

14th August 2018

BUDGET 2019 MUST INVEST IN INDIGENOUS ECONOMY

- **Business confidence drops by 5%.**
- **Brexit and economic uncertainty biggest issue for SMEs**
 - **28% of businesses have inadequate broadband.**
 - **58% of businesses expect to increase wage rates.**
- **83% of businesses report an increase to their motor insurance**

The results of the ISME Quarterly Business Trends Survey for Q2'18 released today (14th August) show a slight improvement on Q1'18. 7 out of 12 confidence indicators showed declines, an improvement on 10 out of 12 in the previous quarter. Business Confidence continues to decline dropping by a further 5% this quarter. Brexit remains the biggest concern for SMEs followed by Economic Uncertainty.

The Trends report also captures data on employee pay, broadband services and business and motor insurance costs in the SME sector. Today's report highlights the continued rise in insurance premiums and the latest pay expectations in the SME sector.

Commenting on the results, ISME CEO, Neil McDonnell said *"Today's results show a slight improvement on Q1'18. Business Confidence and Profitability Expectations are down 5% and 11% respectively on last quarter, while Exports show an increase of 11%. Today's report demonstrates the need for government to invest more in our indigenous economy, and put SMEs first. Budget 2019 must boost the domestic economy"*

"Our report also shows the negative impacts of Brexit, inefficient broadband services and the continued extortionate cost of insurance premiums. We reiterate the need for the Central Bank to publish transparent, granular cost data on insurance companies similar to that historically provided by its 'Blue Book'".

He added,

"On the positive side, 58% of businesses expect to increase wages, showing that when businesses are in a position to increase pay, they will."

Trends Report

This survey was conducted in the second last week of July, with 840 SME respondents, 51% of whom employ less than 10; 40% employ between 11 and 49; and the remaining 9% employ between 50 and 250. Geographically, 38% are from Dublin; 51% are spread across the rest of the country; and 11% have multiple sites.

Overall Confidence Indicators

The **Q2'18 Business Trends Quarterly survey** showed 7 out of 12 confidence indicators were negative. There was a decrease in Business Confidence and Business Expectations, down 5% and 17%; Business Environment was up 8%; Current Employment and Future Employment were up 2% and 1% respectively. While Current Sales are up 1%, Sales Expectations are down 2%. Current Investment and Future Investment were down 10% and 3% respectively. Current Exports are up by 11%, while Export Expectations are down 14%.

KEY INDICATORS OVERALL	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	
Business Confidence	9%	23%	16%	16%	17%	22%	34%	26%	21%	↓
Business Expectations	14%	31%	23%	32%	22%	25%	42%	34%	17%	↓
Business Environment	35%	33%	33%	37%	39%	47%	53%	40%	48%	↑
Profitability Expectations	9%	23%	15%	5%	19%	22%	24%	25%	14%	↓
Current Employment	6%	29%	21%	28%	26%	33%	32%	23%	25%	↑
Future Employment	18%	28%	23%	26%	18%	22%	32%	25%	26%	↑
Current Sales	36%	27%	27%	24%	21%	31%	28%	16%	17%	↑
Sales Expectations	33%	40%	34%	34%	37%	29%	39%	38%	36%	↓
Current Investment	39%	46%	41%	40%	37%	43%	53%	45%	35%	↓
Future Investment	31%	38%	38%	39%	34%	29%	48%	35%	32%	↓
Current Exports	15%	17%	16%	14%	17%	14%	16%	7%	18%	↑
Export Expectations	15%	31%	49%	30%	6%	40%	32%	48%	34%	↓
Economic Uncertainty	18%	15%	29%	21%	11%	13%	7%	11%	15%	
Brexit	30%	19%	18%	26%	21%	21%	25%	24%	25%	

Manufacturing:

Our Q2'18 results for the manufacturing sector show a reversal on last quarter's results. 8 out of 12 confidence indicators show declines. Three indicators showed improvements. One confidence indicator remained unchanged.

Business Confidence and Business Expectations dropped 17% and 28% respectively. Profitability Expectations and Future Employment are also down 23% and 9%. Current Sales are down 33%, while Current Investment is down 23%. Current Exports and Future Exports are down 10% and 17%.

Business Environment is up 7% on Q1'18. Current Employment is at 35% up from 29% on last quarter. Sales Expectations also reported an increase up from 31% to 35%. Brexit remains the biggest concern for the manufacturing sector.

