

QUARTERLY ECONOMIC SURVEY

SUMMARY Q1 2019

The Northern Ireland economy still appears to be growing in Q1 19. Most key balances are positive which means that more businesses in manufacturing and services are reporting increases in indicators such as sales and jobs than those reporting a fall. Businesses are still recruiting with 63% of manufacturers and 53% of service sector firms trying to recruit in the last 3 months. Recruitment intentions have however been weakening and members are still finding it difficult to attract suitable candidates to fill roles.

The damaging impact of Brexit is also becoming increasingly apparent in Q1 19 as Northern Ireland businesses face continued uncertainty around its outcome. Businesses are trying to grow sales, exports and jobs but are becoming less confident around prospects for turnover and profitability in the next 12 months. Investment intentions among members are also falling. In Q1 there are negative balances of -3%pts in manufacturing and -2%pts in services around plans to invest in plant & machinery. Order books remain weak for both domestic sales and exports in both the manufacturing and services sectors. The survey suggests that cash flow remains a particular challenge for both sectors with more businesses reporting a worsening cash flow position in Q1 19.

Northern Ireland is typically one of the poorer performing UK regions (although there were some improvements in Q1 19 reflecting poorer performances across other regions). NI ranks in the bottom half of the UK regional rankings for 9 of the 14 key manufacturing balances and 8 key balances in services. The region ranks above the UK average for 4 of the key manufacturing balances and 7 of the key services balances.

Manufacturing

Manufacturers had a better trading start to 2019 after a fairly muted end to 2018. 11 of the 14 key balances are positive in Q1 19 suggesting some growth. 6 of the 14 key balances rose over the quarter with a further 2 key balances unchanged. Employment balances are one of the most positive indicators for the sector. However, order books remain weak for both domestic and exports orders. High raw materials cost pressures persist with 82% citing this as a key driver of cost increases. Manufacturers are also contending with growing pressure from employees around pay settlements.

Services

It was a slow start to 2019 for the services sector although it is still showing some signs of growth. There are some positive signs around jobs with employment expectations for the next 3 months and the share of business trying to recruit both above the UK average (although there are signs of falling recruitment intentions). The export sales

balance continued to improve. However, the weak domestic (UK) performance persists with negative balance around sales in next 3 months. Investment intentions are negative around capital and lowest since the initial reaction after the Brexit vote took place.

Recruitment Intentions



Manufacturer's recruitment intentions remained unchanged in Q1 19 with 63% of manufacturers trying to recruit (Q4 18 63%). In services 53% were trying to recruit in Q1 19 (Q4 18 56%). Fewer service sector firms have been recruiting in recent quarters.

Recruitment difficulties have been a persistent and growing issue for members. Around 77% of service sector firms and 74% of manufacturers are currently having difficulty recruiting the right staff, largely skilled manual and professional/managerial staff.

Confidence

Business confidence is falling with Brexit's negative impact evident. Although the

balance of businesses expecting turnover to rise over the next 12 months remains positive, this has been in decline. Much of the gains in business confidence in both sectors post recession are increasingly being eroded.

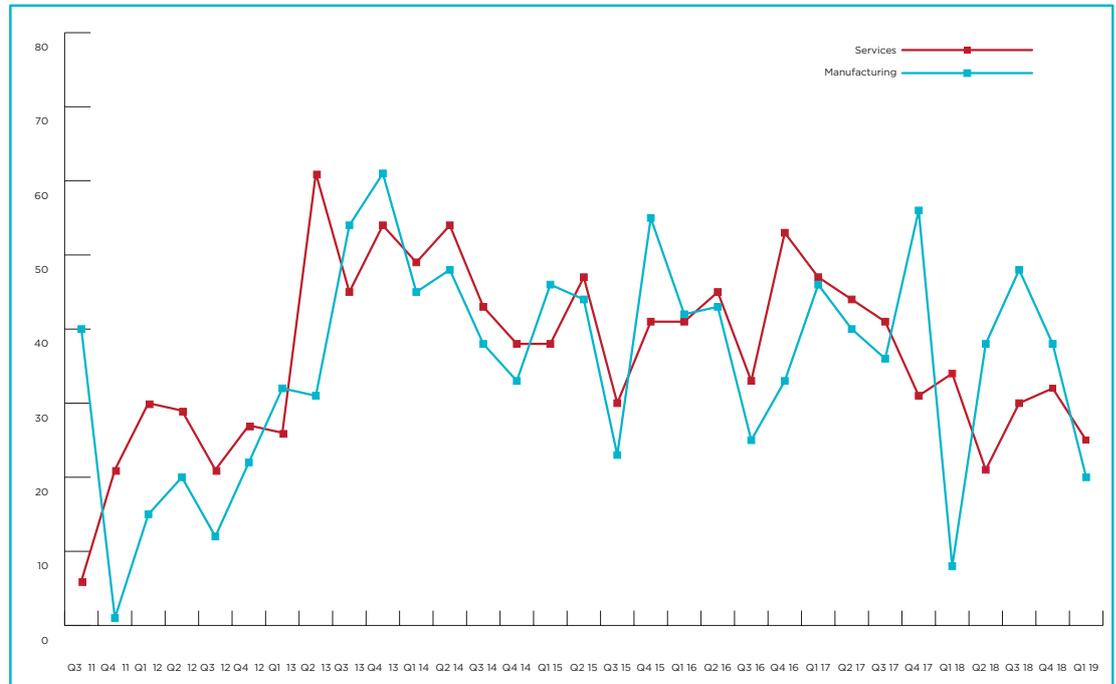
Confidence around profitability is particularly weak. This has continued to weaken in both sectors and in manufacturing the balance is negative (-5%) in Q1 2019 meaning that more manufacturing firms are expecting profits to fall over the next 12 months that those expecting profits to rise.

