Ireland: Unemployment expected to reach 17 percent

Steve James
6 May 2009

A report released early May by the Economic and Social Research Institute (ESRI) states that Ireland is expected to go through the sharpest economic contraction of any industrialised country since the 1930s. The ESRI's spring quarterly commentary predicts that Ireland's gross domestic product (GDP) will fall 9.2 percent this year.

The report continues, "Ireland's economy will contract by around 14 percent over the three years 2008 to 2010. By historic and international standards this is a truly dramatic development."

It continues: "Prior to this, the largest decline for an industrialised country since the 1930s had been in Finland, where real gross domestic product declined by 11 percent between 1990 and 1993."

The 9.2 percent figure for 2009 doubles the scale of contraction predicted only three months ago in the institute's previous quarterly commentary, where a contraction of 4.6 percent was anticipated. Even the figure of 14 percent over three years assumes a "moderation of the pace of decline" and a "bottoming out" in the latter part of the year.

Unemployment is expected to continue rising. The ESRI predicts unemployment will average 292,000 over 2009, or 13.2 percent, and by 2010 will peak at around 366,000, or 16.8 percent of the workforce.

Wages are expected to fall by 3 percent on average, while the impact of recent budget changes is expected to reduce average household incomes by around 4 percent.

The ESRI also predicts annual net emigration from Ireland, historically an escape from appalling conditions that was sharply reversed over the last two decades, to reach 30,000 between 2009 and 2010.

Speaking at a press conference to launch the report, Dr. Alan Barrett explained that the "severe recession" was due to the Irish economy being particularly exposed to global conditions, while the housing and construction sectors had collapsed.

Barrett noted that all export-based economies were now seriously impacted by recession. He said, "Germany is suffering more than most from the downturn. Like Japan, the importance of export-orientated industrial production means that it is experiencing a disproportionate impact from the dramatic downturn in world trade."

Japan is facing a 26.4 percent collapse in exports, Germany 16.5 percent, the UK 9.8 percent.

The report predicts Irish exports will fall by around 5 percent this year and by around 1.2 percent in 2010.

A recent report by the Central Statistics Office showed that although the trade balance remains in surplus, this is based on imports falling more rapidly than exports. Exports in January and February fell by 3 percent from €7.1 billion, but imports fell by 28 percent from €5.4 billion to €3.9 billion.

"The outlook for external demand has deteriorated markedly. Ireland's main trading partners are expected to be acutely affected this year," said Alan McQuaid, chief economist at Bloxham Stockbrokers to the *Irish Times*. McQuaid put a higher figure than the ESRI on the likely fall in Irish exports.

In addition a fall in exports to the UK because of the falling value of the pound, he noted, "Anecdotal evidence also suggests that access to trade finance has tightened recently, further curbing trade flows. In view of such a combination of developments and incorporating the closure of Dell's manufacturing operations, an average decline in merchandise export volumes of around 6 percent is projected for this year."

He predicted 2009 will be the "most difficult year for Irish exporters for some time."

Writing in the *Irish Times*, economics commentator Jim O'Leary agreed that the ESRI prediction of a 5 percent fall in exports was over-confident. "On the face of it, this is a dismal prospect, but it is a prospect that is being held out in the context of an expected 13 percent reduction in the volume of world trade, and compares with OECD forecasts of near-vertical drops in the exports of the likes of Germany...and Japan."

On public debt, the ESRI report expects net government debt to amount to 55 percent of annual GDP by next year, based on successive years in which government spending outweighs income by figures in excess of 10 percent annually. This projection is beset by huge doubts due to the unknown scale of the payments to be made by the government to the country's ruined banks by the new National Asset Management Agency (NAMA).

These payments are not included in the ESRI assessment, but unsafe loans to the major institutions are estimated to hold a book value of €90 billion. (Annual GDP is currently around €190 billion.)

NAMA intends to buy these unsafe loans at an undisclosed rate, a major hand-out to the banks.

Barrett of ESRI commented, "It makes no sense to me...the idea of price is the price someone will pay.... It isn't clear to me how you can value these things in these circumstances."

According to Barrett, if NAMA pays €40 billion for the assets, this will immediately add €2 billion annually to the state borrowing requirement. This will ultimately be paid for through further cuts in public spending, beyond those already announced.

In addition to rising unemployment, a number of other recent indicators show the impact of the economic crisis on working people.

Car sales registered in March fell by 64 percent compared to the same month in 2008. Total car sales are expected to be just 60,000, the lowest since 1993. New goods vehicles issued with licences fell from 3,858 in March 2008 to just 915 in March 2009.

Over all areas of retail activity, sales fell 21 percent in the year to February, although this was a marginal improvement on January, when sales fell 27 percent. Even food sales have fallen by 5.5 percent. Some 25,000 retail workers are expected to be laid off this year alone.

The near collapse of the financial system has not stopped personal debt levels from continuing to spiral. The Money and Advice Budgeting Service (MABS) reported to an Oireachtas (parliament) committee that the proportion of their clients with mortgage problems has risen from 18 percent to 27 percent this year, while the average debt on clients' credit card has gone from €3,833 in 2006 to €8,009 in 2009.

Tony Quilty of the Health Service Executive stated, "People who obtained substantial mortgages in good times, and in good faith, and who sometimes may have consolidated other debt into the mortgage as part of an equity release, now find that they have no means of meeting their obligation to pay. The volume and complexity of cases appears to rise by the week."

While the government hands over billions to the banks, debt collection measures against working people remain in place. MABS spokesperson Anne Marie O'Connor said that debt collection agencies demanding payments had taken to phoning people every hour and at all hours.

She continued, "This greatly adds to the vulnerability of clients who may have, for example, lost a job or suffered a loss of income through illness or family breakdown and are already making significant adjustments in all aspects of their lives."

The worsening situation is deepening class tensions, as companies and institutions seek to offload the crisis onto their workforce.

The first 450 of 1,900 Dell workers losing their jobs at the company's plant in Raheen, Limerick, received their final pay cheques last week. Dell is moving production to Poland, where wages are €3 an hour.

In April, 130 workers at chip manufacturer Xilnix's operation in Dublin were told their jobs were being moved to Singapore.

Supermarket giant Tesco threatened to lock out workers in their Douglas, Cork, store until June if a strike against a change in working conditions was implemented. Workers struck indefinitely in response.

Also in Cork, University College Cork (UCC) has demanded 3,000 staff forego one week's pay to alleviate the university's deteriorating financial position. Cost-cutting measures are being considered at all of Ireland's seven universities.

An unofficial walkout at Dublin Bus's Harristown depot over the introduction of new rosters brought the city's entire bus fleet to a standstill, as workers at the Summerhill, Conyngham Road and Clontarf depots took action in support of their colleagues.

Nurses at Killarney Community Hospital have voted in favour of a strike against structural changes, while Sligo General Hospital nurses are to ballot for a strike against job losses.

New talks are anticipated between the Irish Congress of Trade Unions and the government to establish whether a formal agreement can be reached with the union bureaucracy on how to impose the cost of the economic collapse on the working class.