Focus on: the island of Ireland

International Business Report 2010 – Regional focus series

New neighbours?

The economic relationship between Dublin and Belfast continues to evolve with currency changes, peace processes and economic booms all affecting how north and south do business.

In more recent times, both economies have been faced with serious financial crises. These crises have tightened up credit and stifled entrepreneurial spirits both north and south of the border.

But how have Irish businesses gone about overcoming these crises? Are business owners in the North adapting to changed circumstances better than their southern counterparts? What do entrepreneurs in Dublin and Derry expect the economy to do in the coming year?

A global neighbourhood

The Grant Thornton International Business Report (IBR) has traced the issues affecting privately held businesses (PHBs) in Ireland for the last 18 years. This year's survey brings together the opinions of over 7,400 respondents in 36 economies.

This year's IBR report has seen optimism amongst PHBs internationally increase by 40 percentage points in the last 12 months, pushing the Grant Thornton International optimism/pessimism index[1] to +24 per cent. This figure becomes even more powerful when compared to the -16 per cent figure derived from last year's report.

At an international level, the IBR 2010 suggests that the worst of the downturn is over, although optimism is still only modest in the European Union (EU) and North America.

Figure 1: Key indicators for businesses

	2010 UK	2010 NI	2010 EU	2010 ROI
Outlook for the economy over the next 12 months				
Balance[2] of optimists over pessimists	16%	-6%	7%	-42%
Business expecting an upturn by end of 2010	73%	68%	62%	60%
Businesses expecting an increase in turnover	58%	46%	45%	33%
Balance percentage	48%	26%	28%	6%
Businesses expecting an increase in selling prices	28%	28%	22%	10%
Balance percentage	13%	0%	-1%	-35%
Businesses expecting an increase in employment	34%	24%	20%	15%
Balance percentage	18%	-10%	-1%	-14%
Businesses expecting an increase in profitability	55%	34%	40%	36%
Balance percentage	38%	-6%	17%	6%

Source: Grant Thornton IBR 2010

An island economy or island economies?

This is the first year the IBR has focused on the issues facing businesses in the Republic of Ireland (ROI) and those facing businesses in Northern Ireland (NI).

The key findings are illustrated in figure 1. Clearly the economic difficulties are not affecting NI businesses as much as ROI and this is reflected in significantly less pessimism – ROI -42 per cent, NI -6 per cent. See figure 2.

60 per cent of ROI businesses expect the upturn to have occurred by the end of 2010, 68 per cent in NI and 73 per cent in the UK.

[1] the optimism/pessimism index ranks the economies surveyed according to their levels of optimism regarding their local economy.
[2] the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic or the proportion reporting they expect an increase over a decrease.

Expectations of increased turnover, selling prices and employment for 2010 are greater in NI than ROI.

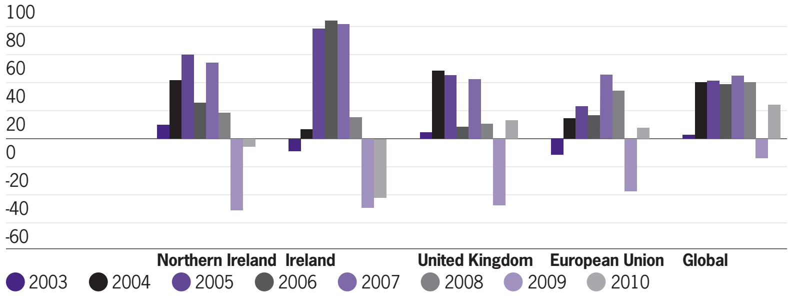
Interestingly expectations of increased profitability are greater in ROI (36 per cent) than in NI (34 per cent) but less than the UK (55 per cent).

To improve is to change?

Businesses in ROI have had to be more resourceful in dealing with the recession. ROI businesses rank significantly ahead of NI businesses when it comes to preparing for the upturn and to harness growth opportunities:

Irish businesses developing new products/services		
Ireland global ranking	5th	66%
Northern Ireland global ranking	32nd	36%
Global average		**46%**
Irish businesses looking at new target markets		
Ireland global ranking	1st	75%
Northern Ireland global ranking	21st	46%
Global average		**51%**
Irish businesses focusing on skills of workforce		
Ireland global ranking	6th	69%
Northern Ireland global ranking	21st	50%
Global average		**47%**

Figure 2: Outlook for the economy over the next 12 months: 2003-2010
Percentage balance of businesses indicating optimism against those indicating pessimism



Outlook for the economy – actual %	Very optimistic	Slightly optimistic	Neither optimistic nor pessimistic	Slightly pessimistic	Very pessimistic	Balance
Ireland	1	23	11	45	21	-42
Northern Ireland	0	38	18	34	10	-6
ROI and NI (all Ireland)	1	31	15	39	15	-22

Source: Grant Thornton IBR 2010

The credit economy or economies?

