



BPFI SME Market Monitor

Final Report

8th March 2019

Unprecedented uncertainty from Brexit finally affecting SMEs

Since the 2016 Brexit referendum, Ireland has weathered the initial uncertainty from the vote, maintaining its position as the fastest growing economy in Europe. However, it is clear that since our last review of the SME environment, the continued uncertainty surrounding Brexit negotiations in the lead up to the March 29th deadline, seems finally to have negatively affected the Irish SME sector.

This is particularly evident from recent trends in the KBC/ESRI Consumer Sentiment Index. In the midst of continued improvements in disposable income and widespread job opportunities, consumer confidence since July last year has fallen off considerably, as the likelihood of either a No Deal Brexit or an extension to Article 50 have progressively increased. In line with previous surveys, the weakest element of the February index was consumers' outlook for the Irish economy, as more consumers expected weaker rather than stronger conditions to prevail in the upcoming year, with Brexit the likely source of such pessimism. Notably, the share of consumers expecting unemployment to rise in the coming year jumped considerably while the number expecting further improvements labour market conditions also fell.

Considering such concerns, there is evidence that Brexit is already affecting sectors where SMEs tend to operate, as consumers struggle to balance the possibility of a disorderly No Deal Brexit or an extension to Article 50 with the reality of favourable macroeconomic conditions. Retail sales were down on a monthly basis for the third month running in January, with a particularly high number of individual retail categories recording monthly decreases in a period normally associated with high consumer spending. The individual retail categories to record a monthly decline included Motor Trades (-2%), Fuel (-0.6%), Department Stores (-0.5%), Specialised Stores (-0.4%), Bars (-0.3%), and Electrical Goods (-0.1%), with such declines likely to be driven by consumers' anxiety towards Brexit.

Although the Accommodation and Food sector, which would include bars, hotels, and restaurants, continues to benefit from overseas visitors coming to Ireland, visitor numbers from Great Britain continue to drop off, with year-on-year growth down in three of the four quarters of 2018. As a result, tourists coming from mainland Europe now account for the largest share of overseas visitors, a position previously held by Great Britain.

The impact of Brexit is also evident from the latest AIB Manufacturing PMI, which shows that the sector has begun preparations in the event of supply chain disruptions from UK suppliers. Such preparations saw pre-production inventories rise at its fastest rate in the 21-year series history, while purchasing activity among Irish manufacturers increased at its fastest rate in over 19 years. Furthermore, optimism in the sector slipped to its lowest level in 18 months. Together, these trends suggest that the increased uncertainty regarding Brexit negotiations, seems to already have had a negative impact on Irish SMEs.

Such trends come on the back of concerns that Ireland's budgetary situation is not as stable as the traditional Debt to GDP figure would suggest. Government debt as a percentage of GDP stood at 68.8% in Q3'18, representing a considerable drop on the peak of 124.6% in Q1'13. However, when government debt is measured as a percentage of Modified Gross National Income (GNI*), Ireland's budgetary position worsens considerably. The Department of Finance forecasts that the Debt to GNI* ratio will be 105.2% by the end of 2018, with this ratio expected to fall to 84.5% by 2023. In the event of a slowdown in the Irish economy, therefore, the public finances could be in a vulnerable position, potentially affecting the funding commitments of vital SME government supports and restricting the government's ability to assist SMEs.

However, the Irish economy begins the year from a position of strength, from a macroeconomic perspective, despite the downside risks of a possible slowdown in the Eurozone economy (the destination for the bulk of Irish exports), and a potential No Deal Brexit or even an extension to Article 50. Irish households continue to experience modest increases in disposable incomes, while labour market conditions are rapidly approaching full employment levels. Furthermore, total new lending to SMEs at €1.22 billion in Q3 2018, represented substantial double digit growth on the corresponding figure in Q3 2017, while the latest Bank Lending Survey from the Central Bank of Ireland points to increased loan demand from SMEs.

Ultimately, the prospect of a No Deal Brexit occurring or indeed an extension of Article 50 in tandem with a slowdown in some of the Eurozone's largest economies remains a serious downside risk. As a consequence, and notwithstanding Ireland's strong macroeconomic performance, a great deal of caution is warranted in regard to the short term outlook.

Introduction

This is the sixteenth publication of the BPF SME Market Monitor, prepared for the Banking & Payments Federation Ireland (BPF). 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 exists 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 BPF SME Market Monitor. Unadjusted data are analysed on a year-on-year (YoY) basis.

This publication appears in electronic form on BPF'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 4th March 2019.

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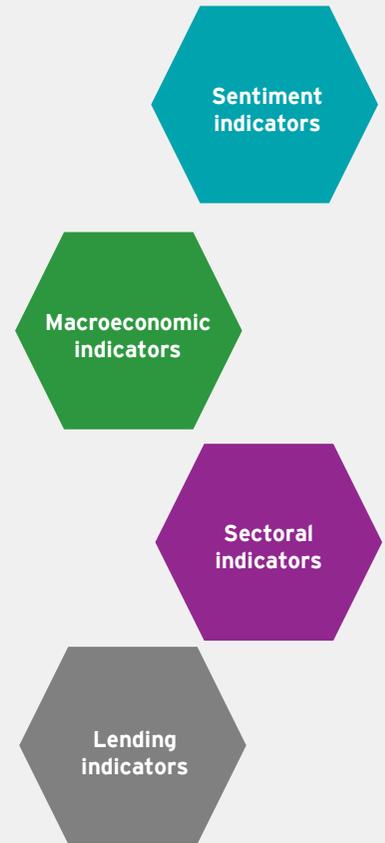
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Note: Where possible, all year-on-year changes reflect annual changes in non-seasonally adjusted figures, while quarterly changes reflect changes in seasonally adjusted figures.



Indicator	Latest Trends	Highlight	Level	MoM % Change	QoQ % Change	YoY % Change	Date
Consumer Sentiment		Consumer sentiment fell sharply in February	86.5	All five elements of the index posted clear monthly declines			Feb-19
Manufacturing PMI		Substantial increase in inventory purchasing due to Brexit preparations	54	Optimism falls to a 18 month low			Feb-19
Modified Domestic Demand		Annual growth in GDFCF continues to ease	€43,212m	-	-0.6%	-1.5%	Q3'18
Unemployment rate		Unemployment rate unchanged on previous quarter	5.7%	-	0.0pp	-0.7pp	Q4'18
Disposable Income		Savings ratio remains in double digit figures	€28,029m	-	+1.5%	+4.8%	Q3'18
Employment		50,500 new jobs created in 2018	2.28m	-	+0.4%	+2.3%	Q4'18
Exchequer Returns		Corporation Tax records largest YoY increase	€55,557m	-	-	+9.5%	2018
Retail Sales		Retail sales down for 3 rd month running	115.6	-1.2%	-	+0.7%	Jan-19
Retail Sales excl. Motor Trades		Index expands when car sales are removed	117.1	+0.7	-	+4.3%	Jan-19
Overseas Trip		YoY decline in visitors numbers from Great Britain	2.73m	-	+3.0%	+6.1%	Q4'18
Construction Production		Output expands by double digit figures	170.3	-	+1.7%	+15.9%	Q3'18
Services		The Service Index rebounds in January	120.5	+2.9%	-	+8.2%	Jan-19
Credit and Debt Card spending (Online)		Total e-commerce spending up €264m YoY	€1,601m	-	-	+19.7%	Dec-18
New SME Lending		New lending to SMEs up €136m YoY	€1,218m	-	-	+12.6%	Q3'18

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.

