

***Teagasc National Rural
Development Conference 2009
Rural Ireland in Uncertain Times***



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Economic Change in Ireland since the White Paper on Rural Development

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Context

- **Huge economic change since last conference 16 months ago**
 - High agri-commodity prices
 - Booming property market
 - Fiscal surplus
 - Talk of “Soft Landing”
- **10th Anniversary of White Paper on Rural Development**
 - Drew upon EU rural development agenda
 - Basis of subsequent rural policy in national planning strategies

Outline

- **Progress from 1990's to 2007**
- **Into Recession – driving forces and impacts**
- **Out of Recession – Options for the Growth**

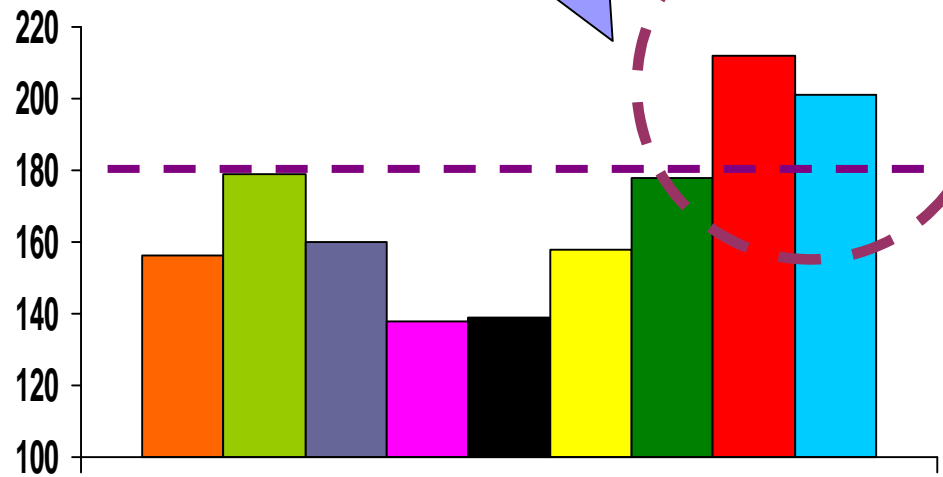


Progress 1995-2006

- Regions ranked by starting position
- Dotted line – State
- Above State – Above average growth
- Output Growth more highly concentrated in higher output regions (SW and Dublin) → Divergence
- Income Growth relatively higher amongst poorer regions and ME
- Big Jump in ME - Migration → Convergence

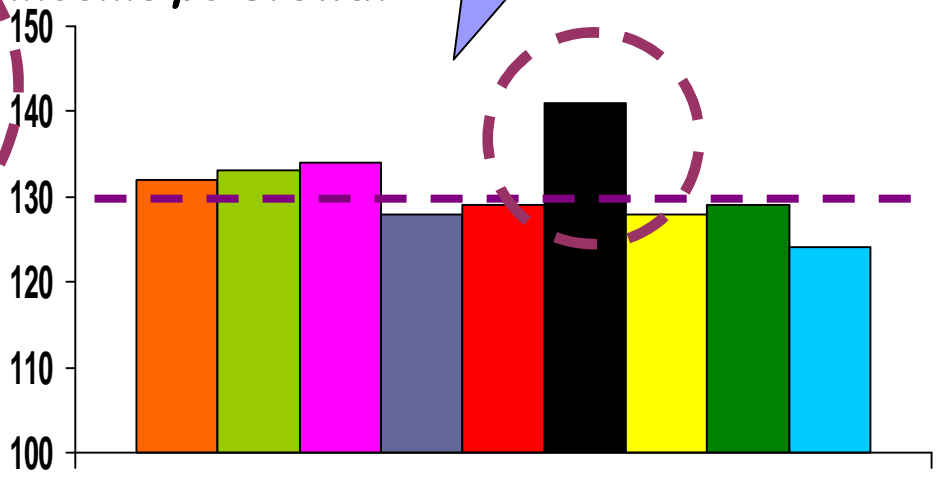
Ranking: poorest Region (Left) to Richest Region (Right)

