



# BDO Optimism Index Q1 2017

with Behaviour and Attitudes

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# Research Methodology

- For the past six years Behaviour & Attitudes has conducted a Business Confidence survey on a quarterly basis. A questionnaire has been developed for the business monitor which covers issues such as recent business results, projected employment levels, profit margins and expectations for the forthcoming year.
- The quarterly survey is conducted via telephone amongst a sample of 350 business owners/managers countrywide. The sample is drawn from a 'deduped' mix of reputable business listings including Bill Moss, Data Ireland, the Irish Times and Business & Finance Top 500 companies in Ireland.
- Interviewing was conducted through Behaviour & Attitudes Computer Aided Telephone Interviewing Unit (CATI) at Milltown House in Dublin. Interviews were conducted with the owner/chief executive of each selected company. Fieldwork on the project was conducted between 25th January and the 7th February, 2017. All interviewing was centrally supervised and quality control verification was conducted on 15% of interviews undertaken.
- A sample size of 350 yields a dataset which can be deemed to be accurate to within plus or minus five percentage points. The geographical locations and company size of those surveyed match those for the profile of the country as a whole.

# Foreword

**BDO IS DELIGHTED TO INTRODUCE THE BDO OPTIMISM INDEX FIGURES FOR THE FIRST QUARTER OF 2017. THE INDEX, A CONTINUOUS SURVEY CARRIED OUT FOR THE LAST SIX YEARS, TRACKS BUSINESS PERFORMANCE AND THE VIEWS OF BUSINESS LEADERS ACROSS IRELAND.**



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Despite indications that the UK's decision to leave the European Union will lead to a "hard" Brexit, the findings of this quarter's research shows that only 4% of Irish companies have sought external advice and support.

It is clear that larger companies are the most pro-active on Brexit with 13% of respondents in that category indicating they had sought external advice.

Despite low levels of businesses taking on Brexit advice, 28% of the respondents say it will have a negative impact on their future hiring plans. Again, larger companies are more likely to forecast a dip in hiring with 32% reporting that Brexit may dent their future hiring plans.

Business activity levels for Irish companies in 2016 continued to achieve higher or similar results to the same quarter of the previous year – an interesting response considering the political turmoil arising from the change in government and Brexit.

However, 18% of companies forecast lower business activity levels in the first quarter of 2017 which is the highest level of respondents to do so since 2013. This was particularly pronounced among exporters, with 23% of that category forecasting a first quarter dip in activity levels. That's the biggest dip in exporters' confidence since 2012 when Europe was in the midst of a crisis over Greek debt.

Employment levels continue to record modest growth with Mid/Large companies displaying a strong shift towards maintaining current levels.

One in five companies are now charging higher prices, the highest recorded since the survey began. This steady increase is evident across all the respondents, however there was a slowdown in Mid/Large companies and Dublin-based companies who reported a 12% and 11% decrease respectively in prices.

Reflecting the increase in pricing, 42% of Irish businesses reported higher profit levels in the fourth quarter of 2016. Operational profit levels are still strongest amongst Mid/Large companies and Dublin-based companies.

Optimism levels now stand at 66.7 which a slight decline from the same quarter of the previous year, 66.9%. With the ongoing discussions around Brexit, Trump and a possible change in Government, it will be interesting to see how businesses looking to grow respond to these external influencers.

