

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 were 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 Q4 2010 took place during January 2011.

Business performance

Sales levels

While 19% have seen an increase in sales over the past quarter (Q4), 28% report no change and 52% say that sales have decreased giving a net difference of -33% points. This compares with a net difference of -15% in Q3. The trend data shows that after six months of 'less harsh trading', businesses are now facing sales conditions similar to Q1 2010 (Figure 1.1).

Similar to previous quarters, those most likely to be affected by a decrease in sales are smaller businesses (54%). The leisure, hotel and catering sector appears to have been hit quite hard in the past quarter with 71% saying sales have declined.

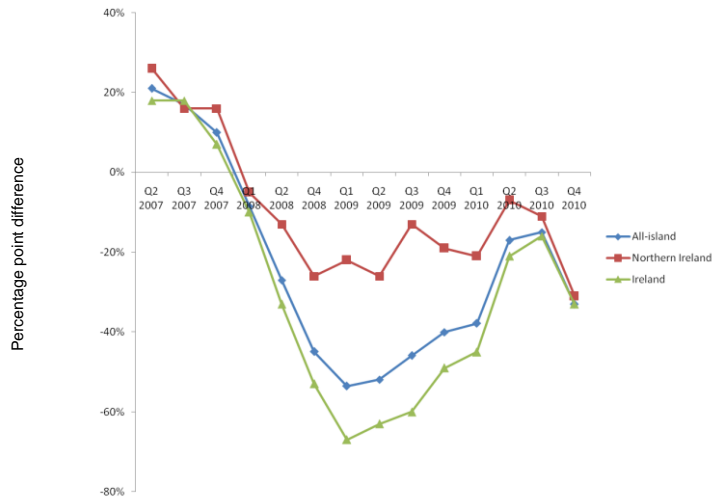
The sector which, on balance, is fairing better than others at the moment is manufacturing, possibly because of its export activity. While 27% have reported an increase in sales, 46% have reported a decline giving a net difference of -19% points. Indeed the net difference among export companies is -18% points compared with -41% points for those that do not export.

The findings North and South are similar with a net difference of -32% points for NI business and -34% points for those in Ireland.

Figure 1.1: Changes in quarterly sales

Net difference in those reporting an increase or decrease in sales in last quarter

