

Business Sentiment Report



Business confidence

Q4 2012

Rebound in export expectations good news for 2013

The Q4 IBEC Business Sentiment Survey was conducted in late November, ahead of Budget Day. Confidence in the overall business environment improved slightly in the final quarter of the year, with the current conditions index at -13 and the forward-looking index at -14. Both had recorded a reading of -19 in Q3.

The final quarter saw also an improvement in CEOs' assessment of their own businesses, both the current state and future outlook. The current conditions index rose to +15 from +10 in the previous quarter and was substantially higher than the reading of +4 recorded in Q4 2011. However, the improvement in the three-month outlook was more muted, with the index rising to +10 from +6 in the previous quarter and -3 in Q4 2011.

Export expectations rebounded to +33 from +12 in the third quarter and +29 at the end of 2011. The shift is driven by improved expectations across a range of sectors, but especially those where sales forecasts had softened in the middle quarters of the year. Of the modern sectors, med tech has consistently reported strong sales expectations. ICT services and pharma had shown a more muted (though positive) sentiment in the middle quarters, but rebounded strongly in Q4. Of the traditional sectors, food and drink also recorded a strong, positive reading. Encouraging is the strong recovery in metals and engineering manufacture as well as rubber and plastics products, sectors which had appeared to suffer most from the eurozone downturn.

At -3 in Q4 2012, the index for domestic sales remained unchanged on the previous quarter, and was substantially improved on the Q4 2011 reading of -17. Ahead of Budget 2013, managers were likely concerned over the impact on their customers, businesses and consumers alike. A pre-budget dip in sales expectations was evident in both 2010 and 2011. This year, however, it would seem that a tentative recovery in demand has largely outweighed the negative trend, leaving domestic sales expectations unchanged.

The index on employee numbers recovered in Q4 to -2 from -9 in Q3 and -8 in Q4 2011. We ask for managers' plans for the coming three months, so very broadly, a Q3 reading in our index should forecast Q4 developments in the labour market. In Q3, the private sector added about 20,000 employees, reflecting a strengthening in our index in Q2. While weaker sentiment in Q3 hints towards a weaker labour market outturn at the end of the year, the strengthening sentiment in Q4 bodes well for the start of 2013. This is also helped by a budget which did not significantly add to labour costs.

Indicator (balance of respondents)	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Business confidence currently - overall	-16	-18	-19	-14
Business confidence 3 months' time - overall	-11	-14	-19	-13
Business confidence currently - own business	+16	+5	+10	+15
Business confidence 3 months' time - own business	+18	+6	+6	+10
Domestic sales	-2	-9	-3	-3
Export sales	+43	+20	+12	+33
Order books	+27	+12	+12	+15
Unit selling price	-9	-11	-9	-16
Profitability	+2	-2	-11	-2
Customer base	+23	+18	+21	+21
Employee numbers	-4	-2	-9	-2

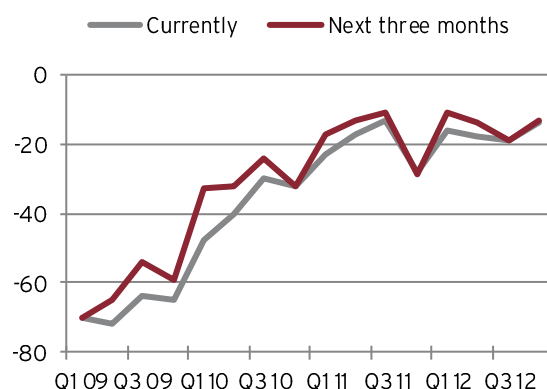


Business confidence - overall business environment

Confidence in the overall business environment improved slightly in the final quarter of the year, with the current conditions index at -13 and the forward-looking index at -14. Both had recorded a reading of -19 in Q3.

Overall, exporting companies held significantly more positive attitudes, with a reading of -6 on the current conditions and -2 for the three-month outlook, compared to -27(current) and -29 (three-month) for non-exporters. Both sectors had recorded improvement from Q3, with exporters reporting a larger improvement on the future outlook and non-exporters on current conditions as the main difference between the two. This difference likely reflects the fact that exporters are largely insulated from the challenges that still face the domestic market.

