Media Briefing Transcript

Quarterly Bulletin 1 – January 2020

Journalist 1:
So, given the general election outcome and the fact that that's – we're now heading into a period of what's going to be fairly unstable, certainly I would have thought. Does that affect these forecasts in any way at all, first of all, and secondly what is the likely impact, can you say of the kind of uncertainty and well, that there's going to be a lot of horse trading and we don't know where it's all going to land and we don't know who's going to get in frankly. So, what do you think now in light of all that?

Mark Cassidy:
Well, it wouldn't be appropriate to comment on the outcome of the election ourselves. But in terms of, first so the outcome of the election is in no way reflected in our forecast, the election is only over. We would need to wait to see any new programme from Government before we could have any indication whatsoever as to whether there might be any impact on our forecasts. The point in relation to uncertainty is a valid one, I think. I think regardless of the circumstances, any period, any prolonged period without a Government can give rise to some uncertainty and that can show up in financial market indicators. But I wouldn't think that would show up very much in economic activity. I think we've had a lot of periods of uncertainty for different reasons in the domestic and the international economy and we've seen those sometimes reflected in financial markets. I wouldn't expect that unless it was to be an enormously prolonged period, I wouldn't expect that to show up in economic activity and therefore I don't expect it to have an impact on our outlook.

Journalist 1:
Thank you. What about the possibility that we end up with a high spending, very high spending regime at the end of it all?

Mark Cassidy:
Well, our policy advice which we would have repeated on a number of occasions, does not refer to the composition of budgetary policy. That is absolutely a matter for the Government. Our advice only recommends to the overall fiscal stance and a need for a prudent overall stance in the coming years. What that means is we think that at a time when the economy is growing strongly and we are close to full capacity, then we think a stable policy that does not add to demand on the economy or to overheating pressures would be maintained. We also advise the prudence of reducing the public sector debt in the coming years because it is already too high. What we do not offer any recommendation is how that should be achieved. That is entirely a matter for Government regarding the composition of spending or taxation.

Journalist 1:
Thank you.

Journalist 2:
Will the Central Bank like to be given the power to regulate mortgage costs and to force banks to reduce mortgages?

Mark Cassidy:
We would not want to have that power. We think there are potential detrimental impacts in relation to competition but if we were ever to be given that power, we would wholeheartedly undertake our responsibilities in that regard.

Journalist 3:
Just on the numbers of new house builds per year that are being bandied about over the next five years. Do you think they're achievable or overly ambitious or what's your take on that?

Mark Cassidy:
Well, I won't comment on any numbers that are in any manifestos. Let me provide maybe our own outlook in that regard. So, housing output last year we think was just under 22,000 units. That is a very significant increase over a number of years but from a very low base. So, the number of housing units has probably increased fivefold since around 2013 but from an extremely low base. So, the number of under 22,000 is clearly still well below our medium-term demand requirements in the economy. What we are forecasting is, for an increase over the two years of 2020 and 2021, we think the number of completions will increase by around 40%. In other words, we think the increase would be from 21,600 last year, 26,000 this year and 30,000 next year. So, the rate of increase is by itself, and those numbers are supported by what we're seeing in terms of commencements and planning permissions and the like. So, we do see supply coming more in line with demand requirements. Our estimate of what the economy needs over the medium term, what we assume in relation to the natural increase in the population and what the Central Statistics Office forecast in relation to new migration, and we hold constant the rate of household formation or the number of persons per household, then we think we need around 34,000 units a year over the medium-term which you might take as a period of about a decade. So, we still think that there is some further increase required even beyond what we're forecasting for next year. That will, an increase in housing output requires some increase in labour. That can come from a number of sources. For example, one trend we've seen recently is a significant increase in the number of apprenticeships in the construction sector. It is not to back to where it was in the early 2000s but it's up very significantly in recent years. There is the potential for workers to move within the construction sector, for example, we've had a boom in commercial real estate sectors, there's a potential for workers to move from that sector. And of course, there is a potential for net inward migration to contribute to those numbers. So, there's a number of channels through which the increased labour could become available and we would expect to see supply increase further after our forecast horizon of 2021.