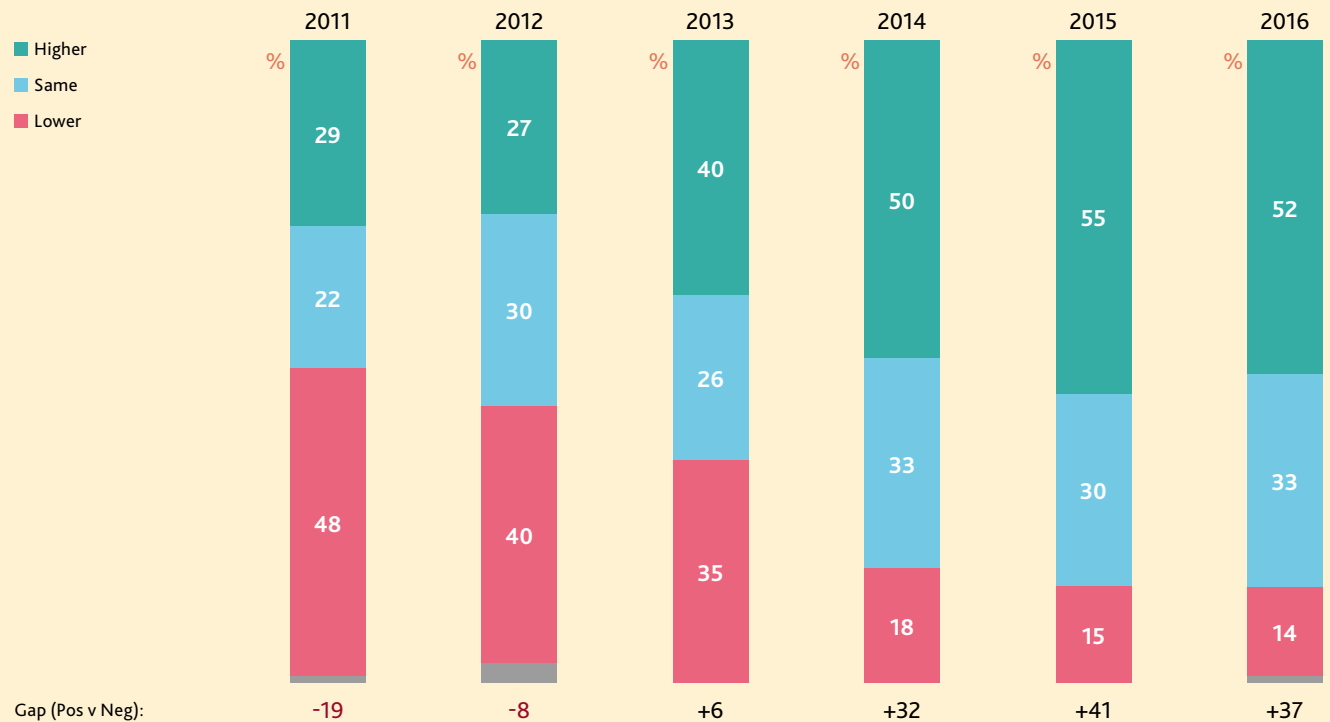


# Current business activity

# 1

## CURRENT BUSINESS ACTIVITY – TRADING ANALYSIS

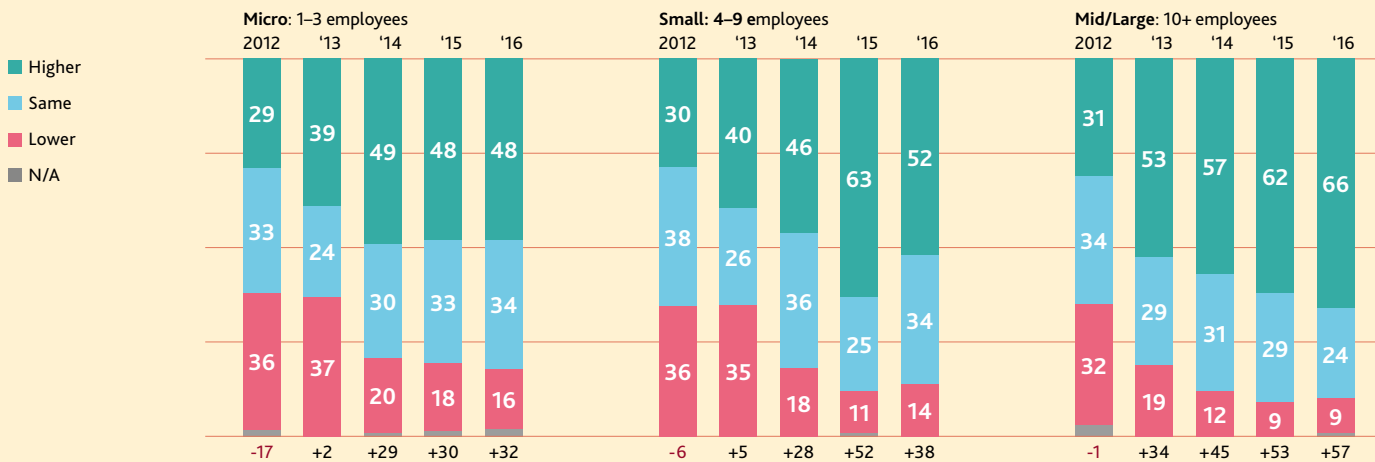
**QUESTION** Looking back, how has your business performed in the fourth quarter of this year. Were your results higher, lower or the same compared to the same period last year?



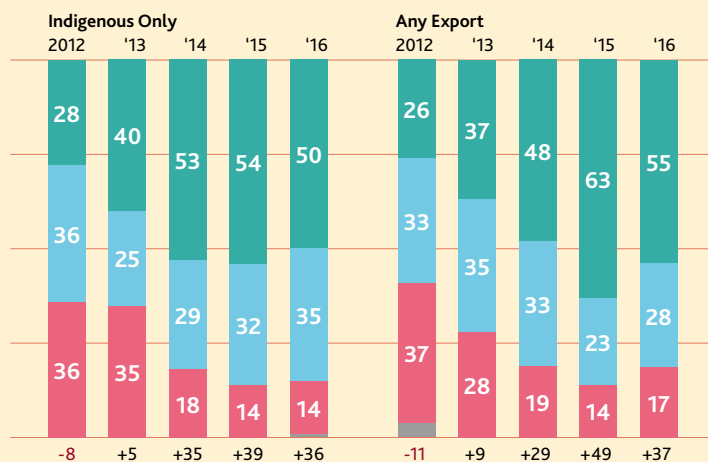
Fourth quarter of 2015 and 2016 compared with third quarters from previous years

## STEADY FOR MICRO COMPANIES WITH MID/LARGE IMPROVING YEAR-ON-YEAR

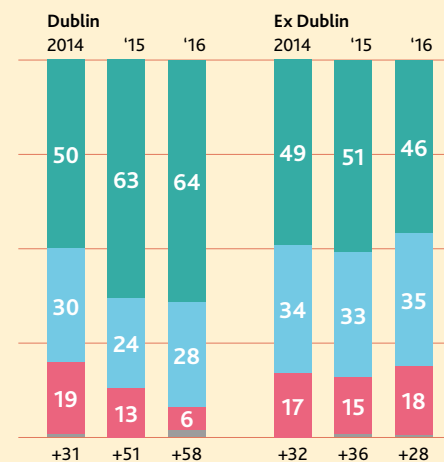
Responses per company size



Responses per trading behaviour



Responses by location



## The BDO View



from  
**Katharine  
Byrne**

Business activity levels for Irish companies continued to achieve similar results to 2015 despite the political turmoil arising from the change in government and Brexit.

Mid-Large businesses experienced improvements, with growth levels remaining steady for micro businesses. However the small companies were slightly down on prior years highlighting the impact of political uncertainty on businesses.

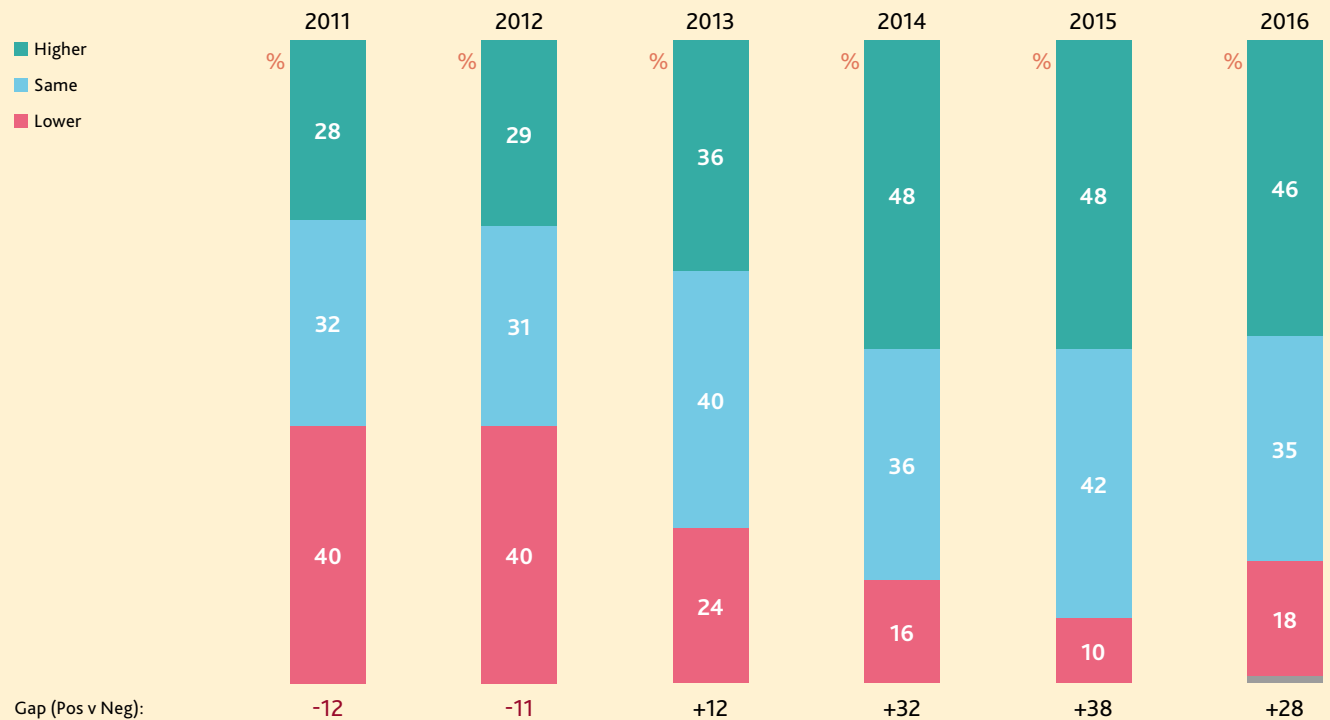
Unsurprisingly the Export companies suffered a decline in business activity as the likely effect of Brexit dominated discussions for the second half of the year.

