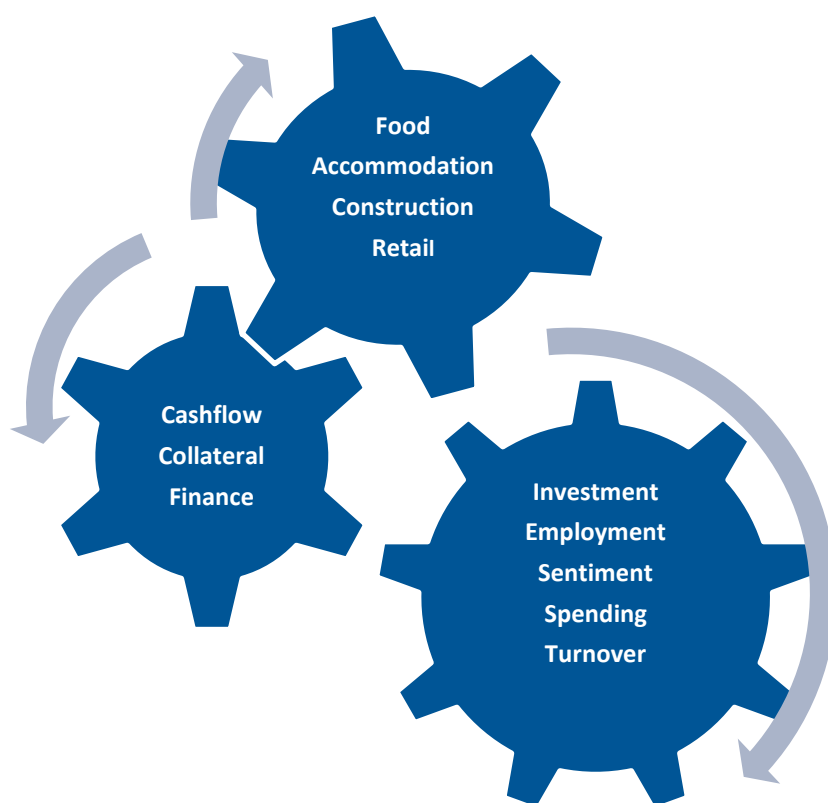


DKM/BPFI SME Market Monitor

Final Report

October 2017



Prepared for the

**Banking & Payments
Federation Ireland
October 2017**

Introduction

This is the twelfth publication of the *DKM/BPFI SME Market Monitor*, prepared for the Banking & Payments Federation Ireland (BPFI)¹. 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 sector². With SMEs (employing less than 250 persons) accounting for the overwhelming majority of enterprises, 69% of persons engaged, 56% of turnover and 50% of Gross Valued Added (GVA)³, 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.

In a report prepared for the BPFI in 2013⁴, it was noted that the highest concentration of Irish SMEs are in Accommodation and Food services, Construction and Real Estate activities, while Motor and Wholesale Trades as well as Professional, Scientific and Technical services also figure prominently in terms of employment. A number of challenges have existed for SMEs following the unprecedented economic adjustment over the recession years which hit many SMEs especially hard. While the environment is improving, the return to more sustainable growth and trading conditions should ensure that SMEs remain central to Ireland's economic and jobs recovery.

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 INDICATORS
- ✓ MACROECONOMIC INDICATORS
- ✓ SECTORAL INDICATORS
- ✓ LENDING INDICATORS

The data includes a number of the published sentiment indicators, including those from the ESRI, KBC and Investec. Much of the macroeconomic and sectoral data comes from the Central Statistics Office 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 *DKM/BPFI SME Market Monitor*. Unadjusted data are analysed on a year-on-year (YoY) basis.

This publication appears in electronic on BPFI's website: www.bpfi.ie and is available on www.dkm.ie.

¹ This report is produced by DKM Economic Consultants. DKM was given editorial independence by the Banking & Payments Federation Ireland to prepare its views, analysis, forecasts and economic commentary on data and statistical trends related to the SME sector. The views expressed herein are DKM's views and do not necessarily coincide with the views of the Banking & Payments Federation Ireland.

² The data in this Monitor is based on data published up to 29th September 2017.

³ <http://www.cso.ie/en/releasesandpublications/ep/p-bii/bii2014/>

⁴ <http://www.bpfi.ie/publications/sme-lending-market-in-ireland/>

Right now, the SME environment remains broadly positive, but no room for complacency

In this latest DKM/BPFI SME Market Monitor, the majority of indicators tracked are encouragingly positive. Amongst the positive indicators were the **Markit/Investec Purchasing Managers Index**, which reached its highest level in 25 months. It also registered marked increases in both export orders and employment levels in the sector. Similarly, the **Industrial Production Index** recorded a monthly increase of 1.3% in July, with a particularly strong increase in output in the Modern sector (+5.3%). There was also particularly strong growth in the **Services Index** in July, with monthly and yearly value growth of 6.9% and 10.1% respectively. The positive movement in all three indicators can be attributed to the healthy pace of growth in the domestic economy, supported by the strength of domestic demand.

Modified total domestic demand, which excludes the activities of multinational companies, totalled €43.5 billion on a seasonally adjusted basis, with quarterly growth of 4.5%. Encouragingly, **modified Gross Domestic Fixed Capital Formation** grew by 3.1% QoQ.

The publication of the Q2 2017 National Accounts also showed that, for the first time since Q1 2013, **personal consumption** fell by 1.1% on a quarterly seasonally adjusted basis. Such a drop was primarily due to the notable fall in the level of car sales in Q2 2017, with consumers opting to take advantage of a weak Sterling to make their car purchases in Northern Ireland, therefore causing domestic car sales to decline.

