IRELAND: PRICE LEVEL COMPARISON

(USING EUROSTAT DATA AND NATIONAL COMPETITIVENESS AND PRODUCTIVITY COUNCIL ANALYSIS)

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Summary:
Ireland – "*high cost, rising slowly*" NCPC (2020) (p.33)

- Ireland is a very expensive place for businesses to operate in, and individuals and households to live in, with
  - average overall GDP price levels +17% above EU 27 average (5th highest)
  - actual individual consumption price levels +38% (4th highest).
- A range of internal factors and actors appear to be driving the differential
- Should/can we aim to reduce/impact relative price **levels** as well as price growth **rates**?

Reflection on ….

- **How expensive is Ireland to operate and live in?**
- **Why?**
- **Does it matter?**
- **What is to be done?**

References

- Eurostat database on price levels (accessed June 2021) https://ec.europa.eu/eurostat/databrowser/bookmark/c8360fd8-826c-4bc4-b6e7-3699549154a9?lang=en

- National Competitiveness (and Productivity) Council
  - “Ireland’s Competitiveness Scorecard 2020” (May 2020)
  - Ireland’s Competitiveness Challenge 2020” (Sept 2020)
  - “Productivity Statement 2019” (Nov 2019)
  - “The Cost of Doing Business in Ireland 2019” (April 2019)

Business-related price levels (EU 27 2020=100)**

	Irel 2011	Irel 2020	UK 2020*		Irel 2011	Irel 2020	UK 2020 *
GDP	112	117	117	Total Goods	103	110	97
Electricity	101	111	91	Consumer	117	117	97
Transport	107	111	105	NonDurable	126	122	99
Comms	113	140	125	Semidurable	97	99	89
Gross Dom. Capital Form.	86	103	99	Durable	101	106	96
Mac.+Equip	106	103	97	Capital	86	103	99
Construction	76	105	99	Total Services	128	145	138
Software	86	96	102	Gov Services	131	133	126

***Not currency adjusted ** My distinction (not Eurostats)**

Individual-related Price levels (EU 27 2020=100)

	Irel 2011	Irel 2020	UK 2020 *		Irel 2011	Irel 2020	UK 2020 *
Actual Individual Consumption	125	138	124	Education	128	120	159
Food + NA Drinks	123	113	92	Recreation	113	114	101
Bread + Cereals	113	115	85	Rest. + Hotels	126	129	103
Alcohol	177	181	134	Miscellanous	128	133	115
Clothing + Footwear	101	101	88	Actual Collective Cons.	119	117	107
Housing, elect. Etc.	120	178	164	Final Cons. Expenditure	124	135	121
Housing furnishings	106	106	98	Household FCE	121	136	119
Residential (Construction)	75	104	86	Consumer Services	131	159	146
Health	157	166	142	Government Services	131	133	126

***Not currency adjusted ** My distinction (not Eurostats)**

Comment on Eurostat Price Levels compared (2020)

- Overall,
  - GDP price levels are 17% higher than EU 27,
  - Services price levels are 45% higher,
  - Goods are only 10% higher
- Overall, business related price levels seem close to EU 27 average levels (such as GDCF and capital goods at 3% higher);
- However, key costs (e.g. credit, insurance and legal) are problematic; covid and brexit related costs now adding to material costs and inputs
- For the tourism industry, the price levels of restaurant and hotels are relatively high at +29%;
- Actual individual consumption is at +38% price levels higher than the EU 27 average, and individual consumption expenditure is at + 45%
- Specific high items include housing etc. at +78% over average EU 27 levels (up from +20% in 2011), health at 66%,consumer services at 59% and education at 20% ; whereas food is at + 13%, clothing and footwear at 1% and transport at 11%.
- Government services are 33% higher than EU average (compared to 26% in UK)

The National Competitiveness and Productivity Council (NCPC) elaborate

Business related costs

- Credit – Irish companies in June 2020 pay 3.0% average interest, v. Eurozone average of 1.8% (that is, a + 67% differential), whereas Ireland and eurozone companies had been paying similar levels in 2014 i.e. 3% v 3.3%
- Transport – while relative price levels are not too high (+11%), real congestion costs are very high, as Dublin is the highest in Europe (including London, Paris and Rome!), and cost of containers is three times that of OECD high income average
- Premises: office space and high tech factories are very high cost to build (London only is higher) and office rentals 3rd highest (with just London and Paris higher); prime retail rentals in Dublin are three times those of London City overall and other European cities (only Londons West End soars above it)
- Legal fees % claim value at 19% in Ireland is very high (Denmark 5%), with UK even higher (35%)
- Labour costs are broadly in line with the Euro area (+4%) and lower than key European competitors but higher than UK (+16%) (there is considerable variation by sector in all countries)

Individual related costs

- Accommodation rentals up 30% 2019-15 v. EU average 3%
- Childcare – net childcare costs are amongst highest in EU – 2018, Ireland at 28% net childcare costs was double EU average (UK was at 36%)
- Income taxation is comparatively low in Ireland for individuals and families on both average and high incomes but with high marginal rates for some earners, relative to the EU averages and the UK;

Why

- Overall
- Individual

Converging on Euro single currency zone average?

