InterTradeIreland

All-Island Business Monitor

Key Findings Report

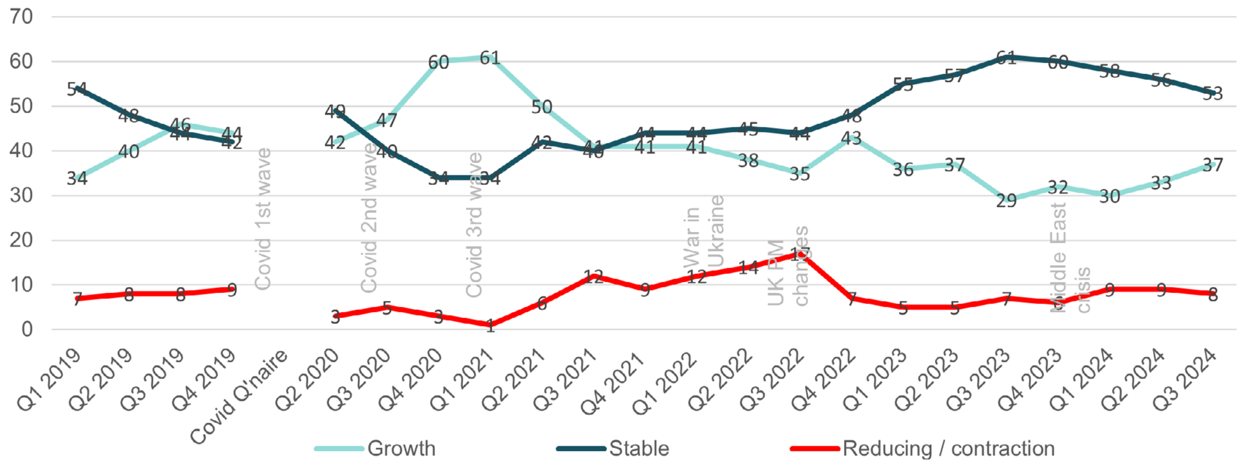
Q3 2024

Published: Friday 22nd November 2024

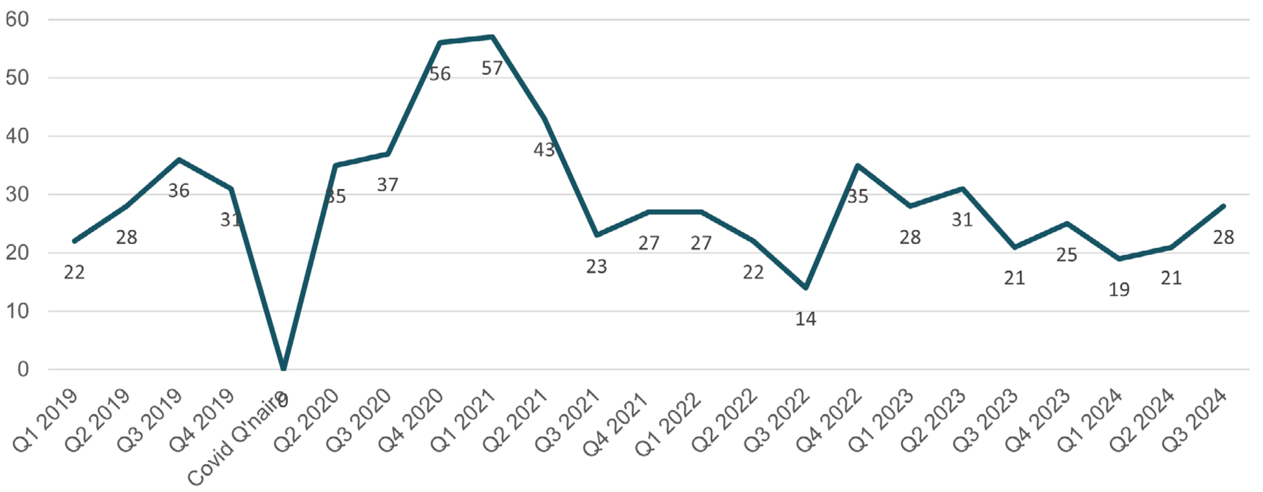
Business Performance

In Q3 2024 over half of businesses report that they are stable (53% vs. 56% Q2) and over a third (37%) are growing, up from 33% recorded in Q2 2024.

8% of businesses surveyed reported they are contracting - similar to last quarter (9%) and the same quarter last year (7%).



The balance of firms growing has strengthened over the year, +28 (% points) in Q3, up from +21 in Q2 and +19 in the first quarter to the year.



