Irish Exporters Association

First Quarter 2012 Review

-Export Growth decelerating in 2012

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Contents

1. Executive Summary – Recessionary Europe holding back Irish exports in first quarter 2012.
2. Forecast for full year 2012 – Outlook has deteriorated..
3. Merchandise/Manufacturing Export Analysis –Highest risk.
4. Country and Regional analysis (Ref. Tables D and E, below) Goods exports review and perspectives.
5. Service Exports Analysis(Table F) – expansionary conditions continue .

Appendices

1. Executive Summary – Recession in Europe holding back Irish exports in first quarter 2012.

Services exports driven by continued strong foreign investment (FDI) grew strongly in the first quarter, however increasing economic turmoil in the Eurozone economies prevented any real growth in merchandise export growth.

Hence, total Irish exports in the first quarter grew by 3.6%. This level of activity is also reflected in the World Trade Organisation's (WTO) forecast in recent weeks of a slowdown in international trade this year to 3.7% from the 5% growth achieved in 2011.

The return to recession in the Eurozone which accounts for 39% of Irish goods exports and 35% of services exports will have a severe impact on our ability to expand exports over the next three quarters of 2012. Sustained recovery in the US which accounts for 23% of our goods exports and 7% of services exports, but also even more critically the bulk of the new investment in export businesses in Ireland, is vital to our export growth prospects this year and for the foreseeable future.

There was a welcome, if unexpected, return to growth in our exports to the UK which rose by 19% in the first quarter. The growth was undoubtedly assisted by the weakening of the euro, return to jobs growth in the UK and continued improvement in Irish business competitiveness. However, the rapid rise in the cost of diesel and other heavy fuels in recent months is taking its toll on the costs of getting goods to market and will inevitably act as a drag on manufacturing exports.

In the first quarter of 2012 there was a double digit growth in exports to three of the BRIC countries – Brazil up by 32%, Russia up by 32% and India up by 14% – which is a good indicator of the potential for rapid export growth in the fast growing emerging markets. The fall in exports by 5% to China in the first quarter continues the trend from last year, but this is expected to be corrected to positive growth following the recent three ministerial-led trade missions to China and the visit here of Vice Premier Xi Zinping. However, the stark reality remains that only 4% of Irish exports go to these fast growing BRIC economies, whereas the average member of the EU27 is exporting over 20% of their total exports to the BRIC countries. This imbalance must be aggressively tackled with continued Ministerial-led trade missions and much higher levels of support from the state promotional agencies. These are markets which are highly controlled by government agencies and can often only be entered with diplomatic support and action. The IEA's Asia Trade Forum(ATF) is assisting export business to prioritising Asia in it's export expansion plans , and will lead a trade mission to India this year , in the absence of a full Ministerial led trade mission. The IEA has also appointed country directors for each of the Asian priority countries to support businesses entering these markets , and has reached a collaborative structure with service providers (namely William Fry , Grant Thornton, Ulster Bank, Ethiad as well as Enterprise Ireland)to drive the profile of export potential in Asia and how best to enter the various markets .

Table A.   Total Exports   Jan/ March 2012

€ Million	2012 -Q 1	2011- Q1	Change	% Change
Merchandise	23,357	23,346	+11	+0.1%
Services	19,760	18,281	+1,479	+8.1%
TOTAL	43,117	41,627	+1,490	+3.6%

Source: CSO and IEA.

2. Forecast for full year 2012 – outlook has deteriorated.

Governments, businesses and households across Europe and in particular in the Eurozone countries ,continue to reduce their debt burdens to more manageable levels, but this process of deleveraging (reducing reliance on debt) and fiscal consolidation (reducing budget deficits) is likely to take years. In the meantime, Ireland may have to resign itself to a long period of slower-than-average growth in international trade. A clear YES vote on the upcoming referendum on the Fiscal Treaty will at least ensure our customers in Europe know we committed to supporting them in building a stable single market .But there is obviously an urgent need to stimulate the EU 27 market place and the Irish Government as well as the EU member governments must rapidly come up with a mechanism to do this .

One of the ways to escape the impact of a recession ridden Europe is by aggressively focusing our export promotional effort on the fast growing emerging markets and not just the BRIC economies, but also in the fast growing African, middle eastern and south American markets. This approach would in the longer term ensure a more sustainable high level of export growth and with it jobs growth and a buoyant economy.

