



Business Sentiment Survey

Q1 2014

Domestic confidence catching up

Managers confidence in the Irish business environment continued to grow in Q1 2014 reaching a series high of +42. In addition future expectations improved dramatically at the start of 2014 rising to +51 from +2 in the same period in 2013.

Survey figures suggest the economic rebalancing first seen late last year has continued with own firm expectations among firms in the domestic economy (+30) converging on confidence in exporting companies (+55). Gaps still remain, however, particularly on indicators of profitability and sales value reflecting strong domestic price competition.

Hiring sentiment has remained positive (+13) and stable suggesting that recent strong employment growth will continue into the new year.

Business confidence - Overall business environment



Overview

The surge in business confidence seen in the final two quarters of 2013 has continued into 2014. Managers' confidence in the overall business environment has improved significantly in the first quarter of the year while own business confidence has continued to show strong numbers despite slight drop off in Q1.

This slight drop off in own business confidence has been driven by a fall among non-exporting firms. This is a disappointing turn of events particularly given that there was a sharp upturn in confidence among firms focused on the domestic economy toward the end of 2013. The index for of non-exporting firms is still positive, however, with own business confidence at +19 down from a reading of +26 in Q4 2013. Survey figures, however, indicate this is expected to be a temporary drop with firms future expectations (+37) and own business confidence excluding seasonal factors (+30) recording stronger readings.

Notably recent months have seen a large drop in the numbers of firms with low levels of business confidence with the vast majority of firms either positive or neutral about the current condition of the economy and their firms. Only 10% of exporters and 12% of non exporters were negative about their companies outlook over the next three months compared to figures of 12% and 22% for the current state of their business suggesting firms expect business conditions to improve as the year goes on.

Hiring intentions showed exceptional improvement in in final quarter of 2013 mirroring an upturn in the real economy. Firms hiring expectations were again strong in Q1 (+13) indicating that firms expect to continue hiring over the next three months. Crucially these positive employment expectations are spread fairly evenly across both exporting and non-exporting firms.

Business sentiment has improved or remained relatively stable among all of our indicators; with particular improvement in domestic sales expectations (+34). This bodes well for an expected upturn in domestic consumption which had been puzzlingly absent following increases in employment in the second half of 2013.

Finally, after steep falls in unit selling price expectations for most of the past four years Q1 2014 saw the first increase since our survey began in 2009. Along with stable and positive sales and customer base figures this should bode well for companies turnover early in 2014.

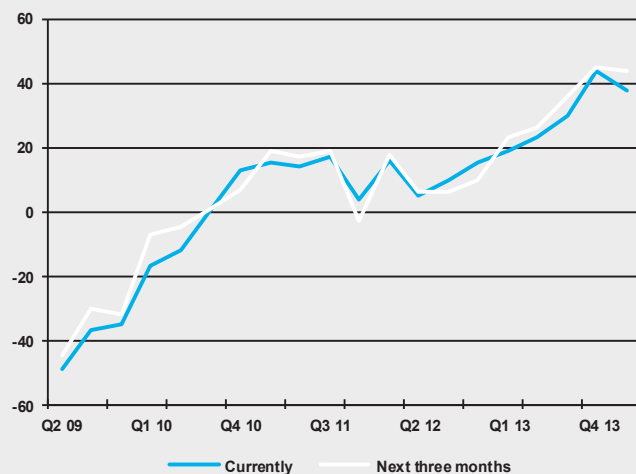
Indicator (balance of respondents)	Q2 2013	Q3 2013	Q4 2013	Q1 2014
Business confidence currently – overall	-5	17	35	42
Business confidence 3 months time – overall	2	25	38	51
Business confidence currently – own business	23	30	44	38
Business confidence 3 months time – own business	26	36	45	44
Domestic sales	10	18	27	34
Export sales	31	37	47	51
Order books	20	32	46	43
Unit selling price	-12	-2	-2	3
Profitability	10	12	24	24
Customer base	30	34	41	39
Employee numbers	5	3	16	13

Business confidence – own business

Own business confidence fell for the first time since Q1 2012 in Q1 2014 after a slight decrease in expectations. This, however, is still almost twice the level it was in Q1 2013. The current conditions index was +38, down from +44 in Q4 2013, and the forward-looking index was +44, down 1 on the previous quarter.

