

A long-exposure photograph of a city street at night. The street is filled with light trails from cars and buses, creating streaks of white, yellow, and red. In the center, a tall, silver, cylindrical column stands prominently. The surrounding buildings are lit up, with various signs visible, including 'VISIT' and 'HAPPY KING'. The overall atmosphere is vibrant and urban.

# BDO Optimism Index

## Q3 2016

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 21st the 31st July, 2016. 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 ONCE AGAIN DELIGHTED TO SHARE THE FINDINGS FROM OUR LATEST QUARTERLY OPTIMISM INDEX. 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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The findings of this quarter's research show that Ireland's economy and businesses are in a healthy state. Activity levels are continuing to increase and employment levels are holding steady. The survey indicates that the economic recovery has widened with businesses experiencing better stability than previous surveys.

Despite this, projections for third quarter activity fell for the first time since 2011. Some 46 percent of companies surveyed said they expected a higher level of activity in the third quarter, compared to 53 percent who projected higher levels of activity in the same period of 2015. That is the first anticipated quarterly fall since 2011. This sentiment is compounded by a rise in the number of companies predicting lower activity in the third

quarter, (15 percent vs 13 percent in the same period last year).

Among the larger companies surveyed, 18 percent forecast a fall in activity in the third quarter, compared to 4 percent who shared the same view for this period last year. However more than 60 percent of these companies still expect a higher level of activity in the third quarter in 2016. Exporters in particular are expecting a drop in business, compared with the indigenous businesses surveyed.

Second quarter employment levels remained broadly stable amongst the companies surveyed. Some 77 percent of companies said they employed the same number of people in the second quarter of 2016 as they did in the

same period last year and just 7 percent said they had fewer people on the payroll, compared to 8 percent who said that last year. Interestingly, retail sector employment levels are seeing positive movement.

Turning to price levels, there was a fall in the number of Dublin-based companies raising prices in the second quarter, with 17 percent saying they had increased prices in the period, compared to 22 percent who raised prices in the same period last year. There was also a sharp dip in the number of Dublin-based companies reporting an increase in operating profit, 33 percent in 2016 versus 54 percent in 2015.

Within this quarter we also addressed the issue of Brexit. A third of companies expect Brexit to have a negative impact on their business. Some 34 percent of companies said Brexit will have a 'somewhat negative' or 'very negative' impact on their trading, with 50 percent saying it will not impact them and 9 percent expecting a boost from the UK's decision to leave the European Union. Unsurprisingly, exporters believe they will be most adversely affected by Brexit.

Finally looking at optimism levels in business activity, the overall optimism figure is in line with the previous quarter falling slightly to 66.4 points (from 66.8 points) for the quarter. Clearly Brexit has created uncertainty for businesses not only in Ireland and the U.K., but across Europe and indeed globally. This uncertainty is prompting companies to downgrade their forecasts for activity going forward and given the fact that the UK is our largest trading partner, that is not surprising. What is certain is that Brexit will be a drawn-out process and while there will be some risks, there will also be opportunities for growth and preparation is key.

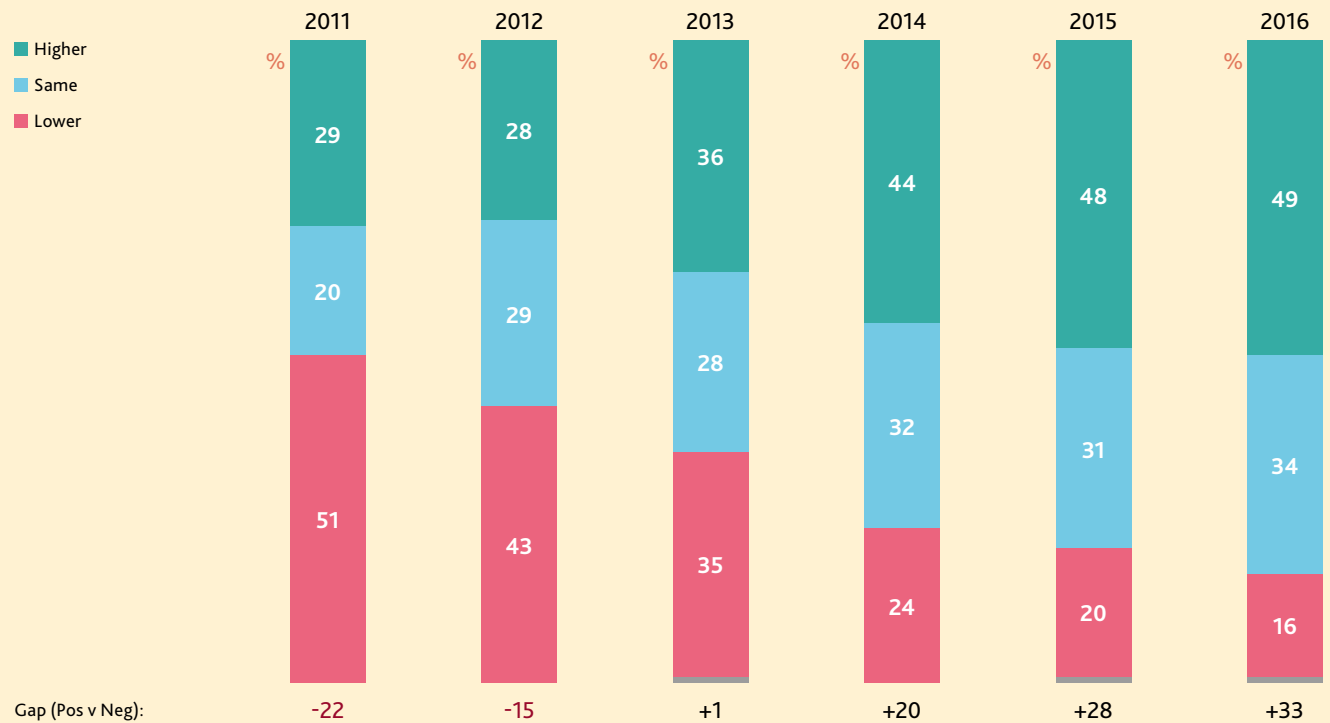


# Current business activity

# 1

## CURRENT BUSINESS ACTIVITY – TRADING ANALYSIS

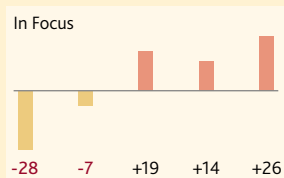
**QUESTION** Looking back, how has your business performed in the second quarter of this year – from April to June. Were your results higher, lower or the same compared to the same period last year?