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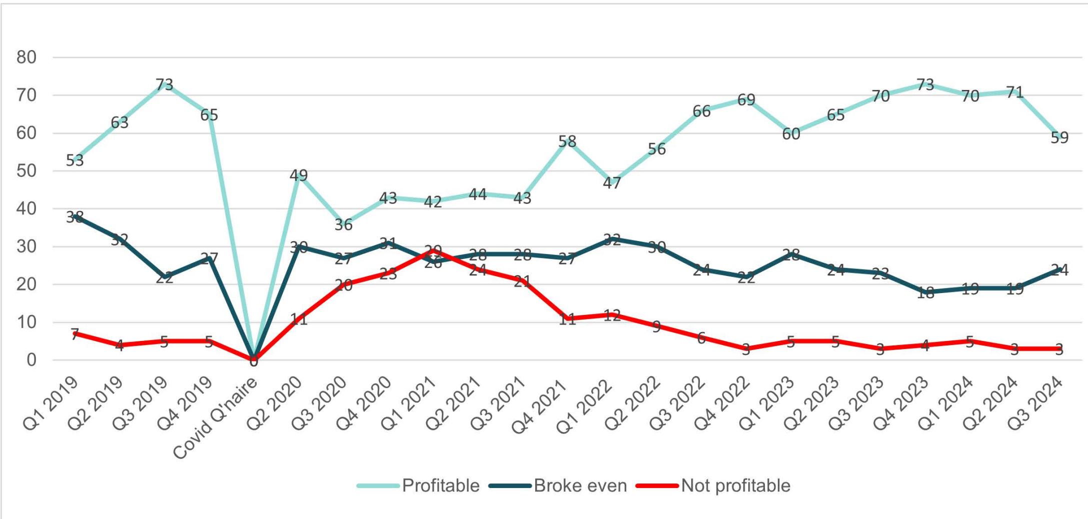
Profitability

6 in 10 businesses (59%) report they are profitable in Q3 2024, down from 71% in Q2. There has been a rise in the percentage of businesses saying they 'don't know', to 13%, up from 7% last quarter. 'Don't know' was most likely to be recorded in the smallest businesses up to 50 employees.

24% say they have broken even (up from 19% last quarter) and 3% have experienced a loss (the same as last quarter).

Business Profitability 2019 - 2024

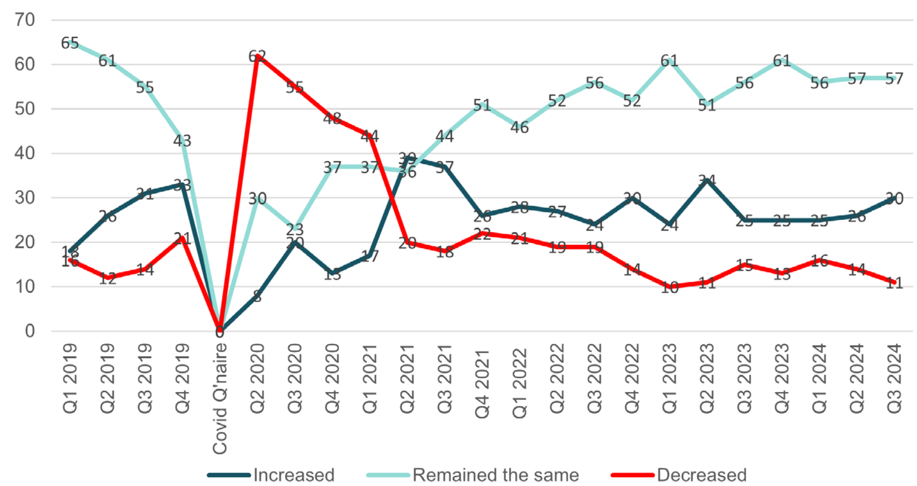


Sales

For around 3 in 5 businesses sales have remained largely unchanged over the last few quarters. 3 in 10 (30%) reported an increase in sales over the past quarter (26% in Q2 2024) while 11% reported a decrease in sales, down from 14% reported in Q2.

Looking ahead, over a third of businesses (36%) expect their sales to increase over the next six months (up from 30% last quarter), half (54%) expect to maintain their current level of sales, and 8% expect sales to fall.

Have your sales over the past quarter increased, decreased or remained the same?