# Projections for Q1 2017

# 2

## BUSINESS ACTIVITY LOOKING FORWARD

**QUESTION** Thinking ahead - could you tell me whether the results for the next quarter—January to March 2017—will be higher, lower or the same compared with the same period last year?

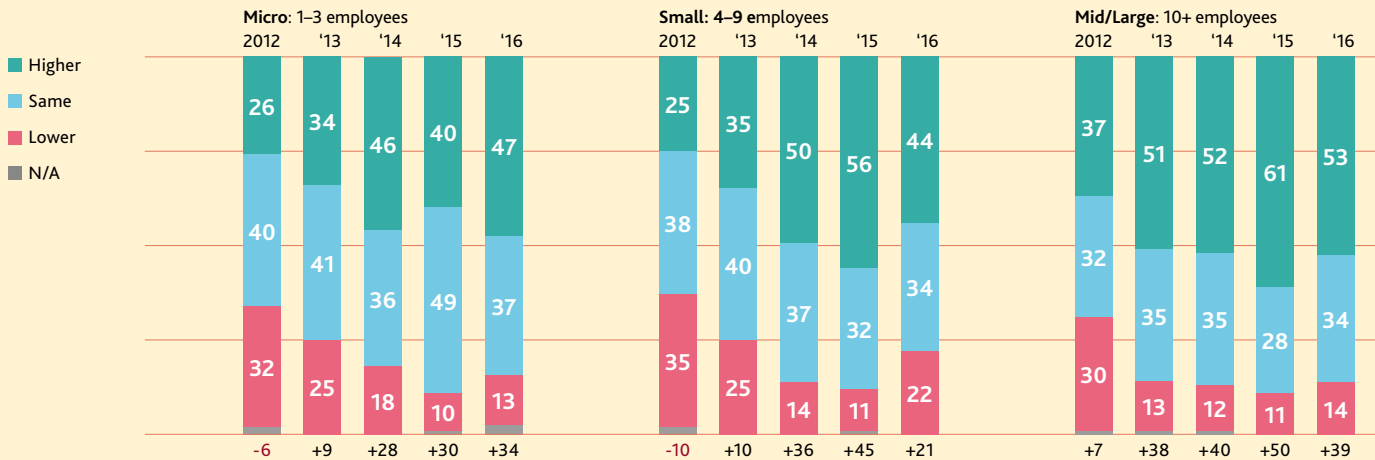


Fourth quarter of 2015 and 2016 compared with third quarters from previous years

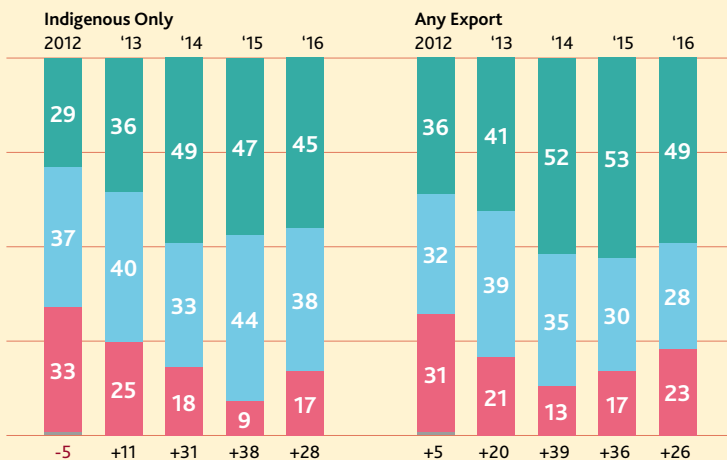


## SMALL AND MID/LARGE COMPANIES MORE CAUTIOUS

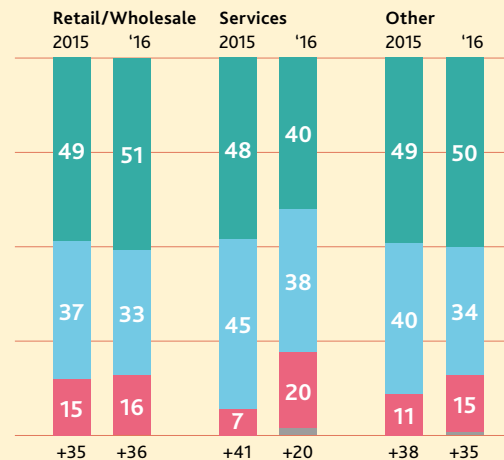
Responses per company size



Responses per trading behaviour



Responses per industry sector (fourth quarters)



## The BDO View



from  
**Katharine  
Byrne**

As markets adapt to the new norms, organisations are less optimistic about their Q1 projections when compared to last year, with nearly 18% expecting lower results. This increases to 23% for exporting firms.