The positive confidence shift has continued though there are some signs of it slowing down.

Second quarter compared with second quarter from previous year

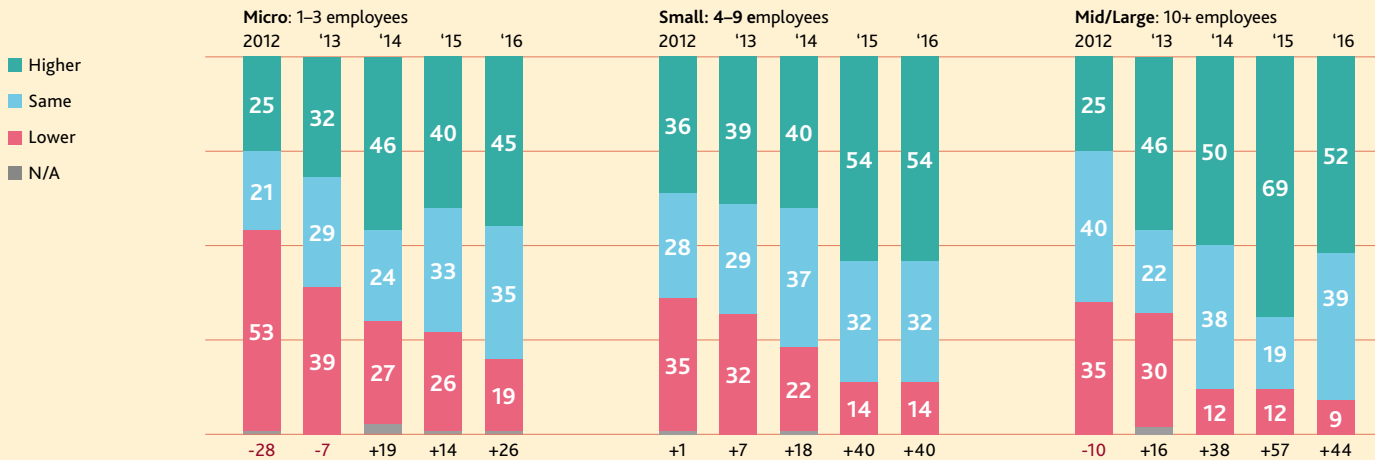




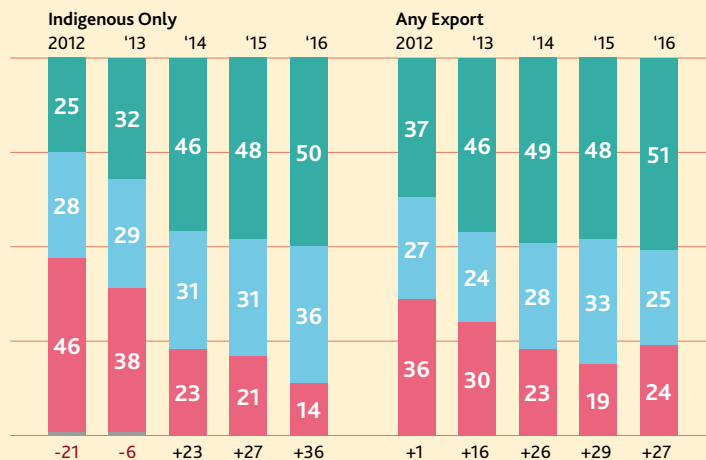
### MICRO COMPANIES HAVE EXPERIENCED A BIG IMPROVEMENT, LARGER COMPANIES ACTIVITY HAS REVERTED BACK TO MORE TYPICAL LEVELS

Indigenous companies continue to experience better trading conditions, with little change evident amongst exporters.

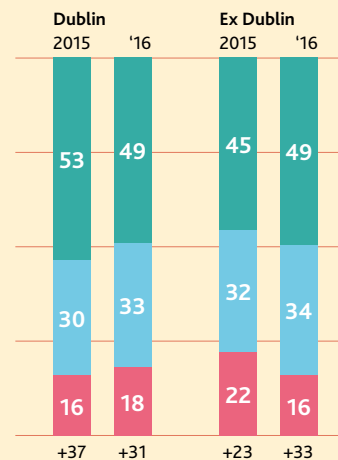
Responses per company size



Responses per trading behaviour



Responses by location



## The BDO View



from Con Quigley

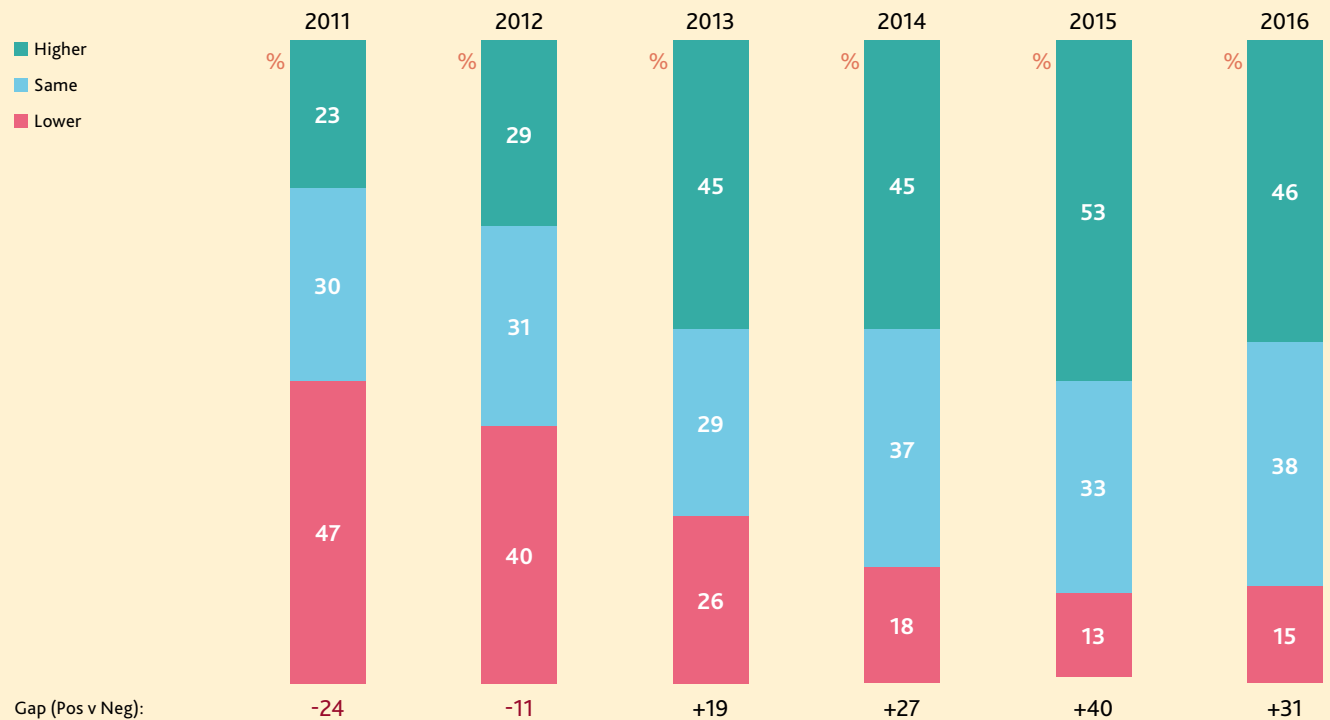
On average, businesses felt their activities performed better in April to June 2016 than the same period last year. However, there has been an increase in the number of larger businesses and Dublin-based businesses reporting a reduction in business activity – albeit still a small proportion. Overall, the feedback indicates that the recovery is widening as each group has experienced some recent stability.