Weighted data

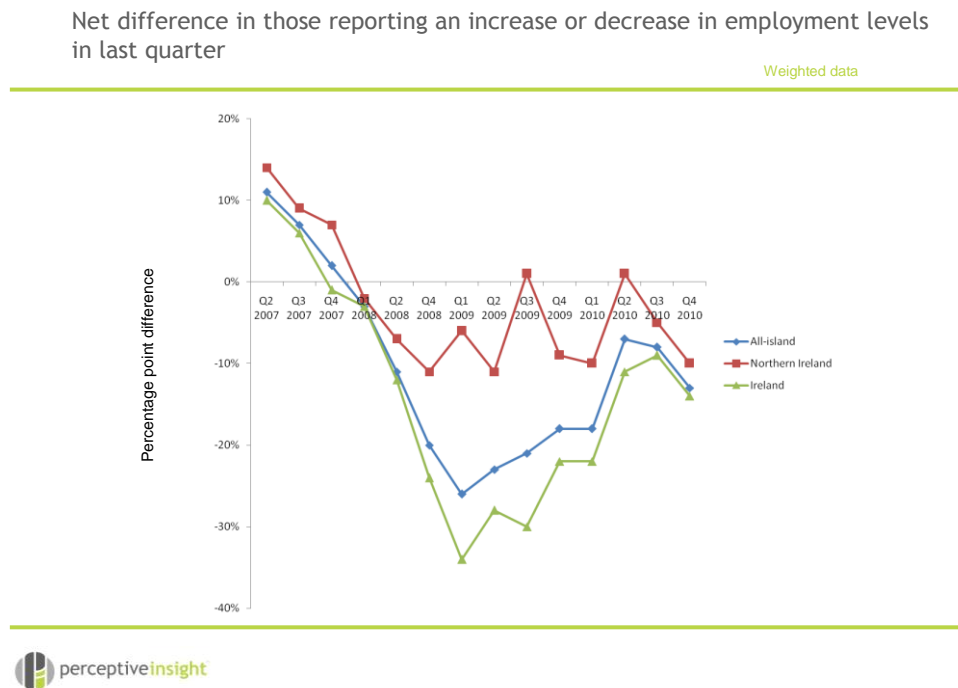


Employment levels

While 5% report that they have taken on new employees in the last quarter, 18% say they have made a reduction in staffing levels, giving a net balance of -13% points. Quarterly trends in employment levels show a little negative movement since last quarter, with the percentage hiring decreasing from 8% to 5%. The percentage reducing staff numbers has changed from 16% to 18% (Figure 1.2).

Analysis by sector shows that it is those in construction (-18% point net difference) and leisure, hotels and catering (-25% point net difference) who are most likely to have reduced employee levels. Also those who do not export (-16% point net difference) are more likely to have reduced numbers than those who export (-6% point net difference).

Figure 1.2: Changes in quarterly employment levels



Business outlook

Sales levels

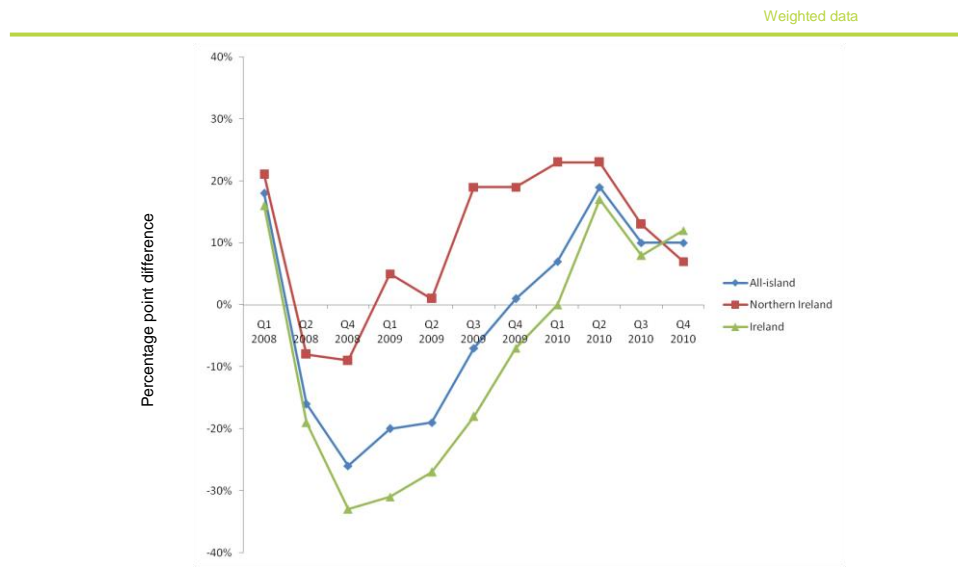
Looking forward to the next 12 months, 32% of businesses are optimistic that their level of sales will increase, with 22% expecting a decrease. Large and mid-size businesses are more positive than smaller enterprises, as are those who export and those who operate in business services.

Those based in NI are slightly more likely to be positive than Southern companies, with 33% expecting an increase compared with 31% in Ireland. However, it should be noted that when looking at the net percentage point difference, sales optimism among NI businesses has been decreasing over the past two quarters.

