

DISAPPOINTING REVERSAL IN SME BUSINESS TRENDS

- **Positive trends of previous quarter wiped out.**
- **Decreases in 9 out of 12 indicators as business optimism wanes.**
- **While current employment is up, the future expectation is less positive.**
- **Not surprising, Economic Uncertainty is once again, the biggest concern.**

ISME, Monday 4th April 2016

The results of the **ISME Quarterly Business Trends Survey** for the first quarter of 2016, released today (4th April) show disappointing turnaround in the sentiment of SME owners with worrying drop in the economic indicators tracked. While there had been a gradual but slow improvement in general over 2015, the results for the end of March show nine out of 12 indicators deteriorating in stark contrast to the 10 of 12 improving at end of 2015. The reasons for this negative outturn are mainly domestic, although external factors cannot be discounted. Economic uncertainty is once again the biggest concern for SME owners.

Commenting on the results of the SME Business Survey, Mark Fielding, ISME CEO, said, **“It is disappointing but predictable that the results are mainly negative. The current political situation and the industrial relations landscape is having a major negative effect on business confidence and expectations. The inaccurate cheerleading of a ‘major’ recovery at the recent election, quickly followed by exorbitant trade union wage demands and the developing circus over the formation of the next government are major factors”.**

“Increasing business costs, the continuing difficulties in accessing bank finance, scaremongering over Brexit have added to the external factors of threats of Eurozone deflation and adverse currency movements.”

The survey was conducted in the last week of March, with 1,070 SME respondents. 58% of whom employ less than 10, while a further 33% employ between 11 and 50 and the remaining 9% employ between 51 and 250. Geographically, 30% are from Dublin with 70% spread across the country, with 13% with multiple sites, giving a good reflection of the country as a whole, sectorally, geographically and by employee numbers.

KEY INDICATORS	Q1' 15	Q2'15	Q3 '15	Q4 '15	Q1' 16	
Business Confidence	39%	45%	49%	47%	38%	↓
Business Expectations	57%	62%	58%	62%	49%	↓
Business Environment	24%	31%	30%	40%	34%	↓
Profitability Expectations	25%	32%	34%	36%	26%	↓
Current Employment	16%	19%	17%	23%	28%	↑
Future employment	20%	27%	29%	30%	27%	↓
Current Sales	26%	30%	25%	43%	28%	↓
Sales Expectations	35%	41%	44%	51%	42%	↓
Current Investment	33%	37%	36%	39%	44%	↑
Future Investment	31%	37%	43%	36%	37%	↑
Current Exports	29%	23%	17%	36%	25%	↓
Export Expectations	45%	40%	48%	51%	40%	↓

The Survey also tracks the current biggest concerns of SMEs:

Economic Uncertainty	16%	21%	16%	9%	20%
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Retail.

The Retail Sector reported decreases or no change in six out of the ten indicators tracked for this sector. Current Employment and Investment are both up for this sector and Business Expectations have remained the same. Retailers reported an increase in their Future Employment from -10% to +6%, which is a very significant positive sign. However, their Profitability Expectations decreased from 5% to 3%, a decrease in a key indicator. The sector is experiencing a slow recovery and would benefit from a dedicated plan to improve e-tailing.

Manufacturing.

Manufacturers' indicators were very worrying this quarter, showing decreases in 10 of 12 indicators. They saw an increase in Current Employment from 28% to 33% and an 4 point increase in Current Investment (53% to 57%). The Current Export levels of Manufacturers have seen a decrease from 27% to 19% and their Future Export Expectations decreased from 48% to 23%.

Exporting.

Exports are a key area of growth for Irish businesses. The zig-zag of the trend indicator persists with this Quarter showing decreases in 10 of 12 indicators for Exporters. There was a drop in Current Exports in this Quarter, going from 36% to 25% and Future Export Expectations dropped from 51% to 40%. They reported a large decrease in Current Sales from 58% to 32%. Their Future Sales Expectations also decreased from 59% to 46%. Exporters' investment levels remained at 49% but their Future Investment expectations decreased from 47% to 35%.

