

# Quarterly Economic Commentary

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## Research Notes

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## Special Articles

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## Research Bulletin

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# Research Notes

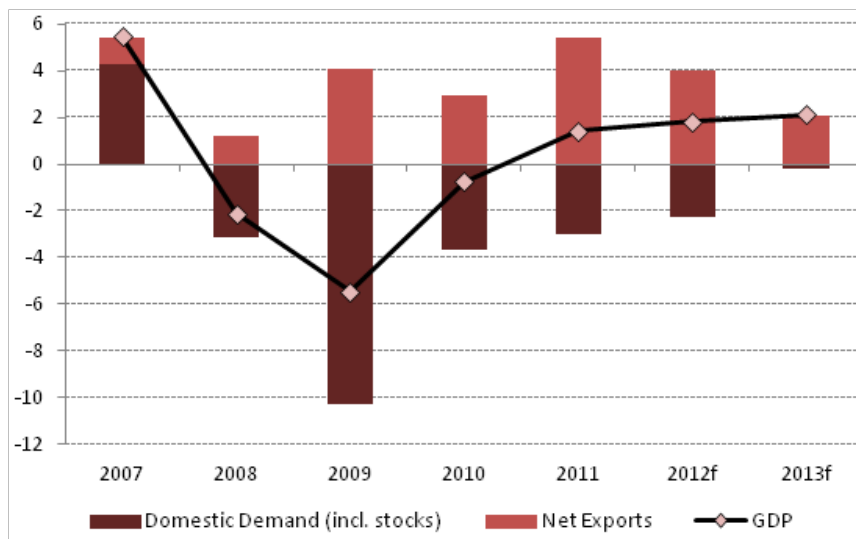
# Trends in Irish Exports

David Duffy and Eddie Casey

## Introduction

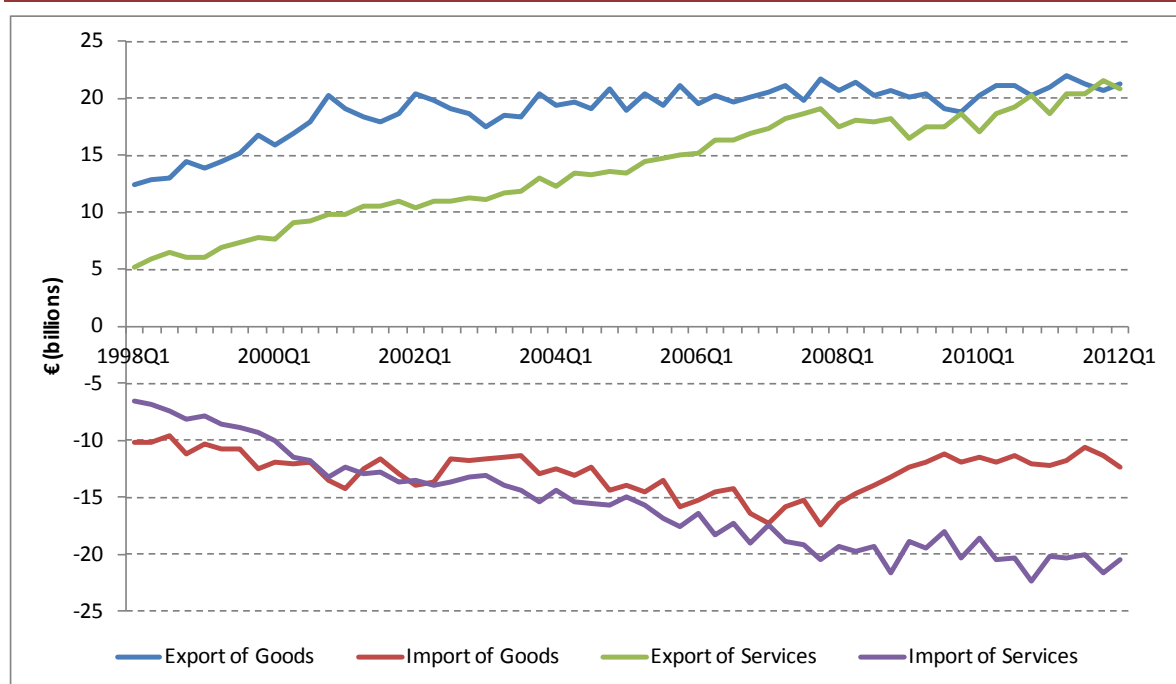
Exports of both Irish goods and Irish services have performed well over much of the recession. Indeed, it is net trade that has ensured that there has been growth in the Irish economy. Figure 1.1 shows the contribution to economic growth over the past number of years. What is evident is the contribution that net trade has made to growth. At a time when domestic demand has been contracting the external sector has been the sector of the economy that has been growing.

**FIGURE 1.1** Contributions to GDP Growth, Constant Prices (Percentage Points, Year-on-Year)



Sources: Calculations based on data from Central Statistics Office, *National Income and Expenditure Accounts* and ESRI forecasts.

