

# Focus on: Ireland

## International Business Report 2009 – Country focus series

### A year of turmoil

Ireland's decade-long economic boom came to a crashing halt last year after the country's housing bubble burst and it entered its first recession since the early 1980s. Unsurprisingly for an open economy the key economic indicators portray a sharp and rapid adjustment:

- negative forecast growth of up to ten per cent for 2009 coupled with a government deficit of 12 per cent of GDP
- house prices, production in building and construction, investment and consumer spending are in decline
- unemployment has risen to 410,000 or 12 per cent and is forecast to peak at 15 per cent of the Irish workforce by 2010
- inflationary pressures have been replaced by deflation, with consumer prices to fall slightly followed by a modest rise to 1.1 per cent in 2010.

### Impact on privately held businesses

The Grant Thornton International Business Report (IBR) 2009 surveyed the views of 7,200 privately held businesses (PHBs) in 36 economies around the world. This report focuses on Ireland, on the experiences and attitudes of its privately held businesses and how they have been affected by the worst economic downturn in decades as illustrated in figure 1.

The IBR survey tells us that Irish PHBs are suffering more than other EU businesses in terms of falling consumer demand. Employment is also expected to fall by more than double the expected EU average. These concerns impact negatively on expectations for turnover growth and on profitability. Clearly the effects of the end of property boom and global decline in activity are taking its toll on PHBs.

Figure 1: Key indicators for PHBs

Ireland compared to EU average	2007	2008	2009	2009
	Ireland	Ireland	Ireland	EU
<b>Outlook for the economy over the next 12 months</b>				
Balance of optimists over pessimists	+82%	+15%	-50%	-38%
<b>Issue of greatest concern in the next 12 months</b>				
Fall in consumer demand			33%	45%
Shortage of business credit			24%	19%
<b>Change in employment levels</b>				
Balance of PHBs expecting an increase over those expecting a reduction	+28%	+20%	-30%	-12%
<b>Constraints on expansion</b>				
Shortage of orders/reduced demand	21%	20%	52%	52%
Shortage of working capital	8%	18%	28%	25%

Source: Grant Thornton IBR 2009



There are, however, positives from this report. In the areas of lack of availability of a skilled workforce and regulation only seven per cent and 20 per cent respectively of Irish PHBs cited these factors as a constraint on growth compared to the EU averages of 23 per cent and 30 per cent. Irish businesses continue to enjoy a 12.5 per cent rate of corporate tax as compared to a UK rate of 30 per cent and an average EU rate of 23 per cent. In addition, generous tax incentives apply to research and development activities. The survey also tells us that initiatives to mitigate the effects of the slowdown in Ireland, such as cost cutting, appear to be working faster than in other EU countries.

### Looking ahead

The Irish economy is expected to suffer a sharp contraction in 2009 because of the collapse in the construction sector, depressed private consumption and negative export growth. Given the contraction recorded in 2008, the accumulated fall anticipated for 2009 and 2010 is dramatically reducing Irish GDP by 15 per cent bringing national output back to 2005 levels.

Growth from 2011 will be export led and is contingent on a global upturn and a successful harvest of the current crop of much talked about “green shoots”.

Although the economy has been badly damaged, Ireland’s economic growth was not solely based on loose banking practices and a property bubble. Any recovery in the Irish economy needs to be driven by privately held businesses who during the tough times are the most nimble entrepreneurs and often the fastest growing. To achieve this:

- access to credit needs to be improved to enable businesses to manage their working capital and long term funding needs
- businesses need to adjust to the new level of demand while working on innovative ways to develop product and market share
- the positives and forgotten ‘fundamentals’ of Ireland (such as availability of a skilled work force, being ‘a good place to do business’ and its support of innovation) need to be communicated, promoted and supported.

It is clear that during the months and years ahead, all businesses will face a number of key threats and opportunities which will require senior management to make some very ‘big decisions’. Businesses surviving the downturn will look back on these decisions as pivotal moments in their company’s history. Focusing on the right things will give businesses under pressure more room for manoeuvre, while for others it will provide opportunities to realise their ambitions more quickly than they had planned.

At Grant Thornton we help businesses to make these decisions on a daily basis, to guide them through the good and bad times. Talk to us to find out how we can help you make the right choices for your business.



