

Press Release: Q2'19 Trends Report

8th July 2019

- **Business Confidence rises from -4% to 1%.**
- **64% of businesses expect to increase wage rates of employees**
- **79% of businesses report an increase to their motor insurance**
- **Between 75% and 78% report an increase in their Public and Employer Liability Insurance, respectively.**

The results of the ISME Quarterly Business Trends Survey for Q2'19 have been released today (8th July) with 10 out of 12 confidence indicators showing declines, approximately on par with previous quarter. While employment trends are as expected, Business Confidence started to increase in 2019, going up by 5% in this quarter. The three predominant SME concerns for this quarter were reported as Brexit at 17%, economic uncertainty at 14% and insurance costs at 14%.

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:

"We're delighted to see some improvement in business sentiment in the summer. We hope this suggests a decline in the Brexit malaise that affected businesses in Q1. Most companies are anticipating pay increases for their employees, though it is significant that those Companies contemplating increases are reducing the amount of increase. 57% of employers expect to increase employee pay by between 0.5% and 5%.

Unfortunately, we see a continuing trend for commercial motor, public liability and employers' liability to rise significantly. Government action is not producing any material change in this area for SMEs."

Ends

For further information, please contact:

Lughmani, Sheema

T: 01 6622755, E: sheema@isme.ie

Trends Report

This survey was conducted in the last three weeks of June to SMEs, with 54% of whom employ less than 10; 38% employ between 11 and 49; and the remaining 8% employ between 50 and 250. Geographically, 28% are from Dublin; 58% are spread across the rest of the country; and 12% have multiple sites.

ISME will launch its Q3'19 Survey in early September to its members and the SME community.

Overall Confidence Indicators

The **Q2'19 Business Trends Quarterly survey** showed 10 out of 12 confidence indicators yielding negative results, a similar trend to the previous quarter in 2018. There was an increase in Business Confidence by 5% and a further decrease in Business Expectations by 10%, while Business Environment had a decrease of 5%. The Current Employment confidence indicator had a nominal decrease from 23% to 19%. Future Employment had a nominal increase of 1% from 16% to 17%. Current Sales have decreased from 23% to 17% while Sales Expectations are up 21%. Current Investment and Future Investment are up 2% and 4% respectively. Both Current Exports and Export Expectations are down 19%. Economic uncertainty remains the same at 14%, while Brexit remains the highest concern at 17%. Brexit worry increased in each quarter of 2018, but likely decreased this quarter due to an additional survey question of concern for rising insurance costs, which sits at 14%.

KEY INDICATORS OVERALL	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q2'19
Business Confidence	17%	22%	34%	26%	21%	1%	-4%	1%
Business Expectations	22%	25%	42%	34%	17%	8%	-4%	-14%
Business Environment	39%	47%	53%	40%	48%	42%	43%	38%
Profitability Expectations	19%	22%	24%	25%	14%	13%	8%	15%
Current Employment	26%	33%	32%	23%	25%	25%	23%	19%
Future Employment	18%	22%	32%	25%	26%	18%	16%	17%
Current Sales	21%	31%	28%	16%	19%	17%	23%	17%
Sales Expectations	37%	29%	39%	38%	36%	27%	8%	29%
Current Investment	37%	43%	53%	45%	35%	43%	38%	40%
Future Investment	34%	29%	48%	35%	32%	37%	30%	34%
Current Exports	17%	14%	16%	7%	18%	19%	16%	-3%
Export Expectations	6%	40%	32%	48%	34%	27%	25%	6%
Economic Uncertainty	11%	13%	7%	11%	15%	13%	14%	14%
Brexit	21%	21%	25%	24%	25%	33%	37%	17%

Q2'19 Manufacturing:

Our Q2'19 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 decreased to 4% (by 4%) and Business Expectations decreased by 8% respectively. Profitability Expectations rose from 10% to 13%, while Future Employment in manufacturing decreased 3%. Current Sales are down 26% and Sales Expectations are at 13%. Current Investment is at 57%. Current Exports are at 8%, however Future Exports are at 29% (Future exports were at 62% in the first quarter of 2018).

