Banking & Payments Federation Ireland

Weaker demand amid continued employment growth

Consumer spending up but retail sales down

Record employment and increasing earnings

SME Monitor

OCTOBER 2024

Further investment in training and capital levels needed to improve labour productivity

Commentary

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Further investment in training and capital levels needed to improve labour productivity

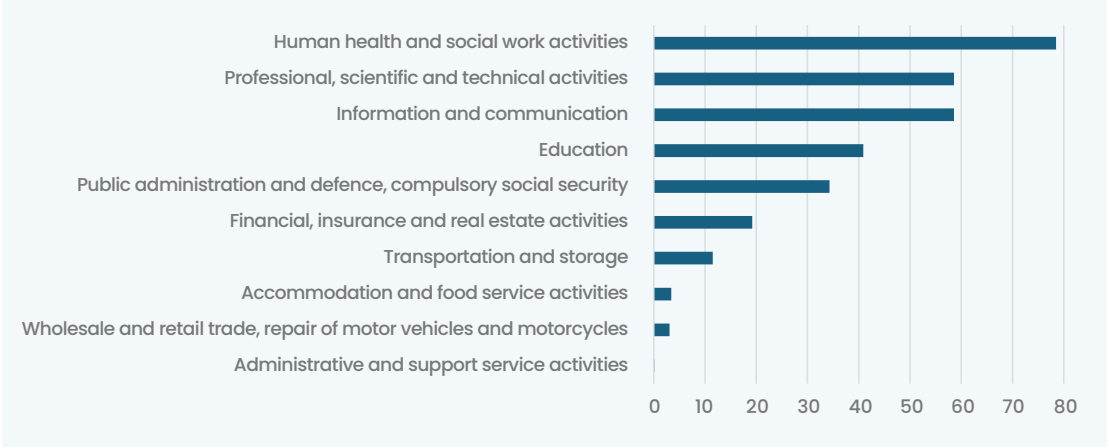
The most recent data published by the Central Statistics Office (CSO) shows that the Irish economy grew by 5% in 2023 in real terms, using modified Gross National Income (GNI*) which tries to remove the effects of the multinational dominated sectors on the growth rate of the economy. It is expected that the domestic economy will continue to grow at a rate of around 2% per annum between 2024 and 2026, according to the latest forecasts by the Central Bank of Ireland (CBI). Along with continued growth in output, albeit at a slower pace, unemployment is expected to stay at about 4.5%, close to historical lows.

Strong growth in employment in most sectors

According to the most recent CSO data, the estimated employment rate for people aged 15-64 years was 74.4% in Q2 2024, the highest rate recorded since the series began in 1998. An estimated 2.75 million people were in employment in the second quarter of 2024, up 71,500 from the same period last year. The number of people employed in the Irish economy increased by around 376,000 between the end of 2019, prior to the pandemic, and the second quarter of this year. Over 82% of the growth in employment in the Irish economy during this period is accounted for by increases in employment in the services sector. The employment growth in the services sector has not been uniform across different subsectors where three sectors, namely Human Health and Social Work Activities, Information and Communication and Professional, Scientific and Technical Activities, accounted for almost two thirds of the increase in employment during this period.

Small and medium enterprises (SMEs) account for nearly 68% of total employment in the Irish

Change in Employment by Sector ('000s)
Q2 2024 vs Q4 2019



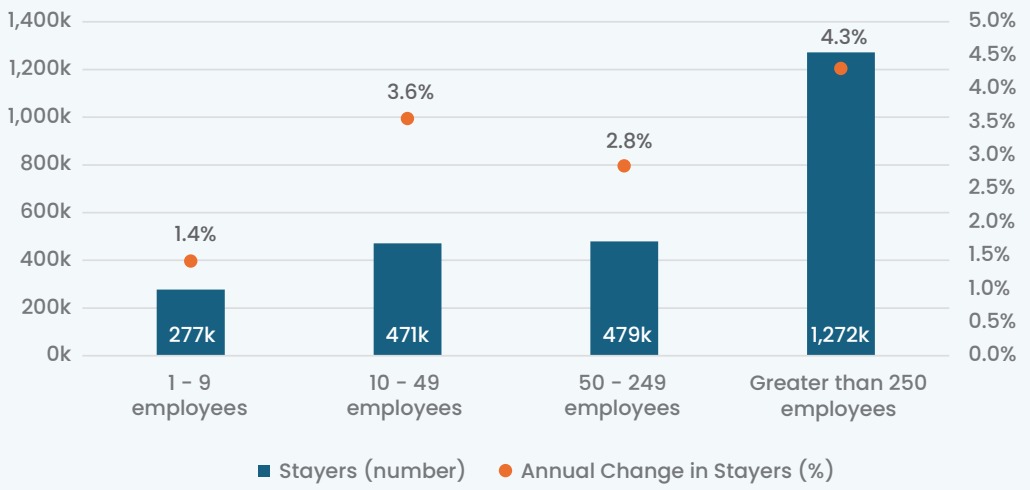
Source: Central Statistics Office (CSO).

economy, according to the latest data from the CSO. Between 2019 and 2022, the number of people employed by SMEs has increased from 1.16 million to 1.56 million with over 400,000 net jobs created. The number of SMEs in the Irish economy has increased from around 272,000 enterprises in 2019 to over 388,000 in 2022, with over 80% of the increase in the number of SMEs during the period accounted for by the services sector.

