

Manufacturing output increases 28% since 2000

Ireland now world's 13th largest exporter of services

Tuesday, 18 July 2006. Forfás, the national enterprise policy advisory body, today presented a detailed review of the changing nature of manufacturing and services in Ireland to Minister for Enterprise, Trade and Employment, Micheál Martin TD, as requested by him earlier this year.

"This study is an important reference point, putting Ireland's standing in an international context, and will serve as a stimulus for informed discussion and evidenced-based policy making." said Minister Martin. "There has been significant structural change in certain sectors of manufacturing and strong growth in trade in services. This report shows that the trends in the Irish economy closely mirror those in other developed countries. It underlines the need for a healthy manufacturing sector, particularly as it is an important driver of productivity and innovation. It shows that Ireland has been successful in the evolution of its enterprise base. However, our favourable enterprise environment must continue to evolve to support the changing nature of industry in Ireland. A high level manufacturing group will be established to review the challenges facing the manufacturing sector and to identify further measures to meet those challenges."

Manufacturing

"This data shows that Ireland's economy is changing in line with international trends. Despite concerns about the sector, manufacturing continues to contribute significantly to our economic success. Manufacturing output has increased by 28 percent in volume terms from 2000 to 2005, and Ireland is punching well above its weight in terms of share of manufactured exports." said Martin Cronin, Forfás Chief Executive.

The sector spends almost €25 billion a year on wages and with Irish suppliers, and it accounts for almost 30% of corporation tax. Recently, while output has grown, employment in manufacturing has declined significantly since its peak in 2000, by 13% or 31,000 jobs, indicating greater productivity, and the number of firms overall has remained stable. However, productivity is concentrated in a small number of sectors.

Sectors such as medical devices (+79%) and chemicals (+27%) have seen growth in employment since 1995, while textiles (-74%) and electrical machinery (-28%) have fallen. Because of the high proportion of US and UK owned firms, the manufacturing sector is quite exposed to currency shocks.

Services

Employment in services has increased 21 percent since 2000, compared to an average G7 rise of 6 percent. Now, almost seven of every 10 people work in this expanding sector.

Services exports have grown rapidly in recent years, and we are now ranked in 13th place worldwide. The contribution of services to total Irish exports increased from 22 to 35 percent between 2000 and 2005.

However exporting service companies are concentrated in Dublin with 67 percent of employment, although all regions except the Mid-East have seen job growth in this sector.

Despite impressive export growth, Ireland remains a net importer of services with a deficit of €9.9 billion in 2005, compared to a trade surplus of €30 billion in merchandise. Computer services are the most significant export service sector accounting for 35%. There is also a strong export base of insurance and finance services, which account for a further 25% of total services exports. European countries, including Ireland, are well behind the US in the area of R&D and royalties and licenses, suggesting there is a need for augmenting our intellectual property, patents and technologies.

Offshoring

To date, the trend towards offshoring in both services and manufacturing has tended to benefit Ireland. Both higher and lower skilled jobs will move to other countries in the future for cost and other reasons, such as improving infrastructure and access to new markets, particularly in Asia, and offshoring of some operations may be inevitable. However, the productivity gains which can be achieved by relocation of some activities abroad present an opportunity for companies in Ireland to develop in higher value manufacturing and services activities, including R&D, marketing, sales, technical support and product management.

Necessary Responses

International trade has been central to the success story of the Irish economy. As Ireland has a relatively small domestic economy, it must rely on imports to a greater extent than countries with larger domestic economies. Such imports must, in the long run, be financed by export

sales. As a trading economy, Ireland faces two main challenges. Firstly, to develop specialisation in sectors that yield the greatest possible value added, and secondly, to produce those goods and services with the greatest efficiency possible.

“It is most important,” continued Mr Cronin, “that we remain focused on building success in international markets as exports will continue to be a vital determinant of our longer term success.”

“We still face some real challenges,” added Mr Cronin. “In both manufacturing and services, our foreign-owned firms are more export intensive than our Irish-owned firms. Although there are indications of growth in productivity, which is key to our competitiveness, there are significant differences across sectors which need to be addressed. As productivity improves it can be accompanied by job losses. Training and support for the labour force is essential to ensure a smooth transition process to higher skilled and high value activities.”

Key policy areas that are being addressed include

- Cost competitiveness and productivity: market liberalisation, ICT, human capital
- Innovation and technology
- Skills and training
- Management skills
- Market and customer intelligence
- A more targeted approach to supporting small companies with the ambition to pursue significant growth