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Business Challenges

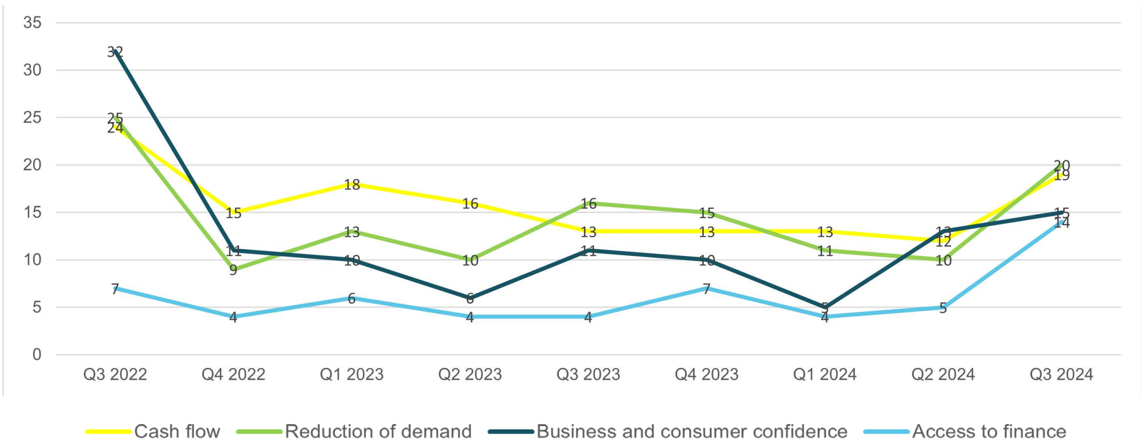
The two biggest business issues reported this quarter were:

Rising energy costs
50% reported this as an issue compared to 53% last quarter and 64% in Q3 2023

Rising costs of other overheads
55% reported this as an issue compared to 54% last quarter and 64% in Q3 2023

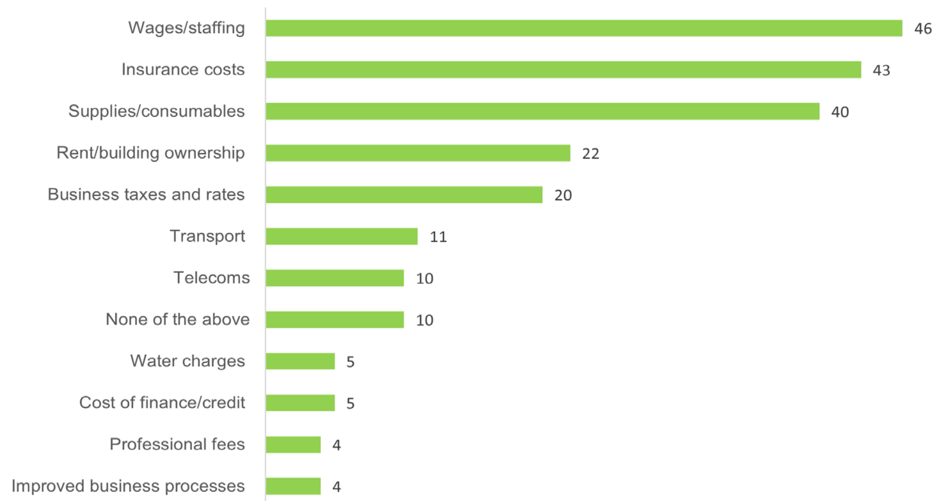
Q3 data shows reporting of issues of lower concern has risen. Most notable is the re-emergence of a group of issues that have come into sharper focus, including business and consumer confidence, cash flow, access to finance and demand for goods and services. 'The environment ' was reported by 11% of businesses as an issue (3% in Q2) and potential cyber-attacks was reported as an issue by 7% of businesses (4% last quarter).

Challenges facing businesses 2022 - 2024



% of businesses rating challenges level 3, 4, or 5 (being a huge challenge

Staff, insurance and supplies costs are still the main 'other overheads' of concern.



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Access to people and skills

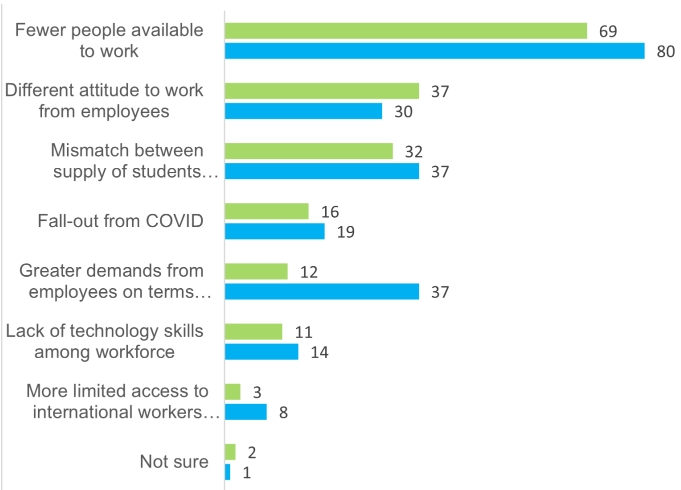
AIBM data has consistently indicated that businesses are dealing with persistent issues accessing talent. In Q2 the questionnaire included a section asking specifically about accessing the right people. These questions were retained in Q3.

35% of those who have tried to recruit in the last two years are struggling to find the right skills for their business. Of those, two thirds are experiencing long term vacancies and almost half are experiencing short term vacancies.

