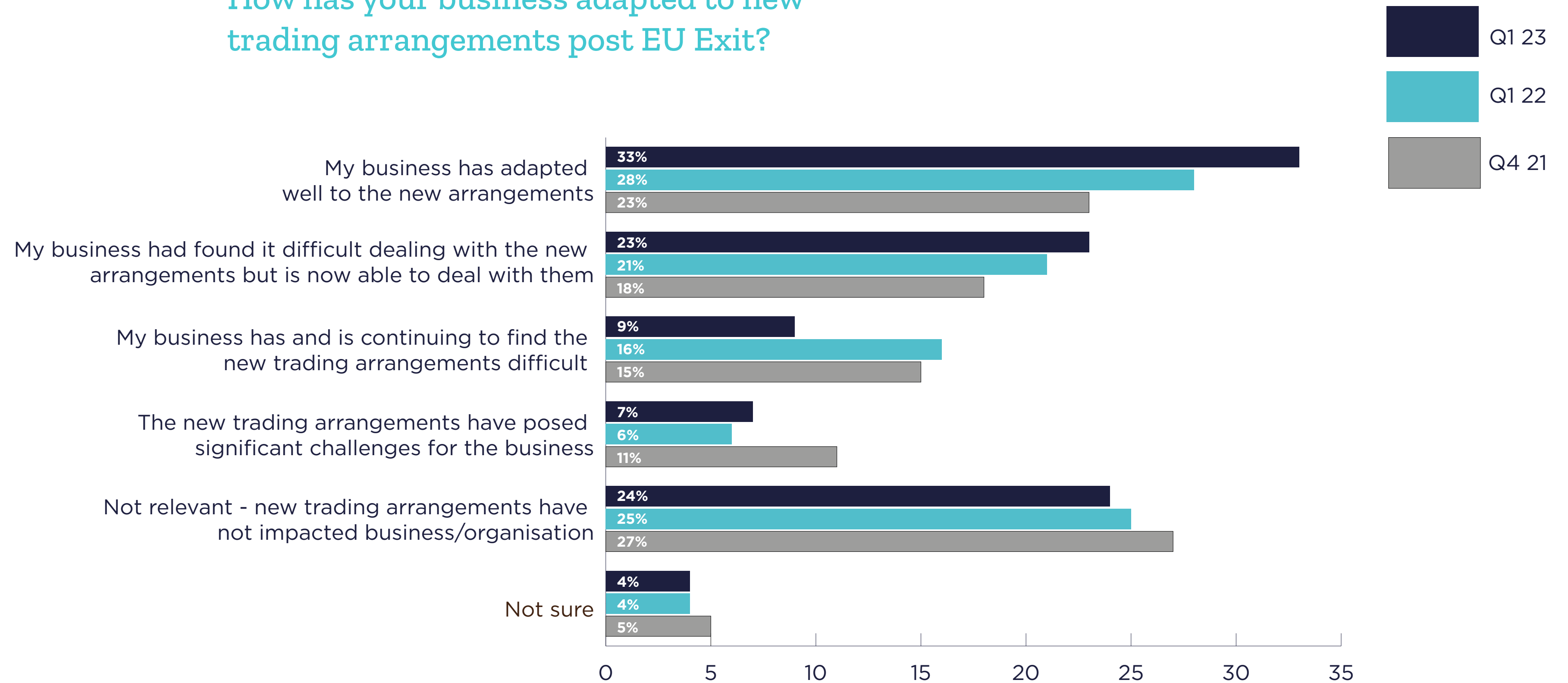
Following the EU Referendum on 23 June 2016, a series of questions has been asked every quarter through the QES aimed at understanding the impact of the UK's vote to leave the EU on Northern Ireland businesses and the wider economy. This had shown a largely negative impact on business performance, investment 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 31 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 1 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.

The Q1 2023 findings highlight that most businesses have adapted to new trading arrangements post EU Exit. 33% have adapted well to new trading arrangements, up from 23% at the end of the first year of EU Exit in 2021. 23% had found new trading arrangements difficult but are now able to deal with them. However, EU Exit is still having a negative impact on some businesses with 1 in 6 still finding trading arrangements difficult and 7% stating that they are posing significant challenges for their business.

