



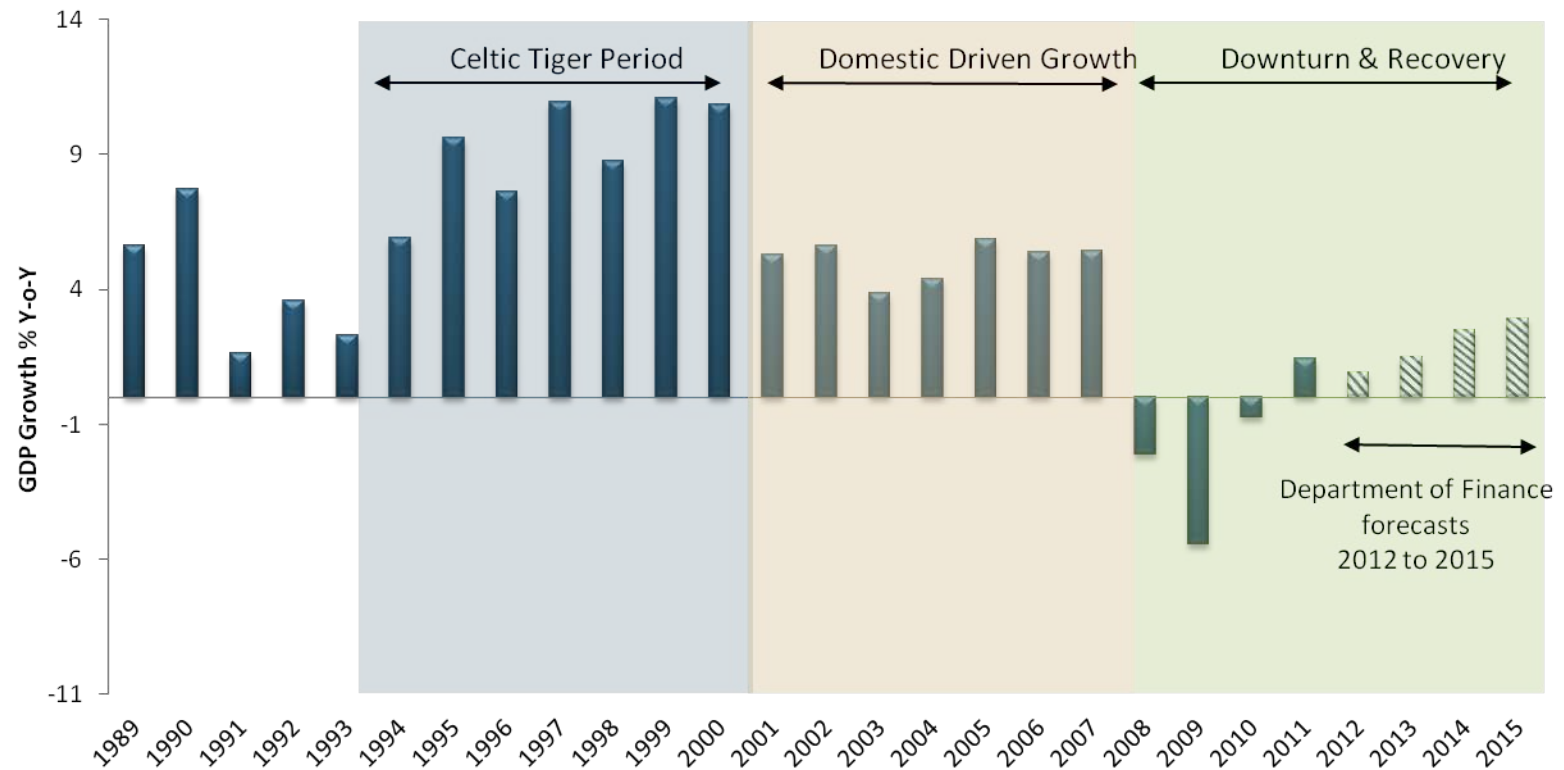
Measuring the Impact of the Jobs Initiative  
Brendan O'Connor, 20 February 2013



