



Northern Ireland
Chamber of Commerce
and Industry

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NI CHAMBER & BDO NI

Quarterly Economic Survey Summary

Q4 2022

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Overview

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 have 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.

Inflationary pressures still dominate member concerns driven by a plethora of cost challenges including rising utility, labour and fuel costs and for manufacturers persistently high raw materials costs. This has placed significant pressure on firms to raise prices although it is notable that while still high, fewer manufacturers are reporting pressure to raise prices than a year ago. These cost pressures are putting significant strain on an already fragile cashflow position and

business profitability with more businesses reporting that they see profitability falling over the next year than those reporting any rise. This quarter members are expressing greater concern over interest rates reflecting the impact of the significant interest rate hikes introduced by the Bank of England over the last 10 months on the cost of borrowing.

Despite these challenges, most businesses suggest they are currently trading well (31%) or reasonably (49%). Recruitment is still taking place in both sectors but with that the persistent challenge of finding staff, a factor influencing rising labour costs.



Inflationary pressures still dominate member concerns driven by a plethora of cost challenges.

Manufacturing

Q4 22 saw some stabilisation in NI's Manufacturing performance after what had been a poor Q3. Most manufacturing balances improved in Q4 although more businesses are still reporting falling domestic and export sales and orders than those reporting a rise. In Q3 key indicators around trade performance turned negative for the first time since the post COVID recovery and have remained so. Price pressures are showing signs of easing but inflationary pressures remain significant affecting 92% of members. Manufacturers are being hit by rising utility (80% vs. 91% Q3), raw material (84% vs. 89% Q3), labour (84% vs. 84% Q3) and fuel costs (70% vs. 72% Q3). Interest rate hikes are becoming more of a concern affecting 51% of manufacturers in Q4 22 compared to 18% in Q4 21. There has been a notable pick up in the share of manufacturers taking on people although 90% of manufacturers are facing recruitment difficulties.



Price pressures are showing signs of easing but inflationary pressures remain significant

Services

There was little change in service sector performance this quarter with key balances around trade and profitability remaining weak. Trading balances around domestic and export orders had turned negative in Q3 and remain negative this quarter. Confidence in profitability is the weakest indicator for the service sector followed by cashflow although this did improve in Q4 22. Expectations around taking on employees in the next 3 months have been falling after reaching a peak in Q3 21 following COVID recovery. The sector is still recruiting though although recruitment difficulties persist. 85% of businesses are more concerned about inflation that they were 3 months ago. Utility costs are putting greatest pressure on the sector to raise prices, affecting 88% of members followed by labour costs (79%).



85% of services businesses are more concerned about inflation that they were 3 months ago.

Recruitment

Manufacturer's expectations around taking on people performed better in Q4 22 compared to Q3 while in Services the balance of firms expecting to grow their workforce has been falling since Q3 21. Most businesses are still engaged in some level of recruitment, 71% of manufacturers (75% Q3 22) and 70% of services (68% Q3 22). This had fallen to just 27% of manufacturers and 21% of services in Q2 20 during COVID.

Recruitment difficulties remain one of the most persistent concerns affecting most members. In Q4 22 90% of manufacturers and 86% of services are finding it difficult to get staff.



Most businesses are still engaged in some level of recruitment.

Confidence and Investment Intentions

Confidence that turnover will grow in the next 12 months remains positive in that more manufacturing and service sector companies believe turnover will grow than contract. However, that confidence had been falling since the start of the year with balances similar to pre-COVID levels after what had been a strong COVID recovery. In Q4 22 confidence has not fallen any further and has improved slightly for manufacturing. The turnover confidence balance was +21% for manufacturers in Q4 22 (+16% Q3 22) and +20% for services (+21% Q2 22).

