



QUARTERLY BUSINESS MONITOR
JANUARY TO MARCH 2011
Detailed Findings

KEY POINTS

- One in six (16% of) companies describe themselves as currently in growth or expansion mode.
- A further 37% of firms are 'stabilising' after three years of serious downturn and crisis.
- Those sectors which are more likely to see businesses growing or expanding include manufacturing (23%), business services (23%) and other services (23%).
- Firms with more than 50 employees are more than twice as likely as the average (36%) to be growing.
- Businesses which are diversifying their markets are almost twice as likely (31%) to be in expansion mode as the norm (16%).
- Businesses which are diversifying their products or services are also more likely (21%) to be in expansion mode as the norm (16%).
- Rising costs, from energy to other overheads, is now regularly cited as the main issue for companies with two in five businesses citing these costs as a 'very large issue'.
- Other problems, such as cashflow (cited by 25% as a very large issue) and reduction in demand (by 31%), continue to be challenges for businesses as they have been for the past three years.

1. Executive summary

InterTradelreland has commissioned Perceptive Insight and Oxford Economics to conduct its quarterly business monitor. The objectives for this project are:

- For the business monitor to act as a topical indicator of business confidence, cross-border trade and business activity across the island of Ireland; and
- For the survey results to act as an evidence base on a variety of themes of interest to business and policy makers, themes on which InterTradelreland can build future initiatives.

Approach

Each quarter telephone interviews are conducted with over 1,000 business managers on the island of Ireland. The sample is stratified by number of employees, sector and region (Ireland/Northern Ireland) and the data weighted at the overall reporting level to reflect the profile of businesses.

The interviewing for Q1 2011 took place during April 2011.

Business performance

Sales levels

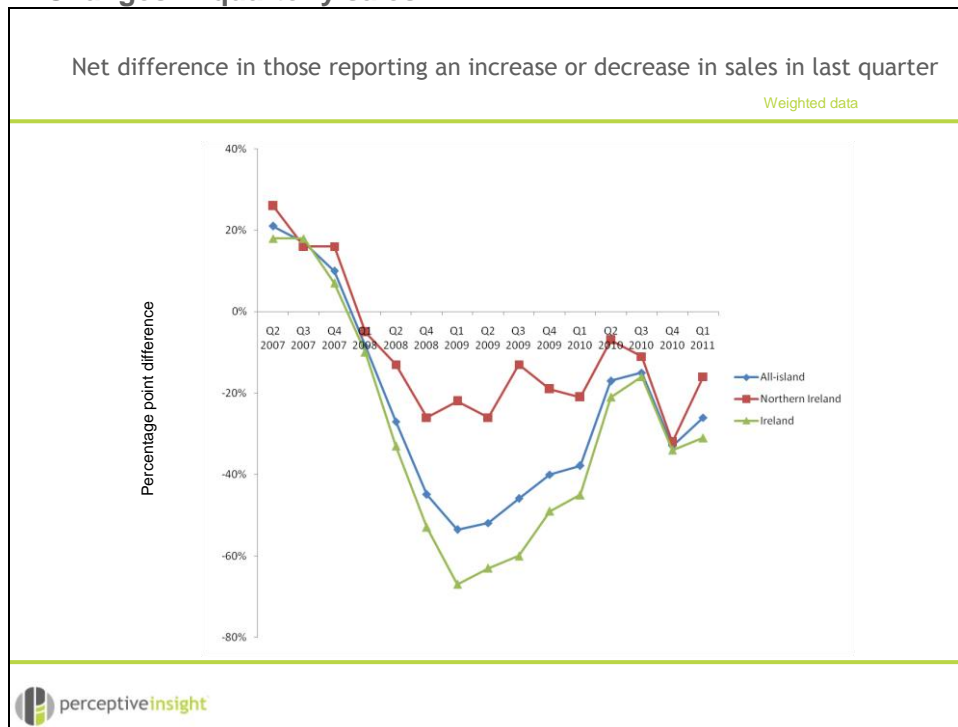
While 23% have seen an increase in sales over the past quarter (Q1 2011), 27% report no change and 49% say that sales have decreased giving a net difference of -26% points. This compares with a net difference of -33% points in Q4 2010 and signifies a positive improvement after a sharp decline in Q4 2010 (Figure 1.1).

Similar to previous quarters, those most likely to be affected by a decrease in sales are smaller businesses (51%). Also three in five of those operating in the construction, retail and distribution and leisure, hotel and catering reported decreased sales.

