Corporate & Commercial Banking - Sectors Team. Developments & Insights

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Bank of Ireland

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Foreword – John Feeney: Chief Executive, Corporate & Commercial Banking

Since becoming Chief Executive of Bank of Ireland, Corporate and Commercial Banking in November, I have had the opportunity to meet many great Irish businesses in a variety of sectors. I am struck by the innovation and dynamism alive across the country and the ambition of our customers to grow. At Bank of Ireland we champion this ambition, supporting Irish businesses through a relationship model that includes lending to facilitate capital expenditure and a wide variety of products and services from across the Bank of Ireland Group. As part of this, our sector specialists work with our customers to provide insights into key trends and developments. In an increasingly specialised global economy, our aim is to guide our customers to solutions that help their businesses become stronger.

With this in mind, I am delighted to introduce the latest edition of the sector team's Development and Insights report, covering the Agriculture, Hospitality, Health, Retail, Technology-Media-Telecoms, Manufacturing and Food & Beverage sectors. This is the fruit of engagement with hundreds of customers across the island and provides a unique distillation of insights in each area. Recent times have seen significant change and with a new Trump presidency, the uncertain composition of an Irish government and a European system subject to diverse pressures, we should expect more change ahead and that places extra importance on rapid learning and adaptation. In this report we give insight as to how businesses across the island are responding to the opportunities and risks that are arising through both domestic and global trends. Recognising that every business is different, we hope this will stimulate thinking as to how to shape your business to thrive.

Amidst all this change, our commitment to our customers remains constant. Our sector specialists and all our banking teams are ready to engage with and support your business.

Best regards,

John Feeney

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Grocery inflation subsides:

Irish grocery inflation stood at 3.3% in November 2024 representing a significant reduction (6.5%) compared to the equivalent period in 2023. This metric will continue to be monitored closely in the months ahead given developing/wider geo-political factors impacting the food supply-chain. The large supermarket operators have been proactive in addressing cost of living concerns with targeted ad campaigns and voucher offers being strongly promoted in recent weeks. The ever-increasing emphasis on "events" across the sector was further underlined with sales across the Halloween/November weekend delivering a volume increase of 5.5% vs the same period in 2023.[1]

Investment continues within the market:

As the ever more discerning Irish consumer seeks excellence in store standards, Irish grocery and convenience retailers/brands recognise that investment/differentiation is required to retain and attract footfall to their business. This investment includes the delivery of new and revamped best in class stores that showcase the latest initiatives and offerings from individual brands. In recent months, Tesco have opened a number of new Express format stores in Dublin whilst Aldi, Lidl, Dunnes, Centra and Spar (amongst others) continue to expand their footprint nationwide. Cross-brand collaboration continues to be a feature of the market with Applegreen/Marks and Spencer, Maxol/Dunnes and Dunnes/Iceland all representing new/expanded partnership propositions being offered to the Irish consumer.[2]

Changing retail landscape:

The wider retail sector has delivered a robust performance to date in 2024 with sales volumes in the period January-September (excluding motor sales) remaining in line with the equivalent period in 2023.[3] Retailers continue to assess the impact that current inflationary trends may have on discretionary spend and are tailoring their business plans accordingly. Investor interest in retail park/shopping centres has been strong with notable transactions being closed in Cork, Carlow, Kilkenny, Drogheda and Dublin in recent months.[3] This has been driven by a re-invigoration of in-store retail in a post-pandemic landscape which has seen numerous international brands (Lego, New Balance, Pret A Manger, Kiko etc) open stores in Ireland along with occupancy levels returning to more normalised levels – retail parks and shopping centres now at 95%+ occupancy nationwide.

As I engage with retailers daily, it's encouraging to see progressive operators continuing to invest in their people, premises and systems whilst delivering a robust financial performance. These retailers recognise that a proactive approach is imperative to navigate the challenges ahead. The following areas will be key in shaping a sustainable Irish retail sector in 2025:

Knowing the Consumer:

Our population is aging, and many consumers believe the retail world is not ready for this change in demographic profile. In Ireland, the number of people aged over 65 has doubled in the last twenty years from c400k to c800k in 2023 equating to c15% of the population. This statistic is expected to rise towards c1.5 million by 2050.[5] At a European level, the "silver economy" is set to represent more than 35% of spending consumption by 2030. Given this exponential growth, meeting the needs of our senior shoppers should be a key focus area for all Irish retailers.

Conventional wisdom would dictate that the requirements of middle-income consumers ("the squeezed middle"), navigating an increased cost of living, would be heavily weighted towards a discount proposition. The reality based on both the Irish and European experience reflects a more polarised/nuanced approach with these consumers still seeking premium brands/products at intervals throughout the year. This behaviour is intrinsically linked – consumers seeking to "treat themselves" with a more expensive product/activity/night out etc after a sustained period of repressed/manged spending. Independent retailers adopting a "middle of the road" proposition therefore need to assess the viability of same in a polarised marketplace that is expected to continue.[6]

Personnel:

In a low unemployment environment, the recruitment and retention of personnel remains a critical challenge for the sector. People development strategies that deliver up-skill and career progression opportunities need to become embedded within the retail eco-system. This people focused framework should be proactively supported by the smart use of automation to create a better work environment and more engaged staff. Retail focused technology can absorb non-productive labour-intensive tasks allowing staff to engage with customers, generate more sales and nurture loyalty.

Omnichannel to Optichannel:

Whilst COVID-19 accelerated the digital transformation of the sector, considerable investment and development is still required by Irish retailers to meet customer expectations. Retailers need to compress this workstream into three distinct phases: 1. Going Online, 2. Integrating the online, physical store and supply-chain elements. (Omnichannel), 3. Refining the proposition to a seamless, user-friendly, consistent model (Optichannel).

[1] Kantar Irish Grocery market-share – 18 November 2024
[2] Various reports/articles – trade publications – Shelflife/Checkout etc – May: November 2024
[3] CSO Retail index – November 2024
[4] Bannon Retail Pulse/Various updates from Irish property firms: May – November 2024
[5] Population Aging & Public finances – Dept of Finance – June 2024
[6] Consumer Trends - McKinsey - June 2024

Hospitality Sector

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As we close the chapter on 2024, businesses are strategizing for the year ahead and what this might mean in terms of consumer demand, staffing, inflation and ultimately their bottom line. Consumer sentiment[7] has been steadily increasing this year from 62.4 last December to 74.1 at the end of October, unemployment levels remain stable at around 4.2%[8] and inbound visitor trips for the first 9 months of 2024 are up 10% on last year[9]; Bank of Ireland's latest economic outlook for Ireland 2024/2025 points out that *"with inflation falling back and real incomes growing, consumer spending should continue to expand"*. There are of course challenges ahead particularly about the wider sociopolitical environment in Ireland and abroad but the outlook for the sector in Ireland remains positive at this point in time.

