

NI CHAMBER & BDO NI

QUARTERLY ECONOMIC SURVEY SUMMARY

3RD QUARTER 2021

SUMMARY Q3 2021

Most key indicators around domestic sales, exports and jobs have continued to show signs of improvement.

OVERVIEW

The Q3 21 QES findings suggest that while there are still positive signs of recovery in the Northern Ireland economy, inflationary pressures from mounting business costs and labour availability are knocking business confidence around prospects for growth going forward. After reaching record lows across all key indicators in Quarter 2 2020, 18 months on since the pandemic struck most key indicators around domestic sales, exports and jobs have continued to show signs of improvement. In total, 8 out of 11 key indicators in manufacturing are positive and all of the 11 in services in Q3 21. The share of businesses operating at full capacity did fall slightly over the quarter to 39% (44% Q2 21) for manufacturing but increased to 47% (43% Q2 21) for services in Q3 2021. Recruitment activity is strong but more businesses are finding it difficult to get staff. Inflationary pressures are building with raw material costs, wage increases and COVID and EU exit pressures among the many factors driving rising business costs.

The Northern Ireland economy was already in a fragile position entering the crisis according to previous QES findings.

However, COVID-19 has caused the worst QES performance on record. The immediate impact of COVID-19 has been much greater than the aftermath of the financial crash in 2008/09.

The recovery has been stronger in the domestic (UK) economy compared to export markets. In Q3 2021 38% saw an increase in domestic sales (Q2 21 34%) over the last 3 months, UK sales remained constant for 42% of members (Q2 21 42%) while 20% of businesses experienced a fall in domestic (UK) sales (Q2 21 24%). The export recovery has been weaker and in Q3 21 the manufacturing balance became negative meaning more businesses making lower sales outside the UK. Employment indicators have not been as badly impacted reflecting the role of the job retention (furlough) scheme intervention in buoying up employee jobs. The service sector had a particularly strong employment performance in Q3 21, in part reflecting the easing of many of the restrictions that were in place due to the pandemic.

SUMMARY Q3 2021

Q3 21 findings suggests that the manufacturing sector has been hit by persistent and new challenges that are impacting on business confidence.

MANUFACTURING

After a relatively strong performance in the last quarter, the Q3 21 findings suggests that the manufacturing sector has been hit by persistent and new challenges that are impacting on business confidence. In Q3 21, all key indicators fell over the quarter although still remain stronger than during the most challenging COVID period. 3 key indicators are negative – export sales, cash flow and confidence around profitability – meaning that more firms have experienced falls in these indicators than those seeing an increase. Expectations to raise prices remain high with rising raw material costs the key driver. Twice as many NI manufacturers are experiencing pressure from pay settlements (42%) compared to the UK average (22%).

SUMMARY Q3 2021

SERVICES

Q3 21 saw the strongest trading performance from the service sector since the onset of the pandemic. Its recovery had been lagging behind manufacturing, largely reflecting the fact that parts continued to be affected by various restrictions. Key balances around domestic sales and exports are now positive meaning more firms are expanding rather than contracting. All 11 key services balances are now positive (up from 7 in Q2 2021). This means that more members are reporting improvements in domestic sales/orders, export sales/orders and cashflow than those reporting any fall. Recruitment activity in the service sector recovered strongly in Q3 21. However, confidence has dipped slightly with falling profitability, greater concerns around inflation and increasing pressure to raise prices coming more to the fore this quarter.

Recruitment activity in the service sector recovered strongly in Q3 21.



SUMMARY Q3 2021

Recruitment activity continues to improve in Q3 21, surpassing pre-COVID levels.

RECRUITMENT

Recruitment activity continues to improve in Q3 21, surpassing pre-COVID levels. In Q3 21 70% of manufacturers and 74% of services are trying to recruit. This had fallen to just 21% of services and 27% of manufacturers in Q2 20.

Recruitment difficulties were one of the most persistent and growing concerns among members pre-COVID. At the end of 2019 4 in 5 members were experiencing recruitment difficulties. This fell to around 1 in 2 members when the pandemic came to the fore. In Q2 2021 recruitment difficulties re-emerged as a significant issue and in Q3 21 80% of members are finding it difficult to get staff, which is back to pre-pandemic levels.

SUMMARY Q3 2021



Confidence around profitability is particularly low in Q3 21.