There were also mixed signs from the latest **Retail Sales Index**. Although the Index, recorded a notable annual increase of 4.7% in August, the Index did fall on a monthly basis by 4.2%. When car sales are excluded from the Index expands on an annual and monthly basis by 6.7% and 0.2% respectively. The majority of retail sectors recorded monthly increases in sales in August, particularly in Pharmaceutical, medical and cosmetic articles (+2.4%), Hardware, paints and glass (+2.1%) Automotive fuel (+2%) and Electrical goods (+1.4%).

The latest **KBC/ESRI Consumer Sentiment Index** fell marginally in August as households began reining in spending due to back-to-school costs and rising household costs. The August survey suggested that although consumers' fears with respect to Brexit have eased to a certain extent, for the majority of consumers, their own personal finances had not improved with most consumers expecting no marked improvement in their household spending power in the coming year.

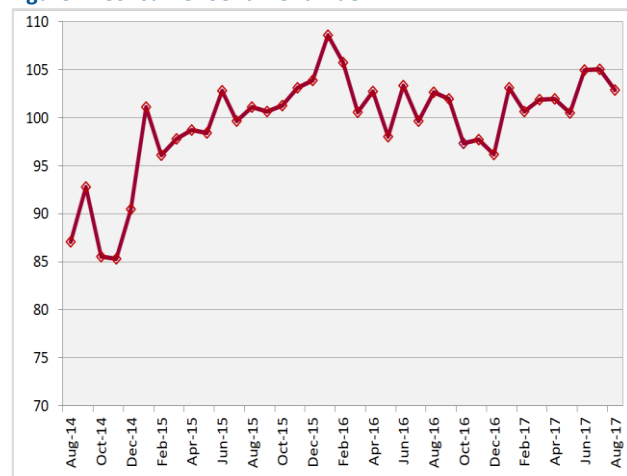
Uncertainty in regard to Brexit and the subsequent weak value of Sterling continues to affect the **number of visitors** coming from Great Britain (GB), with visitor numbers down by 3.1% in the quarter and by 8.6% YoY in Q2 2017. Visitor numbers from Great Britain have been on a downward slope since Q2 2016, which coincided with the Brexit vote. Despite such falls, a total of 2.49 million tourists visited Ireland in Q2 2017, representing annual and quarterly increases of 3.8% and 1.8% respectively. There were also significant annual increases in visitors coming from North America (+22.9%) and Europe (+8.3%). The aftermath of the Brexit vote also continues to affect the **Food Production Index**, as output in the industry has now fallen in five of the last six months.

Total new lending to SME's rose to €740 million in Q2 2017, representing a modest increase of 2.8% or €20 million on the previous year. As a result, **new SME lending** has now expanded in each of the last five quarters. **Total outstanding debt** accrued by Irish SME's came to €13 billion in Q2 2017, representing a decline of 12% or €1.8 billion compared to the previous year.

In summary, with Brexit negotiations ongoing and with corporation tax proposals and developments in the US, the Irish economy currently faces uncertain times. Nonetheless, at this point in time, the economy continues to perform well in terms of increased domestic demand, positive SME lending and production levels. However, given the unpredictability of these global factors, it is difficult to know whether this shall remain to be the case and to what extent this could impact the SME environment in the medium term.

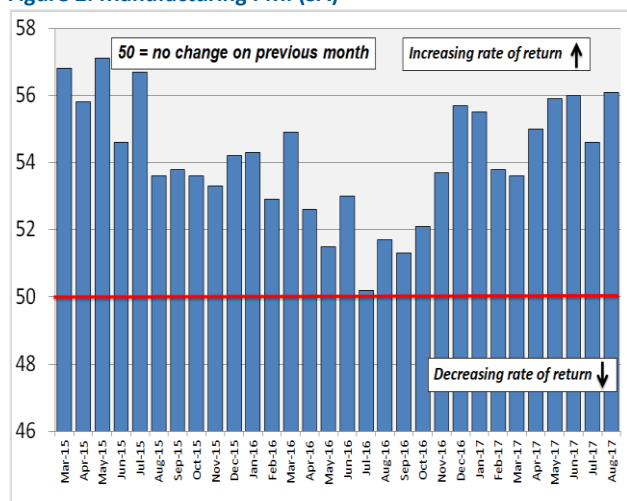
1. Sentiment Indicators

Figure 1: Consumer Sentiment Index



Source: KBC/ESRI

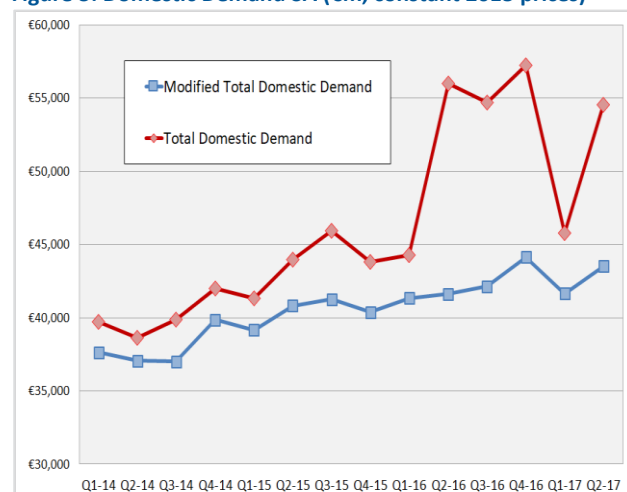
Figure 2: Manufacturing PMI (SA)



Source: Markit/Investec

2. Macroeconomic Indicators

Figure 3: Domestic Demand SA (€m, constant 2015 prices)



Source: CSO, National Accounts

Brexit fears continue to ease but uncertainties persist

	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17
Monthly Index	101.9	102.0	100.5	105.0	105.1	102.9
Annual change	1.3	-0.7	2.4	1.6	5.5	0.2
Monthly change	1.2	0.1	-1.5	4.5	0.1	-2.2
3 mth moving average	101.9	101.5	101.5	102.5	103.5	104.3

Source: KBC/ESRI

Having recorded a 17-month high in July, the KBC Bank/ESRI Consumer Sentiment Index fell to 102.9 in August. The marginal decline was mainly due to households reining in spending due to back-to-school costs and rising household costs. There were mixed results in regards to the sub-indices, as the Index of Current Economic Conditions fell to 117, while the Index of Consumer Expectations increased to 93.3.