Exchange rates remain the key concern for members in Q1 19 with 52% of members highlighting this as a growing concern compared to 3 months ago. Exchange rates have been a significant issue for members as sterling's weakness persists. This figure was just 19% before the Brexit vote took place. Competition is a more of a concern for 36% of members in Q1 19. Inflation pressures continue to ease.



Balance of firms expecting turnover to increase over the next 12 months

A balance of +20% in manufacturing and +25% in services are expecting turnover to increase over the next year.



Quarter on Quarter Change (Q4 2018 to Q1 2019)

Six of the 14 key manufacturing balances fell this quarter and the sector ranks above the UK average for 4 of the 14 key balances. In services, 8 of the 14 key services balances fell this quarter. The sector ranks above the UK average for 7 of the 14 balances.

- ▼ = fall in a key balance between Q4 2018 and Q1 2019
- ▲ = increase in a key balance between Q4 2018 and Q1 2019
- ▶ = No change in a key balance between Q4 2018 and Q1 2019

Quarter on Quarter Change (Q4 2018 to Q1 2019)		
Key Balances	Manufacturing	Services
Domestic Sales	▶	▼
Domestic Orders	▲	▶
Export Sales	▲	▲
Export Orders	▲	▼
Employment - last 3 months	▲	▼
Employment - next 3 months	▲	▼
% Tried to Recruit	▶	▼
Cash flow	▲	▲
Investment - Plant & Machinery	▼	▼
Investment - Training	▼	▲
Confidence - Turnover	▼	▼
Confidence - Profitability	▼	▶
% Full Capacity	▼	▼
Prices	▼	▲

Brexit Watch



Each quarter the NI Chamber is asking a series of questions through the QES aimed at understanding the impact of the UK's vote to leave the EU on Northern Ireland businesses and wider economy. This quarter the NI Chamber & BDO quarterly Brexit Watch focuses on what actions businesses have already taken or are considering in order to prepare for Brexit. It also asks members if they have sought advice in preparation for Brexit.

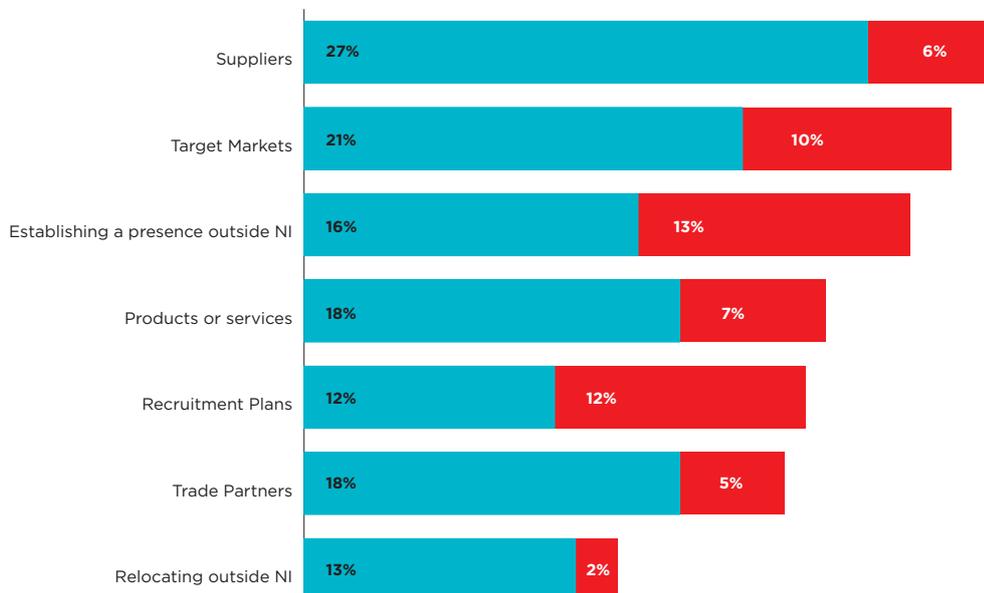
The survey highlights that a growing core of businesses are preparing in some way for Brexit. Some 29% of members have either established or are considering establishing a presence outside the UK, up from just 7% in Q2 2017.