The *Quarterly National Accounts* also provides data on trade in goods and in services. Over the time span of the data, exports in services have shown steady growth, narrowing the gap with goods exports. Interestingly, the preliminary data, for the final quarter of 2011, which is subject to revision, shows that, in volume terms, exports of services exceeded those of goods volumes for the first time, although the surplus was small.

**FIGURE 1.2** Trade in Goods and Services, Quarterly National Accounts, Constant Prices (Euro, billions)

Sources: Central Statistics Office, *Quarterly National Accounts*.

### Exports of Goods

Data from the Central Statistics Office allows us to examine trends in the countries to which we export and the products we export. In terms of value, more than three-quarters of goods exported in 2011 went to the eurozone, US and UK. The eurozone accounted for the largest share of exports comprising almost 35 per cent of all goods exported in 2011, while the US (23 per cent) and the UK (16 per cent) also comprised a major share of Irish trade in the goods sector. Figure 1.3 shows the evolution in terms of the destinations for Irish goods exports over selected years between 1990 and 2011. The bulk of exports shipped to US and EU countries other than the UK are typically foreign-sector exports, while most indigenous-firm exports go to the United Kingdom. In 2010, for example, indigenous exports amounted to some €12.4 billion, with foreign-owned firms accounting for €114.6 billion. The latter, equating to a share of roughly 90 per cent of the total, has remained largely unchanged since 2001 (Forfás, 2012).

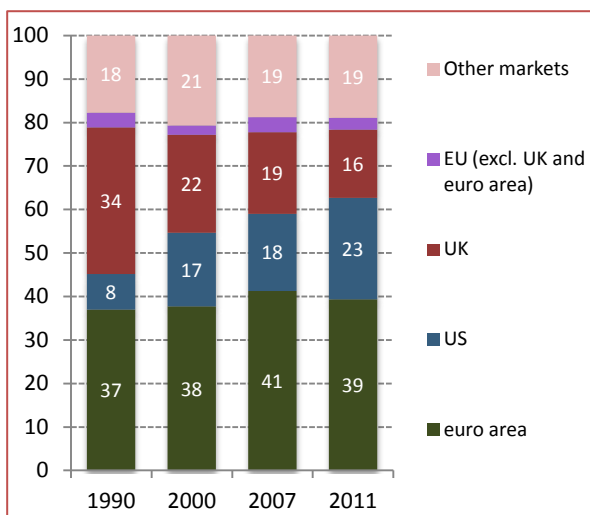
In terms of the commodities that are exported, the vast majority relate to the broad chemicals sector, where a rapidly growing share has emerged in recent years. In 2011, €56.1 billion of the total €91.7 goods exported internationally were in chemicals and related products, signifying a rise in the share from just 16 per cent of goods exported from Ireland in 1990 to 61 per cent in 2011. The other major category, albeit one that has been in decline more recently, is that of machinery and transport equipment, within which office machines/automatic data processing equipment and electrical machinery/appliances, etc. are key components. The decline in these subsectors in the late 1990s and on into the

early part of the new millennium, particularly in the areas of computer hardware, reflected an increasing preference among foreign-owned manufacturing firms to either downsize or relocate assembly operations away from Ireland to lower-wage economies. Among others, Apple, IBM and Intel shifted labour-intensive motherboard assembly activities from Ireland to economies such as those in the Far East, while some element of substitution into related services sectors and more highly skilled manufacturing activities was visible domestically (Barry and Van Egeraat, 2005). This decline coincided with a shift in the growth dynamic of the Irish economy towards a credit-fuelled property bubble in 2002 and a sharp rise in Irish relative unit labour costs during the period 2001 to 2008 (O’ Brien and Scally, 2012) in the order of over 42 per cent. As highlighted by Casey (2012), however, these competitiveness losses have tended to be more persistent in manufacturing sectors of the economy typically classed as ‘traditional’ (primarily comprised of food and beverage subsectors) since the recent downturn began. Lost momentum relating to inward investment during this time accompanied the significant declines in overseas earnings by manufacturers located in Ireland. More recently, weakened performance in this subsector was further compounded by the closure of Dell’s manufacturing operations in Ireland in 2009.

Food, live animals and beverages’ exports make up another large and relatively stable share of goods traded (averaging 10 per cent of total goods exported since 2000) as do various miscellaneous manufactured articles, with medical devices a major subcategory here. Reflecting the significance of the ‘modern sector’, the latest data from the Irish Exporters Association (2012) show that eight of the twenty-one largest export companies in Ireland (in terms of turnover) are from the ICT sector, with computer services exports heavily represented; seven are from the pharmaceutical/medical devices sector, while three are from the agri-food sector.