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## International Business Report results

The Grant Thornton IBR 2009 reveals that privately held businesses in almost all countries are less optimistic about economic prospects for the year ahead. Irish PHBs were considerably less optimistic about prospects for 2009 with a drop of 66 percentage points from an optimism/pessimism balance<sup>1</sup> of +16 per cent in 2008 to -50 per cent in 2009.

For the sixth consecutive year, India tops the league table with a net balance of +83 per cent (+95 per cent in 2008), whilst Japan remains at the bottom with a balance of -85 per cent.

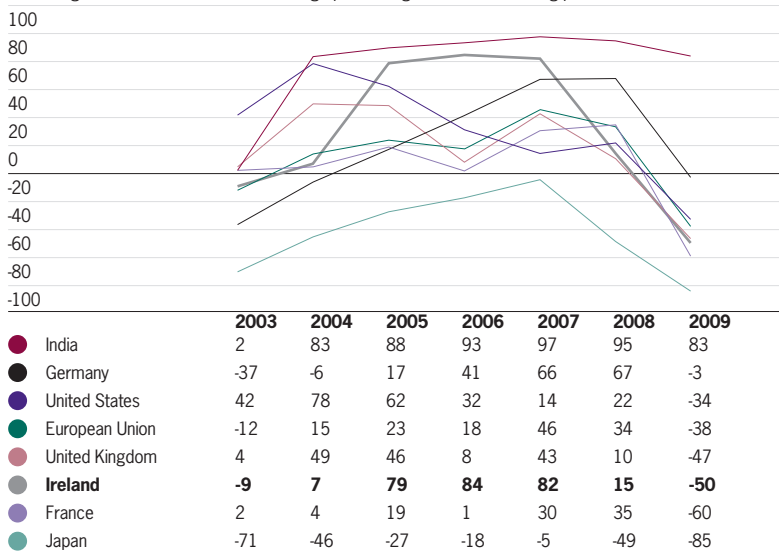
Overall optimism amongst PHBs in the EU<sup>2</sup> has fallen from 2008; this year -38 per cent of all EU businesses are positive about their country's economy compared to a balance of +34 per cent in 2008. This is significantly lower than the global average of -16 per cent, although levels of optimism in the EU range from -65 per cent in Spain to -3 per cent in Germany.

### Optimism/pessimism

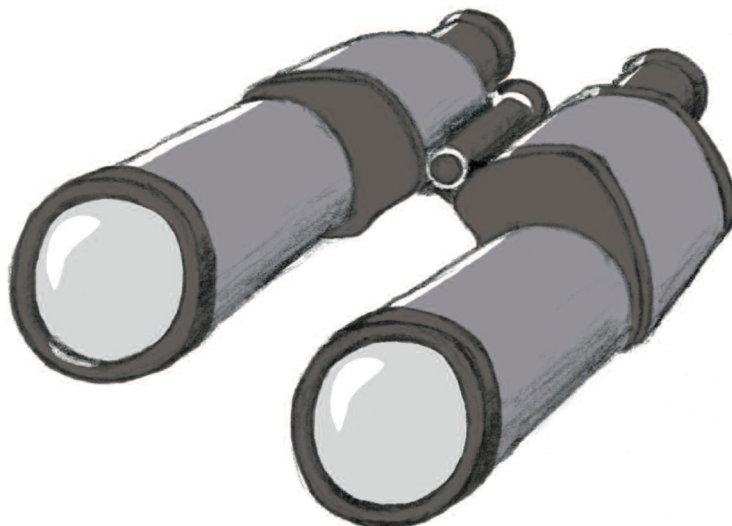
- PHBs in Ireland are considerably less optimistic about the country's economic outlook (-50 per cent) compared with 2008 (+15 per cent)
- levels of optimism regarding economic outlook have fallen by 65 percentage points from 2008 in Ireland, compared with the 72 percentage point drop observed in the EU as a whole.