A recent CSO publication, using Revenue data, provides interesting insights on employee turnover within the Irish labour market. There were 337,920 hirings recorded in Q2 2024, where people took up new jobs, and 246,340 job separations, where people left jobs. The number of net hirings, (hirings less separations) increased to 90,950, the highest level since Q2 2022. On a sectoral basis, the Accommodation & Food Service Activities sector had the highest number of hirings (50,593), followed by Education with 41,681. Both sectors have seen seasonal increases in hirings in the second quarter in recent years.

Almost 2.5 million people stayed in their current employment (stayers) in Q2 2024, 3.6% more than in Q2 2023 and the highest level since the data series began in 2020. Four sectors (Human Health and Social Work Activities, Wholesale and Retail Trade and Repair of Motor Vehicles, Education and Industry) accounted for 62% of stayers and 50% of the increase in stayers since Q2 2023. Looking at firm size, enterprises with fewer than 10 employees had 277,274 stayers, only 1.4% more than in Q2 2023, while enterprises with more than 250 employees had almost 1.3 million employees, 4.3% higher year on year.

Stayers in Current Employment by Firm Size
Q2 2024



Source: CSO

Note: Stayers are people who remain in the same job during the reporting quarter.

The most recent CBI Financial Stability Review, using data from SME Credit Demand Survey, shows that SME profit margins remained stable in 2023, despite input cost pressures. The average gross profit margin across all firms at the end of 2023 was stable relative to 2022 at approximately 27%. Accommodation & Food firms seem to have continued their strong performance with an average margin of 28% up from 18% in the six months to March 2022. The average margin for Construction firms declined somewhat from 33% in the six months to September 2022 to 26% in the full-year 2023.

Labour productivity has declined in key services sectors

Labour productivity is an important indicator for the Irish economy as it is the main measure of the efficiency of the labour force. Labour productivity is generally measured as output per hour worked. The CSO recently started publishing data in relation to productivity in Ireland as part of their frontier series output, which are in essence experimental in nature using new methods and/or new data sources. The most recent publication shows that between the end of 2019 and the second quarter of 2024, on average labour productivity

increased by around 6% in the Irish economy. However, the general increase in labour productivity during the period has not been uniform across various sectors. For example, labour productivity declined by around 29% in construction and 14% in accommodation and food services sectors between the end of 2019 and the second quarter of this year. These are sectors where SMEs account for 80% and 62% of employment, respectively. Similar data from Eurostat covering 18 European countries indicates that the Irish accommodation and food service sector recorded the second steepest decline in labour productivity since 2015 (after Czechia), as well as the third steepest decline in construction (after Czechia and Austria).

The Irish economy has performed well, particularly in the past two years, in terms of both output and employment growth. Notwithstanding the possibility that sectors with a high presence of foreign companies that are heavily export oriented becoming under pressure in the short term, domestic economy is expected to grow in 2024 and 2025, albeit a slower rate with unemployment to remain at low levels. Continued demand in the domestic economy, along with capacity constraints, is likely to continue to put further pressure in relation to costs on goods and services delivered domestically. Early indicators show that particularly micro enterprises, those employing between one to nine people, are beginning to come under pressure as they showed the lowest growth in stayers in the past year.

As argued in the last edition of this Monitor, supports for companies that may need it, and particularly for SMEs, need to move from one off supports subsidizing costs to more structural issue such as increasing productivity as some of the sectors dominated by SMEs have seen declines in the levels of measured labour productivity. Some of the productivity challenges at individual companies may relate to scale and size, as evident from micro enterprises becoming under pressure, however addressing skill mismatches both at firm and industry level as well as training and capital investment can play a role in improving productivity levels.

Market Analysis

Anthony O'Brien, Head of Sector Research & Analysis, BPFI
Niall Faherty, Policy and Economic Research Lead

SMEs and the wider economy

Economic activity declined in the first half of 2024 largely reflecting contraction in the industry sector albeit with positive indicators especially in tax revenues and employment through to the end of June 2024, as well as modest growth in personal spending. The effects of the European Central Bank's tightening of monetary policy to regain price stability have placed downward pressure on demand with increased consumer prices while businesses face higher operating costs.

Gross domestic product (seasonally adjusted) fell by 1% in volume terms in Q2 2024, according to the Central Statistics Office (CSO), driven by a 0.7% decline in industry (excluding construction) and a 0.9% contraction in information and communication. These sectors, which are dominated by multinational firm, accounted for 52% of gross value added in the economy in H1 2024.

