



Business Sentiment Survey

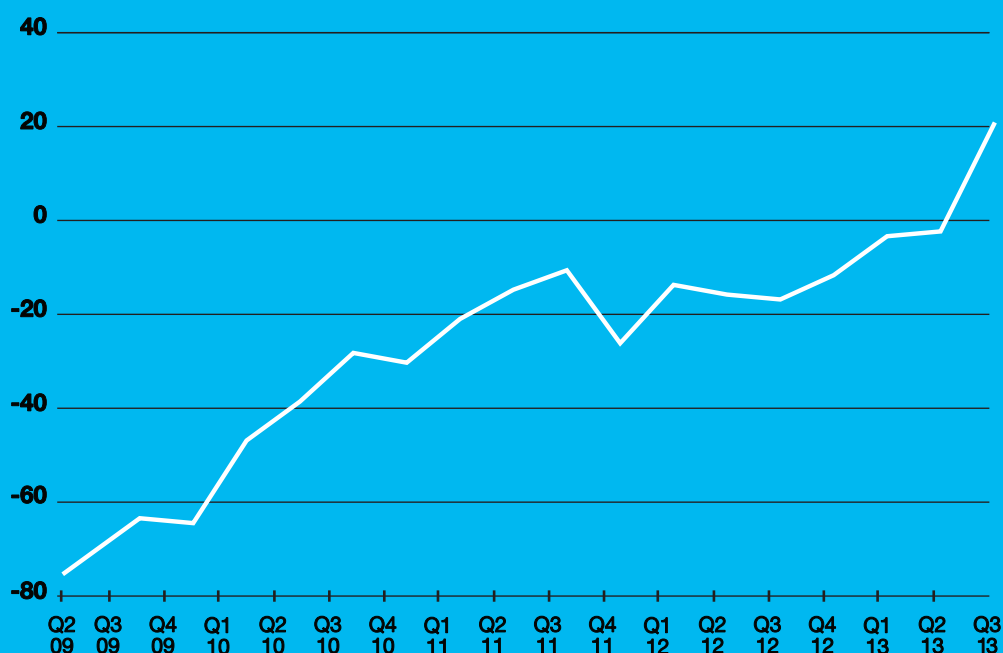
Q3 2013

Record high in business confidence

Companies' perceptions of the business environment in Ireland improved dramatically in the third quarter of 2013, with the index recording a reading of +17. This represents the index's highest reading since it began in 2009 and its first positive overall reading. This follows from managers' confidence in the three-month outlook climbing into positive territory for the first time in the history of the series in Q2 2013.

The Q3 employment intentions index was positive for the third consecutive quarter indicating further job growth in the second half of the year. Order books also improved sharply in the quarter to a reading of +32.

Business confidence - Overall business environment



Overview

Managers' confidence in the Irish business environment grew substantially in Q3 2013 following a weak start to the year. Manager's confidence in their own business also improved significantly building on strong confidence growth in early 2013. In addition, firm's expectations for the next three months have grown faster than current business confidence both in their own firm and in the economy as a whole, signalling expectations of improving conditions as the year progresses. This has been driven by expectations of increased sales, a growing customer base and higher profitability. Firms did not appear to be overly apprehensive about the effects of Budget 2014 on consumer spending or their own business growth. It remains to be seen, however, what effect Budget 2014 will have on firm's expectations for the remainder of the year.

Employment expectations continue to grow (+3) albeit at a slower rate than in Q1 and Q2. Exporting firms (+7) continue to be more positive about employment growth than domestic firms over the three months from Q3 2013. On a sectoral level expectations of employment growth were particularly high in med-tech, telecoms, electronics manufacturing and retail. Food and drink manufacturing recorded the least positive expectations levels. Data from the CSO show that the number of private sector

employees grew by an annual 1.8% in Q2 2013. Given that our indicator correlates quite well with growth in official employment figures, recent positive readings indicate that jobs growth will continue to gain momentum in the second half of 2013.

Several other individual indicators showed encouraging growth in Q3. Firm's expectations for the Q3 were positive across all measures bar unit selling price. The index for domestic sales expectations over the next three months is now in its third consecutive quarter of positive territory. Expectations for the coming three-month period strengthened to +18 in Q3 2013 from +10 in the previous quarter. These growing expectations for domestic demand are broad based across 14 out of 15 surveyed sectors.