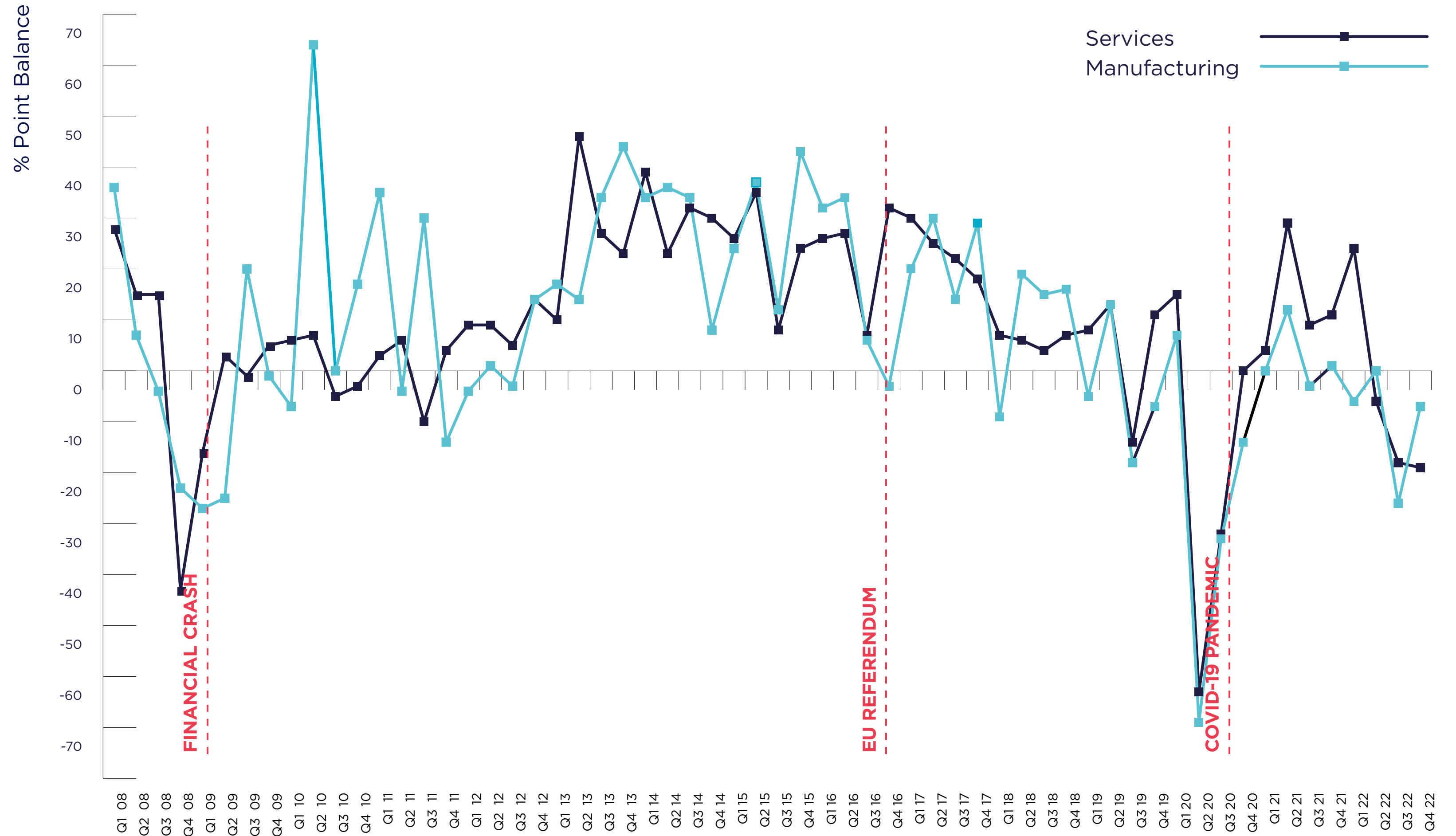
Members continue to express concerns around their business profitability in the next 12 months. Confidence around profitability plummeted for both sectors in Q3 22 with more businesses believing profits will fall rather than rise. In Q4 22 the profitability balance remains negative in both sectors meaning more businesses expect profits to fall in the next 12 months than rise. However, in manufacturing this has improved significantly, up to -7% from -26% in Q3 22. In services the balance has remain largely unchanged at -19% compared to -18% in Q3.



Confidence that turnover will grow in the next 12 months remains positive in that more manufacturing and service sector companies believe turnover will grow than contract.

Confidence in Profitability Over the Next 12 Months

Investment intentions are mixed in Q4. In terms of training, the Q4 22 training balances remain positive, at +22% (+17% Q3 22) for manufacturers and +11% for services (+16% Q3 22). Investment intentions around capital also improved for manufacturers, at +12% in Q4 22 (+7% Q3 22) but remain negative for services at -1% (-3% Q3 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 Q2 2020 but had been improving although this has stalled in recent quarters. In Q4 2022 while more businesses in both manufacturing and services are still reporting a deteriorating cash flow position than those reporting any improvement, the cash flow balance did improve in Q4 after deteriorating notably in Q3. In Q4 22 the cashflow balance for manufacturers increased to -15% from -26% in Q3 22. In services the balance also improved, increasing to -12% from -21% in Q2 22. Northern Ireland ranked second lowest across the UK regions on this key indicator.