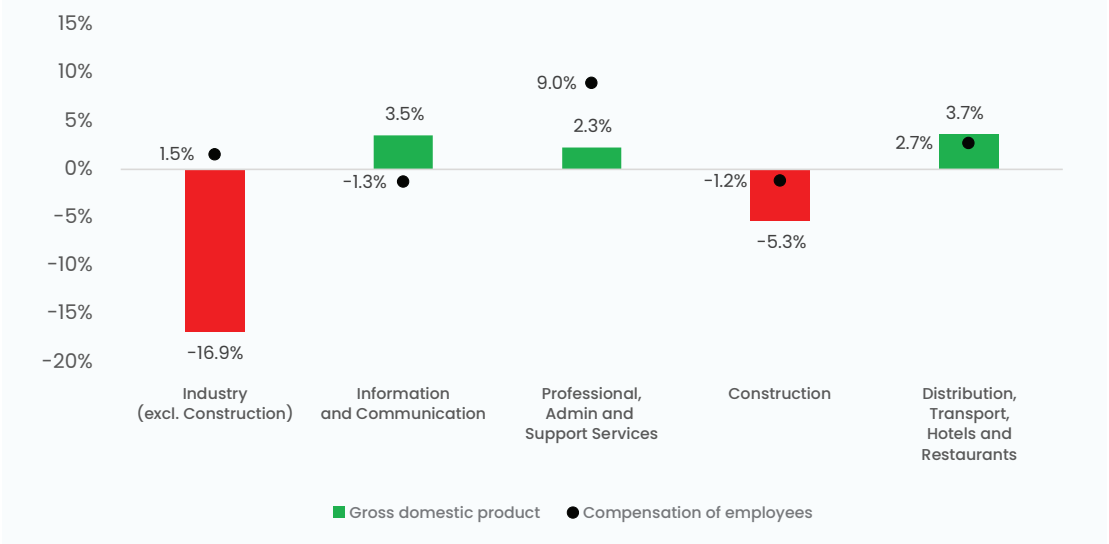
Modified final domestic demand, which excludes globalisation effects such as trade in intellectual property and aircraft leasing, fell by 0.5% in Q2 2024. Consumer spending grew by 1.1% quarter on quarter to €36.2 billion.

Strong recovery in services continued

The number of small and medium-sized enterprises (SMEs) – those businesses employing fewer than 250 persons – reached about 365,000 at the end of 2021. They employed almost 1.4 million people (including business owners). Key SME sectors include the service sectors construction, accommodation and food service activities, arts, entertainment and recreation and wholesale and retail trade as well as the repair of motor vehicles. SMEs accounted for at least 70% of employment in each of these sectors.

Economic Performance in Selected Sectors

% Change H1 2024 vs H1 2023



Source: CSO.

Both industry and construction recorded annual contractions in gross domestic product based on constant market prices in the first half of 2024, falling by 16.9% and 5.3% respectively compared to the same period of 2023. Agriculture, forestry and fishing increased significantly by 8.2% year on year while information and communication and distribution, transport, hotels and restaurants expanded by 3.5% and 3.7% respectively in H1 2024.

Incomes through compensation of employees increased in most sectors with professional, administration and support services up by 9.0% year on year growth in incomes through compensation of employees while real estate activities earnings fell by 23% when compared with 2022.

The total tax take in the first nine months of 2024 was €68.2 billion, according to the Department of Finance, 11% more than in the same period of 2023. Income tax receipts were up 7.1% year on year to €24.8 billion in the year to date, on the back of strong employment figures. Corporation tax also grew, by about 23.3% year on year, to €17.8 billion.

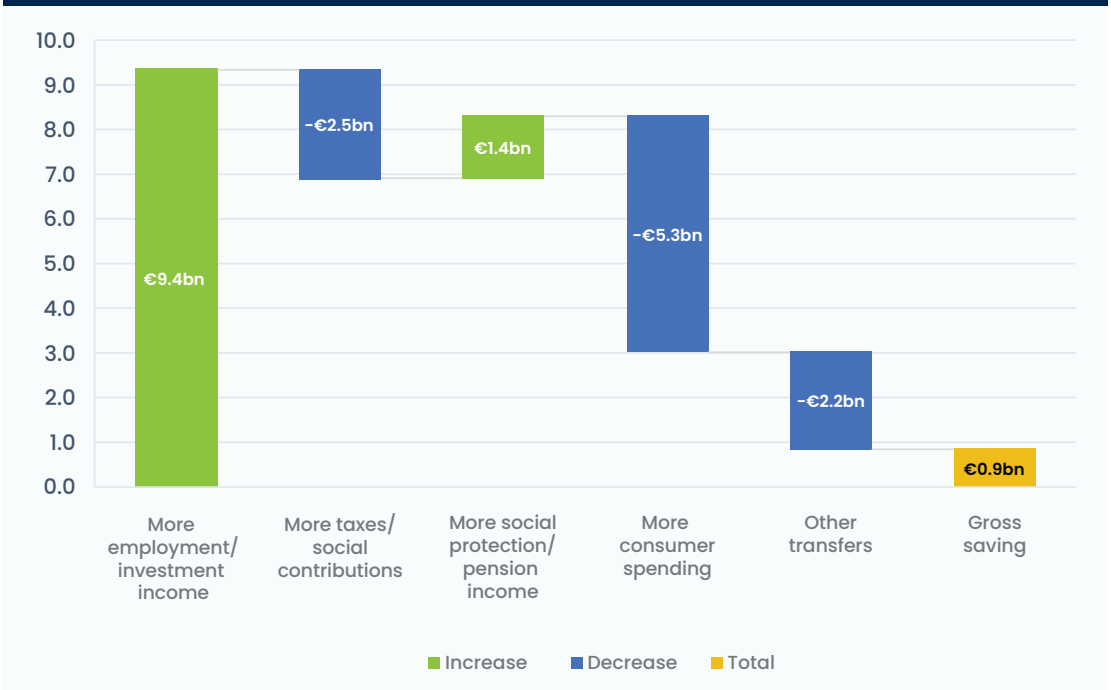
The increased income tax take was driven a combination of higher employment and increased earnings. By the end of Q2 2024, more than 2.75 million people were in employment, the highest level since the data series began in 1998. Unemployment levels were relatively stable in 2023 with the CSO's seasonally adjusted unemployment rate ranging between 4.2% and 4.5% from Q2 2022.

