

A photograph of two construction workers from behind, wearing blue and red hard hats and high-visibility yellow safety vests. They are standing on a construction site, looking towards a modern, multi-story building with a grid of windows. The worker on the right is pointing towards the building. The image has a teal overlay at the bottom.

BDO Optimism Index

Q4 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 1st and the 14th November, 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 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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This quarter, we note that the level of exporters reporting increased business activity in the third quarter of 2017 fell by the biggest margin since 2013.

The index also revealed that Irish micro businesses endured a record sentiment decline as levels of business activity and operational profits plummeted to a four year low. The record slump in growth was compounded as the number of micro businesses which recorded a decrease in business activity and operational profit rose to a four year high.

While the drop in sentiment amongst exporters and micro businesses is of concern, it is possibly explained by the continuing uncertainty over Brexit. Ireland is one of the most open trading economies in the world, so exporter sentiment is an indicator of our economic health.

Other findings from the survey show that more than one third (39%) of Irish firms believe the crucial issues facing their business are not being appropriately addressed by Ireland's elected representatives at an EU level. Of the Irish firms surveyed, only 6% totally agree that the issues facing their business are being properly addressed.

This is a troubling statistic as we approach a difficult negotiating period next year. We expect that as more certainty emerges from the Brexit discussions, businesses will draw more comfort.

While sentiment across the broader business economy is still quite strong, it is concerning to see that micro businesses do not share this sentiment. This sector is an essential part of the Irish economy, accounting for 92.2%

of Irish enterprises. (Source: CSO). The shift into negative employment territory amongst these companies is also cause for concern.

Although micro businesses suffered a turbulent quarter compared to previous years, mid-to-large companies performed well and recorded increased levels of business activity and operational profit. Some 58% of larger businesses forecast increased activity for the final quarter of 2017, compared to 38% last year. However, again, micro businesses were far less optimistic, as the number of companies predicting an increase in activity fell by an 8 percentage point drop.

Despite the shift to negative territory amongst micro businesses, quarterly employment levels remain consistent with previous years, the clear majority of companies looking to grow (19%) or maintain (72%) their workforce. With regard to pricing levels, the majority of businesses (71%) surveyed indicated prices will remain static compared to the same quarter last year.

BDO's 'Optimism Index' has been tracking business sentiment on a quarterly basis since 2011. Optimism is up from this point last year, rising

from 65.3 in 2016 to 66.2 in 2017. Medium and large sized businesses are the most optimistic at 67.4 and 71.2 respectively.

At first glance, it appears business growth is moving in the right direction and figures for this quarter against the same period last year remain strong. However, when you drill down into the statistics it shows that medium and larger businesses are pulling away from micro businesses. The divergence between the larger and smaller business could be explained by access to funding, increased exposure to personal financial issues and the knock-on effects of Brexit.