CONFIDENCE AND INVESTMENT INTENTIONS

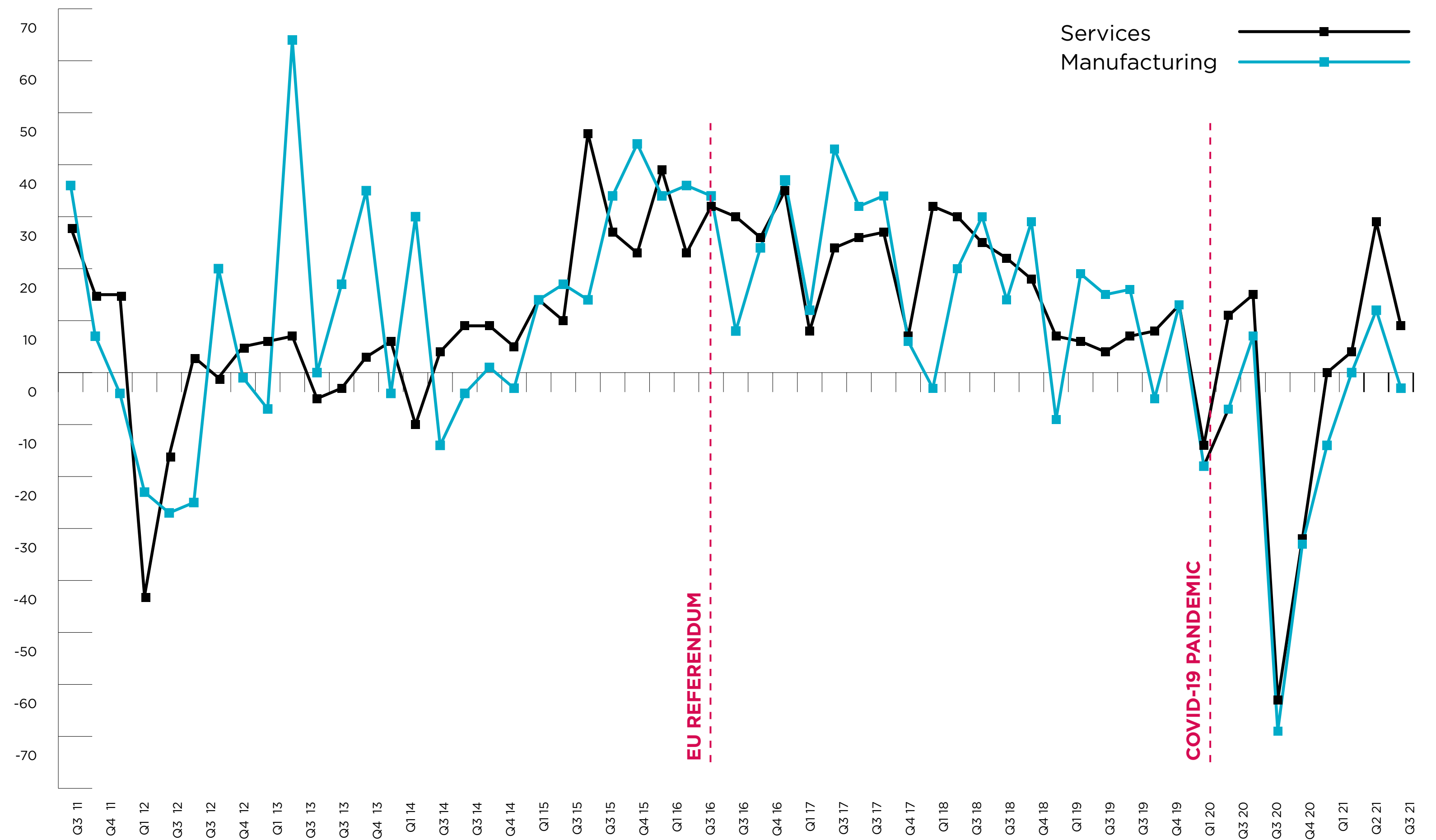
In Q3 21 confidence has dipped, particularly for manufacturing, after a positive improvement in recent quarters as the economy began to recover from the fall out of the pandemic. The turnover confidence balance for manufacturing fell to +24% (+41% Q2 21) and for services to +39% (+44% Q2 21). Confidence around profitability is particularly low in Q3 21. The balance turned negative for manufacturers in Q3 21 (-3%) meaning that more manufacturers are expecting profitability to fall than to rise. The corresponding figure for services was positive but low at +9%.