The sector which, on balance, is fairing better than others at the moment is business services. While 32% have reported an increase in sales, 29% have reported a decline giving a net difference of 3% points. The manufacturing sector appears to have maintained a similar position to last quarter with 27% saying sales have increased and 50% reporting a reduction (net balance of -23% compared to -19% in Q4 2010).

The findings show that companies in the North have experienced a better quarter in terms of sales than those in the South, with net differences of -16% points for NI business and -31% points for those in Ireland.

Figure 1.1: Changes in quarterly sales

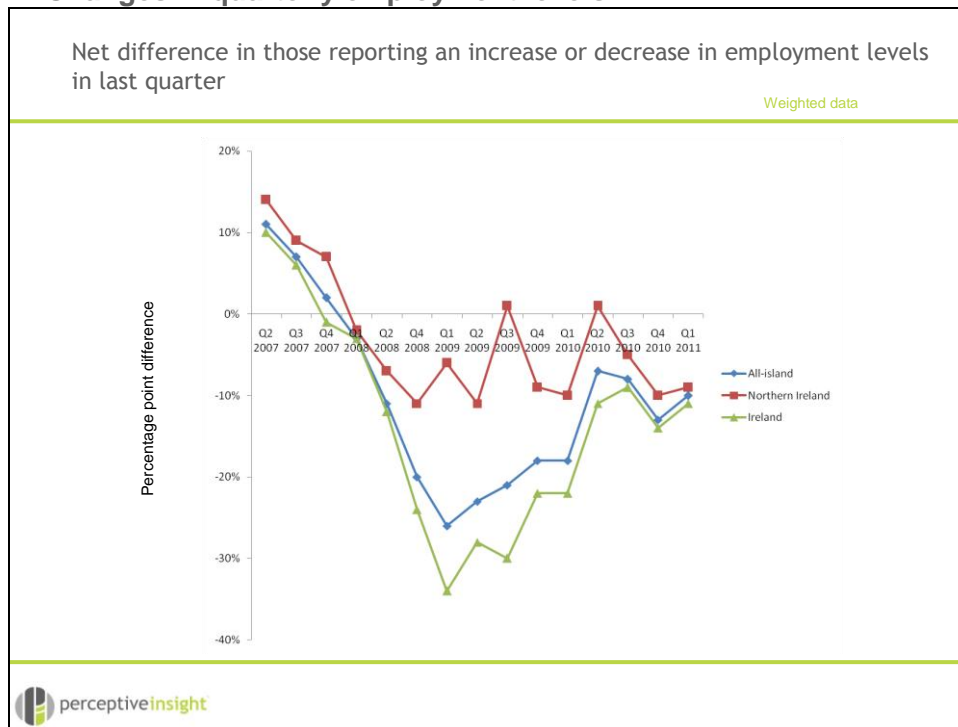


Employment levels

While 7% report that they have taken on new employees in the last quarter, 17% say they have made a reduction in staffing levels, giving a net balance of -10% points. Quarterly trends in employment levels show a marginal positive improvement since last quarter, with the percentage hiring increasing from 5% to 7%. The percentage reducing staff numbers has changed from 18% to 17% (Figure 1.2).

Analysis by sector shows that those in construction (-35% point net difference) are much more likely to have reduced employee levels than other sectors.