Employment and investment income increased by €9.4 billion year on year in H1 2024, according to the CSO. Investment income increased by 27% in H1 2024.

On the expenditure side, value added tax (VAT) receipts increased by 7% year on year to €1.9 billion in the first nine months of the year, likely reflecting higher personal spending as well higher consumer prices. Prices for consumer goods and services rose by 1.7% on average between August 2023 and August 2024, according to the CSO's consumer price index (CPI). Inflation continued its general downward trend with the annual inflation dropping below 2% for the first time since June 2021.

Consumer spending was some €5.3 billion higher than in H1 2023. The seasonally adjusted household saving rate fell to 12.7% in Q2 2024, the lowest rate since Q2 2018. The CSO estimates that €6.4 billion was invested on capital assets such as dwellings and improvements, mainly by households, in the first half of 2024, while household net deposits in credit institutions increased €3.9 billion over the same period.

Change in Household Income and Expenditure
€billions (H1 2024 vs H1 2023)



Source: BPFI estimates based on CSO data.

Weaker demand amid continued employment growth

Growth in services activity continued into the middle of 2024, according to the AIB Irish Services Purchasing Managers Index (PMI) and the CSO monthly services index, mainly driven by technology-related sectors. The AIB Irish Services PMI indicates that inflationary pressures in the services sector eased and CSO analysis suggests that producer prices in manufacturing fell by 1.7% year on year in August 2024, while energy prices in manufacturing fell by 5.4%. Construction material prices rose by only 0.2%.

A fall in output and subdued customer demand has led to the weakening in Irish manufacturing conditions in H1 2024. There was a modest upturn in July and August before deteriorating in September with falls in output, new orders and employment. The manufacturing input price index remained close to recent peaks, reflecting higher raw material costs, while firms continued to pass input costs to customers.

Construction sector activity was stable in August 2024 according to the BNP Paribas Real Estate Ireland Construction PMI. While activity in the residential sector generally increased in the year to date, civil engineering activity continued to fall.

Employment fell for only the second time in 20 months, which may indicate intensifying competition to recruit works and emerging labour constraints.

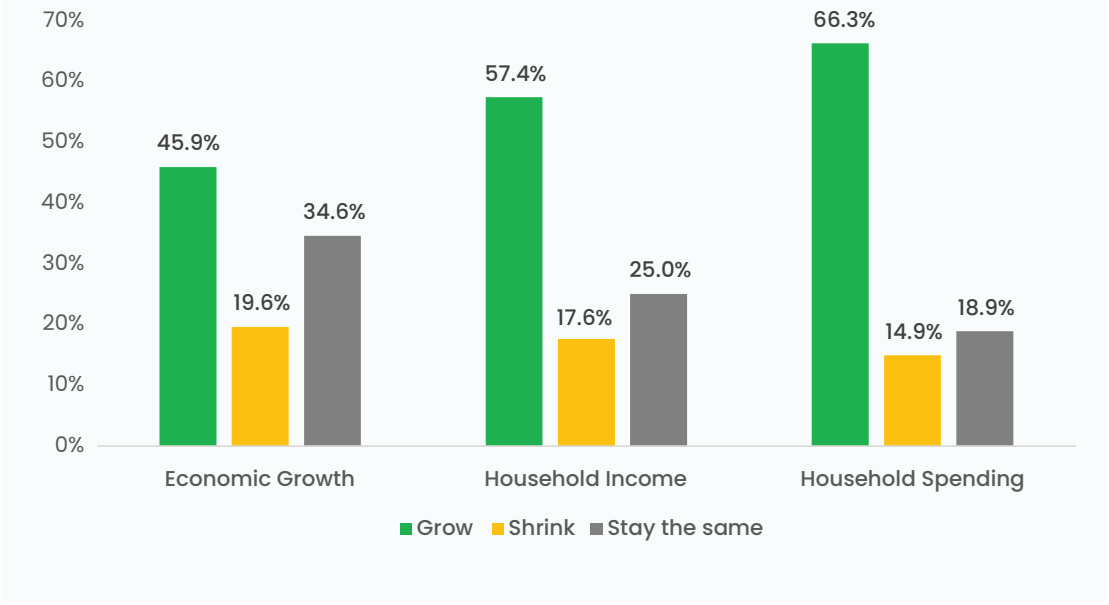
Looking forward, services, manufacturing and construction businesses all expressed optimism about increased activity in the future.

The European Central Bank's Consumer Expectations Survey indicates that consumers in Ireland have a positive outlook on economic growth with the majority of consumers expecting their spending and income to rise over the next 12 months.

Consumers expect the economy to grow by 0.9% on over the next 12 months, a more positive outlook than when compared to the end of 2023 when consumers had expected an economic decline of 0.5% to the end of 2024.

Households are expecting their incomes to increase by 1.6% on average over the next 12 months as 82.4% of those survey expect their income to rise or stay the same while spending is expected to increase by 3.6% on average over the next 12 months.