Business Environment is at 46%. Current Employment is at 13% down 14% from the last quarter. Sales Expectations reported a decrease from 39% to 13%. Brexit remains a significant concern for the manufacturing sector, but decreased from 53% to 45%.

KEY INDICATORS MANUFACTURING	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q2'19
Business Confidence	17%	23%	37%	31%	14%	-6%	8%	4%
Business Expectations	38%	47%	40%	42%	14%	5%	8%	0%
Business Environment	42%	63%	60%	47%	54%	39%	62%	46%
Profitability Expectations	29%	33%	20%	31%	8%	8%	10%	13%
Current Employment	38%	50%	31%	29%	35%	31%	27%	13%
Future Employment	29%	27%	26%	36%	27%	14%	23%	20%
Current Sales	29%	27%	23%	44%	11%	0%	37%	11%
Sales Expectations	50%	40%	40%	31%	35%	44%	39%	13%
Current Investment	46%	50%	69%	58%	35%	47%	44%	57%
Future Investment	54%	47%	63%	49%	49%	31%	54%	38%
Current Exports	20%	0%	11%	15%	5%	6%	36%	8%
Export Expectations	10%	26%	33%	62%	45%	13%	30%	29%
Economic Uncertainty	17%	13%	9%	12%	20%	11%	6%	45%
Brexit	21%	21%	23%	17%	29%	36%	53%	45%

Q2'19 Exporting:

Q4'18 shows a decline in 8 out of 12 confidence indicators compared to 4 out of 12 in the previous quarter. Brexit Worry remains high at 50%.

Business Confidence is down -4% to -8%. Business Expectations is down from -4% to -6%. Current Employment is down 4% while Future Employment is down 1%. Current sales give a high indicator in this quarter at 50%, while Sales Expectations have increased from 28% to 30%. Current Investment has increased from 42% to 34%. Future Investment has decreased from 43% to 38%, while Current Exports drop 5%.

Profitability Expectations are down 2%. Business Environment is down from 47% to 46%. Current Sales are down 3% while Sales Expectations are up 2%. Export Expectations are down 1%. The indicators in exporting point to increased Brexit Worry for this sector.

KEY INDICATORS EXPORTS	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q2'19
Business Confidence	16%	22%	34%	26%	21%	5%	-4%	-8%
Business Expectations	20%	25%	13%	34%	17%	8%	-4%	-6%
Business Environment	38%	47%	60%	40%	48%	45%	47%	46%
Profitability Expectations	19%	22%	24%	34%	1%	13%	6%	4%
Current Employment	26%	34%	32%	22%	25%	43%	32%	28%
Future Employment	18%	22%	32%	25%	26%	34%	35%	34%
Current Sales	20%	32%	28%	41%	1%	25%	53%	50%
Sales Expectations	36%	28%	39%	25%	32%	47%	28%	30%
Current Investment	38%	44%	53%	44%	36%	56%	42%	34%
Future Investment	34%	29%	48%	35%	32%	43%	43%	38%
Current Exports	17%	12%	16%	7%	14%	19%	16%	11%
Export Expectations	6%	42%	32%	48%	34%	27%	25%	24%
Economic Uncertainty	17%	13%	7%	11%	15%	10%	5%	5%
Brexit	21%	21%	25%	24%	25%	35%	52%	50%

Q2'19 Retail:

The Retail sector for Q2'19 reported Brexit and Economic Uncertainty and Insurance Costs as its biggest concerns. Business Confidence increased by 5% in Q2'19. This is likely to be a result of the massive rise in online retail giants impacting on retailers.

Business Expectations is down 20% from Q4'18. Profitability Expectations are at 31% up from 20% in Q4'18. Current Sales are at 0% compared to 7% in the last quarter. Current Investment is at 54%, while Future Investment is also at 54%.

Business Environment is at 29%. Current Employment in retail is at 38% while Future Employment has dropped from 7% to 0%. Sales Expectations is up 26%. Future Employment indicators in retail show a decrease of 7%.

