

## Press Release: Q4'18 Trends Report

18<sup>th</sup> February 2019

### **Business Confidence Plummets as Brexit Fears Weigh**

- **Brexit worry climbs to highest point for SMEs at 37%**
- **Business Confidence drops from 1% to -4%**
- **65% of businesses expect to increase wage rates of employees**
- **77% of businesses report an increase to their motor insurance**
- **81% reported an increase to their business insurance**

The results of the ISME Quarterly Business Trends Survey for Q4'18 have been released today with 9 out of 12 confidence indicators showing declines, on par with previous quarter. While employment trends are as expected, Business Confidence continued to decline in 2018, dropping by a further 20% in this quarter. Confidence for SMEs has not been this low since 2011 in our survey, as Brexit remains the biggest concern and economic uncertainty rises.

The Trends Report also captures data on employee pay, broadband services and business and motor insurance costs in the SME sector. The report notes 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 worrying but not unexpected trends for SMEs. Business Confidence and Profitability Expectations are down a further 5% and 4% respectively on last quarter; while Exports show a decrease of 3% in the overall indicators. The report highlights the need for government to invest more in our indigenous economy. The report reflects the concern around the increasing likelihood of a hard Brexit.”*

*Our report further notes inefficient broadband services, and rising costs of insurance premiums.”*

#### **Ends**

#### **For further information, please contact:**

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## Trends Report

This survey was conducted in the second last week of December, with 504 SME respondents, 46% of whom employ less than 10; 43% employ between 11 and 49; and the remaining 11% employ between 50 and 250. Geographically, 33% are from Dublin; 53% are spread across the rest of the country; and 14% have multiple sites.

**ISME will launch its Q1'19 Survey in March to its membership base and the SME community in Ireland.**

## Overall Confidence Indicators

The **Q4'18 Business Trends Quarterly survey** showed 9 out of 12 confidence indicators yielding negative results, a similar trend to the previous quarter in 2018. There was a further decrease in Business Confidence and Business Expectations down 5% and 4% respectively, while Business Environment had a nominal increase of 1%. The Current Employment confidence indicator had a nominal decrease from 25% to 23%. Future Employment had a nominal decrease of 2% from 18% to 16%. Current Sales have increased from 17% to 23% while Sales Expectations are down 19%. Current Investment and Future Investment are down 5% and 7% respectively. Current Exports are down 3%, while Export Expectations are down 2%. Economic uncertainty increases one point to 14% and as expected, the worry of Brexit reaches its highest point yet at 37% up from 33% in the previous quarter. Brexit worry increased in each quarter of 2018.

KEY INDICATORS OVERALL	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18
Business Confidence	9%	23%	16%	16%	17%	22%	34%	26%	21%	1%	-4%
Business Expectations	14%	31%	23%	32%	22%	25%	42%	34%	17%	8%	-4%
Business Environment	35%	33%	33%	37%	39%	47%	53%	40%	48%	42%	43%
Profitability Expectations	9%	23%	15%	5%	19%	22%	24%	25%	14%	13%	8%
Current Employment	6%	29%	21%	28%	26%	33%	32%	23%	25%	25%	23%
Future Employment	18%	28%	23%	26%	18%	22%	32%	25%	26%	18%	16%
Current Sales	36%	27%	27%	24%	21%	31%	28%	16%	19%	17%	23%
Sales Expectations	33%	40%	34%	34%	37%	29%	39%	38%	36%	27%	8%
Current Investment	39%	46%	41%	40%	37%	43%	53%	45%	35%	43%	38%
Future Investment	31%	38%	38%	39%	34%	29%	48%	35%	32%	37%	30%
Current Exports	15%	17%	16%	14%	17%	14%	16%	7%	18%	19%	16%
Export Expectations	15%	31%	49%	30%	6%	40%	32%	48%	34%	27%	25%
Economic Uncertainty	18%	15%	29%	21%	11%	13%	7%	11%	15%	13%	14%
Brexit	30%	19%	18%	26%	21%	21%	25%	24%	25%	33%	37%

## Q4'18 Manufacturing:

Our Q4'18 results for the manufacturing sector show a similar downward trend to last quarter's results. In this quarter, there were a number of improvements on the confidence indicators.

