

9<sup>th</sup> January 2018

## **Business Confidence Drops and Brexit fears increase**

- **Brexit worry reaches its highest point for SMEs**
- **Business Confidence drops to 1%**
- **67% of businesses have inadequate broadband**
- **71% of businesses expect to increase wage rates of employees**
- **22% of owner managers expect to increase their salary**
- **81% of businesses report an increase to their motor insurance**
- **Massive drop in business confidence for the retail sector**

The results of the ISME Quarterly Business Trends Survey for Q3'18 have been released today with 9 out of 12 confidence indicators showing declines, compared to 7 out of 12 in the previous quarter. While employment trends are as expected, Business Confidence continues to decline, dropping by a further 20% in this quarter. Confidence for SMEs has not been this low since 2011, as 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. The 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 some worrying trends for SMEs. Business Confidence and Profitability Expectations are down 20% and 9% respectively on last quarter, while Exports show a nominal increase of 1%. The report highlights the need for government to invest more in our indigenous economy and put SMEs first. Sadly Budget 2019 was a missed opportunity as it failed to address many of the issues facing SMEs in Ireland."*

*Our report also shows the negative impact of Brexit, inefficient broadband services and the continued rising costs of insurance premiums. We reiterate the need for the Central Bank to publish insurance industry statistics equivalent to its old 'Blue Book'. "*

## Trends Report

This survey was conducted in the second last week of September, with 787 SME respondents, 49% of whom employ less than 10; 36% employ between 11 and 49; and the remaining 15% employ between 50 and 250. Geographically, 28% are from Dublin; 71% are spread across the rest of the country; and 2% have multiple sites.

### Overall Confidence Indicators

The **Q3'18 Business Trends Quarterly survey** showed 9 out of 12 confidence indicators yielding negative results compared to 7 out of 12 in Q'2. There was a decrease in Business Confidence and Business Expectations down 20% and 9% and Business Environment down 6%. The Current Employment confidence indicator remained positive at 25% while Future Employment dropped by 8%. Current Sales dropped 2%, Sales Expectations are down 9%. Current Investment and Future Investment are up 9% and 5% respectively. Current Exports are up by 1%, while Export Expectations are down 14%. Economic uncertainty drops two points to 13% and as expected, the worry of Brexit reaches its highest point yet at 33% up from 25% in Q'2.

KEY INDICATORS OVERALL	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18
Business Confidence	9%	23%	16%	16%	17%	22%	34%	26%	21%	1%
Business Expectations	14%	31%	23%	32%	22%	25%	42%	34%	17%	8%
Business Environment	35%	33%	33%	37%	39%	47%	53%	40%	48%	42%
Profitability Expectations	9%	23%	15%	5%	19%	22%	24%	25%	14%	13%
Current Employment	6%	29%	21%	28%	26%	33%	32%	23%	25%	25%
Future Employment	18%	28%	23%	26%	18%	22%	32%	25%	26%	18%
Current Sales	36%	27%	27%	24%	21%	31%	28%	16%	19%	17%
Sales Expectations	33%	40%	34%	34%	37%	29%	39%	38%	36%	27%
Current Investment	39%	46%	41%	40%	37%	43%	53%	45%	35%	43%
Future Investment	31%	38%	38%	39%	34%	29%	48%	35%	32%	37%
Current Exports	15%	17%	16%	14%	17%	14%	16%	7%	18%	19%
Export Expectations	15%	31%	49%	30%	6%	40%	32%	48%	34%	27%
Economic Uncertainty	18%	15%	29%	21%	11%	13%	7%	11%	15%	13%
Brexit	30%	19%	18%	26%	21%	21%	25%	24%	25%	33%

## Q3'18 Manufacturing:

Our Q3'18 results for the manufacturing sector show a similar downward trend to last quarter's results. In this quarter, 9 out of 12 confidence indicators show declines. 3 indicators showed improvements. One confidence remained unchanged.