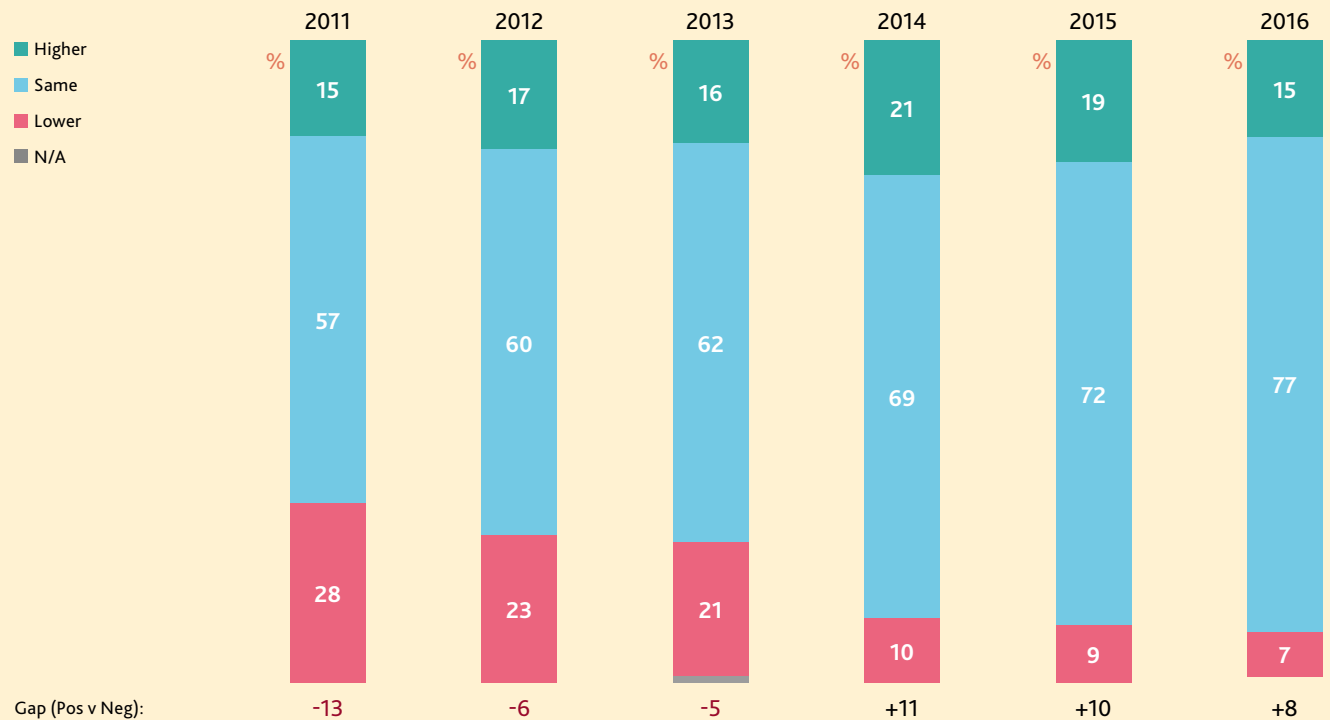
There was a pick-up in growth prospects for Retail & Wholesale sectors as consumer spend increased. However the service sector experience a drop in confidence with one in five service companies expecting lower results in Q1.

# Employment Levels

# 3

## EMPLOYMENT LEVELS COMPARED TO LAST YEAR

**QUESTION** Could you indicate whether your employment levels are higher, lower or the same compared with the last quarter of last year?



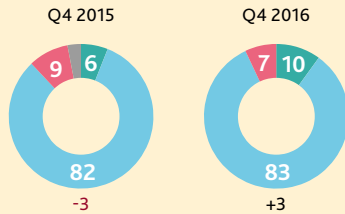
Fourth quarter of 2015 and 2016 compared with third quarters from previous years

## STRONG SHIFT TOWARDS MAINTAINING EMPLOYMENT LEVELS AMONGST MID/LARGE COMPANIES

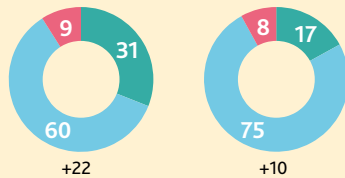
**QUESTION** Could you indicate whether your employments levels are higher, lower or the same compared with the fourth quarter of last year?

### Responses per company size

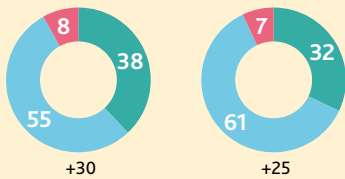
Micro: 1–3 employees



Small: 4–9 employees

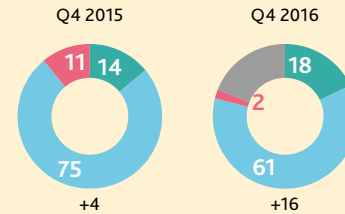


Mid/Large: 10+ employees

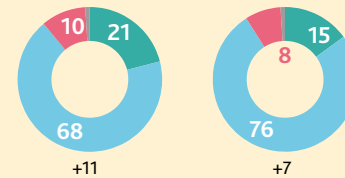


### Responses per industry sector

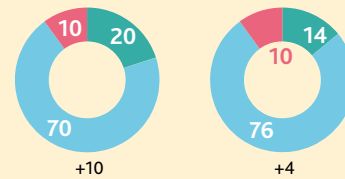
Retail/Wholesale



Services

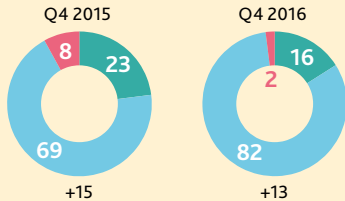


Other

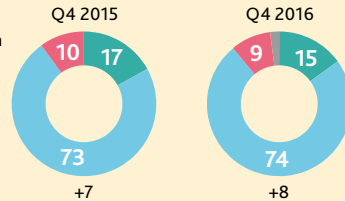


### Responses by location

Dublin



Ex Dublin



Q4 2015 compared with Q4 2016

## The BDO View



from  
**Katharine  
Byrne**

Employment levels are still in modest growth mode, with Retail & Wholesale Trade experiencing the highest growth rates.

Mid-Large companies are exercising more caution in growing employment levels, and Small companies are also registering quite a bit of caution now too.

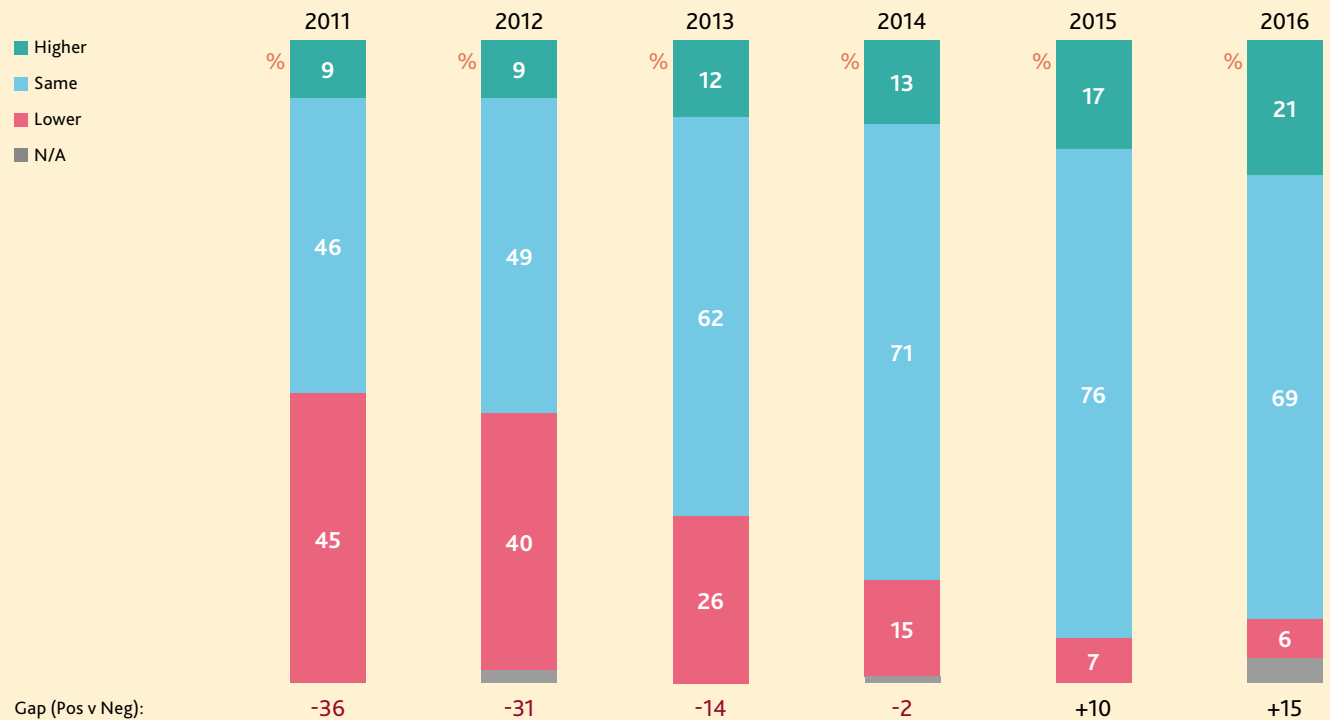
Katharine Byrne, Corporate Finance Partner