Output: GVA – Gross Value Added



GVA pc Growth 1995-2006

Income: HDI – Household Disposable Income



HDI pc Growth 1995-2006

Midland	West	Border	South East	Mid East
Mid West	State	South West	Dublin	

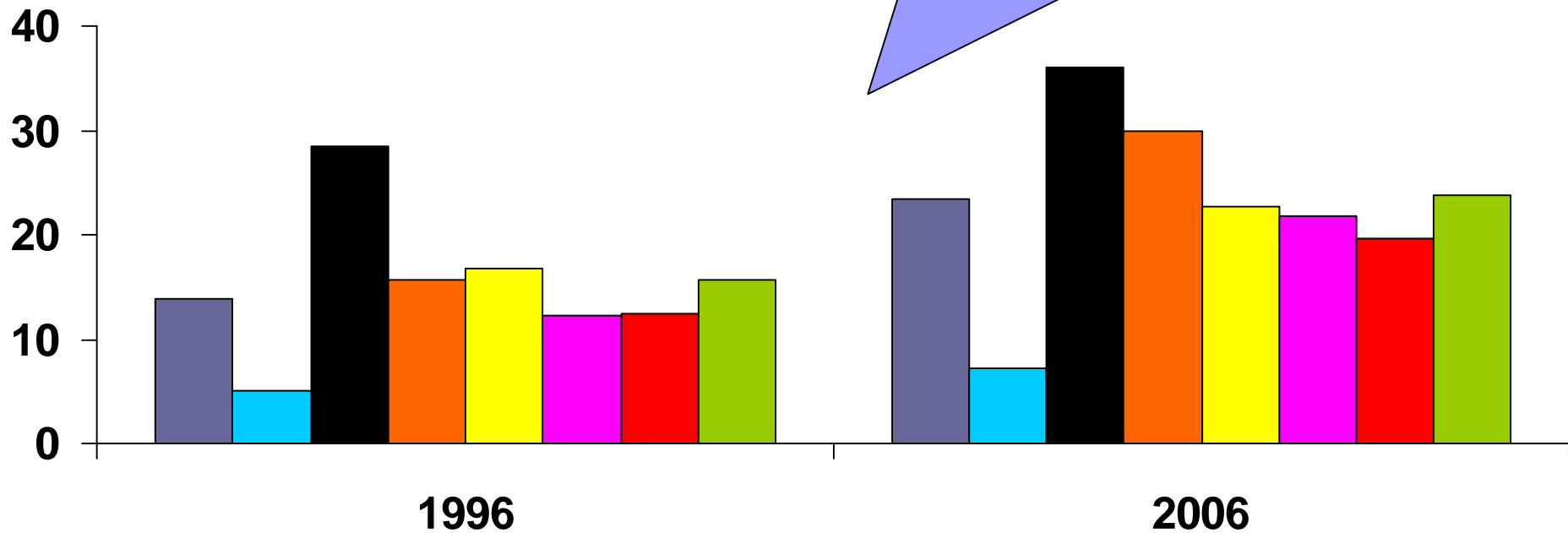
Midland	West	South East	Border	South West
Mid East	Mid West	State	Dublin	



Source: CSO Regional Accounts

- Difference between Regions partially due to
 - Commuting – Output in urban areas & living in rural areas/regions
 - Increased substantially 1996-2006 (except Mid-East – which had existing high commuting and Dublin which remained low)
 - Transfers – ESRI show net fiscal transfer (taxes and subsidies) from Dublin and SW to other regions

Percentage of workers travelling 25km plus to work



Source: CSO Census



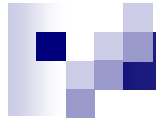
- Farm Families Diversifying
 - Falling share of household income from farm activities
 - Rising share in off-farm employment income

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Diversifying Farm Households

Income Source		1987	1994	2000	2005
Wages/salaries (off-farm)	↑	29	35	48	53
Farming	↓	59	58	44	38
Other (e.g., pensions, investments)		12	7	8	8

Source: HBS 2004/5 & Commins (2003)