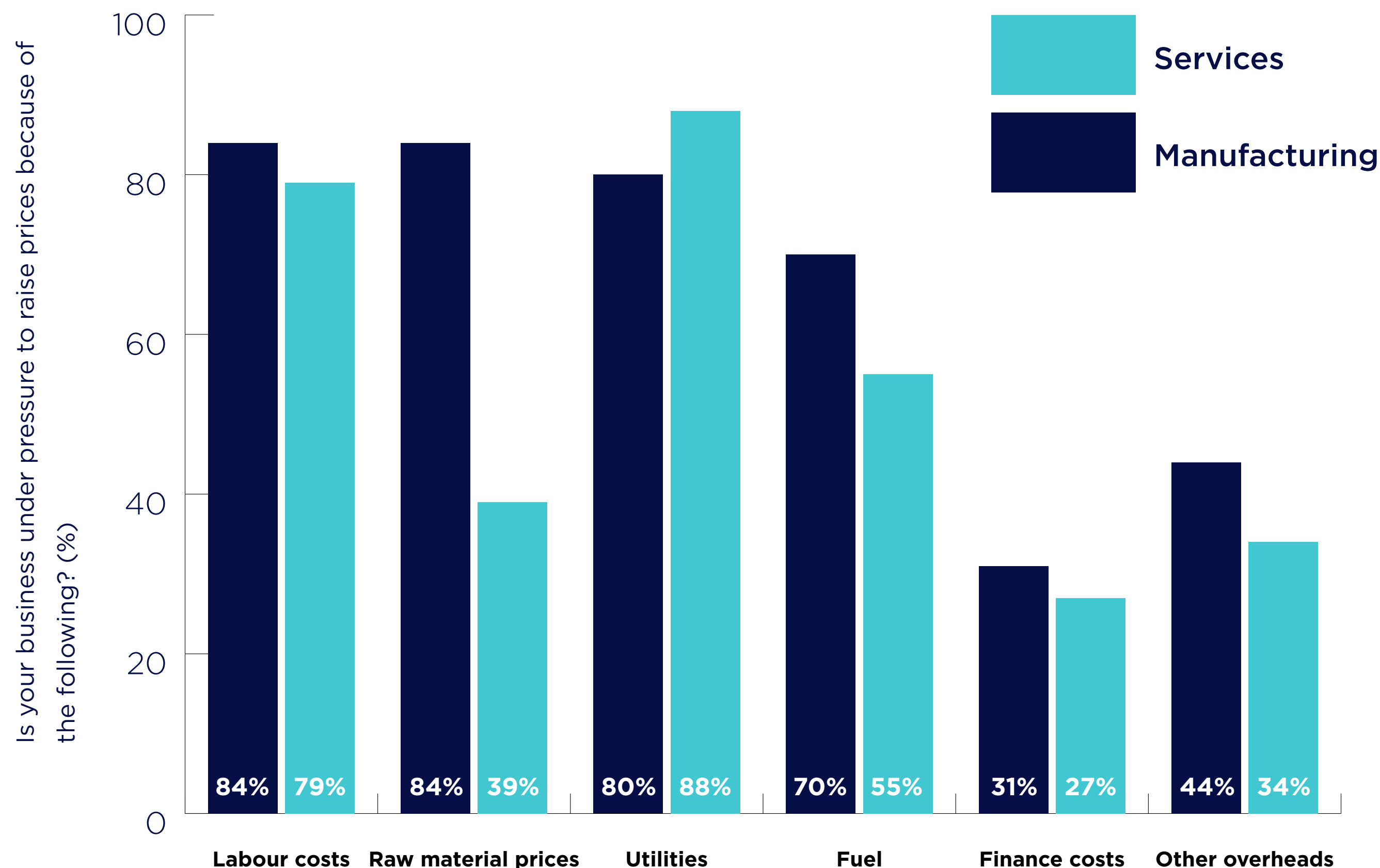


Cash flow balance did improve in Q4 after deteriorating notably in Q3

Prices & Costs

Expectations to raise prices are highest on record for the services sector, ranking it highest across the UK regions. While also still high for manufacturers, expectations have been falling since the start of the 2022. 72% (81% Q3 22) of manufacturers and 76% (70% Q3 22) of service businesses are expecting to raise prices in the next 3 months. It had reached 88% for manufacturers in Q1 22. The inflationary pressures driving price pressures are acute with 9 in 10 businesses impacted. Businesses are facing significant cost pressures in terms of utilities, labour and fuel costs and particularly for manufacturers raw material costs. The large jump in the share of businesses under pressure from rising utility costs stand out and as does the greater pressure from rising labour costs. Rising interest rates are also a concern. In Q4 21 18% of manufacturers and 25% of services were becoming more concerned about interest rates. One year later in Q4 22 this has jumped to 51% for manufacturers and 45% for services.