Figure 1.2: Changes in quarterly employment levels



Business outlook

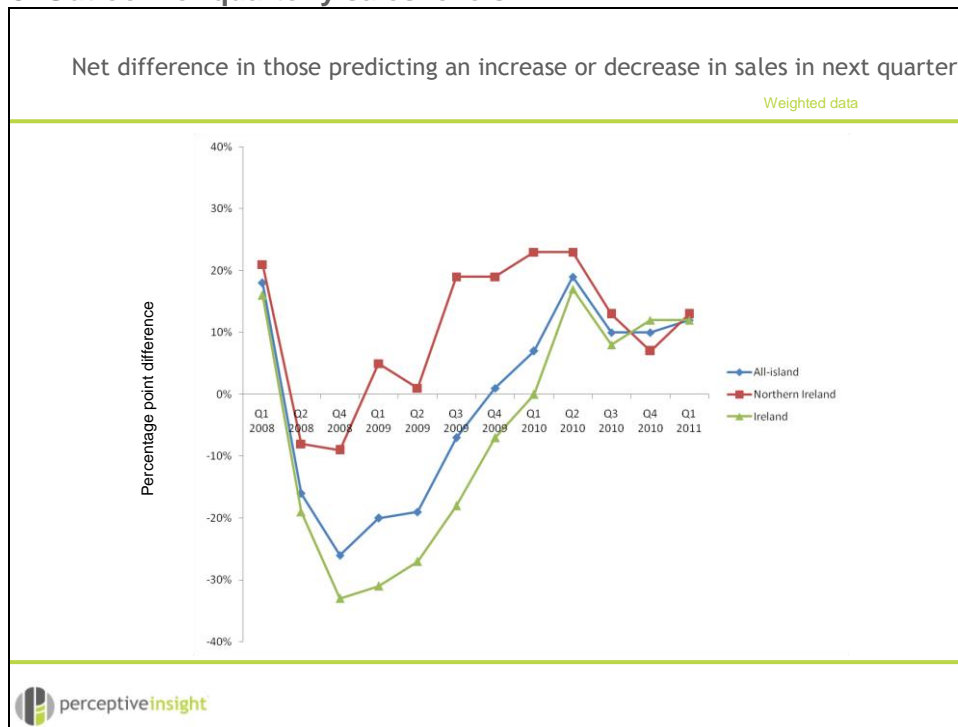
Sales levels

Looking forward to the next 12 months, 34% of businesses are optimistic that their level of sales will increase, with 22% expecting a decrease. Large and mid-size businesses are more positive than smaller enterprises, as are those who export and those who operate in business and other services. Business optimism levels are similar North and South.

Those based in Ireland are slightly more likely to be positive than Northern companies, with 35% expecting an increase compared with 33% in Northern Ireland. However, it should be noted that when looking at the net percentage point difference, sales optimism among NI businesses has increased for the first time since Q2 2010.

Analysis of the quarterly trends shows the percentages expecting their sales to increase or decrease remain at similar levels to the previous two quarters. Figure 1.3 shows the percentage point net difference between those expecting sales to increase and those predicting a decrease.

Figure 1.3: Outlook for quarterly sales levels



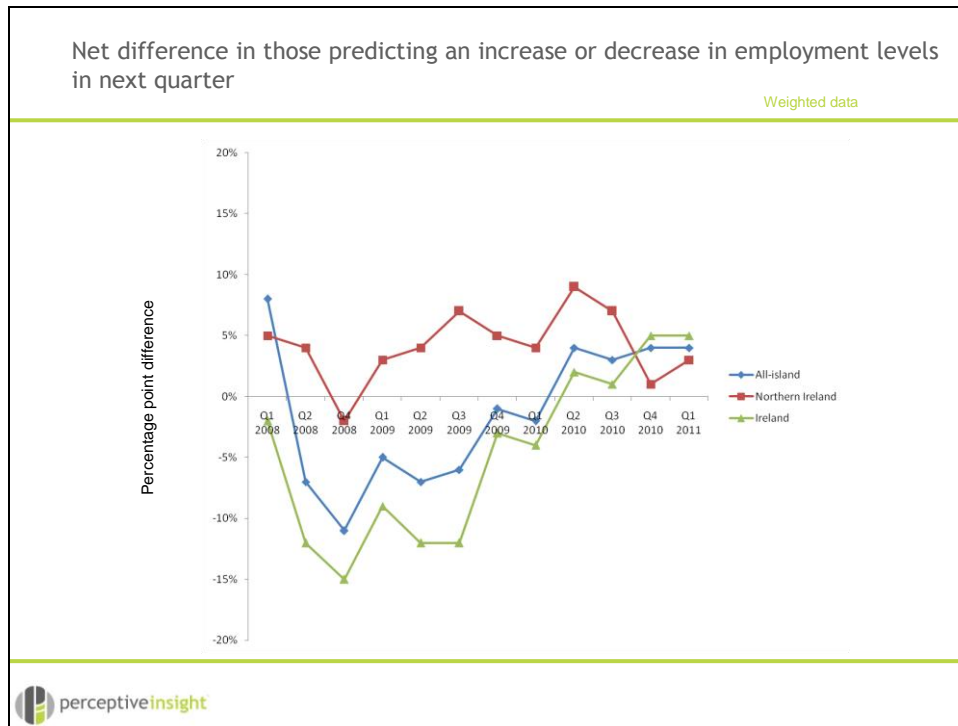
Employment levels

In terms of employment levels, slightly more businesses expect to take on new staff (13%) rather than let them go (9%). These figures are similar to the Q4 findings (with 14% expecting an increase and 10% a decrease). Those most likely to be hiring are larger companies (28%), and those in business services (19%), leisure, hotels and catering (19%) and manufacturing (16%). The sector most likely to be reducing numbers is construction (23%).

There is a marked difference in the percentage of export companies planning to increase their staff (20%) compared with those who do not export (9%).

Once again quarterly trends show a net gain overall in the percentages planning to recruit, versus the percentages planning to reduce numbers (+4 percentage points) (Figure 1.4).