The IEA therefore continues with its start of year forecast of a very small growth of just over 1% in goods exports and 6% growth in services exports, giving a full year export growth of 3% in total. Growth of this magnitude will inevitably result in much lower job creation from the export sector this year which was expected to yield 30,000 jobs directly and a similar number indirectly in the wider economy under the Trade and Investment towards 2015 strategy).

Table B. Exports 2012-Forecast:

€ Million	2011 Jan- Dec	2012 Jan -Dec	Diff €	% Change
Merchandise	92,544	93,768	1,224	+1.3%
Services	73,837	83,152	4,964	+6.3%
TOTAL	171,268	176,920	5,652	+3.3%

Source IEA and CSO

3. Merchandise / Manufacturing Export Analysis, Q 12012 –Highest risk

Merchandise exports which fell in the last quarter of 2011, continue to be affected by depressed economic conditions in the global economies, particularly within the EU, in the first quarter of 2012. Hence, we see exports from Ireland holding at the same as last year at €23.4 billion for the first three months of the year. The commodity price rises rampant over the past two years created a significant growth in the value of goods exports over this period. This has now stabilized and may in fact fall on a wide number of commodities this year, making it difficult for goods exporters to achieve value growth in the current year, particularly as international trade is now decelerating right across the globe and forecast by most international agencies to cool down to less than 4 percent growth this year.

Last year agri-food exports grew by 12%, however, 75% of this growth was associated with commodity and other price increases, thus pointing to a volume increase of only 3% last year . In the first quarter of 2012 agri-food exports cooled down to 4% growth level. However, growth of 4.5% is expected in the sector for the full year (made up of 3.8% volume growth and 0.7% price increase).

Merchandise Export Performance: Table C				
€ millions	**2012 Q1**	**2011 Q1**	**+ Change**	**%**
Agri-food	1870	1796	+74	+4%
Beverages	265	254	+11	+4%
Crude materials	435	438	-3	-0.6%
Mineral fuels	514	295	+219	+74%
Animal and veg. oil	13	10	+3	+30%
Chemical and pharma	14252	14609	-357	-2.4%
Manufactured goods	408	409	-1	-0.2%
Computer hardware *	1468	1781	-313	-18%
Other machinery *	1011	940	+71	+7%
Medical devices *	1191	1117	+74	+6%
Other miscellaneous *	1583	1460	+123	+8%
Commodity miscellaneous	344	237	+107	+47%
Total	**23354**	**23346**	**+11**	**+0.1%**

Source IEA and CSO

Some of the agri-food export growth will come from the fast growing Asian and African markets which have continued their rapid economic expansion. In particular, the growth of 11% in agri- food exports to China in the first quarter augers well for long term growth to this market, albeit from a low base.

Pharmaceutical and chemical exports which account 61% of merchandise exports fell by 2% in the first quarter. The well flagged end of patent protection for some of the major branded drugs such as Lipitor ®, has started to impact on Irish exports from the sector. However, as stated in prior IEA quarterly bulletins, the fall off is expected to be gradual and will be replaced by the continued growth of new biologic drugs output from Irish plants. Medical devices manufacturers continued their steady growth with exports up by 6%.

Computer hardware exports fell by 18% in the quarter and now rank behind agri- food in terms of export value. Most of the hardware manufacturers have converted the Irish operations to ICT facilities adding to the very rapid growth of our services exports.

While economic weakness in the eurozone in the first quarter of 2012 will impact on the manufacturing sector, the prospects for a broader return to economic growth in the second half of 2012 suggest a modest recovery in exports in the second half of the year. And we remain confident of our forecast of 1.3% growth for the year in the sector with a more rapid growth of 4.5% in 2013. In the unlikely event of an early return to economic growth within the eurozone, Irish merchandise could bounce back to more robust growth in 2012.

4. Country and Regional analysis (Ref. Tables D and E, below) Goods exports review and perspectives.

The World Trade Organisation in its recent review of economic prospects for 2012 stated that 'World trade expanded in 2011 by 5.0%, a sharp deceleration from the 2010 rebound of 13.8%, and growth will slow further still to 3.7% in 2012' . They attributed the slowdown in 2012 to the global economy losing momentum due to a number of shocks, including the European sovereign debt crisis.

