Exports continue to grow strongly despite downturn in global demand

By Stephen Byrne

Irish export growth has remained remarkably resilient throughout the second quarter, and the peak of the pandemic. Despite an expected 19 per cent fall in trade-weighted world demand, exports fell by only 0.2 per cent in the second quarter.

This aggregate figure masks significant divergent trends. Exports of goods increased by 7.6 per cent, while exports of services fell by 8.1 per cent. This box outlines the three primary developments driving the resilience of exports.

Figure 1: Exports growth has outstriped World Demand

1 Irish Economic Analysis Division
1) The continued concentration of merchandise exports in pharmaceutical products

The first Bulletin of 2020 examined the concentration of merchandise exports, with a small number of very high value pharmaceutical products accounting for an increasing share of total exports. This trend has continued. Pharmaceutical products alone accounted for 38 per cent of total merchandise exports in the second quarter of 2020. One product type “Immunological products, put up in measured doses or in forms or packings for retail sale” accounted for approximately 12 per cent of total merchandise exports. Exports of this product grew by 41 per cent in value terms in the second quarter compared with a year ago.

Broadly, chemicals and related products accounted for most of the growth in merchandise exports throughout the second quarter. A further substantial contribution came from exports of machinery and transport equipment, specifically exports of computer processors.

2) The fall in services exports would have been much larger if not for continued growth in computer services exports

Services fell by 8.1 per cent, but would have fallen by more than 10 per cent if it were not for the strong growth in exports of computer services, which accounted for 58 per cent of total services
exports in value terms in the second quarter. Other services also mitigated the decline in services trade by a further one percentage point.

Figure 3: Services trade fall cushioned by strength of Computer Services exports

3) Contract manufacturing exports increased sharply during the second quarter

Contract manufacturing occurs where a company in Ireland engages a company abroad to manufacture products on its behalf. The product is then sold to a customer in a third country. While the products never cross the Irish border – the entity involved in the sale to the third country is Irish, and an export transaction is recorded in the Irish national accounts. Contract manufacturing exports increased by 14 per cent in year-on-year terms in the second quarter, and by 9 per cent compared with the first quarter.

It is likely that the strong increase in the second quarter was related to manufacturing which had been delayed during the first quarter. A significant proportion of contract manufacturing takes place in China – where large scale closures affected production during January and February, in particular.