Overall business environment

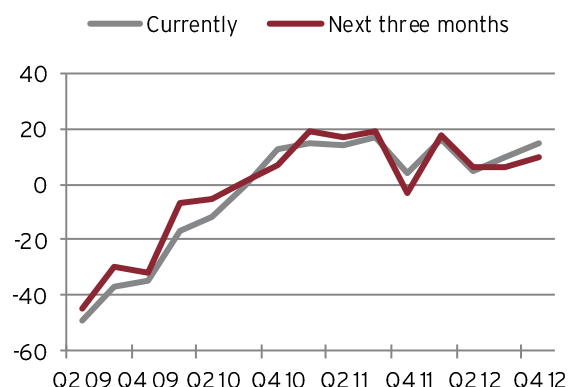


Business confidence - own business

Following two difficult middle quarters, Q4 2012 saw a slight improvement in managers' assessment of both the current state and future outlook of their own business. The current conditions index rose to +15 from +10 in the previous quarter and was substantially higher than the reading of +4 recorded in Q4 2011.

The improvement in the three-month outlook was more muted, with the index rising to +10 from +6 in the previous quarter and -3 in Q4 2011. Despite the improvement in confidence, it is clear that prevailing uncertainty both domestically and internationally is weighing on managers' outlook. Since the survey was conducted prior to Budget 2013, concerns over increased labour costs may have played a particular role.

Own business

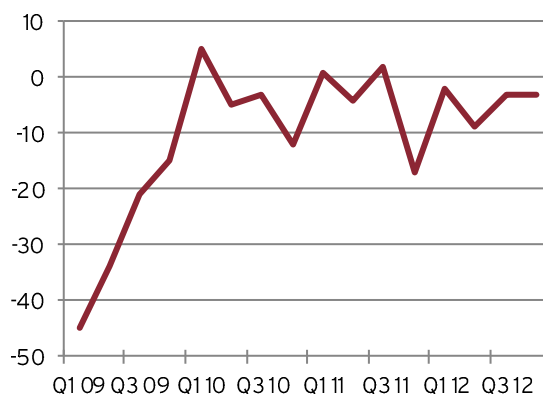


Domestic sales

At +3 in Q4 2012, the index for domestic sales remained unchanged on the previous quarter, and was substantially improved on the Q4 2011 reading of -17. Two counteracting forces appear to be in play, leading to a stabilisation in the index.

Ahead of Budget 2013, managers were likely concerned over the impact on their customers, businesses and consumers alike. A pre-budget dip in sales expectations was evident in both 2010 and 2011. This year, however, it would seem that a tentative recovery in demand has largely outweighed the negative trend, leaving domestic sales expectations unchanged. Nonetheless, the index remains in negative territory, pointing to falling sales, albeit at a slower place.

Domestic sales

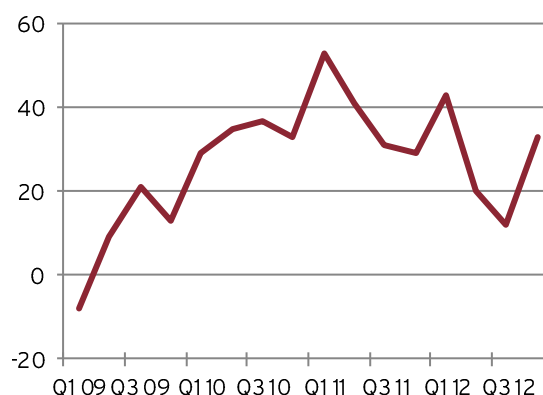


Export sales

The final quarter of the year saw a rebound in firms' export expectations to +33 from +12 in the previous quarter and +29 recorded at the end of 2011. The shift is driven by improved expectations across a range of sectors, both those where sentiment had remained relatively high and those where sales forecasts had softened as a result of weaker external demand.