# Projections for Q3 2016

# 2

## BUSINESS ACTIVITY LOOKING FORWARD

**QUESTION** Thinking ahead - could you tell me whether the results for the next quarter (Sept. to Oct. 2016) will be higher, lower or the same compared with the same period last year?



There is a greater degree of nervousness amongst the business community looking forward to Quarter Three.

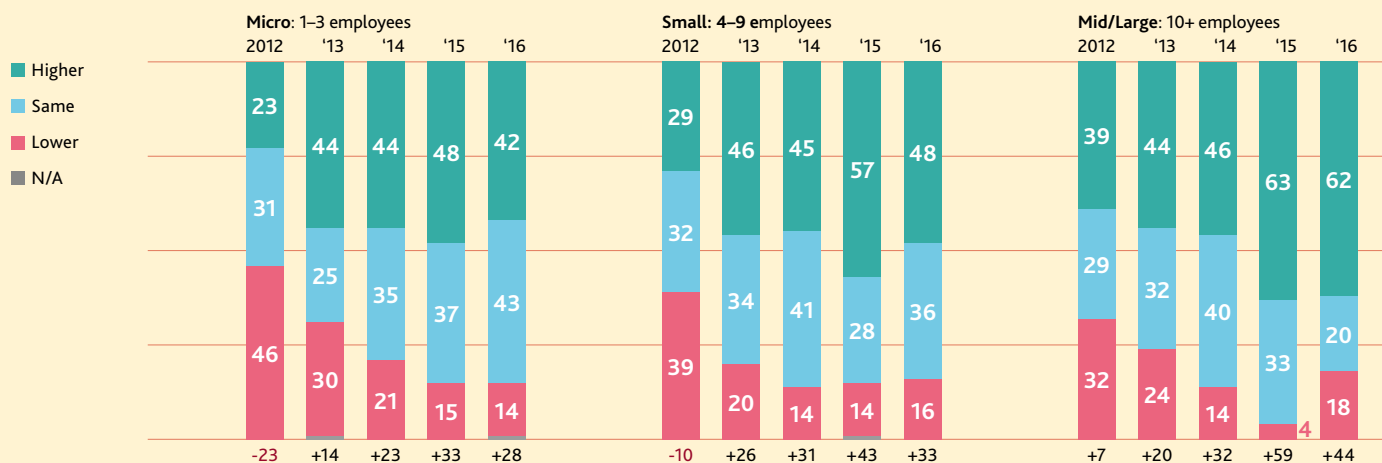
Projections compared to the equivalent quarter from previous year



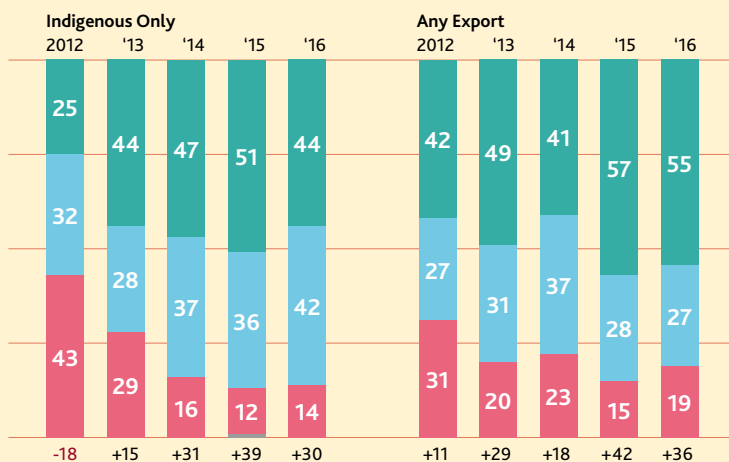
## SMALL AND LARGE COMPANIES HAVE EXPERIENCED THE BIGGEST DROP ON LAST YEAR

Greater negativity is creeping in, particularly amongst exporters.