Heading Towards Recession 2007-2009

Rapid Growth to From to 2007

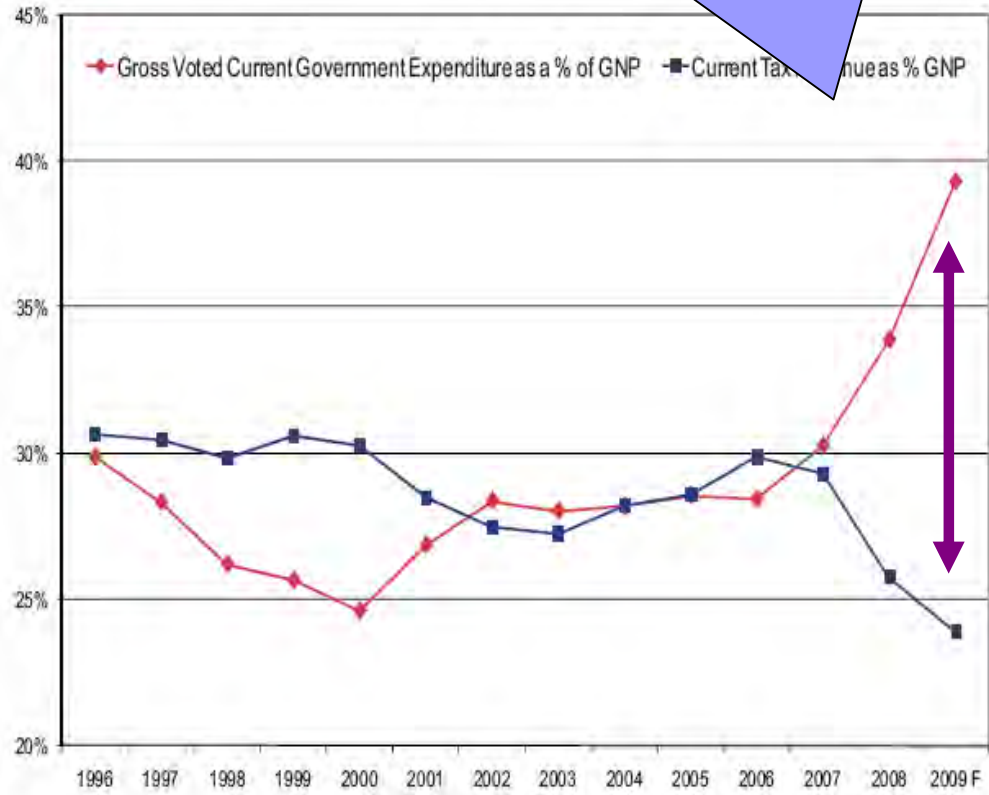
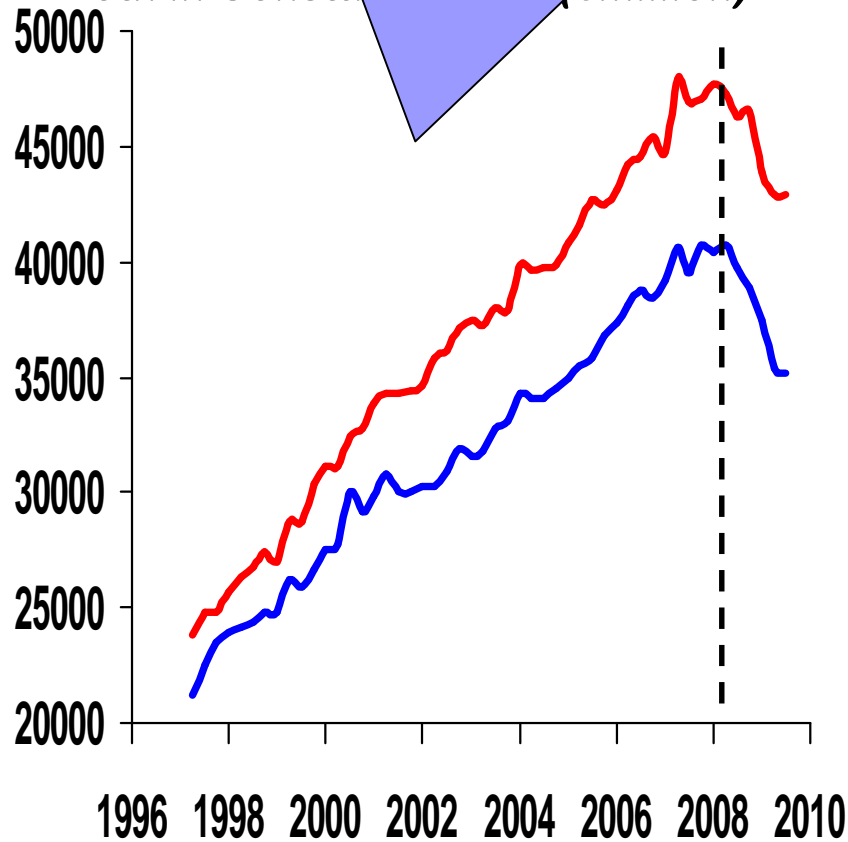
- Big Fall 2008-2009
- 15%-20% gap between GNP (Income) and GDP (Output) due to profits returning to parent companies and transfer pricing
- ESRI expect GNP per capita to fall to 2001 levels in 2010