An Roinn Airgeadais  
Department of Finance



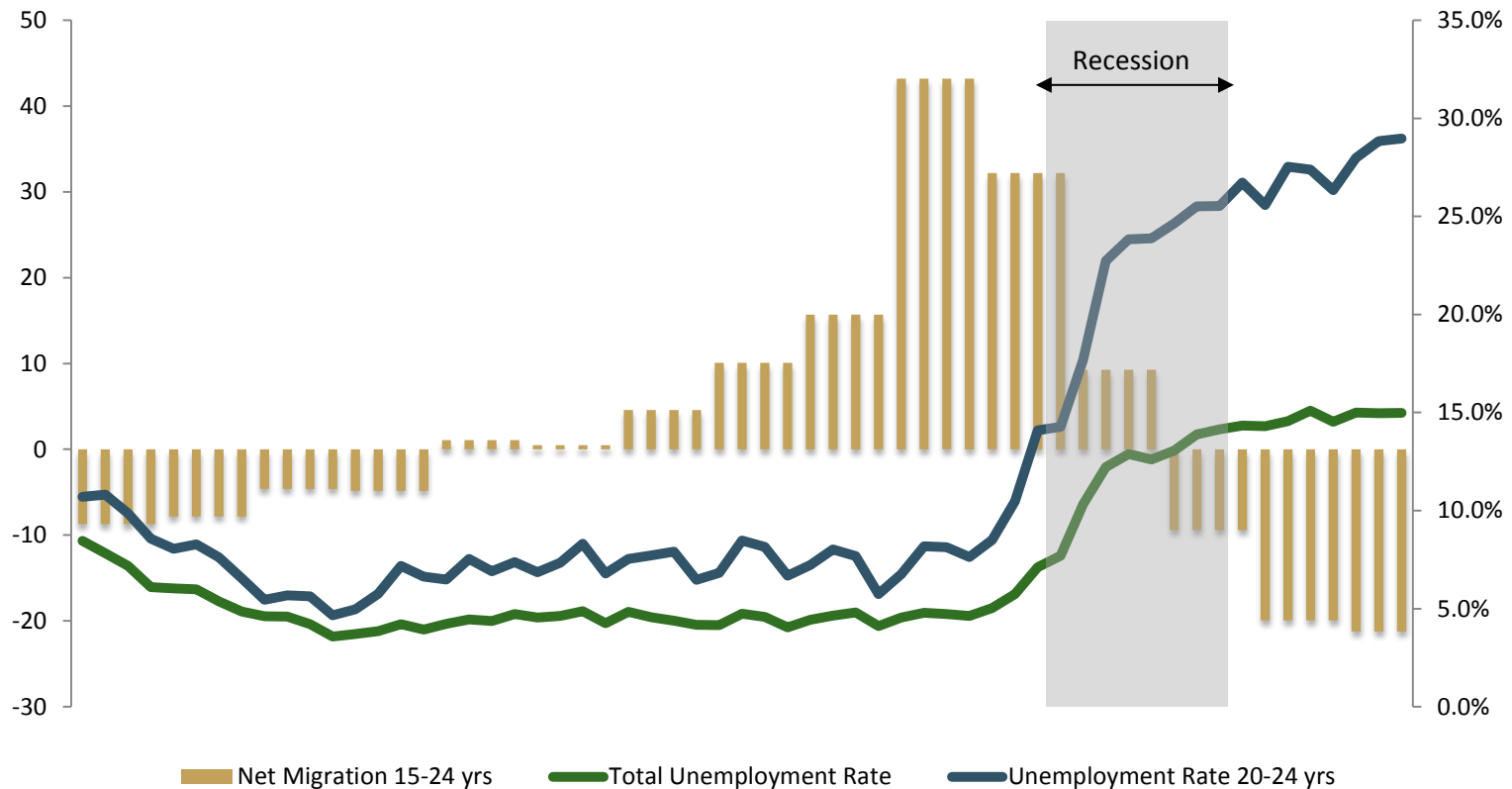
## The Economic Environment



- Ireland returned to growth in 2011, following three successive years of decline
- But considerable challenges still remain