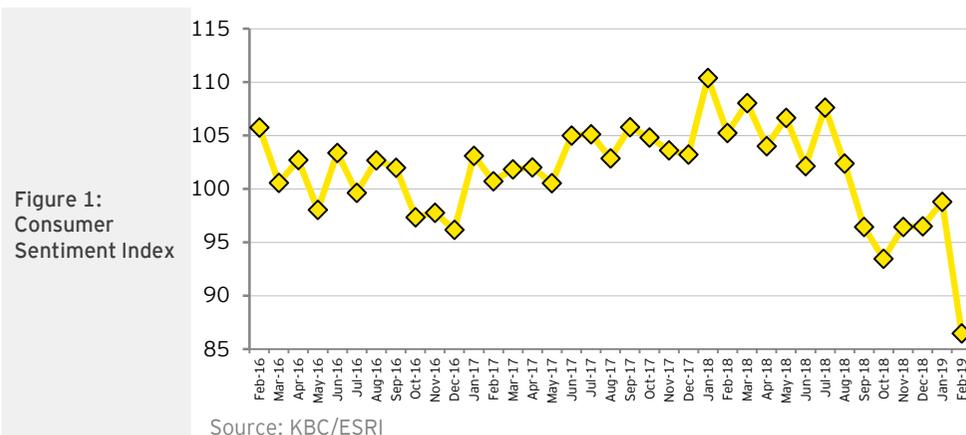


Section 1

Sentiment Indicators

Sentiment indicators

Consumer Sentiment Index



Irish consumer sentiment fell sharply in February, amid continued Brexit uncertainty

	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
Monthly Index	96.4	93.5	96.5	96.5	98.8	86.5
Annual change in the level	-9.4	-11.4	-7.2	-6.7	-11.6	-18.8
Monthly change in the level	-6.0	-3.0	3.0	0.1	2.3	-12.3
3 month moving average	102.2	97.4	95.4	95.5	97.3	93.9

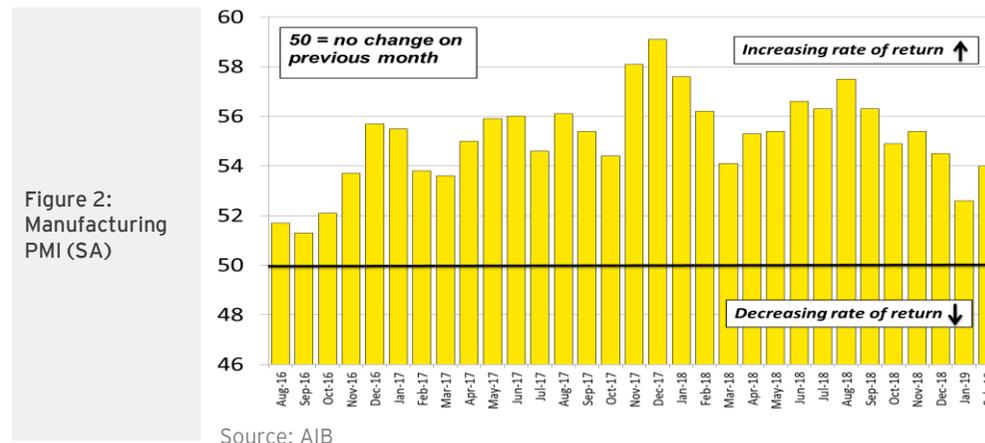
Source: KBC/ESRI

The KBC/ESRI Consumer Sentiment Index fell considerably from 98.8 in January to 86.5 in February, as all five elements of the index posted clear monthly declines.

The share of consumers expecting unemployment to rise in the coming year jumped considerably from 22% to 37%, while the number expecting an improvement in labour market conditions fell from 40% to 22%. Such trends were credited to growing fears that the UK could leave the EU without a deal, following a series of votes in the British parliament during the survey period. It was also noted that the nurses' strike and the children's hospital controversy may have reminded consumers about previous industrial relations turbulence and issues with managing public finances.

Households only modestly altered their assessments of how their own finances had changed in the past year, while their expectations for improvements in their personal finances in the coming year fell considerably. This suggests that the reality of consumers' current circumstances hasn't fundamentally changed, albeit their outlook has materially worsened.

Manufacturing PMI



Optimism in the sector slipped to its lowest in 18 months, primarily due to Brexit

	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
PMI (SA)	56.3	54.9	55.4	54.5	52.6	54.0
Monthly Change	-1.2	-1.4	0.5	-0.9	-1.9	1.4

Source: AIB

The AIB Ireland Manufacturing PMI Index rose from 52.6 in January to 54 in February, recovering from a two-year low in the previous month. Output, employment and stocks all rose considerably, primarily driven by increased demand from domestic, UK and US clients.

In order to guard against any delays from UK suppliers due to Brexit, pre-production inventories rose at their fastest rate in the 21-year series history, while purchasing activity among Irish manufacturers increased in February at the fastest rate in over 19 years. Post-production inventories climbed to a 13-month high, as some firms moved to take action to avoid possible disruption to supply chains. Furthermore, optimism in the sector slipped to its lowest level in 18 months.

A slowdown in the Eurozone economy, which is the destination for the bulk of Irish exports, and the increasing possibility of a No Deal Brexit, are obvious downside risks for the Irish economy, and the Manufacturing sector in 2019.



