

## Year End Review 2009

The overall performance of Irish exports has been quite robust in 2009 given the exceptional weakness in world demand. Total Irish exports (goods and services) fell by 1% in 2009 to €154 billion. The strength of the performance of the export sector can be gauged by comparison to the Irish GDP decline of approx 7.8% (source Central Bank) to €163 billion in 2009.

Despite the strong overall performance of Ireland's exports, some categories of exports were severely affected by the recession in international markets.

### Total Exports:

Figure 1:

Total Exports 2009:			
€millions	2008	2009	% change
Merchandise	86,218	85,473	-1
Services	69,203	68,400	-1
<b>Total</b>	<b>155,421</b>	<b>153,873</b>	<b>-1</b>

It is hard to overstate the difficulties indigenous exporters have faced in 2009. The indigenous Irish exporters, heavily exposed to the UK market and primarily trading in the agri-food and drink sector have suffered a 9% fall in total exports to €13 billion for 2009. The multi-national sector recorded a 1% gain in merchandise exports in 2009 to reach €72.5 billion in total, mainly driven by pharmaceutical export growth.

Against a background of severe disruption to international financial markets, services exports from Ireland declined in the first half of the year, but recovered in the second six months. Total services exports for the year were down 1% in total in 2009 to €68.4 billion.

### Forecast for 2010

The resilience of the recovery in international markets remains uncertain, as much of the momentum in the second half of 2009 arose from the impact in trading partner countries of significant monetary and fiscal stimulus measures, and from a recovery in the stocking of inventories arising from leaving destocking in the prior year. There is also the uncertainty associated with the exchange rate movements of the dollar and sterling against the euro over the next 12 months.

However, the underlying trend is for a continuity of a return to growth in international markets and with it growth in Irish export volumes. Sector specific factors will impact on competitiveness of some sectors and will impact negatively on exports and employment for companies trading in these sectors. Broadly the traditional industry sectors with heavy exposure to the UK, such as the food and drink sector will struggle to regain market share in 2010. The computer hardware sector is expected to continue its long-term decline as producers move to lower cost venues. Whereas the pharmaceutical, medical devices and bio technology producers are well positioned to show continued growth in 2010. Software and business services which performed well in 2009 are expected to continue their services export growth in 2010. Across all the sectors, the negative inflation in Ireland over the past year and the improvement in a range of cost competitiveness indicators, relative to our international trading partners, points to a return to market price competitiveness in 2010, provided the trend of cost reduction continues.

The outlook for 2010 taking into account the available indicators is for a return to export growth of both goods and services, of the order of 2%, which would see total exports grow by €3 billion to €157 billion.

One potential upside to this forecast is the emerging recovery in business investment in the global markets which might lend positive support to exports of computer components, hardware, precision instruments and other modern manufacturing sectors.

## **Merchandise (goods) Exports 2009 (ref. figure 2)**

Globally, merchandise trade fell dramatically in 2009, with an estimated fall in the developed 67 countries exports by 23% and imports by 17%. Irish merchandise exports in total held up well as a result of the continued growth in the pharmaceutical and medical devices sector which grew by 12% and 4% respectively. This brought overall merchandise exports up to €85.5 billion or 1% below the 2008 level.

The 2009 export growth in pharmaceutical and medical devices products confirms Ireland as one of the leading international locations for the Life Science industry. The industry which spans pharmaceuticals, chemicals, diagnostics, medical devices and biotechnology generates over 60% of our exports making Ireland the largest net exporter of medicines globally. Ireland is home to 13 of the top 15 companies in the world and manufactures 9 of the world's top 15 medicines. In 2009 there were over 24,500 people employed in the sector producing exports of over €53 billion. Globally the sector has been expanding by 5-6% per annum since the turn of the decade, and last year recorded global sales of US \$745 billion. By comparison exports of Life Sciences products from Ireland have more doubled in the same time frame and now account for 9% of global sales.

However, when the Life Sciences exports are excluded, all other merchandise exports from Ireland fell by 16% or €6.1 billion in lost export sales. This marks 2009 as one of the worst on record for the broad range of Irish merchandise exporters. The most damaging losses occurred in food exports down by 14%, drinks exports down by 21%, computer hardware down by 29% and miscellaneous manufactured goods down by 26%. These sectors have provided in excess of 50% of employment in export industry and expected to continue to be affected in 2010 with a continuity of sales and job losses.