Consumer expectations for the next 12 months
(August 2024)



Source: European Central Bank

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Finding Customers

The ECB Survey on Access to Finance for SMEs (SAFE) has traditionally identified finding customers as the most pressing problem for SMEs in Ireland. However, only 13.4% of respondents in the latest survey (conducted in May/June 2024), cited finding customers as the most pressing problem. Availability of skilled staff or experienced managers was the main concern for 20.0% of respondents in the survey, followed by costs of production or labour (17.2%).

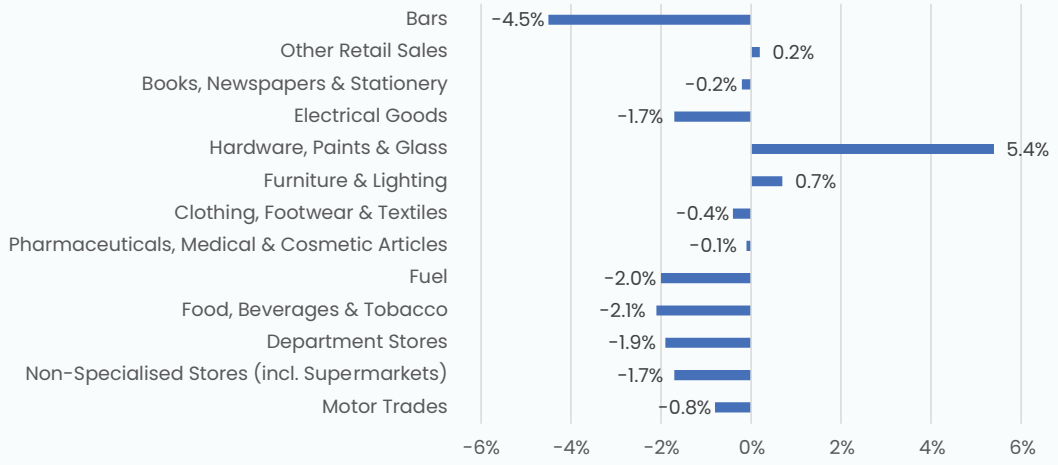
Consumer spending grows but retail sales down

The volume of retail sales fell by 1.5% in August 2024 on a seasonally adjusted basis when compared with July, according to the CSO. On an annual basis, retail volumes were 2.5% lower than in August 2023.

The seasonally adjusted retail sales index indicates the volume of retail sales fell by 0.7% year on year in the three months ending August 2024.

Bars saw the biggest decline compared with June-August 2023, down by 4.5%, while food, beverages and tobacco as well as fuel fell by about 2%.

Retail Sales by Sector - Annual Change
(Jun-Aug 2024)



Source: CSO

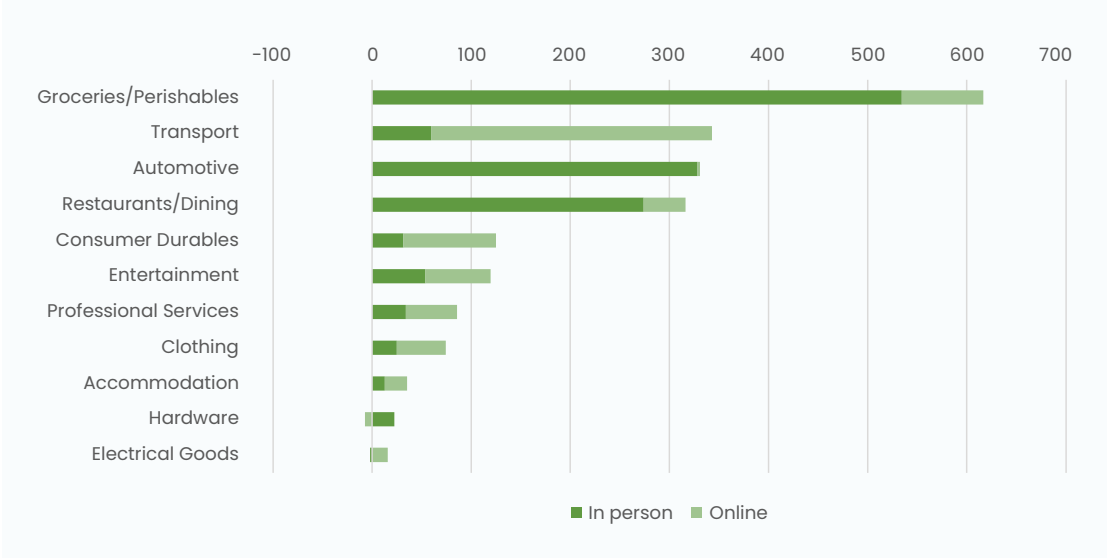
The largest increases compared with June-August 2023 were in household equipment with hardware, paints and glass and furniture and lighting up by 6.7%, 5.4% and 0.7%, respectively.

Domestic spend on credit and debit cards reached almost €41.6 billion between March and August 2024, 12% or €4.4 billion more than in the same period of 2023.

More than €8.3 billion was spent on groceries and perishables, up about €0.6 billion year on year, mainly in physical stores such as supermarkets. Spending on transport (mainly tour operators, travel agencies and airlines), automotive (including petrol stations) and restaurants/dining each increased by more than €300 million year on year.