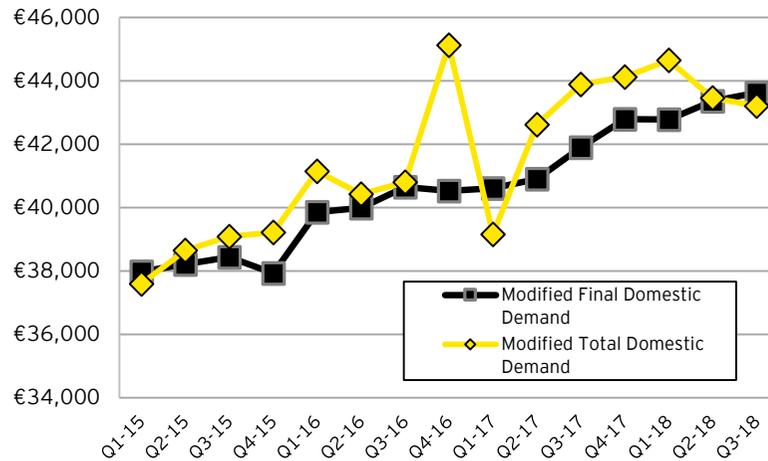
Section 2

Macroeconomic indicators

Macroeconomic indicators

Modified Domestic Demand

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



Source: CSO, National Accounts (SA)

Year-on-Year growth in Modified GDFCF continued to ease in 2018

	Q2-17	Q3-17	Q4-17	Q1-18	Q2-18	Q3-18
Modified Total Domestic Demand (€m) (SA)	42,616	43,889	44,124	44,646	43,467	43,212
QoQ % Change	8.8%	3.0%	0.5%	1.2%	-2.6%	-0.6%
Modified Total Domestic Demand (€m) (NSA)	41,251	44,572	44,948	44,542	42,064	43,917
YoY % Change	5.2%	7.7%	-2.2%	14.0%	2.0%	-1.5%

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.

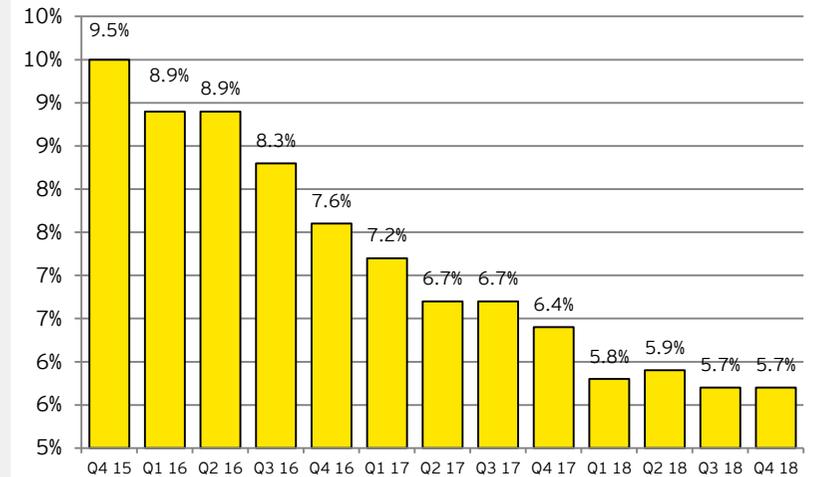
Modified Total Domestic Demand experienced a quarterly decline of 0.6% in Q3 2018, implying that domestic activity has fallen on a quarterly basis in each of the last two quarters.

Of the three components that make up domestic activity, Government Expenditure was the fastest growing, with year-on-year growth up 6.1% (NSA). This was followed closely by Modified Gross Domestic Fixed Capital Formation (GDFCF), with annual growth of 5.6%, while Consumer Expenditure also recorded solid annual growth of 2.9%.

The 5.6% growth in Modified GDFCF was predominantly driven by a rise in Building & Construction investment, following exceptional annual growth of 18.4% or €1.05 billion. The other component, Machinery & Equipment investment, excluding aircraft leasing, registered a considerable decline of 15.5% or €431 million relative to Q3 2017.

Unemployment Rate

Figure 4:
Unemployment
Rate (SA)



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

The latest monthly unemployment rate was 5.3% as of January 2019

	Q3-17	Q4-17	Q1-18	Q2-18	Q3-18	Q4-18
Rate (SA)	6.7%	6.4%	5.8%	5.9%	5.7%	5.7%
Number (000s SA)	155.8	151.2	137.6	139.7	135.8	135.9
Rate (NSA)	6.9%	6.1%	5.7%	6.0%	6.0%	5.4%
Number (000s NSA)	163.5	144	132.9	144.3	143.8	128.8

Source: CSO, Labour Force Survey (LFS)

The seasonally adjusted unemployment rate was 5.7% in Q4 2018, with the total number of persons unemployed amounting to 135,900. This equated to a marginal increase of 100 compared to the previous quarter. On a non-seasonally adjusted basis, unemployment was down 15,200 compared to Q4 2017.

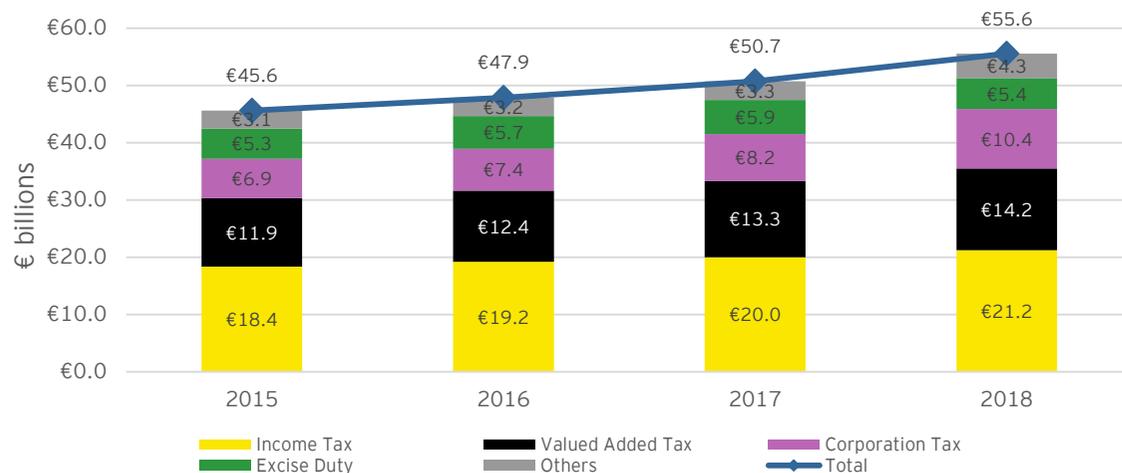
The latest monthly unemployment rate (SA) in January was 5.3%, unchanged from December 2018. In total, 127,300 people were unemployed in January 2019, representing a decline of 600 relative to the previous month.

As the economy rapidly approaches full employment, other challenges emerge in a tight labour market, notably wage pressures, which in turn could drive up housing and rental prices. Low headline inflation should mean that consumers should have more disposable income, boosting the personal spending in the economy, which should be good for SMEs. However we have seen that Brexit is adversely impacting consumer sentiment, which may result in a more cautious consumer in the short term at least.