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

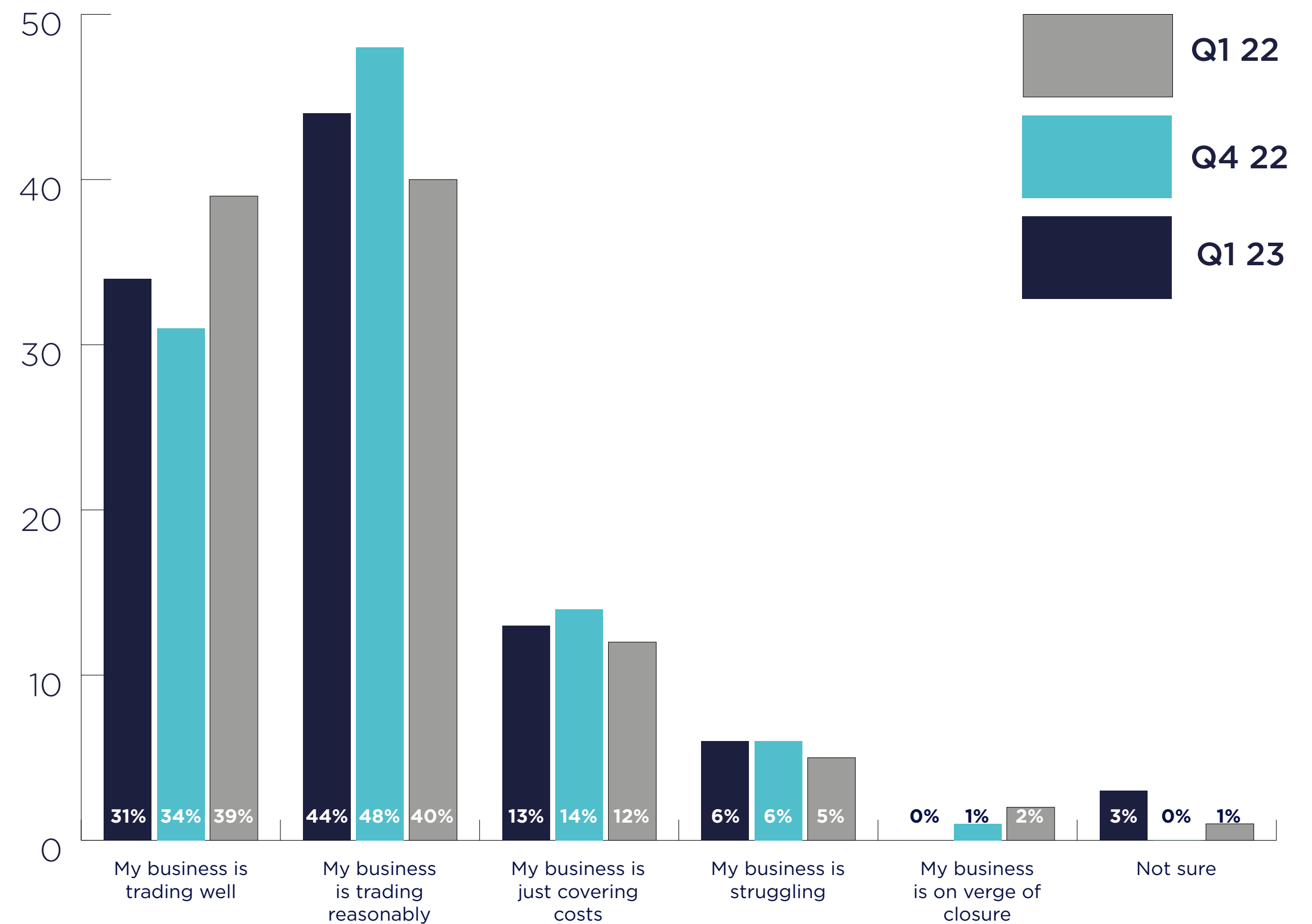


Current Business Conditions

In Q1 2023, 4 in 5 businesses (78%) say they are still trading well or reasonably with 1 in 5 just covering costs or struggling. This is not significantly different to Q4 2022 although fewer report trading well in Q1 2023, 34% compared to 39% in the first quarter of 2022. 13% of businesses are just covering costs and 6% state that they are struggling.

