

HSBC Global Connections

Trade Forecast Update: Ireland

February 2012

Forecast exploring the future of world trade and the opportunities for international businesses

- World trade to grow by 86% in the next 15 years (2012-2026)
- World trade to grow by 3.78% annually over the next five years
- International trade growth will accelerate sooner than expected from 2014 rather than 2015 as reported last quarter
- Companies to increase trade activity by 4.70% to achieve projected growth
- Fastest growing emerging sectors support trade infrastructure and the transportation of goods around the world
- Ireland's trade forecast to grow 76.21 % to 2026
- Ireland's companies to increase trade activity annually over the next 15 years by 3.16%
- Ireland's trade growth will be fuelled by the chemicals and pharmaceuticals sector and in particular exports of blood products to Germany at annualised rate of 16.78% to 2016

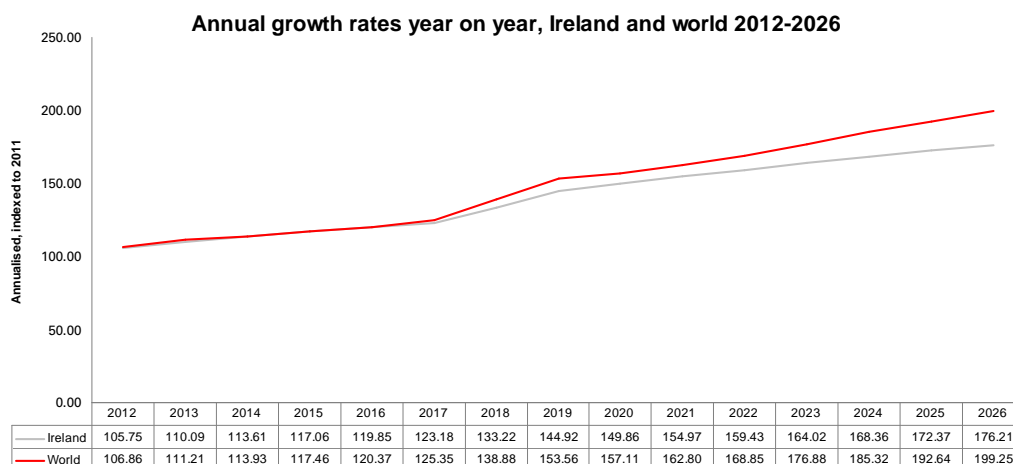
Trade overview

As the world continues to face well-documented economic challenges, the Trade Forecast suggests grounds for optimism for international businesses. Despite the current climate the overall trend for international trade is positive with growth acceleration sooner than expected from 2014, rather than 2015. After 2014 the global economy ends a period of slow growth and contraction and sees an upturn in trade in line with GDP forecasts. Over the next five years it is forecast that world trade will grow at an annualised rate of 3.78% (see below graph for year-on-year predictions), due primarily to the expectation of an earlier recovery of the overall global economy. In the period 2017-2021, the Forecast predicts even more rapid annualised growth at 6.23%, as world demand for traded goods recovers its dynamism. As a result world trade is predicted to grow by 86.00% in the next 15 years, taking total trade activity in that year to \$53.8 trillion.

The Trade Forecast predicts that trade in Ireland will grow at an annualised rate of 1.55% to 2016 and will increase substantially between 2017 - 2021, at 4.35%. This equates to growth of 76.21%, the result of rapid growth in the chemical and pharmaceutical sectors in particular. New trade corridors are also forecast to be developing with countries outside of Europe, in particular Bangladesh, where trade is expected to grow by 13.96% over the next five years. Trade with Germany and the USA will remain very important as exports of blood, antisera, vaccines, toxins and cultures grow by 16.78% and 16.15% over the next five years. Annualised total trade growth in Ireland over the next 15 years will be 3.16%: the rate at which companies will need to increase their international activities if they are to keep pace with this change.

Ireland's trade outlook

Ireland's trade is forecast to grow slightly below the world average until 2014 when the country is predicted to track world growth for two years. After 2016 Ireland loses momentum against the world average through to 2026. The world growth is due to accelerated growth after 2015 in Latin America and Asia Pacific. Some of the decline in total trade growth can also be accounted for by a decline in imports from Japan, Italy, Norway and Singapore. The drop in imports from Japan, especially over the next five years, will be particularly prominent (an annualised rate of -3.95%), reflecting a broader reduction in imports into Ireland of cars and parts for office machinery of 10.00% and 15.85% respectively (annualised over the next five years).



