Irish Exporters Association

Half Year 2013 Review

-Export contraction impacting differing sectors -

Published **August 2013**

Contents

1. Overview -First Half 2013 Export Performance

Irelands export trade contracted in the first half of 2013 by just under 2%. The contraction brought exports for the six months to €88.6 billion, down €1.7 billion on the same period last year.

The merchandise sector took the main brunt of the fall in export demand, and contracted by €2.9 Billion or 6.4%, mainly due to the loss in the value of pharmaceutical exports associated with the end of their patent protection on a range of block buster drugs manufactured in Ireland. However, amid the general fall in manufacturing exports, the agri-food and drinks sector continued on it's growth path and increased export sales by a strong 8%.

Services exports managed to grow by just under 3% in the first six months of the year, which was a sharp contraction from the 9% growth last year.

Both the merchandise and the services export contraction were heavily associated with the failure of the European economies to emerge from the recession of recent years, where 57% of Ireland's merchandise and 64% of services are sold.

Table A. Total Exports January - June 2013

€ Million	2012Jan/June	2013 Jan/June	Diff €	%Change
Merchandise	46,287	43,330	- 2 ,957	- 6.4%
Services	44 ,040	45,293	+ 1 253	+ 2.9%
TOTAL	90,327	88,623	- 1,704	- 1.9%

Source; CSO and IEA. Note latest revision of CSO data for 2012 included.

2. Revised 2013 Forecast and for 2014

The IEA project a contraction in exports of 1.6% for the full year 2013, which assumes a return to some growth in the Eurozone economies in the second half of 2013. This is less than the forecast growth for 2013 (IEA prior forecast was 3.3% growth) and is driven to a large extent by appreciably weaker demand in the key export markets of the EU and US, and the lack of any extensive expansion of exports to the fast growing emerging markets particularly in Asia and Africa .

Downside risks to global growth prospects still dominate the forecast and there is the possibility of tighter financial conditions creating fresh economic difficulties, if the unwinding of monetary policy stimulus in the United States and the UK are not well managed.

The IEA revised forecast for 2013 as shown in Table B below, indicates that the merchandise exports will fall by €5.5 billion or 6% over the full year, and that services exports will grow by €2.7 billion or 3% . So that in total exports will fall by €2.8 billion or 1.6% across the year.

In these circumstances it will be hard for any overall increase in employment during this year.

Stronger domestic and export growth can be achieved if additional policy action is taken to lift the investment rate in the Irish economy, and an extensive expansion of the government trade support agencies presence on the ground in the emerging markets. Specifically, major changes to the investment incentives schemes must be introduced to release funds into industry, and added commercial support staffing in the embassies, in Enterprise Ireland, in Bord Bia, and in IDA offices to pump prime Irish exporters into the fast growing emerging markets.

The IEA's forecast takes into account the recent IMF forecast showing the following GDP economic patterns (Ref detail chart Appendix 1);

- In the **United States** it is projected to rise from 1¾ percent in 2013 to 2¾ percent in 2014.
- In **Japan**, growth will average 2 percent in 2013, moderating to about 1¼ percent in 2014.
- The **euro area** will remain in recession in 2013, with activity contracting by over ½ percent. Growth will rise to just under 1 percent in 2014, weaker than previously projected, due to base effects from the delayed recovery in 2013.
- At 5 percent in 2013 and about 5½ percent in 2014, growth in **emerging market and developing economies** is now expected to evolve at a more moderate pace, some ¼ percentage points slower than in the April 2013 WEO. This embodies weaker prospects across all regions.
- In China, growth will average 7¾ percent in 2013-14, ¼ and ½ percentage points lower in 2013 and 2014, respectively, than the April 2013 forecast.
- Forecasts for the remaining BRICS have been revised down as well, by ¼ to ¾ percentage points. The outlook for many commodity exporters (including those among the BRICS) has also deteriorated due to lower commodity prices.