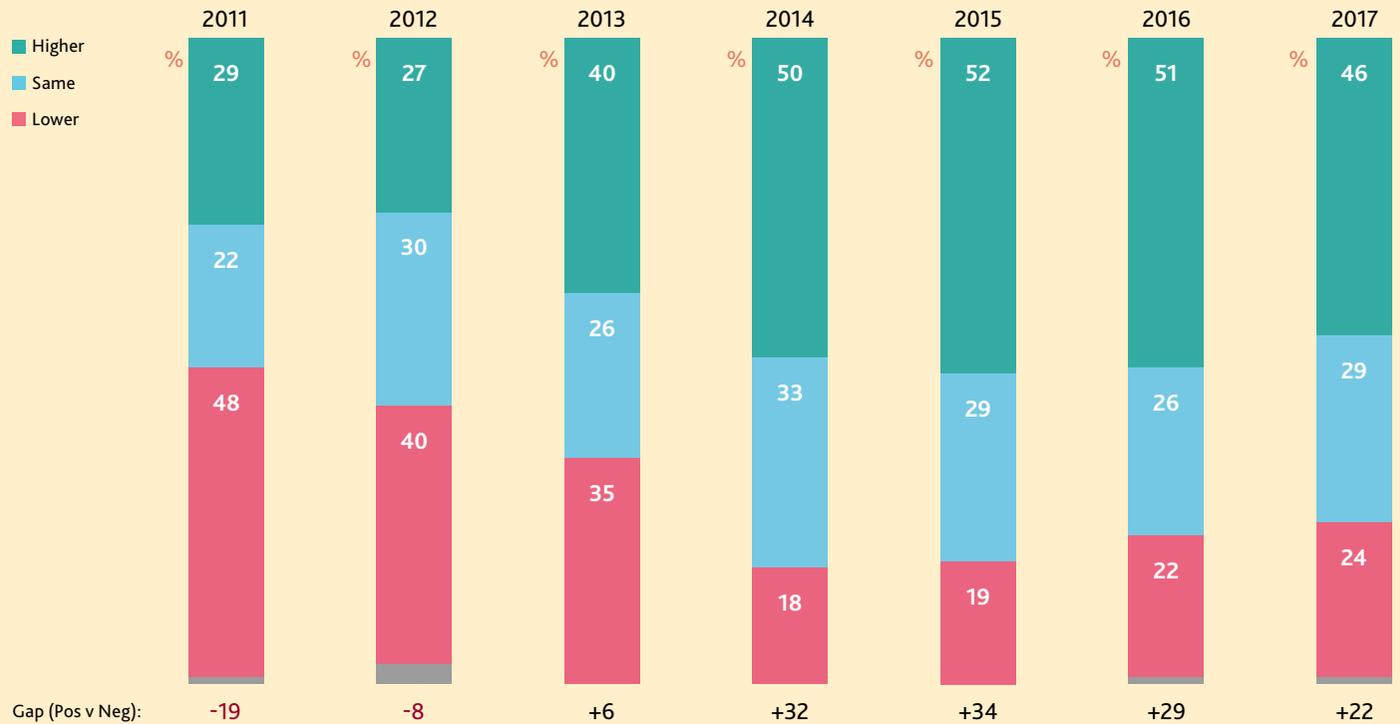


Current business activity



CURRENT BUSINESS ACTIVITY – TRADING ANALYSIS

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



Figures compared with equivalent quarter from previous year

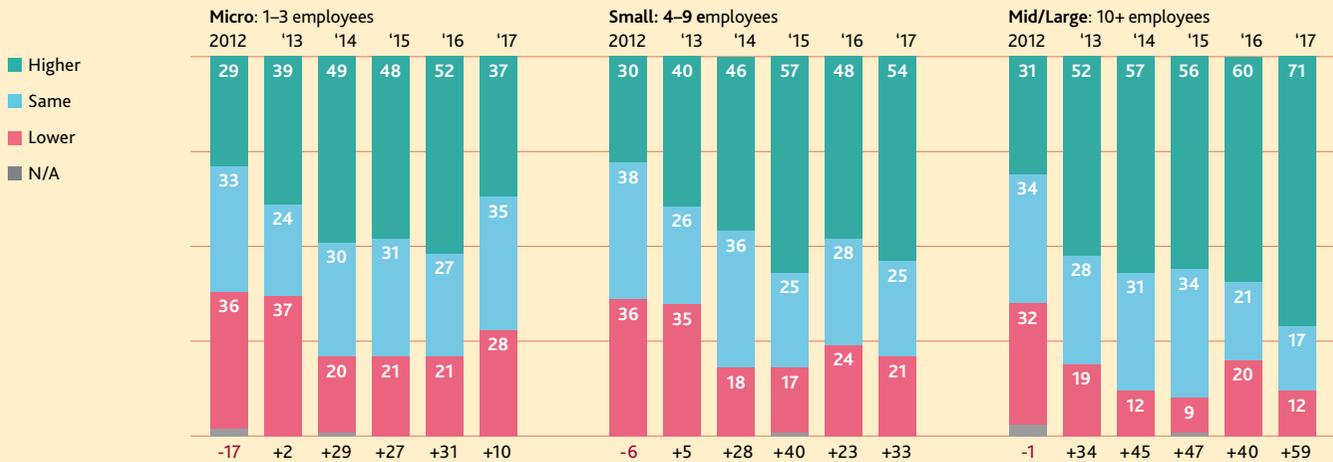
The BDO View



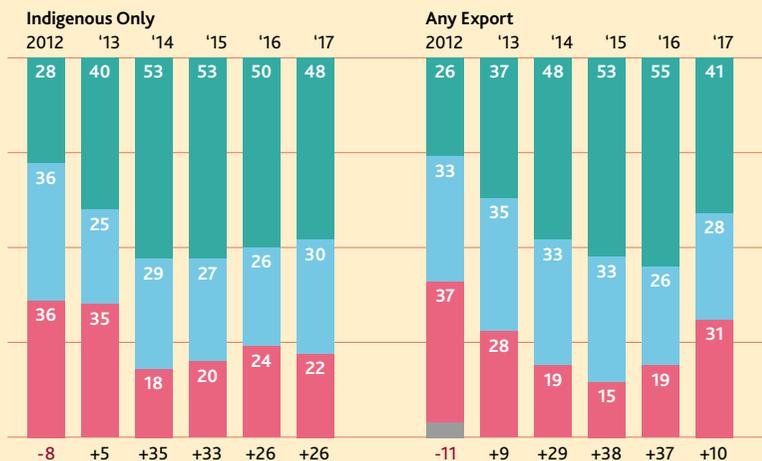
from
**Katharine
Byrne**

The Irish economy continues to grow at a solid pace, supported by the strength of activity on the domestic side of the economy. This is clearly evidenced by the strong activity reported by both the small and mid/large companies for the third quarter. However the micro companies and export businesses suffered a pronounced decline as they struggled to adapt to continuing market uncertainty.

Responses per company size



Responses per trading behaviour

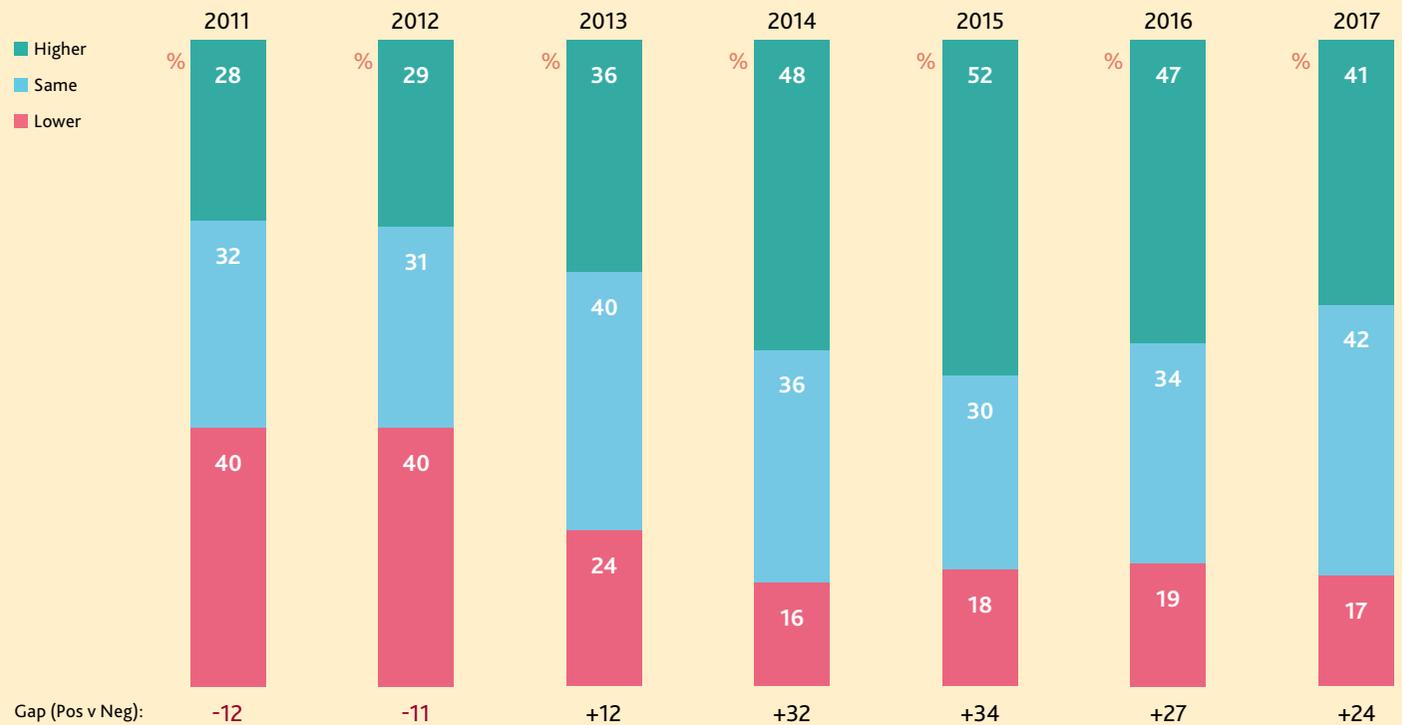


Projections for Q4 2017

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BUSINESS ACTIVITY LOOKING FORWARD