Annual Change in Card Spend by Sector (€m)

Mar-Aug 2023 vs Mar-Aug 2024



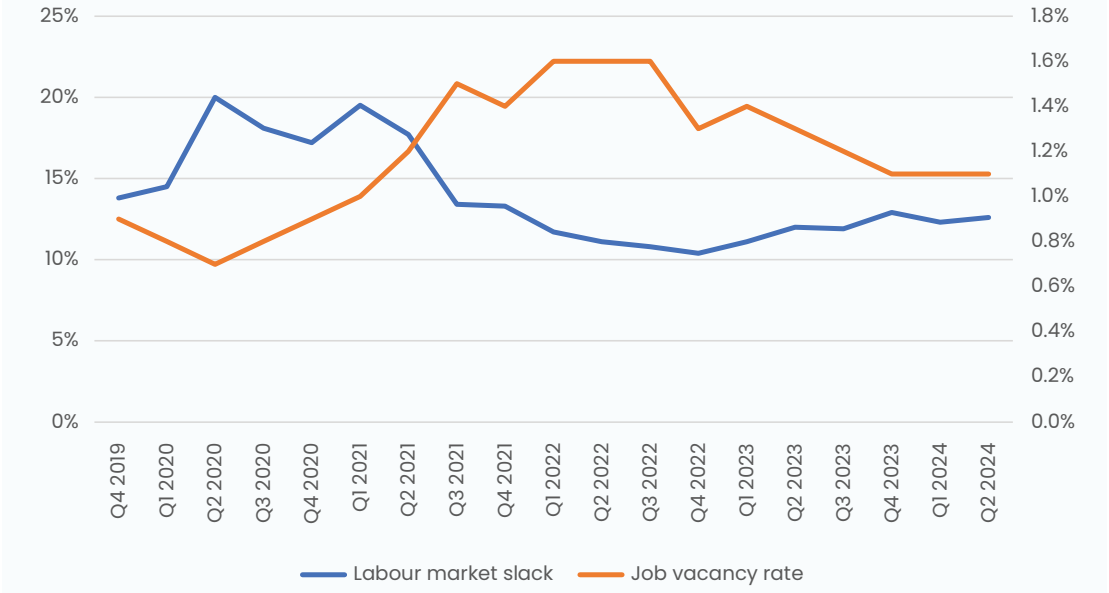
Source: BPFI analysis of CBI monthly payment cards data

Availability of skilled labour

Employment grew strongly and reached historical highs in in Q2 2024. The number of people in employment reached rose by 2.7% in the year to Q2 2024 to more than 2.75 million. The employment rate for people aged 15-64 years was 74.4% in Q2 2024, the highest rate recorded since the series began in 1998 according to the CSO.

While most sectors saw employment growth over the past 12 months, wholesale & retail trade decreased by 7.3% year-on-year while construction fell by 6.8%. The sector that had the largest year-on-year employment growth was professional, scientific & technical activities, increasing by 12.7% followed by industry which grew by 6.6% year-on-year.

Job Vacancies and Labour Market Slack



Source: CSO/Eurostat

Record employment and increasing earnings

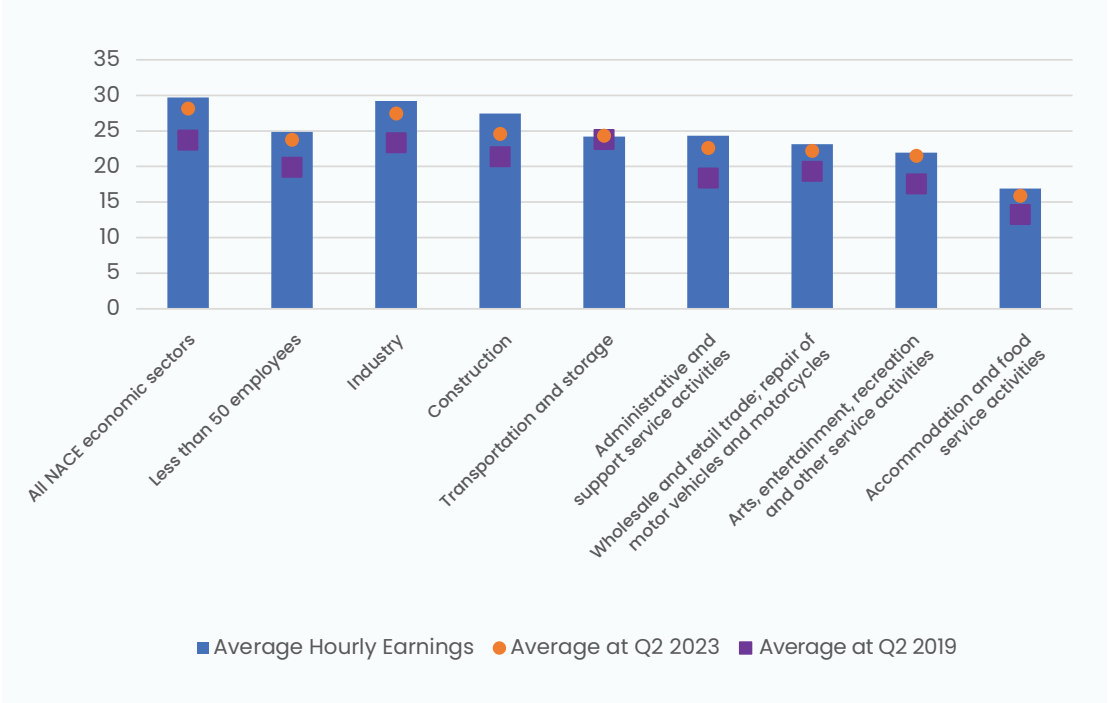
With employment at historically high levels and the employment rate at 74.4% in Q2 2024, businesses were reporting challenges in hiring suitably trained and skilled staff, as evidenced by the ECB SAFE Survey.