## The Labour Market



- The unemployment rate remains elevated
- Particularly for Ireland's youth
- And the emigration of the past has returned



## The Jobs Initiative – one of many responses to labour market

A reduction in VAT from 13.5% to 9% in the following labour-intensive tourism related activities

- The supply of food and drink (excluding alcohol and soft drinks)
- Hot take-away food and hot drinks
- Hotel lettings, including guesthouses, etc
- Admissions to cinemas, theatres, certain musical performances, museums, art gallery exhibitions
- Amusement services
- The provision of facilities for taking part in sporting activities
- Printed matter (e.g. newspapers)
- Hairdressing services

Also

- A temporary halving of the lower rate of employers PRSI for jobs paying up to €356 per week
- Reduction in air travel tax
- Current and capital expenditure measures

And

- Pension funds levy

## The Analysis

The Data

- Price data – special assignment from CSO
- Labour market – QNHS

Not a cost benefit analysis

- Focusing on the price pass through and labour market impact
- But not on cost of impact
- What is the Cost – counterfactual!

## Counterfactual

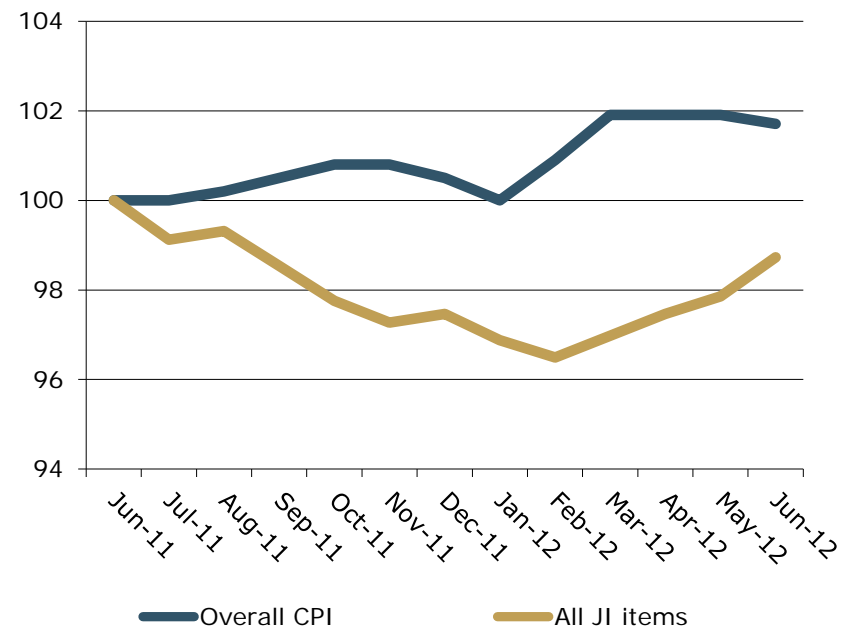
- The correct counterfactual is price of same products during same period if no VAT reduction
- Same for employment impact
- But cannot observe this counterfactual
- Thus had to construct ‘plausible’ counterfactuals
- Comparator series for employment
- Modeled series for prices

## Price Impacts (July 2011 to June 2012)

Overall prices fell by 1.3%

Category	June 2011 – June 2012
Cinemas, theatres, musicals, museums, art galleries	-0.6%
Hairdressing services	-1.6%
Hot take away foods and hot drinks	-0.5%
Hotels and other accommodation	-0.9%
Meals out including rail car dining	-1.3%
Newspapers	-2.2%
Sport	-4.5%
All 9% items	-1.3%
Headline CPI	1.7%
Underlying CPI	0.3%