Macroeconomic indicators

Exchequer Tax Receipts

Figure 5: Composition of Exchequer Tax Receipts, 2015-2018, € (billion)



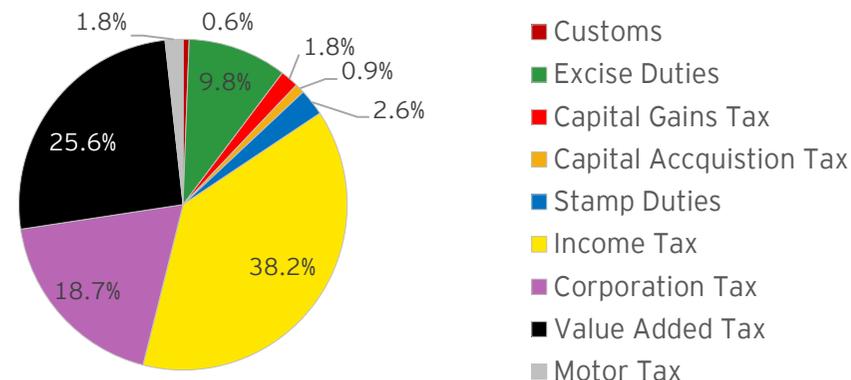
Source: Department of Finance

Additional receipts from Corporation Tax are welcome, but reliance on this tax stream brings risks

(€m)	Total Tax Revenue 2018 (€m)	% Share of Total Tax Revenue 2018	Percentage point change in Share 2018 vs 2017	% change in outturn 2018 vs 2017	Jan 19 Outturn (€m)	% change in outturn Jan 19 vs Jan 18
Total Tax Revenue	€55,557	100.0%	-	9.5%	€5,370	7.0%
<i>of which:</i>						
Customs	€333	0.6%	-0.1	+0.5%	€27	161%
Excise Duties	€5,418	9.8%	-1.9	-8.6%	€464	97%
Capital Gains Tax	€994	1.8%	+0.2	+20.2%	€73	118%
Capital Acquisition Tax	€522	0.9%	0.0	+13.7%	€14	109%
Stamp Duties	€1,453	2.6%	+0.2	+20.7%	€141	114%
Income Tax	€21,242	38.2%	-1.2	+6.2%	€1,906	109%
Corporation Tax	€10,385	18.7%	+2.5	+26.6%	-€102	-409%
Value Added Tax	€14,234	25.6%	-0.6	+7.0%	€2,753	113%
Motor Tax	€977	1.8%	N/A	N/A	€95	N/A

Source: Department of Finance

Figure 6: Composition of Exchequer Tax Receipts, 2018 (% of total)



Total tax revenue amounted to €55,557 million in 2018, which was 9.5% or €4,821 million higher than the corresponding tax take in 2017.

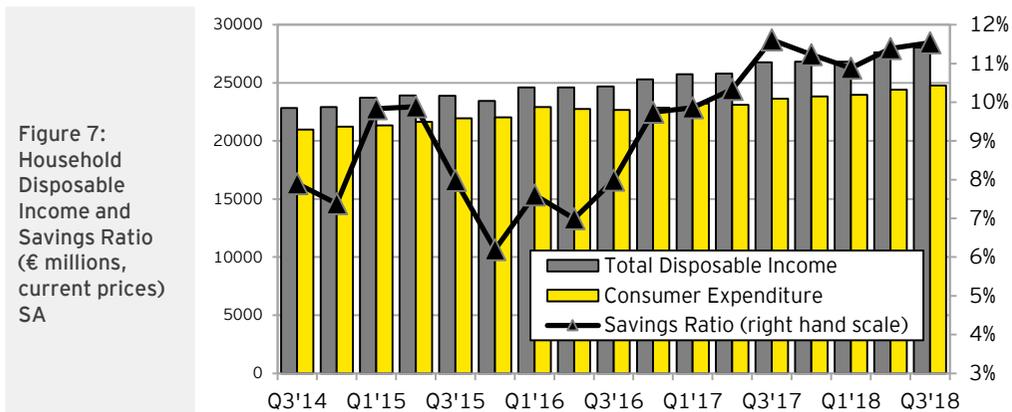
Income Tax was the largest revenue stream for the State, accounting for just under 40% of total (Exchequer) taxation last year, albeit this represented a slight decline of 1.2 percentage points on its corresponding share in 2017. In absolute terms, income tax receipts amounted to €21,242 million, representing an increase of 6.2% relative to the previous year. Income tax receipts are projected to amount to €22,905 million in 2019, just under 8% higher than 2018 levels.

The **tax revenue stream** which registered the largest increase in its share of the overall tax base was Corporation Tax, with its contribution increasing from 16.2% in 2017 to 18.7% in 2018, the largest increase by a considerable margin. With the exception of Excise Duties, all tax revenue streams were higher relative to the previous year, with the largest year-on-year increases seen in Corporation Tax (+26.6%), Stamp Duties (+20.7%), Capital Gains Tax (+20.2%), and Capital Acquisition Tax (+13.7%).

Although additional receipts from Corporation Tax are welcome, the fact that just ten companies contributed more than one-third of this total and the vast majority (70%) is paid by the top 100 companies operating in Ireland, means that a continued reliance on this tax stream is a high-risk strategy for the public finances. Moreover, the increased risks of a global slowdown together with the lack of clarity over Brexit could adversely affect their turnover as well as turnover in the SME sector more generally.

Macroeconomic indicators

Disposable Income and Savings



Source: CSO. *Consumption Expenditure (CE) here excludes Government social transfers which are included in the CE definition for National Accounts purposes

Savings ratio in double digit figures in Q3 2018 for 6th quarter in a row

	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18
Total Disp. Income	25,803	26,753	26,826	26,823	27,610	28,029
QoQ % Change	0.3%	3.7%	0.3%	0.0%	2.9%	1.5%
Consumption Exp.	23,117	23,625	23,840	23,965	24,421	24,781
QoQ % Change	-0.5%	2.2%	0.9%	0.5%	1.9%	1.5%
Gross Saving	2,666	3,106	3,013	2,919	3,143	3,234
QoQ % Change	5.1%	16.5%	-3.0%	-3.1%	7.7%	2.9%
Savings Ratio	10.3%	11.6%	11.2%	10.9%	11.4%	11.5%

Source: CSO (SA).

Total disposable income increased to €28.0 billion in Q3 2018, up 1.5% on the previous quarter. In the year to date (to Q3 2018), total disposable income amounted to €82.5 billion, representing an increase of 5.3% or €4.2 billion on the corresponding figure in 2017. Likewise, consumer expenditure was up in the year to date, increasing by 4.6% or €3.2 billion.