Business Confidence and Business Expectations both increased to 8% respectively. Profitability Expectations rose from 8% to 10%, while Future Employment in manufacturing increased 23%. Current Sales are up 37%, however sales expectations have dropped 6%. Current Investment is down 3%. Current Exports are up 30% however Future Exports are at 30% (Future exports were at 62% in the first quarter of 2018).

Business Environment is up 23%. Current Employment is at 27% down 5% from the last quarter. Sales Expectations reported a decrease from 44% to 39%. Brexit remains a significant concern for the manufacturing sector increasing from 36% to 53%.

Key Indicators MANUFACTURING	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18
Business Confidence	24%	10%	14%	31%	17%	23%	37%	31%	14%	-6%	8%
Business Expectations	38%	26%	21%	40%	38%	47%	40%	42%	14%	5%	8%
Business Environment	26%	21%	34%	50%	42%	63%	60%	47%	54%	39%	62%
Profitability Expectations	14%	7%	31%	21%	29%	33%	20%	31%	8%	8%	10%
Current Employment	26%	24%	29%	45%	38%	50%	31%	29%	35%	31%	27%
Future Employment	29%	19%	34%	31%	29%	27%	26%	36%	27%	14%	23%
Current Sales	43%	12%	20%	33%	29%	27%	23%	44%	11%	0%	37%
Sales Expectations	50%	33%	43%	40%	50%	40%	40%	31%	35%	44%	39%
Current Investment	38%	50%	54%	52%	46%	50%	69%	58%	35%	47%	44%
Future Investment	33%	50%	60%	57%	54%	47%	63%	49%	49%	31%	54%
Current Exports	38%	0%	26%	20%	20%	0%	11%	15%	5%	6%	36%
Export Expectations	21%	17%	58%	43%	10%	26%	33%	62%	45%	13%	30%
Economic Uncertainty	18%	7%	25%	19%	17%	13%	9%	12%	20%	11%	6%
Brexit	38%	19%	21%	21%	21%	21%	23%	17%	29%	36%	53%

## Q4'18 Retail:

The Retail sector for Q4'18 reported Brexit and Economic Uncertainty as its biggest concerns. 6 out of 10 confidence indicators reported a decline similar to the last quarter. Business Confidence returned to -5% in Q4'18, the same indication in the second quarter of the year. This is likely to be a result of the massive rise in online retail giants impacting on retailers.

Business Expectations is down from 33% to 20%. Profitability Expectations are at 20% down from 25% in Q3'18. Current Sales are at 7% compared to 16% in the last quarter. Current Investment is at 31%, while Future Investment is at 12%.

Business Environment is at 12%. Current Employment in retail is at 19% while Future Employment has dropped from 9% to 7%. Sales Expectations is up 4%. Future Employment indicators in retail show a decrease of 2%.

Key Indicators RETAIL	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18
Business Confidence	-14%	18%	-22%	22%	-6%	14%	40%	15%	-5%	-25%	-5%
Business Expectations	18%	29%	17%	28%	11%	-14%	50%	35%	22%	33%	20%
Business Environment	-18%	0%	9%	0%	11%	0%	40%	15%	17%	0%	12%
Profitability Expectations	14%	12%	-35%	-22%	-11%	0%	50%	20%	11%	25%	20%
Current Employment	21%	35%	17%	6%	11%	14%	40%	10%	33%	-9%	19%
Future employment	4%	24%	-13%	11%	-6%	14%	10%	15%	17%	9%	7%
Current Sales	39%	41%	26%	11%	6%	14%	30%	30%	-11%	16%	7%
Sales Expectations	14%	18%	0%	28%	44%	14%	50%	20%	22%	8%	12%
Current Investment	50%	35%	13%	17%	28%	29%	50%	45%	33%	11%	31%
Future Investment	18%	18%	13%	22%	17%	-14%	70%	30%	22%	50%	12%
Current Exports											
Export Expectations											
Economic Uncertainty	26%	31%	37%	31%	14%	0%	22%	15%	31%	40%	27%
Brexit	30%	19%	14%	25%	14%	29%	22%	30%	25%	20%	27%