The job vacancy rate remained at 1.1% in Q2 2024, 0.2 percentage points lower than the corresponding quarter in Q2 2022, according to CSO.

The number of vacancies fell to 26,400, 76.5% of which were in the private sector. professional, scientific and technical activities was the sector with most vacancies at 3,300.

Labour market slack, which Eurostat suggests reflects the unmet need for employment, increased to 12.6% of the extended labour force (which includes underemployed part-time workers and those either not available for or not seeking work) in Q4 2023, up from 12% in Q2 2023.

Average Hourly Earnings (€)
(Q4 2024)



Source: CSO

Average weekly earnings rose by 5.6% year on year to €963.17 while average hourly earnings increased by 5.4% to €29.71. Enterprises with fewer than 50 employees reported lower average weekly and hourly earnings at €774.16 and €24.85, respectively.

Average weekly earnings in the accommodation and food services were less than half the all-sector average at €451.93. This was partly related to the low average weekly paid hours (26.8 compared with 32.4 for all sectors combined) and the relatively low hourly earnings of €16.88. The national minimum wage will increase to €13.50 per hour in January 2025. Earnings have increased significantly in the past five years. Average hourly and weekly earnings rose by 25.4% and 24.9%, respectively, between Q2 2019 and Q2 2024. All sectors saw increases of over 15% in weekly earnings over the same period except for Transportation and Storage which increased by 8.4%. Information and communication saw the largest increase at 38.6%.

Earnings have increased significantly in the past five years. Average hourly and weekly earnings rose by 25.4% and 24.9%, respectively, between Q2 2019 and Q2 2024.

Accessing finance

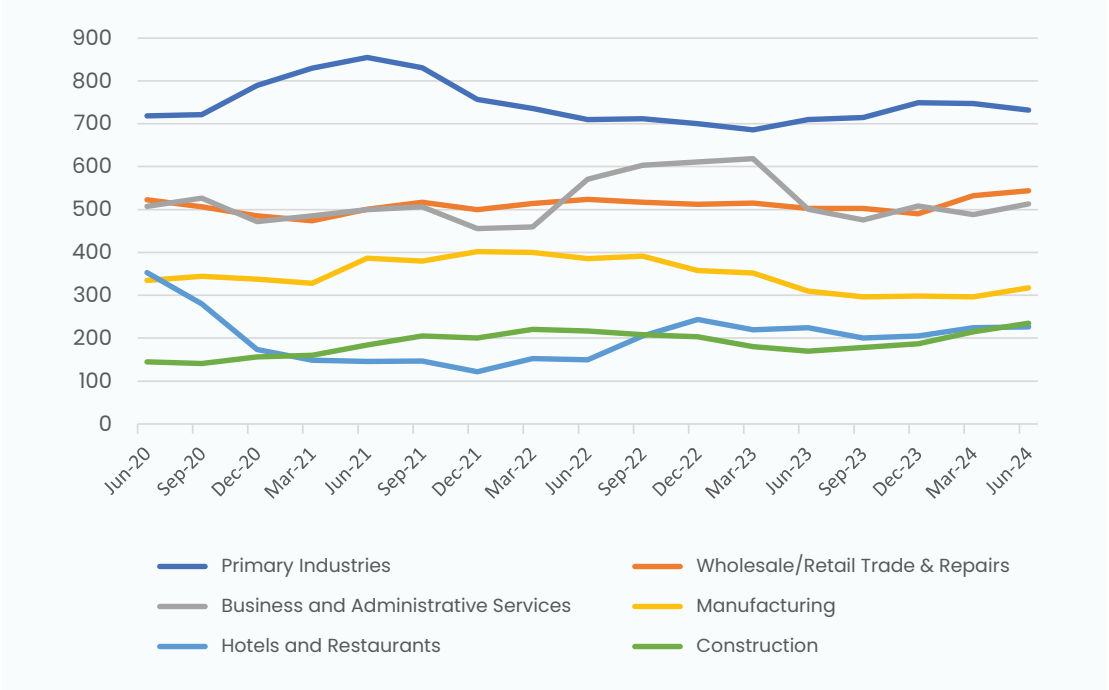
SME demand for bank credit increased somewhat in Q2 2024 according to the Central Bank of Ireland (CBI) bank lending survey, driven by the financing needs for inventories and working capital.

Gross new lending to SMEs (excluding financial intermediation) reached over €2 billion in the first half of 2024, 10.5% more than in H1 2023. Drawdowns exceeded repayments by €118 million in the twelve months to June 2024, making it the largest annual increase amount in almost two years, according to the CBI.

Real estate activities (mainly property investment/development), primary industries (mainly agriculture) and wholesale/retail trade and repairs each accounted for at least €300 million of gross new lending in H1 2024.

Drawdowns in the construction sector increased by 55% year on year to €135 million in H1 2024 while gross new lending to information and communication's sector decreased by almost 9% to €21 million.

