

QUARTERLY ECONOMIC SURVEY

SUMMARY Q4 2018

Weak order books along with falling investment intentions make for a muted end to 2018 for local businesses. Both Brexit and the lack of a local Executive are having an increasingly negative impact on business growth and investment plans. The frustration among the business community is palpable as it deals with the fallout from the high levels of uncertainty created by both. Most members believe that the lack of a Northern Ireland Executive will be damaging to Northern Ireland's economic prospects in 2019.

There are still signs of growth in the Northern Ireland economy with almost all key balances positive meaning more businesses in manufacturing and services are reporting increases in indicators such as sales and jobs than those reporting a fall. Some confidence exists around sales growth in the next 12 months. However, domestic (UK) sales and export balances for both sectors are low, particularly order books for the next 3 months. Recruitment intentions have been weakening in recent quarters (particularly for manufacturing) although members are still finding it difficult to attract the right staff as recruitment difficulties persist. The survey suggests that cash flow remains a particular challenge for both sectors with more businesses reporting a worsening cash flow position in Q4 18.

Manufacturing

Almost all key balances in manufacturing are positive in Q4. However, 10 of the 14 key balances fell over the quarter and performance is down over the year in terms of sales, exports and jobs. Domestic and export order book balances are among the weakest across the regions as are employment expectations over the next 3 months. High raw materials cost pressures persist with 82% citing this as key driver of cost increases. Pressure to raise prices remains high (+47% in Q4 18 vs. +16% in Q2 16 before the Brexit vote took place).

Services

It was a mixed performance in the services sector in Q4 18 with 7 of the 14 key services balances up on Q3 18. There were some positive signs around jobs with the balance of businesses taking on staff in the last 3 months and the share of business trying to recruit both above the UK average. There was also a slight uplift in export sales and

orders. However, the sector's domestic (UK) sales performance was weak with a negative balance around sales in the next 3 months meaning more businesses expecting to see a fall in UK orders/sales than those expecting to see a rise. Investment intentions in the sector continue to fall with balances at their lowest since the Brexit vote.

Recruitment Difficulties

Manufacturers' recruitment intentions weakened in Q4 18 with 63% of manufacturers trying to recruit (Q3 71%). In services 56% were trying to recruit in Q4 18 (Q3 58%).

Difficulties recruiting staff remains a major issue for both sectors. Around 75% of those trying to recruit are finding it difficult to attract the right staff, largely skilled trades in manufacturing and professional/managerial in services. The share of manufacturers having difficulties recruiting skilled workers remains the highest on record. This is leading to growing pressure around pay settlements.

Confidence

There is still some confidence among members around sales growth over the next 12 months with a balance of +38% in manufacturing and +34% in services expecting turnover to grow over the year. Confidence around profitability is weaker, particularly in services where it has been weakening since the end of 2016.