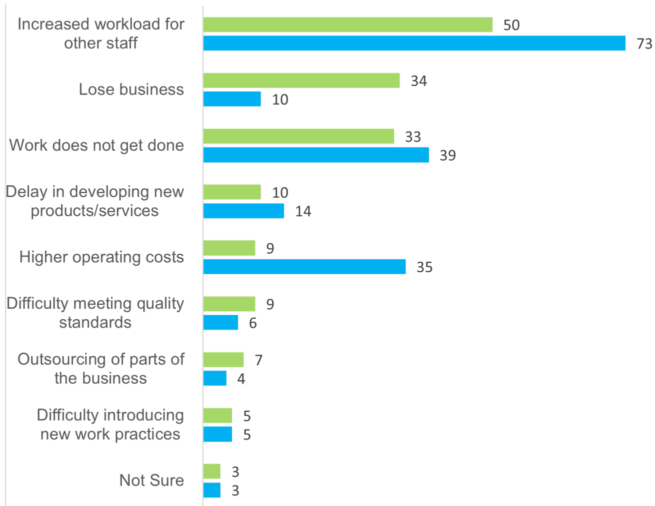
We also asked those experiencing recruitment difficulties these unprompted questions:

Why do you think there are challenges in getting the right skills?

reported by % in ■ Q2 2024 ■ Q3 2024



What are the implications for the business in not getting the right skills?



• 8 in 10 say the reason skills are an issue is because there are fewer people available to work (80% compared to 69% last quarter)

• Just over a third say the issues are due to mismatch between supply of students and demands of employers, 37% compared to 32% last quarter.

• 3 in 10 cite a different attitude to work as the reason (37% last quarter).

• Three-quarters (73%) of those experiencing issues in accessing the right skills in their company say that workload increases for other staff. 4 in 10 (39%) state that work does not get done and a third (35%) cite higher operating costs.

• This quarter, 10% say they lose business as a result of not having the right skills.

• Not being able to access skills has a negative impact on developing new products or services (14%) and introducing new work practices (5%).

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InterTradeIreland

What has your business done to address skills shortages?

Businesses have focused largely on external solutions in addressing skills shortages, particularly increasing recruitment activity (59%). However, this quarter 37% are focusing on the retention of existing staff, up from 14% last quarter. There is also a rise in the share who are investing in training (23%) and the remuneration packages on offer to staff (20%).

Certain businesses are struggling more with skills shortages

- Over half of Construction businesses with more that 3 employees are having difficulty filling short-term roles, along with 61% from the Leisure, hotels and catering sector and 57% in Retail and Distribution. Just over a third (37%) of Manufacturing and Production businesses have this challenge.
- Businesses with 11-49 employees report the greatest difficulty finding staff, with 41% saying they are having difficulty filling roles (44% last quarter).

Digital technologies as a solution to challenges such as skill shortages

- In a further question, close to a third (31 per cent) of all businesses with more than 3 staff said they are already embracing new technologies to address skills shortages.
- Last quarter 3 in 10 said they were already using digital technologies. This has reduced to a fifth in Q3 2024.
- 1 in 10 are aware there are digitalisation opportunities but don't see them as relevant to their business.
- A fifth can't see any opportunities at present - similar to last quarter.