Business Confidence and Business Expectations dropped 20% and 9% respectively. Profitability Expectations remained unchanged at 8% while Future Employment in manufacturing dropped 14%. Current Sales are down 11%, however sales expectation have increased 9%. Current Investment is up 12%. Current Exports are up 1% however Future Exports are down 32% (this is the lowest since Q3'16 where the indicator dropped to 10%).

Business Environment is down 15% on Q2'18. Current Employment is at 31% down 4% from the last quarter. Sales Expectations also reported an increase up from 35% to 44%. Brexit remains a significant concern for the manufacturing sector increasing from 29% to 36%.

Key Indicators MANUFACTURING	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18
Business Confidence	24%	10%	14%	31%	17%	23%	37%	31%	14%	-6%
Business Expectations	38%	26%	21%	40%	38%	47%	40%	42%	14%	5%
Business Environment	26%	21%	34%	50%	42%	63%	60%	47%	54%	39%
Profitability Expectations	14%	7%	31%	21%	29%	33%	20%	31%	8%	8%
Current Employment	26%	24%	29%	45%	38%	50%	31%	29%	35%	31%
Future employment	29%	19%	34%	31%	29%	27%	26%	36%	27%	14%
Current Sales	43%	12%	20%	33%	29%	27%	23%	44%	11%	0%
Sales Expectations	50%	33%	43%	40%	50%	40%	40%	31%	35%	44%
Current Investment	38%	50%	54%	52%	46%	50%	69%	58%	35%	47%
Future Investment	33%	50%	60%	57%	54%	47%	63%	49%	49%	31%
Current Exports	38%	0%	26%	20%	20%	0%	11%	15%	5%	6%
Export Expectations	21%	17%	58%	43%	10%	26%	33%	62%	45%	13%
Economic Uncertainty	18%	7%	25%	19%	17%	13%	9%	12%	20%	11%
Brexit	38%	19%	21%	21%	21%	21%	23%	17%	29%	36%

## Q3'18 Retail:

The Retail sector for Q3'18 reported Economic Uncertainty as its biggest concern. 6 out of 10 confidence indicators reported a decline similar to the last quarter. Business Confidence has dropped from -5% in Q2'18 to -25% in this quarter. This is likely to be a result of the massive rise in online retail giants impacting on retailers.

Business Expectations is up from 22% to 33%. Profitability Expectations are at 25% up from 11% in Q2'18. Current Sales are at 16% compared to -11% in the last quarter. Current Investment is down 22%, while Future Investment is up 28%.

Business Environment is down 17% to 0%. Current Employment is at -9% indicating while Future Employment is at 9%. Sales Expectations is down 14%. Future Employment indicators point to a negative increase in Q3'18, down from 17% to 0%.

Key Indicators RETAIL	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18
Business Confidence	-14%	18%	-22%	22%	-6%	14%	40%	15%	-5%	-25%
Business Expectations	18%	29%	17%	28%	11%	-14%	50%	35%	22%	33%
Business Environment	-18%	0%	9%	0%	11%	0%	40%	15%	17%	0%
Profitability Expectations	14%	12%	-35%	-22%	-11%	0%	50%	20%	11%	25%
Current Employment	21%	35%	17%	6%	11%	14%	40%	10%	33%	-9%
Future employment	4%	24%	-13%	11%	-6%	14%	10%	15%	17%	9%
Current Sales	39%	41%	26%	11%	6%	14%	30%	30%	-11%	16%
Sales Expectations	14%	18%	0%	28%	44%	14%	50%	20%	22%	8%
Current Investment	50%	35%	13%	17%	28%	29%	50%	45%	33%	11%
Future Investment	18%	18%	13%	22%	17%	-14%	70%	30%	22%	50%
Current Exports										
Export Expectations										
Economic Uncertainty	26%	31%	37%	31%	14%	0%	22%	15%	31%	40%
Brexit	30%	19%	14%	25%	14%	29%	22%	30%	25%	20%

## Q3'18 Exporting:

Q3'18 shows a decline in 4 out of 12 confidence indicators, an improvement on Q2'18 where 7 indicators showed a negative results. The worry of Brexit has increased 10% for exporters since the last quarter.