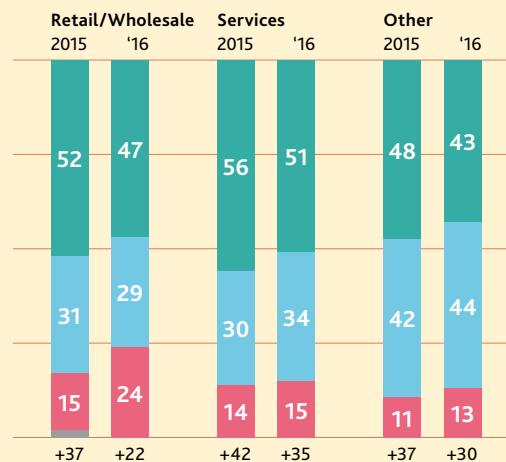
Responses per company size



Responses per trading behaviour



Responses per industry sector



## The BDO View



from Con Quigley

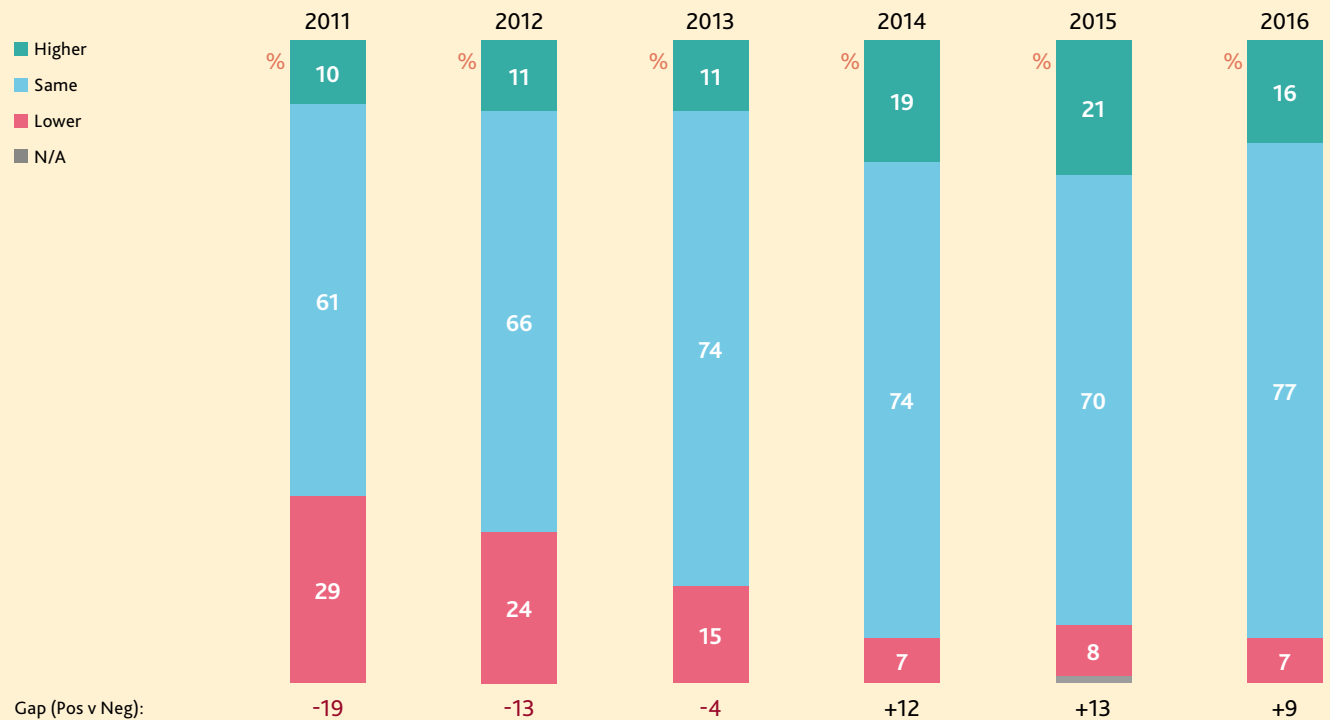
Overall, projections for third quarter activity levels dropped for the first time in five years. 46% of respondents expected higher levels of business activity in the third quarter compared to 53% for the same period last year. Meanwhile those expecting lower levels of business activity increased slightly to 15% (compared to 13% from the same period last year). 18% of large companies reported expecting lower levels of activity compared to 4% last year, and 19% of exporters expect a drop in business levels compared with 14% of companies who are indigenous only. Unsurprisingly, the retail sector is the most pessimistic sector, with 24% expecting lower business levels in the period.

# 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 second quarter of last year?



Focus has shifted to maintaining staff levels.

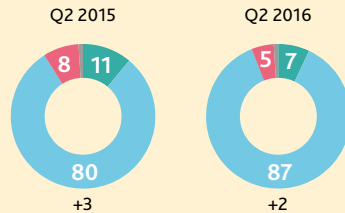
Second quarter compared with second quarter from previous year

## LARGE COMPANIES HAVE FALLEN BACK THE MOST SINCE THE LAST WAVE

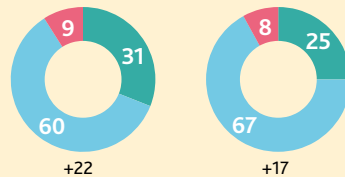
**QUESTION** Could you indicate whether your employments levels are higher, lower or the same compared with the second quarter of last year?

### Responses per company size

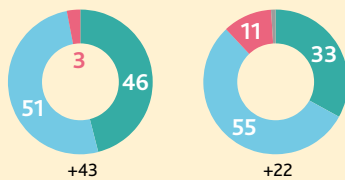
Micro: 1–3 employees



Small: 4–9 employees

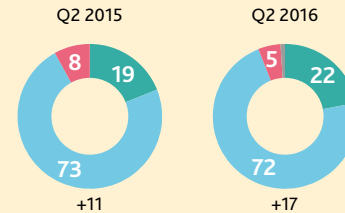


Mid/Large: 10+ employees

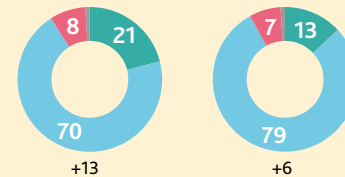


### Responses per industry sector

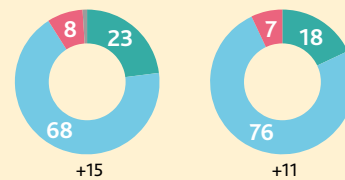
Retail/Wholesale



Services



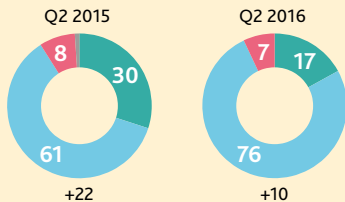
Other



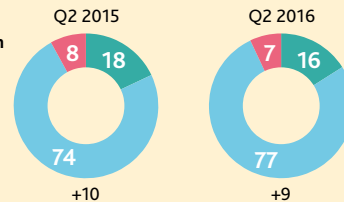
Large companies have fallen back the most since the last wave.

