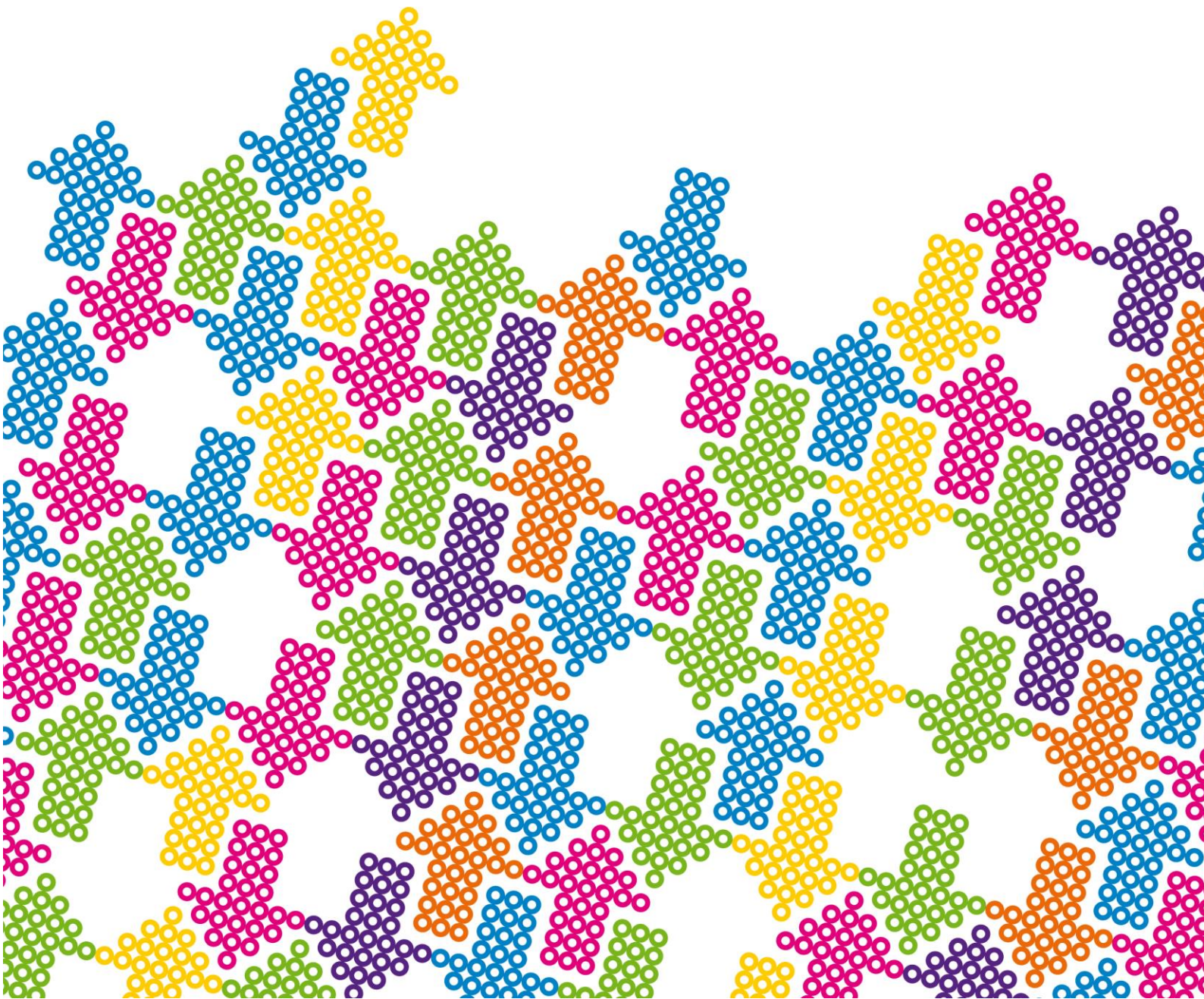




Costs of Doing Business in Ireland 2018

June 2018



Introduction to the National Competitiveness Council

The National Competitiveness Council (NCC) reports to the Taoiseach and the Government, through the Minister for Business, Enterprise and Innovation on key competitiveness issues facing the Irish economy, and offers recommendations on policy actions required to enhance Ireland's competitive position. In March 2018, the Government mandated the NCC as Ireland's National Productivity Board responsible for analysing developments and policies in the field of productivity and competitiveness. Each year the NCC publishes two annual reports:

- Ireland's Competitiveness Scorecard provides a comprehensive statistical assessment of Ireland's competitiveness performance; and
- Ireland's Competitiveness Challenge uses this information along with the latest research to outline the main challenges to Ireland's competitiveness and the policy responses required to meet them.

As part of its work, the NCC also:

- Publishes the Costs of Doing Business where key business costs in Ireland are benchmarked against costs in competitor countries; and
- Provides an annual Submission to the Action Plan for Jobs and other papers on specific competitiveness issues.

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Kevin Callinan	Deputy General Secretary, IMPACT Trade Union
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Executive Summary

The Cost of Doing Business is a key element of Ireland's relative international competitiveness. While Ireland experiences strong economic growth, the openness of the economy means the enterprise sector is particularly vulnerable to **negative price and cost shocks** that are outside the influence of domestic policymakers. These include unfavourable exchange rate movements, higher international energy prices, imported inflation from our major trading partners, or an interest rate shock. Ireland is a relatively competitive location in which to do business. However, several downside risks have already emerged that could undermine national competitiveness, growth and living standards. Brexit underlines the importance of keeping costs down to mitigate the effects of continuing uncertainty and unfavourable exchange rate movements. This is a key element to facilitating firms to stay competitive in international trade. Increasing business costs reduce the competitiveness of enterprises based in Ireland and our attractiveness as a location for mobile investment. It is imperative that Government continues to place competitiveness at the heart of our Brexit response and prioritises policies and actions that are within Ireland's control to enhance cost competitiveness. As the pressure on costs increases, it is critical that domestic policies do not contribute to overheating.

While consumer price inflation is subdued, this is largely due to currency effects and is likely to increase in 2018 and beyond. Ireland remains an expensive location in which to do business with a price profile which could be described as "high cost and rising". Largely driven by services price rises, Irish consumer prices in 2017 are 23.7 per cent above the EU average. Persistently high rates of consumer prices lead to expectations of further price increases, and can create a vicious circle of increasing prices, reducing real incomes, increasing wage demands and reduced international cost competitiveness.

Considering the main cost categories, **labour cost** growth has remained modest in recent years and below the growth experienced in both the UK and the EU28. However, this masks considerable divergence at sector level. As the economy nears full employment, skills shortages and gaps are likely to emerge and it is likely that wages will rise at a faster pace in 2018 and into 2019. Competitiveness will be negatively affected if growth outpaces productivity levels and growth rates in competitor countries. As the labour market tightens further, upward pressures on labour costs can be expected in several sectors as skills shortages have emerged and these, in turn, have some knock-on implications for wage demands. Retaining employees, particularly in SMEs, poses difficulties. Certain skills needs are becoming more pronounced as indicated by increased job vacancy rates in professional, scientific and technical services, financial, insurance and real estate services and ICT. Skill shortages have the potential to create wage inflation and could impact on enterprise competitiveness. Measures to encourage labour force participation levels remain important for alleviating labour cost pressure and increasing the availability of talent.

With the labour market approaching full employment, improving **the quality of life** and the creation of an attractive environment to live and work is particularly important in increasing labour market participation rates, mobility of workers and ensuring Ireland is an attractive location for talent. The delivery of a suite of competitively priced world-class infrastructure (e.g. energy; telecoms; transport – road, public transport, airport, seaports; waste and water) and related housing is critical to support competitiveness in the medium term. In this regard, well planned infrastructure, including sustainable housing, high quality public transport and adequate water infrastructure provides people with the opportunity to live near their work and enjoy quality of life, reduces traffic congestion and increases productivity. The return to economic growth and Ireland's high dependence on car usage has increased pressure on the transport infrastructure capacity, which manifests itself in increased journey times, traffic congestion and increased emissions. These are pinch points for business and workers that not only affect existing firms, but also impact the State's attractiveness as an investment location and as a location providing wellbeing of its citizens.

A well-functioning property market also enhances the competitive performance of our cities and towns, improves quality of life, and attracts overseas talent. The availability of competitively priced **property** solutions is also a key requirement for enterprise. Commercial prices in Ireland compare favourably to comparable cities in the UK and Europe. However, strong rental growth can be observed, particularly in office accommodation. Increasingly, the shortfall and affordability of residential housing affects Ireland's ability to attract and retain talent, and can indirectly impact on enterprise costs and influence the competitiveness of Irish goods and services. High rents affect decisions around labour mobility, entering employment and expansion of operations by enterprises, therefore they are a significant infrastructure impediment, particularly in urban areas. Prices in Ireland remain relatively high and rents push the cost of living out of line with other developed European economies. Despite an increase in construction activity, strong demand means property price inflation is likely to continue. It is well understood that a significant increase in supply is urgently required.

Insufficient access to affordable, full-time childcare in Ireland is a factor in deterring female labour market participation. The availability of financially accessible, high quality childcare would help to address skills shortages and would improve Ireland's overall attractiveness as a location to work and live.

The supply and demand for **credit** has improved significantly since the crisis. However, the **cost of credit** remains relatively high, particularly for SMEs. The determinants of cost are complex, but the concentrated lending market coupled with higher credit risk premiums in Ireland has led to higher interest rates. The impact of an interest rate shock on borrowing costs and the wider economy could be significant. It is important that debt levels continue to be reduced. Increasing competition in the lending market and further diversifying the funding models remain key medium-term challenges.

The absence of data means it is not possible to ascertain Ireland's relative performance across aspects of the enterprise cost base. Items such as local authority commercial rates, water, refuse, banking and legal charges can significantly affect enterprise competitiveness, particularly for small and micro enterprises. A range of **hidden costs**, including costs associated with planning and payment delays, labour law compliance, transaction costs, cost to export and insurance costs, particularly in relation to cost attributable to employers, remain a cost pressure point for business. In the case of water rates and the costs of congestion and inadequate infrastructure, costs can be difficult to measure at a micro level. There are limits to the extent to which policymakers or regulators can, or indeed should, intervene to influence prices in competitive markets. However, it is important that price developments in these areas are kept under review by appropriate bodies. Well targeted State intervention to address deficiencies in infrastructure provision and address market failures remains important. However, it is vital that policy interventions are not pursued in a piecemeal or short-term way. Measures that ensure price transparency are essential. Reforms that enable markets to work more efficiently are the key policy mechanism to realise improvements in cost competitiveness.

The Council emphasises the continued importance of both the public and private sectors proactively managing their cost base and driving efficiency. Improving firm level productivity must assume a more prominent role in driving competitiveness. Despite intense global competition, the trajectory of Ireland's competitiveness performance has in recent years been positive. Growth is robust and has resulted in employment growth across a range of sectors and a more favourable fiscal balance. The exporting sectors of the economy continue to perform strongly and many of Ireland's traditional strengths (such as our openness to trade, highly skilled and adaptable workforce, and stable pro-enterprise administrative and regulatory frameworks) remain.

It is important that the conditions for future competitiveness are put in place. As a small open economy, any deterioration in our cost competitiveness will have a major negative impact upon economic growth, employment, and our standard of living. Addressing the treatable causes of erosion in cost competitiveness must continue to be an urgent economic priority for both enterprise and Government.

Recent Trends in Cost Competitiveness

In terms of business costs, as a small open economy dependent on exports and foreign investment as major drivers of growth, our relative cost competitiveness is a significant determinant of our overall competitiveness, and ultimately of our economic prosperity, employment, and our standard of living. High business costs make Ireland less attractive for mobile inward investment and reduce the competitiveness of Irish enterprises' goods and services trading in both domestic and international markets. More broadly, a more competitive cost base can help to create a virtuous circle between price inflation, wage expectations and cost competitiveness.

Labour Costs

Based on the summary cost profiles considered in Chapter 2, the **cost of labour** may be considered as the most significant driver of business costs for most firms – particularly for services firms. Since labour costs are generally the most significant cost component for most firms, the relationship between labour costs and consumer prices is a major determinant of Ireland's overall cost competitiveness. Overall, despite robust growth in employment, labour cost growth has remained modest in recent years and below the growth experienced in both the UK and the EU. However, this masks considerable divergence at **sectoral level**, and most likely firm level. Data for 2017 shows **labour cost growth** in Ireland was 1.9 per cent compared to 1.9 per cent in the Euro area and 2.6 per cent in the UK. In Q4 2017, the **Professional**, scientific and technical sector recorded the largest annual percentage increase in average hourly total labour costs, rising by 4.9 per cent from €30.17 to €31.65 per hour. The **Construction** sector recorded the largest annual percentage decrease in average hourly total labour costs, decreasing by 1.3 per cent from €22.99 to €22.68.

In terms of the **size of business**, in the year to Q1 2018 the average hourly total labour costs for firms with less than 50 employees increased by 2.4 per cent (from €21.19 to €21.70), for firms with 50 to 250 employees by 4 per cent (from €24.02 to €24.99) and for firms employing more than 250 employees by 2 per cent (€30.43 to €31.04). Over the five years to Q1 2018, average hourly total labour costs increased by 4.7 per cent, from 25.70 per hour to €26.92. The percentage changes across the sectors ranged from +12.8% in the Financial, insurance and real estate activities sector (from €38.53 to €43.45) to -4.1% in the Arts, entertainment, recreation and other service activities sector (from €20.87 to €20.01).

Figure 19 shows considerable divergence in sectoral labour costs across the EU. Within the business economy (excl agriculture, public admin), labour costs per hour in Ireland were highest in industry €32.9 compared to €33.4 in the euro area. Labour costs in Irish services were €28.9 compared to €29.3 and €25.2 in the Euro area and UK. Costs per hour were €27.3 construction (Euro area €26.7 and UK €25.4).

Between 2016 and 2017, hourly labour costs in the total Irish economy expressed in € currency rose by 1.9% both in Ireland and the Euro area. When comparing labour cost estimates over time, levels expressed in national currency should be used to eliminate the influence of exchange rate movements. Within the Euro area, the largest increases were recorded in the Baltic Member States. The only decrease was observed in Finland (-1.5%). Expressed in national currency, hourly labour costs increased in the UK (+2.6%) (-4.1% in Euro). Expressing labour cost growth in an index form, Figure 16 shows that Irish labour costs have been increasing since 2014 but at a rate less than UK and Euro area labour costs.

Taxes

From an enterprise perspective, it is important that the taxation system is internationally competitive, stable, supports and rewards employment, entrepreneurship and investment, and stimulates labour market participation. The Irish income tax system is the most progressive in the EU. Figures 34 and 36 show that for a married couple with 2 children earning the average wage and above in 2016, both the average income tax and the marginal rate of income tax remain competitive, below the OECD average and the UK rate. Married

couples in Ireland also fare better than single people in terms of marginal rate of income tax. OECD data shows that for a single person earning 100 per cent of the average wage in 2016, total average income tax in Ireland was 9 per cent lower than the OECD average and 3 per cent below the UK average (Figure 31). However, this cohort faced a 12 per cent higher marginal income tax in Ireland (54.4%) than in the UK and almost 10 per cent higher rate than the OECD average (Figure 32). Marginal rates were competitive at lower wage levels but high for employees earning the average wage and above.

Ireland is currently very reliant on taxes on income as a source of revenue and significantly less revenue is generated through social security contributions in Ireland as compared with other OECD members. Figure 13 indicates that when expressed as a percentage of total labour costs, Irish employers' social contributions and other labour costs paid by the employer represented 13.8 per cent, significantly lower than the 25.8 per cent in the Euro area and below the UK figure of 16.5 per cent in 2016.

As the country is moving towards full employment, it is also important that Ireland's income tax regime contributes to attracting and retaining talent, including those coming from abroad. CSO data indicates that entry to the higher rate of income tax in Ireland occurs at a relatively low level - the standard rate band threshold for a single individual without qualifying children of €33,800 (€34,550 for 2018) was below the national average wage of €36,916 in 2016.

As the economy continues to grow, it can be expected that upward pressure on labour costs will intensify as the labour market tightens. To maintain cost competitiveness, it is important that our labour cost base is in line with productivity developments at sectoral level and not significantly out of line with our competitors across the OECD and the UK.

In this challenging environment, long term certainty, transparency and stability regarding our 12.5 per cent corporate tax regime also remains critical in informing enterprise investment plans.

Earnings

Average hourly earnings increased by 3.5 per cent between Q1 2013 and Q1 2018 while irregular earnings increased by 14 per cent (Figure 26). From a sectoral perspective, the highest increases occurred in the Real Estate (25.8%), Construction (9.7%) and Administrative sectors (8.9%). The highest earnings (€35.22 per hour) were recorded in Education; the lowest earnings were in the accommodation & food sector (€12.76 per hour).

In absolute terms Ireland has the second highest **national minimum wage** in the EU at €1,563.25 per month, Luxembourg records the highest rate (€1,998.59) while the UK has the seventh highest (€1,396.90). The strength of the Irish minimum wage is reduced somewhat when expressed in purchasing power standards (Ireland ranks 6th), though it remains relatively high (Figure 29). As a percentage of the average wage the minimum wage in Ireland is 42 per cent compared to 44 per cent in the UK and 46 per cent in Luxembourg. The gap in the national minimum wage between the UK and Ireland is an important consideration in the context of Brexit. The wholesale and retail, hotels and restaurants, other services, and traditional manufacturing sectors are likely to be the sectors most impacted by increases in the national minimum wage. Increases in the past number of years do not appear to have had an adverse effect on competitiveness or employment.

As the labour market is approaching full capacity **job vacancy levels** are increasing and certain skills needs are becoming more pronounced. CSO data shows that job vacancy rates have increased with vacancy rates in Q1 2018 highest in professional, scientific and technical services, financial, insurance and real estate and ICT. Skills shortages have the potential to create wage inflation and could impact on business competitiveness.

Productivity performance will assume an even more prominent role in driving Irish international competitiveness. Indeed, in the longer term, productivity growth is the preferred mechanism to improve competitiveness as it can support cost competitiveness in tandem with high and increasing income levels.

Relative to most OECD countries, Ireland's productivity performance is strong in terms of growth and levels of GDP per hour worked. However, Ireland's overall productivity performance measured relative to GDP is positively skewed by certain sectors and high performing firms. A narrow base of sectors (ICT and Manufacturing account for most productivity growth) is leaving Ireland vulnerable to shocks. Increasing productivity particularly in the indigenous economy remains a significant issue.

Property Costs

After labour costs, **facility or property costs** represent the next significant cost factor in the profile of business costs. For services sub-sectors, **office lease** costs represent 4 to 15 per cent of total location-sensitive costs. For manufacturing, sub-sectors, **industrial lease** costs range from 2 to 5 per cent of location-sensitive costs.

The availability and affordability of commercial property solutions is a key requirement for the operation and expansion of enterprises based in Ireland and winning and maintaining mobile investment. During the downturn in the commercial property market, there was limited office construction activity in the Dublin market between 2011 and 2013. The last number of years has witnessed a sustained recovery in the Irish commercial property market. **Commercial rents growth** has been driven by an increase in demand, particularly in major cities, reflecting the improving economy. Recent quarterly increases in capital values for a range of commercial property classes suggest continued growth and stabilisation in the Irish commercial property market. In Figure 38 the Jones Lang LaSalle Property Index shows sustained growth in commercial capital and rental values. In terms of **capital values**, overall capital value growth was recorded at 5.2 per cent in Q4 2017, this comprised of annual increases of 8.4 per cent, 1.3 per cent and 3.2 per cent in Office, Retail and Industrial values respectively. Jones Lang LaSalle report that while the capital value index has increased it remains 38 per cent below 2007 peak value. The CBRE Irish Market Outlook 2018 reports continued growth in Dublin Office Take-Up and falling vacancy rates. In the industrial sector CBRE reports rental values increased by more than 6 per cent year-on-year in 2017 and this has led to an increase in planning applications for new industrial and logistics buildings.

The take-up of **office space** remained strong in 2017, reflecting the growth of existing businesses. Office rental prices in Ireland in 2017 compare favourably to cities in the UK. Figure 41 shows that in 2017, Cushman and Wakefield report the cost per square meter per year in Dublin City (€619) and Suburbs (€324), Limerick and Cork (€325) and Galway at €295. UK costs range from €1333 in the West End, €406 in Manchester, and €303 in Cardiff. Year-on-year increases in Irish locations ranged from 67 per cent in Limerick to 9 per cent in Dublin Suburbs. Any Brexit-related firm relocations would add to demand in the Dublin market. A large supply of new office space in Dublin is due to be in place by 2020. The Central Bank/CBRE report the equivalent of a further five years of average Dublin office take-up is due to be completed by 2020. The addition of this new stock should help reduce rapid upward pressure on rents. In Q4 2017 prime high street **retail rents** had increased on an annual basis across Ireland. The most expensive location was Dublin (€3,794, +4% year on year). Costs in Galway (1,349, +9%), Cork (€1,265, 0%) and Limerick (€562, +5%) compare relatively favourably to the UK.

The World Bank estimates it takes 149.5 days to build a warehouse in Dublin compared with 86 days in London. Cost is recorded as a percentage of warehouse value (the value is €2 million in Dublin and £1.4 million in London) and is reported as 4.6 per cent in Ireland compared to 1 per cent in the UK (Figure 44).

The availability of information and data is a powerful tool in encouraging efficient markets. In this regard, the Council welcomes the announcement that NAMA and the Central Bank are to co-fund the development of a commercial property statistical system to provide a comprehensive database of commercial sales and lease transactions. It will incorporate the existing commercial lease register, currently produced by the Property Services Regulatory Authority. Improving the accessibility of the Valuation Office's comprehensive data on

commercial properties would also assist in establishing market size, vacancy rates and to compare costs across locations.

Transport Costs

Brexit also underscores the importance of Ireland's logistics and transport sectors' cost competitiveness. The international **price of oil** increased by 25 per cent between 2016 and 2017. The decision of the world's major oil producers to extend production curbs until the end of 2018 along with the geopolitical uncertainty, were major factors in the three-year high rise of the oil prices recorded at the end of 2017 (almost \$70 a barrel). Improving global growth, particularly in emerging economies and the Eurozone, is also expected to continue pushing up oil prices by increasing demand for energy, but the increase is expected to be limited as non-OPEC producers have started increasing output. Prices for Brent oil are projected to increase by an average of 24.6 per cent to 68.3 USD per barrel in 2018 compared to 2017.

Figure 47 shows that Irish **petrol and diesel prices** increased by 6.3 per cent and 7.8 per cent respectively in 2017 compared to 2016. In January 2018, the cost of 1 litre of diesel in Ireland (€1.29) was 4 per cent above the EU average (€1.24) in the corresponding month. The CSO's experimental Services Producer Price Index (Figure 49) indicates that transport service prices have been relatively flat in recent years, excluding prices in Air transport¹, which have been more volatile, and prices in Sea and coastal transport, which have been on a downward trajectory since 2016.

The UK is the destination for 55 per cent of all **maritime goods exports** and 86.1 per cent of roll on/roll-off freight traffic. The liquid bulk received from the UK accounts for 39.5 per cent of the total tonnage of goods received in 2016. Of the total amount of goods received at Irish ports in 2016, a third arrived from the UK. The implications of extra administrative costs and tariffs, standards and regulations and customs on the transport of goods between Ireland and the UK may negatively impact on indigenous exporters' supply chains, and their capacity to competitively price products, not only in the UK but domestically and in other international markets.

Transport usage is strongly related to economic activity. Economic growth increases employment, disposable income and consumer spend, all of which lead to more travel. Economic decline produces the opposite effect. This was clearly demonstrated over the past decade. Ireland's high dependence on car usage has clear impacts on infrastructure capacity and competitiveness in terms of the negative effects of increased journey times and congestion which affect productivity and costs and diminishes the attractiveness of a location to set up business, live and work.

In the State, overall, 61.4 per cent of working commuters drove to work in 2016. Just under half of Dublin city and suburbs workers commute by car, which is the lowest across the State. The highest car use was in rural areas, where 76 per cent of commuters used the car to get to work. The average commute for those at work rose in 2016 to 28.2 minutes, having fallen between 2006 (27.5mins) and 2011 (26.6mins). Commuting times rose in every county, but there was still significant variation in times travelled depending on where people lived. Nearly 200,000 commuters (199,922), representing almost 11 per cent of all commuters, spent an hour or more commuting to work in 2016, with an average travel time of 74 minutes. This has increased by almost 50,000 persons (31%) on the 2011 figure of 152,000. Men account for 61 per cent of those commuting for over an hour. Figure 53 indicates that nearly 53,000 workers commuted 90 minutes or more. Census data shows Dublin city and suburbs recorded a 10.9 per cent increase in the number of workers commuting from outside the urban area, rising to 130,447 from 117,764 in 2011. Twenty-five per cent of Dublin workers commute from outside the city and suburbs. The number of workers commuting in to Cork city and suburbs increased by 13.5 per cent between 2011 and 2016 and Limerick city and suburbs saw a rise of 13.1 per cent. Over 40 per cent of

¹ The Air Transport index is constructed using data collected by the Consumer Price Section.

workers in Cork commuted from outside the urban area. In Limerick and Galway city and suburbs half the workforce commute from outside the urban area. The most recent data shows that the greatest year-on-year traffic growth was recorded on motorways in 2016, when traffic increased by 5.7 per cent for all vehicles and 7.3 per cent for HGVs.

International **congestion** statistics based on TomTom's database (Figure 54) show on average, journey times in busy periods take 43 per cent, 34 per cent and 27 per cent more time in Dublin, Cork and Limerick respectively. Dublin is one of the most traffic congested cities in Europe with morning and evening congestion times 80% and 86% higher compared to a free flow. Analysis of congestion in the Greater Dublin area undertaken by the Department of Transport² estimates the cost of time lost due to aggravated congestion is €358 million in the base year (2012). Most of the costs of aggravated congestion are incurred between the M50 and the canals, on key arterial routes. The cost of congestion is forecasted to rise to €2.08 billion per year in 2033. The annual cost is forecasted to grow moderately up until at least 2025, but will begin to increase sharply after that.

Utility Costs

A reliable and competitively priced supply of energy is vital for business and its ability to compete successfully in international markets. **Utility and energy costs** are an essential input to the entire enterprise base across the State, both the internationally trading and domestic sectors of the economy. Utility costs can represent 1 to 7 per cent of location-sensitive costs³. Despite increasing investment in renewable energy, Ireland remains heavily dependent on imported energy products, which represent 82 per cent of the gross inland consumption in Ireland. The share of crude oil and petroleum products represent 75 per cent of the total import of energy products. The high dependence on imported fossil fuels makes Ireland's energy prices vulnerable to substantial oil price fluctuations, therefore it is essential that efforts continue to focus on cost determinants within our control such as regulatory costs.

The UK accounts for 76 per cent of our oil import and 40 per cent of the gas import. Given Ireland's dependence on energy imports from the UK, Brexit could potentially have a significant impact on Ireland's energy market. Figure 56 indicates that the average electricity prices (in purchasing power standard) for non-household consumers in Ireland have declined over 2015-2017; in the first half of 2017 they were marginally lower than the Euro area but higher than the UK prices. The proportion of non-recoverable taxes and levies in the overall electricity price for the same period is lower in Ireland (10.2%) compared to the Euro area (28.2%) and the UK (22.2 %). The average prices of natural gas expressed in purchasing power standard for business consumers are slightly lower than the Euro area average but higher than the UK prices (Figure 59). The proportion of non-recoverable taxes and levies in the overall gas price is also lower than the Euro area average but higher than the UK.

Generally, **water and waste water** costs for enterprise in Ireland compare favourably to those in competitor markets despite there being a significant variation between water and waste water tariffs across Local Authorities.

Lack of comprehensive data on waste management costs makes it difficult to benchmark Ireland's performance versus competitor countries. The Confederation of European Waste-to-Energy Plants (CEWEP)⁴ Country Reports indicate that in 2014 the average net fee for landfilling in Ireland was €94 per tonne, marginally higher than Sweden's fee of €93.4 per tonne. To divert waste from landfills, most EU States apply a form of landfill tax and/or a landfill ban. According to CEWEP in 2017 the tax varied from €3 per tonne

² Department of Transport, Tourism and Sport/IGESS, The Costs of Congestion, An Analysis of the Greater Dublin Area, 2017

³ The CSO's Census of Industrial Production shows that energy costs for Irish enterprise, including SME's, represents 1.57% of total costs.

⁴ <http://www.cewep.eu/2016/07/23/country-reports-2016/>

(Lithuania) to more than €100 per tonne (Belgium). Ireland's landfill tax was €75 per tonne, below the UK standard landfill tax of £86.1 per tonne (€97.8 per tonne).

Ireland is relatively cost competitive for **telecoms**, especially for business mobile broadband. However, it is more expensive in cost for fixed and mobile broadband than the UK. Concerns persist around the issues of quality (speed) and the regional availability of high speed services (Figures 63-66).

Affordability of Credit

Access to competitively priced sources of **finance** is essential to facilitate enterprises establish, survive, improve productivity, and ultimately scale. Limited or costly credit damages the environment for entrepreneurship, scaling and investment, and amounts to a competitive disadvantage for Irish enterprises. Irish SMEs are still heavily reliant on bank loans with limited uptake of non-bank finance sources.

The concentrated lending market and higher credit risk premiums are important factors when determining the cost of credit in Ireland. The Central Bank reports⁵ that the market share of the three main lenders in new lending flows in the first half of 2017 was 82 per cent. In the second half of 2017, the SME lending market became more concentrated both in terms of outstanding credit and new lending flows, with fewer banks holding an ever-larger market share. Increasing competition and choice in the lending market would contribute towards reducing the cost of credit, therefore further diversifying the lending market in Ireland and in turn increasing levels of private equity, crowdfunding and venture capital funding remains important.

The ECB Survey on Access to Finance of Enterprises (SAFE) indicates that credit demand was low with the share of SMEs applying for bank loans at 21 per cent in September 2017. Working capital was the primary purpose of internal and external financing. The annual European Investment Bank survey⁶ conducted in 2017 suggests that while bank loans remain the main source of external finance for investment activities (41%), their share fell compared to 2016 (57%); the share of bank loans is also below the EU average of 56 per cent. Leasing has become more prominent as a form of external finance and in 2017 it accounted for 36 percent of the overall external finance. All other types of finance, including equity, bonds and grants represent less than 10 per cent of the external finance used.

The **cost of credit** remains high compared to the Euro area average. Figure 67 shows that Interest rates on new business loans in Ireland have been consistently higher and more volatile than equivalent Euro area rates which puts Irish businesses at a competitive disadvantage. The divergence is particularly noticeable for loans of up to €0.25 million, where the interest rate on new business loans in Ireland was more than double the Euro area average rate throughout 2017. As per Figure 70, the interest rates on gross new lending for SMEs declined between Q1 2015 and Q3 2017 in most economic sectors with the exception of ICT. The interest rates to SMEs engaging in Construction and Transport & Storage were consistently higher than the rates for the remaining sectors in the same period.

Figure 68 indicates that as of late 2016, interest rates on outstanding amounts were significantly higher in Ireland compared to the Euro area, and the interest rate gap between the two jurisdictions is widening. The interest rates on outstanding amounts to SMEs were consistently lower than the interest rates on gross new lending in the period Q1 2015-Q3 2017, and the difference is particularly prominent in the Construction Sector. The interest rates on outstanding amounts to SMEs engaging in Transport & Storage were higher than the rates for the remaining sectors in the same period (Figure 69).

Figure 66 shows that Irish businesses also face the second highest interest rate charges on revolving loans and overdrafts (4.9%) in the Euro area in 2017; the Euro area average interest rate is 2.5 per cent. The SAFE survey

⁵ Central Bank of Ireland, SME Market Report, H2 2017

⁶ EIB Investment Survey, Ireland Overview, 2017

indicates that although interest rates on credit lines for SMEs in Ireland have declined over the four-year period to H1 2017, at 4.7 per cent, they remain above the Euro area weighted average of 3.2 per cent.

Services Costs

In Q4 2017, the CSO's Experimental Services Producer Price Index stood at 113.6. Following a period of decline during the recession, an upward trend has been evident since 2011. Services prices in Quarter 4 2017, as measured by the SPPI, were on average 4.2% higher in the year when compared with the same period last year. The most notable changes in the year were: Postal and Courier (+9.1%), Air Transport (+7.2%), Computer Programming and Consultancy (+6%) and Sea and Coastal Transport (-8.5%).

Over the five years to 2017 Ireland has maintained its competitive position in terms of the cost to register a business as a percentage of gross national income (Figure 76). In 2017, Ireland ranked first in the Euro area and joint-second in the EU. Regarding **legal costs**, World Bank analysis suggests that enforcing a commercial contract in Ireland is estimated to cost more and take relatively more time than the OECD average. In the World Bank's Ease of Doing Business Report 2018, Ireland is ranked 98 out of 190 countries and rates poorly relative to the UK (31st). The World Bank estimates that the total cost of contract enforcement in Ireland was 26.9 per cent of a claim, compared with 21.5 per cent in OECD high income countries. It also takes longer to enforce a contract in Ireland (650 days) than in the OECD (551 days). This category is based on the ease or difficulty of enforcing a case study commercial contract. This is determined by following the evolution of a payment dispute and tracking the time, cost, and number of procedures involved from the moment a plaintiff files the lawsuit until actual payment. The World Bank reports the time taken for filing, service, trial, judgement and enforcement (including time for appeal) is 650 days in Ireland compared to 437 in the UK.

Pricing in the **motor insurance** sector for private and commercial vehicles has been subject to a lot of volatility in recent years, from a point where some premiums appeared to be priced at an unsustainably low level. Insurance is a significant element within the Consumer Price Index basket, with a weighting in 2017 of 6 per cent. While the rate of headline consumer price inflation has been relatively stable in recent years, there has been a notable increase in insurance price inflation, in the period from mid-2015 to mid-2017. Motor insurance has moderated in recent months; in the period 2014-2016, prices as measured by the CPI increased by approximately 40 per cent (Figure 77). It has not been possible to provide statistics on commercial insurance prices in the Irish and broader European markets due to the lack of publicly available information in this area. Commercial insurance prices tend to be agreed on a company-by-company basis with insurers, reflect differences in the types of companies insured and the coverage purchased (i.e. the range of commercial insurance products is wide, and the nature and type of coverage provided in commercial insurance policies is non-homogeneous), and the final price charged is generally not publicised. International comparisons can also prove problematic because of differences in law, in fiscal regime, in policyholder behaviour, and in the expectations of policyholders from their insurance provider.

Consumer prices for insurance as measured by the Consumer Price Index are now between 20-30 per cent higher than levels in 2014. CSO data for December 2017 indicates that private motor insurance premiums have reduced by 16 per cent from the peak in July 2016. On a monthly basis, the price of motor insurance has been falling since April 2017. While the CSO statistics indicate more stability on an overall basis, these figures represent a broad average and therefore there are many people who may still be seeing increases. However, it is anticipated that this greater stability in pricing will be maintained and that premiums should continue to fall from the very high level of last year.

Revenue collected by the local authorities through commercial rates in 2017 stood at €1,475m. In most counties, the commercial rates levied as a proportion of the total receipts increased in the five-year period to 2017.

Service and Broader Environment Price Competitiveness

The **UK's decision to leave the EU** has imminent and far reaching consequences for Ireland's economy and brings into sharp focus the need for Ireland to maintain and improve our cost competitiveness. The openness of the Irish economy means the competitiveness of the enterprise sector is particularly vulnerable to negative price and cost shocks which are outside the influence of domestic policymakers.

