

P R E S S R E L E A S E

4th May 2018

CONFIDENCE IN THE SME SECTOR DECLINES

- **10 out of 12 confidence indicators decline.**
 - **Business confidence drops by 8%.**
 - **32% will increase pay by 2.5% to 5%.**
- **34% of businesses will not be in a position to increase pay.**
- **84% of businesses report an increase in their business insurance premiums**

The results of the ISME Quarterly Business Trends Survey for Q1 2018 released today (4th May) show confidence in the SME sector declining. 10 out of 12 confidence indicators showed disimprovements since the previous quarter, with business confidence dropping 8%. Brexit remains the biggest concern for SMEs followed by Labour Costs and Economic Uncertainty. The Trends report also provides up to date information on employee pay, broadband services and business and motor insurance costs in the SME sector.

Commenting on the results, ISME CEO, Neil McDonnell said *“Today’s results are disappointing. A reversal in 10 out of 12 confidence indicators reflects some of the uncertainties around business at the moment.”*

“While the economy is improving, many SMEs are struggling with excessive business costs, competitiveness, and inadequate infrastructure. These are impacting the health of the SME sector. Our latest business insurance figures show 84% of respondents have experienced an increase.”

“On the positive side, forecasted wage increases are more optimistic than they were in Q4 2017.”

“We have raised the issue of high business costs with respective ministers and governmental departments. We have sent submissions and proposals showing how practical measures could be introduced that would benefit our indigenous industrial policy and workers.”

He added,

“Government’s fixation on Foreign Direct Investment needs to change, greater focus needs to be directed toward our indigenous industrial policy. To focus on the former is to the detriment of the SME sector. A change in attitude toward the SME sector is needed”

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Trends Report

This survey was conducted in the last week of April, with 844 SME respondents, 52% of whom employ less than 10; 40% employ between 11 and 49; and the remaining 8% employ between 50 and 250. Geographically, 30% are from Dublin; 59% are spread across the rest of the country; and 11% have multiple sites.

Confidence indicators

The Q1'18 Business Trends Quarterly survey showed negative results for the first quarter of 2018. 10 out of 12 confidence indicators yielded negative results. There was a decrease in; Business Confidence and Business Expectations both (down 8%); Business Environment (down 13%); Current Employment and Future Employment down 9% and 7% respectively; While, Current Sales and Sales Expectations are down 12% and 1%. Current Investment and Future Investment also declined by 8% and 13%. Current Exports are down 9%.

Profitability Expectations increased by 1%, while Export Expectations are up 16%.

KEY INDICATORS OVERALL	Q1' 16	Q2' 16	Q3' 16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	
Business Confidence	38%	9%	23%	16%	16%	17%	22%	34%	26%	↓
Business Expectations	49%	14%	31%	23%	32%	22%	25%	42%	34%	↓
Business Environment	34%	35%	33%	33%	37%	39%	47%	53%	40%	↓
Profitability Expectations	26%	9%	23%	15%	5%	19%	22%	24%	25%	↑
Current Employment	28%	6%	29%	21%	28%	26%	33%	32%	23%	↓
Future Employment	27%	18%	28%	23%	26%	18%	22%	32%	25%	↓
Current Sales	28%	36%	27%	27%	24%	21%	31%	28%	16%	↓
Sales Expectations	42%	33%	40%	34%	34%	37%	29%	39%	38%	↓
Current Investment	44%	39%	46%	41%	40%	37%	43%	53%	45%	↓
Future Investment	37%	31%	38%	38%	39%	34%	29%	48%	35%	↓
Current Exports	25%	15%	17%	16%	14%	17%	14%	16%	7%	↓
Export Expectations	40%	15%	31%	49%	30%	6%	40%	32%	48%	↑
Economic Uncertainty	20%	18%	15%	29%	21%	11%	13%	7%	11%	
Brexit	9%	30%	19%	18%	26%	21%	21%	25%	24%	

Manufacturing:

Confidence indicators in Manufacturing remain unchanged this quarter with 6 out of 12 indicators remaining positive. Business Expectations and Profitability Expectations are up 2% and 11%. Future Employment and Current Sales are up 10% and 21%, while Current and Future Exports both make gains on Q4'18, with 4% and 29% increases.