Figure 2: Outlook for the economy over the next 12 months: 2007-2009

Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2009



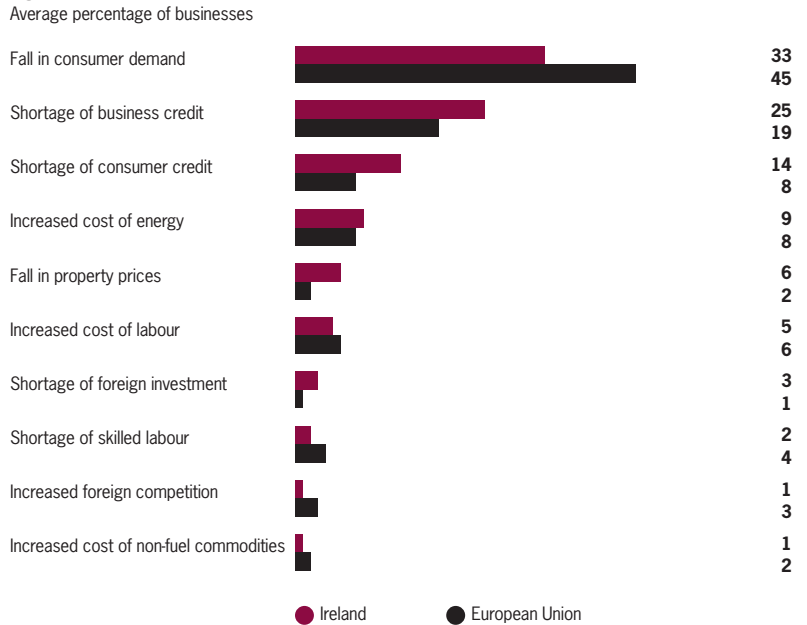
<sup>1</sup> the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

<sup>2</sup> for the purposes of IBR, the term 'EU' refers to those EU countries covered by our survey – Belgium, Denmark, France, Finland, Germany, Greece, Ireland, Italy, the Netherlands, Poland, Spain, Sweden and the United Kingdom.

**Greatest concern**

- a fall in consumer demand is viewed as the greatest concern for one third of PHBs in Ireland, although this is below the EU average (45 per cent)
- a shortage of business credit is of greater concern for PHBs in Ireland (25 per cent), than for those in the EU as a whole (19 per cent)
- PHBs in Ireland are also more concerned by a shortage of consumer credit (14 per cent) when compared with the EU average (eight per cent).

**Figure 3: Greatest concern in the next 12 months**

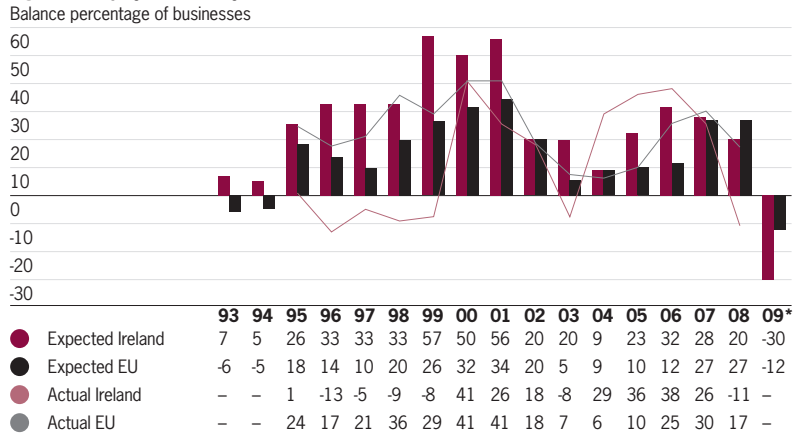


Source: Grant Thornton IBR 2009

**Employment**

- PHBs in Ireland expect employment to contract sharply in 2009, with the balance of businesses expecting an increase falling 50 percentage points this year
- a similar story is evident across the EU with the regional average falling 39 percentage points
- actual employment growth across Ireland in 2008 (-11 per cent) was notably lower than expected (+20 per cent).

**Figure 4: Employment history: 1993-2009**



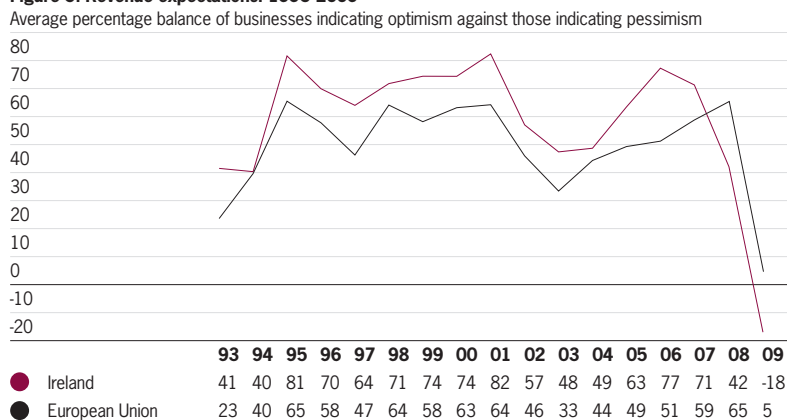
\*actual 2009 data will be documented in IBR 2010