Business Confidence is down from 21% to 5%. Business Expectations is down from 17% to 8%. Current and Future Employment is up 18% and 8% respectively. Sales Expectations are up from 32% to 47%. Current Investment has increased from 36% to 56%. Future Investment is up from 32% to 43%, while Current Exports continue in an upward trend, up 5%.

Profitability Expectations are up 12%. Business Environment is down from 48% to 45%. Current Sales are up 24%. Export Expectations are down 8%.

Key Indicators EXPORTERS	Q2' 16	Q3'16	Q4 '16	Q1 '17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18
Business Confidence	13%	7%	18%	16%	16%	22%	34%	26%	21%	5%
Business Expectations	45%	39%	23%	2%	20%	25%	13%	34%	17%	8%
Business Environment	18%	16%	34%	37%	38%	47%	60%	40%	48%	45%
Profitability Expectations	13%	22%	14%	5%	19%	22%	24%	34%	1%	13%
Current Employment	31%	36%	21%	28%	26%	34%	32%	22%	25%	43%
Future employment	19%	28%	23%	26%	18%	22%	32%	25%	26%	34%
Current Sales	49%	31%	28%	24%	20%	32%	28%	41%	1%	25%
Sales Expectations	46%	44%	32%	34%	36%	28%	39%	25%	32%	47%
Current Investment	35%	45%	40%	41%	38%	44%	53%	44%	36%	56%
Future Investment	32%	54%	38%	39%	34%	29%	48%	35%	32%	43%
Current Exports	21%	17%	16%	14%	17%	12%	16%	7%	14%	19%
Export Expectations	15%	31%	49%	30%	6%	42%	32%	48%	34%	27%
Economic Uncertainty	8%	13%	27%	21%	17%	13%	7%	11%	15%	10%
Brexit	35%	34%	18%	26%	21%	21%	25%	24%	25%	35%



## **Q3'18 Services:**

The Services sector for Q3'18 showed 8 out of 12 confidence indicators being negative, a reversal on the 9 out of 12 increases in the last quarter.

Business Confidence dropped from 31% to 15%. Business Environment is up from 45% to 54%. Profitability Expectations decreased 20% to 12%. Current Employment is up 3% while Future Employment drops 7% from 33% to 27% in Q3'18.