Journalist 3:
Do you think a ten-year time scale is more achievable than a five year, per year of 30,000?

Mark Cassidy:
I wouldn't comment on any particular timeframe that has been put into the public domain but if we're seeing price…we're seeing output basically increased by 15%-20% every year for a sustained period. So, if you think if we can hit 30,000 units in 2021 then it does not take long to

get up to that 35,000. But given that there's probably some pent-up demand from having a shortage of supply for a number of years, it probably could be a bit above that for a number of years after that and I think that's achievable.

Journalist 4:
So, just on the question of concentration in the economy. I mean we already know that it's heavily dependent on FDI and the tax revenues are heavily dependent on a very small number of companies. And now there's evidence here from your report that exports are very heavily dependent on two types of product. So, is this excessive concentration? And is concentration something that you guys are worried about and is it a structural flaw that needs to be addressed? Or is it just something that is actually perhaps a case of good luck, you know, that we're in the right sectors at the right time?

Mark Cassidy:
Yeah, the gist of my answer is going to be a little bit of both. Maybe just in terms of the, just to clarify. So, the two products that are referenced in the box are the products that have driven export growth in the past couple of years. Which is slightly different from in terms of what they contribute to the overall amount of exports. Now, it's not totally different in that the first of those products which relates to essentially various immunology type, cancer type drugs. That is very high both in terms of this contribution to growth and the level of exports. Whereas, with the other group, computer processors, it's kind of come off a low base. It's contributed a lot for growth but maybe it's not as significant. But the point absolutely holds. So, I think about 60% of our goods exports are in the chemicals and pharmaceuticals sector. And on the services side, I think around 50% are in computer services. So, first of all that brings clearly a lot of benefits for the economy. These contribute in a very meaningful way, not just to exports but also to employment in the economy and also to tax revenues. They also contribute in a less tangible way to higher productivity growth, better skills, these are higher wage, higher paid jobs that they're creating. So, they're very clear benefits. We have no reason to think that the multinational sector and these particular subsectors will not remain strong in the future. But the reality is that it has left us with a very high degree of reliance. Higher than you would expect in other countries or by our own historical experience upon a handful of sectors and indeed as you say, a handful of firms because a small number of firms do undoubtedly account for a large share of all of that. So, what is important is not in any way I think to question our economic model. Ireland is a very small and open economy. We require an economic model that relies on a strong export performance which I think will always depend significantly on a multinational sector. What it depends on and what it does require is that first of all that we remain an attractive location for foreign direct investment. Second, that we also can sustain a successful domestic enterprise sector in order to compliment the multinational sector and it's clear that economic performance and productivity is, it's very mixed across the domestic sector but certainly it's nowhere near as successful, nor would you expect it to be. And third, it is important and this is a point we've reiterated a number of times, that the public finances are not overly reliant on these tax revenues because it may not be, even if the multinationals remain her and they produce as much as they do, the amount of tax that we approve from that is not necessarily sustainable at the current level. There could be changes to global taxation

arrangements or the tax planning arrangements of these multinationals. So, you could get a shock to their revenues even if the multinationals are embedded in the economy.

Journalist 4:
Right, but is the domestic economy keeping up with the multinational economy and is the gap or is the gulf between them getting wider in terms of productivity and wages and you know, skill levels and all those kinds of things?

Mark Cassidy:
Yeah, I think it's fair to say that the gap is getting wider. I think if you look at the contribution over the last three or four years, I think the contribution to output, I think multinational dominated sectors have contributed around 70% to that, compared to around 30% for domestically dominated sectors.

Journalist 4:
So, what is that, 70/30 that…?

Mark Cassidy:
70/30, so that's sectors that are dominated by multinationals.

Journalist 4:
Yes.