Source: Grant Thornton IBR 2009

### Revenue expectations

- expectations regarding revenue prospects have plummeted in Ireland this year, falling by 60 percentage points from +42 per cent in 2008 to -18 per cent
- the EU average decline is the largest in IBR history, falling 60 percentage points, down from +65 per cent in 2008 to just +5 per cent this year.

**Figure 5: Revenue expectations: 1993-2009**

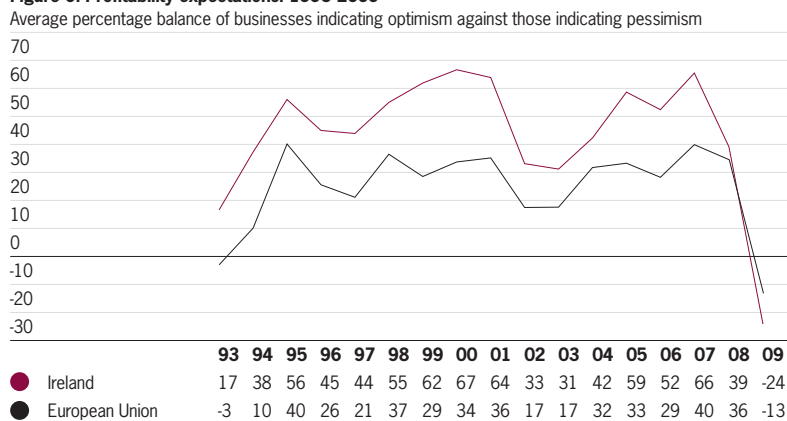


Source: Grant Thornton IBR 2009

### Profitability expectations

- profitability expectations amongst PHBs in Ireland continued the decline observed in 2008, falling to -24 per cent this year
- the drop in the EU average regarding profitability is also the greatest in IBR history, falling by 49 percentage points to -13 per cent this year.

**Figure 6: Profitability expectations: 1993-2009**



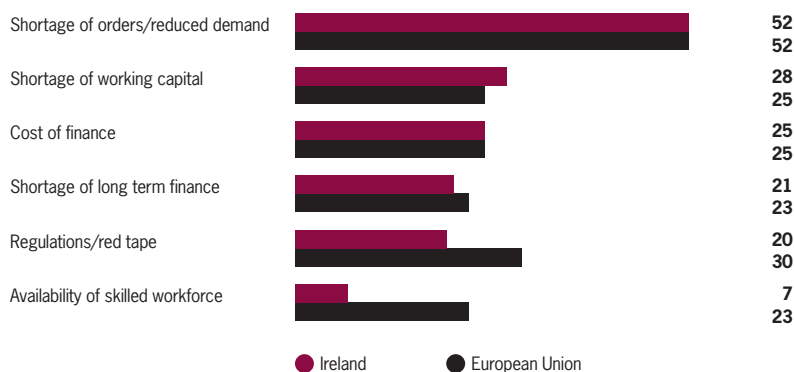
Source: Grant Thornton IBR 2009

### Constraints

- similarly to businesses across the EU, a shortage of orders/reduced demand is viewed as the major constraint restricting expansion for PHBs in Ireland this year; at 52 per cent, this represents a 32 percentage point increase from 2008
- a lack of availability of a skilled workforce is of very little concern to PHBs in Ireland (seven per cent) compared with the EU average (23 per cent).