Consumers remain positive in relation to the prospects for the Irish economy and the outlook for jobs as the August readings were the strongest since June 2016. This implies that the significant fears that surfaced in the wake of the Brexit vote have eased to a certain extent, but not entirely.

However, the majority of Irish consumers feel that their own personal finances have not improved while most do not expect any notable improvement in their household spending power in the coming year. Overall, Irish consumer sentiment is broadly positive, albeit also fragile.

Export orders growing at their fastest rate since July 2015

	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17
PMI (SA)	53.6	55.0	55.9	56.0	54.6	56.1
Monthly Change	-0.2	1.4	0.9	0.1	-1.4	1.5

Source: Markit/Investec

The latest Markit/Investec Purchasing Managers Index rose to 56.1 in August from 54.6 in July, with the Index now at its highest in 25 months. As a result, production in manufacturing has now increased in each of the last 13 months.

This notable improvement was mainly due to an expansion in new orders, as firms secured new customers with some mentioning success in international markets. There was a marked increase in new export orders, extending the current sequence of expansion to one year.

For the eleventh month in a row, Irish manufacturing firms increased their staffing levels as companies attempted to alleviate additional pressure from rising workloads. That said, the rate of job creation eased for the third month running and was the weakest since last October. Higher demand for inputs, particularly raw materials saw the rate of input cost inflation rise with the current rate above the series average.

CSO release a new measure known as 'Modified Total Domestic Demand'

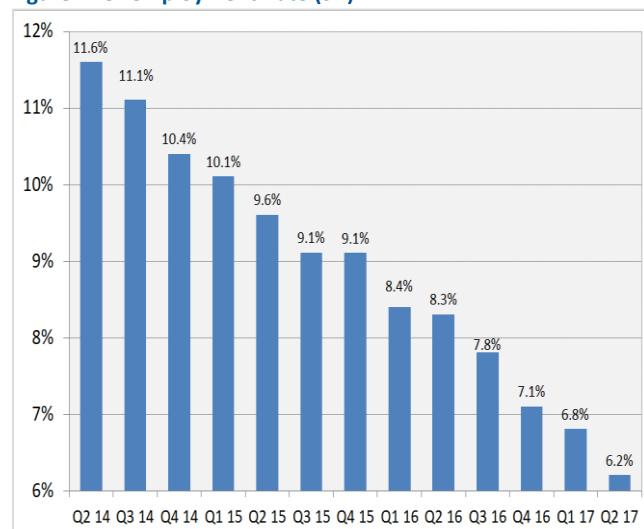
	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17
Total Domestic Demand (SA)	44,283	55,974	54,690	57,255	45,798	54,554
QoQ % Change	1.1%	26.4%	-2.3%	4.7%	-20.0%	19.1%
Modified Domestic Demand (SA)	41,331	41,619	42,126	44,129	41,641	43,506
QoQ % Change	2.4%	0.7%	1.2%	4.8%	-5.6%	4.5%

Source: CSO, National Accounts.

Having recorded a significant fall in the opening quarter of 2017, Total Domestic Demand rebounded strongly, increasing by 19.1% in Q2 2017. Given the QoQ fall in Personal Consumption (-1.1%) and the marginal growth in Government Expenditure (+0.6%), the expansion in Domestic Demand can be attributed to the marked increase in Gross Domestic Fixed Capital Formation (GDFCF) (+39.9%). However, it should be noted that GDFCF continues to be distorted by the importation of intellectual property assets and the accounting activities of redomiciled companies.

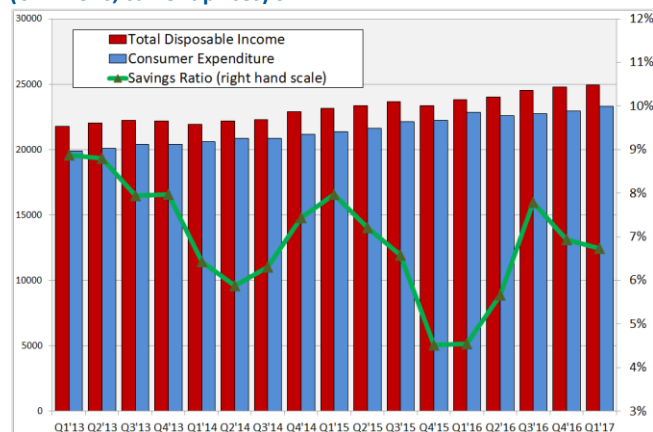
In July, the CSO released a new measure known as 'Modified Total Domestic Demand', which is an attempt by the CSO to exclude the above distortions. This measure should provide a more realistic insight into changes in the domestic economy. For Q2 2017 modified total domestic demand rose to €43.5 billion, having recorded both a QoQ and YoY increase of 4.5%. When the effects of IP imports and redomiciled companies are removed, GDFCF still expands on quarterly basis, albeit at much lower rate of 3.1%.