Less is more.

Shorter and more frequent holidays have become the new normal after a temporary disruption of travel patterns during the COVID pandemic. Stats available from the CSO[10] for domestic trips by Irish residents for the first half of 2024 show an average of just 2 nights per trip vs 2.2 nights for the same period in 2019 and 2.4 nights back in 2014. A similar trend is reported for outbound travel by domestic residents where trips have decreased from an average of 7.2 days back in the 6 months to June 2014 to 6.5 in for the same period in 2019 and just 5.7 for 2024. Average spend per trip had slightly softened before 2019 but surged over the last four years shaped by the inflationary environment.

Inbound travel stats from the CSO for Jan to Sept 2024 vs same period for 2023 show a 9% decrease in average stay from GB (England, Scotland & Wales) visitors, and an 18% decrease for "Other Europe" while US average trip duration remains unchanged.

Discounted pricing for extended stay/additional nights, flexibility on late checkouts/early check ins, and package deals have long been a feature of hotels as they try to maximise stay and ancillary revenues. Enhanced public areas and investment in additional facilities (leisure) are currently being considered by a number of operators.

Margin watch.

The hospitality sector has been dealing with an escalating cost base over the last couple of years as inflation impacted on cost of food, drink, labour, and energy in particular. As we look into 2025, the minimum wage is set to grow by 6% up to €13.50[11], sick pay leave entitlement will increase by 2 days[12] in 2025 (going up from 5 to 7) and pension auto-enrolment is due to commence at the end of September. Inflation has slowed down as evidenced by the CSO's Consumer Price Index for October showing an increase of only 0.7% for the last twelve months, going forward, price increases may face increased resistance from consumers across accommodation, food, and drink sales. Businesses have embraced dynamic menu engineering, become much more aware of food wastage and we have seen an increasing number of operators reviewing their purchasing practices and or purchasing platforms. The traditional 70% GP Margin target for food and drink sales has been forced upwards in the last couple of years as operators look to compensate for higher labour, energy, and insurance costs.

Foodservices.

Bord Bia has recently released their annual Market Insights Report 2024[13]. The report which focuses on the foodservices sector across the island of Ireland shows a preliminary growth estimate of 5.2% for the current year. The report also highlights a number of trends visible across the various sub-sectors it examines, including:

- Price increases and impact on footfall in the sector during 2024.
- The opportunity in the demand for "experiences".
- Digital investment to address challenges.
- Growth of chains at expense of independents.
- Restaurant visits becoming more planned and less spontaneous.

Also noted in the report is the fact that the recovery of the different subsectors has not been even over the last couple of years, "limited-service restaurants appear to be taking the lead while "hotel and accommodation" providers have on average experienced a softer post pandemic recovery path.

Ireland's Foodservice Market	2018	2019	2020	2021	2022	2023	2024	Index of Recovery 2024 2019= 100
Limited Service Restaurants	2856	2995	2002	2322	3114	3438	3599	120.2
Hotels and Accomodation	1386	1531	654	743	1361	1572	1602	104.6
Pubs	1445	1415	501	515	1319	1502	1547	109.3
Full Service Restaurants	994	1039	458	559	991	1150	1220	117.4
Coffee Shops and Cafes	456	482	328	395	482	525	553	114.7
Other Commercial	311	330	101	142	320	370	397	120.3
Institutional	738	763	445	447	657	813	937	122.8
Total	**€8.2bn**	**€8.55bn**	**€4.5bn**	**€5.1bn**	**€8.24bn**	**€9.37bn**	**€9.85bn**	**108.6**

Source: Bord Bia Foodservices Report 2024

Hotel Accommodation sales

Accommodation sales statistics have been on a largely positive trend for most locations across Ireland[14]. Occupancy has remained strong whilst average rate grew across all locations except Dublin and Cork where new accommodation supply diluted some of the demand. The Dublin Region has clawed back on the "RevPAR" (Revenue per average room) gap against last year that stood at -5% last June, now at -3% to the end of October. New economy class accommodation supply coming into the market in 2025 may continue to impact on average rate growth over the next 12 months. Galway city has reported slightly softer demand to date but this has been compensated by a 4% increase in rate to the end of October. The opening of 177 rooms at the Radisson Red in Crown Square will likely impact occupancy rate prospects for the year ahead as it will increase the bedroom stock for Galway city by around 6%. Cork city occupancy and average room rate to date, reflect the increase in bedroom stock so far this year. Limerick continues to take the lead within ROI with a 4% increase in RevPAR delivered on the back of a €7 increase in average room rate. RevPAR to the end of October is only second to Dublin city centre. Belfast remains in the top position within the island of Ireland when it comes to improved performance against last year with RevPAR growth of 10%.

Accommodation KPI's Ireland: 2019-2024	October YTD												RevPAR Variance			
	Occupancy %				Average Room Rate €				RevPAR €				Oct '24 vs '23		Oct YTD '24 vs '23	
Location	2019	2022	2023	2024	2019	2022	2023	2024	2019	2022	2023	2024	€	%	€	%
Dublin All	84	78	84	84	143	171	184	179	121	134	155	150	-1.7	-1%	-5	-3%
Dublin city centre	85	76	83	82	169	198	209	201	144	150	173	166	-2.6	-2%	-7	-4%
Galway	77	72	78	77	121	157	176	183	93	113	138	141	14.5	12%	4	3%
Cork	80	73	80	78	113	152	159	159	90	111	127	124	-3.2	-3%	-3	-2%
Limerick	73	77	83	82	139	158	183	190	101	121	151	157	18.1	13%	5	4%
Kilkenny	74	67	74	76	114	163	172	174	84	109	128	132	14.9	13%	4	3%
Ireland Provincial	74	69	76	76	109	143	159	164	81	99	120	125	10.5	15%	4	4%
Belfast	74	75	79	79	88	114	124	137	65	86	98	108	3.6	4%	10	10%
Derry/Londonderry	70	67	72	71	78	103	106	115	55	69	77	81	16.3	21%	5	6%

[7] Trading economics; Ireland consumer sentiment, October 2024.
[8] CSO; Monthly Unemployment, October 2024.
[9] CSO; Inbound Tourism Statistics, September 2024.
[10] CSO; Household Travel Survey Q2 2024.
[11] Citizensinformation.ie; Budget 2025: Minimum wage increase
[12] Working Relations Commission; Sick Leave Update Jan 2024
[13] Bord Bia, Market Insights Report 2024.
[14] CoStar STR, October 2024.

