

**QUARTERLY BUSINESS MONITOR**  
JULY TO SEPTEMBER 2010  
**Detailed Findings**

# 1. Executive summary

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InterTradelreland has commissioned Perceptive Insight and Oxford Economics to conduct their 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

Over 1,000 telephone interviews were conducted with business managers on the island of Ireland. The sample was 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.

Interviewing took place during October 2010.

## Business performance

### Demand

While 30% of businesses have seen growth in demand for their products and services over the past quarter, 24% say there has been no change and 45% have witnessed a decline.

It is smaller businesses with 10 or fewer employees who appear to be having the hardest time with 48% saying there has been a decline in demand compared with 31% of mid-size and 26% of large-size businesses.

The sectors with the highest percentages experiencing a decline are leisure, hotels and catering (60%), construction (56%) and retail and distribution (5%). Demand for products and services for those in manufacturing appears to have improved on last quarter; 29% said there was a decline while 46% reported growth (compared with 54% decline and 27% growth in Q2).

Analysis by region shows that Southern based businesses have fared worst with 47% seeing a reduction in demand compared with 42% in Northern Ireland (NI).

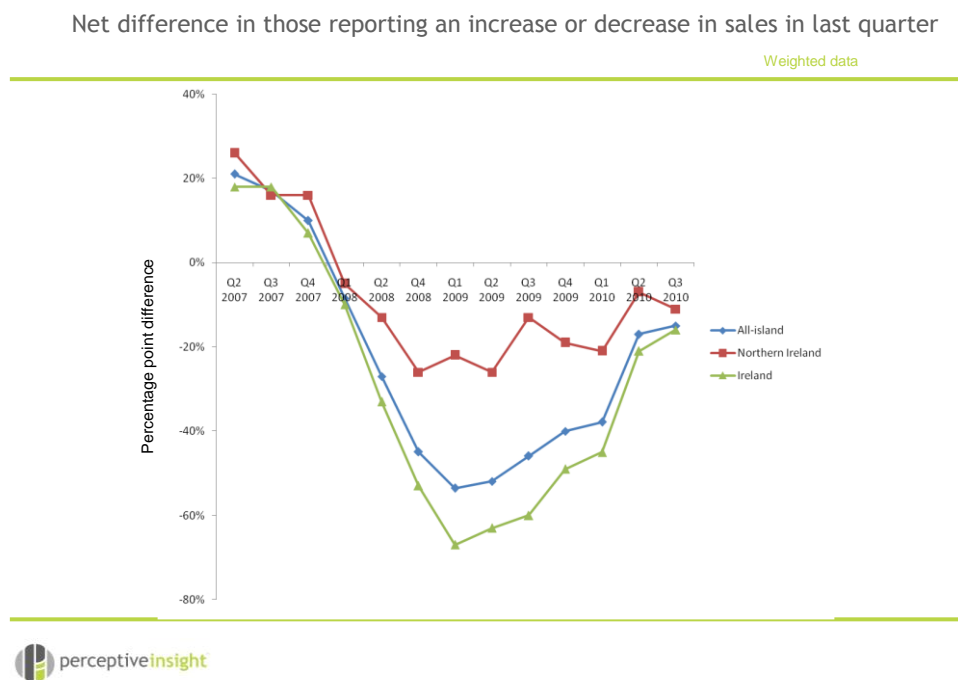
### Sales levels

When sales over the past quarter are analysed, it can be seen that they reflect a similar pattern to demand with 42% saying that they have decreased. Again it is the smallest businesses (45%), leisure, hotels and catering (58%), construction (57%) and retail and distribution (45%) and those in Ireland (43%) most likely to be affected by reduced sales.

Quarterly trends show that the percentage of businesses saying that sales have increased has remained fairly steady since last quarter (26% in Q1 and 27% in Q2) as have the percentages of those who report a decrease (43% in Q1 and 42% in Q2).

Figure 1.1 shows that percentage point difference between those reporting an increase in sales and those saying there has been a decrease.