Gross New Lending to SMEs, €m
(Annualised - Selected Sectors)



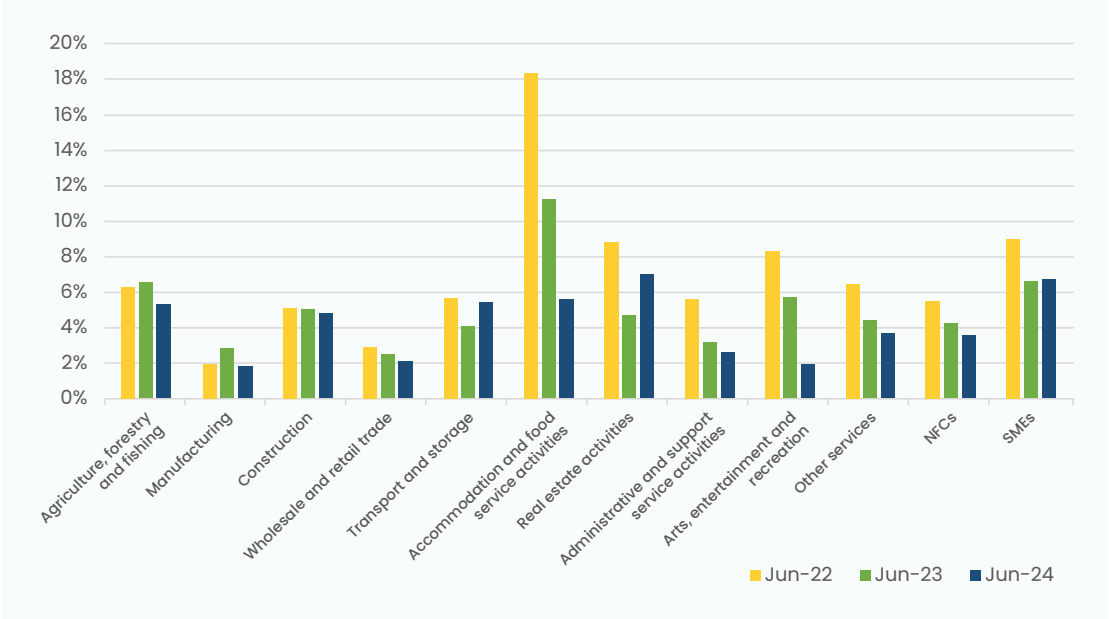
Source: Central Bank of Ireland

The value of outstanding credit to core SMEs (excluding property-related sectors and financial intermediation) fell by €349 million in the twelve months ending June 2024 to about €11.6 billion. Three sectors (primary industries including agriculture, wholesale/retail trade and manufacturing) accounted 58% of outstanding credit to core SMEs (excluding property-related sectors) at the end of June 2024, with 25.6%, 20.3% and 12.1% of outstanding credit, respectively. The outstanding stock of lending to SMEs to hotels and restaurants decreased by 17.2% year on year to €1.2 billion.

Non-performing loan (NPL) ratios on business loans have declined since 2022, according to the European Banking Authority (EBA).

The NPL ratio for all SME loans was 6.7% at June 2024, down from 9% in June 2022. Real estate activities NPL ratio has increased by 2.3% in the previous year to 7%, the highest NPL ratio of all sectors. The accommodation and food service sectors NPL ratio has decreased by 12.7% in the last two years as the effect of the covid pandemic eases.

NPL Ratios for Selected NACE Sectors



Source: European Banking Authority

Financial supports

The government announced additional supports to businesses through Budget 2025 such as the €4,000 Power Up Grant for hospitality and retail businesses which will aim to alleviate pressure on the cost of electricity. SMEs will also gain from the increased existing VAT registration thresholds as the goods threshold increases from €80,000 to €85,000 and services from €40,000 to €42,500.

Among the tax measures announced was an increase in R&D tax credit first year payment threshold which will increase from €50,000 to €75,000 to provide further cash-flow for businesses undertaking smaller R&D projects. The Employment Investment Incentive, the Start-Up Relief for Entrepreneurs and the Start-Up Capital Incentive have all been extended to the end of 2026.

In Budget 2024, a new targeted Capital Gains Tax relief for angel investors was announced to provide for a lower rate of 16% (18% for partnerships) for disposals of qualifying investments for gains up to a value of two times the initial investment. In Budget 2025, the lifetime limit on gains, on which the reduced rate of Capital Gains Tax applies, has increased from €3 million to €10 million.

IDA Ireland will receive an additional €15.5 million to target additional FDI investment in 2025 with a focus on research, development, innovation, sustainability and digitalisation. Enterprise Ireland will receive an increase of €9.7 million to progress a new 5-year programme of its Seed and Venture Capital Scheme which will see a total fund of €250 million invested in equity funding to innovative Irish start-ups.

A number of loan schemes are managed by the Strategic Banking Corporation of Ireland (SBCI). The Ukraine Credit Guarantee Scheme which facilitates the provision of working capital and medium-term investment finance for businesses adversely affected by the war in Ukraine. About €329 million was drawn down across more than 3,700 loans by the end of August 2024.

The Growth and Sustainability Loan Scheme opened in September 2023 for businesses investing in in their growth and resilience or climate action and environmental sustainability. By the end of June 2024, 702 loans valued at €9.4 million had been drawn down. The Energy Efficiency Loan Scheme launched in July 2022 closed for new applications at the end of 2023.

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