Investment intentions remain positive for both manufacturing and services in Q3 21 although the balances fell in manufacturing. In Q3 2021 the investment in plant and machinery balance was +15% (+16% Q2 21) for manufacturing and +19% (+6% Q2 21) for services. In Q2 2020 this had reached a series low of -52% for manufacturing and -62% for services. Intentions to invest in training are also positive but while the balances fell in manufacturing to +18% (+26% Q2 21), it showed strong improvement in services at +33% (+10% Q2 21) in Q3 2021.

SUMMARY Q3 2021



CONFIDENCE AROUND PROFITABILITY GROWTH IN THE NEXT 12 MONTHS



SUMMARY Q3 2021

The balances did fall significantly during Q2 2020 but had been improving.

CASHFLOW

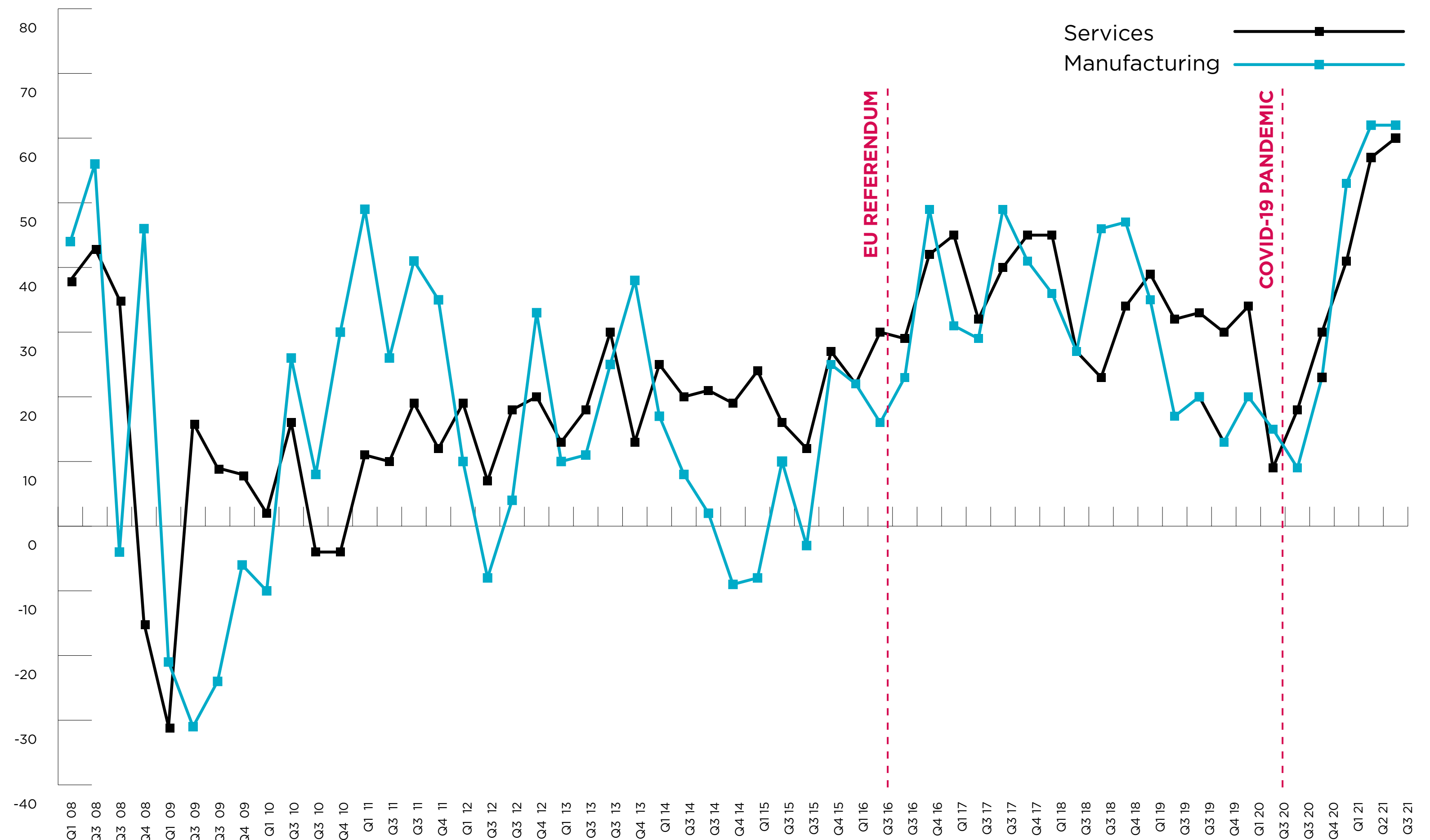
Cash flow, a key indicator of business health, is typically one of the weakest performing key indicators in the Northern Ireland QES. The balance of businesses reporting an improving cash flow position was already negative going into the COVID-19 crisis. The balances did fall significantly during Q2 2020 but had been improving. However, in Q3 21 the manufacturing cash flow balance contracted slightly to -5% (-1% Q1 21). However, in services the balance became positive (+11% vs. -6% in Q1 21) for the first time since Q2 17.