**Figure 1.1: Changes in quarterly sales**



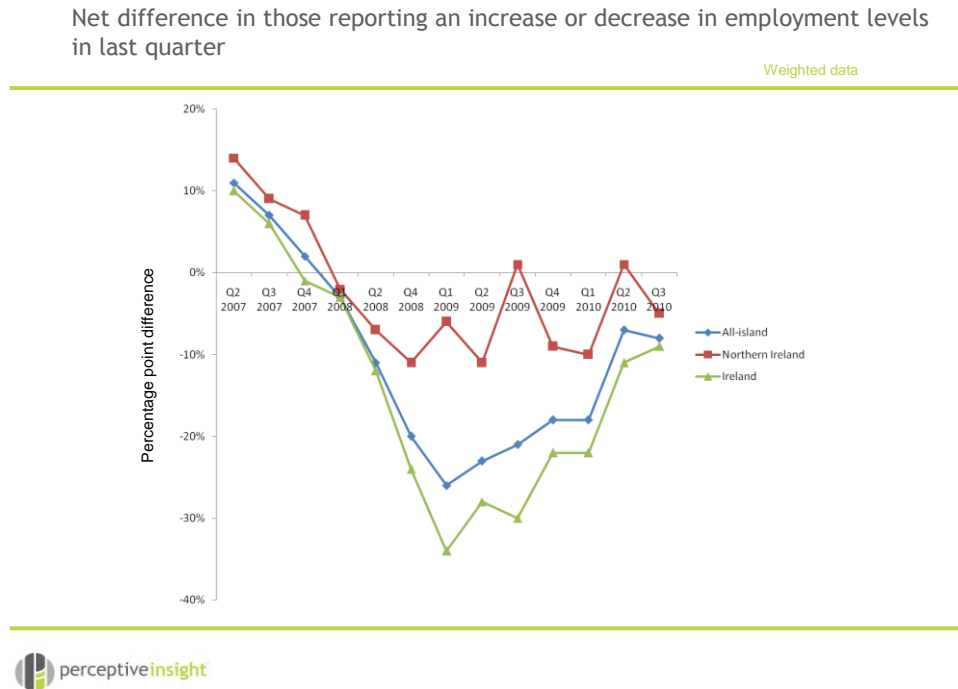
## Employment levels

While 8% report that they have taken on new employees in the last quarter, 16% say they have made a reduction in staffing levels. The construction sector appears to be hardest hit with 21% saying they have reduced numbers and 7% making an increase. Regional analysis shows that those based in Ireland are more likely to have reduced their levels of employment (18%) compared with NI based companies (12%).

Quarterly trends in employment levels show little movement since last quarter with the numbers hiring remaining at 8%, while those reducing numbers has changed from 15% to 16% between Q2 and Q3.

Figure 1.2 shows the percentage point net difference in those reporting an increase and those saying these has been a decrease in employment levels for their business.

**Figure 1.2: Changes in quarterly employment levels**



## Pricing

At an all-island level 42% say that they have decreased their prices in the past 3 to 6 months, while just 12% have felt able to increase them.

While 21% of NI businesses have increased prices 22% have decreased them, with the balance maintaining prices at their current levels. The corresponding figures for Ireland are 8% who have made an increase and 51% who have reduced them.