Key Indicators MANUFACTURING	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18
Business Confidence	24%	10%	14%	31%	17%	23%	37%	31%	14%
Business Expectations	38%	26%	21%	40%	38%	47%	40%	42%	14%
Business Environment	26%	21%	34%	50%	42%	63%	60%	47%	54%
Profitability Expectations	14%	7%	31%	21%	29%	33%	20%	31%	8%
Current Employment	26%	24%	29%	45%	38%	50%	31%	29%	35%
Future employment	29%	19%	34%	31%	29%	27%	26%	36%	27%
Current Sales	43%	12%	20%	33%	29%	27%	23%	44%	11%
Sales Expectations	50%	33%	43%	40%	50%	40%	40%	31%	35%
Current Investment	38%	50%	54%	52%	46%	50%	69%	58%	35%
Future Investment	33%	50%	60%	57%	54%	47%	63%	49%	49%
Current Exports	38%	0%	26%	20%	20%	0%	11%	15%	5%
Export Expectations	21%	17%	58%	43%	10%	26%	33%	62%	45%
Economic Uncertainty	18%	7%	25%	19%	17%	13%	9%	12%	20%
Brexit	38%	19%	21%	21%	21%	21%	23%	17%	29%

Retail:

The Retail sector for Q2'18 reported Brexit and Economic Uncertainty as its biggest concerns. 6 out of 10 confidence indicators reported a decline. Business Confidence is down from 15% to -5%, Business Expectations is also down from 35% to 22%. Profitability Expectations is down from 20% to 11%, Current Sales is down 30% to -11%. Current Investment and Future Investment are down 12% and 8% respectively.

Business Environment is up from 15% to 17%, Current Employment is from 10% to 33%, while Sales Expectations is up from 20% to 22%. Future Employment indicators point to a positive increase in Q2'18, up from 15% to 17%.

Key Indicators RETAIL	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18
Business Confidence	-14%	18%	-22%	22%	-6%	14%	40%	15%	-5%
Business Expectations	18%	29%	17%	28%	11%	-14%	50%	35%	22%
Business Environment	-18%	0%	9%	0%	11%	0%	40%	15%	17%
Profitability Expectations	14%	12%	-35%	-22%	-11%	0%	50%	20%	11%
Current Employment	21%	35%	17%	6%	11%	14%	40%	10%	33%
Future employment	4%	24%	-13%	11%	-6%	14%	10%	15%	17%
Current Sales	39%	41%	26%	11%	6%	14%	30%	30%	-11%
Sales Expectations	14%	18%	0%	28%	44%	14%	50%	20%	22%
Current Investment	50%	35%	13%	17%	28%	29%	50%	45%	33%
Future Investment	18%	18%	13%	22%	17%	-14%	70%	30%	22%
Current Exports									
Export Expectations									
Economic Uncertainty	26%	31%	37%	31%	14%	0%	22%	15%	31%
Brexit	30%	19%	14%	25%	14%	29%	22%	30%	25%

Exporting:

Q2'18 shows a decline in 7 out of 12 confidence indicators, a slight improvement on Q1'18.

Business Confidence is down from 26% to 21%, Business Expectations is down from 34% to 17%. Current and Future Employment is up 3% and 1% respectively. Sales Expectations are up from 25% to 32%. Current Investment has fallen from 44% to 36%. Future Investment is down from 35% to 32%, while Current Exports are up 7%.

Profitability Expectations are down 33%, Business Environment is up from 40% to 48%, Current Sales are down 40%. Export Expectations are down 16%.

Key Indicators EXPORTERS	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18
Business Confidence	13%	7%	18%	16%	16%	22%	34%	26%	21%
Business Expectations	45%	39%	23%	2%	20%	25%	13%	34%	17%
Business Environment	18%	16%	34%	37%	38%	47%	60%	40%	48%
Profitability Expectations	13%	22%	14%	5%	19%	22%	24%	34%	1%
Current Employment	31%	36%	21%	28%	26%	34%	32%	22%	25%
Future employment	19%	28%	23%	26%	18%	22%	32%	25%	26%
Current Sales	49%	31%	28%	24%	20%	32%	28%	41%	1%
Sales Expectations	46%	44%	32%	34%	36%	28%	39%	25%	32%
Current Investment	35%	45%	40%	41%	38%	44%	53%	44%	36%
Future Investment	32%	54%	38%	39%	34%	29%	48%	35%	32%
Current Exports	21%	17%	16%	14%	17%	12%	16%	7%	14%
Export Expectations	15%	31%	49%	30%	6%	42%	32%	48%	34%
Economic Uncertainty	8%	13%	27%	21%	17%	13%	7%	11%	15%
Brexit	35%	34%	18%	26%	21%	21%	25%	24%	25%

Services:

The Services sector reported healthy returns for Q2'18. 9 out of 12 confidence indicators showed positive gains, a reversal on the 10 out of 12 decreases in the last quarter.