### Q4'18 Exporting:

Q4'18 shows a decline in 8 out of 12 confidence indicators compared to 4 out of 12 in the previous quarter. This is as a result of Brexit worry increased to 52% (its highest point).

Business Confidence is down 5% to -4%. Business Expectations is down from 8% to -4%. Current Employment is down 11% while Future Employment is down 1%. While current sales give a high indicator in this quarter at 53%, Sales Expectations have decreased from 47% to 28%. Current Investment has increased from 56% to 42%. Future Investment remains at 43% with no change, while Current Exports drop 2%.

Profitability Expectations are down 7%. Business Environment is up from 45% to 47%. Current Sales are up 28% while sales expectations are down 19%. Export Expectations are down 2%. The indicators in exporting point to increased Brexit Worry for this sector.

Key Indicators EXPORTERS	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18
Business Confidence	13%	7%	18%	16%	16%	22%	34%	26%	21%	5%	-4%
Business Expectations	45%	39%	23%	2%	20%	25%	13%	34%	17%	8%	-4%
Business Environment	18%	16%	34%	37%	38%	47%	60%	40%	48%	45%	47%
Profitability Expectations	13%	22%	14%	5%	19%	22%	24%	34%	1%	13%	6%
Current Employment	31%	36%	21%	28%	26%	34%	32%	22%	25%	43%	32%
Future employment	19%	28%	23%	26%	18%	22%	32%	25%	26%	34%	35%
Current Sales	49%	31%	28%	24%	20%	32%	28%	41%	1%	25%	53%
Sales Expectations	46%	44%	32%	34%	36%	28%	39%	25%	32%	47%	28%
Current Investment	35%	45%	40%	41%	38%	44%	53%	44%	36%	56%	42%
Future Investment	32%	54%	38%	39%	34%	29%	48%	35%	32%	43%	43%
Current Exports	21%	17%	16%	14%	17%	12%	16%	7%	14%	19%	16%
Export Expectations	15%	31%	49%	30%	6%	42%	32%	48%	34%	27%	25%
Economic Uncertainty	8%	13%	27%	21%	17%	13%	7%	11%	15%	10%	5%
Brexit	35%	34%	18%	26%	21%	21%	25%	24%	25%	35%	52%

### Q4'18 Services:

The Services sector for Q4'18 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 15% to 9%. Business Environment is down from 54% to 39%. Profitability Expectations increased 7%. Current Employment is up 2% while Future Employment drops 3% from 33% to 27% in Q3'18.