Given that the Euro has been relatively expensive in recent times, one might expect businesses in the North to be thriving on an undervalued Pound. Sharing a common currency, you might also expect that business lending sentiment would match that of the UK.

The IBR has shown this not to be the case with expectations in relation to access to credit being very similar in NI and ROI and significantly less optimistic than the UK.

44 per cent of UK businesses expect credit to be more accessible in 2010 with only 20 per cent expecting it to be less accessible. A healthy ratio of two to one.

40 per cent of ROI businesses expect credit to be less accessible, with 20 per cent expecting it to be more accessible. An unhealthy ratio of minus two to one. Interestingly, 32 per cent of NI businesses expect credit to be less accessible, with 28 per cent expecting it to be more accessible – a ratio of approximately minus one to one. In ROI 39 per cent expect access to remain the same, compared to 40 per cent in NI.

The credit crunch is affecting ROI and NI businesses significantly more than mainland UK businesses. This is illustrated in figure 3.

Similarly, in relation to support from lenders, 61 per cent of ROI business said lenders were supportive or very supportive compared to 63 per cent in NI. The UK and the global averages were 69 per cent. This is illustrated in figure 4.

It seems shoppers have been joined by bankers when it comes to crossing the border over the last few years looking for opportunities.

Is access to credit the common currency?

As has been the case many times before, the Northern economy seems to take direction on sentiment from both the ROI and UK.

Northern business sentiment is buoyed up by some of the more positive indications coming from Westminster, but tempered by local concerns over lack of progress in the Assembly and its effect on the economy. This is borne out by the fact that NI is the least optimistic of the UK regions.

The ROI economy has been damaged significantly in recent years – this is translated into pessimistic sentiment coupled with innovative efforts to re-invigorate business.

ROI's banking difficulties are well documented and the success or otherwise of efforts such as NAMA and other initiatives to inject liquidity into businesses will become clear over time.

Attitudes to credit are strikingly similar in NI and ROI compared to the UK – despite the shared currency. Bank of Ireland, Allied Irish Bank, Ulster Bank and Northern Bank (NIB in ROI) are the main lenders in Northern Ireland and all are significant players in ROI. Each bank has its own challenges arising from the bursting of the property bubble in the ROI.

Figure 3: Do you expect credit to become more or less accessible in the coming 12 months?
Percentage of businesses

	Much more accessible	More accessible	No change	Less accessible	Much less accessible	Less or much less accessible	More or much more accessible
Ireland	1	19	39	31	9	40	20
Northern Ireland	0	28	40	28	4	32	28
United Kingdom	2	42	32	18	2	20	44
European Union	2	23	37	29	5	34	25
Global	4	31	32	24	3	27	35

Source: Grant Thornton IBR 2010

Figure 4: How supportive or unsupportive do you currently feel that your lender is towards your business?
Percentage of businesses

	Very supportive	Supportive	Neither supportive or unsupportive	Unsupportive	Very unsupportive	Supportive or very supportive
Ireland	17	44	23	13	2	61
Northern Ireland	13	50	24	7	4	63
United Kingdom	28	41	19	7	5	69
European Union	21	41	24	9	3	62
Global	27	42	18	7	3	69

Source: Grant Thornton IBR 2010

This suggests that while NI sentiment on the economy as a whole mirrors the UK, at least at a subliminal level, the credit crunch and banking difficulties on the island of Ireland are affecting businesses in the same way.

Coincidence or fact? As always with matters on the island of Ireland, history will be the adjudicator.

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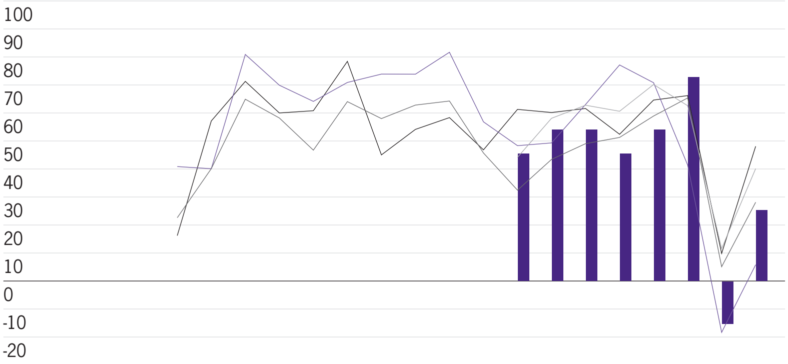
Appendix