The sustained appreciation of the **euro-sterling exchange rate** in 2016/2017 poses significant challenges for Irish export competitiveness to the UK. The appreciation of the euro vis-à-vis Sterling provides a timely warning about just how vulnerable Irish firms are to external shocks and further volatility, and depreciation of Sterling represents a major threat to Irish export competitiveness. Figure 8 shows that the **€/£** exchange rate average was 0.88 in 2017 compared with 0.82 in 2016 and 0.73 in 2015. Sterling was 0.91 in August 2017. The **€/€** spot rate averaged 1.13 in 2017, up from 1.11 in 2015 and 2016. Further volatility in exchange rates could affect the Irish economy through several channels. It may generate expenditure switching effects between foreign and domestic goods and services both at home and in trade partners, thus affecting net exports, to the degree that nominal exchange rate changes are absorbed by importers/exporters rather than passed on through increased prices. Exchange rate movements may also affect firms' profit margins, with possible second-round effects on investment.

Harmonised Competitiveness Index data for December 2017 show that the nominal HCI increased by 5 per cent on an annual basis. In real terms, the HCI increased by 3.5 per cent when deflated with consumer prices (Figure 10). The movement indicates a decline in this measure of competitiveness linked to the exchange rate movements. Features of the Irish economy can be affected by movements in HCIs and care should be taken in interpreting movements in the indices as a measure of relative international competitiveness. The nominal HCI is affected by exchange rate developments and relative to other Euro area countries a high share of Irish exports is destined for non-Euro area countries (UK and US). Real HCIs consider price movements relative to trading partners. Using consumer prices as a deflator means the impact of intermediate goods and capital goods are not directly considered and the influence of indirect taxes and non-traded goods and services on the CPI limits its usefulness as a good indicator of international competitiveness.

Consumer price inflation, Ireland remains an expensive location in which to live and do business with a price profile which can be described as "high cost, and rising". As per Figure 85, Irish consumer prices in 2017 were over 23 per cent above the European Union average and increasing at an annual rate of 0.2 per cent. The Consumer Price Index annual average rate of inflation in 2017 was 0.4 per cent. Figure 84 indicates that the **price of Goods** decreased on average by 2.1 per cent compared to a fall of 3 per cent in 2016. The **price of Services** (which includes mortgage interest) rose by 2.1 per cent. Prices on average, as measured by the HICP, rose by 0.2 per cent in 2017 compared to a fall of 0.2 per cent in 2016. Over the period 2013 to 2017, the largest increases were recorded for Education (+15%), Miscellaneous Goods & Services (+9.6%) and Restaurants & Hotels (+8.4%). The largest decreases were for Clothing & Footwear (-13.1%), Furnishings, Household Equipment & Routine Household Maintenance (-12.1%) and Food & Non-Alcoholic Beverages (-7.6%). During 2017, **mortgage interest repayments** fell on average by 1.6 per cent and by 6.4 per cent in 2016. In terms of prices directly affected by the State, mainly administered prices cover the prices of goods and services on which the government including any national regulator has a significant influence. There has been a downward trend in HICP and administered price inflation over the period 2011-2016. In 2016, mainly administered prices in Ireland decreased by 1.9 per cent, a rate lower than the UK and Euro area rates.

The UK's new relationship with the EU post-Brexit will have a significant bearing on consumer price inflation over the next few years through several channels. **UK inflation** recently soared to its highest level in two and a half years and in 2017 stood at 2.7 per cent. Much of the rise to date reflects the elimination of past drags from food, energy and import prices, together with renewed rises in oil prices. The current overshoot of inflation

above the 2% target is almost entirely due to the effects of higher import prices following sterling's depreciation, the contribution from which is expected to dissipate in coming years. The UK inflation rate is forecast at 2.3% cent in Q1 2019. **Irish inflation rates** are forecast to gradually pick-up to 0.7% in 2018 and 0.9% in 2019. The services sector is likely to remain the main source of upward price pressure in Ireland.

The **services sector** is likely to remain the main source of upward price pressure in Ireland, with the price pass through impact of exchange rates and an expected increase in energy prices in 2018.

Focus on residential property

In addition to the considerable social policy implications associated with the availability and affordability of housing, the shortage and cost of residential property is damaging competitiveness. It impacts upon our attractiveness for mobile investment and talent. High rents affect decisions around labour mobility and entering employment. In addition to being an important element of Ireland's cost base, housing impacts on productivity. Despite an increase in construction activity and planning permissions residential property supply remains constrained. Continued strong demand means property price inflation is likely to continue in the short term without additional supply becoming available. The link between residential prices, rents, and wage expectations means that developments in the residential property sector also have a direct impact on Ireland's international competitiveness. Continued strong demand means property price inflation is likely to continue in the short to medium term. Residential Tenancies Board data for 2017 indicates that private sector rents continued to trend upwards and are above pre-crisis levels. Rental growth has been strong since 2012 and accelerated between 2014 and 2017. On a year-on-year basis, rents for houses increased by 6.5% in 2017 Q4. Apartment rents increased by 5.3% on a similar basis.

House price growth in Ireland remains high. Year-on-year house price growth reached 12.8 per cent in September 2017, up from 8 per cent a year earlier. In terms of residential sales, overall, the national index is 23.7 per cent lower than its highest level in 2007. Dublin residential property prices are 24.7 per cent lower than their February 2007 peak, while residential property prices in the Rest of Ireland are 29.6 per cent lower than their May 2007 peak. 'Rebuilding Ireland' Plan presents a wide-ranging set of commitments to address housing supply. While many of these will take time, the Government is implementing and driving change. The CSO reports that in 2017, planning permissions were granted for 20,776 dwelling units, compared with 16,375 units in the year 2016, an increase of 27 per cent. The problems in the Irish housing market, while not unique to Ireland are severe and will take time to resolve. A continued acceleration of supply by the private and social sectors is required.

Focus on childcare

The Council has previously noted childcare-related costs and benefits (as a percentage of average wage - this data takes account of childcare fees, child benefit and relevant tax reductions). For couples, earning 167 per cent of the average wage, Ireland is the second most expensive in the OECD. For lone parents (67% of the average wage) Ireland is the most expensive OECD location. New CSO QHNS Childcare statistics which relate to Q3 2016 show a fall in the number of children using parental childcare between the years 2007 and 2016. The decrease is larger among primary school children (from 81% to 74%) than among pre-school children (from 64% to 62%). The average household weekly expenditure on paid non-parental childcare is €155.60. This is an increase from 2007, when the corresponding figure was €123.20. The average weekly cost per child is highest in Dublin, at €150.00 per child per week. It is lowest in the South-East at €83.00 per child per week (Figure 103).

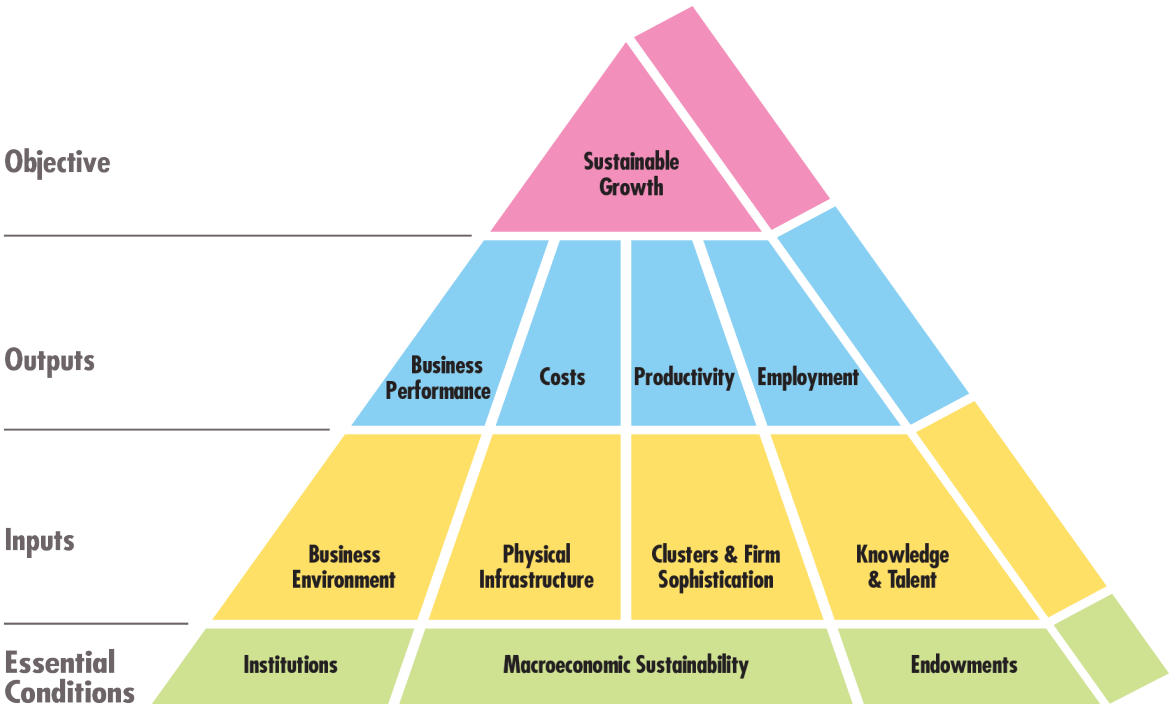
Chapter 1 – Introduction and Methodology

Introduction

Competitiveness is a multidimensional concept, encompassing many different drivers. Competitiveness is not an end, but a means of achieving sustainable improvements in living standards and quality of life. The Cost of Doing Business is just one of the elements which determine a country’s ability to compete in international markets.

The NCC’s Competitiveness Framework

The Council uses a ‘competitiveness pyramid’ to illustrate the various factors (essential conditions, policy inputs and outputs), which combine to determine overall competitiveness and sustainable growth.



- At the top of the pyramid is **sustainable growth** in living standards – the fruits of competitiveness success.
- Below this are the key policy outputs for achieving competitiveness, including **business performance** (such as trade and investment), **costs**, **productivity**, and **employment**. These can be seen as the metrics of current competitiveness.
- Below this in the third tier are the policy inputs covering three pillars of future competitiveness, namely the **business environment** (taxation, regulation, and finance), **physical infrastructure**, **clusters and firm sophistication**, and **knowledge and talent**.
- Finally, at the base of the pyramid are the essential conditions for competitiveness, these foundations are based on institutions, macroeconomic sustainability, and endowments.

This report attempts to focus on the costs that are largely domestically determined such as labour, property, transport, utility, credit and financial, and business services and which can be benchmarked internationally. It

considers both price levels, and changes in those levels (i.e. price inflation) on an annual basis and over a longer time, for example, 5-10 years. It is structured as follows:

- Chapter 2 provided an overview of why costs matter for enterprise, sets out cost profiles for a range of firm types which identify the most important cost categories, and explains the high level economic factors that determine costs;
- Chapter 3 summarises the key cost trends for enterprise in Ireland;
- Chapters 4 to 8 examine the main cost categories in greater detail. The primary costs analysed in these chapters relate to labour, property, transport, utilities, and credit and financial costs;
- Chapter 9 examines data on business services and other input costs – a cost category not captured in the profiles referred to above but still an important input for the vast majority of enterprises; and
- Chapter 10 considers the broader consumer cost environment.
- Finally, acknowledging the interlinked nature of all sectors and participants of the economy, chapter 10 focuses on childcare and residential property

Methodology

In each chapter, a range of internationally comparable, enterprise-focussed cost indicators are examined for Ireland and key trading partners, particularly the UK. We have endeavoured to collect data from high-quality, internationally respected sources, and where necessary, caveats on data are set out. Costs are typically compared over a five year or annual basis. In some instances, a longer time frame is used, particularly considering changes in the economic cycle pre- and post-recession. Nonetheless, there are limitations to comparative analysis:

- While every effort is made to ensure the timeliness of the data, there is a natural lag in collating comparable official statistics across countries. As much of this data is collected on an annual basis, there may be a time lag in capturing recent changes in cost levels.
- The Council is also constrained in terms of the availability of metrics and their impact on enterprises of different sizes and sectors, and across several important areas such as water, transport and international freight, waste, commercial insurance and Local Authority rates.
- Given the different historical contexts and economic, political and social goals of various countries, and their differing physical geographies and resource endowments, it is not realistic or even desirable for any country to seek to outperform other countries on all cost measures.
- There are no generic strategies to achieve an optimum level of cost competitiveness; as countries face trade-offs and may be at different points in the economic cycle.
- Where possible, Irish cost levels are compared to a relevant peer group average (e.g. the OECD and Euro area average) Given the importance of the UK as a trading partner and the potential implications of Brexit on the economy, the UK's performance is also benchmarked. It is also worth noting that individual cost metrics have strengths and weaknesses (i.e. in terms of definitions used, in how the data is collected etc.). When analysing the individual metrics, it is important, therefore, to consider all the data as the analysis of the individual metrics combine to tell a coherent story about Ireland's current cost competitiveness performance.

Chapter 2 – How Do Costs Impact on Enterprise?

Why Costs Matter

Generating sustainable, broad-based, export-led growth is essential to sustaining economic growth in these challenging times. To achieve such growth, Ireland's international competitiveness must be maintained and enhanced relative to our key competitors.

Competitiveness is a complex concept, encompassing many different drivers. Notwithstanding the evolution of the Irish economy and the growing complexity of the goods and services produced in the country over the past decade, cost competitiveness remains a critical determinant of success. Indeed, in the absence of a currency devaluation policy lever to manage short term competitiveness pressures, a combination of cost competitiveness in key business inputs and enhancements in productivity must provide the foundations for sustaining growth. In the longer term, productivity growth is the preferred mechanism to improve competitiveness as it can support cost competitiveness in tandem with high and increasing income levels.

A high cost environment weakens competitiveness in several ways.

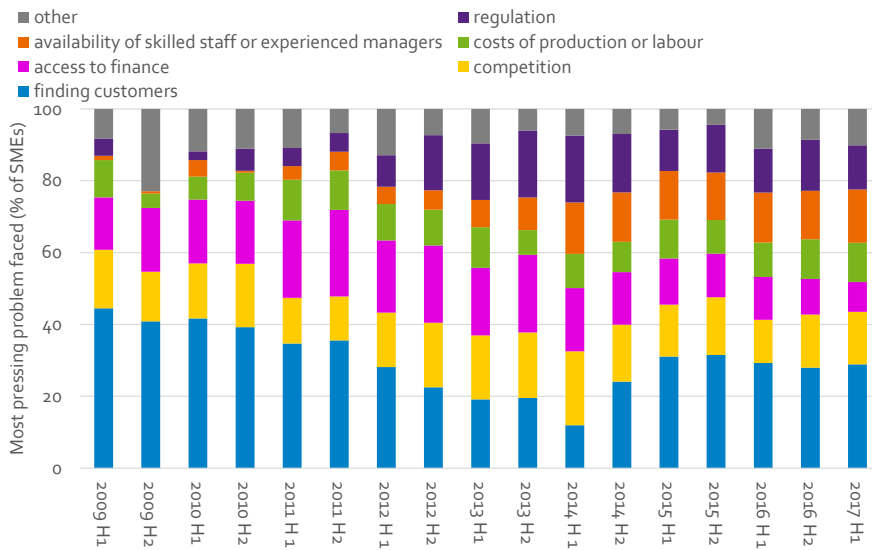
- High costs make Ireland less attractive in terms of mobile investment and business expansion and in the context of Brexit, if unchecked could see companies relocating to other jurisdictions;
- High costs make firms that rely on domestically sourced inputs less competitive when they are selling into foreign markets – this is a concern for large indigenous exporting sectors such as the food and drink sector, construction products and services, timber and engineering; and
- A high cost environment can impact on firms which may not export, but which rely on the domestic market – their customers (consumers and other firms) may source cheaper inputs from abroad due to currency fluctuations, rather than from within Ireland, leading to a loss of market share for Irish-based enterprises.

More broadly, all sectors of the economy are interlinked and interdependent - high and increasing business costs have implications for the costs of living. These in turn have knock on implications for wage demands, and so the cycle continues. It remains vital, therefore, that Ireland protects the gains made to date, and that we continue to act to address unnecessarily high costs (i.e. cost levels not justified by productivity) wherever they arise. In this regard, there is a role for both the public and private sectors alike to proactively manage their cost base and drive efficiency, thus creating a virtuous circle between the costs of living, wage expectations and cost competitiveness

While cost competitiveness matters to all firms Figure 1 shows that in 2017 the most pressing problem reported by Irish SMEs was finding customers (29%). The next most pressing problem was the availability of skills and competition (both 15%). The proportion of SMEs identifying costs as the most pressing problem was 11 per cent.

Figure 2 shows the proportion of SMEs who consider costs the most important problem ranges from 6 per cent in Slovakia to 18 per cent in Italy. The proportion of firms in Ireland in 2017 was 11 per cent compared to 10 per cent in 2016. This is marginally below the EU 28 and UK rate (12%). Irish SMEs identify finding customers (29%) and the availability of skills (15%) as the most pressing problem. The survey shows that across Europe enterprises report rising costs amid improvements in their debt situation and higher investment. The net percentage of EU SMEs indicating an increase in labour costs remained relatively constant (56%). The comparable figure for Ireland and the UK was 55 per cent and 62 per cent respectively.

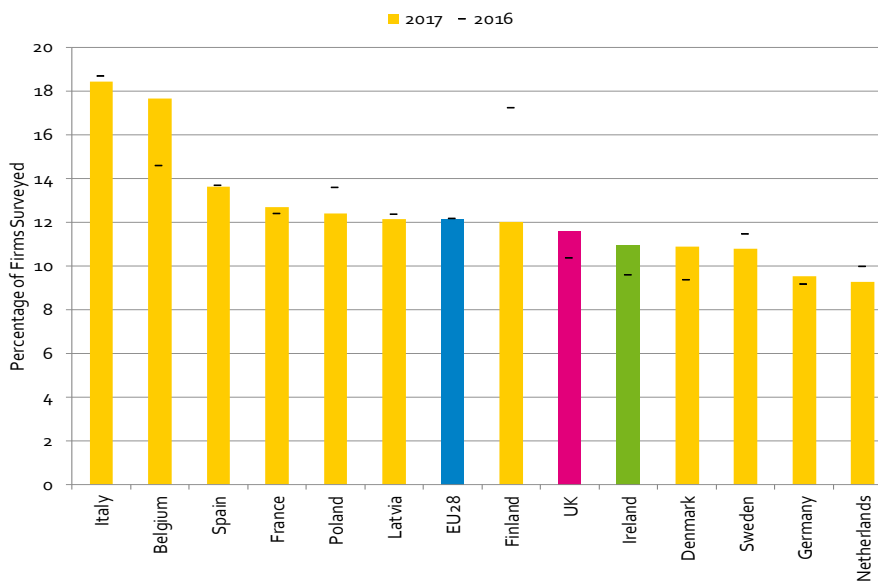
Figure 1: Most Pressing Problem faced by Irish SMEs, SAFE Survey, 2009-2017



In 2017 the most pressing problem for Irish SMEs was finding customers (29%). The next most pressing was the availability of skills and competition (both 15%). The proportion of SMEs identifying costs as the most pressing problem was 11%. Over the period 2009-2017 the median value of firms identifying costs as the most pressing problem was 10%.

Source: ECB

Figure 2: Costs as the Most Pressing Problem faced by European SMEs, SAFE Survey, 2017



The proportion of SMEs who consider costs the most important problem ranges from 6% in Slovakia to 18% in Italy. The proportion of firms in Ireland in 2017 was 11% compared to 10% in 2016. This is marginally below the EU 28 and UK rate (12%).

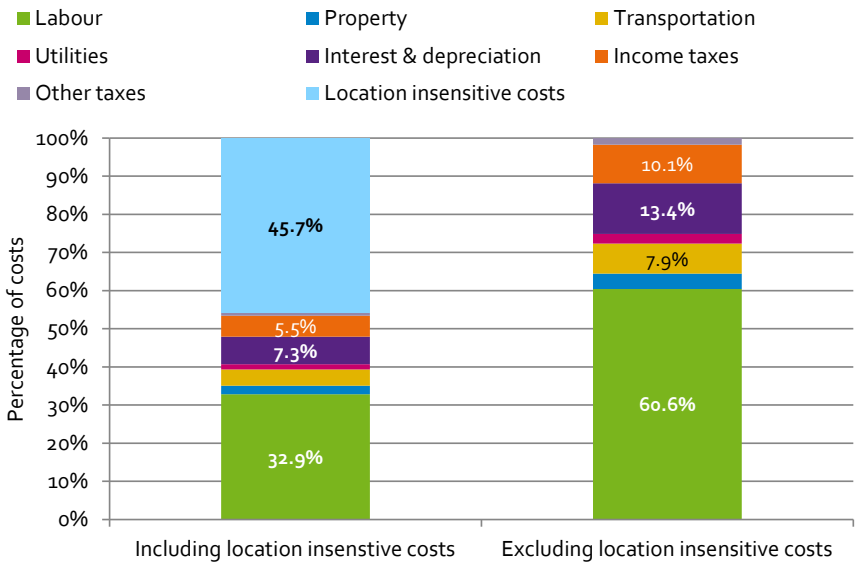
Source: ECB

Which Costs Matter Most?

From a competitiveness perspective, it is essential that policymakers focus on maintaining cost competitiveness, particularly in relation to those goods and services that comprise a significant percentage of business costs and that are out of line with those in competitor countries. Figure 3 and Table 1 provide an enterprise cost profile based on KPMG data for a range of sectors and locations⁷.

The data illustrate the relative importance of location sensitive and location insensitive costs (i.e. goods and services produced on international markets where the price is determined by global supply and demand conditions: e.g. commodity raw materials, industrial equipment, etc.).

Figure 3: Summary of Enterprise Cost Profiles, 2016 (to be updated March 2017)



The column on the right strips out cost elements determined internationally and focuses instead on costs which are primarily determined domestically. The significance of the location-sensitive cost factors differs by sector, with considerable variations occurring between services and manufacturing firms.

Source: KPMG Competitive Alternatives 2016,

These differences are elaborated upon in Table 1, which provides a range of magnitude for each cost category.

⁷ KPMG's 2016 Competitive Alternatives report explores the most significant business cost factors in more than 100 cities and 10 countries around the world. This study measures 26 key cost components, across 7 business to business service segments and 12 significant manufacturing sectors. The 10 countries included in the KPMG report are Australia, Canada, France, Germany, Italy, Japan, Mexico, Netherlands, UK and US. While Ireland is not included in the project, Figure 1 provides data based on the average contribution of each cost factor for the 10 countries included in the study. This provides an indication of the importance of each cost factor to the average firm. All figures in this report are expressed in US dollars and so results are sensitive to exchange rate movements – while exchange rate changes do not affect local business costs expressed in local currency, they do impact international comparisons when local costs are converted to US dollars.

Table 1: Relative Significance of Location Sensitive Costs (% of total location sensitive costs), 2016

	Services	Manufacturing
Labour & Benefits	72-86%	40-57%
<i>Of which: Salaries & Wages</i>	52-61%	28-40%
<i>Statutory Plans</i>	8-10%	5-7%
<i>Other Benefits</i>	12-14%	7-10%
Facility Costs	4-15%	2-5%
Transportation Costs	-	6-21%
Utility Costs	0-1%	2-7%
Capital Costs	0-8%	11-25%
Taxes	3-16%	10-18%
<i>Of which: Income Taxes⁸</i>	1-15%	9-15%
<i>Property Taxes</i>	1-2%	1-2%
<i>Other Taxes</i>	0-1%	0-1%

Source: KPMG Competitive Alternatives 2016

Taking these in turn:

- Labour costs include wages and salaries, employer-paid statutory plans, and other employee benefits. KMPG research indicates that labour costs represent the largest category of location-sensitive cost factors for all industries examined. For the services sub-sectors examined, labour costs typically range from 72 to 86 per cent of location-sensitive costs, while for manufacturing operations the typical range is from 40 to 57 per cent of total location-sensitive costs.
- Facility or property costs represent the next significant cost factor. For services sub-sectors, office lease costs represent 4 to 15 per cent of total location-sensitive costs. For manufacturing sub-sectors, industrial lease costs range from 2 to 5 per cent of location-sensitive costs.
- Transportation costs are only assessed for manufacturing operations – reflecting the cost of moving finished goods to markets. For the manufacturing sub-sectors examined, transportation costs represent 6 to 21 per cent of total location-sensitive costs.
- Utility costs represent 1 to 7 per cent of location-sensitive costs⁹. Electricity and natural gas costs are more significant for manufacturers than for non-manufacturers.
- Costs of capital include both depreciation and interest. These are major cost items for manufacturers, ranging from 11 to 25 per cent of location-sensitive costs across sub-sectors. Capital-related costs are much less significant for services sub-sectors, at 0 to 8 per cent of location-sensitive costs.
- Taxes typically represent 3 to 16 per cent of total location-sensitive costs for the services sub-sectors examined, and 10 to 18 per cent for manufacturing sub-sectors.

⁸ Effective income tax rates are calculated to reflect combined corporate tax rates (national, regional and local), net of generally applicable tax credits, grants and other common government incentives.

⁹ As noted above, the CSO's Census of Industrial Production shows that energy costs for Irish enterprises, including SMEs, represent 1.57% of total costs.

HICP – Administered prices (HICP-AP)

Persistently high rates of consumer price inflation lead to expectations of further price increases, and can create a vicious circle of increasing prices, reducing real incomes, increasing wage demands and reduced international cost competitiveness. Rapid consumer price inflation can also adversely impact on Ireland's attractiveness as a location for talent. Although Irish consumer price inflation is currently low, it is prudent to consider administrative factors affecting consumer price inflation and contributing to the Irish consumer price level. The HICP-AP is a Eurostat measure of state-influenced prices. It is important to stress the HICP-AP basket differs from country to country depending on the scope government has to influence prices. Several conventions guide the definition of administered prices. The CSO consider that HICP-AP indices do not provide an exact measure of the development of administered and non-administered prices. In effect, the basic information from which these aggregate measures are derived does not fully distinguish administered and non-administered prices. HICP items which cover more than 50% administered prices are classified as administered.

Administered prices refers to prices of goods and services which are fully ("directly") set or mainly ("to a significant extent") influenced by the government (central, regional and local government including national regulators). From a policy perspective, the portion of any increase in administered prices that can be attributed to the government directly is unclear for at least two reasons. Firstly, in the case of Ireland, the categories are 'mainly-administered', meaning the government does not completely determine prices in these categories. Secondly, some categories, such as electricity and gas, may be more influenced by international prices that are outside of the control of governments. In addition, certain pricing aspects of administered prices are determined by independent regulators (in accordance with their prescribed mandates). The classification of administered prices is updated on an annual basis. There are no prices which are directly set by government in Ireland but some prices are influenced by government generally through the regulator for that market. The goods and services classified as "administered" by the CSO and Eurostat represent a small subset of the overall Irish CPI basket. Table 2 outlines the range of goods and services categories defined as mainly administered prices in Ireland, and the year in which they were classified and included in the 'mainly administered' basket.

Table 2: Mainly-administered prices in Ireland

COICOP ¹⁰ Sub indices	Mainly administered prices, in Ireland and date of inclusion
04.41	Water Supply (from 2015)
04.43	Sewage (from 2015)
04.51	Electricity (up to 2011)
04.52	Gas (up to 2015)
06.3	Hospital services
07.31	Passenger transport by railway (from 2011)
07.32	Passenger transport by road
07.35	Combined passenger transport (from 2011)
08.1	Postal services (up to 2008)
12.53	Insurance connected with health (up to 2008)

Source Eurostat

¹⁰ COICOP is an acronym for the Classification of Individual Consumption by Purpose.

Figure 4: HICP and Mainly-administered prices in Ireland, 2012-2017¹¹

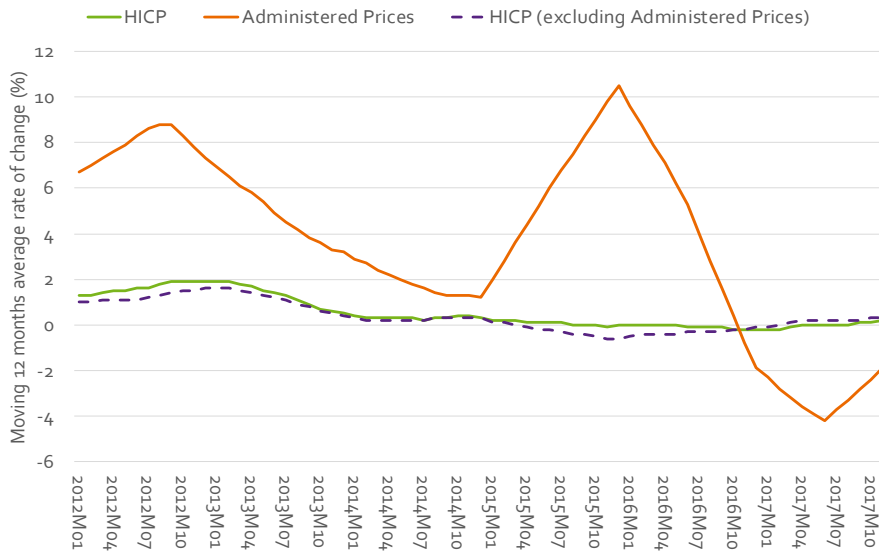


Figure 4 shows a downward trend in HICP and administered price inflation over the period 2012-2017. Inflation in administered prices was particularly high in 2012 (7.3%) and 2015 (10.5%). Since November 2016, mainly administered price inflation has been negative and was -1.9% in November 2017.

Source: Eurostat

Table 3: HICP and Mainly administered prices, annual average rate of change (%), 2012-2017

GEO/TIME	2012	2013	2014	2015	2016	2017	Median (12-17)	Average (12-17)
All items (HICP)	1.9	0.5	0.3	0.0	-0.2	0.3	0.3	0.5
Mainly administered prices	7.3	3.2	1.2	10.5	-1.9	-1.4	2.2	3.2
Water Supply	0.0	0.0	0.0	174.7	-50.0	:	0.0	24.9
Sewerage Collection	0.0	0.0	0.0	174.7	-50.0	:	0.0	24.9
Gas	15.2	6.7	2.1	-2.4	-3.0	-1.6	0.3	2.8
Hospital Services	1.5	-0.5	0.0	0.0	0.1	0.5	0.1	0.3
Passenger transport by railway	2.7	5.1	4.7	4.4	2.1	1.7	3.6	3.5
Passenger transport by road	6.0	5.8	2.2	2.7	0.9	0.1	2.5	3.0
Combined passenger transport	6.8	7.3	7.1	1.9	0.2	2.2	4.5	4.3
Postal Services	1.0	6.1	7.2	8.9	2.9	16.5	6.7	7.1

Source: Eurostat

Table 3 sets out the annual changes in the Classification of Individual Consumption by Purpose (COICOP) sub-categories that Eurostat has at one point determined qualify as fully- or mainly-administered in Ireland. Some categories, such as Gas were identified as administered up to points in time, after which the category has dropped out of the HICP-AP basket. Others, such as Water supply and Sewerage collection was introduced in 2015¹². All other sub-headings are included in the HICP-AP index for the entirety of the time series. The table

¹¹ Inflation in administered prices has been higher than headline HICP inflation in Ireland throughout the period 2011-2016 and the differential between the two has narrowed (with the exception of 2015).

¹² Water supply and sewerage collection are components of Group 04.4 of the COICOP classification, codes 04.4.1 and 04.4.3 respectively. This group also includes refuse collection (04.4.2) and other services relating to the dwelling (04.4.4). Water supply and sewerage collection charges were introduced in Ireland on 1 January 2015 and subsequently suspended from 1st July 2016. See CSO, CPI Technical Paper Introduction of Water Supply and Sewerage Collection

shows that transport related costs have increased at a rate consistently higher than HICP over the period 2012-2017. Of all mainly administered price categories, the annual rate of change in prices of postal services is notable for the relatively large increases in price since 2012. The rate of increase in postal services was highest in 2017 (16.5%). This is likely to be attributable to increases of between 12 per cent and 39 per cent across the full range of mail services for An Post to continue to meet its Universal Service Obligation. Categories no longer classified as administered prices, such as insurance connected with health, postal services, gas and electricity, also increased on average over the five years at a more rapid rate than HICP prices.

Figure 5: Inflation in mainly administered prices, Ireland, UK and the Euro area, 2012-2017¹³

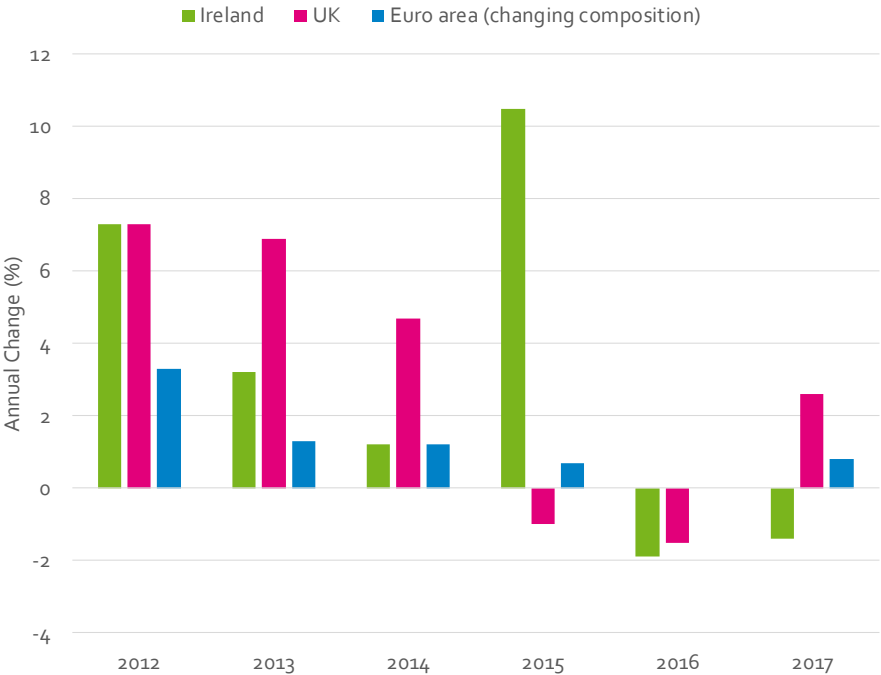


Figure 5 shows that between 2012-2015, inflation in Irish mainly administered prices tended to outpace inflation in the Euro area (changing composition). Since 2015, inflation has been decreasing at a faster rate. Regarding the UK¹⁴, mainly administered prices have been higher than the Irish rates in every year except for 2015- a result of the introduction of water charges in 2015.

Source: Eurostat/ECB

¹³ Comparison with the Euro area is a comparison between other countries' HICP-AP inflation but there are differences in the composition and categories that make up the Irish HICP-AP basket and the Euro area basket which is calculated by the European Central Bank.

¹⁴ Mainly administered prices in the UK refer to Water Supply, Sewage, Electricity, Gas, Passenger transport by railway and Postal Services

Interest Rates

Improvements in Irish competitiveness in recent years have been driven by a range of important external factors including a weak euro exchange rate, low international fuel prices and low interest rates which have helped reduce the costs of borrowing for the State, enterprise and consumers. As has been evident in the recent exchange rate developments, changes in any of these factors could have ramifications for national competitiveness.