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



Projections compared with equivalent quarter from previous year

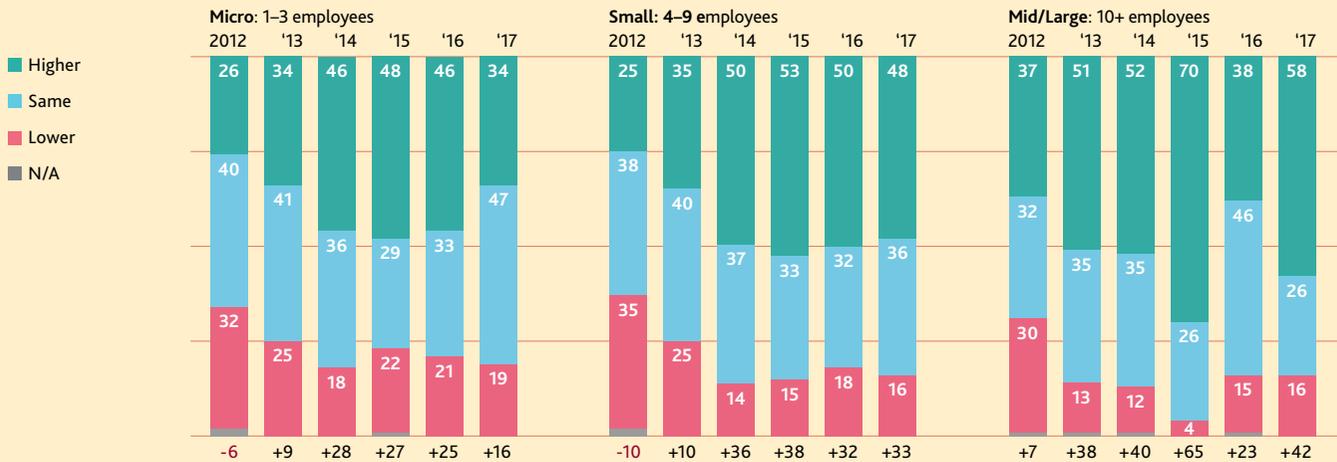
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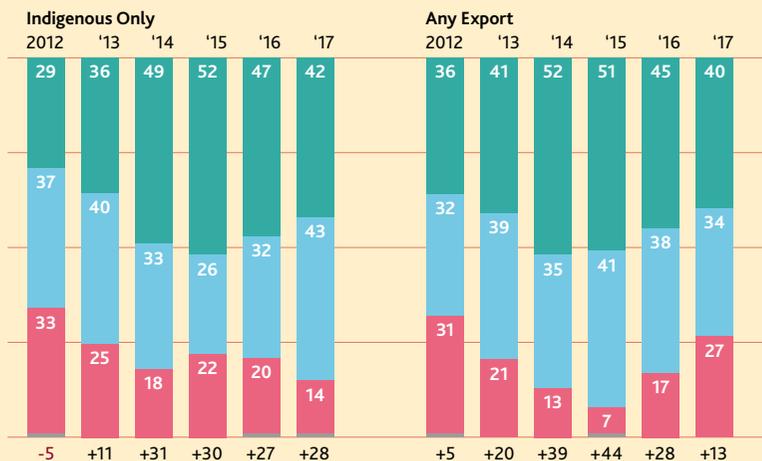
from
Katharine Byrne

Most companies are predicting a steady outlook for the last quarter in line with the increase in GDP forecast. The mid-large companies are the most bullish with over 58% forecasting increased activity on the back of their strong performance for the year to date, whereas micro companies are muted in their outlook. Export companies are apprehensive about the final quarter as the Brexit negotiations move to next stage and this is likely to remain unchanged for a while.