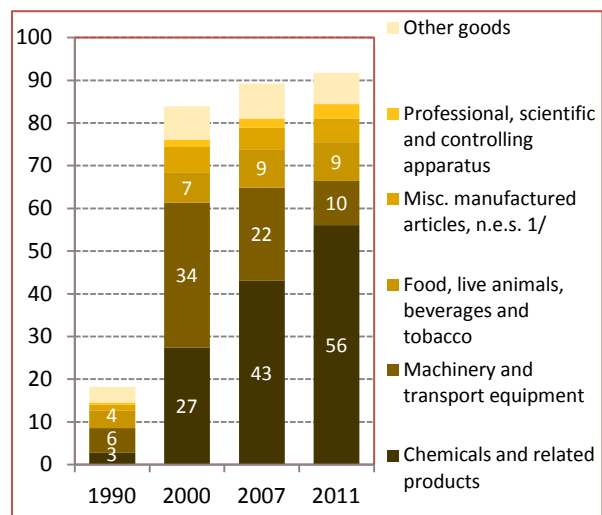
FIGURES 1.3 AND 1.4

1.3 Share of Irish Goods Exports by Region for Selected Years (% of total goods exports)



Sources: CSO and OECD.

1.4 Irish Goods Exports in Selected Years (euro, billions)



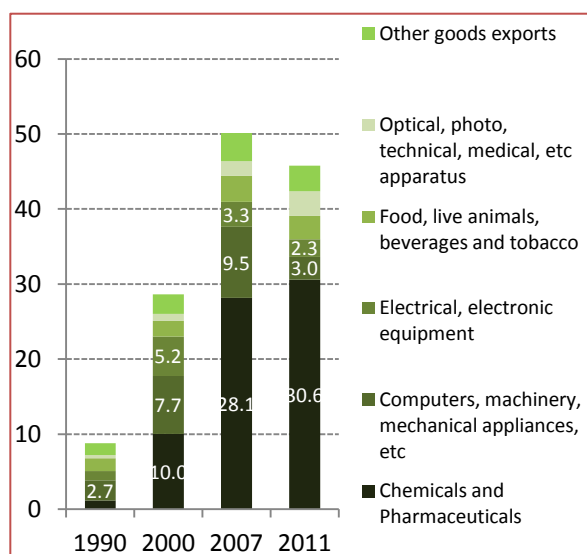
Sources: CSO and OECD.

### Exports of Goods to the Eurozone

Looking at the changing composition of exports destined for eurozone countries, it is clear that the bulk of goods exported in recent times have become dominated by modern industries. Chemicals and pharmaceuticals' exports, having represented a modest share (13.1 per cent) of Irish exports to the eurozone in 1990, accounted for over two-thirds (67 per cent) of all goods exported to eurozone economies in 2011 (see Figures 1.5 and 1.6). The same industries represented close to €31 billion in goods exported from Ireland to eurozone member states in 2011, up from €1.1 billion in 1990 and €10 billion in 2000. The contrast with food and live animal exports is substantial, where exports equivalent to €1.7 billion in 1990 have since risen by just €1.4 billion. Various high-tech exports classified under the headings of optical, photo, technical, medical apparatus, etc. represented some €3 billion (7 per cent) of total exports in 2011 and have slowly grown in importance during the previous two decades. Exports of computers, machinery, mechanical appliances and similar products also increased in terms of their share of total Irish goods exported to eurozone economies during the same period. More recently, however, closures of key firms in the industry and a winding down in the scale of operations caused a sizeable deterioration in exports related to these areas. A peak of €9.5 billion (19 per cent) of total goods exports in these industries had fallen to less than one-third of that by 2011 in value terms standing at €3 billion (6.6 per cent). Exports of goods in the areas of electrical and electronic equipment met a similar fate earlier in the decade, down from over €5 billion in nominal terms to half of that in 2011 at €2.3 billion (signifying a collapse in the share of total exports to the eurozone from 18.3 per cent of the total to just 5.1 per cent).

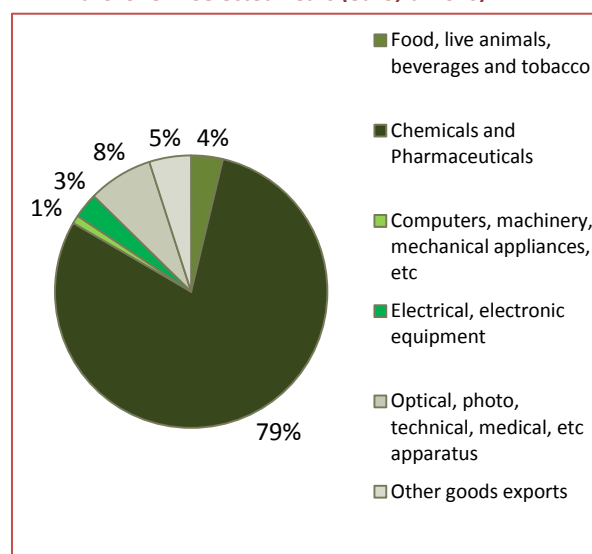
FIGURES 1.5 AND 1.6

1.5 Exports to the Eurozone in Selected Years (euro, billions)



Source: OECD.

