

## 60,000 NEW JOBS ARE A REAL PROSPECT IN THE SME SECTOR.

- *Key economic indicators show continued positive trend*
- *Strong performance from SMEs in final quarter.*
- *Pay increases must be related to productivity to protect competitiveness.*
- *Rising concern over 'erosion of competitiveness'.*

ISME, 31<sup>st</sup> December, 2014

The results of the ISME Quarterly Business Trends Survey for the final quarter of 2014, released today (31<sup>st</sup> December) reveal that the Irish SME sector continues a gradual positive recovery, with only one of the twelve indicators showing a slight decrease. The results follow on from a general positive survey in the autumn and augur well for a continued but cautious domestic economic recovery in 2015. **The Association advises that less loose talk of increased pay and more real effort in incentivising job creation, reforming the social welfare system and tackling the black economy will assist the Government's drive for jobs.**

Speaking at the launch, Mark Fielding, ISME CEO, said, "Although we have officially been out of recession for some time, SMEs have only really been experiencing positive signs of recovery in the past six months. While the GDP figures have been very positive, the domestic economy, made up in the main by micro, small and medium businesses, has been slow to show signs of recovery. This 4<sup>th</sup> quarter trends survey is good news and gives a platform from which the SME sector can show a strong performance in 2015".

"The one note of caution is in the appetite and ability of SMEs to take on more staff. While it is encouraging to see 30% expecting to increase staff in the coming year, another 7% expect to have to reduce staff. **This Net 23% is the only reduced trend in all twelve indicators. Having said that, it is possible that a net 60,000 jobs can be created in the SME sector in 2015.**"

The survey was conducted in mid-December, with 952 SME respondents. 58% of the respondents employ less than 10, while a further 38% employ between 11 and 50 and the remaining 4% employ between 51 and 250.

KEY INDICATORS	Q2'13	Q3'13	Q4'13	Q1'14	Q2 '14	Q3 '14	Q4 '14
Business Confidence	10%	28%	42%	37%	31%	49%	50%
Business Expectations	20%	32%	52%	49%	51%	63%	65%
Business Environment	-29%	-12%	-4%	-4%	-1%	23%	23%
Profitability Expectations	0%	14%	18%	19%	18%	33%	34%
Current Employment	4%	6%	13%	6%	14%	16%	25%
Future employment	5%	15%	18%	18%	27%	24%	23%
Current Sales	0%	9%	11%	11%	11%	22%	30%
Sales Expectations	7%	25%	28%	29%	30%	42%	44%
Current Investment	16%	26%	26%	28%	29%	32%	43%
Future Investment	20%	23%	27%	31%	31%	31%	44%
Current Exports	29%	22%	20%	18%	32%	26%	38%
Export Expectations	49%	63%	56%	46%	55%	51%	57%
Economic Uncertainty	34%	30%	26%	27%	24%	21%	17%

- Business Confidence and Expectations have remained high in this Quarter (50% and 65% respectively) after huge increases in the previous Quarter.
- SME owner-managers perception of the Business Environment did not change in this Quarter and stayed at 23%. Profitability Expectations increased marginally to 34%.
- A 9 point boost to Current Employment levels reflects the decreases in unemployment seen this year but the slight drop in Future Employment Expectations of 1 point (24% to 23%) is a cause for concern. This is the second successive decrease for this indicator.
- Both Current and Future Investment levels increased in this Quarter, showing that SMEs are planning for growth and are doing their best to capitalise on any upturn in the economy.
- The increase in Current Exports from 26% to 38% and Export Expectations from 51% to 57% is a positive sign of further economic recovery in 2015.

Fielding drew attention to the negative sentiment in the Retail sector where in contrast to the general feelings, 9 out of the 10 retail indicators showed a negative move in the final quarter. “Despite the current negative sentiment, retailers are investing in the future where a net 30% have increased investment in their business, up from 18% in the previous quarter. The usual cheerleading from the big retailer groups pushing an increase in consumer spend is to be ignored once again as SME retailers, with a keener and more honest assessment, expect a much smaller increase in trade in the Christmas period”.

“Exporters are the most confident sector, with all indicators in the positive. Business and profitability expectations and current employment are at their highest in years, reflecting the return on prior year’s investment and positive currency movements.”

“The biggest concern for Irish SMEs remains the economic uncertainty, albeit that it has dropped from the highs of 44% in winter 2011 to a low of 17% this survey. The erosion of competitiveness has risen steadily from figures as low as 2% in Q3 of 2012 to become joint biggest concern at 17%.”