9 – but falling

es
; Vat (-20%);

- Limited capacity for government or stimulus lead growth
- Need to Stabilise Public Finances

(GDP = GNP + Transfers)
Both in Constant (€million)



— GDP — GNP

Source:
CSO National Accounts

1. High growth phase

- Trade Growth
- Investment Growth by more
- Consumption

2. Slower growth

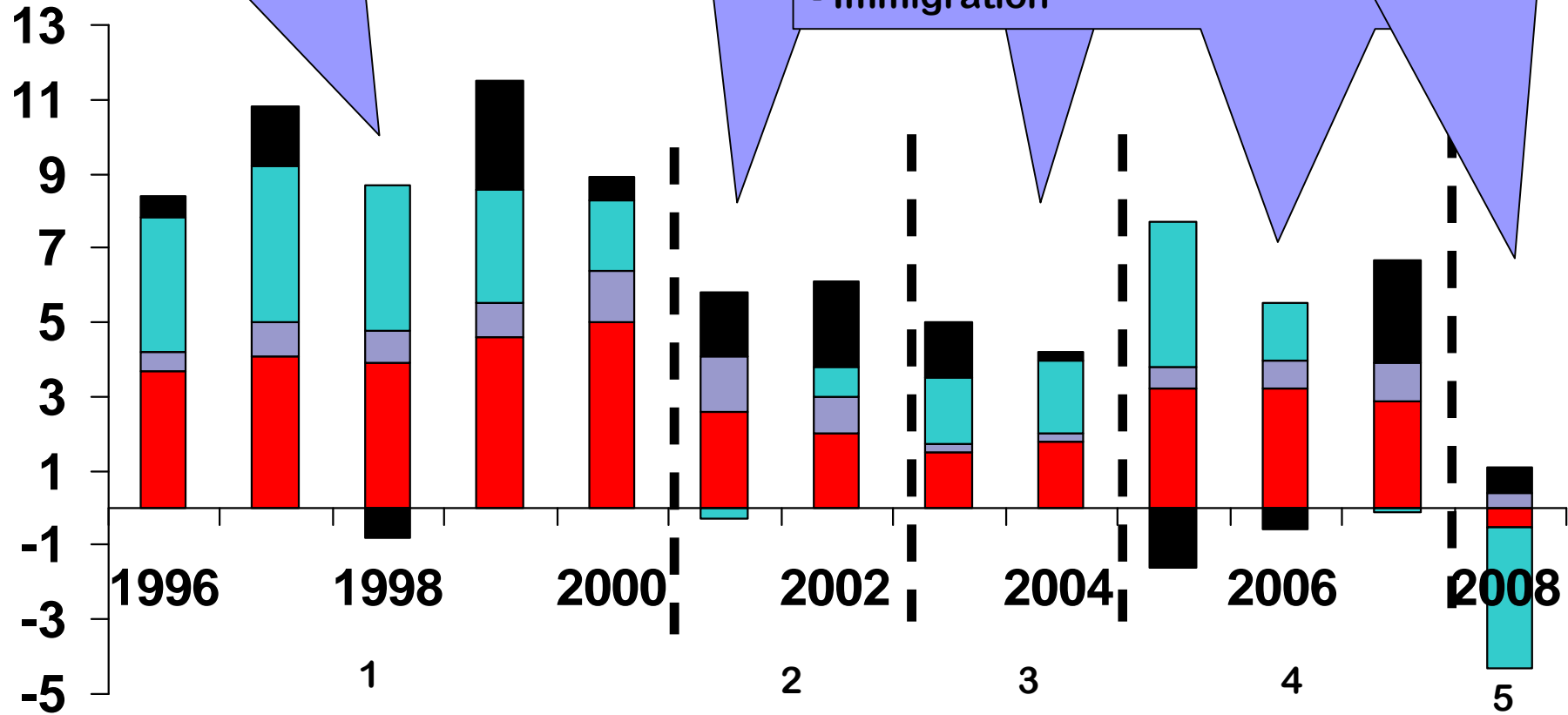
3. Slower growth – take off in housing investment