Food & Drink Sector

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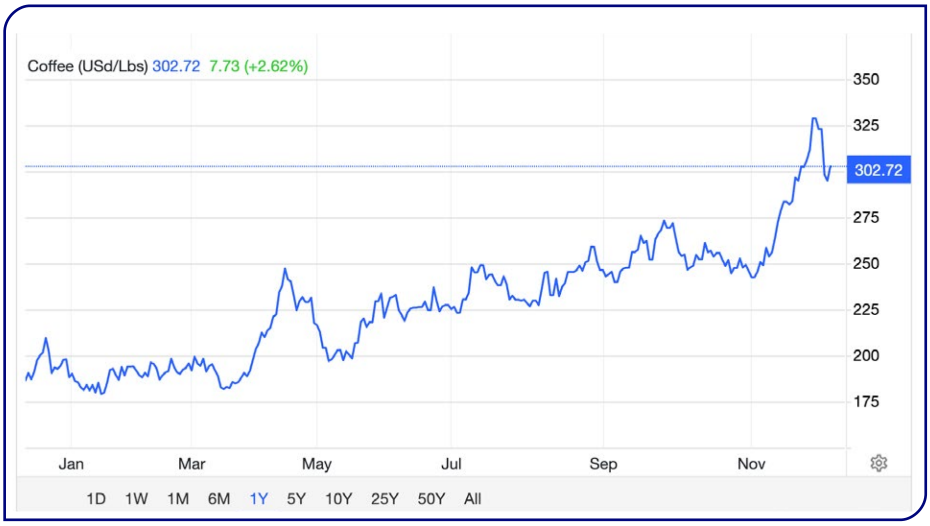
- It is encouraging to see the Jan-Sep '24 value of food & drink exports was €12.71 Bn vs €12.22 Bn, +4% YoY[15]. All sub-sectors performed ahead of last year, with dairy the only exception at -3% YoY.
- In terms of destination markets, food and drink exports to GB grew +3% in Jan-Sep, NI +7%, EU +2%, USA +34% with exports to PRC (China) and Rest of World -16% and -2% respectively. PRC has been slower to reopen post-pandemic than other markets.
- Trading Economics reported food inflation of 2.1% in ROI in October, versus September's 1.9% with EU food inflation 2.6% and the UK 1.9%[16].
- The doubling of cocoa prices in 2024 – circa USD $8,300 per metric tonne in Nov '24 - led to significant price increases in chocolate-based goods, forcing producers to consider alternatives[17].
- Coffee prices increased in 2024: Arabica coffee futures were almost USD $3 per pound, a new high since April 2011. Drought in the world's largest producer Brasil indicates lower harvests[18].

Geopolitical issues continue to bring uncertainty. However, industry has adapted to this volatility sourcing alternative ingredients and raw materials from several suppliers and closer to home, to avoid supply chain delays, and innovating to reduce reliance on particular ingredients. Despite the many setbacks for producers - high input costs, supply chain blockages and staff shortages, the industry outlook remains buoyant.



Source: Trading Economics

When do consumers start buying food for Christmas?

Whilst consumers may complain Christmas ads feature too early, producers and retailers invest year-round efforts in anticipation of the busiest food shopping period. In 2024 in the UK, Kantar data shows that early festive food shopping, with 14% of shoppers buying mince pies in October '24, boosted grocery sales by 2.3% in 4 weeks to 3 November '24 to £11.6 Bn, the biggest sales month of 2024[19].

In ROI, in 4 weeks to 3 November sales reached €1.16 Bn, the strongest sales month of 2024 and Dunnes held market lead position. Halloween and early Christmas shopping also increased shopper purchases in ROI with an extra €774k spent on Christmas baking ingredients[20].

Food inflation

Whilst food inflation moderated from the highs of 2023, and remains in low single digits, food prices continue to grow albeit at a much lower level. Strong cost control remains critical as producers manage high input costs. The FAO Food Price Index (FFPI) averaged 127.4 points in October 2024, up 2% from its revised September level and the highest since April 2023[21].

Re-Turn Deposit Return Scheme - return rates low to date

According to Department of Environment figures released, fewer than 1 in every 2 containers or 45% have been returned since the DRS scheme launch on 1st February[22]. The scheme requires producers to report monthly data, and there can be a time lag for containers to be sold and returned, so it remains to be seen as to the longer term success of this initiative to reduce single-use plastic.

Table 2: Deposit Return Scheme - ROI

Month	Containers placed on the market	Containers returned	Collection rate	Deposits refunded
February	85 Million	2 million	2%	€0.4 million
March	137 million	21 million	15%	€4 million
April	146 million	52 million	35%	€9 million
May	166 million	78 million	47%	€13 million
June	165 million	92 million	56%	€16 million
July	163 million	103 million	64%	€18 million
August	154 million	112 million	73%	€19 million

Source: Department of Environment

Brexit and Border Target Operating Model (BTOM)

The final element of BTOM, a set of measures introduced to help manage imports into GB after the UK's departure from the EU, has been delayed from late 2024 and will not now be implemented until 2025. This requires traders to submit safety and security declarations for all imports into GB. Whilst BTOM requirements can be administratively onerous for exporters, the importance of the UK as the largest market for food and beverage exports, means traders have invested in managing the new requirements.

Has online grocery shopping changed food purchasing patterns?

With the growth of food sales online in the pandemic, many assumed this trend would continue. Producers found ecommerce solutions and online shops to supply directly to consumers ("DTC").

Whilst online food shopping has a loyal base, many shoppers prefer in-store shopping and online levels remain low. Recent Kantar data 12 weeks to 29 Sep '24 shows online grocery shopping of 6% value & pack share. By comparison, in the UK online grocery sales account for circa 12% of the total.

Some small producers continue to favour DTC as it can be more cost-effective and enables the gathering of sales data and trends. Subscription models can help operators establish a loyal consumer base with digital activity effective at targeting consumers. Nonetheless, as online food sales remain relatively low in ROI, producers also need retailer listings to access 90+% of shoppers.

[19] Britain's supermarket sales hit 2024 high as shoppers get ready for Christmas
[20] Halloween Treats and Christmas Staples Drive Biggest Sales Month This Year for Grocers in Ireland
[21] FAO Food Price Index | Food and Agriculture Organization of the United NationsCountries
[22] 45% of DRS containers 'on market' returned up to August

Agriculture Sector

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A year of two halves

Weather has dominated the agri sector conversation over the past 12 months. Weak profitability coming into 2024 due to increased costs and subdued markets impacted the mood on farm in the first half of the year. This has impacted farmer confidence to invest in the short term with farm buildings investment and machinery purchase all back on last year[23]. The second half of the year, particularly the dry Autumn has turned around the financial prospects on many farms for 2024. Supported by higher prices for milk, grain and beef, average farm profitability in 2024 looks set to rise over 2023.[24]

It is important in a year like 2023 & 2024, to look at the sector through a longer-term lens. The sector is performing well, with consistent average profitability (despite price volatility) over a 3 to 5-year period. The sector continues to deleverage with Irish farmers geared lower (on average) compared to their global peers. Alongside this, farmers are sitting on increased cash balances (on average) compared to the turn of the decade[25].