Figure 4: Unemployment Rate (SA)



Source: CSO, QNHS

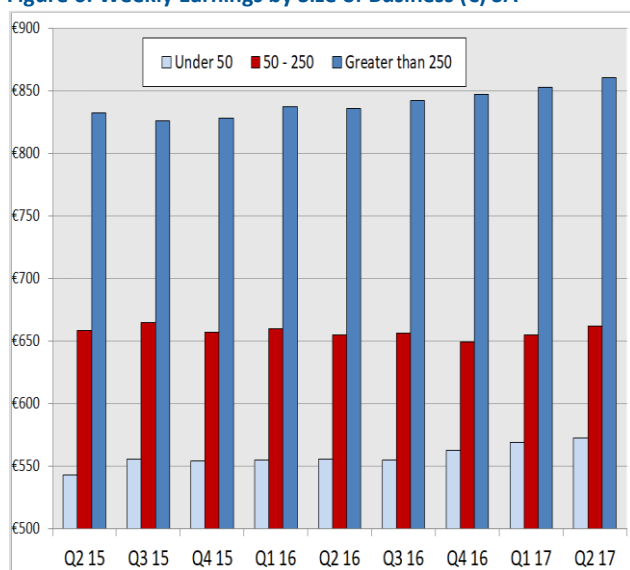
Figure 5: Household Disposable Income and Savings Ratio (€ millions, current prices) SA



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

3 Sectoral Indicators

Figure 6: Weekly Earnings by Size of Business (€) SA



Source: CSO

Downward trend in unemployment rate continues

	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17
Rate (SA)	8.4%	8.3%	7.8%	7.1%	6.8%	6.2%
Number (000s SA)	181.8	182.5	171.7	154.8	149.0	136.7

Source: CSO, QNHS

The seasonally adjusted unemployment rate fell to 6.2%, implying that the total number of people unemployed (SA) stood at 136,700 in Q2'2017. Relative to the same period last year, unemployment (SA) fell by 45,800, which was the largest annual decline since Q1'2015.

A similar trend is evident in the latest monthly data as the unemployment rate for August 2017 was 6.3%, down from 6.4% in July 2017 and down from 7.9% in August 2016. This implies that the number of persons unemployed (SA) in August was 139,100, a reduction of 33,900, when compared to the previous year. The rate of Youth unemployment actually increased from 12.3% in July to 12.7% in August.

As previously stated consumers continue to remain cautious over unfolding global events, however improvements such as these should allow for greater consumer confidence and purchasing activity, ultimately benefiting the SME sector.

Consumer expenditure has now surpassed its pre-crash peak

	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17
Total Disp. Income	23,369	23,816	24,033	24,537	24,783	24,911
QoQ % Change	-1.1%	1.9%	0.9%	2.1%	1.0%	0.5%
Consumption Exp.	22,236	22,818	22,601	22,720	22,957	23,310
QoQ % Change	0.5%	2.6%	-1.0%	0.5%	1.0%	1.5%
Gross Saving	1,055	1,083	1,360	1,912	1,718	1,679
QoQ % Change	-32.2%	2.7%	25.6%	40.6%	-10.1%	-2.3%
Savings Ratio	4.5%	4.5%	5.7%	7.8%	6.9%	6.7%

Source: CSO.

For the second quarter in a row, growth in total disposable income eased as Q1 2017 recorded a marginal QoQ increase of 0.5%, albeit annual growth was up 4.6%. Consumer expenditure totalled €23.3 billion in Q1 2017, which was up 2.2% on the corresponding period last year. This recent level is now ahead of its pre-crash peak, when consumer expenditure reached €23.2 billion (Q1 2008).

Gross savings totalled €1.7 billion, representing a large increase of 55% on the previous year. That said, savings on a quarterly basis were down by 10.1% and 2.3% in the past two quarters, which may be reflective of the fact that the concerns that surfaced in the wake of the Brexit vote may have somewhat eased.

Following four quarters of decline, earnings in medium size firms up 1.1%

	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17
Under 50	554.73	555.34	554.70	562.67	568.78	572.73
YoY % Change	1.3%	2.3%	-0.1%	1.6%	2.5%	3.1%
50 - 250	659.86	655.02	656.06	649.06	655.14	662.24
YoY % Change	1.5%	-0.5%	-1.3%	-1.2%	-0.7%	1.1%
250 +	837.23	836.00	842.50	847.07	853.06	860.90
YoY % Change	0.6%	0.4%	2.0%	2.3%	1.9%	3.0%

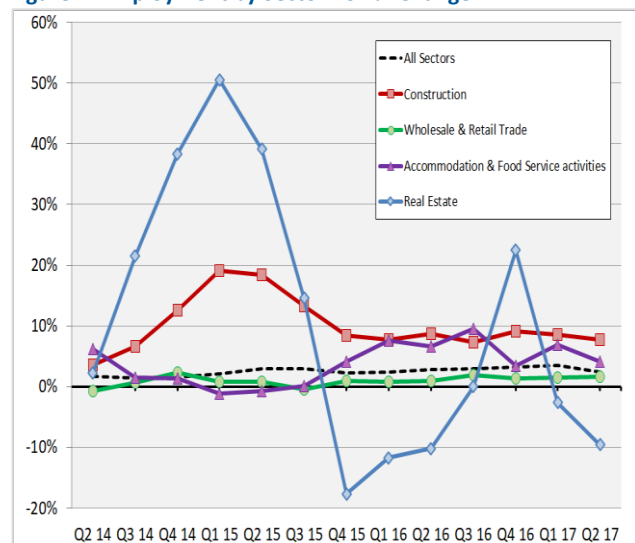
Source: CSO.

For the eleventh quarter in a row, overall earnings grew on an annual basis in Q2 2017, increasing by 2.2% to €722.65 per week or €37,578 per year.