KEY INDICATORS RETAIL	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q2'19
Business Confidence	-6%	14%	40%	15%	-5%	-25%	-5%	0%
Business Expectations	11%	-14%	50%	35%	22%	33%	20%	0%
Business Environment	11%	0%	40%	15%	17%	0%	12%	29%
Profitability Expectations	-11%	0%	50%	20%	11%	25%	20%	31%
Current Employment	11%	14%	40%	10%	33%	-9%	19%	38%
Future Employment	-6%	14%	10%	15%	17%	9%	7%	0%
Current Sales	6%	14%	30%	30%	-11%	16%	7%	0%
Sales Expectations	44%	14%	50%	20%	22%	8%	12%	38%
Current Investment	28%	29%	50%	45%	33%	11%	31%	54%
Future Investment	17%	-14%	70%	30%	22%	50%	12%	54%
Current Exports								
Export Expectations								
Economic Uncertainty	14%	0%	22%	15%	31%	40%	27%	20%
Brexit	14%	29%	22%	30%	25%	20%	27%	60%

Q2'19 Services:

The Services sector for Q2'19 showed 11 out of 13 confidence indicators being negative, an increase from 8 out of 12 in the last quarter.

Business Confidence rose from 9% to 10%. Business Environment is up from 39% to 45%. Profitability Expectations decreased 7%. Current Employment is down 8% while Future Employment rises 5% from 24% to 29%.

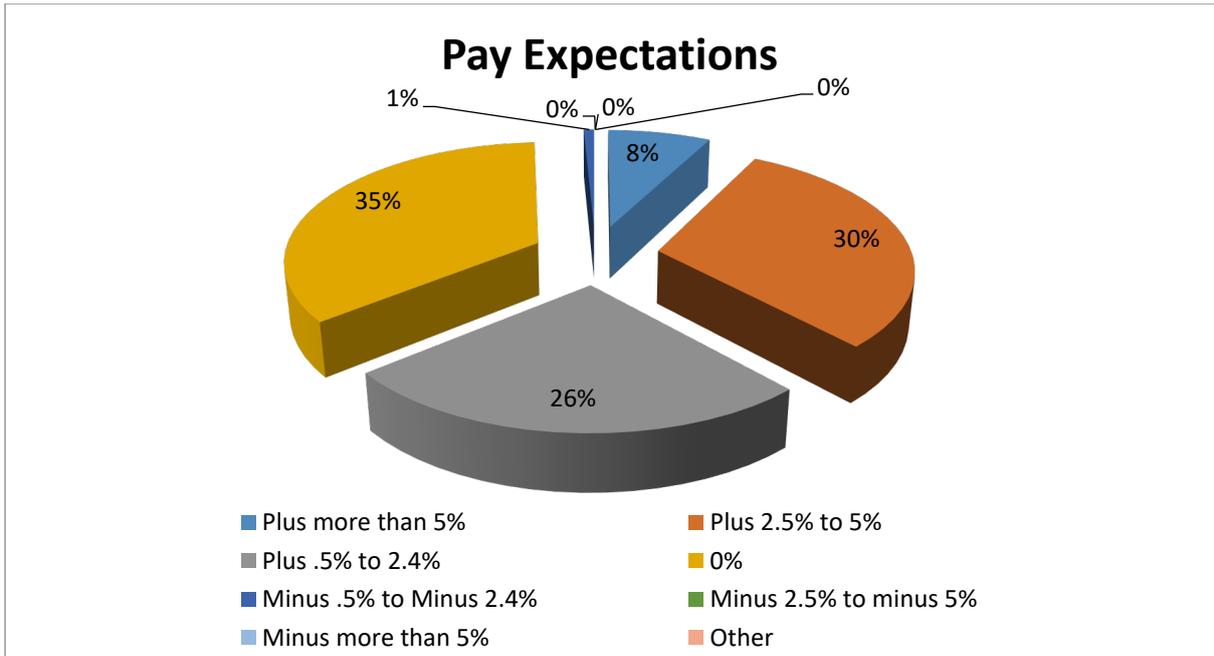
Current Sales recorded a decreased from 22% to 6%. Sales Expectations rose 4%. Current Investment has dropped from 33% to 23% while future Investment is down from 38% to 23%. Current Exports have increased by 8%, while Export Expectations have dropped 9% to 9%.