- Growth in sub-Saharan Africa will be weaker, as some of its largest economies (Nigeria, South Africa) struggle with domestic problems and weaker external demand. Growth in some economies in the Middle East and North Africa remains weak because of difficult political and economic transitions.

Table B. Forecast Exports Year Jan/ December 2013

€ Million	2012 Jan-Dec	2013 Jan-Dec	Diff €	%Change
Merchandise	91,981	86,462	-5,519	-6%
Services	90,295	93,000	+2,705	+3%
TOTAL	182,276	179,462	-2,814	-1.6%

Source; CSO and IEA, note latest CSO data for 2012 included

The IEA's forecast for 2014 is based on the IMF forecast of a 4.3% growth in imports by the advanced economies in 2014 and a 7.3% increase in imports by the emerging economies . Allowing for Ireland's export exposure to these different market sectors, the IEA expect that merchandise exports will increase by 3.8% and services exports by 6%, to give a return to overall growth of exports in 2014 of 4.9%, which will be an increase of €8.8 billion in export sales to bring the total for next year to €188.5 billion.

Table C. Exports 2014-Forecast:

€ Million	2013 Jan- Dec	2014 Jan -Dec	Diff €	% Change
Merchandise	86,462	89,920	3,278	+3.8%
Services	93,000	98,580	5,580	+6.0%
TOTAL	179,462	188,500	8,858	+4.9%

Source; CSO and IEA

3. Merchandise Export Review January to June 2013

Agri –food exports grew by over 9% during the first 6 months of the year, with drinks exports increasing by just under 4%, to give a strong combined increase for the food and drink sector of 8.7%. The sector has bounced back from a relatively flat 2012 to an expected trend growth of close to 10% per annum over the next decade, driven by world demand and price inflation. The food & drink industry is the second largest of the merchandise export sector.

However, pharmaceuticals and chemicals continued on the downward export trend of the last 12 months with an 8% contraction of sales in the January to June period. However the sector still accounts for 60% of the total merchandise exports from Ireland, and dominates the sector. The greatest contraction in sales was to the UK where exports fell by 32%, where the block buster drug Viagra came off patent protection in the first six months of the year. This was offset to some extent by a return to export growth to the US of 22%, reflecting what we expect to be the trend globally, of reduction first as patent protection reaches it's end point, and then growth as the new drug output from Ireland replaces the older off -patent products. The pharmaceutical exports to the EU generally fell by 12%, with a 10% fall to the rest of the world.

The computer hardware and peripheral exports also fell by just under 2%, with most of the lost sales coming from Asia where there has been a very strong inter-company sales connection for many years by our multinational sector. The downward trend in hardware has been compensated for by increased exports of software from the sector, as the Irish based operations move to service based operations (reflected in the Services export figures) and less manufacturing orientation .The computer hardware remains the third largest merchandise export sector.

Unexpectedly the medical devices exports contracted by one and a half percent in the first half of the year. The companies in the sector are well positioned in the heart stent, hip joint and contact lens growth markets, and hence exports are expected to return to growth in the second half of the year.

General manufactured goods produced in Ireland contracted by approx. 5% in the first six months of the year, reflecting the continued recession in Europe, and are expected to grow again once the EU member states show a return to economic growth.

Table D. Merchandise Export Performance-Jan to June 2013

	Jan-June 2012	Jan-June	Diff.	%
Agri-Food	3,709	4,057	348	+9.4%
Beverages	505	524	19	+3.8%
Crude materials	890	866	-24	-2.7%
Mineral fuels, lubricants etc	1,130	385	-745	-65.9%
Animal and vegetable oils&fats	29	29	0	0
Chemicals and Pharmaceuticals	28,034	25,873	-2161	-7.7%
Manufactured goods clothing , furniture etc	824	794	-30	-3.6%
Computer hardware and peripherals	3.078	3,030	-48	-1.6%
Other equipment	2,107	2,020	-87	-4.1%
Medical devices	2,329	2,293	-36	-1.5%
Other engineering manufactured articles	3,028	2,885	-143	-4.7%
Commodities and transactions not classified	624	576	-48	-7.7%
TOTAL	**46,287**	**43,330**	**-2,957**	**-6.4%**

4. Country and Regional perspectives

Exports to the UK fell by 16%, mainly due to a €1 billion fall in exports of pharmaceuticals to the market. Agri-food exports however increased by 6% and drink exports increased by 9% in the first half of the year.