Business Confidence is up from 22% to 31%, Business Expectations remains unchanged at 15%. Business Environment is up from 31% to 45%. Profitability Expectations decreased from 22% to 20%. Current Employment and Future Employment are up 6% and 20% respectively.

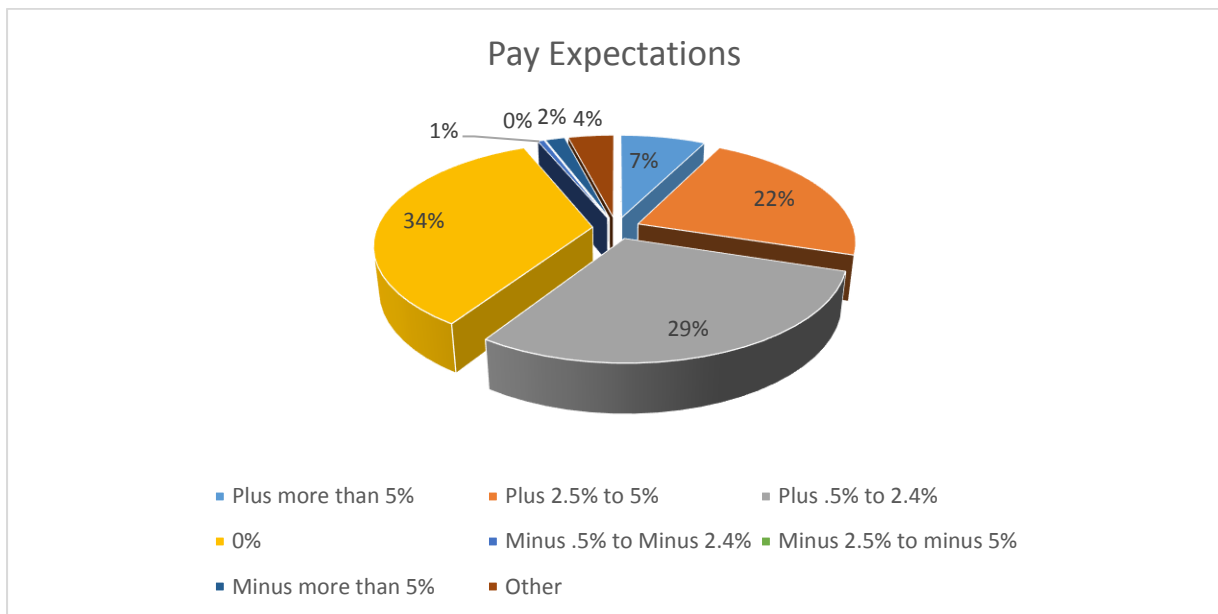
Current Sales recorded a decline from 36% in Q1'18 to -2% in this quarter, while Sales Expectations increased from 22% to 35%. Current Investment and Future Investment are both up 5% and 2% respectively. Current Exports have increased significantly by 36%, while Export Expectations also reported a positive return at 43%, up from 22% in Q1'18.

Key Indicators SERVICES	Q2' 16	Q3' 16	Q4' 16	Q1' 17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18
Business Confidence	7%	26%	38%	8%	18%	29%	31%	22%	31%
Business Expectations	31%	39%	21%	35%	6%	33%	38%	15%	15%
Business Environment	18%	35%	33%	33%	42%	47%	44%	31%	45%
Profitability Expectations	13%	26%	25%	2%	15%	27%	16%	22%	20%
Current Employment	10%	25%	16%	17%	21%	22%	34%	16%	22%
Future employment	19%	30%	26%	27%	15%	16%	38%	13%	33%
Current Sales	24%	24%	35%	21%	42%	18%	28%	36%	-2%
Sales Expectations	26%	40%	28%	27%	12%	20%	31%	22%	35%
Current Investment	25%	39%	45%	42%	33%	33%	38%	33%	38%
Future Investment	33%	33%	39%	42%	33%	18%	44%	31%	33%
Current Exports	23%	30%	20%	13%	50%	-13%	33%	0%	36%
Export Expectations	23%	20%	27%	25%	50%	0%	33%	22%	43%
Economic Uncertainty	12%	17%	30%	22%	17%	16%	0%	14%	15%
Brexit	26%	13%	13%	24%	17%	11%	30%	22%	25%

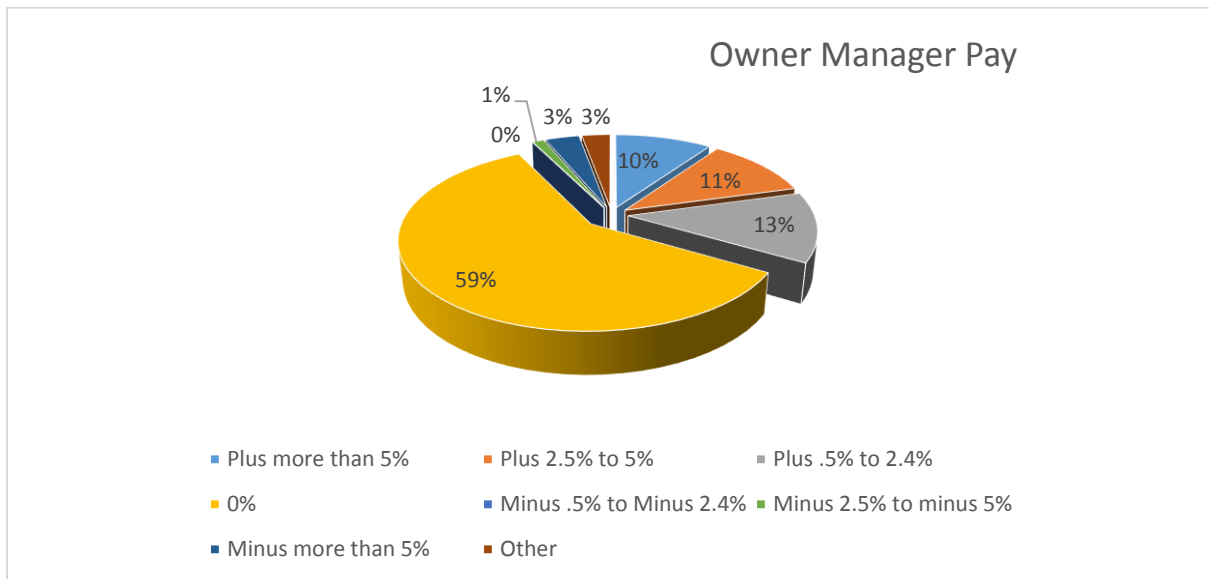
Pay Expectations: Employees

Pay bands in the SME sector are very diverse. Our latest research shows that:

- 34% of SMEs will not be in a position to increase pay this year for their employees- unchanged from Q1'18.
- 29% will increase employees' pay by 0.5% to 2.4%, up 7% on Q1'18.
- 22% will increase pay by 2.5%-5%, down 10% on Q1'18.
- 7% of businesses will increase pay for their employees by plus 5%, down 1% on Q1 18.
- 4% of respondents stated 'Other'.



