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Week 40 11th Dec 2020 – 18th Dec 2020

NO DEAL BREXIT: WHO IS MOST EXPOSED ?

MIDDLE AGED, MIDDLE INCOME MALES MOST AFFECTED BY COVID

COVID CASE UPDATE

WHY NO DEAL IS A BIG DEAL

The export sectors most at risk from a hard Brexit

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2 MINUTES TO MIDNIGHT.

Some economists – David McWilliams (who once supported Ireland leaving the EU) for instance - have referred to the much lower share of exports going to the UK now compared to when we joined the EU as one of the reasons why Brexit is less dangerous than it appears. The reality behind the statistics is otherwise. Its true to say that as a share of total trade, the share our exports – now approximately one tenth – is vastly lower than a half century ago.

But look harder. Central Statistics Office research from 2017 – and the picture has not changed vastly since then – show that 78 per cent of Irish exporters, or a total of 6,719 enterprises, do some degree of trade with the UK. Over one third trade only with the UK. Furthermore some 27,152 enterprises import goods from there, mainly the retail and wholesale sector already reeling from Covid-19. The employment intensity and dependence of this trade is high as this trade is concentrated in more traditional indigenous sectors to which rural and regional Ireland is more exposed.

In publications with leading trade associations such as the German Irish Chamber and Asia Matters we have produced research publications such as *"Ireland and Germany Partners in European Recovery"* (2013) and *"Unlocking Asia's Trade Potential for Ireland"* (2014) These assisted policy makers and foreshadowed significant rises in our exports to Germany and Asia over the last five years. But trade with Britain will remain extremely important – disproportionately so – and in this briefing we explain why.

Having established itself as a thought leader on Covid-19 response we are eager to make your voice heard and help you adapt your strategy to the new economy. Our research, analysis, publications and public affairs have helped light a path to national recovery. We'd love to do the same for your industry and organisation. Don't hesitate to contact me on marc.coleman@octavian.ie to find out how.

Marc Coleman BA M Econ Sci ASP MBA **Founder, Octavian Economics**

WHERE 'NO DEAL' IS A 'BIG DEAL'

Sectors worst affected by a hard Brexit

Ireland's export diversification: An overall success

As a share of Ireland's total exports, the "headline story" of the last 40 years is our successful diversification from dependence on the UK.

The year 1979 is a good benchmark from which to measure this. In that year, the Irish pound was still tied to Sterling. By breaking the link, Ireland set sail on a course of diversification and never looked back. In overall terms, the results have been staggering.

Share of Exports

	1979	2019
GB & Northern Ireland	42%	8%
	31%	37%

Source: Central Statistics Office trade data

But on closer inspection

In more traditional sectors of the economy our trade patterns are much more, well, "traditional". In the past four decades Ireland's share of agricultural and fishery exports to the UK have remained dominant, albeit slightly less than before. We are, of course, a less agricultural economy with food and fishery accounting for significantly lower shares of output employment and tax revenue than before. But as the size of the CAP in the EU's overall budget – and the political tension over fishing rights in UK waters post Brexit – these sectors still carry significant political clout. And for good reason: More tightly knit, geographically defined and more intergenerational, these sectors have much deeper roots in local rural and regional communities and local economies.