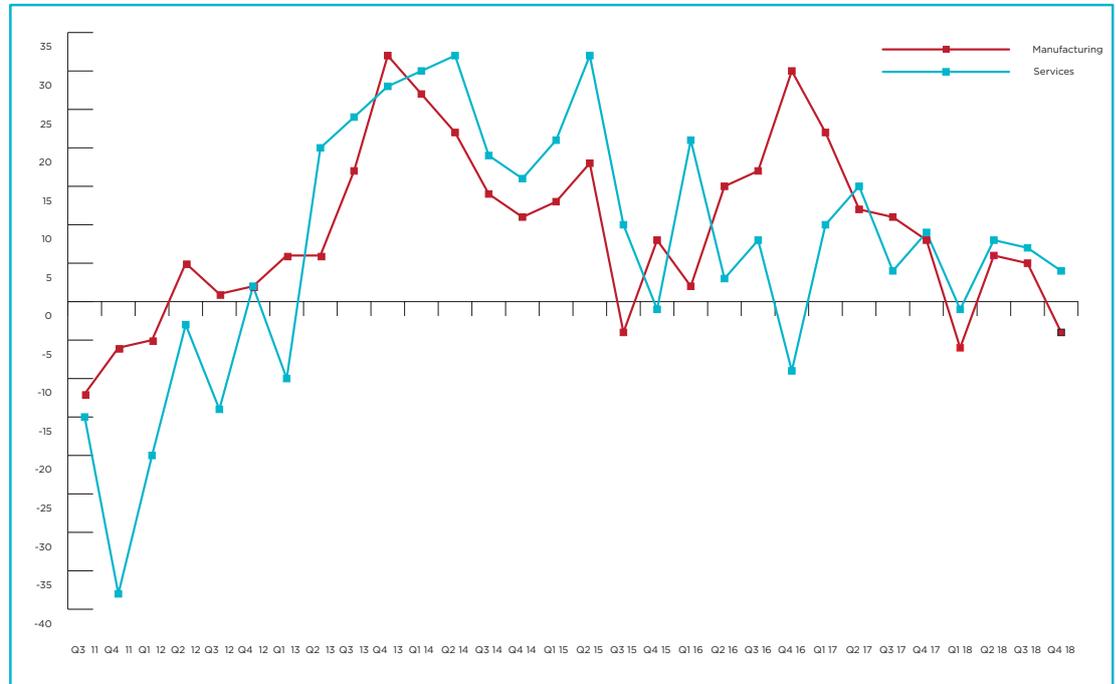
Exchange rates are the key concern for members in Q4 18 with 55% of members highlighting this as a growing concern compared to 3 months ago. This has been a significant issue for members as sterling's weakness persists. Competition concerns continue to ease, representing 35% of members in Q4 (44% in Q2 18). Inflation and business rates are key concerns for around 1 in 4 members.

The NI Chamber Perspective

Whilst the economy is not contracting, it is clearly not growing robustly either. This quarter's survey reveals that weak order books along with falling investment intentions made for a muted end to 2018 for local businesses. Throughout much of 2018, businesses were subjected to a barrage of political noise and drama, so it's no surprise that Brexit, along with a lack of an Executive, are having an increasingly negative impact on business growth and investment plans.

Balance of businesses reporting increased domestic (UK) sales orders over next 3 months

A balance of -4%pt of manufacturers and +4%pt of service sector firms are reporting increased UK (domestic) sales/orders over the next 3 months. More local manufacturers are reporting a fall in domestic sales orders than those reporting an increase.



Quarter on Quarter Change (Q3 2018 to Q4 2018)

NI's regional position is relatively weak. Ten of the 14 key manufacturing balances fell this quarter and the sector ranks above the UK average for just 5 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 5 of the 14 balances.

- ▼ = fall in a key balance between Q3 2018 and Q4 2018
- ▲ = increase in a key balance between Q3 2018 and Q4 2018
- ▶ = No change in a key balance between Q3 2018 and Q4 2018

| Quarter on Quarter Change (Q3 2018 to Q4 2018) | | |
|------------------------------------------------|---------------|----------|
| 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 major challenges faced by business in 2018 look likely to continue. We are seeing caution from many businesses who are holding off on major investment decisions until they gain clarity around issues including Brexit, and the future of any new Executive. Exchange rates continue to be an area of concern for many businesses who also quote increased competition as a pressure point.

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 NI Chamber's quarterly Brexit Watch focuses on the extent to which Brexit has impacted on business performance and growth and investment plans.

The Tenth Brexit Watch suggests that Brexit is having an increasingly negative impact on local businesses, largely around costs but also in terms of sales, the recruitment of non-nationals and in Q4 18 on exports also. 50% of members report that Brexit is having a negative impact on costs and 35% report a negative impact on turnover/sales (this figure was 22% Q4 16). Some 32% report a negative impact on the employment of non-nationals in Q4

