BDO Optimism Index
Q2 2019
with Behaviour and Attitudes

BDO

B&A

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Research Methodology

- For the past seven 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 402 business owners/managers countrywide. These were weighted in line with the total size profile of all businesses. 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 20th July to the 7th August, 2019. All interviewing was centrally supervised and quality control verification was conducted on 15% of interviews undertaken.
- A sample size of 402 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 PLEASED TO SHARE THE FINDINGS FROM OUR LATEST QUARTERLY OPTIMISM INDEX. THIS INDEX IS A CONTINUOUS SURVEY CARRIED OUT FOR THE LAST EIGHT YEARS, TRACKING BUSINESS PERFORMANCE AND THE VIEWS OF BUSINESS LEADERS ACROSS IRELAND.

Michael Costello
Managing Partner
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This quarter's findings have made it evident that business confidence in Ireland has taken a significant hit in recent months. Overall optimism levels amongst Irish businesses have dropped by 11% compared to the same period last year. This declining rate of optimism is the lowest it has been since 2014. It is also worth noting that this is the largest decrease between the years 2012 and 2019.

In light of the recent change in UK leadership, our research has also found that a majority of Irish businesses (63%) believe that Brexit will have adverse consequences on their business. When we compare with our findings from the same quarter of 2016, just after the Brexit vote, only 34% of businesses carried this sentiment.

Businesses are reporting a decrease in higher levels of current business activity by 8% from the same quarter last year. There is very little difference in activity between indigenous only and exporting businesses.

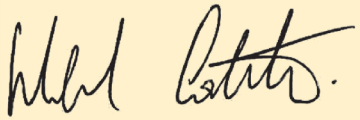
As business optimism reverts to levels similar to the end of the recession in 2014, business outlook for the following quarter is also seeing a decline. A quarter of Irish businesses are predicting lower levels of business activity compared to same quarter last year. This trend can be observed across both indigenous (25%) and exporting (19%) businesses and is evident across all businesses size surveyed.

Tying in with the lower levels of business activity and lower projections, operational profit is also under pressure. The number of business reporting higher levels of operational profits has decreased from 42% in 2018 to 29% in 2019. Last year, businesses in and out of Dublin reported the exact same levels of lower operational profit (17%). In 2019 the reported rate of lower operational profit for Dublin businesses has risen by 2% (19%), while for businesses outside of Dublin, this figure has risen by 7% (24%).

The overall trend towards higher prices continues into quarter. We have found that mid-sized businesses, businesses based outside Dublin and those in the retail and wholesale trade are the biggest contributors in driving this increase. The figures behind this trend show that nearly a third of Irish businesses are now charging higher prices than in the same quarter last year, an increase of 8%.

Levels of employment remain stable, with 75% of businesses maintaining the same staff numbers to the same quarter last year. Job employment growth in and out of Dublin levels remain static.

The results of the latest Index highlight the increasing levels of concern Irish-based businesses have about the impact Brexit will have on their business. We are advising clients to analyse their supply chains and business strategy, so they can isolate their exposure. Examining the supply chain to reduce the potential negative impact of Brexit on your business and alleviating costs associated with this are the first steps every business should make when examining the potential Brexit impact.