This fall came solely off the back of decreases in confidence among firms trading domestically with exporting firms actually recording +1 increases in both current and future indices. The effects must be taken in context with business confidence almost twice as high as it was in Q1 2013 signifying that the strong domestic recovery is continuing at a stable pace.

Business confidence - Own business

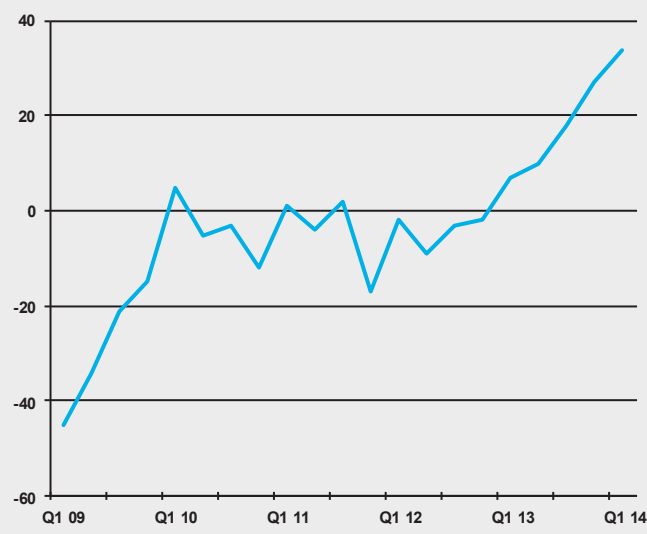


Domestic sales

The Ibec business sentiment index of domestic sales expectations reached a record high of +34 in Q1 2014 up from +27 in Q4 2013. Recovery in domestic sales continues to be a driving force behind overall strong business sentiment.

Rising employment and consumer sentiment in 2013 did not lead to rises in the value of consumer spending partly on the back of strong discounting among domestic retailers. However, sales volumes have been increasing early in 2014 growing 2.2% year-on-year in April. Rising unit selling price expectations in addition to positive domestic sales figures signal expectations of some turnover growth in the coming months.

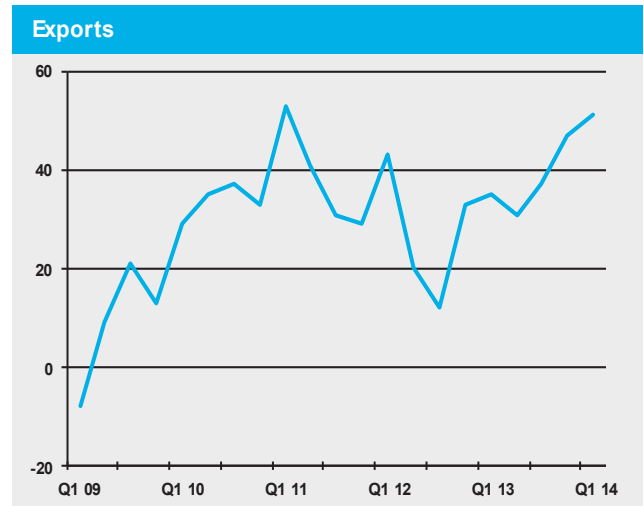
Domestic sales



Export sales

Expectations for export sales over the next three months increased to a measure of +51, up from +47 in Q4 2013 with the series now at a three year high. Two years of falling expectations were reversed in late 2013 although this has yet to be seen in the value of export sales which have been heavily affected by the Pharma patent cliff.