While economy wide inflation grew by 1.7%



## Price Impacts

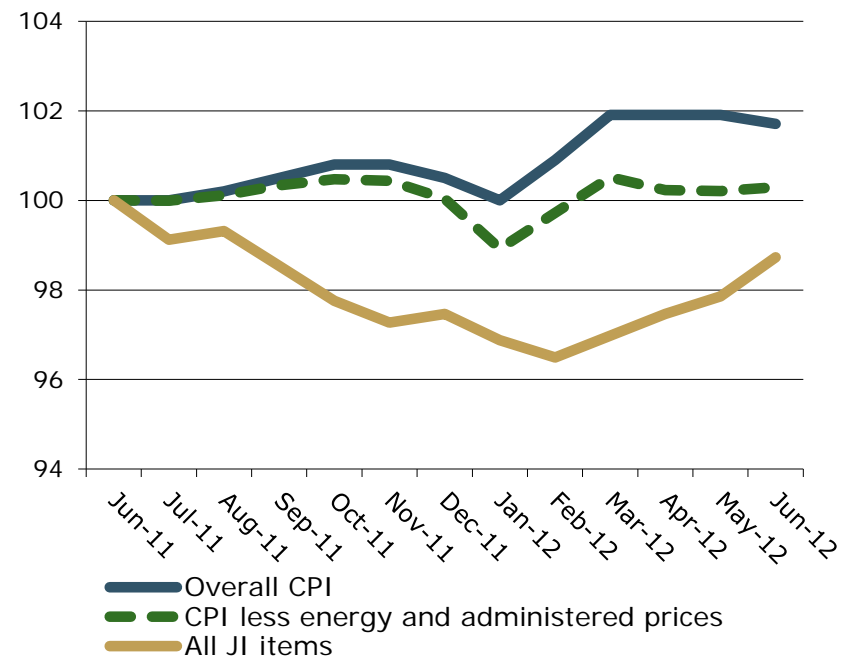
Headline inflation of 1.7%

Headline inflation driven by

- Energy prices
- Administered prices

Underlying inflation excludes these series

But underlying inflation only 0.3%



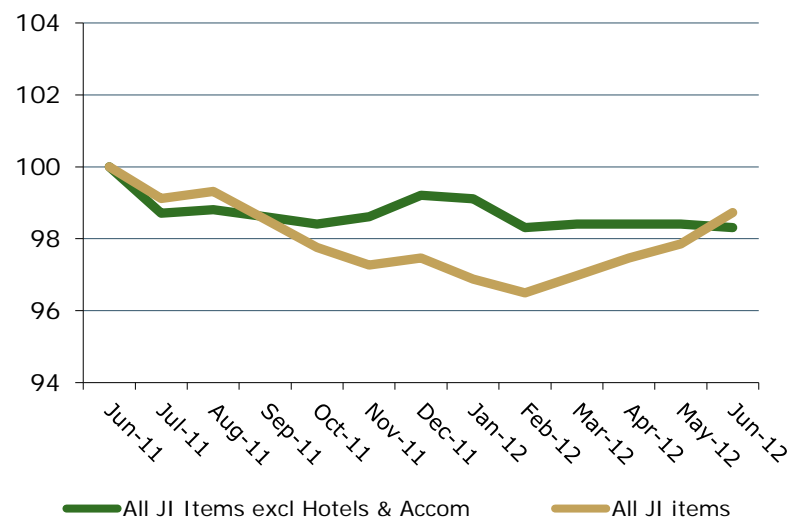
# Overall basket influenced by seasonal hotel prices

Hotel and accommodation prices very volatile

Underlying reduction much steadier

## Cyclical nature of hotel prices

- Rise in H1, fall in H2
- -10% July 11 to Dec 11
- Recovered to within 1% of July 11 level in June 12