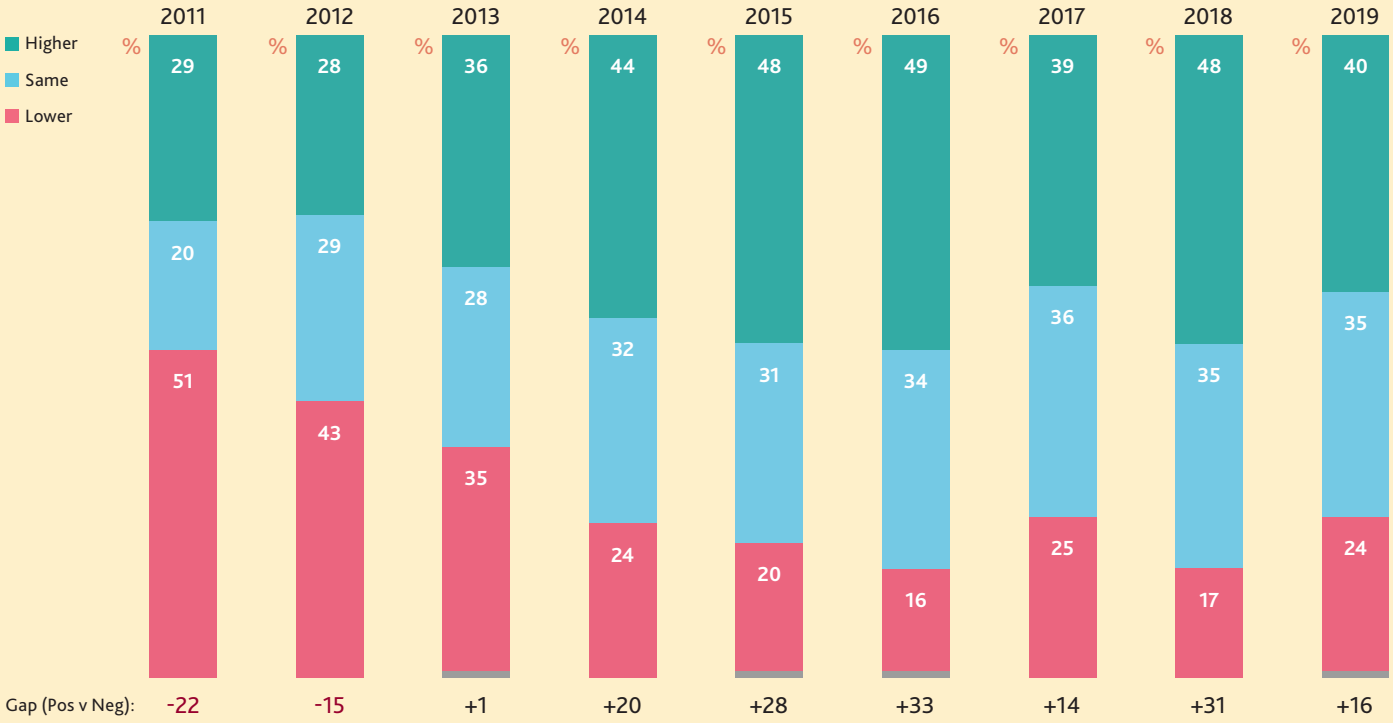


Current business activity

1

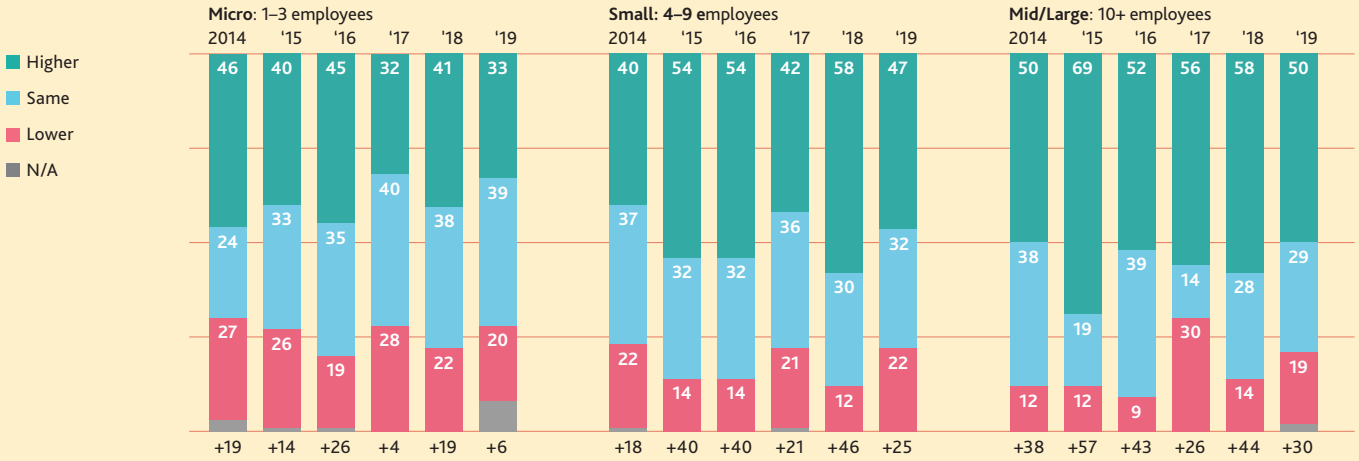
CURRENT BUSINESS ACTIVITY – TRADING ANALYSIS

QUESTION Looking back, how did your business perform, were your results higher, lower or the same compared to the same period of the previous years?

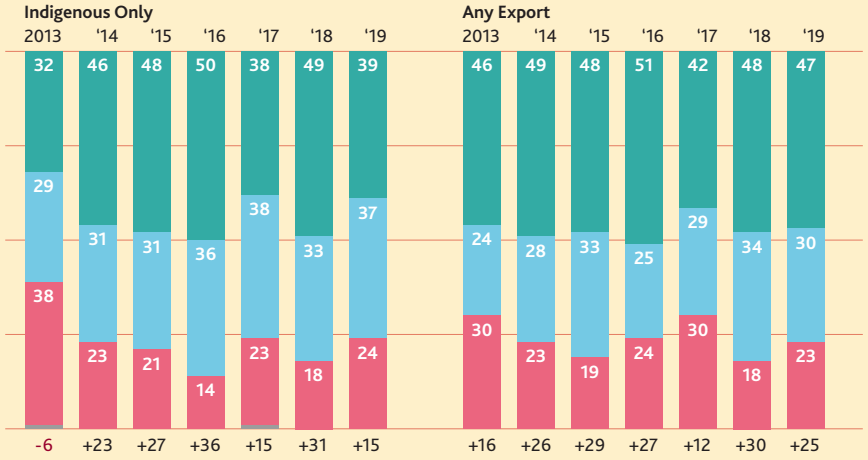


Projections compared with equivalent quarter from previous year

Responses per company size



Responses per trading behaviour



The BDO View

from **Katharine Byrne**

Looking back over the second quarter, challenges are evident in relation to current trading with decline in activity experienced across all company sizes. But despite the ongoing uncertainty with Brexit, businesses are still holding up relatively well with 40% of companies experiencing growth on last quarter.

There is very little difference in current activity between indigenous only and exporting companies with both reporting increased business.

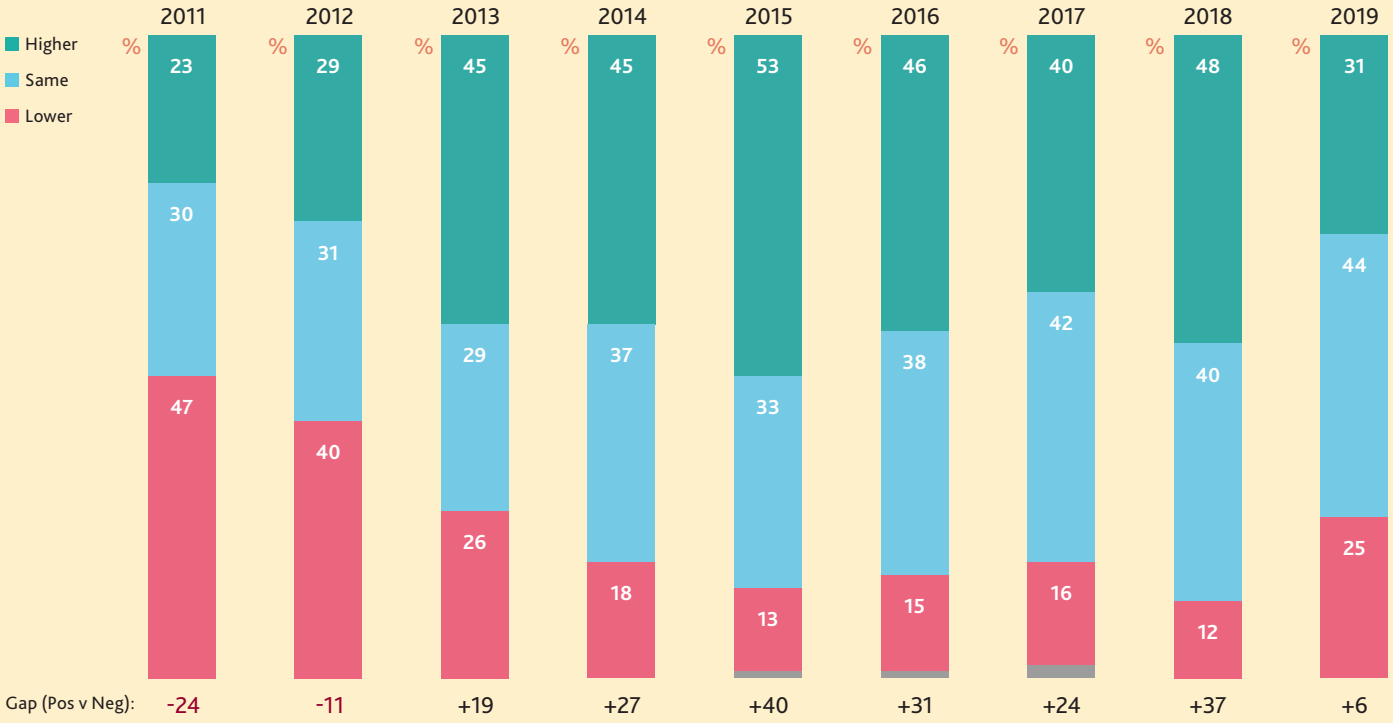
Katharine Byrne, Corporate Finance Partner

