BPFI SME Market Monitor

Final Report

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Banking & Payments Federation Ireland

EY DKM

The environment for SMEs is clearly showing signs of strain, which are being exacerbated as a result of Brexit

The economy is bracing itself for one of the biggest economic challenges of recent times. The UK is expected to leave the EU at the end of this month. With or without a deal, the expectation is that the impact will be serious for the Irish economy and especially under a disorderly Brexit scenario. Reports of significant job losses, interrupted supply chains, higher prices for some products and increased administration for those firms trading with the UK are some of the consequences expected for businesses and consumers. Firms are being advised on a daily basis to plan and prepare for this eventuality in order to minimise the disruption to their businesses.

This edition of the SME Market Monitor is also being published at a time when conditions in the global economy are deteriorating while growth in the major European economies is especially subdued in 2019 to date. The other area where pressure is ramping up for businesses is climate change, which is likely to generate additional costs for SMEs and may be doing so for many already.

Combined, the above developments present major challenges for SME firms and especially for some of the most vulnerable sectors likely to be most affected by Brexit. SMEs face heightened uncertainty, whether agreement is reached on the terms of the UK's exit, there is a No-Deal Brexit or there is a further extension.

However, regardless of Brexit, there are a number of issues which are indicating an increasingly challenging environment for SMEs. The KBC Consumer Sentiment Index decreased to its lowest level in six years in September, as consumers became more nervous about the outlook for the Irish economy in general and their personal finances in particular. The index declined with respect to general economic outlook, the unemployment outlook, household finances in the past 12 months, and household finances over the next 12 months. This nervousness is also evident from the business surveys with sentiment amongst manufacturing firms staying below the 50 PMI threshold for the fourth consecutive month in September. Weaker customer demand and lower new orders generated the lowest level of sentiment in over seven years regarding future prospects for the year ahead.

Challenges emerging in Tourism and Construction

This Monitor highlights the key SMEs sectors for the Irish economy, especially Tourism and Construction.

The Tourism sector generated €6.9 billion in overseas tourism and travel earnings from trips to Ireland in 2018 with 10.6 million visitors to Ireland in 2018. The Government's strategy with respect to tourism has been to increase revenues from overseas tourists and to increase employment in tourism as well as promoting Ireland to overseas tourists. The Accommodation and Food sector currently employs 181,100 persons directly, while the Department of Business, Enterprise and Innovation estimates total direct and indirect tourism employment at 260,000, which is equivalent to 11.3% of the total employed workforce.

However, the slowing global and European economies have weakened the demand for overseas travel in some key markets. The most recent data shows that the number of overseas trips to Ireland in Q2'19 was 1.8% down on Q2'18. More recent monthly data shows that numbers continued to decline during July and August by 0.5% on the same two months in 2018, with a fall in the number of visitors from Great Britain (-0.7%) and the United States (-1.6%) being the primary contributors. The difficult international trading conditions together with the uncertainty generated by Brexit suggests that the environment for tourism businesses will be very challenging over the coming weeks and months.

The other dominant SME sector is Construction, which has continued to enjoy strong activity levels since coming off a low base in 2013. Production increased by 11% YoY in Q2'19, the fifth successive quarter to record double-digit annual growth. However, the latest Ulster Bank Construction PMI reported a further slight loss in momentum in construction activity growth in June'19, with the headline PMI easing by 1.8 points compared with May'19. Firms in the construction sector are also reliant on the traded sector for imports of building materials, which are likely to be subject to trade tariffs in a disorderly Brexit scenario.

Employment and tax revenues are vulnerable

Elsewhere the SME environment is also vulnerable with the first quarterly decline in employment (-20,900) reported in Q2'19, following 26 successive quarters of growth since Q4'12. The corresponding annual rate moderated to 2% from 3.7% in the previous quarter. Although 11 out of 14 sectors recorded positive annual growth, the growth in employment moderated in key SME sectors, notably Construction, Accommodation and Food, but declined in the Wholesale and Retail sector.

That said, the performance of the labour market has been extraordinary with a total of 434,000 additional persons in employment over the past seven and a half years. Hence a moderation in the growth in employment was perhaps expected.

Consequently, the weaker than expected employment performance generated upward pressure on unemployment, with the monthly unemployment rate at 5.3% in September for the fourth month in a row, up from 5% six months earlier. However, Brexit is expected to have a profound impact on the labour market under a No-Deal outcome: with in the region of 34,000 fewer jobs by the end of 2020, according to the Central Bank, while EY's recent Economic Eye forecast that there would be 41,500 fewer jobs by 2022.

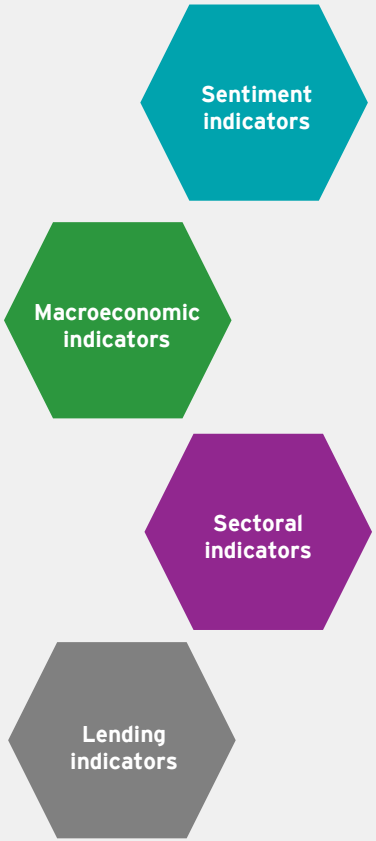
The most important indicator for SMEs, Modified Total Domestic Demand (MTDD), declined by 1.6% to €44.25 billion in Q2'19 due to changes in stocks, although the main components expanded YoY: the strongest annual growth was recorded by government expenditure (3.6%), followed by consumer expenditure (3.1%) while investment increased by 1.7%.

Despite the concerns around Brexit, the August retail sales figures have provided some reassurance about the underlying trends in Irish consumer spending. Core (ex-motor trades) sales recorded a second consecutive robust monthly performance, with sales volumes up 1.1% MoM in August, building on the 1.7% gain in July. The one factor supporting retail sales has been the ongoing recovery in housing activity, which boosted all associated segments in the retail basket.

The Budget had some measures to support SMEs which are welcome, although the reliance on Income Tax as a significant contributor to the overall tax base may come under pressure in the coming months, in the event of a No-Deal Brexit. This may generate further tax increases for businesses and consumers in the future, which would further adversely impact the trading environment for SMEs.

As the Brexit deadline approaches, the expectation is that there will be a deterioration in economic conditions. While the economy will still grow by a respectable 3.7% this year (EY GDP forecast), the SME environment is already seeing some negative movements in key economic indicators. Some SME sectors, notably, Tourism, are expected to be increasingly challenged over the coming weeks and months.