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

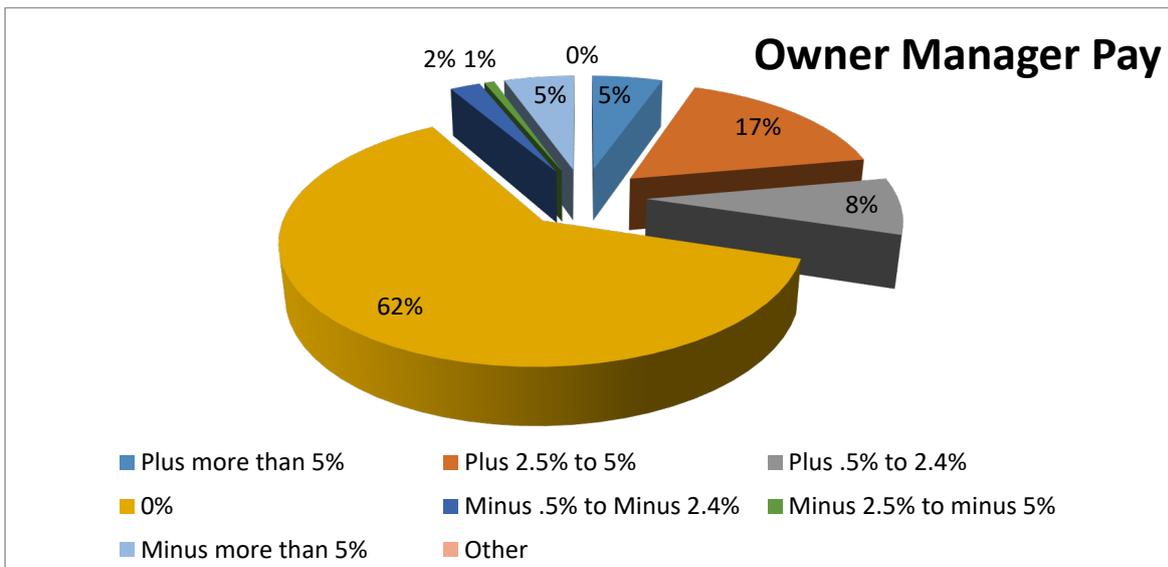
Q2'19 Pay Expectations: Employees

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

- 35% of SMEs will not be in a position to increase pay this year for their employees.
- 26% will increase employees pay by 0.5% to 2.4%, up from 22% in the previous Quarter.
- 31% will increase pay by 2.5%-5%, down from 33% in Q4'18.
- 8% of businesses will increase pay for their employees by plus 5%, down 2% on Q4'18.
- 0% of respondents stated 'Other'.