Projections for Q3 2019

2

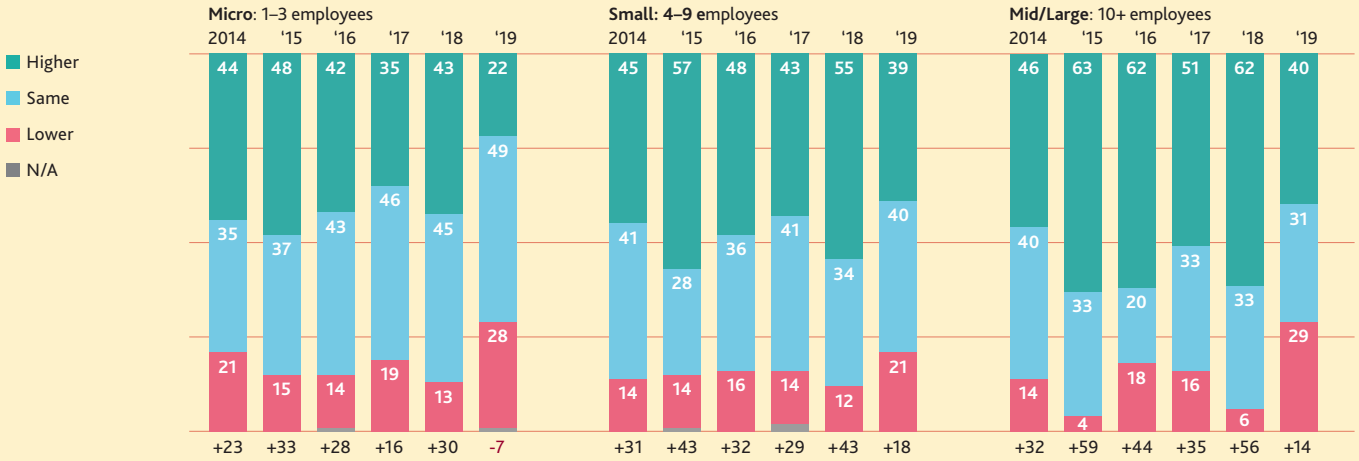
BUSINESS ACTIVITY LOOKING FORWARD

QUESTION Thinking ahead - could you tell me whether the results for the next quarter—September to October 2019—will be higher, lower or the same compared with the same period last year?

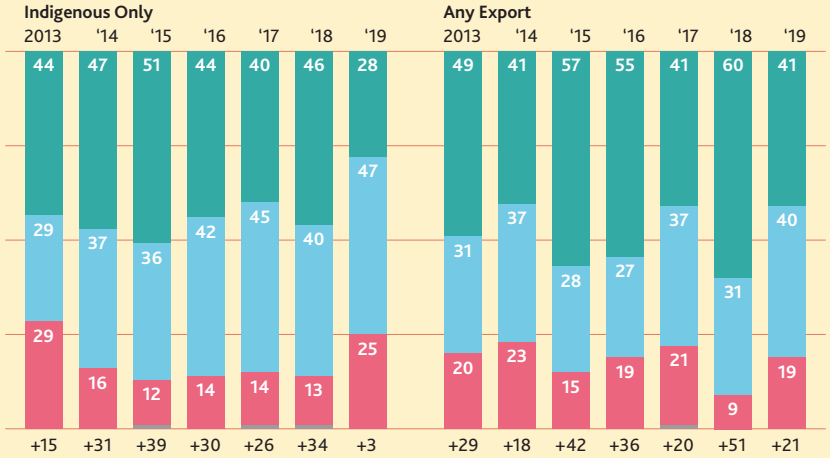


Projections compared with equivalent quarter from previous year

Responses per company size



Responses per trading behaviour



The BDO View

from **Katharine Byrne**

There has been a significant increase in negative sentiment in relation to next quarter with optimism levels reverting back to their lowest point in over five years as concerns in relation to Brexit are now coming to the fore with the change in UK leadership over the summer.

Micro companies are in negative territory now while over 30% of large businesses expect a deterioration in trading in the next quarter.

All industry sectors are under pressure since last quarter with the Indigenous companies only just in positive territory.