For firms trading in the domestic economy Q3 2013 figures show growing manager expectations of profitability (+5). Despite this unit selling price expectations are continuing to fall (-6). This underlines the extent to which price competition is driving manager's expectations of growing their customer base (+16), particularly in consumer facing sectors.

Indicator (balance of respondents)	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Business confidence currently – overall	-14	-6	-5	+17
Business confidence 3 months' time – overall	-13	-4	+2	+25
Business confidence currently – own business	+15	+19	+23	+30
Business confidence 3 months' time – own business	+10	+23	+26	+36
Domestic sales	-2	+7	+10	+18
Export sales	+33	+35	+31	+37
Order books	+15	+21	+20	+32
Unit selling price	-16	-1	-12	-2
Profitability	-2	+6	+10	+12
Customer base	+21	+31	+30	+34
Employee numbers	-2	+4	+5	+3

Business confidence – own business

Own business confidence recorded a third consecutive series high in Q3. The current conditions index was +30, up from +23 in the Q2, and the forward-looking index was +36, up from +26.

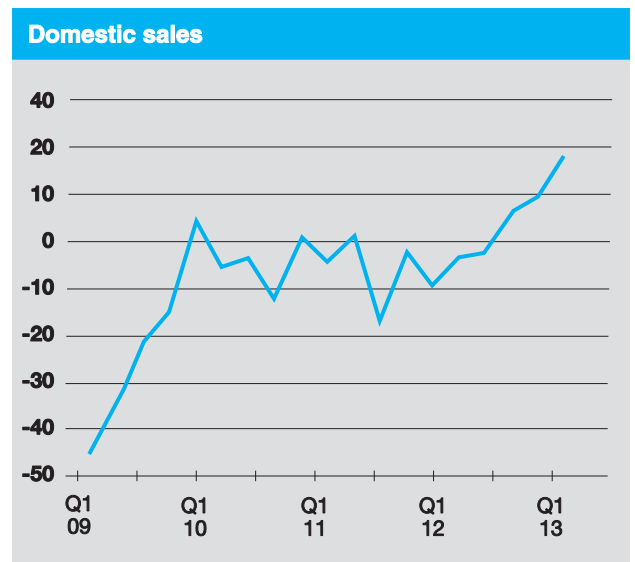
On a sectoral basis the hotels, catering and leisure sector saw the highest levels of current own business sentiment with current conditions of +74. Future expectations, however, are less positive with a reading of +33. The difference between these two readings reflects strong current conditions in the sector on the back of an improved domestic outlook. Prospects may improve again in the coming quarters following a Budget 2014 which had a number of positives for the tourism sector.



Domestic sales

The Ibec business sentiment index of domestic sales expectations for the next three months is now in its fifth consecutive quarter of improvement and its third consecutive quarter in positive territory. Expectations for the coming three-month period strengthened to +18 in Q3 2013 from +10 in the previous quarter.

The improvement in sentiment continues to be broad based with positive readings in 14 out of 15 industry categories. Sentiment is also strongest among firms with less than 50 employees (+37) reflecting improved confidence about sales for SMEs. It remains to be seen how the full impact of the budget will affect domestic consumer confidence and domestic sales in the coming months.

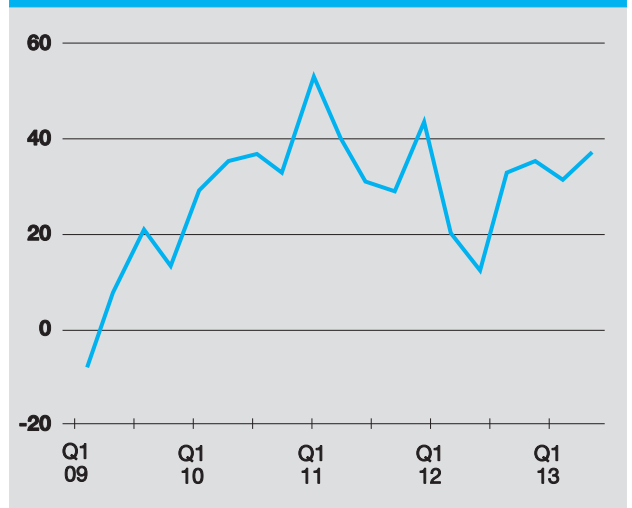


Export sales

Expectations for export sales improved in Q3 2013 to +37 after having marginally decreased to +31 in the previous quarter. The indicator has remained at a level pointing to positive sentiment. It is, however, down on series highs in 2011 and the first half of 2012 reflecting tougher trading conditions in key economic partners.