Total gross savings came to €9.3 billion in the year to date following a significant increase of 11.9% or €987 million compared to the previous year. The upward trend in the savings ratio continued in this quarter, with the ratio at 11.5% in Q3 2018. The savings ratio has increased on a quarterly basis in each of the last two quarters.

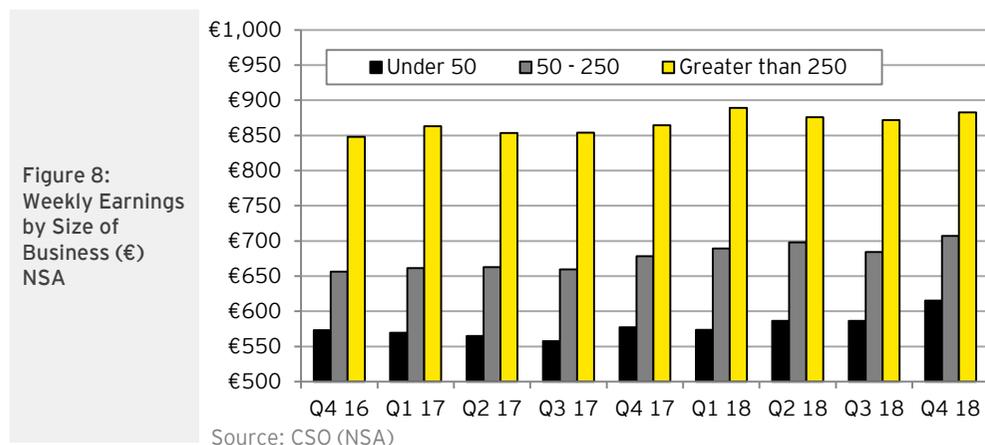


Section 3

Sectoral Indicators

Sectoral indicators

Weekly Earnings by size of Business



The earnings gap between large and small firms narrowed in the past year

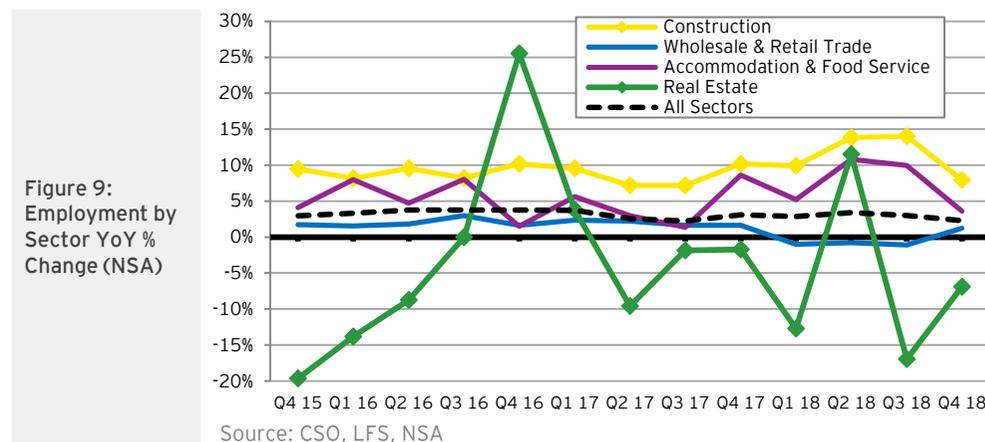
	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18
Under 50	557.5	577.3	573.6	586.4	586.6	615.4
YoY% Change	1.0%	0.7%	0.7%	3.8%	5.2%	6.6%
50 - 250	659.6	678.2	689.3	698.0	684.3	707.0
YoY% Change	2.3%	3.3%	4.2%	5.3%	3.7%	4.2%
250 +	854.0	864.5	888.9	876.0	871.7	882.9
YoY% Change	2.1%	1.9%	3.0%	2.6%	2.1%	2.1%

Source: CSO, (NSA).

Average weekly earnings in the Irish economy rose to €761.7 or €39,606 per annum in Q4 2018, following robust annual growth of 4.1%. This was the highest rate of growth since records began in 2008, signalling a tight labour market as competition for jobs intensifies.

A breakdown of the data shows that earnings in small companies with 50 employees or less, experienced the strongest rate of growth at 6.6% in Q4 2018, with earnings growth accelerating in each of the last four quarters. For the year as a whole, earnings in small companies were up 4.1% relative to 2017. Average earnings in medium sized companies (50 - 250 employees) rose to €707 per week or €36,762 in Q4 2018, up 4.2% compared to Q4 2017. Earnings in large businesses, with more than 250 employees, rose to €882.9 per week or €45,913 per annum, following relatively modest growth of 2.1% in the quarter.

Employment by Sector



Exceptional jobs growth with 50,500 new jobs created in the Irish economy in 2018

YoY% Change	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18
All sectors	2.2%	3.1%	2.9%	3.4%	3.0%	2.3%
Construction	7.2%	10.2%	9.9%	13.8%	14.0%	7.9%
Wholesale and retail trade	1.6%	1.6%	-1.0%	-0.8%	-1.1%	1.2%
Accommodation and food	1.4%	8.6%	5.2%	10.8%	10.0%	3.6%
Real estate activities	-1.9%	-1.7%	-12.7%	11.5%	-17.0%	-6.9%

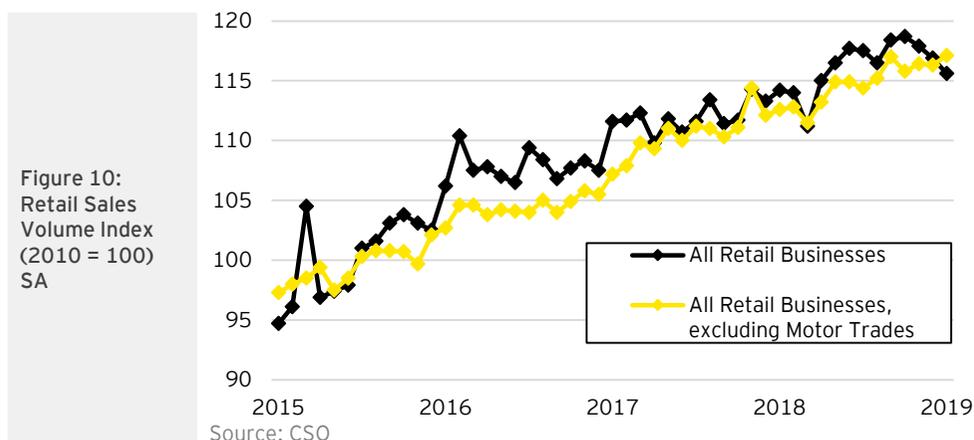
Source: CSO, LFS, (NSA)

Labour market conditions consistently improved in 2018, as overall employment increased on annual basis by 50,500, to reach 2.28 million in Q4 2018. Of the 50,500 new jobs created over the last year, 38% or 19,400 were in the four sectors with the greatest concentration of SMEs, highlighting the significance of SMEs in the labour market.