More than half of members are seeing a slowdown in demand (56%) although this has eased from Q4 2022 when it rose to 64%. Most have seen only a little slowdown (48%) while 7% have seen demand for their products/services slow down significantly.

How is your business currently trading?





Energy Costs

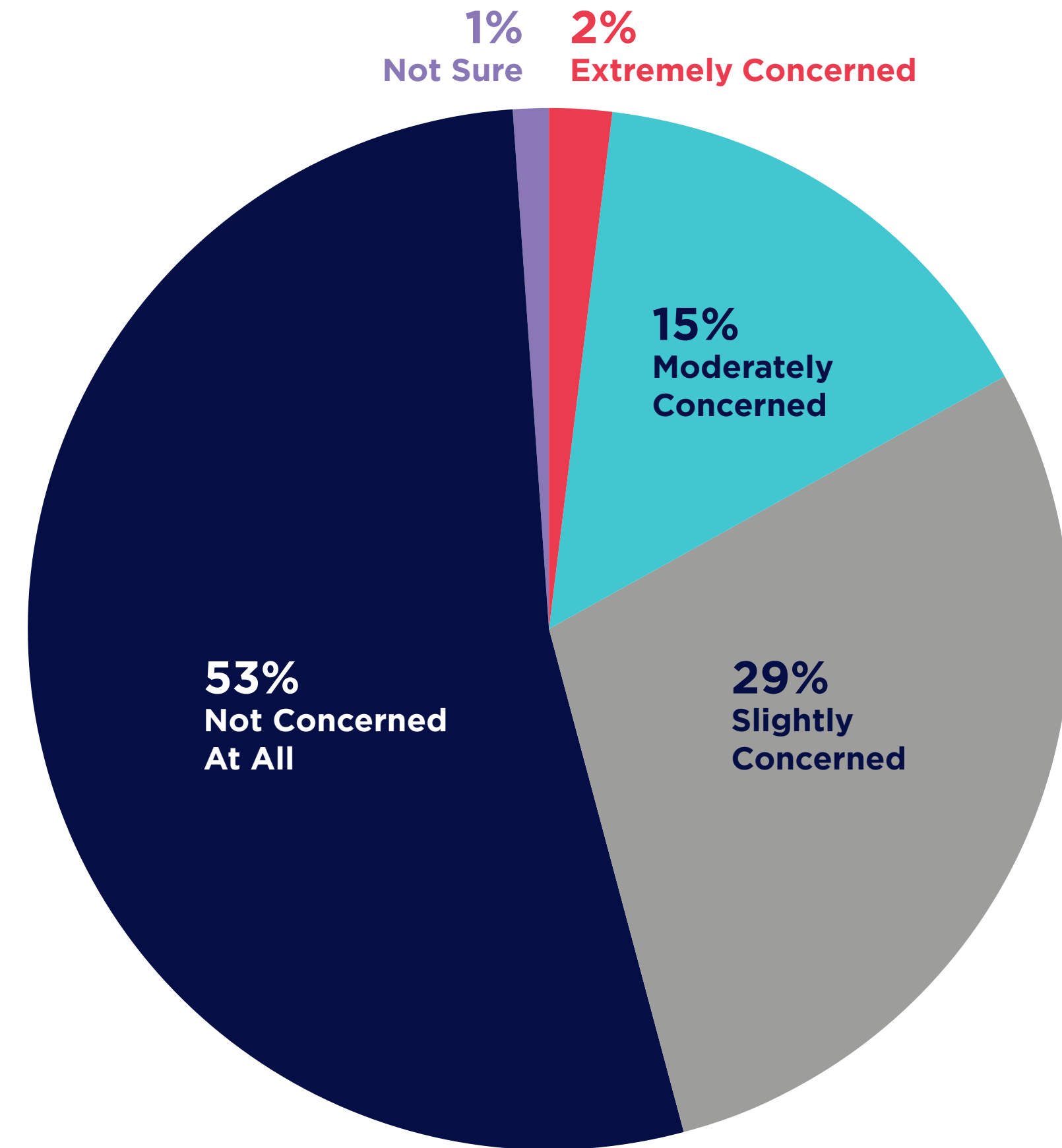
There has been easing of energy costs pressures in Q1 2023 although this still remains high by historical standards. 1 in 2 members (52%) have experienced an increase in energy costs of 30% plus in Q1 2023, down from 79% in Q4 2022.