Cost Pressures



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 has taken a dip in recent quarters with many key indicators deteriorating and negatively impacting on NI's regional rankings. However, in Q4 22 there were some signs of improvement, particularly for manufacturing. In manufacturing Northern Ireland ranked in the bottom 3 performing UK regions for 5 of the 11 key indicators (down from 10 in Q3 22). Manufacturing's weakest regional position was with cashflow where it ranked 11th out of the 12 UK regions with a negative balance of -15%.

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 (also 2 in Q3 22). NI's regional performance continues to remain strong on the service sector's employment indicators. However, the sector's weakest indicators are cashflow and confidence around profitability where NI ranks 10th lowest for both. Confidence around profitability had a negative balance of -19% in Q4 22.

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 and energy costs. In Q4 each year members are also asked about prospects for their business and the economy in the coming year.

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

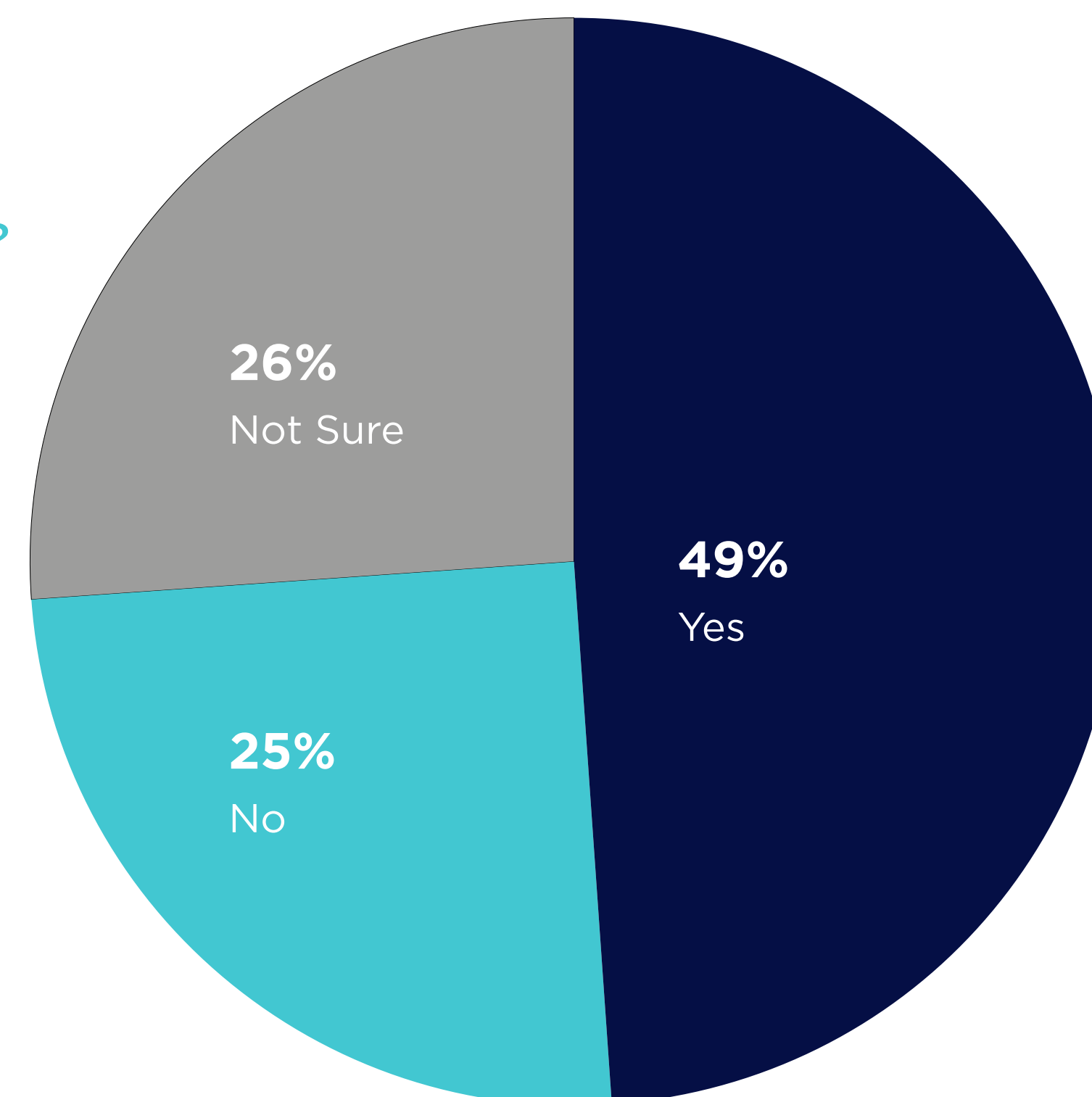
would unfold. The COVID-19 pandemic set the business adjustment process back further as businesses had to prioritise the COVID-19 fall out on their business over any EU exit preparations. The Northern Ireland/Great Britain trading relationship post transition had been an increasing concern.