Introduction



This is the eighteenth publication of the BPFI SME Market Monitor, prepared for the Banking & Payments Federation Ireland (BPFI). The purpose of this Market Monitor is to present up to date trends across a range of indicators which are important for the performance of the SME sector. With SMEs (employing less than 250 persons) accounting for the overwhelming majority of enterprises, 69% of persons engaged, 50% of turnover and 42% of Gross Valued Added (GVA), their performance is very closely linked with the overall health of the economy. How consumers feel about the overall state of the economy, their personal financial situation and their ability to make purchases will influence the performance of SMEs. The level of confidence amongst businesses is equally important, as the more confident business owners and managers are, the greater the prospects for their companies, overall employment and incomes. They are also more likely to make investment and purchase decisions.

The highest concentration of Irish SMEs are in Accommodation and Food services, Construction, Wholesale and Retail Trades, Professional, Scientific and Technical services, and Transportation and Storage, while the first four also figure prominently in terms of employment. The economic environment has improved over recent years, with a return to more sustainable growth and trading conditions, ensuring that SMEs remain central to Ireland's economic and jobs recovery. However, there are a number of challenges for SMEs, including the increased possibility of a no-deal Brexit as well as a slowdown in the global economy, each of which could prove to be extremely difficult for SMEs, particularly for those operating in the sectors which are most vulnerable to Brexit.

This publication monitors a number of indicators that influence the circumstances under which SMEs conduct their business. A total of 15 indicators, which are published on a quarterly and/or monthly basis, are presented in tabular and graphical form with a brief commentary. This publication also contains a summary commentary which seeks to bring an overall assessment of what these indicators are telling us about the environment for SMEs. The indicators presented are grouped under four headings: sentiment, macroeconomic, sectoral and lending.

The data includes a number of the published sentiment indicators, including those from the ESRI, KBC and AIB. Much of the macroeconomic and sectoral data comes from the Central Statistics Office and the Department of Finance, while the SME lending data is from the Central Bank of Ireland. Where data is known to be affected by seasonal patterns, the CSO presents seasonally adjusted (SA) data which allow month on month (MoM) or quarter on quarter (QoQ) trends to be analysed. The seasonally adjusted data can vary each month/quarter as new observations are added and these changes will be reflected in subsequent issues of the BPFI SME Market Monitor. Unadjusted data are analysed on a year-on-year (YoY) basis.

This publication appears in electronic form on BPFI's website: http://www.bpfi.ie and is available on http://www.ey.com/ie/en/services/transactions/ey-dkm-economic-advisory . The analysis is based on data available up to 11 October 2019.

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Note: Where possible, all year-on-year changes reflect annual changes in non-seasonally adjusted figures, while quarterly changes reflect changes in seasonally adjusted figures.

Indicator	Latest Trends	Highlight	Level	MoM % Change	QoQ % Change	YoY % Change	Date
Consumer Sentiment	↓	Consumer sentiment slumped to a 70 month low in September 2019	75.3	Consumer sentiment is at its lowest since Nov'13 (71.0)			Sep-19
Manufacturing PMI	↓	Although up marginally, PMI below 50 for the fourth consecutive month	48.7	New orders fell for the fifth straight month			Sep-19
Modified Domestic Demand	↓	Marginal increase in YoY terms	€44,254 million	-	-1.6%	+0.4%	Q2'19
Unemployment rate	↓	Unemployment (SA) increased to 5.2% and is expected to rise under a disorderly Brexit	5.2%	-	+0.1pp	+0.7pp	Q2'19
Disposable Income	↑	Reaches a new high in Q1'19 but savings ratio also higher	€ 29,191 million	-	+2.2%	+8.2%	Q1'19
Employment	→ ←	Signs of a softening labour market	2.3m	-	-0.9%	+2.0%	Q2'19
Exchequer Returns	↑	Income tax and VAT make up 68.4% of total tax revenues in Jan-Aug period	€ 38,531 million	-	-	+6.9%	Sep-19
Retail Sales	↑	Retail sales volumes	118.4	+5.7%	-	+2.1%	Aug-19
Retail Sales excl. Motor Trades	→ ←	Robust growth over two months	120.2	+1.1%	-	+4.4%	Aug-19
Overseas Trips to Ireland	↓	Sentiment likely to be a factor dampening overseas trips to Ireland	2.7 million	-	-1.8%	+0.0%	Q2'19
Construction Production	↑	Record performance from Civil Engineering	158.7	-	+2.8%	+11.0%	Q2'19
Services	↑	Service index increased marginally in value terms	127.4	-0.6%	-	+9.0%	Aug-19
Credit and Debt Card spending (Online)	↑	E-commerce spending is growing strongly and represents 36.2% of total card spending	€ 1.782 billion	+15.4%	-	+22.1%	Jul-19
New SME Lending	↑	Second highest level in last six quarters	€ 1,437 million	+26.8%	-	+12.4%	Q2'19

1) For latest trends, upward trend is where monthly / quarterly change is above +1%, downwards trends is below -1%, while no change is classified as being between 0% and 1% (- or +).
2) Where possible, YoY % changes relate to NSA data, whereas monthly / quarterly data refers to SA data.

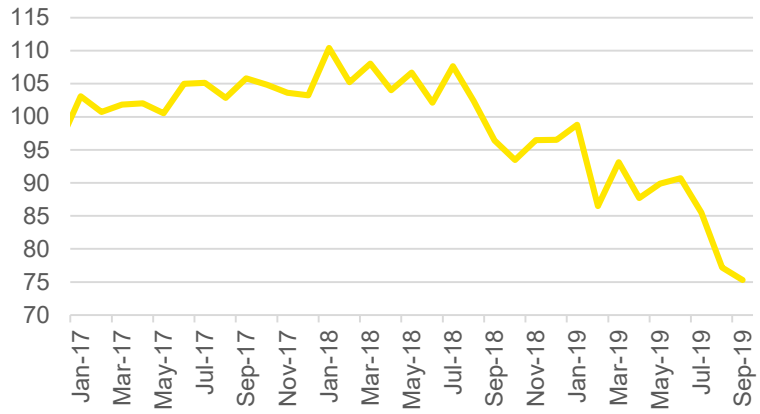
Section 1

Sentiment Indicators

Sentiment indicators

Consumer Sentiment Index

Figure 1: Consumer Sentiment Index



Source: KBC

Consumer sentiment slumps to a six-year low in September 2019

	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
Monthly Index	87.7	89.9	90.7	85.5	77.2	75.3
Annual change in the level	-16.3	-16.8	-11.4	-22.1	-25.2	-21.1
Monthly change in the level	-5.4	2.2	0.8	-5.2	-8.3	-1.9
3-month moving average	89.1	90.2	89.4	88.7	84.5	79.3

Source: KBC

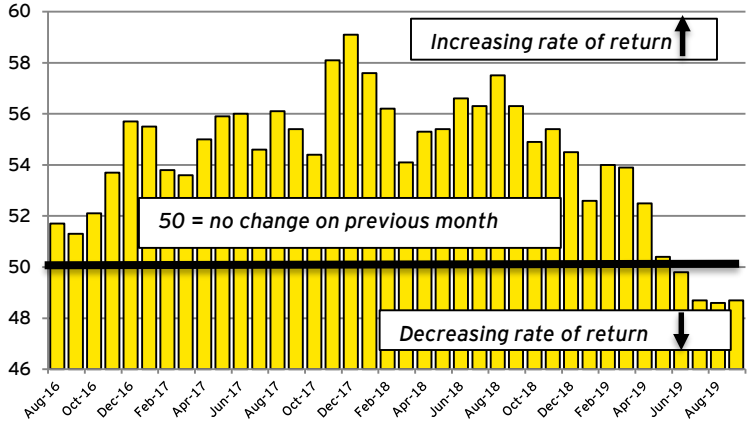
The KBC Consumer Sentiment Index decreased sharply for the third month in a row in September to 75.3 – its lowest level since November 2013 (71.0). This marked decline reflects a continuing deterioration in consumer confidence, with the index having fallen 21.1 points in the twelve months to September 2019. This can be attributed to strengthening global headwinds and Brexit uncertainty, especially given the more trenchant position taken by the new UK prime minister.