But over the longer term, there is recognition that this sector will evolve significantly in the years ahead as it transitions to a more sustainable way of farming. We are beginning to see the first signs of these new environmental compliance costs hitting all farms - for example through lower stocking rates, additional slurry storage, removal of certain pesticides or more limited use of chemical fertilisers. For farmers this is an obvious yet significant challenge and one that will continue to shape the future direction of the sector. The scale of this transition and the supports required from all stakeholders including Government, the supply chain and the market to enable farmers to complete same cannot be underestimated. At Bank of Ireland, we are proud to partner with over ten co-ops nationally to offer our Enviroflex sustainable loan scheme to farmers who are on their own sustainability journey to farm in a more environmentally friendly way.

Farm Financial Health improving

A key indicator of the financial health of farms is overdraft use. So far this year, farmers have reduced the usage of overdraft facilities. At the end of October, overdraft utilisation rates have fallen from 17% in the Spring to 11% at the end of October. While this is normal over the summer months, this Spring, overdraft usage was higher than 2023 but is now lower than October 2023. Coming into the winter where costs and bills generally increase on farm, Bank of Ireland has over €300m of unused overdraft facilities in place to support cashflow over the winter months[26].

Another key financial health indicator is deposit balances. Despite the long winter and the poor Spring weather (which impacted individual farms differently), overall deposit balances have recovered over the summer months and are up 4% in the 12 months to end of October 2024. Stronger farm output

prices have supported farm cashflows and profitability over the Summer and Autumn. Deposit balances remain at historically high levels and are +50% higher (on average) than 2020[27]. This increase was predominately driven by strong farm profitability in 2022 where output prices increased 30-50% driving average farm incomes up 33% compared to 2021[28].

Static new lending but overall debt levels continue to fall

The new lending market to farmers has remained static in H1 2024 compared to the same period in 2023[29]. Notwithstanding the fact that some individual farms experienced cashflow pressure in the Spring, on average there was no increase in new lending as a result of the difficult start to the year. What is interesting, is funding proposals to Bank of Ireland for farm investments such as expansion, upgrading animal housing, milking facilities and farm machinery have reduced in 2024 compared to 2023. Farmers have been postponing investment decisions due to weaker market prices/profitability, weather and poor cashflows but also questioning the future direction of the industry given the lack of clarity around key agri policies such as nitrates or nature restoration and land use change. While new lending has not fallen, it is being supported by strong demand and increased prices in respect of land acquisition. As the sector continues to deleverage with overall farm debt levels now at 25-year lows[30], this positions the sector well in terms of global competitiveness and price volatility. However it does point to a broader question as to the level of sustainable investment and debt required in order to support environmental transition while maintaining the economic output of the sector and its impact on rural Ireland.

[23] Bank of Ireland data; October 2024
[24] Teagasc, Mid Term Outlook Report 2024
[25] Central Bank, SME and Large Enterprise Credit and Deposits statistics - 2024.
[26] Bank of Ireland data; October 2024.
[27] Bank of Ireland deposit data, October 2024.
[28] Teagasc, National Farm Survey - 2022
[29] Central Bank, SME and Large Enterprise Credit and Deposits statistics - 2024
[30] Central Bank, SME and Large Enterprise Credit and Deposits statistics - 2024

Manufacturing Sector

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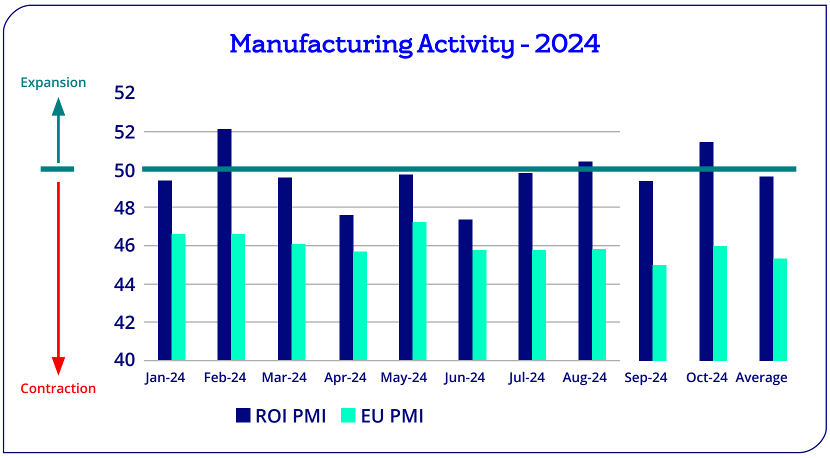
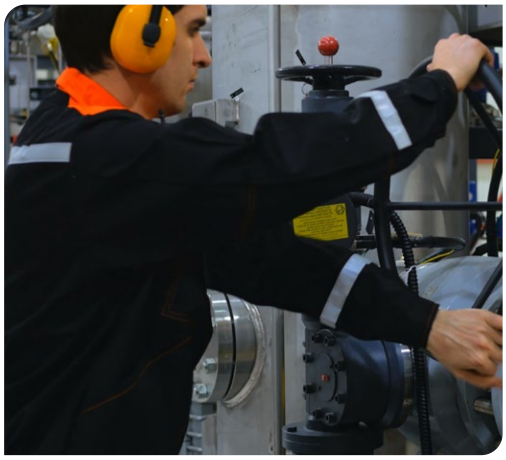




Manufacturing contraction cycle drags on but with fragile signs of renewed growth.

Ireland's manufacturing Purchasing Managers' Index PMI[31] for Oct. 2024 rebounded into expansion territory at 51.5, its highest level since Feb. 2024. It signals a tentative turnaround in activity, triggered by modest growth in new orders. While order growth rate is the highest seen since May 2022, export sales continue to be weak, particularly to Europe which continues in a rut at PMI of 46. As a solid upturn in global activity remains elusive, Manufacturing may adjust capacity and employment levels downwards to align with business needs. While employment here remains strong, there is anecdotal evidence of leavers not been replaced.