Around 12% have already changed recruitment plans and 10% have refocused their target markets. The survey highlights that around 30% of members have no plans to make any changes because of Brexit.

More members are seeking advice on Brexit. In fact the latest survey suggests that around 44% have sought advice on Brexit from a variety of sources across the public and private sectors. Larger employers are more likely to have sought advice with 63% of medium/large businesses (50+ employees) seeking advice in preparation for Brexit compared to 19% of micro-enterprises (less than 10 employees).

Has the UK's impending exit from the EU made you change or consider changing any of the following...

13% of members have already established a presence outside Northern Ireland, 16% are considering it. Members are most likely to be considering changing suppliers and target markets.



The BDO Perspective

Uncertainty continues to be the theme for local businesses as we conclude the first quarter of 2019. Decisions on investment, recruitment and restructuring are being put on hold due to a lack of progress around a range of issues, namely Brexit, recruitment, skills, competition and rates.

Our initial post-recession confidence has decreased and there is a real need for clarity and progress to allow industries to get this confidence back, which will in turn ultimately allow for business growth.

Skills gap

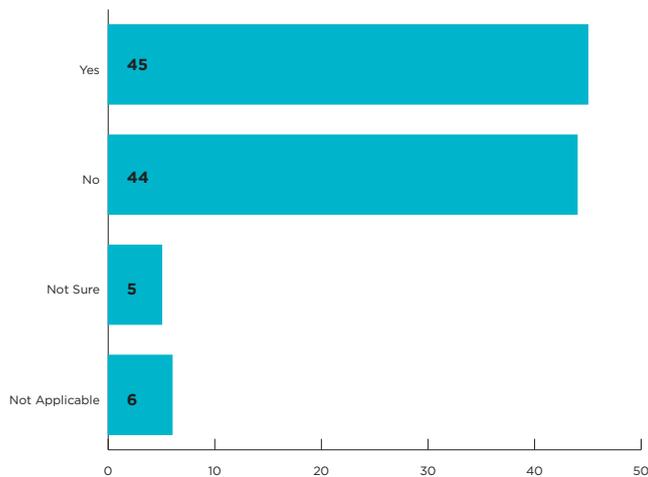


Each quarter NI Chamber members are asked a number of additional topical questions. This quarter focuses on skills gaps and their impact on businesses.

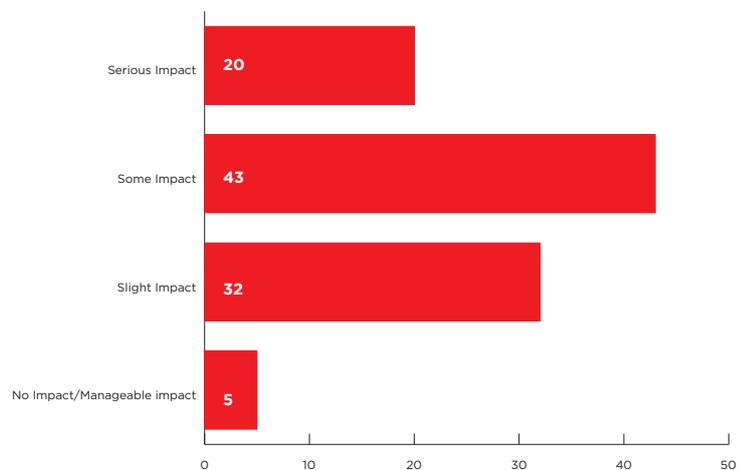
Just under half of members believe that their business is experiencing a skills gap, that is, a gap between the skills required for the business and the actual skills its employees possess. This is having a serious impact on the business performance of 20% of businesses affected and some impact on a further 43%.

Three in 5 members (60%) believe that Brexit is negatively impacting on the ability to attract skilled workers to Northern Ireland. Just over half (51%) believe that there is a serious mismatch between the skills people have and actual job requirements which is severely hampering business and economic growth here. In addition, 35% of members believe that employees in Northern Ireland are over-qualified for the job they are doing.

Is your business currently experiencing a skills gap?



If yes what impact is this skills gap having on your business performance?



The NI Chamber Perspective

The damaging impact of Brexit is becoming increasingly apparent as Northern Ireland businesses face continued uncertainty around its outcome. Investment intentions are weakening and businesses are telling us that they are setting up or thinking of setting up/relocating outside Northern Ireland.

Our findings should serve as a clear warning that the ongoing impasse at Westminster is contributing to a sharp slowdown in the real economy right across all of the UK regions. These are some of the weakest figures we've seen in nearly a decade, and that's no coincidence. Business is certainly hitting the brakes.

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.

220 businesses responded to the NI Chamber of Commerce & Industry Quarterly Economic Survey (QES), in partnership with BDO, for the 1st quarter of 2019. Together they account for almost 12,500 jobs in Northern Ireland.