Appendix 1: Revenue expectations – 1993-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



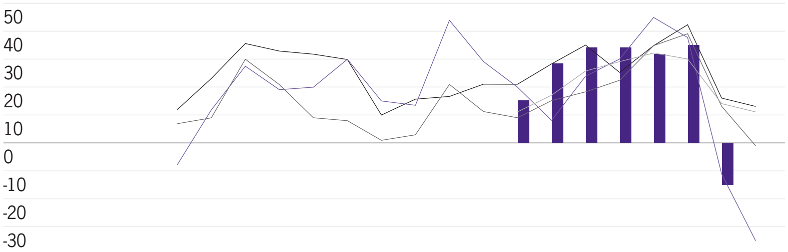
	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10
Northern Ireland	–	–	–	–	–	–	–	–	–	–	46	54	54	46	54	73	-15	26
Ireland	41	40	81	70	64	71	74	74	82	57	48	49	63	77	71	42	-18	6
United Kingdom	16	57	71	60	61	78	45	54	58	47	61	60	62	52	64	66	10	48
European Union	23	40	65	58	47	64	58	63	64	46	33	44	49	51	59	65	5	28
Global	–	–	–	–	–	–	–	–	–	–	44	58	63	61	70	63	11	40

Revenue (2010) – actual %	Increase	Decrease	Remain the same	Not applicable	Don't know	Balance
Northern Ireland	46	20	34	–	–	26
Ireland	33	27	39	–	1	6
United Kingdom	58	10	31	0	1	48
European Union	45	17	37	0	0	28
Global	54	14	31	0	1	40

Source: Grant Thornton IBR 2010

Appendix 2: Selling price expectations – 1993-2010

Percentage balance of businesses indicating an increase against those indicating a decrease

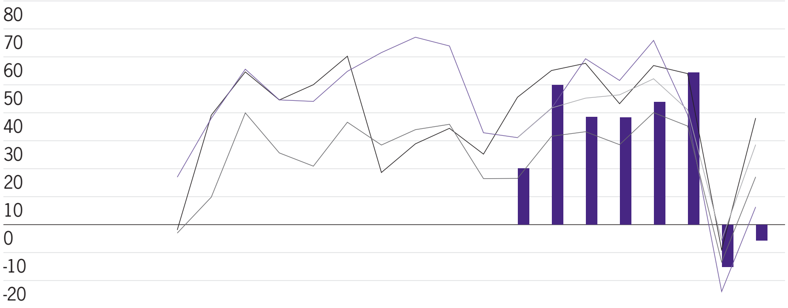


	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10
Northern Ireland	–	–	–	–	–	–	–	–	–	–	16	28	34	34	32	35	-15	0
Ireland	-8	12	28	19	20	30	15	14	44	29	20	8	24	30	45	38	-11	-35
United Kingdom	12	23	36	33	32	30	10	16	17	21	21	28	35	26	35	43	16	13
European Union	7	9	30	21	9	8	1	3	21	12	9	15	18	23	35	39	13	-1
Global	–	–	–	–	–	–	–	–	–	–	11	17	26	29	32	30	14	11

Selling prices (2010) – actual %	Increase	Decrease	Remain the same	Not applicable	Don't know	Balance
Northern Ireland	28	28	42	2	–	0
Ireland	10	45	43	2	1	-35
United Kingdom	28	15	54	3	1	13
European Union	22	23	51	2	1	-1
Global	30	19	44	5	2	11

Source: Grant Thornton IBR 2010

Appendix 3: Profitability expectations – 1993-2010
Percentage balance of businesses indicating an increase against those indicating a decrease