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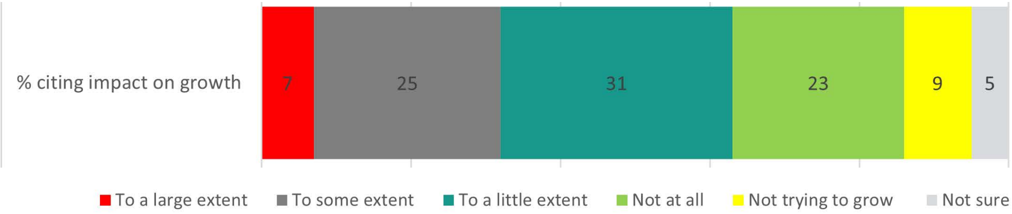
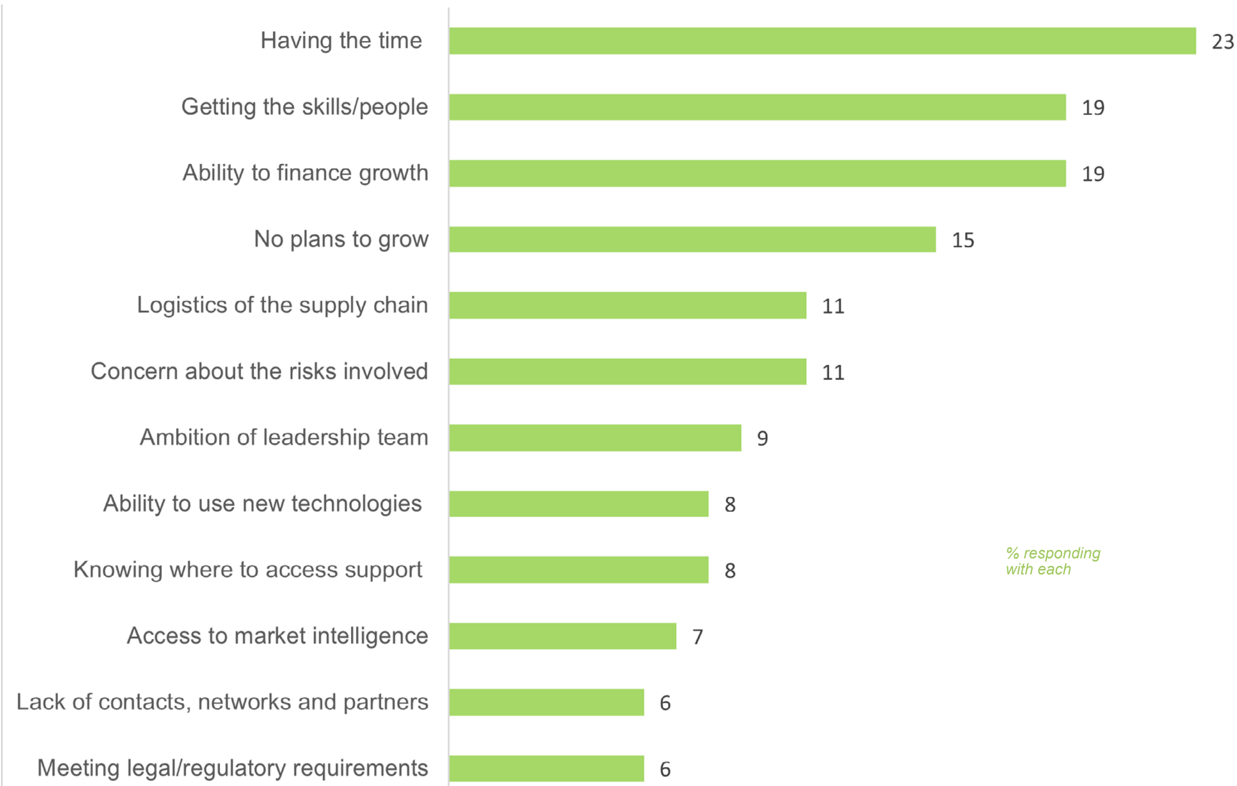
Barriers to growth

The AIBM has consistently indicated that businesses are dealing with issues accessing talent and other persistent challenges like costs. Two thirds of businesses told us that the challenges they are facing right now are negatively impacting their growth.



We asked businesses about other barriers to growth

One in four SMEs reported that the biggest barrier to growth is actually finding the time to focus on it. A fifth reported that getting people is a problem and a similar share in the ability to finance growth.



Businesses don't consider lack of contacts or market intelligence a major barrier to growth

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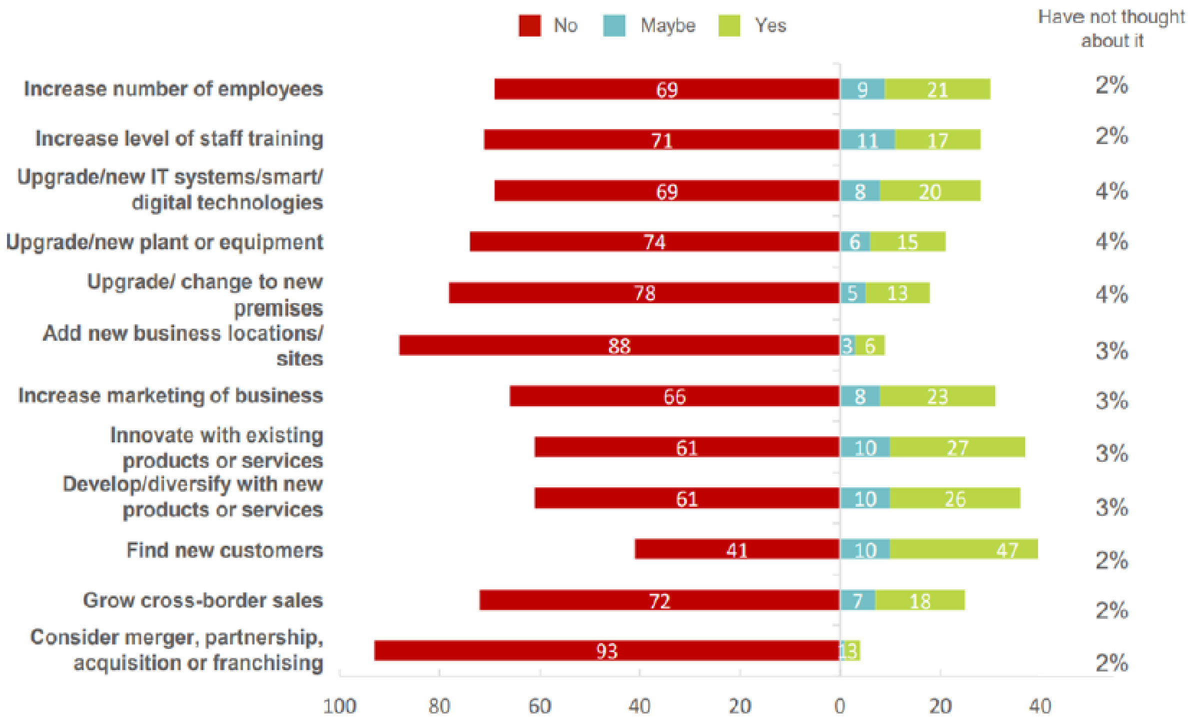
Investment intentions