Four of the five components of the index registered weaker results in September compared to August. Most notably, around one in every two consumers believe that unemployment levels will increase over the next twelve months. This is hardly surprising, given the Central Bank of Ireland's high-profile Brexit forecasts predicting that there would be 34,000 and 110,000 fewer jobs over the next one and ten years respectively, than might otherwise be the case. The only component to improve was consumers' assessment of the climate for major purchases.

Indeed, Ireland was not the only victim of sharp declines in consumer confidence. In the US, sentiment has fallen to its lowest level since 2012, as anxiety increased that tariffs would rise in the face of heightened trade tensions with China. In addition, the Euro area also weakened, in the face of mounting political tensions and weak economic growth. All of these developments will make the environment more challenging for SMEs

Manufacturing PMI

Figure 2: Manufacturing PMI (SA)



Source: AIB

PMI stays below 50 for the fourth consecutive month signalling Brexit impacts

	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
PMI (SA)	52.5	50.4	49.8	48.7	48.6	48.7
Monthly Change	-1.4	-2.1	-0.6	-1.1	-0.1	0.1

Source: AIB

The Markit/AIB manufacturing Purchasing Managers Index remained in contraction territory, coming in at 48.7 for September. This shows little sign of change from its levels of 48.6 in August and 48.7 in July. Consequently, it remains below the key 50 level that signals worsening business conditions for a fourth consecutive month.

Underpinning this trend were declines in both output and new orders. Output decreased for the third month in a row, while stocks of pre-production inventories and purchases of inputs also fell. Weaker customer demand, as well as falling backlogs of unfilled orders, are viewed as the primary drivers behind these deteriorating figures.

Fuelled by Brexit uncertainty, new orders declined for the fifth straight month, and these reduced sales led to further increases in stocks of unsold finished goods. However, Irish manufacturers remain positive, albeit sentiment is at its lowest in over seven years of data collection.

Irish manufacturing activity is dealing with two significant blows - Brexit uncertainty and global sluggishness in the manufacturing sector. However, output may be increased in the short-term if firms start to stock pile in advance of a hard Brexit.

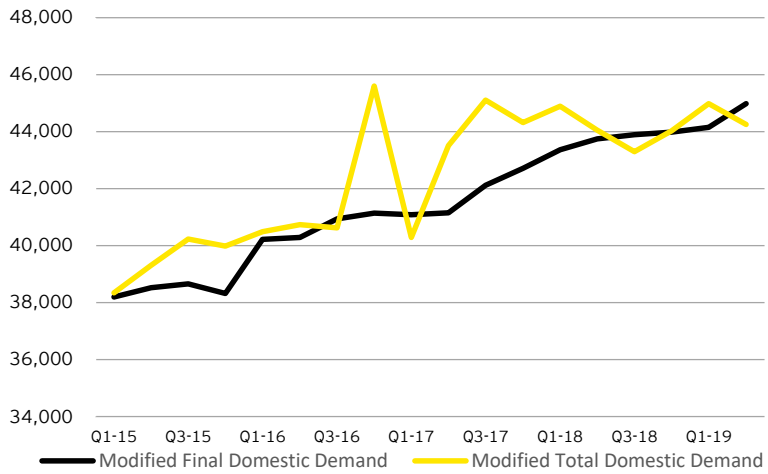
Section 2

Macroeconomic indicators

Macroeconomic indicators

Modified Domestic Demand

Figure 3: Domestic Demand SA (€m, constant 2016 prices)*



Source: CSO, National Accounts (SA)

A decline in the value of physical changes in stocks led to a decline in MTDD QoQ

	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19
Modified Total Domestic Demand (€m) (SA)	44,888	44,048	43,295	44,023	44,982	44,254
QoQ % Change	1.3%	-1.9%	-1.7%	1.7%	2.2%	-1.6%
Modified Total Domestic Demand (€m) (NSA)	45,024	42,561	44,229	44,364	45,234	42,716
YoY % Change	11.7%	1.1%	-4.0%	-0.8%	0.5%	0.4%

Source: CSO, (SA): *Difference between Total and Final Modified Domestic Demand is the change in the value of physical stocks. This item measures the actual value change in stocks between the start and end of the Quarter.

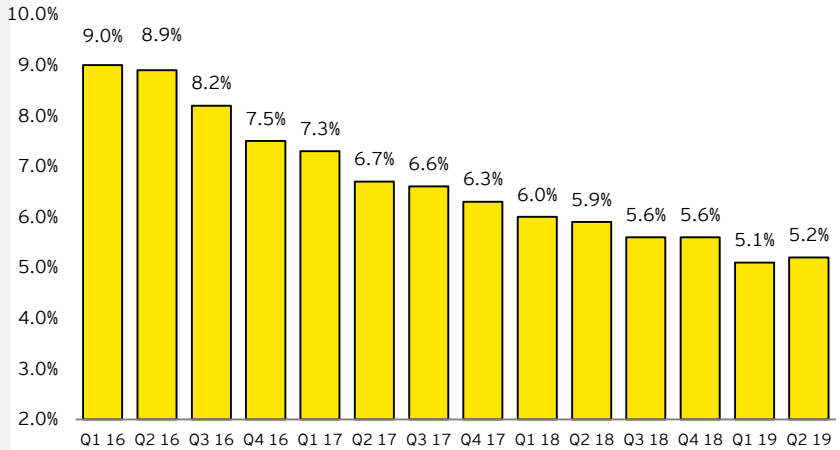
Modified Total Domestic Demand (MTDD) declined from €44.98 billion in Q1'19 on a seasonally adjusted (SA) basis to €44.25 billion in Q2'19 – a decline of 1.6%. This was due to a decline in the value of physical changes in stocks as all other components recorded growth QoQ. Conversely, non-seasonally adjusted (NSA) MTDD increased by 0.4% on an annual basis from €42.6 billion in Q2'18 to €42.7 billion in Q2'19.

Personal consumption on goods and services accounted for €26.1 billion or 61.1% of MTDD (NSA). Investment, captured by gross domestic fixed capital formation (GDFCF), accounted for 22.4% of MTDD with the balance comprising government expenditure of almost €8 billion or 18.6% of the total.

Using non-seasonally adjusted data, the strongest annual growth was recorded by government expenditure (+3.6%), followed by consumer expenditure (3.1%) while investment increased by 1.7%. This is a key indicator for SMEs as it provides a true measure of domestic economic activity by capturing spending and investment by consumers and the government sector.