### Responses by location

Dublin



Ex Dublin



## The BDO View



from **Con Quigley**

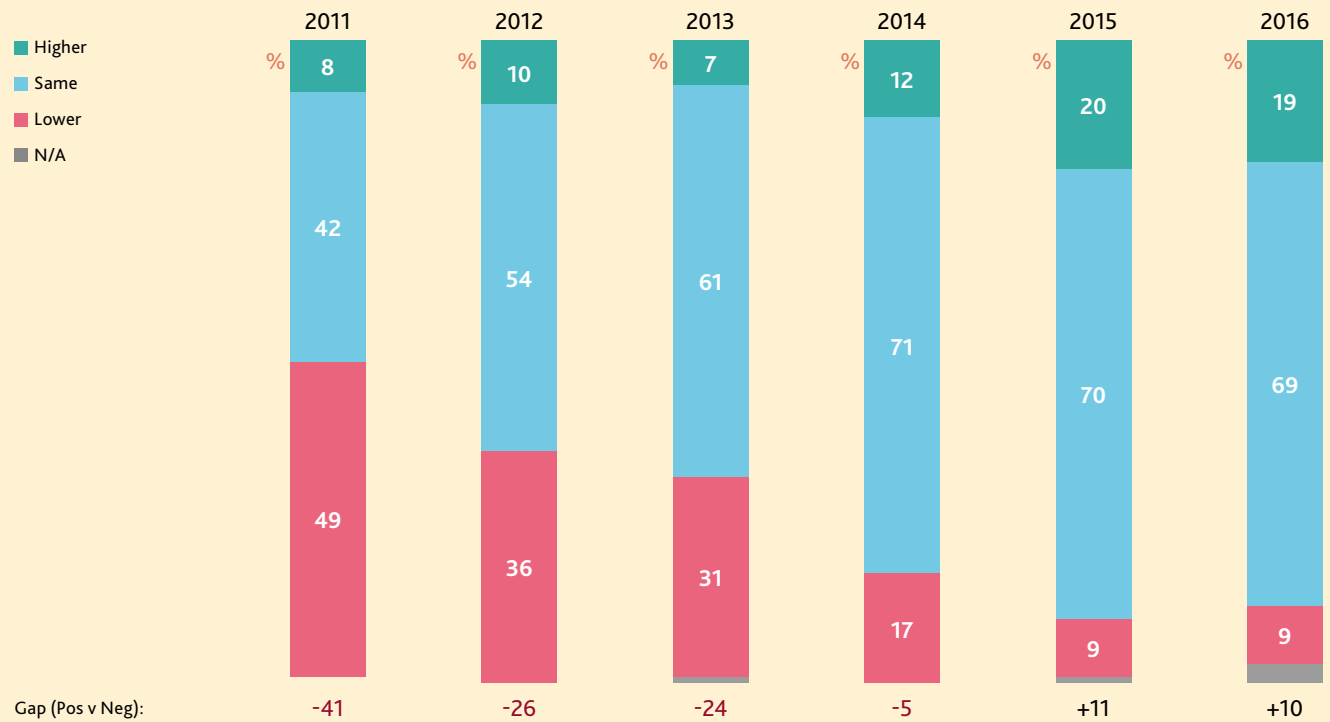
On the whole, employment levels experienced by the companies surveyed continue to be very stable (77% up from 70% last year). However, more large businesses reported being stable than increasing this year and interestingly 11% of large businesses experienced reductions in employment levels (compared to 3% in Q2 2015). This is also reflected in Dublin. Retail employment levels see some movement (3% approx.) from dropping to increasing. Again, the survey indicates that the recovery has widened with businesses experiencing better stability than previous surveys.

# Pricing

# 4

## PRICES CHARGED – ALL BUSINESSES

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

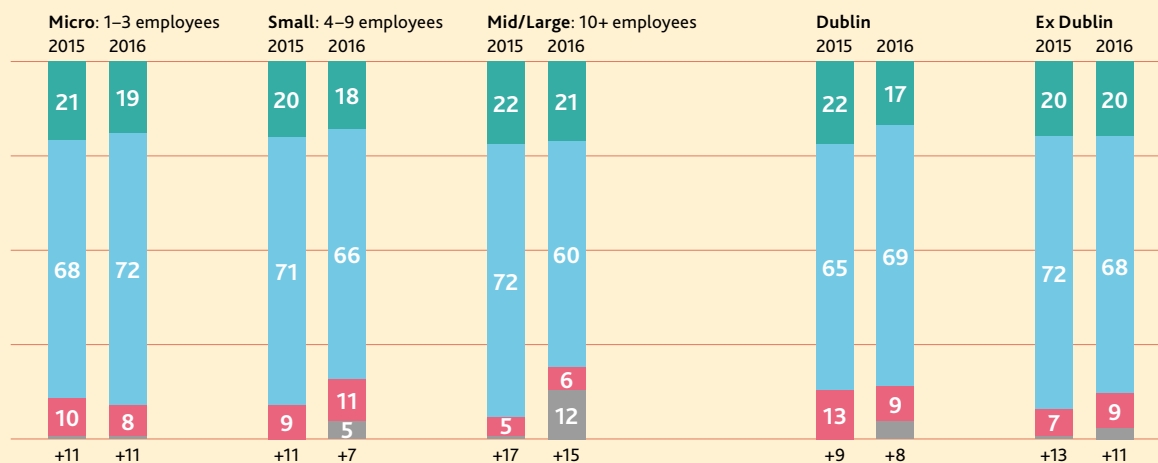


Prices charged are unchanged compared to this time last year.

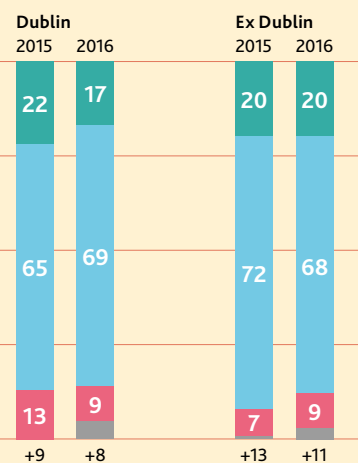
Second quarter compared with second quarter from previous year

Responses per company size

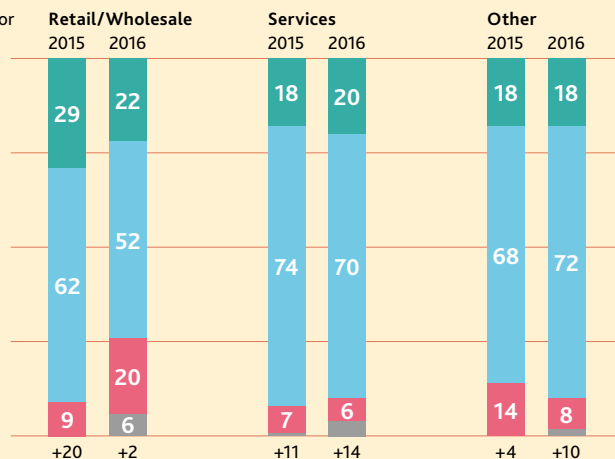
Higher  
Same  
Lower  
N/A



Responses by location



Responses by industry sector



## The BDO View



from Con Quigley

Businesses appear to be achieving very strong price stability. And more businesses (19%) report increasing prices than decreasing (9%). Interestingly, in Dublin this gap is narrowing.

