Executive Summary

Despite strong headwinds, Irish businesses are more optimistic than their European counterparts

Optimism among Irish companies weakens to near eight-year low at the start of 2019.

The AIB Ireland Business Insight survey signals a decline in sentiment at Irish companies at the start of 2019, with confidence regarding business activity the weakest in almost eight years.

The business activity net balance is down to +35% in February, from +40% in October. Sentiment regarding employment, investment and profits is also lower than was seen in late-2018.

Falling optimism is recorded among a range of countries in Europe and globally. In fact, Irish firms remain among the most confident worldwide.

Sentiment is down among both the manufacturing and service sectors, with services seeing the greater deterioration in confidence at the start of 2019.

Anecdotal evidence suggests that confidence around future output stems from expectations of an improving Irish economy, with strengthening demand in overseas markets, new product development and business expansions also supporting positive sentiment.

On the other hand, Brexit and associated uncertainty is seen as the key threat going forward. With this in mind, a special question as part of the survey shows that 16% of Irish companies have a formal written plan in place ahead of Brexit, with a further 54% having investigated how to prepare.

Commenting on the latest results, Catherine Moroney – Head of Business Banking at AIB said:

“This business activity survey was conducted during a period of intensified uncertainty due to Brexit, and although sentiment overall is lower than late 2018, it is still in positive territory. Expectations around the performance of the Irish economy, which will lead to increased staffing requirements and capital investment, are supporting this positive sentiment. Whereas cost inflation, lower profits and lack of clarity regarding the impact of Brexit and global trade wars means businesses are more cautious on outlook. This is consistent with the AIB Brexit Sentiment Index for Q4 2018, which shows overall sentiment across Republic of Ireland businesses registering a gap score of -41.

In this survey we see the composite business sentiment drop sharply for ‘Profits’ outlook (+33 to +17) and ‘Price’ outlook (+44 to +29), demonstrating companies’ real concern about what may materialise and impact their business. ‘Brexit impact on suppliers’ was a verbatim concern from a Manufacturing business and increased exchange rate volatility was another concern cited.

Notwithstanding these potential headwinds, Irish businesses are still more optimistic than their European counterparts and positive overall in their outlook.”

Do you expect business activity to be higher, the same or lower in one year’s time?
Planning for Brexit

Which of the following, if any, best describes your preparation or plans to address the impacts of Brexit?

- **Not applicable**: 15%
- **Formal written plan in place**: 16%
- **Not started preparing for Brexit yet**: 15%
- **Some investigation but no written plan**: 54%

A special question on Brexit preparedness shows that 16% of Irish companies had a formal written plan in place by the time of the survey in February. A further 54% of companies had done some investigation but had no written plan in place, while around one-third of firms either had not started preparing for Brexit or felt that the question was not applicable.

These results show Irish firms to have prepared to a greater extent than most other European countries, with only the UK (20%) and Germany (14%) having prepared with a formal written plan to a similar extent than Ireland.

**Comments from survey respondents**

- “More specific information needs to be circulated to organisations”
- “Despite having a plan there is so much uncertainty around Brexit and its possible effects”
- “We have extracted the company from the British market”
- “We are really just waiting and seeing”
- “Brexit effect will be small”
- “Very hard to plan for something that is unclear”
- “Limited what we can do from Brexit”
- “We have sourced European suppliers to replace British ones”
- “Don’t know what to prepare for”
- “It is the uncertainty that is the issue”
Hiring and investment plans

Hiring expectations lowest since June 2012

Companies in Ireland continue to forecast increases in staffing levels in February. Confidence remains above the euro area average, but has eased to the lowest since June 2012.

Weaker hiring intentions are present across both monitored sectors. Continuing the trend since February 2017, service providers are more confident regarding job creation than their manufacturing counterparts.

The optimism regarding a pick up in employment is present despite concerns by some companies regarding the difficulty of finding suitable staff and rising salary costs.

Many firms see Brexit as a threat to their hiring plans as it may affect the ability to recruit skilled labour.

Alongside further hiring of staff, companies in Ireland are also looking to increase investment in capital and R&D over the coming year. Here also, however, optimism has waned since the end of 2018.