On the positive side, exports Jan to Sept 2024 increased by 12% with a record September export level of €20.3Bn up 44% on September 2023. Exports growth was dominated by US +28%, and sectors, Pharma +24% and Machinery +22%[32]. Exports growth to EU remain robust at +8% while dropping significantly to GB -18%. Whilst this overall export bounce is great news, there is a possibility that some stock building is taking place to escape potential 2025 tariffs. While pricing inflation continues to ease, with elevated input prices, businesses will not deflect from a laser focus on costs and margins. On a further optimistic note, business sentiment remains positive with expectations of further interest rate cuts before year end.

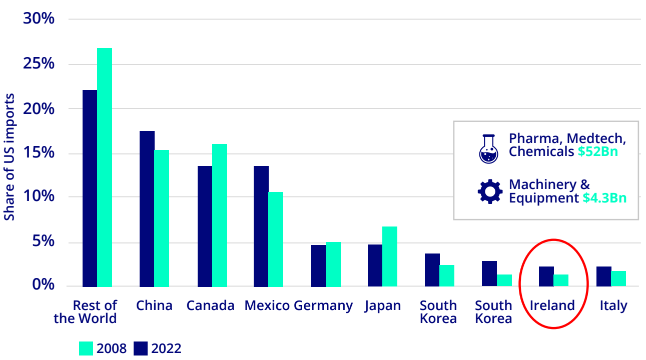
In summary given the headwinds of order decline, likely capacity/employment reductions, elevated costs, a cocktail mix of geopolitics, the outlook for growth in 2024 remains on a knife edge with growth returning in 2025.

How real is the threat of tariffs? In the end customer ultimately pays.

What do Chickens and Ford pickup trucks have in common? Answer: tariffs and one in particular. It is affectionately known as the "Chicken tax" and is still in place today[33]. In retaliation to high European import taxes on US chicken, President Lyndon Johnson imposed a 25% tax on the import of light trucks. The upshot has been that Ford is the biggest seller of pickup trucks in US, with imports from Europe essentially locked out of the market for 60 years[34]. So now with a renewed threat of tariffs of between 10% and 20%, the fear is very real for EU automakers. Take VW, already in deep cost cutting mode - closing factories in Germany etc, are right to be worried as the US is currently their second largest market after China. In the end the customer is punished with a combination of less choice and higher prices. A pass through of a 10% tariff will add typically $5k to most popular European car models. VW, BMW, Mercedes Benz and Porsche can of course opt to shift production to the US but at a huge cost to their home economy.

US Imports 2022 - Total Value - $3.2tn

Figure B1. Evolution of US imports by country of origin from 2008 to 2022



The full value of US imports is about $3.2Tn[35] and is split as per table 2[36] above. Some key takeaways here:

- Total US imports is $3.2tn
- A tariff of 10% on would raise maximum €320bn.
- But **only if no change** in consumption
- **Impossible** as products become uncompetitive.
- Consumers will go without or find substitutes.
- Ireland exports $70bn mostly Pharma & Machinery[37].

Given the infinite permutations, it is impossible to quantify the impact of tariffs. In the absence of detail and quantum, our best option for now is to contemplate different scenarios and link them back to Irish manufacturing.

- Will tariffs be different and selective by country?
- Will tariffs be different by sector and product category?
- Irish Manufacturing may be impacted on two fronts:
  - US imposed tariffs across different product categories
  - US imposed tariffs on our main trading partners which will impact trading volumes. Example Germany automotive sector may see volume erosion impacting Irish suppliers.
- Tariffs are divisive. Will countries, trading blocs, impose reciprocal tariffs?
- Will business move more volumes to US? In Ireland's case many of our multinationals see Ireland as a gateway to the EU market and exports here were €73bn, again dominated by Pharma €58Bn and Machinery €6.4Bn.
- China have issued a warning to car manufacturers to pause investment in EU countries backing EV tariffs[38]. Will the same happen for US?

In summary there are only two things we can say with a degree of certainty around tariffs. They are one, unpredictable in terms of their unintended consequences and two, they will hurt the end customer in terms of a negative cost of living impact. The Peterson Institute for International Economics estimates an annual cost of $2,600 to US households[39].

We are missing our Sustainability Targets. Time is running out to close the gap.

Based on discussions at Cop29, it is indisputable that we are missing our Climate Targets and by a significant amount. In the words of UNs Emissions Gap Report[40] – *"No more hot air please and there is a massive gap between rhetoric and reality"* here are its key takeaways:

1. **Gap Between Promises and Action:** Despite ambitious climate goals, most countries are not on track to meet their own climate commitments. Emissions continue to rise, especially from major sectors like power, transport, and agriculture.
2. **Urgent Reduction Required:** To meet the 1.5°C warming target, global emissions must fall by 42% by 2030, while current pledges align more with a 2.6°C trajectory. Even for a 2°C limit, a 28% reduction is necessary by 2030.
3. **Renewables Hold Great Potential:** Transitioning to renewable energy, especially solar and wind, offers a massive opportunity. Increasing renewables and reforestation alone could account for over 40% of required emission cuts by 2035.
4. **Investment is Key:** Achieving these targets requires a sixfold increase in global investment in mitigation efforts. This includes not only renewables but also electrification, efficiency improvements, and sustainable land use.
5. **G20's Critical Role:** With G20 countries responsible for 77% of emissions, they must take more rapid and substantial action to drive global reductions. This group's decisions could be the tipping point between success and failure in global climate efforts.

Furthermore, according to SEAIs National Energy Projections report[41], Ireland is on course to miss its legally binding climate and energy targets and incur fines up to €8bn or higher in 2030. Even if we achieve our most ambitious scenario of existing plans, the report estimates we will fall short by about 20%. The report calls for greater speed across all sectors, greater use of grant fundings, disruptive technology change, all combined with strong policies and measures which motivate the right green behaviours.

31. PMI Releases (spglobal.com) Nov 2024
32. Goods Exports and Imports September 2024 - Central Statistics Office
33. Chicken Tax: What it Is, How it Got the Name Aug 2024
34. Trump's trade tariffs: how protectionist US policies will hit German carmakers | Automotive industry | The Guardian Nov.2024
35. Countries & Regions | United States Trade Representative Nov 2024
36. The economic impacts of Trump's tariff proposals on Europe - Grantham Research Institute on climate change and the environment Oct 2024
37. Goods Exports and Imports December 2022 - Central Statistics Office
38. Exclusive: China tells carmakers to pause investment in EU countries backing EV tariffs, sources say | Reuters
39. Trump's bigger tariff proposals would cost the typical American household over $2,600 a year | PIIE
40. Emissions Gap Report 2024 | UNEP - UN Environment Programme
41. https://www.seai.ie/sites/default/files/publications/National-Energy-Projections-Report-2024.pdf

Technology, Media and Telecoms (TMT) Sector

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Demystifying artificial intelligence (AI) and generative AI

ChatGPT is celebrating its second birthday and continues to add to the 'noise' associated with all things related to AI. We continue to hear from customers perturbed by the omnipresent AI chatter, wondering how to integrate the technology in their businesses or to better understand if they even need it at all.