### **Retail.**

The Retail sector has given a very negative review of the Quarter with 9 of 10 indicators showing a decrease. The only indicator showing an increase is Current Investment which went from 18% to 30%. Current Sales have decreased from 18% to -5% and Sales Expectations have decreased from 41% to 20%. Profitability Expectations have decreased from 18% to -10%, a 28 point drop and a cause of great concern for retail in 2015.

### **Manufacturing.**

The Manufacturing sector has reported increases in 9 of 12 indicators. The indicators which saw a decrease were the Business Environment, going from 38% to 25%, Current Sales have gone from 38% to 27% and Sales Expectations have decreased from 52% to 47%. However, Profitability Expectations remain strong, going from 33% to 47%.

### **Exporting.**

Exporters appear to be very confident of a profitable 2015 with Business Confidence levels at 61% and Business Expectations at 68%. Profitability Expectations have gone from 36% to 44% and Sales Expectations have gone from 51% to 57%. These are all positive signs of expected growth in the New Year.

### **Services**

The Services sector saw a decrease in Business Confidence from 52% and 43% and a decrease in Business Expectations from 41% to 20%. Profitability Expectations are also down from 30% to 26%. Worryingly for this labour intensive sector, both Current and Future Employment are down in this Quarter. Current Employment has gone from 12% to 11% and Future Employment has gone from 19% to 14%.

The Association called on the Government to assist the recovery by:

- Reducing government influenced business costs to below the EU average.
- Ensuring real measurable access to credit for viable SMEs.
- Outsourcing more state sector services to SMEs.
- Reforming the social welfare system to make it more profitable to work.
- Expanding the export capacity of the SME sector through soft supports.
- Attacking the scourge of ever-increasing black economy activity.

**“The results of this SME Trends Survey for Q4 2014 gives many reasons for optimism for the future in the SME sector. However the Government must take note of the warnings included in the survey. The two main areas of concern are the doubts over future employment and the rise in concern over the erosion of competitiveness, both of which have the capacity to slow any progress in the coming year. Less loose pre-election posturing on pay increases and more hard work of social welfare and black market issues should be the Government’s New-Year resolutions,”** concluded Fielding.

ENDS.

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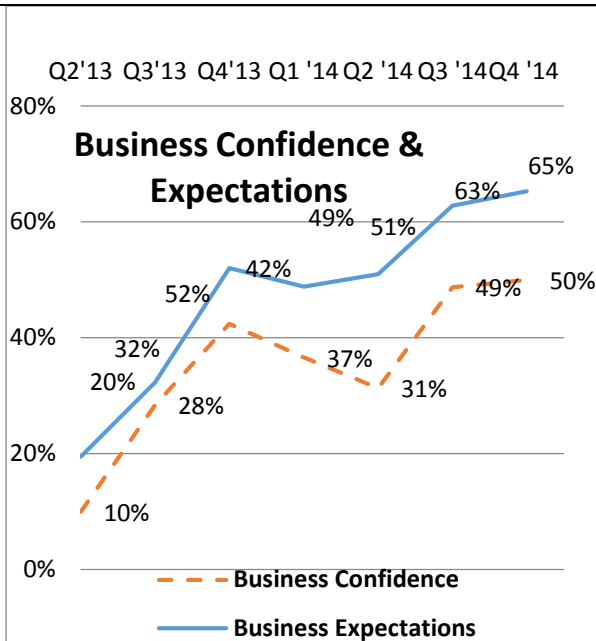
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**Note to Editors:**

***ISME** is the only independent voice of Small & Medium business in Ireland, representing in excess of 9,000 members across all sectors. The Association is owned and run by owner managers and is independent of big business, government and unions; the TRUE voice of the Irish SME. [www.isme.ie](http://www.isme.ie)*

*The **ISME** Quarterly Trends Survey is based on responses from SME owner managers across all sectors of the economy and is presented as a balance of sentiment for twelve indicators. The result is a simple balance between positive and negative. For instance for the question on business confidence, “are you more or less optimistic about business prospects than you were 12 months ago?” the results are a net of the replies*

