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Decline in Optimism Amongst Businesses but Irish Companies are Adapting Better than Most

Two thirds of Irish businesses expect a return to pre COVID levels of profitability by 2022.

Research released today from HSBC has shown a decline in optimism amongst Irish businesses compared to this time last year but has also highlighted some positive trends as Irish businesses adapt to return to growth.

HSBC's annual Navigator survey reported that over half (52%) of businesses surveyed were more pessimistic than they were at the end of 2019, the highest percentage reported in Europe. Despite the pessimism, almost two-thirds of Irish companies are reporting that they are adapting to the changing environment (61% vs. global: 58%) and 62% expect to return to pre COVID levels of profitability by the end of 2022.

The survey also found that the proportion of Irish companies expecting no growth or shrinkage in the coming year has almost tripled from last year (2020: 30% vs 2019: 11%) and the majority of them are expecting business to shrink by more than 5% (73%). This more pessimistic picture reflects the current Brexit situation as well as, or potentially more than the impact of COVID.

A higher proportion of Irish companies believe that international trade has become or will (69% and 59%) become more difficult, with fewer Irish companies expecting international trade over the next 1-2 years to be positive compared to last year (2020: 69% vs. 2019:76%). Eight in ten Irish businesses think that protectionism is increasing.

More than nine in ten Irish companies (93%) have concerns relating to their supply chain. Key concerns being increasing cost (45%) and suppliers being in countries/territories which are unstable or at risk of tariffs or sanctions (43%).

One hundred per cent of Irish companies have made changes to their supply chain, with selecting suppliers based on their country/government's control of COVID 19 the most common change. Highlighting the importance of having suppliers close to home, businesses also said that a focus on suppliers in their home region and closer to customers is a primary area for investment in 2021.

Irish businesses are also building strategies to aid recovery and enable growth with proactive investment in customer experience (31%) and improvement of products and services (30%) highlighted as key areas, after defensive cost cutting.

Although in comparison with global and Europe overall, Irish companies are more conservative in their investment plans for the next year, those companies who are planning to invest will focus it on areas which drive renewed demand for products, including targeting new customers, improving speed to market and enabling product and service innovation.

Speaking about the latest Navigator report findings, HSBC Ireland CEO Alan Duffy said:

"That Irish businesses are in a pessimistic frame of mind is no surprise given the twin challenges of a global pandemic and Brexit, but we mustn't make the mistake of equating

less optimism to less resilience. On the contrary, firms are proactively employing strategies to aid recovery and enable growth. We are also seeing larger corporates investing for the future through innovation, product development and new markets and this effect will be long-lasting as these companies emerge strongest from the pandemic.

Beyond the immediate challenges, there are also signs of an evolution in thinking among business leaders, who increasingly define corporate success as extending far beyond shareholder returns. Successful businesses in the future are those that recognise that reputation, innovation and foresight in leadership are vital in meeting rising expectations for companies to act in accordance with consumer values. This brings to the fore facets such as social and environmental responsibility and corporate culture and inclusivity as key characteristics of building a successful business.”

Drawing on the views of over 10,000 companies in 39 countries and territories, HSBC’s annual Navigator survey found that globally, 45% expect to return to pre-Covid profitability by the end of 2021. However, 28% and 11% of businesses expect it will take until the end of 2022 and of 2023 respectively just to claw back ground lost during the pandemic, while 6% are looking at 2024 or beyond.

Advertising/PR and pharmaceuticals businesses are among the most optimistic in their outlook for sales growth, the Navigator survey shows, ahead of firms in industries including energy, chemicals and technology services. Optimism is scarcer in sectors such as automotive, telecoms, tourism and education.

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Note to editors:

HSBC Navigator:

The Navigator survey is conducted on behalf of HSBC by Kantar. This survey of over 10,000 businesses spans 39 countries, markets and territories. It was conducted between 11 September and 7 October 2020.

Markets in scope: **Europe:** Belgium, France, Germany, Greece, Ireland, Italy, Netherlands, Poland, Russia, Spain, Sweden, Switzerland, UK. **Asia-Pacific:** Australia, Bangladesh, mainland China, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Thailand, Vietnam. **Middle East & North Africa:** Egypt, Saudi Arabia, Turkey, UAE. **North America:** Canada, Mexico, USA. **South America:** Argentina, Brazil. **Rest of Africa:** South Africa.

For more information visit: <https://www.business.hsbc.com/navigator>

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