Unemployment Rate

Figure 4: Unemployment Rate (SA)



Source: CSO, Labour Force Survey (LFS), (SA)

Unemployment edged up slightly to 5.2% n Q2'19, the same rate was reported in August

	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19
Unemployment Rate (SA)	5.9%	5.9%	5.7%	5.6%	5.1%	5.2%
Number (000s, SA)	140.5	140.2	134.0	134.5	122.4	126.1
Unemployment Rate (NSA)	5.7%	6.0%	6.0%	5.4%	4.8%	5.4%
Number (000s, NSA)	132.9	144.3	143.8	128.8	114.4	130.8

Source: CSO, Labour Force Survey (LFS)

A weaker than expected employment performance (Figure 9) generated upward pressure on unemployment, with the official unemployment rate increasing marginally to 5.2% in Q2'19, up from an 11½-year low of 5.1% in Q1'19.

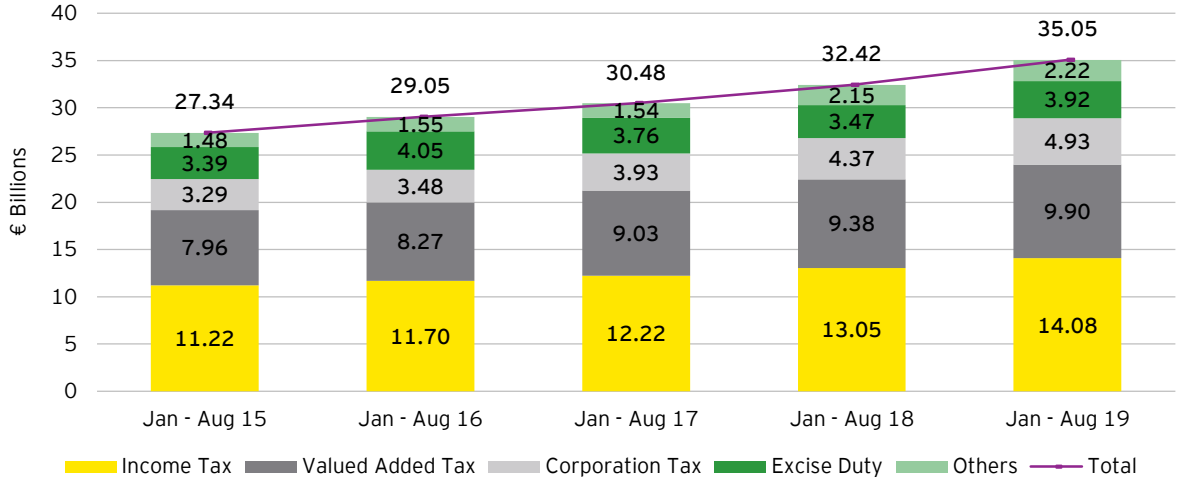
Indeed, early indications for Q3'19 are evident from the CSO's monthly unemployment figures, which show that the unemployment rate has remained at 5.3% for the four months from June to September. Furthermore, the total number of unemployed persons in September'19 was 126,900.

Notwithstanding the fact that unemployment has edged up slightly in Q2'19, the unemployment rate remains relatively low. The issues with a tight labour market include difficulties attracting talent and pressures on pay, both of which present a continuing challenge from SMEs. However, Brexit uncertainty is expected to have a profound impact on the labour market under a No-Deal outcome: with in the region of 34,000 fewer jobs by the end of 2020, according to the Central Bank, while EY's recent Economic Eye forecast that there would be 41,500 fewer jobs by 2022.

Macroeconomic indicators

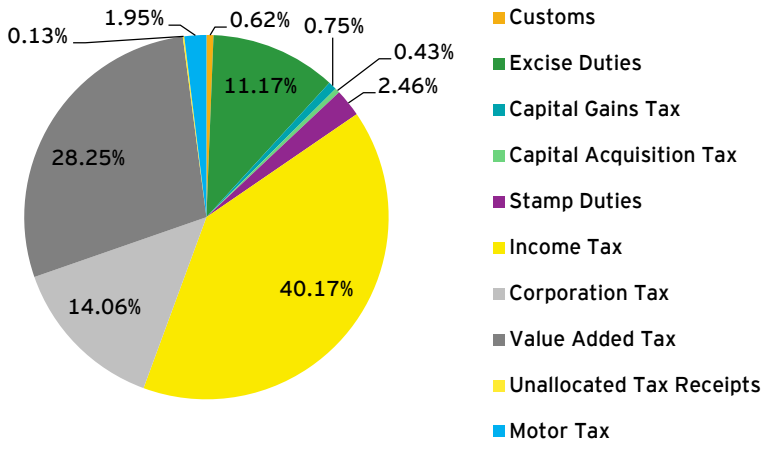
Exchequer Tax Receipts

Figure 5: Composition of Exchequer Tax Receipts, 2015-2019, € (billion)



Source: Department of Finance based on period January-August, latest available for 2019

Figure 6: Composition of Exchequer Tax Receipts, YTD 2019 (% of total)



Source: Department of Finance based on period January-August 2019

8.1% increase in YTD Total Tax Revenue (January-August)

(€m)	YTD Tax Revenue 2019 (€m)	% Share of YTD Tax Revenue 2019	Percentage point change in share 2019 vs 2018	% change in YTD outturn 2019 vs 2018	Aug 19 Outturn (€m)	% change in outturn Aug 19 vs Aug 18
Total Tax Revenue	€35,050	100.0%	-	8.1%	€3,106	13.7%
of which						
Customs	€218	0.6%	0.0	8.1%	€36	22.0%
Excise Duties	€3,916	11.2%	0.46	12.7%	€490	2.5%
Capital Gains Tax	€264	0.8%	0.13	31.5%	€20	52.1%
Capital Acquisition Tax	€152	0.4%	-0.01	6.3%	€27	0.8%
Stamp Duties	€861	2.5%	-0.23	-1.0%	€117	5.4%
Income Tax	€14,080	40.2%	-0.08	7.9%	€1,861	16.0%
Corporation Tax	€4,928	14.1%	0.59	12.9%	€318	73.4%
Value Added Tax	€9,901	28.2%	-0.69	5.5%	€153	-21.4%
Unallocated Tax Receipts	€46	0.1%	-0.02	-3.5%	€9	-37.4%
Motor Tax	€682	1.9%	-0.16	-0.3%	€75	-2.7%

Source: Department of Finance. YTD = January to August 2019

The total tax revenue amounted to €35.05 billion for the period from January to August 2019. This was 8.1% or €2.63 billion higher than the corresponding period in 2018.

Income tax revenues continue to be the largest source of revenue for the State, comprising just over 40% of total (Exchequer) taxation in the period January-August 2019. In absolute terms, income tax receipts amounted to €14.08 billion, representing an increase of 7.9% relative to the previous year.

The tax revenue stream which registered the largest increase in its share of the overall tax base was Corporation Tax, increasing from 13.5% in the period January - August 2018 to 14.1% for the equivalent period in 2019. These receipts are up by €1 billion on the same period in 2017.

Conversely, Value Added Tax saw the largest decrease in its share of the overall tax base, decreasing from 28.9% to 28.2% over the same period in 2019.