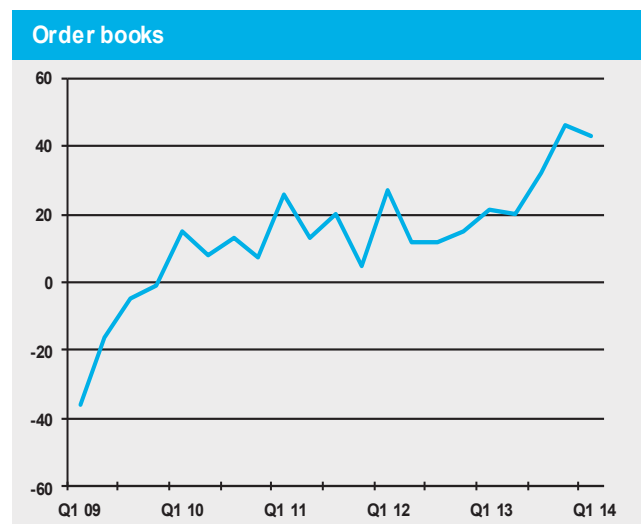
Own business confidence in the pharmaceutical sector has remained broadly stable and positive over the past year. Confidence in the overall business environment, however, has increased significantly in Q4 of 2013 and Q1 of 2014. Ibec expects the worst of the effects of the Pharma patent cliff to be over although some effects will continue to be seen during the 2014.



Order books

Managers' expectations for order books were broadly stable in Q1 2014 with an index reading of +43, compared with +46 in Q4 2013. This is a significant rise on the same period on 2013 (+21).

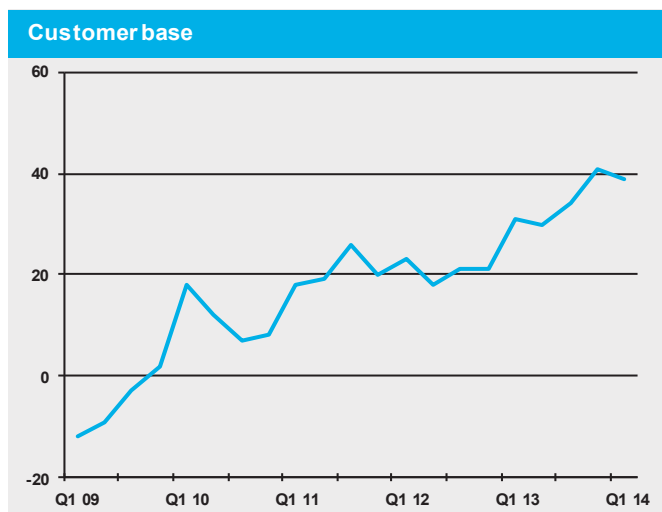
In recent months expectations among exporters (+51) have risen at a more dramatic rate than non-exporters. This trend has been reversed in Q1 figures with a fall in expectations among exporters from +51 to +45 and a rise in expectation among non-exporters (+36 to +40). This is indicative of the re-balancing of the economy which has been evident in recent months. Forward looking indicators of domestic confidence are up across the majority of our series.



Customer base

2013 saw rising positive results for Managers' customer base expectations throughout 2013. This culminated in a series high measure of +41 in Q4 2013. Q1 2014 has seen the series remain broadly stable recording a reading of +39 in Q1 2014.

Much of 2013 had seen a sharp divergence in expectations between managers of trading a non-trading firms. This trend moved toward convergence in expectations between these firms seen late in 2013 thanks to a large increase in positive sentiment among managers in non-exporting companies (+33) and static sentiment among those in companies trading internationally (+46) in Q4 2013. Q1 2014 has seen this relationship remain broadly stable with measure of (+45) and (+32) for trading and non-trading firms respectively.

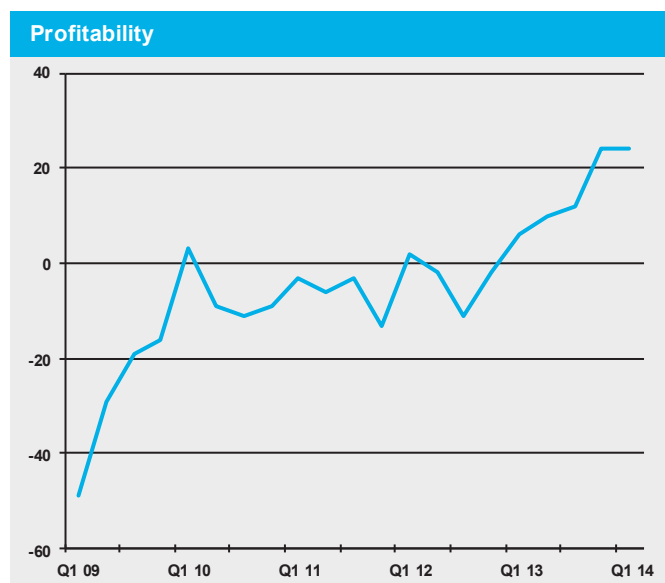


Profitability

Following strong positive growth in Managers' profitability expectations during 2013 expectations about profitability remained stable in Q1 2014 at a series high of +24.