There were declines in Business Confidence, down from 37% to 31%, Business Environment is down 13% (from 60% to 47%). Current Employment is down from 31% to 29%. Sales Expectations are down from 40% to 31%. Current Investment and Future Investment are down 11% and 14% respectively.

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

Retail:

The Retail sector for Q1'18 reported Brexit and Economic Uncertainty as its biggest concern. 8 out of 10 confidence indicators reported a decline. Future Employment was the only positive trend this quarter, with Current Sales unchanged.

Business Confidence decreased from 40% to 15%, Business Expectations dropped from 50% to 35%, and Business Environment declined from 40% to 15%. Profitability Expectations dropped from 50% to 20%, Current Employment is down from 40% to 10%. Sales Expectations is down from 50% to 20%, while Current Investment is down from 50% to 45%.

Key Indicators RETAIL	Q1 '16	Q2' 16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18
Business Confidence	16%	-14%	18%	-22%	22%	-6%	14%	40%	15%
Business Expectations	29%	18%	29%	17%	28%	11%	-14%	50%	35%
Business Environment	6%	-18%	0%	9%	0%	11%	0%	40%	15%
Profitability Expectations	3%	14%	12%	-35%	-22%	-11%	0%	50%	20%
Current Employment	23%	21%	35%	17%	6%	11%	14%	40%	10%
Future employment	6%	4%	24%	-13%	11%	-6%	14%	10%	15%
Current Sales	23%	39%	41%	26%	11%	6%	14%	30%	30%
Sales Expectations	19%	14%	18%	0%	28%	44%	14%	50%	20%
Current Investment	36%	50%	35%	13%	17%	28%	29%	50%	45%
Future Investment	19%	18%	18%	13%	22%	17%	-14%	70%	30%
Current Exports									
Export Expectations									
Economic Uncertainty	36%	26%	31%	37%	31%	14%	0%	22%	15%
Brexit		30%	19%	14%	25%	14%	29%	22%	30%

Exporting:

There was a reversal in the positive trends made in the Export sector in Q4'17. Q1'18 shows a decline in 8 out of 12 confidence indicators.

Business Confidence is down from 34% to 26%, Business Environment is down from 60% to 40%, Current and Future Employment is down 10% and 7% respectively. Sales Expectations are down from 39% to 25%. Current Investment is down 53% to 44%, Future Investment is down from 48% to 35%, while Current Exports are down by 9%.

Business Expectations are up from 13% to 34%, Profitability Expectations are up 10%, Current Sales are up from 28% to 41%, while Export Expectations are up from 32% to 48%.

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

Services:

The Services sector reported a reversal in Q1'18 confidence trends, with 10 out of 12 decreases in confidence.

Business Confidence is down from 31% to 22%, Business Expectations is down from 38% to 15%. Business Environment is down from 44% to 31%, while Current Employment is down from 34% to 16%.

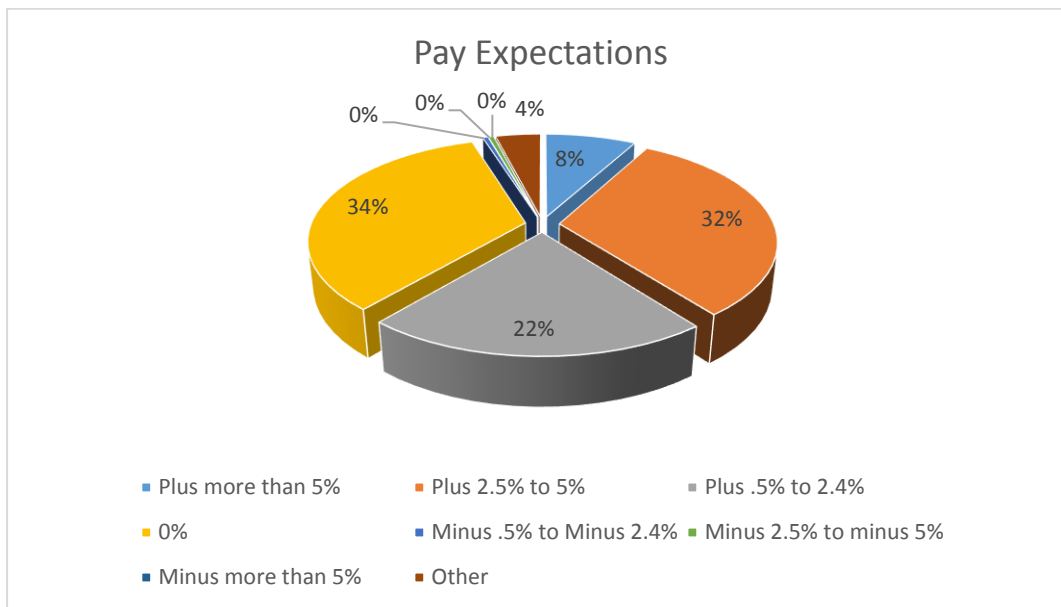
Future Employment is down from 38% to 13%, Sales Expectations are down from 31% to 22%, and Current Investment is down from 38% to 33%. Future Investment is down from 44% to 31%, while Current Exports and Export Expectations dropped 33% and 11% respectively.