Eurozone exports also fell by just under 12%, as the impact of the continued recession bites deep into Irish exports across the continent. Again the agri-food exports bucked the downward trend, with an 8% increase in sales across the Eurozone, reflecting strong demand for Irish food produce and providing positive re-enforcement of the Food Safety authority's stance on the horse meat contamination issue earlier in the year.

BRICS market penetration has been uneven with a fall of just under 5% in exports to these regions in the first half of the year. There has been continued strong growth in exports to Russia, with more modest growth in exports to Brazil and India. But the growth has been off-set by a fall in exports to China and South Africa. Exports to Russia –up by 20% in the first half of the year –illustrates the potential of Joint Economic Commission (JEC) trade agreements—the JEC between Ireland and Russia which was re structured and given real meaning by the department of Foreign Affairs and Trade, back in 2011, following a strong request for it's restructuring by the IEA, and has reduced non -tariff barriers to trade and enabled exports to flourish since. The recently announced appointment of an Agri food commercial attaché to the Irish Embassy in Moscow is a further very positive move by Government to support export industry to expand in the market.

Exports to the BRICS region is now 4% of total merchandise, which is considerably below the EU average of 20% of total merchandise exports. The IEA strongly recommend to Government to take the same very proactive approach to the other BRICS markets, utilizing the JEC system and supporting industry with added commercial attaches appointed to back up the JEC actions.

There was a welcome return to export growth to the US in the first six months of the year, with exports up 11%. Pharmaceuticals and medical devices make up 75% of the exports to the US and returned to growth in the period, as the off patent impact was replaced by sales of the newer biologics drugs being produced in greater quantities in Ireland.

Country and Regional perspectives --Tables E for Exports –Table D			
	2012 Jan /June	**2013 Jan/June**	**% change**
UK	7,997	6,696	**-16.3%**
Euro Zone	18,466	16,313	**-11.7%**
Other EU	1,551	1,713	**+10.4%**
Total EU	**28,014**	**24,722**	**-11.8%**
Brazil	131	138	**+5.3%**
Russia	291	352	**+20.9%**
India	111	121	**+9.0%**
China (including HK)	1,129	1,002	**-11.2%**
South Africa	162	122	**-24.7%**
BRICS Total	**1,824**	**1,735**	**-4.9%**
USA	8,753	9,707	**+10.9%**
Switzerland	2,350	1,784	**-24.1%**
Japan	971	864	**-11.0%**
Rest of world *	4,375	4,518	**+3.3%**
Total *	**46,287**	**43,330**	**-6.4%**

The Eurozone recession continues to have a major impact on Irish exports to the region. In the January to June period exports fell by just under 12% across the euro region, with specific falls in exports of 15% to France, of 10% to Italy and of 5% to Spain. Exports to our biggest Eurozone market German recorded no growth for the period. With 38% of exports from Ireland going to the Eurozone, our prospects for a return to overall export growth are deeply dependent on a return to economic growth in the zone.

EUROZONE Merchandise Exports Table F

€ millions	2012 Q1/Q2	2013 Q1/Q2	% change
Austria	160	150	**-6.3%**
Belgium	7,138	5,377	**-24.7%**
Cyprus	18	16	**-11.1%**
Finland	177	191	**7.9%**
France	2,429	2,065	**-14.9%**
Germany	3,617	3,614	**-0.1%**
Greece	137	145	**5.8%**
Italy	1,394	1,255	**-9.9%**
Luxembourg	34	29	**-14.7%**
Malta	14	13	**-7.1%**
Netherlands	1,656	1,847	**11.5%**
Portugal	200	181	**-9.5%**
Spain	1,447	1,380	**-4.6%**
Slovenia	11	16	**45.5%**
Slovakia	33	34	**3.0%**
Total	**18,465**	**16,313**	**-11.7%**

5. Service Exports

Commercial services have been the main driver of exports from Ireland over the past decade. Ireland reached the position of 12^{th} largest exporter of services globally in 2012 according to the World Trade Organisation (WTO). However, with global trade in services down to 2% growth last year and the prospects for 2013 according to the WTO not much better, it is not surprising that services exports from Ireland has slowed down to a growth of just under 3% for the first half of the year.