The net balance for capital expenditure is down to a six-year low of +13% in February, weaker than the average for the eurozone.

Meanwhile, the net balance of companies set to raise R&D spending is just +7%. Service providers look set to leave spending largely unchanged, while manufacturers are slightly more confident in this regard than they were back in October 2018.
Weaker expectations for business activity, employment and business investment are set to weigh on Irish companies’ efforts to maintain profitability in 2019.

A net balance of +17% of panellists expect profits to increase over the next 12 months, down from +33% in October 2018 and the lowest since June 2011.

That said, Irish companies are still more optimistic than the euro area as a whole. Firms in both monitored sectors are less bullish with regards to profitability than they were in the previous survey. The net balance at service providers is slightly higher than at manufacturers (+18% versus +16%).

Cost inflation, meanwhile, looks set to remain relatively strong. Sharp rises in non-staff costs are predicted by Irish companies, with the net balance only slightly down from October’s survey record.

At +35%, the non-staff input prices net balance in Ireland is well above the global average, with only companies in Brazil expecting a stronger rise in non-staff costs over the coming 12 months.

That said, expectations among Irish companies are the lowest since October 2017, as a result of a downward revision among manufacturers to a net balance of +36%, compared to +53% in the previous survey.

Staff costs are set to increase strongly at both manufacturers and service providers. The overall net balance is at +55% in February, well above the eurozone average.

In line with the picture for non-staff costs, a smaller net balance of Irish firms expect to pass on higher cost burdens to their customers. February’s output prices net balance is at +29%. The latest reading is the lowest since October 2016 and well below the record high posted in October 2018.

As is the case with input costs, the output prices net balance in Ireland is markedly higher than the eurozone average.
### Data

#### Composite net balances

<table>
<thead>
<tr>
<th>Business Activity</th>
<th>Profits</th>
<th>Employment</th>
<th>Capital Expenditure</th>
<th>Research &amp; Development</th>
<th>Prices Charged</th>
<th>Staff Costs</th>
<th>Non-staff Costs</th>
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The survey uses percentage net balances to indicate the degree of optimism or pessimism for each of the survey questions. These net balances vary between -100 and 100, with a value above 0.0 signalling a positive outlook for the coming 12 months.

Composite net balances are weighted averages of the manufacturing and services net balances. The weights reflect the relative size of the manufacturing and services sectors according to official data.

#### Manufacturing net balances

<table>
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#### Services net balances

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<th>Prices Charged</th>
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<td>54</td>
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Comments from survey respondents

Opportunities

- “Brexit - chance to expand to other European markets”
  Transport & Storage

- “Market technology and changes in customer behaviour drive opportunity”
  Post & Telecommunication

- “New technology and products”
  Renting & Business Activities

- “General economy is improving”
  Timber & Paper

- “Brexit may lead to diversification in our products”
  Metals

Threats

- “The increase in VAT will hit the bottom line”
  Hotels & Restaurants

- “Brexit is the main threat”
  Textiles & Clothing

- “Tariffs and trade restrictions”
  Renting & Business Activities

- “Increasing fuel costs”
  Transport

- “Wage costs and staff retention”
  Transport & Storage

- “Brexit impact on suppliers”
  Other Manufacturing
About the Irish Business Activity Insight Report

Methodology

This report is designed to reveal how confident Irish private sector businesses feel about their prospects for the next 12 months.

We take the pulse of 650 manufacturing and service sector companies in Ireland on a tri-annual basis. The samples are based on respondents to AIB’s widely-watched Ireland Purchasing Managers’ Index® (PMI®) surveys.

The key global composite indices include expectations for Business Activity, Employment, Capital Expenditure, Input Prices, Output Prices and Profits.

These results are published as a weighted ‘Composite’ Index (all companies), as well as broken down by sector (manufacturing and services).

The survey uses net balances to indicate the degree of optimism or pessimism for each of the survey questions. These net balances vary between -100 and 100, with a value above 0.0 signalling a positive outlook for the coming 12 months.

About AIB

AIB is a financial services group operating predominantly in the Republic of Ireland and the UK. We provide a comprehensive range of services to personal, business and corporate customers in our target markets and have leading market shares in banking products in the Republic of Ireland.

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