4. Higher

- led and consumption
- imports
- Borrowing
- Immigration

5. Recession – collapse in investment and consumption, improved trade position due to falling imports

Stages of Economic Growth



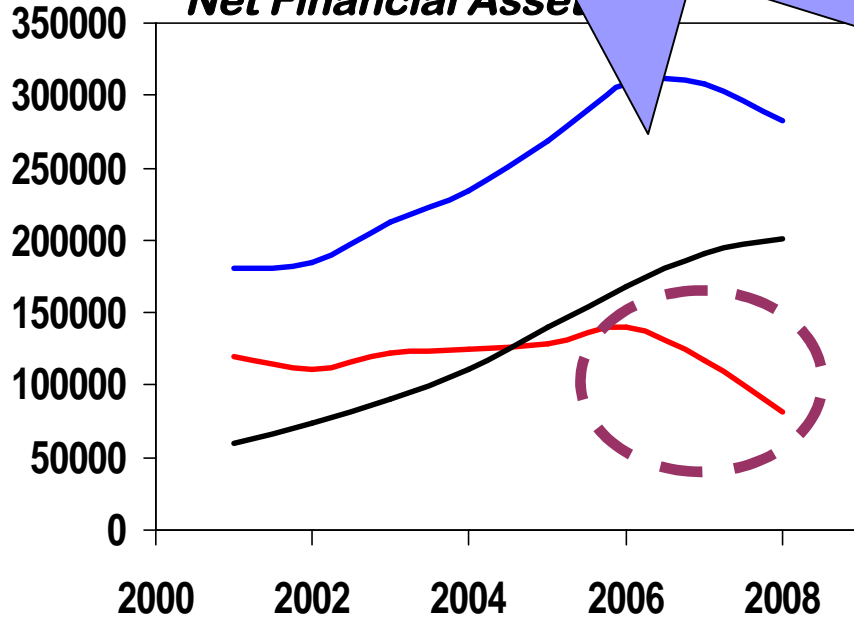
- Increase in Financial Liabilities

- Fall in Assets

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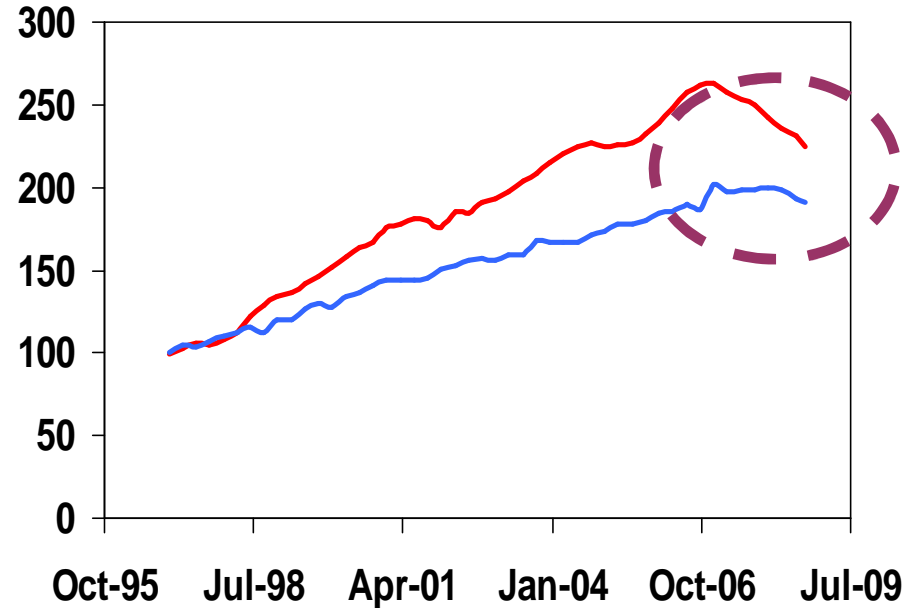
- Uncertainty → Precautionary Saving and Reduced Consumption
 - 2.3% of post tax income in 2007; 11.5% in 2009 (Davy, 2009)
- Limited capacity for consumer lead growth until
 - Stabilisation of house prices
 - Lower unemployment and higher disposable income
- ~4-5 years