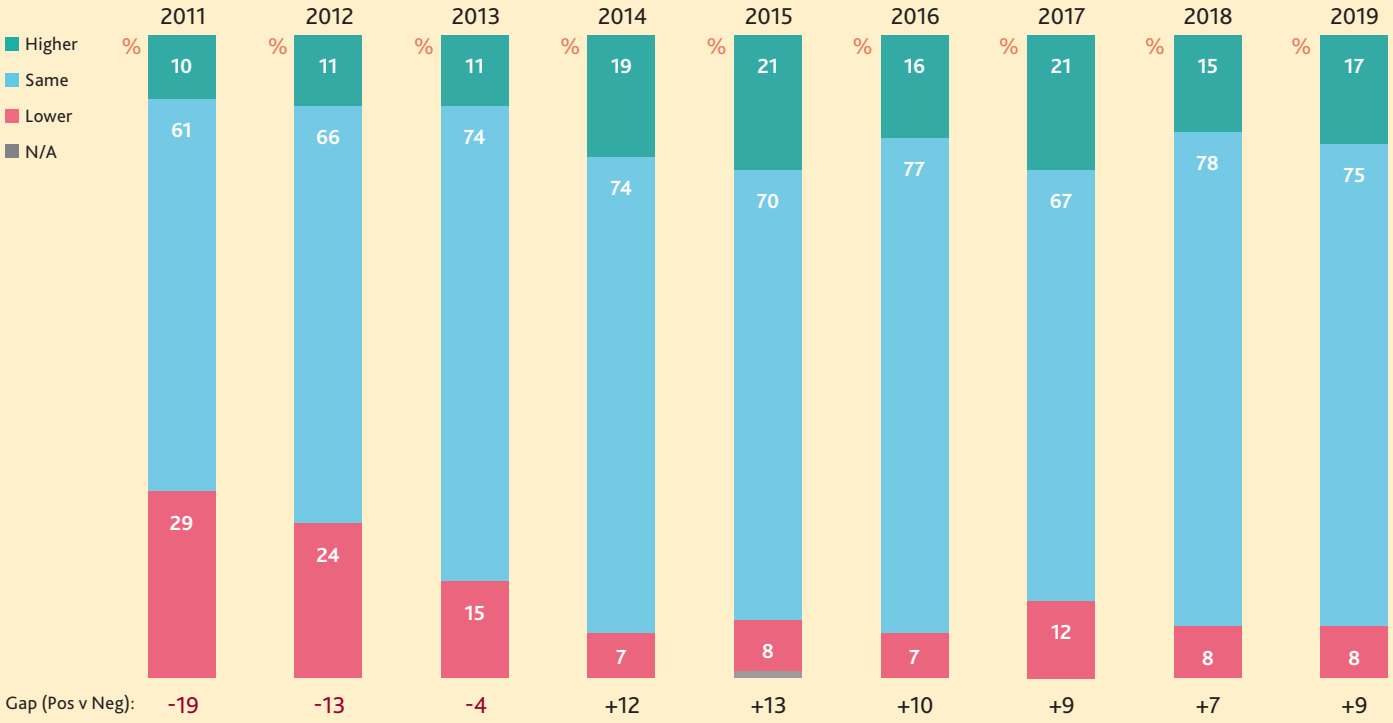
Katharine Byrne, Corporate Finance Partner

Employment Levels

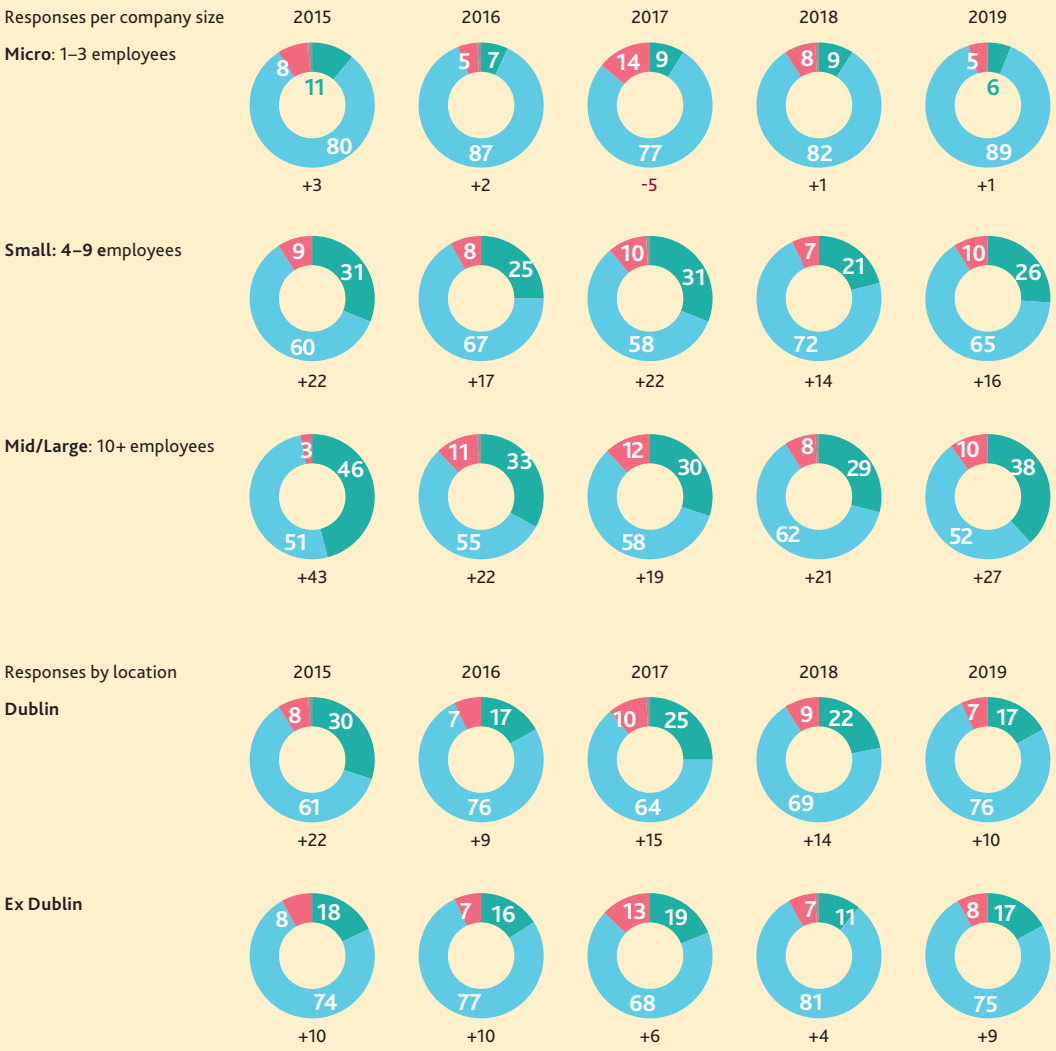
3

EMPLOYMENT LEVELS COMPARED TO LAST YEAR

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



Projections compared with equivalent quarter from previous year



The BDO View

from **Katharine Byrne**

The trend towards maintaining employment levels has continued although this is as much a reflection of limited availability of staff in a near full employed workforce.

