Ulster Bank

Is an export recovery underway? Yes and No

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A key strand of rebalancing the Northern Ireland economy is increasing exports. Earlier this month the Manufacturing Sales & Exports Survey (MSES) for the latest financial year 2012/13 was published. The headline sales and export figures were something of a mixed bag and appeared to offer grounds for optimism and pessimism in equal measure. In short, it was encouraging that manufacturing sales to Great Britain, which is defined as an *'external market'* rather than an export market, hit an all-time high of £8.1bn. However, overall export growth recorded an increase of just 0.4% with growth in the Republic of Ireland (+7%) and the *Rest of the World* market (+4%) - *includes North & South America, Asia etc* – largely offset by a decrease of almost 12% in the *Rest of the EU* market, which includes the troubled Eurozone. Overall, this makes the Executive's headline target of increasing the value of manufacturing sales by 20% by 2014/15 more challenging. However, hitting or missing this headline target may not be a fair judge of success or failure. Indeed, looking beneath the headline statistics reveals some notable and encouraging trends, not least the emergence of a significant export recovery amongst Small & Medium-sized enterprises (SMEs).

But before we get to the positive, let's look at the not so positive side. Large firms, defined as those employing more than 250 employees, saw exports fall by almost 8% during the last financial year (2012/13). All export markets posted declines with hefty double-digit decreases in the Republic of Ireland (RoI) market (-16%) and the *Rest of the EU* (-20%). Meanwhile manufacturing sales to the *Rest of the World* market held up better than elsewhere with a decrease of just over 1%. The decline in exports to the RoI represented the fifth consecutive year of falling sales by large firms. Indeed, last year was the steepest rate of decline since the survey began. Furthermore, large firms' exports to the RoI are 52% below their peak in 2007/08 and are now at their lowest level since the MSES survey began. RoI exports now account for less than 10% of all large firm exports. Meanwhile, sales to the *Rest of the World* category now account for more than two-thirds of total manufacturing sales and sales to the *Rest of the EU* some 23%.

So, whilst there has been talk of an export-led recovery, large manufacturing firms in Northern Ireland have not been part of this, at least up until the end of the 2012/13 financial year. However, it hasn't all been bad news for Northern Ireland's large manufacturing firms. Sales to Great Britain, which is defined as an *'external market'* rather than an export market, rose by 3% in real terms during the last financial year and hit a new record high of £6.3bn. This represents an increase of almost one-quarter, or £1.2bn, relative to 2007/08 levels. By comparison, exports *(i.e. sales outside the UK)* by large firms are close to a quarter below their pre-downturn peak in 2008/09.

The export performance by Northern Ireland's large firms has concealed the impressive performance by our SME firms. Last year, our SMEs saw their exports in value terms increase by almost 16%. This represented their second consecutive year of growth across all export markets with a rebound so far of 26% since 2010/11. Northern Ireland's SMEs have recouped over 60% of the fall in exports that followed the economic downturn and SME exports are now just £170m or 12% below their 2007/08 peak of £2.3bn. The contrasting manufacturing performance, based on firm size, means that SMEs now account for 40% of total manufacturing exports. This is up from the low of one third back in 2010/11 and represents the highest proportion since the MSES series began.

The RoI remains the largest market for our SMEs and accounts for half of all exports. Last year sales to Northern Ireland's nearest trading partner increased by 16% which followed the 6% rise the previous year. As a result, SMEs have recovered almost half of the exports to the RoI that they lost during the downturn. Clearly, local firms are also focussing their attention beyond these shores. The *Rest of the World* market has overtaken the *Rest of the EU* market for the first time. Export sales to the former - which includes the Americas, Asia, Africa and the Middle-East – have rebounded by 54% since their low of 2010/11. Sales to this market have never been higher. It is also encouraging to note that despite recession in the Eurozone, Northern Ireland's SMEs have been increasing sales into the *Rest of the EU* market for the last three years in a row. As a result, our SME's have clawed back 40% of the fall in exports that has occurred since the peak in 2007/08.

Looking at the latest sales and exports figures by industrial sector highlights some interesting trends too. The *Food, Drink & Tobacco* sector, which now accounts for 52% of all manufacturing sales and 21% of all manufacturing exports, continues to break its previous sales records. Total sales & exports increased by 4% y/y in 2012/13 and now stand at £8.8bn and £1.1bn respectively. Total sales and exports of *Food, Drink & Tobacco* have increased cumulatively by 33% and 21% respectively since the global recession broke in 2008/09. Taking the figures back to 2007/08 *(which strictly speaking isn't directly comparable due to changes in the survey methodology)* the increases are even greater at 40% for total sales and 56% for exports.

Our local food & drink sector arguably benefited the most from the Bank of England's monetary policy stance. The depreciation in sterling against the euro has fuelled sales into the Republic of Ireland. Indeed, food, drink & tobacco sales into this market have almost doubled since 2007/08 with an annual increase of over 8% in the last financial year (2012/13). The favourable exchange rate movements have also enabled Northern firms to displace their less price competitive Southern rivals into the GB market. This largely explains why local food & drink firms have posted sales growth of 38% over the last 5 years. Local firms have also benefited from the fall-out of the horse meat scandal. The latter now necessitates full traceability of food from the farm gate to the plate.

Clearly the food & drink sector flatters Northern Ireland's overall manufacturing and sales performance. Overall, non-FDT *(food, drink & tobacco)* total sales and exports fell by 1.7% and 0.6%. This includes: engineering, manufacturing of fabricated metals, pharmaceuticals, rubbers & plastics etc. In 2012/13, total manufacturing sales for non-FDT sales were some £2.6bn, or 24%, below their 2008/09 peak. Furthermore, this represented the lowest level since the MSES series began. However, this latest annual fall in sales and exports was due to a hefty 12% fall in the Northern Ireland market, which took sales to their lowest level in the series history and a 14% decrease in the beleaguered *Rest of the EU* market. However, there have also been some encouraging trends when considering non-FDT. The GB (+5.5%), RoI (+5.3%) and *Rest of the World* (+3.7%) markets all posted healthy rates of growth, albeit they are coming off very low levels. For example, non-FDT sales to the RoI remain over 60% below the levels that prevailed in 2007/08.

So, it is clear that Northern Ireland's success or otherwise in export markets is not a black and white issue; there is a complicated picture beneath the headlines. Accurately monitoring and evaluating performance in the interests of rebalancing the economy requires more than a headline target.

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