# Pricing

# 4

## PRICES CHARGED – ALL BUSINESSES

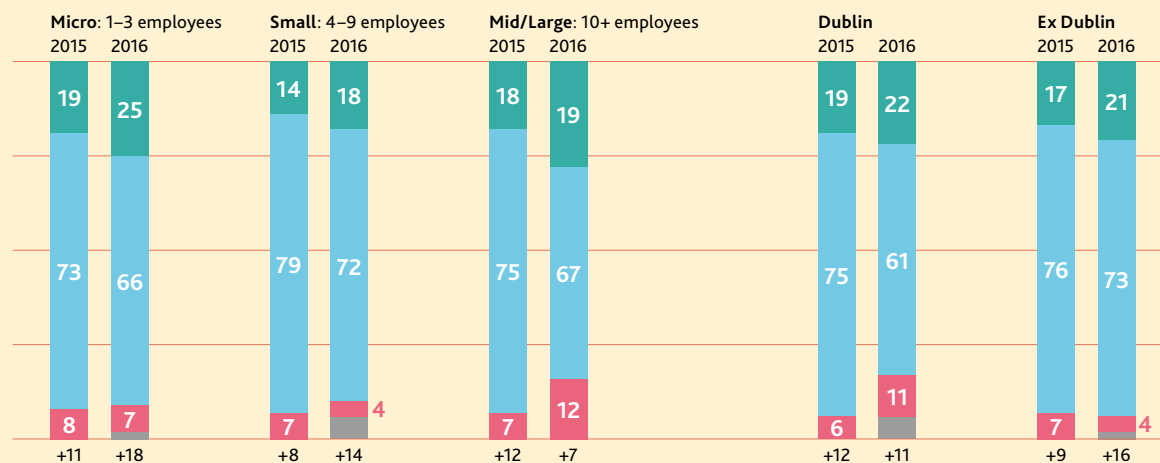
**QUESTION** Could you tell us whether prices charged are higher, lower or the same compared with the last quarter of last year?



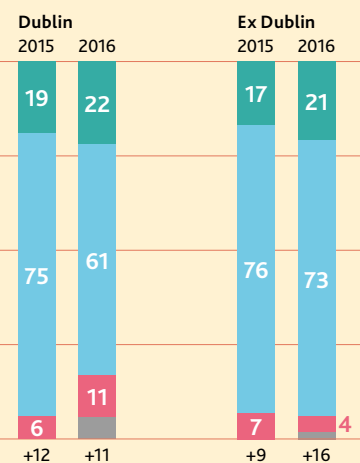
Fourth quarter of 2015 and 2016 compared with third quarters from previous years

Responses per company size

Higher  
Same  
Lower  
N/A



Responses by location



Q4 2015 compared with Q4 2016

## The BDO View



from  
**Katharine  
Byrne**

One in five companies are now charging higher prices, the highest recorded in six years since the survey began. This steady increase in pricing is evident across all size companies.

Despite the overall growth, there was a slow-down in Mid-large companies and Dublin firms as nearly 12% had to decrease prices in 2016.

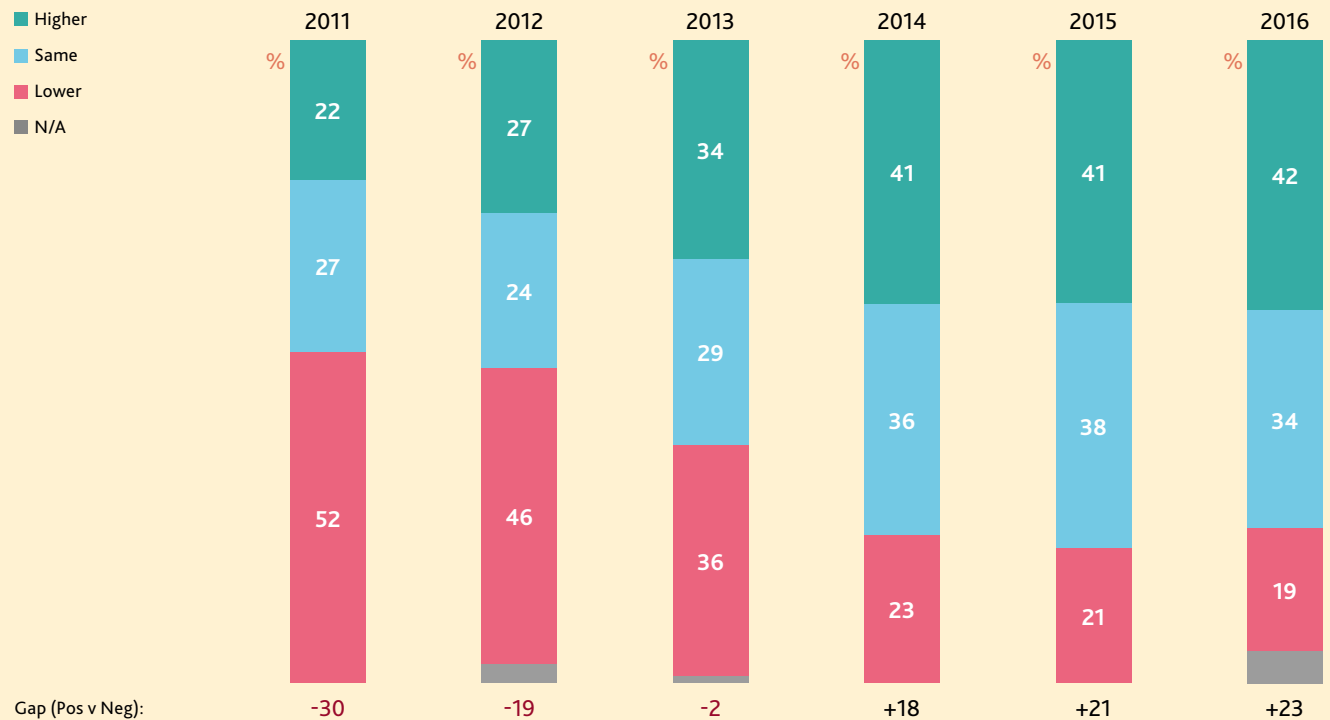
Katharine Byrne, Corporate Finance Partner

# Profits

# 5

## OPERATIONAL PROFIT – YEAR ON YEAR

**QUESTION** Could you tell us whether operational profit is higher, lower or the same compared with the last quarter of last year?