Food exports were further undermined by the reduced purchasing activity, including that for the purpose of re-importation of processed and packaged goods to the Republic, by the UK multiples in light of continued sterling weakness.

Merchandise imports contracted at a much heavier rate than exports, with an annual decline in 2009 of 23% to €45.6 billion. The decline was most prominent in building materials and durable consumer goods such as motor vehicles and furniture. The concern for export industry is the likely knock-on effect in the wider transport industry, who have suffered heavy loss of import volumes and may be less able to offer the same wide range of low cost transport facilities to exporters in 2010.

Figure 2:

<b>Merchandise Export Performance 2009:</b>				
<b>€ millions</b>	<b>2008</b>	<b>2009</b>	<b>±</b>	<b>%</b>
Agri-food	7,038	6,044	-994	-14
Beverages	1,229	973	-256	-21
Crude materials	1,265	819	-446	-35
Mineral fuels	832	564	-268	-32
Animal and veg. oil	42	18	-24	-57
Chemical and pharma	44,174	49,407	+5,233	+12
Manufactured goods	1,653	1,222	-431	-26
Computer hardware	14,096	10,043	-4,053	-29
Other machinery	4,220	3,975	-245	-6
Medical devices	3,676	3,840	+164	+4
Other miscellaneous	5,205	5,150	-55	-1
Commodity miscellaneous	2,788	3,418	+630	+23
<b>Total</b>	<b>86,218</b>	<b>85,473</b>	<b>745</b>	<b>-1</b>

### **Country Performance Merchandise Trade 2009 (ref. figure 3 and figure 4)**

**The UK Market:** Irish exports to the UK were severely affected by the sterling depreciation activity (quantitative easing) throughout 2009, as well as the general contraction of the UK economy, estimated by the IMF to be approx 4.5% for 2009. Irish exports to the UK as a consequence fell by 16%, a loss of €2.5 billion in sales revenue for the year.

**Eurozone activity:** The Euro area recovered in the second half of 2009 reflecting both the impact of early fiscal stimulus measures and a recovering international trade environment. Irish exports grew by 3% or €1.1 billion in added sales in the euro zone through 2009, indicating the potential for export growth out of Ireland when exchange rates factors are not an impediment.

**Figure 3:**

<b>Country Performance Merchandise Exports 2009</b>			
	2008	2009	%change
UK	15,856	13,311	-16
Euro Zone	34,695	35,757	+3
Other EU	3,158	2,508	-21
<b>Total EU</b>	<b>53,709</b>	<b>51,576</b>	<b>-4%</b>
Brazil	183	209	+14
Russia	333	230	-31
India	160	159	-
China (including HK)	2,321	2,382	+3
<b>BRIC Total</b>	<b>2,997</b>	<b>2,980</b>	<b>+1%</b>
USA	16,657	18,644	+12
Switzerland	2,555	2,619	+3
Japan	1,700	1,734	+2
Rest of world	8,600	7,920	-8
<b>Total</b>	<b>86,218</b>	<b>85,473</b>	<b>-%</b>

Figure 4:

<b>Eurozone Merchandise Exports:</b>			
<b>€ millions</b>	<b>2008</b>	<b>2009</b>	<b>% change</b>
Austria	393	327	-17
Belgium	12,190	15,186	+25
Cyprus	32	41	+28
Finland	333	249	-25
France	4,969	4,601	-7
Germany	6,103	4,863	-20
Greece	361	401	+11
Italy	3,012	2,868	-5
Luxembourg	145	138	-5
Malta	20	18	-10
Netherlands	3,027	2,814	-7
Portugal	422	596	+41
Spain	3,586	3,764	+5
Slovenia	28	26	-7
Slovakia	69	60	-13
<b>Total</b>	<b>34,695</b>	<b>35,757</b>	<b>+3%</b>

The sharp decline in economic growth in the eight emerging EU countries, impacted on Irish exports to the region where exports fell by 21% or €650 million in 2009. Financing conditions remain tight as confidence hovers near record lows, and as a consequence opportunities for growth in Irish exports to the region will be limited in 2010 particularly on export credit insurance cover becomes very difficult to procure.