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 most businesses have adapted to the new trading arrangements post EU Exit. 36% have adapted well to the new arrangements, up from 23% in Q4 2021 and a further 21% have found it difficult but are dealing with it now. However, 14% are still finding the new arrangements difficult. There are a further 24% who state that EU exit isn't relevant to their business and they have not been affected.

More members now believe Protocol issues can be resolved compared to this time last year. In Q4 22 1 in 2 members or 49% said they believed that the Protocol issues can be resolved in the coming year compared to 39% in Q4 21. However, 1 in 4 members do not believe that the Protocol issues will be resolved this year.

Do you believe the issues that have arisen around the Northern Ireland Protocol can be resolved in the coming year?

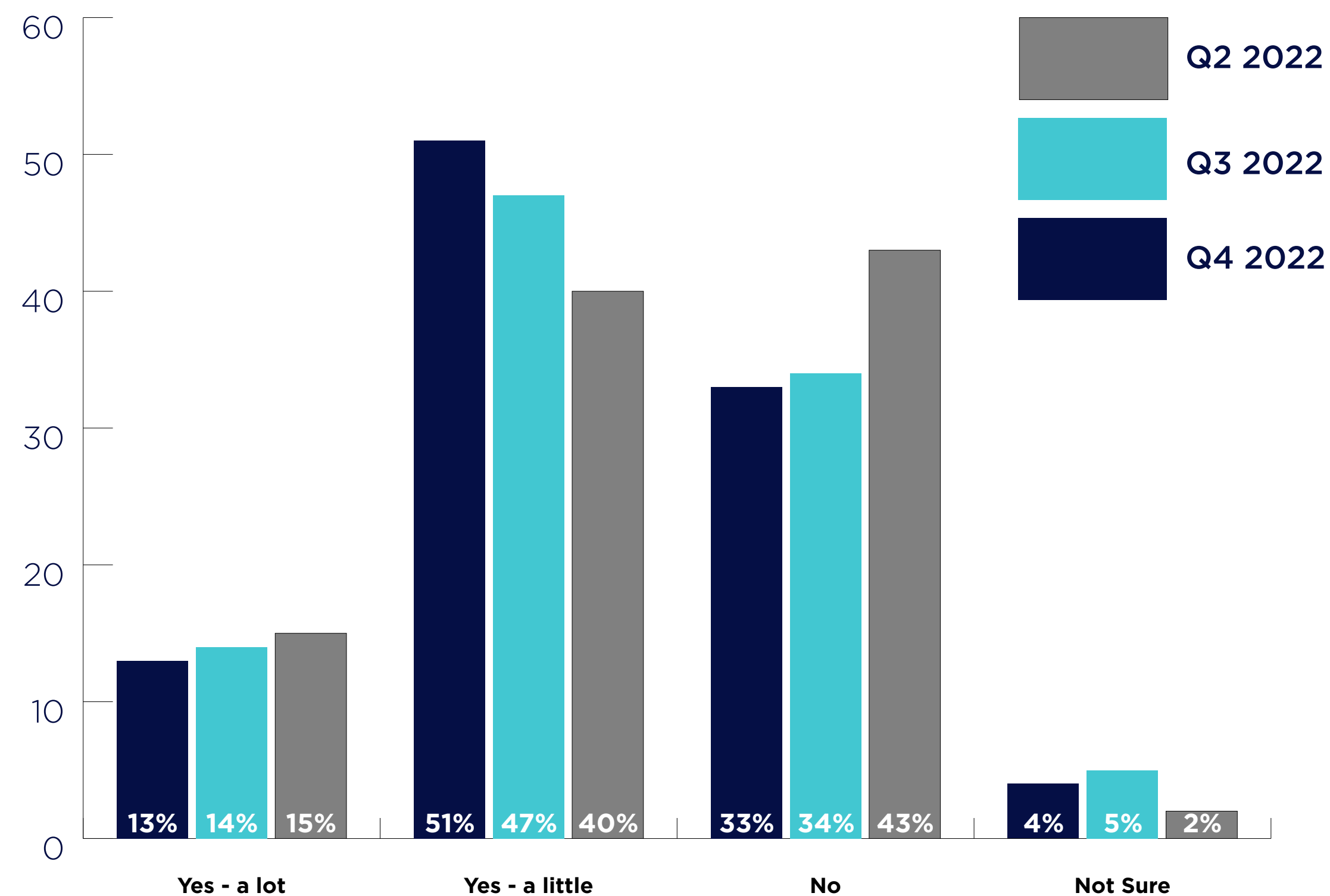


Trade & Demand

While most businesses are still trading well (31%) or reasonably (49%), there are signs that businesses are not performing as well as this time last year with more businesses struggling. In Q4 22 31% of businesses state they are trading well, down from 40% in Q4 21. One in five businesses are finding trading conditions challenging with 14% just covering costs (11% Q4 21) while 7% are struggling/on the verge of closure (5% Q4 21).

A majority of members are seeing a slowdown in demand, affecting 2 in 3 members or 64% of respondents in Q4 2022. This is up from 61% in Q3 and 55% in Q2. Most are only seeing a little slowdown (51%) but 13% are seeing demand slow down significantly.

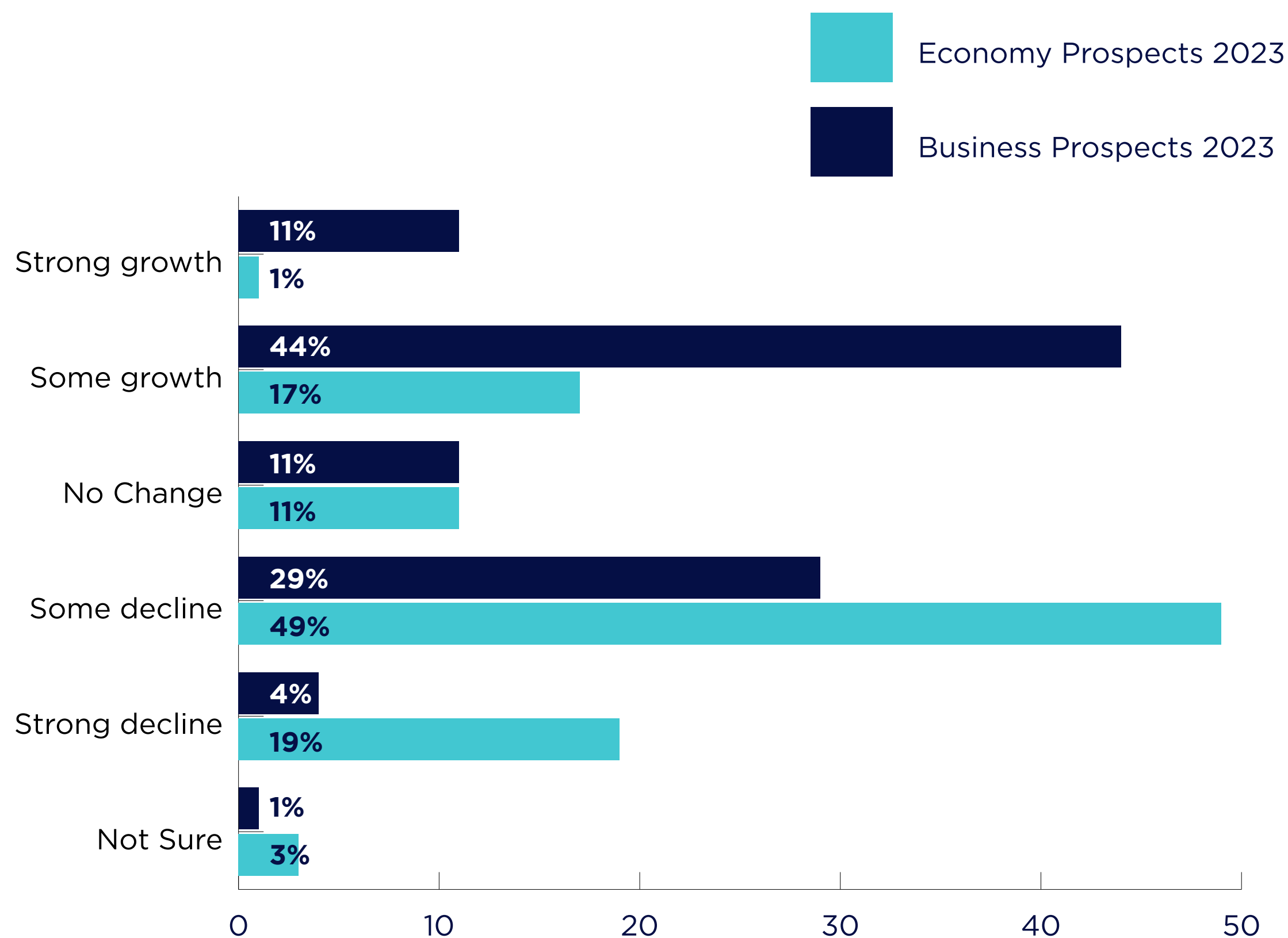
Do you see any signs of slow down currently in demand for your products and/or services?