SUMMARY Q3 2021

PRICES

Expectations to raise prices remain the highest on record (2008). 62% of manufacturers and 60% of services expect to raise prices in the next 3 months. 90% of manufacturers are experiencing pressures from rising raw materials costs. There is also growing pressure on prices because of increased wage settlements for both manufacturers and services firms. Both sectors recorded higher pressures from wage settlements compared to all other UK regions.

EXPECTATION TO RAISE PRICES



SUMMARY Q3 2021

In Q3 2021 Northern Ireland is in the bottom 3 performing UK regions for 9 of the 11 key indicators in manufacturing compared to 5 of the 11 in services.

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 well vis-à-vis the rest of the UK regions and relative to the services sector but this changed in Q3 21 and the sector's regional position has become weaker. In Q3 2021 Northern Ireland is in the bottom 3 performing UK regions for 9 of the 11 key indicators in manufacturing compared to 5 of the 11 in services.

Manufacturing indicators are weakest relative to the UK around confidence in turnover and profitability growth but also domestic sales and recruitment in the last 3 months. In services domestic orders but particularly confidence indicators around turnover and profitability are weak vis-à-vis the UK.

ADDITIONAL QUESTIONS

Each quarter NI Chamber members are asked a number of additional topical questions. This quarter focuses on the impact of Brexit and the COVID-19 pandemic on their business/organisation along with a series of questions to understand business cost and wage pressures.



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 outworkings 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 which 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 over the first three quarters of 2021 about member experiences of the new arrangements.

Thus far, the adjustment to new trading arrangements have been challenging for some businesses, although that does appear to be improving slightly. In Q3 21 45% said that they had adapted well to the new trading arrangements (44% Q2 21 and 15% in Q1 21). However, almost a third (32%) are still finding new trading arrangements difficult (32% Q2 21 and 41% in Q1 21). There is a core of around 13% of businesses that are finding the new trading arrangements extremely challenging (14% Q2 21).

In the first half of 2021 Brexit Watch findings suggested that trade has been negatively impacted by EU exit, particularly in terms of trade with Great Britain with 50%

of firms experiencing some difficulty trading with Great Britain. 56% of members stated that the new trading arrangements have led to higher costs.