Responses per company size



Responses per trading behaviour

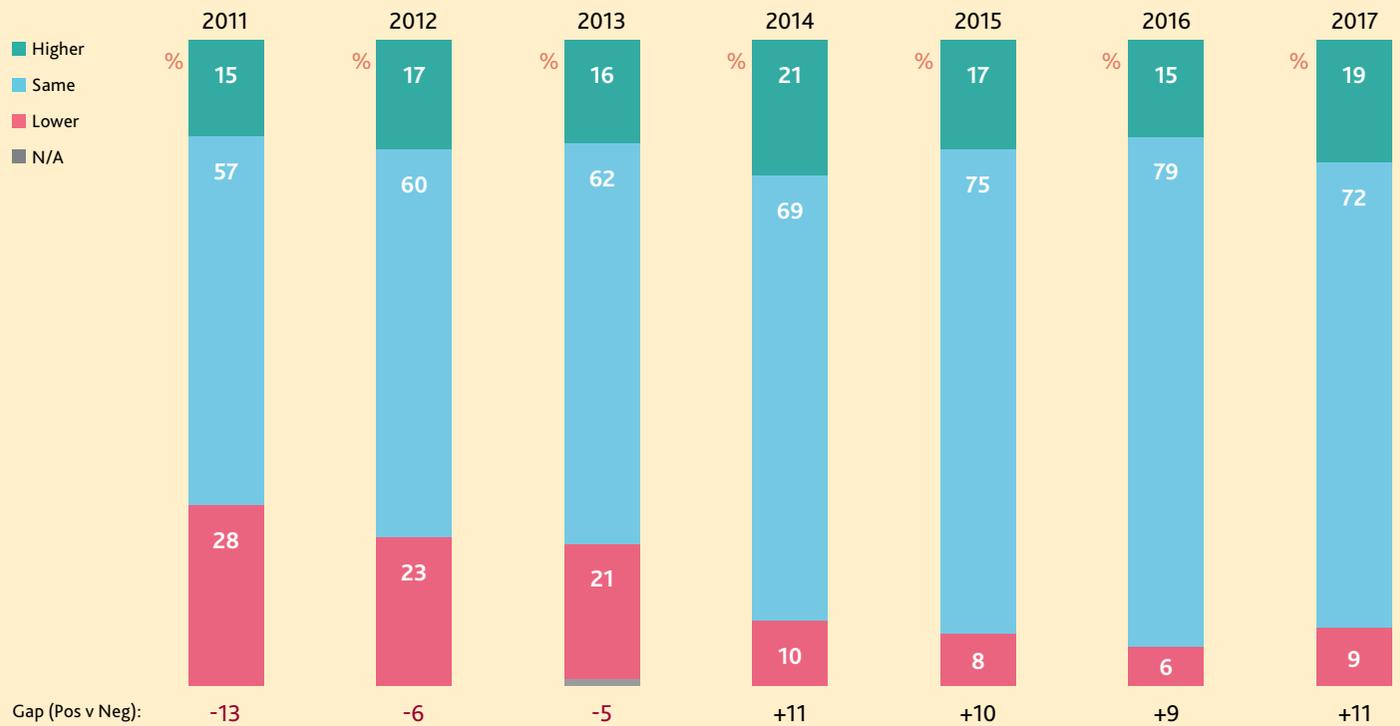


Employment Levels

3

EMPLOYMENT LEVELS COMPARED TO LAST YEAR

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



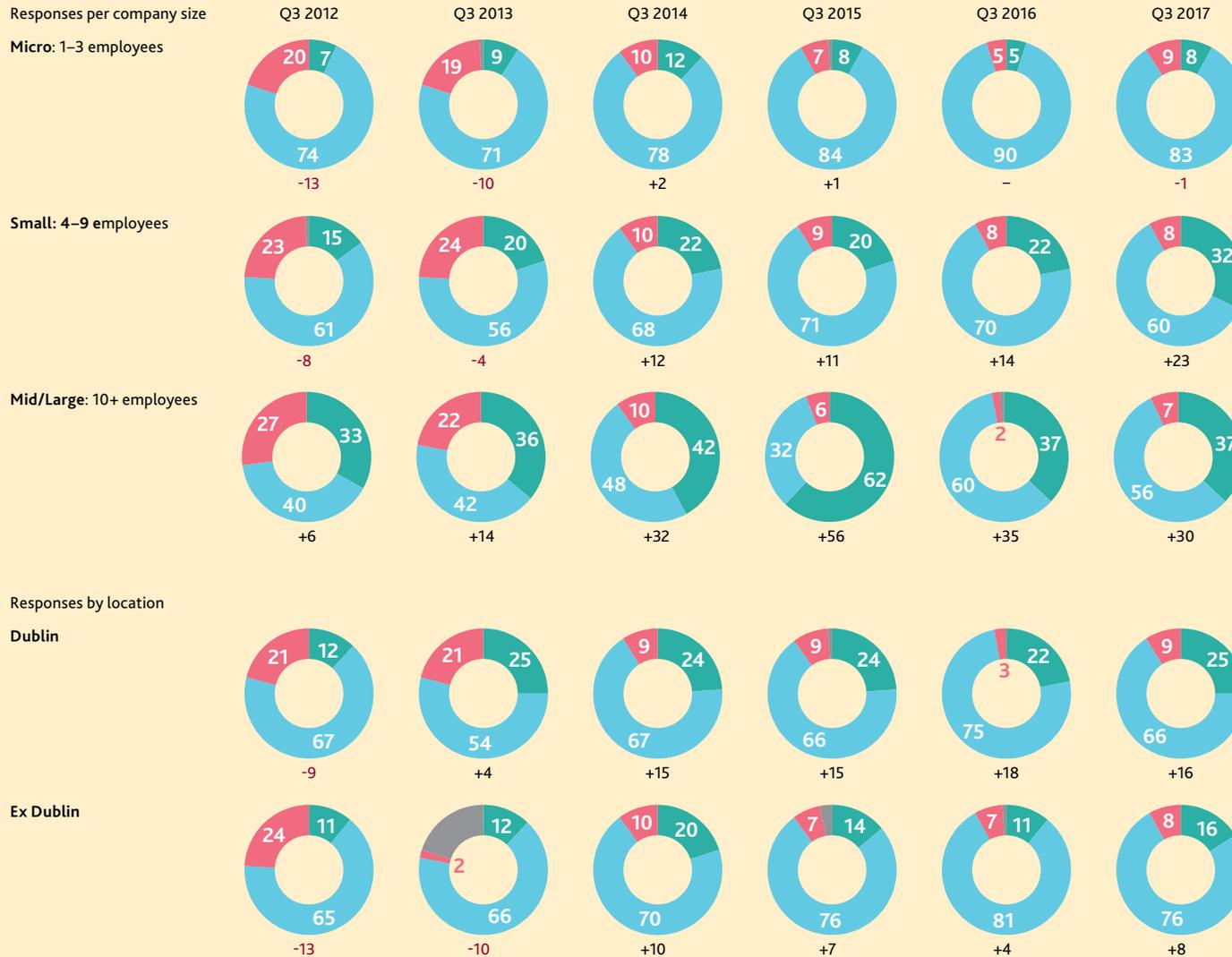
Figures compared with same quarter from previous year

The BDO View



from
**Katharine
Byrne**

There has been limited change in employment for the last few years with a significant majority of companies who are looking to maintain or grow employment levels. This growth in employment has helped incomes to recover and supported the growth of consumer spending. With unemployment levels at their lowest the growth in employment numbers is starting to taper as companies need to work harder to recruit and retain talent.