Country Performance Merchandise Exports –Table D			
	2012 Q1	**2011 Q1**	**% change**
UK	4128	3461	+19
Euro Zone	9508	9492	+0.17
Other EU	714	757	-5.7
Total EU	**14350**	**13710**	**+4.6**
Brazil	86	65	+32
Russia	153	116	+32
India	57	50	+14
China (including HK)	573	602	-5
BRIC Total	**869**	**833**	**+4.3**
USA	4384	5354	-18
Switzerland	997	902	+10.5
Japan	486	402	+21
Rest of world *	2271	2145	+6
Total *	**23357**	**23346**	**+%**

Source IEA and CSO

As Irish exports are close to 100% of GDP, this forecast is very bad news for export industry and the Irish economy as a whole. Certainly the first quarter merchandise exports from Ireland have been affected by the continued economic slowdown. However, exchange rate movements and specific market focus have changed the competitive position for some traders .This has been evident in the first quarter results, with some sectors and markets showing strong market gains.

Hence, following a year when exports to the UK grew at a modest pace of 5%, the bounce back to rapid growth to the UK market of 19% in the first quarter, was somewhat unexpected, but welcome. Rising employment and trade and investment associated with the London Olympics have brought about a rapid recovery in household and business spending. Added to this a slightly improving trend of a strengthening £ Sterling and we had the conditions for the rapid expansion in exports to the UK we have experienced in the first three months of 2012. The IMF is now forecasting UK growth of 0.6% in 2012, rising to 2.0% in 2013, which augers well for continued strengthening of £ Sterling and on the back of better exchange rate offering the prospect of improved Irish exports to the market.

Asia is expected to continue to lead the growth of the global economy .The IMF forecasts Asian regional growth will be 6% this year, roughly the same level as in 2011, and about 6.5% in 2013. But there remains considerable regional variation. Emerging Asia will remain the fastest growing region in the world, led by China and India, expanding by 8% and 7%, respectively this year, but other Asian economies such as Japan are projected to grow only at 2.2%. Irish exports to Asia however have been sporadic, with exports to China falling by 5% in the first quarter, following a fall of 4% in 2011 .However, the three Ministerial-led trade missions over the past 90 days to China should bolster export growth for the rest of the year.

From a very low base Irish exports to India grew by 14% in the first quarter of 2012. The IMF forecasts a 6.9% GDP growth in India this year, which is slightly below the 7.1% growth achieved in 2011, but still a major fast growing economy offering significant opportunities for Irish exporters. However, it is also a difficult market to enter and will need significant promotional agency support to assist Irish exporters to gain a foot hold there. Hence, the IEA is pleased to announce that it will lead a Trade mission to India in September, supported by Enterprise Ireland. Many more trade missions on a frequent basis will be required to enable Irish exports to India to rise from the current €226 million goods exports to the 20% of Irish exports level of € 18.5 billion which represents the EU average in trade with India.

The continued rapid growth in Irish exports to the fast growing emerging markets of Brazil, Russia, India and China (the so called BRIC countries), is seen in the Table D, where double digit growth in Irish exports were achieved, with the notable exception of China. This is very similar to the growth patterns shown in exports to these countries last year, and indicates the potential return from these markets once the difficult phase of market entry is overcome by exporters. Ministerial-led trade missions with strong support from the Department of Foreign Affairs and Trade, Enterprise Ireland and Bord Biá will be required for many years to come if we are to get our exports up to EU 27 market share of 20% of total exports to the BRIC economies. Currently Irish exports to the BRIC countries account for approximately 4% of total exports, amounting to €7.6 billion of goods and services (made up of €€3.5 billion goods exports and €4.1 billion services exports). This figure will have to grow to €34 billion to reach the level representing the 20% EU27 average.

Intra Eurozone decline in trade is major concern for Irish Export Industry.

Irish exports to the Eurozone did not grow in the first quarter of 2012 as indicated in Table E below.

