



A confident outlook?

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Ulster Bank Business Confidence Survey

June 2007

Throughout the island of Ireland, we have witnessed significant and sustained economic growth over recent years. As the economy in the Republic of Ireland matures and a new political reality emerges in Northern Ireland, our ability to understand regional economic dynamics will become increasingly important to our future business prosperity. Yet, despite the recognition that such economic growth has not always been spread evenly across all parts of the island, there remains a dearth of contemporary, detailed information about Ireland's regional economic performance.

To go some way towards closing this gap, Ulster Bank has initiated a unique research programme designed to take the temperature of Irish businesses across all regions. This report highlights the key findings from a survey of businesses representing Northern Ireland and each of the Republic of Ireland's eight European Union NUTS 3 regions, comprising the Border; Midland; West; Dublin; Mid-East; Mid-West; South-East and South-West regional authorities.

The first 'Ulster Bank Business Confidence Survey' was carried out by Amárach Consulting in April 2007, and it assessed how businesses felt their company performed in the last year and how they felt about the year ahead. A number of factors and trends were measured – designed to guide our understanding of just how well businesses, and the wider economies, are doing in Ireland's regions. We summarise the key findings.



Business Outlook

In the Republic of Ireland, 5 in 10 companies expect to achieve a stronger performance in the next year, over 20% expect this to be fuelled by more orders and enquiries, with a further 20% planning on expansion to deliver the expected stronger performance. Only 15% of businesses believe their operation will not perform as well in the year ahead and 45% of these said their main concern was competition. Among this group 2 in 10 cited the economy and interest rates as their main concern.

Northern Ireland businesses were more optimistic, with 63% of companies believing their business prospects will improve in the next year. A further 25% expect prospects to stay the same, and a total of 8% expect prospects to worsen.

At a regional level, business confidence varied, reflecting the different challenges faced by businesses, for example in accessing infrastructure and in attracting employees.

Businesses in the Border counties of Donegal, Leitrim, Louth, Cavan and Monaghan and in the Mid-East counties of Kildare, Meath and Wicklow, are the most optimistic in believing their prospects for the year ahead will improve. In contrast, the South-East counties of Carlow, Kilkenny, Tipperary South, Waterford and Wexford have the least positive business outlook, however still mainly optimistic.

The chart below shows the percentage of businesses that expect their business to perform better in the next twelve months than they are performing at present:



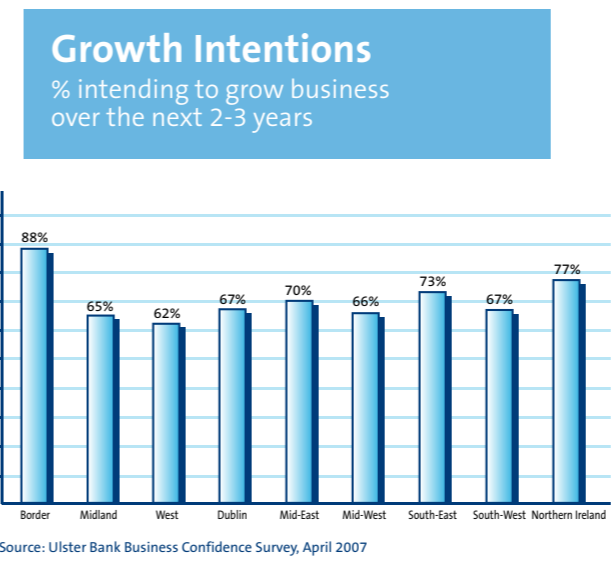
Go for Growth

Over 70% of businesses, both north and south, expect to grow their business in the next two to three years. In the south, 39% plan to grow by introducing new products and services to their company's offering, 38% plan to grow by increasing turnover and sales within their existing market and product portfolio, while 29% plan on entering new markets. In the north, over 50% expect to increase turnover and sales within their existing market and product portfolio, with only 21% planning a move into new markets. Just over 30% intend to introduce new products or services.

Reflecting the predominance of a service economy, over 50% of companies will need to hire more staff in order to achieve this growth. Expansion of premises and adding more sites was the second highest requirement, with 34% of companies in the south identifying this as a need and 43% of companies in the north.

In order to fund this growth, a majority of companies both north (50%) and south (44%), state their preference is to use internal finance only, with a quarter across the island planning to use a mix of internal and external finance. Just over 25% in the south expect to rely on external finance only, in comparison to just under 20% in the north.

The research indicates that there is a 'spill over' benefit affecting Ireland's border counties at present, with businesses surveyed in the Border region (Donegal, Leitrim, Cavan, Monaghan, Louth & Sligo) showing an above average positive outlook (along with Northern Ireland businesses):



Go North Young Man?

As noted at the start, the new political dynamic in Northern Ireland bodes well for business and economic prospects. Indeed, our survey shows that small and medium sized enterprises in the north are generally more confident about prospects on most measures than their counterparts in the Republic. We have already noted the benefit that appears to be emerging in the south's border counties – will it extend to the island as a whole? Northern Ireland's private sector has grown consistently in the last two years, despite the widely acknowledged structural weaknesses inherent within the economy, and our survey shows that NI businesses are confident that they can continue to develop and improve their business.

Innovate to Accumulate

A key finding from the survey relates to how businesses intend to expand in the near future. With Ireland facing strong competitive pressures, it is intriguing to see how businesses expect to generate extra sales despite such pressures.

As the chart below illustrates, there is a fairly even divide between those businesses expecting to grow by selling more of their existing products and services, and those expecting to introduce new products and services by way of innovation (note, multiple responses were possible). A close third, by way of options, is expansion into new markets by way of exports for example:



Businesses in the Republic of Ireland tend to be more inclined to expand into new markets for now (with significant regional variation), than their counterparts in Northern Ireland. This may reflect differences in stages of development, or obviously differences in terms of the size of the 'domestic' market. But innovation (and rising productivity) will be key to the success of most Irish businesses in the years ahead – north or south.

About the Survey: The Ulster Bank Business Confidence survey was conducted in April 2007. A total of 937 telephone interviews were conducted with business owners or business managers of companies throughout the island of Ireland, with up to 100 employees. Regional quotas were imposed in order to ensure sufficient sample within all nine regions.