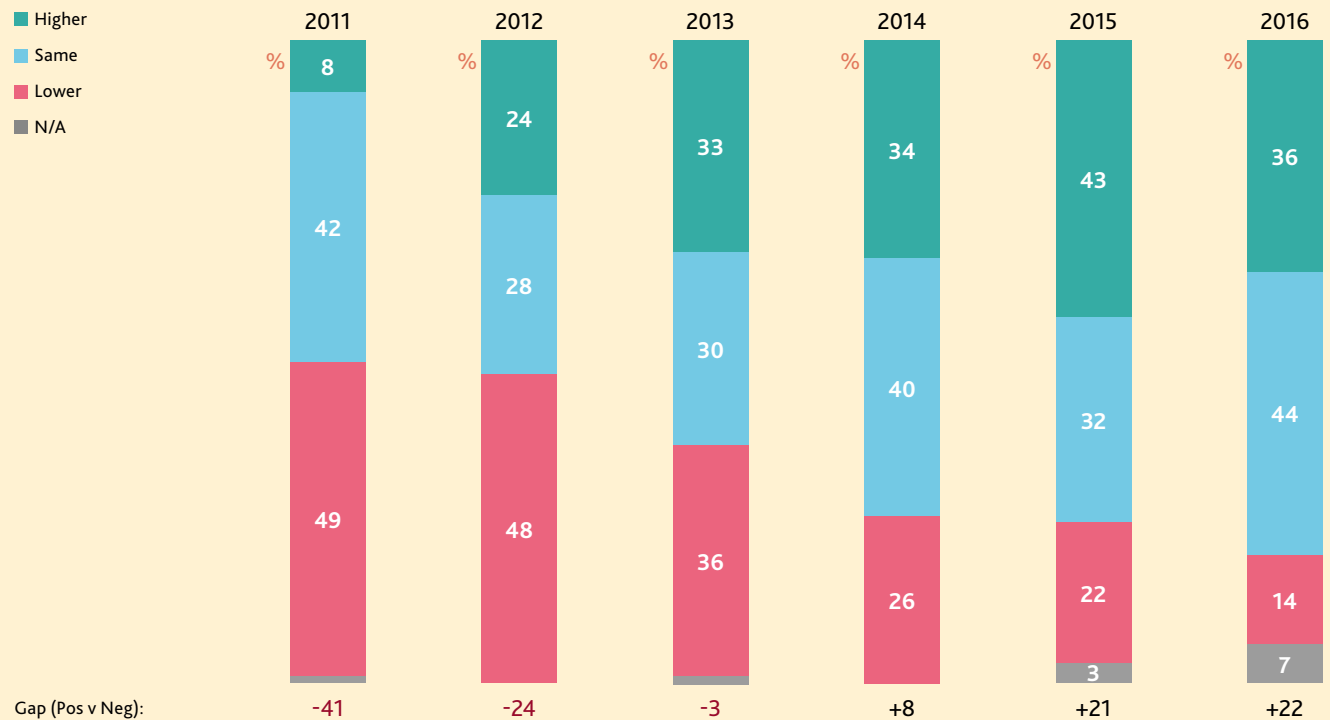
Retail respondents experienced more volatility and this is the only sector where the proportion reporting falling prices is similar to that experiencing rising prices (20%). Overall, this is consistent with a prevailing price sensitivity and tightness of margin.

# Profits

# 5

## OPERATIONAL PROFIT – YEAR ON YEAR

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



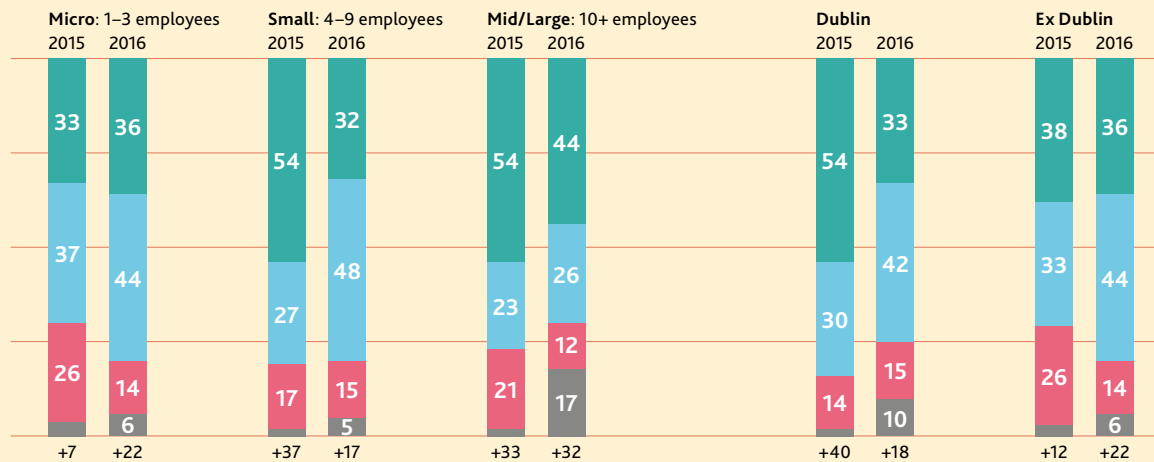
Improvements in profitability have levelled off over the past year.

Projections compared to the equivalent quarter from previous year

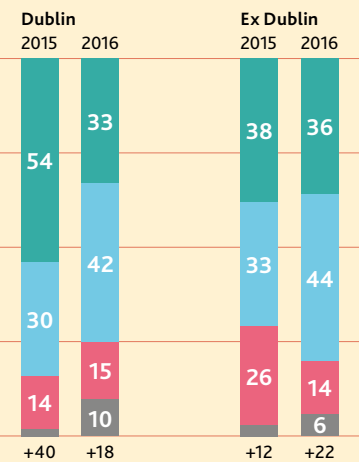
## MICRO COMPANIES HAVE IMPROVED SIGNIFICANTLY OVER THE PAST YEAR, WHILE MID COMPANIES HAVE DISIMPROVED

Responses per company size

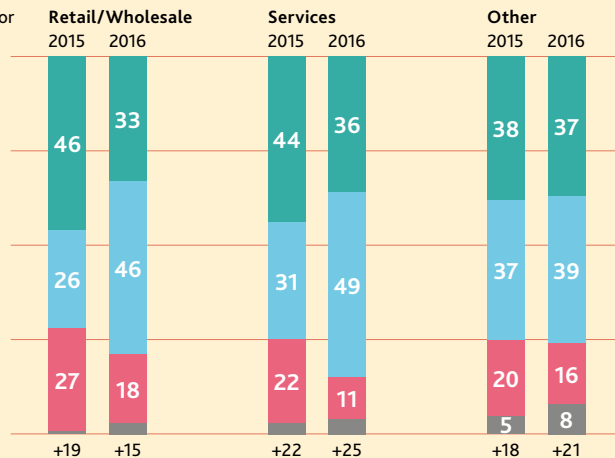
Higher  
Same  
Lower  
N/A



Responses by location



Responses by industry sector



Dublin companies now less profitable than outside Dublin compared to last year.