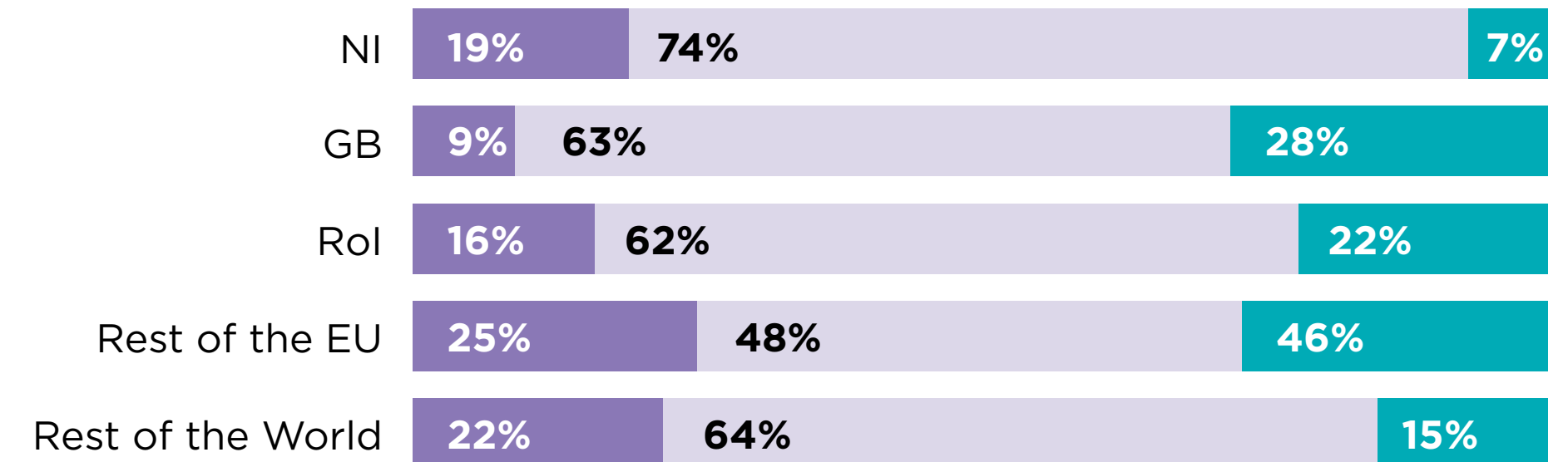
In Q3 21 firms were asked both how sales to and purchases/supplies from destinations had changed since the new trading arrangements had come into force. In overall terms, the findings show that the impact on sales and purchases of EU exit across all destinations is very mixed. Some are selling more to each destinations and some less. Some are purchasing more from each destinations and some less. What the findings do suggest is that on balance local businesses are selling more to and purchasing more from within Northern Ireland.

In terms of sales, businesses appear to be selling more 'near market' since EU exit with a net increase in the % selling more to NI and GB compared to those selling less. More businesses however appear to be selling to less to destinations outside the UK including the Republic of Ireland, rest of EU and to destinations elsewhere. As notes above, export sales remain weak for both manufacturing and services sectors.

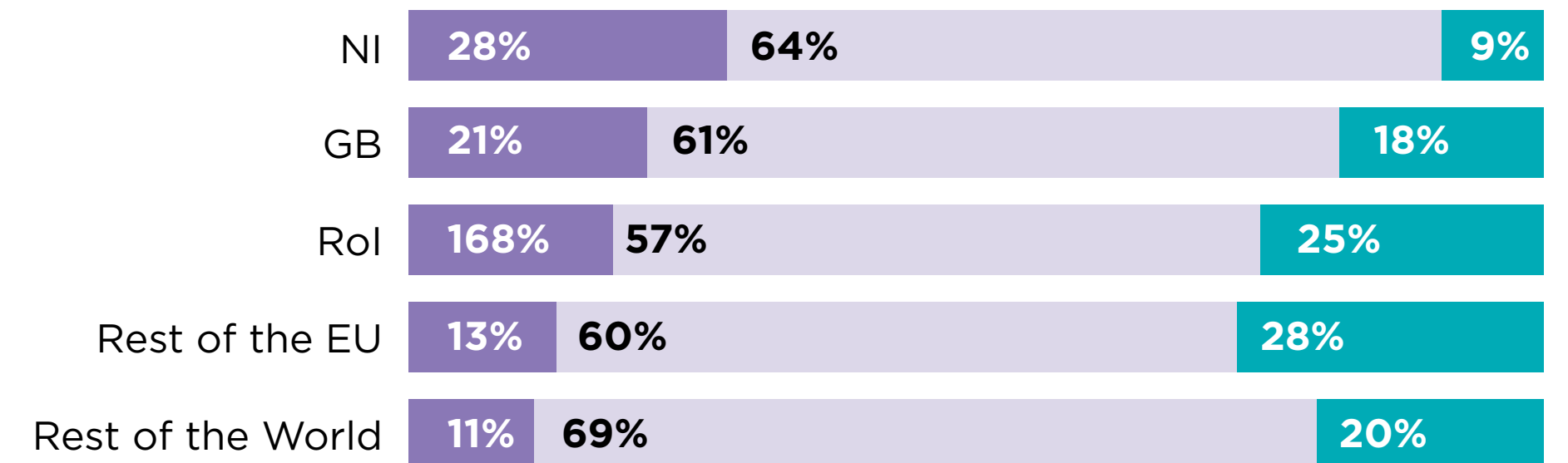
In terms of purchases/supplies, firms state that they are buying more within Northern Ireland (19% buying more vs. 7% buying less) since new arrangements came into place but less from GB (9% buying more vs. 28% buying less). In terms of purchases from the Republic of Ireland, 16% are purchasing more compared to 22% who are purchasing less.