We asked businesses about planned investment in the next 12 months. 7 in 10 businesses have no plans to increase employee numbers, upgrade/invest in new plant or equipment or invest in IT over the next 12 months.



Over half of businesses plan to focus on finding new customers, while over a third intend to focus on diversifying their products or services.

3 in 10 businesses have no plans to do any of the above in the next 12 months.

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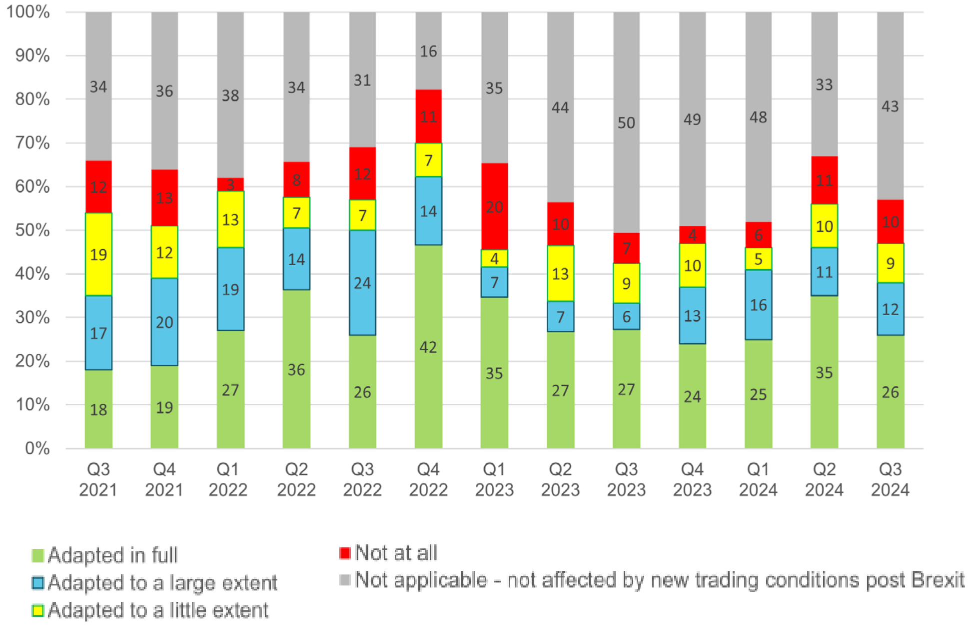
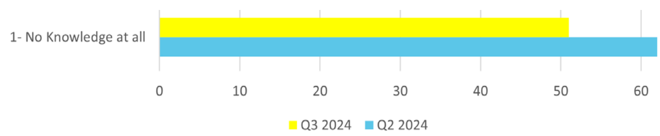
Changes in Trading Conditions

- Most businesses who believe it's applicable to them have adapted to EU Exit. 26% of businesses indicated that they have adapted in full to new trading conditions post-Brexit and 12% report they have adapted to a large extent. A further 43% say this is not applicable to their business. One in 5 (19%) say they have only adapted to a little extent or not at all.

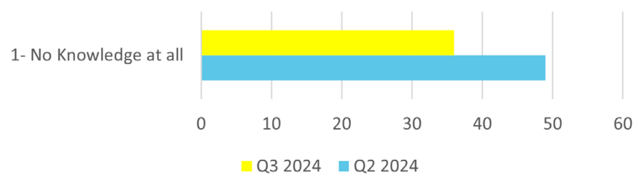
To what extent, if at all, has your firm now adapted to the new trading conditions post-Brexit



- Overall, 51 per cent of businesses surveyed say they have no knowledge at all of the Windsor Framework, an improvement on the 62% who reported no knowledge last quarter.



- Of those who remain impacted by Brexit, the percentage saying they have no knowledge of the Windsor is down to 36% from 49% last quarter.



