New research from the Grant Thornton International Business Report (IBR) has found that Ireland enters 2015 as one of the world’s most optimistic economies. Irish business optimism for 2015 stood at 82% (global 35%) compared to 68% in 2014 (global 27%) and just -2% (global 4%) in 2013. However, a dip in global optimism for 2015 suggests that businesses around the globe see trouble on the horizon in 2015.

Ireland and New Zealand are the second most optimistic economies globally, behind India (98%), and ahead of Australia (70%), the United Kingdom (68%) and United States (59%). Finland (-56%), France (-36%), Argentina (-28%), Japan (-12%) and Italy (-2%) are the five least most optimistic countries.

In many ways, 2014 was the first year since the financial crises where Irish businesses felt they were really back on track. The measures adopted to cope with the downturn helped many of them turn into leaner and more nimble operations, the fruits of which are now ripening. Consequently, many businesses are entering 2015 on a stronger footing.

The year-on-year performance in terms of key expectations for Irish businesses are summarised below:

<table>
<thead>
<tr>
<th>Expectations for next 12 months *</th>
<th>2015</th>
<th>2014</th>
<th>Global ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Optimistic outlook for the economy</td>
<td>82%</td>
<td>68%</td>
<td>2nd</td>
</tr>
<tr>
<td>Employment</td>
<td>54%</td>
<td>38%</td>
<td>3rd</td>
</tr>
<tr>
<td>Profitability</td>
<td>68%</td>
<td>58%</td>
<td>3rd</td>
</tr>
<tr>
<td>Revenue</td>
<td>70%</td>
<td>82%</td>
<td>6th</td>
</tr>
<tr>
<td>Exports</td>
<td>28%</td>
<td>34%</td>
<td>7th</td>
</tr>
<tr>
<td>Selling prices</td>
<td>26%</td>
<td>6%</td>
<td>16th</td>
</tr>
</tbody>
</table>

* Balance percentage (total expecting an increase less those expecting a decrease)
Outlook
The outlook for 2015 is Ireland’s highest level of business optimism since 2007 and well above the global average of 35% and Eurozone average of 13%. Supporting this optimism amongst Irish business leaders, the data shows positive year-on-year expectations for selling prices (+20%), employment (+16%) and profit (+10%). Expectations for increased revenue at 70% (down 12%) and exports at 28% (down 6%) are slightly down year on year but still remain encouraging.

36% (2013 – 30%) of Irish businesses pointed to access to short-term finance as a potential constraint compared to only 8% in the UK which is the lowest amongst global economies surveyed. However, 16% rate economic uncertainty and 14% rate fluctuating exchange rates as a significant concern in 2015.

In terms of a recovering society, 60% of businesses expect employment to increase, with 30% expecting no change - a net balance percentage of 54%. The increased momentum in employment is reflected in the fact 52% of businesses expect to increase salaries in line with inflation (Eurozone 48%, UK 58%) with 6% (Eurozone 12%, UK 22%) expecting to increase salaries above inflation and 38% (Eurozone 27%, UK 10%) offering no pay rise. The challenge for the coming years will be to balance the retention and attraction of talent while maintaining competitiveness and will be a key driver of success for Irish businesses looking to grow sustainability and not repeat the sins of the past.

Global markets
While global business confidence during the past twelve months climbed to levels not seen since before the financial crisis, a recent spate of uncertainty is weighing on growth prospects for 2015 with global business optimism dropping from 43% to 35%. This drop was driven by steep falls in the US (down 10% to 59%), China (down 30% to 25%) and Japan (down 12% to -12%).

The volatility in the oil price is of particular concern to global markets as prices have dropped to five year lows in December. The threat of recession and deflation in Japan is also a massive concern. Meanwhile, the Eurozone has barely grown in five years, unemployment remains stubbornly high and a change of party in Greece could reignite the sovereign debt crisis.

Add in the slowdown in China, which is dampening demand for natural resources from Latin America and exports from southeast Asia, the ending of quantitative easing in the US and UK and its introduction in the Eurozone, and it’s clear that the outlook for 2015 is far from stable.

This uncertainty is weighing heavily on global business growth prospects. Both revenue growth - down 13% (from 56% to 43%) - and profit growth - down 11% (from 43% to 32%) - prospects have fallen globally. In both China (37%) and the US (35%), revenue growth expectations dropped 33%. Profit growth expectations in China (down 33% to 13%) and the US (down 23% to 34%) have seen similar falls. That said, European businesses are actually feeling more positive about growth compared with three months previously with profitability expectations up from 32% to 40%.

The operating rhythm for Irish businesses is evolving from trading in a wounded but recovering domestic economy to competing in a complex, dynamic, volatile and interdependent global economy. The Irish optimism for 2015 must be viewed in the context of the low point in which Irish businesses have come from. In addition, we must consider the measured cautiousness of other economies who haven’t suffered such a near death experience.

The way forward
It used to be thought that macro risks were a bit like global warming i.e. something for someone else to solve. In an interconnected global economy macro risks are now the embedded micro risks impacting business performance. Continued economic progress will be based on understanding the impact of these risks on your customer and your customer’s customer, on your supplier, on your people and on the technologies and processes deployed to deliver your product or service. The seeds of success lie in the hard fought for competitive advantage eked out over the last decade combined with our own unique sense of Irish optimism and a renewed global awareness, integrity and ambition.
Sample: 2,500 mid-market business leaders interviewed in 34 economies

Optimism across the region forecasts robust.

United States
Confidence slipped to 59% in Q4 following the midterm elections, although the US sits in sixth position globally with job and economic growth forecasts robust.

Eurozone
Confidence in the Eurozone crept upwards, largely thanks to Germany (up 15pp), but France, Italy and Finland remain negative about growth prospects.

United Kingdom
UK business optimism dropped back to 68% despite strong economic and wage growth, although it remains in fifth position globally.

Russia
Russian business optimism remains low but stable despite the continuing standoff over Ukraine and the decline in the price of oil threatening the government budget.

China
Optimism declined in Q4 as the economy slowed to 7.3% and fears over local government indebtedness and social unrest persist.

Japan
Confidence dropped into negative territory again for the first time in five quarters as the economy enters recession, although the election win for Shinzo Abe could signal greater stability.

Key: A score above zero indicates net optimism

Latin America
Optimism across the region remains stable with a big fall in Brazil (down 15pp) following the re-election of Dilma Rousseff balanced out by a rise in Mexico (up 20pp).

Africa
African business optimism has slowed over the year as the threat of Ebola, mining strikes in South Africa and severe political unrest in Nigeria have dampened growth prospects.

Turkey
Confidence in Turkey stands at just net 8% heading into 2015 with social unrest both in and around the country weighing on the outlook.

India
Almost the entire Indian business population is optimistic about the 2015 outlook providing another boost to the new Modi government.

Australia
Australian business confidence has risen to 70%, the highest since 2010 despite disappointing recent GDP figures and slowing demand from China for raw materials.

ASEAN
Confidence in Southeast Asia dropped sharply, led by Indonesia (down 34 percentage points) and Thailand (down 44pp) as global recovery fears weigh on export prospects.

To examine IBR results going back to 1992, use our data visualisation tool: https://dataviztool.internationalbusinessreport.com/ibr.html

Sample: 2,500 mid-market business leaders interviewed in 34 economies

Source: Grant Thornton IBR 2014
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