Buying/Selling less Buying/Selling largely the same Buying/Selling more

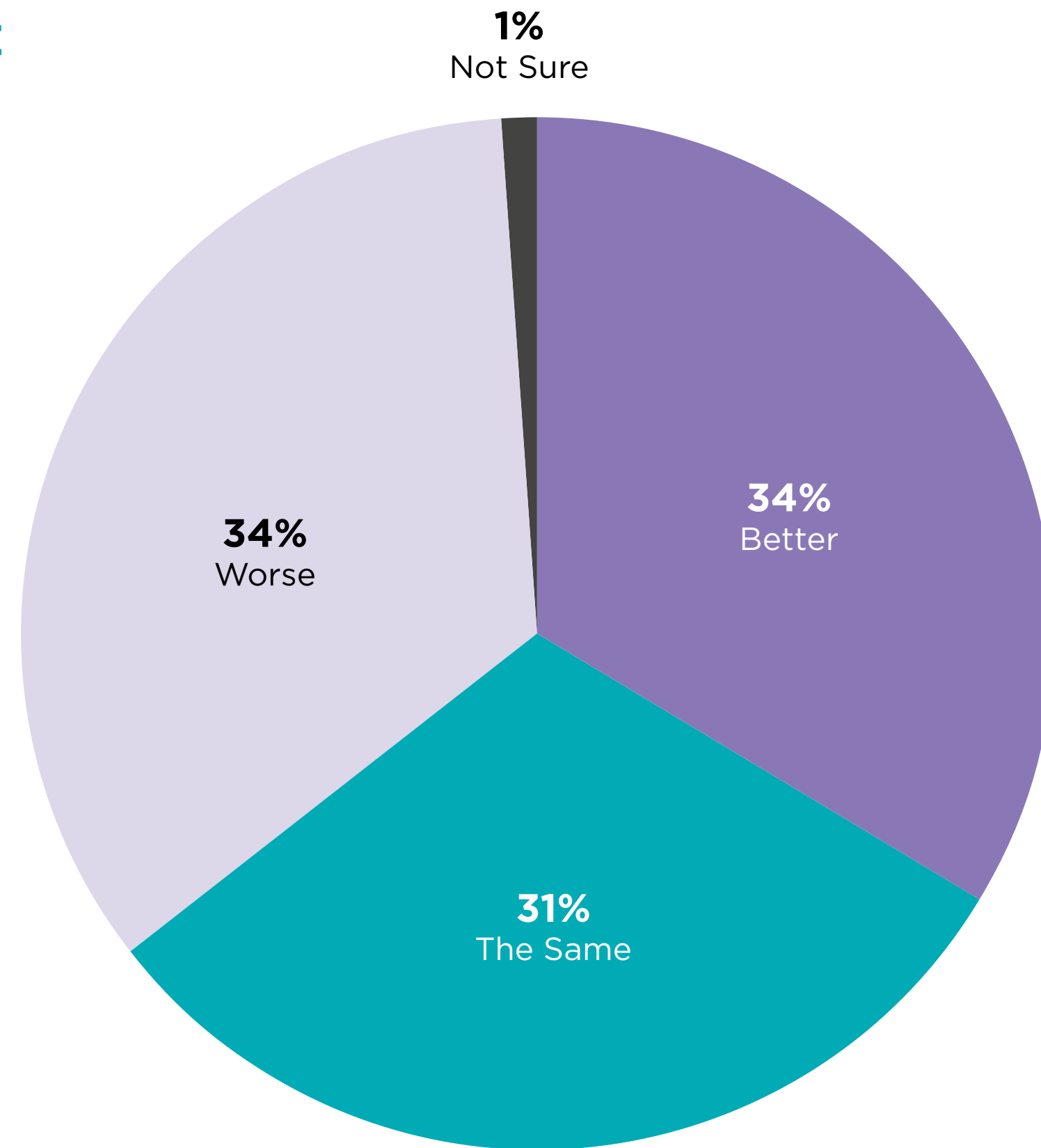
CHANGE IN PURCHASES SINCE NEW EU TRADING ARRANGEMENTS



CHANGE IN SALES SINCE NEW EU TRADING ARRANGEMENTS



BUSINESS PERFORMANCE NOW COMPARED TO PRE-COVID



COVID 19 WATCH

The QES has been monitoring the impact of the COVID-19 pandemic on members since Q2 2020.