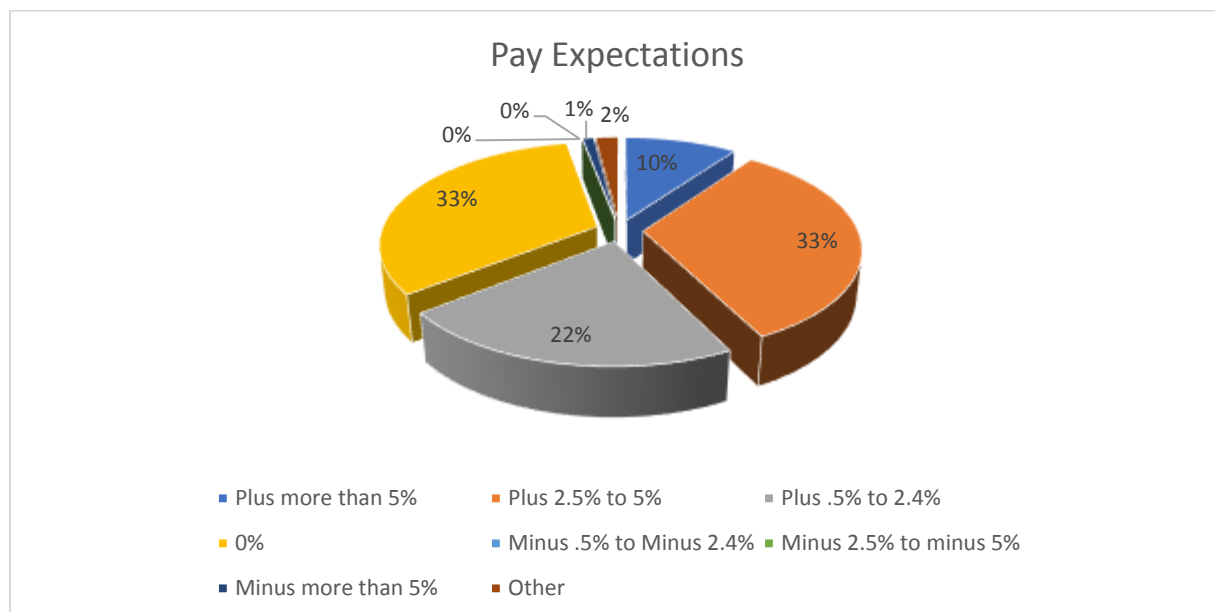
Current Sales recorded an increase from 17% to 22%. Sales Expectations dropped 3%. Current Investment has dropped from 49% to 33% while future Investment is down from 44% to 38%. Current Exports have decreased by 10%, while Export Expectations have dropped 1% to. Meanwhile economic uncertainty is also up 1%.

Key Indicators SERVICES	Q2' 16	Q3' 16	Q4' 16	Q1' 17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18
Business Confidence	7%	26%	38%	8%	18%	29%	31%	22%	31%	15%	9%
Business Expectations	31%	39%	21%	35%	6%	33%	38%	15%	15%	2%	5%
Business Environment	18%	35%	33%	33%	42%	47%	44%	31%	45%	54%	39%
Profitability Expectations	13%	26%	25%	2%	15%	27%	16%	22%	20%	12%	19%
Current Employment	10%	25%	16%	17%	21%	22%	34%	16%	22%	25%	27%
Future employment	19%	30%	26%	27%	15%	16%	38%	13%	33%	27%	24%
Current Sales	24%	24%	35%	21%	42%	18%	28%	36%	-2%	17%	22%
Sales Expectations	26%	40%	28%	27%	12%	20%	31%	22%	35%	32%	23%
Current Investment	25%	39%	45%	42%	33%	33%	38%	33%	38%	49%	33%
Future Investment	33%	33%	39%	42%	33%	18%	44%	31%	33%	44%	38%
Current Exports	23%	30%	20%	13%	50%	-13%	33%	0%	36%	10%	0%
Export Expectations	23%	20%	27%	25%	50%	0%	33%	22%	43%	19%	18%
Economic Uncertainty	12%	17%	30%	22%	17%	16%	0%	14%	15%	18%	19%
Brexit	26%	13%	13%	24%	17%	11%	30%	22%	25%	21%	19%