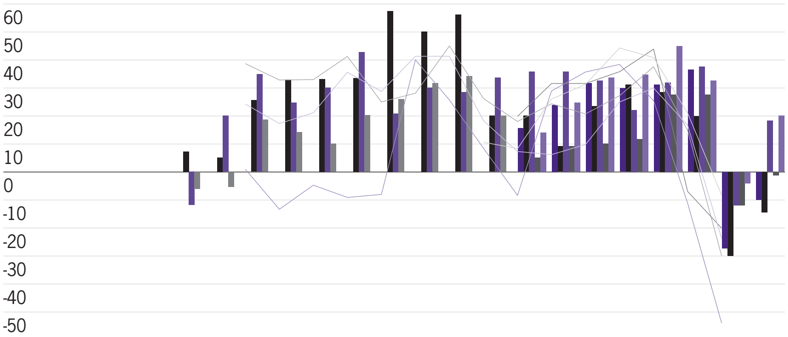


	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10
Northern Ireland	–	–	–	–	–	–	–	–	–	–	20	50	38	38	44	54	-15	-6
Ireland	17	38	56	45	44	55	62	67	64	33	31	42	59	52	66	39	-24	6
United Kingdom	-2	39	55	45	50	60	19	29	34	26	46	55	57	43	57	54	-9	38
European Union	-3	10	40	26	21	37	29	34	36	17	17	32	33	29	40	36	-13	17
Global	–	–	–	–	–	–	–	–	–	–	31	42	45	46	52	41	-5	29

Profitability (2010) – actual %	Increase	Decrease	Remain the same	Not applicable	Don't know	Balance
Northern Ireland	34	40	24	2	–	-6
Ireland	36	30	32	1	1	6
United Kingdom	55	17	26	1	0	38
European Union	40	23	36	1	1	17
Global	47	18	31	1	2	29