Of the modern sectors, med tech has consistently reported strong sales expectations. ICT services and pharma had shown a more muted (though positive) sentiment in the middle quarters, but rebounded strongly in Q4. Of the traditional sectors, food and drink also recorded a strong, positive reading. Encouraging is the strong recovery in metals and engineering manufacture as well as rubber and plastics products, sectors which had appeared to suffer most from the eurozone downturn.

Export sales

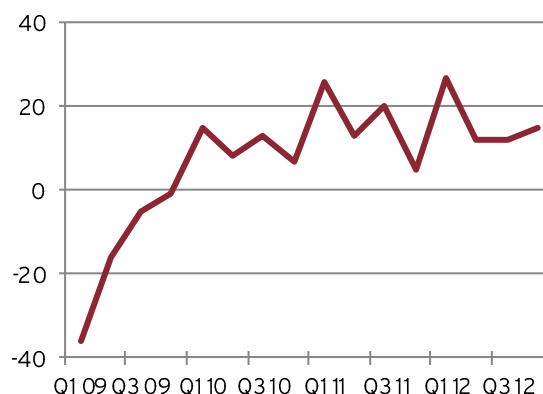


Order books

Managers' expectations on order books for the coming three months ticked up to +15 from a reading of +12 in the previous quarter and +5 in Q4 2011. Although the Q4 reading is below the series high of +27 recorded at the start of the year, it is in line with the average for the past two years.

Particularly encouraging is the improvement in exporters' sentiment, which strengthened to +18 from +11 in Q3, reflecting the improved export sales forecasts. The pattern of the two indices is quite similar. Most high tech firms continue to report strong order books expectations, while the more traditional manufacturing sectors show a marked improvement following a couple of quarters of weak sentiment.

Order books

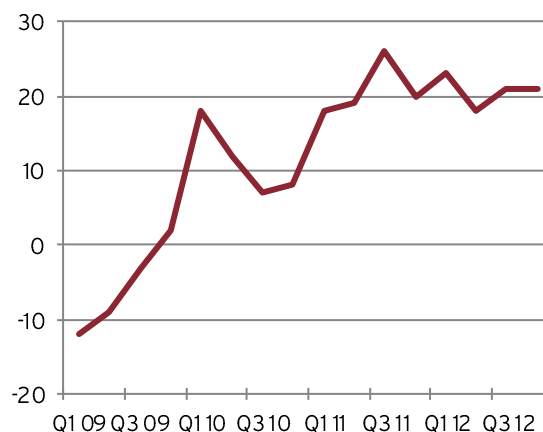


Customer base

Q4 2012 saw no change in managers' expectations about customer base, and the index remained stable at +21. Only 17% of firms expect their customer base to decline in the coming three-month period, 38% expect an increase, and 46% expect no change. These proportions are largely unchanged on the Q3 reading.

The detailed sectoral data show that medtech, pharma and ICT services all continue to record strong, positive expectations about customer base. Encouragingly, rubber and plastics, electronics and the catch-all category other manufacturing recorded an improvement; however, retail, wholesale and hospitality reported weakened expectations.

Customer base

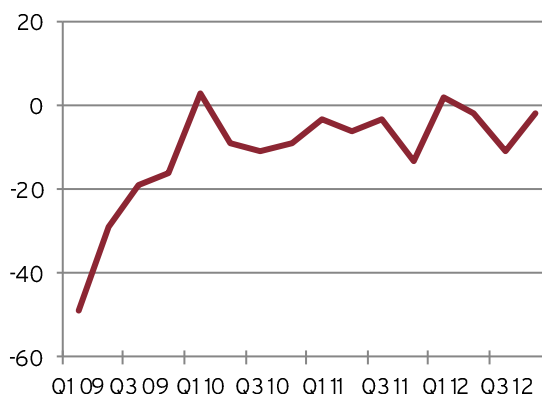


Profitability

Expectations about profitability improved in Q4 to -2 from -11 in the previous quarter and -13 recorded in Q4 2011. Despite the negative Q3 reading, the four-quarter moving average at -3 is at a series high, pointing to an upward trend in profitability.