1.6 Percentage of Total Increase in Exports to the Eurozone Due to Various Sectors, 1990-2011 to the Eurozone in Selected Years (euro, billions)



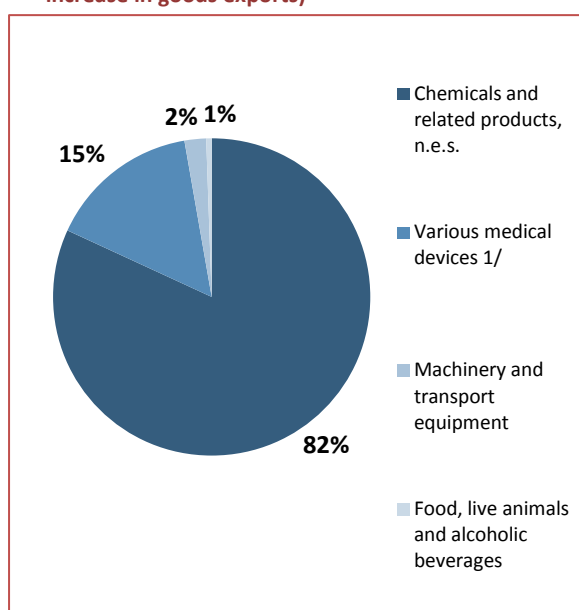
Source: OECD.

### Exports of Goods to the US

The importance of the US as a trade destination for Ireland has been a key feature of the changing landscape in Irish manufacturing over recent years. Between 1990 and 2011, the share of exports from Ireland to the US rose from 8.2 per cent of total goods exports to 23.1 per cent. During this time, the increasing predominance of sectors involved in the production of chemicals and related products together with manufacturers of medical devices has been staggering. Having accounted for just over one-third (36.5 per cent) of all exports in 1990, these sectors combined now produce over 90 per cent of total goods exported to the US, in value terms. Their contribution to the growth in the value of goods exports to the US over the last two decades is emphasised further by the fact that some €19 billion of the €20 billion increase in exports since 1990 can be attributed to growth in these sectors alone (see Figures 1.7 and 1.8).

FIGURES 1.7 AND 1.8

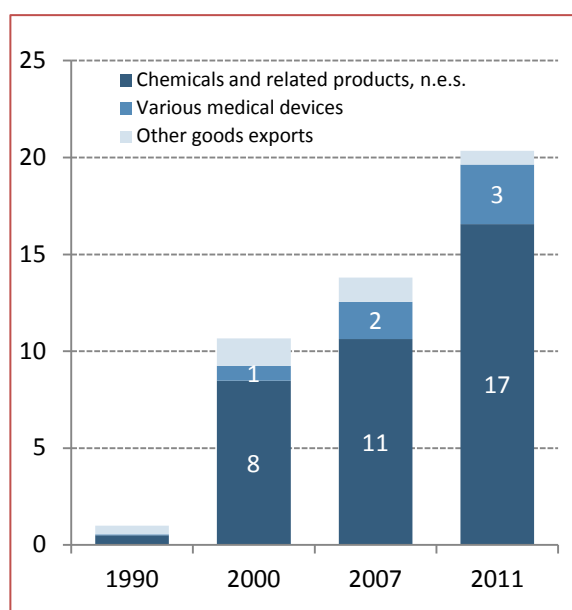
**1.7 Percentage of Total Increase in Exports to the USA Due to Various Sectors, 1990-2011 (% of total increase in goods exports)**



Sources: CSO and Eurostat.

Note: 1/ Various medical devices primarily comprised of medical instruments, appliances, implants, pacemakers etc.

**1.8 Exports to the USA in Selected Years (euro, billions)**



Sources: CSO and Eurostat.

### Exports of Goods to the UK

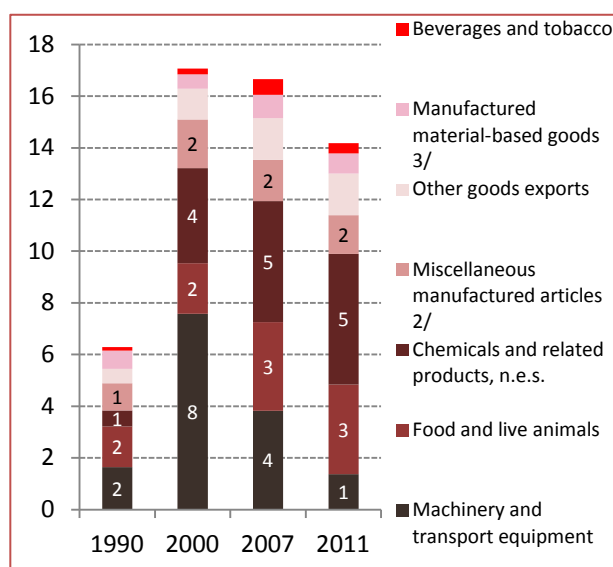
The UK, traditionally a mainstay for Irish trade, has declined in significance as a destination for goods manufactured in Ireland over the past decade, largely as a result of this export market having been dwarfed by the performance of the broad chemicals sectors in Ireland. In 1990, the UK accounted for more than one-third of Irish exports (33.7 per cent). This dependence has more than halved since then,

with the British market accounting for just 15.6 per cent of total goods exported in 2011. Underlying this apparent reallocation, however, there remains a considerable reliance on the UK market for indigenous exporters.