Key Indicators SERVICES	Q1 '16	Q2' 16	Q3' 16	Q4' 16	Q1 '17	Q2'17	Q3'17	Q4'17	Q1'18
Business Confidence	39%	7%	26%	38%	8%	18%	29%	31%	22%
Business Expectations	42%	31%	39%	21%	35%	6%	33%	38%	15%
Business Environment	43%	18%	35%	33%	33%	42%	47%	44%	31%
Profitability Expectations	28%	13%	26%	25%	2%	15%	27%	16%	22%
Current Employment	26%	10%	25%	16%	17%	21%	22%	34%	16%
Future employment	32%	19%	30%	26%	27%	15%	16%	38%	13%
Current Sales	35%	24%	24%	35%	21%	42%	18%	28%	36%
Sales Expectations	43%	26%	40%	28%	27%	12%	20%	31%	22%
Current Investment	43%	25%	39%	45%	42%	33%	33%	38%	33%
Future Investment	41%	33%	33%	39%	42%	33%	18%	44%	31%
Current Exports	10%	23%	30%	20%	13%	50%	-13%	33%	0%
Export Expectations	48%	23%	20%	27%	25%	50%	0%	33%	22%
Economic Uncertainty	24%	12%	17%	30%	22%	17%	16%	0%	14%
Brexit		26%	13%	13%	24%	17%	11%	30%	22%

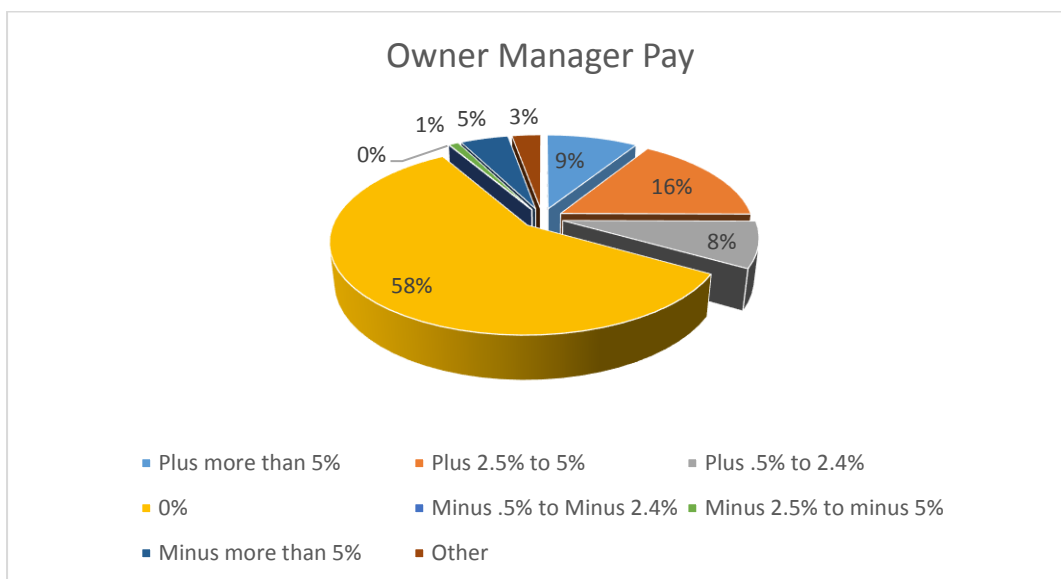
Pay Expectations: Employees

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- down 4% on Q4 17.
- 22% will increase employees pay by 0.5% to 2.4%, down 4% on Q4 17.
- 32% will increase pay by 2.5%-5%, up 6% on Q4 17.
- 8% of businesses will increase pay for their employees by plus 5%, up 1% on Q4 17.
- 4% of respondents stated 'Other'.