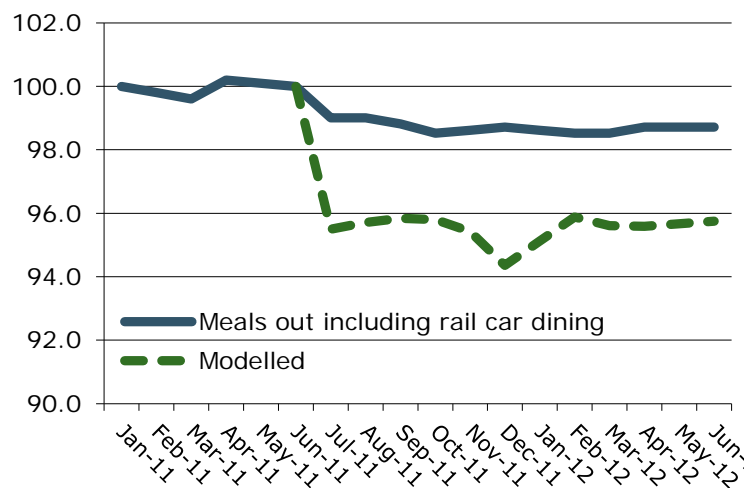


# Price Impacts – Food Services

## Meals Out

Overall price reduction of 1.3%

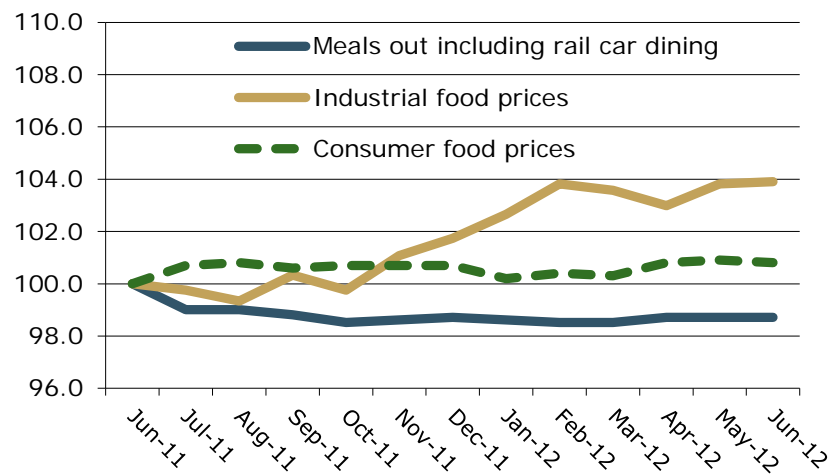
- -1.5% in first 6 months
- -Framework for analysis is a counterfactual ‘modelled’ series of immediate pass through and growth in line with underlying inflation thereafter