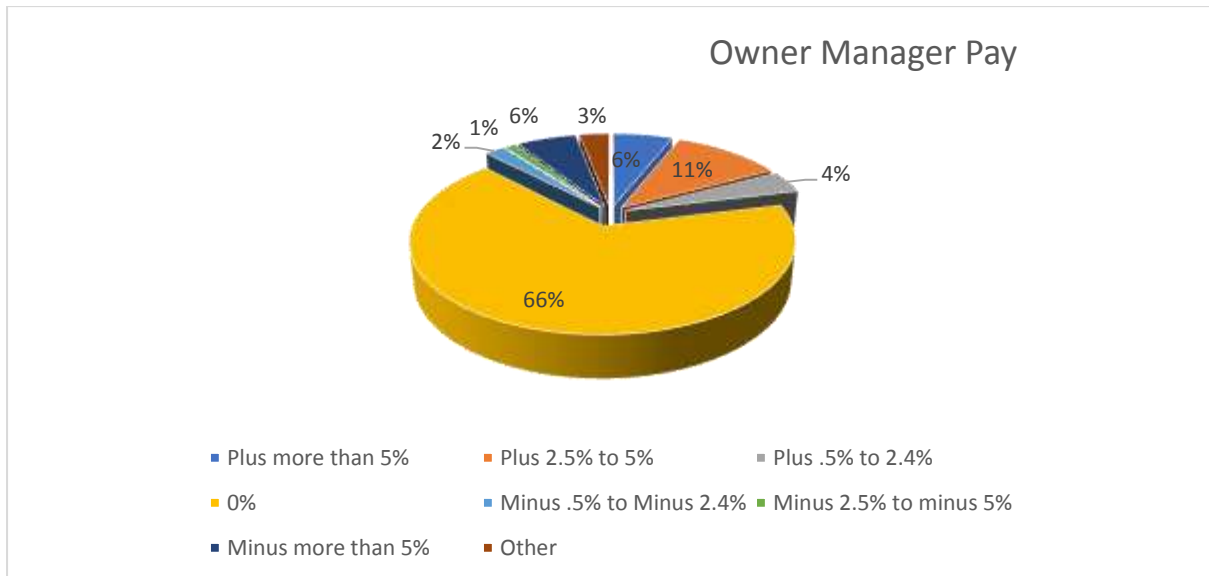
### Q4'18 Pay Expectations: Employees

The range of pay expectations in the SME sector are very diverse. Our latest research shows that:

- 33% of SMEs will not be in a position to increase pay this year for their employees.
- 22% will increase employees pay by 0.5% to 2.4%, down from 27% in the previous Quarter.
- 33% will increase pay by 2.5%-5%, down from 36% in Q3'18.
- 10% of businesses will increase pay for their employees by plus 5%, up 2% on Q3' 18.
- 2% of respondents stated 'Other'.