Analysis of the quarterly trends shows the percentages expecting their sales to increase or decrease remain at similar levels to Q3 2010. 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

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



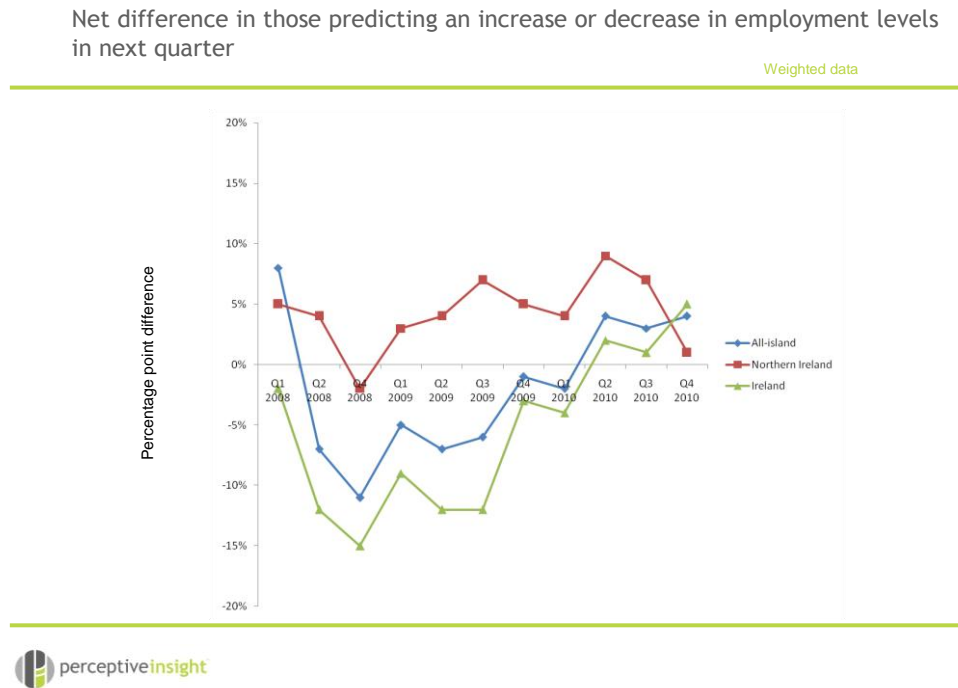
Employment levels

In terms of employment levels, slightly more businesses expect to take on new staff (14%) rather than let them go (10%). Those most likely to be hiring are mid-size companies (23%), and those in business services (17%) and manufacturing (16%). The sectors most likely to be reducing numbers are construction (17%) and leisure, hotels and catering (17%).

There is a marked difference in the percentage of export companies planning to increase number (23%) compared with those who do not export (9%).

Quarterly trends show a net gain overall, for the third quarter in a row, in the percentages planning to recruit, versus the percentages planning to reduce numbers (+4 percentage points) (Figure 1.4). However analysis by region shows a downward trend for NI businesses over the past two quarters, with a slight increase for companies based in Ireland.

Figure 1.4: Outlook for quarterly employment levels



Pricing

At an all-island level 37% say that they have decreased their prices in the past 3 to 6 months, while just 14% have felt able to increase them.

While 26% of NI businesses have increased prices 17% 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 45% who have reduced them.

The business environment

Cross-border and export activity

Thirty four percent of those surveyed say that they export outside their jurisdiction of either NI or Ireland and 25% engage in cross-border trade.

A similar percentage of NI and Southern based companies say they export (37% and 34% respectively). In terms of cross-border trade 32% of NI companies sell to Ireland while 22% of southern based companies trade northwards.

Key business issues

The rising costs of overheads (75%) continues to be the issue that businesses are most likely to say is causing them concern at the moment. This is followed by a reduction in demand (71%), and rising energy costs (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 costs of doing business

In relation to the costs of overheads, businesses are most likely to have witnessed an increase in energy costs (69%) and transport costs (59%). (This is most likely linked to the rising price of oil. Also December has been one of the coldest months on record for quite a number of businesses on the island of Ireland). Half of businesses have also witnessed an increase in supplier costs compared with 12 months ago, while 49% have seen an increase in the cost of insurance and professional fees. Few businesses report that they have reduced costs across the range of business areas. The areas where cost reductions are most common are staff (16%) and rent and building costs (13%). It should be noted that businesses in Northern Ireland were more likely than those in the South to say that costs have increased significantly in each of the areas.