Larger businesses are the most resilient when it comes to employment levels with 38% of large corporates increasing their staff numbers compared to 26% in medium sized businesses.

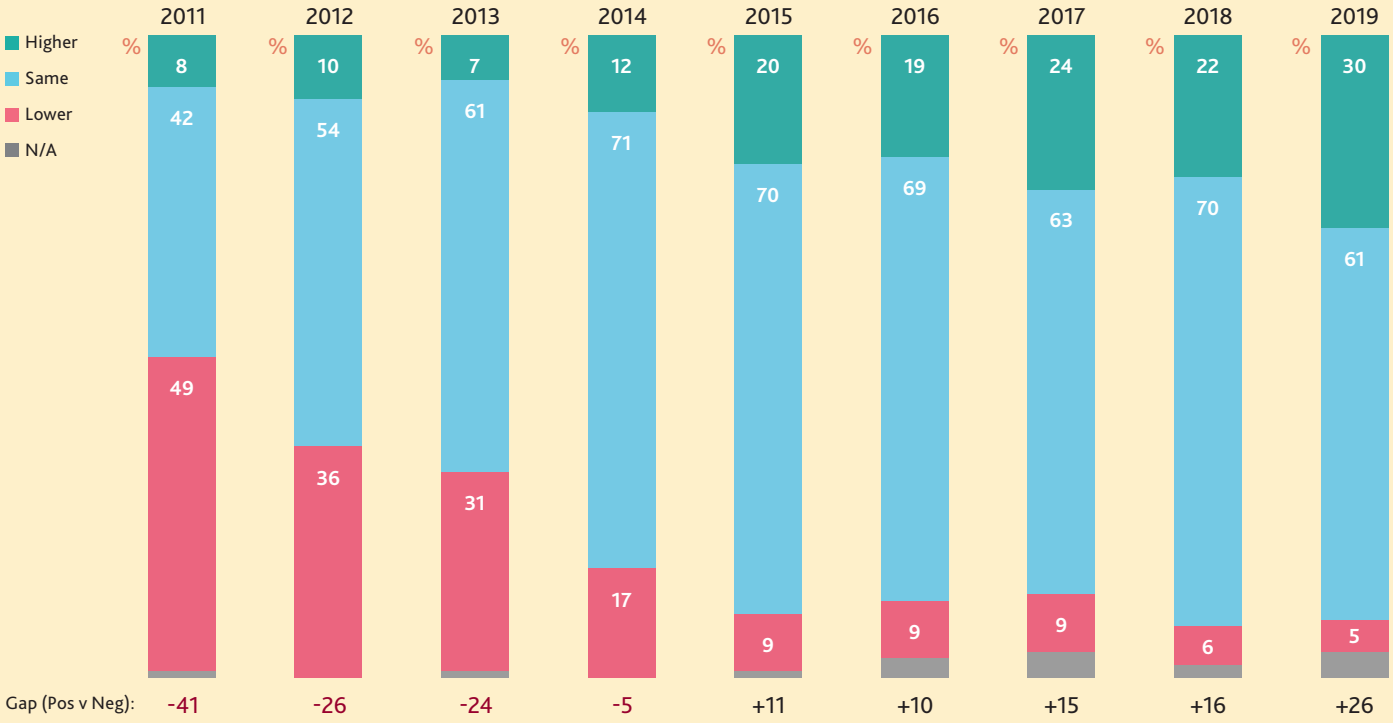
Katharine Byrne, *Corporate Finance Partner*

Pricing

4

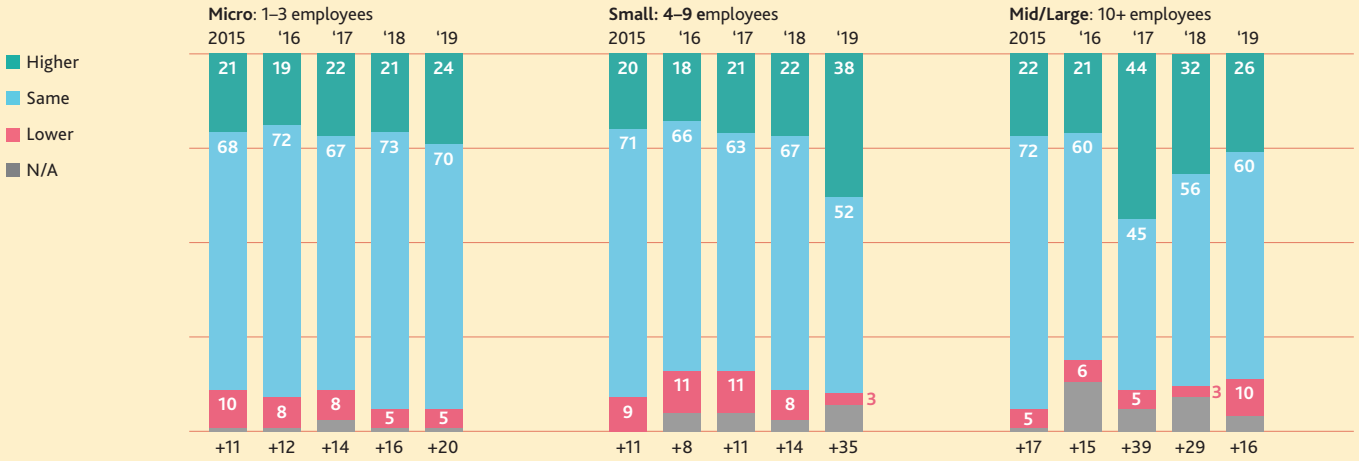
PRICES CHARGED – ALL BUSINESSES

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

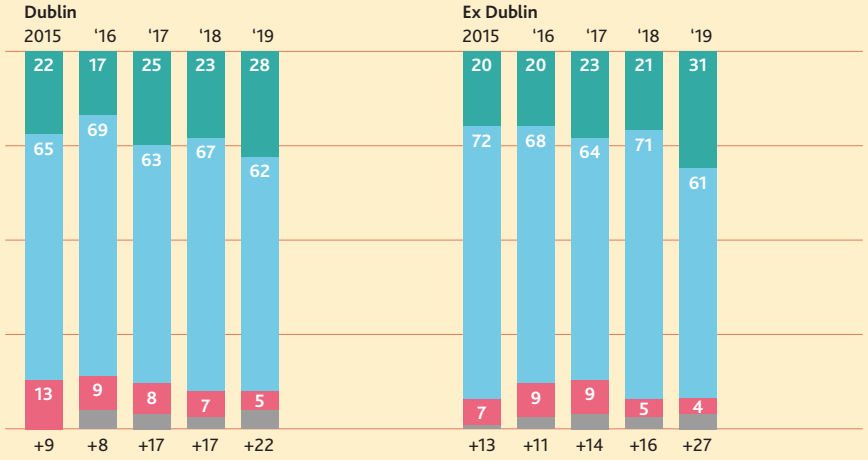


Projections compared with equivalent quarter from previous year

Responses per company size



Responses by location



The BDO View

from **Katharine Byrne**

"Despite the gloomy outlook, companies are still achieving price increases with Mid companies more likely to charge higher prices.