Further examination of the data shows that earnings in small companies with less than 50 employees recorded the largest annual increase in Q2 2017 of 3.1%. Encouragingly, earnings in small companies are now only 0.6% behind their previous peak level in Q3 2008, a considerable improvement on the previous year's gap of 3.6%.

Having recorded a decline in each of the last four quarters, earnings in medium-sized firms rebounded in Q2 2017 increasing by 1.1% YoY. Despite this, weekly earnings in medium-sized companies remain 1.2% off their previous peak. Earnings in large companies with more than 250 employees were up by 3.0% YoY.

Figure 7: Employment by Sector YoY % Change



Source: CSO, QNHS, not SA.

A total of 48,100 new jobs have been created since last year

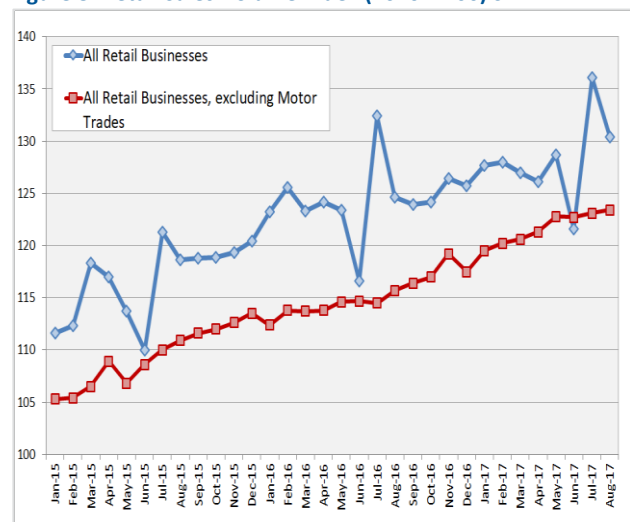
	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17
All sectors	2.4%	2.9%	2.9%	3.3%	3.5%	2.4%
Construction	7.8%	8.7%	7.3%	9.2%	8.5%	7.7%
Wholesale and retail trade	0.7%	0.9%	1.9%	1.4%	1.5%	1.6%
Accommodation and food	7.6%	6.7%	9.5%	3.4%	6.9%	4.2%
Real estate	-11.7%	-10.2%	0.0%	22.4%	-2.7%	-9.6%

Source: CSO, QNHS, (NSA).

The Irish labour market continued to improve in 2017, as overall employment increased on annual basis by 48,100, to reach 2.06 million in Q2' 2017. Of the 48,100 new jobs created over the last year, 41% can be accredited to the four sectors with the greatest concentration of SMEs, highlighting the significance of SMEs to the labour market.

Of these four sectors, the Construction sector registered the largest annual increase, with growth up 7.7% on the previous year, while the industry also accounted for 22% of the new jobs created since last year. Despite the recent fall in the number of British tourists coming to Ireland, the Accommodation and Food sector recorded a annual increase of 4.2%, while the Wholesale and Retail Trade sector was also up by 1.6% on the previous year. Despite this, employment in the Real Estate sector recorded a significant annual decline of 9.6%.

Figure 8: Retail Sales Volume Index (2010 = 100) SA



Source: CSO

When motor sales are removed, Retail Sales Index increases marginally in August

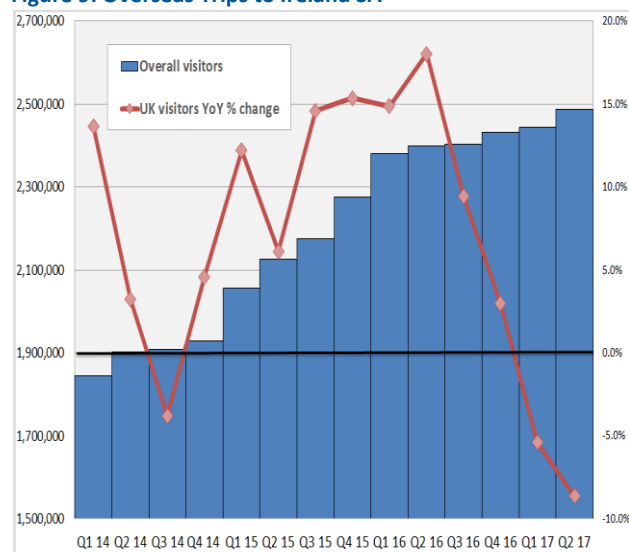
	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17
Retail Sales Index	127	126.1	128.7	121.6	136.1	130.4
MoM % Change	-0.8%	-0.7%	2%	-5.5%	12%	-4.2%
Index ex. Motor	120.6	121.3	122.8	122.7	123.1	123.4
MoM % Change	0.3%	0.6%	1.3%	-0.1%	0.4%	0.2%

Source: CSO

After a notable monthly increase of 12% in July, the Retail Sales Index fell in August by 4.2% MoM. When car sales are excluded, the overall Index actually increases marginally by 0.2%. However, on an annual basis, retail sales volumes with and without motor trades were up by 4.7% and 6.7% respectively.

The majority of retail sectors recorded monthly increases in sales in August, most notably in Pharmaceutical, Medical and Cosmetic Articles (+2.4%), Hardware, Paints and Glass (+2.1%), Automotive Fuel (+2%) and Electrical Goods (+1.4%) with the remaining sectors that did record an increase, registering monthly increases below 1%. The retail sectors that recorded the highest monthly declines were Clothing and Footwear, Books, Newspapers and Stationery (both -0.7%), Furniture and Lighting (-0.4%) and sales in Specialised Stores (-0.1%).