Eurozone Merchandise Exports: Table E			
€ millions	**2012 Q1**	**2011 Q1**	**% change**
Austria	78	72	+8%
Belgium	4035	3795	+6%
Cyprus	7	6	+16%
Finland	92	75	+22%
France	1141	1351	-15%
Germany	1632	1619	+0.8%
Greece	79	74	+7%
Italy	805	798	+0.9%
Luxembourg	14	15	-6%
Malta	7	5	+40%
Netherlands	813	810	+0.3
Portugal	87	104	-16
Spain	697	740	-6
Slovenia	5	5	0
Slovakia	15	16	-6
Total	**9507**	**9485**	**+0.2**

Source IEA and CSO

The continued turmoil in the Eurozone economies and the rising dissent to austerity measures continues to hold back consumer and business confidence, which is reflected in lower consumer spending and business investment. Hence, the zero growth in exports to the Eurozone in the first quarter is not unexpected. Purchasing managers indices (PMI) across the Eurozone fell for the first time in four months to 47.7 in March, down from 49.0 in Feb (any reading above 50.0 signifies an expansion).German manufacturing PMI fell from an expansionary 50.2 in February to 48.1 in March. The forecast by the IMF and other economic organisations is for contraction of 0.2% in the GDP of Eurozone countries, as an average .This is a very worrying scenario for Irish exporters, as the Eurozone accounts for 39% of total Irish merchandise exports .

Exports to Belgium, the largest market for Irish exports, increased by 6% in the quarter.The growth benefiting from the intra group exports of pharmaceutical and chemicals of our main manufacturing companies.

Irish exports to Germany increased by just under 1% in the first quarter, reflecting the slowdown in that economy, The Eurostat is forecasting a 0.6% GDP growth for the year as a whole in Germany, but many other economic forecasters indicating a 0.3% GDP growth more likely. Germany is the second largest export destination within Eurozone for Irish exporters, and last year saw a fall of 11% in our exports to that market.

France is the third largest market for Irish produce and exports to the market fell by 15% in the first quarter .The French economy is deemed to have slipped into recession in the first quarter and is forecast to remain in recession for most of the year with a GDP contraction of 0.2% forecast for the year as a whole.

The Dutch Prime Minister Mark Rutte's commitment to fiscal austerity came unstuck in recent weeks, and signals that the economic decline in the Netherlands is set to continue, with most indicators now showing a recessionary contraction of 0.2% in GDP in 2012. This will undoubtedly put our exports to this our fourth largest Eurozone market under pressure. First quarter exports to this market were basically static compared to the same period last year.

The trend in loss in exports of 6% last year to Spain continued into the first quarter with exports falling again by a further 6%.

5. Service Exports – Table F – Expansionary Conditions

Services exports grew strongly by 8% in the first quarter. This is up on the 6.6% achieved last year and indicates a robust competitiveness of the internationally trading commercial services sector.

Ireland's ranking as the 12th largest exporter of commercial services globally, remained intact according to the World Trade Organisation (WTO) in its recent report of Global trade. Concerns were raised in the report by the WTO of contagion from the Eurozone crises spreading to other regions globally and affecting the outlook for services industry growth in 2012. However, as the bulk of Irish services exports are intra-EU sales, we could be affected much earlier than other regions globally if the Eurozone sovereign debt issues are not resolved soon.

The Eurozone accounted for 35% and the EU 27 as a whole 59% of services exports from Ireland last year and this pattern is expected to have continued into 2012. However, the majority of the corporations locating in Ireland to access the EU continue to be from the USA, once again underscoring the importance of good relationships and free access to the EU 27 economies, which imports 42% of world services (ref WTO Map 2 in the Appendices to this report).

The continued exceptional success by the IDA and supporting government agencies, in attracting FDI to Ireland continued into the first quarter of 2012, with 20 new foreign corporate investments .Seventy five percent of these investments were in the services sector and points to one of the key drivers to our services sector export growth as the continued FDI investment in the sector.