Household Sector
Net Financial Assets



— Net Financial Assets — Liabilities — Assets

House Price Versus GDP growth

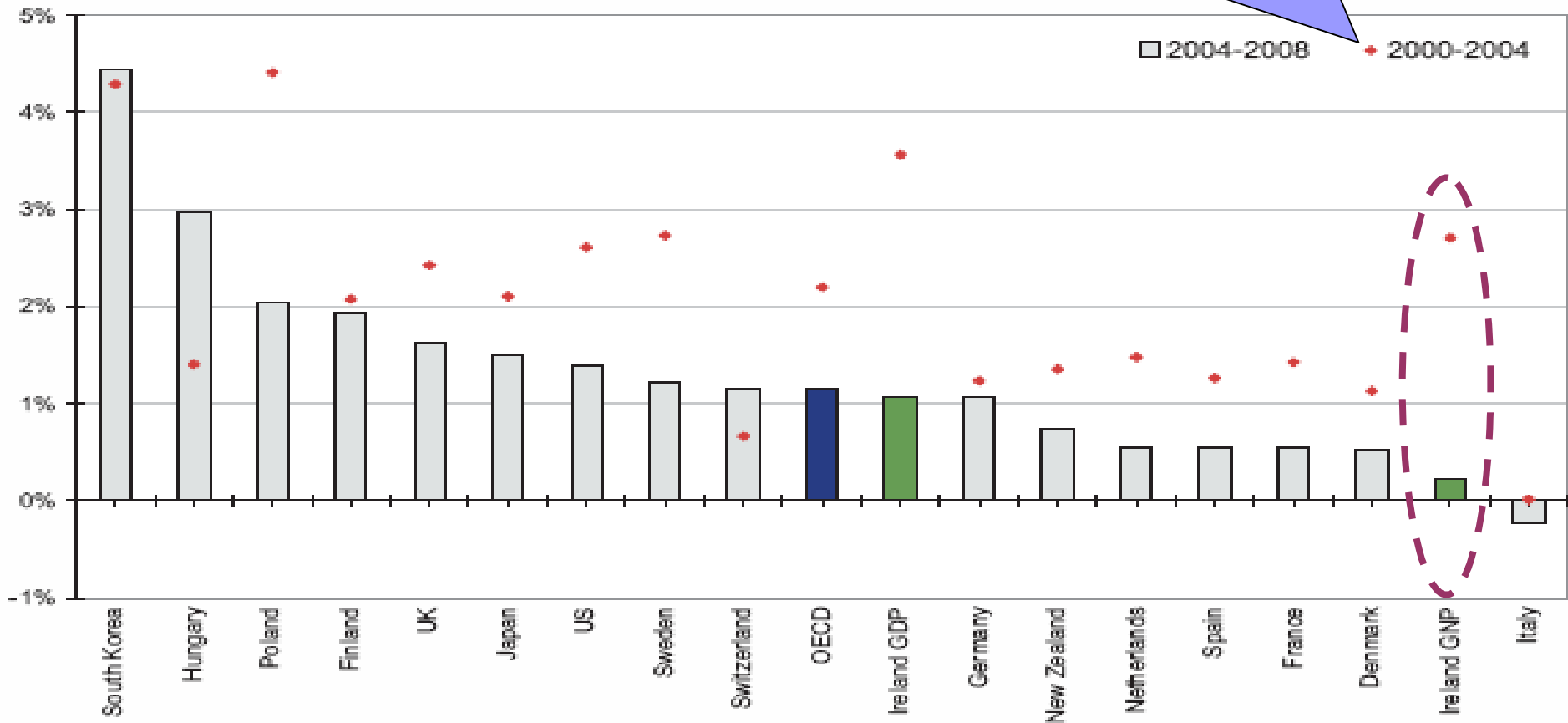


— House Price — GDP



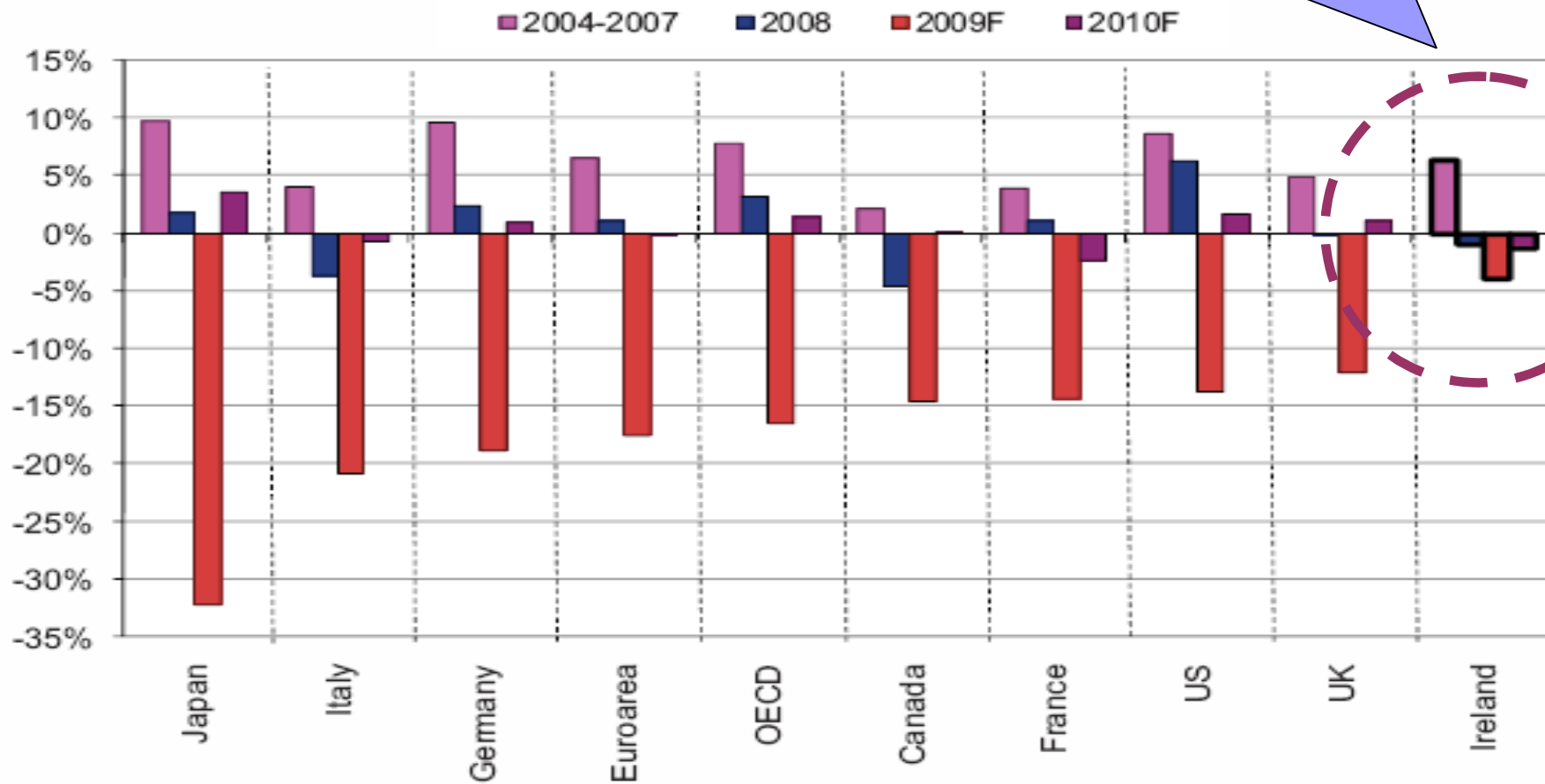
- Serious issues 2004-2008 in productivity growth
 - GNP per output lower than most competitors
 - Despite being leaders in pre 2004
- Skills, R&D, High Value Added Enterprise Development!

Productivity Growth



Exports

- Relatively good export performance in downturn relative to competitors
- Resilience of main export sectors (except computer hardware)
Chemical/Pharma, Agri-Food, Medical Devices + Computer Software and Financial Services



Source:
NCC/ CSO

• Example of lack of competition
 • Retail milk prices rise with market prices, but stay high

