Statement by Liam Connellan, Director General, Confederation of Irish Industry

WEAKNESS OF STERLING

NOW CLEAR SIGNS 1990 TO BE A VERY DIFFICULT YEAR FOR IRISH INDUSTRY

The weakness of sterling against the Irish pound and other EMS currencies is imposing very severe competitive pressures on Irish manufacturers. The magnitude of the task to maintain output and employment in many sectors of industry is daunting. The Irish pound is now 7% stronger than a year ago against the average currency of our trading partners and is 15% stronger against sterling. Irish industry must achieve corresponding relative improvements in costs if jobs are to be maintained at present levels.

The wholesale prices of products manufactured in Ireland are now below the level of last autumn. When this occurred some years ago inflation fell sharply less than six months later. If the present currency strength continues all earlier projections for inflation in Ireland will have to be revised sharply downwards. Previous experience indicates that inflation should fall below 2% by the autumn.

However, even this fall in inflation will not be enough to restore competitiveness in many sectors of industry. There is need for a crash programme to bring forward investment in more productive machinery in order to maintain competitiveness and keep employment at current levels.

Stagnation in the British economy is also beginning to take its toll on Irish industrial order books. The current level of orders is at its lowest level for two years. In this situation, Irish industry has no choice but to go for a higher share of a depressed market. This will require not only increased market effort but an improvement in cost competitiveness. A sharp increase in productive investment is essential in order to reduce costs which will lead to increased market share. This requirement for increased investment in Ireland comes at a time when the centre of gravity of Europe is moving eastwards and corporation tax-free zones proliferate throughout the European Community in areas ranging from Dunkirk to Flanders and Wallonia. Regard must also be had to the concern expressed recently by the Central Bank concerning the fall in our external reserves indicating that more money is flowing out of Ireland than is coming in.

There are now clear signs that 1990 is going to be a very difficult year for Irish industry. This arises from the intense competitive pressures caused by the sharp fall in sterling and the growing attraction of investment to mainland Europe due to the opening up of the Eastern European economies. It is of crucial importance that increased emphasis is now given to encouraging productive investment in Ireland in order to improve competitiveness and maintain employment. There is a serious risk that inertia in responding quickly to this challenge could result in significant job losses within the next couple of years. Let us recognise the risk now and take action before substantial damage is done to employment. Policies adopted by successive governments in recent years to reduce incentives for investing in Ireland must be reversed.

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