Some of the rate reduction absorbed by food price inflation

Price of meals out determined by food price inflation

- Meals out -1.3%
- Consumer food prices +0.8%
- Industrial food prices +3.9%



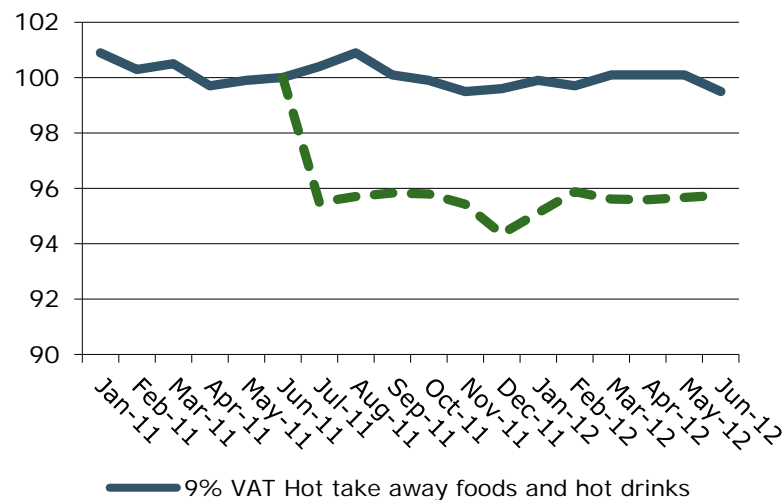


# Price Impacts – Food Services

## Hot take away food

Overall limited change in prices

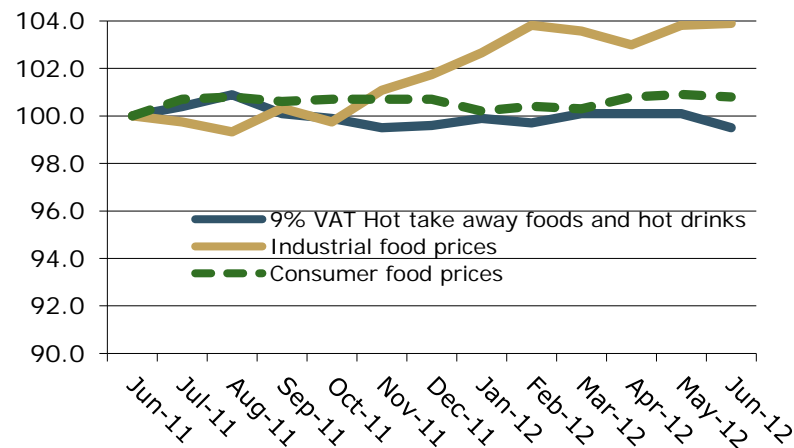
- Slight increase initially
- Modest decline thereafter
- Prices in June 2012 0.5% below June 2011 levels



## But prices driven by food price inflation

Rate reduction absorbed by inflation

- Take away food -0.5%
- Consumer food prices +0.8%
- Industrial food prices +3.9%



# Accomodation

## Prices seasonally determined

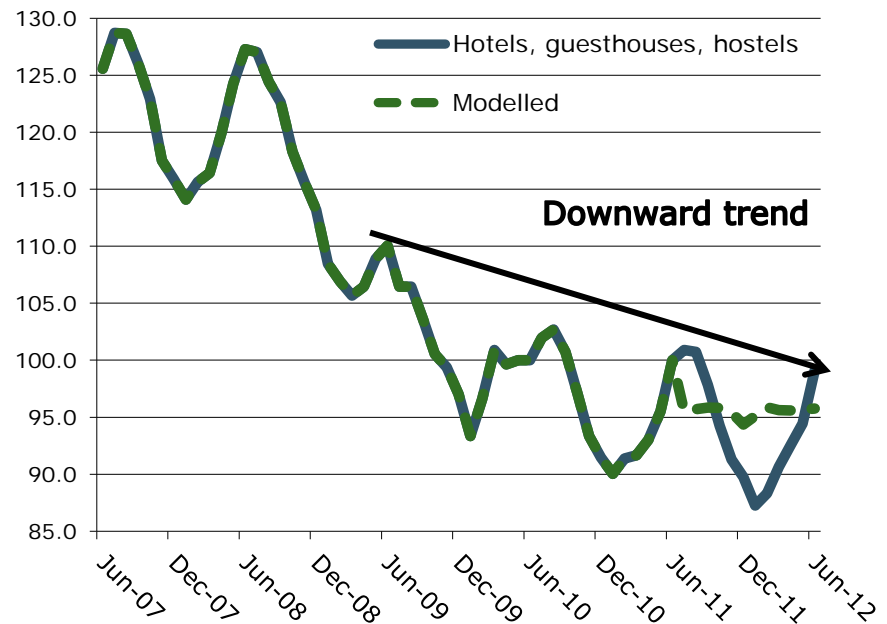
Overall evidence not conclusive

Some of evidence of price falls

- -10% July to Dec
- -13% July to Jan
- June 12 level 1% below June 11
- But pattern of downward trend

Ultimately impossible to know what would have happened in absence of VAT reduction

