

QUARTERLY ECONOMIC SURVEY

SUMMARY Q2 2019

The latest Quarterly Economic Survey (QES) suggests that Northern Ireland's economic growth remains sluggish.

Most key balances are positive meaning that more businesses in manufacturing and services are reporting increases in indicators such as jobs, investment and confidence than those reporting a fall. However, indicators around the region's domestic and export sales performances are weak with falling orders a cause for concern. Businesses are still recruiting with 63% of both manufacturing and service sector firms trying to recruit although members are experiencing ongoing difficulty finding the right staff to fill jobs. This is leading to growing pressure to raise wages driven largely by competition to attract and retain staff, particularly skilled and professional employees.

The QES provides evidence that some of the Northern Ireland economy's recovery gains have been eroded following the Brexit vote. Order books in both the manufacturing and services sectors are weak both in terms of domestic (UK) sales and exports. Fewer businesses are operating at full capacity in Q2 19. Cash flow concerns are ongoing in both sectors, particularly in manufacturing where the balance is negative. Businesses are trying to keep confidence up around growth prospects but are finding it challenging to make investment decisions given the level of uncertainty surrounding the way forward.

Northern Ireland is typically one of the poorer performing UK regions. NI ranks in the bottom 3 UK regions for 8 of the 14 key manufacturing balances and 6 of the 14 in services. The region ranks above the UK average for 3 key manufacturing balances and 2 key services balances.

Manufacturing

There are some worrying signs around trade conditions for local manufacturers in Q2 19. While 11 of the 14 key balances are positive in Q2 19 suggesting some signs of growth, 8 of the 14 key balances fell over the quarter including those around domestic sales, exports and jobs. Both domestic (UK) sales and export balances remain particularly low. In fact, the domestic orders balance is in negative territory meaning that more manufacturers are expecting orders to fall over the next 3 months than those expecting them to rise (-10%pts). This balance is the weakest recorded since Q1 13. The sector's cash flow position remains precarious with a negative cash flow balance in Q2 2019 (-14%pts), lowest across UK regions. Fewer manufacturers are operating at full capacity in Q2 19 (29% Q2 vs. 42% Q1), the lowest since Q4 14.

In terms of employment indicators, NI ranks 5th highest across the regions in terms of the percentage of businesses taking on employees in the last 3 months. There is some uplift in confidence and investment intentions in Q2 after a poor Q1, particularly for investment.

Services

It has been a better Q2 for services after

a slow start to the year. Almost all key balances are positive (13 out of 14) with 7 of the 14 balances up on Q1 2019 (although 7 are down). There was a slight uplift in performance in the domestic economy with both domestic sales (last 3 months) and orders (next 3 months) both up on Q1 19. Employment indicators remain largely positive. As with manufacturing, the sector is trying to remain confident around turnover growth with a balance of +35% of service sector firms expecting turnover to grow over the next 12 months.

However, the sector's weak export performance persists with export sales and orders balances at +4%pts and +3%pts respectively. Investment intentions have been weakening since the start of 2018, particularly around capital investment with the service sector running a negative balance on this indicator over last two quarters. NI's service sector ranks lowest across the UK regions around confidence in profitability (alongside London & East). The % of businesses operating at full capacity (40%) is at its lowest since Q3 15.

Recruitment

Manufacturers' recruitment intentions remained unchanged in Q2 19 with 63% of manufacturers trying to recruit (Q1 63%). In services 63% were trying to recruit in Q2 19, up from 53% in Q1.

Recruitment difficulties have been a persistent issue for members. Around 76% of both service sector and manufacturing businesses are currently having difficulty recruiting the right staff, largely skilled manual and professional/managerial staff.