Expectations of profitability continue to be positive for both exporting and non-exporting firms. Sentiment is, however, much higher among firms selling into international markets (+31) than those selling solely in the domestic economy (+13). There has been some convergence in expectations, however, with exporting firms down 2 points since Q4 2013 and non-exporting firms up 3 points over the same period.

When looking at a sectoral breakdown profitability continues to be a concern among manufacturing companies. This is particularly the case for those in the food and drink sector (-13), whose profitability expectations have now been negative for three consecutive quarters.



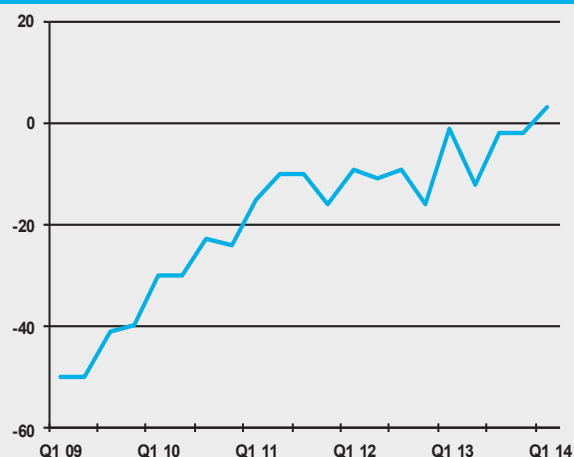
Unit selling price

Q1 2014 saw the index of unit selling price expectations for the next three months record its first positive level since its inception at +3. The series had previously been in negative territory every quarter since Q1 2009.

The turnaround in unit selling price expectations was most striking among firms in the domestic economy which recorded a measure of +7 up from -5 in Q4 2013. Price expectations among exporting firms on the other hand remained broadly stable at +1 up from 0 in the previous quarter.

Price increases have been benign in the Irish economy during 2013 with the overall price of goods and services rising by only 0.5%. These figures suggest business expect some price inflation to return to the economy as the year goes on as domestic recovery begins to gather momentum.

Unit selling price

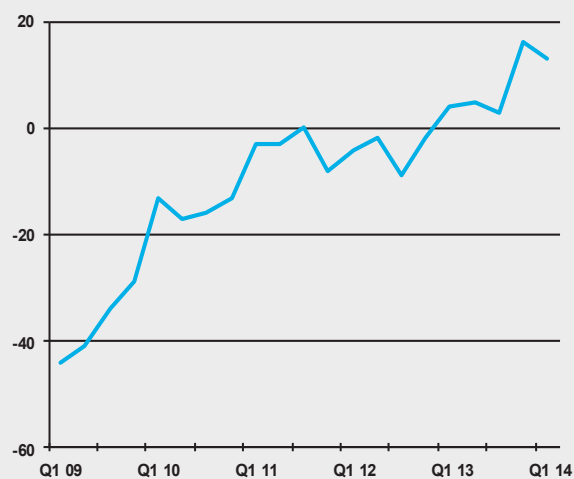


Employee numbers

Expectations for employment numbers continued to be strong and positive in Q1 2014 following a series record high in Q4 2013. Recent rises in the series have been followed by increasing private sector employment and figures for Q1 suggest employment will continue to grow into the new year.

Employment growth expectations continue to be positive among both exporting and non-exporting companies. Employment sentiment among managers in exporting firms recorded a measure of +15 down from +21 in the previous quarter but up significantly on the same period in 2013. Expectations among firms in the domestic economy, however, continued to grow to +15 up from +10 in Q4 2013. This convergence in employment expectations between trading and non-trading firms mirrors other sentiment series and points to a rebalancing of the domestic economy

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

Ibec represents Irish business; home grown, multinational, big and small, spanning every sector of the economy. The organisation and its sector associations, work with government and policy makers nationally and internationally, to shape business conditions and drive economic growth. It also provides a wide range of professional services direct to members.

Visit www.ibec.ie/irelandworks for more information.

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