Managers in sectors such as telecoms and IT services, rubber and plastic manufacture and med-tech continue to report high levels of sentiment. The continuing effects of the patent cliff can be seen in less buoyant figures for the pharma sector although sentiment for this export oriented sector remains positive at +6.

Export sales

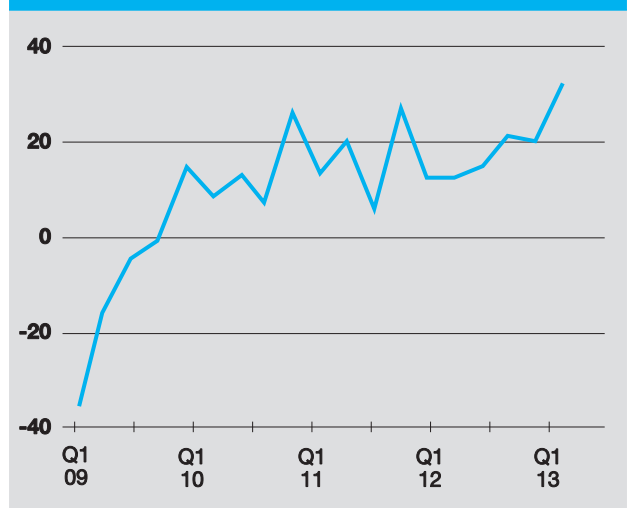


Order books

Managers' expectations for order books rose sharply in Q3 2013 with an index reading of +32, compared with +20 in the previous quarter. Expectations among exporters (+33) and non-exporters (+29) have both risen. Expectations are up on those in Q2 of +21 and +19, respectively, with the gap between both sectors continuing to broaden slightly.

Sectors reporting the most positive expectations include med-tech, electronic manufacturing, financial services and telecoms. Despite an improvement in the outlook for retail in Q3 two sectors continue to have negative outlooks; namely food and drink manufacturing and metal and engineering manufacturing.

Order books

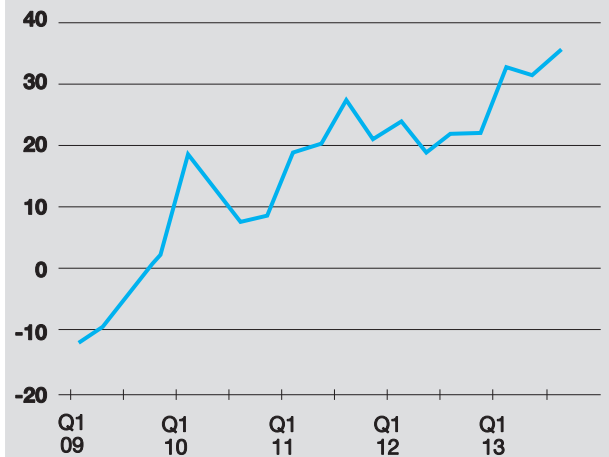


Customer base

The outlook for customer base also remained stable at a high level in Q3 2013, recording a measure of +34. This represents the third consecutive quarter in which the index has been in excess of +30.

There is a large divergence in the levels of confidence between managers in the traded and non-traded sectors however. The index for exporting firms recorded a measure of +44 in Q3 2013. The index for firms operating in the domestic economy on the other hand recorded a less buoyant measure of +16. Expectations were positive across all sectors with manager's expectations of increasing customer base highest in telecoms, medical devices manufacture, health and social services and financial services companies. Expectations were lowest in retail where the index recorded a reading of 0.