Figure 9: Overseas Trips to Ireland SA



Source: CSO

Record of 2.49 million tourist's visitors in Q2 2017, despite fall in British numbers

	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17
Overseas Visitors (SA)	2.38	2.40	2.40	2.43	2.44	2.49
QoQ % Change	4.6%	0.8%	0.2%	1.2%	0.5%	1.8%

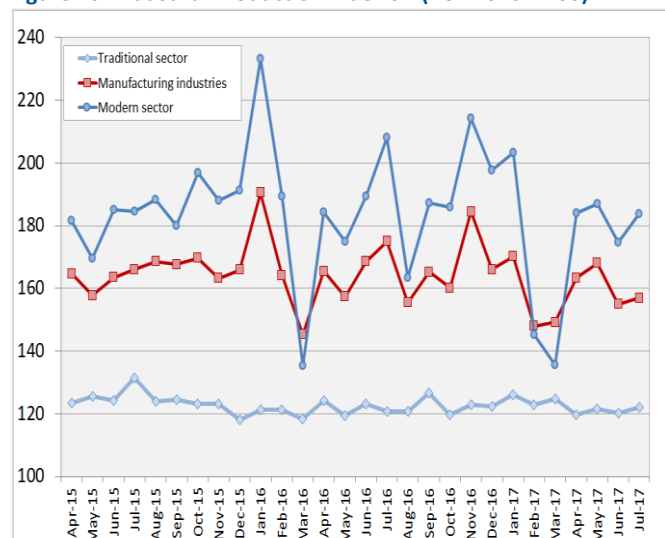
Source: CSO

In total, 2.49 million tourists visited Ireland in Q2 2017, representing annual and quarterly increases of 3.8% and 1.8% respectively. Such news is a positive development for SMEs such as hotels, B&Bs, restaurants, bars and retail outlets that rely heavily on a strong tourism industry.

It is clear that uncertainty in regard to Brexit, and more recently adverse sterling/euro exchange rate movements, continues to affect the number of visitors coming from Great Britain (GB), with declines of 3.1% QoQ and 8.6% YoY in Q2 2017. This implies that visitor numbers from Great Britain have been on a downward slope since Q2 2016.

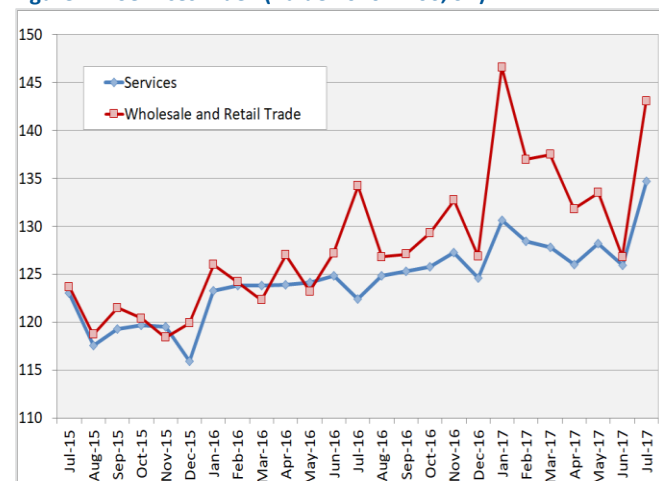
Despite this, there continues to be remarkable growth in other markets, as the number of visitors from North America was up strongly in the quarter following an annual increase of 22.9%. Visitors from other European countries were also up strongly on last year, increasing by 8.3%, while visitors from other areas (outside of GB, US and Europe) recorded considerable annual growth of 20.2%.

Figure 10: Industrial Production Index SA (Vol. 2010 = 100)



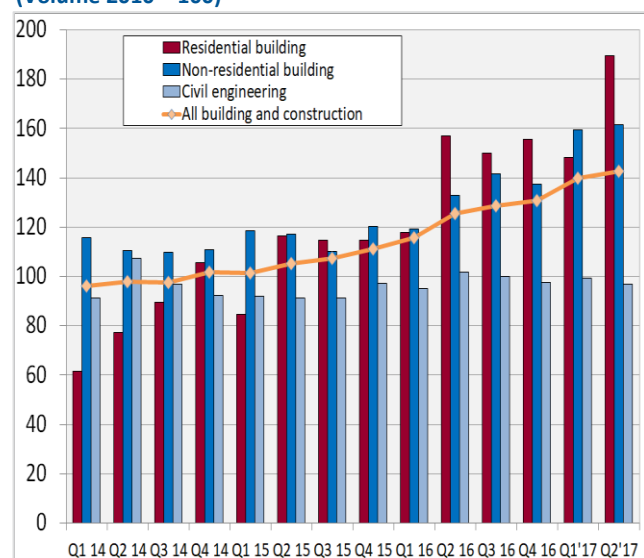
Source: CSO Methodological changes from Jan 2014 (reclassification of some service companies to Industry) and rebasing to 2010 from 2005.

Figure 11: Services Index (Value 2010 = 100, SA)



Source: CSO. This is an output value Index with 2010 as the base year.

Figure 12: Construction Production Index SA (Volume 2010 = 100)



Source: CSO

Manufacturing output rebounds in July, with monthly growth up by 1.3%

	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
Manuf. Industries	148	149.2	163.4	168	154.9	157
MoM % Change	-13.0%	0.8%	9.5%	2.8%	-7.8%	1.3%
Traditional sector	123	124.8	119.8	121.6	120.2	122.1
MoM % Change	-2.5%	1.5%	-4.0%	1.5%	-1.2%	1.6%
Modern sector	145.3	135.7	184.1	187.1	174.6	183.8
MoM % Change	-28.5%	-6.6%	35.7%	1.6%	-6.6%	5.3%

Source: CSO. Manufacturing excludes Electricity & Gas, Mining & Quarrying, which are included in Traditional.