Figure 1.4: Outlook for quarterly employment levels



Pricing

At an all-island level 19% say that they have increased their prices in the past 3 to 6 months, while 38% have reduced them. The quarterly trends show a move towards increasing prices, while the percentage reducing them has decreased.

While 39% of NI businesses have increased prices 12% have decreased them, with the balance maintaining prices at their current levels. The corresponding figures for Ireland are 10% who have made an increase and 49% who have reduced them. This indicates that much of the price increase trend can be attributed to companies in Northern Ireland.

The business environment

Cross-border and export activity

Thirty six percent of those surveyed say that they export outside their jurisdiction of either NI or Ireland and 28% engage in cross-border trade.

In terms of cross-border trade 37% of NI companies sell to Ireland while 24% of southern based companies trade northwards.

Key business issues

The rising costs of overheads (80%) continues to be the issue that businesses are most likely to say is causing them concern at the moment. This is followed by rising energy costs

and a reduction in demand (71%). Business and consumer confidence is an issue for 69%, as is cash flow for 66% of respondents. As might be expected in the current climate and given the low percentage who are recruiting, difficulty recruiting and lack of appropriate skills in the workforce are much less of an issue than they would have been previously.

The economy

The impact of the economy on business

Nine out of ten businesses report that the economic downturn has had either a severe or moderate adverse impact on their business. Just 2% of businesses say that the economic downturn has had a positive impact on their business while 7% believe it has had no impact at all. Over half say they have been severely affected (53%). Those based in Ireland are much more likely to have been severely affected (62%) compared with NI businesses (33%).

Profitability

In terms of profitability 30% of businesses report that they have not been able to remain profitable in the past 12 months. This issue has affected 17% of NI business and 36% of Irish businesses.

Payment terms

As a consequence of the economic downturn, 34% report that customers have requested longer payment terms, 61% lower prices and 58% discounts. These requests are much more likely to have been made to those based in Ireland compared to NI companies.

Impact of the economic downturn

This quarter we asked businesses to consider the impact that the economic downturn has had on their business over the past three years.

Current business position

When asked about the current position of their business, just 16% said they were in growth mode, and 37% described their business as stable. However, 10% said their business was contracting and one third (34%) reported that they were trying to survive at all costs. A further 3% said they were winding down their business.

Analysis by sector shows that those in construction are most likely to be struggling with 7% winding down, 49% in survival mode and 12% saying they are contracting. Analysis by region shows that businesses in the south are more likely to be either winding down, in survival mode or contracting (50% in ROI compared with 40% in NI).

Impact on turnover

Over two thirds (69%) have witnessed a decline in turnover since March 2008, with only 16% claiming an increase.

Those respondents in the construction sector were more likely to report a decrease, with 92% saying they have experienced a decline in turnover. Businesses in the South are more likely to have seen a decrease in their turnover (77%) than Northern companies (52%).

Impact on staffing levels

Almost one half (46%) of businesses have reduced their number of employees in the last three years, while only 8% have increased staffing levels. Once again it is the construction sector which seems hardest hit, with 79% reducing their number of employees.

Business performance

Over half (56%) of all respondents felt their business performance had either met or exceeded their expectations over the past three years. However two in five (41%) said they performed worse than expected.

Product and service diversification

On the whole, two in five (39%) businesses chose to diversify either into other products or services as a result of the downturn. Interestingly, it is mid-size companies who are most likely to have diversified over the past three years, with 45% of companies claiming to have done so.

Market diversification

In comparison with product diversification, businesses both North and South were less likely to have diversified in to other or new export markets in the past 3 years. Just 15% of all businesses had experience of this.

Business stress

When asked to what extent they had found running a business through the economic downturn stressful 58% of respondents had found it stressful to some extent; with one quarter (25%) saying it has been extremely stressful.

Outlook for next business year

The majority were positive about the outlook for the next business year, with 58% saying they were optimistic. However, one quarter (24%) remain pessimistic about the future.

Conclusions

The findings from this quarter continue to show that businesses are facing difficulties, increasing overheads and are struggling to stay profitable. In fact, 30% of respondents reported that they had not remained profitable in the past 12 months. As a result, 19% of businesses reported that they had increased their prices in the past 3-6 months, and 80% reported that rising overhead costs was the biggest concern for them at this time.

The construction sector has been hit particularly hard in the past quarter. They are most likely to have reduced employee levels, and 9% reported that they are winding down, with almost half (49%) in survival mode.

Despite this though, business optimism is still high, 58% said they were optimistic for the next year.