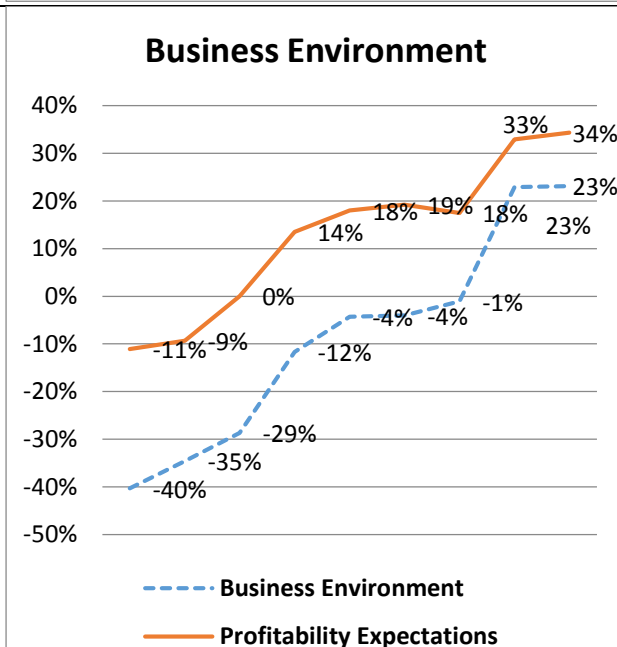


Business Confidence has increased by 1 point in this quarter. It has gone from 49% in Q3' 14 to 50% in Q4 '14. Business Expectations also experienced an increase from 63% to 65%. These figures represent a substantial increase on the same period last year when Business Expectations were 52% and Business Confidence was 42%.

**Exporters** reported an increase in Business Confidence from 45% to 61%. Their Business Expectations are now at 68%, showing huge levels of optimism for 2015.

**Manufacturers** also saw their Business Confidence increase from 45% to 55%.

**Retailers** have seen their Business Confidence decrease from 45% to 20% in this quarter while their business expectations have only dropped 1 point from 41% to 40%.

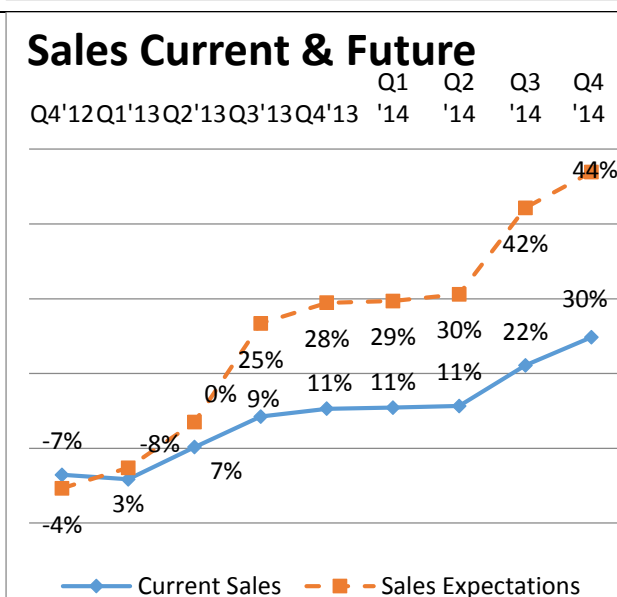


Overall Profitability Expectations increased slightly from 33% to 34% in Q4 '14. The overall perception of the Business Environment has remained the same at 23%. However, Q3' 14 was the first positive rating for this indicator since tracking began in Q4 '08.

**Retailers** reported declines in both their Business Environment and their Profitability Expectations. The Business Environment rating decreased from 0% to -10%. Profitability Expectations decreased dramatically from 18% to -10%.

The Profitability Expectations of **Exporters** increased 8 points to 44% and their Business Environment rating increased from 31% to 35%.

**Manufacturers** saw a 14 point increase in their Profitability Expectations in this quarter (now 47%) but their Business Environment rating decreased 13 points from 38% to 25%.



The Current Sales indicator had remained at 11% for three consecutive quarters. Q3 '14 saw a break in this trend with an 11 point increase to 22% and Q4 has seen a further increase to 30%. Sales Expectations increased by 2 points from 42% to 44%.

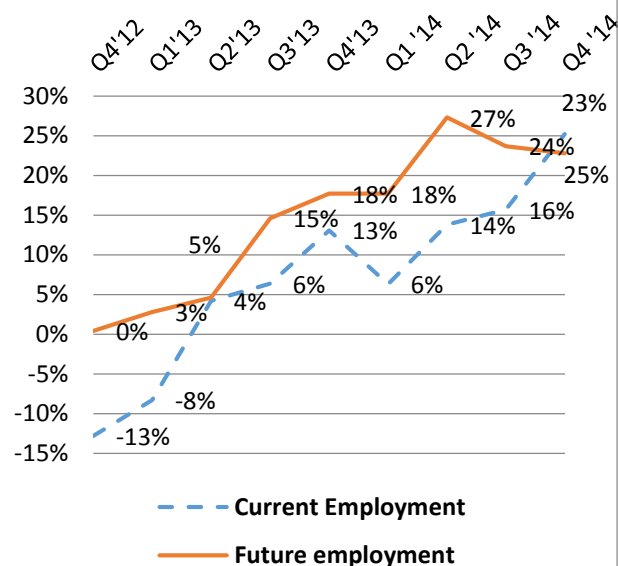
**Retailers** have seen a 23 point decrease in their Current Sales to -5% and their future Sales Expectations decreased from 41% to 20%.