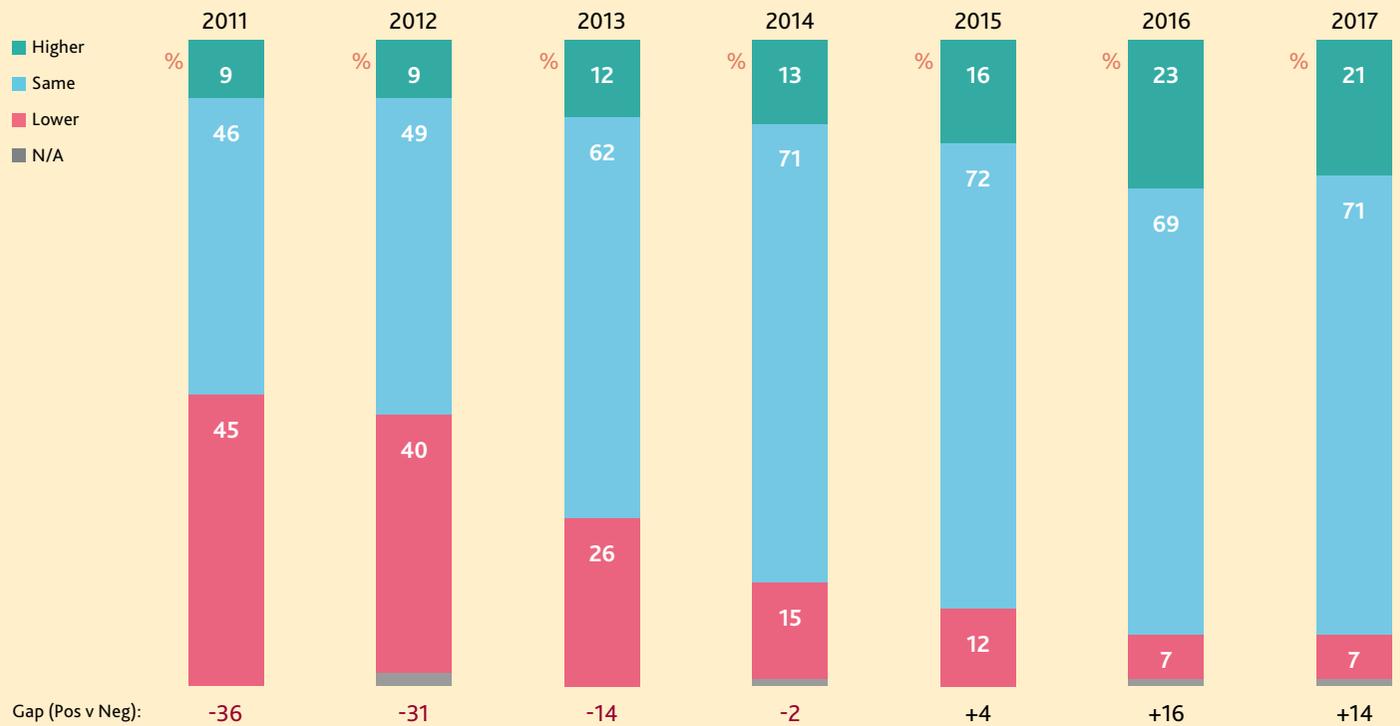


Pricing

4

PRICES CHARGED – ALL BUSINESSES

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



Figures compared with same quarter from previous year

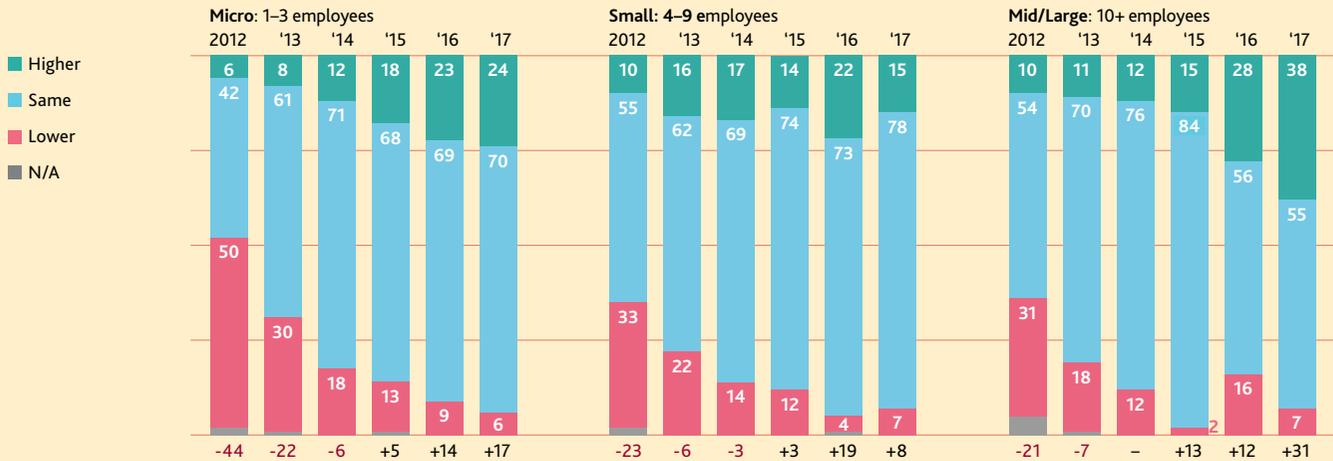
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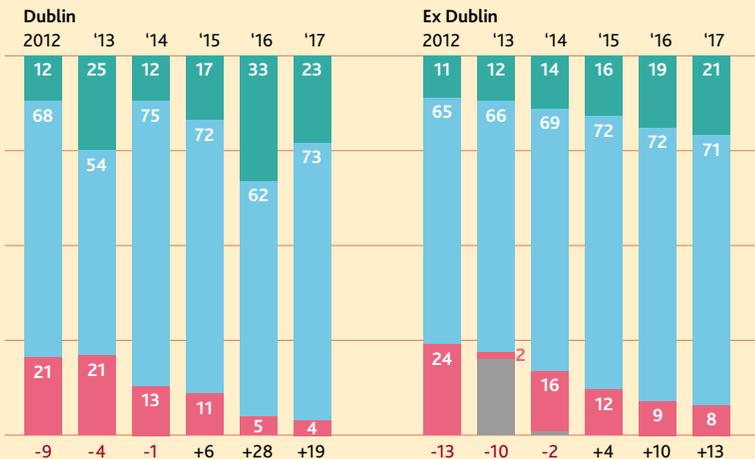
from
**Katharine
Byrne**

The trend towards higher prices appears to have levelled off among the micro and small businesses, while over 38% of mid-large companies have experienced price increases compared to this time last year. This is partially driven by the strong performance of the companies outside Dublin as they catch-up on the recovery which Dublin-based firms were faster to experience.