1 in 4 businesses state that higher energy costs are significantly affecting the sustainability of their business with 84% of members negatively affected to some degree.

Debt & Repayment

2 in 5 businesses (41%) have some form of debt made up of 12% with COVID related debt only (e.g., CBILs, BBILs), 21% with other forms of debt and 8% with both. Just under half (46%) of those with debt have some concerns about their ability to meet debt repayments with almost 1 in 5 moderately/seriously concerned at present.

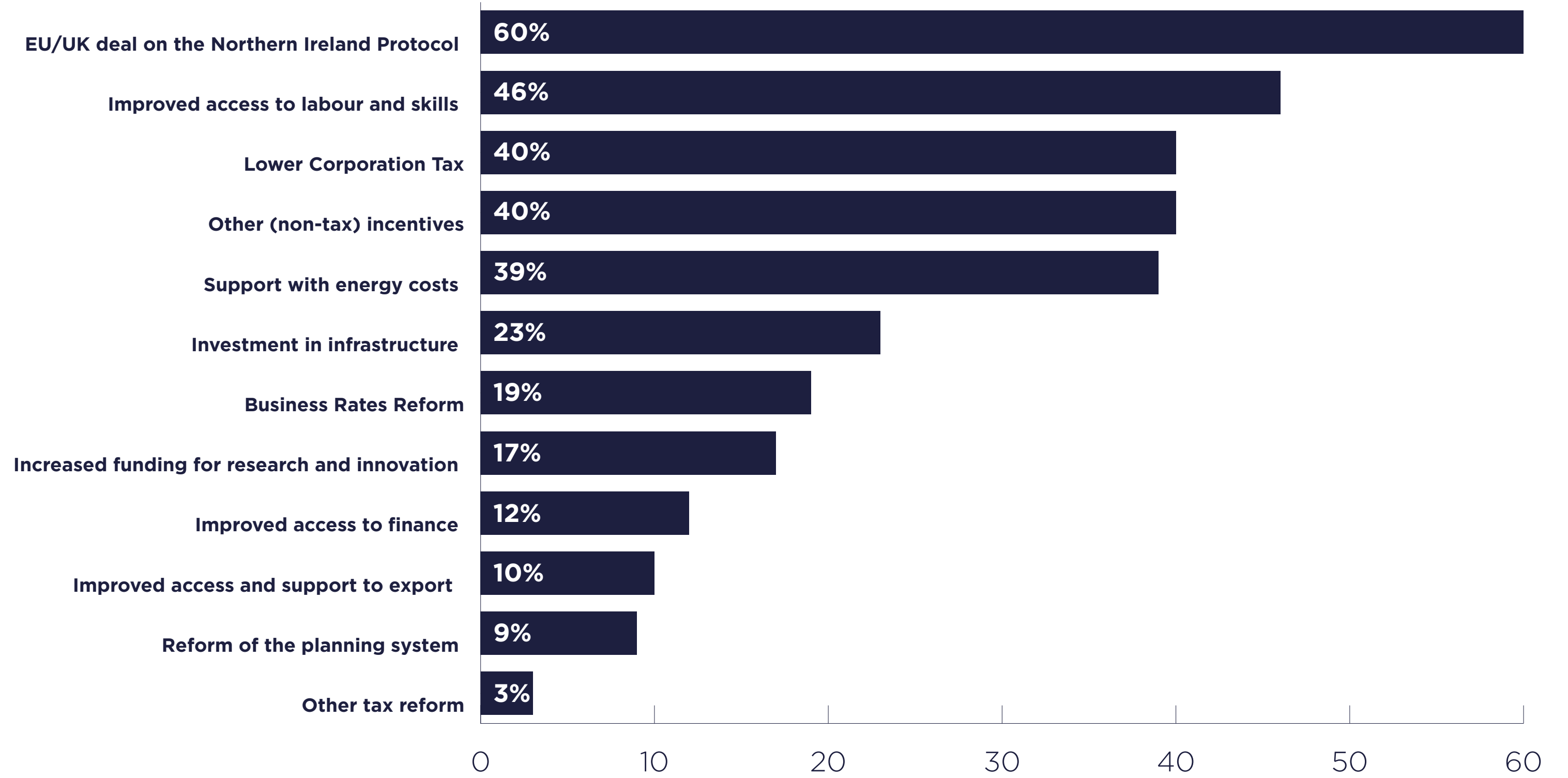
% Concerned About Debt Repayment



Key Policy Asks

Members were asked their top 3 policy asks for government to unlock growth in Northern Ireland. The response was dominated by an agreement on the Protocol with 3 in 5 members (62%) believing that an EU/UK deal on the NI Protocol is key to unlocking Northern Ireland’s growth potential. This is followed by improved access to skills (46%), lower corporation tax (40%) and support with energy costs (39%). One in 5 (19%) believe business rates reform is key.

Top Policy Asks to Unlock NI Growth



NI Chamber Perspective

“With political agreement reached on the Windsor Framework and the 25th anniversary of the Belfast Good Friday Agreement soon upon us, 2023 is a year of potential that Northern Ireland must harness. This means turning targets into action and being confident and ambitious about economic growth now.

“After a notable decline in business confidence in the second half of 2022, results from Q1 of this year show a significant and timely improvement.

“Three years of economic challenges including EU exit, the pandemic, global supply chain crises, inflation and political instability have all taken a significant toll on our members, so it is encouraging to see sentiment improving, albeit from a weak base.

“What matters now is that policymakers commit to an absolutely razor-like focus on economic growth – that includes listening to businesses on how to drive it. We must capitalise on the opportunities offered by the Windsor Framework and ensure that operational challenges are minimised. Of course, that is just one part of the jigsaw; for optimal growth businesses need a restored, functioning Executive to support them in attracting and retaining the best people, with the right blend of skills. Helping businesses tackle the skills challenge is just one of the many reasons we need to see the devolved institutions restored urgently.”