The increasing prices are encouraging for businesses to see the market is willing to pay for the right product / service, and is supporting companies invest in the sustainable growth of their businesses."

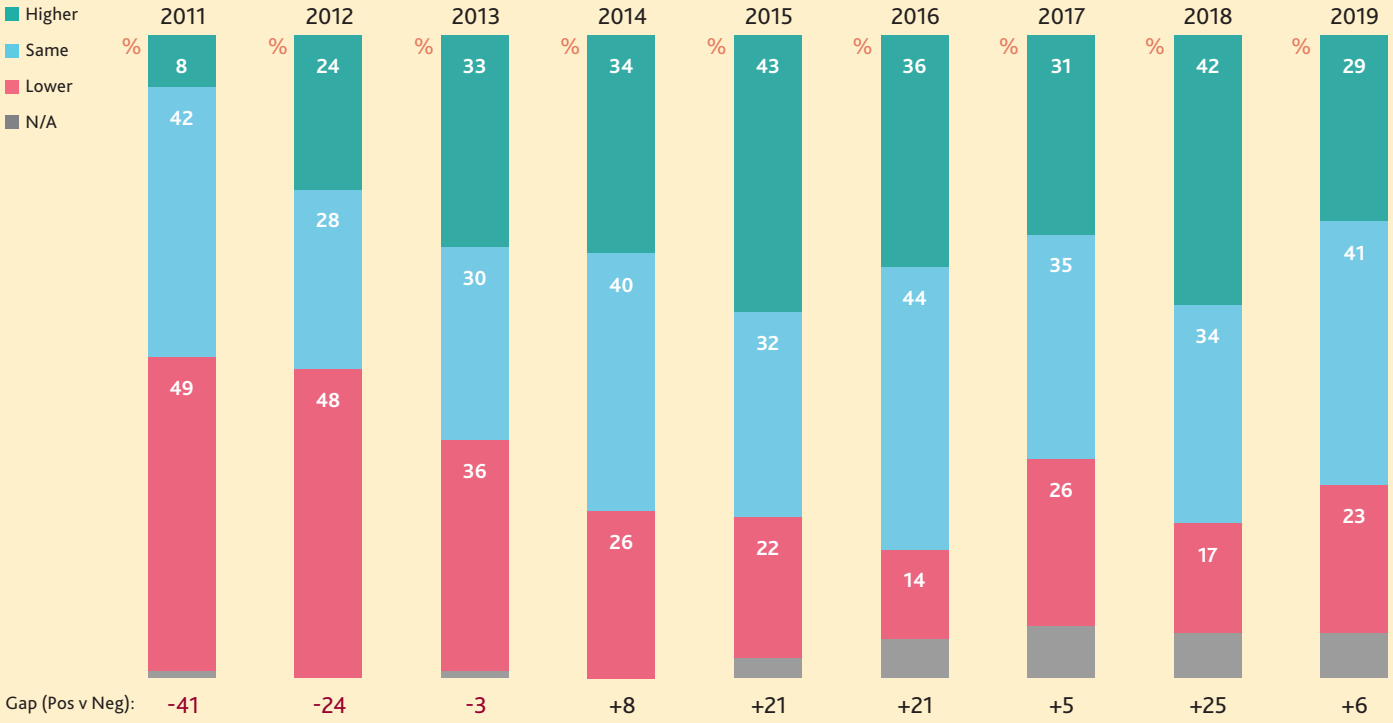
Katharine Byrne, Corporate Finance Partner