Pay Expectations: Owner Manager

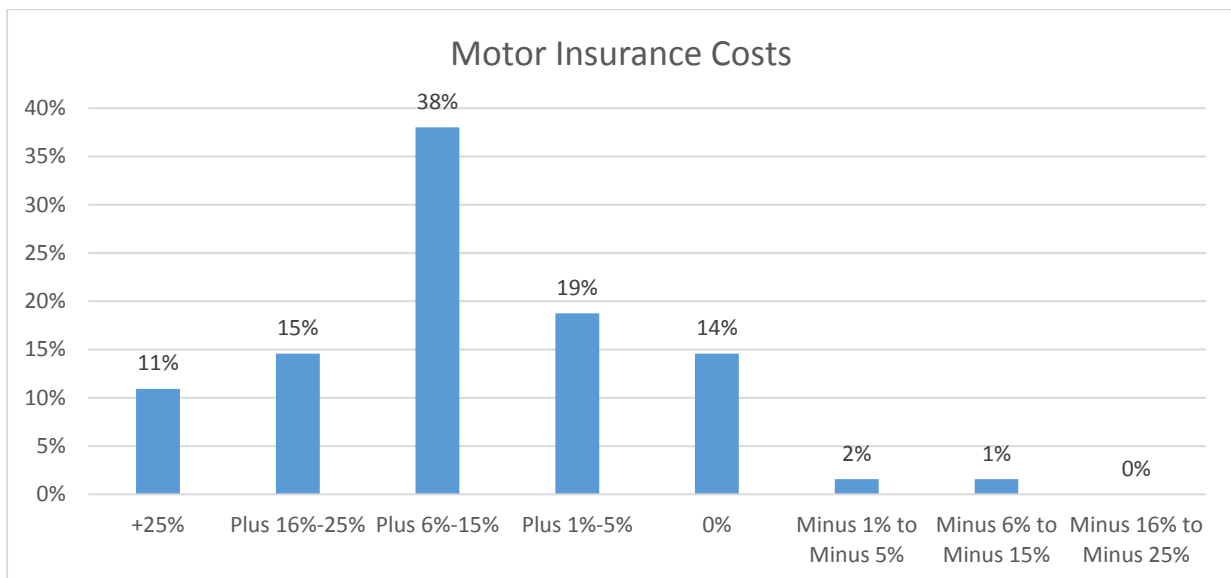


When we asked business owners about their own pay for this year;