Pay Expectations: Owner Manager

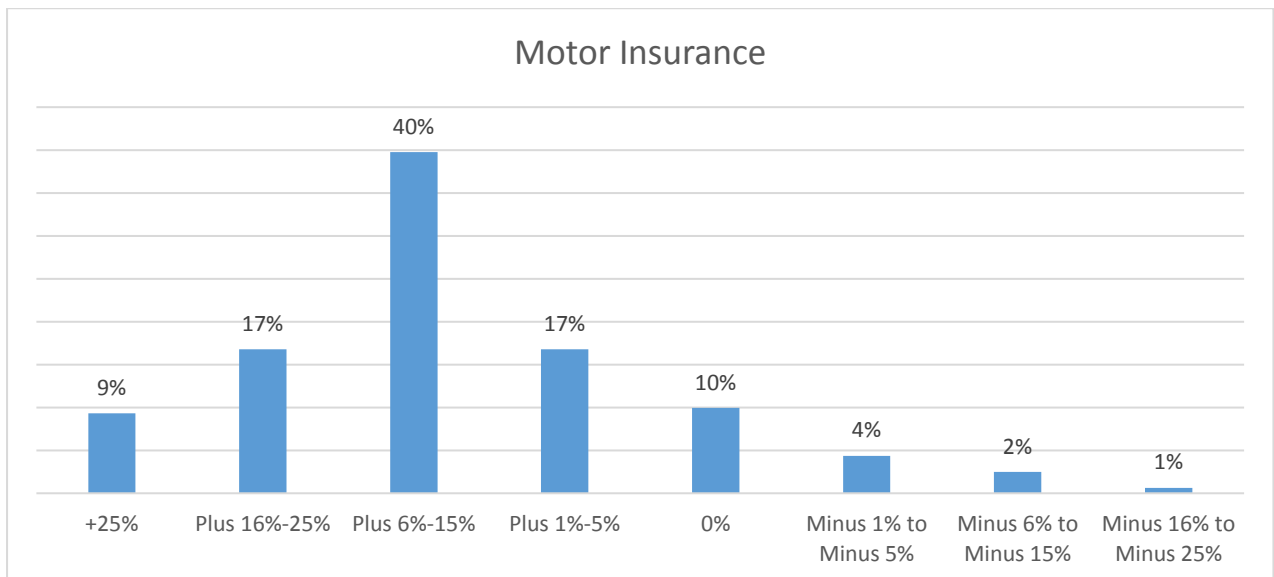


When we asked business owners about their own pay for this year;

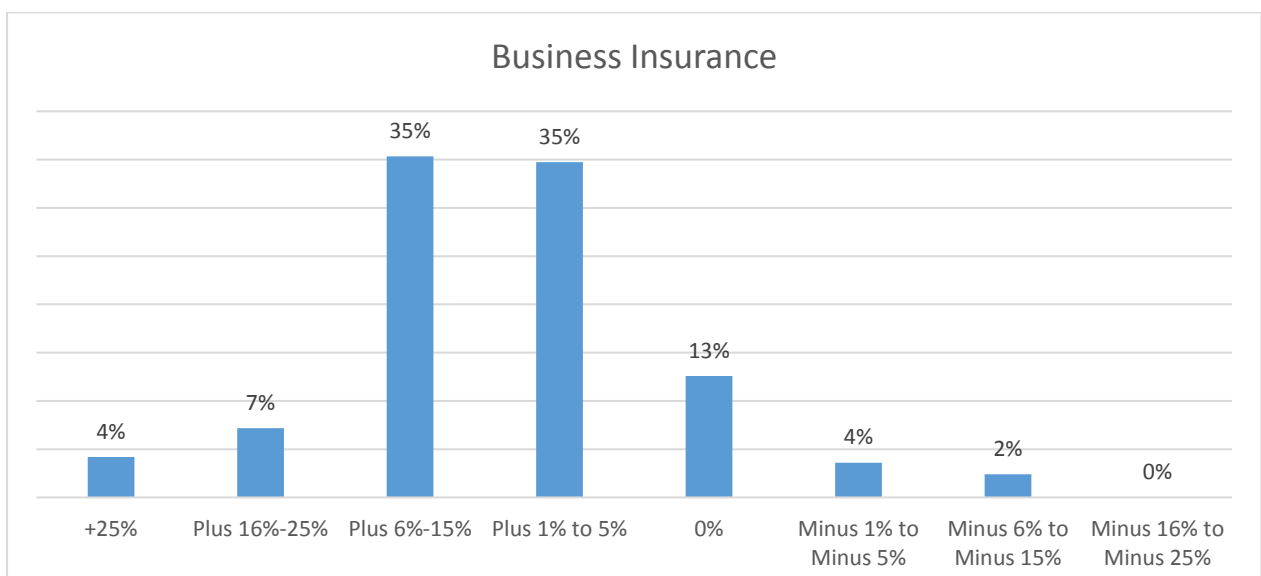
- 59% said they would not increase their earnings from the business, up 1% on Q1'18.
- 10% intend to increase their wages by plus 5%, up 1% on Q1'18.
- 11% will increase their pay between 2.5%-5%, down from 16% in Q1'18.
- 13% will increase their pay between 0.5%-2.4%, up from 8% on Q1'18.
- 4% stated they were reducing their wages.
- 3% stated 'other'.