While the risk of an immediate and rapid pick up in interest rates appears unlikely based on current information, at some time we should anticipate the possibility that interest rates will rise in the medium-term. The global financial and economic crisis which commenced in 2008 resulted in significant monetary policy actions by Central Banks with reductions in key interest rates and the launch of large scale asset purchase programmes. In the Euro area, the accompanying sovereign debt crisis and sustained low inflation below the ECB’s mandated price stability threshold resulted in the ECB undertaking a major asset purchase programme, and lowering interest rates to around the lower zero bound. This accommodative monetary policy approach which has seen interest rates at historic low values, has helped stabilise financial markets, reduced borrowing costs and supported an increase in Euro area output.

The Governing Council of the ECB sets the key interest rates for the euro area:

- The interest rate on the main refinancing operations (MRO), which provide the bulk of liquidity to the banking system;
- The rate on the deposit facility, which banks may use to make overnight deposits with the Eurosystem; and,
- The rate on the marginal lending facility, which offers overnight credit to banks from the Eurosystem.

Figure 6: Main ECB Policy Rates 1999-2017

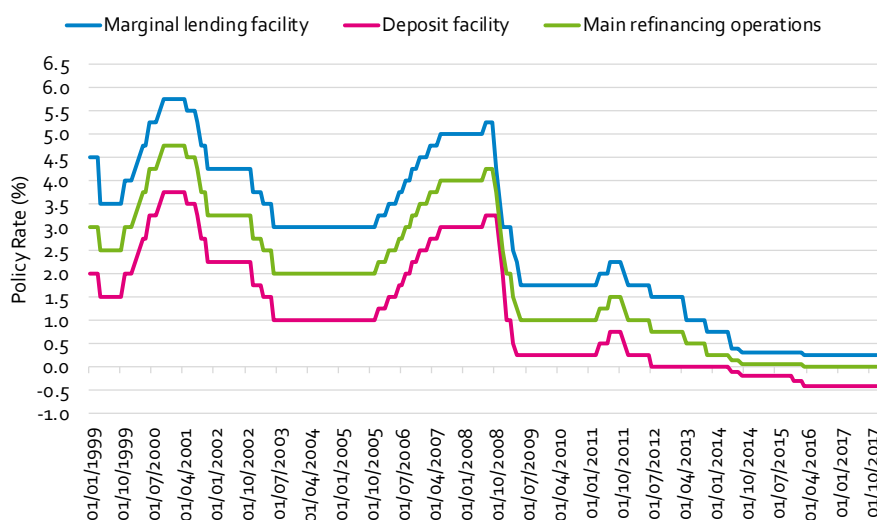


Figure 6 shows the evolution of the ECB’s policy rates over the last two decades. It shows how in the pre-crisis period the MRO rate ranged from 2% to 4.5%. All rates were rapidly reduced in 2008/2009 with the MRO falling from 4.25 per cent to 1 per cent and have been at historically low levels since 2015.

Source: ECB

In January 2017, the Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility would remain unchanged at 0.00 per cent, 0.25 per cent and -0.40 per cent respectively. In its forward guidance, the Governing Council stated that it expects the key ECB interest rates to remain at their present levels for an

extended period. Regarding non-standard monetary policy measures and net asset purchases, in October 2017, the ECB announced that its programme of asset purchases of approximately €60 billion per month would be reduced to €30 billion from January 2018 until the end of September 2018 or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. If the outlook becomes less favourable, the ECB is ready to increase the APP in terms of size and/or duration.

Euro area monetary policy is determined by the ECB and implemented through the European System of Central Banks, which comprises the ECB and the Central Banks of member states. The ECB Governing Council price stability target is a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) for the Euro area of below, but close to, 2 per cent¹⁵. While ECB policy is formulated for the Euro area, reflecting the size of its respective economies, the performance of Germany, France and Italy are an important determinant of monetary policy.

Figure 7: HICP Inflation trends, Ireland and selected Euro area economies, 2015-2017

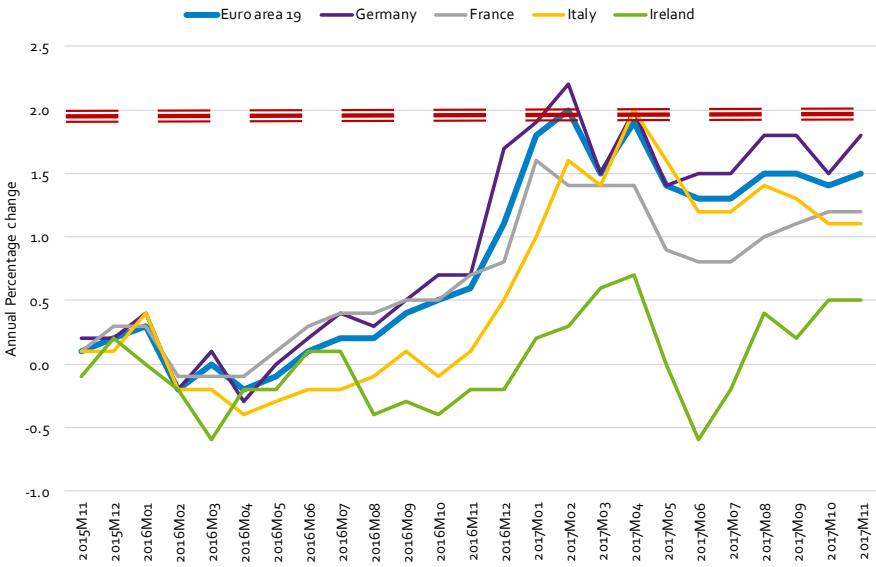


Figure 7 shows recent trends in HICP inflation in major Euro area economies and Ireland. Euro area inflation remains appreciably below the ECB target (red line). It highlights the pickup in inflation in the Euro area in recent months rising from 0.6% to 1.9% year on year November 2017 and Ireland’s low relative level (0.5%).

Source: ECB

While the Euro area economy taken as a whole is expanding robustly, with stronger growth rates in output and employment than previously forecast current projections for growth and inflation in the Euro area suggest that an increase in interest rates is not expected in the short term. However, if growth continues in the Euro area, it would appear unlikely that the prevailing level of low rates will continue in the medium to long term. In Budget 2018, the Department of Finance¹⁶ modelled the impact of a shock to the economy of a 1 percentage point increase in the main ECB policy interest rate over 5 years. Relative to the baseline projections the effect would reduce Irish GDP and employment by approximately 1 per cent and 0.7 per cent after 5 years. The impact on the public finances would result in the deficit to GDP ratio and the debt to GDP ratio rising by 0.3 and 2.3 percentage points. The Department’s analysis suggests that this is principally driven by output in the

¹⁵ The Harmonised Index of Consumer Prices (HICP) provides the headline inflation Figure for the Euro Area. It is calculated as a weighted average of national consumer price indices. The weights are based on national accounts data for household consumption expenditure.
¹⁶ Department of Finance, Medium Term Economic Outlook, 2017

Euro area being reduced below the baseline level, and a strengthening of the euro relative to the baseline which has a negative competitiveness effect.

Ireland has benefitted from the ECB's policy approach with an associated reduction in debt interest costs for Government, Households and enterprise. As set out in the National Risk Assessment 2017¹⁷, while Government debt in Ireland remains high, the risk to government debt arising from an increase in interest rates on new borrowing is moderated by the structure of debt (mostly fixed rates and the long maturity profile of our existing stock of debt). The continued high level of private debt means households and the high proportion of mortgages on variable tacker rates would be affected by increases in interest rates in the medium term. While public, household and corporate debt levels in Ireland have been reduced in recent years, they remain relatively high. A continued focus on reducing public and private indebtedness and further reductions in the level of non-performing loans is warranted. Further reductions in debt levels could help reduce some of Ireland's exposure to an interest rate shock.

The impacts of increases in interest rates on domestic borrowing, loan repayment and economic activity will depend on the level of pass-through of rate increases by the banks. The determinants of the cost of credit in Ireland are complex and varied, but the concentrated lending market, coupled with higher credit risk premiums, have been cited as the reasons for higher interest rates in Ireland compared to the Euro area average. As noted by the ESRI¹⁸, while historically Irish banks would pass on policy rate changes since the beginning of 2009, rates have remained relatively high despite ECB rate reductions. Research by the ESRI¹⁹ suggests that a primary reason for a disconnect in pass-through between the policy rate and the standard variable rate is attributable to weak competition in the market. While there are no quick and easy ways to increase competition in the market, the policy focus should be on developing well considered measures which support competition in the sector over the medium term.

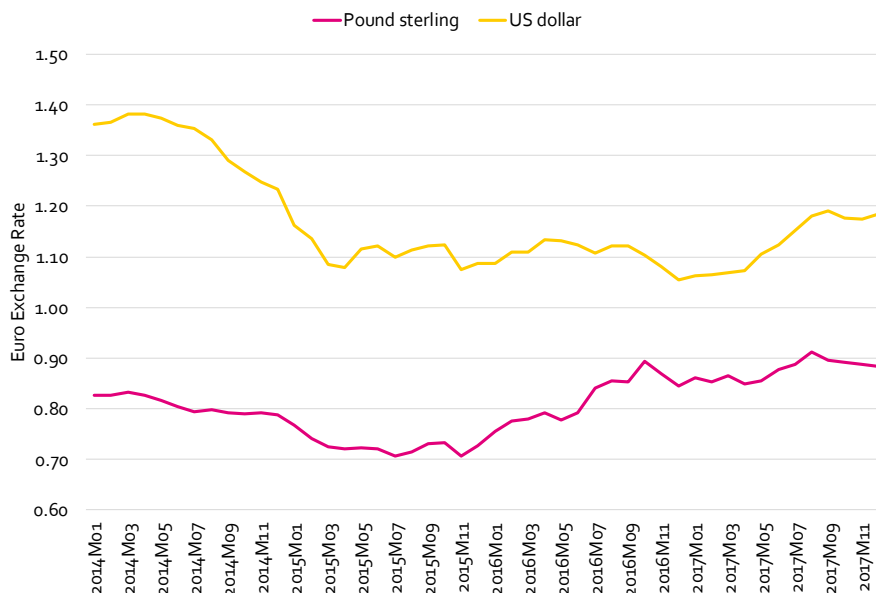
¹⁷ Department of An Taoiseach, National Risk Assessment, 2017

¹⁸ ESRI, Quarterly Economic Commentary, Winter 2017

¹⁹ McQuinn, K. and C. Morley (2015). 'Standard Variable Rate (SVR) Pass-Through in the Irish Mortgage Market: An Updated Assessment', ESRI Research Note.

Chapter 3 – Exchange Rates and Harmonised Competitiveness

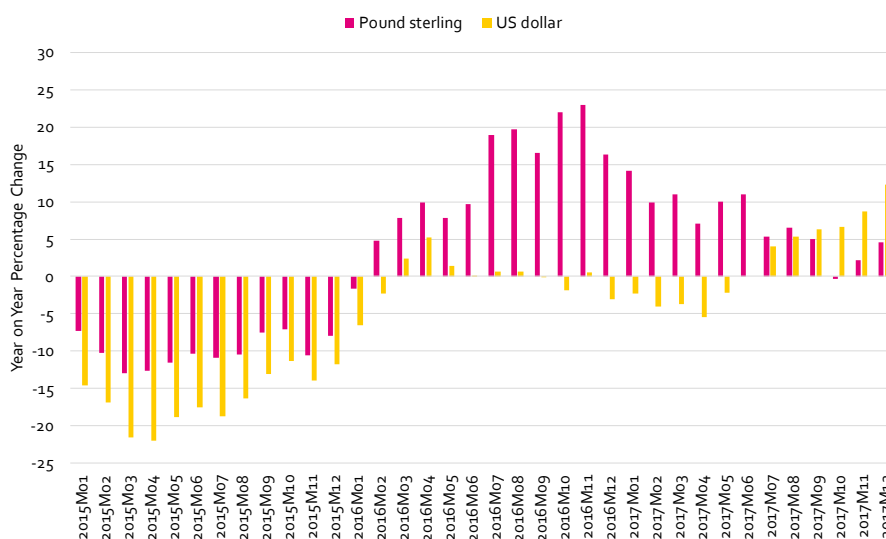
Figure 8: Euro/pound sterling and euro/dollar exchange rate Index, January 2014-2018



The €/\$ exchange rate average was 0.88 in 2017 compared with 0.82 in 2016 and 0.73 in 2015. Sterling was 0.91 in August 2017. The €/£ spot rate averaged 1.13 in 2017, up from 1.11 in 2015-2016. The sustained appreciation of the euro-sterling exchange rate poses significant challenges for export competitiveness.

Source: Eurostat

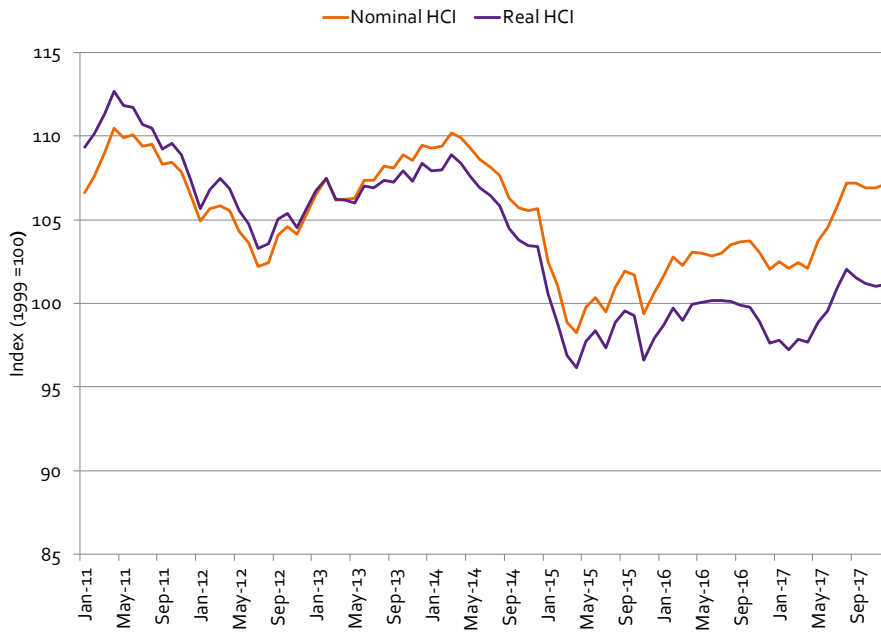
Figure 9: Euro/pound sterling and euro/dollar exchange rate, year-on-year change, 2015-2017



Variations in exchange rates can significantly and rapidly impact upon competitiveness. In 2016, and the first half of 2017 the Euro strengthened and appreciated against Sterling in the run up to and post the UK referendum on EU membership. In 2017, the Euro strengthened and appreciated by 12 per cent against Sterling.

Source: Eurostat

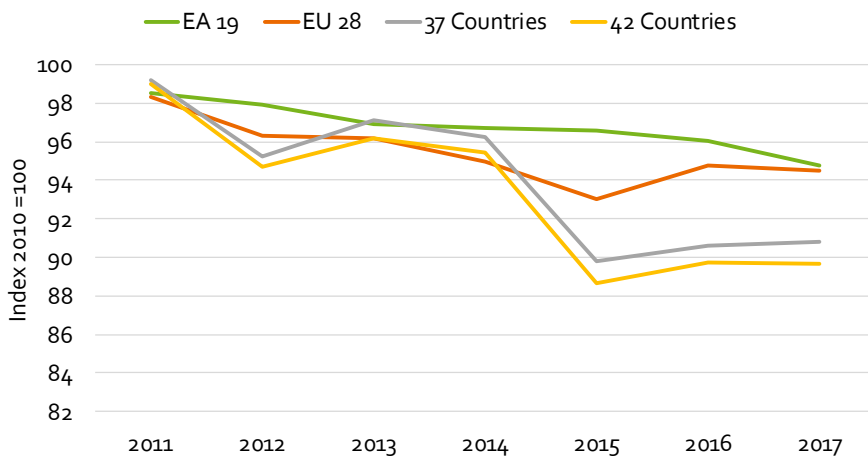
Figure 10: Harmonised Competitiveness Indicators²⁰, Ireland, January 2011 - December 2017 (1999 = 100)



HCI data for December 2017 show that the nominal HCI increased by 5% on an annual basis. In real terms, the HCI increased by 3.5 per cent when deflated with consumer prices. The movement indicates a decline in this measure of competitiveness linked to the exchange rate movements, with subdued inflation likely to be mitigating the impact on the real HCI.

Source: Central Bank of Ireland

Figure 11: Real effective exchange rate (REER), Ireland, deflated by Consumer Prices, 2011-2017



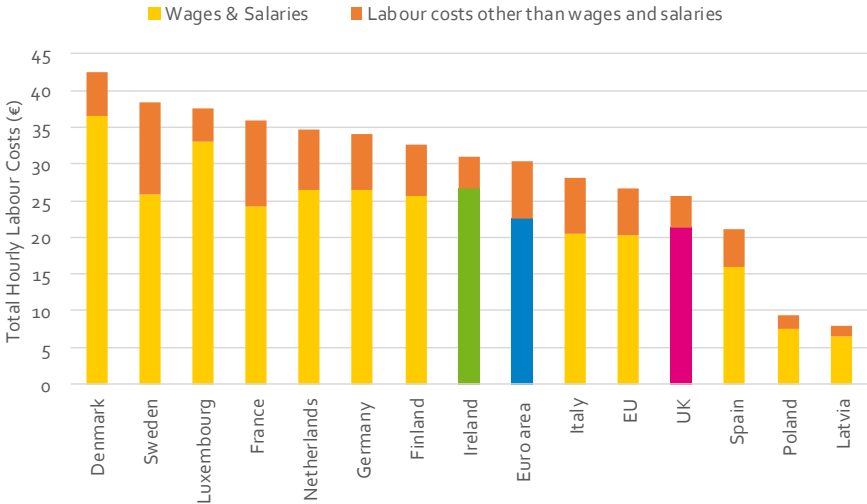
The REER is a country's exchange rate relative to a basket of exchange rates of other countries weighted by their respective trade shares. A negative value indicates improving competitiveness relative to its principal trading partners. Recent developments in exchange rates and inflation have served to improve Ireland's performance.

Source: Eurostat

²⁰ Features of the Irish economy can affect movements in HCIs and care should be taken in interpreting movements in the indices as a measure of relative international competitiveness. The nominal HCI is affected by exchange rate developments and relative to other Euro area countries a high share of Ireland's exports are destined for non-Euro area countries (UK and US). Real HCIs consider, relative price movements relative to trading partners. Using consumer prices as a deflator means the impact of intermediate goods and capital goods are not directly considered and the influence of indirect taxes and non-traded goods and services on the CPI limited its usefulness as an indicator of good indication of international competitiveness. See Barry, F, (2017) The Central Bank's harmonised, competitiveness indicators, users beware, Administration, vol. 65, no. 4, O'Brien, D. (2010) Measuring Ireland's price and labour cost competitiveness. Central Bank Quarterly Bulletin, 1

Chapter 4 – Labour Costs, Earnings and Tax

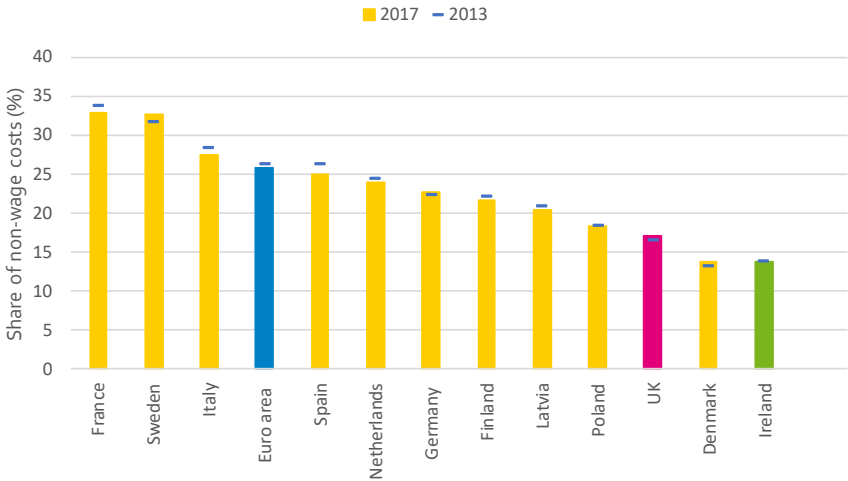
Figure 12: Total economy hourly labour costs ²¹, 2017



Total Hourly Labour Costs denominated in Euro are shown in Figure 12. Hourly labour costs in the EU ranged from €4.1 in Bulgaria to €42.5 in Denmark. At €31 per hour, Ireland's hourly rate was the 8th highest in the Euro area, 2% and 20% higher than the Euro area (€30.3) and the UK (€25.7).

Source: Eurostat

Figure 13: Employers' social contributions and other labour costs paid by the employer as a percentage of total labour costs, 2017

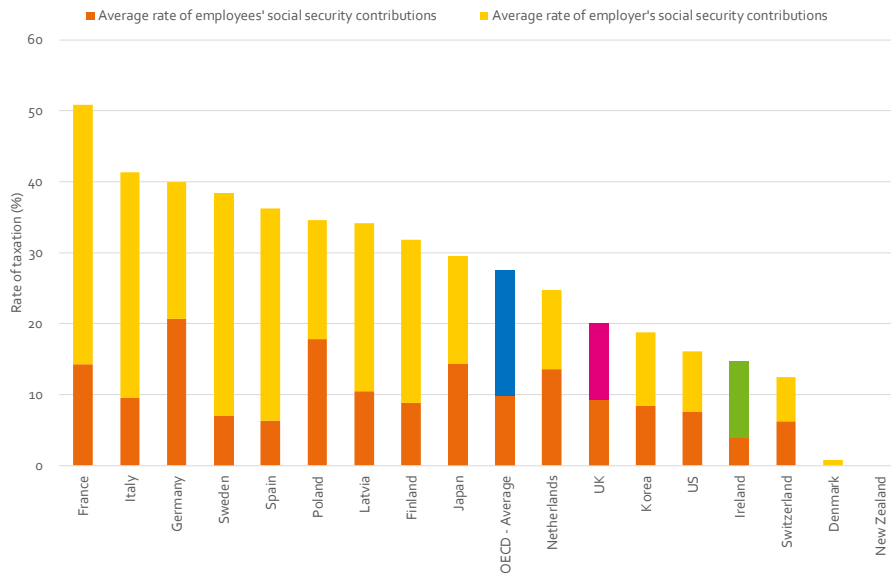


Over the period 2013-2017, as a percentage of total labour costs, Irish labour costs, other than wages and salaries have been flat. In 2017, these costs represented 13.7% of the total labour costs, a significantly lower figure compared to the Euro area (25.9%). The equivalent figure for the UK was 17.1%.

Source: Eurostat

²¹ Eurostat total economy data refers to enterprises with 10 or more employees and excludes agriculture and public administration

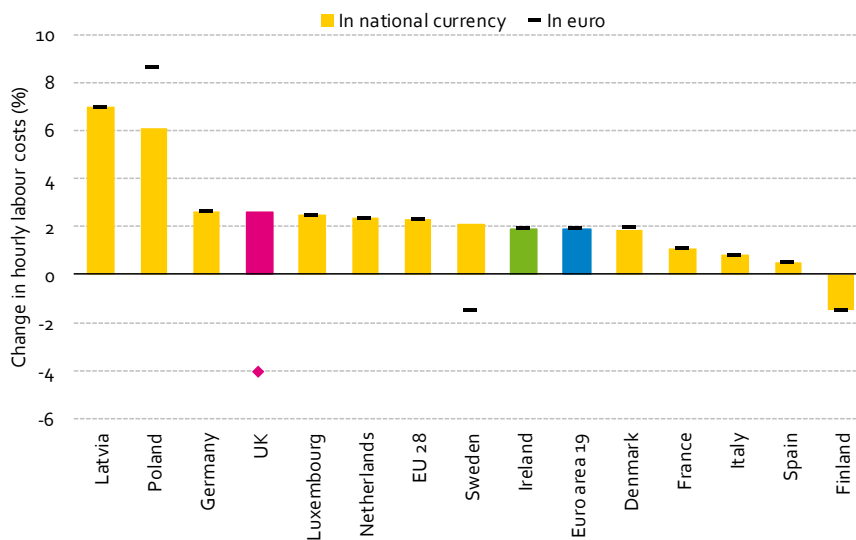
Figure 14: Employer and employee social security contributions, 2016



Ireland has the 9th lowest rate of social security contributions in the OECD. Unlike other countries, where either a cap on employer social security costs or a reduced rate above a threshold exists, in Ireland, a flat rate is charged on the full salary; as salaries increase, Ireland's competitiveness position is eroded.

Source: OECD, Taxing Wages 2017

Figure 15: Eurostat Growth in Hourly Labour Costs 2017²²

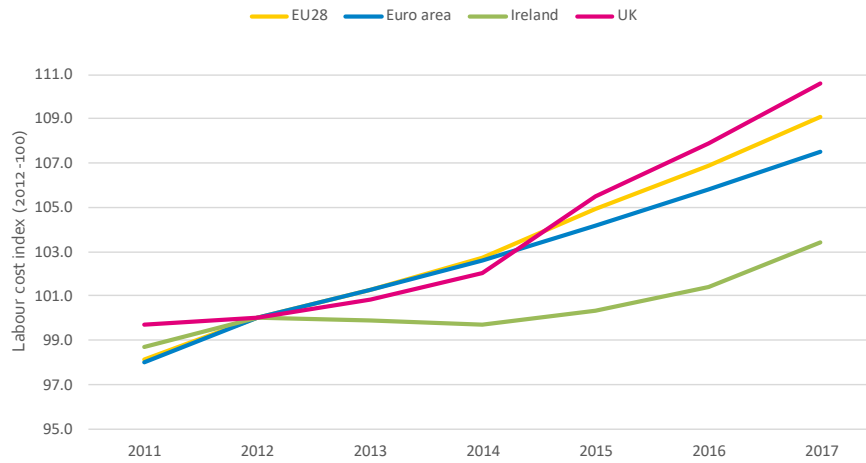


Between 2016 and 2017, hourly labour costs in the whole economy expressed in € rose by 1.9% both in Ireland and the Euro area. The largest increases were recorded in the Baltic Member States. The only decrease was observed in Finland (-1.5%). Expressed in national currency, hourly labour costs increased in the UK (+2.6%) (-4.1% in €).

Source: Eurostat

²² When comparing labour cost estimates over time, levels expressed in national currency should be used to eliminate the influence of exchange rate movements.

Figure 16: Growth in nominal labour costs, Labour Cost Index, 2017



Expressing growth in an index form, where 2012 labour costs=100, the graph shows that Irish nominal labour costs have been increasing since 2014 but cumulatively have increased by less than the EU, Euro area and UK labour costs. The index does not reflect the different starting levels of labour costs in each country.

Source: Eurostat

Figure 17: Mean nominal hourly labour cost per employee, (Constant 2011 PPP \$ Currency), 2016

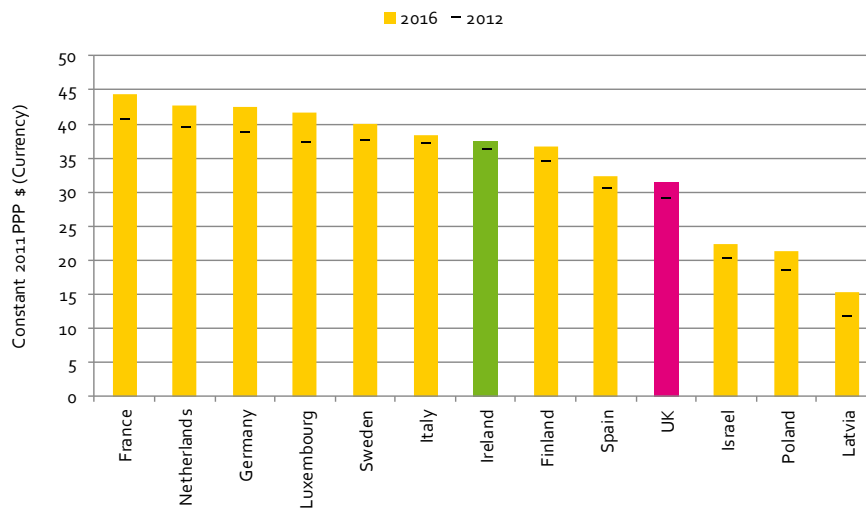


Figure 17 shows hourly labour costs expressed in purchasing power standards (PPS), a measure which accounts for price differentials across countries. A large group of countries have similar hourly labour costs in PPS terms. Ireland's cost in 2016 was \$37.6 compared to \$31.6 in the UK.

Source: ILOstat

Figure 18: ILO Mean nominal hourly labour cost per employee (Constant 2011 PPP \$ Currency) Growth rate

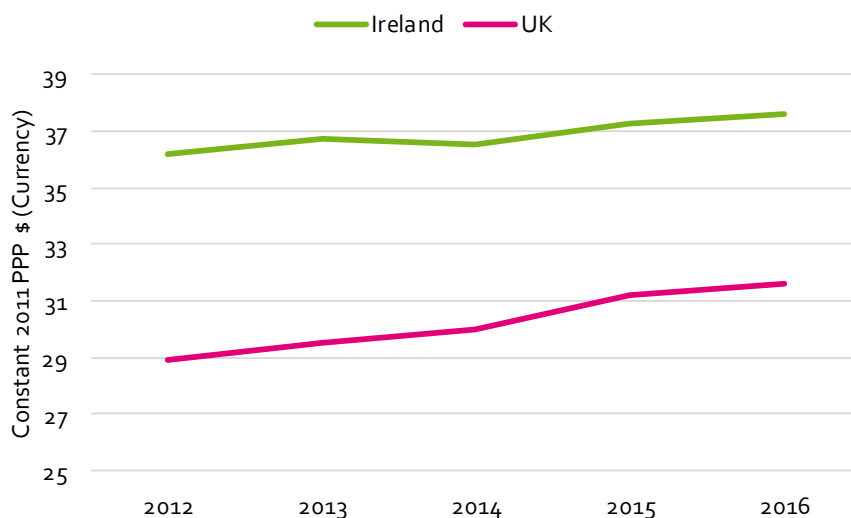
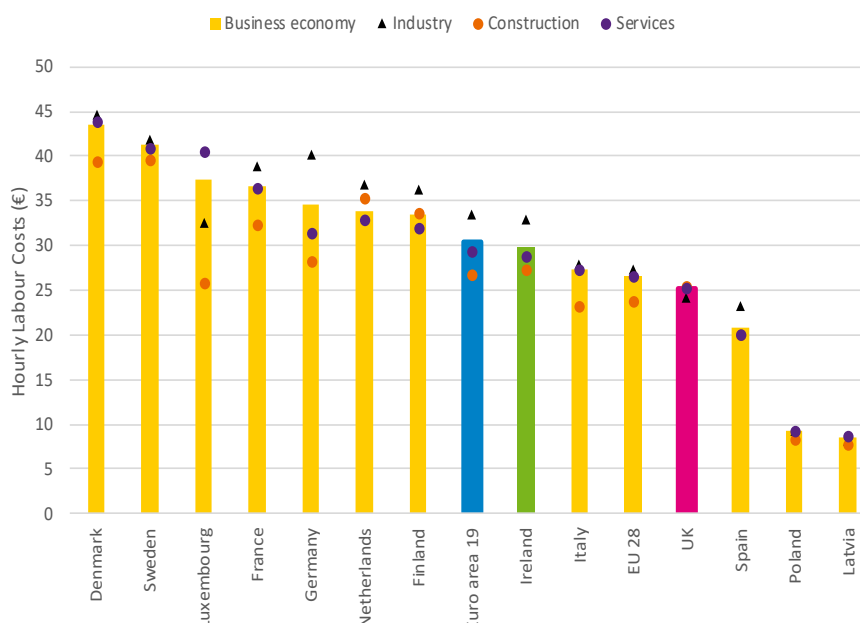


Figure 18 shows the trend in growth in nominal hourly labour cost per employee in Ireland and the UK over the period. While Irish levels are above the UK, the gap between the two is narrowing. UK costs have risen faster in every year and increased by 1.1% in 2016 to \$31.6 per hour compared to an increase of 0.9% to \$37.6 per hour in Ireland.

Source: ILOstat

Figure 19: Hourly labour costs, Business Economy, 2017



Within the business economy (excl agriculture, public admin), labour costs per hour in Ireland were highest in industry €32.9 compared to €33.4 in the euro area. Labour costs in Irish services were €28.9 compared to €29.3 and €25.2 in the Euro area and UK. Costs per hour were €27.3 construction (Euro area €26.7 and UK €25.4).

Source: Eurostat

Figure 20: Hourly Labour Costs, Business Economy, Detailed NACE sectors, 2017

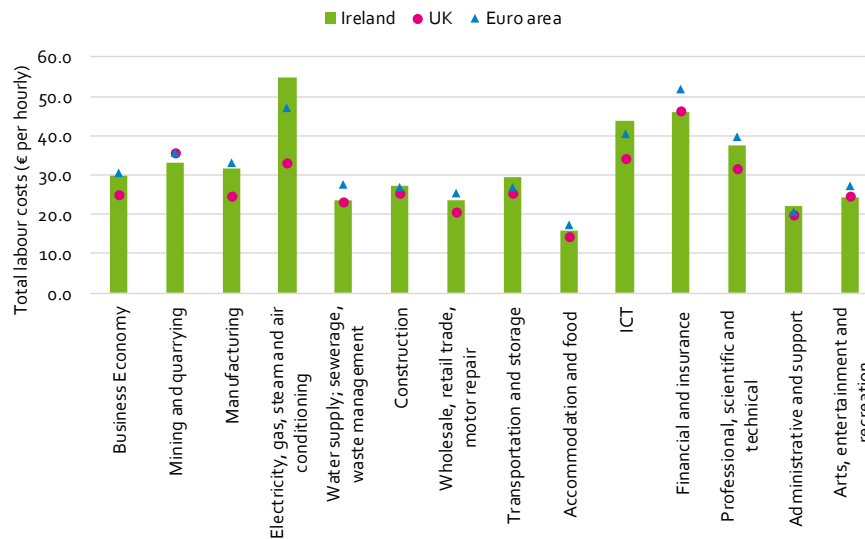


Figure 20 compares hourly labour cost levels in € across economic sectors. Hourly labour costs are highest in Utilities (€55) and lowest in Accommodation and Food (€16). Ireland (€46) is behind the UK (€46.2) in financial services. In manufacturing (IE € 31.6 and UK €24.6) and ICT (€43.8 and €34.3) Ireland is above UK levels.

Source: Eurostat

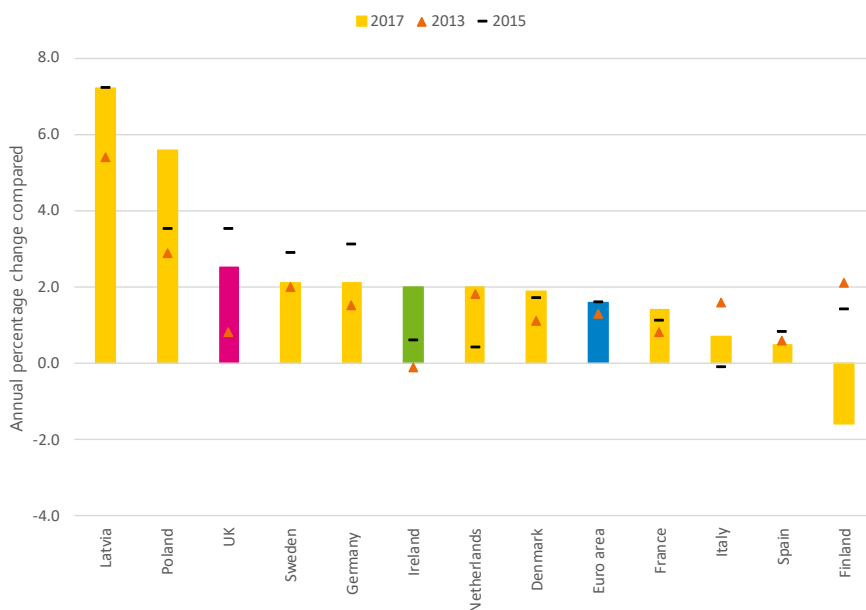
Figure 21: Change in sectoral hourly labour costs (own currency) Ireland and UK, 2017



There is considerable divergence within the Irish economy and between Ireland and the UK in labour cost growth in 2016. In Ireland, the sectors with the highest rates of growth were Utilities (5%) and professional services (3.8%). Growth was negative in mining, arts and other services. In the UK growth was highest in administrative (4.8%) and transport (4.7%).