Of these four sectors, the Construction sector recorded the largest year-on-year increase, with annual growth up 7.9%, while the industry also accounted for 21% of the new jobs created last year. The Accommodation and Food sector, which would predominantly consist of hotels, pubs and restaurants, registered an annual increase of 3.6%, albeit this was considerably lower compared to the corresponding rate of growth last year (+8.6%). Wholesale and Retail Trade recorded modest employment growth of 1.2% in the quarter, while employment in Real Estate activities was down 6.9% relative to Q4 2017.

Sectoral indicators

Retail Sales Volume Index



Sales in Motor Trades down for the third month running

	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Retail Sales Index	116.5	118.4	118.7	117.9	116.9	115.6
MoM % Change	-0.8%	1.6%	0.2%	-0.7%	-0.8%	-1.2%
Index ex. Motor	115.2	117.0	115.8	116.4	116.3	117.1
MoM % Change	0.7%	1.6%	-1.0%	0.5%	-0.1%	0.7%

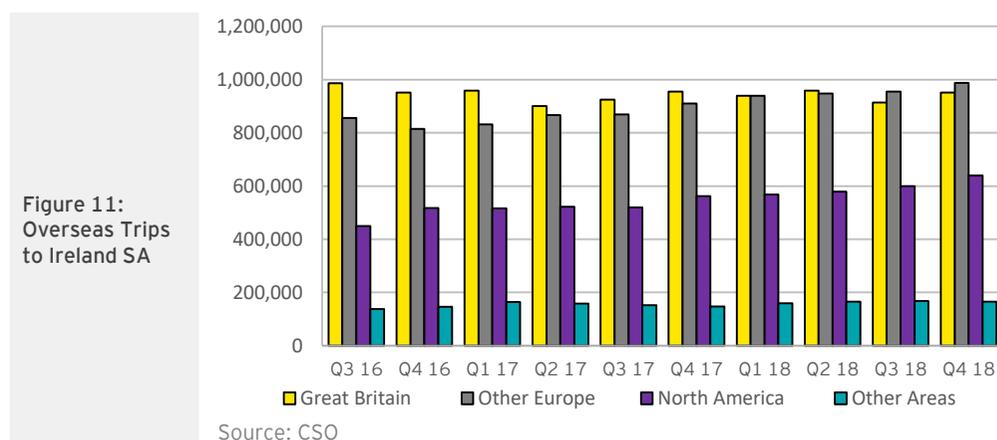
Source: CSO. (SA)

The Retail Sales Index declined on a monthly basis by 1.2% in January, albeit, when car sales are excluded, the Index was actually 0.7% higher than the previous month. This implies that overall retail sales have now fallen in each of the last three months.

A closer examination of the data shows that just under half of all individual retail categories recorded monthly decreases in sales in January. Relative to previous years, this is particularly high in a period normally associated with high consumer spending, with such declines likely to be driven by consumers' anxiety in regards to Brexit. The individual retail categories to record a monthly decline included Motor Trades (-2%), Fuel (-0.6%), Department Stores (-0.5%), food, beverages and tobacco in specialised stores (-0.4%), Bars (-0.3%), and Electrical Goods (-0.1%).

That said, on a non-seasonally adjusted basis, the Index was up by 0.7% when compared to January 2017, while for 2018 as a whole retail sales were 3.7% higher than 2017. When car sales are excluded, the corresponding growth rates were 4.3% and 3.7% respectively.

Overseas Trips to Ireland



Visitors from mainland Europe have overtaken the numbers coming from Great Britain

	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18
Overseas Visitors (SA)	2.47	2.58	2.54	2.68	2.65	2.73
QoQ % Change	0.3%	4.4%	-1.3%	5.5%	-1.1%	3.0%

Source: CSO. (SA)

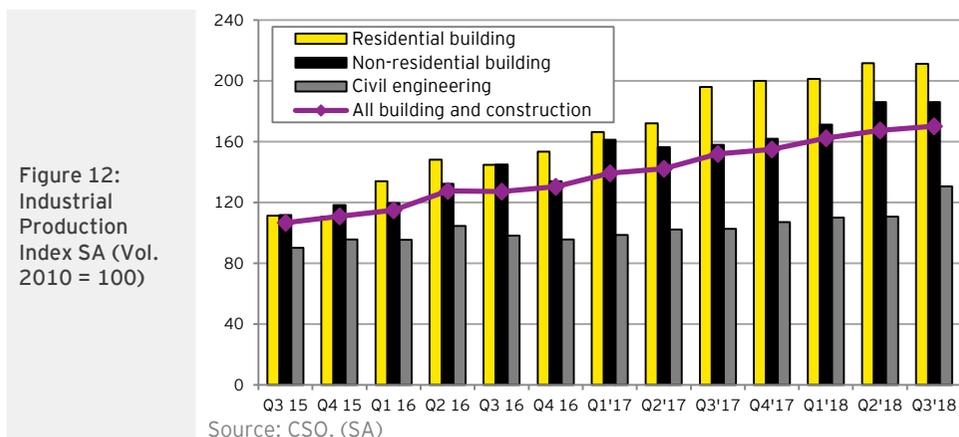
The total number of trips to Ireland by overseas residents rose to 2.73 million in Q4 2018, equating to a year-on-year increase of 6.1% or 156,400. This implies that a total of 10.6 million overseas visitors came to Ireland in 2018, up 6.8% relative to 2017.

However, the level of uncertainty associated with Brexit and the sterling/euro exchange rate volatility which transpired following the Referendum has negatively affected the number of tourists coming from Great Britain (GB), with annual growth down in three of the four quarters of 2018. As a result, visitors coming from Mainland Europe now account for the largest share of overseas visitors. Given that the average spend by visitors from Great Britain is €274 per trip, such a trend will be a concern for those SMEs reliant on the tourism industry. Taking the decline in GB visitor numbers between Q3 2016 and Q3 2018, this corresponds to a potential reduction in direct expenditure of €20 million.

In contrast, visitor numbers coming from North America and Mainland Europe, continued to experience exceptional year-on-year growth, increasing by 8.6% and 13.8% respectively in Q4 2018.