Source: Grant Thornton IBR 2010

Appendix 4: Employment history – 1993-2010
Percentage balance of businesses

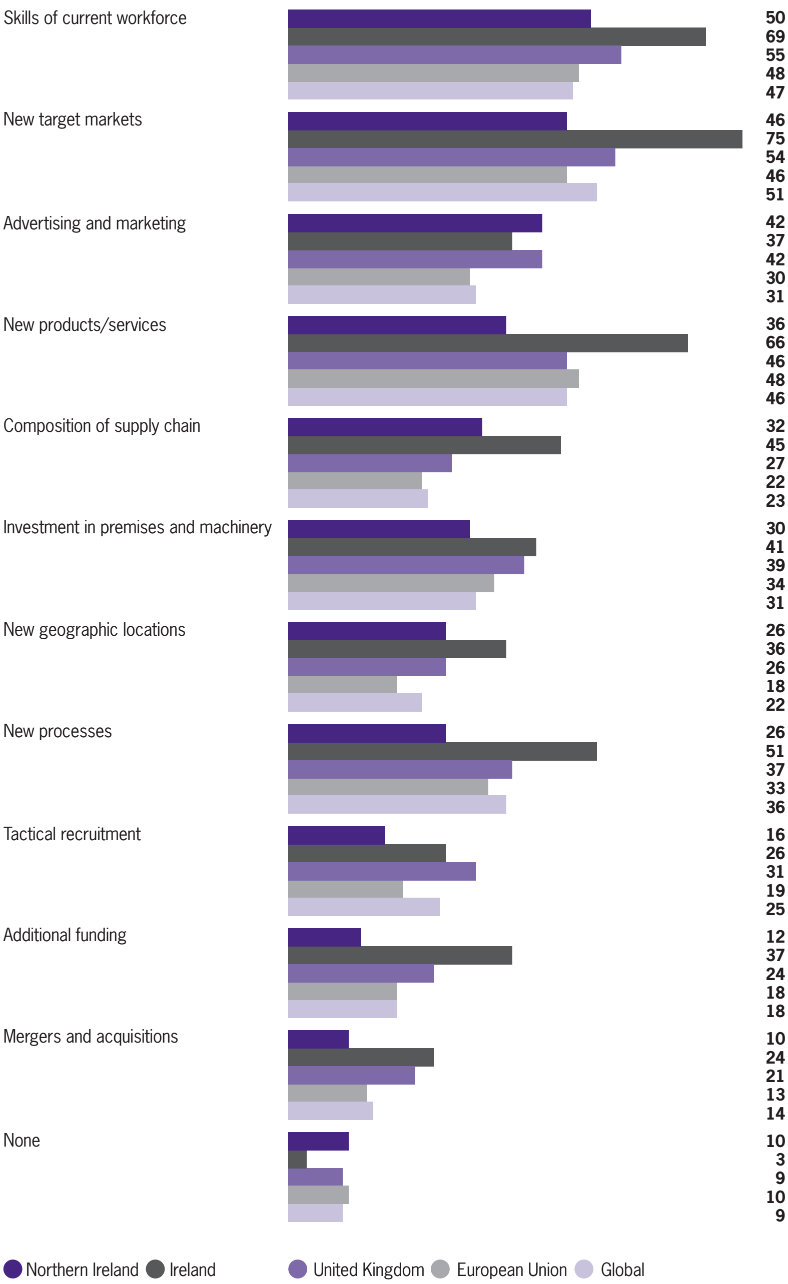


	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10
Expected N. Ireland	–	–	–	–	–	–	–	–	–	–	16	24	32	30	32	36	-27	-10
Expected Ireland	7	5	26	33	33	33	57	50	56	20	20	9	23	32	28	20	-30	-14
Expected UK	-12	20	35	25	30	43	21	30	28	34	36	36	33	23	33	37	-12	18
Expected EU	-6	-5	18	14	10	20	26	32	34	20	5	9	10	12	27	27	-12	-1
Expected Global	–	–	–	–	–	–	–	–	–	–	14	25	34	35	45	33	-4	20
Actual N. Ireland	–	–	–	–	–	–	–	–	–	–	20	32	32	36	44	-7	-20	–
Actual Ireland	–	–	1	-13	-5	-9	-8	40	26	18	-8	29	36	38	26	-11	-54	–
Actual UK	–	–	39	33	33	41	25	28	45	26	18	24	21	27	37	15	-30	–
Actual EU	–	–	24	17	21	36	29	41	41	18	7	6	10	25	30	17	-19	–
Actual Global	–	–	–	–	–	–	–	–	–	11	8	26	31	44	41	21	-8	–

Note: This graph compares businesses' expectations regarding the trend in employment against the actual employment trend based on the answers to the questions "please indicate the trend for your business regarding employment over the coming year" and "in the past, has the number of people you employ increased/decreased?" The expected values are represented by the bars and the actual values by the lines.

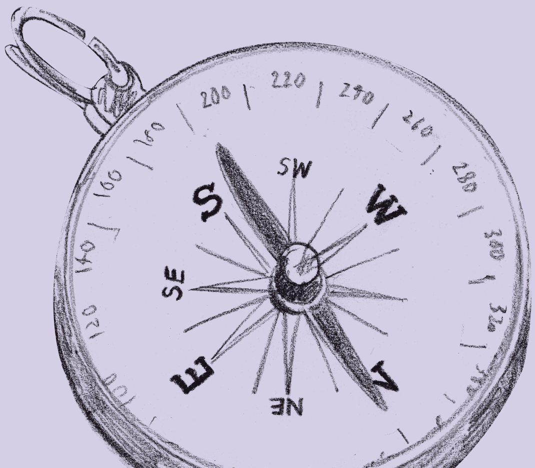
Source: Grant Thornton IBR 2010

Appendix 5: Where has your business put increasing focus in preparation for an upturn in the global economy?
Actual percentage of businesses



Source: Grant Thornton IBR 2010

Notes

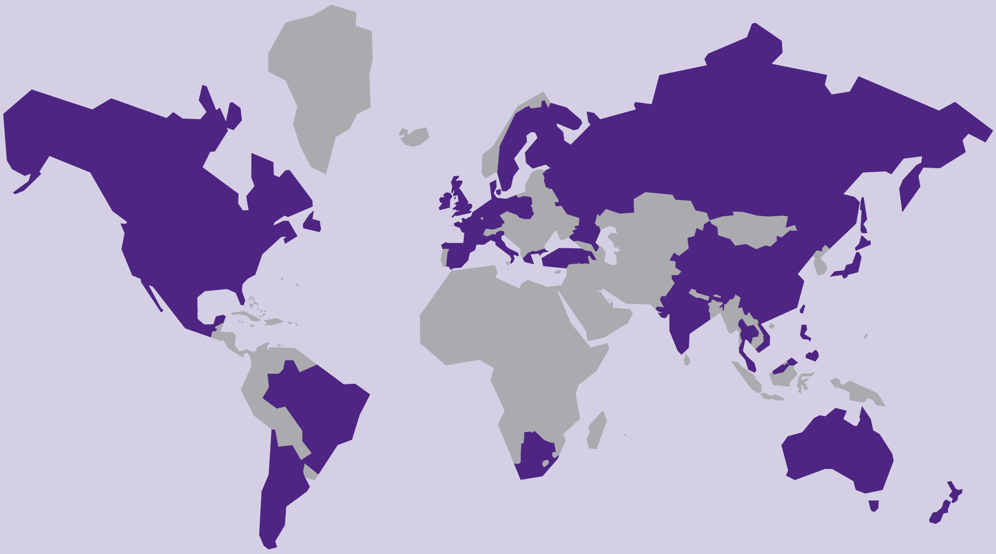


The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,400 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy.

To find out more about IBR and to obtain copies of reports and summaries visit: **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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