Source: Eurostat

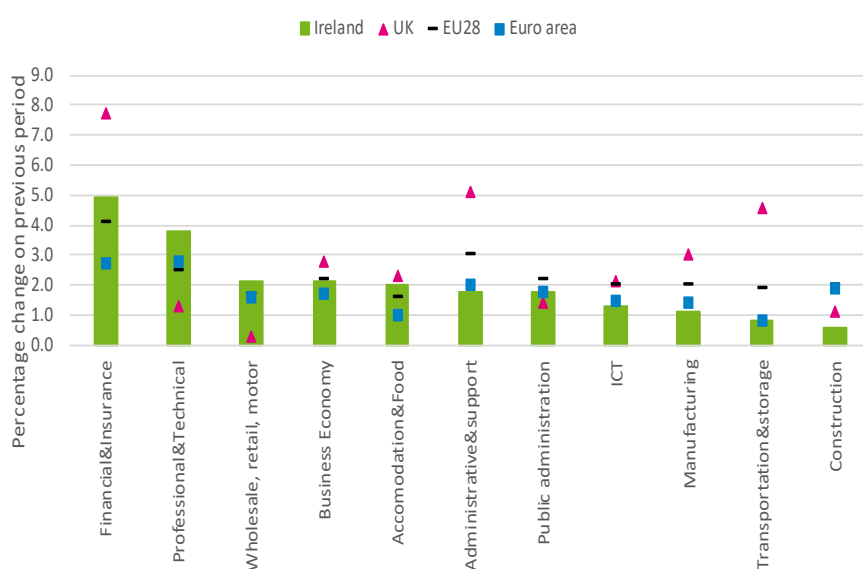
Figure 22: Growth in nominal labour costs, whole economy, percentage change, quarterly, 2013-2017



Ireland had the 11th highest percentage increase (2%) in nominal labour costs in the Euro area (the corresponding figure for the Euro area was 1.6%) in 2017. This is the highest percentage increase over the period 2012-2017. The increase in the wage and salaries component is the 10th highest in the Euro area and the highest increase in Ireland since 2008.

Source: Eurostat

Figure 23: Growth in labour costs²³, by economic sector, annual percentage change, 2017

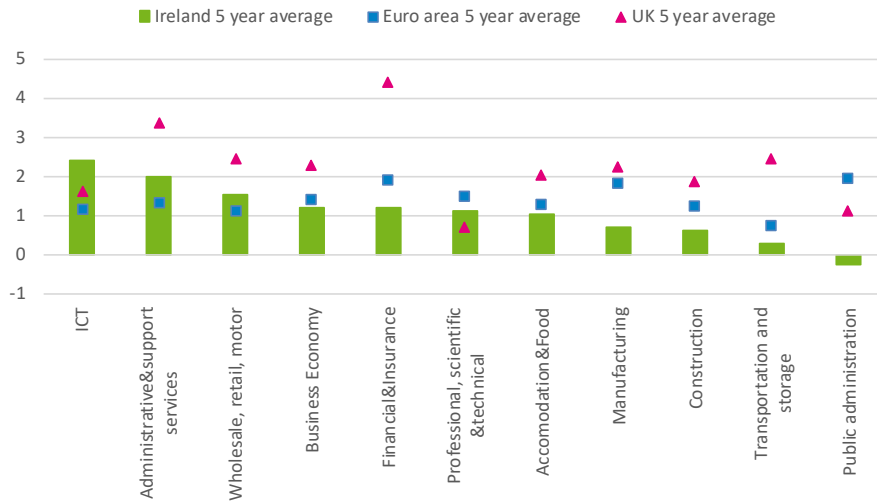


The rate of labour cost varies by sector. In 2017 the highest annual increase was recorded in Financial & Insurance (4.9%) and Professional & Technical (3.8%). Growth was lowest in Construction (0.6%). In the Euro area the strongest growth was in Professional & Technical, and in the UK – in Financial & Insurance.

Source: Eurostat

²³ Labour cost for LCI (compensation of employees plus taxes minus subsidies)

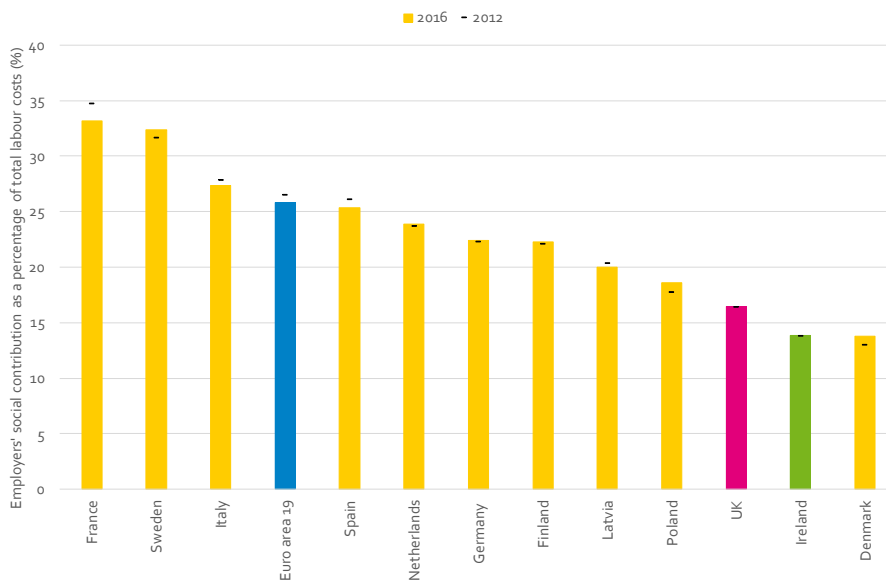
Figure 24: Growth in labour costs, by economic sector, average annual percentage change, 2013-2017



In the five years to the end of 2017, labour costs growth in the Irish business economy was 1.2% compared to 1.42% in the Euro area and 2.28% in the UK. Growth in Ireland was highest in ICT (2.42%), Administrative (2%) and Wholesale (1.54%). Growth was lowest in Transportation (0.26%) and negative in Public administration (-0.28%).

Source: Eurostat

Figure 25: Average hourly other labour costs²⁴ 2012-2017

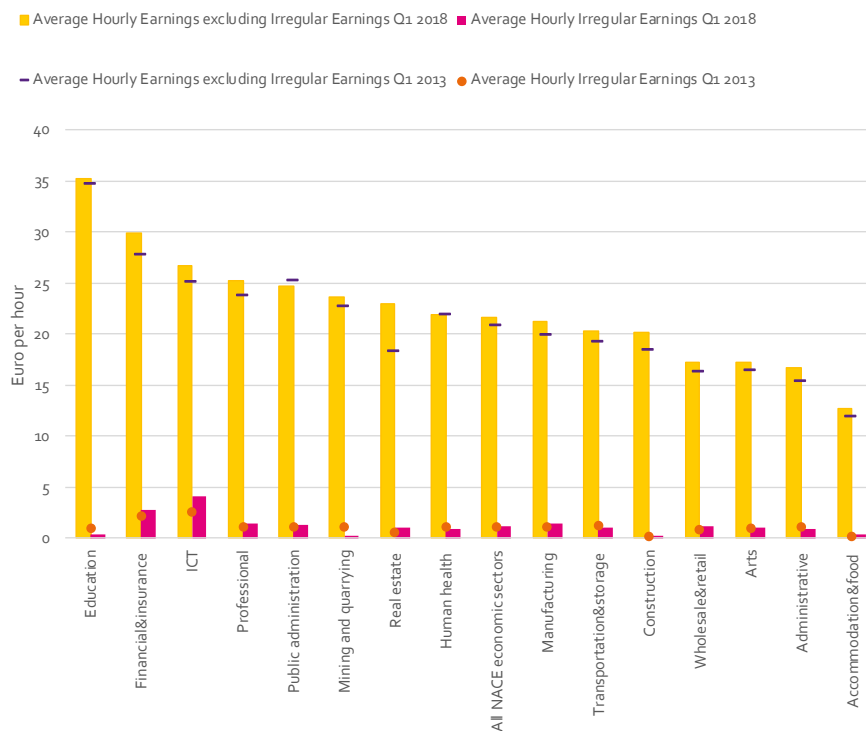


In Q3 2017 the average other labour costs represent 13.4% of the average hourly total labour costs (compared to 13.2% in Q3 2012). The average other labour costs have increased in 13 out of the 16 sectors examined between Q3 2012 and Q3 2017. The highest increases were in the Real Estate (6.1%), Mining and Quarrying (3.8%) and ICT (2.9%).

Source: CSO

24 Other labour costs are comprised of statutory social contributions (e.g. employer PRSI), non-statutory contributions (employer pension contributions), benefits in kind (BIK), other expenses (e.g. employer training expenses), redundancy payments and subsidies.

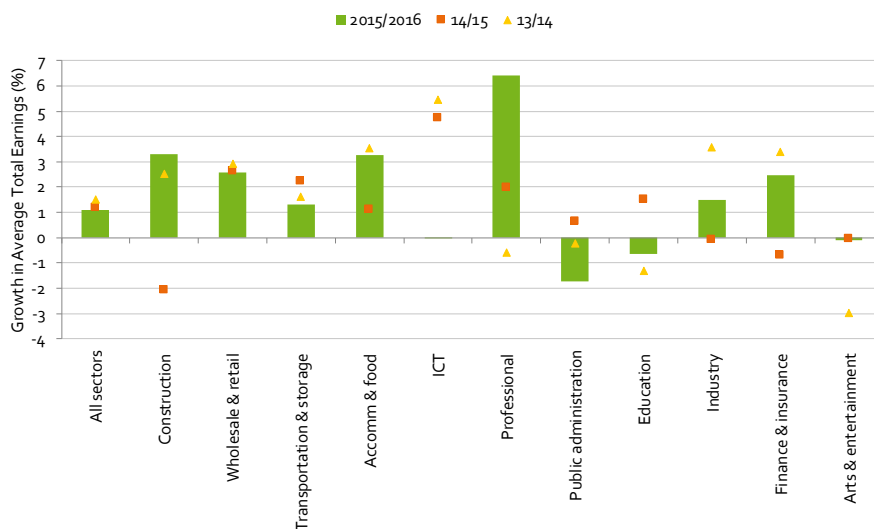
Figure 26: Average hourly earnings in Ireland by Q1 2013-2018²⁵



The average hourly earnings increased by 3.5 per cent between Q1 2013 and Q1 2018; irregular earnings increased by 14 per cent. The highest increases occurred in the Real Estate (25.8%), Construction (9.7%) and Administrative sectors (8.9%). The highest hourly earnings (€35.22 per hour) were recorded in Education; the lowest earnings were in the accommodation & food sector (€12.76 per hour).

Source: CSO

Figure 27: Growth rate in average total annual earnings by sector, Ireland 2014-2016

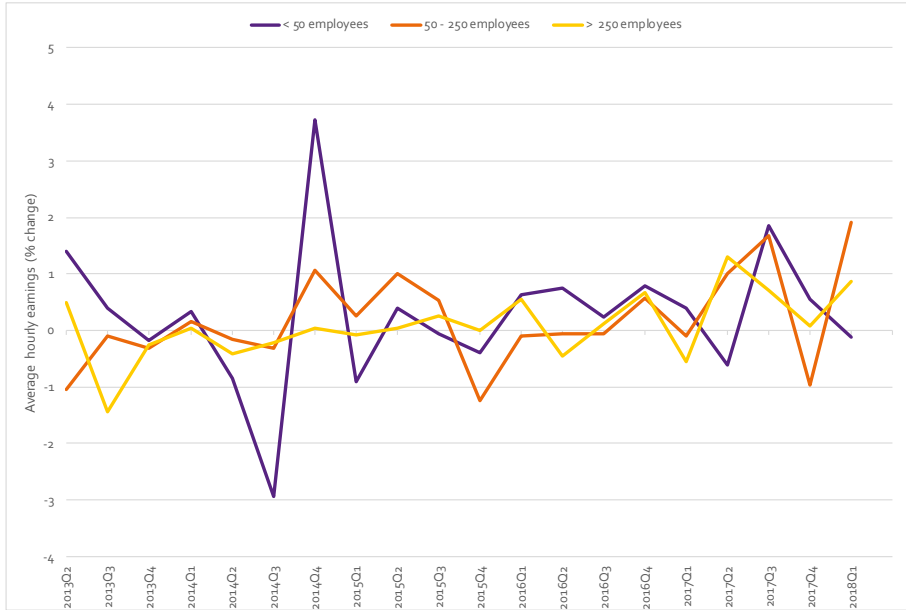


Average annual earnings across all sectors in Ireland grew by 2.1% over the period 2012-2016. 8 out of 12 sectors recorded increases between 2015 and 2016. The largest increases were recorded in Professional, scientific and technical activities (6.4%), Construction (3.3%) and Accommodation and food services (3.3%). The largest decline was recorded in Public Administration.

Source: CSO

²⁵ Data for Q1 2018 is preliminary and subject to revision.

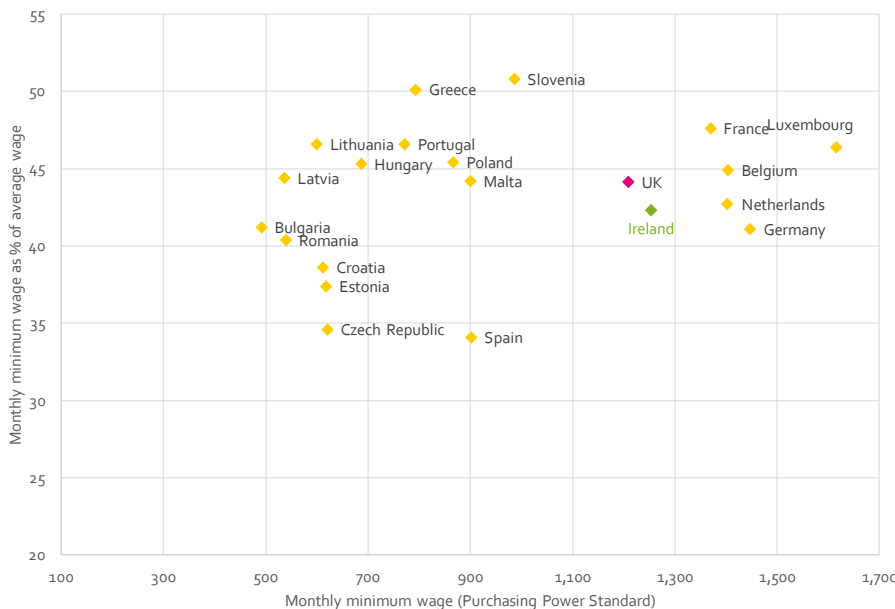
Figure 28: Average hourly earnings (excluding irregular earnings) by size of enterprise, Ireland, Q1 2018²⁶



The average hourly earnings in enterprises employing less than 50 and between 50 and 250 people have been more volatile over the period examined. Earnings in enterprises with more than 250 people were above the earnings in the other two categories and in Q1 2018 they were €24.54, compared to €18.13 for businesses with less than 50 and €19.69 for businesses employing between 50 and 250.

Source: CSO

Figure 29: Monthly minimum wage PPS (2017) and minimum wage as a percentage of average wage (2011-2017)²⁷



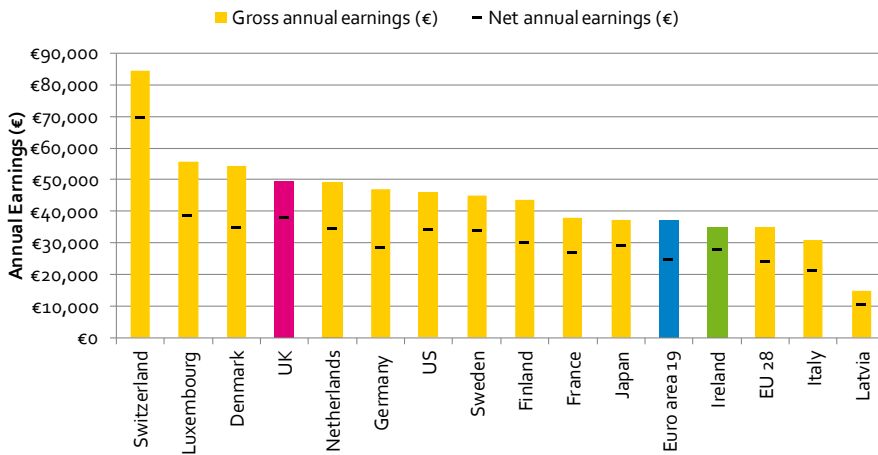
In 2017, Ireland had the second highest monthly minimum wage of €1563. The chart shows that, when expressed in Purchasing Power Standards, the minimum wage was €1,403. The minimum wage as a percent of average wage ranged from 34% in Spain to 50% in Slovenia. In Ireland, it was 42.3% and 44.1% in the UK.

Source: Eurostat

²⁶ Q1 2018 preliminary estimates

²⁷ Data relating to the minimum wage as a percentage of average wages is based on the latest year available. All data measuring monthly minimum wage levels relates to the first half of 2017.

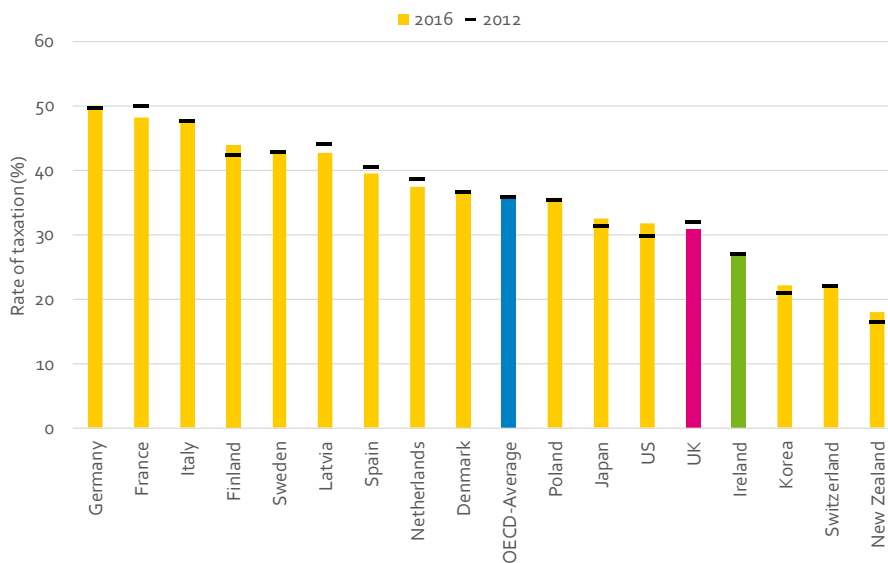
Figure 30: Average annual gross & net earnings, single individual, no children, 100% of average earnings²⁸, 2015



Ireland had the 8th highest gross and 6th highest net wage level in the Euro area-19 in 2015. Net earnings were almost 13% above the Euro area average, partly a result of the relatively small gap between before and after-tax wages in Ireland (primarily a result of low social security contributions).

Source: Eurostat

Figure 31: Average income tax plus employee and employer contributions less cash benefits – single individual earning 100% of average earnings²⁹, 2016

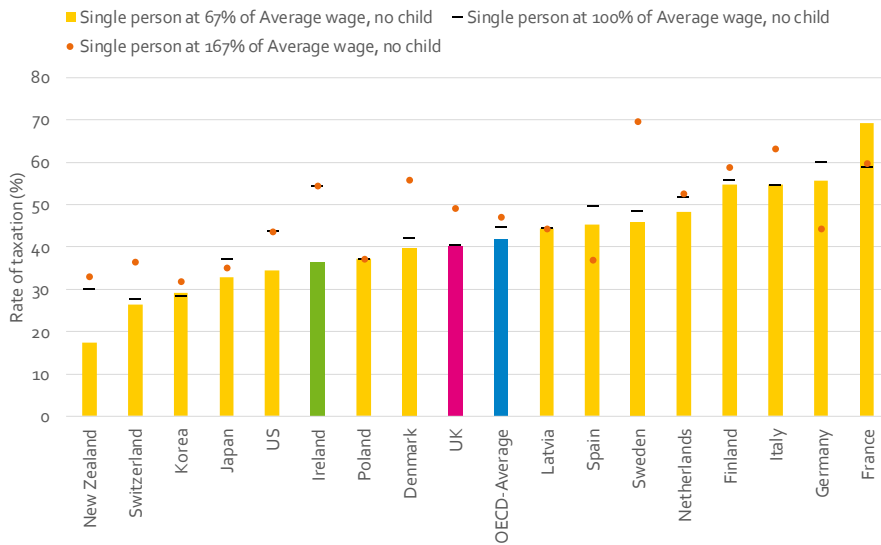


For a single person earning 100% of the average wage in 2016, total average income tax in Ireland was the seventh lowest in OECD (27.1% compared to the OECD average of 36%). Irish taxes rates rose marginally in the five years to 2016 whereas OECD figures were comparable in 2012 and 2016.

Source: OECD, Taxing Wages 2017

²⁸ Gross wages include wages, taxes on income and employer and employee social security contributions. EU27 and Euro area 17 excludes Cyprus.
²⁹ Where relevant, the Universal Social Charge is included in the Irish data.

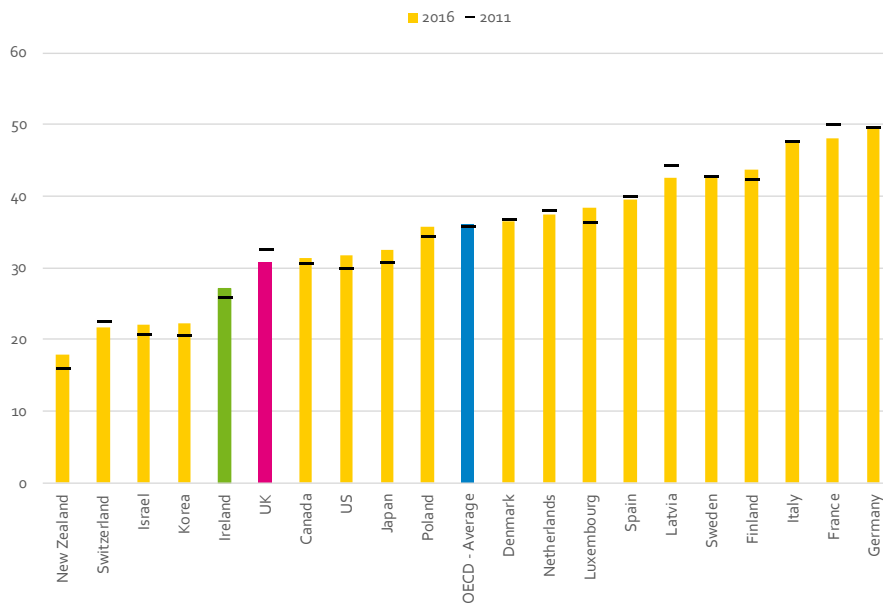
Figure 32: Marginal income tax, single individual, no children, 2016³⁰



The Irish marginal tax rate for employees earning 100% or 167% of average earnings in 2016 was 54.4%, above the OECD average (47%) and UK (49%). However, at 36.3%, the rate for a single individual earning 67% of average earnings in Ireland was below the OECD average of 41.8%.

Source: OECD, Taxing Wages 2016

Figure 33: Average tax wedge, single individual at 100% of tax earnings, no children, 2016³¹



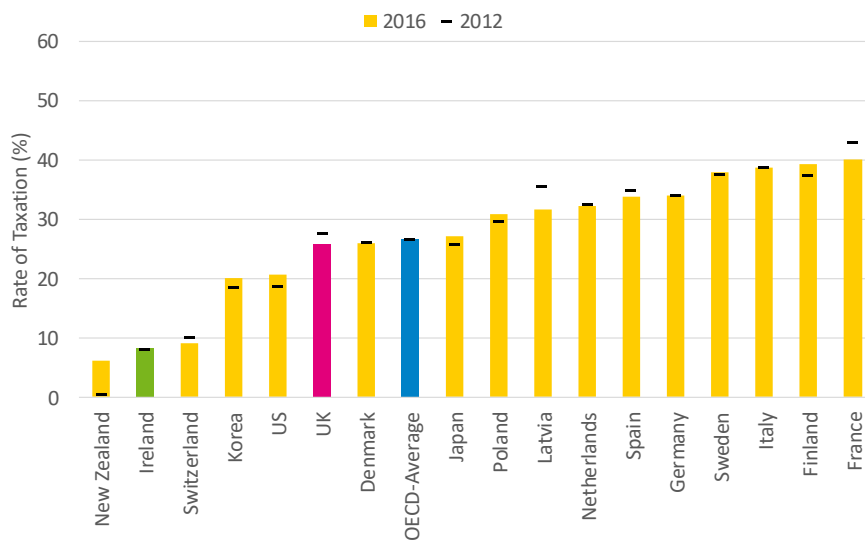
Ireland historically has one of the lowest tax wedge levels both within the EU and the OECD at average wages. In 2016, Ireland's average tax wedge was 27.1% of labour costs. This compares very favourably to the OECD average of 36.0%. At 167% of average wages, the wedge is 54% compared to 47% in the OECD and 49% in the UK.

Source: OECD, Taxing Wages 2016

³⁰ Marginal rate of income tax plus employee and employer contributions less cash benefits

³¹ The average tax wedge is used by the OECD to measure the extent to which taxes on labour income discourage employment. The tax wedge is defined as the ratio between the amount of taxes paid by an average single worker without children (i.e. a worker on 100% of average earnings) and the corresponding total labour costs for the employer including employer social insurance costs.

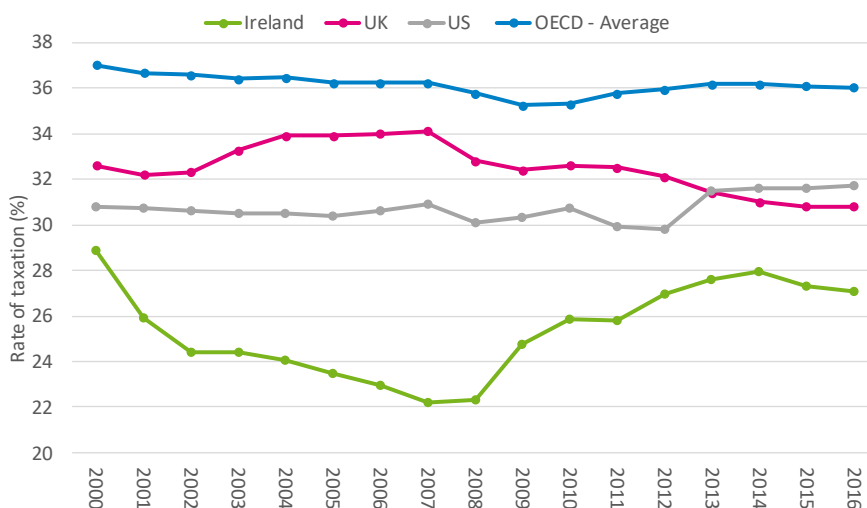
Figure 34: Average income tax plus employee and employer contributions less cash benefits, married couple with two children, earning 100% of average earnings, 2016



For a married couple earning 100% of the average wage with two children in 2016, the combined total of income tax and employee and employer contributions in Ireland (8.3%) was the third lowest in the OECD (26.6%). At higher income levels (167% of average earnings), the average rate in Ireland remained competitive and below the OECD average.

Source: OECD, Taxing Wages 2017

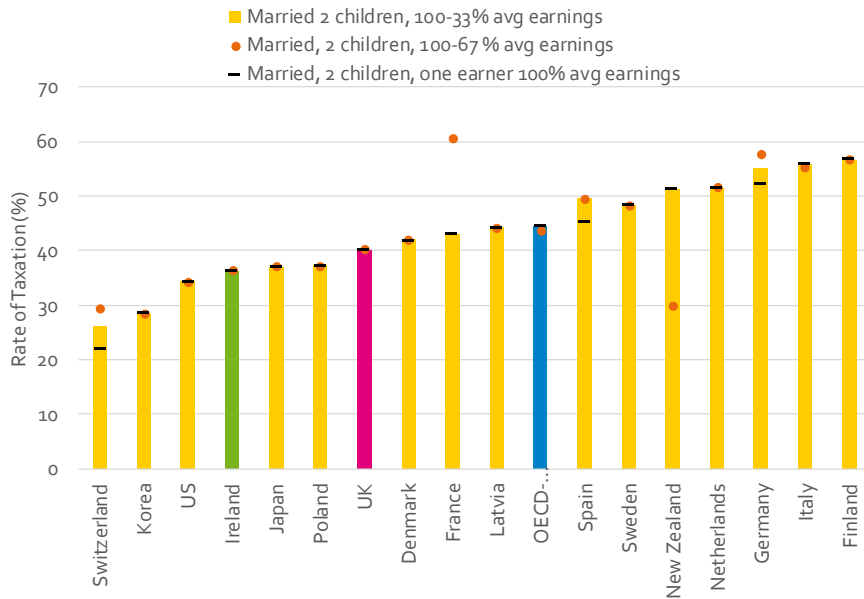
Figure 35: Average income tax rate, single individual earning 100% of average earnings, Ireland, selected economies 2016



In Ireland, the average income tax for a single worker earning 100% of the average wage over the last 16 years has been consistently lower than the OECD average rate and rates in the UK & US. The Irish rate in 2016 was 27%, below comparable UK (30.8%) & US (31.7%) rates. In 2016, the Irish rate fell by 1.8% to 27.1% while the average income tax across the OECD decreased by 1% to 36%.

Source: OECD, Taxing Wages 2017

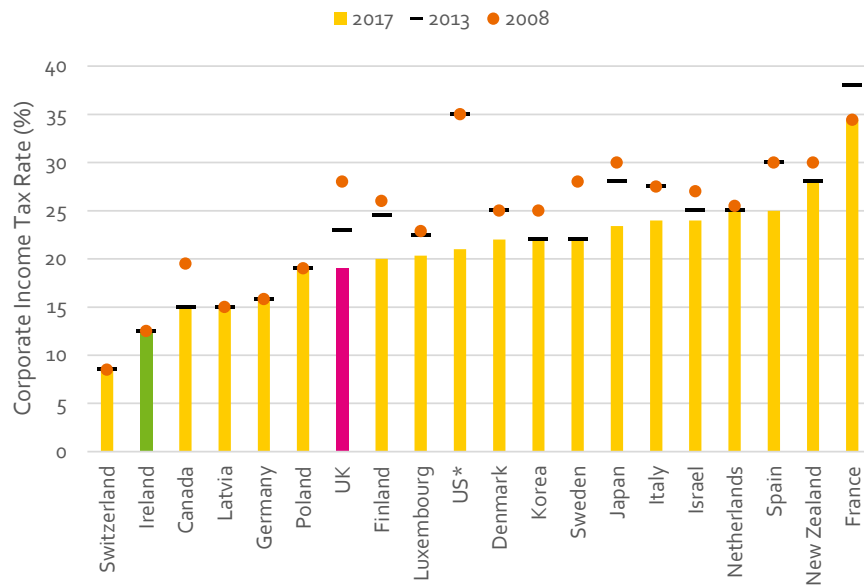
Figure 36: Marginal income tax, married couples with children, earning 100%, 133% or 167% of average earnings, 2 children, 2016



Married couples with children, earning 100%, 133% or 167% of the average earnings pay marginal rate of 36.3% in Ireland. The corresponding average rates across the OECD are 44.4%, 44.4% and 43.8% respectively. Married couples in Ireland also fare better than single people in terms of marginal rate of income tax.

Source: OECD, Taxing Wages 2017

Figure 37: Corporation Tax Rates, 2008-2017



Ireland's corporation tax rate remains internationally competitive and is the third lowest in the OECD at 12.5%. While Ireland's rate has remained consistent over recent years, many of our key competitors have reduced their rates (e.g. the UK and in 2018, the US³²).

Source: OECD

³² The Tax Cuts and Jobs Act of 2017 reduced US corporate tax rates to one flat rate of 21% tax rate on corporate income from January 1 2018.

Chapter 5 – Property Costs

Figure 38: Quarterly change in capital values in Ireland, Q1 2015-Q4 2017

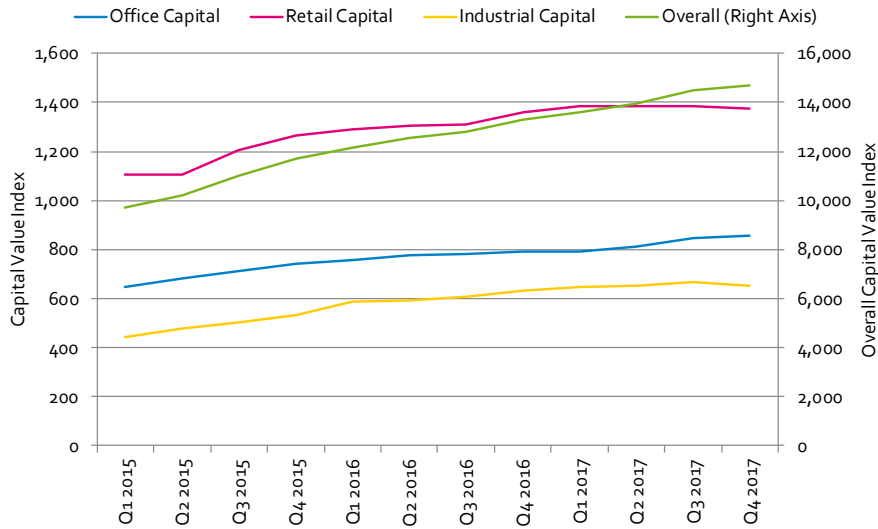
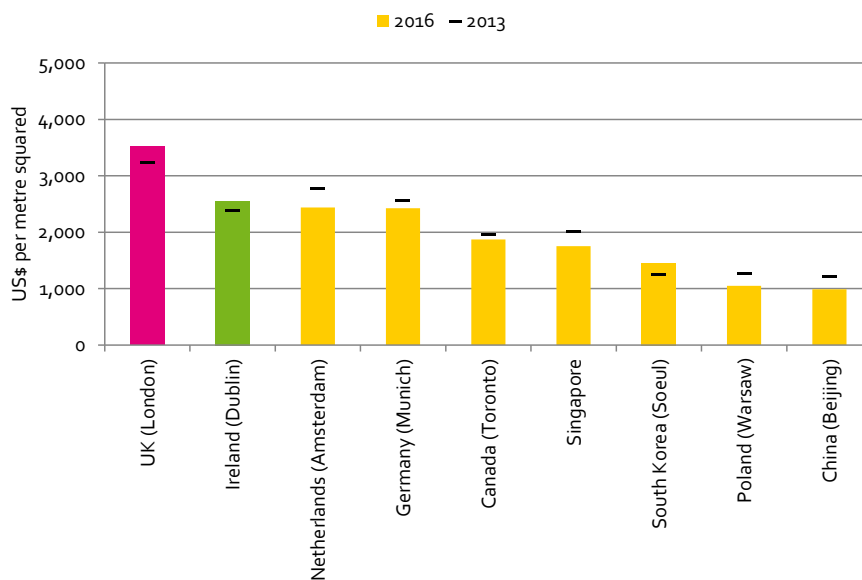


Figure 38 shows the change in capital values (in index form) in Ireland for a range of commercial property classes. Since Q1 2015, values across all categories have consistently increased. Overall capital value growth was recorded at 5.2% in Q4 2017 – this comprised of annual increases of 8.4%, 1.3% and 3.2% in Office, Retail and Industrial values respectively.