## Overall impact inconclusive

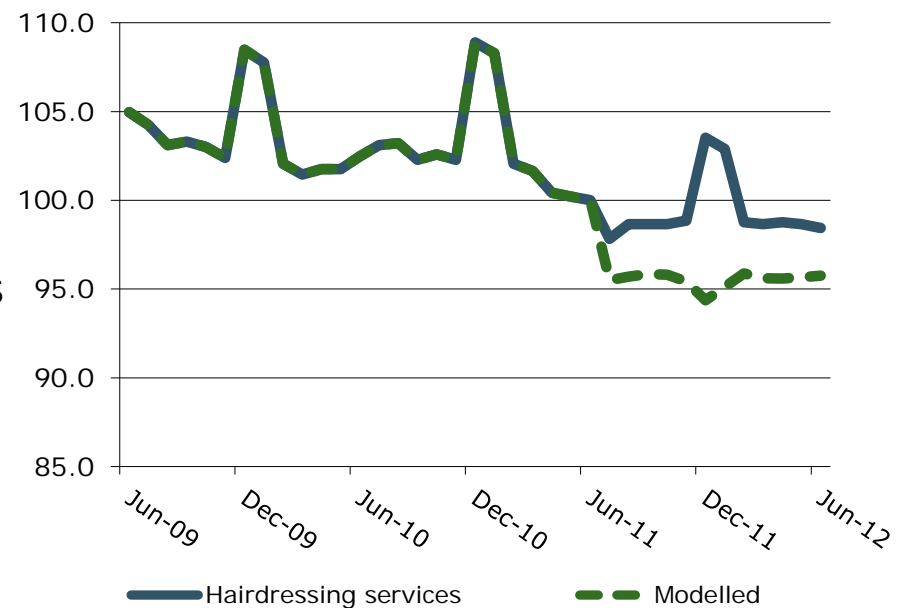


# Other

## Hairdressing Services

### Evidence of pass through

- Prices 1.5% below June 2011 levels
- Inflation running at +1.7%
- Underlying inflation +0.3%
- Seasonal December price increases driven by supply and demand





# Employment Impacts

## QNHS

### Impact

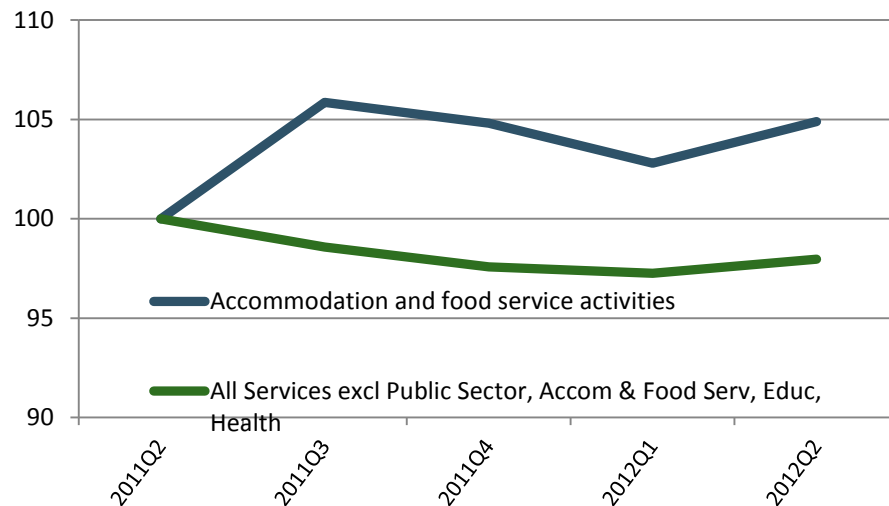
- Focus on Accommodation and Food Services – 70% of JI expenditure
- 123,100 jobs (unadjusted) in Q3 2012
- 114,400 in Q2 2011
- +8700 jobs (+8%)



## Counterfactual

### Comparison

- No growth? (0%)
- Economy wide employment (-1%)
- Services (0%)
- Markets services excl. accomm. & food (-1%)
- Overall impact 8-9% depending on counterfactual





# Concluding comments

## Health Warning

### Backward looking

- Not an indicator of further sustained impact
- Impact may be temporary in nature

### Price Effect

- Substitution effect – impact on other sectors
- Income effect?

### Indirect taxes

- Less harmful to growth (OECD)
- But is the opposite also true?

### Cost

- Hard to determine ex post
- Behavioral response

## Recap vs counterfactuals