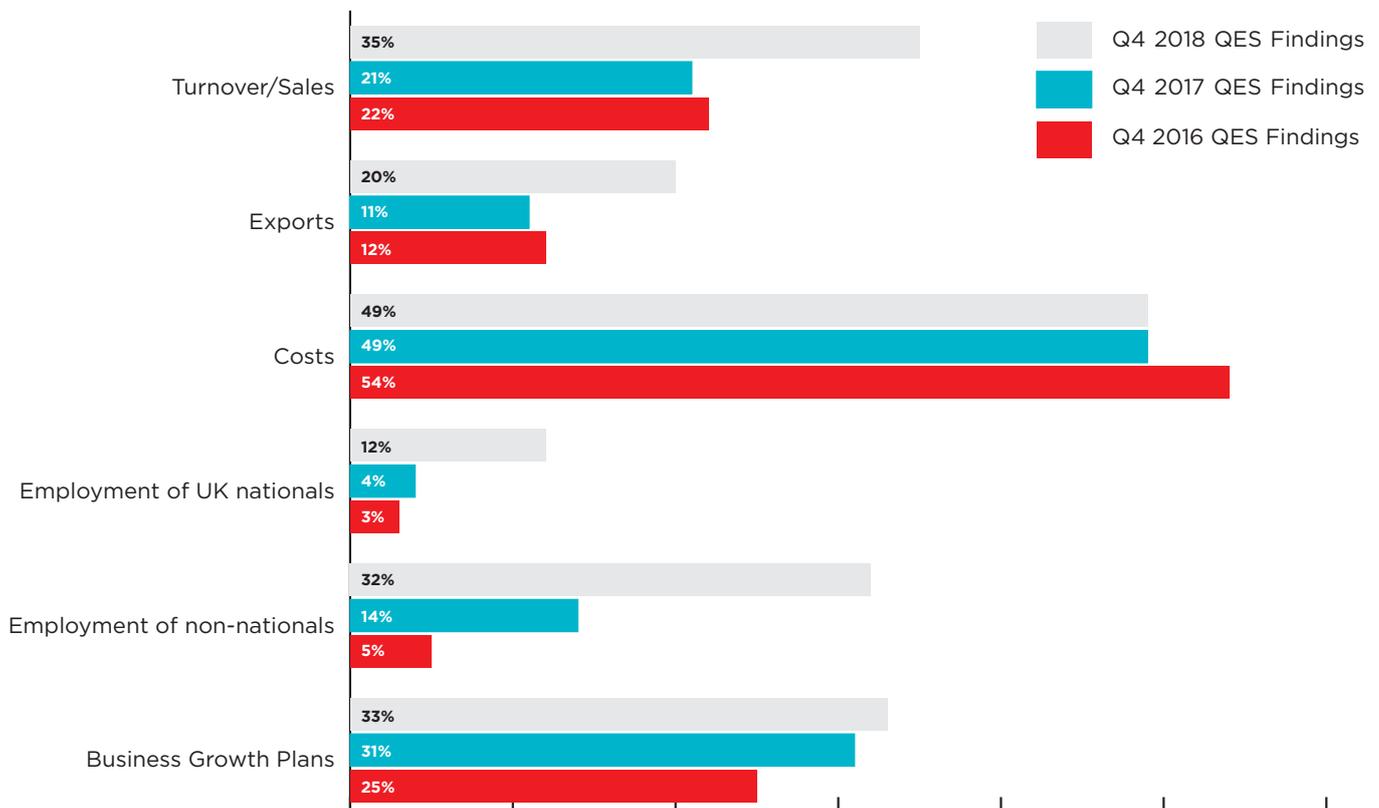
18 compared to a figure of just 5% in Q4 16. Around 1 in 10 businesses have reported a positive impact on business performance since the vote took place.

More businesses are putting business growth and investment plans on hold because of Brexit. 33% of members have scaled down/put on hold business growth and investment plans in Q4 18 (24% in Q4 16). Just under 1 in 5 members have expanded investment plans outside Northern Ireland since the vote took place.

Businesses are becoming increasingly negative around short-term business prospects in light of Brexit. In Q4 18 31% viewed business prospects over the next 3 to 5 years as poor/very poor because of Brexit, up from 25% in Q4 16.