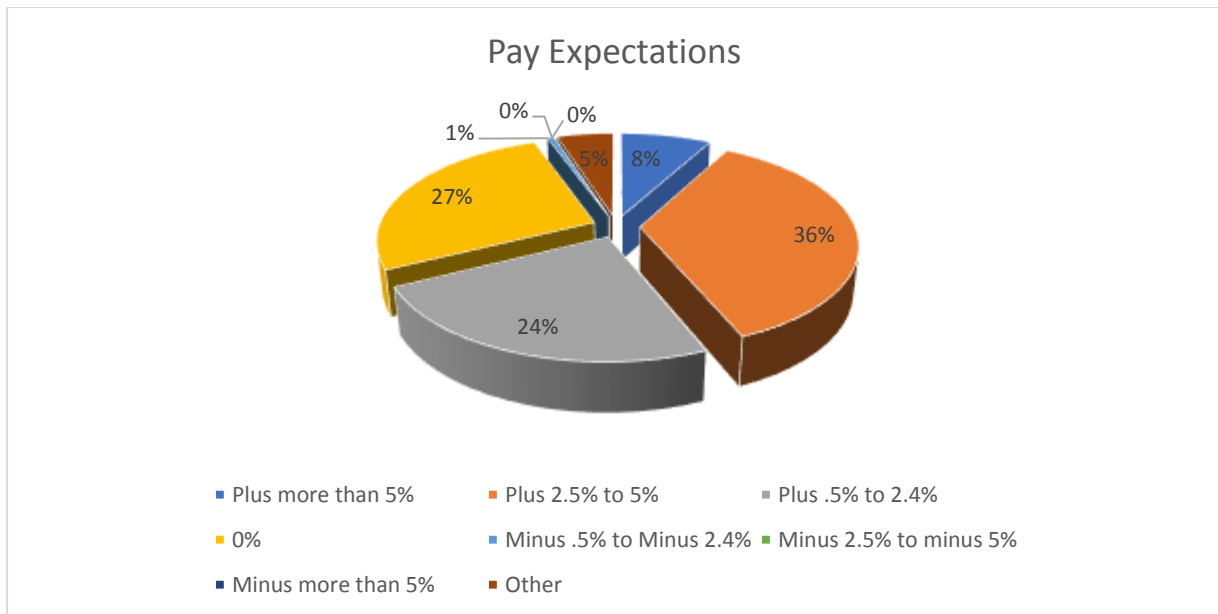
Current Sales recorded an increase from -2 to 17%. Sales Expectations dropped 3%. Current Investment and Future Investment are both up 11% respectively. Current Exports have decreased significantly from 36% to 9%, while Export Expectations have dropped from 43% to 19% a decrease of 24%. Meanwhile economic uncertainty is up from 15% to 18%.

Key Indicators SERVICES	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18
Business Confidence	7%	26%	38%	8%	18%	29%	31%	22%	31%	15%
Business Expectations	31%	39%	21%	35%	6%	33%	38%	15%	15%	2%
Business Environment	18%	35%	33%	33%	42%	47%	44%	31%	45%	54%
Profitability Expectations	13%	26%	25%	2%	15%	27%	16%	22%	20%	12%
Current Employment	10%	25%	16%	17%	21%	22%	34%	16%	22%	25%
Future employment	19%	30%	26%	27%	15%	16%	38%	13%	33%	27%
Current Sales	24%	24%	35%	21%	42%	18%	28%	36%	-2%	17%
Sales Expectations	26%	40%	28%	27%	12%	20%	31%	22%	35%	32%
Current Investment	25%	39%	45%	42%	33%	33%	38%	33%	38%	49%
Future Investment	33%	33%	39%	42%	33%	18%	44%	31%	33%	44%
Current Exports	23%	30%	20%	13%	50%	-13%	33%	0%	36%	10%
Export Expectations	23%	20%	27%	25%	50%	0%	33%	22%	43%	19%
Economic Uncertainty	12%	17%	30%	22%	17%	16%	0%	14%	15%	18%
Brexit	26%	13%	13%	24%	17%	11%	30%	22%	25%	21%