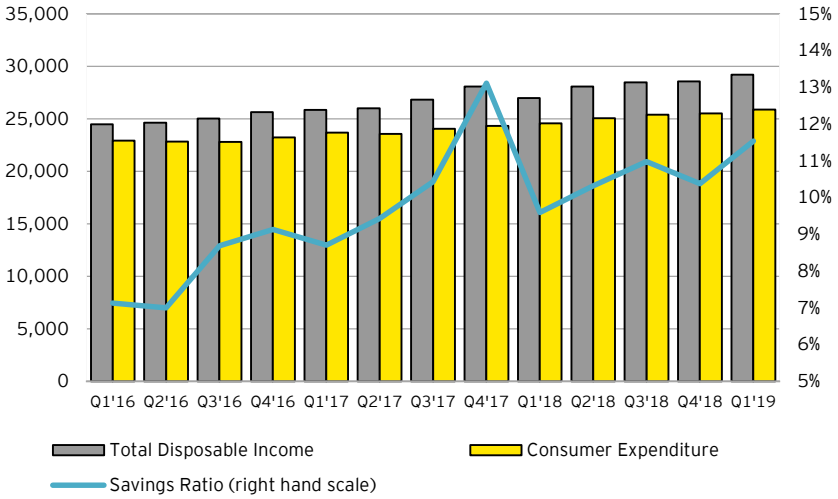
Capital Gains Tax (+31.5%) witnessed by far the largest YoY increase relative to the same period in 2018. All other tax revenue streams were higher, except for Stamp Duties (-1%), Unallocated Tax Receipts (-3.5%) and Motor Tax (-0.3%).

The reliance on Income Tax as a significant contributor to the overall tax base may come under pressure in the coming months, in the event of a no-deal Brexit. Budget 2020 may aim to broaden the tax base with, for example, a carbon tax.

Macroeconomic indicators

Disposable Income and Savings

Figure 7: Household Disposable Income and Savings Ratio (€ millions, current prices) SA



Source: CSO. Total disposable income (Gross disposable income B.6g+ Adjustment for the change in pension entitlements D.8) - Households including NPISH (S.14+S.15)

Total disposable income reaches a new high and the savings ratio increases

	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19
Total Disp. Income	28,074	26,972	28,076	28,465	28,557	29,191
QoQ % Change	4.7%	-3.9%	4.1%	1.4%	0.3%	2.2%
Consumption Exp.	24,305	24,575	25,050	25,396	25,499	25,866
QoQ % Change	1.1%	1.1%	1.9%	1.4%	0.4%	1.4%
Gross Saving	3,682	2,588	2,897	3,124	2,962	3,368
QoQ % Change	31.6%	-29.7%	11.9%	7.8%	-5.2%	13.7%
Savings Ratio	13.1%	9.6%	10.3%	11.0%	10.4%	11.5%

Source: CSO (SA).

Total household disposable income increased to €29,191 million, on a seasonally adjusted basis in Q1'19, which represented a 2.2% increase on the Q4'18 figure, along with an 8.2% upsurge in YoY terms.

In comparison, the QoQ growth in consumer expenditure was more modest at 1.4%, reaching €25,866 million in Q1'19.

Total gross savings, although a very volatile series, climbed to €3,368 million, an increase of 13.7% QoQ, having declined by 5.2% in the period quarter.

Although consumer expenditure increased, savings were up more, resulting in an increase in the overall saving ratio of 1.1 percentage points in the quarter to 11.5%.

Give the uncertain economic climate and weaker consumer sentiment of late, this may be a trend which gathers momentum over the coming quarters.

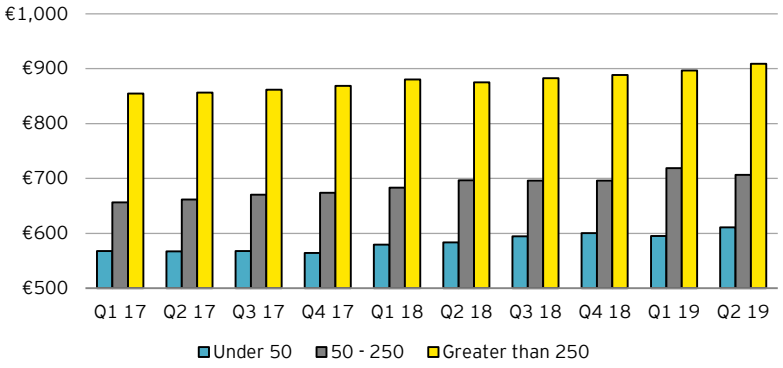
Section 3

Sectoral Indicators

Sectoral indicators

Weekly Earnings by size of Business

Figure 8: Weekly Earnings by Size of Business (€) NSA



Source: CSO (NSA)

Healthy real wage growth but small firms earn 21% less than the State average

	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19
Under 50	573.6	586.4	586.6	607.9	599.8	609.0
YoY% Change	0.7%	3.8%	5.2%	5.3%	4.6%	3.8%
50 - 250	689.3	698.0	684.3	699.7	724.9	708.5
YoY% Change	4.2%	5.3%	3.7%	3.2%	5.2%	1.5%
250 +	888.9	876.0	871.7	881.8	909.5	907.8
YoY% Change	3.0%	2.6%	2.1%	2.0%	2.3%	3.6%

Source: CSO, (NSA).

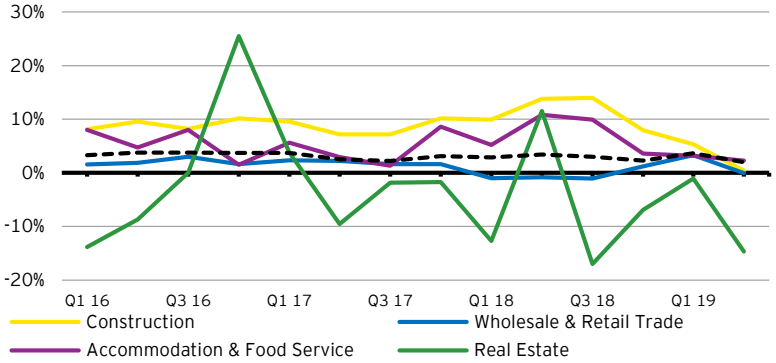
Average weekly earnings rose by 3.4% from €745.09 in Q2'18 to €771.12 in Q2'19, equating to an annual earnings figure of €40,098. This is the fifth successive quarter in which earnings increased YoY by around 3.5%. With annual inflation running currently at 0.9% in the first eight months of 2019, this corresponds to a real growth in earnings of 2.6%. This is an important factor supporting the growth in consumer spending and turnover in the SME sector over recent quarters.

When analysed by size of enterprise, the annual growth in earnings is highest for persons employed in firms with less than 50 employees (+3.8% YoY). Large enterprises reported the second highest growth in annual earnings (+3.6%), while growth was lowest for those persons employed in firms with between 50 and 250 employees (+1.5%).

Relative to workers across the economy as a whole, persons employed in large firms earned €47,206 on average in Q2'19, 17.7% above the State average, while persons employed in firms with less than 50 employees, earned €31,669 on average, 21% below the State average. Those employed in medium-sized firms earned €36,844, 8.1% below the State average.