Source: Jones Lang LaSalle, Irish Property Index

Figure 39: Cost of constructing a prime office unit, \$ per square metre³³, 2016

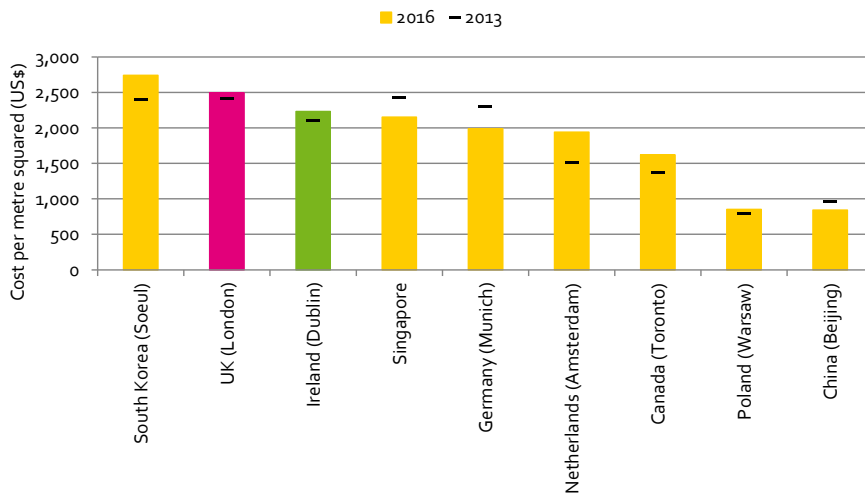


In Dublin, 2016 cost is estimated at \$2,553 compared with \$3,519 in London. In advanced economies, 20 of the 25 markets saw construction costs rise by more than general inflation – the average price increase for these economies was 2.7% with markets such as Dublin seeing cost inflation as high as 7%.

Source: Turner and Townsend Construction Cost Survey

³³ Prices quoted are the upper boundary of the cost of the constructing a prime office unit. A prime office unit refers to a city centre, self-contained building of a size and height typical of major cities in a country; building costs include for accommodation to a good finish with raised floors, carpet, suspended ceilings, air conditioning, lighting and power, but excluding partitioning.

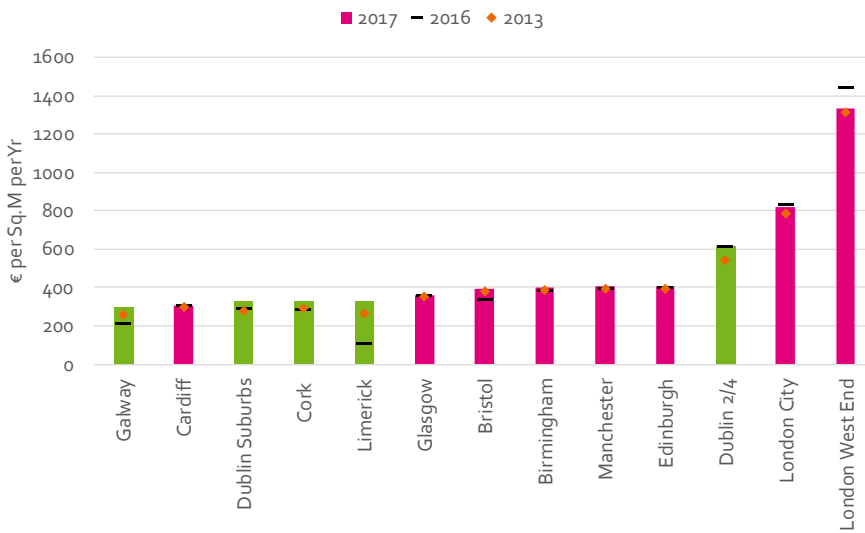
Figure 40: Cost of constructing a High-Tech Factory, € per square metre, 2016



The cost of constructing a High-Tech Factory/Laboratory varies considerably across advanced economies. In Dublin, cost is estimated at \$2,234, over 6% since 2013. The comparable figure for London is \$2,494. The highest increase was recorded in Amsterdam, where the cost of construction increased by 28% over the five-year period.

Source: Turner and Townsend Construction Cost Survey

Figure 41: Cost of renting a prime office unit, € per square metre per year, Q4 2017³⁴

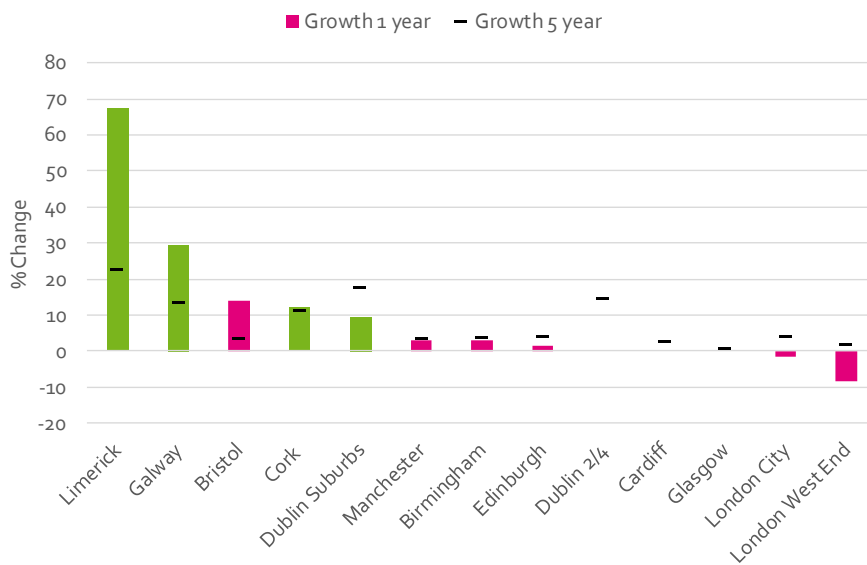


Office rental prices in Ireland in 2017 compare favourably to cities in the UK. In 2017, Cushman and Wakefield report the cost per SqM per year in Dublin City (€619) and Suburbs (€324), Limerick and Cork (€325) and Galway (€295). UK costs range from €1333 in the West End, €406 in Manchester, and €303 in Cardiff.

Source: Cushman and Wakefield, Office Snapshot Reports

³⁴ Figures for both Dublin (D2/D\$) and Cork are from Q2 2016.

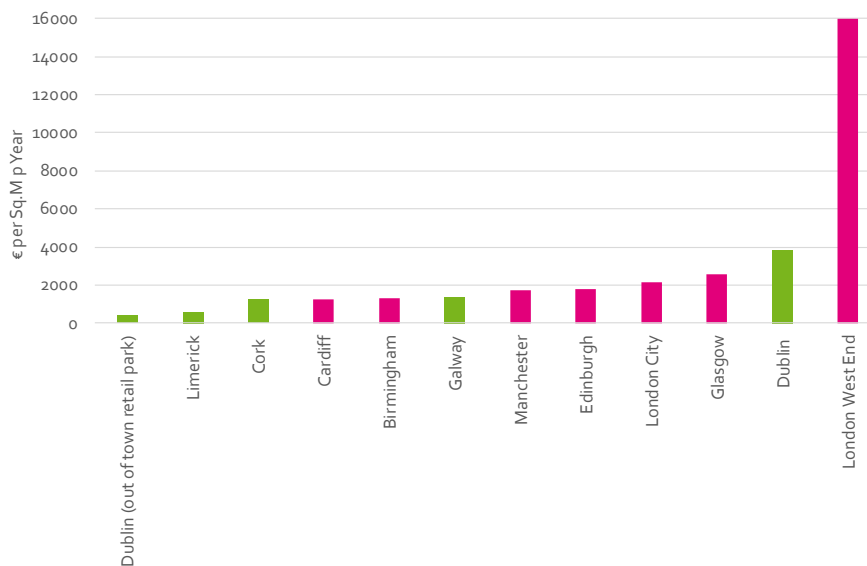
Figure 42: One and five-year Growth³⁵ in Cost of renting a prime office unit, € per square metre per year, Ireland and the UK, Q4 2017



Annual growth rates in Ireland are much stronger than in the UK. Year-on-year increases in Irish locations ranged from 67% (Limerick), 29% (Galway), 12% (Cork) and 9% (Dublin Suburban). Rental Costs fell in London city and West End (1.5%, 8.3%). On annual basis rents were unchanged in Dublin 2/4, Cardiff and Glasgow.

Source: Cushman and Wakefield, Office Snapshot Reports

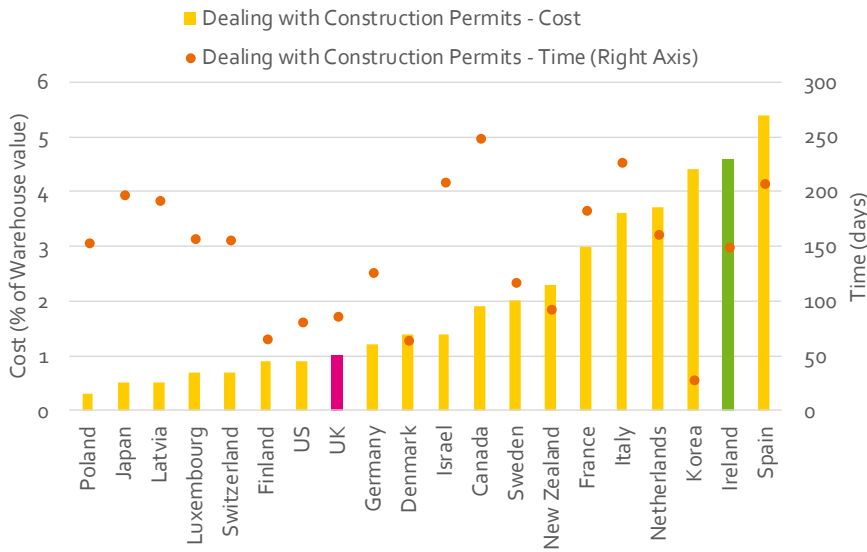
Figure 43: Cost of Renting a Prime High Street Retail Unit, € per square metre per month, Ireland and the UK, Q4 2017



In Q4 2017 prime retail rents had increased on an annual basis across Ireland. The most expensive location was Dublin (€3,794, +4% year-on-year). Costs in Galway (1,349, +9%), Cork (€1,265, 0%) and Limerick (€562, 5%) compare relatively favourably to the UK. Rental costs in the UK range from €1,267 in Cardiff to €2,163 and €16,000 in London City and West End.

Source: Cushman and Wakefield, Retail Market Snapshots

Figure 44: Time and Cost of Dealing with Construction Permits in building a warehouse³⁶, 2017



Ireland scores well on building control and regulatory quality but poorly on time and cost to build. The World Bank estimates it takes 149 days to build a warehouse in Dublin compared with 86 days in London. Cost³⁷ is a percentage of warehouse value and estimated at 4.6% in Dublin compared to 1% in London.

Source: World Bank, Doing Business

Figure 45: Time and Cost of Registering a Property, 2017

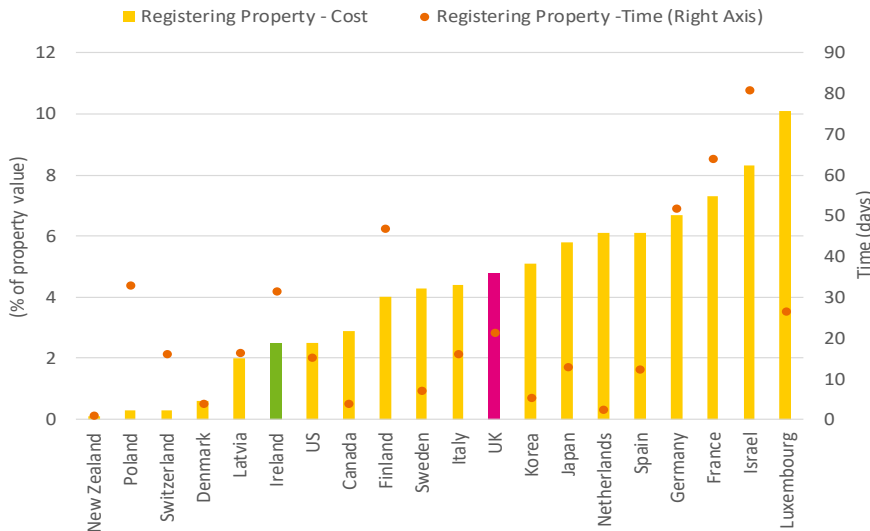


Figure 45 shows the time and cost³⁸ involved in registering property, in a standardised case of an entrepreneur purchasing land and a building already registered and free of title dispute. Ireland performs relatively well in terms of cost as a percentage of value 2.5% compared to 4.8% in the UK. The process takes 31 days compared to 21 in the UK.

Source: World Bank Doing Business

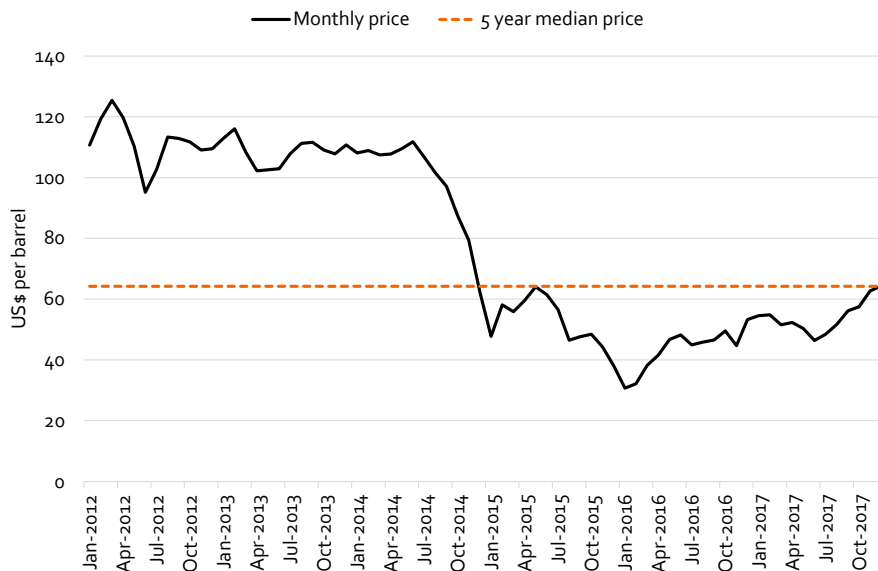
³⁶ This category is based on the procedures, time, and costs to build a warehouse, including obtaining necessary licenses and permits, completing required notifications and inspections, and obtaining utility connections.

³⁷ Cost is recorded as a percentage of warehouse value. The value is €2 million in Dublin and £1.4 million in London)

³⁸ Cost is recorded as a percentage of the property value, assumed to be equivalent to 50 times income per capita. Only official costs required by law are recorded, including fees, transfer taxes, stamp duties and any other payment to the property registry, notaries, public agencies or lawyers. Other taxes, such as capital gains tax or value added tax, are excluded from the cost measure. Both costs borne by the buyer and the seller are included. If cost estimates differ among sources, the median reported value is used.

Chapter 6 – Transport Costs

Figure 46: Europe Brent³⁹ Spot Oil Price, USD per Barrel, 2012-2017



The price for Brent Crude is one of the primary benchmarks for oil prices globally. While the price of oil has been relatively subdued in the period 2014-2016 (with the lowest price recorded in January 2016 at \$30.7 per barrel), in the second half of 2017 the price of oil has been gradually increasing. Prices were 25% higher in 2017 than in 2016 averaging \$53/barrel for the year.

Source: US Energy Information Association

Figure 47: Average diesel and petrol costs per litre in Ireland, January 2012-January 2018

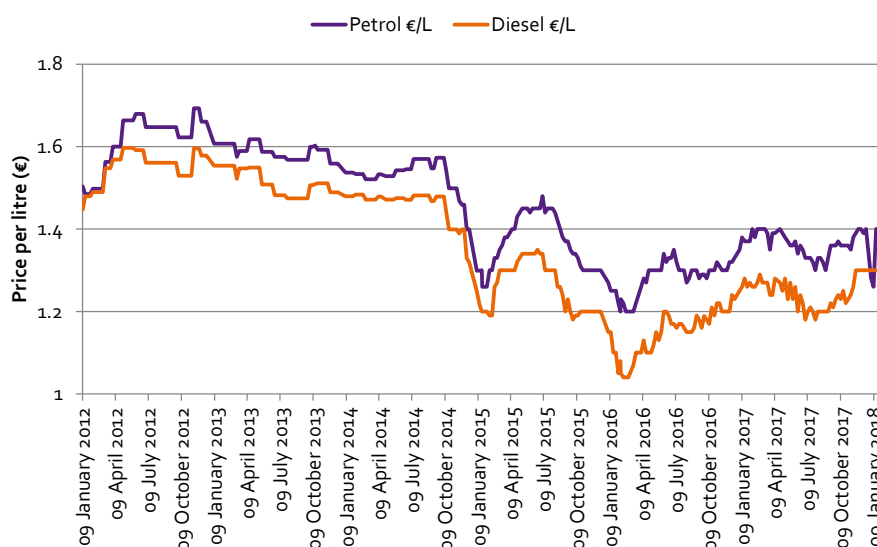
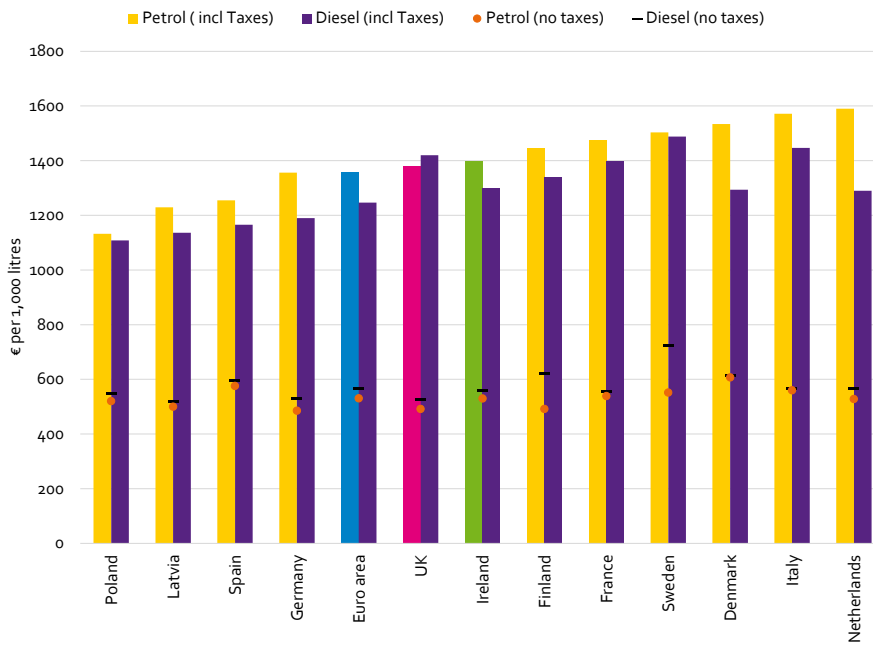


Figure 47 shows the trends in consumer prices for petroleum products in Ireland over the period January 2012-January 2018. Year-on-year petrol and diesel prices increased by 6.3% and 7.8% respectively in 2017 compared to 2016. The lowest prices were recorded in February 2016, at €1.2 per litre for petrol and €1.04 per litre for diesel.

Source: US Energy Information Association

³⁹ Brent is the leading global price benchmark and is used to price two thirds of the world's internationally traded crude oil supplies.

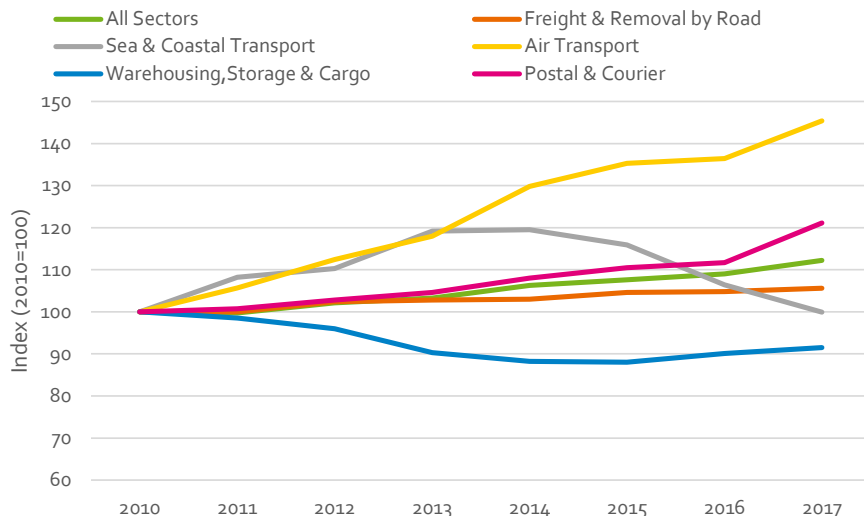
Figure 48: Diesel and petrol costs per 1,000 litres, January 2018



The costs of 1,000 litres of diesel (€1,299) and petrol (€1,399) in Ireland are higher than the Euro area average (€1,247 and €1,358 respectively), ranking Ireland 7th and 6th most expensive in the Euro area. Taxes on diesel range from 49% to 63% across the countries benchmarked (Ireland - 57%) and for petrol from 54% to 67% (Ireland - 62%).

Source: European Commission, Energy Statistics & Market Observatory

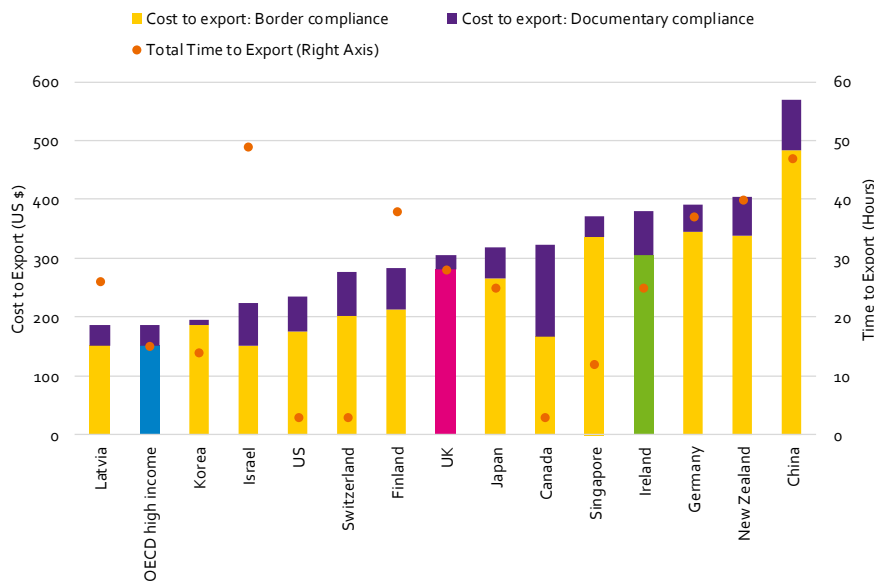
Figure 49: Trends in Transport Related Prices in Ireland, 2012 - Q3 2017



In the transport sector prices increases have been relatively moderate in recent years, excluding prices in Air transport which have been more volatile and prices in Sea and coastal transport and Warehousing, Storage and Cargo which have been on a downward trajectory since Q4 2016.

Source: CSO, Services Producer Price Index

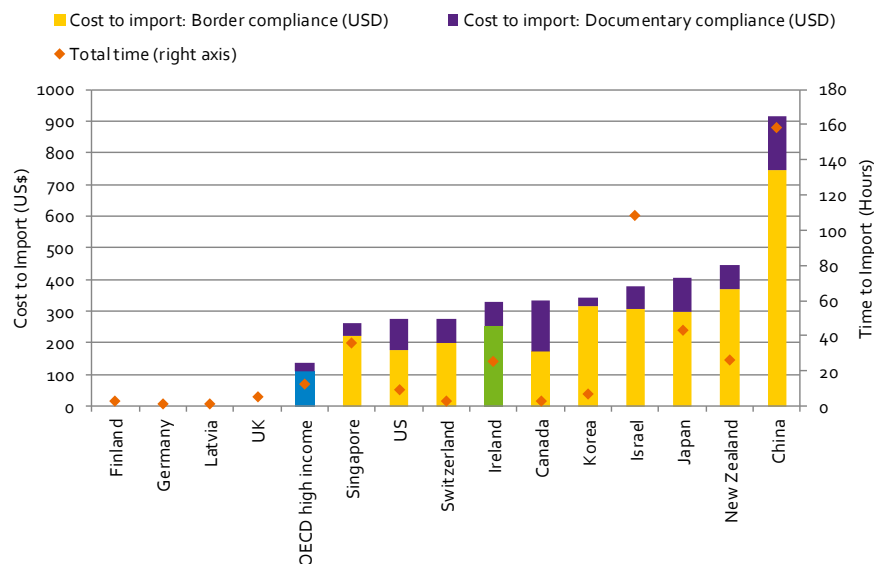
Figure 50: Administrative Costs and Time to Export⁴⁰, 2017



Source: World Bank, Doing Business 2018

The ease and cost of customs and admin procedures has a significant impact on trade flows. Total costs in Ireland to export a standardised cargo were \$380 compared with \$305 in the UK. It takes 25 hours to complete the required procedures in Ireland, which is above the OECD time of 15 hours but below the UK (28 hours).

Figure 51: Administrative Costs and Time to Import, 2017

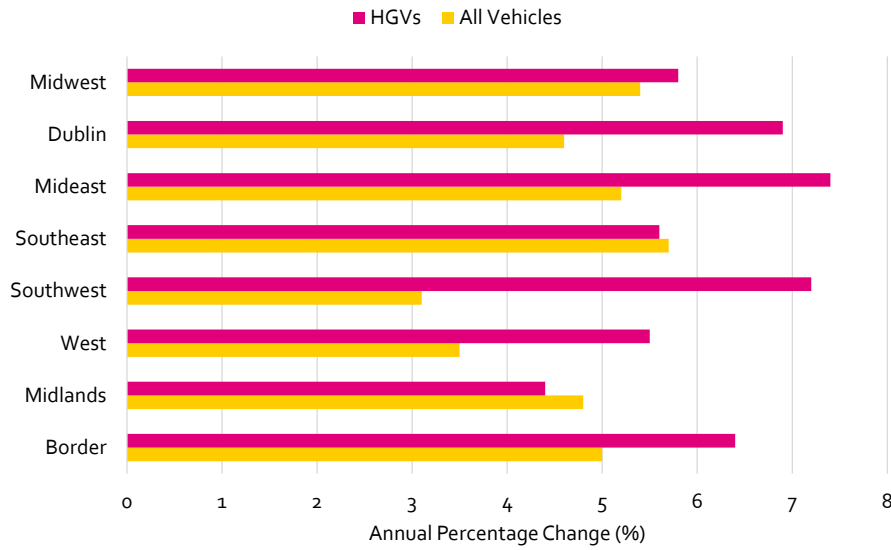


Source: World Bank, Doing Business 2018

The cost to import a container in Ireland is estimated by the World Bank at \$325, significantly higher than the OECD high income average of \$137. The time taken to complete the necessary procedures in Ireland was 25 hours, compared to 12.2 hours in OECD high income average. Times and costs for the UK are reported as 5 hours and nil respectively.

⁴⁰ The World's Bank Doing Business measures the time and cost (excluding tariffs) associated with three sets of procedures - documentary compliance, border compliance and domestic transport - within the overall process of exporting or importing a shipment of goods. The most recent round of data collection was completed in June 2017. Cost estimates of 0 are provided for Denmark, France, Italy, Luxembourg, Spain and Sweden. Average data is provided by the World Bank for an OECD high income grouping.

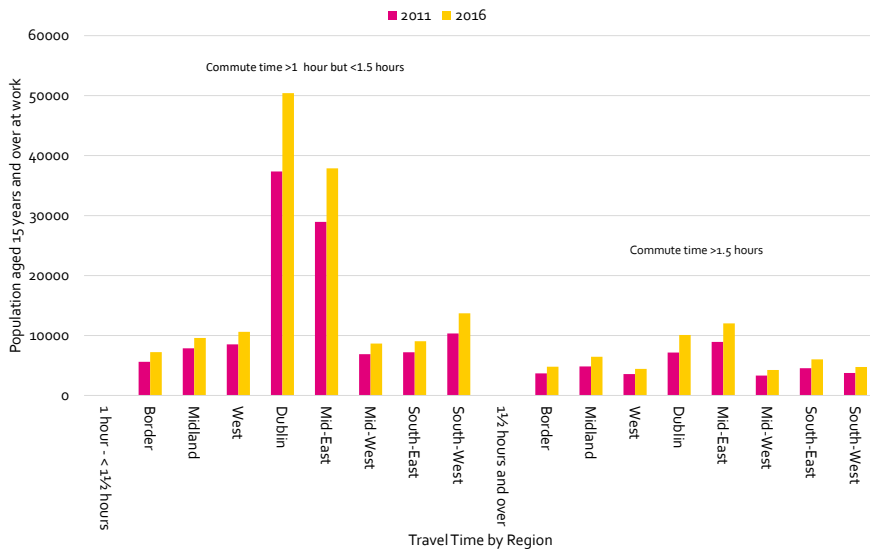
Figure 52: Growth in traffic by region, Ireland, 2016



Traffic growth was 4.6% across the network in 2016. The highest regional growth recorded in 2016 was in the South-East with 5.7% for the year. The Mid-West and Mid-East experienced growth at 5.4% and 5.2% respectively. For HGVs, the Mid-East and South-West recorded highest regional growth with 7.4% and 7.2% respectively.

Source: Transport Infrastructure Ireland

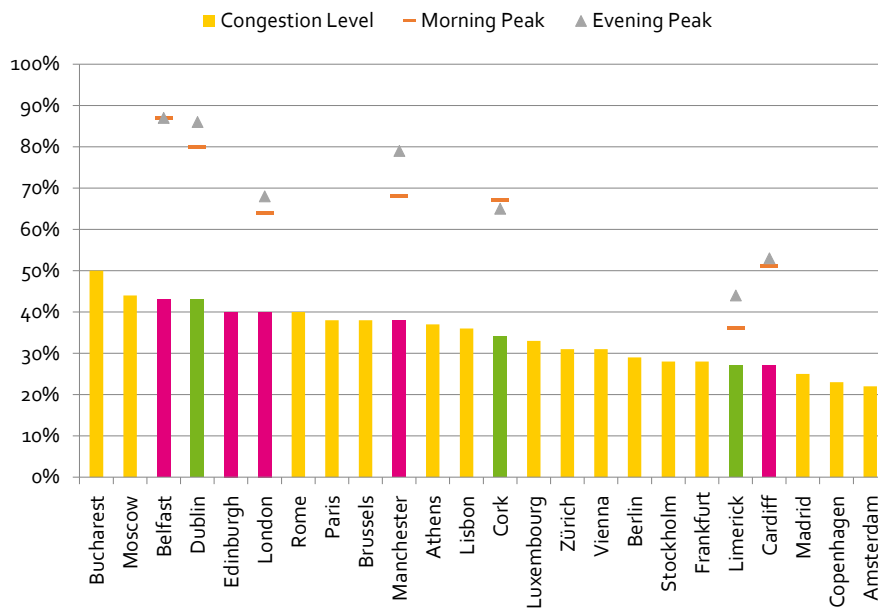
Figure 53: Travelling time for persons at Work, School or College, by region, 2016



Nearly 200,000 commuters (199,922), representing almost 11 per cent of all commuters, spent an hour or more commuting to work in 2016, with an average travel time of 74 minutes. This has increased by almost 50,000 persons (31%) on the 2011 figure of 152,000. Nearly 53,000 workers commuted 90 minutes or more.

Source: CSO

Figure 54: Traffic congestion⁴¹ levels, Europe 2016



Traffic congestion based on TomTom's database shows on average, journey times in busy periods take 43%, 34% and 27% more time in Dublin, Cork and Limerick respectively. Dublin is one of the most traffic congested cities in Europe with morning and evening congestion times 80% and 86% higher compared to a free flow.

Source: TomTom International

Figure 55: Traffic Congestion levels, Ireland, 2008-2016

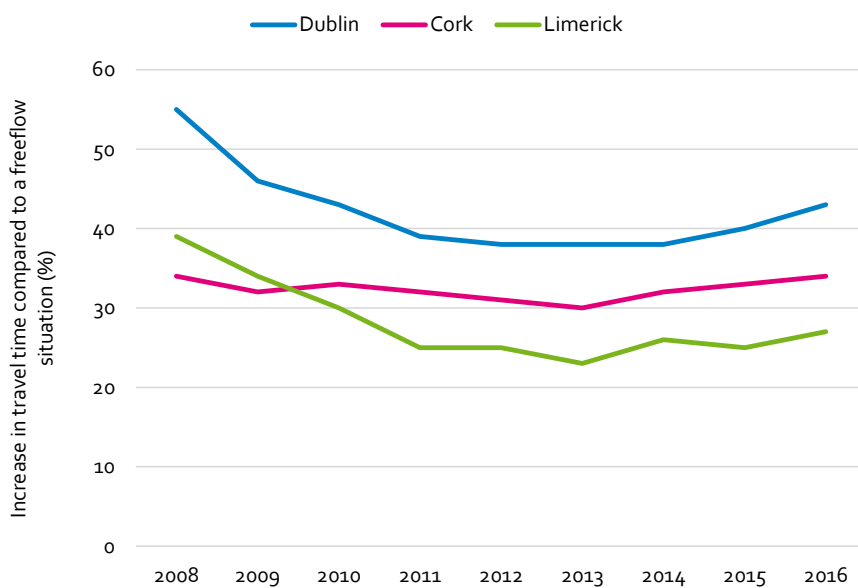


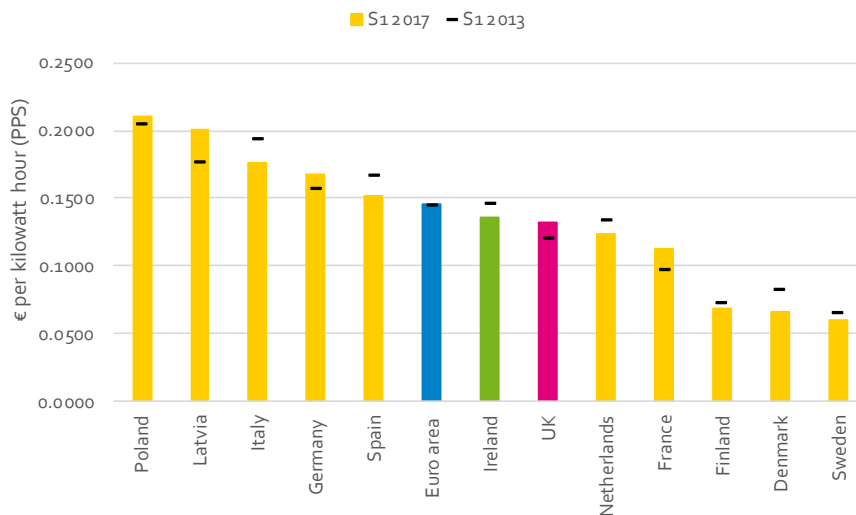
Figure 55 shows increased economic activity and high usage of private cars relative to public transport has resulted in increased road congestion levels since 2013. In 2008 journey times in busy periods took 55%, 39% more time in Dublin and Limerick respectively. At 34%, increases in journey times due to congestion in Cork were at 2008 levels in 2016.