The past six months have seen considerable fluctuations in the volume of output in the manufacturing industry. Having recorded monthly increases of 9.5% and 2.8% in April and May, the Industrial Production Index registered a significant decline of 7.8% in June, albeit with July bringing a modest improvement of 1.3%.

The Modern sector was mainly responsible for these variations, as changes in output in the Traditional sector are much less substantial. Following a sizeable monthly decline in June (-6.6%), output in the Modern sector recovered notably to increase by 5.3% in July. That said, the sector is down by 11.7% relative to last year. Changes in output in the Traditional sector were far less volatile with July seeing modest monthly and yearly increases of 1.6% and 1.2% respectively.

Strong growth in Professional, Scientific and Technical activities (+7.1%)

	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
Services SA	128.4	127.8	126	128.2	125.9	134.7
MoM % Change	-1.7%	-0.5%	-1.4%	1.8%	-1.8%	6.9%
W&R & Motor Trade	137	137.5	131.8	133.5	126.8	143.1
MoM % Change	-6.5%	0.3%	-4.1%	1.2%	-5.0%	12.8%

Source: CSO. Index covers non-financial traded services. This index covers all enterprise with a turnover of over €20m and more than 100,000 persons engaged.

Following marginal changes in the previous three months, the Service Index recorded a significant monthly increase of 6.9% in July. Relative to the same month of 2016, the Index was up 10.1% in July.

The monthly increase in July can be primarily credited to notable performances in Professional, Scientific and Technical activities (+7.1%), Information and Communication (+4.8%), Transport and Storage (+3.9%), and Administrative and Support service activities (+2.7%). In contrast, sub sectors such as Accommodation services and Food and Beverage service activities registered monthly declines of 1.8% and 8.5% respectively.

Double digit growth continues in B&C, with Q2 2017 up by 13.5% YoY

	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17
All Building and Construction	115.7	125.6	128.8	130.9	139.9	142.5
QoQ % Change	4.1%	8.6%	2.5%	1.6%	6.9%	1.9%
YoY % Change	14.0%	19.2%	20.0%	17.8%	20.9%	13.5%

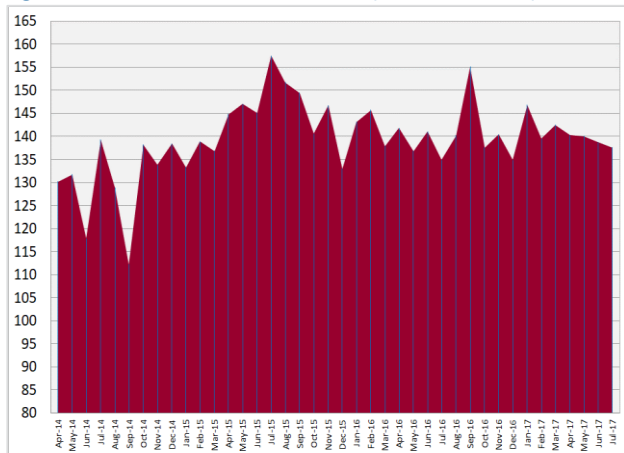
Source: CSO

For the sixth quarter in a row, the volume of output in Building and Construction (B&C) expanded by double digit figures, with Q2 2017 up 13.5% on the previous year. Notwithstanding such significant growth, B&C output remains 61.6% off its previous peak recorded at the height of the construction boom.

Of the three components that make up the B&C Production Index, Non-Residential Building was the fastest growing sector, with output up 21.4% YoY. Similarly, there was a notable increase in output in the Residential sector, with yearly growth up by 20.5% YoY. However, Civil Engineering fell on annual basis by 5% in Q2 2017.

That said, the latest Ulster Bank Construction Purchasing Managers' Index (PMI) fell for the third successive month in a row, falling from 56.6 in July to 55.1 in August. The Ulster Bank Construction PMI survey noted that there was a sharp rise in input prices in August, mainly due to higher raw material costs.

Figure 13: Food Production Index SA (Vol. 2010 = 100)



Source: CSO

Food production is down for the fourth month in a row

	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
Food products	139.5	142.5	140.3	140.0	138.7	137.6
MoM % Change	-5.0%	2.2%	-1.5%	-0.2%	-0.9%	-0.8%

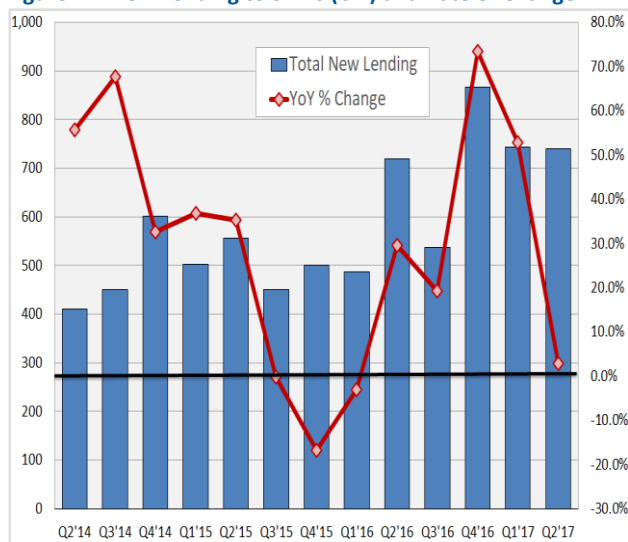
Source: CSO

The downward trend in the Food Production Index continued into the second half of 2017, with the Index recording monthly declines in five of the last six months. The latest data showed that Food production declined marginally by 0.8% in July, although the Index was up on an annual basis by 2%.