Insurance Costs

While we see continued decreases in the CSO figures regarding motor insurance costs, our data shows us that members are still facing significant increases. Our latest data shows us that 83% of respondents reported an increase to their premiums. When broken down the figures show:



- 9% of respondents noted an increase of +25%
- 17% experienced increases of plus 16%-25%
- 40% of respondents premiums increased between plus 6% to 15%
- 17% of those who responded recorded increases of plus 1%-5%
- 10% reported no increase to premiums
- 7% reported a decrease

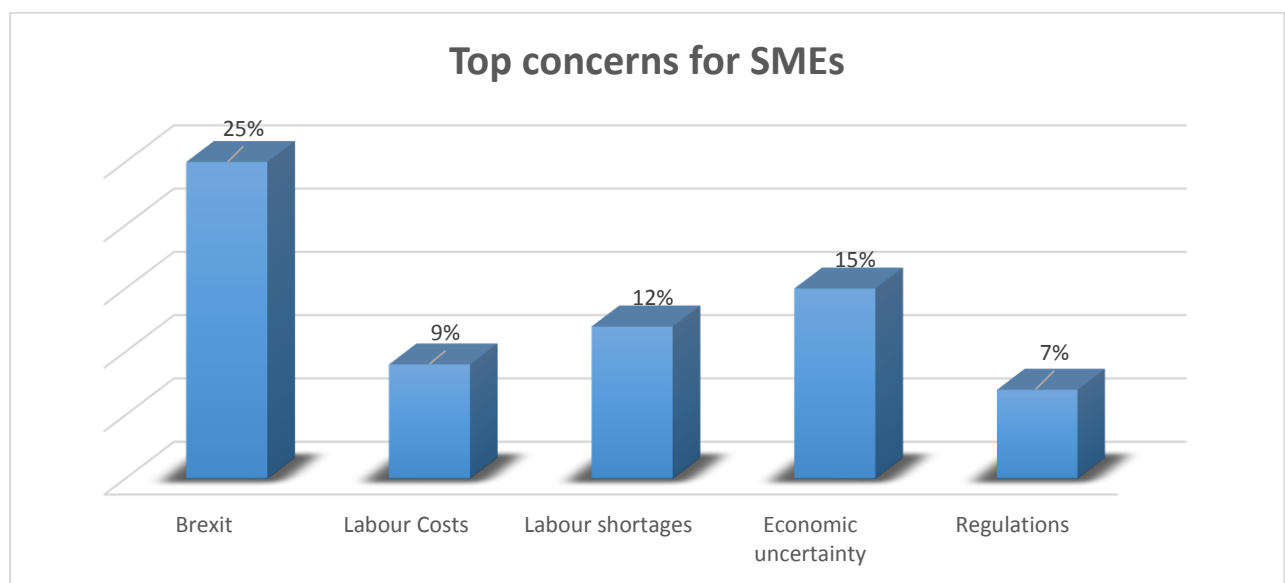


Coupled with motor insurance cost increases, business insurance costs continue to rise for many SMEs. 84% of respondents stated their premiums increased on renewal. When these figures are broken down:

- 35% reported increases of between 1%-5%
- 35% stated increases of plus 6%-15%
- 7% reported increases of plus 16%-25%
- 4% reported increases of +25%
- 13% reported no change
- While only 6% reported a decrease

On the issue of insurance ISME has made several submissions to various government ministers and departments outlining the practical steps need to reduce the high costs of motor insurance. If these steps were taken on board, SMEs and the general public would see significant decreases in their premiums.

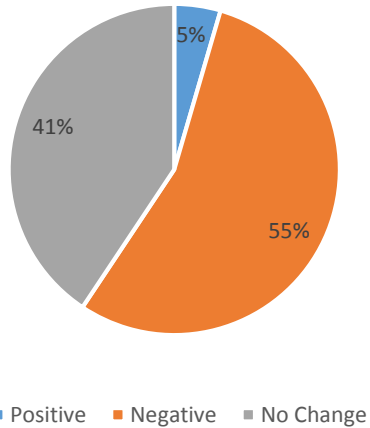
The Survey also tracks the current biggest concern of SMEs



The top concerns for SMEs in this quarter are Brexit, Labour Costs, Labour Shortages, Economic Uncertainty and Regulations. Brexit at 25% still remains the biggest concern for small and medium sized enterprises.

The effect of Brexit on our members is evident below with 55% of respondents stating that Brexit would have a negative impact on their bottom line. 5% of respondents said Brexit will have a positive impact on their business.

Effect on Bottom Line



Broadband Services

Access to proper and adequate broadband services is a key issue for many SMEs particularly those in rural Ireland. Inadequate or poor broadband service has a negative impact on business productivity. Our latest information shows that 28% of our respondents consider their broadband quality inadequate.

Broadband Quality