Customer base

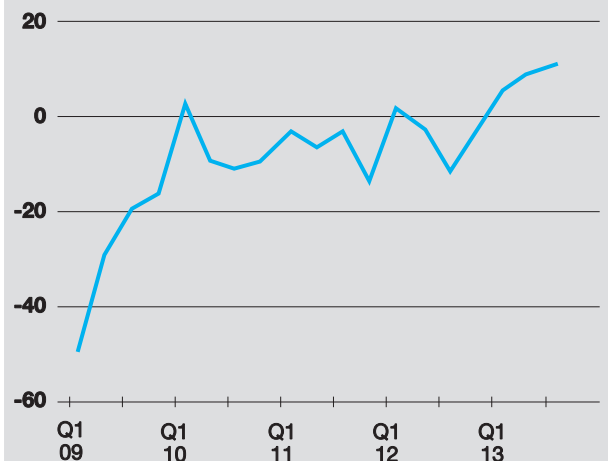


Profitability

Managers' expectations about profitability improved again in Q3 2013 to a new series-high of +12, up from a previous series high of +10 in the previous quarter. This is the third consecutive quarter when firms have reported positive expectations of profitability. Previous to this there had been only one quarter of positive profit expectations in the previous four years.

The positive is stronger among exporters (+15) than non-exporters (+5). The trend stems from strong sales and productivity expectations as well as improved unit selling price expectations. Expectations varied widely between sectors, however. Profit expectations in food and drink manufacturing performed weakly compared to sectors such as metals and engineering manufacture and telecoms.

Profitability

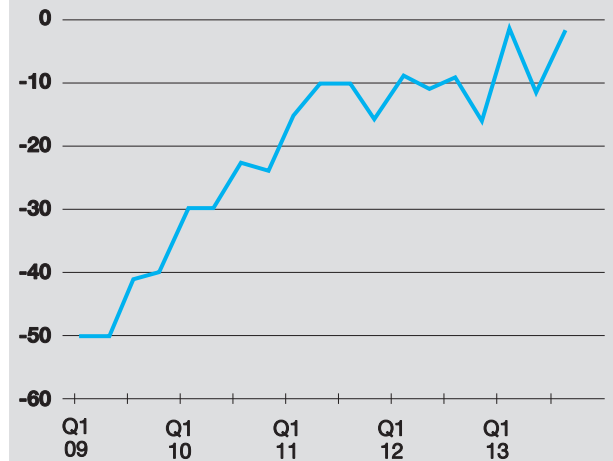


Unit selling price

The index of unit selling price expectations for the next three months was at -2 in Q3 2013. This was up from -12 in the previous quarter. This index displayed a negative and volatile pattern over the past year, moving from lows of -16 to highs of -1.

The index has been negative for both exporters (-3) and non-exporters (-6). This pattern, despite growing expectations of profitability and customer base, underlines the level of price competition demanded by consumers. Food manufacturing (-33) and retail (-20) have the lowest expectations of unit selling price over the next three months. Pharma firms (-7) also continue to see reductions in unit selling price expectations as the patent cliff brings in further competition from generic drugs.

Unit selling price



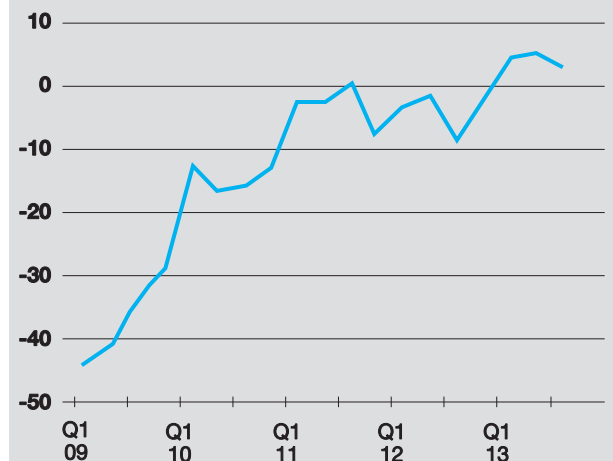
Employee numbers

The index for employee numbers expectations fell from +5 to +3 in Q3 2013. Despite this, the index is now in its third consecutive positive quarter after strengthening to a reading of +5 from +4 in the previous quarter.

There are differences between the traded and non-traded sectors of the economy, however. While exporting firms recorded a measure of +7, firms operating in the domestic economy (-6) have less positive expectations about employment growth over the three months from Q3 2013.

Expectations of employment growth were particularly high in med-tech, telecoms, electronics manufacturing and retail. Again food and drink manufacturing recorded the most negative expectation levels.

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 is the national umbrella organisation representing over 7,000 businesses and employers in Ireland. Members benefit from information and advice on people and business management as well as industry-specific representation through Ibec's 60 business sector associations. Visit www.ibec.ie for more information.

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