Although the export share related to the broad chemicals sector has increased in importance in recent years (see Figure 1.9), the UK market is still relatively diversified as regards Irish goods' exports. Chemicals and related products accounted for 35.6 per cent of all goods exports to the UK in 2011, up from 10 per cent in 1990. The next largest component is exports of food and live animals, representing close to one-quarter (24.5 per cent) of all goods exported to the UK in 2011. This subsector has been a relatively stable source of trade for the Irish economy, with the bulk of exports here consisting of agri-food produce. Various manufactured articles classified as miscellaneous items, but primarily consisting of optical media, medical devices, plastic goods, printed materials and items of clothing make up another 10 per cent of the overall share of exports. A further 10 per cent is accounted for by machinery and transport equipment producing manufacturers, although the share of exports here has seen a considerable decline in the last decade, as discussed earlier, declining from a peak of 44.4 per cent of all exports to the UK in 2000. This decline has provided the major contribution to falling goods' exports to the UK over this period (see Figure 1.10).

FIGURES 1.9 AND 1.10

1.9 Exports to the UK in Selected Years (euro, billions)

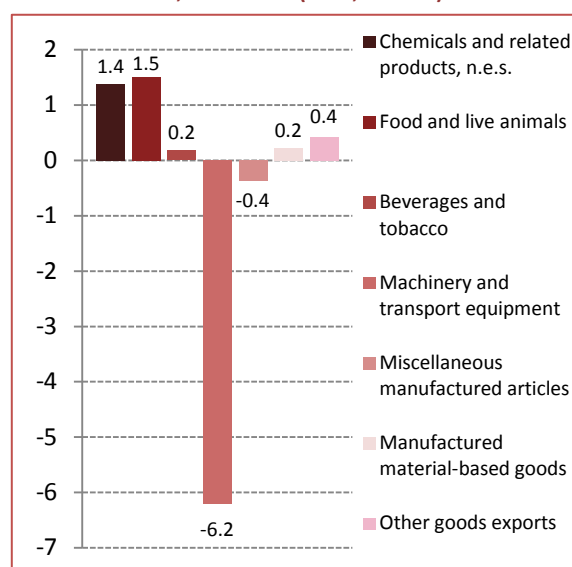


Source: CSO and Eurostat.

Note: 2/ Includes optical media, medical devices, plastic articles, etc.

3/ Includes wood-based goods, paper-based goods, construction materials, etc.

1.10 Change in Exports to the UK by Major Sectors, 2000-2011 (euro, billions)



Source: CSO and Eurostat.



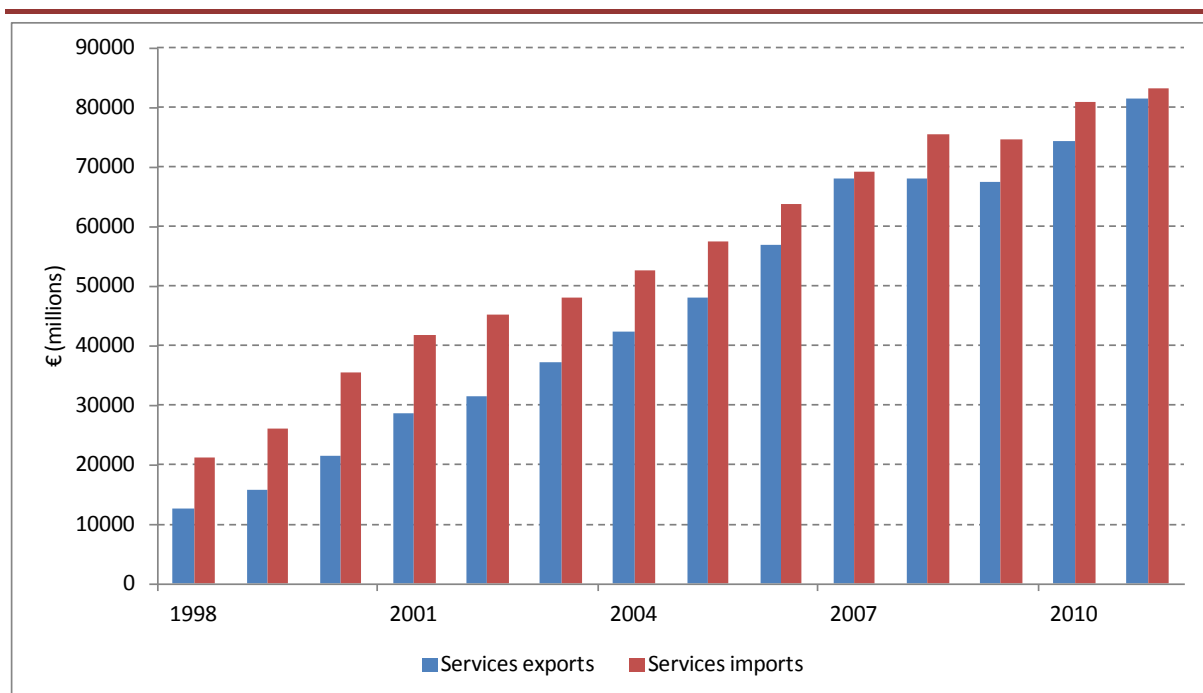
As highlighted by Barry and Van Egeraat (2005), some manufacturing activities in the ICT sectors that experienced outsourcing or relocation by multinationals in the late 1990s and 2000s were offset by a restructuring into related services sectors. This has been a sustained feature of the evolving export sector in Ireland, reflected in the amount of new services-sector FDI projects attracted to here more recently as well as in the changing share of employment in manufacturing, when compared to services sectors. Employment data for ICT sectors from Forfás (2012) reveal that the numbers employed in computer, electronic and optical equipment manufacturing sectors declined by 5,600 between 2002 and 2011, yet this was almost entirely offset by a rise in ICT related services sectors of just over 5,500 during the same period.