Employment by Sector

Figure 9: Employment by Sector YoY % Change (NSA)



Source: CSO, LFS, NSA

Signs of a softening labour market in Q2'19 after 26 successive quarters of growth

YoY% Change	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19
All sectors	2.9%	3.4%	3.0%	2.3%	3.7%	2.0%
Construction	9.9%	13.8%	14.0%	7.9%	5.3%	0.4%
Wholesale and Retail Trade	-1.0%	-0.8%	-1.1%	1.2%	3.3%	-0.1%
Accommodation and Food	5.2%	10.8%	10.0%	3.6%	3.2%	2.3%
Real Estate activities	-12.7%	11.5%	-17.0%	-6.9%	-1.0%	-14.7%

Source: CSO, LFS, (NSA)

The latest Labour Force Survey results for Q2'19 show that total employment fell by 20,900 or by 0.9%, the first quarterly decline in numbers employed, following 26 successive quarters of growth since Q4'12. That said the performance of the labour market has been extraordinary with a total of 434,000 additional persons in employment over the past seven and a half years. The Q2'19 figure is also 62,400 or 2.8% higher than the peak employment recorded in Q4'07 (using SA data).

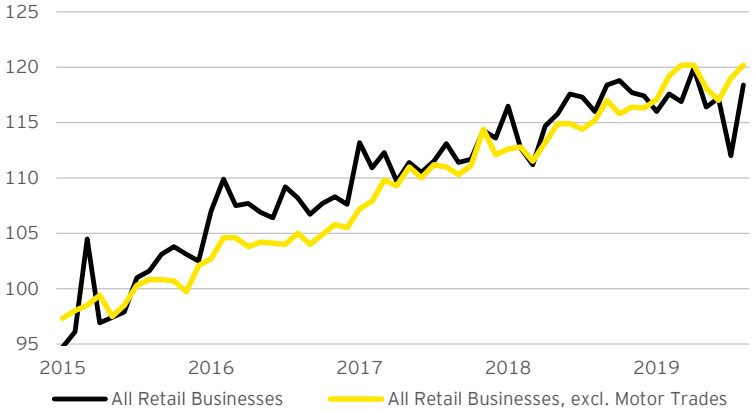
The corresponding annual growth rate in Q2'19 was 2%, the lowest annual growth rate in six years. A further 45,000 persons were employed over the year, down from the record 81,200 added over the year to Q1'19, the highest since the economic recovery commenced in 2012.

The broad distribution of the jobs growth across the sectors has been a welcome feature of the jobs recovery. This continued in Q2'19, with 11 of 14 sub-sectors recording positive annual growth. The growth in employment moderated in Construction, as well as Accommodation and Food but declined in the Wholesale and Retail sector. This softening in jobs growth may reflect the increasing risks associated with the economy and Brexit.

Sectoral indicators

Retail Sales Volume Index

Figure 10: Retail Sales Volume Index (2015 = 100) SA



Source: CSO

Core retails sales record a second consecutive robust monthly performance in August

	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
Retail Sales Index	116.9	119.9	116.4	117.2	112.0	118.4
MoM % Change	-0.6%	2.6%	-2.9%	0.7%	-4.4%	5.7%
Core Index (ex. Motor)	120.2	120.2	118.1	117.0	119.0	120.2
MoM % Change	0.8%	0.0%	-1.7%	-1,0%	1.7%	1.1%

Source: CSO (SA)

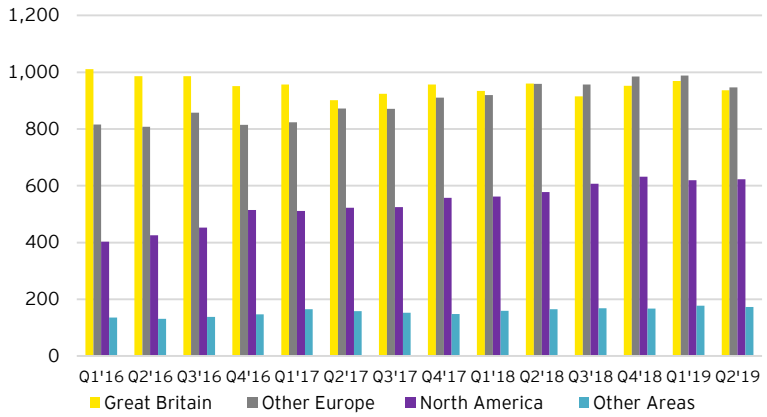
Despite the concerns around Brexit, the August retail sales figures have provided some reassurance about the underlying trends in Irish consumer spending. Core (ex-motor trades) sales recorded a second consecutive robust monthly performance, with sales volumes up 1.1% MoM in August, building on the 1.7% gain in July. The YoY growth was 4.4% in August, an acceleration from the 4.0% recorded in July.

Motor Trades were up 12% MoM but were down 3.7% YoY in August. This contributed to the overall Retail Sales index which was up by 5.7% MoM and by 2.1% YoY in August. Other factors were clearly responsible for the accelerated growth in August, such as the ongoing recovery in housing activity, which boosted sales of household equipment (+14.7% YoY) and its sub-components: electrical goods (+21.2% YoY), furniture and lighting (+8.5% YoY) and hardware, paints and glass (+8.3% YoY).

However, other categories did not perform as well, notably department stores (-6.1% YoY), sales of books, newspapers and stationery (-1.9% YoY) and bars (0.3% YoY). These trends are more consistent with the recent weak consumer sentiment, which may adversely impact sales and consumer spending in the months ahead.

Overseas Trips to Ireland

Figure 11: Overseas Trips to Ireland SA



Overseas visitors down 1.8% in Q2'19 and down 0.5% YoY in July and August

	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19
Overseas Visitors (SA)	2.54	2.69	2.66	2.72	2.74	2.69
QoQ % Change	-1.3%	6.0%	-1.0%	2.3%	0.5%	-1.8%

Source: CSO

The total number of overseas trips to Ireland was 2.69 million in Q2'19, 1.8% below the number in the previous quarter and unchanged from the same period in 2018. Great Britain was the largest source market until Q2'18 but has been overtaken by the rest of Europe since. A total of 946,600 visitors came from Europe, albeit this number declined by 4.2% QoQ and by 1.3% YoY. The numbers coming from Great Britain also declined in Q2'19 in MoM (-3.3%) and YoY (-2.5%) terms. The North American market is responsible for around 23% of visitors to Ireland and held up well in YoY terms in Q2'19 (+7.8%).

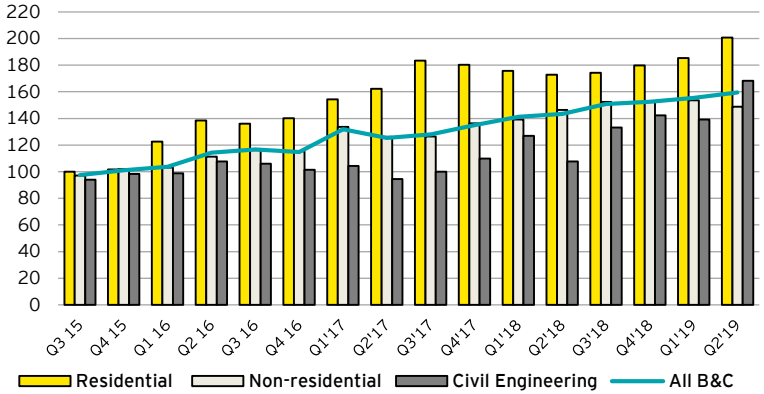
Data available for the months of July and August is not encouraging and shows the total number of overseas trips to Ireland down 0.5% on the same two months in 2018. The corresponding YoY changes for the individual markets over the same period were -0.7% for Great Britain, +0.9% for Other Europe and -1.6% from North America. It remains to be seen whether the total number of trips to Ireland will exceed the 2018 total of 10.61 million, which was up 6.8% on the 2017 figure.