**BRIC (Brazil, Russia, India and China) Markets:** The BRIC countries are the world's largest emerging economies. Over the past decade all BRIC countries have accumulated high levels of exchange reserves, measuring in 2007 €1,528 billion in China, €464 billion in Russia, €266 billion in India and €179 billion in Brazil. These reserves enabled these governments to boost public spending and support their economies.

Irish exports to these markets grew by 1% in 2009, primarily on the back of exports to China which grew by 3%. A renewed focus on the BRIC countries will be essential to the return to rapid growth of the Irish export sector, as economic growth in these countries is forecast to outpace the EU and US economies for the next few decades.

In addition to offering relatively buoyant consumer goods markets, the BRIC economies are leading the process of the restart of the capital investment cycle with shipments of capital equipment to China, India and Brazil from the rest of the world rising robustly in H2 2009. It is important for Irish exporters operating in the modern manufacturing sectors to capture this trend.

**US Market:** The US economy contracted in 2008 and this contraction continued for the first half of 2009; however the recent OECD figures estimate growth of 1.6% and 2.4% of GDP in quarters 3 and 4 of 2009.

However, Irish exports to the US were remarkably strong during 2009, increasing by 12% to €18.6 billion, on growth of €2 billion on export values for 2008. This very strong growth came mainly from the chemical and pharmaceutical sector which accounted for 60% of the total. Exporters to the US are mainly the US owned multinational corporations who service the market from Ireland. The robust performance of companies in the pharma/chemical sector during this recession is a clear endorsement of the value of continued focus on optimising the conditions for FDI into Ireland.

### **Services Exports (ref. figures 5 and 6):**

Services exports, which fell in the first half of 2009, recovered in the second half to finish the year at just 1% below the 2008 levels at €68.4%. This is 44% of total exports, unchanged on the prior year.

However, under the gross figures there have been sharp reductions in exports of financial services and insurance services, which were heavily impacted by the meltdown in financial markets following the collapse of Lehman Brothers in the US. In 2009, financial services exports fell by 9% and insurance services by 11%.

Other sectors to lose export sales were transport services down 4%, tourism down 14% and telecommunications down by 8%.

The strength in depth across the services industry was however evident in a robust performance by its largest sector, computer services, which accounted for 34% of total and includes exports of software from companies such as Microsoft, Apple, Siemens, IBM, Google, Facebook etc.

The growth in Business Services by 6% to reach €22.7 billion in exports in 2009 was a very positive indicator of the reference to growth in services trade outside the specific market aspects affecting the financial and insurance markets. This sector which now accounts for 33% of sales associated with aircraft and ship leasing, legal, accounting and management consulting, as well as business outsourcing services provided through call centres.

Most of the growth in exports out of Ireland in 2010 are expected to come from the services industries.

**Figure 5:**

<b>Services Exports 2009</b>			
€millions	2008	2009	%
Transport	3,010	2,879	-4
Tourism and Travel	4,279	3,659	-14
Telecommunications	525	482	-8
Insurance	8,582	7,602	-11
<b>Financial Services</b>	6,850	6,243	-9
Computer Services	23,284	23,257	-0.1
Royalties/Services	911	1,172	+29
Business Services	21,400	22,731	+6
Miscellaneous	362	375	+43
<b>Total:</b>	<b>69,203</b>	<b>375</b>	<b>+43</b>

### **Services Export Destinations (ref. figure 6):**

Services exports have a healthy spread across international markets. Sales to the eurozone countries accounted for 37% of total services exports in 2008 and fell by 3% in 2009. This is the reverse of the performance achieved by the merchandise exporters and points to sector specific exposure by insurance and financial companies trading in the eurozone.

The US is the second target market for services exports accounting for 35% of the total and reflecting the relationship between FDI from the US and sales back to that market. A gain of 4% in sales was recorded in 2009 and countered losses in the EU.

The UK accounts for 26% of services and fell by 2% in 2009. Obviously services export companies were better placed to pass on the euro appreciating costs into the sterling area.

**Figure 6:**

<b>Services Export Destinations 2009</b>			
€ millions	2008	2009	% change
Eurozone	25,682	24,990	-3
Non Eurozone	43,523	43,511	-
Of which UK	19,413	17,753	-2
US	23,000	24,000	+4
Miscellaneous	1,110	1,758	+58
<b>Total</b>	<b>69,203</b>	<b>68,400</b>	<b>-1</b>

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