AI: refers to how systems or machines are trained to mimic human intelligence to perform tasks. Machine learning is used to train the machines on data and on various training models. This can be applied in a range of different business applications such as predictive analytics to identify trends in sales, automating repetitive tasks or optimising supply chain routes/resource allocation. In short, the bigger the problem and the more data that can inform the training model, AI is more appropriate to help solve the problem.

GenAI: on the other hand, is a subset of AI that creates content based on patterns it has learned having been trained on existing data. It generates outputs that mimics the style or characteristics of the data on which it was trained. In the time since its launch ChatGPT has helped transform how businesses have gone about generating content for marketing copy, designing packaging ideas or design prototyping and creating personalised customer experiences.

- **Which do you choose - AI or GenAI:**
  - **What problem are you trying to solve:**
    - If you are trying to improve efficiency: **AI.**
    - If it is a creative or innovative task: **GenAI.**
  - **Try, test, iterate:**
    - Start with small projects to understand what works best in terms of your objectives.
  - **Expert advice:**
    - SMEs can benefit from engaging with AI specialists and solution providers with knowledge of their sector.

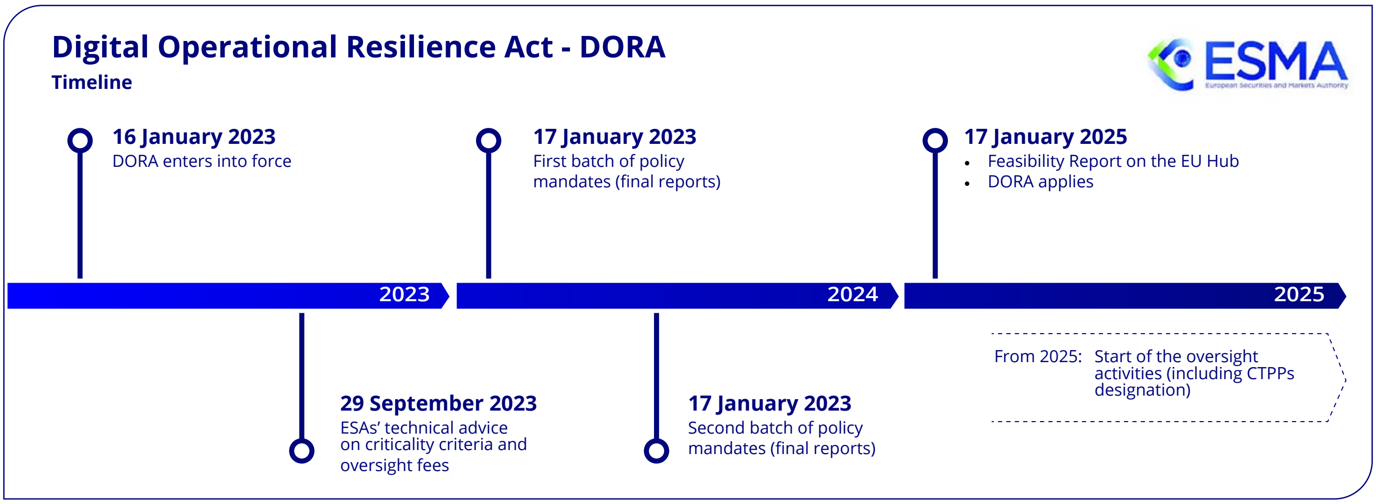
In summary, while there is no right or wrong answer, AI models will over time become democratised and more accessible to businesses in every sector. However as with all challenges faced by businesses, they are invariably situation dependent. Hence which model a company chooses will come down to their own preferences. Looking ahead, according to Gartner[42] more than 80% of enterprises will have used GenAI APIs (Application programming interfaces) or deployed GenAI-enabled applications by 2026. In the meantime, there are numerous tried and tested, 'off the shelf solutions' that can assist businesses with all types of operational, innovative and strategic challenges.

Regulation on the horizon

The Digital Operational Resilience Act (DORA) takes effect from January 17th, 2025. The act contains rules that are designed to strengthen the information and communication technology (ICT)[43] security of financial entities (banks - digital and traditional), e-private equity houses, e-money/payment institutions, insurance/reinsurance, credit institutions and asset managers operating in the European Union. The act not only imposes strict requirements on the financial sector, but it also imposes adherence to critical ICT third-party service providers. This determination as to whether the service provider is critical is based on the entity having a systemic impact on the provision of financial services; the reliance/importance the financial entities have on the service provider and whether other service providers could offer similar services (substitutability of the entity). Importantly, if the service provider is part of a group, then the entire group will be considered critical.

Financial institutions have become increasingly dependent on the services of third-party ICT providers for SaaS products and cloud infrastructure to deliver their services and offerings, but also bring with it additional risks for financial institutions and indeed for any company tapping into third-party services. These risks were never more evident than those witnessed during the CrowdStrike[44] outage earlier this year, which impacted banks, airlines, transport companies and private individuals. That incident emphasises the importance for businesses to continually assess their reliance and resilience in relation to third party service providers and potential for external breaches.

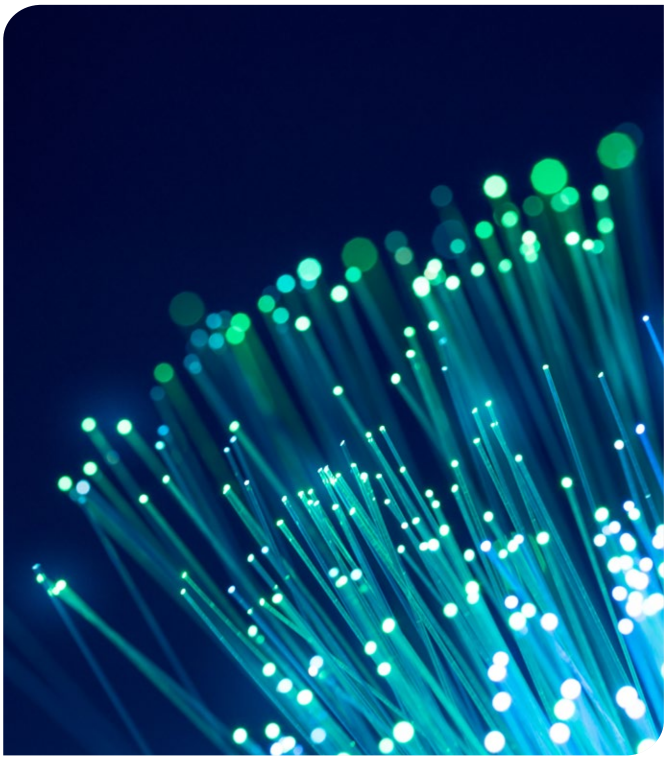
DORA is wide in scope and seeks to introduce a far-reaching piece of regulation that can be applied to any financial institution, whatever their size or business model. For the average consumer, it seeks to ensure the stability and security of the financial systems we rely on every day. Through enhancing the digital resilience of financial institutions, it seeks to protect individuals' personal financial data from cyber attack or operational disruption. It also requires financial institutions to be able to continue to operate during a cyber incident or IT failure, reducing outages. These measures will go some way to reassure consumers that their data is secure and the systems that manage their money are robust and secure.