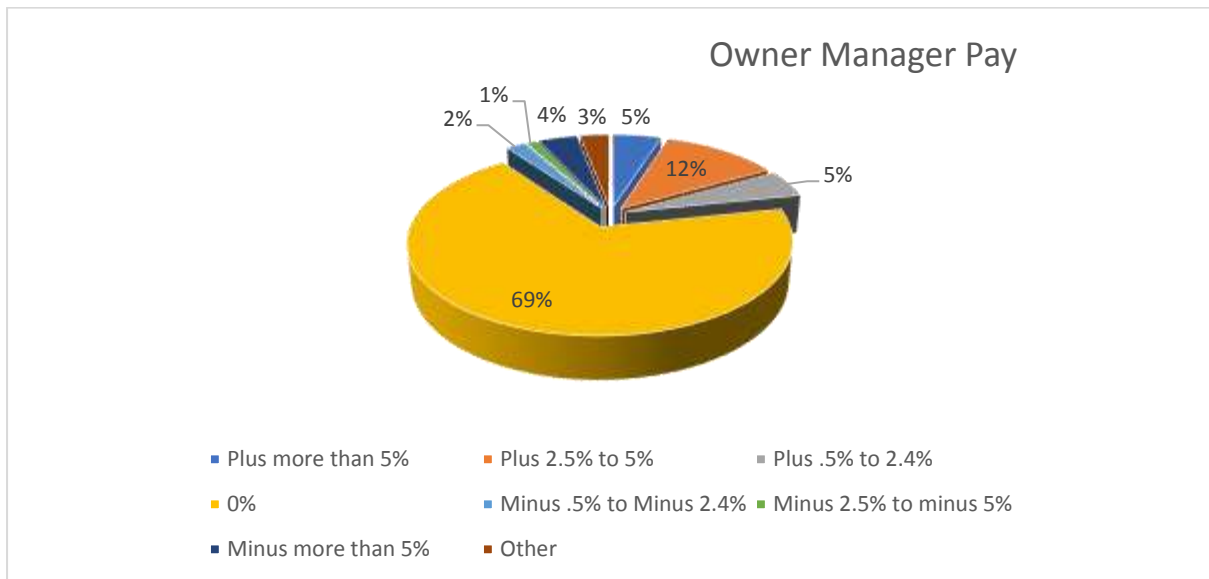
## Q3'18 Pay Expectations: Employees

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

- 24% of SMEs will not be in a position to increase pay this year for their employees- compared to 34% in both Q1'18 and Q2' 18.
- 27% will increase employees pay by 0.5% to 2.4%, down 2% on Q2'18.
- 36% will increase pay by 2.5%-5%, up 14% on Q2'18.
- 8% of businesses will increase pay for their employees by plus 5%, up 1% on Q2' 18.
- 5% of respondents stated 'Other'.



### **Q3'18 Pay Expectations: Owner Manager**



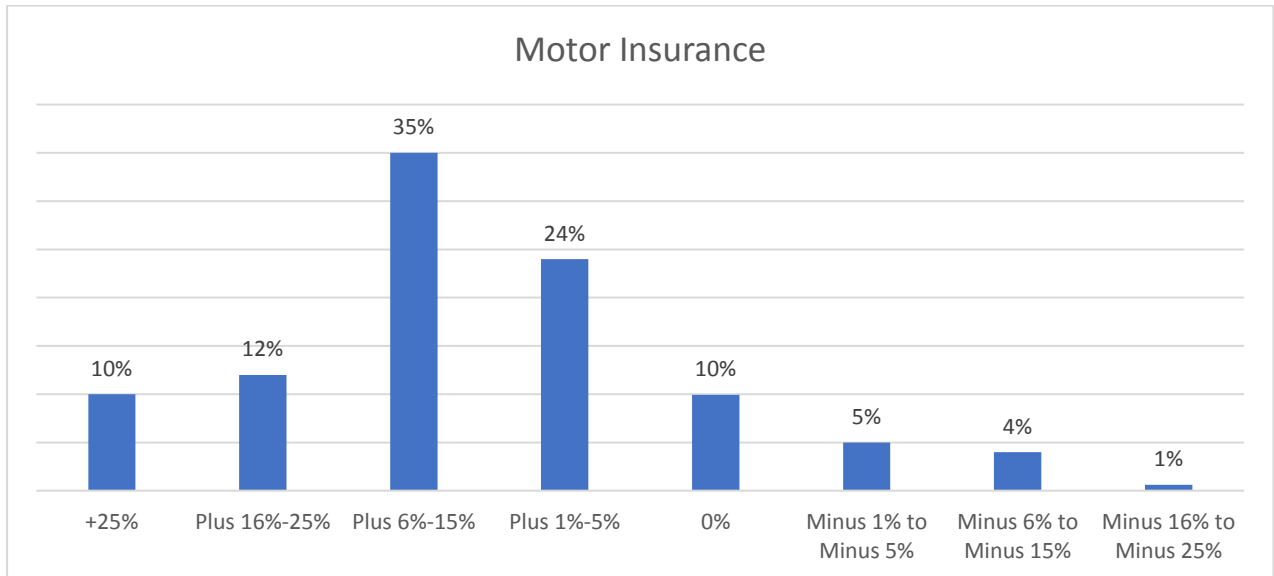
#### **When we asked business owners about their own pay for this year;**