Alan Keir, Group Managing Director and Global Head, HSBC Commercial Banking:

"Where once businesses followed economic investment, now, forward-thinking companies lead, taking matters into their own hands and making business happen. Whether that's taking advantage of shorter-term growth in international trade, which despite economic uncertainty sits at \$1trillion a year, or by creating new supply chains that open up trade corridors, businesses are connecting themselves to future opportunities. The reality is that growth opportunities lie internationally. The companies that succeed will be planning for that today."

Trade corridors and trends

Ireland's largest export destination is the USA, forecast to continue growing at an annualised rate of 6.42% over the next five years. Over the same period, exports to the UK and Belgium are also set to grow, by 2.93% and 6.85% respectively. Much of the growth to the USA and Belgium is accounted for by expansion in chemicals and medicines with, for example, exports of blood products to both countries set to increase by 16.15% and 12.10% respectively. Ireland's fast growing export destinations include Bangladesh, where exports are forecast to grow by 13.96%, largely due to exports of silk worm cocoons and yarns for the textile sector. Ireland's largest import partners are the UK, forecast to grow by a modest 0.62% over the next five years (due largely to increases of 9.01% in gas and 3.07% in non-crude oil), the USA and Germany. Ireland's emerging import partners reflect its increased demand for oil and gas with trade with Kuwait, Uruguay and the UAE growing over the next five years. Ireland will increase imports from Malta, bridging between Europe and MENA, at 13.35% (annualised over the next five years) reflecting the decline in imports from Norway, an importer of oil.

Ireland's Emerging Growth Importers and Exporters (2012-2016)

| Ireland's Largest (2012) Export Partners Ordered by Value | CAGR (2012) | Emerging Growth Export Partners | % | Ireland's Largest (2012) Import Partners Ordered by Value | CAGR (2012) | Emerging Growth Importe Partners | % |
|---|-------------|---------------------------------|--------|---|-------------|----------------------------------|--------|
| USA | 6.42% | Bangladesh | 13.96% | United Kingdom | 0.62% | Bolivia | 17/03% |
| United Kingdom | 2.73% | Latvia | 13.64% | USA | 4.42% | Brunei Darussalam | 16.08% |
| Belgium | 6.85% | Lebanon | 12.80% | Germany | 1.09% | Libya | 15.86% |
| Germany | 4.47% | Oman | 12.79% | China | 0.60% | Kuwait | 15.14% |
| France | 3.79% | Bahrain | 12.46% | Netherlands | 4.92% | Uruguay | 14.84% |
| Spain | 5.32% | Bolivia | 12.07% | France | 4.00% | UAE | 14.58% |
| Netherlands | 4.01% | Egypt | 11.87% | Norway | -1.19% | Malta | 13.35% |
| Switzerland | 4.89% | Kazakhstan | 11.68% | Belgium | 3.85% | Cayman Islands | 13.13% |
| Italy | 2.60% | Argentina | 11.63% | Denmark | 8.81% | Myanmar | 12.77% |
| China | 9.24% | Cayman Islands | 11.33% | Italy | -1.39% | Slovakia | 12.06% |

N.B. Emerging Growth Import and Export Partners are trade partners that are growing most quickly over the period, albeit potentially from a small base.

Sector watch

Ireland's Largest Export and Import Sectors (2012-2016)