Services

The Services sector saw half of its indicators increase and half decrease. The sector saw an increase in Current Investment going from 26% to 43% while Future Investment reduced from 32% to 41%. Positively, Current Sales and Employment both increased, but Profitability Expectations decreased from 35% to 28%

- Business Confidence and Expectations both decreased in this quarter by -9 and -13 respectively.
- Business Environment and Profitability expectations both decreased by 6 points to 34% and 10 points to 26% respectively.
- Current employment is up 5 points to 28%, while Future Employment Expectations have dropped by 3 to 27%.
- Both Current and Expected Sales have shown appreciable drops of 15 and 9.
- Current and Future Investment levels increased in this Quarter, showing that SMEs are planning for growth and are doing their best to capitalise on any upturn in the economy.
- Decreases in Current and Future Export Expectations, both at -11, are in keeping with the cyclical nature of the Export sector.

“The decreases in the export indicators in this quarter could be partially due to the erosion of competitiveness and government will need to help reduce business costs back into line with our international competitors. Irish businesses cannot compete effectively on the international stage if they are forced to pay wages, rents and utilities that are far higher than international norms.”

In light of the previous Government's emphasis on employment is to be noted that current employment indicator is positive and the highest in eight years, since spring 2008. However on a note of caution, there has been a slight dip in future employment expectations, as SMEs come to grips with the recent increase in the National Minimum Wage and the incessant wage demands being promoted by the unions, which struggling SMEs simply cannot entertain.

The Association called on the Government to:

- Reduce government influenced business costs to below the EU average.
- Ensure real measurable access to credit for viable SMEs.
- Outsource more state sector services to SMEs.
- Reform the social welfare system to make it more profitable to work.

- Expand the export capacity of the SME sector through soft supports.
- Attack the scourge of ever-increasing black economy activity.

“The current impasse in the election of a new government and the threatening industrial relations climate is having a major negative effect on SME sentiment. The lack of confidence to govern, shown by all parties in the new Dail, is a disgrace and is having a negative effect on business confidence. With a Spring Economic statement due within the month, it is imperative that we have a stable government. The call to all politicians is ‘Get on with it’,” concluded Fielding.

ENDS.

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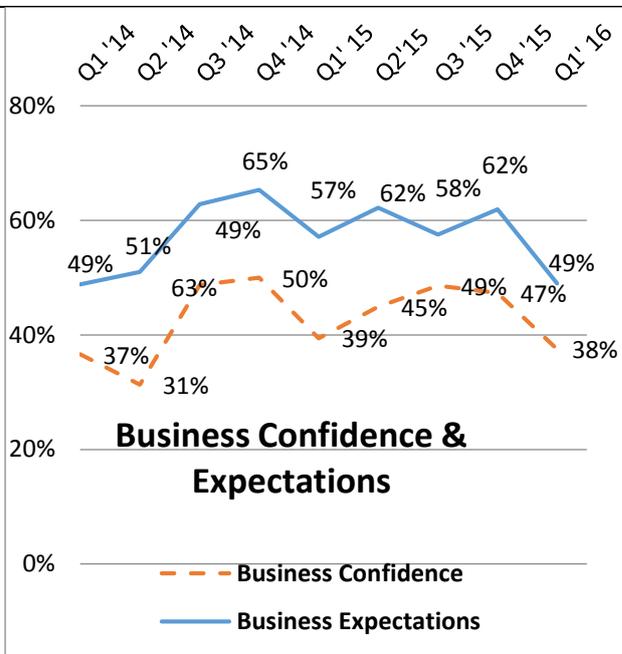
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Note to Editors:

ISME is the only independent voice of Small & Medium business in Ireland, representing in excess of 10,200 members across all sectors. The Association is owned and run by owner managers and is independent of big business, government and unions; the TRUE voice of the Irish SME.