### Trends in Service exports

Increasingly the service sector and service sector exports have become more important in the Irish economy, with exports of services amounting to €81.4 billion in 2011. Balance of Payments statistics allow some insight into what sectors contribute to services exports. The data for trade in services shows that Ireland has had a deficit in service trade in the past, although this narrowed substantially in 2011.

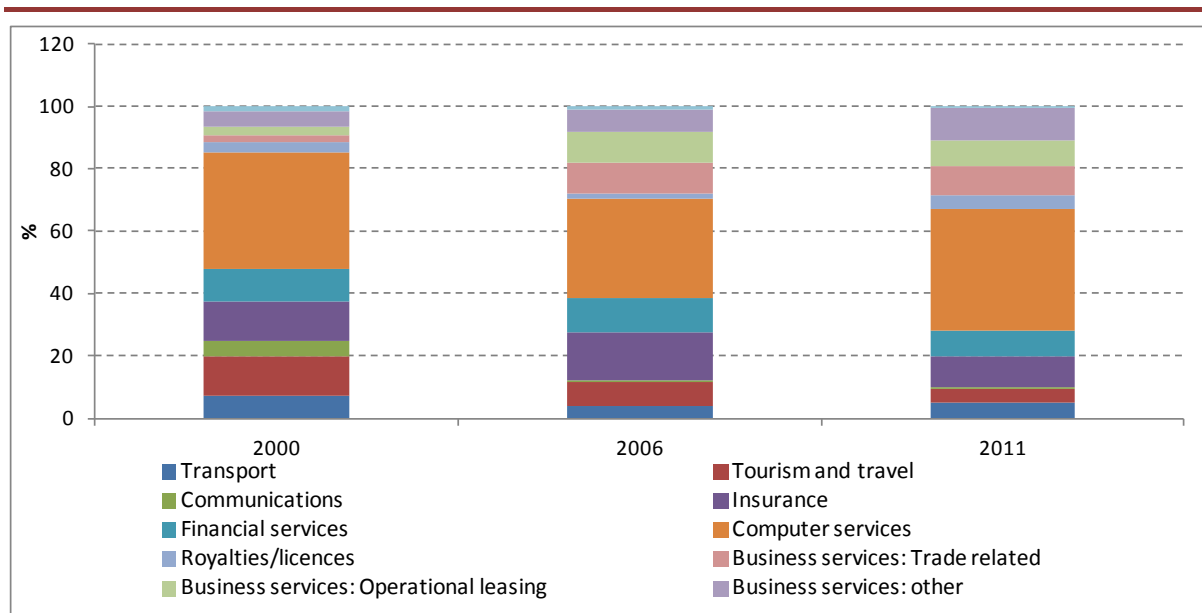
The same data can be used to see what Ireland's most important service exports are. Figure 1.12, using data for selected years, shows that computer services, e.g. computer software and software licences, are the main service export, accounting for 39 per cent of service exports in 2011.

**FIGURE 1.11** Trade in Services, Current Prices



Source: CSO, Balance of Payments.