- 69% said they would not increase their earnings from the business, up 9% on Q2'18.
- 5% intend to increase their wages by plus 5%, down 5% on Q2'18.
- 12% will increase their pay between 2.5%-5%, up from 1% in Q2'18.
- 5% will increase their pay between 0.5%-2.4%, down 8% on Q2'18.
- 6% stated they were reducing their wages.
- 3% stated 'other'.

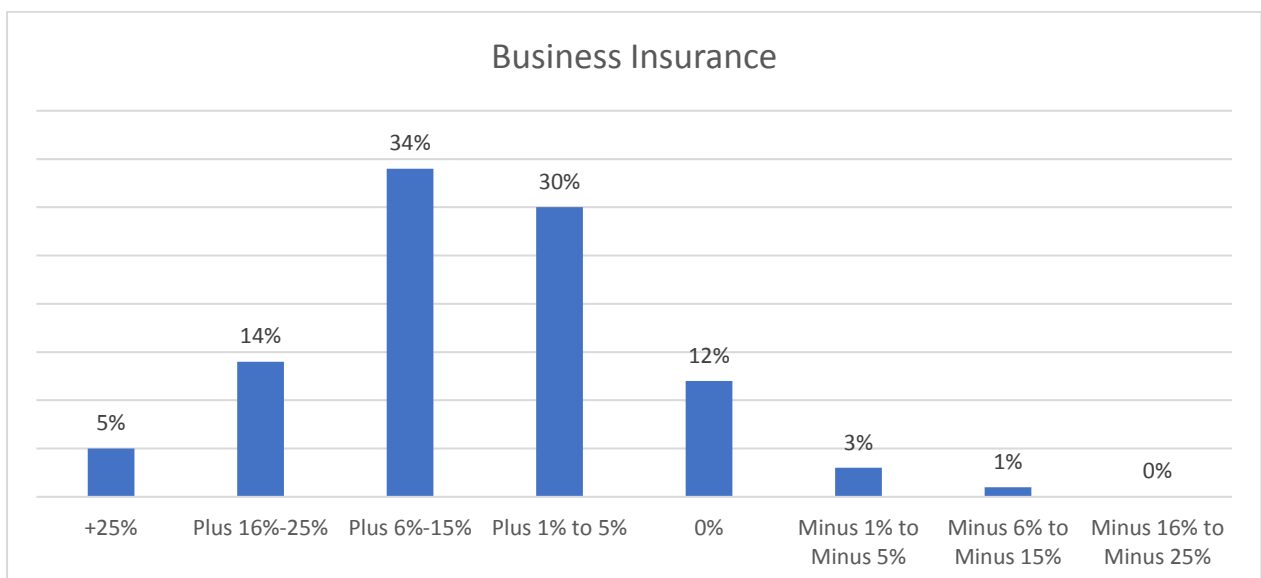


## Insurance Costs

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 81% of respondents reported an increase to their premiums. When broken down the figures show:



- 10% of respondents noted an increase of +25%.
- 12% experienced increases of plus 16%-25%.
- 35% of respondents premiums increased between plus 6% to 15%.
- 24% of those who responded recorded increases of plus 1%-5%.
- 10% reported no increase to premiums.
- While, 10% reported a decrease.