## The BDO View



from Con Quigley

Overall, 80% of respondents believed that their business profitability for Q2 is at least as good as the prior year – an increase over the last year. However, the underlying trend in Dublin sees fewer businesses reporting increasing profits and a slight increase in businesses experiencing losses. The rest of the country sees an additional 9% of respondents move from the category of falling profits into stable or increasing profits since last year (80% against 71%). 13% of retail businesses and 8% of services providers have dropped into the stable category from the increasing category since last year. At the same time, the number of retailers experiencing falling profits have dropped from 27% to 18% since last year. On the whole, these trends are quite positive. Taken alongside the current activity, pricing, and employment trends, they indicate a competitive but moderately profitable landscape across the country and in all sectors.

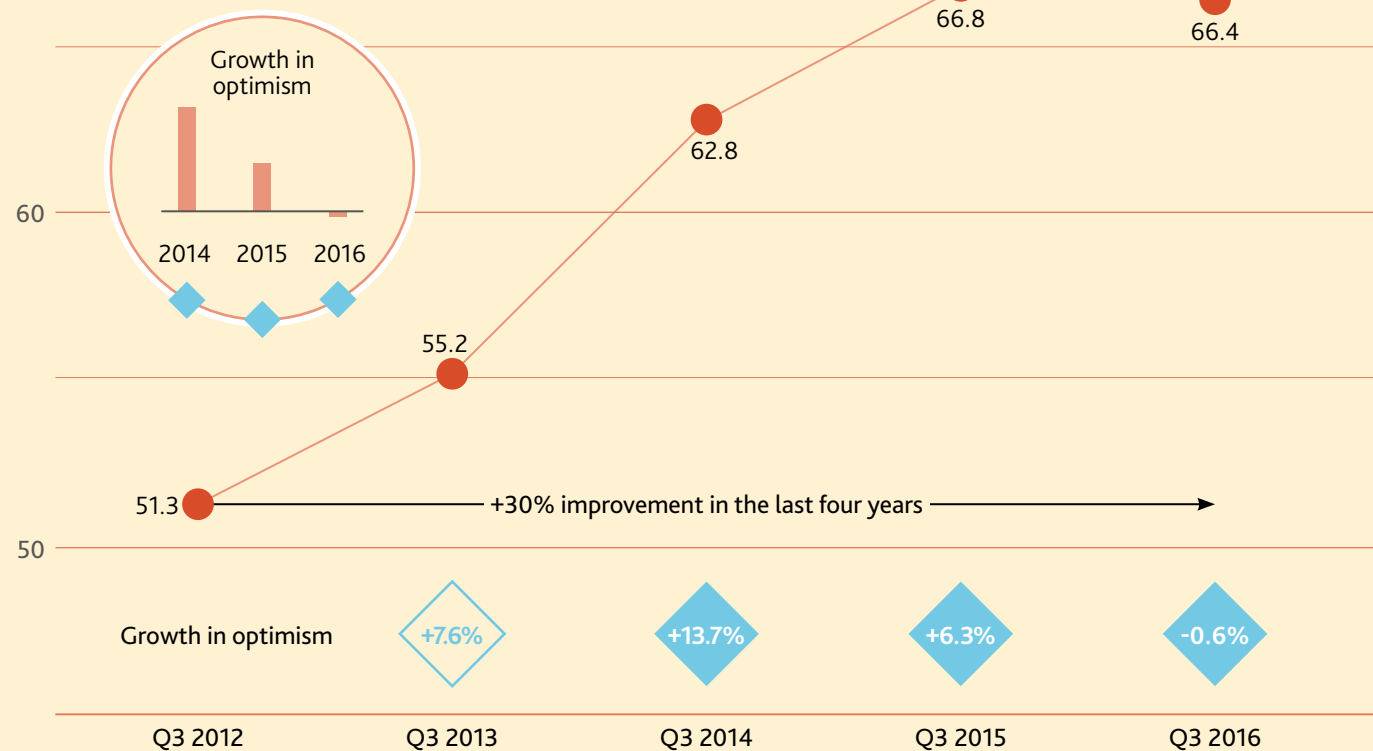


# Overall Optimism

# 6

## BUSINESS ENVIRONMENT – OPTIMISM FOR THE REMAINDER OF 2016

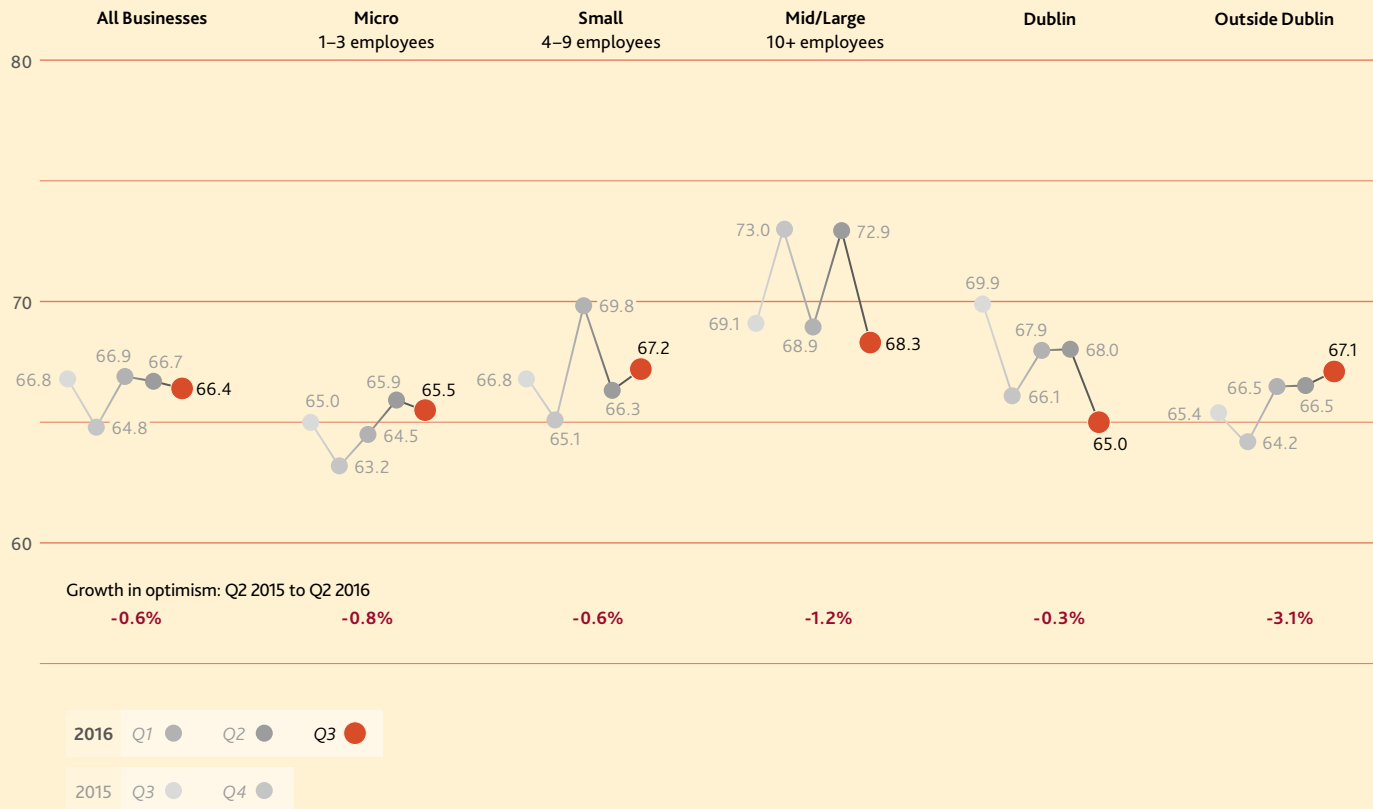
**QUESTION** Looking forward, how optimistic are firms for a favourable business environment?