Looking ahead to the next 12 months approximately one third of businesses are expecting a significant increase in their energy and transport costs; 38% expect no significant increase in any area. In terms of cost reductions, the majority (82%) predict no significant decreases although 7% are expecting to significantly reduce staff costs.

Interestingly, businesses in the South are more likely than those in NI to have switched supplier for electricity (37% vs 18%), telecoms (30% vs 16%) and insurance (20% vs 17%), even though those in NI are more likely to have reported a significant increase in costs for each of these products.

Cross border postal services

Cross border postal services are used by 12% of businesses, with 16% of NI businesses using them compared with 10% in the South. The majority of those that use cross-border postal services are satisfied with the service overall (75%), the reliability (78%), the time of day mail is delivered (77%), with approximately one in ten dissatisfied with each of these aspects. However 27% report that they are dissatisfied with pricing. Businesses based in NI are much more likely to be dissatisfied with all aspects, apart from pricing, where dissatisfaction levels are similar in each region.

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 3% 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. Over half say they have been severely affected (54%). Those based in Ireland are much more likely to have been severely affected (61%) compared with NI businesses (38%).

Profitability

In terms of profitability 28% of businesses report that they have not been able to remain profitable in the past 12 months, down from 30% in Q2. This issue has affected 21% of NI business and 30% of Irish businesses.

Payment terms

As a consequence of the economic downturn, 37% report that customers have requested longer payment terms, 62% lower prices and 62% discounts. These requests are much more likely to have been made to those based in Ireland compared to NI companies.

Impact of the 'bail out' in the South

Businesses were asked what impact they thought the bail out would have on both the economy in their jurisdiction and on their own business. While 65% predicted an adverse impact on the economy just 46% thought it would have an adverse impact on their business.

As might be expected those in the South were more likely to say there would be an adverse impact on the *economy* there (69%) compared with 52% who thought it would adversely impact the *NI economy*. While 54% of businesses in the South predicted an adverse impact from the bail out on their *business*, 30% of NI businesses thought the same.

Business support initiatives

While one third of businesses (34%) are aware of InterTradelreland as an organisation fewer are aware that they provide business support (27%). Awareness levels for support are lower among those based in the South (25%) compared with NI businesses (32%).

As a benchmark, 84% of NI businesses are aware that Invest NI provides business support and 90% of Southern businesses are aware of this role by Enterprise Ireland.

Use of the various agencies for business support was low. In NI 9% of businesses had used Invest NI, 5% their local enterprise agency and 1% InterTradelreland. In the South 8% had used Enterprise Ireland, 3% FAS and 1% InterTradelreland.

The areas that businesses are most likely to be interested in for support are sales development and, strategy development and business planning. Larger businesses are more likely to want support for innovation. Those who currently export are much more likely than those who do not to want support on importing and exporting.

The main difficulty that businesses have encountered when seeking business support from government agencies is the volume of bureaucracy.

Conclusions

After six months of 'less harsh' trading conditions, it appears that Q4 of 2010 has been a difficult one, with over half (52%) of businesses witnessing a decline in sales activity. Of note is the difficulties faced by smaller businesses and those operating in the leisure, hotel and catering sector. Those fairing better in the current conditions are exporters, larger

businesses and the manufacturing sector¹. Adding to the woes are the increasing costs of doing business particularly in the areas of energy and transport.

The figures point to evidence of a two-tier economy, with exporters doing better because of the more positive global economy. However those that rely on the domestic market are struggling due to lack of demand, increasing costs and the internal market not willing to accept price increases.

The Q3 survey found that just 39% of businesses had a formal business plan. Therefore perhaps it is not surprising that business planning and strategy development is the area businesses are most likely to be interested in for support.

¹ It should be noted that larger businesses and those in manufacturing are more likely to be exporters.