Share of Agri exports

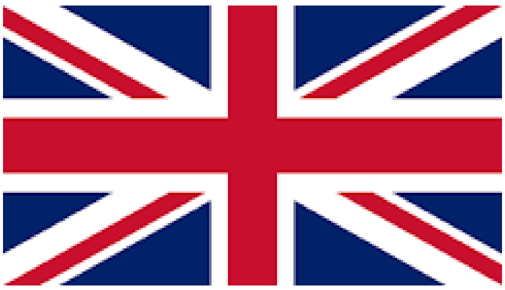
1979 2019

GB & Northern Ireland

57% ↓ 41%

Share of Forestry & Fishing exports

1979 2019



GB & Northern Ireland

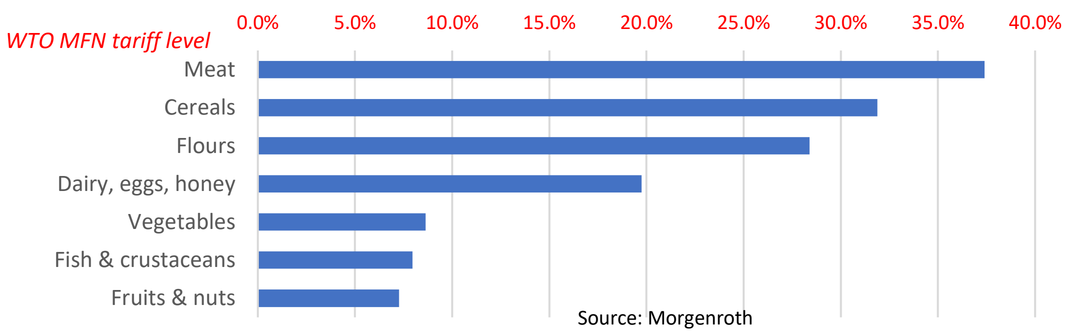
42% ↓ 29%

World Trade Organisation tariffs

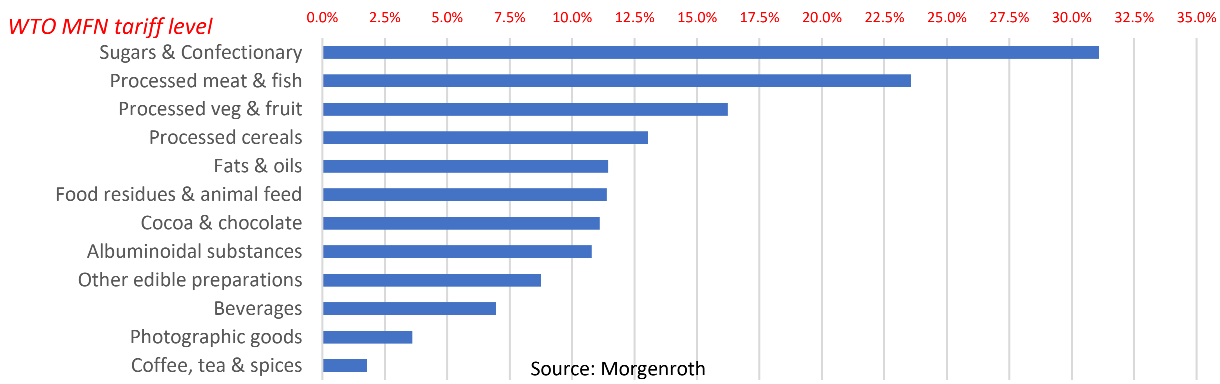
They will also – for those same reasons (the greater political influence of farmers and fisherfolk worldwide left these sectors as effectively immune from the WTO's ability to reduce tariffs and brought down the Doha round of trade talks in 2006) – be significantly more impacted by the threatened imposition of World Trade Organisation 'Most Favoured Nation' tariffs that could kick in in the absence of a comprehensive deal. Some of the more punitive tariffs are shown in the chart below. For industries already surviving on thin margins, they do not look pretty.

Starting with perishable goods – those most affected by the loss of a nearby market and exposed to additional costs of refrigeration and transport as a result of diversification further afield – tariffs here range from just over 5 per cent in the case of Fruit products and Fish to over 25 per cent for flours and over 30 per cent for cereals and meat products.

A practical policy implication of this is that to overcome the threat of significant price increases in UK markets and the consequent added transport and logistics costs of exporting further afield – and adverse (possibly ruinous) impact this will have on profit margins – significant investment in branding fresh Irish food produce may become even more important.

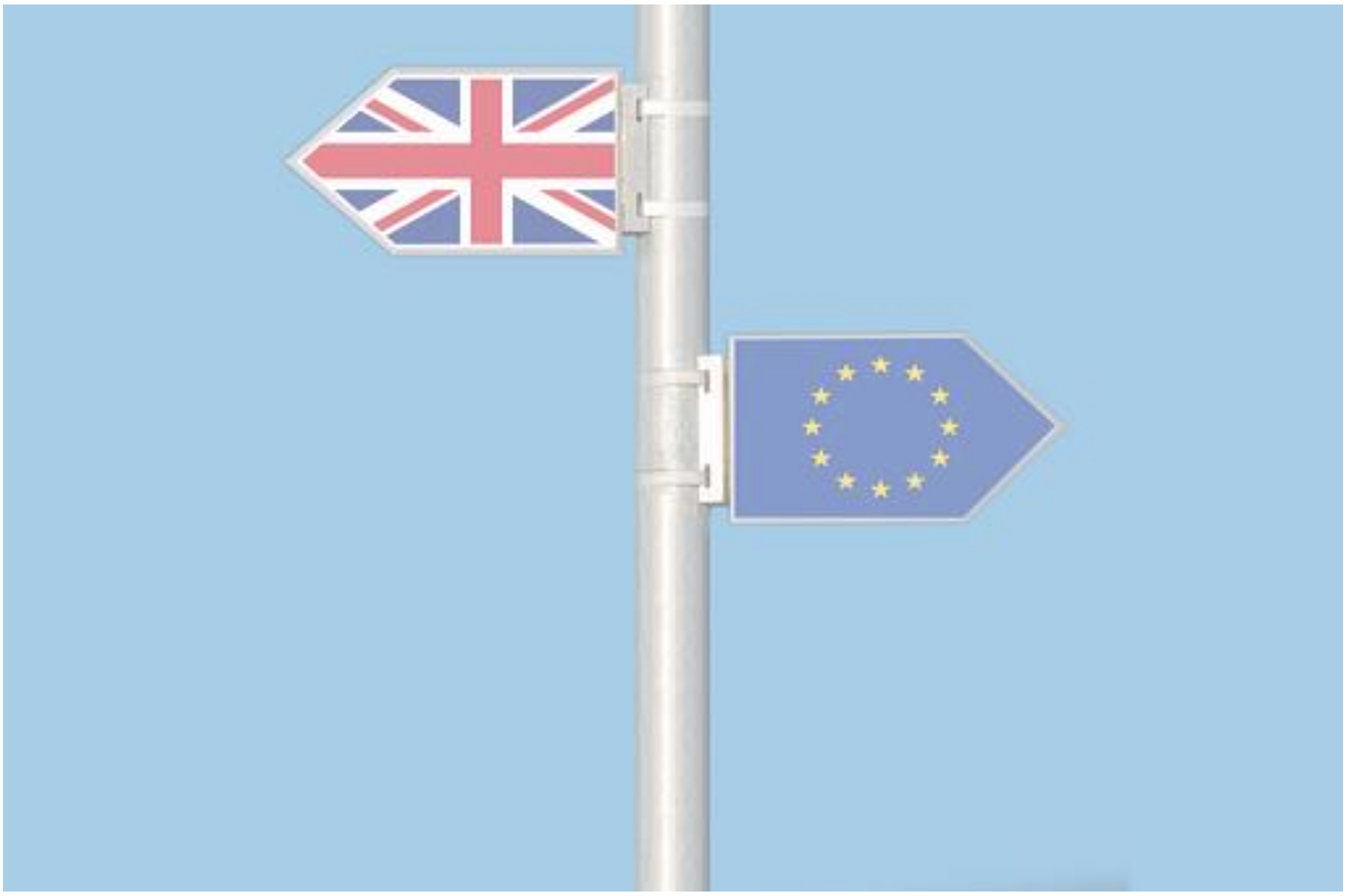


Tariffs for a selection of non-perishable products are shown further below. For some of these – coffee/tea/spices and photographic beverages – tariff levels may be bearable, just a few percent of value. For others such as processed cereals, veg and fruit, meat and fish and confectionary, tariff levels are significant.



A high priority for Enterprise Ireland and Bord Bia with indigenous exporters has to increase spending on Research and Development and Innovation. The threat of tariff related price pressures underscores the importance of this strategy and adds urgency to it.

Outside of the food sectors there are some non-food manufacturing products where both exposure to the UK market and the impact of tariffs in the event of a No-deal are both high, including Clothing, Footwear and Knitted Fabrics. Again, these sectors are characterised by being small, often family run and rural based. And already severely impacted by Covid-19.



Non-tariff barriers

Finally, the tariff impact of a "No-Deal" Brexit is not the end of the story. A host of additional barriers, not least amongst them complex and lengthy customs procedures will put many small exporters to the pin of their collar in terms of time, administrative burden and cost and stress.

Here Skillnets are to be commended in coming up with a practical and useful solution: Its "Clear Customs" training platform – delivered by Skillnets partner the Chartered Institute of Logistics and Transport (CILT) - which gives SMEs and larger companies an App based platform – government subsidized – to enable staff training in this crucial area.

This is just one of several highly welcome areas in which the public sector is innovating to meet the unprecedented challenges faced by business in these extraordinary times.

Middled aged, middle income men see largest income falls as a result of Covid-19

In its latest report on Covid-19 *"Impact of selected Covid-19 Income Supports on Employees"*, the Central Statistics Office presents the first in a new series of real time insights on how Covid-19 policies are impacting the economy.

Breaking employees into three groups – those not receiving income supports, those receiving income supports in Q2 but not Q3 and those receiving supports in both Q2 and Q3, the report finds as follows:

> **Median earnings of those *not* receiving supports actually rose from €799 to €857 between Q1 2019 and Q2 2020.** This reflects partly the fact that, as outlined in previous Octavian weekly briefings those sectors least affected by the crisis (Pharma, ICT, Professional services) are higher income sectors.
>
> **Median income (income = earnings plus Covid-19 supports) of those receiving supports in Q2 but not in Q3 fell by 11% in Q2 2020 but rose by 17.3 per cent in Q3 2020** Compared to a year previously, these workers' income was 9.7 per cent lower than the same period a year before during Q2 but 4.2 per cent higher in Q3.
>
> **The median income (income = earnings plus Covid-19 supports) of those receiving supports in both Q2 and Q3 was substantially lower in Q2 2020 (€391) than in both the preceding quarter (€468) and the same quarter a year before (€450).** The rate of annualised decrease worsened from a fall of 8.7 per cent in Q2 to a fall of 13.2 per cent in Q3

Additional findings are that

- Men were more adversely affected than women, with an 18.6 per cent fall in weekly income in the year to Q2 2020, compared to a fall of 5.0 per cent for females.