Source: TomTom International

⁴¹ Increase in overall travel times when compared to a free flow situation. For example, a congestion level of 36% corresponds to 36% extra travel time for any trip, anywhere in the city, at any time compared to what it would be in a free flow situation. The TomTom Traffic Index figures are based on speed measurements from TomTom's historical traffic database. These speed measurements are used to calculate the travel times on individual road segments and entire networks. By weighting based on the number of measurements, busier and more important roads in the network have more influence than quieter, less important roads.

Chapter 7 – Utility Costs

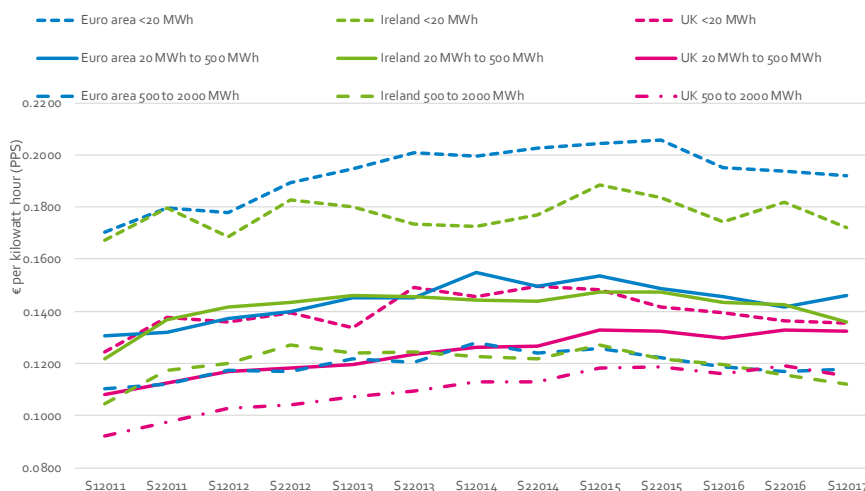
Figure 56: Non-household electricity prices (excluding VAT and other recoverable taxes and levies)⁴², S1 2017,



In the first half of 2017, the Irish weighted average non-household⁴³ electricity prices for non-household consumers (in purchasing power standard) have declined compared to 2013. At €0.14, the electricity prices for business consuming between 20 and 500 MWh were below the Euro area (€0.15) but above the UK price (€0.13).

Source: Eurostat

Figure 57: Electricity prices for non-household consumers (Purchasing Power Standard), excluding VAT and other recoverable taxes and levies, low consumption bands, S1 2011-S1 2017



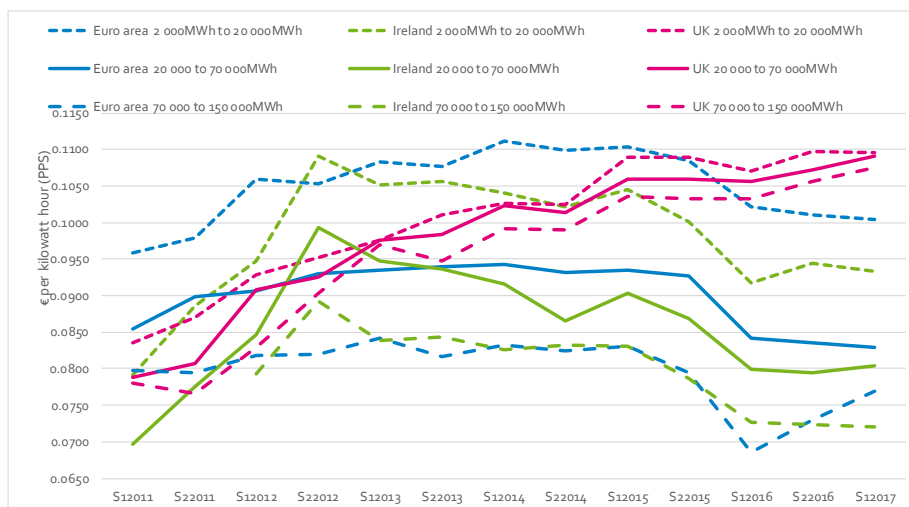
The price of electricity in the lowest band (<20 MWh) in Ireland was below the Euro area but above the UK prices. The price of electricity in the 20 to 500 MWh band fluctuated below and above the Euro area prices, but was above the UK prices. The highest level of price convergence was in the 500 to 2000 MWh band.

Source: Eurostat

⁴² It should be noted that Ireland's energy supplies, excluding renewables, are often at the end of supply pipelines and this combined with low spatial density make energy more expensive to deliver in Ireland.

⁴³ Until 2016, the domain of non-household consumers was defined as industrial consumers, consequently reporting authorities were allowed to include other non-household consumers

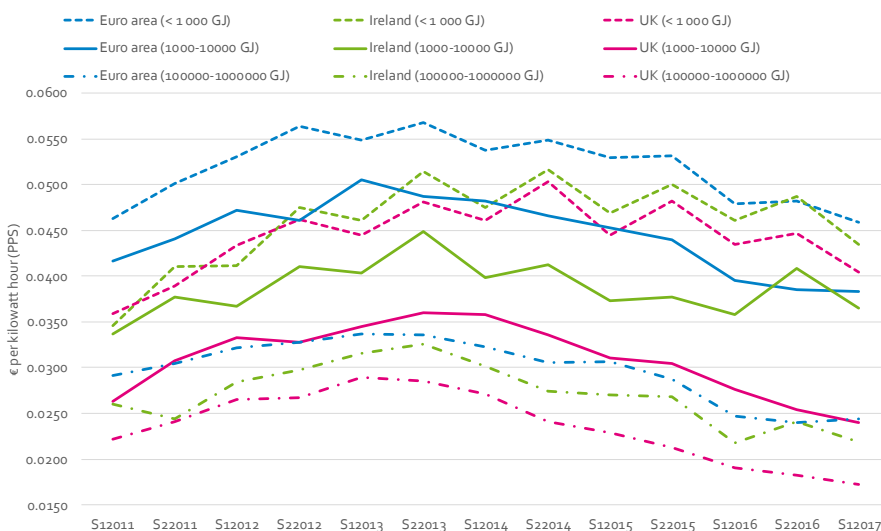
Figure 58: Electricity prices for non-household consumers (Purchasing Power Standard), excluding VAT and other recoverable taxes and levies, high consumption bands, S1 2011 - S1 2017



The price of electricity for non-household consumers in the 2000 to 20000 MWh and 20000 to 70000MWh bands have been below the Euro area prices since 2013. The Irish and Euro area electricity prices in the 70000 to 150000 MWh band have been close throughout the period examined. The UK prices in all bands were above the Irish prices in the last three years.

Source: Eurostat

Figure 59: Gas prices for non-household consumers (Purchasing Power Standard), excluding taxes and levies, 2011-S1 2017



The price of natural gas in the three categories of non-household consumers have been consistently below the Euro area average over the period examined, except for S2 2016. The price difference between Ireland and the Euro area diminished in 2016 and S1 2017. UK prices categories have been below the Euro area and Irish prices since 2012.

Source: Eurostat

Figure 60: Share of non-recoverable taxes and levies in the overall gas price for non-household consumers, S1 2017



The proportion of non-recoverable taxes and levies in the overall natural gas price in S1 2017 is relatively low in Ireland (8.2%) compared to the Euro area (14.8%) but higher than the UK (4.7%). At 11.6%, the proportion of VAT and other recoverable taxes and levies is below the Euro area (16.4%) and the UK (14.3%).

Source: Eurostat

Figure 61: Business water service costs in Ireland by Local Authority, 2017

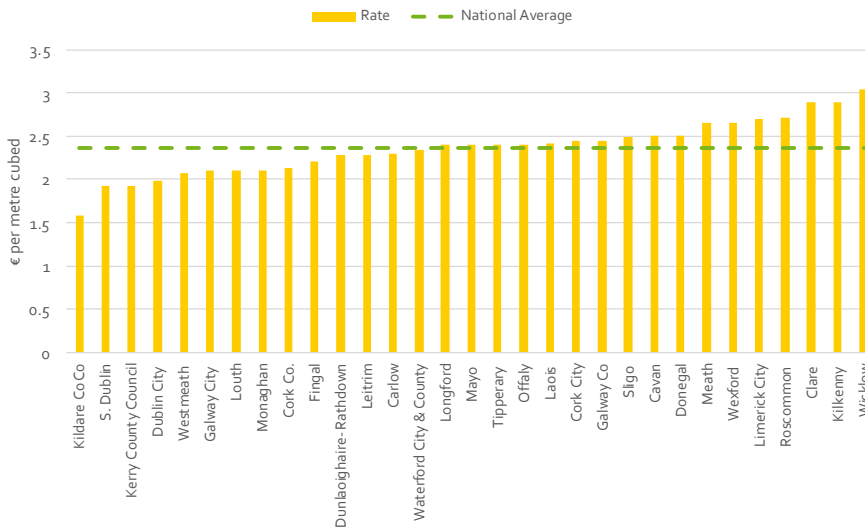


Figure 61 shows the combined charge per m³ of water (including water supply and wastewater services) in each Irish Local Authority area. The average cost of water for business in Ireland is € 2.38 per m³ with significant variation between Local Authorities.

Source: Irish Water

Figure 62: Business Standalone Fixed Voice Basket ⁴⁴€ per month excluding VAT, Q3 2017,

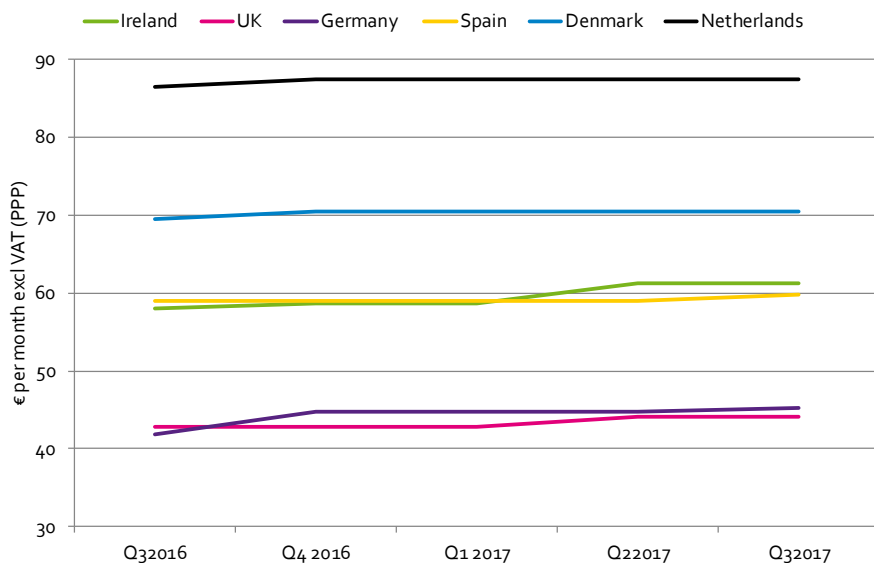
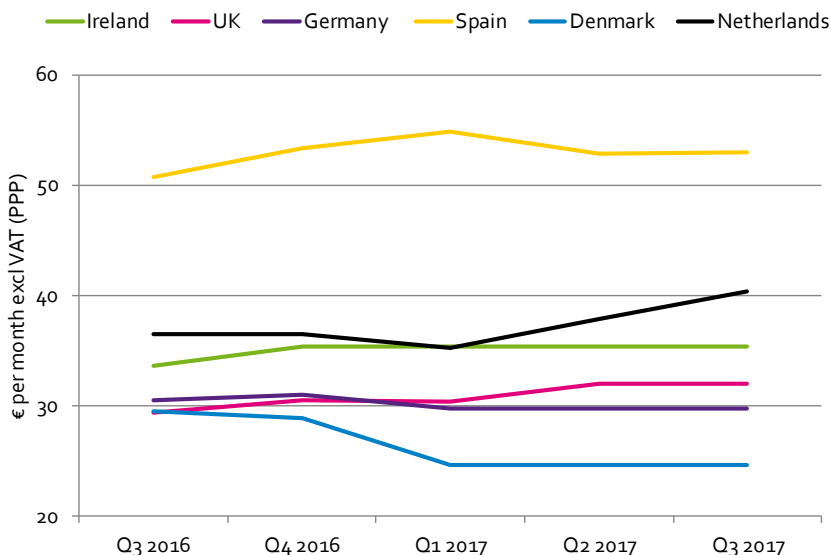


Figure 62 shows that in Q3 2017 a basket of Standalone Fixed Voice charges for Business in Ireland was €61.27, which was 39% more expensive than the corresponding basket in the UK. Year-on-year, Irish prices increased by 5.7%. The most expensive country benchmarked was the Netherlands (€87.38).

Source: Comreg

Figure 63: Business Fixed Broadband, € per month excluding VAT, Q3 2017,

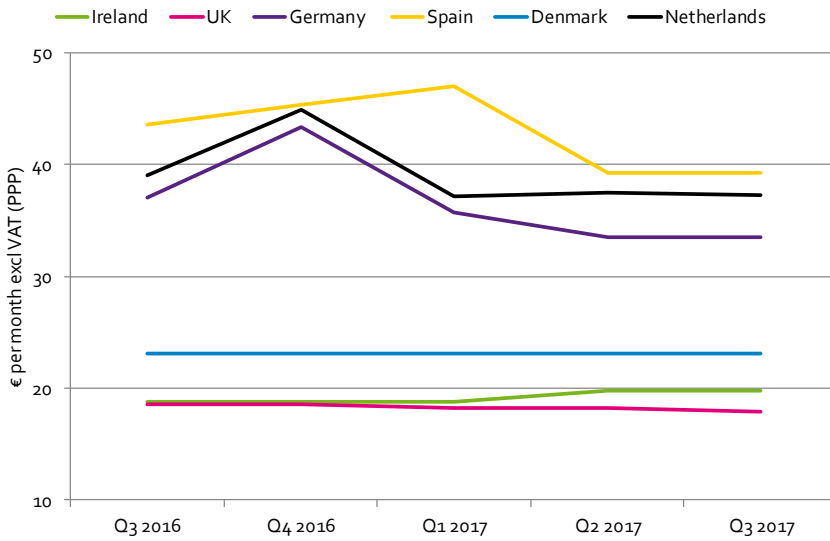


The price of Fixed Broadband Services for business in Ireland remained flat in the last four quarters at €35.28. Although the fixed broadband charges have been increasing gradually in the UK by 8.8% year on year and at €32 Q3 2017, they are still lower than the corresponding charges in Ireland.

Source: Comreg

⁴⁴ Standalone fixed voice services are voice services not sold as part of a bundle or other services.

Figure 64: Business Mobile Broadband, € per month excluding VAT, Q3 2017



At €19.84 in Q2-Q3 2017, Ireland had the second lowest Business Mobile Broadband costs in the sample of countries. Prices have been relatively stable in recent quarters. The least expensive country was the UK (€17.9) while Spain was the most expensive country benchmarked (€39.24).

Source: Comreg

Figure 65: Business post-paid mobile phone services, € per month excluding VAT, Q3 2017

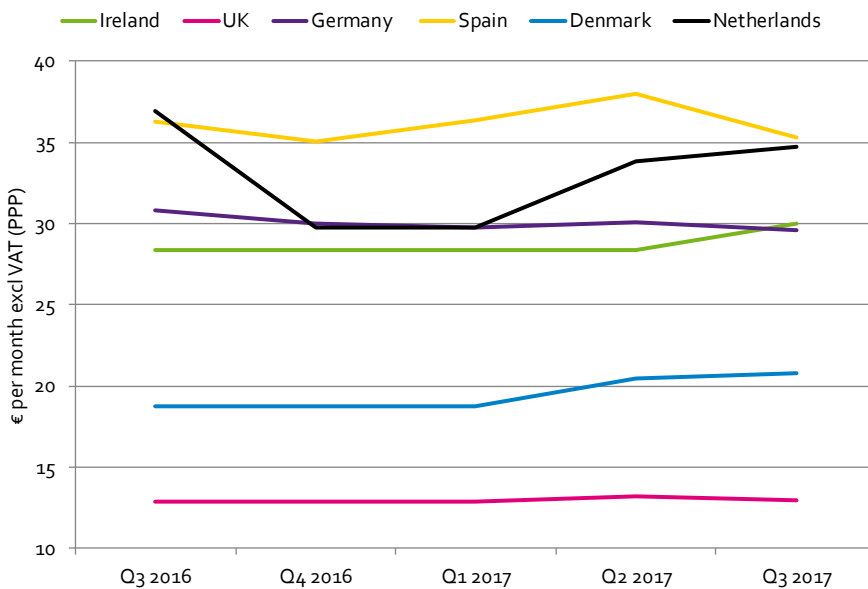
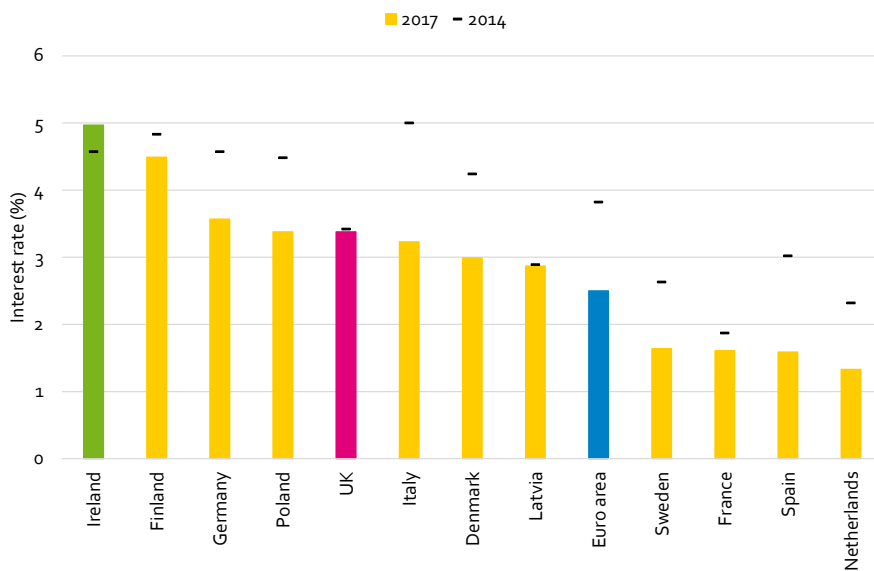


Figure 65 shows that Business post-paid mobile services in Ireland remained stationary over the previous 4 quarters (€28.33) and in Q3 2017 they increased to €30. While charges are below Spain, Netherlands and Germany, Irish charges were over twice as expensive compared to the UK monthly charges of €12.9.

Source: Comreg

Chapter 8 – Credit and Financial Costs

Figure 66: Interest rates on bank overdraft and revolving loans, 2017



In 2017 Ireland had the second highest interest rates on revolving loans and overdrafts in the Euro area, with only businesses in Greece paying higher charges. While in most Euro area countries the mean interest rate has declined compared to 2014, in Ireland the interest rate of 4.9% is higher than the 2014 figure and almost double the Euro area average (2.5%).

Source: European Central Bank

Figure 67: Interest rates for non-financial corporations (new businesses⁴⁵) by loan size, November 2017

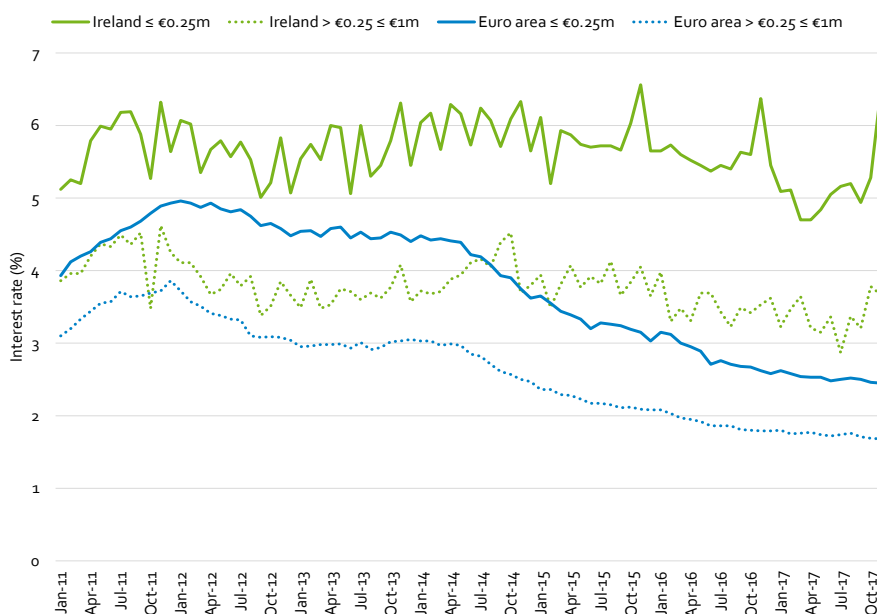
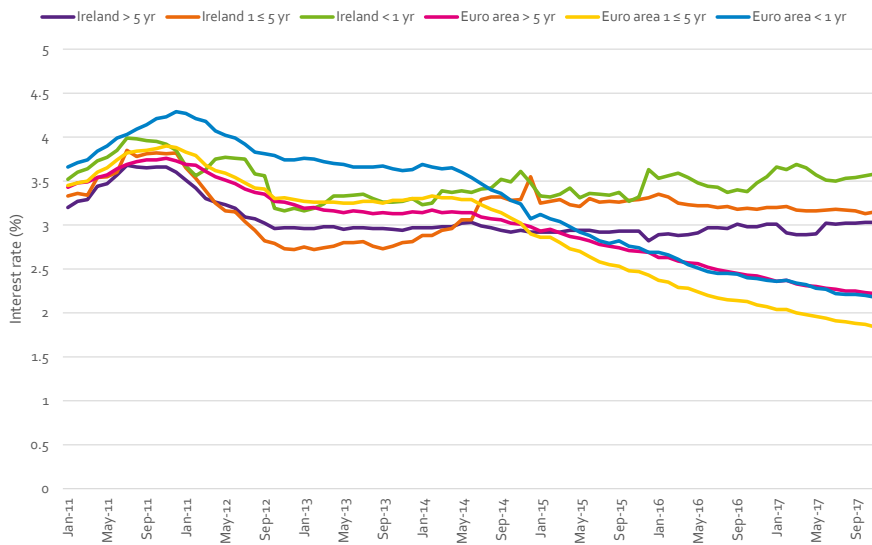


Figure 67 shows that Irish rates have been more volatile over the period examined and are higher than Euro area rates. The divergence is noticeable for loans of up to €0.25 million, where Irish interest rates were 6.7% in November 2017 compared to 2.4% in the Euro area. For loans, less than €1 million the Irish rate was 3.6%, Euro area (1.6%).

Source: European Central Bank

⁴⁵ Any new agreement between a non-financial corporation and a bank

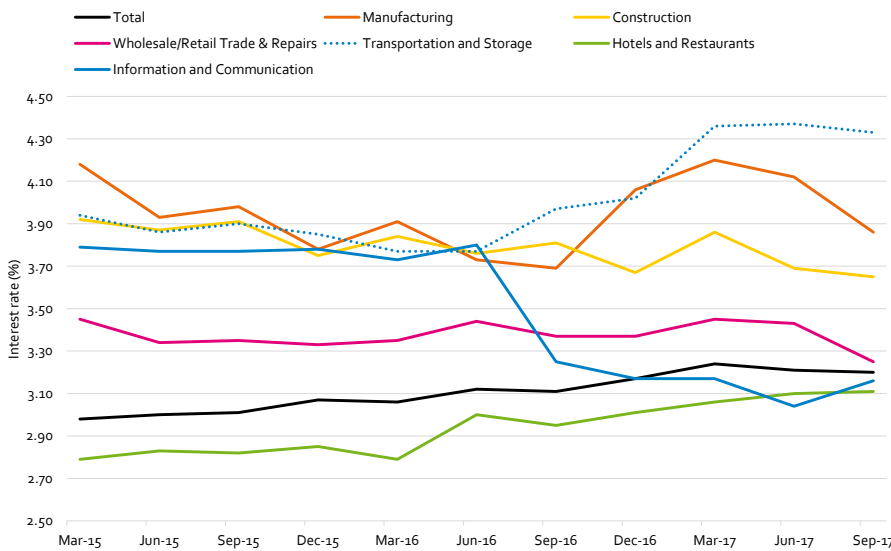
Figure 68: Interest rates for non-financial corporations (outstanding amounts) by duration, Jan 2011-Nov 2017



In the period 2011-mid-2014, interest rates on outstanding amounts in Ireland were universally lower than the Euro area. As of late 2016, rates for all durations are significantly higher in Ireland, and the gap between the Irish and the Euro area interest rates is widening. Rates are inversely correlated with duration in Ireland.

Source: European Central Bank

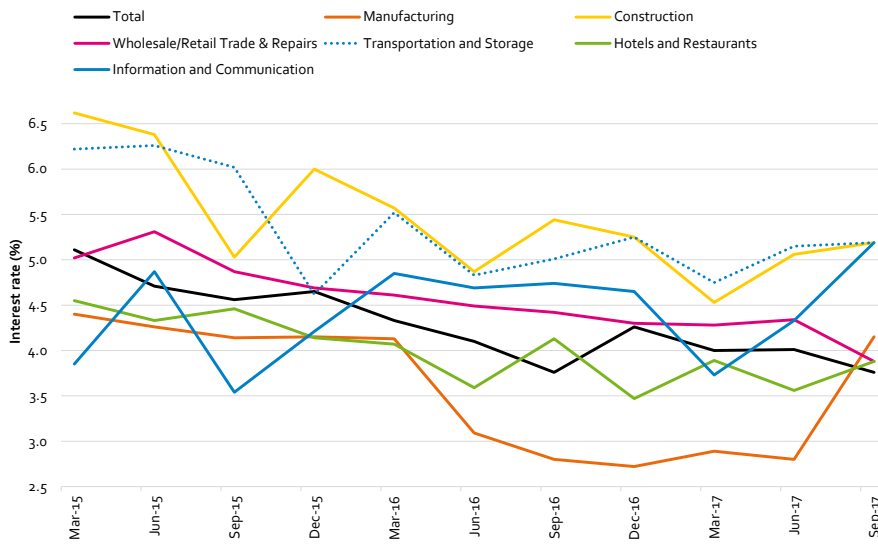
Figure 69: Interest rates for Irish SMEs (outstanding amounts), Q1 2015-Q3 2017



The interest rates on outstanding amounts to SMEs were consistently lower than the rates on gross new lending and the difference is particularly prominent in the Construction Sector. The interest rates to SMEs engaging in Transport & Storage, Manufacturing and Construction were higher than the rates in the remaining sectors.

Source: Central Bank of Ireland

Figure 70: Interest rates on gross new lending⁴⁶ for Irish SMEs, Q1 2015-Q3 2017



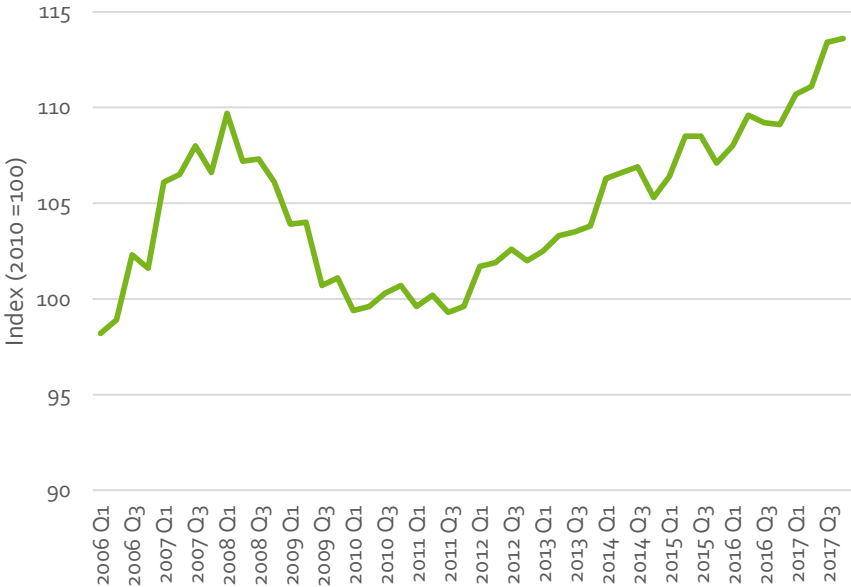
The interest rates on gross new lending for SMEs decreased between Q1 2015 and Q3 2017 in most economic sectors except for ICT. The interest rates to SMEs in Construction and Transport & Storage were consistently higher than the rates in the remaining sectors. The interest rates in Wholesale/Retail Trade & Repair sector were least volatile.

Source: Central Bank of Ireland

⁴⁶ Gross new lending excludes restructures or renegotiations which do not increase the size of outstanding loans. It does include new funds drawn down following a restructure or renegotiation of an existing facility that were not included in credit advanced at the end of the previous quarter.

Chapter 9 – Business Services and Other Input Costs

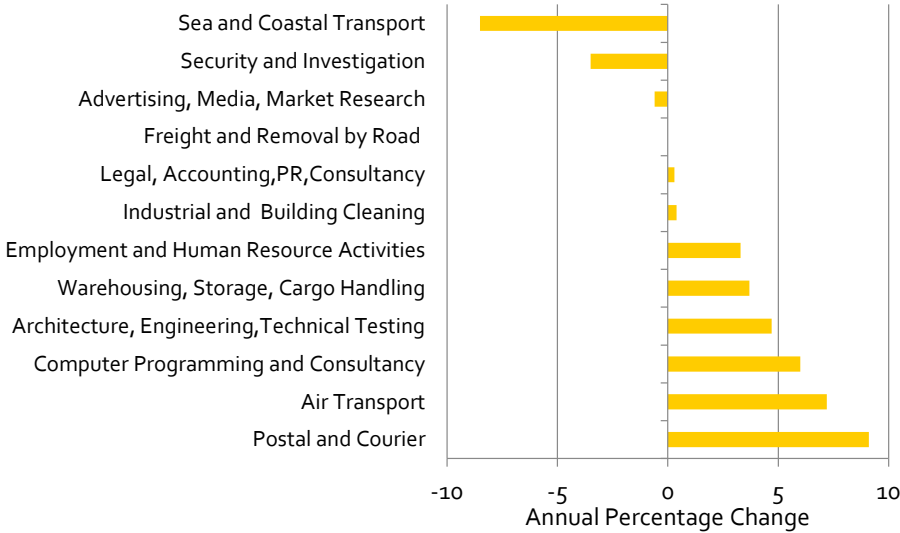
Figure 71: Services producer price index⁴⁷, Q1 2006-Q4 2017



In Q4 2017, the SPPI stood at 113.6. Following a period of decline during the recession, an upward trend has been evident since 2011. Services prices were on average 4.2% higher in Q4 2017 when compared with Q4 2016. In Q4 2017 notable price changes were: Warehousing, Storage and Cargo Handling (+2.9%), Employment and Human Resource Activities (+2.4%).

Source: CSO

Figure 72: Services Producer Price Index, Annual Percentage change, Q3 2017



The most notable changes in the year were: Postal and Courier (+9.1%), Air Transport (+7.2%), Computer Programming and Consultancy (+6.0%) and Sea and Coastal Transport (-8.5%). In terms of contribution to the overall SPPI increases in Computer Programming Consultancy account for 60% of the total change.

Source: CSO

⁴⁷ The SPPI measures changes in the average prices charged for a range of business service. The SPPI is an experimental data set and the indices are still under development. In most cases the services measured are provided to business customers only and so individual price indices should not be considered indicative of more general price trends in the economy. The index covers transaction costs from business to business and excludes consumers who are covered in the Consumer Price Index (CPI). Individual price indices are aggregated together to create a "service industry" index that is limited in coverage.

Figure 73: Comparison of Service producer prices, 2016 (latest full year comparison)

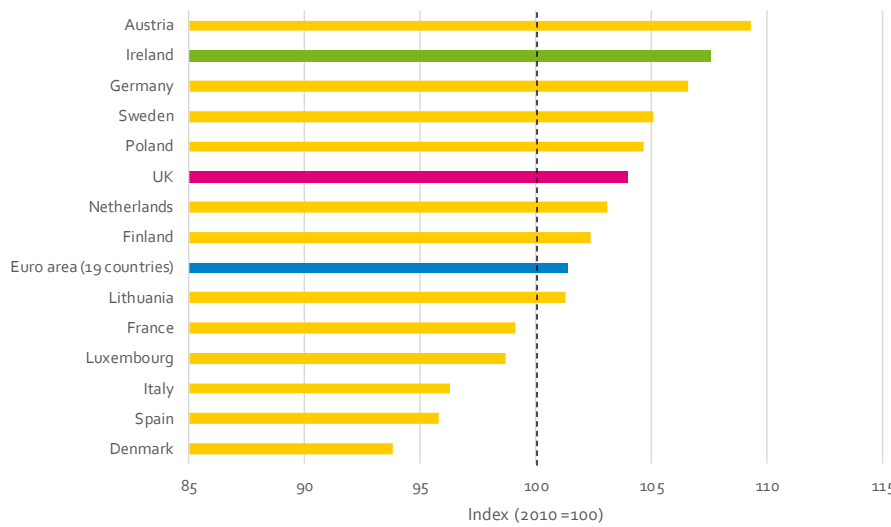
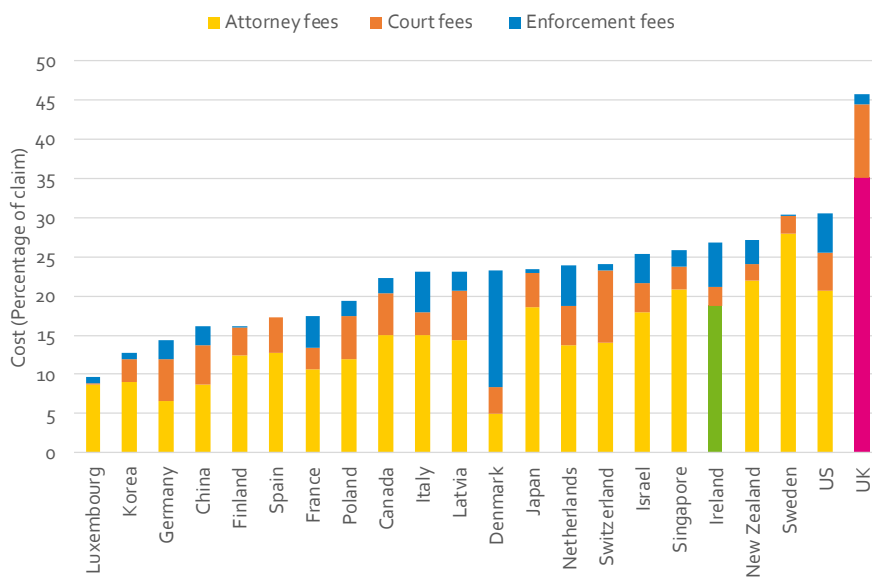


Figure 73 compares Service Producer Prices levels in Ireland relative to other European Countries. Producer Prices was in 2014 when prices increased by 2.5%. Overall since 2010, service prices in Ireland increased by 7.6% compared to than the Euro area average (1.4%) and 4% in the UK.