Profits

5

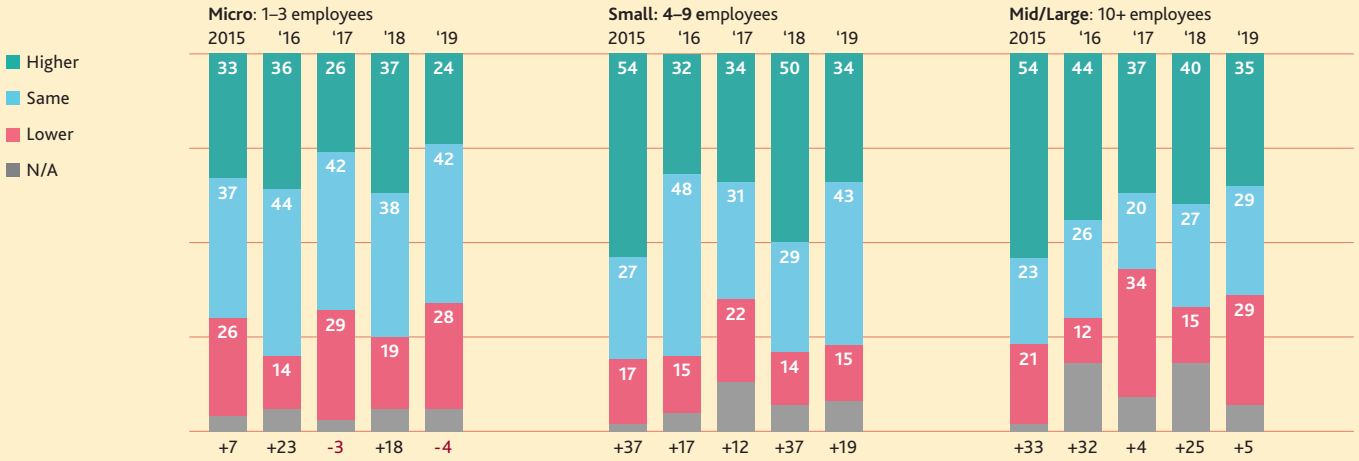
OPERATIONAL PROFIT – YEAR ON YEAR

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



Projections compared with equivalent quarter from previous year

Responses per company size



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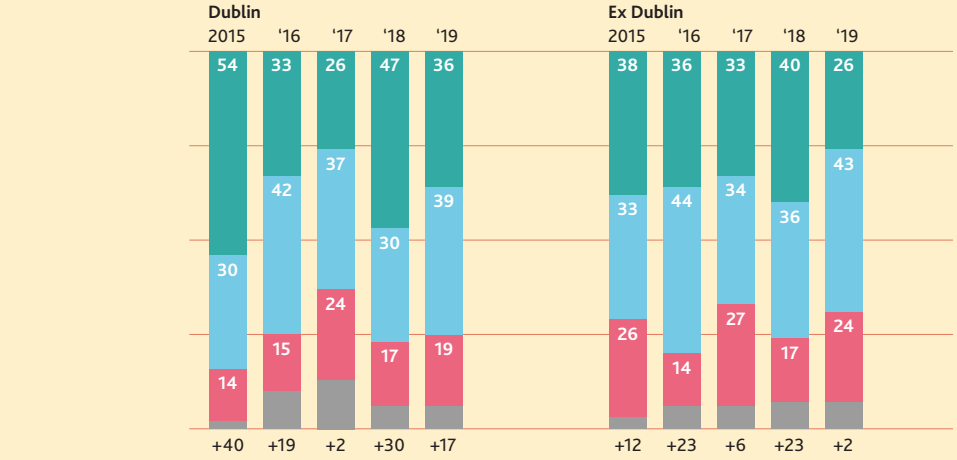


The BDO View

from **Katharine Byrne**

Despite increases in prices the level of profitability remains under pressure across all sectors and sizes.

Micro businesses are now in negative territory while large businesses are only just staying positive.

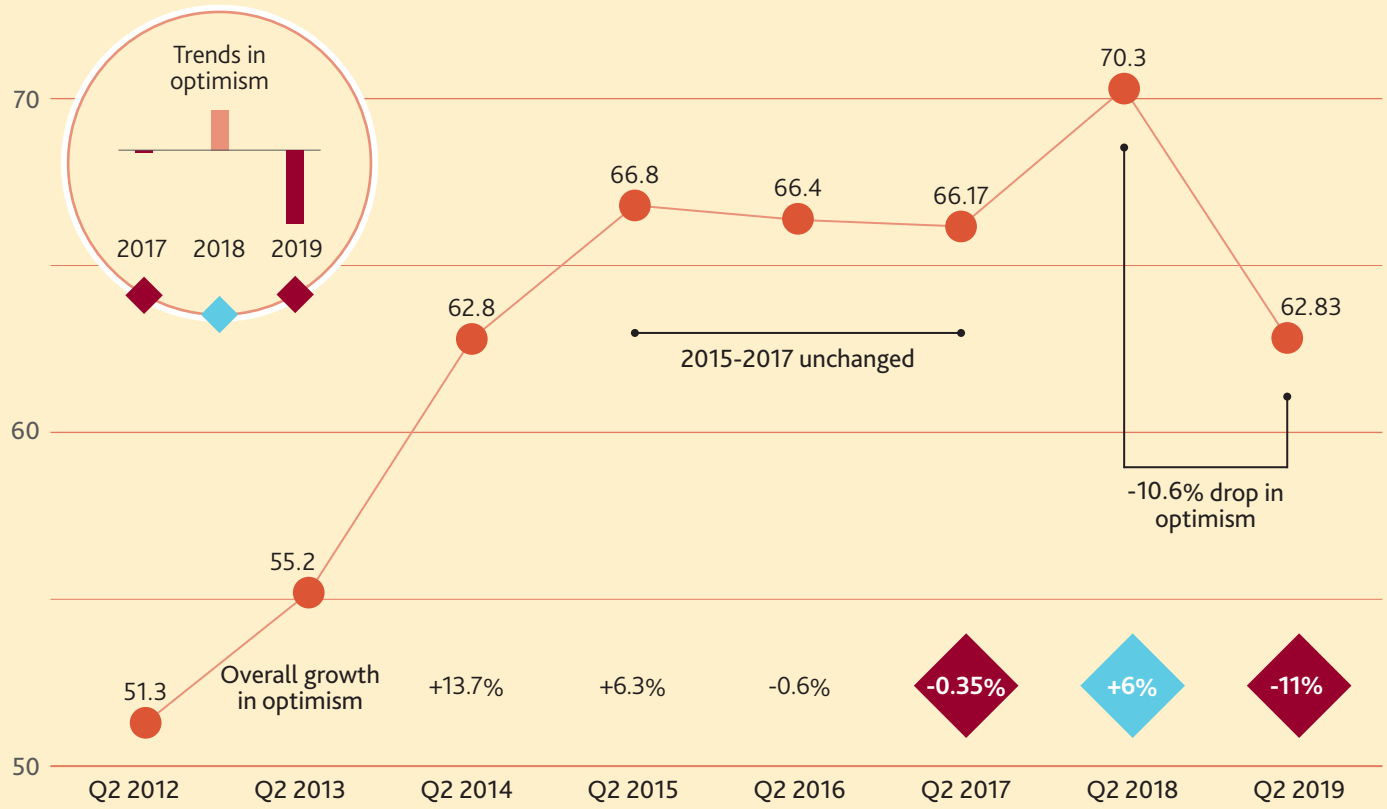
Katharine Byrne, Corporate Finance Partner