| Ireland's Largest Export Sector | Export Partner | CAGR (2012-16) | Ireland's Largest Import Sector | Import Partner | CAGR (2012-16) |
|--|----------------|----------------|--|----------------|----------------|
| Blood, antisera, vaccines, toxins and cultures | Germany | 16.78% | Hormones, derivatives, steroids nes used as hormones | Netherlands | 15.46% |
| Blood, antisera, vaccines, toxins and cultures | USA | 16.15% | Petroleum oils, oils from bituminous minerals, crude | Denmark | 12.67% |
| Commodities not elsewhere specified | USA | 14.09% | Petroleum gases and other gaseous hydrocarbons | United Kingdom | 9.01% |
| Printing and ancillary machinery | USA | 13.24% | Aircraft, spacecraft, satellites | USA | 6.69% |
| Blood, antisera, vaccines, toxins and cultures | Belgium | 12.10% | Medicaments, therapeutic, prophylactic use, in dosage | United Kingdom | 6.66% |
| Orthopaedic appliances | Netherlands | 11.78% | Oils Petroleum, bituminous, distillates, except crude | Germany | 6.07% |
| Heterocyclics, nitrogen hetero atom only, nucleic acid | USA | 11.70% | Oils Petroleum, bituminous, distillates, except crude | Norway | 4.07% |
| Heterocyclic compounds, nes | Belgium | 11.04% | Baked bread, pastry, wafers, rice paper, biscuits, etc | United Kingdom | 3.42% |
| Hormones, derivatives, steroids nes used as hormones | Switzerland | 10.87% | Oils Petroleum, bituminous, distillates, except crude | United Kingdom | 3.07% |
| Heterocyclic compounds, nes | Spain | 10.59% | Electronic integrated circuits and microassemblies | Singapore | 2.80% |
| Sulphonamides | Belgium | 9.26% | Parts, accessories, except covers, for office machines | Netherlands | 0.62% |
| Electronic integrated circuits and microassemblies | China | 9.19% | Petroleum oils, oils from bituminous minerals, crude | Norway | -6.30% |

N.B. Fastest growing import and export sectors by partner are developed from the top 50 export and import partners and are selected alongside the trade sectors that constituted values of above \$100 million at the end of 2010. The top ten fastest growing partners by sector were selected for this table.

Sector opportunities

Chemicals: The Irish chemical sector is complex, research driven and interwoven with the country's important agribusiness and pharmaceutical sectors. As such it will be a major area of trade growth over the next five years. Exports of compounds used in penicillin and other drug production are set to increase to the USA at 11.70%, to Belgium at 11.04% and to Spain at 10.59% (annualised to 2016). Exports of hormones to Switzerland (used in animal care as well as drug treatments), are forecast to increase by 10.87%, while imports of hormones from the Netherlands will increase by 15.46%. This assists both the medical sector and the export of meats which are set to grow by 3.90% over the next five years. Because of its interweaving with other critical sectors, the chemicals sector represents a great growth opportunity. Companies will have to grow their international activity at rates of above 10% a year in order to keep pace.

Pharmaceuticals and Medicines: The medical sector, including pharmaceuticals and bio-pharmaceuticals, is growing rapidly and, given the pace of internationalisation, set to overtake digital as the major trading sector within the Irish economy. Trade corridors are opening with Switzerland and the USA, fuelled by the European and North American pharmaceutical supply chain which is dominated by big drugs companies. Corridors are opening up for exports of blood products, antisera and vaccines with Germany (16.78%), orthopaedic appliance exports to the Netherlands (11.78%), and medicines to France by 8.93% over the next five years. This dynamic sector propels Irish businesses onto a global platform as trade routes beyond Europe and the USA begin to open up.

Electronics: Ireland's consumer electronics sector is integrated into the global supply chain, and has been moving up the value chain too. Exports of integrated circuitry to China are predicted to increase by 9.19% and exports of printing and ancillary machinery to the USA by 13.24%. Alongside this, imports of electronic circuitry from Singapore are set to increase at just 2.80% annually over the next five years, while imports of office machinery parts from the Netherlands are set to increase by 0.62% annually over the same period. But as the emerging world increases its presence in the high end of the consumer electronics market, Irish businesses in the sector need to react to this competitive challenge and grow their international activities by nearly 10% annually over the next five years to continue to keep up.

HSBC Trade Connections Trade Forecast

The Trade Forecast predicts how trade is going to develop over the next five, 10 and 15 years. It forecasts overall trade growth (exports, imports and total trade) globally, in global regions, and individual countries. Spanning 37 countries, it covers the top 10 sectors for exports and imports for each of these. The forecast has a unique approach to understanding the drivers of trade from a business perspective, informed by: trade trends, macroeconomic and market influences trade (for example GDP, oil prices, inflation, foreign direct investment), and business environment influences on trade (including regulation, demographics, access to capital and finance). The research has been commissioned by HSBC and undertaken by Delta Economics.

The economic and business narratives stem from a broader documentary search that includes material from National Statistical Offices, the World Bank and International Monetary Fund, economic blogs, the Economist Intelligence Unit, Bloomberg, the Financial Times and other professional and financial services news websites.

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