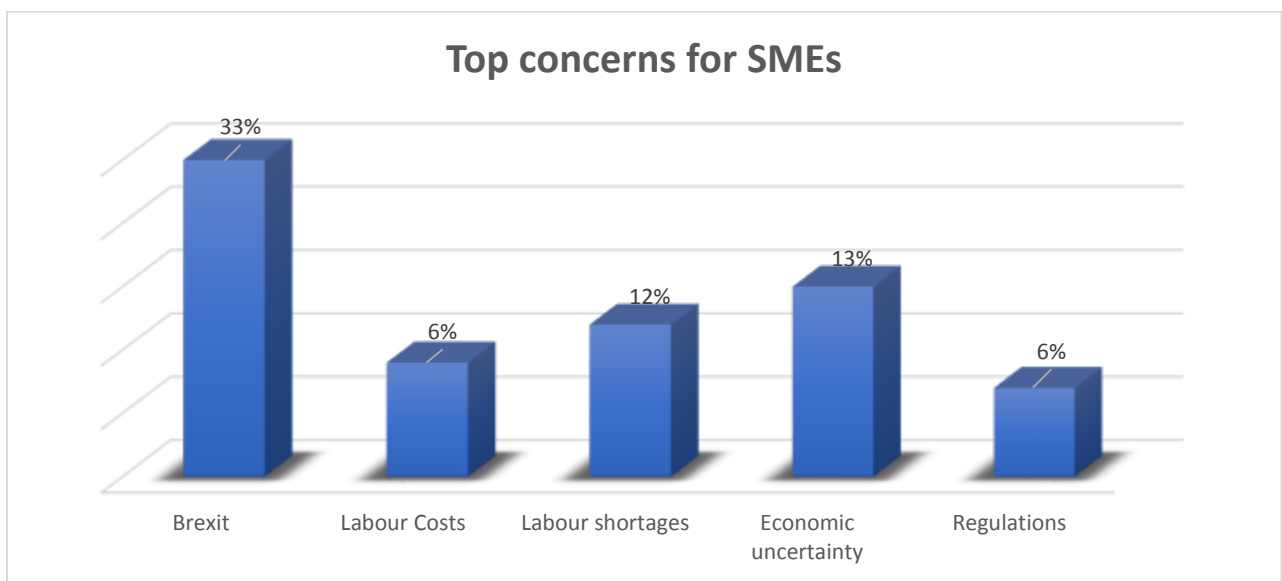


Coupled with motor insurance cost increases, business insurance costs continue to rise for many SMEs. 83% of respondents stated their premiums increased on renewal. When these figures are broken down:

- 30% reported increases of between 1%-5%.
- 34% stated increases of plus 6%-15%.
- 14% reported increases of plus 16%-25%.
- 5% reported increases of +25%
- 12% reported no change.
- While, only 4% 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 cost of insurance is an issue which ISME has consistently lobbied out throughout 2018.

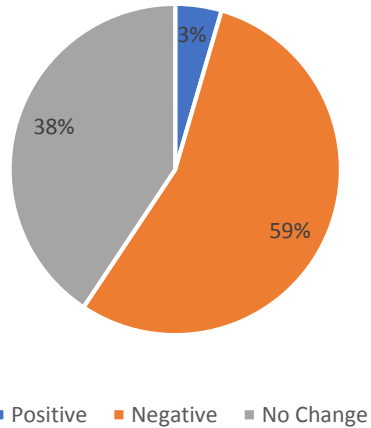
### **The Survey also tracks the current biggest concern of SMEs**



The top concerns for SMEs in this quarter are Brexit, Labour Costs, Labour Shortages, Economic Uncertainty and Regulations. Unsurprisingly, Brexit at 33% still remains the biggest concern for small and medium sized enterprises, up 8% since Q2'18

The effect of Brexit on our members is evident below with 59% of respondents stating that Brexit would have a negative impact on their bottom line. Just 3% of respondents said Brexit will have a positive impact on their business in Q3'18.

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 33% of businesses are impacted by inadequate broadband.

Broadband Quality