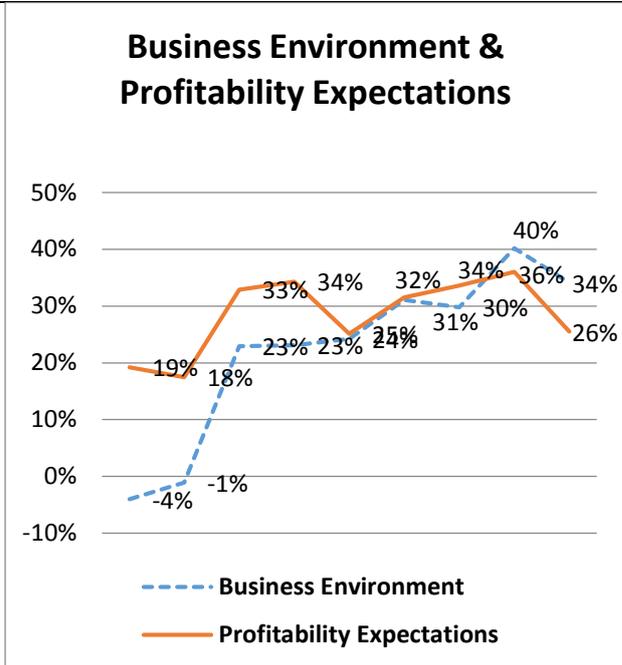
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The ISME Quarterly Trends Survey is based on responses from SME owner managers across all sectors of the economy and is presented as a balance of sentiment for twelve indicators. The result is a simple balance between positive and negative. For instance for the question on business confidence, “are you more or less optimistic about business prospects than you were 12 months ago?” the results are a net of the replies



Overall figures show Business Confidence has decreased 9 points from 47% to 38% in this quarter. Business Expectations experienced a larger decrease from 62% to 49%. These figures compare unfavourably with the trend during 2015 when both indicators were higher. This shows the effect of the economic uncertainty brought about because of the political and industrial relations situation at end of March 2016.

Retailers experienced an increase in their Confidence levels from 5% to 16% and Expectation levels remained at 29%.

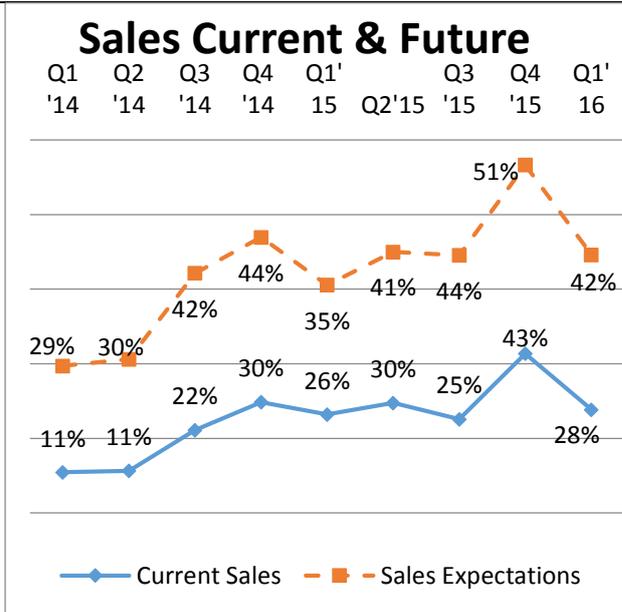


Overall Profitability Expectations decreased 10 points from 36% to 26% in Q1 '16. The overall perception of the Business Environment has also dropped 6 points from 40% to 34%.

Retailers reported a decrease in their Business Environment from 29% back down to a disappointing 6%. Their Profitability Expectations also decreased from 5% to 3% - a slight decrease in a key indicator.

Exporters Profitability Expectations dropped from 48% to 29%.

Manufacturers saw a 7 point decrease in their Profitability Expectations in this quarter (now down to 28%) and their perception of the Business Environment decreased slightly from 44% to 43%.



The Current Sales indicator decreased from 43% to 28%. This is mainly due to manufacturing and Retail figures reducing. Sales Expectations have increased by 9 points from 51% to 42%.

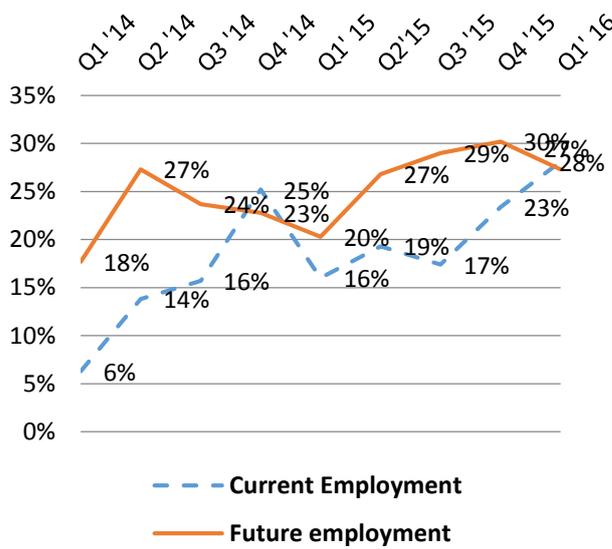
Retailers, have seen a 10 point decrease in their Current Sales to 23% and their future Sales Expectations also show a decrease from 33% to 19%.