Source: Eurostat

Figure 74: The cost of a commercial contract, 2017⁴⁸

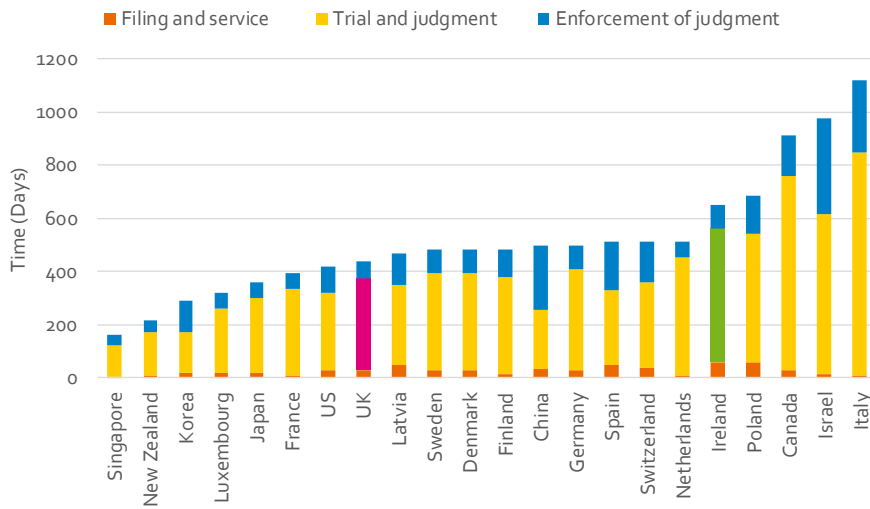


Ireland is a relatively expensive location in which to resolve a commercial dispute through a first-instance court. In terms of total cost, at 26.9%, broken down as a percentage of total costs in Attorney Fees (19%), Enforcement (6%), court (2%), Ireland is above the OECD (high income countries) 21.5% but well below the UK (46%).

Source: World Bank Doing Business 2018

⁴⁸ This category is based on the ease or difficulty of enforcing commercial contracts. This is determined by following the evolution of a payment dispute and tracking the time, cost, and number of procedures involved from the moment a plaintiff files the lawsuit until actual payment. Cost is recorded as a percentage of the claim value, assumed to be equivalent to 200% of income per capita or \$5,000, whichever is greater

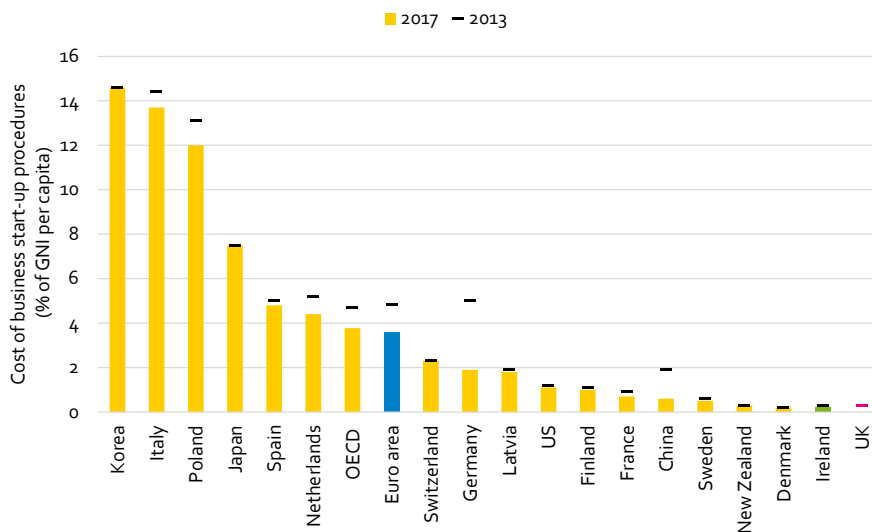
Figure 75: Time to enforce a commercial contract, 2017⁴⁹



In terms of time taken to resolve a dispute, the World Bank reports the time taken for filing and service, trial and judgement and enforcement (including time for appeal) is 650 days in Ireland compared to 437 days in the UK and 578 days on average across OECD High income countries.

Source: World Bank Doing Business 2018

Figure 76: Cost of starting a business, percentage of GNI per capita, 2017 Updated

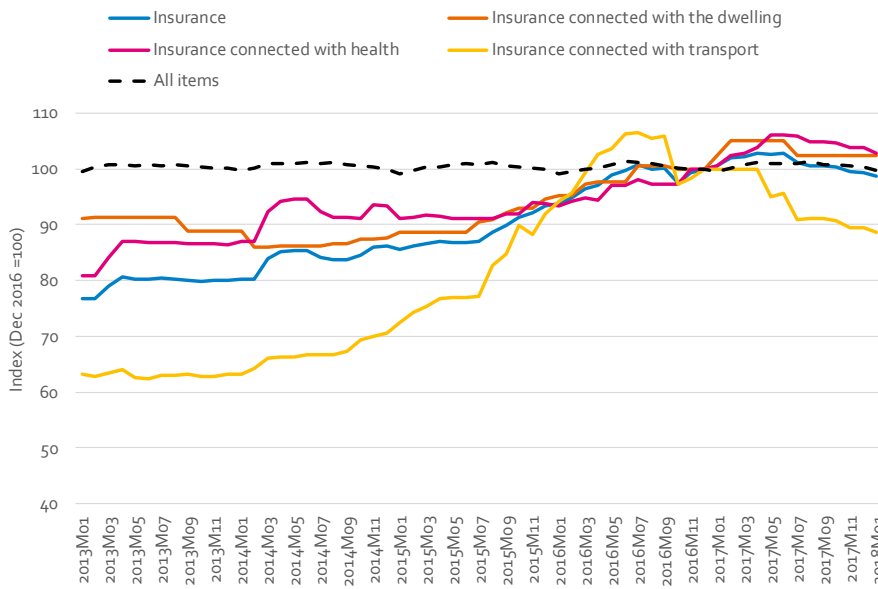


In the last five years Ireland, has maintained its competitive position in terms of the cost to register a business as a percentage of gross national income. In 2017 Ireland ranks first in the Euro area and joint-second in the European Union and OECD (0.2%). At 0 per cent, the UK ranks first.

Source: World Bank Doing Business 2018

49 This category is based on the ease or difficulty of enforcing commercial contracts. This is determined by following the evolution of a payment dispute and tracking the time, cost, and number of procedures involved from the moment a plaintiff files the lawsuit until actual payment. Time is counted from the moment Seller decides to file the lawsuit in court until payment. This includes both the days when actions take place and the waiting periods in between. The average duration of the following three different stages of dispute resolution is recorded: (i) filing and service; (ii) trial and judgment; and (iii) enforcement. Time is recorded in practice, regardless of time limits set by law if such time limits are not respected in the majority of cases.

Figure 77: Insurance consumer price inflation, 2013-2017



Insurance is a significant element within the CPI basket with a weighting of 6%. While headline price inflation has been stable in recent years there has been a notable increase in insurance price inflation in the period, mid 2015-mid 2017. Motor insurance has moderated in recent months, in the period 2014-2016, prices as measured by the CPI increased by 38%.

Source: CSO

Figure 78: HICP Insurance price levels, Index 2012-2017

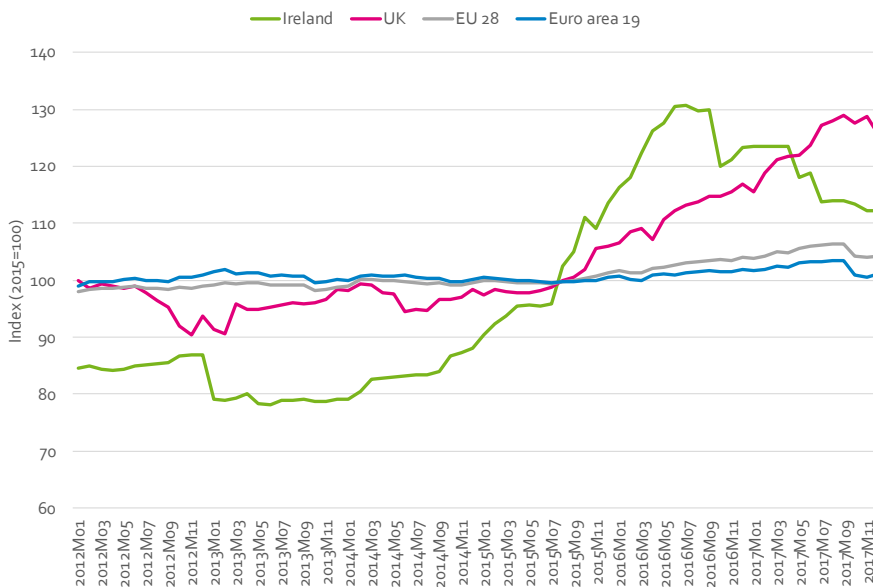


Figure 78 shows the comparative trend in transport insurance price changes in Ireland, the UK and Euro area index form. Since 2015 price changes for transport insurance in Ireland and the UK have been well above EU rates. On average transport insurance prices in Ireland were 17% above 2015 levels in 2017. In the UK prices were 24% above 2015 levels.

Source: Eurostat

Figure 79: HICP Insurance price levels, 2012-2017

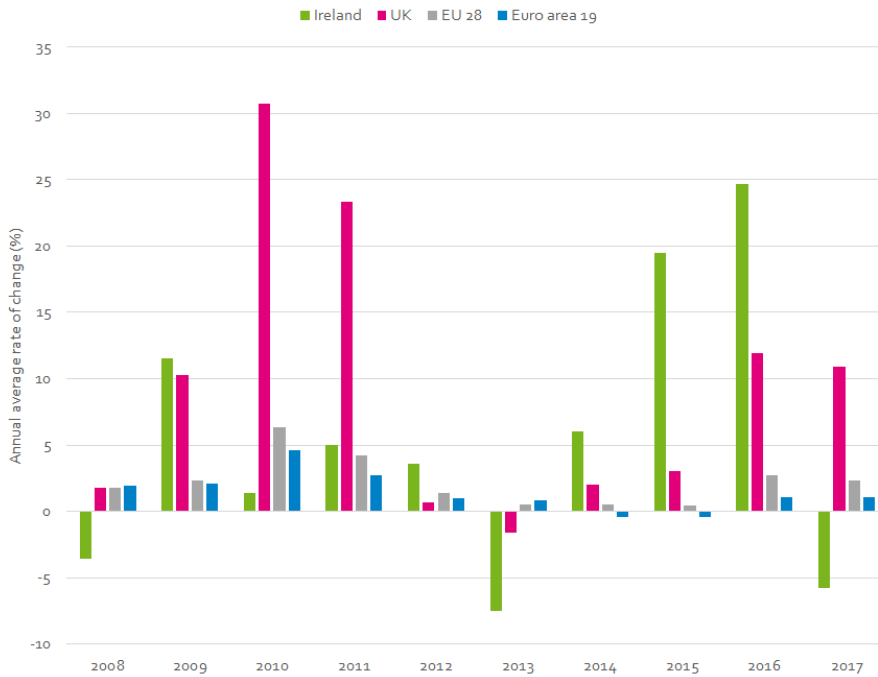
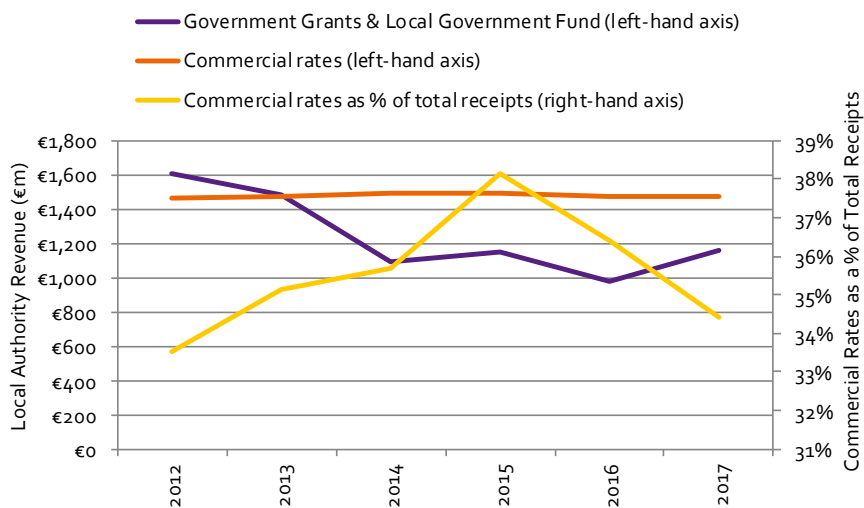


Figure 79 shows the annual average rate of change transport insurance prices as measured by the HICP. Price change in Ireland and the UK appear more volatile than in the Euro area. On an annual basis, Irish transport insurance declined by 5.7% in 2017 compared to increases of 11% and 1.1% in the UK and Euro area. However, this follows three successive years of significant Irish inflation of 6% in 2014, 19.5% in 2015 and 24.7% in 2016.

Source: Eurostat

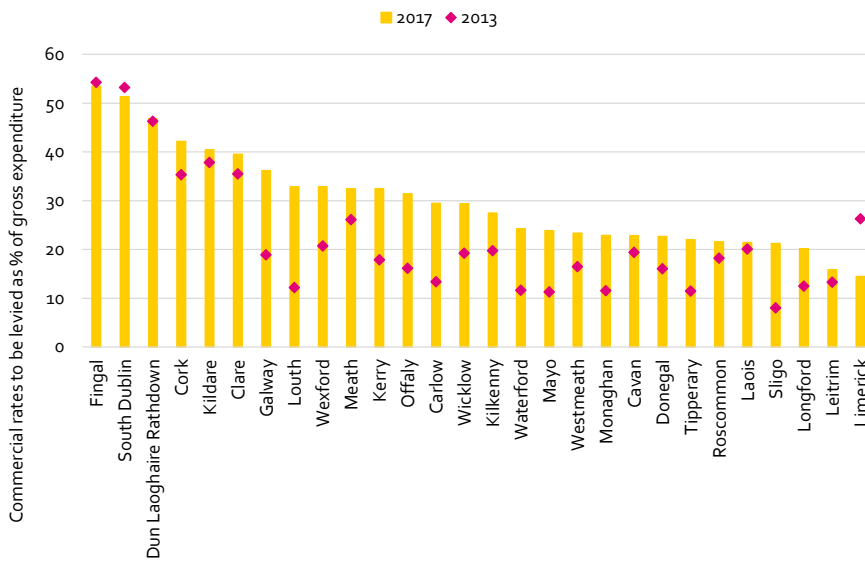
Figure 80: Commercial rates, receipts from central government, and rates as a percentage of total local authority revenue, 2012-2017



Revenue collected through commercial rates doubled over the period 2002-2017. Rates as a proportion of total Local Authority revenue stood at 34.4% in 2017. The proportion of revenue received from Government grants and subsidies was 27%.

Source: Department of Housing, Planning and Local Government

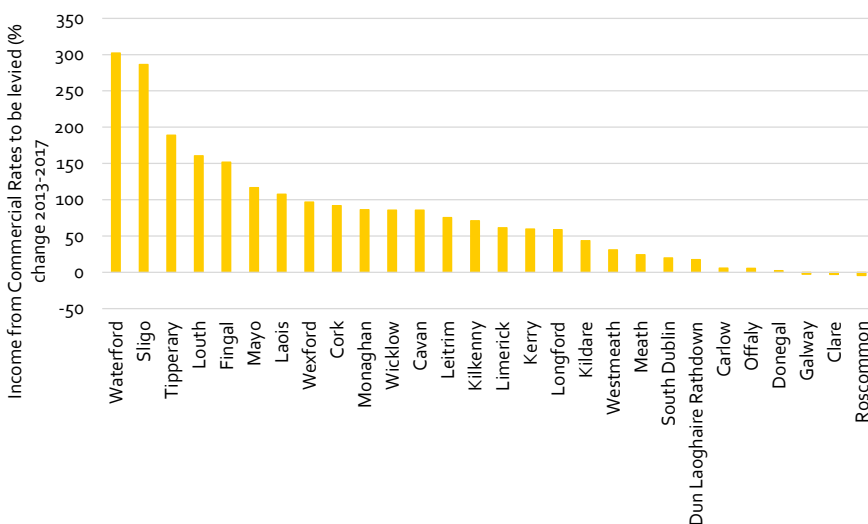
Figure 81: Commercial rates, as a percentage of total local authority expenditure, 2013-2017



In the period 2013-2017, the revenue collected by Local Authorities through the levy of commercial rates varied between 34 and 38%. In all counties, except for Fingal, South Dublin and Limerick, the commercial rates to be levied as a percentage of gross expenditure increased in the five-year period.

Source: Department of Housing, Planning and Local Government

Figure 82: Local Authority Income from Commercial rates to be levied, percentage change, 2013-2017



There is significant divergence in the rate of valuation and commercial rates levied and the proportion of total local authority income accounted for by rates. Comparing 2013 with 2017, local authority income from commercial rates has increased considerably in Waterford (+300%), Sligo (+286%), Tipperary (189%), Louth and Fingal.

Source: Department of Housing, Planning and Local Government

Chapter 10 – Broader Costs Environment

Figure 83: Harmonised Index of Consumer prices, annual changes 2008-2017

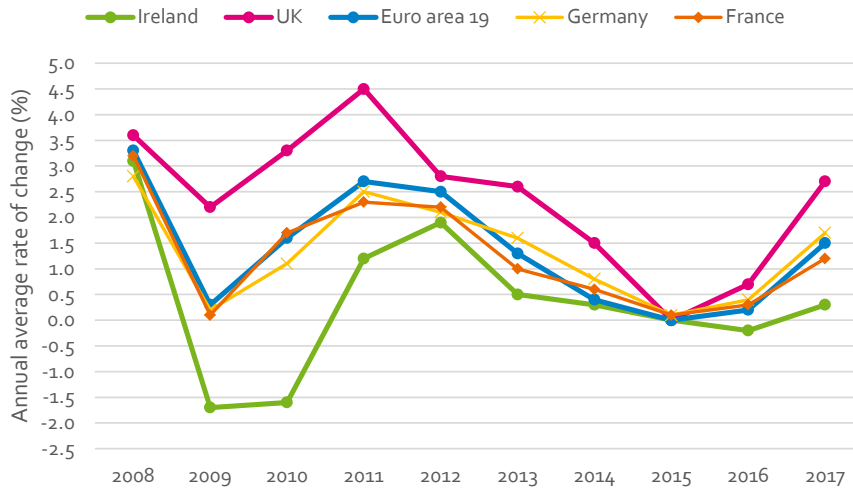
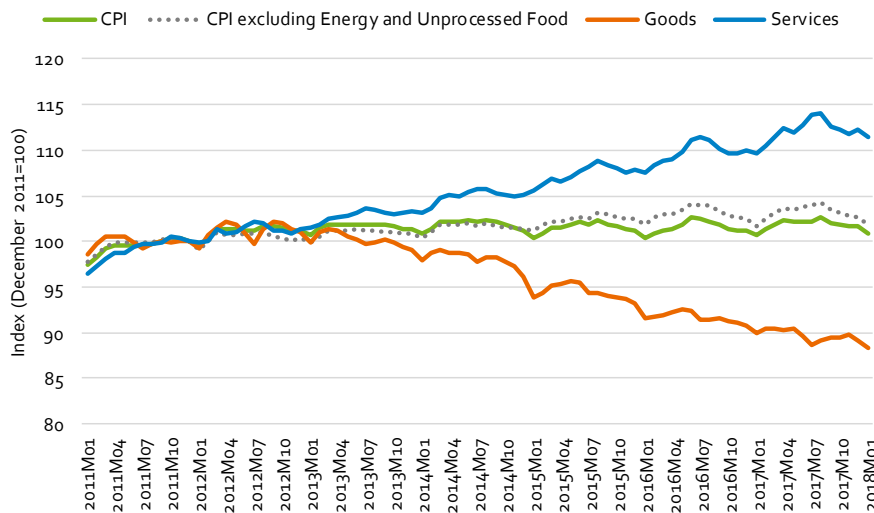


Figure 83 shows the rate of consumer inflation in the Euro area, its major economies, and the UK has been increasing at a faster rate than Irish inflation in the last two years months. In 2017 Irish consumer prices increased by 0.3% (yoy) compared with 1.5% for the Euro area and 2.7% in the UK. Irish inflation has tended to be below the Euro area average since 2009.

Source: Eurostat

Figure 84: Consumer Price Index, January 2011-2018



While inflation and core inflation have grown at a very subdued rate in recent years, there has been significant divergence in the rate of price inflation for goods and services in Ireland since 2013. The annual average rate of inflation in 2017 was 0.4%. The price of Goods decreased on average by 2.1%. The price of Services (which includes mortgage interest) rose by 2.1%.

Source: CSO

Figure 85: Consumer price levels, 2016 and rate of inflation 2017

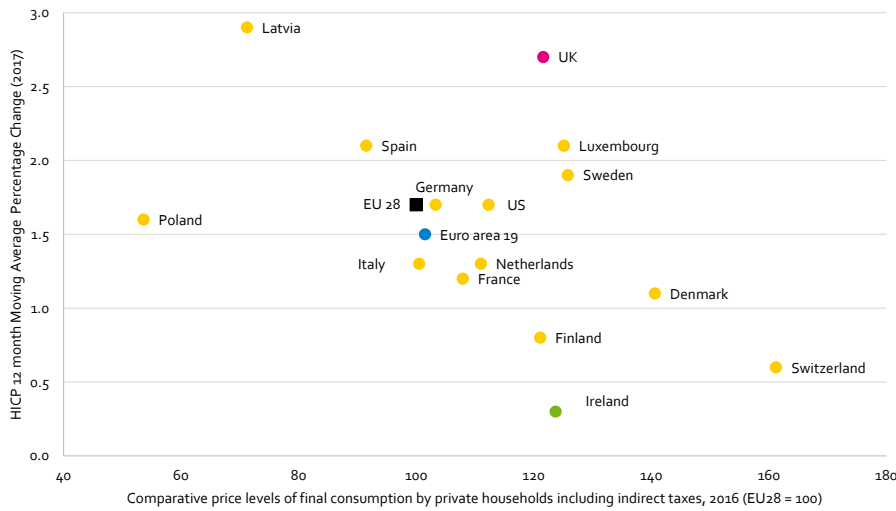


Figure 85 shows both changes in prices (inflation) and the price level. Ireland’s current price profile could be described as ‘high cost, and rising’ while the UK is ‘high cost, rising quickly’. Price levels in Ireland were 23.7 per cent above the EU 28 average in 2016 and increasing by 0.3% in 2017; the UK was 21.6 per cent above the EU average and increasing by 2.7% in 2017.

Source: Eurostat

Figure 86: Average annual CPI inflation and contribution to total CPI inflation, 2017

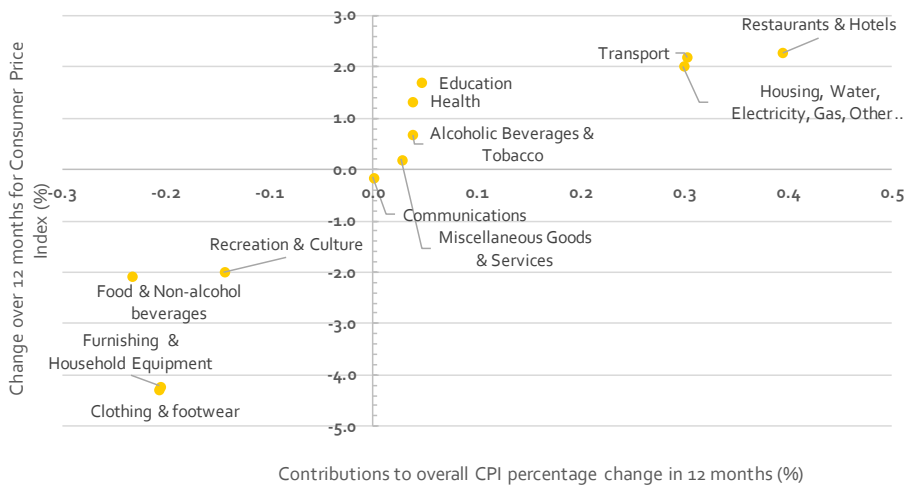
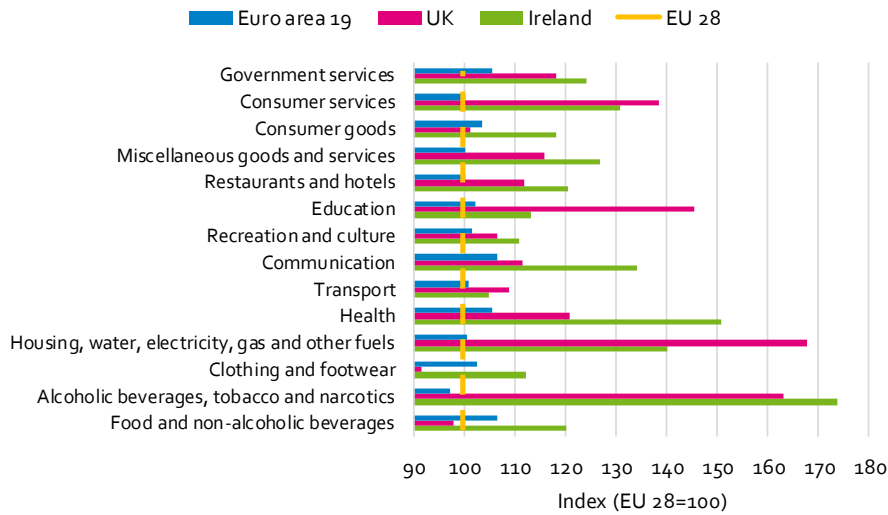


Figure 86 examines the contribution of individual categories of goods and services to inflation (i.e. taking account of inflation rates and the weighting attached to each good or service). The divisions which caused the largest contributions to inflation were Housing, Water, Electricity, Restaurants & Hotels and Transport.

Source: CSO

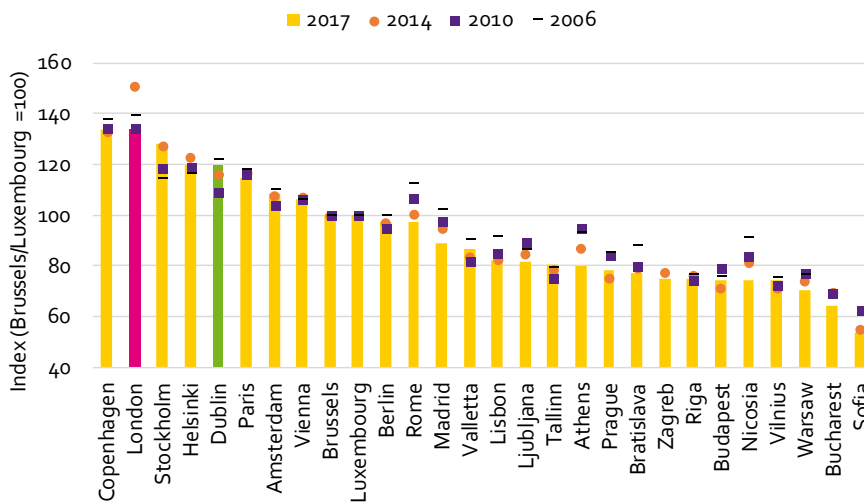
Figure 87: HICP Irish consumer price levels relative to the European Union 28, 2016



Irish prices are above the Euro area average all categories of goods and services. Ireland is below the UK in Services prices but above in goods. Health and Communication prices are relatively high in Ireland. The differential in alcohol and tobacco prices is primarily due to taxation policy.

Source: Eurostat

Figure 88: Cost of living correction coefficient⁵⁹ for EU capitals, 2006-2017

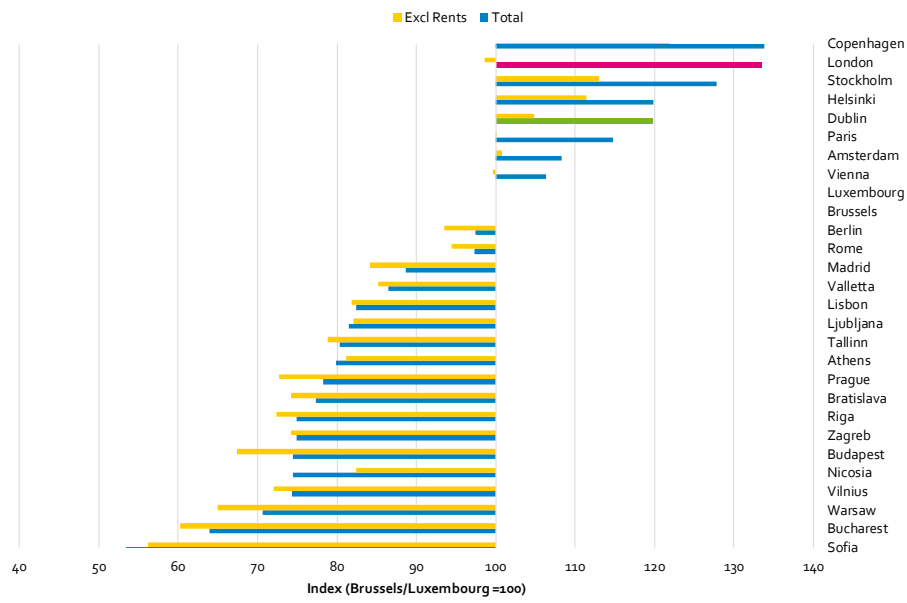


Correction coefficients are used by the European Commission to ensure equality of purchasing power of European civil servants' remuneration between different locations within the EU. Figure 88 shows a cost of living correction coefficient for EU capitals relative to Brussels. Dublin is the fifth most expensive location in 2017, 20% more expensive than Brussels.

Source: Eurostat

⁵⁹ Correction coefficients are calculated as the ratio between the 'economic parity' and the exchange rate to the Euro (where applicable). The economic parity tells us how many currency units a given quantity of goods and services costs in different countries. By definition, the correction coefficient for Brussels and Luxembourg is fixed to 100.

Figure 89: Cost of living correction coefficient for EU capitals, 2006-2017

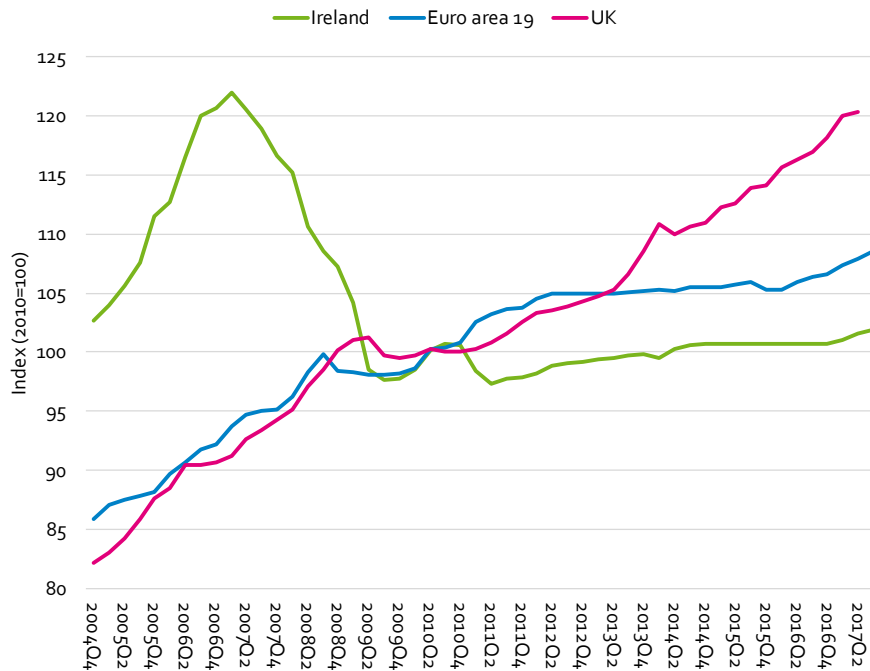


Building on the above, Figure 89 shows the comparative cost of goods and services, and excluding rent relative to Brussels. A basket of comparable goods and services in Dublin costs 120 % of the cost of a similar basket in Brussels. Excluding rent, while Dublin prices remain relatively high they are only 5% higher.

Source: Eurostat

Chapter 11 – Focus on Residential Property and Childcare

Figure 90: Residential Construction cost index-in national currency 2004-2017



The index shows the trend in the cost for new residential buildings. Between 2005 and mid-2008 costs increased sharply in Ireland. After its peak in the third quarter of 2008 the index began to fall and reached its lowest level about one year later. During the last 4 years prices have shown a moderate quarterly growth. In Q 3 2017 the Irish index was 101 compared to 108 in the Euro area and 120 in the UK.

Source: Eurostat

Figure 91: Annual Percentage Change sales of newly-built and existing dwellings; Index, 2010-2017

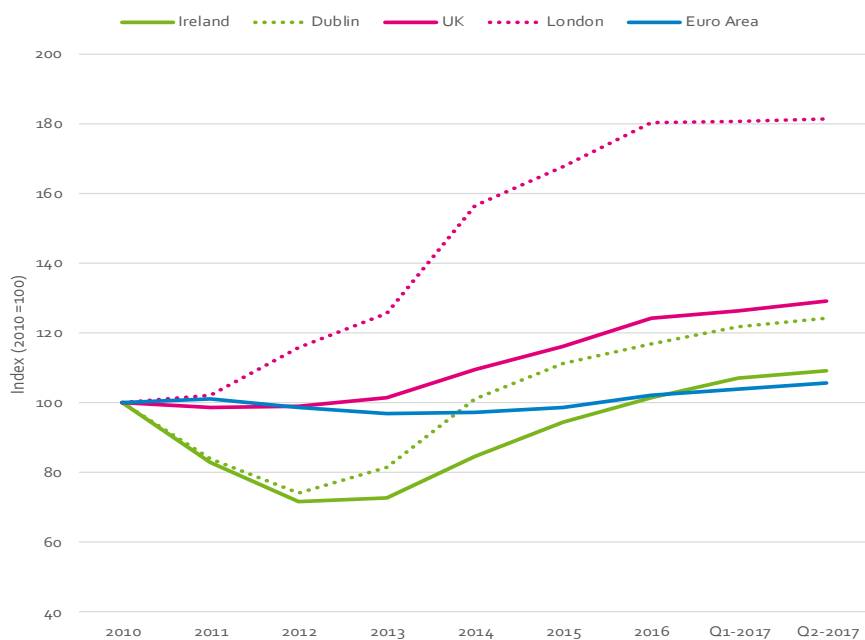
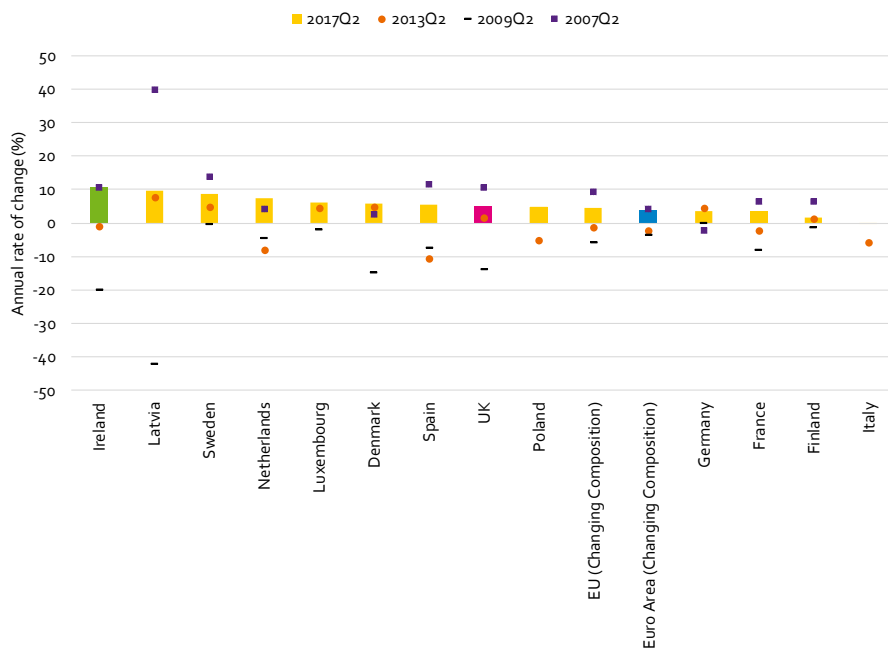


Figure 91 shows how Irish prices dipped significantly in the period 2010-2013 and recovered in the period to 2017. In Q2 2017 the index for Ireland was 109.3, Dublin 124. The index for the UK was 129 and 181 for London. While growth has been relatively constant in the Euro area, the UK has experienced a pronounced uplift in prices, particularly in London up to 2016.

Source: OECD

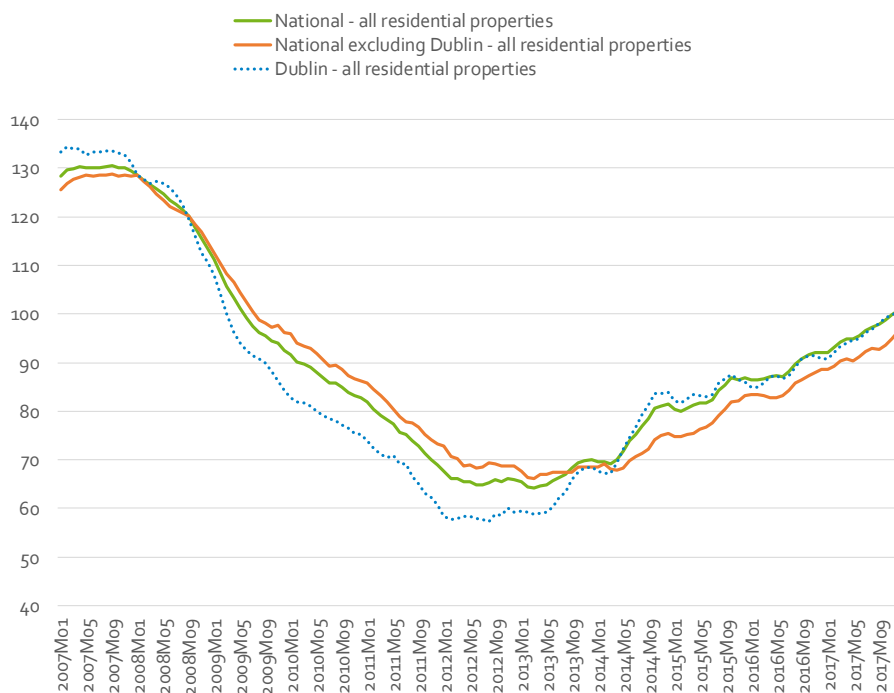
Figure 92: House price index (2015 = 100), rate of change-annual data, 2007-2017



Eurostat data shows residential property price inflation across most benchmarked countries in 2017. The rate of annual increase in Irish house prices, estimated at 10.6% in Q2 2017, is at pre-recession levels and the second highest in the EU (behind Czech Republic). The equivalent growth rates in the UK for 2017 are estimated at 5% and 3% respectively.

Source: Eurostat

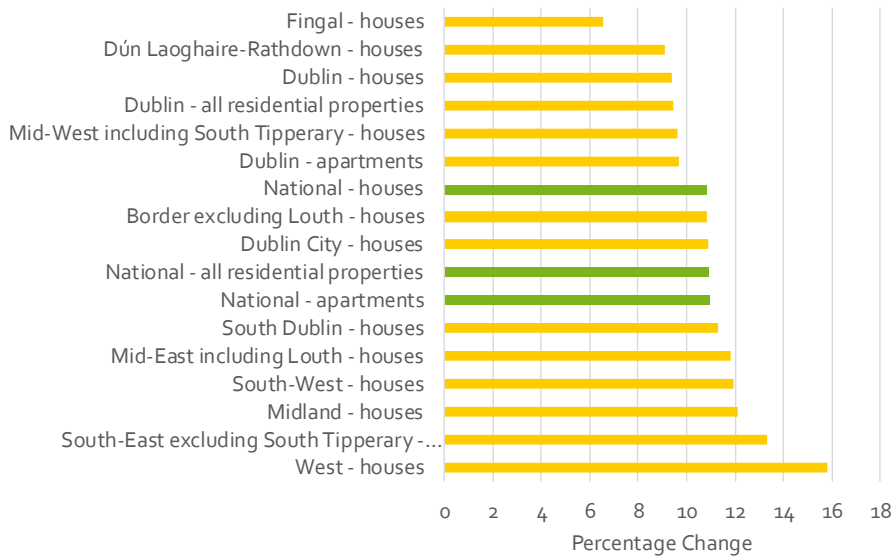
Figure 93: Residential Property Price Index, Ireland 2007-2017



In the year to December 2017, residential property prices at national level increased by 12.3%. Dublin prices increased by 11.6%. Apartments in Dublin increased by 14.7%. National prices excluding Dublin were 13.3% higher. House prices in the Rest of Ireland increased 13.2% over the period. Overall, the index is 22.9% lower than its highest level in 2007.

Source: CSO

Figure 94: Residential Property Index, Average annual Percentage Change, 2017



On average in 2017 the rate of increase in house prices was highest in the West (16%) and lowest in Fingal (6.6%). National prices increased by 10.8%. On a national basis apartments increased by 11% with prices increasing by 9% in Dublin.

Source: CSO

Figure 95: Annual average rate of change in actual rents paid by consumers, 2008-2017

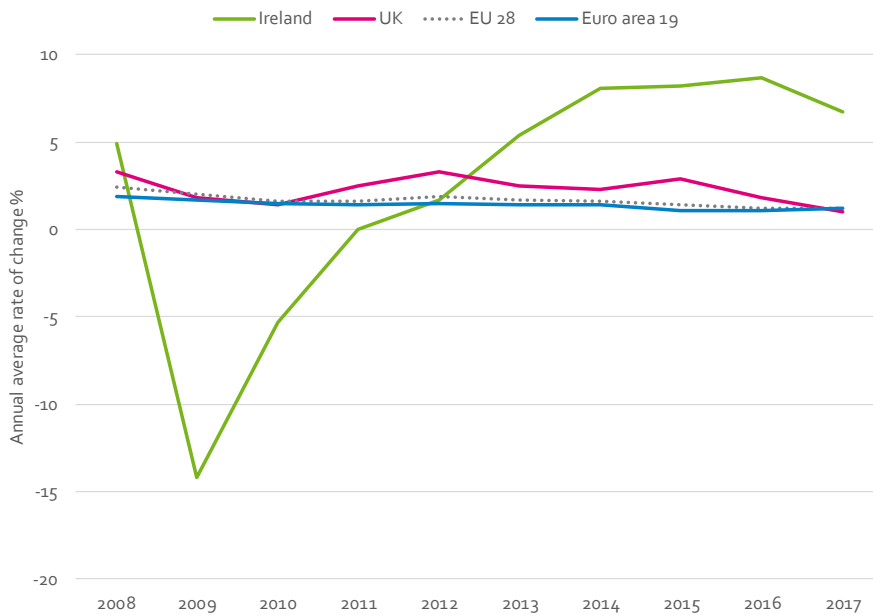
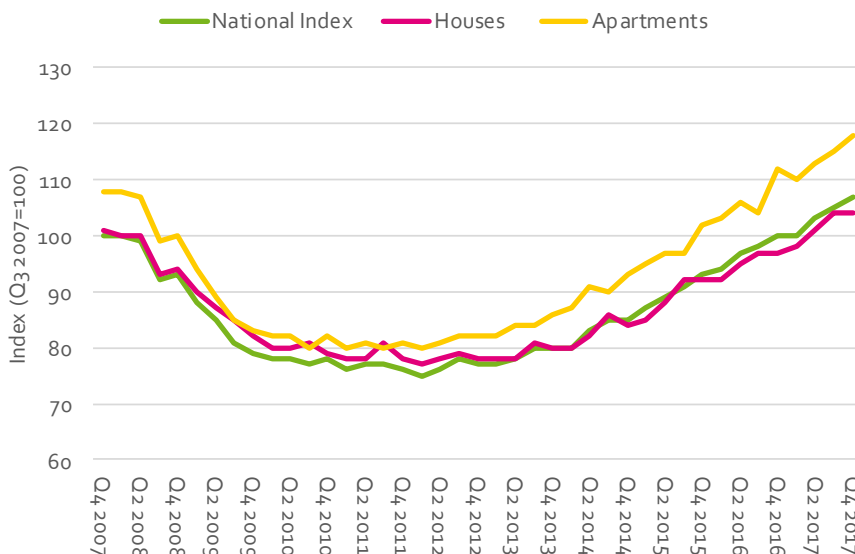


Figure 95 uses HICP data to show the rapid and sharp changes in rental prices which have occurred in Ireland recently relative to the UK and Euro area. In 2017, Irish rent prices paid increased by 6.7%. While the rate of increase is less than 2016, they are the second highest in Europe and well above rent inflation in the UK (1%) and Euro area (1.2%)

Source: Eurostat

Figure 96: Residential Tenancies Board National Rent Index, Q4 2007-2017



The RTB Index for Irish residential rents stood at 107 in 2017 Q4. The Index for apartment and house rents stood at 118 and 104 respectively. Rental growth has been strong since 2012 and accelerated in 2014-2017. As of Q4 2017 the average national rent for houses and apartments was €1055 and €1152 respectively. Higher rents for apartments reflect the higher share of this housing type in major urban centres.

Source: RTB

Figure 97: Residential Tenancies Board National Rent Index, Annual Percentage Change, Q4 2012-2017

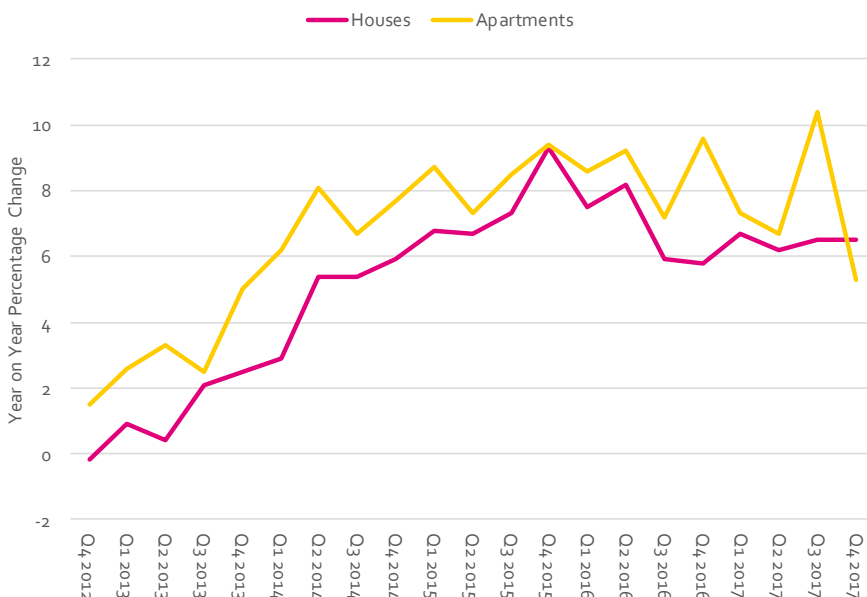
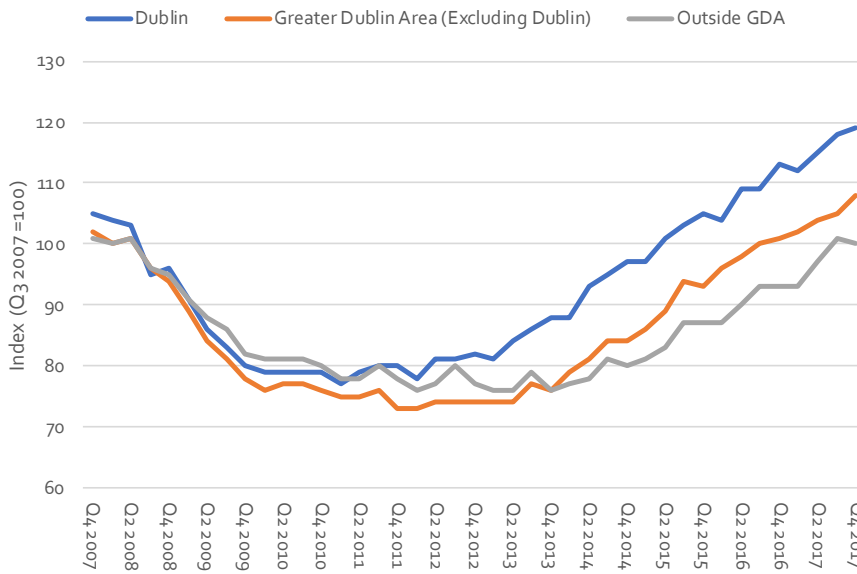


Figure 97 shows the upward trend in price changes for houses and apartments since 2012. On a year-on-year basis, rents for houses increased by 6.5% in 2017 Q4. Apartment rents increased by 5.3% on a similar basis. As noted by the RTB, rents are seasonal in nature so quarterly growth rates can be volatile.

Source: RTB

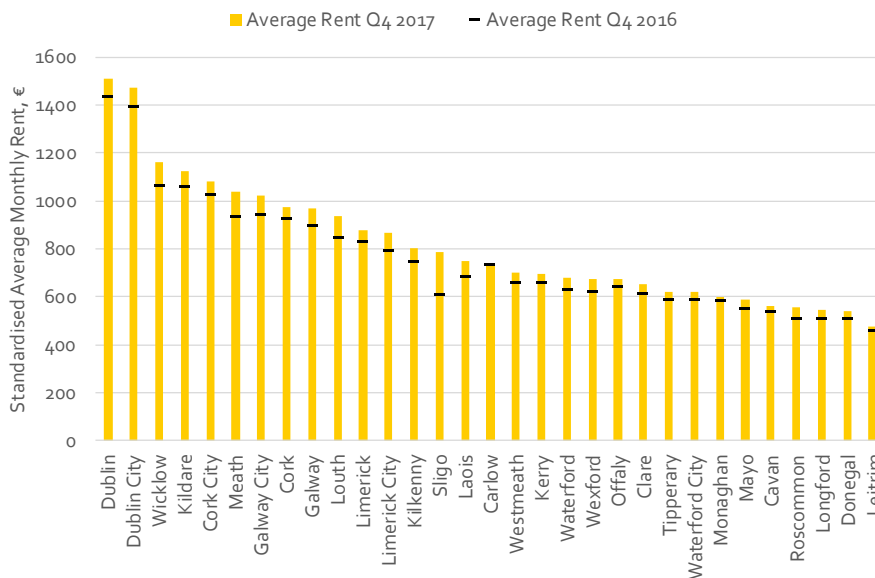
Figure g8: Irish Rents Index Dublin and GDA Q4 2007-2017



The Dublin Rent Index stood at 119 in Q4 2017, 14 index points higher than the previous peak in 2007 Q4. The GDA⁵¹ Rent Index stood at 108 and outside the GDA was 100. For Q4 2017, the average rent for a house stood at €1,557 in Dublin, €1,155 in the GDA (excluding Dublin) and €789 outside the GDA. The average monthly rental prices for apartments stood at €1,530, €1,036 and €808 respectively.

Source: RTB

Figure 99: Rents on a County by County Basis, Q4 2017

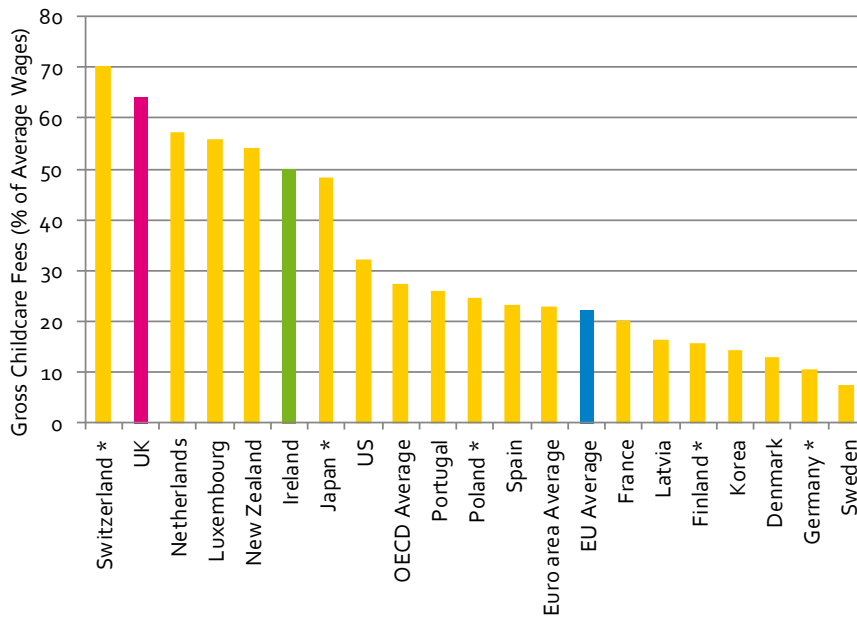


At County and City level, rents are highest in Dublin, the surrounding counties and larger urban counties such as Cork, Galway and Limerick. As of 2017 Q4, there were 6 counties where the average rent exceeds €1,000 per month (Cork, Dublin, Galway, Kildare, Meath and Wicklow). The highest standardised average rents were in Dublin. The lowest standardised average rents are in Leitrim.

Source: RTB

⁵¹ The GDA contains counties Meath, Kildare and Wicklow.

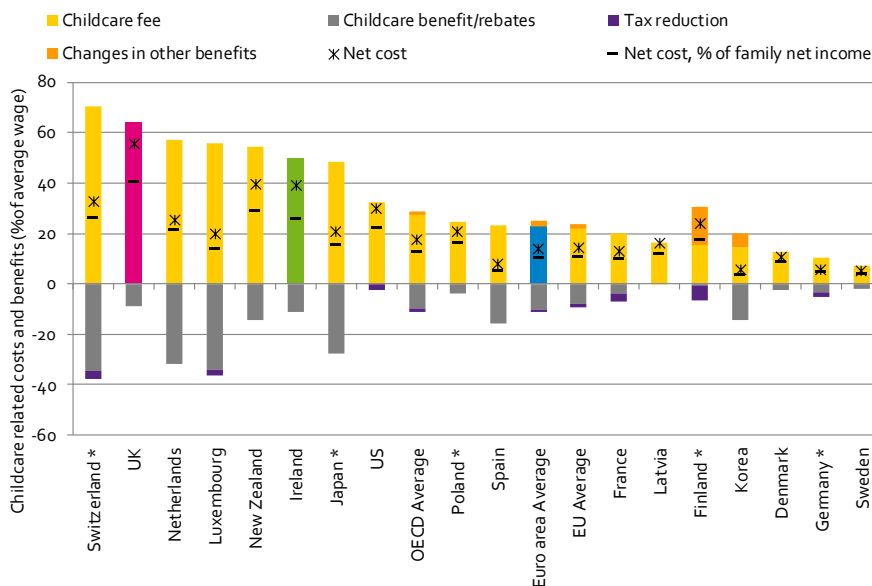
Figure 100: Gross fees for two children (age 2 and 3) attending full-time care⁵² at a typical childcare centre, as % of average earnings (AW), 2015



Gross childcare fees in Ireland are relatively high compared to EU and OECD averages and are the 8th highest in the OECD overall. As a percentage of average wages, childcare fees account amount to 50% in Ireland compared to the Euro area average of 22%. Fees are highest in Switzerland (70%) and the UK (England, 64%).

Source: OECD

Figure 101: Out-of-pocket childcare costs for a two-earner couple family, 2015

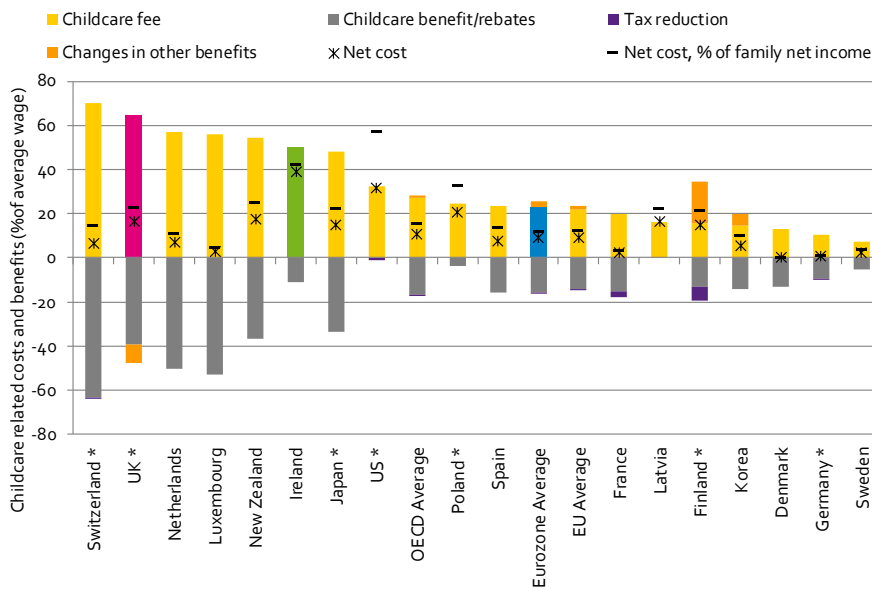


Net Irish childcare costs for parents with two children and combined income at 16.7% of AW as a % of income are amongst the highest in the OECD. Childcare benefit/rebates (11.2%) are above the UK, Euro area and OECD averages, but high fees (50% of average wages) means the out of pocket costs for Irish childcare are relatively high.

Source: OECD

⁵² 'Full-time' care is defined as care for at least 40 hours per week. Data for countries marked with an * are based on estimates for a specific region or city, rather than for the country as a whole. Average earnings/the average wage refers to the gross wage earnings paid to average workers, before deductions of any kind (e.g. withholding tax, income tax, private or social security contributions and union dues) (see OECD, 2007: 186-187). See the OECD Tax and Benefit Systems website (<http://www.oecd.org/els/soc/benefits-and-wages.htm>) for more detail on the methods and assumptions used and information on the modelled for each country.

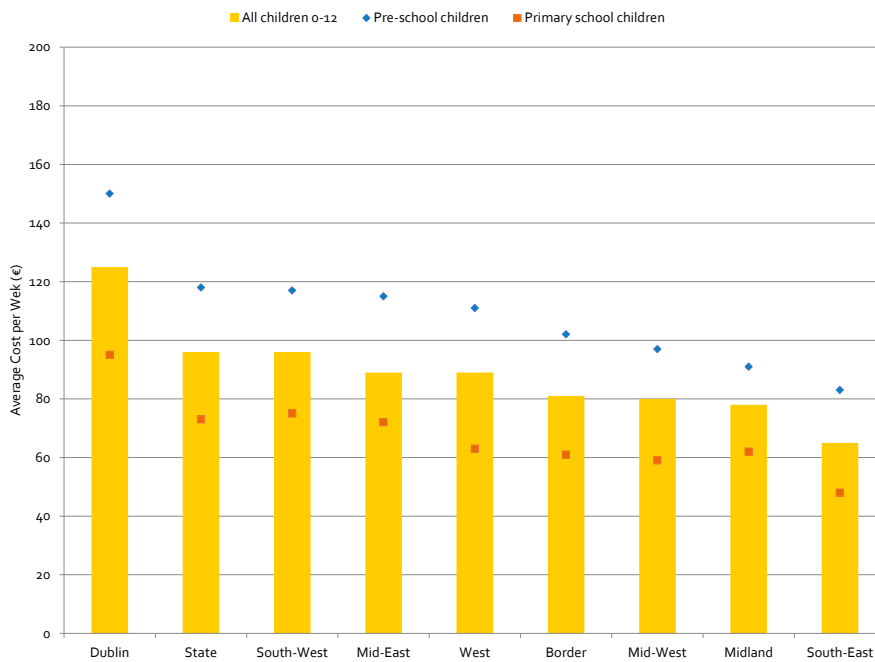
Figure 102: Out-of-pocket childcare costs for a lone parent family, 2015



For lone parents (earning 50% of the average wage) with two children Ireland is the most expensive OECD location in terms of fees paid. As a proportion of income, childcare accounts for 42% of family income in Ireland compared to 23% in the UK and 12% in the Euro area. This is the second highest proportion in the OECD.

Source: OECD

Figure 103: Average Weekly Childcare Costs, Ireland, 2016



The average cost per week per child for pre-school children is €118.00, while the average weekly cost per primary school child is €73. The average weekly cost for a child aged 0-12 is €96. There is considerable divergence between Dublin and other regions. The average weekly cost per child is highest in Dublin, at €150 per child per week. It is lowest in the South-East at €83.

Source: CSO

Figure 104: Consumer Prices for Childcare, Ireland, 2012-2017

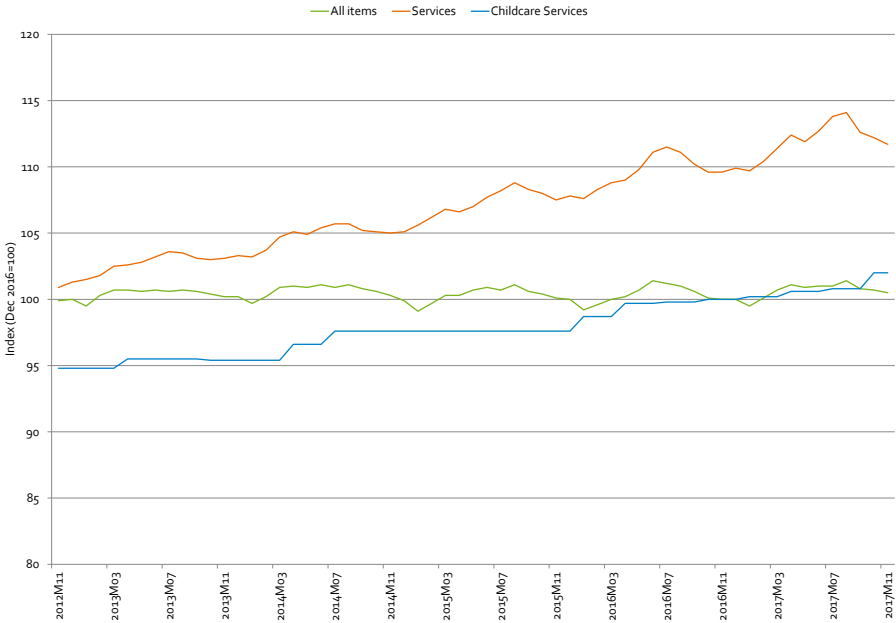


Figure 104 shows the trend in consumer prices for childcare services relative to services and overall consumer price inflation. While childcare price levels have risen in recent years, they are not out of line with movement in overall prices. In the year to November 2017, on average, childcare services prices increased by 1.3% compared to a rate of increase of 2.2% for services and 0.3% for all items.

Source: CSO

Appendix 1 – NCC Policy Recommendations on Costs 2017

Policy Recommendations

This report provides part of the evidential base to assist policymakers to identify the key challenges confronting Irish enterprise in terms of the relative costs of doing business in Ireland. The Council will further consider these challenges in its annual policy document, Ireland's Competitiveness Challenge, which will be published later in 2018.

Based on the benchmarking analysis contained in the Costs of Doing Business 2017 and Competitiveness Scorecard 2017 reports, the Council identified a range of policy areas relating to costs requiring action to enhance Ireland's competitiveness performance. The most recent recommendations, drawn from the Council's Competitiveness Challenge report published in December 2017 are restated below.

Cost Competitiveness Challenges

Taxes and Labour Costs

- *Conduct a review of the Irish Tax System as it applies to SMEs and Small Mid-Caps to consider how its competitiveness could be enhanced in the context of Brexit.*
- *Continue to reform and simplify the current regime of taxes and charges on employment, specifically to further encourage the take-up of employment, recruitment and retention of talent, whilst simultaneously maintaining a broad personal tax base. In the context of progressing Budget 2018, remove anomalies in relation to PAYE and the USC to support labour market participation and entrepreneurship.*
- *Review income taxes (e.g., credits, thresholds and rates.) to support improvements in after-tax income, enhancing the incentive to work while simultaneously protecting labour cost competitiveness. Building on the changes in recent Budgets, the entry point to the top marginal income tax rate should be increased and maximum marginal rates for all employees should be below 50 per cent.*
- *Consider further changes to the income tax system which will contribute to the decline in replacement rates as part of the Government's consideration of income tax, and considering the factors encouraging take-up of employment.*
- *Review VAT exemptions and outline the case for current reduced rates and exemptions. Consider the merits of further standardisation of rates to allow for reductions in more distortionary taxes such as those on labour.*
- *Wage growth in both the public and private sectors should be underpinned by productivity growth. In this regard, there is a role for both the public and private sectors alike to proactively manage their cost base and drive efficiency, thus creating a virtuous circle between the costs of living, wage expectations and cost competitiveness. It is essential that we continue to monitor labour cost trends with a specific eye on relative international competitiveness, and ensure that Irish wage levels do not move in a manner that undermines enterprise competitiveness and threatens job sustainability.*

Property Costs

- *Continue the periodic review of Rebuilding Ireland: Action Plan for Housing and Homelessness, focussing in more detail on various elements of the Plan's five constituent pillars.*
- *Introduce the Vacant Site Levy and regularly update the register to which the Levy applies.*
- *Continue to evaluate the costs and benefits of demand inducing interventions in the residential property market.*

- Consider the mandate of the Residential Tenancies Board regarding regulation of the rental sector and allow it to refine Rent Pressure Zone's where necessary. Undertake detailed analyses of rental data to assist in evidence based policy making.
- Publish the Report of the Expert Group on Cost Rental and grow the capacity for delivering cost rental options.
- Expedite the development of a commercial property price register encompassing data on commercial sales and leases.
- Continue work on the development of a Commercial Property Statistical System once administrative data sources on commercial property have been developed by public bodies.
- Prioritise the recommendations and actions arising from the Working Group on Construction costs and develop an implementation plan to take steps to tackle costs which are out of line with international norms and to inform policy decisions in relation to the development of both multi-storey apartment schemes in urban areas and traditional housing/duplex homes in suburban locations
- Urgently commence the competition to champion best practice and cost-effective design of residential property and publish findings regarding efficiencies and innovative processes. Analyse the cost savings and disseminate the learnings from the competition to housing stakeholders.

Transport Costs

- Ensure that the public transport component of the forthcoming 10-year National Investment Plan, and the development of the new National Planning Framework prioritises investment in a manner that is evidence-based and responds to strategic challenges and opportunities for all regions.
- Continue to invest in ongoing maintenance of the motorway and national road network to facilitate access to major urban areas, and to optimise the substantial investment already made while reducing the need for significant remedial work in the future. Examine the adequacy of the allocation for road infrastructure (in terms of the balance between expenditure on maintenance and upgrading, and new works) in the context of the National Investment Plan.
- Consider and address the strategic development requirements and capacity needs of Tier 1 and Tier 2 ports as part of the Regional Spatial and Economic Strategies (RSES).
- Implement in full the ports services regulation by 2019.
- Publish a policy statement on public transport considering policy drivers (such as climate change targets from the Paris Agreement and the EU's Effort-Sharing Decision on 2030 emissions targets), and the improving domestic economic context and associated pressure this places on transport-related emissions.
- Undertake an assessment from an enterprise perspective of the National Mitigation Plan to evaluate green economy opportunities as well as potential negative impacts on the enterprise sector, particularly potential costs implications for enterprise.
- Set out a medium- and long-term policy on fuel taxation. The Council recommends that, should Government decide on a policy of equalisation of diesel and petrol prices through alteration of excise duties or carbon tax rates, this should be done over successive Budgets.
- In reviewing the carbon tax consider the impact of changes to the tax on business costs and enterprise competitiveness in addition to the contribution of the tax to the decarbonisation of the Irish economy.
- Consideration to be given to provision of assistance to Brexit-exposed enterprise sectors currently reliant on diesel-fuelled vehicles (e.g. subsidies towards the purchase of lower-emitting or electric/hybrid vehicles).

Utility Costs

- *Progress and enact the provisions of the Water Services Bill 2017 about the future funding of public water and wastewater services in Ireland.*
- *Commence the consultative process to inform the harmonisation of non-domestic water tariffs to develop a framework to ensure non-domestic customers are charged fairly for usage of water and wastewater services*
- *Prioritise the recommendations and actions arising from the OECD Review of utilities regulation in Ireland and set out an implementation plan for action. Alter the mandate of the CER accordingly to allow for best practice in the regulation of both electricity and gas.*
- *Improve electricity supply/demand matching by location.*
- *Review supports for electricity generation.*

Credit and Financial Costs

- *Continue to monitor the landscape for enterprise finance so that viable businesses are not constrained by an inability to access finance. Where gaps are identified, develop proposals to increase the use of non-bank finance by SMEs.*
- *Consider devising competition indicators showcasing the degree of concentration in the business lending market to benchmark and track the level of competition in the sector.*
- *Consider the development of an appropriate regulatory framework for the crowdfunding market*
- *Clarify the eligibility criteria for the Brexit Working Capital Scheme and engage with industry stakeholders accordingly to optimally develop the Scheme.*
- *Broaden the distribution capability and market coverage of the SBCI by adding new on-lenders and working to develop innovative products, thereby serving to drive competition in the SME finance market.*
- *Continue to facilitate partnerships between SBCI and international lenders, especially in non-bank finance, to increase competition and provide alternative sources of finance for SMEs.*
- *Remove specific barriers identified in the Mobile Phone and Broadband Taskforce Report thereby alleviating telecommunications deficits in Ireland and assisting the rollout of the National Broadband Plan.*
- *Award the National Broadband Plan intervention to a contractor(s) and confirm the revised deployment schedule to ensure the timely rollout of the Plan. Ensure that the network is scalable and proofed to meet future demand for significantly higher download speeds (in excess of 100 Mbps) and higher upload speeds.*

Business Services Costs

- *Continue to develop a more comprehensive and representative data set on legal service prices*
- *Commence as quickly as possible the implementation of the regulatory functions of the Legal Services Regulatory Authority and thereby introduce measures to reduce legal costs.*
- *Establish the Office of the Legal Costs Adjudicator. Publish and maintain a public register of allowable legal costs.*
- *Expedite the establishment of both the national claims information database and the Master Licence Record Project as set out in the Report on the Cost of Motor Insurance.*
- *Prioritise the recommendations and actions arising from the second phase of the Cost of Insurance Working Group in relation to the Employer Liability and Public Liability insurance sectors. Devise a clear implementation plan for addressing issues identified. The plan should have specific timelines, reporting mechanisms and assigned responsibility.*

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