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PRESS RELEASE

The Confederation of Irish Industry

Registered in Dublin
Registered No.8706

Speech to Dublin University Business and Economics Society by Mr Liam Connellan, Director General, Confederation of Irish Industry, at Trinity College on 15 November 1977 at 1 p.m.

JOBS, OUTPUT AND COMPETITION

Employment

Since early summer, the level of unemployment in Ireland has been falling compared with the previous year, and is now about 3,000 below the level of this time last year. Ireland is the only state in the European Community to record such a large proportionate reduction. Unemployment is still rising in almost all other member states.

The reason for this drop in unemployment is the fast and sustained rate of industrial growth which has occurred since the trough of the recession in mid-1975. At first, spare capacity had to be taken up; short time working eliminated; some overtime introduced; and finally, new staff employed. This final phase has begun to occur during the last year and it is now estimated that there will be at least 8,000 additional people working in manufacturing industry in 1978 as compared with 1977, and as many again working in the services sector as a result of the continued growth of industry.

Nevertheless, the fact that Ireland still has 9.5% of its workforce registered as unemployed, compared with 5½% on average in the European Community, highlights the seriousness of the situation.

Industrial Output

Industry in Ireland has continued to grow at a rate close to 10% during 1977, and to expand employment. This has been due to new

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firms starting production; and a combination of the devaluation of sterling and a moderate rate of labour cost increase, which ensured that Irish industrial costs, during 1977, remained competitive. As a result, established industry held its share of home and export markets. Therfore, the additional capacity created by new firms represented a real increase, rather than a substitute for established firms going out of business, which had occurred so often in the past.

However, it must be recognised that this 10% growth rate in Irish industry is running counter to the trend in the rest of the European Community and will, therefore, be harder to maintain, as many industries in other countries continue to operate below capacity and may sell at lower than normal prices in order to maintain production levels, if the financial resources of the firms are sufficient to sustain this strategy. Industrial output in Germany, Italy, Holland and Britain has fallen over the last three months. Furthermore, forecasts for the U.S, and European economies for the next twelve months are for a modest 3% to 4% growth, hardly sufficient to maintain current employment.

Capacity

Maintenance of the current rate of output growth in industry will quickly result in capacity constraints.

Industrial investment continues to expand. An article in the autumn Central Bank bulletin estimated that a 3½% increase in manufacturing investment is required in order to achieve a 1% increase in output. Therefore, a very great expansion in the rate of investment is necessary in order to sustain a high rate of output growth.

But there can be a long time lag between new investment decisions and the installation of new plant and, in the latest monthly industrial survey, 89% of firms indicated that they did not have

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excess capacity for the coming year. Since there are a large number of people looking for work, I believe that serious consideration should now be given to the more widespread use of shift work in order to extend the use of existing plant. The expansion of industrial output could continue and much needed additional employment could be provided.

Competitive Outlook

In the coming year, Irish industry will be faced with additional intense competition due to :

1. The tendency of manufacturers in slow growth economies to cut prices in order to maintain the volume of production.

2. A tendency by Governments to subsidise industrial sectors in difficulty in order to maintain employment, e.g. the Temporary Employment Subsidy in Britain which continues to distort trade and cause major difficulties for labour intensive Irish industry.

3. The revaluation of sterling which has made our industrial exports to non-sterling markets less competitive. For example, German costs increased by only 4% in the last year, whereas Irish costs increased by 13%. The effect of the revaluation of the pound is to further worsen the relative competitiveness of Irish products.

Prices

It is now estimated that both U.S. and EEC prices will rise by about 7% in 1978 compared with 1977. If sterling maintains its recent revaluation, Irish prices in non-sterling markets will have to rise by less than 7% in order to remain competitive.

The rate of price increase in Ireland, which was 13% in the year to August, shows signs of a major slowdown in the coming months. A survey, taken before the recent revaluation of sterling, indicates that industrialists expect the coming months to show the lowest rate of price increase for over three years - 53% of firms were expecting no increase in prices and 4% were expecting prices to fall. Further indications of this trend are available from the fact that wholesale prices in Britain rose at an annual rate of only 8% in the third quarter; and, also, that raw material prices for industry have been falling for the last three months. It, therefore, seems possible that, if the revaluation of sterling is sustained, Irish rate of price increase could be close to the 7% projected for the U.S. and EEC in 1978.

Conclusion

Unemployment in Ireland is falling faster than in any other state of the European Community, because of the growth in industrial output and investment. But Ireland still has an enemployment 60% above the Community average. It is essential that the trend of falling unemployment is accelerated through a more rapid rate of industrial development.

This will be made more difficult because of the slack capacity which exists in the major international economies, and a tendency by some countries to subsidise sectors in difficulty. The forecast of 7% increase in prices for the U.S. and the EEC countries in 1978, combined with any sustained revaluation of sterling, means that Irish prices in non-sterling markets must increase by less than 7% if competitiveness is to be maintained. A further reduction in industrial costs and prices would be necessary to improve on the 1977 job creation performance and to approach the requirement of 30,000 additional jobs in the economy.

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