Members' initial reaction to the COVID-19 crisis was very stark emphasising the complete unknown in what lay ahead for business as the pandemic's impact unfolded. The Q2 2020 findings highlighted that at that early stage in the pandemic 77% of members had furloughed staff and 1 in 2 members intended to reduce staff. At that point almost 1 in 5 suggested that their business might not survive the fall out of the pandemic.

Over subsequent quarters the survey evidence has shown gradual signs of improvement in sentiment around the impact of the pandemic on business performance. In Q2 2021 59% of members stated that they have traded well/ reasonably during the pandemic with the share of members whose business has seen little signs of improvement down to 7%. In Q3 21 1 in 3 companies are performing better than pre-COVID, 1 in 3 about the same and 1 in 3 are performing worse. Of those performing worse, around 1 in 5 don't expect the business to recover to its pre COVID performance.

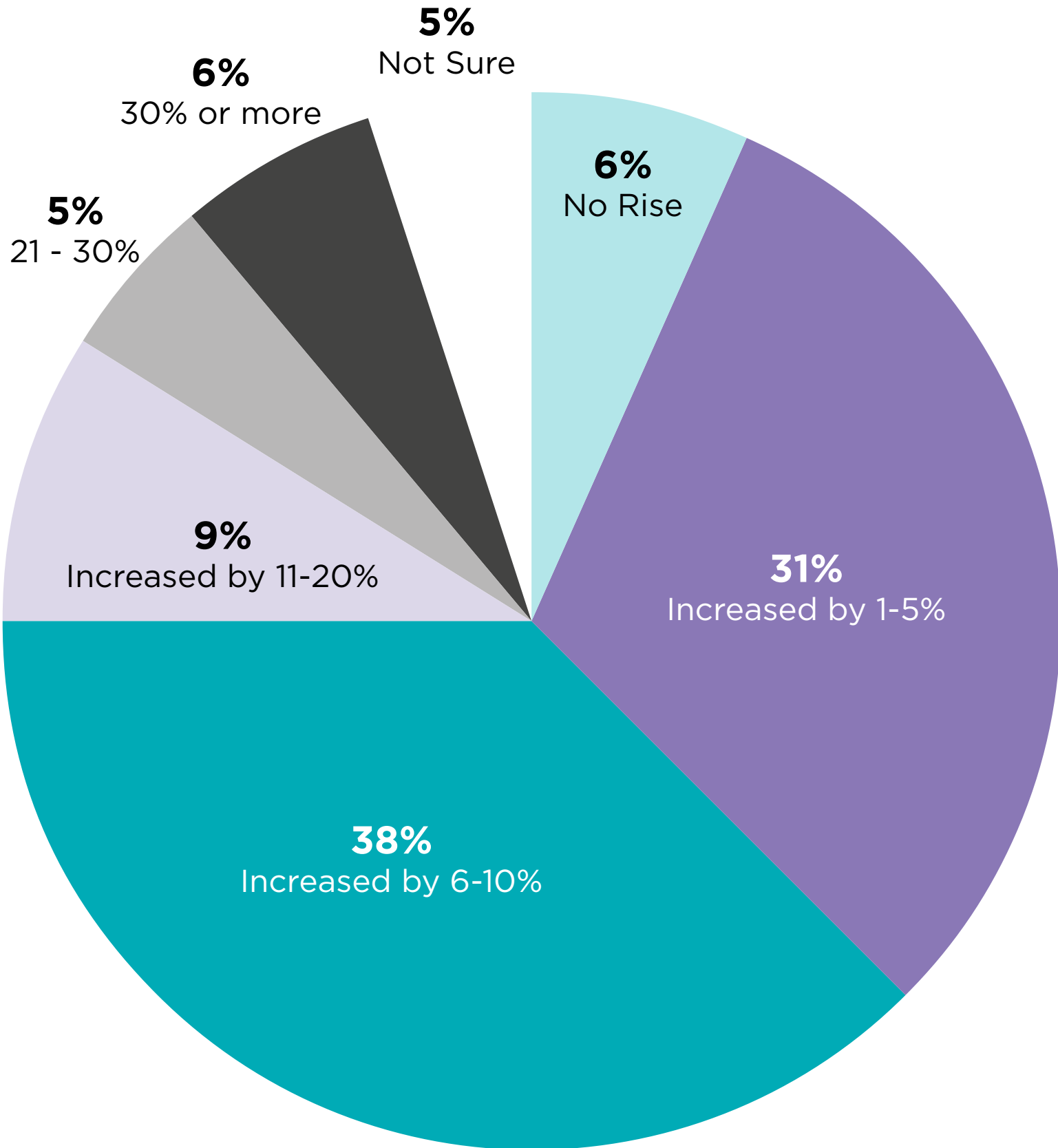
SUMMARY Q3 2021



BUSINESS COSTS & WAGES

Members have experienced significant cost increases since the start of 2021. Three in 5 firms (58%) have seen costs rise by 6% or more. For 1 in 10 firms, business costs have risen by more than 20% over the last 9 months. There are multiple and in some cases interlinked drivers of these cost pressures including the impact of EU Exit & the NI Protocol, rising raw material costs, rising energy costs, wage increases and supply chain disruption.

HOW MUCH HAVE YOUR OVERALL BUSINESS COSTS INCREASED BY IN 2021 TO DATE?



BUSINESS COSTS & WAGES

Pressure on firms to raise wages are strong in Q3 21 with 69% expecting to increase wages in the next 6 months and above inflation pay rises expected for 40%+ firms. This appears to be driven by the need to retain staff (43%) and/or recruit new staff (27%) rather than the strong performance of the business per se (16%).

IS YOUR BUSINESS EXPECTING TO GIVE STAFF A PAY RISE IN THE NEXT 6 MONTHS?

Yes - because it's hard to recruit people into the business at the moment

27%

Yes - because we need to retain existing staff because there are alternative job opportunities available at the moment

43%

Yes - because we can't access EU workers

7%

Yes - because the business is doing well/expanding

16%

Not expecting to give staff a pay rise

31%



PERSPECTIVES



NI CHAMBER

“While it is certainly positive to see signs of economic recovery in Northern Ireland, conditions remain extremely fragile and challenging for firms in both manufacturing and services.

“We have seen some really positive momentum build in business recovery and for some sectors and businesses, sales performance is now very strong. However, business trading conditions are undermining these gains with a combination of higher costs, supply-chain and logistics problems, increasing labour shortages and wage pressures.

