



information notice

Contract Manufacturing

The National Accounts and Balance of Payments present data on exports and imports of goods and services. These series include adjustments to the primary data sourced from the International Trade monthly series of imports and exports of goods. The reasons for these adjustments usually relate to the recognition of a change in economic ownership taking place for the following reasons:

Contract manufacturing (also called goods for processing) - where a change in ownership occurs at a different point in time compared to the timing of a cross border movement of goods.

Merchanting - to include the transactions related to merchanting¹ because they are not already included in the international trade i.e. these transactions do not cross the border of the Irish merchant.

Conceptual adjustments – are related to valuation of goods, in some cases exports are undervalued. In such cases statistical interventions are required to balance the impact of these transactions across all primary statistics.

The purpose of this note is to address the issue of contract manufacturing and the impact it is currently having on the National Accounts results. There has been considerable comment and analysis in the print media and elsewhere attributing undue significance to contract manufacturing in explaining the improved economic results reported for the Irish economy in the quarters of 2014.

Contract manufacturing occurs where a company in Ireland engages a company abroad to manufacture products on its behalf (and vice versa). These products could be either new products or products formerly produced by the Irish entity. Crucially the inputs used in this production process remain in the ownership of the Irish entity and a change of economic ownership is not deemed to occur during this subcontracting process. Instead the foreign contract manufacturer supplies a manufacturing service to the Irish entity and never takes ownership of the product being produced.

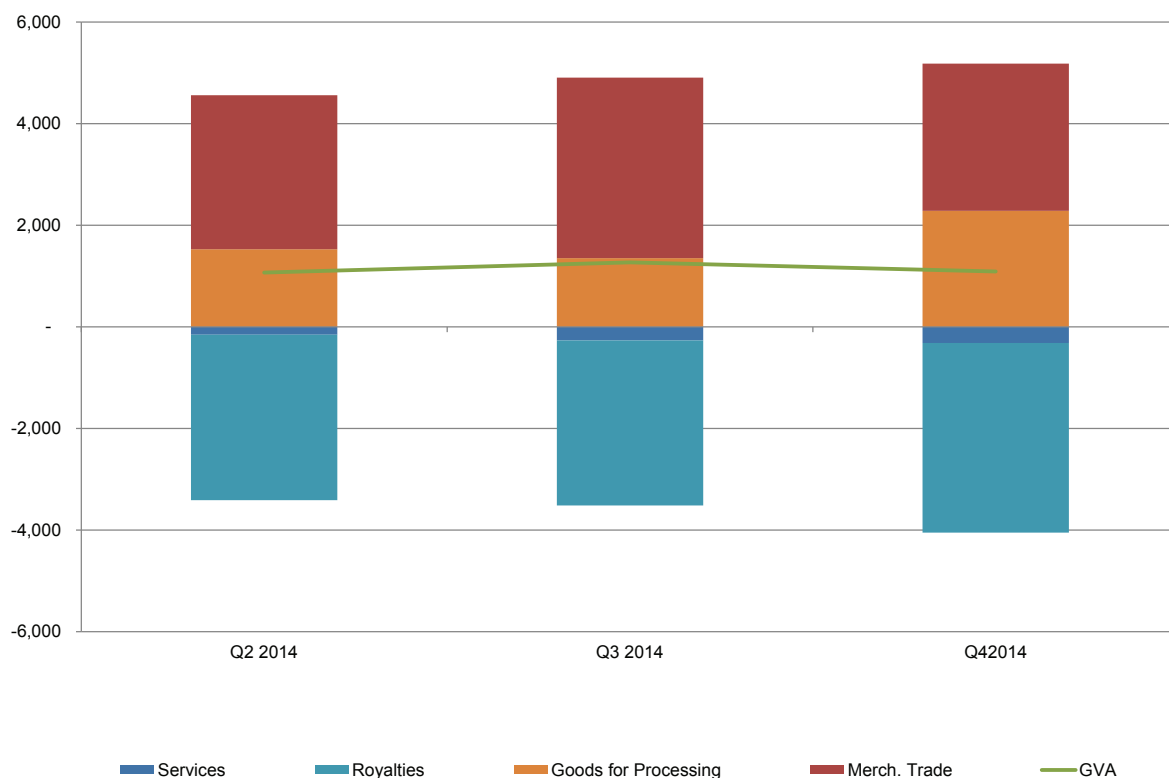
Once the production cycle is completed for this product, it is then sold to a customer abroad and a change of economic ownership takes place between Ireland and the country of the buyer. The export of this good is then recorded in the Irish National Accounts and Balance of Payments. The value added that accrues to Ireland from this production and ultimate sale of a product is the sale price of the good produced less the following costs associated with production:

- Import of manufacturing services
- Supply of material inputs used in production
- Import of royalties for use of the patents
- Imports of other services incl. transport

¹ See p.70 Manual of Changes between ESA 1995 and ESA 2010 <http://cso.ie/shorturl.aspx/234>

Figure 1 below illustrates the significance of the key elements in this production process and the ultimate Gross Value Added (GVA) generated in Ireland by companies that are engaged in both contract manufacturing and also manufacturing (it is not possible to distinguish between the data for these two activities) carried out on their own account in Ireland.

Figure 1 Contract Manufacturing and Own Account Manufacturing Activities Q2 – Q4 2014



In the case of the additional products made under contract manufacturing arrangements for Irish companies in 2014 the related addition to value added over and above wages and salaries paid is not particularly significant in explaining the recent growth in Irish GDP (+4.8% in 2014). Instead the observed growth is more broadly based and reflects improved domestic demand and amongst other things the pick up in activity for Irish companies not linked to Multi National Groups.

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