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Summary comparison

BY SECTOR

Manufacturing

A few warning signs of challenges including weaker growth and fewer profitable

- 30% are growing, the lowest share over the last year and lowest across the sectors
- 69% are profitable, down from 77% in Q2. This has been a significant drop in the percentage of very profitable businesses over the quarter, from 15% to 4%, although 4% is more in line with past performance (Q2 might be an anomaly)
- Manufacturing has the lowest sectoral sales growth expectations
- Drop in % expecting sales to grow, 29% in Q3 from 42% in Q2
- 10% took on employees in the last 3 months while just 6% expect to take on people in the next 6 months, the lowest % recorded over the last couple of years and lowest across the sectors

Construction

Stronger performance and growth prospects but cost pressures significant

- The share of businesses growing in the Construction sector has doubled since the same quarter last year, at 40% in Q3 24
- Expectations are for sales growth to strengthen in the next 6 months
- However, profitability has dipped against what is still a challenging cost environment for the sector, despite the easing of some cost pressures including energy – 16% don't know how profitable they are
- Wage costs are a bigger issue for Construction in Q3 24. They are also most likely to be finding it difficult to attract highly skilled workers and people generally
- The percentage reporting 'keeping up with innovation and developments in your industry' as a challenge has doubled from 10% a year and 9% last quarter to 19% in Q3

Professional Services

Strongest sectoral performers although recruitment intentions low

- 45% are growing, the highest percentage over the last couple of years and highest across the sectors. Although 8%are contracting
- 71% are profitable, again highest across the sectors, although down on last year (76% in Q3 23), but 15% 'don't know' if their business is profitable or not.
- 35% expect sales to grow in the next 6 months, again highest over the last couple of years
- The percentage taking on people has been relatively low this year and is 8% this quarter. A similar share (9%) expects to take on people in the next 6 months
- The sector is least likely to be experiencing recruitment difficulties (18%)

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Hotels, Leisure, Catering

Profitability is lowest across the sectors and more businesses expect sales to fall

- 31% are growing, and while 9% are contracting, this had been 21% in the first quarter of this year. Looking back over the time series, the sector has been in a more challenging position in the past.
- Profitability is an issue with just 41% profitable, lowest across the sectors. This is also the lowest percentage who are profitable since Q2 22. 6% are unprofitable but this has been a big increase in the share of businesses who 'don't know' –18%
- 34% expect sales to increase in the next 6 months but 16% expect sales to fall, highest across the sectors
- Just 5% have taken on people in the last 3 months, lowest since Q4 21 while 6% took on less. However, the expectation to take on people are more positive at 20% in Q3 24
- The sector remains very challenged by cost pressures – energy and other costs

Retail Distribution

Highest share of businesses contracting and particularly challenged by cashflow, falling demand and competitor discounting

- 34% state they are growing but 14% are contracting, highest across the sectors and highest in two years (since Q3 22)
- Although 50% say they are profitable
- 39% expect sales to increase over the next 6 months which is the highest over the last couple of years. However, 13% expect them to fall, highest since Q4 22
- 9% took on people in the last 3 months while 10% reduced employment. 10% expect to take on people in the next 6 months
- This sector appears to be becoming more challenged by cashflow concerns, falling demand and competition and discounting by competitors

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BY BUSINESS SIZE

Micro businesses (less than 10 employees)

- Less likely to be growing than larger businesses – 36% - but there has been an increase in the percentage growing over the last year.
- While the majority are profitable, they are less likely to be profitable and their profitability position has weakened considerably this quarter with more micro businesses breaking even.
- Highest share since pre-COVID expecting sales to grow in the next 6 months, 36% with just 8% expecting a decline.
- Just 7% have taken on people, much lower than larger employers and although expectations to take people in the next 6 months are a bit higher at 10%, overall recruitment intentions tend to be low.

Businesses with 11-49 employees

- Almost half (45%) state their business is growing, which is the highest since Q4 22.
- More than two thirds (68%) are profitable, although this is down on previous quarters.
- 37% are expecting sales to increase in the next 6 months, up slightly over the quarter.
- 19% have seen employment grow in the last quarter and 23% expect to take on people in the next 6 months.
- They are most likely to be experiencing recruitment difficulties (41%).

Businesses with 50+ employees

- Two thirds (65%) are growing and this has grown each quarter this year. However, fewer are demonstrating very strong growth (1%) and this has been as high as 8% in the same quarter in 2023. Although very few are contracting (3%).
- 77% are profitable, down on last quarter. Although still high, it is lower than the pre-COVID period, where it was between 80% and 90%
- 42% expect sales to grow over the next 6 months, down from 46% in Q2 with more businesses expecting sales to be stable (52%).
- 22% have seen employment grow in the last quarter while 30% expect to take on people in the next 6 months.