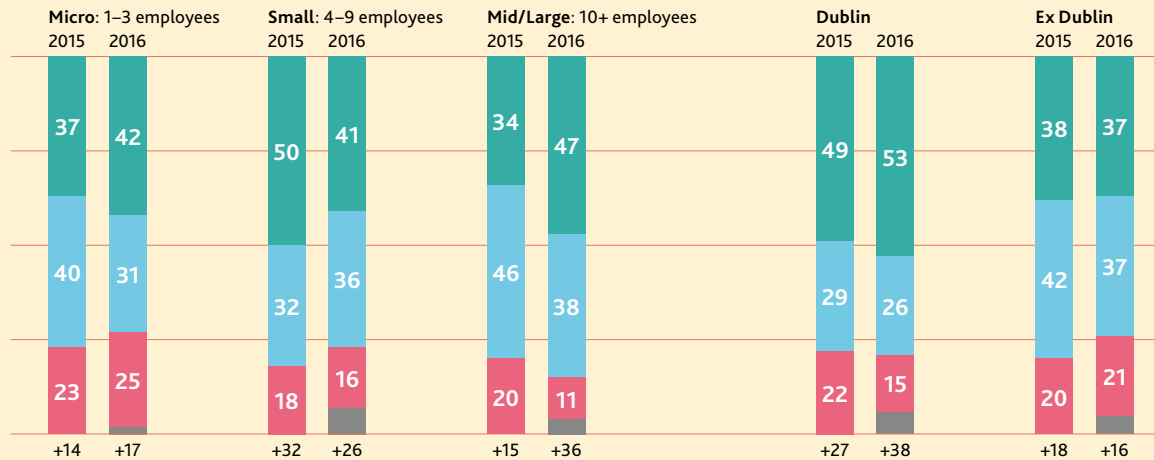


Fourth quarter of 2015 and 2016 compared with third quarters from previous years

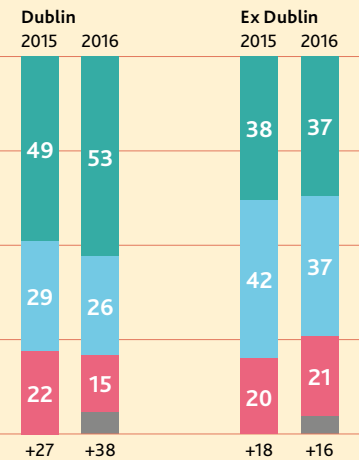
## THE LARGER THE ORGANISATION THE GREATER THE NET PROPORTION CLAIMING HIGHER PROFIT

Responses per company size

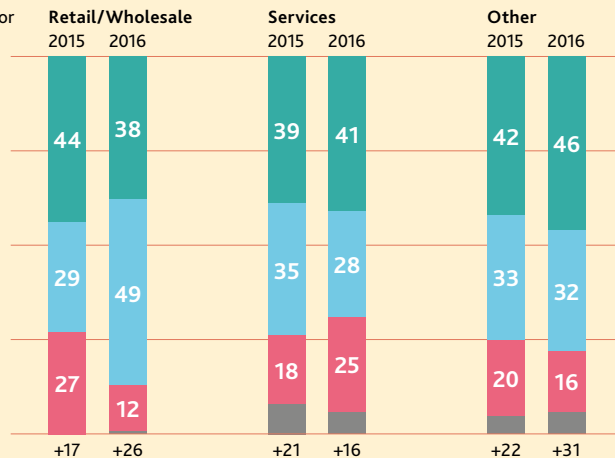
Higher  
Same  
Lower  
N/A



Responses by location



Responses by industry sector



Q4 2015 compared  
with Q4 2016

## The BDO View



from  
**Katharine  
Byrne**

The increase in pricing referred to in Section 4 is reflected in overall improved profitability with 42% of organisations achieving profit growth in 2016.

Operational profit levels are still strongest amongst Dublin companies and the Mid-Large firms with a significant improvement in Retail & Wholesale in the past year.

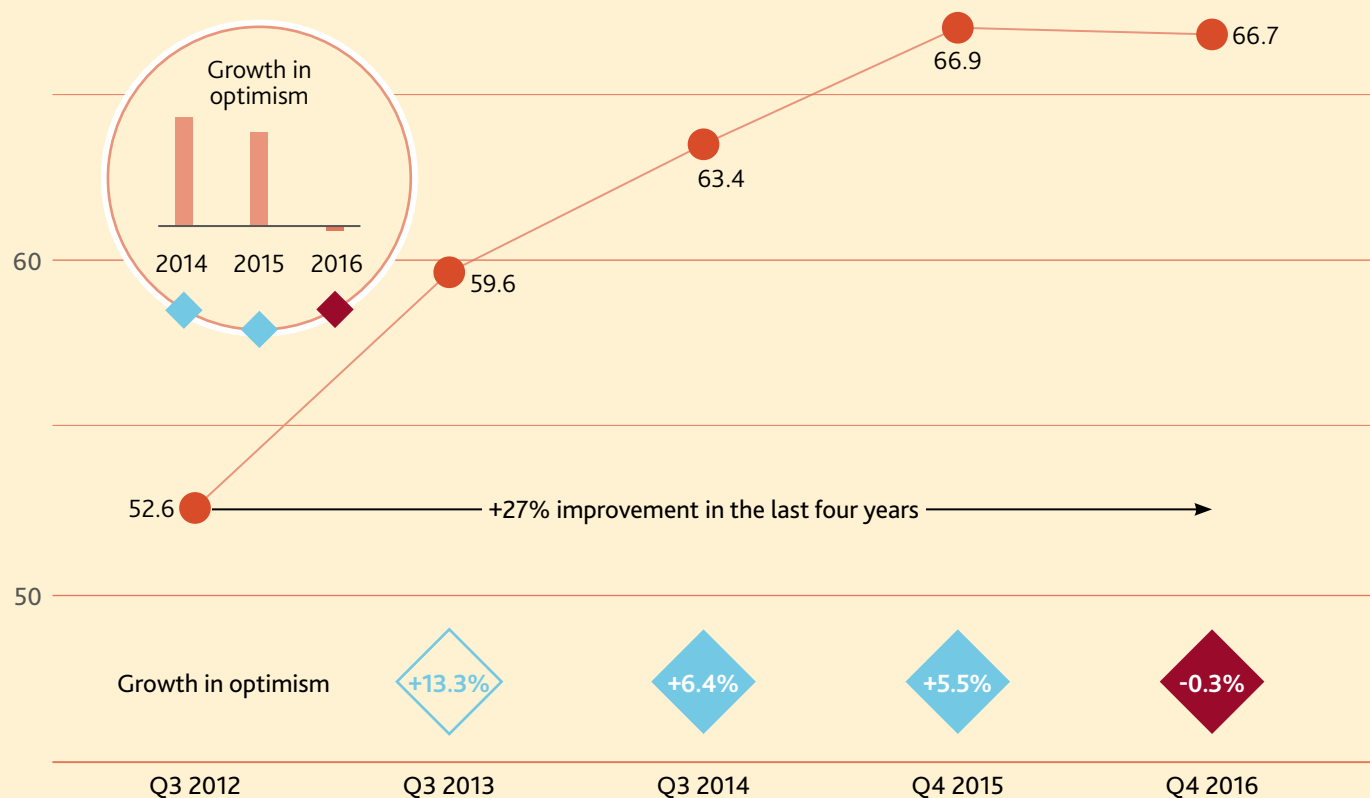
Katharine Byrne, Corporate Finance Partner