Exporters reported a large decrease in Current Sales from 58% to 32%. Their Future Sales Expectations also decreased from 59% to 46%.

Manufacturers saw a decrease in Current Sales from 49% to 21% and a 17 point decrease in Sales Expectations (55% to 38%).

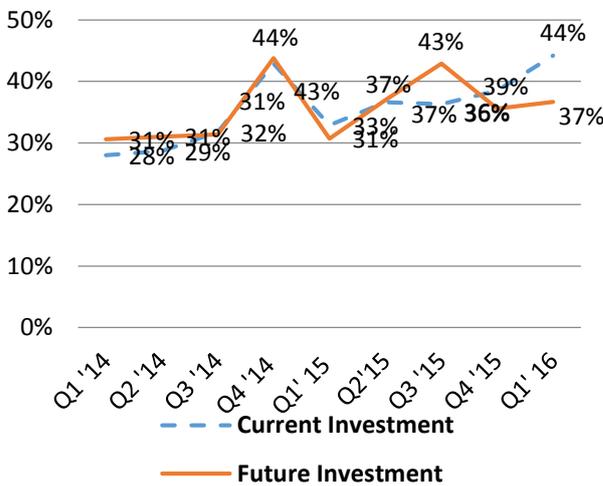
The **Services** sector experienced a small increase in Current Sales from 32% to 35%, while Sales Expectations went from 44% to 43%.

Current & Future Employment



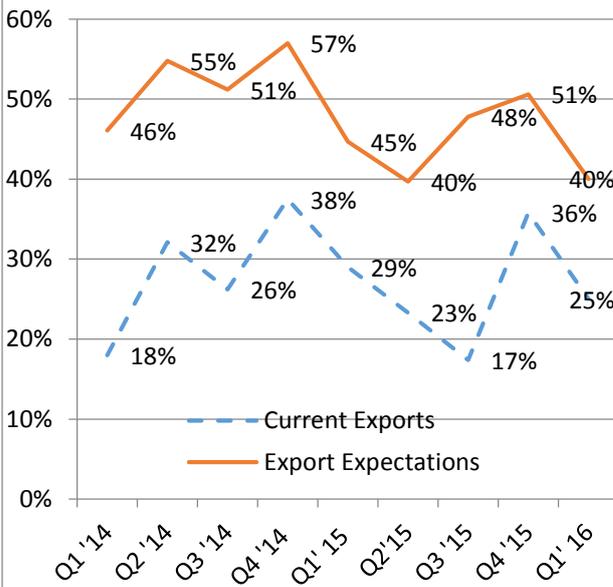
The overall Current Employment indicator, as expected, increased from 23% to 28% in the quarter, however Future Employment expectations decreased from 30% to 27%. Current employment in the labour-intensive **Retail sector** fell from 8% to 0% and Future Employment Expectations increased from 0% to 3%. **Exporters** remained optimistic about their Future Employment levels which went from 37% to 38%. Their Current Employment decreased slightly in this quarter from 29% to 28%. **Manufacturers** experienced decreases in Current Employment from 30% to 24% and Future employment went from 37% to 28%. **Services** saw Current Employment remaining at 21% and Future Employment went from 31% to 32%.

Investment



SMEs increased their Current Investment levels in this quarter from 39% to 44%. Future Investment expectations increased slightly from 36% to 37%. **Retailers** Current Investment increased from 33% to 36%. **Exporters'** investment levels remained at 49% while their Future Investment expectations decreased from 47% to 39%. **Manufacturers** increased their investment in their businesses from 53% to 57% and their Future Investment plans decreased, going from 38% to 36%. The **Services** sector saw a substantial increase in Current Investment going from 26% to 43% while Future Investment also went to 41% from 32%.

Exports



Current Exports have decreased in this Quarter, going from 36% to 25%. Future Export Expectations also dropped from 51% to 40%, continuing the zig-zag profile of SME exports expectations. The Current Export levels of **Manufacturers** have seen a decrease from 27% to 19% and their Future Export Expectations decreased from 48% to a low 23%. The **Services** sector saw a decrease in Current Exports going from 33% to 10% however Future Export expectations are positive, going from 40% to 48%.