Business & Economy Prospects

While a majority of members (55%) expect their own business to grow in 2023, a large minority of 33% expect their business to contract this year. This is up from 14% in 2022 although this reflected positivity around the COVID recovery. Members are much less optimistic about prospects for the NI economy with 68% expecting it to contract in 2023. Only 18% expect the local economy to see some growth this year. Of particular concern is the fact that for both businesses and the economy expectations around decline are growing and are of similar proportions to those noted during COVID. For example, in Q4 2021 36% of members expected their business to decline in 2022 and 66% expected the economy to decline. Many businesses were buoyed up with government support through COVID which is not the case now.

How do you view prospects for the coming year?





Business & Economy Prospects

Main concerns are focused on the huge cost pressures coming from all directions including energy, raw materials, wages and transport. Other key concerns include the damage caused in terms of decision making and regional reputation by a lack of a functioning government in Northern Ireland, a sense that demand is falling for some businesses and persistent concerns around attracting and retaining staff.

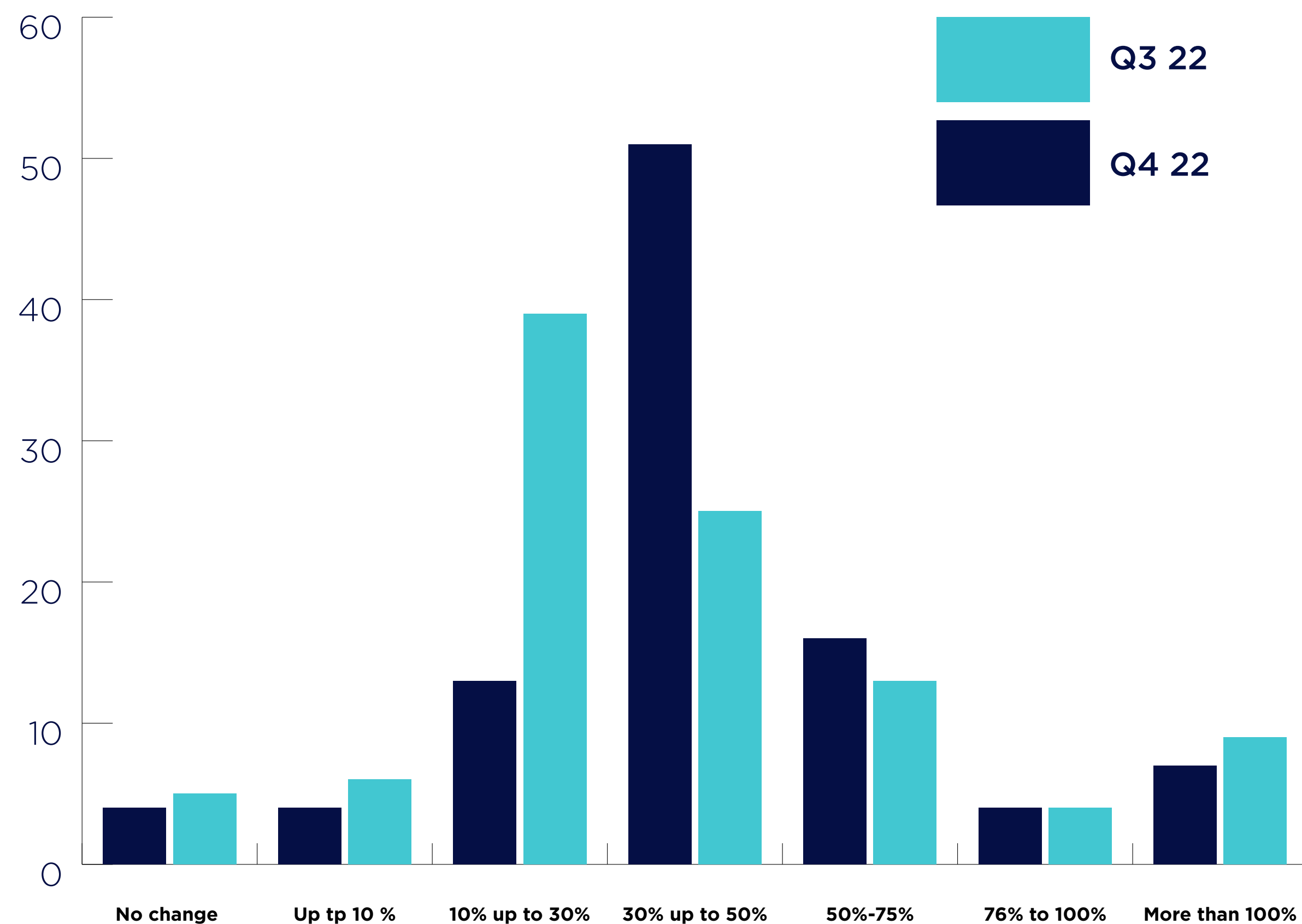
Businesses want support that requires both Executive-led decision making to happen but also a more proactive role by the UK government in supporting business through fiscal levers that limit the damage of cost pressures and any downturn/recession and promotes business growth. Main asks include the Executive getting back into government, the need to reduce/delay costs/ payments of taxes including VAT, business rates, corporation tax and support for energy costs including a price cap. Businesses want faster decision making by NI government, greater support for local businesses and more investment.