Such a fall can predominantly be credited to monthly declines in production of Bakery and Farinaceous products (-3.1%), Other Foods (-2.4%) as well as Grain mill and starch products; prepared animal feeds (-1.7%). In contrast, July saw notable MoM increases in the production of Dairy Products (+6.6%) and Meat and Meat Products (+4.6%).

4. Lending Indicators

Figure 14: New Lending to SMEs (€m) and Rate of Change



Source: Central Bank

Lending to SME's has increased for the 5th quarter in a row

	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17
Total New Lending (€)	487	720	537	867	744	740
YoY % Change	-3.0%	29.5%	19.3%	73.4%	52.8%	2.8%

Source: Central Bank *Total lending ex Financial Intermediation, Real Estate and Primary Industry lending - see Note (1).

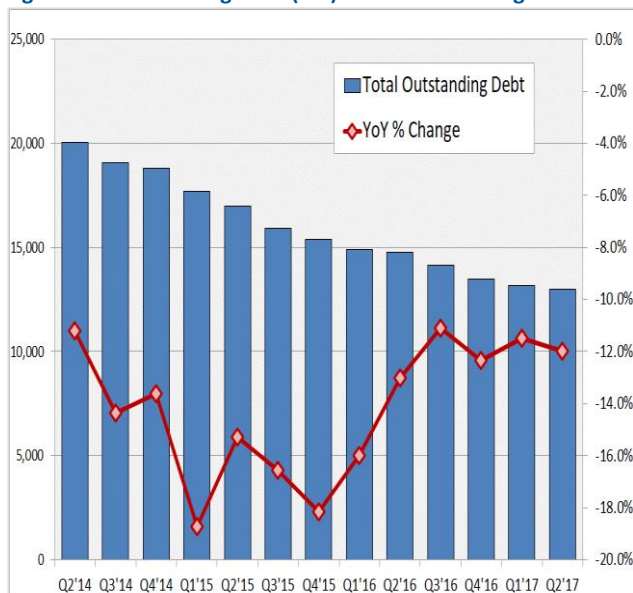
Total new lending to SME's rose to €740 million in Q2 2017, representing a modest increase of 2.8% or €20 million on the previous year. Such growth implies that new SME lending has now expanded in each of the last five quarters, albeit annual growth eased considerably relative to the previous quarter.

The Wholesale/Retail Trade & Repairs sector continued to be the largest recipient of new funding, accounting for 30%. Other sectors that received noteworthy shares of total SME lending included:

- Manufacturing (17.3% of total new SME lending)
- Hotels and Restaurants (16.1%)
- Transport and Storage (12.7%)
- Business and Administrative Services (7.4%)

Of the twelve sectors that were under examination, Wholesale/Retail Trade & Repairs recorded the largest absolute increase in borrowing, up €45 million YoY.

Figure 15: Outstanding Debt (€m) and Rate of Change



Source: Central Bank

Total debt accumulated by SME's fell by €1.8 billion in the last year

	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17
Total Outstanding Debt (€)	14,884	14,765	14,154	13,501	13,173	12,995
YoY % Change	-16.0%	-13.0%	-11.1%	-12.3%	-11.5%	-12.0%

Source: Central Bank *Total outstanding debt ex Financial Intermediation, Real Estate and Primary Industry lending - see Note (1).

According to the above definition*, total outstanding debt accrued by Irish SME's came to €13.0 billion in Q2 2017, representing a decline of 12% or €1.8 billion compared to the previous year.

Of the twelve sectors under examination, ten recorded annual declines in Q2 2017. The sector that recorded the largest absolute decline in debt was Wholesale/Retail Trade and Repairs, having registered a fall of €0.5 billion. The following sectors also recorded notable reductions:

- Hotels and Restaurants (-€0.3 billion YoY)
- Construction (-€0.2 billion YoY)
- Business and Administrative Services (-€0.2 billion YoY)

Continued reductions in debt levels can be attributed to the economic recovery. As SME's invest more capital in expanding and growing their operations, this should positively impact employment levels.

	INDICATOR	SOURCE	FREQUENCY	SEAS ADJ.
	Sentiment Indicators			
1	Consumer Sentiment Index	ESRI/KBC	Monthly	No
2	Purchasing Managers' Index	Investec	Monthly	Yes
	Macroeconomic Indicators			
3	Domestic Demand	CSO National Accounts	Quarterly	Yes
4	Unemployment	CSO	Quarterly	Yes
5	Disposable Income	CSO	Quarterly	Yes
	Sectoral Indicators			
6	Earnings by Business Size	CSO	Quarterly	Yes
7	Employment by sector (QNHS)	CSO	Quarterly	No
8	Retail Sales Volume Index	CSO	Monthly	Yes
9	Overseas Trips to Ireland	CSO	Quarterly	Yes
10	Industrial Production Index	CSO	Monthly	Yes
11	Services Index	CSO	Monthly	Yes
12	Building and Construction Production Index	CSO	Quarterly	Yes
13	Food Production Volume Index	CSO	Monthly	Yes
	Lending Indicators			
14	Outstanding SME debt by sector	Central Bank	Quarterly	No
15	New Lending to SMEs by sector	Central Bank	Quarterly	No

NOTES

- (1) We exclude lending to financial intermediaries and real estate lending as these account for a significant proportion of SME lending (as defined) but a relatively small proportion of SME economic activity. In addition, we exclude the primary Sector (mainly Agriculture) from our analysis as the factors influencing that sector are arguably quite different to those affecting other SMEs. It should be noted that we have included lending to the Construction sector in our aggregate (unlike the Central Bank) as we believe that most of this lending is now for working capital in the construction sector and not for property purchase or development.