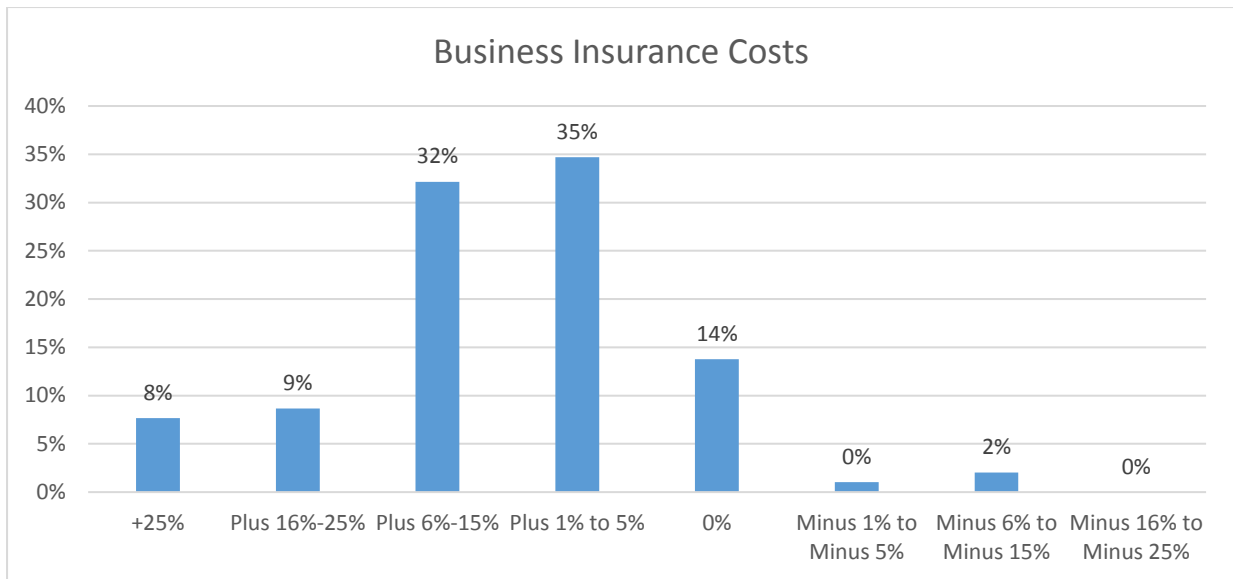
- 58% said they would not increase their earnings from the business, down 4% on Q4 17.
- 9% intend to increase their wages by plus 5%, up 2% on Q4 17.
- 16% will increase their pay between 2.5%-5%, no change on Q4 17.
- 8% will increase their pay between 0.5%-2.4%, up 1% on Q4 17.
- 6% stated they were 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 83% of respondents reported an increase to their premiums. When broken down the figures show:



- 11% of respondents noted an increase of +25%
- 15% experienced increases of plus 16%-25%
- 38% of respondents premiums increased between plus 6% to 15%
- 19% of those who responded recorded increases of plus 1%-5%
- 15% reported no increase to premiums
- While, 3% reported a decrease

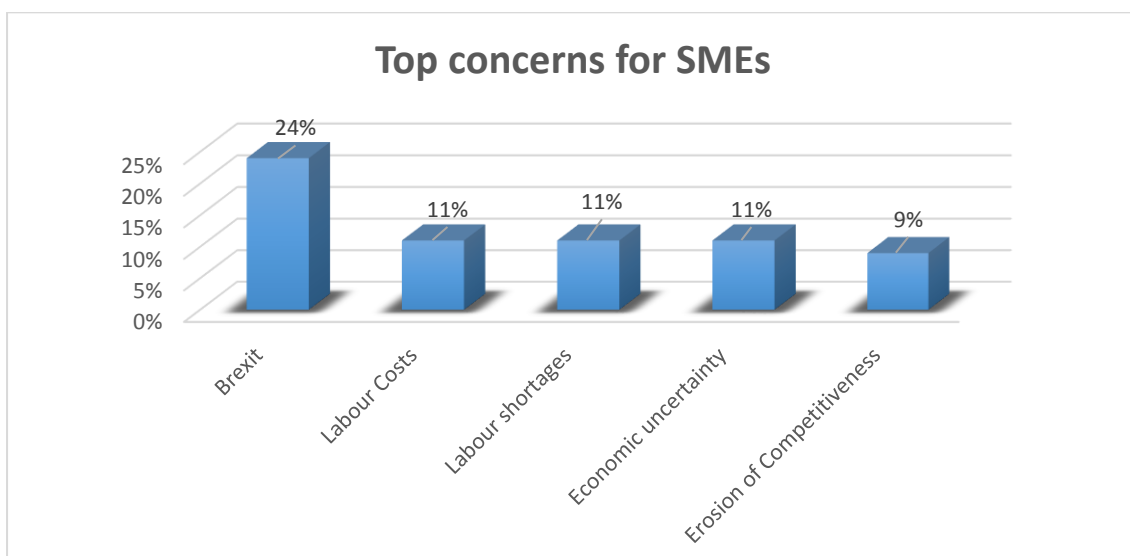


Coupled with motor insurance cost increases, business insurance costs continue to rise for many SMEs. 84% of respondents stated their premiums increased on renewal. When these figures are broken down:

- 35% reported increases of between 1%-5%
- 32% stated increases of plus 6%-15%
- 9% reported increases of plus 15%-25%
- 8% reported increases of +25%
- 14% reported no change
- While, only 2% 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 Erosion of Competitiveness. Brexit at 24% still remains the biggest concern for small and medium sized enterprises.

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:

