Trade Forecast for Ireland

Positive Despite Uncertainty

Growth in the Irish pharmaceuticals sector will remain the key driver of Irish export growth to 2030, bolstered by rapid expansion of our ICT sector and the opening up of key Asian markets to the Irish dairy industry, according to HSBC's latest Trade Forecast published today.

Whilst acknowledging that the UK vote to leave the EU has injected a great deal of uncertainty into the long term economic outlook, the forecast notes that the UK will most likely remain Ireland's number two merchandise export destination to 2030.

The US is likely to remain at number one and Irish exports should be supported by solid, if unspectacular, economic growth in the US over the medium-to-long term. Even in a scenario where new tariff and non-tariff barriers are implemented, Ireland's long term forecast remains steady.

Top export destinations
HSBC projects that the fastest-growing export destination for Ireland in the decade to 2030 will be Vietnam, closely followed by China, India and Malaysia. Together, these countries are expected to account for around 40% of the total growth in merchandise exports.

Despite this, advanced economies remain key. In a scenario in which the UK would retain access to the European single market, the UK would most likely remain second spot after the US, with Germany, France and Japan third, fourth and fifth.

Top export sectors
Ireland is currently the largest net exporter of pharmaceuticals in the EU and the Pharma-Chem sector is predicted to contribute around 60% of the total growth in Ireland's merchandise exports during 2021-2030. In the near term, other sectors such as scientific apparatus, ICT equipment, industrial machinery and animal products will contribute relatively more to overall goods export growth.

Import trends
As their economies mature, Asian economies are growing in importance as Irish import sources. China now supplies around a 10% share of Ireland's machinery and transport equipment imports for example. HSBC expects Vietnam, China, Bangladesh and India to contribute the most to import growth over the medium term with China becoming our fourth largest import partner by 2030, displacing France.

The pharmaceutical and chemicals sectors are also forecast to be important elements of import growth, growing at 13% and 10% per year respectively, over the period 2021-30.

Trade in services
Globally, the report notes that as economic and political headwinds slow global trade in commodities and manufactured goods, businesses seeking to boost sales through exports should explore opportunities linked to services. If governments refrain from introducing new impediments to trade, the value of global goods exports is expected to recover gradually to expand by 3% in 2017 and then 6% a year to 2030. Services, meanwhile, will average 7% annual growth in 2030.

Ireland has the highest share of services in total exports amongst the OECD economies with service exports now accounting for around 40% of total exports (a five-fold increase from 2000 levels).

With the majority share of Irish services exports going to the UK, Brexit represents the most tangible risk to the services trade outlook. Despite this, the Forecast still expects the UK to remain Ireland's top services export destination by 2030, followed by Germany and the US. India, Indonesia and China will however, be the top three contributors to Irish services export growth – all growing by around 10% during the decade to 2030.

CEO of HSBC Ireland Alan Duffy commented; "*As we navigate uncertainty, making trade forecasts is unusually difficult. Nevertheless, whilst we will see uncertainty and confidence effects on domestic demand over the medium term, it is unlikely to derail it completely. Ireland will continue to look to advanced economies as its primary merchandise export market and the UK and US will continue to be key in the long term. However, rising disposable income levels in Asia will also lead to some rebalancing over time, with exports to China expected set to grow by 10% a year in the decade to 2030."*

The HSBC forecast is based on an assumption that the UK retains access to the EU single market, but faces greater restrictions in accessing EU markets in services. This would still be a significant and unpredictable change in the UK-EU trading relationship, but it would enable the UK to strike deals with non-EU countries capitalising on strengths in areas like services, which may yield some compensating long-term benefits.

Alternative scenario for world trade
HSBC and Oxford Economics also collaborated to model the impact on trade flows and economic activity of a potential 'alternative scenario' for world trade. This scenario is based on (1) the UK enduring a 'hard' exit from the EU involving loss of access to the common market, and (2) the new US President implementing a variety of protectionist policies that trigger retaliatory measures from emerging markets.

Unsurprisingly global trade would be adversely affected, with the value of world merchandise exports close to 3% below baseline levels in 2030. At the country level, the UK is the most adversely affected economy. Goods and services exports are below baseline levels, and on a bilateral basis the UK re-orients itself away from the EU and towards the US and China.

Ireland's dependence on the UK also makes it vulnerable to Brexit. Although exporters continue to take advantage of the country's EU membership, shifting their sales towards the bloc and away from the UK, the loss of preferential access to a key export market weighs on Ireland's economy, reducing supply side potential and actual output.

Overall in this scenario, Irish exports in value terms exceed the baseline model by USD11.7bn in 2030. However, this rise is fuelled by a combination of inflation and flattering exchange rate movements.