Since pricing pressures remain across many sectors, profitability is a key driver in stabilising profitability levels. A separate indicator shows that 43% of firms expect to improve productivity in the coming three months. This proportion has remained fairly stable since Q2 2011, when we first included the question in the sentiment survey, indicating the emphasis firms are placing on effective use of all resources.

Profitability

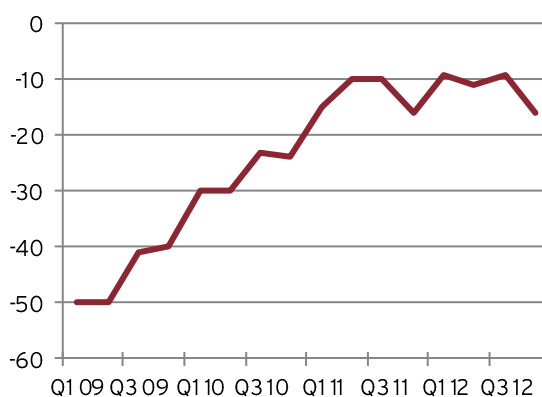


Unit selling price

Managers' expectations on unit selling prices fell to -16 in Q4 from -9 in the previous quarter, but were stable relative to Q4 2011. On-going weakening of expectations among exporting companies, a dip to -15 from -7 in the previous quarter, accounts for the quarterly change. In contrast, for firms with domestic sales only, the index was virtually unchanged at -13.

The food sector had reported stronger price expectations, likely thanks to higher global commodity prices. However, following a recent moderation at global level, price expectations of Irish-based firms are now balanced. In contrast, the pharma sector, which had reported negative price expectations for a few quarters, saw a recovery to a balanced reading as well.

Unit selling price

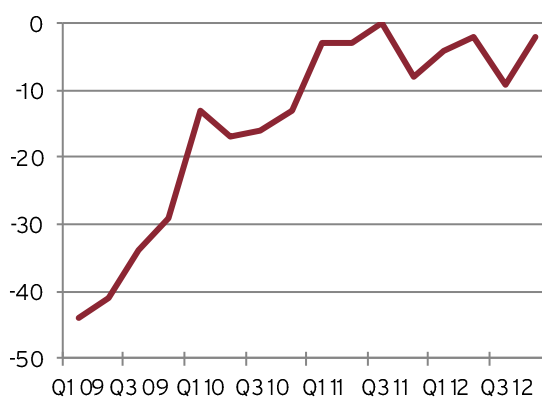


Employee numbers

The index on employment expectations recovered in the final quarter of the year to -2 from -9 in the previous quarter and -8 a year previously. We have mapped the index to labour market data from the CSO, and find that our indicator is a reasonably good predictor of actual private sector employee trends.

We ask for managers' intentions for the coming three months, so very broadly, a Q3 reading in our index should forecast Q4 developments in actual labour market data. In Q3, the private sector added about 20,000 employees, reflecting a strengthening in our index in Q2. While weaker sentiment in Q3 hints towards a weaker labour market outturn at the end of the year, the strengthening sentiment in Q4 bodes well for the start of 2013. This is also helped by a budget which did not significantly add to labour costs.

Employee numbers



Methodological note

The Business Sentiment Report is based on a survey of manufacturing and services firms and presents the balance of respondents' sentiment for a series of indicators. Each quarterly sample consists of about 400 IBEC member companies.

The report findings are presented as simple balances of the difference between the positive and negative responses. A positive balance indicates that more firms responded positively than negatively to a particular question; for instance, a positive balance for order books means that a greater percentage of firms expect order books in the coming months to be higher rather than lower.

Four confidence questions ask firms to rate the overall business environment and their own business, currently and in the next three months. Possible answer options for each question are very good, good, average, poor and very poor.

Activity-based indicators ask companies to rate their expectations in three months' time on a range of indicators such as order books, profitability and employment levels. Possible answer options for each indicator are decrease substantially, decrease slightly, stay the same, increase slightly and increase substantially.

IBEC

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