Q2'19 Pay Expectations: Owner Manager

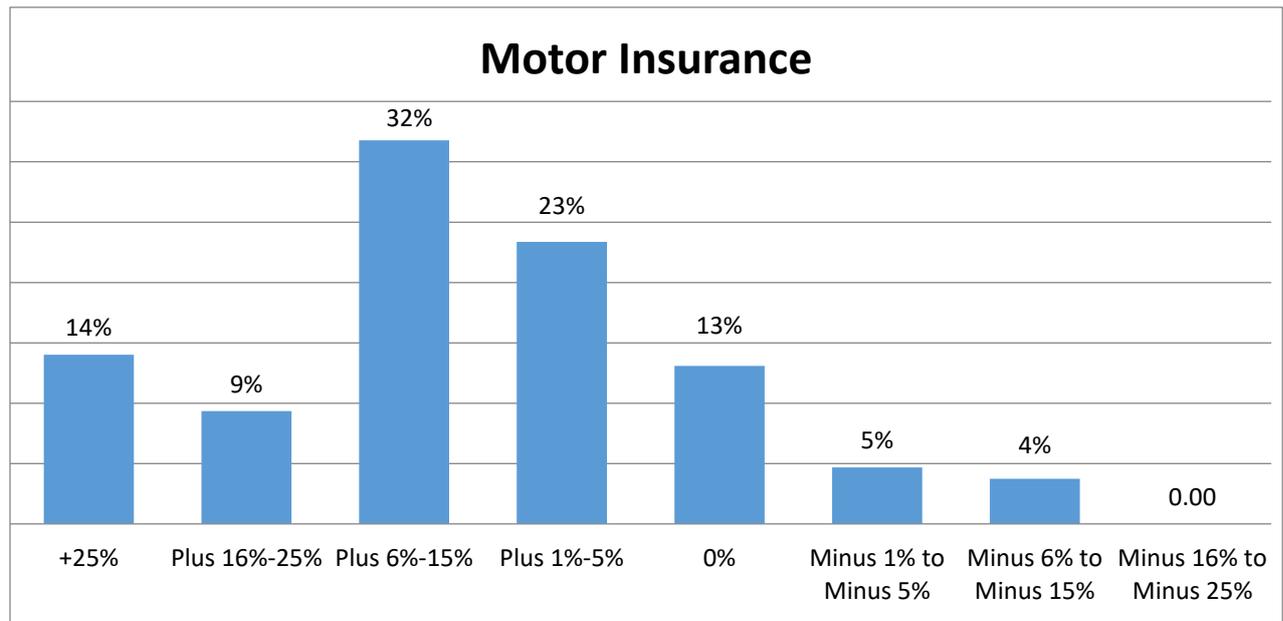


When we asked business owners about their own pay for this year;

- 62% said they would not increase their earnings from the business, down from 69% in Q3'18.
- 5% intend to increase their wages by plus 5%, down 1% on Q4'18.
- 17% will increase their pay between 2.5%-5%, up 6% in Q4'18.
- 8% will increase their pay between 0.5%-2.4%, up 4% on Q3'18.
- 8% stated they were reducing their wages compared to 9% in Q'4.
- 0% stated 'other'.