**Figure 7: Constraints on expansion**

Average percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint

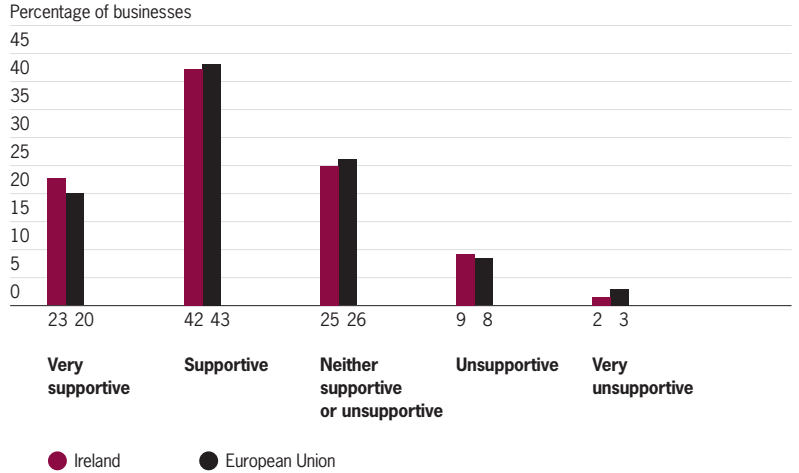


Source: Grant Thornton IBR 2009

### Support of lender

- almost two-thirds of PHBs in Ireland class lenders as very supportive or supportive towards their business, slightly above the EU average (63 per cent)
- similarly to businesses across the EU, just 11 per cent of PHBs in Ireland class lenders as unsupportive or very unsupportive towards their business.

**Figure 8: Level of support provided by lenders**

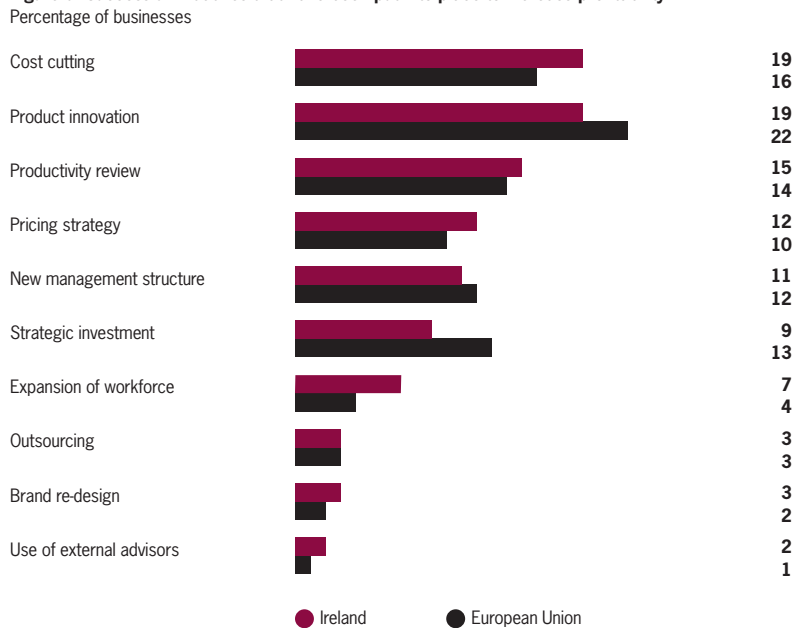


Source: Grant Thornton IBR 2009

### Business planning

- 26 per cent of PHBs in Ireland have a formal business planning process accounting for less than one year. This is just below the EU average (28 per cent)
- product innovation and cost cutting have been the most successful initiatives introduced by PHBs in Ireland to increase profits (both 19 per cent)
- across the EU, product innovation (22 per cent) and cost cutting (16 per cent) have also been successful initiatives adopted by businesses.

**Figure 9: Successful initiatives that have been put into place to increase profitability**



Source: Grant Thornton IBR 2009

The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,200 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy. In Ireland 150 PHBs were surveyed across all industry sectors. These businesses ranged from medium to large in size with numbers of employees varying from 50 to 499.

To find out more about IBR and to obtain copies of reports and summaries visit: [www.internationalbusinessreport.com](http://www.internationalbusinessreport.com). The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

### Participating economies

Argentina	Japan
Armenia	Malaysia
Australia	Mexico
Belgium	Netherlands
Botswana	New Zealand
Brazil	Philippines
Canada	Poland
Chile	Russia
Mainland China	Singapore
Denmark	South Africa
Finland	Spain
France	Sweden
Germany	Taiwan
Greece	Thailand
Hong Kong	Turkey
India	United Kingdom
Ireland	United States
Italy	Vietnam



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