# News Release

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# Accenture / S&P Global Ireland Business Outlook Report

## Irish business sentiment remains subdued heading into winter

### Key findings

Confidence remains among weakest on record

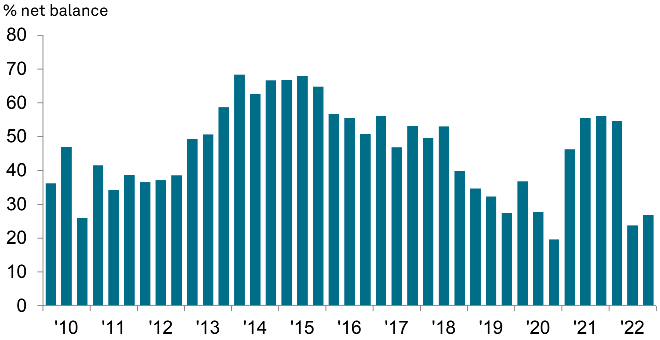
Employment forecast still highest in Europe

Inflation expected to stay elevated

Demand and price pressures set to weigh on profits

Weakest outlook for capital spending since late-2020

Ireland Business Activity expectations




Sources: Accenture, S&P Global.
Data were collected 12-26 October 2022.

The Accenture / S&P Global Ireland Business Outlook survey for October signalled a challenging environment over the next 12 months. Companies faced the twin challenges of high inflation and a weakening European economy set against a backdrop of the ongoing war in Ukraine, looming winter energy crisis and ongoing global supply chain difficulties. The profits outlook remained negative, although Irish firms were the most upbeat in Europe regarding their hiring plans.

The net balance which tracks the combined manufacturing and services sector showed expectations for business activity over the next 12 months edged up to +27% in October, from +24% in June. This was the joint-fourth lowest reading since the series began in October 2009. By comparison, the average over the series history is +46%. Manufacturers (+26%) were slightly more upbeat than in the summer, and the most confident among the 11 European nations surveyed. Service providers (+27%) were the least optimistic since late-2020.

Although sentiment was relatively weak, Irish firms were more confident than those in Germany, the UK, France, Italy and Spain. The UK and eurozone net balances were +18% and +4% respectively, the latter impacted by Germany's reading of -7%, with all three at record lows.

Survey respondents are invited to comment on threats to the outlook, and the latest results showed a wide

### Comment

Commenting on the survey, Alastair Blair, country managing director at Accenture in Ireland, said:

*"It is no surprise that this survey shows that inflation and rising costs remain a significant cause for concern for businesses in Ireland. As we face the potential likelihood of a global recession, it is clear that this will only amplify inflationary pressure and compound the strain on supply chains. Businesses need to be agile in the face of this uncertainty and be able to move at speed to respond and be competitive. Such agility, coupled with a flexible and highly productive workforce, will be critical for Ireland's success going forward. An ongoing investment in digital and technology skills will be imperative to keep a positive trajectory going."*

range of challenges. First and foremost, high inflation was reported as a key threat to business, with price rises expected from a wide range of sources including energy, labour, food, fuel and raw materials. The inflationary environment was seen as a key factor weighing on spending power and raising the likelihood of recession in Europe. Shortages of raw materials and electronic components were also mentioned, as were shortages of skilled staff. Meanwhile, financial service firms highlighted rising interest rates and a growing regulatory burden as threats to the outlook.

There were some reported opportunities, including productivity drives, a focus on renewables and sustainability, re-shoring due to global supply issues, business consolidation, new clients, new markets and opportunities post-Brexit.

## Inflation and profits

Private sector firms' expectations regarding input prices corrected slightly in October but remained higher than in any survey period prior to 2022. Meanwhile, profits are set to remain under pressure moving into 2023.

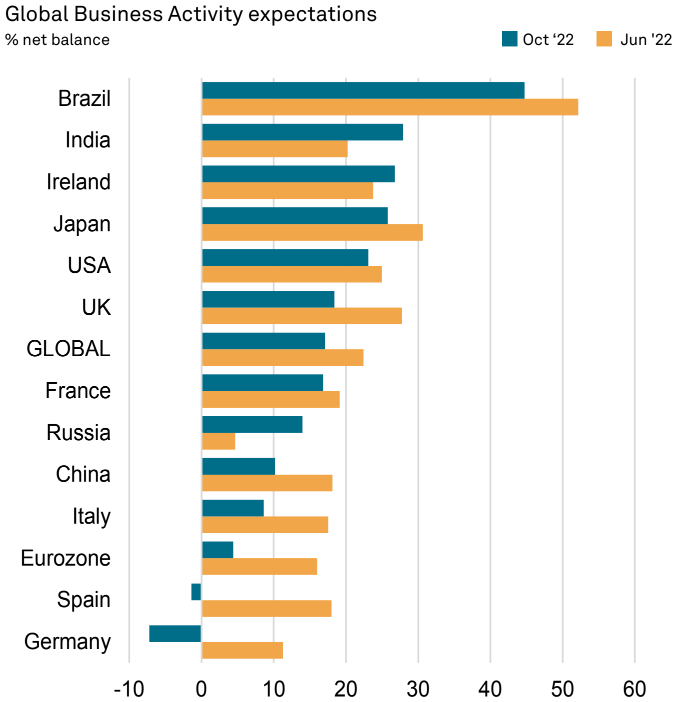
Companies expected to pay much higher prices for inputs over the next 12 months, reflecting ongoing global supply chain issues and the looming energy crisis. The non-staff costs net balance registered +60%, down on June's peak of +66% but still above any level set prior to 2022.