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Economic Context

Q3 2024 AIBM FINDINGS

The Q3 AIBM fieldwork took place in a period of distraction and uncertainty for both jurisdictions. Both had Budgets forthcoming in October and both had government elections just past or looming in the near future. The US Presidential election was at the forefront of everyone's minds.

Latest figures suggest a mixed economic performance across the two jurisdictions in the second quarter of 2024. In Ireland, the economy (measured by GDP) unexpectedly fell by 1.0% in Q2 after a brief expansion in Q1 (which had followed 4 periods of decline). Modified Domestic Demand, which focuses on domestic activity in Ireland, decreased by 0.5% in Q2 against a 1.4% increase in the first three months of the year. This weaker performance was driven by challenges across the multinational sector, domestic economy and the Information and Communication sector. Northern Ireland had a more positive Quarter 2 with economic output up 0.4% over the quarter and 2.3% over the year. The private sector grew by 0.5% over the year (3% over the year) with Construction a key driver of that growth.

Ireland had been forecast to expand in 2024 but recent ESRI forecasts suggest that the Irish economy will actually contract by 0.4% in 2024, although the domestic economy is expected to expand by 2.3%. In comparison, the UK economy is expected to expand by just over 1% (OBR October 2024) although that might be challenging in light of recent figures suggesting the UK economy grew by just 0.1% between July and September. An average of forecasts for Northern Ireland suggests its economy is likely to grow by a relatively subdued 0.7% this year. To put this in context, the IMF (October 2024) expects that in 2024 the global economy will grow by 3.2%, advanced economies by 1.8% and the United States by 2.8%. The outlook for the Euro area is weak, with expectations of growth of 0.8% over the year, reflecting the multitude of challenges it faces including the continued fall out of supply chain and energy shocks along with particularly poor performances of major economies such as Germany.

Cross-border goods trade between Ireland and Northern Ireland amounted to just over €10bn in 2023, more than double its pre-COVID value (2019). This was driven in large part by the pharmaceuticals/medical sector performance during COVID but also the general expansion in trade across almost all sectors over that time. In the first 8 months of this year cross-border goods trade has continued to expand, up 3.1% between January and August 2024 compared to the same period in 2023, driven by positive performances in the two key trading sectors, Food and Live Animals and Chemicals. This is set against a striking 20% drop in Ireland-Great Britain (GB) trade which has been driven largely by much weaker trade in Chemicals and in imports of Refined Oils. On the basis of performance to date this year, cross-border trade could grow by around 1% between 2023 and 2024.

NI's stronger goods trade performance has been notable, particularly against a more challenging trading environment for the UK goods trade performance generally since EU Exit and with the implementation of parts of the Windsor Framework. Ireland's trade performance looked artificially weak in 2023 following the strong performance of Pharma during COVID but in 2024 to date has returned to growth with total trade up by 2.9% in the first 8 months of the year compared to the same period of 2023. More widely, the outlook for global trade is relatively good, particularly as inflation eases and the interest rate outlook improves. However, Europe's trade is expected to be very weak. Large tensions in terms of conflict and geopolitics remain, with the conflict in the Middle East a particular concern. The importance of national trade (and wider) policy decisions is also a key factor of note, and the outworkings of the US Presidential Election and any changes made by the President-Elect to the country's trade policy is a watching brief.

The AIBM points to some concerns around the consumer facing sectors of the economy such as retail and hospitality. While there are no strong signs of any squeeze on consumer spending in either jurisdiction, retail sales performance is challenging in both and there is still a general sense of incomes being squeezed with the cost of living crisis. While inflationary pressures are easing, increased costs are now baked into prices and there remains a fragility around inflation and the potential for its return. That uncertainty, coupled with squeezed incomes, could weigh down on growth.

The overall sense of stability with some growth in both jurisdictions highlighted in the AIBM findings for Q3 2024 is consistent with the general sense of positive performance in both economies (despite some challenges for Ireland). However, those persistent costs challenges that have dogged the post-COVID environment remain as does finding people and particularly those with the right skills for the business. The official data for both jurisdictions suggests this is not likely to change significantly going forward with strong labour markets a persistent feature of both. However, it is worth noting that there are suggestions of a softening in job postings in both jurisdictions and in Northern Ireland confirmed redundancies are up.

There have and will be significant changes in both jurisdictions in the coming months, with new governments and different government tax and spending decisions, as well as the US Presidential election meaning there remains lots of uncertainty for businesses to deal with in the political and trading environment going forward.

Maureen O'Reilly
Independent Economist

A telephone survey of 764 businesses was conducted on an all island basis, with the aim to provide a deeper understanding of the needs, experiences and issues facing businesses. The survey was conducted between the 17th September - 25h October 2024.