Tourism is a key sector for the Irish economy, accounting for 11% of national employment and delivering €7.6bn in expenditure and €1.7bn in Exchequer revenue, according to Fáilte Ireland. Challenges in the global economy and Brexit may be impacting tourism sentiment.

Sectoral indicators

Construction Production Index

Figure 12: Construction Production Index SA (Vol. 2015 = 100)



Source: CSO. (SA)

A record performance from Civil Engineering despite a loss of momentum in PMI

	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19
All B&C (NSA)	124.5	143.0	155.8	165.4	137.7	158.7
YoY % Change	8.1%	13.9%	17.9%	12.5%	10.6%	11.0%
All B&C (SA)	141.3	143.4	150.8	152.4	155.3	159.6
QoQ % Change	4.7%	1.5%	5.2%	1.1%	1.9%	2.8%

Source: CSO

The Building and Construction (B&C) sector has continued to enjoy strong activity levels since coming off a low base in 2013. Overall production activity almost doubled in the last six years. The most recent data for Q2'19 shows production increased by 11% YoY, on a non-seasonally adjusted basis, the fifth successive quarter to record double-digit annual growth. Using SA data, production has been volatile QoQ, registering a 2.8% increase in Q2'19, up from 1.9% on Q1'19.

The latest Ulster Bank Construction PMI (SA) reported a further slight loss in momentum in construction activity growth in June'19, with the headline PMI easing by 1.8 points compared with May'19. Looking at the three main sub-sectors of activity, Civil Engineering, recorded an exceptional increase in activity in Q2'19, the highest on record for this Index. Although this series tends to be very volatile, the YoY volume increase was a record 55.8% in Q2'19 and 20.9% QoQ (SA), possibly due to the start of one or more major civil engineering projects during the quarter.

The annual growth rates for Residential building activity have moderated considerably since Q2'18, although double digit growth returned in Q2'19 (16.3%). Non-residential B&C, which would be supported by exceptional levels of office building in Dublin over the past five years, moderated sharply, with an annual growth rate of 1.3% in Q2'19, while production declined QoQ (-3.1%).

Services Index

Figure 13: Services Index (Value 2015 = 100, SA)

Source: CSO. This is an Output Value Index.

Modest changes may signal challenges for enterprises with more than 100 persons

	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
Services (SA)	124.2	123.4	124.8	125.0	127.6	128.4
MoM % Change	1.8%	-0.6%	1.1%	0.2%	2.1%	0.6%
W&R & Motor Trade (SA)	110.1	105.7	105.8	105.1	106.8	106.1
MoM % Change	2.6%	-4.0%	0.1%	-0.7%	1.6%	-0.7%

Source: CSO. (SA): Index covers non-financial traded services. This index covers all enterprises with a turnover of over €20m and more than 100 persons engaged.

The overall value increases in output in the Services sector have been modest over recent quarters, with a 0.6% MoM increase registered in July'19 on a seasonally-adjusted basis. The performance of the Wholesale and Retail Trade has been less impressive, with the third MoM decline recorded in five months. Important to note that volume changes in output would be lower again.

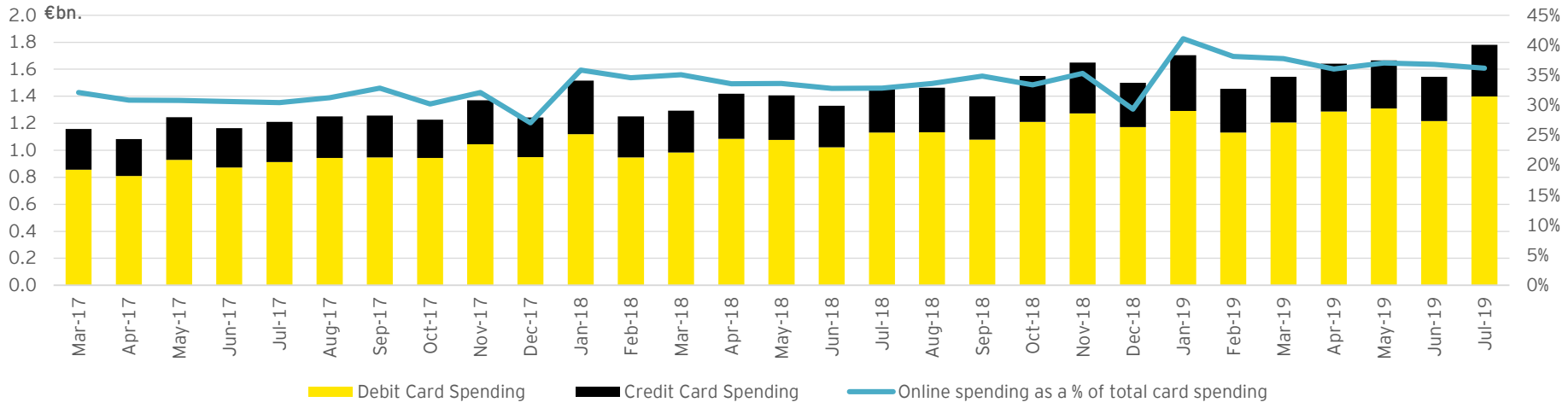
A more detailed review of the components of the overall Services index, shows the best performances MoM in July'19 were from Transportation and Storage (8.6%) and Accommodation (6.2%). However, there was a decline MoM in Food Services (-3.9%), while the value of output from Information and Communication was also down MoM (-0.5%), albeit it increased on an annual basis by 31.8%.

These trends, given that they relate to enterprises employing more than 100 persons, and thus would comprise a proportion of medium sized and large enterprises, suggest that the current challenges which exist for businesses are not just at the micro and small end of the enterprise scale spectrum.

Sectoral indicators

Credit and Debit Card spending (e-commerce)

Figure 14: Credit and Debit Card Spending, online (NSA)



Source: Central Bank of Ireland

E-commerce spending is growing strongly, representing 36% of total card spending

E-Commerce *(€ millions)*	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
Online Debit Card Spending	1,131	1,207	1,287	1,310	1,216	1,399
YoY % Change	19.4%	22.6%	18.7%	21.7%	19.1%	23.5%
As % of Total Debit Card Spending	35.9%	35.7%	34.2%	35.2%	35.0%	34.3%
Online Credit Card Spending	324.0	337.8	354.6	355.4	328.1	382.7
YoY % Change	6.8%	9.5%	6.3%	7.6%	6.5%	16.9%
As % of Total Credit Card Spending	48.5%	47.9%	45.2%	46.1%	45.3%	45.0%
Total Online Card Spending	1,455	1,545	1,642	1,665	1,544	1,782
YoY % Change	16.4%	19.5%	15.7%	18.4%	16.2%	22.1%
As % of Total Card Spending	38.2%	37.8%	36.1%	37.1%	36.8%	36.2%

Source: Central Bank of Ireland

The total e-commerce expenditure increased on an annual basis by 22.1% in July to €1.78 billion. Of this total €1.4 billion and €0.38 billion is attributed to debit and credit card spending respectively. E-commerce accounted for 34.3% of all debit card spending and 45% of all credit card spending (excluding business credit cards).