Mark Cassidy:
And I'm not being pedantic about that but the way that the CSO produces the data is a little bit obscure. It divides not between Irish and international firms but between sectors that are dominated by multinationals versus sectors that are dominated by domestic firms. So, certainly wages. I think wages in multinationals, the average wage is around €50,000. I think the average wage in Irish owned firms is around €33,000. So, there's differences in productivity, performance. This doesn't mean that the Irish firms are doing badly by itself. These are the world leading firms, whether it's in information technology and you have Google and Amazon and Facebook and LinkedIn or in pharmaceuticals, it's Merck and Pfizer. So, like what you're comparing with are the global superstar firms in these industries. So, it's a bit of an unfair comparison. You wouldn't expect them to be equal. But certainly, the gap between the two is large. But if you look at productivity of Irish owned firms over the period 2000 to 2017, sorry the domestic dominated sectors, while it has been well below multinationals it has actually be quite a bit above the European average.

Journalist 4:
What have?

Mark Cassidy:
This has been the productivity of the domestically owned sectors.

Journalist 4:
Above the EU average.

Mark Cassidy:
Yeah.

Journalist 5:
I might have missed something but on page 21 there you list the top 15 pharmaceuticals worldwide and you say the items highlighted in green are produced in Ireland.

Stephen Byrne:
I can talk to you afterwards but you can see that the ones are, Keytruda made by Merck, is produced in Swords, actually at the moment produced in Carlow there's a production plant under construction in Swords to produce that. Also, Humira made by Abbvie, but we can send it on before this evening.

Journalist 5:
Thanks for that. Then the Antisera, is it one product that's making up that growth and then on the processors is that another word for chips, are we talking Intel here, I know you haven't mentioned them, but…?

Mark Cassidy:
Yeah, I didn't mention any firm but processors and Stephen will run on the pharmaceuticals.

Stephen Byrne:
I mean we can't say, we don't know for certain. So, all we can look at is the trade codes down to the eight-digit level which is very specific. So, it's immunological treatments. We don't know if it's just one product but that's what this box tries to get at. There are some immunological treatments which are produced in Ireland which are brought in very, very quickly. So, you know, looking at the two of those things together one would think that that's what's going on with them. And it's important to note that this is values of exports. So, this is not, there's a significant pick-up in the exports when you think of it, rather these drugs are very expensive, very high value and they're being approved for more and more treatments and so you see big growth in the value of these exports. So, we're in a high growth sector which is growing very strongly in Ireland but it's also growing very strongly in the world.

Journalist 5:
And final question on just this sector. Do you know whether they're actually manufactured here or is there some accounting treatment going on? Do you know the extent to which they're actually, you know, embedded in the production process, embedded here?

Stephen Byrne:
I think that the type of production that is used in the pharmaceutical sectors is always going to be some imports of intermediates and then some value added in Ireland. I think that the

domestic value added in these sectors is probably reasonably low. So, I'm not sure if there's any particular ones I'd have to point to but I think there is significant R&D as Mark mentioned. There's very high value jobs, but for sure, some of the R&D is done abroad and then imported and then the total value of the export will then encompass the domestic value added in Ireland plus the R&D which has been reported. And so I mean, I would say it's more imported than domestically generated in Ireland.

Mark Cassidy:
But I think just, I think we might see employment in pharmaceuticals is still 50,000 or so.

Stephen Byrne:
Absolutely, these firms employ very highly skilled people, they're very high wage jobs. There is R&D done here in things like quality assurance and things like that which, remember in the pharmaceutical sector in particular, all of this needed to be done within a European framework and so there's absolutely high value jobs here.

Mark Cassidy:
So, this is not the type of, we've discussed in the past this concept of contract manufacturing, when your manufacturing does not actually take place here. This is not what we're talking about here. It is normal that you'll have value supply chains with this type of product and this would be at the final stage in the supply chain and it is meaningful production and like I say about 50,000 workers in the sector generally, high paid work, skilled work.