Energy Costs

More businesses are experiencing significant increases in energy costs this quarter. Four in 5 or 78% have seen energy cost increases in excess of 30%, up from 60% in Q3 22.



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



NI Chamber Perspective

“In such a prolonged challenging environment, it is welcome to see that our members are not reporting material deteriorations since the last quarter. However, performance is still weak and business prospects around profitability have declined. In Q4, inflationary pressures continued to dominate, with members also expressing greater concern over interest rates. Rising energy costs should be a cause for alarm following the UK government’s recent announcement to significantly scale back its support for businesses at the end of this quarter.

“Despite the challenges, for a number of reasons 2023 is a year that Northern Ireland must target investment- seizing the opportunities presented in green growth, digitisation and international trade. Of course, as we know, the number one ask of any investor is political stability – one of the many reasons why we need to see an Executive restored and an agreed workable outcome on the Protocol reached without further delay.”

Ann McGregor, Chief Executive



BDO Perspective

“Looking ahead to a New Year can often provide business owners with at least some cause for anxiety, particularly after the events of the last year. However, it can also provide an opportunity to look again at your business’ performance, its structure and crucially, your plans for the future.

“We won’t overlook the fact that performance continues to be described as “weak”, but, context is everything and when evaluated against the incredibly challenging environment it should be recognised that maintaining the status quo in terms of performance, staffing levels and recruitment must be seen as a win.

“It is heartening to see that two thirds of businesses expect to stabilise in 2023 with 55% anticipating their own business to grow this year. Although many respondents are confident about their own business, they are less certain about others, with

68% not feeling optimistic about the wider local economy. It is notable though that if their individual business aspirations come to fruition there should be, as a result, a direct impact on the wider economy, and we are encouraged by this potential.

“Although no one can say for certain what 2023 will bring, for businesses to succeed we must be aware of the challenges and be able to deal with areas of risk and concern, we must also use the opportunity a new year brings to plan and adapt for the future to ensure success. Proactive planning by business owners will be key to this success.

“We can make 2023 our year. The opportunities are there to make it happen.”

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, 160 members responded to the NI Chamber of Commerce & Industry Quarterly Economic Survey (QES), in partnership with BDO, for the 4th quarter of 2022.

The fieldwork for the Quarter 4 22 survey took place between between 21 November and 5 December 2022. The war in Ukraine was officially confirmed on the 24th of February 2022. The infamous ‘mini budget’ took place on the 23rd September 2022. Rishi Sunak became the new Prime Minister on the 25th October 2022. The Autumn Statement was announced on the 17th November 2022.

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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

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>.