The fastest growing sector of Services exports both internationally and here in Ireland, was commercial service. From Ireland in the first half of 2013 exports grew by 7% to reach €18.6 billion –this accounts for 41% of total services exports. Business services, which includes aircraft leasing and consultancy services, showed no growth in the first half of the year at exports of €12.6 billion. In third place in the volume of exports was Insurance services - back office international services – which again showed less than 1% growth as did Financial services.

Travel & tourism export income grew by 6% in the first half of the year, benefiting from the 'Gathering'.

One of the difficulties we face for the rest of 2013 is the heavy dependence on Europe, which takes 64% of our services output, including the UK which accounts for 18% of total exports.

Again, we note the fastest growing global regions in terms of importing services are Russia and the rest of the CIS which increased their Services imports by 10%, the Middle East with demand increase of 9%, followed by Asia with 6% growth and Africa with 5% growth. In Europe last year services imports contracted by 3% and this is expected to have continued into 2013.

The global services trade sector is expected to get back to it's longer term trend growth of 8% , and Ireland is well positioned to gain from the global return to growth –but this is not expected to 'kick-in' until 2014.

Services Exports €millions	2012 Q1/Q2	2013 Q1/Q2	%Change
Transport	2,193	2,138	**-2.5%**
Tourism and Travel	1,348	1,433	**6.3%**
Telecommunications	290	330	**13.8%**
Insurance	4,461	4,481	**0.4%**
Financial Services	3,475	3,504	**0.8%**
Computer Services	17,349	18,614	**7.3%**
Royalties/Services	2,037	1,927	**-5.4%**
Business Services	12,612	12,587	**-0.2%**
Miscellaneous	275	279	**1.5%**
Total:	**44,040**	**45,293**	**2.9%**