Confidence

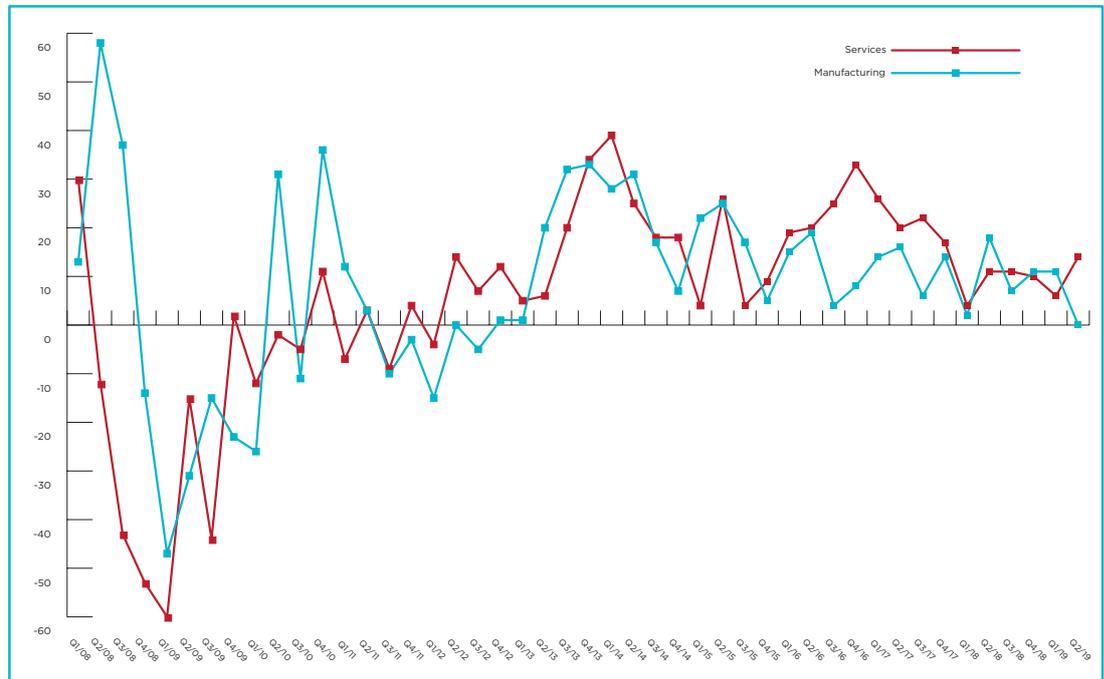
Businesses are trying to remain confident despite the challenges posed by Brexit, the lack of a local Assembly and other concerns. The balance of businesses expecting turnover to rise over the next 12 months remains positive for both manufacturing (+26%pts) and services (+35%pts). However, the figures are changeable on a quarterly basis, particularly in manufacturing. The survey highlights that some of the recovery gains in business confidence have been eroded since the Brexit vote took place.

Key Pressures

Exchange rate pressures eased in Q2 19 with 42% of members expressing this as more of a concern than 3 months ago (52% Q1). However, this is still more than twice as high as the 19% of members expressing concern before the Brexit vote took place. Competition is a growing concern in Q2 19 (42% compared to 36% in Q1). Fewer members are concerned about interest rates this quarter (10% in Q2, down from 16% in Q1).

Balance of Firms Reporting Improved Domestic (UK) Sales

Balance of firms reporting increased domestic sales over last 3 months (%pt difference)



Quarter on Quarter Change (Q1 2019 to Q2 2019)

Eight of the 14 key manufacturing balances fell this quarter and the sector ranks above the UK average for just 3 of the 14 key balances. In services, 7 of the 14 key services balances fell this quarter. The sector ranks above the UK average for 2 of the 14 balances.

- ▼ = fall in a key balance between Q1 2019 and Q2 2019
- ▲ = increase in a key balance between Q1 2019 and Q2 2019
- ▶ = No change in a key balance between Q1 2019 and Q2 2019

Quarter on Quarter Change (Q1 2019 to Q2 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	▼	▼

The BDO Perspective

The latest survey has produced a mixed bag of results, with the majority of businesses reporting increases in indicators such as jobs and recruitment intentions, however, the region's domestic and export sales performances are weak with ongoing concerns around future trade conditions, particularly for our manufacturing sector.

With the possibility of a no deal Brexit coming our way on the 31st October it is positive to see 62% of businesses are proactively planning for Brexit. We would strongly urge those businesses who have not yet initiated planning for the UK leaving the EU to take immediate action, seek advice and ensure that they are in the best possible position.

Brexit Watch

Following the Brexit vote, NI Chamber has asked 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's quarterly Brexit Watch focused on member preparations for Brexit and whether the 6-month extension of the Article 50 process to 31 October 2019 has made any impact on those preparations.