Sectoral indicators

Construction Production Index



Residential building fails to grow by double digit figures, for first time since Q4 2015

	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18
All building and construction NSA	144.7	158	164.4	139.3	170.1	183.2
YoY% Change	11.5%	17.3%	20.8%	13.8%	17.6%	15.9%
All building and construction SA	142.4	152	154.9	162.4	167.5	170.3
QoQ % Change	2.2%	6.7%	1.9%	4.8%	3.1%	1.7%

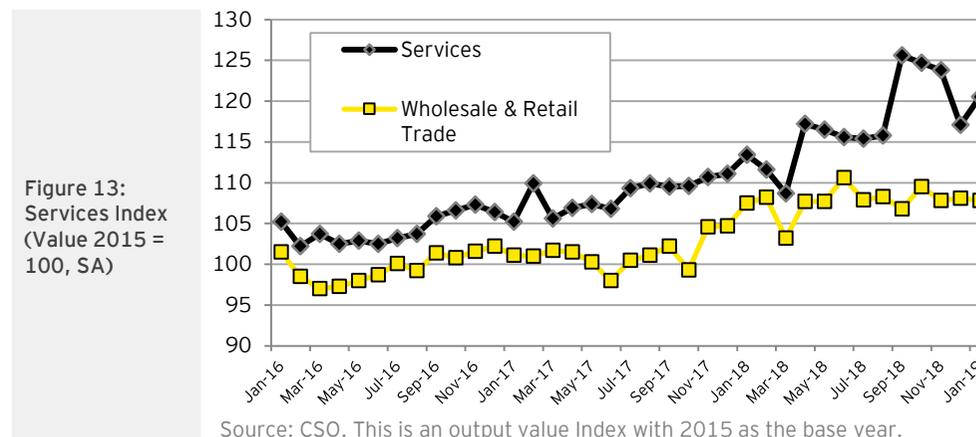
Source: CSO.

The B&C Production Index continued to register double digit growth in 2018, with Q3'18 recording substantial yearly growth of 15.9%, on a non-seasonally adjusted basis. Despite such growth, output in the industry still remains 54.1% off its previous peak in Q4 2006.

Of the three components that make up the Index, Civil Engineering was the fastest growing sector, up 26.6% on the previous year. There was also strong double digit growth of 17.5% in Non-Residential building activity. Residential building grew by 8% in Q3 2018, albeit this was the first quarter since Q4'15 where output failed to expand by double digit figures.

The Ulster Bank Construction PMI posted a reading of 54.6 in January, which was below the 56.3 reading in December, while the pace of growth slowed to a three-month low. Furthermore, employment growth in the Irish construction industry eased to a four-month low during January. Despite such trends, sentiment in the sector improved to a three-month high.

Services Index



Service Index rebounds in January, following three consecutive months of decline

	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Services	115.8	125.6	124.7	123.8	117.1	120.5
MoM % Change	0.4%	8.4%	-0.7%	-0.7%	-5.4%	2.9%
W&R & Motor Trade	108.3	106.8	109.5	107.8	108.1	107.8
MoM % Change	0.4%	-1.4%	2.6%	-1.6%	0.3%	-0.3%

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 Service Index registered a solid monthly increase of 2.9% in January, following three consecutive months of decline.

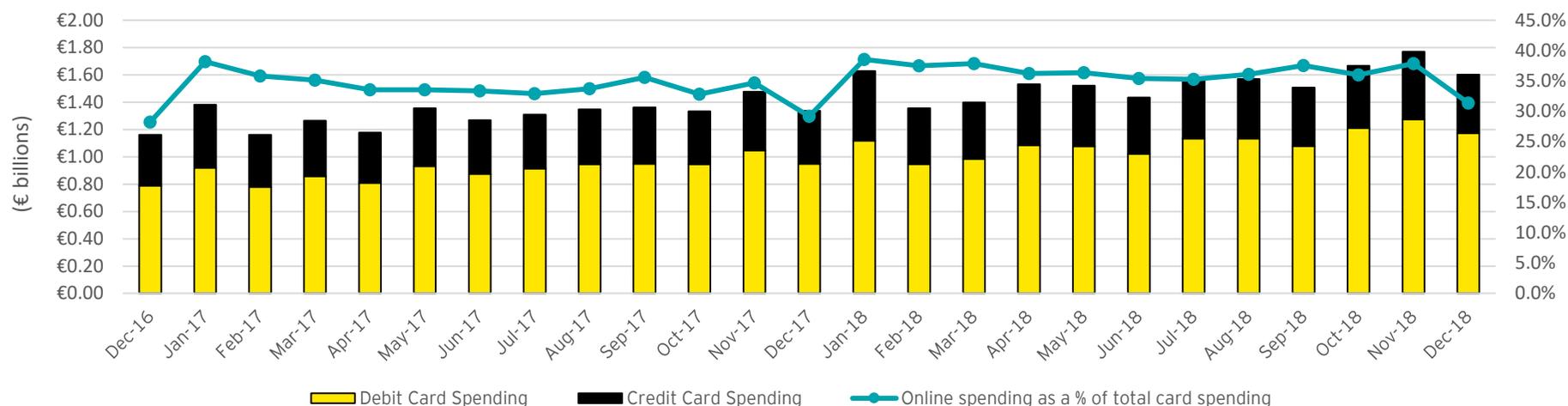
Such an improvement can be credited to monthly increases in output in sub-sectors such as Information and Communication (+9.7%), Transportation and Storage (+0.4%) and Other Services Activities (+6.8%). That said, monthly decreases in output were recorded in Administrative and support service activities (-5.5%), Wholesale Trade (-4.4%), Professional, Scientific and Technical activities (-2.9%), and Accommodation and Food Service Activities (-1.6%).

On a non-seasonally adjusted basis, the Services Index experienced robust year-on-year growth of 8.2% in January 2019. Encouragingly, significant annual growth rates were registered in sub-sectors such as Information and Communication (+26.7%), Transportation and Storage (+15.4%), and Accommodation and Food services (+8.2%).

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 totalled €1.6 billion in December 2018, up 23.7% YoY

E-Commerce (€ billions)	July-18	Aug-18	Sept-18	Oct-18	Nov-18	Dec-18
Online Debit Card Spending	€1.133	€1.133	€1.079	€1.210	€1.273	€1.173
YoY % Change	24.1%	20.0%	13.8%	28.2%	21.8%	23.7%
As % of Total Debit Card Spending	32.6%	33.3%	34.5%	33.1%	34.9%	28.9%
Online Credit Card Spending	€0.433	€0.436	€0.427	€0.455	€0.496	€0.428
YoY % Change	9.5%	8.1%	3.4%	17.3%	15.1%	10.1%
As % of Total Credit Card Spending	44.7%	45.8%	48.3%	46.5%	48.2%	41.0%
Total Online Card Spending	€1.566	€1.569	€1.506	€1.666	€1.769	€1.601
YoY % Change	19.7%	16.4%	10.6%	25.0%	19.9%	19.7%
As % of Total Card Spending	35.3%	36.1%	37.5%	36.0%	37.9%	31.4%

Source: Central Bank of Ireland

On an annual basis, e-commerce expenditure on credit and debit cards continued to grow at a robust pace in December 2018, rising by 19.7% to €1.60 billion. This implies that such e-commerce spending rose by double digit figures in every month of 2018. As a percentage of total card spending, e-commerce accounted for 31.4% in December 2018, which was 2.2 percentage points higher than the corresponding period in 2017 and was 3.1 percentage points higher than the same proportion two years earlier.