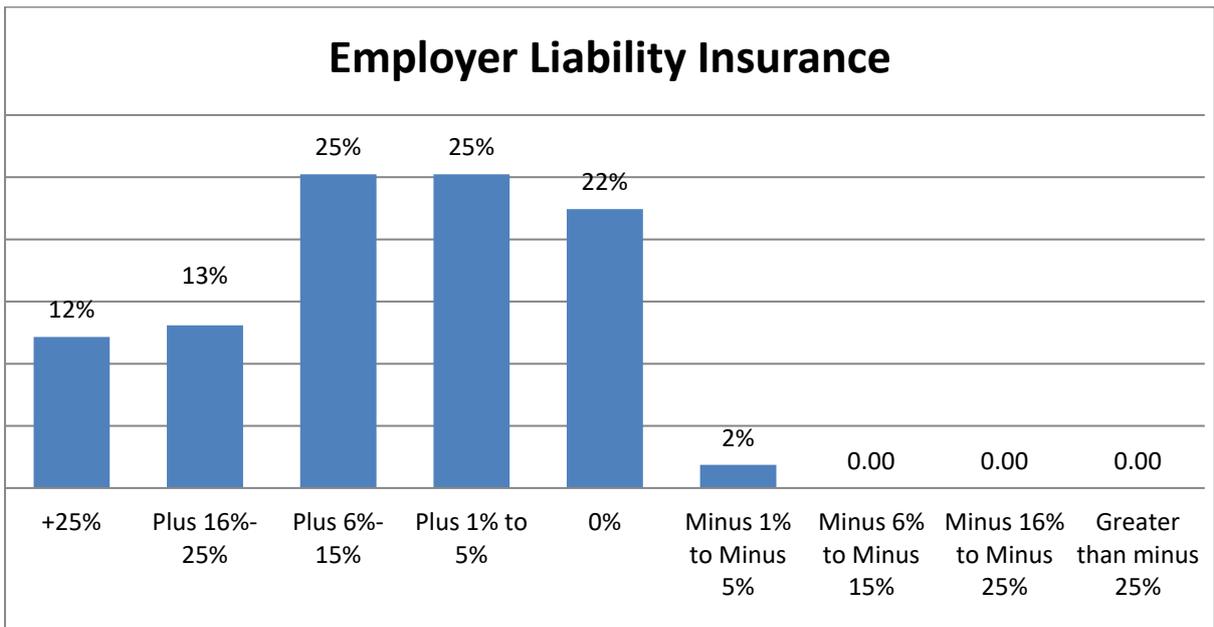
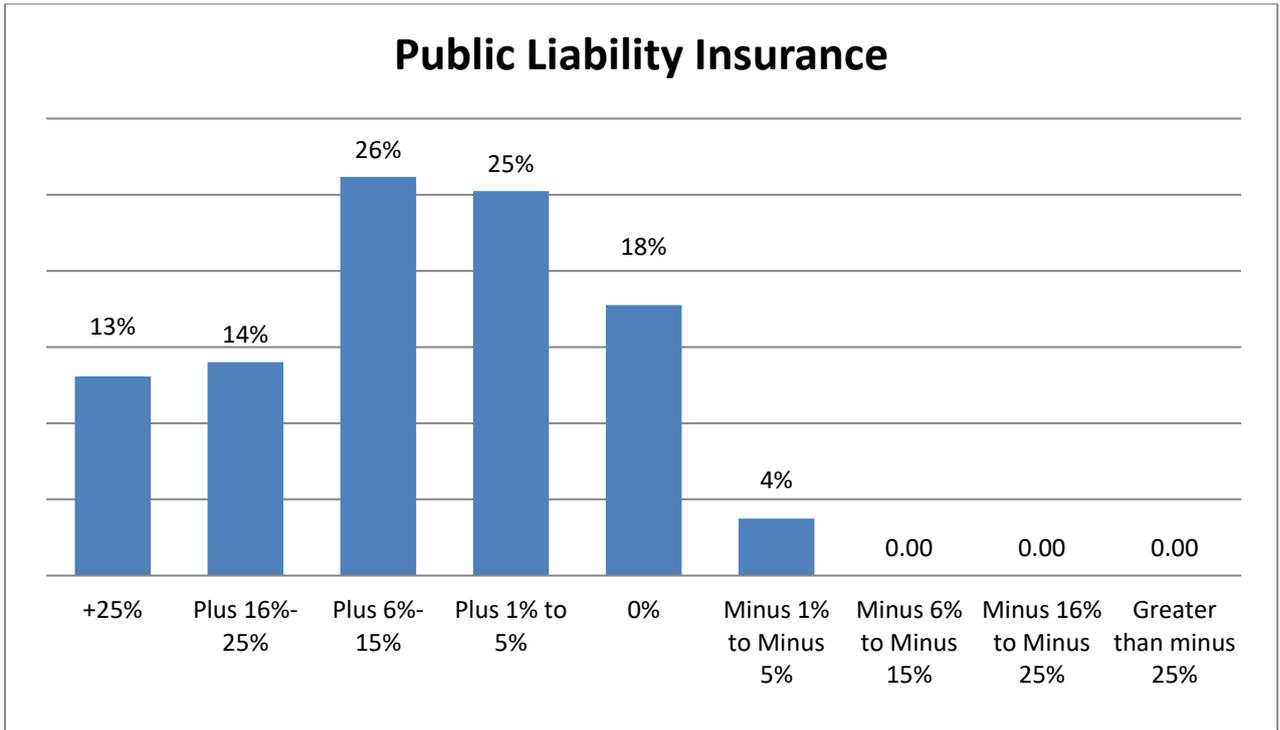
Insurance Costs

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:



- 14% of respondents noted an increase of +25%.
- 9% experienced increases of plus 16%-25%.
- 32% of respondents' premiums increased between plus 6% to 15%.
- 13% reported no increase to premiums.
- 9% reported a decrease.

