Ireland

IN BRIEF

- The outlook for the Irish trade sector is bright, as robust growth in the US and UK and a weaker euro should help sustain strong export growth in the coming years. Meanwhile, low oil prices and improving confidence will support a pick-up in domestic demand.
- Expanding household incomes in emerging markets should help Ireland to diversify its export base, with exports to China expected to grow by 10% per annum in the decade to 2030. However, China will not displace the UK or the US as Ireland's most important export markets.
- With its low cost base and highly-skilled labour market, Ireland has established itself as a major manufacturing and export centre for multinational electronics companies. Ireland currently supplies around 20% of Western Europe's electronics.

With private demand slow to pick up following the financial crisis, growth in net trade has done most of the heavy lifting during the Irish recovery. While the European and American markets remain Ireland's most important export destinations, expansion into emerging markets is apparent. This leaves Ireland well-placed to benefit from increasing trade liberalisation, as several international agreements draw closer to being signed in the coming years.

LONG-TERM OUTLOOK

Economic Outlook

The medium to long-term outlook for Ireland is encouraging, as it benefits from strong performances by its main trading partners. As a small and open economy, Ireland's economic progress is clearly tied to the success of its export sector. The World Bank's 'Doing Business' report for 2015 shows Ireland in 13th position out of 189 countries - one place ahead of Germany. Ireland was also among the top 10 improvers, having introduced reforms related to property registration, credit access and contract enforcement.

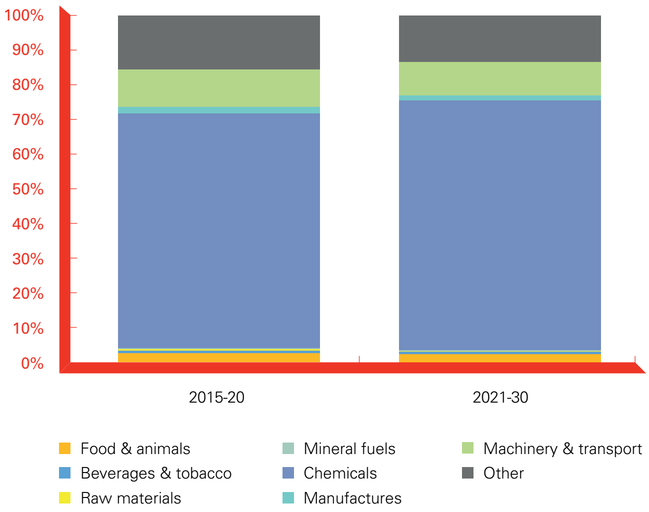
As well as strong export growth and an unfolding recovery in investment levels, consumer spending should also revive over the medium term, as economic conditions improve and debt levels fall. In light of these factors, we are projecting fairly robust growth in real GDP of around 2.8% per annum in the decade to 2030.

In the near term, households remain highly indebted, with the ratio of household debt to disposable income at nearly 200%. However, the next few years should see a pick-up in domestic demand, driven by low oil prices and continuing labour market improvements. Net trade should also enjoy a temporary boost as the European Central Bank's programme of quantitative easing weakens the euro, making Irish exports more attractive abroad. This is particularly beneficial for Ireland, as around a third of Irish exports go to the US and UK combined.

Export Corridors to watch

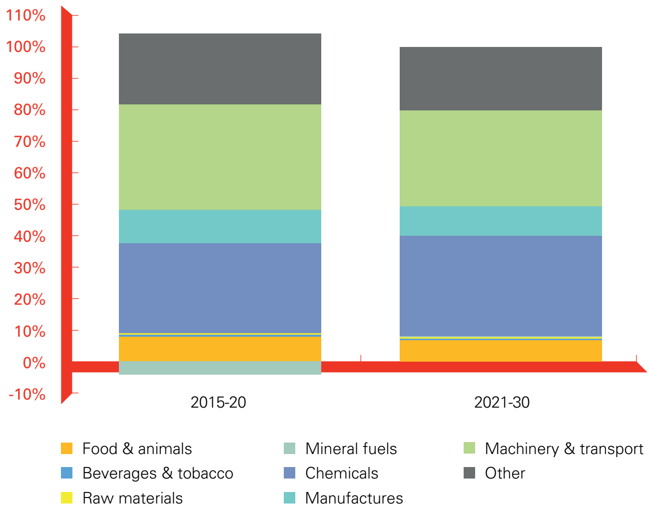
The chemicals sector, which comprises chemical and pharmaceutical products, is set to retain its dominant position as Ireland's top export sector. With its favourable cost base, highly-skilled labour force and targeted investment by the government, Ireland has successfully established itself as a centre for multinational pharmaceutical companies. Eight of the top 10 global pharmaceutical and bio-pharmaceutical companies have integrated manfacturing operations in Ireland, making it one of the world's largest exporters of pharmaceuticals. We expect the chemical sector to contribute approximately 70% of the growth in total merchandise exports in the decade up to 2030.

Sector contribution to increase in exports



Source: Oxford Economics

Sector contribution to increase in imports



Source: Oxford Economics

Climbing incomes in emerging markets should help Ireland to expand its export base in the years ahead. Reflective of this, our projections show that the fastest-growing export destination for Irish exports in the decade to 2030 will be China, closely followed by Vietnam, India and Malaysia, all with export growth of around 11% per annum.

Top 5 Hotlist Export Destinations

Rank	2013	2030
1	USA	USA
2	UK	UK
3	Germany	Germany
4	France	France
5	Japan	China

*Ranking among the 24 trade partners covered in the HSBC Trade Forecast

This reorientation of trade will lift China into fifth place in Ireland's export destinations in 2030, moving ahead of Japan. Nevertheless, there is little movement in the top export destinations; the UK and US are expected to retain their places as Ireland's two most important export markets, followed by Germany and France.