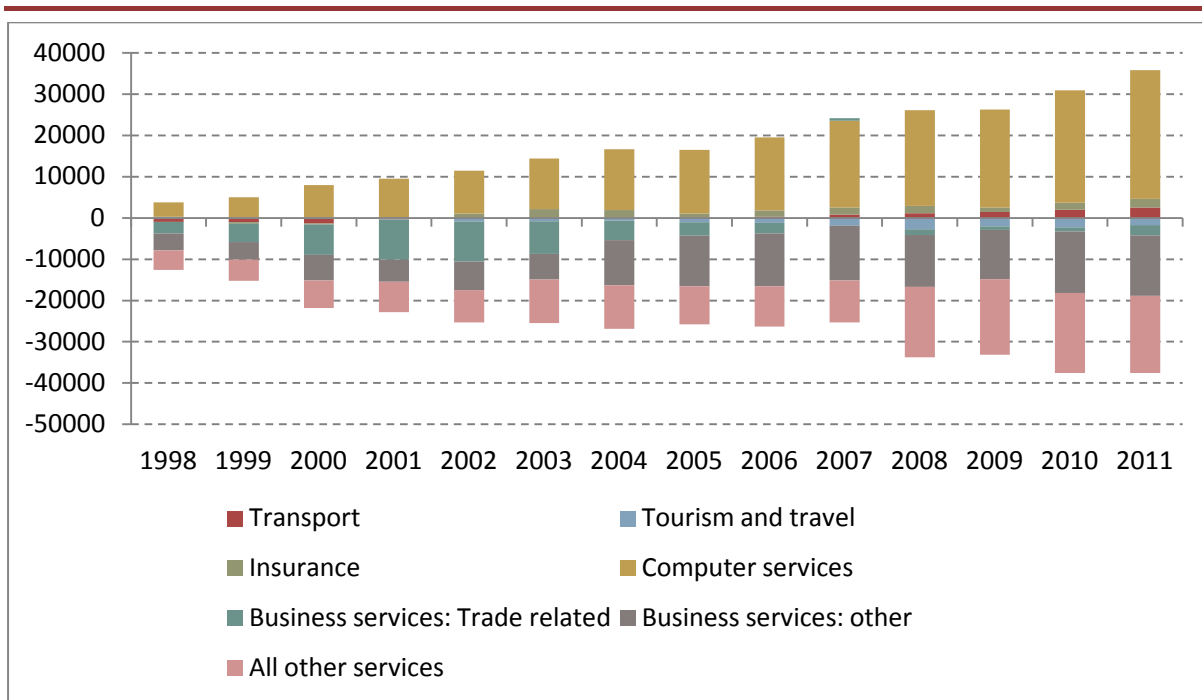
**FIGURE 1.12** Service Exports by Sector, as % of Total Service Exports, Current Prices



Source: CSO, Balance of Payments.

Not only are computer services our largest service sector export, but we have consistently enjoyed a surplus on trade in this component. In recent times there has also been a surplus on the export of transport services, and insurance services, see Figure 1.13.

**FIGURE 1.13** Service Exports by Sector, Euro Million, Current Prices



Source: CSO, Balance of Payments.

A more recent CSO release on service trade, extending what was previously available in the Balance of Payments data, provides us with some insights into our service export markets. This is summarised in Table 1.1. It is evident that Europe is the main market for Irish service exports, accounting for close to 64 per cent of service exports in 2011, a small decline on the proportion for 2009 and 2010. Although the UK has become less important as a destination for goods exports, it is our most important single country market, accounting for 18.5 per cent of total service sector exports, higher than for goods exports which stands at 15.7 per cent. Asia is an important market for service exports, accounting for €8.6 billion in 2011, equivalent to 10.5 per cent of total service exports. The data shows that in 2011 services exports to China accounted for nearly 26 per cent of Ireland's Asian service exports. The USA, at 7.2 per cent, is also an important market, though not as large a market as it is for goods exports.

**TABLE 1.1** Service Exports by Destination

	2009	2010	2011	2009	2010	2011
	€ bn	€ bn	€ bn	%	%	%
Europe	46.6	49.7	52.0	69.4	66.9	63.8
<i>of which:</i>						
<i>Belgium</i>	1.6	1.2	1.4	2.4	1.6	1.8
<i>France</i>	4.5	4.8	4.8	6.7	6.5	5.9
<i>Germany</i>	6.6	7.8	7.7	9.8	10.4	9.4
<i>Italy</i>	4.3	4.2	4.7	6.4	5.6	5.7
<i>Luxembourg</i>	0.8	1.1	1.0	1.3	1.4	1.2
<i>Netherlands</i>	3.1	3.4	3.4	4.6	4.5	4.1
<i>Spain</i>	2.3	2.5	2.4	3.4	3.4	3.0
<i>Sweden</i>	1.2	1.3	1.8	1.8	1.7	2.2
<i>Switzerland</i>	1.7	1.7	3.7	2.5	2.3	4.6
UK	13.6	14.6	15.1	20.3	19.7	18.5
	0.6	0.6	1.1	0.9	0.8	1.4
Canada	4.3	5.5	5.8	6.4	7.4	7.2
USA	2.3	2.4	1.9	3.4	3.2	2.3
Central America	0.4	0.4	0.6	0.6	0.5	0.7
South America	5.7	7.2	8.6	8.6	9.6	10.5
Asia	1.1	1.3	1.3	1.7	1.8	1.6
Africa	0.7	1.1		1.1	1.5	
Oceania	5.4	6.2	8.6	8.0	8.3	10.5
Other	67.1	74.3	81.4	100.0	100.0	100.0
	46.6	49.7	52.0	69.4	66.9	63.8

*Source:* Calculations based on CSO data.

*Note:* % are of total service exports.