Irelands price levels had

* risen to equal to Eurozone levels by 1997
* continued to relatively increase to +19% in 2005
* before falling back to + 6% in 2012, and
* then hovering around +9/10% over 2014/18.

GDP prices	1995	1997	1999	2000	2005	2012	2018
Irel/EZ	0.87	1.00	1.05	1.09	1.19	1.06	1.10
Irel/UK	0.90	0.86	0.83	0.82	0.98	0.95	1.01

Potential reasons for individual goods and services to have higher costs relative to other economies include

- **Location and Scale (small population on an island)**
  - Extra transport and logistics costs for goods (food?) reflecting island status
  - Smaller scale of Irelands market (goods, insurance, credit?)
  - Infrastructure markets (eg is Ireland too small for competition in some key areas?)
- **Market Power and Competition (or lack of it)**
  - Use of market power by suppliers (bank credit, insurers, larger retailers?)
  - More unfocused regulation than elsewhere (insurance, as in higher court awards?)
  - Use of market power by large companies (tech MNCs etc.) to bid for scarce resources (e.g. office rentals in Dublin, and price of software skilled staff).
  - Barriers to entry in key professional services (e.g. legal)
- **Priority to rent and land as factors of production** (as in eg no implementation of Kenny land sales report, few downward rent clauses)
- **Lack of co-ordination**, by government or other actors (eg insurance?) (but major risks and costs to community underwriting every downside that occurs e.g. property banking)
- **Less relative productivity** in key areas
  - Construction, Transport/logistics, and Accommodation Services
  - Professional services?
  - Government services?
- **Higher labour negotiating power** in some sectors (utilities etc.)
- **Higher indirect taxes** (e.g. alcohol and cars) and Brexit-related **import administration costs**

Does it matter? *For businesses directly*

- Price differentials of nearly a fifth as inputs into businesses competing on European and global markets, adds significantly to costs
- Requires, all other things being equal, higher prices and therefore less sales, output, employment, wages and profits;
- Such relative cost differences make competing for SMEs and/or low margin businesses (e.g. food and engineering) especially challenging;
- With lower profits, there is less investment and so a negative circle of under-capitalisation/lower real productivity (higher credit costs adds to this constraint);
- A small number of larger/MNCs operations and plants with internal economies of scale and embedded in global corporate value-chains can be less impacted

Does it matter? For individuals and households directly

- For individuals and families, who for individual consumption expenditure are paying much higher than EU average prices with somewhat higher wage levels, and thus having lower real incomes; as they experience it, there is major pressure on budgets for food, childcare and housing;
- This reality is reflected in the recent Eurostat analysis of household living standards using Actual Individual Consumption (AIC) data.
- Ireland's AIC per person ranks 13th of EU 27, or 94% of the EU average in 2020.
- Irelands relatively lower income taxation could be seen as a compensation for such individuals and households for the exceptional high individual consumption prices levels; consequence of less investment in public services brings its own challenges;

What is to be done?
What is being done now?

- National Competiveness and Productivity Council (a social partner body) has played a critical role especially during the property boom years and since in analysing and highlighting need for action on important competeviness issues.
- In particular, it has carried out essential analysis on relative price levels and trends, compared to Irelands competitive economies.
- It points to the **Harmonised Competitiveness Index (HCI)** as a key indicator of relative competitiveness.
- The real Harmonised Competitiveness Index and the Real Economic Exchange Rate are both good indicators for relative competitiveness – they reflect movements in exchange rates as well as prices
- It stresses the importance of five drivers of competiveness and relative price levels – **credit, legal, insurance and housing and childcare** - as critical costs that need to be urgently addressed.

What is to be done? 1
What else might be needed?

- **The question is should/can we adopt a macro/system goal to significantly reduce over a five year period Ireland’s relative price levels towards EU average levels for both**
  - **businesses (e.g. GDP price level) and**
  - **individuals (e.g. AIC or CPI levels)?**
- *Benefit*: direct focus for strategic action v. *Cost*: too many system goals
- If so, what are **the 3-5 drivers** that most impact on such business and individual price levels? The NCPC’s five issues are clearly the most central but there may be others
- The **policy toolkit** all need to be pragmatically used in the key areas , such as increased *competition* (e.g. finance), *controls* (e.g. building land prices),*co-ordination* (SME bulk buying etc.), *taxation* (particular products) and *community/state investment* in supply (eg. housing) and efficiencies (i.e. logistics, government services)

What is to be done? 2
What else might be needed?

- Overall, "*long-standing … (structural) difficult issues, for which there are no easy solutions … may reflect resistance to change among entrenched interests and will require concerted efforts … and high-level political buy-in to drive reforms forward*" (NCPC 2020).
- Also, there are hard choices as desirable policies such as carbon tax/pricing, higher living wages, sugar tax, minimum alcohol pricing etc. may increase overall GDP and AIC/CPI price levels – implies other areas must reduce faster if adopted
- **There will always be residual higher relative price levels resulting from island location and small population size**
- Also, global factors outside our control (e.g. exchange rates, oil prices) will raise absolute levels.
- **Need for much sharper system focus on greater and wider greater real productivity growth throughout all sectors and company sizes**

- QUESTIONS?