END

Appendix 1. Overview of the *World Economic Outlook* Projections

IMF JULY 2013 REPORT

	Year over Year						Q4 over Q4		
					Difference from April 2013 WEO Published				
			Projections				Estimates	Projections	
	2011	2012	2013	2014	2013	2014	2012	2013	2014
World Output 1/	**3.9**	**3.1**	**3.1**	**3.8**	**–0.2**	**–0.2**	**2.6**	**3.5**	**3.7**
Advanced Economies	**1.7**	**1.2**	**1.2**	**2.1**	**–0.1**	**–0.2**	**0.7**	**1.8**	**2.2**
United States	1.8	2.2	1.7	2.7	–0.2	–0.2	1.7	2.0	3.1
Euro Area	1.5	–0.6	–0.6	0.9	–0.2	–0.1	–1.0	0.3	1.1
Germany	3.1	0.9	0.3	1.3	–0.3	–0.1	0.3	1.1	1.2
France	2.0	0.0	–0.2	0.8	–0.1	0.0	–0.3	0.5	0.6
Italy	0.4	–2.4	–1.8	0.7	–0.3	0.2	–2.8	–0.9	1.4
Spain	0.4	–1.4	–1.6	0.0	0.0	–0.7	–1.9	–0.7	0.0
Japan	–0.6	1.9	2.0	1.2	0.5	–0.3	0.4	3.5	0.2
United Kingdom	1.0	0.3	0.9	1.5	0.3	0.0	0.2	1.1	1.7
Canada	2.5	1.7	1.7	2.2	0.2	–0.2	1.0	2.0	2.4
Other Advanced Economies 2/	3.3	1.8	2.3	3.3	–0.1	–0.1	2.0	3.0	3.2
Emerging Market and Developing Economies 3/	**6.2**	**4.9**	**5.0**	**5.4**	**–0.3**	**–0.3**	**5.0**	**5.6**	**5.6**
Central and Eastern Europe	5.4	1.4	2.2	2.8	0.0	0.0	0.8	3.6	2.5
Commonwealth of Independent States	4.8	3.4	2.8	3.6	–0.6	–0.4	1.3	3.3	2.9
Russia	4.3	3.4	2.5	3.3	–0.9	–0.5	2.0	3.6	2.5
Excluding Russia	6.1	3.3	3.5	4.3	0.0	–0.3	. . .	. . .	. . .
Developing Asia	7.8	6.5	6.9	7.0	–0.3	–0.3	6.9	7.0	7.0
China	9.3	7.8	7.8	7.7	–0.3	–0.6	7.9	7.9	7.6
India 4/	6.3	3.2	5.6	6.3	–0.2	–0.1	3.0	6.0	6.6
ASEAN-5 5/	4.5	6.1	5.6	5.7	–0.3	0.2	9.1	5.5	5.1
Latin America and the Caribbean	4.6	3.0	3.0	3.4	–0.4	–0.5	2.8	2.9	3.5
Brazil	2.7	0.9	2.5	3.2	–0.5	–0.8	1.4	2.6	3.5
Mexico	3.9	3.9	2.9	3.2	–0.5	–0.2	3.3	3.6	2.4
Middle East, North Africa, Afghanistan, and Pakistan	3.9	4.4	3.1	3.7	–0.1	0.0	. . .	. . .	. . .
Sub-Saharan Africa	5.4	4.9	5.1	5.9	–0.4	–0.2	. . .	. . .	. . .
South Africa	3.5	2.5	2.0	2.9	–0.8	–0.4	2.3	2.3	3.0
Memorandum									
European Union	1.7	–0.2	–0.1	1.2	–0.1	–0.1	–0.6	0.7	1.3

Middle East and North Africa	4.0	4.5	3.0	3.7	–0.1	0.1	. . .	. . .	. . .
World Growth Based on Market Exchange Rates	2.9	2.4	2.4	3.2	–0.1	–0.2	1.8	2.8	3.1
World Trade Volume (goods and services)	**6.0**	**2.5**	**3.1**	**5.4**	**–0.5**	**0.1**	**. . .**	**. . .**	**. . .**
Imports									
Advanced Economies	4.7	1.1	1.4	4.3	–0.8	0.1	. . .	. . .	. . .
Emerging Market and Developing Economies	8.7	5.0	6.0	7.3	–0.2	0.0	. . .	. . .	. . .
Exports									
Advanced Economies	5.6	2.0	2.4	4.7	–0.4	0.2	. . .	. . .	. . .
Emerging Market and Developing Economies	6.4	3.6	4.3	6.3	–0.5	–0.2	. . .	. . .	. . .
Commodity Prices (U.S. dollars)									
Oil 6/	31.6	1.0	–4.7	–4.7	–2.4	0.2	–1.2	–4.1	–3.8
Nonfuel (average based on world commodity export weights)	17.9	–9.9	–1.8	–4.3	–0.9	0.0	1.2	–4.5	–2.3
Consumer Prices									
Advanced Economies	2.7	2.0	1.5	1.9	–0.1	0.0	1.8	1.6	2.1
Emerging Market and Developing Economies 3/	7.1	6.1	6.0	5.5	0.1	–0.1	5.2	5.4	4.9
London Interbank Offered Rate (percent) 7/									
On U.S. Dollar Deposits	0.5	0.7	0.5	0.7	0.0	0.1	. . .	. . .	. . .
On Euro Deposits	1.4	0.6	0.2	0.4	0.0	–0.1	. . .	. . .	. . .
On Japanese Yen Deposits	0.3	0.3	0.3	0.3	0.0	0.1	. . .	. . .	. . .