Ann McGregor, Chief Executive



BDO Perspective

“It’s been a long time since we’ve seen such positive momentum and sentiment from Northern Ireland businesses, and it is great to see it. Although local companies still have challenges to face, it is hugely encouraging that we are seeing such levels of consistency in positive sentiment across all sectors.

“The survey highlights that 4 in 5 businesses are trading either well or reasonably well, this is particularly notable given the testing backdrop of rising costs and barriers to recruitment. Within manufacturing, local businesses are outperforming the UK average and in the Service sector, we are the top performer in the UK across 9 of the 11 indicators.

The impact of the pandemic is still being felt by many businesses, particularly in how they are managing their debt. Whilst there is still a significant number of organisations with at least

some concern in how they can maintain debt repayments, it is notable that over 47% are currently debt free, a significant achievement in this climate.

“For Northern Ireland companies to continue to compete there is an urgent need for investment in people and skills, this will facilitate access to a diverse and skilled workforce, which is clearly in demand. Such investment would play a key role in boosting productivity across the economy and as a result, unlocking our future growth potential.”

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, 243 members responded to the NI Chamber of Commerce & Industry Quarterly Economic Survey (QES), in partnership with BDO, for the 1st quarter of 2023. Together they account for 37,000 employees in Northern Ireland.

The fieldwork for the Quarter 1 of 2023 survey took place between 21 February and 9 March 2023.

The Windsor Framework was announced on 21 February.

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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>.