The Twelfth Brexit Watch highlights that around three-fifths of members are preparing for Brexit. Overall, 62% are preparing in some way for Brexit while 22% (or 1 in 5) are

not. More manufacturers (77%) are likely to be preparing for Brexit than those in services (57%). Those not making preparations for Brexit are most likely to state that 1) they don't know what they are planning for 2) they don't think that Brexit will affect them and/or 3) they don't think it will happen.

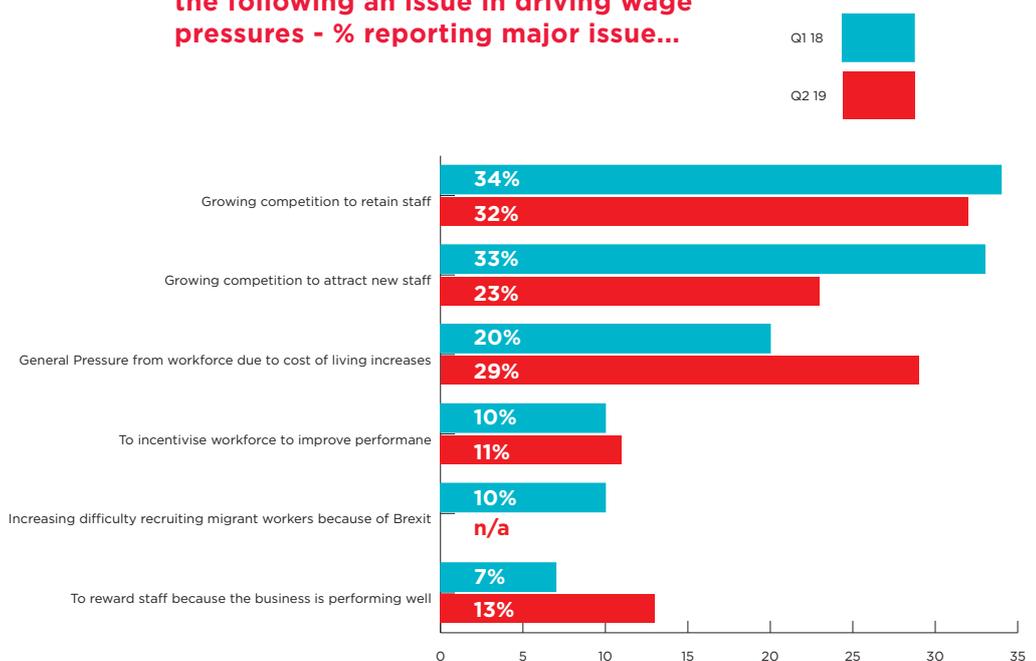
The 6-month extension of Article 50 has had some impact on Brexit planning. Around 14% have put exit plans on hold while 28% have scaled back plans to see what happens in the intervening period.

Wages

There are definite signs of wage pressures for local businesses with 59% experiencing some pressure to raise wages and 24% experiencing significant pressure. Wage pressures are particularly prevalent amongst skilled workers. The main pressures faced by members to raise wages include competition to attract new (33%) and retain existing (34%) staff.

A growing share of businesses are expecting to award 3%+ wage increases over coming year. Some 19% expect average gross wages in their business/organization to increase by 3%+ over the coming year, up from 12% in Q1 18 and 8% in Q3 15. The share of members expecting wages to remain unchanged has reduced to 21% in Q2 19 from 30% in Q3 15.

To what extent, if at all, are any of the following an issue in driving wage pressures - % reporting major issue...



The NI Chamber Perspective

Businesses across all sectors are to be commended for trying to keep confidence around growth prospects up in the face of such challenges but it is not surprising that they are finding it difficult to make investment decisions given the level of uncertainty surrounding the future. Companies urgently need to see a pro-business approach from the new government. Without a sensible and pragmatic plan to break the Brexit impasse and the urgent restoration of power-sharing at Stormont, these indicators could quickly become starkly negative economic realities and the business community will find itself in an even more challenging position next quarter. We have to find a way to stop the Northern Ireland economy losing any more ground.

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.

224 members responded to the NI Chamber of Commerce & Industry Quarterly Economic Survey (QES), in partnership with BDO, for the 2nd quarter of 2019. Together they account for almost 27,000 jobs in Northern Ireland.