Journalist 5:
How many of those drugs are close to coming off patent first of all and second is it the active ingredients that are made here?

Stephen Byrne:
So, I don't want to bring in, I'm not hugely sure whether it's the active ingredients that are produced here because all we see in the trade data is from a…

Thomas Conefrey:
It mostly is.

Stephen Byrne:
And I mean we tried, I mean we went through the trade publications and the annual returns of these firms and I mean it's reasonably opaque, it's hard to tell exactly what's done here. But sorry, what was the first part of the question?

Journalist 5:
The patent issue, you know, they're more valuable when they're protected by a patent.

Stephen Byrne:

I think that this is almost the opposite of what happened in 2013 where there was a drug that came of the patent, right. So, this is drugs that are coming on-patent, very much growing very strongly because they're gaining regulatory approval both from the FDA in the US and the European Medicines Agency. And the more approvals that these drugs receive, obviously the more it means they can be used for and obviously then in the value of the exports it would be. And so, I think that at the moment from what we can see, they're not in danger of coming off patent but it's certainly, the point of this process really actually to monitor exactly that. To have an understanding of the fact that these drugs are growing very quickly because of these regulatory approvals. But also to understand then that we can monitor them and see that maybe they're going to come off patent or be replaced by a generic and you know, those jobs will still remain, they're still very high value jobs but you may see a fall in the actual aggregate value of those exports then.

Journalist 6:
So, what's exported from this country then in terms of pharma is not tablets, it's not definitive tablets so much as things that go into those tablets.

Stephen Byrne:
It's both. It's both. It depends on the treatment, I think. I think some of our exports are just active ingredients that are for further processing but some of them it depends on where we are in the global supply chain of a particular medicine.

Mark Cassidy:
I would point you also in our previous bulletin, this builds upon a previous box, a previous bulletin. It looked at the global trends and the risks associated with both the global pharma sector and also the global IT sector with a focus on the distinction between the kind of superstar firms and the normal IT firms. So, we're really trying, within the bank to put a lot of a focus on, you know, really understanding these multinational sectors.

Journalist 6:
Can I ask another exports question? Sorry, it's the section, the machinery and equipment exports because if you look at the overall data, Ireland's exposure to China is pretty small but if you look at this, it appears to be larger. Do you have any idea of what the split between the exports to the US and China is in this growing segment, that particular growing segment? So, this dark blue, dark green bar which you highlight, these two product categories count for more than 20% of total exports and it's predominantly exported to the US and China. So, overall if you look at the Irish economy there's very little coronavirus risk. But if you look at this section to how much of this goes to China.

Mark Cassidy:
Yes, yeah, let me take that maybe. So, our overall merchandised trade in China last year was about 3.3% of total trade. That was dominated by computer processors. So, the three sectors most, probably about half of that was on microprocessors and in fact it's probably about half of the microprocessors that we export go to China. Second, but much less significant were

compounds that go into the production of pharmaceutical goods. And then third were kind of baby powder milk and the likes. So, they were the three more exposed sectors. But to give you an extent I think we exported around four and a half billion-euro worth to China. So, these processors, it would be certainly an important element of our trade with China, relates to these processors and an important element of our exports of processors is our trade with China, if that makes sense.

Journalist 6:
Yeah, it does. Thank you.

Journalist 7:
Just in terms of moderating growth next year, that's on the basis of the transition period coming to an end this year. Have you looked at the possibility, though it now looks unlikely that that transition period would extend into next year and would that feed into overheating risks do you think?

