PRESS RELEASE

Address by Liam Connellan, Director General, Confederation of Irish Industry, at CII North West Regional Council Luncheon, Sligo Park Hotel, on Thursday, February 7th, 1991 at 1.00p.m.

STRATEGIES WHICH CAN HELP IRISH ECONOMY TO CONTINUE EXPANDING IN 1991 DESPITE INTERNATIONAL DIFFICULTIES

The Irish economy is better placed to cope with the current very difficult international trading conditions than on many similar occasions in the past. There are a number of reasons why this is so:

Firstly, Irish industry sells almost 40% of its output to mainland European markets where the volume of demand is still expected to expand by about 2% and 3% this year.

Secondly, if Britain maintains the value of its currency within the EMS, then Irish goods should become more competitive on the British market because of the difference in inflation rates between the two countries. This improvement in competitiveness will help Irish firms to increase their share of the British market and continue to expand exports to Britain despite the lack of growth in overall demand. About 25% of Irish industrial output is sold on the British market but this represents only one-twenty-fifth of British purchases from abroad.

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Thirdly, about 5% of the output of manufacturing industry in the Republic is sold in Northern Ireland. The market for goods in Northern Ireland is not expected to be as sluggish as in Britain because of the very high proportion of expenditure accounted for by the public sector there. This greater buoyancy in demand, combined with improved competitiveness due to the inflation rate differential, should result in a significant growth in trade from the Republic to Northern Ireland.

Fourthly, Irish manufacturers should be able to win back a substantial share of the home market this year because of improved competitiveness against British imports. Since the home market accounts for almost one-quarter of the output of Irish industry, any gain in market share will impact directly on output and employment.

Furthermore, there was a substantial reduction in the growth rate of high technology industries last year, particularly in the computer area. There are now some indications that order books for computer manufacturers are beginning to recover. For example, in December fewer computer firms were reporting orders below normal than had been the case for most of last year.

The Gulf war will have a major influence not only on the total volume, but also on the structure of demand throughout Europe. As more funds are channelled towards the high technology war effort, it is likely that this will increase international demand for high-technology products. International travel is likely to fall significantly but this should be counterbalanced, at least in part, by a substantial increase in home tourism. The reduction in business travel will be replaced by a greater use of telecommunications and it is not yet clear what the impact will be on trade. Most of the impact of the Gulf war on Ireland will be indirect, since the Middle and Near East last year accounted for only 2% of total Irish trade.

Less than two weeks ago The Economist magazine published its most recent monthly international forecast and this was not particularly gloomy for many of our main markets in 1991. For example, the forecast for the Federal Republic of Germany was revised upwards from 2.9% in December to a 3% growth rate in January. For Belgium it remained at 2.6% and for France and The Netherlands at 2.4%. The forecasts for Britain and the United States were more pessimistic and indicated a fall in economic output this year. Since then, however, the US has reduced its interest rates as a counter to the recessionary tendencies. It was still expected that almost every one of the industrial economies would show a faster growth rate in 1992. However, it must be recognised that a prolonged Gulf war would inevitably postpone this recovery.

It is to be hoped that the reduction in the exchequer borrowing requirement announced in last week's Budget will enable Ireland to ensure that the difference between Irish and German interest rates does not exceed the current gap of 2%. By prudent management, confidence in the Irish economy can be increased and this could result in a narrowing of the gap between Ireland and Germany, as has already occurred in other small European economies such as Belgium and The Netherlands.

In summary, I would strongly urge the the adoption of business strategies to: (1) focus greater export effort on the growing economies of mainland Europe; (2) convert the favourable gap in inflation between Ireland and Britain, our main supplier, to increase our share of the Irish market, North and South; (3) achieve increased market share on the British market arising from improved competitiveness thus compensating for lower demand.

Conclusion :

It is vitally important that Irish business retains the confidence to continue making progress, despite the current international uncertainty. The Gulf war will probably alter the nature of some businesses. Ireland's advantage as a low-inflation economy with a wide diversification of markets makes it more flexible to changing circumstances, and it is also part of a "zone of stability" in a European economy which is still expected to grow by about 2% this year. I believe that by adopting a clearly focussed market strategy output and employment can continue to increase.

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