While there has been little change in overall optimism levels since last year there has been a 30% improvement since 2012.

Projections compared with equivalent quarter from previous year.

## OPTIMISM HAS INCREASED BEING MOSTLY DRIVEN BY LARGER COMPANIES AND EXPORTERS



Larger companies most optimistic. Dublin now noticeably less optimistic.

## The BDO View



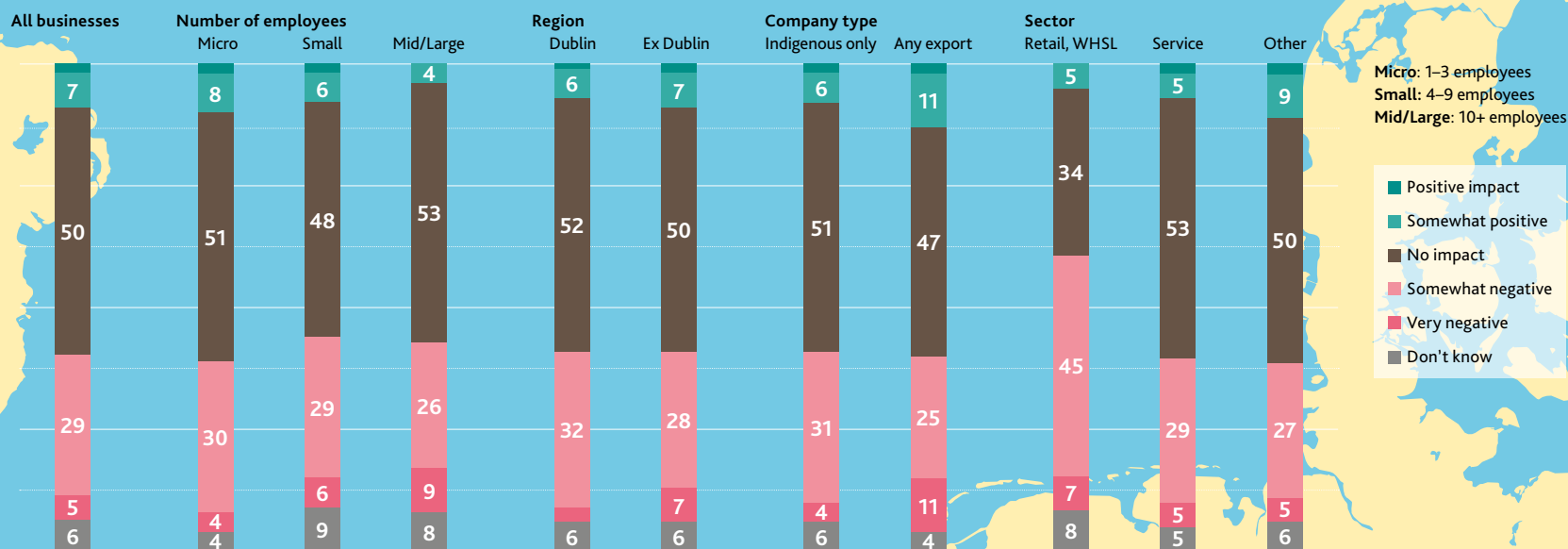
from **Con Quigley**

While the overall sense of optimism may have reached a plateau, we are still very optimistic. It is good to see that optimism among respondents outside Dublin continues to climb – and in fact exceeds the level among Dublin respondents. Why have optimism levels dropped 5% among both Dublin and mid-sized respondents? We feel that some of these respondents may be more focused on the upward pressures of labour and other costs – as well as concern about the impact of the (then unknown) Brexit vote on financial service and export sectors.

# 7 Impact of Brexit

**JUST OVER A THIRD OF FIRMS BELIEVE THAT BREXIT WILL HAVE A SOMEWHAT OR VERY NEGATIVE IMPACT, WHILE HALF SAY IT WILL NOT HAVE ANY IMPACT AT ALL**

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



## The BDO View from Con Quigley

Across the board, it is striking that approximately half of the respondents expect that Brexit will have “no impact” on their organisation. This is a surprising result given that (a) Brexit addresses the single biggest economic relationship that Ireland has in the world, and (b) there is such massive uncertainty about how it will pan out. Exporters are most fearful about the negative impact with 36% saying it will have a “somewhat or very negative” impact on their prospects – an

unsurprising figure given the fact that the UK is our largest single trading partner.

The profile of responses are quite uniform across all categories of business with the exception of retail & wholesale trade where 52% anticipate a negative impact on their business. This reflects the general volatility of the sector and the more localised nature of retail and wholesale (even when online).

Among the respondents who expect an impact, by far the greater proportion feel that it will have a negative impact than a positive one – generally in or close to a ratio of 3:1. This is consistent with the general reporting of the potential negatives for Ireland. However, with potential opportunities for Irish businesses also on the horizon it will be interesting to see how the rest of the year plays out.

*Con Quigley, Corporate Finance Partner*

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