Although the CSO have to suppress the data for some sectors and countries for confidentiality reasons, the data allows us to get some insights into what service exports go to our main markets. Computer services were the main service export to the UK in 2011 at €4 billion, followed by transport services, €2.5 billion. Our main markets for computer service exports were Germany at €4.9 billion in 2011, the UK at €4 billion, Asia at €3.6 billion and France at €2.5 billion. The top three

markets for insurance exports were the UK, €2 billion, Italy €1.7 billion, and the USA, at €1.1 billion.

### Outlook

Using medium-term growth forecasts from the IMF for Ireland's major international trading partners, it is possible to get a sense of the immediate growth prospects likely for our principal export markets. Table 1.2 classifies these economies into three categories (high, moderate and low growth) based on the IMF forecasts, while also showing the share and value of goods exported to each economy in both 2007 and 2011 derived from detailed CSO trade statistics.

Table 1.2 illustrates how a large concentration (almost 93 per cent) of Irish traded goods were destined for markets in 2011 that are likely to have low or moderate growth prospects over the next five years, giving a clear indication of the difficulties faced by Irish exporting manufacturers in the current environment. Of particular concern is the fact that the eurozone, the largest destination for Irish goods exports, represents the economy with the most sluggish outlook for growth out of all of Ireland's major trading partners. In addition, the indications for the US and the UK, Ireland's next largest export markets, point to fairly moderate demand growth over the next five years, with both economies positioned towards the low end of the moderate growth spectrum (defined here as annual growth in the region of an average of 2 to 4 per cent). Taken together, almost 87 per cent of our major export markets are likely to have annual average GDP growth rates of 3 per cent or lower over the period 2012 to 2017.

In assessing the outlook for Irish trade one issue is the effect on trade statistics of drugs manufactured here coming off-patent. Trade statistics for the first six months of the year show a €1.3 billion decline in exports of medical and pharmaceutical products, much of which is attributed by analysts to the drug Lipitor coming off patent. The manufacture of cheaper generic drugs will reduce the value of exports, (with a corresponding reduction in profit and in net factor outflows). However, the impact on the volume of exports is less certain. If the pharmaceutical company continues to locate the production of its generic alternative in Ireland the impact on the volume of pharmaceutical exports will not be as great as the impact on the value.

The difficulties faced in terms of firms breaking into new export markets where rapid growth potential exists is evidenced by the small share of exports to areas such as China, Hong Kong and Saudi Arabia. Traditionally, barriers such as geographical distance, the lack of a common language, internal geography (typically measured as population density), business or import costs associated

with specific export markets and relatively weaker communications infrastructures have been highlighted as variables which may explain the lack of progress in terms of the number of firms accessing such markets (for example, see Lawless, 2009).

**TABLE 1.2** Key Export Regions Classified By Medium Term Growth Prospects and Share of Irish Goods Exports

	Forecast % GDP Growth (Avg. Y-Y)	Goods Exports (% of Total)		Goods Exports (€bn)	
	2012 - 2017	2007	2011	2007	2011
<b>High Growth (&gt;4%)</b>					
Hong Kong SAR	4.0	0.8	0.9	0.7	0.9
Saudi Arabia	4.5		0.6		0.5
Malaysia	4.9	0.8	0.5	0.7	0.5
China	8.6	1.4	1.8	1.3	1.6
<b>Total (High Growth)</b>	<b>5.5 (avg.)</b>		<b>3.8</b>		<b>3.5</b>
<b>Moderate Growth (2% - 4%)</b>					
Norway	2.1	0.7	0.4	0.6	0.4
United Kingdom	2.3	18.6	15.6	16.6	14.5
Canada	2.3	0.5	0.7	0.4	0.6
Sweden	2.4	1.1	1.0	1.0	0.9
Czech Republic	2.7	0.4	0.5	0.4	0.4
United States	2.9	17.7	23.1	15.8	21.4
United Arab Emirates	3.2		0.3		0.3
Romania	3.4	0.2	0.4	0.2	0.3
Australia	3.4	0.9	0.8	0.8	0.7
Poland	3.5	0.7	0.7	0.6	0.6
Mexico	3.5	0.7	0.6	0.6	0.5
Israel	3.5		0.5		0.5
South Africa	3.6	0.4	0.3	0.4	0.3
Singapore	3.8	0.6	0.6	0.5	0.6
Turkey	3.8	0.5	0.5	0.4	0.5
Brazil	3.9	0.2	0.3	0.2	0.3
South Korea	3.9	0.5	0.4	0.5	0.4
Russia	3.9	0.4	0.5	0.3	0.5
<b>Total (Moderate Growth)</b>	<b>3.2 (avg.)</b>		<b>47.2</b>		<b>43.9</b>
<b>Low Growth (&lt;2%)</b>					
Eurozone	1.2	41.3	38.9	36.8	36.1
Japan	1.5	1.9	1.9	1.7	1.8
Denmark	1.5	0.6	0.5	0.6	0.5
Switzerland	1.7	3.6	4.0	3.2	3.7
Finland	1.8	0.5	0.3	0.4	0.3
<b>Total (Low Growth)</b>	<b>1.5 (avg.)</b>	<b>47.9</b>	<b>45.6</b>	<b>42.8</b>	<b>42.4</b>

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