% reporting Brexit's negative impact on their business to date

Around 50% of businesses believe that Brexit has led to higher business costs. Around 1 in 3 also believe that Brexit has negatively impacted on sales performance and business growth plans. Brexit's negative impact is also becoming increasingly evident. For example, in Q4 18 32% believe that Brexit has negatively impacted on the employment of non-nationals - this figure was only 5% in Q4 2016 just after the vote took place.



Prospects for 2019

Just 23% of members believe that there will be some growth in the Northern Ireland economy in 2019. Most (53%) believe that the local economy will contract this year. This is much more pessimistic than in Q4 16 when 43% members believed that the local economy would grow the following year (2017).

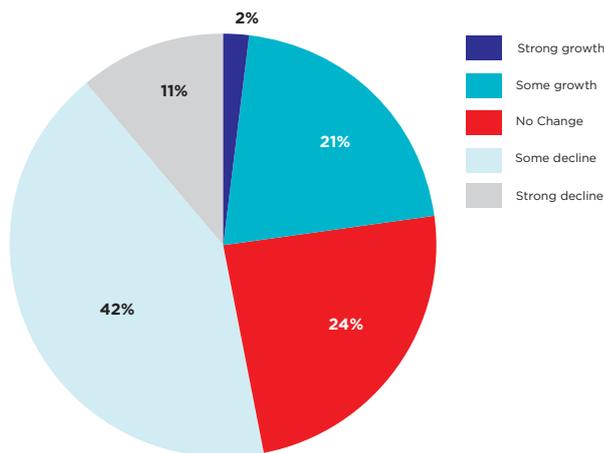
Members are more positive about their own business prospects. 45% expect to see some growth in their business in 2019 and 15% expect strong growth. However, around 1 in 4 members expect their own business to contract during 2019.

The majority of members (79%) believe that the lack of a Northern Ireland Executive will have a negative impact on the Northern Ireland economy in 2019. Some 52% believe that the lack of an Executive will also negatively impact on their own business. Particular frustration was expressed by members around the damage caused to regional investment and local decision-making as well as the fact that Northern Ireland has no political voice in the UK/EU negotiations.

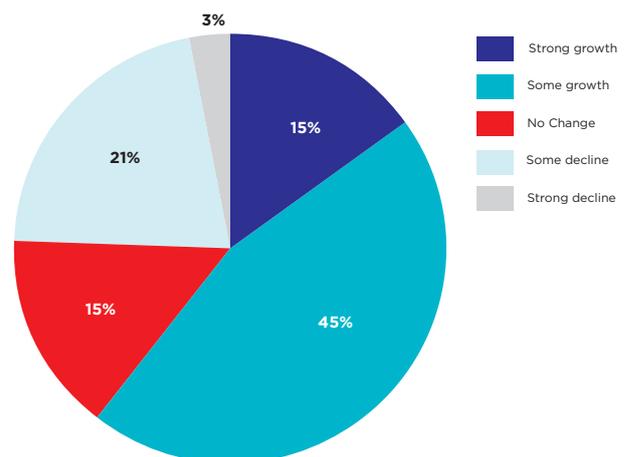
NI Economy and Business Prospects in 2019

Only 23% of members believe there will be any growth in the Northern Ireland economy in 2019. Almost twice as many (43%) were positive about Northern Ireland's economy prospects two years ago. Around 1 in 2 (53%) members believe that the Northern Ireland economy will contract in 2019 and 11% believe that the economy will decline strongly. Members are more optimistic around their own business prospects with 45% believing their business will see some growth in 2019 with 15% seeing strong growth for their business this year.

NI Economy Prospects in 2019



Your Business Prospects in 2019



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.

259 businesses responded to the NI Chamber of Commerce & Industry Quarterly Economic Survey, in partnership with BDO, for the 4th quarter of 2018. Together they account for almost 19,000 jobs in Northern Ireland.