- Of those employees who did receive support, those closest to the middle income bracket – those in the highest earnings quintile (top 20 per cent) saw their median income fall by 22.7 per cent in the year to Q3 2020. By contrast those in the lowest earnings quintile saw their incomes *rise* by 35.4 per cent.

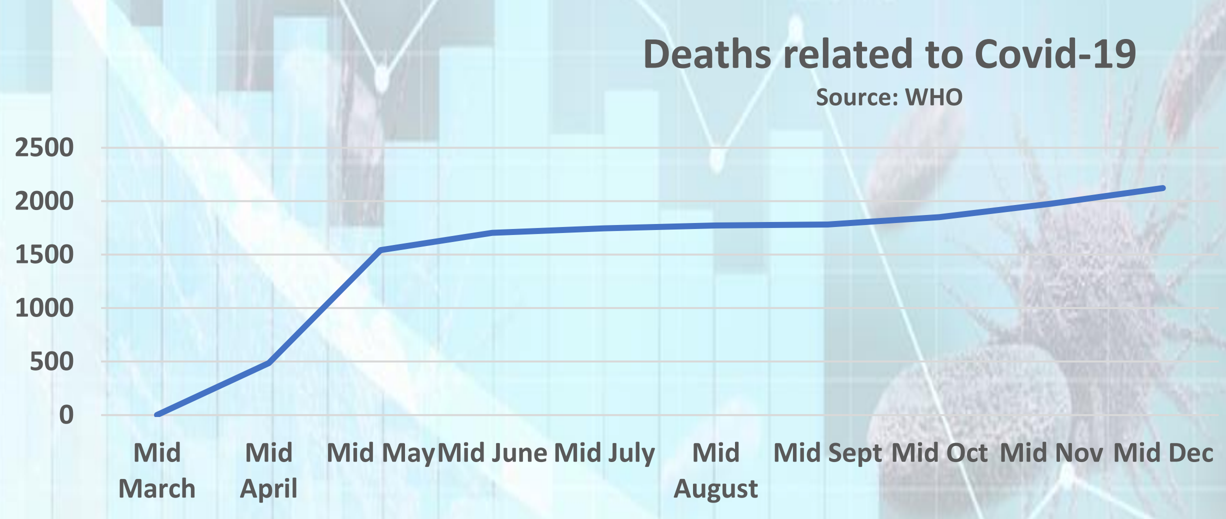
- Employees under 25 who received supports saw a *rise* of 16.0 per cent in their median weekly income in the year to Q2 2020 compared with a fall of 18.2 per cent for those aged 25 or over.

Some upward move in Covid-19 death rate.

Of 75,756 cumulative cases of Covid-19 recorded up until December 15th there were some 2,123 deaths, or 2.8 per cent of cases.

While substantially lower than during the peak of the crisis – when death rates of 15 per cent prevailed – this represents an increase from a rate of just over 1 per cent recorded in the month of November.

The rise in the number of Covid-19 related deaths reported in the 4 weeks leading up to mid-December (just under 150) is higher than the prior 4 week period (approximately 120) and compares with levels of approximately 70 and 10 leading up to mid-October and mid-September, suggesting a possible (but not proven) seasonal trend in the data.



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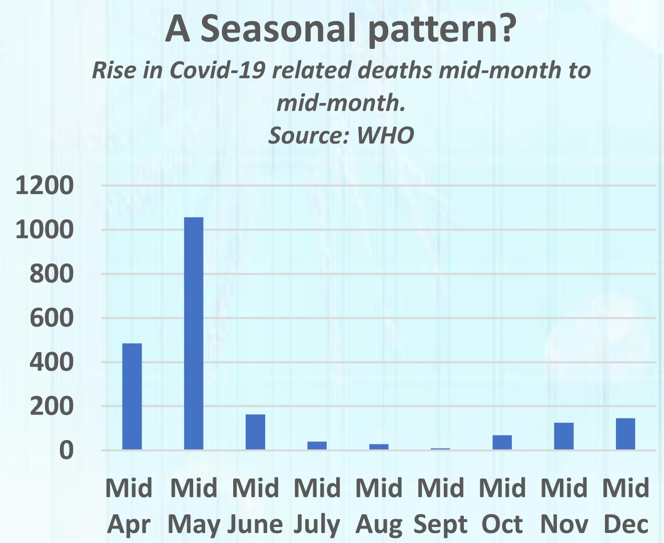

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