## Business outlook

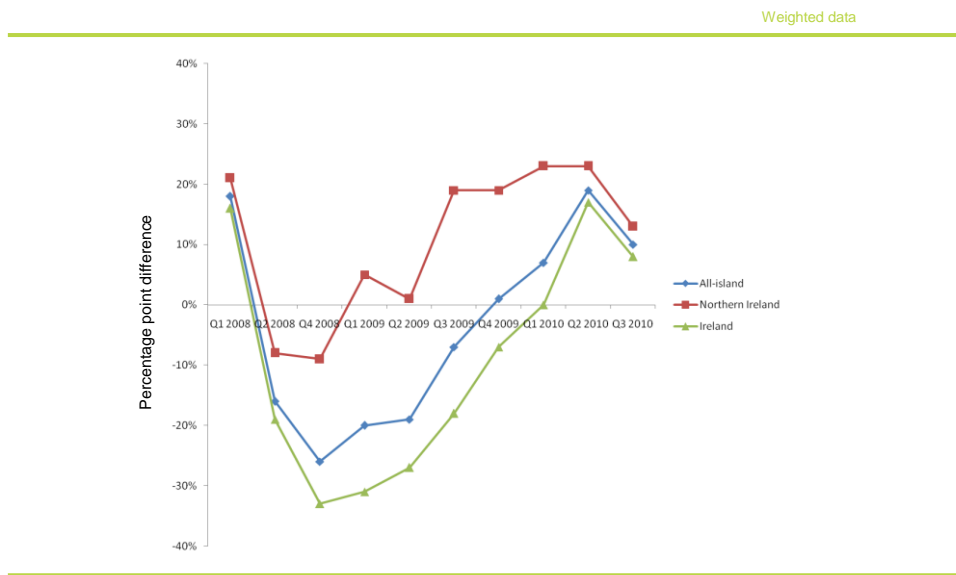
### Sales levels

Looking forward over the next 12 months 32% 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 operate in business services and manufacturing. Those based in NI are slightly more positive than Southern companies with 35% expecting an increase compared with 30% in Ireland.

Analysis of the quarterly trends show a decline in the percentages expecting their sales to increase, from 38% in Q2 to 32% in Q3. Those expecting sales to decrease is up slightly from 19% in Q2 to 22% in Q3. Figure 1.3 shows the percentage point net difference between those expecting sales to increase and those predicting a decrease. The decline in optimism, which has been growing since Q4 2008, is evident from Q2 to Q3.

Figure 1.3: Outlook for quarterly sales levels

Net difference in those predicting an increase or decrease in sales in next quarter

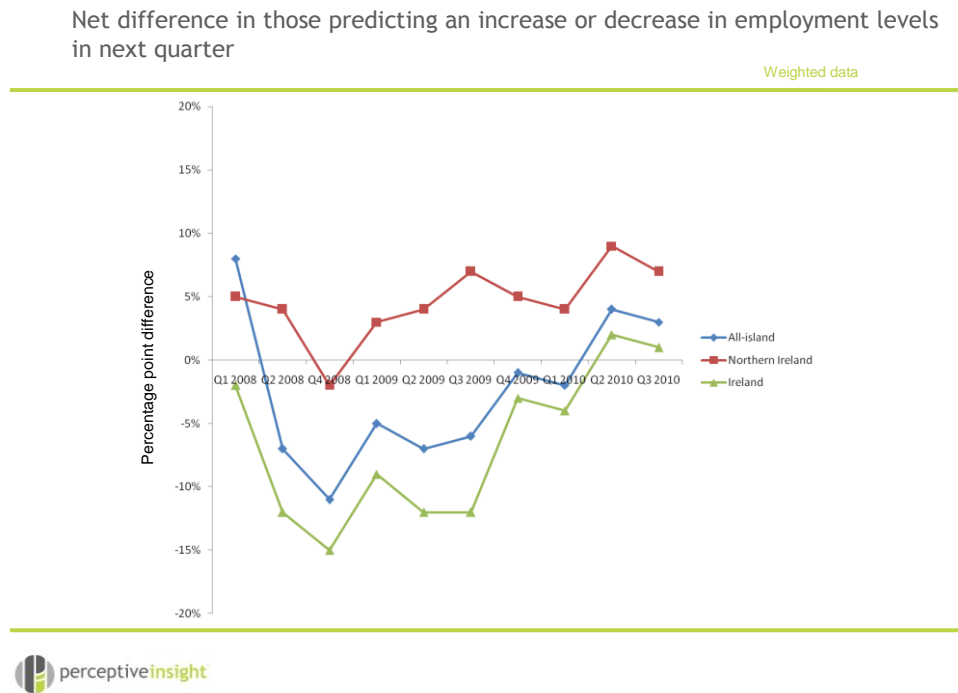


## Employment levels

In terms of employment levels slightly more businesses expect to take on new staff (13%) rather than let them go (10%). While large and mid-size companies are more likely to be hiring than small companies they are also more likely to be planning to reduce numbers. It is the manufacturing sector that is most likely to be planning for growth and NI based companies are slightly more positive than Southern businesses about future employment levels.