“Taken together, these elements are beginning to erode business confidence despite the amazing effort by firms to build back from the pandemic. Profitability is being squeezed to the point where businesses have no alternative but to consider

increasing prices, a decision that isn’t taken lightly by our members at this time.

“These survey results clearly indicate that our post pandemic economic recovery is losing some of its momentum. To keep business recovery in Northern Ireland firmly on track, any decisions by the UK government, for example, in the forthcoming Budget and Spending Review, should focus on actions that reduce, rather than increase, costs for Northern Ireland businesses and support the levelling up agenda that we keep hearing about. One such action which we would support would be the introduction of a moratorium on all policy measures that increase business costs for the remainder of this parliament.”

Ann McGregor, Chief Executive

PERSPECTIVES



BDO

“Although these results today are mixed, it’s important that we assess them in the context of the last two years of upheaval and uncertainty. We recognise the concerns many firms have but we are also able to report that for many they are returning to pre-pandemic levels of business. It is remarkable to see how far we’ve come and how resilient our local businesses have been.

“It would take the hardest of hearts not to be cheered by the fact firms are now reporting increases in domestic sales and projecting greater confidence too in turnover growth and investment intentions. Only a few months ago, this would’ve been unthinkable.

“The key challenge for the business community will be balancing the delivery of this projected growth whilst maintaining stability in the face of growing business costs and inflation.”

Brian Murphy, Managing Partner

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, 215 members responded to the NI Chamber of Commerce & Industry Quarterly Economic Survey (QES), in partnership with BDO, for the 3rd quarter of 2021. Together they account for over 31,000 in Northern Ireland.

The fieldwork for the Quarter 3 survey took place between 26th August and 14th September 2021, 18 months into the COVID crisis during a period when almost all COVID restrictions were lifted. This was also 8 months into the beginning of new trading arrangements coming into place on the 1st January 2021 following the end of the transition period post-Brexit.

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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 235 years commitment to the Northern Ireland economy. It is a well-known network for business with a membership of 1,200 businesses representing over 105,000 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>.