# Overall Optimism

# 6

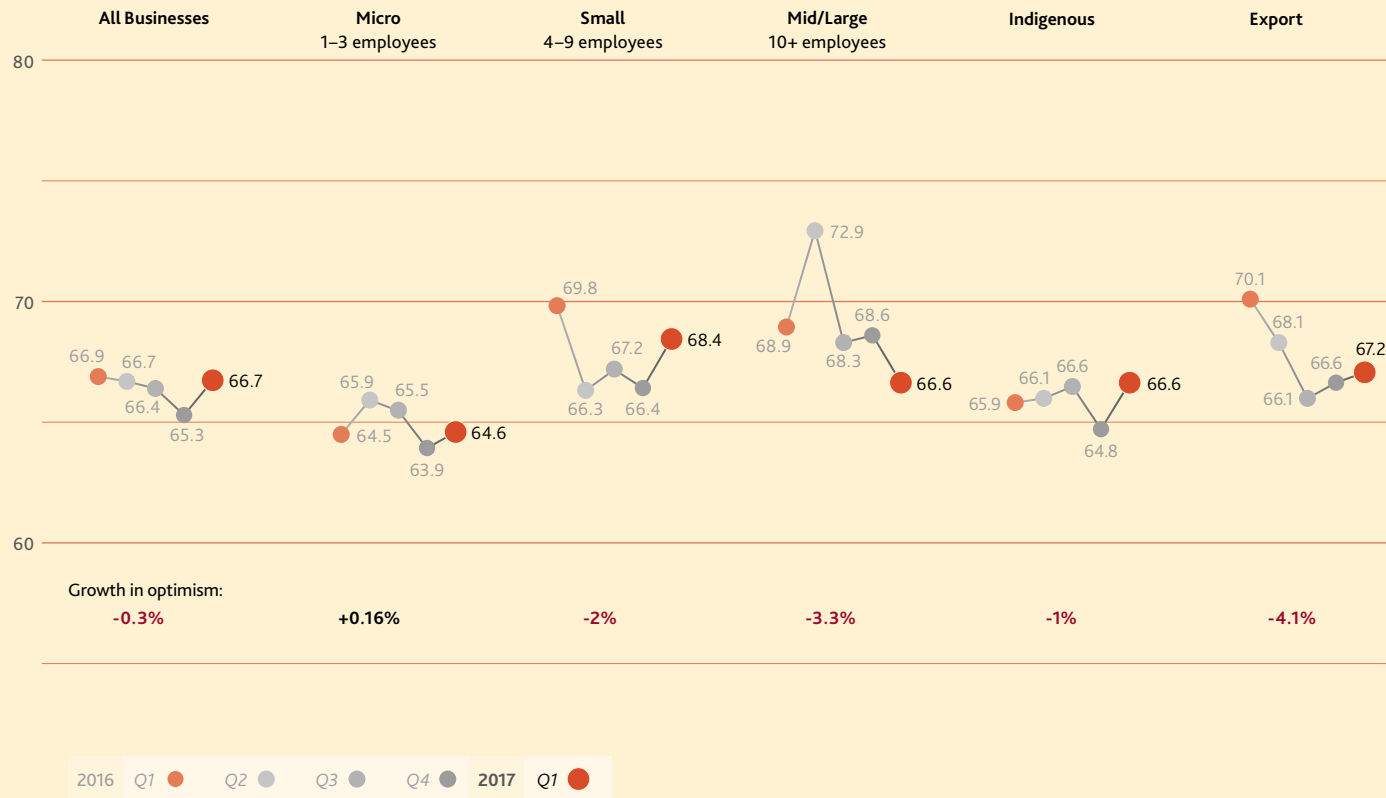
## BUSINESS ENVIRONMENT – OPTIMISM FOR THE REMAINDER OF 2016

**QUESTION** Looking forward, how optimistic are firms for a favourable business environment?



Fourth quarter of 2015 and 2016 compared with third quarters from previous years





## The BDO View



from  
**Katharine Byrne**

Overall optimism levels are static across the sectors with a slight decline amongst Mid-Large and Export firms as businesses adapt to the market volatility.