Services Exports - Table F			
€millions	**2012 Q1**	**2011 Q1**	% Change
Transport	730	673	8.5%
Tourism and Travel	510	487	4.7%
Telecommunications	140	121	13.6%
Insurance	2450	2241	9.3%
Financial Services	1640	1558	5.3%
Computer Services	8050	7253	11.0%
Royalties/Services	540	437	23.5%
Business Services	5570	5350	4.1%
Miscellaneous	130	161	-19.0%
Total:	**19,760**	**18281**	**8.1%**

The top destinations for Irish services exports are;

Rank Country % of Total

1. Euro zone = 35%
2. UK = 20%
3. Other EU = 2%
4. North America = 8%
5. Asia = 10%
6. South America = 3%
7. Africa = 2%
8. Australia = 1%
9. Others = 19 %

END

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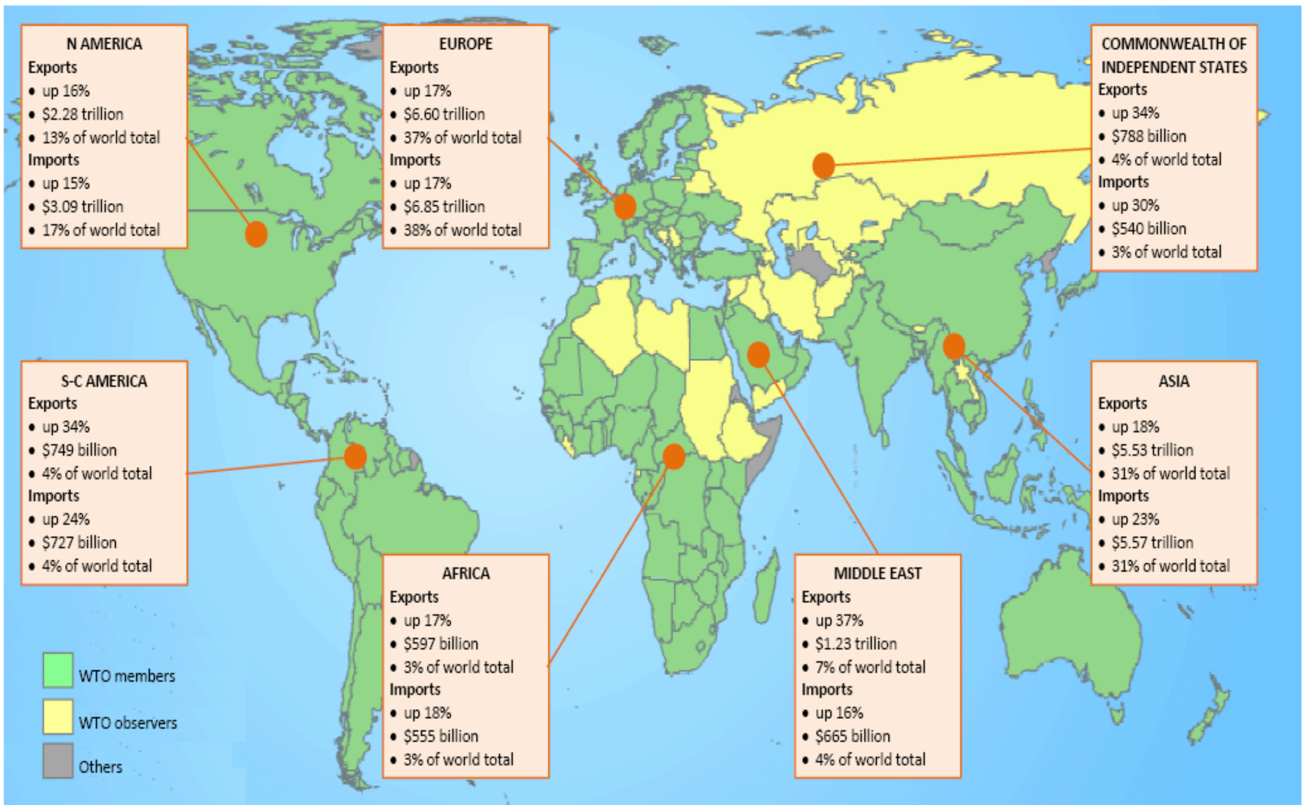
APPENDICES

WTO Map 1: Merchandise exports and imports by region [a], 2011



a Values and shares include intra-EU trade.
Note: Colours and boundaries do not imply any judgement on the part of WTO as to the legal status or frontier of any territory.
Source: WTO Secretariat.

Map 2: Exports and imports of commercial services by region, 2011

a Values and shares include intra-EU trade.
Note: Colours and boundaries do not imply any judgement on the part of WTO as to the legal status or frontier of any territory.
Source: WTO and UNCTAD Secretariats.