Of this total, €1.2 billion and €0.4 billion represented debit card and credit card e-commerce spending respectively. Debit card e-commerce expenditure rose considerably, up 23.7% or €224 million compared to the previous year. Total credit card e-commerce expenditure also registered double digit growth in the month, rising by 10.1% or €39 million over the course of the year.

The CSO's "Information and Society - Households" publication shows the most common types of goods and services purchased over the internet in 2018. As per the latest publication, the most common purchases by internet users were Clothes or Sports Goods (50% of users have purchased this item), Holiday Accommodation (44%), Other Travel Arrangements (41%), Tickets for Events (39%), Household Goods (27%) and Electronic Equipment (22%).

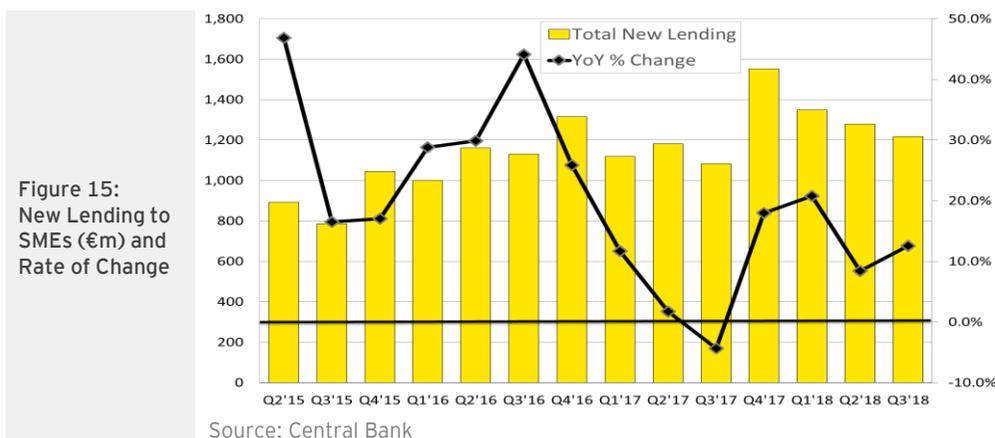


Section 4

Lending indicators

Lending indicators

New Lending to SMEs



New lending to SMEs in 2018 to date at €3.85 bn, up 13.8% on same period in 2017

	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18
Total New Lending (€m)	1,180	1,082	1,551	1,350	1,279	1,218
YoY % Change	1.7%	-4.3%	17.9%	20.8%	8.4%	12.6%

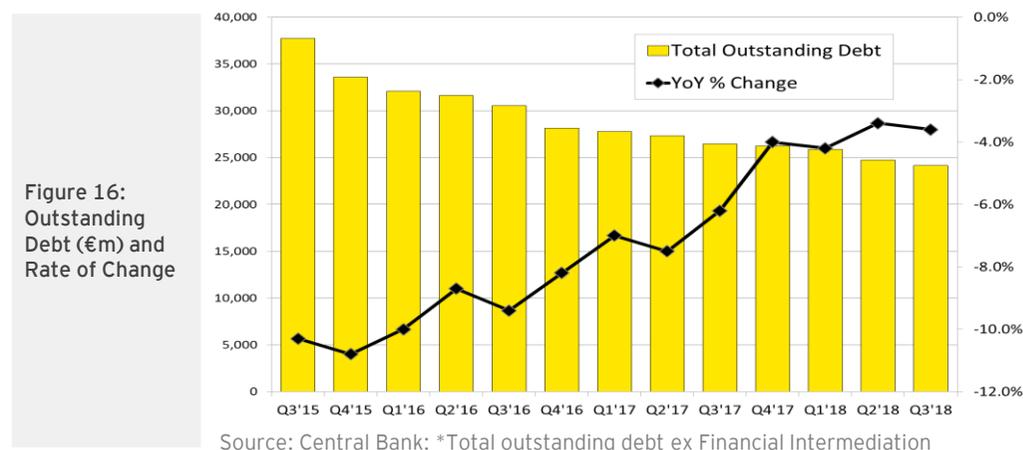
Source: Central Bank *Total lending ex Financial Intermediation

Total new lending to SMEs amounted to €1.22 billion in Q3 2018, representing an increase of 12.6% on the corresponding figure in Q3 2017. In the year to Q3 2018, new lending to SMEs totalled €3.85 billion, which was 13.8% or €467 million higher relative to the same figure in 2017.

Real Estate Activities remains the largest recipient of total new lending, accounting for 24.1% or €293 million in the quarter. That said, over the course of the year, Real Estate's share of total new lending fell by 9.7 percentage points. Other sectors to register significant shares in the quarter included:

- ▶ Primary Industries (13.3% of total new lending)
- ▶ Hotels and Restaurants (12.8%)
- ▶ Wholesale and Retail Trade (12.4%)
- ▶ Manufacturing (7.2%)
- ▶ Business and Administrative Services (7.2%)

Outstanding Debt of SMEs



The level of debt accumulated by SMEs totalled €24.2 bn in Q3 2018

	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18
Total Outstanding Debt (€m)	27,314	26,476	26,249	25,885	24,752	24,163
Quarterly change (€m)**	-215	-602	-1	-341	4	-549
Annual Growth (%)**	-7.5%	-6.4%	-4.1%	-4.2%	-3.5%	-3.5%

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

As per the above definition*, total outstanding debt accrued by SMEs came to €24.2 billion in Q3 2018, representing an overall decline of 3.5% or €887 million compared with Q3 2017, when adjustments by the Central Bank are taken into account**.

Of the fourteen sectors covered in this analysis, seven recorded year-on-year declines in debt levels, with Real Estate Activities recording the largest absolute fall (-€605 million). Other sectors to register significant annual declines in debt included:

- ▶ Wholesale and Retail Trade (-€218 million)
- ▶ Manufacturing (-€127 million)
- ▶ Construction (-€64 million)

Of the sectors to record an increase in debt relative to the previous year, the largest absolute rise was in Business and Administrative Services (+€53 million), Human Health and Social Work (+€44 million), and Electricity and Gas Infrastructure (+€36 million).



Indicators - Data sources

Indicators - Data sources

Indicator	Source	Frequency	
Sentiment Indicators			
1	Consumer Sentiment Index	ESRI/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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