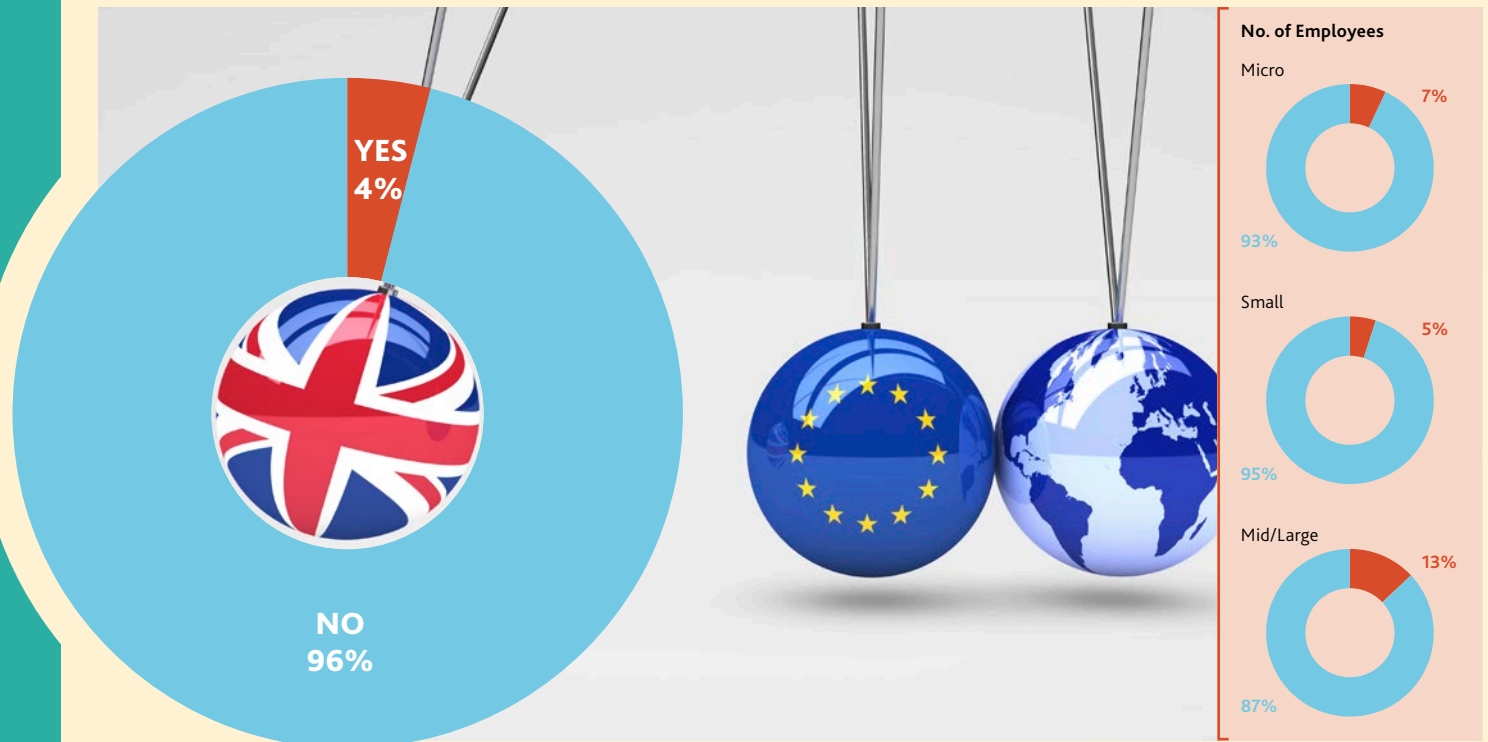
The ongoing discussions regarding Hard Brexit as well as the Trump effect and potential change in Irish government all combine to create a challenging environment for Irish businesses looking to grow.

# Impact of Brexit

# 7

## EXTERNAL SUPPORT REGARDING BREXIT MAINLY SOUGHT BY MID/LARGE ORGANISATIONS (ALBEIT ONLY 13%)

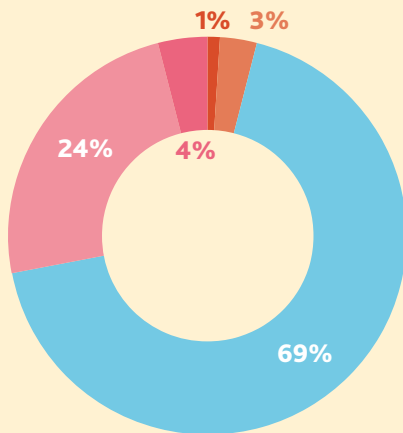
**QUESTION** Have you sought external support on how to address the challenges presented by Brexit?



## AFFECT OF BREXIT ON FUTURE HIRING

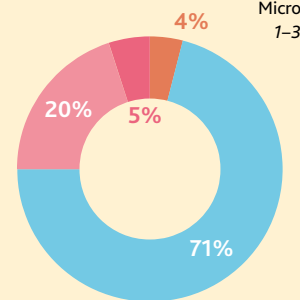
**QUESTION** Does Brexit affect your future hiring plans?

All Businesses

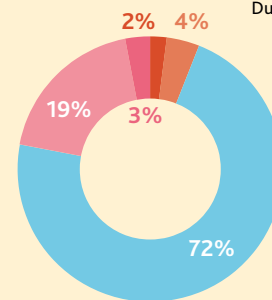


- Impacts positively a lot
- Impacts positively a little
- No impact at all
- Impacts negatively a little
- Impacts negatively a lot

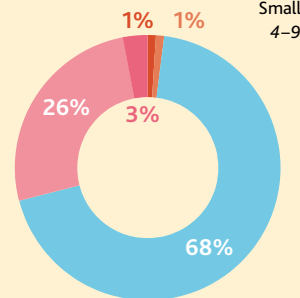
Number of Employees:  
Micro  
1-3



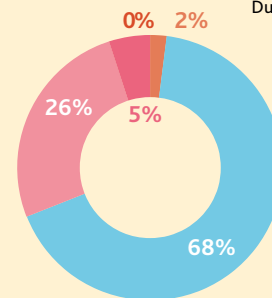
Region:  
Dublin



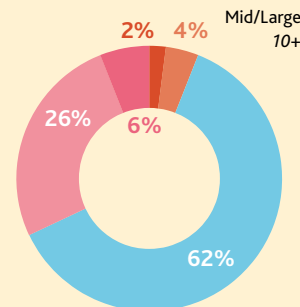
Small  
4-9



Outside  
Dublin



Mid/Large  
10+



## The BDO View



from Carol Lynch

With article 50 being triggered this month (and potentially less than two years before the UK leave the EU) it is worrying that so few companies are seeking external advice on how to navigate through the post Brexit years. There is a significant amount of work to be done on

reviewing supply chains, purchasing and sales contracts and factoring in additional customs duties and this should be now high on every company's agenda. Brexit represents the most important economic challenge faced by Ireland in decades and we would recommend all companies put in place a Brexit task force and seek specialist support and advice as necessary.

It is interesting that at this point 24-28% of companies feel that Brexit will have a slight to extremely negative impact on future hiring. This is before the full impact of Brexit is known with regard to availability of staff. With companies facing increased workloads in handling customs compliance and import VAT requirements and a lack of qualified or experienced staff available this will likely lead to further concerns in this area over the coming years.

Carol Lynch, Customs and International Trade Services Partner

# About BDO

BDO is one of Ireland's leading Audit, Tax and Advisory firms, specialising in advising businesses across all sectors, ranging from the development stage through to successful international growth. What unites all our clients is their ambition, and our drive to help deliver it.

Through our own professional expertise and by working directly with businesses, we have developed a unique insight into what makes a business successful. It is this insight that makes us true business advisers, rather than mere financial consultants.

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For more information please contact:  
Michael Costello, Managing Partner, on 01 470 0245, or [mcostello@bdo.ie](mailto:mcostello@bdo.ie)

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