PRESS RELEASE

Address by Liam Connellan, Director General, Confederation of Irish Industry, at Institute of Chartered Accountants in Ireland meeting at the Training Centre, Smithwicks Brewery, Kilkenny, on Wednesday, 22nd November 1989 at 6.30p.m.

BRITISH SLOWDOWN CREATING MORE DIFFICULT CONDITIONS FOR IRISH INDUSTRY

STERLING WEAKNESS MUST BE COUNTERED BY IMPROVEMENT IN IRISH COMPETITIVENESS

Current developments in the British economy are greatly intensifying pressures on Irish industry. The autumn statement by the British Chancellor of the Exchequer last week forecast that the growth in imports into Britain will fall from a 9% volume increase this year to 1.25% increase next year. Since Irish industry sells almost 30% of its output in Britain and Northern Ireland, such a dramatic fall in demand, if realised, without Ireland achieving an increased share of the British market, would result in a reduction of more than 2% in the growth of Irish industry.

Also, the recent weakness of sterling is adversely affecting Irish industrial competitiveness. Most export goods being delivered today to British customers were ordered when sterling was about 87p and the process of covering for currency risk ensures that they will be paid for at that rate. There is, therefore, a short-term cushion before the full competitive impact of the sterling devaluation affects Irish exporters. However, goods which are ordered today from Irish exporters for supply to Britain will have to take into account the weakness of sterling and therefore be quoted at prices about 5% lower than in September if they are to maintain market share.

We can also expect much greater pressure from British competition on the Irish market. This is because the home market in Britain is expected to show very little growth and British firms will seek to win new markets abroad. At the same time, the sharp fall in sterling has made British products more competitive than they were last year even after the inflation rate differential is taken into account. This clearly puts added pressure on Irish firms supplying the home market.

On the positive side, Irish input costs will be helped by the weakness of sterling. Many of the raw materials and components for Irish industry are sourced in Britain. The effects of these changes have not worked their way through completely on the Irish market because of the practice of covering forward for currency variations. Prices do not change overnight, much though we would all like this to happen, because commitments to purchase were entered into when sterling was stronger and many businesses seek to insure against currency swings by covering forward. If sterling remains weak, then most of the price reductions will have worked their way through to Irish industry and consumers over the next three months. We will then expect inflation to fall significantly which will help to offset the negative impact of sterling weakness.

Our essential need now is to use every means of improving competitiveness in order to bridge quickly the competitive gap which has opened in recent weeks between Irish and British products. The gap can only be closed by making full use of cheaper raw materials and lower production costs in Ireland. It is essential that these competitive pressures are fully recognised so that the continued expansion of industrial production and employment can be sustained.

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