Mark Cassidy:
It's a transition. We don't have much of an immediate slow down next year that is attributable to Brexit, to new trading arrangements actually coming into effect. There is some modest downturn as a result and if the transition period was extended then that kind of more slower, kind of new trade restrictions would obviously be deferred. That would be offset to an extent by the fact that, you know, we would still have some uncertainty regarding the ultimate arrangement. So, I wouldn't say that an extension would have much of an effect. I would say, and the topic of the special article from Thomas and Graham would be that the bigger difference would be if no free trade deal, if the UK leaves at the end of the year with no free trade deal. The effects there we would see. Some effects during next year but the effects mainly spread over the medium-term. So, not forecasting, in those circumstances we're not forecasting the same type of kind of disorderly no-deal Brexit that maybe might have occurred if the withdrawal agreement had not come into effect. And I think John mentioned the figures from the box from Thomas and Stephen. In the event of no free trade deal we think the loss and output over the medium term compared to a scenario with no Brexit would be around 5% and that compares to around 3.5% if a free trade deal is agreed.

Journalist 7:
And in terms of the unemployment rate. The difference between Theresa May's deal, Boris Johnson's attempted FTA you're saying it would add 1.2 to the unemployment rate. How does that translate into actual numbers approximately?

Mark Cassidy:
Sorry, let's start with the free trade deal, that's around 50,000 fewer jobs. The default World Trade Organisation it's around 92,000 fewer jobs.

Journalist 7:
And in terms of Theresa May's deal, the 0.7% …

Mark Cassidy:
Yeah, I think Theresa May's is probably 45,000. Thomas?

Thomas Conefrey:
Well, it could have been a customs union arrangement in the long-run rather than a free trade agreement. I think the loss is around thirty, I think it's over thirty.

Journalist 8:
Yeah, just two. One, in terms of the growth forecast for next year and I suppose the presumption as well, what are you factoring in, in terms of the public sector pay deal at the end of the year?

Mark Cassidy:
We don't have a particular forecast for a public sector pay deal. We have overall wage trends for the economy and we don't …

Thomas Conefrey:
No, I think we have what is factored in under kind of the regular arrangements but we don't have anything additional factored in. So, kind of what would be the increases that are scheduled, I think, we don't have anything additional on that.

Journalist 8:
Okay. And in terms of over the two years what sterling euro currency rate are you factoring in?

Mark Cassidy:
Well, we make a technical assumption that the exchange rate remains at its current level. So, that is an exchange rate of 85 pence sterling to the euro. But that is not a forecast. I would really emphasise we do not attempt to forecast exchange rates given the uncertainty. We simply make a technical assumption that the exchange rate remains at its current level.

Journalist 8:
Okay, thanks Mark.

Journalist 9:
Just briefly on FDI. Would you have any kind of heightening fears that Ireland's attractiveness is under any more threat than it was?

Mark Cassidy:
No. We're not saying that and I've no reason to think that. The FDI performance in recent years has been strong. There has been some increase in FDI due to Brexit effects. The expectation is you might get some more positive effects from that source but it's quite uncertain and our

expectation is that this will remain an attractive location for FDI and it will continue to perform strongly, notwithstanding the kind of general risks that I mentioned.

Journalist 10:
Just one quick question. The forecast for 2020 for our GDP is 4.8%. That assumes a deal of some sort, free trade deal of some sort between the UK and Britain.

Mark Cassidy:
Well for 2020 then we'll have the transition period. So, it's a forecast for 2021 that really…

Journalist 10:
Sorry, so 2021 at 4.2% that assumes a deal of some sort between the UK and Europe.

Mark Cassidy:
Yes.

Journalist 10:
Overall, you're saying that there's an impact of a free trade deal of about 3.5% over the medium-term is that right?

Mark Cassidy:
Yes.

Journalist 10:
But that number in 2021 allows for that, the beginning of that decline.

Mark Cassidy:
It does and we assume that that effect is quite evenly spread over a five to ten-year period. We're not looking at any sudden immediate decline. Now in terms of, if no free trade deal is agreed, later in the year when we have more information, we'll look at whether we might expect any kind of more, you know, year one type effects. But it's too early to think that and I would emphasise it's not at all the same situation as it was, you know, three or four months ago when the risk of a disorderly no-deal from end of January this year was a possibility.

ENDS