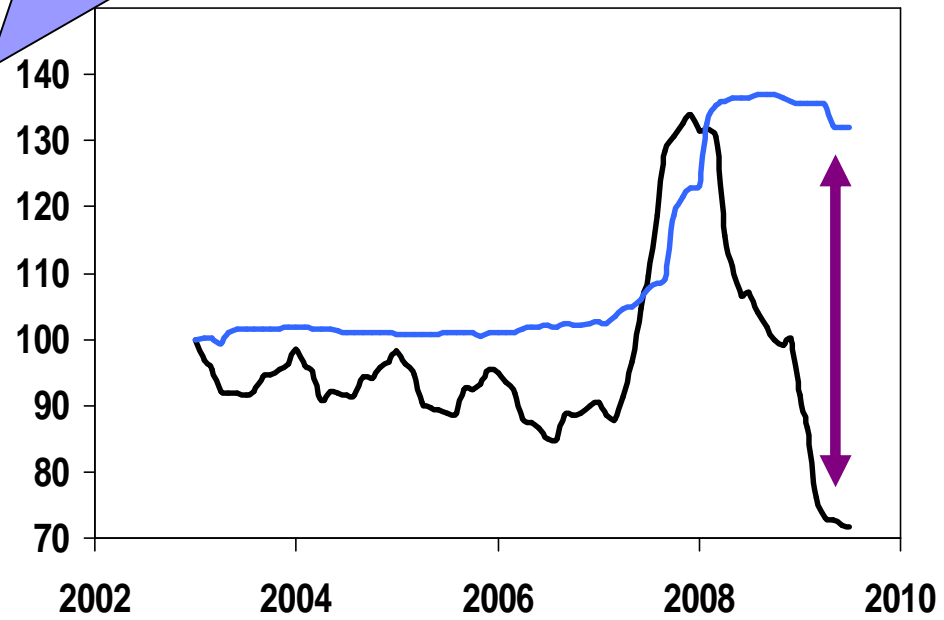
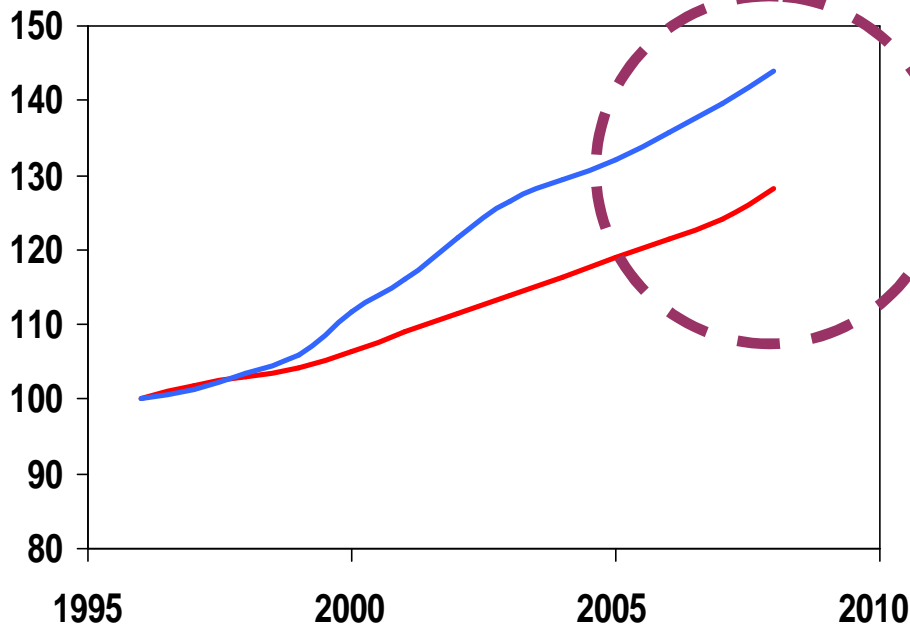
• Eroding price competitiveness

• More expensive than most competitors in most products
 • Affecting competitiveness of all sectors

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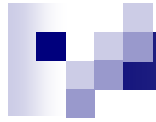
Farmer versus Consumer



— Euro Zone — Ireland

— Milk Farmer Price — Milk Consumer Price





Future Prospects

Take home message

- **Limited Capacity of Domestic and Government Sectors to lead future growth in the short to medium term**
 - **Export lead growth** only feasible solution
- **Will require**
 - Macro-economic and financial sector stability
 - Improved price competitiveness
 - Improved productivity
 - R&D and Innovation → SMART economy

Take home message

■ Channels

- Foreign Direct Investment important
- Indigenous enterprise can have bigger impact on incomes due to higher multipliers and more retention of profits → needs to be competitive

■ More difficult however

- FDI – human capital, supply chains, capital
- Domestic enterprise development requires nurturing → role of enterprise agencies

■ Rural Development



Commuter based vs. Balanced Development?



Thank You

Our Papers and Conference Slides are available:

www.agresearch.teagasc.ie/merc/



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