Responses per company size



Responses by location

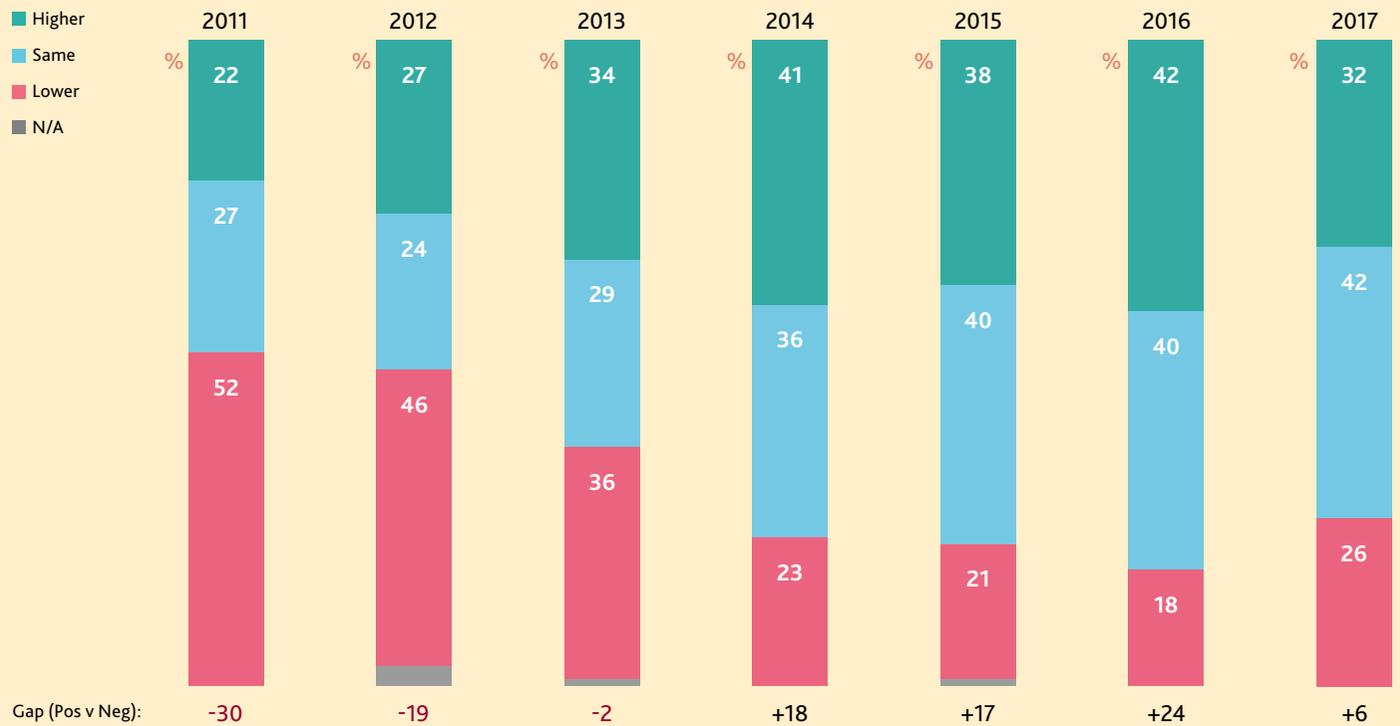


Profits

5

OPERATIONAL PROFIT – YEAR ON YEAR

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



Figures compared with same quarter from previous year

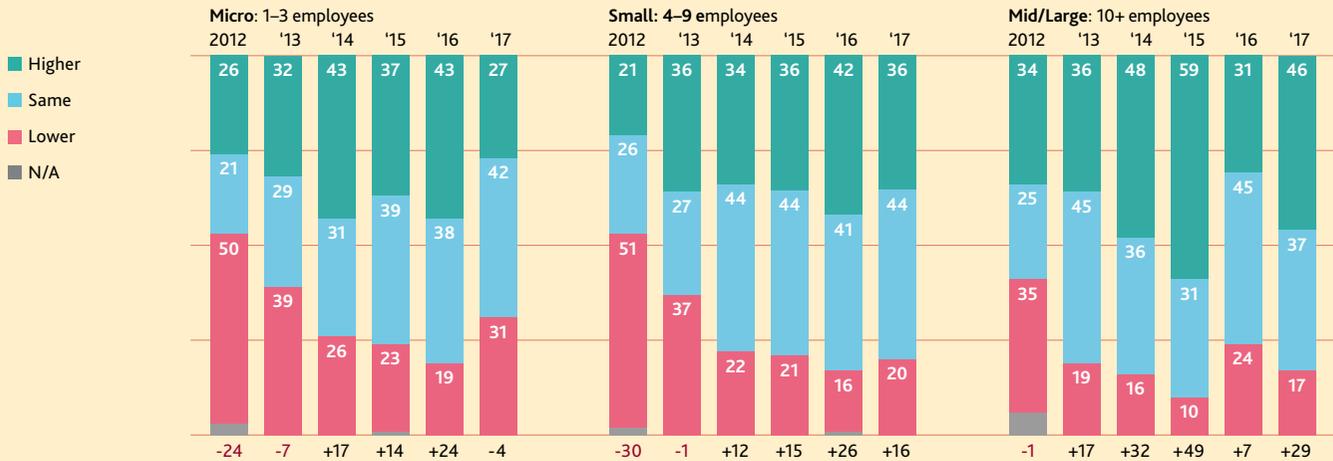
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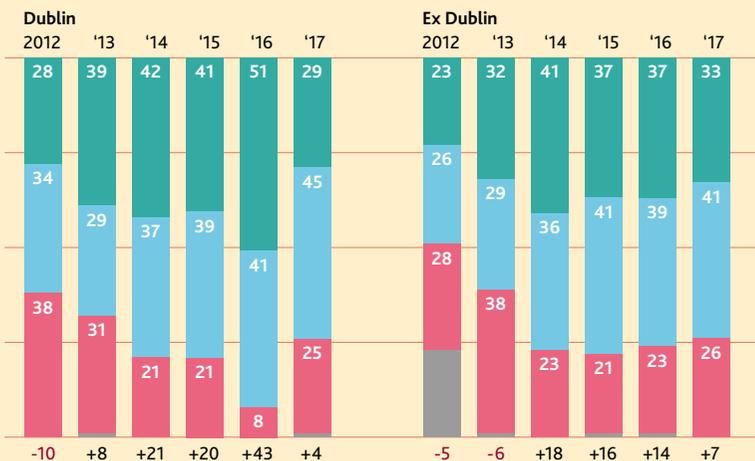
from
Katharine Byrne

The pressure on operational profits that was evident from the last quarter continues in Q3. Profitability has returned to levels last seen around 2013. In particular micro businesses and medium companies are showing weaker signs of profitability, while large companies have significantly improved.