Trends in Optimism

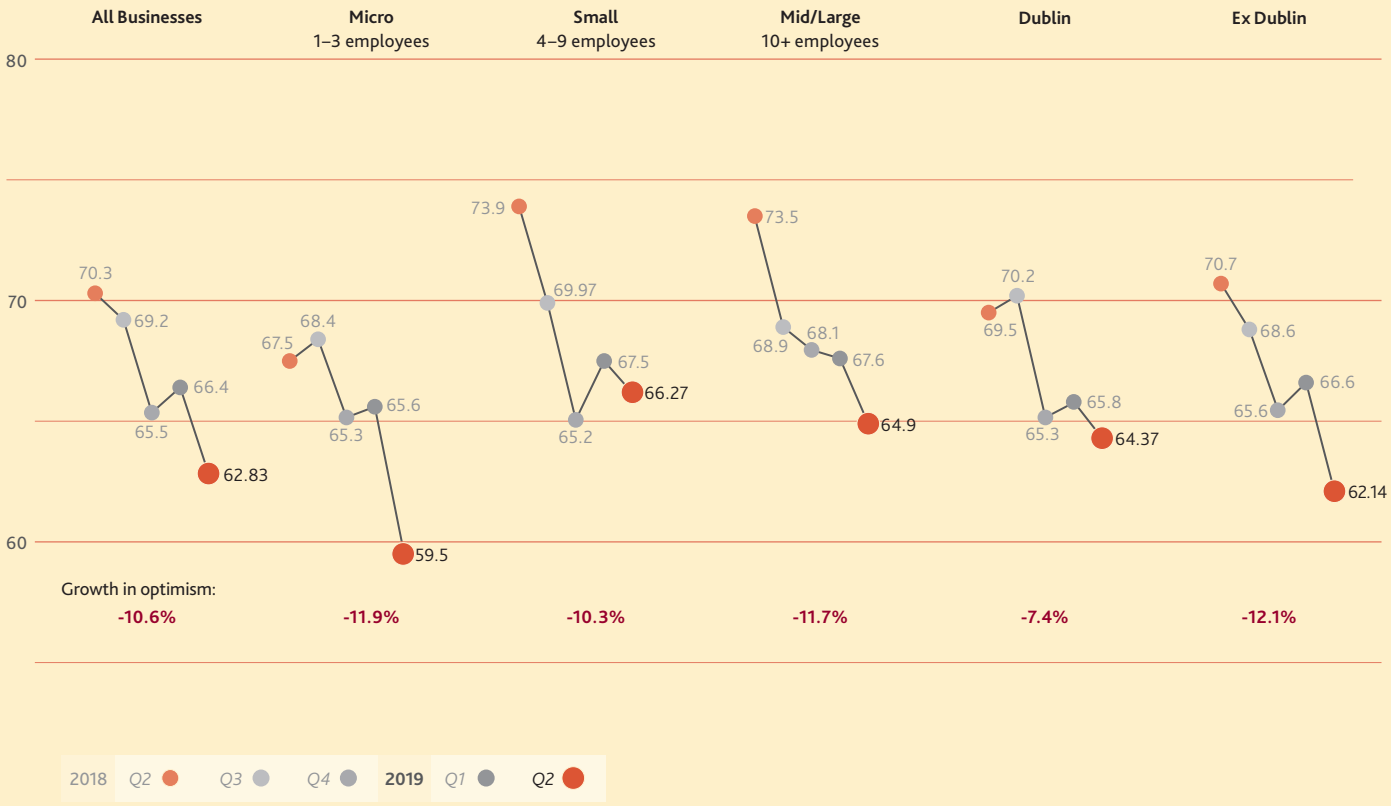
6

BUSINESS ENVIRONMENT – OPTIMISM FOR THE REMAINDER 2019

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



Projections compared with previous year



The BDO View

from **Katharine Byrne**

"Projected optimism in terms of looking forward to Quarter 3 has taken a serious dent and has now come back to levels previously seen in the early part of the decade. Small firms and indigenous only are the least positive in their outlook. The Optimism Index mirrors this with an 10.6 drop on this time last year slipping back to levels last seen in 2014."

Katharine Byrne, Corporate Finance Partner

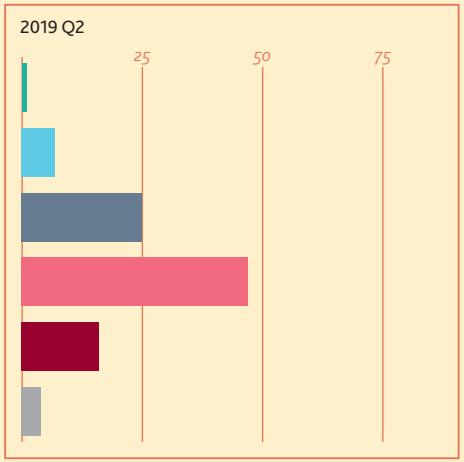
Brexit Impacts

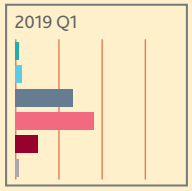
7

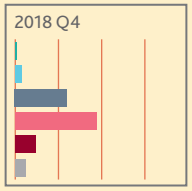
QUESTION How concerned, or not, are you about the possible impact on your business of a British exit from the European Union?

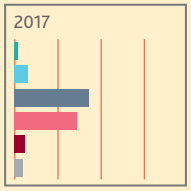
All Businesses

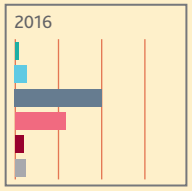
	2016	2017	2018 Q4	2019 Q1	2019 Q2
Positive Impact	2	2	1	2	**1**
Somewhat Positive	7	8	4	4	**7**
No Impact	50	43	30	33	**25**
Somewhat Negative	29	36	47	45	**47**
Very Negative	5	6	12	13	**16**
Don't know	6	5	6	2	**4**











The BDO View

from **Michael Costello**

Two thirds of businesses feel Brexit will have a negative impact on their business (nearly double the level seen right after the Brexit vote in 2016).

While the impact of Brexit is negative across the board but Retail & Wholesale businesses are emerging as being particularly negative.

Michael Costello, Managing 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.

We operate a partner-led approach in all our client dealings which ensures our partners and directors are highly accessible to clients. Each client is appointed a client liaison partner to oversee operations and communicate with you directly.

Dealing with BDO is different. Our approach is pragmatic and hands-on which ensures timely, straightforward advice. Our assignments are led by senior personnel with an in-depth understanding and knowledge of the market. This delivers high value for all our clients and practical solutions that are based on unrivalled sectoral experience and expertise.

For more information please contact:
Michael Costello, Managing Partner, on **01 470 0130,** or **mcostello@bdo.ie**

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They pride themselves on having the most experienced director team in Ireland. All projects have a Director involved.

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