Source: ESMA: February 2024

Voice cloning and fraud.

Recently, it has been reported that the voice of David Attenborough, the globally renowned broadcaster, had been cloned by fraudsters and was being used to deliver partisan news bulletins in the United States. Earlier this year, OpenAI's chatbot, Sky, sounded eerily like the actor, Scarlett Johannson, which caused such a furore, it resulted in the chatbot being paused. This is nothing new of course, as we have similar cases here in Ireland where for example, a fraudulent investment advertisement on social media mimicked the voice of David McCullagh of RTE along with other instances that sounded like well-known political figures or businesspeople. The worry here is that this can now happen to anyone's voice. Fraudsters could potentially use voice cloning software to generate synthetic speech that was found to be remarkably like the targeted human voice. Barriers to voice cloning are reducing due to the accessibility of artificial intelligence (AI) applications. These systems can not only imitate the sound of a person's voice; but using text synthesis technology, can be deployed to automatically generate content that mimic's the target's style and vocabulary. This could inevitably lead to bad actors expanding their range in how they try and defraud businesses and consumers in the time ahead by cloning voices of people they do business with, or are close to the target victim, which might seem authentic at the time, until it is not.



How can businesses and consumers take the necessary precautions:

- **Businesses:**
  - **Awareness and education:** need for businesses to be alert to potential scams and have processes in place, similar to the pilot checklist that must be adhered to before ever parting with sensitive information or financial accounts.
  - **Multi-factor authentication:** worryingly many SME's still do not deploy MFA. It is highly recommended by Ireland's National Cyber Security Centre (NCSC)[45] to enhance a company's security posture. This can be strengthened by using number matching which prompts a user to enter numbers from a security identify platform to approve authentication.
  - **Voice biometrics:** deployment of text independent voice verification can be used to verify the bona fides where a person speaks a specific passphrase, enabling authentication.
- **Consumers:**
  - **Call back:** if there is any doubt, call back on a known or trusted number.
  - **Limit personal information:** always need to be cautious about sharing any personal information over the phone.
  - **Be sceptical of urgent requests:** always be wary of requests for urgent action to transfer money or seeking personal information, particularly if the request is completely unexpected.

Scale Ireland manifesto.

Scale Ireland recently launched a manifesto in advance of the general election. The document highlights ten priorities for the next government and comes on the back of meetings held with the various political parties on the key issues facing Ireland's scaling businesses. Some of the more noteworthy priorities included are Scale Ireland's ambition is to see a doubling of large Irish exporting companies while significantly increasing R+D activity across Ireland's SMEs by 2030. With Enterprise Ireland due to launch their new five-year strategy in early 2025, it will be interesting to see how or if the objectives of both entities dovetail. Interestingly, Scale Ireland are also calling for a new Scaling Division in Revenue, which will be tasked with supporting start-ups and scale-ups, while ensuring compliance. This is an interesting approach to take and would go towards providing a clearer understanding of the types of challenges faced by this important sector. It would also bolster dialogue and ongoing learning and shared experience between Revenue and the sector, which can only be of benefit to all over time and help in boosting the take-up of various enterprise schemes by suitable companies.

Support for an independent and viable tech start-up eco-system that would play a role working in tandem with government and state agencies to help scaling companies succeed globally is also on the wish list. Having an independent ecosystem is seen as vital to provide support and provide a voice for scaling companies all around the country.

[42]https://www.gartner.com/en/newsroom/press-releases/2023-10-11-gartner-says-more-than-80-percent-of-enterprises-will-have-used-generative-ai-apis-or-deployed-generative-ai-enabled-applications-by-2026

[43]https://www.esma.europa.eu/esmas-activities/digital-finance-and-innovation/digital-operational-resilience-act-dora?form=MG0AV3 (accessed November 2024.)

[44]https://www.crowdstrike.com/falcon-content-update-remediation-and-guidance-hub/

[45]https://ncsc.gov.ie/pdfs/NCSC-MFA-Guide-0723-Final.pdf

[46] https://www.scaleireland.com/articles/scale-irelands-top-10-priorities

Healthcare Sector

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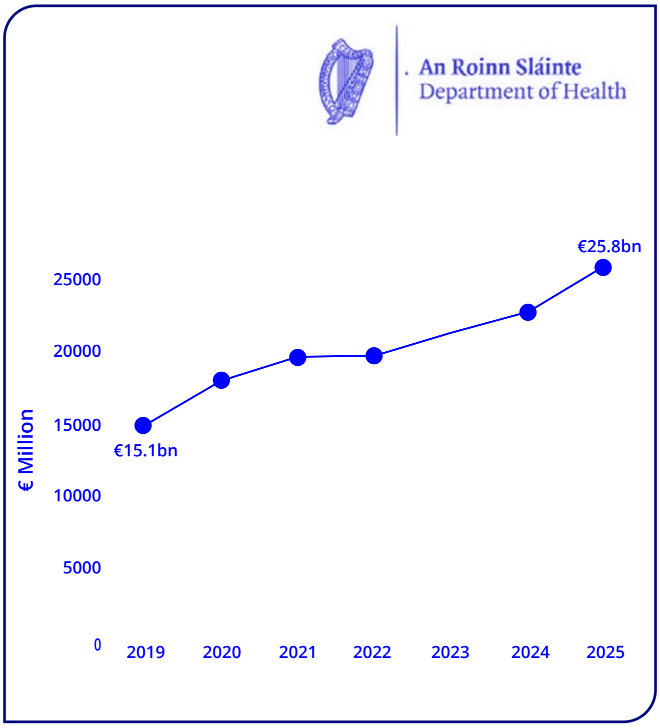
Sector-wide Developments:

Health Budget 2025

The health budget for 2025 aims to address the challenges posed by ageing infrastructure, inflationary pressures, and increased demand due to a growing and ageing population. It emphasises a focus on primary, community and continuing care, with the aim of alleviating pressure on acute hospitals to reduce waiting lists and the number of patients on trolleys in Emergency Departments. Additionally, there is a commitment to women's healthcare, with free access to Hormone Replacement Therapy (HRT) and expanded access to Assisted Human Reproduction (AHR) services. The total allocation for Health Budget 2025 is €25.8 billion, representing an increase of €2.94 billion, or 9%, from the 2024 provision, and a 70% increase since 2019[47].