Quarterly trends show a net gain for the second quarter in a row in the percentages planning to recruit versus the percentages planning to reduce numbers (+3 percentage points) (Figure 1.4).

Figure 1.4: Outlook for quarterly employment levels



## Pricing

Analysis by region shows that NI companies are more confident that the market can sustain a price increase with 24% saying they expect to put prices up in the next year compared with 10% in Ireland.

## The business environment

### Cross-border and export activity

Thirty seven percent of those surveyed say that they export outside their jurisdiction of either NI or Ireland and 26% engage in cross-border trade.

A similar percentage of NI and Southern based companies say they export (37% and 38% respectively). In terms of cross-border trade 32% of NI companies sell to Ireland while 24% of southern based companies trade northwards.

### Business costs

It is interesting to note the percentage of businesses that do not have a budget for key activities including training (28%), IT (17%), research and development (43%), and recruitment (36%). However, this should be set in the context that 61% do not have a formal business plan. Of those that do have budgets a higher percentage is planning to increase their spending rather than reduce it, in all areas apart from recruitment. While 8% plan to increase their recruitment budget, 11% expect this cost to decrease.

## **Key business issues**

A number of interlinked issues are competing for the top spot in terms of their impact on business. They include rising costs of overheads (74%), a reduction in demand (71%), business and consumer confidence (70%), cashflow (64%) and rising energy costs (65%). 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.

## **Impact of the economic downturn**

Just 4% of businesses say that the economic downturn has had a positive impact on their business while 6% believe it has had no impact at all. However 36% report it has had a moderate adverse impact and 53% have been severely affected. The percentage saying that the downturn has had a severe impact has increased from 37% in Q1 to 51% in Q2 and to 53% in Q3. Those based in Ireland are much more likely to have been severely affected (61%) compared with NI businesses (36%).

In terms of profitability 30% of businesses report that they have not been able to remain profitable in the past 12 months, up from 28% in Q2. This issue has affected 18% of NI business and 35% of Irish businesses.

As a consequence of the economic downturn, 35% report that customers have requested longer payment terms, 67% lower prices and 64% discounts. These requests are much more likely to have been made to those based in Ireland compared to NI companies.

## **Banking relationships and access to finance**

While 70% of businesses claim to have a banking relationship manager, just 56% have a relationship manager that they can name.

Approximately one in six businesses (16%) believes that the relationship with their bank has deteriorated over the past year. Indeed 6% have either changed bank or are in the process of doing so, while a further 20% have considered this option. This indicates that approximately one quarter of businesses are not settled with their current banking arrangements.

Few businesses consider the terms of loans or overdrafts to be attractive (7% and 14% respectively). In addition approximately half believe that they would be successful if they applied for either a loan or an overdraft for their business. Even among those businesses that showed a profit in the last year 54% thought they would be successful if they applied for a loan and 59% if they applied for an overdraft.

Of the 16% of businesses that had applied for either an overdraft or loan approximately three quarters were successful. This suggests perhaps that businesses are more pessimistic about their chances of obtaining finance than the actual incidence of bank lending.

One in five businesses have approached their bank to restructure credit arrangements and a further 10% have been approached by their bank to do so. Ten percent have been asked by their bank to convert their overdraft to a loan and 7% have had their overdraft limit reduced, The majority of those that have had to convert their overdraft or reduce its limit were dissatisfied with the outcome of the approach that was made from the bank.