## Q4'18 Pay Expectations: Owner Manager

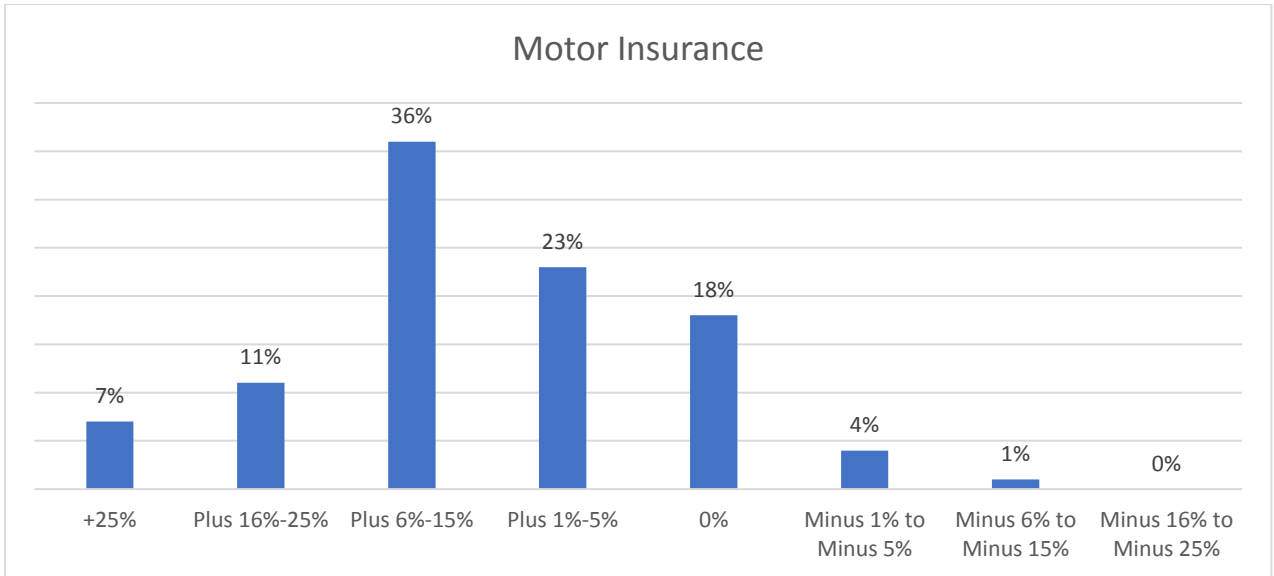


### **When we asked business owners about their own pay for this year;**

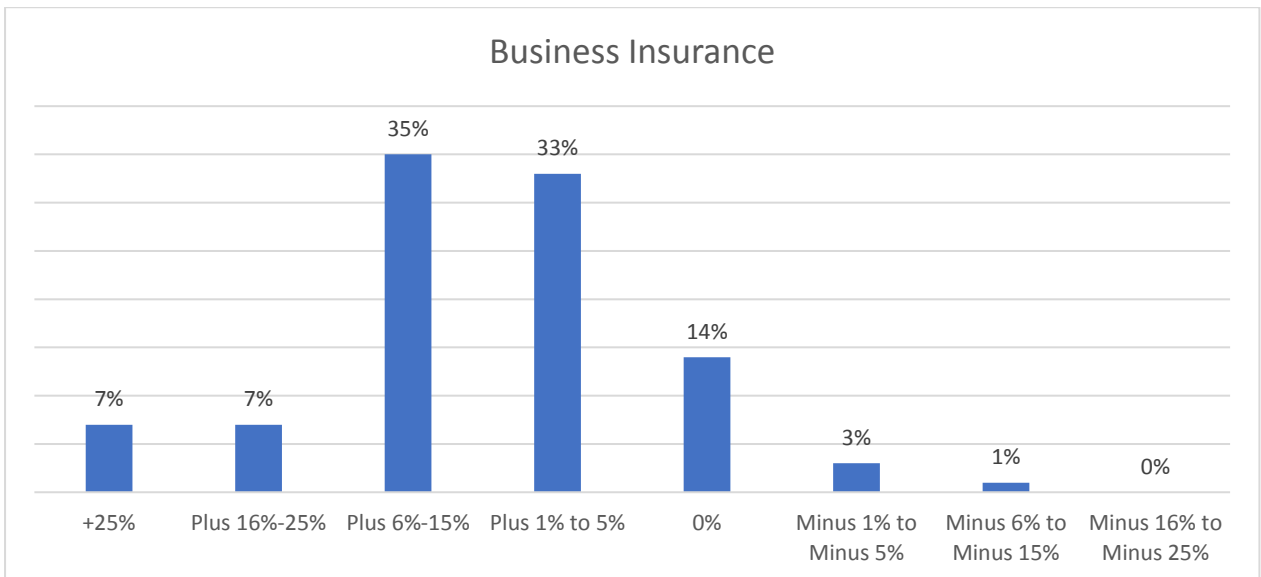
- 66% said they would not increase their earnings from the business, down from 69% in Q3'18.
- 6% intend to increase their wages by plus 5%, up 1% on Q3'18.
- 11% will increase their pay between 2.5%-5%, down 1% in Q3'18.
- 4% will increase their pay between 0.5%-2.4%, down 1% on Q3'18.
- 9% stated they were reducing their wages compared to 6% in Q'3.
- 4% stated 'other'.