Responses per company size



Responses by location

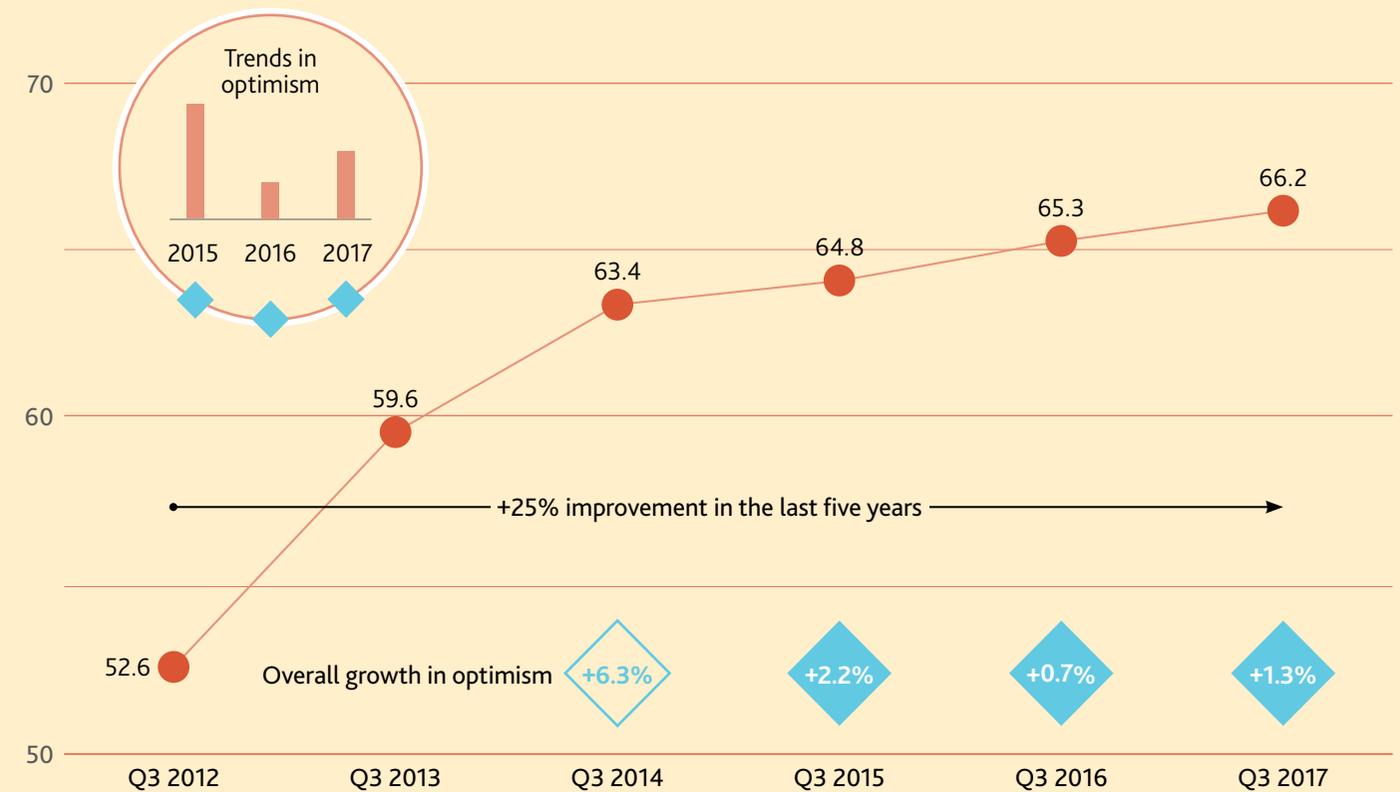


Trends in Optimism

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BUSINESS ENVIRONMENT – OPTIMISM FOR THE REMAINDER OF 2017

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



Projections compared with previous year

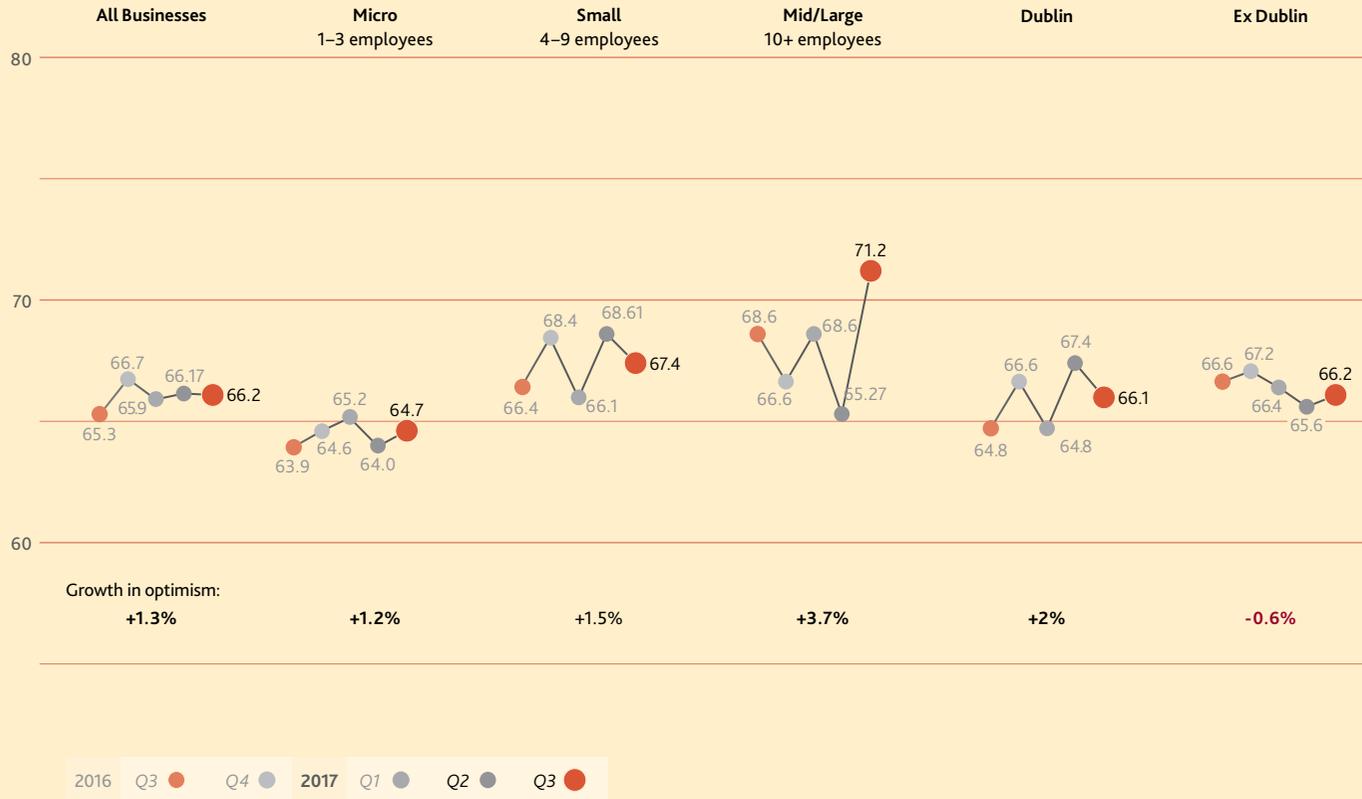
The BDO View



from
**Katharine
Byrne**

Optimism is up from this point last year, rising from 65.3 in 2016 to 66.2 in 2017.

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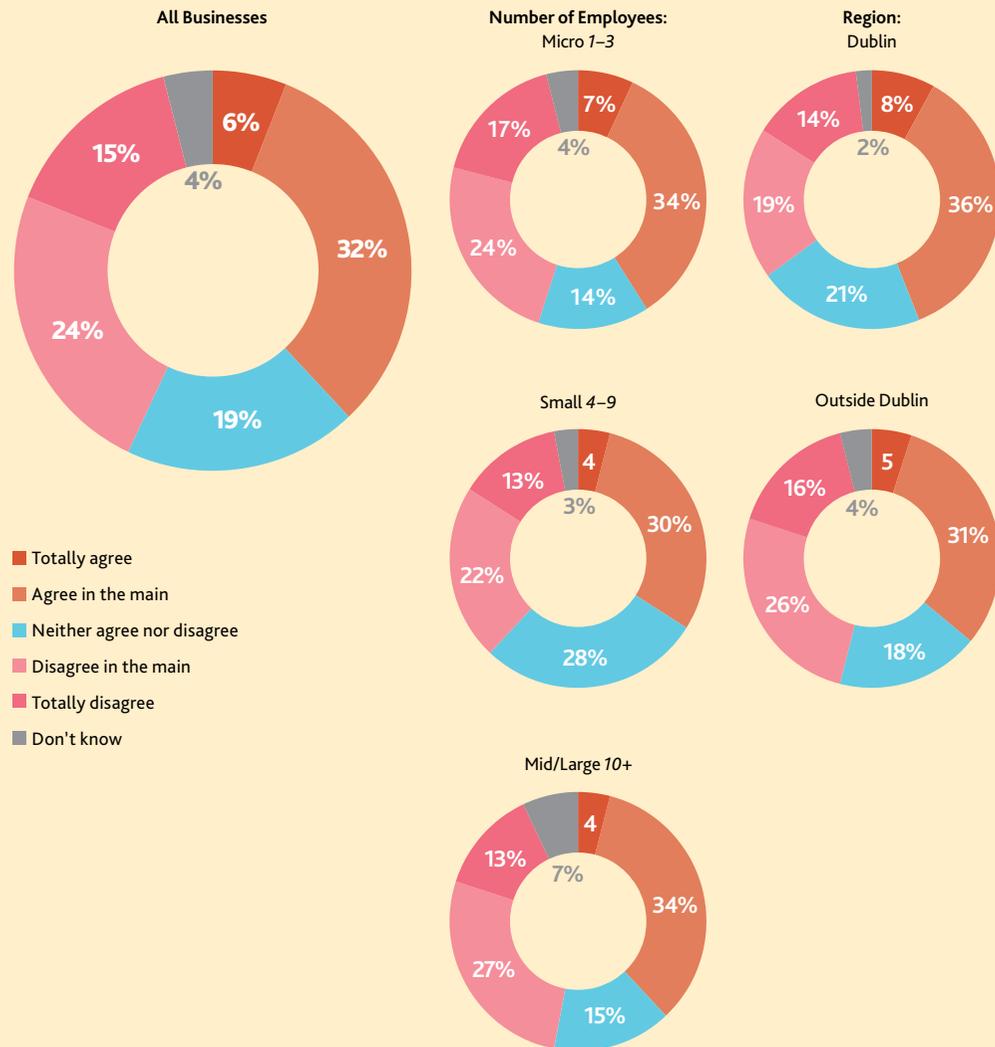


Business Issues at EU Level

7

ELECTED REPRESENTATIVES' PERFORMANCE AT AN EU LEVEL

QUESTION Do you feel the issues facing Irish businesses are being appropriately addressed by our elected representatives at an EU level?



- Totally agree
- Agree in the main
- Neither agree nor disagree
- Disagree in the main
- Totally disagree
- Don't know

The BDO View



from **Michael Costello**

39% of Irish firms believe the crucial issues facing their business are not being appropriately addressed by Ireland's elected representatives at an EU level. Of the Irish firms surveyed, only 6% totally agree that the issues facing

their business are being properly addressed. This is a troubling statistic as we approach a difficult negotiating period next year. We expect that as more certainty emerges from the Brexit discussions, businesses will draw more comfort.

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About Behaviour & Attitudes

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

Established over 30 years ago, Behaviour and Attitudes provides a full range of market research services, ranging from CAPI, CATI, online and of course qualitative.

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