Import Corridors to watch

We forecast the machinery and equipment sectors to be important drivers of import growth in the coming years, as the general economic recovery lifts investment back towards pre-crisis levels. The chemicals sector will also be an important element of import growth, reflecting the high import requirements of the chemical and pharmaceutical industries based in Ireland.

The economies of Asia will be the fastest-growing origins of merchandise imports for Ireland. In the decade to 2030, we expect the value of imports from China, Vietnam, Bangladesh and India – all growing at 10% per annum – to lead this expansion. This will push China into fourth position in the rankings of most important import origins by 2030, displacing France. The UK will retain its position as the leading supplier of imports over this period, but the US will nudge Germany into 3rd place, reflecting the more positive medium-term outlook for the American economy.

Top 5 Hotlist Import Origins

Rank	2013	2030
1	UK	UK
2	Germany	USA
3	USA	Germany
4	France	China
5	China	France

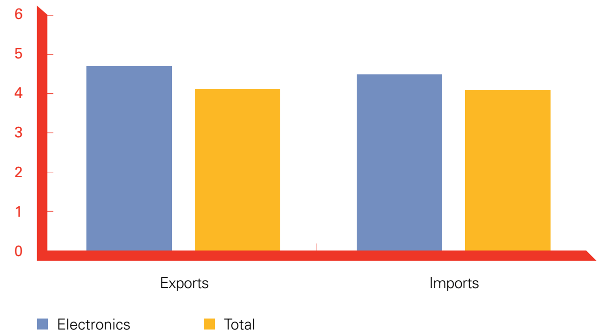
*Ranking among the 24 trade partners covered in the HSBC Trade Forecast

FOCUS ON ELECTRONICS

- In large part due to targeted government investment and a low tax environment for foreign companies, Ireland has established itself as a major manufacturing and export centre for multinational electronics companies.
- Ireland currently supplies approximately 20% of Western Europe's electronics, focusing primarily in semi-conductor components and data processing equipment. The sector is characterised by government-supported industry clusters with close ties to research centres, working on the development of new technologies.
- Reflecting this progress, the latest Global Information Technology Report jointly commissioned by the World Economic Forum and the INSEAD International Graduate Business School, places Ireland 25th in its ranking of 143 economies for ICT development.
- We expect robust growth in the electronics industry to continue in the medium term, bolstered by further government support. International pressure to raise Ireland's low corporate tax rate is a downside risk to continuing inflows of FDI.
- Irish exports of electronics are forecast to grow by 5% per annum over the period 2015-30. Imports of electronics are expected to grow by roughly the same amount, which means that the trade surplus of these goods will remain largely unchanged.

Trade in electronic goods

Growth (% year)



Total imports and exports are the sum of imports and exports from the modelled countries

Source: Oxford Economics

- As an EU member state, Ireland is a signatory to the WTO's Information Technology Agreement (ITA) and has eliminated tariffs on some 250 electronic goods currently covered by the accord. The expansion of the agreement to cover an additional 200 products would reduce the average rate of duty on these goods from the current EU rate of 4.6%.
- Given Ireland's attractiveness as a low-cost base for international electronics companies, increased trade openness would further lower the costs of locating manufacturing facilities in the country and thus encourage more inward investment.

About the HSBC Trade Forecast – Modelled by Oxford Economics

Oxford Economics has tailored a unique service for HSBC which forecasts bilateral trade in goods, based on HSBC's own analysis and forecasts of the world economy. A top-down approach is employed, with Oxford Economics' suite of models used to ensure consistency between HSBC's forecasts for economic growth and exchange rates in key countries and the more granular projections for bilateral trade flows presented here.

Oxford Economics employs a global modelling framework, with headline bilateral trade forecasts constructed as a function of final demand in the destination market and the exporter's competitiveness (as measured by relative unit labour costs). Exports, imports and trade balances are identified, with both historical estimates and forecasts for the periods 2014-16, 2017-20 and 2021-30.

These headline bilateral trade forecasts are also disaggregated by sector, using Oxford Economics' Industry forecasts to inform future production trends. Sectors are classified according to the UN's Standard International Trade Classifications (SITC) system at the two-digit level and grouped into 30 sector headings.

Oxford Economics produces a global report for HSBC, as well as country specific reports on the following 23 countries: Hong Kong, China, Australia, Indonesia, Malaysia, India, Singapore, Vietnam, Bangladesh, Canada, USA, Brazil, Mexico, Argentina, UK, France, Turkey, Germany, Poland, Ireland, UAE, Saudi Arabia, and Egypt. The analysis also includes trade with Japan and Korea for a total sample of 25 key trading nations.

All trade flows data are reported in nominal US-dollar value terms (using market exchange rates) unless otherwise specified. This means that fluctuations in a country's terms-of-trade due to relative price and exchange rate effects are reflected in the data.

Sector Focus – Methodology

This report also includes a special section on the electronics industry. Based on the same underlying forecasts used for the existing analysis of trends in bilateral trade flows, the report examines how exports/imports of these products are expected to evolve over time. The definition used in the report for the electronics sector is below:

- SITC 75 – Office machines and automatic data-processing machines
- SITC 76 – Telecommunications equipment
- SITC 77 – Electrical machinery
- SITC 87 – Professional, scientific and controlling instruments
- SITC 88 – Photographic apparatus, equipment and supplies and optical goods

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