In July'19, total online debit card spending rose 23.5% YoY to €1.4 billion and credit card spending rose 16.9% YoY to € 0.38 billion. In the previous month the YoY growth for debit card and credit card was 19.1% and 6.5% respectively. Debit card spending has recorded double digit YoY growth for 29 months in a row and is substantially higher than the corresponding growth in credit card spending.

Growth in debit card Point of Sale (PoS) expenditures was recorded across all categories, with spending on retail up 8.5% (€152 million), on services up by 14.8% (€121 million) and on restaurants and entertainment up by 17.2% (€65 million) YoY in July 2019.

Credit card spending also experienced growth in all the main sub-categories. Total spending on retail rose by 6.5% YoY, while spending on services grew by 11.6% and on restaurants and entertainment) by 10.6%.

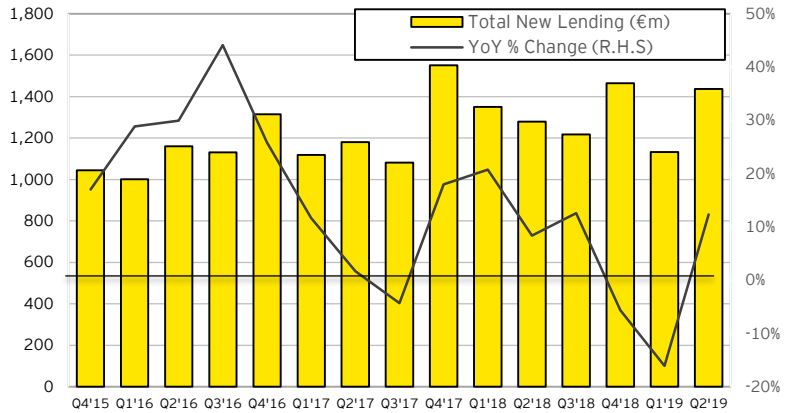
Section 4

Lending indicators

Lending indicators

New Lending to SMEs

Figure 15: New Lending to SMEs (€m) and YoY Rate of Change



Source: Central Bank

New lending to SMEs records a healthy increase in Q2'19

	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19
Total New Lending (€m)	1,350	1,279	1,218	1,464	1,133	1,437
YoY % Change	20.8%	8.4%	12.6%	-5.6%	-16.1%	12.4%

Source: Central Bank *Total lending ex Financial Intermediation

Following two quarters in which the level of gross new lending to SMEs declined YOY, it recovered strongly in Q2'19, reaching €1.44 billion in the quarter, the second highest level in the last six quarters, generating a YoY increase of 12.4%. However, the running annual total was €5.25 billion in Q2'19, almost unchanged from the corresponding annual total in Q2'18 (€5.26bn).

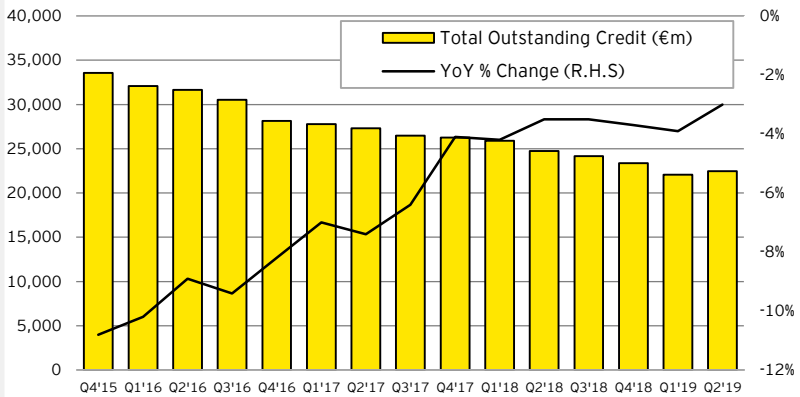
The sectors to record the highest increase in absolute terms in Q2'19 when compared with Q2'18 were as follows: –

- Hotels and Restaurants – increased new lending by €62 million YoY in Q2'19 or by 100%
- Other Community, Social and Personal services increased their new lending YoY by €41 million in Q2'19 or by 74.5%
- Business and Administrative services recorded an increase of €29 million or by 50.9%.
- These sectors were followed by Construction (+€23m YoY or by 76.7%) , Wholesale and Retail Trade (+€12m YoY or by 7.2%) and Real Estate (+€9m or by 2%).

The value of total gross new lending to the above six sectors in Q2'19 was around €1 billion or 70% of the total of €1.44 billion lent in the quarter.

Outstanding Credit to SMEs

Figure 16: Outstanding Credit (€m) and YoY Rate of Change



Source: Central Bank: *Total outstanding credit ex Financial Intermediation

Outstanding credit to SMEs continues to decrease

	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19
Total Outstanding Credit (€m)	25,885	24,752	24,163	23,385	22,062	22,476
Quarterly change (€m)**	-341	4	-549	-54	-351	202
Annual Growth (%)**	-4.2%	-3.5%	-3.5%	-3.7%	-3.9%	-3.0%

Source: Central Bank **Data relates to Transactions and the growth rates in the credit outstanding amount that takes account of adjustments in debt reclassifications, foreign exchange revaluations and other revaluations

The total outstanding stock of SME credit on the balance sheet of Irish banks was €22.5 billion in Q2'19. The level of borrowing outpaced repayments in Q2 with net lending to Irish SMEs at €202 million, the largest increase since Q3'11.

With an overall decline in credit advanced to SMEs of 3% YoY in Q2'19, seven of the fourteen sectors (excluding Financial Intermediation) under examination, recorded YoY declines in net lending.

Real estate remained the largest sector for outstanding credit accounting for 33.1% of credit, down from 34.3% a year earlier. Agriculture and manufacturing increased their shares of SME credit outstanding over that period from 13.3% and 5.2% to 14.3% and 5.7%, respectively.

Wholesale/retail trade & repairs and hotels and restaurants each accounted for more than one-tenth with 14.2% and 10.2% of outstanding credit, respectively.

Indicators - Data sources

Indicators – Data sources

Indicator		Source	Frequency
Sentiment Indicators			
1	Consumer Sentiment Index	KBC	Monthly
2	Purchasing Managers' Index	AIB	Monthly
Macroeconomic Indicators			
3	Domestic Demand	CSO National Accounts	Quarterly
4	Unemployment	CSO	Quarterly
5	Exchequer Tax Receipts	Department of Finance	Monthly
6	Disposable Income	CSO	Quarterly
Sectoral Indicators			
7	Earnings by Business Size	CSO	Quarterly
8	Employment by sector (QNHS)	CSO	Quarterly
9	Retail Sales Volume Index	CSO	Monthly
10	Overseas Trips to Ireland	CSO	Quarterly
11	Building and Construction Production Index	CSO	Quarterly
12	Services Index	CSO	Monthly
13	Credit and Debit Card Spending (Online)	Central Bank	Monthly
Lending Indicators			
14	New Lending to SMEs by sector	Central Bank	Quarterly
15	Outstanding SME debt by sector	Central Bank	Quarterly

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