There is significant potential for private sector involvement to enhance service delivery in areas supported by public funding. Collaboration between the public and private sectors is already addressing gaps in healthcare services. By leveraging private resources and expertise, innovative solutions and expanded capacity across various healthcare services is being achieved, ultimately leading to improved health outcomes for the population.

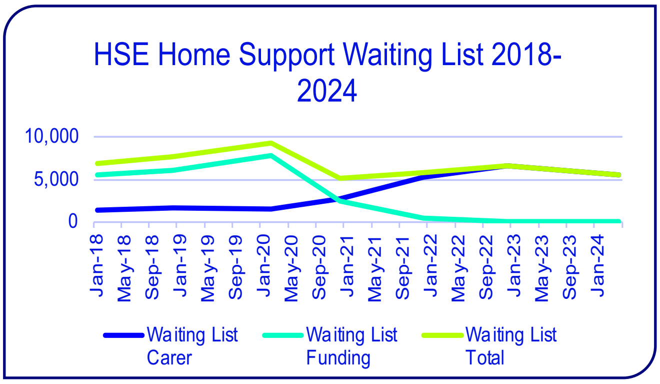


Home Care

The government is strongly focusing on increasing home care hours to support individuals in maintaining their independence and well-being. This investment aims to reduce reliance on nursing home care and facilitating longer stays in the comfort of one's own home. This focus became particularly pronounced during the Covid-19 pandemic and has continued since. Over the past five years, home care has experienced a 71% increase in funding and a 26% increase in the delivery of hours, accompanied by a 41% reduction in waiting lists. This reflects a significant policy shift towards prioritising home care, a trend expected to continue, with an additional €120m allocation planned for 2025.[47]

Whilst previously it was funding shortfalls that contributed to extensive waiting lists, the recent allocation has led to marked improvements and shorter waiting times. However, waiting list challenges persist, not due to limited funding, now due to a tight labour market and recruitment difficulties, which threaten efforts to further expand services.

Notably, waiting lists are shortest in areas with higher level of private provision, highlighting the positive impact of diverse service options.[48]



Source: Home & Community Care Ireland, 2024

Whilst there has been an overall positive account of progress in the home care sector, the long-awaited implementation of the Statutory Home Support Scheme has seen limited progress. This scheme, it is anticipated, will establish a legal entitlement to home care, regulate the sector and introduce a new funding model. Although regulation has not yet been introduced, HIQA have developed standards for home care that currently are the focus of a public consultation exercise.[49]

The Department of Health are currently looking at funding models which may involve co-payments towards care.[50] Home support services are currently publicly funded with no cost to recipients of care, unlike the nursing home sector where residents are required to make financial contributions.

A report last year, *'Improving Home Care Sustainability in Ireland. Are user charges a promising option?'* reviewed the impact of introducing user charges, with the intention of reducing demand for unnecessary care.[51] However, their evidence indicated that charges may not effectively influence uptake of the service and recipients of care may face financial hardship as a consequence, or may forego essential care altogether with the situation disproportionately impacting poorer households. This could have the consequence of actually increasing healthcare costs as untreated conditions worsen. The report indicated that the mandatory Care Needs Assessment, undertaken to determine that someone requires care, would mitigate unnecessary usage of home care services. The review also outlined that user charges would only slightly boost revenues and would incur substantial administrative costs, raising doubts about the effectiveness of co-payments in addressing health financing gaps. Ultimately, they proposed that 'user charges are an inefficient tool to try to reduce the home care financing gap'.

Diagnostics

The use of technology in community settings, such as mobile point-of-care diagnostics, is a continuing trend that circumvents the need for attendance at an acute hospital. A HSE commissioned Mobile X-Ray service was rolled out nationwide earlier this year following a pilot. This publicly funded community-based privately owned service, available to residents in nursing homes, has so far been utilised by over 350 nursing homes, often negating the need for a resident to attend an Emergency Department following a fall.

With a focus on an increased level of chronic disease and minor injury management in primary care, the General Practitioner (GP) access to the community diagnostics scheme, introduced in 2021, provides a range of community diagnostics such as X-Ray, Ultrasound, computed tomography (CT), and magnetic resonance imaging (MRI) services, provided via private providers such as Alliance Medical, Affidea, Bon Secours, Medica and UPMC Whitfield. Urgent cases receive a scan within one month, with non-urgent cases within a maximum of three months from referral date. This is provided at no cost to patients with access to the scheme open to the adult population. It is anticipated that, by year's end, there will be circa 530,000 diagnostic test activities carried out.

A recent study examining this initiative reported that a significant number of cases were managed within general practice that otherwise would not have been, resulting in an 81% reduction in referrals to acute hospitals and a 58% reduction in referrals to secondary clinics. In 86% of cases GPs felt that enhancing access to diagnostics, improved patient care by expediting diagnosis, decision-making and treatment, while also reducing hospital referrals. Although overall, GPs were very positive about the initiative, 58% noticed an increase in their workload.[52]

Data suggests possible over utilisation of the scheme with the HSE addressing this by advising that patients are judged clinically, and the service be used responsibly in accordance with the scheme's scope. In this context, and to rationalise use, the HSE has collaborated with the Irish College of GPs (ICGP) to develop a quick reference guide, focusing on appropriate use of imaging for various clinical scenarios.

[47] Budget 2025 - Department of Finance, October 2024
[48] Bringing Care Closer to Home: Review of the Government's Performance on Older Persons and Disabilities Home Support, HCCI, October 2024
[49] Bringing Care Closer to Home: Review of the Government's Performance on Older Persons and Disabilities Home Support, HCCI, October 2024
[50] Draft National Standards for Home Support Services, HIQA, November 2024
[51] Home Support Services in Ireland: Exchequer and Distributional Impacts of Funding Options ERSI, February 2022
[52] Improving Home Care Sustainability in Ireland. Are user charges a promising option, European Observatory on Health Systems, March 2023
[53] M.E. O'Callaghan et al. Irish general practitioner (GP) perspectives on impact of direct access radiology on patient care in the community: results from a mixed-methods study, June 2023