## Insurance Costs

While we see continued decreases in the CSO CPI figures for personal motor insurance costs, our data shows us that businesses are still facing significant increases. The CSO does not survey commercial insurances costs in its Services Producer Price Index. In view of the very high costs of insurance in some business sectors, this omission needs to be reconsidered. Our latest data shows us that 81% of respondents reported an increase to their premiums. When broken down the figures show:



- 7% of respondents noted an increase of +25%.
- 11% experienced increases of plus 16%-25%.
- 36% of respondents premiums increased between plus 6% to 15%.
- 23% of those who responded recorded increases of plus 1%-5%.
- 18% reported no increase to premiums.
- While 5% 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:

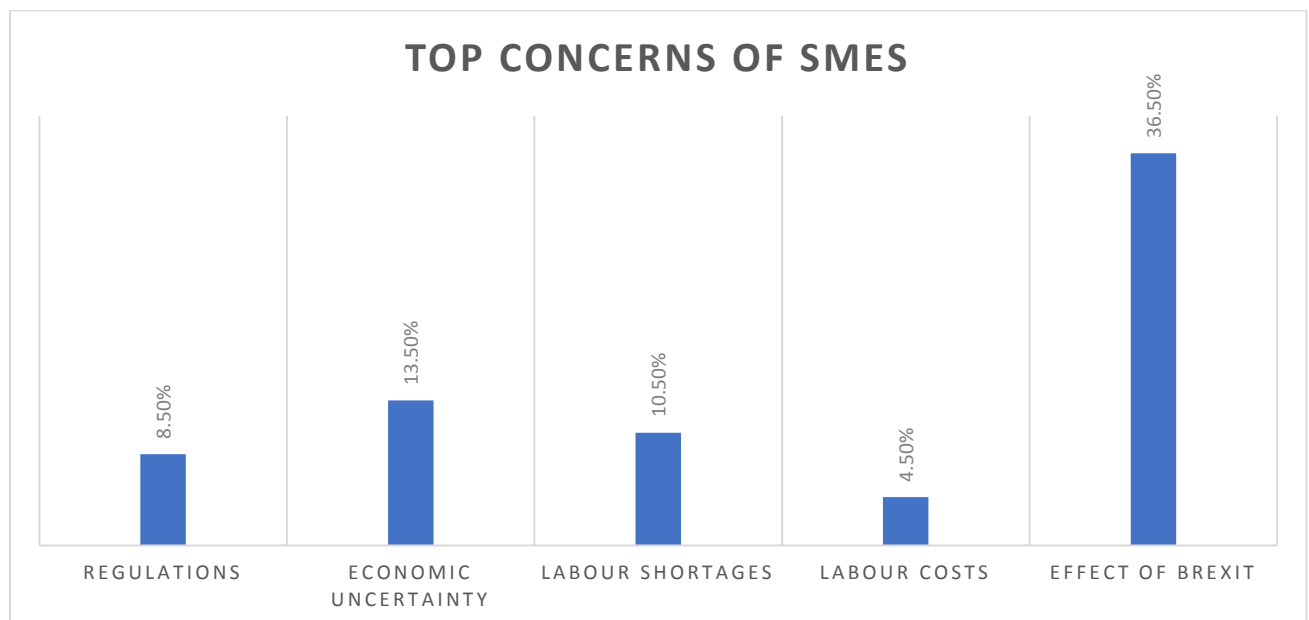
- 33% reported increases of between 1% and 5%.
- 35% stated increases of plus 6%-15%.

- 6% reported increases of plus 16%-25%.
- 7% reported increases of +25%
- 14% reported no change.
- While 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 will continue to lobby on throughout 2019.

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

The top concerns for SMEs in this quarter are Brexit (36%), Labour Costs (5%), Labour Shortages (11%), Economic Uncertainty (14%), and Regulations (9%). Unsurprisingly, Brexit remained the biggest concern for SMEs in 2018.



The effect of Brexit on our members is evident below with 65% of respondents stating that Brexit would have a negative impact on their bottom line. Just 1% of respondents said Brexit will have a positive impact on their business in Q4'18.

### **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 29% of businesses are impacted by inadequate broadband.