**Exporters** reported an increase in Current Sales from 24% to 39%. Their Future Sales Expectations also increased from 51% to 57%.

**Manufacturers** saw decreases of 11 points in Current Sales (38% to 27%) and 5 points in Sales Expectations (52% to 47%).

The **Services** sector experienced a boost in Current Sales from 11% to 22%.

### Current & Future Employment



The overall Current Employment indicator increased from 16% to 25% in the quarter. However, Future Employment expectations decreased from 24% to 23%.

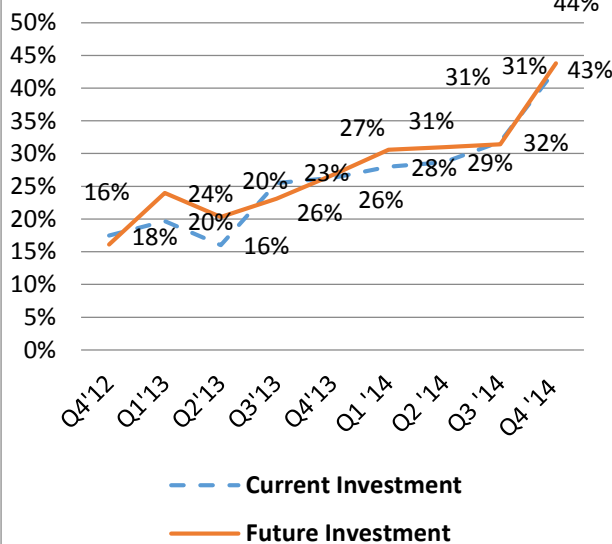
Current employment in the labour-intensive **Retail** sector is down from 14% to -5% and Future Employment expectations are down from 0% to -10%.

**Services** saw decreases also with Current Employment going from 12% to 11% but Future Employment went from 19% to 14%.

**Exporters** became more optimistic about their Future Employment levels which are up 10 points to 43%. Their Current Employment also increased in this quarter from 26% to 50%.

**Manufacturers** also experienced an increase in Current Employment from 19% to 37% and Future employment went from 34% to 39%.

### Investment



SMEs increased their Current Investment levels in this quarter from 32% to 43%. Future Investment expectations increased from 31% to 44%.

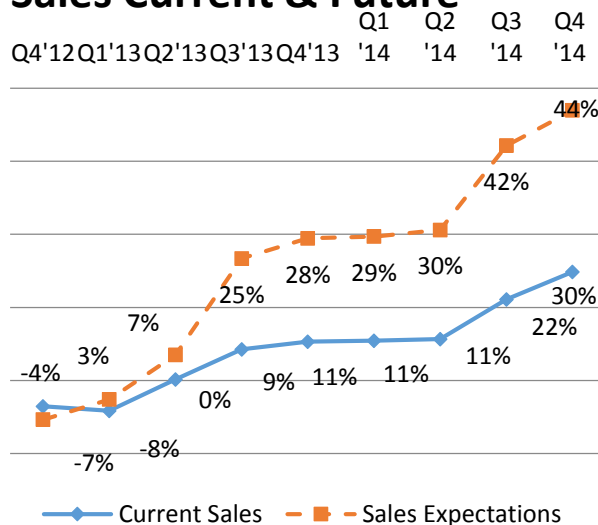
Current investment of **Retailers** increased from 18% to 30% but Future Investment expectations decreased from 36% to 25%.

**Exporters'** investment levels increased from 32% to 51% and future investment plans increased from 32% to 54%.

**Manufacturers** increased their investment in their businesses from 28% to 63% and their Future Investment plans went from 34% to 57%.

However, the **services** sector saw decreases in Current Investment going from 36% to 31% while Future Investment went from 30% to 34%.

### Sales Current & Future



Both Current and Future Exports increased in this Quarter. Current Exports went from 26% to 38% and Future Export Expectations went from 51% to 57%.

The Current Export levels of **Manufacturers** in particular have seen an increase from 26% to 43% and their Future Export Expectations went from 44% to 63%.

Current Exports for those in the **Services** sector have also increased. Current Exports for this sector have gone from -6% to 15% and Future Export Expectations have remained at 39%.

As shown on the Exports graph, the trends here tend to be quite cyclical.