Wage pressures are set to remain a key challenge for companies as well as workers grapple with the cost of living crisis and seek better pay awards. The staff costs net balance, which tracks firms' expectations for wages and salaries over the next 12 months, was the third-highest on record at +73%, albeit down slightly on its February and June levels.

Compared with its European peers, Ireland faces slightly softer non-staff price rises than the eurozone average (+64%) and the UK (+69%), but greater wage pressures than the eurozone trend (+60%). The UK and Germany (both +77%) face the highest overall staff costs in the global outlook survey.

Companies in Ireland are expecting to increase their own prices in response to elevated cost pressures. The output prices net balance posted +52%, although this was below the previous three readings as firms seek to limit price increases where possible to attract sales amid a weak demand environment. The Irish figure was, nonetheless, the highest in the eurozone.

Reflecting weaker demand, Irish firms remained pessimistic regarding their profits over the next 12 months. The net balance remained negative, at -5%, only slightly up since June's -7%. That said, this was the highest figure among the six European economies for which manufacturing and services data are collected.

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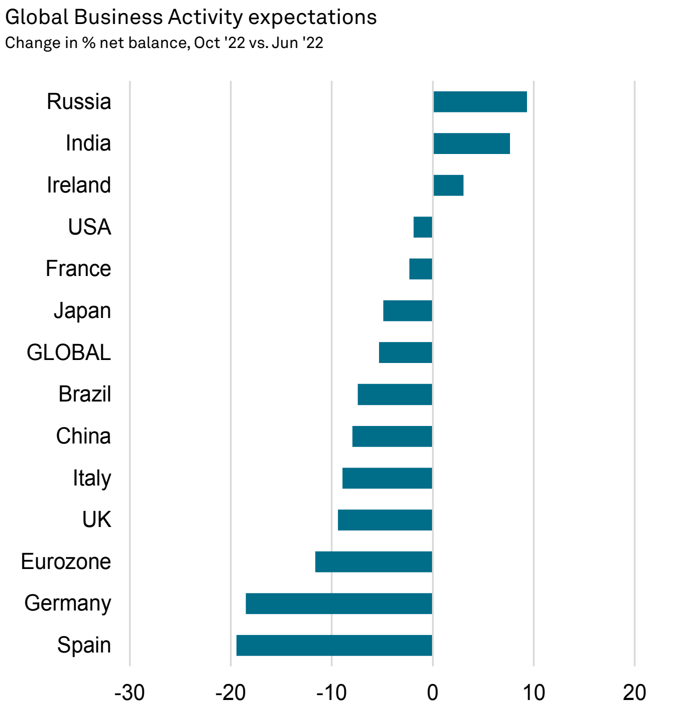


Sources: Accenture, S&P Global.

## Employment and investment

October outlook data for employment revealed a slight pick-up in hiring intentions since the summer, which remained the highest in Europe. Less positively, forecasts for capital spending moderated further.

The employment net balance registered +26% in October, up fractionally from +24% in June. This signalled strong overall expectations for employment over the next 12 months at Irish manufacturers and service providers, broadly in line with the trend shown since the series began in October 2009 (+25%).

The Irish jobs outlook for the combined manufacturing and services sector remained the highest in Europe in October, ahead of France (+15%) and the UK (+11%). The average for the eurozone (+2%) was weighed down by notably weak readings for Germany (-4%), Italy (-2%) and Spain (-8%). Irish manufacturers (+24%) also had the strongest hiring expectations among the 11 European nations for which manufacturing data are available, ahead of the Netherlands (+14%) and the UK (+7%).

The outlook for capital spending was much less optimistic, however, reflecting pressure on budgets from high input prices and wage demands. The net balance for capital spending was positive but fell to +9%, the lowest for two years. Outside the pandemic, capex forecasts were the weakest since early-2013. That said, the Irish figure was higher than the UK (-7%) and the eurozone average (0).

The 12-month outlook for research & development was even weaker, with the net balance falling to +4%, the second-lowest since the series began in 2019.

## Workplace skills

Exactly 50% of survey respondents were confident that they could recruit the required skilled staff during the year ahead, with most of these firms replying as 'Slightly Confident' (39%) as opposed to 'Very Confident' (11%).

Just under one-quarter (23%) of Irish companies reported that they were 'Not Confident' that they could find the staff they required.

Firms were most confident in their ability to hire entry level staff over the next 12 months in October, with 58% being optimistic. By comparison, 40% of firms were confident that they could hire experienced staff. Optimism towards hiring senior management was slightly stronger, with 44% of companies indicating confidence.

Anecdotal evidence provided by manufacturers highlighted the need for experienced engineers, skilled craftsmen and those with knowledge of automation and emerging manufacturing technologies. Service providers often mentioned the need for drivers, operational and compliance staff, software engineers and a push to train in-house.

Surveyed companies were also asked to specify workplace skills that they would prioritise hiring over the coming year. The most popular category was Operations (21%), followed by Digital (17%), Sales & Marketing (16%) and Leadership (12%).

## Survey methodology

The Global Business Outlook Survey for worldwide manufacturing and services is produced by S&P Global and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October. The Accenture/S&P Global Ireland Business Outlook Survey is based on a panel of around 600 companies in the manufacturing and services sectors.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing, and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that S&P Global operates. This methodology seeks to ensure harmonization of data and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, fax, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The Business Outlook survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0.0 signalling a neutral outlook for the coming twelve months. Values above 0.0 indicate optimism amongst companies regarding the outlook for the coming twelve months, while values below 0.0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global economy in the countries mentioned above. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the survey. The current report is based on responses from around 8,000 firms.

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