Coupled with motor insurance cost increases, public and employer liability insurance costs are increasing for many SMEs. 83% of respondents stated their premiums increased on renewal. When these figures are broken down:



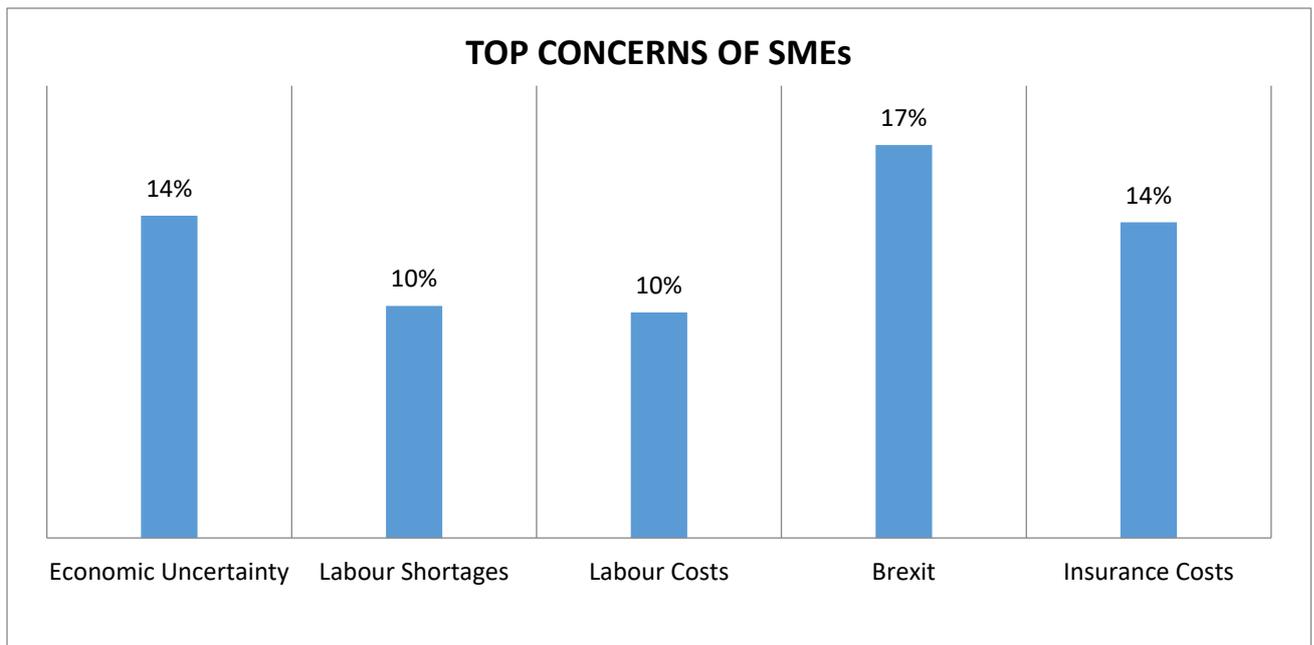
- 25% reported increases of between 1% and 5%.
- 25%-26% stated increases of plus 6%-15%.
- 13%-14% reported increases of plus 16%-25%.
- 12%-13% reported increases of +25%
- 18%-22% reported no change.
- While 2%-4% reported a decrease.

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 (17%), Labour Costs (10%), Labour Shortages (10%), Economic Uncertainty (14%), and Insurance Costs (14%). Unsurprisingly, Brexit remained the biggest concern for SMEs in 2019 so far.



The effect of Brexit on our members is evident above with 56% of respondents stating that Brexit would have a negative impact on their bottom line. Just 4% of respondents said Brexit will have a positive impact on their business in Q2'19.

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 24% of businesses are impacted by inadequate broadband.

Ends

For further information, please contact:

Lughmani, Sheema

T: 01 6622755, E: sheema@isme.ie